



QUESTION PAPER

Q.1->Cross-price elasticity of demand measures how the quantity demanded of a good changes as price changes.
quantity demanded of a good changes as income changes.
price of a good is affected when income changes.
quantity demanded of one good changes as the price of another good changes.
Marks :3

Q.2->Demand is said to be inelastic if
consumers hardly respond to a change in price.
consumers respond substantially to a change in price.
consumers respond directly to a change in income.
the change in quantity demanded is equal to the change in price.
Marks :2

Q.3->Demand is elastic if elasticity is
equal to 1.
equal to 0.
less than 1.
greater than 1.
Marks :2

Q.4->The area below a demand curve and above the price measures
total surplus.
producer surplus.
willingness to pay.
consumer surplus.
Marks :2

Q.5->Willingness to pay measures the
maximum amount that a buyer will pay for a good.
amount a seller actually receives for a good minus the minimum amount the seller is willing to accept.
maximum amount a buyer is willing to pay minus the minimum amount a seller is willing to accept.
amount a buyer is willing to pay for a good minus the amount the buyer actually pays for it.
Marks :1

Q.6->If the price of the product is equal to a consumer's willingness to pay then the consumer surplus of that purchase would be
zero and the consumer would not purchase the product.
negative and the consumer would not purchase the product.
zero but the consumer would purchase the product.
There is not enough information given to answer this question.
Marks :3

Q.7->Denea produces greeting cards. Her production cost is \$2 per box. She sells the cards for \$8 per box. Her producer surplus is

\$2 per box.
\$6 per box.
\$8 per box.
\$10 per box.
Marks :1

Q.8->The 'invisible hand' is a term used
to describe the welfare system in the United States.
to describe the way illegal drugs enter a country.
by Adam Smith to describe the virtues of free markets.
by some economists to describe what the role of government should be in an economy present but
invisible.
Marks :1

Q.9->A tax placed on a good
causes the price of the good to fall.
causes the size of the market for the good to shrink.
affects buyers of the good but not sellers.
is usually borne entirely by the seller of the good.
Marks :1

Q.10->The term used by economists for the benefit received by buyers in a market is
producer surplus.
consumer surplus.
total expenditures.
willingness to pay.
Marks :1

Q.11->A tariff on a product makes domestic sellers
better off and domestic buyers better off.
worse off and domestic buyers better off.
better off and domestic buyers worse off.
worse off and domestic buyers worse off.
Marks :1

Q.12->The North American Free Trade Agreement
increased trade restrictions among Canada Mexico and the United States.
reduced trade restrictions among Canada Mexico and the United States.
eliminated tariffs on imports to North America from the rest of the world.
reduced trade restrictions among European countries.
Marks :3

Q.13->When two countries choose to engage in international trade
both countries will benefit.
one country benefits while the other country loses.
since it is an equal exchange neither country benefits nor loses.
Without additional information we will not be able to know if either country benefits or loses.

Marks :2

Q.14->When a country's domestic price of a product is lower than the world price and free trade is allowed
the country will become an importer of the product.
the country will become an exporter of the product.
we know that consumers must not demand the product since the domestic price is lower so the country will have no need to export nor import the product.
additional information about domestic supply is needed to determine whether the country will export or import the good.

Marks :2

Q.15->In the absence of externalities the invisible hand of the marketplace
induces people to act in a manner inconsistent with self-interest.
is unable to resolve inherent inefficiencies in the market system.
leads to a market outcome that maximizes total benefit to society.
increases the transactions cost of contracting between parties to an exchange.

Marks :1

Q.16->A Pigovian tax
is a form of regulation.
allocates pollution to those factories that face the highest cost of reducing it.
works well for all types of externalities.
is deemed inferior to regulatory policy by most economists.

Marks :1

Q.17->When negative production externalities are present in a market
private costs will be greater than social costs.
social costs will be greater than private costs.
government regulation to resolve the problem is necessary.
the market will not be able to reach any equilibrium situation.

Marks :1

Q.18->A good is excludable if
it is not a normal good.
people can be prevented from using it.
the government regulates its availability.
one person's use of the good diminishes another person's enjoyment of it.

Marks :3

Q.19->Overuse of common resources can potentially be resolved by governments that
subsidize use.
deregulate use.
convert the common resource to a private good.
all of the above

Marks :1

Q.20->If a road is congested then use of that road by an additional person would lead to a positive externality.

negative externality.

natural monopoly problem.

free-rider problem with rush hour drivers stuck in traffic.

Marks :2

Q.21->Excessive fishing occurs because

fishermen have other marketable skills and do not fear exploitation of fish reserves.

fishermen rely on government managers to worry about fish populations.

each individual fisherman has little incentive to maintain the species for the next year.

fishermen are concerned about the population dynamics of fish biomass not current harvest rates.

Marks :3

Q.22->To most economists the best solution to the overcrowding problem at Yellowstone National park is to

increase financial aid from the government.

place daily quotas on the number of vehicles that enter the park.

increase entrance fees to the park.

temporarily close down damaged sections of the park.

Marks :1

Q.23->A common theme among examples of market failure is

the good being provided always harms society in some systematic way.

there are regulations that prohibit the efficient functioning of private markets.

some item of value does not have an owner with the legal authority to control it.

cost-benefit analysis is likely to lead to implementation policies that promote private provision of goods and services.

Marks :2

Q.24->A good that is both nonrival and excludable would be a common resource good.

natural monopoly.

public good.

private good.

Marks :1

Q.25->To increase safety at a bad intersection you must decide whether to install a traffic light in your hometown at a cost of \$10000. If the traffic light reduces the risk of fatality by 0.5 percent and the value of a human life is about \$10 million you should

install the light because the expected benefit of \$50000 is greater than the cost.

install the light because the expected benefit of \$20000 is greater than the cost.

not install the light because the expected benefit of \$10000 is only equal to the cost.

not install the light because the expected benefit of \$5000 is less than the cost.

Marks :3

Q.26->The reason why elephants are endangered and cows are not is because

cows are not as valuable as elephants.
elephants are a common resource and cows are a private good.
cows are a common resource and elephants are a private good.
it is legal to kill cows but not elephants.

Marks :1

Q.27->It is common knowledge that many U.S. national parks have become overused. One possible solution to this problem is to
increase entrance fees.
conduct a study to determine the carrying capacity of the individual parks.
reduce the national park service budget.
All of the above are possible solutions.

Marks :1

Q.28->The essence of most proposals for a flat tax are captured in
a single low tax rate applied to all income above a certain level.
an initial low flat tax rate that increases as a taxpayer's income increases.
a single tax rate with many exemptions that provide incentives to people who save.
a lump-sum tax that all taxpayers must pay and then a fixed low tax rate for all income above a certain level.

Marks :3

Q.29->Incentives to work and save are reduced when
income taxes are higher.
Pigovian taxes are implemented.
consumption taxes replace income taxes.
all of the above

Marks :1

Q.30->State and local governments receive the largest portion of their tax revenues from
social insurance taxes and excise taxes.
sales taxes and property taxes.
estate taxes and income taxes.
corporate income taxes and sales taxes.

Marks :2

Q.31->A tax levied on the total amount spent in retail stores is called a
sales tax.
excise tax.
corporate tax.
proportional tax.

Marks :2

Q.32->According to this scenario what is the opportunity cost of purchasing the factory for the first year of operation?
\$10000
\$20000

\$30000
\$40000
Marks :1

Q.33->According to the figure which of the statements below concerning production is most consistent with the shape of the total cost curve?

Producing an additional coffee mug always has a higher cost than producing the previous coffee mug.
Producing an additional coffee mug is always less costly than producing the previous coffee mug.
Producing an additional coffee mug always has the same cost as producing the previous coffee mug.
None of the above is correct for all quantities.

Marks :2

Q.34->According to the figure which of the lines is most likely to represent marginal cost?

A
B
C
D

Marks :3

Q.35->The incentive to reduce costs is eliminated or reduced if the government operates a monopoly.

requires a monopoly to set average total cost equal to price.

Both a and b are correct.

Neither a nor b is correct.

Marks :1

Q.36->Economists who study labor markets have discovered that ability effort and chance are likely to be significant contributors to wage differences.

only about 5 percent of wage differences are related to chance.

ability is not difficult to measure but is largely insignificant in explaining wage differences.

work effort is difficult to measure but is not likely to contribute much to an explanation of wage differences.

Marks :3

Q.37->Wage differences that exist between well-educated workers and less-educated workers can be thought of as

unfair by most economists.

another form of discrimination in the labor market.

a compensating differential for the cost of becoming educated.

difficult to explain in a market economy.

Marks :2

Q.38->If income were equally distributed across all families

all families would more likely be rich than poor.

the relative share of income would decline as the number of families are increased.

the relative share of income would increase as the number of families are increased.

75 percent of the families would receive exactly 75 percent of the income.

Marks :3

Q.39->In the United States the poverty rate is a measure of the
number of people whose annual income is less than \$18000.
number of people whose annual household income is less than \$39000.
percentage of people whose income falls below an identified income standard.
percentage of government expenditures spent on programs to relieve poverty.

Marks :1

Q.40->In-kind transfers
can only be provided by the Federal government.
are goods and services given to the poor rather than cash.
increase the number of families below the poverty line since no money is given.
are taken into account when determining the degree of income inequality in the economy.

Marks :2

Q.41->Economic theory suggests that demand curves can sometimes slope upward
if a good is a strongly inferior good with a dominant income effect.
when the supply curve for the good is downward sloping.
when consumers no longer prefer more to less.
if a good is a normal good with a dominant income effect.

Marks :3

Q.42->The best measure of a country's production of goods and services is
real GDP.
real NNP.
nominal GDP.
nominal GNP.

Marks :3

Q.43->Retained earnings are the part of income that
households retain after paying taxes.
business retain after paying taxes.
corporations pay to their owners in the form of dividends.
corporations do not pay to their owners in the form of dividends.

Marks :2

Q.44->Net exports will be positive when
imports are larger than exports.
exports are larger than imports.
imports are equal to exports.
GDP increases.

Marks :3

Q.45->Indexation refers to
a process of adjusting the nominal interest rate so that it is equal to the real interest rate.
using a law or contract to automatically correct a dollar amount for the effects of inflation.

using a price index to deflate dollar values.

an adjustment made by the Bureau of Labor Statistics to the CPI so that the index is in line with the GDP deflator.

Marks :2

Q.46->Over the past century in the United States average income as measured by real GDP per person has grown about

4 percent per year which implies a doubling about every 20 years.

3 percent per year which implies a doubling about every 25 years.

2 percent per year which implies a doubling about every 35 years.

1 percent per year which implies a doubling about every 65 years.

Marks :3

Q.47->In the length of one generation which of the following countries has gone from being among the poorest countries in the world to being among the richest?

Chad

Ethiopia

Ghana

Singapore

Marks :1

Q.48->Consider the following two sentences. According to the data countries with higher investment relative to GDP tend to have higher growth rates of real GDP per person. This relation is not perfect though because an increase in the physical capital stock increases output per person more in a country with much capital than in a similar country with less capital.

Both sentences are true.

Both sentences are false.

Only the first sentence is true.

Only the second sentence is true.

Marks :1

Q.49->Hubert spends \$60 on a portable CD player.

Both the \$60 and the CD player are real variables.

Both the \$60 and the CD player are nominal variables.

The \$60 is a nominal variable and the CD player is a real variable.

The \$60 is a real variable and the CD player is a real variable.

Marks :2

Q.50->The country of Monaco experiences a coup that causes capital flight from the country. As a result net foreign investment in Monaco will decrease.

the demand for loanable funds in Monaco will increase.

the supply of loanable funds in Monaco will increase.

the exchange rate in Monaco will increase.

Marks :1

Q.51->According to liquidity preference theory if there is an excess supply of money people will deposit less into interest-bearing accounts so the interest rate rises.

less into interest-bearing accounts so the interest rate falls.
more into interest-bearing accounts so the interest rate rises.
more into interest-bearing accounts so the interest rate falls.

Marks :2

Q.52->When the money supply increases interest rates
rise and aggregate demand shifts right.
fall and aggregate demand shifts left.
rise and aggregate demand shifts left.
None of the above is correct.

Marks :2

Q.53->Suppose that net exports fall. Which of the following policies is most likely to stabilize the economy?

a decrease in the money supply
a tax increase
an increase in government expenditures
None of the above would be likely to stabilize the economy.

Marks :1

Q.54->If people in countries that have had persistently high inflation are skeptical of efforts to reduce inflation the short-run Phillips curve will remain far to the
right and the sacrifice ratio will be low.
right and the sacrifice ratio will be high.
left and the sacrifice ratio will be low.
left and the sacrifice ratio will be high.

Marks :2

Q.55->