STUDY NOTE 1: *** denotes the answers against the respective options**

1. The concept of choice is:

A. A human right;
B. A democratic right;
C. A free good;
D. A problem that is due to the scarcity of resources*

2. When society is choosing whether to apply labour-intensive or capital-intensive method of production, it addresses the basic economic problem of:

A. What commodities to produce and in what quantities
B. How to produce*
C. Where to produce
D. For whom to produce

3. The main features of a market economy include:

A. Private property;
B. Freedom of choice and enterprise;
C. A price system;
D. A, B and C are correct *.

4. "Demand" refers to

A. the amount of a good people would take if it were free.

B. the amount of a good people would want if they had unlimited income.

C. the amount of a commodity firms will supply for people to buy.

D. the amount of a good people are prepared to buy, taking account of the good's price and their limited incomes.*

5. Suppose imported and domestic cars are substitutes. If the price of imported cars rises, the equilibrium price of domestic cars will _________ and the equilibrium quantity produced will _________.

A. fall; fall

B. fall; rise

C. rise; fall

D. rise; rise *

6. Which of the following would cause an increase in the supply of tires?

A. an increase in the demand for tires.

B. a decrease in the demand for tires.

C. an increase in the price of rubber used to manufacture tires.

D. a revolutionary new method of production that allows twice as many tires to be produced from the same amount of rubber*.

7. Which of the following increases the elasticity of demand?

A. the absence of substitutes for the good.

B. when only a small portion of the consumers' budgets are spent on the good.

C. allowing consumers only a short period of time to react to changes in the good's price.

D. all of the above.

E. none of the above*.

8. The period of time in which at least one factor of production is fixed is the

A. very-short run.

B. short run*.

C. long run.

D. very-long run.

E. infinite.

9. The law of diminishing returns states that if increasing quantities of a variable factor are applied to a given quantity of fixed factors, then

A. the marginal product and the average product of the variable factor will eventually decrease*.

B. total product will eventually begin to fall.

C. the average product will eventually decrease with constant marginal product.

D. the marginal product will eventually decrease with constant average product

10. AFC curve is

A. straight line

B. rectangular hyperbola*

C. constant

D. U shaped

STUDY NOTE 2: * denotes the answers against the respective options

1. Which of the following is not a condition for perfect competition?

A. Firms take prices as given
B. Firms sell a standardized product
C. Firms are protected by barriers to entry*
D. Firms have perfect information

2. The demand curve facing a perfectly competitive firm is

A. Infinitely elastic*
B. Perfectly inelastic
C. Downward sloping
D. Perfectly elastic

3. The output where MC = AVCmin is called the

A. Shutdown point*
B. Break-even point
C. Profit maximizing point
D. Revenue maximizing point

4. A firm is currently selling its product at Rs20 each. It estimates that its average total cost of production is Rs100 and its average fixed cost is Rs40. In the short run the firm should

A. Shutdown*
B. Continue production at a point where P = MC
C. Hire more employees
D. Buy more capital

5. Suppose that one taxi company in your city is granted a license by the city so that it is the only cab company that may operate within the city limits. Granting this license is an example of a

A. natural barrier to entry.

B. case in which a single firm controls a resource necessary to produce the good.

C. price-discriminating monopoly

D. legal barrier to entry*

6. A monopolist finds that when it produces 20 units of output, its demand is elastic. At this level of output,

A. its marginal revenue necessarily is positive.*

B. its marginal revenue necessarily is zero.

C. its marginal revenue necessarily is negative.

D. none of the above is correct because the marginal revenue does not depend upon the elasticity of demand.

7. Interdependence is the feature of

A. Monopoly

B. Perfect Competition

C. Oligopoly*

D. Monopsony

8. Which of the following is true for a monopolist?

A. Price always equals marginal cost, that is, *P = MC* at all levels of output.

B. For all levels of output, price equals marginal revenue, that is, *P = MR*.

C. In the short run, the monopoly might earn a normal profit or incur an economic loss.

D. None of the above because all the statements are false*

9. A monopoly movie theater discovers that the average willingness to pay for watching movies is higher at 8 P.M. than at 5 P.M. As a result, if a monopoly movie theater wants to price discriminate and earn a larger profit, it charges

A. a higher price at 8 P.M*.

B. the same price at 5 P.M. as at 8 P.M.

C. a lower price at 8 P.M.

D. There is not enough information given to answer the question.

10. If a firm is producing where it's LMC = price and the LMC is equal to LACmin, then it would do better in the long run by

A. Increasing output with its existing plant until LMC equals price
B. Increasing plant size until LMC and SAC are identical and equal to price
C. Decreasing plant size until LAC, SAC and price are equal
D. Changing nothing because it is already at the long run profit maximizing point*

STUDY NOTE 3: * denotes the answers against the respective options

1. Intermediate goods are not a part of GDP because

a. intermediate goods go into inventories

b. their inclusion would lead to double counting*

c. they remain within the corporate sector

d. none of the above

2. The difference between GDP and GNP is essentially the difference between:

a. goods that are exported and goods that are imported

b. location of production and ownership of resources*

c. production of consumer goods and production of capital goods

d. production of final goods and production of intermediate goods

3. In the national income accounts, the capital consumption allowances (depreciation) represents

a. net investment minus depreciation

b. the difference between net national product and national income

c. income to the suppliers of capital

d. interest payments plus distributed corporation profits

e. repayment for capital used up in production*

4. In macroeconomics, equilibrium is defined as that point at which:

a. saving equals consumption.

b. planned aggregate expenditure equals aggregate output*.

c. aggregate output equals consumption minus investment.

d. planned aggregate expenditure equals consumption.

5. The ratio of the change in the equilibrium level of output to a change in some autonomous variable is the:

a. elasticity coefficient.

b. marginal propensity of the autonomous variable.

c. multiplier*.

d. stabilizer .

6. Assuming there is no government or foreign sector, if the MPC is 0.6, the multiplier is:

a. 2.5*

b. 3.0

c. 2.0

d. 1.5

7. When economists use the term “real business cycle theory” they are suggesting that business cycles are caused by:

a. business confidence.

b. changes in export demand due to the state of the world economy.

c. shifts in aggregate supply*.

d. business expectations.

8. Which of the following is correct? Savings can be made by

(a) government.

(b) households.

(c) businesses.

(d) (b) and (c).

(e) all of the above*.

9. The real interest rate formula includes

(a) the nominal rate of interest and the actual rate of inflation.

(b) the nominal rate of interest and the anticipated rate of inflation*.

(c) the market interest rate and the expected demand for investment.

(d) the nominal rate of interest and market prices.

(e) all of the above.

10. In any given period, a firm chooses to carry out an additional investment project according to the following information:

(a) the cost of its projects.

(b) the state of the firm's own savings.

(c) the market rate of interest.

(d) the rate of return on investment.

(e) (c) and (d)*.

STUDY NOTE 4: * denotes the answers against the respective options

1. Malthus defined over population as

a. large scale poverty*

b. high growth

c. high knowledge

d. none of these

2. Optimum theory of population considers test of over or under population as

a. welfare approach*

b. under capacity of resources

c. shortage of food grains

d. profit motives

3. The theory of Demographic Transition deals with

a. high stationary stage

b. expanding stage

c. declining stage

d. all of the above*

4. Investment is:

a. The purchase of shares and bonds.

b. The purchase of capital equipment and structures*.

c. When we place our savings in the bank.

d. The purchase of goods and services

5. Structural unemployment is caused by :

a) 'Friction' in the labour force.

b) Cyclical changes in aggregate demand.

c) Technological innovation causing some skills to become outdated*.

d) Seasonal changes in consumer expenditure.

6. Cyclical unemployment refers to :

a) That portion of the labour force consisting of individuals who qualify for employment but who are temporarily out of work.

b) That portion of the labour force consisting of individuals who are unemployed because of business cycle fluctuations*.

c) That portion of the labour force consisting of individuals who would like to work but who lack skills and other attributes needed to obtain work.

d) The natural unemployment rate.

7. Fiscal policy refers to

a. the government's attitude to taxation.

b. the government's regulation of financial intermediaries.

c. the spending and taxing policies used by the government to influence the economy*.

d. the actions of the central bank in controlling the money supply.

8. By 'financial crowding out' economists mean:

a. what the government borrows cannot be used for private investment.

b. credit rationing

c. Central Bank controls on commercial bank lending

d. government borrowing drives up interest rates *

9. The policy mix that would cause the interest rate to increase and investment to decrease, but have an indeterminate effect on aggregate output, is a mix of

a. Expansionary fiscal policy and expansionary monetary policy

b. Contractionary fiscal policy and expansionary monetary policy

c. Expansionary fiscal policy and contractionary monetary policy*

d. Contractionary fiscal policy and contractionary monetary policy

10. Capital formation has

a. qualitative aspect

b. quantitative aspect

c. both a & b*

d. none of the above

STUDY NOTE 5: * denotes the answers against the respective options

1. The functions of money do not include

A. a medium of exchange

B. a store of value.

C. a unit of account.

D. an exchange of purchasing power*

2. Which of the following is the most common form of money?

[A] Coins

[B] Checking deposits

[C] Currency*

[D] Fiat money

3. The QTM assumes

A. Transaction velocity of money to change

B. Income velocity of money to change

C. Transaction velocity of money constant*

D. Money supply constant

4. Gresham's Law states

A. Good money only circulates

B. Bad money accumulates loans

C. Bad money drives good money out of circulation*

D. Metal money exists

5. Cost push inflation is due to

A. input cost hike*

B. income hike

C. interest rate fall

D. shift in demand curve

6. Investment and rate of interest are

A. inversely related*

B. directly related

C. not related

D. randomly distributed

7. The monetary base is equal to

[A] currency plus reserves*.

[B] currency plus deposits.

[C] the money supply.

[D] deposits plus reserves.

8. Inflation can be controlled by

A. Monetary measure

B. Fiscal measure

C. both A &B*

D. Governance measure

9. Inequality in the distribution of income is due to

A. deflation

B. inflation*

C. interest rate hike

D. Trade union measure

10. Keynes stated that quantity of money affects

A. short term price level*

B. long term price level

C. both short and long term

D. change in investment

STUDY NOTE 6: * denotes the answers against the respective options

1. In a fractional reserve banking system, banks:
(a) must keep gold as reserves against their deposits.
(b) hold only a fraction of their deposits in reserves*.
(c) reserves must equal deposits.
(d) keep the value of money multiplier value as greater than one

2. If banks lend some excess reserves to borrowers, the money supply:
(a) rises*.
(b) stabilizes.
(c) reduces.
(d) becomes volatile.

3. The money creation is done out of :
(a) excess reserves.
(b) required reserves.
(c) vault cash.
(d) currency reserves*.

4. If everyone keeps their wealth as currency, there would be a decline in the:
(a) supply of money.
(b) reserve requirement ratio*.
(c) money multiplier
(d) interest rate

5. A private bank that lacks enough reserves to borrow can seek help from
(a) funds market*.
(b) reserve district bank.
(c) Commodity Exchange.
(d) stock and bond market

6. The primary function of banks and other financial institutions is:
(a) to generate investment.
(b) financial intermediation*.
(c) expect market trends.
(d) promoting mergers.

7. The Reserve Bank controls the money supply but that do not include:
(a) reserve requirements.
(b) excess reserves ratios*.
(c) open-market operations.
(d) discounting operations

8. Monetary policy can expand the money supply by:
(a) reducing the discount rate*
(b) raising the reserve requirements ratio.
(c) selling government securities to banks.
(d) lowering stock margin requirements.

9. The commercial banks prefer to
(a) avoid holding excess reserves.
(b) often permit their reserves to fall below the legal minimum.
(c) hold excess reserves to accommodate any outflows of funds*.
(d) ignore the reserve requirements ratio.

10. The Reserve Bank controls the money supply primarily through:
(a) reserve-requirement ratio.
(b) open-market operations*
(c) discounting rates
(d) margin levels

STUDY NOTE 7: * denotes the answers against the respective options

1. An economy which engages in international trade is:

a. in a state of autarky

b. an open economy*.

c. a closed economy.

d. an emerging economy.

2. The key difference between interpersonal trade and international trade is that:

a. nations must compete against one another but individuals do not.

b. individuals must compete against one another but nations do not.

c**.** international trade takes place across national borders*.

d. only international trade leads to specialization.

3. The term 'gains from trade' means:

a. the profits from exporting.

b. the revenue from import tariffs.

c. the greater consumption possibilities available from specialization in production and trade with others*.

d. the differences between exports and imports.

4. Which of the following is **not** relevant to why there are gains from trade?

a. The theory of comparative advantage.

b. Protecting home producers from foreign competition*.

c. Specialization.

d. Incentives to innovate and introduce new technologies.

5. The US can produce 6 boats or 5 cars per unit of labour, and the UK can produce 5 boats or 3 cars per unit of labour. With free trade (assuming that the countries are of roughly equal size and both products are more or less equally popular in each country):

a. the UK produces only boats and the US produces only cars*

b. the US produces only boats and the UK produces only cars.

c. both countries produce both goods in equal proportions.

d. the UK buys all its boats and cars from the US.

6. A country can consume beyond its production-possibility boundary with:

a. specialization in production and trade with another country*.

b. fixed production at the autarky level and trade.

c. protection of home industries by import tariffs.

d. investing a lot

7. The 'terms of trade' is:

a. the ratio of export prices to import prices*.

b. the exchange rate.

c. the summary of the provisions of the WTO trade agreement.

d. imports less exports.

8. If the government decides that no more than 5,000 Japanese cars may be imported, this is an example of:

a. voluntary export restraint.

b. an import tariff.

c. an import quota*.

d. infant industry protection

9. Comparative advantage means:

a. the ability of one nation (or region or individual) to produce a product at a lower market price than another nation (region or individual).

b. the ability of one nation (or region or individual) to produce product innovations not matched by others.

c. the ability of one nation (or region or individual) to produce more than another nation (region or individual).

d. the ability of one nation (or region or individual) to produce a product at a lower opportunity cost in terms of other products forgone than another nation (region or individual).*

10. Ricardo proposed

a. absolute advantage theory

b. comparative advantage theory*

c. both a & b

d. none of the above

STUDY NOTE 8: * denotes the answers against the respective options

1. The marginal tax rates of a progressive tax

(a) rise with income*.

(b) do not change with income.

(c) fall with income.

(d) first rise and then fall with income.

2. The benefit principle of taxation is best illustrated by which of the following taxes?

(a) A sales tax on liquor that helps fund education

(b) A sales tax on gasoline that helps fund road repairs*

(c) Income taxes that help fund welfare payments to poor people

(d) The exemption from sales taxes of certain necessities such as food

3. The ability-to-pay principle is best illustrated by which of the following taxes or fees?

(a) An automobile registration fee based on the weight of the car

(b) An automobile registration fee based on the value of the car with the fee higher the more valuable the car*

(c) A toll charged to drive on beaches

(d) The flat $10 tax imposed on everyone who works in Pittsburgh

(e) Taxes levied on peanut growers that go to fund research into growing improved peanuts

4. Poorer people generally spend a larger fraction of their income than do richer people. (That is, poorer people save a smaller fraction of their income.) So a general sales tax imposed on all purchases is a

(a) marginal tax.

(b) benefit tax.

(c) proportional tax.

(d) regressive tax*.

5. Burden of tax gets shifted in case of

a. direct tax

b. indirect tax*

c. both a & b

d. none of the above

6. Cannon of convenience is the feature of

a. tax*

b. revenue

c. transfer

d. fiscal policy

7. Deficit financing is

a. inflationary*

b. deflationary

c. neutral effect

d, stablilizer

8. Distribution of tax burden depends on

a. nature of income

b. nature of tax*

c. effect of tax

d. production levels

9. Constant output with rising prices is

a. inflation

b. deflation

c. hyperinflation

d. stagflation*

10. Amusement tax is an example of

a. direct tax

b. indirect tax

c. inflation tax

d. deflation tax