

# H campus

**be reasonable, to be successful**

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**Part Two: Write TRUE if the statement is correct and write FALSE if the statement is incorrect (1 point each)**

1) If the price of the commodity is above the equilibrium price, there will be a downward pressure on the market price of that product.
2) Any disagreement on normative economics can be solved by providing facts and figures.
3) If the income of the consumer increases the demand for inferior goods will increases

**Part Three: short answer and work out (7 point total)**

*Note: neatness and readable writing has its own value!!*

1) Define elasticity in economics and discuss the difference between point and arc price elasticity of demand (2 point)
2) Suppose that the inverse demand and supply function for certain commodity in the market is $P = 13 - \frac{1}{2}Q_d$ and $Q_s = -10 + 2P$ respectively. Based on this information answer the following questions:
   a) Find the equilibrium price and quantity and show the equilibrium point graphically (1 point)
   b) When the market price is 6, calculate the amount of shortage or surplus and show with the help of graph (1 point)
   c) Given the equilibrium price and equilibrium quantity, that you obtained in question 'a' above answer the following questions
      i) Calculate Price elasticity of demand ($\varepsilon_d^p$) *(use point method)* (1 point)
      ii) Interpret the result of $\varepsilon_d^p$ in question 'i' (1 point) and determine whether $\varepsilon_d^p$ is elastic, inelastic or unitary? (1 point)

Name _____ IDNo, _____ Section _____

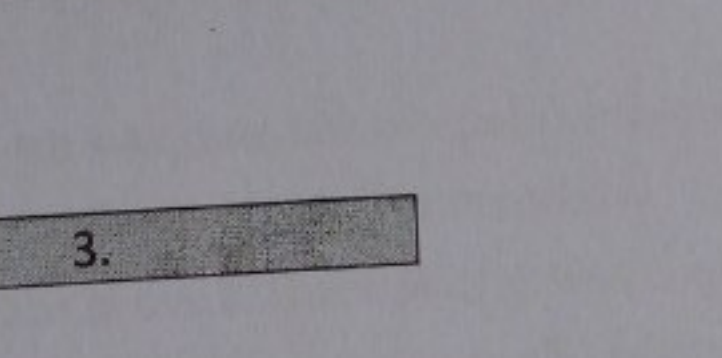
*Part I: Multiple Choices (10 points):*

| | | | | |
|---|---|---|---|---|
| 1. | 2. | 3. | 4. | 5. |
| 6. | 7. | 8. | 9. | 10. |

*Part II: True or False (3 points):*

| | | |
|---|---|---|
| 1. | 2. | 3. |

*Part III: Work out (7 points):*



*Note: Write your answer only on the answer sheet provided!!!*

**Part one: Multiple choices (one point each)**

1) Which of the following is/are **true** about production possibility curve?
   A. When we move from right to left the opportunity cost of PPF is increasing
   B. Points inside the PPF reflects there is an idle resource
   C. When there is increase in quality of resources the PPF will shift inward
   D. If the PPF is rotated around X to the right it implies increase in production of Y axis
   E. None
2) In which economic system is economic problems/questions are merely answered by demand and supply force.
   A. Command
   B. Capitalism
   C. Socialism
   D. Mixed
   E. B and D
3) Identify the **correct** statement from the given alternatives
   A. In three sector circular flow model government is the supplier of economic resource
   B. In two sector circular flow model firms are buyer of final goods and service at the product market
   C. In two sector circular flow model expenditure of a firm is an income for the households
   D. In two sector circular flow model firms are the owners of factors of production and households are suppliers of final goods and service
   E. None
4) Which of the following is/are **not true** about economic systems?
   A. There is no labor exploitation in capitalist economy
   B. Maximizing social welfare is the feature of command economy
   C. Co-existence of public and private sectors are the features of mixed economy
   D. Collective ownership of resource is a features of command economy
   E. B and C
5) If the price elasticity of demand is elastic, then
   A. Percentage change in quantity demand is less than percentage change in price
   B. Consumers are less responsive to a price increase
   C. It's value is less than 1
   D. There are likely a large number of substitute product available
   E. None



16-04-12

6) Which one of the following statement is **Wrong**
   A. The law of demand implies that an increase in the price of a good will decrease the quantity demand for that good, *ceteris paribus*
   B. The law of supply implies that an increase in the price of a good will increase the quantity supplied of that good, *ceteris paribus*
   C. A change in a non-own price determinant of demand will result in a movement along a given demand curve
   D. An increase in supply is reflected graphically as a leftward shift of the supply curve
   E. None

7) Which of the following statement is **true** for a given market
   A. An increase in supply, with no change in demand, will decrease the equilibrium price and quantity
   B. A decrease in supply , with no change in demand, will decrease the equilibrium price and increase the equilibrium quantity
   C. An increase in demand, with no change in supply, will increase equilibrium price and decrease equilibrium quantity
   D. An increase in supply and demand in equal amount, will increase the equilibrium quantity and the equilibrium price will unchanged
   E. None

8) Among the following identify a **wrong** statement
   A. If X is a normal good, the income elasticity of demand of good X will be positive
   B. If X and Y are substitute good, cross price elasticity of demand of X and Y will be negative
   C. If X and Y are unrelated good cross price elasticity of demand of X and Y will be zero
   D. If X is a necessity good, price elasticity of demand of good X will be inelastic
   E. None

9) Which of the following **will not** shift the supply curve outward?
   A. Decrease in input price
   B. An increase in the subsidy
   C. Expectation of lower price of the product in the future
   D. Decrease in the number of sellers
   E. None

10) Which one of the following is the issue of Microeconomics?
   A. Aggregate demand and aggregate supply
   B. Full employment of resource in the economy
   C. Individual price
   D. National saving
   E. All

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