

*ECO401 – Economics  
Golden File*

*For: Final Term Exam Preparation*

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**Quality of our File:**

- All the papers are included in this file.
- 99% file is verified, but you also should read and verify.
- Repetitive MCQs are removed.
- **Surely more than 90% MCQs in the exam are from this file. Sometime 99% MCQs.**
- Extra lines, like Question #, and other things are also removed. The file is neat and clean. Just Question and their answers are included.
- The numbers of pages are very short.
- Just read this file, you will find very helpful during the exam.

**Which of the following is NOT a factor of production?**

- ▶ Labour.
- ▶ Land.
- ▶ Capital.
- ▶ **Investment.** (sure)

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.

- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.** (p 1)

**Fixed costs are fixed with respect to changes in:**

- ▶ **Output.** (p 60)
- ▶ Capital expenditures.
- ▶ Wages.
- ▶ Time.

**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ **Engages in first-degree price discrimination.** (p 78)

**Which one of the following characteristics is common in monopolistic competition and oligopoly?**

- ▶ Free entry and exit from the industry.
- ▶ Strategic behavior.
- ▶ Standardized products.
- ▶ **Advertising.** (sure)

**Say's Law is a proposition underlying classical economics stating that:**

- ▶ **Supply creates its own demand.** (P 103)
- ▶ Leakages are greater than injections.
- ▶ Unemployment is a common condition.
- ▶ Consumption expenditures are a function of disposable income.

**An assumption of classical economics is:**

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

**Real Gross Domestic Product (GDP) equals:**

- ▶ Nominal GDP minus net exports.
- ▶ **Nominal GDP divided by the GDP deflator.** (p 121)
- ▶ Nominal GDP multiplied by the GDP deflator.
- ▶ GDP minus depreciation.

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

- ▶ **Net National Product = Gross National Product – Depreciation.** (P 120)
- ▶ Net National Product = National Income.
- ▶ Net National Product = Disposable Personal Income.
- ▶ Net National Product = Personal Income.

**An individual whose attitude towards risk is known as:**

- ▶ Risk averse.
- ▶ **Risk loving.**
- ▶ Risk neutral.
- ▶ None of the given options.

**Let L equal the size of the labor force, E the number of employed workers, and U the number of unemployed workers. The unemployment rate is equal to:**

- ▶  $(L + E)/L$ .
- ▶  **$U/L$ . (P 143)**
- ▶  $1 + (E/L)$ .
- ▶ All of the given options.

**Which of the following can happen in a boom period?**

- ▶ Unemployment is likely to fall.
- ▶ Prices are likely to fall.
- ▶ Demand is likely to fall.
- ▶ **Imports are likely to grow.**

**The item which serves as a medium of exchange is known as:**

- ▶ Gold.
- ▶ Capital.
- ▶ Silver.
- ▶ **Money. (p 186)**

**A tariff is defined as:**

- ▶ A restriction on exports.
- ▶ **A tax placed on an imported product. (p 204)**
- ▶ A limit on the amount of a good or service that can be exported.
- ▶ A limit on the amount of a good or service that can be imported.

**Countries that are not among the high income nations of the world are categorized as:**

- ▶ Developed countries.
- ▶ Progressed countries.
- ▶ **Developing countries.**
- ▶ High income countries.

**If average physical product (APP) is decreasing then which of the following must be true?**

- ▶ Marginal physical product is more than the average physical product.
- ▶ **Marginal physical product is less than the average physical product. (p 55)**
- ▶ Marginal physical product is decreasing.
- ▶ Marginal physical product is increasing.

When different prices are charged to customers who purchase different quantities, this is an example of

- ▶ **Second-degree price discrimination.** (p 78)
- ▶ First-degree price discrimination.
- ▶ Monopoly.
- ▶ Perfect competition.

Which of the following may cause a decrease in national income?

- ▶ **Increase imports.**
- ▶ Decrease unemployment.
- ▶ Decreasing exports.
- ▶ None of the given options.

The relationship between interest rate and consumption is:

- ▶ Positive.
- ▶ **Negative.** (sure)
- ▶ Zero.
- ▶ Indeterminate.

Hysteresis refers to the permanent effects of a:

- ▶ **Temporary change.** (p 148)
- ▶ Structural change.
- ▶ Cyclical change.
- ▶ Political change.

The growth rate of any country's real GDP can be:

- ▶ Negative or positive.
- ▶ positive or zero.
- ▶ Negative or zero.
- ▶ **Negative or positive or zero.** (p 161)

Endogenous growth theory is also known as:

- ▶ Neo-classical growth theory.
- ▶ **New growth theory.** (p 167)
- ▶ Classical growth model.
- ▶ Keynesian growth model.

Which of the following is not the World Bank's structural reform policy?

- ▶ FDI liberalization.
- ▶ Trade liberalization.
- ▶ Financial liberalization.
- ▶ **Same monetary policy for all countries.** (p 210)

To calculate the price elasticity of demand, you need to know \_\_\_\_\_ point(s) on the \_\_\_\_\_ demand curve.

- ▶ One, same.

- ▶ **Two, same. (Sure)**
- ▶ One, opposite.
- ▶ Two, opposite.

**Governments protect domestic industries from foreign competition by**

- 
- ▶ Encouraging agreements like NAFTA.
  - ▶ **Using tariff and non tariff barriers.**
  - ▶ Discouraging union membership.
  - ▶ Keeping the minimum wage low.

**To make the equation of exchange in the quantity theory of money:**

- ▶ **V and Q are assumed to be constant. (P 152)**

- ▶ 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.

**In the equation  $MV = PQ$ , according to the crude quantity theory of money:**

- ▶ M has no effect on the price level.
- ▶ **V is the number of times each dollar is spent per year.**
- ▶ Q is the real price level.
- ▶ P rises as V falls, other things constant.

**Disposable income is:**

- ▶ Total income plus transfer payments.
- ▶ Total income minus saving.
- ▶ Total income plus net taxes.
- ▶ **Total income minus net taxes.**

**How should monetary policy be used during recessions?**

- ▶ Decrease money supply to increase interest rate and increase aggregate demand.
- ▶ Increase money supply to increase interest rate and increase aggregate demand.
- ▶ **Decrease money supply to decrease interest rate and increase aggregate demand.**
- ▶ Increase money supply to decrease interest rate and increase aggregate demand.

**Which of the following policy options would simultaneously increase interest rates and decrease output?**

- ▶ **The central bank sells bonds through open market operations.**
- ▶ The federal government increases its defense purchases.
- ▶ The central bank expands the money supply.
- ▶ The federal government increases the tax rate.

**Commercial banks in Pakistan are supervised by:**

- ▶ **State bank.**

- ▶ National bank.
- ▶ Finance minister.
- ▶ World bank.

**Fiscal policy is the government program with respect to its:**

- ▶ **Expenditure and tax revenue.**
- ▶ Increase in unemployment.
- ▶ Steel Mill Privatization.
- ▶ Unemployment reduction.

**An expansionary fiscal policy can:**

- ▶ **Raise the national debt.**
- ▶ Decrease the national debt.
- ▶ Have no effect on national debt.
- ▶ None of the given options.

**If a war destroys a large portion of a country's capital stock but the saving rate is unchanged, the exogenous model predicts that output will grow and the new steady state will approach:**

- ▶ A higher output level than before.
- ▶ **The same output level as before.**
- ▶ A lower output level than before.
- ▶ The Golden Rule output level.

**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.

**Is Gross Domestic Product (GDP) an accurate measure of a country's well being?**

- ▶ Yes, it is the best measure of national well being.
- ▶ **Yes, provided we use real GDP and not nominal GDP. (p 127)**
- ▶ Uncertain, depending on whether GDP is rising or falling.
- ▶ No, it is not.

**Economic activity moves from a trough into a period of ----- until it reaches a ----- and then into a period of -----.**

- ▶ Expansion; trough; recession
- ▶ Recession; trough; expansion
- ▶ **Expansion; peak; recession**
- ▶ Recession; peak; expansion

**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.**

**A decrease in the natural rate of unemployment will:**

- ▶ **Shift the Phillips curve to the left.**
- ▶ Result in a decrease in the inflation rate along the Phillips curve.
- ▶ Shift the Phillips curve to the right.
- ▶ Result in an increase in the inflation rate along the Phillips curve.

**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. (P 143)**
- ▶ None of the given options.

**Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:**

- ▶ 0.2.
- ▶ 0.4.
- ▶ 0.6.
- ▶ **0.8. =120,000/150,000**

**Marginal propensity to consume:**

$$MPC = \Delta C / \Delta Y_d$$

**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ Capital.
- ▶ **The amount of money held by the public. (p 118)**
- ▶ Inventory investment.

**Real Gross Domestic Product (GDP) is measured:**

- ▶ **At base year prices.**
- ▶ At current year prices.
- ▶ At a constant output level but at current prices.
- ▶ As the difference between the current year's GDP and last year's GDP.

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

- ▶ Both prices and output to rise.
- ▶ Prices to fall and output to remain unchanged.
- ▶ Both prices and output to fall.
- ▶ **Prices to rise and output to remain unchanged. (sure)**

**According to classical economics, the economy was unlikely to experience:**

- ▶ Full employment.

- ▶ **Flexible wages and prices.**
- ▶ Equality between saving and investment.
- ▶ High rates of unemployment.

**Keynesian economics was the predominant economic theory:**

- ▶ Prior to the late 1700s.
- ▶ From the late 1700s to the early 1900s.
- ▶ **From 1930s to 1970s. (sure)**
- ▶ Since 1970s.

**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.**

**Which of the following will lead to an increase in aggregate demand?**

- ▶ An increase in government tax revenues.
- ▶ An increase in household savings.
- ▶ **An increase in business capital investment.**
- ▶ An increase in demand for imports.

**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. (P 93)**
- ▶ Downward sloping due to the law of supply.

**Cartels are:**

- ▶ **Organizations of independent firms, producing similar products, that work together to raise prices and restrict output.**
- ▶ Organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.
- ▶ Organizations of independent firms, producing different products, that work together to raise prices and restrict output.
- ▶ Considered as part of monopolistic competition.

**"The situation in which two or more firms set their prices and output according to a plan agreed upon between them in order to divide the market among themselves".**

**Which of the following best describes this situation?**

- ▶ Strategic interaction.
- ▶ Monopolistic competition.
- ▶ Oligopoly.



▶ **Collusion.**

**Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?**

- ▶ Duopoly.
- ▶ **Cartel. (p 81)**
- ▶ Market sharing monopoly.
- ▶ Natural monopoly.

**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. (P 90)**
- ▶ Neither a change in output level nor a change in price.

**Welfare economics is the branch of economics which deals with:**

- ▶ Positive issues.
- ▶ **Normative issues. (p 90)**
- ▶ Micro issues.
- ▶ Macro issues.

**A welfare loss occurs in monopoly where:**

- ▶ **The price is greater than the marginal cost.**
- ▶ The price is greater than the marginal benefit. **(Doubt)**
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

**In monopoly, which of the following is NOT true?**

- ▶ Products are differentiated.
- ▶ **There is freedom of entry and exit into the industry in the long run. (p 74)**
- ▶ The firm is a price maker.
- ▶ There is one main seller.

**Graphically, the Marginal Cost curve cuts through the Average Total Cost curve at:**

- ▶ The lowest point on the MC curve.
- ▶ The highest point on the MC curve.
- ▶ **The lowest point on the ATC curve.**
- ▶ The middle of the upward-sloping portion of the total cost curve.

**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ **Marginal revenue is less than marginal cost.**
- ▶ Marginal revenue is greater than marginal cost.

**A normal good can be defined as one which consumers purchase more of as:**

- ▶ Prices fall.
- ▶ Prices rise.
- ▶ Incomes fall.
- ▶ **Incomes increase.**

**If a market basket is changed by adding more to at least one of the goods, then every consumer will:**

- ▶ **Rank the market basket more highly after the change.**
- ▶ Rank the market basket more highly before the change.
- ▶ Rank the market basket just as desirable after the change. **(Doubt)**
- ▶ Be unable to decide whether he prefers the first market basket to the second or the second to the first.

**The concept of a risk premium applies to a person that is:**

- ▶ All of the given options.
- ▶ Risk averse.
- ▶ Risk neutral.
- ▶ **Risk loving.**

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶ Horizontal.
- ▶ Vertical.
- ▶ **Negative.**
- ▶ Positive.

**The extra value that consumers receive above what they pay for that good is called:**

- ▶ Producer surplus.
- ▶ Utility.
- ▶ Marginal utility.
- ▶ **Consumer surplus.**

**If a decrease in price increases the total revenue then:**

- ▶ **Demand is elastic. (P 28)**
- ▶ Demand is inelastic.
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

**While moving from left to right, the typical production possibilities curve has:**

- ▶ An increasingly steep negative slope. **(Doubt)**
- ▶ A decreasingly steep negative slope.
- ▶ **An increasingly steep positive slope.**
- ▶ A constant and negative slope.

**Our economy is characterized by:**

- ▶ **Unlimited wants and needs.**
- ▶ Unlimited material resources.
- ▶ No energy resources.
- ▶ Abundant productive labor.

**In a free-market economy, the allocation of resources is determined by:**

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ **Consumer preferences.**
- ▶ The level of profits of firms.

**If the quantity demanded of a product is greater than the quantity supplied of a product, then:**

- ▶ **There is a shortage of the product.**
- ▶ There is a surplus of the product.
- ▶ The product is a normal good.
- ▶ The product is an inferior good.

**The supply curve is upward-sloping because:**

- ▶ As the price increases, consumers demand less.
- ▶ **As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.**
- ▶ None of the given options.
- ▶ As the price increases, so do costs.

**When an industry's raw material costs increase, other things remaining the same:**

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.
- ▶ Output decreases and the market price also decrease.
- ▶ **The supply curve shifts to the left.**

**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ **Inelastic.**

**solution=**  $Ped = \% \text{ change in } Q \text{ demand} / \% \text{ change in } Q \text{ Price} = 10\%/12\% = 0.5$  where  
 $e > 1$  elastic  
 $e < 1$  inelastic

**Suppose price rises from \$15 to \$17 and quantity demanded decreases by 20%. We can conclude:**

- ▶ Demand is unitary elastic.
- ▶ Demand is elastic.

- ▶ The elasticity of demand is 2.
- ▶ **Total revenue will decrease.**

**"Utility" is most closely related to the term:**

- ▶ Useless.
- ▶ Require.
- ▶ Necessary.
- ▶ **Satisfaction.**

**When the marginal utility of a good is zero, this implies that:**

- ▶ **The consumer would not spend any additional income to buy more of that good.**
- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ Total utility is also zero.

**When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:**

- ▶ **An inferior good.**
- ▶ A substitute good.
- ▶ An independent good.
- ▶ A normal good.

**Diminishing marginal returns implies:**

- ▶ Decreasing marginal costs.
- ▶ **Increasing marginal costs.**
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

**When an isocost line is just tangent to an isoquant, we know that:**

- ▶ **Output is being produced at minimum cost.**
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of: **mid question****

- ▶ **A fixed cost.**
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ An opportunity cost.

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.

- ▶ **Has no close substitutes.**
- ▶ Can be easily duplicated.

**The oligopoly model which predicts that oligopoly prices will tend to be very rigid is the:**

- ▶ Cournot model.
- ▶ Cobweb model.
- ▶ Dominant firm model.
- ▶ **Kinked demand model.**

**The kinked demand curve model is based on which of the following assumptions?**

- ▶ Each firm considers its rival's output to be fixed.
- ▶ Each firm considers its rival's price to be fixed.
- ▶ **Each firm believes rival will match all price changes.**
- ▶ None of the given options.

**Which of the following is NOT conducive to the successful operation of a cartel?**

- ▶ Market demand for the good is relatively inelastic.
- ▶ The cartel supplies all of the world's output of the good.
- ▶ **Cartel members have substantial cost advantages over non-member producers.**
- ▶ The supply of non-cartel members is very price elastic.

**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.

**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.

**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.**

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**The economic analysis most closely related to Say's Law is:**

- ▶ **Short-run aggregate market.**
- ▶ Production possibilities.
- ▶ Imperfect competition.
- ▶ Circular flow.

**Which of the following is NOT a reason of downward slope of aggregate demand curve?**

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

**The upward-sloping aggregate supply curve indicates that :**

- ▶ **As firms increase their level of output, the cost of producing an extra unit increases.**
- ▶ An increase in aggregate demand causes little, if any increase in real output the economy is operating in the long run.
- ▶ Any increase in aggregate demand causes the output of producers to fall because the general price level rises.
- ▶ None of the given options.

**An important difference between the Classical and Keynesian approaches to achieve a macroeconomic equilibrium is that:**

- ▶ **Keynesian economists actively promote the use of fiscal policy while the classical economists do not.**
- ▶ Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.
- ▶ Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.
- ▶ Classical economists believe that fiscal policy is an effective tool for achieving economic stability while the Keynesians do not. **(Doubt)**

**According to classical economists, the:**

- ▶ **Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.**
- ▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

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

- ▶ **Three.**
- ▶ Four.

- ▶ Five.
- ▶ Six.

**Which of the following is a flow variable?**

- ▶ The value of the house in which you live.
- ▶ **The balance in your savings account. (p 118)**
- ▶ Your monthly consumption on food items.
- ▶ The number of carrots in your refrigerator at the beginning of the month.

**Which of the following plays the key balancing role in making sure that the economy reaches and stays at equilibrium at the potential output level?**

- ▶ Real exchange rate.
- ▶ The production function.
- ▶ Real price level.
- ▶ **Real interest rate.**

**If injections are less than withdrawals at the full-employment level of income then there arises:**

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

**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.

**Deflation is:**

- ▶ An increase in the overall level of economic activity.
- ▶ An increase in the overall price level.
- ▶ A decrease in the overall level of economic activity.
- ▶ **A decrease in the overall price level. (sure)**

**Which of the following will result if there is a decrease in aggregate demand?**

- ▶ Expansion; inflation.
- ▶ **Recession; deflation. (sure)**
- ▶ Expansion; deflation.
- ▶ Recession; inflation.

**If a country has flexible exchange rate and has more rapid inflation rate than other countries, its currency will:**

- ▶ Appreciate.
- ▶ **Depreciate.**
- ▶ Not effect.

- ▶ All of the given are possible.

**Suppose a country has flexible exchange rate and has more rapid inflation rate than other countries. What will happen to its currency in this situation?**

Its currency will appreciate.

**Its currency will depreciate.**

There will be no effect on its currency.

All of the given options can be possible.

**The nominal exchange rate is defined as the:**

- ▶ Market on which currencies of various nations are traded for one another.
- ▶ Price of one unit of foreign good in terms of domestic good.
- ▶ **Price of one unit of foreign currency in terms of domestic currency.**
- ▶ All of the given options.

**Current account deficit is equal to:**

- ▶ Private sector resource deficit.
- ▶ Government budget deficit.
- ▶ **Private sector resource deficit + Government budget deficit.**
- ▶ None of the given options.

**In the exogenous growth model, if investment exceeds depreciation, the capital stock will ----- and output will----- until the steady state is attained.**

- ▶ **Increase; increase.**
- ▶ Increase; decrease.
- ▶ Decrease; decrease.
- ▶ Decrease; increase.

**Endogenous growth theory differs in what essential aspect from the Solow theory of economic growth?**

- ▶ Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.
- ▶ Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.

**In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.**

- ▶ All of the given options are correct.

**A currency appreciation should:**

- ▶ Reduce net exports and therefore increase aggregate demand.
- ▶ Raise net exports and therefore decrease aggregate demand.
- ▶ **Reduce net exports and therefore decrease aggregate demand.**
- ▶ Raise net exports and therefore increase aggregate demand.

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

- ▶ Paper currency and coins.



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

**An example of hysteresis having a negative effect on a country's economy would be:**

- ▶ Hyperinflation caused by excessive demand.
- ▶ Nervous investors selling all their shares, causing the stockmarket to crash.
- ▶ **Unemployed workers not taking available jobs.**
- ▶ Women being kept out of jobs traditionally held by men.

**A good for which income and quantity demanded are inversely related is known as:**

- ▶ **Inferior good.** (p 10)
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course. (Sure)**
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**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.

**An individual with a constant marginal utility of income will be:**

- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.
- ▶ Insufficient information for a decision.

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

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution. (sure)**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

**If at the profit-maximizing quantity, profits are positive, then:**

- ▶ Price < Average Total Cost.
- ▶ **Price > Average Total Cost.**

- ▶ Price < Average Variable Cost.
- ▶ Price = Marginal Cost.

**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. (Page 80)**
- ▶ The marginal cost curve is tangent to average cost curve.
- ▶ The demand curve is tangent to marginal revenue curve.

**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ **Inferior good.**

**For a firm buying labor competitively, the marginal input cost is equal to the:**

- ▶ **Wage.**
- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

**Which of the following would cause the short run aggregate supply curve to shift to the left but have no effect over the long run aggregate supply curve?**

- ▶ The amount of factors of production (such as labor and capital) increases.
- ▶ The amount of factors of production (such as labor and capital) decreases.
- ▶ **Prices of inputs (such as wages or oil prices) increase.**
- ▶ Prices of inputs (such as wages or oil prices) decrease.

**During periods of high unemployment, the preferred policy of Keynesian economics is:**

- ▶ A recessionary gap.
- ▶ **Expansionary fiscal policy.**
- ▶ Contractionary monetary policy.
- ▶ Waiting for self-correction to work.

**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. **(Doubt)**

**What does the term "balance of payment deficit" refer to?**

- ▶ An increase in official international reserves.
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.
- ▶ **A decline in official international reserves.**

**Which of the following may cause an increase in national income?**

- ▶ **Rise in exports.**
- ▶ Rise in imports.
- ▶ Fall in consumer spending.
- ▶ Increase in saving.

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

- ▶ Water paradox.
- ▶ Paradox of thrift.
- ▶ **Accelerator effect. P 134**
- ▶ Multiplier effect.

**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.

**What will be the impact of a decrease in the money supply in an economy?**

- ▶ **Interest rate increases, investment and GDP reduce. (Sure)**
- ▶ Interest rate increases, investment increases and GDP reduce.
- ▶ Interest rate reduces, investment and GDP increase.
- ▶ Interest rate reduces, investment and GDP reduce.

**A growing country is one with:**

- ▶ **Rising GNP at constant prices.**
- ▶ Rising GNP at current prices.
- ▶ Constant GNP at constant prices.
- ▶ None of the given options.

**According to Classical economists, macroeconomic equilibrium will occur in an economy if:**

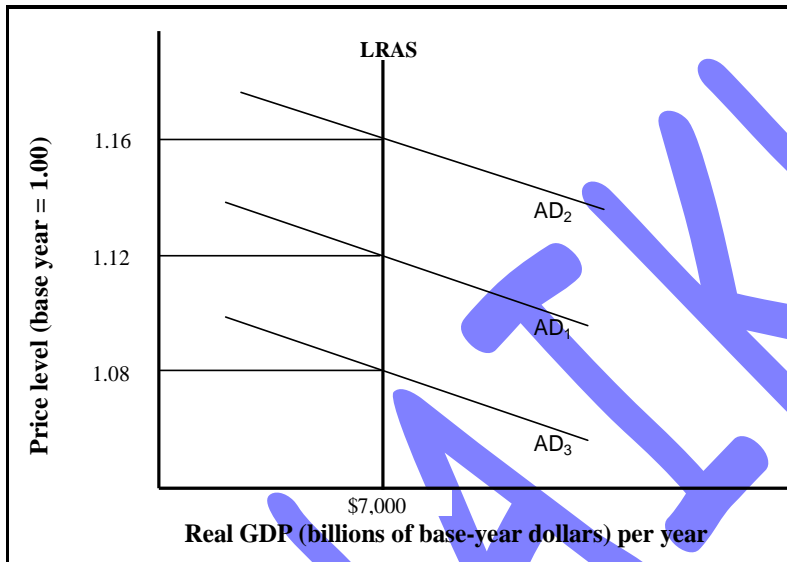
- ▶ Savings = Investment
- ▶ Government spending = Taxes
- ▶ Exports = Imports
- ▶ **All of the given conditions hold.**

**The process of converting a stream of future incomes and expenses into a present value is known as:**

- ▶ **Discounting. (Page # 94)**
- ▶ Compounding.
- ▶ Hyperbolic discounting.
- ▶ None of the given options.

**Which of the following is the best example of a public good?**

- ▶ A cup of coffee.
- ▶ A monthly magazine.
- ▶ A haircut.
- ▶ **An interstate highway.**



**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.**

**The Keynesian revolution in macroeconomics was that:**

- ▶ Capitalist economies were self-correcting.
- ▶ A gold standard was not necessary to control inflation.
- ▶ Unemployment can be viewed as being voluntary.
- ▶ **Government has a role in maintaining full employment.**

**The natural rate of unemployment is likely to fall if:**

- ▶ Unemployment benefits increase.
- ▶ Income tax increases.
- ▶ **More training is available for the unemployed.**
- ▶ Geographical immobility increases.

**The relationship between inflation and unemployment is usually that:**

▶ **Unemployment changes do not directly lead to changes in inflation, but inflation changes may cause changes in unemployment.**

- ▶ As unemployment falls, nothing happens to inflation.
- ▶ As unemployment falls, inflation falls.
- ▶ As unemployment falls, inflation increases.

**When agents base their decisions on their expectations about inflation, it is known as:**

- ▶ Quantity theory of money.
- ▶ **Money illusion.**
- ▶ Demand pull inflation.
- ▶ Cost push inflation.

<b>Disposable Personal Income</b> \$	<b>Consumption</b> \$
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.**

**Economic growth occurs when there is an increase in:**

- ▶ Wage rates.
- ▶ The inflation rate.
- ▶ **Aggregate demand.**
- ▶ The productive capacity of an economy.

**Which of the following determines a country's rate of growth?**

- ▶ **The average propensity to save.**
- ▶ The interaction of supply and demand.
- ▶ The law of comparative costs.
- ▶ The rate of capital accumulation.

**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.

Suppose that a country is in a steady state condition. It implements policies to increase the saving rate of its economy. What will be TRUE at the new steady state level?

- ▶ Output per worker will grow more rapidly than before.
- ▶ The level of output per worker will be higher than before.
- ▶ The amount of capital per worker will be the same as before.
- ▶ **All of the given options.**

A tax in which people pay the same percentage of income in taxes regardless of their incomes is called:

- ▶ Value-added tax.
- ▶ Regressive tax.
- ▶ **Proportional tax.** (Page # 174)
- ▶ Progressive tax.

The taxes on alcohol, tobacco, and gasoline are categorized as:

- ▶ Sales tax.
- ▶ **Excise tax.** (Page # 174)
- ▶ Corporate income tax.
- ▶ Personal income tax.

Which of the following is part of M1?

- I. Savings deposits.
- II. Cash in your hand.
- III. Checking deposits.
- ▶ I and III.
- ▶ **II and III. (100% sure)**
- ▶ I only.
- ▶ II only.

Which of the following is TRUE about credit cards?

- ▶ It is not money.
- ▶ It is not money, because they can't be used to purchase goods and services.
- ▶ It is considered to be money.
- ▶ **It is counted as a part of M2 but not M1.**

In a period of recession, credit creation is:

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

In a period of boom, credit creation is:

- ▶ Small.
- ▶ **Heavy. P 186**
- ▶ Unchanged.

- ▶ Zero.

**International finance is the study of economics that deals with:**

- ▶ **The balance of trade. (P 204)**

- ▶ The macroeconomic consequences of financial flows associated with international trade.

- ▶ International investment opportunities for American multinational corporations.

- ▶ The relationships among world currency dealers.

**Which of the following is a characteristic of low income countries?**

- ▶ **Higher rates of population growth.**

- ▶ Greater government control.

- ▶ A larger share of income used for investment.

- ▶ A smaller proportion of the labor force in agriculture.

**Which of the following is TRUE about low income countries?**

- ▶ Their production level is low.

- ▶ **All of the given are true.**

- ▶ Their savings are low.

- ▶ Their investment level is low.

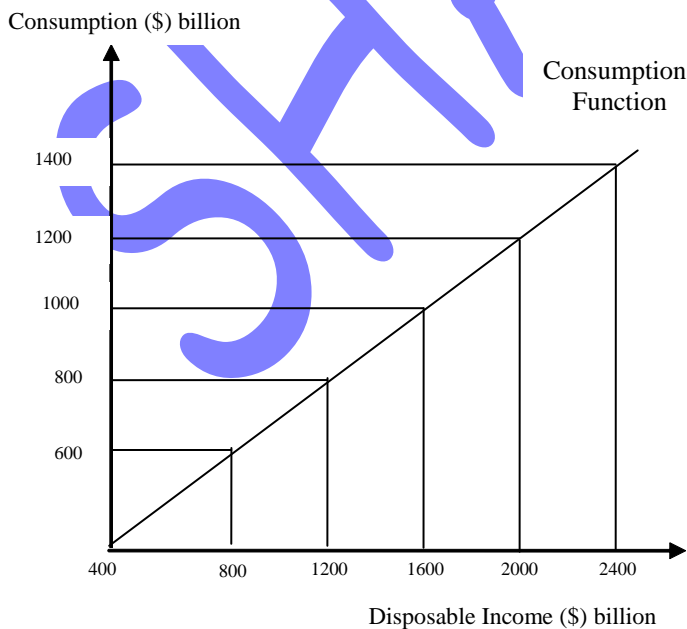
**Poor countries remained poor because of:**

- ▶ Higher per capita income.

- ▶ **Vicious circle of poverty.**

- ▶ High level of investment.

- ▶ High rates of savings.



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

- ▶ 0.25.

- ▶ 0.50.
- ▶ 0.60.
- ▶ 0.67.

REF:  $MPC = \Delta C / \Delta Y_d$   
 $= 200/400 = 0.5$

**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. (sure)**
- ▶ The supply curve for computers shifts to the left.

**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.

**What will be the impact of a ban on foreign firms from selling in the domestic market?**

- ▶ **It will cause domestic producers competing with the imports to face huge losses.**
- ▶ It will cause the supply curve to shift to the left.
- ▶ It will cause the supply curve to shift to the right.
- ▶ It will have no effect on the domestic market.

**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.

**When there are diminishing returns holding at least one factor constant then:**

- ▶ The marginal product of a factor is positive and rising.
- ▶ The marginal product of a factor is positive but falling.
- ▶ The marginal product of a factor is falling and negative.
- ▶ **The marginal product of a factor is constant.**

**The concave shape of the production possibilities curve for two goods X and Y illustrates:**

- ▶ **Increasing opportunity cost for both goods.**
- ▶ Increasing opportunity cost for good X but not for good Y.
- ▶ Increasing opportunity cost for good Y but not for good X.
- ▶ Constant opportunity cost for both goods.



The shape of a production possibility curve commonly drawn as concave downward to represent increasing opportunity cost with increased output of a good.

When college students leave town for the summer, the demand for meals at the local restaurants declines. This results in:

- ▶ A decrease in equilibrium price and an increase in quantity of meal.
- ▶ An increase in equilibrium price and quantity of meal.
- ▶ **A decrease in equilibrium price and quantity of meal.**
- ▶ An increase in equilibrium price and a decrease in quantity of meal.

A decrease in equilibrium price and quantity. The demand curve shifts to the left because the town population declines, resulting in lower prices and quantity.

A demand curve is price elastic when:

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

For elastic demand curve, firm does not increase its prices. Because as prices increases, quantity Demanded decreases much larger. Decrease in quantity demanded is greater than the increase in prices. So firm will earn less revenue. So TR decreases as price increases.

The numerical measurement of a consumer's preference is called:

- ▶ Use.
- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

Utility is a numerical representation of a preference ranking

Which of the following is TRUE about price-consumption curve for good X?

- ▶ Nominal income falls as the price of X falls.
- ▶ The absolute price of X falls, but the relative price between X and the composite good Y stays the same.
- ▶ It is always downward sloping for a normal good.

**It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.**

The price consumption curve (PCC) traces out the optimal choice of consumption at different prices. The PCC can be used to derive the demand curve, which shows the relationship between price & quantity demanded.

Marginal profit is equal to:

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

**marginal profit is the term used to refer to total when marginal cost is subtracted from marginal revenue.**

**The supply curve for a competitive firm is:**

- ▶ Its entire marginal cost curve.
- ▶ **The upward-sloping portion of its marginal cost curve. (Sure)**
- ▶ 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.

**Second-degree price discrimination is the practice of charging:**

- ▶ The reservation price to each customer.
- ▶ **Different prices for different blocks of the same good or service.**
- ▶ Different groups of customers different prices for the same products.
- ▶ Each customer the maximum price that he or she is willing to pay.

**Second degree price discrimination, allows the supplier to set different prices to the different groups and capture a larger portion of the total market surplus.**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive.**
- ▶ Oligopolistic.

**Monopolistic competition is also characterized by a large number of buyers and sellers and absence of entry barriers.**

**The market structure in which strategic considerations are most important is:**

- ▶ Monopolistic competition.
- ▶ **Oligopoly.**
- ▶ Pure competition.
- ▶ Pure monopoly.

**Consumption spending, investment expenditures, government expenditures and net exports are:**

- ▶ The components of household income.
- ▶ The components of aggregate supply.
- ▶ **The components of aggregate demand**
- ▶ The components of government revenue.

**AD is the sum of consumption, investment, government spending and net exports (i.e. exports minus imports), and is inversely related to the aggregate price level through the wealth, interest rate and international purchasing power effects.**

**Classical economics was replaced as the dominant theory of macroeconomic analysis by:**

- ▶ Monetarism.
- ▶ Rational expectations.
- ▶ **Keynesian economics.** (sure)
- ▶ Neoclassical economics.

**According to classical economics, the economy will always tend toward full employment due to:**

- ▶ Minimum wages.
- ▶ **Flexible wages and prices.**
- ▶ Extended periods of unemployment.
- ▶ Inequality between saving and investment.

**A source of fluctuations in investment spending is:**

- ▶ Changes in government expectations of future output growth.
- ▶ Changes in household's expectations about future output growth.
- ▶ Changes in household's expectations about future risk.
- ▶ **Changes in investor's expectations about future profits.**

**When one producer can produce a given amount of output with fewer inputs, which of the following would occur?**

- ▶ Comparative advantage.
- ▶ Comparative disadvantage.
- ▶ **Absolute advantage.**
- ▶ Absolute disadvantage.

**Absolute advantage.: Capability of one producer to produce a given good using fewer resources than any other producer.**

**What would result from a depreciation of the pound on the foreign exchange market?**

- ▶ An increase in the price of imported computers.
- ▶ A fall in the purchasing power of US tourists in London.
- ▶ **A fall in the price of imported computers.**
- ▶ An increase in the purchasing power of UK tourists overseas.

**A currency is said to depreciate in value if its exchange rate decreases, such as a decrease in the exchange rate of dollars from 0.5 pounds per dollar to 0.33 pounds per dollar. Currency depreciation makes exports from the country relatively less expensive resulting in more exports and usually fewer imports.**

**The news on the television reports that the dollar has strengthened relative to the Japanese yen. This means that:**

- ▶ **The dollar can now purchase more yen.**
- ▶ The US trade balance with the Japanese economy has improved.
- ▶ The yen can now purchase more dollars.
- ▶ The dollar has depreciated relative to the yen.

The exchange rate increases (i.e., a unit of your currency is worth more in foreign currency than previously), the currency is said to have *strengthened, appreciated, or increased in value* (revaluation). For example, assume that the exchange rate between the U.S. dollar and the Japanese yen changed from US\$1=104 yen to US\$1=110 yen. This would strengthen the value of the U.S. dollar in that you would receive more yen in exchange for your dollar

**In Keynesian economics, if aggregate expenditures are less than aggregate output then:**

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ Employment decreases.
- ▶ **Aggregate output increases.**

**In the Keynesian cross model, the aggregate expenditure line has a slope of:**

- ▶ 1.
- ▶ 0.
- ▶ Infinity.
- ▶ **Less than 1.**

**In the Keynesian cross model If we draw a graph with expenditure on the vertical axis, we can see that the Expenditure line should have a slope of ( $<1$ ),**

**Demand is elastic when the elasticity of demand is:**

- ▶ Greater than 0 but less than 1.
- ▶ **Greater than 1.**
- ▶ Less than 0.
- ▶ Equal to 1. **unit elastic**

**If  $P_{ed} > 1$ , then demand responds more than proportionately to a change in price i.e. demand is elastic.**

**After the collusion, oligopolists are able to:**

- ▶ Raise price but not restrict output.
- ▶ Raise price and restrict output but not attain the monopoly profit.
- ▶ **Raise price and restrict output and therefore attain the monopoly profit.**
- ▶ Restrict output but not raise price.

**Which of the following statements is TRUE about the difference between nominal and real Gross Domestic Product (GDP)?**

- ▶ Real GDP includes only goods; nominal GDP includes goods and services.
- ▶ **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

**Nominal GDP: The total market value, measured in current prices,**

**Real GDP: The total market value, measured in constant prices**

If production remains the same and all prices double, then which of the following will happen?

- ▶ Real GDP and nominal GDP will both remain constant.
- ▶ Real GDP will remain constant and nominal GDP will reduce by half.
- ▶ **Real GDP will remain constant and nominal GDP will double.**
- ▶ Real GDP will double and nominal GDP will remain constant.

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:

- ▶  $1000+1500+2500 = \text{Rs. } 5000$
- ▶  $1000+500+2500 = \text{Rs. } 4000$
- ▶  **$1000+500+1000 = \text{Rs. } 2500$  (P 119)**
- ▶  $1000+1500+1000 = \text{Rs. } 3500$

Which of the following is a transfer payment?

- ▶ Payment made to housewife.
- ▶ Pocket allowance to children.
- ▶ Maintenance allowance to old parents.
- ▶ **All of the given options.**

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

- ▶ **Positive.** (P 93)
- ▶ Negative.
- ▶ Ambiguous.
- ▶ Very strong.

Market failure occurs when:

- ▶ Competitive markets do not achieve equitable outcomes.
- ▶ Competitive markets do not achieve efficient outcomes.
- ▶ Government takes steps to intervene in markets.
- ▶ **All of the given happen.**

A graph that depicts the relationship between the total quantity of goods and services demanded and the price level is known as:

- ▶ **Aggregate demand curve.** (page 108)
- ▶ Average price level.
- ▶ Circular flow model.
- ▶ GDP curve.

The aggregate demand curve illustrates the relationship between economic goods demanded and the price level, assuming all else is held constant (that is, under *aceteris paribus* assumption).

Changes in aggregate demand can be caused by changes in:

- I. Wages.
- II. Raw materials costs.

**III. Government spending. (P 116)**

**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.**

**In the long run, the output level is determined by:**

- ▶ Aggregate demand.
- ▶ **Aggregate supply.**
- ▶ The government.
- ▶ Household income.

**Which of the following is TRUE?**

- ▶  **$1 - \text{MPS} = \text{MPC}$**
- ▶  $1 + \text{MPS} = \text{MPC}$
- ▶  $1 / \text{MPS} = \text{MPC}$
- ▶  $1 \times \text{MPS} = \text{MPC}$

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

**If the government wishes to achieve a fall in unemployment, which of the following policies should it adopt?**

- ▶ Reduce the real value of income tax free allowances.
- ▶ Reduce government spending on capital projects.
- ▶ Raise Value Added Tax (VAT).
- ▶ **Start public job training programs.**

**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.

**The situation when a country imports more than it exports is known as:**

- ▶ **A trade deficit.**
- ▶ A trade surplus.
- ▶ An expansion.
- ▶ A recession.

**Public investment expenditure for highways, schools, and national defense is included in which component of GDP?**

- ▶ Consumption.
- ▶ Gross private investment.
- ▶ **Government purchases.**
- ▶ Public investment.

**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.

**In general, personal income taxes:**

- ▶ Rise automatically during a recession.
- ▶ **Rise automatically during an expansion.**
- ▶ Fall automatically during an expansion.
- ▶ Remains same in all phases of economic fluctuations.

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

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

**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. **(Doubt)**
- ▶ 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.**

**To determine whether an economy's output is growing or shrinking, one must keep track of:**

- ▶ Changes in nominal GDP.
- ▶ Changes in the growth rate of nominal GDP.
- ▶ Changes in the general price level.
- ▶ **Changes in real GDP.**

**Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?**

- ▶ **The demand curve for airline travel shifts left.**
- ▶ The demand curve for airline travel shifts right.
- ▶ The supply curve of airline travel shifts left.
- ▶ The supply curve of airline travel shifts right.

**The demand curve shifts left. Rail and airline travel are substitutes. If the price of a substitute declines, then the demand curve for the substitute product shifts to the left.**

**Production possibilities curve will shift upward if there is:**

- ▶ A reduction in unemployment.
- ▶ **An increase in the production of capital goods.**
- ▶ A reduction in discrimination.
- ▶ All of the given options.

**Which of the following is NOT included in the perfect information assumption of perfect competition?**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

**Suppose a monopolist set his output at the level where marginal revenue, marginal cost and average total cost are equal. In this case, economic profit will be:**

- ▶ Negative.
- ▶ **Positive.**
- ▶ Zero.
- ▶ Indeterminate from the given information.

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost. (p 4)**

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right. (P 14)**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**Price floor results in:**

- ▶ All of the given options.
- ▶ Excess supply.
- ▶ Equilibrium.
- ▶ **Excess demand. (p 17)**

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price. (p 26)**
- ▶ Output.



Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:

- ▶ -14.
- ▶ **14. [ 97-83=14]**
- ▶ 83.
- ▶ 97.

**Indifference curves that are convex to the origin reflect:**

- ▶ An increasing marginal rate of substitution.
- ▶ **A decreasing marginal rate of substitution. (p 44)**
- ▶ A constant marginal rate of substitution.
- ▶ A marginal rate of substitution that first decreases, then increases.

**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. (sure)**

**As compared to existing firms, a new firm entering in monopolist market has:**

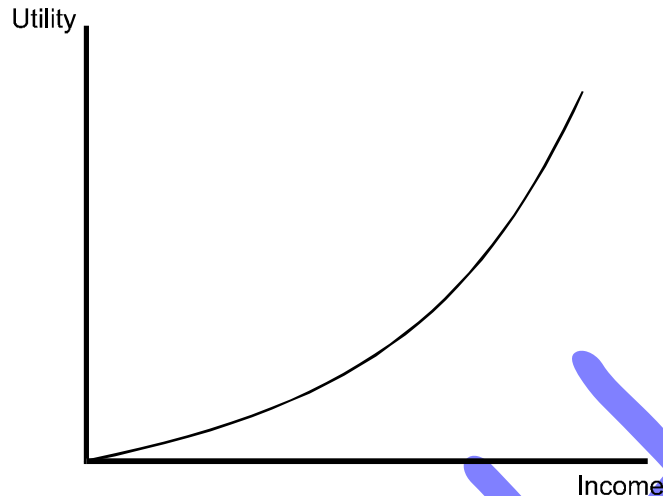
- ▶ **High costs. (p 76)**
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

**A firm is charging a different price for each unit purchased by a consumer. This is called:**

- ▶ First-degree price discrimination.
- ▶ **Second-degree price discrimination. (p 78)**
- ▶ Third-degree price discrimination.
- ▶ None of the given options.

**McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:**

- ▶ Collusion.
- ▶ **Price discrimination.**
- ▶ Two-part tariff.
- ▶ Bundling.



**Figure**

**In figure given above, the marginal utility of income is:**

- ▶ **Increasing as income increases.**
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.
- ▶ None of the given options.

**In the complete classical model, a rightward shift of the labor supply curve will:**

- ▶ Decrease the price level and increase the nominal wage.
- ▶ Decrease the nominal wage and increase the price level.
- ▶ Decrease both the price level and the nominal wage.
- ▶ **Increase both the price level and the nominal wage. (p 93)**

**Which of the following events could cause the aggregate demand curve to shift to the right?**

- ▶ An increase in the rate of inflation.
- ▶ A decrease in government expenditures.
- ▶ A decrease in investment spending.
- ▶ **A decrease in income tax rates. (sure)**

**The Great Depression of 1930s opened the door to the \_\_\_\_\_ revolution in macroeconomic theory.**

- ▶ **Keynesian. (sure)**
- ▶ New classical.
- ▶ Old classical.
- ▶ New Keynesian.

**Intermediate goods are meant for:**

- ▶ Direct use by the consumers.
- ▶ **Further processing. (p 119)**
- ▶ The term do not exist.
- ▶ None of the given options.

**Final goods are meant for:**

- ▶ **Direct use by the consumers. (p 119)**
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

**All other things remain the same, Gross Domestic Product (GDP) will rise if:**

- ▶ Imports rises.
- ▶ Exports falls.
- ▶ **Durable goods consumption rises. (p 118)**
- ▶ Military spending falls.

**If disposable income increases from \$5 trillion to \$6 trillion and as a result, consumption expenditure increases from \$7 trillion to \$7.8 trillion, the Marginal Propensity to Consume is:**

- ▶ 1.0.
- ▶ **0.8. (Sure)**
- ▶  $5/7 = 0.71$ .
- ▶  $6/7.8 = 0.77$ .

**The slope of the consumption function (or line) is the:**

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ Marginal propensity to save.
- ▶ **Marginal propensity to consume. (p 126)**

**The traditional Phillips Curve shows the:**

- ▶ **Inverse relationship between the rate of inflation and unemployment rate. (p 150)**
- ▶ Inverse relationship between the nominal and real wage.
- ▶ Direct relationship between unemployment and demand-pull inflation.
- ▶ Tradeoff between the short run and long run.

**Real Gross Domestic Product (GDP):**

- ▶ **Is nominal GDP adjusted for changes in the price level.**
- ▶ Is also called nominal GDP.
- ▶ Measures GDP minus depreciation of capital.
- ▶ Will always change when prices change.

**A currency appreciation:**

- ▶ **Reduces aggregate demand and increases aggregate supply.**
- ▶ Reduces both aggregate demand and aggregate supply.
- ▶ Increases aggregate demand and reduces aggregate supply.
- ▶ Increases both aggregate demand and aggregate supply.

**Personal income:**

- ▶ Is income received by individuals during a given year.
- ▶ Is the income individuals have available for spending during a given year.
- ▶ Equals national income minus indirect taxes. **(Doubt)**
- ▶ **Is the sum of wages plus interest received by individuals during a given year.**

**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.**

**Which of the following statements describes the difference between nominal and real Gross Domestic Product (GDP)?**

- ▶ Real GDP includes only goods; nominal GDP includes goods and services.
- ▶ **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

- ▶  $GNP = GDP - \text{Net income from abroad.}$
- ▶  **$GNP = GDP + \text{Net income from abroad.}$**
- ▶  $GNP = NNP - \text{Net income from abroad.}$
- ▶  $GNP = NNP + \text{Net income from abroad.}$

**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.**

**Which of the following shows the Fisher equation of exchange?**

- ▶  $MT = PV.$
- ▶  $VT = PM.$
- ▶  **$MV = PQ.$  (Sure)**
- ▶  $MY = VP.$

**An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called:**

- ▶ Overvalued exchange rate.
- ▶ Undervalued exchange rate.
- ▶ Fixed exchange rate.
- ▶ **Flexible exchange rate.**

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

- ▶ 45.
- ▶ Infinity.
- ▶ **1. (Sure)**
- ▶ 0.

**In Keynesian economics, equilibrium can occur:**

- ▶ Only at full employment level.
- ▶ Only at levels less than full employment.
- ▶ Only at levels greater than full employment.
- ▶ **At any level of aggregate output which is equal to aggregate expenditures.**

**After a decrease in the wage, the substitution effect implies that:**

- ▶ Only the amount demanded of capital decreases.
- ▶ Only the amount demanded of labor decreases.
- ▶ **Only the amount demanded of capital increases.**
- ▶ The amount demanded of all inputs increases.

**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.**

**If both supply and demand increase simultaneously, the equilibrium:**

- ▶ Price must rise and the equilibrium quantity must fall.
- ▶ Price must rise and the equilibrium quantity may either rise or fall.
- ▶ **Quantity must rise and the equilibrium price may either rise or fall.**
- ▶ Price must fall and the equilibrium quantity may either rise or fall.

**Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?**

- ▶ **Economies of scale.**
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

**Incremental cost is the same concept as:**

- ▶ Average cost.
- ▶ **Marginal cost.**
- ▶ Fixed cost.
- ▶ Variable cost.

**Graphically, marginal revenue is defined as:**

- ▶ The slope of a line from the origin to a point on the total revenue curve.
- ▶ The slope of a line from the origin to the end of the total revenue curve.
- ▶ **The slope of the total revenue curve at a given point.**
- ▶ The vertical intercept of a line tangent to the total revenue curve at a given point.

**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.

**Monopolistically competitive firms have monopoly power because they:**

- ▶ Are great in number.
- ▶ Have freedom of entry.
- ▶ Are free to advertise.
- ▶ **Face downward sloping demand curves.**

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

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

**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. (Sure)**
- ▶ Hire less labor.
- ▶ Maintain the same employment.
- ▶ Decrease output.

**The circular flow principle guarantees that in equilibrium:**

- ▶ The level of investment spending will be equal to the level of private savings.
- ▶ The level of exports will be equal to the level of imports.
- ▶ **The level of aggregate demand will be equal to real Gross Domestic Product.**
- ▶ The level of government spending will be equal to tax revenue.

**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.

**To obtain the Net Domestic Product (NDP), start with Gross Domestic Product and subtract:**

▶ **Depreciation.**

- ▶ Depreciation and indirect business taxes.
- ▶ Depreciation, indirect business taxes and corporate profits.
- ▶ Depreciation, indirect business taxes, corporate profits and social insurance contributions.

**Fixed exchange rates may be preferred to floating exchange rates because with fixed exchange rates:**

▶ **There is greater stability of the exchange rate which encourages trade and investment.**

- ▶ There is less likely to be a balance of payment deficit.
- ▶ There is less need for a country to hold large reserves of foreign currency.
- ▶ Interest rates can be used to meet domestic policy objectives such as keeping growth stable.

**If the simple Keynesian expenditure multiplier is 4, the Marginal Propensity to Consume (MPC) is:**

- ▶ **0.20.**
- ▶ 0.25.
- ▶ 0.50.
- ▶ 0.75.

**Usually the shape of production possibilities curve is:**

- ▶ **Concave.**
- ▶ Convex.
- ▶ Linear.
- ▶ Positive.

**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.

**“Decreases in aggregate demand decrease real output but leave the price level largely unaffected”. This is the point of view of which of the following schools of thought?**

- ▶ Monetarist school of thought.
- ▶ New Classical school of thought.
- ▶ Real business cycle school of thought.

▶ **Keynesian school of thought.**

**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.

**Suppose that your income increases from \$80,000 to \$100,000 and your consumption increases from \$80,000 to \$95,000. Your Marginal Propensity to Consume (MPC) is:**

- ▶ 0.20.
- ▶ 0.45.
- ▶ **0.75.**
- ▶ 0.80.

**Which of the following event will lead towards cost-push inflation and therefore stagflation?**

- ▶ **An increase in taxes on individuals.**
- ▶ A decrease in real interest rates.
- ▶ A union settlement that increases wage levels.
- ▶ An increase in government purchases.

**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.

**Reference:**

<http://www.oup.com/uk/orc/bin/9780199264964/01student/mcqs/ch18/> □ □ □ □

**What is the effect of double counting in national income calculations?**

- ▶ Underestimation of national product.
- ▶ **Overestimation of national product.**
- ▶ Distortions in national product.
- ▶ Misleading conclusions about national product.

**Which of the following best defines “subsidies”?**

- ▶ **Payment by Government for purchase of goods and services. (P 172)**
- ▶ 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.

**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.

**A movement along the aggregate demand curve is called a:**

- ▶ Change in aggregate demand.
- ▶ Change in the aggregate quantity of goods and services demanded.
- ▶ Determinant of aggregate demand.
- ▶ **Revealed expenditure on aggregate demand.**

**In the long run, the price level is determined by:**

- ▶ Aggregate demand.
- ▶ Aggregate supply.
- ▶ The government.
- ▶ **Money supply.**

**The simple Keynesian aggregate supply curve is:**

- ▶ Upward sloping as real GDP increases.
- ▶ Horizontal at GDP levels below full employment.
- ▶ **Based on the concept that all unemployment is voluntary.**
- ▶ Downward sloping as real GDP increases.

**In the equation of exchange, if velocity is stable in the long run then:**

- ▶  **$\% \Delta V = 0.$**
- ▶  $\% \Delta V = 1.$
- ▶  $\% \Delta V$  is a positive constant value  $> 0.$
- ▶  $\% \Delta V = \text{infinity}.$

**Which of the following is TRUE for the equation  $MV = PQ$ ?**

- ▶ M is the money supply.
- ▶ V is the velocity.
- ▶ Q is the real output level.
- ▶ **All of the given options.**

**The increase in the price of one country's currency in terms of other currencies due to the market forces of demand and supply is known as:**

- ▶ Revaluation.
- ▶ Devaluation.
- ▶ **Appreciation.**
- ▶ Depreciation.

**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.**

**As a definition of economic growth, an increase in real capita income is preferable to an increase in simply real GNP, because:**

- ▶ Total GNP measures overall progress while per capita GNP measures improvement in productivity.
- ▶ Total GNP measures goods and services produced while per capita GNP shows improvement in efficiency.
- ▶ Total GNP figures estimate the value of a country's total output while per capita GNP accounts for population growth and shows the availability per person of goods and services.

▶ **All of the given options.**

**Tax on wages, rent, interest, and profit, is known as:**

- ▶ **Direct tax.**
- ▶ Indirect tax.
- ▶ Progressive tax.
- ▶ Regressive tax.

**A tax imposed by a country on an imported good or service is called a:**

- ▶ Quota.
- ▶ **Tariff.**
- ▶ Non-tariff barrier.
- ▶ Trade embargo.

**Which of the following is an example of a tariff?**

- ▶ A limit on the total number of Honda cars that can be imported from Japan.
- ▶ A regulation specifying that each imported Honda car must meet certain emission exhaust guidelines.
- ▶ **A tax of \$500 on each Honda car imported from Japan.**
- ▶ A tax of 10% of the value of each Honda car purchased in Japan.

**Which of the following is (are) the characteristic(s) of high income countries as compared to low income countries?**

- I. Lower rates of population growth.
  - II. Greater income inequality.
  - III. A large proportion of the labor force in agriculture.
  - IV. Higher rates of investment.
- ▶ I only.
  - ▶ I and II.

- ▶ II and IV.
- ▶ **I and IV. (sure)**

**The price elasticity of supply for most products differs due to capacity constraints. Which of the following is TRUE in this context?**

- ▶ It is same in the long run and the short run.
- ▶ **It is greater in the long run than in the short run.**
- ▶ It is greater in the short run than in the long run.
- ▶ It is too uncertain to be estimated.

**In which of the following conditions, a welfare loss occurs in monopoly?**

- ▶ **Where the price is greater than the marginal cost.**
- ▶ Where the price is greater than the marginal benefit.
- ▶ Where the price is greater than the average revenue.
- ▶ Where the price is greater than the marginal revenue. (Doubt)

**If the quantity supplied of oranges exceeds the quantity demanded then:**

- ▶ There is a shortage of oranges.
- ▶ **Market forces will cause the price to fall.**
- ▶ Market forces will cause the price to rise.
- ▶ The market is in equilibrium.

**Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is 1/4 then to maximize total utility, a consumer should:**

- ▶ Buy more pizzas and fewer jeans.
- ▶ **Buy fewer pizzas and more jeans.**
- ▶ Continue to buy the same quantities of pizza and jeans.
- ▶ Spend more time consuming pizza.

**As long as all prices remain constant, an increase in money income results in:**

- ▶ **An increase in the slope of the budget line.**
- ▶ A decrease in the slope of the budget line.
- ▶ An increase in the intercept of the budget line.
- ▶ A decrease in the intercept of the budget line.

**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.

**A monopolistically competitive firm in short run equilibrium:**

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

**The slope of the saving function (or line) is the:**

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ **Marginal propensity to save.**
- ▶ Marginal propensity to consume.

**The investment demand curve shows the relationship between the levels of:**

- ▶ Investment and consumption.
- ▶ Consumption and interest rate.
- ▶ **Investment and interest rate.**
- ▶ Investment and saving.

**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.

Reference: [http://www.epi.org/publications/entry/jobspict\\_2009\\_july\\_preview/](http://www.epi.org/publications/entry/jobspict_2009_july_preview/)

**In Keynesian economics, an inflationary gap results if:**

- ▶ Aggregate expenditures are less than aggregate production.
- ▶ **Aggregate expenditures are greater than aggregate production.**
- ▶ Aggregate expenditures are equal to aggregate production.
- ▶ There are no changes in inventories.

**The accelerator is a related concept which formalizes the investment response to:**

- ▶ Consumption.
- ▶ Interest rate.
- ▶ **Output. (page # 134)**
- ▶ None of the given options.

**The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ **The firm's output is a small fraction of the entire industry's output.**
- ▶ The short run market price is determined solely by the firm's technology.

**Which of the following statements best reflects the implication of law of comparative advantage?**

- ▶ Trade between two countries is always to the advantage of both.
- ▶ **Trade between two countries can be to the advantage of both even though one may be more productively efficient at producing everything.**
- ▶ Trade between two countries is to the advantage of both if countries import only those goods that they are incapable of producing themselves.
- ▶ Trade between two countries is beneficial to both if the exporter uses less resource than the importer would use to produce the same quantity of goods.

**Firm A produces and sells cotton to firm B for Rs. 500. Firm B makes yarn out of it and sells to firm C for Rs. 700. Firm C makes cloth and sell to consumers for Rs. 1200. Which figure has to be used for finding the economy's product?**

- ▶ Rs. 500 of firm A.
- ▶ Rs. 700 of firm B.
- ▶ **Rs. 1200 of firm C.**
- ▶ Total of all three Rs. 2400.

**The largest contribution in value terms to Pakistan GNP is made by:**

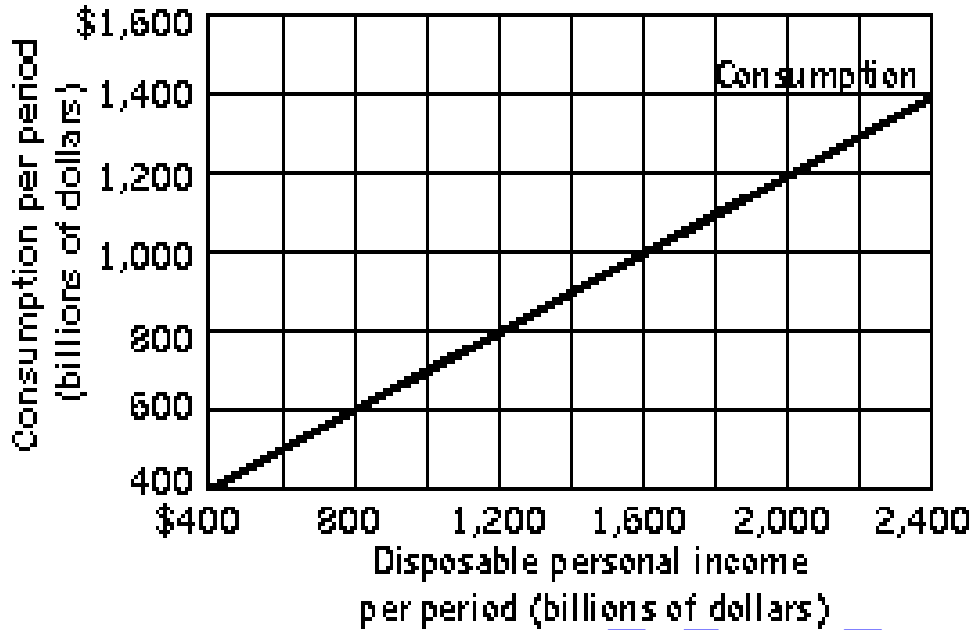
- ▶ Construction sector.
- ▶ Organized industries.
- ▶ Unorganized industries.
- ▶ **Agriculture sector.**

**National income figures are:**

- ▶ Very exact.
- ▶ Practically exact.
- ▶ **Only estimates.**
- ▶ Wrong.

**Which of the following describes the four sources of aggregate demand?**

- ▶ Consumption, private investment, taxes, and expenditures.
- ▶ Consumption, private investment, wage increases, and government expenditures.
- ▶ Consumption, private investment, expenditures, and net exports.
- ▶ **Consumption, private investment, government purchases, and net exports.**



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.

Unemployment generally ----- when the "real" GDP grows rapidly.

- ▶ Remains the same.
- ▶ Decreases.
- ▶ **Increases.**
- ▶ All of the above are possible.

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

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

Free trade is favoured because:

- ▶ Countries have less work to do.
- ▶ It leads to greater world efficiency i.e. resources are better utilized.
- ▶ **Wealthier countries gain an advantage over underdeveloped countries.**
- ▶ All countries gain from tariff imposition.

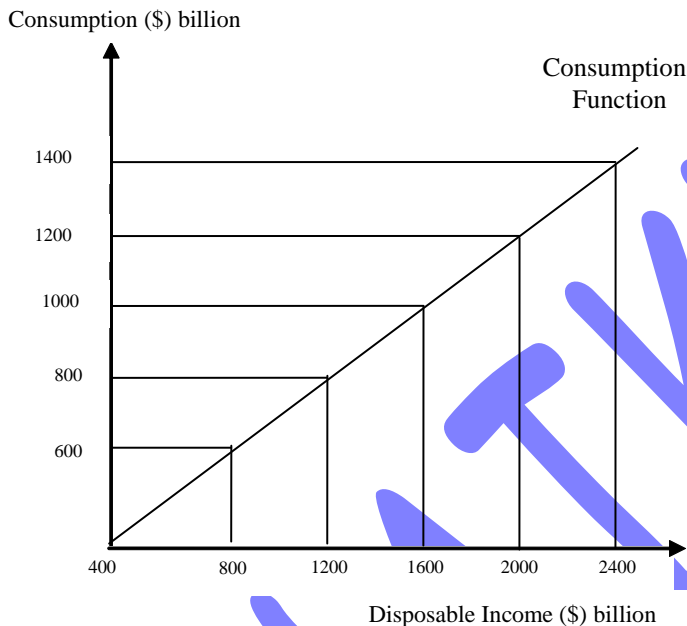
Devaluation is done to:

- ▶ **Encourage exports.**
- ▶ Discourage exports.
- ▶ Encourage imports.

- ▶ Encourage inflation.

**What will be the impact of an increase of \$1 in government purchases?**

- ▶ It will shift the expenditure line upward by \$1.
- ▶ It will shift the IS curve to the right by  $\$1 / (1 - MPC)$ .
- ▶ It will not shift the LM curve.
- ▶ **All of the given options.**



**Refer to the above figure, when disposable personal income is \$2,000 billion:**

- ▶ Personal saving is \$1,200 billion.
- ▶ Consumption is \$1,600 billion.
- ▶ **Saving is \$800 billion.**
- ▶ Consumption is \$800 billion.

**How many points you need to know to calculate the price elasticity of demand on the same demand curve?**

- ▶ One.
- ▶ **Two. (Sure)**
- ▶ Three.
- ▶ Four.

**What is meant by the negative slope of a production possibilities curve?**

- ▶ It means that some resources are always unemployed.
- ▶ **It means that an economy can produce more of one thing only by producing less of something else.**
- ▶ It means that opportunity costs are constant.
- ▶ It means that business can sell more when prices are low.

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.

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. (Doubt)
- ▶ For an independent good.
- ▶ For a normal good.

Which of the following is TRUE about the marginal product of labour in any production process?

- ▶ It is total output divided by total labour inputs.
- ▶ It is total output minus the total capital stock.
- ▶ It is the change in total output resulting from a 'small' change on the labour input.

(Doubt)

- ▶ **It is total output produced by labour inputs.**

The cross price elasticity of demand for complementary goods is:

- ▶ **Less than 0.** (Correct)
- ▶ Equal to 0.
- ▶ Greater than 0.
- ▶ Between 0 and 1.

Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

\_\_\_\_\_ 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.

An isoquant curve shows:

- ▶ All the alternative combinations of two inputs that yield the same maximum total product.



▶ **All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.**

▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

▶ None of the given options.

**Which of the following best expresses the law of demand?**

▶ A higher price reduces demand.

▶ A lower price reduces demand.

▶ **A higher price reduces quantity demanded.**

▶ A lower price shifts the demand curve to the right.

**If a sales tax on beer leads to reduced tax revenue, this means:**

▶ Elasticity of demand is  $< 1$ .

▶ **Elasticity of demand is  $> 1$ . (sure 100%)**

▶ Demand is upward-sloping.

▶ Demand is perfectly inelastic.

**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.**

**The average propensity to consume is the ratio of:**

▶ A change in consumption to a change in disposable income.

▶ A change in consumption to total disposable income at a specific income level.

▶ **Total consumption to total disposable income at a specific income level. (P 126)**

▶ Total consumption to a change in disposable income.

**The government increases the number of job centres and uses more advanced computers to improve the information database. This creates:**

▶ Structural Unemployment.

▶ Regional Unemployment.

▶ **Frictional Unemployment.**

▶ Demand Deficient Unemployment.

**Which one of the following can lead to a rise in inflation?**

▶ **An increase in costs of production.**

▶ An increase in productive capacity.

▶ An increase in the level of direct taxation.

▶ An increase in the exchange rate.

**How should fiscal policy be used during inflation?**

- ▶ Increase Government expenditure and decrease taxes to decrease aggregate demand.
- ▶ Increase Government expenditure and decrease taxes to increase aggregate demand.
- ▶ Decrease Government expenditure and increase taxes to increase aggregate demand.

▶ **Decrease Government expenditure and increase taxes to decrease aggregate demand.**

**If the demand curve for a good is downward sloping, then the good:**

- ▶ Must be inferior.
- ▶ Must be giffen.
- ▶ **Can be normal or inferior.**
- ▶ Must be normal.

**Which of the following is TRUE according to classical economists?**

▶ **Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.**

- ▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

----- **plays an important role in making sure that the economy reaches and stays at equilibrium at the potential output level.**

- ▶ Real exchange rate.
- ▶ The production function.
- ▶ Real price level.
- ▶ **Real interest rate.**

**Why a \$1 increase in government spending will have a larger impact upon national income than a \$1 tax cut?**

- ▶ Because the government prints the currency it spends.
- ▶ **Because not all of the tax cut is spent.**
- ▶ Because when taxes are cut, government spending is also cut.
- ▶ Because taxes are an injection into the system.

**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.

**National product at market prices incorporate:**

▶ **Prices which buyers actually pay.**

- ▶ Payments made to the factor owners.
- ▶ Costs incurred in producing goods and services.
- ▶ Costs minus subsidies.

**A marginal propensity to consume (MPC) of 0.95 indicates that:**

▶  **$\Delta C$  to  $\Delta Y_d$  is 0.95.**

- ▶  $C / Y_d$  is 0.95.
- ▶  $\Delta Y_d$  to  $\Delta C$  is 0.95.
- ▶  $Y_d / C$  is 0.95.

**When MPC is 0.80 and APC is 0.95 then MPS is:**

▶ **0.20 and APS is 0.05.**

- ▶ 0.05 and APS is 0.20.
- ▶ 0.20 and APS is 0.20.
- ▶ 0.05 and APS is 0.05.

**Which of the following are leakages from the circular flow?**

- ▶ Consumption and saving.
- ▶ **Saving and imports.**
- ▶ Imports and exports.
- ▶ Exports and savings.

**The time that a laborer uses for relaxation and all activities other than work or necessary sleep is known as:**

- ▶ Free time.
- ▶ **Leisure.**
- ▶ Time not used for earning.
- ▶ All of the given options.

**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.

**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.

**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.**

**Which of the following is NOT a determinant of net exports?**

- ▶ Domestic and foreign incomes.
- ▶ Relative price levels.
- ▶ Domestic and foreign trade policies.

▶ **Producers' expectations about future prices.**

**A trade surplus occurs when:**

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

**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.

**There is an increase in the economy's potential output when there is:**

- ▶ An increase in government spending.
- ▶ A decrease in government spending.
- ▶ **An increase in the economy's capital stock.**
- ▶ An increase in the economy's depreciation rate.

**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.

**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.

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

- ▶ Efficiency.

▶ **Equity.**

- ▶ Progressive tax.
- ▶ Regressive tax.

The relationship between tax rates and total tax collections by government is known as:

▶ **Laffer curve. (P 175)**

- ▶ Demand curve.
- ▶ Supply curve.
- ▶ Investment curve.

The optimum tax rate in which government revenue is maximized lies somewhere between:

- ▶ 0% and 1%.
- ▶ 0% and 50%.
- ▶ 50% and 100%.

▶ **0% and 100%. (p 175)**

Money is defined as an item that:

▶ **Serves as a medium of exchange for goods and services.**

- ▶ Can be converted into silver with relatively little loss in value.
- ▶ Can be converted into gold with relatively little loss in value.
- ▶ Facilitates a connecting link between credit instruments and debt instruments.

If other things remaining the same, expected income can be used as a direct measure of well-being in which of the following situations?

- ▶ It can be used if and only if individuals are not risk-loving.
- ▶ It can be used if and only if individuals are risk averse.
- ▶ It can be used if and only if individuals are risk neutral.

▶ **It can be used no matter what a person's preference to risk.**

What questions are related with explanation? What questions are related with what ought to be?

- ▶ Positive, negative.
- ▶ Negative, normative.
- ▶ Normative, positive.

▶ **Positive, normative. (P 1)**

What will happen to the demand for product X, if there is an increase in consumer's income?

- ▶ It will necessarily remain unchanged.
- ▶ It will shift to the right if X is a complementary good.
- ▶ **It will shift to the right if X is a normal good.**
- ▶ It will shift to the right if X is an inferior good.

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.

In which of the following conditions, a firm will never operate?

- ▶ At the minimum of its average total cost curve.
- ▶ **At the minimum of its average variable cost curve.**
- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

Microeconomics is the branch of economics that deals with which of the following topics?

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

Ceteris paribus means:

- ▶ Equal access to public transportation.
- ▶ **Other things being equal.**
- ▶ Other things not being equal.
- ▶ All things considered.

A new technology which reduces costs for firms:

- ▶ **Shifts the supply curve to the right.**
- ▶ Shifts the supply curve to the left.
- ▶ Reduces the equilibrium quantity.
- ▶ Raises the equilibrium price.

If a 12% price reduction causes quantity demanded to rise by 12% then:

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

A risk-averse individual has:

- ▶ **A diminishing marginal utility of income. (sure)**
- ▶ An increasing marginal utility of risk.
- ▶ An increasing marginal utility of income.
- ▶ A diminishing marginal utility of risk.

The break-even point occurs when:

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ **Price = Average Total Cost.**
- ▶ Price > Average Variable Cost.

**Discrimination based upon the quantity consumed is referred to as:**

- ▶ **Second degree price discrimination.**
- ▶ Third-degree price discrimination.
- ▶ First-degree price discrimination.
- ▶ All of the given options.

**Which of the following can be thought of as a barrier to entry?**

- ▶ Scale economies.
- ▶ Patents.
- ▶ Strategic actions by incumbent firms.
- ▶ **All of the given options.**

**Keynesian economics was largely developed to address the economic problems of the:**

- ▶ Bank panic of 1907.
- ▶ Stagflation of 1970s. D
- ▶ **Great Depression of 1930s.**
- ▶ English industrial revolution of the late 1700s.

**The record of a country's transactions in goods, services and assets with the rest of the world is its:**

- ▶ Current account.
- ▶ Balance of trade.
- ▶ Capital account.
- ▶ **Balance of payments. (Sure)**

**Which of the following is deducted from Gross National Product to get Net National Product?**

- ▶ Indirect taxes.
- ▶ **Depreciation. P 120**
- ▶ Direct taxes.
- ▶ Transfer payments.

**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.**

**Which of the following is TRUE about the principle of multiplier?**

▶ **Any increase in aggregate spending that causes the aggregate demand curve to shift will result in a larger increase in national income.**

▶ In the long run, the aggregate demand curve becomes relatively flat as the economy approaches full employment.

▶ Any increase in national income will result in a larger increase in aggregate spending.

▶ For any given increase in income, there will be a less than proportional increase in consumer spending.

**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.**

**Which of the following best describes the deflation?**

▶ It is an increase in the overall level of economic activity.

▶ It is an increase in the overall price level.

▶ It is a decrease in the overall level of economic activity.

▶ **It is a decrease in the overall price level.**

**All of the following are the problems in the calculation of national income EXCEPT:**

▶ Double counting.

▶ Improper records.

▶ **Differences in the incomes of the individuals.**

▶ Problem of exclusion and inclusion.

**Which of the following best describes the “savings”?**

▶ **It is that part of income which is not consumed.**

▶ It is that part of income which is not spent.

▶ It is that part of income which is paid out to others.

▶ It is that part of income which is hoarded.

**According to Keynesians, macroeconomic equilibrium will occur in an economy if:**

▶ Aggregate demand = Aggregate supply.

▶ Aggregate expenditures = Aggregate output.

▶ Withdrawals = Injections.

▶ **All of the given conditions hold.**

**The rate at which the future incomes are discounted is known as:**

▶ Interest rate.

▶ Inflation rate.

▶ **Discount rate. (P 94)**

▶ Reserve requirement rate.



**National defense is a good example of:**

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

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶  $5Q$ .
- ▶ 5.
- ▶  **$5 + (200/Q)$ .**
- ▶ None of the given options.

**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.

**A market is said to be in equilibrium when:**

- ▶ **Demand equals output. (Sure)**
- ▶ There is downward pressure on price.
- ▶ The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.
- ▶ All buyers are able to find sellers willing to sell to them at the current price.

Ref: A market is said to be in equilibrium when both buyers and sellers are satisfied.

**As more of a good is consumed, then total utility typically:**

- ▶ **Increases at a decreasing rate. (Page 41)**
- ▶ 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.

**A monopolistically competitive firm in the long run equilibrium:**

- ▶ Will make negative profit.
- ▶ **Will make zero profit.**
- ▶ Will make positive profit.
- ▶ Any of the given are possible.

Ref: A monopolistically competitive firm in the long run will always break even, or earn only normal profit ensured by entry and exit of firms.

**The price elasticity of demand for any good must be less than or equal to zero unless:**

- ▶ The good is a necessity.
- ▶ The good is a luxury.
- ▶ **The good is a Giffen good.**

- ▶ None of the given options.

Ref: <http://www.cengage.co.uk/nicholson/students/mcqs/ch04.htm>

**The aggregate supply curve is the relationship between:**

- ▶ The price level and the real domestic output purchased.

▶ **The price level and the real domestic output produced.**

▶ The price level which producers are willing to accept and the price level purchasers are willing to pay.

- ▶ The real domestic output purchased and the real domestic output produced.

Ref: [http://economics.uakron.edu/faculty/ghosh/2009/prinmacro/Chapter13\\_AggregateSupplyandDemand.pdf](http://economics.uakron.edu/faculty/ghosh/2009/prinmacro/Chapter13_AggregateSupplyandDemand.pdf)

**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.

**Real GDP is equal to:**

▶ **Nominal GDP – Inflation.**

- ▶ Nominal GDP + Inflation.

- ▶ Nominal GDP/ Inflation.

- ▶ Inflation / Nominal GDP.

**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.

**Double counting in national income refers to:**

- ▶ Counting a product more than once.

▶ **Counting a product at the final stage of output process.**

- ▶ Counting both as product and as factor payment.

- ▶ Counting both as real goods and as money flow.

Ref: [http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=1&ved=0CAYQFjAA&url=http%3A%2F%2Fwww.wiziq.com%2Fonline-tests%2F5920-general-economics&rct=j&q=%22Double+counting+in+national+income%22&ei=bk2CS8-jDp-pQa3ooi2BA&usg=AFQjCNGe57Z8lFrowykOmkW\\_qwWwZuMOOg](http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=1&ved=0CAYQFjAA&url=http%3A%2F%2Fwww.wiziq.com%2Fonline-tests%2F5920-general-economics&rct=j&q=%22Double+counting+in+national+income%22&ei=bk2CS8-jDp-pQa3ooi2BA&usg=AFQjCNGe57Z8lFrowykOmkW_qwWwZuMOOg)

**For knowing the spending capacity of the household sector, we have to use the concept of:**

▶ **National income.**

- ▶ Personal income.

- ▶ Private income.

- ▶ Personal disposable income.

**For a study of the long term growth of the economy, we use:**

- ▶ **Real GNP.**
- ▶ Nominal GNP.
- ▶ Personal income.
- ▶ Disposable personal income.

Ref: [http://books.google.com.pk/books?id=tugDAAAAMBAJ&pg=PT81&lpg=PT81&dq=%22For+a+study+of+the+long+term+growth+of+the+economy,+we+use%22&source=bl&ots=\\_HLRcpeuvr&sig=2xoGxoF9ij6Xnhpl0etubXCDi0o&hl=en&ei=YE6CS-XQJpfgsAbvxITaBA&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CAcQ6AEwAA#v=onepage&q=%22For%20a%20study%20of%20the%20long%20term%20growth%20of%20the%20economy%2C%20we%20use%22&f=false](http://books.google.com.pk/books?id=tugDAAAAMBAJ&pg=PT81&lpg=PT81&dq=%22For+a+study+of+the+long+term+growth+of+the+economy,+we+use%22&source=bl&ots=_HLRcpeuvr&sig=2xoGxoF9ij6Xnhpl0etubXCDi0o&hl=en&ei=YE6CS-XQJpfgsAbvxITaBA&sa=X&oi=book_result&ct=result&resnum=1&ved=0CAcQ6AEwAA#v=onepage&q=%22For%20a%20study%20of%20the%20long%20term%20growth%20of%20the%20economy%2C%20we%20use%22&f=false)

**Which of the following is an example of a leakage?**

- ▶ **Saving. (p 124)**
- ▶ Investment.
- ▶ Exports.
- ▶ Government expenditures.

**Total product of labor per day is shown in the following table and the price of the product is \$10/unit. What is the value of the marginal product of labor (VMPL) of the 3rd worker?**

Labor	Total Product
1	10
2	25
3	35
4	40
5	41

- ▶ 5.
- ▶ **10. (Sure 100%)**
- ▶ 50.
- ▶ 100.

**In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:**

- ▶ The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The short-run aggregate supply and the long-run aggregate supply curves.
- ▶ **The aggregate demand and the short-run aggregate supply curves.**
- ▶ The aggregate demand and the long-run aggregate supply curves.

Ref: <http://www.flatworldknowledge.com/pub/1.0/principles-macroeconomics/29991>

**What is the interest rate effect that explains why the aggregate demand curve slopes downward?**

▶ It refers to the effect of changes in the price level on quantity of investment demanded which in turn affects interest rates.

▶ It refers to the effect of interest rates on borrowing which in turn affects consumption spending.

▶ **It refers to the effect of changes in the price level on interest rates which in turn affects the quantity of investment demanded.**

▶ It refers to the shifts in aggregate demand when interest rates change.

**In the classical world, you could always get a job if you:**

▶ Had a good education.

▶ Worked in an industry that was recession proof.

▶ Had unemployment in the manufacturing sector.

▶ **Would accept a lower wage.**

**The level of output produced when the labor market is in equilibrium is called:**

▶ Target output.

▶ Product market equilibrium output.

▶ **Full-employment output.**

▶ Natural output.

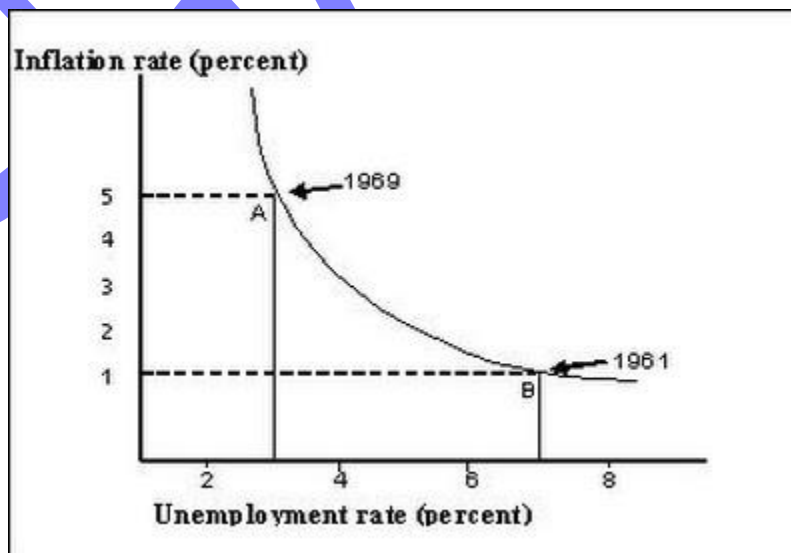
**Which of the following economists came up with a theory regarding the tradeoff between unemployment and inflation?**

▶ **A.W. Phillips.**

▶ John Maynard Keynes.

▶ Joseph Schumpeter.

▶ Milton Friedman.



**Refer to the above figure, moving from B to A shows a tradeoff of:**

- ▶ More unemployment for less inflation.
- ▶ **Less unemployment for more inflation.**
- ▶ A fixed amount of unemployment for more inflation.
- ▶ Less unemployment for less inflation.

**Falling inflation means:**

- ▶ That the price level is falling from one period to the next.
- ▶ That the price level is falling at a decreasing rate.
- ▶ That the price level is falling at an increasing rate.
- ▶ **That the price level is increasing at a decreasing rate.**

Disposable Personal Income \$	Consumption \$
100	140
200	220
300	300
400	380
500	460

Refer to the above table, when disposable personal income is \$300, what is the amount of personal saving?

- ▶ -\$40.
- ▶ -\$20.
- ▶ **\$0.**
- ▶ \$20.

**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.

**The interest rate parity is the basic identity that relates which of the following?**

- ▶ **Interest rates and exchange rates.**
- ▶ Interest rates and inflation rate.
- ▶ Exchange rates and inflation rate.
- ▶ Discount rate and inflation rate.

**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.

**“Government collects zero revenue if the tax rate is 0% and if the tax rate is 100%.” Which of the following best describes this statement?**

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

Ref: [en.wikipedia.org/wiki/Laffer\\_curve](http://en.wikipedia.org/wiki/Laffer_curve)

**A tax on the accounting profits of corporations is known as:**

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

Ref: <http://quizlet.com/725121/economics-flash-cards/>

**Which of the following shows the functions of money?**

- ▶ A conductor of economic activity, a medium of exchange, and a store of value.
- ▶ A medium of exchange, a store of value, and a factor of production.
- ▶ A store of value, a medium of exchange, and a determinant of investment.
- ▶ **A store of value, a unit of account, and a medium of exchange.**

**Which of the following best describes a bank’s reserves?**

- ▶ The minimum value of assets it must have.
- ▶ The amount of gold it is required to have as reserves against loans.
- ▶ **The value of federal securities it is required to have as reserves against loans.**
- ▶ Deposits that bank has accepted from customers but have not loaned out.

**The special importance of banks among the financial institutions arises from:**

- ▶ Their large and heavy transactions.
- ▶ Their position as suppliers of money.
- ▶ Their power to create money.
- ▶ **Their influence on the economy.**

**Which of the following will be TRUE if real income rose and the interest rate fell following an increase in government purchases?**

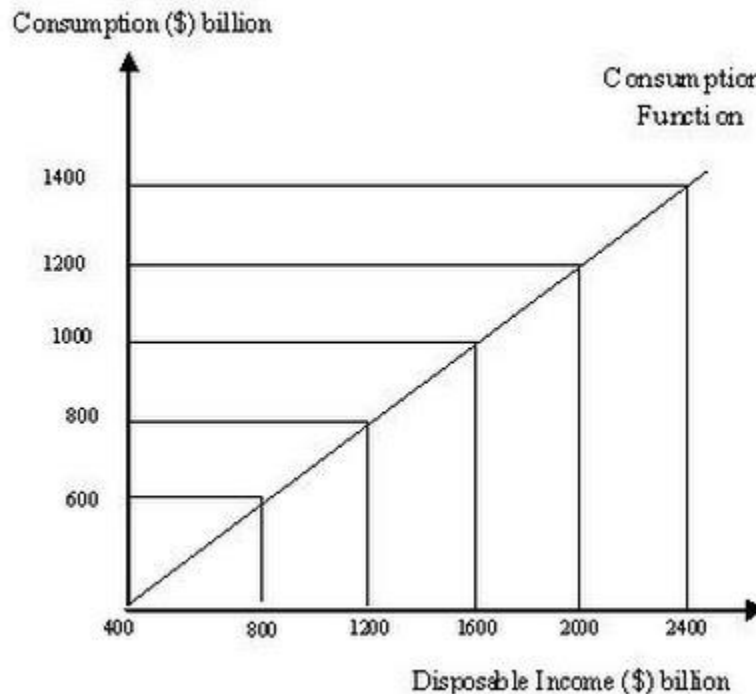
- ▶ IS curve must be vertical.
- ▶ LM curve must be vertical.
- ▶ **Central Bank must have increased the money supply at the same time.**
- ▶ Central Bank must have decreased the money supply at the same time.

**If money supply is fixed by the central bank then in interest rate-money supply space, money supply curve will be:**

- ▶ Horizontal.
- ▶ Vertical. **(Doubt)**
- ▶ Negatively sloped.
- ▶ **Positively sloped.**

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.



Refer to the above figure, the marginal propensity to consume is:

- ▶ 0.25.
- ▶ 0.50.
- ▶ 0.60.
- ▶ **0.67.**

Which of the following is TRUE for a Giffen good?

- ▶ Its marginal utility is zero.
- ▶ **Its demand curve is perfectly elastic.**
- ▶ Its substitution effect is positive.
- ▶ Its demand curve is positively sloped.

Which of the following occur when an isocost line is just tangent to an isoquant?

- ▶ **Output is being produced at minimum cost.**
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.

▶ The two products are being produced at the highest input cost to the firm.  
Ref: [http://econweb.rutgers.edu/besedes/sample\\_exam2\\_intermediate.pdf](http://econweb.rutgers.edu/besedes/sample_exam2_intermediate.pdf)

**Which of the following is TRUE about L-shaped isoquant?**

- ▶ It indicates that the firm could switch from one output to another costlessly.
- ▶ It indicates that the firm could not switch from one output to another.
- ▶ **It indicates that capital and labor cannot be substituted for each other in production.**
- ▶ It is impossible.

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the fixed cost?**

- ▶  $5Q$ .
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ **200.**

**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.

**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.

**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.

**Endogenous growth theory was developed in:**

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

**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.**

**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.

**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.**

**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.

**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.**

**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.

**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. (P 172)**

**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. (P 162)**
- ▶ That the price level is rising at a variable rate.

**If net exports are positive, this implies that the country has:**

- ▶ **Trade surplus. (P 154)**
- ▶ Trade deficit.
- ▶ Government budget surplus.
- ▶ Government budget deficit.

**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. (P 186)**

**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. (P 160)**
- ▶ When a country has a trade deficit.
- ▶ When an economy buys less from foreigners than it sells to them.

**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. (161)**

**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. (P 66)**

**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. (P 63)**

- ▶ When there are many firms producing the same product.
- ▶ In all of the given situations.

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

- ▶ Generates a curve that is upward sloping.
- ▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.
- ▶ **Marginal product at all levels is increasing. (P 53)**
- ▶ Relates inputs with output.

**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 (sure )**
- ▶ An increase in the intercept of the budget line
- ▶ A decrease in the intercept of the budget line

<http://web.uvic.ca/~okhan/Practice%20Question.pdf>

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

- ▶ It shifts farther away from the origin of the graph.
- ▶ It shift inward.
- ▶ **It shifts outward. (P 59)**
- ▶ None of the given options.

**Monopoly profits can be invested in**

- ▶ Advertisement.
- ▶ **Research and development. (P 77)**
- ▶ Human resource development.
- ▶ Expansion of the market.

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

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

- ▶ Monopoly.
- ▶ Oligopoly.
- ▶ **Perfect competition. (P 79)**
- ▶ Duopoly.

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

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

- ▶ Saving.
- ▶ **Investment. (P 141)**
- ▶ Taxes.
- ▶ Inflation.

**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.

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

- ▶ Inflation reduction.
- ▶ **Economic growth. (P 166)**
- ▶ Population growth.
- ▶ Employment.

**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. (P 184)**
- ▶ Raising interest rates, decreasing taxes, and decreasing government spending.

**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.

**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. (P 32)**

**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.

**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  $\frac{1}{2}$ . (Sure)**

- ▶ All of the given options.

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.

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.

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.

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.

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.

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.

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)

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>

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.

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.

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.

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

- ▶ Trade restriction.
- ▶ **Quota. (P 129)**
- ▶ Import restriction.
- ▶ Legislative restriction.

GNP is a good indicator of:

- ▶ **The total payment of factor owners. (P 120)**
- ▶ The amount of consumption and investment.
- ▶ The conditions of production and employment.
- ▶ The amount of incomes available for spending.

The demand for factors of production is derived from:

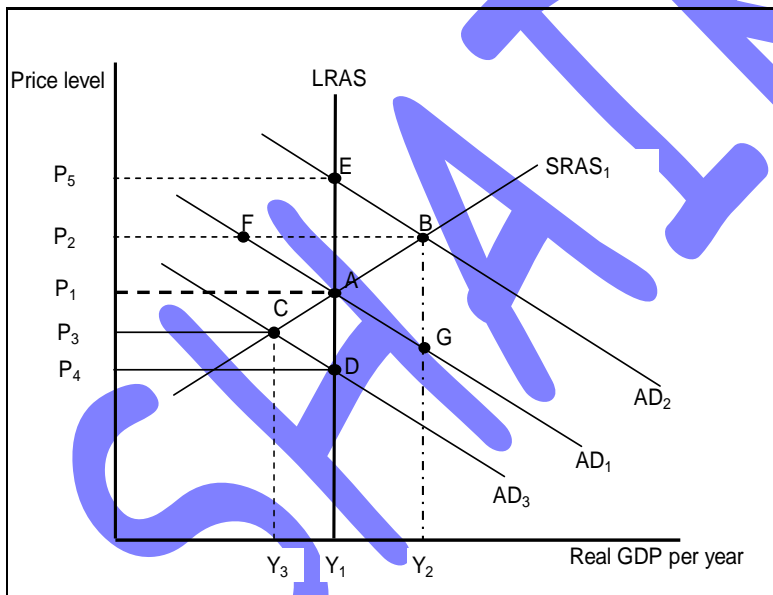
- ▶ Money market.
- ▶ **Goods market.**
- ▶ Stock market.
- ▶ Financial market.

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.

Information products are also known as:

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



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.

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.

**Economic growth occurs by an outward shift of:**

▶ **The production possibility frontier.**

▶ The gross domestic barrier.

▶ The marginal consumption frontier.

▶ The minimum efficient scale.

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

▶ **Continuous technology progress. (P 166)**

▶ High rate of population growth.

▶ Development of urban centers.

▶ Expansion of railways.

**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.**

**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.

**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.**

**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.

**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.

**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.**

**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.**

**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.

**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.**

**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.

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

▶ **20 fold** (P 203)

- ▶ 10 fold
- ▶ 5 fold
- ▶ 14 fold

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. (P 27)**
- ▶ Supply price elasticity.
- ▶ Cross price elasticity.

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.**

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. (Sure)**
- ▶ Long-run average total cost curve is horizontal.
- ▶ Long-run average total cost curve is negatively sloped.

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.

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.**

**Reference:**

5th worker MPL = 41 - 38 = 3

3\*20 = 60

**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.

**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.

**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.

**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.

**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. (P 143)**
- ▶ 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.

**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.

**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.

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

- ▶ 3%.
- ▶ 10%.
- ▶ 7%.
- ▶ **13%. (Domestic interest rate = Foreign interest rate + Expected depreciation)**

**LM curve shows the equilibrium in:**

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

**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.

**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.

**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.

**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.

**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. (P 56)**

**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 (P 60)**
- ▶ Average marginal costs and average variable costs

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

- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ **Oligopoly. (P 81)**
- ▶ None of the given options.

**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.

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

- ▶ Consumption spending.
- ▶ Investment expenditures.
- ▶ Government expenditures.
- ▶ **Household income. (P 103)**

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

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

**Monetarists believed that the economy generally:**

- ▶ Lies above full-employment.
- ▶ None of the given options.
- ▶ Lies below full-employment.
- ▶ **Gravitated around a full-employment. (P 152)**

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

- ▶ South Asian countries.
- ▶ Middle East.
- ▶ **Rest of the world. (P 152)**
- ▶ USA and China.

**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.**

**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.

**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. (P 63)**
- ▶ An oligopolistic firm.

**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. (P 11)**
- ▶ Quantity supplied schedule.
- ▶ Quantity demanded schedule.

**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**

**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.

**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.

**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. (Sure)**
- ▶ 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.

**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.

**Total national consumption consists of:**

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

**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.

**Public education creates:**

- ▶ Asymmetric information.
- ▶ External costs.
- ▶ Internal costs.
- ▶ **External benefits. (Sure)**

**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.

**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.

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

▶ **AK Model.**

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

**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.

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

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve. (P 175)**
- ▶ Investment curve.

**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.

**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.



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)**
- ▶ Average variable cost
- ▶ Average cost

Optimal mix of resources is decided by

- ▶ **The price mechanism. (P 2)**
- ▶ Producers.
- ▶ Consumers.
- ▶ Government.

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

- ▶ **Zero elastic. (P 22)**
- ▶ Unit elastic.
- ▶ Less elastic.
- ▶ More elastic.

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**

$$k^* = 1/1 - MPC$$

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

- ▶ **Shift to the right. (P 193)**
- ▶ Shift to the left.
- ▶ Stay as it is.
- ▶ None of the given options.

A demand curve is price inelastic when:

- ▶ **Changes in demand are proportionately smaller than changes in price. (P 28)**
- ▶ Changes in demand are proportionately greater than changes in price.
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.

A demand curve is price elastic when:

- ▶ **Changes in demand are proportionately greater than changes in price. (P 28)**
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.
- ▶ Changes in demand are proportionately smaller than changes in price.

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. (P 53)**

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

- ▶ **Law of large numbers. (P 43)**
- ▶ Law of small numbers.
- ▶ Law of zero numbers.
- ▶ All of the given options.

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

- ▶ Perfect competitor.
- ▶ Oligopolist.
- ▶ **Monopolist. (P 77)**
- ▶ Economist.

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

- ▶ **Net National Product (NNP) plus depreciation. (P 120)**
- ▶ National income discounted by the GDP deflator.
- ▶ Income from foreign investments.
- ▶ Gross Domestic Product (GDP) minus depreciation.

**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)**

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

**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.

**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.**

**The Monetarist key to solve the inflation problem was:**

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

**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.

**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.

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

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

**A contractionary fiscal policy shifts:**

- ▶ **The aggregate demand curve to the left. (P 149)**
- ▶ The aggregate demand curve to the right.
- ▶ The aggregate supply curve to the right.
- ▶ The aggregate supply curve to the left.

**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.

**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. (Sure)**
- ▶ It will shift to the right in all of the given conditions.

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

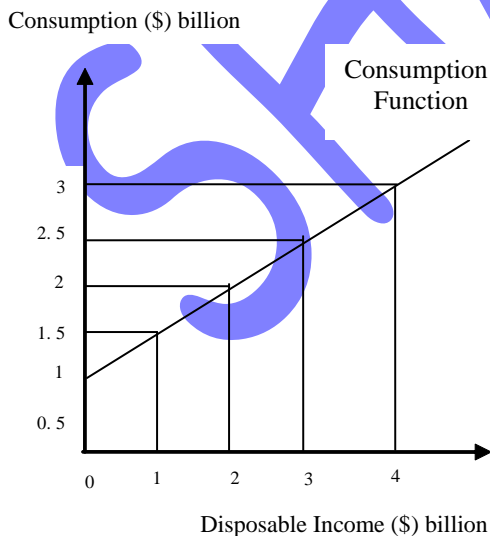
- ▶ **It would become steeper.**
- ▶ It would become flatter.
- ▶ It would shift upward.
- ▶ It would shift downward.

**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.

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

- ▶ Generation gap.
- ▶ Communication gap.
- ▶ **Foreign exchange gap. (p 207)**
- ▶ None of the given options.



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

- ▶ 0.
- ▶ **0.5.**

- ▶ 1.0.
- ▶ 2.0.

**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.

**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.

**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

**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

**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)**
- ▶ Quantity of good supplied.

**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.

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

- ▶ Level of income.

- ▶ **Employment.**
- ▶ Poverty.
- ▶ Unemployment.

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

- ▶ Employment level.
- ▶ **Inflation. (P 152)**
- ▶ Foreign direct investment.
- ▶ Deflation.

**At the equilibrium price:**

- ▶ There will be a shortage.
- ▶ **There will be neither a shortage nor a surplus. (P 14)**
- ▶ There will be a surplus.
- ▶ There are forces that cause the price to change.

**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)**

**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)**

**Gross Domestic Product is:**

- ▶ A stock variable.
- ▶ **A flow variable. (P 118)**
- ▶ Both a stock and a flow variable.
- ▶ Neither a stock nor a flow variable.

**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.**

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

- ▶ Current account balance.
- ▶ Capital account balance.
- ▶ Statistical discrepancy.

▶ **Balanced Budget.**

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

- ▶ Indirect Taxes.
- ▶ **Direct Taxes. (P 122)**
- ▶ Both direct and indirect taxes.
- ▶ Subsidies.

**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.

**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.**

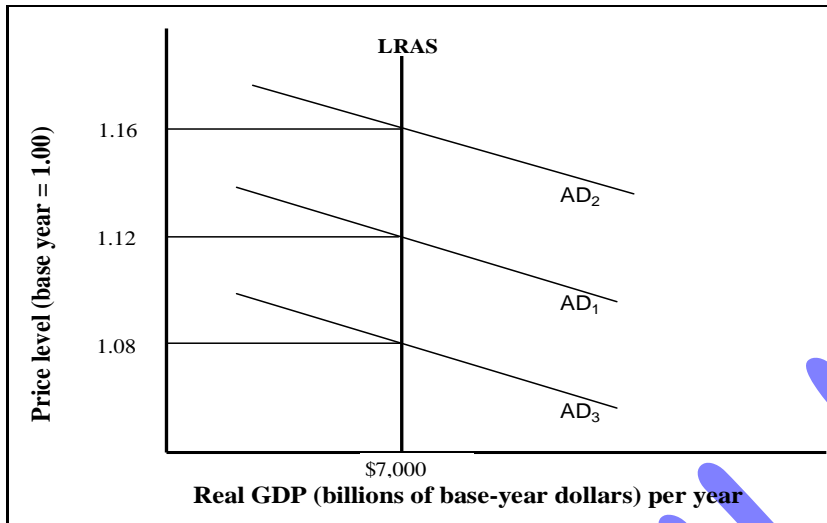
**This year, if national product at factor cost is Rs. 500 billion, indirect taxes 150 billion and subsidies Rs. 50 billion, then national product at market prices will be:**

- ▶ Rs. 700 billion.
- ▶ Rs. 650 billion.
- ▶ **Rs. 600 billion.**
- ▶ Rs. 300 billion.

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

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

- ▶ Taxes.
- ▶ Saving.
- ▶ Imports.
- ▶ **Investment. (P 124)**



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

$$\text{GDP deflator} = \text{Nominal GDP} / \text{Real GDP}$$

$$1.16 = \text{Nominal GDP} / 7000$$

$$\text{Nominal GDP} = 1.16 \times 7000$$

$$\text{Nominal GDP} = 8120$$

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.

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.**
- ▶ -\$20
- ▶ \$0.
- ▶ \$20.

$$\text{Saving} = \text{dpi} - \text{cp}$$



$$100-140 = - 40$$

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

- ▶ Inflation rate.
- ▶ Real exchange rate.
- ▶ **Nominal exchange rate. (P 158)**
- ▶ Discount rate.

**Development is impossible without:**

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

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

- ▶ Legal reserves.
- ▶ Excess reserves.
- ▶ Checkable deposits.
- ▶ **The reserve ratio. (P 188)**

**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.

**IS curve shows the equilibrium in:**

- ▶ Money Market.
- ▶ **Goods Market. (P 195)**
- ▶ Labor Market.
- ▶ Financial Market.

**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)**

**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.

**Concentration ratio is used to assess:**

▶ **The level of competition in an industry. (P 73)**

- ▶ The degree of control over prices.
- ▶ The technological gaps between the firms.
- ▶ Marginal cost and marginal benefit analysis.

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

- ▶ Demand is elastic.
- ▶ **Demand is inelastic. (P 28)**
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

**Revaluation of the currency encourages:**

- ▶ Imports.
- ▶ **Exports. (Sure)**
- ▶ Poverty.
- ▶ Inflation.

**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. (P 163)**
- ▶ Growth rate of population - Growth rate of per capita income.

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

- ▶ Shares of any of its institute.
- ▶ Stocks.
- ▶ **Treasury bills. (P 185)**
- ▶ Debentures.

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

- ▶ Investment = Saving.
- ▶ Money supply = Money demand.
- ▶ **Aggregate demand = C + I + G + NX. (p 195)**
- ▶ Aggregate demand = Aggregate supply.

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

- ▶ Investment multiplier effect.
- ▶ **Crowding out effects. (P 205)**
- ▶ Government spending effect .
- ▶ None of the given options.

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

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

**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. (P 4)**

- ▶ Marginal utility is equal to average utility.

**The optimal point of production for any individual firm is where:**

▶ **Marginal Revenue = Marginal Cost. (P 74)**

- ▶ Marginal Revenue > Marginal Cost.
- ▶ Marginal Revenue < Marginal Cost.
- ▶ None of the given options.

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

- ▶ Rise.
- ▶ **Fall. (179)**
- ▶ Remain unchanged.
- ▶ None of the given options.

**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. (Sure)**
- ▶ 0.875.
- ▶ 0.91.

$$MPC = \Delta C / \Delta Y_d$$

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

- ▶ Public investment.
- ▶ Private consumption.
- ▶ **Public consumption. (P 111)**
- ▶ Private investment.

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

- ▶ **Microeconomics. (P 94)**
- ▶ Macroeconomics.
- ▶ Monetary economics.
- ▶ Development economics.

**The short run in macroeconomic analysis is a period:**

▶ **In which wages and some other prices do not respond to changes in economic conditions. (P 54)**

- ▶ 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.

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

- ▶ 0.
- ▶ 1.
- ▶ **2. (P 143)**
- ▶ 3.

**Most nations of the world are:**

- ▶ Closed economies.
- ▶ **Open economies.**
- ▶ Self sufficient.
- ▶ Non trading nations.

**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)

**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. (P 124)**

**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 6)**
- ▶ The avoidance of a negative output gap.
- ▶ An increase in aggregate demand which causes a movement along the short-run aggregate supply curve.

**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.

**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.

<http://www.websukat.com/SMU-Books/Managerial-Economics/14-Inflation-And-Deflation.pdf>

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.

One of the main reasons of poverty in third world countries is:

▶ Generation gap.

▶ Communication gap.

▶ **Savings gap. (P 207)**

▶ Inflation gap.

A person with a diminishing marginal utility of income is said to be:

▶ **Risk averse person. (Sure)**

▶ Risk neutral person.

▶ Risk loving person.

▶ None of the given options.

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. (P 81)**

▶ An oligopoly includes downward sloping demand curves facing the firm.

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.

An increase in quantity demand is shown by:

▶ Shifting the demand curve to the left.

▶ **Shifting the demand curve to the right. (Sure)**

▶ Upward movement along the demand curve.

▶ Downward movement along the demand curve.

Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:

▶ **Shifts to the left. (Sure)**

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

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. (sure)**

- ▶ Maintain the same employment level.
- ▶ Decrease output.

In Keynesian economics, if aggregate expenditures are more than aggregate output then:

▶ The price level rises.

▶ Inventories decrease.

▶ **Aggregate output increases. (P 133)**

▶ Employment increases.

The record of a country's transactions in goods and services with the rest of the world is its:

▶ Current account.

▶ **Balance of payments. (Sure)**

▶ Balance of trade.

▶ Capital account.

The share of world trade happens between high income countries is:

▶ 55%

▶ 40%

▶ **50% (P 203)**

▶ 60%

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.(page=152)**

- ▶ 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.

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

- ▶ Heterogeneous products.
- ▶ Large competition.

▶ **Homogeneous products.(page=81)**

- ▶ Less demand in market.

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

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

▶ **Non-collusive oligopoly.(page=82)**

**Slope and elasticity of demand have**

- ▶ A direct relation.
- ▶ **An inverse relationship. (P 27)**
- ▶ No relation between slope and elasticity.
- ▶ None of the given options.

**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.

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

- ▶ Perfect competition.
- ▶ **Monopoly. (P 77)**
- ▶ Oligopoly.
- ▶ Duopoly.

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

▶ **One should invest in domestic market. (P 158)**

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

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

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

▶ **Technological progress.(page=167)**

**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. (Sure)**

▶ Interest rate reduces, investment and GDP reduces.

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

▶ **IS curve leftward. (Sure)**

▶ IS curve rightward.

▶ LM curve rightward.

▶ LM curve leftward.

**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. (page=142)**

**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.(page=194)**

**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.**

**Which of the following is the term that economists use to describe how consumers rank different goods and services?**

▶ Satisfaction index.

▶ Goodness.

▶ **Utility.**

▶ None of the given options.

**Which of the following is a correct statement about the substitution effect?**

▶ **The substitution effect is always negative.**

▶ The substitution effect is positive for an inferior good.

▶ The substitution effect measures how demand changes when income changes.

▶ The substitution effect is positive for a Giffen good.

**Producer surplus in a perfectly competitive industry is:**



- ▶ The difference between profit at the profit-maximizing and profit-minimizing level of output.
- ▶ The difference between revenue and total cost.
- ▶ **The difference between revenue and variable cost.**
- ▶ The difference between revenue and fixed cost.

**The aggregate demand will decrease if:**

- ▶ **Investment spending decreases.**
- ▶ Government spending increases.
- ▶ Consumption spending increases.
- ▶ Imports decreases.

**Which of the following is NOT an account in the balance of payments?**

- ▶ Capital account.
- ▶ Financial account.
- ▶ Current account.
- ▶ **Future account. (p 155)**

**The money aggregate M1 does not include:**

- ▶ **Currency in the vaults of commercial banks. (sure)**
- ▶ Currency in the hands of the public.
- ▶ Traveler's checks that have been issued.
- ▶ Demand deposits at commercial banks.

**Total national investment consists of:**

- ▶ Gross domestic fixed capital formation.
- ▶ Change in stocks.
- ▶ Export less imports.
- ▶ **All of the given options.**

**People who are only working part-time, but want to be working full-time, are classified officially as:**

- ▶ Unemployed and in the labor force.
- ▶ Unemployed and out of the labor force.
- ▶ **Employed and out of the labor force.**
- ▶ Employed and in the labor force.

**Which of the following avoids uncertainty and volatility and making international transactions easier?**

- ▶ **Fixed exchange rate.**
- ▶ Flexible exchange rate.
- ▶ Fixed interest rate.
- ▶ Flexible interest rate.

**If the required reserve ratio is 20% then what will be the value of money multiplier?**

- ▶ 1.

- ▶ 2.5.
- ▶ **5.**
- ▶ 7.

**Which of the following is (are) primary function (s) of a central bank?**

- I. Act as a regulator of banks.
- II. Issue government bonds.
- III. Set monetary policy.
- ▶ I only.
- ▶ I and III.
- ▶ I and II.
- ▶ **I, II and III.**

**How the government increases paper currency component of the money supply?**

- ▶ Households sell gold to the government in returns for currency.
- ▶ The government gives newly created currency to households.
- ▶ The government gives paper currency to the banks.
- ▶ **The government exchange paper currency for government securities.**

**What is meant by freedom of enterprise in pure capitalism?**

- ▶ **It means that businesses are free to produce products that consumers want.**
- ▶ It means that consumers are free to buy goods and services that they want.
- ▶ It means that resources are distributed freely to businesses.
- ▶ It means that government is free to direct the actions of businesses.

**What might be the reason of a leftward shift in the demand curve for product X?**

- ▶ A decrease in income if X is an inferior good.
- ▶ An increase in income if X is a normal good.
- ▶ An increase in the price of a product that is a close substitute for X.
- ▶ **An increase in the price of a product that is complementary to X.**

**Monopolists produce lower quantities at higher prices compared to perfectly competitive firms, because monopolists do not produce where**

- ▶ Marginal cost = marginal revenue
- ▶ Average revenue = marginal cost
- ▶ Price = average variable cost
- ▶ **Price = marginal cost (p 76)**

**As price increases total revenue decreases in case of**

- ▶ Inelastic demand.
- ▶ Unit elastic demand.
- ▶ Zero elastic demand.
- ▶ **Elastic demand. (p 28)**

**Suppose the consumption function is  $C = \$10 + 0.75Y$ . If  $Y = 50$  \$, then the amount of consumption is:**

- ▶ 37.50
- ▶ 85.00
- ▶ **47.50 (sure)**
- ▶ 10.75

**Balance of payments problems are also often a result of:**

- ▶ High domestic deflation.
- ▶ Domestic unemployment.
- ▶ Domestic poverty.
- ▶ **High domestic inflation. (p 149)**

**Current account deficit can be reduced by:**

- ▶ **Devaluation of currency. (p 157)**
- ▶ Revaluation of currency.
- ▶ Reduction in exports.
- ▶ Fiscal deficit.

**The following table shows a firm's Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?**

**Table**

<b>Quantity of Labor</b>	<b>Total Product</b>
0	0
10	100
20	230
30	340
40	410
50	460

- ▶ 340 units.
- ▶ 220 units.
- ▶ 11 units.
- ▶ **110 units.**

**The long-run average total cost curve:**

- ▶ **Traces out the points on the lowest short-run average total cost curve for each level of production.**
- ▶ Is inversely related to the depth of the short-run marginal cost curve.
- ▶ Traces out the midpoints on an average of several short-run average total cost curves.
- ▶ Is downward-sloping under decreasing returns to scale.

**Suppose investment rises by \$50 billion at each price level. If the value of the multiplier is 1.5, what is the amount of change in real GDP demanded at each price level?**

- ▶ \$50 billion.
- ▶ **\$75 billion.**
- ▶ \$125 billion.
- ▶ \$150 billion.

**According to the classical school, unemployment was responsive to changes in:**

- ▶ M/P.
- ▶ P.
- ▶ M.
- ▶ **Money wages.**

**What will happen if exchange rate increases from \$1 = Pak Rs. 80 to \$1 = Pak Rs. 85?**

- ▶ It will reduce exports of Pakistan.
- ▶ **It will increase exports of Pakistan.**
- ▶ It will increase imports of Pakistan.
- ▶ Its imports and exports will remain unchanged.

**Which of the following is the cause of fluctuations in economic activity?**

- ▶ An increase in aggregate demand.
- ▶ A decrease in aggregate demand.
- ▶ A decrease in short run aggregate supply.
- ▶ **All of the given options.**

**In the endogenous growth model, the assumption of ----- is more plausible.**

- ▶ Increasing returns to capital.
- ▶ Decreasing returns to capital.
- ▶ **Constant returns to capital.**
- ▶ All of the given options.

**Which of the following is included in M2 but not in M1?**

- ▶ Currency.
- ▶ Demand deposits.
- ▶ **Time deposits. (p 186)**
- ▶ Debit cards.

**Which of the following statements is correct?**

- ▶ A single bank cannot multiply deposits.
- ▶ A single bank can multiply deposits.
- ▶ Some banks can multiply deposits and others cannot.
- ▶ **The banking system as a whole can multiply deposits.**

**Which of the following is (are) the characteristic(s) of low income countries as compared to high income countries?**

- I. Lower rates of population growth.
- II. Greater income inequality.

- III. A large proportion of the labor force in agriculture.
- IV. Higher rates of unemployment.
- ▶ I only.
- ▶ I and II.
- ▶ II and IV.
- ▶ **II, III and IV. (sure)**

**Suppose the price of coke increases, what will happen to the demand for pepsi?**

- ▶ The demand curve for pepsi shifts leftward.
- ▶ **The demand curve for pepsi shifts rightward.**
- ▶ The supply curve of pepsi shifts leftward.
- ▶ The supply curve of pepsi shifts rightward.

**Government budget deficit is equal to:**

- ▶ Private sector resource deficit + Current account deficit.
- ▶ **Current account deficit - Private sector resource deficit. (Sure)**
- ▶ Private sector resource deficit - Current account deficit.
- ▶ Current account deficit / Private sector resource deficit.

**Governments protect domestic industries from foreign competition by which of the following action?**

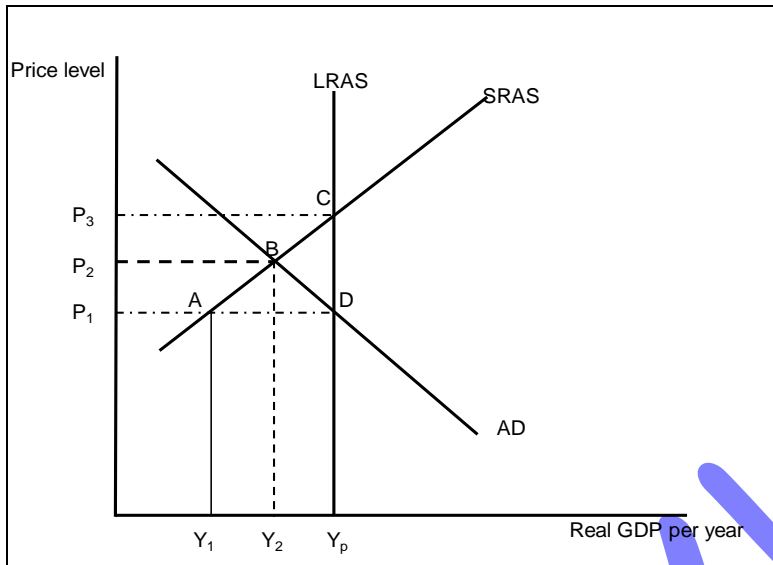
- ▶ By keeping the minimum wage low.
- ▶ By encouraging agreements like NAFTA.
- ▶ **By using tariff and non tariff barriers.**
- ▶ By discouraging union membership.

**An exchange rate system in which central banks are always ready to buy and sell their currencies at predetermined prices is called:**

- ▶ A flexible exchange rate system.
- ▶ A managed exchange rate system.
- ▶ **A fixed exchange rate system.**
- ▶ None of the given options.

**Which of the following best defines the aggregate demand?**

- ▶ **The demand for goods and services generated by all sectors in the economy, holding price level constant.**
- ▶ The relationship between the total quantity of goods and services demanded and the price level, all other determinants of spending unchanged.
- ▶ The relationship between the total quantity of goods and services demanded and the supply of factors of production, all other determinants of production unchanged.
- ▶ The relationship between the total quantity of goods and services demanded and the income level, all other determinants of spending unchanged.



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 =  $Y_2$ .

▶ Price level =  $P_3$ ; real GDP =  $Y_p$ .

Which of the following is considered to be a variable cost in the long run?

- ▶ Expenditures for wages.
- ▶ Expenditures for research and development.
- ▶ Expenditures for raw materials.
- ▶ All of the given options.

If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:

- ▶ Decreasing returns to scale.
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale.

If the income elasticity of demand is  $1/2$ , the good is:

- ▶ A luxury.
- ▶ A normal good (but not a luxury).
- ▶ An inferior good.
- ▶ A Giffen good.

Frictional unemployment occurs because people:

- ▶ Change jobs.
- ▶ Take a while to find an appropriate job once they enter the labor force.
- ▶ Move around the country.

- ▶ All of the given options.

**Permanent growth rate depends on the saving rate and technological progress in which of the following models?**

- ▶ **Endogenous growth model. (Sure)**
- ▶ Exogenous growth model.
- ▶ Rostow's growth model.
- ▶ None of the given options.

**A tax on the extra value added during each stage in the production of a good is called:**

- ▶ **Value-added tax. (p 174)**
- ▶ Regressive tax.
- ▶ Proportional tax.
- ▶ Progressive tax.

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

- ▶ Aggregate demand = Aggregate supply.
- ▶ **Aggregate demand =  $C + I + G + NX$ . (p 195)**
- ▶ Investment = Savings.
- ▶ All of the given conditions.

**Which of the following is not included in the key ingredients of any market structure?**

- ▶ Number of firms in the market/industry
- ▶ Extent of barriers to entry
- ▶ **Perfect knowledge (p 71)**
- ▶ Degree of control over price

**The marginal propensity to save (MPS) is:**

- ▶ 1 / Marginal propensity to consume.
- ▶ 1 – Income.
- ▶ 1 / Income.
- ▶ **1 – Marginal propensity to consume. (Sure)**

**What will happen if exchange rate decreases from \$1 = Pak Rs. 84 to \$1 = Pak Rs. 70?**

- ▶ **It will reduce imports of Pakistan.**
- ▶ Its imports and exports will remain unchanged.
- ▶ It will increase imports of Pakistan.
- ▶ It will decrease exports of Pakistan.

**When the production possibilities frontier of a country shifts leftward, that represents an:**

- ▶ **Decrease in potential GDP. (p 161)**
- ▶ Labor is optimally utilized.

- ▶ Increase in potential GDP.
- ▶ Decrease in countries capital resources.

**Which of the following is not the function of money?**

- ▶ A store of value.
- ▶ **Unit of count. (sure)**
- ▶ Medium of exchange.
- ▶ Unit of account.

**Expansionary fiscal policies can raise the national:**

- ▶ **Debt. (p 185)**
- ▶ Unemployment rate.
- ▶ Deflation.
- ▶ Illiteracy rate.

**A process by which money is created is called:**

- ▶ Credit rationing.
- ▶ Credit expansion.
- ▶ Credit creation.
- ▶ **None of the given options. (p 186)**

**The concept of “interdependence of markets” can refer to the interdependence between:**

- A. two or more factor markets
- B. goods and factor markets
- C. goods markets
- D. all of the above**

**The 'law of demand' implies that**

- A. as prices fall, quantity demanded increases.**
- B. as prices fall, demand increases.
- C. as prices rise, quantity demanded increases.
- D. as prices rise, demand decreases.

**What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?**

- A. the substitution effect.**
- B. the ceteris paribus effect.
- C. the total price effect.
- D. the income effect.

**The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:**

- A. A's consumers have had an increase in income.
- B. the price of A has increased.**
- C. A's advertising is not as effective as in the past.



D. the price of rival brand B has increased.

**Demand curves in P-Q space are derived while holding constant**

- A. consumer tastes and the prices of other goods.
- B. incomes, tastes, and the price of the good.
- C. incomes and tastes.
- D. incomes, tastes, and the prices of other goods.**

**Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are**

- A. perfect substitutes.
- B. unrelated goods.
- C. complements.**
- D. substitutes.

**If the demand for coffee decreases as income decreases, coffee is**

- A. a normal good.**
- B. a complementary good.
- C. an inferior good.
- D. a substitute good.

**Which of the following will NOT cause a shift in the demand curve for compact discs?**

- A. a change in the price of pre-recorded cassette tapes.
- B. a change in wealth.
- C. a change in income.
- D. a change in the price of compact discs.**

**Which of the following is consistent with the law of supply?**

- A. As the price of calculators rises, the supply of calculators increases, ceteris paribus.
- B. As the price of calculators falls, the supply of calculators increases, ceteris paribus.
- C. As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.**
- D. As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

**The price of computer chips used in the manufacture of personal computers has fallen. This will lead to \_\_\_\_\_ personal computers.**

- A. a decrease in the supply of
- B. a decrease in the quantity supplied of
- C. an increase in the supply of**
- D. an increase in the quantity supplied of

**The study of economics is primarily concerned with:**

- A. Demonstrating that capitalistic economies are superior to socialistic economies.
- B. Determining the most equitable distribution of society's output.
- C. Keeping private businesses from losing money.
- D. Choices which are made in seeking to use scarce resources efficiently.**

**Opportunity cost is:**

- A. That which we forego, or give up, when we make a choice or a decision.**
- B. A cost that cannot be avoided, regardless of what is done in the future.
- C. The additional cost of producing an additional unit of output.
- D. The additional cost of buying an additional unit of a product.

**Periods of less than full employment correspond to:**

- A. Points outside the ppf.(production possibility frontier).
- B. Points inside the ppf.**
- C. Points on the ppf.
- D. Either points inside or outside the ppf.

**In a free-market economy the allocation of resources is determined by:**

- A. votes taken by consumers
- B. a central planning authority
- C. Consumer preferences**
- D. the level of profits of firms

**A firm produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs that firm produces:**

- A. Have many complementary goods.
- B. Have few substitutes.
- C. Have few complementary goods.
- D. Are normal goods.**

**According to law of demand, a demand curve is:**

- A. Horizontal
- B. Vertical
- C. Downward sloping**
- D. Directly related to law of supply

**A rational decision maker will take only those actions for which the marginal benefit:**

- A. Is positive.
- B. Is at its maximum level.
- C. Is less than marginal cost.
- D. Is greater than or equal to the expected marginal cost.**

**All of the following are determinants of supply except:**

- A. Price
- B. Income levels**
- C. Objectives of the firm
- D. Level of technology

**Normative economics:**

- A. Deals solely with the facts
- B. Is never studied in the colleges
- C. Involves opinions and interpretations**
- D. Is clearly preferable to positive economics

**The transformation of resources into economic goods and services is:**

- A. Technical efficiency
- B. Input
- C. Production**
- D. Increasing returns

**Marginal utility measures:**

- A. The slope of the indifference curve.
- B. The additional satisfaction from consuming one more unit of a good.**
- C. The slope of the budget line.
- D. The marginal rate of substitution.

**Which of the following best expresses the law of diminishing marginal utility?**

- A. The more a person consumes of a product, the smaller becomes the utility which he receives from its consumption.
- B. The more a person consumes of a product, the smaller becomes the additional utility which she receives as a result of consuming an additional unit of the product.**
- C. The less a person consumes of a product, the smaller becomes the utility which she receives from its consumption.
- D. The less a person consumes of a product, the smaller becomes the additional utility which he receives as a result of consuming an additional unit of the product.

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

- A. A budget line.
- B. An isoquant.
- C. An indifference curve.**
- D. A demand curve.

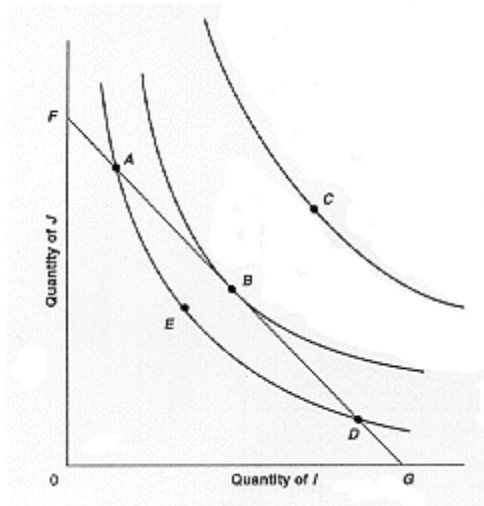
**The marginal rate of substitution:**

- A. May rise or fall, depending on the slope of the budget line.
- B. Rises as you move downward along an indifference curve.
- C. **Falls as you move downward along an indifference curve.**
- D. Remains the same along a budget line.

**Which of the following is a characteristic of the indifference curves?**

- A. They are concave to the origin.
- B. **They are convex to the origin.**
- C. Curves closer to the origin have the highest level of total utility.
- D. Curves closer to the origin have the highest level of marginal utility.

**In the diagram given below, the budget line is best represented by the line:**



- A. AB
- B. AD
- C. **FG**
- D. DG

**The endpoints (horizontal and vertical intercepts) of the budget line:**

- A. Measure its slope.
- B. Measure the rate at which one good can be substituted for another.
- C. Measure the rate at which a consumer is willing to trade one good for another.
- D. **Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.**

**If prices and income in a two-good society double, what will happen to the budget line?**

- A. The intercepts of the budget line will increase.
- B. The intercepts of the budget line will decrease.
- C. The slope of the budget line may either increase or decrease.

**D. There will be no effect on the budget line.**

**If  $P_x = P_y$ , then when the consumer maximizes utility,**

- A. X must equal Y.
- B.  $MU(X)$  must equal  $MU(Y)$ .**
- C.  $MU(X)$  may equal  $MU(Y)$ , but it is not necessarily so.
- D. X and Y must be substitutes.

**The difference between what a consumer is willing to pay for a unit of a good and what must be paid when actually buying it is called:**

- A. Producer surplus.
- B. Consumer surplus.**
- C. Cost-benefit analysis.
- D. Net utility.

**----- is the entire satisfaction one derives from consuming goods or services:**

SHAIKH

- A. Total utility
- B. Scarcity
- C. Marginal utility
- D. Rationing

2) The law of diminishing marginal utility states that:

- A. As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit falls
- B. As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit rises
- C. As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit remains the same
- D. As consumer consumes less and less units of any commodity, the utility that consumer derives from each additional unit falls

The equi marginal principle states that:

- A.  $\frac{MU_a}{P_a} = \frac{MU_b}{P_b} = \frac{MU_c}{P_c} = \dots = \frac{MU_n}{P_n}$
- B.  $\frac{MU_a}{P_a} > \frac{MU_b}{P_b} > \frac{MU_c}{P_c} > \dots > \frac{MU_n}{P_n}$
- C.  $\frac{MU_a}{P_a} < \frac{MU_b}{P_b} < \frac{MU_c}{P_c} < \dots < \frac{MU_n}{P_n}$
- D. None of the given options

Marginal utility measures:

- A. The slope of the indifference curve
- B. The additional satisfaction from consuming one more unit of a good
- C. The slope of the budget line
- D. The marginal rate of substitution

----- is the difference between willingness to pay and what the consumer actually has to pay:

- A. Total Utility
- B. Consumer surplus
- C. Producer surplus
- D. Total product

----- is the ratio of the probability of success to the probability of failure:

- A. Input output ratio
- B. Odds ratio
- C. Price earning ratio
- D. Price sales ratio

----- operate under the principle of law of large numbers:

- A. Banks
- B. Insurance companies**
- C. Government sponsored enterprises
- D. None of the given options

**The optimum consumption point for the consumer is a point where:**

- A. The slopes of the indifference curve and budget line are equal**
- B. The slopes of the indifference curve and total product are equal
- C. The slopes of the total utility curve and budget line are equal
- D. The slopes of the total product curve and total utility curve are equal

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

- A. A budget line
- B. An isoquant
- C. An indifference curve**
- D. A demand curve

**The slope of an indifference curve reveals that:**

- A. The preferences are complete
- B. The marginal rate of substitution of one good for another good**
- C. The ratio of market prices
- D. That preferences are transitive

**The law of diminishing returns applies to**

- A. The short run only**
- B. The long run only
- C. Both the short and the long run
- D. Neither the short nor the long run

**In the long run:**

- A. All inputs are fixed
- B. All inputs are variable**
- C. At least one input is variable and one input is fixed
- D. At most one input is variable and one input is fixed

**According to the law of diminishing returns**

- A. The total product of an input will eventually be negative
- B. The total product of an input will eventually decline
- C. The marginal product of an input will eventually be negative
- D. The marginal product of an input will eventually decline**

**The slope of the total product curve is the**

- A. Average product
- B. Slope of a line from the origin to the point
- C. Marginal product**
- D. Marginal rate of technical substitution

**The short run is**

- A. Less than a year
- B. Three years
- C. However long it takes to produce the planned output
- D. A time period in which at least one input is fixed**

**The marginal product of an input is**

- A. Total product divided by the amount of the input used to produce this amount of output
- B. The addition to total output that adds nothing to profit
- C. The addition to total output due to the addition of one unit of all other inputs
- D. The addition to total output due to the addition of the last unit of an input, holding all other inputs constant**

**Average product is defined as:**

- A. Total product divided by the total cost
- B. Total product divided by marginal product
- C. Total product divided by the variable input**
- D. Marginal product divided by the variable input

**Marginal product crosses the horizontal axis (is equal to zero) at the point where:**

- A. Average product is maximized
- B. Total product is maximized**
- C. Diminishing returns set in
- D. Output per worker reaches a maximum

**The law of diminishing returns refers to diminishing**

- A. Total returns
- B. Marginal returns**
- C. Average returns
- D. All of the given options

**The law of diminishing returns assumes that**

- A. There is at least one fixed input**



- B. All inputs are changed by the same percentage
- C. Additional inputs are added in smaller and smaller increments
- D. All inputs are held constant

**Microeconomics is concerned with:**

- A. The establishing of an overall view of the operation of the economic system.
- B. A detailed examination of specific economic units which comprise the economic system.**
- C. The aggregate or total levels of income, employment and output.
- D. None of the given option

**What is the difference between the positive and the normative in economics?**

- A. A positive question is one for which the answer is yes while normative question is one for which the answer is no.
- B. Positive questions concern matters of opinion, while normative questions concern matters of fact.
- C. Positive questions concern matters of fact, while normative questions concern matters of opinion.**
- D. Economic theory can answer normative questions, but not positive ones.

**Which of the following is characteristic of a product whose demand is elastic?**

- A. The price elasticity coefficient is less than 1.
- B. Total revenue decreases if price decreases.
- C. Buyers are relatively insensitive to price changes.
- D. The percentage change in quantity is greater than the percentage change in price.**

**A Giffen good:**

- A. Is a good that people buy more of it as their incomes fall.
- B. Is a good which people buy more of as its price increases.**
- C. Has a vertical demand curve.
- D. Is another name for a free good.

**An indifference curve is a curve which shows the different combinations of two products that:**

- A. Give a consumer equal marginal utilities.
- B. Give the customer equal total utilities.**
- C. Cost a consumer equal amounts.
- D. Have the same prices.

**A study shows that the coefficient of the cross price elasticity of Coke and Sprite is negative. This information indicates that Coke and Sprite are:**

- A. Normal goods.

- B. Complementary goods.**
- C. Substitute goods.
- D. Independent goods.

**Elasticity of supply is defined as the ratio of:**

- A. Price over quantity supplied.
- B. Change in price over change in quantity supplied.
- C. Percentage change in quantity supplied over percentage change in price.**
- D. Percentage change in price over percentage change in quantity supplied.

**The change in total revenue divided by a one-unit change in output sold is known as:**

- A. Average revenue.
- B. Average profit.
- C. Marginal cost.
- D. Marginal revenue.**

**Marginal cost:**

- A. Is the cost of hiring the last unit of labor**
- B. Is another word for average cost
- C. Is rising when marginal product is rising
- D. Should be avoided

**In perfect competition, product price is:**

- A. Greater than marginal revenue.
- B. Equal to marginal revenue.**
- C. Equal to total revenue.
- D. Greater than total revenue.

**Which of the following would shift the demand curve for new textbooks to the right?**

- a. A fall in the price of paper used in publishing texts.
- b. A fall in the price of equivalent used text books.
- c. **An increase in the number of students attending college.**
- d. A fall in the price of new text books.

**Which of these measures the responsiveness of the quantity of one good demanded to an increase in the price of another good?**

- a. Price elasticity.
- b. Income elasticity.
- c. **Cross-price elasticity.**
- d. Cross-substitution elasticity.

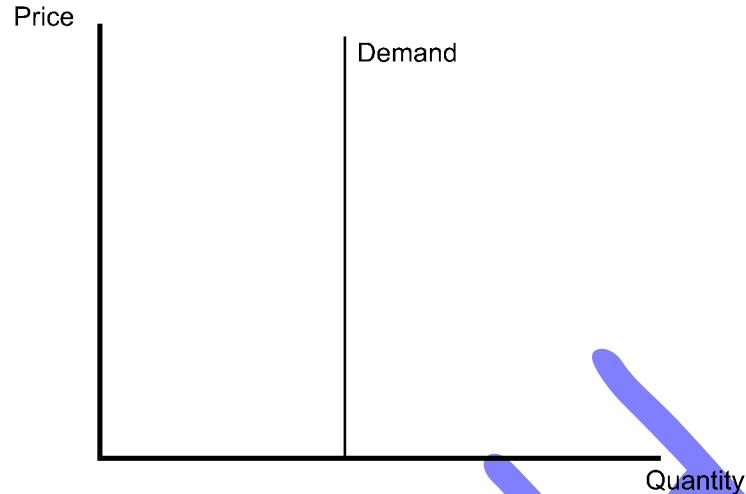
**Assume that the current market price is below the market clearing level. We would expect:**

- a. A surplus to accumulate.
- b. Downward pressure on the current market price.
- c. **Upward pressure on the current market price.**
- d. Lower production during the next time period.

**The income elasticity of demand is the:**

- a. Absolute change in quantity demanded resulting from a one-unit increase in income.
- b. Percent change in quantity demanded resulting from the absolute increase in income.
- c. **Percent change in quantity demanded resulting from a one percent increase in income.**
- d. Percent change in income resulting from a one percent increase in quantity demanded.

**Which of the following statements about the diagram below is true?**



- Demand is infinitely elastic.
- Demand is completely inelastic.**
- Demand becomes more inelastic the lower the price.
- Demand becomes more elastic the lower the price.

**In the long run, new firms can enter an industry and so the supply elasticity tends to be:**

- More elastic than in the short-run.**
- Less elastic than in the short-run.
- Perfectly elastic.
- Perfectly inelastic.

**A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:**

- A budget line.
- An isoquant.
- An indifference curve.**
- A demand curve.

**The magnitude of the slope of an indifference curve is:**

- Called the marginal rate of substitution.**
- Equal to the ratio of the total utility of the goods.
- Always equal to the ratio of the prices of the goods.
- All of the above.

**Which of the following is a positive statement?**

- Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
- The minimum wage should not be increased, because to do so would increase unemployment.
- Smoking should be restricted on all airline flights.

d. None of the above.

**A supply curve reveals:**

- a. The quantity of output consumers are willing to purchase at each possible market price.
- b. The difference between quantity demanded and quantity supplied at each price.
- c. The maximum level of output an industry can produce, regardless of price.
- d. **The quantity of output that producers are willing to produce and sell at each possible market price.**

**When there is excess demand in an unregulated market, there is a tendency for**

- A. quantity demanded to increase.
- B. quantity supplied to decrease.
- C. price to fall.
- D. **price to rise.**

**Equilibrium in the market for good A obtains**

- A. when there is no surplus or shortage prevailing in the market
- B. where the demand and supply curves for A intersect
- C. when all of what is produced of A is consumed
- D. **all of the above**

**A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by**

- A. a decrease in supply.
- B. **a fall in income.**
- C. a fall in the price of a complementary good.
- D. a fall in the number of substitute goods.

**Assume the good is normal**

**A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by**

- A. a fall in the price of a complementary good.
- B. a fall in income.
- C. a change in tastes such that consumers prefer the good more.
- D. **a rise in the number of substitute goods.**

**Assume the good is normal**

**A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by**

- A. **an increase in supply.**
- B. a rise in income.
- C. a rise in the price of a complementary good.
- D. a fall in the number of substitute goods.

**Assume the good is normal**

**When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as**

- A. price fixing.
- B. quantity setting.
- C. quantity adjustment.
- D. price rationing.**

**How much different equilibrium can obtain when you allow for shifts in the demand and/or the supply curves?**

- A. 2
- B. 4
- C. 8**
- D. 16

**What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right**

- A. price falls unambiguously but the effect on quantity cannot be determined**
- B. both price and quantity falls unambiguously
- C. quantity falls unambiguously but the effect on price cannot be determined
- D. the effect on both price and quantity cannot be determined

**What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left**

- A. price falls unambiguously but the effect on quantity cannot be determined
- B. both price and quantity falls unambiguously
- C. quantity falls unambiguously but the effect on price cannot be determined**
- D. the effect on both price and quantity cannot be determined

**A price ceiling imposed by the government can cause a shortage (excess demand)**

- A. when the price ceiling is above the free (or unregulated) market price
- B. when the price ceiling is below the free (or unregulated) market price**
- C. when the price ceiling is equal to the free (or unregulated) market price
- D. either of the above

**What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?**

- A. Price falls, quantity rises
- B. Price rises, quantity falls**
- C. Both price and quantity fall
- D. Both price and quantity rise

**A price floor is**

- A. a maximum price usually set by government, that sellers may charge for a good or service.
- B. a minimum price usually set by government, that sellers must charge for a good or service.**
- C. the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
- D. the minimum price that consumers are willing to pay for a good or service.

**The need for rationing a good arises when**

- A. there is a perfectly inelastic demand for the good.
- B. supply exceeds demand.
- C. demand exceeds supply.**
- D. a surplus exists.

**If the “regulated-market” price is below the equilibrium (or “free-market” price) price,**

- A. the quantity demanded will be greater than quantity supplied.**
- B. demand will be less than supply.
- C. quantity demanded will be less than quantity supplied.
- D. quantity demanded will equal quantity supplied.

**If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that**

- A. more workers would become employed.**
  - B. there would be more unemployment.
  - C. the costs and prices of firms employing cheap labour would increase.
- wages in general would fall as employers tried to hold down costs.

**A normative economic statement:**

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

**Midterm:**

**Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.**

- ▶ Limited resources, market behavior.
- ▶ Scarcity, human behavior.**
- ▶ Social behavior, limited resources.
- ▶ Biological behavior, scarcity.

Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:

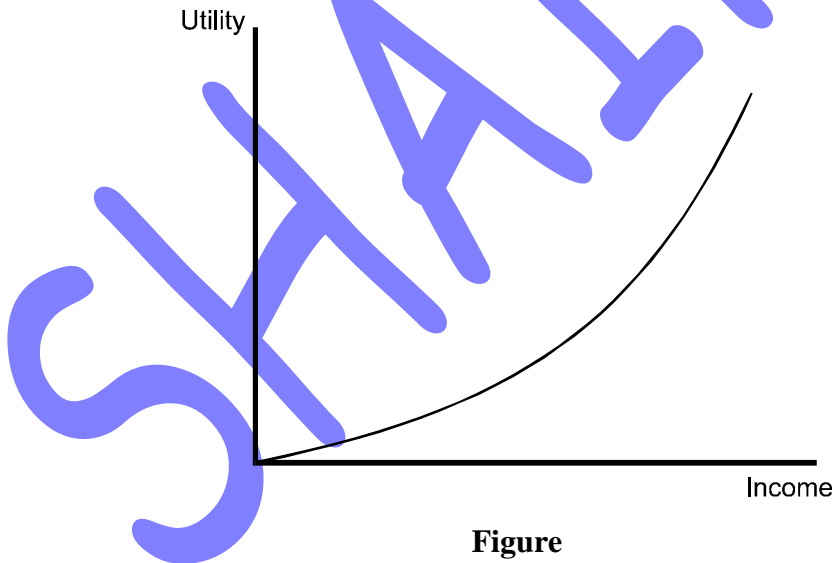
- ▶  $P = MR$ .
- ▶  $P = AVC$ .
- ▶  $AR = MR$ .
- ▶  $P = MC$ .

A welfare loss occurs in monopoly where:

- ▶ The price is greater than the marginal cost.
- ▶ The price is greater than the marginal benefit.
- ▶ The price is greater than the average revenue. (Doubt)
- ▶ The price is greater than the marginal revenue.

The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ Consumers can anticipate price changes.



Figure

In figure given above, the marginal utility of income is:

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.
- ▶ None of the given options.

A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:



▶ **The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.**

▶ The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.

▶ The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm. **(Doubt)**

▶ The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

**If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:**

- ▶ Independent.
- ▶ Complements.
- ▶ **Substitutes.**
- ▶ Inferior.

**A demand schedule is best described as:**

▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

▶ A graphical representation of the law of demand.

▶ A systematic listing of all the variables that might conceivably bring about a change in demand.

▶ A symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Which of the following best expresses the law of demand?**

▶ A higher price reduces demand.

▶ A lower price reduces demand.

▶ **A higher price reduces quantity demanded.**

▶ A lower price shifts the demand curve to the right.

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

▶ A reduction in unemployment.

▶ **An increase in the production of capital goods.**

▶ A reduction in discrimination.

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

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

▶ **Oligopoly.**

▶ Monopoly.

▶ Perfect competition.

▶ Monopolistic competition.

**A monopolistically competitive firm in short run equilibrium:**

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

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive. (sure)**
- ▶ Oligopolistic.

**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.

**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.
- ▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

**A tennis pro charges \$15 per hour for tennis lessons for children and \$30 per hour for tennis lessons for adults. The tennis pro is practicing:**

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ All of the given options.

**An electric power company uses block pricing for electricity sales. Block pricing is an example of:**

- ▶ First-degree price discrimination.
- ▶ **Second-degree price discrimination.**
- ▶ Third-degree price discrimination.
- ▶ Block pricing is not a type of price discrimination.

**A firm never operates:**

- ▶ At the minimum of its average total cost curve.
- ▶ **At the minimum of its average variable cost curve.**

- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

**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.

**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost. (Doubt)
- ▶ **Marginal revenue is greater than marginal cost.**

**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.

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶  $5Q$ .
- ▶ 5.
- ▶  **$5 + (200/Q)$ .**
- ▶ None of the given options.

**In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:**

- ▶ A fixed cost.
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ **An opportunity cost.**

**Costs determine all of the following EXCEPT:**

- ▶ **Demand for a product.**
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

**The rate at which a firm can substitute capital for labour and hold output constant is the:**

- ▶ Law of diminishing marginal returns.
- ▶ Marginal rate of substitution.
- ▶ **Marginal rate of factor substitution.**
- ▶ Marginal rate of production.

**If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:**

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale.

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

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution.**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

**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.**

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ **Downward-sloping.**

**Cross-price elasticity measures whether:**

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.**
- ▶ Demand is elastic or inelastic.
- ▶ Supply is steeper than demand or vice versa.

**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.
- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course.**
- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**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.**

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

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

- ▶ Significant.
- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**While moving from left to right, the typical production possibilities curve has:**

- ▶ An increasingly steep negative slope.
- ▶ A decreasingly steep negative slope.
- ▶ **An increasingly steep positive slope.**

- ▶ A constant and negative slope.

**When government sets the price of a good and that price is above the equilibrium price, the result will be:**

- ▶ **A surplus of the good.**
- ▶ A shortage of the good.
- ▶ An equilibrium.
- ▶ None of the given options.

**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.

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right.**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

**When an industry's raw material costs increase, other things remaining the same:**

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.

- ▶ **Output decreases and the market price also decrease.**
- ▶ The supply curve shifts to the left.

**Sugar can be refined from sugar beets. When the price of those beets falls:**

- ▶ The demand curve for sugar would shift right.
- ▶ The demand curve for sugar would shift left.
- ▶ **The supply curve for sugar would shift right.**
- ▶ The supply curve for sugar would shift left.

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

**Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:**

- ▶ None of the given options.
- ▶ The daily supply curve for fish slopes upward.
- ▶ **The daily supply curve for fish is perfectly inelastic.**

- ▶ The daily supply curve for fish is perfectly elastic.

**In order to calculate the price elasticity of supply, you need to know:**

▶ **Two prices and two quantities supplied.**

- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal. (Doubt)

**Suppose the first four units of an output produced incur corresponding total costs of 50, 150, 300, and 500. The marginal cost of the second unit of output is:**

- ▶ 50.
- ▶ **100.**
- ▶ 150.
- ▶ 200.

**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶ Horizontal.
- ▶ Vertical.
- ▶ **Negative.**
- ▶ Positive.

**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

- ▶ -14.
- ▶ **14.**
- ▶ 83.
- ▶ 97.

**Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is  $\frac{1}{4}$  then to maximize total utility, a consumer should:**

- ▶ Buy more pizzas and fewer jeans.
- ▶ **Buy fewer pizzas and more jeans.**
- ▶ Continue to buy the same quantities of pizza and jeans.
- ▶ Spend more time consuming pizza.

**Which of the following is NOT an assumption of ordinal utility analysis?**

- ▶ Consumers are consistent in their preferences.
- ▶ Consumers can measure the total utility received from any given basket of good.
- ▶ Consumers are non-satiated with respect to the goods they confront.
- ▶ **All of the given options are true.**

**Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:**

- ▶ Increase hours of work.

▶ **Decrease hours of work.**

- ▶ Not change hours of work.
- ▶ None of the given options.

Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

▶ **Economies of scale.**

- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

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

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

▶ **Isocost.**

An isoquant curve shows:

▶ **All the alternative combinations of two inputs that yield the same maximum total product.**

- ▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.
- ▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- ▶ None of the given options.

L-shaped isoquant:

▶ **Indicate that capital and labor cannot be substituted for each other in production.**

- ▶ Is impossible.
- ▶ Indicate that the firm could switch from one output to another costlessly.
- ▶ Indicate that the firm could not switch from one output to another.

Costs determine all of the following EXCEPT:

▶ **Demand for a product.**

- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

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.

**To find the profit maximizing level of output, a firm finds the output level where:**

- ▶ Price equals marginal cost. (Doubt)
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.
- ▶ **None of the given options.**

**The good produced by a monopoly:**

- ▶ Has perfect substitutes.
- ▶ **Has no substitutes at all.**
- ▶ Has no close substitutes.
- ▶ Can be easily duplicated.

**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.

**The monopolist has no supply curve because:**

- ▶ **The quantity supplied at any particular price depends on the monopolist's demand curve.**
- ▶ The monopolist's marginal cost curve changes considerably over time.
- ▶ The relationship between price and quantity depends on both marginal cost and average cost.
- ▶ Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

**In monopoly, which of the following is TRUE at the output level, where price = marginal cost?**

- ▶ **The monopolist is maximizing profit.**
- ▶ The monopolist is not maximizing profit and should increase output.
- ▶ The monopolist is not maximizing profit and should decrease output.
- ▶ The monopolist is earning a positive profit.

**Following are the disadvantages of monopoly EXCEPT:**

- ▶ Monopolists earn higher profits.
- ▶ **Monopolists produce high quality goods at higher prices.**
- ▶ Most of the “surplus” (producer + consumer surplus) accrues to monopolists.
- ▶ Monopolists do not pay sufficient attention to increasing efficiency.

**When a firm charges each customer the maximum price that the customer is willing to pay, the firm:**

- ▶ Engages in a discrete pricing strategy.

- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ **Engages in first-degree price discrimination.**

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.

A demand schedule is best described as:

**▶ A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

- ▶ A graphical representation of the law of demand.
- ▶ A systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ A symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

A partial explanation for the inverse relationship between price and quantity demanded is that a:

- ▶ Lower price shifts the supply curve to the left.
- ▶ Higher price shifts the demand curve to the left.
- ▶ **Lower price shifts the demand curve to the right.**
- ▶ Higher price reduces the real incomes of buyers.

The total utility curve for a risk neutral person will be:

- ▶ **Straight line.**
- ▶ Convex.
- ▶ Concave.
- ▶ None of the given options.

Which of the following is NOT a factor of production?

- ▶ Labour.
- ▶ Land.
- ▶ Capital.
- ▶ **Investment.**

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.

**Demand is elastic when the elasticity of demand is:**

- ▶ Greater than 0 but less than 1.
- ▶ **Greater than 1.**
- ▶ Less than 0.
- ▶ Equal to 1.

**Which of the following is a normative statement?**

- ▶ Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
- ▶ The minimum wage should not be increased, because to do so would increase unemployment.
- ▶ Smoking should be restricted on all airline flights.
- ▶ **All of the given options.**

**Ceteris paribus means:**

- ▶ Equal access to public transportation.
- ▶ **Other things being equal.**
- ▶ Other things not being equal.
- ▶ All things considered.

**Which of the following is calculated as the percentage change in quantity demanded of a given good with respect to the percentage change in the price of another good?**

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

**Which of the following is the term that economists use to describe how consumers rank different goods and services?**

- ▶ **Satisfaction index.**
- ▶ Goodness.
- ▶ Utility. (correct)
- ▶ None of the given options.

**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.

**As long as all prices remain constant, an increase in money income results in:**

- ▶ An increase in the slope of the budget line.
- ▶ A decrease in the slope of the budget line.
- ▶ **An increase in the intercept of the budget line.**

- ▶ A decrease in the intercept of the budget line.

**The income effect of a price change:**

- ▶ Is always positive.
- ▶ Is always negative.
- ▶ **May be positive or negative.**
- ▶ Is associated with a change in nominal income.

**Which of the following is considered to be a variable cost in the long run?**

- ▶ Expenditures for wages.
- ▶ Expenditures for research and development.
- ▶ Expenditures for raw materials.
- ▶ **All of the given options.**

\_\_\_\_\_ 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.

**If isoquants are straight lines, it means that:**

- ▶ Only one combination of inputs is possible.
- ▶ There is constant returns to scale.
- ▶ Inputs have fixed costs at all use rates.
- ▶ **The marginal rate of technical substitution of inputs is constant.**

**At the profit-maximizing level of output, marginal profit:**

- ▶ Is positive.
- ▶ **Is increasing.**
- ▶ Is zero. (correct)
- ▶ Is also maximized.

**As compared to existing firms, a new firm entering in monopolist market has:**

- ▶ **High costs.**
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

**Cartels are likely to fail when:**

- ▶ The members adhere to their output quotas.
- ▶ **The non-cartel members increase output.**
- ▶ The members charge identical prices.
- ▶ None of the given options.

**If the income elasticity of demand is 1/2, the good is:**

- ▶ A luxury. (correct)
- ▶ **A normal good (but not a luxury).**
- ▶ An inferior good.
- ▶ A Giffen good.

**If the demand curve for a good is downward sloping, then the good:**

- ▶ Must be inferior.
- ▶ Must be giffen.
- ▶ **Can be normal or inferior.**
- ▶ Must be normal. (correct)

**What is meant by freedom of enterprise in pure capitalism?**

- ▶ **It means that businesses are free to produce products that consumers want.**
- ▶ It means that consumers are free to buy goods and services that they want.
- ▶ It means that resources are distributed freely to businesses.
- ▶ It means that government is free to direct the actions of businesses.

**What questions are related with explanation? What questions are related with what ought to be?**

- ▶ Positive, negative.
- ▶ Negative, normative.
- ▶ **Normative, positive.**
- ▶ Positive, normative.

**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.

**What is meant by the term utility?**

- ▶ Useless.
- ▶ Require.
- ▶ Necessary.
- ▶ **Satisfaction.**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

- ▶ 5Q. (correct)
- ▶ 5.
- ▶  **$5 + (200/Q)$ .**
- ▶ 200.

Which of the following is NOT included in the perfect information assumption of perfect competition?

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

Which of the following is TRUE for third-degree price discrimination?

▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

- ▶ Charging each consumer the same two part tariff.
- ▶ The use of increasing block rate pricing.
- ▶ Charging lower prices the greater the quantity purchased.

The government can regulate monopolies to ensure that they set a price where the AR curve intersects the

▶ **Marginal revenue curve.**

- ▶ Average variable cost.
- ▶ Marginal cost curve.
- ▶ None of the given options.

A reduced price may be offered if you buy two t-shirts instead of just one. This is an example of

- ▶ Perfect competition.
- ▶ First-degree price discrimination.
- ▶ Monopoly.
- ▶ **Second-degree price discrimination.**

When different prices are charged to customers who purchase different quantities, this is an example of

- ▶ **Second-degree price discrimination.**
- ▶ First-degree price discrimination.
- ▶ Monopoly.
- ▶ Perfect competition.

The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:

- ▶ The demand curve for eggs to shift leftward.
- ▶ Quantity demanded of eggs to decrease.
- ▶ **The demand curve for eggs to shift rightward.**
- ▶ Quantity demanded of eggs to increase.

Slope and elasticity of demand have

- ▶ A direct relation.
- ▶ **An inverse relationship.**
- ▶ No relation between slope and elasticity.

- ▶ None of the given options.

**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. (correct)**
- ▶ The average utility for the consumption of the first five units.

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**

**A market is said to be in equilibrium when:**

- ▶ Demand equals output.
- ▶ There is downward pressure on price.
- ▶ **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**
- ▶ All buyers are able to find sellers willing to sell to them at the current price.

**A demand curve is price elastic when:**

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

**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.**

**The substitution effect of a wage increase will lead a person to:**

- ▶ **Work more.**
- ▶ Take more leisure.
- ▶ Not change anything.
- ▶ None of the given options.

**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.**

**A firm maximizes profit by operating at the level of output where:**

- ▶ Average revenue equals average cost.
- ▶ Average revenue equals average variable cost.
- ▶ Total costs are minimized.
- ▶ **Marginal revenue equals marginal cost.**

**Producer surplus in a perfectly competitive industry is:**

▶ **The difference between profit at the profit-maximizing and profit-minimizing level of output.**

- ▶ The difference between revenue and total cost.
- ▶ The difference between revenue and variable cost.
- ▶ The difference between revenue and fixed cost.

**You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:**

- ▶ **The demand for houses has increased.**
- ▶ The demand curve for houses must be upward-sloping.
- ▶ The supply of houses has increased.
- ▶ Housing construction costs must be decreasing.

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

- ▶ **Law of large numbers.**
- ▶ Law of small numbers.
- ▶ Law of zero numbers.
- ▶ All of the given options.

**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ **Inferior good.**

**In monopoly, which of the following is NOT true?**

- ▶ Products are differentiated.
- ▶ **There is freedom of entry and exit into the industry in the long run.**
- ▶ The firm is a price maker.
- ▶ There is one main seller.

**In the above figure, the marginal utility of income is:**

- ▶ **Increasing as income increases.**
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.



- ▶ None of the given options.

**How many points you need to know to calculate the price elasticity of demand on the same demand curve?**

- ▶ One.
- ▶ **Two.**
- ▶ Three.
- ▶ Four.

**What is the assumption of constructing a production possibilities curve?**

- ▶ Economic resources are underutilized.
- ▶ Resources are equally productive in many alternative uses.
- ▶ **All available resources are employed efficiently.**
- ▶ Production technology is allowed to vary.

**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.**

**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.

**If average physical product (APP) is decreasing then which of the following must be true?**

- ▶ Marginal physical product is more than the average physical product.
- ▶ Marginal physical product is less than the average physical product.
- ▶ Marginal physical product is decreasing.
- ▶ **Marginal physical product is increasing.**

**Which of the following statement describes decreasing returns to scale?**

- ▶ Increasing the inputs by 1/4% leads to a 1/2% increase in output.
- ▶ **Increasing inputs by 1/2 leads to an increase in output of 1/6.**
- ▶ Doubling the inputs used leads to double the output.
- ▶ None of the given options.

**All the factors of production become variable in:**

- ▶ Law of increasing return.
- ▶ **Long run.**
- ▶ Law of decreasing cost.
- ▶ Short run.

**Indifference curves that are concave to the origin reflect:**

- ▶ An increasing marginal rate of substitution
- ▶ A decreasing marginal rate of substitution
- ▶ **A constant marginal rate of substitution**
- ▶ A marginal rate of substitution that first decreases then increases

**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

**Which of the following is not included in the key ingredients of any market structure?**

- ▶ Number of firms in the market/industry
- ▶ Extent of barriers to entry
- ▶ **Perfect knowledge**
- ▶ Degree of control over price

**At the profit-maximizing level of output, marginal cost equals to:**

- ▶ Average revenue
- ▶ Total revenue
- ▶ **Marginal revenue**
- ▶ None of the given options

**Price floor results in:**

- ▶ All of the given options.
- ▶ Excess supply.
- ▶ **Equilibrium.**
- ▶ Excess demand.

**The cross price elasticity of demand for complementary goods is:**

- ▶ **Less than 0.**
- ▶ Equal to 0.
- ▶ Greater than 0.
- ▶ Between 0 and 1.

**We know that the demand for a product is elastic:**

- ▶ When price rises, total revenue rises.
- ▶ **When price rises, total revenue falls.**
- ▶ When income rises, quantity demanded rises.
- ▶ When income falls, quantity demanded rises.

**An individual with a constant marginal utility of income will be:**

- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.
- ▶ Insufficient information for a decision.

**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.**

**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.

**Which of the following is a correct statement about the substitution effect?**

- ▶ **The substitution effect is always negative.**
- ▶ The substitution effect is positive for an inferior good.
- ▶ The substitution effect measures how demand changes when income changes.
- ▶ The substitution effect is positive for a Giffen good.

**Graphically, marginal revenue is defined as:**

- ▶ The slope of a line from the origin to a point on the total revenue curve.
- ▶ The slope of a line from the origin to the end of the total revenue curve.
- ▶ **The slope of the total revenue curve at a given point.**
- ▶ The vertical intercept of a line tangent to the total revenue curve at a given point.

**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.

**The break-even point occurs when:**

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ **Price = Average Total Cost.**
- ▶ Price > Average Variable Cost.

Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a \_\_\_\_\_ price and sell a \_\_\_\_\_ quantity.

- ▶ Higher; larger.
- ▶ Lower; larger.
- ▶ **Higher; smaller.**
- ▶ Lower; smaller.

If a sales tax on beer leads to reduced tax revenue, this means:

- ▶ Elasticity of demand is  $< 1$ .
- ▶ **Elasticity of demand is  $> 1$ .**
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

Which of the following is true about supply curve under monopoly?

- ▶ It is same as the competitive market supply curve. (Doubt)
- ▶ 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.**

Which of the following best describes a demand schedule?

- ▶ **It is a numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**
- ▶ It is a graphical representation of the law of demand.
- ▶ It is a systematic listing of all the variables that might conceivably bring about a change in demand.
- ▶ It is a symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?

- ▶ **10.**
- ▶ 13.
- ▶ 20.
- ▶ 33.

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.

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.

**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.

**Rationing is needed due to the problem of**

- ▶ Unemployment.
- ▶ Inflation.
- ▶ **Scarcity.**
- ▶ Poverty.

**The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:**

- ▶ **Positive.**
- ▶ Strictly linear.
- ▶ Flat.
- ▶ Negative.

**A firm in monopolistic competition does not achieve minimum efficient scale because:**

- ▶ It is not a monopoly.
- ▶ **It is in competition with other firms.**
- ▶ It is operating on the downward-sloping part of the average cost curve.
- ▶ It produces at the minimum average cost.

**Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?**

- ▶ The fact that price exceeds marginal cost.
- ▶ Excess capacity.
- ▶ **Product diversity.**
- ▶ The fact that long-run average cost is not minimized.

**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.

**Which of the following is an example of a natural monopoly?**

- ▶ The trademark protecting Gatoraide.
- ▶ The talents of Tom Hanks.
- ▶ **The local water company.**

- ▶ The patent on an Intel processor.

**A monopoly occurs when:**

- ▶ Each firm produces a product that is slightly different from the other firms.
- ▶ **One firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**
- ▶ There are many firms producing the same product.
- ▶ All of the given options.

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

- ▶ 200.
- ▶  **$5Q$ .**
- ▶ 5.
- ▶  $5 + (200/Q)$ .

**Incremental cost is the same concept as:**

- ▶ Average cost.
- ▶ **Marginal cost.**
- ▶ Fixed cost.
- ▶ Variable cost.

**Fixed costs are fixed with respect to changes in:**

- ▶ **Output.**
- ▶ Capital expenditures.
- ▶ Wages.
- ▶ Time.

**When an isocost line is just tangent to an isoquant, we know that:**

- ▶ **Output is being produced at minimum cost.**
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

**A negatively sloped isoquant implies:**

- ▶ Products with negative marginal utilities.
- ▶ Products with positive marginal utilities. (Doubt)
- ▶ **Inputs with negative marginal products.**
- ▶ Inputs with positive marginal products.

**Diminishing marginal returns implies:**

- ▶ Decreasing marginal costs.
- ▶ **Increasing marginal costs.**
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

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.

The following table shows a firm’s Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?

**Table**

Quantity of Labor	Total Product
0	0
10	100
20	230
30	340
40	410
50	460

- ▶ 340 units.
- ▶ **220 units.**
- ▶ 11 units.
- ▶ 110 units.

If Average Physical Product (APP) is increasing then which of the following must be true?

- ▶ **Marginal physical product is greater than average physical product.**
- ▶ Marginal physical product is less than average physical product.
- ▶ Marginal physical product is increasing.
- ▶ Marginal physical product is decreasing.

Assume Leisure is a normal good. If income effect exceeds substitution effect then a wage decrease will lead a person to:

- ▶ Decrease hours of work.
- ▶ **Increase hours of work.**
- ▶ Not change anything.
- ▶ All of the given options.

If a market basket is changed by adding more to at least one of the goods, then every consumer will:

- ▶ Rank the market basket more highly after the change.
- ▶ Rank the market basket more highly before the change.
- ▶ Rank the market basket just as desirable after the change.
- ▶ **Be unable to decide whether he prefers the first market basket to the second or the second to the first.**

**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.

**Suppose the first four units of an output produced incur corresponding total costs of 400, 700, 900, and 1000. The marginal cost of the fourth unit of output is:**

- ▶ 50.
- ▶ **100.**
- ▶ 150.
- ▶ 200.

**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.

**Marginal utility is best described as:**

- ▶ The total satisfaction gained from the total consumption of the good.
- ▶ The change in satisfaction from consuming one additional unit of the good.
- ▶ **The additional satisfaction gained by consumption of the last good.**
- ▶ The per unit satisfaction of the good consumed.

**When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:**

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ **Inelastic.**

**A price ceiling might be an appropriate government response to a:**

- ▶ Period of falling farm prices due to unusually good harvests.
- ▶ Substantial increase in farm productivity due to applications of new technology in agriculture.
- ▶ **National security crisis leading to major shortages of essential goods.**
- ▶ Period of extraordinary large surpluses of farm goods.

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

- ▶ **Shifts to the left.**



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

**In a free-market economy, the allocation of resources is determined by:**

- ▶ Votes taken by consumers.
- ▶ **A central planning authority.**
- ▶ Consumer preferences.
- ▶ The level of profits of firms.

**Which of the following might be considered to be a characteristic of a planned economy?**

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

**Which of the following is a positive statement?**

- ▶ When the price of a good goes up, consumers buy less of it.
- ▶ When the price of a good goes up, firms produce more of it.
- ▶ When the Federal government sells bonds, interest rates rise and private investment is reduced.
- ▶ **All of the given options.**

**Assume that the current market price is below the market clearing level. We would expect:**

- ▶ A surplus to accumulate.
- ▶ Downward pressure on the current market price.
- ▶ **Upward pressure on the current market price.**
- ▶ Lower production during the next time period.

**If the quantity supplied of oranges exceeds the quantity demanded then:**

- ▶ There is a shortage of oranges.
- ▶ **Market forces will cause the price to fall.**
- ▶ Market forces will cause the price to rise.
- ▶ The market is in equilibrium.

**When the marginal utility of a good is zero, this implies that:**

- ▶ **The consumer would not spend any additional income to buy more of that good.**
- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ Total utility is also zero.

**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.

**If at the profit-maximizing quantity, profits are positive, then:**

- ▶ Price < Average Total Cost.
- ▶ Price > Average Total Cost.
- ▶ Price < Average Variable Cost.
- ▶ **Price = Marginal Cost.**

**Second-degree price discrimination is the practice of charging:**

- ▶ The reservation price to each customer.
- ▶ **Different prices for different blocks of the same good or service.**
- ▶ Different groups of customers different prices for the same products.
- ▶ Each customer the maximum price that he or she is willing to pay.

**What happens to an incumbent firm's demand curve in monopolistic competition as new firms enter?**

- ▶ It shifts rightward.
- ▶ **It shifts leftward.**
- ▶ It becomes horizontal.
- ▶ New entrants will not affect an incumbent firm's demand curve.

**You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:**

- ▶ **The demand for houses has increased.**
- ▶ The demand curve for houses must be upward-sloping.
- ▶ The supply of houses has increased.
- ▶ Housing construction costs must be decreasing.

**A natural monopoly is most likely to exist when:**

- ▶ There are large barriers to entry.
- ▶ There are long term patents.
- ▶ There are large economies of scale.
- ▶ **There is government regulation of the industry.**

**Usually the shape of production possibilities curve is:**

- ▶ **Concave.**
- ▶ Convex.
- ▶ Linear.
- ▶ Positive.

**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.**

Suppose an increase in income causes demand curve to shift to rightward. In this case, what will happen at any given price?

- ▶ **The price elasticity of demand will remain unchanged.**
- ▶ The price elasticity of demand will decrease in absolute terms.
- ▶ The price elasticity of demand will increase in absolute terms.
- ▶ The price elasticity of demand will increase, decrease or stay the same. It cannot be determined.

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.

Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?

- ▶ **10.**
- ▶ 13.
- ▶ 20.
- ▶ 33.

Which of the following best defines the marginal rate of technical substitution?

- ▶ The rate at which a producer is able to exchange, without affecting the quantity of output produced, a little bit of one input for a little bit of another input.
- ▶ The rate at which a producer is able to exchange, without affecting the total cost of inputs, a little bit of one input for a little bit of another input.
- ▶ The rate at which a producer is able to exchange, without affecting the total inputs used, a little bit of one output for a little bit of another output.
- ▶ **A measure of the ease or difficulty with which a producer can substitute one technique of production for another.**

The total cost (TC) function is given as  $TC = 100 + 3Q$ . What is the marginal cost?

- ▶ 100
- ▶ 3Q
- ▶ **3**
- ▶ 103

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

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

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

**If the current market price is set above the market clearing level then which of the following will happen:**

- ▶ **There will be downward pressure on the current market price.**
- ▶ There will be upward pressure on the current market price.
- ▶ There will be lower production during the next time period.
- ▶ There will be a surplus to accumulate.

**As price increases total revenue decreases in case of**

- ▶ Inelastic demand.
- ▶ Unit elastic demand.
- ▶ Zero elastic demand.
- ▶ **Elastic demand.**

**If the cross price elasticity of demand between two goods A and B is negative; it means that goods are**

- ▶ Independent.
- ▶ Inferior.
- ▶ **Complements.**
- ▶ Substitutes.

**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.

**If a sales tax on beer leads to reduced tax revenue, this means:**

- ▶ Elasticity of demand is  $< 1$ .
- ▶ **Elasticity of demand is  $> 1$ .**
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

**All other things being equal, an increase in government spending will:**

- ▶ **Shift the aggregate demand curve to the right.**
- ▶ Shift the aggregate demand curve to the left.
- ▶ Make the aggregate demand curve flatter.
- ▶ Make the aggregate demand curve steeper.

**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.

**All other things being equal, a change in the price level causes:**

- ▶ A movement along the same aggregate demand curve.
- ▶ A shift of the aggregate demand curve.
- ▶ **Both a movement along the aggregate demand curve and a shift in the curve.**
- ▶ No change in the value of assets held in the form of money.

**The unemployed individuals are those who are:**

- ▶ **Not currently working but are actively looking for work.**
- ▶ Working but looking for a different job.
- ▶ Not currently working.
- ▶ Working less than their desired amount of time.

**The government has a budget deficit 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.

**The supply curve is positively sloped because:**

- ▶ As the price increases, consumers demand less.
- ▶ **As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.**
- ▶ None of the given options.
- ▶ As the price increases, so do costs.

**Maximum number of firms in an oligopoly is about**

- ▶ 2
- ▶ 10
- ▶ 15
- ▶ **20 (p 81)**

**The marginal propensity to consume is the ratio of:**

- ▶ **A change in consumption to a change in disposable income.**
- ▶ A change in consumption to total disposable income at a specific income level.
- ▶ Total consumption to total disposable income at a specific income level.
- ▶ Total consumption to a change in disposable income.

**Unemployment generally ----- when the "real" GDP falls rapidly.**

- ▶ Stagnant.

- ▶ Increase.
- ▶ **Decrease.**
- ▶ None of the given options.

**What is potentially the biggest advantage of a small partnership over a sole proprietorship?**

- ▶ Unlimited liability
- ▶ Single tax filing
- ▶ Difficult ownership resale
- ▶ **Raising capital**

**Countries that are among the high income nations of the world are categorized as:**

- ▶ **Developed countries.**
- ▶ Underdeveloped countries.
- ▶ Backward countries.
- ▶ High growth rate countries.

**If the equilibrium price of bread is \$2 and the government imposes a \$1.50 price ceiling on the price of bread:**

▶ **The demand for bread will decrease because suppliers will reduce their supply.**

- ▶ A surplus of bread will emerge.
- ▶ More bread will be produced to meet the increased demand.
- ▶ There will be a shortage of bread.

**The gold standard was an example of what kind of exchange-rate system?**

- ▶ A managed floating exchange rate.
- ▶ **A fixed exchange rate.**
- ▶ A non-convertible exchange rate.
- ▶ A freely floating exchange rate.

**The act of reducing the price of one country's currency in terms of other currencies by the government is known as:**

- Revaluation.
- Devaluation.
- Appreciation.
- Depreciation.**

**Famous statement "Supply creates its own demand" is presented by:**

- J.M. Keynes.
- Adam Smith.
- David Ricardo.
- J.B. Say. (Sure)**

**If there is an excess demand for dollars in the market then it will:  
Pushes the exchange rate up. (p 155)**

Pushes the exchange rate down.  
Not affect the exchange rate.  
Increase poverty.

**If imports are greater than exports of any country, than that country will face:  
Current account deficit.**

Current account surplus.  
Fiscal deficit.  
Devaluation in local currency.

Price of rice (per bag)	Quantity demanded of rice by Rabia	Quantity demanded of rice by Ali	Quantity demanded of rice by Ahmad
90	10	0	60
80	15	10	80
70	20	20	100
60	25	30	120
50	30	40	140
40	40	50	160

The above table shows the quantity demanded of rice by Rabia, Ali and Ahmad at different price per bag. If Rabia, Ali and Ahmad are the only three buyers in the market and the price of a bag of rice is Rs. 60, the total market demand of rice is:

105  
140  
**175 (sure)**  
280

**The difference between the willingness to pay and what consumer actually has to pay is called:**

Producer surplus.  
Utility.  
Marginal utility.  
**Consumer surplus. (p 41)**