



FOR LOGO 0902822746



ቀኩም

JOIN US : @QesemAcademy

Official Telegram Channel

MULTIPLE CHOICE QUESTIONS (1 pt each). CHOOSE THE BEST ANSWER FROM THE SUGGESTED OPTIONS AND WRITE THE LETTER OF YOUR CHOICE ONLY ON THE ANSWER SHEET.

- ANSWER SHEET.
- All points on or below a budget constraint

- A. are attainable with the given income.
- B. are equally desirable.
- C. represent market basket combinations that exhaust the income available.
- D. are described, in part, by a, b, and c above.

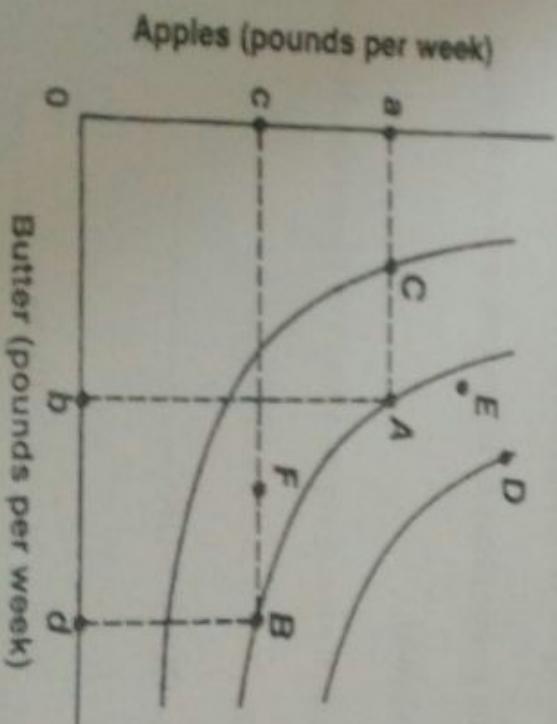
- Which one of the following is/are the limitation/s of the cardinal utility theory?

- A. The assumption of constant marginal utility of money
- B. Measuring utility using arbitrary numbers
- C. The principle of diminishing marginal utility
- D. All of the above

- Which one of the following is correct about the concept of utility?

- A. Utility is subjective
- B. Utility is the same as usefulness
- C. Utility cannot be ranked
- D. Utility from the same good never varies across place and time
- E. All of the above

When answering questions 4&5, consider the following graph of a person's consumption indifference curves:



- This graph indicates that the consumer

- A. at A is indifferent between 0a of apples and 0b of butter.
- B. at A is consuming either 0a of apples or 0b of butter.
- C. is indifferent between 0a of apples plus 0b of butter on the one hand and 0c of apples plus 0d of butter on the other.
- D. is correctly described by all of the above.

- This graph also shows the consumer's marginal rate of substitution in the AB range to be
- A. $0a$ of apples for $0d$ of butter.
 - B. $0a$ of apples for $0b$ of butter.
 - C. $0c$ of apples for $0d$ of butter.
 - D. ac of apples for bd of butter
6. Suppose the consumer's utility function is given as $U(X, Y) = X^3Y^5$, what is the Marginal Rate of Substitution of X for Y (MRS_{XY})?
- A. $5X/3Y$
 - B. $3Y/5X$
 - C. $3X^2Y^5/5Y$
 - D. $3X^2/5Y^4$
 - E. None of the above
7. If A, B, C, and D are any four market baskets, and if the consumer has ranked them so that D is preferred to C, A is *not* preferred to B, and B is *not* preferred to C, then
- A. A is preferred to C.
 - B. A is preferred to D.
 - C. B is preferred to D.
 - D. D is preferred to A.
 - E. D is not preferred to B.
8. Which one of the following is not correct about a well-behaved indifference curves (ICs)?
- A. ICs cannot cross each other
 - B. ICs are downward sloping to the right
 - C. A higher IC is always preferred to a lower one
 - D. ICs are concave to the origin
 - E. None of the above
9. If average total cost is 100 for a given output and marginal cost is 70, we then know that average fixed cost is
- A. 30.
 - B. 170.
 - C. 70
 - D. not possible to determine with the information given.
10. A curve that can never be "U" shaped is the:
- A. Average variable cost curve.
 - B. Marginal cost curve.
 - C. Average fixed cost curve.
 - D. Average total cost curve.
11. A firm operating in a perfect market maximizes its profit by adjusting
- A. its output price until it exceeds average total cost as much as possible.
 - B. its output price until it exceeds marginal cost as much as possible.
 - C. its output until its marginal cost equals output price.
 - D. its output until its average total cost is minimized.
12. Changing the level of government spending is an example of:
- A. fiscal policy.
 - B. interest rate policy.
 - C. monetary policy.
 - D. exchange rate policy.

13. During inflation
- A. All prices are necessarily rising.
 - B. Some prices may rise, while others are falling but the overall price level rises.
 - C. Some prices are rising, others may remain constant.
 - D. A and B.
 - E. B and C.
14. The existence of underground economies
- A. Does not affect unemployment rate.
 - B. Understates the official national unemployment level.
 - C. Overstates the official unemployment rate.
 - D. None of the above.
15. Indifference curves are convex to the origin because we assume that
- A. Two consumption goods are perfect substitutes.
 - B. Two consumption goods are perfect complements.
 - C. Two consumption goods are unrelated.
 - D. Two consumption goods are imperfect substitutes.
 - E. None.
16. Being a price taker in a market means that the seller
- A. charges each consumer the maximum that she will be able to pay for the product.
 - B. has no choice but to charge the equilibrium price that results from the market supply and demand curves.
 - C. takes her price from her average total cost curve.
 - D. sells her products at different prices to different customers.
17. An example of the frictionally unemployed is an
- A. autoworker who is temporarily laid off because of a decline in sales.
 - B. geologist who is permanently laid off from an oil company due to a new technological advance.
 - C. worker at a fast-food restaurant who quits work and attends college.
 - D. real estate agent who leaves a job in Awassa and searches for a similar, higher paying job in Addis Ababa.

Use the following information to answer questions 18 to 19. The short run production function of a textile firm is given by $Q = 18L^2 - L^3$, where Q is output and L is labor used for production.

18. The range of labor that the firm has to hire in the second stage of production is
- A. 0 to 3
 - B. 3 to 18
 - C. 6 to 12
 - D. 9 to 12
 - E. None
19. The value of L that maximizes output (assuming that the cost of labor is zero) is
- A. 0
 - B. 18
 - C. 12
 - D. 36
 - E. None
20. Double counting arises _____
- A. Because statisticians are careless in computing national income.
 - B. Only in developed nations.
 - C. Because the outputs of some firms are the inputs of other firms.
 - D. Only during inflation.
 - E. None of the above.

// An oligopolistic industry can be characterized by all of the following except

- A. many sellers.
- B. mutual interdependence.
- C. economies of scale.
- D. a homogenous product
- E. A & B

22. One of the primary issues covered within macroeconomics is

- A. The behavior of households
- B. The pricing decisions of a firm
- C. The purchasing decisions of a consumer
- D. Inflation
- E. Price discrimination

23. The Consumer Price Index (CPI) differs from the GDP deflator in one of the following ways?

- A. The GDP deflator measures the prices of a much narrower group of goods than the CPI does.
- B. The CPI includes the prices of imported goods whereas the GDP deflator does not.
- C. The CPI excludes the prices of exported goods.
- D. The GDP deflator includes the prices of exported goods whereas the CPI does not.
- E. B and D

24. A firm in a perfectly competitive industry is producing 50 units at its profit maximizing quantity. Industry price is Birr 2 and the average total cost of the firm at profit-maximizing level is Birr

- 1.50. What is the firm's economic profit?
- A. 25
 - B. 50
 - C. 100
 - D. 0
 - E. None of the above

Answer question 25& through 26 based on the following information on national income accounts of hypothetical economy:

	\$12,000
GDP	
Gross investment	1,000
Net investment	600
Net Export	3,000
Government expenditure	1,000
Government budget balance	2,000
Net factor payment from abroad	-2,000
Indirect Business Tax	2,000

25. The gross private consumption expenditure of the economy is

- A. 4000
- B. 6000
- C. 7000
- D. 3000
- E. None of the above

26. The GNP and NI respectively equals to

- A. 10,000 & 600
- B. 10,000 & 7,600
- C. 10,000 & 9600
- D. 5400 & 5800
- E. None of the above

27. Real GDP is nominal GDP adjusted for:
- A. double counting.
 - B. changes in prices.
 - C. population
 - D. Imports
28. All of the following terms are types of macroeconomics data except:
- A. The budget deficit
 - B. The growth rate of real GDP
 - C. The exchange rate
 - D. The level of the production in the steel industry
 - E. The unemployment rate
29. Which one of the following is not true about expansion phase of the business cycle?
- A. The economy starts to grow or recover
 - B. Businesses flourish and employment increases
 - C. Production and national income start to decline while unemployment rises
 - D. Inflation and employment increases
30. A situation when the workers are willing to work under any conditions and at the going wage rate but they fail to get employment, it is called mainly
- A. Voluntary Unemployment
 - B. Involuntary Unemployment
 - C. Cyclical Unemployment
 - D. Frictional Unemployment

PART II: Workout questions: Attempt all of the following questions with all necessary steps and explanations (20 marks)

1. Suppose the short - run cost function of a firm is given by: $C=2Q^3 - 2Q^2 + Q + 10$, Find:
 - i. The expressions for TFC & TVC (1 mark)
 - ii. The expressions for AFC, AVC & AC and MC(2 marks)

iii. The minimum value of AVC. (3 marks)

2. Suppose that you are given the following information about a particular perfectly competitive industry.

Market Demand: $Q_D = 6500 - 100P$

Market Supply: $Q_S = 1200P$

Firm total cost function: $C(q) = 722 + \frac{q^2}{200}$

Assume that all firms are identical and that the market is characterized by perfect competition.

- A) What level of output should the firm produce to maximize its profit? (4 marks)

- B) Determine the level of profit at equilibrium. *(2 marks)*
- C) What minimum price is required by the firm to stay in the market? *(4 marks)*
3. Bety's beauty salon service is a profit-maximizing, competitive firm. Bety gives beauty service for \$27 each. Her total cost each day is \$280, of which \$30 is a fixed cost. She works 10 women a day. What can you say about Bety's short-run decision regarding shut down? Explain your answer. *(4 marks)*