Spring 2010
ECO401- Economics (Session - 1)

Time: 90 min
M a r k s: 69

Question No: 1 (M a r k s: 1) .
The budget line is the boundary between:
► Preferred and non preferred consumption combinations.
► Affordable and unaffordable consumption combinations.
► Income and expenditure.
► One point on a budget line.

Question No: 2 (M a r k s: 1) .
The supply curve for a competitive firm is:
► Its entire marginal cost curve.
► The upward-sloping portion of its marginal cost curve.
► Its marginal cost curve above the minimum point of the average variable cost curve.
► Its marginal cost curve above the minimum point of the average total cost curve.

Question No: 3 (M a r k s: 1) .
A price taker is:
► A firm that accepts different prices from different customers.
► A monopolistically competitive firm.
► A firm that cannot influence the market price.
► An oligopolistic firm.

Question No: 4 (M a r k s: 1) .
The good produced by a monopoly:
► Has perfect substitutes.
► Has no substitutes at all.
► Has no close substitutes.
► Can be easily duplicated.

Question No: 5 (M a r k s: 1) .
A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:
► Supply schedule.
► Demand schedule.
► Quantity supplied schedule.
► Quantity demanded schedule.

Question No: 6 (M a r k s: 1) .

The textbook for your class was not produced in a perfectly competitive industry because:

► There are so few firms in the industry that market shares are not small, and firm's decisions have an impact on market price.
► Upper-division microeconomics texts are not all alike.
► It is not costless to enter or exit the textbook industry.
► All of the given options.

Question No: 7 (M a r k s: 1) .

A reason why some economists basically ignore the short run is because they believe that the economy:

► Has self-correcting mechanisms.
► Can only be graphed with a horizontal curve.
► Never needs correction.
► None of the given options.

Question No: 8 (M a r k s: 1) .

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

► Insufficient aggregate supply.
► Insufficient aggregate demand.
► Quick self correcting mechanism.
► Government purchases of too many goods and services.

Question No: 9 (M a r k s: 1) .

Keynesian economics rejected the classical assumption that:

► Supply creates its own demand.
► Prices and wages are inflexible.
► Self-correction takes a long time.
► Consumption expenditures depend on disposable income.

Question No: 10 (M a r k s: 1) .

The Phillips curve will shift to the right:

► If there is a decrease in the expected inflation rate.
► If there is an increase in the expected inflation rate.
► If there is a decrease in the natural rate of unemployment.
► If there is a favorable supply shock.

Question No: 11 (M a r k s: 1) .

If a Japanese radio priced at 2,000 yen can be purchased for $10, the exchange rate is:

► 200 yen per dollar.
► 20 yen per dollar.
► 20 dollars per yen.

► None of the given options.

Question No: 12 (M a r k s: 1) .

If the prices of all goods and services rise during the year:

► Real GDP may fall.
► Nominal GDP must fall.
► Nominal GDP may increase.
► Real GDP must rise.

Question No: 13 (M a r k s: 1) .

Gross domestic product (GDP) is the market value of:

► All transactions in an economy during one-year period.
► All goods and services exchanged in an economy during one-year period.
► All final goods and services exchanged in an economy during one-year period.
► All final goods and services produced in a domestic economy during one-year period.

Question No: 14 (M a r k s: 1) .

Which of the following does NOT refer to macroeconomics?

► The study of the aggregate level of economic activity.
► The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.
► The study of the cause of unemployment.
► The study of the cause of inflation.

Question No: 15 (M a r k s: 1) .

The Marginal Propensity to Save (MPS) is:

► One Minus Marginal Propensity to Consume (MPC).
► Saving divided by consumption.
► The slope of the consumption function (or line).
► The proportion of disposable income used for consumption.

Question No: 16 (M a r k s: 1) .

Which of the following statements is TRUE about cartels?

► These are organizations of independent firms, producing similar products, that work together to raise prices and restrict output.
► These are organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.
► These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.
► These are considered as part of monopolistic competition.

Question No: 17 (M a r k s: 1) .

Those who hold the classical view of the labor market are likely to believe that:

► Monetary but not fiscal policy will have an effect on output and employment.
► Fiscal but not monetary policy will have an effect on output and employment.
► Both monetary and fiscal policy will have an effect on output and employment.
► Neither monetary nor fiscal policy will have an effect on output and employment.

Question No: 18 (M a r k s: 1) .
Suppose the balance of payment is in deficit in an economy. The government of that economy will take all of the following actions EXCEPT:

► Devalue the currency.
► Reduce the interest rates.
► Restrict the consumer spending.
► Restrict the imports.

Question No: 19 (M a r k s: 1) .
Suppose there are two producers and two products. Which of the following is not TRUE in this situation?

► A producer has an absolute advantage on one product.
► A producer has the comparative advantage on both products.
► A producer has the comparative advantage on one product.
► A producer has an absolute advantage on both products.

Question No: 20 (M a r k s: 1) .
Trade can be beneficial in which of the following situations?

► Two countries produce the same goods at the same costs.
► Two countries produce different goods at different costs.
► Two countries are isolated.
► Two countries have the same markets.

Question No: 21 (M a r k s: 1) .
GNP is a good indicator of:

► The total payment of factor owners.
► The amount of consumption and investment.
► The conditions of production and employment.
► The amount of incomes available for spending.

Question No: 22 (M a r k s: 1) .
For a study of the long term growth of the economy, we use:

► Real GNP.
► Nominal GNP.
► Personal income.

► Disposable personal income.

Question No: 23 (M a r k s: 1) .

Total national consumption consists of:

► Private consumption.
► Public consumption.
► Exports.
► Private and public consumption.

Question No: 24 (M a r k s: 1) .

If there is an increase in consumer's confidence, ceteris paribus, then which of the following will happen?

► Consumption function will shift downward.
► Consumption function will shift upward.
► Saving function will shift upward.
► Consumption function will remain the same.

Question No: 25 (M a r k s: 1) .

Information products are also known as:

► Inferior products.
► Superior products.
► Internet products.
► Expensive products.

Question No: 26 (M a r k s: 1) .

Public education creates:

► Asymmetric information.
► External costs.
► Internal costs.
► External benefits.

Question No: 27 (M a r k s: 1) .

In the long run, the price level is determined by:

► Aggregate demand.
► Aggregate supply.
► The government.
► Money supply.

Question No: 28 (M a r k s: 1) .

In the definition of labor force, economists include:

► Only people who are working full-time.
► People who are not working but are actively looking for a job and people who are working.
► People who are working.
► None of the given options.

Question No: 29 (M a r k s: 1) .
Rising inflation means:
► That the price level is increasing by a given percentage rate.
► That the prices of all goods and services increase from year to year.
► That the price level is rising at an increasing rate.
► That the price level is rising at a variable rate.

Question No: 30 (M a r k s: 1) .
In the long run, sustained inflation is due to:
► A one-time increase in money growth.
► A continuous increase in the money growth rate.
► A continuous increase in aggregate demand.
► The rising price of oil.

Question No: 31 (M a r k s: 1) .
The decrease in the price of one country's currency in terms of other currencies due to the market forces of demand and supply is known as:
► Revaluation.
► Devaluation.
► Appreciation.
► Depreciation.

Question No: 32 (M a r k s: 1) .
Which of the following will happen by a reduction in net exports all other things being equal?
► It will result in a movement up along the aggregate demand curve.
► It will reduce aggregate supply.
► It will reduce aggregate demand.
► It will not change aggregate demand or aggregate supply in the domestic economy.

Question No: 33 (M a r k s: 1) .
Endogenous growth model is also known as:
► AK Model.
► Exogenous growth model.
► Best growth model.
► All of the given options.

Question No: 34 (M a r k s: 1) .
Contractionary fiscal policy includes:
► Increasing taxes and increasing government purchases.
► Raising interest rates, increasing taxes, and decreasing transfer payments.
► Increasing taxes and decreasing government expenditures.

► Raising interest rates, decreasing taxes, and decreasing government spending.

Question No: 35 (M a r k s: 1) .
Which of the following shows the inverted-U shape when plotted on a graph?

► Consumption curve.
► Supply curve.
► Laffer curve.
► Investment curve.

Question No: 36 (M a r k s: 1) .
A tax on individual's income is known as:

► Sales tax.
► Excise tax.
► Corporate income tax.
► Personal income tax.

Question No: 37 (M a r k s: 1) .
The price of Nokia 3110 cell phone is Rs. 8000. What is the function of money in this context?

► A medium of exchange.
► A means of payment.
► A unit of account.
► A measure of quality.

Question No: 38 (M a r k s: 1) .
What will be the impact of an increase in taxes?

► It will shift the IS curve to the left and decrease both the interest rate and the level of income.
► It will shift the IS curve to the right and increase both the interest rate and the level of income.
► It will shift the IS curve to the right and increase the level of income but decrease the interest rate.
► It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.

Question No: 39 (M a r k s: 1) .
If money supply is fixed by the central bank then in interest rate-money supply space, money supply curve will be:

► Horizontal.
► Vertical.
► Negatively sloped.
► Positively sloped.

Question No: 40 (M a r k s: 1) .

Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:

► Shifts to the left.
► Shifts to the right.
► Remains constant.
► Shifts to the right initially and then returns to its original position.

Question No: 41 (M a r k s: 1) .
Which of the following will happen if the current market price is set below the market clearing level?

► There will be a surplus to accumulate.
► There will be downward pressure on the current market price.
► There will be upward pressure on the current market price.
► There will be lower production during the next time period.

Question No: 42 (M a r k s: 1) .
What is TRUE about the relationship between average product (AP) and marginal product (MP)?

► If AP exceeds MP, then AP is falling.
► If AP is at a maximum, then MP is also at maximum.
► If AP = MP, then total product is at a maximum.
► If Total Product is declining, then AP is negative.

Question No: 43 (M a r k s: 1) .
Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:

► Decreasing returns to scale.
► Constant returns to scale.
► Increasing returns to scale.
► None of the given options.

Question No: 44 (M a r k s: 1) .
If firms are not of equal size in oligopoly, then quotas can be allocated according to the ___________ of each firm.

► Marginal revenue
► Marginal cost
► Average variable cost
► Average cost

Question No: 45 (M a r k s: 1) .
Optimal mix of resources is decided by

► The price mechanism.
► Producers.
► Consumers.
► Government.

Question No: 46 (M a r k s: 1) .
When the slope of a demand curve is infinity, elasticity of demand is

► Zero elastic.
► Unit elastic.
► Less elastic.
► More elastic.

Question No: 47 (M a r k s: 1) .
Assume that there is no government or foreign sector, if the marginal propensity to save (MPS) is 0.2, then the value of saving multiplier will be equal to:

► 0.80
► 1.20
► 0.50
► 1.25

Reference:
http://www.s-cool.co.uk/alevel/economics/aggregate-demand-and-aggregate-supply/the-45-degree-diagram.html

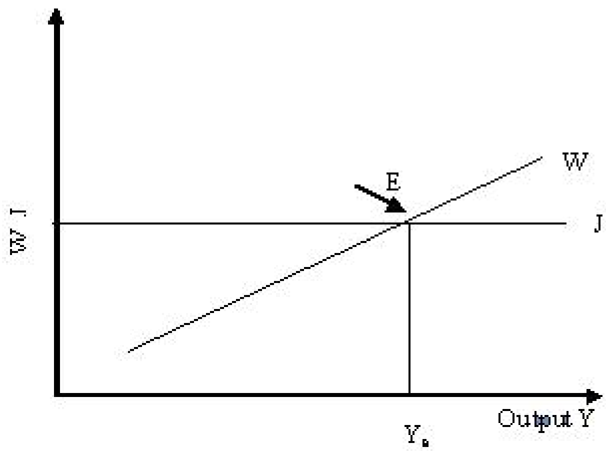
Question No: 48 (M a r k s: 1) .
If prices are held constant, an increase in money supply will cause MS/P to:

► Shift to the right.
► Shift to the left.
► Stay as it is.
► None of the given options.

Question No: 49 (M a r k s: 3)
It is said that growth is an important macroeconomic issue. Why? Discuss.

Question No: 50 (M a r k s: 3)
What are the different borrowing options available to the government for reducing the fiscal deficit?

Question No: 51 (M a r k s: 5)



What actually the Keynesian paradox of thrift states? In the above figure, economy is in equilibrium at point E where withdrawls are equal to leakages. Keeping Keynes's paradox of thrift arguments in mind, what will happen to output, consumption and investment level if people start saving more suddenly.

Question No: 52 (M a r k s: 5)
Differentiate between fixed exchange rate and floating exchange rate.

Question No: 53 (M a r k s: 5)
Some economists suggest "growth through trade strategy" to tackle the problem of poverty of under developed countries.
a) What is the basic theme of this strategy?
b) Why this strategy is not so much successful?
c) What is the proposed solution presented to tackle the drawback of this strategy?
(M a r k s: 2+1.5+1.5)