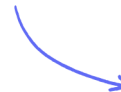


## Exam Questions

# 1. Economic Methodology & the Economic Problem

Economic Methodology / Economic Activity / Economic Resources / Scarcity, Choice & the Allocation of Resources / Production Possibility Diagrams

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Total Marks

/19

1 Economics is a social science because

- A. all economic hypotheses are based on value judgements.
- B. economic policies can only be based on positive analysis.
- C. it involves the study of human behaviour and economic decision making.
- D. quantitative data cannot be used to test economic theories.

(1 mark)

2 The table below shows the value of the Gini coefficient for a country between 2012 and 2016. Over the five year period, the government has used progressive taxation to change the distribution of income.

Year	Gini coefficient
2012	0.60
2013	0.55
2014	0.50
2015	0.45
2016	0.40

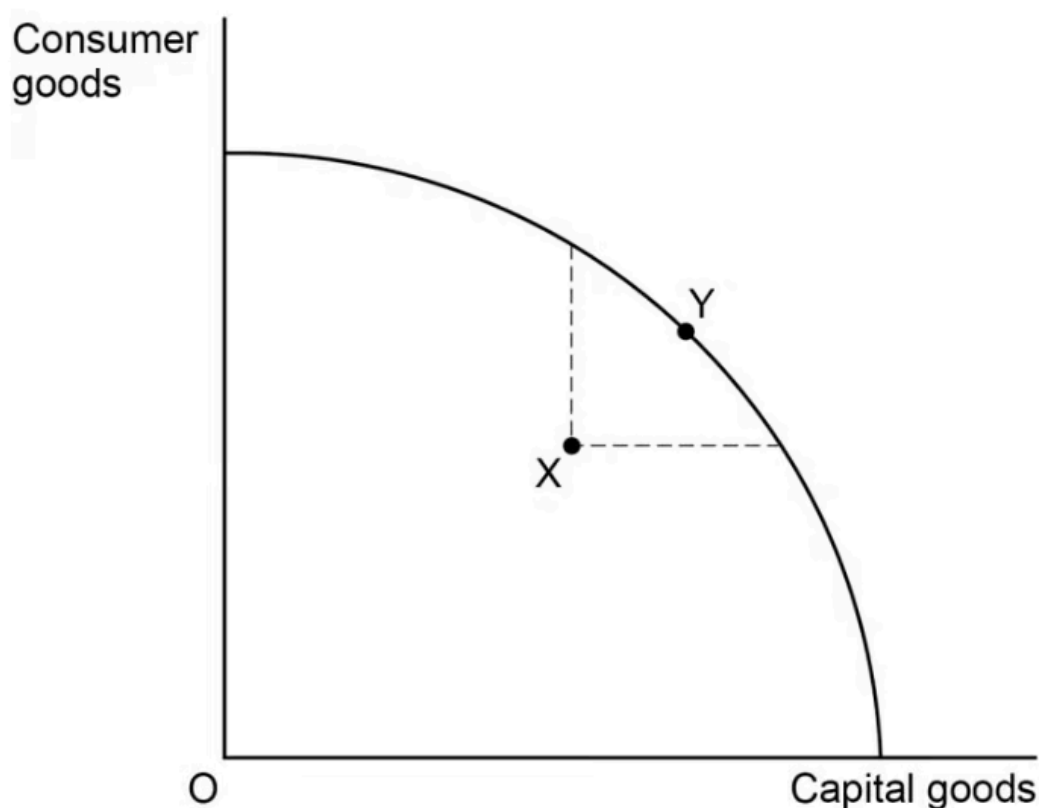
Based on the above data, which one of the following is a positive statement?

- A. A progressive tax system is the fairest way of correcting income inequality.
- B. Between 2012 and 2016 the distribution of income in the country became more equal.
- C. The Gini coefficient is the best way of measuring changes in the distribution of income.

- D.** The government should continue to tax the rich to improve the distribution of income.

**(1 mark)**

- 3** The diagram below shows the production possibility frontier for an economy that produces consumer goods and capital goods. The economy is initially operating at point X within its frontier.



If the economy now moves from point X to point Y on its frontier it will

- A.** achieve both productive and allocative efficiency.
- B.** benefit from improved economies of scale in the production of both goods.
- C.** increase its underlying trend rate of growth.
- D.** obtain more consumer goods and capital goods at zero opportunity cost.

**(1 mark)**

**4** Economic decision making and policies are influenced by value judgements because

- A.** all people are motivated by the desire to maximise their incomes
- B.** economic analysis and decision making is assumed to be based on complete information.
- C.** they are based on the same methodology as the natural sciences.
- D.** they involve moral and political considerations as well as positive analysis.

**(1 mark)**

5 The economist Greg Mankiw has written that ‘society faces a trade-off between efficiency and equity. Efficiency means that society is getting the maximum benefits from its scarce resources. Equity means that those benefits are distributed fairly among society’s members. Often, when government policies are designed, these two goals conflict.’

**Explain** how a production possibility diagram can be used to illustrate some features of the fundamental economic problem

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**(15 marks)**