Mega Quiz File (ECO401)

by

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Special Thanks

to

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(*Please correct, if your find any mistake*)

Highlighted in Red are not sure or unsolved

A study of how increases in the minimum wage rate will affect the national unemployment rate is an example of

descriptive economics.
normative economics.
macroeconomics.
microeconomics.

The total demand for goods and services in an economy is known as

aggregate demand.
national demand.
gross national product.
economy-wide demand.

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.

A recession is

a period of declining prices.
a period during which aggregate output declines.
a period of declining unemployment.
a period of falling trade volumes.

Involuntary unemployment means that
people are not willing to work at the going wage rate.
at the going wage rate, there are people who want to work but cannot find work.
there are some people who will not work at the going wage rate.
there is excess demand in the labour market.

A cut in the income tax rate designed to encourage household consumption is an example of

expansionary demand-side policy.
contractionary demand-side policy.
expansionary supply-side policy.
contractionary supply-side policy.

A cut in the tax rate designed to reduce the cost of capital and hence encourage business investment is an example of

expansionary demand-side policy.
contractionary demand-side policy.
expansionary supply-side policy.
contractionary supply-side policy.

Macroeconomics is the branch of economics that deals with

the economy as a whole.
imperfectly competitive markets.
only the long run adjustments to equilibrium in the economy.
the functioning of individual industries and the behaviour of individual decision-making units - business firms and households.

A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called:

New-Keynesians.
Keynesians.
Monetarists.
The Classical school.

Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of

economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.
fine tuning during the 1960s.
the economy to grow at a rapid rate during the 1950s.
the Classical model to explain the prolonged existence of high unemployment during the Great Depression.

Keynes believed falling wages were not a solution to persistent unemployment because

falling wages demoralised workers.
this would reduce the purchasing power of labourers as consumers. This in turn would bleaken firms' prospects of selling more goods, hence inducing them to cut their investment (and hence labour) demand.
the unemployment was caused by frictional and structural factors.
wages would fall more than required to clear the labour market.

The practice of using fiscal and monetary policy to stabilise the economy is known as

fine tuning of demand

monetarism
laissez faire economics
supply side economics

According to Classical models, the level of employment is determined primarily by

interest rates.
the level of prices.
the level of aggregate supply in the economy
the level of aggregate demand for goods and services.

According to Keynes, the level of employment is determined by

interest rates.
the level of prices.
the level of aggregate supply in the economy
the level of aggregate demand for goods and services.

According to the Classical model, unemployment

could not persist because wages would fall to eliminate the excess supply of labour.
could persist for long periods of time because wages are not flexible.
could be eliminated only through government intervention.
could never exist.

To get the economy out of a slump, Keynes believed that the government should

increase both taxes and government spending.
increase taxes and/or decrease government spending.
cut both taxes and government spending.
decrease taxes and/or increase government spending.

Aggregate demand refers to the total demand for all domestically produced goods and services in an economy generated from

the household and government sectors.
the household sector.
all sectors except the rest of the world.
all sectors including the rest of the world.

Government policies that focus on increasing production rather than demand are called:

fiscal policies.
monetary policies.
incomes policies.
supply-side policies.

Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are

market prices.
sticky prices.
fixed prices.
regulatory prices.

The economists who emphasised wage-flexibility as a solution for unemployment were

Monetarists.
New-Keynesians.
Classical economists.
Keynesians.

According to the Classical economists, the economy

requires fine tuning to reach full employment.
should not be left to market forces.
will never be at full employment.
is self correcting.

Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain

stagflation in the late 1970s.
demand-pull inflation in the 1960s.
low growth rates in the 1950s.
the prolonged existence of high unemployment during the Great Depression.

Keynes' explanation for low firm investment during the Great Depression was

low savings, which placed a constraint on investment
high real borrowing rates, which discouraged firm borrowing
high savings, which left consumers with less money to spend on goods and serviced produced by firms
A permanent change in Europe's corporate ownership structures.

Rapid increases in the price level during periods of recession or high unemployment are known as

slump.
stagnation.
stagflation.
inflation.

The hypothesis that people know the 'true model' of the economy and that they use this model and all available information to form their expectations of the future is the

rational-expectations hypothesis.
active-expectations hypothesis.
static-expectations hypothesis.
adaptive-expectations hypothesis.

Neo-Classical theories were an attempt to explain

how unemployment could have persisted for so long during the Great Depression.
the stagflation of the 1970s.
why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.
the increase in the growth rate of real output in the 1950s.

A group of modern economists who believe that markets clear very rapidly and that expanding the money supply will always increase prices rather than employment are the

New-Keynesians.
Keynesians.
Monetarists.
The Classical school.

Say's law states that:

Supply creates its own demand.
Demand creates its own supply.
There is no such things as a free lunch
Macroeconomic policy activism is essential to ensure full-employment.

The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:

AS: fully horizontal; AD: downward sloping
AS: horizontal only till the full capacity level; AD: downward sloping
AS: vertical; AD: upward sloping
AS: horizontal; AD: vertical

By how much has real GDP grown from 2001 to 2002?

-10%
12.5%
20%
0%

By how much has per capita nominal GNP changed from 2001 to 2002?
-10%
12.5%
20%
0%

Based on the above information, we can say that:

Poverty has fallen in the country
Per capita real GDP is falling
Income inequality has worsened
Real growth in the informal sector is 0%

In the circular flow of income, Keynesian equilibrium obtains when

All the individual sectors are in equilibrium: S=I, T=G, M=X
The aggregate injections equal aggregate withdrawals S+T+M = I+G+X
There is no inflation or unemployment
The interest rate and exchange rate are at their market clearing levels

Under conditions of Keynesian equilibrium:

aggregate demand equals aggregate supply
aggregate demand equals national income
both A and B
none of the above

Which of the following is a determinant of consumption

expectations about future prices
level of indebtedness of consumers
the price level
all of the above

Which is the most volatile component of aggregate demand

Net exports
consumption
investment
government spending

Which of the following is not an obvious or direct determinant of a country's imports

real exchange rate
income
tariff rates
interest rate

When consumption is 650, income is 750; when consumption is 620, income is 700. Assuming there is no government, I=100, net exports are 10, what is the level of equilibrium income?

500
625
775
850

Which of the following is not true?

Starting from no growth, a positive output growth rate would be associated with even higher rates of investment (the accelerator effect)
Higher investment causes a multiplied increase in income
Such increases in income would continue to induce higher investment, which in turn would continue to cause multiplied increases in output.
All of the above.

In the equation C = a + bY, which describes the aggregate consumption function, 'a' stands for

the amount of consumption when income is zero.
the marginal propensity to consume.
the amount of consumption when income is Maximum.
the average consumption level.

Total consumption divided by total income gives us:

the average propensity to consume.
the marginal propensity to save.
the marginal propensity of expenditure.
the marginal propensity to consume.

Disposable income is the part of households' income left after the deduction of

pension contributions.
income tax and social security payments.
income tax.
savings.

As the MPS increases, the multiplier will

increase.
either increase or decrease depending on the size of the change in investment.
remain constant.
decrease.

In macroeconomics, equilibrium is defined as that point at which

planned aggregate expenditure equals aggregate output.
planned aggregate expenditure equals consumption.
aggregate output equals consumption minus investment.

saving equals consumption.

The ratio of the change in the equilibrium level of output to a change in some autonomous component of aggregate demand is the

elasticity coefficient.
multiplier.
marginal propensity of the autonomous variable.
automatic stabiliser.

Assuming there are no taxes (and no foreign sector), if the MPC is .8, the multiplier is

2.5.
8.
5.
2.

Assuming the net income tax rate is 25% (and there is no foreign sector), if the MPC is 0.8, the multiplier is

2.5.
8.
5.
2.

Assuming there is no foreign sector, if the multiplier is 3, and the net income tax rate is 20%, the MPC is

3/4
4/5
5/6
6/7

Assume there is no government or foreign sector. If the MPC is .75, a Rs.20 billion decrease in planned investment will cause aggregate output to decrease by

Rs. 80 billion.
Rs. 20 billion.
Rs. 26.67 billion.
Rs. 15 billion.

According to the 'paradox of thrift,' increased efforts to save will cause

an increase in income and an increase in overall saving.
a decrease in income and an overall decrease in saving.
a decrease in income but an increase in saving.
an increase in income but no overall change in saving.

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

an inflationary gap.
equilibrium.
a deflationary gap.
hyperinflation.

The accelerator theory of investment says that induced investment is determined by

the rate of change of national income.
expectations.
the level of national income.
the level of aggregate demand.

The diagram that shows the money received and paid out by each sector of the economy is the

income-price diagram.
income-expenditures diagram.
circular flow diagram.
aggregate demand-aggregate supply diagram.

If both the no. of unemployed people and the size of the labour force increase by 10,000, then

the unemployment rate will remain the same.
the unemployment rate will increase.
the unemployment rate will decrease.
we cannot tell.

Which of the following could be a reason for the problem of "lack of jobs" being overestimated:

the existence of disguised unemployment
people are underemployment
people holding only one job (as opposed to multiple jobs)
the existence of child labour

Which of the following is not a cost of voluntary unemployment?

potential output of the economy is greater than actual output
government loses tax revenue
firms lose (potential) revenues due to operating below capacity
mental stress undergone by the unemployed persons

"Because higher wages are less likely to induce people who are structurally or physically unable to participate on the labour force. On the other hand people already on the labour force are more likely to respond to higher wages by accepting jobs."

The above statement is an answer to which question?

Why is the AJ curve more elastic than the LF curve
Why is the LF curve not totally vertical
Why is the AJ curve not completely vertical
Why is it difficult to completely remove the horizontal distance between the AJ and LF curves

Which of the following would constitute sound government policy if you subscribed to the Monetarist view on unemployment?

increase aggregate demand through monetary or fiscal policy
reduce the obstacles to downward wage rigidity (like unions, unemployment benefits, minimum wage legislations etc.)
Reduce the marginal income tax rate (to increase the incentive to work)
All of the the above

The persistence of a phenomenon, such as unemployment, even when its causes have been removed is called

The paradox of thrift.
hysteresis.

structural unemployment.
ceteris paribus.

Cyclical unemployment is the

portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.
portion of unemployment that is due to seasonal factors.
unemployment that occurs during recessions and depressions.

The natural rate of unemployment is generally thought of as the

ratio of the frictional unemployment rate to the cyclical unemployment rate.
sum of frictional unemployment and cyclical unemployment.
sum of frictional unemployment and structural unemployment.
sum of structural unemployment and cyclical unemployment.

One of the tenets of the Classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur

slowly.
instantly.
very infrequently.
very quickly.

According to Keynesian economists, those who are not working

have given up looking for a job, but would accept a job at the current wage if one were offered to them.
are too productive to be hired at the current wage.
have chosen not to work at the market wage.
are unable to find a job at the current wage rate.

The index used most often to measure inflation is the

consumer price index.
wholesale price index.
student price index.
producer price index.

If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?

No. Because you would still be able to sell your goods at the higher price.
Yes. Because the cost of your input is growing faster than the revenue obtained from your output
Yes. Because both price and wage inflation are bad.
No. Because any loss to the firm will be offset by the gain to the workers.

Which of the following is not a major cost of inflation:

Resource wastage: as people spend time and money to guard against the "purchasing power erosion" effects of inflation, while firms suffer menu costs (i.e. the costs of frequently issuing "revised" price lists).
Uncertainty: firms defer investment when inflation is high and volatile as the latter complicates predicting future cashflows.
Worsened income inequality: inflation is a regressive tax on the people that does not take into account the taxpayers' "ability to pay". As such, there is a redistribution of wealth from the poor to the rich.
Money printing costs: inflation requires more currency notes to be printed and this raises the government's printing costs.

In the long run, the Phillips curve will be vertical at the natural rate of unemployment if

the long-run supply curve is horizontal at the natural rate of inflation.
the long-run aggregate demand curve is vertical at potential GDP.
the long-run aggregate demand curve is horizontal at the natural rate of inflation.
the long-run aggregate supply curve is vertical at potential GDP.

According to the monetarists, the measured unemployment rate can

be reduced below the natural rate only in the short run, and not without inflation.
be reduced below the natural rate only in the long run, and only if the price level is constant.
be reduced below the natural rate only in the short run, and only if the price level is constant.
be reduced below the natural rate only in the long run, and not without inflation.

If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?

No, because cost-push inflation is caused by an increase in the cost of only one input.
Yes, because that is exactly the definition of cost-push inflation.
No, because such a situation can also be caused by particular demand pressures in the economy.
Yes, because this is exactly what happens in stagflation.

The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause

an equal percentage change in nominal GDP.
a larger percentage change in nominal GDP.
an equal percentage change in real GDP.
a smaller percentage change in nominal GDP.

If input prices adjusted very slowly to output prices, the Phillips curve would be

downward sloping.
vertical or nearly vertical.
upward sloping.
horizontal or nearly horizontal.

If inflationary expectations increase, the short-run Phillips curve will

become vertical.
become upwarding sloping.
shift to the right.
shift to the left.

The record of a country's transactions in goods, services, and assets with the rest of the world is its _____; while the difference between a country's merchandise exports and its merchandise imports is the _____.

current account; trade balance.
capital account; balance of payments.
balance of trade; capital account.
balance of payments; balance of trade.

Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?

If the capital account is in surplus, then the current account is likely to be in deficit.
If the current account is in deficit, then the capital account is likely to be in surplus.
If the current account is in balance, the capital account is also likely to be in balance.
None of the above.

Which of the following statements is necessarily TRUE?

A country runs a current account deficit if it imports more goods and services than it exports.
The sum of the current and capital accounts must be zero.
If both the current and capital accounts are in surplus, the exchange rate must appreciate.
None of the above.

All currencies other than the domestic currency of a given country are referred to as

reserve currencies.
near monies.
foreign exchange.
hard currency.

Exchange rates that are determined by the unregulated forces of supply and demand are

floating exchange rates.
pegged exchange rates.
fixed exchange rates.
managed exchange rates.

If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because

as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.
as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.
as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.

as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.

The fall (rise) in value of one currency relative to another is

a floating (fixing) of the currency.
an appreciation (depreciation) of a currency.
a depreciation (appreciation) of a currency.
a strengthening (weakening) of a currency.

If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:

1.
constantly changing.
relatively stable, but not constant
none of the above

The interest parity equation implies that there is a general tendency for:

exchange rates to be insensitive to the differential rates of interest between countries.
the currencies of relatively low-interest countries to appreciate.
the currencies of relatively high-interest countries to appreciate.
the currencies of relatively low-interest countries to depreciate.

Note that currencies with low rates of interest also typically have low inflation rates. This follows from the Fischer equation which maintains that the nominal interest rate = real interest rate + expected inflation.

Which of the following is (are) correct statement(s) about the current account deficit?

A current account deficit is bad, if it is being caused by excessive consumer spending
A current account deficit is bad, if it is fuelled by high fiscal deficits
A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings
All of the above

The J-curve effect refers to the observation that

GDP usually decreases before it increases after a currency depreciation.

GDP usually decreases before it increases after a currency appreciation.
the trade balance usually gets worse before it improves after a currency appreciation.
the trade balance usually gets worse before it improves after a currency depreciation.

If Japan exports more direct investment capital abroad than expected, then the yen will tend to

appreciate.
fluctuate more than if exports were lower.
depreciate.
not be affected.

Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, ceteris paribus, what will happen by the end of today to the Rs./dollar exchange rate? It will:

Rise by more than 10%.
Rise by exactly 10%.
Fall by less than 10%.
Remain constant.

According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?

an increase in the size of the labour force.
an increase in the productivity of capital.
a move to more capital intensive production methods
discovery of a major mineral resource in the country

When referring to economic growth, we normally refer to:

growth in actual real per capita output
growth in potential real per capita output
growth in actual nominal per capita output
growth in potential real per capita output

A variable whose value is determined by the model of which it is a part is termed _____.

endogenous

exogenous
independent
constant

An example of capital deepening, given an increasing L, would be:

K increases so as to maintain a constant K/L
K increases so much that K/L increases
K remains constant so that L/K increases
K falls, so as to reduce K/L

The neo-classical growth model says that:

poor countries should catch-up (or converge to) with richer countries
higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate
the steady state growth rate of real output depends on the sum of the (exogenous) growth rates in population and technical progress.
All of the above.

The length of a business cycle would be measured from

peak to trough.
trough to peak.
peak to peak.
the slump to the expansion.

If the economy is in the expansionary phase of the business cycle, aggregate demand is likely to be _____ , unemployment is likely to be _____ , inflation is likely to be _____ , and the current account of the balance of payments is likely to be moving towards _____.

rising; falling; rising; deficit
static; low; rising; deficit
falling; falling; falling; surplus
falling; rising; falling; surplus

If the economy is at the peak of the business cycle, aggregate demand is likely to be _____ , unemployment is likely to be _____ , inflation is likely to be _____ , and the current account of the balance of payments is likely to be moving towards _____.

rising; falling; rising; deficit
static; low; rising; deficit
falling; falling; falling; surplus
falling; rising; falling; surplus

If the economy is approaching the trough phase of the business cycle, aggregate demand is likely to be _____ , unemployment is likely to be _____ , inflation is likely to be _____, and the current account of the balance of payments is likely to be moving towards _____.

rising; falling; rising; deficit
static; low; rising; deficit
falling; falling; falling; surplus
falling; rising; falling; surplus

Which of the following is not true regarding the effects of growth on the balance of payments and vice versa?

Generally, growth raises incomes which will translate into higher consumption and higher imports, causing the current account of the BOPs to deteriorate.
If growth is "export-led", it will boost the current account surplus of the BOPs.
If the current account deficit reflects an underlying private sector resource deficit, it is likely to be bad for future growth.
If the current account reflects rising imports of military equipment by the government, it might not be beneficial for economic growth.

A country has high inflation and is running a current account deficit. What should it do in the context of the Salter-Swan diagram?

Reduce government spending and revalue the exchange rate
Increase government spending and devalue the exchange rate
Reduce the money supply and devalue the exchange rate
Increase government spending and revalue the exchange rate

A government's attempt to reduce its defence expenditure is an example of __(i)__, while a government effort to raise interest rates is an example of __(ii)__. _

(ii)

A.	monetary policy.	fiscal policy.
B.	**fiscal policy.**	**monetary policy.**
C.	incomes policy.	incomes policy.

D. supply-side policy. supply-side policy.

According to the Laffer curve, as tax rates increase, tax revenues

decrease continuously.
initially decrease and then increase.
rise continuously.
initially increase and then decrease.

The government imposes a new income tax legislation under which every male taxpayer must pay 15% of his income as taxes, while every female taxpayer must pay 20% of her income as taxes. Such tax legislation violates which equity principle?

Both horizontal equity and vertical equity
Vertical equity only
Horizontal equity only
Neither

A 15% VAT is a(n):

Proportional income tax.
Fixed excise duty.
Ad valorem indirect tax.
None of the above.

Tax incidence is the

ultimate distribution of a tax's burden.
measure of the impact the tax has on employment and output.
behaviour of shifting the tax to another party.
structure of the tax.

You know that all taxes are distortionary. Under what conditions will this knowledge lead you to oppose the imposition of every single tax in the economy?

If you live in a 1st best world
If you live in a 2nd best world
If the tax rates on some of the items are prohibitively high
Either of the above

The automatic stabilisation function of fiscal policy ensures that government expenditures _____(i)_____ and government revenues _____(ii)_____ during recessions.

(ii)

A. decrease decrease
B. decrease increase
C. increase decrease
D. increase increase

Let us say assume the Pakistani government is facing a fiscal deficit. Which of the following would not constitute a possible method of financing this deficit?

printing rupees (borrowing from the central bank)
selling dollars in the foreign exchange market
imposing new taxes or raising existing tax rates
borrowing from an international financial institution

Which of the following is not a correct argument against a fiscal policy expansion – say a tax cut – aimed at lifting aggregate demand?

The expansion might become pro-cyclical ex-post, given the lag time required to change fiscal policy.
Fiscal policy works with a lag, thus a tax cut introduced today would not have an expansionary effect on aggregate demand till many months later.
The fiscal expansion would increase distortion in the economy.
Lower taxes would increase the government's borrowing requirement, which in turn would cause interest rates to rise, which in turn would i) cause the exchange rate to appreciate, which in turn would cause the current account to move into deficit, and ii) crowd out private investment.

The increase in base money divided by the corresponding induced increase in commercial bank deposits is the
bank's line of credit.
reserve ratio.
current ratio.
money multiplier.

If the State Bank of Pakistan wished to pursue a 'tight' monetary policy, it would

lower the required reserve ratio and the statutory liquidity ratio.
lower interest rates**.**

buy government securities on the open market.
sell government securities on the open market.

An item designated as money that is intrinsically worthless could be

a currency note.
a silver coin.
a barter item.
any tradeable commodity.

A checking deposit (or current account) held at a commercial bank is considered _____ of that bank.

an asset.
net worth.
a liability.
capital.

Which of the following activities is one of the responsibilities of the State Bank of Pakistan?

Monitoring the financial health of banks and non-bank financial insitutions.
Auditing the various agencies and departments of the government.
Issuing bonds on international capital markets to finance the fiscal deficit.
Loaning money to other countries that are friendly to Pakistan.

A bank has excess liquidity reserves to lend but is unable to find a willing borrower. This will _____ the size of the money multiplier.

reduce
increase
have no effect on
double

The quantity of money demanded increases with income. Thus if income increases, the opportunity cost of holding money must go up in order to reduce money demand and re-establish equilibrium in the money market. This relation is captured by:

an upward sloping LM curve.
a downward sloping L curve.
a downward sloping IS curve.

the circular flow of money in the economy.

When economists speak of the 'demand for money,' which of the following questions are they asking?

How much cash do you wish you could have?
How much wealth would you like?
How much income would you like to earn?
What proportion of your financial assets do you want to hold in non-interest bearing forms?

Which of the following will not cause money supply to expand, given a fully floating exchange rate regime and a fixed supply of dollars in the market

The central bank buying foreign currency in the foreign exchange market
redemption of central bank liquidity paper
build-up of commercial banks' deposits held with the central bank
decrease in the central bank discount rate

Which of the following events will lead to a decrease in the demand for money?

An increase in the level of aggregate output.
A decrease in the supply of money.
A decrease in the interest rate.
A decrease in the price level.

Which of the following is neither a determinant of the slope of the IS curve nor a determinant of the slope of the LM curve?

the sensitivity of interest rates to investment
the sensitivity of money demand to income
the sensitivity of money demand to interest rates
the sensitivity of income to investment

Given a Keynesian world, a cut in taxes coupled with a lower reserve ratio for banks would have what effect on equilibrium income and interest rate?

Both income and the interest rate will remain unchanged
income will come down, but the interest rate will go up
income will go up, but the effect on the interest rate cannot be predicted
interest rates will go down, but the effect on income cannot be predicted

If the government increases its spending, but this causes prices to rise, what will "eventually" happen to the equilibrium income and interest rate?

Both income and the interest rate will remain unchanged
income will come down, but the interest rate will go up
income will go up, but the effect on the interest rate cannot be predicted
interest rates will go down, but the effect on income cannot be predicted

If the income elasticity of money demand and the Keynesian multiplier, both increase in an economy (ceteris paribus), how will the relative effectiveness of monetary and fiscal policy change?

Fiscal policy will become relatively more effective than monetary policy
Fiscal policy will become relatively less effective than monetary policy
The relative effectiveness of fiscal and monetary policy will remain unchanged
Both fiscal and monetary policy will become more effective.

The intersection of the IS and LM curves captures:

the equilibrium of the demand and supply sides of the economy
the equivalence of monetary and fiscal policy
joint equilibrium in the goods and money markets
all of the above

Disposable Income is obtained by subtracting _____taxes from personal income:

Indirect Taxes
Direct Taxes
Subsidies
None

Per capita income is obtained by dividing National Income by:

Total labor Force in the Country
Unemployed Youth in the Country
Total population of that country.
None

The investment demand curve shows the relationship between the levels of:

Investment and Consumption
Consumption and Interest Rate
Investment and Interest Rate
None

The situation in which the imports are greater than exports is termed as:

Trade Surplus
Trade Deficit
Budget Surplus
None

Fiscal policy is the government programme with respect to it's:

Steel Mill Privatization
Unemployment Reduction
Expenditure and Tax revenue
None

Imports for any economy are considered as:

Injections
Leakages
Brain Drain
None

The accelerator is a related concept which formalizes the investment response to:

Consumption
Interest rate
Output
None

According to Keynes macroeconomic equilibrium is attained when:

Prime Minister is PhD in Macroeconomics
Aggregate Demand Equals Aggregate Supply
Inflation Exists in Economy.
None

There are _____methods of measuring GDP:

Four
Three
Five
None

Intermediate goods are meant for:

Direct use by the consumers
further processing
The term do not exist
None

Fiscal policy refers to:

The actions of the central bank in controlling the money supply.
The spending and taxing policies used by the government to influence the economy.
The government's regulation of financial intermediaries.
None of the given options.

Disposable income is:

Total income plus transfer payments
Total income minus saving.
Total income plus net taxes.
Total income minus net taxes.

The deficit tends to decrease when:

GDP decreases slightly.
GDP decreases rapidly.
GDP increases.
GDP remains unchanged.

Money or paper currency serves at least _____ functions:

Four
Three
Five
Seven

The economic logic behind granting central banks independence from government in the conduct of monetary policy is:

To eliminate seignior age.
To allow open market operations.
To enhance the credibility of monetary policy.
None of the above.

An expansionary fiscal policy can:

Raise the national debt.
Decrease the national debt.
Have no effect on national debt.
None of above.

Which is high powered money?

M1
M2
Mo
None

There are _____major instruments of monetary policy:

Three
Four
Five
None

The rate at which central bank lends to commercial banks is known as:

Reserve rate.
Discount rate.
Open market operation.
None.

Identify the three motives of money demand:

Accumulative, speculative, precautionary
Speculative, transaction, precautionary
Precautionary special, transaction
None

If, in a fully employed, closed economy, the supply of money and the velocity of circulation of money both increase, then in the short-run.

Unemployment of factors will result
Real national output will expand
The volume of transactions will increase
The average level of prices will rise

An increase in the rate of inflation which is not accompanied by any change in the volume of consumer goods sold will automatically increase the:

Revenue from Value Added Tax
Level of company profits
Level of unemployment
Average level of wages

The increase in the Public Sector Borrowing Requirement (PSBR) to almost £50 billion this year will automatically lead to:

A higher rate of inflation
A fall in the rate of unemployment
An increase in the National Debt
A deterioration in the Balance of Payments

The investment demand curve shows the relationship between the levels of:

Investment and Consumption
Consumption and Interest Rate
Investment and Interest Rate
None

According to Classical models, the level of employment is determined primarily by:

The level of aggregate demand for goods and services.
Prices and wages.
Government taxation.

Government spending.

Which of the following is not an important variable in growth accounting calculations?

Productivity growth
Money supply growth
Labor growth
Capital growth

The per-worker production function relates:

Output per worker to capital per worker.
Output per worker to production per worker.
Output per worker to factors of production per worker.
Production per worker to the size of the work force.

In a steady-state economy:

Net investment equals depreciation rate.
Per capita capital stock grows at the rate of labour growth.
Per capita capital stock remains constant.
Net investment equals the consumption.

The war in Iraq sent oil prices spiraling upwards, resulting in an increase in the overall price level. This is an example of which type of inflation?

Cost-pull
Cost-push
Demand-pull
Demand-push

The IMF is an agency charged with providing:

Technical assistance to stock market and financial market problems.
Loans for post-World War II reconstruction.
Short-term credit for international balance of payments deficits.
Bonds denominated in U.S. dollars as a loan to LDCs.

In a portfolio investment:

Investors are directly involved in managing the operations.
As in direct investment, investors export goods and services abroad.
Investors transfer the technology to local investors.
Investors have no control over operations.

Inflation:

Reduces both the purchasing power of the dollar and one's real income
reduces the purchasing power of the dollar and increases one's real income
Reduces the purchasing power of the dollar but may have no impact on one's real income
Increases the purchasing power of the dollar and reduces one's real income

One of the tenets of the classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur:

Slowly.
Quickly.
Very infrequently.
Instantly.

Those that 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.
Both monetary and fiscal policy will have an effect on output and employment.
Fiscal, but not monetary policy will have an effect on output and employment.
Neither monetary nor fiscal policy will have an effect on output and employment.

Potential GDP is the level of aggregate output:

That can be produced if structural unemployment is zero.
That can be produced at a zero unemployment rate.
That can be sustained in the long run, if the inflation rate is zero.
That can be sustained in the long run without inflation.

Which school of economic thought suggested that one possible cause of inflation was a 'push' from the cost side?

New classical economists.
Monetarists.

Marxists.
Keynesians.

An unspoken agreement between workers and firms that the firm will not cut wages is known as:

An explicit contract.
An implicit or social contract.
Employment-at-will.
A relative-wage contract.

To offset the downswing in the business cycle, the government announces a major increase in public expenditure.

Technological Unemployment
Demand Deficient Unemployment
Real Wage Unemployment
Regional Unemployment

The government puts pressure on trade unions to make pay claims which are below the increase in productivity over the past year.

Frictional Unemployment
Technological Unemployment
Structural Unemployment
Real Wage Unemployment

In which case is total expenditure in an economy not equal to total income?

If total saving is larger than total investment
If net exports are not zero
If inventory investment is negative
None of the above--they are always equal

Marginal utility measures:

The slope of the indifference curve.
The additional satisfaction from consuming one more unit of a good.
The slope of the budget line.
The marginal rate of substitution.

Which of the following best expresses the law of diminishing marginal utility?

The more a person consumes of a product, the smaller becomes the utility which he receives from its consumption.
The more a person consumes of a product, the smaller becomes the additional utility which she receives as a result of consuming an additional unit of the product.
The less a person consumes of a product, the smaller becomes the utility which she receives from its consumption.
The less a person consumes of a product, the smaller becomes the additional utility which he receives as a result of consuming an additional unit of the product.

A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A budget line.
An isoquant.
An indifference curve.
A demand curve.

The marginal rate of substitution:

May rise or fall, depending on the slope of the budget line.
Rises as you move downward along an indifference curve.
Falls as you move downward along an indifference curve.
Remains the same along a budget line.

Which of the following is a characteristic of the indifference curves?

They are concave to the origin.
They are convex to the origin.
Curves closer to the origin have the highest level of total utility.
Curves closer to the origin have the highest level of marginal utility.

In the diagram given below, the budget line is best represented by the line:

AB
AD
FG
DG

The endpoints (horizontal and vertical intercepts) of the budget line:

Measure its slope.
Measure the rate at which one good can be substituted for another.
Measure the rate at which a consumer is willing to trade one good for another.
Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

If prices and income in a two-good society double, what will happen to the budget line?

The intercepts of the budget line will increase.
The intercepts of the budget line will decrease.
The slope of the budget line may either increase or decrease.
There will be no effect on the budget line.

If Px = Py, then when the consumer maximizes utility,

X must equal Y.
MU(X) must equal MU(Y).
MU(X) may equal MU(Y), but it is not necessarily so.
X and Y must be substitutes.

The difference between what a consumer is willing to pay for a unit of a good and what must be paid when actually buying it is called:

Producer surplus.
Consumer surplus.
Cost-benefit analysis.
Net utility.

Which of following is a key assumption of a perfectly competitive market?

Firms can influence market price.
Commodities have few sellers.
It is difficult for new sellers to enter the market.
Each seller has a very small share of the market.

A firm maximizes profit by operating at the level of output where:

Average revenue equals average cost.

Average revenue equals average variable cost.
Total costs are minimized.
Marginal revenue equals marginal cost.

The demand curve facing a perfectly competitive firm is:

Downward-sloping and less flat than the market demand curve.
Downward-sloping and more flat than the market demand curve.
Perfectly horizontal.
Perfectly vertical.

The monopolist has no supply curve because:

The quantity supplied at any particular price depends on the monopolist's demand curve.
The monopolist's marginal cost curve changes considerably over time.
The relationship between price and quantity depends on both marginal cost and average cost.
There is a single seller in the market.

A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:

First-degree price discrimination.
Second-degree price discrimination.
Third-degree price discrimination.
Pricing at each consumer’s reservation price.

For which of the following market structures is it assumed that there are barriers to entry?

Perfect competition
Monopolistic competition
Monopoly
All of the above

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

Purely competitive.
A monopoly.

Monopolistically competitive.
Oligopolistic.

Welfare economics is a branch of economics dealing with:

Social issues.
Normative issues.
Political issues.
None of the given options.

_____ are goods that people must get a flavor of before they can consider buying them.

Experience goods.
Giffen goods.
Normal goods.
None of the given options.

Which of the following does not refer to macroeconomics?

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

---------- is the entire satisfaction one derives from consuming goods or services:

Total utility
Scarcity
Marginal utility
Rationing

The law of diminishing marginal utility states that:

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit falls
As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit rises

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit remains the same
As consumer consumes less and less units of any commodity, the utility that consumer derives from each additional unit falls

The equi marginal principle states that:

MUa = MUb = MUc = ----------=MUn
Pa Pb Pc Pn
MUa > MUb > MUc > ---------->MUn
Pa Pb Pc Pn
MUa < MUb < MUc < ----------<MUn
Pa Pb Pc Pn
None of the given options

Marginal utility measures:

The slope of the indifference curve
The additional satisfaction from consuming one more unit of a good
The slope of the budget line
The marginal rate of substitution

---------- is the difference between willingness to pay and what the consumer actually has to pay:

Total Utility
Consumer surplus
Producer surplus
Total product

---------- is the ratio of the probability of success to the probability of failure:

Input output ratio
Odds ratio
Price earning ratio
Price sales ratio

---------- operate under the principle of law of large numbers:

Banks
Insurance companies

Government sponsored enterprises
None of the given options

The optimum consumption point for the consumer is a point where:

The slopes of the indifference curve and budget line are equal
The slopes of the indifference curve and total product are equal
The slopes of the total utility curve and budget line are equal
The slopes of the total product curve and total utility curve are equal

A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A budget line
An isoquant
An indifference curve
A demand curve

The slope of an indifference curve reveals that:

The preferences are complete
The marginal rate of substitution of one good for another good
The ratio of market prices
That preferences are transitive

The law of diminishing returns applies to

The short run only
The long run only
Both the short and the long run
Neither the short nor the long run

In the long run:

All inputs are fixed
All inputs are variable
At least one input is variable and one input is fixed
At most one input is variable and one input is fixed

According to the law of diminishing returns

The total product of an input will eventually be negative
The total product of an input will eventually decline
The marginal product of an input will eventually be negative
The marginal product of an input will eventually decline

The slope of the total product curve is the

Average product
Slope of a line from the origin to the point
Marginal product
Marginal rate of technical substitution

The short run is

Less than a year
Three years
However long it takes to produce the planned output
A time period in which at least one input is fixed

The marginal product of an input is

Total product divided by the amount of the input used to produce this amount of output
The addition to total output that adds nothing to profit
The addition to total output due to the addition of one unit of all other inputs
The addition to total output due to the addition of the last unit of an input, holding all other inputs constant

Average product is defined as:

Total product divided by the total cost
Total product divided by marginal product
Total product divided by the variable input
Marginal product divided by the variable input

Marginal product crosses the horizontal axis (is equal to zero) at the point where:

Average product is maximized
Total product is maximized
Diminishing returns set in
Output per worker reaches a maximum

The law of diminishing returns refers to diminishing

Total returns
Marginal returns
Average returns
All of the given options

The law of diminishing returns assumes that

There is at least one fixed input
All inputs are changed by the same percentage
Additional inputs are added in smaller and smaller increments
All inputs are held constant

The study of economics is primarily concerned with:

Demonstrating that capitalistic economies are superior to socialistic economies.
Determining the most equitable distribution of society's output.
Keeping private businesses from losing money.
Choices which are made in seeking to use scarce resources efficiently.

Opportunity cost is:

That which we forego, or give up, when we make a choice or a decision.
A cost that cannot be avoided, regardless of what is done in the future.
The additional cost of producing an additional unit of output.
The additional cost of buying an additional unit of a product.

Periods of less than full employment correspond to:

Points outside the ppf.(production possibility frontier).
Points inside the ppf.
Points on the ppf.
Either points inside or outside the ppf.

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

A firm produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs that firm produces:

Have many complementary goods.
Have few substitutes.
Have few complementary goods.
Are normal goods.

According to law of demand, a demand curve is:

Horizontal
Vertical
Downward sloping
Directly related to law of supply

A rational decision maker will take only those actions for which the marginal benefit:

Is positive.
Is at its maximum level.
Is less than marginal cost.
Is greater than or equal to the expected marginal cost.

All of the following are determinants of supply except:

Price
Income levels
Objectives of the firm
Level of technology

Normative economics:

Deals solely with the facts
Is never studied in the colleges
Involves opinions and interpretations
Is clearly preferable to positive economics

The transformation of resources into economic goods and services is:

Technical efficiency
Input
Production
Increasing returns

The price elasticity of demand is defined as the absolute value of the ratio of:

Price over quantity demanded.
Change in price over change in quantity demanded.
Percentage change in price over the percentage change in quantity demanded.
Percentage change in quantity demanded over the percentage change in price.

If a good is a luxury, its income elasticity of demand is:

positive and less than 1
negative but greater than -1
positive and greater than 1
zero

A resource is something that:

Is used to produce goods and services.
Is provided by nature, not made by society.
Exists in unlimited quantities.
Must be produced by a firm.

If the cross-price elasticity between home personal computers and video game units for TV is positive, one can conclude that

These products are substitutes for one another.
These products complement one another.
These products are over-priced.
Consumers are irrational.

As one moves along a convex isoquant, which of the following does not change?

The marginal rate of technical substitution.

The capital-labor ratio.
The marginal product of labor relative to the marginal product of capital.
The level output produced.

Of the following goods, the one where the law of diminishing marginal utility is least likely to apply is:

Water.
Cigarettes.
Toothpaste.
Rap music.

The optimal purchasing rule states that total utility is maximized when a consumer:

Consumes as much as possible of all good.
Consumes the same quantities of all goods.
Completely uses up their income.
Consumes to the point where the marginal utility per dollar spent on all goods is the same.

Which of the following pairs come closest to being complementary goods?

Apples and oranges.
Cameras and films.
A free hotel room and a free meal.
Cream and milk.

A Giffen good:

Is a good that people buy more of as their incomes fall.
Is a good which people buy more of as its price increases.
Is a good on which people spend a small portion of their income.
Has a vertical demand curve.

When an industry expands its costs of production will:

Increase.
Decrease.
stay the same.
none of the above.

Which of the following would shift the demand curve for new textbooks to the right?

A fall in the price of paper used in publishing texts.
A fall in the price of equivalent used text books.
An increase in the number of students attending college.
A fall in the price of new text books.

Which of these measures the responsiveness of the quantity of one good demanded to an increase in the price of another good?

Price elasticity.
Income elasticity.
Cross?price elasticity.
Cross?substitution elasticity.

Assume that the current market price is below the market clearing level. We would expect:

A surplus to accumulate.
Downward pressure on the current market price.
Upward pressure on the current market price.
Lower production during the next time period.

The income elasticity of demand is the:

Absolute change in quantity demanded resulting from a one?unit increase in income.
Percent change in quantity demanded resulting from the absolute increase in income.
Percent change in quantity demanded resulting from a one percent increase in income.
Percent change in income resulting from a one percent increase in quantity demanded.

Which of the following statements about the diagram below is true?

Demand is infinitely elastic.
Demand is completely inelastic.
Demand becomes more inelastic the lower the price.
Demand becomes more elastic the lower the price.

In the long run, new firms can enter an industry and so the supply elasticity tends to be:

More elastic than in the short?run.
Less elastic than in the short?run.
Perfectly elastic.
Perfectly inelastic.

A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A budget line.
An isoquant.
An indifference curve.
A demand curve.

The magnitude of the slope of an indifference curve is:

Called the marginal rate of substitution.
Equal to the ratio of the total utility of the goods.
Always equal to the ratio of the prices of the goods.
All of the above.

Which of the following is a positive statement?

Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
The minimum wage should not be increased, because to do so would increase unemployment.
Smoking should be restricted on all airline flights.
None of the above.

A supply curve reveals:

The quantity of output consumers are willing to purchase at each possible market price.
The difference between quantity demanded and quantity supplied at each price.
The maximum level of output an industry can produce, regardless of price.
The quantity of output that producers are willing to produce and sell at each possible market price.

The slope of an indifference curve reveals:

That preferences are complete.

The marginal rate of substitution of one good for another good.
The ratio of market prices.
That preferences are transitive.

An increase in income, holding prices constant, can be represented as:

A change in the slope of the budget line.
A parallel outward shift in the budget line.
An outward shift in the budget line with its slope becoming flatter.
A parallel inward shift in the budget line.

If prices and income in a two-good society double, what will happen to the budget line?

The intercepts of the budget line will increase.
The intercepts of the budget line will decrease.
The slope of the budget line may either increase or decrease.
There will be no effect on the budget line.

An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?

MRSxy is at a maximum.
Px/Py = money income.
MRSxy = money income.
MRSxy = Px/Py.

Which of the following is true regarding income along a price consumption curve?

Income is increasing.
Income is decreasing.
Income is constant.
The level of income depends on the level of utility.

An individual with a constant marginal utility of income will be

Risk averse.
Risk neutral.
Risk loving.
Insufficient information for a decision.

A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:

An isoquant.
A production possibility curve.
A production function.
An isocost function.

The short run is:

Less than a year.
Three years.
However long it takes to produce the planned output.
A time period in which at least one input is fixed.

The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:

Marginal rate of substitution.
Marginal rate of technical substitution.
Slope of the isocost curve.
Average product of the input.

Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce

are normal goods.
have few complementary goods.
have many complementary goods.
have few substitutes.

When the decrease in the price of one good causes the demand for another good to decrease, the goods are

complements.
normal.
inferior.
substitutes.

The price elasticity of demand is the

ratio of the percentage change in quantity demanded to the percentage change in price.
ratio of the change in price to the change in quantity demanded.
ratio of the change in quantity demanded to the change in price**.**
ratio of the percentage change in price to the percentage change in quantity demanded.

The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:

inelastic.
perfectly inelastic.
elastic.
perfectly elastic.

The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is

elastic.
inelastic.
unitarily elastic
perfectly elastic

If the cross-price elasticity of demand between two goods is negative, then the two goods are

unrelated goods.
substitutes.
complements.
normal goods.

If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is

-4.
4.
-0.25.
0.25.

The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?

This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.
The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time.
This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.
No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.

The burden (incidence) of a tax will fall mainly on the producers if:

The producers are the ones legally obliged to pay the tax**.**
Supply is inelastic and demand is elastic.
Demand is inelastic and supply is elastic.
There are many producers in the market.

Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?

Inferior goods.
Normal goods.
Substitute goods.
Complementary goods.

If total revenue rises by 10% when price increases by 5%, this means:

demand is price inelastic
demand is price elastic
demand is unit elastic
demand is perfectly inelastic

If a 5% increase in price causes no change in total revenue, this means:
demand is price inelastic

demand is price elastic

demand is unit elastic
demand is perfectly inelastic

Which of the following statements is true:

Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.
Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.
We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range

A straight line demand curve with a slope of -1 delivers unit elasticity.
95. When firms advertise their product, they are trying to:

Shift the demand curve to the right
Make the demand curve steeper
Make demand for the product more inelastic
All of the above

"It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy."

False. A good can only have one characterization in an economy, normal or inferior, not both
False. Milk is always and everywhere a normal good.
True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.
True. Some people in the economy like milk, others don't.

A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:

the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high
Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income
Z's terms of trade (price of exports / price of imports) deteriorate
All of the above.

"The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems." This most closely illustrates which elasticity concept:

Price elasticity of demand
Price elasticity of supply
Income elasticity of demand
Cross price elasticity of demand

Economists use the term utility to mean

the value of a product before it has been advertised.
the satisfaction a consumer obtains from a good or service.
any characteristic of a good or service which cannot be measured.
the contribution a good or service makes to social welfare.

Economists use the term marginal utility to mean

additional satisfaction gained divided by additional cost of the last unit.
additional satisfaction gained by the consumption of one more unit of a good.
total satisfaction gained when consuming a given number of units.
the process of comparing marginal units of all goods which could be purchased.

The law of diminishing marginal utility states that

total satisfaction will decrease as more units of the good are consumed.
the satisfaction derived from each additional unit of a good consumed will decrease.
total utility will become negative.
Both the first and third option.

By total consumer surplus economists mean (in P-Q space)

The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.
the area between the average revenue and marginal revenue curves.
the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).
A and C.

The equation for Rida's demand curve for bouquets of flowers is P = 40 - 2Q. If the price of a bouquet is Rs18, her consumer surplus will be

Rs198
Rs121.
Rs11.
Rs242.

The price of an ice cream cone is $1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to $1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?

The marginal utility of the fourth ice cream cone per week must be worth less than $1.25 to you.
The total utility of the four ice cream cones per week must be worth less than $5.75 (=3*$1.50 +$1.25) to you.
The total utility of the four ice cream cones per week must be less than $5.00 (3*$1.25+$1.25) to you.
None of the above.

Economists have used the idea of diminishing marginal utility to explain why
demand curves slope downwards.
demand curves become flatter at lower prices.
demand curves are inelastic.
Both the first and second option.

A consumer will buy more units of a good if the value of the good's

total utility is greater than price.
marginal utility is less than price.
marginal utility is greater than price.
total utility is less than price.

The diamond-water paradox can be explained by suggesting that the price of a product is determined by

consumer incomes.
its marginal utility.
consumer surplus.
diminishing marginal utility.

A utility-maximising consumer changes her spending on goods X and Y until

MUx = MUy
Px (MUx) = Py(MUy)
TUx/Px = TUy/Py
MUx (Py) = MUy (Px)

The MUx/MUy ratio is 10 and the Px/Py ratio is 8, so the consumer should buy

less X and more Y.
more X and more Y.
more X and less Y.
less X and less Y.

Economists define an indifference curve as the set of points

at which the consumer is in equilibrium as the consumer's income changes.
which yield the same marginal utility.
which yield the same total utility.
At which the consumer is in equilibrium as prices change.

Which of the following is a property of an indifference curve?

the marginal rate of substitution is constant as you move along an indifference curve.
marginal utility is constant as you move along an indifference curve.
it is convex to the origin.
total utility is greatest where the 45 degree line cuts the indifference curve.

The limits imposed on household choices by income, wealth, and product prices are

captured by the
budget constraint.
choice set.
assumption of perfect knowledge.
preference set.

Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?

50 units of clothing and 50 units of food.

20 units of clothing and 50 units of food.
10 units of clothing and 25 units of food.
0 units of clothing and 50 units of food.

If a household's money income is doubled,

the budget constraint will shift in and parallel to the old one.
the budget constraint is not affected.
the budget constraint will swivel outward at the Y-intercept.
the budget constraint will shift out parallel to the old one.

The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is

the income-consumption curve.
the Engel curve.
the demand curve.
the income-demand curve.

The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is

the Engel curve.
the demand curve for X.
the substitution curve.
the price-consumption curve for X.

The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:

A the Engel curve.
the demand curve for X.
the substitution curve.
the price-consumption curve for X.

If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a

inferior good.
Giffen good.

normal good.
superior good.

If the price (or budget) line has a slope of -2 and it cuts indifference curve ICa at points P and R (given that the slope of ICa at point P is -4 and at point R is -1), the consumer can maximize utility by:

choosing consumption bundle P
choosing consumption bundle R
moving to a higher indifference curve
we don't enough information to answer the question

Indifference curves cannot

be L shaped
be straight lines
intersect
all of the above

The main problem with marginal utility analysis is:

that it cannot solve problems involving more than two goods
its cardinal measurement of utility
its inability to explain the diamond-water paradox
all of the above

This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is < 1, and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?

She is risk averse
She is risk neutral
She is risk loving
We do not have enough information to answer the question

The concept of diminishing marginal utility of income (DMUy) helps explain:

why a marginal dollar might have higher utility for a pauper than a millionaire

why the total utility curve (in Utility-Income space) is convex
why the average consumer is risk-averse
all of the above

"Moral hazard" and "adverse selection" are problems related to asymmetric information, that arise

in ex-ante and ex-post contexts, respectively
in ex-post and ex-ante contexts, respectively
in ex-ante contexts
in ex-post contexts

Profit-maximising firms want to maximize the difference between

total revenue and total cost.
marginal revenue and marginal cost.
marginal revenue and average cost.
total revenue and marginal cost.

Which statement is FALSE?

Fixed costs do not depend on the firm's level of output.
Fixed costs are zero if the firm is producing nothing.
Fixed costs are the difference between total costs and total variable costs.
There are no fixed costs in the long run.

Which of the following is most likely to be a variable cost for a firm?

The monthly rent on office space that it leased for a year.
The franchiser's fee that a restaurant must pay to the national restaurant chain.
The interest payments made on loans.
Workers' wages.

The costs that depend on output in the short run are
total variable costs only.
both total variable costs and total costs.
total costs only.
total fixed cost only.

The short run, as economists use the phrase, is characterized by

a period where the law of diminishing returns does not hold.
at least one fixed factor of production, and firms neither leaving nor entering the industry.
all inputs being variable.
no variable inputs - that is all of the factors of production are fixed.

Diminishing marginal returns implies

increasing average fixed costs.
decreasing marginal costs.
decreasing average variable costs.
increasing marginal costs.

Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?

If AP is at a maximum, then MP is also.
If TP is declining then AP is negative.
If AP exceeds MP, then AP is falling.
If AP = MP, then total product is at a maximum.

If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is _____ and the average product of the third worker is _____.

270; 160
3.33; 10
10; 30
30; 10

Engineers for Imran Bike Company have determined that a 15% increase in "all" inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause _____ as output increases.

Long-run average costs to increase
Long-run marginal costs to increase
Long-run average costs to remain constant
Long-run average costs to decrease

Suppose Isa Khan's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be

upward sloping to the right.
U-shaped.
horizontal.
downward sloping to the right.

A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is

an isocost line.
a production function.
an isoquant.
an indifference curve.

The rate at which a firm can substitute capital for labour and hold output constant is the

law of diminishing marginal returns.
marginal rate of technical substitution.
marginal rate of substitution.
marginal rate of production.

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

budget constraint.
isoquant.
expenditure set.
isocost line.

The formula for average fixed costs is

dTFC/dq.
TFC/q.
q/TFC.
TFC - q.

The formula for AVC is

q/TVC.
dTVC/dq.
dq/dTVC.
TVC/q.

Marginal revenue is

the additional profit the firm earns when it sells an additional unit of output.
the added revenue that a firm takes in when it increases output by one additional unit.
the difference between total revenue and total costs.
the ratio of total revenue to quantity.

A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is

Rs 15,000.
Rs 25,000.
Rs 35,000.
Zero.

The amount of profit a firm makes can be shown on a diagram using

the AC and AR curves.
the MR and AR curves.
the AC and MC curves.
the MR and MC curves.

A firm's choice of profit-maximising output can be shown on a diagram using

the AC and AR curves.
the MR and AR curves.
the AC and MC curves.
the MR and MC curves.

A firm will shut down in the short run if

total variable costs exceed total revenues.
average cost exceeds price.

total costs exceed total revenues.
it is suffering a loss.

The concept of "interdependence of markets" can refer to the interdependence between:

two or more factor markets
goods and factor markets
goods markets
all of the above

The 'law of demand' implies that

as prices fall, quantity demanded increases.
as prices fall, demand increases.
as prices rise, quantity demanded increases.
as prices rise, demand decreases.

What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

the **substitution effect.**
the ceteris paribus effect.
the total price effect.
the income effect.

The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:

A's consumers have had an increase in income.
the price of A has increased.
A's advertising is not as effective as in the past.
the price of rival brand B has increased.

Demand curves in P-Q space are derived while holding constant

consumer tastes and the prices of other goods.
incomes, tastes, and the price of the good.
incomes and tastes.
incomes, tastes, and the prices of other goods.

Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are

perfect substitutes.
unrelated goods.
complements.
substitutes.

If the demand for coffee decreases as income decreases, coffee is

a normal good.
a complementary good.
an inferior good.
a substitute good.

Which of the following will NOT cause a shift in the demand curve for compact discs?

a change in the price of pre-recorded cassette tapes.
a change in wealth.
a change in income.
a change in the price of compact discs.

Which of the following is consistent with the law of supply?

As the price of calculators rises, the supply of calculators increases, ceteris paribus.
As the price of calculators falls, the supply of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers.

a decrease in the supply of
a decrease in the quantity supplied of
an increase in the supply of
an increase in the quantity supplied of

When there is excess demand in an unregulated market, there is a tendency for

quantity demanded to increase.
quantity supplied to decrease.
price to fall.
price to rise.

Equilibrium in the market for good A obtains

when there is no surplus or shortage prevailing in the market
where the demand and supply curves for A intersect
when all of what is produced of A is consumed
all of the above

A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by

a decrease in supply.
a fall in income.
a fall in the price of a complementary good.
a fall in the number of substitute goods.

Assume the good is normal
A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by

a fall in the price of a complementary good.
a fall in income.
a change in tastes such that consumers prefer the good more.
a rise in the number of substitute goods.

Assume the good is normal
A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by

an increase in supply.
a rise in income.
a rise in the price of a complementary good.
a fall in the number of substitute goods.

Assume the good is normal
When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as

price fixing.
quantity setting.
quantity adjustment.
price rationing.

How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?

2
4
8
16

What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right

price falls unambiguously but the effect on quantity cannot be determined
both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left

price falls unambiguously but the effect on quantity cannot be determined
both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

A price ceiling imposed by the government can cause a shortage (excess demand)

when the price ceiling is above the free (or unregulated) market price
when the price ceiling is below the free (or unregulated) market price
when the price ceiling is equal to the free (or unregulated) market price
either of the above

What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?

Price falls, quantity rises
Price rises, quantity falls
Both price and quantity fall
Both price and quantity rise

A price floor is

a maximum price usually set by government, that sellers may charge for a good or service.
a minimum price usually set by government, that sellers must charge for a good or service.
the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
the minimum price that consumers are willing to pay for a good or service.

The need for rationing a good arises when

there is a perfectly inelastic demand for the good.
supply exceeds demand.
demand exceeds supply.
a surplus exists.

If the "regulated-market" price is below the equilibrium (or "free-market" price) price,

the quantity demanded will be greater than quantity supplied.
demand will be less than supply.
quantity demanded will be less than quantity supplied.
quantity demanded will equal quantity supplied.

If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that

more workers would become employed.
there would be more unemployment.
the costs and prices of firms employing cheap labour would increase.
wages in general would fall as employers tried to hold down costs.

The process by which resources are transformed into useful forms is

capitalisation.
consumption.
allocation.
production.

The concept of choice would become irrelevant if

capital were eliminated.
scarcity were eliminated.
we were dealing with a very simple, one-person economy.
poverty were eliminated.

Which of the following is not a resource as the term is used by economists?

money.
land.
buildings.
labour.

Capital, as economists use the term,

is the money the firm spends to hire resources.
is money the firm raises from selling stock.
refers to the process by which resources are transformed into useful forms.
refers to things that have already been produced that are in turn used to produce other goods and services.

Opportunity cost, most broadly define, is

the additional cost of producing an additional unit of output.
what we forgo, or give up, when we make a choice or a decision.
a cost that cannot be avoided, regardless of what is done in the future.
the additional cost of buying an additional unit of a product.

A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a

demand curve.

supply curve
production possibility frontier.
circular-flow diagram.

Periods of “less than full employment” of resources correspond to

points on the ppf.
points outside the ppf.
either points inside or outside the ppf.
points inside the ppf.

What lies is at the heart of the allocation of goods and services in a free-market economy?

Concerns of equity or equal distribution among individuals.
The order or command of the ruling government or dictator.
The wishes of consumers in the market.
The price mechanism.

The phrase 'ceteris paribus' is best expressed as

'all else equal.'
'everything affects everything else.'
'scarcity is a fact of life.'
'there is no such thing as a free lunch.'

Laboratory (or controlled) experiments cannot be performed in economics because:

of resource scarcity.
economics is a natural science.
of the difficulty of distinguishing between normative and positive statements.
economics is a social science.

Positive statements are:

value judgments
verifiable or testable
statements in the affirmative
good statements

The former Soviet Union was an example of:

a **planned economy**
free-market/capitalism
dictatorship
a mixed economy

Rational choice or rational decision-making involves

comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
weighing up total costs and total benefits associated with a decision
weighing up marginal costs and marginal benefits associated with a decision
all of the above.

The PPF can be used to illustrate:

the principle of opportunity costs and increasing opportunity costs
the distinction between micro and macroeconomics
efficient, infeasible and inefficient production combinations
all of the above

If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on

how much of each input to use.
how much to spend on advertising.
what price to charge.
the design of the product.

Market power is

a firm's ability to charge any price it likes.
a firm's ability to raise price without losing all demand for its product.
a firm's ability to sell any amount of output it desires at the market-determined price.
a firm's ability to monopolise a market completely.

When _____ substitutes exist, a monopolist has _____ power to raise price.

more; more
fewer; less

no; infinite
more; less

If a firm has some degree of market power, then output price

becomes a decision variable for the firm.
is determined by the actions of other firms in the industry.
no longer influences the amount demanded of the firm's product.
is guaranteed to be above a firm's average cost.

Relative to a competitively organised industry, a monopoly

produces less output, charges lower prices and earns economic profits.
produces more output, charges higher prices and earns economic profits.
produces less output, charges higher prices and earns economic profits.
produces less output, charges lower prices and earns only a normal profit.

The cosmetics industry is not considered by economists to be a good example of perfect competition because

firms spend a large amount of money on advertising.
profit margins are very high for both producers and retailers.
there are a very large number of firms in the industry.
there are many government health controls on cosmetic products.

If firms can neither enter nor leave an industry, the relevant time period is the

long run.
immediate run.
intermediate run.
short run.

In the long run

there are no fixed factors of production.
all firms must make economic profits.
a firm can vary all inputs, but it cannot change the mix of inputs it uses.
a firm can shut down, but it cannot exit the industry.

A normal rate of profit

is the rate of return on investments over the interest rate on risk-free government bonds.
is the rate that is just sufficient to keep owners or investors satisfied.
Means zero return for owners or investors.
is the difference between total revenue and total costs.

If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then

total costs exceed normal profit.
the firm is earning an economic profit.
normal profit is zero.
total costs exceed total revenue.

Economic profits are

the difference between total revenue and total costs.
anything greater than the normal opportunity cost of investing.
a rate of profit that is just sufficient to keep owners and investors satisfied.
the opportunity costs of all inputs.

The slope of the marginal revenue curve is

the same as the slope of the demand curve.
half as steep as the demand curve.
twice as steep as the demand curve.
always equal to one.

In a monopoly, marginal revenue is

less than price at low levels of output and greater than price at high levels of output.
always greater than price.
lower than price for all units other than the first.
always equal to price.

Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has

maximised the difference between marginal revenue and marginal cost.
maximised its total revenue.
equated marginal revenue and marginal cost.

set price equal to its average cost.

An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called

an economies of scale monopoly.
a natural monopoly.
a government franchise monopoly.
a fixed cost monopoly.

How can a government regulate a monopoly firm making supernormal profits so that a "socially optimal" outcome obtains:

set the firm's price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.
set the firm's price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.
set the firm's price (and quantity) corresponding to the point where the MR curve intersects the AC curve and AC>MR after that point.
set the firm's price (and quantity) corresponding to the point where the AR curve intersects the MC curve and MC>AR after that point.

Monopolistic competition differs from perfect competition primarily because

in perfect competition, firms can differentiate their products.
in monopolistic competition, firms can differentiate their products.
in monopolistic competition, there are relatively few firms.
in perfect competition, there are no barriers to entry.

In monopolistic competition, firms achieve some degree of market power

by producing differentiated products.
because of barriers to entry into the industry.
because of barriers to exit from the industry.
by virtue of size alone.

A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover

advertising costs.
fixed costs.

marginal costs.
variable costs.

A firm in a monopolistically competitive industry

must lower price to sell more output.
sells a fixed amount of output regardless of price.
can sell an infinite amount of output at the market-determined price.
must raise price to sell more output.

The "long-run" equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures

firms will only earn a normal profit.
the efficient output level will be produced in the long run.
firms will be producing at minimum average cost.
firms realise all economies of scale.

A form of industry structure characterised by a few firms each large enough to influence market price is

monopolistic competition.
monopoly.
perfect competition.
oligopoly.

When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is

monopolistically competitive.
oligopolistic.
perfectly competitive.
indeterminate from this information.

An industry that has a relatively small number of firms that dominate the market is called

a natural monopoly.
a colluding industry.
a merged industry.

a concentrated industry.

Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will _____ and the total output produced will _____.

increase; decrease
increase; increase
decrease; decrease
decrease; increase

A group of firms that gets together to make price and output decisions is called

a non-collusive oligopoly.
price leadership.
a cartel.
a concentrated industry.

In which of the following circumstances would a cartel be most likely to work?

The coffee market, where the product is standardised and there are a large number of coffee growers.
The automobile industry, where there are few producers but there is great product differentiation.
The market for copper, where there are very few producers and the product is standardised.
The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.

A collusive oligopoly (with a dominant price leader) will produce a level of output

that would prevail under perfect competition.
between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.
between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.
equal to what a monopolist would choose in the same industry.

The kinked demand curve model of oligopoly assumes that the price elasticity of demand

in response to a price increase is more than the elasticity of demand in response to a price decrease.
is constant regardless of whether price increases or decreases.
is infinite if price increases and zero if price decreases.
in response to a price increase is less than the elasticity of demand in response to a price decrease.

Price discrimination involves

firms selling different products at different prices to different consumers.
firms selling the same product at different prices to different consumers.
consumers discriminating between different sellers on the basis of the different prices they quote for different products.
consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

Price discrimination often favours public interest because it

allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.
opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.
allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.
all of the above

Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:

Strategic interaction
Prisoner's dilemma
Price leadership
None of the above

Given the following table, what would Firm A, which is a firm operating in a duopoly (along with firm B) do, if it were following a maximin strategy?

(p stands for profit or payoff)		**STRATEGY FOR FIRM A**	
		Not lower price	Lower price
STRATEGY	Not lower price	p_A = Rs 400m	p_A = Rs 300m

FOR FIRM B	Lower price	p_A = Rs 100m	p_A = Rs 200m

Lower its price
Not lower its price
We do not have information on p_B so we cannot answer the question
None of the abov

Which of the following would NOT constitute a pure public good?

National defense.
A new national holiday.
Free health service.
National environmental protection.

One of the characteristics of a public good, X, is that it is "non-rival". It means:

It is not possible to exclude anyone from using (or benefiting from) X.
There is no substitute for X.
One person's use of X does not affect another person's ability to use (or benefit from) X.
None of the above.

Why might advertising exceed its socially optimal level?

Because the marginal social costs of advertising are less than the marginal private costs.
Because private firms do not or cannot incorporate marginal external costs when deciding how much to advertise.
The marginal external benefit to advertising is not taken into account by firms.
None of the above**.**

If $MSB_X > MPB_X$, what can the government do to align the market outcome with the social optimum:
Impose a consumption tax.
Impose a production tax.
Provide a consumption subsidy.
Provide a production subsidy

If the VMP for labour > the MRP for labour, and there is no government intervention, you can conclude that the underlying market structure is:

a monopoly.
perfect competition.
not perfect competition.
none of the above.

A backward bending labour supply curve (roughly similar in shape to an inverted C) obtains when the income effect of a wage rise (beyond a certain wage level) dominates the substitution effect. If it was also the case that the income effect of a wage reduction (below a certain wage level) dominated the substitution effect, what would the complete labour supply curve roughly look like in "wage-hours worked" space?

a 3.
an inverted 3.
an S.
an inverted S.

A firm is considering the project of buying an ice-cream producing machine costing Rs.1,000,000 that will serve for 10 years and then have a scrap value of Rs. 110,000 at the end of 10 years. If the present value of the net ice-cream sales revenues that the machine will generate is Rs.900,000, then, assuming a 10% annual discount rate:

the firm should not buy the machine because the NPV associated with the overall project is negative.
the firm should be indifferent between buying and not buying because the NPV of the overall project is zero.
The firm should buy the machine because the NPV of the overall project is positive.
None of the above.

If the quarterly rent from a house is Rs.5,000, the annual interest rate is fixed at 5%, and housing market conditions are stable, what would you expect the market price of the house to be?

Rs.100,000
Rs.200,000
Rs.400,000
Rs.800,000

There are many differences between labour and land as factors of production, for e.g.:

Labour cannot be purchased like land, it can only be rented.
There is no obvious reason why landowners will reduce the supply of land when the rental price of land goes up.
The decision to hire labour does not directly depend on the interest rate.
All of the above.

Information products are unique in that the marginal cost of _____ the product is virtually zero.

producing
distributing
accessing
all of the above

Marginal utility measures:

The slope of the indifference curve.
The additional satisfaction from consuming one more unit of a good.
The slope of the budget line.
The marginal rate of substitution.

Which of the following best expresses the law of diminishing marginal utility?

The more a person consumes of a product, the smaller becomes the utility which he receives from its consumption.
The more a person consumes of a product, the smaller becomes the additional utility which she receives as a result of consuming an additional unit of the product.
The less a person consumes of a product, the smaller becomes the utility which she receives from its consumption.
The less a person consumes of a product, the smaller becomes the additional utility which he receives as a result of consuming an additional unit of the product.

A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A budget line.
An isoquant.
An indifference curve.
A demand curve.

The marginal rate of substitution:

May rise or fall, depending on the slope of the budget line.
Rises as you move downward along an indifference curve.
Falls as you move downward along an indifference curve.
Remains the same along a budget line.

Which of the following is a characteristic of the indifference curves?

They are concave to the origin.
They are convex to the origin.
Curves closer to the origin have the highest level of total utility.
Curves closer to the origin have the highest level of marginal utility.

In the diagram given below, the budget line is best represented by the line:

AB
AD
FG
DG

The endpoints (horizontal and vertical intercepts) of the budget line:

Measure its slope.
Measure the rate at which one good can be substituted for another.
Measure the rate at which a consumer is willing to trade one good for another.
Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

If prices and income in a two-good society double, what will happen to the budget line?

The intercepts of the budget line will increase.
The intercepts of the budget line will decrease.
The slope of the budget line may either increase or decrease.
There will be no effect on the budget line.

If Px = Py, then when the consumer maximizes utility,

X must equal Y.
MU(X) must equal MU(Y).
MU(X) may equal MU(Y), but it is not necessarily so.

X and Y must be substitutes.

The difference between what a consumer is willing to pay for a unit of a good and what must be paid when actually buying it is called:

Producer surplus.
Consumer surplus.
Cost-benefit analysis.
Net utility.

Which of following is a key assumption of a perfectly competitive market?

Firms can influence market price.
Commodities have few sellers.
It is difficult for new sellers to enter the market.
Each seller has a very small share of the market.

A firm maximizes profit by operating at the level of output where:

Average revenue equals average cost.
Average revenue equals average variable cost.
Total costs are minimized.
Marginal revenue equals marginal cost.

The demand curve facing a perfectly competitive firm is:

Downward-sloping and less flat than the market demand curve.
Downward-sloping and more flat than the market demand curve.
Perfectly horizontal.
Perfectly vertical.

The monopolist has no supply curve because:

The quantity supplied at any particular price depends on the monopolist's demand curve.
The monopolist's marginal cost curve changes considerably over time.
The relationship between price and quantity depends on both marginal cost and average cost.
There is a single seller in the market.

A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:

First-degree price discrimination.
Second-degree price discrimination.
Third-degree price discrimination.
Pricing at each consumer's reservation price.

For which of the following market structures is it assumed that there are barriers to entry?

Perfect competition
Monopolistic competition
Monopoly
All of the above

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

Purely competitive.
A monopoly.
Monopolistically competitive.
Oligopolistic.

Welfare economics is a branch of economics dealing with:

Social issues.
Normative issues.
Political issues.
None of the given options.

_____ are goods that people must get a flavor of before they can consider buying them.

Experience goods.
Giffen goods.
Normal goods.
None of the given options.

Which of the following does not refer to macroeconomics?

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

The slope of an indifference curve reveals:

That preferences are complete.
The marginal rate of substitution of one good for another good.
The ratio of market prices.
That preferences are transitive.

Alvin's preferences for good X and good Y are shown in the diagram below. Based on Figure it can be inferred that:

Alvin does not consider good X as "good."
Alvin will never purchase any of good Y.
Alvin regards good X and good Y as perfect substitutes.
Alvin regards good X and good Y as perfect complements.

An increase in income, holding prices constant, can be represented as:

A change in the slope of the budget line.
A parallel outward shift in the budget line.
An outward shift in the budget line with its slope becoming flatter.
A parallel inward shift in the budget line.

If prices and income in a two-good society double, what will happen to the budget line?

The intercepts of the budget line will increase.
The intercepts of the budget line will decrease.
The slope of the budget line may either increase or decrease.
There will be no effect on the budget line.

An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?

MRSxy is at a maximum.
Px/Py = money income.

MRSxy = money income.
MRSxy = Px/Py.

Which of the following is true regarding income along a price consumption curve?

Income is increasing.
Income is decreasing.
Income is constant.
The level of income depends on the level of utility.

An individual with a constant marginal utility of income will be

Risk averse.
Risk neutral.
Risk loving.
Insufficient information for a decision.

A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:

An isoquant.
A production possibility curve.
A production function.
An isocost function.

The short run is:

Less than a year.
Three years.
However long it takes to produce the planned output.
A time period in which at least one input is fixed.

The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:

Marginal rate of substitution.
Marginal rate of technical substitution.
Slope of the isocost curve.
Average product of the input.

If, in a fully employed, closed economy, the supply of money and the velocity of circulation of money both increase, then in the short-run.

Unemployment of factors will result
Real national output will expand
The volume of transactions will increase
The average level of prices will rise

An increase in the rate of inflation which is not accompanied by any change in the volume of consumer goods sold will automatically increase the:

Revenue from Value Added Tax
Level of company profits
Level of unemployment
Average level of wages

The increase in the Public Sector Borrowing Requirement (PSBR) to almost £50 billion this year will automatically lead to:

A higher rate of inflation
A fall in the rate of unemployment
An increase in the National Debt
A deterioration in the Balance of Payments

The investment demand curve shows the relationship between the levels of:

Investment and Consumption
Consumption and Interest Rate
Investment and Interest Rate
None

According to Classical models, the level of employment is determined primarily by:

The level of aggregate demand for goods and services.
Prices and wages.
Government taxation.
Government spending.

Which of the following is not an important variable in growth accounting calculations?

Productivity growth
Money supply growth
Labor growth
Capital growth

The per-worker production function relates:

Output per worker to capital per worker.
Output per worker to production per worker.
Output per worker to factors of production per worker.
Production per worker to the size of the work force.

In a steady-state economy:

Net investment equals depreciation rate.
Per capita capital stock grows at the rate of labour growth.
Per capita capital stock remains constant.
Net investment equals the consumption.

The war in Iraq sent oil prices spiraling upwards, resulting in an increase in the overall price level. This is an example of which type of inflation?

Cost-pull
Cost-push
Demand-pull
Demand-push

The IMF is an agency charged with providing:

Technical assistance to stock market and financial market problems.
Loans for post-World War II reconstruction.
Short‑term credit for international balance of payments deficits.
Bonds denominated in U.S. dollars as a loan to LDCs.

In a portfolio investment:

Investors are directly involved in managing the operations.
As in direct investment, investors export goods and services abroad.
Investors transfer the technology to local investors.
Investors have no control over operations.

Inflation:

Reduces both the purchasing power of the dollar and one's real income
reduces the purchasing power of the dollar and increases one's real income
Reduces the purchasing power of the dollar but may have no impact on one's real income
Increases the purchasing power of the dollar and reduces one's real income

One of the tenets of the classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur:

Slowly.
Quickly.
Very infrequently.
Instantly.

Those that 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.
Both monetary and fiscal policy will have an effect on output and employment.
Fiscal, but not monetary policy will have an effect on output and employment.
Neither monetary nor fiscal policy will have an effect on output and employment.

Potential GDP is the level of aggregate output:

That can be produced if structural unemployment is zero.
That can be produced at a zero unemployment rate.
That can be sustained in the long run, if the inflation rate is zero.
That can be sustained in the long run without inflation.

Which school of economic thought suggested that one possible cause of inflation was a 'push' from the cost side?

New classical economists.
Monetarists.
Marxists.
Keynesians.

An unspoken agreement between workers and firms that the firm will not cut wages is known as:

An explicit contract.
An implicit or social contract.
Employment-at-will.
A relative-wage contract.

To offset the downswing in the business cycle, the government announces a major increase in public expenditure.

Technological Unemployment
Demand Deficient Unemployment
Real Wage Unemployment
Regional Unemployment

The government puts pressure on trade unions to make pay claims which are below the increase in productivity over the past year.

Frictional Unemployment
Technological Unemployment
Structural Unemployment
Real Wage Unemployment

In which case is total expenditure in an economy not equal to total income?

If total saving is larger than total investment
If net exports are not zero
If inventory investment is negative
None of the above--they are always equal

An expansionary fiscal policy can:

Raise the national debt.
Decrease the national debt.
Have no effect on national debt.
None of above.

Which is high powered money?

M1
M2
Mo

None

There are _____major instruments of monetary policy:

Three
Four
Five
None

The rate at which central bank lends to commercial banks is known as:

Reserve rate.
Discount rate.
Open market operation.
None.

Identify the three motives of money demand:

Accumulative, speculative, precautionary
Speculative, transaction, precautionary
Precautionary special, transaction
None

If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:

1.
constantly changing.
relatively stable, but not constant
none of the above

The interest parity equation implies that there is a general tendency for:

exchange rates to be insensitive to the differential rates of interest between countries.
the currencies of relatively low-interest countries to appreciate.
the currencies of relatively high-interest countries to appreciate.
the currencies of relatively low-interest countries to depreciate.

Which of the following is (are) correct statement(s) about the current account deficit?

A current account deficit is bad, if it is being caused by excessive consumer spending
A current account deficit is bad, if it is fuelled by high fiscal deficits
A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings
All of the above

The J-curve effect refers to the observation that

GDP usually decreases before it increases after a currency depreciation.
GDP usually decreases before it increases after a currency appreciation.
the trade balance usually gets worse before it improves after a currency appreciation.
the trade balance usually gets worse before it improves after a currency depreciation.

If Japan exports more direct investment capital abroad than expected, then the yen will tend to

appreciate.
fluctuate more than if exports were lower.
depreciate.
not be affected.

Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, ceteris paribus, what will happen by the end of today to the Rs./dollar exchange rate? It will:

Rise by more than 10%.
Rise by exactly 10%.
Fall by less than 10%.
Remain constant.

According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?

an increase in the size of the labour force.
an increase in the productivity of capital.
a move to more capital intensive production methods
discovery of a major mineral resource in the country

When referring to economic growth, we normally refer to:

growth in actual real per capita output
growth in potential real per capita output
growth in actual nominal per capita output
growth in potential real per capita output

A variable whose value is determined by the model of which it is a part is termed _____.

endogenous
exogenous
independent
constant

An example of capital deepening, given an increasing L, would be:

K increases so as to maintain a constant K/L
K increases so much that K/L increases
K remains constant so that L/K increases
K falls, so as to reduce K/L

The neo-classical growth model says that:

poor countries should catch-up (or converge to) with richer countries
higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate
the steady state growth rate of real output depends on the sum of the (exogenous) growth rates in population and technical progress.
All of the above.

The length of a business cycle would be measured from

peak to trough.
trough to peak.
peak to peak.
the slump to the expansion.

If the economy is in the expansionary phase of the business cycle, aggregate demand is likely to be _____ , unemployment is likely to be _____ , inflation is likely to be _____ , and the current account of the balance of payments is likely to be moving towards _____.

rising; falling; rising; deficit
static; low; rising; deficit
falling; falling; falling; surplus
falling; rising; falling; surplus

If the economy is at the peak of the business cycle, aggregate demand is likely to be _____ , unemployment is likely to be _____ , inflation is likely to be _____ , and the current account of the balance of payments is likely to be moving towards _____.

rising; falling; rising; deficit
static; low; rising; deficit
falling; falling; falling; surplus
falling; rising; falling; surplus

If the economy is approaching the trough phase of the business cycle, aggregate demand is likely to be _____ , unemployment is likely to be _____ , inflation is likely to be _____, and the current account of the balance of payments is likely to be moving towards _____.

rising; falling; rising; deficit
static; low; rising; deficit
falling; falling; falling; surplus
falling; rising; falling; surplus

Which of the following is not true regarding the effects of growth on the balance of payments and vice versa?

Generally, growth raises incomes which will translate into higher consumption and higher imports, causing the current account of the BOPs to deteriorate.
If growth is "export-led", it will boost the current account surplus of the BOPs.
If the current account deficit reflects an underlying private sector resource deficit, it is likely to be bad for future growth.
If the current account reflects rising imports of military equipment by the government, it might not be beneficial for economic growth.

A country has high inflation and is running a current account deficit. What should it do in the context of the Salter-Swan diagram?

Reduce government spending and revalue the exchange rate

Increase government spending and devalue the exchange rate
Reduce the money supply and devalue the exchange rate
Increase government spending and revalue the exchange rate

---------- is the entire satisfaction one derives from consuming goods or services:

Total utility
Scarcity
Marginal utility
Rationing

The law of diminishing marginal utility states that:

As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit falls
As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit rises
As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit remains the same
As consumer consumes less and less units of any commodity, the utility that consumer derives from each additional unit falls

The equi marginal principle states that:

$$\frac{MUa}{Pa} = \frac{MUb}{Pb} = \frac{MUc}{Pc} = \text{----------} = \frac{MUn}{Pn}$$

$$\frac{MUa}{Pa} > \frac{MUb}{Pb} > \frac{MUc}{Pc} > \text{----------} > \frac{MUn}{Pn}$$

$$\frac{MUa}{Pa} < \frac{MUb}{Pb} < \frac{MUc}{Pc} < \text{----------} < \frac{MUn}{Pn}$$

None of the given options

Marginal utility measures:

The slope of the indifference curve
The additional satisfaction from consuming one more unit of a good
The slope of the budget line
The marginal rate of substitution

---------- is the difference between willingness to pay and what the consumer actually has to pay:

Total Utility
Consumer surplus
Producer surplus
Total product

---------- is the ratio of the probability of success to the probability of failure:

Input output ratio
Odds ratio
Price earning ratio
Price sales ratio

---------- operate under the principle of law of large numbers:

Banks
Insurance companies
Government sponsored enterprises
None of the given options

The optimum consumption point for the consumer is a point where:

The slopes of the indifference curve and budget line are equal
The slopes of the indifference curve and total product are equal
The slopes of the total utility curve and budget line are equal
The slopes of the total product curve and total utility curve are equal

A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A budget line
An isoquant
An indifference curve
A demand curve

The slope of an indifference curve reveals that:

The preferences are complete
The marginal rate of substitution of one good for another good
The ratio of market prices
That preferences are transitive

The law of diminishing returns applies to

The short run only
The long run only
Both the short and the long run
Neither the short nor the long run

In the long run:

All inputs are fixed
All inputs are variable
At least one input is variable and one input is fixed
At most one input is variable and one input is fixed

According to the law of diminishing returns

The total product of an input will eventually be negative
The total product of an input will eventually decline
The marginal product of an input will eventually be negative
The marginal product of an input will eventually decline

The slope of the total product curve is the

Average product
Slope of a line from the origin to the point
Marginal product
Marginal rate of technical substitution

The short run is

Less than a year
Three years
However long it takes to produce the planned output
A time period in which at least one input is fixed

The marginal product of an input is

Total product divided by the amount of the input used to produce this amount of output
The addition to total output that adds nothing to profit
The addition to total output due to the addition of one unit of all other inputs
The addition to total output due to the addition of the last unit of an input, holding all other inputs constant

Average product is defined as:

Total product divided by the total cost
Total product divided by marginal product
Total product divided by the variable input
Marginal product divided by the variable input

Marginal product crosses the horizontal axis (is equal to zero) at the point where:

Average product is maximized
Total product is maximized
Diminishing returns set in
Output per worker reaches a maximum

The law of diminishing returns refers to diminishing

Total returns
Marginal returns
Average returns
All of the given options

The law of diminishing returns assumes that

There is at least one fixed input
All inputs are changed by the same percentage
Additional inputs are added in smaller and smaller increments
All inputs are held constant

Since TR= P×Q, suppose a perfectly competitive firm increases its production from 10 units to 11 units. If the market price is $20 per unit, total revenue for 11 units is:

$20
$200
$210
$220

The profit-maximizing level of output for a perfectly competitive firm occurs where:

Marginal revenue equals marginal cost
Total revenue equals total cost
Average revenue equals average total cost
Average revenue equals average variable cost

A downward-sloping demand curve exists for:

A monopoly, but not for a perfectly competitive firm
A perfectly competitive firm, but not for a monopoly
Both a monopoly and a perfectly competitive firm
Neither a monopoly nor a perfectly competitive firm

Average revenue for a monopolist is:

Greater than price
Less than price
Less than marginal revenue
Greater than marginal revenue

Food chains are operating in Pakistan like Mc Donald, KFC and Pizza Hut etc. These food chains sell their products in different countries at different prices. This is an example of:

First-degree price discrimination
Second-degree price discrimination
Third-degree price discrimination
Monopolistic competition

You go to the market to purchase mangoes. Suppose 1 KG of mangoes = Rs. 45. If you purchase 1 KG of mangoes, seller will not discount the rate. But if you purchase mangoes in bulk amount then he will sell you at lower price. This is an example of:

First-degree price discrimination
Second-degree price discrimination
Third-degree price discrimination
Monopolistic competition

Which of the following is true for both perfect and monopolistic competition?

Firms produce a differentiated product
Firms face a downward sloping demand curve
Firms produce a homogeneous product
There is freedom of entry and exit in the long run

A feature of monopolistic competition that makes it similar to monopoly is the:

Inability to influence the price
Downward sloping demand curve
Ease of entry into the industry
Horizontal marginal revenue curve

Monopolistic competition is a market structure characterized by:

A single buyer and several sellers
A product with no close substitutes
Barriers to entry and exit
Differentiated products

A feature of oligopoly that makes it similar to monopoly is the:

Inability to influence the price
Downward-sloping demand curve
Freedom of entry into the industry
Horizontal marginal revenue curve

The market structure in which each firm is independent in decisions is known as:

Monopolistic competition
Oligopoly

Perfect competition
Monopoly

In the kinked demand curve model, if one firm reduces its price:

Other firms will also reduce their price
Other firms will compete on a non-price basis
Other firms will raise their price
All of the given options

The origins of classical economics can be traced to the work of:

Karl Marx
Milton Friedman
John Maynard Keynes
Adam Smith

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

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

Full employment
Flexible wages and prices
Equality between saving and investment
High rates of unemployment

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

Monetarism
Rational expectations
Keynesian economics
Neoclassical economics

Keynesian economics was largely developed to address the economic

problems of the:

Stagflation of the 1970s
Great Depression of the 1930s
English industrial revolution of the late 1700s
American industrial revolution of the late 1800s

Keynesian economics was the predominant economic theory:

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

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

Aggregate demand curve is downward sloping due to the:

Interest rate effect
Wealth effect
International purchasing power effect
All of the given option

A primary implication of Keynesian economics is:

The best government is the least government
Flexible wages and prices ensure full employment
Self-correction is the best way to eliminate unemployment
Economic instability is best corrected through the interference of government

Demand-management policies are designed to shift the:

Aggregate Demand curve
Aggregate Supply curve
Philips curve
Production possibilities curve

Aggregate supply is the relation between real production and:

Scarcity
The price level
Aggregate expenditures
Foreign trade

The long-run aggregate supply curve is:

Downward sloping
Upward sloping
Vertical at the full-employment level
Horizontal at the full-employment level

A leftward shift of the SRAS curve is a (n):

Increase in long-run aggregate supply
Decrease in long-run aggregate supply
Increase in short-run aggregate supply
Decrease in short-run aggregate supply

The price elasticity of demand is defined as the absolute value of the ratio of:

Price over quantity demanded.
Change in price over change in quantity demanded.
Percentage change in price over the percentage change in quantity demanded.
Percentage change in quantity demanded over the percentage change in price.

If a good is a luxury, its income elasticity of demand is:

positive and less than 1
negative but greater than -1
positive and greater than 1
zero

A resource is something that:

Is used to produce goods and services.
Is provided by nature, not made by society.

Exists in unlimited quantities.
Must be produced by a firm.

If the cross-price elasticity between home personal computers and video game units for TV is positive, one can conclude that

These products are substitutes for one another.
These products complement one another.
These products are over-priced.
Consumers are irrational.

As one moves along a convex isoquant, which of the following does not change?

The marginal rate of technical substitution.
The capital-labor ratio.
The marginal product of labor relative to the marginal product of capital.
The level output produced.

Of the following goods, the one where the law of diminishing marginal utility is least likely to apply is:

Water.
Cigarettes.
Toothpaste.
Rap music.

The optimal purchasing rule states that total utility is maximized when a consumer:

Consumes as much as possible of all good.
Consumes the same quantities of all goods.
Completely uses up their income.
Consumes to the point where the marginal utility per dollar spent on all goods is the same.

Which of the following pairs come closest to being complementary goods?

Apples and oranges.
Cameras and films.
A free hotel room and a free meal.
Cream and milk.

A Giffen good:

Is a good that people buy more of as their incomes fall.
Is a good which people buy more of as its price increases.
Is a good on which people spend a small portion of their income.
Has a vertical demand curve.

When an industry expands its costs of production will:

Increase.
Decrease.
stay the same.
none of the above.

Disposable Income is obtained by subtracting _____taxes from personal income:

Indirect Taxes
Direct Taxes
Subsidies
None

Per capita income is obtained by dividing National Income by:

Total labor Force in the Country
Unemployed Youth in the Country
Total population of that country.
None

The investment demand curve shows the relationship between the levels of:

Investment and Consumption
Consumption and Interest Rate
Investment and Interest Rate
None

The situation in which the imports are greater than exports is termed as:

Trade Surplus
Trade Deficit

Budget Surplus
None

Fiscal policy is the government programme with respect to it's:

Steel Mill Privatization
Unemployment Reduction
Expenditure and Tax revenue
None

Imports for any economy are considered as:

Injections
Leakages
Brain Drain
None

The accelerator is a related concept which formalizes the investment response to:

Consumption
Interest rate
Output
None

According to Keynes macroeconomic equilibrium is attained when:

Prime Minister is PhD in Macroeconomics
Aggregate Demand Equals Aggregate Supply
Inflation Exists in Economy.
None

There are _____methods of measuring GDP:

Four
Three
Five
None

Intermediate goods are meant for:

Direct use by the consumers
further processing
The term do not exist
None

By how much has real GDP grown from 2001 to 2002?

-10%
12.5%
20%
0%

By how much has per capita nominal GNP changed from 2001 to 2002?

-10%
12.5%
20%
0%

Based on the above information, we can say that:

Poverty has fallen in the country
Per capita real GDP is falling
Income inequality has worsened
Real growth in the informal sector is 0%

In the circular flow of income, Keynesian equilibrium obtains when

All the individual sectors are in equilibrium: S=I, T=G, M=X
The aggregate injections equal aggregate withdrawals S+T+M = I+G+X
There is no inflation or unemployment
The interest rate and exchange rate are at their market clearing levels

Under conditions of Keynesian equilibrium:

aggregate demand equals aggregate supply
aggregate demand equals national income
both A and B
none of the above

Which of the following is a determinant of consumption

expectations about future prices
level of indebtedness of consumers
the price level
all of the above

Which is the most volatile component of aggregate demand

Net exports
consumption
investment
government spending

Which of the following is not an obvious or direct determinant of a country's imports

real exchange rate
income
tariff rates
interest rate

When consumption is 650, income is 750; when consumption is 620, income is 700. Assuming there is no government, I=100, net exports are 10, what is the level of equilibrium income?

500
625
775
850

Which of the following is not true?

Starting from no growth, a positive output growth rate would be associated with even higher rates of investment (the accelerator effect)
Higher investment causes a multiplied increase in income
Such increases in income would continue to induce higher investment, which in turn would continue to cause multiplied increases in output.
All of the above.

In the equation C = a + bY, which describes the aggregate consumption function, 'a' stands for

the amount of consumption when income is zero.
the marginal propensity to consume.
the amount of consumption when income is Maximum.
the average consumption level.

Total consumption divided by total income gives us:

the average propensity to consume.
the marginal propensity to save.
the marginal propensity of expenditure.
the marginal propensity to consume.

Disposable income is the part of households' income left after the deduction of

pension contributions.
income tax and social security payments.
income tax.
savings.

As the MPS increases, the multiplier will

increase.
either increase or decrease depending on the size of the change in investment.
remain constant.
decrease.

In macroeconomics, equilibrium is defined as that point at which

planned aggregate expenditure equals aggregate output.
planned aggregate expenditure equals consumption.
aggregate output equals consumption minus investment.
saving equals consumption.

The ratio of the change in the equilibrium level of output to a change in some autonomous component of aggregate demand is the

elasticity coefficient.
multiplier.

marginal propensity of the autonomous variable.
automatic stabiliser.

Assuming there are no taxes (and no foreign sector), if the MPC is .8, the multiplier is

2.5.
8.
5.
2.

Assuming the net income tax rate is 25% (and there is no foreign sector), if the MPC is 0.8, the multiplier is

2.5.
8.
5.
2.

Assuming there is no foreign sector, if the multiplier is 3, and the net income tax rate is 20%, the MPC is

3/4
4/5
5/6
6/7

Assume there is no government or foreign sector. If the MPC is .75, a Rs.20 billion decrease in planned investment will cause aggregate output to decrease by

Rs. 80 billion.
Rs. 20 billion.
Rs. 26.67 billion.
Rs. 15 billion.

According to the 'paradox of thrift,' increased efforts to save will cause

an increase in income and an increase in overall saving.
a decrease in income and an overall decrease in saving.
a decrease in income but an increase in saving.
an increase in income but no overall change in saving.

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

an inflationary gap.
equilibrium.
a deflationary gap.
hyperinflation.

The accelerator theory of investment says that induced investment is determined by

the rate of change of national income.
expectations.
the level of national income.
the level of aggregate demand.

The diagram that shows the money received and paid out by each sector of the economy is the

income-price diagram.
income-expenditures diagram.
circular flow diagram.
aggregate demand-aggregate supply diagram.

If both the no. of unemployed people and the size of the labour force increase by 10,000, then

the unemployment rate will remain the same.
the unemployment rate will increase.
the unemployment rate will decrease.
we cannot tell.

Which of the following could be a reason for the problem of "lack of jobs" being overestimated:

the existence of disguised unemployment
people are underemployment
people holding only one job (as opposed to multiple jobs)
the existence of child labour

Which of the following is not a cost of voluntary unemployment?

potential output of the economy is greater than actual output
government loses tax revenue
firms lose (potential) revenues due to operating below capacity
mental stress undergone by the unemployed persons

"Because higher wages are less likely to induce people who are structurally or physically unable to participate on the labour force. On the other hand people already on the labour force are more likely to respond to higher wages by accepting jobs."
The above statement is an answer to which question?

Why is the AJ curve more elastic than the LF curve
Why is the LF curve not totally vertical
Why is the AJ curve not completely vertical
Why is it difficult to completely remove the horizontal distance between the AJ and LF curves

Which of the following would constitute sound government policy if you subscribed to the Monetarist view on unemployment?

increase aggregate demand through monetary or fiscal policy
reduce the obstacles to downward wage rigidity (like unions, unemployment benefits, minimum wage legislations etc.)
Reduce the marginal income tax rate (to increase the incentive to work)
All of the the above

The persistence of a phenomenon, such as unemployment, even when its causes have been removed is called

The paradox of thrift.
hysteresis.
structural unemployment.
ceteris paribus.

Cyclical unemployment is the

portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.

portion of unemployment that is due to seasonal factors.
unemployment that occurs during recessions and depressions.

The natural rate of unemployment is generally thought of as the

ratio of the frictional unemployment rate to the cyclical unemployment rate.
sum of frictional unemployment and cyclical unemployment.
sum of frictional unemployment and structural unemployment.
sum of structural unemployment and cyclical unemployment.

One of the tenets of the Classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur

slowly.
instantly.
very infrequently.
very quickly.

According to Keynesian economists, those who are not working

have given up looking for a job, but would accept a job at the current wage if one were offered to them.
are too productive to be hired at the current wage.
have chosen not to work at the market wage.
are unable to find a job at the current wage rate.

The index used most often to measure inflation is the

consumer price index.
wholesale price index.
student price index.
producer price index.

If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?

No. Because you would still be able to sell your goods at the higher price.
Yes. Because the cost of your input is growing faster than the revenue obtained from your output
Yes. Because both price and wage inflation are bad.
No. Because any loss to the firm will be offset by the gain to the workers.

Which of the following is not a major cost of inflation:

Resource wastage: as people spend time and money to guard against the "purchasing power erosion" effects of inflation, while firms suffer menu costs (i.e. the costs of frequently issuing "revised" price lists).
Uncertainty: firms defer investment when inflation is high and volatile as the latter complicates predicting future cashflows.
Worsened income inequality: inflation is a regressive tax on the people that does not take into account the taxpayers' "ability to pay". As such, there is a redistribution of wealth from the poor to the rich.
Money printing costs: inflation requires more currency notes to be printed and this raises the government's printing costs.

In the long run, the Phillips curve will be vertical at the natural rate of unemployment if

the long-run supply curve is horizontal at the natural rate of inflation.
the long-run aggregate demand curve is vertical at potential GDP.
the long-run aggregate demand curve is horizontal at the natural rate of inflation.
the long-run aggregate supply curve is vertical at potential GDP.

According to the monetarists, the measured unemployment rate can

be reduced below the natural rate only in the short run, and not without inflation.
be reduced below the natural rate only in the long run, and only if the price level is constant.
be reduced below the natural rate only in the short run, and only if the price level is constant.
be reduced below the natural rate only in the long run, and not without inflation.

If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?

No, because cost-push inflation is caused by an increase in the cost of only one input.
Yes, because that is exactly the definition of cost-push inflation.
No, because such a situation can also be caused by particular demand pressures in the economy.
Yes, because this is exactly what happens in stagflation.

The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause

an equal percentage change in nominal GDP.
a larger percentage change in nominal GDP.
an equal percentage change in real GDP.
a smaller percentage change in nominal GDP.

If input prices adjusted very slowly to output prices, the Phillips curve would be

downward sloping.
vertical or nearly vertical.
upward sloping.
horizontal or nearly horizontal.

If inflationary expectations increase, the short-run Phillips curve will

become vertical.
become upwarding sloping.
shift to the right.
shift to the left.

The record of a country's transactions in goods, services, and assets with the rest of the world is its _____; while the difference between a country's merchandise exports and its merchandise imports is the _____.

current account; trade balance.
capital account; balance of payments.
balance of trade; capital account.
balance of payments; balance of trade.

Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?

If the capital account is in surplus, then the current account is likely to be in deficit.
If the current account is in deficit, then the capital account is likely to be in surplus.
If the current account is in balance, the capital account is also likely to be in balance.
None of the above.

Which of the following statements is necessarily TRUE?

A country runs a current account deficit if it imports more goods and services than it exports.
The sum of the current and capital accounts must be zero.
If both the current and capital accounts are in surplus, the exchange rate must appreciate.
None of the above.

All currencies other than the domestic currency of a given country are referred to as

reserve currencies.
near monies.
foreign exchange.
hard currency.

Exchange rates that are determined by the unregulated forces of supply and demand are

floating exchange rates.
pegged exchange rates.
fixed exchange rates.
managed exchange rates.

If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because

as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.
as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.
as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.
as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.

The fall (rise) in value of one currency relative to another is

a floating (fixing) of the currency.
an appreciation (depreciation) of a currency.
a depreciation (appreciation) of a currency.
a strengthening (weakening) of a currency.

Which of the following would shift the demand curve for new textbooks to the right?

A fall in the price of paper used in publishing texts.
A fall in the price of equivalent used text books.
An increase in the number of students attending college.
A fall in the price of new text books.

Which of these measures the responsiveness of the quantity of one good demanded to an increase in the price of another good?

Price elasticity.
Income elasticity.
Cross-price elasticity.
Cross-substitution elasticity.

Assume that the current market price is below the market clearing level. We would expect:

A surplus to accumulate.
Downward pressure on the current market price.
Upward pressure on the current market price.
Lower production during the next time period.

The income elasticity of demand is the:

Absolute change in quantity demanded resulting from a one-unit increase in income.
Percent change in quantity demanded resulting from the absolute increase in income.
Percent change in quantity demanded resulting from a one percent increase in income.
Percent change in income resulting from a one percent increase in quantity demanded.

Which of the following statements about the diagram below is true?

Demand is infinitely elastic.
Demand is completely inelastic.
Demand becomes more inelastic the lower the price.
Demand becomes more elastic the lower the price.

In the long run, new firms can enter an industry and so the supply elasticity tends to be:

More elastic than in the short-run.

Less elastic than in the short‐run.
Perfectly elastic.
Perfectly inelastic.

A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A budget line.
An isoquant.
An indifference curve.
A demand curve.

The magnitude of the slope of an indifference curve is:

Called the marginal rate of substitution.
Equal to the ratio of the total utility of the goods.
Always equal to the ratio of the prices of the goods.
All of the above.

Which of the following is a positive statement?

Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
The minimum wage should not be increased, because to do so would increase unemployment.
Smoking should be restricted on all airline flights.
None of the above.

A supply curve reveals:

The quantity of output consumers are willing to purchase at each possible market price.
The difference between quantity demanded and quantity supplied at each price.
The maximum level of output an industry can produce, regardless of price.
The quantity of output that producers are willing to produce and sell at each possible market price.

A study of how increases in the minimum wage rate will affect the national unemployment rate is an example of

descriptive economics.
normative economics.

macroeconomics.
microeconomics.

Aggregate supply is the total amount

of goods and services produced in an economy.
produced by the government.
of products produced by a given industry.
of labour supplied by all households.

The total demand for goods and services in an economy is known as

aggregate demand.
national demand.
gross national product.
economy-wide demand.

Deflation is

an increase in the overall price level.
an increase in the overall level of economic activity.
a decrease in the overall level of economic activity.
a decrease in the overall price level.

A recession is

a period of declining prices.
a period during which aggregate output declines.
a period of declining unemployment.
a period of falling trade volumes.

Involuntary unemployment means that

people are not willing to work at the going wage rate.
at the going wage rate, there are people who want to work but cannot find work.
there are some people who will not work at the going wage rate.
there is excess demand in the labour market.

A cut in the income tax rate designed to encourage household consumption is an example of

expansionary demand-side policy.
contractionary demand-side policy.
expansionary supply-side policy.
contractionary supply-side policy.

A cut in the tax rate designed to reduce the cost of capital and hence encourage business investment is an example of

expansionary demand-side policy.
contractionary demand-side policy.
expansionary supply-side policy.
contractionary supply-side policy.

Macroeconomics is the branch of economics that deals with

the economy as a whole.
imperfectly competitive markets.
only the long run adjustments to equilibrium in the economy.
the functioning of individual industries and the behaviour of individual decision-making units - business firms and households.

A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called:

New-Keynesians.
Keynesians.
Monetarists.
The Classical school.

Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of

economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.
fine tuning during the 1960s.
the economy to grow at a rapid rate during the 1950s.
the Classical model to explain the prolonged existence of high unemployment during the Great Depression.

Keynes believed falling wages were not a solution to persistent unemployment because

falling wages demoralised workers.
this would reduce the purchasing power of labourers as consumers. This in turn would bleaken firms' prospects of selling more goods, hence inducing them to cut their investment (and hence labour) demand.
the unemployment was caused by frictional and structural factors.
wages would fall more than required to clear the labour market.

The practice of using fiscal and monetary policy to stabilise the economy is known as

fine tuning of demand
monetarism
laissez faire economics
supply side economics

According to Classical models, the level of employment is determined primarily by

interest rates.
the level of prices.
the level of aggregate supply in the economy
the level of aggregate demand for goods and services.

According to Keynes, the level of employment is determined by

interest rates.
the level of prices.
the level of aggregate supply in the economy
the level of aggregate demand for goods and services.

According to the Classical model, unemployment

could not persist because wages would fall to eliminate the excess supply of labour.
could persist for long periods of time because wages are not flexible.
could be eliminated only through government intervention.
could never exist.

To get the economy out of a slump, Keynes believed that the government should

increase both taxes and government spending.
increase taxes and/or decrease government spending.
cut both taxes and government spending.
decrease taxes and/or increase government spending.

Aggregate demand refers to the total demand for all domestically produced goods and services in an economy generated from

the household and government sectors.
the household sector.
all sectors except the rest of the world.
all sectors including the rest of the world.

Government policies that focus on increasing production rather than demand are called:

fiscal policies.
monetary policies.
incomes policies.
supply-side policies.

Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are

market prices.
sticky prices.
fixed prices.
regulatory prices.

The economists who emphasised wage-flexibility as a solution for unemployment were

Monetarists.
New-Keynesians.
Classical economists.
Keynesians.

According to the Classical economists, the economy

requires fine tuning to reach full employment.
should not be left to market forces.

will never be at full employment.
is self correcting.

Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain

stagflation in the late 1970s.
demand-pull inflation in the 1960s.
low growth rates in the 1950s.
the prolonged existence of high unemployment during the Great Depression.

Keynes' explanation for low firm investment during the Great Depression was

low savings, which placed a constraint on investment
high real borrowing rates, which discouraged firm borrowing
high savings, which left consumers with less money to spend on goods and serviced produced by firms
A permanent change in Europe's corporate ownership structures.

Rapid increases in the price level during periods of recession or high unemployment are known as

slump.
stagnation.
stagflation.
inflation.

The hypothesis that people know the 'true model' of the economy and that they use this model and all available information to form their expectations of the future is the

rational-expectations hypothesis.
active-expectations hypothesis.
static-expectations hypothesis.
adaptive-expectations hypothesis.

Neo-Classical theories were an attempt to explain

how unemployment could have persisted for so long during the Great Depression.
the stagflation of the 1970s.

why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.
the increase in the growth rate of real output in the 1950s.

A group of modern economists who believe that markets clear very rapidly and that expanding the money supply will always increase prices rather than employment are the

New-Keynesians.
Keynesians.
Monetarists.
The Classical school.

Say's law states that:

Supply creates its own demand.
Demand creates its own supply.
There is no such things as a free lunch
Macroeconomic policy activism is essential to ensure full-employment.

The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:

AS: fully horizontal; AD: downward sloping
AS: horizontal only till the full capacity level; AD: downward sloping
AS: vertical; AD: upward sloping
AS: horizontal; AD: vertical

A price taker is:

A firm that accepts different prices from different customers.
A consumer who accepts different prices from different firms.
A firm that cannot influence the market price.
Both (b.) and (c.).

Which of following is a key assumption of a perfectly competitive market?

Firms can influence market price.
Commodities have few sellers.
It is difficult for new sellers to enter the market.
Each seller has a very small share of the market.

A firm maximizes profit by operating at the level of output where:

Average revenue equals average cost.
Average revenue equals average variable cost.
Total costs are minimized.
Marginal revenue equals marginal cost.

The demand curve facing a perfectly competitive firm is:

Downward-sloping and less flat than the market demand curve.
Downward-sloping and more flat than the market demand curve.
Perfectly horizontal.
Perfectly vertical.

Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a _____ price and sell a _____ quantity:

Higher; larger
Lower; larger
Higher; smaller
Lower; smaller

The monopolist has no supply curve because:

The quantity supplied at any particular price depends on the monopolist's demand curve.
The monopolist's marginal cost curve changes considerably over time.
The relationship between price and quantity depends on both marginal cost and average cost.
There is a single seller in the market.

A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:

First-degree price discrimination.
Second-degree price discrimination.
Third-degree price discrimination.
Pricing at each consumer’s reservation price.

For which of the following market structures is it assumed that there are barriers to entry?

Perfect competition
Monopolistic competition
Monopoly
All of the above

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

Purely competitive.
A monopoly.
Monopolistically competitive.
Oligopolistic.

Which of the following does not refer to macroeconomics?

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

The study of economics is primarily concerned with:

Demonstrating that capitalistic economies are superior to socialistic economies.
Determining the most equitable distribution of society's output.
Keeping private businesses from losing money.
Choices which are made in seeking to use scarce resources efficiently.

Opportunity cost is:

That which we forego, or give up, when we make a choice or a decision.
A cost that cannot be avoided, regardless of what is done in the future.
The additional cost of producing an additional unit of output.
The additional cost of buying an additional unit of a product.

Periods of less than full employment correspond to:

Points outside the ppf.(production possibility frontier).

Points inside the ppf.
Points on the ppf.
Either points inside or outside the ppf.

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

A firm produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs that firm produces:

Have many complementary goods.
Have few substitutes.
Have few complementary goods.
Are normal goods.

According to law of demand, a demand curve is:

Horizontal
Vertical
Downward sloping
Directly related to law of supply

A rational decision maker will take only those actions for which the marginal benefit:

Is positive.
Is at its maximum level.
Is less than marginal cost.
Is greater than or equal to the expected marginal cost.

All of the following are determinants of supply except:

Price
Income levels
Objectives of the firm
Level of technology

Normative economics:

Deals solely with the facts
Is never studied in the colleges
Involves opinions and interpretations
Is clearly preferable to positive economics

The transformation of resources into economic goods and services is:

Technical efficiency
Input
Production
Increasing returns

Economists use the term utility to mean

the value of a product before it has been advertised.
the satisfaction a consumer obtains from a good or service.
any characteristic of a good or service which cannot be measured.
the contribution a good or service makes to social welfare.

Economists use the term marginal utility to mean

additional satisfaction gained divided by additional cost of the last unit.
additional satisfaction gained by the consumption of one more unit of a good.
total satisfaction gained when consuming a given number of units.
the process of comparing marginal units of all goods which could be purchased.

The law of diminishing marginal utility states that

total satisfaction will decrease as more units of the good are consumed.
the satisfaction derived from each additional unit of a good consumed will decrease.
total utility will become negative.
Both the first and third option.

By total consumer surplus economists mean (in P-Q space)

The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.

the area between the average revenue and marginal revenue curves.
the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).
A and C.

The equation for Rida's demand curve for bouquets of flowers is P = 40 - 2Q. If the price of a bouquet is Rs18, her consumer surplus will be

Rs198
Rs121.
Rs11.
Rs242.

The price of an ice cream cone is $1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to $1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?

The marginal utility of the fourth ice cream cone per week must be worth less than $1.25 to you.
The total utility of the four ice cream cones per week must be worth less than $5.75 (=3*$1.50 +$1.25) to you.
The total utility of the four ice cream cones per week must be less than $5.00 (3*$1.25+$1.25) to you.
None of the above.

Economists have used the idea of diminishing marginal utility to explain why

demand curves slope downwards.
demand curves become flatter at lower prices.
demand curves are inelastic.
Both the first and second option.

A consumer will buy more units of a good if the value of the good's

total utility is greater than price.
marginal utility is less than price.
marginal utility is greater than price.
total utility is less than price.

The diamond-water paradox can be explained by suggesting that the price of a product is determined by

consumer incomes.
its marginal utility.
consumer surplus.
diminishing marginal utility.

A utility-maximising consumer changes her spending on goods X and Y until

MUx = MUy
Px (MUx) = Py(MUy)
TUx/Px = TUy/Py
MUx (Py) = MUy (Px)

The MUx/MUy ratio is 10 and the Px/Py ratio is 8, so the consumer should buy

less X and more Y.
more X and more Y.
more X and less Y.
less X and less Y.

Economists define an indifference curve as the set of points

at which the consumer is in equilibrium as the consumer's income changes.
which yield the same marginal utility.
which yield the same total utility.
At which the consumer is in equilibrium as prices change.

Which of the following is a property of an indifference curve?

the marginal rate of substitution is constant as you move along an indifference curve.
marginal utility is constant as you move along an indifference curve.
it is convex to the origin.
total utility is greatest where the 45 degree line cuts the indifference curve.

The limits imposed on household choices by income, wealth, and product prices are captured by the

budget constraint.
choice set.

assumption of perfect knowledge.
preference set.

Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?

50 units of clothing and 50 units of food.
20 units of clothing and 50 units of food.
10 units of clothing and 25 units of food.
0 units of clothing and 50 units of food.

If a household's money income is doubled,

the budget constraint will shift in and parallel to the old one.
the budget constraint is not affected.
the budget constraint will swivel outward at the Y-intercept.
the budget constraint will shift out parallel to the old one.

The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is

the income-consumption curve.
the Engel curve.
the demand curve.
the income-demand curve.

The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is

the Engel curve.
the demand curve for X.
the substitution curve.
the price-consumption curve for X.

The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:

the Engel curve.
the demand curve for X.

the substitution curve.
the price-consumption curve for X.

If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a

inferior good.
Giffen good.
normal good.
superior good.

If the price (or budget) line has a slope of -2 and it cuts indifference curve ICa at points P and R (given that the slope of ICa at point P is -4 and at point R is -1), the consumer can maximize utility by:

choosing consumption bundle P
choosing consumption bundle R
moving to a higher indifference curve
we don't enough information to answer the question

Indifference curves cannot

be L shaped
be straight lines
intersect
all of the above

The main problem with marginal utility analysis is:

that it cannot solve problems involving more than two goods
its cardinal measurement of utility
its inability to explain the diamond-water paradox
all of the above

This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is < 1, and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?

She is risk averse
She is risk neutral
She is risk loving
We do not have enough information to answer the question

The concept of diminishing marginal utility of income (DMUy) helps explain:

why a marginal dollar might have higher utility for a pauper than a millionaire
why the total utility curve (in Utility-Income space) is convex
why the average consumer is risk-averse
all of the above

"Moral hazard" and "adverse selection" are problems related to asymmetric information, that arise

in ex-ante and ex-post contexts, respectively
in ex-post and ex-ante contexts, respectively
in ex-ante contexts
in ex-post contexts

Profit-maximising firms want to maximize the difference between

total revenue and total cost.
marginal revenue and marginal cost.
marginal revenue and average cost.
total revenue and marginal cost.

Which statement is FALSE?

Fixed costs do not depend on the firm's level of output.
Fixed costs are zero if the firm is producing nothing.
Fixed costs are the difference between total costs and total variable costs.
There are no fixed costs in the long run.

Which of the following is most likely to be a variable cost for a firm?

The monthly rent on office space that it leased for a year.
The franchiser's fee that a restaurant must pay to the national restaurant chain.
The interest payments made on loans.
Workers' wages.

The costs that depend on output in the short run are

total variable costs only.
both total variable costs and total costs.
total costs only.
total fixed cost only.

The short run, as economists use the phrase, is characterized by

a period where the law of diminishing returns does not hold.
at least one fixed factor of production, and firms neither leaving nor entering the industry.
all inputs being variable.
no variable inputs - that is all of the factors of production are fixed.

Diminishing marginal returns implies

increasing average fixed costs.
decreasing marginal costs.
decreasing average variable costs.
increasing marginal costs.

Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?

If AP is at a maximum, then MP is also.
If TP is declining then AP is negative.
If AP exceeds MP, then AP is falling.
If AP = MP, then total product is at a maximum.

If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is _____ and the average product of the third worker is _____.

270; 160
3.33; 10
10; 30
30; 10

Engineers for Imran Bike Company have determined that a 15% increase in "all" inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause _____ as output increases.

Long-run average costs to increase
Long-run marginal costs to increase
Long-run average costs to remain constant
Long-run average costs to decrease

Suppose Isa Khan's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be

upward sloping to the right.
U-shaped.
horizontal.
downward sloping to the right.

A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is

an isocost line.
a production function.
an isoquant.
an indifference curve.

The rate at which a firm can substitute capital for labour and hold output constant is the

law of diminishing marginal returns.
marginal rate of technical substitution.
marginal rate of substitution.
marginal rate of production.

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

budget constraint.
isoquant.
expenditure set.
isocost line.

The formula for average fixed costs is

dTFC/dq.
TFC/q.
q/TFC.
TFC - q.

The formula for AVC is

q/TVC.
dTVC/dq.
dq/dTVC.
TVC/q.

Marginal revenue is

the additional profit the firm earns when it sells an additional unit of output.
the added revenue that a firm takes in when it increases output by one additional unit.
the difference between total revenue and total costs.
the ratio of total revenue to quantity.

A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is

Rs 15,000.
Rs 25,000.
Rs 35,000.
Zero.

The amount of profit a firm makes can be shown on a diagram using

the AC and AR curves.
the MR and AR curves.
the AC and MC curves.
the MR and MC curves.

A firm’s choice of profit-maximising output can be shown on a diagram using

the AC and AR curves.
the MR and AR curves.
the AC and MC curves.
the MR and MC curves.

A firm will shut down in the short run if

total variable costs exceed total revenues.
average cost exceeds price.
total costs exceed total revenues.
it is suffering a loss.

If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on

how much of each input to use.
how much to spend on advertising.
what price to charge.
the design of the product.

Market power is

a firm's ability to charge any price it likes.
a firm's ability to raise price without losing all demand for its product.
a firm's ability to sell any amount of output it desires at the market-determined price.
a firm's ability to monopolise a market completely.

When _____ substitutes exist, a monopolist has _____ power to raise price.

more; more
fewer; less
no; infinite
more; less

If a firm has some degree of market power, then output price

becomes a decision variable for the firm.
is determined by the actions of other firms in the industry.
no longer influences the amount demanded of the firm's product.
is guaranteed to be above a firm's average cost.

Relative to a competitively organised industry, a monopoly

produces less output, charges lower prices and earns economic profits.
produces more output, charges higher prices and earns economic profits.
produces less output, charges higher prices and earns economic profits.
produces less output, charges lower prices and earns only a normal profit.

The cosmetics industry is not considered by economists to be a good example of perfect competition because

firms spend a large amount of money on advertising.
profit margins are very high for both producers and retailers.
there are a very large number of firms in the industry.
there are many government health controls on cosmetic products.

If firms can neither enter nor leave an industry, the relevant time period is the

long run.
immediate run.
intermediate run.
short run.

In the long run

there are no fixed factors of production.
all firms must make economic profits.
a firm can vary all inputs, but it cannot change the mix of inputs it uses.
a firm can shut down, but it cannot exit the industry.

A normal rate of profit

is the rate of return on investments over the interest rate on risk-free government bonds.
is the rate that is just sufficient to keep owners or investors satisfied.
Means zero return for owners or investors.
is the difference between total revenue and total costs.

If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then

total costs exceed normal profit.
the firm is earning an economic profit.
normal profit is zero.
total costs exceed total revenue.

Economic profits are

the difference between total revenue and total costs.
anything greater than the normal opportunity cost of investing.
a rate of profit that is just sufficient to keep owners and investors satisfied.
the opportunity costs of all inputs.

The slope of the marginal revenue curve is

the same as the slope of the demand curve.
half as steep as the demand curve.
twice as steep as the demand curve.
always equal to one.

In a monopoly, marginal revenue is

less than price at low levels of output and greater than price at high levels of output.
always greater than price.
lower than price for all units other than the first.
always equal to price.

Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has

maximised the difference between marginal revenue and marginal cost.
maximised its total revenue.
equated marginal revenue and marginal cost.
set price equal to its average cost.

An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called

an economies of scale monopoly.
a natural monopoly.
a government franchise monopoly.
a fixed cost monopoly.

How can a government regulate a monopoly firm making supernormal profits so that a "socially optimal" outcome obtains:

set the firm's price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.
set the firm's price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.
set the firm's price (and quantity) corresponding to the point where the MR curve intersects the AC curve and AC>MR after that point.
set the firm's price (and quantity) corresponding to the point where the AR curve intersects the MC curve and MC>AR after that point.

Monopolistic competition differs from perfect competition primarily because

in perfect competition, firms can differentiate their products.
in monopolistic competition, firms can differentiate their products.
in monopolistic competition, there are relatively few firms.
in perfect competition, there are no barriers to entry.

In monopolistic competition, firms achieve some degree of market power

by producing differentiated products.
because of barriers to entry into the industry.
because of barriers to exit from the industry.
by virtue of size alone.

A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover

advertising costs.
fixed costs.
marginal costs.
variable costs.

A firm in a monopolistically competitive industry

must lower price to sell more output.
sells a fixed amount of output regardless of price.
can sell an infinite amount of output at the market-determined price.
must raise price to sell more output.

The "long-run" equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures

firms will only earn a normal profit.
the efficient output level will be produced in the long run.
firms will be producing at minimum average cost.
firms realise all economies of scale.

A form of industry structure characterised by a few firms each large enough to influence market price is

monopolistic competition.
monopoly.
perfect competition.
oligopoly.

When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is

monopolistically competitive.
oligopolistic.
perfectly competitive.
indeterminate from this information.

An industry that has a relatively small number of firms that dominate the market is called

a natural monopoly.
a colluding industry.
a merged industry.
a concentrated industry.

Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will _____ and the total output produced will _____.

increase; decrease
increase; increase

decrease; decrease
decrease; increase

A group of firms that gets together to make price and output decisions is called

a non-collusive oligopoly.
price leadership.
a cartel.
a concentrated industry.

In which of the following circumstances would a cartel be most likely to work?

The coffee market, where the product is standardised and there are a large number of coffee growers.
The automobile industry, where there are few producers but there is great product differentiation.
The market for copper, where there are very few producers and the product is standardised.
The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.

A collusive oligopoly (with a dominant price leader) will produce a level of output

that would prevail under perfect competition.
between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.
between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.
equal to what a monopolist would choose in the same industry.

The kinked demand curve model of oligopoly assumes that the price elasticity of demand

in response to a price increase is more than the elasticity of demand in response to a price decrease.
is constant regardless of whether price increases or decreases.
is infinite if price increases and zero if price decreases.
in response to a price increase is less than the elasticity of demand in response to a price decrease.

Price discrimination involves

firms selling different products at different prices to different consumers.
firms selling the same product at different prices to different consumers.
consumers discriminating between different sellers on the basis of the different prices they quote for different products.
consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

Price discrimination often favours public interest because it

allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.
opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.
allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.
all of the above

Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:

Strategic interaction
Prisoner's dilemma
Price leadership
None of the above

Fiscal policy refers to:

The actions of the central bank in controlling the money supply.
The spending and taxing policies used by the government to influence the economy.
The government's regulation of financial intermediaries.
None of the given options.

Disposable income is:

Total income plus transfer payments
Total income minus saving.
Total income plus net taxes.
Total income minus net taxes.

The deficit tends to decrease when:

GDP decreases slightly.
GDP decreases rapidly.
GDP increases.
GDP remains unchanged.

Money or paper currency serves at least _____ functions:

Four
Three
Five
Seven

The economic logic behind granting central banks independence from government in the conduct of monetary policy is:

To eliminate seignior age.
To allow open market operations.
To enhance the credibility of monetary policy.
None of the above.

An expansionary fiscal policy can:

Raise the national debt.
Decrease the national debt.
Have no effect on national debt.
None of above.

Which is high powered money?

M1
M2
Mo
None

There are _____major instruments of monetary policy:

Three
Four
Five
None

The rate at which central bank lends to commercial banks is known as:

Reserve rate.
Discount rate.
Open market operation.
None.

Identify the three motives of money demand:

Accumulative, speculative, precautionary
Speculative, transaction, precautionary
Precautionary special, transaction
None

Microeconomics is concerned with:

The establishing of an overall view of the operation of the economic system.
A detailed examination of specific economic units which comprise the economic system.
The aggregate or total levels of income, employment and output.
None of the given option

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

A positive question is one for which the answer is yes while normative question is one for which the answer is no.
Positive questions concern matters of opinion, while normative questions concern matters of fact.
Positive questions concern matters of fact, while normative questions concern matters of opinion.
Economic theory can answer normative questions, but not positive ones.

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

The price elasticity coefficient is less than 1.
Total revenue decreases if price decreases.
Buyers are relatively insensitive to price changes.
The percentage change in quantity is greater than the percentage change in price.

A Giffen good:

Is a good that people buy more of it as their incomes fall.
Is a good which people buy more of as its price increases.
Has a vertical demand curve.
Is another name for a free good.

An indifference curve is a curve which shows the different combinations of two products that:

Give a consumer equal marginal utilities.
Give the customer equal total utilities.
Cost a consumer equal amounts.
Have the same prices.

A study shows that the coefficient of the cross price elasticity of Coke and Sprite is negative. This information indicates that Coke and Sprite are:

Normal goods.
Complementary goods.
Substitute goods.
Independent goods.

Elasticity of supply is defined as the ratio of:

Price over quantity supplied.
Change in price over change in quantity supplied.
Percentage change in quantity supplied over percentage change in price.
Percentage change in price over percentage change in quantity supplied.

The change in total revenue divided by a one-unit change in output sold is known as:

Average revenue.
Average profit.
Marginal cost.
Marginal revenue.

Marginal cost:

Is the cost of hiring the last unit of labor

Is another word for average cost
Is rising when marginal product is rising
Should be avoided

in perfect competition, product price is:

Greater than marginal revenue.
Equal to marginal revenue.
Equal to total revenue.
Greater than total revenue.

According to the Laffer curve, as tax rates increase, tax revenues

decrease continuously.
initially decrease and then increase.
rise continuously.
initially increase and then decrease.

The government imposes a new income tax legislation under which every male taxpayer must pay 15% of his income as taxes, while every female taxpayer must pay 20% of her income as taxes. Such tax legislation violates which equity principle?

Both horizontal equity and vertical equity
Vertical equity only
Horizontal equity only
Neither

A 15% VAT is a(n):

Proportional income tax.
Fixed excise duty.
Ad valorem indirect tax.
None of the above.

Tax incidence is the

ultimate distribution of a tax's burden.
measure of the impact the tax has on employment and output.
behaviour of shifting the tax to another party.
structure of the tax.

You know that all taxes are distortionary. Under what conditions will this knowledge lead you to oppose the imposition of every single tax in the economy?

If you live in a 1st best world
If you live in a 2nd best world
If the tax rates on some of the items are prohibitively high
Either of the above

Let us say assume the Pakistani government is facing a fiscal deficit. Which of the following would not constitute a possible method of financing this deficit?

printing rupees (borrowing from the central bank)
selling dollars in the foreign exchange market
imposing new taxes or raising existing tax rates
borrowing from an international financial institution

Which of the following is not a correct argument against a fiscal policy expansion – say a tax cut – aimed at lifting aggregate demand?

The expansion might become pro-cyclical ex-post, given the lag time required to change fiscal policy.
Fiscal policy works with a lag, thus a tax cut introduced today would not have an expansionary effect on aggregate demand till many months later.
The fiscal expansion would increase distortion in the economy.
Lower taxes would increase the government's borrowing requirement, which in turn would cause interest rates to rise, which in turn would i) cause the exchange rate to appreciate, which in turn would cause the current account to move into deficit, and ii) crowd out private investment.

The increase in base money divided by the corresponding induced increase in commercial bank deposits is the

bank's line of credit.
reserve ratio.
current ratio.
money multiplier.

If the State Bank of Pakistan wished to pursue a 'tight' monetary policy, it would

lower the required reserve ratio and the statutory liquidity ratio.
lower interest rates.

buy government securities on the open market.
sell government securities on the open market.

An item designated as money that is intrinsically worthless could be

a currency note.
a silver coin.
a barter item.
any tradeable commodity.

A checking deposit (or current account) held at a commercial bank is considered _____ of that bank.

an asset.
net worth.
a liability.
capital.

Which of the following activities is one of the responsibilities of the State Bank of Pakistan?

Monitoring the financial health of banks and non-bank financial insitutions.
Auditing the various agencies and departments of the government.
Issuing bonds on international capital markets to finance the fiscal deficit.
Loaning money to other countries that are friendly to Pakistan.

A bank has excess liquidity reserves to lend but is unable to find a willing borrower. This will _____ the size of the money multiplier.

reduce
increase
have no effect on
double

The quantity of money demanded increases with income. Thus if income increases, the opportunity cost of holding money must go up in order to reduce money demand and re-establish equilibrium in the money market. This relation is captured by:

an upward sloping LM curve.
a downward sloping L curve.
a downward sloping IS curve.

the circular flow of money in the economy.

When economists speak of the 'demand for money,' which of the following questions are they asking?

How much cash do you wish you could have?
How much wealth would you like?
How much income would you like to earn?
What proportion of your financial assets do you want to hold in non-interest bearing forms?

Which of the following will not cause money supply to expand, given a fully floating exchange rate regime and a fixed supply of dollars in the market

The central bank buying foreign currency in the foreign exchange market
redemption of central bank liquidity paper
build-up of commercial banks' deposits held with the central bank
decrease in the central bank discount rate

Which of the following events will lead to a decrease in the demand for money?

An increase in the level of aggregate output.
A decrease in the supply of money.
A decrease in the interest rate.
A decrease in the price level.

Which of the following is neither a determinant of the slope of the IS curve nor a determinant of the slope of the LM curve?

the sensitivity of interest rates to investment
the sensitivity of money demand to income
the sensitivity of money demand to interest rates
the sensitivity of income to investment

Given a Keynesian world, a cut in taxes coupled with a lower reserve ratio for banks would have what effect on equilibrium income and interest rate?

Both income and the interest rate will remain unchanged
income will come down, but the interest rate will go up
income will go up, but the effect on the interest rate cannot be predicted
interest rates will go down, but the effect on income cannot be predicted

If the government increases its spending, but this causes prices to rise, what will "eventually" happen to the equilibrium income and interest rate?

Both income and the interest rate will remain unchanged
income will come down, but the interest rate will go up
income will go up, but the effect on the interest rate cannot be predicted
interest rates will go down, but the effect on income cannot be predicted

If the income elasticity of money demand and the Keynesian multiplier, both increase in an economy (ceteris paribus), how will the relative effectiveness of monetary and fiscal policy change?

Fiscal policy will become relatively more effective than monetary policy
Fiscal policy will become relatively less effective than monetary policy
The relative effectiveness of fiscal and monetary policy will remain unchanged
Both fiscal and monetary policy will become more effective.

The intersection of the IS and LM curves captures:

the equilibrium of the demand and supply sides of the economy
the equivalence of monetary and fiscal policy
joint equilibrium in the goods and money markets
all of the above

The concept of "interdependence of markets" can refer to the interdependence between:

two or more factor markets
goods and factor markets
goods markets
all of the above

The 'law of demand' implies that

as prices fall, quantity demanded increases.
as prices fall, demand increases.
as prices rise, quantity demanded increases.
as prices rise, demand decreases.

What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

the substitution effect.
the ceteris paribus effect.
the total price effect.
the income effect.

The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:

A's consumers have had an increase in income.
the price of A has increased.
A's advertising is not as effective as in the past.
the price of rival brand B has increased.

Demand curves in P-Q space are derived while holding constant

consumer tastes and the prices of other goods.
incomes, tastes, and the price of the good.
incomes and tastes.
incomes, tastes, and the prices of other goods.

Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are

perfect substitutes.
unrelated goods.
complements.
substitutes.

If the demand for coffee decreases as income decreases, coffee is

A normal good.
A complementary good.
An inferior good.
A substitute good.

Which of the following will NOT cause a shift in the demand curve for compact discs?

a change in the price of pre-recorded cassette tapes.
a change in wealth.
a change in income.
a change in the price of compact discs.

Which of the following is consistent with the law of supply?

As the price of calculators rises, the supply of calculators increases, ceteris paribus.
As the price of calculators falls, the supply of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers.

a decrease in the supply of
a decrease in the quantity supplied of
an increase in the supply of
an increase in the quantity supplied of

When there is excess demand in an unregulated market, there is a tendency for

quantity demanded to increase.
quantity supplied to decrease.
price to fall.
price to rise.

Equilibrium in the market for good A obtains

when there is no surplus or shortage prevailing in the market
where the demand and supply curves for A intersect
when all of what is produced of A is consumed
all of the above

A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by

a decrease in supply.
a fall in income.

a fall in the price of a complementary good.
a fall in the number of substitute goods.
Assume the good is normal

A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by

a fall in the price of a complementary good.
a fall in income.
a change in tastes such that consumers prefer the good more.
a rise in the number of substitute goods.
Assume the good is normal

A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by

an increase in supply.
a rise in income.
a rise in the price of a complementary good.
a fall in the number of substitute goods.
Assume the good is normal

When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as

price fixing.
quantity setting.
quantity adjustment.
price rationing.

How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?

2
4
8
16

What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right

price falls unambiguously but the effect on quantity cannot be determined
both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left

price falls unambiguously but the effect on quantity cannot be determined
B both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

A price ceiling imposed by the government can cause a shortage (excess demand)

when the price ceiling is above the free (or unregulated) market price
when the price ceiling is below the free (or unregulated) market price
when the price ceiling is equal to the free (or unregulated) market price
either of the above

What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?

Price falls, quantity rises
Price rises, quantity falls
Both price and quantity fall
Both price and quantity rise

A price floor is

a maximum price usually set by government, that sellers may charge for a good or service.
a minimum price usually set by government, that sellers must charge for a good or service.
the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
the minimum price that consumers are willing to pay for a good or service.

The need for rationing a good arises when

there is a perfectly inelastic demand for the good.
supply exceeds demand.
demand exceeds supply.
a surplus exists.

If the "regulated-market" price is below the equilibrium (or "free-market" price) price,

the quantity demanded will be greater than quantity supplied.
demand will be less than supply.
quantity demanded will be less than quantity supplied.
quantity demanded will equal quantity supplied.

If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that

more workers would become employed.
there would be more unemployment.
the costs and prices of firms employing cheap labour would increase.
wages in general would fall as employers tried to hold down costs.

Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce

are normal goods.
have few complementary goods.
have many complementary goods.
have few substitutes.

When the decrease in the price of one good causes the demand for another good to decrease, the goods are

complements.
normal.
inferior.
substitutes.

The price elasticity of demand is the

ratio of the percentage change in quantity demanded to the percentage change in price.
ratio of the change in price to the change in quantity demanded.
ratio of the change in quantity demanded to the change in price.
ratio of the percentage change in price to the percentage change in quantity demanded.

The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:

inelastic.
perfectly inelastic.
elastic.
perfectly elastic.

The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is

elastic.
inelastic.
unitarily elastic
perfectly elastic

If the cross-price elasticity of demand between two goods is negative, then the two goods are

unrelated goods.
substitutes.
complements.
normal goods.

If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is

-4.
4.
-0.25.
0.25.

The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?

This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.
The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time.
This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.
No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.

The burden (incidence) of a tax will fall mainly on the producers if:

The producers are the ones legally obliged to pay the tax.
Supply is inelastic and demand is elastic.
Demand is inelastic and supply is elastic.
There are many producers in the market.

Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?

Inferior goods.
Normal goods.
Substitute goods.
Complementary goods.

If total revenue rises by 10% when price increases by 5%, this means:

demand is price inelastic
demand is price elastic
demand is unit elastic
demand is perfectly inelastic

If a 5% increase in price causes no change in total revenue, this means:

demand is price inelastic
demand is price elastic
demand is unit elastic
demand is perfectly inelastic

Which of the following statements is true:

Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.
Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.
We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range
A straight line demand curve with a slope of -1 delivers unit elasticity.

When firms advertise their product, they are trying to:

Shift the demand curve to the right
Make the demand curve steeper
Make demand for the product more inelastic
All of the above

"It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy."

False. A good can only have one characterization in an economy, normal or inferior, not both
False. Milk is always and everywhere a normal good.
True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.
True. Some people in the economy like milk, others don't.

A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:

the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high
Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income
Z's terms of trade (price of exports / price of imports) deteriorate
All of the above.

"The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems." This most closely illustrates which elasticity concept:

Price elasticity of demand
Price elasticity of supply
Income elasticity of demand
Cross price elasticity of demand

The theory of aggregate supply is one of the most controversial in macroeconomics because:

modern models, while similar in their starting points, reach widely different results in explaining the AS curve
economists cannot agree whether the Keynesian or the classical AS curve is a better reflection of reality
economists cannot agree whether wages are completely flexible or rigid in the long run
economists cannot agree whether wages are completely flexible or rigid in the short run
economists do not completely understand why wages and prices are slow to adjust after demand-side disturbances

If the aggregate supply curve can be seen as an adequate description of the mechanism by which prices rise or fall over time then:

fixed prices in the short run mean the aggregate supply curve is horizontal
variable prices in the long run mean the aggregate supply curve is positively sloped
the vertical long-run aggregate supply curve is a result of the classical quantity theory of money
all of the above
only B) and C)

The stylised link between GDP growth and changes in unemployment over the business cycle is called:

the Laffer curve
the Friedman curve
the Phillips curve
the Law of Supply
Okun's law

In general, Okun's law states that one extra percentage point in unemployment causes:

GDP to fall by 2%
GDP to fall by 0.5%

the rate of inflation to decline by 2%
the rate of inflation to decline by 0.5%
both GDP and the rate of inflation to decline by 2%

The link between inflation and unemployment is called:

Okun's law
the Lucas curve
the Phillips curve
the replacement ratio
the sacrifice ratio

The Phillips curve shows a relationship between:

the level of output and prices
the level of wages and unemployment
the level of prices and unemployment
the rate of change in prices (or wages) and the rate of unemployment
the rate of price changes and wage rate changes

For many macroeconomic policy makers, the Phillips curve initially:

implied a trade-off between lowering unemployment at the cost of higher inflation or lowering inflation at the cost of higher unemployment
gave hope that economic stabilisation policy will always work if applied correctly
relieved concern about an increase in unemployment, since the economy could always be expected to adjust at the natural rate
was a way to gain more support for unpopular actions needed to decrease inflation
implied that frictional unemployment can be lowered by expansionary monetary policy

When there is an increase in the natural rate of unemployment then:

the Phillips curve will shift to the left
the Phillips curve will shift to the right
the inflation rate will be increased along the Phillips curve
the Phillips curve will become flatter
the Phillips curve will become steeper

In the medium run the aggregate supply curve is upward sloping since:

workers immediately realise that nominal wage increases are only the result of price increases
firms encounter costs in resetting prices and are willing to pay workers above market-clearing prices
wages and prices always immediately change in proportion to the money stock
there is always natural friction in the labour market that prevents unemployment from reaching zero
none of the above

Which of the following is NOT used in deriving the AS curve in Chapter 6?

the link between output and employment
the price-cost relation
the Phillips curve
the quantity theory of money
all of the above are used

The upward-sloping AS curve will shift to the left if:

labour force productivity increases
actual output is lower than the full-employment level
the markup over labour cost falls
actual output is higher than the full-employment level
the level of potential output increases

Wages are considered to be sticky rather than flexible because:

firms are never willing to pay above market-clearing wages solely to keep workers motivated
labour contracts contain cost-of-living adjustments
firms tend to look at labour as an expendable resource
firms are unsure about their competitors' behaviour and only reluctantly change prices and wages following a change in aggregate demand
all of the above

The fact that nominal wages are fixed by a contract at the beginning of a period while prices of goods may change within that period implies that:

unanticipated changes in the money supply do not affect the level of output
the AS curve is vertical

firms want to supply more output when prices increase since the real wage rate is lower
real money balances decrease following expansionary monetary policy
money supply changes affect prices but not unemployment

The coordination approach to the Phillips curve focuses on the fact that:

the administration has problems coordinating its fiscal policy with the monetary policy of the RBA
long-term labour contracts tend to expire at different times and thus firms cannot coordinate their hiring
unemployed workers are not organised enough to influence wage negotiations
firms are unsure about their competitors' behaviour and are therefore reluctant to change wages and prices following a change in aggregate demand
workers have imperfect information about their real wages

The insider–outsider model refers to:

policy making in the ALP
the fact that the unemployed do not take part in collective bargaining
the fact that wages do not respond significantly to unemployment
slow price adjustments in an imperfectly competitive environment
both B) and C)

The efficiency wage theory of aggregate supply implies that:

the AS curve is vertical
paying employees higher wages will not induce them to work harder
even unanticipated changes in monetary or fiscal policy have no effect on the level of output
since the cost of changing wages and prices is low, wages can easily be adjusted in proportion to price changes to maintain full employment
none of the above

Efficiency wage theory implies that:

labour productivity depends positively on the level of wages paid
paying higher wages less frequently is efficient because it reduces transaction costs
even unanticipated changes in monetary or fiscal policy have no effect on the level of output
since the cost of changing wages and prices is low, wages can easily be adjusted in proportion to price changes to maintain full employment

none of the above

Restrictive monetary policy will eventually affect the upward-sloping AS curve since:

higher interest rates will increase the cost of production
higher interest rates will reduce the capital stock, thus reducing potential GDP
the resulting unemployment will cause downward pressure on nominal wages and decrease the cost of production
real wages will decline in proportion to the change in money supply and this will cause a change in unemployment
firms will start laying off workers in anticipation of a decline in aggregate demand

If nominal wage rates were completely flexible then:

fiscal policy would still affect real money balances and output
the AS curve would be horizontal
periods of unemployment would probably be much less frequent
frictional unemployment would not exist
monetary policy would be ineffective in changing the price level

Assume the RBA restricts money supply. Which of the following is the most likely result if the AS curve is upward sloping?

the interest rate will increase but output, prices and real money balances will fall
the levels of the interest rate, output and prices will all decline
the price and output levels will fall but real money balances will increase
real money balances will remain unchanged, since money supply and prices will decrease proportionally
real money balances and prices will fall proportionally

One explanation why the economy does not self correct quickly is:

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
Wages and prices are sticky

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

Hire more
Hire less
Maintain the same employment
Decrease output

In which case, total expenditure in an economy is not equal to total income?

If total saving is larger than total investment.
If net exports are not zero.
If inventory investment is negative.
None of the given options--they are always equal.

The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the _____ model.

Cournot
Stackelberg
Dminant firm
kinked demand

To make the equation of exchange into the quantity theory of money:

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

Which of the following shows the condition for consumer's equilibrium?

It can be expressed as marginal utility per dollar spent on each good being equalized across all goods.
It can be expressed as the ratio of (marginal utility per unit of the good)/(price per unit of the good) being equalized across all goods.
It can be expressed as the ratio of marginal utilities being equated to the ratio of prices for all possible pairs of goods.
All of the given options.

While drawing a given market demand curve,---------- is not considered constant

Income.
The price of the good in question.
The prices of related goods.
Preferences.

Which of the following concepts apply to oligopoly more than to any other market structure?

Advertising and product differentiation
Easy entry and more than one firm in the market
Homogeneous product and perfect information
Concentration and interdependence

If a firm pays cash to buy a building so as to have office space for its workers, the monthly opportunity cost of the building is best measured as:

The price the firm paid divided by twelve.
Zero.
The rent the firm could earn if it rented the building to another firm.
The monthly mortgage payment the firm would have had to pay.

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.

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

Product diversity.
Excess capacity.
The fact that price exceeds marginal cost.
The fact that long-run average cost is not minimized.

A person with a diminishing marginal utility of income:

Will be risk averse.
Will be risk neutral.
Will be risk loving.

Cannot decide without more information.

GDP is:

A stock
A flow.
Both a stock and a flow.
Neither a stock nor a flow.

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

If utility remains the same for original and new combination of goods consumed, the effect of a change in the price of a good on the quantities consumed will be called as:

Substitution effect.
Real income effect.
Income effect.
Budget effect.

The law of diminishing returns assumes:

There are no fixed factors of production.
There are no variable factors of production.
Utility is maximised when marginal product falls.
Some factors of production are fixed.

If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:

More bread will be produced to meet the increased demand.
There will be a shortage of bread.
The demand for bread will decrease because suppliers will reduce their supply.
A surplus of bread will emerge.

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.

Which of the following is true about the total cost curve?

It relates output with total cost.
It is usually upward sloping.
Gets steeper as output rises, due to diminishing marginal product of an input.
All of the given options are true.

A negatively sloped isoquant implies

Products with negative marginal utilities.
Products with positive marginal utilities.
Inputs with negative marginal products.
Inputs with positive marginal products.

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.

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.

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.

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.

Price floor results in:

All of the given options.
Excess supply.
Equilibrium.
Excess demand.

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

Quantity demanded.
Quantity supplied.
Price.
Output.

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.

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.

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.

As compared to existing firms, a new firm entering in monopolist market has:

High costs.
Low costs.
Equal costs.
None of the given options.

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.

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.

Price discrimination is a practice of selling goods or services at different prices to different buyers, even though sales costs are the same for all the transactions. Buyers may be discriminated against on the basis of income, ethnicity, age, or geographic location. 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.

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.

Welfare economics is the branch of economics which deals with:

Positive issues.
Normative issues.
Micro issues.
Macro issues.

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.

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.

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.

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.

The Great Depression of 1930s opened the door to the _____ revolution in macroeconomic theory.

Keynesian.
New classical.
Old classical.
New Keynesian.

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.

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

Monetarism.
Rational expectations.
Keynesian economics.
Neoclassical economics.

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.

Intermediate goods are meant for:

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

Final goods are meant for:

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

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.

Which of the following is NOT a stock variable?

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

The stock variables are those variables which do not have any time restriction.
All other things remain the same, Gross Domestic Product (GDP) will rise if:

Imports rises.
Exports falls.
Durable goods consumption rises.
Military spending falls.

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.

Marginal propensity to consume (MPC) is the extra amount that people consume when they receive an extra dollar of disposable income.

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.

The slope of the consumption function is the marginal propensity to consume, defined as the change in consumption associated with a change in disposable income. 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.

The unemployment rate is equal to:

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

The unemployment rate is defined as the ratio of the no. of unemployed people divided by the sum of the employed and unemployed people.
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.

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.

Is Grosss 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.

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.

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.

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.

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.

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.

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.

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.

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

GNP = GDP – Net income from abroad.
GNP = GDP + Net income from abroad.
GNP = NNP – Net income from abroad.
GNP = NNP + Net income from abroad.

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.

Which of the following shows the Fisher equation of exchange?

MT=PV.
VT=PM.
MV=PQ
MY=VP.

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.

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

45.
Infinity.
1.
0.

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.

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.

The demand curve facing a perfectly competitive firm is:

The same as its average revenue curve but not the same as its marginal revenue curve.
The same as its average revenue curve and its marginal revenue curve.
The same as its marginal revenue curve but not its average revenue curve.

Not the same as either its marginal revenue curve or its average revenue curve.

Goods produced by oligopolistic industries are typically:

Standardized
Differentiated
Differentiated if industrial goods
Differentiated if consumer goods

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

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

In monopolist market, a new entrant firm should produce where:

Marginal Cost < Marginal Revenue.
Marginal Cost > Marginal Revenue.
Marginal Cost = Marginal Revenue.
Marginal Cost = Average Revenue.

When the price of petrol rises by 8%, the quantity of petrol purchased falls by 6%. This shows that the demand for petrol is:

Perfectly elastic.
Unit elastic.
Price elastic.
Price inelastic.

The most important factor in determining the long-run profit potential in monopolistic competition is:

Free entry and exit.
The elasticity of the market demand curve.
The elasticity of the firm's demand curve.
The reaction of rival firms to a change in price.

If a monopolist sets his output such that marginal revenue, marginal cost and average total cost are equal, economic profit must be:

Negative.
Positive.
Zero.
Indeterminate from the given information.

If your demand price for one unit of a good is Rs. 100 and the market price is Rs. 75, your consumer's surplus will be:

Rs.25.
Rs.50.
Rs.75.
Rs.100.

In pure capitalism, freedom of enterprise means that:

Businesses are free to produce products that consumers want.
Consumers are free to buy goods and services that they want.
Resources are distributed freely to businesses that want them.
Government is free to direct the actions of businesses.

Which of the following is true about the market mechanism?

It is not a very efficient means of communicating consumer demand to the producers of goods and services.
It works through central planning by government.
It eliminates market failures created by government.
It works because prices serve as a means of communication between consumers and producers.

"Each firm produces an identical product and there is freedom of entry and exit". This is TRUE for which of the following market structures?

For Monopoly.
For Oligopoly.
For Perfect competition.
For Monopolistic competition.

Which of the following will happen if there is an increase in the long term economic growth?

The production possibilities curve will shift outward.
The production possibilities curve will shift inward.
There will be a movement from inside the production possibilities curve to a point on the production possibilities curve
There will be a movement from the production possibilities curve to a point inside the production possibilities curve.
Economy grows when its production capacity increases (outward shift of production possibilities curve).

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 are true.

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

Water paradox.
Paradox of thrift.
Saving theorem.
Multiplier effect.

Goods produced by oligopolistic industries are typically:

Standardized
Differentiated
Differentiated if industrial goods
Differentiated if consumer goods

The relationship between consumer spending and income is known as the:

45-degree line.
Consumption function.
Investment function.
Consumer price index.

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

Product diversity.
Excess capacity.
The fact that price exceeds marginal cost.
The fact that long-run average cost is not minimized.

Is 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.

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

Appreciate.
Depreciate.
Not change.
All of the given conditions may be possible.

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.

The fundamental problem of economics implies that:

governments must be relied upon to supply essential goods and services
inflation and unemployment are unavoidable
growing populations will deplete natural resources
individuals and communities must make choices among competing alternatives

An economy that has achieved "full production" has achieved

Both allocative and productive efficiency
Allocative but not productive efficiency

Productive but not allocative efficiency
Neither allocative nor productive efficiency

Government authorities have managed to reduce the unemployment rate from 6% to 4% in a hypothetical economy. As a result:

the economy's production possibilities curve has shifted outward
the economy has moved downward along its production possibilities curve
the economy has moved from a point inside to a point closer to its production possibilities curve
the economy's production possibilities curve has become steeper

Consider an economy that can produce either capital goods or consumer goods. If the opportunity cost of consumer goods is always 5 capital goods, then:

the production possibilities curve is a straight line
the opportunity cost of capital goods is always 5 consumer goods
the production possibilities curve is upward sloping
the production possibilities curve is bowed inward

Which of the following would most likely shift the production possibilities curve for a nation outward?

A reduction in unemployment
An increase in the production of capital goods
A reduction in discrimination
An increase in the production of consumer goods

Margaret decides to stay home and study for her exam rather than going out with her friends to a movie. Her dilemma is an example of:

the economic perspective
marginal analysis
allocative efficiency
opportunity cost

A nation achieves "allocative efficiency" if:

it produces at a point on, rather than inside, its production possibilities curve
it produces that combination of goods most desired by society
all available resources are fully employed

marginal benefit exceeds marginal cost for every possible good

In the circular flow diagram, firms:

receive revenue and supply resources in the resource market
receive revenue and demand resources in the product market
incur costs and demand resources in the resource market
incur costs and supply goods and services in the product market

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 are true.

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

The point at which AC intersects MC is where:

AC is decreasing.
MC is at its minimum.
AC is at its minimum.
AC is at its maximum.

A normative economic statement:

Is a statement of fact
Is a hypothesis used to test economic theory.
Is a statement of what ought to be, not what is.
Is a statement of what will occur if certain assumptions are true.

If the income elasticity of demand is 1/2, the good is:

A luxury

A normal good (but not a luxury).
An inferior good.
A Giffen good.

And another question that derives from above is If the income elasticity of demand is 2, the good is:

A luxury
A normal good(but not a luxury)
An inferior good.
A Giffen good.

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 are true.

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

The process by which resources are transformed into useful forms is

capitalisation.
consumption.
allocation.
production.

The concept of choice would become irrelevant if

capital were eliminated.
scarcity were eliminated.
we were dealing with a very simple, one-person economy.
poverty were eliminated.

Which of the following is not a resource as the term is used by economists?

money.
land.
buildings.
labour.

Capital, as economists use the term,

is the money the firm spends to hire resources.
is money the firm raises from selling stock.
refers to the process by which resources are transformed into useful forms.
refers to things that have already been produced that are in turn used to produce other goods and services.

Opportunity cost, most broadly define, is

the additional cost of producing an additional unit of output.
what we forgo, or give up, when we make a choice or a decision.
a cost that cannot be avoided, regardless of what is done in the future.
the additional cost of buying an additional unit of a product.

A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a

demand curve.
supply curve
production possibility frontier.
circular-flow diagram.

Periods of "less than full employment" of resources correspond to

points on the ppf.
points outside the ppf.
either points inside or outside the ppf.
points inside the ppf.

What lies is at the heart of the allocation of goods and services in a free-market economy?

Concerns of equity or equal distribution among individuals.
The order or command of the ruling government or dictator.
The wishes of consumers in the market.

The price mechanism.

The phrase 'ceteris paribus' is best expressed as

'all else equal.'
'everything affects everything else.'
'scarcity is a fact of life.'
'there is no such thing as a free lunch.'

Laboratory (or controlled) experiments cannot be performed in economics because:

of resource scarcity.
economics is a natural science.
of the difficulty of distinguishing between normative and positive statements.
economics is a social science.

Positive statements are:

value judgments
verifiable or testable
statements in the affirmative
good statements

The former Soviet Union was an example of:

a planned economy
free-market/capitalism
dictatorship
a mixed economy

Rational choice or rational decision-making involves

comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
weighing up total costs and total benefits associated with a decision
weighing up marginal costs and marginal benefits associated with a decision
all of the above.

The PPF can be used to illustrate:

the principle of opportunity costs and increasing opportunity costs
the distinction between micro and macroeconomics
efficient, infeasible and inefficient production combinations
all of the above

Note for students: Unless otherwise stated, you should assume that we are operating in P-Q space.
The concept of "interdependence of markets" can refer to the interdependence between:

two or more factor markets
goods and factor markets
goods markets
all of the above

The 'law of demand' implies that

as prices fall, quantity demanded increases.
as prices fall, demand increases.
as prices rise, quantity demanded increases.
as prices rise, demand decreases.

What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

the substitution effect.
the ceteris paribus effect.
the total price effect.
the income effect.

The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:

A's consumers have had an increase in income.
the price of A has increased.
A's advertising is not as effective as in the past.
the price of rival brand B has increased.

Demand curves in P-Q space are derived while holding constant

consumer tastes and the prices of other goods.
incomes, tastes, and the price of the good.
incomes and tastes.
incomes, tastes, and the prices of other goods.

Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are

perfect substitutes.
unrelated goods.
complements.
substitutes.

If the demand for coffee decreases as income decreases, coffee is

a normal good.
a complementary good.
an inferior good.
a substitute good.

Which of the following will NOT cause a shift in the demand curve for compact discs?

a change in the price of pre-recorded cassette tapes.
a change in wealth.
a change in income.
a change in the price of compact discs.

Which of the following is consistent with the law of supply?

As the price of calculators rises, the supply of calculators increases, ceteris paribus.
As the price of calculators falls, the supply of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers.

a decrease in the supply of
a decrease in the quantity supplied of
an increase in the supply of
an increase in the quantity supplied of

When there is excess demand in an unregulated market, there is a tendency for

quantity demanded to increase.
quantity supplied to decrease.
price to fall.
price to rise.

Equilibrium in the market for good A obtains

when there is no surplus or shortage prevailing in the market
where the demand and supply curves for A intersect
when all of what is produced of A is consumed
all of the above

A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by

a decrease in supply.
a fall in income.
a fall in the price of a complementary good.
a fall in the number of substitute goods.
Assume the good is normal

A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by

a fall in the price of a complementary good.
a fall in income.
a change in tastes such that consumers prefer the good more.
a rise in the number of substitute goods.
Assume the good is normal

A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by

an increase in supply.

a rise in income.
a rise in the price of a complementary good.
a fall in the number of substitute goods.
Assume the good is normal

When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as

price fixing.
quantity setting.
quantity adjustment.
price rationing.

How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?

2
4
8
16

What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right

price falls unambiguously but the effect on quantity cannot be determined
both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left

price falls unambiguously but the effect on quantity cannot be determined
both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

A price ceiling imposed by the government can cause a shortage (excess demand)

when the price ceiling is above the free (or unregulated) market price

when the price ceiling is below the free (or unregulated) market price
when the price ceiling is equal to the free (or unregulated) market price
either of the above

What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?

Price falls, quantity rises
Price rises, quantity falls
Both price and quantity fall
Both price and quantity rise

A price floor is

a maximum price usually set by government, that sellers may charge for a good or service.
a minimum price usually set by government, that sellers must charge for a good or service.
the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
the minimum price that consumers are willing to pay for a good or service.

The need for rationing a good arises when

there is a perfectly inelastic demand for the good.
supply exceeds demand.
demand exceeds supply.
a surplus exists.

If the "regulated-market" price is below the equilibrium (or "free-market" price) price,

the quantity demanded will be greater than quantity supplied.
demand will be less than supply.
quantity demanded will be less than quantity supplied.
quantity demanded will equal quantity supplied.

If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that

more workers would become employed.

there would be more unemployment.
the costs and prices of firms employing cheap labour would increase.
wages in general would fall as employers tried to hold down costs.

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

Purely competitive
A monopoly
Monopolistically competitive
Oligopolistic

The cross elasticity of demand of complements goods is:

Less than 0.
Equal to 0.
Greater than 0.
Between 0 and 1.

The production possibilities curve:

Shows all combinations of goods that society most desires
Indicates that any combination of goods lying outside the curve is attainable
Separates all combinations of two goods that can be produced from those that cannot
Shows only those combinations of two goods that reflect "full production"

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

From year 2002 to year 2003, personal income rose by $500 billion. If the Marginal Propensity to Consume = 0.9, then personal consumption expenditures rose by:

$45.0 billion.
$500 billion.
$450 billion.

$50 billion.

The _____ is a graph of the _____ of a good and the _____.

Supply curve, price, quantity supplied
Demand curve, price, quantity supplied
Supply curve, price, quantity demanded
Supply curve, quantity supplied, income of consumers

An economist will define the exchange rate between two currencies as the:

Amount of one currency that must be paid in order to obtain one unit of another currency.
Difference between total exports and total imports within a country.
Price at which the sales and purchases of foreign goods takes place.
Ratio of import prices to export prices for a particular country.

Inflation:

Reduces both the purchasing power of the dollar and one's real income.
Reduces the purchasing power of the dollar and increases one's real income.
Reduces the purchasing power of the dollar but may have no impact on one's real income.
Increases the purchasing power of the dollar and reduces one's real income.

Monopolistic competition and oligopoly share which characteristic?

Free entry and exit from the industry
Strategic behavior
Standardized products
Advertising

The effect of a change in income on the quantity of the good consumed is called the:

Income effect
Budget effect
Substitution effect
Real income effect

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.

If your demand price for one unit of a good is Rs. 100 and the market price is Rs. 75, your consumer's surplus will be:

Rs.25.
Rs.50.
Rs.75.
Rs.100.

If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:

More bread will be produced to meet the increased demand.
There will be a shortage of bread.
The demand for bread will decrease because suppliers will reduce their supply.
A surplus of bread will emerge.

A demand schedule is best described as:

A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.
A graphical representation of the law of demand.
A systematic listing of all the variables that might conceivably bring about a change in demand.
A symbolic representation of the law of demand: P, Q and P, Q.

Our economy is characterized by:

Unlimited wants and needs.
Unlimited material resources.
No energy resources.
Abundant productive labor.

When government sets the price of a good and that price is above the equilibrium price, the result will be:

A surplus of the good.
A shortage of the good.
An increase in the demand for the good.
A decrease in the supply of the good.

In pure capitalism, freedom of enterprise means that:

Businesses are free to produce products that consumers want.
Consumers are free to buy goods and services that they want.
Resources are distributed freely to businesses that want them.
Government is free to direct the actions of businesses.

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.

Price elasticities are measured in percentage terms because:

It makes students' lives more complicated.
The resulting measure is unit free.
It gives a more accurate answer.
The answer is always negative that way.

If the cross price elasticity of demand between two products is +3.5, then:

One of the products is expensive and one is relatively inexpensive.
One product is a normal good and the other is an inferior good.
The two products are complements.
The two products are substitutes.

Which of the following is true about the market mechanism?

It is not a very efficient means of communicating consumer demand to the producers of goods and services.
It works through central planning by government.
It eliminates market failures created by government.

It works because prices serve as a means of communication between consumers and producers.

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

The effect of a change in income on the quantity of the good consumed is called the:

Income effect.
Budget effect.
Substitution effect.
Real income effect.

While drawing a given market demand curve,---------- is not considered constant.

Income.
The price of the good in question.
The prices of related goods.
Preferences.

If a decrease in price increases total revenue:

Demand is elastic.
Demand is inelastic.
Supply is elastic.
Supply is inelastic

There is a price ceiling, there will be:

Shortages.
Surpluses.
Equilibrium.
None of the given options

The quantity supplied of mangoes exceeds the quantity demanded of mangoes:

There is a shortage of mangoes.
Market forces will cause the price to fall.
Market forces will cause the price to rise.
The market is in equilibrium

Price floor results in:

Equilibrium.
Excess demand.
Excess supply.
All of the given options

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

When the price of petrol rises by 8%, the quantity of petrol purchased falls by 6%. This shows that the demand for petrol is:

Perfectly elastic.
Unit elastic.
Price elastic.
Price inelastic.

Which of the following defines the opportunity cost?

It is measured only in rupees.
It is the cost to society of producing the goods.
It is the difficulty associated with using one good in place of another.
It is the cost of next best alternative forgone.

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

Vertical.
U shaped.
Upward sloping.

Downward sloping.

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.

The effect of a change in income on the quantity of the good consumed is called the:

Income effect.
Budget effect.
Substitution effect.
Real income effect

Which of the following might be considered to be a characteristic of a planned economy?

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

The law of increasing opportunity costs states that:

The more one is willing to pay for resources, the larger will be the possible level of production.
Increasing the production of a particular good will cause the price of the good to rise.
In order to produce additional units of a particular good, it is necessary for society to sacrifice increasingly larger amounts of alternative goods.
Only by keeping production constant can rising prices be avoided.

The production possibilities curve:

Shows all combinations of goods that society most desires.
Indicates that any combination of goods lying outside the curve is attainable.
Shows the maximum level of output that an economy can produce with all the available resources.
Shows only those combinations of two goods that reflect "full production".

Production possibility frontier (PPF) is the curve which joins all the points showing the maximum amount of goods and services which the country can produce in a given time with limited resources, given a specific state of technology.

If the supply of a product decreases and supply curve shifts leftward, and the demand for that product simultaneously increases and demand curve shifts rightward, then equilibrium:

Price must rise.
Price must fall.
Quantity must rise.
Quantity must fall

If a decrease in price increases total revenue:

Demand is elastic.
Demand is inelastic.
Supply is elastic.
Supply is inelastic.

A person with a diminishing marginal utility of income:

Will be risk averse.
Will be risk neutral.
Will be risk loving.
Cannot decide without more information.

Assume that the current market price is below the market clearing level. We would expect:

A surplus to accumulate.
Downward pressure on the current market price.
Upward pressure on the current market price.
Lower production during the next time period.

The percentage change in quantity demanded given a percentage change in consumer's income is known as:

Price elasticity of demand.
Income elasticity of demand.
Supply price elasticity.

Cross price elasticity.

Suppose the price of railway ticket decreases, what will happen in the market 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.

Demand is said to be ---------- when the elasticity of demand is less than 1.

Increasing
Decreasing
Elastic
Inelastic

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.

When government sets the price of a good and that price is above the equilibrium price, the result will be:

A surplus of the good.
A shortage of the good.
An increase in the demand for the good.
A decrease in the supply of the good.

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.

Moving from left to right, the typical production possibilities curve:

Is horizontal.
Has a constant positive slope.
Illustrates increasing opportunity costs.
Illustrates decreasing opportunity costs

You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:

The demand for houses has increased
The demand curve for houses must be upward-sloping
The supply of houses has increased
Housing construction costs must be decreasing

If consumer incomes increase, the demand for product Y:

Will necessarily remain unchanged
Will shift to the right if Y is a complementary good
Will shift to the right if Y is a normal good
Will shift to the right if Y is an inferior good

If marginal product is below average product:

The total product will fall
The average product will fall
Average variable costs will fall
Total revenue will fall

It is calculated as the percentage change in quantity demanded of a given good, with respect to the percentage change in the price of "another" good.

Price elasticity of demand
Income elasticity of demand
Cross price elasticity of demand
Supply price elasticity

A Demand Curve is price inelastic when:

Changes in demand are proportionately smaller than those in price
Changes in demand are proportionately greater than those in price

Changes in demand are equal than those in price
None of the given options.

A partial explanation for the inverse relationship between price and quantity demanded is that a:

Lower price shifts the supply curve to the left
Higher price shifts the demand curve to the left
Lower price shifts the demand curve to the right
Higher price reduces the real incomes of buyers

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.

A "Giffen good" is defined as one for which:

Marginal utility is zero.
The demand curve is perfectly elastic.
The substitution effect is positive.
The demand curve is positively sloped.

A nation's production possibilities curve is "bowed out" from the origin because:

Resources are not perfectly shiftable between productions of the two goods
Capital goods and consumer goods utilize the same production technology
Resources are scarce relative to human wants
Opportunity costs are decreasing

If diminishing marginal utility holds, and a person consumes less of a good, then all else being equal:

The price of the good will rise.
Marginal utility will rise
Expenditure on the good will increase
Marginal utility will decline

According the law of diminishing returns:

The marginal product falls as more units of a variable factor are added to a fixed factor.
Marginal utility falls as more units of a product are consumed.
The total product falls as more units of a variable factor are added to a fixed factor.
The marginal product increases as more units of a variable factor are added to a fixed factor.

If consumer incomes increase, the demand for product Y:

Will necessarily remain unchanged
Will shift to the right if Y is a complementary good
Will shift to the right if Y is a normal good
Will shift to the right if Y is an inferior good

The concept of a risk premium applies to a person that is:

Risk averse
Risk neutral
Risk loving
All of the given options

When drawing demand and supply curves, economists are assuming that the primary influence on production and purchasing decisions is:

Price
Cost of production
The overall state of the economy
Consumer incomes

Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:

A surplus of credit.
A shortage of credit.
Greater profits for banks issuing credit.
A perfectly inelastic supply of credit in the market place.

A person with a diminishing marginal utility of income:

Will be risk averse.
Will be risk neutral.
Will be risk loving.
Cannot decide without more information.

We know that the demand for a product is elastic if:

When price rises, revenue rises
When price rises, revenue falls
When price rises, quantity demanded rises
When price falls, quantity demanded rises

If consumer incomes increase, the demand for product Y:

Will necessarily remain unchanged
Will shift to the right if Y is a complementary good
Will shift to the right if Y is a normal good
Will shift to the right if Y is an inferior good

Due to capacity constraints, the price elasticity of supply for most products is:

The same in the long run and the short run.
Greater in the long run than in the short run.
Greater in the short run than in the long run.
Too uncertain to be estimated.

An indifference curve is:

A collection of market baskets that are equally desirable to the consumer.
A collection of market baskets that the consumer can buy.
A curve whose elasticity is constant for every price.
A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

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.

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

Satisfaction
Use
Pleasure
Utility

It is expected that the sign of cross elasticity between two complementary goods would be:

Positive
Negative
Zero
None of the given options.

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.

A Demand Curve is price inelastic when:
Select correct option:

Changes in demand are proportionately smaller than those in price
Changes in demand are proportionately greater than those in price
Changes in demand are equal than those in price
None of the given options.

The production possibilities curve:

Shows all combinations of goods that society most desires
Indicates that any combination of goods lying outside the curve is attainable
Separates all combinations of two goods that can be produced from those that cannot
Shows only those combinations of two goods that reflect "full production"

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

The demand curve to shift to the left
The demand curve to shift to the right
Quantity demanded to increase
Quantity demanded to decrease

Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:

The demand for both Y and Z will increase
The demand for Y will increase while the demand for Z will decrease
The demand for Y will decrease while the demand for Z will increase
The demand for both Y and Z will decrease

A nation's production possibilities curve is "bowed out" from the origin because:

Resources are not perfectly shiftable between productions of the two goods
Capital goods and consumer goods utilize the same production technology
Resources are scarce relative to human wants
Opportunity costs are decreasing

A person with a diminishing marginal utility of income:

Will be risk averse.
Will be risk neutral.
Will be risk loving.
Cannot decide without more information.

We know that the demand for a product is elastic if:

When price rises, revenue rises
When price rises, revenue falls
When price rises, quantity demanded rises
When price falls, quantity demanded rises

If consumer incomes increase, the demand for product Y:

Will necessarily remain unchanged
Will shift to the right if Y is a complementary good

Will shift to the right if Y is a normal good
Will shift to the right if Y is an inferior good

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Greater in the short run than in the long run.
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Elasticity of demand is > 1.
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Use
Pleasure
Utility

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Negative
Zero
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Changes in demand are proportionately greater than those in price
Changes in demand are equal than those in price
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The demand for Y will increase while the demand for Z will decrease
The demand for Y will decrease while the demand for Z will increase
The demand for both Y and Z will decrease

A nation's production possibilities curve is "bowed out" from the origin because:

Resources are not perfectly shiftable between productions of the two goods

Capital goods and consumer goods utilize the same production technology
Resources are scarce relative to human wants
Opportunity costs are decreasing

Due to capacity constraints, the price elasticity of supply for most products is:

The same in the long run and the short run.
Greater in the long run than in the short run.
Greater in the short run than in the long run.
Too uncertain to be estimated

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

Risk averse
Risk neutral
Risk loving
Not enough information.

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

Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:

P = MR
P = AVC
AR = MR
P = MC

In the long run, competitive firms MUST be profit maximizes, because if they do not maximize profits:

They will attract new competitors.
They will not be price takers.
The profits that they do earn will only cover variable costs.
They will not survive.

If a firm pays cash to buy a building so as to have office space for its workers, the monthly opportunity cost of the building is best measured as:

The price the firm paid divided by twelve.
Zero.
The rent the firm could earn if it rented the building to another firm.
The monthly mortgage payment the firm would have had to pay.

The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the _____ model.

Cournot
Stackelberg
Dominant firm
kinked demand

In which market structure(s) will price exceed marginal revenue?

Differentiated oligopoly and monopoly only
Standardized oligopoly and pure competition only
Monopolistic competition and monopoly only
Monopolistic competition, oligopoly, and monopoly

An indifference curve is:

A collection of market baskets that are equally desirable to the consumer.
A collection of market baskets that the consumer can buy.
A curve whose elasticity is constant for every price.
A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

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.

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.

In the long run, profits will equal zero in a competitive market because of:

The availability of information.
Identical products being produced by all firms.
Constant returns to scale.
Free entry and exit

While drawing a given market demand curve,---------- is not considered constant.

Income.
The price of the good in question.
The prices of related goods.
Preferences.

If diminishing marginal utility holds and a person consumes less of a good, then all else being equal:

The price of the good will rise.
Marginal utility will rise.
Expenditure on the good will increase.
Marginal utility will decline.

Our economy is characterized by:

Unlimited wants and needs.
Unlimited material resources.
No energy resources.
Abundant productive labor.

If consumer incomes increase, the demand for product Y:

Will necessarily remain unchanged.
Will shift to the right if Y is a complementary good.
Will shift to the right if Y is a normal good.
Will shift to the right if Y is an inferior good.

The law of diminishing returns assumes:

There are no fixed factors of production.
There are no variable factors of production.
Utility is maximised when marginal product falls.
Some factors of production are fixed.

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.

The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:

Positive.
Strictly linear.
Flat.
Negative.

The percentage change in quantity demanded of a given good, with respect to the percentage change in the price of "another" good is called:

Price elasticity of demand.
Income elasticity of demand.
Cross price elasticity of demand.
Supply price elasticity.

Moving from left to right, the typical production possibilities curve:

Is horizontal.
Has a constant positive slope.
Illustrates increasing opportunity costs.
Illustrates decreasing opportunity costs.

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.

In pure capitalism, freedom of enterprise means that:

Businesses are free to produce products that consumers want.
Consumers are free to buy goods and services that they want.
Resources are distributed freely to businesses that want them.
Government is free to direct the actions of businesses.

At any given point on an indifference curve, the the slope is equal to:

Unity.
The marginal rate of substitution.
The consumer's marginal utility.
None of the given options.

The concept of a risk premium applies to a person that is:

Risk averse
Risk neutral
Risk loving
All of the given options

The law of diminishing marginal utility states:

The supply curve slopes upward.
Your utility grows at a slower and slower rate as you consume more and more units of a good.
The elasticity of demand is infinite.
None of the given options.

The demand curve faced by an individual firm in a competitive market is:

Upward sloping.
Downward sloping.
Horizontal.
Vertical.

More output could be produced with available resources if:

Resources are allocated efficiently.
Resources are imperfectly shiftable among alternative uses.
Prices are reduced.
The economy is operating at a point inside the production possibilities curve

According to the law of diminishing marginal utility, as the consumption of particular good increases:

Total utility increases.
Marginal utility increases.
Total utility decreases.
Marginal utility decreases.

A demand schedule is best described as:

A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.
A graphical representation of the law of demand.
A systematic listing of all the variables that might conceivably bring about a change in demand.
A symbolic representation of the law of demand: P, Q and P, Q.

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

Quantity demanded.
Quantity supplied.
Price.
Output.

Economists who are concerned about the behavior of individual households, firms and industries are studying:

Microeconomics
Macroeconomics
Positive economics
Normative economics

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

Must be normal.
Must be inferior.
Must be Giffen.
Can be normal or inferior.

The extra value that consumers receive above what they pay for that good is called:

Producer surplus.
Utility.
Marginal utility.
Consumer surplus.

In pure capitalism, freedom of enterprise means that:

Businesses are free to produce products that consumers want.
Consumers are free to buy goods and services that they want.
Resources are distributed freely to businesses that want them.
Government is free to direct the actions of businesses.

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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.

Which of the following is a characteristic of a mixed economy?

In mixed economy, resources are governed by both government and individuals.
Mixed economy utilizes the characteristics of both market economy and planned economy to allocate goods and services.
People are free to make their decisions and government controls the Defence.
All of the given options are true.

The law of diminishing marginal utility indicates that the demand curve is:

Vertical.

U shaped.
Upward sloping.
Downward sloping.

In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:

Decreasing returns to scale.
Constant returns to scale.
Increasing returns to scale.
Negative returns to scale.

The burden of a tax is shifted toward buyers if:

Demand is perfectly elastic.
Demand is relatively more elastic than supply.
Demand is relatively more inelastic than supply.
Demand and supply have equal elasticities.

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

Must be normal.
Must be inferior.
Must be Giffen.
Can be normal or inferior.

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.

Which of the following is considered to be a variable cost in the long run?

Expenditures for wages.
Expenditures for research and development.
Expenditures for raw materials.
All of the given Costs.

If a profit-maximizing firm finds that, at its current level of production, MR < MC, it will:

Increase output.
Operate at a loss.
Shut down.
Decrease output.

If utility remains the same for original and new combination of goods consumed, the effect of a change in the price of a good on the quantities consumed will be called as:

Substitution effect.
Real income effect.
Income effect.
Budget effect.

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

200.
5Q.
5.
5 + (200/Q).

If the income elasticity of demand for boots is 0.2, a 10% increase in consumer income will lead to a:

20% increase in the quantity of boots demanded.
20% decrease in the quantity of boots demanded.
2% increase in the quantity of boots demanded.
0.2% increase in the quantity of boots demanded.

We know that the demand for a good or service is inelastic if:

When price rises, quantity demanded rises.
When price rises, quantity demanded falls.
When price rises, total revenue rises.
When price rises, total revenue falls.

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

Risk averse.
Risk neutral.
Risk loving.
Insufficient information for a decision.

Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:

The two goods are normal goods.
The two goods are inferior goods.
The two goods are substitutes.
The two goods are complements.

A normative economic statement:

Is a statement of fact.
Is a hypothesis used to test economic theory.
Is a statement of what ought to be, not what is.
Is a statement of what will occur if certain assumptions are true.

Which of the following might be considered to be a characteristic of a planned economy?

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

If consumer incomes increase, the demand for product Y:

Will necessarily remain unchanged.
Will shift to the right if Y is a complementary good.
Will shift to the right if Y is a normal good.
Will shift to the right if Y is an inferior good.

If a decrease in price increases total revenue:

Demand is elastic.
Demand is inelastic.
Supply is elastic.
Supply is inelastic.

If the price elasticity of demand for beans is estimated to be -0.4, then a 20% increase in price will decrease the quantity demanded by:

14%.
8%.
16%.
20%.

Which of the following is a characteristic of a mixed economy?

In mixed economy, resources are governed by both government and individuals.
Mixed economy utilizes the characteristics of both market economy and planned economy to allocate goods and services.
People are free to make their decisions and government controls the Defence.
All of the given options are true.

If a firm operates in a perfectly competitive market, then it will most likely:

Advertise its product on television.
Have difficult time obtaining information about the market price.
Settle for whatever price is offered.
Have an easy time keeping other firms out of the market.

Which of the following is TRUE about the production function?

It relates inputs with output.
It generates a curve that is upward sloping.
It shows diminishing marginal product of an input, since it gets flatter as output rises.
All of the given options are true.

Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:

The demand for both Y and Z will increase
The demand for Y will increase while the demand for Z will decrease
The demand for Y will decrease while the demand for Z will increase
The demand for both Y and Z will decrease

An indifference curve is:

A collection of market baskets that are equally desirable to the consumer.
A collection of market baskets that the consumer can buy.
A curve whose elasticity is constant for every price.
A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

Which of the following best describes an inferior good?

A good for which price and quantity demanded are directly related.
A good for which price and quantity demanded are inversely related.
A good for which income and quantity demanded are directly related.
A good for which income and quantity demanded are inversely related.

Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:

The two goods are normal goods.
The two goods are inferior goods.
The two goods are substitutes.
The two goods are complements

If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:

More bread will be produced to meet the increased demand.
There will be a shortage of bread.
The demand for bread will decrease because suppliers will reduce their supply.
A surplus of bread will emerge.

If the cost of computer components falls, then

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.

More output could be produced with available resources if:

Resources are allocated efficiently.

Resources are imperfectly shiftable among alternative uses.
Prices are reduced.
The economy is operating at a point inside the production possibilities curve.

The law of diminishing returns assumes:

There are no fixed factors of production.
There are no variable factors of production.
Utility is maximised when marginal product falls.
Some factors of production are fixed.

Production possibilities analysis assumes that:

Resources and technology increase with production.
Resources are used to produce thousands of goods.
Extra resources are saved for emergency use.
Resources are used in a technically efficient way

Average physical product is equal to:

TPPF
TPPF/QF
QF / TPPF
TPPF * QF

If two goods were perfect complements, their indifference curves would be:

Straight lines
L-shaped
Rectangular hyperbolas
Parabolic

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.

The percentage change in quantity demanded given a percentage change in consumer's income is known as:

Price elasticity of demand.
Income elasticity of demand.
Supply price elasticity.
Cross price elasticity.

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.

At any given point on an indifference curve, the the slope is equal to:

Unity.
The marginal rate of substitution.
The consumer's marginal utility.
None of the given options.

Demand is said to be ---------- when the elasticity of demand is less than 1.

Increasing
Decreasing
Elastic
Inelastic

We know that the demand for a good or service is inelastic if:

When price rises, quantity demanded rises.
When price rises, quantity demanded falls.
When price rises, total revenue rises.
When price rises, total revenue falls.

Which of the following is true about the entrepreneur?

An entrepreneur is an innovator.

An entrepreneur is someone who brings resources together and produces a product.
An entrepreneur is a risk taker.
All of the given options are correct.

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.

Diminishing marginal returns implies:

Decreasing marginal costs.
Increasing marginal costs.
Decreasing average variable costs.
Decreasing average fixed costs.

Which of the following is true about the point on a nation's production-possibilities curve?

It shows an undesirable combination of goods and services.
It shows the combinations of production that are unattainable, given current technology and resources.
It shows the level of production that will cause both unemployment and inflation.
It shows that resources are fully employed in producing a particular combination of goods and services.

Which of the following is true about the market mechanism?

It is not a very efficient means of communicating consumer demand to the producers of goods and services.
It works through central planning by government.
It eliminates market failures created by government.
It works because prices serve as a means of communication between consumers and producers.

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

200.

5Q.
5.
5 + (200/Q).

A market is said to be in equilibrium when:

Supply equals Price.
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.

The concept of a risk premium applies to a person that is:

Risk averse
Risk neutral
Risk loving
All of the given options

If the income elasticity of demand for boots is 0.2, a 10% increase in consumer income will lead to a:

20% increase in the quantity of boots demanded.
20% decrease in the quantity of boots demanded.
2% increase in the quantity of boots demanded.
0.2% increase in the quantity of boots demanded.

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.

Cartels are likely to fail when:

The members adhere to their output quotas.
The non-cartel members increase output.
The members charge identical prices.
None of the given options.

pure capitalism, freedom of enterprise means that:

Businesses are free to produce products that consumers want.
Consumers are free to buy goods and services that they want.
Resources are distributed freely to businesses that want them.
Government is free to direct the actions of businesses

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.

a perfectly competitive market:

Firms can freely enter and exit.
Firms sell a differentiated product.
Transaction costs are high.
All of the given options

If a firm operates in a perfectly competitive market, then it will most likely:

Advertise its product on television.
Have difficult time obtaining information about the market price.
Settle for whatever price is offered.
Have an easy time keeping other firms out of the market.

marginal product is above the average product:

The total product will fall
The average product will rise
Average variable costs will fall
Total revenue will fall

demand curve facing a perfectly competitive firm is:

Upward sloping.
Downward sloping.
Horizontal.

Vertical.

If two goods were perfect complements, their indifference curves would be:

Straight lines
L-shaped
Rectangular hyperbolas
Parabolic

The marginal rate of substitution is equal to the:

Magnitude of the slope of the indifference curve
Relative price
Marginal cost of each good
Slope of the budget line

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

Must be normal.
Must be inferior.
Must be Giffen.
Can be normal or inferior.

The concept of a risk premium applies to a person that is:

Risk averse
Risk neutral
Risk loving
All of the given options

Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:

The demand for both Y and Z will increase.
The demand for Y will increase while the demand for Z will decrease.
The demand for Y will decrease while the demand for Z will increase.
The demand for both Y and Z will decrease.

Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:

The demand for both Y and Z will increase.
The demand for Y will increase while the demand for Z will decrease.
The demand for Y will decrease while the demand for Z will increase.
The demand for both Y and Z will decrease.

Which of the following statements describes the presence of diminishing returns.

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.

Which of the following defines the opportunity cost?

It is measured only in rupees.
It is the cost to society of producing the goods.
It is the difficulty associated with using one good in place of another.
It is the cost of next best alternative forgone.

The substitution effect of a price decrease for a good with a normal indifference curve pattern:

Is always inversely related to the price change.
Measures the change in consumption of the good that is due to the consumer's feeling of being richer.
Is measured by the horizontal distance between the original and the new indifference curves.
Is sufficient information to plot an ordinary demand curve for the commodity being considered.

The demand curve faced by an individual firm in a competitive market is:

Upward sloping.
Downward sloping.
Horizontal.
Vertical.

Price floor results in:

Equilibrium.

Excess demand.
Excess supply.
All of the given options.

In a production process, all inputs are increased by 10%; but output increases more than 10%. This means that the firm experiences:

Decreasing returns to scale.
Constant returns to scale.
Increasing returns to scale.
Negative returns to scale.

When government sets the price of a good and that price is below the equilibrium price, the result will be:

A surplus of the good.
A shortage of the good.
An increase in the demand for the good.
A decrease in the supply of the good.

A person with a diminishing marginal utility of income:

Will be risk averse.
Will be risk neutral.
Will be risk loving.
Cannot decide without more information.

A person with a diminishing marginal utility of income:

Will be risk averse.
Will be risk neutral.
Will be risk loving.
Cannot decide without more information.

Which of the following is true about the point on a nation's production-possibilities curve?

It shows an undesirable combination of goods and services.
It shows the combinations of production that are unattainable, given current technology and resources.
It shows the level of production that will cause both unemployment and inflation.

It shows that resources are fully employed in producing a particular combination of goods and services.

According to the law of diminishing marginal utility, as the consumption of particular good increases:

Total utility increases.
Marginal utility increases.
Total utility decreases.
Marginal utility decreases.

More output could be produced with available resources if:

Resources are allocated efficiently.
Resources are imperfectly shiftable among alternative uses.
Prices are reduced.
The economy is operating at a point inside the production possibilities curve.

Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:

The two goods are normal goods.
The two goods are inferior goods.
The two goods are substitutes.
The two goods are complements.

The demand curve facing a perfectly competitive firm is:

Upward sloping.
Downward sloping.
Horizontal.
Vertical.

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Magnitude of the slope of the indifference curve
Relative price
Marginal cost of each good
Slope of the budget line

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Decreasing returns to scale.
Constant returns to scale.
Increasing returns to scale.
Negative returns to scale.

Price floor results in:

Equilibrium.
Excess demand.
Excess supply.
All of the given options.

A person with a diminishing marginal utility of income:

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Will be risk loving.
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Suppose we find that the cross-price elasticity of demand for two products is a negative number. We know that:

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The two goods are inferior goods.
The two goods are substitutes.
The two goods are complements.

The demand curve facing a perfectly competitive firm is:

The same as its average revenue curve but not the same as its marginal revenue curve.
The same as its average revenue curve and its marginal revenue curve.
The same as its marginal revenue curve but not its average revenue curve.
Not the same as either its marginal revenue curve or its average revenue curve.

Average physical product is equal to:

TPPF
TPPF/QF
QF / TPPF
TPPF * QF

In the long run, profits will equal zero in a competitive market because of:

The availability of information.
Identical products being produced by all firms.
Constant returns to scale.
Free entry and exit

Which of the following is true about the total cost curve?

It relates output with total cost.
It is usually upward sloping.
Gets steeper as output rises, due to diminishing marginal product of an input.
All of the given options are true

The shape of production possibilities curve is:

Concave.
Convex.
Linear.
Positive.

Which 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.

"Each firm produces an identical product and there is freedom of entry and exit". This is TRUE for which of the following market structures?

For Monopoly.
For Oligopoly.
For Perfect competition.
For Monopolistic competition.

Production possibilities analysis assumes that:

Resources and technology increase with production.
Resources are used to produce thousands of goods. Not sure
Extra resources are saved for emergency use.
Resources are used in a technically efficient way.

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

A negatively sloped isoquant implies:

Products with negative marginal utilities.
Products with positive marginal utilities.
Inputs with negative marginal products.
Inputs with positive marginal products

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.

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.

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 Scedule.
Demand Scedule.
Quantity supplied Scedule.
Quantity demanded Scedule.

If marginal product is below average product:

The total product will fall
The average product will fall
Average variable costs will fall
Total revenue will fall

When the price of petrol rises by 8%, the quantity of petrol purchased falls by 6%. This shows that the demand for petrol is:

Perfectly elastic.
Unit elastic.
Price elastic.
Price inelastic.

When the price elasticity of demand for a good is greater than 1, we say that the demand is:

Increasing.

Decreasing.
Elastic.
Inelastic

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

Demand is inelastic.
The elasticity of demand is 2.
Total revenue will decrease.
Demand is unit elastic.

Indifference curve is:

A collection of market baskets that are equally desirable to the consumer.
A collection of market baskets that the consumer can buy.
A curve whose elasticity is constant for every price.
A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

The burden of a tax is shifted toward buyers if:

Demand is perfectly elastic.
Demand is relatively more elastic than supply.
Demand is relatively more inelastic than supply.
Demand and supply have equal elasticities

When the price elasticity of demand for a good is greater than 1, we say that the demand is:

Increasing.
Decreasing.
Elastic.
Inelastic.

If firms in a competitive industry are experiencing losses in the short run, then:

The firms will try to raise prices.
Some firms will choose to shut down.
The industry will cease to exist.
New firms will enter the industry.

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.

Moving from left to right, the typical production possibilities curve:

Is horizontal.
Has a constant positive slope.
Illustrates increasing opportunity costs.
Illustrates decreasing opportunity costs

At any given point on an indifference curve, the slope is equal to:

Unity.
The marginal rate of substitution.
The consumer's marginal utility.
None of the given options.

A market is said to be in equilibrium when:

Supply equals Price.
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.

We know that the demand for a product is elastic if:

When price rises, revenue rises.
When price rises, revenue falls.
When price rises, quantity demanded rises.
When price falls, quantity demanded rises.

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.

If two goods were perfect complements, their indifference curves would be:

Straight lines
L-shaped
Rectangular hyperbolas
Parabolic

Which of the following statements describes increasing returns to scale:

Doubling the inputs used leads to double the output.
Increasing the inputs by 50% leads to a 25% increase in output.
Increasing inputs by 1/4 leads to an increase in output of 1/3.
None of the given options.

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.

An indifference curve is:

A collection of market baskets that are equally desirable to the consumer.
A collection of market baskets that the consumer can buy.
A curve whose elasticity is constant for every price.
A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

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

Satisfaction.
Use.
Pleasure.
Utility.

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

200.
5Q
5.
5 + (200/Q).

The demand curve facing a perfectly competitive firm is:

The same as its average revenue curve but not the same as its marginal revenue curve.
The same as its average revenue curve and its marginal revenue curve.
The same as its marginal revenue curve but not its average revenue curve.
Not the same as either its marginal revenue curve or its average revenue curve

Insurance companies operate under the principle of:

Law of large numbers.
Law of small numbers.
Law of zero numbers.
All of the given options

The opportunity cost of an action:

Will be the same for everyone.
Is the value of the next best alternative.
Measures the undesirable aspects of that action.
Is the average amount of unhappiness experienced by everyone involved.

Which of the following is TRUE about the production function?

It relates inputs with output.
It generates a curve that is upward sloping.
It shows diminishing marginal product of an input, since it gets flatter as output rises.
All of the given options are true

"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.

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.

It measures the percentage change in demand given a percentage change in consumer's income.

Price elasticity of demand
Income elasticity of demand
Supply price elasticity
Cross price elasticity

Which of the following concepts apply to oligopoly more than to any other market structure?

Advertising and product differentiation
Easy entry and more than one firm in the market
Homogeneous product and perfect information
Concentration and interdependence

Goods produced by oligopolistic industries are typically:

Standardized
Differentiated
Differentiated if industrial goods
Differentiated if consumer goods

(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

Which of the following statements is true regarding the differences between economic and accounting costs?

Accounting costs include all implicit and explicit costs.
Economic costs include implied costs only.
Accountants consider only implicit costs when calculating costs.
Accounting costs include only explicit costs.

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.

Incremental cost is the same concept as -------- cost.

average
marginal
fixed
variable

Which of the following costs always declines as output increases?

average cost
marginal cost
fixed cost
average fixed cost
average variable cost

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the variable cost?

200
5Q
5
5 + (200/Q)
non of the above

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the fixed cost?

200
5Q
5
5 + (200/Q)

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the marginal cost?

200
5Q
5
5 + (200/Q)

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average total cost?

500
5Q
5
5 + (200/Q)

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average fixed cost?

500
5Q
5
none of the above

An isocost line reveals the

costs of inputs needed to produce along an isoquant.
costs of inputs needed to produce along an expansion path.
input combinations that can be purchased with a given outlay of funds.
output combinations that can be produced with a given outlay of funds.

Assume that a firm spends $500 on two inputs, labor (graphed on the horizontal axis) and capital (graphed on the vertical axis). If the wage rate is $20 per hour and the rental cost of capital is $25 per hour, the slope of the isocost curve will be

500.
25/500.
-4/5.
25/20 or 1/4.

Which of the following is NOT an expression for the cost minimizing combination of inputs?

MRTS = MPL /MPK.
MPL/w = MPK/r.
MRTS = w/r.
MPL/MPK = w/r.

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 least input cost to the firm.
the two products are being produced at the highest input cost to the firm.

Suppose that the price of labor (PL) is $10 and the price of capital (PK) is $20. What is the equation of the isocost line corresponding to a total cost of $100?

PL + 20PK
100 = 10L + 20K
100 = 30(L+K)
100 + 30 (PL + PK)
none of the above

A firm employs 100 workers at a wage rate of $10 per hour, and 50 units of capital at a rate of $21 per hour. The marginal product of labor is 3, and the marginal product of capital is 5. The firm

is producing its current output level at the minimum cost.
could reduce the cost of producing its current output level by employing more capital and less labor.
could reduce the cost of producing its current output level by employing more labor and less capital.

could increase its output at no extra cost by employing more capital and less labor.

Assume that a firm's production process is subject to increasing returns to scale over a broad range of outputs. Long run average costs over this output will tend to

increase.
decline.
remain constant.
fall to a minimum and then rise.

The cost-output elasticity is used to measure:

economies of scope.
economies of scale.
the curvature in the fixed cost curve.
steepness of the production function.

Cost-output elasticity can be written and calculated as

MC/AC.
AC/MC
(AC)(MC)
(AC)2(MC)
(AC)(MC)2.

When there are economies of scale,

MC > AC, so cost-output elasticity is greater than AC.
MC < AC, so cost-output elasticity is less than AC.
MC < AC, so cost-output elasticity is greater than 1.
MC < AC, so cost-output elasticity is less than 1.

Generally, economies of scope are present when

economies of scale are present in the production of two or more goods.
economies of scale are constant in the joint production of two products.
joint output is less from a single firm than could be achieved from two different firms each producing a single product (assuming equivalent production inputs in both situations).

joint output is greater from a single firm producing two goods than could be achieved by two

Economies of scope refer to

changes in technology.
the very long run.
multiproduct firms.
single product firms that utilize multiple plants.

Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves

diseconomies of scope.
economies of scale.
decreasing returns to scale.
increasing returns to scale.

The fundamental problem of economics implies that:

governments must be relied upon to supply essential goods and services
inflation and unemployment are unavoidable
growing populations will deplete natural resources
individuals and communities must make choices among competing alternatives

An economy that has achieved "full production" has achieved:

Both allocative and productive efficiency
Allocative but not productive efficiency
Productive but not allocative efficiency
Neither allocative nor productive efficiency

Government authorities have managed to reduce the unemployment rate from 6% to 4% in a hypothetical economy. As a result:

the economy's production possibilities curve has shifted outward
the economy has moved downward along its production possibilities curve
the economy has moved from a point inside to a point closer to its production possibilities curve
the economy's production possibilities curve has become steeper

Consider an economy that can produce either capital goods or consumer goods. If the opportunity cost of consumer goods is always 5 capital goods, then:

the production possibilities curve is a straight line
the opportunity cost of capital goods is always 5 consumer goods
the production possibilities curve is upward sloping
the production possibilities curve is bowed inward

Which of the following would most likely shift the production possibilities curve for a nation outward?

A reduction in unemployment
An increase in the production of capital goods
A reduction in discrimination
An increase in the production of consumer goods

Margaret decides to stay home and study for her exam rather than going out with her friends to a movie. Her dilemma is an example of:

the economic perspective
marginal analysis
allocative efficiency
opportunity cost

A nation achieves "allocative efficiency" if:

it produces at a point on, rather than inside, its production possibilities curve
it produces that combination of goods most desired by society
all available resources are fully employed
marginal benefit exceeds marginal cost for every possible good

In the circular flow diagram, firms:

receive revenue and supply resources in the resource market
receive revenue and demand resources in the product market
incur costs and demand resources in the resource market
incur costs and supply goods and services in the product market

The process by which resources are transformed into useful forms is

Capitalization.
Consumption.
Allocation.
Production.

The concept of choice would become irrelevant if

Capital was eliminated.
Scarcity were eliminated.
we were dealing with a very simple, one-person economy.
poverty were eliminated.

Which of the following is not a resource as the term is used by economists?

money.
land.
buildings.
labor.

Capital, as economists use the term,

is the money the firm spends to hire resources.
is money the firm raises from selling stock.
refers to the process by which resources are transformed into useful forms.
refers to things that have already been produced that are in turn used to produce other goods and services.

Opportunity cost, most broadly define, is

the additional cost of producing an additional unit of output.
what we forgo, or give up, when we make a choice or a decision.
a cost that cannot be avoided, regardless of what is done in the future.
the additional cost of buying an additional unit of a product.

A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a

demand curve.
supply curve
production possibility frontier.

circular-flow diagram.

Periods of “less than full employment” of resources correspond to

points on the ppf.
points outside the ppf.
either points inside or outside the ppf.
points inside the ppf.

What lies is at the heart of the allocation of goods and services in a free-market economy?

Concerns of equity or equal distribution among individuals.
The order or command of the ruling government or dictator.
The wishes of consumers in the market.
The price mechanism.

The phrase 'ceteris paribus' is best expressed as

'all else equal.'
'everything affects everything else.'
'scarcity is a fact of life.'
'there is no such thing as a free lunch.'

Laboratory (or controlled) experiments cannot be performed in economics because:

of resource scarcity.
economics is a natural science.
of the difficulty of distinguishing between normative and positive statements.
economics is a social science.

Positive statements are:

value judgments
verifiable or testable
statements in the affirmative
good statements

The former Soviet Union was an example of:

a planned economy
free-market/capitalism
dictatorship
a mixed economy

Rational choice or rational decision-making involves

comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
weighing up total costs and total benefits associated with a decision
weighing up marginal costs and marginal benefits associated with a decision
all of the above.

The PPF can be used to illustrate:

the principle of opportunity costs and increasing opportunity costs
the distinction between micro and macroeconomics
efficient, infeasible and inefficient production combinations
all of the above

The concept of "interdependence of markets" can refer to the interdependence between:

two or more factor markets
goods and factor markets
goods markets
all of the above

The 'law of demand' implies that

as prices fall, quantity demanded increases.
as prices fall, demand increases.
as prices rise, quantity demanded increases.
as prices rise, demand decreases.

What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

the substitution effect.
the ceteris paribus effect.
the total price effect.

the income effect.

The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:

A's consumers have had an increase in income.
the price of A has increased.
A's advertising is not as effective as in the past.
the price of rival brand B has increased.

Demand curves in P-Q space are derived while holding constant

consumer tastes and the prices of other goods.
incomes, tastes, and the price of the good.
incomes and tastes.
incomes, tastes, and the prices of other goods.

Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are

perfect substitutes.
unrelated goods.
complements.
substitutes.

If the demand for coffee decreases as income decreases, coffee is

a normal good.
a complementary good.
an inferior good.
a substitute good.

Which of the following will NOT cause a shift in the demand curve for compact discs?

a change in the price of pre-recorded cassette tapes.
a change in wealth.
a change in income.
a change in the price of compact discs.

Which of the following is consistent with the law of supply?

As the price of calculators rises, the supply of calculators increases, ceteris paribus.
As the price of calculators falls, the supply of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.
As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers.

a decrease in the supply of
a decrease in the quantity supplied of
an increase in the supply of
an increase in the quantity supplied of

When there is excess demand in an unregulated market, there is a tendency for

quantity demanded to increase.
quantity supplied to decrease.
price to fall.
price to rise.

Equilibrium in the market for good A obtains

when there is no surplus or shortage prevailing in the market
where the demand and supply curves for A intersect
when all of what is produced of A is consumed
all of the above

A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by

a decrease in supply.
a fall in income.
a fall in the price of a complementary good.
a fall in the number of substitute goods.
Assume the good is normal

A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by

a fall in the price of a complementary good.
a fall in income.
a change in tastes such that consumers prefer the good more.
a rise in the number of substitute goods.
Assume the good is normal

A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by

an increase in supply.
a rise in income.
a rise in the price of a complementary good.
a fall in the number of substitute goods.
Assume the good is normal

When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as

price fixing.
quantity setting.
quantity adjustment.
price rationing.

How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?

2
4
8
16

What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right

price falls unambiguously but the effect on quantity cannot be determined
both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left

price falls unambiguously but the effect on quantity cannot be determined
both price and quantity falls unambiguously
quantity falls unambiguously but the effect on price cannot be determined
the effect on both price and quantity cannot be determined

A price ceiling imposed by the government can cause a shortage (excess demand)

when the price ceiling is above the free (or unregulated) market price
when the price ceiling is below the free (or unregulated) market price
when the price ceiling is equal to the free (or unregulated) market price
either of the above

What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?

Price falls, quantity rises
Price rises, quantity falls
Both price and quantity fall
Both price and quantity rise

A price floor is

a maximum price usually set by government, that sellers may charge for a good or service.
a minimum price usually set by government, that sellers must charge for a good or service.
the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
the minimum price that consumers are willing to pay for a good or service.

The need for rationing a good arises when

there is a perfectly inelastic demand for the good.
supply exceeds demand.
demand exceeds supply.
a surplus exists.

If the “regulated-market” price is below the equilibrium (or “free-market” price) price,

the quantity demanded will be greater than quantity supplied.
demand will be less than supply.
quantity demanded will be less than quantity supplied.
quantity demanded will equal quantity supplied.

If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that

more workers would become employed.
there would be more unemployment.
the costs and prices of firms employing cheap labour would increase.
wages in general would fall as employers tried to hold down costs.

Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce

are normal goods.
have few complementary goods.
have many complementary goods.
have few substitutes.

When the decrease in the price of one good causes the demand for another good to decrease, the goods are

complements.
normal.
inferior.
substitutes.

The price elasticity of demand is the

ratio of the percentage change in quantity demanded to the percentage change in price.
ratio of the change in price to the change in quantity demanded.
ratio of the change in quantity demanded to the change in price.

ratio of the percentage change in price to the percentage change in quantity demanded.

The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:

inelastic.
perfectly inelastic.
elastic.
perfectly elastic.

The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is

elastic.
inelastic.
unitarily elastic
perfectly elastic

If the cross-price elasticity of demand between two goods is negative, then the two goods are

unrelated goods.
substitutes.
complements.
normal goods.

If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is

-4.
4.
-0.25.
0.25.

The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?

This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.

The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time.
This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.
No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.

The burden (incidence) of a tax will fall mainly on the producers if:

The producers are the ones legally obliged to pay the tax.
Supply is inelastic and demand is elastic.
Demand is inelastic and supply is elastic.
There are many producers in the market.

Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?

Inferior goods.
Normal goods.
Substitute goods.
Complementary goods.

Each type of elasticity has its own set of determinants. You are given four determinants below. Match them with the three types of elasticity given:

The number and closeness of substitute goods:
Time:
The proportion of income spent on the goods:
The rate at which the desire for a good is satisfies as consumption increases:

If total revenue rises by 10% when price increases by 5%, this means:

demand is price inelastic
demand is price elastic
demand is unit elastic
demand is perfectly inelastic

If a 5% increase in price causes no change in total revenue, this means:

demand is price inelastic
demand is price elastic
demand is unit elastic
demand is perfectly inelastic

Which of the following statements is true:

Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.
Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.
We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range
A straight line demand curve with a slope of -1 delivers unit elasticity.

When firms advertise their product, they are trying to:

Shift the demand curve to the right
Make the demand curve steeper
Make demand for the product more inelastic
All of the above

"It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy."

False. A good can only have one characterization in an economy, normal or inferior, not both
False. Milk is always and everywhere a normal good.
True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.
True. Some people in the economy like milk, others don't.

A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:

the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high
Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income
Z's terms of trade (price of exports / price of imports) deteriorate
All of the above.

"The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems." This most closely illustrates which elasticity concept:

Price elasticity of demand
Price elasticity of supply
Income elasticity of demand
Cross price elasticity of demand

Economists use the term utility to mean

the value of a product before it has been advertised.
the satisfaction a consumer obtains from a good or service.
any characteristic of a good or service which cannot be measured.
the contribution a good or service makes to social welfare.

Economists use the term marginal utility to mean

additional satisfaction gained divided by additional cost of the last unit.
additional satisfaction gained by the consumption of one more unit of a good.
total satisfaction gained when consuming a given number of units.
the process of comparing marginal units of all goods which could be purchased.

The law of diminishing marginal utility states that

total satisfaction will decrease as more units of the good are consumed.
the satisfaction derived from each additional unit of a good consumed will decrease.
total utility will become negative.
Both the first and third option.

By total consumer surplus economists mean (in P-Q space)

The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.
the area between the average revenue and marginal revenue curves.
the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).
A and C.

The equation for Rida's demand curve for bouquets of flowers is P = 40 - 2Q. If the price of a bouquet is Rs18, her consumer surplus will be

Rs198
Rs121.
Rs11.
Rs242.

The price of an ice cream cone is $1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to $1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?

The marginal utility of the fourth ice cream cone per week must be worth less than $1.25 to you.
The total utility of the four ice cream cones per week must be worth less than $5.75 (=3*$1.50 +$1.25) to you.
The total utility of the four ice cream cones per week must be less than $5.00 (3*$1.25+$1.25) to you.
None of the above.

Economists have used the idea of diminishing marginal utility to explain why

demand curves slope downwards.
demand curves become flatter at lower prices.
demand curves are inelastic.
Both the first and second option.

A consumer will buy more units of a good if the value of the good's

total utility is greater than price.
marginal utility is less than price.
marginal utility is greater than price.
total utility is less than price.

The diamond-water paradox can be explained by suggesting that the price of a product is determined by

consumer incomes.
its marginal utility.
consumer surplus.
diminishing marginal utility.

A utility-maximising consumer changes her spending on goods X and Y until

MUx = MUy
Px (MUx) = Py(MUy)
TUx/Px = TUy/Py
MUx (Py) = MUy (Px)

The MUx/MUy ratio is 10 and the Px/Py ratio is 8, so the consumer should buy

less X and more Y.
more X and more Y.
more X and less Y.
less X and less Y.

Economists define an indifference curve as the set of points

at which the consumer is in equilibrium as the consumer's income changes.
which yield the same marginal utility.
which yield the same total utility.
At which the consumer is in equilibrium as prices change.

Which of the following is a property of an indifference curve?

the marginal rate of substitution is constant as you move along an indifference curve.
marginal utility is constant as you move along an indifference curve.
it is convex to the origin.
total utility is greatest where the 45 degree line cuts the indifference curve.

The limits imposed on household choices by income, wealth, and product prices are captured by the

budget constraint.
choice set.
assumption of perfect knowledge.
preference set.

Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?

50 units of clothing and 50 units of food.
20 units of clothing and 50 units of food.
10 units of clothing and 25 units of food.
0 units of clothing and 50 units of food.

If a household's money income is doubled,

the budget constraint will shift in and parallel to the old one.
the budget constraint is not affected.
the budget constraint will swivel outward at the Y-intercept.
the budget constraint will shift out parallel to the old one.

The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is

the income-consumption curve.
the Engel curve.
the demand curve.
the income-demand curve.

The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is

the Engel curve.
the demand curve for X.
the substitution curve.
the price-consumption curve for X.

The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:

the Engel curve.
the demand curve for X.
the substitution curve.
the price-consumption curve for X.

If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a

inferior good.
Giffen good.
normal good.
superior good.

If the price (or budget) line has a slope of -2 and it cuts indifference curve ICa at points P and R (given that the slope of ICa at point P is -4 and at point R is -1), the consumer can maximize utility by:

choosing consumption bundle P
choosing consumption bundle R
moving to a higher indifference curve
we don't enough information to answer the question

Indifference curves cannot

be L shaped
be straight lines
intersect
all of the above

The main problem with marginal utility analysis is:

that it cannot solve problems involving more than two goods
its cardinal measurement of utility
its inability to explain the diamond-water paradox
all of the above

This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is < 1, and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?

She is risk averse
She is risk neutral
She is risk loving
We do not have enough information to answer the question

The concept of diminishing marginal utility of income (DMUy) helps explain:

why a marginal dollar might have higher utility for a pauper than a millionaire
why the total utility curve (in Utility-Income space) is convex
why the average consumer is risk-averse
all of the above

"Moral hazard" and "adverse selection" are problems related to asymmetric information, that arise

in ex-ante and ex-post contexts, respectively
in ex-post and ex-ante contexts, respectively
in ex-ante contexts
in ex-post contexts

Profit-maximising firms want to maximize the difference between

total revenue and total cost.
marginal revenue and marginal cost.
marginal revenue and average cost.
total revenue and marginal cost.

Which statement is FALSE?

Fixed costs do not depend on the firm's level of output.
Fixed costs are zero if the firm is producing nothing.
Fixed costs are the difference between total costs and total variable costs.
There are no fixed costs in the long run.

Which of the following is most likely to be a variable cost for a firm?

The monthly rent on office space that it leased for a year.
The franchiser's fee that a restaurant must pay to the national restaurant chain.
The interest payments made on loans.
Workers' wages.

The costs that depend on output in the short run are

total variable costs only.
both total variable costs and total costs.
total costs only.
total fixed cost only.

The short run, as economists use the phrase, is characterized by

a period where the law of diminishing returns does not hold.
at least one fixed factor of production, and firms neither leaving nor entering the industry.
all inputs being variable.
no variable inputs - that is all of the factors of production are fixed.

Diminishing marginal returns implies

increasing average fixed costs.
decreasing marginal costs.
decreasing average variable costs.
increasing marginal costs.

Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?

If AP is at a maximum, then MP is also.
If TP is declining then AP is negative.
If AP exceeds MP, then AP is falling.
If AP = MP, then total product is at a maximum.

If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is _____ and the average product of the third worker is _____.

270; 160
3.33; 10
10; 30
30; 10

Engineers for Imran Bike Company have determined that a 15% increase in "all" inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause _____ as output increases.

Long-run average costs to increase
Long-run marginal costs to increase
Long-run average costs to remain constant
Long-run average costs to decrease

Suppose Isa Khan's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be

upward sloping to the right.
U-shaped.
horizontal.
downward sloping to the right.

A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is

an isocost line.
a production function.
an isoquant.
an indifference curve.

The rate at which a firm can substitute capital for labour and hold output constant is the

law of diminishing marginal returns.
marginal rate of technical substitution.
marginal rate of substitution.
marginal rate of production.

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

budget constraint.
isoquant.
expenditure set.
isocost line.

The formula for average fixed costs is

dTFC/dq.
TFC/q.
q/TFC.
TFC - q.

The formula for AVC is

q/TVC.
dTVC/dq.
dq/dTVC.
TVC/q.

Marginal revenue is

the additional profit the firm earns when it sells an additional unit of output.
the added revenue that a firm takes in when it increases output by one additional unit.
the difference between total revenue and total costs.
the ratio of total revenue to quantity.

A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is

Rs 15,000.
Rs 25,000.
Rs 35,000.
Zero.

The amount of profit a firm makes can be shown on a diagram using

the AC and AR curves.
the MR and AR curves.
the AC and MC curves.
the MR and MC curves.

A firm's choice of profit-maximising output can be shown on a diagram using

the AC and AR curves.
the MR and AR curves.
the AC and MC curves.
the MR and MC curves.

A firm will shut down in the short run if

total variable costs exceed total revenues.
average cost exceeds price.
total costs exceed total revenues.
it is suffering a loss.

If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on

how much of each input to use.
how much to spend on advertising.
what price to charge.
the design of the product.

Market power is
a firm's ability to charge any price it likes.
a firm's ability to raise price without losing all demand for its product.
a firm's ability to sell any amount of output it desires at the market-determined price.
a firm's ability to monopolise a market completely.

When _____ substitutes exist, a monopolist has _____ power to raise price.

more; more
fewer; less
no; infinite
more; less

If a firm has some degree of market power, then output price

becomes a decision variable for the firm.
is determined by the actions of other firms in the industry.
no longer influences the amount demanded of the firm's product.
is guaranteed to be above a firm's average cost.

Relative to a competitively organised industry, a monopoly

produces less output, charges lower prices and earns economic profits.
produces more output, charges higher prices and earns economic profits.
produces less output, charges higher prices and earns economic profits.
produces less output, charges lower prices and earns only a normal profit.

The cosmetics industry is not considered by economists to be a good example of perfect competition because

firms spend a large amount of money on advertising.
profit margins are very high for both producers and retailers.
there are a very large number of firms in the industry.
there are many government health controls on cosmetic products.

If firms can neither enter nor leave an industry, the relevant time period is the

long run.
immediate run.
intermediate run.
short run.

In the long run

there are no fixed factors of production.
all firms must make economic profits.
a firm can vary all inputs, but it cannot change the mix of inputs it uses.
a firm can shut down, but it cannot exit the industry.

A normal rate of profit

is the rate of return on investments over the interest rate on risk-free government bonds.
is the rate that is just sufficient to keep owners or investors satisfied.
Means zero return for owners or investors.
is the difference between total revenue and total costs.

If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then

total costs exceed normal profit.
the firm is earning an economic profit.
normal profit is zero.
total costs exceed total revenue.

Economic profits are

the difference between total revenue and total costs.
anything greater than the normal opportunity cost of investing.

a rate of profit that is just sufficient to keep owners and investors satisfied.
the opportunity costs of all inputs.

The slope of the marginal revenue curve is

the same as the slope of the demand curve.
half as steep as the demand curve.
twice as steep as the demand curve.
always equal to one.

In a monopoly, marginal revenue is

less than price at low levels of output and greater than price at high levels of output.
always greater than price.
lower than price for all units other than the first.
always equal to price.

Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has

maximised the difference between marginal revenue and marginal cost.
maximised its total revenue.
equated marginal revenue and marginal cost.
set price equal to its average cost.

An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called

an economies of scale monopoly.
a natural monopoly.
a government franchise monopoly.
a fixed cost monopoly.

How can a government regulate a monopoly firm making supernormal profits so that a "socially optimal" outcome obtains:

set the firm's price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.
set the firm's price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.

set the firm's price (and quantity) corresponding to the point where the MR curve intersects the AC curve and AC>MR after that point.
set the firm's price (and quantity) corresponding to the point where the AR curve intersects the MC curve and MC>AR after that point.

Monopolistic competition differs from perfect competition primarily because

in perfect competition, firms can differentiate their products.
in monopolistic competition, firms can differentiate their products.
in monopolistic competition, there are relatively few firms.
in perfect competition, there are no barriers to entry.

In monopolistic competition, firms achieve some degree of market power

by producing differentiated products.
because of barriers to entry into the industry.
because of barriers to exit from the industry.
by virtue of size alone.

A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover

advertising costs.
fixed costs.
marginal costs.
variable costs.

A firm in a monopolistically competitive industry

must lower price to sell more output.
sells a fixed amount of output regardless of price.
can sell an infinite amount of output at the market-determined price.
must raise price to sell more output.

The "long-run" equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures

firms will only earn a normal profit.
the efficient output level will be produced in the long run.
firms will be producing at minimum average cost.
firms realise all economies of scale.

A form of industry structure characterised by a few firms each large enough to influence market price is

monopolistic competition.
monopoly.
perfect competition.
oligopoly.

When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is

monopolistically competitive.
oligopolistic.
perfectly competitive.
indeterminate from this information.

An industry that has a relatively small number of firms that dominate the market is called

a natural monopoly.
a colluding industry.
a merged industry.
a concentrated industry.

Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will _____ and the total output produced will _____.

increase; decrease
increase; increase
decrease; decrease
decrease; increase

A group of firms that gets together to make price and output decisions is called

a non-collusive oligopoly.
price leadership.
a cartel.

a concentrated industry.

In which of the following circumstances would a cartel be most likely to work?

The coffee market, where the product is standardised and there are a large number of coffee growers.
The automobile industry, where there are few producers but there is great product differentiation.
The market for copper, where there are very few producers and the product is standardised.
The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.

A collusive oligopoly (with a dominant price leader) will produce a level of output

that would prevail under perfect competition.
between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.
between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.
equal to what a monopolist would choose in the same industry.

The kinked demand curve model of oligopoly assumes that the price elasticity of demand

in response to a price increase is more than the elasticity of demand in response to a price decrease.
is constant regardless of whether price increases or decreases.
is infinite if price increases and zero if price decreases.
in response to a price increase is less than the elasticity of demand in response to a price decrease.

Price discrimination involves

firms selling different products at different prices to different consumers.
firms selling the same product at different prices to different consumers.
consumers discriminating between different sellers on the basis of the different prices they quote for different products.
consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

Price discrimination often favours public interest because it

allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.
opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.
allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.
all of the above

Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:

Strategic interaction
Prisoner's dilemma
Price leadership
None of the above

Which of the following would NOT constitute a pure public good?

National defense.
A new national holiday.
Free health service.
National environmental protection.

One of the characteristics of a public good, X, is that it is "non-rival". It means:

It is not possible to exclude anyone from using (or benefiting from) X.
There is no substitute for X.
One person's use of X does not affect another person's ability to use (or benefit from) X.
None of the above.

Why might advertising exceed its socially optimal level?

Because the marginal social costs of advertising are less than the marginal private costs.
Because private firms do not or cannot incorporate marginal external costs when deciding how much to advertise.
The marginal external benefit to advertising is not taken into account by firms.
None of the above.

If MSBX > MPBX, what can the government do to align the market outcome with the social optimum:

Impose a consumption tax.
Impose a production tax.
Provide a consumption subsidy.
Provide a production subsidy

If the VMP for labour > the MRP for labour, and there is no government intervention, you can conclude that the underlying market structure is:

a monopoly.
perfect competition.
not perfect competition.
none of the above.

A backward bending labour supply curve (roughly similar in shape to an inverted C) obtains when the income effect of a wage rise (beyond a certain wage level) dominates the substitution effect. If it was also the case that the income effect of a wage reduction (below a certain wage level) dominated the substitution effect, what would the complete labour supply curve roughly look like in "wage-hours worked" space?

a 3.
an inverted 3.
an S.
an inverted S.

A firm is considering the project of buying an ice-cream producing machine costing Rs.1,000,000 that will serve for 10 years and then have a scrap value of Rs. 110,000 at the end of 10 years. If the present value of the net ice-cream sales revenues that the machine will generate is Rs.900,000, then, assuming a 10% annual discount rate:

the firm should not buy the machine because the NPV associated with the overall project is negative.
the firm should be indifferent between buying and not buying because the NPV of the overall project is zero.
The firm should buy the machine because the NPV of the overall project is positive.
None of the above.

If the quarterly rent from a house is Rs.5,000, the annual interest rate is fixed at 5%, and housing market conditions are stable, what would you expect the market price of the house to be?

Rs.100,000
Rs.200,000
Rs.400,000
Rs.800,000

There are many differences between labour and land as factors of production, for e.g.:

Labour cannot be purchased like land, it can only be rented.
There is no obvious reason why landowners will reduce the supply of land when the rental price of land goes up.
The decision to hire labour does not directly depend on the interest rate.
All of the above.

Information products are unique in that the marginal cost of _____ the product is virtually zero.

producing
distributing
accessing
all of the above

Which of the following is NOT an application of supply and demand analysis?

Understanding changing world economic conditions and their effects on prices
Evaluating the effects of government price controls on the agricultural industry
Detenrrining how taxes affect aggregate consumption spending patterns
all of the above
none of the above

A supply curve reveals:

the quantity of output consumers are willing to purchase at each possible market price.
the difference between quantity demanded and quantity supplied at each price.
the maximum level of output an industry can produce, regardless of price.

the quantity of output that producers are willing to produce and sell at each possible market price.

Plastic and steel are substitutes in the production of body panels for certain automobiles. If the price of plastic increases, with other things remaining the same, we would expect:
the price of steel to fall.
the demand curve for steel to shift to the right.
the demand curve for plastic to shift to the left.
nothing to happen to steel because it is only a substitute for plastic.
the demand curve for steel to shift to the left.

Coffee and cream:
are both luxury goods.
are complements.
are both more inelastic in demand in the long run than in the short run.
have a positive cross price elasticity of demand.

Which of the following would shift the demand curve for new textbooks to the right?

A fall in the price of paper used in publishing texts
A fall in the price of equivalent used textbooks
An increase in the number of students attending college
A fall in the price of new textbooks.

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

the supply curve shifts to the left.
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 decreases.

Sugar can be refined from sugar beets. When the price of those beets falls,

the demand curve for sugar would shift right.
the demand curve for sugar would shift left.
the supply curve for sugar would shift right.
the supply curve for sugar would shift left.

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

shifts to the left.
shifts to the right.
remains constant.
shifts to the right initially and then returns to its original position.

Which of the following events will cause a leftward shift in the supply curve of gasoline?
A decrease in the price of gasoline
An increase in the wage rate of refinery workers
Decrease in the price of crude oil
An improvement in oil refining technology
all of the above

Gary Franklin is a movie critic. He invented the Franklin Scale with which he rates movies from 1 to 10 (10 being best). When asked about his scale, Mr. Franklin explained "that it is a subjective measure of movie quality. A movie with a ranking of 10 is not necessarily 10 times better than a movie with a ranking of 1, but it is better. A movie with a ranking of 5 is better than a movie with a ranking of 1, but is not as good a movie with a ranking of 10. That's all it really tells you." Based on Mr. Franklin's description, his scale is:

ordinal but not cardinal.
cardinal but not ordinal.
an objective standard to judge movies.
neither cardinal nor ordinal.

Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behavior?

Preferences are complete.
Preferences are transitive.
Consumers prefer more of a good to less.
All of the above are basic assumptions about consumer preferences.

The theory of consumer behavior is based on certain assumptions. The set of four basic assumptions includes:

completeness.
transitivity.

intransitivity.
Both A and B are correct.
Both A and C are correct.

The assumption of transitive preferences implies that indifference curves must:

not cross one another.
have a positive slope.
be L-shaped.
be convex to the origin.
all of the above

As we move downward along a demand curve for apples,

consumer well-being decreases.
the marginal utility of apples decreases.
the marginal utility of apples increases.
Both A and B are true.
Both A and C are true.

The change in the price of one good has no effect on the quantity demanded of another good. These goods are:

complements.
substitutes.
both inferior.
both Giffen goods.
none of the above

The price of good A goes up. As a result the demand for good B shifts to the left. From this we can infer that:

good A is a normal good.
good B is an inferior good.
goods A and B are substitutes.
goods A and B are complements.
none of the above

An individual demand curve can be derived from the_____ curve.

price-consumption

price-income
income-substitution
income-consumption
Engel

Which of the following claims is true at each point along a price-consumption curve?
Utility is maximized but income is not all spent.
All income is spent, but utility is not maximized.
Utility is maximized, and all income is spent.
The level of utility is constant.

Which of the following is true regarding income along a price-consumption curve?

Income is increasing.
Income is decreasing.
Income is constant.
The level of income depends on the level of utility.

Which of the following is true regarding utility along a price-consumption curve?

ft is constant.
It changes from point to point.
It changes only if income changes.
It changes only for normal goods.

The income-consumption curve

illustrates the combinations of incomes needed with various levels of consumption of a good.
is another name for income-demand curve.
illustrates the utility-maximizing combinations of goods associated with every income level.
shows the utility-maximizing quantity of some good (on the horizontal axis) as a function of income (on the vertical axis).

Which of the following pairs of goods are NOT complements?

Hockey sticks and hockey pucks
Computer CPUs and computer monitors
On-campus student housing and off-campus rental apartments

all of the above
none of the above