

ECO -401
FINAL TERM PAPERS
2008, 2009 & 2010

FILE # 2
FINAL FILE



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PAPER # 05

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

A good for which income and quantity demanded are inversely related is known as:

- ▶ **Inferior good.**
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.

Inferior goods are goods whose quantity demanded goes down as consumer income increases.

Question No: 2 (Marks: 1) - Please choose one

At the equilibrium price:

- ▶ There will be a shortage.
- ▶ **There will be neither a shortage nor a surplus.**
- ▶ There will be a surplus.
- ▶ There are forces that cause the price to change.

Question No: 3 (Marks: 1) - Please choose one

A graph showing all the combinations of capital and labour available for a given total cost is the:

- ▶ Budget constraint.
- ▶ Expenditure set.
- ▶ Isoquant.
- ▶ **Isocost.**

http://wps.pearsoned.co.uk/ema_uk_he_sloman_economics_6/41/10679/2733917.cw/content/index.html

Question No: 4 (Marks: 1) - Please choose one

The supply curve for a competitive firm is:

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.
- ▶ **Its marginal cost curve above the minimum point of the average variable cost curve.**

- ▶ Its marginal cost curve above the minimum point of the average total cost curve.

The supply curve for a competitive firm is

- a. its entire MC curve.
- b. the upward-sloping portion of its MC curve.
- c. its MC curve above the minimum point of the AVC curve.**
- d. its MC curve above the minimum point of the ATC curve.

Question No: 5 (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: 6 (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.

http://books.google.com.pk/books?id=Zqap9Ih7Li0C&pg=PA231&lpg=PA231&dq=long+run+equilibrium+for+a+firm+in+a+monopolistic+competitive+demand+curve+is+tangent+to+average+cost+curve&source=bl&ots=jSonBQLaA-&sig=aChg_zXg8l4gIBPumeyewfdM680&hl=en&sa=X&ei=1ayPUYWUEu-P7Abqx4Ew&ved=0CDEQ6AEwAQ#v=onepage&q=long%20run%20equilibrium%20for%20a%20firm%20in%20a%20monopolistic%20competitive%20demand%20curve%20is%20tangent%20to%20average%20cost%20curve&f=false

In the long run, equilibrium *of a* monopolistically competitive industry, the ... The typical firm's demand curve *is just tangent to its average total cost curve*

Question No: 7 (Marks: 1) - Please choose one

Value of Marginal Product of Labor (VMP_L) is equal to:

- ▶ MPP_L / P_i
- ▶ MPP_L
- ▶ P_i
- ▶ **$MPP_L \times P_i$**

The value of marginal product of labour ($VMPL$) = $MPPL \times P_i$

It is equal to $MRPL$ when $P = MC$ (as in perfect competition), but otherwise $VMPL > MRPL$

Question No: 8 (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.**
- ▶ Downward sloping due to the law of supply.

The downward sloping marginal revenue product (MRP) curve is the demand curve, for labour

The demand curve for labour can be derived from the intersection of the wage rate lines (horizontal parallel lines) and the marginal revenue product of labour (a downward sloping concave function) given by $MRPL = MPPL \times MR_i$, where subscript “L” stands for labour and subscript “i” stands for the good which the laborer helps produce

Question No: 9 (Marks: 1) - Please choose one

The classical economists thought that the economy would quickly overcome any short run instability because:

- ▶ Price level and quantity are flexible.
- ▶ Prices would get stuck at a low level.
- ▶ The long run aggregate supply would shift to the left.

▶ **Prices and wages are flexible.**

Classical economists assumed that economies would operate at full employment because prices and wages are flexible. If unemployment were present, wages and prices would fall until full employment was restored

Wages and prices adjust to keep the full employment level of goods selling and the full employment level of labor working. Furthermore, this adjustment is so rapid that an economy left alone will not experience any significant period of unemployment or falling production. This adjustment process is one of the powerful self-correcting mechanisms in the Classical model.

Question No: 10 (Marks: 1) - Please choose one

An assumption of classical economics is:

- ▶ Investment and saving are seldom equal.
- ▶ Self-correction takes a long time.
- ▶ Demand creates its own supply.

▶ **Prices and wages are flexible.**

Classical economics, especially as directed toward macroeconomics, relies on three key assumptions--flexible prices, Say's law, and saving-investment equality. Flexible prices ensure that markets adjust to equilibrium and eliminate shortages and surpluses. Say's law states that supply creates its own demand and means that enough income is generated by production to purchase the resulting production. The saving-investment equality ensures that any income leaked from consumption into saving is replaced by an equal amount of investment.

As opposed to Keynesian economics, classical economics assumes flexible prices both in the case of goods and wages

Question No: 11 (Marks: 1) - Please choose one

Gross Domestic Product is:

- ▶ A stock variable.
- ▶ **A flow variable.**
- ▶ Both a stock and a flow variable.
- ▶ Neither a stock nor a flow variable.

- **A flow variable is a variable that is measured over a specific period of time.**
- **A stock variable is a variable that is independent of time.**

GDP: The market value of final goods and services, newly produced WITHIN a nation during a fixed period.

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

The labour force is made up of:

- ▶ The number of people employed minus the number of people unemployed.
- ▶ **The number of people employed plus the number of people unemployed**
- ▶ Just the number of people employed.
- ▶ The whole population.

Which of the following is correct?

- a. Short-term unemployment is a more serious problem than long-term unemployment.
- b. Most spells of unemployment are long term.
- c. **Most of the currently unemployed have been unemployed a long time.**
- d. None of the above is correct.

People who are unemployed because of job search are best classified as

- a. cyclically unemployed.
- b. structurally unemployed.
- c. **frictionally unemployed.**
- d. discouraged workers

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

A government wishing to reduce a deficit on the current account of their balance of payments through the use of fiscal policy would be most likely to:

- ▶ Raise direct taxation.
- ▶ Introduce an import quota.
- ▶ **Raise interest rates.**
- ▶ Reduce the rate of value added tax on all goods and services.

The current account balance is a measure of a country's transactions with the rest of the world. It includes all current transactions, hence the name. If a country runs a current account deficit it must be borrowing from the rest of the world

A current account deficit occurs when the value of imports (of goods, services and investment incomes) is greater than the value of exports

Policies To Reduce A Current Account Deficit

Devaluation

If there is devaluation in the currency, the price of importing goods increases and therefore the quantity demanded of imports falls

Exports will become cheaper and there will be an increase in the quantity of exports

Devaluation will improve the balance on the current account, on the condition that the combined elasticity's of demand for imports and exports is greater than one.

Deflation

If a government reduces aggregate demand by raising interest rates or increasing taxes then people will have less money to spend so they reduce consumption of imports.

Deflationary policies will also put pressure on manufacturers to reduce costs and this will lead to more competitive exports and so exports will increase

Supply Side Policies

Increased tariffs of quotas will reduce imports and improve the current account

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

If imports = exports, then we have:

- ▶ Current account balance.
- ▶ Capital account balance.
- ▶ Statistical discrepancy.
- ▶ **Balanced Budget.**

T-G is referred to as the fiscal balance. If $G > T$, there is a fiscal or budget deficit; if $G < T$, there is a fiscal or budget surplus. If $G = T$, there is a balanced budget

T = Tax Revenue for government

G = Government Spending , expenditure spending in the form of subsidies, unemployment benefits etc

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

The principle economic difference between a competitive and a non-competitive 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: 16 (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.

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

Under monopoly, when the demand curve is downward sloping, marginal revenue is:

- Equal to price.
- Equal to average cost.
- **Less than price.**
- More than price.

For any firm facing a downward sloping demand curve, marginal revenue will be less than price.

<http://www2.econ.iastate.edu/classes/econ101/vandewetering/chapter13notes.htm>

Question No: 18 (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.

An important difference between the approaches of the classical and Keynesian economists use to achieve a macroeconomic equilibrium is that

Keynesian economists actively promote the use of fiscal policy; the classical economists do not

Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance; classical economists do not

Classical economists believe that monetary policy will certainly affect the level of output; Keynesians believe that money growth affects only prices

Classical economists believe that fiscal policy is an effective tool for achieving economic stability; Keynesians do not

Question No: 19 (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.**

The optimal role for the government under classical economics was one of laissez-faire. They believed that if the prices of goods, services and factors were allowed to be determined by the free operation of the forces of demand and supply (i.e. the price mechanism) the best possible outcome for resource allocation would obtain. 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.

Long-run

In the long-run, however, the situation will be different. The economy will have tended towards full employment on its own, and so any further **increases in demand will simply be inflationary**. The shape of the long-run aggregate supply curve will therefore be vertical:



Classical long run supply curve is vertical, any policy specially government policy which increase in AD, Government spending cause shift in AD to upward, any shift in demand shown by prices, classical assume that no to good and services available in the economy was fixed therefor any increase in want and desire to buy the goods would be reflect increase in prices and no increase in output or in quantity produce

Output can be only increase by shift in supply curve. Shift in supply curve is cause by

Availability of resources (Labor, input,etc)

Cost of producing fall

Technology improvement

Question No: 20 (Marks: 1) - Please choose one

This year, if national product at factor cost is Rs. 500 billion, indirect taxes 150 billion and subsidies Rs. 50 billion, then national product at market prices will be:

- ▶ Rs. 700 billion.
- ▶ Rs. 650 billion.
- ▶ **Rs. 600 billion.**
- ▶ Rs. 300 billion.

Formula

Net National product at market price = Net national Product at Factor Cost + Net Indirect Taxes (Indirect taxes – Subsidies)

Net National product at market price = 500 + 150 -50

Net National product at market price=600

Net National product at Factor Cost = Net National Product at Market Price – Net Indirect Taxes (Indirect taxes – Subsidies)

GDP at factor and market prices:

Difference between GDP at factor cost and GDP at market price is that in GDP at factor cost mean the final output which is sold to consumer contains only factor price while in GDP at market price also consist of factor price plus indirect taxes. GDP at market price is always higher than the GDP at factor price. Formulas are given as follows.

GDP at market price= GDP at factor cost + Indirect taxes

GDP at factor cost = GDP at market price – Indirect taxes

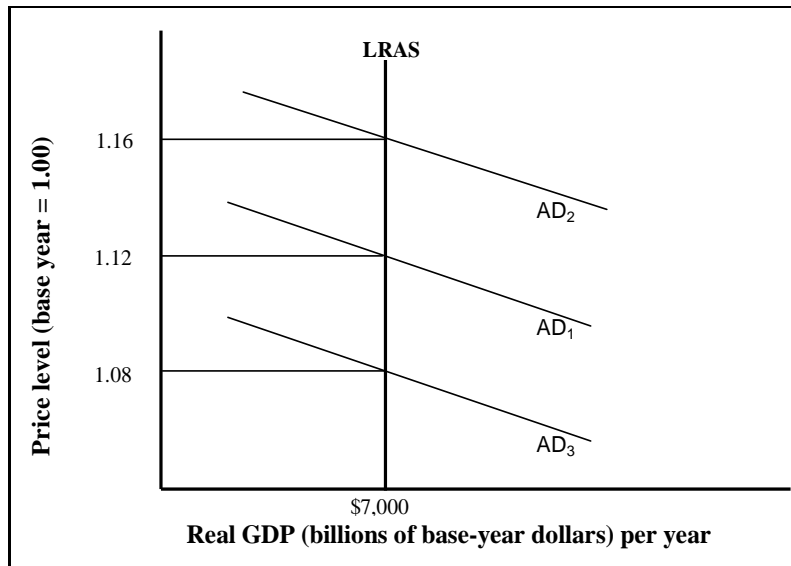
Question No: 21 (Marks: 1) - Please choose one

Which of the following is an example of an injection?

- ▶ Taxes.
- ▶ Saving.
- ▶ Imports.
- ▶ **Investment.**

Withdrawal (S + T + M) = Injection (I + G + X)

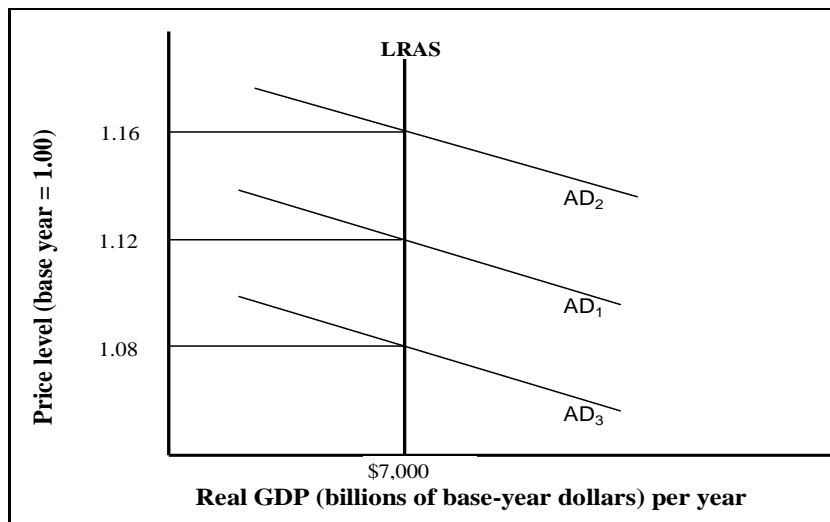
Question No: 22 (Marks: 1) - Please choose one



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: 23 (Marks: 1) - Please choose one



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.

$\text{DP deflator} = \text{Nominal GDP} / \text{Real GDP}$

Rearrange

$\text{Nominal GDP} = \text{GDP Deflator} \times \text{Real GDP}$

$\text{Nominal GDP} = 1.16 \times 7000$

Nominal GDP = 8120

The GDP deflator shows how much a change in the base year's GDP relies upon changes in the price level. Also known as the "GDP implicit price deflator."

Question No: 24 (Marks: 1) - Please choose one

Which of the following is TRUE?

- ▶ **Accelerator coefficient = Marginal capital / output ratio.**
- ▶ Accelerator coefficient > Marginal capital / output ratio.
- ▶ Accelerator coefficient < Marginal capital / output ratio.
- ▶ None of the given options.

The size of the accelerator, α , depends on the marginal capital to output ratio: $(\Delta K)/(\Delta Y)$

The ratio of change in capital investment to the change in consumer spending.

Also called **accelerator**, coefficient of acceleration.

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

Which of the following predictions can be made using the growth rates associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output (Y_P) in the long run?

▶ **If the money supply grows at a faster rate than growth in Y_P , there will be inflation.**

▶ If the money supply grows at the same rate as growth in Y_P , the price level will fall and there will be deflation.

▶ If the money supply grows at the same rate as growth in Y_P , the price level will also increase at the same rate as growth in Y_P .

▶ None of the given options.

Higher money growth does not affect output, higher money growth leads to higher inflation.

$MV = PY$

So, if we double M , we double PY .

Reinterpret:

Y = Real GDP

P = GDP deflation

If the money supply grows at a faster rate than growth in Y_P , there will be inflation in the economy and it can be associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output (Y_P) in the long run

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

Which of the following will influence a country's exports?

▶ All of the given options.

▶ **Consumer tastes for domestic and foreign goods.**

▶ Prices of goods at home and abroad.

▶ Costs of transporting goods from country to country.

Question No: 27 (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 \$100, what is the amount of personal saving?

▶ -\$40.

▶ -\$20

▶ \$0.

▶ \$20.

100-140= - 40

Question No: 28 (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.**

400-380 = 20

Question No: 29 (Marks: 1) - Please choose one

The price of one unit of foreign good in terms of domestic good is known as:

- ▶ Inflation rate.
- ▶ Real exchange rate.
- ▶ **Nominal exchange rate.**
- ▶ Discount rate.

(NER) Nominal exchange rate: price of a foreign currency unit in terms of the domestic currency units:

The nominal exchange rate ϵ is defined as the number of units of the domestic currency that can purchase a unit of a given foreign currency.

Nominal exchange rate is simply the price of one currency in terms of the number of units of some other currency.

Question No: 30 (Marks: 1) - Please choose one

Development is impossible without:

- ▶ Incentive to profit.
- ▶ **Foreign aid.**
- ▶ Domestic savings.

► Inflation.

Foreign aid can play vital role in economic development e.g. if developed country help the poor country with technology then poor country by using technology bring revolution in the country and can make economic development.

Foreign aid means economic and other assistance given by one country to another country. Foreign aid can accelerate Economic Development. It is used for setting up Industry, for capital formation, to increase employment opportunities and due to it Transfer of Technology & Knowledge takes place, Peoples Purchasing Power Increases etc.

Economic development is **possible without inflation**. However, a small amount of inflation is necessary for economic development. Economists sometime consider it as "greasing the wheels" for economic development. So, economies with small amount of inflation are generally thought to be better off than a society with no or lots of inflation. A small

Positive inflation rate of about 3% is considered healthy for development while 7% is quite acceptable for fast growing emerging economies.

Question No: 31 (Marks: 1) - Please choose one

Which of the following is not likely to be a cause of economic growth?

- Improved rate of capital formation.
- **Increase in money supply**
- Increase in investment in education and training.
- Rapid technical progress.

Economic growth is an increase in the total output of a country over time. It is the long-run expansion of the economy's ability to produce output. When GDP of a country is increasing it means that country is growing economically. Economic growth is made possible by increasing the quantity or quality of the economy's resources (labor, capital, land, and entrepreneurship).

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

The money multiplier is the reverse of:

- ▶ Legal reserves.
- ▶ Excess reserves.
- ▶ Checkable deposits.
- ▶ **The reserve ratio.**

THE MONEY MULTIPLIER

If you look carefully, the money multiplier is nothing but the inverse of the reserve ratio. Thus, we can write $MM = 1/rr$, where rr is reserve ratio

MONETARY MULTIPLIER (also known as the money multiplier or the deposit-expansion multiplier)--Maximum checking deposit expansion which can result from a given amount of excess reserves is a multiple of that given amount of excess reserves. That multiple is the monetary multiplier. It is equal to $1 / R$ where R is the required reserve ratio.

The *money multiplier* is the reciprocal of the reserve ratio

The money multiplier indicates the magnified change in money (checkable deposits and currency) that results from an injection of additional reserves into the banking system.

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

A primary function of a central bank is to:

- ▶ Regulate dividend payments by corporations.
- ▶ Control the bond market.
- ▶ **Set monetary policy**
- ▶ Publish statistics on banking and related financial matters.

Monetary policy can be defined as the central bank's Programme, often changing on a daily basis, regarding the direct or indirect control (through interest rates) of monetary conditions in the economy with a view to managing aggregate demand and inflation

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

What will be the impact of an increase in taxes?

► **It will shift the IS curve to the left and decrease both the interest rate and the level of income.**

► It will shift the IS curve to the right and increase both the interest rate and the level of income.

► It will shift the IS curve to the right and increase the level of income but decrease the interest rate.

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

The IS curve will shift to the left. There will be a resulting fall in the rate of interest and a fall in national income.

The LM curve will shift to the left. There will be a resulting rise in the rate of interest and fall in national income

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If there is an increase in taxes, IS curve will shift downward and income and interest rate will fall.

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

IS curve shows the equilibrium in:

► Money Market.

► **Goods Market.**

► Labor Market.

- Financial Market.

The IS curve describes equilibrium in the market for goods and services in terms of r and Y . The IS curve is downward sloping because as the interest rate falls, investment increases, thus increasing output.

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

Which of the following is TRUE for investment function and the IS curve slope?

- It is upward because higher interest rates induce more investment.
- It is upward because higher interest rates induce less investment.
- It is downward because higher interest rates induce more investment.
- **It is downward because higher interest rates induce less investment.**

The IS curve describes equilibrium in the market for goods and services in terms of r and Y . The IS curve is downward sloping because as the interest rate falls, investment increases, thus increasing output.

The LM curve describes equilibrium in the market for money. The LM curve is upward sloping because higher income results in higher demand for money, thus resulting in higher interest rates. The intersection of the IS curve with the LM curve shows the equilibrium interest rate and price level.

http://www.campus-online.uni-stuttgart.de/self-study/vortraege_auftakt/englmann/MANKIW3/QUE/CHAP9.QUE

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

Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?

- **The demand curve for airline travel shifts left.**
- The demand curve for airline travel shifts right.
- The supply curve of airline travel shifts left.

- ▶ The supply curve of airline travel shifts right.

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

Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:

▶ Decreasing returns to scale.

- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ None of the given options.

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

What will happen if current output is less than the profit-maximizing output?

- ▶ The next unit produced will decrease profit.
- ▶ The next unit produced will increase cost more than it increases revenue.
- ▶ The next unit produced will increase revenue more than it increases cost.**
- ▶ The next unit produced will increase revenue without increasing cost.

If current output is less than the profit-maximizing output, then the next unit produced

- a. will decrease profit.
- b. will increase cost more than it increases revenue.
- c. will increase revenue more than it increases cost.**
- d. will increase revenue without increasing cost.
- e. may or may not increase profit

Question No: 40 (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.

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

Concentration ratio is used to assess:

▶ **The level of competition in an industry.**

▶ The degree of control over prices.

▶ The technological gaps between the firms.

▶ Marginal cost and marginal benefit analysis.

Concentration ratio is used to assess the level of competition in an industry. It is simply the percentage of total industry output that is produced by the five largest firms in the industry

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

If an increase in price increases the total revenue then:

▶ Demand is elastic

▶ **Demand is inelastic.**

▶ Supply is elastic.

▶ Supply is inelastic.

Elastic demand means when price of any product increases, its demand also increases more than the increase in price. As price increases total revenue decreases in case of elastic demand.

Inelastic demand of any product means that if price of that product increases there is very small effect on its quantity demanded. As price increases, total revenue also increases in case of inelastic demand.

INELASTIC DEMAND $0 < \epsilon < 1$

Price rises:

As P increases, Q decreases

Percentage change in P > percentage change in Q

Now $TR = P \times Q$ TR will also increase

Price falls:

As P decreases, Q increases

Percentage change in P > percentage change in Q

Now $TR = P \times Q$ TR will also decrease

ELASTIC DEMAND $\epsilon > 1$

Price rises:

As P increases, Q decreases

Percentage change in P < percentage change in Q

Now $TR = P \times Q$ TR will also decrease

Price falls:

As P decreases, Q increases

Percentage change in P < percentage change in Q

Now $TR = P \times Q$ TR will also increase

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

Revaluation of the currency encourages:

▶ **Imports.**

▶ Exports.

▶ Poverty.

▶ Inflation.

Devaluation makes the home country's exports cheaper to foreigners in term of the foreign currency while making the home country's imports more expensive in term of the home currency. Expenditures are diverted from foreign to home goods as home exports raise and imports falls.

In like manner a Revaluation discourages the home country's exports and encourages its imports diverting expenditures from home goods to foreign goods.

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

Growth rate of total output is equal to:

▶ Growth rate of per capita income - Growth rate of population.

▶ Growth rate of population / Growth rate of per capita income.

▶ **Growth rate of population + Growth rate of per capita income.**

▶ Growth rate of population - Growth rate of per capita income.

Growth rate of per capita income = Growth rate of total output - Growth rate of population

Rearrange

Growth rate of total output= Growth rate of per capita income + Growth rate of population

OR

Growth rate of total output = Growth rate of population + Growth rate of per capita income

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

Government can borrow from domestic banking system or general public by selling:

- ▶ Shares of any of its institute.
- ▶ Stocks.
- ▶ **Treasury bills.**
- ▶ Debentures.

Here the government spends more than its revenues, and raises debt to finance the excess of expenditures over revenues. The three borrowing options were mentioned earlier:

Borrow from domestic banking system or general public through a sale of treasury bills and bonds. Bills are short-term debt instruments (< 1 year) and bonds are long-term bond instruments (> 2 years).

Borrow from the central bank by ordering the latter to print money and lend it to the government (free or at an interest cost) for onward spending

Borrow from foreign sources either through bonds floated on international capital markets or bilateral, multilateral or commercial loans

Question No: 46 (Marks: 1) - Please choose one

Which of the following is an equilibrium condition in goods market?

- ▶ **Investment = Saving.**
- ▶ Money supply = Money demand.
- ▶ Aggregate demand = $C + I + G + NX$.
- ▶ Aggregate demand = Aggregate supply.

Goods market is in equilibrium when

AD & Y (AS) are equal

$$AD = C + I + G + NX$$

$$\text{Income } Y = C + S + T$$

When the two are equal

$$AD = Y \text{ or}$$

$$C + I + G + X - M = C + S + T$$

$$(G - T) + (X - M) + I = S$$

Assuming $G = T$ & $X = M$

$$I = S \text{ for equilibrium}$$

Question No: 47 (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.

Fiscal policy becomes more effective: Given fixed exchange rates, expansionary fiscal policy would not have any crowding out effects if the capital account is open. This is because as soon as interest rates begin to rise due to higher government borrowing (to finance the higher spending), capital flows in through the capital account, which given a fixed exchange rate, expands the foreign exchange reserves and hence the money supply

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.**

In the advanced countries , the rate of unemployment is low while in the less developing countries rate of unemployment is very high. In the less developing countries disguised unemployment is also found

Common Characteristics of Developing countries

- 1. Low Standards of Living, characterized by low incomes, inequality, poor health and inadequate education**
- 2. Low Levels of Productivity**
- 3. High Rates of Population Growth & Dependency Burdens**
- 4. High & Rising Levels of Unemployment & Underemployment**
- 5. Substantial Dependence on Agricultural Production & Primary Product Exports**
- 6. Prevalence of imperfect markets & limited information.**
- 7. Dominance, Dependence and Vulnerability in International Relations.**

PAPER # 06

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.**
- ▶ 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.**
- ▶ 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.**

The price elasticity of demand is a measure of how much the quantity demanded responds to a change in price.

Determinants of price elasticity of demand include:

Whether the good is a luxury or a necessity. Luxuries tend to have higher price elasticities of demand and necessities tend to have small price elasticities of demand

Availability of close substitutes. Goods with close substitutes tend to have more elastic demand than do goods without close substitutes.

Time horizon. The longer the time horizon over which demand is measured, the greater is the ability of buyers of the good to find substitutes for products whose prices have risen. Therefore, the longer the time horizon, *ceteris paribus*, the larger is the elasticity of demand.

Definition of the market. Narrowly defined markets tend to have more elastic demand, and broadly defined markets tend to have less elastic demand

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.

If there are only two goods, if more of good 1 is always preferred to less, and if less of good 2 is always preferred to more, then:

- (a) Indifference curves slope downwards.
- (b) Indifference curves slope upwards.**
- (c) Indifference curves may cross.
- (d) Indifference curves could take the form of ellipses.
- (e) None of the above.

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 $\frac{1}{2}$.**
- ▶ All of the given options.

[http://www.google.com.pk/url?sa=t&rct=j&q=If+a+consumer%E2%80%99s+marginal+rate+of+substitution+equals+2+eggs+for+1+hamburger+then%3A++%E2%96%BA+The+consumer%E2%80%99s+indifference+curve+must+be+positively+sloped.+%E2%96%BA+The+consumer%E2%80%99s+indifference+curve+must+be+convex+with+respect+to+the+origin+of+the+graph.+%E2%96%BA+The+ratio+of+the+consumer%E2%80%99s+marginal+utility+of+1+egg+to+th at+of+1+hamburger+must+equal+%C2%BD.+%E2%96%BA+All+of+the+given+options&source=web&cd=1&cad=rja&ved=0CC0QFjAA&url=http%3A%2F%2Fweb.uvic.ca%2F~okhan%2FSolutions\(Midterm\).doc&ei=0n6PUcXGHMeL7AbH64CADw&usg=AFQjCNFKNqA1wqVHtIR8-SOOhozXrndl5A&bvm=bv.46340616,d.ZGU](http://www.google.com.pk/url?sa=t&rct=j&q=If+a+consumer%E2%80%99s+marginal+rate+of+substitution+equals+2+eggs+for+1+hamburger+then%3A++%E2%96%BA+The+consumer%E2%80%99s+indifference+curve+must+be+positively+sloped.+%E2%96%BA+The+consumer%E2%80%99s+indifference+curve+must+be+convex+with+respect+to+the+origin+of+the+graph.+%E2%96%BA+The+ratio+of+the+consumer%E2%80%99s+marginal+utility+of+1+egg+to+th at+of+1+hamburger+must+equal+%C2%BD.+%E2%96%BA+All+of+the+given+options&source=web&cd=1&cad=rja&ved=0CC0QFjAA&url=http%3A%2F%2Fweb.uvic.ca%2F~okhan%2FSolutions(Midterm).doc&ei=0n6PUcXGHMeL7AbH64CADw&usg=AFQjCNFKNqA1wqVHtIR8-SOOhozXrndl5A&bvm=bv.46340616,d.ZGU)

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.

Leisure Lovers Steep indifference curve
Workaholic's flat indifference curve

Question No: 7 (Marks: 1) - Please choose one

In economics, the “long run” is a time period in which:

▶ **All inputs are variable.**

- ▶ 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.**

MC =MR

At the profit-maximizing level of output, the marginal cost is equal to Marginal revenue

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.

Profit maximization in the short run

- 1) For a firm in a perfectly competitive market, price is equal to both average revenue and marginal revenue. $P=MR=AR$ (only true in perfectly competitive market)
- 2) Condition for profit maximization is $MR=MC$ (true in any type of market)
- 3) Combine these two results together: for a profit maximizing firm in a perfectly competitive market, it will choose the output where price is equal to marginal cost. $P=MC$

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.**
- ▶ 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.

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

Unemployment benefits may increase the unemployment rate because:

- ▶ **Unemployment benefits reduce the cost of job search.**
- ▶ 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**

The first type of unemployment is **frictional** unemployment, which occurs when people take time to find a job; it is the short-term unemployment associated with the process of matching workers with jobs. This might be due to workers quitting one job to find one that is a better fit for their skills or lifestyle or perhaps students who have just graduated from college and are looking for their first job. Frictional unemployment always exists because there are always some workers in transition. If you are 16 or older, you would be considered frictionally unemployed this summer when you start looking for a summer job.

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.

http://wps.prenhall.com/bp_hubbard_econ_2/85/21856/5595147.cw/-/5595174/index.html

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.

Per capita income is calculated as the total national income is divided by the number of people in the nation. To find the per capita income of an area, use the following formula:

$$\text{Per capita income} = \frac{\text{National income}}{\text{Total population}}$$

Per capita income represents the standard of living of the people. When it increases its mean the standard of people improving and when it decreases its mean people are facing low standard of living

Per capita income is obtained by dividing the national income by the total number of population. It is

the average annual income per head for all the inhabitants of the country; it is used to represent the

standard of living of the people.

A measure of the amount of money that is being earned per person in a certain area. Income per capita can apply to the average per-person income for a city, region or country and is used as a means of evaluating the living conditions and quality of life in different areas. It can be calculated for a country by dividing the country's national income by its population

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.

Crowding out of investment demand: When the government spends and finances that spending through borrowing from banks or the general public (i.e. does not resort to money supply expanding means of financing the fiscal deficit), **the demand for loan able funds is driven up, causing interest rates to rise and private sector ability to borrow funds to fall.**

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.**

Gross National Product (GNP):

Gross national product (GNP) is the value, at current market prices, of all final goods and services produced during a year by the factors owned by the citizens of a country

Real gross national product 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.**

Real gross national product is best defined as 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.

The total market value of all final goods and services produced within a given period by factors of production located within a country is

Gross national product.

Gross domestic product.

Net national product.

Net national income.

A formal definition of GDP Gross Domestic Product

Real GDP is gross domestic product measured

In the prices of a base year.

In current dollars.

At a constant output level but at current prices.

As the difference between the current year's GDP and last year's GDP

'Real' here means after taking account of inflation

Gross national product can serve as a measure of happiness only if

Material goods directly make people happy

Tax policies leave disposable income unaffected

New goods are not produced in the economy

All nonmonetary transactions are excluded from GNP

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.

Further, if US dollar has strengthened it means that in order to buy 1US dollar more Japanese Yen are required.. . If the US dollar has strengthened, more Japanese yen will be required to get 1US dollar.

Depreciation means a decrease in the value of a currency with respect to other currencies.

For example, suppose one unit of Currency A is worth one unit of Currency B. If Currency A depreciates such that it becomes worth half of one unit of Currency B. As in the above case Japanese Yen has depreciated as compare to dollar means more Japanese yen are required to get 1dollar

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.

Marginal propensity to save:

$$MPS = \Delta S / \Delta Y_d$$

Or

$$MPS = 1 - MPC$$

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.
- ▶ It is the result of market power and production costs.
- ▶ **None of the given statements is true.**

A monopolist cannot trace out a short run supply curve because for a given price there is not a unique quantity supplied. A monopoly has no supply curve because it is the only seller.

1. Why is there no market supply curve under conditions of monopoly? (1 point)

The monopolist is the single seller so we don't need to aggregate all the individual firms' marginal cost curves to obtain the industry supply curve. The monopolist's output decision

depends not only on its marginal cost, but also on the demand curve (unlike perfect competition). Thus, shifts in demand lead to changes in price, in output or both. There is no one-to-one correspondence between the price and the seller's quantity, unlike in perfect competition.

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.**
- ▶ 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.

THE MONETARISTS VIEW: Quantity theory of Money

$MV = PQ$, where

M is the real money supply, V is the velocity of money (the no. of times money is circulated in the economy in a year), P is the price level and Q is the real output. Assuming a constant V and a stable (natural rate) output Q^* , changes in P could be explained totally by changes in M

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.**

▶ If price level is stable.

▶ If trade balance is zero.

▶ If federal budget is balanced.

Potential gross domestic product, or potential GDP, is a measurement of what a country's gross domestic product would be if it were operating at full employment and utilizing all of its resources

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.

A specified maximum amount of the good that may be imported in a given period of time is a Quota

Question No: 26 (Marks: 1) -

GNP is a good indicator of:

▶ The total payment of factor owners.

▶ The amount of consumption and investment.

► **The conditions of production and employment.**

- The amount of incomes available for spending.

GNP is a measure of a country's economic performance, or what its citizens produced (i.e. goods and services) and whether they produced these items within its borders

GNP is the final value of goods and services produced by domestically-owned means of production (using domestic labor and resources)

Gross National Product would be a better indicator of the standard of living because it takes Net Factor Income from Abroad into account.

As GDP is a part of GNP it measures the production as well as employment of a country as goods and services are produced by using domestic labor and resources

$$\text{GNP} = C + I + G + (X - M)$$

Aggregate final output of residents and businesses in an economy in a one year period called GDP.

Aggregate final output of citizen and businesses in an economy in a one year period Called GNP.

So GDP indicate total payments to factor .

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.

The Demand for Factor of Production:

The demand for factors of production (like labor) is a derived demand, because it is “derived” from the goods market. For e.g., the demand of labor increases when the demand for a labor-intensive good rises, and as firms try to produce more of that good by employing more labor

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.

The labour supply curve may bend backwards above a certain wage rate as the income effect of higher income dominates the substitution effect of higher wages

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.

The NPV of an asset is 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.

Discounting is the process of converting a stream of future incomes and expenses into a present value. The discount rate is the rate at which the future incomes are discounted

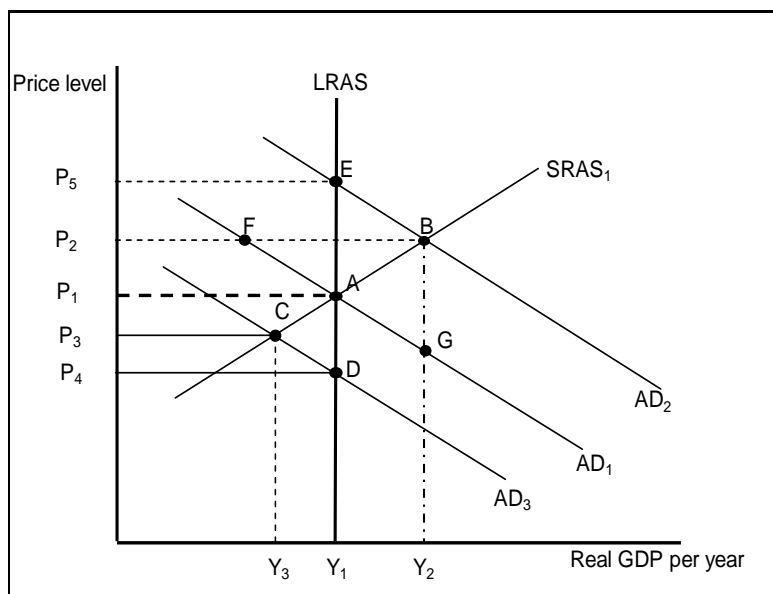
Question No: 30 (Marks: 1) - Please choose one

Information products are also known as:

- ▶ Inferior products.
- ▶ Superior products.
- ▶ **Internet products.**
- ▶ Expensive products.

The economics of information products or (internet products) involves studying how economic principles apply to the production, distribution and consumption of these products

Question No: 31 (Marks: 1) - Please choose one



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.

► I and III.

► II and III.

COSTS OF UNEMPLOYMENT

If unemployment is voluntary, i.e. people do not work because they feel they are better off being unemployed, the costs are borne essentially by society, not the individual per se. The costs are:

a. Output and hence national income is lower than potential.

b. Government loses tax revenues because of a.

c. Firms lose revenues as they could have employed more workers and produce and sell more.

d. Other workers lose additional wages that they might have otherwise been able to earn with higher national output.

e. There is a general tendency for crime and violence to rise in society as unemployment levels increase.

Unemployment compensation is those payments which are made by government to those people who are unemployed. These benefits depend on the status of the person and this amount covers only the basic needs or may compensate the lost time proportionally to the previous earned salary. Unemployment benefits are usually given to those people who registered themselves as

unemployed and often on conditions ensuring that they seek work and do not currently have a job. Pakistan does not have a solid unemployment benefit system.

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.

Economic growth is the process of increasing the economy's ability to produce goods and services. It is achieved by increasing the quantity or quality of resources. This process can be illustrated as an outward shift of the production possibilities curve.

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.

The process of economic growth involves continuous innovations and inventions in technology and its diffusion and application to production. It is suggested that scientific inventions, innovations and applications must be combined to create a high rate of technological progress.

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.

G= government spending , T = taxes

$G > T$ = Deficit

$T > G$ = Surplus

$T = G$ – Balanced

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.**

The Federal Reserve's three instruments of monetary policy are

1-Open market operations

2-the discount rate

3-reserve requirements.

Open market operations involve the buying and selling of government securities. Open market operations is the *buying and selling of government bonds* by the Federal Reserve

The discount rate is the interest rate charged by Federal Reserve Banks to depository institutions on short-term loans.

Reserve requirements are the portions of deposits that banks must maintain either in their vaults or on deposit at a Federal Reserve Bank

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.

Comparative Advantage'

A situation in which a country, individual, company or region can produce a good at a lower opportunity cost than a competitor

<http://www.investopedia.com/terms/c/comparativeadvantage.asp#ixzz1jcOD9Ufx>

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 specified maximum amount of the good that may be imported in a given period of time is a Quota

Most nations of the world are:

- ▶ Closed economies.
- ▶ **Open economies**
- ▶ Self sufficient.
- ▶ Non trading nations.

An open economy is an economy in which international trade takes place. Most nations around the world have open economies

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.

No body can deny the importance of agriculture sector at national as well as international level for economic development. Developing or Lower income countries are usually the agrarian economies. Pakistan is also a farming country. 70% of its population is living in rural areas out of which at least 50% people are engaged in farming, livestock and agro-based industries.

But the condition of agriculture sector is not satisfactory in lower income countries including Pakistan. Labor productivity and yield per acre is very low as compared to developed countries due to scarcity of capital, old methods of cultivation, natural calamities, illiteracy, inferior quality seeds, inadequate fertilizers, water logging, salinity and irrigation problems etc. people are now moving from rural to urban areas; this is also affecting agriculture sector.

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.

$$40 - 30 = 10$$

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.**

Consider what results if marginal revenue is not equal to marginal cost:

If marginal revenue is greater than marginal cost, as is the case for small quantities of output, then the firm can increase profit by increasing production. Extra production adds more to revenue than to cost, so profit increases.

If marginal revenue is less than marginal cost, as is the case for large quantities of output, then the firm can increase profit by decreasing production. Reducing production reduces revenue less than it reduces cost, so profit increases.

If marginal revenue is equal to marginal cost, then the firm cannot increase profit by producing more or less output. Profit is maximized.

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

The average annual income per head for all the inhabitants of the country is known as:

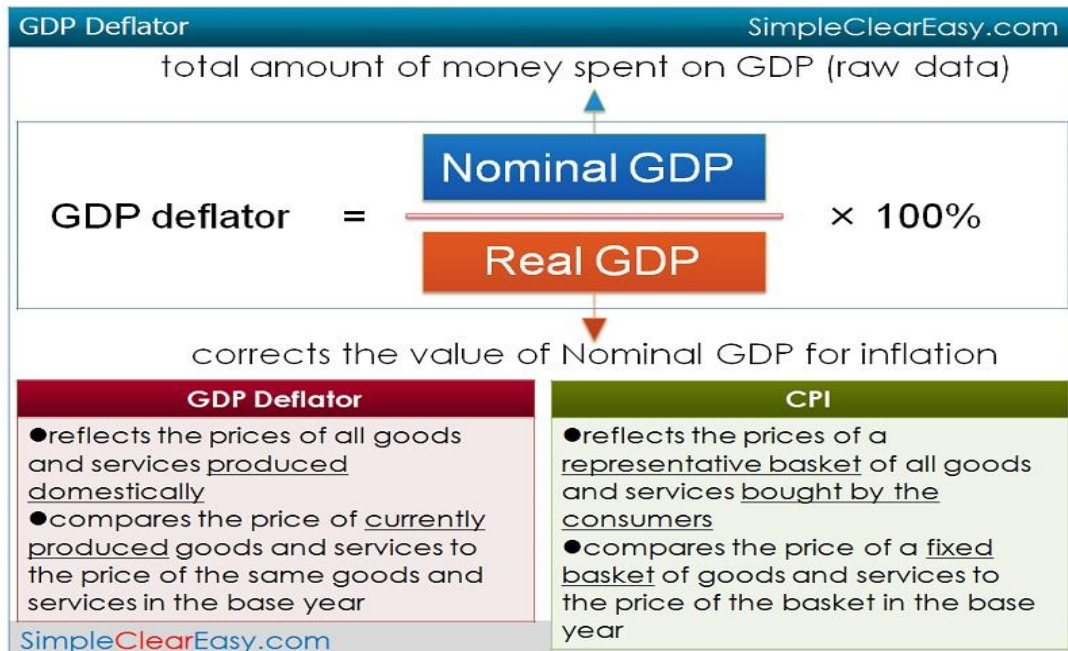
- ▶ Gross domestic product.
- ▶ Gross national product.
- ▶ Net national product.
- ▶ **Per capita income.**

Income per capita can apply to the average per-person income for a city, region or country and is used as a means of evaluating the living conditions and quality of life in different areas. It can be calculated for a country by dividing the country's national income by its population.

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.**

Acceleration Principle'

An economic concept that draws a connection between output and capital investment. According to the acceleration principle, if demand for consumer goods increases, then the percentage change in the demand for machines and other investment necessary to make these goods will increase even more (and vice versa). **In other words, if income increases, there will be a corresponding but magnified change in investment.**

The accelerator is a related concept which formalizes the investment response to output or income changes in an economy. The key observation here is that when an economy begins to recover from a slump, investment can rise very rapidly and, in percentage terms, the rise in investment may be several times the rise in income

The working of Acceleration principle is similar to that of multiplier principle

Accelerator usually refers to induced investment – investment induced by a change in income

Accelerator is a related concept which formalizes the investment response to output or income change in economy

Accelerator or investment accelerator .

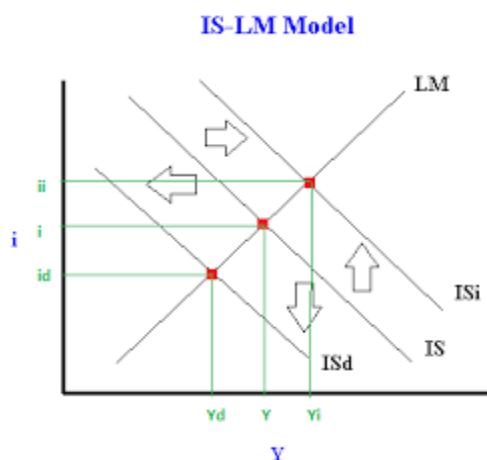
Question No: 47 (Marks: 1) - Please choose one

If central bank increased the money supply, then what will be happen to IS curve?

- ▶ IS curve will Shifts rightward.
- ▶ IS curve will Shifts leftward.
- ▶ **IS curve will remain unaffected.**
- ▶ IS curve will become vertical

Possible shifts in the IS curve:

Change in Fiscal policy (G):



1. The government can increase government spending (shifting IS right) or decrease government spending (shifting IS left).
2. The government can increase taxes which lowers consumer spending (shifting IS left) or decrease taxes which increases consumer spending (shifting IS right).

Consumers can change their savings rate (C):

If consumers decide to save more (marginal propensity to consume declines) then consumer spending declines and the IS curve shifts left.

If consumers decide to save less (marginal propensity to consume rises) then consumer spending increases and the IS curve shifts right.

Change in exports (NX):

If exports increase (due to currency depreciation) we will see the IS curve shift right.

If exports decrease (due to currency appreciation) we will see the IS curve shift left.

A change in private fixed investment (I)

If consumers/firms feel more confident about the future, they may invest more regardless of the interest rate. This will cause an increase in investment (IS shifts right).

If consumers/firms feel less confident about the future, they may invest less regardless of the interest rate. This will cause a decrease in investment (IS shifts left).

Possible shifts in the LM curve:

A change in money supply (M):



1. If the central bank (or Federal Reserve) decides to increase the money supply (by buying t bills) then the LM curve shifts right.
2. If the central bank (or Federal Reserve) decides to decrease the money supply (by selling t bills) then the LM curve shifts left.

A change in the overall price level (P):

If the price level rises, the LM curve shifts left. This occurs because people need more money to pay the higher prices, but the higher resulting interest rates lower the demand for money.

If the price level declines, the LM curve shifts right. This occurs because people need less money to pay the lower prices, and the lower interest rates increase their demand for holding money.

Question No: 48 (Marks: 1) - Please choose one

The value of world trade has increased -----over the period of 1930-2000.

▶ **20 fold**

▶ 10 fold

▶ 5 fold

▶ 14 fold

The value of world trade has increased 20 fold over the 1930-2000 period

PAPER # 07

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

If pen and ink are complements, then an increase in the price of pen will cause:

- ▶ An increase in the price of ink.
- ▶ **Less ink to be demanded at each price.**
- ▶ A decrease in the demand for pen.
- ▶ A rightward shift in the demand curve for ink.

Question No: 2 (Marks: 1) - Please choose one

A demand curve is price inelastic when:

- ▶ **Changes in demand are proportionately smaller than changes in price.**
- ▶ Changes in demand are proportionately greater than changes in price.
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.

Question No: 3 (Marks: 1) - Please choose one

A demand curve is price elastic when:

- ▶ **Changes in demand are proportionately greater than changes in price.**
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.
- ▶ Changes in demand are proportionately smaller than changes in price.

Question No: 4 (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.**

Production function simply relates to input to output

There are two properties of production function

- 1- it slopes upward it means that as input increases output also increases.
- 2- It shows diminishing marginal product of an input, since it gets flatter as output rises. It means that as factors of production increases output will decrease after a certain point.

As, land and labor are the factors of production used to produce goods. Law of diminishing marginal returns states that if you increase the quantity of variable factor (labor) with fixed factor (land), marginal product of an additional employee will at some point be less than the marginal product of the previous employee.

Question No: 5 (Marks: 1) - Please choose one

The market structure in which there is interdependence among firms is:

- ▶ Monopolistic competition.
- ▶ **Oligopoly.**
- ▶ Perfect competition.
- ▶ Monopoly.

It is not possible to identify any single equilibrium in oligopoly. Theory of firm is not clearly discussed & established as the theory of firm in the other three market structures. Reason for that

is the firms are interdependent

Question No: 6 (Marks: 1) - Please choose one

Insurance companies operate under the principle of:

▶ **Law of large numbers.**

- ▶ Law of small numbers.
- ▶ Law of zero numbers.
- ▶ All of the given options.

Question No: 7 (Marks: 1) - Please choose one

Who may start a price war in order to get a larger share of the market?

▶ Perfect competitor.

▶ **Oligopolist.**

- ▶ Monopolist.
- ▶ Economist.

Question No: 8 (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.

Resource Quantity:

This determinant is the quantity of the resources--labor, capital, land, and entrepreneurship—that the economy has available for production. If the economy has more resources, then aggregate supply increases and the long-run aggregate supply curve shifts rightward.

The vertical long-run aggregate supply curve captures the independent relation between the price level and aggregate real production. The price level does NOT affect long-run aggregate real production. A higher price level generates the same real production as a lower price level.

The long-run aggregate supply curve shifts right if

- a. immigration from abroad increases.
- b. the capital stock increases.
- c. technology advances.

d. All of the above are correct

Question No: 9 (Marks: 1) - Please choose one

How many methods are there to measure Gross Domestic Product?

▶ **Three.**

▶ Four.

▶ Five.

▶ Six.

METHODS OF MEASURING GDP

There are three equivalent ways of measuring GDP:

- i. The product or value added method** which sums the value added by all the productive entities in the economy;
- ii. The expenditure method** which sums up the value of all the “final goods” transactions taking place in the economy;
- iii. The factor income method** which sums up all the incomes earned by all the factors of production in the economy (rent for land, wages for labour, interest for capital, and equity returns for entrepreneurship)

Question No: 10 (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: 11 (Marks: 1) - Please choose one

Gross National Product (GNP) is:

► **Net National Product (NNP) plus depreciation.**

- National income discounted by the GDP deflator.
- Income from foreign investments.
- Gross Domestic Product (GDP) minus depreciation.

$GNP = GDP + \text{Net factor incomes from abroad}$

OR

$NNP = GNP - \text{Depreciation allowance}$

Rearrange

$GNP = NNP + \text{Depreciation allowance}$

Question No: 12 (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.**

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

In the complete Keynesian cross model, the aggregate expenditure line is specified as:

► $AE = C + I$.

► $AE = C + I + X$.

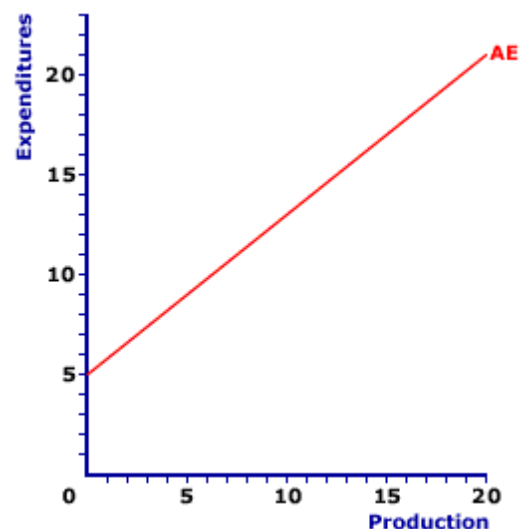
► $AE = C + I + G$.

► **$AE = C + I + G + (X - M)$.**

An equation indicating that aggregate expenditures (AE) are the sum of consumption expenditures (C), investment expenditures (I), government purchases (G), and net exports (X-M), stated as: $AE = C + I + G + (X-M)$. This equation surfaces in the Keynesian economic income-expenditure model in the form of the aggregate expenditures line.

The aggregate expenditure line shows total planned spending at each Income level, holding the price level constant

Aggregate Expenditures Line



The positive slope of the aggregate expenditures line is the sum of the marginal propensity to consume (MPC), marginal propensity to invest (MPI), and marginal propensity for government purchases (MPG), less the marginal propensity to import (MPM). This slope is greater than zero but less than one, reflecting induced expenditures by the four macroeconomic sectors (household, business, government, and foreign). The slope of the aggregate expenditures line determines the magnitude of the multiplier process.

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

Under monopoly, when the demand curve is downward sloping, marginal revenue is:

- ▶ Equal to price.
- ▶ Equal to average cost.
- ▶ **Less than price.**
- ▶ More than price.

For any firm facing a downward sloping demand curve, marginal revenue will be less than price
<http://www2.econ.iastate.edu/classes/econ101/vandewetering/chapter13notes.htm>

Question No: 15 (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: 16 (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.

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: 17 (Marks: 1) - Please choose one

Which of the following statements best describes the difference between endogenous growth theory and the Solow growth theory?

- ▶ Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.
- ▶ Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.

▶ In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.

- ▶ All of the given options are correct.

The Exogenous growth model, also known as the Neo-classical growth model or Solow growth model

Solow framework being the workhorse for empirical analysis of growth in industrial and developing countries. In this framework, steady state growth in the levels depends on the exogenous technological progress and population growth; without technological progress, output per capita does not grow. Economic policies do not affect steady state growth, although they can affect the level of output or its growth rate when the economy is in transition from one state to the other.

On one hand, the Solow framework predicts a tendency towards absolute convergence in per capita income if we assume that all countries share the same technology, and savings and population growth rates. On the other hand, in light of the fact that economies differ in various respects such as propensities to save, growth rates of the population, and access to technology, this convergence may apply in conditional terms, that is convergence to different levels of per capita income but to the same steady state growth rates

- The Solow growth model predicts that high population growth, n , means lower steady state income as each worker will have less capital to work with

Neoclassical growth theory predicts:

Absolute convergence for economies with equal rates of saving and population growth and with access to the same technology

Conditional convergence for economies with different rates of savings and/or population growth → steady state level of income differ, but growth rates eventually converge

Endogenous growth theory predicts that a high savings rate leads to a high growth rate → no convergence

All countries not converge to the same steady state because of difference in saving rates and population growth rates.

11. In the Solow growth model, technological change is _____, whereas in endogenous growth theories, technological change is _____.

A) assumed; explained

B) explained; assumed

C) persistent; constant

D) constant; persistent

Question No: 18 (Marks: 1) - Please choose one

Which of the following is NOT to be included in national product?

► Wheat produced and consumed by a farmer.

► House built by the owner himself.

► Old house sold by its owner A to person B.

► Machines made by firm A.

Wheat produced or consumed by a farmer is included GDP of a country.

House built by the owner himself included GDP of a country.

Old house sold by its owner A to person B is not included in GDP as **only newly produced goods are counted in GDP.** Transactions in existing goods, such as old house, second-hand cars, are not included, as these do not involve the production of new goods. Implicit value of new house construction will be considered.

Machines made by firm A is included in the GDP of a country

Question No: 19 (Marks: 1) - Please choose one

The demand curve for chicken is downward-sloping. Suddenly the price of chicken rises from Rs.130 per kg to Rs.140 per kg. This will cause:

- ▶ The demand curve for chicken to shift to the left.
- ▶ The demand curve for chicken to shift to the right.
- ▶ Quantity demanded of chicken to increase.
- ▶ **Quantity demanded of chicken to decrease.**

Question No: 20 (Marks: 1) - Please choose one

The government supports research in basic science because:

- ▶ **It is a public good.**
- ▶ External costs are created.
- ▶ Internal benefits are created.
- ▶ Free markets would do so otherwise.

For economists, a public good is not simply something that is “good for the public”; it is something that benefits many people, including those who do not pay for it

Question No: 21 (Marks: 1) - Please choose one

National defense is a good example of:

► **Public good.**

► Inferior good.

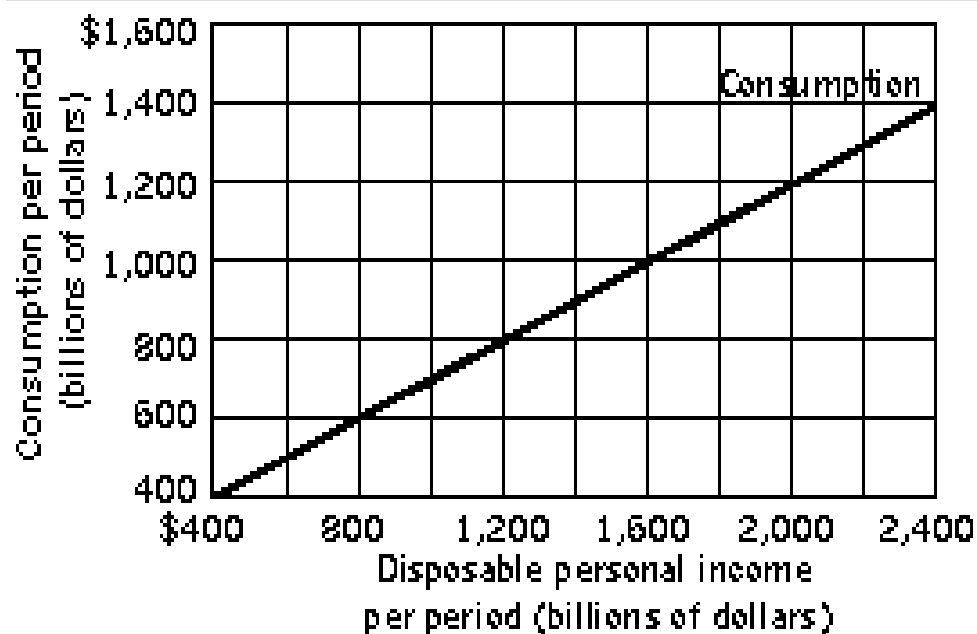
► Giffen good.

► Private good.

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

There are two characteristics which give rise to public goods: non-rival ness (one person's use or consumption of the good does not reduce the ability of another to use it; e.g. air) and non-excludability (it is not possible to exclude anyone from the consumption of the good; e.g. **national defense**).

Question No: 22 (Marks: 1) - Please choose one



Refer to the above figure, when disposable personal income is \$1,200 billion, consumption is:

► \$600 billion.

► **\$800 billion.**

► \$1,200 billion.

► \$2,000 billion.

This graph is showing the positive relationship between consumption and disposable income level.

In this graph at level of 800 disposable income, consumption is 600, at 1200 income, consumption is 800, at 1600 income consumption is 1000, at 2000 income level consumption is 1200 and at 2400 income level consumption is 1400. This graph is showing that as income increases consumption also increases.

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.

Question No: 24 (Marks: 1) - Please choose one

The Monetarist key to solve the inflation problem was:

► **Stable money supply.**

► Stable output.

► Stable prices.

► Stable economic growth.

Monetarist key to solving the inflation problem was a stable money supply set to grow at the rate of growth of natural rate output (Q^*).

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

Which of the following predictions can be made using the growth rates associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output (Y_P) in the long run?

► **If the money supply grows at a faster rate than growth in Y_P , there will be inflation.**

► If the money supply grows at the same rate as growth in Y_P , the price level will fall and there will be deflation.

► If the money supply grows at the same rate as growth in Y_P , the price level will also increase at the same rate as growth in Y_P .

► None of the given options.

Question No: 26 (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.

An increase in exports would increase aggregate demand, other things being equal, since net exports are the part of aggregate demand

An increase in imports would decrease aggregated demand other thing being equal by reducing next exports (demand shifts form domestic producers to foreign producers)

An increase in both imports and exports would increase aggregate demand if the increase in exports exceeded the increase in imports, other things being equal, because the combination would increase net exports

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

Which of the following will happen by an increase in net exports all other things being equal?

► It will result in a movement downward along the aggregate demand curve.

► **It will increase aggregate demand.**

► It will increase aggregate supply.

- It will not change aggregate demand or aggregate supply in the domestic economy.

An increase in exports would increase aggregate demand, other things being equal, since net exports are the part of aggregate demand

An increase in imports would decrease aggregated demand other thing being equal by reducing next exports (demand shifts form domestic producers to foreign producers)

An increase in both imports and exports would increase aggregate demand if the increase in exports exceeded the increase in imports, other things being equal, because the combination would increase net exports

Question No: 28 (Marks: 1) - Please choose one

A change from \$1.00 = Rs. 80.00 to \$1.00 = Rs. 85.00 represents:

- Depreciation of the dollar.
- An appreciation of the dollar.
- **An appreciation of the rupee.**
- None of the given options.

Question No: 29 (Marks: 1) - Please choose one

We can measure economic growth with the help of:

- The Consumer Price Index.
- The Producer Price Index.
- **Gross Domestic Product.**
- Marginal Propensity to Consume.

The gross domestic product (GDP) is one the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period - you can think of it as the size of the economy. Usually, GDP is expressed as a comparison to the

previous quarter or year. For example, if the year-to-year GDP is up 3%, this is thought to mean that the economy has grown by 3% over the last year.

GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year).

Question No: 30 (Marks: 1) - Please choose one

A contractionary fiscal policy shifts:

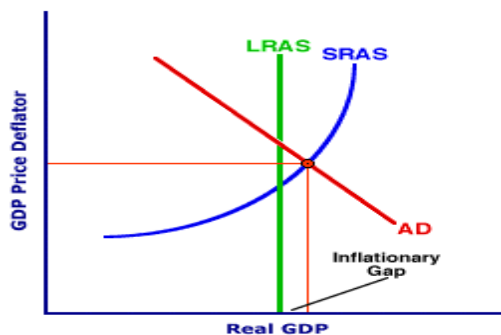
- ▶ The aggregate demand curve to the left.
- ▶ The aggregate demand curve to the right.
- ▶ The aggregate supply curve to the right.
- ▶ The aggregate supply curve to the left.

Contractionary Fiscal Policy

A form of fiscal policy in which a decrease in government purchases, an increase in taxes, and/or a decrease in transfer payments are used to correct the inflationary problems of a business-cycle expansion. The goal of contractionary fiscal policy is to close an inflationary gap, restrain the economy, and decrease the inflation rate. Contractionary fiscal policy is often supported by contractionary monetary policy. An alternative is expansionary fiscal policy.

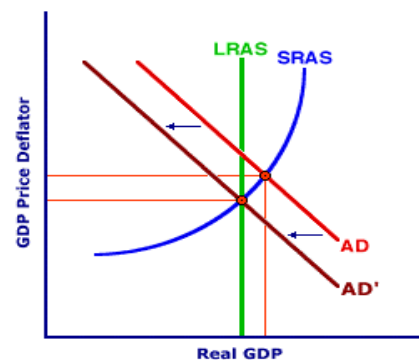
Contractionary fiscal policy is designed to close an inflationary gap by changing aggregate expenditures and shifting the aggregate demand curve. An inflationary gap is closed with a leftward shift of the aggregate demand curve.

Inflationary Gap



Inflationary Gap

Table 1



Question No: 31 (Marks: 1) - Please choose one

Which of the following is a primary function of a central bank?

- ▶ To regulate dividend payments by corporations.
- ▶ **To act as a regulator of banks.**
- ▶ To control the bond market.
- ▶ To publish statistics on banking and related financial matters.

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

In which condition, the IS curve will shift to the right?

- ▶ Consumer confidence in the economy improves.
- ▶ Firms become more optimistic about the economy and decide to invest more at each interest rate.
- ▶ **The government increases transfer payments.**
- ▶ It will shift to the right in all of the given conditions.

SHIFTS IN THE IS CURVE

Shifts in the IS curve are also easy to understand. Any injection into the circular flow: e.g. autonomous changes in C, G or X-M, which are not caused by an interest rate change, but which do cause an increase in AD and Y, will cause the IS curve to shift to the right. Similarly, IS shifts the left when there is a decrease in these injections.

If there is a decrease in government expenditures

- a. The IS-curve will shift to the right
- b. The IS-curve will shift to the left**
- c. The IS-curve will become flatter and shift to the right
- d. The IS-curve will become steeper and shift to the left
- e. The multiplier will become smaller and the IS-curve will shift to the left

A decrease in government expenditures will lead to a decrease in national income at a given interest rate. The IS curve shifts to the left. **The IS curve will also shift to the left with an increase in taxes or**

reduction in government transfer payments. Money supply and money demand have no effect on the IS curve

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

Which of the following will be TRUE if real income rose and the interest rate fell following an increase in government purchases?

- ▶ IS curve must be vertical.
- ▶ LM curve must be vertical.
- ▶ **Central Bank must have increased the money supply at the same time.**
- ▶ Central Bank must have decreased the money supply at the same time.

An increase in real income (Y) causes a rightward shift in the L curve while a fall in income causes a leftward shift. The amount by which L shifts in response to a given change in income depends on the sensitivity of money demand to income changes, or the income elasticity of money demand ($Y_e L$). By introducing money supply at this stage, we can develop a notion of **money market equilibrium**.

When there is increase in government spending it means there is crowding out and for private investment resources will decline in this situation interest rate will rise which will discourage the investment. Due to increase in government spending AD will increase which will be the cause of shifting IS curve to right.

If central bank increases supply of money then LM curve will shift right ward in this way output rise and interest rate will fall. Usually whenever there is expansionary fiscal policy on the other hand there is tight monetary policy.

Which of the following would result in a shift of the LM-curve to the right?

- a. A decrease in taxes
- b. A decrease in money supply
- c. An increase in autonomous consumption

- d. An increase in money supply
- e. An increase in interest rates**

Question No: 34 (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.**

THE LM CURVE

LM curve shows the combinations of real output and real interest rate at which money market is in equilibrium.

If the central bank increases the money supply, then the *LM* curve shifts downward,. Income increases and the interest rate falls. The increase in disposable income causes consumption to rise; the fall in the interest rate causes investment to rise as well.

If the central bank increased the supply of real money balances, then the LM curve would

- A. become steeper.
- B. become flatter.
- C. shift inward.
- D. shift outward.**

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

In growth process of under developed countries, high rate of population growth:

- ▶ Is not accompanied by smaller increase in product per capita.

► Is not accompanied by increasing total product.

► **Is an obstacle in economic growth.**

► Is good for economic growth.

Rapidly Growing Population: In the under – developed countries , especially in the over populated countries of Asia, population increases very rapidly. this has very adversely affected their rate of economic growth . **In fact rapid population growth is the greatest obstacle to economic growth.**

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

Which of the following is the main reason of poverty in third world countries?

► Generation gap.

► Communication gap.

► **Foreign exchange gap.**

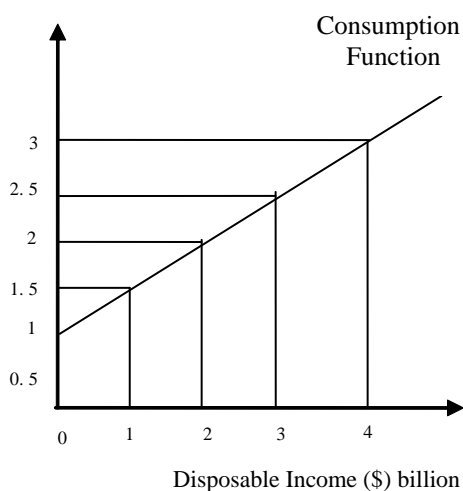
► None of the given options.

Poverty trap theories:

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).

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

Consumption (\$) billion



Refer to the above figure, the marginal propensity to consume equals:

- ▶ 0.
- ▶ 0.5.
- ▶ 1.0.
- ▶ 2.0.

Marginal propensity to consume:

$$MPC = \Delta C / \Delta Y_d$$

$$MPC = 3 - 2.5 / 4 - 3$$

$$MPC = 0.5 / 1$$

$$MPC = 0.5$$

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

Which of the following is TRUE in a planned economy?

- ▶ Goods and services produced reflect consumer sovereignty.
- ▶ Price is relatively unimportant as a means of allocating resources.
- ▶ There is no incentive for people to work hard.
- ▶ All income is completely evenly distributed.

Resource planning decisions in a planned economy are made by the state planning process and prices tend to be relatively fixed. They do not change to reflect changes in supply and demand.

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.

<http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CCwQFjAA&url=http%3A%2F%2Fweb.uvic.ca%2F~okhan%2FPractice%2520Question.pdf&ei=oLHhUab5A8nKhAebmIFY&usg=AFQjCNFStxKLdMDM01LWwb2kMH4PRgC0JQ&sig2=eXPBHKbo87S4RVevuw3J5g&bvm=bv.48705608,d.ZG4>

When the substitution effect of a lowered price is counteracted by the income effect, the good in question is

a. an inferior good.

b. a substitute good.

c. an independent good.

d. a normal good.

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

Suppose all inputs are increased by 30% and output increases by more than 30% in a production process. This means that the firm experiences:

► Decreasing returns to scale.

► Constant returns to scale.

► Increasing returns to scale.

► None of the given options.

Increasing return to scale = Suppose all inputs are increased by 30% and output increases by more than 30%

Decreasing return to scale = Suppose all inputs are increased by 30% and output increases by less than 30%

Constant return to scale = Suppose all inputs are increased by 30% and output increases by same 30%

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

The total cost (TC) function is given as $TC = 500 + 30Q$. What is the average total cost?

► 500

► $30 + (500/Q)$

► $30Q^2 + 500Q$

► 30

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

The total cost (TC) function is given as $TC = 200 + 5Q$. What will be the average total cost if four units of commodity are produced?

► 20

► 55

► 50

► 220

Average Cost or Average total cost (AC or ATC)

$AVC + AFC = ATC$ or AC

$$ATC = 200 + 5(4)$$

$$ATC = 200 + 20$$

$$ATC = 220$$

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

Collusion occurs when two or more firms decide to cooperate with each other in the setting of prices and

► Labor demanded.

► Capital demanded.

► Quantity of good supplied.

► Quantity of good supplied.

Collusion occurs when two or more firms decide to cooperate with each other in the setting of prices and/or quantities.

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

A public good is non-excludable because:

- ▶ **One person's use or consumption does not reduce the ability of another to use it.**
- ▶ External costs are generated through its production.
- ▶ External benefits are generated through more consumption.
- ▶ No one can be effectively excluded from using that good.

PUBLIC GOOD

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

There are two characteristics which give rise to public goods: non-rival ness (**one person's use or consumption of the good does not reduce the ability of another to use it; e.g. air**) and non-excludability (it is not possible to exclude anyone from the consumption of the good; e.g. national defense).

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

According to Keynesian economics, the Inflation is negatively related with:

- ▶ Level of income.
- ▶ Employment.
- ▶ Poverty.
- ▶ **Unemployment.**

Keynes sees inflation and unemployment as opposite sides of the same coin

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.**

Question No: 47 (Marks: 1) - Please choose one

Monetarists characterized the long-term tradeoff between output and:

- ▶ Employment level.
- ▶ **Inflation.**
- ▶ Foreign direct investment.
- ▶ Deflation.

Monetarists characterized the long-term tradeoff between output and inflation, i.e. that there was no trade-off and that expansionary demand policies (i.e. expansionary monetary policy) translated fully into higher inflation with no impact on employment whatsoever.

Question No: 48 (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.
- ▶ IS curve will Shifts leftward.
- ▶ **IS curve will remain unaffected.**
- ▶ IS curve will become vertical.

PAPER # 08

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

In a free-market economy, the allocation of resources is determined by:

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ **Consumer preferences.**
- ▶ The level of profits of firms.

Question No: 2 (Marks: 1) - Please choose one

The concave shape of the production possibilities curve for two goods X and Y illustrates:

- ▶ **Increasing opportunity cost for both goods.** [Correction in file 1]
- ▶ Increasing opportunity cost for good X but not for good Y.
- ▶ Increasing opportunity cost for good Y but not for good X.
- ▶ Constant opportunity cost for both goods.

Concave shape of production possibility curve indicate that if you want to produce more units of X goods then you will agree to sacrifice more resources in favor of X goods production and your resources will shift from Y goods production towards X goods production.

1-**Increasing opportunity cost** curve which is concave to origin because as we produce more and more of one good, more and more of another good has to be sacrificed than before.

2-**Decreasing opportunity cost** curve which is convex to origin. In this case the economy foregoes decreasing amounts of one good when producing more of the other.

3-**Constant opportunity cost curve** which is straight line. In this case, opportunity cost does not change with production.

- 1- a straight line production possibilities "curve" that indicates constant opportunity cost
- 2- "bowed-out" or concave, shape of the production possibility curve illustrates increasing costs

Assumptions PPF

1. The resources available are fixed.
2. The technology remains unchanged.
3. The resources are fully employed.
4. The resources are efficiently employed.
5. The resources are not equally efficient in production of all products. Thus if resources are transferred from production of one good to another, the cost increases. In other words marginal opportunity cost increases

Suppose an economy produces only two goods X and Y. Suppose a worker is employed in production of X because he is best suited for it. The economy decides to reduce production of X and increase that of Y. The worker is transferred to Y. He is not that efficient in production of Y as he was in X. His productivity in Y will be low, and so cost of production high. The implication is clear. If the resources are transferred from one use to another, the less and less efficient resources will be transferred leading to rise in the **marginal opportunity cost** which is technically termed as **marginal rate of transformation (MRT)**.

A concave downward sloping curve has an increasing slope. The slope is the same as MRT. So, concavity implies increasing MRT, an assumption on which the PP curve is based.

The opportunity cost for a commodity is the amount of other commodity that has been forgone in order to produce the first.

The marginal opportunity cost of a particular good along the PPC is defined as the amount sacrificed of the other good per unit increase in the production of the good in question. Increasing marginal opportunity cost implies that PPC is concave

<http://economicsforyou.wikispaces.com/Introduction+to+Micro-economics>

The marginal rate of transformation (MRT) of X for Y refers to:

- A) the amount of X that a nation must give up to produce each additional unit of Y.
- B) the amount of X that consumers are willing to give up to consume each additional unit of Y.
- C) the amount of Y that consumers are willing to give up to consume each additional unit of X.
- D) the amount of Y that a nation must give up to produce each additional unit of X.**

Why do increasing opportunity costs of production occur?

- A) Factors of production are homogeneous
- B) Factors of production are not being used in the same fixed proportion**
- C) Factors of production are completely adaptable to every use
- D) None of the above

The law of increasing opportunity cost implies that

- A) producing additional units of one good results in proportionately smaller reductions in output of the other good.
- B) producing additional units of one good results in increasing amounts of lost output of the other good.**
- C) the production possibilities curve will be a straight line.
- D) the society will be producing on its production possibilities curve.

8. If resources are not “equally suited” for the production of two goods, the PPF is

- a. a straight line.
- b. bowed outward.**
- c. upward sloping.
- d. any of the above

6. The PPF between goods X and Y will be a downward-sloping

- a. straight line if increasing opportunity costs exist.
- b. straight line if decreasing opportunity costs exist.
- c. curve that is bowed outward if increasing opportunity costs exist.**
- d. curve that is bowed outward if constant opportunity costs exist.

Real GDP is

- a. GDP in current-year prices.
- b. GDP in base-year prices.**
- c. GDP in GDP-prices.
- d. GDP adjusted for services.

Question No: 3 (Marks: 1) - Please choose one

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

- ▶ **There is a shortage of the product.**
- ▶ There is a surplus of the product.
- ▶ The product is a normal good.
- ▶ The product is an inferior good.

Question No: 4 (Marks: 1) - Please choose one

The supply curve is upward-sloping because:

- ▶ As the price increases, consumers demand less.
- ▶ **As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.**
- ▶ None of the given options.
- ▶ As the price increases, so do costs.

Question No: 5 (Marks: 1) - Please choose one

When an industry's raw material costs increase, other things remaining the same:

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.
- ▶ Output decreases and the market price also decrease.
- ▶ **The supply curve shifts to the left.**

Question No: 6 (Marks: 1) - Please choose one

When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ **Inelastic.**

$PEoD = (\% \text{ Change in Quantity Demanded}) / (\% \text{ Change in Price})$

$PEoD = 8\% / 12\% = 0.67$

$PEoD$ is less than 1 = Inelastic

Question No: 7 (Marks: 1) - Please choose one

Suppose price rises from \$15 to \$17 and quantity demanded decreases by 20%. We can conclude:

- ▶ Demand is unitary elastic.
- ▶ Demand is elastic.
- ▶ The elasticity of demand is 2.
- ▶ **Total revenue will decrease.**

$PCd = \text{Percentage change in Quantity Demanded} / \text{Percentage change in Price}$

$PCd = 20 / 13.4$

$PCd = 1.5\%$

$P > 1 = \text{Elastic}$

ELASTIC DEMAND $\epsilon > 1$

Price rises:

As P increases, Q decreases

Percentage change in P < percentage change in Q

Now $TR = P \times Q$ TR will also decrease

%age change in price

$2/15 = 0.13 \times 100 = 13.3\%$

Question No: 8 (Marks: 1) - Please choose one

"Utility" is most closely related to the term:

- ▶ Useless.
- ▶ Require.
- ▶ Necessary.
- ▶ **Satisfaction.**

Question No: 9 (Marks: 1) - Please choose one

When the marginal utility of a good is zero, this implies that:

- ▶ **The consumer would not spend any additional income to buy more of that good.**
- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ Total utility is also zero.

Question No: 10 (Marks: 1) - Please choose one

When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:

- ▶ **An inferior good.**
- ▶ A substitute good.
- ▶ An independent good.
- ▶ A normal good.

Question No: 11 (Marks: 1) - Please choose one

Diminishing marginal returns implies:

- ▶ Decreasing marginal costs.
- ▶ **Increasing marginal costs.**
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

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

A graph showing all the combinations of capital and labour available for a given total cost is the:

- ▶ Budget constraint.
- ▶ Expenditure set.
- ▶ Isoquant.
- ▶ **Isocost.**

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

When an isocost line is just tangent to an isoquant, we know that:

- ▶ **Output is being produced at minimum cost.**
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

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

In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of

- ▶ **A fixed cost.**
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ An opportunity cost.

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

The good produced by a monopoly:

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.
- ▶ **Has no close substitutes.**
- ▶ Can be easily duplicated

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

Welfare economics is the branch of economics which deals with:

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

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

The oligopoly model which predicts that oligopoly prices will tend to be very rigid is the:

- ▶ Cournot model.
- ▶ Cobweb model.
- ▶ Dominant firm model.
- ▶ **Kinked demand model.**

Question No: 18 (Marks: 1) - Please choose one

The kinked demand curve model is based on which of the following assumptions?

- ▶ Each firm considers its rival's output to be fixed.
- ▶ Each firm considers its rival's price to be fixed.
- ▶ Each firm believes rival will match all price changes.
- ▶ **None of the given options.**

According to Baye's *Managerial Economics and Business Strategy*, a sweezy oligopoly is characterized by four things.

- 1) There are few firms in the market serving many consumers.
- 2) The firms produce differentiated products.
- 3) Each firm believes **rivals will cut their prices in response to a price reduction but will not raise their prices in response to a price increase.**
- 4) **Barriers to entry exist.**

oligopoly is that firms believe rivals will decrease prices when they lower their prices, but not increase prices when they raise their prices.

Oligopoly prices are rigid because if one firm lowers prices then competitors will lower their prices and if prices are raised by one firm other firms will not follow suit and will capture market share

The kinked demand curve model assumes that firms maintain their current price if any one firm raises its price, but all firms match any price reduction by any single firm.

Question No: 19 (Marks: 1) - Please choose one

Which of the following is NOT conducive to the successful operation of a cartel?

- ▶ 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.**

Which of the following is not conducive to the successful operation of a cartel?

- a. Market demand for the good is relatively inelastic.
- b. The cartel supplies all of the worlds output of the good.
- c. Cartel members have substantial cost advantages over nonmembers.

d. The supply of non-cartel members is very price elastic.

e. a, b and c

Question No: 20 (Marks: 1) - Please choose one

Cartels are:

► **Organizations of independent firms, producing similar products, that work together to raise prices and restrict output.**

► Organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.

► Organizations of independent firms, producing different products, that work together to raise prices and restrict output.

► Considered as part of monopolistic competition.

Question No: 21 (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.**

► Downward sloping due to the law of supply.

The law of diminishing returns:

The law of diminishing returns is the marginal physical product of a variable input declines as more of it is employed with a given quality of other (fixed) inputs.

It is true for Marginal physical product

It is true for marginal revenue product.

Marginal Revenue Productivity assumes that:

a.) Workers are heterogeneous or differentiated

b.) Unions exist

c.) The supply of labor is perfectly elastic

d.) The supply of labor is inelastic

.The assumption is that the labor supply is perfectly elastic. This is due to assumptions that the rate of wage is constant regardless of location or expertise and that there is not a shortage of qualified workers available in the location that they would be needed in.

Question No: 22 (Marks: 1) - Please choose one

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

► **Has self-correcting mechanisms.**

► Can only be graphed with a horizontal curve.

► Never needs correction.

- ▶ None of the given options.

Economists basically ignore the short run because they believe that the economy has self-correcting mechanisms. There is no need to adjustment in any case of disequilibrium in short run economy will automatically adjust

Question No: 23 (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.

Question No: 24 (Marks: 1) - Please choose one

A primary implication of Keynesian economics is:

- ▶ The best government is the least government.
- ▶ Flexible wages and prices ensure full employment.
- ▶ Monetary policy is far superior to fiscal policy.
- ▶ **Business-cycle instability is best corrected through government policies.**

Keynesian economics points to flexible government policies, especially fiscal policy, as the primary means of stabilizing business cycles and tends to be favored by those on the liberal end of the political spectrum.

As such, *business-cycle instability is best corrected by government* intervention

Keynes gave the reasons of great depression and also suggested the policy advice on how Govt can rectify the situation

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

The economic analysis most closely related to Say's Law is:

- ▶ Short-run aggregate market.
- ▶ Production possibilities.
- ▶ Imperfect competition.
- ▶ **Circular flow.**

Statement and Explanation of Say's Law of Market:

"Say's Law of market states that supply creates its own demand".

Say's Law is explained with the help of simplified circular flow in figure 32.1. Says Law means that supply creates its own demand for goods and services. The income persons receive from output is spent to purchase goods and services produced by others. The very act of supplying certain level of goods and services necessarily equals the level of goods and services demanded. For the economy as a whole, total production therefore equals total income

Assumptions of the Say's Law of Market:

The classical model is based mainly on the following four assumptions:

- (i) **Pure competition exists.** No single buyer or seller of commodity or an input can affect its price.
- (ii) **Wages and prices are flexible.** The wages and prices of goods are free to move to whatever level the supply and demand dictate.
- (iii) **Self interest.** People are motivated by self interest. The businessmen want to maximize their profits and the households want to maximize their economic well being.
- (iv) **No government interference.** There is no necessity on the part of the government to intervene in the business matters.

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

Which of the following is NOT a reason of downward slope of aggregate demand curve?

- ▶ The exchange-rate effect.
- ▶ The wealth effect.
- ▶ **The classical dichotomy / monetary neutrality effects.**
- ▶ The interest-rate effect.

<http://quizlet.com/5273872/chapter-33-quizzes-flash-cards/>

<http://www.bized.co.uk/learn/economics/qbank/income1.htm>

Which of the following events shifts the short-run aggregate supply curve to the right?

A decrease in the money supply

A drop in oil prices

An increase in government spending on military equipment

An increase in price expectations

According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause

Prices to rise and output to rise.

Prices to fall and output to remain unchanged.

Prices to fall and output to fall.

Prices to rise and output to remain unchanged.

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

The upward-sloping aggregate supply curve indicates that:

▶ **As firms increase their level of output, the cost of producing an extra unit increases.**

▶ An increase in aggregate demand causes little, if any increase in real output the economy is operating in the long run.

▶ Any increase in aggregate demand causes the output of producers to fall because the general price level rises.

▶ None of the given options.

Question No: 28 (Marks: 1) - Please choose one

An important difference between the Classical and Keynesian approaches to achieve a macroeconomic equilibrium is that:

▶ **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: 29 (Marks: 1) - Please choose one

According to classical economists, the:

▶ **Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.**

▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

The AS curve was vertical therefore lack or excess of demand could not explain the low level of activity in the aggregate market for goods and services. Policy recommendation: focus on ways to move the AS curve to the right (i.e. supply side measures). According to classicals, economy is always at full employment level. Economy would automatically find the new equilibrium in the long run; they did not

Shifts in AD curve would have no effect on AS or on output level in the classical world. Any shift in AD curve will cause only change in the price level but output will not change. Output can change only if the AS curve would shift. AS curve can be shifted due to the availability of new resources, technology and wage rate.

The position of the vertical long run aggregate supply curve is often called potential output full employment output, or the natural rate of output.

The downward sloping aggregate demand curve shows the quantity of goods and services those household, firms the government and customer abroad want to buy at each price level

In the classical model, given an initial aggregate equilibrium at full employment, the long run effect of an increase in government spending is

- An increase in the price level
- An upward shift of the aggregate demand curve
- A constant level of output
- All of the above**

Question No: 30 (Marks: 1) - Please choose one
How many methods are there to measure Gross Domestic Product?

- ▶ **Three.**
- ▶ Four.
- ▶ Five.
- ▶ Six.

Question No: 31 (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.

Question No: 32 (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.**

Question No: 33 (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.

Marginal propensity to save:

$$MPS = \Delta S / \Delta Y_d$$

$$MPS = \text{Change in saving} / \text{change in disposable income}$$

$$MPS = 30,000 - 20,000 / 100,000 - 150,000$$

$$MPS = 10,000 / 50,000$$

$$MPS = 0.2$$

$$\text{Change in saving} = \text{saving before income increase} = 100,000 - 80,000 = 20,000$$

$$\text{Change in saving} = \text{saving after income increase} = 150,000 - 120,000 = 30,000$$

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

Which of the following plays the key balancing role in making sure that the economy reaches and stays at equilibrium at the potential output level?

- ▶ Real exchange rate.
- ▶ The production function.
- ▶ Real price level.
- ▶ **Real interest rate.**

The _____ plays the key balancing role in making sure that the economy reaches and stays at equilibrium at the potential output level.

Real exchange rate.

The production function.

Real price level.

Real interest rate.

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

If injections are less than withdrawals at the full-employment level of income then there arises:

▶ **A deflationary gap.**

▶ Hysteresis.

▶ Hyperinflation.

▶ An inflationary gap.

If injections < withdrawals then this will mean deflation gap

.... While if injections > withdrawals then this will mean inflation Gap

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

The labour force is made up of:

▶ The number of people employed minus the number of people unemployed.

▶ **The number of people employed plus the number of people unemployed.**

▶ Just the number of people employed.

▶ The whole population.

Question No: 37 (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.**

Inflation is a situation in which there is a continuous rise in the general price level. **Deflation** is the opposite of inflation and occurs when the general level of prices falls. The rate of inflation is the percentage annual increase in average price level. **Pure inflation** is a special case of inflation in which the prices of all the goods and services in the economy are rising at the same rate.

Question No: 38 (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.** [CORRECTION IN FILE # 1]
- ▶ Recession; inflation.

<http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&ved=0CC8QFjAB&url=http%3A%2F%2Fwww2.palomar.edu%2Fusers%2Fflee%2F101%2520Quizze%2520to%2520Web%2520page.pdf&ei=2-jNUYSPLYGX7QaL34GQDA&usg=AFQjCNGp3eKpMHwFZg7N6wb1LktqmAMNIQ&bvm=bv.48572450,d.ZGU>

Which of the following scenarios can cause cost-push inflation (and therefore stagflation)?

- a. an increase in taxes on individuals
- b. a decrease in real interest rates
- c. **a union settlement that increases wage levels**
- d. an increase in government purchases

The classical long-run aggregate supply curve is:

- a. downward sloping
- b. upward sloping
- c. horizontal
- d. **vertical at the level of potential real GDP**

Which of the following will shift the demand for money curve to the right?

- a. a decrease in real GDP
- b. **an increase in the GDP Deflator**
- c. an increase in real interest rates
- d. people expecting inflation soon

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

A decrease in the natural rate of unemployment will:

- ▶ **Shift the Phillips curve to the left.**
- ▶ Result in a decrease in the inflation rate along the Phillips curve.
- ▶ Shift the Phillips curve to the right
- ▶ Result in an increase in the inflation rate along the Phillips curve.

An increase in the natural rate of unemployment by keeping inflation rate constant will shift the Phillips curve to the rightward.

An increase in inflation rate by keeping natural rate of unemployment constant will shift the Phillips curve to the right ward.

A decrease in the natural rate of unemployment by keeping inflation rate constant will shift the Phillips curve to the left.

A decrease in inflation rate by keeping natural rate of unemployment constant will shift the Phillips curve to the left.

Question No: 40 (Marks: 1) - Please choose one
The Phillips curve will shift to the right:

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

An increase in the natural rate of unemployment by keeping inflation rate constant will shift the Phillips curve to the rightward.

An increase in inflation rate by keeping natural rate of unemployment constant will shift the Phillips curve to the right ward.

Increase in the expected inflation rate shifts the Phillips curve up and to the right

A decrease in the natural rate of unemployment by keeping inflation rate constant will shift the Phillips curve to the left.

A decrease in inflation rate by keeping natural rate of unemployment constant will shift the Phillips curve to the left.

A higher natural rate of unemployment shifts the Phillips curve to the right

When actual unemployment rate equal natural rate , the actual inflation rate equals the expected inflation.

Phillips curve.

Philips curve shows the tradeoff between inflation and rate of unemployment. If there is an increase in unemployment then there will be decrease in inflation and vice versa.

There are three factors which cause the Philips curve to shift right or left.

- Change in natural rate of unemployment
- Change in expected rate of inflation.
- Supply shocks.

In case of natural rate of unemployment Philips curve has been drawn when the rate of inflation is 3% and rate of unemployment rate is also 3%. If there is an increase in rate of unemployment and it reaches to 6% while rate of inflation remains constant then the Phillips curve will shift towards right. If the rate of unemployment decreases from 3% to 2 % then Philips curve will shift towards left.

In case of change in expected rate of inflation, if expected rate of inflation increases from 3 % to 6 % while rate of unemployment remains fixed at 3 % then Philips curve will shift towards right. If expected rate of inflation decreases from 3 % to 2% then Philips curve will shift towards left.

Adverse (unfavorable) supply shocks results in inflation and tends to increase rate of unemployment. In case of adverse supply shocks Philips curve shifts rightward otherwise left ward.

In the long run, the inflation rate depends primarily on

- a. the ability of unions to raise wages.
- b. government spending.
- c. the money supply growth rate.**
- d. the monopoly power of firms.

Which of the following would shift the long-run Phillips curve right?

- a. expansionary fiscal policy.
- b. an increase in the inflation rate.
- c. increases in unemployment compensation.**
- d. None of the above is correct.

A decrease in expected inflation shifts

- a. the long-run Phillips curve left.
- b. the short-run Phillips curve left.**
- c. neither the short-run nor long-run Phillips curve left.
- d. both the short-run and long-run Phillips curve left

A favorable supply shock will cause inflation to

- a. rise and shift the short-run Phillips curve right.
- b. rise and shift the short-run Phillips curve left.
- c. fall and shift the short-run Phillips curve right.
- d. fall and shift the short-run Phillips curve left.**

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

If a country has flexible exchange rate and has more rapid inflation rate than other countries, its currency will:

- Appreciate.

► **Depreciate.**

- Not effect.
- All of the given are possible.

Inflation (deflation) is associated with currency depreciation (appreciation). Suppose the price level increases by 40% in the U.S., while the price levels of its trading partners remain relatively stable. U.S. goods will seem very expensive to foreigners, while U.S. citizens will increase their purchase of relatively cheap foreign goods. The U.S. dollar will depreciate as a result.

If the U.S. inflation rate is lower than that of its trading partners, the U.S. dollar is expected to appreciate. Note that exchange rate adjustments permit nations with relatively high inflation rates to maintain trade relations with countries that have low inflation rates.

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

The nominal exchange rate is defined as the:

- Market on which currencies of various nations are traded for one another.
- Price of one unit of foreign good in terms of domestic good.
- **Price of one unit of foreign currency in terms of domestic currency.**
- All of the given options.

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

Current account deficit is equal to:

- Private sector resource deficit.
- Government budget deficit.
- **Private sector resource deficit + Government budget deficit.**
- None of the given options.

Current account deficit = Private sector resource deficit + Government budget deficit

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

**In the exogenous growth model, if investment exceeds depreciation, the capital stock will --
----- and output will----- until the steady state is attained.**

- **Increase; increase.**
- Increase; decrease.
- Decrease; decrease.
- Decrease; increase.

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

Endogenous growth theory differs in what essential aspect from the Solow theory of economic growth?

- ▶ Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.
- ▶ Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.
- ▶ **In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.**
- ▶ All of the given options are correct.

Question No: 46 (Marks: 1) - Please choose one

A currency appreciation should:

- ▶ Reduce net exports and therefore increase aggregate demand.
- ▶ Raise net exports and therefore decrease aggregate demand.
- ▶ **Reduce net exports and therefore decrease aggregate demand.**
- ▶ Raise net exports and therefore increase aggregate demand.

**Currency depreciation should raise net exports and therefore increase aggregate demand
A currency appreciation reduce net export and therefore decrease aggregate demand**

Question No: 47 (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 certificates of deposits.

Money Supply and Its Various Definitions:

There is a process by which money is created – the money supply process, and there are ideas about why people hold money – money demand theories

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

a unit of account

a. **M0:** also called base money, high powered money or the monetary base. M0 is the value of all the currency notes and coins that are in circulation in the economy. Note that any currency or coins lying with the central bank (which in Pakistan's context, would be the State Bank of Pakistan) does not count as M0, as it is not in circulation.

b. **M1:** is $M0 + \text{all current (or checking) deposits}$ held with commercial banks. Checking deposits are accounts from which the holders can withdraw money at any time.

c. **M2:** is $M1 + \text{all time deposits}$.

Question No: 48 (Marks: 1) - Please choose one
Commercial banks in Pakistan are supervised by:

- ▶ **State bank.**
- ▶ National bank.
- ▶ Finance minister.
- ▶ World bank.

Question No: 49 (Marks: 1) - Please choose one

What would result from a depreciation of the pound on the foreign exchange market?

- ▶ **An increase in the price of imported computers.**
- ▶ A fall in the purchasing power of US tourists in London.
- ▶ A fall in the price of imported computers.
- ▶ An increase in the purchasing power of UK tourists overseas.

Depreciation means a decrease in the value of a currency with respect to other currencies. For example if pound has depreciated as compare to dollar means more pounds are required to get 1dollar thus British's imports will be expensive and its exports will be cheaper and volume of exports will increase.

If prices in both countries remain the same; depreciation will make foreign goods relatively more expensive to you, leading to a fall in imports

Question No: 50 (Marks: 1) - Please choose one
An example of hysteresis having a negative effect on a country's economy would be:

- ▶ Hyperinflation caused by excessive demand.
- ▶ Nervous investors selling all their shares, causing the stockmarket to crash.
- ▶ **Unemployed workers not taking available jobs.**
- ▶ Women being kept out of jobs traditionally held by men.

Hysteresis effects

Hysteresis means refers to the damage that unemployment does to the skills and employability of people out of work. The longer someone remains out of a paid job, the less attractive they are to an employer.

PAPER # 09

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

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

▶ There is a shortage of the product.

▶ There is a surplus of the product.

▶ The product is a normal good.

▶ The product is an inferior good.

Question No: 2 (Marks: 1) - Please choose one

The cross price elasticity of demand for complementary goods is:

▶ Less than 0.

▶ Equal to 0.

▶ Greater than 0.

▶ Between 0 and 1.

When the cross price elasticity of demand for two *goods* is less than zero then the goods are

Complements

Substitute

Unrelated

None of the given

Cross-price elasticity equals to zero for

- a) Complementary goods
- b) Substitute goods
- c) Unrelated goods**
- d) None of the above

Complementary goods have:

- a) The same elasticities of demand
- b) A positive cross-price elasticity of demand
- c) A negative cross-price elasticity of demand**
- d) None of the above

Question No: 3 (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.

Question No: 4 (Marks: 1) - Please choose one

_____ arises when an increase in all inputs leads to a more-than-proportional 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.

Question No: 5 (Marks: 1) - Please choose one

An isoquant curve shows:

▶ **All the alternative combinations of two inputs that yield the same maximum total product.**

▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.

▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

▶ None of the given options.

Question No: 6 (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: 7 (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.

▶ Third-degree price discrimination.

▶ None of the given options.

Question No: 8 (Marks: 1) - Please choose one

Which of the following best expresses the law of demand?

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ **A higher price reduces quantity demanded.**
- ▶ A lower price shifts the demand curve to the right.

Question No: 9 (Marks: 1) - Please choose one

If a sales tax on beer leads to reduced tax revenue, this means:

- ▶ Elasticity of demand is < 1 .
- ▶ **Elasticity of demand is > 1 .**
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

Question No: 10 (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: 11 (Marks: 1) - Please choose one

The classical economists thought that the economy would quickly overcome any short run instability because:

- ▶ Price level and quantity are flexible.
- ▶ Prices would get stuck at a low level.
- ▶ The long run aggregate supply would shift to the left.
- ▶ **Prices and wages are flexible.**

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

Final goods are meant for:

- ▶ **Direct use by the consumers.**
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

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

The average propensity to consume is the ratio of:

- ▶ **A change in consumption to a change in disposable income.**
- ▶ A change in consumption to total disposable income at a specific income level.
- ▶ Total consumption to total disposable income at a specific income level.
- ▶ Total consumption to a change in disposable income.

Average propensity to consume (APC) is the ratio of total consumption to total disposable income. Average propensity to save (APS) is the ratio of total saving to total disposable income.

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

The slope of the saving function (or line) is the:

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ **Marginal propensity to save.**
- ▶ Marginal propensity to consume.

The positive slope of the saving line is also termed the marginal propensity to save (MPS). The saving line, also termed propensity-to-save line or saving function, shows the relation between saving and income for the household sector.

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

The government increases the number of job centres and uses more advanced computers to improve the information database. This creates:

- ▶ **Structural Unemployment.**
- ▶ Regional Unemployment.
- ▶ Frictional Unemployment.
- ▶ Demand Deficient Unemployment.

There are several types of unemployment.

Frictional unemployment occurs when a worker moves from one job to another. While he searches for a job he is experiencing frictional unemployment.

Structural unemployment is caused by a mismatch between the location of jobs and the location of job-seekers. "Location" may be geographical, or in terms of skills. The mismatch comes because unemployed are unwilling or unable to change geography or skills. Structural unemployment can be created when there are technological advances in an industry

Cyclical unemployment, also known as demand deficient unemployment, occurs when there is not enough aggregate demand for the labor. This is caused by a business cycle recession.

Technological unemployment is caused by the replacement of workers by machines or other advanced technology.

Classical or real-wage unemployment occurs when real wages for a job are set above the market-clearing level. This is often as a result of government intervention, as with the minimum wage, or unions.

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

Which one of the following can lead to a rise in inflation?

▶ **An increase in costs of production.**

▶ An increase in productive capacity.

▶ An increase in the level of direct taxation.

▶ An increase in the exchange rate.

❑ Demand pull inflation occurs when aggregate demand is growing at an unsustainable rate leading to **increased pressure on scarce resources** and a **positive output gap**

❑ When there is **excess demand**, producers are able to raise their prices and achieve bigger **profit margins** because demand is running ahead of supply

❑ Demand-pull inflation becomes a threat when an economy has experienced a boom with GDP rising faster than the long-run trend growth of potential GDP

Main Causes of Demand-Pull Inflation

A depreciation of the exchange rate increases the price of imports(inflation) and reduces the foreign price of a country's exports. If consumers buy fewer imports, while exports grow, AD in will rise – and there may be a multiplier effect on the level of demand and output

Higher demand from a fiscal stimulus e.g. lower direct or indirect taxes or higher government spending. If direct taxes are reduced, consumers have more disposable income causing demand to rise. Higher government spending and increased borrowing creates extra demand in the circular flow

Fall in interest rates may stimulate too much demand – for example in raising demand for loans or in leading to house price inflation.

Cost-Push Inflation

Component costs: e.g. an increase in the prices of raw materials and other components.

Rising labour costs

Higher indirect taxes: Depending on the price elasticity of demand and supply for their products, suppliers may choose to pass on the burden of the tax onto consumers

A fall in the exchange rate

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

What does the term "balance of payment deficit" refer to?

- ▶ An increase in official international reserves.
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.
- ▶ **A decline in official international reserves.**

http://wps.aw.com/aw_krgmnobstf_interecon_7/0,10540,2078581-,00.html

Which of the following is NOT true about the current account?

It equals the difference between exports and imports.

It equals the difference between savings and investments.

It equals the net receipts of factor income from abroad

It equals goods production minus domestic demand

It equals the change in a country's foreign wealth.

A purchase of foreign reserves by a country's Central Bank would be reflected as:

A credit in the financial account and a debit in the financial account

A credit in the current account and a debit in the financial account.

A debit in the current account and a credit in the financial account.

An entry in a separate account off the balance of payments.

What is the difference between GNP and GDP?

Domestic transfers

Indirect business taxes

Capital depreciation

International transfers

Net Receipts of factor income from abroad

Which of the following is NOT an account in the balance of payments?

Future Account

Current account

Capital account

Financial account

Question No: 18 (Marks: 1) - Please choose one

How should fiscal policy be used during inflation?

- ▶ Increase Government expenditure and decrease taxes to decrease aggregate demand.
- ▶ Increase Government expenditure and decrease taxes to increase aggregate demand.
- ▶ Decrease Government expenditure and increase taxes to increase aggregate demand.

► **Decrease Government expenditure and increase taxes to decrease aggregate demand.**

A form of fiscal policy in which a decrease in government purchases, an increase in taxes, and/or a decrease in transfer payments are used to correct the inflationary problems of a business-cycle expansion. The goal of contractionary fiscal policy is to close an inflationary gap, restrain the economy, and decrease the inflation rate. Contractionary fiscal policy is often supported by contractionary monetary policy

Question No: 19 (Marks: 1) - Please choose one

If the demand curve for a good is downward sloping, then the good:

- Must be inferior.
- Must be giffen.
- **Can be normal or inferior.**
- Must be normal.

The effect of a fall in price			
	Substitution effect	Income effect	Overall
Normal good	Increases quantity demanded	Increases quantity demanded	Increases quantity demanded; downward sloping demand curve
Inferior good	Increases quantity demanded	Decreases quantity demanded	Increases quantity demanded; downward sloping demand curve
Giffen good	Increases quantity demanded	Decreases quantity demanded	Decreases quantity demanded; upward sloping demand curve

The effect of an increase in price			
	Substitution effect	Income effect	Overall

Normal good	Decreases quantity demanded	Decreases quantity demanded	Decreases quantity demanded; downward sloping demand curve
Inferior good	Decreases quantity demanded	Increases quantity demanded	Decreases quantity demanded; downward sloping demand curve
Giffen good	Decreases quantity demanded	Increases quantity demanded	Increases quantity demanded; upward sloping demand curve

Question No: 20 (Marks: 1) - Please choose one

Keeping in view 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.**

According to the AD-AS Model, the increase in the money supply shifts the AD curve to the right and up, from AD1 to AD2. □ In the long run, the money supply increase leaves real income unaffected (at Y1) and raises the price level (to P3).

Which of the following shifts aggregate demand to the right?

- a. an increase in the money supply
- b. an increase in net exports at every exchange rate
- c. an investment tax credit
- d. All of the above are correct.**

Question No: 21 (Marks: 1) - Please choose one

Which of the following is TRUE according to classical economists?

▶ Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.

▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

Question No: 22 (Marks: 1) - Please choose one

Why calculations of Gross Domestic Product (GDP) count only final goods and services?

▶ Because it is difficult to measure the prices of intermediate goods produced.

▶ Because these are the only goods and services that are purchased in an economy.

▶ Because counting all goods and services would lead to double-counting of many activities.

▶ Because one cannot calculate the quantities of intermediate goods produced.

GDP counts only final goods which are finished goods and services produced for the ultimate user including all goods and services produced would inflate GDP by double counting (counting may items more than once) In order to count only final goods and avoid overstating GDP, National income accountants must take care not to include intermediate goods.

Question No: 23 (Marks: 1) - Please choose one

----- plays an important role in making sure that the economy reaches and stays at equilibrium at the potential output level.

▶ Real exchange rate.

▶ The production function.

▶ Real price level.

▶ Real interest rate.

The real interest rate r plays the key balancing role in making sure that the economy reaches

and stays at equilibrium.

Question No: 24 (Marks: 1) - Please choose one

Why a \$1 increase in government spending will have a larger impact upon national income than a \$1 tax cut?

- ▶ Because the government prints the currency it spends.
- ▶ **Because not all of the tax cut is spent.**
- ▶ Because when taxes are cut, government spending is also cut.
- ▶ Because taxes are an injection into the system.

Suppose that the government increases its spending by 10 per cent and also increases taxes by 10 per cent. We would expect this policy to

Essentially have no effect on the level of national income

Have a contractionary effect on national income

Decrease the marginal propensity to save out of each extra pound of income

Have an expansionary effect on national income

We would expect this policy to have an expansionary effect on national income due to a phenomenon known as the balanced budget multiplier

If injections are less than withdrawals at the full-employment level of national income there is

A deflationary gap

Hysteresis

Hyperinflation

An inflationary gap

If injections < withdrawals then this will mean deflation..... While if injections > withdrawals then this will mean inflation

The principle of the multiplier states that:

Any increase in aggregate spending that causes the aggregate demand curve to shift will result in a larger increase in national income

In the long run, the aggregate demand curve becomes relatively flat as the economy approaches full employment

Any increase in national income will result in a larger increase in aggregate spending

For any given increase in income, there will be a less than proportional increase in consumer spending

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

Commercial banks in Pakistan are supervised by:

- ▶ **State bank of Pakistan.**
- ▶ National bank of Pakistan.
- ▶ Finance minister of Pakistan.
- ▶ World bank.

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

Trade can be beneficial in which of the following situations?

- ▶ Two countries produce the same goods at the same costs.

▶ **Two countries produce different goods at different costs.**

- ▶ Two countries are isolated.
- ▶ Two countries have the same markets.

Question No: 27 (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:

- ▶ $1000+1500+2500 = \text{Rs. } 5000$
- ▶ $1000+500+2500 = \text{Rs. } 4000$
- ▶ **$1000+500+1000 = \text{Rs. } 2500$**
- ▶ $1000+1500+1000 = \text{Rs. } 3500$

A= 1000

B= 1500 – 1000 = 500

C = 2500 -1500 =1000

$1000+500+1000 = 2500$

Question No: 28 (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.**

Question No: 29 (Marks: 1) - Please choose one

National product at market prices incorporate:

► **Prices which buyers actually pay.**

- Payments made to the factor owners.
- Costs incurred in producing goods and services.
- Costs minus subsidies.

The valuation of National Product at market prices indicates the total amount actually paid by the final buyer

National product is also the sum of value added

Question No: 30 (Marks: 1) - Please choose one

A marginal propensity to consume (MPC) of 0.95 indicates that:

► **ΔC to ΔY_d is 0.95.**

- C / Y_d is 0.95.
- ΔY_d to ΔC is 0.95.
- Y_d / C is 0.95.

Marginal propensity to consume:

$$MPC = \Delta C / \Delta Y_d$$

Question No: 31 (Marks: 1) - Please choose one

When MPC is 0.80 and APC is 0.95 then MPS is:

► **0.20 and APS is 0.05.**

- 0.05 and APS is 0.20.
- 0.20 and APS is 0.20.

► 0.05 and APS is 0.05.

$$MPS = 1 - MPC$$

$$MPS = 1 - 0.80$$

$$MPS = 0.2$$

$$APC = 1 - APS.$$

Rearrange equation

$$APS = 1 - APC$$

$$APS = 1 - 0.95$$

$$APS = 0.05$$

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

Which of the following are leakages from the circular flow?

► Consumption and saving.

► **Saving and imports.**

► Imports and exports.

► Exports and savings.

$$\text{Withdrawal /Leakages} = S + T + M \text{ [Savings, Taxes, Imports]}$$

$$\text{Injection} = I + G + X \text{ [Investment, Government spending, Exports]}$$

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

The time that a laborer uses for relaxation and all activities other than work or necessary sleep is known as:

- ▶ Free time.
- ▶ Leisure.
- ▶ Time not used for earning.
- ▶ **All of the given options.**

Leisure, or free time, is time spent away from business, work

Question No: 34 (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.

The labor supply curve may have a "backward bending" portion because at higher wages the

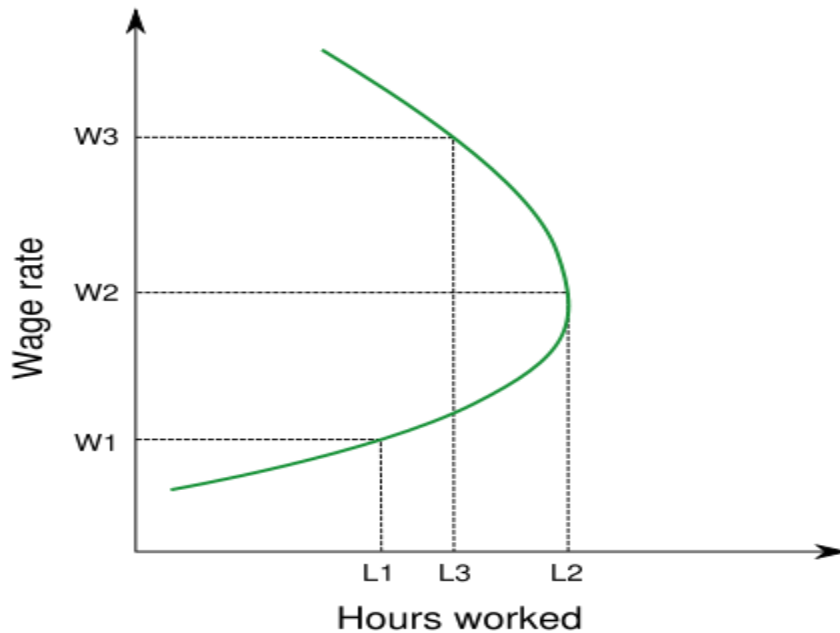
- a. income effect is greater because the individual's income is higher.
- b. **income effect is greater than the substitution effect.**
- c. effect of greater income overcomes the desire for more income.
- d. All of the above are correct.

Backward Bending Supply Curve

A typical supply curve shows an increase in supply as price rises. It slopes from left to right.

However, in labour markets we can often witness a backward bending supply curve.

Diagram of Backward Bending Supply Curve



The reason is that there are two effects related to determining supply.

The Substitution effect states that a higher wage makes work more attractive than leisure. Therefore, supply increases.

The income effect states that a higher wage means workers can achieve a target income by working less hours. Therefore, because it is easier to get enough money they work less.

When your wage is low, the substitution effect dominates. As wages increase, the income effect starts to dominate.

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

The government supports research in basic science because:

- ▶ **It is a public good.**
- ▶ External costs are created.
- ▶ Internal benefits are created.
- ▶ Free markets would do so otherwise.

Economists presented science as a public good which had of course been advanced as a defining feature of science since the republic science. To economists science was a public good because knowledge could not be (exclusively) appropriated by its producer which therefore justified the need for government support.

The knowledge generated by research is truly a public good only if it is made available for anyone to use without restriction. However, such a public good will be underprovided, according to economic theory, since the benefit to society from producing the good will outweigh the returns to the producers of the good.

Public goods are those which can be used in a non-rival manner by all of society. Once created, these goods are available to all without additional cost. Private enterprise is unlikely to invest in goods used in a non-rival manner because it is difficult to capture a return on their investment. Knowledge created from basic research is an example of a public good which is more valuable to society than any one individual.

Question No: 36 (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.**

According to classical aggregate demand will be stable as long as the nation's monetary authorities maintain a constant supply of money. With a fixed aggregate supply of output increase in the supply of money will shift the AD right ward and spark demand pull inflation. Reductions in the supply of money will shift the curve leftward and trigger deflation. The key to price level stability then is to control the nation's money supply to prevent unwarranted shifts in AD. **Decline in demand is an excess supply of output since the aggregate output of goods and services exceeds aggregate spending. But with the presumed downward flexibility of product and resource prices that excess supply will reduce product prices along with workers wages and the prices of other inputs.** As a result price level will quickly decline until output demanded and supplied is brought once again in to equilibrium. While the price level has fallen real output remains at the full employment level.

Question No: 37 (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.**

Factors That Affect Net Exports

The tastes of consumers for domestic and foreign goods.

The prices of goods at home and abroad.

The exchange rates at which people can use domestic currency to buy foreign currencies.

The incomes of consumers at home and abroad.

The costs of transporting goods from country to country.

The policies of the government toward international trade.

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

A trade surplus occurs when:

- ▶ A country's firms open more stores abroad than foreign firms open in the country.
- ▶ **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 purchases more from abroad than other countries purchase from it.

Trade deficit = Country purchases more from abroad and sell less to abroad or import are greater than exports

Trade surplus = country sell more abroad than it purchases from abroad or exports are greater than imports

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

A change from \$1.00 = Rs. 80.00 to \$1.00 = Rs. 85.00 represents:

- ▶ Depreciation of the dollar.
- ▶ An appreciation of the dollar.
- ▶ **An appreciation of the rupee.**
- ▶ None of the given options.

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

There is an increase in the economy's potential output when there is:

- ▶ An increase in government spending.
- ▶ A decrease in government spending.
- ▶ **An increase in the economy's capital stock.**
- ▶ An increase in the economy's depreciation rate.

An economy's level of potential output is determined by then quantity and quality of its productive factors and the prevailing level of technology. If, for example, firms acquire more machinery or introduce improved methods of production, then the potential output of the economy will increase. In this sense, potential output relates to the capacity of the economy to **supply** goods and services. Quantity and quality of resources increase the economy potential output.

If both the capital stock and the technology in a country increased, other things being equal, the country's potential output would

- a. rise.**
- b. fall.

- c. remain unchanged.
- d. change in an indeterminate direction.

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

One of the implications of Solow growth model is that all other things remaining the same, countries with rapidly growing population will tend to:

- ▶ **Be poorer than countries with lower population growth.**
- ▶ Grow slower than countries with lower population growth.
- ▶ Grow higher than countries with lower population growth.
- ▶ Have lower marginal products of capital than countries with lower population growth.

The solow model with population growth implies that all other things equal countries with a rapidly growing population will tend to be poorer than countries with lower population growth.

Question No: 42 (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.

To understand this overall pattern of population growth, it is useful to review a basic condition of demographic history, known as the **demographic transition**:

The change of a population from high birth and death rates to low birth and death rates. It is a simple definition, but an exceedingly powerful one, for it shows clearly a major transformation of human reproduction. The demographic transition generally occurs in four stages.

In the initial stage, both birth and death rates are high, causing only slow and steady population growth.

In the next stage, death rates begin to decline and birth rates remain high, resulting in faster population growth.

In stage three, the birth rate begins to decline, and in the final stage, birth rates balance death rates.

Population growth stabilizes in this final stage. In some cases, such as Italy, population growth may cease altogether.

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

The principle of taxation which emphasizes on fairness or just sacrifice is known as:

- ▶ Efficiency.
- ▶ **Equity.**
- ▶ Progressive tax.
- ▶ Regressive tax.

The Concept of Equity:

Equity represents that principle of taxation which emphasizes fairness or just sacrifice, i.e. everyone should pay tax according to his/her ability.

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

The relationship between tax rates and total tax collections by government is known as:

- ▶ **Laffer curve.**
- ▶ Demand curve.
- ▶ Supply curve.
- ▶ Investment curve.

LAFFER CURVE

It is based on the notion that government collects zero revenue if the tax rate is 0% and if the tax rate is 100%. At a 100% tax rate no one has the incentive to work, produce, and earn income, so there is no income to tax. As such, the optimum tax rate, in which government revenue is maximized, lies somewhere between 0% and 100%.

Question No: 45 (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%.**

LAFFER CURVE

It is based on the notion that government collects zero revenue if the tax rate is 0% and if the tax rate is 100%. At a 100% tax rate no one has the incentive to work, produce, and earn income, so there is no income to tax. As such, the optimum tax rate, in which government revenue is maximized, lies somewhere between 0% and 100%.

Question No: 46 (Marks: 1) - Please choose one

Money is defined as an item that:

- ▶ **Serves as a medium of exchange for goods and services.**
- ▶ Can be converted into silver with relatively little loss in value.
- ▶ Can be converted into gold with relatively little loss in value.
- ▶ Facilitates a connecting link between credit instruments and debt instruments.

Question No: 47 (Marks: 1) - Please choose one

A tax imposed by a country on an imported good or service is called a:

- ▶ Quota.
- ▶ **Tariff.**
- ▶ Non-tariff barrier.
- ▶ Trade embargo.

The protection is operationalised through tariffs (tax on imports) or outright quota restrictions

Question No: 48 (Marks: 1) - Please choose one

Poor countries remained poor because of:

- ▶ Higher per capita income.
- ▶ **Vicious circle of poverty.**
- ▶ High level of investment.
- ▶ High rates of savings.

LICs' economies were caught in the vicious cycle of low saving, low scale of investment, low productivity gains (due to the absence of scale economies), low per capita growth

Question No: 49 (Marks: 1) - Please choose one

If other things remaining the same, expected income can be used as a direct measure of well-being in which of the following situations?

- ▶ It can be used if and only if individuals are not risk-loving.
- ▶ It can be used if and only if individuals are risk averse.
- ▶ **It can be used if and only if individuals are risk neutral.**
- ▶ It can be used no matter what a person's preference to risk.

Dear Student,

Thanks for your concern!

Yes expected income can be used as a direct measure of individual's well-being and it can be used if and only if individuals are risk neutral.

Question No: 50 (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.**

Question No: 51 (Marks: 1) - Please choose one

What will happen to the demand for product X, if there is an increase in consumer's income?

- ▶ It will necessarily remain unchanged.
- ▶ It will shift to the right if X is a complementary good.
- ▶ **It will shift to the right if X is a normal good.**
- ▶ It will shift to the right if X is an inferior good.

Question No: 52 (Marks: 1) - Please choose one

Which of the following occur when an isocost line is just tangent to an isoquant?

- ▶ **Output is being produced at minimum cost.**
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.

- The two products are being produced at the highest input cost to the firm.

When the isocost line is tangent to the isoquant, then

- A) $MRTS = w/r$.
- B) the firm is producing that level of output at minimum cost.
- C) the last dollar spent on capital yields as much extra output as the last dollar spent on labor.
- D) All of the above**

When the isocost line is tangent to the isoquant, then

- A) $MP_L = MP_K$.
- B) the firm is producing that level of output at minimum cost.**
- C) the firm has achieved the right economies of scale.
- D) All of the above

Economic costs of an input include

- A) only implicit costs.
- B) only explicit costs.
- C) both implicit and explicit costs.**
- D) whatever management wishes to report the shareholders.

Suppose the total cost of producing T-shirts can be represented as $TC = 50 + 2q$. Which of the following statements is TRUE at all levels of production?

- A) $MC = AVC$**
- B) $MC = AC$
- C) $MC > AFC$
- D) All of the above.

In the short run, the point at which diminishing marginal returns to labor begin is the point at which the marginal cost curve

- A) peaks.
- B) bottoms out.**
- C) is upward sloping.
- D) is downward sloping.

In the long run, fixed costs are

- A) sunk.
- B) avoidable.**
- C) larger than in the short run.
- D) not included in production decisions

Question No: 53 (Marks: 1) - Please choose one

Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:

▶ **Decreasing returns to scale.**

▶ Constant returns to scale.

▶ Increasing returns to scale.

▶ None of the given options.

Question No: 54 (Marks: 1) - Please choose one

In which of the following conditions, a firm will never operate?

▶ At the minimum of its average total cost curve.

▶ At the minimum of its average variable cost curve.

▶ On the downward-sloping portion of its average total cost curve.

▶ **On the downward-sloping portion of its average variable cost curve.**

A firm never operates:

▶ At the minimum of its average total cost curve.

▶ At the minimum of its average variable cost curve.

▶ On the downward-sloping portion of its average total cost curve.

▶ **On the downward-sloping portion of its average variable cost curve.**

Firm will never operate along the downward sloping part of its AC curve in the long run.

PAPER # 10

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.

TOTAL UTILITY CURVE:

A curve illustrating the relation between the total utility obtained from consuming a good and the quantity of the good consumed. The shape of the total utility curve, increasing at a decreasing rate, reflects the law of diminishing marginal utility.

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.**

There are two properties of production function

1- it slopes upward it means that as input increases output also increases.

2- It shows diminishing marginal product of an input, since it gets flatter as output rises. It

means that as factors of production increases output will decrease after a certain point.

As, land and labor are the factors of production used to produce goods. Law of diminishing marginal returns states that if you increase the quantity of variable factor (labor) with fixed factor (land), marginal product of an additional employee will at some point be less than the marginal product of the previous employee.

Question No: 3 (Marks: 1) - Please choose one

_____ arises when an increase in all inputs leads to a more-than-proportional 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.

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.

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.
- ▶ Standardized oligopoly and pure competition only.
- ▶ Monopolistic competition and monopoly only.
- ▶ **Monopolistic competition, oligopoly and monopoly.**

Price will exceed marginal revenue in any industry in which firms face a downward-sloping demand curve. Pure competition is the only industry in which this is not the case

Price exceeds marginal revenue for the pure monopolist because the:

- A) law of diminishing returns is inapplicable.
- B) demand curve is downsloping.**
- C) monopolist produces a smaller output than would a purely competitive firm.
- D) demand curve lies below the marginal revenue curve.

For a pure monopolist marginal revenue is less than price because:

- A. the monopolist's demand curve is perfectly elastic.
- B. the monopolist's demand curve is perfectly inelastic.
- C. when a monopolist lowers price to sell more output, the lower price applies to all units sold.**
- D. the monopolist's total revenue curve is linear and slopes upward to the right.

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.

134-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.

Two fundamental postulates underlie Keynesian theories of all types:

1. Unemployment is caused by insufficient aggregate demand.
2. The proper means to eliminate unemployment is for the government to increase aggregate demand through discretionary monetary and fiscal policies.

According to Keynes, the root cause of economic downturns is insufficient aggregate demand. When the total demand for goods and services declines, businesses throughout the economy see their sales fall off. Lower sales induce firms to cut back production and to lay off workers. Rising unemployment and declining profits further depress demand, leading to a feedback loop with a very unhappy ending.

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

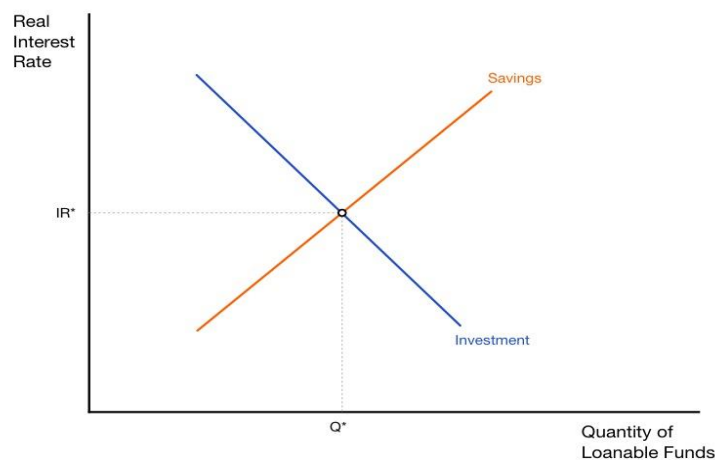
An assumption of classical economics is:

- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ **Supply creates its own demand.**
- ▶ Investment and saving are seldom equal.

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.



The supply of loanable funds in this market derives from the portion of domestic household income that is not spent on consumption, government saving (budget surpluses), and net capital inflows (foreign savings). The demand for loanable funds is generated by investments made by

businesses and governments at home and abroad. The quantity of loanable funds demanded and supplied is determined by their price, the real interest rate.

As saving increase shift upward due to increase in saving that is supply ,(supply of loanable fund rise due to which real interest rate rise and investment or demand will goes down.

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.

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

Endogenous growth theory was developed in:

▶ **1980.**

▶ 1965.

▶ 1970.

▶ 1950.

ENDOGENOUS GROWTH THEORY

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

The Exogenous growth model, also known as the Neo-classical growth model or Solow growth model The most important contribution was probably the work done by Robert Solow; Solow received the 1987 Nobel Prize in Economics for his work on the model.

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.**

Per capita income is obtained by dividing the national income by the total number of population. It is the average annual income per head for all the inhabitants of the country; it is used to represent the standard of living of the people.

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.**
- ▶ Direct taxes.
- ▶ Transfer payments.

$NNP = GNP - \text{Depreciation allowance}$

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.

Question No: 19 (Marks: 1) - Please choose one

The principle economic difference between a competitive and a non-competitive 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: 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.**

Those holding the classical view of the labor market are likely to believe that

- (a) monetary and fiscal policy have a substantial effect on output and employment in both the short run and the long run
- (b) monetary and fiscal policy have some effect on output and employment in both the short run and the long run
- (c) **Monetary and fiscal policy have little or no effect on output and employment in both the short run and the long run**
- (d) Monetary and fiscal policy have some effect on output and employment in the short run, but not in the long run

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.**

Inflation implies price rise. This in turn means the purchasing power of money has declined. Currency value and inflation influence each other. **Inflation** means a reduction in the value of money; in other words, a rise in general price levels

If the Phillips Curve is vertical in the long run, then an increase in the money supply from year to year will _____ the unemployment rate and will _____ inflation rate.

- (a) increase; increase
- (b) increase; not change
- (c) not change; increase**
- (d) not change; not change

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.

- The Golden Rule output level.

<http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CCoQFjAA&url=http%3A%2F%2Fold.econ.ucdavis.edu%2Ffaculty%2Famtaylor%2Fteaching%2Fecn101%2Fsamplemidterm.pdf&ei=whLfUaiAOsre7AaF24CYAQ&usg=AFQjCNH5LAG2u8JO8eWoj7CT9-bNau68kw&bvm=bv.48705608,d.ZGU>

All of the following are reasons for frictional unemployment except:

A. workers have different preferences and abilities.

B. unemployed workers accept the first job offer that they receive.

C. the flow of information is imperfect.

D. geographic mobility takes time.

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:

► $1000+1500+2500 = \text{Rs. } 5000$

► $1000+500+2500 = \text{Rs. } 4000$

► $1000+500+1000 = \text{Rs. } 2500$

► $1000+1500+1000 = \text{Rs. } 3500$

A = 1000

B = $1500 - 1000 = 500$ add

C = $2500 - 1500 = 1000$ add

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.**

Government spending (G) will shift the AD curve. The fiscal multiplier measures how sensitive the aggregate demand equation is to a change in G

Wage Change AS

Raw Material Change AS

Government Regulation Change AS

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.**

The **unemployment level** is defined as the labour force minus the number of people currently employed

Question No: 28 (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.

If the money supply grows at a faster rate than growth in YP, there will be inflation. It can be associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output (YP) in the long run.

Inflation rise do not denotes that prices of all things have been increased rather it denotes that average price level in the economy has been increased.

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.

1-Net Exports of any country are the value of its exports minus the value of its imports. If net exports are positive , exports are greater than imports indicating that the country sells more

good and services than it buys from other countries in this case country is said to run a trade surplus.

2-If **net exports are negative** , exports are less than imports indicating that the country sells fewer good and services and in this case country run a trade deficit.

3-If **next exports are zero** , it exports are exactly equal to imports and the country is said to have balanced trade.

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:

- ▶ Sales tax.
- ▶ Excise tax.
- ▶ **Corporate income tax.**
- ▶ Personal income tax.

Corporate income tax: A tax on the accounting profits of corporations. This tax is only levied on corporations, and excludes businesses that are proprietorships or partnerships. This tax is often criticized (usually by members of the second estate because corporate dividends are taxed twice -- once as corporate profits, then a second time as income with the personal income tax.

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

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.**

Money is a store of value. If I work today and earn 25 dollars, I can hold on to the money before I spend it because it will hold its value until tomorrow, next week, or even next year. In fact, holding money is a more effective way of storing value than holding other items of value such as corn, which might rot. Although it is an efficient store of value, money is not a perfect store of value. Inflation slowly erodes the purchasing power of money over time.

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.
- ▶ **It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.**

The IS–LM model also allows for the role of monetary policy. If the money supply is increased, that shifts the LM curve downward and to the right, lowering interest rates and raising equilibrium national income.

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

IS curve shows the equilibrium in:

- ▶ Money Market.
- ▶ **Goods Market.**
- ▶ Labor Market.
- ▶ Financial Market.

IS actually refers to a curve drawn in i - Y space capturing all the points at which the goods market is in equilibrium.

LM is similarly, a curve also drawn in i - Y space, but capturing all the points at which the money market is in equilibrium.

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

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.

International finance studies the flow of capital across international financial markets, and the effects of these movements on exchange rates.

International finance encompasses the study of international monetary economics, which involve the interaction of international transactions.

- Current Account - A record of transactions in goods, services, investments income, and unilateral transfers between residents of a country and the rest of the world. It tracks the flow of goods and services into and out of the country.
- Capital Account - A record of transactions in highly specialized financial assets and liabilities between the residents of a nation and the rest of the world. The capital account records the flow of financial capital and other assets.
- Financial Account - Part of the balance of payments that tracks capital flows between a national economy and the rest of the world.

INTERNATIONAL FINANCE

International finance is concerned with, among other thing, the mobility of financial capital across countries, and the problems and opportunities this mobility presents individual countries with. It would not be too inaccurate (in present day context) to say that while international trade deals with the current account, international finance deals with the capital account of the BOPs. That said, issues like the choice of exchange rate regime and of modern-day balance of payments crises also fall firmly within the purview of international finance.

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.

Three components that make up a country's Balance of Payments (Financial Account, Capital Account and Current Account)

The Current Account of the balance of payments measures:

1. Trade in Goods
2. Trade in Services (insurance, services, banking e.t.c
3. Investment incomes

4. Foreign aid

The trade deficit is pretty much the same as the current account. It measures the trade in goods and services parts 1 and 2

Balance of Trade is a difference between value of import and export.

When imports are greater than exports it means that country is facing trade deficit for example, exports of a Pakistan are of worth \$200 and imports of \$300 it means Pakistan's is facing trade deficit of \$100.

Current account:

Current account is one of the two components of balance of payments. Current account shows the difference between a nation's total exports of goods, services and transfers, and its total imports.

Current account deficit is a deficit in the current account. Current account is a wider measure than the trade deficit. Current account is one of the components of balance of payment and it shows the financial transactions between one country and the rest of the world. Current account deficit occurs when a country's total imports of goods, services and transfers are greater than the country's total export of goods, services and transfers

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

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.**

Economic growth is often and generally indicated by increasing real gross domestic product (GDP) or real GNP.

Economic growth is an increase in the production and consumption of good and services

Economic growth refers to increase in national and per capita income. If there is an increase in the production for goods and services in a country along with per capita income, it shows that country has achieved economic growth.

In other words economic growth is defined as the increase in the value of goods and services produced in an economy by every sector of the economy. For example if there is an increase in the GDP of Pakistan it shows that Pakistan is moving towards 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.**

Role of agriculture sector is very important for the development of a country. If this sector is neglected in the development process it can lead to insufficient savings, shortage of foreign exchange, lower levels of output.

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.

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.
- ▶ 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.

Production function shows the relationship between inputs and output.

There are two properties of production function

- 1- it slopes upward it means that as input increases output also increases.
- 2- It shows diminishing marginal product of an input, since it gets flatter as output rises. It means that as factors of production increases output will decrease after a certain point.

As, land and labor are the factors of production used to produce goods. Law of diminishing marginal returns states that if you increase the quantity of variable factor (labor) with fixed factor (land), marginal product of an additional employee will at some point be less than the marginal product of the previous employee.

Question No: 41 (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.**

A production function is simply the relationship between inputs & outputs.

The shape of the production function

Two main properties of production functions

- Slopes upward: more of any input produces more output
- Slope becomes flatter as input rises: diminishing marginal product as input increases

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

14. As long as all prices remain constant, an increase in money income results in

- a. an increase in the slope of the budget line.
- b. a decrease in the slope of the budget line.
- c. an increase in the intercept of the budget line.**
- d. a decrease in the intercept of the budget line.
- e. both (a) and (c).

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.

Isocost curve shows the various combinations of L and K, each of which costs the producer the same amount of money.

If the price of both goods decreases proportionality Isocost curve shifts inward and in case of increase in price of both goods isocost curve shifts outward.

Shifts in the isocost line:

- If the firm decides to spend more, the new isocost will shift outward parallel to the old isocost.
- If the price of factor x rises, the curve will rotate inward and become steeper.
- If the price of factor y rises, the curve will rotate inward and become steeper.

http://books.google.com.pk/books?id=6M7r-gGAV24C&pg=PA269&lpg=PA269&dq=isocost+line+if+the+price+of+both+factor+decreases&source=bl&ots=Pmi4F_MGjI&sig=EkcnkOtBBJYYkBR65ModecqyKr8&hl=en&sa=X&ei=dsDhUf3XOJOEhQfQzYGwDg&ved=0CGMQ6AEwCQ#v=onepage&q=isocost%20line%20if%20the%20price%20of%20both%20factor%20decreases&f=false

Higher levels of total cost shift the isocost line outward and lower levels of total cost shift the isocost line inward

Comparative advantage is the basis for

Efficient production.

Economics of scale

The capital labor trade off

International Trade

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.

Monopolies make supernormal profit which can be invested in Research & Development

<http://www.economicshelp.org/microessays/markets/monopoly.html>

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.

Thus the characteristics of a monopolistically competitive market are almost the same as in perfect competition, with the exception of heterogeneous products

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

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

- ▶ Saving.
- ▶ **Investment.**
- ▶ Taxes.
- ▶ Inflation.

Multiplier is a concept which shows the effect on income with respect to change in investment. It is given by ratio of change in income to change in investment.

Multiplier = $(\Delta Y) / (\Delta I)$

ΔY shows the change in income while ΔI shows the change in investment.

For example, if a university decides to build a new residential hall worth Rs.100 million, it will employ construction workers and their suppliers as well as those who work in the university. Indirectly, the new residence hall will generate more employment in laundries, restaurants, and service industries as these employed workers will spend their income for different purposes in the university's surrounding area. This is an example of multiplier effect as initial increase in the

demand of workers in university results in more aggregate demand worth Rs.200 million due to increase in worker's spending in different areas.

The **accelerator** is a reverse concept of multiplier which formalizes the investment response to output or income changes in an economy. When an economy begins to recover from a slump, investment can rise very rapidly and, in percentage terms, the rise in investment may be several times the rise in income. Since investment is an injection into the circular flow of income, these changes in investment will cause multiplied changes in income and thus heighten a boom or deepen a recession.

The formula for the accelerator is $\alpha = I/(\Delta Y)$, or $(\Delta K)/(\Delta Y)$.

The accelerator

The accelerator is a related concept which formalizes the investment response to output or income changes in an economy. The key observation here is that when an economy begins to recover from a slump, investment can rise very rapidly and, in percentage terms, the rise in investment may be several times the rise in income

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.**

► Capital account balance.

► Trade balance.

► Unemployment.

External transactions which have no long-term (or future) flow implications for the current account are recorded on the current account. Thus exports, imports, and factor payments (foreign workers' outward remittances, interest on foreign debt, and dividends on profits of foreign firms) and factor receipts (overseas Pakistanis' inwards worker remittances, interest earned on foreign assets held, dividends earned by Pakistani firms abroad) are all recorded on the current account

Current account: payments related to *current* economic activities such as output, consumption, investment, employment, use of capital, etc. It is the sum of trade in goods and services, factor payments across countries (wage, interest, rent, dividend), and unilateral transfers (ODA grants, workers remittances, gifts, etc).

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.

According to the Solow growth model, high population growth rates:

- A) force the capital stock to be spread thinly, thereby reducing living standards.**
- B) place great strains on an economy's productive resources, resulting in perpetual poverty.
- C) are a prerequisite for technological advances and higher living standards.
- D) are not a factor in determining living standards.

An increase in the rate of population growth with no change in the saving rate:

- A) increases the steady-state level of capital per worker.
- B) decreases the steady-state level of capital per worker.**
- C) does not affect the steady-state level of capital per worker.
- D) decreases the rate of output growth in the short run.

According to Kremer, large populations:

- A) require the capital stock to be spread thinly, thereby reducing living standards.
- B) place great strains on an economy's productive resources, resulting in perpetual poverty.

C) are a prerequisite for technological advances and higher living standards.

D) are not a factor in determining living standards.

In the Solow growth model, the assumption of constant returns to scale means that:

A) all economies have the same amount of capital per worker.

B) the steady-state level of output is constant regardless of the number of workers.

C) the saving rate equals the constant rate of depreciation.

D) the number of workers in an economy does not affect the relationship between output per worker and capital per worker.

The steady-state level of capital occurs when the change in the capital stock (Δk) equals:

A) 0.

B) the saving rate.

C) the depreciation rate.

D) the population growth rate.

In the Solow growth model with population growth, but no technological change, a higher level of steady-state output per worker can be obtained by *all* of the following except:

A) increasing the saving rate.

B) decreasing the depreciation rate.

C) increasing the population growth rate.

D) increasing the capital per worker ratio

In the Solow growth model, with a given production function, depreciation rate, saving rate, and no technological change, higher rates of population growth produce:

- A) higher steady-state ratios of capital per worker.
- B) higher steady-state growth rates of output per worker.
- C) higher steady-state growth rates of total output.**
- D) higher steady-state levels of output per worker.

In the Solow growth model, if investment exceeds depreciation, the capital stock will _____ and output will _____ until the steady state is attained.

- A) increase; increase**
- B) increase; decrease
- C) decrease; decrease
- D) decrease; increase

PAPER # 11

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

The budget line is the boundary between:

- ▶ Preferred and non preferred consumption combinations.
- ▶ **Affordable and unaffordable consumption combinations.**
- ▶ Income and expenditure.
- ▶ One point on a budget line.

Question No: 2 (Marks: 1) - Please choose one

The supply curve for a competitive firm is:

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.
- ▶ **Its marginal cost curve above the minimum point of the average variable cost curve.**
- ▶ Its marginal cost curve above the minimum point of the average total cost curve.

Question No: 3 (Marks: 1) - Please choose one

A price taker is:

- ▶ A firm that accepts different prices from different customers.
- ▶ A monopolistically competitive firm.
- ▶ **A firm that cannot influence the market price.**
- ▶ An oligopolistic firm.

Question No: 4 (Marks: 1) - Please choose one

The good produced by a monopoly:

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.
- ▶ **Has no close substitutes.**
- ▶ Can be easily duplicated.

Question No: 5 (Marks: 1) - Please choose one

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:

- ▶ Supply schedule.
- ▶ **Demand schedule.**
- ▶ Quantity supplied schedule.
- ▶ Quantity demanded schedule.

Question No: 6 (Marks: 1) - Please choose one

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

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

Question No: 7 (Marks: 1) - Please choose one

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

▶ **Has self-correcting mechanisms.**

▶ Can only be graphed with a horizontal curve.

▶ Never needs correction.

▶ None of the given options.

Question No: 8 (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.

Classical economists view

- He argued that in AD/AS the economy could get stuck in the short run because wages and prices are unlikely to fall (even in a recession) wages do not fall easily even during a recession, without wages falling firms will be unlikely to lower their prices, if wages do not fall the economy may get stuck in the short run and will not be able to move into the long run

Keynesians

Do not argue that the price level and wages will never fall, but it takes a lot of time and a severe recession/depression for that to happen, Keynes said once there is an excess supply of labor in the labor market and there is the pressure of wage rate to fall then firms look at the pressure of wage rate falling in a negative way. They think people are becoming poorer due to lower wages and they will not buy our products. So firms have no incentives to invest in the production of new goods. because the demand will further reduce.

They argue for government intervention to help the economy.

Keynes thought that the economy could get stuck in a rut as wages and price level adjusted to sudden changes in expenditures. Economy could stuck at a level of output that was well below its potential well below the full employment level. He argued that increasing government spending or cutting taxes could have multiplier effect on aggregate demand. According to Keynes fiscal policy should be used in times of high unemployment to increase aggregate demand enough to boost output and employment.

Which of the following is *not* one of the ideas of Keynesian economics?

- a. An economy can experience insufficient demand
- b. Governments can step in to help boost aggregate demand
- c. Active use of fiscal policy can help keep aggregate demand high and employment rates up.**
- d. Governments should focus on keeping the money supply steady
- e. Lowering interest rates alone may be insufficient if investors lack the confidence to engage in spending.

Question No: 9 (Marks: 1) - Please choose one

Keynesian economics rejected the classical assumption that:

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

According to Say's Law 'Supply creates its own demand', is central to the classic vision of the economy. According to French classical economist, J. B. Say, the production of goods and services generates expenditure sufficient to ensure that they are sold in the market. There is no deficiency of demand for goods and hence no need to unemployed workers. According to him, full employment is a normal condition of market economy.

J. M. Keynes has strongly refuted Say's Law of Market with the help of effective demand. Effective demand is the level of aggregate demand which is equal to aggregate supply. Whenever there is deficiency in aggregate demand ($C + I$), a part of the goods produced remain unsold in the market which lead to general over production of goods and services in the market. When all the goods produced in the market are not sold, the firms lay off workers. The deficiency in demand for goods create unemployment in the economy.

Question No: 10 (Marks: 1) - Please choose one

The Phillips curve will shift to the right:

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

An increase in the natural rate of unemployment by keeping inflation rate constant will shift the Phillips curve to the rightward.

An increase in inflation rate by keeping natural rate of unemployment constant will shift the Philips curve to the right ward.

Increase in the expected inflation rate shifts the Phillips curve up and to the right

A decrease in the natural rate of unemployment by keeping inflation rate constant will shift the Phillips curve to the left.

A decrease in inflation rate by keeping natural rate of unemployment constant will shift the Philips curve to the left.

A higher natural rate of unemployment shifts the Phillips curve to the right

When actual unemployment rate equal natural rate , the actual inflation rate equals the expected inflation.

Phillips curve.

Philips curve shows the tradeoff between inflation and rate of unemployment. If there is an increase in unemployment then there will be decrease in inflation and vice versa.

There are three factors which cause the Philips curve to shift right or left.

- Change in natural rate of unemployment
- Change in expected rate of inflation.
- Supply shocks.

In case of natural rate of unemployment Philips curve has been drawn when the rate of inflation is 3% and rate of unemployment rate is also 3%. If there is an increase in rate of unemployment and it reaches to 6% while rate of inflation remains constant then the Phillips curve will shift towards right. If the rate of unemployment decreases from 3% to 2 % then Philips curve will shift towards left.

In case of change in expected rate of inflation, if expected rate of inflation increases from 3 % to 6 % while rate of unemployment remains fixed at 3 % then Philips curve will shift towards right. If expected rate of inflation decreases from 3 % to 2% then Philips curve will shift towards left.

Adverse (unfavorable) supply shocks results in inflation and tends to increase rate of unemployment. In case of adverse supply shocks Philips curve shifts rightward Otherwise left ward.

Question No: 11 (Marks: 1) - Please choose one

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

- ▶ **200 yen per dollar.**
- ▶ 20 yen per dollar.
- ▶ 20 dollars per yen.
- ▶ None of the given options.

$2000 / 10 = 200$

Check

$200 * 10 = 2000$

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

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

- ▶ Real GDP may fall.
- ▶ Nominal GDP must fall.
- ▶ **Nominal GDP may increase.**
- ▶ Real GDP must rise.

The aggregate demand curve shows the quantity of domestic product

- a. produced at each possible price level.
- b. demanded and produced at each possible price level.
- c. that is exported at each possible price level.

d. demanded at each possible price level.

Real GDP

a. is nominal GDP adjusted for changes in the price level.

b. is also called nominal GDP.

c. measures GDP minus depreciation of capital.

d. will always change when prices change.

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

a. real GDP may fall.

b. nominal GDP must rise.

c. nominal GDP may increase.

d. real GDP must rise.

Potential GDP is an estimate of the economy's ability to produce goods and services if the

a. labor force is fully employed.

b. price level is stable.

c. trade balance is zero.

d. federal budget is balanced.

The growth rate of potential GDP depends, among other factors, on the

a. rate of technological progress.

b. unemployment rate.

c. size of the labor force.

d. rate of capital stock depreciation.

The use of automated teller machines (ATMs) has caused some bank tellers to lose their jobs. This is an example of

- a. cyclical unemployment.
- b. seasonal unemployment.
- c. frictional unemployment.

d. structural unemployment.

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

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

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

The total market value of all final goods and services produced within the political boundaries of an economy during a given period of time, usually one year.

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

Which of the following does NOT refer to macroeconomics?

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

- ▶ The study of the cause of unemployment.
- ▶ The study of the cause of inflation.

Question No: 15 (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.

Question No: 16 (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.

Question No: 17 (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.**

Those holding the classical view of the labor market are likely to believe that

- (a) monetary and fiscal policy have a substantial effect on output and employment in both the short run and the long run
- (b) monetary and fiscal policy have some effect on output and employment in both the short run and the long run
- (c) Monetary and fiscal policy have little or no effect on output and employment in both the short run and the long run**
- (d) Monetary and fiscal policy have some effect on output and employment in the short run, but not in the long run

In response to an increase in the wage rate, the substitution effect _____ hours worked and the income effect _____ hours, if leisure is a normal good.

- (a) Increases, increases
- (b) Increases, decreases**
- (c) Decreases, increases
- (d) Decreases, decreases

Question No: 18 (Marks: 1) - Please choose one

Suppose the balance of payment is in deficit in an economy. The government of that economy will take all of the following actions EXCEPT:

- ▶ Devalue the currency.**
- ▶ Reduce the interest rates.
- ▶ Restrict the consumer spending.
- ▶ Restrict the imports.

The solution to a balance of payments crisis is usually to devalue the currency and slow down consumer spending on imports, usually by causing a recession

When people refer to a balance of payments deficit they always mean a current account deficit.

The current account is a measure of a country's net exports and imports. The current account measures trade in goods, services and net incomes.

A deficit on the current account means that the value of imports is greater than the value of exports.

A surplus on the current account means that the value of imports is less than the value of exports

Question No: 19 (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.

ABSOLUTE ADVANTAGE

Absolute advantage occurs when a producer can use the smallest amount of inputs to produce a given amount of output compared to other producers. Absolute advantage may apply to many countries.

Specialization is often referred to absolute advantage. In specialization, the use of resources of an individual, a firm, a region, or a nation is concentrated on one or small number of goods and services.

Say Farm A is able to produce one pound of tomatoes in five hours, Farm B is able to produce one pound in two hours, and Farm C can produce one pound of tomatoes in one hour. In this case, Farm C has the absolute advantage in tomato production because it is able to produce the largest amount of output in the smallest amount of time. In addition, Farm C has a lower cost production than Farm A and B

When a country can produce more of a good with the same resources that another country can, it is said to have an absolute advantage in the production of that good

COMPARATIVE ADVANTAGE

Opportunity cost

Comparative advantage happens when a producer has a lower opportunity cost of production than another producer. Comparative advantage may also apply to many countries. Often times, if a producer chooses to produce one good, he or she must give up the opportunity to produce another good. This is called the opportunity cost of producing a good.

Comparative advantage is a condition of a producer where it is better suited for production of one good than another good. Good A can be produced more efficiently than good B, for example. This comparison is done in terms of opportunity costs of each good, not in terms of pure production costs. Opportunity cost is how much you can produce of the good B with the same amount of labor, capital, and other resources that it takes to produce one of good A. This is the tradeoff- how much of good B must be sacrificed in order to get one more of good A.

When a producer has an **absolute advantage**, he or she can produce a given output by using fewer inputs than any competing producer. When a producer has a **comparative advantage**, he or she can produce one product with a smaller amount of inputs than the competition. He or she therefore must produce another product with a greater amount of inputs than the competitor.

Given any two products, a nation has a comparative advantage in the product with the lower opportunity cost

Comparative advantage is the key to trade, not absolute advantage

Question No: 20 (Marks: 1) - Please choose one

Trade can be beneficial in which of the following situations?

- ▶ Two countries produce the same goods at the same costs.

▶ **Two countries produce different goods at different costs.**

- ▶ Two countries are isolated.
- ▶ Two countries have the same markets.

The gains from international trade depends upon the cost ratios of differences in comparative cost ratios in the two trading countries. If the difference between exchange rate and cost of production is lesser then lesser will be the gains from trade and vice-versa.

Trade is usually beneficial to both countries even if one has an absolute advantage in the production of both goods that are to be traded.

Question No: 21 (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.

Question No: 22 (Marks: 1) - Please choose one

For a study of the long term growth of the economy, we use:

▶ **Real GNP.**

- ▶ Nominal GNP.
- ▶ Personal income.
- ▶ Disposable personal income.

Economic growth means an increase in Real GDP. Economic growth means there is an increase in national output and national income.

Economic growth is caused by two main factors:

An increase in aggregate demand

Question No: 23 (Marks: 1) - Please choose one

Total national consumption consists of:

- ▶ Private consumption.
- ▶ Public consumption.
- ▶ Exports.
- ▶ **Private and public consumption.**

Economists (since Keynes) have preferred to split the general consumption term into two parts; private consumption, and public sector (or government) spending. Two advantages of dividing total consumption this way in theoretical macroeconomics are: **Private consumption & government /Public consumption**

Question No: 24 (Marks: 1) - Please choose one

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

- ▶ Consumption function will shift downward.
- ▶ **Consumption function will shift upward.**
- ▶ Saving function will shift upward.
- ▶ Consumption function will remain the same.

<http://books.google.com.pk/books?id=LBXvADIMxJUC&pg=PA106&lpg=PA106&dq=increase+in+consumer+confidence,+ceteris+paribus&source=bl&ots=LKB5fCdCnV&sig=BDJnZctnSwdnY7APS70Wgg6R8PM&hl=en&sa=X&ei=KKbVUYLmJ5SWWhQekpoDQBA&ved=0CEIQ6AEwBA#v=onepage&q=increase%20in%20consumer%20confidence%2C%20ceteris%20paribus&f=false>

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

Information products are also known as:

- ▶ Inferior products.
- ▶ Superior products.
- ▶ **Internet products.**
- ▶ Expensive products.

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

Public education creates:

- ▶ Asymmetric information.
- ▶ External costs.
- ▶ Internal costs.
- ▶ **External benefits.**

Which of the following will most likely generate positive externalities of consumption?

- a. a hot dog vendor
- b. public education**
- c. an automobile
- d. a city bus
- e. a polluting factory

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

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

- ▶ Aggregate demand.
- ▶ Aggregate supply.

► The government.

► **Money supply.**

In **the long run** the price level is determined by the amount of money available in the economy.

The relationship between the supply of money, the price level, and inflation is captured in the quantity theory of money:

$$M \cdot V = P \cdot Y$$

Where (M) is the supply of money, (V) is the velocity of money, (P) is the price level, and (Y) is output.

If the money supply increases 10 percent, prices will increase 10 percent. There is too much money chasing too few goods (remember we assumed the amount produced (Y) stayed the same).

Question No: 28 (Marks: 1) - Please choose one

In the definition of labor force, economists include:

► Only people who are working full-time.

► **People who are not working but are actively looking for a job and people who are working.**

► People who are working.

► None of the given options.

Question No: 29 (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.

If the money supply grows at a faster rate than growth in YP, there will be inflation. It can be associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output (YP) in the long run.

Inflation rise do not denotes that prices of all things have been increased rather it denotes that average price level in the economy has been increased.

Question No: 30 (Marks: 1) - Please choose one

In the long run, sustained inflation is due to:

- ▶ A one-time increase in money growth.
- ▶ **A continuous increase in the money growth rate.**
- ▶ A continuous increase in aggregate demand.
- ▶ The rising price of oil.

Sustained inflation is an inflation which shows continuous rise in prices. There are certain reasons for price rise one of them is continuous money supply in the market.

As money supply increases inflation rises.

Question No: 31 (Marks: 1) - Please choose one

The decrease in the price of one country's currency in terms of other currencies due to the market forces of demand and supply is known as:

- ▶ Revaluation.
- ▶ Devaluation.
- ▶ Appreciation.
- ▶ **Depreciation.**

Depreciation: When there is a fall in the value of a currency in a floating exchange rate. This is not due to a government's decision, but due to supply and demand side factors. When a currency depreciates, this means that the currency has decreased in value when compared to another nation's currency

Floating exchange rate system means that the exchange rate is allowed to fluctuate according to the market forces without the intervention of the Central bank or the government.

The exchange rate for any currency usually fluctuates. When the value of the currency goes up as compared to other currency it is known as **appreciation**. When the value of currency falls as compared to other currency it is known as **depreciation**.

Usually the exchange rates are determined by the demand and supply of that currency in the international market.

Devaluation

Devaluation of currency is an **active economic strategy**. It is sometimes used when countries are badly in debt. This occurs when a country lowers the official value of its currency in relation to foreign currencies. This is intended to raise the price of imported goods and increase the value of the country's exported goods

A fixed exchange rate system refers to the case where the exchange rate is set and maintained at same level by the government irrespective of the market forces.

Devaluation is when the price of the currency is officially decreased in a fixed exchange rate system.

Revaluation is the official increase in the price of the currency within a fixed exchange rate system.

The exchange rate is the:

- A) Opportunity cost at which goods are produced domestically.
- B) Balance-of-trade ratio of one country to another.
- C) Price of one country's currency expressed in terms of another country's currency.**
- D) Amount of currency that can be purchased with 1 ounce of gold.

An exchange rate is:

- A) Always fixed.
- B) The price of one currency in terms of another.**
- C) Tied to the price of gold.
- D) All of the above.

Question No: 32 (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.

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

Endogenous growth model is also known as:

- ▶ AK Model.**
- ▶ Exogenous growth model.
- ▶ Best growth model.
- ▶ All of the given options.

Endogenous growth theory or new growth theory or AK Model

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

Contractionary fiscal policy includes:

- ▶ Increasing taxes and increasing government purchases.
- ▶ Raising interest rates, increasing taxes, and decreasing transfer payments.
- ▶ **Increasing taxes and decreasing government expenditures.**
- ▶ Raising interest rates, decreasing taxes, and decreasing government spending.

FISCAL POLICY

The Govt's income and expenditures policy is known as fiscal policy

In a recession increase spending or reduce taxes--termed expansionary policy.

During periods of high inflation , **decrease spending or increase taxes** – contractionary policy

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

Which of the following shows the inverted-U shape when plotted on a graph?

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve.**
- ▶ Investment curve.

The graphical inverted-U relation between tax rates and total tax collections by government is known as Laffer curve.

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

A tax on individual's income is known as:

- ▶ Sales tax.
- ▶ Excise tax.

► Corporate income tax.

► **Personal income tax.**

A tax on income, including wages, rent, interest, profit, and (usually) transfer payments is known as direct tax or income tax. **Personal income tax:** A tax on individual income.

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

The price of Nokia 3110 cell phone is Rs. 8000. What is the function of money in this context?

► A medium of exchange.

► A means of payment.

► **A unit of account.**

► A measure of quality.

A \$25,000 price tag on a new car is an example of money as

A) Medium of exchange.

B) A unit of account.

C) A store of value.

D) A time deposit

The unit of account function occurs when money serves as a

A) Means of payment.

B) Medium of exchange.

C) Pricing mechanism.

D) Double coincidence of wants.

Which of the following is an example of using money as a store of value?

- A) Paying for a new dress with a credit card
- B) Paying cash for a new automobile
- C) Paying rent with a check on a demand deposit
- D) Keeping \$200 on hand for an emergency**

The functions of money are

- A) Medium of exchange and the ability to buy goods and services.
- B) Medium of exchange, unit of account, and means of payment.
- C) Pricing, contracts, and means of payment.
- D) Medium of exchange, unit of account, and store of value**

Which of the following is a primary function of money?

- A) To serve as a unit of account**
- B) To serve as an encouragement to work
- C) To reduce the burden of excessive imports
- D) To raise funds for the government

The most direct way in which money eliminates the need for a double coincidence of wants is through its use as a

- A) Medium of exchange.**
- B) Standard of deferred payment.
- C) Store of value.
- D) Unit of account

When you buy a hamburger for lunch, you are using money as a

- A) Store of value.
- B) Standard of deferred payment.
- C) Medium of exchange.**
- D) Unit of accounting.

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

What will be the impact of an increase in taxes?

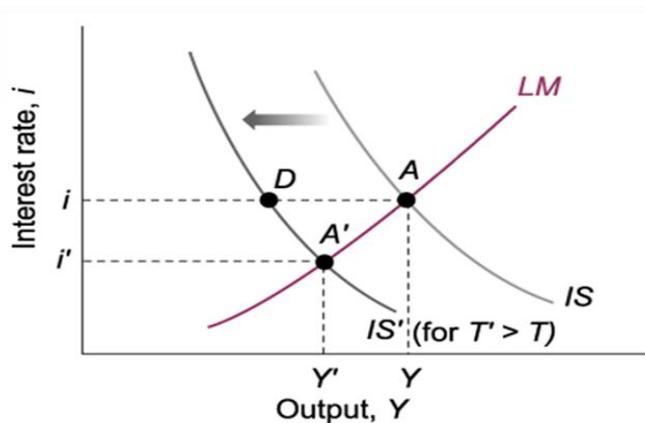
► It will shift the IS curve to the left and decrease both the interest rate and the level of income.

► It will shift the IS curve to the right and increase both the interest rate and the level of income.

► It will shift the IS curve to the right and increase the level of income but decrease the interest rate.

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

The Effects of an Increase in Taxes



The Effects of Fiscal and Monetary Policy.

	Shift of IS	Shift of LM	Movement of Output	Movement in Interest Rate
Increase in taxes	left	none	down	down
Decrease in taxes	right	none	up	up
Increase in spending	right	none	up	up
Decrease in spending	left	none	down	down
Increase in money	none	down	up	down
Decrease in money	none	up	down	up

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

If money supply is fixed by the central bank then in interest rate-money supply space, money supply curve will be:

- ▶ Horizontal.
- ▶ **Vertical.**
- ▶ Negatively sloped.
- ▶ Positively sloped.

Money is supplied by central bank which we usually consider fixed supply of money and its curve is vertical. When money is supplied without considering price level that supply of money is called nominal supply of money which denoted by MS. When money is supplied by considering average price level then it is called real money supply and it is denoted by MS/P.

Suppose supply of money is 5000 and average price level is 20 then real supply money will be $250 = (5000/20)$. As supply of money is fixed and its curve is vertical when there is increase in supply of money then curve will shift to right and when supply of money decreases then money supply curve will shift to left.

Question No: 40 (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.

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

Which of the following will happen if the current market price is set below the market clearing level?

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

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

What is TRUE about the relationship between average product (AP) and marginal product (MP)?

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

If the marginal physical product is below the average physical product, the average physical product will fall

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

Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:

▶ **Decreasing returns to scale.**

- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ None of the given options.

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

If firms are not of equal size in oligopoly, then quotas can be allocated according to the of each firm.

- ▶ Marginal revenue
- ▶ **Marginal cost**
- ▶ Average variable cost
- ▶ Average cost

If firms are not of equal size, then quotas can be allocated according to the MC of each firm. Cost of the cartel firm is minimized if the MC of each of the firm is equal. But the problem with this quota system is that firms which have higher MC will get lower quotas and the firms which have lower MC will get higher quotas

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

Optimal mix of resources is decided by

▶ **The price mechanism.**

- ▶ Producers.
- ▶ Consumers.
- ▶ Government.

Optimal mix of resources is decided by the price mechanism i-e by the market forces of demand and supply

Optimal mix of resources is decided by the price mechanism i-e by the market forces of demand and supply. Pakistan economy is also a mixed economy.

Question No: 46 (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 (perfectly inelastic demand); and when the slope of a demand curve is zero, elasticity is infinite (perfectly elastic demand).

Question No: 47 (Marks: 1) - Please choose one

Assume that there is no government or foreign sector, if the marginal propensity to save (MPS) is 0.2, then the value of saving multiplier will be equal to:

- ▶ **0.80**
- ▶ 1.20
- ▶ 0.50
- ▶ 1.25

MPC = 1 – MPS PAGE #126

k = 1/1 – MPC PAGE # 176

$$K=1/1-MPC$$

$$K=1/1-1-MPS$$

$$K=1/-0.2$$

$$K=0.8$$

Question No: 48 (Marks: 1) - Please choose one

If prices are held constant, an increase in money supply will cause MS/P to:

- ▶ **Shift to the right.**
- ▶ Shift to the left.
- ▶ Stay as it is.
- ▶ None of the given options.

The nominal money supply (MS) divided by the average price level (P) defines the real money supply (Ms/P). If prices are held constant, an increase in money supply then real money supply Ms/P will increase.

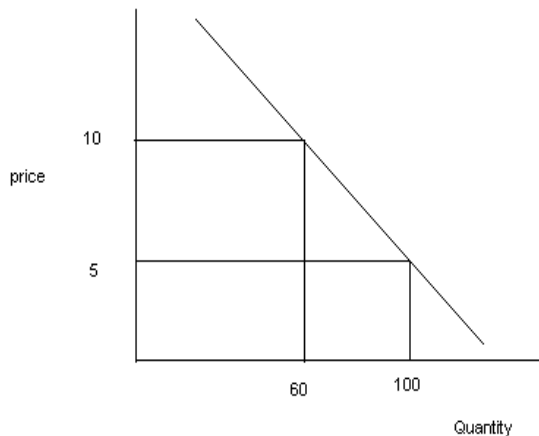
PAPER# 12

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

To calculate the price elasticity of demand, you need to know _____ point(s) on the _____ demand curve.

- ▶ One, same.
- ▶ **Two, same.**
- ▶ One, opposite.
- ▶ Two, opposite.

When elasticity is calculated between two points on the same demand curve, it is termed as Arc elasticity, Arc elasticity is a measure of the average responsiveness to price change exhibited by a demand curve over some finite stretch of the curve." Any two points in the demand curve is an arc which measures elasticity over a definite array of the price and quantity demanded.



Consider a particular demand curve. Suppose we want to calculate the price elasticity of demand for a price change from \$5 per unit to \$10 per unit. The percentage change in price is 100%, because the change in price is \$5, and the original price is also \$5. As P rises, quantity demanded

falls from 100 units to 60 units, a decline of 40 percent (40 divided by 100). Thus, the price elasticity of demand is 40% divided by 100%, which equals - 0.4. (We will typically ignore the minus sign and just say that the price elasticity of demand is 0.4.)

Suppose we had begun at $P = \$10$ and reduced the price by \$5. What would the estimated elasticity be? A \$5 price reduction, starting from $P = \$10$ amounts to a 50% change in the price. Quantity demanded increases from 60 to 100; but 40 divided by 60 is $2/3$. Our elasticity measure thus is $2/3$ divided by $1/2$, which equals $4/3$, or 1.33. Whoa! If we start from the lower point, our elasticity measure is 0.4. If we start from the upper point, our elasticity is 1.33. Something seems amiss.

Question No: 2 (Marks: 1) - Please choose one

Governments protect domestic industries from foreign competition by _____.

- ▶ Encouraging agreements like NAFTA.
- ▶ **Using tariff and non tariff barriers.**
- ▶ Discouraging union membership.
- ▶ Keeping the minimum wage low.

Government can protect domestic industries by tariff and non-tariff barriers.

A tariff is type a tax or duty imposed by one country on the imported goods or services of another nation. In order to protect domestic industries government impose high tariffs it reduces the importation of a given product because the high tariff leads to a high price for the customers of that product.

Non-tariff barriers "laws or regulations are also used to protect domestic industries.

The Small Business Administration defines non-tariff barriers as "laws or regulations that a country enacts to protect domestic industries against foreign competition. Such non-tariff barriers may include subsidies for domestic goods, import quotas or regulations on import quality."

Question No: 3 (Marks: 1) - Please choose one

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.

Monetarists located the causes of inflation in the Quantity Theory of Money (QTM), which provided an explanation for inflation totally independent from that for unemployment. QTM states: $MV = PQ$, where M is the real money supply, V is the velocity of money (the no. of times money is circulated in the economy in a year), P is the price level and Q is the real output. 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. Thus the Monetarist key to solving the inflation problem was a stable money supply set to grow at the rate of growth of natural rate output (Q^*).

Thus in $MV=PQ$, V and Q are constant.

Question No: 4 (Marks: 1) - Please choose one

In the equation $MV = PQ$, according to the crude quantity theory of money:

► M has no effect on the price level.

► **V is the number of times each dollar is spent per year.**

► Q is the real price level.

► P rises as V falls, other things constant.

Monetarists located the causes of inflation in the Quantity Theory of Money (QTM), which provided an explanation for inflation totally independent from that for unemployment. QTM states: $MV = PQ$, where M is the real money supply, **V is the velocity of money (the no. of times money is circulated in the economy in a year)**, P is the price level and Q is the real output. 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 . Thus the Monetarist key to solving the inflation problem was a stable money supply set to grow at the rate of growth of natural rate output (Q^*).

Thus in $MV=PQ$, V and Q are constant.

Question No: 5 (Marks: 1) - Please choose one

What would result from a depreciation of the pound on the foreign exchange market?

- ▶ **An increase in the price of imported computers.**
- ▶ A fall in the purchasing power of US tourists in London.
- ▶ A fall in the price of imported computers.
- ▶ An increase in the purchasing power of UK tourists overseas.

Depreciation means a decrease in the value of a currency with respect to other currencies. For example if pound has depreciated as compare to dollar means more pounds are required to get 1dollar thus British's imports will be expensive and its exports will be cheaper and volume of exports will increase.

If prices in both countries remain the same; depreciation will make foreign goods relatively more expensive to you, leading to a fall in imports

Question No: 6 (Marks: 1) - Please choose one

Disposable income is:

- ▶ Total income plus transfer payments.
- ▶ Total income minus saving.
- ▶ Total income plus net taxes.
- ▶ **Total income minus net taxes.**

$$\text{Disposable income} = \text{Income} - \text{Taxes}$$

Question No: 7 (Marks: 1) - Please choose one

How should monetary policy be used during recessions?

- ▶ Decrease money supply to increase interest rate and increase aggregate demand.
- ▶ Increase money supply to increase interest rate and increase aggregate demand.
- ▶ Decrease money supply to decrease interest rate and increase aggregate demand.
- ▶ **Increase money supply to decrease interest rate and increase aggregate demand.**

MONETARY POLICY

Monetary policy is the process by which the government, central bank, or monetary authority manages the supply of money, or trading in foreign exchange markets. Monetary policy is generally referred to as either being an expansionary policy, or a contractionary policy, where an expansionary policy increases the total supply of money in the economy, and a contractionary policy decreases the total money supply

Expansionary policy is traditionally used to combat unemployment in a recession by lowering interest rates, while contractionary policy has the goal of raising interest rates to combat inflation (or cool an otherwise overheated economy). Monetary policy should be contrasted with fiscal policy, which refers to government borrowing, spending and taxation

Expansionary Monetary Policy

To increase the money supply, the Federal Reserve can

- buy government bonds (an open market purchase)
- lower the discount rate
- lower the reserve ratio

Expansionary monetary policy is appropriate when the economy is in a recession and unemployment is a problem.

Changes in the money supply affect the economy through a 3 step process.

1. an increase in the money supply causes interest rates to fall

2. the decrease in interest rates causes consumption and investment spending to rise and so aggregate demand rises
3. the increase in aggregate demand causes real GDP to rise

Contractionary Monetary Policy

To decrease the money supply, the Federal Reserve can

- sell government bonds (an open market sale)
- raise the discount rate
- raise the reserve ratio

Contractionary monetary policy is appropriate when inflation is a problem.

1. a decrease in the money supply causes interest rates to rise
2. the increase in interest rates causes consumption and investment spending to fall and so aggregate demand falls
3. the decrease in aggregate demand causes real GDP to fall

Other things the same, automatic stabilizers tend to

- a. raise expenditures during expansions and recessions.
- b. lower expenditures during expansions and recessions.
- c. raise expenditures during recessions and lower expenditures during expansions.**
- d. raise expenditures during expansions and lower expenditures during recessions

Question No: 8 (Marks: 1) - Please choose one

Which of the following policy options would simultaneously increase interest rates and decrease output?

- ▶ **The central bank sells bonds through open market operations.**
- ▶ The federal government increases its defense purchases.
- ▶ The central bank expands the money supply.
- ▶ The federal government increases the tax rate

Contractionary Monetary Policy

To decrease the money supply, the Federal Reserve can

- sell government bonds (an open market sale)
- raise the discount rate
- raise the reserve ratio

Contractionary monetary policy is appropriate when inflation is a problem.

A decrease in the money supply causes interest rates to rise

The increase in interest rates causes consumption and investment spending to fall and so aggregate demand falls

The decrease in aggregate demand causes real GDP to fall

Question No: 9 (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.

1. An increase in the money supply causes interest rates to fall
2. A decrease in the money supply causes interest rates to rise

Question No: 10 (Marks: 1) - Please choose one

Commercial banks in Pakistan are supervised by:

- ▶ **State bank.**
- ▶ National bank.
- ▶ Finance minister.
- ▶ World bank.

Question No: 11 (Marks: 1) - Please choose one

Fiscal policy is the government program with respect to its:

► **Expenditure and tax revenue.**

- Increase in unemployment.
- Steel Mill Privatization.
- Unemployment reduction.

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

An expansionary fiscal policy can:

► **Raise the national debt.**

- Decrease the national debt.
- Have no effect on national debt.
- None of the given options.

The total stock of government bonds and interest payments outstanding, from both the present and the past, is known as the **national debt**. Thus, when the government finances a deficit by borrowing, it is *adding* to the national debt. When government expenditures are *less* than tax revenues in a given year, the government is running a **budget surplus** for that year

Expansionary fiscal policy will lead to an increase in the size of a government's budget deficit. This is a potential problem of expansionary fiscal policy. Higher borrowing could:

Cause markets to fear default and push up interest rates on government debt.

Expansionary fiscal policy is defined as an *increase* in government expenditures and/or a decrease in taxes that causes the government's budget deficit to increase or its budget surplus to decrease. **Contractionary fiscal policy** is defined as a decrease in government expenditures and/or an *increase* in taxes that causes the government's budget deficit to decrease or its budget surplus to increase.

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

If a war destroys a large portion of a country's capital stock but the saving rate is unchanged, the exogenous model predicts that output will grow and the new steady state will approach:

- ▶ A higher output level than before.
- ▶ **The same output level as before.**
- ▶ A lower output level than before.
- ▶ The Golden Rule output level.

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

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

- ▶ Real GDP may fall.
- ▶ Nominal GDP must fall.
- ▶ **Nominal GDP may increase.**
- ▶ Real GDP must rise.

In measuring GDP, we use prices to measure the value of good and services produced. Using the current prices to value current production is known as **nominal GDP**. The problem with nominal GDP is that a change in nominal GDP can be due to either (1) **a change in the production of goods and services**, or (2) **a change in the prices of those goods and services**. So an increase in prices will cause nominal GDP to rise, even if production has not changed at all

Real GDP values goods and services in any given year by using the prices of a set **base period**. By holding prices constant, real GDP measures only the changes in production from year to year. Changes in real GDP are used to measure economic growth.

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

Is Gross 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.**

GDP provides an indication of how far the economy has come on the long road to battling the ever-present scarcity problem, it is **NOT** a direct measure of the nation's welfare or well-being. GDP is certainly a big component of the well-being of the country, but not the **ONLY** component.

What GDP does not reveal

It is also important to understand what GDP cannot tell us. GDP is not a measure of the overall standard of living or well-being of a country. Although changes in the output of goods and services per person (GDP per capita) are often used as a measure of whether the average citizen in a country is better or worse off, it does not capture things that may be deemed important to general well-being.

Country's well being or living standard can be measured by per capita GDP which is obtained by dividing total GDP by total population of the country

Components of GDP:

1. Consumption
2. Investment
3. Government purchases
4. Net exports

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

Economic activity moves from a trough into a period of ----- until it reaches a ----- and then into a period of -----.

- ▶ Expansion; trough; recession

► Recession; trough; expansion

► **Expansion; peak; recession**

► Recession; peak; expansion

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

The Phillips curve will shift to the right:

► If there is a decrease in the expected inflation rate.

► **If there is an increase in the expected inflation rate.**

► If there is a decrease in the natural rate of unemployment.

► If there is a favorable supply shock.

Question No: 18 (Marks: 1) - Please choose one

A decrease in the natural rate of unemployment will:

► **Shift the Phillips curve to the left.**

► Result in a decrease in the inflation rate along the Phillips curve.

► Shift the Phillips curve to the right.

► Result in an increase in the inflation rate along the Phillips curve.

A decrease in the natural rate of unemployment by keeping inflation rate constant will shift the Phillips curve to the left.

Question No: 19 (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.

The unemployment rate is defined as the ratio of the no. of unemployed people divided by the sum of the employed and unemployed people

Question No: 20 (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.

Marginal propensity to save:

$$MPS = \Delta S / \Delta Y_d$$

MPS = Change in saving / change in disposable income

$$MPS = 30,000 - 20,000 / 100,000 - 150,000$$

$$MPS = 10,000 / 50,000$$

$$MPS = 0.2$$

$$\text{Saving before income increase} = 100,000 - 80,000 = 20,000$$

$$\text{Saving after income increase} = 150,000 - 120,000 = 30,000$$

$$\text{Change in saving} = 30,000 - 20,000 = 10,000$$

$$\text{Change in Income} = 150,000 - 100,000 = 50,000$$

Question No: 21 (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.**

Inventory investment is a quantity measured per unit time, so it is a flow variable

Flow variables--economic activity measured per unit of time

Stock variables--measures of economic activity at a point in time.

For example:

Flow Variables

Income (Household, Per-Capita, National)

Budget Deficits

Investment Expenditure

Consumption Expenditure

Any Income Statement measures (Sales Revenue, Gross Profit, Expenses)

Stock Variables

Wealth (an accumulation of Savings over time)

Debt (an accumulation of borrowing over time)

Capital Stock (Factories, Machinery, Inventory, Infrastructure)

The Money Supply

Any Balance Sheet measures (Assets, Liabilities, Owner's Equity)

Which of the following statements describes the difference between real and nominal GDP?

A. Real GDP includes only goods; nominal GDP includes goods and services.

B. Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.

C. Real GDP is equal to nominal GDP less the depreciation of the capital stock.

D. Real GDP is equal to nominal GDP multiplied by the CPI

Question No: 22 (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.

Real GDP equals

- A. nominal GDP minus net exports.
- B. nominal GDP divided by the GDP deflator.**
- C. nominal GDP multiplied by the GDP deflator.
- D. GDP minus depreciation

GDP measures

- A. expenditure on all final goods and services.
- B. total income of everyone in the economy.
- C. total value-added by all firms in the economy.
- D. all of the above.**

Question No: 23 (Marks: 1) - Please choose one

Real Gross Domestic Product (GDP) is measured:

- ▶ At base year prices.
- ▶ At current year prices.
- ▶ At a constant output level but at current prices.

► As the difference between the current year's GDP and last year's GDP.

Real GDP values goods and services in any given year by using the prices of a set **base period**. By holding prices constant, **real GDP measures only the changes in production from year to year**. Changes in real GDP are used to measure economic growth.

Question No: 24 (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: 25 (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.

Classical Economics Assumptions

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 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

Perhaps the most important implications of classical economics are that efficiency and full employment are attained without government intervention. Government is not needed to direct resources to the most desired activities--markets do this automatically. Government is not needed to keep resources working--markets do this automatically.

The primary implications of this theory are that markets automatically achieve equilibrium and in so doing maintain full employment of resources without the need for government intervention

From a classical economics perspective, government is the problem, not the solution. Inefficiency and unemployment arise because government prevents markets from achieving equilibrium through regulations, taxes, or other forms of meddling.

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

A primary implication of Keynesian economics is:

- ▶ The best government is the least government.
- ▶ Flexible wages and prices ensure full employment.
- ▶ Monetary policy is far superior to fiscal policy.
- ▶ **Business-cycle instability is best corrected through government policies.**

<http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&cad=rja&ved=0CFQQFjAG&url=http%3A%2F%2Fwww.banningshs.org%2Fourpages%2Fauto%2F2011%2F6%2F9%2F57447413%2FPresidential%2520Dilemma%2520Test.pdf&ei=eSjkUfiQLYjPhAfd74HgAw&usg=AFQjCNEyjCEHdPSgnX1XrNpju4cJnQwygg&bvm=bv.48705608,d.ZG4>

Question No: 27 (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.

For four decades, from the mid-1930s to the 1970s, Keynesian economics almost monopolized economic policy in the United States and around the world.

Keynesian economics arose in the 1930s in response to the Depression

By the 1970s, Keynesian policies had produced double digit unemployment, double digit inflation, and double digit interest rates, all at the same time, along with four successive worsening recessions from 1969 to 1982.

After the 1970s and the apparent failure of Keynesian economics, the New Classical school became the dominant school in Macroeconomics.

The Great Depression of 1930s opened the door to the _____ revolution in macroeconomic theory.

Keynesian.

New classical.

Old classical.

New Keynesian.

The Great Depression of the 1930s gave rise to the Keynesian revolution, laying the foundation for the approach to economic theorizing and policy making

Question No: 28 (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.**

Keynes argued that rigidities existed that would prevent the necessary equilibrating fall in wages and prices. As a result, a drop in demand could cause a fall in output and employment that was not quickly self-correcting and, indeed, might endure for some time

New classical economists build their macroeconomic theories on the assumption that wages and prices are flexible. They believe that prices “clear” markets—balance SUPPLY and DEMAND—by adjusting quickly. New Keynesian economists, however, believe that market-clearing models cannot explain short-run economic fluctuations, and so they advocate models with “sticky” wages and prices. New Keynesian theories rely on this stickiness of wages and prices to explain why involuntary UNEMPLOYMENT exists and why MONETARY POLICY has such a strong influence on economic activity.

Economy will not necessarily self-correct because wages and prices may NOT fall during a recession (possible explanation for the Great Depression).

Economy would not self-correct itself because wages and prices would NOT fall during a recession.

Keynes believed To avoid deep recession and rising unemployment after a fall in private spending (C, I, Xn), a government must fill the "recessionary gap" by increasing government spending. The economy will NOT "self-correct" due to "sticky wages and prices", meaning there should be an active role for government in maintaining full-employment output

Question No: 29 (Marks: 1) - Please choose one

Which of the following will lead to an increase in aggregate demand?

- ▶ An increase in government tax revenues.
- ▶ An increase in household savings.
- ▶ **An increase in business capital investment.**
- ▶ An increase in demand for imports.

Aggregate demand (AD) is the total demand for goods and services produced in the economy over a period of time

Aggregate planned expenditure for goods and services in the economy =

$$C + I + G + (X-M)$$

An increase in AD may be caused by:

- An increase in export demand causing an injection of foreign demand into the domestic economy.
- The government may also increase its own expenditure.
- **Businesses may raise the level of planned capital investment spending.**

A decrease in AD may be caused by:

- Consumers feeling wealthier and increasing their consumption.
- Businesses are pessimistic about the future of the economy and reduce their level of investment.

Government tax reduce the AD

Increase in household saving reduce the AD

Increase in Imported reduce AD (Imports are a withdrawal of demand (a leakage) from the circular flow of income and spending.)

Increase in AD	Decrease in AD
Households and firms have high expectations for the future growth	Households and firms have low expectations for the future growth
The government increases spending, or reduces taxes	The government reduces spending, or increases taxes
The federal reserve lowers interest rates	The federal reserve increases interest rates
More exports (weaker currency, or faster world GDP growth)	More imports or less exports (stronger currency or faster domestic GDP growth)

Question No: 30 (Marks: 1) - Please choose one

The aggregate supply curve is the relationship between:

- ▶ The price level and the real domestic output purchased.
- ▶ **The price level and the real domestic output produced.**
- ▶ The price level which producers are willing to accept and the price level purchasers are willing to pay.
- ▶ The real domestic output purchased and the real domestic output produced.

The aggregate supply curve shows the relationship between the price level and the quantity of goods and services supplied in an economy.

Aggregate demand is a schedule that shows the various amounts of real domestic output that domestic and foreign buyers will desire to purchase at each possible price level

Aggregate supply is a schedule or curve showing the level of real domestic output available at each possible price level

Question No: 31 (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.**
- ▶ Downward sloping due to the law of supply.

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

Cartels are:

▶ **Organizations of independent firms, producing similar products, that work together to raise prices and restrict output.**

- ▶ Organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.
- ▶ Organizations of independent firms, producing different products, that work together to raise prices and restrict output.
- ▶ Considered as part of monopolistic competition.

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

"The situation in which two or more firms set their prices and output according to a plan agreed upon between them in order to divide the market among themselves". Which of the following best describes this situation?

- ▶ Strategic interaction.
- ▶ Monopolistic competition.
- ▶ Oligopoly.
- ▶ **Collusion.**

Question No: 34 (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.**
- ▶ Market sharing monopoly.
- ▶ Natural monopoly.

Question No: 35 (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.**

Kinked demand Model:

With a demand curve kinked round the prevailing price , a rise or fall in marginal cost will not affect the profit maximizing level of output or price. Hence this model can be used to explain relative price stability in oligopolistic markets.

<http://www.prenhall.com/divisions/bp/app/casef/AGL2s/SG29/graph29.html>

In the kinked-demand curve model of oligopoly, the firm's marginal revenue curve

- A) is kinked at the output level at which the demand curve is kinked.
- B) has a gap at an output level that is greater than that at which the demand curve is kinked.
- C) is kinked at an output level that is greater than that at which the demand curve is kinked.
- D) has a gap at the output level at which the demand curve is kinked.**

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

Welfare economics is the branch of economics which deals with:

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

WELFARE ECONOMICS

It is a branch of economics dealing with normative issues (i.e., what should be). Welfare economics is a branch of economics that uses microeconomic techniques to simultaneously determine allocative efficiency within an economy

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

A welfare loss occurs in monopoly where:

- ▶ **The price is greater than the marginal cost.**
- ▶ The price is greater than the marginal benefit.
- ▶ The price is greater than the average revenue.
- ▶ The price is greater than the marginal revenue.

Question No: 38 (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.**
- ▶ The firm is a price maker.
- ▶ There is one main seller.

Restricted or completely blocked

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

Graphically, the Marginal Cost curve cuts through the Average Total Cost curve at:

- ▶ The lowest point on the MC curve.
- ▶ The highest point on the MC curve.
- ▶ **The lowest point on the ATC curve.**
- ▶ The middle of the upward-sloping portion of the total cost curve.

Marginal cost intersects average total cost at the lowest point of the average total cost curve.

http://books.google.com.pk/books?id=OkBggoM8G1kC&pg=PA214&lpg=PA214&dq=Marginal+Cost+curve+cuts+through+the+Average+Total+Cost+curve+at+lowest+point+on+the+ATC+curve&source=bl&ots=QQoj3giC-U&sig=vFXsmRkFKCau_bOgnxYrw4G9uTk&hl=en&sa=X&ei=hE_kUZOfEciChQexlYGQCg&ved=0CFIQ6AEwBA#v=onepage&q=Marginal%20Cost%20curve%20cuts%20through%20the%20Average%20Total%20Cost%20curve%20at%20lowest%20point%20on%20the%20ATC%20curve&f=false

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

If current output is less than the profit-maximizing output then which of the following must be TRUE?

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ Marginal revenue is less than marginal cost.
- ▶ **Marginal revenue is greater than marginal cost.**

<http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf>

Question No: 41 (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.**

There are two properties of production function

it slopes upward it means that as input increases output also increases.

It shows diminishing marginal product of an input, since it gets flatter as output rises. It means that as factors of production increases output will decrease after a certain point

A production function is simply the relationship between inputs & outputs.

The shape of the production function

Two main properties of production functions

- Slopes upward: more of any input produces more output
- Slope becomes flatter as input rises: diminishing marginal product as input increases

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

A normal good can be defined as one which consumers purchase more of as:

- Prices fall.
- Prices rise.
- Incomes fall.

► **Incomes increase.**

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

If a market basket is changed by adding more to at least one of the goods, then every consumer will:

► **Rank the market basket more highly after the change.**

- Rank the market basket more highly before the change.
- Rank the market basket just as desirable after the change.

► Be unable to decide whether he prefers the first market basket to the second or the second to the first.

http://www.hftutoring.com/notes/COMM_220_Multiple_Choice_Solutions.pdf

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

The concept of a risk premium applies to a person that is:

► All of the given options.

► **Risk averse.**

► Risk neutral.

► Risk loving.

Risk premium. The maximum amount of money that a risk-averse person would pay to avoid taking a risk.

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

Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

► Horizontal.

► Vertical.

► **Negative.**

► Positive.

Question No: 46 (Marks: 1) - Please choose one

The extra value that consumers receive above what they pay for that good is called:

► Producer surplus.

- ▶ Utility.
- ▶ Marginal utility.
- ▶ **Consumer surplus.**

Question No: 47 (Marks: 1) - Please choose one

If a decrease in price increases the total revenue then:

- ▶ **Demand is elastic.**
- ▶ Demand is inelastic.
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

INELASTIC DEMAND $0 < \epsilon < 1$

Price rises:

As P increases, Q decreases

Percentage change in P > percentage change in Q

Now $TR = P \times Q$ TR will also increase

Price falls:

As P decreases, Q increases

Percentage change in P > percentage change in Q

Now $TR = P \times Q$ TR will also decrease

ELASTIC DEMAND $\epsilon > 1$

Price rises:

As P increases, Q decreases

Percentage change in $P <$ percentage change in Q

Now $TR = P \times Q$ TR will also decrease

Price falls:

As P decreases, Q increases

Percentage change in $P <$ percentage change in Q

Now $TR = P \times Q$ TR will also increase

Question No: 48 (Marks: 1) - Please choose one

The concave shape of the production possibilities curve for two goods X and Y illustrates:

- ▶ **Increasing opportunity cost for both goods.**
- ▶ Increasing opportunity cost for good X but not for good Y.
- ▶ Increasing opportunity cost for good Y but not for good X.
- ▶ Constant opportunity cost for both goods.

Question No: 49 (Marks: 1) - Please choose one

While moving from left to right, the typical production possibilities curve has:

- ▶ **An increasingly steep negative slope.**
- ▶ A decreasingly steep negative slope.
- ▶ An increasingly steep positive slope.
- ▶ A constant and negative slope.

As resources are typically not perfectly adaptable to production of alternative goods, increased production of one good will require increasing sacrifices of the other.

http://highered.mcgraw-hill.com/sites/1113273082/student_view0/chapter1/quiz_1.html

Question No: 50 (Marks: 1) - Please choose one

Our economy is characterized by:

▶ **Unlimited wants and needs.**

▶ Unlimited material resources.

▶ No energy resources.

▶ Abundant productive labor.

PAPER # 13

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

If the quantity supplied of oranges exceeds the quantity demanded then:

- ▶ There is a shortage of oranges.
- ▶ **Market forces will cause the price to fall.**
- ▶ Market forces will cause the price to rise.
- ▶ The market is in equilibrium.

Question No: 2 (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.

Question No: 3 (Marks: 1) - Please choose one

Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is $\frac{1}{4}$ then to maximize total utility, a consumer should:

- ▶ Buy more pizzas and fewer jeans.
- ▶ **Buy fewer pizzas and more jeans.**
- ▶ Continue to buy the same quantities of pizza and jeans.
- ▶ Spend more time consuming pizza.

http://courses.byui.edu/ECON_150/ECON_150_Old_Site/Lesson_05.htm

Question No: 4 (Marks: 1) - Please choose one

As long as all prices remain constant, an increase 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: 5 (Marks: 1) - Please choose one

Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

- ▶ **Economies of scale.**
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

Question No: 6 (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: 7 (Marks: 1) - Please choose one

The supply curve for a competitive firm is:

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.

► Its marginal cost curve above the minimum point of the average variable cost curve.

► Its marginal cost curve above the minimum point of the average total cost curve.

its MC curve above the minimum point of the AVC curve

Question No: 8 (Marks: 1) - Please choose one

A monopolistically competitive firm in short run equilibrium:

► Will make negative profit (lose money).

► Will make zero profit (break-even).

► Will make positive profit.

► **Any of the given are possible.**

In short run firm in monopolistically competitive markets could make negative(loss money), zero(break even) or positive profits.

Question No: 9 (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.**

► Downward sloping due to the law of supply.

Question No: 10 (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.

Question No: 11 (Marks: 1) - Please choose one

Keynesian economics rejected the classical assumption that:

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

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

Final goods are meant for:

- ▶ **Direct use by the consumers.**
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

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

The slope of the saving function (or line) is the:

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ **Marginal propensity to save.**
- ▶ Marginal propensity to consume.

MPC (Marginal propensity to consumer) is the slope of consumption function

MPS (Marginal propensity to save) is the slope of saving function

Slope of a line measures the change along the vertical axis that corresponds to a change along the horizontal axis.

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

The investment demand curve shows the relationship between the levels of:

- ▶ Investment and consumption.
- ▶ Consumption and interest rate.
- ▶ **Investment and interest rate.**
- ▶ Investment and saving.

The investment demand curve shows the relationship between the level of investment and the cost of borrowing for the firm (i.e. the interest rate), plotted in i-I space

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

The circular flow principle guarantees that in equilibrium:

- ▶ The level of investment spending will be equal to the level of private savings.
- ▶ The level of exports will be equal to the level of imports.
- ▶ **The level of aggregate demand will be equal to real Gross Domestic Product.**
- ▶ The level of government spending will be equal to tax revenue.

The circular-flow principle ensures that if supply equals demand in the flow-of-funds through financial markets, then real GDP will be equal to aggregate demand

Question No: 16 (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: 17 (Marks: 1) - Please choose one

The trend of unemployment over the last forty years is:

- ▶ A decrease in unemployment.
- ▶ It has remained largely unchanged.
- ▶ **An increase in unemployment.**
- ▶ It is too difficult to tell so don't bother.

Question No: 18 (Marks: 1) - Please choose one

The Phillips curve will shift to the right:

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

Question No: 19 (Marks: 1) - Please choose one

Current account deficit is equal to:

- ▶ Private sector resource deficit.
- ▶ Government budget deficit.
- ▶ **Private sector resource deficit + Government budget deficit.**
- ▶ None of the given options.

Question No: 20 (Marks: 1) - Please choose one

Fiscal policy is the government program with respect to its:

- ▶ Steel Mill Privatization.
- ▶ Unemployment reduction.
- ▶ **Expenditure and tax revenue.**
- ▶ Increase in unemployment.

Which of the following is an example of crowding out?

- a. A decrease in the rate of growth of the stock of money decreases GDP.
- b. A deficit causes an increase in interest rates that causes a decrease in investment spending.**
- c. An increase in tariffs causes a decrease in imports.
- d. A decrease in government housing subsidies causes an increase in private spending on housing.

Question No: 21 (Marks: 1) - Please choose one

In Keynesian economics, an inflationary gap results if:

- ▶ Aggregate expenditures are less than aggregate production.
- ▶ **Aggregate expenditures are greater than aggregate production.**
- ▶ Aggregate expenditures are equal to aggregate production.
- ▶ There are no changes in inventories.

Inflationary gap: The inflationary gap is the amount by which aggregate demand or Aggregate expenditure exceeds aggregate output/production cause upward pressure on prices because economy is operating at a level which is higher than the full employment level.

An inflationary gap, also termed an expansionary gap, is associated with a business-cycle expansion. The prescribed Keynesian remedy for an inflationary gap is contractionary fiscal policy, An inflationary gap arises in the Keynesian model of the macroeconomy when the equilibrium level of aggregate production exceeds what could be produced at full employment

An inflationary expenditure gap occurs when aggregate expenditures exceed the full employment level, causing prices to rise

INFLATIONARY GAP

The extent to which the actual aggregate expenditure exceeds the full employment level of aggregate expenditure is called the inflationary gap because such excess demand can only cause inflation as businesses already are producing at full capacity.

RECESSIONARY GAP

The extent to which the aggregate expenditure falls short of the full employment level aggregate expenditure is called the recessionary gap. This is also the amount by which aggregate expenditure should be increased to achieve full employment.

Inflationary gap is a situation when aggregate demand is greater than aggregate supply and there is pressure on prices to rise. It leads towards inflation in the economy as prices tend to rise continuously due to high aggregate demand. It can be covered by increasing aggregate supply to meet the aggregate demand so that aggregate demand equals aggregate supply and price reach to the equilibrium level.

Deflationary gap is a situation when aggregate demand is less than aggregate supply and there is pressure on prices to fall. It leads towards deflation in the economy as prices tend to fall continuously due to surplus aggregate supply. It can be covered by boosting aggregate demand to absorb the surplus aggregate supply so that aggregate demand equals aggregate supply and price reach to the equilibrium level.

Question No: 22 (Marks: 1) - Please choose one

The accelerator is a related concept which formalizes the investment response to:

- ▶ Consumption.
- ▶ Interest rate.
- ▶ **Output.**
- ▶ None of the given options.

The accelerator

The accelerator is a related concept which formalizes the investment response to output or income changes in an economy. The key observation here is that when an economy begins to recover from a slump, investment can rise very rapidly and, in percentage terms, the rise in investment may be several times the rise in income

Question No: 23 (Marks: 1) - Please choose one

The principle economic difference between a competitive and a non-competitive 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: 24 (Marks: 1) - Please choose one

The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ **The firm's output is a small fraction of the entire industry's output.**
- ▶ The short run market price is determined solely by the firm's technology.

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

The concept of a risk premium applies to a person that is:

- ▶ Risk loving.
- ▶ **Risk averse.**
- ▶ Risk neutral.
- ▶ Rational.

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

Keeping in view 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: 27 (Marks: 1) - Please choose one

Suppose a country has flexible exchange rate and has more rapid inflation rate than other countries. What will happen to its currency in this situation?

- ▶ Its currency will appreciate.
- ▶ **Its currency will depreciate.**
- ▶ There will be no effect on its currency.
- ▶ All of the given options can be possible.

http://ingrimayne.com/econ/monetaryhistory/quiz15a_new.htm

The group of economists that came to prominence in the 1960s and 1970s and that argued that the Great Depression was caused by policy errors of the Federal Reserve was the Keynesians.
 New Keynesians.
Monetarists.
 New classical economists.

Question No: 28 (Marks: 1) - Please choose one

Which of the following statements best reflects the implication of law of comparative advantage?

- ▶ **Trade between two countries is always to the advantage of both.**
- ▶ Trade between two countries can be to the advantage of both even though one may be more productively efficient at producing everything.
- ▶ Trade between two countries is to the advantage of both if countries import only those goods that they are incapable of producing themselves.
- ▶ Trade between two countries is beneficial to both if the exporter uses less resource than the importer would use to produce the same quantity of goods.

Comparative advantage is a principle of economics which states that trade between two countries will be mutually beneficial as long as their domestic opportunity costs of production differ.

The idea of comparative advantage -- with its implication that trade between two nations normally raises the real incomes of both

Question No: 29 (Marks: 1) - Please choose one

Firm A produces and sells cotton to firm B for Rs. 500. Firm B makes yarn out of it and sells to firm C for Rs. 700. Firm C makes cloth and sell to consumers for Rs. 1200. Which figure has to be used for finding the economy's product?

- ▶ Rs. 500 of firm A.
- ▶ Rs. 700 of firm B.
- ▶ **Rs. 1200 of firm C.**
- ▶ Total of all three Rs. 2400.

A=500

B= 700-500 =200

C=1200 -700 = 500

500 +200 +500 =1200

Question No: 30 (Marks: 1) - Please choose one

The largest contribution in value terms to Pakistan GNP is made by:

- ▶ Construction sector.
- ▶ Organized industries.
- ▶ Unorganized industries.
- ▶ **Agriculture sector.**

No body can deny the importance of agriculture sector at national as well as international level for economic development. Developing or Lower income countries are usually the agrarian economies. Pakistan is also a farming country. 70% of its population is living in rural areas out of which at least 50% people are engaged in farming, livestock and agro-based industries.

Question No: 31 (Marks: 1) - Please choose one

National income figures are:

- ▶ Very exact.

► **Practically exact.**

► Only estimates.

► Wrong.

<http://www.wiziq.com/online-tests/83-general-awareness-economy>

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

A marginal propensity to consume (MPC) of 0.95 indicates that:

► **ΔC to ΔY_d is 0.95.**

► C / Y_d is 0.95.

► ΔY_d to ΔC is 0.95.

► Y_d / C is 0.95.

Marginal propensity to consume:
 $MPC = \Delta C / \Delta Y_d$

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

Which of the following describes the four sources of aggregate demand?

► Consumption, private investment, taxes, and expenditures.

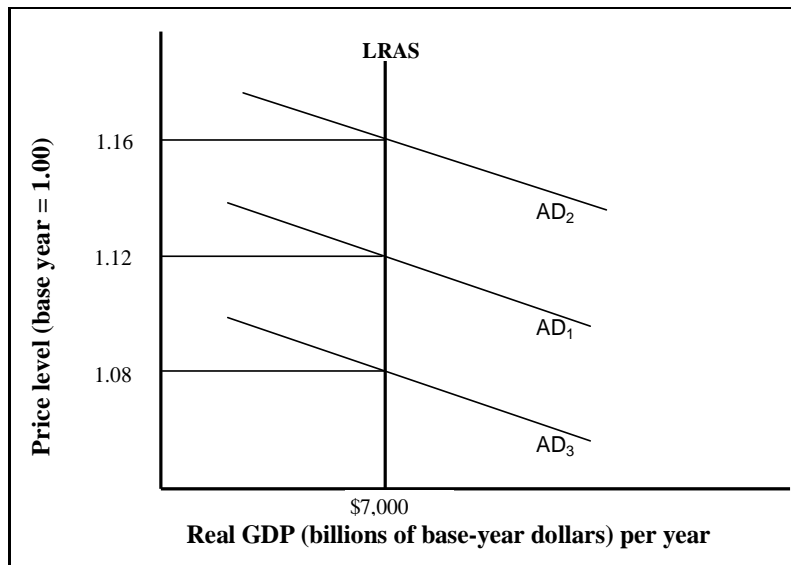
► Consumption, private investment, wage increases, and government expenditures.

► Consumption, private investment, expenditures, and net exports.

► **Consumption, private investment, government purchases, and net exports.**

Aggregate demand (AD) is the total demand for goods and services produced in the economy over a period of time
Aggregate planned expenditure for goods and services in the economy = $C + I + G + (X-M)$

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



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: 35 (Marks: 1) - Please choose one

Changes in aggregate demand can be caused by changes in:

- V. Wages.
- VI. Raw materials costs.
- VII. Government spending.
- VIII. 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: 36 (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.

In macroeconomics, the short run is a period time in which wages and prices are inflexible and resource markets are not in equilibrium. In contrast, the long run is a period time in which wages and prices are flexible and resource markets are in equilibrium.

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 the long run, then, the economy can achieve its natural level of employment and potential output at any price level

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

Which of the following is TRUE?

► $1 - \text{MPS} = \text{MPC}$

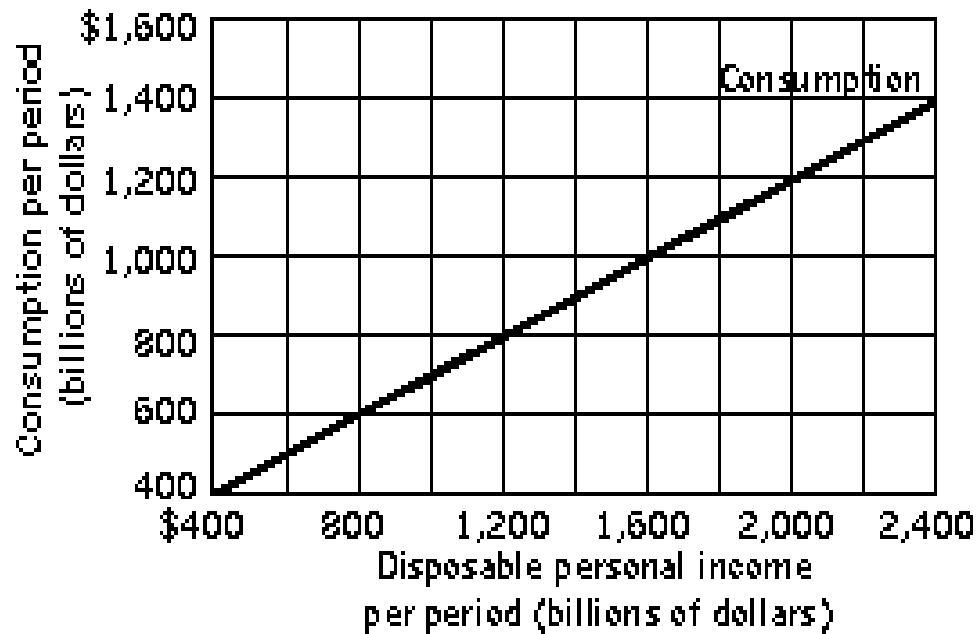
► $1 + \text{MPS} = \text{MPC}$

► $1 / \text{MPS} = \text{MPC}$

► $1 \times \text{MPS} = \text{MPC}$

$\text{MPC} = 1 - \text{MPS}$

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



Refer to the above figure, when disposable personal income is \$1,200 billion, consumption is:

- ▶ \$600 billion.
- ▶ **\$800 billion.**
- ▶ \$1,200 billion.
- ▶ \$2,000 billion.

This graph is showing the positive relationship between consumption and disposable income level.

In this graph at level of 800 disposable income, consumption is 600, at 1200 income, consumption is 800, at 1600 income consumption is 1000, at 2000 income level consumption is 1200 and at 2400 income level consumption is 1400. This graph is showing that as income increases consumption also increases.

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

Unemployment generally ----- when the "real" GDP grows rapidly.

- ▶ Remains the same.
- ▶ **Decreases.**
- ▶ Increases.
- ▶ All of the above are possible.

The business cycle helps us understand the relationship between real GDP, unemployment, and inflation. During peak periods of the business cycle when the economy is experiencing rapid growth in real GDP, employment will increase, and unemployment decrease, as businesses seek workers to produce a higher output. If real GDP grows too quickly, however, it can cause price inflation as firms are forced to bid against one another for increasingly scarce workers. In contrast during trough periods of the business cycle the economy is experiencing declines in real GDP, and unemployment rates are high

In only one of the following situations is a nation's standard of living certain to increase. Which one?

Real GDP rises faster than population.

Real GDP rises faster than the price level.

Real GDP rises.

Real GDP rises faster than the number of people employed.

Real GDP rises faster than the growth rate of output.

The term *laissez faire* can be translated

"leave it alone"

"make it equitable (fair)"

"take an active role"

"markets work"

"free of problems"

GDP is a flow variable because

all macroeconomic aggregates are flow variables

it measures the production that takes place over a period of time

it measures the amount of goods and services that exist at the end of a time period

the number of goods and services produced is usually a fixed number

it accounts for the goods and services transferred from one firm to another

Which of the following describes the relationship between GDP and government spending?

government spending = GDP + consumption + private investment - exports - imports

government spending = GDP - consumption - private investment - exports - imports

government spending = GDP - consumption - private investment + exports + imports

government spending = GDP - consumption - private investment - exports + imports

government spending = GDP + consumption - private investment + exports - imports

Which of the following describes the relationship between net exports and imports?

net exports = imports + exports

net exports = exports - imports

net exports = imports - exports

imports = net exports - exports

imports are not related to net exports

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

Which of the following will influence a country's exports?

- ▶ Consumer tastes for domestic and foreign goods.
- ▶ Prices of goods at home and abroad.
- ▶ Costs of transporting goods from country to country.
- ▶ **All of the given options.**

Factors That Affect Net Exports

- ◆ The tastes of consumers for domestic and foreign goods.
- ◆ The prices of goods at home and abroad.
- ◆ The exchange rates at which people can use domestic currency to buy foreign currencies.
- ◆ The incomes of consumers at home and abroad.
- ◆ The costs of transporting goods from country to country.
- ◆ The policies of the government toward international trade

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

Free trade is favoured because:

- ▶ Countries have less work to do.
- ▶ **It leads to greater world efficiency i.e. resources are better utilized.**
- ▶ Wealthier countries gain an advantage over underdeveloped countries.
- ▶ All countries gain from tariff imposition.

Free trade opens up the opportunity for specialization and therefore more efficient use of resources

Free trade Advantage and disadvantages for lower income countries

There are two main advantages:

- a. The developing countries can gain from specialization in goods in which they have a comparative advantage. Other things being equal, this increases national income in these countries.
- b. It can encourage inward investment into these countries.

The disadvantages are as follows::

- a. Developed countries may continue to protect their industries. This makes free trade a risky strategy for developing countries, which might find the market for key exports suddenly cut off.
- b. Freely allowing imports into developing countries may mean that developed countries dump surplus products on them (especially agricultural surpluses), with damaging consequences for producers within the developing countries.
- c. It may encourage developing countries to use low-cost, dirty technology, with adverse environmental consequences

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

Devaluation is done to:

- ▶ **Encourage exports.**
- ▶ Discourage exports.
- ▶ Encourage imports.
- ▶ Encourage inflation.

Devaluation

If there is devaluation in the currency, the price of importing goods increases and therefore the quantity demanded of imports falls

Exports will become cheaper and there will be an increase in the quantity of exports

Question No: 43 (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.

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

Which of the following is part of M1?

- I. Savings deposits.
- II. Cash in your hand.
- III. Checking deposits.

► I and III.

► **II and III.**

► I only.

► II only.

M1 is the narrowest definition of money and includes only currency and various deposit accounts on which people can write Cheques.

- ☐ **Currency in the hands of the public,**
- ☐ Traveler's Cheques,
- ☐ Demand deposits and
- ☐ **Other chequeable deposits**

M0 – Physical cash and coin

M1 – All of M0 plus demand deposits, traveler's checks

M2 – All of M1 plus savings deposits, money market share

The definition of M2 includes

A) M1.

B) Savings deposits.

C) Time deposits.

D) all of the above

M0: also called base money, high powered money or the monetary base. M0 is the value of all the **currency notes and coins that are in circulation in the economy**. Note that any currency or coins lying with the central bank (which in Pakistan's context, would be the State Bank of Pakistan) does not count as M0, as it is not in circulation.

M1: is $M0 + \text{all current (or checking) deposits held}$ with commercial banks. Checking deposits are accounts from which the holders can withdraw money at any time.

The largest component of M1 is

A) Currency.

B) Checking deposits.

C) Coins.

D) Savings deposits

M1 is a measure of

A) Money and includes both currency and checking deposits.

B) Liquidity and in which the most liquid asset is money.

C) Money and includes both savings deposits and currency.

D) Money and includes both savings deposits and money market mutual funds

Which of the following is NOT included in the M1 definition of money?

A) Currency held outside banks

B) Time deposits

C) Traveler's checks

D) Checking deposits at savings and loans

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

Which of the following is (are) primary function (s) of a central bank?

I - Act as a regulator of banks.

II -Issue government bonds.

III -Set monetary policy.

► I only.

► **I and III.**

► I and II.

► I, II and III.

Monetary policy is just one of the functions of the central bank. There are at least three more functions central banks serves:

As lender of last resort, it must bail (or help) out commercial banks facing temporary liquidity shortfalls;

As supervisor of the financial system, it must ensure its good health by monitoring commercial banks' lending (risk-taking), capital adequacy, and liquidity positions. The central bank is also a monitor of the management and governance of financial institutions and of any other threats to the stability of the financial system;

As the biggest intervener in the foreign exchange market (and/or setter of the exchange rate), it is responsible for exchange rate policy and the balance of payments, per se.

A government bond is a bond issued by a national government, generally promising to pay a certain amount (the face value) on a certain date, as well as periodic interest payments

Question No: 46 (Marks: 1) - Please choose one

What will be the impact of an increase of \$1 in government purchases?

► It will shift the expenditure line upward by \$1.

- ▶ It will shift the IS curve to the right by $\$1 / (1 - MPC)$.
- ▶ It will not shift the LM curve.
- ▶ **All of the given options.**

“IS” a curve show the combinations of real output and real interest rate at which goods market is in equilibrium. If there is an increase in government purchases then IS curve will shift towards right side while there will be no effect on LM curve

Question No: 47 (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.

Low-income countries are also referred to as developing nations, or least-developed countries.

Question No: 48 (Marks: 1) - Please choose one

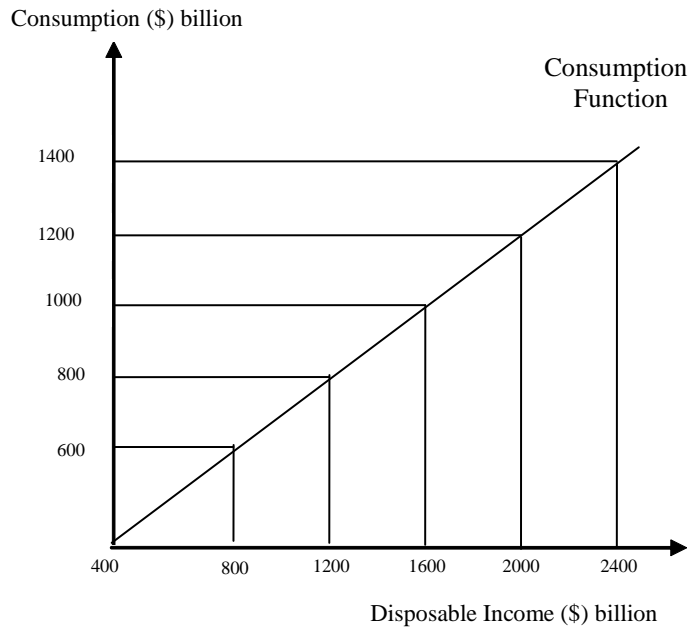
Which of the following is a characteristic of low income countries?

- ▶ **Higher rates of population growth.**
- ▶ Greater government control.
- ▶ A larger share of income used for investment.
- ▶ A smaller proportion of the labor force in agriculture.

Low-income countries typically have low saving rates, low rates of productivity growth, substantial unemployment and underemployment, and very high rates of population growth

http://glencoe.mcgraw-hill.com/sites/0025694212/student_view0/web_chapter39/quiz.html

Question No: 49 (Marks: 1) - Please choose one



Refer to the above figure, when disposable personal income is \$2,000 billion:

- ▶ Personal saving is \$1,200 billion.
- ▶ Consumption is \$1,600 billion.
- ▶ **Saving is \$800 billion.**
- ▶ Consumption is \$800 billion.

2,000 is disposable income and consumption is 1200

Saving = disposable income – consumption

Saving = 2,000 - 1200 = 800

Question No: 50 (Marks: 1) - Please choose one

How many points you need to know to calculate the price elasticity of demand on the same demand curve?

- ▶ One.
- ▶ **Two.**

- ▶ Three.
- ▶ Four.

Question No: 51 (Marks: 1) - Please choose one

What is meant by the negative slope of a production possibilities curve?

- ▶ It means that some resources are always unemployed.
- ▶ **It means that an economy can produce more of one thing only by producing less of something else.**
- ▶ It means that opportunity costs are constant.
- ▶ It means that business can sell more when prices are low.

Question No: 52 (Marks: 1) - Please choose one

Which of the following will happen if the current market price is set below the market clearing level?

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

When price set below the market clearing level , there will be shortage of goods , and this cause upward pressure on prices. And supply increase equilibrium established

When there is a shortage in a market,
 There is downward pressure on price.
there is upward pressure on price.
 the market could still be in equilibrium.
 the price must be above equilibrium

Question No: 53 (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.

If the good is inferior the income effect will oppose the substitution effect.

If the good is normal the income effect will reinforce the substitution effect

Question No: 54 (Marks: 1) - Please choose one

Which of the following is TRUE about the marginal product of labour in any production process?

► It is total output divided by total labour inputs.

► It is total output minus the total capital stock.

► It is the change in total output resulting from a 'small' change on the labour input.

► It is total output produced by labour inputs.

http://www.kevinhinde.com/elearning/prod_costs/prod_costmchoice.htm

PAPER # 14

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

A good for which income and quantity demanded are inversely related is known as:

- ▶ **Inferior good.**
- ▶ Complementary good.
- ▶ Normal good.
- ▶ None of the given options.

Question No: 2 (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.

Inelastic demand of any product means that if price of that product increases there is very small effect on its quantity demanded. As price increases, total revenue also increases in case of inelastic demand.

Question No: 3 (Marks: 1) - Please choose one

If the income elasticity of demand for boots is 0.2, a 10% increase in consumer's income will lead to a:

- ▶ 20 percent decrease in the quantity of boots demanded.
- ▶ **2 percent increase in the quantity of boots demanded.**
- ▶ 0.2 percent increase in the quantity of boots demanded.

- ▶ 20 percent increase in the quantity of boots demanded.

For example, if, in response to a 10% increase in income, the demand for a good increased by 20%, the income elasticity of demand would be $20\%/10\% = 2$.

$$20\%/10\% = 2$$

$$\text{Demand} = 0.2 \text{ or } 0.2 \times 100 = 20\%$$

Question No: 4 (Marks: 1) - Please choose one

When the marginal utility of a good is zero, this implies that:

▶ **The consumer would not spend any additional income to buy more of that good.**

- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ Total utility is also zero.

When marginal utility is zero, total utility is maximized.

When a piece of cake has 0 utils or has a marginal utility of zero, then that piece is not enjoyed. people stop eating when marginal utility is zero

Question No: 5 (Marks: 1) - Please choose one

An individual with a constant marginal utility of income will be:

- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.
- ▶ Insufficient information for a decision.

An individual is risk-averse the marginal utility of income is a decreasing function of income. The marginal utility of income is constant for a risk-neutral individual, and increasing for a risk-loving individual

Question No: 6 (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.

Question No: 7 (Marks: 1) - Please choose one

If at the profit-maximizing quantity, profits are positive, then:

- ▶ Price < Average Total Cost.
- ▶ **Price > Average Total Cost.**
- ▶ Price < Average Variable Cost.
- ▶ Price = Marginal Cost.

Question No: 8 (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.

Question No: 9 (Marks: 1) - Please choose one

If income elasticity is negative, the good is:

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ **Inferior good.**

Question No: 10 (Marks: 1) - Please choose one

Welfare economics is the branch of economics which deals with:

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

Question No: 11 (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: 12 (Marks: 1) - Please choose one

Which of the following would cause the short run aggregate supply curve to shift to the left but have no effect over the long run aggregate supply curve?

- ▶ The amount of factors of production (such as labor and capital) increases.
- ▶ The amount of factors of production (such as labor and capital) decreases.
- ▶ **Prices of inputs (such as wages or oil prices) increase.**
- ▶ Prices of inputs (such as wages or oil prices) decrease.

Resource Price: The third major aggregate supply determinant is resource price. The prices of resource affect the cost of producing output and thus the price level charged for an existing quantity of real production. This determinant **ONLY** affects the short-run aggregate supply. Because the long-run

aggregate supply is independent of the price level it is also unaffected by changes in resource prices and production cost

Increase in price of supply shift supply to left

Decrease in price of supply shift supply to right

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

During periods of high unemployment, the preferred policy of Keynesian economics is:

- ▶ A recessionary gap.
- ▶ **Expansionary fiscal policy.**
- ▶ Contractionary monetary policy.
- ▶ Waiting for self-correction to work.

http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=8&cad=rja&ved=0CFYQFjAH&url=http%3A%2F%2Fwww.banningsh.org%2Fourpages%2Fauto%2F2011%2F6%2F9%2F57447413%2FPresidential%2520Dilemma%2520Test.pdf&ei=QezmUcz_LYS3hAfS9IDYAw&usg=AFQjCNEyjCEHdPSgnX1XrNpju4cJnQwygg&bvm=bv.49405654,d.ZG4

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

The Phillips curve will shift to the right:

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

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

A nation's balance of payments can be affected by changes in:

- ▶ Foreign income.

- ▶ The differential between domestic and foreign interest rates.
- ▶ The real exchange rate.

▶ **All of the given options.**

The balance of payments is a record of a country's economic transactions with other (foreign) countries. It includes the trade in goods and services, reveals how we pay for this, or if did not pay it tells us what we still owe. It also includes other financial flows, like foreign investment and company dividend payments.

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

What does the term "balance of payment deficit" refer to?

- ▶ An increase in official international reserves.
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.

▶ **A decline in official international reserves.**

http://wps.aw.com/aw_krgmnobstf_interecon_7/0,10540,2078581-,00.html

Sum of Current and Capital accounts is negative is balance of payment deficit

Sum of Current and Capital accounts is positive is balance of payment surplus

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

Which of the following may cause an increase in national income?

▶ **Rise in exports.**

- ▶ Rise in imports.
- ▶ Fall in consumer spending.
- ▶ Increase in saving.

Question No: 18 (Marks: 1) - Please choose one

The principle which states that a change in investment causes a magnified change in income is termed as the:

- ▶ Water paradox.
- ▶ Paradox of thrift.
- ▶ **Accelerator effect.**
- ▶ Multiplier effect.

The acceleration principle explains the process by which an increase in the demand for consumption goods leads to an increase in investment which in turn causes an increase in income. The accelerator tells us that when there is an increment of income, investment will increase by an amount which is k times the increase of income

Question No: 19 (Marks: 1) - Please choose one

Demand is elastic when the elasticity of demand is:

- ▶ Greater than 0 but less than 1.
- ▶ **Greater than 1.**
- ▶ Less than 0.
- ▶ Equal to 1.

Question No: 20 (Marks: 1) - Please choose one

For price making firm, at the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?

- ▶ **They must intersect with TC cutting TR from below.**
- ▶ They must intersect with TC cutting TR from above.
- ▶ They must be tangent to each other.
- ▶ They must have the same slope.

Question No: 21 (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.

Which of the following is NOT true about the current account?

It equals the net receipts of factor income from abroad.

It equals the change in a country's foreign wealth

It equals the difference between exports and imports

It equals goods production minus domestic demand.

It equals the difference between savings and investments

A purchase of foreign reserves by a country's Central Bank would be reflected as

A debit in the current account and a credit in the financial account

A credit in the current account and a debit in the financial account

A credit in the financial account and a debit in the financial account.

An entry in a separate account off the balance of payments.

What is the difference between GNP and GDP?

International transfers

Capital depreciation

Net receipts of factor income from abroad

Domestic transfers

Indirect business taxes

Demand for Money

Transactions demand. People hold money to buy stuff.

Precautionary demand. People hold money for emergencies

Speculative demand. People hold money to take advantage of a financial opportunity at a later date

Question No: 22 (Marks: 1) - Please choose one

What will be the impact of a decrease in the money supply in an economy?

- ▶ Interest rate increases, investment and GDP reduce.
- ▶ Interest rate increases, investment increases and GDP reduce.
- ▶ **Interest rate reduces, investment and GDP increase.**
- ▶ Interest rate reduces, investment and GDP reduce.

Increases the money supply, shifting the MS curve to the right, causing interest rates to fall: With lower interest rates it is cheaper for firms to invest and for consumers to buy durable goods, and this will shift the aggregate demand curve to the right, increasing output

Similarly, decreasing the money supply would raise interest rates, decrease investment and consumption, and decrease aggregate demand:

Question No: 23 (Marks: 1) - Please choose one

A growing country is one with:

- ▶ **Rising GNP at constant prices.**
- ▶ Rising GNP at current prices.
- ▶ Constant GNP at constant prices.
- ▶ None of the given options.

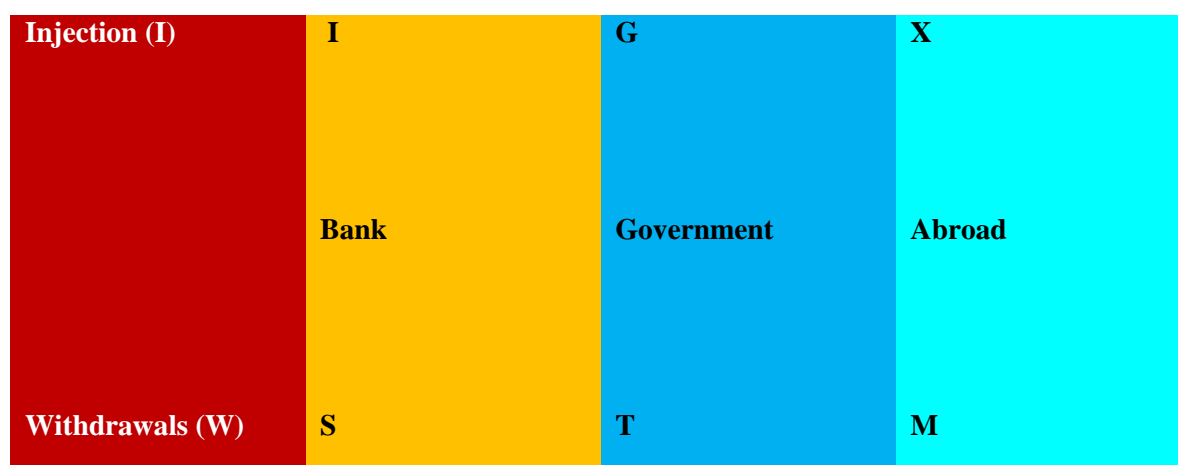
<http://www.funnelbrain.com/c-867324-growing-country-one-1-rising-gnp-constant-price-2-rising.html>

Question No: 24 (Marks: 1) - Please choose one

According to Classical economists, macroeconomic equilibrium will occur in an economy if:

- ▶ Savings = Investment
- ▶ Government spending = Taxes
- ▶ Exports = Imports
- ▶ All of the given conditions hold.

CLASSICAL VIEW



Classical view the Vertical relation, classical interested in the individual loop or market

$$S = I$$

$$G = T$$

$$M = X$$

KEYNESIAN VIEW

Injection (I)	I	G	X
	Bank	Government	Abroad
Withdrawals (W)	S	T	M

Keynesian is interested in horizontal aggregation of withdrawals with injection.

$$\text{Sum of } S + T + M = \text{Sum of } I + G + X$$

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

The process of converting a stream of future incomes and expenses into a present value is known as:

► **Discounting.**

► Compounding.

► Hyperbolic discounting.

► None of the given options.

Discounting is the process of converting a stream of future incomes and expenses into a present value. The discount rate is the rate at which the future incomes are discounted

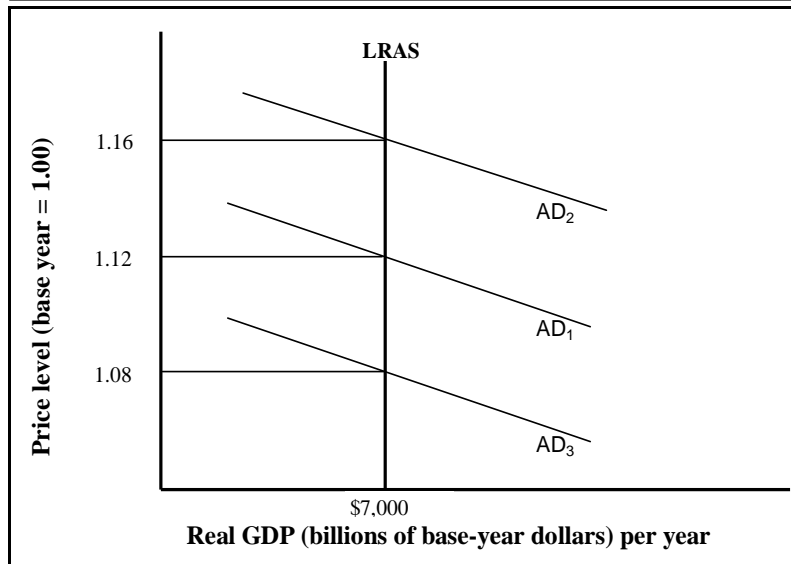
Question No: 26 (Marks: 1) - Please choose one

Which of the following is the best example of a public good?

► A cup of coffee.

- ▶ A monthly magazine.
- ▶ A haircut.
- ▶ **An interstate highway.**

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



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: 28 (Marks: 1) - Please choose one

The Keynesian revolution in macroeconomics was that:

- ▶ Capitalist economies were self-correcting.
- ▶ A gold standard was not necessary to control inflation.
- ▶ Unemployment can be viewed as being voluntary.
- ▶ **Government has a role in maintaining full employment.**

Keynes believed To avoid deep recession and rising unemployment after a fall in private spending (C, I, Xn), a government must fill the "recessionary gap" by increasing government spending. The economy will NOT "self-correct" due to "sticky wages and prices", meaning there should be an active role for government in maintaining full-employment output

Question No: 29 (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.

http://global.oup.com/uk/orc/busecon/economics/gillespie_econ2e/01student/mcqs/unit26/?view=Standard

Question No: 30 (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.**

Unemployment increases during business cycle recessions and decreases during business cycle expansions (recoveries). Inflation decreases during recessions and increases during expansions (recoveries).

Phillips showed that unemployment and inflation shared an inverse relationship: inflation rose as unemployment fell, and inflation fell as unemployment rose.

Question No: 31 (Marks: 1) - Please choose one

When agents base their decisions on their expectations about inflation, it is known as:

► Quantity theory of money.

► **Money illusion.**

► Demand pull inflation.

► Cost push inflation.

Money illusion is when agents base their decisions on their expectations about inflation (set in period $t-1$), so that when government driven actual inflation (increase in prices and wages) in period t exceeds expected inflation, agents view the increase as real rather than nominal, and therefore erroneously spend more than they should.

Question No: 32 (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.**

Income – Consumption = Saving

400 – 380 = 20

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

Economic growth occurs when there is an increase in:

- ▶ Wage rates.
- ▶ The inflation rate.
- ▶ **Aggregate demand.**
- ▶ The productive capacity of an economy.

Economic growth means an increase in Real GDP. Economic growth means there is an increase in national output and national income.

Economic growth is caused by two main factors:

1. an increase in aggregate demand
2. an increase in aggregate supply (productive capacity)

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

Development is impossible without:

- ▶ Incentive to profit.
- ▶ **Foreign aid.**
- ▶ Domestic savings.
- ▶ Inflation.

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

Which of the following determines a country's rate of growth?

- ▶ The average propensity to save.
- ▶ The interaction of supply and demand.
- ▶ The law of comparative costs.
- ▶ **The rate of capital accumulation.**

In the history of development economics, accumulation has been thought of as a key factor in the process of economic growth. Accumulation can be defined as “the continuous acquisition and growth of the capital stock through the savings and investment process. Although the importance of capital accumulation in the development process has been widely accepted among development economists

Capital accumulation is often suggested as a means for developing countries to increase their long term growth rates

<http://www.economicshelp.org/dictionary/c/capital-accumulation.html>

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

Which of the following is not likely to be a cause of economic growth?

- ▶ Improved rate of capital formation.
- ▶ **Increase in money supply.**
- ▶ Increase in investment in education and training.
- ▶ Rapid technical progress.

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

Suppose that a country is in a steady state condition. It implements policies to increase the saving rate of its economy. What will be TRUE at the new steady state level?

- ▶ Output per worker will grow more rapidly than before.
- ▶ **The level of output per worker will be higher than before.**
- ▶ The amount of capital per worker will be the same as before.
- ▶ All of the given options.

An increase in the saving rate raises investment causing the capital stock to grow toward a new steady state

Solow model predicts that countries with higher rates of saving and investment will have higher levels of capital and income per worker in the long run

If a country is in a steady state level if saving rate increases then the steady state level of capital per worker will increase and in this case the level of output per worker will be higher than before

If the national saving rate increases, the:

- A) Economy will grow at a faster rate forever.
- B) capital–labor ratio will increase forever.
- C) Economy will grow at a faster rate until a new, higher, steady-state capital–labor ratio is reached.**
- D) capital–labor ratio will eventually decline.

An increase in the rate of population growth with no change in the saving rate:

- A) increases the steady-state level of capital per worker.
- B) decreases the steady-state level of capital per worker.**
- C) does not affect the steady-state level of capital per worker.
- D) decreases the rate of output growth in the short run.

In the Solow growth model with population growth, but no technological change, a higher level of steady-state output per worker can be obtained by *all* of the following *except*:

- A) increasing the saving rate.
- B) decreasing the depreciation rate.
- C) increasing the population growth rate.**
- D) increasing the capital per worker ratio.

The savings rate, s , is a key parameter of the Solow model. An increase in s implies higher actual investment; k grows until it reaches its new (higher) steady-state value. In the transition to the new steady state, the rate of growth of output per worker accelerates

growth rate of output per worker equals the growth rate of capital per worker

Once the new steady state is attained, all variables grow again at the same rates as before; output per worker again grows at the rate of growth of technological progress, g , which is independent of s . An increase in the savings rate only leads to a temporary increase in the growth rate of output per worker (but a permanent rise in the level of capital per worker and output per worker).

Thus, the Solow model predicts that countries with higher rates of saving and investment will have higher levels of capital and income per worker in the long run

In the Solow model, only changes in technological progress have permanent growth effects, all other changes have level effects only.

Question No: 38 (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: 39 (Marks: 1) - Please choose one

A tax in which people pay the same percentage of income in taxes regardless of their incomes is called:

- ▶ Value-added tax.
- ▶ Regressive tax.
- ▶ **Proportional tax.**
- ▶ Progressive tax.

Proportional tax

A tax in which people pay the same percentage of income in taxes regardless of their incomes. For example, you earn \$10,000 a year and your boss gets \$20,000. You pay \$1,000 in taxes (10 percent) and your boss pays \$2,000 in taxes (10 percent).

Question No: 40 (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.

Excise tax: A tax on a specific good. This should be compared with a general sales tax, which is a tax on all (or nearly all) goods sold. The most common excise taxes are on alcohol, tobacco, and gasoline. Excise taxes are used either to discourage consumption of socially undesirable stuff (like alcohol and tobacco) or to raise some easy revenue because the government knows buyers will keep buying regardless of the tax (like alcohol and tobacco)

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

Which of the following is part of M1?

- IV. Savings deposits.
- V. Cash in your hand.
- VI. Checking deposits.
- ▶ I and III.

▶ **II and III.**

- ▶ I only.
- ▶ II only.

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

Which of the following is TRUE about credit cards?

▶ **It is not money.**

- ▶ It is not money, because they can't be used to purchase goods and services.
- ▶ It is considered to be money.
- ▶ It is counted as a part of M2 but not M1.

Checks and credit cards are NOT considered money because they

A) are issued by banks, not the Federal Reserve.

B) are not the means of payment.

C) typically require an identification check, such as your driver's license.

D) are not backed by all commercial banks.

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

In a period of recession, credit creation is:

▶ **Small.**

▶ Heavy.

▶ Unchanged.

▶ Zero.

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

In a period of boom, credit creation is:

▶ Small.

▶ **Heavy.**

▶ Unchanged.

▶ Zero.

Economic booms begin with the expansion of credit in the money supply. This occurs because banks increase lending while lowering interest rates on loans. As a result, individuals and companies take out larger loans at lower rates in order to build up their capital resources, invest in bigger homes, hire more laborers, etc.

Four phases of the business cycle are identified over a several-year period:

1. A boom is when business activity reaches a temporary maximum with full employment and near-capacity output.
2. A recession is a decline in total output, income, employment, and trade lasting six months or more.
3. The trough is the bottom of the recession period.
4. Recovery is when output and employment are expanding toward full employment level.

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

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: 46 (Marks: 1) - Please choose one

Which of the following is a characteristic of low income countries?

- ▶ **Higher rates of population growth.**
- ▶ Greater government control.
- ▶ A larger share of income used for investment.
- ▶ A smaller proportion of the labor force in agriculture.

Question No: 47 (Marks: 1) - Please choose one

Which of the following is TRUE about low income countries?

- ▶ Their production level is low.
- ▶ **All of the given are true.**
- ▶ Their savings are low.
- ▶ Their investment level is low.

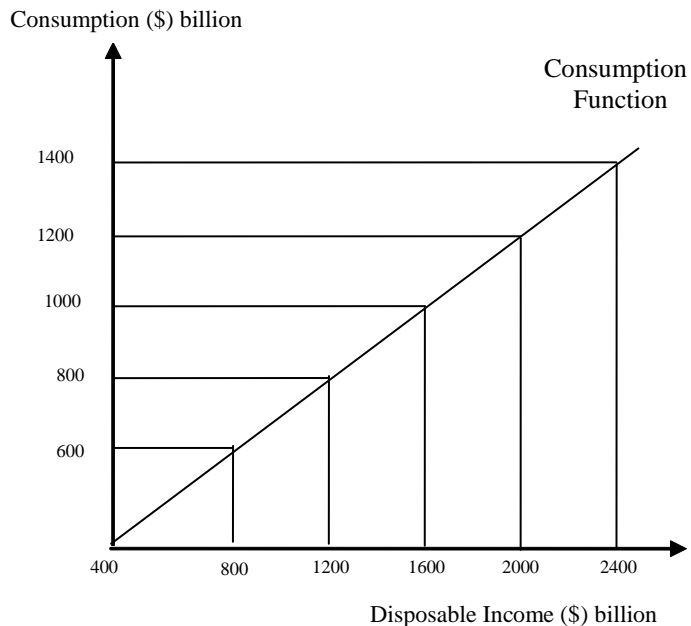
There is lack of saving in these countries as a result the level of investment is low , low rate of investment is the cause of low rate of capital formation, Consequently productivity is low and keeps the level of income low.

Question No: 48 (Marks: 1) - Please choose one

Poor countries remained poor because of:

- ▶ Higher per capita income.
- ▶ **Vicious circle of poverty.**
- ▶ High level of investment.
- ▶ High rates of savings.

Question No: 49 (Marks: 1) - Please choose one



Refer to the above figure, the marginal propensity to consume is:

- ▶ 0.25.
- ▶ **0.50**
- ▶ 0.60.

► 0.67.

Marginal propensity to consume:

$$MPC = \Delta C / \Delta Y_d$$

$$MPC = 200 / 400$$

$$MPC = 0.5$$

Change in consumption is 200

Change in disposable income is 400

Question No: 50 (Marks: 1) - Please choose one

Which of the following will happen if the cost of computer components falls?

- The demand curve for computers shifts to the right.
- The demand curve for computers shifts to the left.
- **The supply curve for computers shifts to the right.**
- The supply curve for computers shifts to the left.

Question No: 51 (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: 52 (Marks: 1) - Please choose one

What will be the impact of a ban on foreign firms from selling in the domestic market?

- ▶ It will cause domestic producers competing with the imports to face huge losses.
- ▶ **It will cause the supply curve to shift to the left.**
- ▶ It will cause the supply curve to shift to the right.
- ▶ It will have no effect on the domestic market.

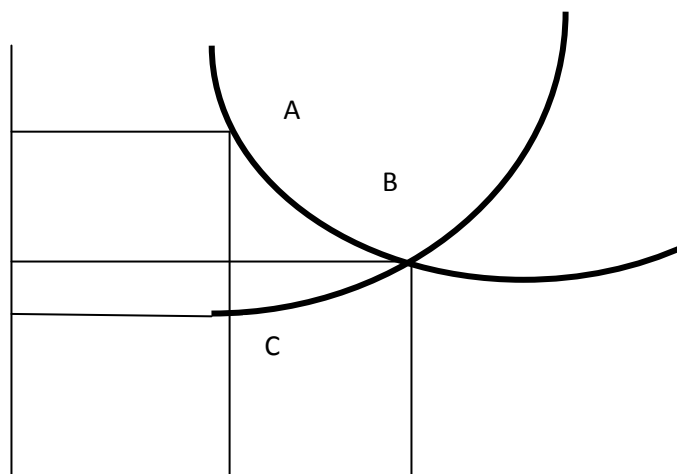
http://wps.aw.com/aw_perloff_microecon_3/10/2591/663408.cw/index.html

Question No: 53 (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.

The following indifference map violates the assumption of transitivity. For example, try to rank consumption bundles a, b, and c.



Question No: 54 (Marks: 1) - Please choose one

When there are diminishing returns holding at least one factor constant then:

- ▶ The marginal product of a factor is positive and rising.
- ▶ **The marginal product of a factor is positive but falling.**
- ▶ The marginal product of a factor is falling and negative.
- ▶ The marginal product of a factor is constant.

http://www.kevinhinde.com/elearning/prod_costs/prod_costmchoice.htm

PAPER #15

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.**

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.

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.

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 shape of the total utility curve, increasing at a decreasing rate, reflects the law of diminishing marginal utility

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.

Question No: 6 (Marks: 1) - Please choose one

Fixed costs are fixed with respect to changes in:

- ▶ **Output.**
- ▶ Capital expenditures.
- ▶ Wages.
- ▶ Time.

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.

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.**

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.

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.**

Cartel/Oligopoly = Standardized or differentiated products. Entry is hard , Strategic behavior

In monopolistic competition, there is much nonprice competition, such as advertising, trademarks, and brand names

Oligopoly massive advertising that gives would-be newcomers no chance to establish a presence in the public's mind.

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
- ▶ **$MPP_L \times P_i$**

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.

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.

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.

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.

<http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&ved=0CC8QFjAB&url=http%3A%2F%2Fwww2.palomar.edu%2Fusers%2Ffilee%2F101%2520Quizzes%2520to%2520Web%2520page.pdf&ei=Pg3nUdycK5G7hAfiiIHgBw&usg=AFQjCNGp3eKpMHwFZg7N6wb1LktqmAMNIQ&sig2=JICyBPKKsyFNV3a-1Bj17w&bvm=bv.49405654,d.ZG4>

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

Rearrange

$$\text{Real GDP} = \text{Nominal GDP} / \text{GDP Deflator}$$

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.

$$\text{NNP} = \text{GNP} - \text{Depreciation allowance}$$

Question No: 18 (Marks: 1) - Please choose one

Which of the following shows the Fisher equation of exchange?

▶ $MT = PV$.

▶ $VT = PM$.

▶ $MV = PQ$.

▶ $MY = VP$.

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.

Question No: 20 (Marks: 1) - Please choose one

The principle economic difference between a competitive and a non-competitive 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 capital per unit of labour.**
- ▶ Increasing the usage of existing capital.
- ▶ Importing capital from the developed world.

Capital deepening:

Capital deepening is a term used in economics to describe an economy where capital per worker is increasing. It is an increase in the capital intensity. Capital deepening is often measured by the capital stock per labour hour.

Capital widening:

Capital widening means a situation in which capital stock increases at the same rate as the labour force, so that the capital-labour ratio remains constant, while the aggregate output continues to grow.

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.

When a producer has an absolute advantage, he can produce a given output by using fewer inputs than any competing producer. When a producer has a competitive advantage, he can produce one product with a smaller amount of inputs than the competition. He therefore must produce another product with a greater amount of inputs than the competitor, hence the designation of comparative advantage. When either an absolute advantage or a comparative advantage exists, benefits from trade are guaranteed.

Question No: 24 (Marks: 1) - Please choose one

Public education creates:

- ▶ Asymmetric information.
- ▶ External costs.
- ▶ Internal costs.
- ▶ **External benefits.**

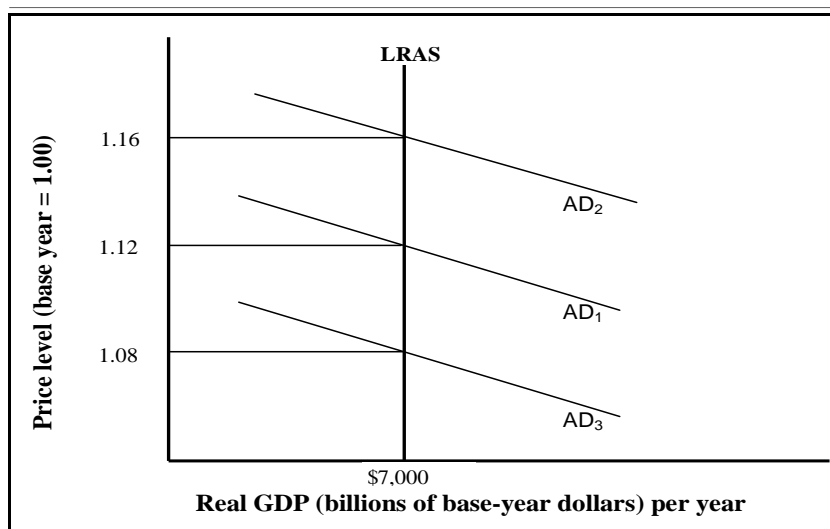
Question No: 25 (Marks: 1) - Please choose one

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.**
- ▶ Average price level.
- ▶ Circular flow model.
- ▶ GDP curve.

The total amount of goods and services demanded in the economy at a given overall price level and in a given time period. It is represented by the aggregate-demand curve, which describes the relationship between price levels and the quantity of output that firms are willing to provide. Normally there is a negative relationship between aggregate demand and the price level. Also known as "total spending".

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



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.

The **GDP deflator** (implicit price deflator for GDP) Also known as the "GDP implicit price deflator"

$$\text{GDP Deflator} = \text{Nominal GDP} / \text{Real GDP}$$

$$1.16 = \text{Nominal GDP} / 7,000$$

$$1.16 \times 7,000 = \text{Nominal GDP}$$

$$\text{Nominal GDP} = 8120$$

OR

$$\text{Nominal GDP} = \text{GDP Deflator} \times \text{Real GDP}$$

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.

$$\text{Unemployment rate} = (\text{Number of unemployed} / \text{labour force}) \times 100.$$

$$U / L \times 100$$

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.

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.

BOOM: A period of fast economic growth. Output is high due to **increased demand**, **unemployment is low**. Business confidence may be high leading to increased investment. Consumer confidence may lead to extra spending.

RECESSION: A period where economic growth slows down and the level of output may actually decrease. **Unemployment is likely to increase**. Firms may lose confidence and reduce investment. Individuals may save rather than spend.

RECOVERY: A period when the economy moves between recession and a boom.

WHAT HAPPENS IN A BOOM?

- Businesses produce more goods
- Businesses invest in more machinery
- Consumers spend more money. There is a **FEELGOOD FACTOR**
- Less money is spent by the Government on unemployment benefits
- More money is collected by the Government in income tax and VAT
- **Prices tend to increase due to extra demand**

WHAT HAPPENS IN A RECESSION?

- Businesses cut back on production
- Some businesses may go bankrupt
- Consumers spend less money. Fall in FEELGOOD FACTOR
- Individuals may lose their jobs
- More money is spent by the Govt on unemployment benefits
- Less money is collected by the Govt in income tax and VAT
- Prices start to fall

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.

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

The item which serves as a medium of exchange is known as:

- ▶ Gold.
- ▶ Capital.
- ▶ Silver.
- ▶ **Money.**

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.**
- ▶ 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.

Comparative advantage happens when a producer has a lower opportunity cost of production than another producer

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.

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.

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.
- ▶ Marginal physical product is increasing.

If the marginal physical product is below the average physical product, the average physical product will fall.

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.

2ND DEGREE PD

In this type, different prices charged to customers who purchase different quantities.

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.

Some of the income earned by households is spent on imports. This is a leakage and creates wealth abroad, but reduces wealth here. Imports reduce National Income and are a leakage

Exports are greater than imports, thus GDP increases

$$NI = C + I + G + (X - M)$$

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

The relationship between interest rate and consumption is:

► Positive.

► **Negative.**

► Zero.

► Indeterminate.

A low real interest rate leads to higher consumption since the incentive to save money is low and vice versa. Consumption is negatively *related to the* interest rate

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

Hysteresis refers to the permanent effects of a temporary change

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.

Current account: payments related to current economic activities such as output, consumption, investment, employment, use of capital, etc. It is the sum of trade in goods and services, factor payments across countries (wage, **interest**, rent, **dividend**), and unilateral transfers (ODA grants, **workers remittances**, gifts, etc).

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.**

Question No: 46 (Marks: 1) - Please choose one

Endogenous growth theory is also known as:

- ▶ Neo-classical growth theory.
- ▶ **New growth theory.**
- ▶ Classical growth model.
- ▶ Keynesian growth model.

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.**

World Bank has given 4 types of liberalization policies as an ingredient.

1. Liberalization of prices: Removal of price control and wage controls.

2. Liberalization of trade: Removal of tariffs and export taxes.

3. Liberalization of capital account means movement of capital from inside and outside the country.

4. Financial liberalization i.e. financial sector should be opened both to foreign participation and also banks should be allowed to set their own interest rate rather than government dictating what the interest level should be.

FDI liberalization= *Foreign Direct Investment*

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.**

Characteristics of lower income countries:

- a) Political instability
- b) Shortage of natural resources
- c) Backwardness of agriculture
- d) Industrial backwardness
- e) Limited savings and investment
- f) Unrealistic planning
- g) Population pressure
- h) Unfavorable balance of trade
- i) Shortage of technical hands
- j) The problem of unemployment
- k) Low labor efficiency
- l) Inadequate transport and communication facilities
- m) Unequal distribution of income / wealth
- n) The problem of inflation
- o) Absence of innovative capabilities
- p) Wastage of resources in social customs and tradition
- q) Corrupt bureaucracy

You can reverse all above characteristics in case of higher income countries.

EXTRA MCQ's

1-The natural rate of unemployment is generally thought to be the sum of

Frictional unemployment and cyclical unemployment.

Cyclical unemployment and structural unemployment

Frictional unemployment and structural unemployment.

Frictional unemployment and seasonal unemployment.

The natural rate of unemployment is usually defined as the sum of frictional and structural unemployment

2-The measured unemployment rate can be pushed below the natural rate, but

Only in the long run, and only if the price level is constant.

Only in the long run, and not without inflation

Only in the short run, and not without inflation

Only in the short run, and only if the price level is constant.

Pushing unemployment below the natural rate will cause inflation and cannot succeed for long

3-Unemployment benefits may increase the unemployment rate because unemployment benefits

Reduce the cost of job search.

Encourage people to quit their jobs.

Reduce the benefits of additional job searching.

Enable people to quit searching for work.

4-Many economists and government analysts have investigated the effect of a minimum wage on labour markets. The general conclusion reached by the investigators is that

The overall effect of the minimum wage is an increase in the unemployment level

Teenagers gain most of the beneficial employment effects of the minimum wage

All industries are equally affected by the minimum wage laws

Over a period of time, the minimum wage laws will increase employment in the economy

The general conclusion reached by the investigators is that the overall effect of the minimum wage is an increase in the unemployment level

5-Generally speaking, the natural rate of unemployment is

The full-employment rate of unemployment

Approaching zero when actual output approaches potential output

Most likely to fall over time

Most likely to remain constant over time

6-According to the classical economists, those who are not working

Are unable to find a job at the current wage rate.

Are too productive to be hired at the current wage.

Have chosen not to work at the market wage

Have given up looking for a job, but would accept a job at the current wage if one were offered to them.

The classical view is that you can always get a job if you are prepared to work for lower wages

7-According to Classical models, the level of employment is determined primarily by

The level of aggregate demand for goods and services.

Prices and wages.

Government taxation

Government spending.

8-The percentage of the labour force that is unemployed is the:

Unemployment rate

Labor force rate.

Unemployment population ratio.

Employment rate.

9-The labour force can be defined as:

Those of working age who are seeking work and are available to for work at current wage

Anyone who is working, or actively seeking work.

The population between school-leaving age and retirement age.

Those who could claim benefit if they were to become unemployed.

10-An individual who is not working and who has given up looking for work is classified as:

A Discourage worker

Hard core unemployed.

Unemployed.

Unemployable.

11-Classifying discouraged workers as unemployed would:

Increase the unemployment rate

Have an indeterminate impact on the unemployment rate

Not change the unemployment rate.

Decrease the unemployment rate.

12-Cyclical unemployment is the:

Unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.

Portion of unemployment that is due to the normal working of the labour market.

Portion of unemployment that is due to changes in the structure of the economy that results in a significant loss of jobs in certain industries

Unemployment that occurs during recession and depressions

13-Aggregate demand is the total demand for all goods and services in an economy from:
The household and government sectors.

All sectors except the rest of the world.

The household sector.

All sectors of the economy including the rest of the world

14-Aggregate supply is the total amount:

Of products produced by a given industry.

Of labour supplied by all households

Of good and services produced in an economy

Produced by the government.

15-Unemployment resulting from real wages being above their equilibrium level is called _____ unemployment.

Structural

Frictional

Disequilibrium

Natural

16-Unemployment resulting from imperfect information in the labour market is called _____ unemployment.

Disequilibrium

Real-wage

Natural

Frictional

17-Unemployment resulting from changes in the pattern of demand or supply in the economy is called _____ unemployment.

Demand-deficient

Structural

Technological

Regional

18-The demand for ice-cream is lower outside of summer causing lower demand for ice-cream salesmen. If they cannot find other work, this is called _____ unemployment
Structural

Seasonal

Demand-deficient

Regional

19-The natural rate of unemployment is generally thought of as the:
Sum of frictional unemployment and cyclical unemployment

Sum of structural unemployment and cyclical unemployment.

Sum of frictional unemployment and structural unemployment.

Ratio of the frictional unemployment rate to the cyclical unemployment rate.

20-As prices rise, people will want to keep more money as cash and in bank accounts. This is called:

Menu costs of inflation

Real balance effect

Cash ratio.

Money illusion.

21-As prices rise, there will be costs of constantly changing price-tags and reprinting price-lists. This is called:

Menu cost of inflation

Cost Push inflation

Real balance effect

Money illusion.

22-Government policies that focus on increasing production rather than demand are called:

Fiscal policies.

Supply side policies

Incomes policies

Monetary policies.

23-Government policies that focus on changing taxes and government spending are called:

Supply-side policies.

Monetary policies.

Fiscal policies

Incomes policies.

24-Government policies that focus on changing interest rates are called:

Monetary policies

Supply side policies

Fiscal Policies

Incomes policies.

25-If interest rates rise, then costs are likely to _____ and demand is likely to _____.

Fall; fall

Fall; rise

Rise; rise

Rise , fall

26-If VAT rates rise, then costs are likely to _____ and demand is likely to _____.

Fall; fall

Rise , fall

Rise; rise

Fall; rise

27-According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause

Prices to rise and output to rise.

Prices to fall and output to remain unchanged

Prices to fall and output to fall.

Prices to rise and output to remain unchanged.

Keeping in view the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause prices to rise and output to remain unchanged.

28-In the classical model, given an initial aggregate equilibrium at full employment, the long run effect of an increase in government spending is

An increase in the price level

An upward shift of the aggregate demand curve

A constant level of output

All of the above

29-Expectations are important

Only to New Classical economists

Only to Classical economists

To all economists

Only to Keynesians

30-If the Phillips Curve is vertical in the long run, then an increase in the money supply from year to year will _____ the unemployment rate and will _____ inflation rate.

(a) Increase; increase

(b) Increase; not change

(c) Not change; increase

(d) Not change; not change

31-An increase in aggregate demand when the economy is operating at full capacity is likely to result in

(a) An increase in output but no increase in the overall price level

(b) An increase in both output and the overall price level

(c) No increase in either output or the overall price level

(d) An increase in the overall price level but no increase in output

32- According to the classical economists, those who are not working

(a) Are unable to find a job at the current wage rate

(b) Are too productive to be hired at the current wage

(c) Have chosen not to work at the market wage

(d) Have given up looking for a job, but would accept a job at the current wage if one were offered to them.

33- If inflationary expectations increase, the Phillips curve will

(a) Shift to the right

(b) Shift to the left

(c) Become vertical

(d) Become upward sloping

34-Potential GDP is the level of aggregate output

(a) That can be produced at a zero unemployment rate

(b) That can be sustained in the long run, if the capacity utilization is below 100%

(c) That can be produced if structural unemployment is zero

(d) That can be sustained in the long run without inflation

35-The Federal deficit tends to rise when

(a) GDP decreases

(b) GDP increases

(c) GDP remains unchanged

(d) Exports increase

36- Inflation cannot continue indefinitely without

(a) Increases in the money supply

(b) Increases in aggregate output

(c) Increases in investment

(d) Increases in the interest rate

37-Which of the following shifts aggregate demand to the right?

a. a decrease in the money supply

b. technological progress that increases the profitability of capital goods

c. the repeal of an investment tax credit

d. a decrease in the price level

38-Which of the following shifts aggregate demand to the left?

a. an increase in the price level

b. a decrease in the money supply

c. an increase in net exports

d. an investment tax credit

39-The aggregate supply curve is vertical in

- a. the short and long run.
- b. neither the short nor long run.
- c. the long run, but not the short run.**
- d. the short run, but not the long run.

40-The aggregate supply curve is upward sloping rather than vertical in

- a. the short and long run.
- b. neither the short nor long run.
- c. the long run, but not the short run.
- d. the short run, but not the long run.**

41-Which of the following does not determine the long-run level of real GDP?

- a. the price level**
- b. the supply of labor
- c. available natural resources
- d. available technology

42-During periods of high unemployment, the preferred policy of supply side economists is:

Expansionary monetary policy

Contractionary monetary policy

Expansionary fiscal policy

Business cycle self -correct

43-During periods of high unemployment, the preferred policy of Keynesian economics is

Expansionary monetary policy

Contractionary monetary policy

Expansionary fiscal policy

Business cycle self -correct

44-An increase in aggregate demand could result from the government reducing:

Transfer payment

Tax rates

Federal budget deficit

Purchases of good and services

45-Fiscal policy includes

Controlling production

Changing tax rates

Changing money supply

Setting price controls

46-The major purpose of calculating GDP is in

Setting fiscal policy

Calculating the federal deficit

Setting monetary policy

Declining tax rates

47-If an oligopolist's demand curve is kinked at the going price:

The loss in revenue from reducing output by one unit exceeds the gain in revenue from expanding output by one unit

The loss in revenue from reducing output by one unit exceeds the gain in revenue from expanding output by one unit

The gain in revenue from expanding output by one unit exceeds the loss in revenue from reducing output by one unit

Total revenue will fall if price is changed in either direction

Profits will rise if price is increased but fall if price is decreased

The kinked demand curve is based on the assumptions that rival firms follow a price decrease but ignore a price increase. Accordingly, demand is much more elastic for a price increase than a price decrease. This implies a comparatively large loss of revenue if price is increased and a relatively small increase (or even a decrease) in revenue if price is cut.

48- Which of the following indicates a healthy economy?

Unemployment and inflation high

Unemployment is low and inflation is high

Unemployment is high inflation is low

Unemployment and inflation are low

49-Suppose only three airlines service a particular route. One of the airlines typically signals its price intentions through a daily posting on its internet site, which the other two quickly match. This best describes

Cost-plus pricing

Price leadership

Cartel

Game theory

50-Consider the following information for a typical firm in a particular monopolistically competitive industry. Price = \$50, MR = MC = \$40, ATC = \$45. From the information given, we can conclude that

Some firms will exit the industry and this firm's demand curve will shift to the right

Some firms will enter the industry and this firm's demand curve will shift to the left

Some firms will enter the industry and this firm's demand curve will shift to the right

The industry is in long-run equilibrium

51-Which of the following statements about microeconomics and macroeconomics is not true?

The study of very large industries is a topic within macroeconomics

Macroeconomics is concerned with economy-wide phenomena

Microeconomics is a building block for macroeconomics

Microeconomics and macroeconomics cannot be entirely separated

This statement is an example of a normative statement

52-Positive statements are

Macroeconomics

Microeconomic

Statements of description that can be tested

Statements of prescription that involve value judgments

53-Which of the following is part of the opportunity cost of going on holiday?

The money you spent on a theatre show

The money you could have made if you had stayed at home and worked

The money you spent on airline tickets

The money you spent on food

54-Which of the following will not shift a country's production possibilities frontier outward?

An advance in technology

An increase in the labour force

An increase in the capital stock

A reeducation in unemployment

55-Economic growth is depicted by

A shift in the production possibilities frontier outward

A movement from inside the curve toward the curve

A shift in the production possibilities frontier inward

A movement along a production possibilities frontier toward capital goods

56-What is meant by allocative efficiency?

Getting the right goods to the right people at the right price

Producing using the optimum factor combination

Ensuring that sufficient is spent on research and development to ensure the development of new goods and services

Giving appropriate incentives for firms and consumers

57-Which of the following are considered to be essential characteristics of a public good?

It must be provided by the government

Consumption by one person does not diminish the quantity available for others

Once the good is provided, it is not possible to exclude people from consuming it

It must benefit the whole economy

58-In the medium run, expansionary fiscal policy

Lowers interest rates and increases the natural rate of output.

Increases interest rates and the natural rate of output

has no effect on the natural rate of output, but it raises interest rates, increases the government's share of GDP and reduces the share of GDP for consumption and investment

has no effect on the natural rate of output, but it lowers interest rates, increases the government's share of GDP and reduces the share of GDP for consumption and investment

59-In the short run, contractionary monetary policy

Causes the LM curve to shift down which increases AD and leads to higher output and prices

Causes the LM curve to shift down which decreases AD and leads to higher output and price

Causes the LM curve to shift up which increases AD and leads to higher output and prices.

Causes the LM curve to shift up which decreases AD and leads to lower output and prices.

60-In the short run, expansionary fiscal policy

Causes the IS curve to shift to the right and leads to an increase in AD causing lower output and prices

Causes the IS curve to shift to the left and leads to an increase in AD causing higher output and prices.

Causes the IS curve to shift to the right and leads to an increase in AD causing higher output and prices.

Causes the IS curve to shift to the left and leads to an increase in AD causing lower output and prices.

61-Stagflation is:

An annual rite of passage among young male deer.

A combination of low inflation and low unemployment.

A combination of high inflation and high unemployment.

A combination of high inflation and low unemployment.

62-An increase in the saving rate (the marginal propensity to save) will probably

Decrease output in the medium and long run but increase output in the short run.

Increase output in the medium and long run but decrease output in the short run.

Increase output in the short, medium and long run.

Decrease output in the short, medium and long run.

In the short run there will most likely be a recession but in the long run the capital stock, investment and output will all increase.

63-Suppose that equilibrium output initially equals the natural rate. The central bank begins an expansionary monetary policy. At the new medium-run equilibrium, this policy _____ output and _____ prices in the long run.

Increases, does not change.

Increases, decreases.

Does not change, increases

Decreases, does not change.

Remember, in the medium run the economy will return to natural output.

64-If nothing else changes an increase in the price level will shift the LM curve:

Up and inward (to the left).

Down and outward (to the right)

The LM curve does not shift when the price level changes.

Up and inward (to the left) for three days. The LM curve will then begin to gradually shift down and outward (to the right)

65-Which of the following goods or services would not be provided by a pure free-market economy?

Public transport system

Pensions

National Defence

Education

Of the four alternatives only defence is a pure public good - the others are merit goods. Merit goods will still be provided in a pure free-market economy, but not in optimal quantities

Defence is a public good and so would not be provided at all in a free-market economy.

66-A rational person does not act unless

The action is ethical

The action produces marginal costs that exceed marginal benefits

The action produces marginal benefits that exceed marginal costs

The action makes money for the person

67-Economic models are:

Usually made of wood and plastic.

Useless if they are simple.

Built with assumptions.

Created to duplicate reality.

68-Which of the following statements is true about a market economy?

With a large enough computer, central planners could guide production more efficiently than markets

Market participants act as if guided by an invisible hand to produce outcomes that maximize social welfare

The strength of a market system is that it tends to distribute resources evenly across consumers

Taxes help prices communicate costs and benefits to producers and consumers

In the long-run the Aggregate Supply curve will have a (vertical) slope



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