

ECO401

Final Term Examination – Spring 2006

Time Allowed: 150 Minutes

Question No. 1

Marks : 1

Mention few factors which cause the demand for dollars in Pakistani market to rise.

Question No. 2

Marks : 3

Aggregate demand (AD) is the sum of consumption, investment, government spending and _____.

Question No. 3

Marks : 3

Marginal benefit is the increment to total benefit derived from consuming an additional unit of good or service.

1. T
2. F

Question No. 4

Marks : 1

Gross domestic product is a measure of:

1. The total market value of all final goods and services produced in one year.
2. The price level of goods and services sold in one year.
3. The total amount of refrigerators, washing machines and other household appliances produced in one year.
4. The total amount of goods and services produced by private companies in one year.

Question No. 5

Marks : 1

The best definition of profit is:

1. Total assets minus total liabilities.
2. Total sales minus total taxes.
3. Total revenues minus total taxes.
4. Total sales minus total wages.

Question No. 6

Marks : 1

What do you understand by "Great Depression"?

Question No. 7

Marks : 1

_____ is an increase in the total output of a country over time.

Question No. 8

Marks : 1

Which combination of policies would be the most expansionary?

1. An increase in government spending and taxes.
2. A decrease in government spending and taxes.
3. An increase in government spending and a decrease in taxes.
4. A decrease in government spending and an increase in taxes.

Question No. 9

Marks : 1

Which of the following would be an example of a price floor?

1. Controls on apartment rent in major cities.
2. Rising interest charged by credit card companies.
3. Price controls during World War II.
4. Price supports for agricultural products.

Question No. 10

Marks : 3

Explain the term command or planned economy?

Question No. 11

Marks : 3

Microeconomics deals with the behavior of the economy as a whole.

1. True
2. False

Question No. 12

Marks : 10

In the circular flow model, businesses:

1. Demand both products and
2. supply both products and
3. Demand products and supply
4. supply products and demand resources.

Question No. 13

Marks : 1

The production possibility curve is:

1. Concave.
2. Convex.
3. Linear.
4. Positive.

Question No. 14

Marks : 1

Define M0 and M1. Briefly explain the three broad motives of holding money.

Question No. 15

Marks : 1

The BOP can be divided into three parts: current reserves, _____ account, _____ and changes to

Question No. 16

Marks : 1

Total utility is the additional utility derived from the consumption of one or more unit of the good.

1. True
2. False

Question No. 17

Marks : 1

Deflation refers to:

1. Decreasing relative prices
2. A decreasing price level.
3. A slowing down of the rate of inflation.
4. A federal government policy of running budget surpluses.

Question No. 18

Marks : 10

What is the difference between the positive and the normative in economics?

1. A positive question is one for which the answer is yes while normative question is one which the answer is no. for
2. Positive questions concern matters of opinion, while normative questions concern of fact. matters
3. Positive questions concern matters of fact, while normative questions concern matters of

- opinion.
- Economic theory can answer normative questions, but not positive ones.

Question No. 19

Marks : 1

Differentiate between the personal income and disposable income.

Question No. 20

Marks : 1

A normal good is one whose consumption increases _____ increases.
when

Question No. 21

Marks : 1

The traditional Phillips Curve shows the:

- Inverse relationship between the rate of inflation and the employment rate.
- ~~Inverse~~ Inverse relationship between the nominal and the real
- ~~Direct~~ Direct relationship between unemployment and demand-pull inflation.
- ~~The~~ Tradeoff between the short run and the long run.

Question No. 22

Marks : 1

Which would be defining characteristics of pure monopoly?

- The firm does not advertise and it sells a standardized
- ~~Product~~ No close substitutes for the product exist and there is one
- ~~Seller~~ The firm can easily enter into or exit from the industry and profits are
- ~~The~~ The firm holds a patent and is technologically guaranteed.
progressive.

Question No. 23

Marks : 1

The Town of Bedford Falls wants to buy four new police cars. The opportunity cost of buying the police cars is the:

- Cost of buying the cars now vs. buying them
- ~~Ability~~ Ability to make more arrests and reduce the total annual crime
- ~~Other~~ Other desirable goods or services that must be given up to buy the
- ~~Direct~~ Direct cost of the new cars. cars.

Question No. 24

Marks : 1

Who were the classical economists?

Question No. 25

Marks : 3

A leakage or withdrawal is any use of the income received by households that does not as revenue to domestic firms. return

1. True
2. False

Question No. 26

Marks : 1

The aggregate supply curve is the relationship between the:

1. Price level and the real domestic output
2. Price level and the real domestic output
3. Price level which producers are willing to accept and the price level purchasers willing to pay. are
4. Real domestic output purchased and the real domestic output produced.

Question No. 27

Marks : 1

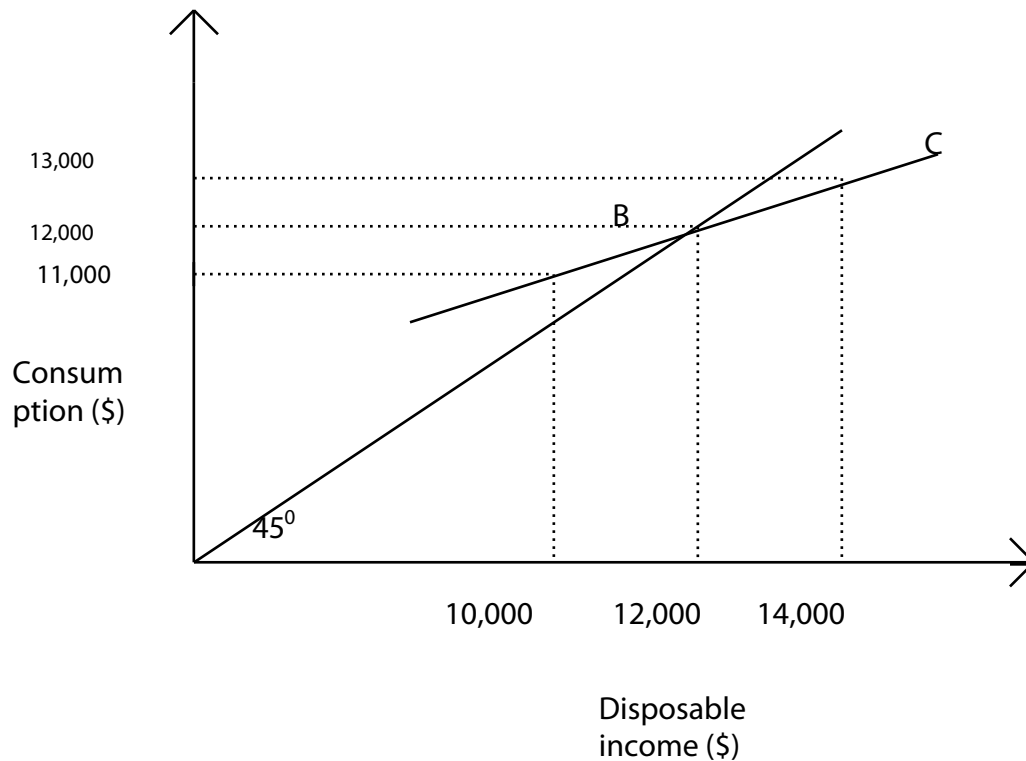
Which of the following is characteristic of a product whose demand is elastic?

1. The price elasticity coefficient is less than 1.
2. Total revenue decreases if price
3. Demand is relatively insensitive to price
4. The percentage change in quantity is greater than the percentage change in price.

Question No. 28

Marks : 1

- A. Define consumption and consumption function.
- B. Suppose a household has the consumption function C presented in figure given below.
 - i. Find consumption when disposable income is \$12,000 and \$14,000.
 - ii. Find consumption when disposable income is \$ 10,000. How can a household consume more than its disposable income?
 - iii. What is true for every point on the 45° line?



Question No. 29

Marks : 1

_____ refers to the permanent effects of a temporary change.

Question No. 30

Marks : 1

A giffen good is one whose benefits are indivisibly spread among the entire community, where particular individuals desire to consume the good or not.

1. True
2. False

Question No. 31

Marks : 1

In microeconomics, what is the usual meaning of the word investment?

1. Saving your money and using it to buy stocks and bonds
2. Purchasing new physical capital to aid in the production process
3. Learning new skills in order to add to your stock of human capital
4. When your new chapter of a club is recognized by the national association.

Question No. 32

Marks : 1

The sign of the cross elasticity of demand between two products will be negative if:

1. They are substitutes in consumption.
2. They are both normal goods.
3. They are both inferior goods.
4. They are complements in consumption.