

ECO401 – Economics**Online Quiz # 2****December 30, 2009**

Here's one more quiz.

Kindly verify the answers. In case you find any incorrect answer, do let us know...

Question # 1 of 10 (Start time: 02:57:52 AM) 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 # 2 of 10 (Start time: 02:59:08 AM) 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 10 (Start time: 02:59:38 AM) Total Marks: 1

A (n) _____ may start a price war in order to get a larger share of the market

Select correct option:

Perfect competitor

Oligopolist

Monopolist

Economist

(I selected option # 2, but kindly verify it.)

Question # 4 of 10 (Start time: 03:00:07 AM) 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.

Question # 5 of 10 (Start time: 03:01:11 AM)

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.

Question # 6 of 10 (Start time: 03:02:10 AM) Total Marks: 1

The effect of a change in income on the quantity of the good consumed is called the:
Select correct option: <http://vustudents.ning.com>

Income effect

Budget effect

Substitution effect

Real income effect

Question # 7 of 10 (Start time: 03:03:07 AM) Total Marks: 1

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

Question # 8 of 10 (Start time: 03:04:20 AM) 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.

By consumer preferences.

The level of profits of firms.

(not 100% sure, but I selected option # 3)

Question # 9 of 10 (Start time: 03:04:42 AM) Total Marks: 1

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

Question # 10 of 10 (Start time: 03:05:54 AM) 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

ECO401 – Economics

Online Quiz # 2

December 29, 2009

Just had my quiz. Here it is;

Kindly verify answers, some could be wrong too. And if you find any wrong answer, let everyone know about it

Question # 1 of 10 (Start time: 10:19:18 PM) Total Marks: 1

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.

Question # 2 of 10 (Start time: 10:20:47 PM) Total Marks: 1

The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the _____ model.

Select correct option:

Cournot

Stackelberg

Dminant firm

kinked demand

(Not 100% sure, kindly verify it, i selected "Kinked Demand", 4th option)

Question # 3 of 10 (Start time: 10:21:48 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 # 4 of 10 (Start time: 10:23:02 PM) Total Marks: 1

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.

(I selected option # 2, and i think i selected the right one, see page # 23 of handouts)

Question # 5 of 10 (Start time: 10:23:15 PM) 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.

Reference: BCom Text book written by Mr. Sohail Akhtar.

It says, "At a minimum point of ATC (Average total cost) curve, MC curve intersects ATC curve from below, that is when ATC is minimum, MC is equal to ATC"

Question # 6 of 10 (Start time: 10:23:39 PM) Total Marks: 1

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.

(not sure, please verify it, I selected 4th option, but it could be wrong)

Question # 7 of 10 (Start time: 10:24:53 PM) Total Marks: 1

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

Question # 8 of 10 (Start time: 10:26:13 PM) Total Marks: 1

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

Question # 9 of 10 (Start time: 10:27:28 PM) 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 # 10 of 10 (Start time: 10:28:02 PM) 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

ECO401 – Economics

Online Quiz # 3

January 13, 2010

Total Questions: 15

Just did my quiz. Here it is.

Kindly verify the answers. Some answers could be wrong too. If you find any incorrect answer, do let everyone know about it

Question # 1 of 15 (Start time: 02:25:39 AM) Total Marks: 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, how many employees will be hired if the wage rate is \$99/day? Labor Total output 1 10 2 25 3 35 4 40 5 41

Select correct option:

- 1
- 2
- 3
- 4

Question # 2 of 15 (Start time: 02:26:53 AM) Total Marks: 1

According to economy is always at full employment level. Economy would automatically find the new equilibrium in the short run.

Select correct option:

- True
- False

(Well this question seems to be incomplete, the question is "According to...", now according to what/who? I think this question is taken from Revised handouts, page 110, which says, "According to classicals, economy is always at full employment level. Economy would

automatically find the new equilibrium in the long run; they did not talk about short run". So according to this statement, the correct answer to this question should be option # 2 "False")

Question # 3 of 15 (Start time: 02:28:12 AM) Total Marks: 1

In monopolist market, a new entrant firm should produce where:

Select correct option:

Marginal Cost < Marginal Revenue.

Marginal Cost > Marginal Revenue.

Marginal Cost = Marginal Revenue.

Marginal Cost = Average Revenue.

(I got confused after reading the statement of the question... Coz according to my knowledge if a new entrant enters a market, it no longer remains a monopoly...? Right? Can someone explain this question please...?)

Question # 4 of 15 (Start time: 02:29:14 AM) 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 # 5 of 15 (Start time: 02:29:57 AM) 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

(Not 100% sure, but I selected option # 4, kindly verify it)

Question # 6 of 15 (Start time: 02:30:56 AM) Total Marks: 1

According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause
Select correct option:

Prices to rise and output to rise.

Prices to fall and output to remain unchanged

Prices to fall and output to fall.

Prices to rise and output to remain unchanged

Question # 7 of 15 (Start time: 02:32:03 AM)

Which of the following is a flow variable?
Select correct option:

The value of the house in which you live

The balance in your savings account

Your monthly consumption of hamburgers

The number of hamburgers in your refrigerator at the beginning of the month

(Option # 3 seems more appropriate "Your monthly consumption of hamburgers".)

Question # 8 of 15 (Start time: 02:33:12 AM) Total Marks: 1

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.

Question # 9 of 15 (Start time: 02:34:23 AM) 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

(Not 100% sure again, :-P I selected option # 4 "All of the above")

Question # 10 of 15 (Start time: 02:35:10 AM) Total Marks: 1

One explanation why the economy does not self correct quickly is

Select correct option:

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

Question # 11 of 15 (Start time: 02:36:19 AM) Total Marks: 1

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

Question # 12 of 15 (Start time: 02:37:35 AM) Total Marks: 1

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

(I selected option # 3, and it seems to be correct, Read page # 1 here:

<http://facstaff.gpc.edu/~poyof/OldChapters/Chapter4.pdf>)

Question # 13 of 15 (Start time: 02:38:48 AM) Total Marks: 1

The AD Curve is downward sloping because of all of the following reasons except that:
Select correct option:

The Fed raises real interest rates as inflation increases

The Fed raises nominal interest rates as inflation rises

The Fed intentionally tries to reduce the level of aggregate demand when inflation rises.

The Fed intentionally tries to increase the level of output as unemployment increases

Question # 14 of 15 (Start time: 02:40:03 AM) Total Marks: 1

If there is a price ceiling, there will be:
Select correct option:

Shortages

Surpluses

Equilibrium

None of the given options.

Question # 15 of 15 (Start time: 02:40:42 AM) 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

Demand

Quantity supplied

Quantity demanded

(This question is being asked again and again, can anyone clear it, whether its Demand or Quantity Demanded.)

ECO401 – Economics

Online Quiz # 3

January, 14, 2010

Total Questions: 15

Here's a friend's quiz.

Kindly verify the answers.

Question # 1 of 15 (Start time: 03:35:57 AM) Total Marks: 1

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

Question # 2 of 15 (Start time: 03:37:06 AM) Total Marks: 1

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

(I'm not 100% sure, but I selected option # 4, i think it seems most appropriate)

Question # 3 of 15 (Start time: 03:38:06 AM) Total Marks: 1

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.

Question # 4 of 15 (Start time: 03:38:55 AM) 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 # 5 of 15 (Start time: 03:39:29 AM) Total Marks: 1

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

(not sure, I selected option # 3, but kindly verify it)

<http://vustudents.ning.com>

Question # 6 of 15 (Start time: 03:40:45 AM) Total Marks: 1

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 # 7 of 15 (Start time: 03:41:25 AM) Total Marks: 1

The demand curve facing a perfectly competitive firm is:

Select correct option:

The same as the market demand curve.

Downward-sloping and less flat than the market demand curve.

Downward-sloping and more flat than the market demand curve.

Perfectly horizontal.

Question # 8 of 15 (Start time: 03:42:03 AM) Total Marks: 1

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

surplus is:

Select correct option:

\$25

\$50

\$75

\$100

Question # 9 of 15 (Start time: 03:42:41 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 # 10 of 15 (Start time: 03:43:51 AM) 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.

(I'm not 100% sure, but I selected option # 2 for the above MCQ)

Question # 11 of 15 (Start time: 03:44:25 AM) Total Marks: 1

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.

Question # 12 of 15 (Start time: 03:44:43 AM) Total Marks: 1

Moving from left to right, the typical production possibilities curve:

Select correct option:

Has a constant negative slope

Has a constant positive slope

Illustrates increasing opportunity costs

Illustrates decreasing opportunity costs

Question # 13 of 15 (Start time: 03:45:10 AM) Total Marks: 1

The AD Curve is downward sloping because of all of the following reasons except that:

Select correct option:

The Fed raises real interest rates as inflation increases

The Fed raises nominal interest rates as inflation rises

The Fed intentionally tries to reduce the level of aggregate demand when inflation rises.

The Fed intentionally tries to increase the level of output as unemployment increases

Question # 14 of 15 (Start time: 03:45:45 AM) 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.

(I selected option # 3 which seems to be the most appropriate, anyways kindly verify it)

Question # 15 of 15 (Start time: 03:46:59 AM) Total Marks: 1

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:

Select correct option:

Keynesians

Monetarists

New Classical school

Post-Keynesians

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: <http://vustudents.ning.com>

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

<http://vustudents.ning.com>

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: <http://vustudents.ning.com>

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: olzz

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? <http://vustudents.ning.com>

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 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

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0 0

10 10
0

20 23
0

30 34
0

40 41
0

50 46
0

- ▶ 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.

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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)

What is the relationship between average physical product and marginal physical product in three cases if:

Marginal physical product is equal to average physical product.

The average physical product will not change.

Marginal physical product is above the average physical product.

The average physical product will also increase.

Marginal physical product is below the average physical product.

The average physical product will also fall

Principles of Microeconomics, 8e (Case/Fair)**Chapter 7: The Production Process: The Behavior of Profit-Maximizing Firms****1. Total revenue minus total cost is equal to**

- A) the rate of return.
- B) marginal revenue.
- C) profit.
- D) net cost.

Answer: C

2. If economic profit is zero, a firm

- A) earns a negative rate of return.
- B) will leave the industry.
- C) earns a positive but below normal rate of return.
- D) earns exactly a normal rate of return.

Answer: D

Refer to the information provided in Figure 7.2 below to answer the following questions.

Figure 7.2

3. Refer to Figure 7.2. This corn producer produces 100 bushels of corn and sells each bushel at \$5. The cost of producing each unit bushel is \$2. This corn producer's total revenue is

- A) \$20.
- B) \$200.
- C) \$300.
- D) \$500.

Answer: D

4. You own a building that has four possible uses: a cafe, a craft store, a hardware store, and a bookstore. The value of the building in each use is \$2,000; \$3,000; \$4,000; and \$5,000, respectively. You decide to open a hardware store. The opportunity cost of using this building for a hardware store is

- A) \$2,000, the value if the building is used as a cafe.
- B) \$3,000, the value if the building is used as a craft store.
- C) \$10,000, the sum of the values if the building is used for a cafe, a craft store, or a bookstore.
- D) \$5,000, the value if the building is used for a bookstore.

Answer: D

SCENARIO 1: You are the owner and only employee of a company that writes computer software that is used by gamblers to collect sports data. Last year you earned a total revenue of \$90,000. Your costs for equipment, rent, and supplies were \$60,000. To start this business you invested an amount of your own capital that could pay you a return of \$40,000 a year.

5. Refer to Scenario 1. During the year your economic costs were

- A) \$40,000.
- B) \$60,000.
- C) \$100,000.
- D) \$130,000.

Answer: C

6. Refer to Scenario 1. A yearly normal rate of return for your computer software firm would be

- A) \$20,000.
- B) \$40,000.
- C) \$60,000.
- D) \$100,000.

Answer: B

7. Refer to Scenario 1. Your accounting profit last year was

- A) \$10,000.
- B) \$30,000.
- C) \$50,000.
- D) \$60,000.

Answer: B

8. Refer to Scenario 1. Your economic profit last year was

- A) -\$40,000.
- B) -\$10,000.
- C) \$10,000.
- D) \$30,000.

Answer: B

9. There are 100 dog kennels in Atlanta. An economist studying the pricing behavior of dog kennels tells you that she is limiting her analysis to a time period that does not allow for any new dog kennels to enter the industry or for any established dog kennels to leave the industry. The time period this economist referred to is the

- A) market period.

- B) industry run.
- C) long run.
- D) short run.

Answer: D

10. Assume the wool industry is perfectly competitive. Why is it difficult for a wool producer to make excess profits?

- A) The fact that wool producers are "price takers."
- B) The assumption that wool producers in the industry do not "differentiate" their products.
- C) The fact that the demand curve facing each wool producer is perfectly elastic.
- D) There is free entry into the wool industry.

Answer: D

11. Assume the wool industry is perfectly competitive. The market demand curve for wool is _____ and each individual wool producer's demand curve is _____.

- A) downward sloping; horizontal
- B) horizontal; downward sloping
- C) horizontal; horizontal
- D) downward sloping; downward sloping

Answer: A

12. The fast-food industry is not considered perfectly competitive because:

- A) entry and exit are strictly regulated by the government.

- B) the firm's products are not homogeneous.
- C) firms spend a large amount of money on advertising.
- D) there are a very large number of firms.

Answer: B

The Production Process

13. The optimal method of production is the one that

- A) maximizes output regardless of cost.
- B) maximizes inputs.
- C) minimizes cost.
- D) minimizes the normal rate of return.

Answer: C

Use the information provided in Table 7.1 below to answer the questions that follow.

Table 7.1

Inputs Required to Produce a Product Using Alternative Technologies

14. Refer to Table 7.1 above. Which technology is the most labor intensive?

- A) A
- B) B
- C) C
- D) D

Answer: A

15. Refer to Table 7.1. If the hourly wage rate is \$7 and the hourly price of capital is \$10, which production technology should be selected?

- A) A
- B) B
- C) C
- D) D

Answer: C

16. The version of the law of diminishing returns that applies to production

- A) implies that as we add more workers our output decreases.
- B) applies only in the short run.
- C) is true only when all inputs are variable.
- D) applies in the short and long run.

Answer: B

17. Suppose output varies, *ceteris paribus*, with labor input in the following manner:

After how many units of labor do diminishing returns set in?

- A) 3
- B) 4
- C) 5
- D) They do not set in

Answer: D

18. When total product is maximized, marginal product

- A) and average product are zero.
- B) is positive but average product is zero.
- C) is zero but average product is positive.
- D) and average product are positive.

Answer: C

19. Firms have an incentive to substitute labor for capital as the

- A) price of capital increases.
- B) price of capital decreases.
- C) price of labor increases.
- D) marginal product of labor decreases.

Answer: A

20. At the Pampered Pet Salon the marginal products of the first, second, and third workers are 20, 16, and 10 dogs washed, respectively. The total product (number of dogs washed) of the three worker is

- A) 15.33.
- B) 30.
- C) 46.
- D) 138.

Answer: C

21. If the product derived from the last dollar spent on labor is greater than the product derived from the last dollar spent on capital, then the firm

- A) is minimizing costs.

- B) should use more labor and less capital to minimize costs.
- C) should use less labor and more capital to minimize costs.
- D) should increase the price paid to labor and decrease the price paid to capital to minimize costs.

Answer: B

22. A graph showing all the combinations of capital and labor that can be used to produce a given amount of output is a(n)

- A) indifference curve.
- B) isoquant.
- C) isocost line.
- D) production function.

Answer: B

23. A graph showing all the combinations of capital and labor available for a given total cost is the

- A) isocost line.
- B) isoquant.
- C) budget constraint.
- D) expenditure set.

Answer: A

24. The point of tangency between an isocost line and an isoquant is necessarily

- A) the profit-maximizing combination of inputs that should be hired to produce that output level.

- B) the least costly combination of inputs that can be hired to produce the output level.
- C) both the profit-maximizing and least costly combination of inputs that can be used to produce the output level.
- D) the minimum amount of output that can be attained for that level of expenditure.

Answer: B

25. The total cost curve for a firm can be derived from isoquants and isocost lines by

- A) varying the prices of capital and labor and keeping total expenditure constant.
- B) varying production technologies, but keeping input prices and expenditure levels constant.
- C) varying total expenditures while keeping input prices and production technology constant.
- D) varying the price of either capital or labor while keeping total expenditures and production technology constant.

Answer: C

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:

- ▶ $P = MR.$
- ▶ $P = AVC.$
- ▶ $AR = MR.$
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Which of the following would most likely shift the production possibilities curve for a nation outward?

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

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

- ▶ **Oligopoly.**
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A monopolistically competitive firm in short run equilibrium:

- ▶ Will make negative profit (lose money).
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- ▶ **The market price.**
- ▶ The first-degree price.
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A firm never operates:

- ▶ At the minimum of its average total cost curve.
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- ▶ **Marginal revenue minus marginal cost.**
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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.
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- ▶ $5 + (200/Q)$.
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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.
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- ▶ **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?
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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.
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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:

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

- ▶ Unity--otherwise there would be no indifference.
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- ▶ The consumer's marginal utility.
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- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.

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

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

- ▶ Significant.
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- ▶ **Nonexistent.**
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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)

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

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
ce
(Rs)
) 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:

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**Spring 2009****ECO401 - Economics (Session - 2)****Time: 60 min****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.
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Question No: 3 (Marks: 1) - Please choose one**A normative economic statement:**

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

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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.**
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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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- ▶ 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)

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

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

(Marks: 6+4)

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

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0 0

10 10
0

20 23
0

30 34
0

40 41
0

50 46
0

- ▶ 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: <http://vustudents.ning.com>

- ▶ 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)

What is the relationship between average physical product and marginal physical product in three cases if:

Marginal physical product is equal to average physical product.

The average physical product will not change.

Marginal physical product is above the average physical product.

The average physical product will also increase.

Marginal physical product is below the average physical product.

The average physical product will also fall

ECO401 – Economics**Online Quiz # 4****January 6, 2010****Total Questions: 15**

**Just had my ECO401 quiz. Here it is...
Kindly verify the answers**

Question # 1 of 15 (Start time: 01:57:16 PM) Total Marks: 1

A Natural Monopoly is most likely to exist when:

Select correct option:

There are large barriers to entry.

There are long term patents.

There are large economies of scale.

There is government regulation of the industry.

(I'm not 100% about this question, but kindly see handouts, page # 56. I think option # 3 "There are large economies of scale" seems most appropriate. Anyways I'll go with this option)

Question # 2 of 15 (Start time: 01:57:59 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.

Reference:

The shape of the indifference curve

Figure 1 highlights that the shape of the indifference curve is not a straight line. It is conventional to draw the curve as bowed. This is due to the concept of the diminishing marginal rate of substitution between the two goods.

Question # 3 of 15 (Start time: 01:58:36 PM) Total Marks: 1

Real GDP is equal to:

Select correct option:

Nominal GDP – Inflation.

Nominal GDP + Inflation.

Nominal GDP / Inflation.

Inflation / Nominal GDP.

(I think it is the first option, but anyways, please confirm it too)

Question # 4 of 15 (Start time: 01:59:54 PM) Total Marks: 1

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.

(I'm not 100% sure, but I selected option # 4 and I think it is correct)

Refernce:

There are **high barriers** to entry such as: *Patents, Large start-up costs, Limited access to resources & Economies of Scale.*

Question # 5 of 15 (Start time: 02:00:40 PM) Total Marks: 1

If marginal product is above the average product:

Select correct option:

The total product will fall

The average product will rise (see page # 55)

Average variable costs will fall

Total revenue will fall

Reference:

Relationship between APP and MPP:

• If the marginal physical product equals the average physical product, the average

physical product will not change.

• If the marginal physical product is above the average physical product, the average

physical product will rise.

• If the marginal physical product is below the average physical product the average

physical product will fall.

Question # 6 of 15 (Start time: 02:01:57 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

Reference:

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: 02:02:41 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 # 8 of 15 (Start time: 02:03:50 PM) Total Marks: 1

Oligopoly differs from monopolistic competition in that an oligopoly includes:

Select correct option:

Product differentiation.

No barriers to entry.

Barriers to entry. (see handouts, page # 54)

Downward sloping demand curves facing the firm.

Question # 9 of 15 (Start time: 02:04:55 PM) Total Marks: 1

The good produced by a monopoly:

Select correct option:

Has perfect substitutes

Has no substitutes at all

Has no close substitutes

Can be easily duplicate

Reference:

Conditions for Monopoly

1 There is **only one firm** operating in the market

Thus the monopolist's demand and supply curve is the market's.

2 There are **high barriers** to entry such as: *Patents, Large start-up costs, Limited access to resources & Economies of Scale.*

3 There are **no close substitutes** for the good the monopolist produces.

(I got confused b/w option # 2 and 3. But I think option # 2 is correct, anyways please try to verify it)

Question # 10 of 15 (Start time: 02:05:52 PM) Total Marks: 1

If there is a price ceiling, there will be:

Select correct option:

Shortages

Surpluses

Equilibrium

None of the given options.

Reference:

When a price ceiling is set, a shortage occurs. For the price that the ceiling is set at, there is more demand than there is at the equilibrium price. There is also less supply than there is at the equilibrium price, thus there is more quantity demanded than quantity supplied.

Question # 11 of 15 (Start time: 02:06:48 PM) 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 # 12 of 15 (Start time: 02:07:16 PM) Total Marks: 1

This market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies. What is it?

Select correct option:

Duopol

Cartel

Market sharing monopoly

Natural monopoly

Question # 13 of 15 (Start time: 02:07:42 PM) Total Marks: 1

Which of the following is not a reason why the aggregate demand curve slopes downward?

Select correct option:

The exchange-rate effect

The wealth effect.

The classical dichotomy/monetary neutrality effects.

The interest-rate effect

Question # 14 of 15 (Start time: 02:08:50 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.

Reference: http://en.wikipedia.org/wiki/Diminishing_returns

(Read Returns and costs heading)

Question # 15 of 15 (Start time: 02:10:03 PM) 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

FINAL TERM 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:

Wages.

Raw materials costs.

Government spending.

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 + MPS = MPC
- ▶ 1 / MPS = MPC
- ▶ 1 × MPS = MPC

(MPS) is the fraction of the additional dollar of disposable income that is Saved. Thus, $MPC = 1 - MPS$.

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)

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Forex reserves = Rs. 500	Government and commercial bank deposits = Rs. 300
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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:**<http://vustudents.ning.com>

- ▶ 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:

- ▶ ΔC to ΔY_d is 0.95.
- ▶ **C / Y_d is 0.95.**
- ▶ ΔY_d to ΔC 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:

Wages.

Raw materials costs.

Government spending.

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?

▶ $1 - MPS = MPC$

▶ $1 + MPS = MPC$

▶ $1 / MPS = MPC$

▶ $1 \times MPS = MPC$

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?

Savings deposits.

Cash in your hand.

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?

Act as a regulator of banks.

Issue government bonds.

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:

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.

Investment: Investment (I) or gross capital formation is any economic activity that forgoes consumption today with an eye to increase output in future.

Net Exports: It is net demand from rest of world for country's output.

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, deprecation 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 trough 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?

Question # 15 of 15 (Start time: 10:33:16 PM) Total Marks: 1

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.

Q 13 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

Question # 11 of 15 (Start time: 10:30:15 PM) 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.

$5 + (200/Q)$.

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) <http://vustudents.ning.com> - 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

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)

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**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:

$\Delta \text{consumption} / \Delta \text{income} = 40/50 = .8$

- ▶ 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 foriegn good in terms of domestic good.
- ▶ Price of one unit of foriegn 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:

- a. Find consumption when disposable income is \$8,000 and \$10,000.
- b. 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:

Co Ex
ntapa
cti nsi
on on
aryary
Fis Fis
cal cal
Pol Pol
icy icy



In contractionary 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

Disposable Personal Income

\$

100
140
220
200
300
300
380
400
460
500

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? <http://vustudents.ning.com>

- ▶ 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?

▶ **$1 - \text{MPS} = \text{MPC}$**

▶ $1 + \text{MPS} = \text{MPC}$

▶ $1 / \text{MPS} = \text{MPC}$

▶ $1 \times \text{MPS} = \text{MPC}$

(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)

Assets	Liabilities
--------	-------------

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
Total= RS 1400	Total= RS 1400

FINALTERM 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. <http://vustudents.ning.com>

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

Disposable Personal Income \$	Consumption \$
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: 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.

Items	Amount (billion rupees)
Personal consumption expenditures	458
Gross domestic private investment	169
Government expenditure on goods and services	78
Gross domestic public	27

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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.

FINAL TERM 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:

▶ **ΔC to ΔY_d is 0.95.**

- ▶ C / Y_d is 0.95.
- ▶ ΔY_d to ΔC 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:

Year	1979	1980	1981	1982	1983	1984	1985	1986
Real GDP	1.2	-1.8	3.9	4.5	5.3	2.6	1.9	
Inflation Rate	5.5%	%	%	%	%	%	%	%
Population Growth Rate	%							

Real GDP

Inflation Rate

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.

Year
Number of
Labor force
Employed
Unemployed

1981
13105
4544005

1981
15107
5461150

1981
17109
6834597

1981
19112
7865440

1982
1114
8669968

(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.

Output (Y)	Savings (S)	Private Investment (I _p)	Government Investment (I _g)	Exports (X)	Imports (M)	Tax (T)	Transfer Payments (Ta)
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.

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Output	Total Cost	Marginal Cost	Average Cost
50,000	60,000	?	?
100,000	60,000	?	?
150,000	60,000	?	?
200,000	60,000	?	?
250,000	60,000	?	?
300,000	60,000	?	?

000

(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 $\frac{1}{4}$ 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: 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:

- ▶ ΔC to ΔY_d is 0.95.
- ▶ C / Y_d is 0.95.
- ▶ ΔY_d to ΔC 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, deprecation 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 = 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:

- 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?

▶ **$1 - \text{MPS} = \text{MPC}$**

▶ $1 + \text{MPS} = \text{MPC}$

▶ $1 / \text{MPS} = \text{MPC}$

▶ $1 \times \text{MPS} = \text{MPC}$

(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)

Assets	Liabilities
Forex reserves = Rs. 500	Government and commercial bank deposits = Rs. 300

Credit to Notes
government and
= Rs. 200 coins
= Rs.
800

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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

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=0CA YQFjAA&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=AFQjCNGe57Z8IFrowykOmkW_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&pg=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=Y E6CS-

[XQJpfgsAbvxlTaBA&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&pg=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=Y E6CS-XQJpfgsAbvxlTaBA&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?

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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

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)

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- 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:
- Nominal GDP in year 1
 - Nominal GDP in year 2
 - Growth rate in nominal GDP

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1 2

Apples produced	100	150
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Chicken 100140
produced

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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
of sources
of income

1. Wages
0.5
2
and
d
salaries

2. Interest
63
est
on
bond
s
and
d
loans
s

3 Re 10
nt 0.1
of 2
pr
op
erti
es

4 Pr 12
ofi 5.8
t 4

5 Co 50.
rp 26
or
at
e
pr
ofi
t
ta
x

6 Un 30.
dis 32
tri
bu
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d
co
rp
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Find out the national income from this information.

(B) Although GDP provide us a good estimate about the overall production of the economy, but still it has some flaws. Discuss those flaws.

(Marks: 4+6))

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

**Time: 60 min
Marks: 50**

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- ▶ Produced factors of production.

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- ▶ **A surplus of the good.**
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Which of the following is NOT a factor of production?

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Which of the following does NOT refer to macroeconomics?

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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
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- 3) For risk loving person
- 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**Fall 2009****ECO401- Economics (Session - 4)****Time: 60 min****Marks: 50**

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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

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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: <http://vustudents.ning.com>

- ▶ **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.

Q _x	TU _x
1	56

2 10
4

3 14
4

4 17
6

5 20
0

6 21
6

7 22
4

8 22
4

- 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

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

2) For risk averse person

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

3) For risk loving person

- o If Odds Ratio > 1 , then he will definitely buy
- o If Odds Ratio = 1, then he will definitely buy
- o 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.

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5	200	2.5	400
		10	100
		20	50
		40	25

- Calculate the total revenue from this table.
- Interpret whether the demand is elastic, inelastic or unitary elastic and why?
- 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

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0 0

10 10
0

20 23
0

30 34
0

40 41
0

50 46
0

- ▶ 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.

	Labor input	Total Physical Product (TPP _L)
0	0	3
	1	
2	10	

3	24
4	36
5	40

(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 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.

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:

**Pri Qu
ce ant
(Rs ity
) 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:

**Fa Eff Dir Eq Eq
cto ect ecti uili uili
rs on on bri bri
chasu of um um
ngi ppl Shi Pri qu
ng ft ant**

su y in ce ity
 ppl su
 y ppl
 y

Inc Inc RigDe Inc
 rea rea htwcre rea
 se se ard ase se
 in shif
 nu t
 mb
 er
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De De LefInc De
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 ase ase rd se ase
 in shif
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Im Inc RigDe Inc
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Inc De LefInc De
rea cre twarea cre
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Decrease Increase Rightward Decrease Increase
in shift
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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: olzz

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 to the law of diminishing returns:

Select the 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 for a leftward shift in the demand curve for product A?

Select the 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 the 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.

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

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Demand is perfectly inelastic.

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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:

$$P = MR$$

$$P = AVC$$

$$AR = MR$$

$$\mathbf{P = MC}$$

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
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 <http://vustudents.ning.com>
- 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.