

- 1 The process by which resources are transformed into useful forms is
  - A. capitalisation.
  - B. consumption.
  - C. allocation.
  - D. production.**
- 2 The concept of choice would become irrelevant if
  - A. capital were eliminated.
  - B. scarcity were eliminated.**
  - C. we were dealing with a very simple, one-person economy.
  - D. poverty were eliminated.
- 3 Which of the following is not a resource as the term is used by economists?
  - A. money.**
  - B. land.
  - C. buildings.
  - D. labour.
- 4 Capital, as economists use the term,
  - A. is the money the firm spends to hire resources.
  - B. is money the firm raises from selling stock.
  - C. refers to the process by which resources are transformed into useful forms.
  - D. refers to things that have already been produced that are in turn used to produce other goods and services.**
- 5 Opportunity cost, most broadly define, is
  - A. the additional cost of producing an additional unit of output.
  - B. what we forgo, or give up, when we make a choice or a decision.**
  - C. a cost that cannot be avoided, regardless of what is done in the future.
  - D. the additional cost of buying an additional unit of a product.
- 6 A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a
  - A. demand curve.
  - B. supply curve
  - C. production possibility frontier .**
  - D. circular-flow diagram.
- 7 Periods of “less than full employment” of resources correspond to
  - A. points on the ppf.
  - B. points outside the ppf.
  - C. either points inside or outside the ppf.
  - D. points inside the ppf.**

- 8 What lies is at the heart of the allocation of goods and services in a free-market economy?
- A. Concerns of equity or equal distribution among individuals.
  - B. The order or command of the ruling government or dictator.
  - C. The wishes of consumers in the market.
  - D. The price mechanism.**
- 9 The phrase 'ceteris paribus' is best expressed as
- A. 'all else equal.'**
  - B. 'everything affects everything else.'
  - C. 'scarcity is a fact of life.'
  - D. 'there is no such thing as a free lunch.'
- 10 Laboratory (or controlled) experiments cannot be performed in economics because:
- A. of resource scarcity.
  - B. economics is a natural science.
  - C. of the difficulty of distinguishing between normative and positive statements.
  - D. economics is a social science.**
- 11 Positive statements are:
- A. value judgments
  - B. verifiable or testable**
  - C. statements in the affirmative
  - D. good statements
- 12 The former Soviet Union was an example of:
- A. a **planned economy**
  - B. free-market/capitalism
  - C. dictatorship
  - D. a mixed economy
13. Rational choice or rational decision-making involves
- A. comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
  - B. weighing up total costs and total benefits associated with a decision
  - C. weighing up marginal costs and marginal benefits associated with a decision**
  - D. all of the above.

14 The PPF can be used to illustrate:

- A. the principle of opportunity costs and increasing opportunity costs
- B. the distinction between micro and macroeconomics
- C. efficient, infeasible and inefficient production combinations
- D. **all of the above**

Note for students: Unless otherwise stated, you should assume that we are operating in P-Q space.

15 The concept of “interdependence of markets” can refer to the interdependence between:

- A. two or more factor markets
- B. goods and factor markets
- C. goods markets
- D. **all of the above**

16 The 'law of demand' implies that

- A. **as prices fall, quantity demanded increases.**
- B. as prices fall, demand increases.
- C. as prices rise, quantity demanded increases.
- D. as prices rise, demand decreases.

1. What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

- A. the **substitution effect.**
- B. the ceteris paribus effect.
- C. the total price effect.
- D. the income effect.

2. The quantity demanded ( $Q_d$ ) of a soft drink brand A has decreased. This could be because:

- A. A's consumers have had an increase in income.
- B. **the price of A has increased.**
- C. A's advertising is not as effective as in the past.
- D. the price of rival brand B has increased.

5 Demand curves in P-Q space are derived while holding constant

- A. consumer tastes and the prices of other goods.
- B. incomes, tastes, and the price of the good.
- C. incomes and tastes.
- D. **incomes, tastes, and the prices of other goods.**

- 6 Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are
- A. perfect substitutes.
  - B. unrelated goods.
  - C. complements.**
  - D. substitutes.
- 7 If the demand for coffee decreases as income decreases, coffee is
- A. a normal good.**
  - B. a complementary good.
  - C. an inferior good.
  - D. a substitute good.
- 8 Which of the following will NOT cause a shift in the demand curve for compact discs?
- A. a change in the price of pre-recorded cassette tapes.
  - B. a change in wealth.
  - C. a change in income.
  - D. a change in the price of compact discs.**
- 9 Which of the following is consistent with the law of supply?
- A. As the price of calculators rises, the supply of calculators increases, ceteris paribus.
  - B. As the price of calculators falls, the supply of calculators increases, ceteris paribus.
  - C. As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus .**
  - D. As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.
- 10 The price of computer chips used in the manufacture of personal computers has fallen. This will lead to \_\_\_\_\_ personal computers.
- A. a decrease in the supply of
  - B. a decrease in the quantity supplied of
  - C. an increase in the supply of**
  - D. an increase in the quantity supplied of

11 When there is excess demand in an unregulated market, there is a tendency for

- A. quantity demanded to increase.
- B. quantity supplied to decrease.
- C. price to fall.
- D. price to rise.**

12 Equilibrium in the market for good A obtains

- A. when there is no surplus or shortage prevailing in the market
- B. where the demand and supply curves for A intersect
- C. when all of what is produced of A is consumed
- D. all of the above**

13 A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by

- A. a decrease in supply.
- B. a fall in income.**
- C. a fall in the price of a complementary good.
- D. a fall in the number of substitute goods.

Assume the good is normal

14 A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by

- A. a fall in the price of a complementary good.
- B. a fall in income.
- C. a change in tastes such that consumers prefer the good more.
- D. a rise in the number of substitute goods.**

Assume the good is normal

15 A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by

- A. an increase in supply.**
- B. a rise in income.
- C. a rise in the price of a complementary good.
- D. a fall in the number of substitute goods.

Assume the good is normal

16 When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as

- A. price fixing.
- B. quantity setting.
- C. quantity adjustment.
- D. price rationing.**

- 17 How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?
- A. 2
  - B. 4
  - C. 8**
  - D. 16
- 18 What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right
- A. price falls unambiguously but the effect on quantity cannot be determined**
  - B. both price and quantity falls unambiguously
  - C. quantity falls unambiguously but the effect on price cannot be determined
  - D. the effect on both price and quantity cannot be determined
- 19 What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left
- A. price falls unambiguously but the effect on quantity cannot be determined
  - B. both price and quantity falls unambiguously
  - C. quantity falls unambiguously but the effect on price cannot be determined**
  - D. the effect on both price and quantity cannot be determined
- 20 A price ceiling imposed by the government can cause a shortage (excess demand)
- A. when the price ceiling is above the free (or unregulated) market price
  - B. when the price ceiling is below the free (or unregulated) market price**
  - C. when the price ceiling is equal to the free (or unregulated) market price
  - D. either of the above
- 21 What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?
- A. Price falls, quantity rises
  - B. Price rises, quantity falls**
  - C. Both price and quantity fall
  - D. Both price and quantity rise

- 22 A price floor is
- A. a maximum price usually set by government, that sellers may charge for a good or service.
  - B. **a minimum price usually set by government, that sellers must charge for a good or service.**
  - C. the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
  - D. the minimum price that consumers are willing to pay for a good or service.
- 23 The need for rationing a good arises when
- A. there is a perfectly inelastic demand for the good.
  - B. supply exceeds demand.
  - C. **demand exceeds supply.**
  - D. a surplus exists.
- 24 If the “regulated-market” price is below the equilibrium (or “free-market” price) price,
- A. **the quantity demanded will be greater than quantity supplied.**
  - B. demand will be less than supply.
  - C. quantity demanded will be less than quantity supplied.
  - D. quantity demanded will equal quantity supplied.
- 25 If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that
- A. **more workers would become employed.**
  - B. there would be more unemployment.
  - C. the costs and prices of firms employing cheap labour would increase.
  - D. wages in general would fall as employers tried to hold down costs.
1. Alpha Corporation 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 Alpha produce
- A. **are normal goods.**
  - B. have few complementary goods.
  - C. have many complementary goods.
  - D. have few substitutes.
- 2 When the decrease in the price of one good causes the demand for another good to decrease, the goods are
- A. complements.
  - B. normal.
  - C. inferior.
  - D. **substitutes.**
- 3 The price elasticity of demand is the

**A. ratio of the percentage change in quantity demanded to the percentage change in price.**

B. ratio of the change in price to the change in quantity demanded.

C. ratio of the change in quantity demanded to the change in price .

D. ratio of the percentage change in price to the percentage change in quantity demanded.

4 The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:

A. inelastic.

B. perfectly inelastic.

**C. elastic.**

D. perfectly elastic.

5 The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is

**A. elastic.**

B. inelastic.

C. unitarily elastic

D. perfectly elastic

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- 6 If the cross-price elasticity of demand between two goods is negative, then the two goods are
- A. unrelated goods.
  - B. substitutes.
  - C. complements.**
  - D. normal goods.
- 7 If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is
- A. -4.
  - B. 4.
  - C. -0.25.
  - D. 0.25.**
- 8 The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?
- A. This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.
  - B. The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time .**
  - C. This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.
  - D. No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.
- 9 The burden (incidence) of a tax will fall mainly on the producers if:
- A. The producers are the ones legally obliged to pay the tax .
  - B. Supply is inelastic and demand is elastic.**
  - C. Demand is inelastic and supply is elastic.
  - D. There are many producers in the market.
- 10 Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?
- A. Inferior goods.**
  - B. Normal goods.
  - C. Substitute goods.
  - D. Complementary goods.

11. Each type of elasticity has its own set of determinants. You are given four determinants below. Match them with the three types of elasticity given:

- A. The number and closeness of substitute goods:
- B. Time:
- C. **The proportion of income spent on the goods :**
- D. The rate at which the desire for a good is satisfied as consumption increases:

PES: price elasticity of supply

IED: Income elasticity of demand

PED: price elasticity of demand

**A. i = IED; ii = PES; iv: PED**

B. i = IED, ii, iii, iv = PED

C. i, ii and iii = PED; iv = IED; ii = PES

D. None of the above

where “=” means “is a determinant of”

12. If total revenue rises by 10% when price increases by 5%, this means:

- A. demand is price inelastic**
- B. demand is price elastic
- C. demand is unit elastic
- D. demand is perfectly inelastic

13. If a 5% increase in price causes no change in total revenue, this means:

- A. demand is price inelastic
- B. demand is price elastic
- C. demand is unit elastic**
- D. demand is perfectly inelastic

14. Which of the following statements is true:

- A. Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.
- B. Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.
- C. We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range**
- D. A straight line demand curve with a slope of -1 delivers unit elasticity.

15. When firms advertise their product, they are trying to:

- A. Shift the demand curve to the right
- B. Make the demand curve steeper
- C. Make demand for the product more inelastic
- D. All of the above**

16. "It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy."
- A. False. A good can only have one characterization in an economy, normal or inferior, not both
  - B. False. Milk is always and everywhere a normal good.
  - C. **True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.**
  - D. True. Some people in the economy like milk, others don't.
- 17 A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:
- A. the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high
  - B. Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income
  - C. Z's terms of trade (price of exports / price of imports) deteriorate
  - D. **All of the above.**
- 18 "The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems." This most closely illustrates which elasticity concept:
- A. Price elasticity of demand
  - B. Price elasticity of supply
  - C. Income elasticity of demand
  - D. **Cross price elasticity of demand**
- 1 Economists use the term utility to mean
- A. the value of a product before it has been advertised.
  - B. **the satisfaction a consumer obtains from a good or service.**
  - C. any characteristic of a good or service which cannot be measured.
  - D. the contribution a good or service makes to social welfare.
- 2 Economists use the term marginal utility to mean
- A. additional satisfaction gained divided by additional cost of the last unit.
  - B. **additional satisfaction gained by the consumption of one more unit of a good.**
  - C. total satisfaction gained when consuming a given number of units.
  - D. the process of comparing marginal units of all goods which could be purchased.
- 3 The law of diminishing marginal utility states that
- A. total satisfaction will decrease as more units of the good are consumed.
  - B. **the satisfaction derived from each additional unit of a good consumed will decrease.**
  - C. total utility will become negative.

D. Both the first and third option.

4 By total consumer surplus economists mean (in P-Q space)

**A. The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.**

B. the area between the average revenue and marginal revenue curves.

C. the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).

D. A and C.

5 The equation for Rida's demand curve for bouquets of flowers is  $P = 40 - 2Q$ . If the price of a bouquet is Rs18, her consumer surplus will be

A. Rs198

B. Rs121.

**C. Rs11.**

D. Rs242.

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- 6 The price of an ice cream cone is \$1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to \$1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?
- The marginal utility of the fourth ice cream cone per week must be worth less than \$1.25 to you.**
  - The total utility of the four ice cream cones per week must be worth less than \$5.75 ( $=3*\$1.50 + \$1.25$ ) to you.
  - The total utility of the four ice cream cones per week must be less than \$5.00 ( $(3*\$1.25 + \$1.25)$  to you.
  - None of the above.
- 7 Economists have used the idea of diminishing marginal utility to explain why
- demand curves slope downwards.
  - demand curves become flatter at lower prices.
  - demand curves are inelastic.
  - Both the first and second option.**
- 8 A consumer will buy more units of a good if the value of the good's
- total utility is greater than price.
  - marginal utility is less than price.
  - marginal utility is greater than price.**
  - total utility is less than price.
- 9 The diamond-water paradox can be explained by suggesting that the price of a product is determined by
- consumer incomes.
  - its marginal utility.**
  - consumer surplus.
  - diminishing marginal utility.
- 10 A utility-maximising consumer changes her spending on goods X and Y until
- $MU_x = MU_y$
  - $P_x (MU_x) = P_y (MU_y)$
  - $TU_x/P_x = TU_y/P_y$
  - $MU_x (P_y) = MU_y (P_x)$**
- 11 The  $MU_x/MU_y$  ratio is 10 and the  $P_x/P_y$  ratio is 8, so the consumer should buy
- less X and more Y.
  - more X and more Y.
  - more X and less Y.**
  - less X and less Y.

- 12 Economists define an indifference curve as the set of points  
A. at which the consumer is in equilibrium as the consumer's income changes.  
B. which yield the same marginal utility.  
**C. which yield the same total utility.**  
D. At which the consumer is in equilibrium as prices change.
- 13 Which of the following is a property of an indifference curve?  
A. the marginal rate of substitution is constant as you move along an indifference curve.  
B. marginal utility is constant as you move along an indifference curve.  
**C. it is convex to the origin.**  
D. total utility is greatest where the 45 degree line cuts the indifference curve.
- 14 The limits imposed on household choices by income, wealth, and product prices are captured by the  
**A. budget constraint.**  
B. choice set.  
C. assumption of perfect knowledge.  
D. preference set.
- 15 Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?  
A. 50 units of clothing and 50 units of food.  
B. 20 units of clothing and 50 units of food.  
C. 10 units of clothing and 25 units of food.  
**D. 0 units of clothing and 50 units of food.**
- 16 If a household's money income is doubled,  
A. the budget constraint will shift in and parallel to the old one.  
B. the budget constraint is not affected.  
C. the budget constraint will swivel outward at the Y-intercept.  
**D. the budget constraint will shift out parallel to the old one .**
- 17 The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is  
**A. the income-consumption curve.**  
B. the Engel curve.  
C. the demand curve.  
D. the income-demand curve.

- 18 The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is
- A. the Engel curve.
  - B. the demand curve for X.
  - C. the substitution curve.
  - D. the price-consumption curve for X.**
- 19 The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:
- A the Engel curve.
  - A. the demand curve for X.
  - B. the substitution curve.**
  - C. the price-consumption curve for X.
- 20 If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a
- A. inferior good.
  - B. Giffen good.
  - C. normal good.**
  - D. superior good.
- 21 If the price (or budget) line has a slope of -2 and it cuts indifference curve  $IC_a$  at points P and R (given that the slope of  $IC_a$  at point P is -4 and at point R is -1), the consumer can maximize utility by:
- A. choosing consumption bundle P
  - B. choosing consumption bundle R
  - C. moving to a higher indifference curve**
  - D. we don't enough information to answer the question
- 22 Indifference curves cannot
- A. be L shaped
  - B. be straight lines
  - C. intersect**
  - D. all of the above
- 23 The main problem with marginal utility analysis is:
- A. that it cannot solve problems involving more than two goods
  - B. its cardinal measurement of utility**
  - C. its inability to explain the diamond-water paradox
  - D. all of the above



24 This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is  $< 1$ , and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?

- A. She is risk averse
- B. She is risk neutral
- C. She is risk loving
- D. We do not have enough information to answer the question**

25 The concept of diminishing marginal utility of income (DMUy) helps explain:

- A. why a marginal dollar might have higher utility for a pauper than a millionaire
- B. why the total utility curve (in Utility-Income space) is convex
- C. why the average consumer is risk-averse
- D. all of the above**

26 "Moral hazard" and "adverse selection" are problems related to asymmetric information, that arise

- A. in ex-ante and ex-post contexts, respectively
- B. in ex-post and ex-ante contexts, respectively**
- C. in ex-ante contexts
- D. in ex-post contexts

1 Profit-maximising firms want to maximize the difference between

- A. total revenue and total cost.**
- B. marginal revenue and marginal cost.
- C. marginal revenue and average cost.
- D. total revenue and marginal cost.

2 Which statement is FALSE?

- A. Fixed costs do not depend on the firm's level of output.
- B. Fixed costs are zero if the firm is producing nothing.**
- C. Fixed costs are the difference between total costs and total variable costs.
- D. There are no fixed costs in the long run.

3 Which of the following is most likely to be a variable cost for a firm?

- A. The monthly rent on office space that it leased for a year.
- B. The franchiser's fee that a restaurant must pay to the national restaurant chain.
- C. The interest payments made on loans.
- D. Workers' wages.**

4 The costs that depend on output in the short run are

- A. total variable costs only.
- B. both total variable costs and total costs.**
- C. total costs only.



D. total fixed cost only.

- 5 The short run, as economists use the phrase, is characterized by
- A. a period where the law of diminishing returns does not hold.
  - B. **at least one fixed factor of production, and firms neither leaving nor entering the industry.**
  - C. all inputs being variable.
  - D. no variable inputs - that is all of the factors of production are fixed.
- 6 Diminishing marginal returns implies
- A. increasing average fixed costs.
  - B. decreasing marginal costs.
  - C. decreasing average variable costs.
  - D. **increasing marginal costs.**
- 7 Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?
- A. If AP is at a maximum, then MP is also.
  - B. If TP is declining then AP is negative.
  - C. **If AP exceeds MP, then AP is falling.**
  - D. If  $AP = MP$ , then total product is at a maximum.
- 8 If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is \_\_\_\_\_ and the average product of the third worker is \_\_\_\_\_.
- A. 270; 160
  - B. 3.33; 10
  - C. **10; 30**
  - D. 30; 10
- 9 Engineers for Imran Bike Company have determined that a 15% increase in “all” inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause \_\_\_\_\_ as output increases.
- A. Long- run average costs to increase
  - B. Long- run marginal costs to increase
  - C. **Long-run average costs to remain constant**
  - D. Long- run average costs to decrease
- 10 Suppose Isa Khan’s Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be
- A. upward sloping to the right.
  - B. **U-shaped.**
  - C. horizontal.
  - D. downward sloping to the right.

- 11 A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is
- A. an isocost line.
  - B. a production function.
  - C. an isoquant.**
  - D. an indifference curve.
- 12 The rate at which a firm can substitute capital for labour and hold output constant is the
- A. law of diminishing marginal returns.
  - B. marginal rate of technical substitution.**
  - C. marginal rate of substitution.
  - D. marginal rate of production.
- 13 A graph showing all the combinations of capital and labour available for a given total cost is the
- A. budget constraint.
  - B. isoquant.
  - C. expenditure set.
  - D. isocost line.**
- 14 The formula for average fixed costs is
- A.  $dTFC/dq$ .
  - B.  $TFC/q$ .**
  - C.  $q/TFC$ .
  - D.  $TFC - q$ .
- 15 The formula for AVC is
- A.  $q/TVC$ .
  - B.  $dTVC/dq$ .
  - C.  $dq/dTVC$ .
  - D.  $TVC/q$ .**
- 16 Marginal revenue is
- A. the additional profit the firm earns when it sells an additional unit of output.
  - B. the added revenue that a firm takes in when it increases output by one additional unit.**
  - C. the difference between total revenue and total costs.
  - D. the ratio of total revenue to quantity.
- 17 A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is
- A. Rs 15,000.
  - B. Rs 25,000.
  - C. Rs 35,000.**
  - D. Zero.

- 18 The amount of profit a firm makes can be shown on a diagram using  
**A. the AC and AR curves.**  
B. the MR and AR curves.  
C. the AC and MC curves.  
D. the MR and MC curves.
- 19 A firm's choice of profit-maximising output can be shown on a diagram using  
A. the AC and AR curves.  
B. the MR and AR curves.  
C. the AC and MC curves.  
**D. the MR and MC curves.**
- 20 A firm will shut down in the short run if  
**A. total variable costs exceed total revenues.**  
B. average cost exceeds price.  
C. total costs exceed total revenues.  
D. it is suffering a loss.
- 1) If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on  
A. **how much of each input to use .**  
B. how much to spend on advertising.  
C. what price to charge.  
D. the design of the product.
- 2) Market power is  
A. a firm's ability to charge any price it likes.  
**B. a firm's ability to raise price without losing all demand for its product.**  
C. a firm's ability to sell any amount of output it desires at the market-determined price.  
D. a firm's ability to monopolise a market completely.
- 3) When \_\_\_\_\_ substitutes exist, a monopolist has \_\_\_\_\_ power to raise price.  
A. more; more  
B. fewer; less  
C. no; infinite  
**D. more; less**
- 4) If a firm has some degree of market power, then output **price**  
**A. becomes a decision variable for the firm.**  
B. is determined by the actions of other firms in the industry.  
C. no longer influences the amount demanded of the firm's product.  
D. is guaranteed to be above a firm's average cost.
- 5) Relative to a competitively organised industry, a monopoly

- A. produces less output, charges lower prices and earns economic profits.
  - B. produces more output, charges higher prices and earns economic profits.
  - C. produces less output, charges higher prices and earns economic profits.**
  - D. produces less output, charges lower prices and earns only a normal profit.
- 6) The cosmetics industry is not considered by economists to be a good example of perfect competition because
- A. **firms spend a large amount of money on advertising .**
  - B. profit margins are very high for both producers and retailers.
  - C. there are a very large number of firms in the industry.
  - D. there are many government health controls on cosmetic products.
- 7) If firms can neither enter nor leave an industry, the relevant time period is the
- A. long run.
  - B. immediate run.
  - C. intermediate run.
  - D. short run.**
- 8) In the long run
- A. there are no fixed factors of production.**
  - B. all firms must make economic profits.
  - C. a firm can vary all inputs, but it cannot change the mix of inputs it uses.
  - D. a firm can shut down, but it cannot exit the industry.
- 9) A normal rate of profit
- A. is the rate of return on investments over the interest rate on risk-free government bonds.
  - B. is the rate that is just sufficient to keep owners or investors satisfied .**
  - C. Means zero return for owners or investors.
  - D. is the difference between total revenue and total costs.
- 10) If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then
- A. total costs exceed normal profit.
  - B. the firm is earning an economic profit .**
  - C. normal profit is zero.
  - D. total costs exceed total revenue.
- 11) Economic profits are
- A. the difference between total revenue and total costs.**
  - B. anything greater than the normal opportunity cost of investing.
  - C. a rate of profit that is just sufficient to keep owners and investors satisfied.
  - D. the opportunity costs of all inputs.
- 12) The slope of the marginal revenue curve is

- A. the same as the slope of the demand curve.
  - B. half as steep as the demand curve.
  - C. twice as steep as the demand curve.**
  - D. always equal to one.
- 13) In a monopoly, marginal revenue is
- A. less than price at low levels of output and greater than price at high levels of output.
  - B. always greater than price.
  - C. lower than price for all units other than the first.**
  - D. always equal to price.
- 14) Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has
- A. maximised the difference between marginal revenue and marginal cost.
  - B. maximised its total revenue.
  - C. equated marginal revenue and marginal cost.**
  - D. set price equal to its average cost.
- 15) An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called
- A. an economies of scale monopoly.
  - B. a natural monopoly.**
  - C. a government franchise monopoly.
  - D. a fixed cost monopoly.
- 16) How can a government regulate a monopoly firm making supernormal profits so that a “socially optimal” outcome obtains:
- A. set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.**
  - B. set the firm’s price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.
  - C. set the firm’s price (and quantity) corresponding to the point where the MR curve intersects the AC curve and  $AC > MR$  after that point.
  - D. set the firm’s price (and quantity) corresponding to the point where the AR curve intersects the MC curve and  $MC > AR$  after that point.
- 17) Monopolistic competition differs from perfect competition primarily because
- A. in perfect competition, firms can differentiate their products.
  - B. in monopolistic competition, firms can differentiate their products .**
  - C. in monopolistic competition, there are relatively few firms.
  - D. in perfect competition, there are no barriers to entry.
- 18) In monopolistic competition, firms achieve some degree of market power
- A. by producing differentiated products .**
  - B. because of barriers to entry into the industry.

- C. because of barriers to exit from the industry.
- D. by virtue of size alone.

- 19) A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover
- A. advertising costs.
  - B. fixed costs.
  - C. marginal costs.
  - D. variable costs.**
- 20) A firm in a monopolistically competitive industry
- A. must lower price to sell more output.**
  - B. sells a fixed amount of output regardless of price.
  - C. can sell an infinite amount of output at the market-determined price.
  - D. must raise price to sell more output.
- 21) The “long-run” equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures
- A. firms will only earn a normal profit.**
  - B. the efficient output level will be produced in the long run.
  - C. firms will be producing at minimum average cost.
  - D. firms realise all economies of scale.
- 22) A form of industry structure characterised by a few firms each large enough to influence market price is
- A. monopolistic competition.
  - B. monopoly.
  - C. perfect competition.
  - D. oligopoly.**
- 23) When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is
- A. monopolistically competitive.
  - B. oligopolistic.**
  - C. perfectly competitive.
  - D. indeterminate from this information.
- 24) An industry that has a relatively small number of firms that dominate the market is called
- A. a natural monopoly.
  - B. a colluding industry.
  - C. a merged industry.
  - D. a concentrated industry.**
- 25) Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will \_\_\_\_\_ and the total output produced will \_\_\_\_\_.

- A. increase; decrease
- B. increase; increase
- C. decrease; decrease
- D. decrease; increase**

- 26) A group of firms that gets together to make price and output decisions is called
- A. a non-collusive oligopoly.
  - B. price leadership.
  - C. a cartel.**
  - D. a concentrated industry.
- 27) In which of the following circumstances would a cartel be most likely to work?
- A. The coffee market, where the product is standardised and there are a large number of coffee growers.
  - B. The automobile industry, where there are few producers but there is great product differentiation.
  - C. The market for copper, where there are very few producers and the product is standardised.**
  - D. The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.
- 28) A collusive oligopoly (with a dominant price leader) will produce a level of output
- A. that would prevail under perfect competition.
  - B. between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.
  - C. between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.
  - D. equal to what a monopolist would choose in the same industry .**
- 29) The kinked demand curve model of oligopoly assumes that the price elasticity of demand
- A. in response to a price increase is more than the elasticity of demand in response to a price decrease .**
  - B. is constant regardless of whether price increases or decreases.
  - C. is infinite if price increases and zero if price decreases.
  - D. in response to a price increase is less than the elasticity of demand in response to a price decrease.
- 30) Price discrimination involves
- A. firms selling different products at different prices to different consumers.
  - B. firms selling the same product at different prices to different consumers.**
  - C. consumers discriminating between different sellers on the basis of the different prices they quote for different products.



D. consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

- 31) Price discrimination often favours public interest because it
- a) allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.
  - b) opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.
  - c) allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.
  - d) all of the above**

- 32) Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:

- A. Strategic interaction**
- B. Prisoner 's dilemma
- C. Price leadership
- D. None of the above

- 1 A study of how increases in the minimum wage rate will affect the national unemployment rate is an example of

- A. descriptive economics.
- B. normative economics.
- C. macroeconomics.**
- D. microeconomics.

- 2 Aggregate supply is the total amount

- A. of goods and services produced in an economy.**
- B. produced by the government.
- C. of products produced by a given industry.
- D. of labour supplied by all households.

- 3 The total demand for goods and services in an economy is known as

- A. aggregate demand.**
- B. national demand.
- C. gross national product.
- D. economy-wide demand.

- 4 Deflation is

- A. an increase in the overall level of economic activity.
- B. an increase in the overall price level.
- C. a decrease in the overall level of economic activity.



- D. a decrease in the overall price level.**
- 5 A recession is
- A. a period of declining prices.
  - B. a period during which aggregate output declines.**
  - C. a period of declining unemployment.
  - D. a period of falling trade volumes.
- 6 Involuntary unemployment means that
- A. people are not willing to work at the going wage rate.
  - at the going wage rate, there are people who want to work but cannot find work . B.**
  - C. there are some people who will not work at the going wage rate.
  - D. there is excess demand in the labour market.
- 7 A cut in the income tax rate designed to encourage household consumption is an example of
- A. expansionary demand-side policy.**
  - B. contractionary demand-side policy.
  - C. expansionary supply-side policy.
  - D. contractionary supply-side policy.

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- 8 A cut in the tax rate designed to reduce the cost of capital and hence encourage business investment is an example of
- A. expansionary demand-side policy.
  - B. contractionary demand-side policy.
  - C. expansionary supply-side policy.**
  - D. contractionary supply-side policy.
- 9 Macroeconomics is the branch of economics that deals with
- A. the economy as a whole.**
  - B. imperfectly competitive markets.
  - C. only the long run adjustments to equilibrium in the economy.
  - D. the functioning of individual industries and the behaviour of individual decision-making units - business firms and households.
- 10 A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called:
- A. New-Keynesians.**
  - B. Keynesians.
  - C. Monetarists.
  - D. The Classical school.
- 11 Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of
- A. economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.
  - B. fine tuning during the 1960s.
  - C. the economy to grow at a rapid rate during the 1950s.
  - D. the Classical model to explain the prolonged existence of high unemployment during the Great Depression .**
- 12 Keynes believed falling wages were not a solution to persistent unemployment because
- A. falling wages demoralised workers.
  - B. this would reduce the purchasing power of labourers as consumers. This in turn would weaken firms' prospects of selling more goods, hence inducing them to cut their investment (and hence labour) demand.**
  - C. the unemployment was caused by frictional and structural factors.
  - D. wages would fall more than required to clear the labour market.

13 The practice of using fiscal and monetary policy to stabilise the economy is known as

- A. **fine tuning of demand**
- B. monetarism
- C. laissez faire economics
- D. supply side economics

14 According to Classical models, the level of employment is determined primarily by

- A. interest rates.
- B. the level of prices.
- C. **the level of aggregate supply in the economy**
- D. the level of aggregate demand for goods and services.

15 According to Keynes, the level of employment is determined by

- A. interest rates.
- B. the level of prices.
- C. the level of aggregate supply in the economy
- D. **the level of aggregate demand for goods and services.**

16 According to the Classical model, unemployment

- A. **could not persist because wages would fall to eliminate the excess supply of labour.**
- B. could persist for long periods of time because wages are not flexible.
- C. could be eliminated only through government intervention.
- D. could never exist.

17 To get the economy out of a slump, Keynes believed that the government should

- A. increase both taxes and government spending.
- B. increase taxes and/or decrease government spending.
- C. cut both taxes and government spending.
- D. **decrease taxes and/or increase government spending .**

18 Aggregate demand refers to the **total demand** for all domestically produced goods and services in an economy **generated from**

- A. the household and government sectors.
- B. the household sector.
- C. all sectors except the rest of the world.
- D. **all sectors including the rest of the world.**

19 Government policies that focus on increasing production rather than demand are called:

- A. fiscal policies.
- B. monetary policies.
- C. incomes policies.
- D. supply-side policies.**

20 Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are

- A. market prices.
- B. sticky prices.**
- C. fixed prices.
- D. regulatory prices.

21 The economists who emphasised wage-flexibility as a solution for unemployment were

- A. Monetarists.
- B. New-Keynesians.
- C. Classical economists.**
- D. Keynesians.

22 According to the Classical economists, the economy

- A. requires fine tuning to reach full employment.
- B. should not be left to market forces.
- C. will never be at full employment.
- D. is self correcting.**

23 Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain

- A. stagflation in the late 1970s.**
- B. demand-pull inflation in the 1960s.
- C. low growth rates in the 1950s.
- D. the prolonged existence of high unemployment during the Great Depression.

- 24 Keynes' explanation for low firm investment during the Great Depression was
- A. low savings, which placed a constraint on investment
  - B. high real borrowing rates, which discouraged firm borrowing
  - C. high savings, which left consumers with less money to spend on goods and serviced produced by firms**
  - D. A permanent change in Europe's corporate ownership structures.
- 25 Rapid increases in the price level during periods of recession or high unemployment are known as
- A. slump.
  - stagnation . B.**
  - C. stagflation.
  - D. inflation.
- 26 The hypothesis that people know the 'true model' of the economy and that they use this model and all available information to form their expectations of the future is the
- A. rational-expectations hypothesis.**
  - B. active-expectations hypothesis.
  - C. static-expectations hypothesis.
  - D. adaptive-expectations hypothesis.
- 27 Neo-Classical theories were an attempt to explain
- A. how unemployment could have persisted for so long during the Great Depression.
  - B. the stagflation of the 1970s.**
  - C. why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.
  - D. the increase in the growth rate of real output in the 1950s.
- 28 A group of modern economists who believe that markets clear very rapidly and that expanding the money supply will always increase prices rather than employment are the
- A. New-Keynesians.
  - B. Keynesians.
  - C. Monetarists.**
  - D. The Classical school.
- 29 Say's law states that:

- A. **Supply creates its own demand.**
- B. Demand creates its own supply.
- C. There is no such things as a free lunch
- D. Macroeconomic policy activism is essential to ensure full-employment.

30 The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:

- A. AS: fully horizontal; AD: downward sloping
- B. **AS: horizontal only till the full capacity level; AD: downward sloping**
- C. AS: vertical; AD: upward sloping
- D. AS: horizontal; AD: vertical

Questions 1-3 are based on the following information about an economy:

Consumer price index (2002) = 132

Consumer price index (2001) = 110

Nominal GDP (2002) = \$60bn

Nominal GDP (2001) = \$50bn

Population (2002) = 7mn

Population (2001) = 6mn

Net factor income from abroad (2002) = +\$3bn

Net factor income from abroad (2001) = -\$2bn

1. By how much has real GDP grown from 2001 to 2002?

- A. -10%
- B. 12.5%
- C. 20%
- D. **0%**

2. By how much has per capita nominal GNP changed from 2001 to 2002?

- A. -10%
- B. **12.5%**
- C. 20%
- D. 0%

3. Based on the above information, we can say that:

- A. Poverty has fallen in the country
- B. **Per capita real GDP is falling**
- C. Income inequality has worsened
- D. Real growth in the informal sector is 0%

4. In the circular flow of income, Keynesian equilibrium obtains when

- A. All the individual sectors are in equilibrium:  $S=I$ ,  $T=G$ ,  $M=X$
- B. **The aggregate injections equal aggregate withdrawals  $S+T+M = I+G+X$**
- C. There is no inflation or unemployment
- D. The interest rate and exchange rate are at their market clearing levels

5. Under conditions of Keynesian equilibrium:
- A. aggregate demand equals aggregate supply
  - B. aggregate demand equals national income
  - C. both A and B**
  - D. none of the above
6. Which of the following is a determinant of consumption
- A. expectations about future prices
  - B. level of indebtedness of consumers
  - C. the price level
  - D. all of the above**
7. Which is the most volatile component of aggregate demand
- A. Net exports
  - B. consumption
  - C. investment**
  - D. government spending
8. Which of the following is not an obvious or direct determinant of a country's imports
- A. real exchange rate
  - B. income
  - C. tariff rates
  - D. interest rate**
9. When consumption is 650, income is 750; when consumption is 620, income is 700. Assuming there is no government,  $I=100$ , net exports are 10, what is the level of equilibrium income?
- A. 500
  - B. 625
  - C. 775**
  - D. 850
10. Which of the following is not true?
- A. Starting from no growth, a positive output growth rate would be associated with even higher rates of investment (the accelerator effect)
  - B. Higher investment causes a multiplied increase in income
  - C. Such increases in income would continue to induce higher investment, which in turn would continue to cause multiplied increases in output.
  - D. All of the above.**
11. In the equation  $C = a + bY$ , which describes the aggregate consumption function, 'a' stands for
- A. the amount of consumption when income is zero.**
  - B. the marginal propensity to consume.
  - C. the amount of consumption when income is Maximum.
  - D. the average consumption level.
12. Total consumption divided by total income gives us:
- A. the average propensity to consume .**
  - B. the marginal propensity to save.
  - C. the marginal propensity of expenditure.
  - D. the marginal propensity to consume.



- 13 Disposable income is the part of households' income left after the deduction of
- A. pension contributions.
  - B. income tax and social security payments.
  - C. income tax.**
  - D. savings.
14. As the MPS increases, the multiplier will
- A. increase.
  - B. either increase or decrease depending on the size of the change in investment.
  - C. remain constant.
  - D. decrease.**
15. In macroeconomics, equilibrium is defined as that point at which
- A. planned aggregate expenditure equals aggregate output .**
  - B. planned aggregate expenditure equals consumption.
  - C. aggregate output equals consumption minus investment.
  - D. saving equals consumption.
16. The ratio of the change in the equilibrium level of output to a change in some autonomous component of aggregate demand is the
- A. elasticity coefficient.
  - B. multiplier .**
  - C. marginal propensity of the autonomous variable.
  - D. automatic stabiliser.
17. Assuming there are no taxes (and no foreign sector), if the MPC is .8, the multiplier is
- A. 2.5.
  - B. 8.
  - C. 5.**
  - D. 2.
18. Assuming the net income tax rate is 25% (and there is no foreign sector), if the MPC is 0.8, the multiplier is
- A. 2.5.**
  - B. 8.
  - C. 5.
  - D. 2.
19. Assuming there is no foreign sector, if the multiplier is 3, and the net income tax rate is 20%, the MPC is
- A.  $\frac{3}{4}$
  - B.  $\frac{4}{5}$
  - C.  $\frac{5}{6}$**
  - D.  $\frac{6}{7}$
20. Assume there is no government or foreign sector. If the MPC is .75, a Rs.20 billion decrease in planned investment will cause aggregate output to decrease by



- A. **Rs. 80 billion.**  
B. Rs. 20 billion.  
C. Rs. 26.67 billion.  
D. Rs. 15 billion.
21. According to the 'paradox of thrift,' increased efforts to save will cause  
A. an increase in income and an increase in overall saving.  
B. **a decrease in income and an overall decrease in saving.**  
C. a decrease in income but an increase in saving.  
D. an increase in income but no overall change in saving.
22. If injections are less than withdrawals at the full-employment level of national income, there is  
A. an inflationary gap.  
B. equilibrium.  
C. **a deflationary gap.**  
D. hyperinflation.
23. The accelerator theory of investment says that induced investment is determined by  
A. the rate of change of national income.  
B. expectations.  
C. **the level of national income.**  
D. the level of aggregate demand.
24. The diagram that shows the money received and paid out by each sector of the economy is the  
A. income-price diagram.  
B. income-expenditures diagram.  
C. **circular flow diagram.**  
D. aggregate demand-aggregate supply diagram.
1. If both the no. of unemployed people and the size of the labour force increase by 10,000, then  
A. the unemployment rate will remain the same.  
B. the unemployment rate will increase.  
C. the unemployment rate will decrease.  
D. we cannot tell.
2. Which of the following could be a reason for the problem of "lack of jobs" being overestimated:  
A. the existence of disguised unemployment  
B. people are underemployment  
C. people holding only one job (as opposed to multiple jobs)  
D. the existence of child labour
3. Which of the following is not a cost of voluntary unemployment?  
A. potential output of the economy is greater than actual output  
B. government loses tax revenue  
C. firms lose (potential) revenues due to operating below capacity  
D. mental stress undergone by the unemployed persons

4. “Because higher wages are less likely to induce people who are structurally or physically unable to participate on the labour force. On the other hand people already on the labour force are more likely to respond to higher wages by accepting jobs.”
- The above statement is an answer to which question?
- A. Why is the AJ curve more elastic than the LF curve
  - B. Why is the LF curve not totally vertical
  - C. Why is the AJ curve not completely vertical
  - D. Why is it difficult to completely remove the horizontal distance between the AJ and LF curves
5. Which of the following would constitute sound government policy if you subscribed to the Monetarist view on unemployment?
- A. increase aggregate demand through monetary or fiscal policy
  - B. reduce the obstacles to downward wage rigidity (like unions, unemployment benefits, minimum wage legislations etc.)
  - C. Reduce the marginal income tax rate (to increase the incentive to work)
  - D. All of the the above
6. The persistence of a phenomenon, such as unemployment, even when its causes have been removed is called
- A. The paradox of thrift.
  - B. hysteresis.
  - C. structural unemployment.
  - D. ceteris paribus.
7. Cyclical unemployment is the
- A. portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
  - B. unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.
  - C. portion of unemployment that is due to seasonal factors.
  - D. unemployment that occurs during recessions and depressions.
8. The natural rate of unemployment is generally thought of as the
- A. ratio of the frictional unemployment rate to the cyclical unemployment rate.
  - B. sum of frictional unemployment and cyclical unemployment.
  - C. sum of frictional unemployment and structural unemployment.
  - D. sum of structural unemployment and cyclical unemployment.
9. One of the tenets of the Classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur
- A. slowly.
  - B. instantly.
  - C. very infrequently.
  - D. very quickly.
10. According to Keynesian economists, those who are not working

- A. have given up looking for a job, but would accept a job at the current wage if one were offered to them.
- B. are too productive to be hired at the current wage.
- C. have chosen not to work at the market wage.
- D. are unable to find a job at the current wage rate.

## INFLATION

11. The index used most often to measure inflation is the
  - A. consumer price index.
  - B. wholesale price index.
  - C. student price index.
  - D. producer price index.
12. If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?
  - A. No. Because you would still be able to sell your goods at the higher price.
  - B. Yes. Because the cost of your input is growing faster than the revenue obtained from your output
  - C. Yes. Because both price and wage inflation are bad.
  - D. No. Because any loss to the firm will be offset by the gain to the workers.
13. Which of the following is not a major cost of inflation:
  - A. Resource wastage: as people spend time and money to guard against the “purchasing power erosion” effects of inflation, while firms suffer menu costs (i.e. the costs of frequently issuing “revised” price lists).
  - B. Uncertainty: firms defer investment when inflation is high and volatile as the latter complicates predicting future cashflows.
  - C. Worsened income inequality: inflation is a regressive tax on the people that does not take into account the taxpayers’ “ability to pay”. As such, there is a redistribution of wealth from the poor to the rich.
  - D. Money printing costs: inflation requires more currency notes to be printed and this raises the government’s printing costs.
14. In the long run, the Phillips curve will be vertical at the natural rate of unemployment if
  - A. the long-run supply curve is horizontal at the natural rate of inflation.
  - B. the long-run aggregate demand curve is vertical at potential GDP.
  - C. the long-run aggregate demand curve is horizontal at the natural rate of inflation.
  - D. the long-run aggregate supply curve is vertical at potential GDP.
15. According to the monetarists, the measured unemployment rate can
  - A. be reduced below the natural rate only in the short run, and not without inflation.
  - B. be reduced below the natural rate only in the long run, and only if the price level is constant.
  - C. be reduced below the natural rate only in the short run, and only if the price level is constant.
  - D. be reduced below the natural rate only in the long run, and not without inflation.
16. If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?
  - A. No, because cost-push inflation is caused by an increase in the cost of only one input.

- B. Yes, because that is exactly the definition of cost-push inflation.
  - C. No, because such a situation can also be caused by particular demand pressures in the economy.
  - D. Yes, because this is exactly what happens in stagflation.
17. The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause
- A. an equal percentage change in nominal GDP.
  - B. a larger percentage change in nominal GDP.
  - C. an equal percentage change in real GDP.
  - D. a smaller percentage change in nominal GDP.
18. If input prices adjusted very slowly to output prices, the Phillips curve would be
- A. downward sloping.
  - B. vertical or nearly vertical.
  - C. upward sloping.
  - D. horizontal or nearly horizontal.
19. If inflationary expectations increase, the short-run Phillips curve will
- A. become vertical.
  - B. become upward sloping.
  - C. shift to the right.
  - D. shift to the left.

### BALANCE OF PAYMENTS

20. The record of a country's transactions in goods, services, and assets with the rest of the world is its \_\_\_\_\_; while the difference between a country's merchandise exports and its merchandise imports is the \_\_\_\_\_.
- A. current account; trade balance.
  - B. capital account; balance of payments.
  - C. balance of trade; capital account.
  - D. balance of payments; balance of trade.
21. Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?
- A. If the capital account is in surplus, then the current account is likely to be in deficit.
  - B. If the current account is in deficit, then the capital account is likely to be in surplus.
  - C. If the current account is in balance, the capital account is also likely to be in balance.
  - D. None of the above.
22. Which of the following statements is necessarily TRUE?
- A. A country runs a current account deficit if it imports more goods and services than it exports.
  - B. The sum of the current and capital accounts must be zero.
  - C. If both the current and capital accounts are in surplus, the exchange rate must appreciate.
  - D. None of the above.
23. All currencies other than the domestic currency of a given country are referred to as

- A. reserve currencies.
  - B. near monies.
  - C. foreign exchange.
  - D. hard currency.
24. Exchange rates that are determined by the unregulated forces of supply and demand are
- A. floating exchange rates.
  - B. pegged exchange rates.
  - C. fixed exchange rates.
  - D. managed exchange rates.
25. If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because
- A. as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.
  - B. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.
  - C. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.
  - D. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.
26. The fall (rise) in value of one currency relative to another is
- A. a floating (fixing) of the currency.
  - B. an appreciation (depreciation) of a currency.
  - C. a depreciation (appreciation) of a currency.
  - D. a strengthening (weakening) of a currency.
27. If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:
- A. 1.
  - B. constantly changing.
  - C. relatively stable, but not constant
  - D. none of the above
28. The interest parity equation implies that there is a general tendency for:
- A. exchange rates to be insensitive to the differential rates of interest between countries.
  - B. the currencies of relatively low-interest countries to appreciate.
  - C. the currencies of relatively high-interest countries to appreciate.
  - D. the currencies of relatively low-interest countries to depreciate.

Note that currencies with low rates of interest also typically have low inflation rates. This follows from the Fischer equation which maintains that the nominal interest rate = real interest rate + expected inflation.

29. Which of the following is (are) correct statement(s) about the current account deficit?
- A. A current account deficit is bad, if it is being caused by excessive consumer spending
  - B. A current account deficit is bad, if it is fuelled by high fiscal deficits

- C. A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings
- D. All of the above
30. The J-curve effect refers to the observation that
- GDP usually decreases before it increases after a currency depreciation.
  - GDP usually decreases before it increases after a currency appreciation.
  - the trade balance usually gets worse before it improves after a currency appreciation.
  - the trade balance usually gets worse before it improves after a currency depreciation.
31. If Japan exports more direct investment capital abroad than expected, then the yen will tend to
- appreciate.
  - fluctuate more than if exports were lower.
  - depreciate.
  - not be affected.
32. Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, ceteris paribus, what will happen by the end of today to the Rs./dollar exchange rate? It will:
- Rise by more than 10%.
  - Rise by exactly 10%.
  - Fall by less than 10%.
  - Remain constant.

Hint: Use your common sense. Think of “yourself” as a currency trader and then answer the question, based on your future expectation and the incentive it creates.

33. According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?
- an increase in the size of the labour force.
  - an increase in the productivity of capital.
  - a move to more capital intensive production methods
  - discovery of a major mineral resource in the country
34. When referring to economic growth, we normally refer to:
- growth in actual real per capita output
  - growth in potential real per capita output
  - growth in actual nominal per capita output
  - growth in potential real per capita output
35. A variable whose value is determined by the model of which it is a part is termed \_\_\_\_\_.
- endogenous
  - exogenous
  - independent
  - constant
36. An example of capital deepening, given an increasing L, would be:
- K increases so as to maintain a constant K/L



- B. K increases so much that K/L increases
  - C. K remains constant so that L/K increases
  - D. K falls, so as to reduce K/L
37. The neo-classical growth model says that:
- A. poor countries should catch-up (or converge to) with richer countries
  - B. higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate
  - C. the steady state growth rate of real output depends on the sum of the (exogenous) growth rates in population and technical progress.
  - D. All of the above.

## RELATIONSHIPS BETWEEN THE BIG FOUR

38. The length of a business cycle would be measured from
- A. peak to trough.
  - B. trough to peak.
  - C. peak to peak.
  - D. the slump to the expansion.
39. If the economy is in the expansionary phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.
- A. rising; falling; rising; deficit
  - B. static; low; rising; deficit
  - C. falling; falling; falling; surplus
  - D. falling; rising; falling; surplus
40. If the economy is at the peak of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.
- A. rising; falling; rising; deficit
  - B. static; low; rising; deficit
  - C. falling; falling; falling; surplus
  - D. falling; rising; falling; surplus
41. If the economy is approaching the trough phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.
- A. rising; falling; rising; deficit
  - B. static; low; rising; deficit
  - C. falling; falling; falling; surplus
  - D. falling; rising; falling; surplus
42. Which of the following is not true regarding the effects of growth on the balance of payments and vice versa?

- A. Generally, growth raises incomes which will translate into higher consumption and higher imports, causing the current account of the BOPs to deteriorate.
- B. If growth is “export-led”, it will boost the current account surplus of the BOPs.
- C. If the current account deficit reflects an underlying private sector resource deficit, it is likely to be bad for future growth.
- D. If the current account reflects rising imports of military equipment by the government, it might not be beneficial for economic growth.

43. A country has high inflation and is running a current account deficit. What should it do in the context of the Salter-Swan diagram?

- A. Reduce government spending and revalue the exchange rate
- B. Increase government spending and devalue the exchange rate
- C. Reduce the money supply and devalue the exchange rate
- D. Increase government spending and revalue the exchange rate

1. A government’s attempt to reduce its defence expenditure is an example of (i) , while a government effort to raise interest rates is an example of (ii) .

- |    |                       |                         |
|----|-----------------------|-------------------------|
|    | (i)                   | (ii)                    |
| A. | monetary policy.      | fiscal policy.          |
| B. | <b>fiscal policy.</b> | <b>monetary policy.</b> |
| C. | incomes policy.       | incomes policy.         |
| D. | supply-side policy.   | supply-side policy.     |

2. According to the Laffer curve, as tax rates increase, tax revenues

- A. decrease continuously.
- B. initially decrease and then increase.
- C. rise continuously.
- D. initially increase and then decrease.**

3. The government imposes a new income tax legislation under which every male taxpayer must pay 15% of his income as taxes, while every female taxpayer must pay 20% of her income as taxes. Such tax legislation violates which equity principle?

- A. Both horizontal equity and vertical equity**
- B. Vertical equity only
- C. Horizontal equity only
- D. Neither

4. A 15% VAT is a(n):

- A. Proportional income tax.
- B. Fixed excise duty.
- C. Ad valorem indirect tax.**
- D. None of the above.

5. Tax incidence is the

- A. ultimate distribution of a tax's burden .**
- B. measure of the impact the tax has on employment and output.
- C. behaviour of shifting the tax to another party.



D. structure of the tax.

6. You know that all taxes are distortionary. Under what conditions will this knowledge lead you to oppose the imposition of every single tax in the economy?

- A. **If you live in a 1<sup>st</sup> best world**
- B. If you live in a 2<sup>nd</sup> best world
- C. If the tax rates on some of the items are prohibitively high
- D. Either of the above

7. The automatic stabilisation function of fiscal policy ensures that government expenditures \_\_\_\_\_(i)\_\_\_\_\_ and government revenues \_\_\_\_\_(ii)\_\_\_\_\_ during recessions.

- | (i)                | (ii)            |
|--------------------|-----------------|
| A. decrease        | decrease        |
| B. decrease        | increase        |
| <b>C. increase</b> | <b>decrease</b> |
| D. increase        | increase        |

8. Let us say assume the Pakistani government is facing a fiscal deficit. Which of the following would not constitute a possible method of financing this deficit?

- A. printing rupees (borrowing from the central bank)
- B. selling dollars in the foreign exchange market**
- C. imposing new taxes or raising existing tax rates
- D. borrowing from an international financial institution

9. Which of the following is not a correct argument against a fiscal policy expansion – say a tax cut – aimed at lifting aggregate demand?

- A. The expansion might become pro-cyclical ex-post, given the lag time required to change fiscal policy.
- B. Fiscal policy works with a lag, thus a tax cut introduced today would not have an expansionary effect on aggregate demand till many months later.
- C. The fiscal expansion would increase distortion in the economy.**
- D. Lower taxes would increase the government's borrowing requirement, which in turn would cause interest rates to rise, which in turn would i) cause the exchange rate to appreciate, which in turn would cause the current account to move into deficit, and ii) crowd out private investment.

10. The increase in base money divided by the corresponding induced increase in commercial bank deposits is the

- A. bank's line of credit.
- B. reserve ratio.**
- C. current ratio.
- D. money multiplier.

11. If the State Bank of Pakistan wished to pursue a 'tight' monetary policy, it would

- A. lower the required reserve ratio and the statutory liquidity ratio.

- B. lower interest rates .  
C. buy government securities on the open market.  
**D. sell government securities on the open market.**
12. An item designated as money that is intrinsically worthless could be  
**A. a currency note.**  
B. a silver coin.  
C. a barter item.  
D. any tradeable commodity.
13. A checking deposit (or current account) held at a commercial bank is considered \_\_\_\_\_ of that bank.  
A. an asset.  
B. net worth.  
**C. a liability.**  
D. capital.
14. Which of the following activities is one of the responsibilities of the State Bank of Pakistan?  
**A. Monitoring the financial health of banks and non-bank financial institutions .**  
B. Auditing the various agencies and departments of the government.  
C. Issuing bonds on international capital markets to finance the fiscal deficit.  
D. Lending money to other countries that are friendly to Pakistan.
15. A bank has excess liquidity reserves to lend but is unable to find a willing borrower. This will \_\_\_\_\_ the size of the money multiplier.  
**A. reduce**  
B. increase  
C. have no effect on  
D. double
16. The quantity of money demanded increases with income. Thus if income increases, the opportunity cost of holding money must go up in order to reduce money demand and re-establish equilibrium in the money market. This relation is captured by:  
**A. an upward sloping LM curve.**  
B. a downward sloping L curve.  
C. a downward sloping IS curve.  
D. the circular flow of money in the economy.
17. When economists speak of the 'demand for money,' which of the following questions are they asking?  
**A. How much cash do you wish you could have?**  
B. How much wealth would you like?  
C. How much income would you like to earn?  
D. What proportion of your financial assets do you want to hold in non-interest bearing forms?
18. Which of the following will not cause money supply to expand, given a fully floating exchange rate regime and a fixed supply of dollars in the market

- A. The central bank buying foreign currency in the foreign exchange market
  - B. redemption of central bank liquidity paper
  - C. build-up of commercial banks' deposits held with the central bank**
  - D. decrease in the central bank discount rate
19. Which of the following events will lead to a decrease in the demand for money?
- A. An increase in the level of aggregate output.
  - B. A decrease in the supply of money.
  - C. A decrease in the interest rate.
  - D. A decrease in the price level.**
20. Which of the following is neither a determinant of the slope of the IS curve nor a determinant of the slope of the LM curve?
- A. the sensitivity of interest rates to investment**
  - B. the sensitivity of money demand to income
  - C. the sensitivity of money demand to interest rates
  - D. the sensitivity of income to investment
21. Given a Keynesian world, a cut in taxes coupled with a lower reserve ratio for banks would have what effect on equilibrium income and interest rate?
- A. Both income and the interest rate will remain unchanged
  - B. income will come down, but the interest rate will go up
  - C. income will go up, but the effect on the interest rate cannot be predicted**
  - D. interest rates will go down, but the effect on income cannot be predicted
22. If the government increases its spending, but this causes prices to rise, what will "eventually" happen to the equilibrium income and interest rate?
- A. Both income and the interest rate will remain unchanged
  - B. income will come down, but the interest rate will go up**
  - C. income will go up, but the effect on the interest rate cannot be predicted
  - D. interest rates will go down, but the effect on income cannot be predicted
23. If the income elasticity of money demand and the Keynesian multiplier, both increase in an economy (ceteris paribus), how will the relative effectiveness of monetary and fiscal policy change?
- A. Fiscal policy will become relatively more effective than monetary policy
  - B. Fiscal policy will become relatively less effective than monetary policy**
  - C. The relative effectiveness of fiscal and monetary policy will remain unchanged
  - D. Both fiscal and monetary policy will become more effective.
24. The intersection of the IS and LM curves captures:
- A. the equilibrium of the demand and supply sides of the economy
  - B. the equivalence of monetary and fiscal policy
  - C. joint equilibrium in the goods and money markets**
  - D. all of the above

## 1. 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.

**2. 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.

**3. 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.

**4. 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.

**5. 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.

**6. In the diagram given below, the budget line is best represented by the line:**

- A. AB
- B. AD
- C. FG**
- D. DG

**7. 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.**

**8. 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.**

**9. 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.

**10. 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.

**1. Which of following is a key assumption of a perfectly competitive market?**

- A. Firms can influence market price.
- B. Commodities have few sellers.
- C. It is difficult for new sellers to enter the market.
- D. Each seller has a very small share of the market.**

**2. A firm maximizes profit by operating at the level of output where:**

- A. Average revenue equals average cost.
- B. Average revenue equals average variable cost.
- C. Total costs are minimized.
- D. Marginal revenue equals marginal cost.**

**3. The demand curve facing a perfectly competitive firm is:**

- A. Downward-sloping and less flat than the market demand curve.
- B. Downward-sloping and more flat than the market demand curve.
- C. Perfectly horizontal.**
- D. Perfectly vertical.

**4. The monopolist has no supply curve because:**

- A. The quantity supplied at any particular price depends on the monopolist's demand curve.**
- B. The monopolist's marginal cost curve changes considerably over time.
- C. The relationship between price and quantity depends on both marginal cost and average cost.
- D. There is a single seller in the market.

**5. A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:**

- A. First-degree price discrimination.**
- B. Second-degree price discrimination.
- C. Third-degree price discrimination.
- D. Pricing at each consumer's reservation price.

**6. For which of the following market structures is it assumed that there are barriers to entry?**

- A. Perfect competition
- B. Monopolistic competition
- C. Monopoly**
- D. All of the above

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

- A. Purely competitive.
- B. A monopoly.
- C. Monopolistically competitive.**
- D. Oligopolistic.

**8. Welfare economics is a branch of economics dealing with:**



- A. Social issues.
- B. Normative issues.**
- C. Political issues.
- D. None of the given options.

9. \_\_\_\_\_ are goods that people must get a flavor of before they can consider buying them.

- A. Experience goods.**
- B. Giffen goods.
- C. Normal goods.
- D. None of the given options.

10. Which of the following does not refer to macroeconomics?

- A. The study of aggregate level of economic activity.
- B. The study of causes of unemployment.
- C. The study of causes of inflation.
- D. The study of the economic behavior of individual decision-making units such as consumers, resource owners and business firms.**

1) ----- is the entire satisfaction one derives from consuming goods or services:

- A. Total utility
- B. Scarcity
- C. Marginal utility
- D. Rationing

2) The law of diminishing marginal utility states that:

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit falls

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit rises

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit remains the same

As consumer consumes less and less units of any commodity, the utility that consumer derives from each additional unit falls

3) The equi marginal principle states that:

$$\frac{MU_a}{P_a} = \frac{MU_b}{P_b} = \frac{MU_c}{P_c} = \dots = \frac{MU_n}{P_n}$$
$$\frac{MU_a}{P_a} > \frac{MU_b}{P_b} > \frac{MU_c}{P_c} > \dots > \frac{MU_n}{P_n}$$
$$\frac{MU_a}{P_a} < \frac{MU_b}{P_b} < \frac{MU_c}{P_c} < \dots < \frac{MU_n}{P_n}$$

D. None of the given options

4) Marginal utility measures:

- The slope of the indifference curve
- The additional satisfaction from consuming one more unit of a good
- The slope of the budget line
- The marginal rate of substitution

5) ----- is the difference between willingness to pay and what the consumer actually has to pay:  
Total Utility

**B. Consumer surplus**

C. Producer surplus

D. Total product

6) ----- 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

7) ----- operate under the principle of law of large numbers:

A. Banks

**B. Insurance companies**

C. Government sponsored enterprises

D. None of the given options

8) 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

9) A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A budget line A.

An isoquant B.

**An indifference curve C.**

A demand curve D.

10) The slope of an indifference curve reveals that:

The preferences are complete A.

**The marginal rate of substitution of one good for another good B.**

C. The ratio of market prices

D. That preferences are transitive

11) The law of diminishing returns applies to

**The short run only A.**

The long run only B.

Both the short and the long run C.

Neither the short nor the long run D.

**12) In the long run:**

All inputs are fixed A.

**All inputs are variable B.**

At least one input is variable and one input is fixed C.

At most one input is variable and one input is fixed D.

**13) According to the law of diminishing returns**

The total product of an input will eventually be negative A.

The total product of an input will eventually decline B.

The marginal product of an input will eventually be negative C.

**D. The marginal product of an input will eventually decline**

**14) The slope of the total product curve is the**

Average product A.

Slope of a line from the origin to the point B.

**C. Marginal product**

Marginal rate of technical substitution D.

**15) The short run is**

Less than a year A.

Three years B.

However long it takes to produce the planned output C.

**A time period in which at least one input is fixed D.**

**16) The marginal product of an input is**

Total product divided by the amount of the input used to produce this amount of output A.

The addition to total output that adds nothing to profit B.

The addition to total output due to the addition of one unit of all other inputs C.

**The addition to total output due to the addition of the last unit of an input, holding all other inputs constant D.**

**17) Average product is defined as:**

Total product divided by the total cost A.

Total product divided by marginal product B.

**Total product divided by the variable input C.**

Marginal product divided by the variable input D.

**18) Marginal product crosses the horizontal axis (is equal to zero) at the point where:**

- Average product is maximized A.  
**B. Total product is maximized**  
Diminishing returns set in C.  
Output per worker reaches a maximum D.

**19) The law of diminishing returns refers to diminishing**

- Total returns A.  
**B. Marginal returns**  
Average returns C.  
All of the given options D.

**20) The law of diminishing returns assumes that**

- A. There is at least one fixed input**  
All inputs are changed by the same percentage B.  
Additional inputs are added in smaller and smaller increments C.  
All inputs are held constant D.

**1- Since  $TR = P \times Q$ , suppose a perfectly competitive firm increases its production from 10 units to 11 units. If the market price is \$20 per unit, total revenue for 11 units is:**

- A. \$20  
B. \$200  
C. \$210  
**D. \$220**

**2- The profit- maximizing level of output for a perfectly competitive firm occurs where:**

- A. Marginal revenue equals marginal cost**  
B. Total revenue equals total cost  
C. Average revenue equals average total cost  
D. Average revenue equals average variable cost

**3- A downward-sloping demand curve exists for:**

- A. A monopoly, but not for a perfectly competitive firm**  
B. A perfectly competitive firm, but not for a monopoly  
C. Both a monopoly and a perfectly competitive firm  
D. Neither a monopoly nor a perfectly competitive firm

**4- Average revenue for a monopolist is:**

- A. Greater than price  
B. Less than price  
C. Less than marginal revenue

**D. Greater than marginal revenue**

**5- Food chains are operating in Pakistan like Mc Donald, KFC and Pizza Hut etc. These food chains sell their products in different countries at different prices. This is an example of:**

- A. First-degree price discrimination
- B. Second-degree price discrimination
- C. Third- degree price discrimination**
- D. Monopolistic competition

**6- You go to the market to purchase mangoes. Suppose 1 KG of mangoes = Rs. 45. If you purchase 1 KG of mangoes, seller will not discount the rate. But if you purchase mangoes in bulk amount then he will sell you at lower price. This is an example of:**

- A. First-degree price discrimination
- B. Second-degree price discrimination**
- C. Third-degree price discrimination
- D. Monopolistic competition

**7- Which of the following is true for both perfect and monopolistic competition?**

- A. Firms produce a differentiated product
- B. Firms face a downward sloping demand curve
- C. Firms produce a homogeneous product
- D. There is freedom of entry and exit in the long run**

**8- A feature of monopolistic competition that makes it similar to monopoly is the:**

- A. Inability to influence the price
- B. Downward sloping demand curve**
- C. Ease of entry into the industry
- D. Horizontal marginal revenue curve

**9- Monopolistic competition is a market structure characterized by:**

- A. A single buyer and several sellers
- B. A product with no close substitutes
- C. Barriers to entry and exit
- D. Differentiated products**

**10- A feature of oligopoly that makes it similar to monopoly is the:**

- A. Inability to influence the price
- B. Downward-sloping demand curve**
- C. Freedom of entry into the industry
- D. Horizontal marginal revenue curve

**11- The market structure in which each firm is independent in decisions is**

**known as:**

- A. Monopolistic competition
- B. Oligopoly
- C. Perfect competition

**D. Monopoly**

**12- In the kinked demand curve model, if one firm reduces its price:**

- A. Other firms will also reduce their price**
- B. Other firms will compete on a non-price basis
- C. Other firms will raise their price
- D. All of the given options

**13- The origins of classical economics can be traced to the work of:**

- A. Karl Marx
- B. Milton Friedman
- C. John Maynard Keynes
- D. Adam Smith**

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

- A. Supply creates its own demand**
- B. Leakages are greater than injections
- C. Unemployment is a common condition
- D. Consumption expenditures are a function of disposable income

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

- A. Full employment
- B. Flexible wages and prices
- C. Equality between saving and investment
- D. High rates of unemployment**

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

- A. Monetarism
- B. Rational expectations
- C. Keynesian economics**
- D. Neoclassical economics

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

- A. Stagflation of the 1970s
- B. Great Depression of the 1930s**



- C. English industrial revolution of the late 1700s
- D. American industrial revolution of the late 1800s

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

- A. Prior to the late 1700s
- B. From the late 1700s to the early 1900s
- C. From the 1930s to the 1970s**
- D. Since the 1970s

**19- Keynesian economics rejected the classical assumption that:**

- A. Supply creates its own demand**
- B. Prices and wages are inflexible
- C. Self-correction takes a long time
- D. Consumption expenditures depend on disposable income

**20- Aggregate demand curve is downward sloping due to the:**

- A. Interest rate effect
- B. Wealth effect
- C. International purchasing power effect

**D. All of the given options**

**21- A primary implication of Keynesian economics is:**

- A. The best government is the least government
- B. Flexible wages and prices ensure full employment
- C. Self-correction is the best way to eliminate unemployment
- D. Economic instability is best corrected through the interference of Government**

**22- Demand-management policies are designed to shift the:**

- A. Aggregate Demand curve**
- B. Aggregate Supply curve
- C. Philips curve
- D. Production possibilities curve

**23- Aggregate supply is the relation between real production and:**

- A. Scarcity
- B. The price level**
- C. Aggregate expenditures
- D. Foreign trade

**24- The long-run aggregate supply curve is:**

- A. Downward sloping
- B. Upward sloping
- C. Vertical at the full-employment level**

D. Horizontal at the full-employment level

**25- A leftward shift of the SRAS curve is a (n):**

- A. Increase in long-run aggregate supply
- B. Decrease in long-run aggregate supply
- C. Increase in short-run aggregate supply
- D. Decrease in short-run aggregate supply**

**1. 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

**2. 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.

**3. 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.**

**4. 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.

**5. 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.

**6. 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.

**7. 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.

**8. 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.**

**9. 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

**10. In perfect competition, product price is:**

- A. Greater than marginal revenue.
- B. **Equal to marginal revenue.**
- C. Equal to total revenue, Greater than total revenue.

**. A price taker is:**

- A. A firm that accepts different prices from different customers.
- B. A consumer who accepts different prices from different firms.
- C. **A firm that cannot influence the market price.**
- D. Both (b.) and (c.).

**2. Which of following is a key assumption of a perfectly competitive market?**

- E. Firms can influence market price.
- F. Commodities have few sellers.
- G. It is difficult for new sellers to enter the market.
- H. **Each seller has a very small share of the market.**

**3. A firm maximizes profit by operating at the level of output where:**

- E. Average revenue equals average cost.
- F. Average revenue equals average variable cost.
- G. Total costs are minimized.
- H. **Marginal revenue equals marginal cost.**

**4. The demand curve facing a perfectly competitive firm is:**

- E. Downward-sloping and less flat than the market demand curve.
- F. Downward-sloping and more flat than the market demand curve.
- G. Perfectly horizontal.**
- H. Perfectly vertical.

5. Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a \_\_\_\_\_ price and sell a \_\_\_\_\_ quantity:

- A. Higher; larger
- B. Lower; larger
- C. Higher; smaller**
- D. Lower; smaller

6. The monopolist has no supply curve because:

- E. The quantity supplied at any particular price depends on the monopolist's demand curve.**
- F. The monopolist's marginal cost curve changes considerably over time.
- G. The relationship between price and quantity depends on both marginal cost and average cost.
- H. There is a single seller in the market.

7. A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:

- E. First-degree price discrimination.
- F. Second-degree price discrimination.
- G. Third-degree price discrimination.**
- H. Pricing at each consumer's reservation price.

8. For which of the following market structures is it assumed that there are barriers to entry?

- E. Perfect competition
- F. Monopolistic competition
- G. Monopoly**
- H. All of the above

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

- E. Purely competitive.
- F. A monopoly.
- G. Monopolistically competitive.**
- H. Oligopolistic.

10. Which of the following does not refer to macroeconomics?

- E. The study of aggregate level of economic activity.
- F. The study of causes of unemployment.
- G. The study of causes of inflation.
- H. The study of the economic behavior of individual decision-making units such as consumers, resource owners and business firms.**

1. 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.**

2. 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.

**3. 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.

**4. 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

**5. 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 .**

**6. According to law of demand, a demand curve is:**

- A. Horizontal
- B. Vertical
- C. **Downward sloping**
- D. Directly related to law of supply

**7. 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.**

**8. All of the following are determinants of supply except:**

- A. Price
- B. Income levels**
- C. Objectives of the firm
- D. Level of technology

**9. 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

**10. The transformation of resources into economic goods and services is:**

- A. Technical efficiency
- B. Input
- C. Product ion**
- D. Increasing returns

**1. The price elasticity of demand is defined as the absolute value of the ratio of:**

- A. Price over quantity demanded.
- B. Change in price over change in quantity demanded.
- C. Percentage change in price over the percentage change in quantity demanded.
- D. Percentage change in quantity demanded over the percentage change in price.**

**2. If a good is a luxury, its income elasticity of demand is:**

- A. positive and less than 1
- B. negative but greater than -1
- C. positive and greater than 1**
- D. zero

**3. A resource is something that:**

- A. Is used to produce goods and services.**
- B. Is provided by nature, not made by society.
- C. Exists in unlimited quantities.
- D. Must be produced by a firm.

**4. If the cross-price elasticity between home personal computers and video game units for TV is positive, one can conclude that**

- A. These products are substitutes for one another.**
- B. These products complement one another.
- C. These products are over-priced.
- D. Consumers are irrational.

**5. As one moves along a convex isoquant, which of the following does not change?**

- A. The marginal rate of technical substitution.
- B. The capital-labor ratio.
- C. The marginal product of labor relative to the marginal product of capital.
- D. The level output produced.**

**6. Of the following goods, the one where the law of diminishing marginal utility is least likely to apply is:**

- A. Water.
- B. Cigarettes.**
- C. Toothpaste.
- D. Rap music.

**7. The optimal purchasing rule states that total utility is maximized when a consumer:**

- A. Consumes as much as possible of all good.
- B. Consumes the same quantities of all goods.
- C. Completely uses up their income.
- D. Consumes to the point where the marginal utility per dollar spent on all goods is the same.**

**8. Which of the following pairs come closest to being complementary goods?**

- A. Apples and oranges.
- B. Cameras and films.**
- C. A free hotel room and a free meal.
- D. Cream and milk.

**9. A Giffen good:**

- A. Is a good that people buy more of as their incomes fall.
- B. Is a good which people buy more of as its price increases.**
- C. Is a good on which people spend a small portion of their income.
- D. Has a vertical demand curve.

**10. When an industry expands its costs of production will:**

- A. Increase.**
- B. Decrease.
- C. stay the same.
- D. none of the above.

**1. Disposable Income is obtained by subtracting \_\_\_\_\_ taxes from personal income:**

- A. Indirect Taxes
- B. Direct Taxes**
- C. Subsidies
- D. None

**2. Per capita income is obtained by dividing National Income by:**

- A. Total labor Force in the Country
- B. Unemployed Youth in the Country
- C. Total population of that country.**
- D. None

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

- A. Investment and Consumption
- B. Consumption and Interest Rate
- C. Investment and Interest Rate**
- D. None

4. The situation in which the imports are greater than exports is termed as:

- A. Trade Surplus
- B. Trade Deficit**
- C. Budget Surplus
- D. None

5. Fiscal policy is the government programme with respect to it's:

- A. Steel Mill Privatization
- B. Unemployment Reduction
- C. Expenditure and Tax revenue**
- D. None

6. Imports for any economy are considered as:

- A. Injections
- B. Leakages**
- C. Brain Drain
- D. None

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

- A. Consumption
- B. Interest rate
- C. Output**
- D. None

8. According to Keynes macroeconomic equilibrium is attained when:

- A. Prime Minister is PhD in Macroeconomics
- B. Aggregate Demand Equals Aggregate Supply**
- C. Inflation Exists in Economy.
- D. None

9. There are \_\_\_\_\_ methods of measuring GDP:

- A. Four
- B. Three**
- C. Five
- D. None

10. Intermediate goods are meant for:

- A. Direct use by the consumers
- B. further processing**
- C. The term does not exist
- D. None

1. Fiscal policy refers to:

- A. The actions of the central bank in controlling the money supply.
- B. The spending and taxing policies used by the government to influence the economy.**
- C. The government's regulation of financial intermediaries.
- D. None of the given options.

2. Disposable income is:

- A. Total income plus transfer payments
- B. Total income minus saving.
- C. Total income plus net taxes.
- D. Total income minus net taxes.**

3. The deficit tends to decrease when:

- A. GDP decreases slightly.
- B. GDP decreases rapidly.
- C. GDP increases.**
- D. GDP remains unchanged.

4. Money or paper currency serves at least \_\_\_\_\_ functions:

- A. Four
- B. Three**
- C. Five

D. Seven

**5. The economic logic behind granting central banks independence from government in the conduct of monetary policy is:**

- A. To eliminate seignior age.
- B. To allow open market operations.
- C. To enhance the credibility of monetary policy.**
- D. None of the above.

**6. An expansionary fiscal policy can:**

- A. Raise the national debt.**
- B. Decrease the national debt.
- C. Have no effect on national debt.
- D. None of above.

**7. Which is high powered money?**

- A. M1
- B. M2
- C. Mo**
- D. None

**8. There are \_\_\_\_\_ major instruments of monetary policy:**

- A. Three
- B. Four**
- C. Five
- D. None

**9. The rate at which central bank lends to commercial banks is known as:**

- A. Reserve rate.
- B. Discount rate.**
- C. Open market operation.
- D. None.

**10. Identify the three motives of money demand:**

- A. Accumulative, speculative, precautionary
- B. Speculative, transaction, precautionary**
- C. Precautionary special, transaction
- D. None

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Which of the following would shift the demand curve for new textbooks to the right? 1.

- 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.

2. 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.

3. 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.

4. 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.

5. Which of the following statements about the diagram below is true?

- a. Demand is infinitely elastic.

- b. Demand is completely inelastic.**
- c. Demand becomes more inelastic the lower the price.
- d. Demand becomes more elastic the lower the price.

**6. In the long run, new firms can enter an industry and so the supply elasticity tends to be:**

- a. More elastic than in the short -run.**
- b. Less elastic than in the short-run.
- c. Perfectly elastic.
- d. Perfectly inelastic.

**7. 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.

**8. The magnitude of the slope of an indifference curve is:**

- a. Called the marginal rate of substitution.**
- b. Equal to the ratio of the total utility of the goods.
- c. Always equal to the ratio of the prices of the goods.
- d. All of the above.

**9. Which of the following is a positive statement?**

- a. Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
- b. The minimum wage should not be increased, because to do so would increase unemployment.
- c. Smoking should be restricted on all airline flights.
- d. None of the above.**

**10. 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.**

**1. The slope of an indifference curve reveals:**

- a. That 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.

2. Alvin's preferences for good X and good Y are shown in the diagram below.

Good Y

45°

A

Good X

**Based on Figure it can be inferred that:**

- a. Alvin does not consider good X as "good."
- b. Alvin will never purchase any of good Y.
- c. Alvin regards good X and good Y as perfect substitutes.
- d. Alvin regards good X and good Y as perfect complements.**

**3. An increase in income, holding prices constant, can be represented as:**

- a. A change in the slope of the budget line.
- b. A parallel outward shift in the budget line.**
- c. An outward shift in the budget line with its slope becoming flatter.
- d. A parallel inward shift in the budget line.

**4. 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.**

**5. An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

- a.  $MRS_{xy}$  is at a maximum.
- b.  $P_x/P_y = \text{money income}$ .
- c.  $MRS_{xy} = \text{money income}$ .
- d.  $MRS_{xy} = P_x/P_y$ .**

**6. Which of the following is true regarding income along a price consumption curve?**

- a. Income is increasing.
- b. Income is decreasing.
- c. Income is constant.**
- d. The level of income depends on the level of utility.

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

- a. Risk averse.
- b. Risk neutral.**
- c. Risk loving.
- d. Insufficient information for a decision.

**8. A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:**

- a. An isoquant.
- b. A production possibility curve.
- c. A production function.**
- d. An isocost function.

**9. 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.**

**10. The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:**

- a. Marginal rate of substitution.
- b. Marginal rate of technical substitution.**
- c. Slope of the isocost curve.
- d. Average product of the input.

**1. The cross elasticity of demand of complements goods is:**

- a. Less than 0 .**
- b. Equal to 0.
- c. Greater than 0.
- d. Between 0 and 1.

**2. It is calculated as the percentage change in quantity demanded of a given good, with respect to the percentage change in the price of “another” good.**

- a. Price elasticity of demand
- b. Income elasticity of demand
- c . Cross price elasticity of demand**
- d. Supply price elasticity

**3. \_\_\_\_\_ measures the percentage change in demand given a percentage change in consumer's income.**

a. Price elasticity of demand

**b. Income elasticity of demand**

c. Supply price elasticity

d. Cross price elasticity

**4. We know that the demand for a product is elastic if:**

a. When price rises, revenue rises

**b. When price rises, revenue falls**

c. When price rises, quantity demanded rises

d. When price falls, quantity demanded rises

**5. The burden of a tax is shifted toward buyers if:**

a. Demand is perfectly elastic.

b. Demand is relatively more elastic than supply.

**c. Demand is relatively more inelastic than supply.**

d. Demand and supply have equal elasticities.

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

a. Useless

b. Require

c. Necessary

**d. Satisfaction**

**7. Marginal utility is best described as \_\_\_\_\_.**

a. The additional satisfaction gained by consumption of the last good

b. The per unit satisfaction of the good consumed

c. The total satisfaction gained from the total consumption of the good

**d. The change in satisfaction from consuming one additional unit of the good**

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

**a. Increases at a decreasing rate.**

b. Decreases as long as marginal utility is negative.

c. Decreases as long as marginal utility is positive.

d. Is negative as long as marginal utility is decreasing.

**9. If you sum all of the marginal utilities for the consumption of units one through five, you will get:**

a. The marginal utility for the consumption of the fifth unit.

b. The marginal utility for the consumption of the sixth unit.

**c. The total utility for the consumption of the first five units.**

d. The average utility for the consumption of the first five units.

**10. \_\_\_\_\_ is the extra value that consumers receive above what they pay for that good.**

- a. Producer surplus
- b. Utility
- c. Marginal utility
- d. Consumer surplus**

**11. Consumers will maximize satisfaction when:**

- a. The price of each good is exactly equal to the price of every other good consumed.
- b. The price of each good is exactly equal to the total utility derived from the consumption of every other good.
- c. 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.**
- d. Marginal utility is equal to average utility.

**12. According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- a. Vertical
- b. U-shaped
- c. Upward-sloping
- d. Downward-sloping**

**13. The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:**

- a. Marginal rate of substitution.
- b. Marginal rate of technical substitution.**
- c. Slope of the isocost curve.
- d. Average product of the input.

**14. An isoquant:**

- a. Must be linear.
- b. Cannot have a negative slope.
- c. Is a curve that shows all the combinations of inputs that yield the same total output?**
- d. Is a curve that shows the maximum total output as a function of the level of labor input?

**15. In a production process, all inputs are increased by 10%; but output increases less than 10%. This means that the firm experiences:**

- a. Decreasing returns to scale .**
- b. Constant returns to scale.
- c. Increasing returns to scale.
- d. Negative returns to scale.

**1. 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.

**2. Marginal product, mathematically, is the slope of the:**

- a. Total product curve .**
- b. Average product curve.
- c. Marginal product curve.
- d. Implicit product curve.

**3. Two curves that remain parallel as the quantity of output increases are:**

- a. Total fixed cost and total variable cost.
- b. Total cost and total variable cost.**
- c. Average fixed cost and average variable cost.
- d. Average total cost and average fixed cost.

**4. Suppose a firm produces 10 units of output and incurs \$30 in per-unit variable cost and \$5 in per-unit fixed cost. In this case, total cost is:**

- a. \$35.
- b. \$50.
- c. \$300.
- d. \$350 .**

**5. Suppose the first four units of an output produced incurs corresponding total costs of 50, 150, 300, 500. The marginal cost of the second unit of output is:**

- a. 50.
- b. 100.**
- c. 150.
- d. 200.

**6. Why is the law of diminishing marginal returns true?**

- a. Specialization and division of labor
- b. Spreading the average fixed cost
- c. Limited capital**
- d. All factors being variable in the long-run

**7. A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:**

- a. An isoquant.
- b. A production possibility curve.
- c. A production function .**
- d. An isocost function

8. Writing total output as  $Q$ , change in output as  $dQ$ , total labor employment as  $L$ , and change in labor employment as  $dL$ , the marginal product of labor can be written algebraically as:

- a.  $dQ \, dL$ .
- b.  $Q / L$ .
- c.  $dL / dQ$ .
- d.  $dQ / dL$ .

9. 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.

10. Which of the following costs always declines as output increases?

- a. Average cost
- b. Marginal cost
- c. Fixed cost
- d. Average fixed cost

11. An isocost line reveals the:

- a. Costs of inputs needed to produce along an isoquant.
- b. Costs of inputs needed to produce along an expansion path.
- c. Input combinations that can be purchased with a given outlay of funds.
- d. Output combinations that can be produced with a given outlay of funds.

12. Assume that a firm's production process is subject to increasing returns to scale over a broad range of outputs. Long run average costs over this output will tend to:

- a. Increase.
- b. Decline.
- c. Remain constant.
- d. Fall to a minimum and then rise.

13. A Cobb-Douglas production function:

- a. Exhibits constant returns to scale.
- b. Exhibits increasing returns to scale.
- c. Exhibits decreasing returns to scale.
- d. Can exhibit constant, increasing, or decreasing returns to scale.

14. Which of the following is an example of a homogeneous product?

- a. gasoline
- b. copper
- c. personal computers
- d. winter parkas
- e. Both (a.) and (b.)



**15. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

- a. Consumers know their preferences.
- b. Consumers know their income levels.
- c. Consumers know the prices available.
- d. **Consumers can anticipate price changes .**

**1. If, in a fully employed, closed economy, the supply of money and the velocity of circulation of money both increase, then in the short-run.**

- a. Unemployment of factors will result
- b. Real national output will expand
- c. The volume of transactions will increase
- d. **The average level of prices will rise**

**2. An increase in the rate of inflation which is not accompanied by any change in the volume of consumer goods sold will automatically increase the:**

- a. **Revenue from Value Added Tax**
- b. Level of company profits
- c. Level of unemployment
- d. Average level of wages

**3. The increase in the Public Sector Borrowing Requirement (PSBR) to almost £50 billion this year will automatically lead to:**

- a. A higher rate of inflation
- b. A fall in the rate of unemployment
- c. **An increase in the National Debt**
- d. A deterioration in the Balance of Payments

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

- a. Investment and Consumption
- b. Consumption and Interest Rate
- c. **Investment and Interest Rate**
- d. None

**5. According to Classical models, the level of employment is determined primarily by:**

- a. The level of aggregate demand for goods and services.
- b. Prices and wages.
- c. **Government taxation.**

d. Government spending.

**6. Which of the following is not an important variable in growth accounting calculations?**

- a. Productivity growth
- b. Money supply growth**
- c. Labor growth
- d. Capital growth

**7. The per-worker production function relates:**

- a. Output per worker to capital per worker.**
- b. Output per worker to production per worker.
- c. Output per worker to factors of production per worker.
- d. Production per worker to the size of the work force.

**8. In a steady-state economy:**

- a. Net investment equals depreciation rate.
- b. Per capita capital stock grows at the rate of labour growth.
- c. Per capita capital stock remains constant.**
- d. Net investment equals the consumption.

**9. The war in Iraq sent oil prices spiraling upwards, resulting in an increase in the overall price level. This is an example of which type of inflation?**

- a. Cost-pull
- b. Cost-push**
- c. Demand-pull
- d. Demand-push

**10. The IMF is an agency charged with providing:**

- a. Technical assistance to stock market and financial market problems.
- b. Loans for post-World War II reconstruction.
- c. Short -term credit for international balance of payments deficits.**
- d. Bonds denominated in U.S. dollars as a loan to LDCs.

**11. In a portfolio investment:**

- a. Investors are directly involved in managing the operations.
- b. As in direct investment, investors export goods and services abroad.
- c. Investors transfer the technology to local investors.
- d. Investors have no control over operations.**

**12. Inflation:**

- a. Reduces both the purchasing power of the dollar and one's real income
- b. reduces the purchasing power of the dollar and increases one's real income
- c. Reduces the purchasing power of the dollar but may have no impact on one's real income**
- d. Increases the purchasing power of the dollar and reduces one's real income

**13. One of the tenets of the classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur:**

- a. Slowly.
- b. Quickly.**
- c. Very infrequently.
- d. Instantly.

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

- a. Monetary, but not fiscal policy will have an effect on output and employment.
- b. Both monetary and fiscal policy will have an effect on output and employment.
- c. Fiscal, but not monetary policy will have an effect on output and employment.
- d. Neither monetary nor fiscal policy will have an effect on output and employment.**

**15. Potential GDP is the level of aggregate output:**

- a. That can be produced if structural unemployment is zero.
- b. That can be produced at a zero unemployment rate.
- c. That can be sustained in the long run, if the inflation rate is zero.
- d. That can be sustained in the long run without inflation.**

**16. Which school of economic thought suggested that one possible cause of inflation was a 'push' from the cost side?**

- a. New classical economists.
- b. Monetarists.
- c. Marxists.
- d. Keynesians.**

**17. An unspoken agreement between workers and firms that the firm will not cut wages is known as:**

- a. An explicit contract.
- b. An implicit or social contract.**
- c. Employment-at-will.
- d. A relative-wage contract.

**18. To offset the downswing in the business cycle, the government announces a major increase in public expenditure.**

- a. Technological Unemployment
- b. Demand Deficient Unemployment**
- c. Real Wage Unemployment
- d. Regional Unemployment

**19. The government puts pressure on trade unions to make pay claims which are below the increase in productivity over the past year.**

- a. Frictional Unemployment
- b. Technological Unemployment
- c. Structural Unemployment
- d. Real Wage Unemployment**

**20. In which case is total expenditure in an economy not equal to total income?**

- a. If total saving is larger than total investment
- b. If net exports are not zero
- c. If inventory investment is negative
- d. None of the above--they are always equal**

Please choose one Scarcity can be avoided by making:

- Needs unlimited.
- Wants unlimited.
- Resources limited.
- Wants and needs limited.

- Please choose one If the price of Pepsi decreases relative to the price of Coke and 7-Up, the demand for:

- Coke will decrease.
- Coke and 7-Up will increase.

7-Up will decrease.

Coke and 7-Up will decrease.

- Please choose one An increase in price will result in an increase in total revenue if

: The percentage change in quantity demanded is less than the percentage change in price.

The percentage change in quantity demanded is greater than the percentage change in price.

Demand is elastic.

The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.

Which of the following is NOT a characteristic of a “price taker”?

$$TR = P \times Q$$

Negatively-sloped demand.

AR = Price

Marginal Revenue = Price

Which of the following is NOT a characteristic of a “price taker”?

$$TR = P \times Q$$

Negatively-sloped demand.

AR = Price

Marginal Revenue = Price

A “quota” can best be described as:

A law which limits the quantity of a good that can be imported.

A government payment to producers of an exportable good.

A tax imposed on an imported good.

Price of one unit of foreign currency in terms of domestic currency is known as

: Inflation rate

Interest rate

Exchange rate

Discount rate

Gross Domestic Product can be measured by which of the following methods?

Value added approach

Expenditure approach

Factor income approach

All of the given options

Gross National Product = Gross Domestic Product + -----.

Depreciation

Inflation

Net factor incomes from abroad

Factor cost

----- states that all the people who are identical in terms of their economic conditions should be taxed identically.

Horizontal equity

Progressive taxation

Vertical equity

Regressive taxation

“Inflation is always and everywhere a monetary phenomenon” is the notion of:

Classical school of thought

Keynesian school of thought

Monetarists school of thought

Rational expectations school of thought

In the circular flow of income, Keynesian equilibrium obtains when:

1 o All the individual sectors are in equilibrium:  $S=I$ ,  $T=G$ ,  $M=X$

2 o The aggregate injections equal aggregate withdrawals  $S+T+M = I+G+X$

3 o There is no inflation or unemployment

4 o The interest rate and exchange rate are at their market clearing levels

**Question No. 2 Marks : 2**

A study of, how increases in the minimum wage rate will affect the national unemployment rate, is an example of:

- 1o Descriptive economics.
- 2o Normative economics.
- 3o Macroeconomics.
- 4o Microeconomics

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

- ☐ Consumption and saving.3
- ☐ Saving and imports.
- ☐ Imports and exports.
- ☐ Exports and saving.

**Gross domestic product is a measure of: G**

- The total market value of all final goods and services produced in one year. 1.
- The price level of goods and services sold in one year. 2.
- The total amount of refrigerators, washing machines and other household appliances 3. produced in one year.
- The total amount of goods and services produced by private companies in one year. 4.

**definition of profit is: T**

- Total assets minus total liabilities. 1.
- Total sales minus total taxes.
- Total revenues minus total cost 3.
- Total sales minus total wages. 4.

**Which combination of policies would be the most expansionary?**

- A decrease in government spending and an increase in taxes. 4.
- W**
- An increase in government spending and taxes. 1.
- A decrease in government spending and taxes. 2.
- An increase in government spending and a decrease in taxes. 3.

**Which of the following would be an example**

- rd companies.
- 4. Price supports for agricultural products.
- 1. Controls on apartment rent in major cities.

2. Limiting interest charged by credit ca
3. Price controls during World War II.

**he circular flow model, businesses:**

Demand both products and resources.

3. Supply products and demand resources
4. Supply products and demand resources.
5. Demand products and supply resources.

**he production possibility curve is**

4. Positive.
1. Concave.
2. Convex.
3. Linear.

**eflation refers to:**

.

4. A federal government policy of running budget surpluses.

**D**

1. Decreasing relative prices
2. A decreasing price level.
3. A slowing down of the rate of inflation.

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