FINALTERM EXAMINATION
Spring 2010
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ECO401- Economics (Session - 5)

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

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

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

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

A production function:

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

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

_____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

- **► Economies of scale; constant returns to scale.**
- **► Constant returns to scale; decreasing returns to scale.**
- **► Decreasing returns to scale; economies of scale.**
- **► Economies of scale; decreasing returns to scale.**

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

Total costs are the sum of:

- **► Marginal costs and variable costs.**
- **► Fixed costs and variable costs.**
- **► Fixed costs and marginal costs.**
- **► Average variable costs and marginal costs.**

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

As compared to existing firms, a new firm entering in monopolist market has:

- **► High costs.**
- **► Low costs.**

► Equal costs.
► None of the given options.

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

The maximum price that a consumer is willing to pay for a good is called:

► The reservation price.
► The market price.
► The first-degree price.
► The block price.

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

The market structure in which strategic considerations are most important is:

► Monopolistic competition.
► Oligopoly.
► Pure competition.
► Pure monopoly.

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

Price exceeds marginal revenue in which of the following market structure(s)?

► Differentiated oligopoly and monopoly only.
► Standardized oligopoly and pure competition only.
► Monopolistic competition and monopoly only.
► Monopolistic competition, oligopoly and monopoly.

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

For a firm buying labor competitively, the marginal input cost is equal to the:

► Wage.
► Interest rate.
► Price of output.
► Cost of raw materials.

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

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

► Insufficient aggregate supply.

► **Insufficient aggregate demand.**

► **Quick self correcting mechanism.**

► **Government purchases of too many goods and services.**

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

According to Keynes, the economy does not self correct quickly because:

► **With less consumption and more savings the interest rate will drop.**

► **In the short run workers are fully employed and cannot produce enough to get to long run equilibrium.**

► **Wages and prices are flexible in the short run.**

► **Wages and prices are sticky in the short run.**

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

An assumption of classical economics is:

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

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

The real interest rate will increase:

► **If there is an excess supply of loanable funds in the financial markets.**
► **If there is an excess demand for loanable funds in the financial markets.**
► **If there is an excess supply of loanable funds in the foreign exchange markets.**
► **If there is an excess demand for loanable funds in the foreign exchange markets.**

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

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

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

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

Endogenous growth theory was developed in:

- **► 1980.**
- **► 1965.**
- **► 1970.**
- **► 1950.**

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

Per capita income is obtained by dividing national income by:

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

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

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

- **► Indirect taxes.**
- **► Depreciation.**
- **► Direct taxes.**
- **► Transfer payments.**

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

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

- **► 45.**
- **► Infinity.**
- **► 1.**
- **► 0.**

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

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

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

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

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

- ► **Monetary but not fiscal policy will have an effect on output and employment.**
- ► **Fiscal but not monetary policy will have an effect on output and employment.**
- ► **Both monetary and fiscal policy will have an effect on output and employment.**
- ► **Neither monetary nor fiscal policy will have an effect on output and employment.**

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

Which of the following statements is TRUE about the Classical and Keynesian approaches to achieve a macroeconomic equilibrium in an economy?

► **Keynesian economists actively promote the use of fiscal policy while the classical economists do not.**

► **Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.**

► **Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.**

► **Classical economists believe that fiscal policy is an effective tool for achieving economic stability while the Keynesians do not.**

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

What will be the primary result of inflation in an economy?

- ► **A rise in personal wealth.**
- ► **A rise in wages.**
- ► **A decline in prices.**
- ► **A decline in the value of money.**

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

Suppose in an economy, a war destroys a large portion of a country's capital stock but the saving rate is unchanged. In this situation, the exogenous model predicts that output will grow and the new steady state will approach towards:

- ► **A higher output level than before.**
- ► **The same output level as before.**
- ► **A lower output level than before.**
- ► **The Golden Rule output level.**

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

Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn

worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

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

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

Which of the following is NOT an item of public consumption?

- ► **Expenditure on health.**
- ► **Expenditure on education.**
- ► **Expenditure on general administration.**
- ► **Expenditure for transfer payments.**

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

Changes in aggregate demand can be caused by changes in:

I. Wages.
II. Raw materials costs.
III. Government spending.
IV. Government regulations that increase the cost of doing business.

- ► **I, II, III, and IV.**
- ► **I and III only.**
- ► **I, III, and IV.**
- ► **III only.**

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

Which of the following is equal to the number of people unemployed?

- ► **The number of people employed minus the labor force.**
- ► **The labor force plus the number of people employed.**
- ► **The number of people employed divided by the labor force.**
- ► **The labor force minus the number of people employed.**

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

Rising inflation means:

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

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

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

► **Trade surplus.**
► **Trade deficit.**
► **Government budget surplus.**
► **Government budget deficit.**

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

The rapid population growth in today's developing nations is due to the:

► **High birth rates only.**
► **Low death rates only.**
► **High birth rate and low death rate.**
► **Higher standard of living.**

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

A tax on the accounting profits of corporations is known as:

► **Sales tax.**
► **Excise tax.**
► **Corporate income tax.**
► **Personal income tax.**

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

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

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

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

What will be the impact of an increase in the money supply?

► **It will shift the IS curve to the left and decrease both the interest rate and the level of income.**

► **It will shift the LM curve downward (to the right) and increase both the interest rate and the level of income.**

► **It will shift the IS curve to the right and increase the level of income but decrease the interest rate.**

► **It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.**

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

IS curve shows the equilibrium in:

► **Money Market.**
► **Goods Market.**
► **Labor Market.**
► **Financial Market.**

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

International finance is the study of economics that deals with:

► **The balance of trade.**
► **The macroeconomic consequences of financial flows associated with international trade.**
► **International investment opportunities for American multinational corporations.**
► **The relationships among world currency dealers.**

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

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

► **When net exports are positive.**
► **When financial flows out of a country for goods and services are less than financial flows into the country for its goods and services.**
► **When a country has a trade deficit.**
► **When an economy buys less from foreigners than it sells to them.**

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

Economists define economic growth as:

► **Changes in real GDP from year to year that occur as aggregate demand and short-run aggregate supply change.**
► **An increase in the standard of living of a nation.**
► **An increase in nominal GDP combined with price stability.**
► **The process through which the economy's potential output is increased.**

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

What will be the impact if agriculture sector is neglected in the development process?

► **It can lead to insufficient savings.**
► **It can lead to shortage of foreign exchange.**
► **It can lead to lower levels of production.**
► **All of the given conditions can happen.**

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

In which of the following situations, a monopoly occurs?

► When each firm produces a product that is slightly different from the other firms.
► When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.
► When there are many firms producing the same product.
► In all of the given situations.

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

Which of the following is not the property of production function?
► Generates a curve that is upward sloping.
► Shows diminishing marginal product of an input, since it gets flatter as output rises.
► Marginal product at all levels is increasing.
► Relates inputs with output.

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

As long as all prices remain constant, a decrease in money income results in:
► An increase in the slope of the budget line
► A decrease in the slope of the budget line
► An increase in the intercept of the budget line
► A decrease in the intercept of the budget line

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

What will happen to the isocost line if the price of both goods decreases proportionality?
► It shifts farther away from the origin of the graph.
► It shift inward.
► It shifts outward.
► None of the given options.

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

Monopoly profits can be invested in

► Advertisement.
► Research and development.

► Human resource development.
► Expansion of the market.

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

The

characteristics of a monopolistically competitive market are almost the same as in

- ► **Monopoly.**
- ► **Oligopoly.**
- ► **Perfect competition.**
- ► **Duopoly.**

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

The multiplier is a related concept which formalizes the output response to:

- ► **Saving.**
- ► **Investment.**
- ► **Taxes.**
- ► **Inflation.**

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

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

- ► **Current account balance.**
- ► **Capital account balance.**
- ► **Trade balance.**
- ► **Unemployment.**

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

Continuous technology progress is a necessary condition for the high rate of:

- ► **Inflation reduction.**
- ► **Economic growth.**
- ► **Population growth.**
- ► **Employment.**

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

Expansionary fiscal policy includes:

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

Question No: 49 (Marks: 3)

Differentiate between real exchange rate and nominal exchange rate.

Question No: 50 (Marks: 3)

Discuss the basic functions of money.

Question No: 51 (Marks: 5)

What will be the impact of following factors on Marginal Propensity to Consume?

- ♋ **A fall in the rate of income tax.**
- ♌ **People anticipate that the rate of inflation is about to rise.**
- ♍ **The government redistributes income from the rich to the poor.**
- ♎ **The government gives the subsidies.**
- ♏ **If the assets of the people increase.**

(Marks: 1 for each)

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Question No: 52 (Marks: 5)

Explain the difference between current account and capital account.

Question No: 53 (Marks: 5)

Assume that the reserve requirement ratio (rr) of United Bank Limited (UBL) is 15% and bank's initial deposit is $2500.

a. **By using this information, make initial balance sheet of MCB.**
b. **Calculate money multiplier.**

(Marks: 3+2)

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