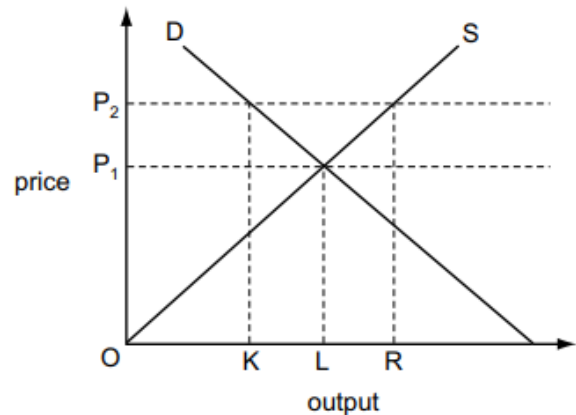


Time 1.5 hours
 Instructions Answer all the questions.

1. When a minimum price is imposed on a good by the government,
 - I. Excess supply will result.
 - II. Excess demand will result.
 - III. Trading will continue at the equilibrium price
 - IV. Firms will sell the quantity they wish at this price.
 - V. Consumer surplus will increase.
2. Suppose the equilibrium price for apartments is Rs500 per month and the government imposes rent controls of Rs250 Which of the following is unlikely to occur as a result of the rent controls?
 - I. There may be long lines of buyers waiting for apartments
 - II. Landlords may discriminate among apartment renters
 - III. Landlords may be offered bribes to rent apartments
 - IV. there will be a shortage of housing
 - V. the quality of apartments will improve

3. The diagram shows the market supply and demand curves for corn.
 What should a government do if it is to maintain a minimum price of OP_2 ?



- I. buy quantity KR
 - II. buy quantity LR
 - III. sell quantity KL
 - IV. sell quantity OL
 - V. None of the above
4. A price floor?
 - I. always determines the price at which a good must be sold
 - II. sets a legal maximum on the price at which a good can be sold
 - III. is not a binding constraint if it is set above the equilibrium price
 - IV. sets a legal minimum on the price at which a good can be sold
 - V. determines the price of a good under natural demand and supply forces
5. A market is defined as being in equilibrium when
 - I. There is maximum output at minimum cost.
 - II. The producer surplus is maximized.
 - III. Prices are at their lowest possible level.
 - IV. Consumer satisfaction is maximized.

V. There is no tendency for the market price to change.

6. The following are the demand and supply equations for a particular commodity.

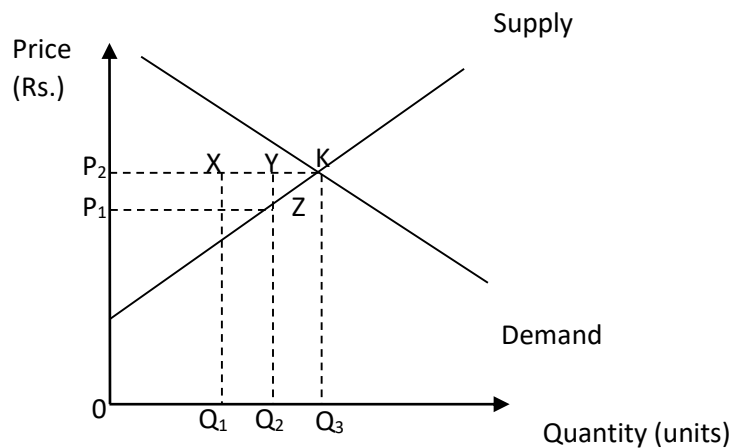
$$Q_d = 100 \quad Q_s = -50 + 5P$$

The government has decided to purchase excess supply after setting a floor price of Rs. 40 for this good. Which answer shows the impact of this policy on producer surplus and social welfare?

	Change of Producer surplus	Change of social welfare
(1)	Increases by 1250	Decreases by 2000
(2)	Increases by 1250	Decreases by 500
(3)	Increases by 1000	Decreases by 250
(4)	Decreases by 1000	Remains unchanged
(5)	Increases by 1250	Decreases by 1750

- I. 1
- II. 2
- III. 3
- IV. 4
- V. 5

7. The diagram below represents a market for an agricultural product.



The government sets a minimum price of OP_2 . Assuming that it buys up all the surplus stocks at the minimum price, farmers total revenue will be

- I. OP_2KQ_3
- II. OP_1ZQ_2
- III. OP_2XYQ_2
- IV. Q_1xyq_2
- V. P_1P_2ZY

8. The surplus caused by a binding price floor will be greatest if?
- demand is inelastic and supply is elastic
 - supply is inelastic, and demand is elastic
 - both supply and demand are elastic
 - both supply and demand are inelastic
 - supply is elastic, and demand is unitary elastic
9. Which statement is correct regarding a good that has an ordinary demand curve and an ordinary supply curve?
- There is an excess tax burden when a tax is imposed.
 - The social welfare increases when a subsidy is granted.
 - Producer surplus increases when a price ceiling is set.
 - Consumer surplus increases whenever a price floor is set.
 - There is a black market price whenever a price ceiling is set.

10. The following are the demand and supply equations for a particular commodity.

$$Q_d = 100$$

$$Q_s = -50 + 5P$$

The government has decided to purchase excess supply after setting a floor price of Rs. 40 for this good. Which answer shows the impact of this policy on producer surplus and social welfare?

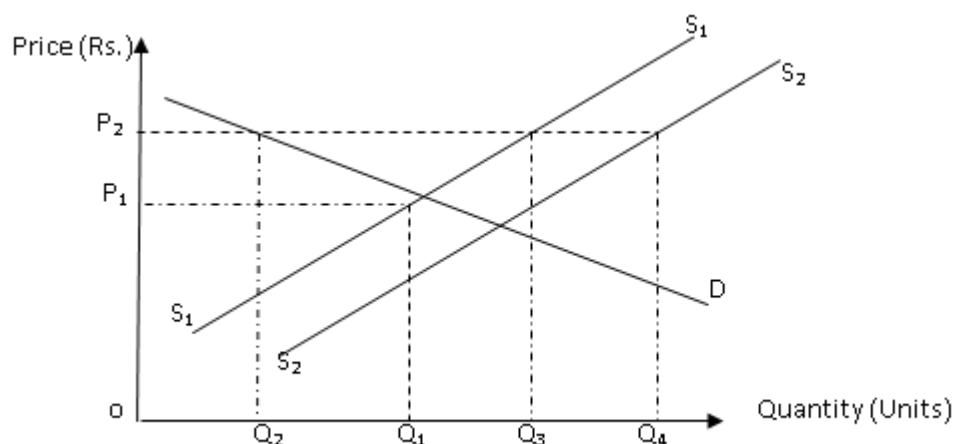
	Change of Producer surplus	Change of social welfare
I.	Increases by 1250	Decreases by 2000
II.	Increases by 1250	Decreases by 500
III.	Increases by 1000	Decreases by 250
IV.	Decreases by 1000	Remains unchanged
V.	Increases by 1250	Decreases by 1750

11. The table shows the price of demand and supply of X per week.

Price	Demand (kg)	Supply (kg)
20	16	10
30	12	12
40	10	14

What will be the effect if the government imposes a minimum price of Rs.40 per kg?

- A fall in price of X
 - A shortage of X
 - A waiting list for X
 - A surplus of X
 - An excess of X
12. As shown in the diagram below the market for paddy is currently in equilibrium at E where S_1S_1 is the supply of paddy and DD is the demand for paddy. In year 1 the government announces a minimum guaranteed price of OP_2 at which it will buy up any surplus paddy production. In year 2 paddy production increases, shown by the shift in the supply curve to S_2S_2



What is the quantity of paddy that the government will have to purchase from farmers in year 2?

- I. From Q_3 to Q_4
- II. From Q_2 to Q_3
- III. From Q_2 to Q_4
- IV. From Q_{31} to Q_3
- V. From Q_1 to Q_4

13. The government imposed a minimum price to protect the producer in a competitive market. If the government adopts a deficiency payment system, the effect of the price control policy on product surplus and consumer surplus will be,

	Consumer Surplus	Producer Surplus
(1)	Decreases	Decreases
(2)	Decreases	Increases
(3)	Stable	Increases
(4)	Increases	Increases
(5)	Increases	Decreases

14. Suppose in a given country, the general level of prices has fallen in the past year, but production of goods and services has remained constant. Based on this information. Which of the following is correct?

	Real GDP	Inflation	Nominal GDP
I.	Increased	Decreased	Increased
II.	Unchanged	Decreased	Decreased
III.	Decreased	Decreased	Decreased

IV.	Unchanged	Decreased	Increased
V.	Increased	Decreased	Decreased

15. When calculating national income by the income method, what would not be included?
- income from abroad
 - profits of private sector businesses
 - rent from the ownership of land
 - transfer payments
 - Both 'I' and 'IV'
16. In a closed economy with no government sector, when will an increase in investment spending generate the largest increase in equilibrium national income?
- when households have a high level of autonomous consumption
 - when households have a high level of compulsory saving
 - when households have a high marginal propensity to consume
 - when households have a high marginal propensity to save
 - when households have a high marginal propensity to tax
17. What may prevent a government achieving a faster rate of growth of real GDP?
- Consumption and investment expenditure are interest rate elastic.
 - The consumer price index is below its target set by the central bank.
 - The economy is operating on the long-run aggregate supply curve.
 - There is a large negative output gap in the economy.
 - All of the above.
18. In 2019, an economy's nominal national income grew by 12%, the price level rose by 5% and the population grew by 2%. From this information, it can be concluded that real national income per head grew by
- More than 7%
 - Less than 6%
 - Exactly 6%
 - Exactly 7%
 - More than 6%
19. Suppose the Gross Domestic product of a country valued in the prices of the base year of the price index is Rs. 7,000 billion, and the index of general price level stands at 120, what is the country's Gross domestic product valued based on current year prices?
- Rs. 7,200 billion
 - Rs. 8,400 billion
 - Rs. 10,000 billion
 - Rs. 6,000 billion
 - None of the above

20. An upward shift of the curve relating consumption to national income could be caused by
- a reduction in taxation.
 - an increase in investment.
 - an increase in national income.
 - an increase in savings.
 - an increase in exports.
21. The residents of an economy experience a decrease in their cost of living, their living standards and their leisure time. Which combination of events could explain these changes?

		price level	real GDP	average working week
I.	A	decrease	increase	Increase
II.	B	decrease	decrease	Decrease
III.	C	increase	decrease	Increase
IV.	D	increase	increase	Decrease
V.	E	decrease	decrease	Increase

22. The table below shows the expenditure components of Gross Domestic Product (GDP) in Year 1 and Year 2 (Rs.billion).

Year	Government and private consumption expenditure	Government and private investment expenditure	Exports	Imports
Year 01	110	20	30	40
Year 02	120	30	40	50

Between Year 1 and Year 2, aggregate demand

- increased by approx. 14%
 - decreased by approx. 14%
 - increased by approx. 17%
 - decreased by approx. 17%
 - None of the above
23. Which statement is untrue for the 'contractionary' phase of the business cycle,
- Both employment and real output falls
 - Both unemployment and price level rise
 - Both investment and unemployment falls
 - Both price level and investment rise.
 - All of the above except 'I'

24. Gross is Domestic product (GDP)
- the total market value of all goods and services produced within a specific year within an economy.
 - is the sum of all goods and services exchanged during a given year within a specific geographical boundary.
 - is the total market value of all final goods and services produced within a specific year in a particular economy.
 - Both I and II
 - All of the above
25. To stimulate economic growth, the government increases the size of its budget deficit and funds this by increasing the money supply. What is most likely to reduce the effectiveness of these measures in achieving their aim?
- a floating exchange rate
 - a high marginal propensity to import
 - a low marginal propensity to save
 - an interest-inelastic demand for money
 - a high marginal propensity to consume
26. In an economic recession, which policy might be adopted to increase employment?
- An increase in foreign exchange rates
 - An decrease in interest rates
 - A reduction in import duty
 - An increase in corporate tax rates
 - Both II and IV
27. In calculating GDP all of the following are excluded except.
- The value of intermediate goods.
 - Total value of all homes started building in the previous year but completed in the relevant year.
 - Leisure
 - Purely financial transactions.
 - Personal services carried out by domestic workers
28. Suppose the Real GDP of a country is Rs. 8,000 billion, and the index of general price level stands at 120, what is the nominal GDP growth if nominal GDP of the previous year was 6000?
- + 37.5
 - +60%
 - 80%
 - 60%
 - None of the above
29. Why does 'acquisitions less disposals of valuables' is included as a part of investment of the year?

- I. Since their value fluctuates frequently and it makes an impact to the wealth of the owner
- II. Since those items are not regarded as alternative forms of investment.
- III. Since valuables include precious metals and stones, antiques and other art objects and they are a part of someone's wealth.
- IV. Since they are being used as a form of store of value and change of that is apart of income generated within the year.
- V. None of the above.

30. Which of the following would not affect the size of real GDP?

- I. A consumer purchases a new house for personal use.
- II. The government purchases a new bus for the defense academy.
- III. A company invest in to the development of software
- IV. Normal rates of obsolescence in fixed capital in a particular year.
- V. None of the above.

31. What would be included in 'government expenditure' in national accounting?

- I. a government grant to a firm to provide healthcare services
- II. a government subsidy on the amount of sugar in soft drinks
- III. a government subsidy to a firm that operates a regional train service
- IV. a government expenditure after taking over of a local bus service
- V. All of the above

32. What is an example of a transfer payment?

- I. a household moving savings from one bank account to another
- II. a monthly repayment on a loan used to buy a new cooker
- III. the amount paid to transport goods from one city to another
- IV. the payment of student grants by the government
- V. All of the above except 'III'

33. A teenager received a cheque for Rs.5000 as a birthday gift from her parents. The teenager paid the cheque into her savings account at the bank. Why is this gift a transfer payment?

- I. It did not involve a cash payment.
- II. It transfers money between bank accounts.
- III. The parents did not spend their money.
- IV. The teenager did not produce any output.
- V. All of the above

34. Which statement best describes a transfer payment?

- I. It is a loan from the government to help firms.

- II. It is a payment to individuals not linked to economic activity.
- III. It is the redistribution of income from government to individuals for work done.
- IV. It is the redistribution of income from households to firms for goods purchased.
- V. All of the above

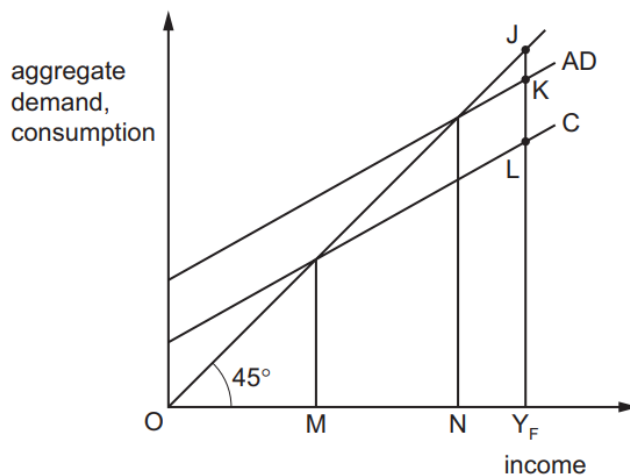
35. In 2019 New Zealand had a real Gross Domestic Product per capita of \$3 853 according to world bank. Why might this figure not be a good indicator of living standards?

- I. Foreign trade is not included in the figure.
- II. It does not take into account changes in population.
- III. It does not take into account inflation.
- IV. There are wide differences in the distribution of income.
- V. All of the above

36. Assume that in a simple economy, the autonomous consumption 400 and investment is $I = 500$. The equilibrium level of income in this economy is Rs.4500 billion. MPC of this economy is,

- I. 0.25
- II. 0.2
- III. 0.75
- IV. 0.8
- V. 0.9

37. The diagram shows a closed economy in which the full employment level of income is Y_F .



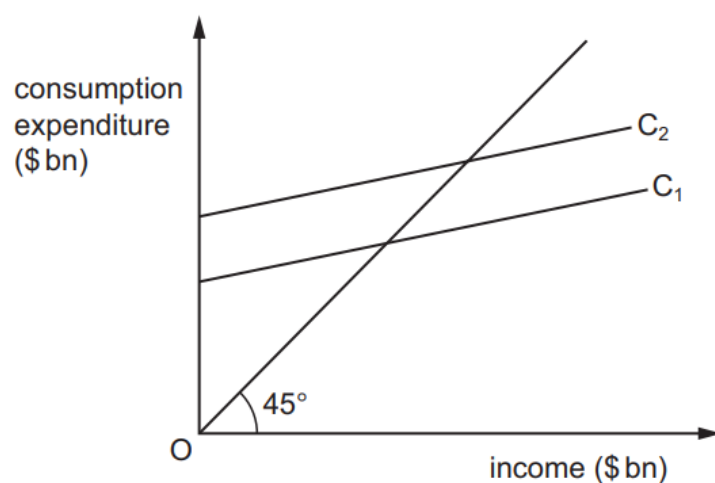
Which distance measures the deflationary gap?

- I. JK
- II. JL
- III. NY_F
- IV. MY_F
- V. KL

38. If the aggregate consumption function is given to be $C=80 + 0.7 Y_d$ and the national income (Y) = 1,000, indirect taxes= 100, then the level of withdrawals in a closed economy equals

- I. 100
- II. 190
- III. 290
- IV. 390
- V. 900

39. The diagram shows the consumption function of a country.



What could cause the consumption function to shift upwards from C_1 to C_2 ?

- I. an increase in interest rates
- II. an increase in direct taxation
- III. an increase in the proportion of income saved by households
- IV. the expectation of an increase in the rate of sales taxes
- V. an increase in the proportion of income consumed by households

40. Consider the following macroeconomic data for an economy, which is operating at an equilibrium national income level.

Marginal propensity to consume (MPC)	0.75
GDP at Market Prices	9600
Indirect Tax (T_o)	2400
Investment (I_o)	1600
Government Expenditure (G_o)	1800
Net Exports (NX_o)	440

Savings function is

- I. $-8160 + 0.25 Y$
- II. $-240 + 0.25 YD$
- III. $-440 + 0.25 YD$
- IV. $-360 + 0.25 YD$
- V. None of the above

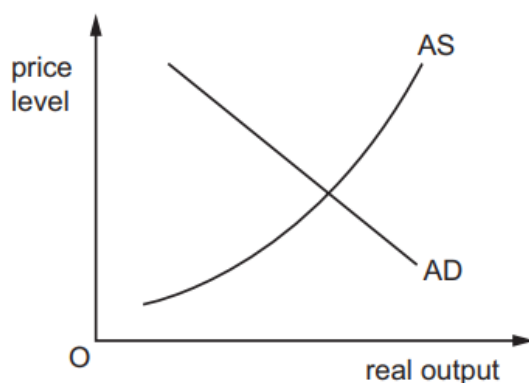
41. What is the main source that can shift the long run aggregate supply curve?

- I. Change in the level of investment
- II. Change in the Price level
- III. Change in level of efficiency
- IV. Both I and III
- V. All of the above.

42. Which correctly identifies contractionary for a country's circular flow of income?

	private sector $S > I$	government sector $T > G$	trade sector $X > M$
i	no	no	no
ii	no	no	yes
iii	yes	yes	no
iv	yes	yes	yes
v	yes	no	yes

43. An economy is represented by the AD /AS diagram, which is initially in macroeconomic equilibrium.

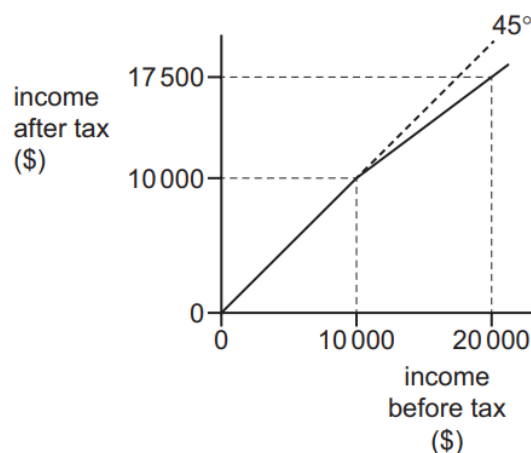


Which change will definitely result in a rise in real output?

- I. a fall in personal taxation and a fall in government expenditure
- II. a rise in consumption and a rise in the cost of raw materials
- III. a rise in export revenues and a fall in import expenditure

- IV. a rise in government expenditure and a fall in investment
- V. a rise in personal taxes and fall in the cost of raw materials

44. The graph shows an individual's income before and after the deduction of income tax.



What is the marginal percentage rate of tax between \$0 and \$10 000, and between \$10 000 and \$20 000?

	\$0–\$10 000	\$10 000–\$20 000
i	0%	12.50%
ii	0%	25.00%
iii	1%	12.50%
iv	1%	25.00%
v	0%	87.50%

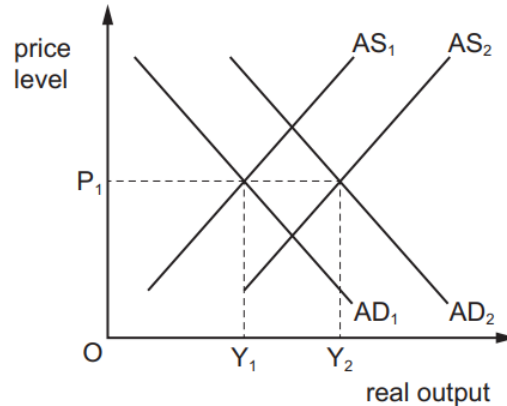
45. When $Y=E$ in a simple economy,

- I. Savings will be equal to planned investments.
- II. Changes in inventory will be zero.
- III. MPC will be equal to APC,
- IV. All of the above
- V. Both I and II

46. Which of the following is not a component of investment expenditure considered in macroeconomic equilibrium analysis?

- I. Purchasing of plant and equipment
- II. Dwelling
- III. Inventories
- IV. Purchase of consumer electronics
- V. Both II and IV

47. The diagram shows an economy with an initial equilibrium real output of Y_1 at a price level of P_1 .



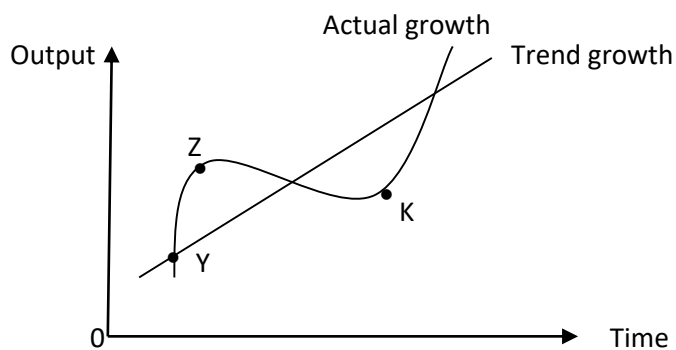
Which combination of events is likely to cause the equilibrium real output to rise to Y_2 ?

- I. an increased budget deficit and a fall in energy costs
- II. an increased budget surplus and a rise in energy costs
- III. an increased trade deficit and a fall in indirect tax
- IV. an increased trade surplus and a rise in indirect tax
- V. an increased budget deficit and a rise in indirect tax

48. 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?

- I. Enough capacity to produce the extra goods and services demanded
- II. Free trade to allow imports to make up any shortages in supply
- III. Government spending to be less than tax revenue
- IV. Reduced credit to lower inflation
- V. None of the above

49. The diagram shows trend and actual growth path for an economy. Which one of the following describes the state of the economy when it moves from point Z to point K on its actual growth path?



- I. Production possibility curve shifts to left
- II. Potential output gets reduced

- III. Economy experience a deflation
- IV. Economy will continue at full employment
- V. None of the above.

50. Marginal propensity to consume of a simple economy where there is no government or foreign sector changed from 0.5 to 0.75. Which one of the following statement(s) is true?

- I. Savings curve of this economy become more elastic
- II. Consumption curve of this economy become more inelastic
- III. Expenditure curve becomes more inelastic
- IV. Expenditure multiplier got increased
- V. All of the above