For logo 0947479348



CONCISE

Education

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Official telegram channel

Part I: Write TRUE if the statement is correct, FALSE if the statement is wrong in the answer sheet provided to you (1 point each).

1. Command economy is an economic system where means of production are owned by the community and profitability is the guiding factor.
2. Demand for a commodity refers to the amount that will be purchased at a particular price during a particular period of time.
3. The Ordinal school postulates that utility can be ordered objectively, but cardinal school states that utility can be measured subjectively.
4. Society becomes better off by producing at the point on PPC than at any point inside the curve.
5. If demand and supply change by the same magnitude and in the same direction then, it has a direct relationship with equilibrium quantity but it has no effect on equilibrium price.
6. Indifference curve shows the trade-off that a consumer faces in consumption of various combinations of goods without altering the utility.

Part II: choose the best answer from given alternatives (1.5 points each).

1. Which one of the following is **wrong** regarding production possibility frontier (PPF)?
   A. PPF is downward sloping due to the trade-off in production of two goods.
   B. The slope of a PPF starts flat and becomes increasingly steeper.
   C. PPF is concave because the slope increases downwards.
   D. Movement along the PPF indicates the concept of opportunity cost.
   E. PPF is concave because of specialization effect.
2. Assume that "Oda" and "Geda" transportation company provides substitute services. When the price of "Oda" company goes up, the demand curve for "Geda" will be:
   A. Shifts to the left
   B. Shifts to the right
   C. Extended to the left
   D. Indeterminate
   E. Remain constant
3. Which one of the following is **true** about budget line from the given alternatives?
   A. Points inside the budget line are inefficient (there will be leftover income).
   B. Budget line shows combination of two goods in which the consumer becomes indifferent.
   C. When income of consumer changes, both slope and intercept changes.
   D. If Price of X changes only, the slope and both X and Y intercept changes.
   E. When income changes, the budget line rotates.
4. The fundamental source of scarcity is:
   A. Unlimited human want.
   B. Over population
   C. Limitation of resources.
   D. Higher tax rates.
   E. A&C

5. Which one of the following is **wrong** concerning total and marginal utility?
   A. When total utility is increasing the slope of marginal utility is greater than zero.
   B. Marginal utility decreases continuously when more is consumed due to the law of diminishing marginal utility.
   C. At saturation point marginal utility is zero.
   D. Total utility begins from zero and increases indefinitely.
   E. Marginal utility is the extra satisfaction from additional unit of a product.
6. Which one of the following is **true** regarding the interaction of economic agents?
   A. Firms incur cost of production in product market
   B. Households earn factor income in product market
   C. Firms earn revenue in product market
   D. Households are on the supply side of product market
   E. Firms are on the demand side in product market
7. People come to expect that the price of teff will rise next week. As a result,
   A. Next week's supply of teff decreases.
   B. The price of teff falls today.
   C. Today's supply of teff increases.
   D. Today's demand for teff increase.
   E. Next week's demand for teff increase.
8. Which of the following is **not** the issue of microeconomics?
   A. The price of mango.
   B. The investment in Ethiopia.
   C. The revenue of mango supplier.
   D. The consumption of a household.
   E. Output of a firm.
9. Which of the following is **true**?
   A. If the price level is below equilibrium price, quantity demand is greater than quantity supply.
   B. If the price level is below equilibrium price, quantity demand is less than supplied.
   C. If the price level is below equilibrium price, there is surplus.
   D. Surplus push price down, thereby increases quantity supply and reduces the quantity demand until equilibrium is achieved.
   E. Shortage occurs whenever the price is above equilibrium price.
10. Which one of the following is **true** concerning the concept of utility?
   A. Utility is objective
   B. Utility is ethically neutral
   C. Utility is not temporal
   D. Utility is product-centric
   E. Utility depends on objective quality of a product

Part III: Write short and clear answer neatly to the following questions (2 points each).

1. Discuss types of economic systems in relation to the basic economic questions?
2. State the law of diminishing marginal utility with its restrictive assumption?

Part IV: Workout, show the necessary steps clearly and neatly (total of 5 points)!

1. The market demand for living house in Jimma Town is given by equation Qd = 100-5P and the market supply of living house in town is given by $P = \frac{1}{5}Qs + 10$. Quantity is measured in tens of thousands and price, the monthly rental rate is measured in hundred of Birr. Then find:
   A. Market equilibrium price and quantity (1pt).
   B. What would be the state of the market, if the market price for house was fixed at a maximum of Birr 200(1pt).
2. Suppose a consumer who consumes two fruits - banana (X) and apple (Y) with utility function U (X, Y) = 2XY + 4X. If prices of the two commodities are Birr 5 and 10 respectively and the consumer's income to be spent on the two goods is Birr 200. Then,
   A. Find utility maximizing quantities of good X and Y (2pts).
   B. Find the MRS_{xy} at equilibrium and interpret the result (1pt).

Answer key

Name_____ **ID.NO**_____ **Section**_____ **Add**_____

Part I: True/False

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]
5. [redacted]
6. [redacted]

Part II: Choose

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]
5. [redacted]
6. [redacted]
7. [redacted]
8. [redacted]
9. [redacted]
10. [redacted]