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# Basic Economics Mcqs Paper

## Basic Economics Mcqs Paper

- (i) The best measure of economic development is:
- (a) GNP
  - (b) HDI
  - (c) PQLI
  - (d) None of these
- (ii) Due to land reforms of 1972 the number of farmers benefited were around:
- (a) 50,300
  - (b) 71,500
  - (c) 81,201
  - (d) 40,301
- (iii) The best measure of economic development, among the following is:
- (a) Life expectancy
  - (b) Industrial development
  - (c) Agricultural and industrial development
  - (d) Development of services sector
- (iv) As per 1990 census, the number of tenants in Pakistan were around:
- (a) 16%
  - (b) 20%
  - (c) 25%
  - (d) 13%
  - (e) None of these
- (v) Area irrigated by different sources in Pakistan is around \_\_\_\_\_ Million hectares:
- (a) 17
  - (b) 20
  - (c) 15
  - (d) 18
- (vi) Which era (decade) in Pakistan is called “the decade lose”:
- (a) 1960’s
  - (b) 1970’s
  - (c) 1980’s
  - (d) 1990’s
  - (e) 2000’s
- (vii) The urban employment in the informal industry is:
- (a) 72%
  - (b) 50%
  - (c) 30%
  - (d) 79%
  - (e) 60.5%

(viii) The effective tariff rate in Pakistan (Foreign Sector) is:

- (a) Below 10%
- (b) Around 15%
- (c) Around 20%
- (d) Around 23%

(ix) The major objective of Monetary Authorities is:

- (a) To control inflation and help the government
- (b) Stability of the economy
- (c) To reduce unemployment and print money
- (d) To control interest rate and promote investment
- (e) None of these

(x) Out of total revenue of Pakistan, the following percentage is spent on defence and debt services:

- (a) 50%
- (b) 30%
- (c) 90%
- (d) 80%
- (e) 70%

(xi) Under WTO, Pakistan has bounded tariff for agriculture around:

- (a) 100%
- (b) 50%
- (c) 150%
- (d) None of these

(xii) The best technique to measure competitiveness of trade is:

- (a) Absolute advantage
- (b) Comparative advantage
- (c) Revealed comparative advantage
- (d) Openness of the foreign sector

(xiii) The agricultural share in GDP is around:

- (a) 22%
- (b) 20%
- (c) 15%
- (d) 10%

(xiv) Structural adjustment program in Pakistan led to:

- (a) Increase poverty
- (b) Reduce poverty
- (c) Improve the economy
- (d) No significant impact

(xv) The IMF loans are:

- (a) For short term
- (b) For long term
- (c) Both (a) and (b)
- (d) None of these

(xvi) Indirect taxes are around \_\_\_\_\_ of the revenue.

- (a) 70%
- (b) 80%
- (c) 85%
- (d) None of these

(xvii) In the last ten years, foreign debt servicing of Pakistan has:

- (a) Increased
- (b) Decreased
- (c) Remained the same

(xviii) With the introduction of reforms in the foreign sector Pakistan's competitiveness has:

- (a) Improved
- (b) Deteriorated
- (c) Improved and deteriorated
- (d) Deteriorated and improved

(xix) The industrial share in the GDP is around:

- (a) 20%
- (b) 18%
- (c) 22%
- (d) 15%

(xx) Produce Index Unit is:

- (a) Per acre total production in a year
- (b) Per acre production of one crop in one acre
- (c) Aggregate average production per acre
- (d) None of these

## Basic Economics MCQs with Answers

Basic Economics MCQs with Answers

**1. The fundamental economic problem faced by all societies is:**

- a. unemployment
- b. inequality
- c. poverty
- d. scarcity

**2. "Capitalism" refers to:**

- a. the use of markets
- b. government ownership of capital goods
- c. private ownership of capital goods
- d. private ownership of homes & cars

**3. There are three fundamental questions every society must answer. Which of the following is/are one**

**of these questions?**

- a. What goods and services are to be produced?
- b. How are the goods and services to be produced?
- c. Who will get the goods and services that are produced?
- d. All of the above

**4. If you were working full-time now, you could earn \$20,000 per year. Instead, you are working part-time while going to school. In your current part-time job, you earn \$5,000 per year. At your school, the annual cost of tuition, books, and other fees is \$2,000. The opportunity cost of completing your education is:**

- a. \$2,000
- b. \$5,000
- c. \$17,000
- d. \$20,000
- e. \$22,000

**5. The bowed shape of the production possibilities curve illustrates:**

- a. the law of increasing marginal cost
- b. that production is inefficient
- c. that production is unattainable
- d. the demand is relatively inelastic

**6. You have taken this quiz and received a grade of 3 out of a possible 10 points (F). You are allowed to take a second version of this quiz. If you score 7 or more, you can raise your score to a 7 (C). You will need to study for the second version. In making a rational decision as to whether or not to retake the test, you should**

- a. always retake the quiz
- b. consider only the marginal benefits from of retaking the quiz (four extra points)
- c. consider only the marginal opportunity costs from taking the quiz (the time spent studying and taking the quiz)
- d. consider both the marginal benefits and the marginal opportunity costs of retaking the quiz

**7. The law of demand states that:**

- a. as the quantity demanded rises, the price rises
- b. as the price rises, the quantity demanded rises
- c. as the price rises, the quantity demanded falls
- d. as supply rises, the demand rises

**8. The price elasticity of demand is the:**

- a. percentage change in quantity demanded divided by the percentage change in price
- b. percentage change in price divided by the percentage change in quantity demanded
- c. dollar change in quantity demanded divided by the dollar change in price
- d. percentage change in quantity demanded divided by the percentage change in quantity supplied

**9. Community Colleges desired to increase revenues. They decided to raise fees paid by students with Bachelors degrees to \$50 per unit because they believed this would result in greater revenues. But in reality, total revenues fell. Therefore, the demand for Community College courses by people with Bachelors degrees must have actually been:**

- a. relatively inelastic
- b. unit elastic
- c. relatively elastic
- d. perfectly elastic

**10. The demand for a product would be more inelastic:**

- a. the greater is the time under consideration
- b. the greater is the number of substitutes available to buyers
- c. the less expensive is the product in relation to incomes
- d. all of the above

**Answers: D C D C A D C A C C**

**1. In the case of agriculture,**

- a. the demand has shifted to the right more than the supply has shifted to the right
- b. the demand has shifted to the right less than the supply has shifted to the right
- c. the demand has shifted to the left more than the supply has shifted to the left
- d. the demand has shifted to the left less than the supply has shifted to the left

**2. The agricultural price support program is an example of**

- a. a price ceiling
- b. a price floor
- c. equilibrium pricing

**3. If there is a price floor, there will be**

- a. shortages
- b. surpluses
- c. equilibrium

**4. If there is a price ceiling, there will be**

- a. shortages
- b. surpluses
- c. equilibrium

**5. If there is a price ceiling, which of the following is NOT likely to occur?**

- a. rationing by first-come, first-served
- b. black markets
- c. gray markets
- d. sellers providing goods for free that were formerly not free

**6. The goal of a pure market economy is to best meet the desires of**

- a. consumers
- b. companies
- c. workers
- d. the government

**7. In a pure market economy, which of the following is a function of the price?**

**I. provide information to sellers and buyers , II. provide incentives to sellers and buyers**

- a. I only
- b. II only
- c. both I and II
- d. neither I nor II

**8. In a market system, sellers act in \_\_\_\_\_ interest , but this leads to behaviors in \_\_\_\_\_ interest.**

- a. self; self
- b. self; society's
- c. society's; society's

d. society's; self

**9. The law of diminishing (marginal) returns states that as more of a variable factor is added to a certain amount of a fixed factor, beyond some point:**

- a. Total physical product begins to fall
- b. The marginal physical product rises
- c. The marginal physical product falls
- d. The average physical product falls

**10. Why is the law of diminishing marginal returns true?**

- a. specialization and division of labor
- b. spreading the average fixed cost
- c. limited capital
- d. all factors being variable in the long-run

**Answers: B B B A D A C B C C**

## **Economics Mcqs for Subject Specialist & Lecturer Pcs Exams**

## **Economics Mcqs For Subject Specialist & Lecturer Pcs Exams**

### **INTRODUCTION TO MACROECONOMICS AND THE DIFFERENT SCHOOLS OF THOUGHT**

1 A study of how increases in the minimum wage rate will affect the national unemployment rate is an example of

- A. descriptive economics.
- B. normative economics.
- C. macroeconomics.
- D. microeconomics.

2 Aggregate supply is the total amount

- A. of goods and services produced in an economy.
- B. produced by the government.
- C. of products produced by a given industry.
- D. of labour supplied by all households.

3 The total demand for goods and services in an economy is known as

- A. aggregate demand.
- B. national demand.
- C. gross national product.
- D. economy-wide demand.

4 Deflation is

- A. an increase in the overall level of economic activity.
- B. an increase in the overall price level.
- C. a decrease in the overall level of economic activity.
- D. a decrease in the overall price level.

5 A recession is

- A. a period of declining prices.
- B. a period during which aggregate output declines.
- C. a period of declining unemployment.
- D. a period of falling trade volumes.

6 Involuntary unemployment means that

- A. people are not willing to work at the going wage rate.
- B. at the going wage rate, there are people who want to work but cannot find work.
- C. there are some people who will not work at the going wage rate.
- D. there is excess demand in the labour market.

7 A cut in the income tax rate designed to encourage household consumption is an example of

- A. expansionary demand-side policy.
- B. contractionary demand-side policy.
- C. expansionary supply-side policy.
- D. contractionary supply-side policy.

8 A cut in the tax rate designed to reduce the cost of capital and hence encourage business investment is an example of

- A. expansionary demand-side policy.
- B. contractionary demand-side policy.
- C. expansionary supply-side policy.
- D. contractionary supply-side policy.

9 Macroeconomics is the branch of economics that deals with

- A. the economy as a whole.
- B. imperfectly competitive markets.
- C. only the long run adjustments to equilibrium in the economy.
- D. the functioning of individual industries and the behaviour of individual decision-making units – business firms and households.

10 A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called:

- A. New-Keynesians.
- B. Keynesians.
- C. Monetarists.
- D. The Classical school.

11 Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of

- A. economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.
- B. fine tuning during the 1960s.

- C. the economy to grow at a rapid rate during the 1950s.
- D. the Classical model to explain the prolonged existence of high unemployment during the Great Depression.

12 Keynes believed falling wages were not a solution to persistent unemployment because

- A. falling wages demoralised workers.
- B. this would reduce the purchasing power of labourers as consumers. This in turn would weaken firms' prospects of selling more goods, hence inducing them to cut their investment (and hence labour) demand.
- C. the unemployment was caused by frictional and structural factors.
- D. wages would fall more than required to clear the labour market.

13 The practice of using fiscal and monetary policy to stabilise the economy is known as

- A. fine tuning of demand
- B. monetarism
- C. laissez faire economics
- D. supply side economics

14 According to Classical models, the level of employment is determined primarily by

- A. interest rates.
- B. the level of prices.
- C. the level of aggregate supply in the economy
- D. the level of aggregate demand for goods and services.

15 According to Keynes, the level of employment is determined by

- A. interest rates.
- B. the level of prices.
- C. the level of aggregate supply in the economy
- D. the level of aggregate demand for goods and services.

16 According to the Classical model, unemployment

- A. could not persist because wages would fall to eliminate the excess supply of labour.
- B. could persist for long periods of time because wages are not flexible.
- C. could be eliminated only through government intervention.
- D. could never exist.

17 To get the economy out of a slump, Keynes believed that the government should

- A. increase both taxes and government spending.
- B. increase taxes and/or decrease government spending.
- C. cut both taxes and government spending.
- D. decrease taxes and/or increase government spending.

18 Aggregate demand refers to the total demand for all domestically produced goods and services in an economy generated from

- A. the household and government sectors.
- B. the household sector.
- C. all sectors except the rest of the world.
- D. all sectors including the rest of the world.

19 Government policies that focus on increasing production rather than demand are called:

- A. fiscal policies.



- B. monetary policies.
- C. incomes policies.
- D. supply-side policies.

20 Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are

- A. market prices.
- B. sticky prices.
- C. fixed prices.
- D. regulatory prices.

21 The economists who emphasised wage-flexibility as a solution for unemployment were

- A. Monetarists.
- B. New-Keynesians.
- C. Classical economists.
- D. Keynesians.

22 According to the Classical economists, the economy

- A. requires fine tuning to reach full employment.
- B. should not be left to market forces.
- C. will never be at full employment.
- D. is self correcting.

23 Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain

- A. stagflation in the late 1970s.
- B. demand-pull inflation in the 1960s.
- C. low growth rates in the 1950s.
- D. the prolonged existence of high unemployment during the Great Depression.

24 Keynes' explanation for low firm investment during the Great Depression was

- A. low savings, which placed a constraint on investment
- B. high real borrowing rates, which discouraged firm borrowing
- C. high savings, which left consumers with less money to spend on goods and services produced by firms
- D. A permanent change in Europe's corporate ownership structures.

25 Rapid increases in the price level during periods of recession or high unemployment are known as

- A. slump.
- B. stagnation.
- C. stagflation.
- D. inflation.

26 The hypothesis that people know the 'true model' of the economy and that they use this model and all available information to form their expectations of the future is the

- A. rational-expectations hypothesis.
- B. active-expectations hypothesis.
- C. static-expectations hypothesis.
- D. adaptive-expectations hypothesis.

27 Neo-Classical theories were an attempt to explain

- A. how unemployment could have persisted for so long during the Great Depression.
- B. the stagflation of the 1970s.
- C. why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.
- D. the increase in the growth rate of real output in the 1950s.

28 A group of modern economists who believe that markets clear very rapidly and that expanding the money supply will always increase prices rather than employment are the

- A. New-Keynesians.
- B. Keynesians.
- C. Monetarists.
- D. The Classical school.

29 Say's law states that:

- A. Supply creates its own demand.
- B. Demand creates its own supply.
- C. There is no such thing as a free lunch
- D. Macroeconomic policy activism is essential to ensure full-employment.

30 The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:

- A. AS: fully horizontal; AD: downward sloping
- B. AS: horizontal only till the full capacity level; AD: downward sloping
- C. AS: vertical; AD: upward sloping
- D. AS: horizontal; AD: vertical

#### MACROECONOMIC DATA AND VARIABLES, NATIONAL INCOME ACCOUNTING AND EQUILIBRIUM IN A KEYNESIAN ECONOMY

Questions 1-3 are based on the following information about an economy:

Consumer price index (2002) = 132

Consumer price index (2001) = 110

Nominal GDP (2002) = \$60bn

Nominal GDP (2001) = \$50bn

Population (2002) = 7mn

Population (2001) = 6mn

Net factor income from abroad (2002) = +\$3bn

Net factor income from abroad (2001) = -\$2bn

1. By how much has real GDP grown from 2001 to 2002?

- A. -10%
- B. 12.5%
- C. 20%
- D. 0%

2. By how much has per capita nominal GNP changed from 2001 to 2002?

- A. -10%
- B. 12.5%

- C. 20%
- D. 0%

3. Based on the above information, we can say that:

- A. Poverty has fallen in the country
- B. Per capita real GDP is falling
- C. Income inequality has worsened
- D. Real growth in the informal sector is 0%

4. In the circular flow of income, Keynesian equilibrium obtains when

- A. All the individual sectors are in equilibrium:  $S=I$ ,  $T=G$ ,  $M=X$
- B. The aggregate injections equal aggregate withdrawals  $S+T+M = I+G+X$
- C. There is no inflation or unemployment
- D. The interest rate and exchange rate are at their market clearing levels

5. Under conditions of Keynesian equilibrium:

- A. aggregate demand equals aggregate supply
- B. aggregate demand equals national income
- C. both A and B
- D. none of the above

6. Which of the following is a determinant of consumption

- A. expectations about future prices
- B. level of indebtedness of consumers
- C. the price level
- D. all of the above

7. Which is the most volatile component of aggregate demand

- A. Net exports
- B. consumption
- C. investment
- D. government spending

8. Which of the following is not an obvious or direct determinant of a country's imports

- A. real exchange rate
- B. income
- C. tariff rates
- D. interest rate

9. When consumption is 650, income is 750; when consumption is 620, income is 700. Assuming there is no government,  $I=100$ , net exports are 10, what is the level of equilibrium income?

- A. 500
- B. 625
- C. 775
- D. 850

10. Which of the following is not true?

- A. Starting from no growth, a positive output growth rate would be associated with even higher rates of investment (the accelerator effect)

- B. Higher investment causes a multiplied increase in income
- C. Such increases in income would continue to induce higher investment, which in turn would continue to cause multiplied increases in output.
- D. All of the above.

11. In the equation  $C = a + bY$ , which describes the aggregate consumption function, 'a' stands for
- A. the amount of consumption when income is zero.
  - B. the marginal propensity to consume.
  - C. the amount of consumption when income is Maximum.
  - D. the average consumption level.

12. Total consumption divided by total income gives us:
- A. the average propensity to consume.
  - B. the marginal propensity to save.
  - C. the marginal propensity of expenditure.
  - D. the marginal propensity to consume.

- 13 Disposable income is the part of households' income left after the deduction of
- A. pension contributions.
  - B. income tax and social security payments.
  - C. income tax.
  - D. savings.

14. As the MPS increases, the multiplier will
- A. increase.
  - B. either increase or decrease depending on the size of the change in investment.
  - C. remain constant.
  - D. decrease.

15. In macroeconomics, equilibrium is defined as that point at which
- A. planned aggregate expenditure equals aggregate output.
  - B. planned aggregate expenditure equals consumption.
  - C. aggregate output equals consumption minus investment.
  - D. saving equals consumption.

16. The ratio of the change in the equilibrium level of output to a change in some autonomous component of aggregate demand is the
- A. elasticity coefficient.
  - B. multiplier.
  - C. marginal propensity of the autonomous variable.
  - D. automatic stabiliser.

17. Assuming there are no taxes (and no foreign sector), if the MPC is .8, the multiplier is
- A. 2.5.
  - B. 8.
  - C. 5.
  - D. 2.

18. Assuming the net income tax rate is 25% (and there is no foreign sector), if the MPC is 0.8, the multiplier is
- A. 2.5.
  - B. 8.
  - C. 5.
  - D. 2.
19. Assuming there is no foreign sector, if the multiplier is 3, and the net income tax rate is 20%, the MPC is
- A.  $\frac{3}{4}$
  - B.  $\frac{4}{5}$
  - C.  $\frac{5}{6}$
  - D.  $\frac{6}{7}$
20. Assume there is no government or foreign sector. If the MPC is .75, a Rs.20 billion decrease in planned investment will cause aggregate output to decrease by
- A. Rs. 80 billion.
  - B. Rs. 20 billion.
  - C. Rs. 26.67 billion.
  - D. Rs. 15 billion.
21. According to the 'paradox of thrift,' increased efforts to save will cause
- A. an increase in income and an increase in overall saving.
  - B. a decrease in income and an overall decrease in saving.
  - C. a decrease in income but an increase in saving.
  - D. an increase in income but no overall change in saving.
22. If injections are less than withdrawals at the full-employment level of national income, there is
- A. an inflationary gap.
  - B. equilibrium.
  - C. a deflationary gap.
  - D. hyperinflation.
23. The accelerator theory of investment says that induced investment is determined by
- A. the rate of change of national income.
  - B. expectations.
  - C. the level of national income.
  - D. the level of aggregate demand.
24. The diagram that shows the money received and paid out by each sector of the economy is the
- A. income-price diagram.
  - B. income-expenditures diagram.
  - C. circular flow diagram.
  - D. aggregate demand-aggregate supply diagram.

## THE BIG FOUR: UNEMPLOYMENT, INFLATION, BALANCE OF PAYMENTS AND GROWTH

### UNEMPLOYMENT

1. If both the no. of unemployed people and the size of the labour force increase by 10,000, then
  - A. the unemployment rate will remain the same.
  - B. the unemployment rate will increase.
  - C. the unemployment rate will decrease.
  - D. we cannot tell.
  
2. Which of the following could be a reason for the problem of “lack of jobs” being overestimated:
  - A. the existence of disguised unemployment
  - B. people are underemployment
  - C. people holding only one job (as opposed to multiple jobs)
  - D. the existence of child labour
  
3. Which of the following is not a cost of voluntary unemployment?
  - A. potential output of the economy is greater than actual output
  - B. government loses tax revenue
  - C. firms lose (potential) revenues due to operating below capacity
  - D. mental stress undergone by the unemployed persons
  
4. “Because higher wages are less likely to induce people who are structurally or physically unable to participate on the labour force. On the other hand people already on the labour force are more likely to respond to higher wages by accepting jobs.”

The above statement is an answer to which question?

- A. Why is the AJ curve more elastic than the LF curve
  - B. Why is the LF curve not totally vertical
  - C. Why is the AJ curve not completely vertical
  - D. Why is it difficult to completely remove the horizontal distance between the AJ and LF curves
  
5. Which of the following would constitute sound government policy if you subscribed to the Monetarist view on unemployment?
  - A. increase aggregate demand through monetary or fiscal policy
  - B. reduce the obstacles to downward wage rigidity (like unions, unemployment benefits, minimum wage legislations etc.)
  - C. Reduce the marginal income tax rate (to increase the incentive to work)
  - D. All of the the above
  
6. The persistence of a phenomenon, such as unemployment, even when its causes have been removed is called
  - A. The paradox of thrift.
  - B. hysteresis.
  - C. structural unemployment.
  - D. ceteris paribus.
  
7. Cyclical unemployment is the
  - A. portion of unemployment that is due to changes in the structure of the economy that result in a significant

loss of jobs in certain industries.

B. unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.

C. portion of unemployment that is due to seasonal factors.

D. unemployment that occurs during recessions and depressions.

8. The natural rate of unemployment is generally thought of as the

A. ratio of the frictional unemployment rate to the cyclical unemployment rate.

B. sum of frictional unemployment and cyclical unemployment.

C. sum of frictional unemployment and structural unemployment.

D. sum of structural unemployment and cyclical unemployment.

9. One of the tenets of the Classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur

A. slowly.

B. instantly.

C. very infrequently.

D. very quickly.

10. According to Keynesian economists, those who are not working

A. have given up looking for a job, but would accept a job at the current wage if one were offered to them.

B. are too productive to be hired at the current wage.

C. have chosen not to work at the market wage.

D. are unable to find a job at the current wage rate.

## INFLATION

11. The index used most often to measure inflation is the

A. consumer price index.

B. wholesale price index.

C. student price index.

D. producer price index.

12. If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?

A. No. Because you would still be able to sell your goods at the higher price.

B. Yes. Because the cost of your input is growing faster than the revenue obtained from your output

C. Yes. Because both price and wage inflation are bad.

D. No. Because any loss to the firm will be offset by the gain to the workers.

13. Which of the following is not a major cost of inflation:

A. Resource wastage: as people spend time and money to guard against the “purchasing power erosion” effects of inflation, while firms suffer menu costs (i.e. the costs of frequently issuing “revised” price lists).

B. Uncertainty: firms defer investment when inflation is high and volatile as the latter complicates predicting future cashflows.

C. Worsened income inequality: inflation is a regressive tax on the people that does not take into account the taxpayers’ “ability to pay”. As such, there is a redistribution of wealth from the poor to the rich.

D. Money printing costs: inflation requires more currency notes to be printed and this raises the government's printing costs.

14. In the long run, the Phillips curve will be vertical at the natural rate of unemployment if

- A. the long-run supply curve is horizontal at the natural rate of inflation.
- B. the long-run aggregate demand curve is vertical at potential GDP.
- C. the long-run aggregate demand curve is horizontal at the natural rate of inflation.
- D. the long-run aggregate supply curve is vertical at potential GDP.

15. According to the monetarists, the measured unemployment rate can

- A. be reduced below the natural rate only in the short run, and not without inflation.
- B. be reduced below the natural rate only in the long run, and only if the price level is constant.
- C. be reduced below the natural rate only in the short run, and only if the price level is constant.
- D. be reduced below the natural rate only in the long run, and not without inflation.

16. If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?

- A. No, because cost-push inflation is caused by an increase in the cost of only one input.
- B. Yes, because that is exactly the definition of cost-push inflation.
- C. No, because such a situation can also be caused by particular demand pressures in the economy.
- D. Yes, because this is exactly what happens in stagflation.

17. The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause

- A. an equal percentage change in nominal GDP.
- B. a larger percentage change in nominal GDP.
- C. an equal percentage change in real GDP.
- D. a smaller percentage change in nominal GDP.

18. If input prices adjusted very slowly to output prices, the Phillips curve would be

- A. downward sloping.
- B. vertical or nearly vertical.
- C. upward sloping.
- D. horizontal or nearly horizontal.

19. If inflationary expectations increase, the short-run Phillips curve will

- A. become vertical.
- B. become upward sloping.
- C. shift to the right.
- D. shift to the left.

## BALANCE OF PAYMENTS

20. The record of a country's transactions in goods, services, and assets with the rest of the world is its \_\_\_\_\_; while the difference between a country's merchandise exports and its merchandise imports is the \_\_\_\_\_.

- A. current account; trade balance.
- B. capital account; balance of payments.
- C. balance of trade; capital account.
- D. balance of payments; balance of trade.



21. Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?

- A. If the capital account is in surplus, then the current account is likely to be in deficit.
- B. If the current account is in deficit, then the capital account is likely to be in surplus.
- C. If the current account is in balance, the capital account is also likely to be in balance.
- D. None of the above.

22. Which of the following statements is necessarily TRUE?

- A. A country runs a current account deficit if it imports more goods and services than it exports.
- B. The sum of the current and capital accounts must be zero.
- C. If both the current and capital accounts are in surplus, the exchange rate must appreciate.
- D. None of the above.

23. All currencies other than the domestic currency of a given country are referred to as

- A. reserve currencies.
- B. near monies.
- C. foreign exchange.
- D. hard currency.

24. Exchange rates that are determined by the unregulated forces of supply and demand are

- A. floating exchange rates.
- B. pegged exchange rates.
- C. fixed exchange rates.
- D. managed exchange rates.

25. If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because

- A. as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.
- B. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.
- C. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.
- D. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.

26. The fall (rise) in value of one currency relative to another is

- A. a floating (fixing) of the currency.
- B. an appreciation (depreciation) of a currency.
- C. a depreciation (appreciation) of a currency.
- D. a strengthening (weakening) of a currency.

27. If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:

- A. 1.
- B. constantly changing.
- C. relatively stable, but not constant
- D. none of the above

28. The interest parity equation implies that there is a general tendency for:
- A. exchange rates to be insensitive to the differential rates of interest between countries.
  - B. the currencies of relatively low-interest countries to appreciate.
  - C. the currencies of relatively high-interest countries to appreciate.
  - D. the currencies of relatively low-interest countries to depreciate.

Note that currencies with low rates of interest also typically have low inflation rates. This follows from the Fischer equation which maintains that the nominal interest rate = real interest rate + expected inflation.

29. Which of the following is (are) correct statement(s) about the current account deficit?

- A. A current account deficit is bad, if it is being caused by excessive consumer spending
- B. A current account deficit is bad, if it is fuelled by high fiscal deficits
- C. A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings
- D. All of the above

30. The J-curve effect refers to the observation that

- A. GDP usually decreases before it increases after a currency depreciation.
- B. GDP usually decreases before it increases after a currency appreciation.
- C. the trade balance usually gets worse before it improves after a currency appreciation.
- D. the trade balance usually gets worse before it improves after a currency depreciation.

31. If Japan exports more direct investment capital abroad than expected, then the yen will tend to

- A. appreciate.
- B. fluctuate more than if exports were lower.
- C. depreciate.
- D. not be affected.

32. Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, ceteris paribus, what will happen by the end of today to the Rs./dollar exchange rate? It will:

- A. Rise by more than 10%.
- B. Rise by exactly 10%.
- C. Fall by less than 10%.
- D. Remain constant.

Hint: Use your common sense. Think of “yourself” as a currency trader and then answer the question, based on your future expectation and the incentive it creates.

## GROWTH

33. According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?

- A. an increase in the size of the labour force.
- B. an increase in the productivity of capital.
- C. a move to more capital intensive production methods
- D. discovery of a major mineral resource in the country

34. When referring to economic growth, we normally refer to:

- A. growth in actual real per capita output
- B. growth in potential real per capita output
- C. growth in actual nominal per capita output
- D. growth in potential real per capita output

35. A variable whose value is determined by the model of which it is a part is termed \_\_\_\_\_.

- A. endogenous
- B. exogenous
- C. independent
- D. constant

36. An example of capital deepening, given an increasing  $L$ , would be:

- A.  $K$  increases so as to maintain a constant  $K/L$
- B.  $K$  increases so much that  $K/L$  increases
- C.  $K$  remains constant so that  $L/K$  increases
- D.  $K$  falls, so as to reduce  $K/L$

37. The neo-classical growth model says that:

- A. poor countries should catch-up (or converge to) with richer countries
- B. higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate
- C. the steady state growth rate of real output depends on the sum of the (exogenous) growth rates in population and technical progress.
- D. All of the above.

#### RELATIONSHIPS BETWEEN THE BIG FOUR

38. The length of a business cycle would be measured from

- A. peak to trough.
- B. trough to peak.
- C. peak to peak.
- D. the slump to the expansion.

39. If the economy is in the expansionary phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.

- A. rising; falling; rising; deficit
- B. static; low; rising; deficit
- C. falling; falling; falling; surplus
- D. falling; rising; falling; surplus

40. If the economy is at the peak of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.

- A. rising; falling; rising; deficit
- B. static; low; rising; deficit

- C. falling; falling; falling; surplus
- D. falling; rising; falling; surplus

41. If the economy is approaching the trough phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.

- A. rising; falling; rising; deficit
- B. static; low; rising; deficit
- C. falling; falling; falling; surplus
- D. falling; rising; falling; surplus

42. Which of the following is not true regarding the effects of growth on the balance of payments and vice versa?

- A. Generally, growth raises incomes which will translate into higher consumption and higher imports, causing the current account of the BOPs to deteriorate.
- B. If growth is “export-led”, it will boost the current account surplus of the BOPs.
- C. If the current account deficit reflects an underlying private sector resource deficit, it is likely to be bad for future growth.
- D. If the current account reflects rising imports of military equipment by the government, it might not be beneficial for economic growth.

43. A country has high inflation and is running a current account deficit. What should it do in the context of the Salter-Swan diagram?

- A. Reduce government spending and revalue the exchange rate
- B. Increase government spending and devalue the exchange rate
- C. Reduce the money supply and devalue the exchange rate
- D. Increase government spending and revalue the exchange rate

## **Economics Mcqs for Lecturer & Subject Specialist Exams**

Posted by [Muneer Hayat](#) on 8 May 2013, 4:41 am

## **Economics Mcqs For Lecturer & Subject Specialist Exams**

(i) The best and comprehensive definition of economic development was presented by:

- (a) Higgins
- (b) Maddison
- (c) Friedman
- (d) None of these

(ii) Fishery is the sub sector of:

- (a) Agriculture
- (b) Manufacturing
- (c) Mining
- (d) Both (b) and (c)

(iii) Pakistan was the leading exporter before the separation of East Pakistan:

- (a) Cotton
- (b) Tea
- (c) Rice
- (d) None of these

(iv) Pakistan devalued its currency in 1972 by:

- (a) 131%
- (b) 121%
- (c) 100%
- (d) None of these

(v) Eighth Five Year Plan duration was:

- (a) 1983 – 1988
- (b) 1993 – 1998
- (c) 1978 – 1983
- (d) 1988 – 1993

(vi) Export Bonus Scheme (EBS) was introduced in:

- (a) 1969
- (b) 1979
- (c) 1959
- (d) 1949

(vii) Primary deficit (primary balance) is the difference between total revenue and:

- (a) Non-interest total expenditure
- (b) Interest expenditure
- (c) development expenditure
- (d) All of these

(viii) Cooperative movement was started in sub-continent in:

- (a) 1904
- (b) 1914

- (c) 1934
- (d) None of these

(ix) The Ryotwari system was introduced by the British rules in the provinces of:

- (a) Sindh, Madras and Mumbai
- (b) Sindh, Punjab and Mumbai
- (c) Sindh, Madras and NWFP
- (d) Both (a) and (b)

(x) Pakistan Agricultural Storage and Service Corporation (PASSCO) was established in:

- (a) 1973
- (b) 1963
- (c) 1953
- (d) 1983

(xi) Who developed Physical Quality Life Index (PQLI) in his famous book named by "Measuring the Condition of the World's Poor: PQLI in 1987?"

- (a) Morris D. Morris
- (b) Higgins
- (c) Keynes
- (d) None of these

(xii) The Human Development Index (HDI) ranks all countries on the scale of:

- (a) 0 to 1
- (b) 1 to 100
- (c) -1 to +1
- (d) None of these

(xiii) The United Nations designated The Fourth World as:

- (a) Less developed countries
- (b) Poor countries
- (c) Least developed countries
- (d) All of these

(xiv) According to 'North-South Divide', the rich countries are called:

- (a) South countries
- (b) North countries
- (c) Industrialized countries
- (d) Advance countries

(xv) The loan which is given at a nominal rate of interest ranging from 1% to 3% is called:

- (a) Hard loan
- (b) Conditional loan
- (c) Soft loan
- (d) All of these

(xvi) The accumulation of a stock of debt so large as to threaten the country's ability to repay its past loan:

- (a) Debt equity swap
- (b) Debt trap
- (c) Debt overhang
- (d) None of these

(xvii) "Rabi" season which begins in:

- (a) April-June
- (b) October-December
- (c) January-February
- (d) None of these

(xviii) Government of Pakistan announced privatization policy in:

- (a) 1981
- (b) 1995
- (c) 1991
- (d) None of these

(xix) The floating debt (short-term) consists of:

- (a) Treasury Bills
- (b) Market Treasury Bills
- (c) MTBs for Replenishment
- (d) All of these

(xx) The currency of IMF is called:

- (a) SDRs
- (b) ODRs
- (c) Lira
- (d) None of these

(i) Demand curve in case of Giffen good is:

- (a) Negatively sloped
- (b) Vertical

- (c) Positively sloped
- (d) None of these

(ii) Price consumption curve in case of complementary goods is:

- (a) Downward sloping
- (b) Vertical
- (c) Upward sloping
- (d) None of these

(iii) In case of two goods, following utility approach, a consumer is in equilibrium when:

- (a)  $MU_x/P_x = MU_y/P_y$
- (b)  $MU_x/P_x < MU_y/P_y$
- (c)  $MU_x/M_x > MU_y/P_y$
- (d) Both (b) and (c)

(iv) In short run:

- (a) Labour is variable
- (b) Both labour and capital are variable
- (c) Both labour and capital fixed
- (d) None of these

(v) When MC is equal to AC, the AC:

- (a) Increases
- (b) Decreases
- (c) Remains constant
- (d) None of these

(vi) Normal profit, excess profit and loss of the firm depends on level of:

- (a) Average costs in short run
- (b) Total costs in short run
- (c) Marginal costs in short run
- (d) All of these

(vii) In case of perfect competition, the sellers are:

- (a) Two
- (b) A few
- (c) Very large
- (d) None of these



(viii) The firm is in equilibrium when:

- (a) Slope of TC = Slope of TR
- (b) Slope of TC is less than slope of TR
- (c) Slope of TC is more than slope of TR
- (d) None of these

(ix) The Marginal Revenue Product of labour MRPL is:

- (a)  $MR \times MP$
- (b)  $MR / MP$
- (c)  $MR - MP$
- (d) Both (b) and (c)

(x) In case of imperfect competition the MRPL is the:

- (a) Supply of labour curve
- (b) Demand for labour curve
- (c) Both of these
- (d) None of these

(xi) Per Capita Income is calculated as:

- (a)  $N.I + \text{Population}$
- (b)  $N.I * \text{Population}$
- (c)  $N.I / \text{Population}$
- (d) Both (a) and (c)

(xii) Gross Domestic Product equals:

- (a)  $GNP - NFI$
- (b)  $GNP + NFI$
- (c)  $GNP - \text{indirect taxes}$
- (d) Both (a) and (c)

(xiii) The deposit multiplier is always:

- (a) Greater than one
- (b) Less than one
- (c) Equal to one
- (d) None of these

(xiv) Money can be a standard of deferred payments only if the value of money itself:

- (a) Remains stable
- (b) increases

- (c) Decreases
- (d) None of these

(xv) The fiscal policy with a deliberate policy action is:

- (a) Expansionary fiscal policy
- (b) Concretionary fiscal policy
- (c) Discretionary fiscal policy
- (d) All of these

(xvi) Trade based on absolute advantage was presented by:

- (a) Alfred Marshall
- (b) Adam Smith
- (c) Lionel Robbins
- (d) None of these

(xvii) According to Keynes, the relationship between money supply and rate of interest is:

- (a) Negative
- (b) Positive
- (c) Indirect
- (d) None of these

(xviii) An object that is generally accepted in exchange for goods and services is called:

- (a) Standardized money
- (b) Medium of exchange
- (c) Unit of account
- (d) All of these

(xix) The account in balance of payment that consists of all transactions in financial assets is known as:

- (a) Capital account
- (b) Current account
- (c) Official Reserve account
- (d) None of these

(xx) The difference between exports and imports of visible items of a country is called:

- (a) Budget surplus
- (b) Balanced budget
- (c) Balance of trade
- (d) Both (a) and (c)

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