

MIDTERM EXAMINATION
Spring 2010
ECO401- Economics (Session - 6)

Ref No: 1374601

Time: 60 min

Marks: 47

<u>Student Info</u>	
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<u>Center:</u>	<u>OPKST</u>
<u>ExamDate:</u>	<u>5/26/2010 12:00:00 AM</u>

<u>For Teacher's Use Only</u>									
<u>Q No.</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>Total</u>
<u>Marks</u>									
<u>Q No.</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	
<u>Marks</u>									
<u>Q No.</u>	<u>17</u>	<u>18</u>	<u>19</u>	<u>20</u>	<u>21</u>	<u>22</u>	<u>23</u>	<u>24</u>	
<u>Marks</u>									
<u>Q No.</u>	<u>25</u>	<u>26</u>	<u>27</u>	<u>28</u>	<u>29</u>	<u>30</u>	<u>31</u>	<u>32</u>	
<u>Marks</u>									
<u>Q No.</u>	<u>33</u>	<u>34</u>	<u>35</u>	<u>36</u>	<u>37</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>Marks</u>									

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

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.

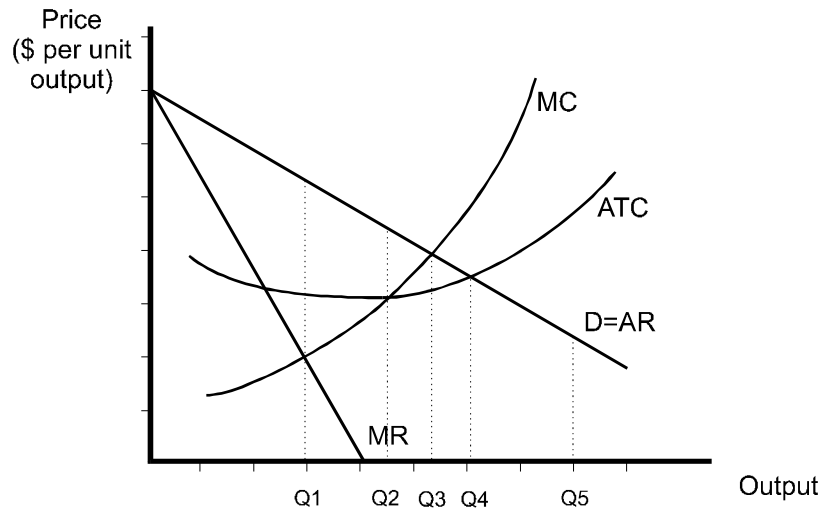
Question No: 16 (Marks: 1) - Please choose one

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
<u>1</u>	<u>0</u>
<u>2</u>	<u>100</u>
<u>3</u>	<u>230</u>

- ▶ 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

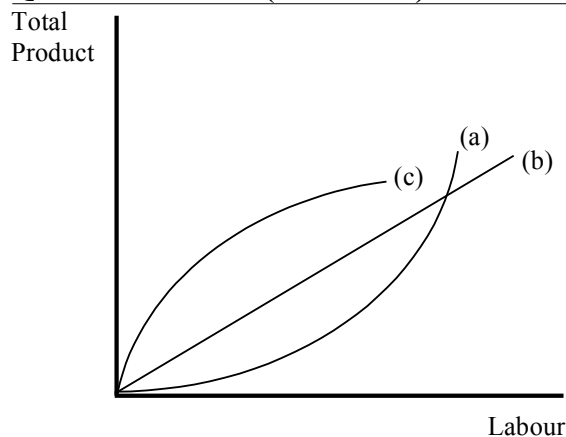
If an increase in price increases the total revenue then:

- ▶ **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)

Question No: 37 (Marks: 5)

Fill

in the missing figures in the table given below:

<u>Q</u>	<u>P=AR</u>	<u>TR</u>	<u>MR</u>
<u>1</u>	<u>9</u>		
<u>2</u>	<u>8</u>		
<u>3</u>	<u>7</u>		
<u>4</u>	<u>6</u>		
<u>5</u>	<u>5</u>		

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Best regard's

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