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Modern microeconomics theory generally regards utility as:

- A. Cardinal
- B. Ordinal
- C. Independent
- D. Democratic

ANSWER: B

Which of the following statements is true about the law of equi-marginal utility?

- A. The law of equi-marginal utility is known as the law of decreasing utility
- B. The law of equi-marginal utility is known as the law of increasing utility
- C. The law of equi-marginal utility is known as the law of substitution
- D. The law of equi-marginal utility is known as the law of contribution

ANSWER: C

Which of the following statements about the demand curve is true?

- A. The slope of the demand curve is upward from left to right
- B. The slope of the demand curve is downward from left to right
- C. The slope of the demand curve is parallel to the X-axis
- D. The slope of the demand curve is parallel to the Y-axis

ANSWER: B

The law of diminishing marginal utility is based on:

- A. The consumer consumes differentiated product
- B. The product should be different in quality
- C. There is no time gap in consumption of commodities.
- D. Consumer preference should be volatile

ANSWER: C

The decrease in the price of a commodity can be said to be

- A. an increase in the level of real income
- B. a decrease in the level of real income
- C. an increase in the level of nominal income
- D. a decrease in the level of consumer equilibrium

ANSWER: A

The demand function of a commodity is $Q = 30 - 2P$. If it is a free good, quantity demanded would be.

- A. 30
- B. 22
- C. 32
- D. 23

ANSWER: A

A situation in which a decision maker knows all of the possible outcomes of a decision and also knows the probability associated with each outcome is referred to as

- A. certainty
- B. risk.
- C. uncertainty.

D. strategy.

ANSWER: B

If a person's utility doubles when their income doubles, then that person is risk

A. averse.

B. neutral.

C. seeking.

D. There is not enough information given in the question to determine an answer.

ANSWER: B

The type of industry organization that is characterized by recognized interdependence and non-price competition among firms is called

A. monopoly.

B. perfect competition.

C. oligopoly.

D. monopolistic competition.

ANSWER: C

If a firm that produces carrots operates in a perfectly competitive industry, then

A. the demand for the firm's carrots must be horizontal.

B. the demand by individual consumers for carrots must be horizontal.

C. the market demand for carrots must be horizontal.

D. all of the above must be true.

ANSWER: A

The law of diminishing returns

A. is reflected in the negatively sloped portion of the marginal product curve.

B. is the result of specialization and division of labor.

C. applies in both the short run and the long run.

D. All of the above are correct.

ANSWER: A

Suppose that three isoquants that represent 10, 20, and 30 units of output are plotted on a graph and a straight line is drawn from the origin through the isoquants. If the portion of the line between the isoquants that represent 10 and 20 units of output is longer than the portion of the line between the isoquants that represent 20 and 30 units of output, then the firm represented by these isoquants

A. Has engaged in product innovation.

B. Is experiencing increasing returns to scale.

C. Is experiencing decreasing returns to scale.

D. Will maximize profits by producing 10 units of output.

ANSWER: B

The law of diminishing returns begins at the level of output where

A. marginal cost is at a minimum.

B. average variable cost is at a minimum.

C. average fixed cost is at a maximum.

D. None of the above is correct.

ANSWER: A

If a firm sells its output on a market that is characterized by many sellers and buyers, a homogeneous product, unlimited long-run resource mobility, and perfect knowledge, then the firm is a

- A. A monopolist.
- B. An Oligopolist.
- C. A perfect competitor.
- D. A monopolistic competitor.

ANSWER: C

If one perfectly competitive firm increases its level of output, market supply

- A. Will increase and market price will fall.
- B. Will increase and market price will rise.
- C. And market price will both remain constant.
- D. Will decrease and market price will rise.

ANSWER: C

The market demand curve for a perfectly competitive industry is $QD = 12 - 2P$. The market supply curve is $QS = 3 + P$. The market will be in equilibrium if

- A. $P = 6$ and $Q = 9$.
- B. $P = 5$ and $Q = 2$.
- C. $P = 4$ and $Q = 4$.
- D. $P = 3$ and $Q = 6$.

ANSWER: D

The long-run supply curve of a perfectly competitive firm

- A. is equal to that portion of the long-run marginal cost curve that is above the relevant short-run average variable cost curve.
- B. is equal to that portion of the long-run marginal cost curve that is above the relevant short-run average total cost curve.
- C. is equal to that portion of the long-run average total cost curve that is above the relevant short-run average variable cost curve.
- D. None of the above is correct.

ANSWER: B

The demand curve faced by a monopolistically competitive firm is

- A. perfectly elastic.
- B. elastic.
- C. unit elastic.
- D. inelastic.

ANSWER: B

According to the Cournot model, a firm will

- A. assume that rival firms will keep their production constant.
- B. produce the quantity where marginal revenue equals marginal cost.
- C. respond to changes in production by rival firms by adjusting its production.
- D. All of the above are correct.

ANSWER: D

According to the Bertrand model, a firm will assume that rival firms will

- A. keep their rates of production constant.
- B. keep their prices constant.
- C. match price cuts but not price increases.
- D. match price increases but not price cuts.

ANSWER: B

According to the kinked demand curve model, a firm will assume that rival firms will

- A. keep their rates of production constant.
- B. keep their prices constant.
- C. match price cuts but not price increases.
- D. match price increases but not price cuts.

ANSWER: C

In game theory, a choice that is optimal for a firm no matter what its competitors do is referred to as

- A. the dominant strategy.
- B. the game-winning choice.
- C. super optimal.
- D. a gonzo selection.

ANSWER: A

Game theory is concerned with

- A. Predicting the results of bets placed on games like roulette.
- B. The choice of an optimal strategy in conflict situations.
- C. Utility maximization by firms in perfectly competitive markets.
- D. None of the above

ANSWER: B

In game theory, a situation in which one firm can gain only what another firm loses is called a

- A. nonzero-sum game.
- B. prisoners' dilemma.
- C. zero-sum game.
- D. cartel temptation.

ANSWER: C

People who choose not to participate in fair gambles are called

- A. Risk takers.
- B. Risk averse.
- C. Risk neutral.
- D. Broke.

ANSWER: B

Increasing wage by restricting the supply of labor is viable via:

- A. Setting high initiation fees
- B. Conducting long apprenticeships
- C. Requiring that firms hire only union workers
- D. All of the above

ANSWER: D

Real wages are higher in case of:

- A. The greater the amount of capital available (border fund managers)
- B. The more technology available (scientists)
- C. The availability of natural resources (oil)
- D. All of the above

ANSWER: D

The market supply for labor not depends on the:

- A. Size of the population
- B. The proportion of the population in the labor force
- C. The state of the economy
- D. The level of nominal wages

ANSWER: D

The general equilibrium of exchange for the simple economy of two individuals (A and B), two commodities (X and Y) is attained when:

- A. the equalization of marginal rate of substitution between the two commodities (X and Y) to the price ratio.
- B. the marginal rate of substitution between the two commodities (X and Y) greater than the price ratio.
- C. the marginal rate of substitution between the two commodities (X and Y) less than the price ratio.
- D. All of the above

ANSWER: A

Asymmetric information refers to circumstances in which

- A. both parties to a transaction have identical amounts of information.
- B. neither party to a transaction has any relevant information.
- C. One party to a transaction has more information than the other party.
- D. the riskiness of a transaction is greater than its expected return.

ANSWER: C

Which of the following statements is true about the importance of education?

- A. Education is important because it helps to expand the mental horizon of an individual
- B. Education is important because it helps to develop the human personality
- C. Education is important because it helps in the cause of economic development of the nation
- D. All of the above

ANSWER: D

Which of the following statements about rural-urban migration is true?

- A. Illiteracy is one of the main reasons for rural-urban migration
- B. Inflation is one of the main reasons for rural-urban migration
- C. Lack of infrastructure is one of the main reasons for rural-urban migration
- D. Unemployment is one of the main reasons for rural-urban migration

ANSWER: D

Which one of the following is not **correct** about international dependency theory?

- A. It promotes the market fundamentalism theory
- B. It suggests a country fight to against globalization
- C. It suggests a country to persuade autarky policy
- D. It suggests a country not persuade capitalists economy system

ANSWER: C

Which one of the following theory relates underdevelopment to the faulty and inappropriate advice provided by developed countries experts and donors?

- A. The False-Paradigm Model
- B. The Neocolonial Theory
- C. The dualistic-development thesis
- D. Market fundamentalism

ANSWER: A

Which one of the following is traditional factor explaining poor economic performance of developing countries?

- A. Institution
- B. Capital formation
- C. Types of government
- D. Human capital

ANSWER: B

To the Neocolonial Dependence Model the cause of under-development is;

- A. Rich counties intentionally exploiting the poor countries.
- B. Unintentionally neglectful attitude of First World to Third World
- C. mall group of elite in developing countries serving the interest of capitalist system
- D. All

ANSWER: D

Which one of the following is **true** about the developing countries?

- A. High child mortality
- B. low Pupil-teacher ratio
- C. high human capital
- D. high income per capita

ANSWER: A

Developing countries have common characteristic features in the all of the following dimension **except** _____.

- A. Productivity level
- B. Income level
- C. Ethnic composition
- D. Level of Unemployment

ANSWER: A

The Gini Coefficient for a country is 0.8. What can one conclude about the income distribution in this country? Choose one answer.

- A. Income is equally distributed.
- B. Income is nearly equally distributed.
- C. Income is perfectly distributed.
- D. Income is close to being imperfectly distributed.

ANSWER: D

Population growth is higher in high income countries rather than in low income countries. Choose one answer.

- A. True
- B. False

ANSWER: B

Which of the following factors tends not to lead to a decrease in population growth?

- A. When health conditions improve and parents no longer fear some of their children will die
- B. When more women join the labor market and thus decide to have fewer children
- C. When the population has access to modern contraception
- D. When men are more educated than women

ANSWER: D

Which of the following indicates a classification which does not determine a country's level of development?

- A. Level of industrialization
- B. Level of natural and human resources
- C. GDP per capita
- D. Population

ANSWER: D

How might a government try to increase output, if the government is to follow the suggestions of the Harrod-Domar model? Choose one answer.

- A. By encouraging savings
- B. By beginning to use state-owned enterprises
- C. By promoting technologies which help firms to produce more output with less capital
- D. Both A and B
- E. Both A and C

ANSWER: E

How would Lewis describe the traditional agricultural sector?

- A. A sector which might help to elevate the livelihoods of the people involved
- B. A sector with low productivity, high unemployment, low incomes, and low savings
- C. A sector from which people cannot transition into other sectors
- D. A sector with highly educated but low productivity labor
- E. A sector with full employment and therefore producing at the full employment output

ANSWER: B

Which school of thought believes that a major impediment to development comes from the dualistic nature of underdeveloped economies (where a modern sector dependent on developed countries for technology exists side by side with a traditional sector)?

- A. Neo-liberal
- B. Structuralist
- C. Marxist
- D. Keynesian

ANSWER: B

According to the earlier proponents of the big push strategy for development, a big push in investment is necessary in developing countries because of which of the following reasons? Choose one answer.

- A. In a traditional economy, people do not have the required habits for a profitable industrial society and therefore need a push.
- B. The lack of modern technology requires a large investment in education.
- C. Poor economies do not grow because complementary industries fail to cooperate; a big push is required to get these industries to develop simultaneously.
- D. Poor economies must resolve pressing health and education challenges before they can industrialize.

ANSWER: C

What, according to Amartya Sen, is the principal end of development?

- A. Increased incomes
- B. Freedom
- C. Movement to industrial forms of organization
- D. Democracy
- E. Increased education

ANSWER: B

Historically, low rate of population growth were maintained because of

- A. low fertility rates.
- B. high mortality rates
- C. migration out of developing countries
- D. government restrictions on the number of children families can have.

ANSWER: B

According to W.W.Rostow, which of the following does not belong to the precondition for takeoff:

- A. Increased agricultural productivity
- B. Political stability
- C. Development of social overhead capital,
- D. Growth of the durable consumer goods industry

ANSWER: D

Economic growth is necessary and sufficient to eradicate most of absolute poverty.

- A. true
- B. false

ANSWER: B

The idea which suggests that poverty is self-perpetuating because poor nations are unable to save and invest enough to accumulate the capital stock that would help them grow is

- A. The dependency theory.
- B. the vicious-circle-of-poverty hypothesis.
- C. neo-colonialism.
- D. marker fundamentalism

ANSWER: B

If a country experiences a rapid increase in per-capita income due to discovery of new oil reserves, then it is experiencing:

- A. growth but not necessarily development.
- B. development but not growth.
- C. both growth and development.
- D. neither growth nor development.

ANSWER: A

All but one of the following elements is a characteristic of the demographic transition. Which one is the exception?

- A. Initially high birth rate and death rate.
- B. Initially low rate of natural increase.
- C. Rapid increase in the birth rate during the early stages of development.
- D. A sharp fall in the death rate followed with a lag by a decline in the birth rate.

ANSWER: C

Rural interest rates are likely to be

- A. Higher than in the organized credit market,
- B. Same as in the organized credit market,
- C. Lower than in the organized credit market,
- D. None of the above

ANSWER: A

Which of the following statements is not true about import restriction

- A. Import restrictions attract resources to protected industry,
- B. Import restrictions involve a deadweight loss,
- C. Import restrictions raise prices for buyers to a product,
- D. Import restriction shift welfare from producers to consumers

ANSWER: D

Peasant farmers in LDCs are generally observed to;

- A. respond appropriately to changes in price incentives
- B. use available resources efficiently
- C. Both a and b
- D. Neither a nor b

ANSWER: C

Which of the following international trade theory factor abundance is the dominant factor for the nation to export the product?

- A. Heckscher Ohlin theory
- B. Comparative cost advantage theory
- C. New Trade theory
- D. Factor Equalization theorem

ANSWER: A

Which one of the following is not correct about foreign exchange market?

- A. The foreign exchange market is not a single place like the NY Stock Exchange (NYSE).
- B. It refers to the activities of major international banks that engage in currency trading.
- C. It is a widely centralized 24-hour-a-day market.
- D. It refers to the organizational setting in which individuals businesses, governments and banks buy and sell foreign currencies.

ANSWER: C

A country's workers union attempted to win the approval of legislation that would moderate the practice of foreign sourcing on the part of auto manufacturers. Which of the following best represents this legislation?

- A. Voluntary export quotas
- B. Local content requirement
- C. Export subsidies
- D. Tariff quotas

ANSWER: B

One of the following exists when the formation of a regional trading group leads to the reduction of trade with nonmember countries in favor of member countries.

- A. Trade creation
- B. Trade exclusion
- C. Trade diversion
- D. Trade distortion

ANSWER: C

One of the following is an agreement among two/more trading partners to remove all tariff & non-tariff barriers among themselves in addition, each member nation imposes identical trade restrictions against non-member nations and each nation follows a common external trade policy

- A. Custom union
- B. Free trade area

- C. Common market
 - D. Monetary union
- ANSWER: A

Which of the following is not the aim and objectives of ECOWAS today?

- A. Promotion of Cooperation and development.
- B. Establishment of Common Fund.
- C. Implementation of Infrastructural Schemes.
- D. Expand trade restrictions and Customs Duties.

ANSWER: D

When a country eliminates its tariff against a partner country, keeping the tariff positive against other countries, the effect of that changes alone is that the partner country as a whole:

- A. May either gain or lose.
- B. Must gain.
- C. Will neither gain nor lose.
- D. Must lose.

ANSWER: B

Benelux economic integration is an example of:

- A. Free trade area
- B. Common market
- C. Customs union
- D. Monetary union

ANSWER: C

One of the following is a type of tariff, in which the tariff is levied as a proportion of the value of the imported good.

- A. Specific tariffs
- B. Compound tariffs
- C. Discriminatory tariffs
- D. Ad valorem tariffs

ANSWER: D

Which one of the following is not an Argument for against protection?

- A. Protection produces laziness and acts like an opiate
- B. Protection creates monopolies
- C. Vested interests are eliminated
- D. Source of conflict

ANSWER: C

Suppose that the domestic government allows a specific number of goods to be imported each year, but it does not specify from where the product is shipped or who is permitted to import, such a trade barrier is referred to as:

- A. A global quota
- B. An import tariff
- C. A tariff-rate quota
- D. A selective quota

ANSWER: A

Suppose that the Ethiopia imposes a tariff on BIC pens of 25 cents per pen plus 12 percent of the pen's value, this is an example of a (an):

- A. Specific tariff
- B. Ad valorem tariff
- C. Compound tariff
- D. Discriminatory tariff

ANSWER: C

The implementation of a common market involves all of the following except:

- A. Elimination of trade restrictions among member countries
- B. A common tax system and monetary union
- C. Prohibition of restrictions on factor movements
- D. A common tariff levied in imports from nonmembers

ANSWER: B

Assume in Ethiopia the domestic price of an imported Suzuki automobile is 6million birr whereas the CIF (cost plus insurance and freight) price when the automobile arrives at the port of entry is 4million birr, the nominal rate of tariff protection would be?

- A. 25 %.
- B. 50 %
- C. 75 %
- D. 10

ANSWER: B

Among the following which one is not the unique feature of Foreign Exchange Market?

- A. The most liquid market in the world
- B. The most static market in the world.
- C. International network of dealers.
- D. Most widely traded currency is the dollar.

ANSWER: B

A transaction in which the conversion of one currency to another currency at one point, with an agreement to reconvert it back to the original currency at some point in the future and the rates of both exchanges are also agreed to in advance be referred to as:

- A. Spot transactions
- B. Forward transaction
- C. Swap transactions
- D. Future transaction

ANSWER: C

Among the following theories of exchange rate determination one is most widely accepted of all exchange rate determination:

- A. Purchasing power parity approach
- B. Balance of payment approach
- C. Asset market approach
- D. Portfolio balance approach

ANSWER: A

Which one of the following best describes balance of payment?

- A. A summary statement of the economic transactions between the residents of one country and the residents of all other countries during a particular period of time, usually a calendar year.
- B. BoPs accounts are an integral part of the national income accounts for a closed economy.
- C. We should include every amount of capital flow in the balance of payments.

D. BoPs include all the transactions in which the residents of foreign nations are directly involved.
ANSWER: A

One among the following infers Impact of Changes in Money Supply and Demand on BOPs under a Fixed Exchange Rates when there is an Increase in money demand leads to:

- A. Deficit on the balance of payment
- B. Equilibrium on the balance of payment
- C. Surplus on the balance of payment
- D. Undetermined effect on the balance of payment

ANSWER: C

Which of the following analysis of macroeconomic policy in an open economy is wrong?

- A. Contractionary fiscal policy raises domestic production and income and induces a fall in imports.
- B. Tight monetary policy leads to a short-term capital inflow or reduced outflow.
- C. Trade controls are both less important and less acceptable than exchange controls
- D. Developing nations have most common type of exchange controls is multiple exchange rates, with higher exchange rates on luxury and nonessential imports whereas lower rates on essential imports.

ANSWER: A

Which one of the following is correct?

- A. Expansionary fiscal policy shifts the IS curve to the left
- B. Tight monetary policy shifts the LM curve to the right, but they leave the BP curve unchanged
- C. The balance of payments is in equilibrium whenever a trade deficit is matched by an equal net capital inflow or a trade surplus is matched by an equal net capital outflow
- D. With perfectly elastic international capital flows and flexible exchange rates, monetary policy is ineffective while fiscal policy is completely effective

ANSWER: C

One of the following is NOT assumption of the Keynesian theory

- A. Belief that the private sector does not always possess the self-correcting mechanism.
- B. Justifies a degree of state intervention to influence the economy,
- C. focuses on explaining why recessions and depressions occur.
- D. Wages and prices will adjust economy to its potential GDP level of output.

ANSWER: D

The Phillips curve shows a _____ relationship between inflation and unemployment, and the short-run aggregate supply curve shows a _____ relationship between the price level and output.

- A. positive; positive
- B. positive; negative
- C. negative; positive
- D. negative; negative

ANSWER: C

_____ measures the only the prices of goods and services bought by firms or the government.

- A. the GDP deflator
- B. The CPI
- C. Neither the CPI nor the GDP deflator.
- D. Both the CPI and the GDP deflator.

ANSWER: B

The government purchases multiplier is the ratio of

- A. change in government purchases and change in consumption.
- B. change in government purchases and change in income.
- C. money supply divided by high-powered money
- D. change in consumption expenditure and income

ANSWER: B

The theory of liquidity preference assumes all of the following. Except:-

- A. there is a fixed supply of real money balances.
- B. interest rate is one determinant of how much money people choose to hold.
- C. The supply and demand for real money balances determine the interest rate
- D. The supply curve for real money balances is horizontal.

ANSWER: D

From the following which one is not true about the LM curve?

- A. LM curve slopes upward.
- B. plots this relationship between the level of income and the interest rate.
- C. Increases in the supply of real money balances shift the LM curve upward.
- D. is drawn for a given supply of real money balances

ANSWER: C

Which one is incorrect about the Mundell–Fleming model in an open economy?

- A. a small open economy with perfect capital mobility
- B. No interaction between the goods market and money market.
- C. price level is fixed
- D. economy's interest rate is determined by the world interest rate.

ANSWER: B

Which of the following is true about a Monetary Policy in open economy?

- A. increase in the money supply means an increase in real balances.
- B. The increase in real balances shifts the *LM* curve to the right.
- C. an increase in the money supply raises income and lowers the exchange rate.
- D. All of the above.

ANSWER: D

Which of the following is not true about Goods market and IS curve?

- A. Consumption depends positively on disposable income
- B. Investment depends negatively on the interest rate,
- C. Investment depends positively on the interest rate
- D. Net exports depend negatively on the exchange rate

ANSWER: C

Which of the following is a factor that affects to shift long run aggregate supply curve?

- A. labor and capital
- B. natural resource
- C. technological change
- D. All of the above

ANSWER: D

The sticky wage model assumes the following, except;

- A. The lower real wage induces firms to hire more labor
- B. Negative relationship between the price level and the amount of output.

- C. The additional labor hired produces more output.
- D. a rise in the price level lowers the real wage, making labor cheaper.

ANSWER: B

Which of the following is NOT a characteristic of an economic model?

- A. Simplification
- B. Realism
- C. Assumptions
- D. Variables

ANSWER: B

Which of the following is the correct interpretation of the slope coefficient in simple linear regression?

- A. It represents the average change in the independent variable associated with a one-unit increase in the dependent variable.
- B. It represents the average change in the dependent variable associated with a one-unit increase in the independent variable.
- C. It represents the intercept of the regression line.
- D. It represents the standard deviation of the residuals.

ANSWER: B

What is the difference between simple linear regression and multiple linear regression?

- A. Simple linear regression involves only one independent variable, while multiple linear regression involves more than one independent variable.
- B. Simple linear regression involves a nonlinear relationship, while multiple linear regression involves a linear relationship.
- C. Simple linear regression involves a quadratic regression line, while multiple linear regression involves a linear regression line.
- D. Simple linear regression involves a dependent variable, while multiple linear regression involves more than one dependent variable.

ANSWER: A

Which assumption of the classical linear regression model is violated when the errors have a non-constant variance?

- A. Linearity
- B. Independence of errors
- C. Homoscedasticity
- D. Normality of errors

ANSWER: C

What is the impact of violating the assumption of homoscedasticity in the classical linear regression model?

- A. The estimates of the slope coefficients are biased.
- B. The estimates of the intercept are biased.
- C. The standard errors of the slope coefficients are incorrect, leading to incorrect hypothesis tests and confidence intervals.
- D. The residuals are not normally distributed

ANSWER: C

What are dummy regressors used for?

- A. To create more complex models
- B. To handle categorical data in regression analysis
- C. To improve model accuracy

D. To reduce the number of predictor variables

ANSWER: B

What is a limited dependent variable model?

A. A model that includes only one independent variable

B. A model that is suitable for binary outcomes

C. A model that includes only continuous variables

D. A model that is suitable for linear outcomes

ANSWER: B

In the following regression equation, y is a binary variable: $y = \beta_0 + \beta_1 x_1 + \dots + \beta_k x_k + u$. In this case, the estimated slope coefficients, measures ____.

A. The predicted change in the value of y when x_1 increases by one unit, everything else is remaining constant.

B. The predicted change in the value of y when x_1 decreases by one unit, everything else is remaining constant.

C. The predicted change in the probability of success when x_1 decreases by one unit, everything else is remaining constant.

D. The predicted change in the probability of success when x_1 increases by one unit, everything else is remaining constant.

ANSWER: D

What is a logit model?

A. A model that uses logarithmic transformations to estimate the relationship between variables

B. A model that includes only binary variables

C. A model that estimates the odds of a binary outcome

D. A model that uses logistic regression to estimate the relationship between variable

ANSWER: D

What is the interpretation of the probit coefficient?

A. It represents the change in the log-odds of the outcome for a unit change in the predictor variable

B. It represents the change in the probability of the outcome for a unit change in the predictor variable

C. It represents the change in the average value of the outcome for a unit change in the predictor variable

D. It represents the change in the standard deviation of the outcome for a unit change in the predictor variable

ANSWER: B

What is the Linear Probability Model?

A. A model that estimates the probability of a binary outcome

B. A model that estimates the expected value of a continuous outcome

C. A model that includes only one independent variable

D. A model that uses logarithmic transformations to estimate the relationship between variables

ANSWER: A

What is a simultaneous equation model?

A. A model that includes only one independent variable

B. A model that estimates the relationship between two continuous variables

C. A model that includes at least two equations that are interdependent

D. A model that includes only binary variables

ANSWER: C

Which one of the following is not nature of non-stationary time series in econometrics?

- A. It can study its behavior only for the time period under consideration.
- B. Each set of time series data will therefore be for a particular episode.
- C. As a consequence, it is not possible to generalize it to other time periods.
- C. As a consequence, it is possible to generalize it to other time periods.

ANSWER: D

What is the difference between a fixed-effect model and a random-effect model?

- A. A fixed-effect model assumes that the individual-specific effect is fixed, while a random-effect model assumes that the individual-specific effect is random.
- B. A fixed-effect model assumes that the individual-specific effect is random, while a random-effect model assumes that the individual-specific effect is fixed.
- C. There is no difference between a fixed-effect model and a random-effect model.
- D. A fixed-effect model and a random-effect model are used for different types of data.

ANSWER: A

Given the utility function $U(x,y) = xy + x + 2y + 2$ and budget constraint $4x + 6y = 130$: what is the value of x & y respectively which maximize the utility function?

- A. $X = 8$ & $Y = 10$
- B. $X = 11$ & $Y = 16$
- C. $X = 16$ & 11
- D. All

ANSWER: A

What is the price elasticity of demand given the demand function, $Q = \sqrt{10 - P^2}$ and $p = 5$?

- A. $(-5)/3$
- B. $5/3$
- C. $(-1)/3$
- D. $1/3$

ANSWER: B

What is the general solution for the first order difference equation $y_t - y_{t-1} = 2$?

- A. $y_t = A + 2t$
- B. $y_t = 2$
- C. $y_t = A$
- D. none

ANSWER: A

Given the firms demand function which produces two product A&B what is marginal revenue? $Q_A = 850 - 12.5P_A - 3.8P_B$ and $Q_B = 936 - 4.8P_A + 24P_B$

- A. $39 - 0.2P_A - 1/12 Q_B$
- B. $68 - 0.304P_A - 0.16Q_A$
- C. $39 - 0.2P_B - 1/12 Q_B$
- D. $68 - 0.304P_B - 0.16Q_A$

ANSWER: C

Given $Q = 12K^2 L^2$ subject to $40K + 5L = 800$; what is the amount of capital and labor respectively which maximizes output?

- A. 20 & 20
- B. 10 & 100

- C. 10 & 80
 - D. 20 & 100
- ANSWER: C

Which one of the following best describes the barter system?

- A. Purchase of commodity with money
- B. Sale of commodities with money
- C. Purchase and sale of commodities with other commodities
- D. Government rule that regulates money during exchange credentials

ANSWER: C

Which one of the following does not characterize classical monetary theory?

- A. Output is assumed to be always constant at its full-employment level
- B. Any change in money supply has no impact on the level of real output, and thus money is assumed to be inert
- C. Any change in money supply will bring only inflationary effect on the economy
- D. The government should be capable of adopting a rule of money supply that D. allows it to grow only with exact proportion to the growth of real GDP

ANSWER: D

Which of the following best describes the sequence of events in the conduct of contractionary monetary policy using open market operations?

- A. the NBE raises the interest rate, which leads to a decrease in intended investment spending and a decrease in the supply of federal funds, which decreases aggregate demand and output.
- B. the NBE decreases intended investment spending, which leads to a decrease in aggregate demand and output, and a decrease in the supply of federal funds and the interest rate.
- C. the NBE sells bonds, which decreases the supply of federal funds, which raises the interest rate, which leads to a decrease in intended investment spending, aggregate demand and output.
- D. the NBE buys bonds, which increases the supply of federal funds, which lowers the interest rate, and leads to a decrease in intended investment spending and aggregate demand and output

ANSWER: C

Which one of the following in financial markets leads to adverse selection and moral hazard problems that interfere with the efficient functioning of financial markets?

- A. Absence of state intervention
- B. Free-riding problem
- C. Information asymmetry
- C. Non-collateralized risk

ANSWER: C

Which of the following is not true regarding the sticky wage model?

- A. Keeping wage (W) unchanged, rise in price level lowers real wage (W/P)
- B. Reduction in W/P gives firms an incentive to produce more by hiring more labor
- C. Labor force will be cheaper when real wage rises
- D. The short run aggregate supply curve of the firms is upward sloping

ANSWER: C

Which one of the following is the immediate cause of expansionary money supply?

- A. Interest rates to fall, investment spending to rise, and aggregate demand to rise
- B. Interest rates to rise, investment spending to rise, and aggregate demand to rise

- C. Interest rates to rise, investment spending to fall, and aggregate demand to fall
- D. Interest rates to fall, investment spending to fall, and aggregate demand to fall

ANSWER: A

Which type of unemployment is also referred to as “demand deficit unemployment”?

- A. Structural unemployment
- B. Cyclical unemployment
- C. Frictional unemployment
- D. Natural rate of unemployment

ANSWER: B

Which of the following is wrong regarding to the Harrod - Domar model of economic growth?

- A. To grow fast, economies should save and invest certain proportion of their national income
- B. Countries with higher rate of saving will grow faster than otherwise
- C. The higher the capital output ratio, the lower the rate of economic growth will be
- D. The higher the capital output ratio, the lower the rate of economic growth will be

ANSWER: D

Which of the following is an example of "investment" as used in economics?

- A. A university professor purchase of 25% shares of stock in an auto manufacturing company
- B. An extra-large automobile manufacturing firm buys another extraordinary automobile manufacturing industry
- C. A group of individuals in a particular family paying 50,000 worth of government securities through treasury bills
- D. The purchase of new drilling machinery by a car industry for its auto repairing garage

ANSWER: D

Unlike the traditional growth models such as Harrod-Domar, and Solow, the endogenous growth model is based on the idea that;

- A. Policies and investments in education, research and development and infrastructure can promote innovation and increase productivity leading to sustained economic growth
- B. Technological progress is exogenous like manna from the heaven and cannot be influenced by government policies
- C. The economy often experiences diminishing returns to scale in knowledge accumulation and innovation
- D. Poorer countries will converge the income levels of rich countries over time and no divergence occurs even countries invest more in human capital and innovation

ANSWER: A

One of the following if false about the main challenges with applying traditional growth models to African economies

- A. Their idea that technological progress is exogenous, meaning that it is not influenced by government policies or other factors within the economy
- B. A large portion of economic activity in Africa takes place in the informal sector, which is not captured by traditional growth models
- C. Traditional growth models are able to explain the unique challenges faced by African economies, such as high levels of poverty, inequality, and political instability
- D. The structural constraints such as poor infrastructure, limited access to finance and weak institutions limit the effectiveness of traditional models to explain African economies

ANSWER: C

Which of the following will not cause the drain of labor force in connection to the sectoral shift and the resulting unemployment?

- A. Seasonality of agricultural harvesting in nature
- B. Changes in the composition of demand among different economic sectors
- C. Complementarity of products in some sectors of the economy
- D. Sustainability of demand and supply conditions in both product and factor markets

ANSWER: D

The reserve required ratio (RRR) is a percentage fixed by the central bank that requires commercial banks to:

- A. Lend out the RRR percent of their customer demand deposits to other borrowers
- B. Hold the RRR percent of their customer demand deposits in the form of cash in their accounts in the central bank
- C. Pay RRR percent of their customer DD to the Central bank as yearly affiliation charge
- D. Hold the RRR percent of the bank's customer DD in the form of cash in their account

ANSWER: A

If a person selling bonds to the central banks cashes, then the bank's check will be ____.

- A. Reserves remain unchanged, but currency in circulation declines
- B. Reserves remain unchanged, but currency in circulation increases
- C. Currency in circulation remains unchanged, but reserves increase
- D. Currency in circulation remains unchanged, but reserves decline

ANSWER: B

When the national bank calls in a Birr 100 discount loan previously extended to the commercial Bank, reserves in the banking system

- A. Increase by Birr 100
- B. Increase by more than Birr 100
- C. Decrease by Birr 100
- D. Decrease by more than Birr 100

ANSWER: C

The banking system as a whole can generate a multiple expansion of deposits because

- A. Single bank can loan out more than its excess reserves
- B. When a bank loses its excess reserves, these reserves do not leave the banking system
- C. The simple deposit multiplier is a fraction smaller than one
- D. None of the above

ANSWER: B

Suppose the labor market is away from equilibrium, with unemployment above the natural rate. The new Keynesian view of inflation and unemployment offers several reasons why the labor market can stay away from equilibrium for long periods. Which of the following is not one of these reasons?

- A. Efficiency wages may hold wages below the equilibrium level
- B. Workers may resist wage cuts which reduce their wages below those paid to other workers in the same occupation
- C. Prices may be sticky downwards in some markets because consumers prefer stable prices
- D. Rises may be sticky downwards in some markets because consumers may judge quality by price

ANSWER: A

In the basic neoclassical growth model, where does equilibrium occur?

- A. Where investment per worker equals saving per worker

- B. Where investment per worker equals depreciation per worker
- C. Where investment per worker equals capital per worker
- D. Where capital per worker equals output per worker

ANSWER: B

In what way the Central Bank serves as a Banker's Bank?

- A. By maintaining gold reserve
- B. By controlling currency
- C. By acting as a lender of the last resort
- D. By reducing the interest rates

ANSWER: C

Which of the following is not a function of commercial bank?

- A. Accepting deposits
- B. Creating credits
- D. Printing bank notes
- D. None of the above

ANSWER: B

Which of the following is NOT a key component of monitoring and evaluation?

- A. Setting goals and objectives
- B. Collecting and analyzing data
- C. Reporting progress and results
- D. Developing a project plan

ANSWER: D

What is the difference between monitoring and evaluation?

- A. Monitoring is ongoing and focuses on progress, while evaluation is a one-time assessment of success
- B. Monitoring is a one-time assessment of success, while evaluation is ongoing and focuses on progress
- C. Monitoring and evaluation are the same thing
- D. None of the above

ANSWER: A

Which one of the following is the purpose of a project review?

- A. To identify areas for improvement
- B. To celebrate success
- C. To allocate resources effectively
- D. None of the above

ANSWER: A

What is the primary objective of financial analysis in project management?

- A. To determine the feasibility of the project
- B. To identify the project risks
- C. To develop the project schedule
- D. To monitor project progress

ANSWER: A

What is the formula for calculating internal rate of return (IRR)?

- A. $IRR = \text{Initial investment} / \text{Annual cash inflow}$
- B. $IRR = \text{Annual cash inflow} / \text{Initial investment}$
- C. $IRR = \text{Present value of cash inflows} - \text{Present value of cash outflows}$

D. IRR = Discount rate at which NPV = 0

ANSWER: D

What is the formula for calculating net present value (NPV)?

A. NPV = Initial investment/Annual cash inflow

B. NPV = Annual cash inflow/Initial investment

C. NPV = Present value of cash inflows - Present value of cash outflows

D. NPV = Present value of cash outflows - Present value of cash inflow

ANSWER: C

When real rental price of capital (R/P) equals the marginal product of capital in equilibrium, which of the following is false?

A. The lower the stock of capital, the higher the real rental price of capital

B. The greater the amount of labor employed, the higher the real rental price of capital

C. The better the technology, the higher the real rental price of capital

D. Events that rise the capital stock can reduce the equilibrium real rental price of capital

ANSWER: D

Which of the following is not a criticism of payback?

A. It ignores potentially valuable cash flow after the cut-off point

B. The cut-off point for recovery of investment outlay is arbitrary

C. The technique cannot be adapted to discounted cash flow

D. It may help to resolve large amounts of uncertainty

ANSWER:

Using the NPV criteria, a project should be selected when:

A. Its NPV is greater than or equal to zero

B. Its NPV is negative

C. Its NPV is zero

D. Its cash outflows are by far greater than inflows

ANSWER: A