

HUL 211 Introduction to economics: Minor 1
7th February 2018

Instructions: Each question carries 1 mark unless specified otherwise.

1. According to Amartya Sen, all of the following may contribute to famine **EXCEPT**
- ☒ a. Short-sighted government policies
 - ☒ b. An 'unfair' press.
 - ☒ c. Unequal distribution of income.
 - ☒ d. Democratically elected governments.

2. Match the following (0.5* 4= 2 Marks)

1. Adam Smith	a. Power is central to how the economy works.
2. Karl Marx	b. Creative destruction
3. Joseph Schumpeter	c. General theory of employment, interest and money
4. John Maynard Keynes	d. Laissez-faire

3. The phenomenon of scarcity stems from the fact that

- a. People are greedy
- b. Governments restrict production of too many goods and services.
- c. Resources are limited.
- ☒ d. None of the above

4. Which of the following statements is / are true of the production possibilities curve (PPC)?

- A) The PPC is typically bowed outward due to the principle of increasing opportunity cost.
- B) The PPC assumes that the prices of the products are equal.
- C) The PPC assumes that once an efficient combination is attained, you can produce more of one good only by producing more of the other good.
- D) The PPC is based on a fixed level of resources and technology.

- a. Statement 3 only
- b. Statement 1 and 2
- ☒ c. Statement 1 and 4
- d. All of the above

5. The notion that private bargaining could solve the problem of externalities was suggested by

- ☒ a. Ronald Coase
- b. Adam Smith
- c. Joseph Schumpeter
- d. John Maynard Keynes

6. I am considering loaning my brother \$10,000 for one year. He has agreed to pay 10% interest on the loan. If I don't loan my brother the \$10,000, it will stay in my bank account for the year, where it will earn 2% interest. What is the **economic rent** to me of the loan to my brother?
- a) \$200
 - ☒ b) \$800
 - c) \$1,000
 - d) \$1,200

7. Attempt any one of the two questions:

Assume that there are 2 countries, A and B, and that they can both produce 2 goods, X and Y. The theory of comparative advantage predicts that:

- a) Trade can only take place if country A has an absolute advantage in producing one of the goods, and country B has an absolute advantage in producing the other.
- ☒ b) Trade can take place even if country A has an absolute advantage in both providing that B chooses to specialize in the good in which it has the least comparative disadvantage, and A specializes in the one in which it has the greater comparative advantage.
- c) Trade between A and B will only take place if both countries are at a comparatively similar stage in the development of their economies.
- d) None of the above.

OR

In a fast food outlet, the following are the preparation times for Annie and Jessica:

	Pizza	Burger
Annie	60 minutes <i>2 Burger</i>	30 minutes <i>1 Pizza</i>
Jessica	30 minutes <i>1 1/2 Burger</i>	20 minutes <i>2/3 Burger</i>

- a) Jessica has an absolute advantage in producing pizza while Annie has a comparative advantage in producing Pizza.
- b) Jessica has a higher opportunity cost of producing Pizza than Annie.
- c) Annie has a higher opportunity cost of producing both pizza and burger.
- ☒ d) Annie has a higher opportunity cost of producing Pizza while Jessica has a higher opportunity cost of producing Burger.

8. Which of the following is true regarding the circular flow model?

- ☒ a) Households provide the demand for the factor market and business provide the supply for the goods and services market.
- b) Households provide the demand for the goods and service market and business provides the supply for the factor market.
- c) Households provide the supply for the factor market and business provides the supply for the goods and service market.
- d) Households provide both the supply and demand for the goods and services market.

9. State true or false. (0.5*4=2 marks)

- a. The field of economics as an object of study really began when communities started trading with each other. **F**
- b. Money is not a factor of production. **F**
- c. Microeconomics is the study of how households and firms make decisions and how they interact in markets. **T**
- d. Extensive government planning is a characteristic of capitalism. **F**

10. Which of the following statements is normative?

- a. Large government deficits cause an economy to grow more slowly
- b. People work harder if the wage is higher
- c. ☒ The unemployment rate should be lower.
- d. Printing too much money causes inflation.

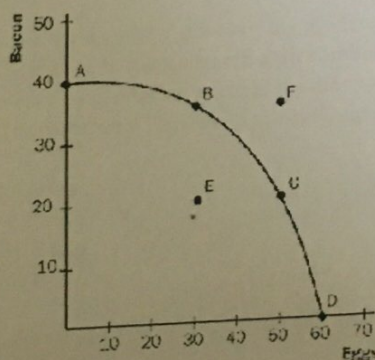
11. A rational person does not act unless

- a. The action is ethical
- b. The action produces marginal costs that exceed marginal benefits
- c. ☒ The action produces marginal benefits that exceed marginal costs.
- d. The action makes money for the person

12. Fill in the blanks (1*2=2 marks)

- a. Refer to Exhibit 6. If the economy is operating at point C, the opportunity cost of producing an additional 15 units of bacon is 2 eggs

Exhibit 6



- b. The ability of a single economic actor (or a small group of actors) to have a substantial influence on market prices is called monopoly