

**Solved Papers of ECONOMIC ECO401 More Than 10 Papers  
BY**

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**MIDTERM EXAMINATION**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**An individual whose attitude towards risk is known as:**

- ▶ Risk averse.
- ▶ Risk loving.
- ▶ Risk neutral.
- ▶ None of the given options.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**The concept of a risk premium applies to a person that is:**

- ▶ Risk averse.
  - ▶ Risk neutral.
  - ▶ Risk loving.
- ▶ All of the given options

**Question No: 3 ( Marks: 1 ) - Please choose one**

**A normative economic statement:**

- ▶ Is a statement of fact.
- ▶ Is a hypothesis used to test economic theory.
- ▶ **Is a statement of what ought to be, not what is.**
- ▶ Is a statement of what will occur if certain assumptions are true.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.**

- ▶ Limited resources, market behavior.
- ▶ Scarcity, human behavior.
- ▶ **Social behavior, limited resources.**
- ▶ Biological behavior, scarcity.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:**

- ▶  $P = MR$ .

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- ▶  $P = AVC$ .
- ▶  $AR = MR$ .
- ▶  $P = MC$ .

**Question No: 6 ( Marks: 1 ) - Please choose one**

**A welfare loss occurs in monopoly where:**

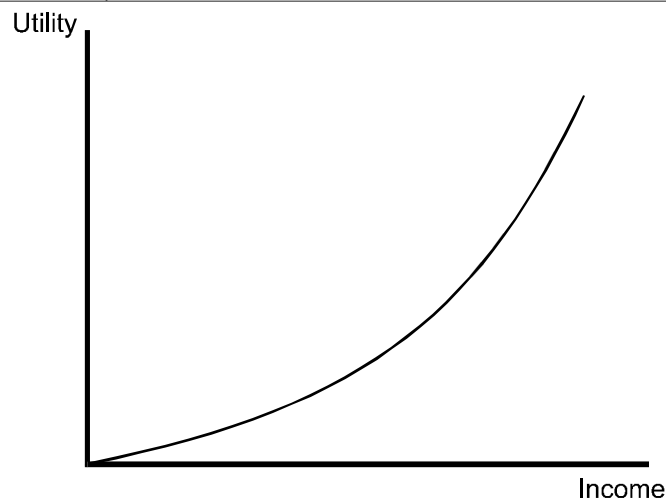
- ▶ **The price is greater than the marginal cost.**
- ▶ The price is greater than the marginal benefit.
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

**Question No: 8 ( Marks: 1 ) - Please choose one**



**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:**

- ▶ The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
- ▶ The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
- ▶ **The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.**
- ▶ The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:**

- ▶ Independent.
- ▶ Complements.
- ▶ **Substitutes.**
- ▶ Inferior.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**A demand schedule is best described as: <http://vustudents.ning.com>**

- ▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**
- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand: P,Q and Q, P.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Which of the following best expresses the law of demand?**

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ **A higher price reduces quantity demanded.**
- ▶ A lower price shifts the demand curve to the right.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

**Question No: 14 ( Marks: 1 ) - Please choose one**

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**The primary use of the kinked-demand curve is to explain price rigidity in:**

- ▶ **Oligopoly.**
- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

**Question No: 15 ( Marks: 1 ) - Please choose one**

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**A monopolistically competitive firm in short run equilibrium:**

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ **Any of the given are possible.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

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**A market with few entry barriers and with many firms that sell differentiated products is:**

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- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ **Oligopolistic.**

**Question No: 17 ( Marks: 1 ) - Please choose one**

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**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.
- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

**Question No: 18 ( Marks: 1 ) - Please choose one**

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**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.
- ▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

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**A tennis pro charges \$15 per hour for tennis lessons for children and \$30 per hour for tennis lessons for adults. The tennis pro is practicing:**

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ All of the given options.

**Question No: 20 ( Marks: 1 ) - Please choose one**

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**An electric power company uses block pricing for electricity sales. Block pricing is an example of:**

- ▶ First-degree price discrimination.
- ▶ **Second-degree price discrimination.**
- ▶ Third-degree price discrimination.
- ▶ Block pricing is not a type of price discrimination.

**Question No: 21 ( Marks: 1 ) - Please choose one**

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**A firm never operates:**

- ▶ At the minimum of its average total cost curve.
- ▶ **At the minimum of its average variable cost curve.**
- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

**Question No: 22 ( Marks: 1 ) - Please choose one**

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**Marginal profit is equal to:**

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

**Question No: 23 ( Marks: 1 ) - Please choose one**

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**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.
- ▶ **Marginal revenue is greater than marginal cost.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

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**At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?**

- ▶ **They must intersect with TC cutting TR from below.**
- ▶ They must intersect with TC cutting TR from above.
- ▶ They must be tangent to each other.
- ▶ They must have the same slope.

**Question No: 25 ( Marks: 1 ) - Please choose one**

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**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶ 5Q.
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ **None of the given options.**

**Question No: 26 ( Marks: 1 ) - Please choose one**

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**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:**

- ▶ A fixed cost.
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ **An opportunity cost.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

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**Costs determine all of the following EXCEPT:**

- ▶ **Demand for a product.**
- ▶ Firm's behavior.
- ▶ How firms should expand?
- ▶ Firm's profitability.

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**Question No: 28 ( Marks: 1 ) - Please choose one**

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**The rate at which a firm can substitute capital for labors and hold output constant is the:**

- ▶ Law of diminishing marginal returns.
- ▶ Marginal rate of substitution.
- ▶ **Marginal rate of factor substitution.**
- ▶ Marginal rate of production.

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**Question No: 29 ( Marks: 1 ) - Please choose one**

**If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:**

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**At any given point on an indifference curve, the absolute value of the slope equals:**

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution.**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.
- ▶ **It would shift outward.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ **Downward-sloping.**

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Cross-price elasticity measures whether:**

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.**
- ▶ Demand is elastic or inelastic.
- ▶ Supply is steeper than demand or vice versa.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.

▶ The percentage change in quantity demanded is same as the percentage change in the price.

- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**

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**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course.**
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**Question No: 36 ( Marks: 1 ) - Please choose one**

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**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 37 ( Marks: 1 ) - Please choose one**

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**Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:**

- ▶ The economy's production possibilities curve will shift outward.
- ▶ The economy's production possibilities curve will become steeper.
- ▶ The economy will move downward along its production possibilities curve.
- ▶ **The economy will move from a point inside to a point closer to its production possibilities curve.**

**Question No: 38 ( Marks: 1 ) - Please choose one**

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**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

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**In pure capitalism, the role of government is best described as:**

- ▶ Significant.



- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**Question No: 41 ( Marks: 10 )**

**A.**

**Define “Law of supply” and explain it with a schedule and diagram.**

**B. What are the factors which cause the shift in market supply curve?**

**(Marks: 6+4)**

**ANSWER: LAW OF SUPPLY:** It states that as the price goes up the quantity supplied also goes up and when price falls quantity supplied also falls.

**Schedule for Supply:**

Price (Rs.)	Quantity supplied
5	100
4	95
3	80
2	60
1	40

**Factors Causing Shift in Supply Curve:**

There are various factors causing shift in market supply curve which are as follows:

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Factors changing supply	Effect on supply	Direction of Shift in supply	Equilibrium Price	Equilibrium quantity
Increase in number of suppliers	Increase	Rightward shift	Decrease	Increase
Decrease in number of suppliers	Decrease	Leftward shift	Increase	Decrease
Improved technology	Increase	Rightward shift	Decrease	Increase
Declined technology	Decrease	Leftward shift	Increase	Decrease

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Increase in future price	Decrease	Leftward shift	Increase	Decrease
Decrease in future price	Increase	Rightward shift	Decrease	Increase
Increase in resources' price	Decrease	Leftward shift	Increase	Decrease
Decrease in resources' price	Increase	Rightward shift	Decrease	Increase

## MIDTERM EXAMINATION

Fall 2009

ECO401- Economics (Session - 4)

Time: 60 min

Marks: 50

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ "Naturally" occurring resources.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**While moving from left to right, the typical production possibilities curve has:**

- ▶ An increasingly steep negative slope.
- ▶ A decreasingly steep negative slope.

▶ **An increasingly steep positive slope.**

- ▶ A constant and negative slope.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**When government sets the price of a good and that price is above the equilibrium price, the result will be: <http://vustudents.ning.com>**

▶ **A surplus of the good.**

- ▶ A shortage of the good.
- ▶ An equilibrium.
- ▶ None of the given options.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**If pen and ink are complements, then an increase in the price of pen will cause:**

- ▶ An increase in the price of ink.

▶ **Less ink to be demanded at each price.**

- ▶ A decrease in the demand for pen.
- ▶ A rightward shift in the demand curve for ink.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right.**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**When an industry's raw material costs increase, other things remaining the same:**

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.
- ▶ **Output decreases and the market price also decrease.**
- ▶ The supply curve shifts to the left.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Sugar can be refined from sugar beets. When the price of those beets falls:**

- ▶ The demand curve for sugar would shift right.
- ▶ The demand curve for sugar would shift left.
- ▶ **The supply curve for sugar would shift right.**
- ▶ The supply curve for sugar would shift left.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:** <http://vustudents.ning.com>

- ▶ None of the given options.
- ▶ The daily supply curve for fish slopes upward.
- ▶ **The daily supply curve for fish is perfectly inelastic.**
- ▶ The daily supply curve for fish is perfectly elastic.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**In order to calculate the price elasticity of supply, you need to know:**

- ▶ **Two prices and two quantities supplied.**
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.

- ▶ The quantity supplied at two different prices, all else equal.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Suppose the first four units of an output produced incur corresponding total costs of 50, 150, 300, and 500. The marginal cost of the second unit of output is:**

- ▶ 50.
- ▶ **100.**
- ▶ 150.
- ▶ 200.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶ Horizontal.
- ▶ Vertical.
- ▶ **Negative.**
- ▶ Positive.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

▶ -14.

▶ **14.**

▶ 83.

▶ 97.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is  $\frac{1}{4}$  then to maximize total utility, a consumer should:**

▶ Buy more pizzas and fewer jeans.

▶ **Buy fewer pizzas and more jeans.**

▶ Continue to buy the same quantities of pizza and jeans.

▶ Spend more time consuming pizza.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT an assumption of ordinal utility analysis?**

▶ Consumers are consistent in their preferences.

▶ Consumers can measure the total utility received from any given basket of good.

▶ Consumers are non-satiated with respect to the goods they confront.

▶ **All of the given options are true.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

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Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

Question No: 17 ( Marks: 1 ) - Please choose one

Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

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- ▶ **Economies of scale.**
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

Question No: 18 ( Marks: 1 ) - Please choose one

A graph showing all the combinations of capital and labour available for a given total cost is the:

- ▶ Budget constraint.
- ▶ Expenditure set.
- ▶ Isoquant.

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▶ Isocost.

Question No: 19 ( Marks: 1 ) - Please choose one

An isoquant curve shows:

▶ **All the alternative combinations of two inputs that yield the same maximum total product.**

▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.

▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

▶ None of the given options.

Question No: 20 ( Marks: 1 ) - Please choose one

L-shaped isoquant:

▶ **Indicate that capital and labor cannot be substituted for each other in production.**

▶ Is impossible.

▶ Indicate that the firm could switch from one output to another costlessly.

▶ Indicate that the firm could not switch from one output to another.

Question No: 21 ( Marks: 1 ) - Please choose one

Costs determine all of the following EXCEPT:

▶ **Demand for a product.**

- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Total costs are the sum of:**

- ▶ Marginal costs and variable costs.
- ▶ **Fixed costs and variable costs.**
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**To find the profit maximizing level of output, a firm finds the output level where:**

- ▶ Price equals marginal cost.
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.
- ▶ **None of the given options.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ **Has no substitutes at all.**

- ▶ Has no close substitutes.
- ▶ Can be easily duplicated.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**A perfectly competitive firm maximizes profit by finding the level of production at which:**

**▶ Price = Marginal Cost.**

- ▶ Price = Average Total Cost.
- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**The monopolist has no supply curve because:**

**▶ The quantity supplied at any particular price depends on the monopolist's demand curve.**

- ▶ The monopolist's marginal cost curve changes considerably over time.
- ▶ The relationship between price and quantity depends on both marginal cost and average cost.
- ▶ Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is TRUE at the output level, where price = marginal cost?**

▶ **The monopolist is maximizing profit.**

- ▶ The monopolist is not maximizing profit and should increase output.
- ▶ The monopolist is not maximizing profit and should decrease output.
- ▶ The monopolist is earning a positive profit.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Following are the disadvantages of monopoly EXCEPT:**

- ▶ Monopolists earn higher profits.
- ▶ **Monopolists produce high quality goods at higher prices.**
- ▶ Most of the “surplus” (producer + consumer surplus) accrues to monopolists.
- ▶ Monopolists do not pay sufficient attention to increasing efficiency.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ **Engages in first-degree price discrimination.**

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.

**▶ Charging different prices to different groups based upon differences in elasticity of demand.**

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?**

- ▶ The demand curve is tangent to marginal cost curve.
- ▶ The demand curve is tangent to average cost curve.
- ▶ The marginal cost curve is tangent to average cost curve.**
- ▶ The demand curve is tangent to marginal revenue curve.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.

▶ **An increase in the production of consumer goods.**

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**Question No: 33 ( Marks: 1 ) - Please choose one**

**A demand schedule is best described as:**

▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Question No: 34 ( Marks: 1 ) - Please choose one**

**A partial explanation for the inverse relationship between price and quantity demanded is that a:** <http://vustudents.ning.com>

- ▶ Lower price shifts the supply curve to the left.
- ▶ Higher price shifts the demand curve to the left.
- ▶ **Lower price shifts the demand curve to the right.**
- ▶ Higher price reduces the real incomes of buyers.

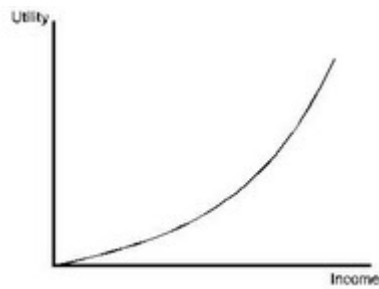
**Question No: 35 ( Marks: 1 ) - Please choose one**

**The total utility curve for a risk neutral person will be:**

► **Straight line.**

- Convex.
- Concave.
- None of the given options.

Question No: 36 ( Marks: 1 ) - Please choose one



**Figure**

In figure given above, the marginal utility of income is:

- Increasing as income increases.
- Constant for all levels of income.
- **Diminishes as income increases.**

- ▶ None of the given options.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**A welfare loss occurs in monopoly where:**

- ▶ The price is greater than the marginal cost.
- ▶ **The price is greater than the marginal benefit.**
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a factor of production?**

- ▶ Labour.
- ▶ Land.
- ▶ Capital.
- ▶ **Investment.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**Which of the following does NOT refer to macroeconomics?**

- ▶ The study of the aggregate level of economic activity.



**▶ The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.**

- ▶ The study of the cause of unemployment.
- ▶ The study of the cause of inflation.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Demand is elastic when the elasticity of demand is:**

- ▶ Greater than 0 but less than 1.
- ▶ Greater than 1.**
- ▶ Less than 0.
- ▶ Equal to 1.

**Question No: 41 ( Marks: 10 )**

**A. Differentiate between risk and uncertainty.**

**B. What would the risk neutral person, risk averse person and risk loving person do in the following cases?**

- If Odds Ratio  $> 1$
- If Odds Ratio  $= 1$
- If Odds Ratio  $< 1$

**C. You toss a coin, if head comes, you are given Rs. 200 and if tail comes, you have to pay Rs. 200. Will you play this game or not? Give your answer with brief explanation.**

**(Marks: 3+3+4)**

**Answers : A)**

**Risk and Uncertainty** : Risk is when an outcome may or may not occur but its probability is known while uncertainty is when an outcome may or may not occur but its probability is not known.

**Answers : B)**

1) For risk neutral person

- If Odds Ratio  $> 1$ , then he will definitely buy
- If Odds Ratio  $= 1$ , then he will be indifferent
- If Odds Ratio  $< 1$ , then he might not buy as  $OR < 1$

2) For risk averse person

- If Odds Ratio  $> 1$ , then in this case as well he might decide not to buy.
- If Odds Ratio  $= 1$ , then he will definitely not buy
- If Odds Ratio  $< 1$ , then he will definitely not buy

3) For risk loving person

- If Odds Ratio  $> 1$ , then he will definitely buy
- If Odds Ratio  $= 1$ , then he will definitely buy
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**Answers : C)**

The tossing of a coin and the probability of a head appearing is 50% i.e. the odds of success are fair. So the option of  $OR < 1$  and  $OR > 1$  is not there. The only possibility is  $OR = 1$  which means that the chances are not that bad. Now it depends on the fact that whether I am a risk averse, risk neutral or risk loving person. In case of fair odds both risk loving and risk neutral person might decide to play. So I will play this game as the amount of money involved is not that much and as far as my perception of it is concerned the marginal benefit of gaining 200 Rs is perceived by me as more than the marginal cost of losing the 200 Rs. So I would definitely play this game. Moreover the excitement of winning might overshadow my rational judgement and I would definitely decide to play by being carried away by excitement.

**MIDTERM EXAMINATION  
Spring 2009  
ECO401- Economics (Session - 2)**

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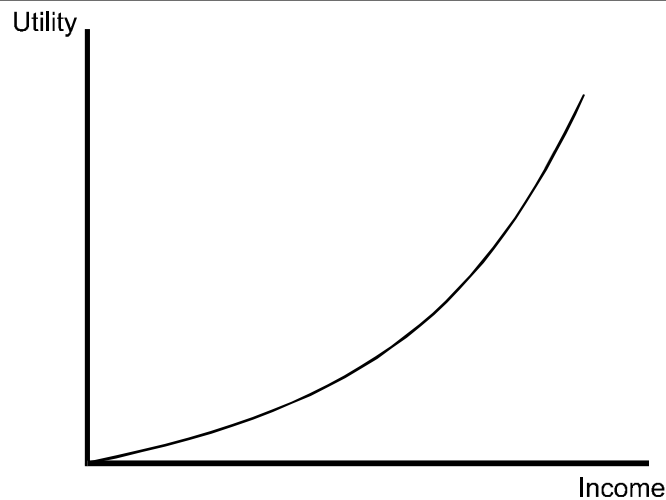
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**Cross-price elasticity measures whether:**

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.**
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**Which of the following will be TRUE if demand is inelastic?**

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**Land is best described as:**

- ▶ Produced factors of production.
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- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**In pure capitalism, the role of government is best described as:**

- ▶ Significant.
- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
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- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**Question No: 41 ( Marks: 10 )**

C. \_\_\_\_\_

**Define "Law of supply" and explain it with a schedule and diagram.**

**D. What are the factors which cause the shift in market supply curve?**

**(Marks: 6+4)**

**ANSWER: LAW OF SUPPLY: It states that as the price goes up the quantity supplied also goes up and when price falls quantity supplied also falls.**

**Schedule for Supply:**

Price (Rs.)	Quantity supplied
5	100
4	95
3	80
2	60
1	40

### Factors Causing Shift in Supply Curve:

There are various factors causing shift in market supply curve which are as follows:

Factors changing supply	Effect on supply	Direction of Shift in supply	Equilibrium Price	Equilibrium quantity
Increase in number of suppliers	Increase	Rightward shift	Decrease	Increase
Decrease in number of suppliers	Decrease	Leftward shift	Increase	Decrease
Improved technology	Increase	Rightward shift	Decrease	Increase
Declined technology	Decrease	Leftward shift	Increase	Decrease
Increase in future price	Decrease	Leftward shift	Increase	Decrease
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**MIDTERM EXAMINATION  
Spring 2009  
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**Time: 60 min**

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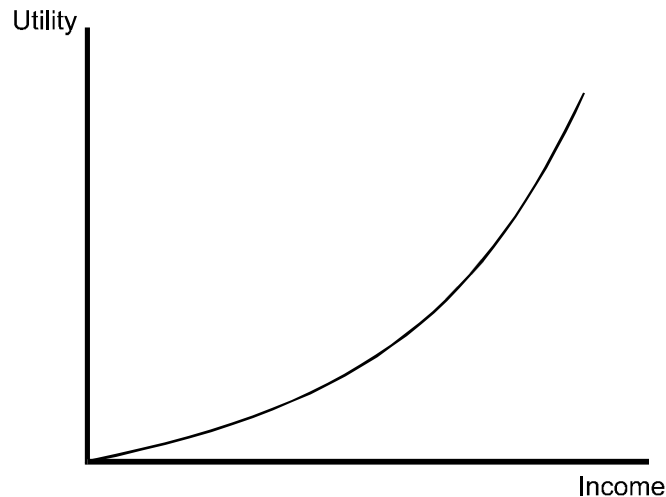
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- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ "Naturally" occurring resources.

**Question No: 39 ( Marks: 1 ) - Please choose one**

---

**In pure capitalism, the role of government is best described as:**

- ▶ Significant.
- ▶ Extensive.
- ▶ Nonexistent.
- ▶ Limited.

**Question No: 40 ( Marks: 1 ) - Please choose one**

---

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ The behavior of individual consumers and behavior of individual firms and investors.


**Question No: 41 ( Marks: 10 )**

**E.**

**Define "Law of supply" and explain it with a schedule and diagram.**

**F. What are the factors which cause the shift in market supply curve?**

**(Marks: 6+4)**



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**MIDTERM EXAMINATION**  
**Spring 2009**  
**ECO401- Economics (Session - 4)**

**Time: 60 min**  
**Marks: 50**

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**Question No: 1 ( Marks: 1 ) - Please choose one**

---

**Which of the following does NOT refer to macroeconomics?**

- ▶ The study of the aggregate level of economic activity.
- ▶ The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.
- ▶ The study of the cause of unemployment.
- ▶ The study of the cause of inflation.

**Question No: 2 ( Marks: 1 ) - Please choose one**

---

**Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.**

- ▶ Limited resources, market behavior.
- ▶ Scarcity, human behavior.
- ▶ Social behavior, limited resources.
- ▶ Biological behavior, scarcity.

**Question No: 3 ( Marks: 1 ) - Please choose one**

---

**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ Consumers can anticipate price changes.

**Question No: 4 ( Marks: 1 ) - Please choose one**

---

**The textbook for your class was not produced in a perfectly competitive industry because:**

- ▶ There are so few firms in the industry that market shares are not small, and firm's decisions have an impact on market price.
- ▶ Upper-division microeconomics texts are not all alike.
- ▶ It is not costless to enter or exit the textbook industry.
- ▶ All of the given options.

**Question No: 5 ( Marks: 1 ) - Please choose one**

---

**If indifference curves cross, then:**

- ▶ The assumption of a diminishing marginal rate of substitution is violated.
- ▶ The assumption of transitivity is violated.
- ▶ The assumption of completeness is violated.
- ▶ Consumers minimize their satisfaction.

**Question No: 6 ( Marks: 1 ) - Please choose one**

---

**You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:**

- ▶ The demand for houses has increased.
- ▶ The demand curve for houses must be upward-sloping.
- ▶ The supply of houses has increased.
- ▶ Housing construction costs must be decreasing.

**Question No: 7 ( Marks: 1 ) - Please choose one**

---

**Which of the following best expresses the law of demand?**

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ A higher price reduces quantity demanded.
- ▶ A lower price shifts the demand curve to the right.

**Question No: 8 ( Marks: 1 ) - Please choose one**

---

**The primary use of the kinked-demand curve is to explain price rigidity in:**

- ▶ Oligopoly.
- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

**Question No: 9 ( Marks: 1 ) - Please choose one**

---

**Which of the following markets is most likely to be oligopolistic?**

- ▶ The market for corn.
- ▶ The market for aluminum.
- ▶ The market for colas.
- ▶ The market for ground coffees.

**Question No: 10 ( Marks: 1 ) - Please choose one**

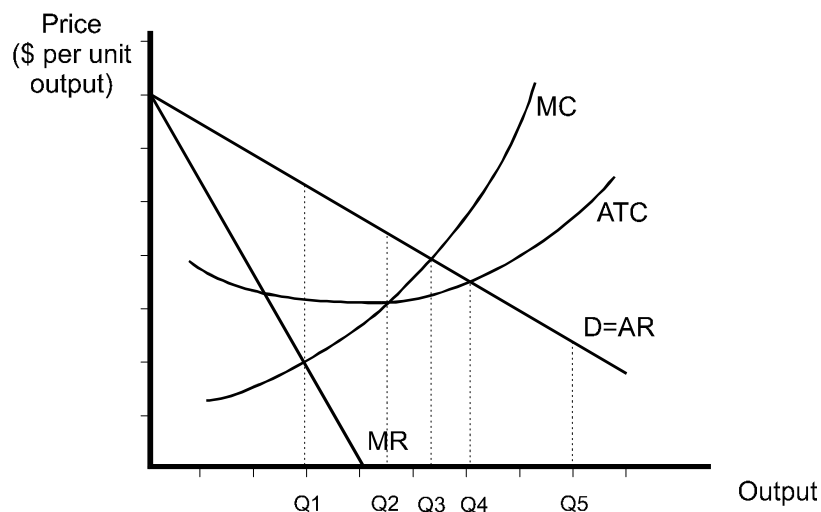
---

**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ Engages in first-degree price discrimination.

**Question No: 11 ( Marks: 1 ) - Please choose one**

For the monopolist shown below, the profit maximizing level of output is:



- ▶ Q1.
- ▶ Q2.
- ▶ Q3.
- ▶ Q4.

**Question No: 12 (Marks: 1) - Please choose one**

If a monopolist sets his output such that marginal revenue, marginal cost and average total cost are equal, economic profit must be:

- ▶ Negative.
- ▶ Positive.
- ▶ Zero.
- ▶ Indeterminate from the given information.

**Question No: 13 (Marks: 1) - Please choose one**

Following are the disadvantages of monopoly EXCEPT:

- ▶ Monopolists earn higher profits.
- ▶ Monopolists produce high quality goods at higher prices.
- ▶ Most of the “surplus” (producer + consumer surplus) accrues to monopolists.
- ▶ Monopolists do not pay sufficient attention to increasing efficiency.

**Question No: 14 (Marks: 1) - Please choose one**

Costs determine all of the following EXCEPT:

- ▶ Demand for a product.
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.



**Question No: 15 ( Marks: 1 ) - Please choose one**

---

**Increasing returns to scale in production means:**

- ▶ More than twice as much of only one input is required to double output.
- ▶ Isoquants must be linear.
- ▶ More than 10% as much of all inputs are required to increase output 10%.
- ▶ Less than twice as much of all inputs are required to double output.

**Question No: 16 ( Marks: 1 ) - Please choose one**

---

**An isoquant curve shows:**

- ▶ All the alternative combinations of two inputs that yield the same maximum total product.
- ▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.
- ▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- ▶ None of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**

---

**What will happen to the isocost line if the price of both goods increases?**

- ▶ It shift farther away from the origin of the graph.
- ▶ It shift inward, closer to the origin.
- ▶ It vanishes.
- ▶ It undergoes no change.

**Question No: 18 ( Marks: 1 ) - Please choose one**

---

**A graph showing all the combinations of capital and labour available for a given total cost is the:**

- ▶ Budget constraint.
- ▶ Expenditure set.
- ▶ Isoquant.
- ▶ Isocost.

**Question No: 19 ( Marks: 1 ) - Please choose one**

---

**If Average Physical Product (APP) is increasing then which of the following must be true?**

- ▶ Marginal physical product is greater than average physical product.
- ▶ Marginal physical product is less than average physical product.
- ▶ Marginal physical product is increasing.
- ▶ Marginal physical product is decreasing.

**Question No: 20 ( Marks: 1 ) - Please choose one**

---

**Indifference curves that are convex to the origin reflect:**

- ▶ An increasing marginal rate of substitution.
- ▶ A decreasing marginal rate of substitution.
- ▶ A constant marginal rate of substitution.
- ▶ A marginal rate of substitution that first decreases, then increases.

---

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶ Horizontal.
- ▶ Vertical.
- ▶ Negative.
- ▶ Positive.

---

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Suppose the first four units of an output produced incur corresponding total costs of 50, 150, 300, and 500. The marginal cost of the second unit of output is:**

- ▶ 50.
- ▶ 100.
- ▶ 150.
- ▶ 200.

---

**Question No: 23 ( Marks: 1 ) - Please choose one**

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ Downward-sloping.

---

**Question No: 24 ( Marks: 1 ) - Please choose one**

**The extra value that consumers receive above what they pay for that good is called:**

- ▶ Producer surplus.
- ▶ Utility.
- ▶ Marginal utility.
- ▶ Consumer surplus.

**Question No: 25 ( Marks: 1 ) - Please choose one**

---

**Marginal utility is best described as:**

- ▶ The total satisfaction gained from the total consumption of the good.
- ▶ The change in satisfaction from consuming one additional unit of the good.
- ▶ The additional satisfaction gained by consumption of the last good.
- ▶ The per unit satisfaction of the good consumed.

**Question No: 26 ( Marks: 1 ) - Please choose one**

---

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ An increase in total revenue received by the course.
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**Question No: 27 ( Marks: 1 ) - Please choose one**

---

**We know that the demand for a product is elastic:**

- ▶ When price rises, total revenue rises.
- ▶ When price rises, total revenue falls.
- ▶ When income rises, quantity demanded rises.
- ▶ When income falls, quantity demanded rises.

**Question No: 28 ( Marks: 1 ) - Please choose one**

---

**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ Inelastic.

**Question No: 29 ( Marks: 1 ) - Please choose one**

---

**In order to calculate the price elasticity of supply, you need to know:**

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- ▶ Two prices and two quantities supplied.
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

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**Question No: 30 ( Marks: 1 ) - Please choose one**

**Which of the following measures the percentage change in quantity demanded given a percentage change in consumer's income?**

- ▶ Price elasticity of demand.
- ▶ Income elasticity of demand.
- ▶ Supply price elasticity.
- ▶ Cross price elasticity.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:**

- ▶ A surplus of credit.
- ▶ A shortage of credit.
- ▶ Greater profits for banks issuing credit.
- ▶ A perfectly inelastic supply of credit in the market place.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**If both supply and demand increase simultaneously, the equilibrium:**

- ▶ Price must rise and the equilibrium quantity must fall.
- ▶ Price must rise and the equilibrium quantity may either rise or fall.
- ▶ Quantity must rise and the equilibrium price may either rise or fall.
- ▶ Price must fall and the equilibrium quantity may either rise or fall.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**When college students leave town for the summer, the demand for meals at the local restaurants decline. This results in:**

- ▶ A decrease in equilibrium price and an increase in quantity of meal.
- ▶ An increase in equilibrium price and quantity of meal.
- ▶ A decrease in equilibrium price and quantity of meal.
- ▶ An increase in equilibrium price and a decrease in quantity of meal.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**A good for which income and quantity demanded are inversely related is known as:**

- ▶ Inferior good.
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**If pen and ink are complements, then an increase in the price of pen will cause:**

- ▶ An increase in the price of ink.

- ▶ Less ink to be demanded at each price.
- ▶ A decrease in the demand for pen.
- ▶ A rightward shift in the demand curve for ink.

**Question No: 36 ( Marks: 1 ) - Please choose one**

---

**If the quantity demanded of a product is greater than the quantity supplied of a product, then:**

- ▶ There is a shortage of the product.
- ▶ There is a surplus of the product.
- ▶ The product is a normal good.
- ▶ The product is an inferior good.

**Question No: 37 ( Marks: 1 ) - Please choose one**

---

**When constructing a typical production possibilities curve, economists assume that:**

- ▶ Economic resources are underutilized.
- ▶ Resources are equally productive in many alternative uses.
- ▶ All available resources are employed efficiently.
- ▶ Production technology is allowed to vary.

**Question No: 38 ( Marks: 1 ) - Please choose one**

---

**Our economy is characterized by:**

- ▶ Unlimited wants and needs.
- ▶ Unlimited material resources.
- ▶ No energy resources.
- ▶ Abundant productive labor.

**Question No: 39 ( Marks: 1 ) - Please choose one**

---

**Which of the following might be considered to be a characteristic of a planned economy?**

- ▶ Price is relatively unimportant as a means of allocating resources.
- ▶ Goods and services produced reflect consumer sovereignty.
- ▶ There is no incentive for people to work hard.
- ▶ All income is completely evenly distributed.

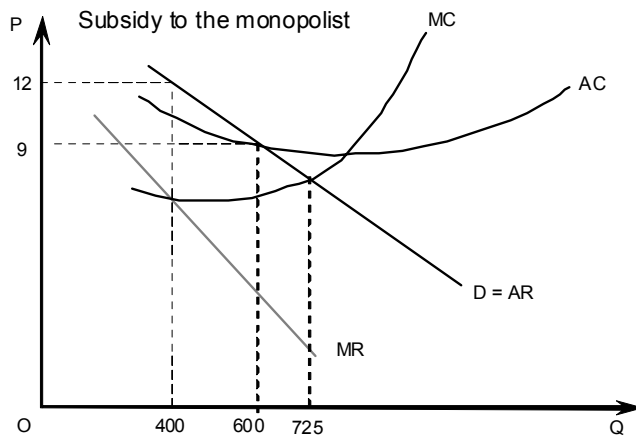
**Question No: 40 ( Marks: 1 ) - Please choose one**

---

**Which of the following is a normative statement?**

- ▶ Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
- ▶ The minimum wage should not be increased, because to do so would increase unemployment.
- ▶ Smoking should be restricted on all airline flights.
- ▶ All of the given options.

**Question No: 41 ( Marks: 10 )**



- According to the given graph, at which point allocative efficiency is achieved?
- Is the productive efficiency is also attained at the point of allocative efficiency? why
- At which point economist might make a loss and what will be the role of Government in this regard?
- At which point monopolist is able to get allocative efficiency as well as productive efficiency?

(Marks: 2.5+2.5+2.5+2.5)

**MIDTERM EXAMINATION**

Spring 2009

ECO401- Economics (Session - 2)

**Question No: 1 ( Marks: 1 ) - Please choose one**

An individual whose attitude towards risk is known as:

- ▶ Risk averse.
- ▶ **Risk loving.**
- ▶ Risk neutral.
- ▶ None of the given options

**Question No: 2 ( Marks: 1 ) - Please choose one**

The concept of a risk premium applies to a person that is:

- ▶ All of the given options.
- ▶ **Risk averse.**
- ▶ Risk neutral.
- ▶ Risk loving.

**Question No: 3 ( Marks: 1 ) - Please choose one**

A normative economic statement:

- ▶ Is a statement of fact.

- ▶ Is a hypothesis used to test economic theory.
- ▶ **Is a statement of what ought to be, not what is.**
- ▶ Is a statement of what will occur if certain assumptions are true.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.**

- ▶ Limited resources, market behavior.
- ▶ **Scarcity, human behavior.**
- ▶ Social behavior, limited resources.
- ▶ Biological behavior, scarcity.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:**

- ▶  $P = MR.$
- ▶  $P = AVC.$
- ▶  $AR = MR.$
- ▶  **$P = MC.$**

**Question No: 6 ( Marks: 1 ) - Please choose one**

**A welfare loss occurs in monopoly where:**

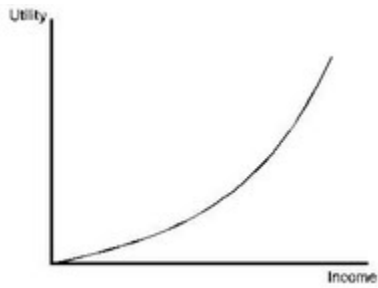
- ▶ **The price is greater than the marginal cost.**
- ▶ The price is greater than the marginal benefit.
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

**Question No: 8 ( Marks: 1 ) - Please choose one**



In figure given above, the marginal utility of income is:

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:**

- ▶ The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
- ▶ The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
- ▶ **The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.**
- ▶ The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:**

- ▶ Independent.
- ▶ Complements.
- ▶ **Substitutes.**
- ▶ Inferior.



**Question No: 11 ( Marks: 1 ) - Please choose one**  
**A demand schedule is best described as:**

- ▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**
- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand: P,Q and Q, P.

**Question No: 12 ( Marks: 1 ) - Please choose one**  
**Which of the following best expresses the law of demand?**

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ **A higher price reduces quantity demanded.**
- ▶ A lower price shifts the demand curve to the right.

**Question No: 13 ( Marks: 1 ) - Please choose one**  
**Which of the following would most likely shift the production possibilities curve for a nation outward?**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

**Question No: 14 ( Marks: 1 ) - Please choose one**  
**The primary use of the kinked-demand curve is to explain price rigidity in:**

- ▶ **Oligopoly.**
- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

**Question No: 15 ( Marks: 1 ) - Please choose one**  
**A monopolistically competitive firm in short run equilibrium:**

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ **Any of the given are possible.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ **Oligopolistic.**

**Question No: 17 ( Marks: 1 ) - Please choose one**

**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.
- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.
- ▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

**A tennis pro charges \$15 per hour for tennis lessons for children and \$30 per hour for tennis lessons for adults. The tennis pro is practicing:**

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ All of the given options.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**An electric power company uses block pricing for electricity sales. Block pricing is an example of:**

- ▶ First-degree price discrimination.
- ▶ **Second-degree price discrimination.**
- ▶ Third-degree price discrimination.
- ▶ Block pricing is not a type of price discrimination.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**A firm never operates:**

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- ▶ At the minimum of its average total cost curve.
- ▶ **At the minimum of its average variable cost curve.**
- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

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**Question No: 22 ( Marks: 1 ) - Please choose one**

**Marginal profit is equal to:**

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.
- ▶ **Marginal revenue is greater than marginal cost.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?**

- ▶ **They must intersect with TC cutting TR from below.**
- ▶ They must intersect with TC cutting TR from above.
- ▶ They must be tangent to each other.
- ▶ They must have the same slope.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶ 5Q.
- ▶ 5.
- ▶  **$5 + (200/Q)$ .**
- ▶ None of the given options.

**[Reference Q.No. 23](#)**

**Question No: 26 ( Marks: 1 ) - Please choose one**

**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:**

- ▶ A fixed cost.
- ▶ A variable cost.

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- ▶ An implicit cost.
- ▶ **An opportunity cost.**

**Question No: 27 ( Marks: 1 ) - Please choose one**  
**Costs determine all of the following EXCEPT:**

- ▶ **Demand for a product.**
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 28 ( Marks: 1 ) - Please choose one**  
**The rate at which a firm can substitute capital for labour and hold output constant is the:**

- ▶ Law of diminishing marginal returns.
- ▶ Marginal rate of substitution.
- ▶ **Marginal rate of factor substitution.**
- ▶ Marginal rate of production.

**Question No: 29 ( Marks: 1 ) - Please choose one**  
**If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:**

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale.

**Question No: 30 ( Marks: 1 ) - Please choose one**  
**At any given point on an indifference curve, the absolute value of the slope equals:**

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution.**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

**Question No: 31 ( Marks: 1 ) - Please choose one**  
**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.

- ▶ It would rotate about the axis for racquetballs.
- ▶ **It would shift outward.**

**Question No: 32 ( Marks: 1 ) - Please choose one**  
**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ **Downward-sloping.**

**Question No: 33 ( Marks: 1 ) - Please choose one**  
**Cross-price elasticity measures whether:**

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.**
- ▶ Demand is elastic or inelastic.
- ▶ Supply is steeper than demand or vice versa.

**Question No: 34 ( Marks: 1 ) - Please choose one**  
**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.
- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**  
**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course.**
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**Question No: 36 ( Marks: 1 ) - Please choose one**  
**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 37 ( Marks: 1 ) - Please choose one**

**Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:**

- ▶ The economy's production possibilities curve will shift outward.
- ▶ The economy's production possibilities curve will become steeper.
- ▶ The economy will move downward along its production possibilities curve.
- ▶ **The economy will move from a point inside to a point closer to its production possibilities curve.**

**Question No: 38 ( Marks: 1 ) - Please choose one  
Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

**Question No: 39 ( Marks: 1 ) - Please choose one  
In pure capitalism, the role of government is best described as:**

- ▶ Significant.
- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

**Question No: 40 ( Marks: 1 ) - Please choose one  
Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**Question No: 41 ( Marks: 10 )**

**A. Define "Law of supply" and explain it with a schedule and diagram.**

**B. What are the factors which cause the shift in market supply curve?**

**(Marks: 6+4)**

ANSWER: **LAW OF SUPPLY:** It states that as the price goes up the quantity supplied also goes up and when price falls quantity supplied also falls.

**Schedule for Supply:**

Price (Rs.)	Quantity supplied
5	100
4	95

3	80
2	60
1	40

**Factors Causing Shift in Supply Curve:**

There are various factors causing shift in market supply curve which are as follows:

Factors changing supply	Effect on supply	Direction of Shift in supply	Equilibrium Price	Equilibrium quantity
Increase in number of suppliers	Increase	Rightward shift	Decrease	Increase
Decrease in number of suppliers	Decrease	Leftward shift	Increase	Decrease
Improved technology	Increase	Rightward shift	Decrease	Increase
Declined technology	Decrease	Leftward shift	Increase	Decrease
Increase in future price	Decrease	Leftward shift	Increase	Decrease
Decrease in future price	Increase	Rightward shift	Decrease	Increase
Increase in resources' price	Decrease	Leftward shift	Increase	Decrease
Decrease in resources' price	Increase	Rightward shift	Decrease	Increase

**MIDTERM EXAMINATION**

**Fall 2009**


**ECO401- Economics (Session - 2)**

**Ref No:**

**Time: 60 min**

**Marks: 50**

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**Question No: 1 ( Marks: 1 ) - Please choose one**

**In pure capitalism, freedom of enterprise means that:**

- ▶ Businesses are free to produce products that consumers want.
- ▶ Consumers are free to buy goods and services that they want.
- ▶ Resources are distributed freely to businesses.
- ▶ Government is free to direct the actions of businesses.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**The demand curve for chicken is downward-sloping. Suddenly the price of chicken rises from Rs.130 per kg to Rs.140 per kg. This will cause:**


- ▶ The demand curve for chicken to shift to the left.
- ▶ The demand curve for chicken to shift to the right.
- ▶ Quantity demanded of chicken to increase.
- ▶ Quantity demanded of chicken to decrease.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**The supply curve is upward-sloping because:**

- ▶ As the price increases, consumers demand less.





▶ As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.

▶ None of the given options.

▶ As the price increases, so do costs.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**If the quantity supplied of oranges exceeds the quantity demanded then:**

▶ There is a shortage of oranges.

▶ Market forces will cause the price to fall.

▶ Market forces will cause the price to rise.

▶ The market is in equilibrium.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**A price ceiling might be an appropriate government response to a:**

▶ Period of falling farm prices due to unusually good harvests.


▶ Substantial increase in farm productivity due to applications of new technology in

agriculture.

▶ National security crisis leading to major shortages of essential goods.

▶ Period of extraordinary large surpluses of farm goods.

**Question No: 6 ( Marks: 1 ) - Please choose one**



**Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:**

- ▶ A surplus of credit.
- ▶ A shortage of credit.
- ▶ Greater profits for banks issuing credit.
- ▶ A perfectly inelastic supply of credit in the market place.

**Question No: 7 (Marks: 1) - Please choose one**

**In order to calculate the price elasticity of supply, you need to know:**

- ▶ Two prices and two quantities supplied.
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ Inelastic.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**The numerical measurement of a consumer's preference is called:**

- ▶ Use.
- ▶ Pleasure.
- ▶ Utility.
- ▶ Satisfaction.

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**Question No: 10 ( Marks: 1 ) - Please choose one**

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ Downward-sloping.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**If your demand price for one unit of a good is \$100 and the market price is \$75, your consumer's surplus is:**

- ▶ \$25.
- ▶ \$50.
- ▶ \$75.
- ▶ \$100.

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**Question No: 12 ( Marks: 1 ) - Please choose one**

**Other things being equal, expected income can be used as a direct measure of well-being:**

- ▶ No matter what a person's preference to risk.
- ▶ If and only if individuals are not risk-loving.
- ▶ If and only if individuals are risk averse.
- ▶ If and only if individuals are risk neutral.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**If diminishing marginal utility holds and a person consumes less of a good then which of the following will happen; all else being equal?**

- ▶ Marginal utility will decline.
- ▶ The price of the good will rise.
- ▶ Marginal utility will rise.
- ▶ Expenditure on the good will increase.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:**

- ▶ Indifference curves slope downwards.
- ▶ Indifference curves slope upwards.

- ▶ Indifference curves may cross.
- ▶ Indifference curves could take the form of ellipses.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:**


- ▶ The consumer's indifference curve must be positively sloped.
- ▶ The consumer's indifference curve must be convex with respect to the origin of the graph.
- ▶ The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal  $\frac{1}{2}$ .
- ▶ All of the given options.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**An indifference curve is:**

- ▶ A collection of market baskets that are equally desirable to the consumer.
- ▶ A collection of market baskets that the consumer can buy.
- ▶ A curve whose elasticity is constant for every price.
- ▶ A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

**Question No: 17 ( Marks: 1 ) - Please choose one**



**Increase in pension benefits leads to income and substitution effect which:**

- ▶ Encourage workers to retire later.
- ▶ Encourage workers to work more hours.
- ▶ Have no effect on incentive to retire.
- ▶ Encourage workers to retire earlier.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The substitution effect of a wage increase will lead a person to:**

- ▶ Work more.
- ▶ Take more leisure.
- ▶ Not change anything.
- ▶ None of the given options.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**Which of the following statements about indifference curves is NOT correct?**

- ▶ Indifference curves are generally negatively sloped.
- ▶ Without utility being quantifiable we can say that one indifference curve is higher than (or preferred to) another but we cannot say by how much.
- ▶ Two indifference curves cannot intersect unless they are identical throughout.

- 
- ▶ Two different indifference curves can intersect but only once.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**The income effect of a price change:**

- ▶ Is always positive.
- ▶ Is always negative.
- ▶ May be positive or negative.
- ▶ Is associated with a change in nominal income.

**Question No: 21 ( Marks: 1 ) - Please choose one**


**When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:**

- ▶ An inferior good.
- ▶ A substitute good.
- ▶ An independent good.
- ▶ A normal good.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Which of the following statements describes the presence of diminishing returns holding at least one factor constant?**

- ▶ The marginal product of a factor is positive and rising.

- 
- ▶ The marginal product of a factor is positive but falling.
  - ▶ The marginal product of a factor is falling and negative.
  - ▶ The marginal product of a factor is constant.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Diminishing marginal returns implies:**

- ▶ Decreasing marginal costs.
- ▶ Increasing marginal costs.
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**An isocost line reveals the:**


- ▶ Cost of inputs needed to produce along an isoquant.
- ▶ Cost of inputs needed to produce along an expansion path.
- ▶ Input combinations that can be purchased with a given outlay of funds.
- ▶ Output combinations that can be produced with a given outlay of funds.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Costs determine all of the following EXCEPT:**

- ▶ Demand for a product.



- 
- ▶ Firm's behaviour.
  - ▶ How firms should expand?
  - ▶ Firm's profitability.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.
- ▶ Marginal revenue is greater than marginal cost.

**Question No: 27 ( Marks: 1 ) - Please choose one**


**In which market structure, each firm produces an identical product and there is freedom of entry and exit?**

- ▶ Monopoly.
- ▶ Oligopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**For a monopolist, changes in demand will lead to changes in:**

- ▶ Price with no change in output.

- 
- ▶ Output with no change in price.
  - ▶ Both price and quantity.
  - ▶ None of the given options.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.
- ▶ The market price.
- ▶ The first-degree price.
- ▶ The block price.


**Question No: 30 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?**

- ▶ The fact that price exceeds marginal cost.
- ▶ Excess capacity.
- ▶ Product diversity.
- ▶ The fact that long-run average cost is not minimized.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

- 
- ▶ A reduction in unemployment.
  - ▶ An increase in the production of capital goods.
  - ▶ A reduction in discrimination.
  - ▶ An increase in the production of consumer goods.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:**

- ▶ The demand for houses has increased.
- ▶ The demand curve for houses must be upward-sloping.
- ▶ The supply of houses has increased.
- ▶ Housing construction costs must be decreasing.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**If the income elasticity of demand is  $1/2$ , the good is:**

- ▶ A luxury.
- ▶ A normal good (but not a luxury).
- ▶ An inferior good.
- ▶ A Giffen good.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is NOT true?**

- ▶ Products are differentiated.
- ▶ There is freedom of entry and exit into the industry in the long run.
- ▶ The firm is a price maker.
- ▶ There is one main seller.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**The principle economic difference between a competitive and a non-competitive market is:**

- ▶ The number of firms in the market.
- ▶ The extent to which any firm can influence the price of the product.
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ The firm's output is a small fraction of the entire industry's output.

- 
- ▶ The short run market price is determined solely by the firm's technology.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**The basic difference between oligopoly and monopolistic competition is that.**

- ▶ Products are differentiated in oligopoly.
- ▶ There are no barriers to entry in oligopoly.
- ▶ There are barriers to entry in oligopoly.
- ▶ An oligopoly includes downward sloping demand curves facing the firm.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Because of unusually warm weather, the supply of strawberries has substantially increased. This statement indicates that:**

- ▶ The demand for strawberries will necessarily rise.
- ▶ The equilibrium quantity of strawberries will fall.
- ▶ The quantity of strawberries that will be available at various prices has increased.
- ▶ The price of strawberries will fall.

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**Question No: 39 ( Marks: 1 ) - Please choose one**

**The marginal rate of substitution between food and shelter for a given point on an indifference curve:**

- ▶ Is equal to the absolute value of the slope of the indifference curve at that point.

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▶ Is equal to the rate at which the consumer is willing to exchange the two goods in the market place.

▶ Reflects the relative values the consumer attaches to the two good.

▶ Is described, in part, by each of the given statements.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Suppose the first four units of an output produced incur corresponding total costs of 100,300, 600, 1000.The marginal cost of the third unit of output is:**

▶ 100.

▶ 150.

▶ 200.

▶ 300.

**Question No: 41 ( Marks: 10 )**

**Following table shows the price and quantity demanded of a good.**

Price	Quantity demanded
2.5	400
5	200
10	100
20	50
40	25

a) Calculate the total revenue from this table.

b) Interpret whether the demand is elastic, inelastic or unitary elastic and why?

c) What will be the shape of demand curve according to the above table? Draw the graph.

**MIDTERM EXAMINATION**  
**Spring 2009**  
**ECO401- Economics (Session - 2)**

**Question No: 1 ( Marks: 1 ) - Please choose one**

---

**An individual whose attitude towards risk is known as:**

- ▶ Risk averse.
- ▶ Risk loving.
- ▶ Risk neutral.
- ▶ None of the given options.

**Question No: 2 ( Marks: 1 ) - Please choose one**

---

**The concept of a risk premium applies to a person that is:**

- ▶ All of the given options.
- ▶ Risk averse.
- ▶ Risk neutral.
- ▶ Risk loving.

**Question No: 3 ( Marks: 1 ) - Please choose one**

---

**A normative economic statement:**

- ▶ Is a statement of fact.
- ▶ Is a hypothesis used to test economic theory.
- ▶ **Is a statement of what ought to be, not what is.**
- ▶ Is a statement of what will occur if certain assumptions are true.

**Question No: 4 ( Marks: 1 ) - Please choose one**

---

**Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.**

- ▶ Limited resources, market behavior.
- ▶ Scarcity, human behavior.
- ▶ **Social behavior, limited resources.**
- ▶ Biological behavior, scarcity.

**Question No: 5 ( Marks: 1 ) - Please choose one**

---

**Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:**

- ▶  $P = MR$ .
- ▶  $P = AVC$ .
- ▶  $AR = MR$ .

▶  $P = MC$ .

**Question No: 6 ( Marks: 1 ) - Please choose one**

**A welfare loss occurs in monopoly where:**

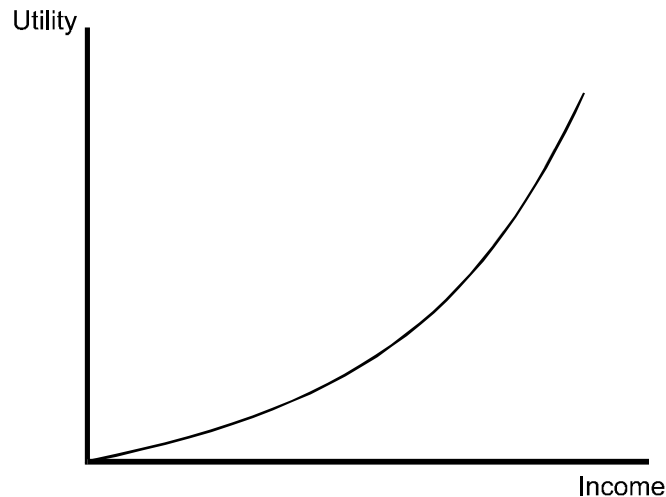
- ▶ **The price is greater than the marginal cost.**
- ▶ The price is greater than the marginal benefit.
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

**Question No: 8 ( Marks: 1 ) - Please choose one**



**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:**



▶ The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.

▶ The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.

▶ **The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.**

▶ The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

**Question No: 10 ( Marks: 1 ) - Please choose one**

---

**If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:**

- ▶ Independent.
- ▶ Complements.
- ▶ **Substitutes.**
- ▶ Inferior.

**Question No: 11 ( Marks: 1 ) - Please choose one**

---

**A demand schedule is best described as:**

▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

▶ A graphical representation of the law of demand.

▶ A systematic listing of all the variables that might conceivably bring about a change in demand.

▶ A symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Question No: 12 ( Marks: 1 ) - Please choose one**

---

**Which of the following best expresses the law of demand?**

▶ A higher price reduces demand.

▶ A lower price reduces demand.

▶ **A higher price reduces quantity demanded.**

▶ A lower price shifts the demand curve to the right.

**Question No: 13 ( Marks: 1 ) - Please choose one**

---

**Which of the following would most likely shift the production possibilities curve for a nation outward? <http://vustudents.ning.com>**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

**Question No: 14 ( Marks: 1 ) - Please choose one**

---

**The primary use of the kinked-demand curve is to explain price rigidity in:**

- ▶ **Oligopoly.**
- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

**Question No: 15 ( Marks: 1 ) - Please choose one**

---

**A monopolistically competitive firm in short run equilibrium:**

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ **Any of the given are possible.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

---

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ **Oligopolistic.**

**Question No: 17 ( Marks: 1 ) - Please choose one**

---

**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.
- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

**Question No: 18 ( Marks: 1 ) - Please choose one**

---

**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.
- ▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

---

**A tennis pro charges \$15 per hour for tennis lessons for children and \$30 per hour for tennis lessons for adults. The tennis pro is practicing:**

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ All of the given options.

**Question No: 20 ( Marks: 1 ) - Please choose one**

---

**An electric power company uses block pricing for electricity sales. Block pricing is an example of:**

- ▶ First-degree price discrimination.
- ▶ **Second-degree price discrimination.**
- ▶ Third-degree price discrimination.
- ▶ Block pricing is not a type of price discrimination.

**Question No: 21 ( Marks: 1 ) - Please choose one**

---

**A firm never operates:**

- ▶ At the minimum of its average total cost curve.
- ▶ **At the minimum of its average variable cost curve.**
- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

**Question No: 22 ( Marks: 1 ) - Please choose one**

---

**Marginal profit is equal to:**

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

**Question No: 23 ( Marks: 1 ) - Please choose one**

---

**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.

- ▶ **Marginal revenue is greater than marginal cost.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

---

**At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?**

- ▶ **They must intersect with TC cutting TR from below.**
- ▶ They must intersect with TC cutting TR from above.
- ▶ They must be tangent to each other.
- ▶ They must have the same slope.

**Question No: 25 ( Marks: 1 ) - Please choose one**

---

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶  $5Q$ .
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ **None of the given options.**

**Question No: 26 ( Marks: 1 ) - Please choose one**

---

**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:**

- ▶ A fixed cost.
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ **An opportunity cost.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

---

**Costs determine all of the following EXCEPT:**

- ▶ **Demand for a product.**
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 28 ( Marks: 1 ) - Please choose one**

---

**The rate at which a firm can substitute capital for labour and hold output constant is the:**

- ▶ Law of diminishing marginal returns.
- ▶ Marginal rate of substitution.
- ▶ **Marginal rate of factor substitution.**
- ▶ Marginal rate of production.

**Question No: 29 ( Marks: 1 ) - Please choose one**

---

**If a simultaneous and equal percentage decrease in the use of all physical inputs**

leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**At any given point on an indifference curve, the absolute value of the slope equals:**

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution.**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.
- ▶ **It would shift outward.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ **Downward-sloping.**

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Cross-price elasticity measures whether:**

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.**
- ▶ Demand is elastic or inelastic.
- ▶ Supply is steeper than demand or vice versa.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.
- ▶ **An increase in price will increase total revenue.**

- ▶ None of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**

---

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course.**
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**Question No: 36 ( Marks: 1 ) - Please choose one**

---

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 37 ( Marks: 1 ) - Please choose one**

---

**Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:**

- ▶ The economy's production possibilities curve will shift outward.
- ▶ The economy's production possibilities curve will become steeper.
- ▶ The economy will move downward along its production possibilities curve.
- ▶ **The economy will move from a point inside to a point closer to its production possibilities curve.**

**Question No: 38 ( Marks: 1 ) - Please choose one**

---

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

---

**In pure capitalism, the role of government is best described as:**

- ▶ Significant.
- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**Question No: 41 ( Marks: 10 )**

**G.**

**Define “Law of supply” and explain it with a schedule and diagram.**

**H. What are the factors which cause the shift in market supply curve?**

**(Marks: 6+4)**

**ANSWER: LAW OF SUPPLY:** It states that as the price goes up the quantity supplied also goes up and when price falls quantity supplied also falls.

**Schedule for Supply:**

<b>Price (Rs.)</b>	<b>Quantity supplied</b>
<b>5</b>	<b>100</b>
<b>4</b>	<b>95</b>
<b>3</b>	<b>80</b>
<b>2</b>	<b>60</b>
<b>1</b>	<b>40</b>

**Factors Causing Shift in Supply Curve:**

There are various factors causing shift in market supply curve which are as follows:

<b>Factors changing supply</b>	<b>Effect on supply</b>	<b>Direction of Shift in supply</b>	<b>Equilibrium Price</b>	<b>Equilibrium quantity</b>
Increase in number of suppliers	Increase	Rightward shift	Decrease	Increase
Decrease in number of suppliers	Decrease	Leftward shift	Increase	Decrease
Improved technology	Increase	Rightward shift	Decrease	Increase
Declined technology	Decrease	Leftward shift	Increase	Decrease
Increase in future price	Decrease	Leftward shift	Increase	Decrease
Decrease in	Increase	Rightward shift	Decrease	Increase

future price				
Increase in resources' price	Decrease	Leftward shift	Increase	Decrease
Decrease in resources' price	Increase	Rightward shift	Decrease	Increase

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**Question No: 1 ( Marks: 1 ) - Please choose one**

**The concept of a risk premium applies to a person that is:**

- ▶ All of the given options.
- ▶ Risk averse.
- ▶ Risk neutral.
- ▶ Risk loving.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Assume that the current market price is below the market clearing level. We would expect:**

- ▶ A surplus to accumulate.
- ▶ Downward pressure on the current market price.
- ▶ Upward pressure on the current market price.
- ▶ Lower production during the next time period.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ Consumers can anticipate price changes.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ Inferior good.

**Question No: 5 ( Marks: 1 ) - Please choose one**

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The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:

- ▶ Positive.
- ▶ Strictly linear.
- ▶ Flat.
- ▶ Negative.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Insurance companies operate under the principle of:**

- ▶ Law of large numbers.
- ▶ Law of small numbers.
- ▶ Law of zero numbers.
- ▶ All of the given options.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**A demand schedule is best described as:**

- ▶ A numerical tabulation of the quantity demanded of a good at different prices, *ceteris paribus*.
- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand: P,Q and Q, P.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**A firm in monopolistic competition does not achieve minimum efficient scale because:**

- ▶ It is not a monopoly.
- ▶ It is in competition with other firms.
- ▶ It is operating on the downward-sloping part of the average cost curve.
- ▶ It produces at the minimum average cost.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?**

- ▶ The fact that price exceeds marginal cost.
- ▶ Excess capacity.
- ▶ Product diversity.
- ▶ The fact that long-run average cost is not minimized.

**Question No: 10 ( Marks: 1 ) - Please choose one**

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**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ Engages in first-degree price discrimination.

**Question No: 11 ( Marks: 1 ) - Please choose one**

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**The break-even point occurs when:**

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ Price = Average Total Cost.
- ▶ Price > Average Variable Cost.

**Question No: 12 ( Marks: 1 ) - Please choose one**

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**If a firm experiences economies of scale, then the:**

- ▶ Long-run average total cost curve is equal to the economies of scope.
- ▶ Long-run average total cost curve is positively sloped.
- ▶ Long-run average total cost curve is horizontal.
- ▶ Long-run average total cost curve is negatively sloped.

**Question No: 13 ( Marks: 1 ) - Please choose one**

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**Which of the following is an example of a natural monopoly?**

- ▶ The trademark protecting Gatoraide.
- ▶ The talents of Tom Hanks.
- ▶ The local water company.
- ▶ The patent on an Intel processor.

**Question No: 14 ( Marks: 1 ) - Please choose one**

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**A monopoly occurs when:**

- ▶ Each firm produces a product that is slightly different from the other firms.
- ▶ One firm sells a good that has no close substitutes and a barrier blocks entry for other firms.
- ▶ There are many firms producing the same product.
- ▶ All of the given options.

**Question No: 15 ( Marks: 1 ) - Please choose one**

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**If current output is less than the profit-maximizing output then the next unit produced:**

- ▶ Will decrease profit.
- ▶ Will increase cost more than it increases revenue.
- ▶ Will increase revenue more than it increases cost.
- ▶ Will increase revenue without increasing cost.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

- ▶ 200.
- ▶ 5Q.
- ▶ 5.
- ▶  $5 + (200/Q)$ .

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Incremental cost is the same concept as:**

- ▶ Average cost.
- ▶ Marginal cost.
- ▶ Fixed cost.
- ▶ Variable cost.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**Fixed costs are fixed with respect to changes in:**

- ▶ Output.
- ▶ Capital expenditures.
- ▶ Wages.
- ▶ Time.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**When an isocost line is just tangent to an isoquant, we know that:**

- ▶ Output is being produced at minimum cost.
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**A negatively sloped isoquant implies:**

- ▶ Products with negative marginal utilities.
- ▶ Products with positive marginal utilities.
- ▶ Inputs with negative marginal products.
- ▶ Inputs with positive marginal products.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Diminishing marginal returns implies:**

- ▶ Decreasing marginal costs.
- ▶ **Increasing marginal costs.**
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**In economics, the “long run” is a time period in which:**

- ▶ **All inputs are variable.**
- ▶ All inputs are paid for.
- ▶ All outputs are determined.
- ▶ All loans are repaid.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**The following table shows a firm’s Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?**

**Table**

<b>Quantity of Labor</b>	<b>Total Product</b>
0	0
10	100
20	230
30	340
40	410
50	460

- ▶ 340 units.
- ▶ **220 units.**
- ▶ 11 units.
- ▶ 110 units.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**If Average Physical Product (APP) is increasing then which of the following must be true?**

- ▶ **Marginal physical product is greater than average physical product.**
- ▶ Marginal physical product is less than average physical product.
- ▶ Marginal physical product is increasing.
- ▶ Marginal physical product is decreasing.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Assume Leisure is a normal good. If income effect exceeds substitution effect then a wage decrease will lead a person to:**

- ▶ Decrease hours of work.
- ▶ Increase hours of work.
- ▶ Not change anything.
- ▶ All of the given options.

**Question No: 26 ( Marks: 1 ) - Please choose one**

---

**If a market basket is changed by adding more to at least one of the goods, then every consumer will:**

- ▶ Rank the market basket more highly after the change.
- ▶ Rank the market basket more highly before the change.
- ▶ Rank the market basket just as desirable after the change.
- ▶ Be unable to decide whether he prefers the first market basket to the second or the second to the first.

**Question No: 27 ( Marks: 1 ) - Please choose one**

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**Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:**

- ▶ Indifference curves slope downwards.
- ▶ Indifference curves slope upwards.
- ▶ Indifference curves may cross.
- ▶ Indifference curves could take the form of ellipses.

**Question No: 28 ( Marks: 1 ) - Please choose one**

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**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.
- ▶ It would shift outward.

**Question No: 29 ( Marks: 1 ) - Please choose one**

---

**Suppose the first four units of an output produced incur corresponding total costs of 400, 700, 900, and 1000. The marginal cost of the fourth unit of output is:**

- ▶ 50.
- ▶ 100.
- ▶ 150.
- ▶ 200.

**Question No: 30 ( Marks: 1 ) - Please choose one**

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**Consumers will maximize satisfaction when:**

- ▶ The price of each good is exactly equal to the price of every other good consumed.
- ▶ The price of each good is exactly equal to the total utility derived from the consumption of every other good.
- ▶ **The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good.**
- ▶ Marginal utility is equal to average utility.

**Question No: 31 ( Marks: 1 ) - Please choose one**

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**Marginal utility is best described as:**

- ▶ The total satisfaction gained from the total consumption of the good.
- ▶ The change in satisfaction from consuming one additional unit of the good.
- ▶ **The additional satisfaction gained by consumption of the last good.**
- ▶ The per unit satisfaction of the good consumed.

**Question No: 32 ( Marks: 1 ) - Please choose one**

---

**Cross price elasticity between coffee and tea is 1.5. It means that:**

- ▶ Given a 1% increase in coffee price, we would expect a 1.5% increase in tea demand.
- ▶ Given a 1% increase in coffee price, we would expect a 1.5% decrease in tea demand.
- ▶ Given 1% increase in coffee price, there will be no change in tea demand.
- ▶ None of the given options.

**Question No: 33 ( Marks: 1 ) - Please choose one**

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**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ **Inelastic.**

**Question No: 34 ( Marks: 1 ) - Please choose one**

---

**A price ceiling might be an appropriate government response to a:**

- ▶ Period of falling farm prices due to unusually good harvests.
- ▶ Substantial increase in farm productivity due to applications of new technology in agriculture.
- ▶ **National security crisis leading to major shortages of essential goods.**
- ▶ Period of extraordinary large surpluses of farm goods.

**Question No: 35 ( Marks: 1 ) - Please choose one**

Assume that steak and potatoes are complements. When the price of steak goes up, the demand curve for potatoes:

- ▶ Shifts to the left.
- ▶ Shifts to the right.
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ Shifting the supply curve to the right.
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**In a free-market economy, the allocation of resources is determined by:**

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ Consumer preferences.
- ▶ The level of profits of firms.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Which of the following might be considered to be a characteristic of a planned economy?**

- ▶ Price is relatively unimportant as a means of allocating resources.
- ▶ Goods and services produced reflect consumer sovereignty.
- ▶ There is no incentive for people to work hard.
- ▶ All income is completely evenly distributed.

**Question No: 39 ( Marks: 1 ) - Please choose one**


**Which of the following is a positive statement?**

- ▶ When the price of a good goes up, consumers buy less of it.
- ▶ When the price of a good goes up, firms produce more of it.
- ▶ When the Federal government sells bonds, interest rates rise and private investment is reduced.
- ▶ All of the given options.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.

- 
- ▶ The behavior of individual firms and investors.
  - ▶ The behavior of individual consumers and behavior of individual firms and investors.

**Question No: 41 ( Marks: 10 )**

a. \_\_\_\_\_  
**What is the relationship between average physical product and marginal physical product in three cases if:**

- i. Marginal physical product is equal to average physical product.**  
The average physical product will not change.
- ii. Marginal physical product is above the average physical product.**  
The average physical product will also increase.
- iii. Marginal physical product is below the average physical product.**  
The average physical product will also fall



# Glossary of Economics

By

<http://vustudents.ning.com>

**Question:** Differentiate between inflation and unemployment.

**Answer:** Inflation is a rise in the general price level that results in a decline in the purchasing power of money. In economics, a person who is able and willing to work yet is unable to find a paying job is considered unemployed. The unemployment rate is the number of unemployed workers divided by the total civilian labor force, which includes both the unemployed and those with jobs (all those willing and able to work for pay). In practice, measuring the number of unemployed workers actually seeking work is notoriously difficult.

**Question:** Is there any relation between inflation and unemployment?

**Answer:** The Phillips Curve was a relationship between unemployment and inflation discovered by Professor A.W. Phillips. He found that there was a trade-off between unemployment and inflation, so that any attempt by governments to reduce unemployment was likely to lead to increased inflation. This relationship was seen by Keynesians as a justification of their policies. However, in the 1970s the curve began to break down as the economy suffered from unemployment and inflation rising together (stagflation).

**Question:** Is the natural rate of unemployment includes frictional, structural & seasonal unemployment?

**Answer:** The natural rate of unemployment includes frictional, structural & seasonal unemployment. But sometimes we exclude the seasonal unemployment.

**Question: Can BOP of a country be positive?**

**Answer:** BOP of a country can only be positive when the country's exports are greater than its imports.

**Question: Why is it considered well to bring all BOP's to zero?**

**Answer:** If BOP of any country is zero, it reflects that the current account of that country has enough balance to meet the requirements of that country and if the current account is in surplus, the country might invest in other countries or lend money to other countries.

**Question: Why capital account starts experiencing a deficit when domestic interest rate falls below the world interest rate?**

**Answer:** When domestic interest rates falls below the world interest rates. Investors would deposit money in the international banks. As a result, local banks will receive less income in the form of interest and less money will be invested in the economy which means that economy will earn less and capital account will go in deficit.

**Question: What should be the decent/appropriate growth rate in any country?**

**Answer:** A growth rate of between 2-3% is considered normal for mature developed countries; for LICs, 5-7% is considered healthy and 7%+ is excellent.

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**Question: Is the terms of trade (TOT) defined as the ratio of the value of exports to the value of imports? How does the TOT relate to the exchange rate?**

**Answer:** The terms of trade (TOT) is defined as the ratio of price index of export goods (PIX) to the price index of import goods (PIM) times 100, I.e.,  $(PIX/PIM)*100$ . Since both price indexes are based on the prices of domestic currency, so a rise in the exchange rate of domestic currency, i.e., appreciation of domestic currency, will lower the import prices and therefore improve the TOT. On the contrary, a fall in the exchange rate of domestic currency, i.e., depreciation of domestic currency, will raise the import prices and therefore worsen the TOT.

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**Question:** Why government can not print new currency to pay the debts?

**Answer:** When there is deficiency of internal resources then government borrow. Government can borrow either from central bank (internal sources) or from IMF and World Bank (external sources). But when government borrow from central bank by printing new notes, the quantity of money in circulation increases, which leads to increase in aggregate demand and then in inflation. So, Government has to borrow from external sources, which is another way to solve the problem.

**Question:** Why foreign dealings are done in dollars and not in rupees?

**Answer:** Foreign dealings are normally done in hard currency. The hard currency is any national currency that is expected to retain its value and is readily acceptable for most international transactions. The U.S. dollar is one of them. That is why foreign dealings are made in dollars not in rupee, which is a type of soft currency.

**Question:** Differentiate between nominal and real exchange rate.

**Answer:** Nominal exchange rate is the rate which actually prevails in the foreign exchange market. The real exchange rate is the rate which is adjusted to relative prices (price of foreign good divided by price of domestic good). Suppose, in foreign exchange market, the nominal exchange rate is \$/ Rs.2.00. That means we have to pay Rs.2.00 for \$ 1.00 in foreign exchange market. When we talk about real exchange rate, then we adjust the nominal exchange rate with relative price ratio of foreign to domestic good. Now suppose that the relative price ratio of foreign to domestic good is \$10/ Rs.15. Thus the real exchange rate is equal to  $P_f/P_d * \text{Nominal exchange rate}$ , i.e.  $10\$/15Rs * \$/2Rs$ .

**Question:** How do we evaluate the value of money? <http://vustudents.ning.com>

**Answer:** Supply and demand determines the value of a currency. If demand is high, the value rises, and vice versa. Factors that affect supply and demand include the following: • Interest rates • Inflation • Balance of trade • Economic growth • Market speculators • Government budget deficits/surpluses

**Question:** What is main difference between nominal money supply and real money supply?

**Answer:** Real money supply is the supply of real money in the economy. Real money is supplied considering the income level and actual return on investment prevailing in the market. In contrast, nominal money supply is the controlled money supply which is controlled by the SBP through its various instruments.

**Question:** Explain the term economic efficiency?

**Answer:** Economic Efficiency means full utilization of all available resources in economy i.e. to produce the required amount of goods and services. When economy is producing its required amount of goods and services by utilizing all of its resources, then the economy is considered to be an efficient economy.

**Question:** Define law of demand.

**Answer:** Quantity demanded rises as price falls, other things constant. In other words, "Other things remaining the same, when the price of a good rises then quantity demanded of a good tend to contract and when the price of a good declines then the quantity demanded of it tend to expand."

**Question:** Define law of supply.

**Answer:** Quantity supplied rises as price rises, other things constant. In other words, "Other things being equal, when the price of a product rises, then sellers tend to supply a large amount of it and when the prices of a product falls, then the sellers tend to supply a smaller amount of it."

**Question:** What is the difference between a change in demand and a change the quantity demanded?

**Answer:** There is a distinction between demand and quantity demanded. Demand describes the behavior of buyers at every price. At a particular price, there is a particular quantity demanded. The term 'quantity demanded' makes sense only in relation to particular price.

**Question:** What is the difference between 'quantity supplied' and 'supply'?

**Answer:** There is a distinction between supply and quantity supplied. Supply describes the behavior of sellers at every price. At a particular price, there is a particular quantity supplied. The term 'quantity supplied' makes sense only in relation to a particular price.

**Question:** What is ceteris Paribus?

**Answer:** Ceteris paribus is a Latin phrase, literally translated as "other things the same," and usually rendered in English as "all other things being equal." A prediction, or a statement about causal or logical connections between two states of affairs, is qualified by ceteris paribus in order to acknowledge, and to rule out, the possibility of other factors which could override the relationship between the antecedent and the consequent.

**Question:** What are the factors which cause the shift in market supply curve?


**Answer:** Factors which cause the shifts in market supply curve are price, technology, natural shocks, cost of production, expectation of producers and other social factors.

**Question:** Why demand curve is important?

**Answer:** Demand curve is important because it indicates the level of demand in the market. Suppliers supply their product and set price of their product, keeping in view demand of that item in the market.

**Question:** What are the determinants of income elasticity of demand?

**Answer:** There are three determinants of income elasticity of demand. These are:  
Degree of necessity of a good: In a developed economy, as income increases the demand for luxuries increases a lot while the demand for necessity increases a little bit because people cannot consume a lot of basic goods. So the items such as cars have very high income elasticity of demand whereas items such as potato have low elasticity of demand. Also inferior good have a negative income elasticity of demand. The rate at which the



desire for good is satisfied as consumption increases: The more quickly people become satisfied, the less their demand will expand as income increases. Level of income of consumer: In an economy, if the income of rich people increases the demand for luxuries would increase because rich people now have more money. If on the other hand, the income of poor people increase, the demand for necessity would increase.

**Question:** How elasticity is always referred to as a positive value even though it can be negative?

**Answer:** In economics, elasticity is a measure of the incremental percentage change in one variable with respect to an incremental percentage change in another variable. Elasticity is almost always referred to as a positive value, meaning that people use the absolute value in the case of a kind of elasticity that is normally negative.


**Question:** Why does a monopoly have no supply curve?

**Answer:** A supply curve is a curve that shows the quantity supplied at different prices, since a monopoly sets the price and the quantity together; there is no combination of quantity supplied and price under a monopoly. The best we can say is that there is a 'supply point' that is set by the monopoly.

**Question:** Differentiate between firm and industry.

**Answer:** A firm is a business unit formed for the purpose of carrying out some kind of trading activity. The term "firm" is used in many ways, but the correct meaning is a business carried on under a trading style by partners. Many people use the term "firm" to embrace any business, i.e., Private Limited and Public Limited companies but this is technically incorrect. An industry is generally any grouping of businesses that share a common method of generating profits, such as the "movie industry", the "automobile industry", or the "cattle industry". It is also used specifically to refer to an area of economic production focused on manufacturing which involves large amounts of upfront capital investment before any profit can be realized, also called "heavy industry."

**Question:** What is Game Theory?



**Answer:** Game Theory is a mathematical method of decision-making in which a competitive situation is analyzed to determine the optimal course of action for an interested party, often used in political, economic, and military planning. It is also called as theory of games.

**Question:** **Is a public good a common property?**

**Answer:** Public goods are goods that can be concurrently consumed by people. A good is a public good or not depends on the nature of the good itself. Common property is a property of which people have no exclusive rights to use, no exclusive right to derive income from it and no right to transfer the right of using and deriving income from the property. A property is a common property or not depends on how the property rights of the property are defined by law and/or customs. A public good is NOT necessarily a common property. For example, a concert is a public good but it is not a common property. Moreover a common property is also NOT necessarily a public good too. For example, the chairs inside the classroom are a common property but they are not public goods.

**Question:** **What are the solutions to cure the "internal disequilibrium" and "external disequilibrium"?**

**Answer:** Internal disequilibrium means the economy has unemployment rate higher than the natural rate and there is high inflation. In general, it can be solved by monetary and fiscal policies. On the other hand, external disequilibrium means the economy has imbalance balance of payments (BOP). If the exchange rate is a flexible rate, the government has to do nothing because any imbalance will be solved by the adjustment of the exchange rate. However, if the exchange rate is fixed, the BOP imbalance can also be solved by monetary and fiscal policies.

**Question:** **What factors shift the Aggregate demand curve to right and what factors shift the AD curve to left?**

**Answer:** AD shifts to the right when any component of AD increases autonomously; e.g., if a) Consumers become more willing to spend at every price level;

b) There are autonomous increases in investment due to better business prospects; c) The government spends more, or reduces taxes; net exports rise at all prices (due to say an increase in the quality of domestic goods relative to foreign goods). If above mentioned facts are reversed, AD will shift to the left.

**Question:** What is the difference between GDP and GNP?

**Answer:** Gross domestic product (GDP) is the value of the total final output produced inside a country, during a given year. GDP, like all measures of national income, is a flow (as opposed to stock) figure accruing over the period of one year. Gross national product (GNP) is the value, at current market prices, of all final goods and services produced during a year by the factors owned by the citizens of a country. Thus the income earned by Pakistani citizens working in the US would be included in Pakistan's GNP but excluded from Pakistan's GDP. Conversely, the income earned by a US citizen (individual or corporate) in Pakistan would be included in Pakistan's GDP but excluded from Pakistan's GNP. Generally,  $GNP = GDP + \text{net factor income from abroad}$ .

**Question:** Why Equilibrium is necessary in an economy? Is it possible for an economy to be in a state of equilibrium in real world?

**Answer:** Equilibrium is a state in which there are no shortages or surpluses in the economy and there is absence of inflation or deflation. To avoid inflation or deflation, it is necessary for an economy to have a state of equilibrium which is considered to be an ideal state for an economy. It is possible for an economy to be in a state of equilibrium and an economy wants to remain in the state of equilibrium for longer period of time if it has a strong market, but it is not necessary that the economy is always in state of equilibrium.

**Question:** What does consumption function show? <http://vustudents.ning.com>

**Answer:** Consumption function shows a functional relationship between consumption and personal disposable income. There is positive relationship between personal disposable income and consumption, i.e. when personal disposable income increases, consumption also increases and vice versa.



**Question:** What is the difference between price value and price level?

**Answer:** Price value is the value of commodity bought by the consumer at a certain price from the market, whereas, price level is the current market price prevailing in the market.

**Question:** Differentiate between real and nominal variables.

**Answer:** In economics, the distinction between nominal and real numbers is often made. Nominal variables -- such as nominal wages, interest rates and gross domestic product (GDP) -- refer to amounts that are paid or earned in money terms. Real variables -- real wages, interest rates, and GDP -- are corrected for the effects of inflation. They indicate the value of these numbers in terms of the purchasing power of wages, interest, or total production.

**Question:** Why investment increases much more than a change in income?


**Answer:** Whenever national income of any economy starts increasing, the investors foresee the sound condition of the economy and start investing in that economy. That is why, investment increases more than income does.

**Question:** What is return on investment?

**Answer:** Return on investment is the profit earned by investing in some business or some project, for instance investment in stock exchange. Profit earned from the trade of shares of different companies is the return on investment made in the stock exchange.

**Question:** What are HICs and LICs?

**Answer:** HICs stand for higher income countries and LICs stand for lower income countries. The World Bank's main criterion for classifying economies is the gross national income (GNI) per capita which is similar to but not the same as the gross domestic product (GDP). Based on its GNI per capita, every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income. In low income countries the GNI per capita is \$745 or less; in lower middle



income countries it is \$746 - \$2,975; in upper middle income countries it is, \$2,976 - \$9,205; and in high income countries it is, \$9,206 or more.

**Question:** Define injections and withdrawals.

**Answer:** “The inflows in circular flow of income are called injections”. Investment, government spending and exports are included in injections “The outflows in circular flow of income are called withdrawals”. Savings, imports and taxes are included in withdrawals.

**Question:** What is meant by minimum wage?

**Answer:** The minimum wage is the minimum rate a worker can legally be paid (usually per hour) as opposed to wages that are determined by the forces of supply and demand in a free market. In most cases, the minimum wage acts as a price floor. Each country sets its own minimum wage laws and regulations, and many countries have no minimum wage.

**Question:** Give arguments for and against the concept of minimum wage.


**Answer:** Minimum wages may have the positive effect of:

- Reducing wage slave low-paid work.
- Stimulating economic growth by increasing the purchasing power of workers.
- Stimulating economic growth by discouraging labor-intensive industries, thereby encouraging more investment in capital and training.
- Encouraging many of those who would normally take low-wage jobs to stay in (or return to) school and thus to accumulate human capital.

On the other hand, minimum wages may have the negative effects of:

- Curbing economic growth by increasing the cost of labor.
- Increasing the price of goods and services, since employers may be able to pass on wage costs in the form of higher prices.
- Decreasing incentive for some low-skilled workers to gain skills.
- Where implemented locally, making labor more expensive than in other areas, which may discourage inward investment and encourage local businesses to relocate their operations elsewhere.

**Question:** What are expansionary and contractionary effects?



**Answer:** Expansionary effect refers to the effect of raising the equilibrium level of national income. For example, an increase in government spending will have expansionary effect on the equilibrium level of national income. On the contrary, contractionary effect refers to the effect of lowering the equilibrium level of national income. For example, an increase in tax will have contractionary effect on the equilibrium level of national income.

**Question: What is Deflation?**

**Answer:** Deflation in economics refers to a decrease in the general price level, i.e. the nominal cost of goods and services as well as wages decrease. Hence, it is an opposite of inflation.

**Question: What is inflationary gap?**

**Answer:** Inflationary gap is the measure of the 'excess' in aggregate expenditure to the full employment aggregated expenditure, it appears when the equilibrium level of income is 'greater' than the full employment level of income.

**Question: What is hyper inflation? How it can be reduced?**

**Answer:** Hyper inflation means that prices of the consumable goods are very high. Prices can be reduced by supplying more goods in the market and it is only possible when new production units are introduced in the market. This will decrease unemployment rate as well.

**Question: What is the difference between Price inflation and Wage Inflation?**

**Answer:** Price inflation is the rate of increase in the prices of goods and services while the wage inflation is rate of increase in prices of factor of production.

**Question: How the inflation effect on the Import and Export of the country?**

**Answer:** When general price level increases in an economy, local currency is devalued. Economy has to spend more on imports and earns less in exports. In other words, imports increase and exports decrease.

**Question:** Is it true to say that inflation can only sustain with the increase in money supply?

**Answer:** Inflation can only be sustained if there is a persistent increase in money supply. If there is only a once-and-for-all increase in money supply and so as the price level, it is not inflation. For example, an increase in government expenditure.

**Question:** What is meant by labor force?

**Answer:** In economics the labor force is the group of people who have a potential for being employed. Normally, the labor force consists of everyone above a certain age (around 14 to 16) who is participating workers, that is people actively employed or seeking employment. People not counted include students, retired people, stay-at-home parents, people in prisons or similar institutions, as well as discouraged workers who simply do not want work.

**Question:** What are unemployment benefits?

**Answer:** Unemployment benefits are usually given by the state to the unemployed persons. Unemployment benefits are usually given in higher income countries (HICs) where people can live off rather well on unemployment benefit and therefore choose to not work. The situation is not the same in lower income countries (LICs).

**Question:** What is repayment of debt?

**Answer:** When money borrowed is paid back in full settlement. It is called repayment of debt.

**Question:** What is "high-powered money"?

**Answer:** The "high-powered money" is the same as monetary base, which is defined, at the minimum, as the sum of the currency in circulation (banknotes and coins) and the balance of the banking system held with the central bank (the reserve balance or the clearing balance).

**Question: What is GATT?**

**Answer:** General Agreement on Tariffs and Trade (usually abbreviated GATT) functions as the foundation of the WTO trading system, and remains in force, although the 1995 Agreement contains an updated version of it to replace the original 1947 one.

**Question: What does the IS-LM framework mean?**

**Answer:** The IS-LM model helps us to understand the two opposing theories. The IS (investment/saving) curve represents equilibrium in product markets. The LM (liquidity/money) curve represents equilibrium in the money market. The point at which the two curves intersect is the only combination of output and interest rates (i.e., bond yields) where both the goods and financial markets are in balance.

**Question: What are the differences between the IS-LM model and the Keynesian model?**


**Answer:** The 'simple' Keynesian model is a simplified model to illustrate Keynes's idea about the equilibrium income. On the other hand, the IS-LM model is a more general model (involving more variables, e.g.,  $P$  and  $r$ ) to illustrate Keynes's idea about the equilibrium income.

**Question: What is Economics?**

**Answer:** Economics is defined as the study of how people choose to use their scarce resources in an attempt to satisfy their unlimited wants. In other words, we have unlimited possibilities in life to do whatever we want, but we are limited by the resources we have to do these things.

**Question: What is the relationship between microeconomics and macroeconomics?**

**Answer:** Either of microeconomics and macroeconomics separately is not adequate for the explanation of the working of the economic system rather both are jointly needed for the right solutions of economic problems. Microeconomics studies the working of the small parts of the economy, which later on can help in understanding the whole of the



economic system. Macroeconomics by dividing the economic system into large parts studies the inter-relationship among them. Therefore, microeconomics and macroeconomics both are inter-related.

**Question:** What is the benefit (main work) of economics in our life?

**Answer:** Economics plays a vital role in development of a country. A country's economy indicates the stability of that country. If economy of the country is strong, it would be ranked in the developed countries of the world. If, however, country's economy is not that strong, it would be considered as one of the backward countries in the world.

**Question:** Which type of economy is in Pakistan?

**Answer:** In Pakistan, there is mixed economy. Mostly, we have free market economy but in some cases Government does interfere to keep prices at an acceptable level. For example, prices of Wheat, flour, medicines etc.

**Question:** What is the difference between economics and business?


**Answer:** Economics is the study of how we, the people, engage ourselves in production, distribution and consumption of goods and services in a society whereas; business is conducted to earn profit for our own use. Whatever we do to earn our livelihood is called our business.

**Question:** What is opportunity cost?

**Answer:** Opportunity cost is a term used in economics, to mean the cost of something in terms of an opportunity foregone (and the benefits that could be received from that opportunity), or the most valuable foregone alternative. For example, if a city decides to build a hospital on vacant land that it owns, the opportunity cost is some other thing that might have been done with the land and construction funds instead.

**Question:** What is the difference between 'stock' and 'flow' concept?

**Answer:** A stock is a quantity of something held at a specific point of time. Examples are population, savings, and unsold stock. A flow is an increase or a decrease



in quantity over a specific period of time. Examples are tax, monthly pocket money, and birth rate.

**Question:** What is the difference between 'Capital' and 'Capital value'?

**Answer:** “The total amount of money or other resources owned or used to acquire future income or benefits.” On the other hand, ‘Capital value’ is the present value of a capital good. For example, a car is a capital and the price of the car is its capital value.

**Question:** What is the difference between 'concept' and 'assumption'?

**Answer:** These two terms are very different. The term 'concept' refers to an idea or abstract principle. For examples, force, space are concepts in Physics, God can be a concept in religious beliefs, time is a concept in Metaphysics, demand & supply are concepts in Economics, etc. However 'assumption' means a statement of something that has been taken for granted or something that has been accepted without any real proof. For example, "people are maximizers" is an assumption in Economics.

**Question:** What is the difference between 'scarcity' and 'shortage'?

**Answer:** 'Scarcity' and 'shortage' have different definitions. In reality, when most of the goods and resources are scarce goods, we called this phenomenon 'scarcity'. On the other hand, 'shortage' is defined as the situation where the quantity demanded is greater than the quantity supplied because the market price is lower than the equilibrium price.

**Question:** What is affected variable and cause variable?

**Answer:** In a graph, one variable is dependant and the other is independent. The dependant variable is called effect variable and independent variable is called cause variable because it causes other variable to change its value.

**Question:** How can we identify that something is elastic or inelastic?

**Answer:** When demand of any commodity does not change with the change in price of that commodity that item is said be inelastic. When demand of any commodity changes with the change in price of that commodity, that item is said be elastic.

**Question:** Why elasticity is important for economic analysis?

**Answer:** Elasticity is an important concept in understanding the incidence of indirect taxation, marginal concepts as they relate to the theory of the firm, distribution of wealth and different types of goods as they relate to the theory of consumer choice and the Lagrange Multiplier. Elasticity is also crucially important in any discussion of welfare distribution: in particular consumer surplus, producer surplus, or government surplus. The concept of Elasticity was also an important component of the Singer-Prebisch Thesis which is a central argument in Dependency Theory as it relates to development economics.

**Question:** Why concept of Elasticity is important in economics?

**Answer:** Elasticity is very important concept in economics because it affects the decision of individuals as well as of the whole economy. . It can help us in many ways. For example, for a firm the concept of elasticity is important because it gives information that either the change in price is profitable or not. It also gives information about the good which is more profitable to produce i.e. more inelastic the demand for the product, more profitable to produce that good. For a government, it is useful in the sense that it gives information about the commodity which is to be taxed and which is not to be taxed. It also gives important implication for the balance of payment problem.


**Question:** What is the difference between indifference curve and isoquants?

**Answer:** An indifference curve shows different combinations which a consumer can buy with a given level of income. Indifference curve shows behavior of a consumer in consumption. An isoquant shows different combinations of factors of production which a firm can employ. Isoquant shows behavior of a firm in production.

**Question:** What are economies of scale and diseconomies of scale?

**Answer:** In economics, returns to scale and economies of scale are terms that are related and sometimes incorrectly used interchangeably. They describe what happens as the scale of production increases. Economies of scale and diseconomies of scale refer to





an economic property of production that affects cost, if quantity of all input factors by some amount is increased. If costs increase proportionately, there are no economies of scale; if costs increase by a greater amount, there are diseconomies of scale; if costs increase by a lesser amount, there are positive economies of scale. When combined, economies of scale and diseconomies of scale lead to ideal firm size theory, which states that per-unit costs decrease until they reach a certain minimum, then increase as the firm size increases further.

**Question: Differentiate between Actual and Potential output.**

**Answer:** Actual output is that level which economy actually produces. In contrast, potential output is the aggregate capacity output of a nation; the maximum quantity of goods and services that can be produced with available resources and a given state of technology.

**Question: What is uncertainty cost? Explain its effects on firms and producers?**


**Answer:** The cost attached to uncertainty is called uncertainty cost. When uncertainty increases in an economy, firms become uncertain about prices of the goods which mean inability to accurately forecast firm revenues and expenditures, which means lower investment in the industry of the economy.

**Question: What is main difference between capital intensive goods and primary products?**

**Answer:** Primary product means the main product in which the firm is dealing. Capital intensive good means the production of good in which more capital is involved than labor.

**Question: Why is the LRAC curve U-shaped and what is its relationship with SRAC curves?**

**Answer:** First of all, the LRAC is not necessarily U-shaped. For example, if we assume that the production has constant returns to scale, the LRAC will be a horizontal straight line. However the SRAC is still U-shaped because we assume diminishing



marginal returns in short run. However the LRAC should 'envelope' to all the SRAC curves, that means, all the U-shaped SRAC curves will be on and above the horizontal LRAC. It is because the LRAC is always the 'lowest' average production cost at all levels of production.

**Question:** Why firm charges different prices to different consumer?

**Answer:** Every firm wants to maximize its profit. When goods are sold to different customers, every customer negotiate price of the good independently. So, different prices are settled with different customers. So, different prices are charged from different customers to maximize firm's profit.

**Question:** Is it possible for a firm to be both Price taker and price maker?

**Answer:** A firm can either be a price taker or a price maker. It cannot be price maker and price taker at the same time because when a firm will set its own price in the market for its good. At that time, it will be a price maker not a price taker.

**Question:** What is black marketing?

**Answer:** Black Marketing means hoarding of certain commodity to sell it at higher prices. But it is an illegal activity in the economy and creates artificial shortage of that commodity and lead to temporary condition of higher inflation in the economy.

**Question:** What is meant by non Price Competition? In which market structure does it exist?

**Answer:** None price competition is an effort put by the supplier to earn extra profit without increasing the price of the commodity. For instance, suppliers announce some prize schemes or announce some extra benefits with the commodity. It can be present in every competition except Monopoly.

**Question:** What is meant by market failure?

**Answer:** Market failure describes the circumstances in which distortions prevent the invisible hand from allocating resources efficiently.



**Question:** What is market clearing level?

**Answer:** Market clearing level is the price level prevailing in the market at which consumer is willing to buy a particular commodity from the market.

**Question:** What is public good? <http://vustudents.ning.com>

**Answer:** A public good is a good that, even if it is consumed by one person, is still available for consumption by others. For example, clean air is a public good, so is national defense or public safety.

**Question:** What is the Adam smith view of "invisible Hand"?

**Answer:** Invisible hand is an unknown power which is working for the interest of whole economy. In any economy, everybody cares for his/her personal benefit in the market but market as a whole also runs very smoothly which means that there is some unknown power behind economic market which is running the whole economy. One example of this invisible hand is Government itself.

**Question:** What are subsidies?

**Answer:** Almost in all market systems, government plays its role to stabilize the price of certain commodities, which are of public interest like medicines and edibles etc. For this, government give some incentives to producers to produce certain commodities, that is, to keep the supply and price of those commodities stable at certain level .These incentives, given to the producers, are called subsidies.

# Glossary Economics

**Average Propensity to save :** The proportion of disposable income saved,  $APS = S/Y$ . For example, if a person spends £4,000 of a £10,000 income, then they have saved £6,000. The APS is therefore 0.6.

**Demand Curve :** The demand curve is a graph which shows the amount of a good that consumers are willing and able to buy at various prices. A normal demand curve is downward sloping due to the law of demand which states that as the price rises the demand for the product will fall, assuming consumers have a fixed income.

**GDP Deflator :** The index value used to eliminate the effect of inflation. Real national income is found by dividing money national income by the GDP deflator and multiplying by 100.

**Marginal Product :** The addition to total product following the employment of an extra unit of a variable factor, e.g. labour.

**Marginal Product of Labor :** The addition to output made by each extra worker.

**Marginal Propensity to Consume :** The proportion of each extra pound of disposable income spent by households. For example, if a person earns £1 more and consumes 60p of it, then the MPC is 0.6.

**Marginal Propensity to Save :** The proportion of each extra pound of disposable income not spent by households.

**Mixed Economy :** A society where resources are owned by both private individuals and the government.

**Monetarist :** A group of economists who believe that changes in the money supply are the most effective instrument of government economic policy, and the main determinant of the price level.

**Monetary Policy :** The use by government of changes in the supply of money and interest rates to achieve desired economic policy objectives.

**Money :** Any item which is widely accepted as payment for products.

**Money Supply :** The amount of money which is in an economy at a given point in time. There is no one agreed definition of the money supply largely because money takes many different forms, not all of which are agreed to be money by all economists.

**Monopoly :** In theory, an industry where one firm produces the entire output of a market.

**Monopsony :** A market where there is only a single buyer of a good.

**Average Fixed Cost :** Total fixed cost divided by output. The average fixed cost will decline as output increases. This is because as output increases the fixed costs are spread further and further.

**Average product of Labor :** The average product is the output per worker. The average product will tend to rise initially in the short run with increasing returns to the variable factor, but will eventually begin to fall when diminishing returns set in. The marginal product curve will intersect the average product curve at its peak

**Average Propensity to consume :** The proportion of disposable income spent:  $APC = C/Y$ . For example, if a person spends £4,000 of a £10,000 income, then the APC is 0.4.

**Average Revenue :** The average revenue is the total revenue divided by the level of output. It is therefore the price.

**Average Revenue Curve :** A curve which plots average revenue. It is equivalent to the demand curve. The shape of the average revenue curve will depend on the situation the firm is in. If the firm has price setting power then the average revenue curve (demand curve) will be downward-sloping. If the firm is a price-taker then the average revenue curve will be horizontal and the same as the marginal revenue curve.


**Average Total Cost :** The amount spent on producing each unit of output. The average cost is calculated by dividing the total level of cost by the level of output. The average fixed cost will be made up of two elements; the average fixed and average variable cost. The average cost curve will tend to be u-shaped due to the presence of increasing and then diminishing returns.

**Average Variable Cost :** The average variable cost is the total variable cost divided by output. The average variable cost curve will generally be u-shaped because of the presence of increasing returns initially in the short run reducing average variable costs initially. Eventually, however, diminishing returns will set in and the average variable cost will start to rise.

**Balance OF Payment :** It is the systematic record of all the economic transactions by any country with the rest of the world during a particular fiscal year.

**Balance of Trade :** The difference between the value of visible exports and visible imports. Calculated as the value of exports minus the value of imports.

**Budget Deficit :** When government expenditure exceeds government income.



**Budget Surplus :** When government income exceeds government expenditure.

**Business Cycle :** The business cycle is the fluctuations in the rate of economic growth that take place in the economy. The peak of the business cycle is usually referred to as a boom, and the trough as a recession or depression.

**Cartel :** Group of producers who act together to fix price, output or conditions of sale.

**Classical Economists :** Classical theories revolved mainly around the role of markets in the economy. If markets worked freely and nothing prevented their rapid clearing then the economy would prosper.


**Closed Economy :** An economy which does not engage in international trade.

**Command Economy :** The state allocates resources, and sets production targets and growth rates according to its own view of people's wants. The state allocates resources, and sets production targets and growth rates according to its own view of people's wants.

**Comparative Advantage :** This exists when a country produces a good or service at a lower opportunity cost than its trading partners.

**Consumption :** Expenditure by households on goods and services which satisfy current wants.

**Conversion Rate :** The rate at which one currency is converted to another. In a European context it refers to the irrevocable rates between all the currencies taking part in the Euro and the Euro itself. These were set on Jan.1st 1999.



**Cost Push Inflation :** When a cost of production (e.g. wages) increases and firms put up prices to maintain profits. Cost increases may happen because wages have gone up or because raw material prices have increased. It is important not to muddle cost-push with demand-pull inflation. Cost-push inflation happens when costs have risen independently of demand.

**Cross Elasticity of Demand :** Measures the responsiveness of demand for good A to a given change in the price of good B. It is an important piece of information to a firm as it helps them to predict how much the demand for their product will change as the price of other goods change.

**Current Account Balance :** A record of a country's earnings from the sale of visible and invisible items minus its expenditure on visible and invisible items from abroad.

**Current Account Deficit :** When a country spends more on visible and invisible items from abroad than it earns from the sale of visible and invisible items.

**Current Account Surplus :** When a country receives more in revenue from the sale of visible and invisible items than it spends on visible and invisible items from abroad.

**Cyclical Unemployment :** Sometimes called mass or demand deficient unemployment. Workers are without a job because of a lack of aggregate demand due to a down turn in economic activity.

**Debt Service :** The total amount of interest payments and repayments of principal on external public debt.

**Demand for Money :** The demand to hold wealth in the form of notes, coins and sight deposits rather than in the form of e.g. government bonds, shares, antiques etc.



**Demand Pull Inflation :** Occurs when aggregate demand exceeds aggregate supply. If there is an excess level of demand in the economy, this will tend to cause prices to rise. This type of inflation is called demand-pull inflation and is argued by Keynesians to be one of the main causes of inflation. Demand-pull inflation is essentially "too much money chasing too few goods."

**Derived Demand :** The amount of demand for good A depends in turn on the amount of demand for good B, e.g. an increase in the demand for houses creates a direct demand for bricklayers.

**Disposable Income :** The amount of income left after such deductions as income tax, pension contributions and national insurance. More generally known as 'take home pay'.

**Dumping :** The sale of goods in a foreign country at a price below that charged in the home market. This will often be done at below cost price to dispose of surpluses of goods, or to establish markets.

**Duopoly :** Any market that is dominated by two organisations.

**Economic Growth :** Typically refers to an increase in a country's output of goods and services. It is usually measured by changes in real GDP.

**Elasticity of Demand :** The elasticity of demand indicates the responsiveness of demand to a change in a determinate, for instance, price, price of other goods and income.

**Elasticity of Supply :** The responsiveness of supply to a given change in price.

**Embargo :** When a ban is placed on the export or import of a certain good or on trade with a particular country or countries.

**Entrepreneurship :** An entrepreneur is an individual who takes risks and organises the factors of production to generate a product and therefore hopefully profit.

Entrepreneurship is the skill of achieving this. It is often thought of as one of the factors of production. Another term for it is enterprise.

**Exchange Rate :** The price of one currency in terms of another currency. For example, the exchange rate between the £ and the \$ may be £1=\$1.65. This means that you need to pay a price of £1 to get every \$1.65.


**External Debt :** The total amount of private and public foreign debt owed by a country.

**Externalities :** The spillover effects of production or consumption for which no payment is made. Externalities can be positive or negative. For example all fax users gain as new users become connected (positive); and smoke from factory chimneys (negative).

**Factors of Production :** The factors of production are the resources that are necessary for production. They are usually classified into 4 different groups: • Land - all natural resources (minerals and other raw materials). • Labour-all human resources. • Capital - all man-made aids to production (machinery, equipment and so on). • Enterprise - entrepreneurial ability. The rate of economic growth that an economy can manage will be affected by the quantity and the quality of the factors of production they have.

**Quantity Theory of Money :** Fisher's equation of exchange states  $MV = PT$ . M is the money supply; V is the velocity of circulation; P is average prices and T is the number of transactions. The view that changes in the money supply have a direct and proportionate effect on the price level.

**Foreign Aid :** The international transfer of public and private funds in the form of loans or grants from donor countries to recipient countries.



**Foreign Direct Investment :** Overseas investment into a country by multinational enterprises. This investment is recorded as a credit in the balance of payments.

**Free Good :** A good in unlimited supply at zero price, e.g. air.

**Free Riders :** Sometimes a good is provided and others cannot be stopped from consuming it, e.g. street lighting. A consumer who avoids payment becomes a free rider.

**Free Trade :** International trade free from any restrictions such as tariffs.


**Globalization :** The growth of inter-dependence amongst world economies. Usually seen as resulting from the removal of many international regulations affecting financial flows.

**Green Economics :** The study of environmental issues including the depletion of non renewable resources.

**Gross Domestic Product :** Gross Domestic Product (GDP) is a measure of National Income. It is the total value of all goods and services produced over a given time period (usually a year) excluding net property income from abroad.

**Gross National Product :** Gross National Product is a measure of National Income. It is the total value of all goods and services produced over a given time period (usually a year) by the residents of that country regardless of geographical boundaries.

**Human Development Index :** Introduced by the UN in 1990, the index take into account not only the goods and services produced but also the ability of a population to use these and the time they have to enjoy them. It is a composite index based on real GDP per capita (PPP), life expectancy at birth and educational achievement that measures socio-economic development.



**Import Substitution :** A government policy when the government attempts to replace imports with domestically produced goods.

**Infant Industries :** Sunrise industries - that is industries that are at an early stage of their development.


**Inflation :** The rise in general prices and the reduction in value of money. Inflation is a sustained increase in the general price level. In other words it is the rate at which prices are increasing. It can be measured either monthly, quarterly or annually. It is usually measured by the Retail Price Index.

**Invisible Hand :** A term coined by Adam Smith who believed that although individuals followed their own interest the greatest benefit to society as a whole is achieved by their being free to do so. Adam Smith argued that the 'invisible hand' would organise markets and ensure that they arrived at the optimum outcome. This would all happen by individuals and firms pursuing their self-interest, yet despite this apparent selfishness, the invisible hand of markets still ensured the best outcome for all concerned.

**Involuntary Unemployment :** Workers without a job who are willing and able to work at current wage rates.

**IS-LM Framework :** A model of income determination that integrates the goods market (represented by investment and saving) and the money market (demand and supply of money).

**Laffer curve :** The Laffer curve is named after Professor Art Laffer who suggested that as taxes increased from fairly low levels, tax revenue received by the government would also increase. However, there would come a point as tax rates where people would not regard it as worth working so hard. This lack of incentives would lead to a fall in income and therefore a fall in tax revenue.



**Laissez-Faire :** The term "laissez-faire" is used to describe an economic system where the government intervenes as little as possible and leaves the private sector to organise most economic activity through markets. Classical economists were great advocates of a laissez-faire system with minimal government intervention. They believed free markets were the best organisers of economic activity.

**Life-Cycle Hypothesis :** The view that consumption is based on anticipated lifetime income.

**Recession :** A period of negative economic growth at the trough of the trade cycle. A recession is usually defined as two consecutive quarters of negative economic growth.


**Saving Function :** How much will be saved at different levels of disposable income.

**Say's Law :** Say's Law was developed by French economist Jean-Baptiste Say. It states: "Supply creates its own demand" This view is one adopted by classical economists to justify their argument that it is most important to improve the supply-side of the economy through supply-side policies. If this is done then the extra output will be demanded.

**Speculative Demand :** The desire to hold wealth as money in order to take advantage of changes in the price of bonds or any other asset thought likely to appreciate rapidly.

**Total Revenue :** The firm's income (total revenue) received from the sale of a given level of output. It is calculated as the price of the good multiplied by the quantity sold.

**Absolute Advantage :** Exists when a country can produce more of a product per resource unit than another country. It is a basis for trade. A country with an absolute advantage is producing more efficiently than another.



**Accelerator :** The accelerator theory suggests that the level of net investment will be determined by the rate of change of national income. If national income is growing at an increasing rate then net investment will also grow, but when the rate of growth slows net investment will fall.

**Aggregate Demand :** Aggregate demand is the total level of demand in the economy. It is the total of all desired expenditure at any time by all groups in the economy. The main groups who spend are consumers (consumption), firms (who spend on investment), government (government expenditure) and overseas (exports). Total aggregate demand is therefore:  $AD = C + I + G + (X - M)$  where C = consumption expenditure, I = investment expenditure, G = government expenditure and (X - M) = net exports (exports - imports)


**Aggregate Demand Curve :** The aggregate demand curve shows the level of aggregate demand at every price level. It will always be downward sloping as there will be less demand at higher price levels.

**Aggregate Supply :** Aggregate supply is the total of all planned production at each level of prices. Aggregate supply is the total quantity supplied at every price level. It is the total of all goods and services produced in an economy in a given time period.

**Aggregate Supply Curve :** The aggregate supply curve shows the amount that will be supplied by the firms in the economy at each price level.

**Appreciation :** The term can be used to refer to the appreciation of a currency. In other words it is when the value of a currency, expressed in terms of another currency, rises.

**Average Cost :** The amount spent on producing each unit of output. The average cost is calculated by dividing the total level of cost by the level of output.



**Liquidity Preference :** The desire to hold money in a variety of forms, e.g. as cash, stocks or bonds.

**Macroeconomics :** The study of the whole economy.

**Multiplier :** The multiplier is concerned with how national income changes as a result of a change in an injection, for example investment. The multiplier was a concept developed by Keynes that said that any increase in injections into the economy (investment, government expenditure or exports) would lead to a proportionally bigger increase in National Income.

**National Income :** The value of goods and services created by a country in one year.


**Natural Rate of Unemployment :** The level of unemployment that is associated with a constant rate of inflation. The natural rate of unemployment is also the level of unemployment that still exists in the economy when the labour market is in equilibrium. This will usually be equivalent to the level of voluntary unemployment as at equilibrium everyone who wants a job has got one.

**Normal Goods :** Goods to which the general law of demand tends to apply.

**Normative Economics :** Statements of opinion which cannot be proved or disproved, and suggests what should be done to solve economic problems.

**Oligopoly :** A market dominated by a very few sellers who account for a large proportion of output.

**Perfect Competition :** An industry made up of a large number of small firms, each selling homogeneous (identical) products to a large number of buyers.



**Price Discrimination :** When the same product is sold in different markets for different prices. A firm will only be able to price discriminate where there is separation between the markets. If there is any significant leakage between the markets the price discrimination will break down.

**Price Elasticity of Demand :** Measures the responsiveness of demand to a given change in price. It is an important piece of information to the firm as it helps them predict how much the demand for their product will change if they change price.

**Price Elasticity of Supply :** Measures the responsiveness of supply to a given change in price.

**Production Possibility Frontier :** The combination of two goods a country can make in a given time period with resource fully employed.


**Public Goods :** Items which can be jointly consumed by many consumers simultaneously without any loss in quantity or quality of provision e.g. a lighthouse.

**Supply Curve :** A curve showing the relationship between the price of a good and the quantity of the good supplied by producers (firms). The curve is upward sloping due to the higher price being an incentive to supply more. A supply curve can be applied to the individual firm, groups of firms, a market or markets.

**Voluntary unemployment :** Voluntary unemployment exists when people have chosen not to work because they do not feel that wages at the existing equilibrium are high enough to justify them working.

**Open Economy :** An economy which engages in international trade.





**Opportunity Cost :** The decision to produce or consume a product involves giving up another product. The real cost of an action is the next best alternative forgone.

**Permanent Income Hypothesis :** The permanent income hypothesis was developed by Milton Friedman and it says that people will look at long-run (permanent) income when deciding how much to consume. Where actual income is unusually high people realise this isn't permanent and they will save correspondingly. On the other hand where income is lower they may still consume at a higher level using up savings. In other words Milton Friedman argued that spending is based on average lifetime income.


**Phillips Curve :** The Phillips Curve was a relationship between unemployment and inflation discovered by Professor A.W.Phillips. He found that there was a trade-off between unemployment and inflation, so that any attempt by governments to reduce unemployment was likely to lead to increased inflation.

**Positive Economics :** Statements of fact, which can be proved or disproved, and which concern how an economy works.

**Potential Output :** The output that could be achieved if all resources were to be fully deployed. This concept may be applied to whole economies or to sectors of an economy. Potential output tends to grow each year as technology and productivity improve each year.

**Structural Unemployment :** Those out of work because of a permanent decline in the demand for an industry's product.

**Supply Shock :** An unplanned change in supply usually occurring because of changes in weather conditions or an external change outside the control of the company or economy.



**Terms of Trade :** The relationship between the weighted average price of exports and imports, expressed as an index value.

**Total Utility :** The amount of satisfaction obtained by consuming units of a good.

**Trade Cycle :** The tendency of economies to move, over time, through periods of boom and slump, and occurs when real GDP moves away from its trend path. The trade cycle is the fluctuations in the rate of economic growth that take place in the economy. These fluctuations appear to occur around every five years and have probably occurred ever since economies have occurred.

**Trade Off :** What has to be sacrificed in order to obtain a good, it is equivalent to opportunity cost.

**Transaction Demand :** The desire to keep money to make every day purchases.

**Transfer Payments :** Transfer payments are payments for which no good or service is exchanged. In other words, money has simply been transferred from one person in society to another. This includes things like benefits, pensions and lottery payments. A significant proportion of government expenditure is on transfer payments.

**Trickle Down Effect :** The process whereby the economic gains from economic growth pass down throughout the entire society eventually giving rise to development.

**Unemployment :** The number of workers without a job who are willing and able to work.

**WTO :** The World Trade organization replaced GATT in 1995. The World Trade Organization (WTO) is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.



# Mega Quiz File (ECO401)

by

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**Special Thanks**

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(\*Please correct, if you find any mistake\*)

**Highlighted in Red are not sure or unsolved**

A study of how increases in the minimum wage rate will affect the national unemployment rate is an example of

descriptive economics.

normative economics.

**macroeconomics.**

microeconomics.

**The total demand for goods and services in an economy is known as**

**aggregate demand.**

national demand.

gross national product.

economy-wide demand.

**Deflation is**

an increase in the overall level of economic activity.

an increase in the overall price level.

a decrease in the overall level of economic activity.

**a decrease in the overall price level.**

**A recession is**

a period of declining prices.

**a period during which aggregate output declines.**

a period of declining unemployment.

a period of falling trade volumes.

Involuntary unemployment means that

people are not willing to work at the going wage rate.

**at the going wage rate, there are people who want to work but cannot find work.**

there are some people who will not work at the going wage rate.

there is excess demand in the labour market.

**A cut in the income tax rate designed to encourage household consumption is an example of**

**expansionary demand-side policy.**

contractionary demand-side policy.

expansionary supply-side policy.

contractionary supply-side policy.

**A cut in the tax rate designed to reduce the cost of capital and hence encourage business investment is an example of**

expansionary demand-side policy.

contractionary demand-side policy.

**expansionary supply-side policy.**

contractionary supply-side policy.

**Macroeconomics is the branch of economics that deals with**

**the economy as a whole.**

imperfectly competitive markets.

only the long run adjustments to equilibrium in the economy.

the functioning of individual industries and the behaviour of individual decision-making units - business firms and households.

**A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called:**

**New-Keynesians.**

Keynesians.

Monetarists.

The Classical school.

**Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of**

economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.

fine tuning during the 1960s.

the economy to grow at a rapid rate during the 1950s.

**the Classical model to explain the prolonged existence of high unemployment during the Great Depression.**

**Keynes believed falling wages were not a solution to persistent unemployment because**

falling wages demoralised workers.

**this would reduce the purchasing power of labourers as consumers. This in turn would weaken firms' prospects of selling more goods, hence inducing them to cut their investment (and hence labour) demand.**

the unemployment was caused by frictional and structural factors.

wages would fall more than required to clear the labour market.

**The practice of using fiscal and monetary policy to stabilise the economy is known as**

**fine tuning of demand**

monetarism  
laissez faire economics  
supply side economics

**According to Classical models, the level of employment is determined primarily by**

interest rates.  
the level of prices.  
**the level of aggregate supply in the economy**  
the level of aggregate demand for goods and services.

**According to Keynes, the level of employment is determined by**

interest rates.  
the level of prices.  
the level of aggregate supply in the economy  
**the level of aggregate demand for goods and services.**

**According to the Classical model, unemployment**

**could not persist because wages would fall to eliminate the excess supply of labour.**  
could persist for long periods of time because wages are not flexible.  
could be eliminated only through government intervention.  
could never exist.

**To get the economy out of a slump, Keynes believed that the government should**

increase both taxes and government spending.  
increase taxes and/or decrease government spending.  
cut both taxes and government spending.  
**decrease taxes and/or increase government spending.**

**Aggregate demand refers to the total demand for all domestically produced goods and services in an economy generated from**

the household and government sectors.  
the household sector.  
all sectors except the rest of the world.  
**all sectors including the rest of the world.**

**Government policies that focus on increasing production rather than demand are called:**

fiscal policies.  
monetary policies.  
incomes policies.  
**supply-side policies.**

**Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are**

market prices.  
**sticky prices.**  
fixed prices.  
regulatory prices.

**The economists who emphasised wage-flexibility as a solution for unemployment were**

Monetarists.  
New-Keynesians.  
**Classical economists.**  
Keynesians.

**According to the Classical economists, the economy**

requires fine tuning to reach full employment.  
should not be left to market forces.  
will never be at full employment.  
**is self correcting.**

**Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain**

**stagflation in the late 1970s.**  
demand-pull inflation in the 1960s.  
low growth rates in the 1950s.  
the prolonged existence of high unemployment during the Great Depression.

**Keynes' explanation for low firm investment during the Great Depression was**



low savings, which placed a constraint on investment  
high real borrowing rates, which discouraged firm borrowing  
**high savings, which left consumers with less money to spend on goods and services produced by firms**

A permanent change in Europe's corporate ownership structures.

**Rapid increases in the price level during periods of recession or high unemployment are known as**

slump.

**stagnation.**

stagflation.

inflation.

**The hypothesis that people know the 'true model' of the economy and that they use this model and all available information to form their expectations of the future is the**

**rational-expectations hypothesis.**

active-expectations hypothesis.

static-expectations hypothesis.

adaptive-expectations hypothesis.

**Neo-Classical theories were an attempt to explain**

how unemployment could have persisted for so long during the Great Depression.

**the stagflation of the 1970s.**

why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.

the increase in the growth rate of real output in the 1950s.

**A group of modern economists who believe that markets clear very rapidly and that expanding the money supply will always increase prices rather than employment are the**

New-Keynesians.

Keynesians.

**Monetarists.**

The Classical school.

**Say's law states that:**

**Supply creates its own demand.**

Demand creates its own supply.

There is no such things as a free lunch

Macroeconomic policy activism is essential to ensure full-employment.

**The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:**

AS: fully horizontal; AD: downward sloping

**AS: horizontal only till the full capacity level; AD: downward sloping**

AS: vertical; AD: upward sloping

AS: horizontal; AD: vertical

**By how much has real GDP grown from 2001 to 2002?**

-10%

12.5%

20%

**0%**

**By how much has per capita nominal GNP changed from 2001 to 2002?**

-10%

**12.5%**

20%

0%

**Based on the above information, we can say that:**

Poverty has fallen in the country

**Per capita real GDP is falling**

Income inequality has worsened

Real growth in the informal sector is 0%

**In the circular flow of income, Keynesian equilibrium obtains when**

All the individual sectors are in equilibrium:  $S=I$ ,  $T=G$ ,  $M=X$

**The aggregate injections equal aggregate withdrawals  $S+T+M = I+G+X$**

There is no inflation or unemployment

The interest rate and exchange rate are at their market clearing levels

**Under conditions of Keynesian equilibrium:**

aggregate demand equals aggregate supply

aggregate demand equals national income

**both A and B**

none of the above

**Which of the following is a determinant of consumption**

expectations about future prices

level of indebtedness of consumers

the price level

**all of the above**

**Which is the most volatile component of aggregate demand**

Net exports

consumption

**investment**

government spending

**Which of the following is not an obvious or direct determinant of a country's imports**

real exchange rate

income

tariff rates

**interest rate**

**When consumption is 650, income is 750; when consumption is 620, income is 700. Assuming there is no government,  $I=100$ , net exports are 10, what is the level of equilibrium income?**

500

625

**775**

850

**Which of the following is not true?**

Starting from no growth, a positive output growth rate would be associated with even higher rates of investment (the accelerator effect)

Higher investment causes a multiplied increase in income

Such increases in income would continue to induce higher investment, which in turn would continue to cause multiplied increases in output.

**All of the above.**

**In the equation  $C = a + bY$ , which describes the aggregate consumption function, 'a' stands for**

**the amount of consumption when income is zero.**

the marginal propensity to consume.

the amount of consumption when income is Maximum.

the average consumption level.

**Total consumption divided by total income gives us:**

**the average propensity to consume.**

the marginal propensity to save.

the marginal propensity of expenditure.

the marginal propensity to consume.

**Disposable income is the part of households' income left after the deduction of**

pension contributions.

income tax and social security payments.

**income tax.**

savings.

**As the MPS increases, the multiplier will**

increase.

either increase or decrease depending on the size of the change in investment.

remain constant.

**decrease.**

**In macroeconomics, equilibrium is defined as that point at which**

**planned aggregate expenditure equals aggregate output.**

planned aggregate expenditure equals consumption.

aggregate output equals consumption minus investment.

saving equals consumption.

**The ratio of the change in the equilibrium level of output to a change in some autonomous component of aggregate demand is the**

elasticity coefficient.

**multiplier.**

marginal propensity of the autonomous variable.

automatic stabiliser.

**Assuming there are no taxes (and no foreign sector), if the MPC is .8, the multiplier is**

2.5.

8.

**5.**

2.

**Assuming the net income tax rate is 25% (and there is no foreign sector), if the MPC is 0.8, the multiplier is**

**2.5.**

8.

5.

2.

**Assuming there is no foreign sector, if the multiplier is 3, and the net income tax rate is 20%, the MPC is**

3/4

4/5

**5/6**

6/7

**Assume there is no government or foreign sector. If the MPC is .75, a Rs.20 billion decrease in planned investment will cause aggregate output to decrease by**

**Rs. 80 billion.**

Rs. 20 billion.

Rs. 26.67 billion.

Rs. 15 billion.

**According to the 'paradox of thrift,' increased efforts to save will cause**

an increase in income and an increase in overall saving.

**a decrease in income and an overall decrease in saving.**

a decrease in income but an increase in saving.

an increase in income but no overall change in saving.

**If injections are less than withdrawals at the full-employment level of national income, there is**

an inflationary gap.

equilibrium.

**a deflationary gap.**

hyperinflation.

**The accelerator theory of investment says that induced investment is determined by**

the rate of change of national income.

expectations.

**the level of national income.**

the level of aggregate demand.

**The diagram that shows the money received and paid out by each sector of the economy is the**

income-price diagram.

income-expenditures diagram.

**circular flow diagram.**

aggregate demand-aggregate supply diagram.

**If both the no. of unemployed people and the size of the labour force increase by 10,000, then**

the unemployment rate will remain the same.

**the unemployment rate will increase.**

the unemployment rate will decrease.

we cannot tell.

**Which of the following could be a reason for the problem of “lack of jobs” being overestimated:**

the existence of disguised unemployment  
people are underemployment  
people holding only one job (as opposed to multiple jobs)  
**the existence of child labour**

**Which of the following is not a cost of voluntary unemployment?**

potential output of the economy is greater than actual output  
government loses tax revenue  
firms lose (potential) revenues due to operating below capacity  
**mental stress undergone by the unemployed persons**

**“Because higher wages are less likely to induce people who are structurally or physically unable to participate on the labour force. On the other hand people already on the labour force are more likely to respond to higher wages by accepting jobs.”**

**The above statement is an answer to which question?**

**Why is the AJ curve more elastic than the LF curve**

Why is the LF curve not totally vertical  
Why is the AJ curve not completely vertical  
Why is it difficult to completely remove the horizontal distance between the AJ and LF curves

**Which of the following would constitute sound government policy if you subscribed to the Monetarist view on unemployment?**

increase aggregate demand through monetary or fiscal policy  
reduce the obstacles to downward wage rigidity (like unions, unemployment benefits, minimum wage legislations etc.)  
**Reduce the marginal income tax rate (to increase the incentive to work)**  
All of the the above

**The persistence of a phenomenon, such as unemployment, even when its causes have been removed is called**

The paradox of thrift.  
**hysteresis.**

structural unemployment.  
ceteris paribus.

### **Cyclical unemployment is the**

portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.

unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.

portion of unemployment that is due to seasonal factors.

**unemployment that occurs during recessions and depressions.**

### **The natural rate of unemployment is generally thought of as the**

ratio of the frictional unemployment rate to the cyclical unemployment rate.

sum of frictional unemployment and cyclical unemployment.

**sum of frictional unemployment and structural unemployment.**

sum of structural unemployment and cyclical unemployment.

### **One of the tenets of the Classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur**

slowly.

instantly.

very infrequently.

**very quickly.**

### **According to Keynesian economists, those who are not working**

have given up looking for a job, but would accept a job at the current wage if one were offered to them.

are too productive to be hired at the current wage.

have chosen not to work at the market wage.

**are unable to find a job at the current wage rate.**

### **The index used most often to measure inflation is the**

**consumer price index.**

wholesale price index.

student price index.

producer price index.



**If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?**

No. Because you would still be able to sell your goods at the higher price.

**Yes. Because the cost of your input is growing faster than the revenue obtained from your output**

Yes. Because both price and wage inflation are bad.

No. Because any loss to the firm will be offset by the gain to the workers.

**Which of the following is not a major cost of inflation:**

Resource wastage: as people spend time and money to guard against the “purchasing power erosion” effects of inflation, while firms suffer menu costs (i.e. the costs of frequently issuing “revised” price lists).

Uncertainty: firms defer investment when inflation is high and volatile as the latter complicates predicting future cashflows.

Worsened income inequality: inflation is a regressive tax on the people that does not take into account the taxpayers’ “ability to pay”. As such, there is a redistribution of wealth from the poor to the rich.

**Money printing costs: inflation requires more currency notes to be printed and this raises the government’s printing costs.**

**In the long run, the Phillips curve will be vertical at the natural rate of unemployment if**

the long-run supply curve is horizontal at the natural rate of inflation.

the long-run aggregate demand curve is vertical at potential GDP.

the long-run aggregate demand curve is horizontal at the natural rate of inflation.

**the long-run aggregate supply curve is vertical at potential GDP.**

**According to the monetarists, the measured unemployment rate can**

**be reduced below the natural rate only in the short run, and not without inflation.**

be reduced below the natural rate only in the long run, and only if the price level is constant.

be reduced below the natural rate only in the short run, and only if the price level is constant.

be reduced below the natural rate only in the long run, and not without inflation.

**If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?**

No, because cost-push inflation is caused by an increase in the cost of only one input.

Yes, because that is exactly the definition of cost-push inflation.

**No, because such a situation can also be caused by particular demand pressures in the economy.**

Yes, because this is exactly what happens in stagflation.

**The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause**

**an equal percentage change in nominal GDP.**

a larger percentage change in nominal GDP.

an equal percentage change in real GDP.

a smaller percentage change in nominal GDP.

**If input prices adjusted very slowly to output prices, the Phillips curve would be**

downward sloping.

vertical or nearly vertical.

upward sloping.

**horizontal or nearly horizontal.**

**If inflationary expectations increase, the short-run Phillips curve will**

become vertical.

become upward sloping.

**shift to the right.**

shift to the left.

**The record of a country's transactions in goods, services, and assets with the rest of the world is its \_\_\_\_\_; while the difference between a country's merchandise exports and its merchandise imports is the \_\_\_\_\_.**

current account; trade balance.

capital account; balance of payments.

balance of trade; capital account.

**balance of payments; balance of trade.**

**Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?**

If the capital account is in surplus, then the current account is likely to be in deficit.  
If the current account is in deficit, then the capital account is likely to be in surplus.  
If the current account is in balance, the capital account is also likely to be in balance.  
**None of the above.**

**Which of the following statements is necessarily TRUE?**

A country runs a current account deficit if it imports more goods and services than it exports.  
The sum of the current and capital accounts must be zero.  
If both the current and capital accounts are in surplus, the exchange rate must appreciate.  
**None of the above.**

**All currencies other than the domestic currency of a given country are referred to as**

reserve currencies.  
near monies.  
**foreign exchange.**  
hard currency.

**Exchange rates that are determined by the unregulated forces of supply and demand are**

**floating exchange rates.**  
pegged exchange rates.  
fixed exchange rates.  
managed exchange rates.

**If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because**

as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.  
as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.  
**as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.**

as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.

**The fall (rise) in value of one currency relative to another is**

a floating (fixing) of the currency.

**an appreciation (depreciation) of a currency.**

a depreciation (appreciation) of a currency.

a strengthening (weakening) of a currency.

**If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:**

**1.**

constantly changing.

relatively stable, but not constant

none of the above

**The interest parity equation implies that there is a general tendency for:**

exchange rates to be insensitive to the differential rates of interest between countries.

**the currencies of relatively low-interest countries to appreciate.**

the currencies of relatively high-interest countries to appreciate.

the currencies of relatively low-interest countries to depreciate.

**Note that currencies with low rates of interest also typically have low inflation rates. This follows from the Fischer equation which maintains that the nominal interest rate = real interest rate + expected inflation.**

**Which of the following is (are) correct statement(s) about the current account deficit?**

A current account deficit is bad, if it is being caused by excessive consumer spending

A current account deficit is bad, if it is fuelled by high fiscal deficits

A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings

**All of the above**

**The J-curve effect refers to the observation that**

GDP usually decreases before it increases after a currency depreciation.

GDP usually decreases before it increases after a currency appreciation.  
the trade balance usually gets worse before it improves after a currency appreciation.  
**the trade balance usually gets worse before it improves after a currency depreciation.**

**If Japan exports more direct investment capital abroad than expected, then the yen will tend to**

appreciate.  
fluctuate more than if exports were lower.  
**depreciate.**  
not be affected.

**Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, ceteris paribus, what will happen by the end of today to the Rs./dollar exchange rate? It will:**

Rise by more than 10%.  
**Rise by exactly 10%.**  
Fall by less than 10%.  
Remain constant.

**According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?**

an increase in the size of the labour force.  
an increase in the productivity of capital.  
**a move to more capital intensive production methods**  
discovery of a major mineral resource in the country

**When referring to economic growth, we normally refer to:**

**growth in actual real per capita output**  
growth in potential real per capita output  
growth in actual nominal per capita output  
growth in potential real per capita output

**A variable whose value is determined by the model of which it is a part is termed**  
\_\_\_\_\_.

**endogenous**

exogenous  
independent  
constant

**An example of capital deepening, given an increasing L, would be:**

K increases so as to maintain a constant K/L

**K increases so much that K/L increases**

K remains constant so that L/K increases

K falls, so as to reduce K/L

**The neo-classical growth model says that:**

poor countries should catch-up (or converge to) with richer countries

higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate

the steady state growth rate of real output depends on the sum of the (exogenous) growth rates in population and technical progress.

**All of the above.**

**The length of a business cycle would be measured from**

peak to trough.

trough to peak.

**peak to peak.**

the slump to the expansion.

**If the economy is in the expansionary phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.**

**rising; falling; rising; deficit**

static; low; rising; deficit

falling; falling; falling; surplus

falling; rising; falling; surplus

**If the economy is at the peak of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.**

rising; falling; rising; deficit  
**static; low; rising; deficit**  
falling; falling; falling; surplus  
falling; rising; falling; surplus

**If the economy is approaching the trough phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.**

rising; falling; rising; deficit  
static; low; rising; deficit  
falling; falling; falling; surplus  
**falling; rising; falling; surplus**

**Which of the following is not true regarding the effects of growth on the balance of payments and vice versa?**

Generally, growth raises incomes which will translate into higher consumption and higher imports, causing the current account of the BOPs to deteriorate.

If growth is “export-led”, it will boost the current account surplus of the BOPs.

**If the current account deficit reflects an underlying private sector resource deficit, it is likely to be bad for future growth.**

If the current account reflects rising imports of military equipment by the government, it might not be beneficial for economic growth.

**A country has high inflation and is running a current account deficit. What should it do in the context of the Salter-Swan diagram?**

Reduce government spending and revalue the exchange rate  
Increase government spending and devalue the exchange rate  
**Reduce the money supply and devalue the exchange rate**  
Increase government spending and revalue the exchange rate

**A government’s attempt to reduce its defence expenditure is an example of (i), while a government effort to raise interest rates is an example of (ii).**

(ii)

- |    |                       |                         |
|----|-----------------------|-------------------------|
| A. | monetary policy.      | fiscal policy.          |
| B. | <b>fiscal policy.</b> | <b>monetary policy.</b> |
| C. | incomes policy.       | incomes policy.         |

D. supply-side policy. supply-side policy.

**According to the Laffer curve, as tax rates increase, tax revenues**

decrease continuously.

initially decrease and then increase.

rise continuously.

**initially increase and then decrease.**

**The government imposes a new income tax legislation under which every male taxpayer must pay 15% of his income as taxes, while every female taxpayer must pay 20% of her income as taxes. Such tax legislation violates which equity principle?**

**Both horizontal equity and vertical equity**

Vertical equity only

Horizontal equity only

Neither

**A 15% VAT is a(n):**

Proportional income tax.

Fixed excise duty.

**Ad valorem indirect tax.**

None of the above.

**Tax incidence is the**

**ultimate distribution of a tax's burden.**

measure of the impact the tax has on employment and output.

behaviour of shifting the tax to another party.

structure of the tax.

**You know that all taxes are distortionary. Under what conditions will this knowledge lead you to oppose the imposition of every single tax in the economy?**

**If you live in a 1<sup>st</sup> best world**

If you live in a 2<sup>nd</sup> best world

If the tax rates on some of the items are prohibitively high

Either of the above



The automatic stabilisation function of fiscal policy ensures that government expenditures \_\_\_\_\_ (i) \_\_\_\_\_ and government revenues \_\_\_\_\_ (ii) \_\_\_\_\_ during recessions.

(ii)

- A. decrease      decrease
- B. decrease      increase
- C. increase      decrease**
- D. increase      increase

Let us say assume the Pakistani government is facing a fiscal deficit. Which of the following would not constitute a possible method of financing this deficit?

- printing rupees (borrowing from the central bank)
- selling dollars in the foreign exchange market**
- imposing new taxes or raising existing tax rates
- borrowing from an international financial institution

Which of the following is not a correct argument against a fiscal policy expansion – say a tax cut – aimed at lifting aggregate demand?

The expansion might become pro-cyclical ex-post, given the lag time required to change fiscal policy.

Fiscal policy works with a lag, thus a tax cut introduced today would not have an expansionary effect on aggregate demand till many months later.

**The fiscal expansion would increase distortion in the economy.**

Lower taxes would increase the government's borrowing requirement, which in turn would cause interest rates to rise, which in turn would i) cause the exchange rate to appreciate, which in turn would cause the current account to move into deficit, and ii) crowd out private investment.

The increase in base money divided by the corresponding induced increase in commercial bank deposits is the bank's line of credit.

**reserve ratio.**

current ratio.

money multiplier.

If the State Bank of Pakistan wished to pursue a 'tight' monetary policy, it would

lower the required reserve ratio and the statutory liquidity ratio.

lower interest rates.

buy government securities on the open market.  
**sell government securities on the open market.**

**An item designated as money that is intrinsically worthless could be**

**a currency note.**

a silver coin.

a barter item.

any tradeable commodity.

**A checking deposit (or current account) held at a commercial bank is considered \_\_\_\_\_ of that bank.**

an asset.

net worth.

**a liability.**

capital.

**Which of the following activities is one of the responsibilities of the State Bank of Pakistan?**

**Monitoring the financial health of banks and non-bank financial institutions.**

Auditing the various agencies and departments of the government.

Issuing bonds on international capital markets to finance the fiscal deficit.

Loaning money to other countries that are friendly to Pakistan.

**A bank has excess liquidity reserves to lend but is unable to find a willing borrower. This will \_\_\_\_\_ the size of the money multiplier.**

**reduce**

increase

have no effect on

double

**The quantity of money demanded increases with income. Thus if income increases, the opportunity cost of holding money must go up in order to reduce money demand and re-establish equilibrium in the money market. This relation is captured by:**

**an upward sloping LM curve.**

a downward sloping L curve.

a downward sloping IS curve.

the circular flow of money in the economy.

**When economists speak of the 'demand for money,' which of the following questions are they asking?**

**How much cash do you wish you could have?**

How much wealth would you like?

How much income would you like to earn?

What proportion of your financial assets do you want to hold in non-interest bearing forms?

**Which of the following will not cause money supply to expand, given a fully floating exchange rate regime and a fixed supply of dollars in the market**

The central bank buying foreign currency in the foreign exchange market  
redemption of central bank liquidity paper

**build-up of commercial banks' deposits held with the central bank**

decrease in the central bank discount rate

**Which of the following events will lead to a decrease in the demand for money?**

An increase in the level of aggregate output.

A decrease in the supply of money.

A decrease in the interest rate.

**A decrease in the price level.**

**Which of the following is neither a determinant of the slope of the IS curve nor a determinant of the slope of the LM curve?**

**the sensitivity of interest rates to investment**

the sensitivity of money demand to income

the sensitivity of money demand to interest rates

the sensitivity of income to investment

**Given a Keynesian world, a cut in taxes coupled with a lower reserve ratio for banks would have what effect on equilibrium income and interest rate?**

Both income and the interest rate will remain unchanged

income will come down, but the interest rate will go up

**income will go up, but the effect on the interest rate cannot be predicted**

interest rates will go down, but the effect on income cannot be predicted

**If the government increases its spending, but this causes prices to rise, what will “eventually” happen to the equilibrium income and interest rate?**

Both income and the interest rate will remain unchanged  
**income will come down, but the interest rate will go up**  
income will go up, but the effect on the interest rate cannot be predicted  
interest rates will go down, but the effect on income cannot be predicted

**If the income elasticity of money demand and the Keynesian multiplier, both increase in an economy (ceteris paribus), how will the relative effectiveness of monetary and fiscal policy change?**

Fiscal policy will become relatively more effective than monetary policy  
**Fiscal policy will become relatively less effective than monetary policy**  
The relative effectiveness of fiscal and monetary policy will remain unchanged  
Both fiscal and monetary policy will become more effective.

**The intersection of the IS and LM curves captures:**

the equilibrium of the demand and supply sides of the economy  
the equivalence of monetary and fiscal policy  
**joint equilibrium in the goods and money markets**  
all of the above

**Disposable Income is obtained by subtracting \_\_\_\_\_ taxes from personal income:**

Indirect Taxes  
**Direct Taxes**  
Subsidies  
None

**Per capita income is obtained by dividing National Income by:**

Total labor Force in the Country  
Unemployed Youth in the Country  
**Total population of that country.**  
None

**The investment demand curve shows the relationship between the levels of:**

- Investment and Consumption
- Consumption and Interest Rate
- Investment and Interest Rate**
- None

**The situation in which the imports are greater than exports is termed as:**

- Trade Surplus
- Trade Deficit**
- Budget Surplus
- None

**Fiscal policy is the government programme with respect to it's:**

- Steel Mill Privatization
- Unemployment Reduction
- Expenditure and Tax revenue**
- None

**Imports for any economy are considered as:**

- Injections
- Leakages**
- Brain Drain
- None

**The accelerator is a related concept which formalizes the investment response to:**

- Consumption
- Interest rate
- Output**
- None

**According to Keynes macroeconomic equilibrium is attained when:**

- Prime Minister is PhD in Macroeconomics
- Aggregate Demand Equals Aggregate Supply**
- Inflation Exists in Economy.
- None

There are \_\_\_\_\_ methods of measuring GDP:

Four

**Three**

Five

None

Intermediate goods are meant for:

Direct use by the consumers

**further processing**

The term do not exist

None

Fiscal policy refers to:

The actions of the central bank in controlling the money supply.

**The spending and taxing policies used by the government to influence the economy.**

The government's regulation of financial intermediaries.

None of the given options.

Disposable income is:

Total income plus transfer payments

Total income minus saving.

Total income plus net taxes.

**Total income minus net taxes.**

The deficit tends to decrease when:

GDP decreases slightly.

GDP decreases rapidly.

**GDP increases.**

GDP remains unchanged.

Money or paper currency serves at least \_\_\_\_\_ functions:

Four

**Three**

Five

Seven

**The economic logic behind granting central banks independence from government in the conduct of monetary policy is:**

To eliminate seignior age.

To allow open market operations.

**To enhance the credibility of monetary policy.**

None of the above.

**An expansionary fiscal policy can:**

**Raise the national debt.**

Decrease the national debt.

Have no effect on national debt.

None of above.

**Which is high powered money?**

M1

M2

**Mo**

None

**There are \_\_\_\_\_ major instruments of monetary policy:**

Three

**Four**

Five

None

**The rate at which central bank lends to commercial banks is known as:**

Reserve rate.

**Discount rate.**

Open market operation.

None.

**Identify the three motives of money demand:**

Accumulative, speculative, precautionary  
**Speculative, transaction, precautionary**  
Precautionary special, transaction  
None

**If, in a fully employed, closed economy, the supply of money and the velocity of circulation of money both increase, then in the short-run.**

Unemployment of factors will result  
Real national output will expand  
The volume of transactions will increase  
**The average level of prices will rise**

**An increase in the rate of inflation which is not accompanied by any change in the volume of consumer goods sold will automatically increase the:**

**Revenue from Value Added Tax**  
Level of company profits  
Level of unemployment  
Average level of wages

**The increase in the Public Sector Borrowing Requirement (PSBR) to almost £50 billion this year will automatically lead to:**

A higher rate of inflation  
A fall in the rate of unemployment  
**An increase in the National Debt**  
A deterioration in the Balance of Payments

**The investment demand curve shows the relationship between the levels of:**

Investment and Consumption  
Consumption and Interest Rate  
**Investment and Interest Rate**  
None

**According to Classical models, the level of employment is determined primarily by:**

The level of aggregate demand for goods and services.  
Prices and wages.  
**Government taxation.**



Government spending.

**Which of the following is not an important variable in growth accounting calculations?**

Productivity growth

**Money supply growth**

Labor growth

Capital growth

**The per-worker production function relates:**

**Output per worker to capital per worker.**

Output per worker to production per worker.

Output per worker to factors of production per worker.

Production per worker to the size of the work force.

**In a steady-state economy:**

Net investment equals depreciation rate.

Per capita capital stock grows at the rate of labour growth.

**Per capita capital stock remains constant.**

Net investment equals the consumption.

**The war in Iraq sent oil prices spiraling upwards, resulting in an increase in the overall price level. This is an example of which type of inflation?**

Cost-pull

**Cost-push**

Demand-pull

Demand-push

**The IMF is an agency charged with providing:**

Technical assistance to stock market and financial market problems.

Loans for post-World War II reconstruction.

**Short-term credit for international balance of payments deficits.**

Bonds denominated in U.S. dollars as a loan to LDCs.

**In a portfolio investment:**

Investors are directly involved in managing the operations.  
As in direct investment, investors export goods and services abroad.  
Investors transfer the technology to local investors.

**Investors have no control over operations.**

### **Inflation:**

Reduces both the purchasing power of the dollar and one's real income  
reduces the purchasing power of the dollar and increases one's real income

**Reduces the purchasing power of the dollar but may have no impact on one's real income**

Increases the purchasing power of the dollar and reduces one's real income

**One of the tenets of the classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur:**

Slowly.

**Quickly.**

Very infrequently.

Instantly.

**Those that hold the classical view of the labour market are likely to believe that:**

Monetary, but not fiscal policy will have an effect on output and employment.

Both monetary and fiscal policy will have an effect on output and employment.

Fiscal, but not monetary policy will have an effect on output and employment.

**Neither monetary nor fiscal policy will have an effect on output and employment.**

**Potential GDP is the level of aggregate output:**

That can be produced if structural unemployment is zero.

That can be produced at a zero unemployment rate.

That can be sustained in the long run, if the inflation rate is zero.

**That can be sustained in the long run without inflation.**

**Which school of economic thought suggested that one possible cause of inflation was a 'push' from the cost side?**

New classical economists.

Monetarists.

Marxists.

**Keynesians.**

**An unspoken agreement between workers and firms that the firm will not cut wages is known as:**

An explicit contract.

**An implicit or social contract.**

Employment-at-will.

A relative-wage contract.

**To offset the downswing in the business cycle, the government announces a major increase in public expenditure.**

Technological Unemployment

**Demand Deficient Unemployment**

Real Wage Unemployment

Regional Unemployment

**The government puts pressure on trade unions to make pay claims which are below the increase in productivity over the past year.**

Frictional Unemployment

Technological Unemployment

Structural Unemployment

**Real Wage Unemployment**

**In which case is total expenditure in an economy not equal to total income?**

If total saving is larger than total investment

If net exports are not zero

If inventory investment is negative

**None of the above--they are always equal**

**Marginal utility measures:**

The slope of the indifference curve.

**The additional satisfaction from consuming one more unit of a good.**

The slope of the budget line.

The marginal rate of substitution.

**Which of the following best expresses the law of diminishing marginal utility?**

The more a person consumes of a product, the smaller becomes the utility which he receives from its consumption.

**The more a person consumes of a product, the smaller becomes the additional utility which she receives as a result of consuming an additional unit of the product.**

The less a person consumes of a product, the smaller becomes the utility which she receives from its consumption.

The less a person consumes of a product, the smaller becomes the additional utility which he receives as a result of consuming an additional unit of the product.

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

A budget line.

An isoquant.

**An indifference curve.**

A demand curve.

**The marginal rate of substitution:**

May rise or fall, depending on the slope of the budget line.

Rises as you move downward along an indifference curve.

**Falls as you move downward along an indifference curve.**

Remains the same along a budget line.

**Which of the following is a characteristic of the indifference curves?**

They are concave to the origin.

**They are convex to the origin.**

Curves closer to the origin have the highest level of total utility.

Curves closer to the origin have the highest level of marginal utility.

**In the diagram given below, the budget line is best represented by the line:**

AB

AD

**FG**

DG

**The endpoints (horizontal and vertical intercepts) of the budget line:**

Measure its slope.

Measure the rate at which one good can be substituted for another.

Measure the rate at which a consumer is willing to trade one good for another.

**Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.**

**If prices and income in a two-good society double, what will happen to the budget line?**

The intercepts of the budget line will increase.

The intercepts of the budget line will decrease.

The slope of the budget line may either increase or decrease.

**There will be no effect on the budget line.**

**If  $P_x = P_y$ , then when the consumer maximizes utility,**

X must equal Y.

**MU(X) must equal MU(Y).**

MU(X) may equal MU(Y), but it is not necessarily so.

X and Y must be substitutes.

**The difference between what a consumer is willing to pay for a unit of a good and what must be paid when actually buying it is called:**

Producer surplus.

**Consumer surplus.**

Cost-benefit analysis.

Net utility.

**Which of following is a key assumption of a perfectly competitive market?**

Firms can influence market price.

Commodities have few sellers.

It is difficult for new sellers to enter the market.

**Each seller has a very small share of the market.**

**A firm maximizes profit by operating at the level of output where:**

Average revenue equals average cost.

Average revenue equals average variable cost.  
Total costs are minimized.

**Marginal revenue equals marginal cost.**

**The demand curve facing a perfectly competitive firm is:**

Downward-sloping and less flat than the market demand curve.  
Downward-sloping and more flat than the market demand curve.

**Perfectly horizontal.**

Perfectly vertical.

**The monopolist has no supply curve because:**

**The quantity supplied at any particular price depends on the monopolist's demand curve.**

The monopolist's marginal cost curve changes considerably over time.

The relationship between price and quantity depends on both marginal cost and average cost.

There is a single seller in the market.

**A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:**

**First-degree price discrimination.**

Second-degree price discrimination.

Third-degree price discrimination.

Pricing at each consumer's reservation price.

**For which of the following market structures is it assumed that there are barriers to entry?**

Perfect competition

Monopolistic competition

**Monopoly**

All of the above

**A market with few entry barriers and with many firms that sell differentiated products is:**

Purely competitive.

A monopoly.

**Monopolistically competitive.**

Oligopolistic.

**Welfare economics is a branch of economics dealing with:**

Social issues.

**Normative issues.**

Political issues.

None of the given options.

\_\_\_\_\_ are goods that people must get a flavor of before they can consider buying them.

**Experience goods.**

Giffen goods.

Normal goods.

None of the given options.

**Which of the following does not refer to macroeconomics?**

The study of aggregate level of economic activity.

The study of causes of unemployment.

The study of causes of inflation.

**The study of the economic behavior of individual decision-making units such as consumers, resource owners and business firms.**

----- is the entire satisfaction one derives from consuming goods or services:

**Total utility**

Scarcity

Marginal utility

Rationing

**The law of diminishing marginal utility states that:**

**As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit falls**

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit rises

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit remains the same

As consumer consumes less and less units of any commodity, the utility that consumer derives from each additional unit falls

**The equi marginal principle states that:**

**MU<sub>a</sub> = MU<sub>b</sub> = MU<sub>c</sub> = -----=MU<sub>n</sub>**

**P<sub>a</sub> P<sub>b</sub> P<sub>c</sub> P<sub>n</sub>**

MU<sub>a</sub> > MU<sub>b</sub> > MU<sub>c</sub> > ----->MU<sub>n</sub>

P<sub>a</sub> P<sub>b</sub> P<sub>c</sub> P<sub>n</sub>

MU<sub>a</sub> < MU<sub>b</sub> < MU<sub>c</sub> < -----<MU<sub>n</sub>

P<sub>a</sub> P<sub>b</sub> P<sub>c</sub> P<sub>n</sub>

None of the given options

**Marginal utility measures:**

The slope of the indifference curve

**The additional satisfaction from consuming one more unit of a good**

The slope of the budget line

The marginal rate of substitution

**----- is the difference between willingness to pay and what the consumer actually has to pay:**

Total Utility

**Consumer surplus**

Producer surplus

Total product

**----- is the ratio of the probability of success to the probability of failure:**

Input output ratio

**Odds ratio**

Price earning ratio

Price sales ratio

**----- operate under the principle of law of large numbers:**

Banks

**Insurance companies**



Government sponsored enterprises  
None of the given options

**The optimum consumption point for the consumer is a point where:**

**The slopes of the indifference curve and budget line are equal**

The slopes of the indifference curve and total product are equal

The slopes of the total utility curve and budget line are equal

The slopes of the total product curve and total utility curve are equal

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

A budget line

An isoquant

**An indifference curve**

A demand curve

**The slope of an indifference curve reveals that:**

The preferences are complete

**The marginal rate of substitution of one good for another good**

The ratio of market prices

That preferences are transitive

**The law of diminishing returns applies to**

**The short run only**

The long run only

Both the short and the long run

Neither the short nor the long run

**In the long run:**

All inputs are fixed

**All inputs are variable**

At least one input is variable and one input is fixed

At most one input is variable and one input is fixed

**According to the law of diminishing returns**

The total product of an input will eventually be negative  
The total product of an input will eventually decline  
The marginal product of an input will eventually be negative  
**The marginal product of an input will eventually decline**

**The slope of the total product curve is the**

Average product  
Slope of a line from the origin to the point  
**Marginal product**  
Marginal rate of technical substitution

**The short run is**

Less than a year  
Three years  
However long it takes to produce the planned output  
**A time period in which at least one input is fixed**

**The marginal product of an input is**

Total product divided by the amount of the input used to produce this amount of output  
The addition to total output that adds nothing to profit  
The addition to total output due to the addition of one unit of all other inputs  
**The addition to total output due to the addition of the last unit of an input, holding all other inputs constant**

**Average product is defined as:**

Total product divided by the total cost  
Total product divided by marginal product  
**Total product divided by the variable input**  
Marginal product divided by the variable input

**Marginal product crosses the horizontal axis (is equal to zero) at the point where:**

Average product is maximized  
**Total product is maximized**  
Diminishing returns set in  
Output per worker reaches a maximum

**The law of diminishing returns refers to diminishing**

Total returns

**Marginal returns**

Average returns

All of the given options

**The law of diminishing returns assumes that**

**There is at least one fixed input**

All inputs are changed by the same percentage

Additional inputs are added in smaller and smaller increments

All inputs are held constant

**The study of economics is primarily concerned with:**

Demonstrating that capitalistic economies are superior to socialistic economies.

Determining the most equitable distribution of society's output.

Keeping private businesses from losing money.

**Choices which are made in seeking to use scarce resources efficiently.**

**Opportunity cost is:**

**That which we forego, or give up, when we make a choice or a decision.**

A cost that cannot be avoided, regardless of what is done in the future.

The additional cost of producing an additional unit of output.

The additional cost of buying an additional unit of a product.

**Periods of less than full employment correspond to:**

Points outside the ppf.(production possibility frontier).

**Points inside the ppf.**

Points on the ppf.

Either points inside or outside the ppf.

**In a free-market economy the allocation of resources is determined by:**

votes taken by consumers

a central planning authority

**Consumer preferences**

the level of profits of firms

**A firm produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs that firm produces:**

Have many complementary goods.

Have few substitutes.

Have few complementary goods.

**Are normal goods.**

**According to law of demand, a demand curve is:**

Horizontal

Vertical

**Downward sloping**

Directly related to law of supply

**A rational decision maker will take only those actions for which the marginal benefit:**

Is positive.

Is at its maximum level.

Is less than marginal cost.

**Is greater than or equal to the expected marginal cost.**

**All of the following are determinants of supply except:**

Price

**Income levels**

Objectives of the firm

Level of technology

**Normative economics:**

Deals solely with the facts

Is never studied in the colleges

**Involves opinions and interpretations**

Is clearly preferable to positive economics

**The transformation of resources into economic goods and services is:**

Technical efficiency

Input

**Production**

Increasing returns

**The price elasticity of demand is defined as the absolute value of the ratio of:**

Price over quantity demanded.

Change in price over change in quantity demanded.

Percentage change in price over the percentage change in quantity demanded.

**Percentage change in quantity demanded over the percentage change in price.**

**If a good is a luxury, its income elasticity of demand is:**

positive and less than 1

negative but greater than -1

**positive and greater than 1**

zero

**A resource is something that:**

**Is used to produce goods and services.**

Is provided by nature, not made by society.

Exists in unlimited quantities.

Must be produced by a firm.

**If the cross-price elasticity between home personal computers and video game units for TV is positive, one can conclude that**

**These products are substitutes for one another.**

These products complement one another.

These products are over-priced.

Consumers are irrational.

**As one moves along a convex isoquant, which of the following does not change?**

The marginal rate of technical substitution.

The capital-labor ratio.

The marginal product of labor relative to the marginal product of capital.

**The level output produced.**

**Of the following goods, the one where the law of diminishing marginal utility is least likely to apply is:**

Water.

**Cigarettes.**

Toothpaste.

Rap music.

**The optimal purchasing rule states that total utility is maximized when a consumer:**

Consumes as much as possible of all good.

Consumes the same quantities of all goods.

Completely uses up their income.

**Consumes to the point where the marginal utility per dollar spent on all goods is the same.**

**Which of the following pairs come closest to being complementary goods?**

Apples and oranges.

**Cameras and films.**

A free hotel room and a free meal.

Cream and milk.

**A Giffen good:**

Is a good that people buy more of as their incomes fall.

**Is a good which people buy more of as its price increases.**

Is a good on which people spend a small portion of their income.

Has a vertical demand curve.

**When an industry expands its costs of production will:**

**Increase.**

Decrease.

stay the same.

none of the above.

**Which of the following would shift the demand curve for new textbooks to the right?**

A fall in the price of paper used in publishing texts.

A fall in the price of equivalent used text books.

**An increase in the number of students attending college.**

A fall in the price of new text books.

**Which of these measures the responsiveness of the quantity of one good demanded to an increase in the price of another good?**

Price elasticity.

Income elasticity.

**Cross-price elasticity.**

Cross-substitution elasticity.

**Assume that the current market price is below the market clearing level. We would expect:**

A surplus to accumulate.

Downward pressure on the current market price.

**Upward pressure on the current market price.**

Lower production during the next time period.

**The income elasticity of demand is the:**

Absolute change in quantity demanded resulting from a one-unit increase in income.

Percent change in quantity demanded resulting from the absolute increase in income.

**Percent change in quantity demanded resulting from a one percent increase in income.**

Percent change in income resulting from a one percent increase in quantity demanded.

**Which of the following statements about the diagram below is true?**

Demand is infinitely elastic.

**Demand is completely inelastic.**

Demand becomes more inelastic the lower the price.

Demand becomes more elastic the lower the price.

**In the long run, new firms can enter an industry and so the supply elasticity tends to be:**

**More elastic than in the short?run.**

Less elastic than in the short?run.

Perfectly elastic.

Perfectly inelastic.

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

A budget line.

An isoquant.

**An indifference curve.**

A demand curve.

**The magnitude of the slope of an indifference curve is:**

**Called the marginal rate of substitution.**

Equal to the ratio of the total utility of the goods.

Always equal to the ratio of the prices of the goods.

All of the above.

**Which of the following is a positive statement?**

Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.

The minimum wage should not be increased, because to do so would increase unemployment.

Smoking should be restricted on all airline flights.

**None of the above.**

**A supply curve reveals:**

The quantity of output consumers are willing to purchase at each possible market price.

The difference between quantity demanded and quantity supplied at each price.

The maximum level of output an industry can produce, regardless of price.

**The quantity of output that producers are willing to produce and sell at each possible market price.**

**The slope of an indifference curve reveals:**

That preferences are complete.



**The marginal rate of substitution of one good for another good.**

The ratio of market prices.

That preferences are transitive.

**An increase in income, holding prices constant, can be represented as:**

A change in the slope of the budget line.

**A parallel outward shift in the budget line.**

An outward shift in the budget line with its slope becoming flatter.

A parallel inward shift in the budget line.

**If prices and income in a two-good society double, what will happen to the budget line?**

The intercepts of the budget line will increase.

The intercepts of the budget line will decrease.

The slope of the budget line may either increase or decrease.

**There will be no effect on the budget line.**

**An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

$MRS_{xy}$  is at a maximum.

$P_x/P_y = \text{money income}$ .

$MRS_{xy} = \text{money income}$ .

**$MRS_{xy} = P_x/P_y$ .**

**Which of the following is true regarding income along a price consumption curve?**

Income is increasing.

Income is decreasing.

**Income is constant.**

The level of income depends on the level of utility.

**An individual with a constant marginal utility of income will be**

Risk averse.

**Risk neutral.**

Risk loving.

Insufficient information for a decision.

**A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:**

An isoquant.

A production possibility curve.

**A production function.**

An isocost function.

**The short run is:**

Less than a year.

Three years.

However long it takes to produce the planned output.

**A time period in which at least one input is fixed.**

**The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:**

Marginal rate of substitution.

**Marginal rate of technical substitution.**

Slope of the isocost curve.

Average product of the input.

**Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce**

**are normal goods.**

have few complementary goods.

have many complementary goods.

have few substitutes.

**When the decrease in the price of one good causes the demand for another good to decrease, the goods are**

complements.

normal.

inferior.

**substitutes.**

**The price elasticity of demand is the**

**ratio of the percentage change in quantity demanded to the percentage change in price.**

ratio of the change in price to the change in quantity demanded.

ratio of the change in quantity demanded to the change in price.

ratio of the percentage change in price to the percentage change in quantity demanded.

**The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:**

inelastic.

perfectly inelastic.

**elastic.**

perfectly elastic.

**The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is**

**elastic.**

inelastic.

unitarily elastic

perfectly elastic

**If the cross-price elasticity of demand between two goods is negative, then the two goods are**

unrelated goods.

substitutes.

**complements.**

normal goods.

**If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is**

-4.

4.

-0.25.

**0.25.**

**The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?**

This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.

**The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time.**

This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.

No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.

**The burden (incidence) of a tax will fall mainly on the producers if:**

The producers are the ones legally obliged to pay the tax.

**Supply is inelastic and demand is elastic.**

Demand is inelastic and supply is elastic.

There are many producers in the market.

**Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?**

**Inferior goods.**

Normal goods.

Substitute goods.

Complementary goods.

**If total revenue rises by 10% when price increases by 5%, this means:**

**demand is price inelastic**

demand is price elastic

demand is unit elastic

demand is perfectly inelastic

**If a 5% increase in price causes no change in total revenue, this means:  
demand is price inelastic**

demand is price elastic

**demand is unit elastic**

demand is perfectly inelastic

**Which of the following statements is true:**

Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.

Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.

**We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range**

**A straight line demand curve with a slope of -1 delivers unit elasticity.**

**95. When firms advertise their product, they are trying to:**

Shift the demand curve to the right

Make the demand curve steeper

Make demand for the product more inelastic

**All of the above**

**“It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy.”**

False. A good can only have one characterization in an economy, normal or inferior, not both

False. Milk is always and everywhere a normal good.

**True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.**

True. Some people in the economy like milk, others don't.

**A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:**

the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high

Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income

Z's terms of trade (price of exports / price of imports) deteriorate

**All of the above.**

**“The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems.” This most closely illustrates which elasticity concept:**

Price elasticity of demand

Price elasticity of supply

Income elasticity of demand

**Cross price elasticity of demand**

**Economists use the term utility to mean**

the value of a product before it has been advertised.

**the satisfaction a consumer obtains from a good or service.**

any characteristic of a good or service which cannot be measured.

the contribution a good or service makes to social welfare.

**Economists use the term marginal utility to mean**

additional satisfaction gained divided by additional cost of the last unit.

**additional satisfaction gained by the consumption of one more unit of a good.**

total satisfaction gained when consuming a given number of units.

the process of comparing marginal units of all goods which could be purchased.

**The law of diminishing marginal utility states that**

total satisfaction will decrease as more units of the good are consumed.

**the satisfaction derived from each additional unit of a good consumed will decrease.**

total utility will become negative.

Both the first and third option.

**By total consumer surplus economists mean (in P-Q space)**

**The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.**

the area between the average revenue and marginal revenue curves.

the difference between the maximum price the consumer is willing to pay for a good

(vertical-intercept of demand curve) and the minimum price the producer is willing to sell

at (vertical intercept of supply curve).

A and C.

The equation for Rida's demand curve for bouquets of flowers is  $P = 40 - 2Q$ . If the price of a bouquet is Rs18, her consumer surplus will be

- Rs198
- Rs121.
- Rs11.**
- Rs242.

The price of an ice cream cone is \$1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to \$1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?

**The marginal utility of the fourth ice cream cone per week must be worth less than \$1.25 to you.**

The total utility of the four ice cream cones per week must be worth less than \$5.75 ( $=3*\$1.50 + \$1.25$ ) to you.

The total utility of the four ice cream cones per week must be less than \$5.00 ( $3*\$1.25 + \$1.25$ ) to you.

None of the above.

**Economists have used the idea of diminishing marginal utility to explain why demand curves slope downwards.**

demand curves become flatter at lower prices.

demand curves are inelastic.

**Both the first and second option.**

**A consumer will buy more units of a good if the value of the good's**

total utility is greater than price.

marginal utility is less than price.

**marginal utility is greater than price.**

total utility is less than price.

**The diamond-water paradox can be explained by suggesting that the price of a product is determined by**

consumer incomes.

**its marginal utility.**

consumer surplus.

diminishing marginal utility.

**A utility-maximising consumer changes her spending on goods X and Y until**

$$MU_x = MU_y$$

$$P_x (MU_x) = P_y (MU_y)$$

$$TU_x/P_x = TU_y/P_y$$

$$MU_x (P_y) = MU_y (P_x)$$

**The  $MU_x/MU_y$  ratio is 10 and the  $P_x/P_y$  ratio is 8, so the consumer should buy**

less X and more Y.

more X and more Y.

**more X and less Y.**

less X and less Y.

**Economists define an indifference curve as the set of points**

at which the consumer is in equilibrium as the consumer's income changes.  
which yield the same marginal utility.

**which yield the same total utility.**

At which the consumer is in equilibrium as prices change.

**Which of the following is a property of an indifference curve?**

the marginal rate of substitution is constant as you move along an indifference curve.

marginal utility is constant as you move along an indifference curve.

**it is convex to the origin.**

total utility is greatest where the 45 degree line cuts the indifference curve.

**The limits imposed on household choices by income, wealth, and product prices are**

captured by the

**budget constraint.**

choice set.

assumption of perfect knowledge.

preference set.

**Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?**

50 units of clothing and 50 units of food.



20 units of clothing and 50 units of food.  
10 units of clothing and 25 units of food.  
**0 units of clothing and 50 units of food.**

**If a household's money income is doubled,**

the budget constraint will shift in and parallel to the old one.  
the budget constraint is not affected.  
the budget constraint will swivel outward at the Y-intercept.  
**the budget constraint will shift out parallel to the old one.**

**The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is**

**the income-consumption curve.**  
the Engel curve.  
the demand curve.  
the income-demand curve.

**The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is**

the Engel curve.  
the demand curve for X.  
the substitution curve.  
**the price-consumption curve for X.**

**The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:**

A the Engel curve.  
the demand curve for X.  
**the substitution curve.**  
the price-consumption curve for X.

**If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a**

inferior good.  
Giffen good.

**normal good.**  
superior good.

**If the price (or budget) line has a slope of -2 and it cuts indifference curve IC<sub>a</sub> at points P and R (given that the slope of IC<sub>a</sub> at point P is -4 and at point R is -1), the consumer can maximize utility by:**

choosing consumption bundle P  
choosing consumption bundle R  
**moving to a higher indifference curve**  
we don't enough information to answer the question

**Indifference curves cannot**

be L shaped  
be straight lines  
**intersect**  
all of the above

**The main problem with marginal utility analysis is:**

that it cannot solve problems involving more than two goods  
**its cardinal measurement of utility**  
its inability to explain the diamond-water paradox  
all of the above

**This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is  $< 1$ , and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?**

She is risk averse  
She is risk neutral  
She is risk loving  
**We do not have enough information to answer the question**

**The concept of diminishing marginal utility of income (DMU<sub>y</sub>) helps explain:**

why a marginal dollar might have higher utility for a pauper than a millionaire

why the total utility curve (in Utility-Income space) is convex  
why the average consumer is risk-averse

**all of the above**

**“Moral hazard” and “adverse selection” are problems related to asymmetric information, that arise**

in ex-ante and ex-post contexts, respectively

**in ex-post and ex-ante contexts, respectively**

in ex-ante contexts

in ex-post contexts

**Profit-maximising firms want to maximize the difference between**

**total revenue and total cost.**

marginal revenue and marginal cost.

marginal revenue and average cost.

total revenue and marginal cost.

**Which statement is FALSE?**

Fixed costs do not depend on the firm's level of output.

**Fixed costs are zero if the firm is producing nothing.**

Fixed costs are the difference between total costs and total variable costs.

There are no fixed costs in the long run.

**Which of the following is most likely to be a variable cost for a firm?**

The monthly rent on office space that it leased for a year.

The franchiser's fee that a restaurant must pay to the national restaurant chain.

The interest payments made on loans.

**Workers' wages.**

**The costs that depend on output in the short run are**

total variable costs only.

**both total variable costs and total costs.**

total costs only.

total fixed cost only.

**The short run, as economists use the phrase, is characterized by**

a period where the law of diminishing returns does not hold.

**at least one fixed factor of production, and firms neither leaving nor entering the industry.**

all inputs being variable.

no variable inputs - that is all of the factors of production are fixed.

### **Diminishing marginal returns implies**

increasing average fixed costs.

decreasing marginal costs.

decreasing average variable costs.

**increasing marginal costs.**

### **Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?**

If AP is at a maximum, then MP is also.

If TP is declining then AP is negative.

**If AP exceeds MP, then AP is falling.**

If  $AP = MP$ , then total product is at a maximum.

**If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is \_\_\_\_\_ and the average product of the third worker is \_\_\_\_\_.**

270; 160

3.33; 10

**10; 30**

30; 10

**Engineers for Imran Bike Company have determined that a 15% increase in “all” inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause \_\_\_\_\_ as output increases.**

Long-run average costs to increase

Long-run marginal costs to increase

**Long-run average costs to remain constant**

Long-run average costs to decrease

**Suppose Isa Khan's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be**

upward sloping to the right.

**U-shaped.**

horizontal.

downward sloping to the right.

**A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is**

an isocost line.

a production function.

**an isoquant.**

an indifference curve.

**The rate at which a firm can substitute capital for labour and hold output constant is the**

law of diminishing marginal returns.

**marginal rate of technical substitution.**

marginal rate of substitution.

marginal rate of production.

**A graph showing all the combinations of capital and labour available for a given total cost is the**

budget constraint.

isoquant.

expenditure set.

**isocost line.**

**The formula for average fixed costs is**

$dTFC/dq$ .

**$TFC/q$ .**

$q/TFC$ .

$TFC - q$ .

**The formula for AVC is**

$q/\text{TVC}$ .  
 $d\text{TVC}/dq$ .  
 $dq/d\text{TVC}$ .  
 **$\text{TVC}/q$ .**

### **Marginal revenue is**

the additional profit the firm earns when it sells an additional unit of output.

**the added revenue that a firm takes in when it increases output by one additional unit.**

the difference between total revenue and total costs.

the ratio of total revenue to quantity.

**A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is**

Rs 15,000.

Rs 25,000.

**Rs 35,000.**

Zero.

**The amount of profit a firm makes can be shown on a diagram using**

**the AC and AR curves.**

the MR and AR curves.

the AC and MC curves.

the MR and MC curves.

**A firm's choice of profit-maximising output can be shown on a diagram using**

the AC and AR curves.

the MR and AR curves.

the AC and MC curves.

**the MR and MC curves.**

**A firm will shut down in the short run if**

**total variable costs exceed total revenues.**

average cost exceeds price.

total costs exceed total revenues.  
it is suffering a loss.

**The concept of “interdependence of markets” can refer to the interdependence between:**

two or more factor markets  
goods and factor markets  
goods markets  
**all of the above**

**The 'law of demand' implies that**

**as prices fall, quantity demanded increases.**  
as prices fall, demand increases.  
as prices rise, quantity demanded increases.  
as prices rise, demand decreases.

**What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?**

**the substitution effect.**  
the ceteris paribus effect.  
the total price effect.  
the income effect.

**The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:**

A's consumers have had an increase in income.  
**the price of A has increased.**  
A's advertising is not as effective as in the past.  
the price of rival brand B has increased.

**Demand curves in P-Q space are derived while holding constant**

consumer tastes and the prices of other goods.  
incomes, tastes, and the price of the good.  
incomes and tastes.  
**incomes, tastes, and the prices of other goods.**

**Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are**

perfect substitutes.

unrelated goods.

**complements.**

substitutes.

**If the demand for coffee decreases as income decreases, coffee is**

**a normal good.**

a complementary good.

an inferior good.

a substitute good.

**Which of the following will NOT cause a shift in the demand curve for compact discs?**

a change in the price of pre-recorded cassette tapes.

a change in wealth.

a change in income.

**a change in the price of compact discs.**

**Which of the following is consistent with the law of supply?**

As the price of calculators rises, the supply of calculators increases, ceteris paribus.

As the price of calculators falls, the supply of calculators increases, ceteris paribus.

**As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.**

As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

**The price of computer chips used in the manufacture of personal computers has fallen. This will lead to \_\_\_\_\_ personal computers.**

a decrease in the supply of

a decrease in the quantity supplied of

**an increase in the supply of**

an increase in the quantity supplied of



**When there is excess demand in an unregulated market, there is a tendency for**

quantity demanded to increase.

quantity supplied to decrease.

price to fall.

**price to rise.**

**Equilibrium in the market for good A obtains**

when there is no surplus or shortage prevailing in the market

where the demand and supply curves for A intersect

when all of what is produced of A is consumed

**all of the above**

**A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by**

a decrease in supply.

**a fall in income.**

a fall in the price of a complementary good.

a fall in the number of substitute goods.

**Assume the good is normal**

**A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by**

a fall in the price of a complementary good.

a fall in income.

a change in tastes such that consumers prefer the good more.

**a rise in the number of substitute goods.**

**Assume the good is normal**

**A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by**

**an increase in supply.**

a rise in income.

a rise in the price of a complementary good.

a fall in the number of substitute goods.

Assume the good is normal

When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as

price fixing.

quantity setting.

quantity adjustment.

**price rationing.**

How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?

2

4

**8**

16

What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right

**price falls unambiguously but the effect on quantity cannot be determined**

both price and quantity falls unambiguously

quantity falls unambiguously but the effect on price cannot be determined

the effect on both price and quantity cannot be determined

What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left

price falls unambiguously but the effect on quantity cannot be determined

both price and quantity falls unambiguously

**quantity falls unambiguously but the effect on price cannot be determined**

the effect on both price and quantity cannot be determined

**A price ceiling imposed by the government can cause a shortage (excess demand)**

when the price ceiling is above the free (or unregulated) market price

**when the price ceiling is below the free (or unregulated) market price**

when the price ceiling is equal to the free (or unregulated) market price

either of the above

**What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?**

Price falls, quantity rises

**Price rises, quantity falls**

Both price and quantity fall

Both price and quantity rise

**A price floor is**

a maximum price usually set by government, that sellers may charge for a good or service.

**a minimum price usually set by government, that sellers must charge for a good or service.**

the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.

the minimum price that consumers are willing to pay for a good or service.

**The need for rationing a good arises when**

there is a perfectly inelastic demand for the good.

supply exceeds demand.

**demand exceeds supply.**

a surplus exists.

**If the “regulated-market” price is below the equilibrium (or “free-market” price) price,**

**the quantity demanded will be greater than quantity supplied.**

demand will be less than supply.

quantity demanded will be less than quantity supplied.

quantity demanded will equal quantity supplied.

**If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that**

**more workers would become employed.**

there would be more unemployment.

the costs and prices of firms employing cheap labour would increase.

wages in general would fall as employers tried to hold down costs.

**The process by which resources are transformed into useful forms is**

capitalisation.

consumption.

allocation.

**production.**

**The concept of choice would become irrelevant if**

capital were eliminated.

**scarcity were eliminated.**

we were dealing with a very simple, one-person economy.

poverty were eliminated.

**Which of the following is not a resource as the term is used by economists?**

**money.**

land.

buildings.

labour.

**Capital, as economists use the term,**

is the money the firm spends to hire resources.

is money the firm raises from selling stock.

refers to the process by which resources are transformed into useful forms.

**refers to things that have already been produced that are in turn used to produce other goods and services.**

**Opportunity cost, most broadly define, is**

the additional cost of producing an additional unit of output.

**what we forgo, or give up, when we make a choice or a decision.**

a cost that cannot be avoided, regardless of what is done in the future.

the additional cost of buying an additional unit of a product.

**A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a**

demand curve.

supply curve

**production possibility frontier.**

circular-flow diagram.

**Periods of “less than full employment” of resources correspond to**

points on the ppf.

points outside the ppf.

either points inside or outside the ppf.

**points inside the ppf.**

**What lies at the heart of the allocation of goods and services in a free-market economy?**

Concerns of equity or equal distribution among individuals.

The order or command of the ruling government or dictator.

The wishes of consumers in the market.

**The price mechanism.**

**The phrase 'ceteris paribus' is best expressed as**

**'all else equal.'**

'everything affects everything else.'

'scarcity is a fact of life.'

'there is no such thing as a free lunch.'

**Laboratory (or controlled) experiments cannot be performed in economics because:**

of resource scarcity.

economics is a natural science.

of the difficulty of distinguishing between normative and positive statements.

**economics is a social science.**

**Positive statements are:**

value judgments

**verifiable or testable**

statements in the affirmative

good statements

**The former Soviet Union was an example of:**

**a planned economy**

free-market/capitalism

dictatorship

a mixed economy

**Rational choice or rational decision-making involves**

comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined

weighing up total costs and total benefits associated with a decision

**weighing up marginal costs and marginal benefits associated with a decision**

all of the above.

**The PPF can be used to illustrate:**

the principle of opportunity costs and increasing opportunity costs

the distinction between micro and macroeconomics

efficient, infeasible and inefficient production combinations

**all of the above**

**If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on**

**how much of each input to use.**

how much to spend on advertising.

what price to charge.

the design of the product.

**Market power is**

a firm's ability to charge any price it likes.

**a firm's ability to raise price without losing all demand for its product.**

a firm's ability to sell any amount of output it desires at the market-determined price.

a firm's ability to monopolise a market completely.

**When \_\_\_\_\_ substitutes exist, a monopolist has \_\_\_\_\_ power to raise price.**

more; more

fewer; less

no; infinite  
**more; less**

**If a firm has some degree of market power, then output price**

**becomes a decision variable for the firm.**

is determined by the actions of other firms in the industry.  
no longer influences the amount demanded of the firm's product.  
is guaranteed to be above a firm's average cost.

**Relative to a competitively organised industry, a monopoly**

produces less output, charges lower prices and earns economic profits.  
produces more output, charges higher prices and earns economic profits.  
**produces less output, charges higher prices and earns economic profits.**  
produces less output, charges lower prices and earns only a normal profit.

**The cosmetics industry is not considered by economists to be a good example of perfect competition because**

**firms spend a large amount of money on advertising.**

profit margins are very high for both producers and retailers.  
there are a very large number of firms in the industry.  
there are many government health controls on cosmetic products.

**If firms can neither enter nor leave an industry, the relevant time period is the**

long run.  
immediate run.  
intermediate run.  
**short run.**

**In the long run**

**there are no fixed factors of production.**

all firms must make economic profits.  
a firm can vary all inputs, but it cannot change the mix of inputs it uses.  
a firm can shut down, but it cannot exit the industry.

**A normal rate of profit**

is the rate of return on investments over the interest rate on risk-free government bonds.  
**is the rate that is just sufficient to keep owners or investors satisfied.**

Means zero return for owners or investors.

is the difference between total revenue and total costs.

**If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then**

total costs exceed normal profit.

**the firm is earning an economic profit.**

normal profit is zero.

total costs exceed total revenue.

**Economic profits are**

**the difference between total revenue and total costs.**

anything greater than the normal opportunity cost of investing.

a rate of profit that is just sufficient to keep owners and investors satisfied.

the opportunity costs of all inputs.

**The slope of the marginal revenue curve is**

the same as the slope of the demand curve.

half as steep as the demand curve.

**twice as steep as the demand curve.**

always equal to one.

**In a monopoly, marginal revenue is**

less than price at low levels of output and greater than price at high levels of output.

always greater than price.

**lower than price for all units other than the first.**

always equal to price.

**Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has**

maximised the difference between marginal revenue and marginal cost.

maximised its total revenue.

**equated marginal revenue and marginal cost.**



set price equal to its average cost.

**An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called**

an economies of scale monopoly.

**a natural monopoly.**

a government franchise monopoly.

a fixed cost monopoly.

**How can a government regulate a monopoly firm making supernormal profits so that a “socially optimal” outcome obtains:**

**set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.**

set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.

set the firm’s price (and quantity) corresponding to the point where the MR curve intersects the AC curve and  $AC > MR$  after that point.

set the firm’s price (and quantity) corresponding to the point where the AR curve intersects the MC curve and  $MC > AR$  after that point.

**Monopolistic competition differs from perfect competition primarily because**

in perfect competition, firms can differentiate their products.

**in monopolistic competition, firms can differentiate their products.**

in monopolistic competition, there are relatively few firms.

in perfect competition, there are no barriers to entry.

**In monopolistic competition, firms achieve some degree of market power**

**by producing differentiated products.**

because of barriers to entry into the industry.

because of barriers to exit from the industry.

by virtue of size alone.

**A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover**

advertising costs.

fixed costs.

marginal costs.  
**variable costs.**

### **A firm in a monopolistically competitive industry**

**must lower price to sell more output.**

sells a fixed amount of output regardless of price.

can sell an infinite amount of output at the market-determined price.

must raise price to sell more output.

### **The “long-run” equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures**

**firms will only earn a normal profit.**

the efficient output level will be produced in the long run.

firms will be producing at minimum average cost.

firms realise all economies of scale.

### **A form of industry structure characterised by a few firms each large enough to influence market price is**

monopolistic competition.

monopoly.

perfect competition.

**oligopoly.**

### **When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is**

monopolistically competitive.

**oligopolistic.**

perfectly competitive.

indeterminate from this information.

### **An industry that has a relatively small number of firms that dominate the market is called**

a natural monopoly.

a colluding industry.

a merged industry.

**a concentrated industry.**

**Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will \_\_\_\_\_ and the total output produced will \_\_\_\_\_.**

increase; decrease

increase; increase

decrease; decrease

**decrease; increase**

**A group of firms that gets together to make price and output decisions is called**

a non-collusive oligopoly.

price leadership.

**a cartel.**

a concentrated industry.

**In which of the following circumstances would a cartel be most likely to work?**

The coffee market, where the product is standardised and there are a large number of coffee growers.

The automobile industry, where there are few producers but there is great product differentiation.

**The market for copper, where there are very few producers and the product is standardised.**

The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.

**A collusive oligopoly (with a dominant price leader) will produce a level of output**

that would prevail under perfect competition.

between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.

between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.

**equal to what a monopolist would choose in the same industry.**

**The kinked demand curve model of oligopoly assumes that the price elasticity of demand**

**in response to a price increase is more than the elasticity of demand in response to a price decrease.**

is constant regardless of whether price increases or decreases.

is infinite if price increases and zero if price decreases.

in response to a price increase is less than the elasticity of demand in response to a price decrease.

### **Price discrimination involves**

firms selling different products at different prices to different consumers.

**firms selling the same product at different prices to different consumers.**

consumers discriminating between different sellers on the basis of the different prices they quote for different products.

consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

### **Price discrimination often favours public interest because it**

allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.

opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.

allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.

**all of the above**

**Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:**

### **Strategic interaction**

Prisoner's dilemma

Price leadership

None of the above

**Given the following table, what would Firm A, which is a firm operating in a duopoly (along with firm B) do, if it were following a maximin strategy?**

(p stands for profit or payoff)		STRATEGY FOR FIRM A	
		Not lower price	Lower price
STRATEGY	Not lower price	$p_A = \text{Rs } 400\text{m}$	$p_A = \text{Rs } 300\text{m}$

**FOR FIRM B**

Lower price

$p_A = \text{Rs } 100\text{m}$

$p_A = \text{Rs } 200\text{m}$

**Lower its price**

Not lower its price

We do not have information on  $p_B$  so we cannot answer the question

None of the above

**Which of the following would NOT constitute a pure public good?**

National defense.

A new national holiday.

**Free health service.**

National environmental protection.

**One of the characteristics of a public good, X, is that it is “non-rival”. It means:**

It is not possible to exclude anyone from using (or benefiting from) X.

There is no substitute for X.

**One person’s use of X does not affect another person’s ability to use (or benefit from) X.**

None of the above.

**Why might advertising exceed its socially optimal level?**

Because the marginal social costs of advertising are less than the marginal private costs.

**Because private firms do not or cannot incorporate marginal external costs when deciding how much to advertise.**

The marginal external benefit to advertising is not taken into account by firms.

None of the above.

**If  $MSB_x > MPB_x$ , what can the government do to align the market outcome with the social optimum:**

**Impose a consumption tax.**

Impose a production tax.

**Provide a consumption subsidy.**

Provide a production subsidy

**If the VMP for labour  $>$  the MRP for labour, and there is no government intervention, you can conclude that the underlying market structure is:**

a monopoly.  
perfect competition.  
**not perfect competition.**  
none of the above.

**A backward bending labour supply curve (roughly similar in shape to an inverted C) obtains when the income effect of a wage rise (beyond a certain wage level) dominates the substitution effect. If it was also the case that the income effect of a wage reduction (below a certain wage level) dominated the substitution effect, what would the complete labour supply curve roughly look like in “wage-hours worked” space?**

a 3.  
an inverted 3.  
an S.  
**an inverted S.**

**A firm is considering the project of buying an ice-cream producing machine costing Rs.1,000,000 that will serve for 10 years and then have a scrap value of Rs. 110,000 at the end of 10 years. If the present value of the net ice-cream sales revenues that the machine will generate is Rs.900,000, then, assuming a 10% annual discount rate:**

**the firm should not buy the machine because the NPV associated with the overall project is negative.**

the firm should be indifferent between buying and not buying because the NPV of the overall project is zero.

The firm should buy the machine because the NPV of the overall project is positive.

None of the above.

**If the quarterly rent from a house is Rs.5,000, the annual interest rate is fixed at 5%, and housing market conditions are stable, what would you expect the market price of the house to be?**

Rs.100,000  
Rs.200,000  
**Rs.400,000**  
Rs.800,000

**There are many differences between labour and land as factors of production, for e.g.:**

Labour cannot be purchased like land, it can only be rented.

There is no obvious reason why landowners will reduce the supply of land when the rental price of land goes up.

The decision to hire labour does not directly depend on the interest rate.

**All of the above.**

**Information products are unique in that the marginal cost of \_\_\_\_\_ the product is virtually zero.**

producing

**distributing**

accessing

all of the above

**Marginal utility measures:**

The slope of the indifference curve.

**The additional satisfaction from consuming one more unit of a good.**

The slope of the budget line.

The marginal rate of substitution.

**Which of the following best expresses the law of diminishing marginal utility?**

The more a person consumes of a product, the smaller becomes the utility which he receives from its consumption.

**The more a person consumes of a product, the smaller becomes the additional utility which she receives as a result of consuming an additional unit of the product.**

The less a person consumes of a product, the smaller becomes the utility which she receives from its consumption.

The less a person consumes of a product, the smaller becomes the additional utility which he receives as a result of consuming an additional unit of the product.

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

A budget line.

An isoquant.

**An indifference curve.**

A demand curve.

**The marginal rate of substitution:**

May rise or fall, depending on the slope of the budget line.

Rises as you move downward along an indifference curve.

**Falls as you move downward along an indifference curve.**

Remains the same along a budget line.

**Which of the following is a characteristic of the indifference curves?**

They are concave to the origin.

**They are convex to the origin.**

Curves closer to the origin have the highest level of total utility.

Curves closer to the origin have the highest level of marginal utility.

**In the diagram given below, the budget line is best represented by the line:**

AB

AD

**FG**

DG

**The endpoints (horizontal and vertical intercepts) of the budget line:**

Measure its slope.

Measure the rate at which one good can be substituted for another.

Measure the rate at which a consumer is willing to trade one good for another.

**Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.**

**If prices and income in a two-good society double, what will happen to the budget line?**

The intercepts of the budget line will increase.

The intercepts of the budget line will decrease.

The slope of the budget line may either increase or decrease.

**There will be no effect on the budget line.**

**If  $P_x = P_y$ , then when the consumer maximizes utility,**

X must equal Y.

**MU(X) must equal MU(Y).**

MU(X) may equal MU(Y), but it is not necessarily so.



X and Y must be substitutes.

**The difference between what a consumer is willing to pay for a unit of a good and what must be paid when actually buying it is called:**

Producer surplus.

**Consumer surplus.**

Cost-benefit analysis.

Net utility.

**Which of following is a key assumption of a perfectly competitive market?**

Firms can influence market price.

Commodities have few sellers.

It is difficult for new sellers to enter the market.

**Each seller has a very small share of the market.**

**A firm maximizes profit by operating at the level of output where:**

Average revenue equals average cost.

Average revenue equals average variable cost.

Total costs are minimized.

**Marginal revenue equals marginal cost.**

**The demand curve facing a perfectly competitive firm is:**

Downward-sloping and less flat than the market demand curve.

Downward-sloping and more flat than the market demand curve.

**Perfectly horizontal.**

Perfectly vertical.

**The monopolist has no supply curve because:**

**The quantity supplied at any particular price depends on the monopolist's demand curve.**

The monopolist's marginal cost curve changes considerably over time.

The relationship between price and quantity depends on both marginal cost and average cost.

There is a single seller in the market.

**A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:**

**First-degree price discrimination.**

Second-degree price discrimination.

Third-degree price discrimination.

Pricing at each consumer's reservation price.

**For which of the following market structures is it assumed that there are barriers to entry?**

Perfect competition

Monopolistic competition

**Monopoly**

All of the above

**A market with few entry barriers and with many firms that sell differentiated products is:**

Purely competitive.

A monopoly.

**Monopolistically competitive.**

Oligopolistic.

**Welfare economics is a branch of economics dealing with:**

Social issues.

**Normative issues.**

Political issues.

None of the given options.

**\_\_\_\_\_ are goods that people must get a flavor of before they can consider buying them.**

**Experience goods.**

Giffen goods.

Normal goods.

None of the given options.

**Which of the following does not refer to macroeconomics?**

The study of aggregate level of economic activity.

The study of causes of unemployment.

The study of causes of inflation.

**The study of the economic behavior of individual decision-making units such as consumers, resource owners and business firms.**

**The slope of an indifference curve reveals:**

That preferences are complete.

**The marginal rate of substitution of one good for another good.**

The ratio of market prices.

That preferences are transitive.

**Alvin's preferences for good X and good Y are shown in the diagram below. Based on Figure it can be inferred that:**

Alvin does not consider good X as "good."

Alvin will never purchase any of good Y.

Alvin regards good X and good Y as perfect substitutes.

**Alvin regards good X and good Y as perfect complements.**

**An increase in income, holding prices constant, can be represented as:**

A change in the slope of the budget line.

**A parallel outward shift in the budget line.**

An outward shift in the budget line with its slope becoming flatter.

A parallel inward shift in the budget line.

**If prices and income in a two-good society double, what will happen to the budget line?**

The intercepts of the budget line will increase.

The intercepts of the budget line will decrease.

The slope of the budget line may either increase or decrease.

**There will be no effect on the budget line.**

**An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

$MRS_{xy}$  is at a maximum.

$P_x/P_y = \text{money income}$ .

$MRS_{xy}$  = money income.

**$MRS_{xy} = P_x/P_y$ .**

**Which of the following is true regarding income along a price consumption curve?**

Income is increasing.

Income is decreasing.

**Income is constant.**

The level of income depends on the level of utility.

**An individual with a constant marginal utility of income will be**

Risk averse.

**Risk neutral.**

Risk loving.

Insufficient information for a decision.

**A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:**

An isoquant.

A production possibility curve.

**A production function.**

An isocost function.

**The short run is:**

Less than a year.

Three years.

However long it takes to produce the planned output.

**A time period in which at least one input is fixed.**

**The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:**

Marginal rate of substitution.

**Marginal rate of technical substitution.**

Slope of the isocost curve.

Average product of the input.

**If, in a fully employed, closed economy, the supply of money and the velocity of circulation of money both increase, then in the short-run.**

Unemployment of factors will result  
Real national output will expand  
The volume of transactions will increase  
**The average level of prices will rise**

**An increase in the rate of inflation which is not accompanied by any change in the volume of consumer goods sold will automatically increase the:**

**Revenue from Value Added Tax**

Level of company profits  
Level of unemployment  
Average level of wages

**The increase in the Public Sector Borrowing Requirement (PSBR) to almost £50 billion this year will automatically lead to:**

A higher rate of inflation  
A fall in the rate of unemployment  
**An increase in the National Debt**  
A deterioration in the Balance of Payments

**The investment demand curve shows the relationship between the levels of:**

Investment and Consumption  
Consumption and Interest Rate  
**Investment and Interest Rate**  
None

**According to Classical models, the level of employment is determined primarily by:**

The level of aggregate demand for goods and services.  
Prices and wages.  
**Government taxation.**  
Government spending.

**Which of the following is not an important variable in growth accounting calculations?**

Productivity growth

**Money supply growth**

Labor growth

Capital growth

**The per-worker production function relates:**

**Output per worker to capital per worker.**

Output per worker to production per worker.

Output per worker to factors of production per worker.

Production per worker to the size of the work force.

**In a steady-state economy:**

Net investment equals depreciation rate.

Per capita capital stock grows at the rate of labour growth.

**Per capita capital stock remains constant.**

Net investment equals the consumption.

**The war in Iraq sent oil prices spiraling upwards, resulting in an increase in the overall price level. This is an example of which type of inflation?**

Cost-pull

**Cost-push**

Demand-pull

Demand-push

**The IMF is an agency charged with providing:**

Technical assistance to stock market and financial market problems.

Loans for post-World War II reconstruction.

**Short-term credit for international balance of payments deficits.**

Bonds denominated in U.S. dollars as a loan to LDCs.

**In a portfolio investment:**

Investors are directly involved in managing the operations.

As in direct investment, investors export goods and services abroad.

Investors transfer the technology to local investors.

**Investors have no control over operations.**

### **Inflation:**

Reduces both the purchasing power of the dollar and one's real income

reduces the purchasing power of the dollar and increases one's real income

**Reduces the purchasing power of the dollar but may have no impact on one's real income**

Increases the purchasing power of the dollar and reduces one's real income

**One of the tenets of the classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur:**

Slowly.

**Quickly.**

Very infrequently.

Instantly.

**Those that hold the classical view of the labour market are likely to believe that:**

Monetary, but not fiscal policy will have an effect on output and employment.

Both monetary and fiscal policy will have an effect on output and employment.

Fiscal, but not monetary policy will have an effect on output and employment.

**Neither monetary nor fiscal policy will have an effect on output and employment.**

**Potential GDP is the level of aggregate output:**

That can be produced if structural unemployment is zero.

That can be produced at a zero unemployment rate.

That can be sustained in the long run, if the inflation rate is zero.

**That can be sustained in the long run without inflation.**

**Which school of economic thought suggested that one possible cause of inflation was a 'push' from the cost side?**

New classical economists.

Monetarists.

Marxists.

**Keynesians.**

**An unspoken agreement between workers and firms that the firm will not cut wages is known as:**

An explicit contract.

**An implicit or social contract.**

Employment-at-will.

A relative-wage contract.

**To offset the downswing in the business cycle, the government announces a major increase in public expenditure.**

Technological Unemployment

**Demand Deficient Unemployment**

Real Wage Unemployment

Regional Unemployment

**The government puts pressure on trade unions to make pay claims which are below the increase in productivity over the past year.**

Frictional Unemployment

Technological Unemployment

Structural Unemployment

**Real Wage Unemployment**

**In which case is total expenditure in an economy not equal to total income?**

If total saving is larger than total investment

If net exports are not zero

If inventory investment is negative

**None of the above--they are always equal**

**An expansionary fiscal policy can:**

**Raise the national debt.**

Decrease the national debt.

Have no effect on national debt.

None of above.

**Which is high powered money?**

M1

M2

**Mo**



None

**There are \_\_\_\_\_ major instruments of monetary policy:**

Three

**Four**

Five

None

**The rate at which central bank lends to commercial banks is known as:**

Reserve rate.

**Discount rate.**

Open market operation.

None.

**Identify the three motives of money demand:**

Accumulative, speculative, precautionary

**Speculative, transaction, precautionary**

Precautionary special, transaction

None

**If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:**

**1.**

constantly changing.

relatively stable, but not constant

none of the above

**The interest parity equation implies that there is a general tendency for:**

exchange rates to be insensitive to the differential rates of interest between countries.

**the currencies of relatively low-interest countries to appreciate.**

the currencies of relatively high-interest countries to appreciate.

the currencies of relatively low-interest countries to depreciate.

**Which of the following is (are) correct statement(s) about the current account deficit?**

A current account deficit is bad, if it is being caused by excessive consumer spending

A current account deficit is bad, if it is fuelled by high fiscal deficits

A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings

**All of the above**

**The J-curve effect refers to the observation that**

GDP usually decreases before it increases after a currency depreciation.

GDP usually decreases before it increases after a currency appreciation.

the trade balance usually gets worse before it improves after a currency appreciation.

**the trade balance usually gets worse before it improves after a currency depreciation.**

**If Japan exports more direct investment capital abroad than expected, then the yen will tend to**

appreciate.

fluctuate more than if exports were lower.

**depreciate.**

not be affected.

**Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, ceteris paribus, what will happen by the end of today to the Rs./dollar exchange rate? It will:**

Rise by more than 10%.

**Rise by exactly 10%.**

Fall by less than 10%.

Remain constant.

**According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?**

an increase in the size of the labour force.

an increase in the productivity of capital.

**a move to more capital intensive production methods**

discovery of a major mineral resource in the country

**When referring to economic growth, we normally refer to:**

**growth in actual real per capita output**

growth in potential real per capita output

growth in actual nominal per capita output

growth in potential real per capita output

**A variable whose value is determined by the model of which it is a part is termed \_\_\_\_\_.**

**endogenous**

exogenous

independent

constant

**An example of capital deepening, given an increasing L, would be:**

K increases so as to maintain a constant K/L

**K increases so much that K/L increases**

K remains constant so that L/K increases

K falls, so as to reduce K/L

**The neo-classical growth model says that:**

poor countries should catch-up (or converge to) with richer countries

higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate

the steady state growth rate of real output depends on the sum of the (exogenous) growth rates in population and technical progress.

**All of the above.**

**The length of a business cycle would be measured from**

peak to trough.

trough to peak.

**peak to peak.**

the slump to the expansion.

**If the economy is in the expansionary phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.**

**rising; falling; rising; deficit**

static; low; rising; deficit

falling; falling; falling; surplus

falling; rising; falling; surplus

**If the economy is at the peak of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.**

rising; falling; rising; deficit

**static; low; rising; deficit**

falling; falling; falling; surplus

falling; rising; falling; surplus

**If the economy is approaching the trough phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.**

rising; falling; rising; deficit

static; low; rising; deficit

falling; falling; falling; surplus

**falling; rising; falling; surplus**

**Which of the following is not true regarding the effects of growth on the balance of payments and vice versa?**

Generally, growth raises incomes which will translate into higher consumption and higher imports, causing the current account of the BOPs to deteriorate.

If growth is “export-led”, it will boost the current account surplus of the BOPs.

**If the current account deficit reflects an underlying private sector resource deficit, it is likely to be bad for future growth.**

If the current account reflects rising imports of military equipment by the government, it might not be beneficial for economic growth.

**A country has high inflation and is running a current account deficit. What should it do in the context of the Salter-Swan diagram?**

Reduce government spending and revalue the exchange rate

Increase government spending and devalue the exchange rate  
**Reduce the money supply and devalue the exchange rate**  
 Increase government spending and revalue the exchange rate

----- is the entire satisfaction one derives from consuming goods or services:

**Total utility**

- Scarcity
- Marginal utility
- Rationing

**The law of diminishing marginal utility states that:**

**As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit falls**

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit rises

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit remains the same

As consumer consumes less and less units of any commodity, the utility that consumer derives from each additional unit falls

**The equi marginal principle states that:**

$$\frac{MU_a}{P_a} = \frac{MU_b}{P_b} = \frac{MU_c}{P_c} = \dots = \frac{MU_n}{P_n}$$

$$\frac{MU_a}{P_a} > \frac{MU_b}{P_b} > \frac{MU_c}{P_c} > \dots > \frac{MU_n}{P_n}$$

$$\frac{MU_a}{P_a} < \frac{MU_b}{P_b} < \frac{MU_c}{P_c} < \dots < \frac{MU_n}{P_n}$$

None of the given options

**Marginal utility measures:**

The slope of the indifference curve

**The additional satisfaction from consuming one more unit of a good**

The slope of the budget line

The marginal rate of substitution

----- is the difference between willingness to pay and what the consumer actually has to pay:

Total Utility

**Consumer surplus**

Producer surplus

Total product

----- is the ratio of the probability of success to the probability of failure:

Input output ratio

**Odds ratio**

Price earning ratio

Price sales ratio

----- operate under the principle of law of large numbers:

Banks

**Insurance companies**

Government sponsored enterprises

None of the given options

**The optimum consumption point for the consumer is a point where:**

**The slopes of the indifference curve and budget line are equal**

The slopes of the indifference curve and total product are equal

The slopes of the total utility curve and budget line are equal

The slopes of the total product curve and total utility curve are equal

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

A budget line

An isoquant

**An indifference curve**

A demand curve

**The slope of an indifference curve reveals that:**

The preferences are complete

**The marginal rate of substitution of one good for another good**

The ratio of market prices

That preferences are transitive

**The law of diminishing returns applies to**

**The short run only**

The long run only

Both the short and the long run

Neither the short nor the long run

**In the long run:**

All inputs are fixed

**All inputs are variable**

At least one input is variable and one input is fixed

At most one input is variable and one input is fixed

**According to the law of diminishing returns**

The total product of an input will eventually be negative

The total product of an input will eventually decline

The marginal product of an input will eventually be negative

**The marginal product of an input will eventually decline**

**The slope of the total product curve is the**

Average product

Slope of a line from the origin to the point

**Marginal product**

Marginal rate of technical substitution

**The short run is**

Less than a year

Three years

However long it takes to produce the planned output

**A time period in which at least one input is fixed**

**The marginal product of an input is**

Total product divided by the amount of the input used to produce this amount of output

The addition to total output that adds nothing to profit

The addition to total output due to the addition of one unit of all other inputs

**The addition to total output due to the addition of the last unit of an input, holding all other inputs constant**

**Average product is defined as:**

Total product divided by the total cost

Total product divided by marginal product

**Total product divided by the variable input**

Marginal product divided by the variable input

**Marginal product crosses the horizontal axis (is equal to zero) at the point where:**

Average product is maximized

**Total product is maximized**

Diminishing returns set in

Output per worker reaches a maximum

**The law of diminishing returns refers to diminishing**

Total returns

**Marginal returns**

Average returns

All of the given options

**The law of diminishing returns assumes that**

**There is at least one fixed input**

All inputs are changed by the same percentage

Additional inputs are added in smaller and smaller increments

All inputs are held constant

**Since  $TR = P \times Q$ , suppose a perfectly competitive firm increases its production from 10 units to 11 units. If the market price is \$20 per unit, total revenue for 11 units is:**



\$20  
\$200  
\$210  
**\$220**

**The profit-maximizing level of output for a perfectly competitive firm occurs where:**

**Marginal revenue equals marginal cost**

Total revenue equals total cost

Average revenue equals average total cost

Average revenue equals average variable cost

**A downward-sloping demand curve exists for:**

**A monopoly, but not for a perfectly competitive firm**

A perfectly competitive firm, but not for a monopoly

Both a monopoly and a perfectly competitive firm

Neither a monopoly nor a perfectly competitive firm

**Average revenue for a monopolist is:**

Greater than price

Less than price

Less than marginal revenue

**Greater than marginal revenue**

**Food chains are operating in Pakistan like Mc Donald, KFC and Pizza Hut etc. These food chains sell their products in different countries at different prices. This is an example of:**

First-degree price discrimination

Second-degree price discrimination

**Third-degree price discrimination**

Monopolistic competition

**You go to the market to purchase mangoes. Suppose 1 KG of mangoes = Rs. 45. If you purchase 1 KG of mangoes, seller will not discount the rate. But if you purchase mangoes in bulk amount then he will sell you at lower price. This is an example of:**

First-degree price discrimination

**Second-degree price discrimination**

Third-degree price discrimination

Monopolistic competition

**Which of the following is true for both perfect and monopolistic competition?**

Firms produce a differentiated product

Firms face a downward sloping demand curve

Firms produce a homogeneous product

**There is freedom of entry and exit in the long run**

**A feature of monopolistic competition that makes it similar to monopoly is the:**

Inability to influence the price

**Downward sloping demand curve**

Ease of entry into the industry

Horizontal marginal revenue curve

**Monopolistic competition is a market structure characterized by:**

A single buyer and several sellers

A product with no close substitutes

Barriers to entry and exit

**Differentiated products**

**A feature of oligopoly that makes it similar to monopoly is the:**

Inability to influence the price

**Downward-sloping demand curve**

Freedom of entry into the industry

Horizontal marginal revenue curve

**The market structure in which each firm is independent in decisions is known as:**

Monopolistic competition

Oligopoly

Perfect competition

**Monopoly**

**In the kinked demand curve model, if one firm reduces its price:**

**Other firms will also reduce their price**

Other firms will compete on a non-price basis

Other firms will raise their price

All of the given options

**The origins of classical economics can be traced to the work of:**

Karl Marx

Milton Friedman

John Maynard Keynes

**Adam Smith**

**Say's Law is a proposition underlying classical economics stating that:**

**Supply creates its own demand**

Leakages are greater than injections

Unemployment is a common condition

Consumption expenditures are a function of disposable income

**According to classical economics, the economy was unlikely to experience:**

Full employment

Flexible wages and prices

Equality between saving and investment

**High rates of unemployment**

**Classical economics was replaced as the dominant theory of macroeconomic analysis by:**

Monetarism

Rational expectations

**Keynesian economics**

Neoclassical economics

**Keynesian economics was largely developed to address the economic**

**problems of the:**

Stagflation of the 1970s

**Great Depression of the 1930s**

English industrial revolution of the late 1700s

American industrial revolution of the late 1800s

**Keynesian economics was the predominant economic theory:**

Prior to the late 1700s

From the late 1700s to the early 1900s

**From the 1930s to the 1970s**

Since the 1970s

**Keynesian economics rejected the classical assumption that:**

**Supply creates its own demand**

Prices and wages are inflexible

Self-correction takes a long time

Consumption expenditures depend on disposable income

**Aggregate demand curve is downward sloping due to the:**

Interest rate effect

Wealth effect

International purchasing power effect

**All of the given option**

**A primary implication of Keynesian economics is:**

The best government is the least government

Flexible wages and prices ensure full employment

Self-correction is the best way to eliminate unemployment

**Economic instability is best corrected through the interference of government**

**Demand-management policies are designed to shift the:**

**Aggregate Demand curve**

Aggregate Supply curve

Philips curve

Production possibilities curve

**Aggregate supply is the relation between real production and:**

**Scarcity**

The price level

Aggregate expenditures

Foreign trade

**The long-run aggregate supply curve is:**

Downward sloping

Upward sloping

**Vertical at the full-employment level**

Horizontal at the full-employment level

**A leftward shift of the SRAS curve is a (n):**

Increase in long-run aggregate supply

Decrease in long-run aggregate supply

Increase in short-run aggregate supply

**Decrease in short-run aggregate supply**

**The price elasticity of demand is defined as the absolute value of the ratio of:**

Price over quantity demanded.

Change in price over change in quantity demanded.

Percentage change in price over the percentage change in quantity demanded.

**Percentage change in quantity demanded over the percentage change in price.**

**If a good is a luxury, its income elasticity of demand is:**

positive and less than 1

negative but greater than -1

**positive and greater than 1**

zero

**A resource is something that:**

**Is used to produce goods and services.**

Is provided by nature, not made by society.

Exists in unlimited quantities.  
Must be produced by a firm.

**If the cross-price elasticity between home personal computers and video game units for TV is positive, one can conclude that**

**These products are substitutes for one another.**

These products complement one another.  
These products are over-priced.  
Consumers are irrational.

**As one moves along a convex isoquant, which of the following does not change?**

The marginal rate of technical substitution.  
The capital-labor ratio.  
The marginal product of labor relative to the marginal product of capital.  
**The level output produced.**

**Of the following goods, the one where the law of diminishing marginal utility is least likely to apply is:**

Water.  
**Cigarettes.**  
Toothpaste.  
Rap music.

**The optimal purchasing rule states that total utility is maximized when a consumer:**

Consumes as much as possible of all good.  
Consumes the same quantities of all goods.  
Completely uses up their income.  
**Consumes to the point where the marginal utility per dollar spent on all goods is the same.**

**Which of the following pairs come closest to being complementary goods?**

Apples and oranges.  
**Cameras and films.**  
A free hotel room and a free meal.  
Cream and milk.

**A Giffen good:**

Is a good that people buy more of as their incomes fall.

**Is a good which people buy more of as its price increases.**

Is a good on which people spend a small portion of their income.

Has a vertical demand curve.

**When an industry expands its costs of production will:**

**Increase.**

Decrease.

stay the same.

none of the above.

**Disposable Income is obtained by subtracting \_\_\_\_\_ taxes from personal income:**

Indirect Taxes

**Direct Taxes**

Subsidies

None

**Per capita income is obtained by dividing National Income by:**

Total labor Force in the Country

Unemployed Youth in the Country

**Total population of that country.**

None

**The investment demand curve shows the relationship between the levels of:**

Investment and Consumption

Consumption and Interest Rate

**Investment and Interest Rate**

None

**The situation in which the imports are greater than exports is termed as:**

Trade Surplus

**Trade Deficit**

Budget Surplus  
None

**Fiscal policy is the government programme with respect to it's:**

Steel Mill Privatization  
Unemployment Reduction  
**Expenditure and Tax revenue**  
None

**Imports for any economy are considered as:**

Injections  
**Leakages**  
Brain Drain  
None

**The accelerator is a related concept which formalizes the investment response to:**

Consumption  
Interest rate  
**Output**  
None

**According to Keynes macroeconomic equilibrium is attained when:**

Prime Minister is PhD in Macroeconomics  
**Aggregate Demand Equals Aggregate Supply**  
Inflation Exists in Economy.  
None

**There are \_\_\_\_\_ methods of measuring GDP:**

Four  
**Three**  
Five  
None

**Intermediate goods are meant for:**



Direct use by the consumers

**further processing**

The term do not exist

None

**By how much has real GDP grown from 2001 to 2002?**

-10%

12.5%

20%

**0%**

**By how much has per capita nominal GNP changed from 2001 to 2002?**

-10%

**12.5%**

20%

0%

**Based on the above information, we can say that:**

Poverty has fallen in the country

**Per capita real GDP is falling**

Income inequality has worsened

Real growth in the informal sector is 0%

**In the circular flow of income, Keynesian equilibrium obtains when**

All the individual sectors are in equilibrium:  $S=I$ ,  $T=G$ ,  $M=X$

**The aggregate injections equal aggregate withdrawals  $S+T+M = I+G+X$**

There is no inflation or unemployment

The interest rate and exchange rate are at their market clearing levels

**Under conditions of Keynesian equilibrium:**

aggregate demand equals aggregate supply

aggregate demand equals national income

**both A and B**

none of the above

**Which of the following is a determinant of consumption**

- expectations about future prices
- level of indebtedness of consumers
- the price level
- all of the above**

**Which is the most volatile component of aggregate demand**

- Net exports
- consumption
- investment**
- government spending

**Which of the following is not an obvious or direct determinant of a country's imports**

- real exchange rate
- income
- tariff rates
- interest rate**

**When consumption is 650, income is 750; when consumption is 620, income is 700. Assuming there is no government,  $I=100$ , net exports are 10, what is the level of equilibrium income?**

- 500
- 625
- 775**
- 850

**Which of the following is not true?**

- Starting from no growth, a positive output growth rate would be associated with even higher rates of investment (the accelerator effect)
- Higher investment causes a multiplied increase in income
- Such increases in income would continue to induce higher investment, which in turn would continue to cause multiplied increases in output.
- All of the above.**

**In the equation  $C = a + bY$ , which describes the aggregate consumption function, 'a' stands for**

**the amount of consumption when income is zero.**

the marginal propensity to consume.

the amount of consumption when income is Maximum.

the average consumption level.

**Total consumption divided by total income gives us:**

**the average propensity to consume.**

the marginal propensity to save.

the marginal propensity of expenditure.

the marginal propensity to consume.

**Disposable income is the part of households' income left after the deduction of**

pension contributions.

income tax and social security payments.

**income tax.**

savings.

**As the MPS increases, the multiplier will**

increase.

either increase or decrease depending on the size of the change in investment.

remain constant.

**decrease.**

**In macroeconomics, equilibrium is defined as that point at which**

**planned aggregate expenditure equals aggregate output.**

planned aggregate expenditure equals consumption.

aggregate output equals consumption minus investment.

saving equals consumption.

**The ratio of the change in the equilibrium level of output to a change in some autonomous component of aggregate demand is the**

elasticity coefficient.

**multiplier.**

marginal propensity of the autonomous variable.  
automatic stabiliser.

**Assuming there are no taxes (and no foreign sector), if the MPC is .8, the multiplier is**

- 2.5.
- 8.
- 5.**
- 2.

**Assuming the net income tax rate is 25% (and there is no foreign sector), if the MPC is 0.8, the multiplier is**

- 2.5.**
- 8.
- 5.
- 2.

**Assuming there is no foreign sector, if the multiplier is 3, and the net income tax rate is 20%, the MPC is**

- 3/4
- 4/5
- 5/6**
- 6/7

**Assume there is no government or foreign sector. If the MPC is .75, a Rs.20 billion decrease in planned investment will cause aggregate output to decrease by**

- Rs. 80 billion.**
- Rs. 20 billion.
- Rs. 26.67 billion.
- Rs. 15 billion.

**According to the 'paradox of thrift,' increased efforts to save will cause**

- an increase in income and an increase in overall saving.
- a decrease in income and an overall decrease in saving.**
- a decrease in income but an increase in saving.
- an increase in income but no overall change in saving.

**If injections are less than withdrawals at the full-employment level of national income, there is**

an inflationary gap.  
equilibrium.  
**a deflationary gap.**  
hyperinflation.

**The accelerator theory of investment says that induced investment is determined by**

the rate of change of national income.  
expectations.  
**the level of national income.**  
the level of aggregate demand.

**The diagram that shows the money received and paid out by each sector of the economy is the**

income-price diagram.  
income-expenditures diagram.  
**circular flow diagram.**  
aggregate demand-aggregate supply diagram.

**If both the no. of unemployed people and the size of the labour force increase by 10,000, then**

the unemployment rate will remain the same.  
**the unemployment rate will increase.**  
the unemployment rate will decrease.  
we cannot tell.

**Which of the following could be a reason for the problem of “lack of jobs” being overestimated:**

the existence of disguised unemployment  
people are underemployment  
people holding only one job (as opposed to multiple jobs)  
**the existence of child labour**

**Which of the following is not a cost of voluntary unemployment?**

potential output of the economy is greater than actual output  
government loses tax revenue  
firms lose (potential) revenues due to operating below capacity  
**mental stress undergone by the unemployed persons**

**“Because higher wages are less likely to induce people who are structurally or physically unable to participate on the labour force. On the other hand people already on the labour force are more likely to respond to higher wages by accepting jobs.”**

**The above statement is an answer to which question?**

**Why is the AJ curve more elastic than the LF curve**

Why is the LF curve not totally vertical  
Why is the AJ curve not completely vertical  
Why is it difficult to completely remove the horizontal distance between the AJ and LF curves

**Which of the following would constitute sound government policy if you subscribed to the Monetarist view on unemployment?**

increase aggregate demand through monetary or fiscal policy  
reduce the obstacles to downward wage rigidity (like unions, unemployment benefits, minimum wage legislations etc.)

**Reduce the marginal income tax rate (to increase the incentive to work)**

All of the the above

**The persistence of a phenomenon, such as unemployment, even when its causes have been removed is called**

The paradox of thrift.

**hysteresis.**

structural unemployment.

ceteris paribus.

**Cyclical unemployment is the**

portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.

unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.

portion of unemployment that is due to seasonal factors.

**unemployment that occurs during recessions and depressions.**

**The natural rate of unemployment is generally thought of as the**

ratio of the frictional unemployment rate to the cyclical unemployment rate.

sum of frictional unemployment and cyclical unemployment.

**sum of frictional unemployment and structural unemployment.**

sum of structural unemployment and cyclical unemployment.

**One of the tenets of the Classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur**

slowly.

instantly.

very infrequently.

**very quickly.**

**According to Keynesian economists, those who are not working**

have given up looking for a job, but would accept a job at the current wage if one were offered to them.

are too productive to be hired at the current wage.

have chosen not to work at the market wage.

**are unable to find a job at the current wage rate.**

**The index used most often to measure inflation is the**

**consumer price index.**

wholesale price index.

student price index.

producer price index.

**If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?**

No. Because you would still be able to sell your goods at the higher price.

**Yes. Because the cost of your input is growing faster than the revenue obtained from your output**

Yes. Because both price and wage inflation are bad.

No. Because any loss to the firm will be offset by the gain to the workers.

**Which of the following is not a major cost of inflation:**

Resource wastage: as people spend time and money to guard against the “purchasing power erosion” effects of inflation, while firms suffer menu costs (i.e. the costs of frequently issuing “revised” price lists).

Uncertainty: firms defer investment when inflation is high and volatile as the latter complicates predicting future cashflows.

Worsened income inequality: inflation is a regressive tax on the people that does not take into account the taxpayers’ “ability to pay”. As such, there is a redistribution of wealth from the poor to the rich.

**Money printing costs: inflation requires more currency notes to be printed and this raises the government’s printing costs.**

**In the long run, the Phillips curve will be vertical at the natural rate of unemployment if**

the long-run supply curve is horizontal at the natural rate of inflation.

the long-run aggregate demand curve is vertical at potential GDP.

the long-run aggregate demand curve is horizontal at the natural rate of inflation.

**the long-run aggregate supply curve is vertical at potential GDP.**

**According to the monetarists, the measured unemployment rate can**

**be reduced below the natural rate only in the short run, and not without inflation.**

be reduced below the natural rate only in the long run, and only if the price level is constant.

be reduced below the natural rate only in the short run, and only if the price level is constant.

be reduced below the natural rate only in the long run, and not without inflation.

**If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?**

No, because cost-push inflation is caused by an increase in the cost of only one input.

Yes, because that is exactly the definition of cost-push inflation.

**No, because such a situation can also be caused by particular demand pressures in the economy.**

Yes, because this is exactly what happens in stagflation.



**The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause**

**an equal percentage change in nominal GDP.**

a larger percentage change in nominal GDP.

an equal percentage change in real GDP.

a smaller percentage change in nominal GDP.

**If input prices adjusted very slowly to output prices, the Phillips curve would be**

downward sloping.

vertical or nearly vertical.

upward sloping.

**horizontal or nearly horizontal.**

**If inflationary expectations increase, the short-run Phillips curve will**

become vertical.

become upward sloping.

**shift to the right.**

shift to the left.

**The record of a country's transactions in goods, services, and assets with the rest of the world is its \_\_\_\_\_; while the difference between a country's merchandise exports and its merchandise imports is the \_\_\_\_\_.**

current account; trade balance.

capital account; balance of payments.

balance of trade; capital account.

**balance of payments; balance of trade.**

**Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?**

If the capital account is in surplus, then the current account is likely to be in deficit.

If the current account is in deficit, then the capital account is likely to be in surplus.

If the current account is in balance, the capital account is also likely to be in balance.

**None of the above.**

**Which of the following statements is necessarily TRUE?**

A country runs a current account deficit if it imports more goods and services than it exports.

The sum of the current and capital accounts must be zero.

If both the current and capital accounts are in surplus, the exchange rate must appreciate.

**None of the above.**

**All currencies other than the domestic currency of a given country are referred to as**

reserve currencies.

near monies.

**foreign exchange.**

hard currency.

**Exchange rates that are determined by the unregulated forces of supply and demand are**

**floating exchange rates.**

pegged exchange rates.

fixed exchange rates.

managed exchange rates.

**If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because**

as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.

as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.

**as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.**

as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.

**The fall (rise) in value of one currency relative to another is**

a floating (fixing) of the currency.

**an appreciation (depreciation) of a currency.**

a depreciation (appreciation) of a currency.

a strengthening (weakening) of a currency.

**Which of the following would shift the demand curve for new textbooks to the right?**

A fall in the price of paper used in publishing texts.

A fall in the price of equivalent used text books.

**An increase in the number of students attending college.**

A fall in the price of new text books.

**Which of these measures the responsiveness of the quantity of one good demanded to an increase in the price of another good?**

Price elasticity.

Income elasticity.

**Cross-price elasticity.**

Cross-substitution elasticity.

**Assume that the current market price is below the market clearing level. We would expect:**

A surplus to accumulate.

Downward pressure on the current market price.

**Upward pressure on the current market price.**

Lower production during the next time period.

**The income elasticity of demand is the:**

Absolute change in quantity demanded resulting from a one-unit increase in income.

Percent change in quantity demanded resulting from the absolute increase in income.

**Percent change in quantity demanded resulting from a one percent increase in income.**

Percent change in income resulting from a one percent increase in quantity demanded.

**Which of the following statements about the diagram below is true?**

Demand is infinitely elastic.

**Demand is completely inelastic.**

Demand becomes more inelastic the lower the price.

Demand becomes more elastic the lower the price.

**In the long run, new firms can enter an industry and so the supply elasticity tends to be:**

**More elastic than in the short-run.**

Less elastic than in the short-run.  
Perfectly elastic.  
Perfectly inelastic.

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

A budget line.  
An isoquant.  
**An indifference curve.**  
A demand curve.

**The magnitude of the slope of an indifference curve is:**

**Called the marginal rate of substitution.**  
Equal to the ratio of the total utility of the goods.  
Always equal to the ratio of the prices of the goods.  
All of the above.

**Which of the following is a positive statement?**

Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.  
The minimum wage should not be increased, because to do so would increase unemployment.  
Smoking should be restricted on all airline flights.  
**None of the above.**

**A supply curve reveals:**

The quantity of output consumers are willing to purchase at each possible market price.  
The difference between quantity demanded and quantity supplied at each price.  
The maximum level of output an industry can produce, regardless of price.  
**The quantity of output that producers are willing to produce and sell at each possible market price.**

**A study of how increases in the minimum wage rate will affect the national unemployment rate is an example of**

descriptive economics.  
normative economics.

**macroeconomics.**

microeconomics.

**Aggregate supply is the total amount**

**of goods and services produced in an economy.**

produced by the government.

of products produced by a given industry.

of labour supplied by all households.

**The total demand for goods and services in an economy is known as**

**aggregate demand.**

national demand.

gross national product.

economy-wide demand.

**Deflation is**

an increase in the overall price level.

an increase in the overall level of economic activity.

a decrease in the overall level of economic activity.

**a decrease in the overall price level.**

**A recession is**

a period of declining prices.

**a period during which aggregate output declines.**

a period of declining unemployment.

a period of falling trade volumes.

**Involuntary unemployment means that**

people are not willing to work at the going wage rate.

**at the going wage rate, there are people who want to work but cannot find work.**

there are some people who will not work at the going wage rate.

there is excess demand in the labour market.

**A cut in the income tax rate designed to encourage household consumption is an example of**

**expansionary demand-side policy.**

contractionary demand-side policy.

expansionary supply-side policy.

contractionary supply-side policy.

**A cut in the tax rate designed to reduce the cost of capital and hence encourage business investment is an example of**

expansionary demand-side policy.

contractionary demand-side policy.

**expansionary supply-side policy.**

contractionary supply-side policy.

**Macroeconomics is the branch of economics that deals with**

**the economy as a whole.**

imperfectly competitive markets.

only the long run adjustments to equilibrium in the economy.

the functioning of individual industries and the behaviour of individual decision-making units - business firms and households.

**A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called:**

**New-Keynesians.**

Keynesians.

Monetarists.

The Classical school.

**Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of**

economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.

fine tuning during the 1960s.

the economy to grow at a rapid rate during the 1950s.

**the Classical model to explain the prolonged existence of high unemployment during the Great Depression.**

**Keynes believed falling wages were not a solution to persistent unemployment because**

falling wages demoralised workers.

**this would reduce the purchasing power of labourers as consumers. This in turn would weaken firms' prospects of selling more goods, hence inducing them to cut their investment (and hence labour) demand.**

the unemployment was caused by frictional and structural factors.

wages would fall more than required to clear the labour market.

**The practice of using fiscal and monetary policy to stabilise the economy is known as**

**fine tuning of demand**

monetarism

laissez faire economics

supply side economics

**According to Classical models, the level of employment is determined primarily by**

interest rates.

the level of prices.

**the level of aggregate supply in the economy**

the level of aggregate demand for goods and services.

**According to Keynes, the level of employment is determined by**

interest rates.

the level of prices.

the level of aggregate supply in the economy

**the level of aggregate demand for goods and services.**

**According to the Classical model, unemployment**

**could not persist because wages would fall to eliminate the excess supply of labour.**

could persist for long periods of time because wages are not flexible.

could be eliminated only through government intervention.

could never exist.

**To get the economy out of a slump, Keynes believed that the government should**

increase both taxes and government spending.  
increase taxes and/or decrease government spending.  
cut both taxes and government spending.

**decrease taxes and/or increase government spending.**

**Aggregate demand refers to the total demand for all domestically produced goods and services in an economy generated from**

the household and government sectors.

the household sector.

all sectors except the rest of the world.

**all sectors including the rest of the world.**

**Government policies that focus on increasing production rather than demand are called:**

fiscal policies.

monetary policies.

incomes policies.

**supply-side policies.**

**Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are**

market prices.

**sticky prices.**

fixed prices.

regulatory prices.

**The economists who emphasised wage-flexibility as a solution for unemployment were**

Monetarists.

New-Keynesians.

**Classical economists.**

Keynesians.

According to the Classical economists, the economy

requires fine tuning to reach full employment.

should not be left to market forces.



will never be at full employment.  
**is self correcting.**

**Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain**

**stagflation in the late 1970s.**

demand-pull inflation in the 1960s.

low growth rates in the 1950s.

the prolonged existence of high unemployment during the Great Depression.

**Keynes' explanation for low firm investment during the Great Depression was**

low savings, which placed a constraint on investment

high real borrowing rates, which discouraged firm borrowing

**high savings, which left consumers with less money to spend on goods and services produced by firms**

A permanent change in Europe's corporate ownership structures.

**Rapid increases in the price level during periods of recession or high unemployment are known as**

slump.

**stagnation.**

stagflation.

inflation.

**The hypothesis that people know the 'true model' of the economy and that they use this model and all available information to form their expectations of the future is the**

**rational-expectations hypothesis.**

active-expectations hypothesis.

static-expectations hypothesis.

adaptive-expectations hypothesis.

**Neo-Classical theories were an attempt to explain**

how unemployment could have persisted for so long during the Great Depression.

the stagflation of the 1970s.

**why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.**

the increase in the growth rate of real output in the 1950s.

**A group of modern economists who believe that markets clear very rapidly and that expanding the money supply will always increase prices rather than employment are the**

New-Keynesians.

Keynesians.

**Monetarists.**

The Classical school.

**Say's law states that:**

**Supply creates its own demand.**

Demand creates its own supply.

There is no such things as a free lunch

Macroeconomic policy activism is essential to ensure full-employment.

**The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:**

AS: fully horizontal; AD: downward sloping

**AS: horizontal only till the full capacity level; AD: downward sloping**

AS: vertical; AD: upward sloping

AS: horizontal; AD: vertical

**A price taker is:**

A firm that accepts different prices from different customers.

A consumer who accepts different prices from different firms.

**A firm that cannot influence the market price.**

Both (b.) and (c.).

**Which of following is a key assumption of a perfectly competitive market?**

Firms can influence market price.

Commodities have few sellers.

It is difficult for new sellers to enter the market.

**Each seller has a very small share of the market.**

**A firm maximizes profit by operating at the level of output where:**

Average revenue equals average cost.

Average revenue equals average variable cost.

Total costs are minimized.

**Marginal revenue equals marginal cost.**

**The demand curve facing a perfectly competitive firm is:**

Downward-sloping and less flat than the market demand curve.

Downward-sloping and more flat than the market demand curve.

**Perfectly horizontal.**

Perfectly vertical.

**Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a \_\_\_\_\_ price and sell a \_\_\_\_\_ quantity:**

Higher; larger

Lower; larger

**Higher; smaller**

Lower; smaller

**The monopolist has no supply curve because:**

**The quantity supplied at any particular price depends on the monopolist's demand curve.**

The monopolist's marginal cost curve changes considerably over time.

The relationship between price and quantity depends on both marginal cost and average cost.

There is a single seller in the market.

**A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:**

First-degree price discrimination.

Second-degree price discrimination.

**Third-degree price discrimination.**

Pricing at each consumer's reservation price.

**For which of the following market structures is it assumed that there are barriers to entry?**

- Perfect competition
- Monopolistic competition
- Monopoly**
- All of the above

**A market with few entry barriers and with many firms that sell differentiated products is:**

- Purely competitive.
- A monopoly.
- Monopolistically competitive.**
- Oligopolistic.

**Which of the following does not refer to macroeconomics?**

- The study of aggregate level of economic activity.
- The study of causes of unemployment.
- The study of causes of inflation.
- The study of the economic behavior of individual decision-making units such as consumers, resource owners and business firms.**

**The study of economics is primarily concerned with:**

- Demonstrating that capitalistic economies are superior to socialistic economies.
- Determining the most equitable distribution of society's output.
- Keeping private businesses from losing money.
- Choices which are made in seeking to use scarce resources efficiently.**

**Opportunity cost is:**

- That which we forego, or give up, when we make a choice or a decision.**
- A cost that cannot be avoided, regardless of what is done in the future.
- The additional cost of producing an additional unit of output.
- The additional cost of buying an additional unit of a product.

**Periods of less than full employment correspond to:**

- Points outside the ppf.(production possibility frontier).

**Points inside the ppf.**

Points on the ppf.

Either points inside or outside the ppf.

**In a free-market economy the allocation of resources is determined by:**

votes taken by consumers

a central planning authority

**Consumer preferences**

the level of profits of firms

**A firm produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs that firm produces:**

Have many complementary goods.

Have few substitutes.

Have few complementary goods.

**Are normal goods.**

**According to law of demand, a demand curve is:**

Horizontal

Vertical

**Downward sloping**

Directly related to law of supply

**A rational decision maker will take only those actions for which the marginal benefit:**

Is positive.

Is at its maximum level.

Is less than marginal cost.

**Is greater than or equal to the expected marginal cost.**

**All of the following are determinants of supply except:**

Price

**Income levels**

Objectives of the firm

Level of technology

### **Normative economics:**

Deals solely with the facts

Is never studied in the colleges

**Involves opinions and interpretations**

Is clearly preferable to positive economics

### **The transformation of resources into economic goods and services is:**

Technical efficiency

Input

**Production**

Increasing returns

### **Economists use the term utility to mean**

the value of a product before it has been advertised.

**the satisfaction a consumer obtains from a good or service.**

any characteristic of a good or service which cannot be measured.

the contribution a good or service makes to social welfare.

### **Economists use the term marginal utility to mean**

additional satisfaction gained divided by additional cost of the last unit.

**additional satisfaction gained by the consumption of one more unit of a good.**

total satisfaction gained when consuming a given number of units.

the process of comparing marginal units of all goods which could be purchased.

### **The law of diminishing marginal utility states that**

total satisfaction will decrease as more units of the good are consumed.

**the satisfaction derived from each additional unit of a good consumed will decrease.**

total utility will become negative.

Both the first and third option.

### **By total consumer surplus economists mean (in P-Q space)**

**The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.**

the area between the average revenue and marginal revenue curves.  
the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).  
A and C.

**The equation for Rida's demand curve for bouquets of flowers is  $P = 40 - 2Q$ . If the price of a bouquet is Rs18, her consumer surplus will be**

- Rs198
- Rs121.
- Rs11.**
- Rs242.

**The price of an ice cream cone is \$1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to \$1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?**

**The marginal utility of the fourth ice cream cone per week must be worth less than \$1.25 to you.**

The total utility of the four ice cream cones per week must be worth less than \$5.75 ( $=3*\$1.50 + \$1.25$ ) to you.

The total utility of the four ice cream cones per week must be less than \$5.00 ( $3*\$1.25 + \$1.25$ ) to you.

None of the above.

**Economists have used the idea of diminishing marginal utility to explain why**

demand curves slope downwards.

demand curves become flatter at lower prices.

demand curves are inelastic.

**Both the first and second option.**

**A consumer will buy more units of a good if the value of the good's**

total utility is greater than price.

marginal utility is less than price.

**marginal utility is greater than price.**

total utility is less than price.

**The diamond-water paradox can be explained by suggesting that the price of a product is determined by**

consumer incomes.  
**its marginal utility.**  
consumer surplus.  
diminishing marginal utility.

**A utility-maximising consumer changes her spending on goods X and Y until**

$MU_x = MU_y$   
 $P_x (MU_x) = P_y (MU_y)$   
 $TU_x/P_x = TU_y/P_y$   
 **$MU_x (P_y) = MU_y (P_x)$**

**The  $MU_x/MU_y$  ratio is 10 and the  $P_x/P_y$  ratio is 8, so the consumer should buy**

less X and more Y.  
more X and more Y.  
**more X and less Y.**  
less X and less Y.

**Economists define an indifference curve as the set of points**

at which the consumer is in equilibrium as the consumer's income changes.  
which yield the same marginal utility.  
**which yield the same total utility.**  
At which the consumer is in equilibrium as prices change.

**Which of the following is a property of an indifference curve?**

the marginal rate of substitution is constant as you move along an indifference curve.  
marginal utility is constant as you move along an indifference curve.  
**it is convex to the origin.**  
total utility is greatest where the 45 degree line cuts the indifference curve.

**The limits imposed on household choices by income, wealth, and product prices are captured by the**

**budget constraint.**  
choice set.



assumption of perfect knowledge.  
preference set.

**Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?**

- 50 units of clothing and 50 units of food.
- 20 units of clothing and 50 units of food.
- 10 units of clothing and 25 units of food.
- 0 units of clothing and 50 units of food.**

**If a household's money income is doubled,**

- the budget constraint will shift in and parallel to the old one.
- the budget constraint is not affected.
- the budget constraint will swivel outward at the Y-intercept.
- the budget constraint will shift out parallel to the old one.**

**The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is**

- the income-consumption curve.**
- the Engel curve.
- the demand curve.
- the income-demand curve.

**The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is**

- the Engel curve.
- the demand curve for X.
- the substitution curve.
- the price-consumption curve for X.**

**The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:**

- the Engel curve.
- the demand curve for X.

**the substitution curve.**

the price-consumption curve for X.

**If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a**

inferior good.

Giffen good.

**normal good.**

superior good.

**If the price (or budget) line has a slope of -2 and it cuts indifference curve ICa at points P and R (given that the slope of ICa at point P is -4 and at point R is -1), the consumer can maximize utility by:**

choosing consumption bundle P

choosing consumption bundle R

**moving to a higher indifference curve**

we don't enough information to answer the question

**Indifference curves cannot**

be L shaped

be straight lines

**intersect**

all of the above

**The main problem with marginal utility analysis is:**

that it cannot solve problems involving more than two goods

**its cardinal measurement of utility**

its inability to explain the diamond-water paradox

all of the above

**This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is  $< 1$ , and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?**

She is risk averse  
She is risk neutral  
She is risk loving

**We do not have enough information to answer the question**

**The concept of diminishing marginal utility of income (DMUy) helps explain:**

why a marginal dollar might have higher utility for a pauper than a millionaire  
why the total utility curve (in Utility-Income space) is convex  
why the average consumer is risk-averse

**all of the above**

**“Moral hazard” and “adverse selection” are problems related to asymmetric information, that arise**

in ex-ante and ex-post contexts, respectively  
**in ex-post and ex-ante contexts, respectively**  
in ex-ante contexts  
in ex-post contexts

**Profit-maximising firms want to maximize the difference between**

**total revenue and total cost.**  
marginal revenue and marginal cost.  
marginal revenue and average cost.  
total revenue and marginal cost.

**Which statement is FALSE?**

Fixed costs do not depend on the firm's level of output.  
**Fixed costs are zero if the firm is producing nothing.**  
Fixed costs are the difference between total costs and total variable costs.  
There are no fixed costs in the long run.

**Which of the following is most likely to be a variable cost for a firm?**

The monthly rent on office space that it leased for a year.  
The franchiser's fee that a restaurant must pay to the national restaurant chain.  
The interest payments made on loans.  
**Workers' wages.**

**The costs that depend on output in the short run are**

total variable costs only.

**both total variable costs and total costs.**

total costs only.

total fixed cost only.

**The short run, as economists use the phrase, is characterized by**

a period where the law of diminishing returns does not hold.

**at least one fixed factor of production, and firms neither leaving nor entering the industry.**

all inputs being variable.

no variable inputs - that is all of the factors of production are fixed.

**Diminishing marginal returns implies**

increasing average fixed costs.

decreasing marginal costs.

decreasing average variable costs.

**increasing marginal costs.**

**Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?**

If AP is at a maximum, then MP is also.

If TP is declining then AP is negative.

**If AP exceeds MP, then AP is falling.**

If  $AP = MP$ , then total product is at a maximum.

**If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is \_\_\_\_\_ and the average product of the third worker is \_\_\_\_\_.**

270; 160

3.33; 10

**10; 30**

30; 10

Engineers for Imran Bike Company have determined that a 15% increase in “all” inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause \_\_\_\_\_ as output increases.

Long-run average costs to increase

Long-run marginal costs to increase

**Long-run average costs to remain constant**

Long-run average costs to decrease

Suppose Isa Khan’s Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be

upward sloping to the right.

**U-shaped.**

horizontal.

downward sloping to the right.

A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is

an isocost line.

a production function.

**an isoquant.**

an indifference curve.

The rate at which a firm can substitute capital for labour and hold output constant is the

law of diminishing marginal returns.

**marginal rate of technical substitution.**

marginal rate of substitution.

marginal rate of production.

A graph showing all the combinations of capital and labour available for a given total cost is the

budget constraint.

isoquant.

expenditure set.

**isocost line.**

**The formula for average fixed costs is**

$dTFC/dq$ .

**$TFC/q$ .**

$q/TFC$ .

$TFC - q$ .

**The formula for AVC is**

$q/TVC$ .

$dTVC/dq$ .

$dq/dTVC$ .

**$TVC/q$ .**

**Marginal revenue is**

the additional profit the firm earns when it sells an additional unit of output.

**the added revenue that a firm takes in when it increases output by one additional unit.**

the difference between total revenue and total costs.

the ratio of total revenue to quantity.

**A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is**

Rs 15,000.

Rs 25,000.

**Rs 35,000.**

Zero.

**The amount of profit a firm makes can be shown on a diagram using**

**the AC and AR curves.**

the MR and AR curves.

the AC and MC curves.

the MR and MC curves.

**A firm's choice of profit-maximising output can be shown on a diagram using**

the AC and AR curves.  
the MR and AR curves.  
the AC and MC curves.  
**the MR and MC curves.**

**A firm will shut down in the short run if**

**total variable costs exceed total revenues.**

average cost exceeds price.  
total costs exceed total revenues.  
it is suffering a loss.

**If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on**

**how much of each input to use.**

how much to spend on advertising.  
what price to charge.  
the design of the product.

**Market power is**

a firm's ability to charge any price it likes.

**a firm's ability to raise price without losing all demand for its product.**

a firm's ability to sell any amount of output it desires at the market-determined price.  
a firm's ability to monopolise a market completely.

**When \_\_\_\_\_ substitutes exist, a monopolist has \_\_\_\_\_ power to raise price.**

more; more  
fewer; less  
no; infinite  
**more; less**

**If a firm has some degree of market power, then output price**

**becomes a decision variable for the firm.**

is determined by the actions of other firms in the industry.  
no longer influences the amount demanded of the firm's product.  
is guaranteed to be above a firm's average cost.

### **Relative to a competitively organised industry, a monopoly**

produces less output, charges lower prices and earns economic profits.

produces more output, charges higher prices and earns economic profits.

**produces less output, charges higher prices and earns economic profits.**

produces less output, charges lower prices and earns only a normal profit.

### **The cosmetics industry is not considered by economists to be a good example of perfect competition because**

**firms spend a large amount of money on advertising.**

profit margins are very high for both producers and retailers.

there are a very large number of firms in the industry.

there are many government health controls on cosmetic products.

### **If firms can neither enter nor leave an industry, the relevant time period is the**

long run.

immediate run.

intermediate run.

**short run.**

### **In the long run**

**there are no fixed factors of production.**

all firms must make economic profits.

a firm can vary all inputs, but it cannot change the mix of inputs it uses.

a firm can shut down, but it cannot exit the industry.

### **A normal rate of profit**

is the rate of return on investments over the interest rate on risk-free government bonds.

**is the rate that is just sufficient to keep owners or investors satisfied.**

Means zero return for owners or investors.

is the difference between total revenue and total costs.

### **If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then**



total costs exceed normal profit.

**the firm is earning an economic profit.**

normal profit is zero.

total costs exceed total revenue.

**Economic profits are**

**the difference between total revenue and total costs.**

anything greater than the normal opportunity cost of investing.

a rate of profit that is just sufficient to keep owners and investors satisfied.

the opportunity costs of all inputs.

**The slope of the marginal revenue curve is**

the same as the slope of the demand curve.

half as steep as the demand curve.

**twice as steep as the demand curve.**

always equal to one.

**In a monopoly, marginal revenue is**

less than price at low levels of output and greater than price at high levels of output.

always greater than price.

**lower than price for all units other than the first.**

always equal to price.

**Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has**

maximised the difference between marginal revenue and marginal cost.

maximised its total revenue.

**equated marginal revenue and marginal cost.**

set price equal to its average cost.

**An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called**

an economies of scale monopoly.

**a natural monopoly.**

a government franchise monopoly.

a fixed cost monopoly.

**How can a government regulate a monopoly firm making supernormal profits so that a “socially optimal” outcome obtains:**

**set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.**

set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.

set the firm’s price (and quantity) corresponding to the point where the MR curve intersects the AC curve and  $AC > MR$  after that point.

set the firm’s price (and quantity) corresponding to the point where the AR curve intersects the MC curve and  $MC > AR$  after that point.

**Monopolistic competition differs from perfect competition primarily because**

in perfect competition, firms can differentiate their products.

**in monopolistic competition, firms can differentiate their products.**

in monopolistic competition, there are relatively few firms.

in perfect competition, there are no barriers to entry.

**In monopolistic competition, firms achieve some degree of market power**

**by producing differentiated products.**

because of barriers to entry into the industry.

because of barriers to exit from the industry.

by virtue of size alone.

**A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover**

**advertising costs.**

fixed costs.

marginal costs.

variable costs.

**A firm in a monopolistically competitive industry**

must lower price to sell more output.

sells a fixed amount of output regardless of price.

can sell an infinite amount of output at the market-determined price.

**must raise price to sell more output.**

**The “long-run” equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures**

**firms will only earn a normal profit.**

the efficient output level will be produced in the long run.

firms will be producing at minimum average cost.

firms realise all economies of scale.

**A form of industry structure characterised by a few firms each large enough to influence market price is**

monopolistic competition.

monopoly.

perfect competition.

**oligopoly.**

**When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is**

monopolistically competitive.

**oligopolistic.**

perfectly competitive.

indeterminate from this information.

**An industry that has a relatively small number of firms that dominate the market is called**

a natural monopoly.

a colluding industry.

a merged industry.

**a concentrated industry.**

**Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will \_\_\_\_\_ and the total output produced will \_\_\_\_\_.**

increase; decrease

increase; increase

decrease; decrease

**decrease; increase**

**A group of firms that gets together to make price and output decisions is called**

a non-collusive oligopoly.

price leadership.

**a cartel.**

a concentrated industry.

**In which of the following circumstances would a cartel be most likely to work?**

The coffee market, where the product is standardised and there are a large number of coffee growers.

The automobile industry, where there are few producers but there is great product differentiation.

**The market for copper, where there are very few producers and the product is standardised.**

The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.

**A collusive oligopoly (with a dominant price leader) will produce a level of output**

that would prevail under perfect competition.

between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.

between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.

**equal to what a monopolist would choose in the same industry.**

**The kinked demand curve model of oligopoly assumes that the price elasticity of demand**

**in response to a price increase is more than the elasticity of demand in response to a price decrease.**

is constant regardless of whether price increases or decreases.

is infinite if price increases and zero if price decreases.

in response to a price increase is less than the elasticity of demand in response to a price decrease.

**Price discrimination involves**

firms selling different products at different prices to different consumers.

**firms selling the same product at different prices to different consumers.**

consumers discriminating between different sellers on the basis of the different prices they quote for different products.

consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

### **Price discrimination often favours public interest because it**

allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.

opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.

allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.

**all of the above**

### **Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:**

#### **Strategic interaction**

Prisoner's dilemma

Price leadership

None of the above

### **Fiscal policy refers to:**

The actions of the central bank in controlling the money supply.

**The spending and taxing policies used by the government to influence the economy.**

The government's regulation of financial intermediaries.

None of the given options.

### **Disposable income is:**

Total income plus transfer payments

Total income minus saving.

Total income plus net taxes.

**Total income minus net taxes.**

### **The deficit tends to decrease when:**

GDP decreases slightly.

GDP decreases rapidly.

**GDP increases.**

GDP remains unchanged.

**Money or paper currency serves at least \_\_\_\_\_ functions:**

Four

**Three**

Five

Seven

**The economic logic behind granting central banks independence from government in the conduct of monetary policy is:**

To eliminate seignior age.

To allow open market operations.

**To enhance the credibility of monetary policy.**

None of the above.

**An expansionary fiscal policy can:**

**Raise the national debt.**

Decrease the national debt.

Have no effect on national debt.

None of above.

**Which is high powered money?**

M1

M2

**Mo**

None

**There are \_\_\_\_\_ major instruments of monetary policy:**

Three

**Four**

Five

None

**The rate at which central bank lends to commercial banks is known as:**

Reserve rate.

**Discount rate.**

Open market operation.

None.

**Identify the three motives of money demand:**

Accumulative, speculative, precautionary

**Speculative, transaction, precautionary**

Precautionary special, transaction

None

**Microeconomics is concerned with:**

The establishing of an overall view of the operation of the economic system.

**A detailed examination of specific economic units which comprise the economic system.**

The aggregate or total levels of income, employment and output.

None of the given option

**What is the difference between the positive and the normative in economics?**

A positive question is one for which the answer is yes while normative question is one for which the answer is no.

Positive questions concern matters of opinion, while normative questions concern matters of fact.

**Positive questions concern matters of fact, while normative questions concern matters of opinion.**

Economic theory can answer normative questions, but not positive ones.

**Which of the following is characteristic of a product whose demand is elastic?**

The price elasticity coefficient is less than 1.

Total revenue decreases if price decreases.

Buyers are relatively insensitive to price changes.

**The percentage change in quantity is greater than the percentage change in price.**

**A Giffen good:**

Is a good that people buy more of it as their incomes fall.

**Is a good which people buy more of as its price increases.**

Has a vertical demand curve.

Is another name for a free good.

**An indifference curve is a curve which shows the different combinations of two products that:**

Give a consumer equal marginal utilities.

**Give the customer equal total utilities.**

Cost a consumer equal amounts.

Have the same prices.

**A study shows that the coefficient of the cross price elasticity of Coke and Sprite is negative. This information indicates that Coke and Sprite are:**

Normal goods.

**Complementary goods.**

Substitute goods.

Independent goods.

**Elasticity of supply is defined as the ratio of:**

Price over quantity supplied.

Change in price over change in quantity supplied.

**Percentage change in quantity supplied over percentage change in price.**

Percentage change in price over percentage change in quantity supplied.

**The change in total revenue divided by a one-unit change in output sold is known as:**

Average revenue.

Average profit.

Marginal cost.

**Marginal revenue.**

**Marginal cost:**

**Is the cost of hiring the last unit of labor**



Is another word for average cost  
Is rising when marginal product is rising  
Should be avoided

**in perfect competition, product price is:**

Greater than marginal revenue.  
**Equal to marginal revenue.**  
Equal to total revenue.  
Greater than total revenue.

**According to the Laffer curve, as tax rates increase, tax revenues**

decrease continuously.  
initially decrease and then increase.  
rise continuously.  
**initially increase and then decrease.**

**The government imposes a new income tax legislation under which every male taxpayer must pay 15% of his income as taxes, while every female taxpayer must pay 20% of her income as taxes. Such tax legislation violates which equity principle?**

**Both horizontal equity and vertical equity**  
Vertical equity only  
Horizontal equity only  
Neither

**A 15% VAT is a(n):**

Proportional income tax.  
Fixed excise duty.  
**Ad valorem indirect tax.**  
None of the above.

**Tax incidence is the**

**ultimate distribution of a tax's burden.**  
measure of the impact the tax has on employment and output.  
behaviour of shifting the tax to another party.  
structure of the tax.

**You know that all taxes are distortionary. Under what conditions will this knowledge lead you to oppose the imposition of every single tax in the economy?**

**If you live in a 1st best world**

If you live in a 2nd best world

If the tax rates on some of the items are prohibitively high

Either of the above

**Let us say assume the Pakistani government is facing a fiscal deficit. Which of the following would not constitute a possible method of financing this deficit?**

printing rupees (borrowing from the central bank)

**selling dollars in the foreign exchange market**

imposing new taxes or raising existing tax rates

borrowing from an international financial institution

**Which of the following is not a correct argument against a fiscal policy expansion – say a tax cut – aimed at lifting aggregate demand?**

The expansion might become pro-cyclical ex-post, given the lag time required to change fiscal policy.

Fiscal policy works with a lag, thus a tax cut introduced today would not have an expansionary effect on aggregate demand till many months later.

**The fiscal expansion would increase distortion in the economy.**

Lower taxes would increase the government's borrowing requirement, which in turn would cause interest rates to rise, which in turn would i) cause the exchange rate to appreciate, which in turn would cause the current account to move into deficit, and ii) crowd out private investment.

**The increase in base money divided by the corresponding induced increase in commercial bank deposits is the**

bank's line of credit.

**reserve ratio.**

current ratio.

money multiplier.

**If the State Bank of Pakistan wished to pursue a 'tight' monetary policy, it would**

lower the required reserve ratio and the statutory liquidity ratio.

**lower interest rates.**

buy government securities on the open market.  
sell government securities on the open market.

**An item designated as money that is intrinsically worthless could be**

**a currency note.**

a silver coin.

a barter item.

any tradeable commodity.

**A checking deposit (or current account) held at a commercial bank is considered \_\_\_\_\_ of that bank.**

an asset.

net worth.

**a liability.**

capital.

**Which of the following activities is one of the responsibilities of the State Bank of Pakistan?**

**Monitoring the financial health of banks and non-bank financial institutions.**

Auditing the various agencies and departments of the government.

Issuing bonds on international capital markets to finance the fiscal deficit.

Loaning money to other countries that are friendly to Pakistan.

**A bank has excess liquidity reserves to lend but is unable to find a willing borrower. This will \_\_\_\_\_ the size of the money multiplier.**

**reduce**

increase

have no effect on

double

**The quantity of money demanded increases with income. Thus if income increases, the opportunity cost of holding money must go up in order to reduce money demand and re-establish equilibrium in the money market. This relation is captured by:**

**an upward sloping LM curve.**

a downward sloping L curve.

a downward sloping IS curve.

the circular flow of money in the economy.

**When economists speak of the 'demand for money,' which of the following questions are they asking?**

**How much cash do you wish you could have?**

How much wealth would you like?

How much income would you like to earn?

What proportion of your financial assets do you want to hold in non-interest bearing forms?

**Which of the following will not cause money supply to expand, given a fully floating exchange rate regime and a fixed supply of dollars in the market**

The central bank buying foreign currency in the foreign exchange market  
redemption of central bank liquidity paper

**build-up of commercial banks' deposits held with the central bank**

decrease in the central bank discount rate

**Which of the following events will lead to a decrease in the demand for money?**

An increase in the level of aggregate output.

A decrease in the supply of money.

A decrease in the interest rate.

**A decrease in the price level.**

**Which of the following is neither a determinant of the slope of the IS curve nor a determinant of the slope of the LM curve?**

**the sensitivity of interest rates to investment**

the sensitivity of money demand to income

the sensitivity of money demand to interest rates

the sensitivity of income to investment

**Given a Keynesian world, a cut in taxes coupled with a lower reserve ratio for banks would have what effect on equilibrium income and interest rate?**

Both income and the interest rate will remain unchanged

income will come down, but the interest rate will go up

**income will go up, but the effect on the interest rate cannot be predicted**

interest rates will go down, but the effect on income cannot be predicted

**If the government increases its spending, but this causes prices to rise, what will “eventually” happen to the equilibrium income and interest rate?**

Both income and the interest rate will remain unchanged  
**income will come down, but the interest rate will go up**  
income will go up, but the effect on the interest rate cannot be predicted  
interest rates will go down, but the effect on income cannot be predicted

**If the income elasticity of money demand and the Keynesian multiplier, both increase in an economy (ceteris paribus), how will the relative effectiveness of monetary and fiscal policy change?**

Fiscal policy will become relatively more effective than monetary policy  
**Fiscal policy will become relatively less effective than monetary policy**  
The relative effectiveness of fiscal and monetary policy will remain unchanged  
Both fiscal and monetary policy will become more effective.

**The intersection of the IS and LM curves captures:**

the equilibrium of the demand and supply sides of the economy  
the equivalence of monetary and fiscal policy  
**joint equilibrium in the goods and money markets**  
all of the above

**The concept of “interdependence of markets” can refer to the interdependence between:**

two or more factor markets  
goods and factor markets  
goods markets  
**all of the above**

**The 'law of demand' implies that**

**as prices fall, quantity demanded increases.**  
as prices fall, demand increases.  
as prices rise, quantity demanded increases.  
as prices rise, demand decreases.

**What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?**

**the substitution effect.**

the ceteris paribus effect.

the total price effect.

the income effect.

**The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:**

A's consumers have had an increase in income.

**the price of A has increased.**

A's advertising is not as effective as in the past.

the price of rival brand B has increased.

**Demand curves in P-Q space are derived while holding constant**

consumer tastes and the prices of other goods.

incomes, tastes, and the price of the good.

incomes and tastes.

**incomes, tastes, and the prices of other goods.**

**Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are**

perfect substitutes.

unrelated goods.

**complements.**

substitutes.

**If the demand for coffee decreases as income decreases, coffee is**

**A normal good.**

A complementary good.

An inferior good.

A substitute good.

**Which of the following will NOT cause a shift in the demand curve for compact discs?**

a change in the price of pre-recorded cassette tapes.  
a change in wealth.  
a change in income.

**a change in the price of compact discs.**

**Which of the following is consistent with the law of supply?**

As the price of calculators rises, the supply of calculators increases, ceteris paribus.

As the price of calculators falls, the supply of calculators increases, ceteris paribus.

**As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.**

As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

**The price of computer chips used in the manufacture of personal computers has fallen. This will lead to \_\_\_\_\_ personal computers.**

a decrease in the supply of

a decrease in the quantity supplied of

**an increase in the supply of**

an increase in the quantity supplied of

**When there is excess demand in an unregulated market, there is a tendency for**

quantity demanded to increase.

quantity supplied to decrease.

price to fall.

**price to rise.**

**Equilibrium in the market for good A obtains**

when there is no surplus or shortage prevailing in the market

where the demand and supply curves for A intersect

when all of what is produced of A is consumed

**all of the above**

**A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by**

a decrease in supply.

**a fall in income.**

a fall in the price of a complementary good.  
a fall in the number of substitute goods.  
Assume the good is normal

**A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by**

a fall in the price of a complementary good.  
a fall in income.  
a change in tastes such that consumers prefer the good more.  
**a rise in the number of substitute goods.**  
Assume the good is normal

**A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by**

**an increase in supply.**  
a rise in income.  
a rise in the price of a complementary good.  
a fall in the number of substitute goods.  
Assume the good is normal

**When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as**

price fixing.  
quantity setting.  
quantity adjustment.  
**price rationing.**

**How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?**

2  
4  
**8**  
16

**What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right**



**price falls unambiguously but the effect on quantity cannot be determined**

**both price and quantity falls unambiguously**

quantity falls unambiguously but the effect on price cannot be determined

the effect on both price and quantity cannot be determined

**What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left**

price falls unambiguously but the effect on quantity cannot be determined

**B both price and quantity falls unambiguously**

**quantity falls unambiguously but the effect on price cannot be determined**

the effect on both price and quantity cannot be determined

**A price ceiling imposed by the government can cause a shortage (excess demand)**

when the price ceiling is above the free (or unregulated) market price

**when the price ceiling is below the free (or unregulated) market price**

when the price ceiling is equal to the free (or unregulated) market price

either of the above

**What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?**

Price falls, quantity rises

**Price rises, quantity falls**

Both price and quantity fall

Both price and quantity rise

**A price floor is**

a maximum price usually set by government, that sellers may charge for a good or service.

**a minimum price usually set by government, that sellers must charge for a good or service.**

the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.

the minimum price that consumers are willing to pay for a good or service.

**The need for rationing a good arises when**

there is a perfectly inelastic demand for the good.  
supply exceeds demand.

**demand exceeds supply.**

a surplus exists.

**If the “regulated-market” price is below the equilibrium (or “free-market” price) price,**

**the quantity demanded will be greater than quantity supplied.**

demand will be less than supply.

quantity demanded will be less than quantity supplied.

quantity demanded will equal quantity supplied.

**If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that**

**more workers would become employed.**

there would be more unemployment.

the costs and prices of firms employing cheap labour would increase.

wages in general would fall as employers tried to hold down costs.

**Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce**

**are normal goods.**

have few complementary goods.

have many complementary goods.

have few substitutes.

**When the decrease in the price of one good causes the demand for another good to decrease, the goods are**

complements.

normal.

inferior.

**substitutes.**

**The price elasticity of demand is the**

**ratio of the percentage change in quantity demanded to the percentage change in price.**

ratio of the change in price to the change in quantity demanded.

ratio of the change in quantity demanded to the change in price.

ratio of the percentage change in price to the percentage change in quantity demanded.

**The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:**

inelastic.

perfectly inelastic.

**elastic.**

perfectly elastic.

**The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is**

**elastic.**

inelastic.

unitarily elastic

perfectly elastic

**If the cross-price elasticity of demand between two goods is negative, then the two goods are**

unrelated goods.

substitutes.

**complements.**

normal goods.

**If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is**

-4.

4.

-0.25.

**0.25.**

**The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?**

This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.

**The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time.**

This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.

No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.

**The burden (incidence) of a tax will fall mainly on the producers if:**

The producers are the ones legally obliged to pay the tax.

**Supply is inelastic and demand is elastic.**

Demand is inelastic and supply is elastic.

There are many producers in the market.

**Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?**

**Inferior goods.**

Normal goods.

Substitute goods.

Complementary goods.

**If total revenue rises by 10% when price increases by 5%, this means:**

**demand is price inelastic**

demand is price elastic

demand is unit elastic

demand is perfectly inelastic

**If a 5% increase in price causes no change in total revenue, this means:**

demand is price inelastic

demand is price elastic

**demand is unit elastic**

demand is perfectly inelastic

**Which of the following statements is true:**

Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.

Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.

**We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range**

A straight line demand curve with a slope of -1 delivers unit elasticity.

**When firms advertise their product, they are trying to:**

Shift the demand curve to the right

Make the demand curve steeper

Make demand for the product more inelastic

**All of the above**

**“It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy.”**

False. A good can only have one characterization in an economy, normal or inferior, not both

False. Milk is always and everywhere a normal good.

**True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.**

True. Some people in the economy like milk, others don't.

**A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:**

the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high

Z's exports grow at a slower rate than the rate of growth of the world income; Z's

imports rise at a faster rate than the rate of growth of Z's income

Z's terms of trade (price of exports / price of imports) deteriorate

**All of the above.**

**“The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems.” This most closely illustrates which elasticity concept:**

Price elasticity of demand  
Price elasticity of supply  
Income elasticity of demand

**Cross price elasticity of demand**

**The theory of aggregate supply is one of the most controversial in macroeconomics because:**

modern models, while similar in their starting points, reach widely different results in explaining the AS curve

economists cannot agree whether the Keynesian or the classical AS curve is a better reflection of reality

economists cannot agree whether wages are completely flexible or rigid in the long run

economists cannot agree whether wages are completely flexible or rigid in the short run

**economists do not completely understand why wages and prices are slow to adjust after demand-side disturbances**

**If the aggregate supply curve can be seen as an adequate description of the mechanism by which prices rise or fall over time then:**

**fixed prices in the short run mean the aggregate supply curve is horizontal**

variable prices in the long run mean the aggregate supply curve is positively sloped

the vertical long-run aggregate supply curve is a result of the classical quantity theory of money

all of the above

only B) and C)

**The stylised link between GDP growth and changes in unemployment over the business cycle is called:**

the Laffer curve

the Friedman curve

the Phillips curve

the Law of Supply

**Okun's law**

**In general, Okun's law states that one extra percentage point in unemployment causes:**

**GDP to fall by 2%**

GDP to fall by 0.5%

the rate of inflation to decline by 2%  
the rate of inflation to decline by 0.5%  
both GDP and the rate of inflation to decline by 2%

**The link between inflation and unemployment is called:**

Okun's law  
the Lucas curve  
**the Phillips curve**  
the replacement ratio  
the sacrifice ratio

**The Phillips curve shows a relationship between:**

the level of output and prices  
the level of wages and unemployment  
the level of prices and unemployment  
**the rate of change in prices (or wages) and the rate of unemployment**  
the rate of price changes and wage rate changes

**For many macroeconomic policy makers, the Phillips curve initially:**

**implied a trade-off between lowering unemployment at the cost of higher inflation or lowering inflation at the cost of higher unemployment**

gave hope that economic stabilisation policy will always work if applied correctly  
relieved concern about an increase in unemployment, since the economy could always be expected to adjust at the natural rate  
was a way to gain more support for unpopular actions needed to decrease inflation  
implied that frictional unemployment can be lowered by expansionary monetary policy

**When there is an increase in the natural rate of unemployment then:**

the Phillips curve will shift to the left  
**the Phillips curve will shift to the right**  
the inflation rate will be increased along the Phillips curve  
the Phillips curve will become flatter  
the Phillips curve will become steeper

**In the medium run the aggregate supply curve is upward sloping since:**

workers immediately realise that nominal wage increases are only the result of price increases

**firms encounter costs in resetting prices and are willing to pay workers above market-clearing prices**

wages and prices always immediately change in proportion to the money stock

there is always natural friction in the labour market that prevents unemployment from reaching zero

none of the above

**Which of the following is NOT used in deriving the AS curve in Chapter 6?**

the link between output and employment

the price-cost relation

the Phillips curve

**the quantity theory of money**

all of the above are used

**The upward-sloping AS curve will shift to the left if:**

labour force productivity increases

actual output is lower than the full-employment level

the markup over labour cost falls

**actual output is higher than the full-employment level**

the level of potential output increases

**Wages are considered to be sticky rather than flexible because:**

firms are never willing to pay above market-clearing wages solely to keep workers motivated

labour contracts contain cost-of-living adjustments

firms tend to look at labour as an expendable resource

**firms are unsure about their competitors' behaviour and only reluctantly change prices and wages following a change in aggregate demand**

all of the above

**The fact that nominal wages are fixed by a contract at the beginning of a period while prices of goods may change within that period implies that:**

unanticipated changes in the money supply do not affect the level of output

the AS curve is vertical



**firms want to supply more output when prices increase since the real wage rate is lower**

real money balances decrease following expansionary monetary policy  
money supply changes affect prices but not unemployment

**The coordination approach to the Phillips curve focuses on the fact that:**

the administration has problems coordinating its fiscal policy with the monetary policy of the RBA

long-term labour contracts tend to expire at different times and thus firms cannot coordinate their hiring

unemployed workers are not organised enough to influence wage negotiations

**firms are unsure about their competitors' behaviour and are therefore reluctant to change wages and prices following a change in aggregate demand**

workers have imperfect information about their real wages

**The insider–outsider model refers to:**

policy making in the ALP

the fact that the unemployed do not take part in collective bargaining

the fact that wages do not respond significantly to unemployment

slow price adjustments in an imperfectly competitive environment

**both B) and C)**

**The efficiency wage theory of aggregate supply implies that:**

the AS curve is vertical

paying employees higher wages will not induce them to work harder

even unanticipated changes in monetary or fiscal policy have no effect on the level of output

since the cost of changing wages and prices is low, wages can easily be adjusted in

proportion to price changes to maintain full employment

**none of the above**

**Efficiency wage theory implies that:**

**labour productivity depends positively on the level of wages paid**

paying higher wages less frequently is efficient because it reduces transaction costs  
even unanticipated changes in monetary or fiscal policy have no effect on the level of output

since the cost of changing wages and prices is low, wages can easily be adjusted in proportion to price changes to maintain full employment

none of the above

**Restrictive monetary policy will eventually affect the upward-sloping AS curve since:**

higher interest rates will increase the cost of production

higher interest rates will reduce the capital stock, thus reducing potential GDP

**the resulting unemployment will cause downward pressure on nominal wages and decrease the cost of production**

real wages will decline in proportion to the change in money supply and this will cause a change in unemployment

firms will start laying off workers in anticipation of a decline in aggregate demand

**If nominal wage rates were completely flexible then:**

fiscal policy would still affect real money balances and output

the AS curve would be horizontal

**periods of unemployment would probably be much less frequent**

frictional unemployment would not exist

monetary policy would be ineffective in changing the price level

**Assume the RBA restricts money supply. Which of the following is the most likely result if the AS curve is upward sloping?**

**the interest rate will increase but output, prices and real money balances will fall**

the levels of the interest rate, output and prices will all decline

the price and output levels will fall but real money balances will increase

real money balances will remain unchanged, since money supply and prices will decrease proportionally

real money balances and prices will fall proportionally

**One explanation why the economy does not self correct quickly is:**

With less consumption and more savings the interest rate will drop

In the short run workers are fully employed and cannot produce enough to get to long run equilibrium

Wages and prices are flexible

**Wages and prices are sticky**

**When the marginal revenue product is greater than the marginal input cost of labor, the profit maximizing firm will:**

Hire more

**Hire less**

Maintain the same employment

Decrease output

**In which case, total expenditure in an economy is not equal to total income?**

If total saving is larger than total investment.

If net exports are not zero.

If inventory investment is negative.

**None of the given options--they are always equal.**

**The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the \_\_\_\_\_ model.**

Cournot

Stackelberg

Dominant firm

**kinked demand**

**To make the equation of exchange into the quantity theory of money:**

**V and Q are assumed to be constant.**

The money supply is assumed to be produced by the banking system and not exclusively in currency.

The quantity of money is assumed to determine the amount of Real GDP.

M and P are considered constant.

**Which of the following shows the condition for consumer's equilibrium?**

It can be expressed as marginal utility per dollar spent on each good being equalized across all goods.

It can be expressed as the ratio of (marginal utility per unit of the good)/(price per unit of the good) being equalized across all goods.

**It can be expressed as the ratio of marginal utilities being equated to the ratio of prices for all possible pairs of goods.**

All of the given options.

**While drawing a given market demand curve,----- is not considered constant**

Income.

The price of the good in question.

The prices of related goods.

**Preferences.**

**Which of the following concepts apply to oligopoly more than to any other market structure?**

Advertising and product differentiation

Easy entry and more than one firm in the market

Homogeneous product and perfect information

**Concentration and interdependence**

**If a firm pays cash to buy a building so as to have office space for its workers, the monthly opportunity cost of the building is best measured as:**

The price the firm paid divided by twelve.

Zero.

**The rent the firm could earn if it rented the building to another firm.**

The monthly mortgage payment the firm would have had to pay.

**The slope of the consumption function (or line) is the:**

Average propensity to save.

Average propensity to consume.

Marginal propensity to save.

**Marginal propensity to consume.**

**Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?**

**Product diversity.**

Excess capacity.

The fact that price exceeds marginal cost.

The fact that long-run average cost is not minimized.

**A person with a diminishing marginal utility of income:**

**Will be risk averse.**

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

**GDP is:**

A stock

**A flow.**

Both a stock and a flow.

Neither a stock nor a flow.

**The upward-sloping aggregate supply curve indicates that:**

**As firms increase their level of output, the cost of producing an extra unit increases**

An increase in aggregate demand causes little, if any increase in real output

The economy is operating in the long run

Any increase in aggregate demand causes the output of producers to fall because the general price level rises

**If utility remains the same for original and new combination of goods consumed, the effect of a change in the price of a good on the quantities consumed will be called as:**

**Substitution effect.**

Real income effect.

Income effect.

Budget effect.

**The law of diminishing returns assumes:**

There are no fixed factors of production.

There are no variable factors of production.

Utility is maximised when marginal product falls.

**Some factors of production are fixed.**

**If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:**

More bread will be produced to meet the increased demand.

**There will be a shortage of bread.**

The demand for bread will decrease because suppliers will reduce their supply.

A surplus of bread will emerge.

**The trend of unemployment over the last forty years is:**

A decrease in unemployment.

It has remained largely unchanged.

**An increase in unemployment.**

It is too difficult to tell so don't bother.

**Which of the following is true about the total cost curve?**

It relates output with total cost.

It is usually upward sloping.

Gets steeper as output rises, due to diminishing marginal product of an input.

**All of the given options are true.**

**A negatively sloped isoquant implies**

Products with negative marginal utilities.

Products with positive marginal utilities.

Inputs with negative marginal products.

**Inputs with positive marginal products.**

**The slope of the saving function (or line) is the:**

Average propensity to save.

Average propensity to consume.

**Marginal propensity to save.**

Marginal propensity to consume.

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

The economic perspective.

Marginal analysis.

Allocative efficiency.

**Opportunity cost.**

**A good for which income and quantity demanded are inversely related is known as:**

**Inferior good.**

Complementary good.

Normal good.

None of the given options.

**An increase in supply is shown by:**

Shifting the supply curve to the left.

**Shifting the supply curve to the right.**

Upward movement along the supply curve.

Downward movement along the supply curve.

**Price floor results in:**

All of the given options.

**Excess supply.**

Equilibrium.

Excess demand.

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

Quantity demanded.

Quantity supplied.

**Price.**

Output.

**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

**-14.**

14.

83.

97.

**Indifference curves that are convex to the origin reflect:**

An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

**To find the profit maximizing level of output, a firm finds the output level where:**

**Price equals marginal cost.**

Marginal revenue and average total cost.

Price equals marginal revenue.

None of the given options.

**As compared to existing firms, a new firm entering in monopolist market has:**

**High costs.**

Low costs.

Equal costs.

None of the given options.

**A firm is charging a different price for each unit purchased by a consumer. This is called:**

First-degree price discrimination.

**Second-degree price discrimination.**

Third-degree price discrimination.

None of the given options.

**McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:**

Collusion.

**Price discrimination.**

Two-part tariff.

Bundling.

**Price discrimination is a practice of selling goods or services at different prices to different buyers, even though sales costs are the same for all the transactions. Buyers may be discriminated against on the basis of income, ethnicity, age, or geographic location. The price elasticity of demand for any good must be less than or equal to zero unless:**

The good is a necessity.

The good is a luxury.

**The good is a Giffen good.**

None of the given options.



**In monopoly, which of the following is NOT true?**

Products are differentiated.

**There is freedom of entry and exit into the industry in the long run.**

The firm is a price maker.

There is one main seller.

**Welfare economics is the branch of economics which deals with:**

Positive issues.

**Normative issues.**

Micro issues.

Macro issues.

**Under the kinked demand curve model, an increase in marginal cost will lead to:**

An increase in output level and a decrease in price.

A decrease in output level and an increase in price.

A decrease in output level and no change in price.

**Neither a change in output level nor a change in price.**

**Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?**

Duopoly.

**Cartel.**

Market sharing monopoly.

Natural monopoly.

**In the complete classical model, a rightward shift of the labor supply curve will:**

Decrease the price level and increase the nominal wage.

Decrease the nominal wage and increase the price level.

Decrease both the price level and the nominal wage.

**Increase both the price level and the nominal wage.**

**Which of the following events could cause the aggregate demand curve to shift to the right?**

An increase in the rate of inflation.

A decrease in government expenditures.

A decrease in investment spending.

**A decrease in income tax rates.**

**The Great Depression of 1930s opened the door to the \_\_\_\_\_ revolution in macroeconomic theory.**

**Keynesian.**

New classical.

Old classical.

New Keynesian.

**Keynesian economics was the predominant economic theory:**

Prior to the late 1700s.

From the late 1700s to the early 1900s.

**From 1930s to 1970s.**

Since 1970s.

**Classical economics was replaced as the dominant theory of macroeconomic analysis by:**

Monetarism.

Rational expectations.

**Keynesian economics.**

Neoclassical economics.

**According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:**

Both prices and output to rise.

Prices to fall and output to remain unchanged.

Both prices and output to fall.

**Prices to rise and output to remain unchanged.**

**Intermediate goods are meant for:**

Direct use by the consumers.

**Further processing.**

The term do not exist.

None of the given options.

**Final goods are meant for:**

**Direct use by the consumers.**

Further processing.

The term do not exist.

None of the given options.

**Which of the following is a flow variable?**

The value of the house in which you live.

The balance in your savings account.

**Your monthly consumption on food items.**

The number of carrots in your refrigerator at the beginning of the month.

**Which of the following is NOT a stock variable?**

Government debt.

**Capital.**

The amount of money held by the public.

Inventory investment.

**The stock variables are those variables which do not have any time restriction. All other things remain the same, Gross Domestic Product (GDP) will rise if:**

Imports rises.

Exports falls.

**Durable goods consumption rises.**

Military spending falls.

**If disposable income increases from \$5 trillion to \$6 trillion and as a result, consumption expenditure increases from \$7 trillion to \$7.8 trillion, the Marginal Propensity to Consume is:**

1.0.

**0.8.**

$5/7 = 0.71$ .

$6/7.8 = 0.77$ .

**Marginal propensity to consume (MPC) is the extra amount that people consume when they receive an extra dollar of disposable income.**

**The slope of the consumption function (or line) is the:**

Average propensity to save.

Average propensity to consume.

Marginal propensity to save.

**Marginal propensity to consume.**

**The slope of the consumption function is the marginal propensity to consume, defined as the change in consumption associated with a change in disposable income. Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:**

0.2.

0.4.

0.6.

**0.8.**

**The unemployment rate is equal to:**

Number of employed / labour force x 100.

Number of unemployed / labour force.

**(Number of unemployed / labour force) x 100.**

None of the given options.

**The unemployment rate is defined as the ratio of the no. of unemployed people divided by the sum of the employed and unemployed people.**

**The traditional Phillips Curve shows the:**

**Inverse relationship between the rate of inflation and unemployment rate.**

Inverse relationship between the nominal and real wage.

Direct relationship between unemployment and demand-pull inflation.

Tradeoff between the short run and long run.

**Deflation is:**

An increase in the overall level of economic activity.

An increase in the overall price level.

A decrease in the overall level of economic activity.

**A decrease in the overall price level.**

**Is Gross Domestic Product (GDP) an accurate measure of a country's well being?**

Yes, it is the best measure of national well being.

**Yes, provided we use real GDP and not nominal GDP.**

Uncertain, depending on whether GDP is rising or falling.

No, it is not.

**Real Gross Domestic Product (GDP):**

**Is nominal GDP adjusted for changes in the price level.**

Is also called nominal GDP.

Measures GDP minus depreciation of capital.

Will always change when prices change.

**If a war destroys a large portion of a country's capital stock but the saving rate is unchanged, the exogenous model predicts that output will grow and the new steady state will approach:**

A higher output level than before.

The same output level as before.

**A lower output level than before.**

The Golden Rule output level.

**A currency appreciation:**

**Reduces aggregate demand and increases aggregate supply.**

Reduces both aggregate demand and aggregate supply.

Increases aggregate demand and reduces aggregate supply.

Increases both aggregate demand and aggregate supply.

**M1 component of money supply consists of:**

Paper currency and coins.

**Paper currency, coins and check writing deposits.**

Paper currency, coins, check writing deposits and savings deposits.

Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**Personal income:**

**Is income received by individuals during a given year.**

Is the income individuals have available for spending during a given year.  
Equals national income minus indirect taxes.  
Is the sum of wages plus interest received by individuals during a given year.

**Real Gross National Product (GNP) is best defined as:**

The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.

The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.

The current pound value of all new and used goods produced and sold in the economy during a particular time period.

**The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period.**

**Which of the following statements describes the difference between nominal and real Gross Domestic Product (GDP)?**

Real GDP includes only goods; nominal GDP includes goods and services.

**Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**

Real GDP is equal to nominal GDP less the depreciation of the capital stock.

Real GDP is equal to nominal GDP multiplied by the CPI.

**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

$GNP = GDP - \text{Net income from abroad.}$

**$GNP = GDP + \text{Net income from abroad.}$**

$GNP = NNP - \text{Net income from abroad.}$

$GNP = NNP + \text{Net income from abroad.}$

**Gross domestic product (GDP) is the market value of:**

All transactions in an economy during one-year period.

All goods and services exchanged in an economy during one-year period.

All final goods and services exchanged in an economy during one-year period.

**All final goods and services produced in a domestic economy during one-year period.**

**Which of the following shows the Fisher equation of exchange?**

MT=PV.

VT=PM.

**MV=PQ**

MY=VP.

**An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called:**

Overvalued exchange rate.

Undervalued exchange rate.

Fixed exchange rate.

**Flexible exchange rate.**

**In the Keynesian cross model, the 45-degree line has a slope of:**

45.

Infinity.

**1.**

0.

**In Keynesian economics, equilibrium can occur:**

Only at full employment level.

Only at levels less than full employment.

Only at levels greater than full employment.

**At any level of aggregate output which is equal to aggregate expenditures.**

**After a decrease in the wage, the substitution effect implies that:**

Only the amount demanded of capital decreases.

Only the amount demanded of labor decreases.

**Only the amount demanded of capital increases.**

The amount demanded of all inputs increases.

**The demand curve facing a perfectly competitive firm is:**

The same as its average revenue curve but not the same as its marginal revenue curve.

**The same as its average revenue curve and its marginal revenue curve.**

The same as its marginal revenue curve but not its average revenue curve.

Not the same as either its marginal revenue curve or its average revenue curve.

**Goods produced by oligopolistic industries are typically:**

Standardized

**Differentiated**

Differentiated if industrial goods

Differentiated if consumer goods

**When an industry's raw material costs decrease, other things remaining the same:**

The supply curve shifts to the right.

The supply curve shifts to the left.

**Output increases regardless of the market price and the supply curve shifts upward.**

Output decreases and the market price also decrease.

**In monopolist market, a new entrant firm should produce where:**

Marginal Cost < Marginal Revenue.

Marginal Cost > Marginal Revenue.

**Marginal Cost = Marginal Revenue.**

Marginal Cost = Average Revenue.

**When the price of petrol rises by 8%, the quantity of petrol purchased falls by 6%.**

**This shows that the demand for petrol is:**

Perfectly elastic.

Unit elastic.

Price elastic.

**Price inelastic.**

**The most important factor in determining the long-run profit potential in monopolistic competition is:**

**Free entry and exit.**

The elasticity of the market demand curve.

The elasticity of the firm's demand curve.

The reaction of rival firms to a change in price.



**If a monopolist sets his output such that marginal revenue, marginal cost and average total cost are equal, economic profit must be:**

Negative.

Positive.

**Zero.**

Indeterminate from the given information.

**If your demand price for one unit of a good is Rs. 100 and the market price is Rs. 75, your consumer's surplus will be:**

**Rs.25.**

Rs.50.

Rs.75.

Rs.100.

**In pure capitalism, freedom of enterprise means that:**

**Businesses are free to produce products that consumers want.**

Consumers are free to buy goods and services that they want.

Resources are distributed freely to businesses that want them.

Government is free to direct the actions of businesses.

**Which of the following is true about the market mechanism?**

It is not a very efficient means of communicating consumer demand to the producers of goods and services.

It works through central planning by government.

It eliminates market failures created by government.

**It works because prices serve as a means of communication between consumers and producers.**

**“Each firm produces an identical product and there is freedom of entry and exit”.**  
**This is TRUE for which of the following market structures?**

For Monopoly.

For Oligopoly.

**For Perfect competition.**

For Monopolistic competition.

**Which of the following will happen if there is an increase in the long term economic growth?**

**The production possibilities curve will shift outward.**

The production possibilities curve will shift inward.

There will be a movement from inside the production possibilities curve to a point on the production possibilities curve

There will be a movement from the production possibilities curve to a point inside the production possibilities curve.

Economy grows when its production capacity increases (outward shift of production possibilities curve).

**Which of the following can be thought of as a barrier to entry?**

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

**The principle that states that a change in investment causes a magnified change in income is termed as the:**

Water paradox.

Paradox of thrift.

Saving theorem.

**Multiplier effect.**

**Goods produced by oligopolistic industries are typically:**

Standardized

Differentiated

Differentiated if industrial goods

**Differentiated if consumer goods**

**The relationship between consumer spending and income is known as the:**

45-degree line.

Consumption function.

Investment function.

**Consumer price index.**

**Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?**

**Product diversity.**

Excess capacity.

The fact that price exceeds marginal cost.

The fact that long-run average cost is not minimized.

**Is GDP an accurate measure of a country's well being?**

Yes, it is the best measure of national well being

**Yes, provided we use real GDP and not nominal GDP.**

Uncertain, depending on whether GDP is rising or falling.

No, it is not.

**If a country has flexible exchange rates and has more rapid inflation than other countries, its currency will:**

**Appreciate.**

Depreciate.

Not change.

All of the given conditions may be possible.

**Those who hold the classical view of the labour market are likely to believe that:**

Monetary, but not fiscal policy will have an effect on output and employment

Fiscal but not monetary policy will have an effect on output and employment.

Both monetary and fiscal policy will have an effect on output and employment.

**Neither monetary nor fiscal policy will have an effect on output and employment.**

**The fundamental problem of economics implies that:**

governments must be relied upon to supply essential goods and services

inflation and unemployment are unavoidable

growing populations will deplete natural resources

**individuals and communities must make choices among competing alternatives**

**An economy that has achieved "full production" has achieved**

**Both allocative and productive efficiency**

Allocative but not productive efficiency

Productive but not allocative efficiency  
Neither allocative nor productive efficiency

**Government authorities have managed to reduce the unemployment rate from 6% to 4% in a hypothetical economy. As a result:**

the economy's production possibilities curve has shifted outward  
the economy has moved downward along its production possibilities curve  
**the economy has moved from a point inside to a point closer to its production possibilities curve**  
the economy's production possibilities curve has become steeper

**Consider an economy that can produce either capital goods or consumer goods. If the opportunity cost of consumer goods is always 5 capital goods, then:**

**the production possibilities curve is a straight line**  
the opportunity cost of capital goods is always 5 consumer goods  
the production possibilities curve is upward sloping  
the production possibilities curve is bowed inward

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

A reduction in unemployment  
**An increase in the production of capital goods**  
A reduction in discrimination  
An increase in the production of consumer goods

**Margaret decides to stay home and study for her exam rather than going out with her friends to a movie. Her dilemma is an example of:**

the economic perspective  
marginal analysis  
allocative efficiency  
**opportunity cost**

**A nation achieves "allocative efficiency" if:**

it produces at a point on, rather than inside, its production possibilities curve  
**it produces that combination of goods most desired by society**  
all available resources are fully employed

marginal benefit exceeds marginal cost for every possible good

**In the circular flow diagram, firms:**

receive revenue and supply resources in the resource market

receive revenue and demand resources in the product market

**incur costs and demand resources in the resource market**

incur costs and supply goods and services in the product market

**Which of the following can be thought of as a barrier to entry?**

Scale economies.

Patents.

Strategic actions by incumbent firms.

All of the given options are true.

**A new technology which reduces costs for firms':**

Shifts the supply curve to the right

Shifts the supply curve to the left

Reduces the equilibrium quantity

Raises the equilibrium price

**The point at which AC intersects MC is where:**

AC is decreasing.

MC is at its minimum.

AC is at its minimum.

AC is at its maximum.

**A normative economic statement:**

Is a statement of fact

Is a hypothesis used to test economic theory.

Is a statement of what ought to be, not what is.

Is a statement of what will occur if certain assumptions are true.

**If the income elasticity of demand is 1/2, the good is:**

A luxury

A normal good (but not a luxury).  
An inferior good.  
A Giffen good.

**And another question that derives from above is If the income elasticity of demand is 2, the good is:**

A luxury  
A normal good (but not a luxury)  
An inferior good.  
A Giffen good.

**Which of the following can be thought of as a barrier to entry?**

Scale economies.  
Patents.  
Strategic actions by incumbent firms.  
All of the given options are true.

**A new technology which reduces costs for firms':**

Shifts the supply curve to the right  
Shifts the supply curve to the left  
Reduces the equilibrium quantity  
Raises the equilibrium price

**The process by which resources are transformed into useful forms is**

capitalisation.  
consumption.  
allocation.  
**production.**

**The concept of choice would become irrelevant if**

capital were eliminated.  
**scarcity were eliminated.**  
we were dealing with a very simple, one-person economy.  
poverty were eliminated.

**Which of the following is not a resource as the term is used by economists?**

**money.**

land.

buildings.

labour.

**Capital, as economists use the term,**

is the money the firm spends to hire resources.

is money the firm raises from selling stock.

refers to the process by which resources are transformed into useful forms.

**refers to things that have already been produced that are in turn used to produce other goods and services.**

**Opportunity cost, most broadly define, is**

the additional cost of producing an additional unit of output.

**what we forgo, or give up, when we make a choice or a decision.**

a cost that cannot be avoided, regardless of what is done in the future.

the additional cost of buying an additional unit of a product.

**A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a**

demand curve.

supply curve

**production possibility frontier.**

circular-flow diagram.

**Periods of “less than full employment” of resources correspond to**

points on the ppf.

points outside the ppf.

either points inside or outside the ppf.

**points inside the ppf.**

**What lies is at the heart of the allocation of goods and services in a free-market economy?**

Concerns of equity or equal distribution among individuals.

The order or command of the ruling government or dictator.

The wishes of consumers in the market.

## **The price mechanism.**

**The phrase 'ceteris paribus' is best expressed as**

**'all else equal.'**

'everything affects everything else.'

'scarcity is a fact of life.'

'there is no such thing as a free lunch.'

**Laboratory (or controlled) experiments cannot be performed in economics because:**

of resource scarcity.

economics is a natural science.

of the difficulty of distinguishing between normative and positive statements.

**economics is a social science.**

**Positive statements are:**

value judgments

**verifiable or testable**

statements in the affirmative

good statements

**The former Soviet Union was an example of:**

**a planned economy**

free-market/capitalism

dictatorship

a mixed economy

**Rational choice or rational decision-making involves**

comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined

weighing up total costs and total benefits associated with a decision

**weighing up marginal costs and marginal benefits associated with a decision**

all of the above.

**The PPF can be used to illustrate:**



the principle of opportunity costs and increasing opportunity costs  
the distinction between micro and macroeconomics  
efficient, infeasible and inefficient production combinations  
**all of the above**

**Note for students: Unless otherwise stated, you should assume that we are operating in P-Q space.**

**The concept of “interdependence of markets” can refer to the interdependence between:**

two or more factor markets  
goods and factor markets  
goods markets  
**all of the above**

**The 'law of demand' implies that**

**as prices fall, quantity demanded increases.**

as prices fall, demand increases.  
as prices rise, quantity demanded increases.  
as prices rise, demand decreases.

**What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?**

**the substitution effect.**

the ceteris paribus effect.  
the total price effect.  
the income effect.

**The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:**

A's consumers have had an increase in income.

**the price of A has increased.**

A's advertising is not as effective as in the past.  
the price of rival brand B has increased.

**Demand curves in P-Q space are derived while holding constant**

consumer tastes and the prices of other goods.  
incomes, tastes, and the price of the good.  
incomes and tastes.

**incomes, tastes, and the prices of other goods.**

**Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are**

perfect substitutes.  
unrelated goods.  
**complements.**  
substitutes.

**If the demand for coffee decreases as income decreases, coffee is**

**a normal good.**  
a complementary good.  
an inferior good.  
a substitute good.

**Which of the following will NOT cause a shift in the demand curve for compact discs?**

a change in the price of pre-recorded cassette tapes.  
a change in wealth.  
a change in income.  
**a change in the price of compact discs.**

**Which of the following is consistent with the law of supply?**

As the price of calculators rises, the supply of calculators increases, ceteris paribus.  
As the price of calculators falls, the supply of calculators increases, ceteris paribus.  
**As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.**  
As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

**The price of computer chips used in the manufacture of personal computers has fallen. This will lead to \_\_\_\_\_ personal computers.**

a decrease in the supply of  
a decrease in the quantity supplied of  
**an increase in the supply of**  
an increase in the quantity supplied of

**When there is excess demand in an unregulated market, there is a tendency for**

quantity demanded to increase.  
quantity supplied to decrease.  
price to fall.  
**price to rise.**

**Equilibrium in the market for good A obtains**

when there is no surplus or shortage prevailing in the market  
where the demand and supply curves for A intersect  
when all of what is produced of A is consumed  
**all of the above**

**A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by**

a decrease in supply.  
**a fall in income.**  
a fall in the price of a complementary good.  
a fall in the number of substitute goods.  
Assume the good is normal

**A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by**

a fall in the price of a complementary good.  
a fall in income.  
a change in tastes such that consumers prefer the good more.  
**a rise in the number of substitute goods.**  
Assume the good is normal

**A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by**

**an increase in supply.**

a rise in income.  
a rise in the price of a complementary good.  
a fall in the number of substitute goods.  
Assume the good is normal

**When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as**

price fixing.  
quantity setting.  
quantity adjustment.  
**price rationing.**

**How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?**

2  
4  
**8**  
16

**What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right**

**price falls unambiguously but the effect on quantity cannot be determined**  
both price and quantity falls unambiguously  
quantity falls unambiguously but the effect on price cannot be determined  
the effect on both price and quantity cannot be determined

**What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left**

price falls unambiguously but the effect on quantity cannot be determined  
both price and quantity falls unambiguously  
**quantity falls unambiguously but the effect on price cannot be determined**  
the effect on both price and quantity cannot be determined

**A price ceiling imposed by the government can cause a shortage (excess demand)**

when the price ceiling is above the free (or unregulated) market price

**when the price ceiling is below the free (or unregulated) market price**

when the price ceiling is equal to the free (or unregulated) market price  
either of the above

**What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?**

Price falls, quantity rises

**Price rises, quantity falls**

Both price and quantity fall

Both price and quantity rise

**A price floor is**

a maximum price usually set by government, that sellers may charge for a good or service.

**a minimum price usually set by government, that sellers must charge for a good or service.**

the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.

the minimum price that consumers are willing to pay for a good or service.

**The need for rationing a good arises when**

there is a perfectly inelastic demand for the good.

supply exceeds demand.

**demand exceeds supply.**

a surplus exists.

**If the “regulated-market” price is below the equilibrium (or “free-market” price) price,**

**the quantity demanded will be greater than quantity supplied.**

demand will be less than supply.

quantity demanded will be less than quantity supplied.

quantity demanded will equal quantity supplied.

**If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that**

**more workers would become employed.**

there would be more unemployment.  
the costs and prices of firms employing cheap labour would increase.  
wages in general would fall as employers tried to hold down costs.

**A market with few entry barriers and with many firms that sell differentiated products is known as:**

Purely competitive  
A monopoly  
**Monopolistically competitive**  
Oligopolistic

**The cross elasticity of demand of complements goods is:**

**Less than 0.**  
Equal to 0.  
Greater than 0.  
Between 0 and 1.

**The production possibilities curve:**

Shows all combinations of goods that society most desires  
Indicates that any combination of goods lying outside the curve is attainable  
Separates all combinations of two goods that can be produced from those that cannot  
**Shows only those combinations of two goods that reflect "full production"**

**According to classical economists, the:**

**Aggregate demand curve is downward sloping and the aggregate supply curve is vertical**

Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is horizontal

**From year 2002 to year 2003, personal income rose by \$500 billion. If the Marginal Propensity to Consume = 0.9, then personal consumption expenditures rose by:**

\$45.0 billion.  
\$500 billion.  
**\$450 billion.**

\$50 billion.

The \_\_\_\_\_ is a graph of the \_\_\_\_\_ of a good and the \_\_\_\_\_.

**Supply curve, price, quantity supplied**

Demand curve, price, quantity supplied

Supply curve, price, quantity demanded

Supply curve, quantity supplied, income of consumers

**An economist will define the exchange rate between two currencies as the:**

**Amount of one currency that must be paid in order to obtain one unit of another currency.**

Difference between total exports and total imports within a country.

Price at which the sales and purchases of foreign goods takes place.

Ratio of import prices to export prices for a particular country.

**Inflation:**

Reduces both the purchasing power of the dollar and one's real income.

Reduces the purchasing power of the dollar and increases one's real income.

**Reduces the purchasing power of the dollar but may have no impact on one's real income.**

Increases the purchasing power of the dollar and reduces one's real income.

**Monopolistic competition and oligopoly share which characteristic?**

Free entry and exit from the industry

Strategic behavior

Standardized products

**Advertising**

**The effect of a change in income on the quantity of the good consumed is called the:**

**Income effect**

Budget effect

Substitution effect

Real income effect

**Deflation is:**

An increase in the overall level of economic activity.

An increase in the overall price level.

A decrease in the overall level of economic activity.

**A decrease in the overall price level.**

**If your demand price for one unit of a good is Rs. 100 and the market price is Rs. 75, your consumer's surplus will be:**

**Rs.25.**

Rs.50.

Rs.75.

Rs.100.

**If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:**

More bread will be produced to meet the increased demand.

**There will be a shortage of bread.**

The demand for bread will decrease because suppliers will reduce their supply.

A surplus of bread will emerge.

**A demand schedule is best described as:**

**A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

A graphical representation of the law of demand.

A systematic listing of all the variables that might conceivably bring about a change in demand.

A symbolic representation of the law of demand:  $P, Q$  and  $P, Q$ .

**Our economy is characterized by:**

**Unlimited wants and needs.**

Unlimited material resources.

No energy resources.

Abundant productive labor.

**When government sets the price of a good and that price is above the equilibrium price, the result will be:**



**A surplus of the good.**

A shortage of the good.

An increase in the demand for the good.

A decrease in the supply of the good.

**In pure capitalism, freedom of enterprise means that:**

**Businesses are free to produce products that consumers want.**

Consumers are free to buy goods and services that they want.

Resources are distributed freely to businesses that want them.

Government is free to direct the actions of businesses.

**The principle economic difference between a competitive and a non-competitive market is:**

The number of firms in the market.

**The extent to which any firm can influence the price of the product.**

The size of the firms in the market.

The annual sales made by the largest firms in the market.

**Price elasticities are measured in percentage terms because:**

It makes students' lives more complicated.

**The resulting measure is unit free.**

It gives a more accurate answer.

The answer is always negative that way.

**If the cross price elasticity of demand between two products is +3.5, then:**

One of the products is expensive and one is relatively inexpensive.

One product is a normal good and the other is an inferior good.

The two products are complements.

**The two products are substitutes.**

**Which of the following is true about the market mechanism?**

It is not a very efficient means of communicating consumer demand to the producers of goods and services.

It works through central planning by government.

It eliminates market failures created by government.

**It works because prices serve as a means of communication between consumers and producers.**

**In a free-market economy, the allocation of resources is determined by:**

- Votes taken by consumers.
- A central planning authority.
- Consumer preferences.**
- The level of profits of firms

**The effect of a change in income on the quantity of the good consumed is called the:**

- Income effect.**
- Budget effect.
- Substitution effect.
- Real income effect.

**While drawing a given market demand curve,----- is not considered constant.**

- Income.
- The price of the good in question.
- The prices of related goods.
- Preferences.

**If a decrease in price increases total revenue:**

- Demand is elastic.**
- Demand is inelastic.
- Supply is elastic.
- Supply is inelastic

**There is a price ceiling, there will be:**

- Shortages.**
- Surpluses.
- Equilibrium.
- None of the given options

**The quantity supplied of mangoes exceeds the quantity demanded of mangoes:**

There is a shortage of mangoes.

**Market forces will cause the price to fall.**

Market forces will cause the price to rise.

The market is in equilibrium

**Price floor results in:**

Equilibrium.

Excess demand.

**Excess supply.**

All of the given options

**The principle economic difference between a competitive and a non-competitive market is:**

**The number of firms in the market.**

The extent to which any firm can influence the price of the product.

The size of the firms in the market.

The annual sales made by the largest firms in the market

**When the price of petrol rises by 8%, the quantity of petrol purchased falls by 6%. This shows that the demand for petrol is:**

Perfectly elastic.

Unit elastic.

Price elastic.

**Price inelastic.**

**Which of the following defines the opportunity cost?**

It is measured only in rupees.

It is the cost to society of producing the goods.

It is the difficulty associated with using one good in place of another.

**It is the cost of next best alternative forgone.**

**Law of diminishing marginal utility indicates that the demand curve is:**

Vertical.

U shaped.

Upward sloping.

### **Downward sloping.**

#### **At the equilibrium price:**

There will be a shortage.

**There will be neither a shortage nor a surplus.**

There will be a surplus.

There are forces that cause the price to change.

#### **The effect of a change in income on the quantity of the good consumed is called the:**

##### **Income effect.**

Budget effect.

Substitution effect.

Real income effect

#### **Which of the following might be considered to be a characteristic of a planned economy?**

All income is completely evenly distributed.

**Price is relatively unimportant as a means of allocating resources.**

Goods and services produced reflect consumer sovereignty.

There is no incentive for people to work hard.

#### **The law of increasing opportunity costs states that:**

The more one is willing to pay for resources, the larger will be the possible level of production.

Increasing the production of a particular good will cause the price of the good to rise.

**In order to produce additional units of a particular good, it is necessary for society to sacrifice increasingly larger amounts of alternative goods.**

Only by keeping production constant can rising prices be avoided.

#### **The production possibilities curve:**

Shows all combinations of goods that society most desires.

Indicates that any combination of goods lying outside the curve is attainable.

Shows the maximum level of output that an economy can produce with all the available resources.

**Shows only those combinations of two goods that reflect "full production".**

Production possibility frontier (PPF) is the curve which joins all the points showing the maximum amount of goods and services which the country can produce in a given time with limited resources, given a specific state of technology.

**If the supply of a product decreases and supply curve shifts leftward, and the demand for that product simultaneously increases and demand curve shifts rightward, then equilibrium:**

**Price must rise.**

Price must fall.

Quantity must rise.

Quantity must fall

**If a decrease in price increases total revenue:**

**Demand is elastic.**

Demand is inelastic.

Supply is elastic.

Supply is inelastic.

**A person with a diminishing marginal utility of income:**

**Will be risk averse.**

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

**Assume that the current market price is below the market clearing level. We would expect:**

A surplus to accumulate.

Downward pressure on the current market price.

Upward pressure on the current market price.

**Lower production during the next time period.**

**The percentage change in quantity demanded given a percentage change in consumer's income is known as:**

Price elasticity of demand.

**Income elasticity of demand.**

Supply price elasticity.

Cross price elasticity.

**Suppose the price of railway ticket decreases, what will happen in the market for airline travel?**

**The demand curve for airline travel shifts left.**

The demand curve for airline travel shifts right.

The supply curve of airline travel shifts left.

The supply curve of airline travel shifts right.

**Demand is said to be ----- when the elasticity of demand is less than 1.**

Increasing

Decreasing

Elastic

**Inelastic**

**A new technology which reduces costs for firms:**

**Shifts the supply curve to the right.**

Shifts the supply curve to the left.

Reduces the equilibrium quantity.

Raises the equilibrium price.

**When government sets the price of a good and that price is above the equilibrium price, the result will be:**

**A surplus of the good.**

A shortage of the good.

An increase in the demand for the good.

A decrease in the supply of the good.

**The principle economic difference between a competitive and a non-competitive market is:**

The number of firms in the market.

**The extent to which any firm can influence the price of the product.**

The size of the firms in the market.

The annual sales made by the largest firms in the market.

**Moving from left to right, the typical production possibilities curve:**

Is horizontal.

Has a constant positive slope.

**Illustrates increasing opportunity costs.**

Illustrates decreasing opportunity costs

**You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:**

**The demand for houses has increased**

The demand curve for houses must be upward-sloping

The supply of houses has increased

Housing construction costs must be decreasing

**If consumer incomes increase, the demand for product Y:**

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

**If marginal product is below average product:**

**The total product will fall**

The average product will fall

Average variable costs will fall

Total revenue will fall

**It is calculated as the percentage change in quantity demanded of a given good, with respect to the percentage change in the price of “another” good.**

Price elasticity of demand

Income elasticity of demand

**Cross price elasticity of demand**

Supply price elasticity

**A Demand Curve is price inelastic when:**

**Changes in demand are proportionately smaller than those in price**

Changes in demand are proportionately greater than those in price

Changes in demand are equal than those in price  
None of the given options.

**A partial explanation for the inverse relationship between price and quantity demanded is that a:**

Lower price shifts the supply curve to the left  
Higher price shifts the demand curve to the left  
Lower price shifts the demand curve to the right  
**Higher price reduces the real incomes of buyers**

**If a sales tax on beer leads to reduced tax revenue, this means:**

Elasticity of demand is  $< 1$ .  
**Elasticity of demand is  $> 1$ .**  
Demand is upward-sloping.  
Demand is perfectly inelastic.

**A "Giffen good" is defined as one for which:**

Marginal utility is zero.  
The demand curve is perfectly elastic.  
The substitution effect is positive.  
**The demand curve is positively sloped.**

**A nation's production possibilities curve is "bowed out" from the origin because:**

**Resources are not perfectly shiftable between productions of the two goods**  
Capital goods and consumer goods utilize the same production technology  
Resources are scarce relative to human wants  
Opportunity costs are decreasing

**If diminishing marginal utility holds, and a person consumes less of a good, then all else being equal:**

The price of the good will rise.  
**Marginal utility will rise**  
Expenditure on the good will increase  
Marginal utility will decline



**According to the law of diminishing returns:**

**The marginal product falls as more units of a variable factor are added to a fixed factor.**

Marginal utility falls as more units of a product are consumed.

The total product falls as more units of a variable factor are added to a fixed factor.

The marginal product increases as more units of a variable factor are added to a fixed factor.

**If consumer incomes increase, the demand for product Y:**

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

**The concept of a risk premium applies to a person that is:**

**Risk averse**

Risk neutral

Risk loving

All of the given options

**When drawing demand and supply curves, economists are assuming that the primary influence on production and purchasing decisions is:**

**Price**

Cost of production

The overall state of the economy

Consumer incomes

**Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:**

A surplus of credit.

**A shortage of credit.**

Greater profits for banks issuing credit.

A perfectly inelastic supply of credit in the market place.

**A person with a diminishing marginal utility of income:**

**Will be risk averse.**

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

**We know that the demand for a product is elastic if:**

When price rises, revenue rises

**When price rises, revenue falls**

When price rises, quantity demanded rises

When price falls, quantity demanded rises

**If consumer incomes increase, the demand for product Y:**

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

**Due to capacity constraints, the price elasticity of supply for most products is:**

The same in the long run and the short run.

**Greater in the long run than in the short run.**

Greater in the short run than in the long run.

Too uncertain to be estimated.

**An indifference curve is:**

**A collection of market baskets that are equally desirable to the consumer.**

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

**If a sales tax on beer leads to reduced tax revenue, this means:**

Elasticity of demand is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping.

Demand is perfectly inelastic.

**The numerical measurement of a consumer's preference is called:**

Satisfaction

Use

Pleasure

**Utility**

**It is expected that the sign of cross elasticity between two complementary goods would be:**

Positive

**Negative**

Zero

None of the given options.

**Indifference curves that are convex to the origin reflect:**

An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

**A Demand Curve is price inelastic when:**

**Select correct option:**

**Changes in demand are proportionately smaller than those in price**

Changes in demand are proportionately greater than those in price

Changes in demand are equal than those in price

None of the given options.

**The production possibilities curve:**

Shows all combinations of goods that society most desires

Indicates that any combination of goods lying outside the curve is attainable

**Separates all combinations of two goods that can be produced from those that cannot**

Shows only those combinations of two goods that reflect "full production"

**The demand for chicken is downward-sloping. Suddenly the price of chicken rises from \$130 per kilo to \$140 per kilo. This will cause:**

- The demand curve to shift to the left
- The demand curve to shift to the right
- Quantity demanded to increase
- Quantity demanded to decrease

**Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:**

- The demand for both Y and Z will increase
- The demand for Y will increase while the demand for Z will decrease**
- The demand for Y will decrease while the demand for Z will increase
- The demand for both Y and Z will decrease

**A nation's production possibilities curve is "bowed out" from the origin because:**

- Resources are not perfectly shiftable between productions of the two goods**
- Capital goods and consumer goods utilize the same production technology
- Resources are scarce relative to human wants
- Opportunity costs are decreasing

**A person with a diminishing marginal utility of income:**

- Will be risk averse.**
- Will be risk neutral.
- Will be risk loving.
- Cannot decide without more information.

**We know that the demand for a product is elastic if:**

- When price rises, revenue rises
- When price rises, revenue falls**
- When price rises, quantity demanded rises
- When price falls, quantity demanded rises

**If consumer incomes increase, the demand for product Y:**

- Will necessarily remain unchanged
- Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

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**Negative**

Zero

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**Changes in demand are proportionately smaller than those in price**

Changes in demand are proportionately greater than those in price

Changes in demand are equal than those in price

None of the given options.

**The production possibilities curve:**

Shows all combinations of goods that society most desires

Indicates that any combination of goods lying outside the curve is attainable

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The demand curve to shift to the left

The demand curve to shift to the right

Quantity demanded to increase

Quantity demanded to decrease

**Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:**

The demand for both Y and Z will increase

**The demand for Y will increase while the demand for Z will decrease**

The demand for Y will decrease while the demand for Z will increase

The demand for both Y and Z will decrease

**A nation's production possibilities curve is "bowed out" from the origin because:**

**Resources are not perfectly shiftable between productions of the two goods**

Capital goods and consumer goods utilize the same production technology  
Resources are scarce relative to human wants  
Opportunity costs are decreasing

**Due to capacity constraints, the price elasticity of supply for most products is:**

The same in the long run and the short run.  
**Greater in the long run than in the short run.**  
Greater in the short run than in the long run.  
Too uncertain to be estimated

**An individual with a constant marginal utility of income will be:**

Risk averse  
**Risk neutral**  
Risk loving  
Not enough information.

**At the equilibrium price:**

There will be a shortage  
**There will be neither a shortage nor a surplus**  
There will be a surplus  
There are forces that cause the price to change

**Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:**

$P = MR$   
 $P = AVC$   
 $AR = MR$   
 **$P = MC$**

**In the long run, competitive firms MUST be profit maximizers, because if they do not maximize profits:**

They will attract new competitors.  
They will not be price takers.  
**The profits that they do earn will only cover variable costs.**  
They will not survive.

**If a firm pays cash to buy a building so as to have office space for its workers, the monthly opportunity cost of the building is best measured as:**

The price the firm paid divided by twelve.

Zero.

**The rent the firm could earn if it rented the building to another firm.**

The monthly mortgage payment the firm would have had to pay.

**The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the \_\_\_\_\_ model.**

Cournot

Stackelberg

Dominant firm

**kinked demand**

**In which market structure(s) will price exceed marginal revenue?**

Differentiated oligopoly and monopoly only

Standardized oligopoly and pure competition only

Monopolistic competition and monopoly only

**Monopolistic competition, oligopoly, and monopoly**

**An indifference curve is:**

**A collection of market baskets that are equally desirable to the consumer.**

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

**If a sales tax on beer leads to reduced tax revenue, this means:**

Elasticity of demand is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping.

Demand is perfectly inelastic.

**Which of the following is a correct statement about the substitution effect?**



**The substitution effect is always negative.**

The substitution effect is positive for an inferior good.

The substitution effect measures how demand changes when income changes.

The substitution effect is positive for a Giffen good.

**In the long run, profits will equal zero in a competitive market because of:**

The availability of information.

Identical products being produced by all firms.

**Constant returns to scale.**

Free entry and exit

**While drawing a given market demand curve,----- is not considered constant.**

Income.

**The price of the good in question.**

The prices of related goods.

Preferences.

**If diminishing marginal utility holds and a person consumes less of a good, then all else being equal:**

The price of the good will rise.

Marginal utility will rise.

Expenditure on the good will increase.

**Marginal utility will decline.**

**Our economy is characterized by:**

**Unlimited wants and needs.**

Unlimited material resources.

No energy resources.

Abundant productive labor.

**If consumer incomes increase, the demand for product Y:**

Will necessarily remain unchanged.

Will shift to the right if Y is a complementary good.

**Will shift to the right if Y is a normal good.**

Will shift to the right if Y is an inferior good.

**The law of diminishing returns assumes:**

There are no fixed factors of production.

There are no variable factors of production.

**Utility is maximised when marginal product falls.**

Some factors of production are fixed.

**A price taker is:**

A firm that accepts different prices from different customers.

**A monopolistically competitive firm.**

A firm that cannot influence the market price.

An oligopolistic firm.

**The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:**

**Positive.**

Strictly linear.

Flat.

Negative.

**The percentage change in quantity demanded of a given good, with respect to the percentage change in the price of “another” good is called:**

Price elasticity of demand.

Income elasticity of demand.

**Cross price elasticity of demand.**

Supply price elasticity.

**Moving from left to right, the typical production possibilities curve:**

**Is horizontal.**

Has a constant positive slope.

Illustrates increasing opportunity costs.

Illustrates decreasing opportunity costs.

**Which of the following does NOT refer to macroeconomics?**

The study of the aggregate level of economic activity.

**The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms. )**

The study of the cause of unemployment.

The study of the cause of inflation.

**In pure capitalism, freedom of enterprise means that:**

**Businesses are free to produce products that consumers want.**

Consumers are free to buy goods and services that they want.

Resources are distributed freely to businesses that want them.

Government is free to direct the actions of businesses.

**At any given point on an indifference curve, the the slope is equal to:**

Unity.

**The marginal rate of substitution.**

The consumer's marginal utility.

None of the given options.

**The concept of a risk premium applies to a person that is:**

Risk averse

Risk neutral

Risk loving

**All of the given options**

**The law of diminishing marginal utility states:**

The supply curve slopes upward.

**Your utility grows at a slower and slower rate as you consume more and more units of a good.**

The elasticity of demand is infinite.

None of the given options.

**The demand curve faced by an individual firm in a competitive market is:**

Upward sloping.

Downward sloping.

**Horizontal.**

Vertical.

**More output could be produced with available resources if:**

**Resources are allocated efficiently.**

Resources are imperfectly shiftable among alternative uses.

Prices are reduced.

The economy is operating at a point inside the production possibilities curve

**According to the law of diminishing marginal utility, as the consumption of particular good increases:**

Total utility increases.

Marginal utility increases.

Total utility decreases.

**Marginal utility decreases.**

**A demand schedule is best described as:**

**A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

A graphical representation of the law of demand.

A systematic listing of all the variables that might conceivably bring about a change in demand.

A symbolic representation of the law of demand:  $P, Q$  and  $P, Q$ .

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

Quantity demanded.

Quantity supplied.

**Price.**

Output.

**Economists who are concerned about the behavior of individual households, firms and industries are studying:**

**Microeconomics**

Macroeconomics

Positive economics

Normative economics

**If the demand curve for a good is downward sloping, then the good:**

Must be normal.

Must be inferior.

Must be Giffen.

**Can be normal or inferior.**

**The extra value that consumers receive above what they pay for that good is called:**

Producer surplus.

Utility.

**Marginal utility.**

Consumer surplus.

**In pure capitalism, freedom of enterprise means that:**

**Businesses are free to produce products that consumers want.**

Consumers are free to buy goods and services that they want.

Resources are distributed freely to businesses that want them.

Government is free to direct the actions of businesses.

**The principle economic difference between a competitive and a non-competitive market is:**

The number of firms in the market.

**The extent to which any firm can influence the price of the product.**

The size of the firms in the market.

The annual sales made by the largest firms in the market.

**Which of the following is a characteristic of a mixed economy?**

In mixed economy, resources are governed by both government and individuals.

Mixed economy utilizes the characteristics of both market economy and planned economy to allocate goods and services.

People are free to make their decisions and government controls the Defence.

**All of the given options are true.**

**The law of diminishing marginal utility indicates that the demand curve is:**

Vertical.

U shaped.

Upward sloping.

**Downward sloping.**

**In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:**

Decreasing returns to scale.

Constant returns to scale.

**Increasing returns to scale.**

Negative returns to scale.

**The burden of a tax is shifted toward buyers if:**

**Demand is perfectly elastic.**

Demand is relatively more elastic than supply.

Demand is relatively more inelastic than supply.

Demand and supply have equal elasticities.

**If the demand curve for a good is downward sloping, then the good:**

Must be normal.

**Must be inferior.**

Must be Giffen.

Can be normal or inferior.

**Which of the following does NOT refer to macroeconomics?**

The study of the aggregate level of economic activity.

**The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.**

The study of the cause of unemployment.

The study of the cause of inflation.

**Which of the following is considered to be a variable cost in the long run?**

Expenditures for wages.

Expenditures for research and development.

Expenditures for raw materials.

**All of the given Costs.**

**If a profit-maximizing firm finds that, at its current level of production,  $MR < MC$ , it will:**

Increase output.

Operate at a loss.

Shut down.

**Decrease output.**

**If utility remains the same for original and new combination of goods consumed, the effect of a change in the price of a good on the quantities consumed will be called as:**

Substitution effect.

Real income effect.

**Income effect.**

Budget effect.

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the fixed cost?**

200.

**5Q.**

5.

$5 + (200/Q)$ .

**If the income elasticity of demand for boots is 0.2, a 10% increase in consumer income will lead to a:**

20% increase in the quantity of boots demanded.

20% decrease in the quantity of boots demanded.

**2% increase in the quantity of boots demanded.**

0.2% increase in the quantity of boots demanded.

**We know that the demand for a good or service is inelastic if:**

When price rises, quantity demanded rises.

**When price rises, quantity demanded falls.**

When price rises, total revenue rises.

When price rises, total revenue falls.

**An individual with a constant marginal utility of income will be:**

**Risk averse.**

Risk neutral.

Risk loving.

Insufficient information for a decision.

**Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:**

The two goods are normal goods.

The two goods are inferior goods.

The two goods are substitutes.

**The two goods are complements.**

**A normative economic statement:**

Is a statement of fact.

Is a hypothesis used to test economic theory.

**Is a statement of what ought to be, not what is.**

Is a statement of what will occur if certain assumptions are true.

**Which of the following might be considered to be a characteristic of a planned economy?**

All income is completely evenly distributed.

**Price is relatively unimportant as a means of allocating resources.**

Goods and services produced reflect consumer sovereignty.

There is no incentive for people to work hard.

**If consumer incomes increase, the demand for product Y:**

Will necessarily remain unchanged.

Will shift to the right if Y is a complementary good.

**Will shift to the right if Y is a normal good.**

Will shift to the right if Y is an inferior good.

**If a decrease in price increases total revenue:**

Demand is elastic.

Demand is inelastic.

**Supply is elastic.**

Supply is inelastic.



**If the price elasticity of demand for beans is estimated to be -0.4, then a 20% increase in price will decrease the quantity demanded by:**

14%.

**8%.**

16%.

20%.

**Which of the following is a characteristic of a mixed economy?**

In mixed economy, resources are governed by both government and individuals. Mixed economy utilizes the characteristics of both market economy and planned economy to allocate goods and services.

**People are free to make their decisions and government controls the Defence.**

**All of the given options are true.**

**If a firm operates in a perfectly competitive market, then it will most likely:**

Advertise its product on television.

Have difficult time obtaining information about the market price.

Settle for whatever price is offered.

**Have an easy time keeping other firms out of the market.**

**Which of the following is TRUE about the production function?**

It relates inputs with output.

It generates a curve that is upward sloping.

It shows diminishing marginal product of an input, since it gets flatter as output rises.

**All of the given options are true.**

**Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:**

The demand for both Y and Z will increase

**The demand for Y will increase while the demand for Z will decrease**

The demand for Y will decrease while the demand for Z will increase

The demand for both Y and Z will decrease

**An indifference curve is:**

A collection of market baskets that are equally desirable to the consumer.

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

**A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.**

**Which of the following best describes an inferior good?**

A good for which price and quantity demanded are directly related.

A good for which price and quantity demanded are inversely related.

**A good for which income and quantity demanded are directly related.**

A good for which income and quantity demanded are inversely related.

**Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:**

**The two goods are normal goods.**

The two goods are inferior goods.

The two goods are substitutes.

The two goods are complements

**If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:**

More bread will be produced to meet the increased demand.

**There will be a shortage of bread.**

The demand for bread will decrease because suppliers will reduce their supply.

A surplus of bread will emerge.

**If the cost of computer components falls, then**

The demand curve for computers shifts to the right.

The demand curve for computers shifts to the left.

**The supply curve for computers shifts to the right.**

The supply curve for computers shifts to the left.

**More output could be produced with available resources if:**

**Resources are allocated efficiently.**

Resources are imperfectly shiftable among alternative uses.  
Prices are reduced.  
The economy is operating at a point inside the production possibilities curve.

**The law of diminishing returns assumes:**

**There are no fixed factors of production.**

There are no variable factors of production.  
Utility is maximised when marginal product falls.  
Some factors of production are fixed.

**Production possibilities analysis assumes that:**

Resources and technology increase with production.  
Resources are used to produce thousands of goods.  
Extra resources are saved for emergency use.  
**Resources are used in a technically efficient way**

**Average physical product is equal to:**

TPPF  
**TPPF/QF**  
QF / TPPF  
TPPF \* QF

**If two goods were perfect complements, their indifference curves would be:**

Straight lines  
**L-shaped**  
Rectangular hyperbolas  
Parabolic

**The principle economic difference between a competitive and a non-competitive market is:**

The number of firms in the market.  
**The extent to which any firm can influence the price of the product.**  
The size of the firms in the market.  
The annual sales made by the largest firms in the market.

**The percentage change in quantity demanded given a percentage change in consumer's income is known as:**

Price elasticity of demand.

**Income elasticity of demand.**

Supply price elasticity.

Cross price elasticity.

**Microeconomics is the branch of economics that deals with which of the following topics?**

The behavior of individual consumers

Unemployment and interest rates

The behavior of individual firms and investors

**The behavior of individual consumers and behavior of individual firms and investors.**

**At any given point on an indifference curve, the the slope is equal to:**

Unity.

**The marginal rate of substitution.**

The consumer's marginal utility.

None of the given options.

**Demand is said to be ----- when the elasticity of demand is less than 1.**

Increasing

Decreasing

Elastic

**Inelastic**

**We know that the demand for a good or service is inelastic if:**

When price rises, quantity demanded rises.

When price rises, quantity demanded falls.

**When price rises, total revenue rises.**

When price rises, total revenue falls.

**Which of the following is true about the entrepreneur?**

An entrepreneur is an innovator.

An entrepreneur is someone who brings resources together and produces a product.  
An entrepreneur is a risk taker.

**All of the given options are correct.**

**The principle economic difference between a competitive and a non-competitive market is:**

The number of firms in the market.

**The extent to which any firm can influence the price of the product.**

The size of the firms in the market.

The annual sales made by the largest firms in the market.

**Diminishing marginal returns implies:**

Decreasing marginal costs.

**Increasing marginal costs.**

Decreasing average variable costs.

Decreasing average fixed costs.

**Which of the following is true about the point on a nation's production-possibilities curve?**

It shows an undesirable combination of goods and services.

**It shows the combinations of production that are unattainable, given current technology and resources.**

It shows the level of production that will cause both unemployment and inflation.

It shows that resources are fully employed in producing a particular combination of goods and services.

**Which of the following is true about the market mechanism?**

It is not a very efficient means of communicating consumer demand to the producers of goods and services.

It works through central planning by government.

It eliminates market failures created by government.

**It works because prices serve as a means of communication between consumers and producers.**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

200.

5Q.

5.

**$5 + (200/Q)$ .**

**A market is said to be in equilibrium when:**

Supply equals Price.

There is downward pressure on price.

**The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**

All buyers are able to find sellers willing to sell to them at the current price.

**The concept of a risk premium applies to a person that is:**

**Risk averse**

Risk neutral

Risk loving

All of the given options

**If the income elasticity of demand for boots is 0.2, a 10% increase in consumer income will lead to a:**

20% increase in the quantity of boots demanded.

20% decrease in the quantity of boots demanded.

**2% increase in the quantity of boots demanded.**

0.2% increase in the quantity of boots demanded.

**At the equilibrium price:**

There will be a shortage.

**There will be neither a shortage nor a surplus.**

There will be a surplus.

There are forces that cause the price to change.

**Cartels are likely to fail when:**

The members adhere to their output quotas.

**The non-cartel members increase output.**

The members charge identical prices.

None of the given options.

**pure capitalism, freedom of enterprise means that:**

**Businesses are free to produce products that consumers want.**

Consumers are free to buy goods and services that they want.

Resources are distributed freely to businesses that want them.

Government is free to direct the actions of businesses

**At the equilibrium price:**

There will be a shortage.

**There will be neither a shortage nor a surplus.**

There will be a surplus.

There are forces that cause the price to change.

**a perfectly competitive market:**

**Firms can freely enter and exit.**

Firms sell a differentiated product.

Transaction costs are high.

All of the given options

**If a firm operates in a perfectly competitive market, then it will most likely:**

Advertise its product on television.

Have difficult time obtaining information about the market price.

**Settle for whatever price is offered.**

Have an easy time keeping other firms out of the market.

**marginal product is above the average product:**

The total product will fall

**The average product will rise**

Average variable costs will fall

Total revenue will fall

**demand curve facing a perfectly competitive firm is:**

Upward sloping.

Downward sloping.

**Horizontal.**

Vertical.

**If two goods were perfect complements, their indifference curves would be:**

Straight lines

**L-shaped**

Rectangular hyperbolas

Parabolic

**The marginal rate of substitution is equal to the:**

**Magnitude of the slope of the indifference curve**

Relative price

Marginal cost of each good

Slope of the budget line

**If the demand curve for a good is downward sloping, then the good:**

Must be normal.

**Must be inferior.**

Must be Giffen.

Can be normal or inferior.

**The concept of a risk premium applies to a person that is:**

**Risk averse**

Risk neutral

Risk loving

All of the given options

**Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:**

**The demand for both Y and Z will increase.**

The demand for Y will increase while the demand for Z will decrease.

The demand for Y will decrease while the demand for Z will increase.

The demand for both Y and Z will decrease.

**Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:**



The demand for both Y and Z will increase.

**The demand for Y will increase while the demand for Z will decrease.**

The demand for Y will decrease while the demand for Z will increase.

The demand for both Y and Z will decrease.

**Which of the following statements describes the presence of diminishing returns.**

The marginal product of a factor is positive and rising.

**The marginal product of a factor is positive but falling.**

The marginal product of a factor is falling and negative.

The marginal product of a factor is constant.

**Which of the following defines the opportunity cost?**

It is measured only in rupees.

It is the cost to society of producing the goods.

It is the difficulty associated with using one good in place of another.

**It is the cost of next best alternative forgone.**

**The substitution effect of a price decrease for a good with a normal indifference curve pattern:**

Is always inversely related to the price change.

Measures the change in consumption of the good that is due to the consumer's feeling of being richer.

Is measured by the horizontal distance between the original and the new indifference curves.

**Is sufficient information to plot an ordinary demand curve for the commodity being considered.**

**The demand curve faced by an individual firm in a competitive market is:**

Upward sloping.

Downward sloping.

**Horizontal.**

Vertical.

**Price floor results in:**

Equilibrium.

Excess demand.

**Excess supply.**

All of the given options.

**In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:**

Decreasing returns to scale.

Constant returns to scale.

**Increasing returns to scale.**

Negative returns to scale.

**When government sets the price of a good and that price is below the equilibrium price, the result will be:**

A surplus of the good.

**A shortage of the good.**

An increase in the demand for the good.

A decrease in the supply of the good.

**A person with a diminishing marginal utility of income:**

**Will be risk averse.**

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

**A person with a diminishing marginal utility of income:**

**Will be risk averse.**

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

**Which of the following is true about the point on a nation's production-possibilities curve?**

**It shows an undesirable combination of goods and services.**

It shows the combinations of production that are unattainable, given current technology and resources.

It shows the level of production that will cause both unemployment and inflation.

It shows that resources are fully employed in producing a particular combination of goods and services.

**According to the law of diminishing marginal utility, as the consumption of particular good increases:**

Total utility increases.

Marginal utility increases.

Total utility decreases.

**Marginal utility decreases.**

**More output could be produced with available resources if:**

**Resources are allocated efficiently.**

Resources are imperfectly shiftable among alternative uses.

Prices are reduced.

The economy is operating at a point inside the production possibilities curve.

**Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:**

The two goods are normal goods.

The two goods are inferior goods.

The two goods are substitutes.

**The two goods are complements.**

**The demand curve facing a perfectly competitive firm is:**

Upward sloping.

Downward sloping.

**Horizontal.**

Vertical.

**The marginal rate of substitution is equal to the:**

**Magnitude of the slope of the indifference curve**

Relative price

Marginal cost of each good

Slope of the budget line

**Which of the following defines the opportunity cost?**

It is measured only in rupees.

It is the cost to society of producing the goods.

It is the difficulty associated with using one good in place of another.

**It is the cost of next best alternative forgone.**

**The substitution effect of a price decrease for a good with a normal indifference curve pattern:**

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Decreasing returns to scale.

Constant returns to scale.

**Increasing returns to scale.**

Negative returns to scale.

**Price floor results in:**

Equilibrium.

Excess demand.

**Excess supply.**

All of the given options.

**A person with a diminishing marginal utility of income:**

**Will be risk averse.**

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

**Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:**

The two goods are normal goods.

The two goods are inferior goods.

The two goods are substitutes.

**The two goods are complements.**

**The demand curve facing a perfectly competitive firm is:**

The same as its average revenue curve but not the same as its marginal revenue curve.

**The same as its average revenue curve and its marginal revenue curve.**

The same as its marginal revenue curve but not its average revenue curve.

Not the same as either its marginal revenue curve or its average revenue curve.

**Average physical product is equal to:**

TPPF

**TPPF/QF**

QF / TPPF

TPPF \* QF

**In the long run, profits will equal zero in a competitive market because of:**

The availability of information.

Identical products being produced by all firms.

Constant returns to scale.

**Free entry and exit**

**Which of the following is true about the total cost curve?**

It relates output with total cost.

It is usually upward sloping.

Gets steeper as output rises, due to diminishing marginal product of an input.

**All of the given options are true**

**The shape of production possibilities curve is:**

**Concave.**

Convex.

Linear.

Positive.

**Which best expresses the law of demand?**

**A higher price reduces demand.**

A lower price reduces demand.

A higher price reduces quantity demanded.

A lower price shifts the demand curve to the right.

**“Each firm produces an identical product and there is freedom of entry and exit”.**

**This is TRUE for which of the following market structures?**

For Monopoly.

**For Oligopoly.**

For Perfect competition.

For Monopolistic competition.

**Production possibilities analysis assumes that:**

Resources and technology increase with production.

**Resources are used to produce thousands of goods. Not sure**

Extra resources are saved for emergency use.

Resources are used in a technically efficient way.

**Assume Leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:**

Increase hours of work

**Decrease hours of work**

Not change hours of work

None of the given options

**A negatively sloped isoquant implies:**

Products with negative marginal utilities.

Products with positive marginal utilities.

**Inputs with negative marginal products.**

Inputs with positive marginal products

**The principle economic difference between a competitive and a non-competitive market is:**

The number of firms in the market.

**The extent to which any firm can influence the price of the product.**

The size of the firms in the market.

The annual sales made by the largest firms in the market.

**In economics, the “long run” is a time period in which:**

**All inputs are variable.**

All inputs are paid for.

All outputs are determined.

All loans are repaid.

**A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:**

Supply Schedule.

**Demand Schedule.**

Quantity supplied Schedule.

Quantity demanded Schedule.

**If marginal product is below average product:**

The total product will fall

**The average product will fall**

Average variable costs will fall

Total revenue will fall

**When the price of petrol rises by 8%, the quantity of petrol purchased falls by 6%.**

**This shows that the demand for petrol is:**

Perfectly elastic.

Unit elastic.

Price elastic.

**Price inelastic.**

**When the price elasticity of demand for a good is greater than 1, we say that the demand is:**

Increasing.

Decreasing.

**Elastic.**

Inelastic

**Suppose price rises from Rs. 15 to Rs. 17 and quantity demanded decreases by 20%.  
We can conclude:**

Demand is inelastic.

The elasticity of demand is 2.

Total revenue will decrease.

**Demand is unit elastic.**

**Indifference curve is:**

**A collection of market baskets that are equally desirable to the consumer.**

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

**The burden of a tax is shifted toward buyers if:**

Demand is perfectly elastic.

Demand is relatively more elastic than supply.

**Demand is relatively more inelastic than supply.**

Demand and supply have equal elasticities

**When the price elasticity of demand for a good is greater than 1, we say that the demand is:**

Increasing.

Decreasing.

**Elastic.**

Inelastic.

**If firms in a competitive industry are experiencing losses in the short run, then:**

The firms will try to raise prices.

**Some firms will choose to shut down.**

The industry will cease to exist.

New firms will enter the industry.



**A price taker is:**

A firm that accepts different prices from different customers.

A monopolistically competitive firm.

**A firm that cannot influence the market price.**

An oligopolistic firm.

**Moving from left to right, the typical production possibilities curve:**

Is horizontal.

Has a constant positive slope.

**Illustrates increasing opportunity costs.**

Illustrates decreasing opportunity costs

**At any given point on an indifference curve, the slope is equal to:**

Unity.

**The marginal rate of substitution.**

The consumer's marginal utility.

None of the given options.

**A market is said to be in equilibrium when:**

Supply equals Price.

There is downward pressure on price.

**The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**

All buyers are able to find sellers willing to sell to them at the current price.

**We know that the demand for a product is elastic if:**

When price rises, revenue rises.

**When price rises, revenue falls.**

When price rises, quantity demanded rises.

When price falls, quantity demanded rises.

**Revenue is equal to:**

Price times quantity.

**Price times quantity minus total cost.**

Price times quantity minus average cost.

Price times quantity minus marginal cost.

**If two goods were perfect complements, their indifference curves would be:**

**Straight lines**

L-shaped

Rectangular hyperbolas

Parabolic

**Which of the following statements describes increasing returns to scale:**

Doubling the inputs used leads to double the output.

Increasing the inputs by 50% leads to a 25% increase in output.

**Increasing inputs by 1/4 leads to an increase in output of 1/3.**

None of the given options.

**Curves that are convex to the origin reflect:**

An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases then increases.

**An indifference curve is:**

A collection of market baskets that are equally desirable to the consumer.

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

**A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.**

**The numerical measurement of a consumer's preference is called:**

Satisfaction.

Use.

Pleasure.

**Utility.**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

200.

**5Q**

5.

$5 + (200/Q)$ .

**The demand curve facing a perfectly competitive firm is:**

The same as its average revenue curve but not the same as its marginal revenue curve.

**The same as its average revenue curve and its marginal revenue curve.**

The same as its marginal revenue curve but not its average revenue curve.

Not the same as either its marginal revenue curve or its average revenue curve

**Insurance companies operate under the principle of:**

**Law of large numbers.**

Law of small numbers.

Law of zero numbers.

All of the given options

**The opportunity cost of an action:**

Will be the same for everyone.

**Is the value of the next best alternative.**

Measures the undesirable aspects of that action.

Is the average amount of unhappiness experienced by everyone involved.

**Which of the following is TRUE about the production function?**

**It relates inputs with output.**

It generates a curve that is upward sloping.

It shows diminishing marginal product of an input, since it gets flatter as output rises.

All of the given options are true

**“Decreases in aggregate demand decrease real output but leave the price level largely unaffected”. This is the point of view of which of the following schools of thought?**

Monetarist school of thought.

New Classical school of thought.

Real business cycle school of thought.

**Keynesian school of thought.**

**The average propensity to consume is the ratio of:**

A change in consumption to a change in disposable income.

A change in consumption to total disposable income at a specific income level.

**Total consumption to total disposable income at a specific income level.**

Total consumption to a change in disposable income.

**It measures the percentage change in demand given a percentage change in consumer's income.**

Price elasticity of demand

**Income elasticity of demand**

Supply price elasticity

Cross price elasticity

**Which of the following concepts apply to oligopoly more than to any other market structure?**

Advertising and product differentiation

Easy entry and more than one firm in the market

Homogeneous product and perfect information

**Concentration and interdependence**

**Goods produced by oligopolistic industries are typically:**

Standardized

Differentiated

Differentiated if industrial goods

**Differentiated if consumer goods**

**(NDP), start with Gross Domestic Product and subtract:**

**Depreciation.**

Depreciation and indirect business taxes.

Depreciation, indirect business taxes and corporate profits.

Depreciation, indirect business taxes, corporate profits and social insurance contributions

**Which of the following statements is true regarding the differences between economic and accounting costs?**

Accounting costs include all implicit and explicit costs.

Economic costs include implied costs only.

Accountants consider only implicit costs when calculating costs.

**Accounting costs include only explicit costs.**

**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive, but can be resold, and are therefore an example of**

**a fixed cost.**

a variable cost.

an implicit cost.

an opportunity cost.

**Incremental cost is the same concept as ----- cost.**

average

**marginal**

fixed

variable

**Which of the following costs always declines as output increases?**

average cost

marginal cost

fixed cost

**average fixed cost**

average variable cost

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

200

**5Q**

5

$5 + (200/Q)$

non of the above

The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the fixed cost?

**200**

5Q

5

$5 + (200/Q)$

The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the marginal cost?

200

5Q

**5**

$5 + (200/Q)$

The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average total cost?

500

5Q

5

**$5 + (200/Q)$**

The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average fixed cost?

500

5Q

5

**none of the above**

**An isocost line reveals the**

costs of inputs needed to produce along an isoquant.

costs of inputs needed to produce along an expansion path.

**input combinations that can be purchased with a given outlay of funds.**

output combinations that can be produced with a given outlay of funds.

Assume that a firm spends \$500 on two inputs, labor (graphed on the horizontal axis) and capital (graphed on the vertical axis). If the wage rate is \$20 per hour and the rental cost of capital is \$25 per hour, the slope of the isocost curve will be

500.

25/500.

**-4/5.**

25/20 or 1/4.

Which of the following is NOT an expression for the cost minimizing combination of inputs?

**MRTS = MPL /MPK.**

MPL/w = MPK/r.

MRTS = w/r.

MPL/MPK = w/r.

When an isocost line is just tangent to an isoquant, we know that

**output is being produced at minimum cost.**

output is not being produced at minimum cost.

the two products are being produced at the least input cost to the firm.

the two products are being produced at the highest input cost to the firm.

Suppose that the price of labor ( PL ) is \$10 and the price of capital ( PK ) is \$20. What is the equation of the isocost line corresponding to a total cost of \$100?

PL + 20PK

**100 = 10L + 20K**

100 = 30(L+K)

100 + 30 (PL + PK )

none of the above

A firm employs 100 workers at a wage rate of \$10 per hour, and 50 units of capital at a rate of \$21 per hour. The marginal product of labor is 3, and the marginal product of capital is 5. The firm

is producing its current output level at the minimum cost.

could reduce the cost of producing its current output level by employing more capital and less labor.

**could reduce the cost of producing its current output level by employing more labor and less capital.**

could increase its output at no extra cost by employing more capital and less labor.

**Assume that a firm's production process is subject to increasing returns to scale over a broad range of outputs. Long run average costs over this output will tend to**

increase.

**decline.**

remain constant.

fall to a minimum and then rise.

**The cost-output elasticity is used to measure:**

economies of scope.

**economies of scale.**

the curvature in the fixed cost curve.

steepness of the production function.

**Cost-output elasticity can be written and calculated as**

**MC/AC.**

AC/MC

(AC)(MC)

(AC)<sup>2</sup>(MC)

(AC)(MC)<sup>2</sup>.

**When there are economies of scale,**

MC > AC, so cost-output elasticity is greater than AC.

MC < AC, so cost-output elasticity is less than AC.

MC < AC, so cost-output elasticity is greater than 1.

**MC < AC, so cost-output elasticity is less than 1.**

**Generally, economies of scope are present when**

economies of scale are present in the production of two or more goods.

economies of scale are constant in the joint production of two products.

joint output is less from a single firm than could be achieved from two different firms

each producing a single product (assuming equivalent production inputs in both situations).



**joint output is greater from a single firm producing two goods than could be achieved by two**

**Economies of scope refer to**

changes in technology.  
the very long run.

**multiproduct firms.**

single product firms that utilize multiple plants.

**Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves**

**diseconomies of scope.**

economies of scale.

decreasing returns to scale.

increasing returns to scale.

**The fundamental problem of economics implies that:**

governments must be relied upon to supply essential goods and services

inflation and unemployment are unavoidable

growing populations will deplete natural resources

**individuals and communities must make choices among competing alternatives**

**An economy that has achieved “full production” has achieved:**

**Both allocative and productive efficiency**

Allocative but not productive efficiency

Productive but not allocative efficiency

Neither allocative nor productive efficiency

**Government authorities have managed to reduce the unemployment rate from 6% to 4% in a hypothetical economy. As a result:**

the economy's production possibilities curve has shifted outward

the economy has moved downward along its production possibilities curve

**the economy has moved from a point inside to a point closer to its production possibilities curve**

the economy's production possibilities curve has become steeper

**Consider an economy that can produce either capital goods or consumer goods. If the opportunity cost of consumer goods is always 5 capital goods, then:**

**the production possibilities curve is a straight line**

the opportunity cost of capital goods is always 5 consumer goods

the production possibilities curve is upward sloping

the production possibilities curve is bowed inward

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

A reduction in unemployment

**An increase in the production of capital goods**

A reduction in discrimination

An increase in the production of consumer goods

**Margaret decides to stay home and study for her exam rather than going out with her friends to a movie. Her dilemma is an example of:**

the economic perspective

marginal analysis

allocative efficiency

**opportunity cost**

**A nation achieves “allocative efficiency” if:**

it produces at a point on, rather than inside, its production possibilities curve

**it produces that combination of goods most desired by society**

all available resources are fully employed

marginal benefit exceeds marginal cost for every possible good

**In the circular flow diagram, firms:**

receive revenue and supply resources in the resource market

receive revenue and demand resources in the product market

**incur costs and demand resources in the resource market**

incur costs and supply goods and services in the product market

**The process by which resources are transformed into useful forms is**

Capitalization.  
Consumption.  
Allocation.  
**Production.**

**The concept of choice would become irrelevant if**

Capital was eliminated.  
**Scarcity were eliminated.**  
we were dealing with a very simple, one-person economy.  
poverty were eliminated.

**Which of the following is not a resource as the term is used by economists?**

**money.**  
land.  
buildings.  
labor.

**Capital, as economists use the term,**

is the money the firm spends to hire resources.  
is money the firm raises from selling stock.  
refers to the process by which resources are transformed into useful forms.  
**refers to things that have already been produced that are in turn used to produce other goods and services.**

**Opportunity cost, most broadly define, is**

the additional cost of producing an additional unit of output.  
**what we forgo, or give up, when we make a choice or a decision.**  
a cost that cannot be avoided, regardless of what is done in the future.  
the additional cost of buying an additional unit of a product.

**A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a**

demand curve.  
supply curve  
**production possibility frontier.**

circular-flow diagram.

**Periods of “less than full employment” of resources correspond to**

points on the ppf.

points outside the ppf.

either points inside or outside the ppf.

**points inside the ppf.**

**What lies at the heart of the allocation of goods and services in a free-market economy?**

Concerns of equity or equal distribution among individuals.

The order or command of the ruling government or dictator.

The wishes of consumers in the market.

**The price mechanism.**

**The phrase 'ceteris paribus' is best expressed as**

**'all else equal.'**

'everything affects everything else.'

'scarcity is a fact of life.'

'there is no such thing as a free lunch.'

**Laboratory (or controlled) experiments cannot be performed in economics because:**

of resource scarcity.

economics is a natural science.

of the difficulty of distinguishing between normative and positive statements.

**economics is a social science.**

**Positive statements are:**

value judgments

**verifiable or testable**

statements in the affirmative

good statements

**The former Soviet Union was an example of:**

**a planned economy**

free-market/capitalism

dictatorship

a mixed economy

**Rational choice or rational decision-making involves**

comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined

weighing up total costs and total benefits associated with a decision

**weighing up marginal costs and marginal benefits associated with a decision**

all of the above.

**The PPF can be used to illustrate:**

the principle of opportunity costs and increasing opportunity costs

the distinction between micro and macroeconomics

efficient, infeasible and inefficient production combinations

**all of the above**

**The concept of “interdependence of markets” can refer to the interdependence between:**

two or more factor markets

goods and factor markets

goods markets

**all of the above**

**The 'law of demand' implies that**

**as prices fall, quantity demanded increases.**

as prices fall, demand increases.

as prices rise, quantity demanded increases.

as prices rise, demand decreases.

**What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?**

**the substitution effect.**

the ceteris paribus effect.

the total price effect.

the income effect.

**The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:**

A's consumers have had an increase in income.

**the price of A has increased.**

A's advertising is not as effective as in the past.

the price of rival brand B has increased.

**Demand curves in P-Q space are derived while holding constant**

consumer tastes and the prices of other goods.

incomes, tastes, and the price of the good.

incomes and tastes.

**incomes, tastes, and the prices of other goods.**

**Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are**

perfect substitutes.

unrelated goods.

**complements.**

substitutes.

**If the demand for coffee decreases as income decreases, coffee is**

**a normal good.**

a complementary good.

an inferior good.

a substitute good.

**Which of the following will NOT cause a shift in the demand curve for compact discs?**

a change in the price of pre-recorded cassette tapes.

a change in wealth.

**a change in income.**

a change in the price of compact discs.

**Which of the following is consistent with the law of supply?**

As the price of calculators rises, the supply of calculators increases, ceteris paribus.

As the price of calculators falls, the supply of calculators increases, ceteris paribus.

**As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.**

As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

**The price of computer chips used in the manufacture of personal computers has fallen. This will lead to \_\_\_\_\_ personal computers.**

a decrease in the supply of

a decrease in the quantity supplied of

**an increase in the supply of**

an increase in the quantity supplied of

**When there is excess demand in an unregulated market, there is a tendency for**

quantity demanded to increase.

quantity supplied to decrease.

price to fall.

**price to rise.**

**Equilibrium in the market for good A obtains**

when there is no surplus or shortage prevailing in the market

where the demand and supply curves for A intersect

when all of what is produced of A is consumed

**all of the above**

**A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by**

a decrease in supply.

**a fall in income.**

a fall in the price of a complementary good.

a fall in the number of substitute goods.

Assume the good is normal

**A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by**

a fall in the price of a complementary good.

a fall in income.

a change in tastes such that consumers prefer the good more.

**a rise in the number of substitute goods.**

Assume the good is normal

**A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by**

**an increase in supply.**

a rise in income.

a rise in the price of a complementary good.

a fall in the number of substitute goods.

Assume the good is normal

**When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as**

price fixing.

quantity setting.

quantity adjustment.

**price rationing.**

**How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?**

2

4

**8**

16

**What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right**

**price falls unambiguously but the effect on quantity cannot be determined**

both price and quantity falls unambiguously

quantity falls unambiguously but the effect on price cannot be determined

the effect on both price and quantity cannot be determined



**What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left**

price falls unambiguously but the effect on quantity cannot be determined

both price and quantity falls unambiguously

**quantity falls unambiguously but the effect on price cannot be determined**

the effect on both price and quantity cannot be determined

**A price ceiling imposed by the government can cause a shortage (excess demand)**

when the price ceiling is above the free (or unregulated) market price

**when the price ceiling is below the free (or unregulated) market price**

when the price ceiling is equal to the free (or unregulated) market price

either of the above

**What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?**

Price falls, quantity rises

**Price rises, quantity falls**

Both price and quantity fall

Both price and quantity rise

**A price floor is**

a maximum price usually set by government, that sellers may charge for a good or service.

**a minimum price usually set by government, that sellers must charge for a good or service.**

the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.

the minimum price that consumers are willing to pay for a good or service.

**The need for rationing a good arises when**

there is a perfectly inelastic demand for the good.

supply exceeds demand.

**demand exceeds supply.**

a surplus exists.

**If the “regulated-market” price is below the equilibrium (or “free-market” price) price,**

**the quantity demanded will be greater than quantity supplied.**

demand will be less than supply.

quantity demanded will be less than quantity supplied.

quantity demanded will equal quantity supplied.

**If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that**

**more workers would become employed.**

there would be more unemployment.

the costs and prices of firms employing cheap labour would increase.

wages in general would fall as employers tried to hold down costs.

**Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce**

**are normal goods.**

have few complementary goods.

have many complementary goods.

have few substitutes.

**When the decrease in the price of one good causes the demand for another good to decrease, the goods are**

complements.

normal.

inferior.

**substitutes.**

**The price elasticity of demand is the**

**ratio of the percentage change in quantity demanded to the percentage change in price.**

ratio of the change in price to the change in quantity demanded.

ratio of the change in quantity demanded to the change in price.

ratio of the percentage change in price to the percentage change in quantity demanded.

**The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:**

inelastic.  
perfectly inelastic.  
**elastic.**  
perfectly elastic.

**The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is**

**elastic.**  
inelastic.  
unitarily elastic  
perfectly elastic

**If the cross-price elasticity of demand between two goods is negative, then the two goods are**

unrelated goods.  
substitutes.  
**complements.**  
normal goods.

**If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is**

-4.  
4.  
-0.25.  
**0.25.**

**The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?**

This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.

**The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time.**

This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.

No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.

**The burden (incidence) of a tax will fall mainly on the producers if:**

The producers are the ones legally obliged to pay the tax.

**Supply is inelastic and demand is elastic.**

Demand is inelastic and supply is elastic.

There are many producers in the market.

**Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?**

**Inferior goods.**

Normal goods.

Substitute goods.

Complementary goods.

**Each type of elasticity has its own set of determinants. You are given four determinants below. Match them with the three types of elasticity given:**

The number and closeness of substitute goods:

Time:

**The proportion of income spent on the goods:**

The rate at which the desire for a good is satisfied as consumption increases:

**If total revenue rises by 10% when price increases by 5%, this means:**

**demand is price inelastic**

demand is price elastic

demand is unit elastic

demand is perfectly inelastic

**If a 5% increase in price causes no change in total revenue, this means:**

demand is price inelastic  
demand is price elastic  
**demand is unit elastic**  
demand is perfectly inelastic

**Which of the following statements is true:**

Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.

Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.

**We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range**

A straight line demand curve with a slope of -1 delivers unit elasticity.

**When firms advertise their product, they are trying to:**

Shift the demand curve to the right

Make the demand curve steeper

Make demand for the product more inelastic

**All of the above**

**“It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy.”**

False. A good can only have one characterization in an economy, normal or inferior, not both

False. Milk is always and everywhere a normal good.

**True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.**

True. Some people in the economy like milk, others don't.

**A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:**

the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high

Z's exports grow at a slower rate than the rate of growth of the world income; Z's

imports rise at a faster rate than the rate of growth of Z's income

Z's terms of trade (price of exports / price of imports) deteriorate

**All of the above.**

**“The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems.” This most closely illustrates which elasticity concept:**

Price elasticity of demand

Price elasticity of supply

Income elasticity of demand

**Cross price elasticity of demand**

**Economists use the term utility to mean**

the value of a product before it has been advertised.

**the satisfaction a consumer obtains from a good or service.**

any characteristic of a good or service which cannot be measured.

the contribution a good or service makes to social welfare.

**Economists use the term marginal utility to mean**

additional satisfaction gained divided by additional cost of the last unit.

**additional satisfaction gained by the consumption of one more unit of a good.**

total satisfaction gained when consuming a given number of units.

the process of comparing marginal units of all goods which could be purchased.

**The law of diminishing marginal utility states that**

total satisfaction will decrease as more units of the good are consumed.

**the satisfaction derived from each additional unit of a good consumed will decrease.**

total utility will become negative.

Both the first and third option.

**By total consumer surplus economists mean (in P-Q space)**

**The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.**

the area between the average revenue and marginal revenue curves.

the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).

A and C.

The equation for Rida's demand curve for bouquets of flowers is  $P = 40 - 2Q$ . If the price of a bouquet is Rs18, her consumer surplus will be

- Rs198
- Rs121.
- Rs11.**
- Rs242.

The price of an ice cream cone is \$1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to \$1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?

**The marginal utility of the fourth ice cream cone per week must be worth less than \$1.25 to you.**

The total utility of the four ice cream cones per week must be worth less than \$5.75 ( $=3*\$1.50 + \$1.25$ ) to you.

The total utility of the four ice cream cones per week must be less than \$5.00 ( $3*\$1.25 + \$1.25$ ) to you.

None of the above.

**Economists have used the idea of diminishing marginal utility to explain why**

demand curves slope downwards.

demand curves become flatter at lower prices.

demand curves are inelastic.

**Both the first and second option.**

**A consumer will buy more units of a good if the value of the good's**

total utility is greater than price.

marginal utility is less than price.

**marginal utility is greater than price.**

total utility is less than price.

**The diamond-water paradox can be explained by suggesting that the price of a product is determined by**

consumer incomes.

**its marginal utility.**

consumer surplus.

diminishing marginal utility.

**A utility-maximising consumer changes her spending on goods X and Y until**

$$MU_x = MU_y$$

$$P_x (MU_x) = P_y(MU_y)$$

$$TU_x/P_x = TU_y/P_y$$

$$\mathbf{MU_x (P_y) = MU_y (P_x)}$$

**The  $MU_x/MU_y$  ratio is 10 and the  $P_x/P_y$  ratio is 8, so the consumer should buy**

less X and more Y.

more X and more Y.

**more X and less Y.**

less X and less Y.

**Economists define an indifference curve as the set of points**

at which the consumer is in equilibrium as the consumer's income changes.

which yield the same marginal utility.

**which yield the same total utility.**

At which the consumer is in equilibrium as prices change.

**Which of the following is a property of an indifference curve?**

the marginal rate of substitution is constant as you move along an indifference curve.

marginal utility is constant as you move along an indifference curve.

**it is convex to the origin.**

total utility is greatest where the 45 degree line cuts the indifference curve.

**The limits imposed on household choices by income, wealth, and product prices are captured by the**

**budget constraint.**

choice set.

assumption of perfect knowledge.

preference set.

**Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?**



50 units of clothing and 50 units of food.  
20 units of clothing and 50 units of food.  
10 units of clothing and 25 units of food.  
**0 units of clothing and 50 units of food.**

**If a household's money income is doubled,**

the budget constraint will shift in and parallel to the old one.  
the budget constraint is not affected.  
the budget constraint will swivel outward at the Y-intercept.  
**the budget constraint will shift out parallel to the old one.**

**The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is**

**the income-consumption curve.**  
the Engel curve.  
the demand curve.  
the income-demand curve.

**The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is**

the Engel curve.  
the demand curve for X.  
the substitution curve.  
**the price-consumption curve for X.**

**The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:**

the Engel curve.  
the demand curve for X.  
**the substitution curve.**  
the price-consumption curve for X.

**If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a**

inferior good.  
Giffen good.  
**normal good.**  
superior good.

**If the price (or budget) line has a slope of -2 and it cuts indifference curve ICa at points P and R (given that the slope of ICa at point P is -4 and at point R is -1), the consumer can maximize utility by:**

choosing consumption bundle P  
choosing consumption bundle R  
**moving to a higher indifference curve**  
we don't enough information to answer the question

**Indifference curves cannot**

be L shaped  
be straight lines  
**intersect**  
all of the above

**The main problem with marginal utility analysis is:**

that it cannot solve problems involving more than two goods  
**its cardinal measurement of utility**  
its inability to explain the diamond-water paradox  
all of the above

**This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is  $< 1$ , and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?**

She is risk averse  
She is risk neutral  
She is risk loving  
**We do not have enough information to answer the question**

**The concept of diminishing marginal utility of income (DMUy) helps explain:**

why a marginal dollar might have higher utility for a pauper than a millionaire  
why the total utility curve (in Utility-Income space) is convex  
why the average consumer is risk-averse

**all of the above**

**“Moral hazard” and “adverse selection” are problems related to asymmetric information, that arise**

in ex-ante and ex-post contexts, respectively  
**in ex-post and ex-ante contexts, respectively**  
in ex-ante contexts  
in ex-post contexts

**Profit-maximising firms want to maximize the difference between**

**total revenue and total cost.**  
marginal revenue and marginal cost.  
marginal revenue and average cost.  
total revenue and marginal cost.

**Which statement is FALSE?**

Fixed costs do not depend on the firm's level of output.  
**Fixed costs are zero if the firm is producing nothing.**  
Fixed costs are the difference between total costs and total variable costs.  
There are no fixed costs in the long run.

**Which of the following is most likely to be a variable cost for a firm?**

The monthly rent on office space that it leased for a year.  
The franchiser's fee that a restaurant must pay to the national restaurant chain.  
The interest payments made on loans.  
**Workers' wages.**

**The costs that depend on output in the short run are**

total variable costs only.  
**both total variable costs and total costs.**  
total costs only.  
total fixed cost only.

**The short run, as economists use the phrase, is characterized by**

a period where the law of diminishing returns does not hold.

**at least one fixed factor of production, and firms neither leaving nor entering the industry.**

all inputs being variable.

no variable inputs - that is all of the factors of production are fixed.

**Diminishing marginal returns implies**

increasing average fixed costs.

decreasing marginal costs.

decreasing average variable costs.

**increasing marginal costs.**

**Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?**

If AP is at a maximum, then MP is also.

If TP is declining then AP is negative.

**If AP exceeds MP, then AP is falling.**

If  $AP = MP$ , then total product is at a maximum.

**If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is \_\_\_\_\_ and the average product of the third worker is \_\_\_\_\_.**

270; 160

3.33; 10

**10; 30**

30; 10

**Engineers for Imran Bike Company have determined that a 15% increase in “all” inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause \_\_\_\_\_ as output increases.**

Long-run average costs to increase

Long-run marginal costs to increase

**Long-run average costs to remain constant**

Long-run average costs to decrease

**Suppose Isa Khan's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be**

upward sloping to the right.

**U-shaped.**

horizontal.

downward sloping to the right.

**A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is**

an isocost line.

a production function.

**an isoquant.**

an indifference curve.

**The rate at which a firm can substitute capital for labour and hold output constant is the**

law of diminishing marginal returns.

**marginal rate of technical substitution.**

marginal rate of substitution.

marginal rate of production.

**A graph showing all the combinations of capital and labour available for a given total cost is the**

budget constraint.

isoquant.

expenditure set.

**isocost line.**

**The formula for average fixed costs is**

$dTFC/dq$ .

**$TFC/q$ .**

$q/TFC$ .

$TFC - q$ .

**The formula for AVC is**

$q/\text{TVC}$ .  
 $d\text{TVC}/dq$ .  
 $dq/d\text{TVC}$ .  
 **$\text{TVC}/q$ .**

**Marginal revenue is**

the additional profit the firm earns when it sells an additional unit of output.  
**the added revenue that a firm takes in when it increases output by one additional unit.**

the difference between total revenue and total costs.

the ratio of total revenue to quantity.

**A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is**

Rs 15,000.

Rs 25,000.

**Rs 35,000.**

Zero.

**The amount of profit a firm makes can be shown on a diagram using**

**the AC and AR curves.**

the MR and AR curves.

the AC and MC curves.

the MR and MC curves.

**A firm's choice of profit-maximising output can be shown on a diagram using**

the AC and AR curves.

the MR and AR curves.

the AC and MC curves.

**the MR and MC curves.**

**A firm will shut down in the short run if**

**total variable costs exceed total revenues.**

average cost exceeds price.

total costs exceed total revenues.

it is suffering a loss.

**If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on**

**how much of each input to use.**

how much to spend on advertising.

what price to charge.

the design of the product.

**Market power is**

a firm's ability to charge any price it likes.

**a firm's ability to raise price without losing all demand for its product.**

a firm's ability to sell any amount of output it desires at the market-determined price.

a firm's ability to monopolise a market completely.

**When \_\_\_\_\_ substitutes exist, a monopolist has \_\_\_\_\_ power to raise price.**

more; more

fewer; less

no; infinite

**more; less**

**If a firm has some degree of market power, then output price**

**becomes a decision variable for the firm.**

is determined by the actions of other firms in the industry.

no longer influences the amount demanded of the firm's product.

is guaranteed to be above a firm's average cost.

**Relative to a competitively organised industry, a monopoly**

produces less output, charges lower prices and earns economic profits.

produces more output, charges higher prices and earns economic profits.

**produces less output, charges higher prices and earns economic profits.**

produces less output, charges lower prices and earns only a normal profit.

**The cosmetics industry is not considered by economists to be a good example of perfect competition because**

**firms spend a large amount of money on advertising.**

profit margins are very high for both producers and retailers.

there are a very large number of firms in the industry.

there are many government health controls on cosmetic products.

**If firms can neither enter nor leave an industry, the relevant time period is the**

long run.

immediate run.

intermediate run.

**short run.**

**In the long run**

**there are no fixed factors of production.**

all firms must make economic profits.

a firm can vary all inputs, but it cannot change the mix of inputs it uses.

a firm can shut down, but it cannot exit the industry.

**A normal rate of profit**

is the rate of return on investments over the interest rate on risk-free government bonds.

**is the rate that is just sufficient to keep owners or investors satisfied.**

Means zero return for owners or investors.

is the difference between total revenue and total costs.

**If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then**

total costs exceed normal profit.

**the firm is earning an economic profit.**

normal profit is zero.

total costs exceed total revenue.

**Economic profits are**

**the difference between total revenue and total costs.**

anything greater than the normal opportunity cost of investing.



a rate of profit that is just sufficient to keep owners and investors satisfied.  
the opportunity costs of all inputs.

**The slope of the marginal revenue curve is**

the same as the slope of the demand curve.  
half as steep as the demand curve.  
**twice as steep as the demand curve.**  
always equal to one.

**In a monopoly, marginal revenue is**

less than price at low levels of output and greater than price at high levels of output.  
always greater than price.  
**lower than price for all units other than the first.**  
always equal to price.

**Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has**

maximised the difference between marginal revenue and marginal cost.  
maximised its total revenue.  
**equated marginal revenue and marginal cost.**  
set price equal to its average cost.

**An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called**

an economies of scale monopoly.  
**a natural monopoly.**  
a government franchise monopoly.  
a fixed cost monopoly.

**How can a government regulate a monopoly firm making supernormal profits so that a “socially optimal” outcome obtains:**

**set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.**  
set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.

set the firm's price (and quantity) corresponding to the point where the MR curve intersects the AC curve and  $AC > MR$  after that point.

set the firm's price (and quantity) corresponding to the point where the AR curve intersects the MC curve and  $MC > AR$  after that point.

### **Monopolistic competition differs from perfect competition primarily because**

in perfect competition, firms can differentiate their products.

**in monopolistic competition, firms can differentiate their products.**

in monopolistic competition, there are relatively few firms.

in perfect competition, there are no barriers to entry.

### **In monopolistic competition, firms achieve some degree of market power**

**by producing differentiated products.**

because of barriers to entry into the industry.

because of barriers to exit from the industry.

by virtue of size alone.

### **A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover**

advertising costs.

fixed costs.

marginal costs.

**variable costs.**

### **A firm in a monopolistically competitive industry**

**must lower price to sell more output.**

sells a fixed amount of output regardless of price.

can sell an infinite amount of output at the market-determined price.

must raise price to sell more output.

### **The "long-run" equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures**

**firms will only earn a normal profit.**

the efficient output level will be produced in the long run.

firms will be producing at minimum average cost.

firms realise all economies of scale.

**A form of industry structure characterised by a few firms each large enough to influence market price is**

- monopolistic competition.
- monopoly.
- perfect competition.
- oligopoly.**

**When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is**

- monopolistically competitive.
- oligopolistic.**
- perfectly competitive.
- indeterminate from this information.

**An industry that has a relatively small number of firms that dominate the market is called**

- a natural monopoly.
- a colluding industry.
- a merged industry.
- a concentrated industry.**

**Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will \_\_\_\_\_ and the total output produced will \_\_\_\_\_.**

- increase; decrease
- increase; increase
- decrease; decrease
- decrease; increase**

**A group of firms that gets together to make price and output decisions is called**

- a non-collusive oligopoly.
- price leadership.
- a cartel.**

a concentrated industry.

**In which of the following circumstances would a cartel be most likely to work?**

The coffee market, where the product is standardised and there are a large number of coffee growers.

The automobile industry, where there are few producers but there is great product differentiation.

**The market for copper, where there are very few producers and the product is standardised.**

The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.

**A collusive oligopoly (with a dominant price leader) will produce a level of output**

that would prevail under perfect competition.

between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.

between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.

**equal to what a monopolist would choose in the same industry.**

**The kinked demand curve model of oligopoly assumes that the price elasticity of demand**

**in response to a price increase is more than the elasticity of demand in response to a price decrease.**

is constant regardless of whether price increases or decreases.

is infinite if price increases and zero if price decreases.

in response to a price increase is less than the elasticity of demand in response to a price decrease.

**Price discrimination involves**

firms selling different products at different prices to different consumers.

**firms selling the same product at different prices to different consumers.**

consumers discriminating between different sellers on the basis of the different prices they quote for different products.

consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

### **Price discrimination often favours public interest because it**

allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.

opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.

allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.

**all of the above**

### **Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:**

#### **Strategic interaction**

Prisoner's dilemma

Price leadership

None of the above

### **Which of the following would NOT constitute a pure public good?**

National defense.

A new national holiday.

**Free health service.**

National environmental protection.

### **One of the characteristics of a public good, X, is that it is “non-rival”. It means:**

It is not possible to exclude anyone from using (or benefiting from) X.

There is no substitute for X.

**One person's use of X does not affect another person's ability to use (or benefit from) X.**

None of the above.

### **Why might advertising exceed its socially optimal level?**

Because the marginal social costs of advertising are less than the marginal private costs.

**Because private firms do not or cannot incorporate marginal external costs when deciding how much to advertise.**

The marginal external benefit to advertising is not taken into account by firms.

None of the above.

**If  $MSBX > MPBX$ , what can the government do to align the market outcome with the social optimum:**

**Impose a consumption tax.**

Impose a production tax.

Provide a consumption subsidy.

Provide a production subsidy

**If the VMP for labour  $>$  the MRP for labour, and there is no government intervention, you can conclude that the underlying market structure is:**

a monopoly.

perfect competition.

**not perfect competition.**

none of the above.

**A backward bending labour supply curve (roughly similar in shape to an inverted C) obtains when the income effect of a wage rise (beyond a certain wage level) dominates the substitution effect. If it was also the case that the income effect of a wage reduction (below a certain wage level) dominated the substitution effect, what would the complete labour supply curve roughly look like in “wage-hours worked” space?**

a 3.

an inverted 3.

an S.

**an inverted S.**

**A firm is considering the project of buying an ice-cream producing machine costing Rs.1,000,000 that will serve for 10 years and then have a scrap value of Rs. 110,000 at the end of 10 years. If the present value of the net ice-cream sales revenues that the machine will generate is Rs.900,000, then, assuming a 10% annual discount rate:**

**the firm should not buy the machine because the NPV associated with the overall project is negative.**

the firm should be indifferent between buying and not buying because the NPV of the overall project is zero.

The firm should buy the machine because the NPV of the overall project is positive.

None of the above.

**If the quarterly rent from a house is Rs.5,000, the annual interest rate is fixed at 5%, and housing market conditions are stable, what would you expect the market price of the house to be?**

Rs.100,000

Rs.200,000

**Rs.400,000**

Rs.800,000

**There are many differences between labour and land as factors of production, for e.g.:**

Labour cannot be purchased like land, it can only be rented.

There is no obvious reason why landowners will reduce the supply of land when the rental price of land goes up.

The decision to hire labour does not directly depend on the interest rate.

**All of the above.**

**Information products are unique in that the marginal cost of \_\_\_\_\_ the product is virtually zero.**

producing

**distributing**

accessing

all of the above

**Which of the following is NOT an application of supply and demand analysis?**

Understanding changing world economic conditions and their effects on prices

Evaluating the effects of government price controls on the agricultural industry

Determining how taxes affect aggregate consumption spending patterns

all of the above

**none of the above**

**A supply curve reveals:**

the quantity of output consumers are willing to purchase at each possible market price.

the difference between quantity demanded and quantity supplied at each price.

the maximum level of output an industry can produce, regardless of price.

**the quantity of output that producers are willing to produce and sell at each possible market price.**

**Plastic and steel are substitutes in the production of body panels for certain automobiles. If the price of plastic increases, with other things remaining the same, we would expect:**

the price of steel to fall.

**the demand curve for steel to shift to the right.**

the demand curve for plastic to shift to the left.

nothing to happen to steel because it is only a substitute for plastic.

the demand curve for steel to shift to the left.

**Coffee and cream:**

are both luxury goods.

**are complements.**

are both more inelastic in demand in the long run than in the short run.

have a positive cross price elasticity of demand.

**Which of the following would shift the demand curve for new textbooks to the right?**

A fall in the price of paper used in publishing texts

A fall in the price of equivalent used textbooks

**An increase in the number of students attending college**

A fall in the price of new textbooks.

**When an industry's raw material costs increase, other things remaining the same,**

**the supply curve shifts to the left.**

the supply curve shifts to the right.

output increases regardless of the market price and the supply curve shifts upward.

output decreases and the market price also decreases.

**Sugar can be refined from sugar beets. When the price of those beets falls,**

the demand curve for sugar would shift right.

the demand curve for sugar would shift left.

**the supply curve for sugar would shift right.**

the supply curve for sugar would shift left.



**Assume that steak and potatoes are complements. When the price of steak goes up, the demand curve for potatoes:**

**shifts to the left.**

shifts to the right.

remains constant.

shifts to the right initially and then returns to its original position.

**Which of the following events will cause a leftward shift in the supply curve of gasoline?**

A decrease in the price of gasoline

**An increase in the wage rate of refinery workers**

Decrease in the price of crude oil

An improvement in oil refining technology

all of the above

**Gary Franklin is a movie critic. He invented the Franklin Scale with which he rates movies from 1 to 10 (10 being best). When asked about his scale, Mr. Franklin explained "that it is a subjective measure of movie quality. A movie with a ranking of 10 is not necessarily 10 times better than a movie with a ranking of 1, but it is better. A movie with a ranking of 5 is better than a movie with a ranking of 1, but is not as good a movie with a ranking of 10. That's all it really tells you." Based on Mr. Franklin's description, his scale is:**

**ordinal but not cardinal.**

cardinal but not ordinal.

an objective standard to judge movies.

neither cardinal nor ordinal.

**Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behavior?**

Preferences are complete.

Preferences are transitive.

Consumers prefer more of a good to less.

**All of the above are basic assumptions about consumer preferences.**

**The theory of consumer behavior is based on certain assumptions. The set of four basic assumptions includes:**

completeness.

transitivity.

intransitivity.

**Both A and B are correct.**

Both A and C are correct.

**The assumption of transitive preferences implies that indifference curves must:**

**not cross one another.**

have a positive slope.

be L-shaped.

be convex to the origin.

all of the above

**As we move downward along a demand curve for apples,**

consumer well-being decreases.

**the marginal utility of apples decreases.**

the marginal utility of apples increases.

Both A and B are true.

Both A and C are true.

**The change in the price of one good has no effect on the quantity demanded of another good. These goods are:**

complements.

substitutes.

both inferior.

both Giffen goods.

**none of the above**

**The price of good A goes up. As a result the demand for good B shifts to the left. From this we can infer that:**

good A is a normal good.

good B is an inferior good.

goods A and B are substitutes.

**goods A and B are complements.**

none of the above

**An individual demand curve can be derived from the \_\_\_\_\_ curve.**

**price-consumption**

price-income  
income-substitution  
income-consumption  
Engel

**Which of the following claims is true at each point along a price-consumption curve?**

Utility is maximized but income is not all spent.  
All income is spent, but utility is not maximized.

**Utility is maximized, and all income is spent.**

The level of utility is constant.

**Which of the following is true regarding income along a price-consumption curve?**

Income is increasing.

Income is decreasing.

**Income is constant.**

The level of income depends on the level of utility.

**Which of the following is true regarding utility along a price-consumption curve?**

It is constant.

**It changes from point to point.**

It changes only if income changes.

It changes only for normal goods.

**The income-consumption curve**

illustrates the combinations of incomes needed with various levels of consumption of a good.

is another name for income-demand curve.

**illustrates the utility-maximizing combinations of goods associated with every income level.**

shows the utility-maximizing quantity of some good (on the horizontal axis) as a function of income (on the vertical axis).

**Which of the following pairs of goods are NOT complements?**

Hockey sticks and hockey pucks

Computer CPUs and computer monitors

**On-campus student housing and off-campus rental apartments**

all of the above  
none of the above

Question # 4 of 15 ( Start time: 08:39:37 PM ) Total Marks: 1

Real GDP is equal to:

Select correct option:

Nominal GDP – Inflation.

Nominal GDP + Inflation.

Nominal GDP / Inflation.

Inflation / Nominal GDP.

Question # 5 of 15 ( Start time: 08:40:02 PM ) Total Marks: 1

The relationship between consumer spending and income is known as the:

Select correct option:

45-degree line.

Consumption function.

Investment function.

Consumer price index.

Question # 6 of 15 ( Start time: 08:41:00 PM ) Total Marks: 1

Overestimation of national product in national income calculations is known as:

Select correct option:

Lack of effective demand effect.

Distortion effect.

Double counting effect.

None of the given.

Question # 7 of 15 ( Start time: 08:41:25 PM ) Total Marks: 1

When we study market equilibrium, the primary influencing variable on production and purchasing decisions is:

Select correct option:

Price.

Cost of production.

The overall state of the economy.

Consumer's income.

$Q = a - bP$  represents equation of

Select correct option:

Supply function

Demand function

Labor supply function

Market demand function

Question # 9 of 15 ( Start time: 08:44:05 PM ) Total Marks: 1

When producers are unable to meet market demand for the product, this results as:

Select correct option:

Surplus of goods

Market failure

Monopoly

Shortage of good

Quiz Start Time: 08:37 PM Time Left 89

sec(s)

Question # 10 of 15 ( Start time: 08:44:37 PM ) Total Marks: 1

If the quantity demanded of mangoes exceeds the quantity supplied of mangoes:

Select correct option:

There is a surplus of mangoes.

Market forces will cause the price to fall.

Market forces will cause the price to rise.

The market is in equilibrium.

Question # 11 of 15 ( Start time: 08:45:10 PM ) Total Marks: 1

The slope of the consumption function (or line) is the:

Select correct option:

Average propensity to save.

Average propensity to consume.

Marginal propensity to save.

Marginal propensity to consume.

Question # 12 of 15 ( Start time: 08:45:29 PM ) Total Marks: 1

The law of diminishing marginal utility states:

Select correct option:

The supply curve slopes upward.

Your utility grows at a slower and slower rate as you consume more and more units of a good.

The elasticity of demand is infinite.

None of the given options.

Question # 13 of 15 ( Start time: 08:46:00 PM ) Total Marks: 1

If the quantity demanded of computers exceeds the quantity supplied of computers:

Select correct option:

Market forces will cause the price to rise.

The market is in equilibrium.

There is a surplus of computers.

Market forces will cause the price to fall.

Question # 14 of 15 ( Start time: 08:46:44 PM ) Total Marks: 1

An increase in the total output of a country over time is called

Select correct option:

Economic development

Economic growth

Financial growth

None of the given options

Question # 15 of 15 ( Start time: 08:47:11 PM ) Total Marks: 1

Keeping in view the model of aggregate supply and aggregate demand, in the long run, a decrease in the money supply should cause:

Select correct option:

Both prices and output to rise.

Both prices and output to fall.

Prices to rise and output to remain unchanged.

Prices to fall and output to remain unchanged.

Quiz Start Time: 08:55 PM Time Left 89  
sec(s)

Question # 1 of 15 ( Start time: 08:55:11 PM ) Total Marks: 1  
The resulting measure is unit free for price elasticity of demand, so we always  
measure it in:  
Select correct option:

Percentage terms.

Absolute terms.

Inelastic terms.

Elastic terms.

Question # 2 of 15 ( Start time: 08:55:34 PM ) Total Marks: 1  
Income elasticity of demand for the normal goods is usually:  
Select correct option:

Positive.

Negative.

Constant.

One.

Question # 3 of 15 ( Start time: 08:56:07 PM ) Total Marks: 1  
If there would be an increase in interest rate then:  
Select correct option:

Savings will decrease.

Consumption will increase.

Consumption will decrease.

Marginal propensity of consume will increase.

Question # 4 of 15 ( Start time: 08:56:31 PM ) Total Marks: 1  
In a free-market economy, the allocation of resources is determined by:  
Select correct option:

Votes taken by consumers.

A central planning authority.



**Consumer preferences.**

The level of profits of firms.

Question # 5 of 15 ( Start time: 08:57:13 PM ) Total Marks: 1

In Keynesian economics, equilibrium can occur:

Select correct option:

**Only at full employment.**

Only at levels less than full employment.

Only at levels greater than full employment.

At any level of aggregate output equal to aggregate expenditures.

Question # 6 of 15 ( Start time: 08:57:41 PM ) Total Marks: 1

Cartels are:

Select correct option:

Organizations of independent firms, producing similar products, that work together to raise prices and restrict output

Organizations of interdependent firms

**Oligopolies**

All of the above

Question # 7 of 15 ( Start time: 08:58:09 PM ) Total Marks: 1

The firm's demand for labor is:

Select correct option:

The marginal revenue product curve

**The marginal input cost curve**

The marginal cost curve

Undetermined

Question # 8 of 15 ( Start time: 08:58:37 PM ) Total Marks: 1

Production possibilities analysis assumes that:

Select correct option:

Resources and technology increase with production.

Resources are used to produce thousands of goods.

Extra resources are saved for emergency use.

**Resources are used in a technically efficient way.**

Question # 9 of 15 ( Start time: 08:58:54 PM ) Total Marks: 1

There are \_\_\_\_\_ methods of measuring GDP:

Select correct option:

Four

Three

Five

None

Question # 10 of 15 ( Start time: 08:59:17 PM ) Total Marks: 1

A new technology which reduces costs for firms:

Select correct option:

Shifts the supply curve to the right.

Shifts the supply curve to the left.

Reduces the equilibrium quantity.

Raises the equilibrium price.

Question # 11 of 15 ( Start time: 08:59:55 PM ) Total Marks: 1

Which of the following is true about the point on a nation's production-possibilities curve?

Select correct option:

It shows an undesirable combination of goods and services.

It shows the combinations of production that are unattainable, given current technology and resources.

It shows the level of production that will cause both unemployment and inflation.

It shows that resources are fully employed in producing a particular combination of goods and services.

Question # 12 of 15 ( Start time: 09:00:23 PM ) Total Marks: 1

If Nominal GDP is divided by the GDP deflator, it is called:

Select correct option:

Real Gross Domestic Product (GDP)

Gross National product (GNP)

Net national Product (NNP)

None of the given.

Quiz Start Time: 08:55 PM Time Left 89  
sec(s)

Question # 13 of 15 ( Start time: 09:00:45 PM ) Total Marks: 1

Suppose that a farmer grows wheat and sells it to a baker for \$1, the baker makes bread and sells it to a store for \$2, and the store sells it to the customer for \$3. This transaction increases GDP by:

Select correct option:

\$1.

\$2.

\$3.

\$6.

Question # 14 of 15 ( Start time: 09:01:32 PM ) Total Marks: 1

If a firm operates in a perfectly competitive market, then it will most likely:

Select correct option:

Advertise its product on television.

Have difficult time obtaining information about the market price.

Settle for whatever price is offered.

Have an easy time keeping other firms out of the market.

Question # 15 of 15 ( Start time: 09:01:59 PM ) Total Marks: 1

All other things being equal, a decrease in government spending will:

Select correct option:

Shift the aggregate demand curve to the left.

Shift the aggregate demand curve to the right.

Make the aggregate demand curve steeper.

Make the aggregate demand curve flatter.

Question # 1 of 15 ( Start time: 09:03:47 PM ) Total Marks: 1

The common characteristic of Monopolistic competition and oligopoly is:

Select correct option:

Free entry and exit from the industry.

Their Strategic behavior.

Advertising.

Their Standardized products.

Question # 2 of 15 ( Start time: 09:04:46 PM ) Total Marks: 1

Goods A and B are complements while goods A and C are substitutes. If the supply of good X decreases:

Select correct option:

The demand for both B and C will increase.

The demand for B will increase while the demand for C will decrease.

The demand for B will decrease while the demand for C will increase.

The demand for both B and C will decrease.

Question # 3 of 15 ( Start time: 09:05:33 PM ) Total Marks: 1

The branch of economics that studies the behavior of individual households, firms and industries is known as:

Select correct option:

Normative economics.

Macroeconomics.

Positive economics.

Micro economics.

Quiz Start Time: 09:03 PM

Time Left 88

sec(s)

Question # 4 of 15 ( Start time: 09:05:59 PM ) Total Marks: 1

What would result from a depreciation of the pound on the foreign exchange market?

Select correct option:

An increase in the price of imported computers.

A fall in the purchasing power of US tourists in London.

A fall in the price of imported computers.

An increase in the purchasing power of UK tourists overseas.

Question # 5 of 15 ( Start time: 09:06:35 PM ) Total Marks: 1

A price taker is:

Select correct option:

A firm that accepts different prices from different customers.

A monopolistically competitive firm.

A firm that cannot influence the market price.

An oligopolistic firm.

Question # 6 of 15 ( Start time: 09:06:52 PM ) Total Marks: 1

The market structure in which strategic considerations are most important is:

Select correct option:

Monopolistic competition.

Oligopoly.

Pure competition.

Pure monopoly.

Question # 7 of 15 ( Start time: 09:07:12 PM ) Total Marks: 1

Sum of total factor income is called:

Select correct option:

Government revenues.

Disposable income.

National Income.

None of the given.

Question # 8 of 15 ( Start time: 09:07:38 PM ) Total Marks: 1

If Aggregate expenditures are more than aggregate production then their will be:

Select correct option:

Inflationary gap in economy.

Deflationary gap in economy.

Dynamic gap in economy.

None of the given.

Question # 9 of 15 ( Start time: 09:08:03 PM ) Total Marks: 1

An indifference curve is:

Select correct option:

A collection of market baskets that are equally desirable to the consumer.

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

Question # 10 of 15 ( Start time: 09:08:32 PM ) Total Marks: 1

According the law of diminishing returns:

Select correct option:

The marginal product falls as more units of a variable factor are added to a fixed factor.

Marginal utility falls as more units of a product are consumed.

The total product falls as more units of a variable factor are added to a fixed factor.

Question # 11 of 15 ( Start time: 09:08:57 PM ) Total Marks: 1

The investment demand curve shows the relationship between the levels of:

Select correct option:

Investment and consumption.

Consumption and interest rate.

Investment and interest rate.

Investment and saving.

Question # 12 of 15 ( Start time: 09:10:27 PM ) Total Marks: 1

In economics, the "long run" is a time period in which:

Select correct option:

All inputs are variable.

All inputs are paid for.

All outputs are determined.

All loans are repaid.

Question # 13 of 15 ( Start time: 09:10:48 PM ) Total Marks: 1

If the current market price is above the market clearing level. We would expect:

Select correct option:

A shortage to accumulate.

A surplus to accumulate.

Upward pressure on the current market price.

Lower production during the next time period.

Question # 14 of 15 ( Start time: 09:11:28 PM ) Total Marks: 1

All the insurance companies around the globe work under the principle of:

Select correct option:

Law of zero numbers .not sure

Law of large numbers.

Law of small numbers.

None of the given options.

Question # 15 of 15 ( Start time: 09:11:51 PM ) Total Marks: 1

Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.

Select correct option:

Limited resources, market behavior

Scarcity, human behavior

Social behavior, limited resources

Biological behavior, scarcity

Question # 3 of 15 ( Start time: 09:17:41 PM ) Total Marks: 1

Which of the following would cause the short run aggregate supply curve to shift to the left, but have no effect over the long run aggregate supply?

Select correct option:

The amount of factors of production (such as labor and capital) increase

The amount of factors of production (such as labor and capital) decrease

Prices of inputs (such as wages or oil prices) increase

Question # 5 of 15 ( Start time: 09:19:05 PM ) Total Marks: 1

The more inelastic the demand, the more of the tax's burden will fall on:

Select correct option:

Consumers.

Producers.

Government.

Middle man.

Question # 6 of 15 ( Start time: 09:19:35 PM ) Total Marks: 1

Assume that there is no government or foreign sector, if the marginal propensity to consume (MPC) is 0.60, then the value of multiplier will be equal to:

Select correct option:

2.5

0.40

1.66

5.0

Question # 7 of 15 ( Start time: 09:20:44 PM ) Total Marks: 1

It is expected that the sign of cross price elasticity of demand between two complementary goods would be:

Select correct option:

Positive.

Negative.

Zero.

Ambiguous.

Question # 8 of 15 ( Start time: 09:21:14 PM ) Total Marks: 1

When the cross price elasticity of demand for two goods is less than zero then the goods are:

Select correct option:

Complementary goods.

Substitute goods.

Inferior goods.

Giffen goods.

Question # 9 of 15 ( Start time: 09:21:32 PM ) Total Marks: 1

An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called a(n) \_\_\_\_\_ exchange rate.

Select correct option:

Overvalued.

Undervalued.



Fixed.

Flexible.

Question # 10 of 15 ( Start time: 09:21:56 PM ) Total Marks: 1

If the cross price elasticity of demand between two products is +3.5, then:

Select correct option:

One of the products is expensive and one is relatively inexpensive.

One product is a normal good and the other is an inferior good.

The two products are complements.

The two products are substitutes.

If Nominal GDP is divided by the GDP deflator, it is called:

Select correct option:

Real Gross Domestic Product (GDP)

Gross National product (GNP)

Net national Product (NNP)

None of the given.

To make the equation of exchange into the quantity theory of money:

Select correct option:

V and Q are assumed to be constant.

The money supply is assumed to be produced by the banking system and not exclusively in currency.

The quantity of money is assumed to determine the amount of Real GDP.

M and P are considered constant.

The branch of economics that studies the behavior of individual households, firms and industries is known as:

Select correct option:

Normative economics.

Macroeconomics.

Positive economics.

Micro economics.

GDP is:

Select correct option:

A stock

A flow.

Both a stock and a flow.

Neither a stock nor a flow.

When the marginal revenue product of labor is less than the marginal input cost of labor then the profit maximizing firm will:

Select correct option:

Hire more labor.

Hire less labor.

Maintain the same employment.

Decrease output.

Normally the shape of production possibilities curve is:

Select correct option:

Positive

Convex

Linear

Concave

Suppose to hire the next worker, the firm pays Rs. 75. This Rs. 75 is the:

Select correct option:

Marginal input cost.

Marginal cost.

Marginal revenue product.

Marginal revenue.

The average propensity to consume is the ratio of:

Select correct option:

A change in consumption to a change in disposable income.

A change in consumption to total disposable income at a specific income level.

Total consumption to total disposable income at a specific income level.

Total consumption to a change in disposable income.

The investment demand curve shows the relationship between the levels of:  
Select correct option:

- Investment and consumption.
- Consumption and interest rate.
- Investment and interest rate.**
- Investment and saving.

The slope of budget line  $-P_x/P_Y$  is also called:  
Select correct option:

- Input ratio.
- Output price ratio.
- Input price ratio.**
- Output ratio.

Many economists and government analysts have investigated the effect of a minimum wage on labour markets. The general conclusion reached by the investigators is that:  
Select correct option:

- The overall effect of the minimum wage is an increase in the unemployment level.**
- Teenagers gain most of the beneficial employment effects of the minimum wage.
- All industries are equally affected by the minimum wage laws.
- Over a period of time, the minimum wage laws will increase employment in the economy.

Which of the following events shifts the short-run aggregate supply curve to the right?  
Select correct option:

- A decrease in the money supply
- A drop in oil prices**
- An increase in government spending on military equipment
- An increase in price expectations

If the income elasticity of demand for bread is 0.4, a 10% increase in consumer income will lead to a:  
Select correct option:

- 40% increase in the quantity of bread demanded.
- 40% decrease in the quantity of bread demanded.
- 4% increase in the quantity of bread demanded.
- 0.4% increase in the quantity of bread demanded.

The traditional Phillips Curve shows the:  
Select correct option:

Inverse relationship between the rate of inflation and the unemployment rate.

Inverse relationship between the nominal and the real wage.

Direct relationship between unemployment and demand-pull inflation.

Tradeoff between the short run and the long run.

If two goods were perfect substitute, their indifference curves would be:  
Select correct option:

Straight lines.

L-shaped. >>> not sured

Rectangular hyperbolas.

Parabolic.

For a monopolist, changes in demand will lead to changes in:

Select correct option:

Price with no change in output

Output with no change in price

Both price and quantity

Any of the above is possible

Which one of the following is most likely to lead to an increase in aggregate demand?  
If there is increase in:

Select correct option:

Government tax revenues

Household savings

Business capital investment

Demand for imports

The branch of economics that studies the entire economy, such topics as aggregate production, unemployment and inflation is called

Select correct option:

Micro economics

Managerial economics

Macro economics

Financial economics

An exchange rate that has an officially fixed value less than its fundamental value is called a(n) \_\_\_\_\_ exchange rate.

Select correct option:

Devalued.

Revalued.

Depreciated.

Undervalued.

\_\_\_\_\_ is an accounting record of a country's transactions with rest of the world.

Select correct option:

Balance of trade.

Trade liberalization.

Balance of payment.

None of the given.

GDP measures:

Select correct option:

- Expenditure on all final goods and services.
- Total income of everyone in the economy.
- Total value-added by all firms in the economy.
- All of the given options

"Capital widening" means:

Select correct option:

- More capital and more labour, but with the same amount of capital per unit of labour.
- More capital per unit of labour.
- Increasing the usage of existing capital.
- Importing capital from the developed world.

If there is a price ceiling, there will be:

Select correct option:

- Shortages.
- Surpluses.
- Equilibrium.
- None of the given options.

When the price of wheat rises by 10%, the quantity of wheat purchased falls by 4%.

This shows that the demand for wheat is:

Select correct option:

- Perfectly elastic.
- Unit elastic.
- Price elastic.
- Price inelastic.

Which of the following defines the opportunity cost?

Select correct option:

- It is measured only in rupees.
- It is the cost to society of producing the goods.
- It is the difficulty associated with using one good in place of another.
- It is the cost of next best alternative forgone.

If the cross price elasticity of demand between two products is +3.5, then:

Select correct option:

One of the products is expensive and one is relatively inexpensive.

One product is a normal good and the other is an inferior good.

The two products are complements.

The two products are substitutes.

The war in Iraq sent oil prices spiraling upwards, resulting in an increase in the overall price level. This is an example of which type of inflation?

Select correct option:

Cost-pull.

Cost-push.

Demand-pull.

Demand-push.

If a decrease in price increases total revenue:

Select correct option:

Demand is elastic.

Demand is inelastic.

Supply is elastic.

Supply is inelastic.

In which market structure(s) price will exceed marginal revenue?

Select correct option:

Differentiated oligopoly and monopoly only.

Standardized oligopoly and pure competition only.

Monopolistic competition and monopoly only.

Monopolistic competition, oligopoly, and monopoly.

If marginal product is equal to average product:

Select correct option:

The total product will fall

The average product will not change

Average variable costs will fall

Total revenue will fall

Demand is said to be \_\_\_\_\_ when the elasticity of demand is less than 1.

Select correct option:

- Increasing
- Decreasing
- Elastic
- Inelastic

The percentage change in quantity demanded given a percentage change in consumer's income is known as:

Select correct option:

- Price elasticity of demand.
- Income elasticity of demand.
- Supply price elasticity.
- Cross price elasticity.

The primary reason of decline in the value of money is:

Select correct option:

- Deflation.
- Inflation.
- A rise in consumption.
- Higher tax rate.

The branch of economics that studies the entire economy, such topics as aggregate production, unemployment and inflation is called:

Select correct option:

- Managerial economics.
- Macro economics.
- Micro economics.
- Financial economics.

The traditional Phillips Curve shows the:

Select correct option:

- Inverse relationship between the rate of inflation and the unemployment rate.
- Inverse relationship between the nominal and the real wage.
- Direct relationship between unemployment and demand-pull inflation.
- Tradeoff between the short run and the long run.



Which of the following statements describes the presence of diminishing returns.  
Select correct option:

- The marginal product of a factor is positive and rising.
- The marginal product of a factor is positive but falling.
- The marginal product of a factor is falling and negative.
- The marginal product of a factor is constant.**

Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:  
Select correct option:

- The two goods are normal goods.
- The two goods are inferior goods.
- The two goods are substitutes.
- The two goods are complements.**

Goods A and B are complements while goods A and C are substitutes. If the supply of good X decreases:  
Select correct option:

- The demand for both B and C will increase.
- The demand for B will increase while the demand for C will decrease.
- The demand for B will decrease while the demand for C will increase.**
- The demand for both B and C will decrease.

To make the equation of exchange into the quantity theory of money:  
Select correct option:

- V and Q are assumed to be constant.**
- The money supply is assumed to be produced by the banking system and not exclusively in currency.
- The quantity of money is assumed to determine the amount of Real GDP.
- M and P are considered constant.

Which of the following markets is most likely to be oligopolistic?  
Select correct option:

- The market for corn.
- The market for aluminum.
- The market for colas.**
- The market for ground coffees.

According to classical economists, the:  
Select correct option:

Aggregate demand curve is downward sloping and the aggregate supply curve is vertical

Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is horizontal

Our economy is characterized by:  
Select correct option:

Unlimited wants and needs.

Unlimited material resources.

No energy resources.

Abundant productive labor.

The slope of budget line  $-P_x/P_Y$  is also called:  
Select correct option:

Input ratio.

Output price ratio.

Input price ratio.

Output ratio.

In the equation  $MV = PQ$ , according to the crude quantity theory of money:  
Select correct option:

M has no effect on the price level.

V is the number of times each dollar is spent per year.

Q is the real price level.

P rises as V falls, other things constant.

If the quantity demanded of mangoes exceeds the quantity supplied of mangoes:  
Select correct option:

There is a surplus of mangoes.

Market forces will cause the price to fall.

Market forces will cause the price to rise.

The market is in equilibrium.

If a monopolist sets his output such that marginal revenue, marginal cost and average total cost are equal, economic profit must be:

Select correct option:

Negative.

Positive.

Zero.

Indeterminate from the given information.

A market is said to be in equilibrium when:

Select correct option:

Supply equals Price.

There is downward pressure on price.

The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.

All buyers are able to find sellers willing to sell to them at the current price.

More output could be produced with available resources if:

Select correct option:

Resources are allocated efficiently.

Resources are imperfectly shiftable among alternative uses.

Prices are reduced.

The economy is operating at a point inside the production possibilities curve.

A source of fluctuations in investment spending is:

Select correct option:

Changes in government expectations of future output growth.

Changes in household's expectations about future output growth.

Changes in household's expectations about future risk.

Changes in investor's expectations about future profits.

When producers are unable to meet market demand for the product, this results as:

Select correct option:

Surplus of goods

Market failure

Monopoly

Shortage of good

The optimal point of consumption is that point where consumer surplus becomes:  
Select correct option:

Zero.

Maximum.

Minimum.

Positive.

Quiz Start Time: 01:06 PM

Question # 3 of 15 ( Start time: 01:09:04 PM )

The trend of unemployment over the last forty years is:

Select correct option:

- A decrease in unemployment.
- It has remained largely unchanged.
- An increase in unemployment.
- It is too difficult to tell so don't bother.

Cute Killer

Quiz

Quiz Start Time: 01:06 PM

Question # 4 of 15 ( Start time: 01:09:42 PM )

Normally the shape of production possibilities curve is:

Select correct option:

- Positive
- Convex
- Linear
- Concave

CUTE KILLER

Quiz Start Time: 01:06 PM

Question # 5 of 15 ( Start time: 01:10:30 PM )

Assume that the current market price is below the market clearing level. We would expect:

Select correct option:

- A surplus to accumulate.
- Downward pressure on the current market price.
- Upward pressure on the current market price.
- Lower production during the next time period.

Quiz Start Time: 01:06 PM

Question # 6 of 15 ( Start time: 01:11:31 PM )

Marginal Cost is defined as:

Select correct option:

- The derivative of Variable Cost with respect to quantity produced.
- The derivative of Average Cost with respect to quantity produced.
- The derivative of Total Cost with respect to quantity produced.
- The derivative of Average Variable Cost with respect to quantity produced.

Ver

Quiz Start Time: 01:06 PM

Question # 7 of 15 ( Start time: 01:13:00 PM )

If the price elasticity of demand for beans is estimated to be -0.4, then a 20% increase in price will decrease the quantity demanded by:

Select correct option:

- 14%
- 8%
- 16%
- 20%

Quiz Start Time: 01:06 PM

Question # 8 of 15 ( Start time: 01:14:32 PM )

If there is an excess demand for loanable funds in the financial markets then:

Select correct option:

- Real interest rate will increase.
- Real interest rate will decrease.
- Output will be stagnant.
- Interest rate will be same.

Quiz Start Time: 01:06 PM

Question # 9 of 15 ( Start time: 01:15:22 PM )

The marginal utility function of  $TU = 60Q - 4Q^2$  will be:

Select correct option:

- $60-8Q$ .
- $60-16Q$ .
- $60-4Q$ .
- $60Q^2 - 4Q$ .

Quiz Start Time: 01:06 PM

Question # 10 of 15 ( Start time: 01:16:29 PM )

A cost of producing one additional unit of good or service is known as:

Select correct option:

- Average cost.
- Variable cost.
- Marginal cost.
- Sunk cost.

Quiz Start Time: 01:06 PM

Question # 11 of 15 ( Start time: 01:18:01 PM )

In which case, total expenditure in an economy is not equal to total income?

Select correct option:

- If total saving is larger than total investment.
- If net exports are not zero.
- If inventory investment is negative.
- None of the given options--they are always equal.



Quiz Start Time: 01:06 PM

Question # 12 of 15 ( Start time: 01:19:23 PM )

Which of the following might be considered to be a characteristic of a planned economy?

Select correct option:

- All income is completely evenly distributed.
- Price is relatively unimportant as a means of allocating resources.
- Goods and services produced reflect consumer sovereignty.
- There is no incentive for people to work hard.

Cute Killer

Quiz Start Time: 01:06 PM

Question # 12 of 15 ( Start time: 01:19:23 PM )

Which of the following might be considered to be a characteristic of a planned economy?

Select correct option:

- All income is completely evenly distributed.
- Price is relatively unimportant as a means of allocating resources.
- Goods and services produced reflect consumer sovereignty.
- There is no incentive for people to work hard.

Quiz Start Time: 01:06 PM

Question # 13 of 15 ( Start time: 01:20:43 PM )

If there would be an increase in interest rate then:

Select correct option:

- Savings will decrease.
- Consumption will increase.
- Consumption will decrease.
- Marginal propensity of consume will increase.

Quiz - Google Chrome  
quiz.vu.edu.pk/QuizQuestion.aspx?ver=105b792b-83fb-4058-8a1b-ca9266b973f1

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Quiz Start Time: 01:06 PM

Question # 14 of 15 ( Start time: 01:22:12 PM ) Total Marks: 1

Suppose to hire the next worker, the firm pays Rs. 75. This Rs. 75 is the:

Select correct option:

- Marginal input cost.
- Marginal cost.
- Marginal revenue product.
- Marginal revenue.

[Click here to Save Answer & Move to Next Question](#)

start 10-Papers\_FINALTE... Quiz - Google Chrome ECO401\_Quiz#4.doc... 1:22 PM

Quiz Start Time: 01:06 PM

Question # 15 of 15 ( Start time: 01:22:44 PM )

The demand curve is positively sloped for the:

Select correct option:

- Normal goods.
- Giffen goods.
- Inferior goods.
- Normal and Giffen goods.

Quiz Start Time: 01:06 PM

Question # 15 of 15 ( Start time: 01:22:44 PM )

The demand curve is positively sloped for the:

Select correct option:

- Normal goods.
- Giffen goods.
- Inferior goods.
- Normal and Giffen goods.

Cute Killer

Quiz Start Time: 01:52 PM

Question # 1 of 15 ( Start time: 01:52:49 PM )

If the quantity demanded of mangoes exceeds the quantity supplied of mangoes:

Select correct option:

- There is a surplus of mangoes.
- Market forces will cause the price to fall.
- Market forces will cause the price to rise.
- The market is in equilibrium.

over

Quiz Start Time: 01:52 PM

Question # 2 of 15 ( Start time: 01:54:19 PM )

The traditional Phillips Curve shows the:

Select correct option:

- Inverse relationship between the rate of inflation and the unemployment rate.
- Inverse relationship between the nominal and the real wage.
- Direct relationship between unemployment and demand-pull inflation.
- Tradeoff between the short run and the long run.

Quiz Start Time: 01:52 PM

Question # 3 of 15 ( Start time: 01:55:26 PM )

Which of the following do not affect a nation's balance of payments?

Select correct option:

- Foreign income.
- The differential between domestic and foreign interest rates.
- The real exchange rate.
- Labor force.

Answer

Quiz Start Time: 01:52 PM

Question # 4 of 15 ( Start time: 01:56:16 PM )

Unemployment benefits may increase the unemployment rate because unemployment benefits:

Select correct option:

- Reduce the cost of job search.
- Encourage people to quit their jobs.
- Reduce the benefits of additional job searching.
- Enable people to quit searching for work.

Quiz Start Time: 01:52 PM

Question # 4 of 15 ( Start time: 01:56:16 PM )

Unemployment benefits may increase the unemployment rate because unemployment benefits:

Select correct option:

- Reduce the cost of job search.
- Encourage people to quit their jobs.
- Reduce the benefits of additional job searching.
- Enable people to quit searching for work.

Quiz Start Time: 01:52 PM

Question # 7 of 15 ( Start time: 01:59:25 PM )

If there is an excess demand for loanable funds in the financial markets then:

Select correct option:

- Real interest rate will increase.
- Real interest rate will decrease.
- Output will be stagnant.
- Interest rate will be same.

Quiz Start Time: 01:52 PM

Question # 9 of 15 ( Start time: 02:01:36 PM )

\_\_\_\_\_ is an accounting record of a country's transactions with rest of the world.

Select correct option:

- Balance of trade.
- Trade liberalization.
- Balance of payment.
- None of the given.

Quiz Start Time: 01:52 PM

Question # 9 of 15 ( Start time: 02:01:36 PM )

\_\_\_\_\_ is an accounting record of a country's transactions with rest of the world.

Select correct option:

- Balance of trade.
- Trade liberalization.
- Balance of payment.
- None of the given.



Quiz Start Time: 01:52 PM

Question # 10 of 15 ( Start time: 02:02:55 PM )

The law of diminishing marginal utility indicates that the demand curve is:

Select correct option:

- Vertical.
- U shaped.
- Upward sloping.
- Downward sloping.

Cute Killer

over

Quiz Start Time: 01:52 PM

Question # 11 of 15 ( Start time: 02:03:40 PM )

Suppose the consumption function is  $C = 1000 + 0.75Y$ . If  $Y = 100$ , then the amount of consumption is:

Select correct option:

- 1750.
- 1500.
- 1075.
- 1100.



Quiz Start Time: 01:52 PM

Question # 12 of 15 ( Start time: 02:04:53 PM )

Assume that the current market price is below the market clearing level. We would expect:

Select correct option:

- A surplus to accumulate.
- Downward pressure on the current market price.
- Upward pressure on the current market price.
- Lower production during the next time period.

Quiz Start Time: 01:52 PM

Question # 13 of 15 ( Start time: 02:05:35 PM )

The primary reason of decline in the value of money is:

Select correct option:

- Deflation.
- Inflation.
- A rise in consumption.
- Higher tax rate.

*Cute Killer*

Quiz Start Time: 01:52 PM

Question # 14 of 15 ( Start time: 02:07:01 PM )

The branch of economics that studies the behavior of individual households, firms and industries is known as:

Select correct option:

- Normative economics.
- Macroeconomics.
- Positive economics.
- Micro economics.

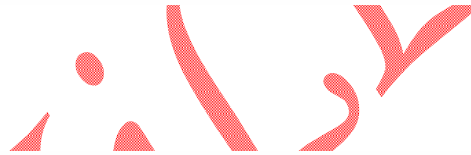
Quiz Start Time: 01:52 PM

Question # 15 of 15 ( Start time: 02:07:58 PM )

Which school of thought holds that decreases in aggregate demand decrease real output but leave the price level largely unaffected?

Select correct option:

- Monetarism
- New Classical theory
- Real Business Cycle theory
- Keynesian



Quiz Start Time: 02:17 PM

Question # 1 of 15 ( Start time: 02:17:07 PM )

Naima has just finished school and is waiting to report to his new job at the beginning of the month. Naima is considered to be:

Select correct option:

- Structurally unemployed.
- Frictionally unemployed.
- Cyclically unemployed.
- Employed.



Quiz Start Time: 02:17 PM

Question # 2 of 15 ( Start time: 02:18:33 PM )

If the demand curve for a good is downward sloping, then the good:

Select correct option:

- Must be normal.
- Must be inferior.
- Must be Giffen.
- Can be normal or inferior.

Quiz Start Time: 02:17 PM

Question # 3 of 15 ( Start time: 02:19:55 PM )

The firm's demand for labor is:

Select correct option:

- The marginal revenue product curve
- The marginal input cost curve
- The marginal cost curve
- Undetermined

Quiz Start Time: 02:17 PM

Question # 4 of 15 ( Start time: 02:20:33 PM )

Which of the following events shifts the short-run aggregate supply curve to the right?

Select correct option:

- A decrease in the money supply
- A drop in oil prices
- An increase in government spending on military equipment
- An increase in price expectations

Quiz Start Time: 02:17 PM

Question # 4 of 15 ( Start time: 02:20:33 PM )

Which of the following events shifts the short-run aggregate supply curve to the right?

Select correct option:

- A decrease in the money supply
- A drop in oil prices
- An increase in government spending on military equipment
- An increase in price expectations

Quiz Start Time: 02:17 PM

Question # 6 of 15 ( Start time: 02:22:42 PM )

According to the quantity theory of money, if there is inflation, what must have caused it?

Select correct option:

- Increased velocity.
- Higher budget deficits.
- Higher oil prices.
- An increase in the money supply.

Cute Killer

Quiz Start Time: 02:17 PM

Question # 7 of 15 ( Start time: 02:24:15 PM )

"Q = c + d P" represents equation of:

Select correct option:

- Supply.
- Demand.
- Labor supply.
- Budget line.

Cute Killer

Quiz Start Time: 02:17 PM

Question # 8 of 15 ( Start time: 02:25:43 PM )

A Demand Curve is price inelastic when:

Select correct option:

- Changes in demand are proportionately smaller than those in price.
- Changes in demand are proportionately greater than those in price.
- Changes in demand are equal than those in price.
- None of the given options.



Quiz Start Time: 02:17 PM

Question # 10 of 15 ( Start time: 02:28:04 PM )

Endogenous growth theory was developed in:

Select correct option:

- 1980.
- 1965.
- 1970.
- 1950.

Cute Killer

Quiz Start Time: 02:17 PM

Question # 11 of 15 ( Start time: 02:28:56 PM )

Counting a product more than once in National income measurement is known as:

Select correct option:

- Statistical error
- Counting error.
- Double counting.
- Mathematical bias.

over

NEW

Quiz Start Time: 02:17 PM

Question # 12 of 15 ( Start time: 02:30:14 PM )

Is GDP an accurate measure of a country's well being?

Select correct option:

- Yes, it is the best measure of national well being.
- Yes, provided we use real GDP and not nominal GDP.
- Uncertain, depending on whether GDP is rising or falling.
- No, it is not.

Quiz Start Time: 02:17 PM

Question # 13 of 15 ( Start time: 02:30:55 PM )

When producers are unable to meet market demand for the product, this results as:

Select correct option:

- Surplus of goods
- Market failure
- Monopoly
- Shortage of good

Quiz Start Time: 02:17 PM

Question # 14 of 15 ( Start time: 02:31:35 PM )

If the cost of parts of automobiles rises, then:

Select correct option:

- The demand curve for automobiles shifts to the right.
- The demand curve for automobiles shifts to the left.
- The supply curve for automobiles shifts to the right.
- The supply curve for automobiles shifts to the left.

Quiz Start Time: 03:27 PM

Question # 3 of 15 ( Start time: 03:29:36 PM )

The slope of the saving function (or line) is the:

Select correct option:

- Average propensity to save.
- Average propensity to consume.
- Marginal propensity to save.
- Marginal propensity to consume.

Cute Killer

Quiz Start Time: 03:27 PM

Question # 4 of 15 ( Start time: 03:30:04 PM )

GDP measures:

Select correct option:

- Expenditure on all final goods and services.
- Total income of everyone in the economy.
- Total value-added by all firms in the economy.
- All of the given options

Cute Killer

Quiz Start Time: 03:27 PM

Question # 5 of 15 ( Start time: 03:30:50 PM )

If the current market price is above the market clearing level. We would expect:

Select correct option:

- A shortage to accumulate.
- A surplus to accumulate.
- Upward pressure on the current market price.
- Lower production during the next time period.

Quiz Start Time: 03:27 PM

Question # 6 of 15 ( Start time: 03:32:02 PM )

Income elasticity of demand for the normal goods is usually:

Select correct option:

- Positive.
- Negative.
- Constant.
- One.

Cute Killer

Quiz Start Time: 03:27 PM

Question # 7 of 15 ( Start time: 03:33:28 PM )

The branch of economics that studies the entire economy, such topics as aggregate production, unemployment and inflation is called

Select correct option:

- Micro economics
- Managerial economics
- Macro economics
- Financial economics

Quiz Start Time: 03:27 PM

Question # 8 of 15 ( Start time: 03:34:52 PM )

Which of the following can be thought of as a barrier to entry?

Select correct option:

- Scale economies.
- Patents.
- Strategic actions by incumbent firms.
- All of the given options are true.

Quiz Start Time: 03:27 PM

Question # 9 of 15 ( Start time: 03:36:21 PM )

A normative economic statement:

Select correct option:

- Is a statement of fact.
- Is a hypothesis used to test economic theory.
- Is a statement of what ought to be, not what is.
- Is a statement of what will occur if certain assumptions are true.

Quiz Start Time: 03:27 PM

Question # 10 of 15 ( Start time: 03:37:35 PM )

Profit is maximized when:

Select correct option:

- Marginal revenue product is greater than marginal input cost
- Marginal revenue product equals marginal input cost
- Marginal revenue product is less than marginal input cost
- Output is maximized

Cute Killer



Quiz Start Time: 03:27 PM

Question # 10 of 15 ( Start time: 03:37:35 PM )

Profit is maximized when:

Select correct option:

- Marginal revenue product is greater than marginal input cost
- Marginal revenue product equals marginal input cost
- Marginal revenue product is less than marginal input cost
- Output is maximized

Quiz Start Time: 03:27 PM

Question # 12 of 15 ( Start time: 03:40:35 PM )

The minimum price that a Government sets to support a desired commodity or service in a society is known as:

Select correct option:

- Price ceiling.
- Price rationing.
- Price floor.
- Price control.

Quiz Start Time: 03:27 PM

Question # 13 of 15 ( Start time: 03:41:30 PM )

The study of economics basically focuses on:

Select correct option:

- For whom resources are allocated to increase efficiency.
- How society spends the income of individuals.
- How scarce resources are allocated to fulfill society's goals.
- What scarce resources are used to produce goods and services.

Cute Killer

Quiz Start Time: 03:27 PM

Question # 15 of 15 ( Start time: 03:43:39 PM )

The price level in long run is determined by:

Select correct option:

- Aggregate supply.
- Aggregate demand.
- The government.
- Money supply.

Cute Killer

ECO401 ECONOMICS

**FINALTERM EXAMINATION**

**ECO401- Economics (Session - 2)**

Question # 15 of 15 ( Start time: 11:24:10 PM ) Total Marks: 1

If injections are less than withdrawals at the full-employment level of income then there arises:

Select correct option:

A deflationary gap.

Hysteresis.

Hyperinflation.

An inflationary gap.

Question # 12 of 15 ( Start time: 11:22:33 PM ) Total Marks: 1

Unemployment benefits may increase the unemployment rate because unemployment benefits:

Select correct option:

Reduce the cost of job search.

Encourage people to quit their jobs.

Reduce the benefits of additional job searching.

Enable people to quit searching for work.

Question # 10 of 15 ( Start time: 11:21:24 PM ) Total Marks: 1

According to Classical models, the level of employment is determined primarily by:

Select correct option:

The level of aggregate demand for goods and services.

Prices and wages.

Government taxation.

Government spending.

Question # 4 of 15 ( Start time: 11:16:57 PM ) Total Marks: 1

Which of the following is the Fisher Equation of Exchange?

Select correct option:

$MT = PV.$

$VT = PM.$

$MV = PQ.$

$MY = VP.$

Question # 5 of 15 ( Start time: 11:02:35 PM ) Total Marks: 1

Keynes advocated demand-side policies to lift the economy out of that equilibrium towards full employment.

Select correct option:

True

False

**Question # 6 of 15 ( Start time: 11:03:07 PM ) Total Marks: 1**

**Which one of the following is true with a pure monopoly?**

**Select correct option:**

**The monopoly's demand curve and the market demand curve are one and the same.**

**The market is dominated by just two firms.**

**The monopolist will always charge the highest possible price.**

**The monopolist will always charge a high price because it wants to maximize profits.**

**Question # 8 of 15 ( Start time: 11:04:03 PM ) Total Marks: 1**

**Those who hold the classical view of the labour market are likely to believe that**

**Select correct option:**

**Monetary, but not fiscal policy will have an effect on output and employment**

**Fiscal but not monetary policy will have an effect on output and employment.**

**Both monetary and fiscal policy will have an effect on output and employment.**

**Neither monetary nor fiscal policy will have an effect on output and employment.**

**Question # 9 of 15 ( Start time: 11:04:31 PM ) Total Marks: 1**

**The gold standard was an example of what kind of exchange-rate system?**

Select correct option:

A freely floating exchange rate.

A managed floating exchange rate.

A fixed exchange rate.

A non-convertible exchange rate.

Question # 10 of 15 ( Start time: 11:04:55 PM ) Total Marks: 1

An important difference between the approaches of the classical and Keynesian economists use to achieve a macroeconomic equilibrium is that:

Select correct option:

Keynesian economists actively promote the use of fiscal policy; the classical economists do not

Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance; classical economists do not

classical economists believe that monetary policy will certainly affect the level of output; Keynesians believe that money growth affects only prices

classical economists believe that fiscal policy is an effective tool for achieving economic stability; Keynesians do not

Question # 11 of 15 ( Start time: 11:05:31 PM ) Total Marks: 1

According to classical economists, the:

Select correct option:

Aggregate demand curve is downward sloping and the aggregate supply curve is vertical

Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is horizontal

Question # 12 of 15 ( Start time: 11:05:55 PM ) Total Marks: 1

The numerical measurement of a consumer's preference is called:

Select correct option:

Satisfaction.

Use.

Pleasure.

Utility.

Question # 13 of 15 ( Start time: 11:06:17 PM ) Total Marks: 1

The slope of the saving function (or line) is the:

Select correct option:

Average propensity to save.

Average propensity to consume.

Marginal propensity to save.



Marginal propensity to consume.

Question # 14 of 15 ( Start time: 11:06:38 PM ) Total Marks: 1

In which case, total expenditure in an economy is not equal to total income?

Select correct option:

If total saving is larger than total investment.

If net exports are not zero.

If inventory investment is negative.

None of the given options--they are always equal.

Question # 15 of 15 ( Start time: 11:07:04 PM ) Total Marks: 1

An individual whose attitude towards risk is known as:

Select correct option:

Risk averse.

Risk loving.

Risk neutral.

None of the given is necessarily correct.

**Question No: 1 ( Marks: 1 ) - Please choose one**

---

Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

---

**A**  
good for which income and quantity demanded are inversely related is known as:

- ▶ **Inferior good.**
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.

**Question No: 3 ( Marks: 1 ) - Please choose one**

---

**An**  
increase in supply is shown by:

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right.**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Question No: 4 ( Marks: 1 ) - Please choose one**

---

**Price floor results in:**

- ▶ All of the given options.
- ▶ Excess supply.
- ▶ Equilibrium.
- ▶ **Excess demand.**

**Question No: 5 ( Marks: 1 ) - Please choose one**

---

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

**Question No: 6 ( Marks: 1 ) - Please choose one**

---

**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

- ▶ -14.
- ▶ **14.**
- ▶ 83.
- ▶ 97.

**Question No: 7 ( Marks: 1 ) - Please choose one**

---

**Indifference curves that are convex to the origin reflect:**

- ▶ An increasing marginal rate of substitution.
- ▶ **A decreasing marginal rate of substitution.**
- ▶ A constant marginal rate of substitution.
- ▶ A marginal rate of substitution that first decreases, then increases.

**Question No: 8 ( Marks: 1 ) - Please choose one**

---

To  
find the profit maximizing level of output, a firm finds the output level where:

- ▶ Price equals marginal cost.
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

---

As  
compared to existing firms, a new firm entering in monopolist market has:

- ▶ High costs.
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

**Question No: 10 ( Marks: 1 ) - Please choose one**

firm is charging a different price for each unit purchased by a consumer. This is called:

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ None of the given options.

**Question No: 11 ( Marks: 1 ) - Please choose one**

---

McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:

- ▶ Collusion.
- ▶ Price discrimination.
- ▶ Two-part tariff.
- ▶ **Bundling.**

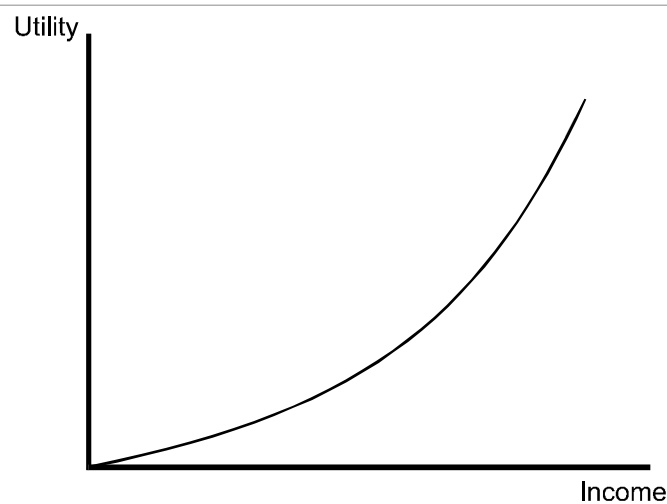
**Question No: 12 ( Marks: 1 ) - Please choose one**

---

The price elasticity of demand for any good must be less than or equal to zero unless:

- ▶ The good is a necessity.
- ▶ The good is a luxury.
- ▶ **The good is a Giffen good.**
- ▶ None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**



**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ **Increasing as income increases.**
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.
- ▶ None of the given options.

**Question No: 14 ( Marks: 1 ) - Please choose one**

---

**In monopoly, which of the following is NOT true?**

- ▶ Products are differentiated.
- ▶ **There is freedom of entry and exit into the industry in the long run.**
- ▶ The firm is a price maker.
- ▶ There is one main seller.

**Question No: 15 ( Marks: 1 ) - Please choose one**

---

**Welfare economics is the branch of economics which deals with:**

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

**Question No: 16 ( Marks: 1 ) - Please choose one**

---

**Under the kinked demand curve model, an increase in marginal cost will lead to:**

- ▶ An increase in output level and a decrease in price.



- ▶ A decrease in output level and an increase in price.
- ▶ **A decrease in output level and no change in price.**
- ▶ Neither a change in output level nor a change in price.

**Question No: 17 ( Marks: 1 ) - Please choose one**

---

**Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?**

- ▶ Duopoly.
- ▶ **Cartel.**
- ▶ Market sharing monopoly.
- ▶ Natural monopoly.

**Question No: 18 ( Marks: 1 ) - Please choose one**

---

**In the complete classical model, a rightward shift of the labor supply curve will:**

- ▶ Decrease the price level and increase the nominal wage.
- ▶ Decrease the nominal wage and increase the price level.
- ▶ Decrease both the price level and the nominal wage.
- ▶ **Increase both the price level and the nominal wage.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

---

**Which of the following events could cause the aggregate demand curve to shift to the right?**

- ▶ An increase in the rate of inflation.
- ▶ A decrease in government expenditures.
- ▶ A decrease in investment spending.
- ▶ **A decrease in income tax rates.**

**Question No: 20 ( Marks: 1 ) - Please choose one**

---

**The Great Depression of 1930s opened the door to the \_\_\_\_\_ revolution in macroeconomic theory.**

- ▶ **Keynesian.**
- ▶ New classical.
- ▶ Old classical.
- ▶ New Keynesian.

**Question No: 21 ( Marks: 1 ) - Please choose one**

---

**Keynesian economics was the predominant economic theory:**

- ▶ Prior to the late 1700s.
- ▶ From the late 1700s to the early 1900s.
- ▶ **From 1930s to 1970s.**
- ▶ Since 1970s.

**Question No: 22 ( Marks: 1 ) - Please choose one**

---

**Classical economics was replaced as the dominant theory of macroeconomic analysis by:**

- ▶ Monetarism.
- ▶ Rational expectations.
- ▶ **Keynesian economics.**
- ▶ Neoclassical economics.

**Question No: 23 ( Marks: 1 ) - Please choose one**

---

**According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:**

- ▶ Both prices and output to rise.
- ▶ Prices to fall and output to remain unchanged.
- ▶ Both prices and output to fall.
- ▶ **Prices to rise and output to remain unchanged.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

---

**Intermediate goods are meant for:**

- ▶ Direct use by the consumers.
- ▶ **Further processing.**
- ▶ The term do not exist.
- ▶ None of the given options.

**Question No: 25 ( Marks: 1 ) - Please choose one**

---

**Final goods are meant for:**

- ▶ **Direct use by the consumers.**
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

**Question No: 26 ( Marks: 1 ) - Please choose one**

---

**Which of the following is a flow variable?**

- ▶ The value of the house in which you live.
- ▶ **The balance in your savings account.**
- ▶ Your monthly consumption on food items.
- ▶ The number of carrots in your refrigerator at the beginning of the month.

**Question No: 27 ( Marks: 1 ) - Please choose one**

---

**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ Capital.
- ▶ **The amount of money held by the public.**
- ▶ Inventory investment.

**Question No: 28 ( Marks: 1 ) - Please choose one**

---

**All other things remain the same, Gross Domestic Product (GDP) will rise if:**

- ▶ Imports rises.

- ▶ Exports falls.
- ▶ **Durable goods consumption rises.**
- ▶ Military spending falls.

Question No: 29 ( Marks: 1 ) - Please choose one

---

If disposable income increases from \$5 trillion to \$6 trillion and as a result, consumption expenditure increases from \$7 trillion to \$7.8 trillion, the Marginal Propensity to Consume is:

- ▶ 1.0.
- ▶ **0.8.**
- ▶  $5/7 = 0.71$ .
- ▶  $6/7.8 = 0.77$ .

Question No: 30 ( Marks: 1 ) - Please choose one

---

The slope of the consumption function (or line) is the:

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ Marginal propensity to save.
- ▶ **Marginal propensity to consume.**

**Question No: 31 ( Marks: 1 ) - Please choose one**

---

**Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:**

- ▶ 0.2.
- ▶ 0.4.
- ▶ 0.6.
- ▶ **0.8.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

---

**The unemployment rate is equal to:**

- ▶ Number of employed / labour force x 100.
- ▶ **Number of unemployed / labour force.**
- ▶ (Number of unemployed / labour force) x 100.
- ▶ None of the given options.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**traditional Phillips Curve shows the:**

▶ **Inverse relationship between the rate of inflation and unemployment rate.**

▶ Inverse relationship between the nominal and real wage.

▶ Direct relationship between unemployment and demand-pull inflation.

▶ Tradeoff between the short run and long run.

**Question No: 34 ( Marks: 1 ) - Please choose one**

---

**Deflation is:**

▶ An increase in the overall level of economic activity.

▶ An increase in the overall price level.

▶ A decrease in the overall level of economic activity.

▶ **A decrease in the overall price level.**

**Question No: 35 ( Marks: 1 ) - Please choose one**

---

Is

**Gross Domestic Product (GDP) an accurate measure of a country's well being?**

▶ Yes, it is the best measure of national well being.

▶ **Yes, provided we use real GDP and not nominal GDP.**



- ▶ Uncertain, depending on whether GDP is rising or falling.
- ▶ No, it is not.

**Question No: 36 ( Marks: 1 ) - Please choose one**

---

**Real Gross Domestic Product (GDP):**

- ▶ **Is nominal GDP adjusted for changes in the price level.**
- ▶ Is also called nominal GDP.
- ▶ Measures GDP minus depreciation of capital.
- ▶ Will always change when prices change.

**Question No: 37 ( Marks: 1 ) - Please choose one**

---

**If a war destroys a large portion of a country's capital stock but the saving rate is unchanged, the exogenous model predicts that output will grow and the new steady state will approach:**

- ▶ A higher output level than before.
- ▶ The same output level as before.
- ▶ **A lower output level than before.**
- ▶ The Golden Rule output level.

**Question No: 38 ( Marks: 1 ) - Please choose one**

---

**A**

**currency appreciation:**

- ▶ **Reduces aggregate demand and increases aggregate supply.**
- ▶ Reduces both aggregate demand and aggregate supply.
- ▶ Increases aggregate demand and reduces aggregate supply.
- ▶ Increases both aggregate demand and aggregate supply.

**Question No: 39 ( Marks: 1 ) - Please choose one**

---

**M1**

**component of money supply consists of:**

- ▶ Paper currency and coins.
- ▶ **Paper currency, coins and check writing deposits.**
- ▶ Paper currency, coins, check writing deposits and savings deposits.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**Question No: 40 ( Marks: 1 ) - Please choose one**

---

**Personal income:**

- ▶ Is income received by individuals during a given year.
- ▶ Is the income individuals have available for spending during a given year.
- ▶ Equals national income minus indirect taxes.
- ▶ **Is the sum of wages plus interest received by individuals during a given year.**

**Question No: 41 ( Marks: 1 ) - Please choose one**

---

**Real Gross National Product (GNP) is best defined as:**

- ▶ The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.
- ▶ The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.
- ▶ The current pound value of all new and used goods produced and sold in the economy during a particular time period.
- ▶ **The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period.**

**Question No: 42 ( Marks: 1 ) - Please choose one**

---

**Which of the following statements describes the difference between nominal and real Gross Domestic Product (GDP)?**

- ▶ Real GDP includes only goods; nominal GDP includes goods and services.
- ▶ **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

**Question No: 43 ( Marks: 1 ) - Please choose one**

---

**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

- ▶  $GNP = GDP - \text{Net income from abroad.}$
- ▶  **$GNP = GDP + \text{Net income from abroad.}$**
- ▶  $GNP = NNP - \text{Net income from abroad.}$
- ▶  $GNP = NNP + \text{Net income from abroad.}$

**Question No: 44 ( Marks: 1 ) - Please choose one**

---

**Gross domestic product (GDP) is the market value of:**

- ▶ All transactions in an economy during one-year period.
- ▶ All goods and services exchanged in an economy during one-year period.

▶ All final goods and services exchanged in an economy during one-year period.

▶ **All final goods and services produced in a domestic economy during one-year period.**

Question No: 45 ( Marks: 1 ) - Please choose one

---

Which of the following shows the Fisher equation of exchange?

▶  $MT = PV$ .

▶  $VT = PM$ .

▶  **$MV = PQ$ .**

▶  $MY = VP$ .

Question No: 46 ( Marks: 1 ) - Please choose one

---

An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called:

▶ Overvalued exchange rate.

▶ Undervalued exchange rate.

▶ Fixed exchange rate.

▶ **Flexible exchange rate.**

**Question No: 47 ( Marks: 1 ) - Please choose one**

---

**In the equation  $MV = PQ$ , according to the crude quantity theory of money:**

- ▶ M has no effect on the price level.
- ▶ **V is the number of times each dollar is spent per year.**
- ▶ Q is the real price level.
- ▶ P rises as V falls, other things constant.

**Question No: 48 ( Marks: 1 ) - Please choose one**

---

**In the Keynesian cross model, the 45-degree line has a slope of:**

- ▶ 45.
- ▶ Infinity.
- ▶ **1.**
- ▶ 0.

**Question No: 49 ( Marks: 1 ) - Please choose one**

---

**In Keynesian economics, equilibrium can occur:**

- ▶ Only at full employment level.

- ▶ Only at levels less than full employment.
- ▶ Only at levels greater than full employment.
- ▶ **At any level of aggregate output which is equal to aggregate expenditures.**

**Question No: 50 ( Marks: 1 ) - Please choose one**

---

**After a decrease in the wage, the substitution effect implies that:**

- ▶ Only the amount demanded of capital decreases.
- ▶ Only the amount demanded of labor decreases.
- ▶ **Only the amount demanded of capital increases.**
- ▶ The amount demanded of all inputs increases.

**Question No: 51 ( Marks: 5 )**

---

**Briefly discuss the private cost of advertising. How we can calculate the marginal social cost?**

**ANSWER: Private Cost Of Advertising:** The private cost of advertising is the cost incurred by firm in making the advertisement i.e newspaper ads, tv commercials etc. The firms do not take into account the nuisance faced by people due to these advertisements otherwise the firms would do less advertisement.

**Marginal Social Cost:** Marginal social cost is not a monetary based cost. It is the cost borne by the society as a whole. It is the cost of consumption of one next unit.

**Question No: 52 ( Marks: 10 )**

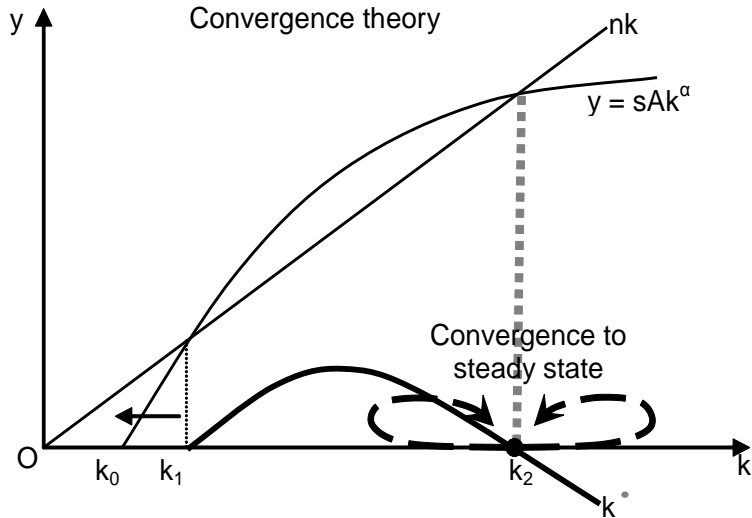
A. \_\_\_\_\_  
**What conclusions are derived from exogenous growth theory?**

**ANSWER: Exogenous Growth Theory:** The major conclusions derived from the exogenous growth are as follows:

- The steady growth rate of real GDP depends on exogenous rates of growth of population ( $n$ ) and technology ( $t$ ). There are no policies for government for how to affect the steady growth rate of a country. Higher savings can only have a little effect on income it cannot cause long term growth because savings cause diminishing returns to investment and capital accumulation.
- If one country started with lower income and capital than another country, the poorer country will grow faster to catch up the richer country and then both the countries will grow together.

**B. What is meant by convergence theory? Explain the convergence theory in the given graph.**





(Marks: 4+6)

**Question No: 53 ( Marks: 10 )**

**Define fiscal policy. Differentiate between contractionary and expansionary fiscal policy. In which situations, budget deficit and budget surplus exist?**

**Answer: Fiscal Policy:** Fiscal policy is the government's about the

- expenditure in form of purchases, subsidies and interest payments on debt etc.
- revenue in form of taxes etc.

**Difference between Contractionary and Expansionary Fiscal Policy:**

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**Budget Deficit and Budget Surplus:** Budget deficit exists if government expenditure increases the revenue earned. In this case government needs to finance its expenditure through borrowing.

Budget surplus exists when revenue exceeds the government expenditure. In this condition government can easily pay off its debt borrowings.

**(Marks: 2+4+4)**

**Question No: 54 ( Marks: 10 )**

---

**Discuss the basic theories regarding IMF's stabilization program. Are these theories successful? If not, give reasons.**

**Answer: IMF's Stabilization Theories:**

- **Tight Fiscal Policy:** It works through higher revenues and reduced government expenditure.
- **Devaluation:** Switching from imports to home produced goods. It increases competitiveness, exports and increase investors confidence in local currency.
- **Tight Monetary Policy:** Higher interest rates resulting in reduced private sector consumption and investment demand. It reduces inflation and

increases savings. High interest rates also results in higher capital inflow.

Theses theories are generally not successful in lower income countries (LICs).

Because they caused the problems of:

- **Devaluation:** It raises the price of imports and also increased the inflation while the real wage rate could not increase.
- **Stabilization hurts poor:** decrease in expenditure always badly effects the poor which can then cause political instability.

## **FINALTERM EXAMINATION**

**Spring 2009**

**ECO401- Economics (Session - 2)**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**In a free-market economy, the allocation of resources is determined by:**

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ **Consumer preferences.**
- ▶ The level of profits of firms.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**The concave shape of the production possibilities curve for two goods X and Y illustrates:**

- ▶ **Increasing opportunity cost for both goods.**
- ▶ Increasing opportunity cost for good X but not for good Y.
- ▶ Increasing opportunity cost for good Y but not for good X.
- ▶ Constant opportunity cost for both goods.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**If the quantity demanded of a product is greater than the quantity supplied of a product, then:**

- ▶ There is a shortage of the product.
- ▶ **There is a surplus of the product.**
- ▶ The product is a normal good.
- ▶ The product is an inferior good.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**The supply curve is upward-sloping because:**

- ▶ As the price increases, consumers demand less.
- ▶ **As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.**
- ▶ None of the given options.

- ▶ As the price increases, so do costs.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**When an industry's raw material costs increase, other things remaining the same:**

- ▶ **The supply curve shifts to the right.**
- ▶ Output increases regardless of the market price and the supply curve shifts upward.
- ▶ Output decreases and the market price also decrease.
- ▶ The supply curve shifts to the left.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

**solution=**  $Ped = \frac{\% \text{ change in Q demand}}{\% \text{ change in Q Price}} = \frac{10\%}{12\%} = 0.5$   
where  $e > 1$  elastic

$e < 1$  inelastic

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ **Inelastic.**

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Suppose price rises from \$15 to \$17 and quantity demanded decreases by 20%. We can conclude:**

- ▶ Demand is unitary elastic.
- ▶ Demand is elastic.
- ▶ The elasticity of demand is 2.
- ▶ **Total revenue will decrease.**

**Question No: 8 ( Marks: 1 ) - Please choose one**

**"Utility" is most closely related to the term:**

- ▶ Useless.
- ▶ Require.
- ▶ Necessary.
- ▶ **Satisfaction.**

**Question No: 9 ( Marks: 1 ) - Please choose one**

**When the marginal utility of a good is zero, this implies that:**

▶ **The consumer would not spend any additional income to buy more of that good.**

- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ Total utility is also zero.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:**

▶ **An inferior good.**

- ▶ A substitute good.
- ▶ An independent good.
- ▶ A normal good.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Diminishing marginal returns implies:**

- ▶ Decreasing marginal costs.
- ▶ **Increasing marginal costs.**
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**A graph showing all the combinations of capital and labour available for a given total cost is the:**

- ▶ Budget constraint.
- ▶ Expenditure set.
- ▶ Isoquant.
- ▶ **Isocost.**

**Question No: 13 ( Marks: 1 ) - Please choose one**

**When an isocost line is just tangent to an isoquant, we know that:**

- ▶ Output is being produced at minimum cost.
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of: **mid question****

- ▶ **A fixed cost.**
- ▶ A variable cost.
- ▶ An implicit cost.



- ▶ An opportunity cost.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.
- ▶ **Has no close substitutes.**
- ▶ Can be easily duplicated.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**Welfare economics is the branch of economics which deals with:**

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**The oligopoly model which predicts that oligopoly prices will tend to be very rigid is the:**

- ▶ Cournot model.
- ▶ Cobweb model.
- ▶ Dominant firm model.
- ▶ **Kinked demand model.**

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The kinked demand curve model is based on which of the following assumptions?**

- ▶ Each firm considers its rival's output to be fixed.
- ▶ Each firm considers its rival's price to be fixed.
- ▶ **Each firm believes rival will match all price changes.**
- ▶ None of the given options.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT conducive to the successful operation of a cartel?**

- ▶ Market demand for the good is relatively inelastic.
- ▶ The cartel supplies all of the world's output of the good.
- ▶ Cartel members have substantial cost advantages over non-member producers.
- ▶ The supply of non-cartel members is very price elastic.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Cartels are:**

▶ **Organizations of independent firms, producing similar products, that work together to raise prices and restrict output.**

▶ Organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.

▶ Organizations of independent firms, producing different products, that work together to raise prices and restrict output.

▶ Considered as part of monopolistic competition.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**The marginal revenue product is:**

▶ Upward sloping due to the law of demand.

▶ Upward sloping due to the law of marginal utility.

▶ **Downward sloping due to the law of diminishing returns.**

▶ Downward sloping due to the law of supply.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**A reason why some economists basically ignore the short run is because they believe that the economy:**

- ▶ Has self-correcting mechanisms.
- ▶ Can only be graphed with a horizontal curve.
- ▶ Never needs correction.
- ▶ None of the given options.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**The long run aggregate supply curve will shift to the right if:**

- ▶ The price level increases.
- ▶ **Factors of production (such as labor and capital) increase.**
- ▶ Expenditures (such as consumption and net exports) increase.
- ▶ The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**A primary implication of Keynesian economics is:**

- ▶ The best government is the least government.
- ▶ **Flexible wages and prices ensure full employment.**
- ▶ Monetary policy is far superior to fiscal policy.

- ▶ Business-cycle instability is best corrected through government policies.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The economic analysis most closely related to Say's Law is:**

- ▶ Short-run aggregate market.
- ▶ Production possibilities.
- ▶ Imperfect competition.
- ▶ Circular flow.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a reason of downward slope of aggregate demand curve?**

- ▶ The exchange-rate effect.
- ▶ The wealth effect.
- ▶ The classical dichotomy / monetary neutrality effects.
- ▶ The interest-rate effect.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**The upward-sloping aggregate supply curve indicates that:**

▶ As firms increase their level of output, the cost of producing an extra unit increases.

▶ An increase in aggregate demand causes little, if any increase in real output the economy is operating in the long run.

▶ Any increase in aggregate demand causes the output of producers to fall because the general price level rises.

▶ None of the given options.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**An important difference between the Classical and Keynesian approaches to achieve a macroeconomic equilibrium is that:**

▶ Keynesian economists actively promote the use of fiscal policy while the classical economists do not.

▶ Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.

▶ Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.

▶ Classical economists believe that fiscal policy is an effective tool for achieving economic stability while the Keynesians do not.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**According to classical economists, the:**

▶ Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.

▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**How many methods are there to measure Gross Domestic Product?**

▶ **Three.**

▶ Four.

▶ Five.

▶ Six.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following is a flow variable?**

▶ The value of the house in which you live.

▶ The balance in your savings account.

▶ **Your monthly consumption on food items.**

▶ The number of carrots in your refrigerator at the beginning of the month.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ **Capital.**
- ▶ The amount of money held by the public.
- ▶ Inventory investment.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:**

**delta consumption/ delta income =40/50=.8**

- ▶ 0.2.
- ▶ 0.4.
- ▶ 0.6.
- ▶ **0.8.**

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Which of the following plays the key balancing role in making sure that the economy reaches and stays at equilibrium at the potential output level?**



- ▶ Real exchange rate.
- ▶ The production function.
- ▶ Real price level.
- ▶ Real interest rate.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**If injections are less than withdrawals at the full-employment level of income then there arises:**

- ▶ A deflationary gap.
- ▶ Hysteresis.
- ▶ Hyperinflation.
- ▶ An inflationary gap.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**The labour force is made up of:**

- ▶ The number of people employed minus the number of people unemployed.
- ▶ The number of people employed plus the number of people unemployed.
- ▶ Just the number of people employed.
- ▶ The whole population.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**Deflation is:**

- ▶ An increase in the overall level of economic activity.
- ▶ An increase in the overall price level.
- ▶ A decrease in the overall level of economic activity.
- ▶ **A decrease in the overall price level.**

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Which of the following will result if there is a decrease in aggregate demand?**

- ▶ Expansion; inflation.
- ▶ Recession; deflation.
- ▶ Expansion; deflation.
- ▶ Recession; inflation.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**A decrease in the natural rate of unemployment will:**

- ▶ Shift the Phillips curve to the left.
- ▶ Result in a decrease in the inflation rate along the Phillips curve.
- ▶ **Shift the Phillips curve to the right.**

- ▶ Result in an increase in the inflation rate along the Phillips curve.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**The Phillips curve will shift to the right:**

- ▶ If there is a decrease in the expected inflation rate.
- ▶ If there is an increase in the expected inflation rate.
- ▶ If there is a decrease in the natural rate of unemployment.
- ▶ **If there is a favorable supply shock.**

**Question No: 41 ( Marks: 1 ) - Please choose one**

**If a country has flexible exchange rate and has more rapid inflation rate than other countries, its currency will:**

- ▶ Appreciate.
- ▶ **Depreciate.**
- ▶ Not effect.
- ▶ All of the given are possible.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**The nominal exchange rate is defined as the:**

- ▶ Market on which currencies of various nations are traded for one another.
- ▶ Price of one unit of foreign good in terms of domestic good.
- ▶ Price of one unit of foreign currency in terms of domestic currency.
- ▶ All of the given options.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**Current account deficit is equal to:**

- ▶ Private sector resource deficit.
- ▶ Government budget deficit.
- ▶ Private sector resource deficit + Government budget deficit.
- ▶ None of the given options.

**Question No: 44 ( Marks: 1 ) - Please choose one**

**In the exogenous growth model, if investment exceeds depreciation, the capital stock will ----- and output will----- until the steady state is attained.**

- ▶ Increase; increase.
- ▶ Increase; decrease.
- ▶ Decrease; decrease.
- ▶ Decrease; increase.

**Question No: 45 ( Marks: 1 ) - Please choose one**

**Endogenous growth theory differs in what essential aspect from the Solow theory of economic growth?**

▶ Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.

▶ Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.

▶ In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.

▶ All of the given options are correct.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**A currency appreciation should:**

▶ Reduce net exports and therefore increase aggregate demand.

▶ Raise net exports and therefore decrease aggregate demand.

▶ Reduce net exports and therefore decrease aggregate demand.

▶ Raise net exports and therefore increase aggregate demand.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**M1 component of money supply consists of:**

▶ Paper currency and coins.

▶ **Paper currency, coins and check writing deposits.**

▶ Paper currency, coins, check writing deposits and savings deposits.

▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**Commercial banks in Pakistan are supervised by:**

▶ **State bank.**

▶ National bank.

▶ Finance minister.

▶ World bank.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**What would result from a depreciation of the pound on the foreign exchange market?**

▶ An increase in the price of imported computers.

▶ A fall in the purchasing power of US tourists in London.

▶ A fall in the price of imported computers.

- ▶ An increase in the purchasing power of UK tourists overseas.

**Question No: 50 ( Marks: 1 ) - Please choose one**

**An example of hysteresis having a negative effect on a country's economy would be:**

- ▶ Hyperinflation caused by excessive demand.
- ▶ Nervous investors selling all their shares, causing the stockmarket to crash.
- ▶ Unemployed workers not taking available jobs.
- ▶ Women being kept out of jobs traditionally held by men.

**Question No: 51 ( Marks: 5 )**

**Briefly discuss the concept of comparative advantage with the help of example.**

**Question No: 52 ( Marks: 10 )**

**A. Differentiate between Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS).**

**B. Suppose a household has the consumption function (C) presented in the figure given below:**

- Find consumption when disposable income is \$8,000 and \$10,000.**
- Find consumption when disposable income is \$ 6,000. How can a household consume more than its disposable income?**

c. What is true for every point on the  $45^0$  line?

(Marks: 4+6)

**Question No: 53 ( Marks: 10 )**

**Define M0 and M1. Briefly discuss the three broad motives of holding money.**

(Marks:4+6)

**Question No: 54 ( Marks: 10 )**

**Recall the Equation of Quantity theory of money and calculate the missing figure in each of the following cases:**

- a) Money supply (M) = 100, Price (P) = 3 and real output (Q) = 200. Calculate the missing figure.
- b) Velocity of money (V) = 4, Price (P) = 5 and output (Q) = 100. Calculate the missing figure.
- c) Money supply (M) = 200, velocity of money (V) = 7 and output (Q) = 700. Calculate the missing figure.
- d) Money supply (M) = 150, velocity of money (V) = 8, Price level (P) = 3. Calculate the missing value.



(Marks: 2.5 each)

**FINALTERM EXAMINATION**

**Spring 2009**

**ECO401- Economics (Session - 2)**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**A good for which income and quantity demanded are inversely related is known as:**

- ▶ **Inferior good.**
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right.**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**Price floor results in:**

- ▶ All of the given options.
- ▶ Excess supply.
- ▶ Equilibrium.
- ▶ **Excess demand.**

**Question No: 5 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

- ▶ -14.
- ▶ **14.**
- ▶ 83.
- ▶ 97.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Indifference curves that are convex to the origin reflect:**

- ▶ An increasing marginal rate of substitution.
- ▶ **A decreasing marginal rate of substitution.**
- ▶ A constant marginal rate of substitution.

- ▶ A marginal rate of substitution that first decreases, then increases.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**To find the profit maximizing level of output, a firm finds the output level where:**

- ▶ Price equals marginal cost.
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.
- ▶ **None of the given options.**

The profit maximizing level of output is found by equating its marginal revenue with its marginal cost, which is the same profit maximizing condition that a perfectly competitive firm uses to determine its equilibrium level of output. Indeed, the condition that marginal revenue equal marginal cost is used to determine the profit maximizing level of output of *every firm, regardless of the market structure* in which the firm is operating.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**As compared to existing firms, a new firm entering in monopolist market has:**

- ▶ **High costs.**
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**A firm is charging a different price for each unit purchased by a consumer. This is called:**

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ None of the given options.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:**

- ▶ Collusion.
- ▶ Price discrimination.
- ▶ Two-part tariff.
- ▶ **Bundling.**

**Question No: 12 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand for any good must be less than or equal to zero unless:**

- ▶ The good is a necessity.
- ▶ The good is a luxury.

- ▶ **The good is a Giffen good.**
- ▶ None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ **Increasing as income increases.**
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.
- ▶ None of the given options.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is NOT true?**

- ▶ Products are differentiated.
- ▶ **There is freedom of entry and exit into the industry in the long run.**
- ▶ The firm is a price maker.
- ▶ There is one main seller.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**Welfare economics is the branch of economics which deals with:**

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**Under the kinked demand curve model, an increase in marginal cost will lead to:**

- ▶ An increase in output level and a decrease in price.
- ▶ A decrease in output level and an increase in price.
- ▶ **A decrease in output level and no change in price.**
- ▶ Neither a change in output level nor a change in price.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?**

- ▶ Duopoly.

- ▶ **Cartel.**
- ▶ Market sharing monopoly.
- ▶ Natural monopoly.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**In the complete classical model, a rightward shift of the labor supply curve will:**

- ▶ Decrease the price level and increase the nominal wage.
- ▶ Decrease the nominal wage and increase the price level.
- ▶ Decrease both the price level and the nominal wage.
- ▶ **Increase both the price level and the nominal wage.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

**Which of the following events could cause the aggregate demand curve to shift to the right?**

- ▶ An increase in the rate of inflation.
- ▶ A decrease in government expenditures.
- ▶ A decrease in investment spending.
- ▶ **A decrease in income tax rates.**



**Question No: 20 ( Marks: 1 ) - Please choose one**

**The Great Depression of 1930s opened the door to the \_\_\_\_\_ revolution in macroeconomic theory.**

- ▶ **Keynesian.**
- ▶ New classical.
- ▶ Old classical.
- ▶ New Keynesian.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Keynesian economics was the predominant economic theory:**

- ▶ Prior to the late 1700s.
- ▶ From the late 1700s to the early 1900s.
- ▶ **From 1930s to 1970s.**
- ▶ Since 1970s.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Classical economics was replaced as the dominant theory of macroeconomic analysis by:**

- ▶ Monetarism.

- ▶ Rational expectations.
- ▶ **Keynesian economics.**
- ▶ Neoclassical economics.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:**

- ▶ Both prices and output to rise.
- ▶ Prices to fall and output to remain unchanged.
- ▶ Both prices and output to fall.
- ▶ **Prices to rise and output to remain unchanged.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Intermediate goods are meant for:**

- ▶ Direct use by the consumers.
- ▶ **Further processing.**
- ▶ The term do not exist.
- ▶ None of the given options.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Final goods are meant for:**

- ▶ **Direct use by the consumers.**
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Which of the following is a flow variable?**

- ▶ The value of the house in which you live.
- ▶ **The balance in your savings account.**
- ▶ Your monthly consumption on food items.
- ▶ The number of carrots in your refrigerator at the beginning of the month.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ Capital.
- ▶ **The amount of money held by the public.**
- ▶ Inventory investment.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**All other things remain the same, Gross Domestic Product (GDP) will rise if:**

- ▶ Imports rises.
- ▶ Exports falls.
- ▶ **Durable goods consumption rises.**
- ▶ Military spending falls.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**If disposable income increases from \$5 trillion to \$6 trillion and as a result, consumption expenditure increases from \$7 trillion to \$7.8 trillion, the Marginal Propensity to Consume is:**

- ▶ 1.0.
- ▶ **0.8.**
- ▶  $5/7 = 0.71$ .
- ▶  $6/7.8 = 0.77$ .

**Question No: 30 ( Marks: 1 ) - Please choose one**

**The slope of the consumption function (or line) is the:**

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ Marginal propensity to save.
- ▶ **Marginal propensity to consume.**

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:**

- ▶ 0.2.
- ▶ 0.4.
- ▶ 0.6.
- ▶ **0.8.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

**The unemployment rate is equal to:**

- ▶ Number of employed / labour force x 100.
- ▶ **Number of unemployed / labour force.**
- ▶ (Number of unemployed / labour force) x 100.
- ▶ None of the given options.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**The traditional Phillips Curve shows the:**

- ▶ **Inverse relationship between the rate of inflation and unemployment rate.**
- ▶ Inverse relationship between the nominal and real wage.
- ▶ Direct relationship between unemployment and demand-pull inflation.
- ▶ Tradeoff between the short run and long run.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Deflation is:**

- ▶ An increase in the overall level of economic activity.
- ▶ An increase in the overall price level.
- ▶ A decrease in the overall level of economic activity.
- ▶ **A decrease in the overall price level.**

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Is Gross Domestic Product (GDP) an accurate measure of a country's well being?**

- ▶ Yes, it is the best measure of national well being.

- ▶ **Yes, provided we use real GDP and not nominal GDP.**
- ▶ Uncertain, depending on whether GDP is rising or falling.
- ▶ No, it is not.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Real Gross Domestic Product (GDP):**

- ▶ **Is nominal GDP adjusted for changes in the price level.**
- ▶ Is also called nominal GDP.
- ▶ Measures GDP minus depreciation of capital.
- ▶ Will always change when prices change.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**If a war destroys a large portion of a country's capital stock but the saving rate is unchanged, the exogenous model predicts that output will grow and the new steady state will approach:**

- ▶ A higher output level than before.
- ▶ The same output level as before.
- ▶ **A lower output level than before.**
- ▶ The Golden Rule output level.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**A currency appreciation:**

- ▶ **Reduces aggregate demand and increases aggregate supply.**
- ▶ Reduces both aggregate demand and aggregate supply.
- ▶ Increases aggregate demand and reduces aggregate supply.
- ▶ Increases both aggregate demand and aggregate supply.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**M1 component of money supply consists of:**

- ▶ Paper currency and coins.
- ▶ **Paper currency, coins and check writing deposits.**
- ▶ Paper currency, coins, check writing deposits and savings deposits.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Personal income:**

- ▶ Is income received by individuals during a given year.



- ▶ Is the income individuals have available for spending during a given year.
- ▶ Equals national income minus indirect taxes.
- ▶ **Is the sum of wages plus interest received by individuals during a given year.**

**Question No: 41 ( Marks: 1 ) - Please choose one**

**Real Gross National Product (GNP) is best defined as:**

- ▶ The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.
- ▶ The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.
- ▶ The current pound value of all new and used goods produced and sold in the economy during a particular time period.
- ▶ **The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period.**

**Question No: 42 ( Marks: 1 ) - Please choose one**

**Which of the following statements describes the difference between nominal and real Gross Domestic Product (GDP)?**

- ▶ Real GDP includes only goods; nominal GDP includes goods and services.
- ▶ **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.

- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

- ▶  $GNP = GDP - \text{Net income from abroad.}$
- ▶  **$GNP = GDP + \text{Net income from abroad.}$**
- ▶  $GNP = NNP - \text{Net income from abroad.}$
- ▶  $GNP = NNP + \text{Net income from abroad.}$

**Question No: 44 ( Marks: 1 ) - Please choose one**

**Gross domestic product (GDP) is the market value of:**

- ▶ All transactions in an economy during one-year period.
- ▶ All goods and services exchanged in an economy during one-year period.
- ▶ All final goods and services exchanged in an economy during one-year period.
- ▶ **All final goods and services produced in a domestic economy during one-year period.**

**Question No: 45 ( Marks: 1 ) - Please choose one**

**Which of the following shows the Fisher equation of exchange?**

- ▶  $MT = PV$ .
- ▶  $VT = PM$ .
- ▶  $MV = PQ$ .
- ▶  $MY = VP$ .

**Question No: 46 ( Marks: 1 ) - Please choose one**

**An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called:**

- ▶ Overvalued exchange rate.
- ▶ Undervalued exchange rate.
- ▶ Fixed exchange rate.
- ▶ **Flexible exchange rate.**

**Question No: 47 ( Marks: 1 ) - Please choose one**

**In the equation  $MV = PQ$ , according to the crude quantity theory of money:**

- ▶ M has no effect on the price level.
- ▶ **V is the number of times each dollar is spent per year.**
- ▶ Q is the real price level.
- ▶ P rises as V falls, other things constant.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**In the Keynesian cross model, the 45-degree line has a slope of:**

- ▶ 45.
- ▶ Infinity.
- ▶ 1.
- ▶ 0.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**In Keynesian economics, equilibrium can occur:**

- ▶ Only at full employment level.
- ▶ Only at levels less than full employment.
- ▶ Only at levels greater than full employment.
- ▶ **At any level of aggregate output which is equal to aggregate expenditures.**

**Question No: 50 ( Marks: 1 ) - Please choose one**

**After a decrease in the wage, the substitution effect implies that:**

- ▶ Only the amount demanded of capital decreases.
- ▶ Only the amount demanded of labor decreases.

- ▶ **Only the amount demanded of capital increases.**
- ▶ The amount demanded of all inputs increases.

**Question No: 51 ( Marks: 5 )**

**Briefly discuss the private cost of advertising. How we can calculate the marginal social cost?**

**ANSWER: Private Cost Of Advertising:** The private cost of advertising is the cost incurred by firm in making the advertisement i.e newspaper adds, tv commercials etc. The firms do not take into account the nuisance faced by people due to these advertisements otherwise the firms would do less advertisement.

**Marginal Social Cost:** Marginal social cost is not a monetary based cost. It is the cost borne by the society as a whole. It is the cost of consumption of one next unit.

**Question No: 52 ( Marks: 10 )**

**A. What conclusions are derived from exogenous growth theory?**

**ANSWER: Exogenous Growth Theory:** The major conclusions derived from the exogenous growth are as follows:

- The steady growth rate of real GDP depends on exogenous rates of growth of population (n) and technology (t). There are no policies for government for how to affect the steady growth rate of a country. Higher savings can only have a little effect on income it cannot cause long term growth because savings cause diminishing returns to investment and capital accumulation.

- If one country started with lower income and capital than another country, the poorer country will grow faster to catch up the richer country and then both the countries will grow together.

**B. What is meant by convergence theory? Explain the convergence theory in the given graph.**

**(Marks: 4+6)**

**Question No: 53 ( Marks: 10 )**

**Define fiscal policy. Differentiate between contractionary and expansionary fiscal policy. In which situations, budget deficit and budget surplus exist?**

**Answer: Fiscal Policy:** Fiscal policy is the government's about the

- expenditure in form of purchases, subsidies and interest payments on debt etc.
- revenue in form of taxes etc.

**Difference between Contractionary and Expansionary Fiscal Policy:**

<b>Conactionary Fiscal Policy</b>	<b>Expansionary Fiscal Policy</b>
In conactionary fiscal policy government decreases its expenditure.	In expansionary fiscal policy government increases its expenditure.

**Budget Deficit and Budget Surplus:** Budget deficit exists if government expenditure increases the revenue earned. In this case government needs to finance its expenditure through borrowing.

Budget surplus exists when revenue exceeds the government expenditure. In this condition government can easily pay off its debt borrowings.

**(Marks: 2+4+4)**

**Question No: 54 ( Marks: 10 )**

**Discuss the basic theories regarding IMF's stabilization program. Are these theories successful? If not, give reasons.**

**Answer: IMF's Stabilization Theories:**

- Tight Fiscal Policy:** It works through higher revenues and reduced government expenditure.
- Devaluation:** Switching from imports to home produced goods. It increases competitiveness, exports and increase investors confidence in local currency.
- Tight Monetary Policy:** Higher interest rates resulting in reduced private sector consumption and investment demand. It reduces inflation and increases savings. High interest rates also results in higher capital inflow.

These theories are generally not successful in lower income countries (LICs).  
Because they caused the problems of:

- **Devaluation:** It raises the price of imports and also increased the inflation while the real wage rate could not increase.
- **Stabilization hurts poor:** decrease in expenditure always badly effects the poor which can then cause political instability

## **FINALTERM EXAMINATION**

**Fall 2009**

**ECO401- Economics (Session - 2)**

**Time: 120 min**

**Marks: 87**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**A good for which income and quantity demanded are inversely related is known as:**

- ▶ **Inferior good.**
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.



**Question No: 2 ( Marks: 1 ) - Please choose one**

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course.**
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**If the income elasticity of demand for boots is 0.2, a 10% increase in consumer's income will lead to a:**

- ▶ 20 percent decrease in the quantity of boots demanded.
- ▶ **2 percent increase in the quantity of boots demanded.**
- ▶ 0.2 percent increase in the quantity of boots demanded.
- ▶ 20 percent increase in the quantity of boots demanded.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**When the marginal utility of a good is zero, this implies that:**

- ▶ The consumer would not spend any additional income to buy more of that good.

- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ **Total utility is also zero.**

**Question No: 5 ( Marks: 1 ) - Please choose one**

**An individual with a constant marginal utility of income will be:**

- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.
- ▶ Insufficient information for a decision.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**At any given point on an indifference curve, the absolute value of the slope equals:**

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution.**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**If at the profit-maximizing quantity, profits are positive, then:**

- ▶ **Price < Average Total Cost.**
- ▶ Price > Average Total Cost.
- ▶ Price < Average Variable Cost.
  
- ▶ Price = Marginal Cost.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?**

- ▶ **The demand curve is tangent to marginal cost curve.**
- ▶ The demand curve is tangent to average cost curve.
- ▶ The marginal cost curve is tangent to average cost curve.
- ▶ The demand curve is tangent to marginal revenue curve.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.

- ▶ A complementary good.
- ▶ **Inferior good.**

**Question No: 10 ( Marks: 1 ) - Please choose one**

**Welfare economics is the branch of economics which deals with:**

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**For a firm buying labor competitively, the marginal input cost is equal to the:**

- ▶ **Wage.**
- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Which of the following would cause the short run aggregate supply curve to shift to the left but have no effect over the long run aggregate supply curve?**

- ▶ The amount of factors of production (such as labor and capital) increases.
- ▶ The amount of factors of production (such as labor and capital) decreases.
- ▶ **Prices of inputs (such as wages or oil prices) increase.**
- ▶ Prices of inputs (such as wages or oil prices) decrease.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**During periods of high unemployment, the preferred policy of Keynesian economics is:**

- ▶ A recessionary gap.
- ▶ **Expansionary fiscal policy.**
- ▶ Contractionary monetary policy.
- ▶ Waiting for self-correction to work.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**The Phillips curve will shift to the right:**

- ▶ If there is a decrease in the expected inflation rate.
- ▶ If there is an increase in the expected inflation rate.
- ▶ If there is a decrease in the natural rate of unemployment.
- ▶ If there is a favorable supply shock.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**A nation's balance of payments can be affected by changes in:**

- ▶ Foreign income.
- ▶ The differential between domestic and foreign interest rates.
- ▶ The real exchange rate.
- ▶ **All of the given options.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

**What does the term "balance of payment deficit" refer to?**

- ▶ **An increase in official international reserves.**
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.
- ▶ A decline in official international reserves.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Which of the following may cause an increase in national income?**

- ▶ **Rise in exports.**
- ▶ Rise in imports.
- ▶ Fall in consumer spending.
- ▶ Increase in saving.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The principle which states that a change in investment causes a magnified change in income is termed as the:**

- ▶ Water paradox.
- ▶ Paradox of thrift.
- ▶ **Accelerator effect.**
- ▶ Multiplier effect.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**Demand is elastic when the elasticity of demand is:**

- ▶ Greater than 0 but less than 1.
- ▶ **Greater than 1.**

- ▶ Less than 0.
- ▶ Equal to 1.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**For price making firm, at the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?**

- ▶ They must intersect with TC cutting TR from below.
- ▶ They must intersect with TC cutting TR from above.
- ▶ They must be tangent to each other.
- ▶ They must have the same slope.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Which of the following is required to make the equation of exchange in the quantity theory of money?**

- ▶ V and Q are assumed to be constant.
- ▶ The money supply is assumed to be produced by the banking system and not exclusively in currency.
- ▶ The quantity of money is assumed to determine the amount of Real GDP.
- ▶ M and P are considered constant.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**What will be the impact of a decrease in the money supply in an economy?**

- ▶ Interest rate increases, investment and GDP reduce.



- ▶ Interest rate increases, investment increases and GDP reduce.
- ▶ Interest rate reduces, investment and GDP increase.
- ▶ **Interest rate reduces, investment and GDP reduce.**

**Question No: 23 ( Marks: 1 ) - Please choose one**

**A growing country is one with:**

- ▶ **Rising GNP at constant prices.**
- ▶ Rising GNP at current prices.
- ▶ Constant GNP at constant prices.
- ▶ None of the given options.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**According to Classical economists, macroeconomic equilibrium will occur in an economy if:**

- ▶ Savings = Investment
- ▶ Government spending = Taxes
- ▶ Exports = Imports
- ▶ **All of the given conditions hold.**

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The process of converting a stream of future incomes and expenses into a present value is known as:**

- ▶ **Discounting.**
- ▶ Compounding.
- ▶ Hyperbolic discounting.
- ▶ None of the given options.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Which of the following is the best example of a public good?**

- ▶ A cup of coffee.
- ▶ A monthly magazine.
- ▶ A haircut.
- ▶ **An interstate highway.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Refer to the above figure, the potential output in this economy is:**

- ▶ \$7,000 billion at a price level of 1.16.
- ▶ \$7,000 billion at a price level of 1.12.
- ▶ \$7,000 billion at a price level of 1.08.
- ▶ **All of the given options.**

**Question No: 28 ( Marks: 1 ) - Please choose one**

**The Keynesian revolution in macroeconomics was that:**

- ▶ Capitalist economies were self-correcting.
- ▶ A gold standard was not necessary to control inflation.
- ▶ Unemployment can be viewed as being voluntary.
- ▶ **Government has a role in maintaining full employment.**

**Question No: 29 ( Marks: 1 ) - Please choose one**

**The natural rate of unemployment is likely to fall if:**

- ▶ Unemployment benefits increase.
- ▶ Income tax increases.
- ▶ **More training is available for the unemployed.**
- ▶ Geographical immobility increases.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**The relationship between inflation and unemployment is usually that:**

▶ **Unemployment changes do not directly lead to changes in inflation, but inflation changes may cause changes in unemployment.**

- ▶ As unemployment falls, nothing happens to inflation.
- ▶ As unemployment falls, inflation falls.
- ▶ As unemployment falls, inflation increases.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**When agents base their decisions on their expectations about inflation, it is known as:**

- ▶ Quantity theory of money.
- ▶ **Money illusion.**
- ▶ Demand pull inflation.
- ▶ Cost push inflation.

**Question No: 32 ( Marks: 1 ) - Please choose one**

<b>Disposable Personal Income</b>	<b>Consumption</b>
<b>\$</b>	<b>\$</b>
100	140
200	220
300	300
400	380
500	460

**Refer to the above table, when disposable personal income is \$400, what is the amount of personal saving?**

- ▶ -\$40.
- ▶ -\$20.
- ▶ \$0.
- ▶ **\$20.**

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Economic growth occurs when there is an increase in:**

- ▶ Wage rates.
- ▶ The inflation rate.
- ▶ **Aggregate demand.**
- ▶ The productive capacity of an economy.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Development is impossible without:**

- ▶ Incentive to profit.
- ▶ Foreign aid.
- ▶ Domestic savings.
- ▶ **Inflation.**

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Which of the following determines a country's rate of growth?**

- ▶ **The average propensity to save.**
- ▶ The interaction of supply and demand.
- ▶ The law of comparative costs.
- ▶ The rate of capital accumulation.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Which of the following is not likely to be a cause of economic growth?**

- ▶ Improved rate of capital formation.
- ▶ **Increase in money supply.**
- ▶ Increase in investment in education and training.
- ▶ Rapid technical progress.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**Suppose that a country is in a steady state condition. It implements policies to increase the saving rate of its economy. What will be TRUE at the new steady state level?**

- ▶ Output per worker will grow more rapidly than before.
- ▶ The level of output per worker will be higher than before.
- ▶ The amount of capital per worker will be the same as before.
- ▶ **All of the given options.**

**Question No: 38 ( Marks: 1 ) - Please choose one**

**The rapid population growth in today's developing nations is due to the:**

- ▶ High birth rates only.
- ▶ Low death rates only.
- ▶ High birth rate and low death rate.
- ▶ **Higher standard of living.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**A tax in which people pay the same percentage of income in taxes regardless of their incomes is called:**

- ▶ Value-added tax.
- ▶ Regressive tax.
- ▶ **Proportional tax.**
- ▶ Progressive tax.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**The taxes on alcohol, tobacco, and gasoline are categorized as:**

- ▶ Sales tax.
- ▶ **Excise tax.**
- ▶ Corporate income tax.
- ▶ Personal income tax.

**Question No: 41 ( Marks: 1 ) - Please choose one**

**Which of the following is part of M1?**

- I. Savings deposits.
- II. Cash in your hand.
- III. Checking deposits.
- ▶ **I and III.**
- ▶ II and III.

- ▶ I only.
- ▶ II only.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about credit cards?**

- ▶ It is not money.
- ▶ It is not money, because they can't be used to purchase goods and services.
- ▶ It is considered to be money.
- ▶ **It is counted as a part of M2 but not M1.**

**Question No: 43 ( Marks: 1 ) - Please choose one**

**In a period of recession, credit creation is:**

- ▶ **Small.**
- ▶ Heavy.
- ▶ Unchanged.
- ▶ Zero.

**Question No: 44 ( Marks: 1 ) - Please choose one**

**In a period of boom, credit creation is:**

- ▶ Small.



- ▶ **Heavy.**
- ▶ **Unchanged.**
- ▶ **Zero.**

**Question No: 45 ( Marks: 1 ) - Please choose one**

**International finance is the study of economics that deals with:**

- ▶ **The balance of trade.**
- ▶ The macroeconomic consequences of financial flows associated with international trade.
- ▶ International investment opportunities for American multinational corporations.
- ▶ The relationships among world currency dealers.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**Which of the following is a characteristic of low income countries?**

- ▶ **Higher rates of population growth.**
- ▶ Greater government control.
- ▶ A larger share of income used for investment.
- ▶ A smaller proportion of the labor force in agriculture.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about low income countries?**

- ▶ Their production level is low.
- ▶ **All of the given are true.**
- ▶ Their savings are low.
- ▶ Their investment level is low.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**Poor countries remained poor because of:**

- ▶ Higher per capita income.
- ▶ **Vicious circle of poverty.**
- ▶ High level of investment.
- ▶ High rates of savings.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**Refer to the above figure, the marginal propensity to consume is:**

- ▶ 0.25.
- ▶ **0.50.**
- ▶ 0.60.
- ▶ 0.67.

**Question No: 50 ( Marks: 1 ) - Please choose one**

**Which of the following will happen if the cost of computer components falls?**

- ▶ **The demand curve for computers shifts to the right.**
- ▶ The demand curve for computers shifts to the left.
- ▶ The supply curve for computers shifts to the right.
- ▶ The supply curve for computers shifts to the left.

**Question No: 51 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift downward if there is:**

- ▶ Immigration of skilled workers into the nation.
- ▶ An increase in the size of the working-age population.
- ▶ **A decrease in the size of the working-age population.**
- ▶ Increased production of capital goods.

**Question No: 52 ( Marks: 1 ) - Please choose one**

**What will be the impact of a ban on foreign firms from selling in the domestic market?**

- ▶ **It will cause domestic producers competing with the imports to face huge losses.**
- ▶ It will cause the supply curve to shift to the left.
- ▶ It will cause the supply curve to shift to the right.

- ▶ It will have no effect on the domestic market.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**Which of the following will happen if two indifference curves cross each other?**

- ▶ **The assumption of a diminishing marginal rate of substitution will be violated.**
- ▶ The assumption of transitivity will be violated.
- ▶ The assumption of completeness will be violated.
- ▶ Consumers will minimize their satisfaction.

**Question No: 54 ( Marks: 1 ) - Please choose one**

**When there are diminishing returns holding at least one factor constant then:**

- ▶ The marginal product of a factor is positive and rising.
- ▶ The marginal product of a factor is positive but falling.
- ▶ The marginal product of a factor is falling and negative.
- ▶ **The marginal product of a factor is constant.**

**Question No: 55 ( Marks: 3 )**

**According to Keynesian school of thought, what should be the role of government in order to bring the economy out of depression?**

**Answer No: 55**

Keynes introduced demand-pull theory which emphasizes strongly the intervention of government into economy.

According to him economy may be boosted up by increasing expenditure. In the initial stage government can inject money in the form of investment and higher wage rate to the government employees. This will create higher demand which in return result in more investment by firms.

**Question No: 56 ( Marks: 5 )**

**In the above figure, suppose the economy is on the horizontal portion of aggregate supply (AS) curve.**

**a) If government expenditures increase, what will happen to the aggregate expenditure line E, aggregate demand curve AD and output level Y.**

**Answer No: 56 (a)**

It will cause more short run demand in the economy and “e” will move to the right in P-Y space.

It will increase the consumption part of injection as well and “e” will move upward and right in W.J-Y space.

AD will curve will move to right in P-Y space resulting increasing short run output “Y”.

**b) Is there any multiplier effect? How it works in this case?**

**Answer No:56 (b)**

Yes, multiplier effect exists there.

Keynes multiplier  $1/mps$  is the variable which determines the injection level to create an hypothetical desired output.

**(Marks: 3+2)**

**Question No: 57 ( Marks: 5 )**

**World Bank suggests some structural reform policies for the poor countries to grow. Discuss those policies briefly.**

**Answer No: 57**

These are also called IMF’s Stabilization Policies. These were concluded from neoclassical economics, known since 1990.

The objective of IMF was to ensure both through internal balance (supply=demand, i.e. low inflation, full employment) and

external balance (sustainable BOP and external debt position).

The approach was “stabilization” through “demand” management.

There are three tools of this policy as follows!

- Tight Monetary Policy
- Tight Fiscal Policy
- Devaluation

IMF Policies effected LIC’s badly. There was a very high criticism on above said policies. The main points of criticism were as follows!

- **Short-term policy conflicts**
- **Devaluation** could raise prices of imports.
- **Demand-reduction policies** are anti-growth: increased taxation can stifle the productive sector.
- **Stabilization hurts the poor** expenditure cuts almost always fall partly on the social sectors.

**Question No: 58 ( Marks: 10 )**

**Recall the Equation of Quantity theory of money and calculate the missing figure in each of the following cases:**

- a) Money supply (M) =100, Price (P) = 3 and real output (Q) = 200.  
Calculate the missing figure.

**Answer No: 58 (a)**

$$MV = PQ$$

$$100 \times V = 3 \times 200$$

$$V = 600 / 100$$

$$V = 6$$

b) Velocity of money (V) = 4, Price (P) = 5 and output (Q) = 100.  
Calculate the missing figure.

**Answer No: 58 (b)**

$$MV = PQ$$

$$M \times 4 = 5 \times 100$$

$$M = 500 / 4$$

$$M = 125$$

c) Money supply (M) = 200, velocity of money (V) = 7 and output (Q) = 700. Calculate the missing figure.

**Answer No: 58 (c)**

$$MV = PQ$$



$$200 \times 7 = P \times 700$$

$$P = 1400 / 700$$

$$P = 2$$

- d) Money supply (M) = 150, velocity of money (V) = 8, Price level (P) = 3. Calculate the missing value.

**Answer No: 58 ( d )**

$$MV = PQ$$

$$150 \times 8 = 3 \times Q$$

$$Q = 1200 / 3$$

$$Q = 400$$

**(Marks: 2.5 each)**

**Question No: 59 ( Marks: 10 )**

**International monetary fund (IMF) suggests policies of stabilization “through demand management” to reduce poverty from developing countries. Discuss those policies. Were these policies successful? If not, give reasons.**

**FINALTERM EXAMINATION**

**Fall 2009**

## ECO401- Economics

**Time: 120 min**

**Marks: 87**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**The concave shape of the production possibilities curve for two goods X and Y illustrates:**

- ▶ **Increasing opportunity cost for both goods.**
- ▶ Increasing opportunity cost for good X but not for good Y.
- ▶ Increasing opportunity cost for good Y but not for good X.
- ▶ Constant opportunity cost for both goods.

**The shape of a production possibility curve commonly drawn as concave downward to represent increasing opportunity cost with increased output of a good.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**When college students leave town for the summer, the demand for meals at the local restaurants decline. This results in:**

- ▶ A decrease in equilibrium price and an increase in quantity of meal.
- ▶ An increase in equilibrium price and quantity of meal.
- ▶ **A decrease in equilibrium price and quantity of meal.**
- ▶ An increase in equilibrium price and a decrease in quantity of meal.

**A decrease in equilibrium price and quantity. The demand curve shifts to the left because the town population declines, resulting in lower prices and quantity.**

**Question No: 3 ( Marks: 1 ) - Please choose one**

**A demand curve is price elastic when:**

- ▶ **Changes in demand are proportionately greater than changes in price.**
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.
- ▶ Changes in demand are proportionately smaller than changes in price.

**For elastic demand curve, firm does not increase its prices. Because as prices increases, quantity Demanded decreases much larger. Decrease in quantity demanded is greater than the increase in prices. So firm will earn less revenue. So TR decreases as price increases.**

**Question No: 4 ( Marks: 1 ) - Please choose one**

**The numerical measurement of a consumer's preference is called:**

- ▶ Use.

- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

**Utility is a numerical representation of a preference ranking**

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about price-consumption curve for good X?**

- ▶ Nominal income falls as the price of X falls.
- ▶ The absolute price of X falls, but the relative price between X and the composite good Y stays the same.
- ▶ It is always downward sloping for a normal good.
- ▶ **It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.**

**The price consumption curve (PCC) traces out the optimal choice of consumption at different prices. The PCC can be used to derive the demand curve, which shows the relationship between price & quantity demanded.**

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Marginal profit is equal to:**

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.

- ▶ Marginal revenue times marginal cost.

**marginal profit is the term used to refer to total when marginal cost is subtracted from marginal revenue.**

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The supply curve for a competitive firm is:**

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.
- ▶ Its marginal cost curve above the minimum point of the average variable cost curve.

**▶ Its marginal cost curve above the minimum point of the average total cost curve.**

**A perfectly competitive firm's supply curve is that portion of its marginal cost curve that lies above the minimum of the average variable cost curve.**

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Second-degree price discrimination is the practice of charging:**

- ▶ The reservation price to each customer.
- ▶ Different prices for different blocks of the same good or service.**
- ▶ Different groups of customers different prices for the same products.
- ▶ Each customer the maximum price that he or she is willing to pay.

Second degree price discrimination, allows the supplier to set different prices to the different groups and capture a larger portion of the total market surplus.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive.**
- ▶ Oligopolistic.

Monopolistic competition is also characterized by a large number of buyers and sellers and absence of entry barriers.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**The market structure in which strategic considerations are most important is:**

- ▶ Monopolistic competition.
- ▶ **Oligopoly.**
- ▶ Pure competition.
- ▶ Pure monopoly.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand for any good must be less than or equal to zero unless:**

▶ The good is a necessity.

A good for which the "income elasticity of demand" is  $>0$  &  $<1$

▶ The good is a luxury.

A good for which the "income elasticity of demand" is  $> 1$ .

▶ **The good is a Giffen good.**

▶ None of the given options.

**Goods for which the "quantity demanded" of one good does not depend upon the price of the other. (i.e. Pencils & cars). The "cross elasticity of demand" will be 0.**

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Consumption spending, investment expenditures, government expenditures and net exports are:**

▶ The components of household income.

▶ The components of aggregate supply.

▶ **The components of aggregate demand**

- ▶ The components of government revenue.

**AD is the sum of consumption, investment, government spending and net exports (i.e. exports minus imports), and is inversely related to the aggregate price level through the wealth, interest rate and international purchasing power effects.**

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Classical economics was replaced as the dominant theory of macroeconomic analysis by:**

- ▶ Monetarism.
- ▶ Rational expectations.
- ▶ **Keynesian economics.**
- ▶ Neoclassical economics.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**According to classical economics, the economy will always tend toward full employment due to:**

- ▶ Minimum wages.
- ▶ **Flexible wages and prices.**
- ▶ Extended periods of unemployment.



- ▶ Inequality between saving and investment.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The real interest rate will increase:**

**▶ If there is an excess supply of loanable funds in the financial markets.**

- ▶ If there is an excess demand for loanable funds in the financial markets.
- ▶ If there is an excess supply of loanable funds in the foreign exchange markets.
- ▶ If there is an excess demand for loanable funds in the foreign exchange markets.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**A source of fluctuations in investment spending is:**

- ▶ Changes in government expectations of future output growth.
- ▶ Changes in household's expectations about future output growth.
- ▶ Changes in household's expectations about future risk.
- ▶ Changes in investor's expectations about future profits.**

**Question No: 17 ( Marks: 1 ) - Please choose one**

**What does the term "balance of payment deficit" refer to?**

- ▶ An increase in official international reserves.
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.
- ▶ **A decline in official international reserves.**

**Question No: 18 ( Marks: 1 ) - Please choose one**

**M1 component of money supply consists of:**

- ▶ Paper currency and coins.
- ▶ **Paper currency, coins and check writing deposits.**
- ▶ Paper currency, coins, check writing deposits and savings deposits.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**M1 includes currency held by the public, plus travelers' checks, demand deposits, other checkable deposits (including negotiable order of withdrawal (NOW) accounts, Automatic Transfer Service (ATS) accounts, and credit union share draft accounts).**

**Question No: 19 ( Marks: 1 ) - Please choose one**

**When one producer can produce a given amount of output with fewer inputs, which of the following would occur?**

- ▶ Comparative advantage.
- ▶ Comparative disadvantage.
- ▶ **Absolute advantage.**
- ▶ Absolute disadvantage.

Absolute advantage.: Capability of one producer to produce a given good using fewer resources than any other producer.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**What would result from a depreciation of the pound on the foreign exchange market?**

- ▶ An increase in the price of imported computers.
- ▶ A fall in the purchasing power of US tourists in London.
- ▶ **A fall in the price of imported computers.**
- ▶ An increase in the purchasing power of UK tourists overseas.

A currency is said to depreciate in value if its exchange rate decreases, such as a decrease in the exchange rate of dollars from 0.5 pounds per dollar to 0.33 pounds per dollar. Currency depreciation makes exports from the country relatively less expensive resulting in more exports and usually fewer imports.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**The news on the television reports that the dollar has strengthened relative to the Japanese yen. This means that:**

- ▶ The dollar can now purchase more yen.
- ▶ The US trade balance with the Japanese economy has improved.

▶ **The yen can now purchase more dollars.**

▶ The dollar has depreciated relative to the yen.

The exchange rate increases (i.e., a unit of your currency is worth more in foreign currency than previously), the currency is said to have *strengthened, appreciated, or increased in value* (revaluation). For example, assume that the exchange rate between the U.S. dollar and the Japanese yen changed from US\$1=104 yen to US\$1=110 yen. This would strengthen the value of the U.S. dollar in that you would receive more yen in exchange for your dollar

**Question No: 22 ( Marks: 1 ) - Please choose one**

**In Keynesian economics, if aggregate expenditures are less than aggregate output then:**

▶ The price level rises.

▶ Inventories decrease.

▶ Employment decreases.

▶ **Aggregate output increases.**

**Question No: 23 ( Marks: 1 ) - Please choose one**

**In the Keynesian cross model, the aggregate expenditure line has a slope of:**

▶ 1.

▶ 0.

▶ Infinity.

▶ **Less than 1.**

In the Keynesian cross model If we draw a graph with expenditure on the vertical axis, we can see that the Expenditure line should have a slope of ( $<1$ ),

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Demand is elastic when the elasticity of demand is:**

▶ Greater than 0 but less than 1.

▶ **Greater than 1.**

▶ Less than 0.

▶ Equal to 1. **unit elastic**

If  $P_{ed} > 1$ , then demand responds more than proportionately to a change in price i.e. **demand is elastic.**

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Which of the following statements is TRUE about cartels?**

▶ These are considered as part of monopolistic competition.

▶ these are organizations of independent firms, producing similar products, that work together to raise prices and restrict output.

▶ **these are organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.**

▶ These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.

**A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products.**

**Question No: 26 ( Marks: 1 ) - Please choose one**

**After the collusion, oligopolists are able to:**

- ▶ Raise price but not restrict output.
- ▶ Raise price and restrict output but not attain the monopoly profit.
- ▶ Raise price and restrict output and therefore attain the monopoly profit.**
- ▶ Restrict output but not raise price.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Which of the following statements is TRUE about the difference between nominal and real Gross Domestic Product (GDP)?**

- ▶ Real GDP includes only goods; nominal GDP includes goods and services.
- ▶ Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

Nominal GDP: The total market value, measured in current prices,

Real GDP: The total market value, measured in constant prices

**Question No: 28 ( Marks: 1 ) - Please choose one**

**If production remains the same and all prices double, then which of the following will happen?**

- ▶ Real GDP and nominal GDP will both remain constant.
- ▶ Real GDP will remain constant and nominal GDP will reduce by half.
- ▶ **Real GDP will remain constant and nominal GDP will double.**
- ▶ Real GDP will double and nominal GDP will remain constant.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**Assume that there is no government or foreign sector, if the marginal propensity to consume (MPC) is 0.9, then the value of multiplier will be equal to:**

- ▶ 2.
- ▶ 5.
- ▶ 8.
- ▶ 10.

**NO IDEA... MAY BE WRONG QUESTION**

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:**

▶ **1000+1500+2500 = Rs. 5000**

▶ 1000+500+2500 = Rs. 4000

▶ 1000+500+1000 = Rs. 2500

▶ 1000+1500+1000 =Rs. 3500

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following is a transfer payment?**

▶ Payment made to housewife.

▶ Pocket allowance to children.

▶ Maintenance allowance to old parents.

▶ **All of the given options.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

**The relationship between hours provided by labor and wage rate is:**

▶ **Positive.**

▶ Negative.

▶ Ambiguous.

▶ Very strong.



**Question No: 33 ( Marks: 1 ) - Please choose one**

**Market failure occurs when:**

- ▶ Competitive markets do not achieve equitable outcomes.
- ▶ Competitive markets do not achieve efficient outcomes.
- ▶ Government takes steps to intervene in markets.
- ▶ **All of the given happen.**

**Question No: 34 ( Marks: 1 ) - Please choose one**

**A graph that depicts the relationship between the total quantity of goods and services demanded and the price level is known as:**

- ▶ **Aggregate demand curve.**
- ▶ Average price level.
- ▶ Circular flow model.
- ▶ GDP curve.

**The aggregate demand curve illustrates the relationship between economic goods demanded and the price level, assuming all else is held constant (that is, under aceteris paribus assumption).**

**Question No: 35 ( Marks: 1 ) - Please choose one**

**In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:**

- ▶ The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The aggregate demand and the short-run aggregate supply curves.
- ▶ The aggregate demand and the long-run aggregate supply curves.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Changes in aggregate demand can be caused by changes in:**

**I. Wages.**

**II. Raw materials costs.**

**III. Government spending.**

**IV. Government regulations that increase the cost of doing business.**

- ▶ I, II, III, and IV.
- ▶ I and III only.
- ▶ I, III, and IV.

**▶ III only.**

**Question No: 37 ( Marks: 1 ) - Please choose one**

**In the long run, the output level is determined by:**

- ▶ Aggregate demand.

- ▶ **Aggregate supply.**
- ▶ The government.
- ▶ Household income.

**Long run aggregate supply (LRAS):** LRAS shows total planned output when both prices and average wage rates can change – it is a measure of a country’s potential output and the concept is linked strongly to that of the **production possibility frontier**

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE?**

- ▶ **1 – MPS = MPC**
- ▶  $1 + \text{MPS} = \text{MPC}$
- ▶  $1 / \text{MPS} = \text{MPC}$
- ▶  $1 \times \text{MPS} = \text{MPC}$

**(MPS) is the fraction of the additional dollar of disposable income that is Saved. Thus,  $\text{MPC} = 1 - \text{MPS}$ .**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**The above figure shows disposable personal income on the horizontal axis and consumption per period on the vertical axis. Which of the following is TRUE at every point on the 45-degree line?**

▶ The value of disposable income equals the sum of personal saving and consumption.

▶ The value of disposable income equals consumption.

▶ The value of disposable income equals personal saving.

▶ The value of disposable income and consumption equals 1.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**If the government wishes to achieve a fall in unemployment, which of the following policies should it adopt?**

▶ Reduce the real value of income tax free allowances.

▶ Reduce government spending on capital projects.

▶ Raise Value Added Tax (VAT).

▶ **Start public job training programs.**

**Question No: 41 ( Marks: 1 ) - Please choose one**

**In the long run, sustained inflation is due to:**

▶ A one-time increase in money growth.

▶ **A continuous increase in the money growth rate.**

▶ A continuous increase in aggregate demand.

▶ The rising price of oil.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**The situation when a country imports more than it exports is known as:**

▶ **A trade deficit.**

- ▶ A trade surplus.
- ▶ An expansion.
- ▶ A recession.

A negative balance of trade, i.e. imports exceed exports. opposite of trade surplus.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**Public investment expenditure for highways, schools, and national defense is included in which component of GDP?**

- ▶ Consumption.
- ▶ Gross private investment.
- ▶ **Government purchases.**
- ▶ Public investment.

**Question No: 44 ( Marks: 1 ) - Please choose one**

**The government has a balanced budget if:**

- ▶ **Its total revenues are equal to its total expenditures.**
- ▶ Its total revenues are less than its total expenditures.
- ▶ Its total revenues are greater than its total expenditures.
- ▶ The money supply is less than total expenditures.

**Question No: 45 ( Marks: 1 ) - Please choose one**

**In general, personal income taxes:**

- ▶ Rise automatically during a recession.
- ▶ **Rise automatically during an expansion.** Not sure
- ▶ Fall automatically during an expansion.
- ▶ Remains same in all phases of economic fluctuations.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**A tax on individual's income is known as:**

- ▶ Sales tax.
- ▶ . Excise tax
- ▶ Corporate income tax.
- ▶ **Personal income tax.**

**Personal income tax:** A tax on individual income. This is the primary source of revenue for the federal government, a big source for many state and local governments. In principle, personal income taxes are progressive, based on a graduated tax scale. However, it's much more proportional today than it was several decades ago.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE for banks?**

- ▶ **They deal with money only.**
- ▶ They deal with shares and assets.

- ▶ They not only deal with money but also create money.
- ▶ They deal with money but do not create money.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**In a period of boom, credit creation is:**

- ▶ Small.
- ▶ **Heavy.**
- ▶ Unchanged.
- ▶ Zero.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**What will be the impact of an increase in taxes?**

- ▶ It will shift the IS curve to the left and decrease both the interest rate and the level of income.
- ▶ It will shift the IS curve to the right and increase both the interest rate and the level of income.
- ▶ It will shift the IS curve to the right and increase the level of income but decrease the interest rate.
- ▶ **It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.** Not sure

**Question No: 50 ( Marks: 1 ) - Please choose one**

**To determine whether an economy's output is growing or shrinking, one must keep track of:**

- ▶ Changes in nominal GDP.
- ▶ Changes in the growth rate of nominal GDP.
- ▶ Changes in the general price level.
- ▶ **Changes in real GDP.**

**Economic growth is increase in an economy's level of production, output or income. We can talk about production or output in two broad definitional contexts. One, we can compare real GDP with some other measure of welfare (for e.g., one which adjusts for externalities, social indicators, the black market, purchasing power parity, income inequality etc.).**

**Question No: 51 ( Marks: 1 ) - Please choose one**

**Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?**

- ▶ **The demand curve for airline travel shifts left.**
- ▶ The demand curve for airline travel shifts right.
- ▶ The supply curve of airline travel shifts left.
- ▶ The supply curve of airline travel shifts right.

**The demand curve shifts left. Rail and airline travel are substitutes. If the price of a substitute declines, then the demand curve for the substitute product shifts to the left.**

**Question No: 52 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift upward if there is:**

- ▶ A reduction in unemployment.



▶ **An increase in the production of capital goods.**

▶ A reduction in discrimination.

▶ All of the given options.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT included in the perfect information assumption of perfect competition?**

▶ Consumers know their preferences.

▶ Consumers know their income levels.

▶ Consumers know the prices available.

▶ **Consumers can anticipate price changes.**

**Question No: 54 ( Marks: 1 ) - Please choose one**

**Suppose a monopolist set his output at the level where marginal revenue, marginal cost and average total cost are equal. In this case, economic profit will be:**

▶ Negative.

▶ **Positive.**

▶ Zero.

▶ Indeterminate from the given information.

**As profit is maximized at the point where  $MR = MC$ ,**

**Depending upon the level of  $AC$  at the point where  $MR=MC$ , the monopolist might be**

earn supernormal profits, breaking even or minimizing short run losses.

**Question No: 55 ( Marks: 3 )**

**Differentiate between the terms flow and stock.**

Stocks and those which are flows; these differ in their units of measurement. A stock variable is measured at one specific time, and represents a quantity existing at that point in time, which may have been accumulated in the past. A flow variable is measured over an interval of time. Therefore a flow would be measured per unit of time.

Stocks and flows have different units and are thus not commensurable – they cannot be meaningfully compared, equated, added, or subtracted. However, one may meaningfully take ratios of stocks and flows, or multiply or divide them.

**Question No: 56 ( Marks: 5 )**

**What should be the optimal role of government in an economy according to the Classical school of thought? Discuss.**

**Question No: 57 ( Marks: 5 )**

**Explain the difference between current account and capital account.**

**Current account :**

Current account is one of the two primary components of the balance of payments, the other being the capital account. It is the sum of the balance of trade (exports minus imports of goods and services).

**Current account = balance of trade + net factor income from abroad + net unilateral transfers from abroad**

Current account deals with international trade in goods and services and with earnings on investments.

**Capital account:**

The capital account consists of capital transfers and the acquisition and disposal of non-produced, non-financial assets. A subdivision of the capital account, the financial account records transfers of financial capital and non-financial capital. The official reserves account, which is part of the financial account, is the foreign currency held by central banks, and is used to pay balance-of-payment deficits. Each account is further divided into sub-accounts.

**Question No: 58 ( Marks: 10 )**

**(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?**

**(B) What are the major advantages that an oligopoly offers for public interests?**

**(Marks: 5+5)**

**Question No: 59 ( Marks: 10 )**

**The items of balance sheet of State Bank of Pakistan are given as follows:**

Forex reserves = Rs. 500

Notes and coins = Rs. 800

Credit to government = Rs. 200

Government and commercial bank deposits = Rs. 300

Credit to private sector = Rs. 700

Liquidity paper = Rs. 300

Prepare the balance sheet in its proper format of asset and liabilities side. Also calculate total assets and total liabilities.

**Solution: (this question solved by kash again)**

<b>Assets</b>	<b>Liabilities</b>
Forex reserves = Rs. 500	Government and commercial bank deposits = Rs. 300
Credit to government = Rs. 200	Notes and coins = Rs. 800
Credit to private sector = Rs. 700	Liquidity paper = Rs. 300
<b>Total= RS 1400</b>	<b>Total= RS 1400</b>

## FINAL TERM EXAMINATION

Fall 2009

Question No: 1 ( Marks: 1 ) - Please choose one

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ The behavior of individual consumers and behavior of individual firms and investors.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**In a free-market economy, the allocation of resources is determined by:**

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ Consumer preferences.
- ▶ The level of profits of firms.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**Ceteris paribus means:**

- ▶ Equal access to public transportation.
- ▶ Other things being equal.

- ▶ Other things not being equal.
- ▶ All things considered.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**A new technology which reduces costs for firms:**

- ▶ Shifts the supply curve to the right.
- ▶ Shifts the supply curve to the left.
- ▶ Reduces the equilibrium quantity.
- ▶ Raises the equilibrium price.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**If a 12% price reduction causes quantity demanded to rise by 12% then:**

- ▶ Demand is inelastic.
- ▶ Demand is elastic.
- ▶ Demand is perfectly elastic.
- ▶ Total revenue will remain constant.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**A risk-averse individual has:**

- ▶ A diminishing marginal utility of income.
- ▶ An increasing marginal utility of risk.
- ▶ An increasing marginal utility of income.
- ▶ A diminishing marginal utility of risk.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The break-even point occurs when:**

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ Price = Average Total Cost.
- ▶ Price > Average Variable Cost.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Discrimination based upon the quantity consumed is referred to as:**

- ▶ Second degree price discrimination.
- ▶ Third-degree price discrimination.
- ▶ First-degree price discrimination.
- ▶ All of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Which of the following can be thought of as a barrier to entry?**

- ▶ Scale economies.
- ▶ Patents.
- ▶ Strategic actions by incumbent firms.
- ▶ All of the given options.

verified by **eemaan**

**Question No: 10 ( Marks: 1 ) - Please choose one**

**If a sales tax on beer leads to reduced tax revenue, this means:**

- ▶ Elasticity of demand is  $< 1$ .
- ▶ Elasticity of demand is  $> 1$ .
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is NOT true?**



▶ Products are differentiated.

▶ There is freedom of entry and exit into the industry in the long run.

▶ The firm is a price maker.

▶ There is one main seller.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Keynesian economics was largely developed to address the economic problems of the:**

▶ Bank panic of 1907.

▶ Stagflation of 1970s.

▶ Great Depression of 1930s.

▶ English industrial revolution of the late 1700s.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Keynesian economics was the predominant economic theory:**

▶ Prior to the late 1700s.

▶ From the late 1700s to the early 1900s.

▶ From 1930s to 1970s.

▶ Since 1970s.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**According to classical economics, the economy will always tend toward full employment due to:**

- ▶ Minimum wages.
- ▶ Flexible wages and prices.
- ▶ Extended periods of unemployment.
- ▶ Inequality between saving and investment.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The labour force is made up of:**

- ▶ The number of people employed minus the number of people unemployed.
- ▶ The number of people employed plus the number of people unemployed.
- ▶ Just the number of people employed.
- ▶ The whole population.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**The record of a country's transactions in goods, services and assets with the rest of the world is its:**

- ▶ Current account.

- ▶ Balance of trade.
- ▶ Capital account.
- ▶ Balance of payments.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Real Gross National Product (GNP) is best defined as:**

- ▶ The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.
- ▶ The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.
- ▶ The current pound value of all new and used goods produced and sold in the economy during a particular time period.
- ▶ The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**Which of the following is deducted from Gross National Product to get Net National Product?**

- ▶ Indirect taxes.
- ▶ Depreciation.
- ▶ Direct taxes.
- ▶ Transfer payments.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**In Keynesian economics, if aggregate expenditures are less than aggregate output then:**

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ Employment decreases.
- ▶ Aggregate output increases.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**According to Keynesian economics, aggregate expenditures are the sum of desired or planned spending undertaken by:**

- ▶ All four sectors only when the economy is at full employment.
- ▶ All four sectors at a specific aggregate production level.
- ▶ The household sector after taxes.
- ▶ The business and government sectors.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**All of the following conditions lead to the successful operation of a cartel EXCEPT:**

- ▶ Market demand for the good is relatively inelastic.
- ▶ The cartel supplies all of the world's output of the good.
- ▶ Cartel members have substantial cost advantages over non-member producers.
- ▶ The supply of non-cartel members is very price elastic.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about the principle of multiplier?**

- ▶ Any increase in aggregate spending that causes the aggregate demand curve to shift will result in a larger increase in national income.
- ▶ In the long run, the aggregate demand curve becomes relatively flat as the economy approaches full employment.
- ▶ Any increase in national income will result in a larger increase in aggregate spending.
- ▶ For any given increase in income, there will be a less than proportional increase in consumer spending.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Suppose in a macroeconomic model, there is no foreign trade or government spending. In this case, aggregate demand is the sum of:**

- ▶ Personal saving and private investment.
- ▶ Personal saving and personal consumption.
- ▶ Personal consumption and personal income.
- ▶ Personal consumption and private investment.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Which of the following best describes the deflation?**

- ▶ It is an increase in the overall level of economic activity.
- ▶ It is an increase in the overall price level.
- ▶ It is a decrease in the overall level of economic activity.
- ▶ It is a decrease in the overall price level.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**All of the following are the problems in the calculation of national income EXCEPT:**

- ▶ Double counting.
- ▶ Improper records.
- ▶ Differences in the incomes of the individuals.
- ▶ Problem of exclusion and inclusion.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**This year, if national product at factor cost is Rs. 500 billion, indirect taxes 150 billion and subsidies Rs. 50 billion, then national product at market prices will be:**

- ▶ Rs. 700 billion.
- ▶ Rs. 650 billion.
- ▶ Rs. 600 billion.

- ▶ Rs. 300 billion.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Which of the following best describes the “savings”?**

- ▶ It is that part of income which is not consumed.
- ▶ It is that part of income which is not spent.
- ▶ It is that part of income which is paid out to others.
- ▶ It is that part of income which is hoarded.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**According to Keynesians, macroeconomic equilibrium will occur in an economy if:**

- ▶ Aggregate demand = Aggregate supply.
- ▶ Aggregate expenditures = Aggregate output.
- ▶ Withdrawals = Injections.
- ▶ All of the given conditions hold.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**The demand for factors of production is derived from:**

- ▶ Money market.
- ▶ Goods market.
- ▶ Stock market.

- ▶ Financial market.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**The relationship between hours provided by labor and wage rate is:**

- ▶ Positive.
- ▶ Negative.
- ▶ Ambiguous.
- ▶ Very strong.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**The demand curve for labour can be derived from the intersection of:**

- ▶ Horizontal wage rate lines and the marginal revenue product of labour.
- ▶ Vertical wage rate lines and the marginal revenue product of labour.
- ▶ Vertical wage rate lines and the marginal revenue product of capital.
- ▶ Horizontal wage rate lines and the marginal revenue product of capital.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**The rate at which the future incomes are discounted is known as:**

- ▶ Interest rate.
- ▶ Inflation rate.
- ▶ Discount rate.



- ▶ Reserve requirement rate.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**National defense is a good example of:**

- ▶ Public good.
- ▶ Inferior good.
- ▶ Giffen good.
- ▶ Private good.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Suppose net exports decreases by \$100 million due to a slump in foreign economies. If the value of multiplier is 2, what will happen to the domestic aggregate demand curve?**

- ▶ Since less will be produced, the aggregate demand does not shift. The aggregate supply curve shifts to the left by \$100 million at each price level.
- ▶ It shifts to the left by \$50 million at each price level.
- ▶ It shifts to the left by \$100 million at each price level.
- ▶ It shifts to the left by \$200 million at each price level.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE?**

- ▶ Accelerator coefficient = Marginal capital / output ratio.

- ▶ Accelerator coefficient  $>$  Marginal capital / output ratio.
- ▶ Accelerator coefficient  $<$  Marginal capital / output ratio.
- ▶ None of the given options.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Which of the following is the best measure of the economic cost of higher unemployment?**

- ▶ The loss of potential exports for the economy.
- ▶ The loss of tax revenue.
- ▶ The increase in social security benefits paid by the government.
- ▶ The output of goods and services the unemployed workers could have produced.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**Which of the following would be expected to increase the natural rate of unemployment?**

- ▶ A reduction in the number of new entrants into the labor force.
- ▶ An increase in the growth rate of the capital stock.
- ▶ A reduction in the corporate profits tax.
- ▶ An increase in the level of unemployment compensation paid to unemployed workers.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Evidence suggests that all countries with very high \_\_\_\_\_ also have very high \_\_\_\_\_.**

- ▶ Inflation rates; money growth rates.
- ▶ Unemployment rates; GDP growth rates.
- ▶ GDP growth rates; government budget deficits.
- ▶ Government budget deficits; inflation rates.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**In the equation of exchange, if velocity is stable in the long run then:**

- ▶  $\% \Delta V = 0$ .
- ▶  $\% \Delta V = 1$ .
- ▶  $\% \Delta V$  is a positive constant value  $> 0$ .
- ▶  $\% \Delta V = \text{infinity}$ .

**Question No: 40 ( Marks: 1 ) - Please choose one**

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**Refer to the above table, when disposable personal income is \$400, what is the amount of personal saving?**

- ▶ -\$40.
- ▶ -\$20.
- ▶ \$0.
- ▶ \$20.

**Question No: 41 ( Marks: 1 ) - Please choose one**

**The act of increasing the price of one country's currency in terms of other currencies by the government is known as:**

- ▶ Revaluation.

- ▶ Devaluation.
- ▶ Appreciation.
- ▶ Depreciation.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**If net exports are negative, this implies that the country has a:**

- ▶ Trade surplus.
- ▶ Trade deficit.
- ▶ Government budget surplus.
- ▶ Government budget deficit.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**If net exports are positive, this implies that the country has:**

- ▶ Trade surplus.
- ▶ Trade deficit.
- ▶ Government budget surplus.
- ▶ Government budget deficit.

**Question No: 44 ( Marks: 1 ) - Please choose one**

**A change from \$1.00 = Rs. 82.00 to \$1.00 = Rs. 80.00 represents:**

- ▶ An appreciation of the dollar.

- ▶ An appreciation of the rupee.
- ▶ Depreciation of the rupee.
- ▶ None of the given options.

**Question No: 45 ( Marks: 1 ) - Please choose one**

**Which of the following determines a country's rate of growth?**

- ▶ The average propensity to save.
- ▶ The interaction of supply and demand.
- ▶ The law of comparative costs.
- ▶ The rate of capital accumulation.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**Permanent growth rate depends on the saving rate and technological progress in which of the following models?**

- ▶ Endogenous growth model.
- ▶ Exogenous growth model.
- ▶ Rostow's growth model.
- ▶ None of the given options.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Which of the following is a largest component of M1?**

- ▶ Checking deposits.

- ▶ Credit card balances.
- ▶ Debit card balances.
- ▶ Savings deposits.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**In which of the following conditions, a current account deficit exists?**

- ▶ When net exports are positive.
- ▶ When financial flows out of a country for goods and services are less than financial flows into the country for its goods and services.
- ▶ When a country has a trade deficit.
- ▶ When an economy buys less from foreigners than it sells to them.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**What is TRUE about economic growth in general?**

- ▶ Economic growth has a greater impact on people's welfare in high income countries than in low income countries.
- ▶ In low income countries, economic growth makes rich people richer and poor people poorer.
- ▶ Economic growth makes most people, including most poor people, better off.
- ▶ Economic growth worsens income inequality in the short-run but is successful in the long run.

**Question No: 50 ( Marks: 1 ) - Please choose one**

**Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?**

- ▶ The demand curve for airline travel shifts left.
- ▶ The demand curve for airline travel shifts right.
- ▶ The supply curve of airline travel shifts left.
- ▶ The supply curve of airline travel shifts right.

**Question No: 51 ( Marks: 1 ) - Please choose one**

**What will happen if there is an increase in the raw material costs, other things remaining the same?**

- ▶ The supply curve will shift to the left.
- ▶ The supply curve will shift to the right.
- ▶ Output will increase regardless of the market price and the supply curve will shift upward.
- ▶ Output will decrease and the market price will also decrease.

**Question No: 52 ( Marks: 1 ) - Please choose one**

**What will be the impact of a ban on foreign firms from selling in the domestic market?**

- ▶ **It will cause domestic producers competing with the imports to face huge losses.**
- ▶ It will cause the supply curve to shift to the left.
- ▶ It will cause the supply curve to shift to the right.
- ▶ It will have no effect on the domestic market.



**Question No: 53 ( Marks: 1 ) - Please choose one**

**Suppose there are two goods A and B. What will happen to the budget line if prices of both goods increase by the same percentage?**

- ▶ It will shift parallel to the left.
- ▶ It will shift parallel to the right.
- ▶ It will pivot about the x axis.
- ▶ It will pivot about the y axis.

**Question No: 54 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶  $5Q$ .
- ▶  $5$ .
- ▶  $5 + (200/Q)$ .
- ▶ None of the given options.

**Question No: 55 ( Marks: 3 )**

**It is said that growth is an important macroeconomic issue. Why? Discuss.**

**Question No: 56 ( Marks: 5 )**

**Mention the situations in which imposing a tax is better than not imposing it.**

**Question No: 57 ( Marks: 5 )**

**Consider the following table. Find out the GNP and NNP from this information.**

<b>Items</b>	<b>Amount (billion rupees)</b>
Personal consumption expenditures	458
Gross domestic private investment	169
Government expenditure on goods and services	78
Gross domestic public investment	27
Exports surplus	15
Net foreign investment	17
Depreciation cost	28

**Question No: 58 ( Marks: 10 )**

**Discuss the causes of low per capita income in Pakistan. How can the standard of living of the people of Pakistan be raised? Suggest suitable measures in this context.**

**Question No: 59 ( Marks: 10 )**

**(A) Mention the factors which could cause a downward shift of the LM curve**

**(B) Discuss the joint equilibrium in goods and money market with the help of graph.**

## FINALTERM EXAMINATION

Fall 2009

Time: 120 min

Marks: 87

Question No: 1 ( Marks: 1 ) - Please choose one

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

▶ **There is a shortage of the product.**

- ▶ There is a surplus of the product.
- ▶ The product is a normal good.
- ▶ The product is an inferior good.

Question No: 2 ( Marks: 1 ) - Please choose one

The cross price elasticity of demand for complementary goods is:

- ▶ Less than 0.
- ▶ Equal to 0.
- ▶ Greater than 0.

▶ **Between 0 and 1.**

**Question No: 3 ( Marks: 1 ) - Please choose one**

**Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:**

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

**Question No: 4 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. \_\_\_\_\_ means that as inputs are added to the production process, output increases proportionally.

- ▶ **Economies of scale; constant returns to scale.**
- ▶ Constant returns to scale; decreasing returns to scale.
- ▶ Decreasing returns to scale; economies of scale.
- ▶ Economies of scale; decreasing returns to scale.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**An isoquant curve shows:**

▶ **All the alternative combinations of two inputs that yield the same maximum total product.**

▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.

▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

▶ None of the given options.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Total costs are the sum of:**

▶ Marginal costs and variable costs.

▶ **Fixed costs and variable costs.**

▶ Fixed costs and marginal costs.

▶ Average variable costs and marginal costs.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**A firm is charging a different price for each unit purchased by a consumer. This is called:**

▶ First-degree price discrimination.

▶ **Second-degree price discrimination.**

▶ Third-degree price discrimination.

▶ None of the given options.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Which of the following best expresses the law of demand?**

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ A higher price reduces quantity demanded.**
- ▶ A lower price shifts the demand curve to the right.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**If a sales tax on beer leads to reduced tax revenue, this means:**

- ▶ Elasticity of demand is  $< 1$ .
- ▶ Elasticity of demand is  $> 1$ .**
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**For a firm buying labor competitively, the marginal input cost is equal to the:**

- ▶ Wage.**

- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**The classical economists thought that the economy would quickly overcome any short run instability because:**

- ▶ Price level and quantity are flexible.
- ▶ Prices would get stuck at a low level.
- ▶ The long run aggregate supply would shift to the left.

**▶ Prices and wages are flexible.**

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Final goods are meant for:**

**▶ Direct use by the consumers.**

- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**The average propensity to consume is the ratio of:**

▶ **A change in consumption to a change in disposable income.**

- ▶ A change in consumption to total disposable income at a specific income level.
- ▶ Total consumption to total disposable income at a specific income level.
- ▶ Total consumption to a change in disposable income.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**The slope of the saving function (or line) is the:**

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ **Marginal propensity to save.**
- ▶ Marginal propensity to consume.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The government increases the number of job centres and uses more advanced computers to improve the information database. This creates:**



- ▶ Structural Unemployment.
- ▶ Regional Unemployment.
- ▶ **Frictional Unemployment.**
- ▶ Demand Deficient Unemployment.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**Which one of the following can lead to a rise in inflation?**

- ▶ **An increase in costs of production.**
- ▶ An increase in productive capacity.
- ▶ An increase in the level of direct taxation.
- ▶ An increase in the exchange rate.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**What does the term "balance of payment deficit" refer to?**

- ▶ An increase in official international reserves.
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.
- ▶ **A decline in official international reserves.**

**Question No: 18 ( Marks: 1 ) - Please choose one**

**How should fiscal policy be used during inflation?**

▶ Increase Government expenditure and decrease taxes to decrease aggregate demand.

▶ Increase Government expenditure and decrease taxes to increase aggregate demand.

▶ Decrease Government expenditure and increase taxes to increase aggregate demand.

**▶ Decrease Government expenditure and increase taxes to decrease aggregate demand.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

**If the demand curve for a good is downward sloping, then the good:**

▶ Must be inferior.

▶ Must be giffen.

▶ Can be normal or inferior.

**▶ Must be normal.**

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Keeping in view the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:**

**▶ Both prices and output to rise.**

▶ Prices to fall and output to remain unchanged.

- ▶ Both prices and output to fall.
- ▶ Prices to rise and output to remain unchanged.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE according to classical economists?**

**▶ Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.**

- ▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Why calculations of Gross Domestic Product (GDP) count only final goods and services?**

- ▶ Because it is difficult to measure the prices of intermediate goods produced.
- ▶ Because these are the only goods and services that are purchased in an economy.

**▶ Because counting all goods and services would lead to double-counting of many activities.**

- ▶ Because one cannot calculate the quantities of intermediate goods produced.

**Question No: 23 ( Marks: 1 ) - Please choose one**

----- plays an important role in making sure that the economy reaches and stays at equilibrium at the potential output level.

- ▶ Real exchange rate.
- ▶ The production function.
- ▶ Real price level.
- ▶ **Real interest rate.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Why a \$1 increase in government spending will have a larger impact upon national income than a \$1 tax cut?**

- ▶ Because the government prints the currency it spends.
- ▶ **Because not all of the tax cut is spent.**
- ▶ Because when taxes are cut, government spending is also cut.
- ▶ Because taxes are an injection into the system.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Commercial banks in Pakistan are supervised by:**

- ▶ **State bank of Pakistan.**
- ▶ National bank of Pakistan.

- ▶ Finance minister of Pakistan.
- ▶ World bank.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Trade can be beneficial in which of the following situations?**

- ▶ Two countries produce the same goods at the same costs.
- ▶ **Two countries produce different goods at different costs.**
- ▶ Two countries are isolated.
- ▶ Two countries have the same markets.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:**

**▶ 1000+1500+2500 = Rs. 5000**

- ▶ 1000+500+2500 = Rs. 4000
- ▶ 1000+500+1000 = Rs. 2500
- ▶ 1000+1500+1000 =Rs. 3500

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Which of the following best defines “subsidies”?**

- ▶ Payment by Government for purchase of goods and services.

▶ Payment by business enterprises to factors of production.

▶ Payment by companies to share holders.

▶ **Payment by Government to business enterprises without buying any goods and services.**

**Question No: 29 ( Marks: 1 ) - Please choose one**

**National product at market prices incorporate:**

▶ **Prices which buyers actually pay.**

▶ Payments made to the factor owners.

▶ Costs incurred in producing goods and services.

▶ Costs minus subsidies.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**A marginal propensity to consume (MPC) of 0.95 indicates that:**

▶  **$\Delta C$  to  $\Delta Y_d$  is 0.95.**

▶  $C / Y_d$  is 0.95.

▶  $\Delta Y_d$  to  $\Delta C$  is 0.95.

▶  $Y_d / C$  is 0.95.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**When MPC is 0.80 and APC is 0.95 then MPS is:**

▶ **0.20 and APS is 0.05.**

- ▶ 0.05 and APS is 0.20.
- ▶ 0.20 and APS is 0.20.
- ▶ 0.05 and APS is 0.05.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**Which of the following are leakages from the circular flow?**

- ▶ Consumption and saving.
- ▶ **Saving and imports.**
- ▶ Imports and exports.
- ▶ Exports and savings.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**The time that a laborer uses for relaxation and all activities other than work or necessary sleep is known as:**

- ▶ Free time.
- ▶ **Leisure.**
- ▶ Time not used for earning.
- ▶ All of the given options.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Labor supply curve is backward bending because:**

▶ **The income effect of higher income dominates the substitution effect of higher wages.**

▶ The substitution effect of higher income dominates the income effect of higher wages.

▶ The income effect of higher income dominates the price effect of higher wages.

▶ None of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**The government supports research in basic science because:**

▶ It is a public good.

▶ External costs are created.

▶ **Internal benefits are created.**

▶ Free markets would do so otherwise.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**In classical theory, excess supply of a product would be associated with:**

▶ Rising interest rates.

▶ Falling interest rates.

▶ **Rising price for the product.**

▶ Falling price for the product.



**Question No: 37 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a determinant of net exports?**

- ▶ Domestic and foreign incomes.
- ▶ Relative price levels.
- ▶ Domestic and foreign trade policies.

**▶ Producers' expectations about future prices.**

**Question No: 38 ( Marks: 1 ) - Please choose one**

**A trade surplus occurs when:**

▶ A country's firms open more stores abroad than foreign firms open in the country.

**▶ A country sells more abroad than it purchases from abroad.**

▶ Foreign firms open more stores in a country than the country opens in foreign countries.

▶ A country purchases more from abroad than other countries purchase from it.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**A change from \$1.00 = Rs. 80.00 to \$1.00 = Rs. 85.00 represents:**

- ▶ Depreciation of the dollar.
- ▶ An appreciation of the dollar.
- ▶ An appreciation of the rupee.

**▶ None of the given options.**

**Question No: 40 ( Marks: 1 ) - Please choose one**

**There is an increase in the economy's potential output when there is:**

- ▶ An increase in government spending.
- ▶ A decrease in government spending.
- ▶ **An increase in the economy's capital stock.**
- ▶ An increase in the economy's depreciation rate.

**Question No: 41 ( Marks: 1 ) - Please choose one**

**One of the implications of Solow growth model is that all other things remaining the same, countries with rapidly growing population will tend to:**

- ▶ **Be poorer than countries with lower population growth.**
- ▶ Grow slower than countries with lower population growth.
- ▶ Grow higher than countries with lower population growth.
- ▶ Have lower marginal products of capital than countries with lower population growth.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**The rapid population growth in today's developing nations is due to the:**

- ▶ High birth rates only.
- ▶ Low death rates only.
- ▶ **High birth rate and low death rate.**

- ▶ Higher standard of living.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**The principle of taxation which emphasizes on fairness or just sacrifice is known as:**

- ▶ Efficiency.
- ▶ **Equity.**
- ▶ Progressive tax.
- ▶ Regressive tax.

**Question No: 44 ( Marks: 1 ) - Please choose one**

**The relationship between tax rates and total tax collections by government is known as:**

- ▶ **Laffer curve.**
- ▶ Demand curve.
- ▶ Supply curve.
- ▶ Investment curve.

**Question No: 45 ( Marks: 1 ) - Please choose one**

**The optimum tax rate in which government revenue is maximized lies somewhere between:**

- ▶ 0% and 1%.
- ▶ **0% and 50%.**

- ▶ 50% and 100%.
- ▶ 0% and 100%.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**Money is defined as an item that:**

- ▶ **Serves as a medium of exchange for goods and services.**
- ▶ Can be converted into silver with relatively little loss in value.
- ▶ Can be converted into gold with relatively little loss in value.
- ▶ Facilitates a connecting link between credit instruments and debt instruments.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**A tax imposed by a country on an imported good or service is called a:**

- ▶ Quota.
- ▶ **Tariff.**
- ▶ Non-tariff barrier.
- ▶ Trade embargo.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**Poor countries remained poor because of:**

- ▶ Higher per capita income.
- ▶ **Vicious circle of poverty.**

- ▶ High level of investment.
- ▶ High rates of savings.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**If other things remaining the same, expected income can be used as a direct measure of well-being in which of the following situations?**

- ▶ It can be used if and only if individuals are not risk-loving.
- ▶ It can be used if and only if individuals are risk averse.
- ▶ It can be used if and only if individuals are risk neutral.

**▶ It can be used no matter what a person's preference to risk.**

**Question No: 50 ( Marks: 1 ) - Please choose one**

**What questions are related with explanation? What questions are related with what ought to be?**

- ▶ Positive, negative.
- ▶ Negative, normative.
- ▶ Normative, positive.

**▶ Positive, normative.**

**Question No: 51 ( Marks: 1 ) - Please choose one**

**What will happen to the demand for product X, if there is an increase in consumer's income?**

- ▶ It will necessarily remain unchanged.
- ▶ It will shift to the right if X is a complementary good.
- ▶ **It will shift to the right if X is a normal good.**
- ▶ It will shift to the right if X is an inferior good.

**Question No: 52 ( Marks: 1 ) - Please choose one**

**Which of the following occur when an isocost line is just tangent to an isoquant?**

- ▶ **Output is being produced at minimum cost.**
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:**

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ None of the given options.

**Question No: 54 ( Marks: 1 ) - Please choose one**

**In which of the following conditions, a firm will never operate?**

- ▶ At the minimum of its average total cost curve.
- ▶ **At the minimum of its average variable cost curve.**
- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

**Question No: 55 ( Marks: 3 )**

**How the central bank plays its role in order to control the activities of commercial banks?**

**Question No: 56 ( Marks: 5 )**

**Briefly discuss different types of taxes which a government can impose.**

**Question No: 57 ( Marks: 5 )**

**A. Differentiate between final goods and intermediate goods with the help of examples.**

**B. See the following table:**

<b>Year</b>	<b>1979</b>	<b>1980</b>	<b>1981</b>	<b>1982</b>	<b>1983</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>
<b>Real GDP Growth Rate</b>	1.2%	-5.5%	1.8%	3.9%	4.5%	5.3%	2.6%	1.9%

- a) Calculate the average growth rate from 1982 and 1985.
- b) Calculate the average growth rate from 1979 and 1986.

(Marks: 3+2)

**Question No: 58 ( Marks: 10 )**

From the information given in the following table, calculate the number of unemployed persons and unemployment rate.

<b>Year</b>	<b>Size of Labor Force</b>	<b>Number of persons Employed</b>
1984	113544	105005
1985	115461	107150
1986	117834	109597
1987	119865	112440
1988	121669	114968

(Marks: 5+5)

**Question No: 59 ( Marks: 10 )**

Answer the following questions.

- a) What is interest parity condition?



- b) When does this condition hold?
- c) What is the equation of this condition?
- d) What will happen if the equality of the condition does not hold

**FINALTERM EXAMINATION**

**Fall 2009**

**ECO401- Economics (Session - 3)**

**Time: 120 min**

**Marks: 87**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:**

- ▶ The economy's production possibilities curve will shift outward.
- ▶ The economy's production possibilities curve will become steeper.
- ▶ The economy will move downward along its production possibilities curve.
- ▶ **The economy will move from a point inside to a point closer to its production possibilities curve.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**If both supply and demand increase simultaneously, the equilibrium:**

**▶ Price must rise and the equilibrium quantity must fall.**

- ▶ Price must rise and the equilibrium quantity may either rise or fall.
- ▶ Quantity must rise and the equilibrium price may either rise or fall.
- ▶ Price must fall and the equilibrium quantity may either rise or fall.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**A normal good can be defined as one which consumers purchase more of as:**

- ▶ Prices fall.
- ▶ Prices rise.
- ▶ Incomes fall.

**▶ Incomes increase.**

**Question No: 4 ( Marks: 1 ) - Please choose one**

**Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?**

▶ **Economies of scale.**

- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Incremental cost is the same concept as:**

▶ Average cost.

▶ **Marginal cost.**

▶ Fixed cost.

▶ Variable cost.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Graphically, marginal revenue is defined as:**

▶ The slope of a line from the origin to a point on the total revenue curve.

▶ **The slope of a line from the origin to the end of the total revenue curve.**

▶ The slope of the total revenue curve at a given point.

▶ The vertical intercept of a line tangent to the total revenue curve at a given point.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.
- ▶ **Has no close substitutes.**
- ▶ Can be easily duplicated.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.
- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive.**

- ▶ Oligopolistic.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**Monopolistically competitive firms have monopoly power because they:**

- ▶ Are great in number.
- ▶ Have freedom of entry.
- ▶ Are free to advertise.
- ▶ Face downward sloping demand curves.**

**Question No: 11 ( Marks: 1 ) - Please choose one**

**The market structure in which there is interdependence among firms is:**

- ▶ Monopolistic competition.
- ▶ Oligopoly.**
- ▶ Perfect competition.

- ▶ Monopoly.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**When the marginal revenue product of labor is greater than the marginal input cost of labor then the profit maximizing firm will:**

**▶ Hire more labor.**

- ▶ Hire less labor.
- ▶ Maintain the same employment.
- ▶ Decrease output.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Which of the following would cause the short run aggregate supply curve to shift to the left but have no effect over the long run aggregate supply curve?**

- ▶ The amount of factors of production (such as labor and capital) increases.
- ▶ The amount of factors of production (such as labor and capital) decreases.

**▶ Prices of inputs (such as wages or oil prices) increase.**

- ▶ Prices of inputs (such as wages or oil prices) decrease.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ Capital.
- ▶ The amount of money held by the public.
- ▶ **Inventory investment.**

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The circular flow principle guarantees that in equilibrium:**

- ▶ The level of investment spending will be equal to the level of private savings.
- ▶ The level of exports will be equal to the level of imports.
- ▶ **The level of aggregate demand will be equal to real Gross Domestic Product.**
- ▶ The level of government spending will be equal to tax revenue.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**Unemployment benefits may increase the unemployment rate because:**

- ▶ Unemployment benefits reduce the cost of job search.

- ▶ Unemployment benefits encourage people to quit their jobs.
- ▶ Unemployment benefits reduce the benefits of additional job searching.
- ▶ **Unemployment benefits enable people to quit searching for work.**

**Question No: 17 ( Marks: 1 ) - Please choose one**

**The labour force is made up of:**

- ▶ The number of people employed minus the number of people unemployed.
- ▶ **The number of people employed plus the number of people unemployed.**
- ▶ Just the number of people employed.
- ▶ The whole population.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The unemployment rate is equal to:**

- ▶ Number of employed / labour force x 100.
- ▶ Number of unemployed / labour force.
- ▶ **(Number of unemployed / labour force) x 100.**
- ▶ None of the given options.



**Question No: 19 ( Marks: 1 ) - Please choose one**

**M1 component of money supply consists of:**

▶ Paper currency and coins.

▶ **Paper currency, coins and check writing deposits.**

▶ Paper currency, coins, check writing deposits and savings deposits.

▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Real Gross National Product (GNP) is best defined as:**

▶ The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.

▶ The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.

▶ The current pound value of all new and used goods produced and sold in the economy during a particular time period.

▶ **The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period.**

**Question No: 21 ( Marks: 1 ) - Please choose one**

**To obtain the Net Domestic Product (NDP), start with Gross Domestic Product and subtract:**

**▶ Depreciation.**

- ▶ Depreciation and indirect business taxes.
- ▶ Depreciation, indirect business taxes and corporate profits.
- ▶ Depreciation, indirect business taxes, corporate profits and social insurance contributions.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Fixed exchange rates may be preferred to floating exchange rates because with fixed exchange rates:**

**▶ There is greater stability of the exchange rate which encourages trade and investment.**

- ▶ There is less likely to be a balance of payment deficit.
- ▶ There is less need for a country to hold large reserves of foreign currency.
- ▶ Interest rates can be used to meet domestic policy objectives such as keeping growth stable.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**If the simple Keynesian expenditure multiplier is 4, the Marginal Propensity to Consume (MPC) is:**

▶ 0.20.

▶ 0.25.

▶ 0.50.

▶ 0.75.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Usually the shape of production possibilities curve is:**

▶ Concave.

▶ Convex.

▶ Linear.

▶ Positive.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**All of the following conditions lead to the successful operation of a cartel EXCEPT:**

▶ Market demand for the good is relatively inelastic.

▶ The cartel supplies all of the world's output of the good.

▶ Cartel members have substantial cost advantages over non-member producers.

▶ The supply of non-cartel members is very price elastic.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**“Decreases in aggregate demand decrease real output but leave the price level largely unaffected”. This is the point of view of which of the following schools of thought?**

- ▶ Monetarist school of thought.
- ▶ New Classical school of thought.
- ▶ Real business cycle school of thought.
- ▶ Keynesian school of thought.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Why calculations of Gross Domestic Product (GDP) count only final goods and services?**

- ▶ Because it is difficult to measure the prices of intermediate goods produced.
- ▶ Because these are the only goods and services that are purchased in an economy.
- ▶ Because counting all goods and services would lead to double-counting of many activities.
- ▶ Because one cannot calculate the quantities of intermediate goods produced.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Suppose that your income increases from \$80,000 to \$100,000 and your consumption increases from \$80,000 to \$95,000. Your Marginal Propensity to Consume (MPC) is:**

▶ 0.20.

▶ 0.45.

▶ 0.75.

▶ 0.80.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**Which of the following event will lead towards cost-push inflation and therefore stagflation?**

▶ An increase in taxes on individuals.

▶ A decrease in real interest rates.

▶ A union settlement that increases wage levels.

▶ An increase in government purchases.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Suppose a country has flexible exchange rate and has more rapid inflation rate than other countries. What will happen to its currency in this situation?**

▶ Its currency will appreciate.

▶ Its currency will depreciate.

▶ There will be no effect on its currency.

▶ All of the given options can be possible.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Suppose in an economy, a war destroys a large portion of a country's capital stock but the saving rate is unchanged. In this situation, the exogenous model predicts that output will grow and the new steady state will approach towards:**

- ▶ A higher output level than before.
- ▶ **The same output level as before.**
- ▶ A lower output level than before.
- ▶ The Golden Rule output level.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**Which of the following statements best describes the difference between endogenous growth theory and the Solow growth theory?**

- ▶ Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.
- ▶ Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.
- ▶ **In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.**
- ▶ All of the given options are correct.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Commercial banks in Pakistan are supervised by:**

- ▶ **State bank of Pakistan.**

- ▶ National bank of Pakistan.
- ▶ Finance minister of Pakistan.
- ▶ World bank.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**What is the effect of double counting in national income calculations?**

- ▶ Underestimation of national product.
- ▶ **Overestimation of national product.**
- ▶ Distortions in national product.
- ▶ Misleading conclusions about national product.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Which of the following best defines “subsidies”?**

- ▶ Payment by Government for purchase of goods and services.
- ▶ Payment by business enterprises to factors of production.
- ▶ Payment by companies to share holders.
- ▶ **Payment by Government to business enterprises without buying any goods and services.**

**Question No: 36 ( Marks: 1 ) - Please choose one**

**The demand curve for labour can be derived from the intersection of:**

▶ **Horizontal wage rate lines and the marginal revenue product of labour.**

- ▶ Vertical wage rate lines and the marginal revenue product of labour.
- ▶ Vertical wage rate lines and the marginal revenue product of capital.
- ▶ Horizontal wage rate lines and the marginal revenue product of capital.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**A movement along the aggregate demand curve is called a:**

- ▶ Change in aggregate demand.
- ▶ Change in the aggregate quantity of goods and services demanded.
- ▶ Determinant of aggregate demand.
- ▶ **Revealed expenditure on aggregate demand.**

**Question No: 38 ( Marks: 1 ) - Please choose one**

**In the long run, the price level is determined by:**

- ▶ Aggregate demand.
- ▶ Aggregate supply.
- ▶ The government.
- ▶ **Money supply.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**The simple Keynesian aggregate supply curve is:**



- ▶ Upward sloping as real GDP increases.
- ▶ Horizontal at GDP levels below full employment.
- ▶ **Based on the concept that all unemployment is voluntary.**
- ▶ Downward sloping as real GDP increases.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**In the equation of exchange, if velocity is stable in the long run then:**

- ▶  **$\% \Delta V = 0.$**
- ▶  $\% \Delta V = 1.$
- ▶  $\% \Delta V$  is a positive constant value  $> 0.$
- ▶  $\% \Delta V = \text{infinity}.$

**Question No: 41 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE for the equation  $MV = PQ$ ?**

- ▶ M is the money supply.
- ▶ V is the velocity.
- ▶ Q is the real output level.
- ▶ **All of the given options.**

**Question No: 42 ( Marks: 1 ) - Please choose one**

**The increase in the price of one country's currency in terms of other currencies due to the market forces of demand and supply is known as:**

- ▶ Revaluation.
- ▶ Devaluation.
- ▶ **Appreciation.**
- ▶ Depreciation.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**The decrease in the price of one country's currency in terms of other currencies due to the market forces of demand and supply is known as:**

- ▶ Revaluation.
- ▶ Devaluation.
- ▶ Appreciation.
- ▶ **Depreciation.**

**Question No: 44 ( Marks: 1 ) - Please choose one**

**As a definition of economic growth, an increase in real capita income is preferable to an increase in simply real GNP, because:**

- ▶ Total GNP measures overall progress while per capita GNP measures improvement in productivity.
- ▶ Total GNP measures goods and services produced while per capita GNP shows improvement in efficiency.
- ▶ Total GNP figures estimate the value of a country's total output while per capita GNP accounts for population growth and shows the availability per person of goods and services.

**▶ All of the given options.**

**Question No: 45 ( Marks: 1 ) - Please choose one**

**Suppose that a country is in a steady state condition. It implements policies to increase the saving rate of its economy. What will be TRUE at the new steady state level?**

- ▶ Output per worker will grow more rapidly than before.
- ▶ The level of output per worker will be higher than before.
- ▶ The amount of capital per worker will be the same as before.

**▶ All of the given options.**

**Question No: 46 ( Marks: 1 ) - Please choose one**

**The government has a balanced budget if:**

**▶ Its total revenues are equal to its total expenditures.**

- ▶ Its total revenues are less than its total expenditures.
- ▶ Its total revenues are greater than its total expenditures.
- ▶ The money supply is less than total expenditures.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Tax on wages, rent, interest, and profit, is known as:**

**▶ Direct tax.**

- ▶ Indirect tax.

- ▶ Progressive tax.
- ▶ Regressive tax.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**A tax imposed by a country on an imported good or service is called a:**

- ▶ Quota.
- ▶ **Tariff.**
- ▶ Non-tariff barrier.
- ▶ Trade embargo.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**Which of the following is an example of a tariff?**

- ▶ A limit on the total number of Honda cars that can be imported from Japan.
- ▶ A regulation specifying that each imported Honda car must meet certain emission exhaust guidelines.
- ▶ **A tax of \$500 on each Honda car imported from Japan.**
- ▶ A tax of 10% of the value of each Honda car purchased in Japan.

**Question No: 50 ( Marks: 1 ) - Please choose one**

**Which of the following is (are) the characteristic(s) of high income countries as compared to low income countries?**

- I. Lower rates of population growth.

- II. Greater income inequality.
  - III. A large proportion of the labor force in agriculture.
  - IV. Higher rates of investment.
- ▶ I only.
  - ▶ I and II.
  - ▶ II and IV.
  - ▶ I and IV.**

**Question No: 51 ( Marks: 1 ) - Please choose one**

**The price elasticity of supply for most products differs due to capacity constraints. Which of the following is TRUE in this context?**

- ▶ It is same in the long run and the short run.
- ▶ It is greater in the long run than in the short run.**
- ▶ It is greater in the short run than in the long run.
- ▶ It is too uncertain to be estimated.

**Question No: 52 ( Marks: 1 ) - Please choose one**

**What will be the impact of a ban on foreign firms from selling in the domestic market?**

- ▶ It will cause domestic producers competing with the imports to face huge losses.
- ▶ It will cause the supply curve to shift to the left.**
- ▶ It will cause the supply curve to shift to the right.

- ▶ It will have no effect on the domestic market.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**What is meant by the term utility?**

- ▶ Useless.
- ▶ Require.
- ▶ Necessary.
- ▶ **Satisfaction.**

**Question No: 54 ( Marks: 1 ) - Please choose one**

**In which of the following conditions, a welfare loss occurs in monopoly?**

- ▶ Where the price is greater than the marginal cost.
- ▶ Where the price is greater than the marginal benefit.
- ▶ Where the price is greater than the average revenue.
- ▶ **Where the price is greater than the marginal revenue.**

**Question No: 55 ( Marks: 3 )**

**Briefly discuss the concept of Pareto Efficiency.**

**Question No: 56 ( Marks: 5 )**

**According to the values given in the following table, calculate the injections at each level of output.**

<b>Output (Y)</b>	<b>Saving (S)</b>	<b>Gross Imports (M)</b>	<b>Gross investment (I)</b>	<b>Gross exports (X)</b>	<b>Govt. Expenditures (G)</b>	<b>Taxes (T)</b>
650	80	80	104	97	116	10
700	90	80	119	97	116	10
750	100	80	130	97	116	10
800	110	80	139	97	116	10
900	120	80	146	97	116	10

**(Marks: 1 for each)**

**Question No: 57 ( Marks: 5 )**

**World Bank suggests some structural reform policies for the poor countries to grow. Discuss those policies briefly.**

**Question No: 58 ( Marks: 10 )**

**What is meant by marginal disutility of work? From the information given below, calculate the marginal cost and average cost at each level of output.**

**Online Economics Course**

**Output Total Marginal Average**  
**Cost Cost Cost**

50 60, ? ?  
 00  
 0

10 60, ? ?  
 0 00  
 0

15 60, ? ?  
 0 00  
 0

20 60, ? ?  
 0 00  
 0

25 60, ? ?  
 0 00  
 0

30 60, ? ?  
 0 00  
 0

**(Marks: 2+8)**

**Question No: 59 ( Marks: 10 )**

**Show the impact of following policies on IS-LM framework with the help of diagrams.**

a) **Expansionary monetary policy.**



**b) Expansionary fiscal policy.**

*(Note: Draw separate figure for both parts)*

**FINALTERM EXAMINATION**

**Fall 2009**

**ECO401- Economics (Session - 3)**

**Ref No: 1148947**

**Time: 120 min**

**Marks: 87**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**If the quantity supplied of oranges exceeds the quantity demanded then:**

- ▶ There is a shortage of oranges.
- ▶ **Market forces will cause the price to fall.**
- ▶ Market forces will cause the price to rise.
- ▶ The market is in equilibrium.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Indifference curves that are convex to the origin reflect:**

- ▶ An increasing marginal rate of substitution.
- ▶ A decreasing marginal rate of substitution.
- ▶ A constant marginal rate of substitution.
- ▶ A marginal rate of substitution that first decreases, then increases.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is  $1/4$  then to maximize total utility, a consumer should:**

- ▶ Buy more pizzas and fewer jeans.
- ▶ Buy fewer pizzas and more jeans.
- ▶ Continue to buy the same quantities of pizza and jeans.
- ▶ Spend more time consuming pizza.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**As long as all prices remain constant, an increase in money income results in:**

- ▶ An increase in the slope of the budget line.
- ▶ A decrease in the slope of the budget line.
- ▶ An increase in the intercept of the budget line.

- ▶ A decrease in the intercept of the budget line.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?**

- ▶ Economies of scale.
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ **Increasing returns to the labor inputs.**

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Total costs are the sum of:**

- ▶ Marginal costs and variable costs.
- ▶ **Fixed costs and variable costs.**
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The supply curve for a competitive firm is:**

- ▶ Its entire marginal cost curve.

▶ The upward-sloping portion of its marginal cost curve.

▶ Its marginal cost curve above the minimum point of the average variable cost curve.

▶ Its marginal cost curve above the minimum point of the average total cost curve.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**A monopolistically competitive firm in short run equilibrium:**

▶ Will make negative profit (lose money).

▶ Will make zero profit (break-even).

▶ Will make positive profit.

▶ Any of the given are possible.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**The marginal revenue product is:**

▶ Upward sloping due to the law of demand.

▶ Upward sloping due to the law of marginal utility.

▶ Downward sloping due to the law of diminishing returns.

▶ Downward sloping due to the law of supply.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**The long run aggregate supply curve will shift to the right if:**

- ▶ The price level increases.
- ▶ **Factors of production (such as labor and capital) increase.**
- ▶ Expenditures (such as consumption and net exports) increase.
- ▶ The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Keynesian economics rejected the classical assumption that:**

- ▶ **Supply creates its own demand.**
- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ Consumption expenditures depend on disposable income.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Final goods are meant for:**

- ▶ **Direct use by the consumers.**
- ▶ Further processing.

- ▶ The term do not exist.
- ▶ None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**The slope of the saving function (or line) is the:**

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ **Marginal propensity to save.**
- ▶ Marginal propensity to consume.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**The investment demand curve shows the relationship between the levels of:**

- ▶ Investment and consumption.
- ▶ Consumption and interest rate.
- ▶ **Investment and interest rate.**
- ▶ Investment and saving.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The circular flow principle guarantees that in equilibrium:**

- ▶ The level of investment spending will be equal to the level of private savings.
- ▶ The level of exports will be equal to the level of imports.
- ▶ The level of aggregate demand will be equal to real Gross Domestic Product.
- ▶ The level of government spending will be equal to tax revenue.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**The real interest rate will increase:**

- ▶ If there is an excess supply of loanable funds in the financial markets.
- ▶ If there is an excess demand for loanable funds in the financial markets.
- ▶ If there is an excess supply of loanable funds in the foreign exchange markets.
- ▶ If there is an excess demand for loanable funds in the foreign exchange markets.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**The trend of unemployment over the last forty years is:**

- ▶ A decrease in unemployment.
- ▶ It has remained largely unchanged.
- ▶ An increase in unemployment.

- ▶ It is too difficult to tell so don't bother.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The Phillips curve will shift to the right:**

- ▶ If there is a decrease in the expected inflation rate.
- ▶ If there is an increase in the expected inflation rate.
- ▶ If there is a decrease in the natural rate of unemployment.
- ▶ If there is a favorable supply shock.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**Current account deficit is equal to:**

- ▶ Private sector resource deficit.
- ▶ Government budget deficit.
- ▶ Private sector resource deficit + Government budget deficit.
- ▶ None of the given options.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Fiscal policy is the government program with respect to its:**

- ▶ Steel Mill Privatization.



- ▶ Unemployment reduction.
- ▶ Expenditure and tax revenue.
- ▶ Increase in unemployment.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**In Keynesian economics, an inflationary gap results if:**

- ▶ Aggregate expenditures are less than aggregate production.
- ▶ Aggregate expenditures are greater than aggregate production.
- ▶ Aggregate expenditures are equal to aggregate production.
- ▶ There are no changes in inventories.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**The accelerator is a related concept which formalizes the investment response to:**

- ▶ Consumption.
- ▶ Interest rate.
- ▶ Output.
- ▶ None of the given options.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**The principle economic difference between a competitive and a non-competitive market is:**

- ▶ The number of firms in the market.
- ▶ **The extent to which any firm can influence the price of the product.**
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ **The firm's output is a small fraction of the entire industry's output.**
- ▶ The short run market price is determined solely by the firm's technology.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The concept of a risk premium applies to a person that is:**

- ▶ **Risk loving.**
- ▶ Risk averse.
- ▶ Risk neutral.

- ▶ Rational.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Keeping in view the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:**

- ▶ Both prices and output to rise.
- ▶ Prices to fall and output to remain unchanged.
- ▶ Both prices and output to fall.
- ▶ Prices to rise and output to remain unchanged.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Suppose a country has flexible exchange rate and has more rapid inflation rate than other countries. What will happen to its currency in this situation?**

- ▶ Its currency will appreciate.
- ▶ Its currency will depreciate.
- ▶ There will be no effect on its currency.
- ▶ All of the given options can be possible.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Which of the following statements best reflects the implication of law of comparative advantage?**

- ▶ Trade between two countries is always to the advantage of both.

▶ Trade between two countries can be to the advantage of both even though one may be more productively efficient at producing everything.

▶ Trade between two countries is to the advantage of both if countries import only those goods that they are incapable of producing themselves.

▶ Trade between two countries is beneficial to both if the exporter uses less resource than the importer would use to produce the same quantity of goods.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**Firm A produces and sells cotton to firm B for Rs. 500. Firm B makes yarn out of it and sells to firm C for Rs. 700. Firm C makes cloth and sell to consumers for Rs. 1200. Which figure has to be used for finding the economy's product?**

▶ Rs. 500 of firm A.

▶ Rs. 700 of firm B.

▶ Rs. 1200 of firm C.

▶ Total of all three Rs. 2400.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**The largest contribution in value terms to Pakistan GNP is made by:**

▶ Construction sector.

▶ Organized industries.

▶ Unorganized industries.

▶ Agriculture sector.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**National income figures are:**

- ▶ Very exact.
- ▶ Practically exact.
- ▶ **Only estimates.**
- ▶ Wrong.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**A marginal propensity to consume (MPC) of 0.95 indicates that:**

- ▶  $\Delta C$  to  $\Delta Y_d$  is 0.95.
- ▶  **$C / Y_d$  is 0.95.**
- ▶  $\Delta Y_d$  to  $\Delta C$  is 0.95.
- ▶  $Y_d / C$  is 0.95.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Which of the following describes the four sources of aggregate demand?**

- ▶ Consumption, private investment, taxes, and expenditures.
- ▶ Consumption, private investment, wage increases, and government expenditures.
- ▶ Consumption, private investment, expenditures, and net exports.
- ▶ **Consumption, private investment, government purchases, and net exports.**

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Refer to the above figure, the potential output in this economy is:**

- ▶ \$7,000 billion at a price level of 1.16.
- ▶ \$7,000 billion at a price level of 1.12.
- ▶ **\$7,000 billion at a price level of 1.08.**
- ▶ All of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Changes in aggregate demand can be caused by changes in:**

- I. Wages.**
  - II. Raw materials costs.**
  - III. Government spending.**
  - IV. Government regulations that increase the cost of doing business.**
- ▶ I, II, III, and IV.
  - ▶ I and III only.
  - ▶ I, III, and IV.
  - ▶ **III only.**

**Question No: 36 ( Marks: 1 ) - Please choose one**

**The short run in macroeconomic analysis is a period:**

- ▶ In which wages and some other prices do not respond to changes in economic conditions.

▶ In which full wage and price flexibility and market adjustment have been achieved.

- ▶ Of less than 12 months.
- ▶ In which all macroeconomic variables are fixed.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE?**

- ▶  $1 - \text{MPS} = \text{MPC}$
- ▶  $1 + \text{MPS} = \text{MPC}$
- ▶  $1 / \text{MPS} = \text{MPC}$
- ▶  $1 \times \text{MPS} = \text{MPC}$

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Refer to the above figure, when disposable personal income is \$1,200 billion, consumption is:**

- ▶ \$600 billion.
- ▶ \$800 billion.
- ▶ \$1,200 billion.
- ▶ \$2,000 billion.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**Unemployment generally ----- when the "real" GDP grows rapidly.**

- ▶ Remains the same.
- ▶ Decreases.
- ▶ **Increases.**
- ▶ All of the above are possible.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Which of the following will influence a country's exports?**

- ▶ **Consumer tastes for domestic and foreign goods.**
- ▶ Prices of goods at home and abroad.
- ▶ Costs of transporting goods from country to country.
- ▶ All of the given options.

**Question No: 41 ( Marks: 1 ) - Please choose one**

**Free trade is favoured because:**

- ▶ Countries have less work to do.
- ▶ It leads to greater world efficiency i.e. resources are better utilized.
- ▶ **Wealthier countries gain an advantage over underdeveloped countries.**
- ▶ All countries gain from tariff imposition.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**Devaluation is done to:**



▶ Encourage exports.

▶ Discourage exports.

▶ Encourage imports.

▶ Encourage inflation.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**Which of the following will happen by a reduction in net exports all other things being equal?**

▶ It will result in a movement up along the aggregate demand curve.

▶ It will reduce aggregate supply.

▶ It will reduce aggregate demand.

▶ It will not change aggregate demand or aggregate supply in the domestic economy.

**Question No: 44 ( Marks: 1 ) - Please choose one**

**Which of the following is part of M1?**

I. Savings deposits.

II. Cash in your hand.

III. Checking deposits.

▶ I and III.

▶ II and III.

▶ I only.

▶ II only.

**Question No: 45 ( Marks: 1 ) - Please choose one**

**Which of the following is (are) primary function (s) of a central bank?**

- IV. Act as a regulator of banks.
- V. Issue government bonds.
- VI. Set monetary policy.

- ▶ I only.
- ▶ I and III.
- ▶ I and II.
- ▶ I, II and III.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**What will be the impact of an increase of \$1 in government purchases?**

- ▶ It will shift the expenditure line upward by \$1.
- ▶ It will shift the IS curve to the right by  $\$1 / (1 - MPC)$ .
- ▶ It will not shift the LM curve.

- ▶ All of the given options.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Countries that are not among the high income nations of the world are categorized as:**

- ▶ Developed countries.
- ▶ Progressed countries.
- ▶ Developing countries.

- ▶ High income countries.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**Which of the following is a characteristic of low income countries?**

- ▶ Higher rates of population growth.
- ▶ Greater government control.
- ▶ A larger share of income used for investment.
- ▶ A smaller proportion of the labor force in agriculture.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**Refer to the above figure, when disposable personal income is \$2,000 billion:**

- ▶ Personal saving is \$1,200 billion.
- ▶ Consumption is \$1,600 billion.
- ▶ Saving is \$800 billion.
- ▶ Consumption is \$800 billion.

**Question No: 50 ( Marks: 1 ) - Please choose one**

**How many points you need to know to calculate the price elasticity of demand on the same demand curve?**

- ▶ One.
- ▶ Two.

▶ Three.

▶ Four.

**Question No: 51 ( Marks: 1 ) - Please choose one**

**What is meant by the negative slope of a production possibilities curve?**

▶ It means that some resources are always unemployed.

▶ It means that an economy can produce more of one thing only by producing less of something else.

▶ It means that opportunity costs are constant.

▶ It means that business can sell more when prices are low.

**Question No: 52 ( Marks: 1 ) - Please choose one**

**Which of the following will happen if the current market price is set below the market clearing level?**

▶ There will be a surplus to accumulate.

▶ There will be downward pressure on the current market price.

▶ There will be upward pressure on the current market price.

▶ There will be lower production during the next time period.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**For which of the following good, the substitution effect of a lowered price is counteracting by the income effect?**

▶ For an inferior good.

▶ A substitute good.

- ▶ For an independent good.
- ▶ For a normal good.

**Question No: 54 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about the marginal product of labour in any production process?**

- ▶ It is total output divided by total labour inputs.
- ▶ It is total output minus the total capital stock.
- ▶ It is the change in total output resulting from a 'small' change on the labour input.

▶ It is total output produced by labour inputs.

**Question No: 55 ( Marks: 3 )**

**What are the different components of aggregate demand? Discuss briefly.**

Aggregate demand is the total demand for final goods and services in the economy at a given time and price level. It is the amount of goods and services in the economy that will be purchased at all possible price levels. There are four components of aggregate demand which are most important:

1. **Consumption:** Consumption (C) is the amount of national income that is spent on goods and services produced by domestic firms in a given period of time.
2. **Investment:** Investment (I) or gross capital formation is any economic activity that forgoes consumption today with an eye to increase output in future.

3. **Net Exports:** It is net demand from rest of world for country's output.
4. **Government Spending:** These are gross investments and consumption expenditure done by government.

**Question No: 56 ( Marks: 5 )**

**Explain the difference between Gross National Product (GNP) and Net National Product (NNP) with the help of their formulas.**

**Difference between GNP and NNP:**

- GNP is the value, at current market prices, of all final goods and services produced during a year by the factors owned by the citizens of a country.

$$\text{GNP} = \text{GDP} + \text{net factor income from abroad}$$

- NNP is same application as NDP (National Domestic Product) which equal to GDP minus depreciation. Here, depreciation is amount which spends on capital goods that measure GNP. In other words, it is the net output of commodities and services flowing during the year from the country's production system in the hands of ultimate consumers.

**Question No: 57 ( Marks: 5 )**

**Some economists suggest "growth through resource transfer" and "growth through stabilization and reforms" strategies to tackle the problem of poverty of under developed countries. What is the basic theme of both these strategies? Discuss.**

**Growth through resource transfer:**

The businesses core resources transfer strategies are having close effect on customer satisfaction, production performance, and personnel expertise of the non-financial performance of business performances; but, these strategies show minor influences on the variance breadth of costs, sales performance, and development performance of business performances. For the growth of it, larger effect exists on the transfer of expertise, organizational learning, reputation and innovation of core resources. However, this strategy shows minor effect on the transfer of brand, management skills, interpersonal relationship, and management.

### **Growth through stabilization and reforms:**

A stabilization strategy centers on addressing people's basic needs and opportunities at the local level by improving their access to basic services, by expanding economic opportunities and by promoting political/civic empowerment. Livelihood, for the purposes of this strategy, is defined as the combination of factors in a community that have a direct impact on the quality of individuals' lives. Those factors include the elements in a community that affect citizen well-being, prosperity, and future choices, such as income, health, education, security, water, small infrastructure and citizen participation.

**Question No: 58 ( Marks: 10 )**

**(A) Following are the items of balance sheet of bank A**

Loans = 80

Deposits = 100

Reserves = 20

**Prepare the balance sheet in proper form and find out total assets and total liabilities.**

**(B) Following are the items of balance sheet of bank A**

Loans = 60

Deposits = 110

Reserves = 50

**Firm A deposits Rs. 50 in bank A. Prepare the balance sheet in proper form and find out total assets and total liabilities after the deposits of firm A.**

**(Marks: 5+5)**

**Question No: 59 ( Marks: 10 )**

**(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?**

**(B) What are the major advantages that an oligopoly offers for public interests?**

**(Marks: 5+5)**

**FINALTERM EXAMINATION**

**Fall 2009**

**ECO401- Economics**

**Time: 120 min**

**Marks: 87**



**Question No: 1 ( Marks: 1 ) - Please choose one**

**The concave shape of the production possibilities curve for two goods X and Y illustrates:**

- ▶ **Increasing opportunity cost for both goods.**
- ▶ Increasing opportunity cost for good X but not for good Y.
- ▶ Increasing opportunity cost for good Y but not for good X.
- ▶ Constant opportunity cost for both goods.

**The shape of a production possibility curve commonly drawn as concave downward to represent increasing opportunity cost with increased output of a good.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**When college students leave town for the summer, the demand for meals at the local restaurants decline. This results in:**

- ▶ A decrease in equilibrium price and an increase in quantity of meal.
- ▶ An increase in equilibrium price and quantity of meal.
- ▶ **A decrease in equilibrium price and quantity of meal.**
- ▶ An increase in equilibrium price and a decrease in quantity of meal.

**A decrease in equilibrium price and quantity. The demand curve shifts to the left because the town population declines, resulting in lower prices and quantity.**

**Question No: 3 ( Marks: 1 ) - Please choose one**

**A demand curve is price elastic when:**

▶ **Changes in demand are proportionately greater than changes in price.**

- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.
- ▶ Changes in demand are proportionately smaller than changes in price.

**For elastic demand curve, firm does not increase its prices. Because as prices increases, quantity Demanded decreases much larger. Decrease in quantity demanded is greater than the increase in prices. So firm will earn less revenue. So TR decreases as price increases.**

**Question No: 4 ( Marks: 1 ) - Please choose one**

**The numerical measurement of a consumer's preference is called:**

- ▶ Use.
- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

**Utility is a numerical representation of a preference ranking**

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about price-consumption curve for good X?**

- ▶ Nominal income falls as the price of X falls.
- ▶ The absolute price of X falls, but the relative price between X and the composite good Y stays the same.
- ▶ It is always downward sloping for a normal good.
- ▶ **It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.**

The price consumption curve (PCC) traces out the optimal choice of consumption at different prices. The PCC can be used to derive the demand curve, which shows the relationship between price & quantity demanded.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Marginal profit is equal to:**

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

**marginal profit is the term used to refer to total when marginal cost is subtracted from marginal revenue.**

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The supply curve for a competitive firm is:**

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.
- ▶ Its marginal cost curve above the minimum point of the average variable cost curve.
- ▶ **Its marginal cost curve above the minimum point of the average total cost curve.**

A perfectly competitive firm's supply curve is that portion of its marginal cost curve that lies above the minimum of the average variable cost curve.

Question No: 8 ( Marks: 1 ) - Please choose one

Second-degree price discrimination is the practice of charging:

- ▶ The reservation price to each customer.
- ▶ **Different prices for different blocks of the same good or service.**
- ▶ Different groups of customers different prices for the same products.
- ▶ Each customer the maximum price that he or she is willing to pay.

Second degree price discrimination, allows the supplier to set different prices to the different groups and capture a larger portion of the total market surplus.

Question No: 9 ( Marks: 1 ) - Please choose one

A market with few entry barriers and with many firms that sell differentiated products is:

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive.**
- ▶ Oligopolistic.

Monopolistic competition is also characterized by a large number of buyers and sellers and absence of entry barriers.

Question No: 10 ( Marks: 1 ) - Please choose one

The market structure in which strategic considerations are most important is:

- ▶ Monopolistic competition.
- ▶ **Oligopoly.**
- ▶ Pure competition.
- ▶ Pure monopoly.

Question No: 11 ( Marks: 1 ) - Please choose one

The price elasticity of demand for any good must be less than or equal to zero unless:

- ▶ The good is a necessity.

A good for which the "income elasticity of demand" is  $>0$  &  $<1$

- ▶ The good is a luxury.

A good for which the "income elasticity of demand" is  $> 1$ .

▶ The good is a Giffen good.

▶ None of the given options.

Goods for which the "quantity demanded" of one good does not depend upon the price of the other. (i.e. Pencils & cars). The "cross elasticity of demand" will be 0.

Question No: 12 ( Marks: 1 ) - Please choose one

Consumption spending, investment expenditures, government expenditures and net exports are:

▶ The components of household income.

▶ The components of aggregate supply.

▶ The components of aggregate demand

▶ The components of government revenue.

AD is the sum of consumption, investment, government spending and net exports (i.e. exports minus imports), and is inversely related to the aggregate price level through the wealth, interest rate and international purchasing power effects.

Question No: 13 ( Marks: 1 ) - Please choose one

Classical economics was replaced as the dominant theory of macroeconomic analysis by:

- ▶ Monetarism.
- ▶ Rational expectations.
- ▶ **Keynesian economics.**
- ▶ Neoclassical economics.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**According to classical economics, the economy will always tend toward full employment due to:**

- ▶ Minimum wages.
- ▶ **Flexible wages and prices.**
- ▶ Extended periods of unemployment.
- ▶ Inequality between saving and investment.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The real interest rate will increase:**

- ▶ **If there is an excess supply of loanable funds in the financial markets.**
- ▶ If there is an excess demand for loanable funds in the financial markets.

▶ If there is an excess supply of loanable funds in the foreign exchange markets.

▶ If there is an excess demand for loanable funds in the foreign exchange markets.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**A source of fluctuations in investment spending is:**

▶ Changes in government expectations of future output growth.

▶ Changes in household's expectations about future output growth.

▶ Changes in household's expectations about future risk.

▶ **Changes in investor's expectations about future profits.**

**Question No: 17 ( Marks: 1 ) - Please choose one**

**What does the term "balance of payment deficit" refer to?**

▶ An increase in official international reserves.

▶ A positive statistical discrepancy.

▶ A negative statistical discrepancy.

▶ **A decline in official international reserves.**

**Question No: 18 ( Marks: 1 ) - Please choose one**



**M1 component of money supply consists of:**

- ▶ Paper currency and coins.
- ▶ **Paper currency, coins and check writing deposits.**
- ▶ Paper currency, coins, check writing deposits and savings deposits.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**M1 includes currency held by the public, plus travelers' checks, demand deposits, other checkable deposits (including negotiable order of withdrawal (NOW) accounts, Automatic Transfer Service (ATS) accounts, and credit union share draft accounts).**

**Question No: 19 ( Marks: 1 ) - Please choose one**

**When one producer can produce a given amount of output with fewer inputs, which of the following would occur?**

- ▶ Comparative advantage.
- ▶ Comparative disadvantage.
- ▶ **Absolute advantage.**
- ▶ Absolute disadvantage.

**Absolute advantage.:** Capability of one producer to produce a given good using fewer resources than any other producer.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**What would result from a depreciation of the pound on the foreign exchange market?**

- ▶ An increase in the price of imported computers.
- ▶ A fall in the purchasing power of US tourists in London.
- ▶ **A fall in the price of imported computers.**
- ▶ An increase in the purchasing power of UK tourists overseas.

**A currency is said to depreciate in value if its exchange rate decreases, such as a decrease in the exchange rate of dollars from 0.5 pounds per dollar to 0.33 pounds per dollar. Currency depreciation makes exports from the country relatively less expensive resulting in more exports and usually fewer imports.**

**Question No: 21 ( Marks: 1 ) - Please choose one**

**The news on the television reports that the dollar has strengthened relative to the Japanese yen. This means that:**

- ▶ The dollar can now purchase more yen.
- ▶ The US trade balance with the Japanese economy has improved.
- ▶ **The yen can now purchase more dollars.**
- ▶ The dollar has depreciated relative to the yen.

**The exchange rate increases (i.e., a unit of your currency is worth more in foreign currency than previously), the currency is said to have *strengthened*, *appreciated*, or *increased in value* (revaluation). For example, assume that the exchange rate between the U.S. dollar and the Japanese yen changed from**

US\$1=104 yen to US\$1=110 yen. This would strengthen the value of the U.S. dollar in that you would receive more yen in exchange for your dollar

Question No: 22 ( Marks: 1 ) - Please choose one

In Keynesian economics, if aggregate expenditures are less than aggregate output then:

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ Employment decreases.
- ▶ **Aggregate output increases.**

Question No: 23 ( Marks: 1 ) - Please choose one

In the Keynesian cross model, the aggregate expenditure line has a slope of:

- ▶ 1.
- ▶ 0.
- ▶ Infinity.
- ▶ **Less than 1.**

In the Keynesian cross model If we draw a graph with expenditure on the vertical axis, we can see that the Expenditure line should have a slope of ( $<1$ ),

Question No: 24 ( Marks: 1 ) - Please choose one

**Demand is elastic when the elasticity of demand is:**

- ▶ Greater than 0 but less than 1.
- ▶ **Greater than 1.**
- ▶ Less than 0.
- ▶ Equal to 1. **unit elastic**

**If  $P_{ed} > 1$ , then demand responds more than proportionately to a change in price i.e. demand is elastic.**

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Which of the following statements is TRUE about cartels?**

- ▶ These are considered as part of monopolistic competition.
- ▶ these are organizations of independent firms, producing similar products, that work together to raise prices and restrict output.
- ▶ **these are organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.**
- ▶ These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.

**A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products.**

**Question No: 26 ( Marks: 1 ) - Please choose one**

**After the collusion, oligopolists are able to:**

- ▶ Raise price but not restrict output.
- ▶ Raise price and restrict output but not attain the monopoly profit.
- ▶ **Raise price and restrict output and therefore attain the monopoly profit.**
- ▶ Restrict output but not raise price.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Which of the following statements is TRUE about the difference between nominal and real Gross Domestic Product (GDP)?**

- ▶ Real GDP includes only goods; nominal GDP includes goods and services.
- ▶ **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

Nominal GDP: The total market value, measured in current prices,

Real GDP: The total market value, measured in constant prices

**Question No: 28 ( Marks: 1 ) - Please choose one**

**If production remains the same and all prices double, then which of the following will happen?**

- ▶ Real GDP and nominal GDP will both remain constant.
- ▶ Real GDP will remain constant and nominal GDP will reduce by half.

▶ **Real GDP will remain constant and nominal GDP will double.**

▶ Real GDP will double and nominal GDP will remain constant.

**Question No: 29 ( Marks: 1 ) - Please choose one**

Assume that there is no government or foreign sector, if the marginal propensity to consume (MPC) is 0.9, then the value of multiplier will be equal to:

▶ 2.

▶ 5.

▶ 8.

▶ 10.

**NO IDEA... MAY BE WRONG QUESTION**

**Question No: 30 ( Marks: 1 ) - Please choose one**

Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

▶  **$1000+1500+2500 = \text{Rs. } 5000$**

▶  $1000+500+2500 = \text{Rs. } 4000$

▶  $1000+500+1000 = \text{Rs. } 2500$

▶  $1000+1500+1000 = \text{Rs. } 3500$

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following is a transfer payment?**

- ▶ Payment made to housewife.
- ▶ Pocket allowance to children.
- ▶ Maintenance allowance to old parents.
- ▶ **All of the given options.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

**The relationship between hours provided by labor and wage rate is:**

- ▶ **Positive.**
- ▶ Negative.
- ▶ Ambiguous.
- ▶ Very strong.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Market failure occurs when:**

- ▶ Competitive markets do not achieve equitable outcomes.
- ▶ Competitive markets do not achieve efficient outcomes.
- ▶ Government takes steps to intervene in markets.
- ▶ **All of the given happen.**

**Question No: 34 ( Marks: 1 ) - Please choose one**

A graph that depicts the relationship between the total quantity of goods and services demanded and the price level is known as:

▶ **Aggregate demand curve.**

- ▶ Average price level.
- ▶ Circular flow model.
- ▶ GDP curve.

The aggregate demand curve illustrates the relationship between economic goods demanded and the price level, assuming all else is held constant (that is, under aceteris paribus assumption).

**Question No: 35 ( Marks: 1 ) - Please choose one**

**In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:**

- ▶ The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The aggregate demand and the short-run aggregate supply curves.
- ▶ The aggregate demand and the long-run aggregate supply curves.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Changes in aggregate demand can be caused by changes in:**



V. Wages.

VI. Raw materials costs.

VII. Government spending.

VIII. Government regulations that increase the cost of doing business.

▶ I, II, III, and IV.

▶ I and III only.

▶ I, III, and IV.

▶ III only.

Question No: 37 ( Marks: 1 ) - Please choose one

In the long run, the output level is determined by:

▶ Aggregate demand.

▶ Aggregate supply.

▶ The government.

▶ Household income.

**Long run aggregate supply (LRAS):** LRAS shows total planned output when both prices and average wage rates can change – it is a measure of a country's potential output and the concept is linked strongly to that of the **production possibility frontier**

Question No: 38 ( Marks: 1 ) - Please choose one

Which of the following is TRUE?

▶  $1 - MPS = MPC$

- ▶  $1 + \text{MPS} = \text{MPC}$
- ▶  $1 / \text{MPS} = \text{MPC}$
- ▶  $1 \times \text{MPS} = \text{MPC}$

**(MPS) is the fraction of the additional dollar of disposable income that is Saved. Thus,  $\text{MPC} = 1 - \text{MPS}$ .**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**The above figure shows disposable personal income on the horizontal axis and consumption per period on the vertical axis. Which of the following is TRUE at every point on the 45-degree line?**

- ▶ The value of disposable income equals the sum of personal saving and consumption.
- ▶ The value of disposable income equals consumption.
- ▶ The value of disposable income equals personal saving.
- ▶ The value of disposable income and consumption equals 1.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**If the government wishes to achieve a fall in unemployment, which of the following policies should it adopt?**

- ▶ Reduce the real value of income tax free allowances.
- ▶ Reduce government spending on capital projects.
- ▶ Raise Value Added Tax (VAT).

▶ **Start public job training programs.**

**Question No: 41 ( Marks: 1 ) - Please choose one**

**In the long run, sustained inflation is due to:**

- ▶ A one-time increase in money growth.
- ▶ **A continuous increase in the money growth rate.**
- ▶ A continuous increase in aggregate demand.
- ▶ The rising price of oil.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**The situation when a country imports more than it exports is known as:**

- ▶ **A trade deficit.**
- ▶ A trade surplus.
- ▶ An expansion.
- ▶ A recession.

**A negative balance of trade, i.e. imports exceed exports. opposite of trade surplus.**

**Question No: 43 ( Marks: 1 ) - Please choose one**

**Public investment expenditure for highways, schools, and national defense is included in which component of GDP?**

- ▶ Consumption.
- ▶ Gross private investment.
- ▶ **Government purchases.**

- ▶ Public investment.

**Question No: 44 ( Marks: 1 ) - Please choose one**

**The government has a balanced budget if:**

- ▶ **Its total revenues are equal to its total expenditures.**
- ▶ Its total revenues are less than its total expenditures.
- ▶ Its total revenues are greater than its total expenditures.
- ▶ The money supply is less than total expenditures.

**Question No: 45 ( Marks: 1 ) - Please choose one**

**In general, personal income taxes:**

- ▶ Rise automatically during a recession.
- ▶ **Rise automatically during an expansion.** Not sure
- ▶ Fall automatically during an expansion.
- ▶ Remains same in all phases of economic fluctuations.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**A tax on individual's income is known as:**

- ▶ Sales tax.
- ▶ . Excise tax
- ▶ Corporate income tax.
- ▶ **Personal income tax.**

**Personal income tax:** A tax on individual income. This is the primary source of revenue for the federal government, a big source for many state and local governments. In principle, personal income taxes are progressive, based on a graduated tax scale. However, it's much more proportional today than it was several decades ago.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE for banks?**

- ▶ **They deal with money only.**
- ▶ They deal with shares and assets.
- ▶ They not only deal with money but also create money.
- ▶ They deal with money but do not create money.

**Question No: 48 ( Marks: 1 ) - Please choose one**

**In a period of boom, credit creation is:**

- ▶ Small.
- ▶ **Heavy.**
- ▶ Unchanged.
- ▶ Zero.

**Question No: 49 ( Marks: 1 ) - Please choose one**

**What will be the impact of an increase in taxes?**

▶ It will shift the IS curve to the left and decrease both the interest rate and the level of income.

▶ It will shift the IS curve to the right and increase both the interest rate and the level of income.

▶ It will shift the IS curve to the right and increase the level of income but decrease the interest rate.

▶ It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate. **Not sure**

**Question No: 50 ( Marks: 1 ) - Please choose one**

**To determine whether an economy's output is growing or shrinking, one must keep track of:**

▶ Changes in nominal GDP.

▶ Changes in the growth rate of nominal GDP.

▶ Changes in the general price level.

▶ **Changes in real GDP.**

**Economic growth is increase in an economy's level of production, output or income. We can talk about production or output in two broad definitional contexts. One, we can compare real GDP with some other measure of welfare (for e.g., one which adjusts for externalities, social indicators, the black market, purchasing power parity, income inequality etc.).**

**Question No: 51 ( Marks: 1 ) - Please choose one**

**Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?**

▶ **The demand curve for airline travel shifts left.**

- ▶ The demand curve for airline travel shifts right.
- ▶ The supply curve of airline travel shifts left.
- ▶ The supply curve of airline travel shifts right.

**The demand curve shifts left. Rail and airline travel are substitutes. If the price of a substitute declines, then the demand curve for the substitute product shifts to the left.**

**Question No: 52 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift upward if there is:**

- ▶ A reduction in unemployment.
- ▶ **An increase in the production of capital goods.**
- ▶ A reduction in discrimination.
- ▶ All of the given options.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT included in the perfect information assumption of perfect competition?**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

**Question No: 54 ( Marks: 1 ) - Please choose one**

Suppose a monopolist set his output at the level where marginal revenue, marginal cost and average total cost are equal. In this case, economic profit will be:

- ▶ Negative.
- ▶ **Positive.**
- ▶ Zero.
- ▶ Indeterminate from the given information.

As profit is maximized at the point where  $MR = MC$ ,

Depending upon the level of **AC at the point where  $MR=MC$** , the monopolist might be

earn supernormal profits, breaking even or minimizing short run losses.

Question No: 55 ( Marks: 3 )

Differentiate between the terms flow and stock.

Stocks and those which are flows; these differ in their units of measurement.

A stock variable is measured at one specific time, and represents a quantity existing at that point in time, which may have been accumulated in the past.

A flow variable is measured over an interval of time. Therefore a flow would be measured per unit of time.

Stocks and flows have different units and are thus not commensurable – they cannot be meaningfully compared, equated, added, or subtracted. However, one may meaningfully take ratios of stocks and flows, or multiply or divide them.

Question No: 56 ( Marks: 5 )



What should be the optimal role of government in an economy according to the Classical school of thought? Discuss.

Question No: 57 ( Marks: 5 )

Explain the difference between current account and capital account.

**Current account :**

Current account is one of the two primary components of the balance of payments, the other being the capital account. It is the sum of the balance of trade (exports minus imports of goods and services).

**Current account = balance of trade + net factor income from abroad + net unilateral transfers from abroad**

Current account deals with international trade in goods and services and with earnings on investments.

**Capital account:**

The capital account consists of capital transfers and the acquisition and disposal of non-produced, non-financial assets. A subdivision of the capital account, the financial account records transfers of financial capital and non-financial capital. The official reserves account, which is part of the financial account, is the foreign currency held by central banks, and is used to pay balance-of-payment deficits. Each account is further divided into sub-accounts.

Question No: 58 ( Marks: 10 )

(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?

**(B) What are the major advantages that an oligopoly offers for public interests?**

**(Marks: 5+5)**

**Question No: 59 ( Marks: 10 )**

**The items of balance sheet of State Bank of Pakistan are given as follows:**

Forex reserves = Rs. 500

Notes and coins = Rs. 800

Credit to government = Rs. 200

Government and commercial bank deposits = Rs. 300

Credit to private sector = Rs. 700

Liquidity paper = Rs. 300

**Prepare the balance sheet in its proper format of asset and liabilities side. Also calculate total assets and total liabilities.**

**Solution: (this question solved by kash again)**

<b>Assets</b>	<b>Liabilities</b>
<b>Forex reserves = Rs. 500</b>	<b>Government and commercial bank deposits = Rs. 300</b>
<b>Credit to government = Rs. 200</b>	<b>Notes and coins = Rs. 800</b>

<b>Credit to private sector = Rs. 700</b>	<b>Liquidity paper = Rs. 300</b>
<b>Total= RS 1400</b>	<b>Total= RS 1400</b>

## FINALTERM EXAMINATION

Fall 2009

ECO401- Economics (Session - 2)

Time: 120 min

Marks: 87

Question No: 1 ( Marks: 1 ) - Please choose one

If pen and ink are complements, then an increase in the price of pen will cause:

- ▶ An increase in the price of ink.
- ▶ **Less ink to be demanded at each price.**
- ▶ A decrease in the demand for pen.
- ▶ A rightward shift in the demand curve for ink.

Question No: 2 ( Marks: 1 ) - Please choose one

**A market is said to be in equilibrium when:**

- ▶ Demand equals output.
- ▶ There is downward pressure on price.
- ▶ **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**
- ▶ All buyers are able to find sellers willing to sell to them at the current price.

Ref: A market is said to be in equilibrium when both buyers and sellers are satisfied.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**As more of a good is consumed, then total utility typically:**

- ▶ **Increases at a decreasing rate.**
- ▶ Decreases as long as marginal utility is negative.
- ▶ Decreases as long as marginal utility is positive.
- ▶ Is negative as long as marginal utility is decreasing.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**A monopolistically competitive firm in short run equilibrium:**

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.

▶ Any of the given are possible.

Question No: 5 ( Marks: 1 ) - Please choose one

A monopolistically competitive firm in the long run equilibrium:

▶ Will make negative profit.

▶ Will make zero profit.

▶ Will make positive profit.

▶ Any of the given are possible.

Ref: A monopolistically competitive firm in the long run will always break even, or earn only normal profit ensured by entry and exit of firms.

Question No: 6 ( Marks: 1 ) - Please choose one

The market structure in which strategic considerations are most important is:

▶ Monopolistic competition.

▶ Oligopoly.

▶ Pure competition.

▶ Pure monopoly.

Question No: 7 ( Marks: 1 ) - Please choose one

**The price elasticity of demand for any good must be less than or equal to zero unless:**

- ▶ The good is a necessity.
- ▶ The good is a luxury.
- ▶ **The good is a Giffen good.**
- ▶ None of the given options.

Ref: <http://www.cengage.co.uk/nicholson/students/mcqs/ch04.htm>

**Question No: 8 ( Marks: 1 ) - Please choose one**

**The textbook for your class was not produced in a perfectly competitive industry because:**

- ▶ There are so few firms in the industry that market shares are not small, and firm's decisions have an impact on market price.
- ▶ Upper-division microeconomics texts are not all alike.
- ▶ It is not costless to enter or exit the textbook industry.
- ▶ All of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is NOT true?**

- ▶ **Products are differentiated.**
- ▶ There is freedom of entry and exit into the industry in the long run.
- ▶ The firm is a price maker.

- ▶ There is one main seller.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**Under the kinked demand curve model, an increase in marginal cost will lead to:**

- ▶ **An increase in output level and a decrease in price.**
- ▶ A decrease in output level and an increase in price.
- ▶ A decrease in output level and no change in price.
- ▶ Neither a change in output level nor a change in price.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**For a firm buying labor competitively, the marginal input cost is equal to the:**

- ▶ **Wage.**
- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**The aggregate supply curve is the relationship between:**

- ▶ The price level and the real domestic output purchased.

▶ **The price level and the real domestic output produced.**

▶ The price level which producers are willing to accept and the price level purchasers are willing to pay.

▶ The real domestic output purchased and the real domestic output produced.

Ref:[http://economics.uakron.edu/faculty/ghosh/2009/prinmacro/Chapter13\\_AggregateSupplyandDemand.pdf](http://economics.uakron.edu/faculty/ghosh/2009/prinmacro/Chapter13_AggregateSupplyandDemand.pdf)

**Question No: 13 ( Marks: 1 ) - Please choose one**

**The long run aggregate supply curve will shift to the right if:**

▶ The price level increases.

▶ **Factors of production (such as labor and capital) increase.**

▶ Expenditures (such as consumption and net exports) increase.

▶ The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Keynesian economics rejected the classical assumption that:**

▶ **Supply creates its own demand.**

▶ Prices and wages are inflexible.

▶ Self-correction takes a long time.

▶ Consumption expenditures depend on disposable income.



**Question No: 15 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ **Capital.**
- ▶ The amount of money held by the public.
- ▶ Inventory investment.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**A nation's balance of payments can be affected by changes in:**

- ▶ Foreign income.
- ▶ The differential between domestic and foreign interest rates.
- ▶ **The real exchange rate.**
- ▶ All of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Real GDP is equal to:**

- ▶ **Nominal GDP – Inflation.**
- ▶ Nominal GDP + Inflation.
- ▶ Nominal GDP/ Inflation.

- ▶ Inflation / Nominal GDP.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

- ▶  $GNP = GDP - \text{Net income from abroad.}$
- ▶  **$GNP = GDP + \text{Net income from abroad.}$**
- ▶  $GNP = NNP - \text{Net income from abroad.}$
- ▶  $GNP = NNP + \text{Net income from abroad.}$

**Question No: 19 ( Marks: 1 ) - Please choose one**

**In Keynesian economics, if aggregate expenditures are less than aggregate output then:**

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ Employment decreases.
- ▶ **Aggregate output increases.**

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Which of the following is true about supply curve under monopoly?**

▶ It is same as the competitive market supply curve.

▶ **It is the portion of marginal cost curve where marginal costs exceed the minimum value of average variable costs.**

▶ It is the result of market power and production costs.

▶ None of the given statements is true.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**After the collusion, oligopolists are able to:**

▶ Raise price but not restrict output.

▶ Raise price and restrict output but not attain the monopoly profit.

▶ **Raise price and restrict output and therefore attain the monopoly profit.**

▶ Restrict output but not raise price.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Which of the following event will lead towards cost-push inflation and therefore stagflation?**

▶ **An increase in taxes on individuals.**

▶ A decrease in real interest rates.

▶ A union settlement that increases wage levels.

▶ An increase in government purchases.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Double counting in national income refers to:**

- ▶ Counting a product more than once.
- ▶ **Counting a product at the final stage of output process.**
- ▶ Counting both as product and as factor payment.
- ▶ Counting both as real goods and as money flow.

Ref: [http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=1&ved=0CAYQFjAA&url=http%3A%2F%2Fwww.wiziq.com%2Fonline-tests%2F5920-general-economics&rct=j&q=%22Double+counting+in+national+income%22&ei=bk2CS8-jDp-psQa3ooi2BA&usg=AFQjCNGe57Z8lFrowykOmkW\\_qwWwZuMOOg](http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=1&ved=0CAYQFjAA&url=http%3A%2F%2Fwww.wiziq.com%2Fonline-tests%2F5920-general-economics&rct=j&q=%22Double+counting+in+national+income%22&ei=bk2CS8-jDp-psQa3ooi2BA&usg=AFQjCNGe57Z8lFrowykOmkW_qwWwZuMOOg)

**Question No: 24 ( Marks: 1 ) - Please choose one**

**For knowing the spending capacity of the household sector, we have to use the concept of:**

- ▶ **National income.**
- ▶ Personal income.
- ▶ Private income.
- ▶ Personal disposable income.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**For a study of the long term growth of the economy, we use:**

- ▶ **Real GNP.**
- ▶ Nominal GNP.

- ▶ Personal income.
- ▶ Disposable personal income.

Ref: [http://books.google.com.pk/books?id=tugDAAAAMBAJ&pg=PT81&lpg=PT81&dq=%22For+a+study+of+the+long+term+growth+of+the+economy,+we+use%22&source=bl&ots=\\_HLRcpeuvr&sig=2xoGxoF9ij6Xnhpl0etubXCDi0o&hl=en&ei=YE6CS-](http://books.google.com.pk/books?id=tugDAAAAMBAJ&pg=PT81&lpg=PT81&dq=%22For+a+study+of+the+long+term+growth+of+the+economy,+we+use%22&source=bl&ots=_HLRcpeuvr&sig=2xoGxoF9ij6Xnhpl0etubXCDi0o&hl=en&ei=YE6CS-)

[XQJpfgsAbvxITaBA&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CAcQ6AEwAA#v=onepage&q=%22For%20a%20study%20of%20the%20long%20term%20growth%20of%20the%20economy%2C%20we%20use%22&f=false](http://books.google.com.pk/books?id=tugDAAAAMBAJ&pg=PT81&lpg=PT81&dq=%22For+a+study+of+the+long+term+growth+of+the+economy,+we+use%22&source=bl&ots=_HLRcpeuvr&sig=2xoGxoF9ij6Xnhpl0etubXCDi0o&hl=en&ei=YE6CS-XQJpfgsAbvxITaBA&sa=X&oi=book_result&ct=result&resnum=1&ved=0CAcQ6AEwAA#v=onepage&q=%22For%20a%20study%20of%20the%20long%20term%20growth%20of%20the%20economy%2C%20we%20use%22&f=false)

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Which of the following is an example of a leakage?**

- ▶ Saving.
- ▶ Investment.
- ▶ **Exports.**
- ▶ Government expenditures.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Total product of labor per day is shown in the following table and the price of the product is \$10/unit. What is the value of the marginal product of labor (VMPL) of the 3rd worker?**

Labor	Total Product
1	10
2	25
3	35

4	40
5	41

- ▶ 5.
- ▶ **10.**
- ▶ 50.
- ▶ 100.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:**

- ▶ The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The short-run aggregate supply and the long-run aggregate supply curves.
- ▶ **The aggregate demand and the short-run aggregate supply curves.**
- ▶ The aggregate demand and the long-run aggregate supply curves.

Ref: <http://www.flatworldknowledge.com/pub/1.0/principles-macroeconomics/29991>

**Question No: 29 ( Marks: 1 ) - Please choose one**

**What is the interest rate effect that explains why the aggregate demand curve slopes downward?**

▶ It refers to the effect of changes in the price level on quantity of investment demanded which in turn affects interest rates.

▶ It refers to the effect of interest rates on borrowing which in turn affects consumption spending.

**▶ It refers to the effect of changes in the price level on interest rates which in turn affects the quantity of investment demanded.**

▶ It refers to the shifts in aggregate demand when interest rates change.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**In the classical world, you could always get a job if you:**

▶ Had a good education.

▶ Worked in an industry that was recession proof.

▶ Had unemployment in the manufacturing sector.

**▶ Would accept a lower wage.**

**Question No: 31 ( Marks: 1 ) - Please choose one**

**The level of output produced when the labor market is in equilibrium is called:**

▶ Target output.

▶ Product market equilibrium output.

**▶ Full-employment output.**

▶ Natural output.

**Question No: 32 ( Marks: 1 ) - Please choose one**

Which of the following economists came up with a theory regarding the tradeoff between unemployment and inflation?

▶ **A.W. Phillips.**

- ▶ John Maynard Keynes.
- ▶ Joseph Schumpeter.
- ▶ Milton Friedman.

Question No: 33 ( Marks: 1 ) - Please choose one

Refer to the above figure, moving from B to A shows a tradeoff of:

Refer to the above figure, moving from B to A shows a tradeoff of:

- ▶ More unemployment for less inflation.
- ▶ **Less unemployment for more inflation.**
- ▶ A fixed amount of unemployment for more inflation.
- ▶ Less unemployment for less inflation.

Question No: 34 ( Marks: 1 ) - Please choose one

Falling inflation means:

- ▶ That the price level is falling from one period to the next.



- ▶ That the price level is falling at a decreasing rate.
- ▶ That the price level is falling at an increasing rate.
- ▶ **That the price level is increasing at a decreasing rate.**

**Question No: 35 ( Marks: 1 ) - Please choose one**

Disposable Personal Income	Consumption
\$	\$

100 140

20 22  
0 0

30 30  
0 0

40 38  
0 0

50 46  
0 0

**Refer to the above table, when disposable personal income is \$300, what is the amount of personal saving?**

- ▶ **-\$40.**

▶ -\$20.

▶ \$0.

▶ \$20.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**The real exchange rate is defined as the:**

▶ **Market exchange rate adjusted for prices.**

▶ Market exchange rate adjusted for interest rates.

▶ Market exchange rate.

▶ Exchange rate determined by the government.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**The interest rate parity is the basic identity that relates which of the following?**

▶ **Interest rates and exchange rates.**

▶ Interest rates and inflation rate.

▶ Exchange rates and inflation rate.

▶ Discount rate and inflation rate.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Suppose there is a steady state condition in an economy with no population growth. In which condition, the steady-state level of capital per worker will increase?**

- ▶ When the amount of investment per worker decreases.
- ▶ When the depreciation rate increases.
- ▶ **When the saving rate increases.**
- ▶ In all of the given options.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**“Government collects zero revenue if the tax rate is 0% and if the tax rate is 100%.” Which of the following best describes this statement?**

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve.**
- ▶ Investment curve.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**A tax on the accounting profits of corporations is known as:**

- ▶ Sales tax.
- ▶ Excise tax.
- ▶ **Corporate income tax.**
- ▶ Personal income tax.

**Question No: 41 ( Marks: 1 ) - Please choose one**

**Which of the following shows the functions of money?**

- ▶ **A conductor of economic activity, a medium of exchange, and a store of value.**
- ▶ A medium of exchange, a store of value, and a factor of production.
- ▶ A store of value, a medium of exchange, and a determinant of investment.
- ▶ A store of value, a unit of account, and a medium of exchange.

**Question No: 42 ( Marks: 1 ) - Please choose one**

**Which of the following best describes a bank's reserves?**

- ▶ The minimum value of assets it must have.
- ▶ The amount of gold it is required to have as reserves against loans.
- ▶ **The value of federal securities it is required to have as reserves against loans.**
- ▶ Deposits that bank has accepted from customers but have not loaned out.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**The special importance of banks among the financial institutions arises from:**

- ▶ Their large and heavy transactions.
- ▶ Their position as suppliers of money.
- ▶ Their power to create money.
- ▶ **Their influence on the economy.**

**Question No: 44 ( Marks: 1 ) - Please choose one**

**Which of the following will be TRUE if real income rose and the interest rate fell following an increase in government purchases?**

- ▶ IS curve must be vertical.
- ▶ LM curve must be vertical.
- ▶ **Central Bank must have increased the money supply at the same time.**
- ▶ Central Bank must have decreased the money supply at the same time.

**Question No: 45 ( Marks: 1 ) - Please choose one**

**If money supply is fixed by the central bank then in interest rate-money supply space, money supply curve will be:**

- ▶ Horizontal.
- ▶ Vertical.
- ▶ Negatively sloped.
- ▶ **Positively sloped.**

**Question No: 46 ( Marks: 1 ) - Please choose one**

**Why agriculture sector has an important role to play in the development process?**

- ▶ Because a balanced approach to growth is necessary.
- ▶ Because the vast majority of an under developed country is engaged in agriculture.

▶ Because agriculture may be a major bottleneck in the process of development.

▶ Because of all of the given options.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Refer to the above figure, the marginal propensity to consume is:**

▶ 0.25.

▶ 0.50.

▶ 0.60.

▶ **0.67.**

**Question No: 48 ( Marks: 1 ) - Please choose one**

**Refer to the above figure, when disposable personal income is \$2,000 billion:**

▶ Personal saving is \$1,200 billion.

▶ Consumption is \$1,600 billion.

▶ Saving is \$800 billion.

▶ Consumption is \$800 billion.

Question No: 49 ( Marks: 1 ) - Please choose one

What is meant by the negative slope of a production possibilities curve?

▶ It means that some resources are always unemployed.

▶ It means that an economy can produce more of one thing only by producing less of something else.

▶ It means that opportunity costs are constant.

▶ It means that business can sell more when prices are low.

Question No: 50 ( Marks: 1 ) - Please choose one

Which of the following is TRUE for a Giffen good?

▶ Its marginal utility is zero.

▶ Its demand curve is perfectly elastic.

▶ Its substitution effect is positive.

▶ Its demand curve is positively sloped.

Question No: 51 ( Marks: 1 ) - Please choose one

Which of the following occur when an isocost line is just tangent to an isoquant?

▶ Output is being produced at minimum cost.

- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

Ref: [http://econweb.rutgers.edu/besedes/sample\\_exam2\\_intermediate.pdf](http://econweb.rutgers.edu/besedes/sample_exam2_intermediate.pdf)

**Question No: 52 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about L-shaped isoquant?**

- ▶ It indicates that the firm could switch from one output to another costlessly.
- ▶ It indicates that the firm could not switch from one output to another.
- ▶ **It indicates that capital and labor cannot be substituted for each other in production.**
- ▶ It is impossible.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the fixed cost?**

- ▶ 5Q.
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ **200.**

**Question No: 54 ( Marks: 1 ) - Please choose one**



The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the average total cost?

- ▶  $5Q$ .
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ None of the given options.

**Question No: 55 ( Marks: 3 )**

**Define consumption function. Write down the determinants of consumption.**

**Consumption and Consumption Function:**

Consumption (C) is the amount of national income that is spent on goods and services produced by domestic firms in a given period of time. Consumption is the most stable and important component of aggregate demand, accounting for about two-thirds to three-fourths of GDP in most countries.

The consumption function is a schedule relating total consumption to personal disposable income. It usually takes the form  $C = a + bY_d = a + b(Y - T)$ , where a is the minimum level of consumption that must take place even if  $Y_d$  is zero, and b is the marginal propensity to consume.

**Determinants of consumption**

Thus there are two determinants of consumption (namely income and taxation, which will not cause saving to rise if consumption is caused to fall.

**Question No: 56 ( Marks: 5 )**

The paradox of thrift is demonstrated algebraically by equating leakages and injections. Suppose the Saving function is specified as  $S = -\$10 \text{ billion} + 0.2Y$ , Gross imports equal \$70 billion, Investment is \$100 billion and Gross exports equal \$70 billion. Calculate the equilibrium level of output by using leakages-injections approach.

**Question No: 57 ( Marks: 5 )**

Country	Commodity	Amount that can be produced in 1 year
USA	Cotton	40 units
	Food	60 units
UK	Cotton	30 units

Food 20  
units

- A. Consider there is no international trade. See the above table and answer which country has absolute advantage in which product?
- B. Draw the production possibility frontiers for USA and UK.

**(Marks: 2+3)**

**Question No: 58 ( Marks: 10 )**

- A. From the information given below, calculate the following:

- a) Nominal GDP in year 1
- b) Nominal GDP in year 2
- c) Growth rate in nominal GDP

	Year 1	Year 2
Apples produced	100	150
Chicken produced	100	140
Cost per apple (Rs.)	2	4
Cost per chicken (Rs.)	4	6

B. Suppose that in the economy of Pakistan, the Real Gross National Product in 1987 was 1483 billion. In 1988, Real Gross National Product was 1510 billion. Calculate the growth rate of real Gross National Product from this information.

(Marks: 6+4)

Question No: 59 ( Marks: 10 )

(A) Following table shows the income earned by different factors of production.

Serial #	Rewards	Amount (billion rupees)
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1 Wages 150.52  
and  
salaries

2 Int 50.  
er 63  
est

on  
bo  
nd  
s  
an  
d  
loa  
ns

3 Re 10  
nt 0.1  
of 2  
pr  
op  
ert  
ies

4 Pr 12  
ofi 5.8  
t 4

5 Co 50.  
rp 26  
or  
at  
e  
pr  
ofi  
t  
tax

6 Un30.  
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7	Contributions for social security	20.20
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**No**

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**Question No: 1 ( Marks: 1 ) - Please choose one**

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ "Naturally" occurring resources.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**While moving from left to right, the typical production possibilities curve has:**

- ▶ An increasingly steep negative slope.
- ▶ A decreasingly steep negative slope.
- ▶ **An increasingly steep positive slope.**
- ▶ A constant and negative slope.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**When government sets the price of a good and that price is above the equilibrium price, the result will be:**

- ▶ **A surplus of the good.**

- ▶ A shortage of the good.
- ▶ An equilibrium.
- ▶ None of the given options.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**If pen and ink are complements, then an increase in the price of pen will cause:**

- ▶ An increase in the price of ink.
- ▶ **Less ink to be demanded at each price.**
- ▶ A decrease in the demand for pen.
- ▶ A rightward shift in the demand curve for ink.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right.**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**When an industry's raw material costs increase, other things remaining the same:**

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.

**▶ Output decreases and the market price also decrease.**

- ▶ The supply curve shifts to the left.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Sugar can be refined from sugar beets. When the price of those beets falls:**

- ▶ The demand curve for sugar would shift right.
- ▶ The demand curve for sugar would shift left.
- ▶ The supply curve for sugar would shift right.**
- ▶ The supply curve for sugar would shift left.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ Price.**

- ▶ Output.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:**

- ▶ None of the given options.
- ▶ The daily supply curve for fish slopes upward.
- ▶ **The daily supply curve for fish is perfectly inelastic.**
- ▶ The daily supply curve for fish is perfectly elastic.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**In order to calculate the price elasticity of supply, you need to know:**

- ▶ **Two prices and two quantities supplied.**
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Suppose the first four units of an output produced incur corresponding total costs of 50, 150, 300, and 500. The marginal cost of the second unit of output is:**



▶ 50.

▶ **100.**

▶ 150.

▶ 200.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

▶ Horizontal.

▶ Vertical.

▶ **Negative.**

▶ Positive.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

▶ -14.

▶ **14.**

▶ 83.

▶ 97.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is  $1/4$  then to maximize total utility, a consumer should:**

- ▶ Buy more pizzas and fewer jeans.
- ▶ **Buy fewer pizzas and more jeans.**
- ▶ Continue to buy the same quantities of pizza and jeans.
- ▶ Spend more time consuming pizza.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT an assumption of ordinal utility analysis?**

- ▶ Consumers are consistent in their preferences.
- ▶ Consumers can measure the total utility received from any given basket of good.
- ▶ Consumers are non-satiated with respect to the goods they confront.
- ▶ **All of the given options are true.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

Question No: 17 ( Marks: 1 ) - Please choose one

Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

- ▶ **Economies of scale.**
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

Question No: 18 ( Marks: 1 ) - Please choose one

A graph showing all the combinations of capital and labour available for a given total cost is the:

- ▶ Budget constraint.

▶ Expenditure set.

▶ **Isoquant.**

▶ Isocost.

Question No: 19 ( Marks: 1 ) - Please choose one

An isoquant curve shows:

▶ **All the alternative combinations of two inputs that yield the same maximum total product.**

▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.

▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

▶ None of the given options.

Question No: 20 ( Marks: 1 ) - Please choose one

L-shaped isoquant:

▶ **Indicate that capital and labor cannot be substituted for each other in production.**

▶ Is impossible.

▶ Indicate that the firm could switch from one output to another costlessly.

▶ Indicate that the firm could not switch from one output to another.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Costs determine all of the following EXCEPT:**

- ▶ **Demand for a product.**
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Total costs are the sum of:**

- ▶ Marginal costs and variable costs.
- ▶ **Fixed costs and variable costs.**
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**To find the profit maximizing level of output, a firm finds the output level where:**

- ▶ **Price equals marginal cost.**
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.
- ▶ None of the given options.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ **Has no substitutes at all.**
- ▶ Has no close substitutes.
- ▶ Can be easily duplicated.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**A perfectly competitive firm maximizes profit by finding the level of production at which:**

- ▶ **Price = Marginal Cost.**
- ▶ Price = Average Total Cost.
- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**The monopolist has no supply curve because:**

▶ **The quantity supplied at any particular price depends on the monopolist's demand curve.**

- ▶ The monopolist's marginal cost curve changes considerably over time.
- ▶ The relationship between price and quantity depends on both marginal cost and average cost.
- ▶ Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is TRUE at the output level, where price = marginal cost?**

▶ **The monopolist is maximizing profit.**

- ▶ The monopolist is not maximizing profit and should increase output.
- ▶ The monopolist is not maximizing profit and should decrease output.
- ▶ The monopolist is earning a positive profit.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Following are the disadvantages of monopoly EXCEPT:**

- ▶ Monopolists earn higher profits.
- ▶ **Monopolists produce high quality goods at higher prices.**
- ▶ Most of the “surplus” (producer + consumer surplus) accrues to monopolists.

- ▶ Monopolists do not pay sufficient attention to increasing efficiency.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ **Engages in first-degree price discrimination.**

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.
- ▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

**Question No: 31 ( Marks: 1 ) - Please choose one**



Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?

- ▶ The demand curve is tangent to marginal cost curve.
- ▶ The demand curve is tangent to average cost curve.
- ▶ **The marginal cost curve is tangent to average cost curve.**
- ▶ The demand curve is tangent to marginal revenue curve.

Question No: 32 ( Marks: 1 ) - Please choose one

Which of the following would most likely shift the production possibilities curve for a nation outward?

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

Question No: 33 ( Marks: 1 ) - Please choose one

A demand schedule is best described as:

- ▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Question No: 34 ( Marks: 1 ) - Please choose one**

**A partial explanation for the inverse relationship between price and quantity demanded is that a:**

- ▶ Lower price shifts the supply curve to the left.
- ▶ Higher price shifts the demand curve to the left.
- ▶ Lower price shifts the demand curve to the right.
- ▶ **Higher price reduces the real incomes of buyers.**

**Question No: 35 ( Marks: 1 ) - Please choose one**

**The total utility curve for a risk neutral person will be:**

- ▶ **Straight line.**
- ▶ Convex.
- ▶ Concave.
- ▶ None of the given options.

Question No: 36 ( Marks: 1 ) - Please choose one

Figure

In figure given above, the marginal utility of income is:

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

Question No: 37 ( Marks: 1 ) - Please choose one

A welfare loss occurs in monopoly where:

- ▶ The price is greater than the marginal cost.
- ▶ **The price is greater than the marginal benefit.**
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

Question No: 38 ( Marks: 1 ) - Please choose one

Which of the following is NOT a factor of production?

▶ Labour.

▶ Land.

▶ Capital.

▶ **Investment.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**Which of the following does NOT refer to macroeconomics?**

▶ The study of the aggregate level of economic activity.

▶ **The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.**

▶ The study of the cause of unemployment.

▶ The study of the cause of inflation.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Demand is elastic when the elasticity of demand is:**

▶ Greater than 0 but less than 1.

▶ **Greater than 1.**

▶ Less than 0.

▶ Equal to 1.

Question No: 41 ( Marks: 10 )

A. Differentiate between risk and uncertainty.

B. What would the risk neutral person, risk averse person and risk loving person do in the following cases?

- If Odds Ratio  $> 1$
- If Odds Ratio  $= 1$
- If Odds Ratio  $< 1$

C. You toss a coin, if head comes, you are given Rs. 200 and if tail comes, you have to pay Rs. 200. Will you play this game or not? Give your answer with brief explanation.

(Marks: 3+3+4)

**Answers : A)**

**Risk and Uncertainty :** Risk is when an outcome may or may not occur but its probability is known while uncertainty is when an outcome may or may not occur but its probability is not known.

**Answers : B)**

1) For risk neutral person

- If Odds Ratio  $> 1$ , then he will definitely buy
- If Odds Ratio  $= 1$ , then he will be indifferent
- If Odds Ratio  $< 1$ , then he might not buy as  $OR < 1$

2) For risk averse person

- If Odds Ratio  $> 1$ , then in this case as well he might decide not to buy.
- If Odds Ratio  $= 1$ , then he will definitely not buy
- If Odds Ratio  $< 1$ , then he will definitely not buy

**3) For risk loving person**

- If Odds Ratio  $> 1$ , then he will definitely buy
- If Odds Ratio  $= 1$ , then he will definitely buy
- If Odds Ratio  $< 1$ , then in this case as well he might decide to buy.

**Answers : C)**

The tossing of a coin and the probability of a head appearing is 50% i.e. the odds of success are fair. So the option of OR  $< 1$  and OR  $> 1$  is not there. The only possibility is OR  $= 1$  which means that the chances are not that bad. Now it depends on the fact that whether I am a risk averse, risk neutral or risk loving person. In case of fair odds both risk loving and risk neutral person might decide to play. So I will play this game as the amount of money involved is not that much and as far as my perception of it is concerned the marginal benefit of gaining 200 Rs is perceived by me as more than the marginal cost of losing the 200 Rs. So I would definitely play this game. Moreover the excitement of winning might overshadow my rational judgement and I would definitely decide to play by being carried away by excitement.

**MIDTERM EXAMINATION**

**Fall 2009**

**ECO401- Economics (Session - 3)**

**Time: 60 min**

**Marks: 50**

<b>Student Info</b>	
<b>StudentID:</b>	
<b>Center:</b>	<b>OPKST</b>
<b>ExamDate:</b>	<b>12/18/2009 12:00:00 AM</b>

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**Question No: 1 ( Marks: 1 ) - Please choose one**

**Which of the following is a positive statement?**

- ▶ When the price of a good goes up, consumers buy less of it.
- ▶ When the price of a good goes up, firms produce more of it.
- ▶ When the Federal government sells bonds, interest rates rise and private investment is reduced.
- ▶ **All of the given options.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**In a free-market economy, the allocation of resources is determined by:**

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ **Consumer preferences.**
- ▶ The level of profits of firms.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**If both supply and demand increase simultaneously, the equilibrium:**

- ▶ Price must rise and the equilibrium quantity must fall.
- ▶ **Price must rise and the equilibrium quantity may either rise or fall.**

- ▶ Quantity must rise and the equilibrium price may either rise or fall.
- ▶ Price must fall and the equilibrium quantity may either rise or fall.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:**

- ▶ None of the given options.
- ▶ The daily supply curve for fish slopes upward.
- ▶ **The daily supply curve for fish is perfectly inelastic.**
- ▶ The daily supply curve for fish is perfectly elastic.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**There are several close substitutes for Bayer aspirin but fewer substitutes for a complete medical examination. Therefore, you would expect the demand for:**

- ▶ **Both to be equally elastic.**
- ▶ Both to be equally inelastic.
- ▶ Medical exams to be more elastic.
- ▶ Medical exams to be more inelastic.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ An increase in total revenue received by the course.
- ▶ No change in total revenue received by the course.
- ▶ **An increase in the amount of golf played on the course.**

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.

- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Which of the following is regarded as a general determinant of price elasticity of demand?**

- ▶ Nature of the good (luxury versus necessity).
- ▶ **Availability of close substitutes.**
- ▶ Share of consumer's budget and passage of time.
- ▶ All of the given options.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**As more of a good is consumed, then total utility typically:**

- ▶ **Increases at a decreasing rate.**
- ▶ Decreases as long as marginal utility is negative.
- ▶ Decreases as long as marginal utility is positive.
- ▶ Is negative as long as marginal utility is decreasing.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**When the marginal utility of a good is zero, this implies that:**

▶ **The consumer would not spend any additional income to buy more of that good.**

- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ Total utility is also zero.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶ Horizontal.
- ▶ **Vertical.**
- ▶ Negative.
- ▶ Positive.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.

▶ It would shift outward.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**As long as all prices remain constant, an increase in money income results in:**

- ▶ An increase in the slope of the budget line.
- ▶ A decrease in the slope of the budget line.
- ▶ An increase in the intercept of the budget line.
- ▶ A decrease in the intercept of the budget line.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**The substitution effect of a wage increase will lead a person to:**

- ▶ Work more.
- ▶ Take more leisure.
- ▶ Not change anything.
- ▶ None of the given options.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**Assume Leisure is a normal good. If income effect exceeds substitution effect then a wage decrease will lead a person to:**

▶ **Decrease hours of work.**

▶ Increase hours of work.

▶ Not change anything.

▶ All of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Which of the following statements about indifference curves is NOT correct?**

▶ Indifference curves are generally negatively sloped.

▶ Without utility being quantifiable we can say that one indifference curve is higher than (or preferred to) another but we cannot say by how much.

▶ Two indifference curves cannot intersect unless they are identical throughout.

▶ **Two different indifference curves can intersect but only once.**

**Question No: 18 ( Marks: 1 ) - Please choose one**

**A normal good can be defined as one which consumers purchase more of as:**

▶ Prices fall.

▶ Prices rise.

▶ Incomes fall.

▶ **Incomes increase.**



**Question No: 19 ( Marks: 1 ) - Please choose one**

**When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:**

- ▶ An inferior good.
- ▶ **A substitute good.**
- ▶ An independent good.
- ▶ A normal good.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Which of the following is most likely to be a fixed input in the short run for a Garage owner?**

- ▶ The grease used to lubricate cars.
- ▶ The part-time labor employed to repair cars.
- ▶ The electricity used to heat and light the garage.
- ▶ **The garage used to repair cars.**

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very**

high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

- ▶ Economies of scale.
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ **Increasing returns to the labor inputs.**

Question No: 22 ( Marks: 1 ) - Please choose one

Which of the following is considered to be a variable cost in the long run?

- ▶ Expenditures for wages.
- ▶ Expenditures for research and development.
- ▶ Expenditures for raw materials.
- ▶ **All of the given options.**

Question No: 23 ( Marks: 1 ) - Please choose one

What will happen to the isocost line if the price of both goods increases?

- ▶ It shift farther away from the origin of the graph.
- ▶ It shift inward, closer to the origin.
- ▶ It vanishes.
- ▶ **It undergoes no change.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Total costs are the sum of:**

- ▶ Marginal costs and variable costs.
- ▶ **Fixed costs and variable costs.**
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The total cost of producing a given level of output is:**

- ▶ Maximized when a corner solution exists.
- ▶ Minimized when the ratio of marginal product to input price is equal for all inputs.
- ▶ Minimized when the marginal products of all inputs are equal.
- ▶ **Minimized when marginal product multiplied by input price is equal for all inputs.**

**Question No: 26 ( Marks: 1 ) - Please choose one**

**The long-run average total cost curve:**

- ▶ **Traces out the points on the lowest short-run average total cost curve for each level of production.**
- ▶ Is inversely related to the depth of the short-run marginal cost curve.

▶ Traces out the midpoints on an average of several short-run average total cost curves.

▶ Is downward-sloping under decreasing returns to scale.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**To find the profit maximizing level of output, a firm finds the output level where:**

▶ Price equals marginal cost.

▶ **Marginal revenue and average total cost.**

▶ Price equals marginal revenue.

▶ None of the given options.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**In which market structure, each firm produces an identical product and there is freedom of entry and exit?**

▶ Monopoly.

▶ Oligopoly.

▶ **Perfect competition.**

▶ Monopolistic competition.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**The monopoly supply curve is the:**

▶ **Same as the competitive market supply curve.**

▶ Portion of marginal costs curve where marginal costs exceed the minimum value of average variable costs.

▶ Result of market power and production costs.

▶ None of the given options.

**Question No: 30 ( Marks: 1 ) - Please choose one**

Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a \_\_\_\_\_ price and sell a \_\_\_\_\_ quantity.

▶ Higher; larger.

▶ **Lower; larger.**

▶ Higher; smaller.

▶ Lower; smaller.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**In monopolist market, a new entrant firm should produce where:**

▶ Marginal Cost < Marginal Revenue.

▶ Marginal Cost > Marginal Revenue.

▶ **Marginal Cost = Marginal Revenue.**

▶ Marginal Cost = Average Revenue.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ Oligopolistic.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?**

- ▶ The demand curve is tangent to marginal cost curve.
- ▶ The demand curve is tangent to average cost curve.
- ▶ The marginal cost curve is tangent to average cost curve.
- ▶ The demand curve is tangent to marginal revenue curve.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Cartels are likely to fail when:**

- ▶ The members adhere to their output quotas.
- ▶ The non-cartel members increase output.

- ▶ The members charge identical prices.
- ▶ None of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:**

- ▶ Supply schedule.
- ▶ Demand schedule.
- ▶ Quantity supplied schedule.
- ▶ **Quantity demanded schedule.**

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Which of the following best expresses the law of demand?**

- ▶ **A higher price reduces demand.**
- ▶ A lower price reduces demand.
- ▶ A higher price reduces quantity demanded.
- ▶ A lower price shifts the demand curve to the right.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**Which of the following is considered a market structure?**

- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Oligopoly.
- ▶ All of the given are considered market structures.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ Inferior good.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ Increasing as income increases.



- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ The firm's output is a small fraction of the entire industry's output.
- ▶ **The short run market price is determined solely by the firm's technology.**

**Question No: 41 ( Marks: 10 )**

**The following table shows the total utility that an individual receives from consuming various units of a commodity X.**

**Qx TU**

**x**

**1 56**

**2 10**

**4**

3 14  
4

4 17  
6

5 20  
0

6 21  
6

7 22  
4

8	224
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- Calculate Marginal Utility (MU) at each level.
- What is the individual's saturation point for commodity X?
- If the price of commodity X is \$8 then calculate the consumer surplus at each level.

(Marks: 3.5+3+3.5)

## MIDTERM EXAMINATION

Fall 2009

**ECO401- Economics (Session - 4)**

**Time: 60 min**

**Marks: 50**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ "Naturally" occurring resources.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**While moving from left to right, the typical production possibilities curve has:**

- ▶ An increasingly steep negative slope.
- ▶ A decreasingly steep negative slope.
- ▶ **An increasingly steep positive slope.**
- ▶ A constant and negative slope.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**When government sets the price of a good and that price is above the equilibrium price, the result will be:**

▶ **A surplus of the good.**

- ▶ A shortage of the good.
- ▶ An equilibrium.
- ▶ None of the given options.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**If pen and ink are complements, then an increase in the price of pen will cause:**

▶ An increase in the price of ink.

▶ **Less ink to be demanded at each price.**

- ▶ A decrease in the demand for pen.
- ▶ A rightward shift in the demand curve for ink.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

▶ Shifting the supply curve to the left.

▶ **Shifting the supply curve to the right.**

▶ Upward movement along the supply curve.

- ▶ Downward movement along the supply curve.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**When an industry's raw material costs increase, other things remaining the same:**

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.

**▶ Output decreases and the market price also decrease.**

- ▶ The supply curve shifts to the left.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Sugar can be refined from sugar beets. When the price of those beets falls:**

- ▶ The demand curve for sugar would shift right.
- ▶ The demand curve for sugar would shift left.

**▶ The supply curve for sugar would shift right.**

- ▶ The supply curve for sugar would shift left.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:**

- ▶ None of the given options.
- ▶ The daily supply curve for fish slopes upward.
- ▶ **The daily supply curve for fish is perfectly inelastic.**
- ▶ The daily supply curve for fish is perfectly elastic.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**In order to calculate the price elasticity of supply, you need to know:**

- ▶ **Two prices and two quantities supplied.**
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.

- ▶ The quantity supplied at two different prices, all else equal.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Suppose the first four units of an output produced incur corresponding total costs of 50, 150, 300, and 500. The marginal cost of the second unit of output is:**

- ▶ 50.
- ▶ **100.**
- ▶ 150.
- ▶ 200.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶ Horizontal.
- ▶ Vertical.
- ▶ **Negative.**
- ▶ Positive.

**Question No: 13 ( Marks: 1 ) - Please choose one**

Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:

▶ -14.

▶ **14.**

▶ 83.

▶ 97.

**Question No: 14 ( Marks: 1 ) - Please choose one**

Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is  $\frac{1}{4}$  then to maximize total utility, a consumer should:

▶ Buy more pizzas and fewer jeans.

▶ **Buy fewer pizzas and more jeans.**

▶ Continue to buy the same quantities of pizza and jeans.

▶ Spend more time consuming pizza.

**Question No: 15 ( Marks: 1 ) - Please choose one**

Which of the following is NOT an assumption of ordinal utility analysis?

▶ Consumers are consistent in their preferences.



▶ Consumers can measure the total utility received from any given basket of good.

▶ Consumers are non-satiated with respect to the goods they confront.

▶ **All of the given options are true.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

**Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:**

▶ Increase hours of work.

▶ **Decrease hours of work.**

▶ Not change hours of work.

▶ None of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?**

▶ **Economies of scale.**

▶ Diseconomies of scale.

▶ Decreasing returns to the labor inputs.

▶ Increasing returns to the labor inputs.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**A graph showing all the combinations of capital and labour available for a given total cost is the:**

- ▶ Budget constraint.
- ▶ Expenditure set.
- ▶ Isoquant.
- ▶ **Isocost.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

**An isoquant curve shows:**

**▶ All the alternative combinations of two inputs that yield the same maximum total product.**

▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.

▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

▶ None of the given options.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**L-shaped isoquant:**

**▶ Indicate that capital and labor cannot be substituted for each other in production.**

- ▶ Is impossible.
- ▶ Indicate that the firm could switch from one output to another costlessly.
- ▶ Indicate that the firm could not switch from one output to another.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Costs determine all of the following EXCEPT:**

▶ **Demand for a product.**

- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Total costs are the sum of:**

- ▶ Marginal costs and variable costs.
- ▶ **Fixed costs and variable costs.**
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**To find the profit maximizing level of output, a firm finds the output level where:**

- ▶ Price equals marginal cost.
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.
- ▶ **None of the given options.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ **Has no substitutes at all.**
- ▶ Has no close substitutes.
- ▶ Can be easily duplicated.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**A perfectly competitive firm maximizes profit by finding the level of production at which:**

- ▶ **Price = Marginal Cost.**
- ▶ Price = Average Total Cost.
- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**The monopolist has no supply curve because:**

**▶ The quantity supplied at any particular price depends on the monopolist's demand curve.**

- ▶ The monopolist's marginal cost curve changes considerably over time.
- ▶ The relationship between price and quantity depends on both marginal cost and average cost.
- ▶ Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is TRUE at the output level, where price = marginal cost?**

**▶ The monopolist is maximizing profit.**

- ▶ The monopolist is not maximizing profit and should increase output.
- ▶ The monopolist is not maximizing profit and should decrease output.
- ▶ The monopolist is earning a positive profit.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Following are the disadvantages of monopoly EXCEPT:**

- ▶ Monopolists earn higher profits.

▶ **Monopolists produce high quality goods at higher prices.**

▶ Most of the “surplus” (producer + consumer surplus) accrues to monopolists.

▶ Monopolists do not pay sufficient attention to increasing efficiency.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

▶ Engages in a discrete pricing strategy.

▶ Charges the average reservation price.

▶ Engages in second-degree price discrimination.

▶ **Engages in first-degree price discrimination.**

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Third-degree price discrimination involves:**

▶ Charging each consumer the same two part tariff.

▶ Charging lower prices the greater the quantity purchased.

▶ The use of increasing block rate pricing.

▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?**

- ▶ The demand curve is tangent to marginal cost curve.
- ▶ The demand curve is tangent to average cost curve.
- ▶ **The marginal cost curve is tangent to average cost curve.**
- ▶ The demand curve is tangent to marginal revenue curve.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

–

**Question No: 33 ( Marks: 1 ) - Please choose one**

**A demand schedule is best described as:**

▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand: P,Q and Q, P.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**A partial explanation for the inverse relationship between price and quantity demanded is that a:**

- ▶ Lower price shifts the supply curve to the left.
- ▶ Higher price shifts the demand curve to the left.
- ▶ **Lower price shifts the demand curve to the right.**
- ▶ Higher price reduces the real incomes of buyers.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**The total utility curve for a risk neutral person will be:**

- ▶ **Straight line.**
- ▶ Convex.
- ▶ Concave.
- ▶ None of the given options.



**Question No: 36 ( Marks: 1 ) - Please choose one**

**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**A welfare loss occurs in monopoly where:**

- ▶ The price is greater than the marginal cost.
- ▶ **The price is greater than the marginal benefit.**
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a factor of production?**

- ▶ Labour.
- ▶ **Land.**
- ▶ Capital.
- ▶ **Investment.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**Which of the following does NOT refer to macroeconomics?**

- ▶ The study of the aggregate level of economic activity.
- ▶ **The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.**
- ▶ The study of the cause of unemployment.
- ▶ The study of the cause of inflation.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Demand is elastic when the elasticity of demand is:**

▶ Greater than 0 but less than 1.

▶ **Greater than 1.**

▶ Less than 0.

▶ Equal to 1.

**Question No: 41 ( Marks: 10 )**

**A. Differentiate between risk and uncertainty.**

**B. What would the risk neutral person, risk averse person and risk loving person do in the following cases?**

o If Odds Ratio  $> 1$

o If Odds Ratio  $= 1$

o If Odds Ratio  $< 1$

**C. You toss a coin, if head comes, you are given Rs. 200 and if tail comes, you have to pay Rs. 200. Will you play this game or not? Give your answer with brief explanation.**

**(Marks: 3+3+4)**

**Answers : A)**

**Risk and Uncertainty : Risk is when an outcome may or may not occur but its probability is known while uncertainty is when an outcome may or may not occur but its probability is not known.**

**Answers : B)**

**1) For risk neutral person**

- If Odds Ratio  $> 1$ , then he will definitely buy
- If Odds Ratio  $= 1$ , then he will be indifferent
- If Odds Ratio  $< 1$ , then he might not buy as  $OR < 1$

**2) For risk averse person**

- If Odds Ratio  $> 1$ , then in this case as well he might decide not to buy.
- If Odds Ratio  $= 1$ , then he will definitely not buy
- If Odds Ratio  $< 1$ , then he will definitely not buy

**3) For risk loving person**

- If Odds Ratio  $> 1$ , then he will definitely buy
- If Odds Ratio  $= 1$ , then he will definitely buy
- If Odds Ratio  $< 1$ , then in this case as well he might decide to buy.

**Answers : C)**

The tossing of a coin and the probability of a head appearing is 50% i.e. the odds of success are fair. So the option of  $OR < 1$  and  $OR > 1$  is not there. The only possibility is  $OR = 1$  which means that the chances are not that bad. Now it depends on the fact that whether I am a risk averse, risk neutral or risk loving person. In case of fair odds both risk loving and risk neutral person might decide to play. So I will play this game as the amount of money involved is not that much and as far as my perception of it is concerned the marginal benefit of gaining 200 Rs is perceived by me as more than the marginal cost of losing the 200 Rs. So I would definitely play this game. Moreover the excitement of winning might overshadow my rational judgement and I would definitely decide to play by being carried away by excitement.

**MIDTERM EXAMINATION**

**Fall 2009**

**ECO401- Economics (Session - 2)**

**Ref No:**

**Time: 60 min**

**Marks: 50**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**In pure capitalism, freedom of enterprise means that:**

- ▶ **Businesses are free to produce products that consumers want.**
- ▶ Consumers are free to buy goods and services that they want.
- ▶ Resources are distributed freely to businesses.
- ▶ Government is free to direct the actions of businesses.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**The demand curve for chicken is downward-sloping. Suddenly the price of chicken rises from Rs.130 per kg to Rs.140 per kg. This will cause:**

- ▶ The demand curve for chicken to shift to the left.
- ▶ The demand curve for chicken to shift to the right.
- ▶ Quantity demanded of chicken to increase.
- ▶ **Quantity demanded of chicken to decrease.**

**Question No: 3 ( Marks: 1 ) - Please choose one**

**The supply curve is upward-sloping because:**

- ▶ As the price increases, consumers demand less.

- ▶ As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.
- ▶ None of the given options.
- ▶ As the price increases, so do costs.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**If the quantity supplied of oranges exceeds the quantity demanded then:**

- ▶ There is a shortage of oranges.
- ▶ **Market forces will cause the price to fall.**
- ▶ Market forces will cause the price to rise.
- ▶ The market is in equilibrium.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**A price ceiling might be an appropriate government response to a:**

- ▶ Period of falling farm prices due to unusually good harvests.
- ▶ Substantial increase in farm productivity due to applications of new technology in agriculture.
- ▶ **National security crisis leading to major shortages of essential goods.**
- ▶ Period of extraordinary large surpluses of farm goods.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:**

- ▶ A surplus of credit.
- ▶ **A shortage of credit.**
- ▶ Greater profits for banks issuing credit.
- ▶ A perfectly inelastic supply of credit in the market place.

**Question No: 7 (Marks: 1) - Please choose one**

**In order to calculate the price elasticity of supply, you need to know:**

- ▶ **Two prices and two quantities supplied.**
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

- ▶ Perfectly elastic.
- ▶ **Unit elastic.**



- ▶ Elastic.
- ▶ **Inelastic.**

**Question No: 9 ( Marks: 1 ) - Please choose one**

**The numerical measurement of a consumer's preference is called:**

- ▶ Use.
- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ **Downward-sloping.**

**Question No: 11 ( Marks: 1 ) - Please choose one**

**If your demand price for one unit of a good is \$100 and the market price is \$75, your consumer's surplus is:**

- ▶ \$25.
- ▶ \$50.
- ▶ \$75.
- ▶ \$100.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Other things being equal, expected income can be used as a direct measure of well-being:**

- ▶ No matter what a person's preference to risk.
- ▶ If and only if individuals are not risk-loving.
- ▶ If and only if individuals are risk averse.
- ▶ **If and only if individuals are risk neutral.**

**Question No: 13 ( Marks: 1 ) - Please choose one**

**If diminishing marginal utility holds and a person consumes less of a good then which of the following will happen; all else being equal?**

- ▶ Marginal utility will decline.
- ▶ The price of the good will rise.
- ▶ Marginal utility will rise.
- ▶ Expenditure on the good will increase.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:**

- ▶ Indifference curves slope downwards.
- ▶ **Indifference curves slope upwards.**
- ▶ Indifference curves may cross.
- ▶ Indifference curves could take the form of ellipses.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:**

- ▶ The consumer's indifference curve must be positively sloped.
- ▶ The consumer's indifference curve must be convex with respect to the origin of the graph.
- ▶ The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal  $\frac{1}{2}$ .
- ▶ All of the given options.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**An indifference curve is:**

- ▶ A collection of market baskets that are equally desirable to the consumer.
- ▶ A collection of market baskets that the consumer can buy.
- ▶ A curve whose elasticity is constant for every price.
- ▶ A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Increase in pension benefits leads to income and substitution effect which:**

- ▶ Encourage workers to retire later.
- ▶ Encourage workers to work more hours.
- ▶ Have no effect on incentive to retire.
- ▶ Encourage workers to retire earlier.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The substitution effect of a wage increase will lead a person to:**

- ▶ **Work more.**
- ▶ Take more leisure.
- ▶ Not change anything.

- ▶ None of the given options.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**Which of the following statements about indifference curves is NOT correct?**

- ▶ Indifference curves are generally negatively sloped.
- ▶ Without utility being quantifiable we can say that one indifference curve is higher than (or preferred to) another but we cannot say by how much.
- ▶ Two indifference curves cannot intersect unless they are identical throughout.
- ▶ **Two different indifference curves can intersect but only once.**

**Question No: 20 ( Marks: 1 ) - Please choose one**

**The income effect of a price change:**

- ▶ Is always positive.
- ▶ Is always negative.
- ▶ May be positive or negative.
- ▶ Is associated with a change in nominal income.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:**

- ▶ An inferior good.
- ▶ **A substitute good.**
- ▶ An independent good.
- ▶ A normal good.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Which of the following statements describes the presence of diminishing returns holding at least one factor constant?**

- ▶ The marginal product of a factor is positive and rising.
- ▶ The marginal product of a factor is positive but falling.
- ▶ The marginal product of a factor is falling and negative.
- ▶ The marginal product of a factor is constant.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Diminishing marginal returns implies:**

- ▶ Decreasing marginal costs.
- ▶ **Increasing marginal costs.**
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**An isocost line reveals the:**

- ▶ Cost of inputs needed to produce along an isoquant.
- ▶ Cost of inputs needed to produce along an expansion path.
- ▶ Input combinations that can be purchased with a given outlay of funds.
- ▶ Output combinations that can be produced with a given outlay of funds.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Costs determine all of the following EXCEPT:**

- ▶ Demand for a product.
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.

- ▶ **Marginal revenue is greater than marginal cost.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

**In which market structure, each firm produces an identical product and there is freedom of entry and exit?**

- ▶ Monopoly.
- ▶ Oligopoly.
- ▶ **Perfect competition.**
- ▶ Monopolistic competition.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**For a monopolist, changes in demand will lead to changes in:**

- ▶ Price with no change in output.
- ▶ Output with no change in price.
- ▶ Both price and quantity.
- ▶ None of the given options.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.



- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?**

- ▶ The fact that price exceeds marginal cost.
- ▶ Excess capacity.
- ▶ Product diversity.
- ▶ The fact that long-run average cost is not minimized.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

**You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:**

- ▶ **The demand for houses has increased.**
- ▶ The demand curve for houses must be upward-sloping.
- ▶ The supply of houses has increased.
- ▶ Housing construction costs must be decreasing.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**If the income elasticity of demand is  $1/2$ , the good is:**

- ▶ A luxury.
- ▶ **A normal good (but not a luxury).**
- ▶ An inferior good.
- ▶ A Giffen good.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is NOT true?**

- ▶ **Products are differentiated.**
- ▶ There is freedom of entry and exit into the industry in the long run.
- ▶ The firm is a price maker.
- ▶ There is one main seller.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**The principle economic difference between a competitive and a non-competitive market is:**

- ▶ The number of firms in the market.
- ▶ **The extent to which any firm can influence the price of the product.**
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ The firm's output is a small fraction of the entire industry's output.
- ▶ **The short run market price is determined solely by the firm's technology.**

**Question No: 37 ( Marks: 1 ) - Please choose one**

**The basic difference between oligopoly and monopolistic competition is that.**

- ▶ Products are differentiated in oligopoly.
- ▶ There are no barriers to entry in oligopoly.
- ▶ There are barriers to entry in oligopoly.
- ▶ An oligopoly includes downward sloping demand curves facing the firm.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Because of unusually warm weather, the supply of strawberries has substantially increased. This statement indicates that:**

- ▶ The demand for strawberries will necessarily rise.
- ▶ **The equilibrium quantity of strawberries will fall.**
- ▶ The quantity of strawberries that will be available at various prices has increased.
- ▶ The price of strawberries will fall.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**The marginal rate of substitution between food and shelter for a given point on an indifference curve:**

- ▶ Is equal to the absolute value of the slope of the indifference curve at that point.
- ▶ Is equal to the rate at which the consumer is willing to exchange the two goods in the market place.

- ▶ Reflects the relative values the consumer attaches to the two good.
- ▶ Is described, in part, by each of the given statements.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Suppose the first four units of an output produced incur corresponding total costs of 100,300, 600, 1000.The marginal cost of the third unit of output is:**

- ▶ 100.
- ▶ 150.
- ▶ 200.
- ▶ 300.

**Question No: 41 ( Marks: 10 )**

**Following table shows the price and quantity demanded of a good.**

Price	Quantity demanded
2.5	400
5	200
10	100
20	50
40	25

- a) Calculate the total revenue from this table.
- b) Interpret whether the demand is elastic, inelastic or unitary elastic and why?
- c) What will be the shape of demand curve according to the above table? Draw the graph.

**MIDTERM EXAMINATION**

**Spring 2009**

**ECO401- Economics (Session - 3)**

**Ref No: 455187**

**Time: 60 min**

**Marks: 50**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**The concept of a risk premium applies to a person that is:**

- ▶ All of the given options.
- ▶ Risk averse.
- ▶ Risk neutral.
- ▶ Risk loving.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Assume that the current market price is below the market clearing level. We would expect:**

- ▶ A surplus to accumulate.
- ▶ Downward pressure on the current market price.
- ▶ Upward pressure on the current market price.
- ▶ Lower production during the next time period.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.

- ▶ Consumers know the prices available.
- ▶ Consumers can anticipate price changes.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ Inferior good.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:**

- ▶ Positive.
- ▶ Strictly linear.
- ▶ Flat.
- ▶ Negative.

**Question No: 6 ( Marks: 1 ) - Please choose one**



**Insurance companies operate under the principle of:**

- ▶ Law of large numbers.
- ▶ Law of small numbers.
- ▶ Law of zero numbers.
- ▶ All of the given options.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**A demand schedule is best described as:**

- ▶ A numerical tabulation of the quantity demanded of a good at different prices, *ceteris paribus*.
- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Question No: 8 ( Marks: 1 ) - Please choose one**

**A firm in monopolistic competition does not achieve minimum efficient scale because:**

- ▶ It is not a monopoly.

- ▶ It is in competition with other firms.
- ▶ It is operating on the downward-sloping part of the average cost curve.
- ▶ It produces at the minimum average cost.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?**

- ▶ The fact that price exceeds marginal cost.
- ▶ Excess capacity.
- ▶ Product diversity.
- ▶ The fact that long-run average cost is not minimized.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ Engages in first-degree price discrimination.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**The break-even point occurs when:**

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ Price = Average Total Cost.
- ▶ Price > Average Variable Cost.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**If a firm experiences economies of scale, then the:**

- ▶ Long-run average total cost curve is equal to the economies of scope.
- ▶ Long-run average total cost curve is positively sloped.
- ▶ Long-run average total cost curve is horizontal.
- ▶ Long-run average total cost curve is negatively sloped.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Which of the following is an example of a natural monopoly?**

- ▶ The trademark protecting Gatoraide.
- ▶ The talents of Tom Hanks.
- ▶ The local water company.

- ▶ The patent on an Intel processor.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**A monopoly occurs when:**

- ▶ Each firm produces a product that is slightly different from the other firms.
- ▶ One firm sells a good that has no close substitutes and a barrier blocks entry for other firms.
- ▶ There are many firms producing the same product.
- ▶ All of the given options.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**If current output is less than the profit-maximizing output then the next unit produced:**

- ▶ Will decrease profit.
- ▶ Will increase cost more than it increases revenue.
- ▶ Will increase revenue more than it increases cost.
- ▶ Will increase revenue without increasing cost.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

- ▶ 200.

▶ 5Q.

▶ 5.

▶  $5 + (200/Q)$ .

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Incremental cost is the same concept as:**

▶ Average cost.

▶ **Marginal cost.**

▶ Fixed cost.

▶ Variable cost.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**Fixed costs are fixed with respect to changes in:**

▶ **Output.**

▶ Capital expenditures.

▶ Wages.

▶ Time.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**When an isocost line is just tangent to an isoquant, we know that:**

▶ **Output is being produced at minimum cost.**

▶ Output is not being produced at minimum cost.

- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**A negatively sloped isoquant implies:**

- ▶ Products with negative marginal utilities.
- ▶ **Products with positive marginal utilities.**
- ▶ Inputs with negative marginal products.
- ▶ Inputs with positive marginal products.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Diminishing marginal returns implies:**

- ▶ Decreasing marginal costs.
- ▶ **Increasing marginal costs.**
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**In economics, the “long run” is a time period in which:**

- ▶ All inputs are variable.
- ▶ All inputs are paid for.
- ▶ All outputs are determined.
- ▶ All loans are repaid.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**The following table shows a firm's Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?**

**Table**

**Qu To  
an tal  
tit  
y Pr  
od  
of uc  
La t  
bo  
r**

0 0

10 10  
0

20 23

0  
30 34  
0  
40 41  
0

50	460
----	-----

- ▶ 340 units.
- ▶ 220 units.
- ▶ 11 units.
- ▶ 110 units.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**If Average Physical Product (APP) is increasing then which of the following must be true?**

- ▶ Marginal physical product is greater than average physical product.
- ▶ Marginal physical product is less than average physical product.
- ▶ Marginal physical product is increasing.
- ▶ Marginal physical product is decreasing.



**Question No: 25 ( Marks: 1 ) - Please choose one**

**Assume Leisure is a normal good. If income effect exceeds substitution effect then a wage decrease will lead a person to:**

- ▶ Decrease hours of work.
- ▶ **Increase hours of work.**
- ▶ Not change anything.
- ▶ All of the given options.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**If a market basket is changed by adding more to at least one of the goods, then every consumer will:**

- ▶ Rank the market basket more highly after the change.
- ▶ Rank the market basket more highly before the change.
- ▶ Rank the market basket just as desirable after the change.
- ▶ **Be unable to decide whether he prefers the first market basket to the second or the second to the first.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:**

- ▶ Indifference curves slope downwards.
- ▶ Indifference curves slope upwards.
- ▶ Indifference curves may cross.
- ▶ Indifference curves could take the form of ellipses.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.
- ▶ It would shift outward.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**Suppose the first four units of an output produced incur corresponding total costs of 400, 700, 900, and 1000. The marginal cost of the fourth unit of output is:**

- ▶ 50.
- ▶ 100.
- ▶ 150.
- ▶ 200.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Consumers will maximize satisfaction when:**

- ▶ The price of each good is exactly equal to the price of every other good consumed.
- ▶ The price of each good is exactly equal to the total utility derived from the consumption of every other good.
- ▶ The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good.
- ▶ Marginal utility is equal to average utility.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Marginal utility is best described as:**

- ▶ The total satisfaction gained from the total consumption of the good.
- ▶ The change in satisfaction from consuming one additional unit of the good.
- ▶ The additional satisfaction gained by consumption of the last good.

- ▶ The per unit satisfaction of the good consumed.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**Cross price elasticity between coffee and tea is 1.5. It means that:**

- ▶ Given a 1% increase in coffee price, we would expect a 1.5% increase in tea demand.
- ▶ Given a 1% increase in coffee price, we would expect a 1.5% decrease in tea demand.
- ▶ Given 1% increase in coffee price, there will be no change in tea demand.
- ▶ None of the given options.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ **Inelastic.**

**Question No: 34 ( Marks: 1 ) - Please choose one**

**A price ceiling might be an appropriate government response to a:**

- ▶ Period of falling farm prices due to unusually good harvests.

▶ Substantial increase in farm productivity due to applications of new technology in agriculture.

▶ National security crisis leading to major shortages of essential goods.

▶ Period of extraordinary large surpluses of farm goods.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Assume that steak and potatoes are complements. When the price of steak goes up, the demand curve for potatoes:**

▶ Shifts to the left.

▶ Shifts to the right.

▶ Remains constant.

▶ Shifts to the right initially and then returns to its original position.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

▶ Shifting the supply curve to the left.

▶ Shifting the supply curve to the right.

▶ Upward movement along the supply curve.

▶ Downward movement along the supply curve.

**Question No: 37 ( Marks: 1 ) - Please choose one**

**In a free-market economy, the allocation of resources is determined by:**

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ Consumer preferences.
- ▶ The level of profits of firms.

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Which of the following might be considered to be a characteristic of a planned economy?**

- ▶ Price is relatively unimportant as a means of allocating resources.
- ▶ Goods and services produced reflect consumer sovereignty.
- ▶ There is no incentive for people to work hard.
- ▶ All income is completely evenly distributed.

**Question No: 39 ( Marks: 1 ) - Please choose one**

**Which of the following is a positive statement?**

- ▶ When the price of a good goes up, consumers buy less of it.
- ▶ When the price of a good goes up, firms produce more of it.
- ▶ When the Federal government sells bonds, interest rates rise and private investment is reduced.

- ▶ All of the given options.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ The behavior of individual consumers and behavior of individual firms and investors.

**Question No: 41 ( Marks: 10 )**

**a. What is the relationship between average physical product and marginal physical product in three cases if:**

- i. Marginal physical product is equal to average physical product.**  
The average physical product will not change.
- ii. Marginal physical product is above the average physical product.**  
The average physical product will also increase.
- iii. Marginal physical product is below the average physical product.**  
The average physical product will also fall

**b. Define the law of diminishing marginal returns. The total physical product of labor is given in the following table; calculate the average physical product of labor and marginal physical product of labor.**

**The Law of Diminishing Marginal Returns:**

The law of diminishing marginal returns states that as you increase the quantity of a variable factor together with a fixed factor, the returns (in terms of output) become less and less. Thus if we are using labor in the production of some commodity having fixed quantity of land, after a certain point the increase in the output of wheat will become less and less until it starts reducing the total output of commodity.

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**(Marks: a = 3, b = 2+5)**

**MIDTERM EXAMINATION**

**Spring 2010**

**ECO401- Economics**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

**Question No: 3 ( Marks: 1 ) - Please choose one**

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 4 ( Marks: 1 ) - Please choose one**

**Price floor results in:**

- ▶ All of the given options.
- ▶ Excess supply.
- ▶ **Equilibrium.**
- ▶ Excess demand.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**The cross price elasticity of demand for complementary goods is:**

- ▶ **Less than 0.**
- ▶ Equal to 0.
- ▶ Greater than 0.
- ▶ **Between 0 and 1.**

**Question No: 7 ( Marks: 1 ) - Please choose one**

**In order to calculate the price elasticity of supply, you need to know:**

- ▶ **Two prices and two quantities supplied.**
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**We know that the demand for a product is elastic:**

- ▶ **When price rises, total revenue rises.**
- ▶ When price rises, total revenue falls.
- ▶ When income rises, quantity demanded rises.

- ▶ When income falls, quantity demanded rises.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**An individual with a constant marginal utility of income will be:**

- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.
- ▶ Insufficient information for a decision.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is  $1/4$  then to maximize total utility, a consumer should:**

- ▶ Buy more pizzas and fewer jeans.
- ▶ **Buy fewer pizzas and more jeans.**
- ▶ Continue to buy the same quantities of pizza and jeans.
- ▶ Spend more time consuming pizza.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Increase in pension benefits leads to income and substitution effect which:**

- ▶ Encourage workers to retire later.
- ▶ Encourage workers to work more hours.
- ▶ Have no effect on incentive to retire.
- ▶ **Encourage workers to retire earlier.**

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Suppose you are a workaholic (like work a lot) and your friend is a leisure lover. Compared to your friend your indifference curve will be:**

- ▶ Flatter.
- ▶ **Steeper.**
- ▶ Identical.
- ▶ None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Which of the following is a correct statement about the substitution effect?**

- ▶ **The substitution effect is always negative.**
- ▶ The substitution effect is positive for an inferior good.
- ▶ The substitution effect measures how demand changes when income changes.

- ▶ The substitution effect is positive for a Giffen good.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**The income effect of a price change:**

- ▶ Is always positive.
- ▶ Is always negative.
- ▶ May be positive or negative.
- ▶ Is associated with a change in nominal income.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**Which of the following is considered to be a variable cost in the long run?**

- ▶ Expenditures for wages.
- ▶ Expenditures for research and development.
- ▶ Expenditures for raw materials.
- ▶ All of the given options.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:**

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Graphically, marginal revenue is defined as:**

- ▶ The slope of a line from the origin to a point on the total revenue curve.
- ▶ The slope of a line from the origin to the end of the total revenue curve.
- ▶ **The slope of the total revenue curve at a given point.**
- ▶ The vertical intercept of a line tangent to the total revenue curve at a given point.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The optimal point of production for any individual firm is where:**

- ▶ **Marginal Revenue = Marginal Cost.**
- ▶ Marginal Revenue > Marginal Cost.
- ▶ Marginal Revenue < Marginal Cost.
- ▶ None of the given options.



**Question No: 19 ( Marks: 1 ) - Please choose one**

**The break-even point occurs when:**

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ **Price = Average Total Cost.**
- ▶ Price > Average Variable Cost.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is TRUE at the output level, where price = marginal cost?**

- ▶ **The monopolist is maximizing profit.**
- ▶ The monopolist is not maximizing profit and should increase output.
- ▶ The monopolist is not maximizing profit and should decrease output.
- ▶ The monopolist is earning a positive profit.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a \_\_\_\_\_ price and sell a \_\_\_\_\_ quantity.**

- ▶ Higher; larger.

- ▶ Lower; larger.
- ▶ Higher; smaller.
- ▶ **Lower; smaller.**

**Question No: 22 ( Marks: 1 ) - Please choose one**

**As compared to existing firms, a new firm entering in monopolist market has:**

- ▶ **High costs.**
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**A monopolistically competitive firm in short run equilibrium:**

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ **Any of the given are possible.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**If a sales tax on beer leads to reduced tax revenue, this means:**

- ▶ Elasticity of demand is  $< 1$ .
- ▶ **Elasticity of demand is  $> 1$ .**
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**In the above figure, the marginal utility of income is:**

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Which of the following is true about supply curve under monopoly?**

- ▶ It is same as the competitive market supply curve.
- ▶ It is the portion of marginal cost curve where marginal costs exceed the minimum value of average variable costs.
- ▶ It is the result of market power and production costs.
- ▶ **None of the given statements is true.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

**What is meant by freedom of enterprise in pure capitalism?**

▶ **It means that businesses are free to produce products that consumers want.**

▶ It means that consumers are free to buy goods and services that they want.

▶ It means that resources are distributed freely to businesses.

▶ It means that government is free to direct the actions of businesses.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Which of the following best describes a demand schedule?**

▶ **It is a numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

▶ It is a graphical representation of the law of demand.

▶ It is a systematic listing of all the variables that might conceivably bring about a change in demand.

▶ It is a symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Question No: 29 ( Marks: 1 ) - Please choose one**

**Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?**

▶ **10.**

▶ 13.

▶ 20.

▶ 33.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:**

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ None of the given options.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Suppose all inputs are increased by 30% and output increases by more than 30% in a production process. This means that the firm experiences:**

- ▶ Decreasing returns to scale.
- ▶ Constant returns to scale.
- ▶ **Increasing returns to scale.**
- ▶ None of the given options.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**If marginal cost is Rs.15,000/- and marginal revenue is Rs.20,000/-. The firm should:**

- ▶ Reduce output until marginal revenue equals marginal cost.
- ▶ Do nothing without information about your fixed costs.

- ▶ **Expand output until marginal revenue equals marginal cost.**
- ▶ None of the given options.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Rationing is needed due to the problem of**

- ▶ Unemployment.
- ▶ Inflation.
- ▶ **Scarcity.**
- ▶ Poverty.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:**

- ▶ The demand curve for eggs to shift leftward.
- ▶ Quantity demanded of eggs to decrease.
- ▶ **The demand curve for eggs to shift rightward.**
- ▶ Quantity demanded of eggs to increase.

**Question No: 35 ( Marks: 3 )**

**How the monopolist can maintain the high price even in the long run?**

**A monopolist can make super normal, profits even in long run because there is no easy entry fo other firms as in the case of perfect competition therefore a monopolist can maintain her high price even in the long run.**

**Question No: 36 ( Marks: 5 )**

**A. Compare the characteristics of oligopoly and monopoly market structures.**

**B. Differentiate between the shape of demand curve in oligopoly and monopoly.**

**(Marks: 3+2)**

**Question No: 37 ( Marks: 5 )**

**Explain engel curve for giffen commodities with the help of graph.**

**MIDTERM EXAMINATION**

**Spring 2009**

**ECO401- Economics (Session - 2)**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**An individual whose attitude towards risk is known as:**

- ▶ Risk averse.
- ▶ **Risk loving.**
- ▶ Risk neutral.
- ▶ None of the given options.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**The concept of a risk premium applies to a person that is:**

- ▶ All of the given options.
- ▶ **Risk averse.**
- ▶ Risk neutral.
- ▶ Risk loving.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**A normative economic statement:**

- ▶ Is a statement of fact.
- ▶ Is a hypothesis used to test economic theory.
- ▶ **Is a statement of what ought to be, not what is.**



- ▶ Is a statement of what will occur if certain assumptions are true.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.**

- ▶ Limited resources, market behavior.
- ▶ Scarcity, human behavior.
- ▶ **Social behavior, limited resources.**
- ▶ Biological behavior, scarcity.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:**

- ▶  $P = MR.$
- ▶  $P = AVC.$
- ▶  $AR = MR.$
- ▶  **$P = MC.$**

**Question No: 6 ( Marks: 1 ) - Please choose one**

**A welfare loss occurs in monopoly where:**

- ▶ **The price is greater than the marginal cost.**
- ▶ The price is greater than the marginal benefit.
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ Increasing as income increases.

- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:**

- ▶ The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
- ▶ The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
- ▶ **The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.**
- ▶ The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:**

- ▶ Independent.

- ▶ Complements.
- ▶ **Substitutes.**
- ▶ Inferior.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**A demand schedule is best described as:**

- ▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**
- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand: P,Q and Q, P.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Which of the following best expresses the law of demand?**

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ **A higher price reduces quantity demanded.**
- ▶ A lower price shifts the demand curve to the right.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

**Question No: 14 ( Marks: 1 ) - Please choose one**

**The primary use of the kinked-demand curve is to explain price rigidity in:**

- ▶ **Oligopoly.**
- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**A monopolistically competitive firm in short run equilibrium:**

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ **Any of the given are possible.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ **Oligopolistic.**

**Question No: 17 ( Marks: 1 ) - Please choose one**

**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.
- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.
- ▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

**Question No: 19 ( Marks: 1 ) - Please choose one**

**A tennis pro charges \$15 per hour for tennis lessons for children and \$30 per hour for tennis lessons for adults. The tennis pro is practicing:**

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ All of the given options.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**An electric power company uses block pricing for electricity sales. Block pricing is an example of:**

- ▶ First-degree price discrimination.
- ▶ **Second-degree price discrimination.**
- ▶ Third-degree price discrimination.
- ▶ Block pricing is not a type of price discrimination.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**A firm never operates:**

- ▶ At the minimum of its average total cost curve.
- ▶ **At the minimum of its average variable cost curve.**
- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Marginal profit is equal to:**

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

**Question No: 23 ( Marks: 1 ) - Please choose one**



**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.
- ▶ **Marginal revenue is greater than marginal cost.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

**At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?**

- ▶ **They must intersect with TC cutting TR from below.**
- ▶ They must intersect with TC cutting TR from above.
- ▶ They must be tangent to each other.
- ▶ They must have the same slope.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶ 5Q.
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ **None of the given options.**

**Question No: 26 ( Marks: 1 ) - Please choose one**

**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:**

- ▶ A fixed cost.
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ **An opportunity cost.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Costs determine all of the following EXCEPT:**

- ▶ **Demand for a product.**
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**The rate at which a firm can substitute capital for labour and hold output constant is the:**

- ▶ Law of diminishing marginal returns.
- ▶ **Marginal rate of substitution.**

▶ **Marginal rate of factor substitution.**

▶ Marginal rate of production.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:**

▶ **Decreasing returns to scale.**

▶ Constant returns to scale.

▶ Increasing returns to scale.

▶ Diseconomies of scale.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**At any given point on an indifference curve, the absolute value of the slope equals:**

▶ Unity--otherwise there would be no indifference.

▶ **The marginal rate of substitution.**

▶ The consumer's marginal utility.

▶ None of the given options.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.
- ▶ **It would shift outward.**

**Question No: 32 ( Marks: 1 ) - Please choose one**

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ **Downward-sloping.**

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Cross-price elasticity measures whether:**

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.**
- ▶ Demand is elastic or inelastic.
- ▶ Supply is steeper than demand or vice versa.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.
- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course.**
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 37 ( Marks: 1 ) - Please choose one**

**Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:**

- ▶ The economy's production possibilities curve will shift outward.
- ▶ The economy's production possibilities curve will become steeper.
- ▶ The economy will move downward along its production possibilities curve.
- ▶ **The economy will move from a point inside to a point closer to its production possibilities curve.**

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

**Question No: 39 ( Marks: 1 ) - Please choose one**

**In pure capitalism, the role of government is best described as:**

- ▶ Significant.
- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**Question No: 41 ( Marks: 10 )**

- A. Define “Law of supply” and explain it with a schedule and diagram.**
- B. What are the factors which cause the shift in market supply curve?**  
**(Marks: 6+4)**

ANSWER: **LAW OF SUPPLY:** It states that as the price goes up the quantity supplied also goes up and when price falls quantity supplied also falls.

**Schedule for Supply:**

**Pr Q  
ice ua  
(R nti  
s.) ty  
su  
pp  
lie  
d**

**5 10  
0**

**4 95**

**3 80**

**2 60**

**1 40**

**Factors Causing Shift in Supply Curve:**

There are various factors causing shift in market supply curve which are as follows:



<b>Factors changing supply</b>	<b>Effect on supply</b>	<b>Direction of Shift in supply</b>	<b>Equilibrium Price</b>	<b>Equilibrium quantity</b>
Increase in number of suppliers	Increase	Rightward shift	Decrease	Increase
Decrease in number of suppliers	Decrease	Leftward shift	Increase	Decrease
Improved technology	Increase	Rightward shift	Decrease	Increase
Declined technology	Decrease	Leftward shift	Increase	Decrease
Increase in future price	Decrease	Leftward shift	Increase	Decrease
Decrease in future price	Increase	Rightward shift	Decrease	Increase
Increase in resources' price	Decrease	Leftward shift	Increase	Decrease
Decrease in resources' price	Increase	Rightward shift	Decrease	Increase

Question # 1 of 15 ( Start time: 01:24:42 PM ) Total Marks: 1

A person with a diminishing marginal utility of income:

Select correct option:

Will be risk averse.

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

We know that the demand for a product is elastic if:

Select correct option:

When price rises, revenue rises.

When price rises, revenue falls.

When price rises, quantity demanded rises.

When price falls, quantity demanded rises

The demand for chicken is downward-sloping. Suddenly the price of chicken rises from Rs. 130 per kg to Rs. 140 per kg. This will cause:

Select correct option:

The demand curve of chicken to shift to the right.

The demand curve of chicken to shift to the left.

Quantity demanded of chicken to increase.

Quantity demanded of chicken to decrease

A Demand Curve is price inelastic when:

Select correct option:

Changes in demand are proportionately smaller than those in price.

Changes in demand are proportionately greater than those in price.

Changes in demand are equal than those in price.

None of the given options

The income elasticity of demand is  $1/2$ , the good is:

Select correct option:

A luxury.

A normal good (but not a luxury).

An inferior good.

A Giffen good.

It is expected that the sign of cross price elasticity of demand between two complementary goods would be:

Select correct option:

Positive.

**Negative.**

Zero.

Ambiguous.

A nation's production possibilities curve is "bowed out" from the origin because:

Select correct option:

**Resources are not perfectly shiftable between productions of the two goods.**

Capital goods and consumer goods utilize the same production technology.

Resources are scarce relative to human wants.

Opportunity costs are decreasing.

We observe that the production possibilities curve becomes steeper as we move down along the curve, then:

Select correct option:

Opportunity costs are increasing.

**Society's resources are limited.**

Society's wants are unlimited.

Society's wants are unlimited.

The burden of a tax is shifted toward buyers if:

Select correct option:

Demand is perfectly elastic.

**Demand is relatively more elastic than supply.**

Demand is relatively more inelastic than supply.

Demand and supply have equal elasticities

When government sets the price of a good and that price is above the equilibrium price, the result will be:

Select correct option:

**A surplus of the good.**

A shortage of the good.

An increase in the demand for the good.

A decrease in the supply of the good.

Our economy is characterized by:

Select correct option:

**Unlimited wants and needs.**

Unlimited material resources.

No energy resources.

Abundant productive labor.

Moving from left to right, the typical production possibilities curve:

Select correct option:

Is horizontal.

Has a constant positive slope.

Illustrates increasing opportunity costs.

Illustrates decreasing opportunity costs

When the price elasticity of demand for a good is greater than 1, we say that the demand is:

Select correct option:

Increasing.

Decreasing.

Elastic.

Inelastic.

Microeconomics is the branch of economics that deals with which of the following topics?

Select correct option:

The behavior of individual consumers

Unemployment and interest rates

The behavior of individual firms and investors

The behavior of individual consumers and behavior of individual firms and investors

Law of diminishing marginal utility states:

Select correct option:

The supply curve slopes upward.

Your utility grows at a slower and slower rate as you consume more and more units of a good.

The elasticity of demand is infinite.

None of the given options.

Which of the following is true about the market mechanism?

Select correct option:

It is not a very efficient means of communicating consumer demand to the producers of goods and services.

It works through central planning by government.

It eliminates market failures created by government.

It works because prices serve as a means of communication between consumers and producers.

Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:

Select correct option:

The demand for both Y and Z will increase

The demand for Y will increase while the demand for Z will decrease

The demand for Y will decrease while the demand for Z will increase

The demand for both Y and Z will decrease

The percentage change in quantity demanded of a given good, with respect to the percentage change in the price of “another” good is called:

Select correct option:

Price elasticity of demand.



Income elasticity of demand.

Cross price elasticity of demand.

Supply price elasticity.

Marginal utility is best described as:

Select correct option:

The additional satisfaction gained by consumption of the last good.

The per unit satisfaction of the good consumed.

The total satisfaction gained from the total consumption of the good.

The change in satisfaction from consuming one additional unit of the good.

The principle economic difference between a competitive and a non-competitive market is:

Select correct option:

The number of firms in the market.

The extent to which any firm can influence the price of the product.

The size of the firms in the market.

The annual sales made by the largest firms in the market

Which of the following does NOT refer to macroeconomics?

Select correct option:

The study of the aggregate level of economic activity.

The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.

The study of the cause of unemployment.

The study of the cause of inflation.

The concave shape of the production possibilities curve for two goods X and Y illustrates:

Select correct option:

Increasing opportunity costs for both goods.

Increasing opportunity cost for good X but not for good Y.

Increasing opportunity cost for good Y but not for good X.

Constant opportunity costs for both goods.

While drawing a given market demand curve,----- is not considered constant.

Select correct option:

Income.

The price of the good in question.

The prices of related goods.

Preferences.

A Demand Curve is price inelastic when:

Select correct option:

Changes in demand are proportionately smaller than those in price.

Changes in demand are proportionately greater than those in price.

Changes in demand are equal than those in price.

None of the given options

A new technology which reduces costs for firms:

Select correct option:

Shifts the supply curve to the right.

Shifts the supply curve to the left.

Reduces the equilibrium quantity.

Raises the equilibrium price.

The law of increasing opportunity costs states that:

Select correct option:

The more one is willing to pay for resources, the larger will be the possible level of production.

Increasing the production of a particular good will cause the price of the good to rise.

**In order to produce additional units of a particular good, it is necessary for society to sacrifice increasingly larger amounts of alternative goods.**

Only by keeping production constant can rising prices be avoided.

A rational person does not act unless:

Select correct option:

The action is ethical.

The action produces marginal costs that exceeds marginal benefits.

**The action produces marginal benefits that exceeds marginal costs.**

The action makes money for the person.

The effect of a change in income on the quantity of the good consumed is called the:

Select correct option:

**Income effect.**

Budget effect.

Substitution effect.

Real income effect

The opportunity cost of an action:

Select correct option:

Will be the same for everyone.

**Is the value of the next best alternative.**

Measures the undesirable aspects of that action.

Is the average amount of unhappiness experienced by everyone involved.

Price elasticities are measured in percentage terms because:

Select correct option:

It makes students' lives more complicated.

**The resulting measure is unit free.**

It gives a more accurate answer.

The answer is always negative that way

Other things being equal, expected income can be used as a direct measure of well-being:

Select correct option:

No matter what a person's preference to risk.

If and only if individuals are not risk-loving.

If and only if individuals are risk averse.

**If and only if individuals are risk neutral.**

Demand is said to be ----- when the elasticity of demand is less than 1.

Select correct option:

Increasing

Decreasing

Elastic

**Inelastic**

A nation's production possibilities curve is "bowed out" from the origin because:

Select correct option:

Resources are not perfectly shiftable between productions of the two goods.

Capital goods and consumer goods utilize the same production technology.

Resources are scarce relative to human wants.

Opportunity costs are decreasing.

If the quantity supplied of mangoes exceeds the quantity demanded of mangoes:

Select correct option:

There is a shortage of mangoes.

Market forces will cause the price to fall.

Market forces will cause the price to rise.

The market is in equilibrium.

Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:

Select correct option:

The two goods are normal goods.

The two goods are inferior goods.

The two goods are substitutes.

The two goods are complements

An individual with a constant marginal utility of income will be:

Select correct option:

Risk averse.

**Risk neutral.**

Risk loving.

Insufficient information for a decision

The numerical measurement of a consumer's preference is called:

Select correct option:

Satisfaction.

Use.

Pleasure.

**Utility.**

Which of the following might be considered to be a characteristic of a planned economy?

Select correct option:

All income is completely evenly distributed.

**Price is relatively unimportant as a means of allocating resources.**

Goods and services produced reflect consumer sovereignty.

There is no incentive for people to work hard.

The concept of a risk premium applies to a person that is:

Select correct option:

Risk averse

Risk neutral

Risk loving

All of the given options

According to the law of diminishing marginal utility, as the consumption of particular good increases:

Select correct option:

Total utility increases.

Marginal utility increases.

Total utility decreases.

Marginal utility decreases

The extra value that consumers receive above what they pay for that good is called:

Select correct option:

Producer surplus.

Utility.



Marginal utility.

Consumer surplus.

The study of economics basically focuses on:

Select correct option:

For whom resources are allocated to increase efficiency.

How society spends the income of individuals.

How scarce resources are allocated to fulfill society's goals.

What scarce resources are used to produce goods and services.

Production possibilities analysis assumes that:

Select correct option:

Resources and technology increase with production.

Resources are used to produce thousands of goods.

Extra resources are saved for emergency use.

Resources are used in a technically efficient way

Consider two commodities X and Y. If the cross-elasticity of demand is positive, it means the goods are:

Select correct option:

Independent.

Complements.

Substitutes.

Inferior.

A normative economic statement:

Select correct option:

Is a statement of fact.

Is a hypothesis used to test economic theory.

Is a statement of what ought to be, not what is.

Is a statement of what will occur if certain assumptions are true.

Which of the following will happen if there is an increase in the long term economic growth?

Select correct option:

The production possibilities curve will shift outward.

The production possibilities curve will shift inward.

There will be a movement from inside the production possibilities curve to a point on the production possibilities curve.

There will be a movement from the production possibilities curve to a point inside the production possibilities curve.

Which of the following is a characteristic of a mixed economy?

Select correct option:

In mixed economy, resources are governed by both government and individuals. Mixed economy utilizes the characteristics of both market economy and planned economy to allocate goods and services.

People are free to make their decisions and government controls the Defence.

**All of the given options are true.**

The cross elasticity of demand of complements goods is:

Select correct option:

**Less than 0.**

Equal to 0.

Greater than 0.

Between 0 and 1

If the cross price elasticity of demand between two products is +3.5, then:

Select correct option:

One of the products is expensive and one is relatively inexpensive.

One product is a normal good and the other is an inferior good.

The two products are complements.

**The two products are substitutes.**

The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:

Select correct option:

Positive.

Strictly linear.

Flat.

Negative.

When government sets the price of a good and that price is above the equilibrium price, the result will be:

Select correct option:

A surplus of the good.

A shortage of the good.

An increase in the demand for the good.

A decrease in the supply of the good.

Economists who are concerned about the behavior of individual households, firms and industries are studying:

Select correct option:

Microeconomics

Macroeconomics

Positive economics

Normative economics

The law of diminishing marginal utility:

Select correct option:

Refers to the decrease in total satisfaction as more units of the good are consumed.

Refers to the fall in additional satisfaction created by consumption of more and more.

Refers to the units of a good.

Refers to the idea that total utility is negative

A partial explanation for the inverse relationship between price and quantity demanded is that a:

Select correct option:

Lower price shifts the supply curve to the left.

Higher price shifts the demand curve to the left.

Lower price shifts the demand curve to the right.

Higher price reduces the real incomes of buyers.

We know that the demand for a good or service is inelastic if:

Select correct option:

When price rises, quantity demanded rises.

When price rises, quantity demanded falls.

When price rises, total revenue rises.

When price rises, total revenue falls.

A person with a diminishing marginal utility of income:

Select correct option:

**Will be risk averse.**

Will be risk neutral.

Will be risk loving.

Cannot decide without more information

More output could be produced with available resources if:

Select correct option:

**Resources are allocated efficiently.**

Resources are imperfectly shiftable among alternative uses.

Prices are reduced.

The economy is operating at a point inside the production possibilities curve

Which of the following is true about the point on a nation's production-possibilities

curve?

Select correct option:

It shows an undesirable combination of goods and services.

It shows the combinations of production that are unattainable, given current technology and resources.

It shows the level of production that will cause both unemployment and inflation.

**It shows that resources are fully employed in producing a particular combination of goods and services.**

If a decrease in price increases total revenue:

Select correct option:

**Demand is elastic.**

Demand is inelastic.

Supply is elastic.

Supply is inelastic.

The law of diminishing marginal utility indicates that the demand curve is:

Select correct option:

Vertical.

U shaped.

Upward sloping.

**Downward sloping.**

Suppose price rises from Rs. 15 to Rs. 17 and quantity demanded decreases by 20%. We can conclude:

Select correct option:

Demand is inelastic.

The elasticity of demand is 2.

**Total revenue will decrease.**

Demand is unit elastic.

If the supply of a product decreases and supply curve shifts leftward, and the demand for that product simultaneously increases and demand curve shifts rightward, then equilibrium:

Select correct option:

Price must rise.

Price must fall.

Quantity must rise.

Quantity must fall.

An individual whose attitude towards risk is known as:

Select correct option:

Risk averse.

Risk loving.

Risk neutral.

None of the given is necessarily correct.

A rational person does not act unless:

Select correct option:

The action is ethical.

The action produces marginal costs that exceeds marginal benefits.

The action produces marginal benefits that exceeds marginal costs.

The action makes money for the person.



A demand schedule is best described as:

Select correct option:

A numerical tabulation of the quantity demanded of a good at different prices, *ceteris paribus*.

A graphical representation of the law of demand.

A systematic listing of all the variables that might conceivably bring about a change in demand.

A symbolic representation of the law of demand:  $P, Q$  and  $P, Q$ .

When the price elasticity of demand for a good is greater than 1, we say that the demand is:

Select correct option:

Increasing.

Decreasing.

Elastic.

Inelastic.

There is a price ceiling, there will be:

Select correct option:

Shortages.

Surpluses.

Equilibrium.

None of the given options

The quantity supplied of mangoes exceeds the quantity demanded of mangoes:

Select correct option:

There is a shortage of mangoes.

**Market forces will cause the price to fall.**

Market forces will cause the price to rise.

The market is in equilibrium

Price floor results in:

Select correct option:

Equilibrium.

Excess demand.

**Excess supply.**

All of the given options

When the price of petrol rises by 8%, the quantity of petrol purchased falls by 6%.

This shows that the demand for petrol is:

Select correct option:

Perfectly elastic.

Unit elastic.

Price elastic.

**Price inelastic.**

Which of the following defines the opportunity cost?

Select correct option:

It is measured only in rupees.

It is the cost to society of producing the goods.

It is the difficulty associated with using one good in place of another.

**It is the cost of next best alternative forgone.**

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:

Select correct option:

Supply Schedule.

Demand Schedule.

Quantity supplied Schedule.

**Quantity demanded Schedule**

When government sets the price of a good and that price is below the equilibrium price, the result will be:

Select correct option:

A surplus of the good.

**A shortage of the good.**

An increase in the demand for the good.

A decrease in the supply of the good

At the equilibrium price:

Select correct option:

There will be a shortage.

**There will be neither a shortage nor a surplus.**

There will be a surplus.

There are forces that cause the price to change

If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:

Select correct option:

More bread will be produced to meet the increased demand.

**There will be a shortage of bread.**

The demand for bread will decrease because suppliers will reduce their supply.

A surplus of bread will emerge.

The production possibilities curve:

Select correct option:

Shows all combinations of goods that society most desires.

Indicates that any combination of goods lying outside the curve is attainable.

Shows the maximum level of output that an economy can produce with all the available resources.

**Shows only those combinations of two goods that reflect "full production".**

The percentage change in quantity demanded given a percentage change in consumer's income is known as:

Select correct option:

Price elasticity of demand.

**Income elasticity of demand.**

Supply price elasticity.

Cross price elasticity.

If utility remains the same for original and new combination of goods consumed, the effect of a change in the price of a good on the quantities consumed will be called as:

Select correct option:

**Substitution effect.**

Real income effect.

Income effect.

Budget effect.

If your demand price for one unit of a good is Rs. 100 and the market price is Rs. 75, your consumer's surplus will be:

Select correct option:

**Rs.25.**

Rs.50.

Rs.75.

Rs.100.

Suppose the price of railway ticket decreases, what will happen in the market for airline travel?

Select correct option:

**The demand curve for airline travel shifts left.**

The demand curve for airline travel shifts right.

The supply curve of airline travel shifts left.

The supply curve of airline travel shifts right.

What is the reason of leftward shift in the demand curve for product A?

Select correct option:

A decrease in income if A is an inferior good.

An increase in income if A is a normal good.

An increase in the price of a product that is a close substitute for A.

An increase in the price of a product that is complementary to A

If the price elasticity of demand for beans is estimated to be -0.4, then a 20% increase in price will decrease the quantity demanded by:

Select correct option:

14%.

8%.

16%.

20%.

In pure capitalism, freedom of enterprise means that:

Select correct option:

Businesses are free to produce products that consumers want.

Consumers are free to buy goods and services that they want.

Resources are distributed freely to businesses that want them.

Government is free to direct the actions of businesses.

In a free-market economy, the allocation of resources is determined by:

Select correct option:

Votes taken by consumers.

A central planning authority.

**Consumer preferences.**

The level of profits of firms.

Question # 15 of 15 ( Start time: 05:00:52 PM )

Total Marks: 1

The shape of production possibilities curve is:

Select correct option:

**Concave.**

Convex.

Linear.

Positive.

Question # 14 of 15 ( Start time: 05:00:16 PM )

Total Marks: 1

At any given point on an indifference curve, the the slope is equal to:

Select correct option:

Unity.

The marginal rate of substitution.



The consumer's marginal utility.

None of the given options.

Question # 13 of 15 ( Start time: 04:58:48 PM ) Total Marks: 1

Which of the following is true about the total cost curve?

Select correct option:

It relates output with total cost.

It is usually upward sloping.

Gets steeper as output rises, due to diminishing marginal product of an input.

All of the given options are true.

Question # 12 of 15 ( Start time: 04:57:22 PM ) Total Marks: 1

Which of the following is a correct statement about the substitution effect?

Select correct option:

The substitution effect is always negative.

The substitution effect is positive for an inferior good.

The substitution effect measures how demand changes when income changes.

The substitution effect is positive for a Giffen good.

Question # 11 of 15 ( Start time: 04:56:39 PM ) Total Marks: 1

The numerical measurement of a consumer's preference is called:

Select correct option:

Satisfaction.

Use.

Pleasure.

Utility.

Question # 10 of 15 ( Start time: 04:55:36 PM ) Total Marks: 1

Which of the following might be considered to be a characteristic of a planned economy?

Select correct option:

All income is completely evenly distributed.

Price is relatively unimportant as a means of allocating resources.

Goods and services produced reflect consumer sovereignty.

There is no incentive for people to work hard.

Question # 9 of 15 ( Start time: 04:54:59 PM ) Total Marks: 1

If the price elasticity of demand for beans is estimated to be -0.4, then a 20% increase in price will decrease the quantity demanded by:

Select correct option:

14%.

8%.

16%.

20%.

Question # 8 of 15 ( Start time: 04:54:24 PM ) Total Marks: 1

If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:

Select correct option:

More bread will be produced to meet the increased demand.

There will be a shortage of bread.

The demand for bread will decrease because suppliers will reduce their supply.

A surplus of bread will emerge.

Question # 7 of 15 ( Start time: 04:53:26 PM ) Total Marks: 1

A nation's production possibilities curve is "bowed out" from the origin because:

Select correct option:

Resources are not perfectly shiftable between productions of the two goods.

Capital goods and consumer goods utilize the same production technology.

Resources are scarce relative to human wants.

Opportunity costs are decreasing

Question # 6 of 15 ( Start time: 04:52:40 PM ) Total Marks: 1

If your demand price for one unit of a good is Rs. 100 and the market price is Rs.

75, your consumer's surplus will be:

Select correct option:

Rs.25.

Rs.50.

Rs.75.

Rs.100.

Question # 5 of 15 ( Start time: 04:52:14 PM ) Total Marks: 1

Which of the following statements describes the presence of diminishing returns.

Select correct option:

The marginal product of a factor is positive and rising.

The marginal product of a factor is positive but falling.

The marginal product of a factor is falling and negative.

The marginal product of a factor is constant.

Question # 4 of 15 ( Start time: 04:51:05 PM ) Total Marks: 1

The law of diminishing marginal utility:

Select correct option:

Refers to the decrease in total satisfaction as more units of the good are consumed.

Refers to the fall in additional satisfaction created by consumption of more and more.

Refers to the units of a good.

Refers to the idea that total utility is negative.

Question # 3 of 15 ( Start time: 04:50:31 PM ) Total Marks: 1

At the equilibrium price:

Select correct option:

There will be a shortage.

There will be neither a shortage nor a surplus.

There will be a surplus.

There are forces that cause the price to change.

Question # 2 of 15 ( Start time: 04:49:02 PM ) Total Marks: 1

A negatively sloped isoquant implies:

Select correct option:

Products with negative marginal utilities.

Products with positive marginal utilities.

Inputs with negative marginal products.

Inputs with positive marginal products.

Question # 1 of 15 ( Start time: 04:47:35 PM ) Total Marks: 1

If a firm pays cash to buy a building so as to have office space for its workers, the monthly opportunity cost of the building is best measured as:

Select correct option:

The price the firm paid divided by twelve.

Zero.

The rent the firm could earn if it rented the building to another firm.

The monthly mortgage payment the firm would have had to pay.

A monopolistically competitive firm in short run equilibrium:

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ Any of the given are possible.

Question # 15 of 15 ( Start time: 03:37:25 PM ) Total Marks: 1

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:

Select correct option:

- Supply Schedule.
- Demand Schedule.
- Quantity supplied Schedule.
- [Quantity demanded Schedule.](#)

Question # 13 of 15 ( Start time: 03:35:48 PM ) Total Marks: 1

At any given point on an indifference curve, the slope is equal to:

Select correct option:

- Unity.
- The marginal rate of substitution.
- [The consumer's marginal utility.](#)
- None of the given options.

Question # 14 of 15 ( Start time: 03:36:32 PM ) Total Marks: 1

In which market structure do firms exist in very large numbers, each firm produces an identical product and there is freedom of entry and exit?

Select correct option:

- Monopoly
- Oligopoly
- [Perfect competition](#)
- Monopolistic competition

When government sets the price of a good and that price is above the equilibrium price, the result will be:

Select correct option:

[A surplus of the good.](#)

A shortage of the good.

An increase in the demand for the good.

A decrease in the supply of the good.

Question # 11 of 15 ( Start time: 03:34:48 PM )      Total Marks: 1

Economists who are concerned about the behavior of individual households, firms and industries are studying:

Select correct option:

[Microeconomics](#)

Macroeconomics

Positive economics

Normative economics

A new technology which reduces costs for firms:

Select correct option:

[Shifts the supply curve to the right.](#)

Shifts the supply curve to the left.

Reduces the equilibrium quantity.

Raises the equilibrium price

Question # 8 of 15 ( Start time: 03:31:27 PM )      Total Marks: 1

Which of the following might be considered to be a characteristic of a planned economy?

Select correct option:

All income is completely evenly distributed.

Price is relatively unimportant as a means of allocating resources.

Goods and services produced reflect consumer sovereignty.

There is no incentive for people to work hard.

Question # 9 of 15 ( Start time: 03:32:37 PM ) Total Marks: 1

Other things being equal, expected income can be used as a direct measure of well-being:

Select correct option:

No matter what a person's preference to risk.

If and only if individuals are not risk-loving.

If and only if individuals are risk averse.

If and only if individuals are risk neutral.

Average physical product is equal to:

Select correct option:

TPPF

TPPF/QF

QF / TPPF

TPPF \* QF

Question # 8 of 15 ( Start time: 03:44:38 PM ) Total Marks: 1

Diminishing marginal returns implies:

Select correct option:



Decreasing marginal costs.

Increasing marginal costs.

Decreasing average variable costs.

Decreasing average fixed costs.

Question # 11 of 15 ( Start time: 03:48:19 PM ) Total Marks: 1

The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the variable cost?

Select correct option:

200.

5Q.

5.

$5 + (200/Q)$ .

A market is said to be in equilibrium when:

Select correct option:

Supply equals Price.

There is downward pressure on price.

The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.

All buyers are able to find sellers willing to sell to them at the current price.

Question # 14 of 15 ( Start time: 03:50:25 PM ) Total Marks: 1

If the income elasticity of demand for boots is 0.2, a 10% increase in consumer

income will lead to a:

Select correct option:

20% increase in the quantity of boots demanded.

20% decrease in the quantity of boots demanded.

2% increase in the quantity of boots demanded.

0.2% increase in the quantity of boots demanded.

If a firm operates in a perfectly competitive market, then it will most likely:

Select correct option:

Advertise its product on television.

Have difficult time obtaining information about the market price.

Settle for whatever price is offered.

Have an easy time keeping other firms out of the market.

Question # 3 of 15 ( Start time: 03:55:00 PM ) Total Marks: 1

Which of the following is TRUE about the production function?

Select correct option:

It relates inputs with output.

It generates a curve that is upward sloping.

It shows diminishing marginal product of an input, since it gets flatter as output rises.

All of the given options are true.

An indifference curve is:

Select correct option:

A collection of market baskets that are equally desirable to the consumer.

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

15- Which of the following best describes an inferior good?

Select correct option:

A good for which price and quantity demanded are directly related.

A good for which price and quantity demanded are inversely related.

**A good for which income and quantity demanded are directly related.**

A good for which income and quantity demanded are inversely related.

If the cost of computer components falls, then

Select correct option:

The demand curve for computers shifts to the right.

The demand curve for computers shifts to the left.

**The supply curve for computers shifts to the right.**

The supply curve for computers shifts to the left.

Question # 11 of 15 ( Start time: 04:02:18 PM ) Total Marks: 1

The law of diminishing returns assumes:

Select correct option:

There are no fixed factors of production.

There are no variable factors of production.

Utility is maximised when marginal product falls.

Some factors of production are fixed.

Average physical product is equal to:

Select correct option:

TPPF

TPPF/QF

QF / TPPF

TPPF \* QF

If two goods were perfect complements, their indifference curves would be:

Select correct option:

Straight lines

L-shaped

Rectangular hyperbolas

Parabolic

If the demand curve for a good is downward sloping, then the good:

Select correct option:

Must be normal.

Must be inferior.

Must be Giffen.

Can be normal or inferior.

Question # 3 of 15 ( Start time: 04:10:14 PM ) Total Marks: 1

Which of the following is considered to be a variable cost in the long run?

Select correct option:

Expenditures for wages.

Expenditures for research and development.

Expenditures for raw materials.

All of the given Costs.

Question # 4 of 15 ( Start time: 04:11:44 PM ) Total Marks: 1

If a profit-maximizing firm finds that, at its current level of production,  $MR < MC$ , it will:

Select correct option:

Increase output.

Operate at a loss.

Shut down.

Decrease output.

Question # 5 of 15 ( Start time: 04:13:00 PM ) Total Marks: 1

If utility remains the same for original and new combination of goods consumed, the effect of a change in the price of a good on the quantities consumed will be called as:

Select correct option:

Substitution effect.

Real income effect.

Income effect.

Budget effect.

Question # 15 of 15 ( Start time: 04:19:34 PM ) Total Marks: 1

If the price elasticity of demand for beans is estimated to be -0.4, then a 20% increase in price will decrease the quantity demanded by:

Select correct option:

14%.

8%.

16%.

20%.

A firm maximizes profit by operating at the level of output where:

Select correct option:

Average revenue equals average cost.

Average revenue equals average variable cost.

Total costs are minimized.

Marginal revenue equals marginal cost.

Which of the following might be considered to be a characteristic of a planned economy?

Select correct option:

All income is completely evenly distributed.

Price is relatively unimportant as a means of allocating resources.

Goods and services produced reflect consumer sovereignty.  
There is no incentive for people to work hard.

Demand is elastic when the elasticity of demand is:

Select correct option:

Greater than 0.

**Greater than 1.**

Less than 1.

Less than 0.

Marginal Cost is defined as:

Select correct option:

The derivative of Variable Cost with respect to quantity produced.

The derivative of Average Cost with respect to quantity produced.

**The derivative of Total Cost with respect to quantity produced.**

The derivative of Average Variable Cost with respect to quantity produced.

Indifference curves that are convex to the origin reflect:

Select correct option:

An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases then increases.

In economics, the “long run” is a time period in which:

Select correct option:

All inputs are variable.

All inputs are paid for.

All outputs are determined.

All loans are repaid.

Graphically, marginal revenue is defined as:

Select correct option:

The slope of a line from the origin to a point on the total revenue curve.

The slope of a line from the origin to the end of the total revenue curve.

The slope of the total revenue curve at a given point.

The vertical intercept of a line tangent to the total revenue curve at a given point.

Question # 1 of 15 ( Start time: 10:26:26 AM ) Total Marks: 1

If the supply of a product decreases and supply curve shifts leftward, and the demand for that product simultaneously increases and demand curve shifts rightward, then equilibrium:

Select correct option:

Price must rise.

Price must fall.

Quantity must rise.

Quantity must fall.

Question # 2 of 15 ( Start time: 10:27:21 AM ) Total Marks: 1

Which of the following will happen if there is an increase in the long term economic growth?

Select correct option:

The production possibilities curve will shift outward.



The production possibilities curve will shift inward.

There will be a movement from inside the production possibilities curve to a point on the production possibilities curve.

There will be a movement from the production possibilities curve to a point inside the production possibilities curve.

Question # 3 of 15 ( Start time: 10:28:00 AM ) Total Marks: 1

The price elasticity of demand measures the responsiveness of quantity demanded to:

Select correct option:

Quantity demanded.

Quantity supplied.

Price.

Output.

Question # 4 of 15 ( Start time: 10:28:24 AM ) Total Marks: 1

According the law of diminishing returns:

Select correct option:

The marginal product falls as more units of a variable factor are added to a fixed factor.

Marginal utility falls as more units of a product are consumed.

The total product falls as more units of a variable factor are added to a fixed factor.

The marginal product increases as more units of a variable factor are added to a fixed factor.

Question # 5 of 15 ( Start time: 10:29:19 AM ) Total Marks: 1

What is the reason of leftward shift in the demand curve for product A?

Select correct option:

A decrease in income if A is an inferior good.

An increase in income if A is a normal good.

**An increase in the price of a product that is a close substitute for A.**

An increase in the price of a product that is complementary to A.

Question # 6 of 15 ( Start time: 10:30:27 AM ) Total Marks: 1

At the equilibrium price:

Select correct option:

There will be a shortage.

**There will be neither a shortage nor a surplus.**

There will be a surplus.

There are forces that cause the price to change.

Question # 7 of 15 ( Start time: 10:31:08 AM ) Total Marks: 1

Which best expresses the law of demand?

Select correct option:

A higher price reduces demand.

A lower price reduces demand.

**A higher price reduces quantity demanded.**

A lower price shifts the demand curve to the right.

Question # 8 of 15 ( Start time: 10:31:50 AM ) Total Marks: 1

The production possibilities curve:

Select correct option:

Shows all combinations of goods that society most desires.

Indicates that any combination of goods lying outside the curve is attainable.

Shows the maximum level of output that an economy can produce with all the available resources.

Shows only those combinations of two goods that reflect "full production".

Question # 9 of 15 ( Start time: 10:32:48 AM ) Total Marks: 1

Assume Leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

Select correct option:

Increase hours of work

Decrease hours of work

Not change hours of work

None of the given options

Question # 10 of 15 ( Start time: 10:33:29 AM ) Total Marks: 1

If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:

Select correct option:

More bread will be produced to meet the increased demand.

There will be a shortage of bread.

The demand for bread will decrease because suppliers will reduce their supply.

A surplus of bread will emerge.

Question # 11 of 15 ( Start time: 10:34:01 AM ) Total Marks: 1

Which of the following is TRUE about the production function?

Select correct option:

It relates inputs with output.

It generates a curve that is upward sloping.

It shows diminishing marginal product of an input, since it gets flatter as output rises.

All of the given options are true.

Question # 12 of 15 ( Start time: 10:34:30 AM ) Total Marks: 1

The total utility curve for a risk neutral person will be:

Select correct option:

Straight line.

Convex.

Concave.

None of the given options.

Question # 13 of 15 ( Start time: 10:35:08 AM ) Total Marks: 1

Graphically, marginal revenue is defined as:

Select correct option:

The slope of a line from the origin to a point on the total revenue curve.

The slope of a line from the origin to the end of the total revenue curve.

The slope of the total revenue curve at a given point.

The vertical intercept of a line tangent to the total revenue curve at a given point.

Question # 14 of 15 ( Start time: 10:36:07 AM )

Total Marks: 1

In a perfectly competitive market:

Select correct option:

Firms can freely enter and exit.

Firms sell a differentiated product.

Transaction costs are high.

All of the given options.

Question # 15 of 15 ( Start time: 10:36:39 AM )

Total Marks: 1

Our economy is characterized by:

Select correct option:

Unlimited wants and needs.

Unlimited material resources.

No energy resources.

Abundant productive labor.

Question # 1 of 15 ( Start time: 10:37:37 AM )

Total Marks: 1

When drawing demand and supply curves, economists are assuming that the primary influence on production and purchasing decisions is:

Select correct option:

Price.

Cost of production.

The overall state of the economy.

Consumer incomes.

Question # 3 of 15 ( Start time: 10:39:05 AM ) Total Marks: 1

If marginal product is above the average product:

Select correct option:

The total product will fall

**The average product will rise**

Average variable costs will fall

Total revenue will fall

Question # 4 of 15 ( Start time: 10:40:14 AM ) Total Marks: 1

A rational person does not act unless:

Select correct option:

The action is ethical.

The action produces marginal costs that exceeds marginal benefits.

**The action produces marginal benefits that exceeds marginal costs.**

The action makes money for the person.

Question # 5 of 15 ( Start time: 10:41:04 AM ) Total Marks: 1

The shape of production possibilities curve is:

Select correct option:

**Concave.**

Convex.

Linear.

Positive.

Question # 6 of 15 ( Start time: 10:41:56 AM ) Total Marks: 1

A firm maximizes profit by operating at the level of output where:

Select correct option:

Average revenue equals average cost.

Average revenue equals average variable cost.

Total costs are minimized.

Marginal revenue equals marginal cost.

Question # 7 of 15 ( Start time: 10:42:36 AM ) Total Marks: 1

Which of the following shows the condition for consumer's equilibrium?

Select correct option:

It can be expressed as marginal utility per dollar spent on each good being equalized across all goods.

It can be expressed as the ratio of (marginal utility per unit of the good)/(price per unit of the good) being equalized across all goods.

It can be expressed as the ratio of marginal utilities being equated to the ratio of prices for all possible pairs of goods.

All of the given options.

Question # 9 of 15 ( Start time: 10:44:41 AM ) Total Marks: 1

The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the fixed cost?

Select correct option:

200.

5Q.

5.

$5 + (200/Q)$ .

Question # 10 of 15 ( Start time: 10:45:12 AM ) Total Marks: 1

Production possibilities analysis assumes that:

Select correct option:

Resources and technology increase with production.

Resources are used to produce thousands of goods.

Extra resources are saved for emergency use.

Resources are used in a technically efficient way.

Question # 11 of 15 ( Start time: 10:45:48 AM ) Total Marks: 1

The law of diminishing marginal utility:

Select correct option:

Refers to the decrease in total satisfaction as more units of the good are consumed.

Refers to the fall in additional satisfaction created by consumption of more and more.

Refers to the units of a good.

Refers to the idea that total utility is negative.

Question # 12 of 15 ( Start time: 10:47:03 AM ) Total Marks: 1

Assume Leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

Select correct option:

Increase hours of work

Decrease hours of work

Not change hours of work

None of the given options

Question # 13 of 15 ( Start time: 10:47:41 AM ) Total Marks: 1

If firms in a competitive industry are experiencing losses in the short run, then:

Select correct option:

The firms will try to raise prices.

Some firms will choose to shut down.

The industry will cease to exist.

New firms will enter the industry.



Question # 14 of 15 ( Start time: 10:49:05 AM ) Total Marks: 1

Which of the following is true about the market mechanism?

Select correct option:

It is not a very efficient means of communicating consumer demand to the producers of goods and services.

It works through central planning by government.

It eliminates market failures created by government.

It works because prices serve as a means of communication between consumers and producers.

Question # 15 of 15 ( Start time: 10:49:40 AM ) Total Marks: 1

If the supply of a product decreases and supply curve shifts leftward, and the demand for that product simultaneously increases and demand curve shifts rightward, then equilibrium:

Select correct option:

Price must rise.

Price must fall.

Quantity must rise.

Quantity must fall.

law of diminishing marginal utility indicates that the demand curve is:

Select correct option:

Vertical.  
U shaped.  
Upward sloping.  
[Downward sloping.](#)

The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:

Select correct option:

Positive.  
[Strictly linear.](#)  
Flat.  
Negative.

is the rate at which a firm can substitute capital for labour and hold output constant.

Select correct option:

[Diminishing marginal returns.](#)  
Marginal rate of substitution.  
Marginal rate of factor substitution.  
Marginal rate of production.

Production possibilities analysis assumes that:

Select correct option:

Resources and technology increase with production.  
Resources are used to produce thousands of goods.  
Extra resources are saved for emergency use.  
[Resources are used in a technically efficient way.](#)

When government sets the price of a good and that price is above the equilibrium price, the result will be:

Select correct option:

A surplus of the good.

**A shortage of the good.**

An increase in the demand for the good.

A decrease in the supply of the good.

If we observe that the production possibilities curve becomes steeper as we move down along the curve, then:

Select correct option:

**Opportunity costs are increasing.**

Society's resources are limited.

Society's wants are unlimited.

Society's wants are unlimited.

Which best expresses the law of demand?

Select correct option:

A higher price reduces demand.

A lower price reduces demand.

**A higher price reduces quantity demanded.**

A lower price shifts the demand curve to the right.

15- Which of the following best describes an inferior good?

Select correct option:

A good for which price and quantity demanded are directly related.

A good for which price and quantity demanded are inversely related.

A good for which income and quantity demanded are directly related.

A good for which income and quantity demanded are inversely related.

of the following statements describes increasing returns to scale:

Select correct option:

Doubling the inputs used leads to double the output.

Increasing the inputs by 50% leads to a 25% increase in output.

Increasing inputs by  $1/4$  leads to an increase in output of  $1/3$ .

None of the given options.

If a decrease in price increases total revenue:

Select correct option:

Demand is elastic.

Demand is inelastic.

Supply is elastic.

Supply is inelastic.

If the income elasticity of demand for boots is 0.2, a 10% increase in consumer income will lead to a:

Select correct option:

20% increase in the quantity of boots demanded.

20% decrease in the quantity of boots demanded.

2% increase in the quantity of boots demanded.

0.2% increase in the quantity of boots demanded

According to the law of diminishing marginal utility, as the consumption of particular good increases:

Select correct option:

Total utility increases.

Marginal utility increases.

Total utility decreases.

Marginal utility decreases.

Question # 7 of 15 ( Start time: 11:23:26 AM ) Total Marks: 1

Assume Leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

Select correct option:

Increase hours of work

Decrease hours of work

Not change hours of work

None of the given options

Question # 9 of 15 ( Start time: 11:25:46 AM ) Total Marks: 1

Consider two commodities X and Y. If the cross-elasticity of demand is positive, it means the goods are:

Select correct option:

Independent.

Complements.

Substitutes.

Inferior.

Question # 10 of 15 ( Start time: 11:26:20 AM ) Total Marks: 1

The point at which AC intersects MC is where:

Select correct option:

AC is decreasing.

MC is at its minimum.

AC is at its minimum.

AC is at its maximum.

The burden of a tax is shifted toward buyers if:

Select correct option:

Demand is perfectly elastic.

Demand is relatively more elastic than supply.

Demand is relatively more inelastic than supply.

Demand and supply have equal elasticities.

Question # 13 of 15 ( Start time: 11:29:32 AM ) Total Marks: 1

The demand curve facing a perfectly competitive firm is:

Select correct option:

The same as its average revenue curve but not the same as its marginal revenue curve.

The same as its average revenue curve and its marginal revenue curve.

The same as its marginal revenue curve but not its average revenue curve.

Not the same as either its marginal revenue curve or its average revenue curve.

Question # 14 of 15 ( Start time: 11:30:45 AM ) Total Marks: 1

A person with a diminishing marginal utility of income:

Select correct option:

Will be risk averse.

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

Question # 15 of 15 ( Start time: 11:31:46 AM ) Total Marks: 1

The opportunity cost of an action:

Select correct option:

Will be the same for everyone.

Is the value of the next best alternative.

Measures the undesirable aspects of that action.

Is the average amount of unhappiness experienced by everyone involved.

### ECO401 MCQs from Quiz (chapter 1-12)

The substitution effect of a price decrease for a good with a normal indifference curve pattern:

Select correct option:

**Is  
always  
inversely  
related  
to the  
price  
change.**

Measures  
the change  
in  
consumption  
of the good  
that is due to  
the  
consumer's  
feeling of  
being richer.

Is measured  
by the  
horizontal  
distance  
between the  
original and  
the new  
indifference  
curves.

Is  
sufficient  
information  
to plot an  
ordinary  
demand  
curve for  
the  
commodity  
being  
considered.

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:



**Select correct option:**

Supply

**Demand**

Quantity  
supplied

Quantity  
demanded

A "Giffen good" is defined as one for which:

**Select correct option:**

Marginal  
utility is  
zero.

The  
demand  
curve is  
perfectly  
elastic.

The  
substitution  
effect is  
positive.

**The  
demand  
curve is  
positively  
sloped.**

When the price of petrol rises 10%, the quantity of petrol purchased falls by 8%.  
The demand for petrol is:

**Select correct option:**

Perfectly  
elastic

Unit  
elastic

Elastic

**Inelastic**

An individual whose attitude toward risk is illustrated:

**Select correct option:**

**Risk  
averse.**

Risk  
loving.

Risk  
neutral.

None of  
the given

is  
necessarily  
correct.

If marginal product is above the average product:

**Select correct option:**

The  
total  
product  
will  
fall

**The  
average  
product  
will rise**

Average  
variable  
costs  
will fall

Total  
revenue will  
fall

Ref: [A  
mathematical  
connection  
between  
average  
product and  
marginal](#)

product  
stating that  
the change in  
the average  
product  
depends on a  
comparison  
between the  
average  
product and  
marginal  
product. If  
marginal  
product is  
less than  
average  
product, then  
average  
product  
declines. If  
marginal  
product is  
greater than  
average  
product, then  
average  
product rises.  
If marginal  
product is  
equal to  
average  
product, then  
average  
product does  
not change.

Other things equal, expected income can be used as a direct measure of well-being:

**Select correct option:**

No matter  
what a  
person's  
preference  
to risk.

If and only  
if  
individuals  
are not  
risk-  
loving.

If and only  
if  
individuals  
are risk  
averse.

If and only  
if  
individuals  
are risk  
neutral.

If a sales tax on beer leads to reduced tax revenue, this means:

**Select correct option:**

Elasticity  
of  
demand  
is  $< 1$ .

**Elasticity  
of  
demand  
is  $> 1$ .**

Demand  
is  
upward-  
sloping.

Demand  
is  
perfectly  
inelastic.

Price floor results in:

**Select correct  
option:**

Equilibrium

Excess  
demand

**Excess  
supply**

All of  
the  
given

options

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:

**Select correct option:**

Supply

**Demand**

Quantity  
supplied

Quantity  
demanded

It measures the percentage change in demand given a percentage change in consumer's income.

**Select  
correct  
option:**

Price  
elasticity  
of  
demand

**Income  
elasticity  
of  
demand**

Supply  
price  
elasticity

Cross  
price  
elasticity

Demand is elastic when the elasticity of demand is:

**Select correct option:**

Greater  
than 0

**Greater  
than 1**

Less  
than  
1

Less  
than  
0



Due to capacity constraints, the price elasticity of supply for most products is:

**Select correct option:**

The  
same  
in  
the  
long  
run  
and  
the  
short  
run.

**Greater  
in the  
long  
run  
than in  
the  
short  
run.**

Greater  
in the  
short  
run  
than in  
the  
long  
run.

Too  
uncertain  
to be  
estimated.

The  
demand  
for  
houses  
has  
increased

You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:

**Select correct option:**

S  
o  
The  
a  
demand  
e  
curve  
for  
houses  
must be  
upward-  
sloping

The  
supply of  
houses  
has  
increased

Housing  
construction  
costs must  
be  
decreasing

If there is a price ceiling, there will be:

**Select correct option:**

E  
u  
il  
i  
n  
None  
of the  
given  
options.

Question # 1 of 15 ( Start time: 02:02:54 PM ) Total Marks: 1

You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:

Select correct option:

**The demand for houses has increased**

The demand curve for houses must be upward-sloping

The supply of houses has increased

Housing construction costs must be decreasing

Question # 2 of 15 ( Start time: 02:04:10 PM ) Total Marks: 1

If consumer incomes increase, the demand for product Y:

Select correct option:

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

Question # 3 of 15 ( Start time: 02:04:54 PM ) Total Marks: 1

If marginal product is below average product:

Select correct option:

**The total product will fall**

The average product will fall

Average variable costs will fall

Total revenue will fall

Reference: The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall.

Question # 4 of 15 ( Start time: 02:05:58 PM ) Total Marks: 1

It is calculated as the percentage change in quantity demanded of a given good, with respect to the percentage change in the price of “another” good.

Select correct option:

Price elasticity of demand

Income elasticity of demand

**Cross price elasticity of demand**

Supply price elasticity

Question # 5 of 15 ( Start time: 02:06:46 PM ) Total Marks: 1

A Demand Curve is price inelastic when:

Select correct option:

**Changes in demand are proportionately smaller than those in price**

Changes in demand are proportionately greater than those in price

Changes in demand are equal than those in price

None of the given options.

Question # 6 of 15 ( Start time: 02:07:32 PM ) Total Marks: 1

A partial explanation for the inverse relationship between price and quantity demanded is that a:

Select correct option:

Lower price shifts the supply curve to the left

Higher price shifts the demand curve to the left

Lower price shifts the demand curve to the right

**Higher price reduces the real incomes of buyers**

Feedback: The demand curve is the relationship between price and quantity demanded, all else equal. A change in price changes quantity demanded, but does not shift the demand curve. One explanation for the inverse relationship between price and quantity demanded along the curve is that a higher price reduces the real incomes of buyers. For normal goods, this drop in real income will reduce desired purchases. modest\_khan: 4

Question # 7 of 15 ( Start time: 02:08:36 PM ) Total Marks: 1

If a sales tax on beer leads to reduced tax revenue, this means:

Select correct option:

Elasticity of demand is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping.

Demand is perfectly inelastic.

Question # 8 of 15 ( Start time: 02:09:37 PM ) Total Marks: 1

A "Giffen good" is defined as one for which:

Select correct option:

Marginal utility is zero.

The demand curve is perfectly elastic.

The substitution effect is positive.

**The demand curve is positively sloped.**

Question # 9 of 15 ( Start time: 02:11:09 PM ) Total Marks: 1

A nation's production possibilities curve is "bowed out" from the origin because:

Select correct option:

**Resources are not perfectly shiftable between productions of the two goods**

Capital goods and consumer goods utilize the same production technology

Resources are scarce relative to human wants

Opportunity costs are decreasing

Question # 10 of 15 ( Start time: 02:11:37 PM ) Total Marks: 1

If diminishing marginal utility holds, and a person consumes less of a good, then all else being equal:

Select correct option:

The price of the good will rise.

**Marginal utility will rise**

Expenditure on the good will increase

Marginal utility will decline

Question # 11 of 15 ( Start time: 02:12:15 PM ) Total Marks: 1

According the law of diminishing returns:

Select correct option:

**The marginal product falls as more units of a variable factor are added to a fixed factor.**

Marginal utility falls as more units of a product are consumed.

The total product falls as more units of a variable factor are added to a fixed factor.

The marginal product increases as more units of a variable factor are added to a fixed factor.



This occurs when variable factors are added to fixed factors. According to the law of diminishing returns the marginal product falls as more units of a variable factor are added to a fixed factor.

Question # 12 of 15 ( Start time: 02:13:34 PM ) Total Marks: 1

If consumer incomes increase, the demand for product Y:

Select correct option:

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

Question # 13 of 15 ( Start time: 02:14:13 PM ) Total Marks: 1

The concept of a risk premium applies to a person that is:

Select correct option:

**Risk averse**

Risk neutral

Risk loving

All of the given options

Question # 14 of 15 ( Start time: 02:14:35 PM ) Total Marks: 1

When drawing demand and supply curves, economists are assuming that the primary influence on production and purchasing decisions is:

Select correct option:

**Price**

Cost of production

The overall state of the economy

Consumer incomes

Reference: Although there are many determinants of quantity demanded and quantity supplied, the demand and supply curves show the relationship between price and quantity, all other factors equal. The primary factor is assumed to be the price.

Question # 15 of 15 ( Start time: 02:15:36 PM ) Total Marks: 1

Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:

Select correct option:

A surplus of credit.

**A shortage of credit.**

Greater profits for banks issuing credit.

A perfectly inelastic supply of credit in the market place

**ECO401 Solved MCQ from Quiz #3  
chapters 1-24**

If the income elasticity of demand is  $1/2$ , the good is:  
Select correct option:

A luxury.

**A normal good (but not a luxury).**

An inferior good.

A Giffen good.

The cross elasticity of demand of complements goods is:  
Select correct option:

**Less than 0.**

Equal to 0.

Greater than 0.

Between 0 and 1.

The point at which AC intersects MC is where:  
Select correct option:

AC is decreasing.

MC is at its minimum.

**AC is at its minimum.**

AC is at its maximum.

Which of the following can be thought of as a barrier to entry?  
Select correct option:

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

When oligopolists collude, they are able to:  
Select correct option:

- Raise price, but not restrict output
- Raise price and restrict output, but not attain the monopoly profit
- Raise price and restrict output, and therefore attain the monopoly profit**
- Restrict output, but not raise price

If marginal product is equal to average product:  
Select correct option:

- The total product will fall
- The average product will not change**
- Average variable costs will fall
- Total revenue will fall

If marginal product is above the average product:  
Select correct option:

- The total product will fall
- The average product will rise**
- Average variable costs will fall
- Total revenue will fall

The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall

In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:  
Select correct option:

- Decreasing returns to scale.
- Constant returns to scale.
- Increasing returns to scale.**
- Negative returns to scale.

Which of the following is true?

- a) If the marginal cost is greater than the average cost the average cost falls
- b) If the marginal cost is greater than the average cost the average cost increases**
- c) If the marginal cost is positive total costs are maximised
- d) If the marginal cost is negative total costs increase at a decreasing rate if output increases

The marginal cost measures the extra cost of producing another unit; the average cost measures the cost per unit. If the marginal cost is greater than the average cost the average cost increases.

According to the law of diminishing returns:

- a) The marginal product falls as more units of a variable factor are added to a fixed factor**
- b) Marginal utility falls as more units of a product are consumed
- c) The total product falls as more units of a variable factor are added to a fixed factor
- d) The marginal product increases as more units of a variable factor are added to a fixed factor

This occurs when variable factors are added to fixed factors. According to the law of diminishing returns the marginal product falls as more units of a variable factor are added to a fixed factor.

The law of diminishing returns assumes:

- a) There are no fixed factors of production

- b) There are no variable factors of production
- c) Utility is maximised when marginal product falls
- d) Some factors of production are fixed**

This occurs when variable factors are added to fixed factors. It assumes some factors of production are fixed

When internal economies of scale occur:

- a) Total costs fall
- b) Marginal costs increase
- c) Average costs fall**
- d) Revenue falls

These occur when the unit cost (average costs) falls as the scale of production increases.

The first level of output at which the long run average costs are minimised is called:

- a) The Minimum Efficient Scale**
- b) The Minimum External Scale
- c) The Maximum External Scale
- d) The Maximum Effective Scale

This is the variable cost per unit; when added to the fixed cost per unit this leads to the total cost per unit. As output increases the average fixed cost falls so the average variable cost and average cost converge.

The average variable cost curve:

- a) Is derived from the average fixed costs
- b) Converges with the average cost as output increases**
- c) Equals the total costs divided by the output
- d) Equals revenue minus profits

This is the variable cost per unit; when added to the fixed cost per unit this leads to the total cost per unit. As output increases the average fixed cost falls so the average variable cost and average cost converge.

If marginal cost is positive and falling:

- a) Total cost is falling
- b) Total cost is increasing at a falling rate**
- c) Total cost is falling at a falling rate
- d) Total cost is increasing at an increasing rate

This means the extra cost of a unit is falling; total cost will increase at a decreasing rate.

If marginal product is below average product:

- a) The total product will fall
- b) The average product will fall**
- c) Average variable costs will fall
- d) Total revenue will fall

The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall.

**ECO401 Solved MCQ from Quiz #3  
chapters 1-24**

Due to capacity constraints, the price elasticity of supply for most products is:

Select correct option:

The same in the long run and the short run.

**Greater in the long run than in the short run.**

Greater in the short run than in the long run.

Too uncertain to be estimated

Select correct option:

An individual with a constant marginal utility of income will be:

Risk averse

**Risk neutral**



Risk loving

Not enough information.

At the equilibrium price:

Select correct option:

There will be a shortage

**There will be neither a shortage nor a surplus**

There will be a surplus

There are forces that cause the price to change

Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:

Select correct option:

$$P = MR$$

$$P = AVC$$

$$AR = MR$$

$$**P = MC**$$

In the long run, competitive firms **MUST** be profit maximizers, because if they do not maximize profits:

Select correct option:

They will attract new competitors.

They will not be price takers.

**The profits that they do earn will only cover variable costs.**

They will not survive.

If a firm pays cash to buy a building so as to have office space for its workers, the monthly opportunity cost of the building is best measured as:

Select correct option:

The price the firm paid divided by twelve.

Zero.

**The rent the firm could earn if it rented the building to another firm.**

The monthly mortgage payment the firm would have had to pay.

The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the \_\_\_\_\_ model.

Select correct option:

Cournot

Stackelberg

Dominant firm

## **kinked demand**

In which market structure(s) will price exceed marginal revenue?

Select correct option:

Differentiated oligopoly and monopoly only

Standardized oligopoly and pure competition only

Monopolistic competition and monopoly only

**Monopolistic competition, oligopoly, and monopoly**

Feedback: Price will exceed marginal revenue in any industry in which firms face a downward-sloping demand curve. Pure competition is the only industry in which this is not the case.

An indifference curve is:

Select correct option:

**A collection of market baskets that are equally desirable to the consumer.**

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

If a sales tax on beer leads to reduced tax revenue, this means:

Select correct option:

Elasticity of demand is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping.

Demand is perfectly inelastic.

**ECO401 Solved MCQ from Quiz #3  
chapters 1-24**

Which of the following can be thought of as a barrier to entry?

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

A new technology which reduces costs for firms':

**Shifts the supply curve to the right**

Shifts the supply curve to the left

Reduces the equilibrium quantity

Raises the equilibrium price

The point at which AC intersects MC is where:

AC is decreasing.  
MC is at its minimum.  
**AC is at its minimum.**  
AC is at its maximum.

A normative economic statement:

Is a statement of fact  
Is a hypothesis used to test economic theory.  
**Is a statement of what ought to be, not what is.**  
Is a statement of what will occur if certain assumptions are true.

If the income elasticity of demand is  $1/2$ , the good is:

A luxury

**A normal good (but not a luxury).**

An inferior good.

A Giffen good.

And another question that derives from above is

If the income elasticity of demand is 2, the good is:

**A luxury**

A normal good (but not a luxury)

An inferior good.

A Giffen good.

Which of the following can be thought of as a barrier to entry?

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

A new technology which reduces costs for firms':

**Shifts the supply curve to the right**

Shifts the supply curve to the left

Reduces the equilibrium quantity

Raises the equilibrium price

1-If the total product of labor per day is as shown in the chart below and the price of the product is \$10/unit, what is the value of the marginal product (VMPL) of the 5th worker? Labor      Total output

1	10
2	25
3	35
4	40
5	41

Select correct option:

- 5
- 10
- 50
- 100

2- Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:

Select correct option:

- A surplus of credit.
- A shortage of credit.
- Greater profits for banks issuing credit.
- A perfectly inelastic supply of credit in the market place.

3- If marginal product is above the average product:

Select correct option:

- The total product will fall
- The average product will rise
- Average variable costs will fall
- Total revenue will fall

4- Which of the following markets is most likely to be oligopolistic?

Select correct option:

- The market for corn.
- The market for aluminum.
- The market for colas.
- The market for ground coffees.

5- Which of the following statements describes increasing returns to scale:

Select correct option:

- Doubling the inputs used leads to double the output.
- Increasing the inputs by 50% leads to a 25% increase in output.
- Increasing inputs by  $1/4$  leads to an increase in output of  $1/3$ .
- None of the given options.

6- If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger:

Select correct option:

- The consumer's indifference curve must be positively sloped.
- The consumer's indifference curve must be convex with respect to the origin

of the graph.

The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal  $\frac{1}{2}$ .

All of the given options.

7-When the marginal revenue product is greater than the marginal input cost of labor, the profit maximizing firm will:

Select correct option:

Hire more

Hire less

Maintain the same employment

Decrease output

**for more contents visit**

8-Marginal Cost is defined as:

Select correct option:

The derivative of variable cost with respect to quantity produced.

The derivative of Average Cost with respect to quantity produced.

The derivative of Total Cost with respect to quantity produced.

None of the given option.

9-The long run aggregate supply will shift to the right whenever:

Select correct option:

The price level increases

Factors of production (such as labor and capital) increase

Expenditures (such as consumption and net exports) increase

The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease

10-Which of the following statements is accurate about a competitive market in the long run?

Select correct option:

**Firms break even.**

Firms experience profits.

New firms enter the market.

Firms experience losses.

11-If a profit-maximizing firm finds that, at its current level of production,  $MR < MC$ , it will:



Select correct option:

**Increase output.**

Operate at a loss.

Shut down.

Decrease output.

12-At the equilibrium price:

Select correct option:

There will be a shortage

**There will be neither a shortage nor a surplus**

There will be a surplus

There are forces that cause the price to change

13- A graph showing all the combinations of capital and labour available for a given total cost is the:

Select correct option:

Budget constraint.

Expenditure set.

isoquant.

**isocost line.**

14-The demand curve faced by an individual firm in a competitive market is:

Select correct option:

Upward sloping.

Downward sloping.

**Horizontal.**

Vertical.

15-Which of the following can be thought of as a barrier to entry?

Select correct option:

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

1 The process by which resources are transformed into useful forms is

A. capitalisation.

- B. consumption.
  - C. allocation.
  - D. production.**
- 2 The concept of choice would become irrelevant if
- A. capital were eliminated.
  - B. scarcity were eliminated.**
  - C. we were dealing with a very simple, one-person economy.
  - D. poverty were eliminated.
- 3 Which of the following is not a resource as the term is used by economists?
- A. money.**
  - B. land.
  - C. buildings.
  - D. labour.
- 4 Capital, as economists use the term,
- A. is the money the firm spends to hire resources.
  - B. is money the firm raises from selling stock.
  - C. refers to the process by which resources are transformed into useful forms.

**D. refers to things that have already been produced that are in turn used to produce other goods and services.**

5 Opportunity cost, most broadly define, is

- A. the additional cost of producing an additional unit of output.
- B. what we forgo, or give up, when we make a choice or a decision.**
- C. a cost that cannot be avoided, regardless of what is done in the future.
- D. the additional cost of buying an additional unit of a product.

6 A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a

- A. demand curve.
- B. supply curve
- C. production possibility frontier.**
- D. circular-flow diagram.

7 Periods of “less than full employment” of resources correspond to

- A. points on the ppf.
- B. points outside the ppf.
- C. either points inside or outside the ppf.
- D. points inside the ppf.**

8 What lies is at the heart of the allocation of goods and services in a free-market economy?

- A. Concerns of equity or equal distribution among individuals.
- B. The order or command of the ruling government or dictator.
- C. The wishes of consumers in the market.
- D. The price mechanism.**

9 The phrase 'ceteris paribus' is best expressed as

- A. 'all else equal.'**
- B. 'everything affects everything else.'
- C. 'scarcity is a fact of life.'
- D. 'there is no such thing as a free lunch.'

10 Laboratory (or controlled) experiments cannot be performed in economics because:

- A. of resource scarcity.
- B. economics is a natural science.
- C. of the difficulty of distinguishing between normative and positive statements.
- D. economics is a social science.**

11 Positive statements are:

- A. value judgments
- B. verifiable or testable**
- C. statements in the affirmative
- D. good statements

12 The former Soviet Union was an example of:

- A. a planned economy**
- B. free-market/capitalism
- C. dictatorship
- D. a mixed economy

13. Rational choice or rational decision-making involves

- A. comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
- B. weighing up total costs and total benefits associated with a decision
- C. weighing up marginal costs and marginal benefits associated with a decision**
- D. all of the above.

14 The PPF can be used to illustrate:

- A. the principle of opportunity costs and increasing opportunity costs
- B. the distinction between micro and macroeconomics
- C. efficient, infeasible and inefficient production combinations
- D. all of the above**

Note for students: Unless otherwise stated, you should assume that we are operating in

P-Q space.

15 The concept of “interdependence of markets” can refer to the interdependence between:

- A. two or more factor markets
- B. goods and factor markets
- C. goods markets
- D. all of the above**

16 The 'law of demand' implies that

- A. as prices fall, quantity demanded increases.**
- B. as prices fall, demand increases.
- C. as prices rise, quantity demanded increases.
- D. as prices rise, demand decreases.

1. What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

- A. the **substitution effect**.
- B. the ceteris paribus effect.
- C. the total price effect.
- D. the income effect.

2. The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:

- A. A's consumers have had an increase in income.
- B. the price of A has increased.**
- C. A's advertising is not as effective as in the past.
- D. the price of rival brand B has increased.

5 Demand curves in P-Q space are derived while holding constant

- A. consumer tastes and the prices of other goods.
- B. incomes, tastes, and the price of the good.
- C. incomes and tastes.
- D. incomes, tastes, and the prices of other goods.**

6 Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are

- A. perfect substitutes.
- B. unrelated goods.
- C. complements.**
- D. substitutes.

7 If the demand for coffee decreases as income decreases, coffee is

- A. a normal good.**
- B. a complementary good.
- C. an inferior good.
- D. a substitute good.

8 Which of the following will NOT cause a shift in the demand curve for compact discs?

- A. a change in the price of pre-recorded cassette tapes.
- B. a change in wealth.
- C. a change in income.



**D. a change in the price of compact discs.**

9 Which of the following is consistent with the law of supply?

A. As the price of calculators rises, the supply of calculators increases, ceteris paribus.

B. As the price of calculators falls, the supply of calculators increases, ceteris paribus.

**C. As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.**

D. As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

10 The price of computer chips used in the manufacture of personal computers has fallen. This will lead to \_\_\_\_\_ personal computers.

A. a decrease in the supply of

B. a decrease in the quantity supplied of

**C. an increase in the supply of**

D. an increase in the quantity supplied of

11 When there is excess demand in an unregulated market, there is a tendency for

- A. quantity demanded to increase.
- B. quantity supplied to decrease.
- C. price to fall.
- D. price to rise.**

12 Equilibrium in the market for good A obtains

- A. when there is no surplus or shortage prevailing in the market
- B. where the demand and supply curves for A intersect
- C. when all of what is produced of A is consumed
- D. all of the above**

13 A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by

- A. a decrease in supply.
- B. a fall in income.**
- C. a fall in the price of a complementary good.
- D. a fall in the number of substitute goods.

Assume the good is normal

14 A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by

- A. a fall in the price of a complementary good.
- B. a fall in income.
- C. a change in tastes such that consumers prefer the good more.
- D. a rise in the number of substitute goods.**

Assume the good is normal

15 A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by

- A. an increase in supply.**
- B. a rise in income.
- C. a rise in the price of a complementary good.
- D. a fall in the number of substitute goods.

Assume the good is normal

16 When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as

- A. price fixing.
- B. quantity setting.

C. quantity adjustment.

**D. price rationing.**

17 How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?

A. 2

B. 4

**C. 8**

D. 16

18 What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right

**A. price falls unambiguously but the effect on quantity cannot be determined**

B. both price and quantity falls unambiguously

C. quantity falls unambiguously but the effect on price cannot be determined

D. the effect on both price and quantity cannot be determined

19 What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left

- A. price falls unambiguously but the effect on quantity cannot be determined
- B. both price and quantity falls unambiguously
- C. quantity falls unambiguously but the effect on price cannot be determined**
- D. the effect on both price and quantity cannot be determined

20 A price ceiling imposed by the government can cause a shortage (excess demand)

- A. when the price ceiling is above the free (or unregulated) market price
- B. when the price ceiling is below the free (or unregulated) market price**
- C. when the price ceiling is equal to the free (or unregulated) market price
- D. either of the above

21 What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?

- A. Price falls, quantity rises
- B. Price rises, quantity falls**
- C. Both price and quantity fall
- D. Both price and quantity rise

- 22 A price floor is
- A. a maximum price usually set by government, that sellers may charge for a good or service.
  - B. a minimum price usually set by government, that sellers must charge for a good or service.**
  - C. the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
  - D. the minimum price that consumers are willing to pay for a good or service.
- 23 The need for rationing a good arises when
- A. there is a perfectly inelastic demand for the good.
  - B. supply exceeds demand.
  - C. demand exceeds supply.**
  - D. a surplus exists.
- 24 If the “regulated-market” price is below the equilibrium (or “free-market” price) price,
- A. the quantity demanded will be greater than quantity supplied.**
  - B. demand will be less than supply.
  - C. quantity demanded will be less than quantity supplied.
  - D. quantity demanded will equal quantity supplied.

25 If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that

- A. **more workers would become employed.**
- B. there would be more unemployment.
- C. the costs and prices of firms employing cheap labour would increase.
- D. wages in general would fall as employers tried to hold down costs.

**A market with few entry barriers and with many firms that sell differentiated products is known as:  
Select correct option:**

Purely competitive

A monopoly

**Monopolistically competitive** (see page # 54)

Oligopolistic

**The cross elasticity of demand of complements goods is:  
Select correct option:**

**Less than 0.** (see page # 21)

Equal to 0.

Greater than 0.

Between 0 and 1.

**The production possibilities curve:**

**Select correct option:**

Shows all combinations of goods that society most desires

Indicates that any combination of goods lying outside the curve is attainable

**Separates all combinations of two goods that can be produced from those that cannot**

Shows only those combinations of two goods that reflect "full production"

### Reference:

The production possibilities curve is a frontier, indicating the maximum amount of one good achievable for a given amount of the other good. Only one of these combinations represents the combination society most desires and therefore represents "full production."

According to classical economists, the:

Select correct option:

**Aggregate demand curve is downward sloping and the aggregate supply curve is vertical**

Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is upward sloping

Aggregate demand curve is vertical and the aggregate supply curve is horizontal

### Reference:

-Revised handouts page # 108



**From year 2002 to year 2003, personal income rose by \$500 billion. If the Marginal Propensity to Consume = 0.9, then personal consumption expenditures rose by:**

\$45.0 billion.

\$500 billion.

**\$450 billion.**

\$50 billion.

Reference and Explanation:

Personal consumption expenditure =  $0.9 \times 500 = 450$  (page 127 handouts)

**The \_\_\_\_\_ is a graph of the \_\_\_\_\_ of a good and the \_\_\_\_\_.**

**Supply curve, price, quantity supplied**

Demand curve, price, quantity supplied

Supply curve, price, quantity demanded

Supply curve, quantity supplied, income of consumers

**Reference and explanation:**

**Supply curve, price, quantity supplied**

**(page 13 handouts)**

An economist will define the exchange rate between two currencies as the:

Select correct option:

**Amount of one currency that must be paid in order to obtain one unit of another currency.**

Difference between total exports and total imports within a country.

Price at which the sales and purchases of foreign goods takes place.

Ratio of import prices to export prices for a particular country.

**Explanation:**

An economist will define the exchange rate between two currencies as the amount of one currency that must be paid in order to obtain one unit of another currency. It is effectively the price of one currency in terms of another.

**Inflation:**

**Select correct option:**

Reduces both the purchasing power of the dollar and one's real income.

Reduces the purchasing power of the dollar and increases one's real income.

**Reduces the purchasing power of the dollar but may have no impact on one's real income.**

Increases the purchasing power of the dollar and reduces one's real income.

**Reference:**

A higher price level must reduce the purchasing power of the dollar. However, nominal incomes need not all increase at the same rate. Inflation tends to hurt those on fixed incomes, for example, while benefiting debtors.

**Monopolistic competition and oligopoly share which characteristic?**

**Select correct option:**

Free entry and exit from the industry

Strategic behavior

Standardized products

**Advertising**

**Reference:**

Advertising activities are to be expected whenever there is product differentiation or strategic interaction between firms.

**The effect of a change in income on the quantity of the good consumed is called the:**

**Select correct option:**

**Income effect**

Budget effect

Substitution effect

Real income effect

**Reference:**

The effect of a change in income on the quantity of the good consumed is called income effect.

**Deflation is:**

**Select correct option:**

An increase in the overall level of economic activity.

An increase in the overall price level.

A decrease in the overall level of economic activity.

**A decrease in the overall price level.**

**Explanation:**

Inflation is a situation in which there is a continuous rise in the general price level.

Deflation is the opposite of inflation and occurs when the general level of prices falls.

**MIDTERM EXAMINATION**

**Spring 2010**

**ECO401- Economics (Session - 2)**

**Time: 60 min**

**Marks: Question No: 1 ( Marks: 1 ) - Please choose one**

**Which of the following is a normative statement?**

▶ Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.

▶ The minimum wage should not be increased, because to do so would increase unemployment.

▶ Smoking should be restricted on all airline flights.

**▶ All of the given options.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Ceteris paribus means:**

▶ Equal access to public transportation.

▶Other things being equal.

▶Other things not being equal.

▶All things considered.

Question No: 3 ( Marks: 1 ) - Please choose one

An increase in supply is shown by:

▶Shifting the supply curve to the left.

▶Shifting the supply curve to the right.

▶Upward movement along the supply curve.

▶Downward movement along the supply curve.

Question No: 4 ( Marks: 1 ) - Please choose one

Which of the following is calculated as the percentage change in quantity demanded of a given good with respect to the percentage change in the price of another good?

▶Price elasticity of demand.

▶Income elasticity of demand.

▶Cross price elasticity of demand.

▶Price elasticity of supply.

Question No: 5 ( Marks: 1 ) - Please choose one

In order to calculate the price elasticity of supply, you need to know:

▶Two prices and two quantities supplied.

▶The slope of the supply curve.

- ▶The equilibrium price and quantity in the market.
- ▶The quantity supplied at two different prices, all else equal.

Question No: 6 ( Marks: 1 ) - Please choose one

Which of the following is the term that economists use to describe how consumers rank different goods and services?

▶Satisfaction index.

▶Goodness.

▶Utility.

▶None of the given options.

Question No: 7 ( Marks: 1 ) - Please choose one

If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:

▶The consumer's indifference curve must be positively sloped.

▶The consumer's indifference curve must be convex with respect to the origin of the graph.

▶The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal  $\frac{1}{2}$ .

▶All of the given options.

Question No: 8 ( Marks: 1 ) - Please choose one

As long as all prices remain constant, an increase in money income results in:

▶An increase in the slope of the budget line.

▶A decrease in the slope of the budget line.

▶An increase in the intercept of the budget line.

▶A decrease in the intercept of the budget line.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**The income effect of a price change:**

▶Is always positive.

▶Is always negative.

▶May be positive or negative.

▶Is associated with a change in nominal income.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**Which of the following is considered to be a variable cost in the long run?**

▶Expenditures for wages.

▶Expenditures for research and development.

▶Expenditures for raw materials.

▶All of the given options.

**Question No: 11 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. \_\_\_\_\_ means that as inputs are added to the production process, output increases proportionally.

▶Economies of scale; constant returns to scale.

▶Constant returns to scale; decreasing returns to scale.

▶Decreasing returns to scale; economies of scale.

▶Economies of scale; decreasing returns to scale.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**If isoquants are straight lines, it means that:**

- ▶ Only one combination of inputs is possible.
- ▶ There is constant returns to scale.
- ▶ Inputs have fixed costs at all use rates.
- ▶ **The marginal rate of technical substitution of inputs is constant.**

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Costs determine all of the following EXCEPT:**

▶ **Demand for a product.**

- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**At the profit-maximizing level of output, marginal profit:**

- ▶ Is positive.
- ▶ **Is increasing.**
- ▶ **Is zero.**
- ▶ Is also maximized.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**A perfectly competitive firm maximizes profit by finding the level of production at which:**

▶Price = Marginal Cost.

▶Price = Average Total Cost.

▶Average Total Cost = Marginal Cost.

▶Price < Marginal Cost.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**As compared to existing firms, a new firm entering in monopolist market has:**

▶High costs.

▶Low costs.

▶Equal costs.

▶None of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Cartels are likely to fail when:**

▶The members adhere to their output quotas.

▶The non-cartel members increase output.

▶The members charge identical prices.

▶None of the given options.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**Which of the following best expresses the law of demand?**

▶A higher price reduces demand.



▶A lower price reduces demand.

▶A higher price reduces quantity demanded.

▶A lower price shifts the demand curve to the right.

Question No: 19 ( Marks: 1 ) - Please choose one

If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:

▶Independent.

▶Complements.

▶Substitutes.

▶Inferior.

Question No: 20 ( Marks: 1 ) - Please choose one

If the income elasticity of demand is  $1/2$ , the good is:

▶A luxury.

▶A normal good (but not a luxury).

▶An inferior good.

▶A Giffen good.

Question No: 21 ( Marks: 1 ) - Please choose one

If the demand curve for a good is downward sloping, then the good:

▶Must be inferior.

▶Must be giffen.

▶Can be normal or inferior.

▶Must be normal.

Question No: 22 ( Marks: 1 ) - Please choose one

What is meant by freedom of enterprise in pure capitalism?

▶It means that businesses are free to produce products that consumers want.

▶It means that consumers are free to buy goods and services that they want.

▶It means that resources are distributed freely to businesses.

▶It means that government is free to direct the actions of businesses.

Question No: 23 ( Marks: 1 ) - Please choose one

What questions are related with explanation? What questions are related with what ought to be?

▶Positive, negative.

▶Negative, normative.

▶Normative, positive.

▶Positive, normative.

Question No: 24 ( Marks: 1 ) - Please choose one

Which of the following will happen if the current market price is set below the market clearing level?

▶There will be a surplus to accumulate.

▶There will be downward pressure on the current market price.

▶There will be upward pressure on the current market price.

▶There will be lower production during the next time period.

Question No: 25 ( Marks: 1 ) - Please choose one

What is meant by the term utility?

▶Useless.

▶Require.

▶Necessary.

▶**Satisfaction.**

Question No: 26 ( Marks: 1 ) - Please choose one

The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the variable cost?

▶**5Q.**

▶5.

▶  $5 + (200/Q)$ .

▶200.

Question No: 27 ( Marks: 1 ) - Please choose one

Which of the following is NOT included in the perfect information assumption of perfect competition?

▶Consumers know their preferences.

▶Consumers know their income levels.

▶Consumers know the prices available.

▶**Consumers can anticipate price changes.**

Question No: 28 ( Marks: 1 ) - Please choose one

Which of the following is TRUE for third-degree price discrimination?

▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

- ▶ Charging each consumer the same two part tariff.
- ▶ The use of increasing block rate pricing.
- ▶ Charging lower prices the greater the quantity purchased.

Question No: 29 ( Marks: 1 ) - Please choose one

The government can regulate monopolies to ensure that they set a price where the AR curve intersects the

▶ **Marginal revenue curve.**

▶ Average variable cost.

▶ **Marginal cost curve.**

▶ None of the given options.

Question No: 30 ( Marks: 1 ) - Please choose one

A reduced price may be offered if you buy two t-shirts instead of just one. This is an example of

- ▶ Perfect competition.
- ▶ First-degree price discrimination.
- ▶ Monopoly.

▶ **Second-degree price discrimination.**

Question No: 31 ( Marks: 1 ) - Please choose one

When different prices are charged to customers who purchase different quantities, this is an example of

▶**Second-degree price discrimination.**

- ▶First-degree price discrimination.
- ▶Monopoly.
- ▶Perfect competition.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:**

- ▶The demand curve for eggs to shift leftward.
- ▶Quantity demanded of eggs to decrease.

▶**The demand curve for eggs to shift rightward.**

- ▶Quantity demanded of eggs to increase.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Slope and elasticity of demand have**

- ▶A direct relation.

▶**An inverse relationship.**

- ▶No relation between slope and elasticity.
- ▶None of the given options.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**If you sum the marginal utilities obtained by consumption from one unit to five units of any commodity, you will get:**

▶**The marginal utility for the consumption of the fifth unit.**

▶The marginal utility for the consumption of the sixth unit.

▶The total utility for the consumption of the first five units.

▶The average utility for the consumption of the first five units.

**Question No: 35 ( Marks: 3 )**

**Why the monopolists produce lower quantities at higher prices compared to perfectly competitive firms?**

**Ans:**

- 1) Large initial fixed cost is involved
- 2) Product differentiation or brand loyalty
- 3) Monopolistic controls the supply of key factors of production

**Question No: 36 ( Marks: 5 )**

**Write down any five situations in which cartel can survive?**

**Ans:**

- 1) Cartel can survive when number of firms is small.
- 2) When the collusion is tacit or hidden not explicit.
- 3) The products are homogeneous.
- 4) Industry is stable
- 5) There is opening among the firms regarding their production process.
- 6) Government's strictness in implementing antitrust law.

**Question No: 37 ( Marks: 5 )**

**Differentiate between external economies of scale and external diseconomies of scale with the help of examples.**

**Ans:**

**External economies:** These are the benefits which are accrued to any firm in the presence of other firms. For example setting of credit information bureaus by bank , advertising by industry such as rival industry.

Discovery of new techniques.

This type of economy occurs when an industry is heavily concentrated in a particular area.

Economies is available to all firms for example construction of roads

**External diseconomies of scale :**

These are the forces which causes the large firms to produce goods and services at increased per unit costs.

This type of scale occurs when an industry grows larger and shortage of skilled laor taking place and shortage of raw materials are the types of external diseconomies.

When a firm become large then supervision of workers become difficult and problem is created for management is taking place which cause adverse effect on efficiency.

**Question No: 1 ( Marks: 1 ) - Please choose one**

**If pen and ink are complements, then an increase in the price of pen will cause:**

- ▶ An increase in the price of ink.
- ▶ **Less ink to be demanded at each price.**
- ▶ A decrease in the demand for pen.

- ▶ A rightward shift in the demand curve for ink.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**A good for which income and quantity demanded are inversely related is known as:**

- ▶ **Inferior good.**
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**At the equilibrium price:**

- ▶ There will be a shortage.
- ▶ **There will be neither a shortage nor a surplus.**
- ▶ There will be a surplus.
- ▶ There are forces that cause the price to change.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**A market is said to be in equilibrium when:**

- ▶ Demand equals output.
- ▶ There is downward pressure on price.
- ▶ **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**
- ▶ All buyers are able to find sellers willing to sell to them at the current price.

**Question No: 5 ( Marks: 1 ) - Please choose one**



**We know that the demand for a product is elastic:**

- ▶ When price rises, total revenue rises.
- ▶ When price rises, total revenue falls.
- ▶ When income rises, quantity demanded rises.
- ▶ When income falls, quantity demanded rises.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Which of the following is regarded as a general determinant of price elasticity of demand?**

- ▶ Nature of the good (luxury versus necessity).
- ▶ Availability of close substitutes.
- ▶ Share of consumer's budget and passage of time.
- ▶ All of the given options.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**As more of a good is consumed, then total utility typically:**

- ▶ Increases at a decreasing rate.
- ▶ Decreases as long as marginal utility is negative.
- ▶ Decreases as long as marginal utility is positive.
- ▶ Is negative as long as marginal utility is decreasing.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Which of the following is the term that economists use to describe how consumers rank different goods and services?**

- ▶ Satisfaction index.

- ▶ Goodness.
- ▶ Utility.
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**The extra value that consumers receive above what they pay for that good is called:**

- ▶ Producer surplus.
- ▶ Utility.
- ▶ Marginal utility.
- ▶ Consumer surplus.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**A risk-averse individual has:**

- ▶ A diminishing marginal utility of income.
- ▶ An increasing marginal utility of risk.
- ▶ An increasing marginal utility of income.
- ▶ A diminishing marginal utility of risk.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**As long as all prices remain constant, an increase in money income results in:**

- ▶ An increase in the slope of the budget line.
- ▶ A decrease in the slope of the budget line.
- ▶ An increase in the intercept of the budget line.

- ▶ A decrease in the intercept of the budget line.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:**

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**The budget line is the boundary between:**

- ▶ Preferred and non preferred consumption combinations.
- ▶ **Affordable and unaffordable consumption combinations.**
- ▶ Income and expenditure.
- ▶ One point on a budget line.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**An isoquant curve shows:**

- ▶ **All the alternative combinations of two inputs that yield the same maximum total product.**
- ▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.
- ▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- ▶ None of the given options.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**A perfectly competitive firm maximizes profit by finding the level of production at which:**

- ▶ Price = Marginal Cost.
- ▶ Price = Average Total Cost.
- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a \_\_\_\_\_ price and sell a \_\_\_\_\_ quantity.**

- ▶ Higher; larger.
- ▶ Lower; larger.
- ▶ Higher; smaller.
- ▶ Lower; smaller.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**For the monopolist shown below, the profit maximizing level of output is:**

- ▶ Q1.
- ▶ Q2.
- ▶ Q3.
- ▶ Q4.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ Oligopolistic.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**If the income elasticity of demand is  $1/2$ , the good is:**

- ▶ A luxury.
- ▶ A normal good (but not a luxury).
- ▶ An inferior good.
- ▶ A Giffen good.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a factor of production?**

- ▶ Labour.
- ▶ Land.
- ▶ Capital.
- ▶ Investment.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Under monopoly, when the demand curve is downward sloping, marginal revenue is:**

- ▶ Equal to price.

- ▶ Equal to average cost.
- ▶ Less than price.
- ▶ More than price.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift downward if there is:**

- ▶ Immigration of skilled workers into the nation.
- ▶ An increase in the size of the working-age population.
- ▶ A decrease in the size of the working-age population.
- ▶ Increased production of capital goods.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift upward if there is:**

- ▶ A reduction in unemployment.
- ▶ An increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ All of the given options.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Which of the following occur when an isocost line is just tangent to an isoquant?**

- ▶ Output is being produced at minimum cost.
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about L-shaped isoquant?**

- ▶ It indicates that the firm could switch from one output to another costlessly.
- ▶ It indicates that the firm could not switch from one output to another.
- ▶ It indicates that capital and labor cannot be substituted for each other in production.
- ▶ It is impossible.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Suppose that 90 units of output are produced by using 15 units of labor. Which of the following is TRUE in this context?**

- ▶ The marginal product of labor is 6.
- ▶ The total product of labor is  $1/6$ .
- ▶ The average product of labor is 6.
- ▶ None of the given options.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**The following table shows a firm's total product of labor. What is the marginal product of labor between second and third unit of labor?**

Table

Quantity  
of Labor  
Total  
Product

1 0

2 100

3	230
---	-----

- ▶ 100 units
- ▶ 130 units
- ▶ 110 units
- ▶ 230 units

**Question No: 28 ( Marks: 1 ) - Please choose one**

**What will happen to the isocost line if the price of both goods decreases proportionality?**

- ▶ It shifts farther away from the origin of the graph.
- ▶ It shift inward.
- ▶ It shifts outward.
- ▶ None of the given options.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**What will happen if current output is more than the profit-maximizing output?**

- ▶ The next unit produced will increase profit.
- ▶ The next unit produced will decrease revenue more than it increases cost.
- ▶ The next unit produced will decrease cost more than it increases revenue.
- ▶ The next unit produced will increase revenue without increasing cost.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**A price maker is:**



- ▶ A firm that accepts different prices from different customers.
- ▶ A monopolistically competitive firm.
- ▶ An oligoplistic firm.
- ▶ A firm that can individually influence the market price.

**Question No: 31 ( Marks: 1 ) - Please choose one**

**A reduced price may be offered if you buy two t-shirts instead of just one. This is an example of**

- ▶ Perfect competition.
- ▶ First-degree price discrimination.
- ▶ Monopoly.
- ▶ Second-degree price discrimination.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**In cartels, there are a small number of sellers and usually involve**

- ▶ Heterogeneous products.
- ▶ Large competition.
- ▶ Homogeneous products.
- ▶ Less demand in market.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**If the current market price is set above the market clearing level then which of the following will happen:**

- ▶ There will be downward pressure on the current market price.
- ▶ There will be upward pressure on the current market price.
- ▶ There will be lower production during the next time period.
- ▶ There will be a surplus to accumulate.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**If an increase in price increases the total revenue then:**

- ▶ Demand is elastic.
- ▶ Demand is inelastic.
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

**Question No: 35 ( Marks: 3 )**

**What will be the role of firms in case of maximin strategy and maximax strategy regarding profit?**

**Question No: 36 ( Marks: 5 )**

- A. In the above figure, total product of labour curves are drawn for three different cases. Identify what do the curves (a), (b) and (c) show about marginal product of labour.**
- B. What is the relationship between marginal product of labor curve and total product of labor curve?**

**(Marks: 3+2)**

**Solution:-**

**Answer A**

- a) MPL is increasing at increased rate**
- b) MPL is constant means unit increase in labor give unit increase in output**
- c) Increasing at decreasing rate**

**Question No: 37 ( Marks: 5 )**

**Fill in the missing figures in the table given below:**

Q	P=AR	TR	MR
1	9	9	0
2	8	16	7
3	7	21	5
4	6	24	3

5 5 25 1

**Question No: 1 ( Marks: 1 ) - Please choose one**

Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:

- ▶The economic perspective.
- ▶Marginal analysis.
- ▶Allocative efficiency.
- ▶Opportunity cost.

**Question No: 2 ( Marks: 1 ) - Please choose one**

At the equilibrium price:

- ▶There will be a shortage.
- ▶There will be neither a shortage nor a surplus.
- ▶There will be a surplus.

▶There are forces that cause the price to change.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

▶Quantity demanded.

▶Quantity supplied.

▶Price.

▶Output.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**We know that the demand for a product is elastic:**

▶When price rises, total revenue rises.

▶When price rises, total revenue falls.

▶When income rises, quantity demanded rises.

▶When income falls, quantity demanded rises.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**The law of diminishing marginal utility states:**

▶The supply curve slopes upward.

▶Your utility grows at a slower and slower rate as you consume more and more units of a good.

▶The elasticity of demand is infinite.

▶None of the given options.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Consumers will maximize satisfaction when:**

- ▶The price of each good is exactly equal to the price of every other good consumed.
- ▶The price of each good is exactly equal to the total utility derived from the consumption of every other good.
- ▶The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good.
- ▶Marginal utility is equal to average utility.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Indifference curves that are convex to the origin reflect:**

- ▶An increasing marginal rate of substitution.
- ▶A decreasing marginal rate of substitution.
- ▶A constant marginal rate of substitution.
- ▶A marginal rate of substitution that first decreases, then increases.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:**

- ▶Indifference curves slope downwards.
- ▶Indifference curves slope upwards.
- ▶Indifference curves may cross.

▶ Indifference curves could take the form of ellipses.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Increase in pension benefits leads to income and substitution effect which:**

▶ Encourage workers to retire later.

▶ Encourage workers to work more hours.

▶ Have no effect on incentive to retire.

▶ Encourage workers to retire earlier.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**Increasing returns to scale in production means:**

▶ More than twice as much of only one input is required to double output.

▶ Isoquants must be linear.

▶ More than 10% as much of all inputs are required to increase output 10%.

▶ Less than twice as much of all inputs are required to double output.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**In the short run, a firm should shut down when:**

▶ Production losses are less than fixed costs.

▶ Only normal profits are earned.

▶ Production losses exceed fixed costs.

▶ Fixed costs are zero.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Second-degree price discrimination is the practice of charging:**

- ▶The reservation price to each customer.
- ▶Different prices for different blocks of the same good or service.
- ▶Different groups of customers different prices for the same products.
- ▶Each customer the maximum price that he or she is willing to pay.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**The market structure in which strategic considerations are most important is:**

- ▶Monopolistic competition.
- ▶Oligopoly.
- ▶Pure competition.
- ▶Pure monopoly.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Which of the following best expresses the law of demand?**

- ▶A higher price reduces demand.
- ▶A lower price reduces demand.
- ▶A higher price reduces quantity demanded.
- ▶A lower price shifts the demand curve to the right.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**If a sales tax on beer leads to reduced tax revenue, this means:**

▶Elasticity of demand is  $< 1$ .

▶Elasticity of demand is  $> 1$ .

▶Demand is upward-sloping.

▶Demand is perfectly inelastic.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**The textbook for your class was not produced in a perfectly competitive industry because:**

▶There are so few firms in the industry that market shares are not small, and firm's decisions have an impact on market price.

▶Upper-division microeconomics texts are not all alike.

▶It is not costless to enter or exit the textbook industry.

▶All of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Which of the following is true about supply curve under monopoly?**

▶It is same as the competitive market supply curve.

▶It is the portion of marginal cost curve where marginal costs exceed the minimum value of average variable costs.

▶It is the result of market power and production costs.

▶None of the given statements is true.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**If other things remaining the same, expected income can be used as a direct measure of well-being in which of the following situations?**

▶It can be used no matter what a person's preference to risk.

▶It can be used if and only if individuals are not risk-loving.



▶It can be used if and only if individuals are risk averse.

▶It can be used if and only if individuals are risk neutral.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**Which of the following will happen if the cost of computer components falls?**

▶The demand curve for computers shifts to the right.

▶The demand curve for computers shifts to the left.

▶The supply curve for computers shifts to the right.

▶The supply curve for computers shifts to the left.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**What will happen if there is an increase in the raw material costs, other things remaining the same?**

▶The supply curve will shift to the left.

▶The supply curve will shift to the right.

▶Output will increase regardless of the market price and the supply curve will shift upward.

▶Output will decrease and the market price will also decrease.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?**

▶10.

▶13.

▶20.

▶33.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE for a Giffen good?**

- ▶Its marginal utility is zero.
- ▶Its demand curve is perfectly elastic.
- ▶Its substitution effect is positive.
- ▶Its demand curve is positively sloped.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Which of the following occur when an isocost line is just tangent to an isoquant?**

- ▶Output is being produced at minimum cost.
- ▶Output is not being produced at minimum cost.
- ▶The two products are being produced at the medium input cost to the firm.
- ▶The two products are being produced at the highest input cost to the firm.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Indifference curves that are concave to the origin reflect:**

- ▶An increasing marginal rate of substitution
- ▶A decreasing marginal rate of substitution
- ▶A constant marginal rate of substitution
- ▶A marginal rate of substitution that first decreases then increases

**Question No: 25 ( Marks: 1 ) - Please choose one**

**What will happen to the isocost line if the price of both goods decreases proportionality?**

- ▶It shifts farther away from the origin of the graph.
- ▶It shift inward.
- ▶It shifts outward.
- ▶None of the given options.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Average total costs are the sum of:**

- ▶ Fixed costs and marginal costs
- ▶ Average variable costs and marginal costs
- ▶ Average fixed costs and average variable costs
- ▶ Average marginal costs and average variable costs

**Question No: 27 ( Marks: 1 ) - Please choose one**

**At the profit-maximizing level of output, the marginal cost is equal to:**

- ▶ Average revenue
- ▶ Total revenue
- ▶ Marginal revenue
- ▶ None of the given options

**Question No: 28 ( Marks: 1 ) - Please choose one**

**The amount of output for maximum profit that a firm decides to sell has an effect on the market price in a monopolistic competitive industry because:**

- ▶ The firm supplies a different good than its rivals.
- ▶ The firm's output is a considerable fraction of the entire industry's output.
- ▶ The short run market price is determined solely by the firm's technology.
- ▶ None of the given options.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**When new firms enter in perfectly competitive industry for profits, the supply starts to:**

- ▶ Increase in response to demand.
- ▶ Increase in response to price.
- ▶ Decrease in response to demand.
- ▶ Decrease in response to price.

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Maximum number of firms in an oligopoly is about**

- ▶ 2
- ▶ 10
- ▶ 15
- ▶ 20

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Resources are governed by both government and individuals in**

- ▶ Dictatorship.
- ▶ Command or planned economy.
- ▶ A mixed economy.
- ▶ Capitalist economy.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:**

- ▶ The demand curve for eggs to shift leftward.

▶Quantity demanded of eggs to decrease.

▶The demand curve for eggs to shift rightward.

▶Quantity demanded of eggs to increase.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**An increase in quantity demand is shown by:**

▶Shifting the demand curve to the left.

▶Shifting the demand curve to the right.

▶Upward movement along the demand curve.

▶Downward movement along the demand curve.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**If a 7% price reduction causes quantity demanded to rise by 10% then:**

▶Demand is inelastic.

▶Demand is elastic.

▶Demand is perfectly elastic.

▶Total revenue will remain constant.

**Question No: 35 ( Marks: 3 )**

**What is the key difference between the short run and the long run for the profit-maximizing firm?**

**Question No: 36 ( Marks: 5 )**

- A. Why the firm experiences economies of scale and what will be the shape of long run average cost curve in this case?
- B. Why the firm experiences diseconomies of scale and what will be the shape of long run average cost curve in this case?

**(Marks: 2.5+2.5)**

Question No: 37 ( Marks: 5 )

Define price taker firm and price maker firm. Also discuss in which type of market structures these firms exist?

### My Mid Term Paper 2010-05-27 ECO 401

(Total Question were 37 and 95% were from 2009 Mid term papers some are below)

NAEEM QURESHI

A market with few entry barriers and with many firms that sell differentiated products is:

- Purely competitive.
- A monopoly.
- Monopolistically competitive.
- Oligopolistic.

The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the total fixed cost?

- $5Q$ .
- 5.
- $5 + (200/Q)$ .

None of the given options

Costs determine all of the following EXCEPT:

- Demand for a product.
- Firm's behaviour.
- How firms should expand?
- Firm's profitability.

A market with few entry barriers and with many firms that sell differentiated products is:

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ Oligopolistic.

Marginal profit is equal to:

- ▶ Marginal revenue minus marginal cost.
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

If current output is less than the profit-maximizing output then which of the following must be TRUE?

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.
- ▶ Marginal revenue is greater than marginal cost.

If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:

- ▶ Decreasing returns to scale.
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale

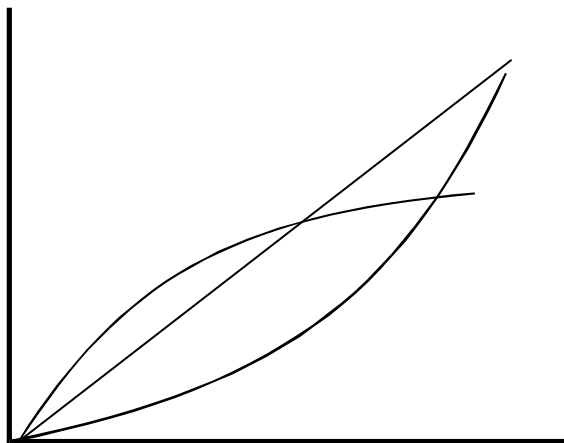
Long Question

QNo: Long Run And Short Run

QNo2 : A Graph below and tell about the lines

QNo 3: Monopolistic Competition, oligopoly

**MARGINAL**





## **labor**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**In a free-market economy, the allocation of resources is determined by:**

- ▶Votes taken by consumers.
- ▶A central planning authority.
- ▶Consumer preferences.
- ▶The level of profits of firms.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Land is best described as:**

- ▶Produced factors of production.
- ▶"Organizational" resources.
- ▶Physical and mental abilities of people.
- ▶"Naturally" occurring resources.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**Our economy is characterized by:**

▶Unlimited wants and needs.

▶Unlimited material resources.

▶No energy resources.

▶Abundant productive labor.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**A market is said to be in equilibrium when:**

▶Demand equals output.

▶There is downward pressure on price.

▶The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.

▶All buyers are able to find sellers willing to sell to them at the current price.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**We know that the demand for a product is elastic:**

▶When price rises, total revenue rises.

▶When price rises, total revenue falls.

▶When income rises, quantity demanded rises.

▶When income falls, quantity demanded rises.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**The extra value that consumers receive above what they pay for that good is called:**

▶Producer surplus.

- ▶Utility.
- ▶Marginal utility.
- ▶Consumer surplus.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶Horizontal.
- ▶Vertical.
- ▶Negative.
- ▶Positive.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**As long as all prices remain constant, an increase in money income results in:**

- ▶An increase in the slope of the budget line.
- ▶A decrease in the slope of the budget line.
- ▶An increase in the intercept of the budget line.
- ▶A decrease in the intercept of the budget line.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**If isoquants are straight lines, it means that:**

- ▶Only one combination of inputs is possible.
- ▶There is constant returns to scale.
- ▶Inputs have fixed costs at all use rates.
- ▶The marginal rate of technical substitution of inputs is constant.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**At the profit-maximizing level of output, marginal profit:**

- ▶Is positive.
- ▶Is increasing.
- ▶Is zero.
- ▶Is also maximized.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is TRUE at the output level, where price = marginal cost?**

- ▶The monopolist is maximizing profit.
- ▶The monopolist is not maximizing profit and should increase output.
- ▶The monopolist is not maximizing profit and should decrease output.
- ▶The monopolist is earning a positive profit.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**A firm is charging a different price for each unit purchased by a consumer. This is called:**

- ▶First-degree price discrimination.
- ▶Second-degree price discrimination.
- ▶Third-degree price discrimination.
- ▶None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**If a sales tax on beer leads to reduced tax revenue, this means:**

▶Elasticity of demand is  $< 1$ .

▶Elasticity of demand is  $> 1$ .

▶Demand is upward-sloping.

▶Demand is perfectly inelastic.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Which of the following is considered a market structure?**

▶Monopoly.

▶Perfect competition.

▶Oligopoly.

▶All of the given are considered market structures.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**A natural monopoly is most likely to exist when:**

▶There are large barriers to entry.

▶There are long term patents.

▶There are large economies of scale.

▶There is government regulation of the industry.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**An individual whose attitude towards risk is known as:**

▶Risk averse.

▶Risk loving.

▶Risk neutral.

▶None of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**In the above figure, the marginal utility of income is:**

▶Increasing as income increases.

▶Constant for all levels of income.

▶Diminishes as income increases.

▶None of the given options.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?**

▶The demand curve for airline travel shifts left.

▶The demand curve for airline travel shifts right.

▶The supply curve of airline travel shifts left.

▶The supply curve of airline travel shifts right.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**What is the assumption of constructing a production possibilities curve?**

▶Economic resources are underutilized.

▶Resources are equally productive in many alternative uses.

▶All available resources are employed efficiently.

▶Production technology is allowed to vary.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift downward if there is:**

- ▶ Immigration of skilled workers into the nation.
- ▶ An increase in the size of the working-age population.
- ▶ A decrease in the size of the working-age population.
- ▶ Increased production of capital goods.

**Question No: 21 ( Marks: 1 ) - Please choose one**

Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?

- ▶ 10.
- ▶ 13.
- ▶ 20.
- ▶ 33.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about an indifference curve?**

- ▶ It is a collection of market baskets that are equally desirable to the consumer.
- ▶ It is a collection of market baskets that the consumer can buy.
- ▶ It is a curve whose elasticity is constant for every price.
- ▶ It is a curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE for a Giffen good?**

- ▶ Its marginal utility is zero.
- ▶ Its demand curve is perfectly elastic.

▶Its substitution effect is positive.

▶Its demand curve is positively sloped.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**What is TRUE about the relationship between average product (AP) and marginal product (MP)?**

▶If AP exceeds MP, then AP is falling.

▶If AP is at a maximum, then MP is also at maximum.

▶If  $AP = MP$ , then total product is at a maximum.

▶If Total Product is declining, then AP is negative.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the fixed cost?**

▶5Q.

▶5.

▶ $5 + (200/Q)$ .

▶200.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT included in the perfect information assumption of perfect competition?**

▶Consumers know their preferences.

▶Consumers know their income levels.

▶Consumers know the prices available.

▶Consumers can anticipate price changes.

**Question No: 27 ( Marks: 1 ) - Please choose one**



**What is the reason that monopolist has no supply curve?**

- ▶ Because the quantity supplied at any particular price depends on the monopolist's demand curve.
- ▶ Because the monopolist's marginal cost curve changes considerably over time.
- ▶ Because the relationship between price and quantity depends on both marginal cost and average cost.
- ▶ Because although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**What will happen to the isocost line if the price of both goods decreases proportionality?**

- ▶ It shifts farther away from the origin of the graph.
- ▶ It shift inward.
- ▶ It shifts outward.
- ▶ None of the given options.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as  $TC = 500 + 30Q$ . What is the average total cost?**

- ▶ 500
- ▶  $30 + (500/Q)$
- ▶  $30Q^2 + 500Q$
- ▶ 30

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Average total costs are the sum of:**

- ▶ Fixed costs and marginal costs
- ▶ Average variable costs and marginal costs

▶Average fixed costs and average variable costs

▶Average marginal costs and average variable costs

**Question No: 31 ( Marks: 1 ) - Please choose one**

**What will happen if current output is more than the profit-maximizing output?**

▶The next unit produced will increase profit.

▶The next unit produced will decrease revenue more than it increases cost.

▶The next unit produced will decrease cost more than it increases revenue.

▶The next unit produced will increase revenue without increasing cost.

**Question No: 32 ( Marks: 1 ) - Please choose one**

**At the profit-maximizing level of output, the marginal cost is equal to:**

▶Average revenue

▶Total revenue

▶Marginal revenue

▶None of the given options

**Question No: 33 ( Marks: 1 ) - Please choose one**

**An increase in quantity demand is shown by:**

▶Shifting the demand curve to the left.

▶Shifting the demand curve to the right.

▶Upward movement along the demand curve.

▶Downward movement along the demand curve.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**Slope and elasticity of demand have**

▶A direct relation.

▶An inverse relationship.

▶No relation between slope and elasticity.

▶None of the given options.

**Question No: 35 ( Marks: 3 )**

**What is the key difference between the short run and the long run for the profit-maximizing firm?**

**Question No: 36 ( Marks: 5 )**

**Compare the characteristics of perfect competition and monopolistic competition with examples.**

**Question No: 37 ( Marks: 5 )**

**What are the two main theories of production regarding time?**

**Question No: 35 ( Marks: 3 )**

**Why the monopolists produce lower quantities at higher prices compared to perfectly competitive firms?**

Monopolists produce lower quantities at higher prices compared to perfectly competitive firms. This is because monopolists do not produce where  $P=MC$  (the point of allocative efficiency) nor at  $P=AC$  minimum (the point of cost efficiency).

**Question No: 36 ( Marks: 5 )**

**Write down any five situations in which cartel can survive?**

**Cartel**

A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products

Cartel can survive in the following situation:

1. there is openness among firms regarding their production processes
2. the product is homogeneous
3. there is a large firm which acts as price leader
4. industry is stable
5. government's strictness in implementing anti-trust (or anti-collusion) laws
6. When the collusion is tacit or hidden not explicit

**Question No: 37 ( Marks: 5 )**

**Differentiate between external economies of scale and external diseconomies of scale with the help of examples.**

**EXTERNAL ECONOMIES**

External economies are benefits accruing to any one firm due to actions or the presence of other firms.

This type of economy occurs when an industry is heavily concentrated in a particular area. Economies is available to all firms for example construction of roads

**EXAMPLE:**

advertising by a rival industry, setting up of credit information bureaus by banks

**External diseconomies of scale :**

These are the forces which causes the large firms to produce goods and services at increased per unit costs.

**EXAMPLE:**

when an industry grows larger and shortage of skilled laor taking place and shortage of raw materials are the types of external diseconomies.

When a firm become large then supervision of workers become difficult and problem is created for management is taking place which cause adverse effect on efficiency.

**Question No: 35 ( Marks: 3 )**

**Describe the profit-maximizing conditions that give answer to the following questions faced by any competitive business firm**

In the MR-MC approach, two steps are followed to identify maximum profit

. **First:** the profit-maximizing output is identified – this is the point where MR cuts MC.

**Second:** the size of maximum profit is calculated using AC and AR curves

IT IS JST IDEA NOT CORRECT ANS

**Question No: 36 ( Marks: 5 )**

**A. Derive the equation of budget line. Which part of the equation shows the slope and which part shows the intercept?**

**B. Which factors cause the shift in budget line and which cause the change in slope of budget line?**

PART A ANS:

**Budget line:**

The budget line shows various combinations of 2 goods X & Y that can be purchased. **EQUATION OF THE BUDGET LINE:**

Budget line in terms of  $Y = a + bx$

According to this equation

b=INTERCEPT

a=SLOPE

**B. Which factors cause the shift in budget line and which cause the change in slope of budget line?**

The budget line can shift due to changes in total budget and the relative price ratio  $-P_x/P_Y$ . If money income rises, the budget line will shift outwards (parallel to the initial budget line). If the relative price ratio changes, the slope of the budget line changes

**Question No: 37 ( Marks: 5 )**

**How advertisement can affect a cartel's marginal cost and average revenue?**

**Question No: 35 ( Marks: 3 )**

**How the monopolist can maintain the high price even in the long run?**

A monopolist can make supernormal profits even in long run because there is no easy entry for other firms as in the case of perfect competition. Therefore, a monopolist can maintain her high price even in the long run.

**Question No: 36 ( Marks: 5 )**

**C. Compare the characteristics of oligopoly and monopoly market structures.**

**D. Differentiate between the shape of demand curve in oligopoly and monopoly.**

**PART A ANS:**

**DIFFERENCE OF OLIGOPOLY WITH OTHER MARKET STRUCTURES**

An oligopoly is a market form in which a market or industry is dominated by a small number of sellers (oligopolists). The word is derived from the Greek for few sellers.

- Because there are few participants in this type of market, each oligopolist is aware of the actions of the others. The decisions of one firm influence, and are influenced by the decisions of other firms. Strategic planning by oligopolists always involves taking into account the likely responses of the other market participants. This causes oligopolistic markets and industries to be at the highest risk for collusion.

- It is not possible to identify any single equilibrium in oligopoly. Theory of firm is not clearly discussed & established as the theory of firm in the other three market structures. Reason for that is the firms are interdependent

**PART B ANS:**

**E. Differentiate between the shape of demand curve in oligopoly and monopoly.**

**Oligopoly**

Downward sloping relatively

inelastic but depends on reactions of rivals to a price change

### **monopoly**

Downward sloping more

inelastic than oligopoly; firm has considerable control over price

**Q#....**

### **ISOCOST OR BUDGET LINE**

The concept of isocost is similar to the budget line developed in indifference curve analysis. It is a line, which captures all the different combinations of inputs that the firm can afford to hire.

- a. If price of both inputs increases, the isocost line shifts inwards.
- b. If price of one input increases, it pivots out.
- c. The slope of isocost is  $PL/PK$ .

### **The isoquant-isocost combination can help answer:**

- a. What is the least cost way of producing a particular level of output?
- b. What the highest level of output the firm can produce given a certain budget.

### **ISOQUANT**

An isoquant represents different combinations of factors of production that a firm can employ to produce the same level of output. Isoquant can be used to illustrate the concepts of returns to scale and returns to factor.

### **Isoquant Map:**

Like an indifference map, an isoquant map consists of parallel isoquants that do not intersect. The higher the output level the further to the right an isoquant will be.

**Question No: 41 ( Marks: 10 )**

**Following table shows the price and quantity demanded of a good.**

Price	Quantity demanded
-------	-------------------

2.5	400
5	200
10	100
20	50
40	25

- a) Calculate the total revenue from this table.  
b) Interpret whether the demand is elastic, inelastic or unitary elastic and why?  
I HV ALREADY SEND IT TO U  
c) What will be the shape of demand curve according to the above table? Draw the graph.

Question No: 41 ( Marks: 10 )

- c. What is the relationship between average physical product and marginal physical product in three cases if:
- iv. Marginal physical product is equal to average physical product.  
The average physical product will not change.
- v. Marginal physical product is above the average physical product.  
The average physical product will also increase.
- vi. Marginal physical product is below the average physical product.  
The average physical product will also fall

Question No: 41 ( Marks: 10 )

- a. According to the given graph, at which point allocative efficiency is achieved?  
b. Is the productive efficiency is also attained at the point of allocative efficiency? why  
c. At which point economist might make a loss and what will be the role of Government in this regard?  
d. At which point monopolist is able to get allocative efficiency as well as productive efficiency?  
(Marks: 2.5+2.5+2.5+2.5)

Question No: 41 ( Marks: 10 )

- A. Define "Law of supply" and explain it with a schedule and diagram.  
B. What are the factors which cause the shift in market supply curve?  
(Marks: 6+4)



ANSWER: **LAW OF SUPPLY:** It states that as the price goes up the quantity supplied also goes up and when price falls quantity supplied also falls.

**Schedule for Supply:**

Pri Qu  
ce ant  
(R ity  
s.) su  
ppl  
ied

5	100
4	95
3	80
2	60
1	40

**Factors Causing Shift in Supply Curve:**

There are various factors causing shift in market supply curve which are as follows:

Factors changing supply	Effect on supply	Direction of Shift	Equilibrium Price	Equilibrium quantity
Increase in number of suppliers	Increase	Rightward shift	Decrease	Increase

De De Lef Inc De  
cre cre tw reacre  
as as ardse as  
e e shi e  
in ft  
nu  
mb  
er  
of  
su  
ppl  
ier  
s

Im IncRi De Inc  
proreaghtcrerea  
ve se wa as se  
d rd e  
tec shi  
hn ft  
olo  
gy

De De LefIncDe  
cli cretw reacre  
ne as ardse as  
d e shi e  
tec ft  
hn  
olo  
gy

IncDe LefIncDe  
reacretw reacre  
se as ardse as  
in e shi e  
fut ft  
ure  
pri  
ce

De IncRi De Inc  
crereaghtcrerea  
as se wa as se  
e rd e  
in shi  
fut ft  
ure  
pri  
ce

Increase DecreaseLeftwardIncreaseDecrease in shift resources' price
--

Decrease IncreaseRightwardDecreaseIncrease
--

in resources' price	shift

**Question No: 41 ( Marks: 10 )**

**Explain all the factors which determine the value of price elasticity of demand**

**SEE PG NO 12 FOR SOL**

**Q6. Define price taker and price maker with market structures?**

**PRICE-TAKING FIRM**

A firm that does not have the ability to influence market price is a price-taker. In perfect competition, the firm is price taker. There are large number of buyers and sellers and firm can not influence on the market price. Price is set by the forces of demand and supply.

**PRICE-MAKING FIRM**

A firm that influences the market price by how much it produces can be called a price-maker or pricesetter. In Monopoly, firm is price maker. A monopoly or a firm within monopolistic competition that

has the power to influence the price it charges as the good it produces does not have perfect substitutes.

A monopoly is a price maker as it holds a large amount of power over the price it charges.

**Q7. Define increasing return to scale?**

Increasing returns to scale or (economies of scale) arise if, as firms become bigger and bigger, their costs per unit of output fall. This could be because of larger more efficient plants, financial economies, more efficient specialized labour, bulk discounts on purchases etc.

Question No: 35 ( Marks: 3 )

What is the key difference between the short run and the long run for the profit-maximizing firm?

**IT CAN BE THIS**

in **short run** where revenue is greater than the cost, in **long run** it earns normal profit where revenue is equal to cost

**REASON:**

Super normal profit is only possible in the short run not in the long run

Question No: 36 ( Marks: 5 )

)

Question No: 36 ( Marks: 5 )

C. In the above figure, total product of labour curves are drawn for three different cases. Identify what do the curves (a), (b) and (c) show about marginal product of labour.

*Answer A*

*a) MPL is increasing at increasing rate*

*b) MPL is constant means unit increase in labor give unit increase in output*

*c) Increasing at decreasing rate*

D. What is the relationship between marginal product of labor curve and total product of labor curve?

(Marks: 3+2)

Question No: 37 ( Marks: 5 )

Fill in the missing figures in the table given below:

Q	P=AR	TR	MR
1	9	9	9
2	8	16	7
3	7	21	5
4	6	24	3

5 5 25 1

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.

▶ The behavior of individual consumers and behavior of individual firms and investors.

**Question No: 2 ( Marks: 1 ) - Please choose one**

**A market is said to be in equilibrium when:**

- ▶ Demand equals output.
- ▶ There is downward pressure on price.

▶ The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.

- ▶ All buyers are able to find sellers willing to sell to them at the current price.

**Question No: 3 ( Marks: 1 ) - Please choose one**

**In order to calculate the price elasticity of supply, you need to know:**

▶ **Two prices and two quantities supplied.**

- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

**Question No: 4 ( Marks: 1 ) - Please choose one**

**A demand curve is price elastic when:**

- ▶ **Changes in demand are proportionately greater than changes in price.**
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.
- ▶ Changes in demand are proportionately smaller than changes in price.

**Question No: 5 ( Marks: 1 ) - Please choose one**

**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.
- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Which of the following is regarded as a general determinant of price elasticity of demand?**

- ▶ Nature of the good (luxury versus necessity).
- ▶ Availability of close substitutes.
- ▶ Share of consumer's budget and passage of time.
- ▶ All of the given options.

**Question No: 7 ( Marks: 1 ) - Please choose one**

**The substitution effect of a wage increase will lead a person to:**

- ▶ Work more.
- ▶ Take more leisure.
- ▶ Not change anything.
- ▶ None of the given options.

**Question No: 8 ( Marks: 1 ) - Please choose one**

**A production function:**

- ▶ Relates inputs with output.
- ▶ Generates a curve that is upward sloping.



▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.

▶ All of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**

**If isoquants are straight lines, it means that:**

▶ Only one combination of inputs is possible.

▶ There is constant returns to scale.

▶ Inputs have fixed costs at all use rates.

▶ The marginal rate of technical substitution of inputs is constant.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**A firm maximizes profit by operating at the level of output where:**

▶ Average revenue equals average cost.

▶ Average revenue equals average variable cost.

▶ Total costs are minimized.

▶ Marginal revenue equals marginal cost.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Producer surplus in a perfectly competitive industry is:**

▶ The difference between profit at the profit-maximizing and profit-minimizing level of output.

- ▶ The difference between revenue and total cost.
- ▶ The difference between revenue and variable cost.
- ▶ The difference between revenue and fixed cost.

**Question No: 12 ( Marks: 1 ) - Please choose one**

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.
- ▶ Has no close substitutes.
- ▶ Can be easily duplicated.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ Monopolistically competitive.
- ▶ Oligopolistic.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?**

▶ The demand curve is tangent to marginal cost curve.

▶ **The demand curve is tangent to average cost curve.**

▶ The marginal cost curve is tangent to average cost curve.

▶ The demand curve is tangent to marginal revenue curve.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**Which of the following best expresses the law of demand?**

▶ A higher price reduces demand.

▶ A lower price reduces demand.

▶ **A higher price reduces quantity demanded.**

▶ A lower price shifts the demand curve to the right.

**Question No: 16 ( Marks: 1 ) - Please choose one**

**You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:**

▶ The demand for houses has increased.

- ▶ The demand curve for houses must be upward-sloping.
- ▶ The supply of houses has increased.
- ▶ Housing construction costs must be decreasing.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Insurance companies operate under the principle of:**

- ▶ Law of large numbers.
- ▶ Law of small numbers.
- ▶ Law of zero numbers.
- ▶ All of the given options.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ Inferior good.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**In monopoly, which of the following is NOT true?**

- ▶ Products are differentiated.
- ▶ There is freedom of entry and exit into the industry in the long run.
- ▶ The firm is a price maker.
- ▶ There is one main seller.

**Question No: 20 ( Marks: 1 ) - Please choose one**

**In the above figure, the marginal utility of income is:**

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.
- ▶ None of the given options.

**Question No: 21 ( Marks: 1 ) - Please choose one**

**How many points you need to know to calculate the price elasticity of demand on the same demand curve?**

- ▶ One.
- ▶ Two.
- ▶ Three.
- ▶ Four.

**Question No: 22 ( Marks: 1 ) - Please choose one**

**What is the assumption of constructing a production possibilities curve?**

- ▶ Economic resources are underutilized.
- ▶ Resources are equally productive in many alternative uses.
- ▶ All available resources are employed efficiently.
- ▶ Production technology is allowed to vary.

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift downward if there is:**

- ▶ Immigration of skilled workers into the nation.
- ▶ An increase in the size of the working-age population.
- ▶ A decrease in the size of the working-age population.
- ▶ Increased production of capital goods.

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Which of the following will happen if the current market price is set below the market clearing level?**

- ▶ There will be a surplus to accumulate.
- ▶ There will be downward pressure on the current market price.
- ▶ There will be upward pressure on the current market price.
- ▶ There will be lower production during the next time period.

**Question No: 25 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

- ▶ **5Q.**
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ 200.

**Question No: 26 ( Marks: 1 ) - Please choose one**

**If average physical product (APP) is decreasing then which of the following must be true?**

- ▶ Marginal physical product is more than the average physical product.
- ▶ **Marginal physical product is less than the average physical product.**
- ▶ Marginal physical product is decreasing.
- ▶ Marginal physical product is increasing.

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Which of the following statement describes decreasing returns to scale?**

- ▶ Increasing the inputs by 1/4% leads to a 1/2% increase in output.
- ▶ **Increasing inputs by 1/2 leads to an increase in output of 1/6.**

- ▶ Doubling the inputs used leads to double the output.
- ▶ None of the given options.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**All the factors of production become variable in:**

- ▶ Law of increasing return.
- ▶ Long run.
- ▶ Law of decreasing cost.
- ▶ Short run.

**Question No: 29 ( Marks: 1 ) - Please choose one**

**Indifference curves that are concave to the origin reflect:**

- ▶ An increasing marginal rate of substitution
- ▶ A decreasing marginal rate of substitution
- ▶ A constant marginal rate of substitution
- ▶ A marginal rate of substitution that first decreases then increases

**Question No: 30 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as  $TC = 500 + 30Q$ . What is the average total cost?**

- ▶ 500
- ▶  $30 + (500/Q)$



▶  $30Q^2+500Q$

▶ 30

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which of the following is not included in the key ingredients of any market structure?**

▶ Number of firms in the market/industry

▶ Extent of barriers to entry

▶ Perfect knowledge

▶ Degree of control over price

**Question No: 32 ( Marks: 1 ) - Please choose one**

**At the profit-maximizing level of output, marginal cost equals to:**

▶ Average revenue

▶ Total revenue

▶ Marginal revenue

▶ None of the given options

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Monopolists produce lower quantities at higher prices compared to perfectly competitive firms, because monopolists do not produce where**

- ▶ Marginal cost = marginal revenue
- ▶ Average revenue = marginal cost
- ▶ Price = average variable cost
- ▶ Price = marginal cost

**Question No: 34 ( Marks: 1 ) - Please choose one**

**An increase in quantity demand is shown by:**

- ▶ Shifting the demand curve to the left.
- ▶ Shifting the demand curve to the right.
- ▶ Upward movement along the demand curve.
- ▶ Downward movement along the demand curve.

**Question No: 35 ( Marks: 3 )**

**Describe the profit-maximizing conditions that give answer to the following questions faced by any competitive business firm:**

⑥① **How much output to produce?**

⑧① **How to produce that output?**

**Question No: 36 ( Marks: 5 )**

**A. Derive the equation of budget line. Which part of the equation shows the slope and which part shows the intercept?**

**B. Which factors cause the shift in budget line and which cause the change in slope of budget line?**

**(Marks: 3+2)**

**Question No: 37 ( Marks: 5 )**

**How advertisement can affect a cartel's marginal cost and average revenue?**

*Answer A*

*a) MPL is increasing at increasing rate*

*b) MPL is constant means unit increase in labor give unit increase in output*

*c) Increasing at decreasing rate*

**Note : some of the question which I remembered**

**Q1.increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ Shifting the supply curve to the right.
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Q2.Which of the following is the term that economists use to describe how consumers rank different goods and services?**

- ▶ Satisfaction index.
- ▶ Goodness.
- ▶ Utility.
- ▶ None of the given options.

**Q3. consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:**

- ▶The consumer's indifference curve must be positively sloped.
- ▶The consumer's indifference curve must be convex with respect to the origin of the graph.
- ▶The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal  $\frac{1}{2}$ .
- ▶All of the given options.

**Q4. compared to existing firms, a new firm entering in monopolist market has:**

- ▶High costs.
- ▶Low costs.
- ▶Equal costs.
- ▶None of the given options.

**Q5. What is meant by the term utility?**

- ▶Useless.
- ▶Require.
- ▶Necessary.
- ▶Satisfaction

**Q6. Define price taker and price maker with market structures?**

**Q7. Define increasing return to scale?**

ENG301

There where total 17 question

10 MQC`s

7 subjective

Q1. Define buffer?

Q2. Describe main idea of buffer?

Q3. Define parts of letter?

Q4. Define interoffice memo and its parts?

Q5. Define intercultural communication

Q6. Define briefly

- a. Personal Non-verbal communication
- b. Universal Non-verbal communication

Best of luck

**MIDTERM EXAMINATION**

**Spring 2010**

**ECO401- Economics**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶The behavior of individual consumers.
- ▶Unemployment and interest rates.
- ▶The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Land is best described as:**

- ▶Produced factors of production.
- ▶"Organizational" resources.
- ▶Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

**Question No: 3 ( Marks: 1 ) - Please choose one**

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶The economic perspective.
- ▶Marginal analysis.
- ▶Allocative efficiency.

▶ **Opportunity cost.**

Question No: 4 ( Marks: 1 ) - Please choose one

Price floor results in:

▶All of the given options.

▶Excess supply.

▶ **Equilibrium.**

▶Excess demand.

Question No: 5 ( Marks: 1 ) - Please choose one

The price elasticity of demand measures the responsiveness of quantity demanded to:

▶Quantity demanded.

▶Quantity supplied.

▶ **Price.**

▶Output.

Question No: 6 ( Marks: 1 ) - Please choose one

The cross price elasticity of demand for complementary goods is:

▶ **Less than 0.**

▶Equal to 0.

▶Greater than 0.

▶ **Between 0 and 1.**

Question No: 7 ( Marks: 1 ) - Please choose one

In order to calculate the price elasticity of supply, you need to know:

▶ **Two prices and two quantities supplied.**

- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

Question No: 8 ( Marks: 1 ) - Please choose one

We know that the demand for a product is elastic:

▶ When price rises, total revenue rises.

▶ **When price rises, total revenue falls.**

- ▶ When income rises, quantity demanded rises.
- ▶ When income falls, quantity demanded rises.

Question No: 9 ( Marks: 1 ) - Please choose one

An individual with a constant marginal utility of income will be:

▶ Risk loving.

▶ Risk neutral.

▶ Risk averse.

▶ **Insufficient information for a decision.**

Question No: 10 ( Marks: 1 ) - Please choose one

Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is  $\frac{1}{4}$  then to maximize total utility, a consumer should:



▶Buy more pizzas and fewer jeans.

▶ **Buy fewer pizzas and more jeans.**

▶Continue to buy the same quantities of pizza and jeans.

▶Spend more time consuming pizza.

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Increase in pension benefits leads to income and substitution effect which:**

▶Encourage workers to retire later.

▶**Encourage workers to work more hours.**

▶Have no effect on incentive to retire.

▶ **Encourage workers to retire earlier.**

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Suppose you are a workaholic (like work a lot) and your friend is a leisure lover. Compared to your friend your indifference curve will be:**

▶Flatter.

▶ **Steeper.**

▶Identical.

▶None of the given options.

**Question No: 13 ( Marks: 1 ) - Please choose one**

**Which of the following is a correct statement about the substitution effect?**

▶ **The substitution effect is always negative.**

▶The substitution effect is positive for an inferior good.

▶The substitution effect measures how demand changes when income changes.

▶The substitution effect is positive for a Giffen good.

**Question No: 14 ( Marks: 1 ) - Please choose one**

**The income effect of a price change:**

▶Is always positive.

▶Is always negative.

▶ **May be positive or negative.**

▶Is associated with a change in nominal income.

**Question No: 15 ( Marks: 1 ) - Please choose one**

**Which of the following is considered to be a variable cost in the long run?**

▶Expenditures for wages.

▶Expenditures for research and development.

▶Expenditures for raw materials.

▶ **All of the given options.**

**Question No: 16 ( Marks: 1 ) - Please choose one**

**If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:**

▶**Decreasing returns to scale.**

- ▶Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶Diseconomies of scale.

**Question No: 17 ( Marks: 1 ) - Please choose one**

**Graphically, marginal revenue is defined as:**

- ▶The slope of a line from the origin to a point on the total revenue curve.
- ▶The slope of a line from the origin to the end of the total revenue curve.
- ▶ **The slope of the total revenue curve at a given point.**
- ▶The vertical intercept of a line tangent to the total revenue curve at a given point.

**Question No: 18 ( Marks: 1 ) - Please choose one**

**The optimal point of production for any individual firm is where:**

- ▶ **Marginal Revenue = Marginal Cost.**
- ▶Marginal Revenue > Marginal Cost.
- ▶Marginal Revenue < Marginal Cost.
- ▶None of the given options.

**Question No: 19 ( Marks: 1 ) - Please choose one**

**The break-even point occurs when:**

- ▶Price < Average Variable Cost.
- ▶Price < Average Total Cost.
- ▶**Price = Average Total Cost.**

▶ Price > Average Variable Cost.

Question No: 20 ( Marks: 1 ) - Please choose one

In monopoly, which of the following is TRUE at the output level, where price = marginal cost?

- ▶ The monopolist is maximizing profit.
- ▶ The monopolist is not maximizing profit and should increase output.
- ▶ The monopolist is not maximizing profit and should decrease output.
- ▶ The monopolist is earning a positive profit.

Question No: 21 ( Marks: 1 ) - Please choose one

Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a \_\_\_\_\_ price and sell a \_\_\_\_\_ quantity.

- ▶ Higher; larger.
- ▶ Lower; larger.
- ▶ Higher; smaller.
- ▶ Lower; smaller.

Question No: 22 ( Marks: 1 ) - Please choose one

As compared to existing firms, a new firm entering in monopolist market has:

- ▶ High costs.
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

Question No: 23 ( Marks: 1 ) - Please choose one

A monopolistically competitive firm in short run equilibrium:

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.

▶ **Any of the given are possible.**

Question No: 24 ( Marks: 1 ) - Please choose one

If a sales tax on beer leads to reduced tax revenue, this means:

▶ Elasticity of demand is  $< 1$ .

▶ **Elasticity of demand is  $> 1$ .**

- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

Question No: 25 ( Marks: 1 ) - Please choose one

In the above figure, the marginal utility of income is:

▶ **Increasing as income increases.**

- ▶ Constant for all levels of income.
- ▶ **Diminishes as income increases.**
- ▶ None of the given options.

Question No: 26 ( Marks: 1 ) - Please choose one

**Which of the following is true about supply curve under monopoly?**

- ▶ It is same as the competitive market supply curve.
- ▶ It is the portion of marginal cost curve where marginal costs exceed the minimum value of average variable costs.
- ▶ It is the result of market power and production costs.
- ▶ **None of the given statements is true.**

**Question No: 27 ( Marks: 1 ) - Please choose one**

**What is meant by freedom of enterprise in pure capitalism?**

- ▶ **It means that businesses are free to produce products that consumers want.**
- ▶ It means that consumers are free to buy goods and services that they want.
- ▶ It means that resources are distributed freely to businesses.
- ▶ It means that government is free to direct the actions of businesses.

**Question No: 28 ( Marks: 1 ) - Please choose one**

**Which of the following best describes a demand schedule?**

- ▶ **It is a numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**
- ▶ It is a graphical representation of the law of demand.
- ▶ It is a systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ It is a symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Question No: 29 ( Marks: 1 ) - Please choose one**

**Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?**

- ▶ **10.**
- ▶ 13.

▶20.

▶33.

Question No: 30 ( Marks: 1 ) - Please choose one

Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:

▶ **Decreasing returns to scale.**

▶Constant returns to scale.

▶Increasing returns to scale.

▶None of the given options.

Question No: 31 ( Marks: 1 ) - Please choose one

Suppose all inputs are increased by 30% and output increases by more than 30% in a production process. This means that the firm experiences:

▶Decreasing returns to scale.

▶Constant returns to scale.

▶**Increasing returns to scale.**

▶None of the given options.

Question No: 32 ( Marks: 1 ) - Please choose one

If marginal cost is Rs.15,000/- and marginal revenue is Rs.20,000/-. The firm should:

▶Reduce output until marginal revenue equals marginal cost.

▶Do nothing without information about your fixed costs.

▶ **Expand output until marginal revenue equals marginal cost.**

▶None of the given options.

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Rationing is needed due to the problem of**

▶ Unemployment.

▶ Inflation.

▶ **Scarcity.**

▶ Poverty.

**Question No: 34 ( Marks: 1 ) - Please choose one**

**The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:**

▶ The demand curve for eggs to shift leftward.

▶ Quantity demanded of eggs to decrease.

▶ **The demand curve for eggs to shift rightward.**

▶ Quantity demanded of eggs to increase.

**Question No: 35 ( Marks: 3 )**

**How the monopolist can maintain the high price even in the long run?**

**A monopolist can make super normal, profits even in long run because there is no easy entry for other firms as in the case of perfect competition therefore a monopolist can maintain her high price even in the long run.**

**Question No: 36 ( Marks: 5 )**

**F. Compare the characteristics of oligopoly and monopoly market structures.**



G. Differentiate between the shape of demand curve in oligopoly and monopoly.

(Marks: 3+2)

Question No: 37 ( Marks: 5 )

Explain engel curve for giffen commodities with the help of graph.

### ECO 401 MCQs from Real Quiz (Chapter 1-12)

Question # 1 of 15 ( Start time: 01:24:42 PM ) Total Marks: 1

A person with a diminishing marginal utility of income:

Select correct option:

Will be risk averse.

Will be risk neutral.

**Will be risk loving.**

Cannot decide without more information.

#### Reference:

A risk loving person will buy if  $OR > 1$  or  $= 1$ , but he might also buy when  $OR < 1$ .

The degree of risk aversion increases as your income level falls, due to diminishing marginal utility of income. Risk aversion is a common feature of rational utility maximizing behavior by the average consumer.

**Question # 2 of 15 ( Start time: 01:25:51 PM ) Total Marks: 1**

**We know that the demand for a product is elastic if:**

**Select correct option:**

When price rises, revenue rises

**When price rises, revenue falls**

When price rises, quantity demanded rises

When price falls, quantity demanded rises

**Question # 3 of 15 ( Start time: 01:26:44 PM ) Total Marks: 1**

**If consumer incomes increase, the demand for product Y:**

**Select correct option:**

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

**Reference:**

**(page # 39)** A normal good is one whose consumption increases when income increases

**Question # 4 of 15 ( Start time: 01:28:09 PM ) Total Marks: 1**

**Due to capacity constraints, the price elasticity of supply for most products is:**

**Select correct option:**

The same in the long run and the short run.

**Greater in the long run than in the short run.**

Greater in the short run than in the long run.

Too uncertain to be estimated.

**Question # 5 of 15 ( Start time: 01:29:48 PM ) Total Marks: 1**

**An indifference curve is:**

**Select correct option:**

**A collection of market baskets that are equally desirable to the consumer.**

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

Explanation:

**An indifference curve** is a line which charts out all the different points on which the consumer is indifferent with respect to the utility he derives (in other words it is a combination of all equi-utility points). It is drawn in goods space, i.e. a good Y on the vertical axis and a good X on the horizontal axis.

Indifference curves are bowed in towards the origin. In other words its slope decreases (in absolute terms) as we move down along the curve from left to right.

The average **slope** of the indifference curve between any two points is given by the change in the quantity of good Y divided by change in the quantity of good X. This is called the marginal rate of substitution (MRS).

**Question # 6 of 15 ( Start time: 01:31:10 PM ) Total Marks: 1**

If a sales tax on beer leads to reduced tax revenue, this means:

Select correct option:

Elasticity of demand is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping.

Demand is perfectly inelastic.

Question # 7 of 15 ( Start time: 01:32:53 PM ) Total Marks: 1

The numerical measurement of a consumer's preference is called:

Select correct option:

Satisfaction

Use

Pleasure

**Utility**

Question # 8 of 15 ( Start time: 01:34:15 PM ) Total Marks: 1

It is expected that the sign of cross elasticity between two complementary goods would be:

Select correct option:

Positive

**Negative**

Zero

None of the given options.

**Question # 9 of 15 ( Start time: 01:35:45 PM ) Total Marks: 1**

**Indifference curves that are convex to the origin reflect:**

**Select correct option:**

An increasing marginal rate of substitution.

A decreasing marginal rate of substitution.

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

**Question # 10 of 15 ( Start time: 01:36:56 PM ) Total Marks: 1**

**A Demand Curve is price inelastic when:**

**Select correct option:**

**Changes in demand are proportionately smaller than those in price**

Changes in demand are proportionately greater than those in price

Changes in demand are equal than those in price

None of the given options.

Reference: <http://cepfe.nmsu.edu/?q=node/413>

**Question # 11 of 15 ( Start time: 01:38:42 PM ) Total Marks: 1**

**The production possibilities curve:**

**Select correct option:**

Shows all combinations of goods that society most desires

Indicates that any combination of goods lying outside the curve is attainable

**Separates all combinations of two goods that can be produced from those that cannot**

Shows only those combinations of two goods that reflect "full production"

Reference: [The production possibilities curve is a frontier, indicating the maximum amount of one good achievable for a given amount of the other good. Only one of these combinations represents the combination society most desires and therefore represents "full production."](#)

**Question # 12 of 15 ( Start time: 01:39:59 PM ) Total Marks: 1**

**The demand for chicken is downward-sloping. Suddenly the price of chicken rises from \$130 per kilo to \$140 per kilo. This will cause:**

**Select correct option:**

The demand curve to shift to the left

The demand curve to shift to the right

Quantity demanded to increase

Quantity demanded to decrease

**Question # 13 of 15 ( Start time: 01:41:46 PM ) Total Marks: 1**

**Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:**

**Select correct option:**

The demand for both Y and Z will increase

**The demand for Y will increase while the demand for Z will decrease**

The demand for Y will decrease while the demand for Z will increase

The demand for both Y and Z will decrease

**Question # 14 of 15 ( Start time: 01:43:01 PM ) Total Marks: 1**

**A nation's production possibilities curve is "bowed out" from the origin because:**

**Select correct option:**

**Resources are not perfectly shiftable between productions of the two goods**

Capital goods and consumer goods utilize the same production technology

Resources are scarce relative to human wants

Opportunity costs are decreasing

### **ECO401 MCQs from Quiz (chapter 1-12)**

Question # 1 of 15 ( Start time: 02:02:54 PM ) Total Marks: 1

You observe that the price of houses and the number of houses purchased both rise over the course of the year.  
You conclude that:

Select correct option:

**The demand for houses has increased**

The demand curve for houses must be upward-sloping

The supply of houses has increased

Housing construction costs must be decreasing

Question # 2 of 15 ( Start time: 02:04:10 PM ) Total Marks: 1

If consumer incomes increase, the demand for product Y:

Select correct option:

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

Question # 3 of 15 ( Start time: 02:04:54 PM ) Total Marks: 1

If marginal product is below average product:

Select correct option:

The total product will fall

**The average product will fall**

Average variable costs will fall

Total revenue will fall

Reference: The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall.

Question # 4 of 15 ( Start time: 02:05:58 PM ) Total Marks: 1

It is calculated as the percentage change in quantity demanded of a given good, with respect to the percentage change in the price of "another" good.

Select correct option:

Price elasticity of demand

Income elasticity of demand

**Cross price elasticity of demand (page # 21)**

Supply price elasticity

Question # 5 of 15 ( Start time: 02:06:46 PM ) Total Marks: 1



A Demand Curve is price inelastic when:

Select correct option:

**Changes in demand are proportionately smaller than those in price**

Changes in demand are proportionately greater than those in price

Changes in demand are equal than those in price

None of the given options.

Question # 6 of 15 ( Start time: 02:07:32 PM ) Total Marks: 1

A partial explanation for the inverse relationship between price and quantity demanded is that a:

Select correct option:

Lower price shifts the supply curve to the left

Higher price shifts the demand curve to the left

Lower price shifts the demand curve to the right

**Higher price reduces the real incomes of buyers**

Feedback: The demand curve is the relationship between price and quantity demanded, all else equal. A change in price changes quantity demanded, but does not shift the demand curve. One explanation for the inverse relationship between price and quantity demanded along the curve is that a higher price reduces the real incomes of buyers. For normal goods, this drop in real income will reduce desired purchases.

Question # 7 of 15 ( Start time: 02:08:36 PM ) Total Marks: 1

If a sales tax on beer leads to reduced tax revenue, this means:

Select correct option:

Elasticity of demand is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping.

Demand is perfectly inelastic.

Question # 8 of 15 ( Start time: 02:09:37 PM ) Total Marks: 1

A "Giffen good" is defined as one for which:

Select correct option:

Marginal utility is zero.

The demand curve is perfectly elastic.

The substitution effect is positive.

**The demand curve is positively sloped.**

Question # 9 of 15 ( Start time: 02:11:09 PM ) Total Marks: 1

A nation's production possibilities curve is "bowed out" from the origin because:

Select correct option:

**Resources are not perfectly shiftable between productions of the two goods**

Capital goods and consumer goods utilize the same production technology

Resources are scarce relative to human wants

Opportunity costs are decreasing

Question # 10 of 15 ( Start time: 02:11:37 PM ) Total Marks: 1

If diminishing marginal utility holds, and a person consumes less of a good, then all else being equal:

Select correct option:

The price of the good will rise.

**Marginal utility will rise**

Expenditure on the good will increase

Marginal utility will decline

Question # 11 of 15 ( Start time: 02:12:15 PM ) Total Marks: 1

According to the law of diminishing returns:

Select correct option:

**The marginal product falls as more units of a variable factor are added to a fixed factor.**

Marginal utility falls as more units of a product are consumed.

The total product falls as more units of a variable factor are added to a fixed factor.

The marginal product increases as more units of a variable factor are added to a fixed factor.

This occurs when variable factors are added to fixed factors. According to the law of diminishing returns the marginal product falls as more units of a variable factor are added to a fixed factor.

Question # 12 of 15 ( Start time: 02:13:34 PM ) Total Marks: 1

If consumer incomes increase, the demand for product Y:

Select correct option:

Will necessarily remain unchanged

Will shift to the right if Y is a complementary good

**Will shift to the right if Y is a normal good**

Will shift to the right if Y is an inferior good

Question # 13 of 15 ( Start time: 02:14:13 PM ) Total Marks: 1

The concept of a risk premium applies to a person that is:

Select correct option:

**Risk averse**

Risk neutral

Risk loving

All of the given options

Question # 14 of 15 ( Start time: 02:14:35 PM ) Total Marks: 1

When drawing demand and supply curves, economists are assuming that the primary influence on production and purchasing decisions is:

Select correct option:

**Price**

Cost of production

The overall state of the economy

Consumer incomes

Reference: Although there are many determinants of quantity demanded and quantity supplied, the demand and supply curves show the relationship between price and quantity, all other factors equal. The primary factor is assumed to be the price.

Question # 15 of 15 ( Start time: 02:15:36 PM ) Total Marks: 1

Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:

Select correct option:

A surplus of credit.

**A shortage of credit.**

Greater profits for banks issuing credit.

A perfectly inelastic supply of credit in the market place.

### ECO401 MCQs from Quiz (chapter 1-12)

The substitution effect of a price decrease for a good with a normal indifference curve pattern:

Select  
correct  
option  
:

Is  
always  
inversely

**related  
to the  
price  
change.**

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er.

Is \_\_\_\_\_ Is sufficient information to plot an ordinary demand curve for the commodity being measured \_\_\_\_\_ considered.

by the  
horizontal  
distance  
between  
the original  
and the  
new  
indifference  
curves.

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:

**Select correct option:**

Supply

**Demand**

Quantity supplied    Quantity demanded

A "Giffen good" is defined as one for which:

**Select correct option:**

Marginal utility is zero.

The demand curve is perfectly elastic.

The substitution effect is positive.

**The demand curve is positively sloped.**

When the price of petrol rises 10%, the quantity of petrol purchased falls by 8%. The demand for petrol is:

**Select  
correct  
option:**

Per  
fect  
ly  
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tic

Unit  
elastic

Elastic

**Inelastic**

An individual whose attitude toward risk is illustrated:

**Select correct option:**



**Risk  
averse.**

Risk  
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ng.

Risk  
neutral.

None of the given is necessarily correct.

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**Select correct option:**

The total product will fall

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mathematical connection between average product and marginal product stating that at the change in the average product depends on

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is equal to average product, the average product does not change.

Other things equal, expected income can be used as a direct measure of well-being:

**Select correct option:**

No matter

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If and only if individuals are risk neutral.

If a sales tax on beer leads to reduced tax revenue, this means:

**Select correct  
option:**

Elasticity  
of  
demand  
is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping. Demand is perfectly inelastic.



Price floor results in:

**Select  
correct  
option:**

Equilibrium

Exc  
ess  
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**Exc  
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sup  
ply**

All of the given options

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:

Select correct option:

Supply

**Demand**

Quantity supplied

Quantity demanded

It measures the percentage change in demand given a percentage change in consumer's income.

Select correct option:

Price elasticity of

demand

**Inc  
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Supply

price

elasticity

Cross price elasticity

Demand is elastic when the elasticity of demand is:

**Select correct option:**

Gre  
ate  
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tha  
n 0

Greater than 1

Less than 1  
Less than 0

Due to capacity constraints, the price elasticity of supply for most products is:

**Select correct option:**

The same in the long run and the short

run.

**Greater  
in the  
long  
run  
than in  
the  
short  
run.**

Greater  
in the  
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run.

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houses and the number of houses purchased both rise over the course of the year. You conclude that:

**Select correct option:**

The demand

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curve  
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sloping

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supply of  
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must  
be  
decreasing

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ceiling,  
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be:

**Select  
correct  
option:**



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Equilibrium

None of  
the  
given  
options.

Due to capacity constraints, the price elasticity of supply for most products is:

Select correct option:

The same in the long run and the short run.

**Greater in the long run than in the short run.**

Greater in the short run than in the long run.

Too uncertain to be estimated

Select correct option:

An individual with a constant marginal utility of income will be:

Risk averse

**Risk neutral**

Risk loving

Not enough information.

At the equilibrium price:

Select correct option:

There will be a shortage

**There will be neither a shortage nor a surplus**

There will be a surplus

There are forces that cause the price to change

Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:

Select correct option:

$P = MR$

$P = AVC$

$AR = MR$

**$P = MC$**

In the long run, competitive firms MUST be profit maximizers, because if they do not maximize profits:

Select correct option:

They will attract new competitors.

They will not be price takers.

**The profits that they do earn will only cover variable costs.**

They will not survive.

If a firm pays cash to buy a building so as to have office space for its workers, the monthly opportunity cost of the building is best measured as:

Select correct option:

The price the firm paid divided by twelve.

Zero.

**The rent the firm could earn if it rented the building to another firm.**

The monthly mortgage payment the firm would have had to pay.

The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the \_\_\_\_\_ model.

Select correct option:

Cournot

Stackelberg

Dominant firm

**kinked demand**

In which market structure(s) will price exceed marginal revenue?

Select correct option:

Differentiated oligopoly and monopoly only

Standardized oligopoly and pure competition only

Monopolistic competition and monopoly only

## Monopolistic competition, oligopoly, and monopoly

Feedback: Price will exceed marginal revenue in any industry in which firms face a downward-sloping demand curve. Pure competition is the only industry in which this is not the case.

An indifference curve is:

Select correct option:

**A collection of market baskets that are equally desirable to the consumer.**

A collection of market baskets that the consumer can buy.

A curve whose elasticity is constant for every price.

A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

If a sales tax on beer leads to reduced tax revenue, this means:

Select correct option:

Elasticity of demand is  $< 1$ .

**Elasticity of demand is  $> 1$ .**

Demand is upward-sloping.

Demand is perfectly inelastic.

If the income elasticity of demand is  $1/2$ , the good is:

Select correct option:

A luxury.

**A normal good (but not a luxury).**

An inferior good.

A Giffen good.

The cross elasticity of demand of complements goods is:

Select correct option:

**Less than 0.**

Equal to 0.

Greater than 0.

Between 0 and 1.

The point at which AC intersects MC is where:

Select correct option:

AC is decreasing.

MC is at its minimum.

**AC is at its minimum.**

AC is at its maximum.

Which of the following can be thought of as a barrier to entry?

Select correct option:

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

When oligopolists collude, they are able to:

Select correct option:

Raise price, but not restrict output

Raise price and restrict output, but not attain the monopoly profit

**Raise price and restrict output, and therefore attain the monopoly profit**

Restrict output, but not raise price

If marginal product is equal to average product:

Select correct option:

The total product will fall

**The average product will not change**

Average variable costs will fall

Total revenue will fall

If marginal product is above the average product:

Select correct option:

The total product will fall

**The average product will rise**

Average variable costs will fall

Total revenue will fall

The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall

In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:

Select correct option:

Decreasing returns to scale.

Constant returns to scale.

**Increasing returns to scale.**

Negative returns to scale.

Which of the following is true?

- a) If the marginal cost is greater than the average cost the average cost falls
- b) If the marginal cost is greater than the average cost the average cost increases**
- c) If the marginal cost is positive total costs are maximised
- d) If the marginal cost is negative total costs increase at a decreasing rate if output increases

The marginal cost measures the extra cost of producing another unit; the average cost measures the cost per unit. If the marginal cost is greater than the average cost the average cost increases.

According to the law of diminishing returns:

- a) The marginal product falls as more units of a variable factor are added to a fixed factor**
- b) Marginal utility falls as more units of a product are consumed
- c) The total product falls as more units of a variable factor are added to a fixed factor
- d) The marginal product increases as more units of a variable factor are added to a fixed factor

This occurs when variable factors are added to fixed factors. According to the law of diminishing returns the marginal product falls as more units of a variable factor are added to a fixed factor.

The law of diminishing returns assumes:

- a) There are no fixed factors of production
- b) There are no variable factors of production
- c) Utility is maximised when marginal product falls
- d) Some factors of production are fixed**

This occurs when variable factors are added to fixed factors. It assumes some factors of production are fixed

When internal economies of scale occur:

- a) Total costs fall

b) Marginal costs increase

**c) Average costs fall**

d) Revenue falls

These occur when the unit cost (average costs) falls as the scale of production increases.

The first level of output at which the long run average costs are minimised is called:

**a) The Minimum Efficient Scale**

b) The Minimum External Scale

c) The Maximum External Scale

d) The Maximum Effective Scale

This is the variable cost per unit; when added to the fixed cost per unit this leads to the total cost per unit. As output increases the average fixed cost falls so the average variable cost and average cost converge.

The average variable cost curve:

a) Is derived from the average fixed costs

**b) Converges with the average cost as output increases**

c) Equals the total costs divided by the output

d) Equals revenue minus profits

This is the variable cost per unit; when added to the fixed cost per unit this leads to the total cost per unit. As output increases the average fixed cost falls so the average variable cost and average cost converge.

If marginal cost is positive and falling:

a) Total cost is falling

**b) Total cost is increasing at a falling rate**

c) Total cost is falling at a falling rate



d) Total cost is increasing at an increasing rate

This means the extra cost of a unit is falling; total cost will increase at a decreasing rate.

If marginal product is below average product:

a) The total product will fall

**b) The average product will fall**

c) Average variable costs will fall

d) Total revenue will fall

The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall.

Which of the following can be thought of as a barrier to entry?

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

A new technology which reduces costs for firms':

**Shifts the supply curve to the right**

Shifts the supply curve to the left

Reduces the equilibrium quantity

Raises the equilibrium price

The point at which AC intersects MC is where:

AC is decreasing.

MC is at its minimum.

**AC is at its minimum.**

AC is at its maximum.

A normative economic statement:

Is a statement of fact

Is a hypothesis used to test economic theory.

**Is a statement of what ought to be, not what is.**

Is a statement of what will occur if certain assumptions are true.

If the income elasticity of demand is  $1/2$ , the good is:

A luxury

**A normal good (but not a luxury).**

An inferior good.

A Giffen good.

And another question that derives from above is

If the income elasticity of demand is 2, the good is:

**A luxury**

A normal good (but not a luxury)

An inferior good.

A Giffen good.

Which of the following can be thought of as a barrier to entry?

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

A new technology which reduces costs for firms':

**Shifts the supply curve to the right**

Shifts the supply curve to the left

Reduces the equilibrium quantity

Raises the equilibrium price

## ECO401 Competitive Firms and Markets

1) Economists define a market to be competitive when the firms

A) spend large amounts of money on advertising to lure customers away from the competition.

B) watch each other's behavior closely.

**C) are price takers.**

D) All of the above.

2) If consumers view the output of any firm in a market to be identical to the output of any other firm in the market, the demand curve for the output of any given firm

A) will be identical to the market demand curve.

**B) will be horizontal.**

C) will be vertical.

D) cannot be determined from the information given.

3) In the absence of any government regulation on price, if a firm has no power to set price on its own, one can safely conclude

**A) the demand curve for the firm's product is horizontal.**

B) there are many firms in the industry.

C) the market is in long-run equilibrium.

D) the firms in this industry are not profitable.

4) In a perfectly competitive market,

**A) firms can freely enter and exit.**

B) firms sell a differentiated product.

C) transaction costs are high.

D) All of the above.

5) In a competitive market, if buyers did not know all the prices charged by the many firms,

A) all firms still face horizontal demand curves.

B) firms sell a differentiated product.

**C) demand curves can be downward sloping for some or all firms.**

D) the number of firms will most likely decrease.

6) Many car owners and car dealers describe their different cars for sale in the local newspapers and list their asking price. Many people shopping for a used car consider the different choices listed in the paper. The market for used cars could be described as

**A) competitive.**

B) perfectly competitive.

C) non-competitive.

D) having high transaction costs.

7) Many car owners and car dealers describe their different cars for sale in the local newspapers and list their asking price. Many people shopping for a used car consider the different choices listed in the paper. The absence of which condition prohibits this market from being described as perfectly competitive?

A) Buyers and sellers know the prices.

B) Firms freely enter and exit.

C) Transaction costs are low.

**D) Consumer believes all firms sell identical products.**

8) If a firm operates in a perfectly competitive market, then it will most likely

A) advertise its product on television.

**B) settle for whatever price is offered.**

C) have a difficult time obtaining information about the market price.

D) have an easy time keeping other firms out of the market.

9) If a firm happened to be the only seller of a particular product, it might behave as a price taker as long as

A) buyers have full information about the firm's price.

B) the transaction costs of doing business with this firm are low.

C) there are many buyers.

**D) there is free entry and exit.**

10) The demand curve an individual competitive firm faces is known as its

- A) excess demand curve.
- B) market demand curve.
- C) residual demand curve.**
- D) leftover demand curve.

11) If a firm makes zero economic profit, then the firm

- A) has total revenues greater than its costs.
- B) must shut down.
- C) can be earning positive business profit.**
- D) must have no fixed costs.

12) If marginal revenue equals marginal cost, the firm is maximizing profits as long as

- A) the resulting profits are positive.
- B) marginal cost exceeds marginal revenue for greater levels of output.**
- C) the average cost curve lies above the demand curve.
- D) All of the above are required.

**Pic1**

13) Pic 1 shows the cost curves for a competitive firm. If the firm is to earn economic profit, price must exceed

- A) \$0.
- B) \$5.
- C) \$10.**
- D) \$11.

14) Pic 1 shows the cost curves for a competitive firm. If the firm is to operate in the short run, price must exceed

- A) \$0.
- B) \$5.**
- C) \$10.
- D) \$11.

15) Pic 1 shows the cost curves for a competitive firm. If the market price is \$15 per unit, the firm will earn profits of

- A) \$0.
- B) \$4.
- C) \$40.
- D) \$160.**

16) A firm will shut down in the short run if

- A) total fixed costs are too high.
- B) total revenue from operating would not cover all costs.
- C) total revenue from operating would not cover variable costs.**
- D) total revenue from operating would not cover fixed costs.

17) If a competitive firm maximizes short-run profits by producing some quantity of output, which of the following must be true at that level of output?

- A)  $p = MC$ .
- B)  $MR = MC$ .
- C)  $p \geq AVC$ .
- D) All of the above.**



18) If a competitive firm maximizes short-run profits by producing some quantity of output, which of the following must be true at that level of output?

- A)  $p > MC$ .
- B)  $MR > MC$ .
- C)  $p \geq AVC$ .**
- D) All of the above.

19) If a firm finds that it maximizes short-run profits by shutting down, which of the following must be true?

- A)  $p < AVC$  for all levels of output.**
- B)  $p < AVC$  only for the level of output at which  $p = MC$ .
- C)  $p < AVC$  only if the firm has no fixed costs.
- D) The firm will earn zero profit.

20) If a profit-maximizing firm finds that, at its current level of production,  $MR > MC$ , it will

- A) earn greater profits than if  $MR = MC$ .
- B) increase output.**
- C) decrease output.
- D) shut down.

If indifference curves cross, then:

- a. the assumption of a diminishing marginal rate of substitution is violated.
- b. consumers minimize their satisfaction.
- c. the assumption of completeness is violated.

**d. the assumption of transitivity is violated.**

e. all of the above.

### Reference

1. The benefit forgone by not choosing the next best alternative is

**a. Opportunity Cost**

b. Sunk Cost

c. Explicit Cost

a. None of above

2. \_\_\_\_\_ questions have to do with explanation and prediction, \_\_\_\_\_ questions have to do with what ought to be.

a. Positive; negative.

**b. Negative; normative.**

c. Affirmative; positive.

d. Positive; normative.

e. Econometric; theoretical.

A(n) \_\_\_\_\_ may start a price war in order to get a larger share of the market.

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b. olig  
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c. mo  
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d. econo-  
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	2.	A monopoly based on ownership or control of a manufacturing method is a _____ monopoly.	
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b. geo-  
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c

c. tec-  
hno-  
logi-  
cal

d. gov-  
ern-  
me-  
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	3.	The theoretically ideal situation of _____ is characterized by a large number of well-informed independent buyers and sellers who exchange identical products.	
--	----	--	--

a. oligopoly

b. monopoly

c. perfect competition

d. monopolistic competition

mp  
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	4.	The market structure that has all the conditions of perfect competition except for identical products is _____.	
--	----	---	--

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b. mo  
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c. mo  
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	5.	When sizable deviations from one or more of the conditions required for perfect competition take place, _____ occur.	
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b. mar  
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c. mar  
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d. olig  
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	6.	When the factors of production do not move to markets where returns are highest, the economy faces the problem of _____.	
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aliti  
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c. res  
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cati  
on

d. rati  
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ng

	7.	Many activities generate some kind of _____, or unintended side effect that either benefits or harms a third party not involved in the activity that caused it.	
--	----	---	--

a. ext  
ern  
alit  
y

b. pro  
fit

c. divi  
den  
d

d. revenue



	8.	The _____ Act sought to do away with restraints and monopolies that hindered competition or made competition impossible.	
--	----	---	--

a. Sherman  
Anti  
trust  
t

b. Clayton  
Anti  
trust  
t

c. Federal Trade  
Commission

d. Robinson-  
Patman

	9.	In the case of a(n) _____, it makes sense	
--	----	--	--

		to let the firm expand to take advantage of lower production costs, and then regulate its activities so that it cannot take advantage of the consumer.	
--	--	--	--

- a. natural monopoly
- b. perfect competitor
- c. oligopoly
- d. geographic monopoly

	10.	The purpose of _____ is to provide the market with enough data to prevent market failures due to inadequate information.	
--	-----	--	--

- a. public disclosure
- b. public good
- c. market structure
- d. market disclosure

If the income elasticity of demand is  $1/2$ , the good is:  
Select correct option:

A luxury.

**A normal good (but not a luxury).**

An inferior good.

A Giffen good.

The cross elasticity of demand of complements goods is:  
Select correct option:

**Less than 0.**

Equal to 0.

Greater than 0.

Between 0 and 1.

The point at which AC intersects MC is where:  
Select correct option:

AC is decreasing.

MC is at its minimum.

**AC is at its minimum.**

AC is at its maximum.

Which of the following can be thought of as a barrier to entry?  
Select correct option:

Scale economies.

Patents.

Strategic actions by incumbent firms.

**All of the given options are true.**

When oligopolists collude, they are able to:  
Select correct option:

Raise price, but not restrict output

Raise price and restrict output, but not attain the monopoly profit

**Raise price and restrict output, and therefore attain the monopoly profit**

Restrict output, but not raise price

If marginal product is equal to average product:  
Select correct option:

The total product will fall

**The average product will not change**

Average variable costs will fall

Total revenue will fall

If marginal product is above the average product:

Select correct option:

The total product will fall

**The average product will rise**

Average variable costs will fall

Total revenue will fall

The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall

In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:

Select correct option:

Decreasing returns to scale.

Constant returns to scale.

**Increasing returns to scale.**

Negative returns to scale.

a) If the marginal cost is greater than the average cost the average cost falls

**b) If the marginal cost is greater than the average cost the average cost increases**

c) If the marginal cost is positive total costs are maximised

d) If the marginal cost is negative total costs increase at a decreasing rate if output increases

The marginal cost measures the extra cost of producing another unit; the average cost measures the cost per unit. If the marginal cost is greater than the average cost the average cost increases.

According to the law of diminishing returns:

**a) The marginal product falls as more units of a variable factor are added to a fixed factor**

b) Marginal utility falls as more units of a product are consumed

c) The total product falls as more units of a variable factor are added to a fixed factor

d) The marginal product increases as more units of a variable factor are added to a fixed factor

This occurs when variable factors are added to fixed factors. According to the law of diminishing returns the marginal product falls as more units of a variable factor are added to a fixed factor.

The law of diminishing returns assumes:

a) There are no fixed factors of production

b) There are no variable factors of production

c) Utility is maximised when marginal product falls

**d) Some factors of production are fixed**

This occurs when variable factors are added to fixed factors. It assumes some factors of production are fixed

When internal economies of scale occur:

a) Total costs fall

b) Marginal costs increase

**c) Average costs fall**

d) Revenue falls

These occur when the unit cost (average costs) falls as the scale of production increases.

The first level of output at which the long run average costs are minimised is called:

**a) The Minimum Efficient Scale**

b) The Minimum External Scale

c) The Maximum External Scale

d) The Maximum Effective Scale

This is the variable cost per unit; when added to the fixed cost per unit this leads to the total cost per unit. As output increases the average fixed cost falls so the average variable cost and average cost converge.

The average variable cost curve:

a) Is derived from the average fixed costs

**b) Converges with the average cost as output increases**

c) Equals the total costs divided by the output

d) Equals revenue minus profits

This is the variable cost per unit; when added to the fixed cost per unit this leads to the total cost per unit. As output increases the average fixed cost falls so the average variable cost and average cost converge.

If marginal cost is positive and falling:

- a) Total cost is falling
- b) Total cost is increasing at a falling rate**
- c) Total cost is falling at a falling rate
- d) Total cost is increasing at an increasing rate

This means the extra cost of a unit is falling; total cost will increase at a decreasing rate.

If marginal product is below average product:

- a) The total product will fall
- b) The average product will fall**
- c) Average variable costs will fall
- d) Total revenue will fall

The marginal product is the extra output per factor (e.g. employee); the average product is the output per factor (e.g. per employee). If marginal product is below average product, the average product will fall.

Gross National Product equals:

- a) Net National Product adjusted for inflation
- b) Gross Domestic Product adjusted for inflation
- c) Gross Domestic Product plus net property income from abroad**
- d) Net National Product plus net property income from abroad

## Question 2

Net National Product equals:

- a) Gross National Product adjusted for inflation
- b) Gross Domestic Product adjusted for inflation
- c) Gross Domestic Product plus net property income from abroad
- d) Gross National Product minus depreciation**

### Question 3

The standard of living is often measured by:

- a) Real GDP per capita**
- b) Real GDP
- c) Real GDP \* population
- d) Real GDP plus depreciation

### Question 4

In a recession:

- a) Unemployment is likely to be low
- b) Prices are likely to increase
- c) Growth is negative**
- d) Growth is slow

### Question 5

In a boom:

- a) Surpluses are likely to occur
- b) Prices are likely to fall**



- c) Supply will increase immediately to match demand
- d) Shortages may occur**

#### **Question 6**

GDP plus net property income from abroad equals what?

- a) GNP
- b) NNP
- c) Depreciation
- d) Real GDP**

#### **Question 7**

To adjust GDP from market prices to factor cost:

- a) Add indirect taxes
- b) Subtract subsidies
- c) Deduct indirect taxes and subsidies
- d) Deduct indirect taxes and add subsidies**

#### **Question 8**

To adjust from Gross National Product to Net National Product:

- a) Deduct depreciation**
- b) Deduct indirect taxes
- c) Deduct subsidies
- d) Add inflation

#### **Question 9**

In a recession a government:

- a) **Is likely to want to increase demand in the economy**
- b) Is likely to want to decrease demand in the economy
- c) Is likely to want to stabilise demand in the economy
- d) Is likely to want to increase supply in the economy

### Question 10

A higher GDP per capita may not mean that the quality of life has really improved because:

- a) It measures wealth not income
- b) It measures Gross Domestic Product
- c) It does not measure the quality of the items produced
- d) **It is only measured every five years**

### Unit 22

#### Question 1

Economic growth can be measured by:

- a) The CPI
- b) The CBI
- c) **GDP**
- d) MPC

#### Question 2

In a boom:

- a) **Unemployment is likely to fall**
- b) Prices are likely to fall
- c) Demand is likely to fall

d) Imports are likely to grow

### Question 3

In a recession, GDP:

- a) **Grows negatively**
- b) Grows slowly
- c) Grows by 0%
- d) Grows rapidly

### Question 4

If labour productivity per week is 200 units and there are 5 employees what is the total output?

- a) 40 units
- b) 195 units
- c) **1000 units**
- d) 200 units

### Question 5

Labour productivity measures:

- a) **The output per worker**
- b) The output per machine
- c) Total output
- d) Marginal output

### Question 6

Potential growth measures:

- a) The growth of the fastest economy in the world
- b) The fastest growth an economy has ever achieved
- c) The present rate of growth of an economy
- d) The rate of growth that could be achieved if resources were fully employed**

#### Question 7

Economic growth can be seen by an outward shift of:

- a) The Production Possibility Frontier**
- b) The Gross Domestic Barrier
- c) The Marginal Consumption Frontier
- d) The Minimum Efficient Scale

#### Question 8

The socially optimal rate of growth is:

- a) Zero
- b) Negative
- c) Where the marginal social benefit = the marginal social cost**
- d) Total social costs are minimised

#### Question 9

To anticipate what the economy is going to do next the government will look at:

- a) Lagging indicators
- b) Flashing indicators
- c) Coincidental indicators
- d) Leading indicators**

### Question 10

When an economy first begins to grow more slowly:

- a) GDP increases
- b) Inflation is likely to increase
- c) Stock levels are likely to increase**
- d) Investment in equipment is likely to increase

### Unit 23

#### Question 1

A shift in aggregate supply is likely to:

- a) Reduce the general price level and reduce national income
- b) Reduce the general price level and increase national income**
- c) Increase the general price level and reduce national income
- d) Increase the general price level and increase national income

#### Question 2

Aggregate demand will increase if:

- a) Consumption falls
- b) Investment falls
- c) Exports fall
- d) Imports fall**

#### Question 3

An increase in aggregate demand will have most effect on prices if:

- a) **Aggregate supply is price inelastic**
- b) Aggregate supply is price elastic
- c) Aggregate supply has a unitary price elasticity
- d) Aggregate demand is price inelastic

#### **Question 4**

Which of the following would increase aggregate demand?

- a) Increased saving
- b) Increasing import spending
- c) Increased taxation revenue
- d) **Increased investment**

#### **Question 5**

Which of the following would decrease aggregate demand?

- a) Increased consumption
- b) Increasing export revenue
- c) **Increased taxation revenue**
- d) Increased investment

#### **Question 6**

Improved training of employees would:

- a) **Shift aggregate supply to the right**
- b) Shift aggregate supply to the left
- c) Shift aggregate demand to the right
- d) Shift aggregate demand to the left

### Question 7

Increased unemployment benefits and less incentive to work would:

- a) Shift aggregate supply to the right
- b) Shift aggregate supply to the left**
- c) Shift aggregate demand to the right
- d) Shift aggregate demand to the left

### Question 8

Increased levels of consumption:

- a) Shift aggregate supply to the right
- b) Shift aggregate supply to the left
- c) Shift aggregate demand to the right**
- d) Shift aggregate demand to the left

### Question 9

Increased levels of spending on imports:

- a) Shift aggregate supply to the right
- b) Shift aggregate supply to the left
- c) Shift aggregate demand to the right
- d) Shift aggregate demand to the left**

### Question 10

An increase in aggregate demand if aggregate supply is totally inelastic will:

- a) Increase price but not output**

- b) Increase output but not price
- c) Increase output and price
- d) Decrease output and price

## Unit 24

### Question 1

If the marginal propensity to consume on domestic products is 0.9 the size of the multiplier is:

- a) 10
- b) 1
- c) 9
- d) 0.1

The multiplier is  $(1/1-mpc)$  so if the mpc is 0.1 the multiplier is 10.

### Question 2

An increase in the marginal propensity to consume will:

- a) Increase the size of the multiplier
- b) Increase the marginal propensity to save
- c) Decrease national income
- d) Reduce injections into the economy

### Question 3

If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, total consumption is what?

- a) 0.8
- b) 800



**c) 810**

**d) 0.81**

If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, total consumption =  $10 + 0.8(1000) = 810$

#### **Question 4**

If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, the marginal propensity to consume is what?

**a) 0.8**

**b) 800**

**c) 810**

**d) 0.81**

If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, the marginal propensity to consumer is 0.8.

#### **Question 5**

If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, the average propensity to consume is what?

**a) 0.8**

**b) 800**

**c) 810**

**d) 0.81**

If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, the average propensity to consume =  $810/1000=0.81$

#### **Question 6**

As income increases:

**a) The average propensity to consume gets nearer in value to the marginal propensity to consume**

**b) The average propensity to consume diverges in value from the marginal propensity to consume**

- c) The average propensity to consume falls
- d) The average propensity to consume always approaches 0

**Question 7**

An increase in consumption at any given level of income is likely to lead to:

- a) A fall in savings**
- b) An increase in exports
- c) A fall in taxation revenue
- d) A decrease in import spending

**Question 8**

Lower interest rates are likely to:

- a) Decrease consumption
- b) Increase cost of borrowing**
- c) Encourage saving
- d) Increase spending**

**Question 9**

Friedman's theory of consumption focuses on:

- a) Past income
- b) Current income
- c) Disposable income
- d) Permanent income**

**Question 10**

The marginal propensity to consume is equal to:

- a) Total spending / total consumption
- b) Total consumption / total income
- c) Change in consumption / change in income**
- d) Change in consumption / change in savings

## Unit 25

### Question 1

An increase in investment is most likely to be caused by:

- a) Lower interest rates**
- b) Lower national income
- c) A decrease in the marginal propensity to consume
- d) An increase in withdrawals

### Question 2

An outward shift in the Marginal Efficiency of Capital should:

- a) Decrease consumption
- b) Increase aggregate demand**
- c) Reduce aggregate supply
- d) Slow economic growth

### Question 3

An increase in interest rates:

- a) Is likely to reduce savings
- b) Is likely to reduce the external value of the currency**

- c) Leads to a shift in the MEC schedule
- d) Leads to a movement along the MEC schedule**

#### Question 4

The accelerator assumes:

- a) The marginal propensity to consume is constant
- b) The economy is at full employment
- c) There is a constant relationship between net investment and the rate of change of output**
- d) The multiplier is constant

#### Question 5

Investment depends mainly on:

- a) Past levels of income
- b) Future expected profits**
- c) Present national income levels
- d) Historic data

#### Question 6

A profit maximising firm will invest up to the level of investment where:

- a) The cost of borrowing equals the marginal efficiency of capital**
- b) The cost of borrowing is greater than the marginal efficiency of capital
- c) The cost of borrowing is less than the marginal efficiency of capital
- d) The cost of borrowing equals the marginal propensity to consume

#### Question 7

Investment is:

- a) **An injection that increases aggregate demand**
- b) A withdrawal that increases aggregate demand
- c) An injection that decreases aggregate demand
- d) A withdrawal that decreases aggregate demand

#### **Question 8**

Investment is an unstable element of aggregate demand because it depends heavily on:

- a) Government policy
- b) **Expectations**
- c) National income
- d) Historic trends

#### **Question 9**

If an increase in investment leads to a bigger increase in national income this is called the:

- a) Accelerator
- b) Aggregate demand
- c) Monetarism
- d) **Multiplier**

#### **Question 10**

The difference between gross investment and net investment is:

- a) **Depreciation**
- b) Acceleration
- c) Deceleration

d) Capital investment

## Unit 26

### Question 1

An expansionist fiscal policy could include:

- a) Lower interest rates
- b) Increased lending by the banks
- c) An increase in corporation tax
- d) **An increase in discretionary government spending**

### Question 2

If the economy grows the government's budget position will automatically:

- a) Worsen
- b) **Improve**
- c) Stay the same
- d) Increase with inflation

### Question 3

Fiscal drag occurs when:

- a) **Tax bands do not increase with inflation**
- b) Tax rates move inversely with inflation
- c) Government spending falls to reduce aggregate demand
- d) Tax bands increase with inflation

### Question 4

If the marginal rate of tax is 40% and consumers' income increase from £10,000 to £12,000:

- a) The amount of tax paid will increase by £4,800
- b) The amount of tax paid will increase by £4,000
- c) The amount of tax paid will increase by £800**
- d) The total tax paid will be £4,800

**The extra tax paid is £800 (= 40%\*£2000).**

### Question 5

Imagine there is no tax on income up to £10000; after that, there is a tax of 50%. What is the average tax rate on an income of £20000?

- a) £5000
- b) 20%
- c) 25%**
- d) £10,000

**The total tax paid is £5000; this means that the average tax is 25% (£5000 out of £20,000).**

### Question 6

The marginal rate of tax paid is:

- a) The total tax paid / total income
- b) Total income / total tax paid
- c) Change in the tax paid / change in income**
- d) Change in income / change in tax paid

### Question 7

In a regressive tax system:

- a) The amount of tax paid increases with income
- b) The marginal rate of tax decreases with more income**
- c) The average rate of tax falls as income increases
- d) The average rate of tax is constant as income increases

### Question 8

The Public Sector Net Cash Requirement (PSNCR) is:

- a) A measure of the country's trade position
- b) A measure of the country's budget position**
- c) A measure of the country's total debt
- d) A measure of the government's monetary stance

### Question 9

A government might use tax to:

- a) Discourage consumption of positive externalities
- b) Discourage consumption of public goods**
- c) Discourage consumption of merit goods
- d) Discourage consumption of negative externalities**

### Question 10

As an economy grows:

- a) The government's budget position should automatically improve**
- b) The government's budget position should automatically worsen
- c) This will have no effect on the government's budget position
- d) This will reduce the government's tax revenue



## Unit 27

### Question 1

If people are made unemployed because of a fall in aggregate demand this is known as:

- a) Frictional unemployment
- b) Seasonal unemployment
- c) Cyclical unemployment**
- d) Structural unemployment

### Question 2

Supply side policies are most appropriate to cure:

- a) Involuntary unemployment
- b) Cyclical unemployment
- c) Voluntary unemployment**
- d) A fall in aggregate demand

### Question 3

The natural rate of unemployment is likely to fall if:

- a) Unemployment benefits increase
- b) Income tax increases
- c) More training is available for the unemployed**
- d) Geographical immobility increases

### Question 4

If the real wage is too high in the labour market:

- a) The quantity demanded of labour is higher than the quantity supplied
- b) The quantity demanded of labour equals the quantity supplied
- c) The quantity demanded of labour is lower than the quantity supplied**
- d) It will automatically adjust in the short run to bring about equilibrium

#### Question 5

If there is cyclical unemployment in the economy the government might:

- a) Increase interest rates
- b) Encourage savings
- c) Cut taxes**
- d) Reduce government spending

#### Question 6

Occupational immobility of labour occurs if:

- a) People lack information
- b) People do not want to work
- c) People do not have the right skills to work**
- d) People cannot afford to move location

#### Question 7

Which of the following is not a supply side measure?

- a) Increased training
- b) Providing more information
- c) Helping individuals to move location to find work

**d) Increasing spending on existing industries**

**Question 8**

Reducing involuntary unemployment:

- a) Helps the economy move on to the Production Possibility Frontier**
- b) Helps shift the economy's Production Possibility Frontier outwards**
- c) Helps the economy move along its Production Possibility Frontier**
- d) Helps the economy move inside the Production Possibility Frontier**

**Question 9**

Less demand in the economy may increase unemployment; this may lead to less spending which may reduce demand further. This is called:

- a) The upward accelerator**
- b) The downward multiplier**
- c) The upward PPF**
- d) The downward mpc**

**Question 10**

To reduce cyclical unemployment the government might:

- a) Increase the budget surplus**
- b) Increase the balance of payments deficit**
- c) Reduce interest rates**
- d) Reduce government expenditure**

**Unit 28**

### Question 1

The precautionary demand for money is:

- a) An idle balance
- b) An active balance**
- c) Directly related to interest rates
- d) Inversely related to income

### Question 2

The liquidity trap occurs when the demand for money:

- a) Is perfectly interest elastic**
- b) Is perfectly interest inelastic
- c) Means that an increase in money supply leads to a fall in the interest rate
- d) Means that an increase in the money supply leads to an increase in the interest rate

### Question 3

A fall in interest rates is likely to:

- a) Increase aggregate demand**
- b) Increase savings
- c) Decrease consumption
- d) Decrease exports

### Question 4

According to the quantity theory of money an increase in the money supply is most likely to lead to inflation if:

- a) The velocity of circulation decreases**

- b) The number of transactions decreases
- c) There is deflation
- d) The velocity of circulation and the number of transactions is constant**

#### Question 5

A reduction in the money supply is likely to:

- a) Reduce the interest rate
- b) Increase the interest rate**
- c) Increase inflation
- d) Decrease deflation

#### Question 6

To reduce the supply of money the government could:

- a) Reduce interest rates
- b) Buy back government bonds
- c) Sell government bonds**
- d) Encourage banks to lend

#### Question 7

The speculative demand for money occurs when:

- a) Individuals hold money just in case an emergency happens
- b) Individuals hold money to buy things
- c) Individuals hold money rather than other assets because they are worried about the price of the other assets falling**
- d) Individuals hold money to shop

### Question 8

An outward shift in the demand for money, other things being equal should lead to:

- a) A lower interest rate but the same quantity of money
- b) A higher interest rate but the same quantity of money**
- c) A higher quantity of money but lower interest rates
- d) A higher quantity of money but the same interest rate

### Question 9

The interest rate in the UK is determined by:

- a) The government
- b) The electorate
- c) The Monetary Policy Committee**
- d) The Federal Reserve Board

### Question 10

Open Market Operations occur when the government:

- a) Reduces the interest rate
- b) Buys and sells bonds and securities**
- c) Increases taxation
- d) Increases the exchange rate

### Unit 29

### Question 1

Demand pull inflation may be caused by:

- a) An increase in costs
- b) A reduction in interest rate**
- c) A reduction in government spending
- d) An outward shift in aggregate supply

### Question 2

Inflation:

- a) Reduces the cost of living
- b) Reduces the standard of living
- c) Reduces the price of products
- d) Reduces the purchasing power of a pound**

### Question 3

An increase in injections into the economy may lead to:

- a) An outward shift of aggregate demand and demand pull inflation**
- b) An outward shift of aggregate demand and cost push inflation
- c) An outward shift of aggregate supply and demand pull inflation
- d) An outward shift of aggregate supply and cost push inflation

### Question 4

An increase in aggregate demand is more likely to lead to demand pull inflation if:

- a) Aggregate supply is perfectly elastic
- b) Aggregate supply is perfectly inelastic**
- c) Aggregate supply is unit elastic
- d) Aggregate supply is relatively elastic

### Question 5

An increase in costs will:

- a) Shift aggregate demand
- b) Shift aggregate supply**
- c) Reduce the natural rate of unemployment
- d) Increase the productivity of employees

### Question 6

The effects of inflation on the price competitiveness of a country's products may be offset by:

- a) An appreciation of the currency
- b) A revaluation of the currency
- c) A depreciation of the currency**
- d) Lower inflation abroad

### Question 7

Menu costs in relation to inflation refer to:

- a) Costs of finding better rates of return
- b) Costs of altering price lists
- c) Costs of money increasing its value**
- d) Costs of revaluing the currency

### Question 8

In the short run unemployment may fall below the natural rate of unemployment if:

- a) Nominal wages have risen less than inflation**



- b) Nominal wages have risen at the same rate as inflation
- c) Nominal wages have risen more than inflation
- d) Nominal wages have risen less than unemployment

#### Question 9

According to the Phillips curve unemployment will return to the natural rate when:

- a) Nominal wages are equal to expected wages
- b) Real wages are back at equilibrium level**
- c) Nominal wages are growing faster than inflation
- d) Inflation is higher than the growth of nominal wages

#### Question 10

The Phillips curve shows the relationship between inflation and what?

- a) The balance of trade
- b) The rate of growth in an economy
- c) The rate of price increases
- d) Unemployment**

#### Unit 30

#### Question 1

If the value of the pound in other currencies is strong:

- a) The price of UK products abroad in foreign currency will fall
- b) The price of UK products abroad in foreign currency will rise**
- c) The price of UK products in the UK will rise
- d) The price of UK products in the UK will fall

### Question 2

If the value of the pound in other currencies rises:

- a) The spending on UK exports in pounds must rise
- b) The spending on UK exports in foreign currency will rise if demand is price elastic
- c) The demand for UK exports will rise
- d) The spending on UK exports in foreign currency will fall if demand for UK exports is price elastic**

### Question 3

The supply of pounds to the currency market will be upward sloping if:

- a) The demand for UK exports is price elastic
- b) The demand for UK exports is price inelastic
- c) The demand for imports into the UK is price elastic**
- d) The demand for imports into the UK is price inelastic

### Question 4

A fall in the value of the pound is likely to decrease spending on imports if:

- a) The price elasticity of demand for imports is price elastic
- b) The price elasticity of demand for imports is price inelastic**
- c) The price elasticity of demand for imports has a unit price elasticity
- d) The price elasticity of demand for exports is price elastic

### Question 5

If the exchange rate is above the equilibrium level:

- a) There is excess demand and the exchange rate will fall**

- b) There is excess supply and the exchange rate will fall**
- c) There is excess demand and the exchange rate will rise
- d) There is excess supply and the exchange rate will rise

#### **Question 6**

If the exchange rate is below the equilibrium level:

- a) There is excess demand and the exchange rate will fall
- b) There is excess supply and the exchange rate will fall
- c) There is excess demand and the exchange rate will rise**
- d) There is excess supply and the exchange rate will rise

#### **Question 7**

To prevent the exchange rate rising the government could:

- a) Sell its own currency**
- b) Increase interest rates
- c) Buy its own currency
- d) Sell foreign currency

#### **Question 8**

A depreciation of a currency occurs when:

- a) The value of the currency falls**
- b) The value of the currency increases
- c) Inflation falls
- d) The balance of payments improves

### Question 9

An appreciation of the currency may occur if:

- a) Domestic interest rates fall
- b) There is an increase in demand for imports
- c) There is an increase in demand for exports**
- d) There is an increase in the balance of payments deficit

### Question 10

A fall in the external value of a currency:

- a) May cause an outward shift in the demand for the currency
- b) May cause an inward shift in the supply for the currency
- c) May lead to a movement along the demand curve for a currency**
- d) May be due to a increase in demand for the country's exports

## Unit 31

### Question 1

Which of the following is not an argument for protectionism?

- a) To protect infant industries
- b) To increase the level of imports**
- c) To protect strategic industries
- d) To improve the balance of payments

### Question 2

A demand switching policy could be

- a) Higher interest rates
- b) Higher income tax
- c) Tariffs**
- d) Reduced government spending

### Question 3

Free trade is based on the principle of:

- a) Comparative advantage**
- b) Comparative scale
- c) Economies of advantage
- d) Production possibility advantage

### Question 4

If a country can produce 10 of product A or 4 of product B the opportunity cost of 1B is:

- a) 0.4A
- b) 2.5A**
- c) 10A
- d) 1B

**If a country can produce 10 of product A or 4 of product B the opportunity cost of 1B is 2.5A.**

### Question 5

Tariffs:

- a) Decrease the domestic price of a product
- b) Increase government earnings from tax**
- c) Increase the quantity of imports

d) Decrease domestic production

### Question 6

The terms of trade measure:

- a) The income of one country compared to another
- b) The GDP of one country compared to another
- c) The quantity of exports of one country compared to another
- d) Export prices compared to import prices**

### Question 7

In a floating exchange rate system:

- a) The government intervenes to influence the exchange rate
- b) The exchange rate should adjust to equate the supply and demand of the currency**
- c) The Balance of Payments should always be in surplus
- d) The Balance of payments will always equal the government budget

### Question 8

The marginal propensity to consume is equal to:

- a) Total spending / total consumption
- b) Total consumption / total income
- c) Change in consumption / change in income**
- d) Change in consumption / change in savings

### Question 9

If there is a balance of payments deficit then in a floating exchange rate system:

- a) **The external value of the currency would tend to fall**
- b) The external value of the currency would tend to rise
- c) The injections from trade are greater than the withdrawals
- d) Aggregate demand is increasing

#### Question 10

To prevent the external value of the currency from falling the government might:

- a) Reduce interest rates
- b) Sell its own currency
- c) **Buy its own currency with foreign reserves**
- d) Increase its own spending

#### Unit 32

#### Question 1

Members of the European Union:

- a) Have the same interest rates
- b) Have one set of laws
- c) All have the euro currency
- d) **Have common tariffs against non members**

#### Question 2

Which of the following is **not** a member of the European Union?

- a) France
- b) **Russia**
- c) Bulgaria

d) Poland

### Question 3

The population of the European Union is approximately what?

a) 50 million

**b) 450 million**

c) 1000 million

d) 2000 million

### Question 4

Within the European Union:

**a) There are no tariffs between member countries**

b) All member countries have the euro currency

c) All member countries have the same taxation policies

d) All member countries have the same defence policy

### Question 5

Belonging to the European Union:

a) Encourages trade with non member countries

**b) Encourages trade with member countries**

c) Encourages protectionism within the union

d) Encourages countries to act independently

### Question 6

The UK:



- a) May join the European Union in the future
- b) Relies on the European Union for all of its trade
- c) Relies on the European Union for much of its tax revenue
- d) Joined the European Union in 1973**

#### Question 7

The CAP is:

- a) The Common Agricultural Policy**
- b) The Common Alien Policy
- c) The Community Agricultural Premium
- d) The Cost And Price agreement

#### Question 8

By having a bigger target market within the European Union a firm might benefit from economies of scale. Which of the following is **not** an economy of scale?

- a) Purchasing
- b) Financial
- c) Managerial
- d) Allocative efficiency**

#### Question 9

Which of the following is **not** a European institution?

- a) European Parliament
- b) European Commission
- c) European Congress**

d) European Council

### Question 10

Which of the following could be a problem of being a member of the European Union?

- a) **Greater competition**
- b) More customers
- c) Easier access to markets
- d) Greater uniformity in markets

### Unit 33

### Question 1

Which of the following is **not** a way of helping developing economies?

- a) Aid
- b) Loans
- c) **Protectionism of developed markets**
- d) Training and education programmes

### Question 2

Developing economies usually have:

- a) **Low GDP per capita**
- b) Low CPI
- c) Large balance of payments surpluses
- d) Large budget surpluses

### Question 3

Demand for primary products is likely to be:

- a) Very sensitive to price
- b) Price elastic
- c) Unit elastic
- d) Income inelastic**

#### Question 4

Developing economies usually:

- a) Have large industrialised sectors
- b) Are dependent on primary products**
- c) Have high levels of wealth
- d) Earn more from exports than is spent on imports

#### Question 5

Earning from primary products are often unstable because:

- a) Demand is price elastic
- b) Supply is price elastic
- c) Supply conditions are relatively stable
- d) Supply conditions are unstable**

#### Question 6

Over time the price of primary products tends to fall because:

- a) Demand is income elastic
- b) Supply is income elastic
- c) Of outward shifts in supply**

d) Demand is price elastic

### Question 7

Less Developed Countries tend to have:

- a) A high average age
- b) A slow population growth rate
- c) High life expectancy
- d) **A low literacy rate**

### Question 8

In a Less Developed Country:

- a) The infrastructure is likely to be good
- b) Real wages are likely to be high
- c) Unemployment is likely to be low
- d) **The primary sector is likely to be significant**

### Question 9

An injection of funds into a Less Developed Country might set off the:

- a) **Multiplier**
- b) Marginal propensity to save
- c) Average propensity to consume
- d) The Laffer effect

### Question 10

The marginal propensity to consume in a Less Developed Country is likely to be:

- a) Less than 0
- b) Nearly 0
- c) **High**
- d) Low

#### **Unit 34**

#### **Question 1**

Which of the following is not a global organisation?

- a) IMF
- b) World Bank
- c) **Competition Commission**
- d) WTO

#### **Question 2**

Globalisation is likely to increase with:

- a) More protectionism
- b) An increase in tariffs
- c) More trade within countries
- d) **Greater trade flows between countries**

#### **Question 3**

A multinational business:

- a) Sells products abroad
- b) **Produces in more than one country**
- c) Imports from abroad

d) Sells only domestically

#### Question 4

Which of the following best describes the selling of a production licence to another firm?

- a) Hands over all rights to its products
- b) Sells its products abroad
- c) Sells the right to produce to another business**
- d) Sells the business to another business

#### Question 5

Globalisation is made more difficult by:

- a) The actions of the World Trade Organisation
- b) The removal of protectionist measures
- c) Exchange rate instability**
- d) More free trade agreements

#### Question 6

Finding a partner to work with abroad is called a:

- a) Takeover
- b) Merger
- c) Acquisition
- d) Joint venture**

#### Question 7

Some pressure groups oppose globalisation. The best economic reason for opposition would be:

- a) World trade may increase
- b) The marginal social benefits of globalisation are less than the marginal social costs**
- c) Global standards of living may rise
- d) World income inequality may increase

### Question 8

The UK would **not** have attracted inward investment because:

- a) It is within the European Union
- b) English is a common world wide language
- c) It has a stable economic system
- d) A strong pound may have made it cheaper for foreign buyers to purchase UK companies**

### Question 9

Why might a country resist globalisation?

- a) Greater choice of final products
- b) Greater choice of supplies
- c) Greater competition for domestic firms**
- d) More markets to sell to

### Question 10

World trade has been increasing due to:

- a) Increased tariffs
- b) Increased legal barriers
- c) Increased embargoes
- d) Reduced protectionism**

Unit 11

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Question 1

Firms in perfect competition face a:

- a) **Perfectly elastic demand curve**
- b) Perfectly inelastic demand curve
- c) Perfectly elastic supply curve
- d) Perfectly inelastic supply curve

Question 2

In perfect competition:

- a) **The price equals the marginal revenue**
- b) The price equals the average variable cost
- c) The fixed cost equals the variable costs
- d) The price equals the total costs

Question 3

A profit maximising firm in perfect competition produces where:

- a) Total revenue is maximised
- b) Marginal revenue equals zero
- c) **Marginal revenue equals marginal cost**
- d) Marginal revenue equals average cost

Question 4

In perfect competition:

- a) **The products firm offer are very similar**



- b) Products are heavily differentiated
- c) A few firms dominate the market
- d) Consumers have limited information

Question 5

In the long run in perfect competition:

- a) The price equals the total revenue
- b) Firms are allocatively inefficient
- c) **Firms are productively efficient**
- d) The price equals total cost

Question 6

In perfect competition:

- a) Short run abnormal profits are competed away by firms leaving the industry
- b) **Short run abnormal profits are competed away by firms entering the industry**
- c) Short run abnormal profits are competed away by the government
- d) Short run abnormal profits are competed away by greater advertising

Question 7

In perfect competition:

- a) A few firms dominate the industry
- b) Firms are price makers
- c) There are many buyers but few sellers
- d) **There are many buyers and sellers**

Question 8

In the short run firms in perfect competition will still produce provided:

- a) **The price covers average variable cost**
- b) The price covers variable cost

- c) The price covers average fixed cost
- d) The price covers fixed costs

#### Question 9

In the long run in perfect competition:

- a) **Price = average cost = marginal cost**
- b) Price = average cost = total cost
- c) Price = marginal revenue = total cost
- d) Total revenue = total variable cost

#### Question 10

For a perfectly competitive firm:

- a) **Price equals marginal revenue**
- b) Price is greater than marginal revenue
- c) Price equals total revenue
- d) Price equals total cost

#### Unit 12

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#### Question 1

X inefficiency occurs when:

- a) The price is greater than the marginal cost
- b) The price is greater than the average cost
- c) **Costs are higher than they could be due to a lack of competitive pressure**
- d) There are external costs

#### Question 2

The marginal revenue curve in monopoly:

- a) Equals the demand curve

- b) Is parallel with the demand curve
- c) Lies below and converges with the demand curve
- d) **Lies below and diverges from the demand curve**

Question 3

In monopoly when abnormal profits are made:

- a) **The price set is greater than the marginal cost**
- b) The price is less than the average cost
- c) The average revenue equals the marginal cost
- d) Revenue equals total cost

Question 4

In monopoly in long run equilibrium:

- a) The firm is productively efficient
- b) **The firm is allocatively inefficient**
- c) The firm produces where marginal cost is less than marginal revenue
- d) The firm produces at the socially optimal level

Question 5

Barriers to entry do not include

- a) Patents
- b) Internal economies of scale
- c) **Mobility of resources**
- d) High investment costs

Question 6

In a monopoly which of the following is not true?

- a) Products are differentiated
- b) **There is freedom of entry and exit into the industry in the long run**

- c) The firm is a price taker
- d) There is one main seller

#### Question 7

In monopoly which of the following is true?

- a) There are many buyers and sellers
- b) There is one main buyer
- c) **There is one main seller**
- d) The actions of one firm do not affect the market price and quantity

#### Question 8

According to Schumpeter:

- a) Monopolies are inefficient
- b) **Monopoly profits act as an incentive for innovation**
- c) Monopolies are allocatively efficient
- d) Monopolies are productively efficient

#### Question 9

A welfare loss occurs in monopoly where:

- a) **The price is greater than the marginal cost**
- b) The price is greater than the marginal benefit
- c) The price is greater than the average revenue
- d) The price is greater than the marginal revenue

#### Question 10

In the UK the government:

- a) Bans monopolies
- b) Fines all monopolies

c) Prevents firms acquiring more than 25% of the market

d) **Has the right to investigate monopolies and will assess each one on its own merits**

Unit 13

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Question 1

If a few firms dominate an industry the market is known as:

a) Monopolistic competition

b) Competitively monopolistic

c) Duopoly

d) **Oligopoly**

Question 2

In a cartel member firms may be given a fixed amount to produce. This is called a:

a) Limit

b) Factor

c) **Quota**

d) Quotient

Question 3

In the Kinked Demand Curve theory it is assumed that:

a) An increase in price by the firm is not followed by others

b) An increase in price by the firm is followed by others

c) **A decrease in price by the firm is followed by others**

d) Firms collude to fix the price

Question 4

The Kinked Demand Curve theory assumes:

a) Firms cooperate

- b) Firms act as part of a cartel
- c) **Firms are competitive**
- d) Firms are not profit maximisers

Question 5

In Game Theory:

- a) Firms are assumed to act independently
- b) Firms are assumed to cooperate with each other
- c) Firms collude as part of a cartel
- d) **Firms consider the actions of others before deciding what to do**

Question 6

In the kinked demand curve theory:

- a) There is a kink in the marginal cost curve
- b) Demand is price inelastic
- c) Demand is price elastic
- d) **Non price competition is likely**

Question 7

Firms in oligopoly are likely to:

- a) **Invest heavily in branding**
- b) Act independently of other firms
- c) Try to differentiate its products
- d) Try to be a price maker

Question 8

A model of Game Theory of oligopoly is known as the:

a) **Prisoner's Dilemma**

b) Monopoly Cell

c) Jailhouse Sentence

d) Jury Box

Question 9

In cartels:

a) Each individual firm profit maximises

b) **There may be an incentive to cheat**

c) The industry as a whole is loss making

d) There is no need to police agreements

Question 10

In a cartel:

a) Firms compete against each other

b) Price wars are common

c) Firms use price to win market share from competitors

d) **Firms collude**

Unit 14

Instructions

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Question 1

In monopolistic competition:

a) Firms face a perfectly elastic demand curve

b) All products are homogeneous

c) **Firms make normal profits in the long run**

d) There are barriers to entry to prevent entry

Question 2

In monopolistic competition:

- a) Demand is perfectly elastic
- b) Products are homogeneous
- c) Marginal revenue = price
- d) **The marginal revenue is below the demand curve and diverges**

Question 3

In monopolistic competition firms profit maximise where:

- a) Marginal revenue = Average revenue
- b) **Marginal revenue = Marginal cost**
- c) Marginal revenue = Average cost
- d) Marginal revenue = Total cost

Question 4

Which of the following is not one of the four Ps in marketing?

- a) Product
- b) Price
- c) Place
- d) **Presence**

Question 5

Effective branding will tend to make:

- a) **Demand more price inelastic**
- b) Supply more price inelastic
- c) Demand more income elastic
- d) Supply more income elastic

Question 6



In monopolistic competition if firms are making abnormal profit other firms will enter and:

- a) The marginal cost will shift outwards
- b) The demand curve will shift inwards**
- c) The average cost will shift downwards
- d) The average variable cost will increase

Question 7

In Porter's five forces model conditions are more favourable for firms within an industry if:

- a) Buyer power is high
- b) Supplier power is high
- c) Entry threat is low**
- d) Substitute threat is high

Question 8

If a firm takes over a competitor then, according to Porter's 5 forces model,:

- a) Buyer power is higher
- b) Supplier power is higher
- c) Substitute threat is higher
- d) Rivalry is lower**

Question 9

In marketing "USP" stands for:

- a) Unique Selling Proposition**
- b) Underlying Sales Pitch
- c) Unit Sales Point
- d) Under Sales Procedure

Question 10

In monopolistic competition:

- a) There are few sellers
- b) There are few buyers
- c) There is one seller
- d) **There are many sellers**

Unit 15

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Question 1

Barriers to entry:

- a) Do not exist in monopoly
- b) Cannot exist in oligopoly
- c) Do not exist in monopolistic competition
- d) **Do exist in perfect competition**

Question 2

Which best describes price discrimination?

- a) Charging different prices for different products
- b) Charging the same prices for different products
- c) Charging the same prices for the same products
- d) **Charging different prices for the same products**

Question 3

For a firm operating in two markets and price discriminating the profit maximising condition is:

- a) Marginal revenue in A = Price B
- b) Marginal revenue in A = Marginal revenue B = Price A = Price B
- c) **Marginal revenue in A = Marginal revenue B = Marginal cost**
- d) Marginal revenue in A = Marginal revenue B = Average cost

Question 4

If the price elasticity of demand for a product in market A is  $-0.2$  and in market B is  $-3$  a price discriminator will charge:

- a) **The higher price in market A**
- b) The higher price in market B
- c) The same price in both markets
- d) Cannot tell which price will be higher

Question 5

In perfect price discrimination:

- a) Consumer surplus is maximised
- b) Produce surplus is zero
- c) Community surplus is maximised
- d) **Consumer surplus is zero**

Question 6

A benefit to consumers of price discrimination is that:

- a) **Some products are produced that would not otherwise be produced**
- b) Producer surplus increases
- c) Consumer surplus decreases
- d) Firms' profits increase

Question 7

In perfect price discrimination:

- a) The demand curve is the marginal cost curve
- b) The average revenue equals the average cost
- c) The marginal cost is the average cost curve
- d) **The demand curve is the marginal revenue**

Question 8

In price discrimination abnormal profits are made if:

- a) Average revenue is greater than average variable cost
- b) Average revenue is greater than average cost**
- c) Average revenue is greater than marginal revenue
- d) Average revenue is greater than average fixed cost

Question 9

Barriers to entry:

- a) Enable abnormal profits to be made in the long run**
- b) Enable losses to be made in the long run
- c) Enable abnormal profits to be made in the short run only
- d) Occur in perfect competition

Question 10

If the price elasticity is -0.3 this means:

- a) Demand is upward sloping
- b) Demand is price elastic
- c) A price fall would increase revenue
- d) Demand is price inelastic**

Unit 16 Top of Form

Question 1

If one car company takes over another car company this is an example of which type of integration?

- a) Vertical
- b) Horizontal**

c) Conglomerate

d) Literal

Question 2

If a car company takes over a clothes business this is an example of which type of integration?

a) Vertical

b) Horizontal

c) **Conglomerate**

d) Literal

Question 3

Horizontal integration may lead to internal economies of scale. Which of the following is not a type of internal economy of scale?

a) Purchasing

b) Technical

c) Financial

d) **Safety**

Question 4

Acquisition and merger are examples of:

a) Internal growth

b) **External growth**

c) Organic growth

d) Underlying growth

Question 5

Unfair competition does not include:

a) **Price cutting**

b) Predatory pricing

- c) Cartels
- d) Price fixing

Question 6

If firms join together to set prices and quantities this is known as what?

- a) Interaction
- b) Conglomerate
- c) **Collusion**
- d) Integration

Question 7

In the Ansoff matrix a strategy focusing on new products and new markets is known as:

- a) New product development
- b) **Diversification**
- c) Market development
- d) Market penetration

Question 8

A monopoly in the UK can be investigated if it has a market share of:

- a) 100%
- b) 10% or over
- c) **25% or over**
- d) 33% or over

Question 9

Anti-competitive behaviour in the UK can lead to fines of up to:

- a) 10% of profits
- b) **10% of turnover**

- c) 10% of costs
- d) 25% of market share

#### Question 10

An example of backward vertical integration is:

- a) **A supermarket buying a farm**
- b) A supermarket buying another supermarket
- c) A supermarket buying an insurance company
- d) A supermarket buying a car rental business

#### Unit 17

Top of Form

#### Question 1

To maximise sales revenue a firm should produce where:

- a) Marginal cost is zero
- b) Marginal revenue is maximised
- c) **Marginal revenue is zero**
- d) Marginal revenue equals marginal cost

#### Question 2

To maximise growth without making a loss a firm should produce the highest output where:

- a) Average revenue equals marginal cost
- b) **Average revenue equals average cost**
- c) Marginal revenue equals marginal cost
- d) Average cost equals marginal cost

#### Question 3

Profit is measured by:

- a) Revenue - fixed costs

- b) Fixed cost + revenue
- c) Revenue - sales
- d) **Revenue - total costs**

Question 4

When marginal revenue equals marginal cost:

- a) Total revenue equals total cost
- b) **There is the biggest positive difference between total revenue and total cost**
- c) There is the biggest negative difference between total revenue and total cost
- d) Profits are zero

Question 5

To be allocatively efficient a firm must produce where:

- a) The total cost equals demand
- b) The average revenue equals the marginal revenue
- c) The price equals the average cost
- d) **The price equals the marginal cost**

Question 6

To be productively efficient a firm must produce where:

- a) Marginal costs are maximised
- b) Marginal costs are minimised
- c) **Average costs are minimised**
- d) Average revenue is maximised

Question 7

Normal profit occurs when:

- a) Average revenue equals average variable cost
- b) Marginal revenue equals marginal cost



c) Average revenue equals marginal cost

d) **Average revenue equals average cost**

Question 8

If the marginal revenue is positive:

a) **Selling another unit will increase total revenue**

b) Selling another unit will increase profits

c) Selling another unit will increase costs

d) Selling another unit will increase average revenue

Question 9

Companies in the private sector are owned by:

a) The government

b) **Shareholders**

c) Employees

d) The community

Question 10

An independent assessment of the impact of firm's activities on society is called a:

a) Financial audit

b) Balance sheet

c) Profit and loss account

d) **Social audit**

Unit 18

Top of Form

Question 1

An increase in the wage rate:

a) Will usually lead to more people employed

b) **Will decrease total earnings if the demand for labour is wage elastic**

c) Is illegal in a free market

d) Will cause a shift in the demand for labour

#### Question 2

The Marginal Revenue Product is likely to be wage inelastic if:

a) Labour costs are a high percentage of total costs

b) **Demand for the final product is price inelastic**

c) It is relatively easy to substitute capital for labour

d) There are many substitutes for the final product

#### Question 3

A fall in demand for labour is likely to lead to:

a) **A lower equilibrium wage and lower quantity of labour**

b) A lower equilibrium wage and higher quantity of labour

c) A higher equilibrium wage and higher quantity of labour

d) A higher equilibrium wage and lower quantity of labour

#### Question 4

A decrease in the supply of labour is likely to lead to:

a) A lower equilibrium wage and lower quantity of labour

b) A lower equilibrium wage and higher quantity of labour

c) A higher equilibrium wage and higher quantity of labour

d) **A higher equilibrium wage and lower quantity of labour**

#### Question 5

The Marginal Revenue Product is:

a) Upward sloping due to the law of demand

b) Upward sloping due to the law of marginal utility

c) **Downward sloping due to the law of diminishing returns**

d) Downward sloping due to the law of supply

Question 6

Demand for labour is more likely to be wage inelastic if:

a) **Wages are a small proportion of total costs**

b) Demand for the final product is price elastic

c) It is easy to replace labour

d) Capital is a good substitute for labour

Question 7

A profit maximising firm will employ labour up to the point where:

a) Marginal revenue = marginal product

b) Marginal cost = marginal product

c) **Marginal revenue product = average cost of labour**

d) Marginal revenue product = marginal cost of labour

Question 8

In a perfectly competitive labour market firms are wage takers and the marginal cost of labour equals:

a) **The average cost of labour**

b) The marginal product

c) The marginal revenue

d) The total cost of labour

Question 9

If employees cannot accept a job because of the costs of moving this is known as:

a) Occupational immobility

b) Cyclical unemployment

c) Structural immobility

d) **Geographical immobility**

Question 10

If the minimum wage is set above the equilibrium wage rate, then other things unchanged:

- a) There will be equilibrium in the labour market
- b) There will be excess demand in the labour market
- c) **There will be excess supply in the labour market**
- d) More people will be employed

Unit 19

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Question 1

Which of the following is a macroeconomic issue?

- a) The price of houses in Oxford
- b) The wage rate for plumbers in London
- c) Your decision to work or stay at home
- d) **The level of unemployment in the UK**

Question 2

What is meant by an objective?

- a) A policy
- b) A way of reaching a target
- c) **A target**
- d) A strategy

Question 3

Which of the following is not involved with fiscal policy?

- a) Income tax
- b) National insurance

c) VAT

d) **Interest rates**

Question 4

Which does the government not control directly?

a) Spending on health

b) Spending on defence

c) **Firms' investment decisions**

d) Spending on education

Question 5

Which of the following is not a macroeconomic issue?

a) Unemployment

b) Inflation

c) **The wages paid to footballers**

d) Economic growth

Question 6

Which of the following can the government not use directly to control the economy?

a) **Pay rates within the private sector**

b) Pay rates in the public sector

c) Investment in education

d) Benefits available for the unemployed and sick

Question 7

Which of the following is a policy instrument as opposed to a government objective?

a) **Lower interest rates**

b) A better balance of trade position

c) Faster economic growth

d) Lower unemployment

Question 8

Which of the following is a possible government objective as opposed to a policy?

a) Lower interest rates

b) Lower taxation rates

c) Lower government spending

d) **Lower inflation**

Question 9

Which of the following is not likely to be a government objective?

a) Increasing employment

b) Increasing economic growth

c) **Increasing government spending**

d) Increasing the level of exports

Question 10

"Reducing inflation is a more important objective than economic growth" is an example of:

a) **Normative economics**

b) Positive economics

c) Objective economics

d) Reality economics

Bottom of Form

Bottom of Form

Unit 20

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Question 1

- a) Decrease aggregate demand
- b) Always equal savings
- c) Always equal national income
- d) **Include investment and export spending**

Question 2

An increase in national income is:

- a) Likely to increase exports
- b) Likely to decrease savings
- c) Likely to decrease investment
- d) **Likely to increase spending on imports**

Question 3

An increase in national income is likely to:

- a) Decrease tax receipts
- b) **Worsen the balance of trade**
- c) Automatically cause an increase in government spending
- d) Cause an increase in injections into the economy

Question 4

A significant increase in the government budget deficit is likely to:

- a) Reduce injections into the economy
- b) Reduce national income
- c) Move the economy away from full employment
- d) **Boost aggregate demand**

Question 5

If injections are greater than withdrawals:

- a) **National income will increase**

- b) National income will decrease
- c) National income will stay in equilibrium
- d) Prices will fall

Question 6

Injections are:

- a) **Assumed to be exogeneous**
- b) Assumed to be a function of national income
- c) Decrease aggregate demand
- d) Decrease the investment into an economy

Question 7

For equilibrium in an open four sector economy:

- a) Actual injections = actual withdrawals
- b) **Planned injections = planned withdrawals**
- c) Savings = investment
- d) Government spending = tax revenue

Question 8

A deflationary policy could include:

- a) Increasing injections
- b) Reducing taxation rates
- c) Reducing interest rates
- d) **Reducing government spending**

Question 9

A reflationary policy:

- a) Increases aggregate supply
- b) **Increases aggregate demand**



- c) Decreases the price level
- d) Increases full employment

Question 10

Which of the following is an injection into the economy?

- a) **Investment**
- b) Savings
- c) Taxation
- d) Import spending

**Question # 1 of 10 ( Start time: 01:14:57 AM ) Total Marks: 1**

Demand is elastic when the elasticity of demand is:

Select correct option:

Greater than 0

**Greater than 1**

Less than 1

Less than 0

**Question # 2 of 10 ( Start time: 01:15:53 AM ) Total Marks: 1**

When government sets the price of a good and that price is above the equilibrium price, the result will be:

Select correct option:

A surplus of the good

A shortage of the good

An increase in the demand for the good

A decrease in the supply of the good

*(not sure, I selected option # 1, kindly verify it)*

**Question # 3 of 10 ( Start time: 01:17:10 AM ) Total Marks: 1**

You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:

Select correct option:

**The demand for houses has increased**

The demand curve for houses must be upward-sloping

The supply of houses has increased

Housing construction costs must be decreasing

**Question # 4 of 10 ( Start time: 01:18:12 AM ) Total Marks: 1**

The demand curve facing a perfectly competitive firm is:

Select correct option:

The same as its average revenue curve but not the same as its marginal revenue curve.

The same as its average revenue curve and its marginal revenue curve.

The same as its marginal revenue curve but not its average revenue curve.

Not the same as either its marginal revenue curve or its average revenue curve.

**Question # 5 of 10 ( Start time: 01:19:13 AM ) Total Marks: 1**

In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:

Select correct option:

Decreasing returns to scale.

Constant returns to scale.

Increasing returns to scale.

Negative returns to scale.

*(again not sure, but i selected option # 3, kindly check it)*

**Question # 6 of 10 ( Start time: 01:20:18 AM ) Total Marks: 1**

An individual whose attitude toward risk is illustrated:

Select correct option:

Risk averse.

Risk loving.

Risk neutral.

None of the given is necessarily correct.

**Question # 7 of 10 ( Start time: 01:21:21 AM ) Total Marks: 1**

If a decrease in price increases total revenue:

Select correct option:

**Demand is elastic**

Demand is inelastic

Supply is elastic

Supply is inelastic

**Question # 8 of 10 ( Start time: 01:22:05 AM ) Total Marks: 1**

A self-employed accountant spends a lot of money identifying clients and advertising her services. These activities are an example of:

Select correct option:

External costs

Transaction costs

Fixed inputs

Marginal returns

**Question # 9 of 10 ( Start time: 01:23:00 AM ) Total Marks: 1**

If the income elasticity of demand for boots is 0.2, a 10% increase in consumer income will lead to a:

Select correct option:

20 percent increase in the quantity of boots demanded

20 percent decrease in the quantity of boots demanded

2 percent increase in the quantity of boots demanded

0.2 percent increase in the quantity of boots demanded

**Question # 10 of 10 ( Start time: 01:24:11 AM ) Total Marks: 1**

If there is a price ceiling, there will be:

Select correct option:

Shortages

Surpluses

Equilibrium

None of the given options.

*(I selected option # 1, and i think it is correct, see revised handouts (available in LMS download section of ECO401), page # 17)*