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O f f i c i a l T e l e g r a m C h a n n e l



BAHIR DAR UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ECONOMICS

Final Exam on Economics

Max. Weight: 50 points + 1 pt. bonus

Target groups: Freshman Students: 2013 Entry  
Time Allowed: 1hr and 45 minutes.

I. Write TRUE if the statement is correct or FALSE if the statement is incorrect (1.5 pt. each.)

1. During high unemployment contractionary fiscal policy is recommended. *False*
2. Decreasing required reserve ratio is an expansionary monetary policy measure. *True*
3. In the short run perfectly competitive firm is making only normal profits. *True*
4. Duopoly is a special type of oligopoly in which there are only two firms. *True*
5. Shut down point is the point at which price is equal to the minimum of marginal cost. *False*
6. Under perfectly competitive market, price is greater than average revenue but lower than marginal revenue. *False*
7. When export is larger than import, then the country is net lender in the global financial market. *True*
8. Cost push inflation results from rising costs of production. *True*
9. Breakeven point is a point at which price is equal with average variable cost. *False*
10. When government revenue is less than government expenditure, there will be budget deficit. *True*

II. Choose the best answer and put it on the answer sheet provided (1.5 pts. Each)

1. Which type of unemployment is more severe during recessions and depressions?  
A. Frictional      B. Structural      C. Cyclical      D. Normal
2. Under perfect competitive market homogeneous product implies that  
A. Buyers do not distinguish between products supplied by the various firms of an industry  
B. Product of each firm is regarded as a perfect substitute for the products of other firms  
C. No firm can gain any competitive advantage over the other firm  
D. All
3. For you to be considered out of the labor force, you can be  
A. A full-time student.      B. A full-time retiree.      C. Prisoners      D. All of the above
4. Which goods are supposed to be included in the CPI?  
A. All goods and services produced in the economy *x*  
B. All goods and services that typical consumers buy *✓*  
C. All goods and services in the investment component of the GDP accounts  
D. All the goods, but not the services, in the consumption component of the GDP accounts
5. A monopoly is characterized by:  
A. Free entry in to and exit of firms from the industry.  
B. There is a single firm in the industry.  
C. All products have perfect substitutes.  
D. Absence of control on strategic raw materials/factors of production.
6. Gross domestic product (GDP) of a nation includes the following, except one:  
A. All goods and services produced legally.      C. Imported goods and services.  
B. Indirect business taxes.      D. Depreciation
7. All of the following are true, except?  
A. Firms earn above normal profit when average cost is less than price.  $AC < P$   
B. Firms earn normal profit when total cost equal to total revenue.  $TC = TR - NPV$   
C. Firms earn zero profit when average cost is equal with price.  $AC = P$  *✓*  
D. Firms earn negative profit if and only if price is greater than average cost.  $P > AC$



8. Which one of the following statement is true?
- Increase government expenditure causes increase in a general price level.
  - Increase money supply causes a decrease in general price level.
  - A decrease in tax leads to decrease investment.
  - An increase in tax rate leads to increase investment.
9. Which of the following is a **false** statement about the path of business cycle?
- During peak there is high demand to invest, save & employ.
  - During recession unemployment rise.
  - During recovery of economic path unemployment decline and business expand.
  - When the economy is at Trough inflation is the worst problem.
10. Consider the following information for a particular economy. Total population = 60 million, number of employed = 30 million and total labor force = 40 million then calculate unemployment rate (in %).
- 75
  - 25
  - 66.7
  - 50
11. Which market is characterized by large number of sellers and differentiated products?
- Perfectly competitive
  - Monopoly
  - Oligopoly
  - Monopolistically competitive
12. Consider three consumer goods: 100 of Good A, 100 of Good B, and 100 of Good C. In the base year, Good A sold at a price of 1 birr, Good B sold at a price of 1 birr, and Good C sold at a price of 1 birr. In the current year, Good A sold at a price of 3 birr, Good B sold at a price of 5 birr, and Good C sold at a price of 10 birr. The Consumer Price Index (CPI in %) for the current year is:
- 100
  - 300
  - 500
  - 600
13. An increase in the money supply causes:
- interest rates to fall, investment spending to rise, and aggregate demand to rise
  - interest rates to rise, investment spending to rise, and aggregate demand to rise
  - interest rates to rise, investment spending to fall, and aggregate demand to fall
  - interest rates to fall, investment spending to fall, and aggregate demand to fall
14. For monopoly or oligopoly to exist, there must be barrier to entry such as;
- Government regulation
  - Control over necessary raw materials
  - Economies of scale in production
  - All of the above
15. Suppose a firm operates in a perfectly competitive market with the total cost function  $TC = \frac{1}{3}Q^3 - 5Q^2 + 20Q + 50$  then find shutdown price.
- 7.5
  - 1.25
  - 2
  - 2.15
16. All of the following are characteristics of imperfect markets, except
- If there is full information.
  - If a firm is price maker
  - If products are differentiated
  - If assumptions of perfect market is violated
17. A firm in perfectly competitive market produces where
- Profit is maximized
  - $P=MC$
  - $MR=MC$
  - All
18. Which market type is the most available in the reality?
- Perfectly competitive
  - Monopoly
  - Oligopoly
  - Monopolistically competitive
19. A type of unemployment in which workers are in-between jobs or are searching for new and better jobs is called \_\_\_\_\_ unemployment:
- Frictional
  - cyclical
  - structural
  - turnover

$$unemp = 10,000,000$$

$$TP = 60,000,000$$

$$Emp = 30,000,000$$

$$F = 40,000,000$$

Good A

100

Good B

100

Good C

100

1800

1800

300



III. Fill the blank spaces/provide short Answer (1.5 pt. each)

1. A firm operates in a perfectly competitive market. The market price of its product is 4 birr and the total cost function is given by  $TC = \frac{1}{3}Q^3 - 5Q^2 + 20Q + 50$ , where TC is the total cost and Q is output.
- What level of output should the firm produce to maximize its profit or minimize loss?
  - Determine the level of profit at equilibrium.

2. Consider the following hypothetical economy for country X.

1) Compensation of Employees (wage)	45000
2) Rental Income	1300
3) Interest Income	10000
4) Exports	3000
5) Personal consumption expenditure	45000
6) Indirect Business Taxes	800
7) Income from abroad	2000
8) Agriculture	30000
9) Payments to foreigners	11000
10) Industry	22200
11) Service	22400
12) Depreciation	500
13) Gross private domestic investment and residential investment	6000
14) Government expenditure on goods and services	2600
15) Profits	17000
16) Imports	18000

Based on the data in the table above, calculate

- GDP using expenditure Approach
- GNP
- Net export

ANSWER TABLE

ID NO

Section

Name

PART I: TRUE/FALSE ITEMS (1.5 Pts. each)

1. False ✓	2. True ✓	3. True ✓	4. True ✓	5. False ✓
6. False ✓	7. True ✓	8. True ✓	9. False ✓	10. True ✓

PART II: MULTIPLE CHOICES (1.5 Pts. each)

1. C ✓	2. D ✓	3. D ✓	4. B ✓	5. B ✓
6. C ✓	7. D ✓	8. A ✓	9. D ✓	10. B ✓
11. D ✓	12. D ✓	13. A ✓	14. D ✓	15. B ✓
16. A ✓	17. D ✓	18. D ✓	19. A ✓	

PART III: SHORT ANSWERS (1.5 Pts. each specific questions)

1	a. 8 ✓	2	a. 38600 ✓
	b. (28) ✓		b. 29,600 ✓
			c. -15,000 ✓

$$C + I_g + G + X - M$$

$$TC = \frac{1}{3}Q^3 - 5Q^2 + 20Q + 50$$

$$45000 + 6000 + 2600 + (3000 - 18000) = 45000$$

$$2000 - 11000 = -9000$$

$$\frac{512}{3} - 320 + 160 + 50 = \frac{512}{3} + 110$$

$$48.5 \text{ U.S. } 3000$$