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

Question No: 1 (Marks: 1) - Please choose one
As more of a good is consumed, then total utility typically:

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

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

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

Question No: 3 (Marks: 1) - Please choose one
_____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

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

Question No: 4 (Marks: 1) - Please choose one
Total costs are the sum of:

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

Question No: 5 (Marks: 1) - Please choose one
As compared to existing firms, a new firm entering in monopolist market has:

► High costs.
► Low costs.

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► Equal costs.
► None of the given options.

Question No: 6 (Marks: 1) - Please choose one
The maximum price that a consumer is willing to pay for a good is called:

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

Question No: 7 (Marks: 1) - Please choose one
The market structure in which strategic considerations are most important is:

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

Question No: 8 (Marks: 1) - Please choose one
Price exceeds marginal revenue in which of the following market structure(s)?

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

Question No: 9 (Marks: 1) - Please choose one
For a firm buying labor competitively, the marginal input cost is equal to the:

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

Question No: 10 (Marks: 1) - Please choose one
Unlike the classical economists, Keynes believed that the economy could get stuck in the short run for a significant period of time because of:

► Insufficient aggregate supply.
► Insufficient aggregate demand.

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► Quick self correcting mechanism.

► Government purchases of too many goods and services.

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

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

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

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

► Wages and prices are flexible in the short run.

► Wages and prices are sticky in the short run.

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

An assumption of classical economics is:

► Prices and wages are inflexible.

► Self-correction takes a long time.

► Supply creates its own demand.

► Investment and saving are seldom equal.

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

The real interest rate will increase:

► If there is an excess supply of loanable funds in the financial markets.

► If there is an excess demand for loanable funds in the financial markets.

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

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

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

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

► The capital account.

► The current account.

► The financial account.

► All three components are equally important.

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

Endogenous growth theory was developed in:

► 1980.
► 1965.
► 1970.
► 1950.

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

Per capita income is obtained by dividing national income by:

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

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

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

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

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

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

► 45.
► Infinity.
► 1.
► 0.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

► A rise in personal wealth.

► A rise in wages.

► A decline in prices.

► A decline in the value of money .

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

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

► A higher output level than before.

► The same output level as before.

► A lower output level than before.

► The Golden Rule output level.

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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.

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.

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

IS curve shows the equilibrium in:

- ► Money Market.
- ► Goods Market.
- ► Labor Market.
- ► Financial Market.

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

International finance is the study of economics that deals with:

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

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

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

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

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

Economists define economic growth as:

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

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

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

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

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

In which of the following situations, a monopoly occurs?

► When each firm produces a product that is slightly different from the other firms.

► When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.

► When there are many firms producing the same product.

► In all of the given situations.

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

Which of the following is not the property of production function?

► Generates a curve that is upward sloping.

► Shows diminishing marginal product of an input, since it gets flatter as output rises.

► Marginal product at all levels is increasing.

► Relates inputs with output.

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

As long as all prices remain constant, a decrease in money income results in:

► An increase in the slope of the budget line

► A decrease in the slope of the budget line

► An increase in the intercept of the budget line

► A decrease in the intercept of the budget line

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

What will happen to the isocost line if the price of both goods decreases proportionality?

► It shifts farther away from the origin of the graph.

► It shift inward.

► It shifts outward.

► None of the given options.

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

Monopoly profits can be invested in

► Advertisement.

► Research and development.

► Human resource development.

► Expansion of the market.

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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.

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.

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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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