

MIDTERM EXAMINATION
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Spring 2010
ECO401- Economics

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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If u like me than raise your hand with me

If not than raise ur standard

That's about me ... !

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. (afaaq)**
- ▶ **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.

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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:

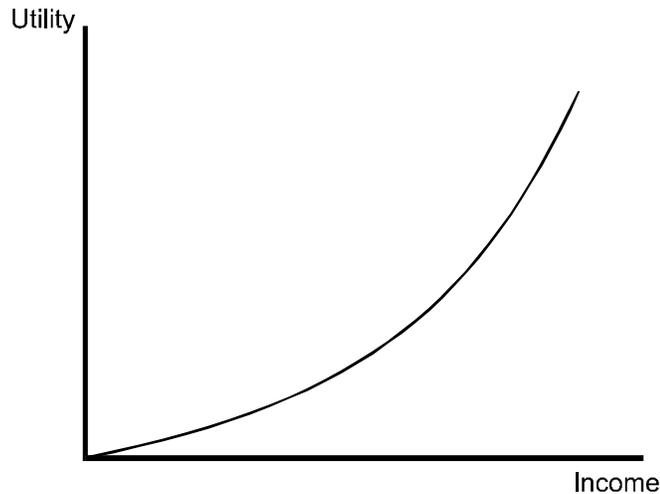
- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ **Any of the given are possible.**

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)

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.

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