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Muhammad Soban

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

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

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

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

A demand curve is price inelastic when:

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

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

A demand curve is price elastic when:

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

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

A production function:

- ▶ **Relates inputs with output.**
- ▶ Generates a curve that is upward sloping.
- ▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.
- ▶ All of the given options.

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

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

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

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

Insurance companies operate under the principle of:

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

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

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

- ▶ Perfect competitor.
- ▶ Oligopolist.
- ▶ **Monopolist.**
- ▶ Economist.

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

The long run aggregate supply curve will shift to the right if:

- ▶ The price level increases.
- ▶ **Factors of production (such as labor and capital) increase.**
- ▶ Expenditures (such as consumption and net exports) increase.
- ▶ The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

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

How many methods are there to measure Gross Domestic Product?

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

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

Suppose the government increases spending. Which of the following would be part of the crowding out effect?

▶ **Interest rate rises and investment falls.**

- ▶ Interest rate rises and velocity of circulation also rises.
- ▶ Higher interest rates encourage the central bank to increase the money supply.
- ▶ Interest rate falls and exports rise.

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

Gross Domestic Product (GDP) is:

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

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

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

Real Gross National Product (GNP) is best defined as:

- ▶ The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.
- ▶ The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.
- ▶ The current pound value of all new and used goods produced and sold in the economy during a particular time period.

▶ **The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period**

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

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

- ▶ $AE = C + I$.
- ▶ $AE = C + I + X$.
- ▶ $AE = C + I + G$.
- ▶ **$AE = C + I + G + (X - M)$.**

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

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

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

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

All of the following conditions lead to the successful operation of a cartel EXCEPT:

- ▶ Market demand for the good is relatively inelastic.
- ▶ The cartel supplies all of the world's output of the good.
- ▶ **Cartel members have substantial cost advantages over non-member producers.**
- ▶ The supply of non-cartel members is very price elastic.

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

Which of the following best describes the "Capital widening"?

- ▶ More capital per unit of labour.
- ▶ **More capital and more labour but with the same amount of capital per unit of labour.**
- ▶ Increasing the usage of existing capital.
- ▶ Importing capital from the developed world.

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

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

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

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

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

- ▶ Wheat produced and consumed by a farmer.
- ▶ House built by the owner himself.
- ▶ **Old house sold by its owner A to person B.**
- ▶ Machines made by firm A.

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

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

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

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

The government supports research in basic science because:

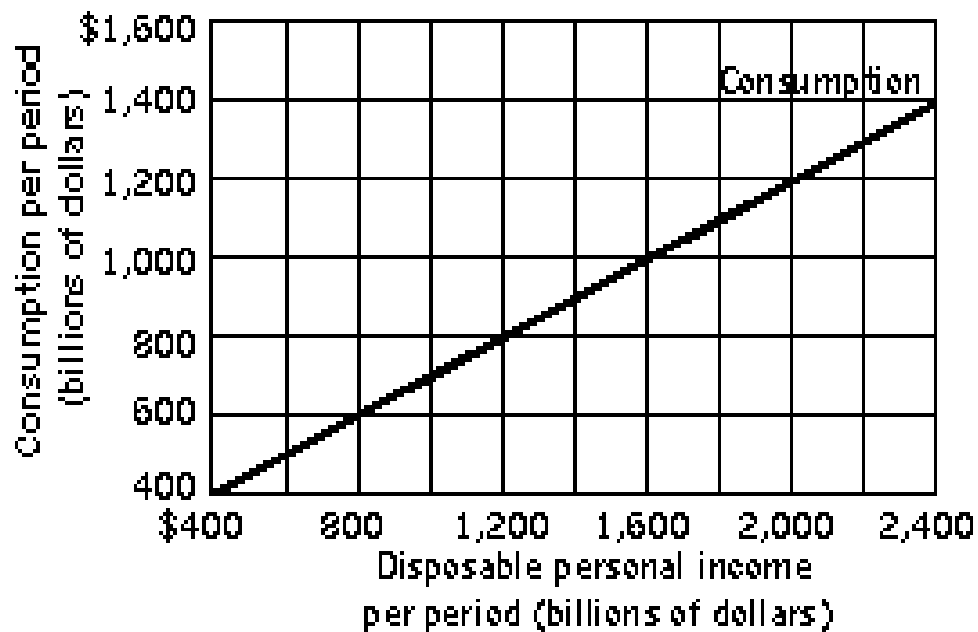
- ▶ It is a public good.
- ▶ External costs are created.
- ▶ **Internal benefits are created.**
- ▶ Free markets would do so otherwise.

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

National defense is a good example of:

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

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



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

- ▶ \$600 billion.
- ▶ \$800 billion.
- ▶ \$1,200 billion.
- ▶ **\$2,000 billion.**

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

In classical theory, excess supply of a product would be associated with:

- ▶ **Rising interest rates.**
- ▶ Falling interest rates.
- ▶ Rising price for the product.
- ▶ Falling price for the product.

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

The Monetarist key to solve the inflation problem was:

- ▶ **Stable money supply.**
- ▶ Stable output.
- ▶ Stable prices.
- ▶ Stable economic growth.

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

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

- ▶ **If the money supply grows at a faster rate than growth in Y_P , there will be inflation.**
- ▶ If the money supply grows at the same rate as growth in Y_P , the price level will fall and there will be deflation.
- ▶ If the money supply grows at the same rate as growth in Y_P , the price level will also increase at the same rate as growth in Y_P .
- ▶ None of the given options.

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

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

- ▶ It will result in a movement up along the aggregate demand curve.
- ▶ It will reduce aggregate supply.
- ▶ **It will reduce aggregate demand.**
- ▶ It will not change aggregate demand or aggregate supply in the domestic economy.

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

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

- ▶ It will result in a movement downward along the aggregate demand curve.
- ▶ **It will increase aggregate demand.**
- ▶ It will increase aggregate supply.
- ▶ It will not change aggregate demand or aggregate supply in the domestic economy.

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

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

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

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

We can measure economic growth with the help of:

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

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

A contractionary fiscal policy shifts:

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

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

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

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

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

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

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

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

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

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

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

What will happen to LM curve if the central bank increased the supply of real money balances?

- ▶ It would become steeper.
- ▶ It would become flatter.
- ▶ It would shift upward.
- ▶ **It would shift downward.**

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

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

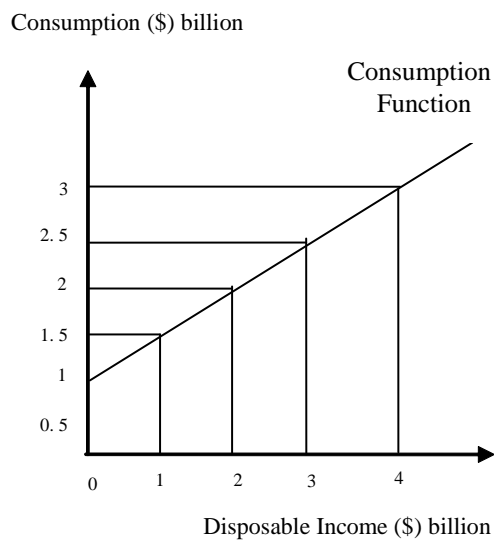
- ▶ Is not accompanied by smaller increase in product per capita.
- ▶ Is not accompanied by increasing total product.
- ▶ **Is an obstacle in economic growth.**
- ▶ Is good for economic growth.

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

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

- ▶ Generation gap.
- ▶ Communication gap.
- ▶ **Foreign exchange gap.**
- ▶ None of the given options.

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



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

- ▶ 0.
- ▶ 0.5.
- ▶ 1.0.
- ▶ 2.0.

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

Which of the following is TRUE in a planned economy?

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

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

For which of the following good, the substitution effect of a lowered price is counteracting by the income effect?

- ▶ **For an inferior good.**
- ▶ A substitute good.
- ▶ For an independent good.
- ▶ For a normal good.

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

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

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

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

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

- ▶ 500
- ▶ **$30 + (500/Q)$**
- ▶ $30Q^2 + 500Q$
- ▶ 30

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

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

- ▶ **20**
- ▶ 55
- ▶ 50
- ▶ 220

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

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

- ▶ Labor demanded.
- ▶ Capital demanded.
- ▶ Quantity of good supplied.
- ▶ **Quantities.**

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

A public good is non-excludable because:

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

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

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

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

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

The principle which states that a change in income causes a magnified change in investment is termed as the:

- ▶ None of the given.
- ▶ Paradox of thrift.
- ▶ Multiplier effect.
- ▶ **Accelerator effect.**

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

Monetarists characterized the long-term tradeoff between output and:

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

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

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

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

Question No: 49 (Marks: 3)

What is meant by exchange rate? Also give example of exchange rate.

Question No: 50 (Marks: 3)

On what basis countries gain from trade?

Question No: 51 (Marks: 5)

-
- A. "Slope of the consumption function is less than 1".What is meant by this statement?
- B. What are the major macroeconomic variables involved in the determination of national income?

Question No: 52 (Marks: 5)

Why is taxation necessary? What are the principles of taxation?

Question No: 53 (Marks: 5)

Why could the world as a whole not experience a problem of a current account balance of payments deficit?

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FINALTERM EXAMINATION

Spring 2010

ECO401- Economics (Session - 4)

Ref No: 1375669

Time: 90 min

Marks: 69

Student Info	
StudentID:	MC090400480
Center:	OPKST
ExamDate:	08 Aug 2010

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Q No.	1	2	3	4	5	6	7	8	Total
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Q No.	9	10	11	12	13	14	15	16	
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Q No.	49	50	51	52	53				
Marks									

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Muhammad Soban

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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

Which of the following is the term that economists use to describe how consumers rank different goods and services?

- ▶ Satisfaction index.
- ▶ Goodness.
- ▶ **Utility.**
- ▶ None of the given options.

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

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

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

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

Which of the following is a correct statement about the substitution effect?

- ▶ **The substitution effect is always negative.**
- ▶ The substitution effect is positive for an inferior good.
- ▶ The substitution effect measures how demand changes when income changes.
- ▶ The substitution effect is positive for a Giffen good.

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

Producer surplus in a perfectly competitive industry is:

- ▶ The difference between profit at the profit-maximizing and profit-minimizing level of output.
- ▶ The difference between revenue and total cost.
- ▶ **The difference between revenue and variable cost.**
- ▶ The difference between revenue and fixed cost.

Question No: 6 (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.

Question No: 7 (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: 8 (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: 9 (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: 10 (Marks: 1) - Please choose one

The aggregate demand will decrease if:

- ▶ **Investment spending decreases.**
- ▶ Government spending increases.
- ▶ Consumption spending increases.
- ▶ Imports decreases.

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

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

- ▶ Insufficient aggregate supply.
- ▶ **Insufficient aggregate demand.**
- ▶ Quick self correcting mechanism.
- ▶ Government purchases of too many goods and services.

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

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

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

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

Which of the following will result if there is a decrease in aggregate demand?

- ▶ Expansion; inflation.
- ▶ **Recession; deflation.**
- ▶ Expansion; deflation.
- ▶ Recession; inflation.

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

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

- ▶ Capital account.
- ▶ Financial account.
- ▶ Current account.
- ▶ **Future account.**

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

Endogenous growth theory was developed in:

- ▶ **1980.**
- ▶ 1965.
- ▶ 1970.
- ▶ 1950.

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

The money aggregate M1 does not include:

- ▶ **Currency in the vaults of commercial banks.**
- ▶ Currency in the hands of the public.
- ▶ Traveler's checks that have been issued.
- ▶ Demand deposits at commercial banks.

Question No: 17 (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: 18 (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: 19 (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: 20 (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: 21 (Marks: 1) - Please choose one

Public education creates:

- ▶ Asymmetric information.
- ▶ External costs.
- ▶ Internal costs.
- ▶ **External benefits.**

Question No: 22 (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: 23 (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: 24 (Marks: 1) - Please choose one

Total national investment consists of:

- ▶ Gross domestic fixed capital formation.
- ▶ Change in stocks.
- ▶ Export less imports.
- ▶ **All of the given options.**

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

In the definition of labor force, economists include:

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

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

People who are only working part-time, but want to be working full-time, are classified officially as:

- ▶ Unemployed and in the labor force.
- ▶ Unemployed and out of the labor force.
- ▶ **Employed and out of the labor force.**
- ▶ Employed and in the labor force.

Question No: 27 (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: 28 (Marks: 1) - Please choose one

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

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

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

Which of the following avoids uncertainty and volatility and making international transactions easier?

▶ **Fixed exchange rate.**

▶ Flexible exchange rate.

▶ Fixed interest rate.

▶ Flexible interest rate.

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

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

▶ Inflation rate.

▶ Real exchange rate.

▶ **Nominal exchange rate.**

▶ Discount rate.

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

Development is impossible without:

▶ **Incentive to profit.**

▶ Foreign aid.

▶ Domestic savings.

▶ Inflation.

Question No: 32 (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: 33 (Marks: 1) - Please choose one

Which of the following shows the inverted-U shape when plotted on a graph?

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve.**
- ▶ Investment curve.

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

If the required reserve ratio is 20% then what will be the value of money multiplier?

- ▶ 1.
- ▶ 2.5.
- ▶ **5.**
- ▶ 7.

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

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

- I. Act as a regulator of banks.
 - II. Issue government bonds.
 - III. Set monetary policy.
- ▶ I only.
- ▶ I and III.
- ▶ I and II.

▶ **I, II and III.**

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

In a period of boom, credit creation is:

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

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

How the government increases paper currency component of the money supply?

- ▶ Households sell gold to the government in returns for currency.
- ▶ The government gives newly created currency to households.
- ▶ The government gives paper currency to the banks.
- ▶ **The government exchange paper currency for government securities.**

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

LM curve shows the equilibrium in:

- ▶ **Money Market.**
- ▶ Goods Market.
- ▶ Labor Market.
- ▶ Financial Market.

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

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

- ▶ Generation gap.
- ▶ Communication gap.
- ▶ **Foreign exchange gap.**
- ▶ None of the given options.

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

What is meant by freedom of enterprise in pure capitalism?

- ▶ **It means that businesses are free to produce products that consumers want.**
- ▶ It means that consumers are free to buy goods and services that they want.
- ▶ It means that resources are distributed freely to businesses.
- ▶ It means that government is free to direct the actions of businesses.

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

What might be the reason of a leftward shift in the demand curve for product X?

- ▶ A decrease in income if X is an inferior good.
- ▶ An increase in income if X is a normal good.
- ▶ An increase in the price of a product that is a close substitute for X.
- ▶ **An increase in the price of a product that is complementary to X.**

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

Concentration ratio is used to assess:

- ▶ **The level of competition in an industry.**
- ▶ The degree of control over prices.
- ▶ The technological gaps between the firms.
- ▶ Marginal cost and marginal benefit analysis.

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

Monopolists produce lower quantities at higher prices compared to perfectly competitive firms, because monopolists do not produce where

- ▶ Marginal cost = marginal revenue
- ▶ Average revenue = marginal cost
- ▶ Price = average variable cost
- ▶ **Price = marginal cost**

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

Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:

- ▶ Shifts to the left.
- ▶ **Shifts to the right.**
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

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

As price increases total revenue decreases in case of

- ▶ Inelastic demand.
- ▶ Unit elastic demand.
- ▶ Zero elastic demand.
- ▶ **Elastic demand.**

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

Suppose the consumption function is $C = \$10 + 0.75Y$. If $Y = 50$ \$, then the amount of consumption is:

- ▶ 37.50
- ▶ 85.00
- ▶ **47.50**
- ▶ 10.75

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

Balance of payments problems are also often a result of:

- ▶ High domestic deflation.
- ▶ Domestic unemployment.
- ▶ Domestic poverty.
- ▶ **High domestic inflation.**

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

Current account deficit can be reduced by:

- ▶ **Devaluation of currency.**
- ▶ Revaluation of currency.
- ▶ Reduction in exports.
- ▶ Fiscal deficit.

Question No: 49 (Marks: 3)

Differentiate between inflation and deflation.

Question No: 50 (Marks: 3)

What are the reasons that poor countries remained poor?

Question No: 51 (Marks: 5)

Explain the difference between endogenous growth model and exogenous growth model.

Question No: 52 (Marks: 5)

Following table shows different stages of production of cloth. Calculate the value added at each stage of production. What is GDP by this approach?

Stage of production	Money value (Rs)	Value added at each stage (Rs)
Raw cotton	10.50	?
Cotton yarn	25.68	?
Coarse cloth	45.82	?
Finished cloth	55.66	?

Question No: 53 (Marks: 5)

Discuss the equilibrium condition in money market. Explain this equilibrium condition with the help of diagram.

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FINALTERM EXAMINATION

Spring 2010

ECO401- Economics (Session - 2)

Time: 90 min

Marks: 69

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

Which of the following is the term that economists use to describe how consumers rank different goods and services?

- ▶ Satisfaction index.
- ▶ Goodness.
- ▶ **Utility.**
- ▶ None of the given options.

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

As long as all prices remain constant, an increase in money income results in:

- ▶ **An increase in the slope of the budget line.**
- ▶ A decrease in the slope of the budget line.
- ▶ An increase in the intercept of the budget line.
- ▶ A decrease in the intercept of the budget line.

Question No: 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.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

Question No: 5 (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.

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

Revenue is equal to:

▶ **Price times quantity.**

- ▶ Price times quantity minus total cost.
- ▶ Price times quantity minus average cost.
- ▶ Price times quantity minus marginal cost.

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

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: 9 (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: 10 (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: 11 (Marks: 1) - Please choose one

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

- ▶ Insufficient aggregate supply.
- ▶ **Insufficient aggregate demand.**
- ▶ Quick self correcting mechanism.
- ▶ Government purchases of too many goods and services.

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

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

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

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

Classical economics is most closely associated with the modern analysis of:

- ▶ Short-run aggregate market.
- ▶ Long-run aggregate market.
- ▶ Keynesian economics.
- ▶ Imperfect competition.

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

Unemployment benefits may increase the unemployment rate because:

- ▶ **Unemployment benefits reduce the cost of job search.**
- ▶ Unemployment benefits encourage people to quit their jobs.
- ▶ Unemployment benefits reduce the benefits of additional job searching.
- ▶ Unemployment benefits enable people to quit searching for work.

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

A current account deficit implies that:

- ▶ Imports are greater than exports.
- ▶ Income exceeds spending.
- ▶ Exports are greater than imports.
- ▶ None of the given options.

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

If the prices of all goods and services rise during the year:

- ▶ Real GDP may fall.
- ▶ Nominal GDP must fall.
- ▶ **Nominal GDP may increase.**
- ▶ Real GDP must rise.

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

An increase in the money supply will cause interest rates to:

- ▶ Rise.
- ▶ **Fall.**
- ▶ Remain unchanged.
- ▶ None of the given options.

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

The principle economic difference between a competitive and a non-competitive market is:

- ▶ The number of firms in the market.
- ▶ **The extent to which any firm can influence the price of the product.**
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

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

If the total product of labor per day is as shown in the table below and the price of the product is \$20/unit. What is the value of the marginal product of labor (VMPL) of the 5th worker?

Labor	Total output
1	8
2	23
3	33
4	38
5	41

- ▶ 100.
- ▶ 10.
- ▶ 40.
- ▶ **60.**

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

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 Save (MPS) is:

- ▶ 0.20.
- ▶ 0.25.
- ▶ 0.30.
- ▶ 0.35.

Question No: 23 (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: 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

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: 26 (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: 27 (Marks: 1) - Please choose one

Frictional unemployment occurs because people:

- ▶ Change jobs.
- ▶ Take a while to find an appropriate job once they enter the labor force.
- ▶ Move around the country.
- ▶ **All of the given options.**

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

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

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

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

Which of the following best describes the economic growth?

- ▶ Continuous outward shift of aggregate demand.
- ▶ **A long term expansion of a country's potential GDP.**
- ▶ The avoidance of a negative output gap.
- ▶ An increase in aggregate demand which causes a movement along the short-run aggregate supply curve.

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

What is TRUE for a poor country?

- ▶ **The supply of capital is low.**
- ▶ The demand for capital is low.
- ▶ Both the supply of and demand for capital are low.
- ▶ None of the given options.

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

What happens in a steady state condition with no population growth?

- ▶ The amount of capital per worker remains constant over time.
- ▶ Investment per worker equals depreciation per worker.
- ▶ Saving per worker equals depreciation per worker.
- ▶ All of the given options.

Question No: 32 (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: 33 (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: 34 (Marks: 1) - Please choose one

In a period of recession, credit creation is:

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

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

A tariff is defined as:

- ▶ A restriction on exports.
- ▶ **A tax placed on an imported product.**
- ▶ A limit on the amount of a good or service that can be exported.
- ▶ A limit on the amount of a good or service that can be imported.

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

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

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

Question No: 38 (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: 39 (Marks: 1) - Please choose one

The government can regulate monopolies to ensure that they set a price where the AR curve intersects the

- ▶ Marginal revenue curve.
- ▶ Average variable cost.
- ▶ **Marginal cost curve.**
- ▶ None of the given options.

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

Monopolistic competition is also characterized by a large number of buyers and sellers and absence of

- ▶ Competition.
- ▶ **Entry barriers.**
- ▶ Price discrimination.
- ▶ All of the given options.

Question No: 41 (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

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

In Keynesian economics, a deflationary gap results if:

- ▶ Aggregate expenditures are greater than aggregate production.
- ▶ Aggregate expenditures are equal to aggregate production.
- ▶ There are no changes in inventories.
- ▶ Aggregate expenditures are less than aggregate production.

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

Balance of payments problems are also often a result of:

- ▶ High domestic deflation.
- ▶ Domestic unemployment.
- ▶ Domestic poverty.
- ▶ **High domestic inflation.**

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

If there is an excess demand for dollars in the market then it will:

- ▶ Pushes the exchange rate up.
- ▶ Pushes the exchange rate down.
- ▶ Not affect the exchange rate.
- ▶ Increase poverty.

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

Growth rate of total output is equal to:

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

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

If aggregate demand grows faster then the gap between actual and potential output:

- ▶ Narrows.
- ▶ Widens.
- ▶ Remains same.
- ▶ Is unitary.

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

A higher discount rate causes banks' voluntary reserve ratio to:

- ▶ Increase.
- ▶ Decrease.
- ▶ remain unaffected.
- ▶ None of the given options.

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

Which of the following will happen if suddenly people wish to hold less money at same interest rate?

- ▶ The LM curve will shift downward (to the right).
- ▶ **The money demand curve will shift to the right.**
- ▶ The IS curve will shift to right.
- ▶ None of the given options.

Question No: 49 (Marks: 3)

Differentiate between real exchange rate and nominal exchange rate.

Question No: 50 (Marks: 3)

If $MPC = 0.84$ and tax rate = 0.27 then find out the value of multiplier.

Question No: 51 (Marks: 5)



What is the importance of current account? How we can calculate current account deficit?



How we can reduce current account deficit?

Question No: 52 (Marks: 5)

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

Question No: 53 (Marks: 5)

If the government increase its spending e.g. increases the wages of the government servant, how it will affect on consumption, production and hiring of new employees?

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FINAL TERM EXAMINATION

Spring 2010

ECO401 - Economics (Session - 1)

Time: 90 min

Marks: 69

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

The budget line is the boundary between:

- ▶ Preferred and non preferred consumption combinations.
- ▶ **Affordable and unaffordable consumption combinations.**
- ▶ Income and expenditure.
- ▶ One point on a budget line.

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

The supply curve for a competitive firm is:

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

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

A price taker is:

- ▶ A firm that accepts different prices from different customers.
- ▶ A monopolistically competitive firm.
- ▶ **A firm that cannot influence the market price.**
- ▶ An oligopolistic firm.

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

The good produced by a monopoly:

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

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

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

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

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

The textbook for your class was not produced in a perfectly competitive industry because:

- ▶ There are so few firms in the industry that market shares are not small, and firm's decisions have an impact on market price.
- ▶ Upper-division microeconomics texts are not all alike.
- ▶ It is not costless to enter or exit the textbook industry.
- ▶ **All of the given options.**

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

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

- ▶ **Has self-correcting mechanisms.**
- ▶ Can only be graphed with a horizontal curve.
- ▶ Never needs correction.
- ▶ None of the given options.

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

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

- ▶ Insufficient aggregate supply.
- ▶ **Insufficient aggregate demand.**
- ▶ Quick self correcting mechanism.
- ▶ Government purchases of too many goods and services.

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

Keynesian economics rejected the classical assumption that:

- ▶ **Supply creates its own demand.**
- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ Consumption expenditures depend on disposable income.

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

The Phillips curve will shift to the right:

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

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

If a Japanese radio priced at 2,000 yen can be purchased for \$10, the exchange rate is:

- ▶ **200 yen per dollar.**
- ▶ 20 yen per dollar.
- ▶ 20 dollars per yen.
- ▶ None of the given options.

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

If the prices of all goods and services rise during the year:

- ▶ Real GDP may fall.
- ▶ Nominal GDP must fall.
- ▶ **Nominal GDP may increase.**
- ▶ Real GDP must rise.

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

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

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

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

Which of the following does NOT refer to macroeconomics?

- ▶ The study of the aggregate level of economic activity.
- ▶ **The study of the economic behavior of individual decision-making units such as consumers, resource owners, and business firms.**
- ▶ The study of the cause of unemployment.
- ▶ The study of the cause of inflation.

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

The Marginal Propensity to Save (MPS) is:

- ▶ **One Minus Marginal Propensity to Consume (MPC).**
- ▶ Saving divided by consumption.
- ▶ The slope of the consumption function (or line).
- ▶ The proportion of disposable income used for consumption.

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

Which of the following statements is TRUE about cartels?

▶ **These are organizations of independent firms, producing similar products, that work together to raise prices and restrict output.**

▶ These are organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.

▶ These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.

▶ These are considered as part of monopolistic competition.

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

Those who hold the classical view of the labour market are likely to believe that:

▶ Monetary but not fiscal policy will have an effect on output and employment.

▶ Fiscal but not monetary policy will have an effect on output and employment.

▶ Both monetary and fiscal policy will have an effect on output and employment.

▶ **Neither monetary nor fiscal policy will have an effect on output and employment.**

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

Suppose the balance of payment is in deficit in an economy. The government of that economy will take all of the following actions EXCEPT:

▶ Devalue the currency.

▶ Reduce the interest rates.

▶ **Restrict the consumer spending.**

▶ Restrict the imports.

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

Suppose there are two producers and two products. Which of the following is not TRUE in this situation?

▶ A producer has an absolute advantage on one product.

▶ **A producer has the comparative advantage on both products.**

▶ A producer has the comparative advantage on one product.

▶ A producer has an absolute advantage on both products.

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

Trade can be beneficial in which of the following situations?

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

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

▶ Two countries are isolated.

▶ Two countries have the same markets.

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

GNP is a good indicator of:

▶ **The total payment of factor owners.**

▶ The amount of consumption and investment.

▶ The conditions of production and employment.

▶ The amount of incomes available for spending.

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

For a study of the long term growth of the economy, we use:

- ▶ **Real GNP.**
- ▶ Nominal GNP.
- ▶ Personal income.
- ▶ Disposable personal income.

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

Total national consumption consists of:

- ▶ Private consumption.
- ▶ Public consumption.
- ▶ Exports.
- ▶ **Private and public consumption.**

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

If there is an increase in consumer's confidence, ceteris paribus, then which of the following will happen?

- ▶ Consumption function will shift downward.
- ▶ **Consumption function will shift upward.**
- ▶ Saving function will shift upward.
- ▶ Consumption function will remain the same.

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

Information products are also known as:

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

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

Public education creates:

- ▶ Asymmetric information.
- ▶ External costs.
- ▶ Internal costs.
- ▶ **External benefits.**

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

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

- ▶ Aggregate demand.
- ▶ Aggregate supply.
- ▶ The government.
- ▶ **Money supply.**

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

In the definition of labor force, economists include:

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

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

Rising inflation means:

- ▶ That the price level is increasing by a given percentage rate.
- ▶ That the prices of all goods and services increase from year to year.
- ▶ **That the price level is rising at an increasing rate.**
- ▶ That the price level is rising at a variable rate.

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

In the long run, sustained inflation is due to:

- ▶ A one-time increase in money growth.
- ▶ **A continuous increase in the money growth rate.**
- ▶ A continuous increase in aggregate demand.
- ▶ The rising price of oil.

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

The decrease in the price of one country's currency in terms of other currencies due to the market forces of demand and supply is known as:

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

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

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

- ▶ It will result in a movement up along the aggregate demand curve.
- ▶ It will reduce aggregate supply.
- ▶ **It will reduce aggregate demand.**
- ▶ It will not change aggregate demand or aggregate supply in the domestic economy.

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

Endogenous growth model is also known as:

- ▶ **AK Model.**
- ▶ Exogenous growth model.
- ▶ Best growth model.
- ▶ All of the given options.

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

Contractionary fiscal policy includes:

- ▶ Increasing taxes and increasing government purchases.
- ▶ Raising interest rates, increasing taxes, and decreasing transfer payments.
- ▶ **Increasing taxes and decreasing government expenditures.**
- ▶ Raising interest rates, decreasing taxes, and decreasing government spending.

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

Which of the following shows the inverted-U shape when plotted on a graph?

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve.**
- ▶ Investment curve.

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

A tax on individual's income is known as:

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

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

The price of Nokia 3110 cell phone is Rs. 8000. What is the function of money in this context?

- ▶ A medium of exchange.
- ▶ A means of payment.
- ▶ **A unit of account.**
- ▶ A measure of quality.

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

What will be the impact of an increase in taxes?

- ▶ **It will shift the IS curve to the left and decrease both the interest rate and the level of income.**
- ▶ It will shift the IS curve to the right and increase both the interest rate and the level of income.
- ▶ It will shift the IS curve to the right and increase the level of income but decrease the interest rate.
- ▶ It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.

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

If money supply is fixed by the central bank then in interest rate-money supply space, money supply curve will be:

- ▶ Horizontal.
- ▶ **Vertical.**
- ▶ Negatively sloped.
- ▶ Positively sloped.

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

Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:

- ▶ **Shifts to the left.**
- ▶ Shifts to the right.
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

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

Which of the following will happen if the current market price is set below the market clearing level?

- ▶ There will be a surplus to accumulate.
- ▶ There will be downward pressure on the current market price.
- ▶ **There will be upward pressure on the current market price.**
- ▶ There will be lower production during the next time period.

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

What is TRUE about the relationship between average product (AP) and marginal product (MP)?

- ▶ **If AP exceeds MP, then AP is falling.**
- ▶ If AP is at a maximum, then MP is also at maximum.
- ▶ If AP = MP, then total product is at a maximum.
- ▶ If Total Product is declining, then AP is negative.

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

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

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

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

If firms are not of equal size in oligopoly, then quotas can be allocated according to the _____ of each firm.

- ▶ Marginal revenue
- ▶ **Marginal cost**
- ▶ Average variable cost
- ▶ Average cost

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

Optimal mix of resources is decided by

- ▶ The price mechanism.
- ▶ **Producers.**
- ▶ Consumers.
- ▶ Government.

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

When the slope of a demand curve is infinity, elasticity of demand is

- ▶ **Zero elastic.**
- ▶ Unit elastic.
- ▶ Less elastic.
- ▶ More elastic.

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

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

- ▶ **0.80**
- ▶ 1.20
- ▶ 0.50
- ▶ 1.25

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

If prices are held constant, an increase in money supply will cause MS/P to:

- ▶ **Shift to the right.**
- ▶ Shift to the left.
- ▶ Stay as it is.
- ▶ None of the given options.

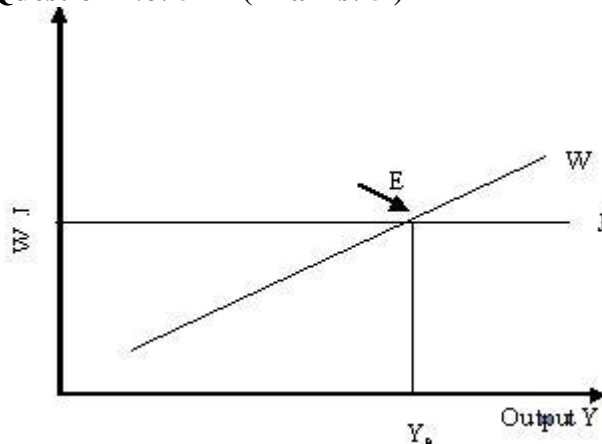
Question No: 49 (Marks: 3)

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

Question No: 50 (Marks: 3)

What are the different borrowing options available to the government for reducing the fiscal deficit?

Question No: 51 (Marks: 5)



What actually the Keynesian paradox of thrift states? In the above figure, economy is in equilibrium at point E where withdrawals are equal to leakages. Keeping Keynes's paradox of thrift arguments in mind, what will happen to output, consumption and investment level if people start saving more suddenly.

Question No: 52 (Marks: 5)

Differentiate between fixed exchange rate and floating exchange rate.

Question No: 53 (Marks: 5)

Some economists suggest “growth through trade strategy” to tackle the problem of poverty of under developed countries.

- a) What is the basic theme of this strategy?**
- b) Why this strategy is not so much successful?**
- c) What is the proposed solution presented to tackle the drawback of this strategy?**

(Marks: 2+1.5+1.5)

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FINAL TERM EXAMINATION

Spring 2010

ECO401 - Economics (Session - 3)

**Time: 90 min
Marks: 69**

Question No: 1 (Marks: 1) - Please choose one
At the equilibrium price:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Question No: 7 (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: 8 (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: 9 (Marks: 1) - Please choose one
Suppose to hire the next worker, the firm pays \$50. This \$50 is the:

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

Question No: 10 (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: 11 (Marks: 1) - Please choose one
An assumption of classical economics is:

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

Question No: 12 (Marks: 1) - Please choose one
How many methods are there to measure Gross Domestic Product?

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

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

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

▶ **The capital account.**

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

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

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.

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.**

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.

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.

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

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.

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.

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

NP is a good indicator of:

▶ **The total payment of factor owners.**

▶ The amount of consumption and investment.

▶ The conditions of production and employment.

▶ The amount of incomes available for spending.

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

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: 23 (Marks: 1) - Please choose one

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.**

▶ Could be due to an increase in investment demand.

▶ Occurs because aggregate output supplied has increased.

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 .

▶ Price level = P_3 ; real GDP = Y_p .

Question No: 25 (Marks: 1) - Please choose one
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
In the definition of labor force, economists include:

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

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

Question No: 28 (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: 29 (Marks: 1) - Please choose one
We can measure economic growth with the help of:

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

Question No: 30 (Marks: 1) - Please choose one
Development is impossible without:

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

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.

▶ **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.**
- ▶ Progressive tax.
- ▶ Regressive tax.

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.

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

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

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

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

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

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

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.**

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.

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.

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.**

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

Slope and elasticity of demand have

- ▶ A direct relation.
- ▶ **An inverse relationship.**
- ▶ No relation between slope and elasticity.
- ▶ None of the given options.

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.

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

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.**
- ▶ 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.**

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.**
- ▶ 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.

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.

Question No: 52 (Marks: 5)

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.

b) 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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FINAL TERM EXAMINATION

Spring 2010

ECO401 - Economics (Session - 4)

Time: 90 min
Marks: 69

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

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

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

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

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

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

Question No: 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

If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:

- ▶ The consumer's indifference curve must be positively sloped.
- ▶ The consumer's indifference curve must be convex with respect to the origin of the graph.
- ▶ **The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal $\frac{1}{2}$.**
- ▶ All of the given options.

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.**

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

The following table shows a firm's Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?

Table

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

- ▶ 340 units.
- ▶ 220 units.
- ▶ 11 units.
- ▶ **110 units.**

Question No: 7 (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: 8 (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: 9 (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: 10 (Marks: 1) - Please choose one

Which one of the following characteristics is common in monopolistic competition and oligopoly?

- ▶ Free entry and exit from the industry.
- ▶ Strategic behavior.
- ▶ Standardized products.
- ▶ **Advertising.**

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

Which of the following will lead to an increase in aggregate demand?

- ▶ An increase in government tax revenues.
- ▶ An increase in household savings.
- ▶ **An increase in business capital investment.**
- ▶ An increase in demand for imports.

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

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

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

Question No: 13 (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: 14 (Marks: 1) - Please choose one
Naima has just finished her school job and is waiting to report to new job at the beginning of the month. Naima is considered to be:

- ▶ Cyclically unemployed.
- ▶ Employed.
- ▶ **Structurally unemployed.**
- ▶ Frictionally unemployed.

Question No: 15 (Marks: 1) - Please choose one
Which 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: 16 (Marks: 1) - Please choose one
An exchange rate system in which central banks are always ready to buy and sell their currencies at predetermined prices is called:

- ▶ A flexible exchange rate system.
- ▶ A managed exchange rate system.
- ▶ **A fixed exchange rate system.**
- ▶ None of the given options.

Question No: 17 (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: 18 (Marks: 1) - Please choose one
Per capita income is obtained by dividing national income by:

- ▶ Total labor force in the country.
- ▶ Unemployed youth in the country.
- ▶ None of the given options.
- ▶ **Total population of that country.**

Question No: 19 (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: 20 (Marks: 1) - Please choose one
Which of the following is NOT a factor of production?

- ▶ Labour.
- ▶ Land.
- ▶ Capital.
- ▶ **Investment.**

Question No: 21 (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: 22 (Marks: 1) - Please choose one
All of the following are the reasons of downward sloping curve of aggregate demand EXCEPT:

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

Question No: 23 (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: 24 (Marks: 1) - Please choose one

Double counting in national income refers to:

- ▶ Counting a product more than once.
- ▶ **Counting a product at the final stage of output process.**
- ▶ Counting both as product and as factor payment.
- ▶ Counting both as real goods and as money flow.

Question No: 25 (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: 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

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

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

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

Which of the following best defines the aggregate demand?

- ▶ **The demand for goods and services generated by all sectors in the economy, holding price level constant.**
- ▶ The relationship between the total quantity of goods and services demanded and the price level, all other determinants of spending unchanged.
- ▶ The relationship between the total quantity of goods and services demanded and the supply of factors of production, all other determinants of production unchanged.
- ▶ The relationship between the total quantity of goods and services demanded and the income level, all other determinants of spending unchanged.

Question No: 29 (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 .
- ▶ Price level = P_3 ; real GDP = Y_p .

Question No: 30 (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: 31 (Marks: 1) - Please choose one

The long run in macroeconomic analysis is a period:

▶ **In which wages and some other prices are sticky.**

▶ In which full wage and price flexibility and market adjustment have been achieved.

▶ Greater than 12 months.

▶ In which the capital stock is held constant.

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

The Phillips curve shows that:

▶ **High unemployment rates are associated with low inflation rates.**

▶ High unemployment rates are associated with high inflation rates.

▶ High unemployment rates are associated with a large increase in the nominal wage.

▶ High inflation rates are associated with a small increase in the nominal wage.

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

What will happen if exchange rate increases from \$1 = Pak Rs. 80 to \$1 = Pak Rs. 85?

▶ **It will reduce exports of Pakistan.**

▶ It will increase exports of Pakistan.

▶ It will increase imports of Pakistan.

▶ Its imports and exports will remain unchanged.

Question No: 35 (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: 36 (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: 37 (Marks: 1) - Please choose one

A contractionary fiscal policy shifts:

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

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

Which of the following is included in M2 but not in M1?

- ▶ Currency.
- ▶ Demand deposits.
- ▶ **Time deposits.**
- ▶ Debit cards.

Question No: 39 (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: 40 (Marks: 1) - Please choose one

Which of the following has positive relationship with demand for money?

- ▶ **Level of income.**
- ▶ Price level.
- ▶ Rate of interest.
- ▶ Discount rate.

Question No: 41 (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: 42 (Marks: 1) - Please choose one

Suppose the total costs of first four units of an output produced are 20, 40, 60, and 80 respectively. What is the marginal cost of the second unit of output?

- ▶ 10.
- ▶ **20.**
- ▶ 30.
- ▶ 40.

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

The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:

- ▶ The demand curve for eggs to shift leftward.
- ▶ Quantity demanded of eggs to decrease.
- ▶ The demand curve for eggs to shift rightward.
- ▶ **Quantity demanded of eggs to increase.**

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

The marginal 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: 45 (Marks: 1) - Please choose one

Suppose the consumption function is $C = \$10 + 0.75Y$. If $Y = 50$ \$, then the amount of consumption is:

- ▶ 37.50
- ▶ 85.00
- ▶ **47.50**
- ▶ 10.75

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

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

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

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

A process by which money is created is called:

- ▶ Credit rationing.
- ▶ Credit expansion.
- ▶ **Credit creation.**
- ▶ None of the given options.

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

Which of the following will happen if suddenly people wish to hold less money at same interest rate?

- ▶ The LM curve will shift downward (to the right).
- ▶ **The money demand curve will shift to the right.**
- ▶ The IS curve will shift to right.
- ▶ None of the given options.

Question No: 49 (Marks: 3)

“Devaluation is a sign of economic failure and will do little to help improve the balance of payments or economic performance.” Discuss..

Question No: 50 (Marks: 3)

Differentiate between international trade and international finance.

Question No: 51 (Marks: 5)

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

Question No: 52 (Marks: 5)

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.**
 - b) **Is there any multiplier effect? How it works in this case?**
- (Marks: 3+2)**

Question No: 53 (Marks: 5)

If $y = Y / L$, where, Y = Total GDP, L = Population, y = Per capita GDP then prove that Growth rate of per capita income = Growth rate of total output - Growth rate of population

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FINAL TERM EXAMINATION

Spring 2010

ECO401 - Economics (Session - 3)

-

Time: 90 min
Marks: 69

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

Land is best described as:

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

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

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

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

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

Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:

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

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

As more of a good is consumed, then total utility typically:

- ▶ **Increases at a decreasing rate.**
- ▶ Decreases as long as marginal utility is negative.
- ▶ Decreases as long as marginal utility is positive.
- ▶ Is negative as long as marginal utility is decreasing.

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

At any given point on an indifference curve, the absolute value of the slope equals:

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution.**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

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

Fixed costs are fixed with respect to changes in:

- ▶ **Output.**
- ▶ Capital expenditures.
- ▶ Wages.
- ▶ Time.

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

If a firm experiences economies of scale, then the:

- ▶ Long-run average total cost curve is equal to the economies of scope.
- ▶ **Long-run average total cost curve is positively sloped.**
- ▶ Long-run average total cost curve is horizontal.
- ▶ Long-run average total cost curve is negatively sloped.

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

When a firm charges each customer the maximum price that the customer is willing to pay, the firm:

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ **Engages in first-degree price discrimination.**

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

Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?

- ▶ The demand curve is tangent to marginal cost curve.
- ▶ **The demand curve is tangent to average cost curve.**
- ▶ The marginal cost curve is tangent to average cost curve.
- ▶ The demand curve is tangent to marginal revenue curve.

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

Which one of the following characteristics is common in monopolistic competition and oligopoly?

- ▶ Free entry and exit from the industry.
- ▶ Strategic behavior.
- ▶ Standardized products.
- ▶ **Advertising.**

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

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

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

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

According to classical economics, the economy was unlikely to experience:

- ▶ Full employment.
- ▶ **Flexible wages and prices.**
- ▶ Equality between saving and investment.
- ▶ High rates of unemployment.

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

Say's Law is a proposition underlying classical economics stating that:

- ▶ **Supply creates its own demand.**
- ▶ Leakages are greater than injections.
- ▶ Unemployment is a common condition.
- ▶ Consumption expenditures are a function of disposable income.

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

An assumption of classical economics is:

- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ **Supply creates its own demand.**
- ▶ Investment and saving are seldom equal.

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

Which of the following will result if there is a decrease in aggregate demand?

- ▶ Expansion; inflation.
- ▶ **Recession; deflation.**
- ▶ Expansion; deflation.
- ▶ Recession; inflation.

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

Real Gross Domestic Product (GDP) equals:

- ▶ Nominal GDP minus net exports.
- ▶ **Nominal GDP divided by the GDP deflator.**
- ▶ Nominal GDP multiplied by the GDP deflator.
- ▶ GDP minus depreciation.

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

Which of the following statements is TRUE?

- ▶ **Net National Product = Gross National Product – Depreciation.**
- ▶ Net National Product = National Income.
- ▶ Net National Product = Disposable Personal Income.
- ▶ Net National Product = Personal Income.

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

Which of the following shows the Fisher equation of exchange?

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

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

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

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

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

The principle economic difference between a competitive and a non-competitive market is:

- ▶ The number of firms in the market.
- ▶ **The extent to which any firm can influence the price of the product.**
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

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

An individual whose attitude towards risk is known as:

- ▶ Risk averse.
- ▶ **Risk loving.**
- ▶ Risk neutral.
- ▶ None of the given options.

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

Which of the following best describes the "Capital widening"?

► More capital per unit of labour.
► **More capital and more labour but with the same amount of capital per unit of labour.**

- Increasing the usage of existing capital.
► Importing capital from the developed world.

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

Suppose there are two producers and two products. Which of the following is not TRUE in this situation?

- A producer has an absolute advantage on one product.
► **A producer has the comparative advantage on both products.**
► A producer has the comparative advantage on one product.
► A producer has an absolute advantage on both products.

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

Public education creates:

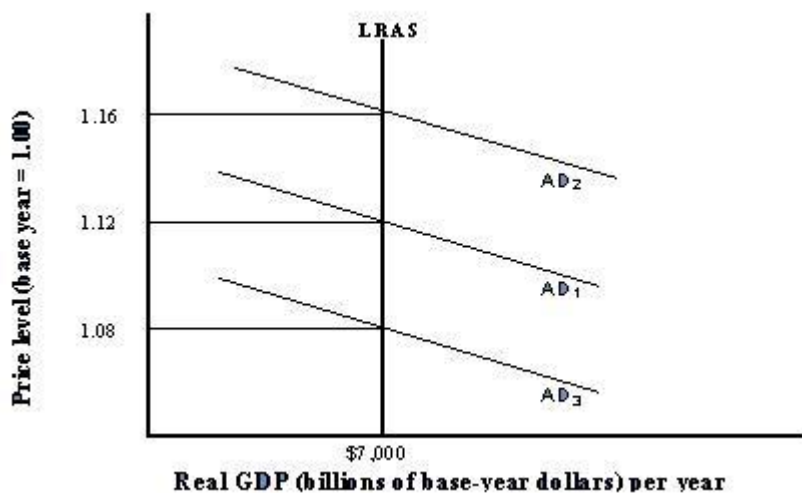
- Asymmetric information.
► External costs.
► Internal costs.
► **External benefits.**

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

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

- **Aggregate demand curve.**
► Average price level.
► Circular flow model.
► GDP curve.

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



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

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

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

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

- ▶ $(L + E)/L$.
- ▶ **U/L .**
- ▶ $1 + (E/L)$.
- ▶ All of the given options.

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

The natural rate of unemployment is likely to fall if:

- ▶ Unemployment benefits increase.
- ▶ Income tax increases.
- ▶ **More training is available for the unemployed.**
- ▶ Geographical immobility increases.

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

Which of the following is NOT a determinant of net exports?

- ▶ Domestic and foreign incomes.
- ▶ Relative price levels.
- ▶ Domestic and foreign trade policies.
- ▶ **Producers' expectations about future prices.**

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

Which of the following can happen in a boom period?

- ▶ Unemployment is likely to fall.
- ▶ Prices are likely to fall.
- ▶ Demand is likely to fall.
- ▶ **Imports are likely to grow.**

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

The taxes on alcohol, tobacco, and gasoline are categorized as:

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

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

The item which serves as a medium of exchange is known as:

- ▶ Gold.
- ▶ Capital.
- ▶ Silver.
- ▶ **Money.**

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

A country has a comparative advantage:

- ▶ If it can produce a good at a higher opportunity cost than other nations.
- ▶ **If it can produce a good at a lower opportunity cost than other nations.**
- ▶ If it can produce a good by using less resources than other nations.
- ▶ If it can produce a good that lies outside its production possibilities curve.

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

A tariff is defined as:

- ▶ A restriction on exports.
- ▶ **A tax placed on an imported product.**
- ▶ A limit on the amount of a good or service that can be exported.
- ▶ A limit on the amount of a good or service that can be imported.

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

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

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

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

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

- I. Lower rates of population growth.
 - II. Greater income inequality.
 - III. A large proportion of the labor force in agriculture.
 - IV. Higher rates of investment.
- ▶ I only.
 - ▶ I and II.
 - ▶ II and IV.
 - ▶ **I and IV.**

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

In which of the following conditions, a welfare loss occurs in monopoly?

- ▶ Where the price is greater than the marginal cost.
- ▶ Where the price is greater than the marginal benefit.
- ▶ Where the price is greater than the average revenue.
- ▶ **Where the price is greater than the marginal revenue.**

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

If average physical product (APP) is decreasing then which of the following must be true?

- ▶ Marginal physical product is more than the average physical product.
- ▶ **Marginal physical product is less than the average physical product.**
- ▶ Marginal physical product is decreasing.
- ▶ Marginal physical product is increasing.

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

When different prices are charged to customers who purchase different quantities, this is an example of

▶ **Second-degree price discrimination.**

▶ First-degree price discrimination.

▶ Monopoly.

▶ Perfect competition.

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

Which of the following may cause a decrease in national income?

▶ **Increase imports.**

▶ Decrease unemployment.

▶ Decreasing exports.

▶ None of the given options.

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

The relationship between interest rate and consumption is:

▶ Positive.

▶ **Negative.**

▶ Zero.

▶ Indeterminate.

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

The principle which states that a change in income causes a magnified change in investment is termed as the:

▶ None of the given.

▶ Paradox of thrift.

▶ Multiplier effect.

▶ **Accelerator effect.**

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

Hysteresis refers to the permanent effects of a:

▶ **Temporary change.**

▶ Structural change.

▶ Cyclical change.

▶ Political change.

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

Factor income from abroad like worker remittances, dividends and interest has positive impact on:

▶ **Current account balance.**

▶ Capital account balance.

▶ Trade balance.

▶ Unemployment.

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

The growth rate of any country's real GDP can be:

- ▶ Negative or positive.
- ▶ positive or zero.
- ▶ Negative or zero.
- ▶ **Negative or positive or zero.**

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

Endogenous growth theory is also known as:

- ▶ Neo-classical growth theory.
- ▶ **New growth theory.**
- ▶ Classical growth model.
- ▶ Keynesian growth model.

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

Which of the following is not the World Bank's structural reform policy?

- ▶ FDI liberalization.
- ▶ Trade liberalization.
- ▶ Financial liberalization.
- ▶ **Same monetary policy for all countries.**

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

The common characteristics of a developing country is:

- ▶ High growth rate.
- ▶ High literacy rate.
- ▶ Skilled labor.
- ▶ **High unemployment rate.**

Question No: 49 (Marks: 3)

At what point, the equilibrium occurs in the foreign exchange market?

Question No: 50 (Marks: 3)

What are the reasons that poor countries remained poor?

Question No: 51 (Marks: 5)

If the government increase its spending e.g. increases the wages of the government servant, how it will affect on consumption, production and hiring of new employees?

Question No: 52 (Marks: 5)

Explain the difference between appreciation and depreciation of currency.

Question No: 53 (Marks: 5)

Differentiate among M_0 , M_1 and M_2 components of money supply.

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FINALTERM EXAMINATION

Spring 2010

ECO401 - Economics (Session - 4)

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

An increase in supply is shown by:

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

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

Which of the following will be TRUE if demand is inelastic?

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.
- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

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

Which of the following is regarded as a general determinant of price elasticity of demand?

- ▶ Nature of the good (luxury versus necessity).
- ▶ Availability of close substitutes.
- ▶ Share of consumer's budget and passage of time.
- ▶ **All of the given options.**

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

Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:

- ▶ **Indifference curves slope downwards.**
- ▶ Indifference curves slope upwards.
- ▶ Indifference curves may cross.
- ▶ Indifference curves could take the form of ellipses.

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

If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:

- ▶ The consumer's indifference curve must be positively sloped.
- ▶ The consumer's indifference curve must be convex with respect to the origin of the graph.
- ▶ **The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal $\frac{1}{2}$.**
- ▶ All of the given options.

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

Suppose you are a workaholic (like work a lot) and your friend is a leisure lover. Compared to your friend your indifference curve will be:

- ▶ Flatter.
- ▶ **Steeper.**
- ▶ Identical.
- ▶ None of the given options.

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

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

- ▶ **All inputs are variable.**
- ▶ All inputs are paid for.
- ▶ All outputs are determined.
- ▶ All loans are repaid.

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

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

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

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

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

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

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

In the short run, a firm should shut down when:

- ▶ Production losses are less than fixed costs.
- ▶ Only normal profits are earned.
- ▶ **Production losses exceed fixed costs.**
- ▶ Fixed costs are zero.

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

Loud music from a neighbor's party is:

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

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

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

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

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

Unemployment benefits may increase the unemployment rate because:

- ▶ **Unemployment benefits reduce the cost of job search.**
- ▶ Unemployment benefits encourage people to quit their jobs.
- ▶ Unemployment benefits reduce the benefits of additional job searching.
- ▶ Unemployment benefits enable people to quit searching for work.

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

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

- ▶ Cyclically unemployed.
- ▶ Employed.
- ▶ **Structurally unemployed.**
- ▶ Frictionally unemployed.

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

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

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

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

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

- ▶ Everyone in the nation is enjoying a better standard of living.
- ▶ The population has increased.
- ▶ **National income has risen faster than the population has risen.**
- ▶ The distribution of income has improved.

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

Suppose the government increases spending. Which of the following would be part of the crowding out effect?

▶ **Interest rate rises and investment falls.**

- ▶ Interest rate rises and velocity of circulation also rises.
- ▶ Higher interest rates encourage the central bank to increase the money supply.
- ▶ Interest rate falls and exports rise.

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

Real Gross National Product (GNP) is best defined as:

▶ **The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.**

- ▶ The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.
- ▶ The current pound value of all new and used goods produced and sold in the economy during a particular time period.
- ▶ The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period.

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

The news on the television reports that the dollar has strengthened relative to the Japanese yen. This means that:

- ▶ **The dollar can now purchase more yen.**
- ▶ The US trade balance with the Japanese economy has improved.
- ▶ The yen can now purchase more dollars.
- ▶ The dollar has depreciated relative to the yen.

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

The Marginal Propensity to Save (MPS) is:

- ▶ **One Minus Marginal Propensity to Consume (MPC).**
- ▶ Saving divided by consumption.
- ▶ The slope of the consumption function (or line).
- ▶ The proportion of disposable income used for consumption.

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

Which of the following is true about supply curve under monopoly?

- ▶ It is same as the competitive market supply curve.
- ▶ **It is the portion of marginal cost curve where marginal costs exceed the minimum value of average variable costs.**
- ▶ It is the result of market power and production costs.
- ▶ None of the given statements is true.

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

All of the following conditions lead to the successful operation of a cartel EXCEPT:

- ▶ Market demand for the good is relatively inelastic.
- ▶ The cartel supplies all of the world's output of the good.
- ▶ Cartel members have substantial cost advantages over non-member producers.
- ▶ **The supply of non-cartel members is very price elastic.**

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

Which of the following is required to make the equation of exchange in the quantity theory of money?

- ▶ **V and Q are assumed to be constant.**
- ▶ The money supply is assumed to be produced by the banking system and not exclusively in currency.
- ▶ The quantity of money is assumed to determine the amount of Real GDP.
- ▶ M and P are considered constant.

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

Potential Gross Domestic Product (GDP) measures the economy's ability to produce goods and services in which of the following conditions?

- ▶ **If labor force is fully employed.**
- ▶ If price level is stable.
- ▶ If trade balance is zero.
- ▶ If federal budget is balanced.

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

Which of the following specifies the maximum amount of a good that may be imported in a given period of time?

- ▶ Trade restriction.
- ▶ **Quota.**
- ▶ Import restriction.
- ▶ Legislative restriction.

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

GNP is a good indicator of:

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

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

The demand for factors of production is derived from:

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

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

Labor supply curve is backward bending because:

- ▶ **The income effect of higher income dominates the substitution effect of higher wages.**
- ▶ The substitution effect of higher income dominates the income effect of higher wages.
- ▶ The income effect of higher income dominates the price effect of higher wages.
- ▶ None of the given options.

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

The discounted value of the net returns that the asset generates over a period of time plus the discounted value of its disposal value at the end of the period minus the initial purchase cost is known as:

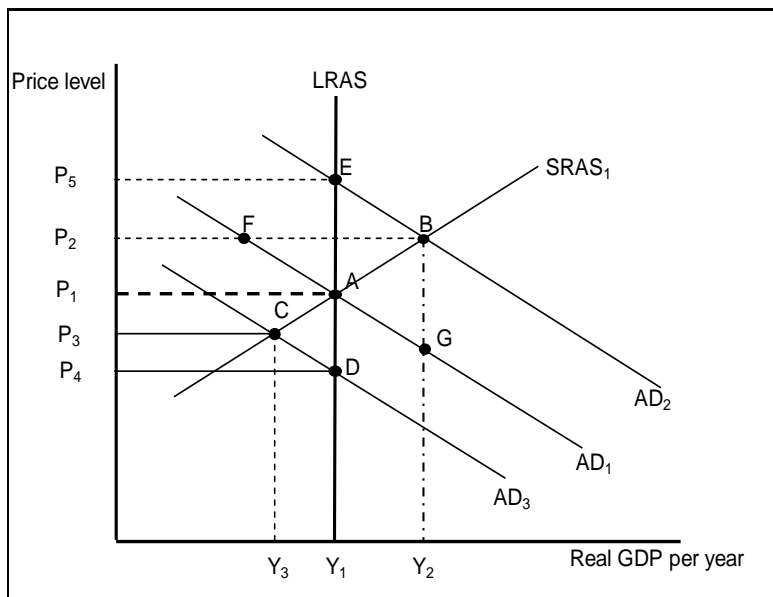
- ▶ Future value.
- ▶ **Net present value.**
- ▶ Discounted value.
- ▶ Disposal value.

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

Information products are also known as:

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

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



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

- ▶ Real GDP remains at Y_1 but the price level falls to P_3 .
- ▶ The quantity of real GDP demanded falls resulting in a movement from point A to point F.
- ▶ **Real GDP decreases from Y_1 to Y_3 and the price level falls from P_1 to P_3 .**
- ▶ The economy moves to a short-run equilibrium at point D.

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

Which of the following is a cost of rising unemployment?

- I. Output foregone.
- II. Unemployment compensation that must be paid.
- III. Rising inflation that erodes the value of money.
- ▶ I, II, and III.
- ▶ **I and II.**
- ▶ I and III.
- ▶ II and III.

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

Rising inflation means:

- ▶ That the price level is increasing by a given percentage rate.
- ▶ That the prices of all goods and services increase from year to year.
- ▶ **That the price level is rising at an increasing rate.**
- ▶ That the price level is rising at a variable rate.

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

Economic growth occurs by an outward shift of:

- ▶ **The production possibility frontier.**
- ▶ The gross domestic barrier.
- ▶ The marginal consumption frontier.
- ▶ The minimum efficient scale.

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

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

- ▶ **Continuous technology progress.**
- ▶ High rate of population growth.
- ▶ Development of urban centers.
- ▶ Expansion of railways.

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

The government has a balanced budget if:

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

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

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

- ▶ Moral suasion.
- ▶ Reserve requirements.
- ▶ The discount rate.
- ▶ **Open market operations.**

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

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

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

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

A quota is defined as:

- ▶ A restriction on exports.
- ▶ A unit tax imposed on a product.
- ▶ A limit on the quantity of a good that can be exported.
- ▶ **A limit on the quantity of a good that can be imported.**

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

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

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

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

Production possibilities curve will shift downward if there is:

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

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

Suppose the total costs of first four units of an output produced are 10, 20, 30, and 40 respectively. What is the marginal cost of the fourth unit of output?

▶ **10.**

▶ 20.

▶ 30.

▶ 40.

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

If marginal revenue is Rs. 15,000 and marginal cost is Rs. 20,000. The firm should:

▶ Expand output.

▶ Do nothing without information about your fixed costs.

▶ Expand output until marginal revenue equals zero.

▶ **Reduce output until marginal revenue equals marginal cost.**

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

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

▶ Gross domestic product.

▶ Gross national product.

▶ Net national product.

▶ **Per capita income.**

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

Gross domestic product deflator can be obtained by dividing nominal gross domestic product with:

▶ **Real gross domestic product.**

▶ Gross national product.

▶ Net national product.

▶ Per capita income.

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

The principle which states that a change in income causes a magnified change in investment is termed as the:

▶ None of the given.

▶ Paradox of thrift.

▶ Multiplier effect.

▶ **Accelerator effect.**

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

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

▶ **IS curve will Shifts rightward.**

▶ IS curve will Shifts leftward.

▶ IS curve will remain unaffected.

▶ IS curve will become vertical.

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

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

▶ 20 fold

▶ 10 fold

▶ 5 fold

▶ 14 fold

Question No: 49 (Marks: 3)

Write down the functions of commercial banks.

Question No: 50 (Marks: 3)

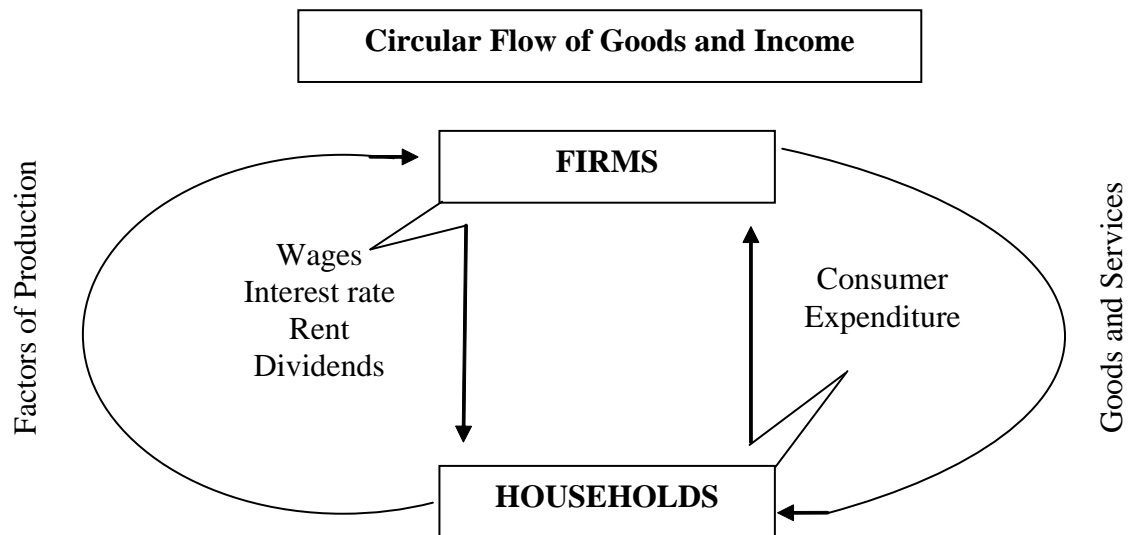
How the growth rate of output is determined in the exogenous growth model?

Question No: 51 (Marks: 5)

Why is taxation necessary? What are the principles of taxation?

Question No: 52 (Marks: 5)

Following figure shows the circular flow of goods and income in a two sector economy. Interpret all the points in this figure that how the household sector and business sector work in an economy to produce goods and services.



Question No: 53 (Marks: 5)

Explain the difference between current account and capital account.

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

Time: 90 min
Marks: 69

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

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

- ▶ The demand for bread will decrease because suppliers will reduce their supply.
- ▶ A surplus of bread will emerge.
- ▶ More bread will be produced to meet the increased demand.
- ▶ **There will be a shortage of bread.**

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

Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

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

The following table shows a firm's Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?

Table

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

- ▶ 340 units.
- ▶ 220 units.
- ▶ 11 units.
- ▶ **110 units.**

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

The long-run average total cost curve:

- ▶ **Traces out the points on the lowest short-run average total cost curve for each level of production.**
- ▶ Is inversely related to the depth of the short-run marginal cost curve.
- ▶ Traces out the midpoints on an average of several short-run average total cost curves.
- ▶ Is downward-sloping under decreasing returns to scale.

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

A monopolistically competitive firm in the long run equilibrium:

- ▶ Will make negative profit.
- ▶ Will make zero profit.
- ▶ **Will make positive profit.**
- ▶ Any of the given are possible.

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 market structure in which there is interdependence among firms is:

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

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

Which one of the following characteristics is common in monopolistic competition and oligopoly?

- ▶ Free entry and exit from the industry.
- ▶ **Strategic behavior.**
- ▶ Standardized products.
- ▶ Advertising.

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

The long run aggregate supply curve will shift to the right if:

- ▶ The price level increases.
- ▶ **Factors of production (such as labor and capital) increase.**
- ▶ Expenditures (such as consumption and net exports) increase.
- ▶ The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

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

An assumption of classical economics is:

- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ **Supply creates its own demand.**
- ▶ Investment and saving are seldom equal.

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

Real GDP is equal to:

- ▶ **Nominal GDP – Inflation.**
- ▶ Nominal GDP + Inflation.
- ▶ Nominal GDP/ Inflation.
- ▶ Inflation/ Nominal GDP.

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

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

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

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

Suppose an economy is at full employment equilibrium in the classical model. What will be the long run effect of an increase in government spending in this economy?

- ▶ Price level will increase.
- ▶ **The aggregate demand curve will shift upward.**
- ▶ Output level will remain constant.
- ▶ All of the given options.

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

Which of the following best describes the "Capital widening"?

- ▶ More capital per unit of labour.
- ▶ **More capital and more labour but with the same amount of capital per unit of labour.**
- ▶ Increasing the usage of existing capital.
- ▶ Importing capital from the developed world.

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

Double counting in national income refers to:

- ▶ **Counting a product more than once.**
- ▶ Counting a product at the final stage of output process.
- ▶ Counting both as product and as factor payment.
- ▶ Counting both as real goods and as money flow.

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

Expenditure of defense is an item of:

- ▶ Public investment.
- ▶ Private consumption.
- ▶ **Public consumption.**
- ▶ Private investment.

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

The discounted value of the net returns that the asset generates over a period of time plus the discounted value of its disposal value at the end of the period minus the initial purchase cost is known as:

- ▶ Future value.
- ▶ **Net present value.**
- ▶ Discounted value.
- ▶ Disposal value.

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

National defense is a good example of:

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

Question No: 19 (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: 20 (Marks: 1) - Please choose one

The short run in macroeconomic analysis is a period:

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

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

Suppose investment rises by \$50 billion at each price level. If the value of the multiplier is 1.5, what is the amount of change in real GDP demanded at each price level?

- ▶ \$50 billion.
- ▶ **\$75 billion.**
- ▶ \$125 billion.
- ▶ \$150 billion.

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

According to the classical school, unemployment was responsive to changes in:

- ▶ M/P.
- ▶ P.
- ▶ M.
- ▶ **Money wages.**

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

The level of output produced when the labor market is in equilibrium is called:

- ▶ Target output.
- ▶ Product market equilibrium output.
- ▶ **Full-employment output.**
- ▶ Natural output.

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

The relationship between inflation and unemployment is usually that:

- ▶ Unemployment changes do not directly lead to changes in inflation, but inflation changes may cause changes in unemployment.
- ▶ As unemployment falls, nothing happens to inflation.
- ▶ As unemployment falls, inflation falls.
- ▶ **As unemployment falls, inflation increases.**

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

Most nations of the world are:

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

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

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

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

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

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

What will happen if exchange rate increases from \$1 = Pak Rs. 80 to \$1 = Pak Rs. 85?

- ▶ It will reduce exports of Pakistan.
- ▶ **It will increase exports of Pakistan.**
- ▶ It will increase imports of Pakistan.
- ▶ Its imports and exports will remain unchanged.

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

Which of the following is the cause of fluctuations in economic activity?

- ▶ An increase in aggregate demand.
- ▶ A decrease in aggregate demand.
- ▶ A decrease in short run aggregate supply.
- ▶ **All of the given options.**

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

In the endogenous growth model, the assumption of ----- is more plausible.

- ▶ Increasing returns to capital.
- ▶ Decreasing returns to capital.
- ▶ **Constant returns to capital.**
- ▶ All of the given options.

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

The optimum tax rate in which government revenue is maximized lies somewhere between:

- ▶ 0% and 1%.
- ▶ 0% and 50%.
- ▶ 50% and 100%.
- ▶ **0% and 100%.**

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

The item which serves as a medium of exchange is known as:

- ▶ Gold.
- ▶ Capital.
- ▶ Silver.
- ▶ **Money.**

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

Which of the following is included in M2 but not in M1?

- ▶ Currency.
- ▶ Demand deposits.
- ▶ **Time deposits.**
- ▶ Debit cards.

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

Which of the following statements is correct?

- ▶ A single bank cannot multiply deposits.
- ▶ A single bank can multiply deposits.
- ▶ Some banks can multiply deposits and others cannot.
- ▶ **The banking system as a whole can multiply deposits.**

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

LM curve shows the equilibrium in:

- ▶ **Money Market.**
- ▶ Goods Market.
- ▶ Labor Market.
- ▶ Financial Market.

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

What will happen to LM curve if the central bank increased the supply of real money balances?

- ▶ It would become steeper.
- ▶ It would become flatter.
- ▶ It would shift upward.
- ▶ **It would shift downward.**

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

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

- I. Lower rates of population growth.
- II. Greater income inequality.
- III. A large proportion of the labor force in agriculture.
- IV. Higher rates of unemployment.

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

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

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

- ▶ The agricultural sector has been decreasing in size because its productive workers prefer to migrate to urban areas.
- ▶ The agricultural sector is by far the largest producer and the most productive sector in low-income countries.
- ▶ Although the agricultural sector is the largest employer, labor's productivity in this sector is very low.

▶ **The agricultural sector has been increasing in size and in terms of labor productivity as rural farmers increasingly start to mechanize.**

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

Suppose a consumer buys two goods X and Y. The demand for X is elastic, then a rise in the price of X will cause:

- ▶ **Total spending on good Y to rise.**
- ▶ Total spending on good Y to fall.
- ▶ Total spending on good Y to remain unchanged.
- ▶ An indeterminate effect on total spending on good Y.

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

For which of the following good, the substitution effect of a lowered price is counteracting by the income effect?

- ▶ **For an inferior good.**
- ▶ A substitute good.
- ▶ For an independent good.
- ▶ For a normal good.

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

Suppose that 90 units of output are produced by using 15 units of labor. Which of the following is TRUE in this context?

- ▶ The marginal product of labor is 6.
- ▶ The total product of labor is $1/6$.
- ▶ **The average product of labor is 6.**
- ▶ None of the given options.

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

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

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

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

Suppose the price of coke increases, what will happen to the demand for pepsi?

- ▶ The demand curve for pepsi shifts leftward.
- ▶ **The demand curve for pepsi shifts rightward.**
- ▶ The supply curve of pepsi shifts leftward.
- ▶ The supply curve of pepsi shifts rightward.

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

Slope and elasticity of demand have

- ▶ A direct relation.
- ▶ **An inverse relationship.**
- ▶ No relation between slope and elasticity.
- ▶ None of the given options.

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

When the slope of a demand curve is infinity, elasticity of demand is

- ▶ **Zero elastic.**
- ▶ Unit elastic.
- ▶ Less elastic.
- ▶ More elastic.

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

The reduction in the value of a capital good due to the wear and tear caused during production is called as:

- ▶ Devaluation.
- ▶ Cost of capital.
- ▶ **Depreciation.**
- ▶ Return to capital.

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

According to Keynes inflation and unemployment are:

- ▶ **Opposite side of same coin.**
- ▶ Positively related.
- ▶ Having no relation.
- ▶ None of the given options.

Question No: 47 (Marks: 1) - Please choose one
Government budget deficit is equal to:

- ▶ Private sector resource deficit + Current account deficit.
- ▶ **Current account deficit - Private sector resource deficit.**
- ▶ Private sector resource deficit - Current account deficit.
- ▶ Current account deficit / Private sector resource deficit.

Question No: 48 (Marks: 1) - Please choose one
Money demand decreases when interest rate:

- ▶ **Increases.**
- ▶ Decreases.
- ▶ Remains the same.
- ▶ All of the given options.

Question No: 49 (Marks: 3)
What are the assumptions of exogenous growth theory?

Question No: 50 (Marks: 3)
Differentiate between international trade and international finance.

Question No: 51 (Marks: 5)
A. What is the importance of current account? How we can calculate current account deficit?
B. How we can reduce current account deficit?
C

Question No: 52 (Marks: 5)
Consider the following table. Find out the GNP and NNP from this information.

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

Question No: 53 (Marks: 5)
“People hold money for speculation purposes”. Discuss.

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FINAL TERM EXAMINATION

Spring 2010

ECO401- Economics (Session - 3)

Time: 90 min
Marks: 69

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

A market is said to be in equilibrium when:

- ▶ Demand equals output.
- ▶ There is downward pressure on price.
- ▶ **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**
- ▶ All buyers are able to find sellers willing to sell to them at the current price.

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

Which of the following is regarded as a general determinant of price elasticity of demand?

- ▶ Nature of the good (luxury versus necessity).
- ▶ Availability of close substitutes.
- ▶ Share of consumer's budget and passage of time.
- ▶ **All of the given options.**

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

Consumers will maximize satisfaction when:

- ▶ The price of each good is exactly equal to the price of every other good consumed.
- ▶ The price of each good is exactly equal to the total utility derived from the consumption of every other good.
- ▶ **The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good.**
- ▶ Marginal utility is equal to average utility.

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

If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:

- ▶ The consumer's indifference curve must be positively sloped.
- ▶ The consumer's indifference curve must be convex with respect to the origin of the graph.

▶ **The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal $\frac{1}{2}$.**

- ▶ All of the given options.

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

The optimal point of production for any individual firm is where:

▶ **Marginal Revenue = Marginal Cost.**

- ▶ Marginal Revenue > Marginal Cost.

- ▶ Marginal Revenue < Marginal Cost.

- ▶ None of the given options.

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

Under the kinked demand curve model, an increase in marginal cost will lead to:

- ▶ An increase in output level and a decrease in price.

▶ **A decrease in output level and an increase in price.**

- ▶ A decrease in output level and no change in price.

- ▶ Neither a change in output level nor a change in price.

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

The marginal revenue product is:

- ▶ Upward sloping due to the law of demand.

- ▶ Upward sloping due to the law of marginal utility.

▶ **Downward sloping due to the law of diminishing returns.**

- ▶ Downward sloping due to the law of supply.

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

The unemployment rate is equal to:

- ▶ Number of employed / labour force x 100.

▶ **Number of unemployed / labour force.**

- ▶ (Number of unemployed / labour force) x 100.

- ▶ None of the given options.

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

M1 component of money supply consists of:

- ▶ Paper currency and coins.

▶ **Paper currency, coins and check writing deposits.**

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

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

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

An increase in the money supply will cause interest rates to:

- ▶ Rise.
- ▶ **Fall.**
- ▶ Remain unchanged.
- ▶ None of the given options.

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

Disposable Income is obtained by subtracting ----- from personal income.

- ▶ Indirect Taxes.
- ▶ **Direct Taxes.**
- ▶ Both direct and indirect taxes.
- ▶ Subsidies.

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

Which of the following statements is TRUE about cartels?

▶ **These are organizations of independent firms, producing similar products, that work together to raise prices and restrict output.**

▶ These are organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.

▶ These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.

▶ These are considered as part of monopolistic competition.

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

If disposable income increases from \$7 trillion to \$8 trillion and as a result, consumption expenditure increases from \$9 trillion to \$9.8 trillion, the Marginal Propensity to Consume is:

- ▶ 1.0.
- ▶ **0.80.**
- ▶ 0.875.
- ▶ 0.91.

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

Which of the following is required to make the equation of exchange in the quantity theory of money?

▶ **V and Q are assumed to be constant.**

▶ The money supply is assumed to be produced by the banking system and not exclusively in currency.

▶ The quantity of money is assumed to determine the amount of Real GDP.

▶ M and P are considered constant.

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

Which of the following specifies the maximum amount of a good that may be imported in a given period of time?

- ▶ Trade restriction.
- ▶ **Quota.**
- ▶ Import restriction.
- ▶ Legislative restriction.

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

Which of the following best defines “subsidies”?

- ▶ Payment by Government for purchase of goods and services.
- ▶ Payment by business enterprises to factors of production.
- ▶ Payment by companies to share holders.
- ▶ **Payment by Government to business enterprises without buying any goods and services.**

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

GNP is a good indicator of:

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

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

Expenditure of defense is an item of:

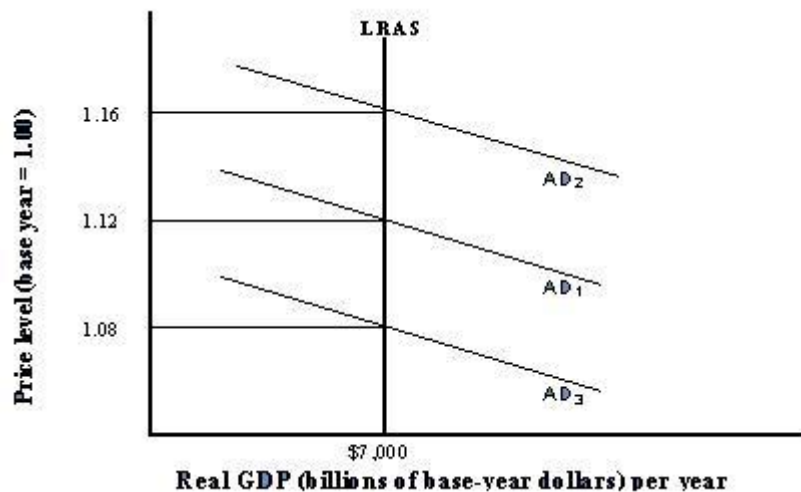
- ▶ Public investment.
- ▶ Private consumption.
- ▶ **Public consumption.**
- ▶ Private investment.

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

The information economics is a branch of:

- ▶ **Microeconomics.**
- ▶ Macroeconomics.
- ▶ Monetary economics.
- ▶ Development economics.

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

The short run in macroeconomic analysis is a period:

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

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

If a \$1million rise in national income led to induced investment of \$2million then the accelerator coefficient will be equal to:

- ▶ 0.
- ▶ 1.
- ▶ **2.**
- ▶ 3.

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

In classical theory, excess supply of a product would be associated with:

- ▶ Rising interest rates.
- ▶ Falling interest rates.
- ▶ Rising price for the product.
- ▶ **Falling price for the product.**

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

Most nations of the world are:

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

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

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

- ▶ It will result in a movement up along the aggregate demand curve.
- ▶ It will reduce aggregate supply.
- ▶ **It will reduce aggregate demand.**
- ▶ It will not change aggregate demand or aggregate supply in the domestic economy.

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

A trade deficit occurs when:

- ▶ A country sells more abroad than it purchases from abroad.
- ▶ Foreign firms open more stores in a country than the country opens in foreign countries.
- ▶ A country's firms open more stores abroad than foreign firms open in the country.
- ▶ **A country purchases more from abroad than other countries purchase from it.**

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

The real exchange rate is defined as the:

- ▶ **Market exchange rate adjusted for prices.**
- ▶ Market exchange rate adjusted for interest rates.
- ▶ Market exchange rate.
- ▶ Exchange rate determined by the government.

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

Which of the following best describes the economic growth?

- ▶ Continuous outward shift of aggregate demand.
- ▶ **A long term expansion of a country's potential GDP.**
- ▶ The avoidance of a negative output gap.
- ▶ An increase in aggregate demand which causes a movement along the short-run aggregate supply curve.

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

Suppose there is a steady state condition in an economy with no population growth. In which condition, the steady-state level of capital per worker will increase?

- ▶ When the amount of investment per worker decreases.
- ▶ When the depreciation rate increases.
- ▶ **When the saving rate increases.**
- ▶ In all of the given options.

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

Which of the following is TRUE for banks?

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

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

Which of the following got benefit from deflation?

- I. Salary earners.
- II. Equity holders.
- III. Pensioners.
- IV. Debtors.

▶ **I only.**

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

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

Which of the following is a characteristic of a developing country or a third-world country?

▶ **Low per capita income.**

- ▶ Low population growth rate.
- ▶ High investment rate.
- ▶ High saving rate.

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

One of the main reasons of poverty in third world countries is:

- ▶ Generation gap.
- ▶ Communication gap.

▶ **Savings gap.**

- ▶ Inflation gap.

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

A person with a diminishing marginal utility of income is said to be:

▶ **Risk averse person.**

- ▶ Risk neutral person.
- ▶ Risk loving person.
- ▶ None of the given options.

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

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

- ▶ Positive, negative.
- ▶ Negative, normative.
- ▶ Normative, positive.
- ▶ **Positive, normative.**

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

Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:

▶ **Shifts to the left.**

- ▶ Shifts to the right.
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

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

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

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

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

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

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

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

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

- ▶ An increase in the slope of the budget line
- ▶ **A decrease in the slope of the budget line**
- ▶ An increase in the intercept of the budget line
- ▶ A decrease in the intercept of the budget line

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

If marginal cost is Rs.15,000/- and marginal revenue is Rs.20,000/-. The firm should:

- ▶ Reduce output until marginal revenue equals marginal cost.
- ▶ Do nothing without information about your fixed costs.
- ▶ **Expand output until marginal revenue equals marginal cost.**
- ▶ None of the given options.

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

An increase in quantity demand is shown by:

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

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

Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:

- ▶ Shifts to the left.
- ▶ **Shifts to the right.**
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

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

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

- ▶ Hire more labor.
- ▶ **Hire less labor.**
- ▶ Maintain the same employment level.
- ▶ Decrease output.

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

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

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

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

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

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

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

Revaluation of the currency encourages:

- ▶ **Imports.**
- ▶ Exports.
- ▶ Poverty.
- ▶ Inflation.

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

The share of world trade happens between high income countries is:

- ▶ 55%
- ▶ 40%
- ▶ **50%**
- ▶ 60%

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

If the exchange rate is fixed, expansionary fiscal policy would not have any:

- ▶ Investment multiplier effect.
- ▶ **Crowding out effects.**
- ▶ Government spending effect .
- ▶ None of the given options.

Question No: 49 (Marks: 3)

What is meant by exchange rate? Also give example of exchange rate.

Question No: 50 (Marks: 3)

What is the reason of poverty in developing countries according to Prebisch-Singer hypothesis?

Question No: 51 (Marks: 5)

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

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

(Marks: 1 for each)

Question No: 52 (Marks: 5)

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

Question No: 53 (Marks: 5)

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

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FINALTERM EXAMINATION

Spring 2010

ECO401- Economics (Session - 1)

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

Which of the following measures the percentage change in quantity demanded given a percentage change in consumer's income?

- ▶ Price elasticity of demand.
- ▶ **Income elasticity of demand.**
- ▶ Supply price elasticity.
- ▶ Cross price elasticity.

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

Increase in pension benefits leads to income and substitution effect which:

- ▶ Encourage workers to retire later.
- ▶ Encourage workers to work more hours.
- ▶ Have no effect on incentive to retire.
- ▶ **Encourage workers to retire earlier.**

Question No: 5 (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.

Question No: 6 (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: 7 (Marks: 1) - Please choose one

If a firm experiences economies of scale, then the:

- ▶ Long-run average total cost curve is equal to the economies of scope.
- ▶ **Long-run average total cost curve is positively sloped.**
- ▶ Long-run average total cost curve is horizontal.
- ▶ Long-run average total cost curve is negatively sloped.

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

When 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: 9 (Marks: 1) - Please choose one

An increase in the wage rate:

- ▶ **Will usually lead to more people employed.**
- ▶ Will decrease total earnings if the demand for labour is wage elastic.
- ▶ Is illegal in a free market.
- ▶ Will cause a shift in the demand for labour.

Question No: 10 (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: 11 (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: 12 (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.**
- ▶ The household sector after taxes.
- ▶ The business and government sectors.

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

If the total product of labor per day is as shown in the table below and the price of the product is \$20/unit. What is the value of the marginal product of labor (VMPL) of the 5th worker?

Labor	Total output
1	8
2	23
3	33
4	38
5	41

► 100.

► 10.

► 40.

► **60.**

Reference:

$$\text{5th worker MPL} = 41 - 38 = 3$$

$$3 * 20 = 60$$

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

All of the following are the reasons of downward sloping curve of aggregate demand EXCEPT:

► The exchange-rate effect.

► The wealth effect.

► **The classical dichotomy / monetary neutrality effects.**

► The interest-rate effect.

Question No: 16 (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: 17 (Marks: 1) - Please choose one

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: 18 (Marks: 1) - Please choose one

According to the quantity theory of money, which of the following is TRUE for the equation $MV = PQ$?

- ▶ 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: 19 (Marks: 1) - Please choose one

Potential Gross Domestic Product (GDP) measures the economy's ability to produce goods and services in which of the following conditions?

▶ **If labor force is fully employed.**

- ▶ If price level is stable.
- ▶ If trade balance is zero.
- ▶ If federal budget is balanced.

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.

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

International data suggest that economies which have different steady states level will converge to:

- ▶ The steady state below the Golden Rule level.
- ▶ The same steady state.
- ▶ **Their own steady state.**
- ▶ The Golden Rule steady state.

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

Suppose there are two producers and two products. Which of the following is not TRUE in this situation?

- ▶ A producer has an absolute advantage on one product.
- ▶ **A producer has the comparative advantage on both products.**
- ▶ A producer has the comparative advantage on one product.
- ▶ A producer has an absolute advantage on both products.

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

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

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

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

Which of the following is equal to the number of people unemployed?

- ▶ The number of people employed minus the labor force.
- ▶ The labor force plus the number of people employed.
- ▶ The number of people employed divided by the labor force.
- ▶ **The labor force minus the number of people employed.**

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

Structural unemployment occurs:

- ▶ With economic fluctuations; it increases during bad times and decreases during good times.
- ▶ **Because of a mismatch between the jobs that are available in the economy and the skills of workers seeking jobs.**
- ▶ Naturally during the normal workings of an economy, as people change jobs, move across the country, etc.
- ▶ Because the government labels some people who aren't really in the labor force as unemployed.

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

Suppose real output in the economy increased. We would expect:

- ▶ **A decrease in unemployment.**
- ▶ A decrease in profit margins.
- ▶ An increase in unemployment.
- ▶ An increase in the natural rate of unemployment.

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

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

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

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

If foreign interest rate is 3% and expected depreciation is 10% then what will be the domestic interest rate?

- ▶ 3%.
- ▶ 10%.
- ▶ 7%.
- ▶ **13%.**

Reference:

Domestic interest rate = Foreign interest rate + Expected depreciation

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

One of the implications of Solow growth model is that all other things remaining the same, countries with rapidly growing population will tend to:

- ▶ **Be poorer than countries with lower population growth.**
- ▶ Grow slower than countries with lower population growth.
- ▶ Grow higher than countries with lower population growth.
- ▶ Have lower marginal products of capital than countries with lower population growth.

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

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

- ▶ **Laffer curve.**
- ▶ Demand curve.
- ▶ Supply curve.
- ▶ Investment curve.

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

Which of the following shows the inverted-U shape when plotted on a graph?

- ▶ Consumption curve.
- ▶ Supply curve.
- ▶ **Laffer curve.**
- ▶ Investment curve.

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

In a period of recession, credit creation is:

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

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

LM curve shows the equilibrium in:

- ▶ **Money Market.**
- ▶ Goods Market.
- ▶ Labor Market.
- ▶ Financial Market.

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

A country has a comparative advantage:

- ▶ If it can produce a good at a higher opportunity cost than other nations.
- ▶ **If it can produce a good at a lower opportunity cost than other nations.**
- ▶ If it can produce a good by using less resources than other nations.
- ▶ If it can produce a good that lies outside its production possibilities curve.

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

Which of the following is an important feature of modern economic growth?

- ▶ Substantial rise in product per capita.
- ▶ Increased productivity per unit of labor input.
- ▶ Increasing use of modern scientific knowledge.
- ▶ **All of the given options.**

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

Suppose a consumer buys two goods X and Y. The demand for X is elastic, then a rise in the price of X will cause:

- ▶ **Total spending on good Y to rise.**
- ▶ Total spending on good Y to fall.
- ▶ Total spending on good Y to remain unchanged.
- ▶ An indeterminate effect on total spending on good Y.

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

Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:

- ▶ **Shifts to the left.**
- ▶ Shifts to the right.
- ▶ Remains constant.
- ▶ Shifts to the right initially and then returns to its original position.

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

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

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

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

Constant returns to scale imply that by:

- ▶ Increasing the inputs by 1% leads to a 0.75% increase in output.
- ▶ Increasing the inputs by 1.6% leads to a 1.5% increase in output.
- ▶ Increasing the inputs by 2% leads to a 4% increase in output.
- ▶ **None of the given options.**

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

Average total costs are the sum of:

- ▶ Fixed costs and marginal costs
- ▶ Average variable costs and marginal costs
- ▶ **Average fixed costs and average variable costs**
- ▶ Average marginal costs and average variable costs

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

Theory of firm is not clearly discussed & established in

- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ **Oligopoly.**
- ▶ None of the given options.

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

If a 7% price reduction causes quantity demanded to rise by 10% then:

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

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

Which of the following is not a component of aggregate demand?

- ▶ Consumption spending.
- ▶ Investment expenditures.
- ▶ Government expenditures.
- ▶ **Household income.**

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

If the simple Keynesian expenditure multiplier is 2, the Marginal Propensity to Consume (MPC) is:

- ▶ 0.75
- ▶ 0.50
- ▶ 0.25
- ▶ **1.00**

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

Monetarists believed that the economy generally:

- ▶ Lies above full-employment.
- ▶ None of the given options.
- ▶ Lies below full-employment.
- ▶ **Gravitated around a full-employment.**

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

Balance of payment is an accounting record of a country's transactions with:

- ▶ South Asian countries.
- ▶ Middle East.
- ▶ **Rest of the world.**
- ▶ USA and China.

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

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

The demand for money to buy bonds is called:

- ▶ Transactions demand for money.
- ▶ Precautionary demand for money.
- ▶ **Speculative demand for money.**
- ▶ All of the given options.

Question No: 49 (Marks: 3)

Mention the transactions that cause the demand for dollars to increase in the foreign exchange market.

Pakistani imports of US goods.

Pakistani travelers traveling to the US.

Pakistani students paying for study in US universities.

profits repatriated to

US by US firms operating in Pakistan.

Question No: 50 (Marks: 3)

Why countries have comparative advantage according to Ricardo?

Comparative advantage according to Ricardo:

The law of **comparative advantage** refers to the ability of a party (an individual, a firm, or a country) to produce a particular good or service at a lower opportunity cost than another party. There is a source of comparative advantage can be productivity differentials. Ricardo argued that there is mutual benefit from trade (or exchange) even if one party (**e.g. resource rich country, highly-skilled artisan**) is more productive in every possible area than its trading counterpart (e.g. resource-poor country, unskilled laborer), as long as each concentrates on the activities where it has a relative productivity advantage

Question No: 51 (Marks: 5)

C. "Slope of the consumption function is less than 1".What is meant by this statement?

When we drawn in expenditure income space, the consumption function plots as a straight line with positive intercept, and a positive but less than 1 slope.

The slope is less than 1 because not all the income is consumed some part of the income is saved.

D. What are the major macroeconomic variables involved in the determination of national income?

(Marks: 2+3)

C, I, G, X, M, T, S, prices, exchange rate, interest rate and money supply.

Question No: 52 (Marks: 5)

What are the conditions in which foreign exchange market exists? Also give some examples of foreign exchange markets.

In a market there are buyers and sellers who negotiate and agree on the price for the or price for the commodity being exchanged. The foreign exchange market is no different.

whatever, here the commodity being traded is foreign exchange and the price is the foreign exchange rate. Specifically, a foreign currency is being traded for the Pakistani Ruppee at a particular rate of exchange.

The sellers and buyers of foreign exchange are not mutually exclusive. The sellers of today, may be the buyers of tomorrow, or even of today.

Foreign exchange market exists when **buyers and sellers** exit and ready to sell and buy.

The **main driving force** for foreign exchange market is the law of supply and demand

Examples are US \$-PAK RS Foregin exchange market

US \$ - UK POUND Foregin exchange market

Question No: 53 (Marks: 5)

What thing determines comparative advantage among countries according to Hechshcer-Ohlin? What is the criticism against their argument?

According to Hechshcer-Ohlin suppose we are given two countries one abundant in labour and one abundant in capital and a labour-intensive good and a capital intensive good, the labour abundant country will have comparative advantage in the production of the labour-intensive good while the capital abundant country will have comparative advantage in the capital-intensive good.

So the determinants of comparative advantage among countries according to Hechshcer-Ohlin is capital goods and labour intensive goods.

Critics argued that comparative advantage can and should be viewed in a dynamic (time-varying) sense, and that it was not wise to rule out the possibility of Pakistan developing comparative advantage in cars at some future point in time.

Consequent:

The major criticism leveled against Hechscher-Ohlin type trade theories are that they views comparative advantage in an essentially static sense; i.e. if Pakistan is better at producing cotton and Japan better at producing, then this situation will always prevail.

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FINAL TERM EXAMINATION

Spring 2010

ECO401 - Economics (Session - 5)

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

As more of a good is consumed, then total utility typically:

► **Increases at a decreasing rate.**

► Decreases as long as marginal utility is negative.

► Decreases as long as marginal utility is positive.

► Is negative as long as marginal utility is decreasing.

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

A production function:

- ▶ Relates inputs with output.
- ▶ Generates a curve that is upward sloping.
- ▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.
- ▶ **All of the given options.**

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

_____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

- ▶ **Economies of scale; constant returns to scale.**
- ▶ Constant returns to scale; decreasing returns to scale.
- ▶ Decreasing returns to scale; economies of scale.
- ▶ Economies of scale; decreasing returns to scale.

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

Total costs are the sum of:

- ▶ Marginal costs and variable costs.
- ▶ **Fixed costs and variable costs.**
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

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

As compared to existing firms, a new firm entering in monopolist market has:

- ▶ **High costs.**
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

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

The maximum price that a consumer is willing to pay for a good is called:

- ▶ The reservation price.
- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

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

The market structure in which strategic considerations are most important is:

- ▶ Monopolistic competition.
- ▶ **Oligopoly.**
- ▶ Pure competition.
- ▶ Pure monopoly.

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

Price exceeds marginal revenue in which of the following market structure(s)?

- ▶ Differentiated oligopoly and monopoly only.
- ▶ Standardized oligopoly and pure competition only.
- ▶ Monopolistic competition and monopoly only.
- ▶ **Monopolistic competition, oligopoly and monopoly.**

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

For a firm buying labor competitively, the marginal input cost is equal to the:

- ▶ **Wage.**
- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

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

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

- ▶ Insufficient aggregate supply.
- ▶ **Insufficient aggregate demand.**
- ▶ Quick self correcting mechanism.
- ▶ Government purchases of too many goods and services.

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

According to Keynes, the economy does not self correct quickly because:

- ▶ With less consumption and more savings the interest rate will drop.
- ▶ In the short run workers are fully employed and cannot produce enough to get to long run equilibrium.
- ▶ Wages and prices are flexible in the short run.
- ▶ **Wages and prices are sticky in the short run.**

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

An assumption of classical economics is:

- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ **Supply creates its own demand.**
- ▶ Investment and saving are seldom equal.

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

The real interest rate will increase:

- ▶ If there is an excess supply of loanable funds in the financial markets.
- ▶ **If there is an excess demand for loanable funds in the financial markets.**
- ▶ If there is an excess supply of loanable funds in the foreign exchange markets.
- ▶ If there is an excess demand for loanable funds in the foreign exchange markets.

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

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

▶ **The capital account.**

▶ The current account.

▶ The financial account.

▶ All three components are equally important.

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

Endogenous growth theory was developed in:

▶ **1980.**

▶ 1965.

▶ 1970.

▶ 1950.

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

Per capita income is obtained by dividing national income by:

▶ Total labor force in the country.

▶ Unemployed youth in the country.

▶ None of the given options.

▶ **Total population of that country.**

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

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

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

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

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

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

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

The principle economic difference between a competitive and a non-competitive market is:

- ▶ The number of firms in the market.
- ▶ **The extent to which any firm can influence the price of the product.**
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

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

Those who hold the classical view of the labour market are likely to believe that:

- ▶ Monetary but not fiscal policy will have an effect on output and employment.
- ▶ Fiscal but not monetary policy will have an effect on output and employment.
- ▶ Both monetary and fiscal policy will have an effect on output and employment.
- ▶ **Neither monetary nor fiscal policy will have an effect on output and employment.**

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

Which of the following statements is TRUE about the Classical and Keynesian approaches to achieve a macroeconomic equilibrium in an economy?

▶ **Keynesian economists actively promote the use of fiscal policy while the classical economists do not.**

- ▶ Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.
- ▶ Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.
- ▶ Classical economists believe that fiscal policy is an effective tool for achieving economic stability while the Keynesians do not.

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

What will be the primary result of inflation in an economy?

- ▶ A rise in personal wealth.
- ▶ A rise in wages.
- ▶ A decline in prices.
- ▶ **A decline in the value of money.**

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

Suppose in an economy, a war destroys a large portion of a country's capital stock but the saving rate is unchanged. In this situation, the exogenous model predicts that output will grow and the new steady state will approach towards:

- ▶ A higher output level than before.
- ▶ **The same output level as before.**
- ▶ A lower output level than before.
- ▶ The Golden Rule output level.

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

Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

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

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

Which of the following is NOT an item of public consumption?

- ▶ Expenditure on health.
- ▶ Expenditure on education.
- ▶ Expenditure on general administration.
- ▶ **Expenditure for transfer payments.**

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

Changes in aggregate demand can be caused by changes in:

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

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

Which of the following is equal to the number of people unemployed?

- The number of people employed minus the labor force.
- The labor force plus the number of people employed.
- The number of people employed divided by the labor force.
- **The labor force minus the number of people employed.**

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

Rising inflation means:

- That the price level is increasing by a given percentage rate.
- That the prices of all goods and services increase from year to year.
- **That the price level is rising at an increasing rate.**
- That the price level is rising at a variable rate.

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

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

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

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

The rapid population growth in today's developing nations is due to the:

- ▶ **High birth rates only.**
- ▶ Low death rates only.
- ▶ High birth rate and low death rate.
- ▶ Higher standard of living.

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

A tax on the accounting profits of corporations is known as:

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

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

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

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

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

What will be the impact of an increase in the money supply?

- ▶ It will shift the IS curve to the left and decrease both the interest rate and the level of income.
- ▶ It will shift the LM curve downward (to the right) and increase both the interest rate and the level of income.
- ▶ It will shift the IS curve to the right and increase the level of income but decrease the interest rate.
- ▶ **It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.**

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

IS curve shows the equilibrium in:

- ▶ Money Market.
- ▶ **Goods Market.**
- ▶ Labor Market.
- ▶ Financial Market.

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

International finance is the study of economics that deals with:

▶ **The balance of trade.**

- ▶ The macroeconomic consequences of financial flows associated with international trade.
- ▶ International investment opportunities for American multinational corporations.
- ▶ The relationships among world currency dealers.

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

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

▶ When net exports are positive.

▶ **When financial flows out of a country for goods and services are less than financial flows into the country for its goods and services.**

- ▶ When a country has a trade deficit.
- ▶ When an economy buys less from foreigners than it sells to them.

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

Economists define economic growth as:

- ▶ Changes in real GDP from year to year that occur as aggregate demand and short-run aggregate supply change.
- ▶ An increase in the standard of living of a nation.
- ▶ An increase in nominal GDP combined with price stability.
- ▶ **The process through which the economy's potential output is increased.**

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

What will be the impact if agriculture sector is neglected in the development process?

- ▶ It can lead to insufficient savings.
- ▶ It can lead to shortage of foreign exchange.
- ▶ It can lead to lower levels of production.
- ▶ **All of the given conditions can happen.**

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

In which of the following situations, a monopoly occurs?

- ▶ When each firm produces a product that is slightly different from the other firms.
- ▶ **When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**
- ▶ When there are many firms producing the same product.
- ▶ In all of the given situations.

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

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

- ▶ Generates a curve that is upward sloping.
- ▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.
- ▶ **Marginal product at all levels is increasing.**
- ▶ Relates inputs with output.

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

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

- ▶ An increase in the slope of the budget line
- ▶ **A decrease in the slope of the budget line**
- ▶ An increase in the intercept of the budget line
- ▶ A decrease in the intercept of the budget line

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

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

- ▶ It shifts farther away from the origin of the graph.
- ▶ It shift inward.
- ▶ **It shifts outward.**
- ▶ None of the given options.

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

Monopoly profits can be invested in

- ▶ Advertisement.
- ▶ **Research and development.**
- ▶ Human resource development.
- ▶ Expansion of the market.

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

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

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

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

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

- ▶ Saving.
- ▶ **Investment.**
- ▶ Taxes.
- ▶ Inflation.

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

Factor income from abroad like worker remittances, dividends and interest has positive impact on:

- ▶ **Current account balance.**
- ▶ Capital account balance.
- ▶ Trade balance.
- ▶ Unemployment.

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

Continuous technology progress is a necessary condition for the high rate of:

- ▶ Inflation reduction.
- ▶ **Economic growth.**
- ▶ Population growth.
- ▶ Employment.

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

Expansionary fiscal policy includes:

- ▶ Increasing taxes and increasing government purchases.
- ▶ Raising interest rates, increasing taxes, and decreasing transfer payments.
- ▶ **Decreasing taxes and increasing government expenditures.**
- ▶ Raising interest rates, decreasing taxes, and decreasing government spending.

Question No: 49 (Marks: 3)

Differentiate between real exchange rate and nominal exchange rate.

Question No: 50 (Marks: 3)

Discuss the basic functions of money.

Question No: 51 (Marks: 5)

What will be the impact of following factors on Marginal Propensity to Consume?

- Ⓐ A fall in the rate of income tax.
- Ⓑ People anticipate that the rate of inflation is about to rise.
- Ⓒ The government redistributes income from the rich to the poor.
- Ⓓ The government gives the subsidies.
- Ⓔ If the assets of the people increase.

(Marks: 1 for each)

Question No: 52 (Marks: 5)

Explain the difference between current account and capital account.

Question No: 53 (Marks: 5)

Assume that the reserve requirement ratio (rr) of United Bank Limited (UBL) is 15% and bank's initial deposit is \$2500.

- a. By using this information, make initial balance sheet of MCB.
- b. Calculate money multiplier.

(Marks: 3+2)

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FINALTERM EXAMINATION

Spring 2010

ECO401- Economics (Session - 1)

Time: 90 min

Marks: 69

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

At the equilibrium price:

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

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

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

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

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

The supply curve for a competitive firm is:

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

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

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

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

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

Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?

- ▶ **The demand curve is tangent to marginal cost curve.**
- ▶ The demand curve is tangent to average cost curve.
- ▶ The marginal cost curve is tangent to average cost curve.
- ▶ The demand curve is tangent to marginal revenue curve.

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

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

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

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

The marginal revenue product is:

- ▶ Upward sloping due to the law of demand.
- ▶ Upward sloping due to the law of marginal utility.
- ▶ **Downward sloping due to the law of diminishing returns.**
- ▶ Downward sloping due to the law of supply.

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

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

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

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

An assumption of classical economics is:

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

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

Gross Domestic Product is:

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

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

The labour force is made up of:

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

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

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

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

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

If imports = exports, then we have:

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

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

The principle economic difference between a competitive and a non-competitive market is:

- ▶ The number of firms in the market.
- ▶ **The extent to which any firm can influence the price of the product.**
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

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

Disposable Income is obtained by subtracting ----- from personal income.

- ▶ Indirect Taxes.
- ▶ **Direct Taxes.**
- ▶ Both direct and indirect taxes.
- ▶ Subsidies.

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

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

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

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

Which of the following statements is TRUE about the Classical and Keynesian approaches to achieve a macroeconomic equilibrium in an economy?

▶ **Keynesian economists actively promote the use of fiscal policy while the classical economists do not.**

- ▶ Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.
- ▶ Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.
- ▶ Classical economists believe that fiscal policy is an effective tool for achieving economic stability while the Keynesians do not.

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

Suppose an economy is at full employment equilibrium in the classical model. What will be the long run effect of an increase in government spending in this economy?

- ▶ Price level will increase.
- ▶ The aggregate demand curve will shift upward.
- ▶ Output level will remain constant.
- ▶ **All of the given options.**

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

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

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

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

Which of the following is an example of an injection?

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

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

Refer to the above figure, the potential output in this economy is:

- ▶ \$7,000 billion at a price level of 1.16.
- ▶ \$7,000 billion at a price level of 1.12.
- ▶ \$7,000 billion at a price level of 1.08.
- ▶ **All of the given options.**

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

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

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

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

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

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

$\text{Nominal GDP} = 8120$

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

Which of the following is TRUE?

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

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

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

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

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

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

▶ None of the given options.

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

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

▶ **All of the given options.**

▶ Consumer tastes for domestic and foreign goods.

▶ Prices of goods at home and abroad.

▶ Costs of transporting goods from country to country.

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

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

Refer to the above table, when disposable personal income is \$100, what is the amount of personal saving?

▶ **-\$40.**

▶ -\$20

▶ \$0.

▶ \$20.

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

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

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

▶ -\$40.

▶ -\$20.

▶ \$0.

▶ **\$20.**

Question No: 29 (Marks: 1) - Please choose one The price of one unit of foreign good in terms of domestic good is known as:

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

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

Development is impossible without:

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

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

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

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

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

The money multiplier is the reverse of:

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

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

A primary function of a central bank is to:

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

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

What will be the impact of an increase in taxes?

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

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

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

IS curve shows the equilibrium in:

- ▶ Money Market.
- ▶ **Goods Market.**
- ▶ Labor Market.
- ▶ Financial Market.

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

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

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

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

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

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

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

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

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

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

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

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

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

In which of the following situations, a monopoly occurs?

- ▶ When each firm produces a product that is slightly different from the other firms.
- ▶ **When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**
- ▶ When there are many firms producing the same product.
- ▶ In all of the given situations.

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

Concentration ratio is used to assess:

- ▶ **The level of competition in an industry.**
- ▶ The degree of control over prices.
- ▶ The technological gaps between the firms.
- ▶ Marginal cost and marginal benefit analysis.

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

If an increase in price increases the total revenue then:

- ▶ Demand is elastic.
- ▶ **Demand is inelastic.**
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

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

Revaluation of the currency encourages:

▶ **Imports.**

▶ Exports.

▶ Poverty.

▶ Inflation.

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

Growth rate of total output is equal to:

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

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

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

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

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

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

▶ Shares of any of its institute.

▶ Stocks.

▶ **Treasury bills.**

▶ Debentures.

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

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

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

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

If the exchange rate is fixed, expansionary fiscal policy would not have any:

- ▶ Investment multiplier effect.
- ▶ **Crowding out effects.**
- ▶ Government spending effect .
- ▶ None of the given options.

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

The common characteristics of a developing country is:

- ▶ High growth rate.
- ▶ High literacy rate.
- ▶ Skilled labor.
- ▶ **High unemployment rate.**

Question No: 49 (Marks: 3)

Define balance of payment (BOP). How the BOP can be determined?

Answer:

A BOP is a sheet in other words an account sheet which is an accounting record of all monetary transactions between a country and the rest of the world.

à Payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers. The BOP summarizes international transactions for a specific period, usually a year, and is prepared in a single currency, typically the domestic currency for the country concerned.

Surplus items:

Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive/surplus items.

Deficit items:

Uses of funds, such as for imports or to invest in foreign countries, are recorded as a negative or deficit item. It can be determined if we see the things in both perspective. In other words it is a non-complicated way, let's assume that we have two countries Pakistan and United States and things are viewed from Pakistan point of view. For this purpose we must know the market for foreign exchange. Foreign exchange in a Pakistani context means US \$ and in a US point of view it is Pak rupees.

Question No: 50 (Marks: 3)

Explain the shape of money demand curve with the help of diagram.

Answer:

Money demand M_d increases with income levels. Money demand M_d falls with interest rates. In this concept we are talking about real income and real interest rate not the nominal income and nominal interest rate. So this implies to the demand of real money. Whether nominal and real money supply is equal or not depends much on the assumption regarding prices. If prices are assumed fixed, then the two are equal, otherwise not. As you can see from the diagram where money demand is on the x-axis and income is on the y-axis, and there are various levels shown like L_1, L_2, L_3 .

Question No: 51 (Marks: 5)

How can a current account, which is in deficit, be restored to balance under fixed exchange rate regimes?

Answer: There is a solution for how can a current account which is in deficit be restored to balance under fixed exchange rate regimes. The answer is “**Economic Deflation**”. Economic Deflation says When a country's national income rises, it spends more; part of that spending

falls on imported goods; higher imports cause the current account to worsen. The reverse is also true for this lower income must reduce import spending and therefore improve the current account spending. However, economic contraction is not a good idea to restore current account equilibrium the other alternative solution presented by economist is to devalue or “devaluation”. Devaluation is the phenomena related to exchange rate where exchange rate faces depreciation but in the context of fixed exchange rates. The complement of devaluation is revaluation. A concept of devaluation is to bring the exchange rate in line with its long-run equilibrium level, i.e. a level consistent with international competitiveness. Competitiveness is simply defined as the real exchange rate RER, where $RER = (P_f/P_d) * NER$. Where

NER à Nominal Exchange rate

P_f à is the price level prevailing in the foreign country (US)

P_d à is the price level prevailing in the home country (Pakistan).

The formula implies that, for a fixed NET if inflation is higher in Pakistan (relative to the US), Pakistani exports will become less attractive in the international market. As a result, our exports will fall, and current account will go into deficit. To fix this problem, the NER can be devalued so as to make our goods cheaper and competitive and it is to bring competitiveness back to its original higher level. However, there are many provisos attached to the devaluation policy prescription. Devaluation only works if the country’s exports and imports are elastic, otherwise the price effect of the devaluation will dominate the volume effect and the current account will worsen. Secondly, the country must have excess productive capacity in order to meet the higher demand for exports that is created as a result of the devaluation. Thirdly, the country should not have a very high foreign debt whose burden increases so much as a result of the devaluation that the negative effects associated therewith overwhelm any positive competitiveness effects.

Capital account (+ or -)

- + à Incoming FDI, FPI or other private capital
- à Outgoing FDI, FPI or other private capital
- + à Borrowing, aid inflows
- à Payments of debt principal, aid outflows

Question No: 52 (Marks: 5)

I

Identify which of the following are stock variables and which are flow variables?

- a) Unemployment à **Stock**
- b) Redundancies (job lay-offs) à **Flow**

- c) Profits → **Flow**
- d) A firm's stock market valuation (share price) → **Stock**
- e) The value of property after a period of inflation → **Stock**

(Marks: 1 for each)

Question No: 53 (Marks: 5)

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

Ans: World Bank has suggested following policies for the poor countries to grow,

1. **Governance and administrative reforms:** To reduce over employment in public sector, reduce wastes and to improve the quality and reliability of public services. To strengthen the administration of taxes, to eliminate the corruption. To decentralize the control of fiscal policy making. To enrich the legal and regulator framework.
2. **Privatization of state-owned enterprises:** Abbreviated as SOEs. These are influenced by political interference and it is one of the reasons SOEs are considered inefficient. SOEs are also suffering from lack of competition, cost awareness and fear of bankruptcy.
3. **Financial liberalization:** It involves ending of financial repression policies including artificially low interest rates, credit rationing, restrictions on banking competition and government involvement in investment allocation
4. **Liberalization of prices, removal of subsidies**
5. **Deregulation involving dismantling of licensing systems and red-tape**
6. **Trade liberalization:** including tariffication of non-tariff-barriers, harmonization of tariffs and an eventual reduction thereof
7. **FDI liberalization:** To create a transparent, predictable environment for foreign investors to operate in.
8. **Capital account liberalization:** To remove controls on capital flows

These policies are suggested by world bank and the successful implementation of these policies depend on the political and economic system of poor countries. In general these policies are expected to provide the poor nation with better understanding and help them to raise their growth.

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FINAL TERM EXAMINATION

Spring 2009

ECO401 - Economics

Time: 120 min

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

In pure capitalism, the role of government is best described as:

- ▶ Significant.
- ▶ Extensive.
- ▶ Nonexistent.
- ▶ **Limited.**

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

When constructing a typical production possibilities curve, economists assume that:

- ▶ Economic resources are underutilized.
- ▶ Resources are equally productive in many alternative uses.
- ▶ **All available resources are employed efficiently.**
- ▶ Production technology is allowed to vary.

Lesson 02

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

If you sum all of the marginal utilities for the consumption of units one through five, 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: 5 (Marks: 1) - Please choose one

If your demand price for one unit of a good is \$100 and the market price is \$75, your consumer's surplus is:

- ▶ **\$25.**
- ▶ \$50.
- ▶ \$75.
- ▶ \$100.

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

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

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

Question No: 7 (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.

Economies of scale:

The increase in efficiency of production as the number of goods being produced increases.

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

A self-employed accountant spends a lot of money identifying clients and advertising his services. These activities are an example of:

- ▶ **External costs.**
- ▶ Transaction costs.
- ▶ Fixed inputs.
- ▶ Marginal returns.

External costs (also called externalities), are the costs that people other than the buyer are forced to pay as a result of the transaction.

Question No: 9 (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.

Diminishing marginal rate of substitution represents that Indifference curves are convex. As one moves down a (standardly convex) indifference curve, the marginal rate of substitution decreases. This is known as the law of diminishing marginal rate of substitution.

Question No: 10 (Marks: 1) - Please choose one
If isoquants are straight lines, it means that:

- ▶ Only one combination of inputs is possible.
- ▶ There is constant returns to scale.
- ▶ Inputs have fixed costs at all use rates.
- ▶ **The marginal rate of technical substitution of inputs is constant.**

When the isoquants are straight lines, the MRTS is constant.

Question No: 11 (Marks: 1) - Please choose one
Graphically, the Marginal Cost curve cuts through the Average Total Cost curve at:

- ▶ The lowest point on the MC curve.
- ▶ The highest point on the MC curve.
- ▶ **The lowest point on the ATC curve.**
- ▶ The middle of the upward-sloping portion of the total cost curve.

Question No: 12 (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.

Supply curve for a competitive firm is discrete is MC when $P > AVC$

Question No: 13 (Marks: 1) - Please choose one
Following are the disadvantages of monopoly EXCEPT:

- ▶ Monopolists earn higher profits.
- ▶ **Monopolists produce high quality goods at higher prices.**
- ▶ Most of the “surplus” (producer + consumer surplus) accrues to monopolists.
- ▶ Monopolists do not pay sufficient attention to increasing efficiency.

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

When a firm charges each customer the maximum price that the customer is willing to pay, the firm:

- ▶ Engages in a discrete pricing strategy.
- ▶ Charges the average reservation price.
- ▶ Engages in second-degree price discrimination.
- ▶ **Engages in first-degree price discrimination.**

In this type, everyone charged according to what he can pay. Seller can charge the highest price of any product from customers.

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

Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

- ▶ Insufficient aggregate supply.
- ▶ **Insufficient aggregate demand.**
- ▶ Quick self correcting mechanism.
- ▶ Government purchases of too many goods and services.

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

Price exceeds marginal revenue in which of the following market structure(s)?

- ▶ Differentiated oligopoly and monopoly only.
- ▶ Standardized oligopoly and pure competition only.
- ▶ Monopolistic competition and monopoly only.
- ▶ **Monopolistic competition, oligopoly and monopoly.**

Price will exceed marginal revenue in any industry in which firms face a downward-sloping demand curve. Pure competition is the only industry in which this is not the case.

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.

There are two extremes; monopoly and perfect Competition. The Oligopoly/ cartels is the one having qualities of both. So this is much like a pure monopoly except it has members who make a group to control and price and output. The group of people acts as monopoly. It is either possible that the members of firm tend to cheat on agreed price and output strategies.

Question No: 18 (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: 19 (Marks: 1) - Please choose one

Which of the following is a negative externality connected to attending the college?

▶ The fact that completion of a college degree acts as a signaling mechanism to employers.

▶ The fact that other costs, such as books and materials, are incurred in addition to tuition and fees.

▶ **The fact that the people in the next room play loud music at hours you want to sleep.**

▶ The fact that you will get benefits from college that you don't currently anticipate.

A negative externality arises from the harmful spillover effect of production or consumption for society.

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

A profit maximizing firm will employ labour up to the point where:

▶ Marginal revenue = Marginal product.

▶ Marginal cost = Marginal product.

▶ **Marginal revenue product = Average cost of labour.**

▶ Marginal revenue product = Marginal cost of labour.

Question No: 21 (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: 22 (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.**

The primary disagreement between new classical and new Keynesian economists is over how quickly wages and prices adjust. New classical economists build their macroeconomic theories on the assumption that wages and prices are flexible.

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

The aggregate demand curve is downward sloping because of all of the following reasons EXCEPT:

▶ The central bank raises real interest rate as inflation increases.

▶ The central bank raises nominal interest rate as inflation rises.

▶ **The central bank intentionally tries to increase the level of aggregate demand when inflation rises.**

▶ The central bank intentionally tries to reduce the level of aggregate demand when inflation rises.

Because inflation is demand based and that's why central bank will reduce demand to curb inflation.

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

Which school of thought believes that the self-correcting mechanism works slowly?

- ▶ Keynesian.
- ▶ **Monetarist.**
- ▶ Rational expectations.
- ▶ Keynesian and monetarist only.

Many people who like to focus on the self-correcting mechanism and the automatic stabilizers as free-market, “laissez-faire” ways to influence the economy may also follow a school of thought called Monetarism (called Monetarists).

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

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

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

Question No: 26 (Marks: 1) - Please choose one

Under new classical macroeconomics, monetary policy:

- ▶ Affects the level of equilibrium output.
- ▶ **Affects the composition of equilibrium output.**
- ▶ Affects both the level and composition of equilibrium output.
- ▶ None of the given options.

Question No: 27 (Marks: 1) - Please choose one

The average propensity to consume is the ratio of:

- ▶ A change in consumption to a change in disposable income.
- ▶ A change in consumption to total disposable income at a specific income level.
- ▶ **Total consumption to total disposable income at a specific income level.**
- ▶ Total consumption to a change in disposable income.

Average propensity to consume (APC) is the ratio of total consumption to total disposable income.

Question No: 28 (Marks: 1) - Please choose one

According to Keynesian economics, inflexible wages and prices:

- ▶ Cause the aggregate product market to always remain in equilibrium.
- ▶ **Cause real production and employment to fall when aggregate expenditures decline.**
- ▶ Cause real production and employment to remain at their full employment levels.
- ▶ Fall in the early stages of a recession, when aggregate expenditures decline.

According to Keynesian economics, inflexible wages and prices cause real GDP and employment to fall when aggregate demand decreases.

Question No: 29 (Marks: 1) - Please choose one

A £1 increase in government spending will have a larger impact upon national income than a £1 tax cut because:

- ▶ The government prints the pound it spends.
- ▶ **Not all of a tax cut is spent.**
- ▶ When taxes are cut, so too is government spending.
- ▶ Taxes are an injection into the system.

Question No: 30 (Marks: 1) - Please choose one

Each of the following is one of the four sets of factors that determine the level of total spending EXCEPT:

- ▶ Consumer's baseline spending C_0 .
- ▶ **Foreign real GDP Y_f .**
- ▶ Government purchases G .
- ▶ Investor's baseline spending in the stock market.

total spending = private consumption + gross investment + government spending + (exports – imports)

Question No: 31 (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.**

The BOP is determined by the country's exports and imports of goods, services, and financial capital, as well as financial transfers.

Question No: 32 (Marks: 1) - Please choose one

Which of the following is NOT an account in the balance of payments?

- ▶ Capital account.
- ▶ Financial account.
- ▶ Current account.
- ▶ **Future account.**

Question No: 33 (Marks: 1) - Please choose one

If imports = exports, then we have:

- ▶ Current account balance.
- ▶ Capital account balance.
- ▶ Statistical discrepancy.
- ▶ **Balanced Budget.**

Question No: 34 (Marks: 1) - Please choose one

Unemployment benefits may increase the unemployment rate because:

- ▶ **Unemployment benefits reduce the cost of job search.**
- ▶ Unemployment benefits encourage people to quit their jobs.
- ▶ Unemployment benefits reduce the benefits of additional job searching.
- ▶ Unemployment benefits enable people to quit searching for work.

Question No: 35 (Marks: 1) - Please choose one

An increase in "per capita" national income implies that:

- ▶ Everyone in the nation is enjoying a better standard of living.
- ▶ The population has increased.
- ▶ **National income has risen faster than the population has risen.**
- ▶ The distribution of income has improved.

Question No: 36 (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.

As long as total savings exceeds (investment) the amount required to replace depreciated capital, the economy continues to add to its capital stock and move towards K^* .

Question No: 37 (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.

▶ The household sector after taxes.

▶ **The business and government sectors.**

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.

A currency appreciation reduces aggregate demand and raises aggregate supply.

Question No: 39 (Marks: 1) - Please choose one

Which of the following is a more expansionary way for government to finance a budget deficit?

▶ Borrowing money in the money market.

▶ Borrowing money in the goods market.

▶ **Creating new money.**

▶ Increasing taxes.

The government runs a budget deficit and finances it by printing more money.

Question No: 40 (Marks: 1) - Please choose one

How should monetary policy be used during recessions?

▶ Decrease money supply to increase interest rate and increase aggregate demand.

▶ Increase money supply to increase interest rate and increase aggregate demand.

▶ Decrease money supply to decrease interest rate and increase aggregate demand.

▶ **Increase money supply to decrease interest rate and increase aggregate demand.**

Question No: 41 (Marks: 1) - Please choose one

In terms of the IS-LM model, an increase in tax rates should move the:

- ▶ **IS curve leftward.**
- ▶ IS curve rightward.
- ▶ LM curve rightward.
- ▶ LM curve leftward.

Question No: 42 (Marks: 1) - Please choose one

Which of the following policy options would simultaneously increase interest rates and decrease output?

- ▶ **The central bank sells bonds through open market operations.**
- ▶ The federal government increases its defense purchases.
- ▶ The central bank expands the money supply.
- ▶ The federal government increases the tax rate.

The primary way that the central bank can affect the monetary base is by open market operations or sales and purchases of second hand government debt, or by changing the reserve requirements. If the central bank wishes to lower interest rates, it purchases government debt.

Question No: 43 (Marks: 1) - Please choose one

Which of the following statements is TRUE?

- ▶ **Net National Product = Gross National Product – Depreciation.**
- ▶ Net National Product = National Income.
- ▶ Net National Product = Disposable Personal Income.
- ▶ Net National Product = Personal Income.

$NNP = GNP - \text{Depreciation allowance}$

Question No: 44 (Marks: 1) - Please choose one

Gross National Product (GNP) is:

- ▶ **Net National Product (NNP) plus depreciation.**
- ▶ National income discounted by the GDP deflator.
- ▶ Income from foreign investments.
- ▶ Gross Domestic Product (GDP) minus depreciation.

$GNP = NNP + \text{Depreciation allowance}$

Question No: 45 (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.
- ▶ Undervalued exchange rate.
- ▶ Fixed exchange rate.
- ▶ **Flexible exchange rate.**

Question No: 46 (Marks: 1) - Please choose one

According to the quantity theory of money, if there is inflation, what must have caused it?

- ▶ Higher oil prices.
- ▶ **An increase in the money supply.**
- ▶ Increased velocity.
- ▶ Higher budget deficits.

The velocity of money is not stable, thus making the predictions of the quantity theory of money – i.e. that monetary growth must necessarily lead to inflation.

Question No: 47 (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: 48 (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: 49 (Marks: 1) - Please choose one

The gold standard was an example of what kind of exchange-rate system?

- ▶ A managed floating exchange rate.
- ▶ **A fixed exchange rate.**
- ▶ A non-convertible exchange rate.
- ▶ A freely floating exchange rate.

Question No: 50 (Marks: 1) - Please choose one

The basic difference between oligopoly and monopolistic competition is that.

- ▶ Products are differentiated in oligopoly.
- ▶ There are no barriers to entry in oligopoly.
- ▶ **There are barriers to entry in oligopoly.**
- ▶ An oligopoly includes downward sloping demand curves facing the firm.

OLIGOPOLY

Because there are barriers to entry in oligopoly which keep out potential competitors, there is the possibility of positive long run profits.

Question No: 51 (Marks: 5)

A. Differentiate between final goods and intermediate goods with the help of examples.

B.

Year	1979	1980	1981	1982	1983	1984	1985	1986
Real GDP Growth Rate	1%	-5%	1%	3%	4%	5%	2%	1%

a. Calculate the average growth rate between 1982 and 1985.

b. Calculate the average growth rate between 1979 and 1986.

(Marks: 3+2)

B. Calculate the average growth rate between 1982 and 1985.

Calculate the average growth rate between 1979 and 1986.

Question No: 52 (Marks: 10)

From the information given in the following table, calculate the Marginal Physical Product and Marginal Revenue Product of labor in the perfectly competitive market.

Labor per week	Total Product per week	Marginal Physical Product	Marginal Revenue	Marginal Revenue Product
0	0	?	10	?
1	30	?	10	?
2	40	?	10	?
3	47	?	10	?
4	53	?	10	?
5	57	?	10	?

(Marks: 5+5)

Question No: 53 (Marks: 10)

c. What is meant by public goods? Briefly explain the public goods in economics with the help of examples.

d. What are the characteristics of public goods?

Question No: 54 (Marks: 10)

Market for loanable funds is the market of money. Explain the Classical and Keynesian views about the demand and supply of loanable funds in this market.

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FINALTERM EXAMINATION
Spring 2009
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.
- ▶ Excess supply.
- ▶ 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

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.

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.
- ▶ 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.
- ▶ 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:

- ▶ 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.
- ▶ **0.8.**

Question No: 32 (Marks: 1) - Please choose one

The unemployment rate is equal to:

- ▶ Number of employed / labour force x 100.
- ▶ **Number of unemployed / labour force.**
- ▶ (Number of unemployed / labour force) x 100.
- ▶ None of the given options.

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

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.
- ▶ **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.
- ▶ 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
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 adds, 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.

Difference between Contractionary and Expansionary Fiscal Policy:

Contractionary Fiscal Policy	Expansionary Fiscal Policy
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.

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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FINAL TERM EXAMINATION

Spring 2009

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

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

- ▶ **There is a shortage of the product.**
- ▶ There is a surplus of the product.
- ▶ The product is a normal good.
- ▶ The product is an inferior good.

Question No: 4 (Marks: 1) - Please choose one

The supply curve is upward-sloping because:

- ▶ As the price increases, consumers demand less.
- ▶ **As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.**
- ▶ None of the given options.
- ▶ As the price increases, so do costs.

Question No: 5 (Marks: 1) - Please choose one

When an industry's raw material costs increase, other things remaining the same:

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.
- ▶ Output decreases and the market price also decrease.
- ▶ **The supply curve shifts to the left.**

When quantity supplied at a given price decreases, the whole curve shifts to the left as there is a decrease in supply. This is generally caused by an increase in the cost of production or decrease in the number of sellers. An increase in wages, cost of raw materials, cost of capital, ceteris paribus, will decrease supply.

Why might the supply curve shift to the left?

- Rise in wage costs
- Rise in raw material costs
- Reduced labour productivity
- An increase in indirect taxes
- Reduced, or elimination of, subsidies
- The exit of existing firms from the industry

Question No: 6 (Marks: 1) - Please choose one

When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.

▶ **Inelastic.**

$$P\epsilon_d = \frac{\% \text{ change in } Q \text{ demand}}{\% \text{ change in } P}$$
$$\text{Price} = \frac{8\%}{12\%} = 0.666, e < 1 \text{ inelastic}$$

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.

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.

ISOQUANT

An isoquant represents different combinations of factors of production that a firm can employ to produce the same level of output.

-

Question No: 13 (Marks: 1) - Please choose one

When an isocost line is just tangent to an isoquant, we know that:

- ▶ **Output is being produced at minimum cost.**
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

Question No: 14 (Marks: 1) - Please choose one

In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:

- ▶ **A fixed cost.**
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ An opportunity cost.

Question No: 15 (Marks: 1) - Please choose one

The good produced by a monopoly:

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.
- ▶ **Has no close substitutes.**
- ▶ Can be easily duplicated.

Question No: 16 (Marks: 1) - Please choose one

Welfare economics is the branch of economics which deals with:

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

WELFARE ECONOMICS

It is a branch of economics dealing with normative issues (i.e., what should be).

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.**

The primary use of the kinked-demand curve is to explain price rigidity in oligopoly.

Question No: 18 (Marks: 1) - Please choose one

The kinked demand curve model is based on which of the following assumptions?

- ▶ Each firm considers its rival's output to be fixed.
- ▶ Each firm considers its rival's price to be fixed.

▶ **Each firm believes rivals will match all price changes.**

- ▶ None of the given options.

The theory of kinked demand curve rests on the two assumptions that if one firm raises prices, no one else will raise their prices and so the firm will face declining revenues (elastic demand).

However if one firm lowered its price, everyone else would lower their prices as well and everyone's revenues, including the first firm's revenues would fall (inelastic demand).

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.

▶ Considered as part of monopolistic competition.

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: 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

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.**

He argued that government policies could be used to promote demand at a macro level, to fight high unemployment and deflation of the sort seen during the 1930s.

Question No: 25 (Marks: 1) - Please choose one

The economic analysis most closely related to Say's Law is:

- ▶ **Short-run aggregate market.**
- ▶ Production possibilities.
- ▶ Imperfect competition.
- ▶ Circular flow.

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.

1. The first reason for the downward slope of the aggregate demand curve is Pigou's wealth effect.
2. The second reason for the downward slope of the aggregate demand curve is Keynes's interest-rate effect.
3. The third reason for the downward slope of the aggregate demand curve is Mundell-Fleming's exchange-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.

Keynes said that output can be increased after increasing the price. In short run, it is possible for the people to do overtime, so in short run AS curve is positively sloped and in the long run it becomes vertical.

Question No: 28 (Marks: 1) - Please choose one

An important difference between the Classical and Keynesian approaches to achieve a macroeconomic equilibrium is that:

▶ **Keynesian economists actively promote the use of fiscal policy while the classical economists do not.**

▶ Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.

▶ Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.

▶ Classical economists believe that fiscal policy is an effective tool for achieving economic stability while the Keynesians do not.

Question No: 29 (Marks: 1) - Please choose one

According to classical economists, the:

▶ **Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.**

▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

Question No: 30 (Marks: 1) - Please choose one

How many methods are there to measure Gross Domestic Product?

▶ **Three.**

▶ Four.

▶ Five.

▶ Six.

We can measure GDP by using any of the three methods—the output method, income method or expenditure method.

Question No: 31 (Marks: 1) - Please choose one

Which of the following is a flow variable?

- ▶ The value of the house in which you live.
- ▶ The balance in your savings account.
- ▶ **Your monthly consumption on food items.**
- ▶ The number of carrots in your refrigerator at the beginning of the month.

Question No: 32 (Marks: 1) - Please choose one

Which of the following is NOT a stock variable?

- ▶ Government debt.
- ▶ **Capital.**
- ▶ The amount of money held by the public.
- ▶ Inventory investment.

Question No: 33 (Marks: 1) - Please choose one

Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:

- ▶ 0.2.
- ▶ 0.4.
- ▶ 0.6.
- ▶ **0.8.**

Marginal propensity to save:

$$MPS = \Delta S / \Delta Y_d = 40,000 / 50,000 = 0.8$$

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.**

Inflationary gap The excess of national expenditure over income (and injections over withdrawals) at the full-employment level of national income.

Question No: 36 (Marks: 1) - Please choose one

The labour force is made up of:

▶ The number of people employed minus the number of people unemployed.

▶ **The number of people employed plus the number of people unemployed.**

▶ Just the number of people employed.

▶ The whole population.

Question No: 37 (Marks: 1) - Please choose one

Deflation is:

- ▶ An increase in the overall level of economic activity.
- ▶ An increase in the overall price level.
- ▶ A decrease in the overall level of economic activity.
- ▶ **A decrease in the overall price level.**

Deflation is a decrease in the overall price level. Prolonged periods of deflation can be just as damaging for the economy as sustained inflation.

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.**

The Phillips curve, named after A. W. Phillips, describes a negative relationship between the unemployment rate and the inflation rate.

Question No: 40 (Marks: 1) - Please choose one

The Phillips curve will shift to the right:

- ▶ If there is a decrease in the expected inflation rate.
- ▶ **If there is an increase in the expected inflation rate.**
- ▶ If there is a decrease in the natural rate of unemployment.
- ▶ If there is a favorable supply shock.

If inflationary expectations increase, the Phillips curve will shift to the right. This worsens the trade-off between inflation and unemployment.

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 foreign good in terms of domestic good.
- ▶ **Price of one unit of foreign currency in terms of domestic currency.**
- ▶ All of the given options.

The nominal exchange rate (NER) is the price in domestic currency of one unit of a foreign currency.

Question No: 43 (Marks: 1) - Please choose one

Current account deficit is equal to:

- ▶ Private sector resource deficit.
- ▶ Government budget deficit.
- ▶ **Private sector resource deficit + Government budget deficit.**
- ▶ None of the given options.

Current account deficit = Private sector resource deficit + Government budget deficit

Question No: 44 (Marks: 1) - Please choose one

In the exogenous growth model, if investment exceeds depreciation, the capital stock will ----- and output will----- until the steady state is attained.

- ▶ **Increase; increase.**
- ▶ Increase; decrease.
- ▶ Decrease; decrease.
- ▶ Decrease; increase.

Question No: 45 (Marks: 1) - Please choose one

Endogenous growth theory differs in what essential aspect from the Solow theory of economic growth?

- ▶ Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.
- ▶ Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.

▶ In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.

- ▶ All of the given options are correct.

Question No: 46 (Marks: 1) - Please choose one

A currency appreciation should:

- ▶ Reduce net exports and therefore increase aggregate demand.
- ▶ Raise net exports and therefore decrease aggregate demand.
- ▶ **Reduce net exports and therefore decrease aggregate demand.**
- ▶ Raise net exports and therefore increase aggregate demand.

Question No: 47 (Marks: 1) - Please choose one

M1 component of money supply consists of:

- ▶ Paper currency and coins.
- ▶ **Paper currency, coins and check writing deposits.**
- ▶ Paper currency, coins, check writing deposits and savings deposits.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

M1: is M0 + all current (or checking) deposits held with commercial banks. Checking deposits are accounts from which the holders can withdraw money at any time.

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:

- ▶ Hyperinflation caused by excessive demand.
- ▶ Nervous investors selling all their shares, causing the stockmarket to crash.
- ▶ **Unemployed workers not taking available jobs.**
- ▶ Women being kept out of jobs traditionally held by men.

Hysteresis occurs when an unemployed person, particularly one who has been unemployed for a long time, finds it hard to re-enter the job market, due to atrophied skills, loss of self-confidence, or even fear of losing government benefits. This would explain why prolonged high unemployment rates might not fall quickly even when wage demands are reduced and new jobs are created.

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 45⁰ line?

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.

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FINAL TERM EXAMINATION

Fall 2009

ECO401- Economics (Session - 2)

Time: 120 min

Marks: 87

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.
- ▶ 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.**
- ▶ None of the given options.

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.

A is correct from remaining 2 options...

because as it says, when market is not perfect competitive (larger number of buyers & sellers in this market),

it means there are few firms that produce textbook....

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:

- ▶ 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.

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.
- ▶ **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

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.

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:

- ▶ **Real GNP.**
- ▶ Nominal GNP.
- ▶ Personal income.
- ▶ Disposable personal income.

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:

- ▶ 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: 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:

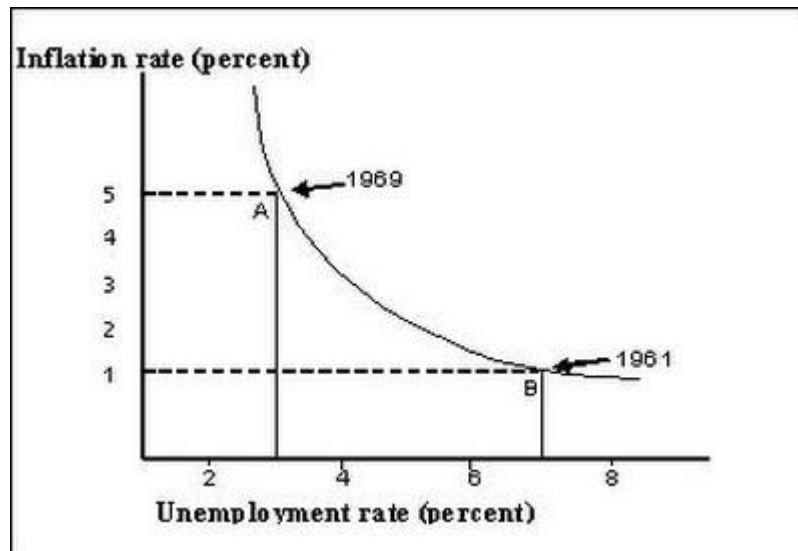
- ▶ Target output.
- ▶ Product market equilibrium output.
- ▶ **Full-employment output.**
- ▶ Natural output.

Question No: 32 (Marks: 1) - Please choose one

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.
- ▶ 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.

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?

- ▶ 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:

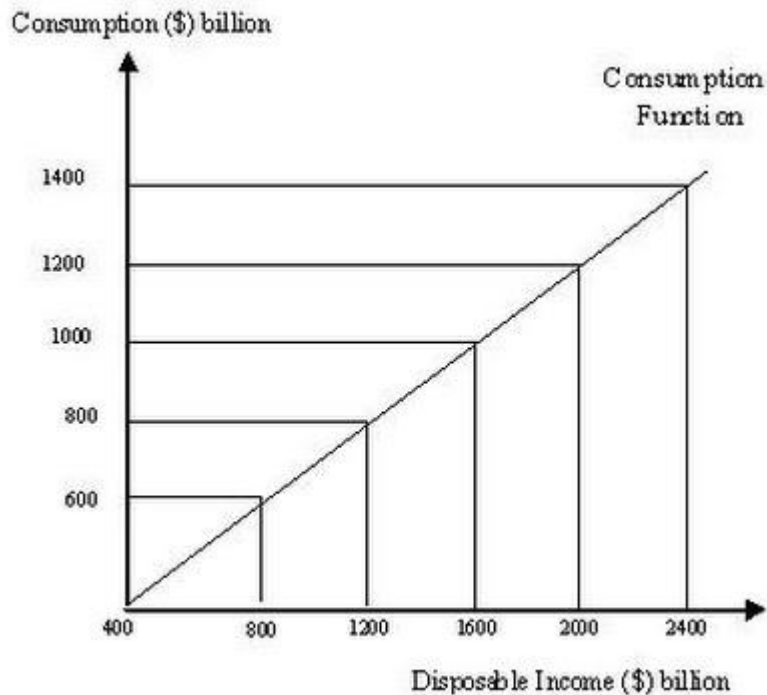
- ▶ Horizontal.
- ▶ Vertical.
- ▶ Negatively sloped.
- ▶ **Positively sloped.**

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.

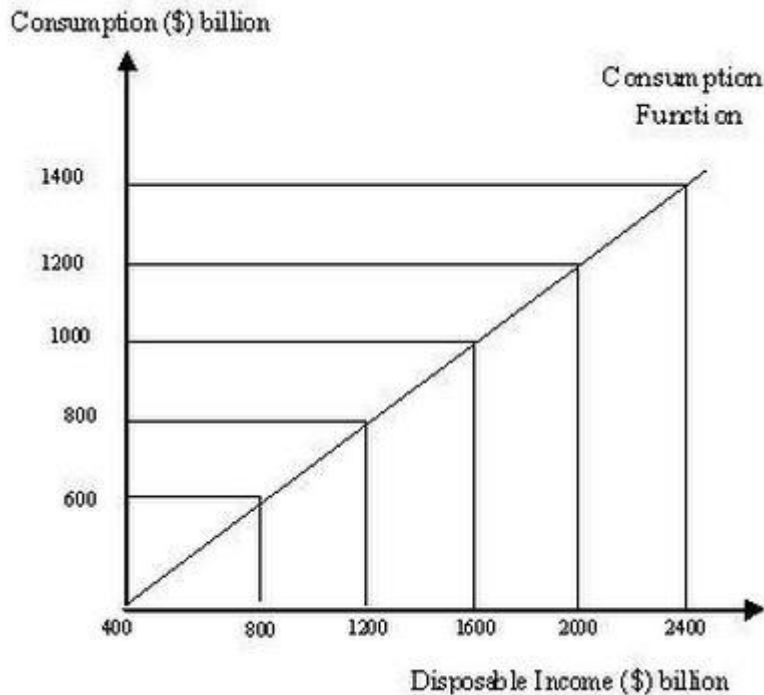
Question No: 47 (Marks: 1) - Please choose one



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?

- ▶ 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.

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 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.

(Marks: 4+6))

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Muhammad Soban

0333-7637637

FINALTERM EXAMINATION
Fall 2009
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.**
- ▶ 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:

- ▶ 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.
- ▶ Macro issues.

Question No: 11 (Marks: 1) - Please choose one

For a firm buying labor competitively, the marginal input cost is equal to the:

- ▶ **Wage.**
- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

Question No: 12 (Marks: 1) - Please choose one

Which of the following would cause the short run aggregate supply curve to shift to the left but have no effect over the long run aggregate supply curve?

- ▶ The amount of factors of production (such as labor and capital) increases.
- ▶ The amount of factors of production (such as labor and capital) decreases.
- ▶ **Prices of inputs (such as wages or oil prices) increase.**
- ▶ Prices of inputs (such as wages or oil prices) decrease.

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
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.**
- ▶ Multiplier 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.**

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.

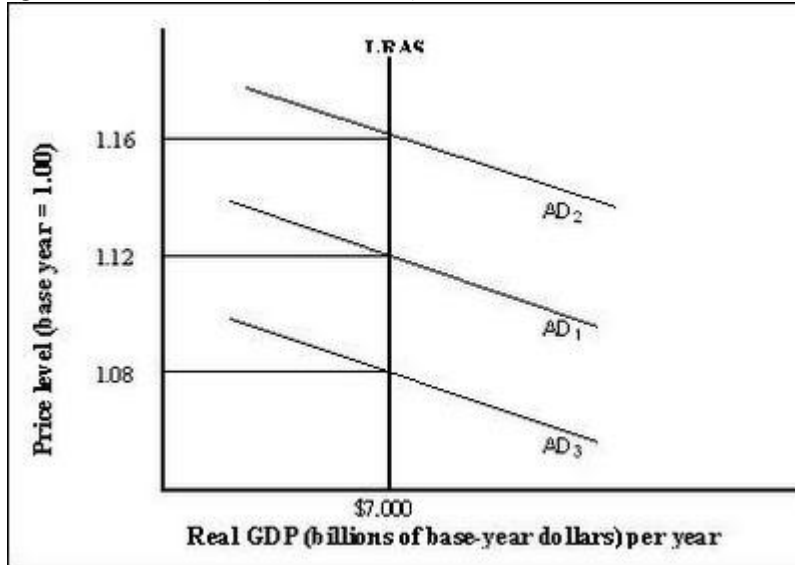
▶ Hyperbolic discounting.

▶ 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
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.
- **Inflation.**

Question No: 35 (Marks: 1) - Please choose one

Which of the following determines a country's rate of growth?

- ▶ **The average propensity to save.**
- ▶ The interaction of supply and demand.
- ▶ The law of comparative costs.
- ▶ The rate of capital accumulation.

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.**

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.
- ▶ Zero.

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.

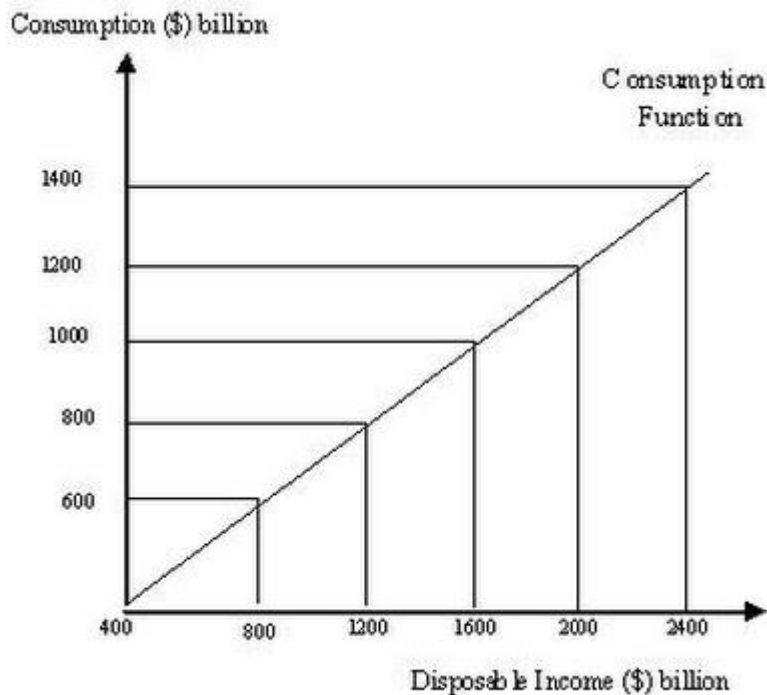
Question No: 47 (Marks: 1) - Please choose one
Which of the following is TRUE about low income countries?

- ▶ 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.
- ▶ 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.
- ▶ 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.

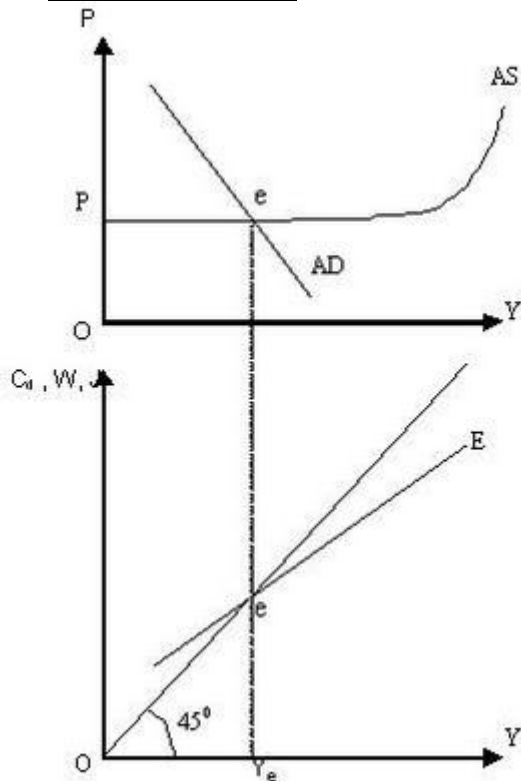
According to him economy may be boosted up by increasing expenditure. In the initial stage government can inject money in the form of investment and higher wage rate to the government employees. This will create higher demand which in return result in more investment by firms.

Question No: 56 (Marks: 5)

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”.

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.

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)

$$MV = PQ$$

$$100 \times V = 3 \times 200$$

$$V = 600 / 100$$

$$V = 6$$

- 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.

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INALTERM EXAMINATION

Fall 2009

ECO401- Economics (Session - 3)

Time: 120 min

Marks: 87

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.

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.
- ▶ 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

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.

If inflationary expectations increase, the Phillips curve will shift to the right. This worsens the trade-off between inflation and unemployment.

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.

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.
- ▶ 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:

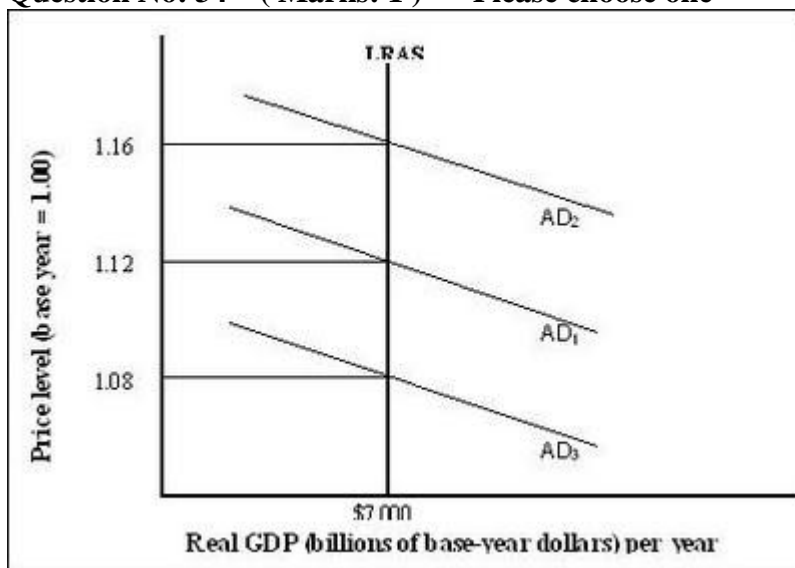
- ▶ ΔC to ΔY_d is 0.95.
- ▶ **C / Y_d is 0.95.**
- ▶ ΔY_d to ΔC is 0.95.
- ▶ Y_d / C is 0.95.

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.**

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?

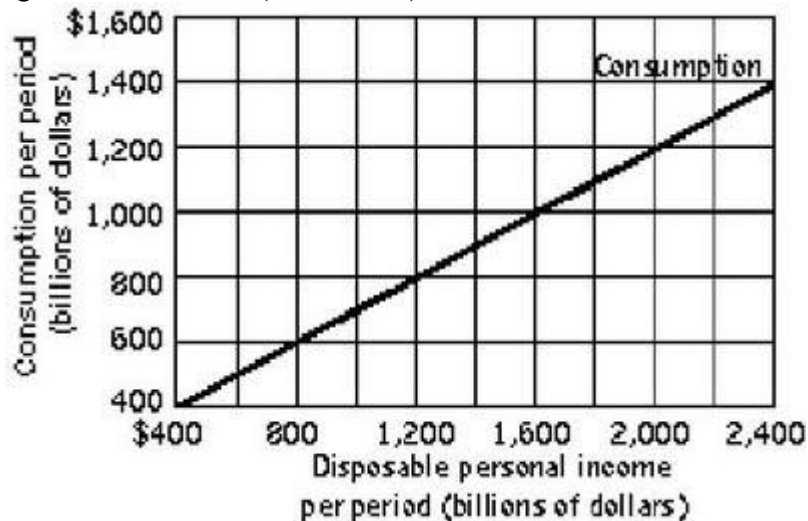
► **$1 - \text{MPS} = \text{MPC}$**

► $1 + \text{MPS} = \text{MPC}$

► $1 / \text{MPS} = \text{MPC}$

► $1 \times \text{MPS} = \text{MPC}$

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.**
- ▶ 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.
- 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:

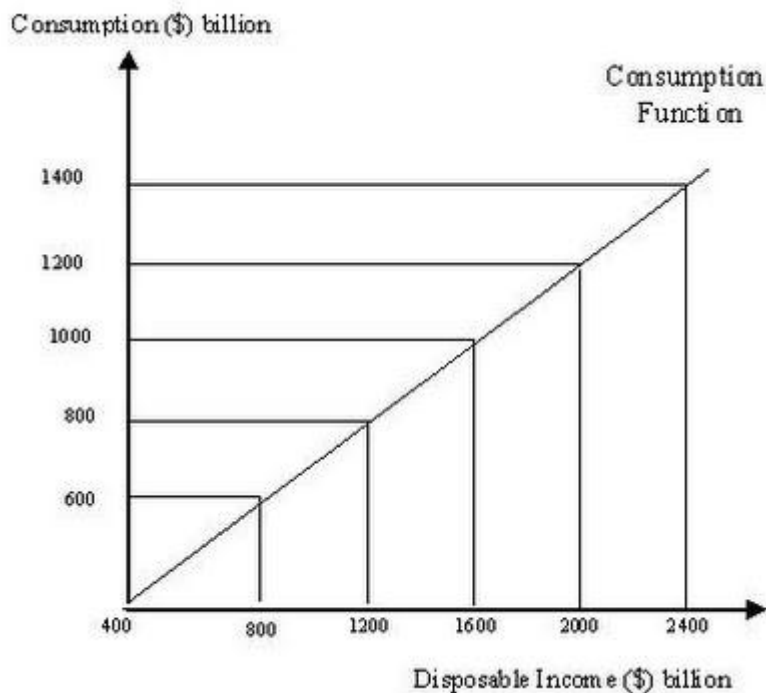
- ▶ Developed countries.
- ▶ Progressed countries.
- ▶ **Developing countries.**
- ▶ High income countries.

Question No: 48 (Marks: 1) - Please choose one

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)

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

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

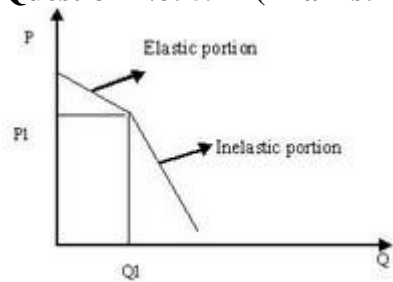
Deposits = 110

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?

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FINAL TERM EXAMINATION

Fall 2009

ECO401 - Economics (Session - 3)

Time: 120 min

Marks: 85

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.

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.

Lesson 10

The degree of risk aversion increases as your income level falls, due to diminishing marginal utility of income.

Question No: 7 (Marks: 1) - Please choose one

The break-even point occurs when:

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ **Price = Average Total Cost.**
- ▶ Price > Average Variable Cost.

Question No: 8 (Marks: 1) - Please choose one

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.**

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.
- ▶ 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:

- ▶ 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.
- ▶ 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.**

Lesson 29

Gross national product (GNP) is the value, at current market prices, of all final goods and services produced during a year by the factors owned by the citizens of a country.

Question No: 18 (Marks: 1) - Please choose one

Which of the following is deducted from Gross National Product to get Net National Product?

- ▶ Indirect taxes.
- ▶ **Depreciation.**
- ▶ Direct taxes.
- ▶ Transfer payments.

$NNP = GNP - \text{Depreciation allowance}$

Question No: 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.**

Lesson 32

As the aggregate expenditures increases, AD also increases and output will also increase.

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.**
- ▶ The household sector after taxes.
- ▶ The business and government sectors.

Keynesian Aggregate Expenditures are the sum of: $C+I+G+(X-M)$ as these planned spending relate to income.

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.

An increase in AD caused by an injection into the circular flow, e.g. higher government spending on wages paid to government employees, would lead to higher money wages held by government servants. Higher wages would translate into higher consumption expenditure on goods and services in the economy, leading to higher money incomes of sellers of goods and services. When firms see consumers more prosperous, they are incentivized to produce more, thus their demand for labour goes up. This triggers a second rise of income increases in the hands of workers (who are also consumers) leading to a further multiplied effect on consumption, production and hiring. And so on.

Question No: 23 (Marks: 1) - Please choose one

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.**

Inflation (deflation) is an increase (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.

The GNP does include allowances for depreciation and indirect business taxes such as those on sales and property.

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.

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.

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.
- ▶ 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.**

Accelerator coefficient = Investment / change in Income

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.
- ▶ **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 .**
- ▶ $\% \Delta V = \text{infinity}$.

Lesson 35

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?

- ▶ $-\$40$.
- ▶ $-\$20$.
- ▶ $\$0$.
- ▶ **$\$20$.**

Lesson 30

Saving ($S = Y_d - C$) = $400 - 380 = 20$

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.

Lesson 36

REVALUATION

This is the act of increasing the price (exchange rate) of one nation's currency in terms of other currencies.

Question No: 42 (Marks: 1) - Please choose one

If net exports are negative, this implies that the country has a:

- ▶ Trade surplus.
- ▶ **Trade deficit.**
- ▶ Government budget surplus.
- ▶ Government budget deficit.

Lesson 31

A negative trade balance is called a trade deficit. Because the determinants of a country's exports and imports change with time, it is reasonable to expect a country's trade balance to change over time.

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?

- ▶ The average propensity to save.
- ▶ The interaction of supply and demand.
- ▶ The law of comparative costs.
- ▶ **The rate of capital accumulation.**

Capital accumulation is often suggested as a means for developing countries to increase their long term growth rates.

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.

Lesson 41

Question No: 48 (Marks: 1) - Please choose one

In which of the following conditions, a current account deficit exists?

▶ When net exports are positive.
▶ When financial flows out of a country for goods and services are less than financial flows into the country for its goods and services.

- ▶ **When a country has a trade deficit.**
- ▶ When an economy buys less from foreigners than it sells to them.

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 supply curve of airline travel shifts left.
- ▶ The demand curve for airline travel shifts right.
- ▶ The supply curve of airline travel shifts right.

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.

When quantity supplied at a given price decreases, the whole curve shifts to the left as there is a decrease in supply. This is generally caused by an increase in the cost of production or decrease in the number of sellers. An increase in wages, cost of raw materials, cost of capital, ceteris paribus, will decrease supply.

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.**

$$ATC = TC/Q$$

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.

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.

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FINAL TERM EXAMINATION

Fall 2009

ECO401- Economics (Session - 4)

Time: 120 min

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.

Lesson 08

Question No: 3 (Marks: 1) - Please choose one

Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

Question No: 4 (Marks: 1) - Please choose one

_____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

► **Economies of scale; constant returns to scale.**

- Constant returns to scale; decreasing returns to scale.
- Decreasing returns to scale; economies of scale.
- Economies of scale; decreasing returns to scale.

Economies of scale: The increase in efficiency of production as the number of goods being produced increases.

Constant returns to scale: If output increases by that same proportional change then there are constant returns to scale (CRTS), sometimes referred to simply as 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.

An isoquant represents different combinations of factors of production that a firm can employ to produce the same level of output.

Question No: 6 (Marks: 1) - Please choose one

Total costs are the sum of:

- Marginal costs and variable costs.
- **Fixed costs and variable costs.**
- Fixed costs and marginal costs.
- Average variable costs and marginal costs.

Question No: 7 (Marks: 1) - Please choose one

A firm is charging a different price for each unit purchased by a consumer. This is called:

- First-degree price discrimination.
- **Second-degree price discrimination.**
- Third-degree price discrimination.
- None of the given options.

2ND DEGREE PD: In this type, different prices charged to customers who purchase different quantities.

Question No: 8 (Marks: 1) - Please choose one

Which of the following best expresses the law of demand?

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ **A higher price reduces quantity demanded.**
- ▶ A lower price shifts the demand curve to the right.

Question No: 9 (Marks: 1) - Please choose one

If a sales tax on beer leads to reduced tax revenue, this means:

- ▶ Elasticity of demand is < 1 .
- ▶ **Elasticity of demand is > 1 .**
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

Question No: 10 (Marks: 1) - Please choose one

For a firm buying labor competitively, the marginal input cost is equal to the:

- ▶ **Wage.**
- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

Question No: 11 (Marks: 1) - Please choose one

The classical economists thought that the economy would quickly overcome any short run instability because:

- ▶ Price level and quantity are flexible.
- ▶ Prices would get stuck at a low level.
- ▶ The long run aggregate supply would shift to the left.
- ▶ **Prices and wages are flexible.**

Question No: 12 (Marks: 1) - Please choose one

Final goods are meant for:

- ▶ **Direct use by the consumers.**
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

Question No: 13 (Marks: 1) - Please choose one

The average propensity to consume is the ratio of:

- ▶ **A change in consumption to a change in disposable income.**
- ▶ A change in consumption to total disposable income at a specific income level.
- ▶ Total consumption to total disposable income at a specific income level.
- ▶ Total consumption to a change in disposable income.

Lesson 30

Average propensity to consume (APC) is the ratio of total consumption to total disposable income.

Question No: 14 (Marks: 1) - Please choose one

The slope of the saving function (or line) is the:

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ **Marginal propensity to save.**
- ▶ Marginal propensity to consume.

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.

Contractionary Fiscal Policy / During Inflation: During inflation the government has three choices:

- (a) Decrease government spending,
- (b) Increase taxes,
- (c) Decrease transfer payments

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

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.

Lesson 26 & 27

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.

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.

Question No: 26 (Marks: 1) - Please choose one

Trade can be beneficial in which of the following situations?

- ▶ Two countries produce the same goods at the same costs.
- ▶ **Two countries produce different goods at different costs.**
- ▶ Two countries are isolated.
- ▶ Two countries have the same markets.

Question No: 27 (Marks: 1) - Please choose one

Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

- ▶ $1000+1500+2500 = \text{Rs. } 5000$
- ▶ $1000+500+2500 = \text{Rs. } 4000$
- ▶ **$1000+500+1000 = \text{Rs. } 2500$**
- ▶ $1000+1500+1000 = \text{Rs. } 3500$

The product or value added method which sums the value added by all the productive entities in the economy. In economics, the difference between the sale price of a product and the cost of materials to produce it is the value added.

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:

- ▶ **ΔC to ΔY_d is 0.95.**
- ▶ C / Y_d is 0.95.
- ▶ ΔY_d to ΔC is 0.95.
- ▶ Y_d / C is 0.95.

Question No: 31 (Marks: 1) - Please choose one

When MPC is 0.80 and APC is 0.95 then MPS is:

- ▶ **0.20 and APS is 0.05.**
- ▶ 0.05 and APS is 0.20.
- ▶ 0.20 and APS is 0.20.
- ▶ 0.05 and APS is 0.05.

$MPS = 1 - MPC = (1 - 0.80) = 0.2$

$APS = 1 - APC = (1 - 0.95) = 0.05$

Question No: 32 (Marks: 1) - Please choose one

Which of the following are leakages from the circular flow?

- ▶ Consumption and saving.
- ▶ **Saving and imports.**
- ▶ Imports and exports.
- ▶ Exports and savings.

Leakage/Withdrawals: A non-consumption uses of income, including saving, taxes, and imports.

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.

The backward bending supply curve means that the supply of labor decreases when the real wage rate increases. At high wage rates, the income effects are sufficiently large. Individual labor supply curve is “backward bending”.

- At low wages, substitution effect dominates.
- Eventually, income effect dominates.

Question No: 35 (Marks: 1) - Please choose one

The government supports research in basic science because:

- ▶ It is a public good.
- ▶ External costs are created.
- ▶ **Internal benefits are created.**
- ▶ Free markets would do so otherwise.

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.**

It will be called depreciation of rupee.

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:

- ▶ **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.

Equity represents that principle of taxation which emphasizes fairness or just sacrifice, i.e. everyone should pay tax according to his/her ability.

Question No: 44 (Marks: 1) - Please choose one

The relationship between tax rates and total tax collections by government is known as:

- ▶ **Laffer curve.**
- ▶ Demand curve.
- ▶ Supply curve.
- ▶ Investment curve.

The graphical inverted-U relation between tax rates and total tax collections by government is known as Laffer 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%.**

The optimum tax rate, in which government revenue is maximized, lies somewhere between 0% and 100%.

Question No: 46 (Marks: 1) - Please choose one

Money is defined as an item that:

- ▶ **Serves as a medium of exchange for goods and services.**
- ▶ Can be converted into silver with relatively little loss in value.
- ▶ Can be converted into gold with relatively little loss in value.
- ▶ Facilitates a connecting link between credit instruments and debt instruments.

Question No: 47 (Marks: 1) - Please choose one

A tax imposed by a country on an imported good or service is called a:

- ▶ Quota.
- ▶ **Tariff.**
- ▶ Non-tariff barrier.
- ▶ Trade embargo.

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.
- ▶ 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)

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.

a) What is interest parity condition?

b) When does this condition hold?

This condition holds if there are no incentives to move the capital from one country to another country.

c) What is the equation of this condition?

$$i_D \approx i_F + \Delta E_e$$

Domestic interest rate = Foreign interest rate + Expected depreciation

d) What will happen if the equality of the condition does not hold?

Then the whole thing will collapse and people will stop borrowing and transferring money to higher interest countries.

(Marks: 2+2+2+4)

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Muhammad Soban

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FINAL TERM EXAMINATION

Fall 2009

ECO401 - Economics (Session - 3)

Time: 120 min

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.

The construction of the production possibilities curve assumes that all available resources are fully employed. A reduction in unemployment will bring the economy closer to this frontier.

Question No: 2 (Marks: 1) - Please choose one

If both supply and demand increase simultaneously, the equilibrium:

▶ **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.
- ▶ 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

In Monopoly, firm is price maker. A monopoly or a firm within monopolistic competition that has the power to influence the price it charges as the good it produces does not have perfect substitutes. A monopoly is a price maker as it holds a large amount of power over the price it charges.(same reference for both questions)

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.
- ▶ 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
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.**

▶ 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

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.**

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.**

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.

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.

▶ 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.

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

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.**

(Note: Draw separate figure for both parts)

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FINAL TERM EXAMINATION

Fall 2009

ECO401- Economics

Time: 120 min

Marks: 87

Question No: 1 (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.

In the real world, some resources are better suited to food production and others to clothing – we cannot expect to move resources from X to Y without any loss of productive capacity, and vice versa. When this is taken into account, the proper shape of a production possibility frontier is drawn concave to the origin.

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.

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.

Price elastic means that change in demand is greater than the change in price of that good.

Question No: 4 (Marks: 1) - Please choose one

The numerical measurement of a consumer's preference is called:

- ▶ Use.
- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

Utility is the usefulness, benefit or satisfaction derived from the consumption of goods and services.

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.

Question No: 7 (Marks: 1) - Please choose one

The supply curve for a competitive firm is:

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.
- ▶ **Its marginal cost curve above the minimum point of the average variable cost curve.**
- ▶ Its marginal cost curve above the minimum point of the average total cost curve.

Its MC curve above the minimum point of the AVC curve.

Question No: 8 (Marks: 1) - Please choose one

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.

2ND DEGREE PD

In this type, different prices charged to customers who purchase different quantities

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, and the characteristics of a monopolistically competitive market are almost the same as in perfect competition, with the exception of heterogeneous products

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.**

▶ The good is a luxury.

▶ The good is a Giffen good.

▶ None of the given options.

Inelastic demand of any product means that if price of that product increases there is very small effect on its quantity demanded. As price increases, total revenue also increases in case of inelastic demand.

Question No: 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.

$AD \equiv C + I + G + (X-M)$;

Where, AD is aggregate demand, C is consumption, I is investment, G is government spending, X is exports, M is imports.

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.

Keynesian Theory is an economic theory based on the ideas of the 20th-century British economist John Maynard Keynes.

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 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.

As the money supply is contracted, interest rates rise, investment will fall, consumption will fall and net exports will fall.

Question No: 16 (Marks: 1) - Please choose one

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.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

M0: also called base money, high powered money or the monetary base. M0 is the value of all the currency notes and coins that are in circulation in the economy. Note that any currency or coins lying with the central bank (which in Pakistan's context, would be the State Bank of Pakistan) does not count as M0, as it is not in circulation.

M1: is M0 + all current (or checking) deposits held with commercial banks. Checking deposits are accounts from which the holders can withdraw money at any time.

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.

The Absolute advantage is the ability of a country, individual, company or region to produce a good or service at a lower cost per unit than the cost at which any other entity produces that good or service.

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.

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.

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.**

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

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

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.

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.**

Formula = $[1/(1-MPC)]$

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 manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

- ▶ $1000+1500+2500 = \text{Rs. } 5000$
- ▶ $1000+500+2500 = \text{Rs. } 4000$
- ▶ **$1000+500+1000 = \text{Rs. } 2500$**
- ▶ $1000+1500+1000 = \text{Rs. } 3500$

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.
- ▶ Circular flow model.
- ▶ GDP curve.

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:

- 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.

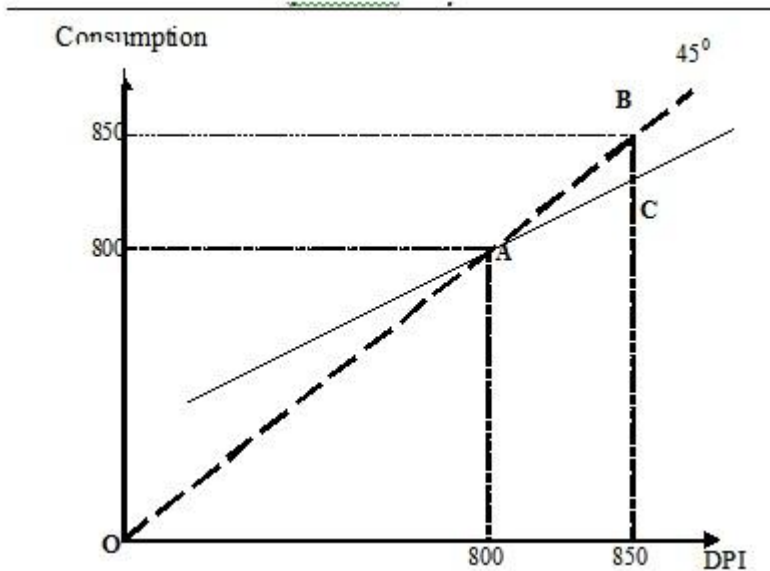
Question No: 37 (Marks: 1) - Please choose one
In the long run, the output level is determined by:

- ▶ Aggregate demand.
- ▶ **Aggregate supply.**
- ▶ The government.
- ▶ Household income.

Question No: 38 (Marks: 1) - Please choose one
Which of the following is TRUE?

- ▶ $1 - \text{MPS} = \text{MPC}$
- ▶ $1 + \text{MPS} = \text{MPC}$
- ▶ **$1 / \text{MPS} = \text{MPC}$**
- ▶ $1 \times \text{MPS} = \text{MPC}$

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.
- ▶ **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.

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.

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.**

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

I

n 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.**

To determine whether the economy of a nation is growing or shrinking in size, economists use a measure of total output called real GDP.

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.**
- ▶ The demand curve for airline travel shifts right.
- ▶ The supply curve of airline travel shifts left.
- ▶ The supply curve of airline travel shifts right.

Question No: 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.

Question No: 55 (Marks: 3)

Differentiate between the terms flow and stock.

A stock variable is measured at one specific time, and represents a quantity existing at that point in time (say, December 31, 2004), which may have accumulated in the past. A flow variable is measured over an interval of time. Therefore a flow would be measured per unit of time (say a year). Flow is roughly analogous to rate or speed in this sense.

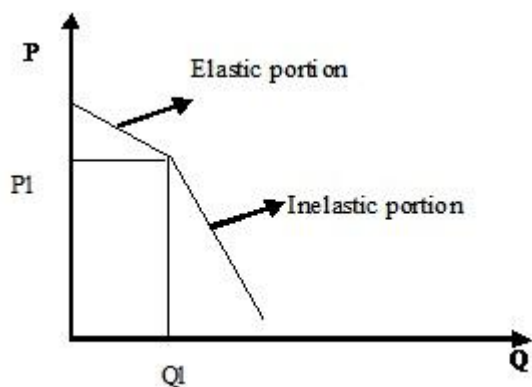
Question No: 56 (Marks: 5)

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.

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:

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Prepare the balance sheet in its proper format of asset and liabilities side. Also calculate total assets and total liabilities.

Assets	Liabilities
Forex reserves = Rs. 500	Government and commercial bank deposits = Rs. 300
Credit to government = Rs. 200	Notes and coins = Rs. 800
Credit to private sector = Rs. 700	Liquidity paper = Rs. 300
Total= RS 1400	Total= RS 1400

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