FINALTERM EXAMINATION
Spring 2010
ECO401- Economics (Session -)

Question No: 1 (Marks: 1) - Please choose one
Land is best described as:
► Produced factors of production.
► "Organizational" resources.
► Physical and mental abilities of people.
► "Naturally" occurring resources.
page 1
Land is one type of natural resource that goes into production
Question No: 2 (Marks: 1) - Please choose one
The price elasticity of demand measures the responsiveness of quantity demanded to:
► Quantity demanded.
► Quantity supplied.
► Price.
► Output.
page 26
Price Elasticity of Demand:
Price elasticity of demand is the percentage change in quantity demanded with respect to the percentage
change in price
Question No: 3 (Marks: 1) .- Please choose one
Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:
A decrease in total revenue received ► by the course.
► An increase in total revenue received by the course.
► No change in total revenue received by the course.
► An increase in the amount of golf played on the course.
Ref. If demand is inelastic then The price change will not effect the demand but to a little extent which will cause increase in the Total Revenue.
Question No: 4 (Marks: 1) - Please choose one
As more of a good is consumed, then total utility typically:
► Increases at a decreasing rate.
► Decreases as long as marginal utility is negative.
► Decreases as long as marginal utility is positive.
► Is negative as long as marginal utility is decreasing.
The total utility curve starts at the origin and reaches the peak when marginal utility is zero. Marginal
utility can be derived from total utility. It is the slope of the lines joining two adjacent points on the TU
curve.

Graph Page 41.
Question No: 5 (Marks: 1) - Please choose one
At any given point on an indifference curve, the absolute value of the slope equals:
► Unity--otherwise there would be no indifference.
► The marginal rate of substitution.
► The consumer's marginal utility.
► None of the given options.
The average slope of the indifference curve between any two points is given by the change in the
quantity of good Y divided by change in the quantity of good X. This is called the marginal rate of
substitution (MRS)
Question No: 6 (Marks: 1) - Please choose one
Fixed costs are fixed with respect to changes in:
► Output.
► Capital expenditures.
► Wages.
► Time.
Costs, which do not vary with the level of activity or output, are called fixed costs
Question No: 7 (Marks: 1) - Please choose one
If a firm experiences economies of scale, then the: .
Long-run average total cost curve is equal to the ► economies of scope.
► Long-run average total cost curve is positively sloped.
► Long-run average total cost curve is horizontal.
► Long-run average total cost curve is negatively sloped.
In the case of economies of scale, long run total cost (LRTC) is an upward sloping curve
but with falling slope. Note that the slope can never become zero or negative, though
If the LRTC curve positively sloped with at an decreasing rate will also have same effect on the LRAC.
Question No: 8 (Marks: 1) - Please choose one
When a firm charges each customer the maximum price that the customer is willing to pay, the firm:
► Engages in a discrete pricing strategy.
► Charges the average reservation price.
► Engages in second-degree price discrimination.
► Engages in first-degree price discrimination.
First-degree price discrimination occurs when identical goods are sold at different prices to each individual consumer
Question No: 9 (Marks: 1) - Please choose one
Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?

► The demand curve is tangent to marginal cost curve.
► **The demand curve is tangent to average cost curve**.
► The marginal cost curve is tangent to average cost curve.
► The demand curve is tangent to marginal revenue curve.
Ref. Page 80 See the Graph.....

Note Solve these papers by urself no One responsible for any content...

Question No: 10 (Marks: 1) - Please choose one
Which one of the following characteristics is common in monopolistic competition and oligopoly?
Free entry and exit ► from the industry.
► Strategic behavior.
► Standardized products.
► **Advertising.**
both includes advertising due to differentiated product
Question No: 11 (Marks: 1) - Please choose one
Value of Marginal Product of Labor (VMP_L) is equal to:
.
► MPP_L / P_i.
► MPP_L.
► P_i.
► **$MPP_L \times P_i$. page 93**
The value of marginal product of labour (VMPL) = MPPL x Pi
Question No: 12 (Marks: 1) - Please choose one
According to classical economics, the economy was unlikely to experience:
► Full employment.
► Flexible wages and prices.
► Equality between saving and investment.
► **High rates of unemployment**.
classicals believe in full employment. So high rate of un-employment unlikely
In other words the economy would be at the full employment level, and it would not be
possible to improve that situation through government intervention.
Question No: 13 (Marks: 1) - Please choose one
Say's Law is a proposition underlying classical economics stating that:
► **Supply creates its own demand.**
► Leakages are greater than injections.
► Unemployment is a common condition.
► Consumption expenditures are a function of disposable income.
about the price, market
would automatically clear these shortages & surpluses through price mechanism. According to say's
law, "supply creates its own demand".
Question No: 14 (Marks: 1) - Please choose one

An assumption of classical economics is:
Prices and ► wages are inflexible.
► Self-correction takes a long time.
► **Supply creates its own demand.**
► Investment and saving are seldom equal.
The three key assumptions underlying the classical study of macroeconomics are flexible prices, Say's law, and saving-investment equality. These three assumptions ensure that the macroeconomy would continue to produce the quantity of aggregate output that fully employs available resources. While a few resources might be temporarily unemployed, they would be quickly reemployed as resource prices (especially wages) adjust to equilibrium balance
Question No: 15 (Marks: 1) - Please choose one
Which of the following will result if there is a decrease in aggregate demand?
► Expansion; inflation.
► **Recession; deflation.**
► Expansion; deflation.
► Recession; inflation.
If demand decreases, it will also decrease the price. Recession & deflession will occur.
Question No: 16 (Marks: 1) . - Please choose one
Real Gross Domestic Product (GDP) equals:
► Nominal GDP minus net exports.
► **Nominal GDP divided by the GDP deflator**.
► Nominal GDP multiplied by the GDP deflator.
► GDP minus depreciation.
GDP Deflator = Nominal GDP / Real GDP
NOW REVERT THIS EQUATION.
REAL GDP = NOMINAL GDP / GDP DEFLATOR
Question No: 17 (Marks: 1) - Please choose one
Which of the following statements is TRUE?
► **Net National Product = Gross National Product - Depreciation.**
► Net National Product = National Income.
► Net National Product = Disposable Personal Income.
► Net National Product = Personal Income.
NNP = GNP - Depreciation allowance
PAGE 120
Question No: 18 (Marks: 1) - Please choose one
Which of the following shows the Fisher equation of exchange?
► MT=PV.
► VT=PM.
► **MV=PQ.**
► MY=VP.
http://en.wikipedia.org/wiki/Equation_of_exchange
Question No: 19 (Marks: 1) - Please choose one

In the Keynesian cross model, the 45-degree line has a slope of:
► 45.
► Infinity.
► 1.
► 0.
variable measured on the vertical axis with the variable measured on the horizontal axis. Because the two variables are measured in the same units, the 45-degree line has a slope of one and it bisects the 90-degree angle formed by the vertical and horizontal axes.
http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=45-degree+line
Question No: 20 (Marks: 1) - Please choose one
The principle economic difference between a competitive and a noncompetitive
market is:
► The number of firms in the market.
► The extent to which any firm can influence the price of the product.
► The size of the firms in the market.
► The annual sales made by the largest firms in the market.
Question No: 21 (Marks: 1) - Please choose one
An individual whose attitude towards risk is known as:
.
► **Risk averse.**
► Risk loving.
► Risk neutral.
None of the ► given options.
Question No: 22 (Marks: 1) - Please choose one
Which of the following best describes the "Capital widening"?
► More capital per unit of labour.
► **More capital and more labour but with the same amount of capita l per unit of labour** .
► Increasing the usage of existing capital.
► Importing capital from the developed world.
Capital widening is a term used to describe the situation where capital stock is increasing at the
same rate as the labour force, thus capital per worker remains constant
Question No: 23 (Marks: 1) - Please choose one
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: 24 (Marks: 1) - Please choose one
Public education creates:

► Asymmetric information.
► External costs.
► Internal costs.
► **External benefits.**
By joining two references
For example,
Govt wants to encourage people for more education and it thinks that marginal social benefit of
education is higher than the marginal private benefit so it gives scholarships and subsidies to the
students and education sector
2nd
External benefits of production (MSC < MC):
Where marginal social cost is smaller than

Question No: 25 (Marks: 1) - Please choose one

A graph that depicts the relationship between the total quantity of goods and services demanded and the price level is known as: .

Aggregate ► demand curve. Page 108 graph.
► Average price level.
► Circular flow model.
► GDP curve.

Question No: 26 (Marks: 1) - Please choose one

AD_2
AD_1
AD_3
Price level (base year = 1.00)
Real GDP (billions of base-year dollars) per year
1.08
1.12
1.16
$7,000
LRAS

Refer to the above figure, if the real GDP is $7,000 billion and the implicit price deflator is 1.16, what is the value of nominal GDP?

► $6,034 billion.
► **$8,120 billion**.
► $9,120 billion.
► Cannot be determined from the given information.

GDP Deflator (or) Implicit price deflator = Nominal GDP / Real GDP
1.16 = nominal GDP / $7000
1.16 * 7000 = NOMINAL GDP
$ 8120 = NOMINAL GDP

Question No: 27 (Marks: 1) . - Please choose one

Let L equal the size of the labor force, E the number of employed workers, and U the number of unemployed workers. The unemployment rate is equal to:

► (L + E)/L.
► **U/L.**

► 1 + (E/L).
► All of the given options.
Unemployment Rate = (Unemployed Workers / Total Labor Force) * 100
http://www.amosweb.com/cgi-bin/awb_nav.pl?
s=wpd&c=dsp&k=unemployment+rate
Question No: 28 (Marks: 1) - Please choose one
The natural rate of unemployment is likely to fall if:
► Unemployment benefits increase.
► Income tax increases.
► **More training is available for the unemployed**.
► Geographical immobility increases.
SEE QUESTION NO. 3
http://www.oup.com/uk/orc/bin/9780199296378/01student/mcqs/unit27/?
view=Standard
Supply side measures can be used to reduce the natural rate of unemployment. In this case training enables more employees to accept jobs thereby reducing the natural rate of unemployment.

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Question No: 29 (Marks: 1) - Please choose one
Which of the following is NOT a determinant of net exports?
► **Domestic and foreign incomes.**
► Relative price levels.
► Domestic and foreign trade policies.
► Producers' expectations about future prices.
Question No: 30 (Marks: 1) - Please choose one
Which of the following can happen in a boom period?
► **Unemployment is likely to fall**.
► Prices are likely to fall.
► Demand is likely to fall.
► Imports are likely to grow.
Question No: 31 (Marks: 1) - Please choose one
The taxes on alcohol, tobacco, and gasoline are categorized as:
► Sales tax.
► **Excise tax.**
► Corporate income tax.
Personal ► income tax.
The most common excise taxes are on alcohol, tobacco, and gasoline.
Page 174
Question No: 32 (Marks: 1) - Please choose one
The item which serves as a medium of exchange is known as:
► Gold.
► Capital.
► Silver.

► Money.

THE CONCEPT OF MONEY

Money or paper currency serves at least three functions: it is a medium of exchange, a store of value and a unit of account.

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Question No: 33 (Marks: 1) - Please choose one

A country has a comparative advantage: .

► If it can produce a good at a higher opportunity cost than other nations.

► If it can produce a good at a lower opportunity cost than other nations. (correct)

► If it can produce a good by using less resources than other nations.

► If it can produce a good that lies outside its production possibilities curve.

The theory says that countries will gain by specializing in and then exporting the good they have a comparative advantage (or lower opportunity cost advantage) in.

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Question No: 34 (Marks: 1) - Please choose one

A tariff is defined as:

► A restriction on exports.

► A tax placed on an imported product.

► A limit on the amount of a good or service that can be exported.

► A limit on the amount of a good or service that can be imported.

http://en.wikipedia.org/wiki/Tariff

through tariffs (tax on imports)

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Question No: 35 (Marks: 1) - Please choose one

Countries that are not among the high income nations of the world are categorized as:

► Developed countries.

► Progressed countries.

► Developing countries.

► High income countries.

Question No: 36 (Marks: 1) - Please choose one

Which of the following is (are) the characteristic(s) of high income countries as compared to low income countries?

I. Lower rates of population growth.

II. Greater income inequality.

III. A large proportion of the labor force in agriculture.

IV. Higher rates of investment.

► I only.

► I and II.

► II and IV.

► I and IV.)

Question No: 37 (Marks: 1) - Please choose one

In which of the following conditions, a welfare loss occurs in monopoly?
► **Where the price is greater than the marginal cost.**
► Where the price is greater than the marginal benefit.
► Where the price is greater than the average revenue.
► Where the price is greater than the marginal revenue.
A welfare loss occurs in monopoly where the price is greater than the marginal cost.
See question No. 9 by solving urself
http://www.oup.com/uk/orc/bin/9780199296378/01student/mcqs/unit12/
Question No: 38 (Marks: 1) - Please choose one
If average physical product (APP) is decreasing then which of the following must be true?
► Marginal physical product is more than the average physical product.
► Marginal physical product is less than the average physical product.
► **Marginal physical product is decreasing.** (correct)
► Marginal physical product is increasing.

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http://en.wikipedia.org/wiki/Production_theory_basics
see graph
Question No: 39 (Marks: 1) .- Please choose one
When different prices are charged to customers who purchase different quantities, this is an example of
Second-degree price ► discrimination.)
► First-degree price discrimination.
► Monopoly.
► Perfect competition.
In retail stores, second-degree price discrimination also exists. A reduced price may be offered if you buy two t-shirts instead of just one. This form helps to get rid of merchandise and generate more revenue for a company.
Question No: 40 (Marks: 1) - Please choose one
Which of the following may cause a decrease in national income?
► **Increase imports.**
► Decrease unemployment.
► Decreasing exports.
► None of the given options.
Question No: 41 (Marks: 1) - Please choose one
The relationship between interest rate and consumption is:
► Positive.
► **Negative**. (
► Zero.
► Indeterminate.
WHEN INTEREST RATE INCREASES, PEOPLE PREFER TO SAVE MORE & CONSUME LESS.

Question No: 42 (Marks: 1) - Please choose one
The principle which states that a change in income causes a magnified change in investment is termed as the:
► None of the given.
► Paradox of thrift.
► Multiplier effect.
► Accelerator effect.
Question No: 43 (Marks: 1) - Please choose one
Hysteresis refers to the permanent effects of a:
► Temporary change.
► Structural change.
► Cyclical change.
► Political change.
Hysteresis refers to the permanent effects of a temporary change
PAGE 148
Question No: 44 (Marks: 1) - Please choose one
Factor income from abroad like worker remittances, dividends and interest has positive impact on:
Current ► account balance.)
► Capital account balance.
► Trade balance.
► Unemployment.
PAGE 156
Question No: 45 (Marks: 1) - Please choose one
The growth rate of any country's real GDP can be:
► Negative or positive.
► positive or zero.
► Negative or zero.
► Negative or positive or zero.
The growth rate of a country's real GDP can be negative, positive or zero
PAGE 161
Question No: 46 (Marks: 1) . - Please choose one
Endogenous growth theory is also known as:
► Neo-classical growth theory.
► New growth theory. (correct)
► Classical growth model.
► Keynesian growth model.
In economics, **endogenous growth theory** or **new growth theory** was developed in the 1980s as a response to criticism of the neo-classical growth model.
Question No: 47 (Marks: 1) - Please choose one
Which of the following is not the World Bank's structural reform policy?
► FDI liberalization.
► Trade liberalization.
► Financial liberalization.

► **Same monetary policy for all countries**. **PAGE 210**
)

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Question No: 48 (Marks: 1) - Please choose one
The common characteristics of a developing country is:
► High growth rate.
► High literacy rate.
► Skilled labor.
► **High unemployment rate.**)
http://www.shvoong.com/social-sciences/1758902-characteristics-developingcountries/
Question No: 49 (Marks: 3)
At what point, the equilibrium occurs in the foreign exchange market?
Question No: 50 (Marks: 3)
What are the reasons that poor countries remained poor?
Question No: 51 (Marks: 5)
If the government increase it's spending e.g. increases the wages of the government servant, how it will affect on consumption, production and hiring of new employees?
Question No: 52 (Marks: 5)
Explain the difference between appreciation and depreciation of currency.
Question No: 53 (Marks: 5)
Differentiate among M_0, M_1 and M_2 components of money supply. .

FINALTERM EXAMINATION
Spring 2010
ECO401- Economics (Session - 3)

Time: 90 min
Marks: 69

Question No: 1 (Marks: 1) - Please choose one
A market is said to be in equilibrium when:
Demand ► equals output.
► There is downward pressure on price.
► The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.
► **All buyers are able to find sellers willing to sell to them at the current price.**
Question No: 2 (Marks: 1) - Please choose one
Which of the following is regarded as a general determinant of price elasticity of demand?
► Nature of the good (luxury versus necessity).
► Availability of close substitutes.

► Share of consumer's budget and passage
► **All of the given options.**
Question No: 3 (Marks: 1) - Please choose one
Consumers will maximize satisfaction when:
The price of each good is exactly equal to the price ► of every other good consumed.
► The price of each good is exactly equal to the total utility derived from the consumption of every other good.
► **The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good.**
► Marginal utility is equal to average utility.
Law of equi marginal utility.
Question No: 4 (Marks: 1) - Please choose one
If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:
► The consumer's indifference curve must be positively sloped.
► The consumer's indifference curve must be convex with respect to the origin of the graph.
► **The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal ½.**)
► All of the given options.

Note Solve these papers by urself no One responsible for any content...

Question No: 5 (Marks: 1) ./ - Please choose one
The optimal point of production for any individual firm is where:
► **Marginal Revenue = Marginal Cost.**
► Marginal Revenue > Marginal Cost.
► Marginal Revenue < Marginal Cost.
► None of the given options.
According to this approach, profit is maximized at the point where MC=MR.
Question No: 6 (Marks: 1) - Please choose one
Under the kinked demand curve model, an increase in marginal cost will lead to:
► An increase in output level and a decrease in price.
A decrease in output level and an ► increase in price.
► A decrease in output level and no change in price.
► **Neither a change in output level nor a change in price.**
http://tutor2u.net/economics/content/topics/monopoly/kinked_demand.htm
In the bottom diagram, we see that a rise in marginal costs will not necessarily lead to higher prices providing that the new MC curve (and MC2) cuts the MR curve at the same output. The kinked demand curve theory suggests that there will be price stickiness in these markets and that firms will rely more on nonprice
competition to boost sales, revenue and profits.

Question No: 7 (Marks: 1) - Please choose one
The marginal revenue product is:
► Upward sloping due to the law of demand.
► Upward sloping due to the law of marginal utility.
► Downward sloping due to the law of diminishing returns. (correct)
► Downward sloping due to the law of supply.
the marginal revenue product of labour (a downward sloping concave function) given
by MRPL = MPPL x MRi, where subscript "L" stands for labour and subscript "i" stands for the good which the laborer helps produce.
Question No: 8 (Marks: 1) - Please choose one
The unemployment rate is equal to:
► Number of employed / labour force x 100.
► Number of unemployed / labour force.
► (Number of unemployed / labour force) x 100.
► None of the given options.
Unemployment Rate = (Unemployed Workers / Total Labor Force) * 100
http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=unemployment+rate
Question No: 9 (Marks: 1) - Please choose one
M1 component of money supply consists of:
► Paper currency and coins.
► Paper currency, coins and check writing deposits.
► Paper currency, coins, check writing deposits and savings deposits.
► Paper currency, coins, check writing deposits, savings deposits and money at any time.
M1: is M0 + all current (or checking) deposits held with commercial banks. Checking deposits are accounts from which the holders can withdraw money at any time
http://answers.yahoo.com/question/index?qid=20070320182416AAUtVZM
Question No: 10 (Marks: 1) - Please choose one
An increase in the money supply will cause interest rates to:
► Rise.
► Fall.
► Remain unchanged.
► None of the given options.
When the supply of money incra
Question No: 11 (Marks: 1) - Please choose one
Disposable Income is obtained by subtracting ---------------- from personal income.
► Indirect Taxes.
► Direct Taxes.
► Both direct and indirect taxes.
► Subsidies.
Disposable income is obtained by subtracting the amount of direct taxes from

the personal income of the person.
Page 121
Question No: 12 ./ (Marks: 1) - Please choose one
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.
A cartel is most likely to survive when the number of firms is small, there is openness among firms regarding their production processes; the product is homogeneous; there is a large firm which acts as price leader; industry is stable; government's strictness in implementing anti-trust (or anti-collusion) laws. Govt regulations are helpless against internationally operational cartels or when collusion is tacit (or hidden) not explicit
Question No: 13 (Marks: 1) - Please choose one
If disposable income increases from $7 trillion to $8 trillion and as a result, consumption expenditure increases from $9 trillion to $9.8 trillion, the Marginal Propensity to Consume is:
► 1.0.
► **0.80.**
► 0.875.
► 0.91.
Marginal propensity to consume:
MPC = ΔC / ΔYd
0.8/1
Question No: 14 (Marks: 1) - Please choose one
Which of the following is required to make the equation of exchange in the quantity theory of money?
► V and Q are assumed to be constant.
► The money supply is assumed to be produced by the banking system and not exclusively in currency.
► The quantity of money is assumed to determine the amount of Real GDP.
► M and P are considered constant.
Assuming a constant V and a stable
(natural rate) output Q*, changes in P could be explained totally by changes in M. A stable M would imply a stable P
Question No: 15 (Marks: 1) - Please choose one
Which of the following specifies the maximum amount of a good that may be imported in a given period of time? ./
► Trade restriction.
► **Quota**.
► Import restriction.

► Legislative restriction.
and quantitative restrictions (quotas) on imported goods.
Page 129
Question No: 16 (Marks: 1) - Please choose one
Which of the following best defines "subsidies"?
► Payment by Government for purchase of goods and services.
► Payment by business enterprises to factors of production.
► Payment by companies to share holders.
► Payment by Government to business enterprises without buying any goods and services. (correct)
Subsidies paid by the government normally. Government supports and do not purchase anything physically.
Question No: 17 (Marks: 1) - Please choose one
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.
GDP is the total amount that pays to the factors of production i.e. interest for Investment, profit for Organization, Rent for Land and wages for Labour.
Question No: 18 (Marks: 1) - Please choose one
Expenditure of defense is an item of:
► Public investment.
► Private consumption.
► Public consumption.
► Private investment.
Conceptual:-public consumption. No one can be excluded.
Question No: 19 (Marks: 1) - Please choose one
The information economics is a branch of:
► Microeconomics.
► Macroeconomics.
► Monetary economics.
► Development economics.
Information
economics or the economics of information is a branch of microeconomic theory that studies how information affects an economy and economic decisions.
Question No: 20 (Marks: 1) - Please choose one
AD_2
AD_1
AD_3
Price level (base year = 1.00)
Real GDP (billions of base-year dollars) per year
1.08
1.12
1.16
$7,000
LRAS

Refer to the above figure, the potential output in this economy is:
$7,000 billion at a ► price level of 1.16.
► $7,000 billion at a price level of 1.12.
► $7,000 billion at a price level of 1.08.
► All of the given options.
Question No: 21 (Marks: 1) - Please choose one
The short run in macroeconomic analysis is a period:
► In which wages and some other prices do not respond to changes in economic conditions.
► In which full wage and price flexibility and market adjustment have been achieved.
► Of less than 12 months.
► In which all macroeconomic variables are fixed.
http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=short%20run,%20macroeconomics

Note Solve these papers by urself no One responsible for any content...

Question No: 22 (Marks: 1) - Please choose one
If a $1million rise in national income led to induced investment of $2million then the accelerator coefficient will be equal to: .
► 0.
► 1.
► 2.
► 3.
Accelerator coefficient d K / d Y
2/1
K= investment
Y = out put
It is the multiplier effect and 2 is the multiplier.
Question No: 23 (Marks: 1) - Please choose one
In classical theory, excess supply of a product would be associated with:
► Rising interest rates.
► Falling interest rates.
► Rising price for the product.
► Falling price for the product.
A surplus is a situation of excess supply, in which market demand falls short of the quantity supplied; i.e. the producers are unable to sell all the produced goods in the market. Surpluses cause prices to fall prompting producers to supply less and consumers to demand more
Question No: 24 (Marks: 1) - Please choose one
Most nations of the world are:
Closed ► economies.
► Open economies.
► Self sufficient.

► Non trading nations.)
Question No: 25 (Marks: 1) - Please choose one
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.
Ceteris paribus, negative net exports would decrease aggregate demand
Question No: 26 (Marks: 1) - Please choose one
A trade deficit occurs when:
► A country sells more abroad than it purchases from abroad.
► Foreign firms open more stores in a country than the country opens in foreign countries.
► A country's firms open more stores abroad than foreign firms open in the country.
► A country purchases more from abroad than other countries purchase from it.
Trade balance is the excess of exports over imports. A negative trade balance is called a trade
deficit
page 129
Question No: 27 (Marks: 1) - Please choose one
The real exchange rate is defined as the:
► Market exchange rate adjusted for prices.
► Market exchange rate adjusted for interest rates.
► Market exchange rate.
► Exchange rate determined by the government.
Question No: 28 (Marks: 1) - Please choose one
Which of the following best describes the economic growth?
► Continuous outward shift of aggregate demand.
► A long term expansion of a country's potential GDP.
► The avoidance of a negative output gap.
► An increase in aggregate demand which causes a movement along the short-run aggregate supply curve.
In our discussion here, we will abstract from such complexities and take output to simply mean real GDP.
Question No: 29 (Marks: 1) - Please choose one
Suppose there is a steady state condition in an economy with no population growth. In which condition, the steady-state level of capital per worker will increase?
When the amount of investment per ► worker decreases.
► When the depreciation rate increases.
► When the saving rate increases.

► In all of the given options.
When saving will increase, the investment will also increase. So per capital per worker will b increases
Question No: 30 (Marks: 1) - Please choose one
Which of the following is TRUE for banks?
► They deal with money only.
► They deal with shares and assets.
► They not only deal with money but also create money.
► They deal with money but do not create money.
Known.
Question No: 31 (Marks: 1) - Please choose one
Which of the following got benefit from deflation?
I. Salary earners.
II. Equity holders.
III. Pensioners.
IV. Debtors.
► I only.
► II only.
► I and III. (correct)
► I and IV.
With deflation, the power of money increases. It gives benefits to fixed revenue earners.
Question No: 32 (Marks: 1) - Please choose one
Which of the following is a characteristic of a developing country or a thirdworld
country?
► Low per capita income. (correct)
► Low population growth rate.
High ► investment rate.
► High saving rate.
Question No: 33 (Marks: 1) - Please choose one
One of the main reasons of poverty in third world countries is:
► Generation gap.
► Communication gap.
► Savings gap. (correct)
► Inflation gap.
Poverty trap theories explained the relative poverty of the Third World in the context of the twin gaps: foreign exchange gap (exports being less than required imports) and an underlying savings gap (domestic savings being less than required investment).

Note Solve these papers by urself no One responsible for any content...

Question No: 34 (Marks: 1) - Please choose one
A person with a diminishing marginal utility of income is said to be:

► **Risk averse person**.
► Risk neutral person.
► Risk loving person.
► None of the given options.

Question No: 35 (Marks: 1) - Please choose one

What questions are related with explanation? What questions are related with what ought to be?

► Positive, negative.
► Negative, normative.
► Normative, positive
► **Positive, normative.**

Normative economics is known as statements of
opinion which cannot be proved or disproved, and suggests what should be done to solve economic problems, i-e unemployment should be reduced.
Normative economics discusses "what ought to be".
The other type of economics is Positive economics

Question No: 36 (Marks: 1) - Please choose one

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.

Demand will decrease, The are inversely related.

Question No: 37 (Marks: 1) - Please choose one

Which of the following will happen if two indifference curves cross each other?

► The assumption of a diminishing marginal rate of substitution will be violated.
► The assumption of transitivity will be violated.
► The assumption of completeness will be violated.
► **Consumers will minimize their satisfaction**.

Could isoquants ever cross?
Not for a given state of technology, otherwise it would mean that at one side of the intersection the
higher output isoquant would be 'south-west' of the lower output isoquant. This would mean that a
higher output could be achieved by using less of both factors of production!

Question No: 38 (Marks: 1) - Please choose one

Which of the following is the basic difference between oligopoly and monopolistic competition?

► Products are differentiated in oligopoly.
► There are no barriers to entry in oligopoly.
► **There are barriers to entry in oligopoly**.
► An oligopoly includes downward sloping demand curves facing the firm.

Question No: 39 (Marks: 1) - Please choose one
As long as all prices remain constant, a decrease in money income results in:
► An increase in the slope of the budget line
► A decrease in the slope of the budget line
► An increase in the intercept of the budget line
► A decrease in the intercept of the budget line
The budge line will shift toward origin. A lower indifference curve will intercept the budget line
Question No: 40 (Marks: 1) - Please choose one
If marginal cost is Rs.15,000/- and marginal revenue is Rs.20,000/-. The firm should:
► Reduce output until marginal revenue equals marginal cost.
► Do nothing without information about your fixed costs.
► Expand output until marginal revenue equals marginal cost.
None of ► the given options.
See page 65 (performa)
By interpreting the graphs
Question No: 41 (Marks: 1) - Please choose one
An increase in quantity demand is shown by:
► Shifting the demand curve to the left.
► Shifting the demand curve to the right.
► Upward movement along the demand curve.
► Downward movement along the demand curve.
Question No: 42 (Marks: 1) - Please choose one
Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:
► Shifts to the left.
► Shifts to the right.
► Remains constant.
► Shifts to the right initially and then returns to its original position.
Inverse relation
Question No: 43 (Marks: 1) - Please choose one
When the marginal revenue product of labor is less than the marginal input cost of labor then the profit maximizing firm will:
► Hire more labor.
► Hire less labor.
► Maintain the same employment level.
► Decrease output.
if the labours productivity is less, low labour will be appointed
Question No: 44 (Marks: 1) - Please choose one
In Keynesian economics, if aggregate expenditures are more than aggregate output then:
► The price level rises.
► Inventories decrease.

► Aggregate output increases.
► Employment increases.
Question No: 45 (Marks: 1) ./ - Please choose one
The record of a country's transactions in goods and services with the rest of the world is its:
► Current account.
► **Balance of payments**.
Balance ► of trade.
► Capital account.
BOP is an accounting record of a country's transactions with the rest of the world
Page 152
Question No: 46 (Marks: 1) - Please choose one
Revaluation of the currency encourages:
► **Imports**.
► Exports.
► Poverty.
► Inflation.
When currency become heavy, other countries goods become cheeper
Question No: 47 (Marks: 1) - Please choose one
The share of world trade happens between high income countries is:
► 55%
► 40%
► **50%**
► 60%
50% of world trade happens between HICs, 14% happens between LICs and the rest involves
both HICs and LICs
page 203
Question No: 48 (Marks: 1) - Please choose one
If the exchange rate is fixed, expansionary fiscal policy would not have any:
► Investment multiplier effect.
► **Crowding out effects.**
► Government spending effect .
► None of the given options.
Given fixed exchange rates, expansionary fiscal policy
would not have any crowding out effects
Question No: 49 (Marks: 3)
What is meant by exchange rate? Also give example of exchange rate.
Question No: 50 (Marks: 3)
What is the reason of poverty in developing countries according to Prebisch-Singer hypothesis?
Question No: 51 (Marks: 5)
According to the values given in the following table, calculate the injections at each level of output.

Output (Y)	Saving (S)	Gross Imports (M)	Gross investment (I)	Gross exports (X)	Govt. Expenditures (G)	Taxes (T)
650	80	80	104	97	116	10
700	90	80	119	97	116	10
750	100	80	130	97	116	10
800	110	80	139	97	116	10
900	120	80	146	97	116	10

(Marks: 1 for each)

Question No: 52 (Marks: 5)

What are the major weaknesses of exogenous growth theory? Which theory was developed in against of exogenous growth theory?

Question No: 53 (Marks: 5)

Discuss the components on the assets and liabilities side of the balance sheet of a central bank.

FINALTERM EXAMINATION
Spring 2010
ECO401- Economics (Session - 2)

Note Solve these papers by urself no One responsible for any content...

Time: 90 min

Marks: 69

Question No: 1 (Marks: 1) - Please choose one

If the equilibrium price of bread is $2 and the government imposes a $1.50 price ceiling on the price of bread:

The demand for bread will decrease because suppliers ► will reduce their

supply.
► A surplus of bread will emerge.
► More bread will be produced to meet the increased demand.
► There will be a shortage of bread. (correct)
DEAMND WILL BE MORE THAN THAT OF SUPPLY.
Question No: 2 (Marks: 1) - Please choose one
Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:
► Increase hours of work.
► Decrease hours of work.
► Not change hours of work.
► None of the given options.
leisure is a normal good, the
demand for relaxation increases. This is the income effect and it is positive for leisure and negative for
hours worked. However, as the wage rate increases, the opportunity cost of relaxing increases and
prompts the worker to work more.
Question No: 3 (Marks: 1) - Please choose one
The following table shows a firm's Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?
Table

Quantity of Labor	Total Product
0	0
10	100
20	230
30	340
40	410
50	460

► 340 units.
► 220 units.
► 11 units.
► 110 units.
340-230= 110 units
Question No: 4 (Marks: 1) - Please choose one
The long-run average total cost curve:
► Traces out the points on the lowest short-run average total cost curve for each level of production. .
Is inversely related to the depth of the short-run ► marginal cost curve.
► Traces out the midpoints on an average of several short-run average total cost curves.
► Is downward-sloping under decreasing returns to scale.

Question No: 5 (Marks: 1) - Please choose one
A monopolistically competitive firm in the long run equilibrium:
► Will make negative profit.
► Will make zero profit.
► Will make positive profit.
► Any of the given are possible.
Long-Run Equilibrium Conditions
The combination of firm and industry adjustment results in two equilibrium conditions. The profit-maximizing condition is that marginal revenue is equal to marginal cost (both short run and long run). The zero economic profit condition is
that price (and average revenue) is equal to average cost (both short run and long run).
Question No: 6 (Marks: 1) - Please choose one
The market structure in which strategic considerations are most important is:
► Monopolistic competition.
► Oligopoly. page 81
► Pure competition.
► Pure monopoly.
Question No: 7 (Marks: 1) - Please choose one
The market structure in which there is interdependence among firms is:
► Monopolistic competition.
► Oligopoly.
► Perfect competition.
► Monopoly.
Question No: 8 (Marks: 1) - Please choose one
Which one of the following characteristics is common in monopolistic competition and oligopoly?
► Free entry and exit from the industry.
► Strategic behavior.
Standardized ► products.
► **Advertising.**
Question No: 9 (Marks: 1) - Please choose one
The long run aggregate supply curve will shift to the right if:
► The price level increases.
► Factors of production (such as labor and capital) increase.
► Expenditures (such as consumption and net exports) increase.
► The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.
Decrease in cost become the reason to shift the supply curve to right.
Question No: 10 (Marks: 1) - Please choose one
An assumption of classical economics is: .
► Prices and wages are inflexible.
► Self-correction takes a long time.

► **Supply creates its own demand.**
► Investment and saving are seldom equal.
Question No: 11 (Marks: 1) - Please choose one
Real GDP is equal to:
► **Nominal GDP - Inflation . page 162**
► Nominal GDP + Inflation.
► Nominal GDP/ Inflation.
► Inflation / Nominal GDP.
Question No: 12 (Marks: 1) - Please choose one
If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:
► GNP = GDP – Net income from abroad.
► **GNP = GDP + Net income from abroad.**
► GNP = NNP – Net income from abroad.
► GNP = NNP + Net income from abroad.
GNP = GDP + Net factor incomes from abroad
Question No: 13 (Marks: 1) - Please choose one
Suppose an economy is at full employment equilibrium in the classical model. What will be the long run effect of an increase in government spending in this economy? .
Price ► level will increase.
► The aggregate demand curve will shift upward.
► Output level will remain constant.
► All of the given options.
Question No: 14 (Marks: 1) - Please choose one
Which of the following best describes the "Capital widening"?
► More capital per unit of labour.
► More capital and more labour but with the same amount of capital per unit of labour.
► **Increasing the usage of existing capital.**
► Importing capital from the developed world.
Question No: 15 (Marks: 1) - Please choose one
Double counting in national income refers to:
► **Counting a product more than once.**
► Counting a product at the final stage of output process.
► Counting both as product and as factor payment.
► Counting both as real goods and as money flow.
Question No: 16 (Marks: 1) - Please choose one
Expenditure of defense is an item of:
► Public investment.
► Private consumption.
► **Public consumption.**
► Private investment.
Question No: 17 (Marks: 1) - Please choose one
The discounted value of the net returns that the asset generates over a

period of time plus the discounted value of its disposal value at the end of the period minus the initial purchase cost is known as:
► Future value.
► Net present value.
► Discounted value.
► Disposal value.
Question No: 18 (Marks: 1) - Please choose one
National defense is a good example of:
► Public good.
► Inferior good.
► Giffen good.
► Private good.
public goods (national defense, highways, etc.)
Question No: 19 (Marks: 1) - Please choose one
AD2
AD1
AD3
Price level (base year = 1.00)
Real GDP (billions of base-year dollars) per year
1.08
1.12
1.16
$7,000
LRAS
Refer to the above figure, the potential output in this economy is:
► $7,000 billion at a price level of 1.16.
► $7,000 billion at a price level of 1.12.
► $7,000 billion at a price level of 1.08.
► All of the given options.
Question No: 20 (Marks: 1) - Please choose one
The short run in macroeconomic analysis is a period:
► In which wages and some other prices do not respond to changes in economic conditions. .page 54
► In which full wage and price flexibility and market adjustment have been achieved.
► Of less than 12 months.
► In which all macroeconomic variables are fixed.
Question No: 21 (Marks: 1) - Please choose one
Suppose investment rises by $50 billion at each price level. If the value of the multiplier is 1.5, what is the amount of change in real GDP demanded at each price level?
► $50 billion.
► $75 billion.
► $125 billion.
► $150 billion.
Question No: 22 (Marks: 1) - Please choose one
According to the classical school, unemployment was responsive to changes in:

► M/P.
► P.
► M.
► **Money wages.**
Question No: 23 (Marks: 1) - Please choose one
The level of output produced when the labor market is in equilibrium is called:
► Target output.
► Product market equilibrium output.
► **Full-employment output.**
► Natural output.
Question No: 24 (Marks: 1) - Please choose one
The relationship between inflation and unemployment is usually that:
► **Unemployment changes do not directly lead to changes in inflation, but inflation changes may cause changes in unemployment.**
► As unemployment falls, nothing happens to inflation.
► As unemployment falls, inflation falls.
► As unemployment falls, inflation increases.
Question No: 25 (Marks: 1) - Please choose one
Most nations of the world are:
► Closed economies.
► **Open economies.**
► Self sufficient.
► Non trading nations.
Question No: 26 (Marks: 1) - Please choose one

Disposable Personal Income $	Consumption $
100	140
200	220
300	300
400	380
500	460

Refer to the above table, when disposable personal income is $400, what is the amount of personal saving?
► −$40.
► −$20.
► $0.
► **$20.**
Question No: 27 (Marks: 1) - Please choose one
What will happen if exchange rate increases from $1 = Pak Rs. 80 to $1 = Pak Rs. 85?
► It will reduce exports of Pakistan.
► **It will increase exports of Pakistan.**

► It will increase imports of Pakistan.
► Its imports and exports will remain unchanged.

Note Solve these papers by urself no One responsible for any content...

Question No: 28 (Marks: 1) - Please choose one
Which of the following is the cause of fluctuations in economic activity?
► An increase in aggregate demand.
► A decrease in aggregate demand.
► A decrease in short run aggregate supply.
► **All of the given options.**

Question No: 29 (Marks: 1) - Please choose one
In the endogenous growth model, the assumption of ----------------- is more plausible.
► Increasing returns to capital.
► Decreasing returns to capital.
► **Constant returns to capital.**
► All of the given options.

Question No: 30 (Marks: 1) - Please choose one
The optimum tax rate in which government revenue is maximized lies somewhere between:
► 0% and 1%.
► 0% and 50%.
► 50% and 100%.
► **0% and 100%.**

Question No: 31 (Marks: 1) - Please choose one
The item which serves as a medium of exchange is known as:
► Gold.
► Capital.
► Silver.
► **Money.**

Question No: 32 (Marks: 1) - Please choose one
Which of the following is included in M2 but not in M1?
► Currency.
► Demand deposits.
► ***Time deposits.***
► Debit cards.

Question No: 33 (Marks: 1) - Please choose one
Which of the following statements is correct?
► A single bank cannot multiply deposits.
► A single bank can multiply deposits.
► Some banks can multiply deposits and others cannot.
► **The banking system as a whole can multiply deposits.**

Question No: 34 (Marks: 1) - Please choose one
LM curve shows the equilibrium in:

► Money Market.
► Goods Market.
► Labor Market.
► Financial Market.
Question No: 35 (Marks: 1) - Please choose one
What will happen to LM curve if the central bank increased the supply of real money balances?
► It would become steeper.
► It would become flatter.
► It would shift upward.
► It would shift downward.
Question No: 36 (Marks: 1) - Please choose one
Which of the following is (are) the characteristic(s) of low income countries as compared to high income countries? .
I.Lower rates of population growth.
II. Greater income inequality.
III. A large proportion of the labor force in agriculture.
IV. Higher rates of unemployment.
► I only.
► I and II.
► II and IV.
► II, III and IV.
Question No: 37 (Marks: 1) - Please choose one
Which of the following statements is TRUE about the agriculture sector in low income countries?
The agricultural sector has been decreasing ► in size because its productive workers prefer to migrate to urban areas.
► The agricultural sector is by far the largest producer and the most productive sector in low-income countries.
► Although the agricultural sector is the largest employer, labor's productivity in this sector is very low.
► The agricultural sector has been increasing in size and in terms of labor productivity as rural farmers increasingly start to mechanize.
Question No: 38 (Marks: 1) - Please choose one
Suppose a consumer buys two goods X and Y. The demand for X is elastic, then a rise in the price of X will cause:
► Total spending on good Y to rise.
► Total spending on good Y to fall.
► Total spending on good Y to remain unchanged.
► An indeterminate effect on total spending on good Y.
Question No: 39 (Marks: 1) - Please choose one
For which of the following good, the substitution effect of a lowered price is counteracting by the income effect?
► For an inferior good.
► A substitute good.

► For an independent good.
► For a normal good.
Question No: 40 (Marks: 1) - Please choose one
Suppose that 90 units of output are produced by using 15 units of labor. Which of the following is TRUE in this context?
► The marginal product of labor is 6.
► The total product of labor is 1/6.
► The average product of labor is 6.
► None of the given options.
Question No: 41 (Marks: 1) - Please choose one
What will happen if current output is more than the profit-maximizing output?
► The next unit produced will increase profit.
► The next unit produced will decrease revenue more than it increases cost.
► The next unit produced will decrease cost more than it increases revenue.
► The next unit produced will increase revenue without increasing cost.
Question No: 42 (Marks: 1) - Please choose one
Suppose the price of coke increases, what will happen to the demand for pepsi?
The demand curve for pepsi ► shifts leftward.
► The demand curve for pepsi shifts rightward.
► The supply curve of pepsi shifts leftward.
► The supply curve of pepsi shifts rightward.
Question No: 43 (Marks: 1) - Please choose one
Slope and elasticity of demand have
► A direct relation.
► An inverse relationship.
► No relation between slope and elasticity.
► None of the given options.
Slope and elasticity of demand have an inverse relationship. When slope is high elasticity of demand is
low and vice versa.
Question No: 44 (Marks: 1) - Please choose one
When the slope of a demand curve is infinity, elasticity of demand is
► Zero elastic.
► Unit elastic.
► Less elastic.
► More elastic.
When the slope of a demand curve is infinity, elasticity is zero
Question No: 45 (Marks: 1) - Please choose one
The reduction in the value of a capital good due to the wear and tear caused during production is called as:
► Devaluation.

► Cost of capital.
► Depreciation. page 154
► Return to capital.
Question No: 46 (Marks: 1) - Please choose one
According to Keynes inflation and unemployment are:
► Opposite side of same coin.
► Positively related.
► Having no relation.
► None of the given options.
Question No: 47 (Marks: 1) - Please choose one
Government budget deficit is equal to:
Private sector resource deficit + Current ► account deficit.
► Current account deficit - Private sector resource deficit.
► Private sector resource deficit - Current account deficit.
► Current account deficit / Private sector resource deficit.
Question No: 48 (Marks: 1) - Please choose one
Money demand decreases when interest rate:
► Increases.
► Decreases.
► Remains the same.
► All of the given options.
Question No: 49 (Marks: 3)
What are the assumptions of exogenous growth theory?
Question No: 50 (Marks: 3)
Differentiate between international trade and international finance.
Question No: 51 (Marks: 5)
A.
What is the importance of current account? How we can calculate current account deficit?
B. How we can reduce current account deficit?
Question No: 52 (Marks: 5)
Consider the following table. Find out the GNP and NNP from this information.
Items Amount (billion rupees)
Personal consumption expenditures 458
Gross domestic private investment 169
Government expenditure on goods and services 78
Gross domestic public investment 27
Exports surplus 15
Net foreign investment 17
Depreciation cost 28
Question No: 53 (Marks: 5)
“People hold money for speculation purposes”. Discuss.

FINALTERM EXAMINATION

Spring 2010
ECO401- Economics (Session - 1)

Time: 90 min
Marks: 69

Question No: 1 (Marks: 1) - Please choose one
As more of a good is consumed, then total utility typically:
Increases at ► a decreasing rate.
► Decreases as long as marginal utility is negative.
► Decreases as long as marginal utility is positive.
► Is negative as long as marginal utility is decreasing.
Question No: 2 (Marks: 1) - Please choose one
A production function:
► Relates inputs with output.
► Generates a curve that is upward sloping.
► Shows diminishing marginal product of an input, since it gets flatter as output rises.
► All of the given options.
Question No: 3 (Marks: 1) - Please choose one
_______________ arises when an increase in all inputs leads to a more-thanproportional
increase in the level of output. _____________ means that as inputs are added to the production process, output increases proportionally.
► Economies of scale; constant returns to scale.
► Constant returns to scale; decreasing returns to scale.
► Decreasing returns to scale; economies of scale.
► Economies of scale; decreasing returns to scale.

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Question No: 4 (Marks: 1) - Please choose one
Total costs are the sum of:
Marginal costs ► and variable costs.
► Fixed costs and variable costs.
► Fixed costs and marginal costs.
► Average variable costs and marginal costs.
Question No: 5 (Marks: 1) . - Please choose one
As compared to existing firms, a new firm entering in monopolist market has:
► High costs.
► Low costs.
► Equal costs.
► None of the given options.
Question No: 6 (Marks: 1) - Please choose one
The maximum price that a consumer is willing to pay for a good is called:

► **The reservation price.**
► The market price.
► The first-degree price.
► The block price.
In first degree price discrimination the firms charge the maximum price each customer is willing to pay. The maximum price a consumer is willing to pay for a unit of the good is the reservation price
Question No: 7 (Marks: 1) - Please choose one
The market structure in which strategic considerations are most important is:
► Monopolistic competition.
► **Oligopoly.**
► Pure competition.
► Pure monopoly.
Question No: 8 (Marks: 1) - Please choose one
Price exceeds marginal revenue in which of the following market structure(s)?
► Differentiated oligopoly and monopoly only. (correct) nt confirm
► Standardized oligopoly and pure competition only.
► Monopolistic competition and monopoly only.
► **Monopolistic competition, oligopoly and monopoly.**
Question No: 9 (Marks: 1) - Please choose one
For a firm buying labor competitively, the marginal input cost is equal to the:
.
► **Wage.**
► Interest rate.
Price ► of output.
► Cost of raw materials.
Question No: 10 (Marks: 1) - Please choose one
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: 11 (Marks: 1) - Please choose one
According to Keynes, the economy does not self correct quickly because:
► With less consumption and more savings the interest rate will drop.
► In the short run workers are fully employed and cannot produce enough to get to long run equilibrium.
► Wages and prices are flexible in the short run.
► **Wages and prices are sticky in the short run.**
Question No: 12 (Marks: 1) - Please choose one
An assumption of classical economics is: .
► Prices and wages are inflexible.
► Self-correction takes a long time.
► **Supply creates its own demand.**

► Investment and saving are seldom equal.

There are three basic assumptions of Classical Economics theories. They are:
* Flexible Prices: The prices of everything, the commodities, labor (wages), land (rent), etc. must be both upwardly and downwardly mobile. Unfortunately, in reality, it has been observed that these prices are not as readily flexible downwards as they are upwards, due a variety of market imperfections, like laws, unions, etc.
* Say's Law: 'Supply creates its own demand'. The Say's law suggests that the aggregate production in an economy must generate an income enough to purchase all of the economy's output. In other words, if a good is produced, it has to be bought. Unfortunately, this assumption also does not hold good today, as most economies today are demand driven (production is based on demand. Demand is not based on production or supply).
* Savings - Investment Equality: This assumption requires the household savings to equal the capital investment expenditures. Now it takes no genius to know, that this is rarely the case. Yet, should the savings not equal the investment, the 'flexible' interest rates should be able to restore the equilibrium.

Question No: 13 (Marks: 1) - Please choose one

The real interest rate will increase:

If there is an excess supply of loanable funds in the ► financial markets.

► If there is an excess demand for loanable funds in the financial markets.

► If there is an excess supply of loanable funds in the foreign exchange markets.

► If there is an excess demand for loanable funds in the foreign exchange markets.

Question No: 14 (Marks: 1) - Please choose one

Which of the following is a less important component of the balance of payments?

► The capital account.

► The current account.

► The financial account.

► All three components are equally important. page 156

Question No: 15 (Marks: 1) - Please choose one

Endogenous growth theory was developed in:

► 1980. page 167

► 1965.

► 1970.

► 1950.

Question No: 16 (Marks: 1) - Please choose one

Per capita income is obtained by dividing national income by:

► Total labor force in the country.

► Unemployed youth in the country.

► None of the given options.

► Total population of that country. page 122

Question No: 17 (Marks: 1) - Please choose one

Which of the following is deducted from Gross National Product to get Net National Product? .

Indirect ► taxes.

► Depreciation.page # 120

► Direct taxes.

► Transfer payments.
Question No: 18 (Marks: 1) - Please choose one
In the Keynesian cross model, the 45-degree line has a slope of:
► 45.
► Infinity.
► 1.
► 0.
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The principle economic difference between a competitive and a noncompetitive market is:
► The number of firms in the market.
► The extent to which any firm can influence the price of the product.
► The size of the firms in the market.
► The annual sales made by the largest firms in the market.
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E) The presence of government intervention.
Question No: 20 (Marks: 1) - Please choose one
Those who hold the classical view of the labour 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: 21 (Marks: 1) - Please choose one
Which of the following statements is TRUE about the Classical and Keynesian approaches to achieve a macroeconomic equilibrium in an economy?
Keynesian economists actively promote the use of ► fiscal policy while the classical economists do not.
► Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.
► Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.
► Classical economists believe that fiscal policy is an effective tool for

achieving economic stability while the Keynesians do not.
Question No: 22 (Marks: 1) - Please choose one
What will be the primary result of inflation in an economy?
► A rise in personal wealth.
► A rise in wages.
► A decline in prices.
► **A decline in the value of money.**

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Question No: 23 (Marks: 1) - Please choose one
Suppose in an economy, a war destroys a large portion of a country's capital stock but the saving rate is unchanged. In this situation, the exogenous model predicts that output will grow and the new steady state will approach towards:
► A higher output level than before.
► **The same output level as before.**
► A lower output level than before.
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Question No: 24 (Marks: 1) - Please choose one
Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:
► **1000+1500+2500 = Rs. 5000**
► 1000+500+2500 = Rs. 4000
► 1000+500+1000 = Rs. 2500
► 1000+1500+1000 =Rs. 3500
Question No: 25 (Marks: 1) . - Please choose one
Which of the following is NOT an item of public consumption?
Expenditure ► on health.
► Expenditure on education.
► **Expenditure on general administration.**
► Expenditure for transfer payments.
Question No: 26 (Marks: 1) - Please choose one
Changes in aggregate demand can be caused by changes in:
I.Wages.
II. Raw materials costs.
III. Government spending.
IV. Government regulations that increase the cost of doing business.
► I, II, III, and IV.
► I and III only.
► **I, III, and IV.**
► III only.
Question No: 27 (Marks: 1) - Please choose one
Which of the following is equal to the number of people unemployed?
► The number of people employed minus the labor force.

► The labor force plus the number of people employed.
► The number of people employed divided by the labor force.
► **The labor force minus the number of people employed.**
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Rising inflation means:
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► **That the price level is rising at an increasing rate.**
► That the price level is rising at a variable rate.
Rising inflation means that the price level is rising at an increasing rate. In the recovery phase, a falling rate of inflation does not imply a falling price level. It means the price level is rising, but by smaller and smaller percentages. Falling inflation means that the price level is rising more slowly, not that the price level is falling
Question No: 29 (Marks: 1) - Please choose one
If net exports are positive, this implies that the country has:
► Trade surplus.
► **Trade deficit.**
► Government budget surplus.
► Government budget deficit.
Question No: 30 (Marks: 1) - Please choose one
The rapid population growth in today's developing nations is due to the:
High ► birth rates only.
► Low death rates only.
► **High birth rate and low death rate.**
► Higher standard of living.
Question No: 31 (Marks: 1) - Please choose one
A tax on the accounting profits of corporations is known as:
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► **Corporate income tax.**
► Personal income tax.
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Suppose you keep Rs. 35 in your pocket to purchase a movie CD when it will come out next month in the market. What is the function of money in this context?
► Medium of exchange.
► Unit of account.
► Standard of deferred payment.
► **Store of value.**
Question No: 33 (Marks: 1) - Please choose one
What will be the impact of an increase in the money supply?
► It will shift the IS curve to the left and decrease both the interest rate and the level of income.
► It will shift the LM curve downward (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.
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IS curve shows the equilibrium in:
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► Labor Market.
► Financial Market.
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International finance is the study of economics that deals with:
The ► balance of trade.
► The macroeconomic consequences of financial flows associated with international trade.
► International investment opportunities for American multinational corporations.
► The relationships among world currency dealers.
Question No: 36 (Marks: 1) - Please choose one
In which of the following conditions, a current account deficit exists?
► When net exports are positive.
► When financial flows out of a country for goods and services are less than financial flows into the country for its goods and services.
► When a country has a trade deficit.
► When an economy buys less from foreigners than it sells to them.
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Economists define economic growth as:
► Changes in real GDP from year to year that occur as aggregate demand and short-run aggregate supply change.
► An increase in the standard of living of a nation.
► An increase in nominal GDP combined with price stability.
► The process through which the economy's potential output is increased.
Refrence
Economic growth is the increase of per capita gross domestic product (GDP) or other measure of aggregate income, typically reported as the annual rate of change in real GDP. Economic growth is primarily driven by improvements in productivity, which involves producing more goods and services with the same inputs of labor, capital, energy and materials. Economists draw a distinction between short-term economic stabilization and long-term economic growth.
Question No: 38 (Marks: 1) - Please choose one
What will be the impact if agriculture sector is neglected in the development process?
► It can lead to insufficient savings.
► It can lead to shortage of foreign exchange.
► It can lead to lower levels of production.
► All of the given conditions can happen.

Question No: 39 (Marks: 1) - Please choose one
In which of the following situations, a monopoly occurs?
► When each firm produces a product that is slightly different from the other firms.
► When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.
When there are many firms producing ► the same product.
► In all of the given situations.
Refrence:-
A monopoly is when one company dominates the market for a particular good or service. There are two ways a monopoly can occur. A monopoly occurs when no other company is providing that same good or service. A monopoly also occurs when there is a single company that commands a significant majority of market share and thereby dominates the market for a particular good or service.
Question No: 40 (Marks: 1) - Please choose one
Which of the following is not the property of production function?
► Generates a curve that is upward sloping. page # 53
► Shows diminishing marginal product of an input, since it gets flatter as output rises.
► Marginal product at all levels is increasing.
► Relates inputs with output.
Question No: 41 (Marks: 1) - Please choose one
As long as all prices remain constant, a decrease in money income results in:
► An increase in the slope of the budget line
► A decrease in the slope of the budget line
► An increase in the intercept of the budget line
► A decrease in the intercept of the budget line
Question No: 42 (Marks: 1) - Please choose one
What will happen to the isocost line if the price of both goods decreases proportionality?
► It shifts farther away from the origin of the graph.
► It shift inward.
► It shifts outward.
► None of the given options.
Question No: 43 (Marks: 1) - Please choose one
Monopoly profits can be invested in
► Advertisement.
► Research and development.
► Human resource development.
► Expansion of the market.
Ref:
Supernormal or monopoly profits can be invested in R&D, development
Question No: 44 (Marks: 1) - Please choose one
The characteristics of a monopolistically competitive market are almost the same as in
► Monopoly.

► Oligopoly.
► **Perfect competition**.
► Duopoly.
characteristics of a monopolistically competitive market are almost the same as in perfect competition,
Question No: 45 (Marks: 1) - Please choose one
The multiplier is a related concept which formalizes the output response to:
► **Saving. page 134**
► Investment.
► Taxes.
► Inflation.
Question No: 46 (Marks: 1) - Please choose one
Factor income from abroad like worker remittances, dividends and interest has positive impact on:
► **Current account balance. page 156**
► Capital account balance.
► Trade balance.
► Unemployment.
Question No: 47 (Marks: 1) - Please choose one
Continuous technology progress is a necessary condition for the high rate of:
► Inflation reduction.
► **Economic growth**.
► Population growth.
► Employment.
Question No: 48 (Marks: 1) - Please choose one
Expansionary fiscal policy includes:
► Increasing taxes and increasing government purchases.
► Raising interest rates, increasing taxes, and decreasing transfer payments.
► Decreasing taxes and increasing government expenditures.
► Raising interest rates, decreasing taxes, and decreasing government spending.
A form of fiscal policy in which an increase in government purchases, a decrease in taxes, and/or an increase in transfer payments are used to correct the problems of a business-cycle contraction. The goal of expansionary fiscal policy is to close a recessionary gap, stimulate the economy, and decrease the unemployment rate. Expansionary fiscal policy is often supported by expansionary monetary policy. An alternative is contractionary fiscal policy.
Question No: 49 (Marks: 3)
Differentiate between real exchange rate and nominal exchange rate.
Question No: 50 (Marks: 3)
Discuss the basic functions of money.
Question No: 51 (Marks: 5)
What will be the impact of following factors on Marginal Propensity to Consume?
a) A fall in the rate of income tax.
b) People anticipate that the rate of inflation is about to rise.

c) The government redistributes income from the rich to the poor.
d) The government gives the subsidies.
e) If the assets of the people increase.
(Marks: 1 for each)
23
Question No: 52 (Marks: 5)
Explain the difference between current account and capital account.
.
Question No: 53 (Marks: 5)
Assume that the reserve requirement ratio (rr) of United Bank Limited (UBL) is 15% and bank's initial deposit is $2500.
a. By using this information, make initial balance sheet of MCB.
b. Calculate money multiplier.

ECO401- Economics (Session 2010)
Ref No: 1375891
Time: 90 min
Marks: 69
Note Solve these papers by urself no One responsible for any content...

Question No: 1 (Marks: 1) - Please choose one
As more of a good is consumed, then total utility typically:
Increases at a decreasing ► rate. 100%
► Decreases as long as marginal utility is negative.
► Decreases as long as marginal utility is positive.
Is negative as long as marginal utility is decreasing. ►
ref:
http://www.web-books.com/eLibrary/NC/B0/B63/036MB63.html
Question No: 2 (Marks: 1) - Please choose one
A production function:
► Relates inputs with output. page # 53
► Generates a curve that is upward sloping.
Shows diminishing marginal product of an input, since it gets flatter as output
►
rises.
► All of the given options .
Question No: 3 (Marks: 1) - Please choose one
________________ arises when an increase in all inputs leads to a more-thanproportional
increase in the level of output. ______________ means that as inputs are added to the
production process, output increases proportionally.
► Economies of scale; constant returns to scale . page # 56

► Constant returns to scale; decreasing returns to scale.
► Decreasing returns to scale; economies of scale.
► Economies of scale; decreasing returns to scale.
Question No: 4 (Marks: 1) - Please choose one
Total costs are the sum of:
► Marginal costs and variable costs.
► **Fixed costs and variable costs. 100% sure**
► Fixed costs and marginal costs.
► Average variable costs and marginal costs.
Question No: 5 (Marks: 1) - Please choose one
As compared to existing firms, a new firm entering in monopolist market has:
► **High costs . 100% sure**
► Low costs.
► Equal costs.
► None of the given options.
Question No: 6 (Marks: 1) - Please choose one
The maximum price that a consumer is willing to pay for a good is called:
► **The reservation price.**
► The market price .
► The first-degree price.
The block price. ►
In first degree price discrimination the firms charge the maximum price each customer is willing to pay. The maximum price a consumer is willing to pay for a unit of the good is the reservation price.
Question No: 7 (Marks: 1) - Please choose one
The market structure in which strategic considerations are most important is:
Monopolistic ► competition.
► **Oligopoly.**
► Pure competition.
► Pure monopoly.
whereas in oligopoly the main theoretical framework revolves around firm's strategic interactions.
Question No: 8 (Marks: 1) - Please choose one
Price exceeds marginal revenue in which of the following market structure(s)?
► Differentiated oligopoly and monopoly only.
► Standardized oligopoly and pure competition only.
► Monopolistic competition and monopoly only.
► **Monopolistic competition, oligopoly and monopoly. 100% correct**
Question No: 9 (Marks: 1) - Please choose one
For a firm buying labor competitively, the marginal input cost is equal to the:
► **Wage .correct**
► Interest rate.
► Price of output.
► Cost of raw materials.
Question No: 10 (Marks: 1) - Please choose one

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: 11 (Marks: 1) - Please choose one
According to Keynes, the economy does not self correct quickly because:
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In which of the following situations, a monopoly occurs?
► When each firm produces a product that is slightly different from the other firms.
**► When one firm sells a good that has no close substitutes and a barrier blocks
entry for other firms.**
► When there are many firms producing the same product.
► In all of the given situations.
Refrence:-
A monopoly is when one company dominates the market for a particular good or service. There are two ways a monopoly can occur. A monopoly occurs when no other company is

providing that same good or service. A monopoly also occurs when there is a single company that commands a significant majority of market share and thereby dominates the market for a particular good or service.

Question No: 40 (Marks: 1) - Please choose one

Which of the following is not the property of production function?

► **Generates a curve that is upward sloping . Page # 53**

Shows diminishing marginal product of an input, since it gets flatter as output
►
rises.

► Marginal product at all levels is increasing.

► Relates inputs with output.

Question No: 41 (Marks: 1) - Please choose one

As long as all prices remain constant, a decrease in money income results in:

► An increase in the slope of the budget line

► **A decrease in the slope of the budget line**

► An increase in the intercept of the budget line

► A decrease in the intercept of the budget line

Question No: 42 (Marks: 1) - Please choose one

What will happen to the isocost line if the price of both goods decreases proportionality?

► It shifts farther away from the origin of the graph.

► It shift inward.

► **It shifts outward. page # 59**

None of ► the given options.

Question No: 43 (Marks: 1) - Please choose one

Monopoly profits can be invested in

► Advertisement.

► **Research and development.Page # 77**

Human resource development.

► Expansion of the market.

Ref:

Supernormal or monopoly profits can be invested in R&D, development

Question No: 44 (Marks: 1) - Please choose one

The characteristics of a monopolistically competitive market are almost the same as in

► Monopoly.

► Oligopoly.

► **Perfect competition.Page # 79**

Duopoly. ►

REf:

characteristics of a monopolistically competitive market are almost the same as in perfect competition,

Question No: 45 (Marks: 1) - Please choose one

The multiplier is a related concept which formalizes the output response to:

► Saving.

► **Investment.Page# 134**

► Taxes.
► Inflation.

Note Solve these papers by urself no One responsible for any content...

Question No: 46 (Marks: 1) - Please choose one
Factor income from abroad like worker remittances, dividends and interest has positive
impact on:
► Current account balance .Page # 156
► Capital account balance.
► Trade balance.
► Unemployment.
Question No: 47 (Marks: 1) - Please choose one
Continuous technology progress is a necessary condition for the high rate of:
► Inflation reduction.
► Economic growth .
► Population growth.
► Employment.
Question No: 48 (Marks: 1) - Please choose one
Expansionary fiscal policy includes:
Increasing taxes and increasing government ► purchases.
► Raising interest rates, increasing taxes, and decreasing transfer payments.
► Decreasing taxes and increasing government expenditures.
Raising interest rates, decreasing taxes, and decreasing government ►
A form of fiscal policy in which an increase in government purchases, a decrease in taxes, and/or an increase in transfer payments are used to correct the problems of a business-cycle contraction. The goal of expansionary fiscal policy is to close a recessionary gap, stimulate the economy, and decrease the unemployment rate. Expansionary fiscal policy is often supported by expansionary monetary policy. An alternative is contractionary fiscal policy.spending.
Question No: 49 (Marks: 3)
Differentiate between real exchange rate and nominal exchange rate.
page no 158
Question No: 50 (Marks: 3)
Discuss the basic functions of money.
Question No: 51 (Marks: 5)
What will be the impact of following factors on Marginal Propensity to Consume?
a) A fall in the rate of income tax .
b) People anticipate that the rate of inflation is about to rise .
c) The government redistributes income from the rich to the poor .
d) The government gives the subsidies .
e) If the assets of the people increase .
(Marks: 1 for each)
..
Question No: 52 (Marks: 5)

Explain the difference between current account and capital account.
Question No: 53 (Marks: 5)
Assume that the reserve requirement ratio (rr) of United Bank Limited (UBL) is 15% and
bank's initial deposit is $2500.
a. By using this information, make initial balance sheet of MCB.
b. Calculate money multiplier.
(Marks: 3+2)

ECO401- Economics (Session - 4)(2010)
Ref No: 1375891
Time: 90 min
Marks: 69

Question No: 1 (Marks: 1) - Please choose one
An increase in supply is shown by:
Shifting the supply ► curve to the left.
► Shifting the supply curve to the right. page # 14(see in table)
► Upward movement along the supply curve.
► Downward movement along the supply curve.
Question No: 2 (Marks: 1) - Please choose one
Which of the following will be TRUE if demand is inelastic?
► The coefficient of elasticity is greater than one.
The percentage change in quantity demanded is same as the percentage ► change in the price.
► An increase in price will increase total revenue .Page # 28
► None of the given options.
Question No: 3 (Marks: 1) - Please choose one
Which of the following is regarded as a general determinant of price elasticity of demand?
► Nature of the good (luxury versus necessity).
► Availability of close substitutes.
► Share of consumer's budget and passage of time.
► All of the given options . page # 32
Question No: 4 (Marks: 1) - Please choose one
Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:
► Indifference curves slope downwards.
► Indifference curves slope upwards.
► Indifference curves may cross.
► Indifference curves could take the form of ellipses.
Question No: 5 (Marks: 1) - Please choose one
If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:
► The consumer's indifference curve must be positively sloped.

The consumer’s indifference curve must be convex with respect to the ► origin of the graph.
► The ratio of the consumer’s marginal utility of 1 egg to that of 1 hamburger must equal ½.
► All of the given options.
Question No: 6 (Marks: 1) - Please choose one
Suppose you are a workaholic (like work a lot) and your friend is a leisure lover. Compared to your friend your indifference curve will be:
► Flatter.
► Steeper.
► Identical.
► None of the given options.
Question No: 7 (Marks: 1) - Please choose one
In economics, the “long run” is a time period in which:
► All inputs are variable. page 54
All ► inputs are paid for.
► All outputs are determined.
► All loans are repaid.
Question No: 8 (Marks: 1) - Please choose one
To find the profit maximizing level of output, a firm finds the output level where:
► Price equals marginal cost.
► Marginal revenue and average total cost.
► Price equals marginal revenue.
► None of the given options .
The profit maximizing level of output is found by equating its marginal revenue with its marginal cost, which is the same profit maximizing condition that a perfectly competitive firm uses to determine its equilibrium level of output. Indeed, the condition that marginal revenue equal marginal cost is used to determine the profit maximizing level of output of *every firm, regardless of the market structure* in which the firm is operating.
Question No: 9 (Marks: 1) - Please choose one
A perfectly competitive firm maximizes profit by finding the level of production at which:
► Price = Marginal Cost .
► Price = Average Total Cost.
► Average Total Cost = Marginal Cost.
► Price < Marginal Cost.
Question No: 10 (Marks: 1) - Please choose one
In the short run, a firm should shut down when:
► Production losses are less than fixed costs.
► Only normal profits are earned.
► Production losses exceed fixed costs.page # 54
► Fixed costs are zero.
Question No: 11 (Marks: 1) - Please choose one
Loud music from a neighbor's party is:
► A negative externality whether or not you like it.

► A positive externality whether or not you like it.
A positive externality if you like the music and a negative externality if you ► don't.
A negative externality if you like the music and a positive externality if you ► don't.

Question No: 12 (Marks: 1) - Please choose one

Classical economics was replaced as the dominant theory of macroeconomic analysis by:

► Monetarism.
► Rational expectations.
► Keynesian economics.
► Neoclassical economics.

Note Solve these papers by urself no One responsible for any content...

Question No: 13 (Marks: 1) - Please choose one

Unemployment benefits may increase the unemployment rate because:

Unemployment benefits reduce the cost ► of job search . page 144
► Unemployment benefits encourage people to quit their jobs.
► Unemployment benefits reduce the benefits of additional job searching.
► Unemployment benefits enable people to quit searching for work.

Question No: 14 (Marks: 1) - Please choose one

Naima has just finished her school job and is waiting to report to new job at the beginning of the month. Naima is considered to be:

► Cyclically unemployed.
► Employed.
► Structurally unemployed .
► Frictionally unemployed.

Question No: 15 (Marks: 1) - Please choose one

Which of the following is a less important component of the balance of payments?

► The capital account .
► The current account.
► The financial account.
► All three components are equally important.

Reference:
http://wps.prenhall.com/bp_hubbard_econ_2/85/21856/5595147.cw/-/5595174/in
dex.html
A less important part of the balance of payments is called the capital-account. The capital account records relatively minor transactions such as migrants' transfers and sales and purchases of nonproduced, nonfinancial assets.
Question#10

Question No: 16 (Marks: 1) - Please choose one

An increase in "per capita" national income implies that:

► Everyone in the nation is enjoying a better standard of living.
► The population has increased.
► **National income has risen faster than the population has risen.**
The distribution of income has improved. ►
Reference:
http://www.ecoteacher.asn.au/devel2/devel2.htm
qs 15
Question No: 17 (Marks: 1) - Please choose one
Suppose the government increases spending. Which of the following would be part of the crowding out effect?
► **Interest rate rises and investment falls.**
► Interest rate rises and velocity of circulation also rises.
Higher interest rates encourage the central bank to increase the money ► supply.
► Interest rate falls and exports rise.`
Question No: 18 (Marks: 1) - Please choose one
Real Gross National Product (GNP) is best defined as:
The pound value of all final goods and services produced in the ► economy during a particular time period and measured in current prices.
The pound value of all goods produced for final consumption by ► households in a particular year and measured in constant prices.
The current pound value of all new and used goods produced and sold in ► the economy during a particular time period.
The market value of all final goods and services produced by the ► economy during a given time period, with prices held constant relative to some
base period. page 120
Question No: 19 (Marks: 1) - Please choose one
The news on the television reports that the dollar has strengthened relative to the Japanese yen. This means that:
► The dollar can now purchase more yen .
► The US trade balance with the Japanese economy has improved.
► **The yen can now purchase more dollars.**
► The dollar has depreciated relative to the yen.
Refrence:
The exchange rate increases (i.e., a unit of your currency is worth more in foreign currency than previously), the currency is said to have *strengthened, appreciated, or increased in value* (revaluation). For example, assume that the exchange rate between the U.S. dollar and the Japanese yen changed from US$1=104 yen to US$1=110 yen. This would strengthen the value of the U.S. dollar in that you would receive more yen in exchange for your dollar.
Question No: 20 (Marks: 1) - Please choose one
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.**

Reference:
Proportion of a small change in disposable income that would be saved, instead of being spent on consumption. It is computed by dividing the change in savings by the change in disposable income that caused the change.

Question No: 21 (Marks: 1) - Please choose one
Which of the following is true about supply curve under monopoly?
► It is same as the competitive market supply curve.
It is the portion of marginal cost curve where marginal costs exceed ► the minimum value of average variable costs. page 74
► It is the result of market power and production costs.
► None of the given statements is true.

Question No: 22 (Marks: 1) - Please choose one
All of the following conditions lead to the successful operation of a cartel EXCEPT:
► Market demand for the good is relatively inelastic.
► The cartel supplies all of the world's output of the good.
► Cartel members have substantial cost advantages over non-member producers.
The supply of non-cartel members is ► very price elastic .

Question No: 23 (Marks: 1) - Please choose one
Which of the following is required to make the equation of exchange in the quantity theory of money?
► V and Q are assumed to be constant . page 152
The money supply is assumed to be produced by the banking system and ► not exclusively in currency.
► The quantity of money is assumed to determine the amount of Real GDP.
► M and P are considered constant.

Question No: 24 (Marks: 1) - Please choose one
Potential Gross Domestic Product (GDP) measures the economy's ability to produce goods and services in which of the following conditions?
► If labor force is fully employed . page 118
► If price level is stable.
► If trade balance is zero.
► If federal budget is balanced.

Question No: 25 (Marks: 1) - Please choose one
Which of the following specifies the maximum amount of a good that may be imported in a given period of time?
► Trade restriction.
► Quota .
► Import restriction.
► Legislative restriction.

Refrence
A quota is a quantitative restriction on the import of a particular good, which specifies the maximum amount of the good that may be imported in a given period of time

Question No: 26 (Marks: 1) - Please choose one

GNP is a good indicator of:
► The total payment of factor owners. page 120
► The amount of consumption and investment.
► The conditions of production and employment.
► The amount of incomes available for spending.

Note Solve these papers by urself no One responsible for any content...

Question No: 27 (Marks: 1) - Please choose one
The demand for factors of production is derived from:
► Money market.
► Goods market .
► Stock market.
► Financial market.
Question No: 28 (Marks: 1) - Please choose one
Labor supply curve is backward bending because:
The income effect of higher income dominates the substitution ► effect of higher wages.
The substitution effect of higher income dominates the income effect of ► higher wages.
► The income effect of higher income dominates the price effect of higher wages.
► None of the given options.
Question No: 29 (Marks: 1) - Please choose one
The discounted value of the net returns that the asset generates over a period of time plus the discounted value of its disposal value at the end of the period minus the initial purchase cost is known as:
► Future value.
► Net present value.
► Discounted value.
► Disposal value.
Question No: 30 (Marks: 1) - Please choose one
Information products are also known as:
► Inferior products .
► Superior products .
► Internet products.
► Expensive products .
Question No: 31 (Marks: 1) - Please choose one
Price level
EF
B
A
C
GD AD2
AD1
AD3
Y3 Y1 Y2 Real GDP per year
LRAS

$SRAS_1$
P_1
P_2
P_5
P_3
P_4

Refer to the above figure, suppose that the economy is in long-run equilibrium at point A. Now suppose the stock market crashes, significantly reducing household wealth. What happens in the short-run?

► Real GDP remains at Y_1 but the price level falls to P_3.

The quantity of real GDP demanded falls resulting in a movement from ► point A to point F.

► Real GDP decreases from Y_1 to Y_3 and the price level falls from P_1 to P_3.

The economy moves to a short-run equilibrium ► at point D.

Question No: 32 (Marks: 1) - Please choose one

Which of the following is a cost of rising unemployment?

I. Output foregone.

II. Unemployment compensation that must be paid .

III. Rising inflation that erodes the value of money.

► I, II, and III.

► I and II. page # 143

► I and III.

► II and III.

Question No: 33 (Marks: 1) - Please choose one

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: 34 (Marks: 1) - Please choose one

Economic growth occurs by an outward shift of:

► **The production possibility frontier.**

► The gross domestic barrier.

► The marginal consumption frontier.

► The minimum efficient scale.

Question No: 35 (Marks: 1) - Please choose one

Which of the following is a necessary condition for the high rate of modern economic growth?

► Continuous technology progress.

► High rate of population growth.

► Development of urban centers.

► Expansion of railways.

Question No: 36 (Marks: 1) - Please choose one

The government has a balanced budget if:

► Its total revenues are equal to its total expenditures.

► Its total revenues are less than its total expenditures.
► Its total revenues are greater than its total expenditures.
► The money supply is less than total expenditures.

Question No: 37 (Marks: 1) - Please choose one

Which of the following is the monetary policy tool that involves the buying and selling of government bonds?

► Moral suasion.
► Reserve requirements.
► The discount rate.
► Open market operations .

Question No: 38 (Marks: 1) - Please choose one

When the comparative advantage in production of a good does occur?

When a country can produce that good using fewer resources than other ► countries.
When a country can produce that good at a greater opportunity cost than ► other countries.
When a country can produce that good at a lower opportunity cost ► than other countries.
When a country has a greater supply of natural resources required to ► produce that good, compared to other countries.

Question No: 39 (Marks: 1) - Please choose one

A quota is defined as:

► A restriction on exports.
► A unit tax imposed on a product.
► A limit on the quantity of a good that can be exported.
A limit on the quantity of a good that can be imported . ►
A quota is a quantitative restriction on the import of a particular good, which specifies the maximum amount of the good that may be imported in a given period of time

Question No: 40 (Marks: 1) - Please choose one

Which of the following statements is TRUE about the agriculture sector in low income countries?

The agricultural sector has been decreasing in size because its ► productive workers prefer to migrate to urban areas.
The agricultural sector is by far the largest producer and the most ► productive sector in low-income countries.
Although the agricultural sector is the largest employer, labor's ► productivity in this sector is very low.
The agricultural sector has been increasing in size and in terms of labor ► productivity as rural farmers increasingly start to mechanize.

Question No: 41 (Marks: 1) - Please choose one

Production possibilities curve will shift downward if there is:

► Immigration of skilled workers into the nation.
► An increase in the size of the working-age population.
► A decrease in the size of the working-age population.
► Increased production of capital goods.

Question No: 42 (Marks: 1) - Please choose one
Suppose the total costs of first four units of an output produced are 10, 20, 30, and 40 respectively. What is the marginal cost of the fourth unit of output?
► 10.
► 20.
► 30.
► 40.
Question No: 43 (Marks: 1) - Please choose one
If marginal revenue is Rs. 15,000 and marginal cost is Rs. 20,000. The firm should:
► Expand output.
Do nothing without information about ► your fixed costs.
► Expand output until marginal revenue equals zero.
► Reduce output until marginal revenue equals marginal cost.
Question No: 44 (Marks: 1) - Please choose one
The average annual income per head for all the inhabitants of the country is known as:
► Gross domestic product.
► Gross national product.
► Net national product.
► Per capita income .
Question No: 45 (Marks: 1) - Please choose one
Gross domestic product deflator can be obtained by dividing nominal gross domestic product with:
► Real gross domestic product.
► Gross national product.
► Net national product.
► Per capita income.
Question No: 46 (Marks: 1) - Please choose one
The principle which states that a change in income causes a magnified change in investment is termed as the:
► None of the given.
► Paradox of thrift.
► Multiplier effect.
► Accelerator effect. apge 134
Question No: 47 (Marks: 1) - Please choose one
If central bank increased the money supply, then what will be happen to IS curve?
► IS curve will Shifts rightward . page 195
► IS curve will Shifts leftward.
► IS curve will remain unaffected.
► IS curve will become vertical.
Question No: 48 (Marks: 1) - Please choose one
The value of world trade has increased ----------over the period of 1930-

2000.
► 20 fold (nt sure)
► 10 fold
► 5 fold
► 14 fold
Question No: 49 (Marks: 3)
Write down the functions of commercial banks.
Question No: 50 (Marks: 3)
How the growth rate of output is determined in the exogenous growth model?
Question No: 51 (Marks: 5)
Why is taxation necessary? What are the principles of taxation?
Question No: 52 (Marks: 5)
Following figure shows the circular flow of goods and income in a two sector economy. Interpret all the points in this figure that how the household sector and business sector work in an economy to produce goods and services.
FIRMS
HOUSEHOLDS
Wages
Interest rate
Rent
Dividends
Consumer
Expenditure
Goods and Services
Factors of Production
Circular Flow of Goods and Income
Question No: 53 (Marks: 5)
Explain the difference between current account and capital account.

Note Solve these papers by urself no One responsible for any content...

FINALTERM EXAMINATION

ECO401- Economics (Session - 2)

Question No: 1 (Marks: 1) - Please choose one
Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:
The economic ► perspective.
► Marginal analysis.
► Allocative efficiency.
► Opportunity cost.
Refrence: the opportunity cost of a decision is based upon what must be given

up (the next best alternative) as a result of decision.
Any decision that involves a choice between two or more options has an opportunity cost.The opportunity cost of a particular choice is the satisfaction that would have been derived from the next best alternative foregone; in other words, it is what must be given up or sacrificed in making a certain choice or decision
Page#4 of handouts
Question No: 2 (Marks: 1) - Please choose one
A good for which income and quantity demanded are inversely related is known as:
► Inferior good.Page#10
► Complementary good.
► Normal good.
None of the given options. ►
Refrence:
Inferior good are goods whose quantity demanded goes down as consumer increases
Question No: 3 (Marks: 1) - Please choose one
An increase in supply is shown by:
► Shifting the supply curve to the left.
► Shifting the supply curve to the right. page#14 see in table
► Upward movement along the supply curve.
► Downward movement along the supply curve.
Refrence:
Effect on supply Direction of shift in supply curve Effect on equilibrium price Effect on equilibrium quantity
increase Rightward decrease increase
Question No: 4 (Marks: 1) - Please choose one
Price floor results in:
► All of the given options.
► Excess supply.
► Equilibrium.
Excess demand ►
Refrence:
Page #17
Question No: 5 (Marks: 1) - Please choose one
The price elasticity of demand measures the responsiveness of quantity demanded to:
► Quantity demanded.
► Quantity supplied.
► Price. page26
Output. ►
Refrence:
Price elasticity of demand is the percentage change in quantity demanded with respect to the percentage change in price

Question No: 6 (Marks: 1) - Please choose one
Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:
► -14.
► **14.**page# 40
► 83.
97. ►
Refrence ;
Margianl Utitlity is Diff of two consective utilities
so 97 - 83 = 14
Question No: 7 (Marks: 1) - Please choose one
Indifference curves that are convex to the origin reflect:
► An increasing marginal rate of substitution.
► **A decreasing marginal rate of substitution.**
► A constant marginal rate of substitution.
A marginal rate of substitution that first decreases, then increases. ►
Refrence:
see page 44
convex to the origin >>> a diminishing marginal rate of substitution
concave to the origin <<< an increasing marginal rate of substitution
Question No: 8 (Marks: 1) - Please choose one
To find the profit maximizing level of output, a firm finds the output level where:
► **Price equals marginal cost.**Page#65
► Marginal revenue and average total cost.
► Price equals marginal revenue.
None of the given options. ►
Refrence:
In economics, profit maximization is the (short run) process by which a firm determines the price and output level that returns the greatestprofit. There are several approaches to this problem. The total revenue–total cost method relies on the fact that profit equals revenue minus cost, and the marginal revenue–marginal cost method is based on the fact that total profit in a perfectly competitive market reaches its maximum point where marginal revenue equals marginal cost.
P=MC
Question No: 9 (Marks: 1) - Please choose one
As compared to existing firms, a new firm entering in monopolist market has:
► **High costs. Page 76**
► Low costs.
► Equal costs.
► None of the given options.
A new entrant firm in the market has to face high costs.
Question No: 10 (Marks: 1) - Please choose one
A firm is charging a different price for each unit purchased by a consumer. This

is called:
► First-degree price discrimination.
► Second-degree price discrimination. page 78
► Third-degree price discrimination.
None of the given options. ►
Refrence:
- 2nd Degree - In retail stores, second-degree price discrimination also exists. A reduced price may be offered if you buy two t-shirts instead of just one. This form helps to get rid of merchandise and generate more revenue for a company
Question No: 11 (Marks: 1) - Please choose one
McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:
► Collusion.
► Price discrimination.
► Two-part tariff.
► Bundling.
Question No: 12 (Marks: 1) - Please choose one
The price elasticity of demand for any good must be less than or equal to zero unless:
► The good is a necessity.
► The good is a luxury.
► The good is a Giffen good.
► None of the given options.
Refrence:
http://webcache.googleusercontent.com/se...clnk&gl=pk
Question No: 13 (Marks: 1) - Please choose one
Figure
In figure given above, the marginal utility of income is:
Increasing as ► income increases.
► Constant for all levels of income.
► Diminishes as income increases.
► None of the given options.
Question No: 14 (Marks: 1) - Please choose one
In monopoly, which of the following is NOT true?
► Products are differentiated.
► There is freedom of entry and exit into the industry in the long run.Page 74
► The firm is a price maker.
► There is one main seller.
Question No: 15 (Marks: 1) - Please choose one
Welfare economics is the branch of economics which deals with:
► Positive issues.
► Normative issues.

► Micro issues.
Macro issues. ►
Refrence:
Normative Eco says "what should be" (Page 01)nd Welfare Eco says "what should be" (Page 90)
A branch of economics that focuses on the optimal allocation of resources and goods and how this affects social welfare
Question No: 17 (Marks: 1) - Please choose one
Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?
► Duopoly.
► Cartel.page#81
Market ► sharing monopoly.
► Natural monopoly.
Question No: 18 (Marks: 1) - Please choose one
In the complete classical model, a rightward shift of the labor supply curve will:
► Decrease the price level and increase the nominal wage.
► Decrease the nominal wage and increase the price level.
► Decrease both the price level and the nominal wage.
► Increase both the price level and the nominal wage.
Question No: 19 (Marks: 1) - Please choose one
Which of the following events could cause the aggregate demand curve to shift to the right?
► An increase in the rate of inflation.
► A decrease in government expenditures.
► A decrease in investment spending.
A decrease in income tax rates. ►
Refrence :
An event that makes consumers spends more at a given price level (a tax cut or a stock market boom could cause the aggregate demand curve to shift to the right .
Principle of macroeconomics
Question No: 20 (Marks: 1) - Please choose one
The Great Depression of 1930s opened the door to the __________ revolution in macroeconomic theory.
► Keynesian.
► New classical.
► Old classical.
► New Keynesian.
Question No: 21 (Marks: 1) - Please choose one
Keynesian economics was the predominant economic theory:
► Prior to the late 1700s.
► From the late 1700s to the early 1900s.

► **From 1930s to 1970s.**
► Since 1970s.
Question No: 22 (Marks: 1) - Please choose one
Classical economics was replaced as the dominant theory of macroeconomic analysis by:
► Monetarism.
► Rational expectations.
► **Keynesian economics.**
► Neoclassical economics.
Question No: 23 (Marks: 1) - Please choose one
According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:
► Both prices and output to rise.
► Prices to fall and output to remain unchanged.
► Both prices and output to fall.
► **Prices to rise and output to remain unchanged.**
Question No: 24 (Marks: 1) - Please choose one
Intermediate goods are meant for:
► Direct use by the consumers.
► **Further processing.Page 119**
► The term do not exist.
► None of the given options.
Question No: 25 (Marks: 1) - Please choose one
Final goods are meant for:
► **Direct use by the consumers.Page 119**
► Further processing.
► The term do not exist.
► None of the given options.
Question No: 26 (Marks: 1) - Please choose one
Which of the following is a flow variable?
► The value of the house in which you live.
► **The balance in your savings account.**
► Your monthly consumption on food items.
► The number of carrots in your refrigerator at the beginning of the month.
A flow variable is measured over an interval of time. Therefore a flow would be measured per unit of time (say a year). Flow is roughly analogous to rate or speed in this sense.
Question No: 27 (Marks: 1) - Please choose one
Which of the following is NOT a stock variable?
► Government debt.
► Capital.
► **The amount of money held by the public.**
Inventory investment. ►
Refrence:
Page#118

Stock:
A variable or measurement that is defined for a instant in time
Population capital business and inventories etc
Question No: 28 (Marks: 1) - Please choose one
All other things remain the same, Gross Domestic Product (GDP) will rise if:
► Imports rises.
► Exports falls.
► Durable goods consumption rises.
Military spending falls. ►
Refrence:
Page 118
Question No: 29 (Marks: 1) - Please choose one
If disposable income increases from $5 trillion to $6 trillion and as a result, consumption expenditure increases from $7 trillion to $7.8 trillion, the Marginal Propensity to Consume is:
► 1.0.
► 0.8.
► 5/7 = 0.71.
6/7.8 = 0.77. ►
Refrence:
Increase in disposable income / in crease in consumption expenditure
=0.77
After round abt it ll be
0.8
TheMarginalPropensitytoConsume(MPC) is a calculation used by economists to express the amount of additional income that consumers are actually spending and funneling back into the general economy. It is the inverse of theMarginalPropensityto Save.
Question No: 30 (Marks: 1) - Please choose one
The slope of the consumption function (or line) is the:
Average ► propensity to save.
► Average propensity to consume.
► Marginal propensity to save.
Marginal propensity to consume. ►
Refrence:
Page#126
Question No: 31 (Marks: 1) - Please choose one
Suppose that your income increases from $100,000 to $150,000 and your consumption increases from $80,000 to $120,000. Your Marginal Propensity to Save (MPS) is:
► 0.2.
► 0.4.
► 0.6.
0.8. ►
Refrence:

Page#126
delta consumtion/ delta income =40/50=.8
Question No: 32 (Marks: 1) - Please choose one
The unemployment rate is equal to:
► Number of employed / labour force x 100.
► Number of unemployed / labour force.
► (Number of unemployed / labour force) x 100.
None of the given options. ►
Refrence; page#142
The unemployment rate, which is reported each month, is equal to the number unemployed divided by the labor force.
Question No: 33 (Marks: 1) - Please choose one
The traditional Phillips Curve shows the:
► Inverse relationship between the rate of inflation and unemployment rate.
► Inverse relationship between the nominal and real wage.
► Direct relationship between unemployment and demand-pull inflation.
Tradeoff between the short run and long run. ►
Refrence:
Page#150
Question No: 34 (Marks: 1) - Please choose one
Deflation is:
An increase in the overall level of ► economic activity.
► An increase in the overall price level.
► A decrease in the overall level of economic activity.
A decrease in the overall price level. ►
Refrence:
In economics, deflation is a decrease in the general price level of goods and services.[1] Deflationoccurs when the annual inflation rate falls below 0% (a negative inflation rate).
Question No: 35 (Marks: 1) - Please choose one
Is Grosss Domestic Product (GDP) an accurate measure of a country's well being?
► Yes, it is the best measure of national well being.
► Yes, provided we use real GDP and not nominal GDP.
► Uncertain, depending on whether GDP is rising or falling.
No, it is not. ►
Refrence:
Page#127
Question No: 36 (Marks: 1) - Please choose one
Real Gross Domestic Product (GDP):
► Is nominal GDP adjusted for changes in the price level.
► Is also called nominal GDP.
► Measures GDP minus depreciation of capital.
Will always change when prices change. ►

Refrence:
An inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices. Often referred to as "constant-price", "inflation-corrected" GDP or "constant dollar GDP".
Unlike nominal GDP, real GDP can account for changes in the price level, and provide a more accurate figure.
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Real GDP=Nominal GDP-inflation