
MCQ's

Of ECONOMICS

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PREFACE TO THE FIFTH EDITION

The first, second, third and fourth editions of this small booklet were welcomed and appreciated by all those who are interested in the objective type questions of economics, irrespective of the fact whether they are general readers or studying in any professional institute. The present MCQ's are very helpful in understanding the various terminologies used in the relevant chapters of course books of economics. Students are advised to go through these MCQ's time and again in order to have a complete grasp of the topics of their syllabus.

It is interesting to note that answers of all the questions have been found and picked-up from the following highly authentic and core books. The page numbers of both of these books have been mentioned for further reference and study.

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|---------------------------|-------------|-----------------------|
| 1. Economics | Samuelson | Seventeenth Edition |
| 2. Modern Economic Theory | K.K. Dewett | Twenty- first Edition |

First edition -----1000 copies -----printed on Ist, - August -2003
Second edition ---1000 copies -----printed on 10th, January-2005
Third edition -----1000 copies -----printed on 5th, June -2006
Fourth edition ----1000 copies ----- printed on 20th, August -2007
Fifth edition-----1000 copies-----printed on 10th, September, 2009

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10th September 2009

BATCH- 1, MAY -1995—ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	----- is the study of how people choose to use scarce resources in an attempt to satisfy Unlimited wants.
2.	----- Cost is the value of next best alternative foregone.
3.	The Ups and downs in real GNP are called-----
4.	Demand is perfectly -----when price elasticity of demand is zero.
5.	----- profit is the total revenue minus all costs, explicit and implicit.

ANSWERS

1.	Economics	Samuelson-Page No. 45	Dewett-Page No.5
2.	Opportunity	Samuelson-137	Dewett-148
3.	Business cycles	Samuelson-416	Dewett-397
4.	Inelastic	Samuelson-70	Dewett-81
5.	Economic	Samuelson-274	Dewett-299

TRUE OR FALSE

1.	Fixed cost is dependent on output while variable cost is independent of output.
2.	Marginal revenue is a change in total cost after a one unit change in production.
3.	GNP does not include transactions that do not officially pass through market.
4.	Under monopoly average and marginal revenue curves are horizontal straight lines.
5.	Production efficiency is achieved when output is produced with least cost combination of inputs and using best available technology.

ANSWERS

1.	False	Samuelson-760	Dewett-151
2.	False	Samuelson-769	Dewett-168
3.	True	Samuelson-449	Dewett-328
4.	False	Samuelson-176	Dewett-211
5.	True	Samuelson-131	Dewett-144

ALTERNATIVES

1. Which one of the following is not an economic good?

A. Text book	B. Irrigation water from a near by dam	C. Today's newspaper	D. Sun light
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2. Which one of the following is a fixed cost of owning an automobile?

A. Petrol	B. Depreciation	C. Tyres	D. Servicing program
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3. The position of supply curve is not directly affected by,

A. State of Technology	B. Price of Resources used	C. Income level of consumers	D. All of the above
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4. If money GNP rises, it means that,

A. People are happier	B. Real GNP has risen	C. There may have been no change in real GNP	D. Real GNP has fallen
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5. If 20% rise in tuition fee of ICMAP leads to 10% fall in enrolment, price elasticity of demand will be,

A. -2	B. .2	C. .3	D. .5
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ANSWERS

1.	D	Samuelson-762	Dewett-4
2.	B	Samuelson-760	Dewett-150
3.	C	Samuelson-53	Dewett-53
4.	C	Samuelson-439	Dewett-0
5.	D	Samuelson- 68	Dewett-86

RELATE CORRECTLY

Group A		Group B	
1.	Demand Curve	A	Output level that must be reached to avoid loss
2.	Supply Curve	B	Intersection of supply & demand curves
3.	Production Equilibrium	C	Upward sloping to the right
4.	Equilibrium Price	D	No net tendency to change
5.	Break-even Price	E	Downward sloping to the right

ANSWERS

1.	Demand Curve	E	Samuelson-48	Dewett-44
2.	Supply Curve	C	Samuelson-52	Dewett-158
3.	Production Equilibrium	A	Samuelson-181	Dewett-173
4.	Equilibrium Price	B	Samuelson-763	Dewett-194
5.	Break-even Price	D	Samuelson-155	Dewett-183

BATCH- 2, NOVEMBER -1995-- ICMAP FINAL EXAMS MCQ's**FILL IN THE BLANKS**

1.	-----is economic system in which there are both public and private sectors.
2.	Education & health services are best examples of----- goods.
3.	Production includes output of both----- and -----
4.	Balance of payments consists of-----and-----accounts.
5.	Shift in demand or supply curve is due to any factor other than the -----

ANSWERS

1.	Mixed Economy	Samuelson-41	Dewett-611
2.	Public	Samuelson-774	Dewett-00
3.	Goods and services	Samuelson-108	Dewett-98
4.	Current and Capital	Samuelson-615	Dewett-496
5.	Price	Samuelson-50	Dewett-195

TRUE OR FALSE

1.	Under conditions of perfect competition loss-making firm is free to leave the Market.
2.	GNP at factor cost is to subtract taxes and add subsidies.
3.	Monetarists believe that variations in money supply do not influence the level of National income.
4.	High rate of taxes act as disincentive to work and accordingly reduce output and employment.
5.	If demand for imports is inelastic, devaluation will result in balance of trade surplus.

ANSWERS

1.	True	Samuelson-151	Dewett-165
2.	True	Samuelson-445	Dewett-325
3.	False	Samuelson-770	Dewett-448
4.	True	Samuelson-338	Dewett-561
5.	False	Samuelson-622	Dewett-502

ALTERNATIVES

1. In the short run to stay in business, the firm must cover,

A. Total costs	B. Fixed costs	C. Variable costs	D. Normal Profit
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2. Which statement is correct?

A. Demand for tobacco is usually inelastic	B. Supply of rubber is elastic	C. Demand for potatoes is elastic	D. Demand for salt is extremely elastic
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3. Which one has negative income effect?

A. Normal goods	B. Superior goods	C. Inferior goods	D. Merit goods
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4. When price of a good is held above equilibrium price, normal result will be?

A. Excess demand	B. Increase in demand	C. Increase in supply	D. Surplus of product
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ANSWERS

1.	C	Samuelson-151	Dewett-184
2.	A	Samuelson-74	Dewett-80
3.	C	Samuelson-767	Dewett-82
4.	D	Samuelson-56	Dewett-194

RELATE CORRECTLY

Group A		Group B	
1.	Optimum output	A	Rate increases with increase in income
2.	Shift in demand curve	B	Where average cost is minimum
3.	Progressive tax	C	Output divided by input
4.	Normal profit	D	Firm just covering total cost
5.	Productivity of labor	E	Is caused by change in any factor other than price

ANSWERS

1.	Optimum output	B	Samuelson-757	Dewett-154
2.	Shift in demand curve	E	Samuelson-49	Dewett-195
3.	Progressive tax	A	Samuelson-774	Dewett-549
4.	Normal Profit	D	Samuelson-149	Dewett-177
5.	Productivity of labor	C	Samuelson-774	Dewett-243

BATCH- 3, MAY- 1996--- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	----is change in total cost due to the change in total output.
2.	---is extra satisfaction obtained from consuming one more unit of goods or services.
3.	Elasticity of demand is unitary if demand curve is-----
4.	Firm will continue production in short run provided revenue covers -----cost
5.	-----has been defined as wealth used in production of further wealth

ANSWERS

1.	Marginal cost	Samuelson-127	Dewett-152
2.	Marginal utility	Samuelson-769	Dewett-34
3.	Rectangular hyperbola	Samuelson-90	Dewett-82
4.	Average variable	Samuelson-151	Dewett-184
5.	Capital	Samuelson-33	Dewett-102

TRUE OR FALSE

1.	Price discrimination under monopoly is always profitable.
2.	GNP minus foreign remittance is equal to GDP.
3.	Focal point of determining equilibrium of national income, according to Keynes is effective demand.
4.	Profit maximization output is where the average cost is maximum.

ANSWERS

1.	False	Samuelson-190	Dewett-216
2.	True	Samuelson-445	Dewett-327
3.	True	Samuelson-494	Dewett-335
4.	False	Samuelson-149	Dewett-173

ALTERNATIVES

1. Economic rent represents excess payment to a factor of production over and above its,

A. Transfer payments	B. Transfer costs	C- Transfer earnings	D- Variable costs
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2. Demand for product of individual firm in perfect competition is,

A-Fairly elastic	B-Unitary elastic	C- Perfectly elastic	D- Fairly inelastic
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3. In short run to stay in business a firm must cover,

A. Normal profit	B. Total cost	C. Fixed cost	D. Variable cost
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4. According to Keynesian analysis consumption is a function of,

A. Permanent income	B. Current income	C. Previous income	C. Estimated life Time income
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5. Revaluation of exchange rate must result in an improvement in country's,

A. Terms of trade	B. Balance of Trade	C. Balance of payments	D. Capital account
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ANSWERS

1.	C	Samuelson-00	Dewett-271
2.	A	Samuelson-759	Dewett-182
3.	D	Samuelson-151	Dewett-184
4.	B	Samuelson-460	Dewett-358
5.	B	Samuelson-621	Dewett-502

RELATE CORRECTLY

Group A		Group B	
1.	Normative economics	A	Brings demand & supply into equilibrium
2.	Price mechanism	B	How much change in income occurs due to change in investment
3.	Cartel	C	How much change in investment occurs due to change in demand/income
4.	Multiplier	D	Expression of value judgments
5.	Accelerator	E	Agreement on price and output between producers

ANSWERS

1.	Normative economics	D	Samuelson-772	Dewett-13
2.	Price mechanism	A	Samuelson-27	Dewett-310
3.	Cartel	E	Samuelson-758	Dewett-239
4.	Multiplier	B	Samuelson-771	Dewett-373
5.	Accelerator	C	Samuelson-756	Dewett-379

Note:---There were No MCQ's in Batch-4 and -5

BATCH- 6, NOVEMBER -1997-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	----is the amount of satisfaction obtained by consuming units of good.
2.	---shows amount of good which producers are willing and able to sell at different prices.
3.	---measures responsiveness of demand for good-A to a given change in price of good-B.
4.	Addition to output made by each extra worker is called----
5.	----is the process of net addition in existing capital stock.

ANSWERS

1.	Total Utility	Samuelson-87	Dewett-35
2.	Supply	Samuelson-52	Dewett-158
3.	Cross elasticity	Samuelson-760	Dewett-82
4.	Marginal product	Samuelson-769	Dewett-243
5.	Investment	Samuelson-442	Dewett-365

TRUE OR FALSE

1.	Monopolist is always able to earn super normal profit.
2.	According to Liquidity preference theory of interest, there is negative relation between interest rate & price of bonds.
3.	Indirect tax is surcharge on price imposed on sale of goods & services by Govt.
4.	GDP can be calculated by subtracting foreign remittances from GNP.
5.	Pure public good is a product which can be produced in free market economy.

ANSWERS

1.	False	Samuelson-181	Dewett-210
2.	True	Samuelson-515	Dewett-291
3.	True	Samuelson-766	Dewett-565
4.	True	Samuelson-445	Dewett-327
5.	False	Samuelson-37	Dewett- 00

ALTERNATIVES

1. Total revenue of firm under imperfect competition will be at maximum when,

A. $MC = MR$	B. Average cost is lowest	C. MR is zero	D. $MC = AR$
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2. Which of the following forms largest part of money supply in Pakistan?

A. Coins & Notes	B. Bank deposits	C. Treasury bills	D. Gold
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3. Transfer earnings represent the amount paid,

A. Pensions & social security payments	B. To encourage a Person to change job	C. To keep one in his current job	D. To persuade employed person to take job
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4. Firm will continue production in short run provided that revenue covers,

A. Total cost	B. Average cost	C. Variable cost	D. Fixed cost
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5. Demand pull inflation may initially be caused by,--C

A. Increase in bank credit	B. Increase in profits	C. Increase in wages	D. Increase in rent
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ANSWERS

1.	A	Samuelson-178	Dewett-173
2.	B	Samuelson-524	Dewett-415
3.	C	Samuelson-00	Dewett-251
4.	C	Samuelson-151	Dewett-184
5.	C	Samuelson-692	Dewett-437

RELATE CORRECTLY

Group A		Group B	
1.	Terms of Trade	A	Value of one currency in terms of other currency
2.	Exchange Rate	B	Average price of exports as a ratio of average price of imports
3.	Productive efficiency	C	Expression of value judgment
4.	Allocative efficiency	D	When price is equal to marginal cost
5.	Normative economics	E	When at equilibrium output AC is minimum

ANSWERS

1.	Terms of Trade	B	Samuelson-777	Dewett-482
2.	Exchange Rate	A	Samuelson-764	Dewett-507
3.	Productive efficiency	E	Samuelson-00	Dewett-154
4.	Allocative efficiency	D	Samuelson-291	Dewett-182
5.	Normative economics	C	Samuelson-772	Dewett-13

BATCH- 7, MAY- 1998--- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	---- is minimum amount of money required to keep a factor in its present use.
2.	-----is slope of indifference curve.
3.	-----is main feature of Monopolistic Competition.
4.	Main cause of wage differential is-----
5.	-----is positive in case of substitutes.

ANSWERS

1.	Transfer earnings	Samuelson-00	Dewett-250
2.	M. R. S.	Samuelson-102	Dewett-54
3.	Product differentiation	Samuelson-168	Dewett-225
4.	Quality of jobs	Samuelson-249	Dewett-223
5.	Cross elasticity	Samuelson-760	Dewett-82

TRUE OR FALSE

1.	Change in demand due to the change in income is shown by shift in demand curve.
2.	Fundamental condition for revenue maximization is that MC equals MR.
3.	Transfer payments are welfare payments.
4.	Real wages are defined as purchasing power of money wages.
5.	Real rate of interest minus nominal rate of interest is equal to rate of inflation.

ANSWERS

1.	True	Samuelson-758	Dewett-195
2.	True	Samuelson-150	Dewett-173
3.	True	Samuelson-39	Dewett-541
4.	True	Samuelson-775	Dewett-255
5.	False	Samuelson-272	Dewett-00

ALTERNATIVES

1. Which is best example of public good?

A. Airline service	B. Education	C. Health services	D. Radio broadcasts
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2. International trade might eventually cease if there is,

A. Perfect mobility of labor	B. High transport costs	C. Same tax rates in all countries	D. Free floating exchange rates
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3. Resource allocation is said to be technically most efficient when,

A. $AC = AR$	B. $MC = MR$	C. AC is minimum	D. $MC = \text{Price}$
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4. If price of good falls and negative income effect outweighs positive substitution effect, the good is defined as,

A. Substitute good	B. Inferior good	C. Giffen good	D. Public good
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5. When interest rate falls?

A. Investment falls	B. Bond prices rise	C. MEC declines	D. People save more
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ANSWERS

1.	D	Samuelson-774	Dewett-00
2.	A	Samuelson-297	Dewett-473
3.	C	Samuelson-291	Dewett-183
4.	C	Samuelson-00	Dewett-63
5.	B	Samuelson-515	Dewett-291

RELATE CORRECTLY

Group A		Group B	
1.	Regressive tax	A	When long run average cost falls as a result of an increase in scale of production.
2.	Progressive tax	B	When burden of tax falls more on poor.
3.	Economies of scale	C	When rate of tax is associated with level of income.
4.	Budget deficit	D	When exports earnings are less than import expenditure
5.	Balance of trade deficit	E	When Govt. expenditure exceed Govt. revenue.

ANSWERS

1.	Regressive tax	B	Samuelson-774	Dewett-550
2.	Progressive tax	C	Samuelson-774	Dewett-549
3.	Economies of scale	A	Samuelson-762	Dewett-119
4.	Budget deficit	E	Samuelson-757	Dewett-581
5.	Balance of trade deficit	D	Samuelson-731	Dewett-496

BATCH- 8, NOVEMBER -1998-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	-----economics is concerned with the behavior of economy as a whole.
2.	Inductive and-----are two methods of economic analysis.
3.	While making purchases, consumer will always try to maximize his-----
4.	Law of demand explains relationship between-----and quantity demanded.
5.	-----erodes real value of money.

ANSWERS

1.	Macro	Samuelson-768	Dewett-9
2.	Deductive	Samuelson-00	Dewett-17
3.	Satisfaction/utility	Samuelson-85	Dewett-51
4.	Price	Samuelson-48	Dewett-43
5.	Inflation	Samuelson-688	Dewett-436

TRUE OR FALSE

1.	Fixed cost varies with output while variable cost does not change with output.
2.	Under monopoly AR and MR curves are horizontal straight line.
3.	Real wages are paid or received in the form of money.
4.	Direct taxes are paid by those on whom they are levied.
5.	Equilibrium level of national income need not necessarily be at full employment.

ANSWERS

1.	False	Samuelson-760	Dewett-151
2.	False	Samuelson-175	Dewett-208
3.	False	Samuelson-775	Dewett-255
4.	True	Samuelson-761	Dewett-565
5.	True	Samuelson-00	Dewett-344

ALTERNATIVES

1. Economic system in which public & private sectors exist side by side is called as,

A. Capitalism	B. Islamic economic system	C. Mixed economy	D. Socialism
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2. Oligopoly is a form of market in which there exists,

A. A single firm	B. Two firms	C. Few Firms	D. Many firms
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3. Market value of all final goods & services produced annually with domestic resources is called,

A. GNP	B. NNP	C. GDP	D. National Income
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4. A curve that shows inverse relationship between inflation & unemployment is known as,

A. Indifference curve	B. Phillips curve	C. Laffer curve	D. Demand curve
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5. Break-even point of competitive firm occurs where,

A. Price=AFC	B. Price > AVC	C. Price = ATC	D. Price < ATC
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ANSWERS

1.	C	Samuelson-8	Dewett-611
2.	C	Samuelson-772	Dewett-166
3.	C	Samuelson-765	Dewett-325
4.	B	Samuelson-773	Dewett-442
5.	C	Samuelson-151	Dewett-183

RELATE CORRECTLY

Group A		Group B	
1.	Opportunity cost	A	Stops imports completely.
2.	Elasticity of demand	B	Least cost combination of factors of production.
3.	Investment	C	Value of next best alternative forgone.
4.	Protective Tariffs	D	Flow of spending that adds to physical stock of capital
5.	Producer's equilibrium	E	Measure of responsiveness of demand to changing prices.

ANSWERS

1.	Opportunity cost	C	Samuelson-137	Dewett-149
2.	Elasticity of demand	E	Samuelson-68	Dewett-80
3.	Investment	D	Samuelson-442	Dewett-365
4.	Protective Tariffs	A	Samuelson-306	Dewett-495
5.	Producer's equilibrium	B	Samuelson-768	Dewett-144

BATCH- 9, MAY- 1999-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	-----is a part of stock which is available in market at the prevailing price.
2.	Difference between inflation rate and nominal interest rate is called-----
3.	According to Monetarists----- is required to control inflation.
4.	-----is defined as high rate of inflation accompanied by high unemployment rate.
5.	Mixed economic system has private sector and-----

ANSWERS

1.	Supply	Samuelson-00	Dewett-158
2.	Real rate of interest	Samuelson-272	Dewett-00
3.	Tight Monetary control	Samuelson-770	Dewett-447
4.	Stag-flation	Samuelson-776	Dewett-436
5.	Public sector	Samuelson-8	Dewett-611

TRUE OR FALSE

1.	Product differentiation is main characteristic of perfect competition.
2.	Increase in money wages improves standard of living.
3.	Effective demand determines equilibrium level of income according to Keynes.
4.	Progressive taxation promotes more equal distribution of income in country.
5.	Increase in fixed cost causes increase in marginal cost.

ANSWERS

1.	False	Samuelson-168	Dewett-225
2.	False	Samuelson-775	Dewett-255
3.	True	Samuelson-494	Dewett-336
4.	True	Samuelson-774	Dewett-561
5.	True	Samuelson-128	Dewett-151

ALTERNATIVES

1. Which of the following cost has to be covered by firm to continue in short run?,

A. Fixed cost	B. Total cost	C. Marginal cost	D. Average Variable cost
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2. Which of the following concept is used to show operation of laws of Returns?

A. Marginal product	B. Marginal rate of substitution	C. Marginal Revenue	D. Average product
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3. Following is not the condition of perfect competition,

A. MC is below AC	B. AVC is rising	C. AFC is falling	D. MR is below AR
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4. If a bond paying 5% interest is sold for Rs100 what will be price of bond when interest rate falls to 4%?

A. Rs.104	B. Rs.125	C. Rs.96	D. Rs.80
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5. If consumption function runs along the 45 line, saving function will,

A. Lie along 45 line	B. Lie along vertical axis	C. Lie along horizontal axis	D. Be negative
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ANSWERS

1.	D	Samuelson-151	Dewett-184
2.	A	Samuelson-761	Dewett-131
3.	D	Samuelson-148	Dewett-163
4.	B	Samuelson-515	Dewett-191
5.	C	Samuelson-461	Dewett-00

RELATE CORRECTLY

1.	Real interest rate	A	Amount of money spent on consumer goods.
2.	Stag-flation	B	Series of consumption expenditures at different income levels.
3.	Price Mechanism	C	Automatic process of price determination.
4.	Consumption Function	D	Nominal interest rate minus inflation rate.
5.	Consumption Expenditure	E	Unemployment accompanied by high inflation rate.

ANSWERS

1.	Real interest rate	D	Samuelson-272	Dewett-00
2.	Stag-flation	E	Samuelson-776	Dewett-436
3.	Price Mechanism	C	Samuelson-27	Dewett-310
4.	Consumption Function	B	Samuelson-760	Dewett-356
5.	Consumption Expenditure	A	Samuelson-760	Dewett-34

BATCH- 10, NOVEMBER-1999-- ICMAP FINAL EXAMS MCQ's**FILL IN THE BLANKS**

1.	Economics is concerned with the way in which-----are allocated among alternative uses to satisfy human wants.
2.	If price elasticity of demand for gasoline is Rs.0.50, a -----percent increase in price of gasoline will be required to reduce quantity demanded of gasoline by 1%.
3.	Different market baskets on same indifference curve should be given -----values of utility.
4.	Condition for consumer equilibrium is that budget line be----- on indifference curve.
5.	Market value of all final goods & services produced in economy during one year is-----.

ANSWERS

1.	Scarce resources	Samuelson-4	Dewett-6
2.	One	Samuelson-59	Dewett-81
3.	Same/equal	Samuelson-102	Dewett-51
4.	Tangent	Samuelson-105	Dewett-58
5.	G.D.P.	Samuelson-765	Dewett-324

TRUE OR FALSE

1.	Price system plays some role but only minor one in allocating resources in free Enterprise economy.
2.	Demand curve for free good (good with zero prices) must be horizontal line.
3.	Indifference curves are always convex to the origin.
4.	Large number of sellers in the market is the main characteristic of oligopoly.
5.	Decrease in variable costs causes decrease in marginal cost.

ANSWERS

1.	False	Samuelson-27	Dewett-309
2.	True	Samuelson-765	Dewett-00
3.	True	Samuelson-103	Dewett-54
4.	False	Samuelson-772	Dewett-166
5.	True	Samuelson-149	Dewett-151

ALTERNATIVES

1. Micro economics is concerned with,

A. Optimal production decisions	B. Optimal resource allocation	C. Pricing policy	D. All of the above
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2. Basic assumption of theory of consumer choice is that,

A. Consumer tries to get on highest indifference curve	B. Consumer tries to get most of good Y	C. Budget line is concave	D. All of above
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3. Substitution effect must always be,

A. Positive	B. Negative	C. Zero	D. Bigger than income effect
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4. Demand for a good is price inelastic if,

A. Price elasticity is one	B. Price elasticity is less than one	C. Price elasticity is greater than one	D. All of above
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5. If marginal propensity to consume is 0.75, the multiplier has value of,

A. 5	B. 4	C. 3	D. 2
------	------	------	------

ANSWERS

1.	D	Samuelson-5	Dewett-9
2.	A	Samuelson-105	Dewett-58
3.	A	Samuelson-90	Dewett-62
4.	B	Samuelson-68	Dewett-81
5.	B	Samuelson-497	Dewett-374

RELATE PROPERLY

Group A		Group B	
1.	Real per capita output	A	Ratio of change in income due to change in autonomous spending (like investment)
2.	Long-run	B	Time period in which at least one factor of production is fixed in quantity
3.	Short-run	C	When aggregate demand exceeds the economy's capacity to produce
4.	Demand-pull inflation	D	Total output (GNP) divided by total population
5.	Multiplier	E	Time period when all factors of production are variable

ANSWERS

1.	Real per capita output	D	Samuelson-416	Dewett-640
2.	Long-run	E	Samuelson-113	Dewett-184
3.	Short-run	B	Samuelson-113	Dewett-183
4.	Demand-pull inflation	C	Samuelson-761	Dewett-436
5.	Multiplier	A	Samuelson-771	Dewett-373

BATCH-11, MAY—2000-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	GDP does not include figures of-----
2.	Quasi rent can be earned only in -----run
3.	Product differentiation is chief characteristic of-----
4.	Real rate of interest is nominal rate of interest minus----
5.	Price of a bond is -----related with rate of interest

ANSWERS

1.	Foreign remittances	Samuelson-437	Dewett-325
2.	Short	Samuelson-00	Dewett-278
3.	Monopolistic competition	Samuelson-168	Dewett-225
4.	Rate of inflation	Samuelson-272	Dewett-00
5.	Inversely	Samuelson-516	Dewett-291

TRUE OR FALSE

1.	Savings are zero when consumption function runs along 45 line.
2.	Opportunity cost is producing one thing more in terms of other thing on Production Possibility curve.
3.	Firm should not shut down if it covers variable cost in short run.
4.	Central Bank starts selling bonds in open market in face of deflation.
5.	Best price policy is to increase prices when demand for product is elastic.

ANSWERS

1.	False	Samuelson-461	Dewett-00
2.	True	Samuelson-13	Dewett-149
3.	True	Samuelson-151	Dewett-163
4.	False	Samuelson-772	Dewett-462
5.	False	Samuelson-72	Dewett-80

ALTERNATIVES

1. If firm's fixed costs are doubled, Marginal cost will,

A. Remain unchanged	B. Double	C. More than double	D. Increase by 50%
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2. Which of following costs must be covered by average revenue in short run?

A. Marginal cost	B. Average variable cost	C. Average total cost	D. Average fixed cost
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3. Increase in rate of interest is most likely to cause increase in,

A. Capital inflow	B. Capital outflow	C. Value of property	D. Volume of investment
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4. Which of the following forms of profit economists regard as normal?

A. Gross	B. Undistributed	C. Net	D. Transfer earnings
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5. If Marginal propensity to consume is 0.9, multiplier has value of,

A. 10	B. 1	C. 5	D. 4
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ANSWERS

1.	B	Samuelson-128	Dewett-151
2.	B	Samuelson-151	Dewett-184
3.	A	Samuelson-648	Dewett-498
4.	D	Samuelson-00	Dewett-250
5.	A	Samuelson-497	Dewett-374

RELATE CORRECTLY

1.	Inflationary gap	A	Excess expenditure over income at full employment level
2.	Quasi rent	B	Size of unemployment when AD falls short of AS at full employment.
3.	Economic rent	C	Determination of prices through supply and demand forces.
4.	Output gap	D	Amount of money earned over transfer earnings in short run only.
5.	Market Mechanism	E	Amount of money earned over transfer earnings in long run.

ANSWERS

1.	Inflationary gap	A	Samuelson-494	Dewett-347
2.	Quasi rent	D	Samuelson-00	Dewett-278
3.	Economic rent	E	Samuelson-762	Dewett-00
4.	Output gap	B	Samuelson-00	Dewett-339
5.	Market Mechanism	C	Samuelson-27	Dewett-310

BATCH- 12, NOVEMBER—2000-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	Operating on production possibility frontier implies that economy was producing----
2.	To convert nominal GNP we deflate dividing by-----
3.	----is most comprehensive measure of nation's production of goods & services.
4.	The-----is the schedule relating total consumption to total income.
5.	Relationship between quantities of output & quantities of inputs is called-----function.

ANSWERS

1.	Technologically efficiently	Samuelson-11	Dewett-125
2.	GNP deflator	Samuelson-440	Dewett-00
3.	GDP	Samuelson-434	Dewett-324
4.	Consumption Function	Samuelson-760	Dewett-356
5.	Production	Samuelson-774	Dewett-128

TRUE OR FALSE

1.	Marginal product of an input is extra product or output added by 1 extra unit of that input while other inputs are held constant.
2.	Economy is producing efficiently when it produces more of one good without producing less of another when it is on production possibility frontier.
3.	Market is an arrangement by which buyers and sellers of a commodity interact to determine its price and quantity.
4.	Long run average cost is generally represented by U-shaped curve that always intersect at its minimum point by rising marginal cost curve.
5.	Firm will find its maximum profit position where last unit it sells brings extra revenue equal to its extra variable cost.

ANSWER

1.	True	Samuelson-769	Dewett-243
2.	False	Samuelson-774	Dewett-125
3.	True	Samuelson-769	Dewett-162
4.	True	Samuelson-154	Dewett-156
5.	False	Samuelson-148	Dewett-173

ALTERNATIVES

1. Budget set consists of all bundles of goods that consumer can afford at given,

A. Consumer's budget	B. Elasticity of demand	C. Prices and costs	D. Prices & Income
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2. Economic situation when there is way to make some group of people better off without making some other group of people worse off is called,

A. Pareto substitution	B. Pareto monopoly	C. Welfare optimum	D. Pareto efficient
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3. Giffen goods are goods for which demand decreases when their prices,

A. Increase	B. Decrease	C. Remain constant	D. Reduce to a certain level
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4. An exchange rate,

A. Ratio of dollar volume of nation's exports to dollar volume of it imports	B. Measures interest rate ratios of any two nations	C. Amount which one nation must export to obtain \$ 1 worth of import	D. Price at which currencies of two nations exchange
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5. Which one of the following is not a tool of monetary policy?

A. Change in margin requirement	B. Open market operation	C. Change in reserve requirement	D. Change in discount rate
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ANSWERS

1.	D	Samuelson-102	Dewett-57
2.	C	Samuelson-00	Dewett-695
3.	B	Samuelson-91	Dewett-63
4.	D	Samuelson-764	Dewett-506
5.	A	Samuelson-770	Dewett-445

RELATE CORRECTLY

Group A		Group B	
1.	Aggregate supply	A	Graph showing trade off between unemployment & inflation
2.	Allocative Efficiency	B	Total value of goods & services that firms would willingly produce in a given time period
3.	Oligopoly	C	Activity of central bank of buying or selling Govt. bonds to influence bank reserves, money supply & interest rates.
4.	Open Market Operations	D	Use of economic resources that produces maximum level of satisfaction possible with given inputs & technology
5.	Phillips Curve	E	Situation of imperfect competition in which industry is dominated by small number of suppliers

ANSWERS

1.	Aggregate supply	B	Samuelson-756	Dewett-345
2.	Allocative Efficiency	D	Samuelson-743	Dewett-127
3.	Oligopoly	E	Samuelson-772	Dewett-166
4.	Open Market Operation	C	Samuelson-772	Dewett-445
5.	Phillips Curve	A	Samuelson-773	Dewett-441

BATCH 13, MAY-2001-- ICMAP FINAL EXAMS MCQ's**FILL IN THE BLANKS**

1.	Laws of returns are related to the behavior of production in the -----run.
2.	----- and Deductive are two methods of economic analysis.
3.	Net National Product is arrived by subtracting-----from GNP.
4.	Balance of trade of a country includes----trade only.
5.	According to Quantity theory of money, value of money varies---with quantity of money.

ANSWERS

1.	Short	Samuelson-00	Dewett-133
2.	Inductive	Samuelson-00	Dewett-17
3.	Depreciation	Samuelson-771	Dewett-325
4.	Visible goods/merchandise	Samuelson-757	Dewett-498
5.	Inversely	Samuelson-774	Dewett-428

TRUE OR FALSE

1.	Change in demand and change in quantity demanded are one and the same concept.
2.	Law of diminishing marginal returns is not applicable in long run.
3.	Direct tax is one when impact and incidence lie on the same person.
4.	Free gift of nature is called Land.
5.	When total value of imports of a country exceeds total the value of exports, balance of payments is said to be favorable.

ANSWERS

1.	False	Samuelson-51	Dewett-194
2.	True	Samuelson-00	Dewett-133
3.	True	Samuelson 761	Dewett-550
4.	True	Samuelson-9	Dewett-98
5.	False	Samuelson-757	Dewett-498

ALTERNATIVES

1. Consumer's equilibrium is determined by,

A. Equality of supply and demand of the product in the market	B. Point on next highest Indifference curve	C. Point on IC. that indicates consumers satisfaction	D- Point at which budget line is tangent to indifference curve
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2. Demand curve that is equilateral hyperbola is,

A. Perfectly elastic	B. Unit elastic	C. Relatively elastic	D. Perfectly inelastic
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3. Commercial banks are able to create money by,

A. Printing money	B. Making loans	C. Moral suasion	D. Selling Govt. bonds
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4. Which of the following is most likely to discourage capital investment?

A. High saving rates	B. Increasing corporate profits	C. High interest rates	D. Moderate growth of GNP
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5. Which of following is a characteristic of underdeveloped nation?

A. High per capita income	B. High growth rate of GNP	C. Relatively high educational levels	D. High population growth rates
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ANSWERS

1.	D	Samuelson-105	Dewett-58
2.	B	Samuelson-00	Dewett-82
3.	B	Samuelson-521	Dewett-451
4.	C	Samuelson-576	Dewett-291
5.	D	Samuelson-593	Dewett-621

RELATE CORRECTLY

Group A		Group B	
1.	Acceleration	A	Locus of combination of two goods yielding equal level of satisfaction
2.	Returns to scale	B	Ratio of change in income due to change in investment
3.	Indifference curve	C	Effects on production when all inputs are changed in the same ratio
4.	Multiplier	D	Ratio of change in investment to change in income
5.	Demand curve	E	Inverse relationship between price & quantity demanded

ANSWERS

1.	Acceleration	D	Samuelson-765	Dewett-379
2.	Returns to scale	C	Samuelson-112	Dewett-138
3.	Indifference curve	A	Samuelson-102	Dewett-52
4.	Multiplier	B	Samuelson-771	Dewett-373
5.	Demand curve	E	Samuelson-48	Dewett-46

BATCH –14, NOVEMBER—2001-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	-----are form of international reserve currency created by IMF.
2.	Under system of-----exchange rates, exchange rate is determined by forces of demand and supply.
3.	Product differentiation is main characteristic of -----competition.
4.	-----is an agreement among firms to co-ordinate production and pricing decisions.
5.	---- Leader is a firm whose prices are followed by rest of industry.

ANSWERS

1.	S .D. R's (Special Drawing Rights)	Samuelson-627	Dewett-519
2.	Flexible/ Floating	Samuelson-764	Dewett-509
3.	Monopolistic	Samuelson-168	Dewett-225
4.	Cartel	Samuelson-758	Dewett-239
5.	Price	Samuelson-186	Dewett-237

TRUE OR FALSE

1.	Marginal utility & Marginal returns are one and same concepts.
2.	Income elasticity of demand for normal goods is always positive.
3.	Monetary Policy is a use of Govt. spending, taxes and borrowing to influence aggregate economic activity.
4.	Two goods are complements if increase in price of one leads to decrease in the demand for the other.
5.	Indifference curve is convex to origin due to diminishing marginal rate of transformation.

ANSWERS

1.	False	Samuelson-769	Dewett-34
2.	True	Samuelson-92	Dewett-82
3.	False	Samuelson-770	Dewett-391
4.	True	Samuelson-92	Dewett-82
5.	False	Samuelson-102	Dewett-53

ALTERNATIVES

1. When we reduce level of unemployment the effect may be?

A. Deflation	B. Inflation	C. Depression	D. Recession
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2. To avoid double counting in estimation of GNP, economists will,

A. Add price of all goods & services bought and sold	B. Use the GNP Deflator	C. Price of only intermediate goods	D. Calculate value added at each stage of production
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3. Which one of the following statement is not true of Monopoly?

A. Single firm produces entire market supply	B. Under Monopoly AR is horizontal straight line	C. MR is less than AR	D. Monopolist has power to alter market prices
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4. Society will be at points inside production possibilities curve when,

A. Resources are not used efficiently	B. There is full employment of resources	C. Per capita income is increasing	D. Income is distributed equally amongst all people
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5. Any thing firm uses in its production process is called,

A. Technology	B. Production function	C. Inputs	D. All of above
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ANSWERS

1.	B	Samuelson-702	Dewett-441
2.	D	Samuelson-438	Dewett-325
3.	B	Samuelson-181	Dewett-209
4.	A	Samuelson-774	Dewett-126
5.	C	Samuelson-9	Dewett-98

RELATE CORRECTLY

Group A		Group B	
1.	Tariff	A	Producers catering to consumers taste.
2.	Break-even Point	B	Locus of points which represents combinations of two inputs used to produce given level of output.
3.	Investment	C	Tax on imports.
4.	Consumers Sovereignty	D	Output level that must be reached to avoid loss.
5.	Iso-quant.	E	Flow of spending that adds to physical stock of capital.

ANSWERS

1.	Tariff	C	Samuelson-777	Dewett-495
2.	Break-even Point	D	Samuelson-151	Dewett-172
3.	Investment	E	Samuelson-442	Dewett-365
4.	Consumers Sovereignty	A	Samuelson-28	Dewett-00
5.	Iso-quant	B	Samuelson-763	Dewett-140

BATCH-15, MAY -2002-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	GNP-----is money GNP converted to constant or real dollars.
2.	-----profit is total revenue minus all explicit & implicit costs.
3.	Demand is perfectly inelastic when price elasticity of demand is-----.
4.	Some unfinished goods and most public goods are calculated at---instead of market prices.
5.	At the-----point, consumption equals income.

ANSWERS

1.	Real	Samuelson-439	Dewett-324
2.	Economic	Samuelson-274	Dewett-280
3.	Zero	Samuelson-70	Dewett-81
4.	Cost	Samuelson-438	Dewett-326
5.	Break-even	Samuelson-460	Dewett-348

TRUE OR FALSE

1.	Nominal rate of interest is equal to real rate of interest plus expected rate of inflation.
2.	Income elasticity of demand is percentage change in quantity demanded divided by percentage change in income.
3.	Keynes held that there are cash leakages from circular flow of income.
4.	GNP does not include transactions that do not officially pass through market
5.	MPC can be greater than one, equal to one or less than one.

ANSWERS

1.	True	Samuelson-518	Dewett-00
2.	True	Samuelson-91	Dewett-82
3.	True	Samuelson-521	Dewett-376
4.	True	Samuelson-449	Dewett-328
5.	False	Samuelson-462	Dewett-357

ALTERNATIVES

1. Purpose of tariff is to,

A. Reduce imports	B. Increase revenue	C. Reduce costs	D. None of the above
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2. Which of following is not a major impediment to free trade?

A. Quotas	B. Tariffs	C. Export subsidies	D. All are impediments
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3. If 20% increase in tuition fee of an educational institute leads to 10% fall in admission, the price elasticity of demand will be,

A. 2.0	B. 0.3	C. 0.2	D. 0.5
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4. A commodity is free if,

A. It is sold at zero price	B. If Govt. supplies it.	C. If somebody gets it without sacrificing anything else of value	D. When everyone has it
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5. MEC curve will not shift if,

A. Taxes are changed	B. National income falls	C. Interest rate falls	D. Capacity utilization increases
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ANSWERS

1.	A	Samuelson-308	Dewett-495
2.	D	Samuelson-765	Dewett-493
3.	D	Samuelson-68	Dewett-86
4.	C	Samuelson-4	Dewett-00
5.	D	Samuelson-472	Dewett-369

RELATE CORRECTLY

GROUP A		GROUP B	
1.	Public good	A	Sales Tax
2.	Quota	B	Country A is more efficient than country B
3.	Oligopoly	C	Street-light
4.	Progressive tax	D	Limit on imports
5.	Absolute advantage	E	Market form with few producers

ANSWERS

1.	Public good	C	Samuelson-39	Dewett-00
2.	Quota	D	Samuelson-775	Dewett-492
3.	Oligopoly	E	Samuelson-772	Dewett-166
4.	Progressive tax	A	Samuelson-763	Dewett-549
5.	Absolute advantage	B	Samuelson-756	Dewett-475

BATCH –16, NOVEMBER- 2002-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	-----rate is annual percentage increase in general price level.
2.	The----is a summary of all economic transactions between one county and the rest of the world during a given period of time.
3.	----denotes single producer of a product that has no close substitutes in market.
4.	Goods with income elasticity of less than zero are called-----goods.
5.	-----cost is the change in total cost when output changes by one unit.

ANSWERS

1.	Inflation	Samuelson-767	Dewett-436
2.	Balance of Payments	Samuelson-757	Dewett-496
3.	Monopoly	Samuelson-774	Dewett-207
4.	Inferior	Samuelson-91	Dewett-82
5.	Marginal	Samuelson-760	Dewett-151

TRUE OR FALSE

1.	Price discrimination is selling at same prices to different consumers.
2.	Oligopoly is market structure where there is small number of firms whose decisions are interdependent.
3.	Transfer payments are benefits received in cash or kind by individuals as outright grants from Govt.
4.	Two goods are substitutes if increase in the price of one leads to decrease in the demand for the other.
5.	A change in quantity supplied is a movement along given supply curve in response to change in price of goods.

ANSWERS

1.	False	Samuelson=773	Dewett-214
2.	True	Samuelson-772	Dewett-214
3.	True	Samuelson-777	Dewett-00
4.	False	Samuelson-92	Dewett-82
5.	True	Samuelson-54	Dewett-00

ALTERNATIVES

1. Which one of following is not held constant in drawing up nation's PPF curves?

A. Nation's technology	B. Nation's labor resources	C. Nation's capital resources	D. Nation's money income
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2. Type of financial instruments that pays specified dividend is called,

A. Common stock	B. Preferred stock	C. Bond	C. IOU
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3. Modern economists regard utility as,

A. Easily measurable	B. Constant over time	C. Independent of tastes	D. None of above
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4. If marginal cost is less than average cost then with increased inputs average cost of production will tend to

A. Rise	B. Remain the same	C. Drop	D. None of above
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5. Which one of the following is not advanced as reason for specialization and trade?

A. Economies of scale	B. Leasing	C. Difference in national tastes	D. Need for self sufficiency
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ANSWERS

1.	D	Samuelson-11	Dewett-125
2.	B	Samuelson-120	Dewett-00
3.	D	Samuelson-102	Dewett-34
4.	A	Samuelson-96	Dewett-00
5.	B	Samuelson-312	Dewett-492

RELATE CORRECTLY

Group A		Group B	
1.	Anti-trust laws	A	Increase in per capita income
2.	Economic Growth	B	Market with two producers
3.	Prohibitive Tariff	C	Long Term Debt
4.	Duopoly	D	Measures designed to promote competition
5.	Bond	E	Stops imports almost completely

ANSWERS

1.	Anti-trust laws	D	Samuelson-353	Dewett-214
2.	Economic Growth	A	Samuelson-762	Dewett-618
3.	Prohibitive Tariff	E	Samuelson-308	Dewett-495
4.	Duopoly	B	Samuelson-762	Dewett-235
5.	Bond	C	Samuelson-757	Dewett-462

BATCH-17, MAY-2003-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	-----are either costs or benefits conferred on parties not directly involved in production or use of a commodity.
2.	Marginal cost curve is also called ----- curve.
3.	-----is not endowed by nature but produced by man.
4.	-----unemployment is short run normal inactivity during jobs.
5.	-----is a flow and an addition to stock of capital.

ANSWERS

1.	Externalities	Samuelson-764	Dewett-00
2.	Supply	Samuelson-150	Dewett-188
3.	Economic good	Samuelson-4	Dewett-00
4.	Frictional	Samuelson-765	Dewett-388
5.	Investment	Samuelson-468	Dewett-365

TRUE OR FALSE

1.	Monopolist will stop production, if losses exceed its fixed costs in short run.
2.	Measures designed to reduce rate of inflation may increase unemployment.
3.	Demand for good is price inelastic if price elasticity of demand is greater than one.
4.	Higher the consumer's money income, lower the budget line.
5.	Marginal product curve intersects average product curve when latter is at its maximum.

ANSWERS

1.	False	Samuelson-178	Dewett-210
2.	True	Samuelson-705	Dewett-443
3.	False	Samuelson-68	Dewett-80
4.	False	Samuelson-105	Dewett-57
5.	False	Samuelson-111	Dewett-132

ALTERNATIVES

1. Factors of production are,

A. Land & capital	B. Labor only	C. Inputs	D. Outputs
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2. Excess supply signifies,

A. There is shortage	B. There is surplus	C. Quantity demanded is less	D. Supply is greater than demand at each price
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3. Sunk costs are,

A. Part of Variable costs	B. Another name for marginal costs	C. Non recoverable Costs	D- Costs increase as production increases
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4. If investment increases by 20 when income rises by 100, marginal propensity to investment will be,

A. 20	B. 100	C. 5	D. 0.2
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5. In Keynesian theory level of employment is particularly linked to,

A. Fluctuating prices	B. Fluctuating national income	C. Fluctuation in real wage rates	D. Adjustments in Govt. expenditure
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ANSWERS

1.	C	Samuelson-764	Dewett-98
2.	D	Samuelson-56	Dewett-335
3.	C	Samuelson-126	Dewett-00
4.	D	Samuelson-00	Dewett-00
5.	B	Samuelson-477	Dewett-00

RELATE CORRECTLY

Group A		Group B	
1.	Opportunity cost	A	Areas of poverty.
2.	Economies of Scale	B	Input-output relation.
3.	Less developed countries	C	Employment, interest and Money.
4.	Production function	D	Cost reducing measures.
5.	J. M. Keynes	E	Value of next best alternative forgone.

ANSWERS

1.	Opportunity cost	E	Samuelson-772	Dewett-149
2.	Economies of Scale	D	Samuelson-762	Dewett-119
3.	Less developed countries	A	Samuelson-592	Dewett-619
4.	Production function	B	Samuelson-774	Dewett-128
5.	J. M. Keynes	C	Samuelson-5	Dewett-335

BATCH-18, NOVEMBER- 2003-- ICMAP FINAL EXAMS MCQ's**FILL IN THE BLANKS**

1.	Relationship between quantity of output and quantities of inputs is called -----function.
2.	Product differentiation is chief characteristic of-----competitive market.
3.	Quantity of product offered for sale at a price is called-----
4.	The extent to which demand of good changes as a result of changes in price of another good, is termed as ----elasticity.
5.	Under system of ----exchange rates, the exchange rate is determined by forces of demand and supply.

ANSWERS

1.	Production	Samuelson-774	Dewett-128
2.	Monopolistic	Samuelson-168	Dewett-225
3.	Supply	Samuelson-52	Dewett-158
4.	Cross	Samuelson-760	Dewett-82
5.	Flexible	Samuelson-764	Dewett-509

TRUE OR FALSE

1.	Firm should not shut down if it covers variable cost in short run.
2.	Increase in prices should be considered when demand for product is elastic.
3.	Marginal product of input is extra product or output added by one extra unit of that input while other inputs are held constant.
4.	Change in demand & change in quantity demanded are one and same concepts.
5.	Two goods are complementary if increase in price of one leads to decrease in the demand of the other.

1.	True	Samuelson-151	Dewett-184
2.	False	Samuelson-68	Dewett-81
3.	True	Samuelson-769	Dewett-243
4.	False	Samuelson-51	Dewett-00
5.	True	Samuelso-92	Dewett-82

ALTERNATIVES

1. Following method is used for measurement of national income,

A. Output method	B. Income method	C. Expenditure method	D. All of above
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2. Which of the following is not economic good?

A. Text books	B. Newspaper	C. Radio	D. Sun shine
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3. Demand for good is inelastic if,

A. Price elasticity is one	B. Price-elasticity is less than one	C. Price elasticity is greater than one	D. All of above
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4. Increase in rate of interest is most likely to cause increase in,

A. Capital inflow	B. Capital Outflow	C. Value of property	D. Volume of investment
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5. Which of the following is not basic assumption of perfect competition?

A. Free entry & exit	B. Large Buyers and sellers	C. Homogenous products	D. Short run
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ANSWER

1.	D	Samuelson-435	Dewett-326
2.	D	Samuelson-762	Dewett-4
3.	B	Samuelson-68	Dewett-81
4.	A	Samuelson-648	Dewett-498
5.	D	Samuelson-759	Dewett-165

RELATE CORRECTLY

Group A		Group B	
1.	Returns to scale	A	Locus of combination of two goods yielding equal level of satisfaction.
2.	Demand curve	B	Ratio of change in income due to change in investment.
3.	Multiplier	C	Effects of production when all inputs are changed in same ratio.
4.	Indifference curve	D	Ratio of change in investment due to change in income.
5.	Acceleration	E	Inverse relationship between price & quantity demanded.

ANSWERS

1.	Returns to scale	C	Samuelson-775	Dewett-138
2.	Demand curve	E	Samuelson-48	Dewett-45
3.	Multiplier	B	Samuelson-771	Dewett-373
4.	Indifference curve	A	Samuelson-102	Dewett-52
5.	Acceleration	D	Samuelson-756	Dewett-379

BATCH-19, MAY -2003-- ICMAP FINAL EXAMS MCQ's**FILL IN THE BLANKS**

1.	Price discrimination is not profitable when elasticity of demand in both markets is ----
2.	Under perfect competition firm always earns----profit in the long run.
3.	A----tax is one wherein the impact and incidence lie on same person.
4.	----is defined as high rate of inflation accompanied by high rate of unemployment.
5.	During the period of inflation, profits of entrepreneurs tend to -----

ANSWERS

1.	Same	Samuelson-190	Dewett-216
2.	Normal	Samuelson-151	Dewett-183
3.	Direct	Samuelson-761	Dewett-565
4.	Stagflation	Samuelson-776	Dewett-436
5.	Increase	Samuelson-688	Dewett-447

TRUE OR FALSE

1.	Under perfect competition, demand for product of firm is perfectly inelastic.
2.	Normal profit per unit of product is a difference between average revenue and average cost.
3.	Demand curve in market period dominates in the determination of price.
4.	Least cost combination of factors of production for any level of output is that where Iso cost line is tangent to Iso product curve.
5.	M.P.C. measures relationship between change in consumption and change in income.

ANSWERS

1.	False	Samuelson-759	Dewett-182
2.	False	Samuelson-150	Dewett-183
3.	True	Samuelson- 55	Dewett-197
4.	True	Samuelson-145	Dewett-145
5.	True	Samuelson-461	Dewett-356

ALTERNATIVES

1. If all inputs are increased by 100% and the result is 120% increase in output, this would explain,

A. Law of Increasing returns	B. Law of Diminishing returns	C. Increasing Returns to Scale	D. Contradict principle of increasing returns to scale
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2. If consumer's income falls and price rise,

A. Budget line will Shift to left	B. Budget line will shift to right	C. Budget line will not shift	D. High indifference Curve is attainable
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3. In monopolistic competition, firms desire to sell more outputs at equilibrium because,

A. Price > AC	B. Price > MC	C. Price < AC	D. Price = MC increases
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4. If M.P.S (Marginal propensity to save) is 0.1, multiplier has a value of,

A. 1	B. 2	C. 5	D. 10
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5. Speculative demand for money is,

A. Money set aside to meet unexpected events	B. Money set aside to invest in future	C. Money allocated for monthly expenses	D. Money saved to pay direct taxes
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ANSWERS

1.	C	Samuelson-775	Dewett-138
2.	A	Samuelson-104	Dewett-57
3.	D	Samuelson-179	Dewett-227
4.	D	Samuelson-497	Dewett-375
5.	B	Samuelson-761	Dewett-415

RELATE CORRECTLY

Group A		Group B	
1.	Standard metallic money	A	Tradeoff between unemployment & inflation
2.	Iso-quants	B	Face value \Rightarrow intrinsic value
3.	Returns to scale	C	All combinations of two inputs used to produce given level of output
4.	Prof. Robbins	D	Effect on outputs when all inputs are changed in same ratio
5.	Phillips curve	E	Science of scarcity & choice

ANSWERS

1.	Standard metallic money	B	Samuelson-00	Dewett-416
2.	Iso-quants	C	Samuelson-763	Dewett-140
3.	Returns to scale	D	Samuelson-775	Dewett-138
4.	Prof. Robbins	E	Samuelson-00	Dewett-5
5.	Phillips curve	A	Samuelson-694	Dewett-442

BATCH – 20, NOVEMBER- 2004-- ICMAP FINAL EXAMS MCQ's

FILL IN THE BLANKS

1.	Laws of returns are related to behaviors of production in -----run.
2.	Market structure characterized by-----is called monopolistic competition.
3.	The----product of factor of production is an increase in total output by employing one more unit of the factor.
4.	-----shows all combinations of two inputs that can be used to produce given level of output.
5.	According to monetarists-----is successful in curbing inflation in economy.

ANSWERS

1.	Short	Samuelson-111	Dewett-133
2.	Product differentiation	Samuelson-168	Dewett-225
3.	Marginal	Samuelson-109	Dewett-243
4.	Iso-product curve	Samuelson-763	Dewett-140
5.	Tight monetary control	Samuelson-713	Dewett-448

TRUE OR FALSE

1.	Production possibility frontier is concave due to marginal rate of substitution.
2.	Phillips curve shows trade-off between unemployment and inflation.
3.	According to the quantity theory of money there is a positive relationship between quantity of money and value of money.
4.	Equilibrium level of national income need not necessarily be at full employment level.
5.	Balance of trade is summary of all economic transactions between one country and rest of world during one year.

ANSWERS

1.	False	Samuelson-10	Dewett-126
2.	True	Samuelson-694	Dewett-442
3.	False	Samuelson-714	Dewett-428
4.	True	Samuelson-710	Dewett-339
5.	True	Samuelson-757	Dewett-496

ALTERNATIVES

1. Allocative efficiency is achieved under,

A. Perfect competition	B. Monopolistic competition	C. Oligopoly	D. Monopoly
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2. Which one of the following would cause demand-pull inflation?

A. Wage gains in proportion to productivity gains	B. Increase in production cost	C. An increase in aggregate demand with shortage of supply	D. High payments to factors of production
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3. Which one of following is subtracted from personal income to have disposable personal income?

A. Excise duty & sales tax	B. Non-business interest	C. Transfer payments	D. Income tax
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4. Commercial banks are able to create money by,

A- Printing money	B- Making loans	C. Moral suasion	D. Selling Govt. bonds
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5. Which one of following is most likely to discourage capital investment?

A. High saving rates	B. Increasing corporate profits	C. Moderate growth of GNP	D. High interest rates
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ANSWERS

1.	A	Samuelson-756	Dewett-00
2.	D	Samuelson-692	Dewett-436
3.	D	Samuelson-773	Dewett-326
4.	B	Samuelson-521	Dewett-451
5.	D	Samuelson-576	Dewett-291

RELATE CORRECTLY

Group A	Group B
1. Terms of trade	A Rate of tax is associated with level of income
2. Exchange rate	B Agreement on price and output among producers
3. Regressive tax	C Average price of export as a ratio of average price of imports
4. Progressive tax	D Burden of tax falls more on poor class
5. Cartel	E Value of one currency in terms of other currency

ANSWERS

1.	Terms of trade	C	Samuelson-777	Dewett-484
2.	Exchange rate	E	Samuelson-764	Dewett-506
3.	Regressive tax	D	Samuelson-74	Dewett-550
4.	Progressive tax	A	Samuelson-774	Dewett-549
5.	Cartel	B	Samuelson-758	Dewett-239

MODEL MCQ's - BATCH --21, MAY- 2005

1. What is a free good: -

A	One provided free by the government.
B	One which is not relatively scarce.
C	One whose total utility is zero.
D	One whose fixed costs are zero.

2. An airline acknowledges an externality when it provides: -

A	First class and economy class areas.
B	Smoking and non-smoking areas.
C	Special rates to large groups of travelers.
D	Flights with or without meals.

3. In a free market economy prices of goods and services are determined: -

A	By the demand only.
B	By the general consumers.
C	By the forces of demand and supply.
D	By the suppliers.

4. Commercial banks are able to create money by: -

A	Printing money.
B	Selling government bonds.
C	Moral suasion.
D	Making loans.

5. A deflationary gap is measured by the: -

A	Rate of employment.
B	Balance of trade deficit.
C	Increase in injections needed to reach full employment.
D	Rate of deflation.

6. An increase in country's exports will tend to: -

A	Reduce the domestic money supply.
B	Reduce its trade surplus.
C	An increase upward pressure on exchange rate.
D	Increase in domestic unemployment.

7. In the situation of perfect competition firms are: -

A	Many.
B	Few.
C	Large.
D	Very large.

8. If the MPC in a country is 0.9 then the value of multiplier is: -

A	1.13
B	5
C	8
D	10

9. Which one of the following is an injection into the circular flow of income: -

A	Personal income tax
B	Business taxes
C	Government purchases of factor services
D	Savings

10. A student works for a bookshop for several days during the holidays. He is offered the alternative of being paid Rs.50 in cash or books of Rs.80 from the shelves. What is opportunity cost to the student of choosing books: -

A	Rs.30
B	Rs.50
C	Rs.80
D	The alternative use to which his time could have been put

11. If the percentage change in the demand is more than the percentage change in price, then the elasticity of demand is:-

A	Less than unity
B	Equal to unity
C	More than unity
D	Elasticity is zero

12. In oligopoly market structure firms are: -

A	Many
B	Only one
C	Two
D	A few

13. Interest is the remuneration/reward of: -

A	Capital
B	Labor
C	Organization
D	Land

14. Curve that shows inverse relationship between inflation and unemployment is: -

A	Indifference curve
B	Phillips curve
C	Laffer curve
D	Demand curve

15. Which of the following cost has to be covered by a firm to continue in short period: -

A	Fixed cost
B	Total cost
C	Marginal cost
D	Average variable cost

16. If consumption function runs along the 45 line, the saving function will: -

A	Lie along the 45 line
B	Lie along the vertical axis
C	Lie along the horizontal axis
D	Be negative

17. An increase in the rate of interest is most likely to cause an increase in: -

A	Capital inflow
B	Capital outflow
C	Value of property
D	Value of investment

18. The consumer's equilibrium is determined by: -

A	The equality of supply and demand of the product in the market
B	A point on the next highest indifference curve
C	A point on the indifference curve that indicates consumer's satisfaction
D	A point at which the budget line is tangent to the indifference curve

19. Sunk costs are: -

A	Part of variable costs
B	Another name of marginal costs
C	Non-recoverable costs
D	Costs which increase as production increases

20. Which one is subtracted from personal income to have disposable personal income: -

A	Excise duty and sales tax
B	Non-business interest
C	Transfer payments
D	Income tax

21. When is a good defined as a public good?

A	When consumption of the good by one individual prevents consumption by any other individual
B	When it confers benefits on consumers which are greater than they themselves perceive
C	When it is supplied by the government and financed out of taxation
D	When benefits it confers on consumers can be extended to others at zero cost

22. Which combination makes it likely that a good will be a GIFFEN Good: -

	% of income spent on good	Income elasticity of demand
A	Low	Slightly negative
B	High	Strongly negative
C	Low	Strongly negative
D	High	Slightly negative

23. For which pair of commodities are the cross price elasticities of demand most likely to be negative?

A	Cinema tickets and videos
B	First and second class rail tickets
C	Petrol and cars
D	Salt and sugar

24. The average fixed costs (AFC) of production of a firm: -

A	Fall as output rises at first but then rise
B	Fall continuously as output rises
C	Increase continuously as output rises
D	Remain unchanged at all output levels

25. During a year there has been a rise in national income of 10% and a rise in the retail price index of 8%. The population has fallen by 2%. What is the approximate rise in real income per head?

A	0%
B	2%
C	4%
D	Nothing

ANSWERS

1	B	14	B
2	B	15	D
3	C	16	C
4	D	17	A
5	C	18	D
6	C	19	C
7	D	20	D
8	D	21	D
9	C	22	B
10	B	23	C
11	C	24	B
12	D	25	C
13	A	--	--



MODEL MCQ's -BATCH -22, NOVEMBER- 2005

1. Which one is not a basic assumption of a perfect competitive market: -

A	Perfect knowledge of market
B	Identical product
C	Free entry and exit in the business
D	Short period of time

2. Which one of the following is not an economic good: -

A	A text book
B	Today's newspaper
C	Sun light
D	Irrigation water from a dam

3. According to Keynesian analysis consumption is a function of: -

A	Permanent income
B	Current income
C	Previous income
D	Estimated life time income

4. Demand pull inflation may initially be caused by: -

A	An increase in bank credit
B	An increase in profits
C	An increase in rent
D	An increase in wages

5. When interest rate falls then: -

A	Investment falls
B	Bond prices rise
C	MEC declines
D	People save more

6. Shift in the demand for a good may be due to: -

A	Change in the price
B	Change in price of resources which are used to produce the good
C	Change in expectations for further rise in price
D	Price change of other goods that could be produced using similar resources

7. Monopoly is the market structure where in: -

A	There are no close substitutes available in the market
B	Demand curve moves from left to the right downward
C	There is only one producer
D	All the three mentioned above

8. In order to reduce the money supply in the economy, the Central bank of the country, through its monetary policy: -

A	Purchases the government bonds and treasury bills through the open market
B	Reduces the discount rate
C	Sells the government bonds and treasury bills in the open market
D	All of the above

9. Marginal rate of substitution for x and a y goods is obtained by: -

A	The slope of demand curve
B	The slope of supply curve
C	The slope of budget line of the consumer
D	The slope of an indifference curve

10. An Economic system in which public and private sectors exist side by side is known as: -

A	Capitalism
B	Socialism
C	Mixed economy
D	Islamic economic system

11. To avoid double counting in the estimation of GNP, economists will: -

A	Add price of all goods and services bought and sold
B	Use the GNP deflator
C	Add the price of only intermediate goods
D	Calculate the value added at each stage of production

12. If all inputs are increased by 100% and the result is 120% increase in output, this would: -

A	Illustrate the law of increasing returns
B	Illustrate the law of diminishing returns
C	Illustrate the increasing returns to scale
D	Contradict the principle of increasing returns to scale

13. Which one of the following is most likely to discourage capital investment: -

A	High saving rates
B	Increasing corporate profits
C	Moderate growth of GNP
D	High interest rates

14. Consumer's Surplus is defined as: -

A	Amount by which the income of consumers exceeds their expenditure
B	Amount of money consumers would be prepared to pay for a good in excess of what they pay
C	Value of goods and services which are provided free to consumers by Govt.
D	Value of the goods bought which are in excess of subsistence requirements

15. To maximize his utility, a consumer must spend his income so that: -

A	The total utility obtained from each good is equalized
B	The average utility from each good is equalized
C	The marginal utility obtained from each good is equalized
D	The ratio of marginal utility to price for each good is equalized

16. Monopolistic competition differs from perfect competition in that: -

A	There are very few firms
B	Barriers exist to the entry of new firms
C	Products are differentiated
D	Marginal revenue exceeds marginal cost in long-run equilibrium

17. Abnormal profit cannot be earned under conditions of: -

A	Monopoly in the long run
B	Oligopoly in the long run
C	Perfect competition in the short run
D	Perfect competition in the long run

18. Which of the following is an injection into the circular flow of income in an economy?

A	Corporation tax paid by private sector firm
B	Money spent by overseas visitors on food and drink
C	The purchase of government stock
D	The purchase of shares on the Stock Exchange

19. Which of the following assets of the commercial banks are the most profitable: -

A	Balances at the central bank
B	Eligible commercial bills
C	Treasury bills
D	Loans and advances

20. What is implied by existence of a negative externality: -

A	Individuals are not the best judge of their own well-being
B	Output is below its optimum level
C	Producers are not profit maximisers
D	There is a divergence between private and social costs

21. Which one of the following is an example of Fiscal policy?

A	A reduction of credit controls
B	The alteration of the foreign exchange rate
C	The introduction of a ceiling on wage increase in the private sector
D	A reduction in value added tax

22. A Regressive tax is defined as one that requires: -

A	All tax payers to pay the same absolute amount of their income in taxation
B	High income earners to pay more in taxes than low income earners
C	High income earners to pay a lower proportion of their income in taxes than low income earners
D	High income earners to pay a higher proportion of their income in taxes than low income earners

23. Which one of the following is normally classified as instrument of Fiscal policy?

A	Control of interest rate
B	Control of the money supply
C	Management of the National Debt
D	Control of the level of government expenditure

24. The Acceleration principle postulates that:-

A	The rate of change of net investment influences national income
B	The rate of change of output influences net investment
C	The rate of change of net investment is determined by the level of output
D	The capital output ratio changes as demand changes

25. According to Keynesian theory, in a closed economy without government, planned savings are brought into equality with planned investment by changes in: -

A	The rate of interest
B	The level of national income
C	The level of autonomous consumption
D	The level of induced consumption

ANSWERS

1	D	14	B
2	C	15	D
3	B	16	C
4	D	17	D
5	B	18	B
6	C	19	D
7	D	20	D
8	C	21	D
9	D	22	C
10	C	23	D
11	D	24	B
12	C	25	B
13	D	--	--



MODEL MCQ'S - BATCH -23, MAY-2006

1. An artist works for 8 hours each day and produces greeting-cards at the rate of 150 per hour. He sells the cards for Rs.10 each. What is the opportunity cost of taking a holiday on a working day?

A	Rs.10
B	Rs.150
C	150 cards
D	1200 cards

2. If the demand for a good is perfectly elastic, the incidence of a tax on that good falls,

A	Entirely on the buyer
B	Entirely on the supplier
C	Equally between buyer and seller
D	Mostly on the buyer

3. Which of the following groups is most likely to benefit from inflation?

A	Debenture holders
B	Debtors
C	Retirement pensioners
D	Salaried officials

4. To what does the phrase "terms of trade" refer?

A	The currency exchange rate
B	The Government's policies to increase exports
C	The difference between the value of visible exports and visible imports
D	The rate at which exports are exchanged for imports

5. A firm producing 500 pens has variable costs of Rs.150 per unit and total fixed costs of Rs.100. What is the firm's average total cost?

A	Rs.0.50
B	Rs.1.50
C	Rs.1.70
D	Rs.2.00

6. The elasticity of demand for cigarettes is estimated to be 0.5. The Govt. introduces tax on cigarettes to reduce consumption. By how much must the price of cigarettes rise to reduce consumption by 10%?

A	5%
B	10%
C	15%
D	20%

7. A town has a population of 10,000. The birth rate is 25 per thousand and the death rate is 15 per thousand. The number of people moving in and out of the town exactly balances,

A	9,900
B	10,100
C	10,025
D	10,010

8. The table shows the effects of a tax on the distribution of income.

Income group as below	Percentage distribution of incomes	
	Before tax	After tax
Top 40%	67%	53%
Bottom 60%	33%	47%

Which taxation system does the table represent?

A	Indirect
B	Progressive
C	Proportional
D	Regressive

9. Which of the following is an invisible import of Pakistan?

A	The purchase of 1000 Japanese cars
B	The use of hotel accommodation by American visitors
C	The cost of car hired by Pakistani tourists abroad
D	The earnings of Pakistan airlines

10. The table shows a company's costs for producing bicycles.

Number of bicycles	1	2	3	4	5
Total cost	Rs.30	Rs.40	Rs.50	Rs.60	Rs.70

Which of the following statement is true?

A	The average fixed cost of producing 2 units is Rs.20
B	The average cost of producing 4 units is Rs.15
C	The average variable cost of producing 5 units is Rs.14
D	The total fixed cost is Rs.10

11. Who would benefit most from a continuous unexpected rise in prices?

A	Banks which make loans
B	Companies which sell abroad
C	Pensioners on fixed incomes
D	People repaying loans

12. Who will benefit if Pakistan bans all steel imports?

A	Foreign steel producers
B	Pakistani firms buying steel
C	Pakistani firms selling steel at home
D	Pakistani firms selling steel abroad

13. The table shows the percentage increases in wages and productivity for the five countries.

In which country wage increases like to cause the greatest inflationary pressure?

Country	Increase in wages in %	Increase in productivity in %
A	3	3
B	14	15
C	3	0
D	9	11

14. Which of the following benefits does a stock exchange provide?

A	A source of finance for private limited company
B	A safeguard against the risk of loss
C	An opportunity for banks to create new money
D	An opportunity to sell shares quickly

15. A farmer gains less revenue from sales when a crop is large than when it is small. This must be because of.

A	Demand is elastic
B	Demand is inelastic
C	Supply is elastic
D	Supply is inelastic

16. What is the price elasticity of demand when price increases from Rs.5 to Rs.6 and demand decreases from 50 units to 40 units?

A	0.1
B	0.8
C	1
D	1.25

17. What is the major disadvantage of the sole trade or sole proprietor as a type of business?

A	Additional labor can not be employed.
B	Banks will not lend to his for of business.
C	Output may be sold only locally not nationally.
D	The owner is personally liable for any debts.

18. What will make an industry capital-intensive?

A	If it employs many unskilled workers.
B	If it manufactures expensive products.
C	If it occupies sites on cheap land.
D	If it requires expensive equipment and a small labor force.

19. Which circumstances might shift the market demand curve for cigarettes to the left?

A	A health scare linking cigarettes with heart disease.
B	An increase in the price of tobacco due to poor harvests.
C	An increase in tax levied on cigarettes.
D	A successful advertising campaign encouraging smoking.

20. Why might policies to promote economic growth result in inflation?

A	They increase competition.
B	They increase saving.
C	They increase spending.
D	They increase unemployment.

21. What distinguishes a multi-national company from other companies?

A	It exports its products all over the world?
B	It has agents I other countries.
C	It produces in more than one country.
D	It uses raw materials from more than one country.

22. Which of the following would cause incomes to become less equal?

A	Increased employment.
B	Increased welfare benefits.
C	More progressive taxes.
D	More regressive taxes.

23. A large textile mills expanded by acquiring retail clothing outlets. Of what is this an example

A	Diversification.
B	External economies of scale.
C	Horizontal integration.
D	Vertical integration.

24. What is a benefit of tariffs?

A	Increased choice.
B	Increased government revenue.
C	More competition.
D	More trade.

25. Japan has very strict import controls. What results from this?

A	Increased competition in Japan.
B	Increased levels of world trade.
C	Lower prices in Japan.
D	Protection of Japanese industries and jobs.

ANSWERS OF BATCH- 23

1.D	The artist produces 1200 cards in a day while he works for 8 hours. If he takes a holiday, he will have to forego that production. Opportunity cost is measured in terms of foregone alternative, therefore answer is 1200 cards-
2.B	When demand is perfectly elastic, price cannot be raised hence the taxes cannot be added to the price and the entire burden falls on the producer.
3.B	Debtors will forego less purchasing power when they repay their debts. Hence they will gain from inflation.
4.D	Terms of trade denote ratio between price of exports and price of imports hence terms of trade show the rate of exchange between exports and imports.
5.C	Total variable cost is Rs.1.50 x500=Rs.750, total fixed cost is Rs.100 thus total cost is Rs.850, average total cost is Rs.850/500 units=Rs.170.
6.D	Elasticity of Demand = % change in quantity/% change in price. 10% divided by x =.5=20%. The elasticity 0.5 is already given and to get that we should put in formula 20% in place of x, thus result will be .5-

7.B	Population growth rate= birthrate minus death rate. $25-15=10$ per thousand. Since population of town is 10,000 therefore increase is 100 per year and population will become 10,100 in a year.
8.B	The chart shows redistribution of income in favor of poor people of bottom 60%. After tax the income of the rich people has decreased from 67% to 53%, whereas of poor people it has increased from 33% to 47%.
9.C	Invisible imports mean import of services.
10.B	Average cost = Total cost/output = $\text{Rs.}60/4 = \text{Rs.}15$
11.D	People who are repaying loans are foregoing less purchasing power, when the price level is rising continuously, hence they benefit most.
12.C	There would be no foreign competition for local firms selling steel in Pakistan if all imports are banned, hence these firms will benefit due to protection policy.
13.C	When wages rise more than the productivity of labor, inflation is caused. In country C, productivity of labor has not increased at all it is only zero percent but wages have gone up by 3 percent, therefore in this country there will be greatest inflation. Philips curve says, Rate of inflation = Rate of wages – Rate of productivity.
14.D	Stock exchange is a market for sale and purchase of existing shares of business firms. Stock exchange helps in selling shares quickly.

15.B	A large crop is likely to decrease the price and the resulting revenue goes down when elasticity of demand is less than one i.e. When demand is inelastic.
16.A	Elasticity = $\frac{\Delta q}{\Delta p} \times \frac{p}{q} = -10/1 \times 5/50 = 50/50 = 1$ Elasticity is equal to unity.
17.D	Main disadvantage of sole trader form of business is unlimited liability.
18.D	If an industry uses more capital in proportion to labor, it is using capital intensive technique of production.
19.A	If the people really feel that smoking is injurious to health, they might decrease smoking and demand for cigarettes might fall.
20.C	Policies to promote economic growth involve spending on capital formation. Increase in spending is inflationary in nature.
21.C	A multinational company is the one that has assets and business in different countries.

22.D	A regressive tax is the one whose rate decreases with an increase in income. More tax on poor and less on rich would cause unequal distribution of incomes.
23.D	When two firms working at two different stages of the production process merge into each other, it is called vertical integration of firms.
24.B	Tariffs are import duties/taxes. Taxes may generate revenue for the Govt. as long as imports are positive.
25.D	When imports are restricted, the home industry is protected from foreign competition. As a result, local industry develops and employment also increases.

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www.mca.com.pk By Mansoor-ul-Hassan

MODEL MCQ'S - BATCH - 24 , NOVEMBER-2006

1. Which is a benefit from tariffs on imports?

A	Greater international trade.
B	Higher government revenue.
C	Increased competition.
D	Wider consumer choice.

2. Which is a characteristic of a debenture?

A	It carries a fixed rate of interest.
B	It gives the right to vote in the firm.
C	The dividend is based on profits.
D	The dividend is paid after that of ordinary shares.

3. To achieve its economic aims by means of Monetary Policy, a Govt. may change its,

A	Budget deficit.
B	Minimum lending rate.
C	Regional assistance.
D	Rate of income tax.

4. Which reason might a Govt. have for passing a law setting a minimum wage level?

A	Skilled labor is scarce.
B	Unemployment is very low.
C	Unions are too powerful.
D	Workers have weak bargaining position.

5. What is an advantage of increased division of labor?

A	There is less risk of unemployment.
B	There is usually an increase in productivity of labor.
C	The work is repetitive.
D	Workers are less dependent on others.

6. When a private limited company becomes a public limited company, this gives the company,

A	Access to government funds.
B	Funds by offering shares to the public.
C	Greater controls of operations.
D	Limited liability.

7. What would cause a country's exchange rate to fall?

A	An increased demand for its imports.
B	An increased demand for its exports.
C	An increase inflow of capital.
D	A reduced rate of domestic inflation.

8. What is more likely to be found in a free market economy than in a planned economy?

A	An even distribution of income.
B	An incentive to innovate.
C	A wide range of public goods.
D	Full employment of labor.

9. A country has a proportional taxation system. A person pays Rs.500 tax when earning are Rs.5000. How much tax will be paid if earnings rise to Rs.12000?

A	Rs.120
B	Rs.500
C	Rs.1200
D	Rs.7500

10. Which effect is an external benefit when a new motorway is built through outskirts of a town?

A	Increased in air pollution.
B	Reduced accident levels.
C	Reduction in property values.
D	The costs of construction.

11. The table shows a worker's total income and the deductions made in 2005.

Annual wage	Rs.25000
Over time pay	Rs. 2000
Direct taxes	Rs. 5000
Other deductions from salary	Rs. 2000

The worker saved 10% of his disposable income in 2005. How much was his savings?

A	Rs.2000
B	Rs.1800
C	Rs. 2200
D	Rs. 2000

12. Only two goods x and y are available to a rational consumer. Their prices are P₁ & P₂ marginal utilities of these goods are denoted by MU_x and MU_y. The utility theory of consumer behavior states that the consumer will purchase units of x and y until,,

A	$MU_x / P_x = MU_y / P_y$
B	$MU_x / MU_y = \text{Zero}$
C	$MU_x / MU_y = P_x / P_y$
D	$MU_x / MU_y = \text{Zero}$

13. To derive GNP at market prices from GDP at market prices, allowance has to be made for.

A	Depreciation.
B	Exports and imports.
C	Indirect tax and subsidies.
D	Net property income from abroad.

14. In which of the following circumstances, will consumer surplus be zero?

A	Demand is perfectly inelastic.
B	Demand is perfectly elastic.
C	Elasticity of demand is 1.
D	Supply is perfectly elastic.

15. Which of the following is included in the national income when it is measured by expenditure method?

A	Government's final consumption.
B	Gross trading profits of public companies.
C	Rents from properties.
D	Trading surpluses of private companies.

16. An economy produces two goods x and y. What name is given to the curve which shows for each level of output of x, the maximum amount of Y that can be produced?

A	A budget line.
B	An indifference curve.
C	A production possibility curve.
D	An iso-quant.

17. The Accelerator Theory of investment is based on the idea that investment is determined mainly by,

A	Interest rates.
B	Levels of saving
C	The absolute level of national income
D	The rate of change of national income.

18. The Phillips Curve is a relation ship between,

A	The level of unemployment and rate of growth of output.
B	The money supply and the level of interest rates.
C	The rate of inflation and the level of unemployment
D	The rate of inflation and the money supply.

19. Which of the following is an invisible import of Saudi Arabia?

A	The purchase of 1000 American cars.
B	The purchase of twenty million litres of French paint.
C	The cost of car-hire by Saudi Arabian tourists abroad.
D	The earnings of Saudi Airlines

20. In Egypt boats were used mainly to transport goods on the River Nile. As the tourist trade grew, boats were also used to take visitors for trips.

A	Economies of Scale.
B	Diversification
C	Specialization
D	Subsistence

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ANSWERS OF BATCH- 24

1.B	Tariff is an import duty/tax. It is likely to raise govt. revenue if imports remain positive.
2.A	Fixed interest is paid on debentures as firms acquire loan by issuing debentures.
3.B	Monetary Policy relates to supply of money and the rate of interest. Minimum lending rate comes under this policy.
4.D	When the workers are in a weak bargaining position, the Govt. Is required to help them by setting a minimum wage level.
5.B	Division of labor puts right man in right place by specialization. It increases Productivity.
6.B	Public limited company is permitted to sell its shares to the public to collect funds.
7.A	For exchange rate to fall, balance of payments has to be in deficit. When demand for imports rises, it is likely to have an adverse effect on balance of payments.
8.B	In a market economy, every one works for maximum personal economic benefit. Therefore there would be an incentive to innovate.
9.C	Proportional tax is rate of which remains constant at all levels of income. He pays tax Rs.500/Rs.5000 x 100= 10% Therefore Rs.10/Rs.100 x Rs.12000=Rs.1200.
10.B	Reduction in accidents will be a positive externality and a part of social benefit as per definition of externalities.
11.D	Annual wage + Overtime – direct taxes – other deductions = Disposable income. $25,000 + 2000 - 5000 - 2000 = 20,000$ Workers disposable income is Rs.20,000 of which 10% saved which is =Rs.2000
12.C	According to utility approach a consumer is in equilibrium when per current unit marginal utility of all commodities purchased is equal. That is written as $MU_x / P_x = MU_y / P_y$. The same condition may also be written as $MU_x / MU_y = P_x / P_y$
13.D	Difference between GDP and GNP is equal to net property income from abroad.
14.B	When demand is perfectly elastic, the price that a consumer is willing to pay is equal to the price that he actually pays.
15.A	National income according to expenditure method is explained in the following equations. $Y = C + I + G + X - M$. Since G means government expenditure therefore it will be included in national income estimates.
16.C	Production possibility curve shows the combinations of two goods that an economy can produce with given resources and while being full employment.
17.D	Accelerator by definition explains the rate of change in investment with respect to change in income.
18.C	The Phillips Curve represents the relationship between rate of inflation and rate of unemployment.
19.C	Invisible import is import of car services.
20.B	As the boats are now being used for different purposes, it is diversification.

MODEL MCQ'S, BATCH—25, MAY- 2007

1. When a firm increases all its outputs four-holds, its output increases threefold.

What does this illustrate?

A	Decreasing marginal costs.
B	Decreasing returns to scale.
C	Economies of scale.
D	Law of diminishing returns

2. Which type of unemployment is associated with a deficiency in aggregate demand?

A	Cyclical.
B	Frictional.
C	Structural.
D	Voluntary.

3. What would facilitate collusion between firms in an oligopolistic industry?

A	An increase in the number of firms.
B	Large fluctuations in demand.
C	Rapid changes in technology.
D	A standardized product.

4. An inflationary gap exists in an economy when,

A	Aggregate demand is greater than full employment income.
B	Leakages exceed injections at the full employment income.
C	Money wage rises exceed rises in labor productivity.
D	The money supply rises faster than nominal national income.

5. Which one of the following is a liability of a commercial bank?

A	Banker's deposits.
B	Deposits.
C	Money at call.
D	Overdrafts.

6. In an open economy, consumption is Rs.80 M, investment expenditure is Rs.20 M, Govt. final expenditure is Rs.20 M, exports are Rs.20 M, and imports are one fifth of consumption.

What is the level of GDP?

A	Rs.104 Million.
B	Rs.112 Million.
C	Rs.120 Million.
D	Rs.124 Million.

7. In national income accounting, which one of the following is treated as Transfer Payments

A	Expenditure on the government's embassies in foreign countries.
B	Fees paid to independent research scientists by the Govt.
C	Interest paid to holders of gilt-edged securities.
D	Salaries of civil servants.

8. For which pair of goods are cross price elasticities of demand most likely to be negative?

A	Cinema tickets and videos.
B	First and second class rail tickets.
C	Petrol and cars.
D	Salt and sugar.

9. During a year, there has been a rise in national income of 10% and a rise in the retail price index of 8%. The population has fallen by 2%. What is the approximate rise in real income per head?

A	0%
B	2%
C	4%
D	8%

10. Which of the following is a characteristic of goods that are perfect complements?

A	Joint demand.
B	Joint supply
C	Indivisibility in production.
D	Positive cross elasticity of demand.

11. According to Keynesian theory, what will cause the rate of interest to rise?

A	A decrease in the rate of investment.
B	An increase in liquidity preference.
C	An increase in the level of savings
D	An increase in the supply of money.

12. What is used to measure the deflationary gap?

A	The increase in injections needed to reach full employment.
B	The public sector borrowing requirement.
C	The rate of deflation.
D	The rate of employment.

13. A firm earns super-normal profit when its profit is above that,

A	Earned by competing firms.
B	Needed to cover its fixed costs.
C	Needed to keep the firm in production in short-run.
D	Public sector borrowing requirement.

14. In a closed economy, with no government, the marginal propensity to consume is 0.9 and the average propensity to consume is 0.8. What is the value of Multiplier?

A	5
B	8
C	9
D	10

15. What would explain why a firm's long-run average cost curve is U-shaped?

A	An increase in capacity utilization as output expands.
B	Changes in the technology.
C	Economies and diseconomies of scale.
D	Rising factor prices after a certain level of output.

16. Given that potatoes are an inferior good. What will cause an increase in the price of potatoes?

A	A decrease in advertising expenditure.
B	A failure of the potatoes harvest.
C	An increase in subsidies to potato growers.
D	An increase in the income of consumers.

17. A firm in a perfectly competitive industry is in long-run equilibrium. The marginal physical product of labor is 8 units per hour and the wage rate is Rs.4 an hour, what is the firm's average cost?

A	Rs.0.50
B	Rs.2.00
C	Rs.4.00
D	Rs.32.0

18. In a closed economy with no government, $C = 40 + 0.7Y$ and $I = 50$, where C is consumption, Y is income and I is investment, what is the equilibrium of national income?

A	Rs.640
B	Rs.300
C	Rs.210
D	Rs. 90

19. What will result from a rise in interest rates?

A	A fall in the cost of issuing new shares.
B	A fall in the price of fixed interest securities.
C	An increase in capital gains realized on the sale of securities.
D	A rise in the dividends on ordinary shares.

20. When does the incidence of a tax imposed on a particular good fall entirely upon producer

A	When demand is unit elastic.
B	When supply is unit elastic.
C	When demand is perfectly elastic.
D	When supply is perfectly elastic.



ANSWERS OF BATCH- 25

1.B	All inputs can be changed only in the long run. Therefore it will be returns to scale that might be affected. Here the output is increasing at a slower rate than input which points to decreasing returns to scale.
2.A	The unemployment that is caused by lack of aggregate demand is called Keynesian unemployment or cyclical unemployment.
3.D	Collusion is an agreement between oligopolist firms to avoid competition between themselves. A standardized product makes it more feasible.
4.A	Inflationary gap is defined as excess of aggregate demand over available supply of output.
5.B	Deposits of a commercial bank are liabilities as bank has to pay it back to the customers.
6.D	$GDP = C + I + G + x - m$. Rs.80 + 20 + 20 + 20 - (80 x 1/5) = Rs.14 Millions.
7.C	Transfer payments are those payments for which no services are rendered. By rules of national accounting, returns/interest on govt. bonds are treated as transfer payments.
8.C	Cross elasticity of demand for substitutes is positive and it is negative for complementary goods. Petrol and cars are complementary goods.
9.C	Real national income = Rise in national income minus Rise in general price level. 10 Percent minus 8 percent = 2 percent. As population fell by 2 %, real income per head would rise by 4 % because 2% due to change in real income and 2% due to fall in population.
10.A	Complementary goods are jointly demanded goods e.g. car and petrol.
11.B	In Keynesian theory, rate of interest is determined by the demand for and supply of money. Demand for money is also called Liquidity Preference.
12.A	Deflationary gap is equal to the difference between aggregate demand required to be at full employment level and actual aggregate demand.
13.D	Normal profit is described as the amount of profit required for a firm to keep its resources in their present use. But Super normal profit will be above that level.
14.D	Formula of multiplier. $K = 1/1-MPC$, $1/1-.9$, $1/.1$, $1/1/10$, $1/1 /10$, $1/1 \times 10/1 = 10$.
15.C	Long run average cost decreases due to economies of scale and increases because of diseconomies. That is what determines the shape of long run average cost curve.
16.B	A failure of the potato harvest means a fall or decrease in its supply.
17.C	Average cost in factor market is equal to average wage which in this case is Rs.4 Marginal product is 8 units per hour and wage rate is Rs.4 per hour, both are equal.
18.B	Condition for equilibrium is , $Y = C + I$, $C = 40 + 0.7y$, $I = 50$, hence $Y = 40 + 0.7Y + 50$, $Y - 0.7y = 40 + 50 = 0.3y = 90$, $Y = 90/0.3 = 300$
19.B	There is an inverse relationship between the rate of interest and market price of Govt. bonds and securities with fixed profit/interest, when rate of interest increases, bond prices go down and vice versa.
20.C	Total burden of a tax may fall on producer in two situations, when supply is absolutely inelastic or when demand is perfectly elastic.

MODEL MCQ'S --BATCH- 26--NOVEMBER- 2007

1. In a multi-banking system, all banks maintain a ratio of cash to deposits of 10%. One bank receives a new cash deposit of Rs.500. If the amount of cash subsequently held by the public remains unchanged, what will be the final increase in bank deposits?

A	Rs.50
B	Rs.500
C	Rs.550
D	Rs.5000

2. What describes a regressive tax?

A	It is paid by higher proportion of high income earners.
B	It is paid by a lower proportion of low income earners
C	It takes a higher proportion from high incomes.
D	It takes a higher proportion from low incomes.

3. When price of a good doubles, the demand falls by more than half and the revenue received by the seller falls. What does this suggest about the good?

A	It has substitutes.
B	It is a necessity.
C	It is perfectly elastic in demand.
D	It is fixed in quantity.

4. Which reason for an import control allows a country to develop a potential comparative cost advantage in particular good?

A	A quota that protects jobs in a depressed region.
B	A short term tariff that protects an infant industry.
C	A tariff that improves an industry's terms of trade.
D	An embargo on goods with negative externalities.

5. Which of the following is most likely to increase a country's long run economic growth?

A	An increase in the money supply.
B	An increase in the rate of interest.
C	An appreciation of the currency.
D	Inward investment by foreign firms.

6. Which of the following will be likely to result from an open market purchase of securities by the central bank?

A	A fall in short term capital inflows.
B	A fall in the quantity of money.
C	A rise in the level of unemployment.
D	A rise in the rate of interest.

7. What would result from a devaluation of a country's exchange rate?

A	An increase in the domestic currency price of imports.
B	An increase in the foreign currency price of exports.
C	An increase in the foreign currency price of imports.
D	A reduction in the domestic currency price of exports.

8. Under which conditions will an indirect tax fall entirely on the consumer?

A	Demand is of unitary elastic.
B	Demand is perfectly inelastic.
C	Supply is of unitary elastic.
D	Supply is perfectly inelastic.

9. If a firm is making normal profit, it must be true that,

A	Average cost equals average revenue.
B	Average cost equals marginal revenue.
C	Marginal cost equal average cost
D	Marginal cost equals average revenue.

10. Increased borrowing by the government results in higher interest charges and this leads to less private investment expenditure. What is this an example?

A	The Accelerator.
B	Crowding out.
C	Fiscal drag.
D	Inflation.

11. In which of the following situations will a country's terms of trade worsen?

A	The prices of its imports rise by more than the prices of its exports.
B	The total cost of its imports rises by more than its total export earnings
C	The value of its imports rises by more than the value of its exports.
D	The volume of its imports rises by more than the volume of its exports.

12. Charging different prices for a good represents price discrimination if it is based on different,

A	Costs of production.
B	Distances between customers and sellers
C	Incomes of customers.
D	Quality of output.

13. Which of the following accounts for the difference between net and gross measures of national product at factor cost?

A	Capital consumption.
B	Indirect taxes minus subsidies.
C	Net property income from abroad.
D	Transfer payments.

14. What is meant by the real rate of interest?

A	The rate charged by the central bank as lender of the last resort.
B	The rate of interest adjusted for inflation.
C	The rate of interest expressed as annual figure.
D	The rate of return on investment in industry.

15. The consumption function of an economy with no Govt. sector and no foreign trade is $C = Rs.120 + 0.6y$. (C is consumption and Y is national Income). If investment expenditure autonomous and equal to Rs.280, what is the equilibrium level of national income?

A	Rs.400
B	Rs.600
C	Rs.800
D	Rs.1000

16. In a perfectly competitive industry, what happens when an indirect tax is imposed?

A	Only the demand curve shifts to the left.
B	Only the supply curve shifts to the left.
C	Only the supply curve shifts to the right.
D	Both the supply and demand curves shift to the left.

17. According to Keynesian monetary theory, what would be the result of an increase in a government's budget deficit, which is financed by borrowing from the public?

A	An increase in interest rates.
B	An increase in the money supply.
C	An increase in the price of government bonds.
D	An increase in the quantity of money demanded for speculative purposes.

18. Which of the following increases specialization in a country?

A	A car manufacturer takes over a chain of garages.
B	A farmer rents out some fields for camping.
C	A general store becomes a video shop.
D	A lorry driver also works as a part-time driver.

19. In which of the following circumstances will a firm cease production in the short run?

A	It makes a profit which is less than its total variable costs.
B	It makes a profit which is less than its total fixed costs.
C	Its average revenue is less than its average variable costs.
D	Its average revenue is less than its average fixed cost.

20. Which benefit does a stock exchange provide?

A	An opportunity for banks to create new money.
B	An opportunity to purchase foreign currency.
C	An opportunity to sell shares quickly.
D	A safeguard against the risk of loss.



ANSWERS OF BATCH – 26

1.D	Credit creation= Cash x 1/cash ration, Rs.500x1/10/100, 500x1/1x100/10=Rs.5000
2.D	When rate of tax decreases with an increase in income it is regressive tax.
3.A	When price doubles an demand falls by more than half and revenue of the seller falls, demand of the good elastic that is elasticity is greater than one. Demand for a good is more elastic when it has several substitutes.
4.B	A tariff that protects an infant industry allows to gain economies of scale and decreases its cost of production. That is how the tariff may allow a country to acquire comparative advantage in future.
5.D	Economic growth is a function of capital formation/investment, hence inward investment by foreign firms will contribute towards economic growth.
6.A	If the central bank purchases securities from the open market, supply of money increases and as a result rate of interest is likely to decrease. A decrease in the rate of interest will induce less capital inflow.
7.C	Devaluation makes imports costlier in terms of local currency as after devaluation greater amount of local currency will have to be given up for each unit of foreign currency.
8.B	Burden of a tax falls entirely on the consumer when demand is absolutely inelastic.
9.A	Normal profit is included in total cost. When a firm is covering its total cost, it is earning super normal profit. Total cost is equal to total revenue at a output level when AC=AR.
10.B	When the Govt .borrows at higher rate of interest then the private sector may dis-invest to lend the money to government at attractive terms. This is called crowding out.
11.A	Terms of trade = Price of exports/ Price of imports.
12.C	One of the conditions for price discrimination is difference in elasticity of demand in different markets/groups of customers due to difference in income of customers.
13.A	Difference between net and gross measures of national product at factor cost is equal to depreciation. Capital consumption is another term used for depreciation of machinery.
14.B	Real rate of interest may be calculated by subtracting the rate of inflation from nominal rate of interest.
15.D	Consumption is =Rs.120+ 0.6y Investment =Rs.280, Income (y)= consumption(c) + Investment (I) $Y = 120 + 0.6y + 280$ $1Y - 0.6y = 280 + 120$ $0.4y = 400 \implies Y = 400/0.4 = 4000/4 =Rs.1000.$
16.B	Under perfect competition the incidence of tax will be entirely on supplier as demand is perfectly elastic. Supply will fall when a sales tax (indirect tax) is imposed.
17.A	When a budget deficit is financed by borrowing from the private sector, it causes a decrease in the supply of money in the market and as a result, rate of interest might increase.
18.C	When a general store turns into a video shop, it specializes in one particular field.
19.C	A firm would not like to produce below its shut down point. Shut down point is the point at which AR=AVC, below this, when average revenue is less than average cost, the firm will cease its production.
20.C	Stock Exchange is a market for the quick purchase and sale of existing shares of joint stock companies.

MODEL MCQ'S, BATCH- 27, MAY- 2008

1. What makes demand 'effective'?

A	A choice of alternative goods and services.
B	An ability to pay for the goods that are desired.
C	Perfect knowledge of the opportunities available to consumers.
D	The existence of consumer sovereignty.

2. When will a consumer wish to maximize the total utility obtained from consuming a good?

A	When marginal utility from all other purchases is diminishing.
B	When the consumer has a limited amount of purchasing power.
C	When the opportunity cost to the consumer of consuming the good is zero.
D	When the total utility derived from the good can be maximized from within the consumer's budget.

3. Which of the following, other things being equal, will cause interest rates to rise?

A	An increase in business optimism.
B	A reduction in the demand for overdrafts by private companies.
C	A reduction in the public sector borrowing requirement.
D	The expectation of an increase in the prices of government securities.

4. What does the Accelerator principle state?

A	Consumption is a function of the rate of change of income.
B	Income is a function of the rate of change of investment.
C	Investment is a function of the rate of change of income.
D	Investment is a function of the rate of interest.

5. Which type of unemployment is associated with a deficiency in aggregate demand?

A	Cyclical
B	Frictional
C	Structural
D	Voluntary

6. Over a given period, the nominal value of country's national income increased by 20% and the rate of inflation was 10%,

A	The country's money supply increased by 10%.
B	There was an increase in the income velocity of circulation.
C	There was an increase in the volume of output.
D	There was a reduction in the demand for money.

7. How do commercial banks create money?

A	By cashing cheques for their customers.
B	By increasing their reserves at the central bank.
C	By making loans to customers.
D	By charging customers for banking services.

8. Some of the firms in an industry agree to set the same price. What would threaten the continuation of the agreement?

A	Homogeneity of the product.
B	The inclusion of the dominant firm in the industry.
C	Differences in cost structures between the firms.
D	Significant barriers to entry into the industry.

9. In which situation is the demand for a product said to be price elastic?

A	A fall in price increases quantity demanded
B	A fall in price increases expenditure on the product.
C	A rise in price reduces quantity demanded.
D	A rise in price increases expenditure on the product.

10. Which of the following would not be a reason for a government to impose a quota on imports?

A	To prevent dumping.
B	To raise tax revenue.
C	To retaliate against other countries.
D	To support a strategic industry.

11. Why is liquidity preference likely to be high when the rate of interest is low?

A	People expect to make a capital gain by buying bonds.
B	People want to hold money for precautionary reason.
C	The opportunity cost of holding money is low.
D	Private investment is more profitable.

12. What would result from a devaluation of a country's exchange rate?

A	An increase in the foreign currency price of imports.
B	A reduction in the domestic currency price of imports.
C	A reduction in the foreign currency price of exports.
D	A reduction in the domestic currency price of exports.

13. Many public utilities can be described as "natural monopolies". Which statement best describes the situation leading to a natural monopoly?

A	There are high fixed costs and falling average costs over all output demanded.
B	There are legal restrictions on new entrants.
C	A single firm controls the supply of raw materials.
D	The firm has a patent on an essential process.

14. Which statement about the consequences of a more equal distribution of income is normative?

A	It would raise the average propensity to consume.
B	It would increase the rate of economic growth.
C	It would be inflationary.
D	It would improve national welfare.

15. Which policy measure would tend to reduce both the rate of inflation and a balance of payments deficit?

A	An appreciation of the country's currency.
B	An increase in import tariffs.
C	A reduction in government spending.
D	A reduction in the level of interest rates.

16. Which of following is a feature of monopolistic competition, but not of perfect competition?

A	A large number of buyers.
B	Product differentiation.
C	The existence of abnormal profits.
D	The existence of barriers to entry.

17. How might a firm benefit from external economies?

A	By increasing its expenditure on advertising.
B	By increasing its scale of production.
C	By locating in an area in which the industry is already established.
D	By merging with another domestic firm engaged in the same industry.

18. In production theory, what determines the length of the "short run"?

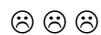
A	The degree of substitutability between capital and labor.
B	The ratio of capital to labor.
C	The time it takes before the fixed factor can be altered.
D	The time it takes before the variable factor can be altered.

19. Which assets provide investors with most certainty over future purchasing power?

A	Bank deposits.
B	Government bonds.
C	Ordinary shares of companies.
D	Index-linked saving certificates.

20. An economy has a balance of payments deficit and a high level of inflation. What would be the appropriate action for a government to take?

A	Increase the money supply.
B	Raise interest rates.
C	Remove tariffs on imports.
D	Devalue the currency.



ANSWERS OF BATCH – 27

1.B	Demand by definition, is a desired backed by the purchasing power i.e. money.
2.C	If the opportunity cost of a good is zero, the consumer would like to consume it up to the point where its marginal utility is zero. When $MU=0$, TU is maximum
3.A	Rate of interest is determined by demand for (liquidity preference) and supply of money. I increase in business optimism is likely to increase speculative demand for money.
4.C	Acceleration states that when income rises, investment rises more than change in income. It is numerical value of rate of change in investment with respect to a change in income.
5.A	Unemployment that comes into existence due to deficiency in aggregate demand is called Keynesian or cyclical unemployment.
6.C	Money value of national income increased by more than the inflation rate which meant there had been a change in real output of the economy. $\% \text{ change in real income} = \% \text{ change in national income} - \text{Rate of inflation}$.
7.C	Commercial banks can create credit worth more than their cash deposits. That is how they create money when they issue loans to their customers.
8.B	That is about the market situation called Oligopoly. In such a market, the price set by the dominant firm prevails. The largest firm comes out to be the "Price Leader".

9.B	Demand is elastic when elasticity of demand is greater than one. When elasticity of demand is greater than one, expenditure increases due to a decrease in price.
10.B	Quota is a limit imposed by the government beyond which imports are not permitted. It has nothing to do with tax revenue at all.
11.C	At low rate of interest, lending money out to others is less profitable. That means the opportunity cost of holding it in cash is low.
12.D	Devaluation is a decrease in value of currency in terms of currencies of other countries. Due to it, exports become cheaper in terms of the currencies of other economies.

13.A	High fixed cost is a peculiar characteristic of some of the public utilities e.g. railways That makes them natural monopolies.
14.B	Normative statements are based upon the principle "as it should be". These statements involve subjective value judgment. National welfare is an un-defined term. Hence a statement about it involves subjective value judgment.
15.C	When government spending decreases, aggregate demand goes down. This may check the rate of inflation. A decrease in aggregate demand may also have a negative effect on demand for imports. Hence, balance of payments is likely to improve.
16.B	Product differentiation is a peculiar characteristic of monopolistic competition. Under perfect competition, firms produce exact substitutes of each others product.
17.C	External economies are the advantages which are available to all the firms in an industry. Hence, if a firm is located in an area where the industry is already established, it is likely to enjoy external economies.
18.C	Short run, is the time period sufficient to change only variable factors of production. In the long run, fixed factors can also change.
19.D	Index linking means that these certificates will yield profit equal to the rise in price level i.e. rate of inflation.
20.C	An increase in rate of interest is likely to induce inflow of funds from abroad to improve balance of payments. In addition, it decrease aggregate demand and control inflation.

MODEL MCQ'S, BATCH – 28, NOVEMBER- 2008

1. A student decides to stay in his room to do some work rather than going to the cinema. What is the opportunity cost of his decision?

A	The enjoyment he would have derived from a visit to the cinema.
B	The improvement in the mark he obtains for his assignment.
C	The increase in his electricity bill.
D	The money he would have spent in the cinema.

2. Which characteristic of money is essential, if it is to be used as a medium of exchange?

A	It must be durable.
B	It must be legal tender.
C	It must be limited in supply.
D	It must have intrinsic value.

3. What would be likely to cause an increased demand by private motorists for petrol?

A	An increase in road toll charges.
B	An increase in the price of second-hand cars.
C	A reduction in bus fares.
D	A reduction in the price of steel.

4. A manufacturer progressively reduces the price of his product in an attempt to increase total revenue. The table shows the outcome of this policy.

Price in rupees	Total revenue in thousand rupees
10	750
9	750
8	750

What is the price elasticity of demand for the product?

A	Perfectly inelastic.
B	Relatively inelastic.
C	Perfectly elastic.
D	Unitary elastic.

5. What would explain why a firm's long-run average cost curve is U-shaped?

A	An increase in capacity utilization as output expands.
B	Changes in technology.
C	Economies and dis-economies of scale.
D	Rising factor prices after a certain level of output.

6. What would cause the value of the Accelerator to increase?

A	A reduction in tax rates.
B	An increase in the capital-output ratio.
C	An increase in the saving ratio.
D	An increase in the marginal propensity to consume.

7. Which of the following equations relate to an open economy with a government sector?

A	$E = C + I + G$
B	$E = C + I + G + M - X$
C	$E = C + I + G + X - M$
D	$E = C + I + G - T + M - X$

8. In a closed economy with no government, the marginal propensity to consume is 0.9 and the average propensity to consume is 0.8. What is the value of the multiplier?

A	5
B	8
C	9
D	10

9. An individual works 40 hours per week when the wage rate is Rs.7 per hour. When the wage rate is increased to Rs.9 per hour, the individual works 36 hours per week. What explains the change in the number of hours worked?

A	A negative income elasticity of demand for leisure.
B	An income effect offsetting a substitution effect.
C	An income effect reinforcing a substitution effect.
D	A zero income effect.

10. A rational consumer allocates his expenditure so as to,

A	Equate the marginal utilities obtained from each good.
B	Equate the total utilities obtained from each good.
C	Maximizes the marginal utility from each good.
D	Maximize total utility from his expenditures as a whole.

11. A car manufacturer faces a quota on its exports to a large foreign market. Which strategy would help to increase sales to this market?

A	Establishing and subsidizing a dealer network in the foreign market.
B	Improving the quality of the cars it produces.
C	Reducing the price of exports to that market.
D	Setting up a manufacturing plant in the foreign country.

12. Why is Govt. action often necessary to persuade firms to contribute towards industrial training?

A	External benefits are gained by firms that do not provide training.
B	External costs affect firms that do not provide training.
C	External economies benefit firms that provide training.
D	Internal

13. What is most likely to increase as a result of a rise in interest rates in a country?

A	The level of house prices.
B	The inflow of short term foreign capital.
C	The level of private investment.
D	The return on capital investment.

14. Which measure could be expected to reduce the pressure of demand-pull inflation in an open economy?

A	A depreciation of the foreign exchange rate.
B	A reduction in interest rates.
C	A reduction in the rate of tax on goods and services.
D	A removal of import controls.

15. Which of the following does not produce an automatic increase in revenue during a period of inflation?

A	Corporation tax.
B	Income tax.
C	National insurance contributions.
D	Specific excise taxes.

16. What would result from a devaluation of a country's exchange rate?

A	An increase in the domestic currency price of imports.
B	An increase in the foreign currency price of exports.
C	An increase in the foreign currency price of imports.
D	A reduction in the domestic currency price of exports.

17. Which of the following aims does the GATT seek to encourage.

A	A common internal tariff.
B	Free movement of labor.
C	Multilateral free trade.
D	Free movement capital.

18. Why do bank notes function as money?

A	They are durable.
B	They are generally acceptable.
C	They count as legal tender.
D	They have intrinsic value.

19. Which source of finance can not be used by a private company?

A	A bank loan.
B	A bank overdraft.
C	An issue of shares on the stock exchange.
D	Retained profits.

20. What is most likely to promote international specialization?

A	Similarities in climate in different countries?
B	The abolition of tariffs and customs duties
C	Instability of foreign exchange rate.
D	Similarities in the availability of natural resources in different countries.

ANSWERS OF BATCH – 28

1.	A
2.	B
3.	D
4.	D--In unitary demand elasticity percentage change in price and percentage change in demand is same so that total revenue remains the same.
5.	C
6.	B
7.	C
8.	D-- To find numerical value of Multiplier that is of K Suppose $MPC = .9 = 1/1 - .9 = \frac{1}{.1/10} = \frac{1}{1} \times \frac{10}{1} = 10$ Value of multiplier $MPC = .9$ $APC = .8 \quad .9 - .8 = .1 = 1/.1/10 = 1/.1/ \times 10/1 = 10$
9.	B- $Rs.7 \times 40 \text{ hours} = Rs.280$ $Rs.9 \times 36 \text{ hours} = Rs.324$ For normal products the income effect and the substitution effect reinforces each other so that an increase in price will result in a decrease in quantity demanded. The price that is the wages have gone up from Rs.7 to Rs.9, therefore an individual instead of working for 40 hours, works only 36 hours and his income is more from Rs.280 to Rs.324 and now for 4 hours he takes rest and enjoys life.
10.	A
11.	D
12.	A
13.	B
14.	D
15.	D
16.	A
17.	C
18.	B
19.	C- Private limited companies cannot issue shares on the stock exchange, only joint stock companies can do that.
20.	B. The abolition of tariffs and custom duties allow free trade. In such a situation countries are likely to specialize on the basis of comparative advantage to benefit from international trade.



MODEL MCQ'S, BATCH – 29, NOVEMBER- 2009

1.

A	
B	
C	
D	

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