

Solved by afaaq shani bhai adeel

Asslam O Alikum

ECO 401 MIDTERM PAPERS Solved by Afaaq Shani bhai n Adeel

Remember Us In Your Prayers

Best regard's

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[ECO401 current paper \(May 2010\)](#)

**Today Paper (26-05-2010)**

**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 <>

**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.

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