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ETHIOPIA

Unit 7

MONETARY POLICY AND FINANCIAL SECTOR IN ETHIOPIA

HISTORICAL BACKGROUND OF MONEY AND THE FINANCIAL SECTOR IN ETHIOPIA

Historical Development of Money

Before the invention of money, trade was based on the barter system. It is a system of transaction where goods and services are directly exchanged with goods and services. The barter system had many pitfalls. Among others, the need for double coincidence of wants was the prominent problem of barter system. People have to find someone who has a good or service they want and who also wants the good or service they have to offer.

"Money is anything that people are willing to accept in payment for goods and services or to pay off debt." In Ethiopia the use of money dated back to the Axumite kingdom. Coins were mainly minted to facilitate external trade transactions. Usually, these coins were made of precious metals such as gold, silver, and bronze. Iron and salt bars were used to conduct domestic trade transaction. Later on, due to the fact that the intrinsic value of some precious metals and coins was greater than their face value, and hence used for making ornaments and other purposes, exchanges of goods and services were replaced by commodity money.

In addition to the intrinsic value, the downfall of the Axumite kingdom eliminated the circulation of coins, and trade was conducted by the traditional form of exchange, using commodities that served as medium of exchange. This is what is known as the stage of commodity money. Commodities such as bars of salt, pieces of cloth, bars of iron and different types of shells were used as a medium of exchange.

Other currencies that were issued and circulated in and around Harar city after the Axumite coins were the "Mahalek" and the "Ashrafi" that existed from 1789-1887. These were hand-made currencies for local use by the habitats of Harar.

Later the entire region used "Amole Chew" (Salt Bar) for many years. In the nineteenth century and early twentieth century, Austrian thaler (the Maria Theresa dollar) served as a medium of exchange together with the use of Amole.

The thaler was first minted in Vienna, the capital city of Austria in 1741 and named after the Empress Maria Theresa of Austria. It had a silver purity of 800 karats, which means it contained 80% of pure silver. Hence, after a long time the country was back to metallic money. Thaler was a widely acceptable means of exchange until it was replaced by the national currency in 1945.

During the Italian short occupation (1935 – 1941) there were about 50 million Marie Theresa thalers circulating in the economy.

After this Ethiopian made coins In 1894 bearing the image of Emperor Menelik II appeared, these were.Made of silver and copper, the first national currencies after the fall of the Axumite kingdom. In 1908, "Birr", containing the image of Emperor Menelik II, was declared as a medium of exchange and a legal tender throughout Ethiopia by proclamation.

Historical Note In 1933, the first coins under Emperor Haile Sellasie's regime replaced Menelik's coins. The new dollar notes were printed with denominations of Birr 5, Birr 10, Birr 20, Birr 50, Birr 100 and Birr 500 values. These currencies bore the image of Emperor Haile Selassie I. The coins were made of copper with denominations of one cent, five cents, ten cents, and twenty-five cents. Also, there was a coin made of silver for fifty cents ("Shilling").

These notes and coins served for a long time until the fall of the Imperial regime in 1974. The Military regime (Derg) introduced a new legal tender in 1976 with the same denomination without the twenty and five hundred Birr.

In 1998 the new government (EPRDF) slightly changed the currency notes but not the coins, using the same denominations as they were also circulating in Eretria after independence in 1991. Paper currency decreed by governments as legal tender (meaning that legally it must be accepted as payment for debts) but not convertible into coins or precious metal is known as Fiat Money

The Financial Sector in Ethiopia

Modern banking in Ethiopia started in 1905 with the establishment of Abyssinian Bank, which was based on a fifty-year agreement with the Anglo-Egyptian National Bank. In 1908 a new development bank (called

Societe Nationale d' Ethiope Pour le Development de l'Agriculture etdu Commerce) and two other foreign banks (Banque de l'Indochine and the Compagnie de l'Afrique Orientale) were also established. These banks were criticized for being wholly foreign owned

After independence from Italy's brief occupation, where the role of Britain was paramount owing to its strategic planning during the Second World War, Barclay's Bank was established and it remained in business in Ethiopia between 1941 and 1943. Following this, in 1943, the Ethiopian government established the State Bank of Ethiopia. The establishment of this bank by Ethiopia was a painful process because Britain was against it. The Bank of Ethiopia operated as both a commercial and a central bank until 1963 when it was split and remodeled into today's National Bank of Ethiopia (re-established the Central Bank, as in 1976) and the Commercial Bank of Ethiopia (CBE).

After this period, many other banks were established during Emperor Haile Sellasie I's regime. Just before the 1974 revolution,

All privately owned financial institutions, including three commercial banks, thirteen insurance companies, and two non-bank financial intermediaries, were nationalized on 1 January 1975 under the Derg regime. The nationalized banks were reorganized into one commercial bank (namely, the Commercial Bank of Ethiopia), two specialized banks – the Agricultural and Industrial Development

Bank (AIDB), and Housing and Saving Bank (HSB), and one insurance company.

Following the regime change in 1991 and the liberalization policy in 1992, these financial institutions were reorganized to work in a market-oriented-policy framework. The CBE, EIC and NBE have retained their

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names and functions, whereas the AIDB was renamed as Development Bank of Ethiopia (DBE), and the HSB was renamed as Construction and Business Bank (CBB).

Currently the major financial institutions operating in Ethiopia are banks, insurance companies and micro-finance institutions. A number of commercial banks and insurance companies have also been established in the reform period. In 2008/09, the number of commercial banks operating in the country reached 13, of which ten were private commercial banks, and the remaining three were state owned.

The Roles and Functions of the National Bank of Ethiopia

A national bank is a financial institution established to act on behalf of the government to control and regulate activities of the financial sector. Among the most important players in financial markets throughout the world are national banks, which are the government authorities in charge of monetary policies.

- ✓ The National Bank of Ethiopia (NBE) was established with capital of Birr ten million.
- ✓ It was owned and operated by the government and managed by a board of directors.
- ✓ The objective of national banks is not generating profit by transacting with the general public in depositing, borrowing, and lending activities.
- ✓

National banks' actions affect

- Interest rates
- The amount of credit available
- The money supply, all of which have direct impacts not only on financial markets, but also on aggregate output and inflation.

It has different names in different countries. It is usually referred to as Central Bank.

The bank has now, among other things, the following responsibilities.

- It has the exclusive right to mint coins and print (issue) currency notes that circulate in the national economy.
- Issues government debt instruments or securities such as bonds, treasury bills, and promissory notes on behalf of the government;
- Promotes the existence of balanced and accelerated economic growth;
- Reduces the level of unemployment and maintains low levels of inflation;
- Encourages the formation of micro and other financial institutions and
- supervises and regulates the activities and operations of these financial institutions in general and of commercial banks in particular;
- Acts as the banker of the government: deposits government money and provides direct advances to the government;
- Acts as a last resort for commercial banks that need to borrow money at times of shortage;
- Regulates the money supply, interest rates and other charges, and the creation of credit by commercial banks;
- Formulates the monetary policy framework for the country;
- Manages and administers the international reserve of the country;

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- Regulates the foreign exchange of the country and organizes the foreign exchange auction market for the determination of the exchange rates;
- Prepares regular reports on the money supply, production of goods and services, and official international economic transactions carried out by the country

Roles and Functions of Commercial Banks and Insurance Companies

1. **The Commercial Bank of Ethiopia (CBE)**

It took over the banking activities of the former State Bank of Ethiopia and began operation in January 1964. The initial capital of the bank was Birr 20 million.

The first private bank that was in operation together with the Commercial Bank of Ethiopia was Addis Bank S.C. It was established in October 1964 as a joint venture (JV) between Ethiopians and National and Grind lays Banks of London. The bank was established with a paid-up capital of 2 million Birr. Its capital increased to 5 million Birr by the year 1968 with a total of 26 branches and 300 employees.

By 1976, Addis Bank was merged with other banks, of Italian origin, under Proclamation No 69/1975. The capital had increased to 20 million Birr, and there were 34 branches and 480 employees, making it the second largest commercial bank in the country.

Due to the change of regime and the Derg economic policy, the Addis Bank and the former Commercial Bank of Ethiopia were merged to form the present-day Commercial Bank of Ethiopia on August 2, 1980. In the same year, the bank had 65 million Birr capital and 155 branches throughout the country.

Roles and functions of Commercial Bank of Ethiopia CBE:

- Help to encourage households to save money, since saving is important for investment;
- Accept Deposits of different kinds, such as saving, time, and demand deposit;
- Advance loans, credit, overdrafts, and other services for individuals and firms;
- Conduct supervision and follow-up on the use of credit and loans provided to customers;
- Maintain safe-deposit vaults and lockers and receive valuables andsecurities for safe custody;
- Sell and purchase foreign currencies;
- Issue letters of credit (LC), travelers' cheques, etc.;
- Issue bonds and participate in the buying and selling of treasury bills, bonds, and other negotiable instruments and securities;
- Conduct the transfer of money from one place to another;
- Prepare regular financial reports to the NBE;
- Accelerate the process of monetization in the economy.
- Broadly speaking, the following are the major types of bank, classified based on their functions:
- Commercial Banks: advance short-term funds/loans to business people and traders. Their deposits are only for a short period. The loan period extends from 3 to 6 months.
- Industrial Banks: provide long-term loans to industries Agricultural Banks: meet the requirements of the agricultural
- community, particularly in a predominantly agricultural country.
- Foreign Exchange Banks: specialize in facilitating foreign trade by making international payments.

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2. Development Bank of Ethiopia (DBE)

One of the two specialized banks established in the 1940s, during the Imperial region, was the Agricultural Bank. It was initially established in 1945, and it was replaced by the Development Bank of Ethiopia in 1951. The purpose of the bank was to foster the development of the agricultural sector. On the other hand, the Investment Bank of Ethiopia (IBE) was established in 1963 for the purpose of developing the industrial sector. The Agricultural and Industrial Development Bank (AID Bank) was established in 1974 with the paid-up capital of 100,000 Birr by the government to take over the activities of the former DBE and IBE.

- The objectives, functions, and roles of the AID bank include the following:
- To advance loans and credit for the development of both the agricultural and industrial sectors;
- To act as agent or representative of individuals and firms to effect payment on their behalf;
- To act as a guarantor to viable agricultural and industrial projects;
- To supervise and control the activities of projects financed by the bank;
- To engage in investment of equities; and

To perform other similar functions and responsibilities like the commercial banks.

3. The Construction and Business Bank (CBB)

The Housing and Saving Bank (HSB) which was established in November 1975. The bank was created by amalgamating the former Imperial Saving and Home Ownership Public Association and the Saving and Mortgage Corporation S.C. The purpose of the bank was to encourage the construction of residential houses by providing long-term loans at a low rate of interest in urban areas. The working capital of the bank in 2008/09 was 196 million Birr. It had 32 branches by the same year.

The objectives, functions and roles of the bank are, among other:

- Provision of long-term loans and credits in the construction and acquisition of buildings;
- Accepting saving, demand, and time deposit so as to mobilizes funds for investment in construction;
- Conducting, monitoring and following up end uses of loans advanced;
- Discounting promissory notes and other securities issued by other parties;
- Performing similar other functions as commercial banks as per the Commercial Code of Ethiopia.

4. Insurance Services in Ethiopia

Every day we face the possibility of the occurrence of certain problems leading to uncertainties that could lead to large financial losses. A spouse's earnings might disappear due to death or illness; a car accident might result in costly repair bills or payments to an injured party. Because financial losses from crises could be large relative to our financial resources, we protect ourselves against them by purchasing insurance coverage that will pay a sum of money if the uncertainty occurs. Life insurance companies sell policies that provide income if a person dies, is incapacitated by illness, or retires.

History tells us that insurance services in Ethiopia have been known since the Axumite era. However, the collapse of the Axumite kingdom led to the formation of local and indigenous self-help groups, such as "Idir", "Ekub", and "Mahiber".

These informal institutions are serving the peoples of Ethiopia up to now.

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- Modern forms of insurance service are said to have been introduced in Ethiopia by Europeans.
- The practice of modern insurance services started in the 1920s when the Bank of Abyssinia started underwriting fire and marine insurance as an agency to a foreign bank.
- The first insurance company was established in 1923 by an Austrian named Muzinger, which served as an agency for a foreign Fire Insurance Company.
- During the Italian invasion, no insurance company was allowed to operate except the Italian insurance companies.

    - The first insurance company owned by the Ethiopian government was established in 1951 with the name of Imperial Insurance Company of Ethiopia. There were about 13 insurance companies operating in Ethiopia before 1974.The nationalization of foreign and local private insurance companies in 1975 led to the formation and establishment of the Ethiopian Insurance Corporation (EIC) in January 1976 by Proclamation No. 68/1975 with a paid capital of 11 million Birr with the aim of providing all kinds of insurance services in Ethiopia. In 2008/09, EIC had 39 branches and 249.4 million Birr capital.

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FINANCIAL SECTOR POLICIES AND REFORMS IN ETHIOPIA

- The Financial Policies During the Imperial Period (pre-1974)

The pre-1974 financial sector policy of the government was in line with the pro-capitalist economic system, which allows the participation of the sector in the economy, particularly in the financial sector. As a result, there were both foreign as well as local private banks and insurance companies operating in Ethiopia until they were nationalized in 1974. There was no capital ceiling requirement by the government. However, the monitoring and regulatory capacity of the National Bank of Ethiopia was limited in the period under discussion.

- The Financial Policies of the Derg Period (1974-1991)

This was a regime characterized by absolute government control of major economic activities in the country. During this period all private banks were nationalized and converted into institutions organized along socialist principles or under the command economy. It was the duty of the National Bank of Ethiopia to regulate the activities of these institutions on behalf of the government.

This all banks CBE, AIDB (DBE), HSB (CBB)were in operation during this period and also there were two other financial institutions: Ethiopian Insurance Corporation (EIC) and the Pension and Social Security Authority (PSSA).

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The government also attempted to offset its budget deficit by borrowing from the banking system which constrains the amount of money that goes to the private sector; this reduced the participation of the private sector.

- ✓ For instance, the interest on saving deposits made by the private sector remained at 6% on deposits up to 100,000 Birr and 2% over this amount so as to discourage "accumulation of capital".
- ✓ Interest rates on time deposits were between a minimum of 4% to 7.5%, depending on the sources of the funds.
- ✓ Lending rates were also discriminatory in nature. Cooperatives were the most favored customers of banks, followed by public enterprises.
- ✓ The lending rates remained between 9% and 10.5% for most of the activities in the different sectors of the economy: 8.5% for export trade, 3-5% to the central government, and 5-6.5% for banks until June 1986. These rates were revised on July 1, 1986,
- ✓ The attempt of the government to expand the public sector was very much limited due to the shortage of foreign exchange.
- ✓ The government kept the exchange rate at a low level by establishing a fixed exchange rate regime. Exchange rate, as price of domestic currency expressed in terms of foreign currency, affects the price of both export and import goods.
- ✓ It also introduced a high import tariff. This restrictive measure, however, led to the smuggling of goods, both imported and exported, and to the flourishing of a black-market foreign exchange market.
    - ❖ In general, huge government borrowing, restrictive financial policies, and lack of participation of private sector and inefficient use of financial resources by the public sector were the major characteristics of the Derg regime.
    - ❖ However, relative macroeconomic stability was achieved at the expense of overall economic growth due to forced measures of saving by the good-performing public enterprises and non-bank financial institutions, and by the draining of the foreign reserve.

The Financial Policies of EPRDF(Post-1991)

Proclamation No. 84/1994, which allowed the private sector (owners have to be Ethiopian nationals, however) to engage in the banking and insurance businesses, marked the beginning of a new era in Ethiopia's financial sector. Following this proclamation, the country witnessed a proliferation of private banking and insurance companies.

- ✓ the government abolished the discriminatory lending interest rates and fixed minimum deposit and the maximum lending rates since 1994/1995.
- ✓ the government later abolished the ceiling rates, freeing them to be determined by market forces of demand and supply in January 1998
- ✓ The government used indirect monetary policy instruments such as Open Market Operation (OMO) for government securities.

Like these Treasury Bills (TB) and Government Bonds (GB).

Auctioning of securities in the open market was started in January 1994/95 with three types of TBs maturing in 28, 91, and 180 days, respectively.

In general, the EPRDF government has taken a number of policy measures to enable the financial sector to contribute to the development of the economy since 1992. Among these measures:

- ✓ The adoption of monetary and banking proclamation that enabled the NBE, the licensing and supervision of banking;
- ✓ The formation and reorganization of the two-government owned specialized banks of DBE and CBB;
- ✓ The transferring of non-performing loans from the existing banks to the Ministry of Finance;

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- ✓ The restructuring of NBE as a separate entity outside the government with the foreign exchange management and other functions;
- ✓ The proclamation for the establishing and restructuring of Agricultural Cooperative Societies so as to mobilize savings and allocate credits in rural areas.

PERFORMANCE OF THE FINANCIAL SECTOR IN ETHIOPIA

major objectives and functions of the financial sector

- is to make credit available and allocate it efficiently to end users.
- And also collects back the loan advances with some margin of profit in the form of interest.

A demand deposit is a deposit that can be withdrawn at any time without giving prior notice. In contrast,

broad money supply is defined as narrow money plus savings and time deposits. Savings and time deposits together are known as quasi money.

One of the most important functions of commercial banks in the area of financial intermediation is deposit mobilization and lending activities.

PROBLEMS OF AND POSSIBLE REMEDIES FOR THE FINANCIAL SECTOR IN ETHIOPIA

- The major problem facing the financial sector in the country is under-development.
- The economy is less and less monetized; that is, it has limited circulation of money and limited number of financial institutions throughout the country.
- Dealings and transactions are conducted in the traditional/informal sector in certain parts of rural areas as well as urban areas.
- ❖ Hence there are different kinds of bottlenecks for the development of the formal financial sector. These include, among other things:
    - A good part of the economy is not monetized;
    - Some borrowers, both private and public enterprises, fail to repay back
    - loans at the agreed time in the required amount;
    - Banks are now forced to sell collateral to enforce repayment of debts
    - which takes time, a long process and effort;
    - Lack of weak competition in the sector;
    - Maintenance of large amounts of financial resources by some banks due to high collateral requirements and lack of viable
    - Shortage of trained and efficient human resources in the sector;
    - Inadequacy of banks to convert cash into credit;
    - Lackluster financial deepening in the country;
    - Very low-level innovation in financial products and services;
    - The availability of medium-term financing for activities such as agricultural land development, irrigation, purchase of machinery and equipment, plantation, and food processing and packing are either very limited or unavailable.

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For the following question choose the best answer from the given alternative.

1. Which one of the following is the best description of market demand for a commodity?
    A. willingness to buy
    B. Consumers with or without money know about the uses of the commodity.
    C. People with money are willing to pay for the commodity.
    D. Consumer without money have strong desire to have the commodity
2. Which one of the following is a major decision-making unit in command economy?
    A. Households
    B. Capitalists
    C. Business firms
    D. Government
3. Which one of the following best describes market equilibrium?
    A. A situation in which quantity demanded is less than quantity supplied.
    B. A situation in which quantity demanded is equal to the quantity supplied.
    C. A situation in which quantity demanded is greater than quantity supplied.
    D. A situation in which non-crossing demand and supply curves exist.
4. Which one of the following terms describes the phase of business cycle in which the economy's output is at its maximum level?
    A. Contraction
    B. Recovery
    C. Depression
    D. Boom
5. Which one of the following holds if the difference between the values of exports is greater than that of imports of goods and services?
    A. The current account component of the balance of payments will improve.
    B. The capital account component of the balance of payment will improve.
    C. The current account component of the balance of payment will deteriorate.

D. The capital account component of the balance of payments will deteriorate.

6. In which one of the following market structures individual firms do NOT have power to decide the price of the goods they produce?

   A. Competitive

   B. Monopoly

   C. Monopolistic

   D. Oligopoly

7. Which one of the following is an instrument of fiscal policy?

   A. Bank lending rate

   B. Interest rate

   C. Tax rate

   D. Reserve requirement ratio

8. Which one of the following is an example of contractionary monetary policy?

   A. An increase in money supply.

   B. An increase in reserve requirement ratio.

   C. A decrease in bank lending rate.

   D. A decrease in reserve requirement ratio.

9. Which one of the following best describes the structure of the agricultural sector in Ethiopia?

   A. The modern commercial dominant system farming system is the

   B. The pastoral farming system is the dominant system.

   C. The smallholder, commercial and pastoral systems are equally dominant.

   D. The smallholder farming system is the dominant system.

10. Which one of the following was the development strategy of the Derg regime?

    A. Nationalization of the medium enterprises.

    B. Keeping low level of tariff protection.

C. Providing high tax incentives for investors.

D. Facilitating easy access to domestic credit to all and large scale

11. Which one of the following economic activity does NOT fall under the service sector?

A. Fertilizers distribution.

B. Application of new farming techniques.

C. Improved seeds selling.

D. Providing Insurance to farms.

12. Which one of the following is an abundant resource in Ethiopia?

A. Unskilled labor

B. Capital

C. Modern Energy resource

D. Educated labor of the following best describes import

13. Which substitution strategy?

A. Promotion of export.

B. Replacement of exports by imports.

C. Switching of exported goods to domestic consumption.

D. Replacement of imports by domestic manufactures one

14. Which one of the following factors increases domestic consumption?

A. Decline in population.

B. Widening income gaps.

C. Increase in disposable income.

D. Rise in general level of prices.

15. Which of the following statements best describes the traditional energy resources of Ethiopia?

A. Wood and products of wood constitute the major depletable but renewable energy resource in Ethiopia.

B. Wood constitutes the major non-depletable energy resource in Ethiopia.

C. Hydropower is the major renewable depletable energy resource in Ethiopia.

D. Wood products are the second major energy resource in Ethiopia next to hydroelectricity.

16. Which one of the following is a five-year plan of Ethiopian government?

A. Climate Resilient Green Economy Plan (CRGE).

B. Education Sector Development Plan (ESDP).

C. Growth and Transformation Plan I (GTPI).

D. Agricultural (ADLI) Development Industrialization.

17. In which one of the following market structures does a producer face the entire demand curve?

A. Pure competition

B. Monopolistic

C. Oligopoly

D. Pure monopoly

18. Which of the following is applicable only to perfectly competitive firms?

A. Marginal product is equal to marginal cost.

B. Marginal revenue is equal to price.

C. Average product is average revenue.

D. Marginal revenue is equal to marginal product.

19. Which one of the following best describes the relationship between total quantity of reduction and the fixed cost of production? As total production increases fixed costs per unit

A. remain indeterminate.

B. remain constant.

C. decline.

D. increase.

20. Which one of the following is NOT the role and responsibility of commercial banks in Ethiopia?

A. Control money supply.

B. Provide loans.

C. Accept deposits.

D. Place legal reserves in the central bank.

21. Which one of the following is the effect of increasing price on total revenue when the demand in price inelastic? Total revenue

A. is indeterminate.

B. remains constant.

C. increases.

D. declines.

22. Which one of the following statements about utility is correct?

A. Marginal utility can take negative value.

B. Total utility can be negative.

C. Average utility often takes negative value.

D. The product of average and total utilities is negative.

23. Which one of the following is true about trade restrictions?

A. Tariffs are restrictions mainly applied in domestic trade.

B. Quotas are not restrictions applied on international trade.

C. Quotas and tariffs are widely applied restrictions on international trade.

D. Quotas and tariffs enhance international trade but restrict domestic trade.

24. Which one of the following is true about the relationship between individual and market demand curves?

A. Individual demand curve is vertical summation of market demand curves.

B. Market demand curve is horizontal summation of the individual demand curves.

C. Market demand curve is vertical summation of the individual demand curve.

D. Individual demand curve is horizontal summation of the market demand curve.

25. Which one of the following best represents the result of an increase in bank saving rate?

A. Encourages people to save more of their current disposable income.

B. Encourages people to borrow money from banks.
C. Discourages people from saving more of their current disposable income.
D. Encourages people to consume more of their current disposable income.

26. Which of the following is the best application of the law of supply?
A. The decline of the price of biscuits following the rise in number of producers of biscuits.
B. The price of biscuits declined following the decline in number of producers of the good.
C. The quantity of biscuits declined following the decline in price of biscuit.
D. The price of biscuit declined following the decline of the number of consumers of biscuits.

27. Which one of the following is the concern of macroeconomics?
A. General level of prices and consumption.
B. Factors affecting firm's productivity.
C. Input markets for industries of the country
D. The effect of taxation on industrial performance.

28. Which one of the following best describes nominal GDP?
A. GDP measured in real terms.
B. GDP measured at current market prices.
C. GDP measured at base year prices.
D. GDP reflecting future price developments.

29. Which one of the following is best classified as short-term man-made problem of the agricultural sector?
A. Fertilizer shortage to cope up with soil fertility loss.
B. Erosion and land degradation.
C. Unpredictable weather condition.
D. Land fragmentation following population pressure.

30. Which one of the following is the direction of change of market equilibrium price

when costs of production of all producers decline while all other things remain constant?

A. Rises

B. Declines

C. Remains constant

D. Indeterminate

31. Which one of the following best describes the difference in price elasticities of demand for an essential good and luxury good?

A. Price elasticity of demand for essential good is greater than that of luxury good.

B. Price elasticity of demand for essential good is less than that of luxury good.

C. Price elasticity of demand for essential and luxury goods is more or less the same.

D. Price elasticities of goods cannot be described for luxury and essential goods.

32. Which one of the following best describes the causes of cost-push inflation?

A. Declining income of consumers.

B. Rising income of consumers.

C. Declining cost of inputs.

D. Rising input prices.

33. Which one of the following is NOT a role of government in a market economy?

A. Regulating export and import trade on important products.

B. Investing on industrial enterprises to generate income.

C. Controlling monopoly in retail trade on essential consumer good.

D. Regulating market power in the conduct of trade and industry.

34. Which one of the following is a term used to describe consumption level attained independent of disposable income?

A. Total

B. Autonomous

C. Constant

D. Marginal

35. Which one of the following factors is NOT responsible for outward shifting of the market demand curve for commodity?

    A. Decline in the price of the commodity.

    B. Expectation of the rise in prices.

    C. Rise in nominal income of consumers.

    D. Increase in the number of consumers.

36. Assuming a declining marginal utility of money, by how much would total utility increase when a person consumes an additional 10 birr worth good?

    A. Equal to the Increase in marginal utility, which is 10 birr.

    B. Less than 10 birr, but we don't know by how much less.

    C. Greater than 10 birr, but we don't know by how much more.

    D. Equal to half the increase in marginal utility, which is 5 birr.

37. Which one of the following is the best reason for choosing ordinal utility rather than cardinal utility in consumer behavior analysis?

    A. Utility differs from individual to individual and does not have unit of measurement.

    B. Utility of different individuals has a common cardinal measure, but we don't know that measure.

    C. Ordinal measures of utility of different individuals measure increases in utility but not declines in utility.

    D. There are common measures of utility of different individuals and ordinal measure is an additional measure.

38. Which one of the following is the best description of production in the long run? As inputs increase

    A. Total products of both labor and capital decline.

    B. Total product of capital is declining while total product of labor is rising.

    C. Marginal products of both labor and capital shift.

    D. Marginal' product of labor shifts down while marginal product of capital shifts up.

39. If the total cost of production of a monopoly firm is 100 units while the cost to

society is 120 units. Which of the following is the correct external cost of production?

A. 20 units

B. 110 units

C. 10 units

D. 220 units

40. Which one of the following best describes the characteristic of a pure monopoly firm?

A. The marginal cost curve is the supply curve of the firm.

B. The price curve is greater than the marginal revenue curve,

C. The profit maximizing quantity is greater than that of a competitive market.

D. The profit maximizing price is equal to the marginal revenue.

41. Which one of the following causes of inflation is NOT related to growth of money supply?

A. Supply shock that reduces output.

B. Fast expansion of credit.

C. Increased use of deficit financing.

D. Increased government expenditure.

42. Which one of the following types of government budget are used to stop an ongoing rise of unemployment and the decline of prices and outputs?

A. Deficit budget

B. Surplus budget

C. Balanced budget

D. Revenue budget

43. Which one of the following statements best expresses the use of GDP as indicator?

A. Decline in GDP directly indicates the degradation of the environment.

B. Growth employment in the economy.

C. Decline in GDP indicates the fall in per capita income of GDP directly indicates growth of for a constant population size.

D. Growth of GDP indicates the rise of per capita income for increasing population.

44. Land availability in Ethiopia is 385,500 square kilometers while the total area of Ethiopia is 1,104,300 square kilometers. Which of the following assumption explains the difference in these figures?

A. Availability of land means irrigable land.

B. Land availability means arable land.

C. Availability of land refers to grazing and arable land.

D. Land means land suitable for urban development.

45. Which one of the following are the best list of constituent outputs of industrial sector?

A. Electricity. water supply. construction, mining and manufacturing.

B. Electricity, water supply, construction, and mining.

C. Manufacturing, water supply, construction and mining.

D. Electricity, water supply, construction and manufacturing.

46. Which one of the following factors did NOT directly affect the tourism industry of Ethiopia in the past?

A. Recurrent drought.

B. Prolonged civil war.

C. The number of people in the country.

D. Bad relations with tourist generating countries.

47. Which one of the following describes the purpose of imposing tariffs on imports?

A. To protect foreign producers from domestic competition.

B. To protect foreign consumers from domestic consumers.

C. To protect domestic consumers from foreign competition.

D. To protect domestic producers from foreign competition.

48. Which one of the following is an example for a policy of financial repression?

A. Favoring efficient private sector.

B. Restricting financial institutions.

C. Efficient use of financial resources.

D. Abolition of discriminatory lending rates.

49. Which of the following assumptions was the basis for agricultural initiating package projects development strategy in pre-1974 Ethiopia?

A. The packages were means to repeat the success of the of part Green revolution in India.

B. The package projects were easily affordable by peasants and by government.

C. The packages projects were attractive to donors help in agricultural development.

D. The Package projects compatible with were commercial agriculture and easy to support.

50. The price elasticity of the market supply of commodity "X" is less than that of commodity "Y". Which one of the following describes the percentage changes in quantity of Y and that of X after an equal percent change in the price of both commodities?

The percentage change in quantity of

A. both of the goods will be equal.

B. X will be greater than that of Y

C. Any of the goods cannot be known.

D. Y will be greater than that of X.