FINAL TERM PAST PAPER SOLVED BY TEAM HADI VU

CODE:ECO401

Question 1: Suppose in a macroeconomic model, there is no foreign trade or government spending. In this case, aggregate demand is the sum of:

- Consumption and saving.
- Saving and personal income.
- Consumption and personal income.
- Consumption and investment.

Question 2: The substitution effect of a wage increase will lead a person to:

- Work more
- **Take more leisure**
- Work less
- Not work

Question 3: The similarity in the Perfect competition and monopolistic competition is that:

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

Question 4: If total revenue function of a firm is TR=100Q-2Q2, then average revenue will be:

- 1000
- 100-20
- 100Q-2Q
- 100-202

Question 5: Which of the followings is the profit maximizing level of output for the monopolistically competitive firm?

- MC equals to MR
- MC is greater than MR
- MC is equal to AC
- MC is greater than AC

Question 6: Which of the following is true in long run equilibrium for a firm in a monopolistically competitive firm?

- The demand curve is tangent to marginal cost curve
- The average revenue curve is tangent to average cost curve
- The marginal cost curve is tangent to average cost curve …check it
- The demand curve is tangent to marginal revenue curve

Question 7: Which of the following is the main reason of backward bending labor supply curve?

- **The income effect of higher income dominates the substitution effect of higher wages**
- The substitution effect of higher income dominates the income effect of higher wages
- The income effect of higher income dominates the price effect of higher wages
- The income effect of higher income is equal to the price effect of higher wages

Question 8: The rate at which the future incomes are discounted is known as:

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

Question 9: Who introduced the concept of invisible hand?

- Alfred Marshal
- Karl Marx
- William Petty
- **Adam Smith**

Question 10: Say's Law of market sates that:

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

Question 11: Real Gross Domestic Product (GDP) is measured:

- At base year prices
- At current year prices
- At a constant output level but at current prices
- **As the difference between the current year's GDP and last year's GDP…Check it**

Question 12: Which of the following is NOT a flow variable?

- Gross domestic product
- Income
- Monthly consumption
- Business inventories

Question 13: All of the following are transfer payments EXCEPT.

- **Unemployment compensation**
- Pension to retired employees
- Social security contributions
- Payment to a domestic servant

Question 14: If depreciation allowance is deducted from gross domestic product then we get:

- **Net domestic product**
- Net national product
- Disposable income
- Gross national product

Question 15: If marginal propensity to consume (MPC) is 0.80, then marginal propensity to save (MPS) will be:

- 0.95
- 0.20
- **0.50**
- 0.75

Question 16: Which of the following best describes the inflation?

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

Question 17: Consumer price index (CPI) of different years is given in the following table. Inflation rate for the year 1994 will be:

Price level (CPI)	Years
100	1991
105	1992
107	1993
120	1994

- 5.5%
- 7.2%
- 12.1%
- 13.5%

Question 18: The relationship between inflation and unemployment is usually that:

- Unemployment changes do not directly lead to changes in inflation, but inflation changes may cause changes in unemployment
- As unemployment falls, nothing happens to inflation
- As unemployment falls, inflation falls
- **As unemployment falls, inflation increases**

Question 19: Which of the following is the basic cause of inflation according to the quantity theory of money?

- Increased velocity

- Higher budget deficits
- Higher oil prices
- **An increase in the money supply**

Question 20: Which of the following is required to make the equation of exchange in the quantity theory of money?

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

Question 21: The decrease in the price of one country's currency in terms of other currencies due to the market forces of demand and supply is known as:

- Revaluation
- **Devaluation**
- Appreciation
- Depreciation

Question 22: Suppose the government of Pakistan decided the exchange rate change to be from Rs.50 per dollar to Rs.58 per dollar, it is known as:

- Depreciation
- Appreciation
- Devaluation
- Revaluation

Question 23: In the complete Keynesian cross model for open economy, the aggregate expenditure line is specified as:

- AE = C +1.
- AE=C+I+X
- AE=C+I+G.
- AE=C+I+G+(X-M).

Question 24: When agents base their decisions on their expectations about inflation, it is known as:

- Quantity theory of money
- **Money illusion**
- Demand pull inflation
- Cost push inflation

Question 25: Economic growth occurs by an outward shift of the:

- **Production possibility frontier**
- Gross domestic barrier
- Marginal consumption frontier
- Minimum efficient scale

Question 26: Per capita GDP can be calculated as:

- Total GDP. Total population
- Total GDP- Total population
- **Total GDP/Total population**
- Total population/Total GDP

Question 27: Which of the following is TRUE in case of a perfectly competitive firm:

- Price = Marginal Revenue
- Price < Marginal Revenue
- Price > Marginal Revenue
- Average Revenue > Marginal Revenue

Question 28:Suppose a firm produces 10 units of output. Its average variable cost is Rs. 20 and average fixed cost is Rs. 5. Its average total cost will be:

- Rs.20
- Rs.25
- Rs.30 check it
- Rs.35

Question 29:Price discrimination which includes a bargaining aspect, where the consumer attempts to negotiate a lower price, is known as:

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

Question 30: The incentive to collude becomes strong for members of a non-collusive oligopoly when firms:

- Are making good profits
- **Are not making good profits**
- Become more than twenty in number
- All of the given options are true

Question 31:Which of the following is the main reason of the unemployment according to Keynesians point of view?

- Rise in aggregate demand
- Rise in aggregate supply
- Deficient aggregate demand
- Deficient aggregate supply

Question 32: When the production possibilities frontier of a country shifts leftward, this represents:

- A decrease in potential GDP.
- That labor is optimally utilized.
- **An increase in potential GDP**
- An increase in countries capital resources.

Question 33: In the long run, a perfectly competitive firm makes:

- Supernormal profit
- Normal profit
- Losses
- Supernormal profit and losses

Question 34:The short-run supply curve of a perfectly competitive firm is:

- Vertical
- L-shaped
- Downward sloping
- **Upward sloping…CHECK IT**

Question 35:When long run average cost curve is tangent to the average revenue curve in a perfectly competitive firm, it means that firm is making:

- **Normal profit**
- Supernormal profit
- Losses
- All of the given options

Question 36:Which of the following equations represents consumption function?

- C=Y-T

- C=Ya+T O
- **C=a+bY**
- C=a-b(Y+T)

Question 37:Which of the following identities best describes that withdrawals are equal to injections according to Keynesians view of macroeconomic equilibrium?

- Savings+Investment-Imports+Exports
- Savings+Investment Government expenditures+Exports
- **Savings+Taxes+Imports Investment Government expenditures+Exports… I think**
- Savings+Investment+Imports Taxes+Government expenditures+Exports

Question 38:Suppose marginal propensity to consume (b) is 0.8 and government expenditures increase by Rs.1000. The multiplier in this case is.

- 1/(1+0.8)
- **1/(1-0.8)**
- 1-08
- 1+0.8

Question 39:Firms are willing to purchase more capital equipment for their businesses when:

- Level of competition is increased.
- Current and expected sales are increased.
- Borrowing cost is decreased.
- All of the given options are correct.

Question 40:The long run average cost curve for a typical firm is:

- L shaped.
- Horizontal
- Vertical
- **U shaped.**

Question 41:Which of the following is the graphical interpretation of marginal revenue curve?

- It is the slope of average revenue curve.
- It is the slope of total revenue curve.
- It is the slope of indifference curve.
- All of the given options.

Question 42:Which of the following formulas is used to calculate average revenue (AR)?

- AR = ATRIAQ
- AR = TRIQ
- **AR = TR/Q**

- AR = Q/TR

Question 43:Which formula is used to calculate Keynesian multiplier?

- **1/(1-marginal propensity to consume)**
- 1/(1+marginal propensity to consume)
- 1-marginal propensity to consume
- 1+marginal propensity to consume

Question 44:What will happen to aggregate demand curve when government spendings increase?

- Aggregate demand curve will shift upward.
- Aggregate demand curve will not change.
- Aggregate demand curve will shift downward.
- Aggregate demand will become L-shaped.

Question 45:The total value of goods and services that all the firms in the economy would and can willingly produce in a given time period is called:

- Aggregate demand.
- **Aggregate supply.**
- Demand.
- Supply.

Question 46:Which of the following method that sums the value added by all the productive entities in the economy; in order to measure the gross domestic product (GDP)?

- **The value added method.**
- The expenditure method.
- The factor income method.
- All of the given.

Question 47:Some people are working part-time but they want a full time job. These people are considered as:

- **Underemployed**
- Overemployed
- Frictionally unemployed
- Structurally unemployed

Question 48:The basic difference between oligopoly and monopolistic competition is that, in Oligopoly there is;

- Differentiated Products
- Competition
- Barriers to Entry No
- Barriers to Entry

Question 49:Suppose an economy has labor force of 300,000 people; 30,000 people are unemployed and 270,000 people are employed. what is the rate of unemployment?

- **(30,000/300,000) x 100**
- (270,000/300,000) x 100
- (250,000/300,000) x 100
- (200,000/300,000) x 100

Question 50:Which of the following is true? Answer GDP at factor cost =

- GDP at market price + Indirect taxes
- **GDP at factor cost = GDP at market price - Indirect taxes**
- GDP at factor cost = GDP at market price* Indirect taxes
- GDP at factor cost = GDP at market price/Indirect taxes

Question 51:In which of the following market structures, a firm produces differentiated products and faces downward sloping but relatively elastic demand curve?

- Perfect competition
- Monopoly
- **Monopolistic competition**
- Both perfect competition and monopoly

Question 52:Which of the following in NOT the part of Balance of Payment;

- Saving Account
- Capital Account
- Current Account
- **Changes to reserve account**


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