

**Part I: Choose the best answer and write it on the space provided (1 point each)**

1. Which of the following statement is incorrect?
  - A. Where there is no output, variable costs are nil.
  - B. Explicit costs are the opportunity costs associated with a firm's use of resources it owns.
  - C. Marginal cost is the additional cost incurred on account of production of one additional unit of product
  - D. None of the above.
2. Which of the following is incorrect regarding to short run production relations?
  - A. When  $MP_{vi}$  increases, the total product increases at increasing rate
  - B. When  $MP_{vi} < AP_{vi}$ , both  $MP_{vi}$  and  $AP_{vi}$  are decreasing
  - C. When total product reaches its maximum,  $MP_{vi}$  will be negative.
  - D. When  $MP_{vi}$  decreases (goes below zero), the total product decreases.
3. Which of the following statement is true concerning short run Stage of production?
  - A. In stage II of the production function the MP of inputs is positive.
  - B. Stage I of the production function runs up to the point where  $AP_{vi}$  reaches its maximum.
  - C. Stage III of the production function runs from the point  $MP_{vi}$  is zero onwards.
  - D. All of the above.
4. From the phases of business cycle which one shows the maximum level of prosperity?
  - A. Trough
  - B. Boom
  - C. Recession
  - D. Recovery
5. Which of the following is a common characteristic to both perfect competitive market and monopolistic competitive market?
  - A. Homogeneous product
  - B. Selling cost
  - C. No barrier to entry
  - D. All of the above
6. The vertical distance between ATC and AVC measures:
  - A. Marginal cost
  - B. Total fixed cost
  - C. Total variable cost
  - D. Average fixed cost
7. One of the following is unavoidable types of unemployment?
  - A. Frictional unemployment
  - B. Structural unemployment
  - C. Cyclical unemployment
  - D. A and B are correct



8. In different level of economic activities of business cycle
- Contraction is the eve of prosperity
  - Contraction is the eve of depression
  - Peak is the level where the economic activity is at starting to prosperity
  - Trough is the maximum level of prosperity
9. One of the following is a limitation of using GDP as a measurement of national income in under-developed countries.
- Inadequate data
  - Presence of underground economy
  - Non-monetized sector
  - None of the above
10. Everything else the same, if investment expenditures rise by birr 400 billion and imports increase by birr 400 billion, then GDP:
- Increases by birr 800 billion
  - Increases by birr 400 billion
  - Decreases by birr 800 billion
  - Does not change.
11. \_\_\_\_\_ is that time period which is not sufficient to change the quantities of all inputs, so that at least one input remains fixed.
- Long run
  - Either long run or short run
  - Short run
  - Neither short run nor long run
12. When  $MP_L < AP_L$
- Slope of  $AP_L$  is negative
  - Slope of  $AP_L$  is positive
  - Slope of  $AP_L$  is zero
  - $AP_L$  is at maximum
13. A perfectly competitive firm can increase its sales revenue by
- Reducing the price
  - Increasing the price
  - Increasing the production
  - Increasing the sales forces
14. Which of the following is/are possible sources of imperfectly competitive markets?
- Legal barriers to entry
  - Perceived product differentiation
  - Tariff protection from foreign competition
  - All are correct
15. Which of the following is the distinguishing characteristic of a perfectly competitive firm from other market structure firms.
- Horizontal demand curve
  - Downward sloping demand curve
  - Vertical demand curve
  - Downward sloping supply curve
16. Which one of the following determines the level of national income?
- Political stability
  - Quality of inputs
  - State of technical know-how
  - All of the above
17. During recession a government can take one of the following measures



A. Reduce taxes

B. Increase money supply

C. Decrease government spending

D. A and B are correct

18. Which of the following is the most applicable type of market structure in real world

A. Perfect competition

B. Monopoly

C. Monopolistic competition

D. Oligopoly

Given the following information: Consumption expenditure (C) = 100,000

Government expenditure (G) = 12,500

Gross domestic investment (I) = 25,000

Depreciation = 6,000

Exports (E) = 6,000

Import (I) = 9,000

Net factor income from abroad = 750

$Y_d = 0.15GDP$ , where,  $Y_d$  is personal disposable income

Answer question number 19 to 22.

19. What is the gross national product (GNP)

A. 135,250

B. 140,250

C. 134,500

D. 200,000

20. What is the net national product (NNP)

A. 134,500

B. 129,250

C. 135,250

D. 100,000

21. What is the personal disposable income?

A. 11,450

B. 53,260

C. 20,175

D. 17,908

22. What percent is the consumption expenditure to the total GDP?

A. 25.55%

B. 15.87%

C. 74.35%

D. 33.25%

Suppose the total cost function for a firm is given by:  $TC = 3Q^2 + 7Q + 12$  Where  $Q$  is the level of output. Then answer the following questions [23 to 24]

23. The MC when 5 units are produced will be

A. 37

B. 25

C. 24.4

D. 20

24. The ATC and AFC when 3 units are produced are respectively

A. 25 & 12

B. 20 & 12

C. 20 & 4

D. None



**PART II: Match each economic term with its correct definition (1.5 Pts. each)**

A	B
1. Implicit cost	A. Consists of deliberate changes in the money supply to influence interest rates and thus the total level of spending in the economy.
2. Monetary policy	B. a time period of sufficient length to enable Producers to alter their output by utilizing labor and raw materials more intensively.
3. Long run	C. The total market value of all final goods and services produced within a country in a given time.
4. Gross domestic product	D. States that the extra production obtained from increases in a variable input will eventually decline as more of the variable input is used together with the fixed input.
5. Law of diminishing marginal returns	E. The opportunity cost associated with a firm's use of resources it's owns.
6. Fiscal policy	F. Involves the use of government spending, taxation and borrowing G. It is the cost of marginal unit produced.

**Part III: Discussion and Explanation Questions (3 pts. each)**

1. State and explain the main relationship between short run production and short run cost functions with the help of graph



2. List and explain the major macroeconomic objectives.

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3. List and explain the causes of inflation.

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4. What is the difference between Real GDP and Nominal GDP?

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**Part IV: Workout; show all the necessary steps for each question (5 points)**

Suppose a perfectly competitive firm has the total cost (TC) equal  $TC = 3Q^2 + 7Q + 12$  and total revenue (TR) of  $43Q$ :

- A. Calculate the profit maximizing or loss minimizing level of output? (3 pts)
- B. Determine the magnitude of profit or loss? (2 pt)

**Answer sheet for part I**

No.	Ans.	No.	Ans.	No.	Ans.	No.	Ans.
1.		2.		3.		4.	
5.		6.		7.		8.	
9.		10.		11.		12.	
13.		14.		15.		16.	
17.		18.		19.		20.	
21.		22.		23.		24.	

**Answer sheet for part II**

No.	1.	2.	3.	4.	5.	6.
No.						

**Answer sheet for part IV**