

***ECO401- Economics***  
***Composed By Faheem Saqib***  
***8 FINALTERM Papers***  
***Of 2010***  
***For more Help Rep At***  
***Faheem\_saqib2003@yahoo.com***

***Faheem.saqib2003@gmail.com***

**0334-6034849**



**FINALTERM EXAMINATION**  
**Spring 2010**  
**ECO401- Economics**

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

A production function:

- ▶ Relates inputs with output.
- ▶ Generates a curve that is upward sloping.
- ▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.

▶ **All of the given options.**

Question No: 3 ( 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: 4 ( 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: 5 ( 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: 6 ( 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: 7 ( 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: 8 ( Marks: 1 ) - Please choose one

---

Price exceeds marginal revenue in which of the following market structure(s)?

- ▶ Differentiated oligopoly and monopoly only.
- ▶ Standardized oligopoly and pure competition only.
- ▶ Monopolistic competition and monopoly only.
- ▶ Monopolistic competition, oligopoly and monopoly.

Question No: 9 ( 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: 10 ( Marks: 1 ) - Please choose one

---

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

- ▶ Insufficient aggregate supply.
- ▶ **Insufficient aggregate demand.**
- ▶ Quick self correcting mechanism.
- ▶ Government purchases of too many goods and services.

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

---

According to Keynes, the economy does not self correct quickly because:

- ▶ 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 in the short run.
- ▶ **Wages and prices are sticky in the short run.**

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

---

An assumption of classical economics is:

- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ **Supply creates its own demand.**
- ▶ Investment and saving are seldom equal.

Question No: 13 ( 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: 14 ( Marks: 1 ) - Please choose one

---

Which of the following is a less important component of the balance of payments?

- ▶ **The capital account.**
- ▶ The current account.
- ▶ The financial account.
- ▶ All three components are equally important.

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

---

Endogenous growth theory was developed in:

- ▶ **1980.**
- ▶ 1965.
- ▶ 1970.
- ▶ 1950.

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

---

Per capita income is obtained by dividing national income by:

- ▶ Total labor force in the country.
- ▶ Unemployed youth in the country.
- ▶ None of the given options.
- ▶ **Total population of that country.**

Question No: 17 ( 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: 18 ( Marks: 1 ) - Please choose one

---

In the Keynesian cross model, the 45-degree line has a slope of:

- ▶ 45.
- ▶ Infinity.
- ▶ **1.**
- ▶ 0.

Question No: 19 ( 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: 20 ( Marks: 1 ) - Please choose one

---

Those who hold the classical view of the labour market are likely to believe that:

- ▶ Monetary but not fiscal policy will have an effect on output and employment.
- ▶ Fiscal but not monetary policy will have an effect on output and employment.
- ▶ Both monetary and fiscal policy will have an effect on output and employment.

▶ **Neither monetary nor fiscal policy will have an effect on output and employment.**

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

---

Which of the following statements is TRUE about the Classical and Keynesian approaches to achieve a macroeconomic equilibrium in an economy?

▶ **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: 22 ( Marks: 1 ) - Please choose one

---

What will be the primary result of inflation in an economy?

▶ A rise in personal wealth.

▶ A rise in wages.

▶ A decline in prices.

▶ **A decline in the value of money.**

Question No: 23 ( 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: 24 ( 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: 25 ( Marks: 1 ) - Please choose one

---

Which of the following is NOT an item of public consumption?

▶ Expenditure on health.

▶ Expenditure on education.

▶ **Expenditure on general administration.**

▶ Expenditure for transfer payments.

Question No: 26 ( 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: 27 ( Marks: 1 ) - Please choose one

---

Which of the following is equal to the number of people unemployed?

- ▶ The number of people employed minus the labor force.
- ▶ **The labor force plus the number of people employed.**
- ▶ The number of people employed divided by the labor force.
- ▶ The labor force minus the number of people employed.

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

---

Rising inflation means:

- ▶ That the price level is increasing by a given percentage rate.
- ▶ That the prices of all goods and services increase from year to year.
- ▶ **That the price level is rising at an increasing rate.**
- ▶ That the price level is rising at a variable rate.

Question No: 29 ( 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: 30 ( 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: 31 ( 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: 32 ( Marks: 1 ) - Please choose one

---

Suppose you keep Rs. 35 in your pocket to purchase a movie CD when it will come out next month in the market. What is the function of money in this context?

- ▶ Medium of exchange.
- ▶ Unit of account.
- ▶ Standard of deferred payment.
- ▶ **Store of value.**

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

---

What will be the impact of an increase in the money supply?

- ▶ It will shift the IS curve to the left and decrease both the interest rate and the level of income.
- ▶ It will shift the LM curve downward (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.

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

---

IS curve shows the equilibrium in:

- ▶ Money Market.
- ▶ **Goods Market.**
- ▶ Labor Market.
- ▶ Financial Market.

Question No: 35 ( 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: 36 ( 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: 37 ( Marks: 1 ) - Please choose one

---

Economists define economic growth as:

- ▶ Changes in real GDP from year to year that occur as aggregate demand and short-run aggregate supply change.
- ▶ An increase in the standard of living of a nation.
- ▶ **An increase in nominal GDP combined with price stability. doubted**
- ▶ The process through which the economy's potential output is increased.

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

---

What will be the impact if agriculture sector is neglected in the development process?

- ▶ It can lead to insufficient savings.
- ▶ It can lead to shortage of foreign exchange.
- ▶ It can lead to lower levels of production.
- ▶ **All of the given conditions can happen.**

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

---

In which of the following situations, a monopoly occurs?

- ▶ When each firm produces a product that is slightly different from the other firms.
- ▶ **When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**
- ▶ When there are many firms producing the same product.
- ▶ In all of the given situations.

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

---

Which of the following is not the property of production function?

- ▶ **Generates a curve that is upward sloping. DOUBTED**
- ▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.
- ▶ Marginal product at all levels is increasing.
- ▶ Relates inputs with output.

Question No: 41 ( Marks: 1 ) - Please choose one

---

As long as all prices remain constant, a decrease 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: 42 ( Marks: 1 ) - Please choose one

---

What will happen to the isocost line if the price of both goods decreases proportionality?

- ▶ It shifts farther away from the origin of the graph.
- ▶ It shift inward.
- ▶ **It shifts outward.**
- ▶ None of the given options.

Question No: 43 ( Marks: 1 ) - Please choose one



---

Monopoly profits can be invested in

- ▶ Advertisement.
- ▶ **Research and development.**

**P 77 Supernormal or monopoly profits can be invested in R&D, development**

- ▶ Human resource development.
- ▶ Expansion of the market.

---

Question No: 44 ( Marks: 1 ) - Please choose one

The characteristics of a monopolistically competitive market are almost the same as in

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

**P 79 characteristics of a monopolistically competitive market are almost the same as in perfect competition,**

- ▶ Duopoly.

competition,

---

Question No: 45 ( Marks: 1 ) - Please choose one

The multiplier is a related concept which formalizes the output response to:

- ▶ Saving.
- ▶ **Investment.**

**P 134**

- ▶ Taxes.
- ▶ Inflation.

---

Question No: 46 ( Marks: 1 ) - Please choose one

Factor income from abroad like worker remittances, dividends and interest has positive impact on:

- ▶ **Current account balance.**

**P 156**

- ▶ Capital account balance.
- ▶ Trade balance.
- ▶ Unemployment.

---

Question No: 47 ( Marks: 1 ) - Please choose one

Continuous technology progress is a necessary condition for the high rate of:

- ▶ Inflation reduction.
- ▶ **Economic growth.**
- ▶ Population growth.
- ▶ Employment.

---

Question No: 48 ( Marks: 1 ) - Please choose one

Expansionary fiscal policy includes:

- ▶ Increasing taxes and increasing government purchases.
- ▶ Raising interest rates, increasing taxes, and decreasing transfer payments.
- ▶ Decreasing taxes and increasing government expenditures.
- ▶ **Raising interest rates, decreasing taxes, and decreasing government spending.**

Question No: 49 ( Marks: 3 )

---

Differentiate between real exchange rate and nominal exchange rate.

Question No: 50 ( Marks: 3 )

---

Discuss the basic functions of money.

Question No: 51 ( Marks: 5 )

---

What will be the impact of following factors on Marginal Propensity to Consume?

- ☒ A fall in the rate of income tax.
- ☒ People anticipate that the rate of inflation is about to rise.
- ☒ The government redistributes income from the rich to the poor.
- ☒ The government gives the subsidies.
- ☒ If the assets of the people increase.

(Marks: 1 for each)

- 
- 

Question No: 52 ( Marks: 5 )

---

Explain the difference between current account and capital account.

Question No: 53 ( Marks: 5 )

---

Assume that the reserve requirement ratio (rr) of United Bank Limited (UBL) is 15% and bank's initial deposit is \$2500.

- a. By using this information, make initial balance sheet of MCB.
- b. Calculate money multiplier.

(Marks: 3+2)

**FINAL TERM EXAMINATION**  
**Spring 2010**  
**ECO401- Economics (Session - 4)**

**Ref No: 1375891**  
**Time: 90 min**  
**Marks: 69**

Student Info	
StudentID:	
Center:	OPKST
ExamDate:	15 Aug 2010

**Question No: 1 ( 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.**

**Lesson # 4**

- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Question No: 2 ( 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.**

**P 28**

- ▶ None of the given options.

**Question No: 3 ( 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: 4 ( 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: 5 ( 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: 6 ( 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: 7 ( 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: 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**

---

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: 10 ( Marks: 1 ) - Please choose one**

---

In the short run, a firm should shut down when:

- ▶ Production losses are less than fixed costs.
- ▶ Only normal profits are earned.
- ▶ **Production losses exceed fixed costs.**
- ▶ Fixed costs are zero.

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

---

**Loud music from a neighbor's party is:**

- ▶ **A negative externality whether or not you like it.**
- ▶ A positive externality whether or not you like it.
- ▶ A positive externality if you like the music and a negative externality if you don't.
- ▶ A negative externality if you like the music and a positive externality if you don't.

**Question No: 12 ( 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: 13 ( 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: 14 ( Marks: 1 ) - Please choose one**

**Naima has just finished her school job and is waiting to report to new job at the beginning of the month. Naima is considered to be:**

- ▶ Cyclically unemployed.
- ▶ Employed.
- ▶ **Structurally unemployed.**
- ▶ Frictionally unemployed.

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

**Which of the following is a less important component of the balance of payments?**

- ▶ **The capital account.**
- ▶ The current account.
- ▶ The financial account.
- ▶ All three components are equally important.

Reference:

[http://wps.prenhall.com/bp\\_hubbard\\_econ\\_2/85/21856/5595147.cw/-/5595174/index.html](http://wps.prenhall.com/bp_hubbard_econ_2/85/21856/5595147.cw/-/5595174/index.html)

Question#10

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

---

**An increase in "per capita" national income implies that:**

- ▶ Everyone in the nation is enjoying a better standard of living.
- ▶ The population has increased.
- ▶ **National income has risen faster than the population has risen.**
- ▶ The distribution of income has improved.

Reference:

<http://www.ecoteacher.asn.au/devel2/devel2.htm>

---

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

**Suppose the government increases spending. Which of the following would be part of the crowding out effect?**

- ▶ **Interest rate rises and investment falls.**
- ▶ Interest rate rises and velocity of circulation also rises.
- ▶ Higher interest rates encourage the central bank to increase the money supply.
- ▶ Interest rate falls and exports rise.

---

**Question No: 18 (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: 19 (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 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

- ▶ The dollar has depreciated relative to the yen.

---

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

**The Marginal Propensity to Save (MPS) is:**

▶ **One Minus Marginal Propensity to Consume (MPC).**

- ▶ Saving divided by consumption.
- ▶ The slope of the consumption function (or line).
- ▶ The proportion of disposable income used for consumption.

**Question No: 21 ( 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: 22 ( 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: 23 ( 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: 24 ( Marks: 1 ) - Please choose one**

**Potential Gross Domestic Product (GDP) measures the economy's ability to produce goods and services in which of the following conditions?**

- ▶ **If labor force is fully employed.**
- ▶ If price level is stable.
- ▶ If trade balance is zero.
- ▶ If federal budget is balanced.

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

**Which of the following specifies the maximum amount of a good that may be imported in a given period of time?**

- ▶ Trade restriction.
- ▶ **Quota.**
- ▶ Import restriction.
- ▶ Legislative restriction.

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

---

**GNP is a good indicator of:**

- ▶ **The total payment of factor owners.**
- ▶ The amount of consumption and investment.
- ▶ The conditions of production and employment.
- ▶ The amount of incomes available for spending.

---

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

**The demand for factors of production is derived from:**

- ▶ Money market.
- ▶ **Goods market.**
- ▶ Stock market.
- ▶ Financial market.

---

**Question No: 28 ( 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: 29 ( Marks: 1 ) - Please choose one**

**The discounted value of the net returns that the asset generates over a period of time plus the discounted value of its disposal value at the end of the period minus the initial purchase cost is known as:**

- ▶ Future value.
- ▶ **Net present value.**
- ▶ Discounted value.
- ▶ Disposal value.

---

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

**Information products are also known as:**

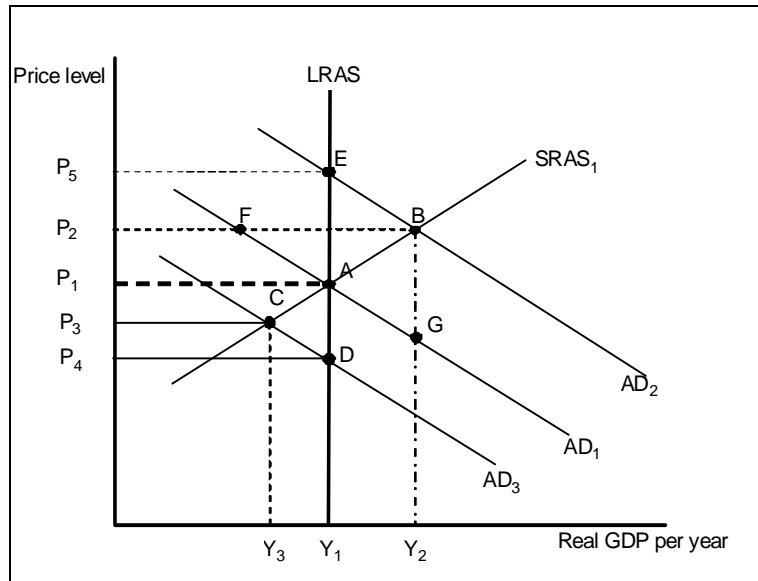
- ▶ Inferior products.
- ▶ Superior products.
- ▶ **Internet products.**
- ▶ Expensive products.

---

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

---





Refer to the above figure, suppose that the economy is in long-run equilibrium at point A. Now suppose the stock market crashes, significantly reducing household wealth. What happens in the short-run?

- ▶ Real GDP remains at  $Y_1$  but the price level falls to  $P_3$ .
- ▶ The quantity of real GDP demanded falls resulting in a movement from point A to point F.
- ▶ **Real GDP decreases from  $Y_1$  to  $Y_3$  and the price level falls from  $P_1$  to  $P_3$ .**
- ▶ The economy moves to a short-run equilibrium at point D.

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

Which of the following is a cost of rising unemployment?

- I. Output foregone.
- II. Unemployment compensation that must be paid.
- III. Rising inflation that erodes the value of money.
- ▶ I, II, and III.
- ▶ **I and II.**
- ▶ I and III.
- ▶ II and III.

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

Rising inflation means:

- ▶ That the price level is increasing by a given percentage rate.
- ▶ That the prices of all goods and services increase from year to year.
- ▶ **That the price level is rising at an increasing rate.**
- ▶ That the price level is rising at a variable rate.

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

Economic growth occurs by an outward shift of:

- ▶ **The production possibility frontier.**
- ▶ The gross domestic barrier.

- ▶ The marginal consumption frontier.
- ▶ The minimum efficient scale.

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

---

Which of the following is a necessary condition for the high rate of modern economic growth?

- ▶ **Continuous technology progress.**
- ▶ High rate of population growth.
- ▶ Development of urban centers.
- ▶ Expansion of railways.

**Question No: 36 (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: 37 (Marks: 1) - Please choose one**

---

Which of the following is the monetary policy tool that involves the buying and selling of government bonds?

- ▶ Moral suasion.
- ▶ Reserve requirements.
- ▶ The discount rate.
- ▶ **Open market operations.**

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

---

When the comparative advantage in production of a good does occur?

- ▶ When a country can produce that good using fewer resources than other countries.
- ▶ When a country can produce that good at a greater opportunity cost than other countries.
- ▶ **When a country can produce that good at a lower opportunity cost than other countries.**
- ▶ When a country has a greater supply of natural resources required to produce that good, compared to other countries.

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

---

A quota is defined as:

- ▶ A restriction on exports.
- ▶ A unit tax imposed on a product.
- ▶ A limit on the quantity of a good that can be exported.
- ▶ **A limit on the quantity of a good that can be imported.**

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

---

Which of the following statements is TRUE about the agriculture sector in low income countries?

▶ **The agricultural sector has been decreasing in size because its productive workers prefer to migrate to urban areas.**

▶ The agricultural sector is by far the largest producer and the most productive sector in low-income countries.

▶ Although the agricultural sector is the largest employer, labor's productivity in this sector is very low.

▶ The agricultural sector has been increasing in size and in terms of labor productivity as rural farmers increasingly start to mechanize.

**Question No: 41 ( 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: 42 ( Marks: 1 ) - Please choose one**

**Suppose the total costs of first four units of an output produced are 10, 20, 30, and 40 respectively. What is the marginal cost of the fourth unit of output?**

▶ **10.**

▶ 20.

▶ 30.

▶ 40.

**Question No: 43 ( Marks: 1 ) - Please choose one**

**If marginal revenue is Rs. 15,000 and marginal cost is Rs. 20,000. The firm should:**

▶ Expand output.

▶ Do nothing without information about your fixed costs.

▶ Expand output until marginal revenue equals zero.

▶ **Reduce output until marginal revenue equals marginal cost.**

**Question No: 44 ( Marks: 1 ) - Please choose one**

**The average annual income per head for all the inhabitants of the country is known as:**

▶ Gross domestic product.

▶ Gross national product.

▶ Net national product.

▶ **Per capita income.**

**Question No: 45 ( Marks: 1 ) - Please choose one**

**Gross domestic product deflator can be obtained by dividing nominal gross domestic product with:**

▶ **Real gross domestic product.**

▶ Gross national product.

▶ Net national product.

- ▶ Per capita income.

**Question No: 46 (Marks: 1) - Please choose one**

---

The principle which states that a change in income causes a magnified change in investment is termed as the:

- ▶ None of the given.
- ▶ Paradox of thrift.
- ▶ Multiplier effect.
- ▶ **Accelerator effect.**

**Question No: 47 (Marks: 1) - Please choose one**

---

If central bank increased the money supply, then what will be happen to IS curve?

- ▶ **IS curve will Shifts rightward.**
- ▶ IS curve will Shifts leftward.
- ▶ IS curve will remain unaffected.
- ▶ IS curve will become vertical.

**Question No: 48 (Marks: 1) - Please choose one**

---

The value of world trade has increased -----over the period of 1930-2000.

- ▶ **20 fold**
- ▶ 10 fold
- ▶ 5 fold
- ▶ 14 fold

**Question No: 49 (Marks: 3)**

---

Write down the functions of commercial banks.

**Question No: 50 (Marks: 3)**

---

How the growth rate of output is determined in the exogenous growth model?

**Question No: 51 (Marks: 5)**

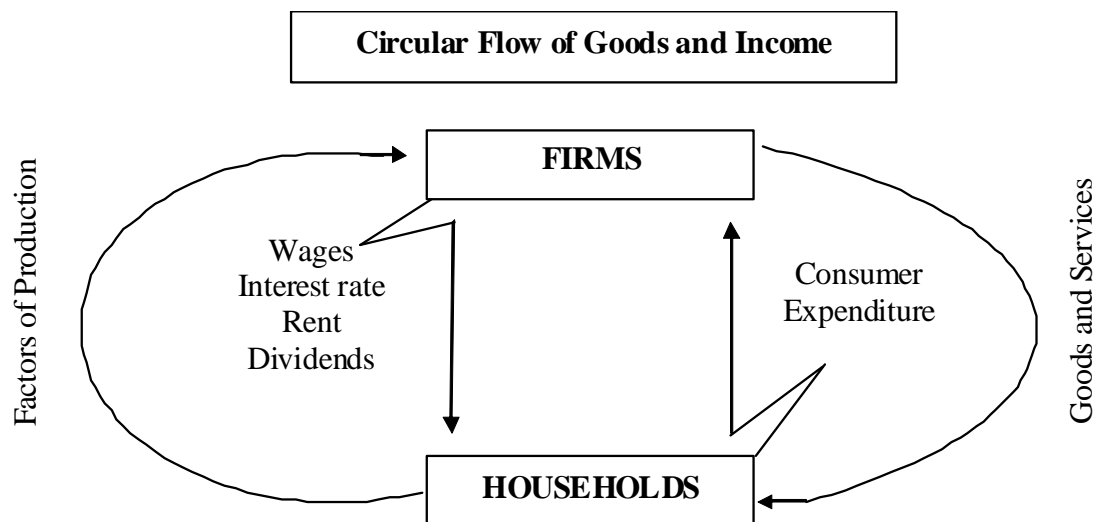
---

Why is taxation necessary? What are the principles of taxation?

**Question No: 52 (Marks: 5)**

---

Following figure shows the circular flow of goods and income in a two sector economy. Interpret all the points in this figure that how the household sector and business sector work in an economy to produce goods and services.



**Question No: 53 ( Marks: 5 )**

**Explain the difference between current account and capital account.**

**FINAL TERM EXAMINATION  
Spring 2010  
ECO401- Economics (Session - 1)**

**Ref No:  
Time: 90 min  
Marks: 69**

Student Info	
<b>StudentID:</b>	
<b>Center:</b>	
<b>ExamDate:</b>	<b>08 Aug 2010</b>

For Teacher's Use Only	

**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**

---

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

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

**Question No: 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**

---

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: 5 ( 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: 6 ( 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: 7 ( 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: 8 (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: 9 (Marks: 1) - Please choose one**

---

**An increase in the wage rate:**

- ▶ **Will usually lead to more people employed.**
- ▶ Will decrease total earnings if the demand for labour is wage elastic.
- ▶ Is illegal in a free market.
- ▶ Will cause a shift in the demand for labour.

**Question No: 10 (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: 11 (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: 12 (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: 13 (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: 14 ( Marks: 1 ) - Please choose one**

**If the total product of labor per day is as shown in the table below and the price of the product is \$20/unit. What is the value of the marginal product of labor (VMPL) of the 5th worker?**

Labor	Total output
1	8
2	23
3	33
4	38
5	41

- ▶ 100.
- ▶ 10.
- ▶ 40.
- ▶ **60.**

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

**All of the following are the reasons of downward sloping curve of aggregate demand EXCEPT:**

- ▶ The exchange-rate effect.
- ▶ The wealth effect.
- ▶ **The classical dichotomy / monetary neutrality effects.**
- ▶ The interest-rate effect.

**Question No: 16 ( 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: 17 ( 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: 18 (Marks: 1) - Please choose one**

---

According to the quantity theory of money, which of the following is TRUE for the equation  $MV = PQ$ ?

- ▶ 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: 19 (Marks: 1) - Please choose one**

---

Potential Gross Domestic Product (GDP) measures the economy's ability to produce goods and services in which of the following conditions?

- ▶ **If labor force is fully employed.**
- ▶ If price level is stable.
- ▶ If trade balance is zero.
- ▶ If federal budget is balanced.

**Question No: 20 (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: 21 (Marks: 1) - Please choose one**

---

International data suggest that economies which have different steady states level will converge to:

- ▶ The steady state below the Golden Rule level.
- ▶ **The same steady state.**
- ▶ Their own steady state.
- ▶ The Golden Rule steady state.

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

---

Suppose there are two producers and two products. Which of the following is not TRUE in this situation?

- ▶ A producer has an absolute advantage on one product.
- ▶ **A producer has the comparative advantage on both products.**
- ▶ A producer has the comparative advantage on one product.
- ▶ A producer has an absolute advantage on both products.

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

---

The relationship between hours provided by labor and wage rate is:

- ▶ **Positive.**
- ▶ Negative.
- ▶ Ambiguous.
- ▶ Very strong.

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

---

**Which of the following is equal to the number of people unemployed?**

- ▶ The number of people employed minus the labor force.
- ▶ The labor force plus the number of people employed.
- ▶ The number of people employed divided by the labor force.
- ▶ **The labor force minus the number of people employed.**

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

---

**Structural unemployment occurs:**

- ▶ **With economic fluctuations; it increases during bad times and decreases during good times.**
- ▶ Because of a mismatch between the jobs that are available in the economy and the skills of workers seeking jobs.
- ▶ Naturally during the normal workings of an economy, as people change jobs, move across the country, etc.
- ▶ Because the government labels some people who aren't really in the labor force as unemployed.

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

---

**Suppose real output in the economy increased. We would expect:**

- ▶ **A decrease in unemployment.**
- ▶ A decrease in profit margins.
- ▶ An increase in unemployment.
- ▶ An increase in the natural rate of unemployment.

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

---

**Which of the following would be expected to increase the natural rate of unemployment?**

- ▶ 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.**
- ▶ A reduction in the number of new entrants into the labor force.

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

---

**If foreign interest rate is 3% and expected depreciation is 10% then what will be the domestic interest rate?**

- ▶ **3%.**
- ▶ 10%.
- ▶ 7%.
- ▶ 13%.

**Question No: 29 ( 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: 30 ( 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: 31 ( Marks: 1 ) - Please choose one**

---

**Which of the following shows the inverted-U shape when plotted on a graph?**

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ Laffer curve.
- ▶ **Investment curve.**

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

---

**In a period of recession, credit creation is:**

- ▶ **Small.**
- ▶ Heavy.
- ▶ Unchanged.
- ▶ Zero.

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

---

**LM curve shows the equilibrium in:**

- ▶ Money Market.
- ▶ **Goods Market.**
- ▶ Labor Market.
- ▶ Financial Market.

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

---

**A country has a comparative advantage:**

- ▶ If it can produce a good at a higher opportunity cost than other nations.
- ▶ **If it can produce a good at a lower opportunity cost than other nations.**
- ▶ If it can produce a good by using less resources than other nations.
- ▶ If it can produce a good that lies outside its production possibilities curve.

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

---

Which of the following is an important feature of modern economic growth?

- ▶ **Substantial rise in product per capita.**
- ▶ Increased productivity per unit of labor input.
- ▶ Increasing use of modern scientific knowledge.
- ▶ All of the given options.

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

---

Suppose a consumer buys two goods X and Y. The demand for X is elastic, then a rise in the price of X will cause:

- ▶ Total spending on good Y to rise.
- ▶ Total spending on good Y to fall.
- ▶ Total spending on good Y to remain unchanged.
- ▶ **An indeterminate effect on total spending on good Y.**

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

---

Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:

- ▶ Shifts to the left.
- ▶ **Shifts to the right.**
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

**Question No: 38 (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: 39 (Marks: 1) - Please choose one**

---

Constant returns to scale imply that by:

- ▶ **Increasing the inputs by 1% leads to a 0.75% increase in output.**
- ▶ Increasing the inputs by 1.6% leads to a 1.5% increase in output.
- ▶ Increasing the inputs by 2% leads to a 4% increase in output.
- ▶ None of the given options.

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

---

Average total costs are the sum of:

- ▶ **Fixed costs and marginal costs**
- ▶ Average variable costs and marginal costs
- ▶ Average fixed costs and average variable costs
- ▶ Average marginal costs and average variable costs

**Question No: 41 (Marks: 1) - Please choose one**

---

**Theory of firm is not clearly discussed & established in**

- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Oligopoly.
- ▶ **None of the given options.**

**Question No: 42 ( Marks: 1 ) - Please choose one**

---

**If a 7% price reduction causes quantity demanded to rise by 10% then:**

- ▶ Demand is inelastic.
- ▶ Demand is elastic.
- ▶ **Demand is perfectly elastic.**
- ▶ Total revenue will remain constant.

**Question No: 43 ( Marks: 1 ) - Please choose one**

---

**Which of the following is not a component of aggregate demand?**

- ▶ Consumption spending.
- ▶ Investment expenditures.
- ▶ **Government expenditures.**
- ▶ Household income.

**Question No: 44 ( Marks: 1 ) - Please choose one**

---

**If the simple Keynesian expenditure multiplier is 2, the Marginal Propensity to Consume (MPC) is:**

- ▶ 0.75
- ▶ 0.50
- ▶ 0.25
- ▶ **1.00**

**Question No: 45 ( Marks: 1 ) - Please choose one**

---

**Monetarists believed that the economy generally:**

- ▶ Lies above full-employment.
- ▶ None of the given options.
- ▶ Lies below full-employment.
- ▶ **Gravitated around a full-employment.**

**Question No: 46 ( Marks: 1 ) - Please choose one**

---

**Balance of payment is an accounting record of a country's transactions with:**

- ▶ South Asian countries.
- ▶ Middle East.
- ▶ **Rest of the world.**
- ▶ USA and China.

**Question No: 47 ( Marks: 1 ) - Please choose one**

---

**How an economy will be affected if money supply is increased in the country?**

- ▶ Interest rate increases, investment and GDP reduces.
- ▶ Interest rate increases, investment increases and GDP reduces.

- ▶ Interest rate reduces, investment and GDP increases.
- ▶ Interest rate reduces, investment and GDP reduces.

**Question No: 48 ( Marks: 1 ) - Please choose one**

---

**The demand for money to buy bonds is called:**

- ▶ Transactions demand for money.
- ▶ Precautionary demand for money.
- ▶ Speculative demand for money.
- ▶ **All of the given options.**

**Question No: 49 ( Marks: 3 )**

---

**Mention the transactions that cause the demand for dollars to increase in the foreign exchange market.**

Pakistani imports of US goods.  
Pakistani travelers traveling to the US.  
Pakistani students paying for study in US universities.  
profits repatriated to  
US by US firms operating in Pakistan.

**Question No: 50 ( Marks: 3 )**

---

**Why countries have comparative advantage according to Ricardo?**

**Comparative advantage according to Ricardo:**

The law of **comparative advantage** refers to the ability of a party (an individual, a firm, or a country) to produce a particular good or service at a lower opportunity cost than another party. There is a source of comparative advantage can be productivity differentials. Ricardo argued that there is mutual benefit from trade (or exchange) even if one party (**e.g. resource rich country, highly-skilled artisan**) is more productive in every possible area than its trading counterpart (e.g. resource-poor country, unskilled laborer), as long as each concentrates on the activities where it has a relative productivity advantage

**Question No: 51 ( Marks: 5 )**

A. **"Slope of the consumption function is less than 1".What is meant by this statement?**

---

When we drawn in expenditure income space, the consumption function plots as a straight line with positive intercept, and a positive but less than 1 slope.

The slope is less than 1 because not all the income is consumed some part of the income is saved.

**B. What are the major macroeconomic variables involved in the determination of national income?**

(Marks: 2+3)

C, I, G, X, M, T, S, prices, exchange rate, interest rate and money supply.

**Question No: 52 ( Marks: 5 )**

---

**What are the conditions in which foreign exchange market exists? Also give some examples of foreign exchange markets.**

In a market there are buyers and sellers who negotiate and agree on the price for the or price for the commodity being exchanged. The foreign exchange market is no different. whatever, here the commodity being traded is foreign exchange and the price is the foreign exchange rate. Specifically, a foreign currency is being traded for the Pakistani Rupee at a particular rate of exchange.

The sellers and buyers of foreign exchange are not mutually exclusive. The sellers of today, may be the buyers of tomorrow, or even of today.

Foreign exchange market exists when **buyers and sellers** exit and ready to sell and buy.

The **main driving force** for foreign exchange market is the law of supply and demand.

Examples are US \$-PAK RS Foreign exchange market  
US \$ - UK POUND Foreign exchange market

**Question No: 53 ( Marks: 5 )**

---

**What thing determines comparative advantage among countries according to Hechshcer-Ohlin? What is the criticism against their argument?**

According to Hechshcer-Ohlin suppose we are given two countries one abundant in labour and one abundant in capital and a labour-intensive good and a capital intensive good, the labour abundant country will have comparative advantage in the production of the labour-intensive good while the capital abundant country will have comparative advantage in the capital-intensive good.

So the determinants of comparative advantage among countries according to Hechshcer-Ohlin is capital goods and labour intensive goods.

*Critics argued* that comparative advantage can and should be viewed in a dynamic (time-varying) sense, and that it was not wise to rule out the possibility of Pakistan developing comparative advantage in cars at some future point in time.

**Consequent:**

The major criticism leveled against Hechscher-Ohlin type trade theories are that they views comparative advantage in an essentially static sense; i.e. if Pakistan is better at producing cotton and Japan better at producing, then this situation will always prevail.

**FINALTERM EXAMINATION**  
**Spring 2010**  
**ECO401- Economics (Session - 1)**

**Time: 90 min**  
**Marks: 69**

Student Info	
StudentID:	
Center:	OPKST
ExamDate:	09 Aug 2010

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

**The budget line is the boundary between:**

- ▶ Preferred and non preferred consumption combinations.
- ▶ **Affordable and unaffordable consumption combinations.**
- ▶ Income and expenditure.
- ▶ One point on a budget line.

**Question No: 2 ( 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: 3 ( Marks: 1 ) - Please choose one**

**A price taker is:**

- ▶ A firm that accepts different prices from different customers.
- ▶ A monopolistically competitive firm.
- ▶ **A firm that cannot influence the market price.**
- ▶ An oligopolistic firm.

**Question No: 4 ( 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: 5 ( 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.**
- 100% sure Page # 11
- ▶ Quantity supplied schedule.
  - ▶ **Quantity demanded schedule.**

**Question No: 6 ( 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. confirm**

**Question No: 7 ( 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: 8 ( Marks: 1 ) - Please choose one**

---

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

- ▶ Insufficient aggregate supply.
- ▶ **Insufficient aggregate demand.**
- ▶ Quick self correcting mechanism.
- ▶ Government purchases of too many goods and services.

**Question No: 9 ( 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: 10 (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: 11 (Marks: 1) - Please choose one**

---

**If a Japanese radio priced at 2,000 yen can be purchased for \$10, the exchange rate is:**

- ▶ **200 yen per dollar.**
- ▶ 20 yen per dollar.
- ▶ 20 dollars per yen.
- ▶ None of the given options.

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

---

**If the prices of all goods and services rise during the year:**

- ▶ Real GDP may fall.
- ▶ Nominal GDP must fall.
- ▶ **Nominal GDP may increase.**
- ▶ Real GDP must rise.

**Question No: 13 (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: 14 (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: 15 (Marks: 1) - Please choose one**

**The Marginal Propensity to Save (MPS) is:**

▶ **One Minus Marginal Propensity to Consume (MPC).**

- ▶ Saving divided by consumption.
- ▶ The slope of the consumption function (or line).
- ▶ The proportion of disposable income used for consumption.

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

**Which of the following statements is TRUE about cartels?**

▶ **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.
- ▶ These are considered as part of monopolistic competition.

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

**Those who hold the classical view of the labour market are likely to believe that:**

- ▶ Monetary but not fiscal policy will have an effect on output and employment.
- ▶ Fiscal but not monetary policy will have an effect on output and employment.
- ▶ Both monetary and fiscal policy will have an effect on output and employment.

▶ **Neither monetary nor fiscal policy will have an effect on output and employment.**

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

**Suppose the balance of payment is in deficit in an economy. The government of that economy will take all of the following actions EXCEPT:**

- ▶ Devalue the currency.
- ▶ Reduce the interest rates.
- ▶ **Restrict the consumer spending.**
- ▶ Restrict the imports.

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

**Suppose there are two producers and two products. Which of the following is not TRUE in this situation?**

- ▶ A producer has an absolute advantage on one product.
- ▶ **A producer has the comparative advantage on both products.**
- ▶ A producer has the comparative advantage on one product.

- ▶ A producer has an absolute advantage on both products.

**Question No: 20 (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: 21 (Marks: 1) - Please choose one**

---

**GNP is a good indicator of:**

- ▶ **The total payment of factor owners.**
- ▶ The amount of consumption and investment.
- ▶ The conditions of production and employment.
- ▶ The amount of incomes available for spending.

**Question No: 22 (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.

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

---

**Total national consumption consists of:**

- ▶ Private consumption.
- ▶ Public consumption.
- ▶ Exports.
- ▶ **Private and public consumption.**

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

---

**If there is an increase in consumer's confidence, ceteris paribus, then which of the following will happen?**

- ▶ Consumption function will shift downward.
- ▶ **Consumption function will shift upward.**
- ▶ Saving function will shift upward.
- ▶ Consumption function will remain the same.

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

---

**Information products are also known as:**

- ▶ Inferior products.
- ▶ Superior products.
- ▶ **Internet products.**
- ▶ Expensive products.

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

---

**Public education creates:**

- ▶ Asymmetric information.
- ▶ External costs.
- ▶ Internal costs.
- ▶ **External benefits.**

---

**Question No: 27 ( 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: 28 ( Marks: 1 ) - Please choose one**

**In the definition of labor force, economists include:**

- ▶ Only people who are working full-time.
- ▶ **People who are not working but are actively looking for a job and people who are working.**
- ▶ People who are working.
- ▶ None of the given options.

---

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

**Rising inflation means:**

- ▶ That the price level is increasing by a given percentage rate.
- ▶ That the prices of all goods and services increase from year to year.
- ▶ **That the price level is rising at an increasing rate.**
- ▶ That the price level is rising at a variable rate.

---

**Question No: 30 ( 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: 31 ( 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: 32 ( 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: 33 (Marks: 1) - Please choose one**

---

**Endogenous growth model is also known as:**

- ▶ **AK Model.**
- ▶ Exogenous growth model.
- ▶ Best growth model.
- ▶ All of the given options.

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

---

**Contractionary fiscal policy includes:**

- ▶ Increasing taxes and increasing government purchases.
- ▶ Raising interest rates, increasing taxes, and decreasing transfer payments.
- ▶ **Increasing taxes and decreasing government expenditures.**
- ▶ Raising interest rates, decreasing taxes, and decreasing government spending.

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

---

**Which of the following shows the inverted-U shape when plotted on a graph?**

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve.**

**P 175**

- ▶ Investment curve.

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

---

**A tax on individual's income is known as:**

- ▶ Sales tax.
- ▶ Excise tax.
- ▶ Corporate income tax.
- ▶ **Personal income tax.**

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

---

**The price of Nokia 3110 cell phone is Rs. 8000. What is the function of money in this context?**

- ▶ A medium of exchange.
- ▶ A means of payment.
- ▶ **A unit of account.**
- ▶ A measure of quality.

**Question No: 38 (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.**

**Question No: 39 ( 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: 40 ( Marks: 1 ) - Please choose one**

**Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:**

▶ **Shifts to the left.**

▶ Shifts to the right.

▶ Remains constant.

▶ Shifts to the right initially and then returns to its original position.

**Question No: 41 ( 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: 42 ( Marks: 1 ) - Please choose one**

**What is TRUE about the relationship between average product (AP) and marginal product (MP)?**

▶ **If AP exceeds MP, then AP is falling.**

▶ If AP is at a maximum, then MP is also at maximum.

▶ If AP = MP, then total product is at a maximum.

▶ If Total Product is declining, then AP is negative.

**Question No: 43 ( 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: 44 ( Marks: 1 ) - Please choose one**

**If firms are not of equal size in oligopoly, then quotas can be allocated according to the \_\_\_\_\_ of each firm.**

- ▶ Marginal revenue
- ▶ **Marginal cost**

**P 81 If firms are not of equal size, then quotas can be allocated according to the MC of each firm**

- ▶ Average variable cost
- ▶ Average cost

**Question No: 45 ( Marks: 1 ) - Please choose one**

**Optimal mix of resources is decided by**

- ▶ **The price mechanism.**

**P # 2 Optimal mix of resources is decided by the price mechanism**

- ▶ **Producers.**
- ▶ Consumers.
- ▶ Government.

**Question No: 46 ( Marks: 1 ) - Please choose one**

**When the slope of a demand curve is infinity, elasticity of demand is**

- ▶ **Zero elastic.**

**P 22 When the slope of a demand curve is infinity, elasticity is zero (perfectly inelastic demand);**

- ▶ Unit elastic.
- ▶ Less elastic.
- ▶ More elastic.

**Question No: 47 ( Marks: 1 ) - Please choose one**

**Assume that there is no government or foreign sector, if the marginal propensity to save (MPS) is 0.2, then the value of saving multiplier will be equal to:**

- ▶ **0.80**

**1 – mps = mpc**

**1 – 0.2 = 0.8    Afaaq**

- ▶ 1.20
- ▶ 0.50
- ▶ 1.25



**Question No: 48 ( Marks: 1 ) - Please choose one**

If prices are held constant, an increase in money supply will cause MS/P to:

- ▶ Shift to the right. **douted**
- ▶ Shift to the left.
- ▶ Stay as it is.
- ▶ None of the given options.

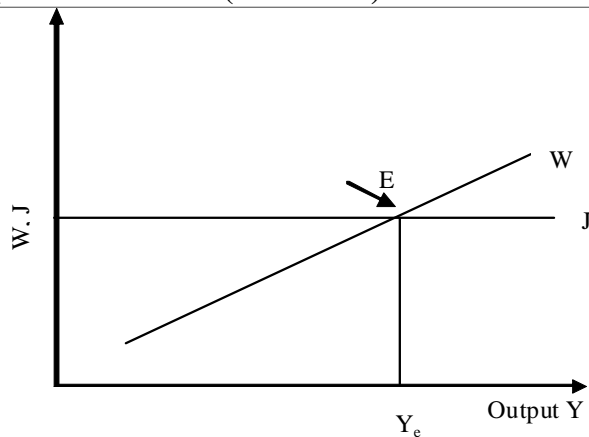
**Question No: 49 ( Marks: 3 )**

It is said that growth is an important macroeconomic issue. Why? Discuss.

**Question No: 50 ( Marks: 3 )**

What are the different borrowing options available to the government for reducing the fiscal deficit?

**Question No: 51 ( Marks: 5 )**



What actually the Keynesian paradox of thrift states? In the above figure, economy is in equilibrium at point E where withdrawals are equal to leakages. Keeping Keynes's paradox of thrift arguments in mind, what will happen to output, consumption and investment level if people start saving more suddenly.

**Question No: 52 ( Marks: 5 )**

Differentiate between fixed exchange rate and floating exchange rate.

**Question No: 53 ( Marks: 5 )**

Some economists suggest "growth through trade strategy" to tackle the problem of poverty of under developed countries.

- a) What is the basic theme of this strategy?
- b) Why this strategy is not so much successful?
- c) What is the proposed solution presented to tackle the drawback of this strategy?

(Marks: 2+1.5+1.5)

Ref No:  
Time: 90 min  
Marks: 69

Student Info	
StudentID:	
Center:	OPKST
ExamDate:	15 Aug 2010

**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 demand curve is price inelastic when:

- ▶ **Changes in demand are proportionately smaller than changes in price.**
- ▶ Changes in demand are proportionately greater than changes in price.
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.

**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.**

**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.**

- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.
- ▶ Changes in demand are proportionately smaller than changes in price.

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

A production function:

▶ Relates inputs with output.  
▶ Generates a curve that is upward sloping.  
▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.

- ▶ **All of the given options.**

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

---

**The market structure in which there is interdependence among firms is:**

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

---

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

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

- ▶ **Law of large numbers.**
- P 43 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**

**Who may start a price war in order to get a larger share of the market?**

- ▶ Perfect competitor.
- ▶ **Oligopolist.**
- ▶ Monopolist.
- ▶ Economist.

---

**Question No: 8 ( 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: 9 ( Marks: 1 ) - Please choose one**

**How many methods are there to measure Gross Domestic Product?**

- ▶ **Three.**
- ▶ Four.
- ▶ Five.
- ▶ Six.

---

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

**Suppose the government increases spending. Which of the following would be part of the crowding out effect?**

- ▶ **Interest rate rises and investment falls.**

**P 196**

- ▶ Interest rate rises and velocity of circulation also rises.
- ▶ Higher interest rates encourage the central bank to increase the money supply.
- ▶ Interest rate falls and exports rise.

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

---

**Gross National Product (GNP) is:**

- ▶ **Net National Product (NNP) plus depreciation.**
- ▶ National income discounted by the GDP deflator.
- ▶ Income from foreign investments.
- ▶ Gross Domestic Product (GDP) minus depreciation.

**Question No: 12 (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: 13 (Marks: 1) - Please choose one**

---

**In the complete Keynesian cross model, the aggregate expenditure line is specified as:**

- ▶  $AE = C + I$ .
- ▶  $AE = C + I + X$ .
- ▶  $AE = C + I + G$ .
- ▶  **$AE = C + I + G + (X - M)$ .**

**P 129 The AD or expenditure function is given by  $AD = C + I + G + (X - M)$ .**

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

---

**Under monopoly, when the demand curve is downward sloping, marginal revenue is:**

- ▶ Equal to price.
- ▶ **Equal to average cost.**
- ▶ Less than price.
- ▶ More than price.

**Question No: 15 (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: 16 (Marks: 1) - Please choose one**

---

**Which of the following best describes the "Capital widening"?**

- ▶ More capital per unit of labour.
- ▶ **More capital and more labour but with the same amount of capital per unit of labour.**

P 164 Capital widening is a term used to describe the situation where capital stock is increasing at the same rate as the labour force, thus capital per worker remains constant

- ▶ Increasing the usage of existing capital.
- ▶ Importing capital from the developed world.

**Question No: 17 (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: 18 (Marks: 1) - Please choose one**

---

**Which of the following is NOT to be included in national product?**

- ▶ Wheat produced and consumed by a farmer.
- ▶ **House built by the owner himself.**
- ▶ Old house sold by its owner A to person B.
- ▶ Machines made by firm A.

**Question No: 19 (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: 20 (Marks: 1) - Please choose one**

The government supports research in basic science because:

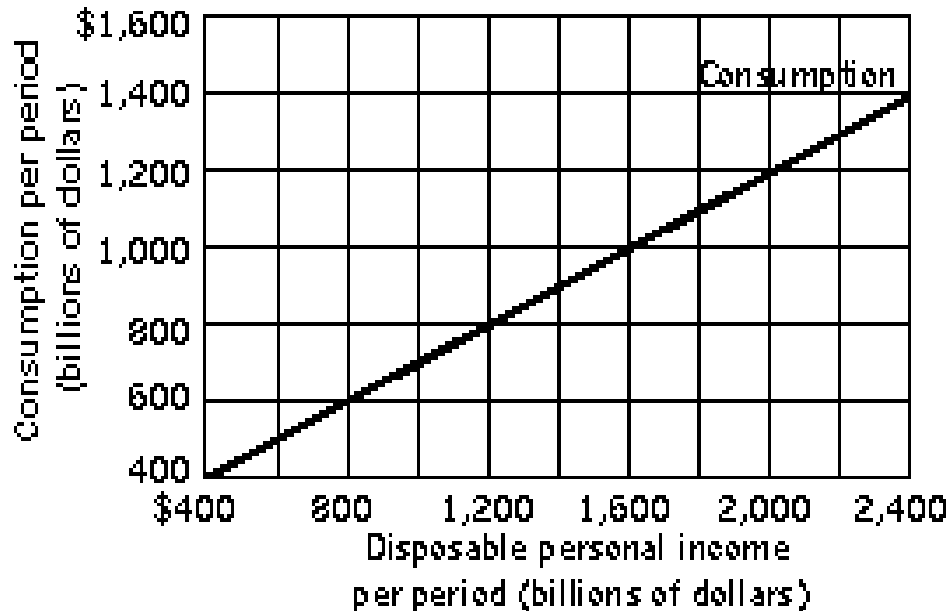
- ▶ It is a public good.
- ▶ External costs are created.
- ▶ **Internal benefits are created.**
- ▶ Free markets would do so otherwise.

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

National defense is a good example of:

- ▶ **Public good.**
- ▶ Inferior good.
- ▶ Giffen good.
- ▶ Private good.

**Question No: 22 (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: 23 (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: 24 ( Marks: 1 ) - Please choose one**

---

The Monetarist key to solve the inflation problem was:

- ▶ **Stable money supply.**
- ▶ Stable output.
- ▶ Stable prices.
- ▶ Stable economic growth.

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

---

Which of the following predictions can be made using the growth rates associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output ( $Y_P$ ) in the long run?

▶ **If the money supply grows at a faster rate than growth in  $Y_P$ , there will be inflation.**

▶ If the money supply grows at the same rate as growth in  $Y_P$ , the price level will fall and there will be deflation.

▶ If the money supply grows at the same rate as growth in  $Y_P$ , the price level will also increase at the same rate as growth in  $Y_P$ .

▶ None of the given options.

**Question No: 26 ( 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: 27 ( Marks: 1 ) - Please choose one**

---

Which of the following will happen by an increase in net exports all other things being equal?

▶ It will result in a movement downward along the aggregate demand curve.

▶ **It will increase aggregate demand.**

▶ It will increase aggregate supply.

▶ It will not change aggregate demand or aggregate supply in the domestic economy.

**Question No: 28 ( 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: 29 ( Marks: 1 ) - Please choose one**

---

**We can measure economic growth with the help of:**

- ▶ The Consumer Price Index.
- ▶ The Producer Price Index.
- ▶ **Gross Domestic Product.**
- ▶ Marginal Propensity to Consume.

---

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

**A contractionary fiscal policy shifts:**

- ▶ **The aggregate demand curve to the left.**

**P 149 The policy prescription flowing from this particular diagnosis of inflation was simple: reduce aggregate demand by contractionary fiscal and/or monetary policies**

- ▶ The aggregate demand curve to the right.
- ▶ The aggregate supply curve to the right.
- ▶ The aggregate supply curve to the left.

---

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

**Which of the following is a primary function of a central bank?**

- ▶ To regulate dividend payments by corporations.
- ▶ **To act as a regulator of banks.**
- ▶ To control the bond market.
- ▶ To publish statistics on banking and related financial matters.

---

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

**In which condition, the IS curve will shift to the right?**

▶ Consumer confidence in the economy improves.  
▶ Firms become more optimistic about the economy and decide to invest more at each interest rate.

- ▶ **The government increases transfer payments. doubted**
- ▶ It will shift to the right in all of the given conditions.

---

**Question No: 33 (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. doubted**
- ▶ 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: 34 (Marks: 1) - Please choose one**

**What will happen to LM curve if the central bank increased the supply of real money balances?**

- ▶ **It would become steeper. doubted**

**P 193**

- ▶ It would become flatter.
- ▶ It would shift upward.



- ▶ It would shift downward.

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

**In growth process of under developed countries, high rate of population growth:**

- ▶ Is not accompanied by smaller increase in product per capita.
- ▶ Is not accompanied by increasing total product.
- ▶ **Is an obstacle in economic growth.**
- ▶ Is good for economic growth.

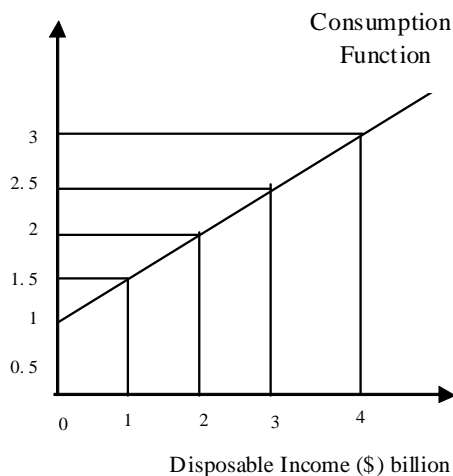
**Question No: 36 (Marks: 1) - Please choose one**

**Which of the following is the main reason of poverty in third world countries?**

- ▶ **Generation gap.**
- ▶ Communication gap.
- ▶ Foreign exchange gap.
- ▶ None of the given options.

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

Consumption (\$) billion



**Refer to the above figure, the marginal propensity to consume equals:**

- ▶ **0.**
- P 126**
- ▶ 0.5.
  - ▶ 1.0.
  - ▶ 2.0.

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

**Which of the following is TRUE in a planned economy?**

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

**Question No: 39 ( 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: 40 ( 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: 41 ( Marks: 1 ) - Please choose one**

---

The total cost (TC) function is given as  $TC = 500 + 30Q$ . What is the average total cost?

- ▶ 500
- ▶  **$30 + (500/Q)$**
- ▶  $30Q^2 + 500Q$
- ▶ 30

**Question No: 42 ( Marks: 1 ) - Please choose one**

---

The total cost (TC) function is given as  $TC = 200 + 5Q$ . What will be the average total cost if four units of commodity are produced?

- ▶ 20
- ▶ **55**
- ▶ 50
  
- ▶ 220

**Question No: 43 ( Marks: 1 ) - Please choose one**

---

Collusion occurs when two or more firms decide to cooperate with each other in the setting of prices and

- ▶ Labor demanded.
- ▶ Capital demanded.
- ▶ **Quantity of good supplied.**

**P 81 Collusion occurs when two or more firms decide to cooperate with each other in the setting of prices and/or quantities.**

- ▶ Quantity of good supplied.

**Question No: 44 ( Marks: 1 ) - Please choose one**

---

A public good is non-excludable because:

▶ **One person's use or consumption does not reduce the ability of another to use it.**

- ▶ External costs are generated through its production.
- ▶ External benefits are generated through more consumption.
- ▶ No one can be effectively excluded from using that good.

**Question No: 45 ( Marks: 1 ) - Please choose one**

---

**According to Keynesian economics, the Inflation is negatively related with:**

- ▶ Level of income.
- ▶ **Employment. doubted**
- ▶ Poverty.
- ▶ Unemployment.

**Question No: 46 ( Marks: 1 ) - Please choose one**

---

**The principle which states that a change in income causes a magnified change in investment is termed as the:**

- ▶ None of the given.
- ▶ Paradox of thrift.
- ▶ **Multiplier effect. doubted**
- ▶ Accelerator effect.

**Question No: 47 ( Marks: 1 ) - Please choose one**

---

**Monetarists characterized the long-term tradeoff between output and:**

- ▶ Employment level.
- ▶ **Inflation.**

**P 152 Monetarists characterized the long-term tradeoff between output and inflation,**

- ▶ Foreign direct investment.
- ▶ Deflation.

**Question No: 48 ( Marks: 1 ) - Please choose one**

---

**If central bank increased the money supply, then what will be happen to IS curve?**

- ▶ **IS curve will Shifts rightward.**
- ▶ IS curve will Shifts leftward.
- ▶ IS curve will remain unaffected.
- ▶ IS curve will become vertical.

**Question No: 49 ( Marks: 3 )**

---

**What is meant by exchange rate? Also give example of exchange rate.**

**Question No: 50 ( Marks: 3 )**

---

**On what basis countries gain from trade?**

**Question No: 51 ( Marks: 5 )**

- C. \_\_\_\_\_  
"Slope of the consumption function is less than 1".What is meant by this statement?
- D. What are the major macroeconomic variables involved in the determination of national income?

(Marks: 2+3)

**Question No: 52 ( Marks: 5 )**

Why is taxation necessary? What are the principles of taxation?

**Question No: 53 ( Marks: 5 )**

Why could the world as a whole not experience a problem of a current account balance of payments deficit?

**FINALTERM EXAMINATION  
Spring 2010  
ECO401- Economics (Session - 3)**

**Time: 90 min  
Marks: 69**

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

At the equilibrium price:

- ▶ There will be a shortage.
- ▶ **There will be neither a shortage nor a surplus.**
- ▶ There will be a surplus.
- ▶ There are forces that cause the price to change.

**Question No: 2 ( 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: 3 ( 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: 4 ( 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: 5 ( 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: 6 ( 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: 7 ( 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: 8 ( 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: 9 ( Marks: 1 ) - Please choose one**

---

Suppose to hire the next worker, the firm pays \$50. This \$50 is the:

- ▶ Marginal input cost.
- ▶ **Marginal cost. douted**
- ▶ Marginal revenue product.
- ▶ Marginal revenue.

---

**Question No: 10 ( 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: 11 ( Marks: 1 ) - Please choose one**

**An assumption of classical economics is:**

- ▶ Investment and saving are seldom equal.
- ▶ Self-correction takes a long time.
- ▶ **Demand creates its own supply.**
- ▶ Prices and wages are flexible.

---

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

**How many methods are there to measure Gross Domestic Product?**

- ▶ **Three.**
- ▶ Four.
- ▶ Five.
- ▶ Six.

---

**Question No: 13 ( 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: 14 ( Marks: 1 ) - Please choose one**

**Which of the following is a less important component of the balance of payments?**

- ▶ **The capital account.**
- ▶ The current account.
- ▶ The financial account.
- ▶ All three components are equally important.

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

---

**Growth rate of per capita income is equal to:**

- ▶ Growth rate of total output / Growth rate of population.
- ▶ Growth rate of population / Growth rate of total output.
- ▶ **Growth rate of total output + Growth rate of population.**
- ▶ Growth rate of total output - Growth rate of population.

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

---

**The similarity in the Perfect competition and monopolistic competition is that:**

- ▶ Firms in both types of market structure will act as price takers.
- ▶ Firms in both types of market structure will produce a product that is exactly like one produced by other firms in the industry.
- ▶ **Firms in both types of market structure will produce a level of output where price equals marginal cost.**
- ▶ Firms in both types of market structure will earn zero profit in the long run.

**Question No: 17 (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: 18 (Marks: 1) - Please choose one**

---

**Which of the following best describes the total market value of all final goods and services produced within the boundary of a country in a year?**

- ▶ **Gross domestic product.**
- ▶ Net national product.
- ▶ Net national income.
- ▶ Disposable personal income.

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

---

**Which of the following would occur if injections are less than withdrawals at the full-employment level of income?**

- ▶ A deflationary gap.
- ▶ Hysteresis.
- ▶ Hyperinflation.
- ▶ An inflationary gap.

**Question No: 20 (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: 21 (Marks: 1) - Please choose one**

**GNP is a good indicator of:**

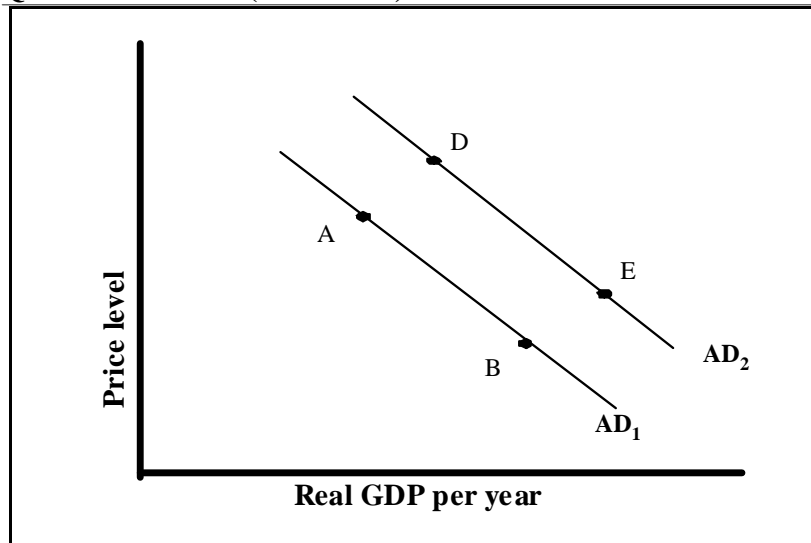
- ▶ **The total payment of factor owners.**
- ▶ The amount of consumption and investment.
- ▶ The conditions of production and employment.
- ▶ The amount of incomes available for spending.

**Question No: 22 (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: 23 (Marks: 1) - Please choose one**

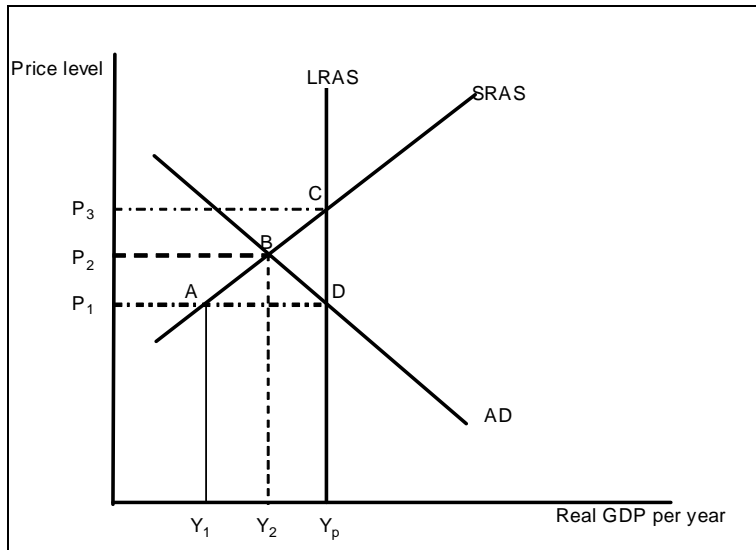


**In the above figure, a movement from point A to point B:**

- ▶ Is a change in aggregate demand resulting from a lower price level.
  - ▶ **Is change in aggregate quantity demanded resulting from a lower price level.**
- doubted**
- ▶ Could be due to an increase in investment demand.
  - ▶ Occurs because aggregate output supplied has increased.

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





Refer to the above figure, what are the prevailing price level and the output level in the economy?

- ▶ Price level =  $P_1$ ; real GDP =  $Y_p$ .
- ▶ Price level =  $P_1$ ; real GDP =  $Y_1$ .
- ▶ **Price level =  $P_2$ ; real GDP =  $Y_2$ .** doubted
- ▶ Price level =  $P_3$ ; real GDP =  $Y_p$ .

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

Which of the following is equal to personal savings?

- ▶ Gross domestic income – consumption.
- ▶ Personal disposable income – consumption.
- ▶ Gross domestic product – consumption.
- ▶ **Personal disposable income – taxes – consumption.**

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

In the definition of labor force, economists include:

- ▶ Only people who are working full-time.
- ▶ **People who are not working but are actively looking for a job and people who are working.**
- ▶ People who are working.
- ▶ None of the given options.

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

If a country devalues its currency, what will be its results?

- ▶ Its imports will be cheaper for its citizens and its exports will be expensive from the point of view of foreigners.
- ▶ Both its imports and exports will be cheaper for the citizens and for foreigners.
- ▶ **Its imports will seem more expensive for the citizens and export will seem cheaper to the foreigners.**
- ▶ Both imports and exports will seem more expensive.

**Question No: 28 (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: 29 (Marks: 1) - Please choose one**

---

**We can measure economic growth with the help of:**

- ▶ The Consumer Price Index.
- ▶ The Producer Price Index.
- ▶ **Gross Domestic Product.**

**P 161**

- ▶ Marginal Propensity to Consume.

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

---

**Development is impossible without:**

- ▶ Incentive to profit.
- ▶ Foreign aid.
- ▶ Domestic savings.
- ▶ **Inflation.**

**Question No: 31 (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.**

**P 172 Government purchases are used to operate the government (administrative salaries, etc.) and to provide public goods (national defense, highways, etc.).**

- ▶ Public investment.

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

---

**The principle of taxation which emphasizes on fairness or just sacrifice is known as:**

- ▶ Efficiency.
- ▶ **Equity.**

**P 173 Equity represents that principle of taxation which emphasizes fairness or just sacrifice,**

- ▶ Progressive tax.
- ▶ Regressive tax.

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

---

**Suppose you keep Rs. 35 in your pocket to purchase a movie CD when it will come out next month in the market. What is the function of money in this context?**

- ▶ Medium of exchange.

- ▶ Unit of account.
- ▶ Standard of deferred payment.
- ▶ **Store of value.**

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

---

Suppose the central bank's primary goal is to stabilize the prices and it aims to keep the inflation rate at 6%. If the inflation rate rose above 6%, central bank should adopt which of the following policy?

- ▶ **An expansionary monetary policy.**
- ▶ A contractionary monetary policy.
- ▶ It should reduce the required reserve ratio.
- ▶ It should impose a temporary ceiling on the federal funds rate.

**Question No: 35 (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: 36 (Marks: 1) - Please choose one**

---

Developing countries have ----- unemployment than the developed countries.

- ▶ **Higher.**
- ▶ Lower.
- ▶ About the same.
- ▶ In some cases higher while in others lower.

**Question No: 37 (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: 38 (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: 39 (Marks: 1) - Please choose one**

---

**In cartels, there are a small number of sellers and usually involve**

- ▶ Heterogeneous products.
- ▶ Large competition.
- ▶ **Homogeneous products.**
- ▶ Less demand in market.

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

---

**If different firms in the oligopolistic structures do not cooperate with each other is known as**

- ▶ Collusive oligopoly.
- ▶ Cartel.
- ▶ Price leadership.

▶ **Non-collusive oligopoly.**

**P 82 If different firms in the oligopolistic structures do not cooperate with each other is known as non collusive oligopoly.**

**Question No: 41 (Marks: 1) - Please choose one**

---

**Slope and elasticity of demand have**

- ▶ A direct relation.

▶ **An inverse relationship.**

**P 27 Slope and elasticity of demand have an inverse relationship.**

- ▶ No relation between slope and elasticity.
- ▶ None of the given options.

**Question No: 42 (Marks: 1) - Please choose one**

---

**If you sum the marginal utilities obtained by consumption from one unit to five units of any commodity, you will get:**

- ▶ **The marginal utility for the consumption of the fifth unit.**
- ▶ The marginal utility for the consumption of the sixth unit.
- ▶ The total utility for the consumption of the first five units.
- ▶ The average utility for the consumption of the first five units.

**Question No: 43 (Marks: 1) - Please choose one**

---

**Price war is often seen in which of the following markets:**

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

**Question No: 44 ( Marks: 1 ) - Please choose one**

---

Assume that there is no government or foreign sector, if the marginal propensity to save (MPS) is 0.2, then the value of saving multiplier will be equal to:

- ▶ 0.80
- ▶ 1.20
- ▶ 0.50
- ▶ 1.25

**Question No: 45 ( Marks: 1 ) - Please choose one**

---

If domestic interest rate is greater than foreign interest rate + expected depreciation then:

- ▶ One should invest in domestic market. doubted
- ▶ One should invest abroad.
- ▶ One should remain indifferent.
- ▶ Make half investment in domestic market and half investment in foreign market.

**Question No: 46 ( Marks: 1 ) - Please choose one**

---

In endogenous growth model the permanent growth rate depends on the saving rate and:

- ▶ Labor participation rate.
- ▶ Capital stock.
- ▶ Investment.
- ▶ Technological progress.

P 167

**Question No: 47 ( Marks: 1 ) - Please choose one**

---

How an economy will be affected if money supply is increased in the country?

- ▶ Interest rate increases, investment and GDP reduces.
- ▶ Interest rate increases, investment increases and GDP reduces.
- ▶ Interest rate reduces, investment and GDP increases. doubted
- ▶ Interest rate reduces, investment and GDP reduces.

**Question No: 48 ( Marks: 1 ) - Please choose one**

---

In IS-LM model, a decrease in government spending should move the:

- ▶ IS curve leftward.
- ▶ IS curve rightward.
- ▶ LM curve rightward.
- ▶ LM curve leftward.

**Question No: 49 ( Marks: 3 )**

---

**Differentiate between inflation and deflation.**

---

**Question No: 50 ( Marks: 3 )**

**Explain the shape of money supply curve with the help of diagram.**

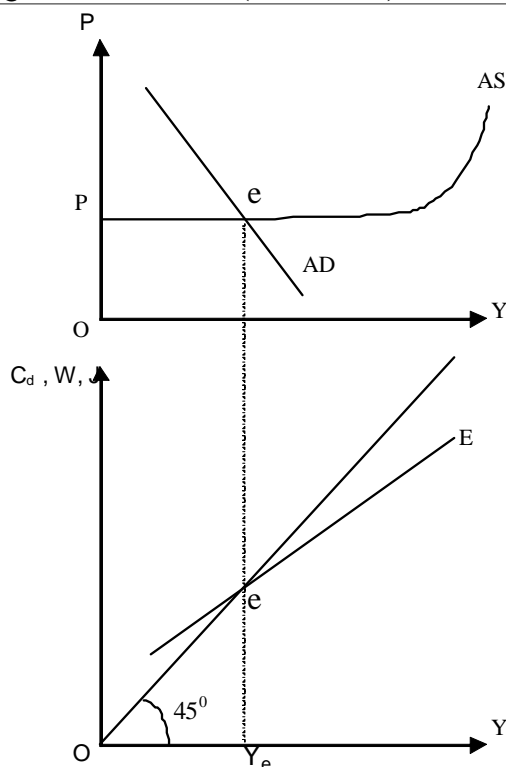
---

**Question No: 51 ( Marks: 5 )**

**What is meant by Philips Curve? Explain the shape of this curve with the help of diagram.**

---

**Question No: 52 ( Marks: 5 )**



**In the above figure, suppose the economy is on the horizontal portion of aggregate supply (AS) curve.**

- If government expenditures increase, what will happen to the aggregate expenditure line E, aggregate demand curve AD and output level Y.**
- Is there any multiplier effect? How it works in this case?**

**(Marks: 3+2)**

---

**Question No: 53 ( Marks: 5 )**

**How crowding out of investment demand occur due to expansionary fiscal policy?**

Ref No: 1375585

Time: 90 min

Marks: 69

Student Info	
StudentID:	
Center:	OPKST
ExamDate:	07 Aug 2010

**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**

At the equilibrium price:

- ▶ There will be a shortage.
- ▶ **There will be neither a shortage nor a surplus.**
- ▶ There will be a surplus.
- ▶ There are forces that cause the price to change.

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

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

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

P 59

**Question No: 4 ( 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: 5 ( 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: 6 ( 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: 7 ( Marks: 1 ) - Please choose one**

---

Value of Marginal Product of Labor ( $VMP_L$ ) is equal to:

▶  $MPP_L / P_i$ .

▶  $MPP_L$ .

▶  $P_i$ .

▶  **$MPP_L \times P_i$**

p 93 The value of marginal product of labour ( $VMPL$ ) =  $MPPL \times P_i$

**Question No: 8 ( 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: 9 ( 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: 10 ( Marks: 1 ) - Please choose one**

---

An assumption of classical economics is:



- ▶ Investment and saving are seldom equal.
- ▶ Self-correction takes a long time.
- ▶ Demand creates its own supply.
- ▶ **Prices and wages are flexible.**

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

---

**Gross Domestic Product is:**

- ▶ A stock variable.
- ▶ **A flow variable.**

**P 118 Flow: A variable or measurement that is defined for a period of time (as opposed to an instant in time). A flow can only be measured over a period. For example, GDP is the flow of production during a given year. Income is another flow measures important to the study of economics.**

- ▶ Both a stock and a flow variable.
- ▶ Neither a stock nor a flow variable.

**Question No: 12 ( 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: 13 ( Marks: 1 ) - Please choose one**

---

**A government wishing to reduce a deficit on the current account of their balance of payments through the use of fiscal policy would be most likely to:**

- ▶ Raise direct taxation.
- ▶ Introduce an import quota.
- ▶ Raise interest rates.
- ▶ **Reduce the rate of value added tax on all goods and services.**

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

---

**If imports = exports, then we have:**

- ▶ Current account balance.
- ▶ Capital account balance.
- ▶ Statistical discrepancy.
- ▶ **Balanced Budget.**

**Question No: 15 ( 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: 16 (Marks: 1) - Please choose one**

---

**Disposable Income is obtained by subtracting ----- from personal income.**

- ▶ Indirect Taxes.
- ▶ **Direct Taxes.**
- ▶ Both direct and indirect taxes.
- ▶ Subsidies.

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

---

**Under monopoly, when the demand curve is downward sloping, marginal revenue is:**

- ▶ Equal to price.
- ▶ Equal to average cost.
- ▶ **Less than price.**
- ▶ More than price.

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

---

**Which of the following statements is TRUE about the Classical and Keynesian approaches to achieve a macroeconomic equilibrium in an economy?**

- ▶ **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: 19 (Marks: 1) - Please choose one**

---

**Suppose an economy is at full employment equilibrium in the classical model. What will be the long run effect of an increase in government spending in this economy?**

- ▶ Price level will increase.
- ▶ The aggregate demand curve will shift upward.
- ▶ Output level will remain constant.
- ▶ **All of the given options.**

**Question No: 20 (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.**

For calculating national product we add indirect taxes and subtract subsidies  
 $500+150-50=600$

- ▶ Rs. 300 billion.

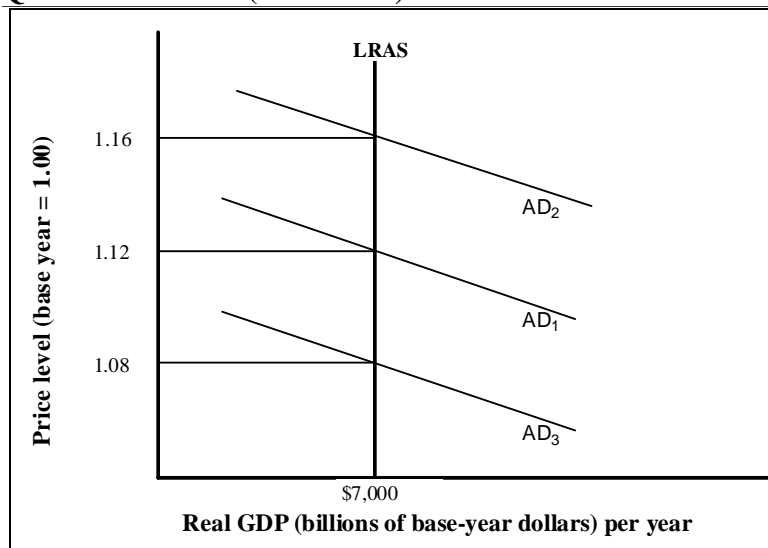
**Question No: 21 (Marks: 1) - Please choose one**

**Which of the following is an example of an injection?**

- ▶ Taxes.
- ▶ Saving.
- ▶ Imports.
- ▶ **Investment.**

**P 124** Injections are payments to firms not originating from households: government spending, firms' investment and exports are all examples of injections into the circular flow.

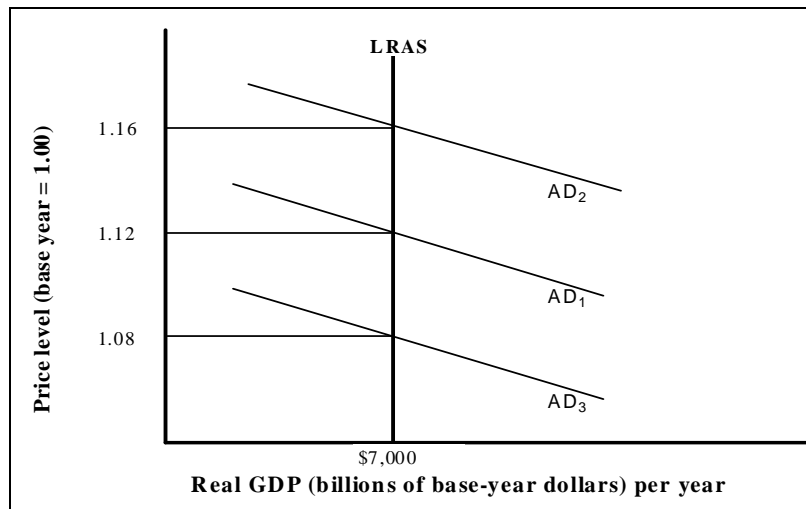
**Question No: 22 (Marks: 1) - Please choose one**



**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: 23 (Marks: 1) - Please choose one**



Refer to the above figure, if the real GDP is \$7,000 billion and the implicit price deflator is 1.16, what is the value of nominal GDP?

- ▶ \$6,034 billion.
- ▶ **\$8,120 billion.**

**GDP deflator = Nominal GDP / Real GDP**

**1.16 = Nominal GDP / 7000**

**Nominal GDP = 1.16 x 7000**

**Nominal GDP = 8120**

- ▶ \$9,120 billion.
- ▶ Cannot be determined from the given information.

**Question No: 24 (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: 25 (Marks: 1) - Please choose one**

**Which of the following predictions can be made using the growth rates associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output ( $Y_P$ ) in the long run?**

**▶ If the money supply grows at a faster rate than growth in  $Y_P$ , there will be inflation.**

- ▶ If the money supply grows at the same rate as growth in  $Y_P$ , the price level will fall and there will be deflation.
- ▶ If the money supply grows at the same rate as growth in  $Y_P$ , the price level will also increase at the same rate as growth in  $Y_P$ .
- ▶ None of the given options.

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

**Which of the following will influence a country's exports?**

- ▶ All of the given options.
- ▶ Consumer tastes for domestic and foreign goods.
- ▶ Prices of goods at home and abroad.
- ▶ Costs of transporting goods from country to country.

**Question No: 27 ( 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 \$100, what is the amount of personal saving?**

- ▶ -\$40.

**Saving = dpi - cp**

$$100 - 140 = -40$$

- ▶ -\$20
- ▶ \$0.
- ▶ \$20.

**Question No: 28 ( 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: 29 ( Marks: 1 ) - Please choose one**

**The price of one unit of foreign good in terms of domestic good is known as:**

- ▶ Inflation rate.
- ▶ Real exchange rate.
- ▶ Nominal exchange rate.

**PAGE 158** The nominal exchange rate (NER) is the price in domestic currency of one unit of a foreign currency.

- ▶ Discount rate.

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

---

**Development is impossible without:**

- ▶ Incentive to profit.
- ▶ Foreign aid.
- ▶ Domestic savings.
- ▶ Inflation. (Correct) Afaaq

**Question No: 31 (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: 32 (Marks: 1) - Please choose one**

---

**The money multiplier is the reverse of:**

- ▶ Legal reserves.
- ▶ Excess reserves.
- ▶ Checkable deposits.
- ▶ The reserve ratio.

**PAGE 188:** The money multiplier is nothing but the inverse of the reserve ratio.

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

---

**A primary function of a central bank is to:**

- ▶ Regulate dividend payments by corporations.
- ▶ Control the bond market.
- ▶ Set monetary policy.
- ▶ Publish statistics on banking and related financial matters.

**Question No: 34 (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.

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

---

**IS curve shows the equilibrium in:**

- ▶ Money Market.

▶ **Goods Market.**

Page 195: Thus the IS curve, which captures goods market equilibrium is downward sloping in i-Y space

- ▶ Labor Market.
- ▶ Financial Market.

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

**Which of the following is TRUE for investment function and the IS curve slope?**

- ▶ It is upward because higher interest rates induce more investment.
- ▶ It is upward because higher interest rates induce less investment.
- ▶ It is downward because higher interest rates induce more investment.
- ▶ **It is downward because higher interest rates induce less investment.**

Ref: [http://bachacho0.tripod.com/chapter\\_10\\_c.htm](http://bachacho0.tripod.com/chapter_10_c.htm)

**Question No: 37 ( 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: 38 ( 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.**

Long run productivity theory or returns to scale theory. In long run, all factors are variable. This theory includes constant, increasing & decreasing returns to scale.

- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ None of the given options.

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

**What will happen if current output is less than the profit-maximizing output?**

- ▶ The next unit produced will decrease profit.
- ▶ The next unit produced will increase cost more than it increases revenue.
- ▶ **The next unit produced will increase revenue more than it increases cost.**
- ▶ The next unit produced will increase revenue without increasing cost.

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

**In which of the following situations, a monopoly occurs?**

- ▶ When each firm produces a product that is slightly different from the other firms.
- ▶ **When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**
- ▶ When there are many firms producing the same product.
- ▶ In all of the given situations.

**Question No: 41 ( Marks: 1 ) - Please choose one**

**Concentration ratio is used to assess:**

- ▶ **The level of competition in an industry.**
- ▶ The degree of control over prices.
- ▶ The technological gaps between the firms.
- ▶ Marginal cost and marginal benefit analysis.

**Question No: 42 ( Marks: 1 ) - Please choose one**

---

**If an increase in price increases the total revenue then:**

- ▶ Demand is elastic.
- ▶ **Demand is inelastic.**
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

**Question No: 43 ( Marks: 1 ) - Please choose one**

---

**Revaluation of the currency encourages:**

- ▶ Imports.
- ▶ Exports.
- ▶ Exports.

REVALUATION

This is the act of increasing the price (exchange rate) of one nation's currency in terms of other currencies. This is done by the government if it wants to raise the price of the **country's exports** and lower the price of foreign imports. This is an appropriate action if the country is running an undesired trade surplus with other countries. The procedure for revaluation is for the government to buy the nation's currency and/or sell foreign currencies through the foreign exchange market.

- ▶ Poverty.
- ▶ Inflation.

**Question No: 44 ( Marks: 1 ) - Please choose one**

---

**Growth rate of total output is equal to:**

- ▶ Growth rate of per capita income - Growth rate of population.
- ▶ Growth rate of population / Growth rate of per capita income.
- ▶ **Growth rate of population + Growth rate of per capita income.**

Page 163:  $\text{Growth rate of per capita income} = \text{Growth rate of total output} - \text{Growth rate of population}$

So that :  $\text{Growth rate of total output} = \text{Growth rate of population} + \text{Growth rate of per capita income}$

- ▶ Growth rate of population - Growth rate of per capita income.

**Question No: 45 ( Marks: 1 ) - Please choose one**

---

**Government can borrow from domestic banking system or general public by selling:**

- ▶ Shares of any of its institute.
- ▶ Stocks.
- ▶ **Treasury bills.**

Page 185 : Borrow from domestic banking system or general public through a sale of treasury bills and bonds.



- ▶ Debentures.

**Question No: 46 (Marks: 1) - Please choose one**

---

**Which of the following is an equilibrium condition in goods market?**

- ▶ Investment = Saving.
- ▶ **Money supply = Money demand. (Correct) Afaaq**

**P 193** So far we have talked about macroeconomic equilibrium either in the context of the goods market (AS=AD),

- ▶ **Aggregate demand = C + I + G + NX.**
- ▶ Aggregate demand = Aggregate supply.

**Question No: 47 (Marks: 1) - Please choose one**

---

**If the exchange rate is fixed, expansionary fiscal policy would not have any:**

- ▶ Investment multiplier effect.
- ▶ **Crowding out effects.**
- ▶ Government spending effect .
- ▶ None of the given options.

**Question No: 48 (Marks: 1) - Please choose one**

---

**The common characteristics of a developing country is:**

- ▶ High growth rate.
- ▶ High literacy rate.
- ▶ Skilled labor.
- ▶ **High unemployment rate.**

**Question No: 49 (Marks: 3)**

---

**Define balance of payment (BOP). How the BOP can be determined?**

**Answer:**

A BOP is a sheet in other words an account sheet which is an accounting record of all monetary transactions between a country and the rest of the world.

These transactions include

→ Payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers.

The BOP summarizes international transactions for a specific period, usually a year, and is prepared in a single currency, typically the domestic currency for the country concerned.

**Surplus items:**

Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive/surplus items.

**Deficit items:**

Uses of funds, such as for imports or to invest in foreign countries, are recorded as a negative or deficit item.

It can be determined if we see the things in both perspective. In other words it is a non-complicated way, let's assume that we have two countries Pakistan and United States and things are viewed from Pakistan point of view.

For this purpose we must know the market for foreign exchange. Foreign exchange in a Pakistani context means US \$ and in a US point of view it is Pak rupees.

**Question No: 50 ( Marks: 3 )**

---

**Explain the shape of money demand curve with the help of diagram.**

**Answer:**

Money demand  $M_d$  increases with income levels.

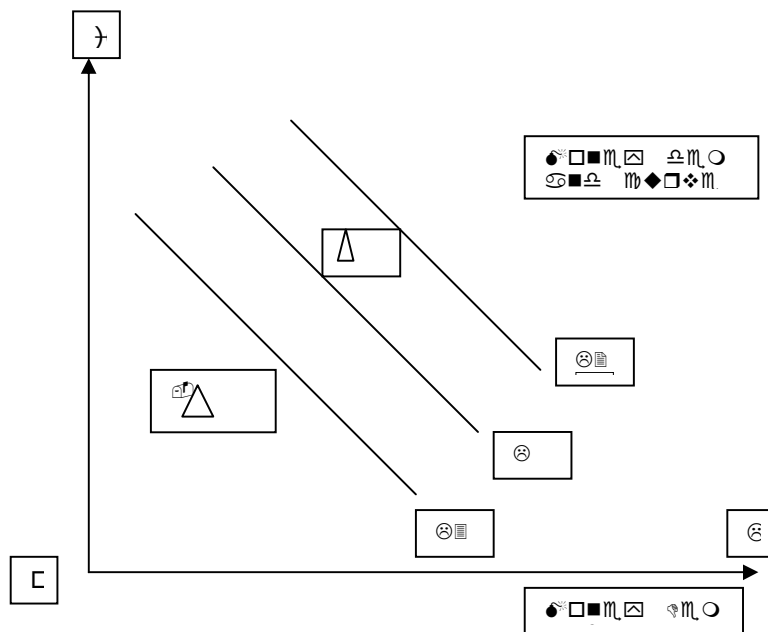
Money demand  $M_d$  falls with interest rates.

In this concept we are talking about real income and real interest rate not the nominal income and nominal interest rate.

So this implies to the demand of real money.

Whether nominal and real money supply is equal or not depends much on the assumption regarding prices. If prices are assumed fixed, then the two are equal, otherwise not.

As you can see from the diagram where money demand is on the x-axis and income is on the y-axis, and there are various levels shown like  $L_1, L_2, L_3$ .



**Question No: 51 (Marks: 5)**

**How can a current account, which is in deficit, be restored to balance under fixed exchange rate regimes?**

**Answer:**

There is solution for how can a current account which is in deficit be restored to balance under fixed exchange rate regimes. The answer is **“Economic Deflation”**

Economic Deflation says When a country’s national income rises, it spends more; part of that spending falls on imported goods; higher imports cause the current account to worsen.

The reverse is also true for this lower income must reduce import spending and therefore improve the current account spending.

However, economic contraction is not a good idea to restore current account equilibrium the other alternative solution presented by economist is to devalue or “devaluation”.

Devaluation is the phenomena related to exchange rate where exchange rate faces depreciation but in the context of fixed exchange rates. The complement of devaluation is revaluation.

A concept of devaluation is to bring the exchange rate in line with its long-run equilibrium level, i.e. a level consistent with international competitiveness.

Competitiveness is simply defined as the real exchange rate RER, where  $RER = (P_f/P_d) * NER$ . Where

NER → Nominal Exchange rate

$P_f$  → is the price level prevailing in the foreign country (US)

$P_d$  → is the price level prevailing in the home country (Pakistan).

The formula implies that, for a fixed NET if inflation is higher in Pakistan (relative to the US), Pakistani exports will become less attractive in the international market. As a result, our exports will fall, and current account will go into deficit.

To fix this problem, the NER can be devalued so as to make our goods cheaper and competitive and it is to bring competitiveness back to its original higher level. However, there are many provisos attached to the devaluation policy prescription.

Devaluation only works if the country's exports and imports are elastic, otherwise the price effect of the devaluation will dominate the volume effect and the current account will worsen. Secondly, the country must have excess productive capacity in order to meet the higher demand for exports that is created as a result of the devaluation. Thirdly, the country should not have a very high foreign debt whose burden increases so much as a result of the devaluation that the negative effects associated therewith overwhelm any positive competitiveness effects.

#### **Capital account (+ or -)**

+ → Incoming FDI, FPI or other private capital

- → Outgoing FDI, FPI or other private capital

+ → Borrowing, aid inflows

- → Payments of debt principal, aid outflows

#### **Question No: 52 ( Marks: 5 )**

---

**Identify which of the following are stock variables and which are flow variables?**

- a) Unemployment → **Stock**
- b) Redundancies (job lay-offs) → **Flow**
- c) Profits → **Flow**
- d) A firm's stock market valuation (share price) → **Stock**
- e) The value of property after a period of inflation → **Stock**

**(Marks: 1 for each)**

#### **Question No: 53 ( Marks: 5 )**

---

**World Bank suggests some structural reform policies for the poor countries to grow. Discuss those policies briefly.**

**Ans:**

**World Bank has suggested following policies for the poor countries to grow,**

1. **Governance and administrative reforms:** To reduce over employment in public sector, reduce wastes and to improve the quality and reliability of public services. To strengthen the administration of taxes, to eliminate the corruption. To decentralize the control of fiscal policy making. To enrich the legal and regulator framework.
2. **Privatization of state-owned enterprises:** Abbreviated as SOEs. These are influenced by political interference and it is one of the reasons SOEs are considered inefficient. SOEs are also suffering from lack of competition, cost awareness and fear of bankruptcy.
3. **Financial liberalization:** It involves ending of financial repression policies including artificially low interest rates, credit rationing, restrictions on banking competition and government involvement in investment allocation
4. **Liberalization of prices, removal of subsidies**
5. **Deregulation involving dismantling of licensing systems and red-tape**
6. **Trade liberalization:** including tariffication of non-tariff-barriers, harmonization of tariffs and an eventual reduction thereof
7. **FDI liberalization:** To create a transparent, predictable environment for foreign investors to operate in.
8. **Capital account liberalization:** To remove controls on capital flows

These policies are suggested by world bank and the successful implementation of these policies depend on the political and economic system of poor countries. In general these policies are expected to provide the poor nation with better understanding and help them to raise their growth.

ECO401- Economics (Session - 3)

Time: 90 min

Marks: 69

**Question No: 1 ( 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.**

**QS = QD**

- ▶ All buyers are able to find sellers willing to sell to them at the current price.

**Question No: 2 ( 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: 3 ( 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: 4 ( 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: 5 ( 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: 6 ( 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: 7 ( 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: 8 ( 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: 9 ( Marks: 1 ) - Please choose one**

---

**M1 component of money supply consists of:**

- ▶ Paper currency and coins.
- ▶ **Paper currency, coins and check writing deposits.**

**M0: also called base money, high powered money or the monetary base. M0 is the value of all the currency notes and coins that are in circulation in the economy. Note that any currency or coins lying with the central bank (which in Pakistan's context, would be the State Bank of Pakistan) does not count as M0, as it is not in circulation.**

**M1: is M0 + all current (or checking) deposits held with commercial banks. Checking deposits are accounts from which the holders can withdraw money at any time.**

- ▶ Paper currency, coins, check writing deposits and savings deposits.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

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

---

**An increase in the money supply will cause interest rates to:**

- ▶ Rise.
- ▶ **Fall.**

**P 179 The balance of payments surplus will increase the money supply, which will push interest rates back down again, thus preventing internal balance from being achieved.)**

- ▶ Remain unchanged.
- ▶ None of the given options.

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

---

**Disposable Income is obtained by subtracting ----- from personal income.**

- ▶ Indirect Taxes.
- ▶ **Direct Taxes.**

**P 122 Disposable income is obtained by subtracting the amount of direct taxes from the personal income**

- ▶ Both direct and indirect taxes.
- ▶ Subsidies.

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

---

**Which of the following statements is TRUE about cartels?**

▶ **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.**

**P 81 Cartel**

**A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products.**

- ▶ These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.
- ▶ These are considered as part of monopolistic competition.



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

---

If disposable income increases from \$7 trillion to \$8 trillion and as a result, consumption expenditure increases from \$9 trillion to \$9.8 trillion, the Marginal Propensity to Consume is:

- ▶ 1.0.
- ▶ 0.80.

P 125

- ▶ 0.875.
- ▶ 0.91.

**Question No: 14 (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: 15 (Marks: 1) - Please choose one**

---

Which of the following specifies the maximum amount of a good that may be imported in a given period of time?

- ▶ Trade restriction.
- ▶ Quota.
- ▶ Import restriction.
- ▶ Legislative restriction.

**Question No: 16 (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: 17 (Marks: 1) - Please choose one**

---

GNP is a good indicator of:

- ▶ The total payment of factor owners.
- ▶ The amount of consumption and investment.
- ▶ The conditions of production and employment.
- ▶ The amount of incomes available for spending.

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

---

**Expenditure of defense is an item of:**

- ▶ Public investment.
- ▶ Private consumption.
- ▶ **Public consumption.**

**P 111**

- ▶ Private investment.

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

---

**The information economics is a branch of:**

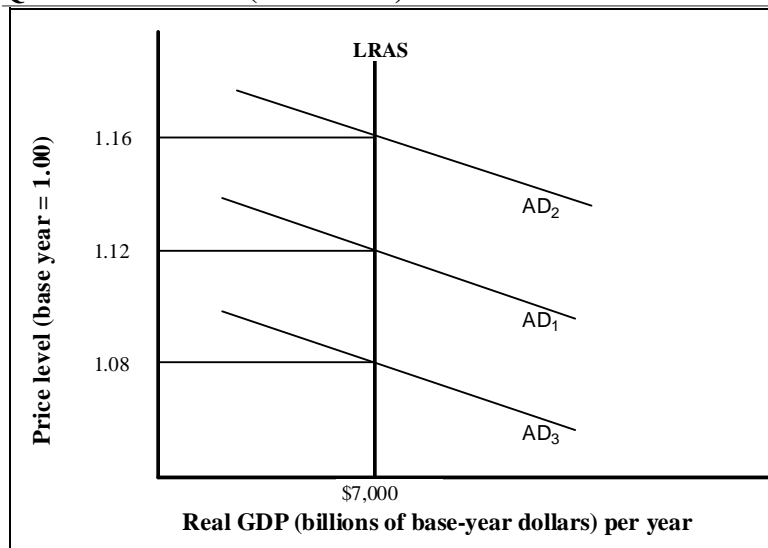
- ▶ **Microeconomics.**

**P 94 Information economics or the economics of information is a branch of microeconomic theory that studies how information affects an economy and economic decisions.**

- ▶ Macroeconomics.
- ▶ Monetary economics.
- ▶ Development economics.

**Question No: 20 (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: 21 (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: 22 ( Marks: 1 ) - Please choose one**

---

**If a \$1million rise in national income led to induced investment of \$2million then the accelerator coefficient will be equal to:**

- ▶ 0.
- ▶ 1.
- ▶ 2.
- ▶ 3.

**Question No: 23 ( 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: 24 ( Marks: 1 ) - Please choose one**

---

**Most nations of the world are:**

- ▶ Closed economies.
- ▶ Open economies.

**Reference:**

[http://wps.prenhall.com/bp\\_hubbard\\_econ\\_2/85/21856/5595147.cw/-/5595174/index.html](http://wps.prenhall.com/bp_hubbard_econ_2/85/21856/5595147.cw/-/5595174/index.html)

**Question#1**

- ▶ Self sufficient.
- ▶ Non trading nations.

**Question No: 25 ( 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: 26 ( Marks: 1 ) - Please choose one**

---

**A trade deficit occurs when:**

- ▶ 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's firms open more stores abroad than foreign firms open in the country.
- ▶ **A country purchases more from abroad than other countries purchase from it.**

**Question No: 27 ( 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: 28 ( Marks: 1 ) - Please choose one**

---

**Which of the following best describes the economic growth?**

- ▶ Continuous outward shift of aggregate demand.
- ▶ **A long term expansion of a country's potential GDP.**

**P 06 Economic growth is an increase in the total output of a country over time. It is the long-run expansion of the economy's ability to produce output. When GDP of a country is increasing it means that country is growing economically. Economic growth is made possible by increasing the quantity or quality of the economy's resources (labor, capital, land, and entrepreneurship).**

- ▶ The avoidance of a negative output gap.
- ▶ An increase in aggregate demand which causes a movement along the short-run aggregate supply curve.

**Question No: 29 ( 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: 30 ( 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: 31 (Marks: 1) - Please choose one**

---

**Which of the following got benefit from deflation?**

- I. Salary earners.
- II. Equity holders.
- III. Pensioners.
- IV. Debtors.

▶ **I only.**

- ▶ II only.
- ▶ I and III.
- ▶ I and IV.

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

---

**Which of the following is a characteristic of a developing country or a third-world country?**

▶ **Low per capita income.**

P 207

- ▶ Low population growth rate.
- ▶ High investment rate.
- ▶ High saving rate.

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

---

**One of the main reasons of poverty in third world countries is:**

- ▶ Generation gap.
- ▶ Communication gap.

▶ **Savings gap.**

P 207

- ▶ Inflation gap.

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

---

**A person with a diminishing marginal utility of income is said to be:**

▶ **Risk averse person.**

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

**Question No: 35 (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: 36 ( Marks: 1 ) - Please choose one**

---

Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:

- ▶ Shifts to the left.
- ▶ Shifts to the right.
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

**Question No: 37 ( 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: 38 ( Marks: 1 ) - Please choose one**

---

Which of the following is the basic difference between oligopoly and monopolistic competition?

- ▶ 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: 39 ( Marks: 1 ) - Please choose one**

---

As long as all prices remain constant, a decrease 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: 40 ( 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: 41 ( Marks: 1 ) - Please choose one**

---

An increase in quantity demand is shown by:

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

**Question No: 42 ( Marks: 1 ) - Please choose one**

---

Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:

- ▶ Shifts to the left.
- ▶ **Shifts to the right.**
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

**Question No: 43 ( Marks: 1 ) - Please choose one**

---

When the marginal revenue product of labor is less than the marginal input cost of labor then the profit maximizing firm will:

- ▶ Hire more labor.
- ▶ **Hire less labor.**
- ▶ Maintain the same employment level.
- ▶ Decrease output.

**Question No: 44 ( Marks: 1 ) - Please choose one**

---

In Keynesian economics, if aggregate expenditures are more than aggregate output then:

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ **Aggregate output increases.**

**P 133 As the aggregate expenditures increases, AD also increases and output will also increase.**

- ▶ Employment increases.

**Question No: 45 ( Marks: 1 ) - Please choose one**

---

The record of a country's transactions in goods and services with the rest of the world is its:

- ▶ Current account.
- ▶ **Balance of payments.**
- ▶ Balance of trade.
- ▶ Capital account.

**Question No: 46 ( Marks: 1 ) - Please choose one**

---

Revaluation of the currency encourages:

▶ Imports.

▶ Exports.

#### REVALUATION

This is the act of increasing the price (exchange rate) of one nation's currency in terms of other currencies. This is done by the government if it wants to raise the price of the **country's exports** and

lower the price of foreign imports. This is an appropriate action if the country is running an undesired

trade surplus with other countries. The procedure for revaluation is for the government to buy the nation's currency and/or sell foreign currencies through the foreign exchange market.

▶ Poverty.

▶ Inflation.

**Question No: 47 ( Marks: 1 ) - Please choose one**

---

**The share of world trade happens between high income countries is:**

▶ 55%

▶ 40%

▶ **50%**

▶ 60%

**Question No: 48 ( Marks: 1 ) - Please choose one**

---

**If the exchange rate is fixed, expansionary fiscal policy would not have any:**

▶ Investment multiplier effect.

▶ **Crowding out effects.**

▶ Government spending effect .

▶ None of the given options.

**Question No: 49 ( Marks: 3 )**

---

**What is meant by exchange rate? Also give example of exchange rate.**

**Question No: 50 ( Marks: 3 )**

---

**What is the reason of poverty in developing countries according to Prebisch-Singer hypothesis?**

**Question No: 51 ( Marks: 5 )**

---

**According to the values given in the following table, calculate the injections at each level of output.**

Output (Y)	Saving (S)	Gross Imports (M)	Gross investment (I)	Gross exports (X)	Govt. Expenditures (G)	Taxes (T)
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: 52 ( Marks: 5 )**

---

**What are the major weaknesses of exogenous growth theory? Which theory was developed in against of exogenous growth theory?**

**Question No: 53 ( Marks: 5 )**

---

**Discuss the components on the assets and liabilities side of the balance sheet of a central bank.**