

1. Opportunity cost along a production possibility frontier is
 - I. Zero
 - II. The amount by which the production of one product increases when the production of another decreases
 - III. How much of each good is produced
 - IV. The sacrifice of one good required to produce one more unit of another good
 - V. **Both II & IV**

2. If it is possible to increase the output of both butter and guns, which of the following statements about the economy is true
 - I. The economy is inefficient and inside the PPC
 - II. The economy is efficient and on the PPC
 - III. The economy is full employed and on the PPC
 - IV. The economy is unemployed and inside the PPC
 - V. **Both I and IV**

3. An economy is operating on its PPC for 2018. A year later it is operating at a point outside 2018's PPC and inside 2019's PPC. From this information, it can be concluded that between 2018 and 2019
 1. Economic growth occurred only
 2. Both economic growth and a reduction in unemployment occurred
 3. a reduction in unemployment occurred only
 4. **Both economic growth and an increase in unemployment occurred**
 5. an increase in unemployment occurred only

4. Which of the following statement is correct?
 - I. Consumers convey their taste and choice by using the equilibrium price in a free market economy.
 - II. Using the signals given by the price mechanism, economic agents take decisions based on coercive motive.
 - III. The free market economy functions in a systematic way as a result of actions of a particular person or an authority.
 - IV. **The price mechanism does not provide a rationing mechanism at times of excess demand situations to ration the available supply among consumers.**
 - V. Both I and III

5. Which of the following statements are correct?

A – The substitution effect of any product is negative irrespective of the price change.

B - The substitution effect of any product becomes positive when price decreases, and becomes negative when price increases.

C – If the prices of all goods change in the same proportion, the substitution effect will be zero.

D - The cross price elasticity can indicate relative competition among various goods

 - I. B & D only
 - II. A & D only
 - III. A, C, D, only

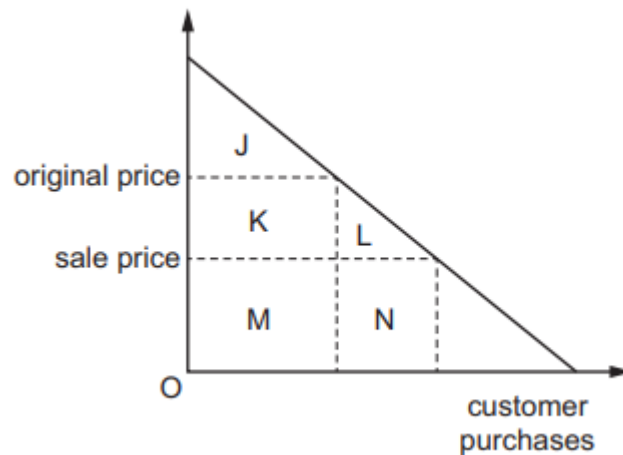
IV. **B, C, D only**

V. None of the above

6. Assume a hypothetical competitive market which is in equilibrium at Rs. 50 per unit. Now assume that the market supply curve changes from being elastic at each price to become inelastic at each price and the market equilibrium price and quantity does not change. What is the effect of this change on consumer surplus and producer surplus?

	Consumer surplus	Producer surplus
I.	Increases	Decreases
II.	Increases	Unchanged
III.	Unchanged	Unchanged
IV.	<u>Unchanged</u>	<u>Increases</u>
V.	Decreases	Increases

7. Suppose in a particular good income elasticity is negative but price elasticity is positive, which of the following statement would be the correct statement with regard to the above product.
- Negative income effect of this product is smaller than its positive substitution effect
 - Negative income effect of this product is larger than its positive substitution effect**
 - Negative income effect of this product is smaller than its negative substitution effect
 - Negative income effect of this product is larger than its negative substitution effect
 - None of the above
8. A well-known clothes retailer decides to have a summer sale in its shops. As a result the number of people who use the shops increases.



Which areas measure the change in consumer surplus for the customers who would have bought the clothes anyway and the surplus for the new customers?

	existing customers	new customers
i	J + K	L
ii	J + K + M	L + N
<u>iii</u>	<u>K</u>	<u>L</u>
iv	M	N
v	L + N	K

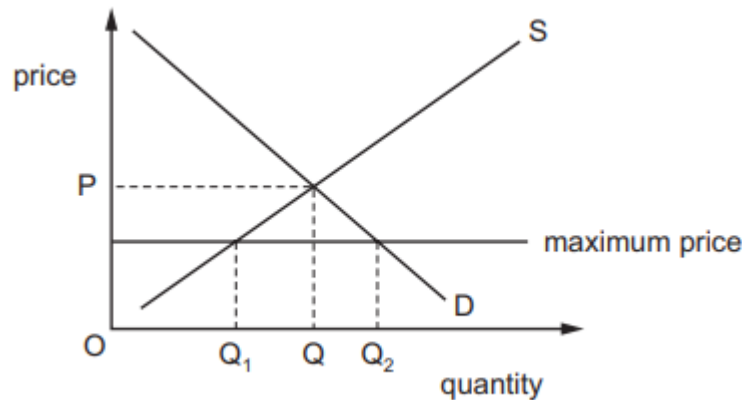
9. If the marginal cost of a firm is rising and greater than its marginal revenue, the firm should
- Shut down in the short run
 - Shut down in the long run
 - Decrease output**
 - Increase output to increase revenue and profit
 - Remain at the same level of output since any change would lead to larger losses
10. The table shows the demand and supply schedules for a product before and after the government pays a subsidy of Rs.4 per unit to the producers.

price	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	140	60	100
8	120	80	120
10	100	100	140
12	80	120	160
14	60	140	180

What is the total government spending on the subsidy?

- Rs.240
- Rs.400
- Rs.480**
- Rs.960
- Rs.1200

11. The diagram shows a market subject to a maximum price.

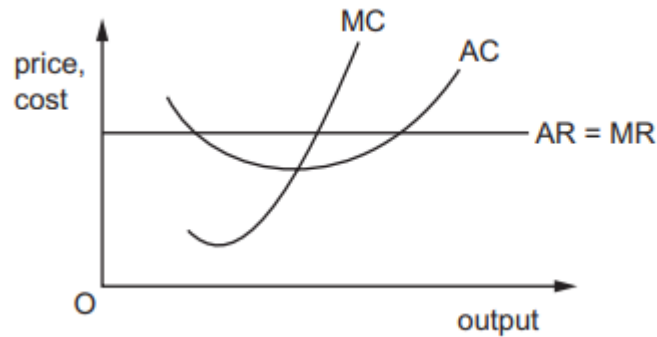


What will happen if the maximum price is removed?

- I. There will be allocation by a queuing system.
 - II. There will be allocation by government rationing.
 - III. There will be allocation by seller's preference.
 - IV. There will be allocation by the price system.**
 - V. None of the above
12. On a demand and supply diagram, other things remaining the same, a fall in the price of a commodity will normally shift
- I. the demand curve for a substitute to the right.
 - II. the demand curve for the commodity to the right.
 - III. the supply curve for a jointly produced commodity to the left.**
 - IV. the supply curve for the commodity to the left.
 - V. None of the above
13. The soap industry consists of several firms. Firm X produces a small percentage of total output. What is likely to cause the supply curve for firm X to shift to the right while the market supply curve shifts to the left?
- I. Firm X has improved technology while other firms have higher input costs.**
 - II. Firm X has to pay a large fine for polluting a river while other firms have a tax reduction.
 - III. Firm X is involved in a strike while other firms enter the industry.
 - IV. Firm X's rent and interest charges increase while other firms receive a government subsidy.
 - V. Both (ii) and (iii)
14. A competitive market consists of firms that face identical cost structures. The firms experience an increase in demand that results in positive profits for the firms. Which of the following events are the most likely to occur?
- a. New firms will enter the market
 - b. In the short run, price will rise; in the long run, price will rise further
 - c. In the long run, all firms will be producing at their efficient scale

- I. a & b only
- II. **a & c only**
- III. b & c only
- IV. a, b and c
- V. b only

15. The diagram shows the position of a profit-maximising firm in a perfectly competitive industry.



What is the correct analysis of this position?

	profits in short run	number of firms in the industry in the long run
i	supernormal	decrease
<u>ii</u>	<u>supernormal</u>	<u>increase</u>
iii	normal	remain the same
iv	subnormal	decrease
v	normal	decrease

16. Which is an internal economy of scale?

- I. efficient local transport networks
- II. improved access to spare parts as a result of industry growth
- III. **lower risks from supplying a wider range of customers**
- IV. the training of skilled labour at a college financed by local firms
- V. None of the above

17. In pure monopoly, what is the relation between the price and the marginal revenue?

- I. **Price is greater than the marginal revenue**
- II. Price is less than the marginal revenue
- III. There is no relation
- IV. They are equal
- V. Negative relationship

18. When a firm doubles its variable inputs, its fixed inputs are unchanged and output less than doubles.

What does this illustrate?

- I. decreasing average cost
- II. decreasing marginal cost
- III. **diminishing returns**
- IV. diseconomies of scale
- V. none of the above

19.

A – Change in level of investment is the main source that can shift the long run aggregate supply curve.

B - Change in level of efficiency is one of main sources that can shift the long run aggregate supply curve.

C - The equilibrium level of output in the long run will be determined by aggregate demand and aggregate supply.

D - The equilibrium level of output in the long run will be determined only by aggregate supply.

Which of the following statements are correct.

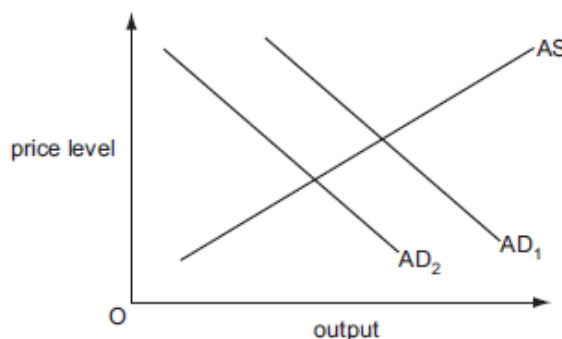
- I. C only
- II. A, C only
- III. **A, D only**
- IV. A, B, C only
- V. A,B, D only

20. Marginal propensity to save of a simple economy where there is no government or foreign sector changed from 0.2 to 0.4. Which one of the following statement is untrue?

- I. Savings curve of this economy become more inelastic
- II. Consumption curve of this economy become more elastic
- III. **Expenditure curve becomes more inelastic**
- IV. Income level where $Y=C$ decreased
- V. Both III & IV

21. AD_1 and AS are an economy's original aggregate demand and aggregate supply curves. What will cause the aggregate demand curve to shift to AD_2 ?

- I. An increase in the money supply
- II. A decrease in interest rate
- III. Decrease in marginal propensity to consumption
- IV. Increase in marginal propensity to tax
- V. **Both III & IV**

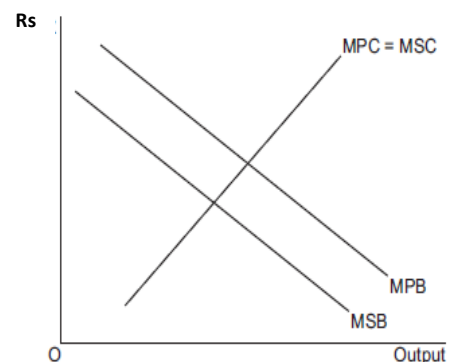


22. Which one of the following economic activity does generate primary income?
- I. A street vendor sells peanuts near a bus station
 - II. A person purchase treasury bonds
 - III. A person earns an interest by investing in government securities
 - IV. A person who does honey hunting from a forest and sell that honey.
 - V. **All of the above except II**
23. Which of the following (s) is not included in the GDP since it is a 'non-observed economic activity'?
- I. All of the informal economic activities
 - II. Value generated by housewives since those are not market transactions
 - III. **Avoiding the payment of income tax and other taxes.**
 - IV. Person who carry out their own carpentry work required for their household
 - V. All of the above
24. "When developing a price index, the chosen base year should be a normal year. "The term "normal" in this context refers to,
- I. A year where inflation was negative.
 - II. A year where economic growth rate was above 5%.
 - III. **A year where there were no major price fluctuations.**
 - IV. A year where an economy achieved a higher economic growth rate.
 - V. A year where prices of goods were low.
25. What will happen if a firm is subsidized by an amount equal to the external benefits that it confers on the rest of society?
- I. There will be no effect upon production.
 - II. The firm will produce less.
 - III. **Resource misallocation will get removed**
 - IV. There will be a misallocation of resources.
 - V. Social cost will decrease

26. The diagram below shows the marginal private benefit and marginal social benefit (MPB and MSB) curves and the marginal private cost and marginal social cost (MPC and MSC) curves for Good X.

From the diagram it can be concluded that Good X is a

- I. Merit good.
- II. Public good.
- III. **Demerit good.**
- IV. Normal good.
- V. Inferior good.



27. Comparative advantage
- I. Exists only when one producer can make the product using fewer resources than any other producer
 - II. Exists only when one producer can make the product using more resources than any other producer
 - III. **Leads to the most efficient allocation of resources and the greatest combined output**
 - IV. Eliminates specialization, so that each country produces all of its own needs independently
 - V. None of the above
28. The infant industry argument calls for
- I. **Temporary tariff protection while firms gain experience needed to compete with established foreign rivals**
 - II. Lowering prices to drive foreign rivals out of business
 - III. Subsidizing firms that face competition from foreign firms subsidized by their governments
 - IV. Using the threat of tariffs as a negotiation tool to encourage foreign countries to reduce their tariffs
 - V. Permanent tariff protection to protect jobs in selected key domestic industries
29. A government wants to operate a tighter monetary policy. What would it increase?
- I. budget surplus
 - II. **interest rate**
 - III. money supply
 - IV. rates of taxation
 - V. None of the above
30. Which statement is not a valid reason why a country may impose protectionist measures?

- I. to allow a newly developed domestic industry to grow to a viable size
- II. to enable a country to retain control of an industry it regards as being of strategic importance
- III. to support import substitute industries
- IV. to give time for workers in a declining domestic industry to find alternative employment
- V. **None of the above**

31. The table gives the Terms of Trade Index in 2010 and 2013 for Japan and Venezuela.

Terms of Trade (2000=100)

	2010	2013
Venezuela	215.9	254.6
Japan	67.7	59.0

Which combination of statements is a correct interpretation of the changes between 2010 and 2013?

	can buy more imports per unit of exports	import prices have risen faster than export prices
i	Japan	Venezuela
ii	Japan	Venezuela
iii	<u>Venezuela</u>	<u>Japan</u>
iv	Venezuela	Japan
v	Venezuela	Venezuela

32. At present, one unit of a country's currency exchanges for US\$1.2. The country aims to set its exchange rate equal to US\$1.0.

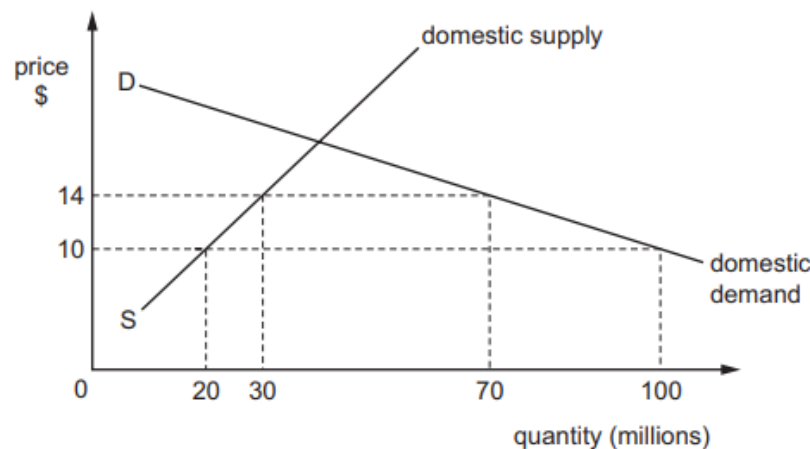
Which combination of government actions in the foreign exchange market must achieve this aim?

- I. buying US currency and buying its own currency
- II. **buying US currency and selling its own currency**
- III. selling US currency and buying its own currency
- IV. selling US currency and selling its own currency
- V. None of the above

33. Relative weights are used in calculating the index of retail prices to reflect the different

- I. **amounts of money spent by consumers on each good.**
- II. levels of prices for each good.
- III. numbers of people buying each good.
- IV. rates of change in price of each good over time.
- V. None of the above

34. Since 2000 a country's export prices have increased on average by 50% and its import prices by 25%. What is the current figure for the country's terms of trade (2000 = 100)?
- 75
 - 83
 - 120**
 - 125
 - 140
35. A government succeeds in changing a current account deficit into a current account surplus. Why might this current account surplus increase the country's inflation rate?
- It raises aggregate demand.**
 - It raises production costs.
 - It reduces the exchange rate.
 - It reduces the money supply.
 - None of the above
36. In a closed economy a rise in aggregate demand is needed to increase output in the country. What is necessary to achieve this increase in output in the economy?
- enough capacity to produce the extra goods and services demanded**
 - free trade to allow imports to make up any shortages in supply
 - government spending to be less than tax revenue
 - reduced credit to lower inflation
 - None of the above
37. The diagram shows that the imposition of a tariff raises a good's world price from \$10 to \$14.



What was the effect on total expenditure on the good?

- It fell by \$20 million**
- It fell by \$160 million
- It rose by \$220 million

- IV. It rose by \$560 million
- V. None of the above

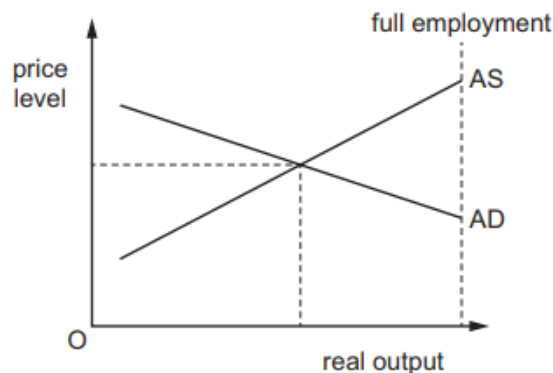
38. Kenya produces some of the finest teas much of which it exports. Its climate is not so suited to producing olives but the olives can be sold for a higher price per sack.

What would definitely happen if a Kenyan company used some of the land where tea is grown to plant olive trees?

- I. The company would have a comparative advantage in trade.
 - II. The company's revenue would increase.
 - III. There would be a decrease in the credit side of the trade in goods and services.
 - IV. There would be an opportunity cost from lost tea production.**
 - V. Both III and IV
39. An economy's terms of trade fell from the base year of 100 to 90.
Which changes in the export price index and the import price index would have caused this?

	export price index change	import price index change
i	0	-10
ii	0	+10
iii	-10	0
iv	-10	+10
v	-10	-10

40. From the initial position of equilibrium shown, there is an increase in government expenditure on goods and services and simultaneously a reduction in the overall efficiency in the production of goods and services.



What best describes the likely impact on the economy?

	equilibrium level of national income	equilibrium level of prices
i	falls	uncertain
ii	no change	no change
iii	rises	rises
<u>iv</u>	<u>uncertain</u>	<u>rises</u>
v	falls	falls