

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

**Time: 90 min**  
**Marks: 69**

**Asslam O Alikum**

**Eco 401 current paper solved with reference by Afaaq, Adeel and Shani bhai**

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***Best regard's***

***Muhammad Afaaq***

***Mba 3<sup>rd</sup> Finance Group***

***Afaaq\_Tariq@yahoo.com***

***Islamabad***

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0346-5329264***

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

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**At the equilibrium price:**

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

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

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**Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:**

- ▶ Horizontal.
- ▶ Vertical.
- ▶ **Negative.**
- ▶ Positive.

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

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

- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.

- ▶ Insufficient information for a decision.

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

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**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.
- ▶ **It would shift outward.**

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

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**A perfectly competitive firm maximizes profit by finding the level of production at which:**

- ▶ **Price = Marginal Cost.**
- ▶ Price = Average Total Cost.
- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

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

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**A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:**

- ▶ Supply schedule.
- ▶ **Demand schedule.**
- ▶ Quantity supplied schedule.
- ▶ Quantity demanded schedule.

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

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**If income elasticity is negative, the good is:**

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.
- ▶ **Inferior good.**

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

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**Suppose to hire the next worker, the firm pays \$50. This \$50 is the:**

- Marginal input cost.
- **Marginal cost. douted**
- Marginal revenue product.
- Marginal revenue.

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

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

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**An assumption of classical economics is:**

- Investment and saving are seldom equal.
- Self-correction takes a long time.
- **Demand creates its own supply.**
- Prices and wages are flexible.

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

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**How many methods are there to measure Gross Domestic Product?**

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

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

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

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

- ▶ **The capital account.**
- ▶ The current account.
- ▶ The financial account.
- ▶ All three components are equally important.

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

**Growth rate of per capita income is equal to:**

- ▶ Growth rate of total output / Growth rate of population.
- ▶ Growth rate of population / Growth rate of total output.
- ▶ **Growth rate of total output + Growth rate of population.**
- ▶ Growth rate of total output - Growth rate of population.

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

**The similarity in the Perfect competition and monopolistic competition is that:**

- ▶ Firms in both types of market structure will act as price takers.
- ▶ Firms in both types of market structure will produce a product that is exactly like one produced by other firms in the industry.
- ▶ **Firms in both types of market structure will produce a level of output where price equals marginal cost.**
- ▶ Firms in both types of market structure will earn zero profit in the long run.

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**Question No: 17 ( 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.

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

**Which of the following best describes the total market value of all final goods and services produced within the boundary of a country in a year?**

- ▶ **Gross domestic product.**
- ▶ Net national product.
- ▶ Net national income.
- ▶ Disposable personal income.

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

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**Which of the following would occur if injections are less than withdrawals at the full-employment level of income?**

- ▶ A deflationary gap.
- ▶ Hysteresis.
- ▶ Hyperinflation.
- ▶ An inflationary gap.

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**Question No: 20 ( 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.

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

**GNP is a good indicator of:**

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

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

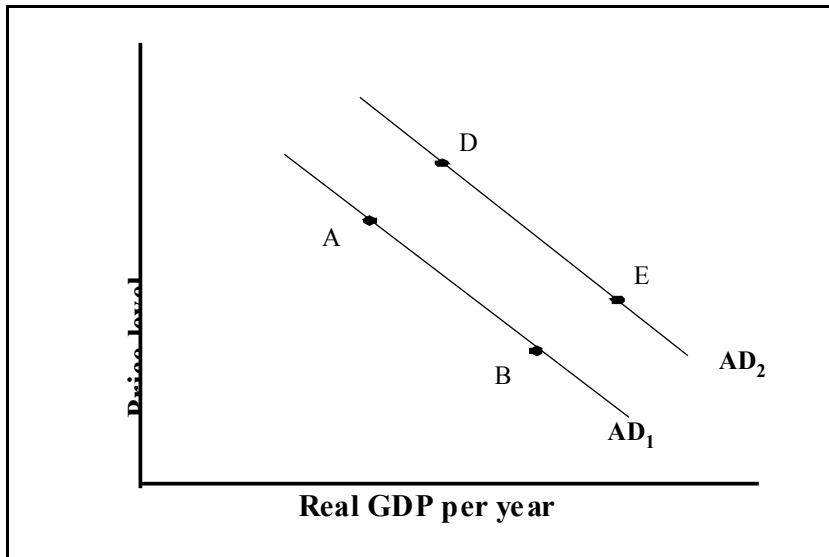
**The demand curve for labour can be derived from the intersection of:**

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

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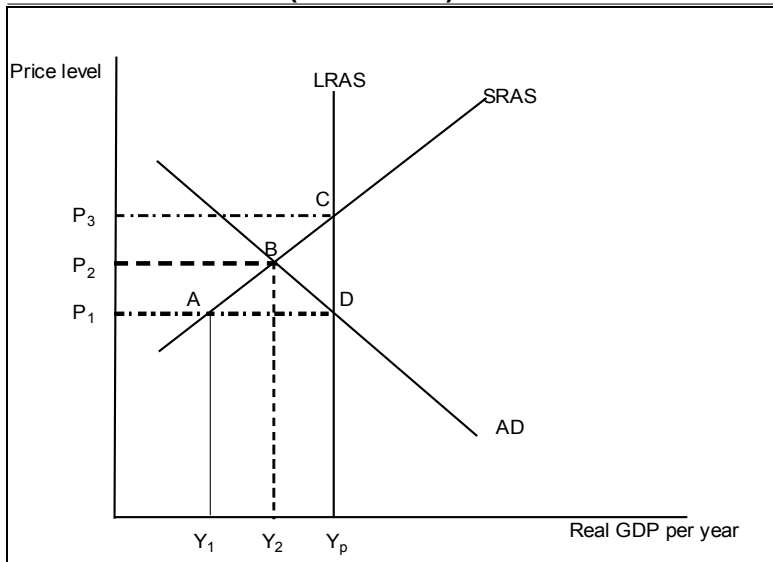
In the above figure, a movement from point A to point B:

- ▶ Is a change in aggregate demand resulting from a lower price level.
- ▶ **Is change in aggregate quantity demanded resulting from a lower price level.** doubted

- ▶ Could be due to an increase in investment demand.
- ▶ Occurs because aggregate output supplied has increased.

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



**Refer to the above figure, what are the prevailing price level and the output level in the economy?**

- ▶ Price level =  $P_1$ ; real GDP =  $Y_p$ .
- ▶ Price level =  $P_1$ ; real GDP =  $Y_1$ .
- ▶ **Price level =  $P_2$ ; real GDP =  $Y_2$ .** doubted
- ▶ Price level =  $P_3$ ; real GDP =  $Y_p$ .

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

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**Which of the following is equal to personal savings?**

- ▶ Gross domestic income – consumption.
- ▶ Personal disposable income – consumption.
- ▶ Gross domestic product – consumption.
- ▶ **Personal disposable income – taxes – consumption.**

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

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**In the definition of labor force, economists include:**

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

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

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**If a country devalues its currency, what will be its results?**

- ▶ Its imports will be cheaper for its citizens and its exports will be expensive from the point of view of foreigners.
- ▶ Both its imports and exports will be cheaper for the citizens and for foreigners.
- ▶ **Its imports will seem more expensive for the citizens and export will seem cheaper to the foreigners.**
- ▶ Both imports and exports will seem more expensive.

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

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

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

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

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**We can measure economic growth with the help of:**

- ▶ The Consumer Price Index.
- ▶ The Producer Price Index.
- ▶ **Gross Domestic Product.**

**P 161**

- ▶ Marginal Propensity to Consume.

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

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**Development is impossible without:**

- ▶ Incentive to profit.

- ▶ Foreign aid.
- ▶ Domestic savings.
- ▶ **Inflation.**

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**Question No: 31 ( 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.**

**P 172** Government purchases are used to operate the government (administrative salaries, etc.) and to provide public goods (national defense, highways, etc.).

- ▶ Public investment.

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

**The principle of taxation which emphasizes on fairness or just sacrifice is known as:**

- ▶ Efficiency.
- ▶ **Equity.**

**P 173** Equity represents that principle of taxation which emphasizes fairness or just sacrifice,

- ▶ Progressive tax.
- ▶ Regressive tax.

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

**Suppose you keep Rs. 35 in your pocket to purchase a movie CD when it will come out next month in the market. What is the function of money in this context?**

- ▶ Medium of exchange.
- ▶ Unit of account.
- ▶ Standard of deferred payment.
- ▶ **Store of value.**

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

**Suppose the central bank's primary goal is to stabilize the prices and it aims to keep the inflation rate at 6%. If the inflation rate rose above 6%, central bank should adopt which of the following policy?**

- ▶ **An expansionary monetary policy.**
- ▶ A contractionary monetary policy.
- ▶ It should reduce the required reserve ratio.
- ▶ It should impose a temporary ceiling on the federal funds rate.

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



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

- ▶ Developed countries.
- ▶ Progressed countries.
- ▶ **Developing countries.**
- ▶ High income countries.

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

**Developing countries have ----- unemployment than the developed countries.**

- ▶ **Higher.**
- ▶ Lower.
- ▶ About the same.
- ▶ In some cases higher while in others lower.

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**Question No: 37 ( 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.

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

**Which of the following will happen if the cost of computer components falls?**

- ▶ **The demand curve for computers shifts to the right.**
- ▶ The demand curve for computers shifts to the left.
- ▶ The supply curve for computers shifts to the right.
- ▶ The supply curve for computers shifts to the left.

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

**In cartels, there are a small number of sellers and usually involve**

- ▶ Heterogeneous products.
- ▶ Large competition.
- ▶ **Homogeneous products.**
- ▶ Less demand in market.

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

**If different firms in the oligopolistic structures do not cooperate with each other is known as**

► Collusive oligopoly.

► Cartel.

► Price leadership.

► **Non-collusive oligopoly.**

**P 82** If different firms in the oligopolistic structures do not cooperate with each other is known as non collusive oligopoly.

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

**Slope and elasticity of demand have**

► A direct relation.

► **An inverse relationship.**

**P 27** Slope and elasticity of demand have an inverse relationship.

► No relation between slope and elasticity.

► None of the given options.

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

**If you sum the marginal utilities obtained by consumption from one unit to five units of any commodity, you will get:**

► **The marginal utility for the consumption of the fifth unit.**

► The marginal utility for the consumption of the sixth unit.

► The total utility for the consumption of the first five units.

► The average utility for the consumption of the first five units.

---

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

**Price war is often seen in which of the following markets:**

► Perfect competition.

► **Monopoly.**

► Oligopoly.

► Duopoly.

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

**Assume that there is no government or foreign sector, if the marginal propensity to save (MPS) is 0.2, then the value of saving multiplier will be equal to:**

► **0.80**

► 1.20

- ▶ 0.50
- ▶ 1.25

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

**If domestic interest rate is greater than foreign interest rate + expected depreciation then:**

- ▶ **One should invest in domestic market. doubted**
- ▶ One should invest abroad.
- ▶ One should remain indifferent.
- ▶ Make half investment in domestic market and half investment in foreign market.

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

**In endogenous growth model the permanent growth rate depends on the saving rate and:**

- ▶ Labor participation rate.
- ▶ Capital stock.
- ▶ Investment.
- ▶ **Technological progress.**

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

**How an economy will be affected if money supply is increased in the country?**

- ▶ Interest rate increases, investment and GDP reduces.
- ▶ Interest rate increases, investment increases and GDP reduces.
- ▶ **Interest rate reduces, investment and GDP increases. doubted**
- ▶ Interest rate reduces, investment and GDP reduces.

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

**In IS-LM model, a decrease in government spending should move the:**

- ▶ IS curve leftward.
- ▶ IS curve rightward.
- ▶ LM curve rightward.
- ▶ LM curve leftward.

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**Question No: 49 ( Marks: 3 )**

**Differentiate between inflation and deflation.**

**Question No: 50 ( Marks: 3 )**

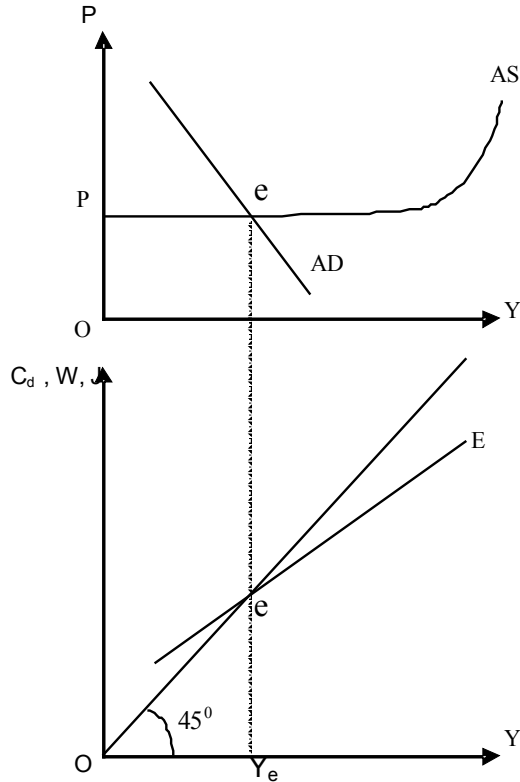
**Explain the shape of money supply curve with the help of diagram.**

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

What is meant by Philips Curve? Explain the shape of this curve with the help of diagram.

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**Question No: 52 ( Marks: 5 )**



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

- If government expenditures increase, what will happen to the aggregate expenditure line E, aggregate demand curve AD and output level Y.
- Is there any multiplier effect? How it works in this case?

(Marks: 3+2)

**Question No: 53 ( Marks: 5 )**

How crowding out of investment demand occur due to expansionary fiscal policy?

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