2022 PAPER

Instructions:

- This paper contains four (04) essay questions and 20 MCQ questions.
- Each essay question carries 20 marks and altogether 80 marks.
- Each MCQ question carries 1 mark and altogether 20 marks.
- Time **2 hours**.
- Answer **all questions**.

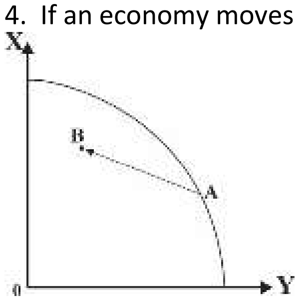
MCQ Paper

1. Which of the following is correct? Factors of production are
   I. The inputs used to produce goods and services.
   II. Land, labor, the price system, and capital.
   III. The fundamental source of abundance.
   IV. Only land and labor.
   V. Human manufactured economic resources

2. Normative economic statements
   I. Deal with economic hypotheses that are not well-established laws.
   II. Describe what ought to be.
   III. Describe what is rather than what ought to be.
   IV. Describe the process of economic policy-making.
   V. All of the above

3. Increasing opportunity cost while moving along a production possibilities frontier is the result of
   I. The fact that it is more difficult to use resources efficiently the more society produces.
   II. Firms' needs to produce profits.
   III. The fact that resources are not equally productive in alternative uses.
   IV. Taxes.
   V. Both I and III

4. If an economy moves from point B to A, which of the following statements is/are true?



   I. It leads to an increase in unemployment, without any opportunity cost.
   II. It leads to an increase in unemployment, with an opportunity cost.
   III. It leads to a decrease in unemployment, without any opportunity cost.
   IV. It leads to a decrease in unemployment, with an opportunity cost.
   V. None of the above

5. Existence of excess supply and excess demand situations in a command economy is unavoidable because,

I. All people receive the same amount of income.
II. Goods and services are cheap compared to the market economy.
III. Demand cannot be accurately forecasted in the planning mechanism.
IV. Price of goods and services can be afforded by everyone unlike the market mechanism.
V. Both II and IV

6. What is the defining characteristic of a mixed economy?

I. One in which the allocation of resources is determined partly by the state and partly by individual producers and consumers
II. One in which there are both monopolies and purely competitive industries
III. One in which there are features of both more economically developed and less economically developed economies
IV. One which produces a mixture of agriculture and industrial products
V. All of the above except III

7. When the price of a good changes, the effect on quantity demanded is the result of an income and a substitution effect. Which statement about these effects is always correct?

I. For inferior goods, the income effect and substitution effect work in the same direction.
II. For inferior goods, the negative substitution effect is greater than the positive income effect.
III. For normal goods, the income effect and substitution effect work in the same direction.
IV. For normal goods, the income effect is greater than the substitution effect.
V. Both II and III

8. A manufacturer increases the price of his product in an attempt to increase total revenue. The table shows the outcome of the policy.

Price (Rs.)	Total Revenue(Rs.)
12	120
15	150
18	180

What is the price elasticity of demand for the product?

I. Perfectly elastic
II. Perfectly inelastic
III. Relatively elastic
IV. Relatively inelastic
V. Unitary elastic

9. The demand curve for a normal good, will depict a contraction along the curve if,

I. The nominal income of consumers decrease
II. The real income of consumers decrease

III. The prices of complementary goods decrease.
IV. Advertising expenditure on complementary goods increase.
V. There is an increase in preference for the commodity.

10. A decrease in the price of X from R. 100 to Rs. 80 causes an increase in the demand for Y from 2000 to 3000 units. What is the cross elasticity of demand between X and Y?

I. 0.5
II. -0.5
III. 2.0
IV. -2.0
V. -2.5

11. "Total expenditure on good X rises if its price falls, but increases if income falls."
Identify the correct combination relevant to the above statement from the following.

	Price elasticity of demand for good X	Income elasticity of demand for good X
I.	Elastic	Negative
II.	Elastic	Positive
III.	Inelastic	Negative
IV.	Inelastic	Positive
V.	Unitary elastic	positive

12. Shoe manufacturers often use leather to make their most expensive shoes. Due to a world shortage of leather, the price of leather has risen. What will be the effect of this price change?

I. The demand curve for leather shoes will shift to the left.
II. The demand curve for a substitute for leather shoes will shift to the right.
III. The supply curve for leather shoes will shift to the right.
IV. There will be an expansion in the supply curve for leather.
V. None of the above

13. If the cross elasticity of demand between coffee and tea is positive, an increase in the price of coffee will shift the demand curve for

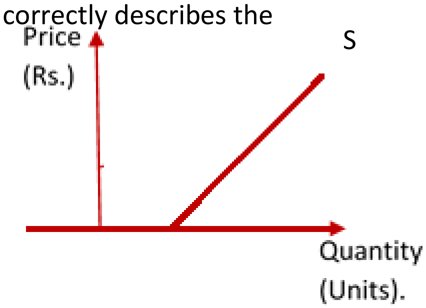
I. tea leftward.
II. tea rightward.
III. coffee leftward.
IV. coffee rightward.
V. Both II and III

14. Which of the following shifts the supply curve for oranges?

I. A newly discovered increase in the nutritional value of oranges
II. An increase in income for all orange consumers

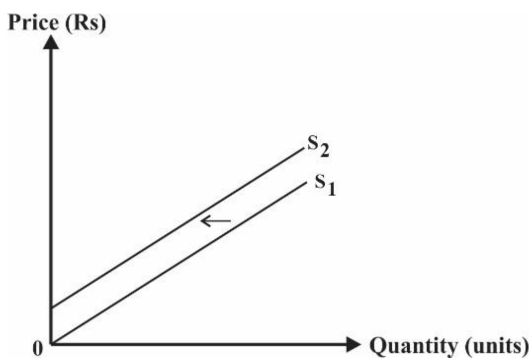
III. An increase in the price of bananas, a substitute in consumption for oranges
IV. Disastrous weather that destroys about half of this year's orange crop
V. All of the above except iv

15. The diagram shows a market supply curve of a commodity. Which statement correctly describes the price elasticity of supply along this curve?



I. It is constant and greater than unity at all quantities.
II. It is constant and less than unity at all quantities.
III. It is less than unity and diminishes as quantity increases.
IV. It is less than unity and increases as quantity increases.
V. It is negative and diminishes as quantity increases.

16. The market supply curve of a certain good shifts from S_1 to S_2 as follows.



I. Increase is price of considerable good.
II. Decrease is price of considerable good.
III. Decrease in production cost of considerable good.
IV. Price expectations for the price the of good in consideration to increase in the future.
V. Increase in new supplier which divided the profits among all firms.

17. If the price elasticity of supply is greater than one, this means the
I. Change in quantity supplied is greater than the change in price.
II. Percentage change in quantity supplied is greater than the percentage change in price.
III. Change in quantity supplied is less than the change in price.
IV. Percentage change in quantity supplied is less than the percentage change in price.
V. Percentage change in quantity supplied is less than the change in price.

18. Over time, the supply of a good or service
I. Initially becomes more elastic and then becomes less elastic.
II. Becomes less elastic.
III. Initially becomes less elastic and then becomes more elastic.
IV. Becomes more elastic.
V. Does not change

19. The "law of supply" states that, other things remaining the same,
    I. Firms will produce less of a good as the required resources become scarcer.
    II. Firms will produce more of a good the less it costs to produce it.
    III. Firms will produce more of a good the higher its price.
    IV. Firms will produce less of a good the more it costs to produce it.
    V. Both ii and iii

20. Price elasticity of supply of a certain good is 0.5 at Rs.10 where 40 units are supplied. What would be Qs at the price of Rs.9?
    I. 20 units
    II. 58 units
    III. 120 units
    IV. 32 units
    V. 38 units

ESSAY PAPER

01.

I. If you are not charged a price for the consumption of a good, that good must be a free good.
II. good". Do you agree? Explain. (04 marks)

III. Explain how increasing opportunity costs are reflected in the PPC. How would the curve appear if the opportunity costs were constant? Explain your answer using diagrams. (04 marks)

IV. Entrepreneurs act as main driving forces of developing technology of an economy. Explain(03 marks)
V. Explain what happens to a country's production capacity due to a pandemic such as Covid-19 using a PPC? (05 marks)
VI. List the 3 fundamental questions an economic system must answer and outline briefly the 3 basic economic systems that have evolved to answer those questions? (04 marks)

02.

I. Distinguish between change in demand and change in quantity demanded. Use necessary diagrams for your explanation. (04 marks)
II. 'Always, market demand curve is relatively flatter than individual demand curve.' Do you agree with this stament? Explain your answer. (04 marks)
III. Distinguish between law of demand and theory of demand.(04 marks)

IV. Explain the effect of following on the demand curve using a diagram. (04 marks)
    a) Increase in real income of consumers due to a change in price of a good
    b) Consumers expect the price of goods to decrease in the future.

V. Briefly explain the factors influencing price elasticity of supply. (04 marks)

03.

I. What factors determine the price elasticity of demand for a consumer good? (04 marks)

II. Distinguish between a ‘normal good,’ ‘inferior good’ and a Giffen good.’ (04 marks)

III. Use graph to explain the changes in the price elasticity of demand and producers total revenue along a downward sloping straight lined demand curve. (05 marks)

IV. Identify what's cross elasticity, how it is calculated and state its importance? (04 marks)

V. Based on the statement given identify the product category following products would belong to; briefly explain your answer.

   a. Product A has negative income elasticity of demand but positive price elasticity of demand

   b. In Product C, positive substitution effect is greater than negative income effect.

   c. In Product D if producer wants higher revenue, higher price should be charged

04.

I. Answer the question below using this price and quantity table of a particular good.

Price (Rs.)	16	14	12	10	8
Quantity	48	44	40	36	~~30~~ 32

a) Does the above data depict a demand curve or a supply curve? (01 mark)

b) Does it slope upwards or downwards? (01 mark)

c) Explain the reasons for the above answer in part II. (04 marks)

d) Derive the demand/ supply equation of the above good.(03 marks)

II. ‘When a firm is stated that they will supply a product to a market it implies 3 key facts.’ State what are those facts? (03 marks)

III. What are the main determinants of supply? And what factors are held constant when moving along the supply curve? (03 marks)

IV.Comment on the point price elasticity of supply in following instances. (05 marks)

   a. Qs = 100 + 5p

   b. Qs = P

c. $Q_s = -200 + 2p$

d. $Q_s = 300$

a. $Q_s = 5p$