

**FINALTERM EXAMINATION ECO401- Economics (Session - 2)**

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

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

**Question No: 2 ( 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: 3 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right.**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

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

**Price floor results in:**

- ▶ All of the given options.

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- ▶ Excess supply.
- ▶ Equilibrium.
- ▶ **Excess demand.**

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

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**The price elasticity of demand measures the responsiveness of quantity demanded to:**

- ▶ Quantity demanded.
- ▶ Quantity supplied.
- ▶ **Price.**
- ▶ Output.

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

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**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

- ▶ -14.
- ▶ **14.**
- ▶ 83.
- ▶ 97.

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

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**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.

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

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**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.

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

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**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: 10 ( Marks: 1 ) - Please choose one**

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**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: 11 ( Marks: 1 ) - Please choose one**

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**McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:**

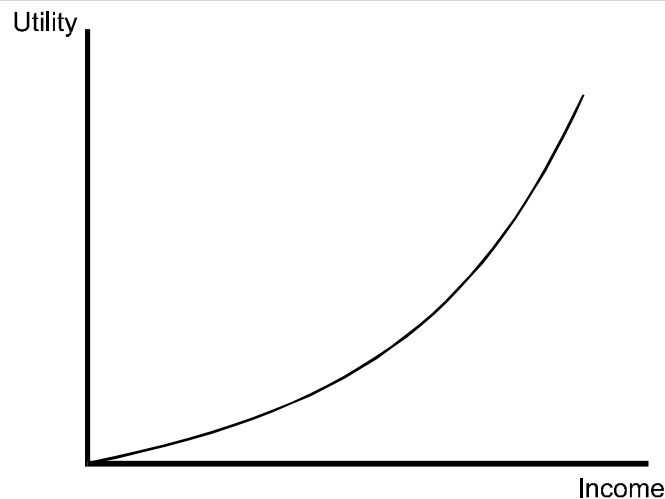
- ▶ Collusion.
- ▶ Price discrimination.
- ▶ Two-part tariff.
- ▶ **Bundling.**

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

The price elasticity of demand for any good must be less than or equal to zero unless:

- ▶ The good is a necessity.
- ▶ The good is a luxury.
- ▶ **The good is a Giffen good.**
- ▶ None of the given options.

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



**Figure**

In figure given above, the marginal utility of income is:

- ▶ **Increasing as income increases.**
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.
- ▶ None of the given options.

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

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**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.

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

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**Welfare economics is the branch of economics which deals with:**

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

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

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**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.

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

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**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: 18 ( Marks: 1 ) - Please choose one**

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**In the complete classical model, a rightward shift of the labor supply curve will:**

- ▶ Decrease the price level and increase the nominal wage.
- ▶ Decrease the nominal wage and increase the price level.
- ▶ Decrease both the price level and the nominal wage.
- ▶ **Increase both the price level and the nominal wage.**

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

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**Which of the following events could cause the aggregate demand curve to shift to the right?**

- ▶ An increase in the rate of inflation.
- ▶ A decrease in government expenditures.
- ▶ A decrease in investment spending.
- ▶ **A decrease in income tax rates.**

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

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**The Great Depression of 1930s opened the door to the \_\_\_\_\_ revolution in macroeconomic theory.**

- ▶ **Keynesian.**
- ▶ New classical.
- ▶ Old classical.
- ▶ New Keynesian.

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

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**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.

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

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

- ▶ Monetarism.
- ▶ Rational expectations.
- ▶ **Keynesian economics.**
- ▶ Neoclassical economics.

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

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

- ▶ Both prices and output to rise.
- ▶ Prices to fall and output to remain unchanged.
- ▶ Both prices and output to fall.
- ▶ **Prices to rise and output to remain unchanged.**

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

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Intermediate goods are meant for:

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

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

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Final goods are meant for:

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

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

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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: 27 ( Marks: 1 ) - Please choose one

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Which of the following is NOT a stock variable?

- ▶ Government debt.
- ▶ Capital.
- ▶ **The amount of money held by the public.**
- ▶ Inventory investment.

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

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All other things remain the same, Gross Domestic Product (GDP) will rise if:

- ▶ Imports rises.
- ▶ Exports falls.
- ▶ **Durable goods consumption rises.**
- ▶ Military spending falls.

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

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If disposable income increases from \$5 trillion to \$6 trillion and as a result, consumption expenditure increases from \$7 trillion to \$7.8 trillion, the Marginal Propensity to Consume is:

- ▶ 1.0.
- ▶ **0.8.**
- ▶  $5/7 = 0.71$ .
- ▶  $6/7.8 = 0.77$ .

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

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

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

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

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**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.**

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

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**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.

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

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**The traditional Phillips Curve shows the:**

- ▶ **Inverse relationship between the rate of inflation and unemployment rate.**
- ▶ Inverse relationship between the nominal and real wage.
- ▶ Direct relationship between unemployment and demand-pull inflation.
- ▶ Tradeoff between the short run and long run.

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

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**Deflation is:**

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- ▶ 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.**

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

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**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.

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

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**Real Gross Domestic Product (GDP):**

- ▶ **Is nominal GDP adjusted for changes in the price level.**
- ▶ Is also called nominal GDP.
- ▶ Measures GDP minus depreciation of capital.
- ▶ Will always change when prices change.

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

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**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: 38 ( Marks: 1 ) - Please choose one**

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**A currency appreciation:**

- ▶ **Reduces aggregate demand and increases aggregate supply.**
- ▶ Reduces both aggregate demand and aggregate supply.
- ▶ Increases aggregate demand and reduces aggregate supply.
- ▶ Increases both aggregate demand and aggregate supply.

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

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**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.

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

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**Personal income:**

- ▶ Is income received by individuals during a given year.
- ▶ Is the income individuals have available for spending during a given year.
- ▶ Equals national income minus indirect taxes.
- ▶ **Is the sum of wages plus interest received by individuals during a given year.**

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

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**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: 42 ( Marks: 1 ) - Please choose one**

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**Which of the following statements describes the difference between nominal and real Gross Domestic Product (GDP)?**

- Real GDP includes only goods; nominal GDP includes goods and services.
- **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- Real GDP is equal to nominal GDP multiplied by the CPI.

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

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**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

- $GNP = GDP - \text{Net income from abroad.}$
- **$GNP = GDP + \text{Net income from abroad.}$**
- $GNP = NNP - \text{Net income from abroad.}$
- $GNP = NNP + \text{Net income from abroad.}$

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

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

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

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

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Which of the following shows the Fisher equation of exchange?

- ▶  $MT = PV$ .
- ▶  $VT = PM$ .
- ▶  $MV = PQ$ .
- ▶  $MY = VP$ .

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

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An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called:

- ▶ Overvalued exchange rate.
- ▶ Undervalued exchange rate.
- ▶ Fixed exchange rate.
- ▶ **Flexible exchange rate.**

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

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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.

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

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In the Keynesian cross model, the 45-degree line has a slope of:

- ▶ 45.
- ▶ Infinity.
- ▶ 1.
- ▶ 0.

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

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In Keynesian economics, equilibrium can occur:

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- ▶ Only at full employment level.
- ▶ Only at levels less than full employment.
- ▶ Only at levels greater than full employment.
- ▶ **At any level of aggregate output which is equal to aggregate expenditures.**

**Question No: 50 ( Marks: 1 ) - Please choose one**

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**After a decrease in the wage, the substitution effect implies that:**

- ▶ Only the amount demanded of capital decreases.
- ▶ Only the amount demanded of labor decreases.
- ▶ **Only the amount demanded of capital increases.**
- ▶ The amount demanded of all inputs increases.

**Question No: 51 ( Marks: 5 )**

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**Briefly discuss the private cost of advertising. How we can calculate the marginal social cost?**

**ANSWER: Private Cost Of Advertising:** The private cost of advertising is the cost incurred by firm in making the advertisement i.e newspaper ads, tv commercials etc. The firms do not take into account the nuisance faced by people due to these advertisements otherwise the firms would do less advertisement.

**Marginal Social Cost:** Marginal social cost is not a monetary based cost. It is the cost borne by the society as a whole. It is the cost of consumption of one next unit.

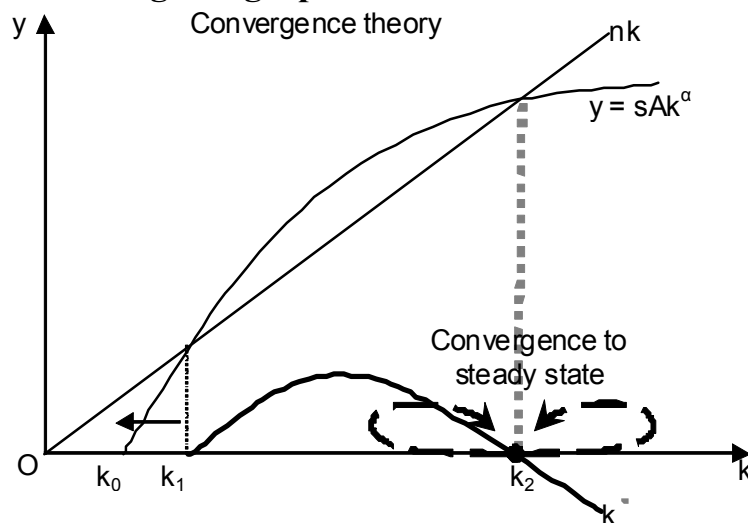
**Question No: 52 ( Marks: 10 )**

**A. \_\_\_\_\_**  
**What conclusions are derived from exogenous growth theory?**

**ANSWER: Exogenous Growth Theory:** The major conclusions derived from the exogenous growth are as follows:

- The steady growth rate of real GDP depends on exogenous rates of growth of population ( $n$ ) and technology ( $t$ ). There are no policies for government for how to affect the steady growth rate of a country. Higher savings can only have a little effect on income it cannot cause long term growth because savings cause diminishing returns to investment and capital accumulation.
- If one country started with lower income and capital than another country, the poorer country will grow faster to catch up the richer country and then both the countries will grow together.

**B. What is meant by convergence theory? Explain the convergence theory in the given graph.**



(Marks: 4+6)

**Question No: 53 ( Marks: 10 )**

**Define fiscal policy. Differentiate between contractionary and expansionary fiscal policy. In which situations, budget deficit and budget surplus exist?**

**Answer: Fiscal Policy:** Fiscal policy is the government's about the

- expenditure in form of purchases, subsidies and interest payments on debt etc.
- revenue in form of taxes etc.

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**Difference between Contractionary and Expansionary Fiscal Policy:**

<b>Contractionary Fiscal Policy</b>	<b>Expansionary Fiscal Policy</b>
In contractionary fiscal policy government decreases its expenditure.	In expansionary fiscal policy government increases its expenditure.

**Budget Deficit and Budget Surplus:** Budget deficit exists if government expenditure increases the revenue earned. In this case government needs to finance its expenditure through borrowing.

Budget surplus exists when revenue exceeds the government expenditure. In this condition government can easily pay off its debt borrowings.

(Marks: 2+4+4)

**Question No: 54 ( Marks: 10 )**

**Discuss the basic theories regarding IMF's stabilization program. Are these theories successful? If not, give reasons.**

**Answer: IMF's Stabilization Theories:**

- **Tight Fiscal Policy:** It works through higher revenues and reduced government expenditure.
- **Devaluation:** Switching from imports to home produced goods. It increases competitiveness, exports and increase investors confidence in local currency.
- **Tight Monetary Policy:** Higher interest rates resulting in reduced private sector consumption and investment demand. It reduces inflation and increases savings. High interest rates also results in higher capital inflow.

These theories are generally not successful in lower income countries (LICs). Because they caused the problems of:

- **Devaluation:** It raises the price of imports and also increased the inflation while the real wage rate could not increase.
- **Stabilization hurts poor:** decrease in expenditure always badly effects the poor which can then cause political instability.

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**FINALTERM EXAMINATION ECO401- Economics (Session - 2)**

**Time: 120 min**

**Marks: 87**

**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.**

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- ▶ No change in total revenue received by the course.
- ▶ An increase in the amount of golf played on the course.

**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.

**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.**

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

**An individual with a constant marginal utility of income will be:**

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- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.
- ▶ Insufficient information for a decision.

**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.

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**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.

**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.

**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.**

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

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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.

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

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.

**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.

**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.**

**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.

**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.**

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**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:**

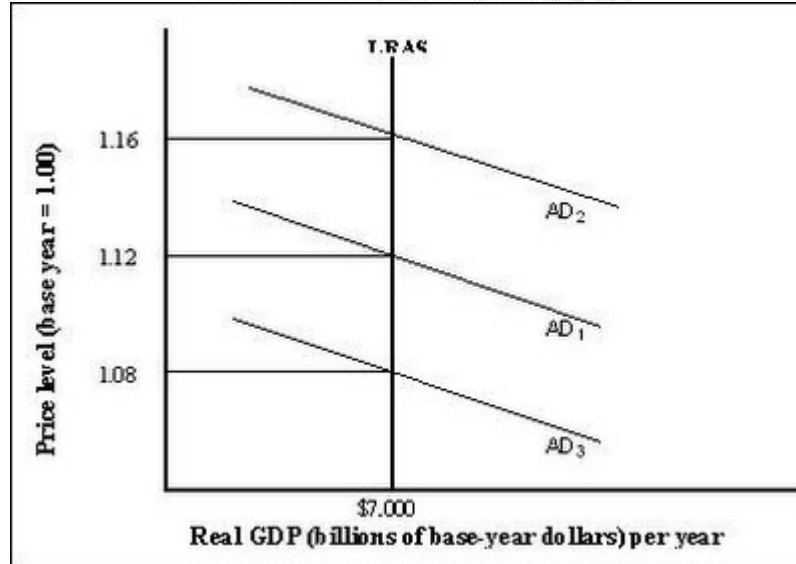
- ▶ **Discounting.**
- ▶ **Compounding.**
- ▶ **Hyperbolic discounting.**
- ▶ **None of the given options.**

**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.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

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: 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.

**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.

**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.

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.

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

Development is impossible without:

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

**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.

**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.**

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**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.

**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.

**Question No: 41 ( 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.

**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.

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

**In a period of recession, credit creation is:**

- Small.
- Heavy.
- Unchanged.

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► Zero.

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

**In a period of boom, credit creation is:**

- Small.
- Heavy.
- Unchanged.
- Zero.

**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.

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

**Which of the following is TRUE about low income countries?**

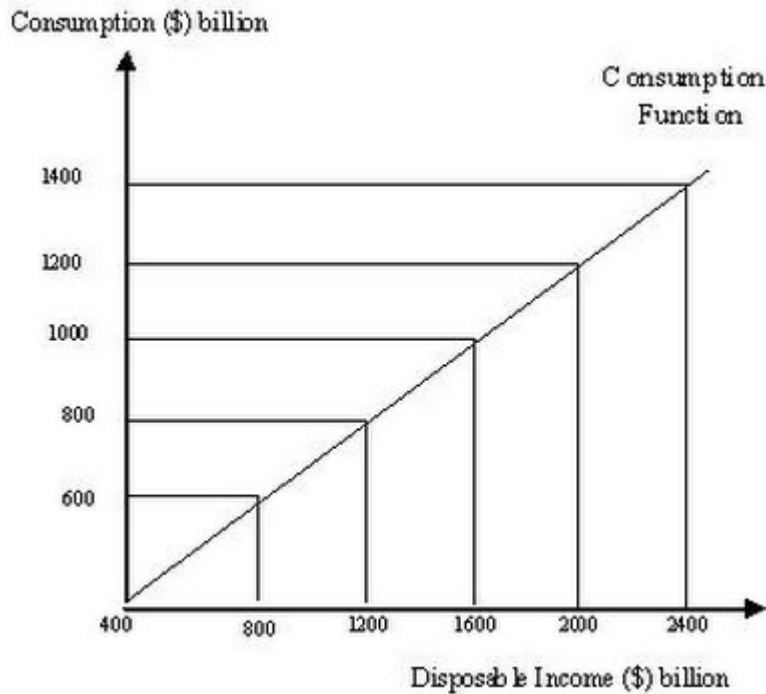
- ▶ Their production level is low.
- ▶ **All of the given are true.**
- ▶ Their savings are low.
- ▶ Their investment level is low.

**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.

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.

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- ▶ 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.

**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.

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- ▶ Consumers will minimize their satisfaction.

**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.**

**Question No: 55 ( Marks: 3 )**

**According to Keynesian school of thought, what should be the role of government in order to bring the economy out of depression?**

**Answer No: 55**

Keynes introduced demand-pull theory which emphasizes strongly the intervention of government into economy.

According to him economy may be boosted up by increasing expenditure. In the initial stage government can inject money in the form of investment and higher wage rate to the government employees. This will create higher demand which in return result in more investment by firms.

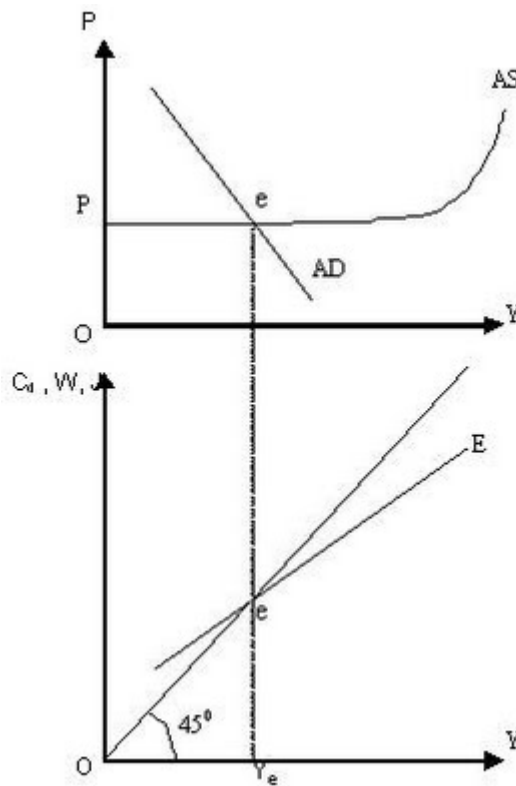
**Question No: 56 ( Marks: 5 )**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

In the above figure, suppose the economy is on the horizontal portion of aggregate supply (AS) curve.

- a) If government expenditures increase, what will happen to the aggregate expenditure line E, aggregate demand curve AD and output level Y.

Answer No: 56 (a)



It will cause more short run demand in the economy and “e” will move to the right in P-Y space.

It will increase the consumption part of injection as well and “e” will move upward and right in W.J-Y space.

AD will curve will move to right in P-Y space resulting increasing short run output “Y”.

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b) Is there any multiplier effect? How it works in this case?

**Answer No:56 (b)**

Yes, multiplier effect exists there.

Keynes multiplier  $1/mps$  is the variable which determines the injection level to create an hypothetical desired output.

**(Marks: 3+2)**

**Question No: 57 ( Marks: 5 )**

**World Bank suggests some structural reform policies for the poor countries to grow. Discuss those policies briefly.**

**Answer No: 57**

These are also called IMF's Stabilization Policies. These were concluded from neoclassical economics, known since 1990.

The objective of IMF was to ensure both through internal balance (supply=demand, i.e. low inflation, full employment) and

external balance (sustainable BOP and external debt position).

The approach was "stabilization" through "demand" management.

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There are three tools of this policy as follows!

- Tight Monetary Policy
- Tight Fiscal Policy
- Devaluation

IMF Policies effected LIC's badly. There was a very high criticism on above said policies. The main points of criticism were as follows!

- **Short-term policy conflicts**
- **Devaluation** could raise prices of imports.
- **Demand-reduction policies** are anti-growth: increased taxation can stifle the productive sector.
- **Stabilization hurts the poor** expenditure cuts almost always fall partly on the social sectors.

**Question No: 58 ( Marks: 10 )**

**Recall the Equation of Quantity theory of money and calculate the missing figure in each of the following cases:**

- a) Money supply (M) = 100, Price (P) = 3 and real output (Q) = 200.  
Calculate the missing figure.

**Answer No: 58 (a)**

$$MV = PQ$$

$$100 \times V = 3 \times 200$$

$$V = 600 / 100$$

$$V = 6$$

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b) Velocity of money (V) = 4, Price (P) = 5 and output (Q) = 100.  
Calculate the missing figure.

**Answer No: 58 (b)**

$$MV = PQ$$

$$M \times 4 = 5 \times 100$$

$$M = 500 / 4$$

$$M = 125$$

c) Money supply (M) = 200, velocity of money (V) = 7 and output (Q) = 700. Calculate the missing figure.

**Answer No: 58 (c)**

$$MV = PQ$$

$$200 \times 7 = P \times 700$$

$$P = 1400 / 700$$

$$P = 2$$

d) Money supply (M) = 150, velocity of money (V) = 8, Price level (P) = 3. Calculate the missing value.

**Answer No: 58 ( d )**

$$MV = PQ$$

$$150 \times 8 = 3 \times Q$$

$$Q = 1200 / 3$$

$$Q = 400$$

(Marks: 2.5 each)

**Question No: 59 ( Marks: 10 )**

**International monetary fund (IMF) suggests policies of stabilization “through demand management” to reduce poverty from developing countries. Discuss those policies. Were these policies successful? If not, give reasons.**

### **FINALTERM EXAMINATION ECO401- Economics (Session - 2)**

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

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.

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- ▶ Opportunity cost.

**Question No: 2 ( 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: 3 ( Marks: 1 ) - Please choose one**

**An increase in supply is shown by:**

- ▶ Shifting the supply curve to the left.
- ▶ **Shifting the supply curve to the right.**
- ▶ Upward movement along the supply curve.
- ▶ Downward movement along the supply curve.

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

**Price floor results in:**

- ▶ All of the given options.
- ▶ Excess supply.

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► Equilibrium.

► Excess demand.

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

**The price elasticity of demand measures the responsiveness of quantity demanded to:**

► Quantity demanded.

► Quantity supplied.

► Price.

► Output.

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

**Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:**

► -14.

► 14.

► 83.

► 97.

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

Indifference curves that are convex to the origin reflect:

- ▶ An increasing marginal rate of substitution.
- ▶ **A decreasing marginal rate of substitution.**
- ▶ A constant marginal rate of substitution.
- ▶ A marginal rate of substitution that first decreases, then increases.

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

To find the profit maximizing level of output, a firm finds the output level where:

- ▶ Price equals marginal cost.
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.
- ▶ **None of the given options.**

The profit maximizing level of output is found by equating its marginal revenue with its marginal cost, which is the same profit maximizing condition that a perfectly competitive firm uses to determine its equilibrium level of output. Indeed, the condition that marginal revenue equal marginal cost is used to determine the profit maximizing level of output of *every firm, regardless of the market structure* in which the firm is operating.

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

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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: 10 ( Marks: 1 ) - Please choose one**

A firm is charging a different price for each unit purchased by a consumer. This is called:

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ None of the given options.

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

McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:

- ▶ Collusion.
- ▶ Price discrimination.

► Two-part tariff.

► **Bundling.**

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

**The price elasticity of demand for any good must be less than or equal to zero unless:**

- The good is a necessity.
- The good is a luxury.
- **The good is a Giffen good.**
- None of the given options.

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

**Figure**

**In figure given above, the marginal utility of income is:**

- **Increasing as income increases.**
- Constant for all levels of income.
- Diminishes as income increases.
- None of the given options.

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

**In monopoly, which of the following is NOT true?**

- ▶ Products are differentiated.
- ▶ **There is freedom of entry and exit into the industry in the long run.**
- ▶ The firm is a price maker.
- ▶ There is one main seller.

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

**Welfare economics is the branch of economics which deals with:**

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

**Question No: 16 ( 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.

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- ▶ 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.

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

**Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?**

- ▶ Duopoly.
- ▶ **Cartel.**
- ▶ Market sharing monopoly.
- ▶ Natural monopoly.

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

**In the complete classical model, a rightward shift of the labor supply curve will:**

- ▶ Decrease the price level and increase the nominal wage.
- ▶ Decrease the nominal wage and increase the price level.
- ▶ Decrease both the price level and the nominal wage.
- ▶ **Increase both the price level and the nominal wage.**

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

**Which of the following events could cause the aggregate demand curve to shift to the right?**

- ▶ An increase in the rate of inflation.
- ▶ A decrease in government expenditures.
- ▶ A decrease in investment spending.
- ▶ **A decrease in income tax rates.**

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

**The Great Depression of 1930s opened the door to the \_\_\_\_\_ revolution in macroeconomic theory.**

- ▶ **Keynesian.**
- ▶ New classical.
- ▶ Old classical.
- ▶ New Keynesian.

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

**Keynesian economics was the predominant economic theory:**

- ▶ Prior to the late 1700s.

► From the late 1700s to the early 1900s.

► From 1930s to 1970s.

► Since 1970s.

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

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

► Monetarism.

► Rational expectations.

► **Keynesian economics.**

► Neoclassical economics.

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

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

► Both prices and output to rise.

► Prices to fall and output to remain unchanged.

► Both prices and output to fall.

► **Prices to rise and output to remain unchanged.**

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

**Intermediate goods are meant for:**

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

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

**Final goods are meant for:**

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

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

**Which of the following is a flow variable?**

- ▶ The value of the house in which you live.
- ▶ **The balance in your savings account.**
- ▶ Your monthly consumption on food items.

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- ▶ The number of carrots in your refrigerator at the beginning of the month.

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

**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ Capital.
- ▶ **The amount of money held by the public.**
- ▶ Inventory investment.

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

**All other things remain the same, Gross Domestic Product (GDP) will rise if:**

- ▶ Imports rises.
- ▶ Exports falls.
- ▶ **Durable goods consumption rises.**
- ▶ Military spending falls.

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

**If disposable income increases from \$5 trillion to \$6 trillion and as a result, consumption expenditure increases from \$7 trillion to \$7.8 trillion, the Marginal Propensity to Consume is:**

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- ▶ 1.0.
- ▶ 0.8.
- ▶  $5/7 = 0.71$ .
- ▶  $6/7.8 = 0.77$ .

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

**The slope of the consumption function (or line) is the:**

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

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

**Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:**

- ▶ 0.2.
- ▶ 0.4.
- ▶ 0.6.

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

**The unemployment rate is equal to:**

- ▶ Number of employed / labour force x 100.
- ▶ **Number of unemployed / labour force.**
- ▶ (Number of unemployed / labour force) x 100.
- ▶ None of the given options.

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

**The traditional Phillips Curve shows the:**

- ▶ **Inverse relationship between the rate of inflation and unemployment rate.**
- ▶ Inverse relationship between the nominal and real wage.
- ▶ Direct relationship between unemployment and demand-pull inflation.
- ▶ Tradeoff between the short run and long run.

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

**Deflation is:**

- ▶ An increase in the overall level of economic activity.
- ▶ An increase in the overall price level.
- ▶ A decrease in the overall level of economic activity.
- ▶ **A decrease in the overall price level.**

**Question No: 35 ( 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.

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

**Real Gross Domestic Product (GDP):**

- ▶ **Is nominal GDP adjusted for changes in the price level.**
- ▶ Is also called nominal GDP.
- ▶ Measures GDP minus depreciation of capital.
- ▶ Will always change when prices change.

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

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**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: 38 ( Marks: 1 ) - Please choose one**

**A currency appreciation:**

- ▶ **Reduces aggregate demand and increases aggregate supply.**
- ▶ Reduces both aggregate demand and aggregate supply.
- ▶ Increases aggregate demand and reduces aggregate supply.
- ▶ Increases both aggregate demand and aggregate supply.

**Question No: 39 ( 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.

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

**Personal income:**

- ▶ Is income received by individuals during a given year.
- ▶ Is the income individuals have available for spending during a given year.
- ▶ Equals national income minus indirect taxes.
- ▶ Is the sum of wages plus interest received by individuals during a given year.

**Question No: 41 ( 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.

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► 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: 42 ( Marks: 1 ) - Please choose one**

**Which of the following statements describes the difference between nominal and real Gross Domestic Product (GDP)?**

- Real GDP includes only goods; nominal GDP includes goods and services.
- **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- Real GDP is equal to nominal GDP multiplied by the CPI.

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

**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

- $GNP = GDP - \text{Net income from abroad.}$
- **$GNP = GDP + \text{Net income from abroad.}$**
- $GNP = NNP - \text{Net income from abroad.}$
- $GNP = NNP + \text{Net income from abroad.}$

**Question No: 44 ( 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.**

**Question No: 45 ( 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: 46 ( Marks: 1 ) - Please choose one**

**An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called:**

- ▶ Overvalued exchange rate.

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- ▶ Undervalued exchange rate.
- ▶ Fixed exchange rate.
- ▶ **Flexible exchange rate.**

**Question No: 47 ( 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.

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

**In the Keynesian cross model, the 45-degree line has a slope of:**

- ▶ 45.
- ▶ Infinity.
- ▶ **1.**
- ▶ 0.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

**In Keynesian economics, equilibrium can occur:**

- ▶ Only at full employment level.
- ▶ Only at levels less than full employment.
- ▶ Only at levels greater than full employment.
- ▶ **At any level of aggregate output which is equal to aggregate expenditures.**

**Question No: 50 ( Marks: 1 ) - Please choose one**

**After a decrease in the wage, the substitution effect implies that:**

- ▶ Only the amount demanded of capital decreases.
- ▶ Only the amount demanded of labor decreases.
- ▶ **Only the amount demanded of capital increases.**
- ▶ The amount demanded of all inputs increases.

**Question No: 51 ( Marks: 5 )**

**Briefly discuss the private cost of advertising. How we can calculate the marginal social cost?**

**ANSWER: Private Cost Of Advertising:** The private cost of advertising is the cost incurred by firm in making the advertisement i.e newspaper ads, tv commercials etc. The firms do not take into account the nuisance faced by

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people due to these advertisements otherwise the firms would do less advertisement.

**Marginal Social Cost:** Marginal social cost is not a monetary based cost. It is the cost borne by the society as a whole. It is the cost of consumption of one next unit.

**Question No: 52 ( Marks: 10 )**

**A. What conclusions are derived from exogenous growth theory?**

**ANSWER: Exogenous Growth Theory:** The major conclusions derived from the exogenous growth are as follows:

- ☐ The steady growth rate of real GDP depends on exogenous rates of growth of population ( $n$ ) and technology ( $t$ ). There are no policies for government for how to affect the steady growth rate of a country. Higher savings can only have a little effect on income it cannot cause long term growth because savings cause diminishing returns to investment and capital accumulation.
- ☐ If one country started with lower income and capital than another country, the poorer country will grow faster to catch up the richer country and then both the countries will grow together.

**B. What is meant by convergence theory? Explain the convergence theory in the given graph.**

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(Marks: 4+6)

**Question No: 53 ( Marks: 10 )**

**Define fiscal policy. Differentiate between contractionary and expansionary fiscal policy. In which situations, budget deficit and budget surplus exist?**

**Answer: Fiscal Policy:** Fiscal policy is the government's about the

- expenditure in form of purchases, subsidies and interest payments on debt etc.
- revenue in form of taxes etc.

**Difference between Contractionary and Expansionary Fiscal Policy:**

<b>Contractionary Fiscal Policy</b>	<b>Expansionary Fiscal Policy</b>
In contractionary fiscal policy government decreases its expenditure.	In expansionary fiscal policy government increases its expenditure.

**Budget Deficit and Budget Surplus:** Budget deficit exists if government expenditure increases the revenue earned. In this case government needs to finance its expenditure through borrowing.

Budget surplus exists when revenue exceeds the government expenditure. In this condition government can easily pay off its debt borrowings.

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(Marks: 2+4+4)

**Question No: 54 ( Marks: 10 )**

**Discuss the basic theories regarding IMF's stabilization program. Are these theories successful? If not, give reasons.**

**Answer: IMF's Stabilization Theories:**

- ☐ **Tight Fiscal Policy:** It works through higher revenues and reduced government expenditure.
- ☐ **Devaluation:** Switching from imports to home produced goods. It increases competitiveness, exports and increase investors confidence in local currency.
- ☐ **Tight Monetary Policy:** Higher interest rates resulting in reduced private sector consumption and investment demand. It reduces inflation and increases savings. High interest rates also results in higher capital inflow.

Theses theories are generally not successful in lower income countries (LICs). Because they caused the problems of:

- **Devaluation:** It raises the price of imports and also increased the inflation while the real wage rate could not increase.
- **Stabilization hurts poor:** decrease in expenditure always badly effects the poor which can then cause political instability

**FINALTERM EXAMINATION ECO401- Economics (Session - 2)**

**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.**
- ▶ 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: 3 ( Marks: 1 ) - Please choose one**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

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.

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- ▶ 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:**

**solution=**  $Ped = \% \text{ change in } Q \text{ demand} / \% \text{ change in } Q \text{ Price} = 10\% / 12\% = 0.5$   
where  $e > 1$  elastic

$e < 1$  inelastic

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ 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.

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**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**

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**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.

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- ▶ 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?**

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- ▶ 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.

**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.

**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.

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- ▶ 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.

**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.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

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.

**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.

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► Imperfect competition.

► Circular flow.

**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.

**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.

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**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.

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

**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.**

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► 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:**

**delta consumption/ delta income =40/50=.8**

► 0.2.

► 0.4.

► 0.6.

► **0.8.**

**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.

**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.

**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.

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- ▶ An increase in the overall price level.
- ▶ A decrease in the overall level of economic activity.
- ▶ **A decrease in the overall price level.**

**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.
- ▶ Recession; inflation.

**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.

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

**The Phillips curve will shift to the right:**

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- ▶ 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: 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.

**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 foriegn good in terms of domestic good.
- ▶ **Price of one unit of foriegn currency in terms of domestic currency.**
- ▶ All of the given options.

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**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.

**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.

**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.

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- ▶ Paper currency, coins, check writing deposits and savings deposits.

▶ Paper currency, coins, check writing deposits, savings deposits and certificates of 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.

**Question No: 50 ( Marks: 1 ) - Please choose one**

**An example of hysteresis having a negative effect on a country's economy would be:**

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- ▶ 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.

**Question No: 51 ( Marks: 5 )**

**Briefly discuss the concept of comparative advantage with the help of example.**

**Question No: 52 ( Marks: 10 )**

**A. Differentiate between Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS).**

**B. Suppose a household has the consumption function (C) presented in the figure given below:**

- a. Find consumption when disposable income is \$8,000 and \$10,000.
- b. Find consumption when disposable income is \$ 6,000. How can a household consume more than its disposable income?
- c. What is true for every point on the  $45^\circ$  line?

**(Marks: 4+6)**

**Question No: 53 ( Marks: 10 )**

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

**(Marks:4+6)**

**Question No: 54 ( Marks: 10 )**

**Recall the Equation of Quantity theory of money and calculate the missing figure in each of the following cases:**

- a) Money supply (M) =100, Price (P) = 3 and real output (Q) = 200. Calculate the missing figure.
- b) Velocity of money (V) = 4, Price (P) = 5 and output (Q) =100. Calculate the missing figure.
- c) Money supply (M) = 200, velocity of money (V) = 7 and output (Q) = 700. Calculate the missing figure.
- d) Money supply (M) =150, velocity of money (V) = 8, Price level (P) = 3. Calculate the missing value.

**(Marks: 2.5 each)**

**FINALTERM EXAMINATION ECO401- Economics (Session - 3)**

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

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ The behavior of individual consumers and behavior of individual firms and investors.

**Question No: 2 ( 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.

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

**Ceteris paribus means:**

- ▶ Equal access to public transportation.
- ▶ Other things being equal.
- ▶ Other things not being equal.
- ▶ All things considered.

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

**A new technology which reduces costs for firms:**

- ▶ Shifts the supply curve to the right.
- ▶ Shifts the supply curve to the left.
- ▶ Reduces the equilibrium quantity.
- ▶ Raises the equilibrium price.

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

**If a 12% price reduction causes quantity demanded to rise by 12% then:**

- ▶ Demand is inelastic.

- ▶ Demand is elastic.
- ▶ Demand is perfectly elastic.
- ▶ Total revenue will remain constant.

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

**A risk-averse individual has:**

- ▶ A diminishing marginal utility of income.
- ▶ An increasing marginal utility of risk.
- ▶ An increasing marginal utility of income.
- ▶ A diminishing marginal utility of risk.

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

**The break-even point occurs when:**

- ▶  $\text{Price} < \text{Average Variable Cost}$ .
- ▶  $\text{Price} < \text{Average Total Cost}$ .
- ▶  $\text{Price} = \text{Average Total Cost}$ .
- ▶  $\text{Price} > \text{Average Variable Cost}$ .

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

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**Discrimination based upon the quantity consumed is referred to as:**

- ▶ Second degree price discrimination.
- ▶ Third-degree price discrimination.
- ▶ First-degree price discrimination.
- ▶ All of the given options.

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

**Which of the following can be thought of as a barrier to entry?**

- ▶ Scale economies.
- ▶ Patents.
- ▶ Strategic actions by incumbent firms.
- ▶ All of the given options.

verified by **eemaan**

**Question No: 10 ( 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.

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► Demand is perfectly inelastic.

**Question No: 11 ( 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.

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

**Keynesian economics was largely developed to address the economic problems of the:**

► Bank panic of 1907.

► Stagflation of 1970s.

► Great Depression of 1930s.

► English industrial revolution of the late 1700s.

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

**Keynesian economics was the predominant economic theory:**

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- ▶ Prior to the late 1700s.
- ▶ From the late 1700s to the early 1900s.
- ▶ From 1930s to 1970s.
- ▶ Since 1970s.

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

**According to classical economics, the economy will always tend toward full employment due to:**

- ▶ Minimum wages.
- ▶ Flexible wages and prices.
- ▶ Extended periods of unemployment.
- ▶ Inequality between saving and investment.

**Question No: 15 ( 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.

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- ▶ The whole population.

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

**The record of a country's transactions in goods, services and assets with the rest of the world is its:**

- ▶ Current account.
- ▶ Balance of trade.
- ▶ **Capital account.**
- ▶ Balance of payments.

**Question No: 17 ( 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: 18 ( Marks: 1 ) - Please choose one**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

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

- ▶ Indirect taxes.
- ▶ Depreciation.
- ▶ Direct taxes.
- ▶ Transfer payments.

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

**In Keynesian economics, if aggregate expenditures are less than aggregate output then:**

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ Employment decreases.
- ▶ Aggregate output increases.

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

**According to Keynesian economics, aggregate expenditures are the sum of desired or planned spending undertaken by:**

- ▶ All four sectors only when the economy is at full employment.
- ▶ All four sectors at a specific aggregate production level.

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▶ The household sector after taxes.

▶ The business and government sectors.

**Question No: 21 ( 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: 22 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about the principle of multiplier?**

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

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Suppose in a macroeconomic model, there is no foreign trade or government spending. In this case, aggregate demand is the sum of:

- ▶ Personal saving and private investment.
- ▶ Personal saving and personal consumption.
- ▶ Personal consumption and personal income.
- ▶ Personal consumption and private investment.

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

**Which of the following best describes the deflation?**

- ▶ It is an increase in the overall level of economic activity.
- ▶ It is an increase in the overall price level.
- ▶ It is a decrease in the overall level of economic activity.
- ▶ It is a decrease in the overall price level.

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

**All of the following are the problems in the calculation of national income EXCEPT:**

- ▶ Double counting.
- ▶ Improper records.
- ▶ Differences in the incomes of the individuals.
- ▶ Problem of exclusion and inclusion.

**Question No: 26 ( 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.

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

**Which of the following best describes the “savings”?**

- ▶ **It is that part of income which is not consumed.**
- ▶ It is that part of income which is not spent.
- ▶ It is that part of income which is paid out to others.
- ▶ It is that part of income which is hoarded.

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

**According to Keynesians, macroeconomic equilibrium will occur in an economy if:**

- ▶ Aggregate demand = Aggregate supply.
- ▶ Aggregate expenditures = Aggregate output.
- ▶ Withdrawals = Injections.
- ▶ **All of the given conditions hold.**

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

**The demand for factors of production is derived from:**

- ▶ Money market.
- ▶ Goods market.
- ▶ **Stock market.**
- ▶ Financial market.

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

**The relationship between hours provided by labor and wage rate is:**

- ▶ **Positive.**
- ▶ Negative.
- ▶ Ambiguous.
- ▶ Very strong.

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

**The demand curve for labour can be derived from the intersection of:**

- ▶ Horizontal wage rate lines and the marginal revenue product of labour.
- ▶ Vertical wage rate lines and the marginal revenue product of labour.
- ▶ Vertical wage rate lines and the marginal revenue product of capital.
- ▶ Horizontal wage rate lines and the marginal revenue product of capital.

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

**The rate at which the future incomes are discounted is known as:**

- ▶ Interest rate.
- ▶ Inflation rate.
- ▶ **Discount rate.**
- ▶ Reserve requirement rate.

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

**National defense is a good example of:**

- ▶ **Public good.**
- ▶ Inferior good.
- ▶ Giffen good.
- ▶ Private good.

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

**Suppose net exports decreases by \$100 million due to a slump in foreign economies. If the value of multiplier is 2, what will happen to the domestic aggregate demand curve?**

- ▶ Since less will be produced, the aggregate demand does not shift. The aggregate supply curve shifts to the left by \$100 million at each price level.
- ▶ It shifts to the left by \$50 million at each price level.

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- ▶ It shifts to the left by \$100 million at each price level.
- ▶ It shifts to the left by \$200 million at each price level.

**Question No: 35 ( 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.

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

**Which of the following is the best measure of the economic cost of higher unemployment?**

- ▶ The loss of potential exports for the economy.
- ▶ The loss of tax revenue.
- ▶ The increase in social security benefits paid by the government.
- ▶ The output of goods and services the unemployed workers could have produced.

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

**Which of the following would be expected to increase the natural rate of unemployment?**

- ▶ A reduction in the number of new entrants into the labor force.

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- ▶ An increase in the growth rate of the capital stock.
- ▶ A reduction in the corporate profits tax.
- ▶ An increase in the level of unemployment compensation paid to unemployed workers.

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

**Evidence suggests that all countries with very high \_\_\_\_\_ also have very high \_\_\_\_\_.**

- ▶ Inflation rates; money growth rates.
- ▶ Unemployment rates; GDP growth rates.
- ▶ GDP growth rates; government budget deficits.
- ▶ Government budget deficits; inflation rates.

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

**In the equation of exchange, if velocity is stable in the long run then:**

- ▶  $\% \Delta V = 0$ .
- ▶  $\% \Delta V = 1$ .
- ▶  $\% \Delta V$  is a positive constant value  $> 0$ .
- ▶  $\% \Delta V = \text{infinity}$ .

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

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

Refer to the above table, when disposable personal income is \$400, what is the amount of personal saving?

- ▶ -\$40.
- ▶ -\$20.
- ▶ \$0.
- ▶ \$20.

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

The act of increasing the price of one country's currency in terms of other currencies by the government is known as:

- ▶ Revaluation.
- ▶ Devaluation.
- ▶ Appreciation.
- ▶ Depreciation.

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

If net exports are negative, this implies that the country has a:

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- ▶ Trade surplus.
- ▶ Trade deficit.
- ▶ Government budget surplus.
- ▶ Government budget deficit.

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

**If net exports are positive, this implies that the country has:**

- ▶ Trade surplus.
- ▶ Trade deficit.
- ▶ Government budget surplus.
- ▶ Government budget deficit.

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

**A change from \$1.00 = Rs. 82.00 to \$1.00 = Rs. 80.00 represents:**

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

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

**Which of the following determines a country's rate of growth?**

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- ▶ The average propensity to save.
- ▶ The interaction of supply and demand.
- ▶ The law of comparative costs.
- ▶ The rate of capital accumulation.

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

**Permanent growth rate depends on the saving rate and technological progress in which of the following models?**

- ▶ Endogenous growth model.
- ▶ Exogenous growth model.
- ▶ Rostow's growth model.
- ▶ None of the given options.

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

**Which of the following is a largest component of M1?**

- ▶ Checking deposits.
- ▶ Credit card balances.
- ▶ Debit card balances.
- ▶ Savings deposits.

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

**In which of the following conditions, a current account deficit exists?**

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- ▶ 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.

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

**What is TRUE about economic growth in general?**

- ▶ Economic growth has a greater impact on people's welfare in high income countries than in low income countries.
- ▶ In low income countries, economic growth makes rich people richer and poor people poorer.
- ▶ Economic growth makes most people, including most poor people, better off.
- ▶ Economic growth worsens income inequality in the short-run but is successful in the long run.

**Question No: 50 ( 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.

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**Question No: 51 ( Marks: 1 ) - Please choose one**

**What will happen if there is an increase in the raw material costs, other things remaining the same?**

- ▶ The supply curve will shift to the left.
- ▶ The supply curve will shift to the right.
- ▶ Output will increase regardless of the market price and the supply curve will shift upward.
- ▶ Output will decrease and the market price will also decrease.

**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.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**Suppose there are two goods A and B. What will happen to the budget line if prices of both goods increase by the same percentage?**

- ▶ It will shift parallel to the left.

- ▶ It will shift parallel to the right.
- ▶ It will pivot about the x axis.
- ▶ It will pivot about the y axis.

**Question No: 54 ( Marks: 1 ) - Please choose one**

The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the average total cost?

- ▶  $5Q$ .
- ▶  $5$ .
- ▶  $5 + (200/Q)$ .
- ▶ None of the given options.

**Question No: 55 ( Marks: 3 )**

It is said that growth is an important macroeconomic issue. Why? Discuss.

**Question No: 56 ( Marks: 5 )**

Mention the situations in which imposing a tax is better than not imposing it.

**Question No: 57 ( Marks: 5 )**

Consider the following table. Find out the GNP and NNP from this information.

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Items	Amount (billion rupees)
Personal consumption expenditures	458
Gross domestic private investment	169
Government expenditure on goods and services	78
Gross domestic public investment	27
Exports surplus	15
Net foreign investment	17
Depreciation cost	28

**Question No: 58 ( Marks: 10 )**

**Discuss the causes of low per capita income in Pakistan. How can the standard of living of the people of Pakistan be raised? Suggest suitable measures in this context.**

**Question No: 59 ( Marks: 10 )**

**(A) Mention the factors which could cause a downward shift of the LM curve**

**(B) Discuss the joint equilibrium in goods and money market with the help of graph.**

**FINALTERM EXAMINATION ECO401- Economics (Session - 4)**

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Marks: 87

**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.**

**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.**

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- ▶ 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**

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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

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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.

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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.

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.

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► **Marginal propensity to save.**

► Marginal propensity to consume.

**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.

**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.

**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.**

**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.**

**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.**

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

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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: 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.

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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.**

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.

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.

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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 = Rs. 5000**

- ▶ 1000+500+2500 = Rs. 4000
- ▶ 1000+500+1000 = Rs. 2500
- ▶ 1000+1500+1000 =Rs. 3500

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.

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

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

►  **$\Delta C$  to  $\Delta Y_d$  is 0.95.**

- $C / Y_d$  is 0.95.
- $\Delta Y_d$  to  $\Delta C$  is 0.95.
- $Y_d / C$  is 0.95.

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.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**



Which of the following are leakages from the circular flow?

► Consumption and saving.

► **Saving and imports.**

► Imports and exports.

► Exports and savings.

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.

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.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

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.

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.

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.**

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.

**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.

**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:**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

► **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.

**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.

**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.

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

**The relationship between tax rates and total tax collections by government is known as:**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

► **Laffer curve.**

- Demand curve.
- Supply curve.
- Investment curve.

**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%.

**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.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

**► Tariff.**

- Non-tariff barrier.
- Trade embargo.

**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**

**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.**

**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.

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► 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.

**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.

**Question No: 55 ( Marks: 3 )**

**How the central bank plays its role in order to control the activities of commercial banks?**

**Question No: 56 ( Marks: 5 )**

**Briefly discuss different types of taxes which a government can impose.**

**Question No: 57 ( Marks: 5 )**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**



A. Differentiate between final goods and intermediate goods with the help of examples.

B. See the following table:

Year	1979	1980	1981	1982	1983	1984	1985	1986
Real GDP Growth Rate	1.2%	-5.5%	1.8%	3.9%	4.5%	5.3%	2.6%	1.9%

- a) Calculate the average growth rate from 1982 and 1985.
- b) Calculate the average growth rate from 1979 and 1986.

(Marks: 3+2)

Question No: 58 ( Marks: 10 )

From the information given in the following table, calculate the number of unemployed persons and unemployment rate.

Year	Size of Labor Force	Number of persons Employed
1984	113544	105005
1985	115461	107150
1986	117834	109597
1987	119865	112440
1988	121669	114968

(Marks: 5+5)

Question No: 59 ( Marks: 10 )

Answer the following questions.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

- a) What is interest parity condition?
- b) When does this condition hold?
- c) What is the equation of this condition?
- d) What will happen if the equality of the condition does not hold

### ECO401- Economics (Session - 3)

**Marks: 87**

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

**Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:**

- ▶ The economy's production possibilities curve will shift outward.
- ▶ The economy's production possibilities curve will become steeper.
- ▶ The economy will move downward along its production possibilities curve.
- ▶ The economy will move from a point inside to a point closer to its production possibilities curve.

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

**If both supply and demand increase simultaneously, the equilibrium:**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

► **Price must rise and the equilibrium quantity must fall.**

- Price must rise and the equilibrium quantity may either rise or fall.
- Quantity must rise and the equilibrium price may either rise or fall.
- Price must fall and the equilibrium quantity may either rise or fall.

**Question No: 3 ( 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: 4 ( 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.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

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

**Incremental cost is the same concept as:**

- ▶ Average cost.
- ▶ **Marginal cost.**
- ▶ Fixed cost.
- ▶ Variable cost.

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

**Graphically, marginal revenue is defined as:**

- ▶ The slope of a line from the origin to a point on the total revenue curve.
- ▶ **The slope of a line from the origin to the end of the total revenue curve.**
- ▶ The slope of the total revenue curve at a given point.
- ▶ The vertical intercept of a line tangent to the total revenue curve at a given point.

**Question No: 7 ( 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: 8 ( 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: 9 ( Marks: 1 ) - Please choose one**

**A market with few entry barriers and with many firms that sell differentiated products is:**

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive.**
- ▶ Oligopolistic.

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

**Monopolistically competitive firms have monopoly power because they:**

- ▶ Are great in number.
- ▶ Have freedom of entry.
- ▶ Are free to advertise.
- ▶ Face downward sloping demand curves.

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

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

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

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

**When the marginal revenue product of labor is greater than the marginal input cost of labor then the profit maximizing firm will:**

**► Hire more labor.**

- Hire less labor.
- Maintain the same employment.
- Decrease output.

**Question No: 13 ( 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.

**Question No: 14 ( 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: 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.

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

**Unemployment benefits may increase the unemployment rate because:**

- ▶ Unemployment benefits reduce the cost of job search.

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- ▶ 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: 17 ( 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: 18 ( 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.

Question No: 19 ( 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.

Question No: 20 ( 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: 21 ( Marks: 1 ) - Please choose one

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To obtain the Net Domestic Product (NDP), start with Gross Domestic Product and subtract:

**► Depreciation.**

- Depreciation and indirect business taxes.
- Depreciation, indirect business taxes and corporate profits.
- Depreciation, indirect business taxes, corporate profits and social insurance contributions.

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

**Fixed exchange rates may be preferred to floating exchange rates because with fixed exchange rates:**

**► There is greater stability of the exchange rate which encourages trade and investment.**

- There is less likely to be a balance of payment deficit.
- There is less need for a country to hold large reserves of foreign currency.
- Interest rates can be used to meet domestic policy objectives such as keeping growth stable.

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

If the simple Keynesian expenditure multiplier is 4, the Marginal Propensity to Consume (MPC) is:

▶ 0.20.

▶ 0.25.

▶ 0.50.

▶ 0.75.

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

**Usually the shape of production possibilities curve is:**

▶ Concave.

▶ Convex.

▶ Linear.

▶ Positive.

**Question No: 25 ( 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.

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

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

**“Decreases in aggregate demand decrease real output but leave the price level largely unaffected”. This is the point of view of which of the following schools of thought?**

- ▶ Monetarist school of thought.
- ▶ New Classical school of thought.
- ▶ Real business cycle school of thought.
- ▶ Keynesian school of thought.

**Question No: 27 ( 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.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

Suppose that your income increases from \$80,000 to \$100,000 and your consumption increases from \$80,000 to \$95,000. Your Marginal Propensity to Consume (MPC) is:

▶ 0.20.

▶ 0.45.

▶ 0.75.

▶ 0.80.

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

**Which of the following event will lead towards cost-push inflation and therefore stagflation?**

▶ An increase in taxes on individuals.

▶ A decrease in real interest rates.

▶ A union settlement that increases wage levels.

▶ An increase in government purchases.

**Question No: 30 ( 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.

**Question No: 31 ( 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.

**Question No: 32 ( 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.

Question No: 33 ( 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: 34 ( Marks: 1 ) - Please choose one

**What is the effect of double counting in national income calculations?**

▶ Underestimation of national product.

**▶ Overestimation of national product.**

- ▶ Distortions in national product.
- ▶ Misleading conclusions about national product.

Question No: 35 ( 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.**

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

**The demand curve for labour can be derived from the intersection of:**

▶ **Horizontal wage rate lines and the marginal revenue product of labour.**

▶ Vertical wage rate lines and the marginal revenue product of labour.

▶ Vertical wage rate lines and the marginal revenue product of capital.

▶ Horizontal wage rate lines and the marginal revenue product of capital.

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

**A movement along the aggregate demand curve is called a:**

▶ Change in aggregate demand.

▶ Change in the aggregate quantity of goods and services demanded.

▶ Determinant of aggregate demand.

▶ **Revealed expenditure on aggregate demand.**

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

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

▶ Aggregate demand.

▶ Aggregate supply.

▶ The government.

▶ **Money supply.**

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

**The simple Keynesian aggregate supply curve is:**

- ▶ Upward sloping as real GDP increases.
- ▶ Horizontal at GDP levels below full employment.
- ▶ Based on the concept that all unemployment is voluntary.
- ▶ Downward sloping as real GDP increases.

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

**In the equation of exchange, if velocity is stable in the long run then:**

- ▶  $\% \Delta V = 0$ .
- ▶  $\% \Delta V = 1$ .
- ▶  $\% \Delta V$  is a positive constant value  $> 0$ .
- ▶  $\% \Delta V = \text{infinity}$ .

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

**Which of the following is TRUE for the equation  $MV = PQ$ ?**

- ▶ M is the money supply.
- ▶ V is the velocity.
- ▶ Q is the real output level.
- ▶ All of the given options.

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

**The increase 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.

<http://groups.google.com/group/vuZs>

**Question No: 43 ( 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.

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

**As a definition of economic growth, an increase in real capita income is preferable to an increase in simply real GNP, because:**

- ▶ Total GNP measures overall progress while per capita GNP measures improvement in productivity.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

▶ Total GNP measures goods and services produced while per capita GNP shows improvement in efficiency.

▶ Total GNP figures estimate the value of a country's total output while per capita GNP accounts for population growth and shows the availability per person of goods and services.

**▶ All of the given options.**

**Question No: 45 ( 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.**

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

**The government has a balanced budget if:**

**▶ Its total revenues are equal to its total expenditures.**

▶ Its total revenues are less than its total expenditures.

▶ Its total revenues are greater than its total expenditures.

▶ The money supply is less than total expenditures.

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

**Tax on wages, rent, interest, and profit, is known as:**

**▶ Direct tax.**

- ▶ Indirect tax.
- ▶ Progressive tax.
- ▶ Regressive tax.

**Question No: 48 ( 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.

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

**Which of the following is an example of a tariff?**

- ▶ A limit on the total number of Honda cars that can be imported from Japan.
- ▶ A regulation specifying that each imported Honda car must meet certain emission exhaust guidelines.
- ▶ A tax of \$500 on each Honda car imported from Japan.**
- ▶ A tax of 10% of the value of each Honda car purchased in Japan.

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**Question No: 50 ( 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: 51 ( Marks: 1 ) - Please choose one**

**The price elasticity of supply for most products differs due to capacity constraints. Which of the following is TRUE in this context?**

- ▶ It is same in the long run and the short run.
- ▶ It is greater in the long run than in the short run.
- ▶ It is greater in the short run than in the long run.
- ▶ It is too uncertain to be estimated.

**Question No: 52 ( Marks: 1 ) - Please choose one**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

**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.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**What is meant by the term utility?**

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

**Question No: 54 ( 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: 55 ( Marks: 3 )

Briefly discuss the concept of Pareto Efficiency.

Question No: 56 ( Marks: 5 )

According to the values given in the following table, calculate the injections at each level of output.

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

(Marks: 1 for each)

Question No: 57 ( Marks: 5 )

World Bank suggests some structural reform policies for the poor countries to grow. Discuss those policies briefly.



**Question No: 58 ( Marks: 10 )**

**What is meant by marginal disutility of work? From the information given below, calculate the marginal cost and average cost at each level of output.**

Online Economics Course			
Output	Total Cost	Marginal Cost	Average Cost
50	60,000	?	?
100	60,000	?	?
150	60,000	?	?
200	60,000	?	?
250	60,000	?	?
300	60,000	?	?

**(Marks: 2+8)**

**Question No: 59 ( Marks: 10 )**

**Show the impact of following policies on IS-LM framework with the help of diagrams.**

- a) Expansionary monetary policy.**
- b) Expansionary fiscal policy.**

**FINAL TERM EXAMINATION  
Fall 2009  
ECO401- Economics (Session - 3)**

**Ref No: 1148947  
Time: 120 min**

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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.

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.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

**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.

**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.

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

**The marginal revenue product is:**

- ▶ Upward sloping due to the law of demand.

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- ▶ 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.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

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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.

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.

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.

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**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.

**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.

**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.

**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.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

**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.

**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.

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► 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.

**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.

**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.

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

National income figures are:

- Very exact.
- Practically exact.
- Only estimates.
- Wrong.

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

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

- $\Delta C$  to  $\Delta Y_d$  is 0.95.
- $C / Y_d$  is 0.95.
- $\Delta Y_d$  to  $\Delta C$  is 0.95.
- $Y_d / C$  is 0.95.

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

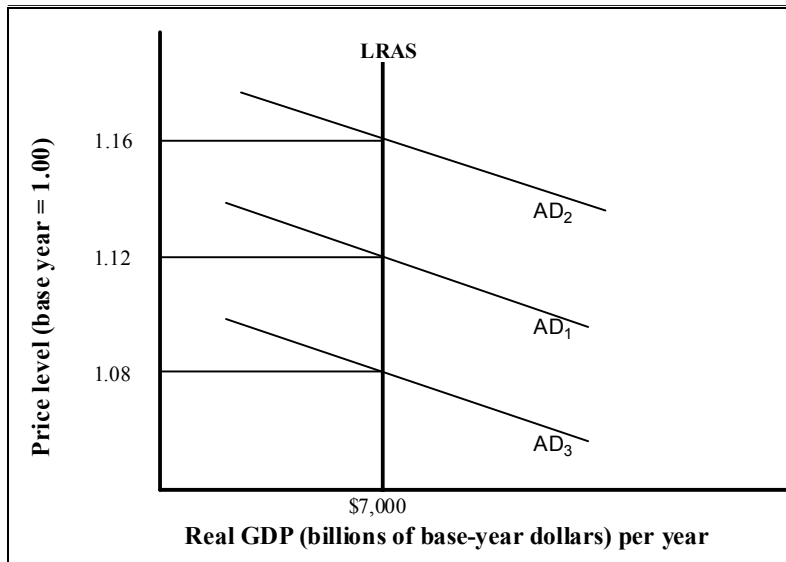
Which of the following describes the four sources of aggregate demand?

- 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.

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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:

- I. Wages.
  - II. Raw materials costs.
  - III. Government spending.
  - IV. Government regulations that increase the cost of doing business.
- ▶ I, II, III, and IV.
  - ▶ I and III only.
  - ▶ I, III, and IV.
  - ▶ III only.

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

The short run in macroeconomic analysis is a period:

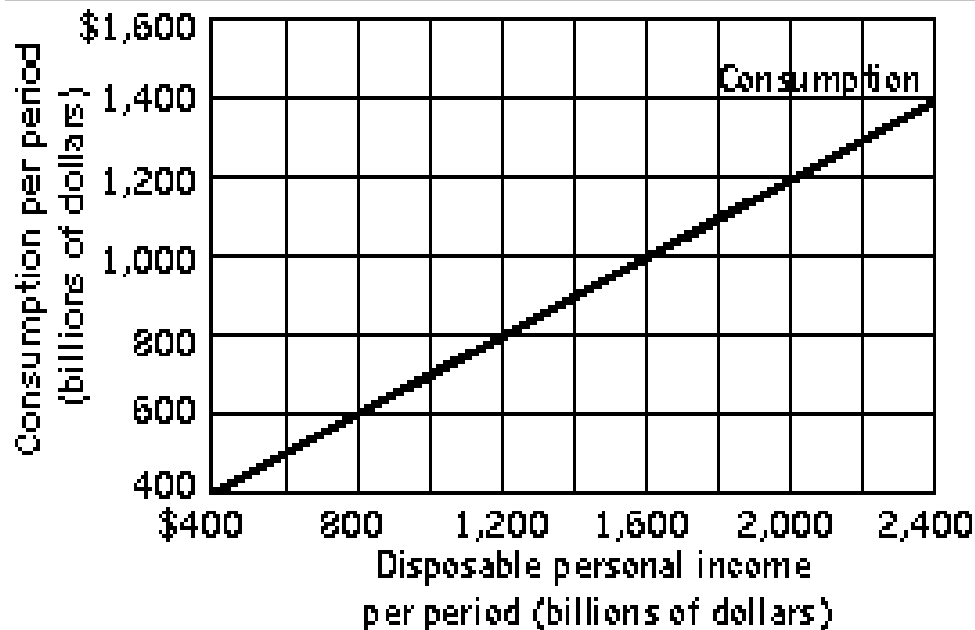
- ▶ In which wages and some other prices do not respond to changes in economic conditions.
- ▶ In which full wage and price flexibility and market adjustment have been achieved.
- ▶ Of less than 12 months.
- ▶ In which all macroeconomic variables are fixed.

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

Which of the following is TRUE?

- ▶  **$1 - \text{MPS} = \text{MPC}$**
- ▶  $1 + \text{MPS} = \text{MPC}$
- ▶  $1 / \text{MPS} = \text{MPC}$
- ▶  $1 \times \text{MPS} = \text{MPC}$

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.**

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.

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.**

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- ▶ Prices of goods at home and abroad.
- ▶ Costs of transporting goods from country to country.
- ▶ All of the given options.

**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.

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

**Devaluation is done to:**

- ▶ Encourage exports.
- ▶ Discourage exports.
- ▶ Encourage imports.
- ▶ Encourage inflation.

**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.

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

**Which of the following is (are) primary function (s) of a central bank?**

- IV. Act as a regulator of banks.
- V. Issue government bonds.

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VI. Set monetary policy.

- ▶ I only.
- ▶ I and III.
- ▶ I and II.
- ▶ I, II and III.

**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.

**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.

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

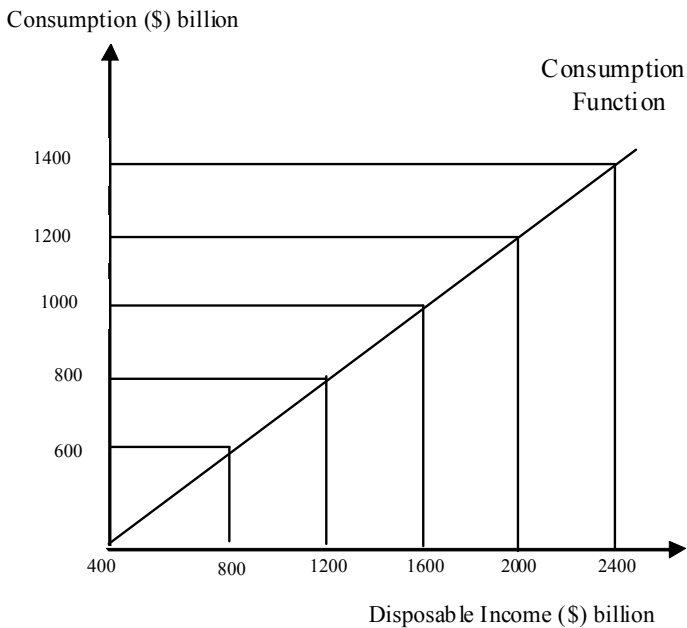
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**Which of the following is a characteristic of low income countries?**

- ▶ 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: 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.

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.

**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.

**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.

**Question No: 55 ( Marks: 3 )**

**What are the different components of aggregate demand? Discuss briefly.**

Aggregate demand is the total demand for final goods and services in the economy at a given time and price level. It is the amount of goods and services in the economy that will be purchased at all possible price levels. There are four components of aggregate demand which are most important:

1. **Consumption:** Consumption (C) is the amount of national income that is spent on goods and services produced by domestic firms in a given period of time.
2. **Investment:** Investment (I) or gross capital formation is any economic activity that forgoes consumption today with an eye to increase output in future.
3. **Net Exports:** It is net demand from rest of world for country's output.
4. **Government Spending:** These are gross investments and consumption expenditure done by government.

**Question No: 56 ( Marks: 5 )**

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**Explain the difference between Gross National Product (GNP) and Net National Product (NNP) with the help of their formulas.**

**Difference between GNP and NNP:**

- 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.

$$\text{GNP} = \text{GDP} + \text{net factor income from abroad}$$

- NNP is same application as NDP (National Domestic Product) which equal to GDP minus depreciation. Here, deprecation is amount which spends on capital goods that measure GNP. In other words, it is the net output of commodities and services flowing during the year from the country's production system in the hands of ultimate consumers.

**Question No: 57 ( Marks: 5 )**

---

**Some economists suggest “growth through resource transfer” and “growth through stabilization and reforms” strategies to tackle the problem of poverty of under developed countries. What is the basic theme of both these strategies? Discuss.**

**Growth through resource transfer:**

The businesses core resources transfer strategies are having close effect on customer satisfaction, production performance, and personnel expertise of the non-financial performance of business performances; but, these strategies show minor influences on the variance breadth of costs, sales performance, and development performance of business performances. For the growth of it, larger effect exists on the transfer of expertise, organizational learning, reputation and innovation of core resources. However, this strategy shows minor effect on the transfer of brand, management skills, interpersonal relationship, and management.

**Growth through stabilization and reforms:**

A stabilization strategy centers on addressing people's basic needs and opportunities at the local level by improving their access to basic services, by expanding economic opportunities and by promoting political/civic empowerment. Livelihood, for the purposes of this strategy, is defined as the combination of factors in a community that have a direct impact on the quality of individuals' lives. Those factors include the elements in a community that affect citizen well-being, prosperity, and future choices, such as income, health, education, security, water, small infrastructure and citizen participation.

**Question No: 58 ( Marks: 10 )**

---

**(A) Following are the items of balance sheet of bank A**

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Loans = 80  
Deposits = 100  
Reserves = 20

Prepare the balance sheet in proper form and find out total assets and total liabilities.

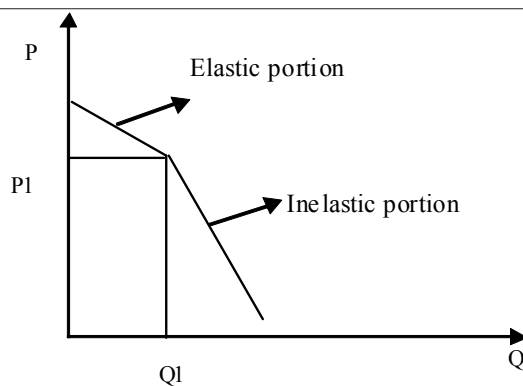
(B) Following are the items of balance sheet of bank A

Loans = 60  
Deposits = 110  
Reserves = 50

Firm A deposits Rs. 50 in bank A. Prepare the balance sheet in proper form and find out total assets and total liabilities after the deposits of firm A.

(Marks: 5+5)

Question No: 59 ( Marks: 10 )



(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?

(B) What are the major advantages that an oligopoly offers for public interests?

(Marks: 5+5)

## FINAL TERM EXAMINATION ECO401- Economics

Time: 120 min

Marks: 87

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**



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.

**The shape of a production possibility curve commonly drawn as concave downward to represent increasing opportunity cost with increased output of a good.**

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

When college students leave town for the summer, the demand for meals at the local restaurants decline. This results in:

- ▶ A decrease in equilibrium price and an increase in quantity of meal.
- ▶ An increase in equilibrium price and quantity of meal.
- ▶ **A decrease in equilibrium price and quantity of meal.**
- ▶ An increase in equilibrium price and a decrease in quantity of meal.

**A decrease in equilibrium price and quantity. The demand curve shifts to the left because the town population declines, resulting in lower prices and quantity.**

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.

**For elastic demand curve, firm does not increase its prices. Because as prices increases, quantity Demanded decreases much larger. Decrease in**

quantity demanded is greater than the increase in prices. So firm will earn less revenue. So TR decreases as price increases.

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

The numerical measurement of a consumer's preference is called:

- ▶ Use.
- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

Utility is a numerical representation of a preference ranking

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

Which of the following is TRUE about price-consumption curve for good X?

- ▶ Nominal income falls as the price of X falls.
- ▶ The absolute price of X falls, but the relative price between X and the composite good Y stays the same.
- ▶ It is always downward sloping for a normal good.
- ▶ **It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.**

The price consumption curve (PCC) traces out the optimal choice of consumption at different prices. The PCC can be used to derive the demand curve, which shows the relationship between price & quantity demanded.

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

Marginal profit is equal to:

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

marginal profit is the term used to refer to total when marginal cost is subtracted from marginal revenue.

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.

A perfectly competitive firm's supply curve is that portion of its marginal cost curve that lies above the minimum of the average variable cost curve.

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

Second-degree price discrimination is the practice of charging:

- ▶ The reservation price to each customer.
- ▶ Different prices for different blocks of the same good or service.
- ▶ Different groups of customers different prices for the same products.
- ▶ Each customer the maximum price that he or she is willing to pay.

Second degree price discrimination, allows the supplier to set different prices to the different groups and capture a larger portion of the total market surplus.

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

A market with few entry barriers and with many firms that sell differentiated products is:

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive.**
- ▶ Oligopolistic.

**Monopolistic competition is also characterized by a large number of buyers and sellers and absence of entry barriers.**

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

**The price elasticity of demand for any good must be less than or equal to zero unless:**

- ▶ The good is a necessity.
- ▶ A good for which the "income elasticity of demand" is  $>0$  &  $<1$
- ▶ The good is a luxury.
- ▶ A good for which the "income elasticity of demand" is  $> 1$ .
- ▶ **The good is a Giffen good.**
- ▶ None of the given options.

**Goods for which the "quantity demanded" of one good does not depend upon the price of the other. (i.e. Pencils & cars). The "cross elasticity of demand" will be 0.**

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

Consumption spending, investment expenditures, government expenditures and net exports are:

- ▶ The components of household income.
- ▶ The components of aggregate supply.
- ▶ **The components of aggregate demand**
- ▶ The components of government revenue.

**AD is the sum of consumption, investment, government spending and net exports (i.e. exports minus imports), and is inversely related to the aggregate price level through the wealth, interest rate and international purchasing power effects.**

**Question No: 13 ( 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: 14 ( Marks: 1 ) - Please choose one**

According to classical economics, the economy will always tend toward full employment due to:

- ▶ Minimum wages.
- ▶ **Flexible wages and prices.**
- ▶ Extended periods of unemployment.
- ▶ Inequality between saving and investment.

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

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**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: 16 ( Marks: 1 ) - Please choose one**

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**A source of fluctuations in investment spending is:**

- ▶ Changes in government expectations of future output growth.
- ▶ Changes in household's expectations about future output growth.
- ▶ Changes in household's expectations about future risk.
- ▶ **Changes in investor's expectations about future profits.**

**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.**

**Question No: 18 ( 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.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

► Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

**M1 includes currency held by the public, plus travelers' checks, demand deposits, other checkable deposits (including negotiable order of withdrawal (NOW) accounts, Automatic Transfer Service (ATS) accounts, and credit union share draft accounts).**

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

**When one producer can produce a given amount of output with fewer inputs, which of the following would occur?**

- Comparative advantage.
- Comparative disadvantage.
- **Absolute advantage.**
- Absolute disadvantage.

**Absolute advantage.: Capability of one producer to produce a given good using fewer resources than any other producer.**

**Question No: 20 ( 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.

**A currency is said to depreciate in value if its exchange rate decreases, such as a decrease in the exchange rate of dollars from 0.5 pounds per dollar to 0.33 pounds per dollar. Currency depreciation makes exports from the country relatively less expensive resulting in more exports and usually fewer imports.**

**Question No: 21 ( 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.

**The exchange rate increases (i.e., a unit of your currency is worth more in foreign currency than previously), the currency is said to have *strengthened, appreciated, or increased in value* (revaluation). For example, assume that the exchange rate between the U.S. dollar and the Japanese yen changed from  $US\$1=104$  yen to  $US\$1=110$  yen. This would strengthen the value of the U.S. dollar in that you would receive more yen in exchange for your dollar**

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

**In Keynesian economics, if aggregate expenditures are less than aggregate output then:**

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ Employment decreases.
- ▶ **Aggregate output increases.**

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

**In the Keynesian cross model, the aggregate expenditure line has a slope of:**

- ▶ 1.
- ▶ 0.
- ▶ Infinity.
- ▶ **Less than 1.**

**In the Keynesian cross model If we draw a graph with expenditure on the vertical axis, we can see that the Expenditure line should have a slope of ( $<1$ ).**

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Question No: 24 ( 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.

**If  $P_{ed} > 1$ , then demand responds more than proportionately to a change in price i.e. demand is elastic.**

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

Which of the following statements is TRUE about cartels?

- ▶ These are considered as part of monopolistic competition.
- ▶ 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.

**A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products.**

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

After the collusion, oligopolists are able to:

- ▶ Raise price but not restrict output.
- ▶ Raise price and restrict output but not attain the monopoly profit.
- ▶ **Raise price and restrict output and therefore attain the monopoly profit.**
- ▶ Restrict output but not raise price.

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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

Which of the following statements is TRUE about the difference between nominal and real Gross Domestic Product (GDP)?

- ▶ Real GDP includes only goods; nominal GDP includes goods and services.
- ▶ **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**
- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

Nominal GDP: The total market value, measured in current prices,  
Real GDP: The total market value, measured in constant prices

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

If production remains the same and all prices double, then which of the following will happen?

- ▶ Real GDP and nominal GDP will both remain constant.
- ▶ Real GDP will remain constant and nominal GDP will reduce by half.
- ▶ **Real GDP will remain constant and nominal GDP will double.**
- ▶ Real GDP will double and nominal GDP will remain constant.

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

Assume that there is no government or foreign sector, if the marginal propensity to consume (MPC) is 0.9, then the value of multiplier will be equal to:

- ▶ 2.
- ▶ 5.
- ▶ 8.
- ▶ **10.**

**NO IDEA... MAY BE WRONG QUESTION**

Question No: 30 ( 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

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

- ▶ **1000+1500+2500 = Rs. 5000**
- ▶ 1000+500+2500 = Rs. 4000
- ▶ 1000+500+1000 = Rs. 2500
- ▶ 1000+1500+1000 =Rs. 3500

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

---

**Which of the following is a transfer payment?**

- ▶ Payment made to housewife.
- ▶ Pocket allowance to children.
- ▶ Maintenance allowance to old parents.
- ▶ **All of the given options.**

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

---

**The relationship between hours provided by labor and wage rate is:**

- ▶ **Positive.**
- ▶ Negative.
- ▶ Ambiguous.
- ▶ Very strong.

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

---

**Market failure occurs when:**

- ▶ Competitive markets do not achieve equitable outcomes.
- ▶ Competitive markets do not achieve efficient outcomes.
- ▶ Government takes steps to intervene in markets.
- ▶ **All of the given happen.**

**Question No: 34 ( 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.

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- ▶ Circular flow model.
- ▶ GDP curve.

**The aggregate demand curve illustrates the relationship between economic goods demanded and the price level, assuming all else is held constant (that is, under aceteris paribus assumption).**

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

**In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:**

- ▶ The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The aggregate demand and the short-run aggregate supply curves.
- ▶ The aggregate demand and the long-run aggregate supply curves.

**Question No: 36 ( 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: 37 ( Marks: 1 ) - Please choose one**

**In the long run, the output level is determined by:**

- ▶ Aggregate demand.
- ▶ **Aggregate supply.**
- ▶ The government.
- ▶ Household income.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

**Long run aggregate supply (LRAS):** LRAS shows total planned output when both prices and average wage rates can change – it is a measure of a country's potential output and the concept is linked strongly to that of the **production possibility frontier**

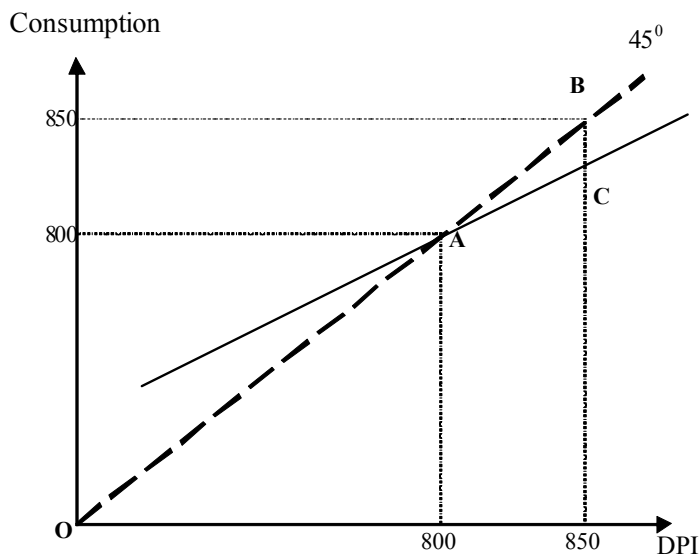
Question No: 38 ( Marks: 1 ) - Please choose one

Which of the following is TRUE?

- ▶  $1 - \text{MPS} = \text{MPC}$
- ▶  $1 + \text{MPS} = \text{MPC}$
- ▶  $1 / \text{MPS} = \text{MPC}$
- ▶  $1 \times \text{MPS} = \text{MPC}$

(MPS) is the fraction of the additional dollar of disposable income that is Saved. Thus,  $\text{MPC} = 1 - \text{MPS}$ .

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



The above figure shows disposable personal income on the horizontal axis and consumption per period on the vertical axis. Which of the following is TRUE at every point on the 45-degree line?

- ▶ The value of disposable income equals the sum of personal saving and consumption.

**WARNING:** Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.

- ▶ The value of disposable income equals consumption.
- ▶ The value of disposable income equals personal saving.
- ▶ The value of disposable income and consumption equals 1.

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

**If the government wishes to achieve a fall in unemployment, which of the following policies should it adopt?**

- ▶ Reduce the real value of income tax free allowances.
- ▶ Reduce government spending on capital projects.
- ▶ Raise Value Added Tax (VAT).
- ▶ **Start public job training programs.**

**Question No: 41 ( 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.

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

**The situation when a country imports more than it exports is known as:**

- ▶ **A trade deficit.**
- ▶ A trade surplus.
- ▶ An expansion.
- ▶ A recession.

**A negative balance of trade, i.e. imports exceed exports, opposite of trade surplus.**

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

**Public investment expenditure for highways, schools, and national defense is included in which component of GDP?**

- ▶ Consumption.
- ▶ Gross private investment.
- ▶ **Government purchases.**
- ▶ Public investment.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

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

The government has a balanced budget if:

- ▶ **Its total revenues are equal to its total expenditures.**
- ▶ Its total revenues are less than its total expenditures.
- ▶ Its total revenues are greater than its total expenditures.
- ▶ The money supply is less than total expenditures.

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

In general, personal income taxes:

- ▶ Rise automatically during a recession.
- ▶ **Rise automatically during an expansion.**
- ▶ Fall automatically during an expansion.
- ▶ Remains same in all phases of economic fluctuations.

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

A tax on individual's income is known as:

- ▶ Sales tax.
- ▶ . Excise tax
- ▶ Corporate income tax.
- ▶ **Personal income tax.**

**Personal income tax:** A tax on individual income. This is the primary source of revenue for the federal government, a big source for many state and local governments. In principle, personal income taxes are progressive, based on a graduated tax scale. However, it's much more proportional today than it was several decades ago.

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

Which of the following is TRUE for banks?

- ▶ **They deal with money only.**
- ▶ They deal with shares and assets.
- ▶ They not only deal with money but also create money.
- ▶ They deal with money but do not create money.

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

---

In a period of boom, credit creation is:

- ▶ Small.
- ▶ **Heavy.**
- ▶ Unchanged.
- ▶ Zero.

Question No: 49 ( 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.**

Question No: 50 ( Marks: 1 ) - Please choose one

---

To determine whether an economy's output is growing or shrinking, one must keep track of:

- ▶ Changes in nominal GDP.
- ▶ Changes in the growth rate of nominal GDP.
- ▶ Changes in the general price level.
- ▶ **Changes in real GDP.**

**Economic growth is increase in an economy's level of production, output or income. We can talk about production or output in two broad definitional contexts. One, we can compare real GDP with some other measure of welfare (for e.g., one which adjusts for externalities, social indicators, the black market, purchasing power parity, income inequality etc.).**

Question No: 51 ( 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.**

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

**The demand curve shifts left. Rail and airline travel are substitutes. If the price of a substitute declines, then the demand curve for the substitute product shifts to the left.**

**Question No: 52 ( Marks: 1 ) - Please choose one**

**Production possibilities curve will shift upward if there is:**

- ▶ A reduction in unemployment.
- ▶ **An increase in the production of capital goods.**
- ▶ A reduction in discrimination.
- ▶ All of the given options.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT included in the perfect information assumption of perfect competition?**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

**Question No: 54 ( Marks: 1 ) - Please choose one**

**Suppose a monopolist set his output at the level where marginal revenue, marginal cost and average total cost are equal. In this case, economic profit will be:**

- ▶ Negative.
- ▶ **Positive.**
- ▶ Zero.
- ▶ Indeterminate from the given information.

**As profit is maximized at the point where  $MR = MC$ , Depending upon the level of AC at the point where  $MR=MC$ , the monopolist might be earn supernormal profits, breaking even or minimizing short run losses.**

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Question No: 55 ( Marks: 3 )

---

Differentiate between the terms flow and stock.

Stocks and those which are flows; these differ in their units of measurement. A stock variable is measured at one specific time, and represents a quantity existing at that point in time, which may have been accumulated in the past. A flow variable is measured over an interval of time. Therefore a flow would be measured per unit of time. Stocks and flows have different units and are thus not commensurable – they cannot be meaningfully compared, equated, added, or subtracted. However, one may meaningfully take ratios of stocks and flows, or multiply or divide them.

Question No: 56 ( Marks: 5 )

---

What should be the optimal role of government in an economy according to the Classical school of thought? Discuss.

Question No: 57 ( Marks: 5 )

---

Explain the difference between current account and capital account.

Current account :

Current account is one of the two primary components of the balance of payments, the other being the capital account. It is the sum of the balance of trade (exports minus imports of goods and services).

Current account = balance of trade + net factor income from abroad + net unilateral transfers from abroad

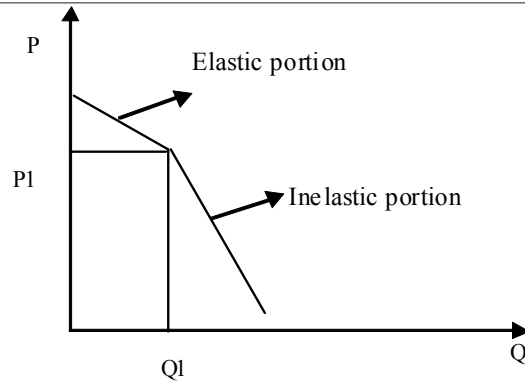
Current account deals with international trade in goods and services and with earnings on investments.

Capital account:

The capital account consists of capital transfers and the acquisition and disposal of non-produced, non-financial assets. A subdivision of the capital account, the financial account records transfers of financial capital and non-financial capital. The official reserves account, which is part of the financial account, is the foreign currency held by central banks, and is used to pay balance-of-payment deficits. Each account is further divided into sub-accounts.

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Question No: 58 (Marks: 10)



(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?

(B) What are the major advantages that an oligopoly offers for public interests?

(Marks: 5+5)

Question No: 59 (Marks: 10)

The items of balance sheet of State Bank of Pakistan are given as follows:

Forex reserves = Rs. 500

Notes and coins = Rs. 800

Credit to government = Rs. 200

Government and commercial bank deposits = Rs. 300

Credit to private sector = Rs. 700

Liquidity paper = Rs. 300

Prepare the balance sheet in its proper format of asset and liabilities side. Also calculate total assets and total liabilities.

**Solution**

Assets	Liabilities
Forex reserves = Rs. 500	Government and commercial bank deposits = Rs. 300
Credit to government = Rs. 200	Notes and coins = Rs. 800

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

Credit to private sector = Rs. 700	Liquidity paper = Rs. 300
Total= RS 1400	Total= RS 1400

**FINALTERM EXAMINATION ECO401- Economics (Session - 2)**

**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 market is said to be in equilibrium when:**

- ▶ Demand equals output.
- ▶ There is downward pressure on price.
- ▶ **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**
- ▶ All buyers are able to find sellers willing to sell to them at the current price.

Ref: A market is said to be in equilibrium when both buyers and sellers are satisfied.

**Question No: 3 ( 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.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

- ▶ Is negative as long as marginal utility is decreasing.

**Question No: 4 ( 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.**

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

**A monopolistically competitive firm in the long run equilibrium:**

- ▶ Will make negative profit.
- ▶ **Will make zero profit.**
- ▶ Will make positive profit.
- ▶ Any of the given are possible.

Ref: A monopolistically competitive firm in the long run will always break even, or earn only normal profit ensured by entry and exit of firms.

**Question No: 6 ( 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: 7 ( Marks: 1 ) - Please choose one**

**The price elasticity of demand for any good must be less than or equal to zero unless:**

- ▶ The good is a necessity.
- ▶ The good is a luxury.
- ▶ **The good is a Giffen good.**

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- ▶ None of the given options.

Ref: <http://www.cengage.co.uk/nicholson/students/mcqs/ch04.htm>

**Question No: 8 ( 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: 9 ( 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.

**Question No: 10 ( 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.

**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**

**The aggregate supply curve is the relationship between:**

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

- ▶ 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.

Ref: [http://economics.uakron.edu/faculty/ghosh/2009/prinmacro/Chapter13\\_AggregateSupplyandDemand.pdf](http://economics.uakron.edu/faculty/ghosh/2009/prinmacro/Chapter13_AggregateSupplyandDemand.pdf)

**Question No: 13 ( 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: 14 ( 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: 15 ( 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: 16 ( 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.

**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

► **The real exchange rate.**

► All of the given options.

**Question No: 17 ( Marks: 1 ) - Please choose one**  
**Real GDP is equal to:**

► **Nominal GDP – Inflation.**

► Nominal GDP + Inflation.

► Nominal GDP/ Inflation.

► Inflation / Nominal GDP.

**Question No: 18 ( Marks: 1 ) - Please choose one**  
**If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:**

►  $GNP = GDP - \text{Net income from abroad.}$

►  **$GNP = GDP + \text{Net income from abroad.}$**

►  $GNP = NNP - \text{Net income from abroad.}$

►  $GNP = NNP + \text{Net income from abroad.}$

**Question No: 19 ( Marks: 1 ) - Please choose one**  
**In Keynesian economics, if aggregate expenditures are less than aggregate output then:**

► The price level rises.

► Inventories decrease.

► Employment decreases.

► **Aggregate output increases.**

**Question No: 20 ( 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.

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

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After the collusion, oligopolists are able to:

- ▶ Raise price but not restrict output.
- ▶ Raise price and restrict output but not attain the monopoly profit.
- ▶ **Raise price and restrict output and therefore attain the monopoly profit.**
- ▶ Restrict output but not raise price.

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

Which of the following event will lead towards cost-push inflation and therefore stagflation?

- ▶ **An increase in taxes on individuals.**
- ▶ A decrease in real interest rates.
- ▶ A union settlement that increases wage levels.
- ▶ An increase in government purchases.

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

Double counting in national income refers to:

- ▶ Counting a product more than once.
- ▶ **Counting a product at the final stage of output process.**
- ▶ Counting both as product and as factor payment.
- ▶ Counting both as real goods and as money flow.

Ref: [http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=1&ved=0CAYQFjAA&url=http%3A%2F%2Fwww.wiziq.com%2Fonline-tests%2F5920-general-economics&rct=j&q=%22Double+counting+in+national+income%22&ei=bk2CS8-jDp-psQa3ooi2BA&usg=AFQjCNGe57Z8IFrowykOmkW\\_qwWwZuMOOg](http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=1&ved=0CAYQFjAA&url=http%3A%2F%2Fwww.wiziq.com%2Fonline-tests%2F5920-general-economics&rct=j&q=%22Double+counting+in+national+income%22&ei=bk2CS8-jDp-psQa3ooi2BA&usg=AFQjCNGe57Z8IFrowykOmkW_qwWwZuMOOg)

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

For knowing the spending capacity of the household sector, we have to use the concept of:

- ▶ **National income.**
- ▶ Personal income.
- ▶ Private income.
- ▶ Personal disposable income.

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

For a study of the long term growth of the economy, we use:

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**► Real GNP.**

- Nominal GNP.
- Personal income.
- Disposable personal income.

Ref: [http://books.google.com.pk/books?id=tugDAAAAMBAJ&pg=PT81&pg=PT81&dq=%22For+a+study+of+the+long+term+growth+of+the+economy,+we+use%22&source=bl&ots=\\_HLRcpeuvr&sig=2xoGxoF9ij6Xnhpl0etubXCDi0o&hl=en&ei=YE6CS-XQJpfgsAbvxITaBA&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CAcQ6AEwAA#v=onepage&q=%22For%20a%20study%20of%20the%20long%20term%20growth%20of%20the%20economy%2C%20we%20use%22&f=false](http://books.google.com.pk/books?id=tugDAAAAMBAJ&pg=PT81&pg=PT81&dq=%22For+a+study+of+the+long+term+growth+of+the+economy,+we+use%22&source=bl&ots=_HLRcpeuvr&sig=2xoGxoF9ij6Xnhpl0etubXCDi0o&hl=en&ei=YE6CS-XQJpfgsAbvxITaBA&sa=X&oi=book_result&ct=result&resnum=1&ved=0CAcQ6AEwAA#v=onepage&q=%22For%20a%20study%20of%20the%20long%20term%20growth%20of%20the%20economy%2C%20we%20use%22&f=false)

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

**Which of the following is an example of a leakage?**

- Saving.
- Investment.
- Exports.**
- Government expenditures.

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

**Total product of labor per day is shown in the following table and the price of the product is \$10/unit. What is the value of the marginal product of labor (VMPL) of the 3rd worker?**

Labor	Total Product
1	10
2	25
3	35
4	40
5	41

- 5.
- 10.**
- 50.
- 100.

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

**In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:**

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► The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.

► The short-run aggregate supply and the long-run aggregate supply curves.

► **The aggregate demand and the short-run aggregate supply curves.**

► The aggregate demand and the long-run aggregate supply curves.

Ref: <http://www.flatworldknowledge.com/pub/1.0/principles-macroeconomics/29991>

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

**What is the interest rate effect that explains why the aggregate demand curve slopes downward?**

► It refers to the effect of changes in the price level on quantity of investment demanded which in turn affects interest rates.

► It refers to the effect of interest rates on borrowing which in turn affects consumption spending.

► **It refers to the effect of changes in the price level on interest rates which in turn affects the quantity of investment demanded.**

► It refers to the shifts in aggregate demand when interest rates change.

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

**In the classical world, you could always get a job if you:**

► Had a good education.

► Worked in an industry that was recession proof.

► Had unemployment in the manufacturing sector.

► **Would accept a lower wage.**

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

**The level of output produced when the labor market is in equilibrium is called:**

► Target output.

► Product market equilibrium output.

► **Full-employment output.**

► Natural output.

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

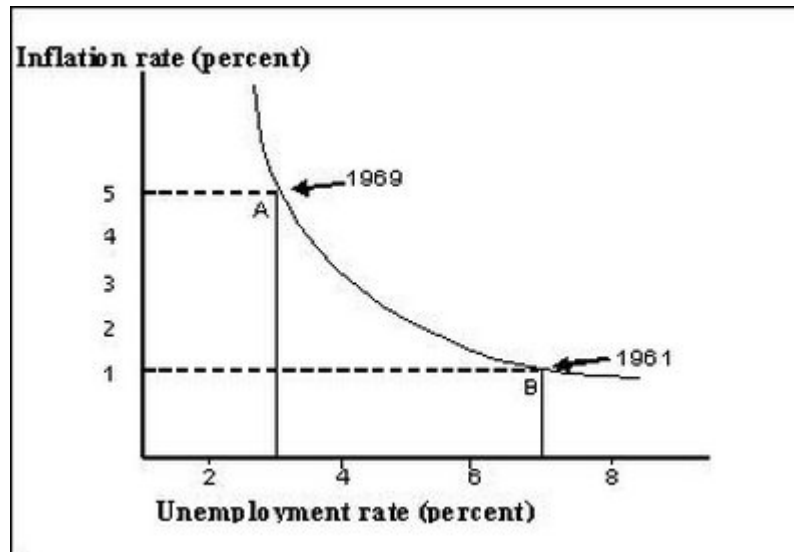
**WARNING: Askari Team is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.**

Which of the following economists came up with a theory regarding the tradeoff between unemployment and inflation?

► **A.W. Phillips.**

- John Maynard Keynes.
- Joseph Schumpeter.
- Milton Friedman.

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



Refer to the above figure, moving from B to A shows a tradeoff of:

Refer to the above figure, moving from B to A shows a tradeoff of:

- More unemployment for less inflation.
- **Less unemployment for more inflation.**
- A fixed amount of unemployment for more inflation.
- Less unemployment for less inflation.

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

Falling inflation means:

- That the price level is falling from one period to the next.

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- ▶ That the price level is falling at a decreasing rate.
- ▶ That the price level is falling at an increasing rate.
- ▶ **That the price level is increasing at a decreasing rate.**

Question No: 35 ( 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 \$300, what is the amount of personal saving?

- ▶ -\$40.
- ▶ -\$20.
- ▶ **\$0.**
- ▶ \$20.

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

The real exchange rate is defined as the:

- ▶ **Market exchange rate adjusted for prices.**
- ▶ Market exchange rate adjusted for interest rates.
- ▶ Market exchange rate.
- ▶ Exchange rate determined by the government.

<http://groups.google.com/group/vuZs>

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

The interest rate parity is the basic identity that relates which of the following?

- ▶ **Interest rates and exchange rates.**
- ▶ Interest rates and inflation rate.
- ▶ Exchange rates and inflation rate.
- ▶ Discount rate and inflation rate.

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

Suppose there is a steady state condition in an economy with no population growth. In which condition, the steady-state level of capital per worker will increase?

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- ▶ When the amount of investment per worker decreases.
- ▶ When the depreciation rate increases.
- ▶ **When the saving rate increases.**
- ▶ In all of the given options.

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

**“Government collects zero revenue if the tax rate is 0% and if the tax rate is 100%.” Which of the following best describes this statement?**

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve.**
- ▶ Investment curve.

**Question No: 40 ( 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.

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

**Which of the following shows the functions of money?**

- ▶ **A conductor of economic activity, a medium of exchange, and a store of value.**
- ▶ A medium of exchange, a store of value, and a factor of production.
- ▶ A store of value, a medium of exchange, and a determinant of investment.
- ▶ A store of value, a unit of account, and a medium of exchange.

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

**Which of the following best describes a bank's reserves?**

- ▶ The minimum value of assets it must have.
- ▶ The amount of gold it is required to have as reserves against loans.
- ▶ **The value of federal securities it is required to have as reserves against loans.**

► Deposits that bank has accepted from customers but have not loaned out.

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

**The special importance of banks among the financial institutions arises from:**

- Their large and heavy transactions.
- Their position as suppliers of money.
- Their power to create money.

► **Their influence on the economy.**

**Question No: 44 ( 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.

**Question No: 45 ( 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.**

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

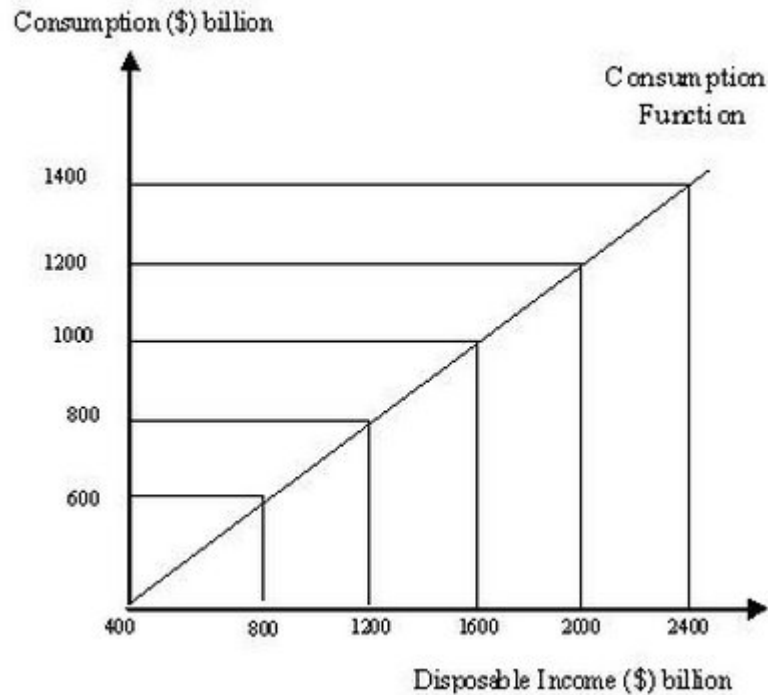
**Why agriculture sector has an important role to play in the development process?**

- Because a balanced approach to growth is necessary.
- Because the vast majority of an under developed country is engaged in agriculture.

► **Because agriculture may be a major bottleneck in the process of development.**

► Because of all of the given options.

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



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

► 0.25.

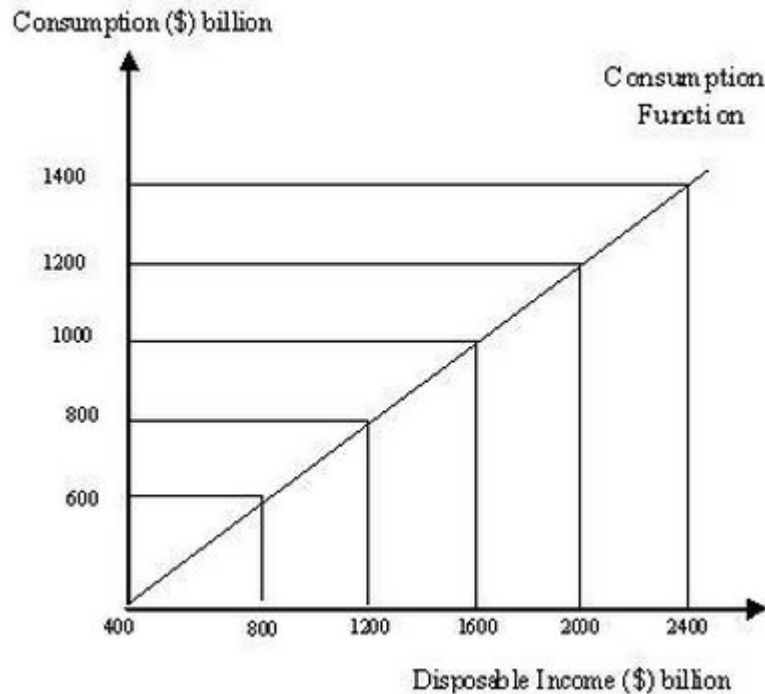
► 0.50.

► 0.60.

► 0.67.

Question No: 48 ( 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.

Question No: 49 ( 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: 50 ( Marks: 1 ) - Please choose one

Which of the following is TRUE for a Giffen good?

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- ▶ Its marginal utility is zero.
- ▶ **Its demand curve is perfectly elastic.**
- ▶ Its substitution effect is positive.
- ▶ Its demand curve is positively sloped.

**Question No: 51 ( 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.

Ref: [http://econweb.rutgers.edu/besedes/sample\\_exam2\\_intermediate.pdf](http://econweb.rutgers.edu/besedes/sample_exam2_intermediate.pdf)

**Question No: 52 ( Marks: 1 ) - Please choose one**

**Which of the following is TRUE about L-shaped isoquant?**

- ▶ It indicates that the firm could switch from one output to another costlessly.
- ▶ It indicates that the firm could not switch from one output to another.
- ▶ **It indicates that capital and labor cannot be substituted for each other in production.**
- ▶ It is impossible.

**Question No: 53 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the fixed cost?**

- ▶ 5Q.
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ **200.**

**Question No: 54 ( Marks: 1 ) - Please choose one**

**The total cost (TC) function is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶ 5Q.

► 5.

► **5 + (200/Q).**

► None of the given options.

**Question No: 55 ( Marks: 3 )**

**Define consumption function. Write down the determinants of consumption.**

**Consumption and Consumption Function:**

Consumption (C) is the amount of national income that is spent on goods and services produced by domestic firms in a given period of time. Consumption is the most stable and important component of aggregate demand, accounting for about two-thirds to three-fourths of GDP in most countries.

The consumption function is a schedule relating total consumption to personal disposable income. It usually takes the form  $C = a + bY_d = a + b(Y - T)$ , where  $a$  is the minimum level of consumption that must take place even if  $Y_d$  is zero, and  $b$  is the marginal propensity to consume.

**Determinants of consumption**

Thus there are two determinants of consumption (namely income and taxation, which will not cause saving to rise if consumption is caused to fall.

**Question No: 56 ( Marks: 5 )**

**The paradox of thrift is demonstrated algebraically by equating leakages and injections. Suppose the Saving function is specified as  $S = -\$10 \text{ billion} + 0.2Y$ , Gross imports equal \$70 billion, Investment is \$100 billion and Gross exports equal \$70 billion. Calculate the equilibrium level of output by using leakages-injections approach.**

**Question No: 57 ( Marks: 5 )**

Country	Commodity	Amount that can be produced in 1 year
USA	Cotton	40 units
	Food	60 units
UK	Cotton	30 units
	Food	20 units

**A. Consider there is no international trade. See the above table and answer which country has absolute advantage in which**

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product?

B. Draw the production possibility frontiers for USA and UK.

(Marks: 2+3)

Question No: 58 ( Marks: 10 )

A. From the information given below, calculate the following:

- Nominal GDP in year 1
- Nominal GDP in year 2
- Growth rate in nominal GDP

	Year 1	Year 2
Apples produced	100	150
Chicken produced	100	140
Cost per apple (Rs.)	2	4
Cost per chicken (Rs.)	4	6

B. Suppose that in the economy of Pakistan, the Real Gross National Product in 1987 was 1483 billion. In 1988, Real Gross National Product was 1510 billion. Calculate the growth rate of real Gross National Product from this information.

(Marks: 6+4)

Question No: 59 ( Marks: 10 )

(A) Following table shows the income earned by different factors of production.

Serial #	Rewards	Amount (billion rupees)
1	Wages and salaries	150.52
2	Interest on bonds and loans	50.63
3	Rent of properties	100.12
4	Profit	125.84
5	Corporate profit tax	50.26
6	Undistributed corporate profit	30.32
7	Contributions for social security	20.20

Find out the national income from this information.

(B) Although GDP provide us a good estimate about the overall production of the economy, but still it has some flaws. Discuss those flaws.



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