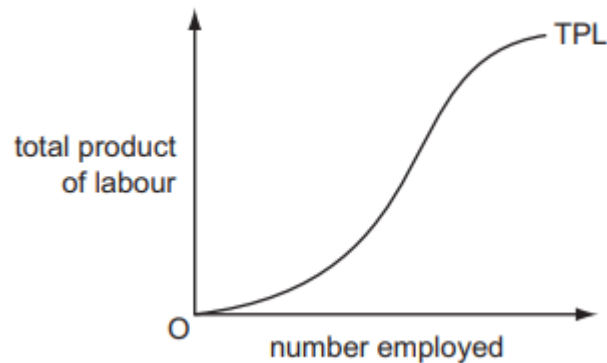


1. Which condition must be met for economic efficiency to be achieved?
  - I. Marginal social costs are zero in the production of all goods.
  - II. Marginal social costs are at a minimum in the production of all goods.
  - III. Marginal social benefits are at a maximum in the production of all goods.
  - IV. Marginal social costs equal marginal social benefits in the production of all goods.**
  - V. None of the above
2. The diagram shows the total product of labour curve for a firm whose only variable factor input is labour.



What explains the shape of the curve?

- I. diminishing marginal disutility of work
  - II. increasing marginal disutility of work
  - III. technical diseconomies of scale
  - IV. the law of variable proportions**
  - V. None of the above
3. Which is a financial economy of scale?
    - I. lower costs in raising capital**
    - II. lower costs of marketing
    - III. lower risk due to diversification
    - IV. lower variable costs of production
    - V. both I and IV

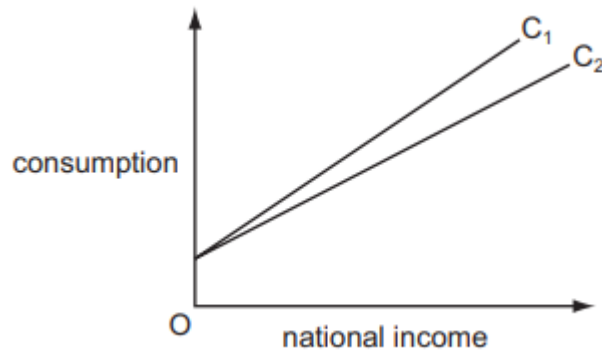
4. An economist calculates that a firm has incurred the following costs over the course of a year.

	\$(000)
wages and salaries	150
opportunity cost of owner's time	35
materials	80
rent	30
marketing fees	20
interest on bank loans	25
interest forgone on finance provided by owner	10

By how much does total cost as defined by an economist exceed the total cost as defined by an accountant?

- I. \$75 000
  - II. \$45 000**
  - III. \$35 000
  - IV. \$20 000
  - V. \$10 000
5. The price elasticity of demand for a firm's product is zero. What will be the effect on the firm's revenue if it reduces its price by 5%?
- I. Its revenue will fall to zero.
  - II. Its revenue will be unchanged.
  - III. Its revenue will decrease by 5%.**
  - IV. Its revenue will increase by 5%.
  - V. Its revenue will increase by 10%
6. According to monetarist theory, what will be the short-run effect of an unexpected increase in the money supply?
- I. an appreciation of the foreign exchange rate
  - II. an increase in output**
  - III. an increase in real wages
  - IV. an increase in the rate of interest
  - V. none of the above

7. In the diagram, C<sub>1</sub> shows the initial relationship between consumption and national income.



What could cause the consumption function to shift to C<sub>2</sub>?

- I. an increase in the rate of unemployment benefits
  - II. **an increase in the standard rate of income tax**
  - III. an increase in exports
  - IV. an increase in investment
  - V. None of the above
8. Other things being equal, the money supply in an open economy will increase if
- I. domestic banks increase their lending to foreign borrowers.
  - II. **the central bank buys foreign currency in the foreign exchange market.**
  - III. the government sells bonds to domestic residents.
  - IV. there is an increase in the volume of imports to the economy.
  - V. None of the above
9. In a banking system all banks maintain 10% of deposits as cash. Customers withdraw Rs,20 000 in cash. Assuming no subsequent net change in notes and coins in circulation, by how much will the banks have to reduce their net loans?
- I. Rs,2000
  - II. Rs.18 000
  - III. Rs.25 000
  - IV. **Rs.180 000**
  - V. Rs.220 000
10. What is the opportunity cost to a fully employed economy of increasing capital investment?
- I. **a fall in consumption**
  - II. a fall in income
  - III. a rise in saving
  - IV. a rise in the rate of interest
  - V. none of the above

11. Skilled actors deserve to receive a high income because they bring pleasure to people who attend the theatre. What can be concluded about this statement?

- I. It is a normative statement because both services and goods are economic outputs.
- II. **It is a normative statement because it expresses an opinion.**
- III. It is a positive statement because actors do bring pleasure to people.
- IV. It is a positive statement because greater skill results in higher pay.
- V. None of the above

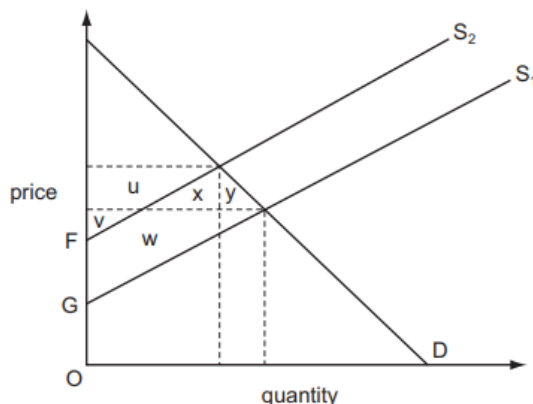
12. A good has a unitary price elasticity of demand and at a price of Rs.20 a firm sells 40 000 units. How many will the firm sell if it charges a price of Rs.5?

- I. 10 000
- II. 100 000
- III. **160 000**
- IV. 200 000
- V. None of the above

13. The cross elasticity of demand between two products, X and Y, is negative. What would be the immediate effect of a rise in the price of product Y?

- I. **Quantity demanded of product X will fall.**
- II. Supply of product X will rise.
- III. The cross elasticity of demand will rise.
- IV. The price of product X would rise.
- V. None of the above

14. The diagram shows the effect of the imposition of a tax equal to FG on a commodity.



Which area represents the reduction in consumer surplus?

- I.  $u + v$
- II.  $u + x$
- III.  **$u + x + y$**
- IV.  $x + w$
- V.  $u + v + w$

15. What is not a function of the price mechanism?

- I. **to ensure that firms make profits**
- II. to permit consumers to express their preferences
- III. to ration scarce resources

- IV. to signal where resources are required
- V. none of the above

16. Which statement is correct?

- I. **External cost equals social cost minus private cost.**
- II. Private cost equals external cost minus social cost.
- III. Social cost equals external cost minus private cost.
- IV. Social cost equals private cost minus external cost.
- V. None of the above

17. Why does the production of public goods have to be financed by the government?

- I. One person's consumption of a public good means it is not available for anyone else.
- II. **People are able to consume public goods without paying for them.**
- III. Private sector firms will charge a price significantly above cost for public goods.
- IV. The cost of producing public goods is higher in the private sector.
- V. None of the above

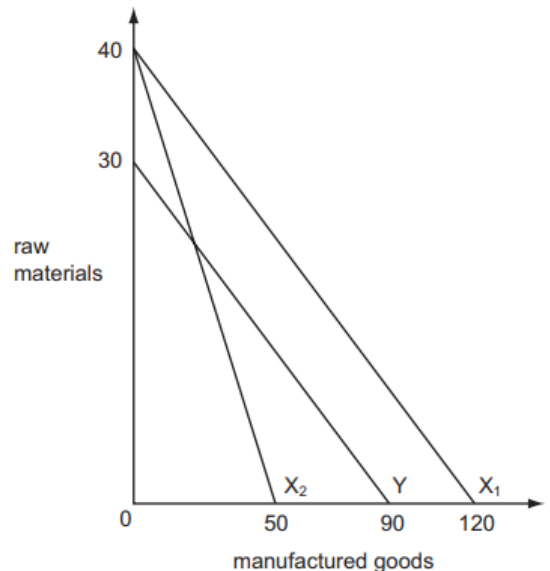
18. Thailand produces rubber at a lower opportunity cost than China. It does, however, import some rubber from China. What could explain Thailand importing rubber from China?

- I. China imposes lower tariffs on rubber imports than Thailand.
- II. China is consuming increasing quantities of rubber in industry.
- III. Thailand has the absolute but not the comparative advantage in rubber production.
- IV. Thailand wants to avoid the risks involved in overspecialising in rubber production.
- V. None of the above

19. The diagram shows the production possibility curves for two countries, X and Y. A decrease in productivity moves country X's production possibility curve from  $X_1$  to  $X_2$ .

Which statement is correct?

- I. **After the change X would export raw materials and import manufactured goods.**
- II. After the change there is no economic basis for trade.
- III. Before the change Y had an absolute advantage in the production of raw materials.
- IV. Before the change X had a comparative advantage in both products.
- V. None of the above



20. A country experienced a significant fall in unemployment but its inflation rate remained low. What could explain this?

- I. **Global competition prevented firms passing on higher costs.**
- II. Increased spending on imports had lowered the exchange rate.
- III. There was a low level of spare capacity in the economy.
- IV. Wage rates had increased by more than labour productivity.
- V. None of the above

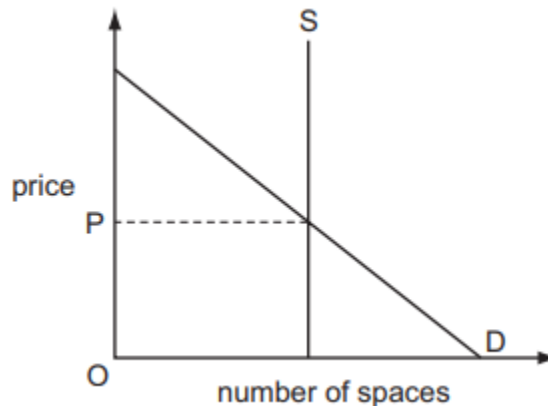
21. The price of a good traded internationally increases. Who would be disadvantaged the most?

- I. high income countries that pursue a policy of self sufficiency
- II. high income countries with a balance of payments surplus that export the good
- III. **low income countries dependent on importing the good**
- IV. low income countries with alternative suppliers of the good
- V. None of the above

22. A country has a deficit on the current account of its balance of payments. What might help the country to reduce its deficit?

- I. a decrease in its rate of income tax
- II. a decrease in its tariffs
- III. an increase in its level of employment
- IV. **an increase in its subsidies to exporters**
- V. None of the above

23. The diagram shows the demand and supply curves for parking spaces in a hospital car park



The managers decide to rely on the price mechanism to allocate parking spaces at the hospital. What is required for this to work?

- I. Alternative means of transport must be provided for those unable to afford price OP.
- II. A survey will be needed to find out the amount users are willing to pay.
- III. The capacity of the car park will need to be expanded.
- IV. **The price charged for parking spaces must be OP.**
- V. None of the above

24. A country has a comparative advantage in producing spices. Why may it choose not to specialise in spices?

- I. The country experiences a lower opportunity cost in producing spices than other countries.
- II. **There are high tariffs imposed by other countries on the import of spices.**
- III. There is a low cost of transporting spices to other countries.
- IV. There is high world income elasticity of demand for spices.
- V. None of the above

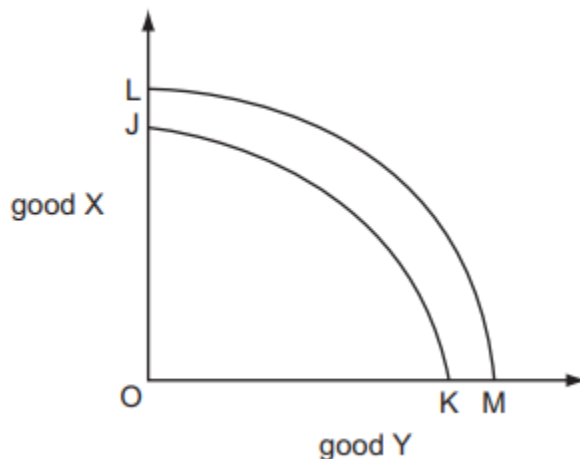
25. A country has a fixed exchange rate. What is likely to result in an improvement in its balance of payments?

- I. a decrease in interest rates in foreign countries
- II. a decrease in the country's interest rates
- III. a decrease in the income of foreign countries
- IV. an increase in the country's national income
- V. None of the above

26. A representative basket of goods costs \$2500 in the United States. The same basket of goods costs £2000 in the UK. What can be deduced from this?

- I. The £ sterling is 25% overvalued.
- II. The £ sterling is 20% undervalued.
- III. The purchasing power parity exchange rate of the £ sterling is \$0.80 to the £.
- IV. **The purchasing power parity exchange rate of the £ sterling is \$1.25 to the £.**
- V. None of the above

27. In the diagram, the curve JK is a country's production possibility curve



What could cause the curve to shift to LM?

- I. a decrease in the participation rate
- II. a decrease in the unemployment rate
- III. an increase in the dependency ratio
- IV. **an increase in the population of working age**
- V. none of the above

28. What is the definition of a normal good?
- I. one where the demand for the good is both price and income elastic
  - II. **one where the income elasticity of demand for the good is greater than zero**
  - III. one where the proportion of income a consumer spends on the good increases with a rise in income
  - IV. one where the quantity demanded increases when the price of the good falls
  - V. none of the above
29. Which type of firm is able to exploit division of labour to the greatest extent?
- I. a bakery employing two workers making a range of bread and cakes
  - II. **a motorcycle assembler employing two hundred workers making a standardised model**
  - III. a tailor employing ten workers making men's suits to order
  - IV. a well-established furniture maker employing three hundred workers making high quality individual items
  - V. None of the above
30. In a market economy, demand for a product rises and price increases but output remains unchanged. What could explain this?
- I. a lack of financial incentives for entrepreneurs
  - II. **a perfectly inelastic supply of factors of production**
  - III. consumer influence exceeding producer influence
  - IV. social benefits equalling private benefits
  - V. None of the above
31. What must be the effect on consumer surplus if the supply of a product, that has a normal demand curve, halves?
- I. **Consumer surplus will fall.**
  - II. Consumer surplus will fall by 50%.
  - III. Consumer surplus will rise.
  - IV. Consumer surplus will rise by 100%.
  - V. None of the above
32. A government aims to stabilise the incomes received by farmers. To achieve this it uses a policy of buying and selling farm products on the free market. When will it not need to respond to changes in the supply of farm products?
- I. when elasticity of supply of farm products is zero
  - II. when farmers produce record harvests
  - III. **when price elasticity of demand for farm products is unitary**
  - IV. when weather conditions can be accurately predicted
  - V. None of the above



33. An economy with a long history of extensive barriers to trade decides to switch to totally free trade. What is most likely to increase in the short term?

- I. consumer surplus
- II. government revenue
- III. inflationary pressure
- IV. profits of all domestic companies
- V. none of the above

34. Which is the only combination of price changes that must result in a deterioration in the country's terms of trade?

	average price of exports	average price of imports
I	falls	falls
<u>II</u>	<u>falls</u>	<u>rises</u>
III	rises	falls
IV	rises	rises
V	Unchanged	falls

35. The table shows detail of the nominal interest rate and the inflation rate for selected countries in July 2020.

country	nominal interest rate	inflation rate
China	2.5	2.9
India	5.7	13.9
Indonesia	7.0	5.0
Japan	0.2	-1.1
Pakistan	12.3	12.7

What can be concluded from this information?

- I. The cost of living was higher in India than in China.
- II. The money rate of interest was higher in Indonesia than in Pakistan.
- III. The real rate of interest was positive in Japan but negative in Pakistan.**
- IV. The standard of living was higher in Indonesia than in India.
- V. None of the above

36. Two industries in a country are fishing and tourism. The international exchange rate of the country's currency fell in 2020. If there were no other changes, how was the country affected?
- I. Local people bought more imported goods because they were cheaper.
  - II. **The price of fish sold in foreign markets became cheaper.**
  - III. The volume of exports decreased.
  - IV. Tourists to the country were discouraged by higher prices.
  - V. None of the above
37. What might cause a country's currency notes to cease to act as money?
- I. the notes are issued in smaller denominations
  - II. the notes become harder to counterfeit
  - III. the notes become more long lasting
  - IV. **the notes become unlimited in supply**
  - V. none of the above
38. What will be the result, from society's view, if the market price for a product does not reflect the negative externalities in its production?
- I. too little consumption and too little production
  - II. too little consumption and too much production
  - III. too much consumption and too little production
  - IV. **too much consumption and too much production**
  - V. none of the above
39. A government believes that it can reduce its trade deficit by the introduction of a tax on its main export. When is this likely to be most effective?
- I. when demand for the export is price elastic
  - II. when the exporting country is a member of a customs union
  - III. **when the exporting country is the major world supplier of the product**
  - IV. when the terms of trade of the exporting country are favourable
  - V. None of the above
40. A sudden rise in the price of imported oil caused the annual rate of inflation in a given period to be higher than expected. What might be a likely result of this?
- I. **Borrowers would gain.**
  - II. Real wages would rise.
  - III. The balance of trade would improve.
  - IV. Unemployment would fall
  - V. None of the above