Multiple Choice

Practice Exam Questions MOT1421

Part One

Micro-economics

Question 1.

The price elasticity of the demand for bananas is -0.5. Suppose that the price of bananas increases by 10%. Which one of the following statements is correct?

(a) The demand for bananas declines by 0.5 percentage points.

(b) Consumers will spend more than before the price increase on buying bananas.

(c) The demand for bananas increases by 0.5 percentage points

(d) Consumers will spend less than before the price increase on buying bananas.

Question 2.

Consider the following two propositions:

Proposition I: A positive income elasticity of demand implies that the good under consideration is a Giffen good.

Proposition II: A necessary good has a negative price elasticity of demand.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 3.

Consider the following two propositions:

Proposition I: A Giffen good belongs to the class of inferior goods.

Proposition II: If normal goods X and Z are substitutes, the cross-price elasticity will be positive.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 4.

Consider the following two propositions:

Proposition I: An indifference curve gives all combinations of goods which the consumer can afford to purchase.

Proposition II: When the price of commodity X increases relative to the price of commodity Z, there will be a substitution effect but no income effect.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 5.

Consider a monopolistic profit-maximising firm. Suppose that the fixed costs of production increase for this firm. Consider the following two propositions:

Proposition I: The monopolistic firm will raise the price of its product in order to maintain maximum supernormal profits.

Proposition II: The profit-maximising quantity of output will be lower (after the increase in fixed costs) and the corresponding profit-maximising price will be higher.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 6.

Consider the following two propositions:

Proposition I: Perfect competition ensures dynamic efficiency.

Proposition II: Knowledge is a public good.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 7.

Which one of the following statements is true?

(a) TFP-growth is the same as labour-saving technological progress.
(b) The optimal technique of production is the one that minimizes the wage costs per unit of output.
(c) The production isoquant is the set of all available technically-efficient techniques of production.
(d) TFP-growth is the same as capital-saving technological progress.

Question 8. NOT FOR THE EXAM

Consider the following two propositions:

Proposition I: According to the Efficiency Wage Theory, firms should offer incentive contracts to their employees in order to maximize worker effort and productivity.

Proposition II: According to the Hierarchical Control System approach to the employment relationship, reciprocity in the relationship between workers and the firm is important in fostering trust, commitment and worker productivity.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 9.

Consider the following non-cooperative oligopolistic market consisting of two firms --- firm 1 and firm 2. Both firms produce the same homogeneous good. Let p be the market price of that commodity. c_1 represents the total cost of firm 1; c_2 is the total cost of firm 2. Assume that the aggregate market demand function and the costs functions of the two firms are:

$p = 100 - 0.5\ (x_1 + x_2)$

$c_1 = 5\ \ x_1$

$c_2 = 0.5\ (x_2)^2$

Both firms are assumed to maximise profits by means of variations in their levels of production. Doing so, they take note of their (oligopolistic) interdependence. Which one of the following statements is true?

(a) Supernormal profits of firm 1 are lower than those of firm 2.
(b) Joint supernormal profits of firms 1 and 2 are 4950 units.
(c) Supernormal profits of firm 1 are equal to those of firm 2.
(d) Firm 2 gets about 22% of total (joint) profits earned in this market.

Question 10.

Consider the following pay-off matrix for two firms A and B:

A \ B	Default (high Q)	Collude (low Q)
Default (high Q)	4 \ 4	7 \ 2
Collude (low Q)	2 \ 7	6 \ 6

Proposition I: The dominant strategy of firm B is "Default".

Proposition II: The reason that the joint pay-offs (6, 6) for collusion are highest, is that the two firms restrict joint output most; this enables them to sell at a higher price (given a downward-sloping demand curve).

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 11.

Assume that output X is determined by a constant-returns-to-scale Cobb-Douglas production function: $X = aL^{\alpha}K^{\beta}$. Assume further that: (i) α = 0.6; (ii) labour productivity growth is known to be 2% per year; and (iii) capital-intensity growth is known to be 3% per year. Which one of the following statements is correct?

a. TFP growth in this example is equal to 1% per year.
b. TFP growth in this example is equal to 0.2% per year.
c. TFP growth in this example is equal to 0.8% per year.
d. TFP growth in this example is equal to -1% per year.

Question 12.

Consider the following monopolistic market. Total demand for the commodity Q is given by the demand function: Q = 200 ─ 10P, where Q = quantity demanded and P = market price. The total cost function of the profit-maximising firm is as follows: TC = $2*Q^2$ – 190Q + 5000. Supernormal profits in this market are:

a. 250
b. 236.875
c. -5000
d. zero

Question 13.

Consider the following two propositions:

Proposition I: The optimal choice of technique is given by: $\frac{K}{L} = f(\frac{W}{r}); f' > 0$ where W is the wage rate and r is the price of capital.

Proposition II: If the wage decreases relative to the price of capital, profit-maximising firms will substitute labour by machines.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 14.

Consider the following two propositions:

Proposition I: Asymmetric information leads to market failure because it encourages moral hazard and adverse selection.

Proposition II: The fossil fuel economy is an example of technological lock-in.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Part Two
Macro-economics

Question 15.

Consider the following two propositions:

Proposition I: Fiscal policy is not effective according to neoclassical macro theory, because it leads to crowding out of private demand.

Proposition II: Fiscal policy is not effective according to Monetarist macro theory, because it leads to crowding out of private demand.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 16.

Consider the following two propositions:

Proposition I: An increase in Money Supply leads to inflation in the neoclassical macro model.

Proposition II: An increase in Money Supply leads to inflation in the standard IS-LM model.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 17.

Consider the following two propositions:

Proposition I: Keynesian fiscal stabilization policy meant to be pro-cyclical.

Proposition II: In the liquidity trap, investment declines because of a shortage of liquidity (or money).

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 18.

Which one of the following statements is true?

(a) The IS-curve represents all combinations of income (Y) and the interest rate (i) at which the money market is in equilibrium.

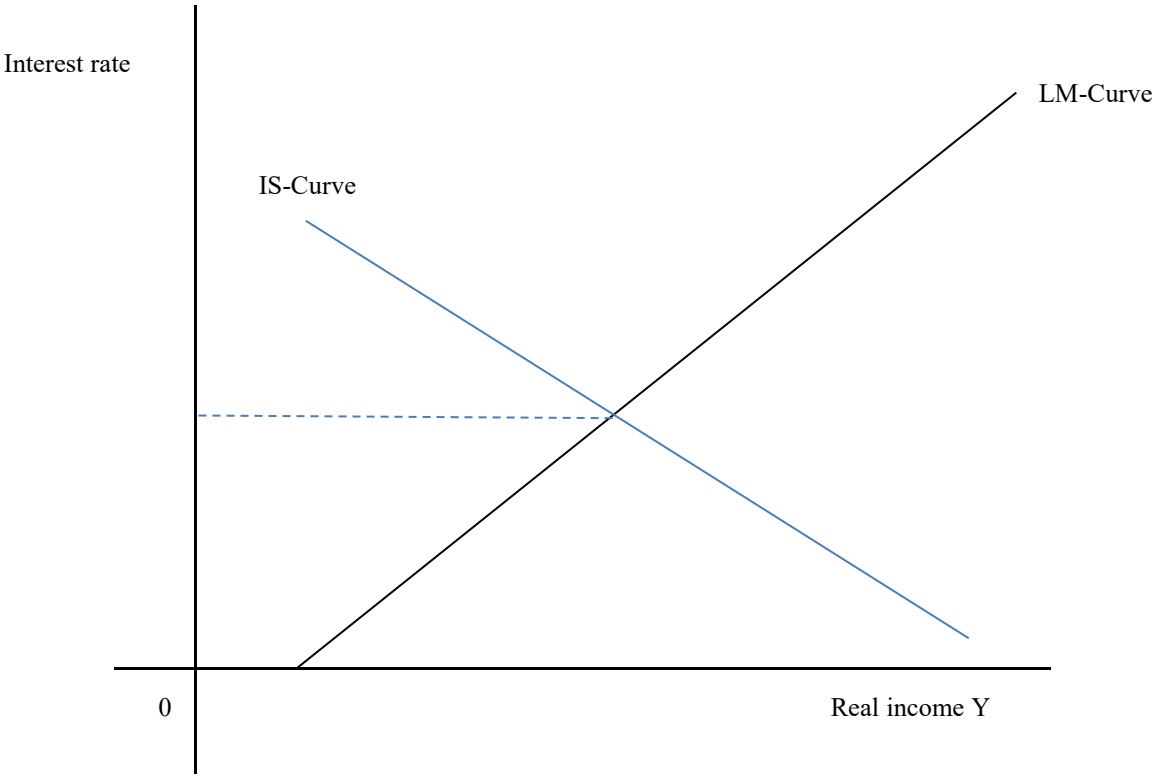
(b) In the general IS-LM model, firms and households demand cash only for speculative purposes.

(c) In the general IS-LM model, an increase in public investment does have a multiplier impact on output (Y).

(d) The LM-curve represents all combinations of income (Y) and the interest rate (i) at which the goods market is in equilibrium.

Question 19.

Consider this IS-LM model:



Consider the following two propositions:

Proposition I: In this IS-LM model there is no crowding out of fiscal policy.

Proposition II: In this IS-LM model, monetary policy is not effective (in raising real income Y).

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 20.

Consider the following Keynesian macro-model:

- private consumption C = 1000 + 0.75 Y
- investment I = 400; public current expenditure G = 400.
- Equilibrium: AD = Y.
- AD is aggregate demand.
- Full-employment income $Y^{FE} = 7600$.

Which one of the following statements is true?

(a) Equilibrium income is equal to Y^{FE}.

(b) In this model, the Keynesian multiplier equals 0.75.

(c) Equilibrium income is less than Y^{FE} and hence, there is some room for fiscal stimulus.

(d) In this model, the Keynesian multiplier process does not work.

Question 21.

Consider the following Keynesian model: :

(i) $C = a + b\,(Y - T)$ – consumption

(ii) $T = t\,Y$ -- income taxation

(iii) $I = Io$ -- investment

(iv) $G = Go$ -- public current spending

(v) $Y = C + I + G$ -- equilibrium condition

Which one of the following statements is true?

(a) The multiplier equals: 1/[1-b(1-t)]

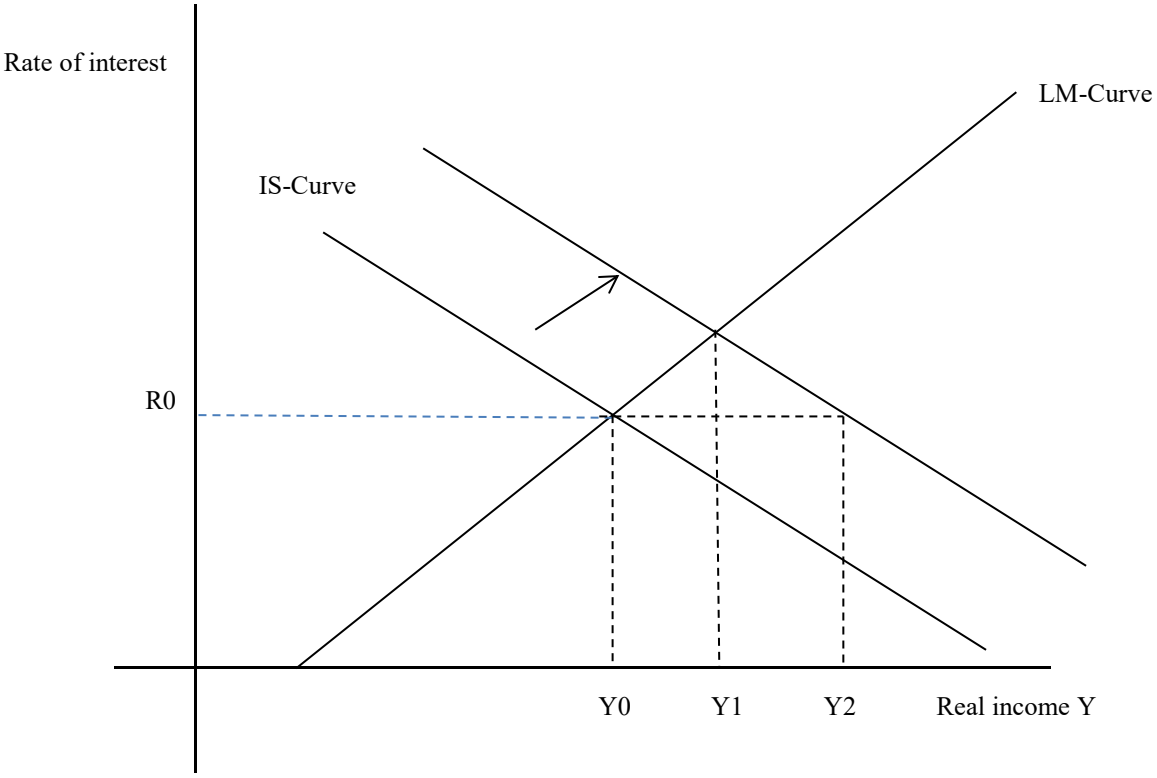
(b) The multiplier equals: 1/(1-b)

(c) The multiplier equals: 1/[1-b(1+t)]

(d) The multiplier equals: 1/(1-b-t)

Question 22.

Consider this IS-LM model:



The original macro-economic equilibrium is given by (Y0, R0). Suppose there is fiscal stimulus, and the IS-curve shifts up. Which one of the following statements is true?

(a) In this model, fiscal stimulus leads to crowding out; the extent of crowding out is given by the difference between Y1 and Y0.

(b) In this model, fiscal stimulus does not lead to crowding out.

(c) In this model, fiscal stimulus leads to crowding out; the extent of crowding out is given by the difference between Y2 and Y0.

(d) In this model, fiscal stimulus leads to crowding out; the extent of crowding out is given by the difference between Y2 and Y1.

Question 23.

Consider the following Keynesian model:

(i) $C = 400 + 0{,}75\,(Y - T)$ – consumption

(ii) $T = 0{,}2\,Y + 100$ -- income taxes

(iii) $I = 400$ -- investment

(iv) $G = 275$ -- public current spending

(v) $Y = C + I + G$ -- equilibrium condition

Consider the following two propositions:

Proposition I: In equilibrium, T exceeds G by 75 units.

Proposition II: The multiplier takes a value of 2½.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 24. [NAIRU model] NOT FOR THE EXAM

Consider the following two propositions:

Proposition I: Higher minimum wages will raise the NAIRU.

Proposition II: According to the NAIRU model, unemployment can be permanently reduced by means of higher public investment.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 25. NOT FOR THE EXAM

Consider the following two propositions:

Proposition I: The Phillips Curve gives the relationship between the growth of money supply and inflation.

Proposition II: The "expectations-augmented" Phillips Curve gives the relationship between inflation, inflation expectations and the rate of unemployment.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 26.

Suppose that W = the nominal wage per hour of work (in euro's) and that *l* is labour productivity per hour of work (in euro's).

Consider the following two propositions:

Proposition I: If W increases more than *l*, unit labour cost will increase.

Proposition II: If *l* increases more than W, profits per unit of output will rise.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 27.

Consider the following two propositions:

Proposition I: If the percentage increase in nominal GDP exceeds the inflation rate, real GDP must have increased.

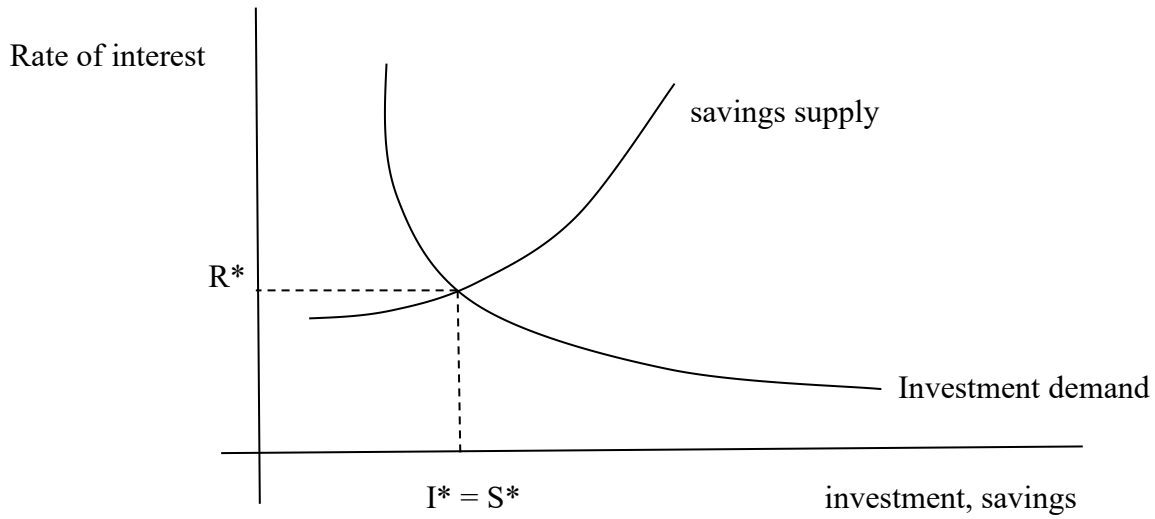
Proposition II: If the inflation rate is lower than the growth rate of real GDP, the economy is in a recession.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

Question 28.

Consider the following market for loanable funds:



Savings supply includes private savings and public savings. Public savings are the difference between public tax revenues and public current expenditure. Investment includes private investment and public investment. Which one of the following statements is true?

(a) If government increases public investment, the investment demand schedule will shift down; there will be crowding in of private investment.

(b) Lower taxes mean lower public savings; as a result, the savings supply schedule will shift up (to the left).

(c) In this model, crowding out of private investment by public spending cannot occur.

(d) If government increases public current expenditure, the savings supply curve will shift to the right (downwards); the equilibrium rate of interest will increase.

Question 29.

Consider the following two propositions:

Proposition I: The money multiplier model assumes that commercial banks are fully-loaned up.

Proposition II: If money supply is endogenous, the central bank cannot control money supply.

Which one of the following statements is true?

a. Both proposition I and II are true.
b. Both proposition I and II are false.
c. Proposition I is true, but proposition II is false.
d. Proposition I is false, but proposition II is true.

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