ETHIOPIAN SECONDARY SCHOOL LEAVING CERTEFICATE EXAMINATIONS (ESSLCE)
ENTRANCE TRICKS FIRST ROUND ECONOMICS MODEL EXAMINATION
MIYAZYA 2017 (APRIL 2025)

ENTRANCE TRICKS FIRST ROUND UNIVERSITY ENTRANCE (UEE) MODEL EXAMINATION MIYAZYA 2017/ APRIL 2025

BOOKLET CODE: 09 **SUBJECT CODE: 09**

Time Allowed: 02:00 HOURS

GENERAL DIRECTIONS

THIS BOOKLET CONTAINS ECONOMICS EXAMINATION. THE CODE FOR THIS EXAMINATION IS **08** AND THE CODE FOR THIS PARTICULAR BOOKLET IS **09**.

IN THIS EXAMINATION, THERE ARE A TOTAL OF 80 **QUESTIONS** .EACH SECTION CONTAINS **MULTIPLE CHOICE QUESTIONS** CONSISTING IF FOUR POSSIBLE ANSWERS. CAREFULLY SELECT THE BEST ANSWER. YOU ARE ALLOWED TO WORK ON THE EXAM FOR 02:00 **HOURS**.BEFORE TIME IS CALLED; YOU MUST SUBMIT YOUR RESPONSES.

PLEASE MAKE SURE THAT YOU HAVE WRITTEN ALL THE REQUIRED INFORMATION ON THE NEXT SHEET BEFORE YOU START TO WORK ON THE EXAMINATION.

DO NOT FORGET SUBMIT YOUR ANSWERS BEFORE THE GIVEN TIME IS FINISHED

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BOOKLET CODE: 09 **SUBJECT CODE: 09**
Number of Items: 80 **Time Allowed: 2 hours**

DIRECTIONS:

Each of the following questions is followed by four possible alternatives. Read each question and carefully blacken the letter of your best choice on the separate answer sheet provided. You may refer to the information given below when you work on some of the questions.
Constants you may need:

1. Which school of thought argues that "rational expectations" render discretionary fiscal and monetary policies ineffective in the long run?
   A. Keynesian
   B. New Classical
   C. Monetarist
   D. Post-Keynesian
2. In the context of the *Lucas Critique*, why might historical relationships between economic variables break down when policies change?
   A. Due to sticky wages and prices
   B. Because agents adjust expectations based on policy shifts
   C. Government interventions distort market equilibrium
   D. Central banks lack credibility
3. Which model emphasizes "menu costs" as a reason for price stickiness in the short run?
   A. Real Business Cycle Theory
   B. New Keynesian Economics
   C. Classical Economics
   D. Austrian School
4. If the government increases infrastructure spending during a recession, how does this primarily affect the aggregate demand curve?
   A. Leftward shift due to crowding out
   B. Rightward shift via the multiplier effect
   C. Movement along the curve due to price changes
   D. No impact due to Ricardian equivalence

5. Which scenario would cause a *downward* movement along the short-run aggregate supply (SRAS) curve?

   A. A decrease in commodity prices

   B. An increase in nominal wages

   C. A rise in the price level

   D. Technological advancement

6. In the long run, an expansionary monetary policy is neutral because:

   A. Prices and wages adjust proportionally

   B. Unemployment returns to its natural rate

   C. Real GDP remains unchanged

   D. All of the above

7. Country X is in a severe recession with high unemployment. The government proposes two policies:

   Policy A: Reduce taxes and cut public spending to balance the budget.

   Policy B: Increase infrastructure spending and run a deficit to stimulate demand.

   Which school of thought aligns with each policy, and what is the key assumption behind Policy A?

   A. Policy A: Classical (self-correcting markets); Policy B: Keynesian (sticky prices)

   B. Policy A: Keynesian (liquidity trap); Policy B: Monetarist (constant money growth)

   C. Policy A: New Classical (rational expectations); Policy B: Austrian (limited intervention)

   D. Policy A: Supply-Side (tax cuts boost investment); Policy B: Post-Keynesian (effective demand)

   8.A carbon tax is designed to internalize the externality of pollution by aligning:

   A. Marginal private cost with marginal social benefit

   B. Marginal social cost with marginal private cost

   C. Marginal private benefit with marginal social benefit

   D. Marginal external cost with marginal private benefit

   9.The "Tragedy of the Commons" arises due to:

   A. Overconsumption of rival and non-excludable resources

   B. Underproduction of public goods

C. Monopolistic control of excludable goods

D. Government failure in regulation

10.Which solution best addresses asymmetric information in health insurance markets?

A. Mandating universal coverage

B. Risk-adjusted premium pricing

C. Government-provided insurance

D. Co-payment requirements

11.During hyperinflation, which policy combination is most effective?

A. Tight monetary policy + expansionary fiscal policy

B. Currency board system + fiscal austerity

C. Income policies + deficit spending

D. Quantitative easing + tax cuts

12.The "Taylor Rule" prescribes adjusting interest rates based on:

A. Inflation and output gaps

B. Unemployment and exchange rates

C. Fiscal deficit and debt levels

D. Money supply and velocity

13. *During an economic boom, rising oil prices and a surge in consumer confidence occur simultaneously. The central bank raises interest rates to curb inflation.*

How do these factors *combined* affect short-run aggregate supply (SRAS) and aggregate demand (AD)?

A. SRAS shifts left; AD shifts right

B. SRAS shifts left; AD remains unchanged

C. SRAS shifts left; AD shifts left due to higher interest rates

D. SRAS shifts right; AD shifts right

14.Crowding out occurs when government borrowing leads to:

A. Higher interest rates reducing private investment

B. Lower taxes increasing disposable income

C. Increased exports improving trade balance

D. Higher inflation eroding savings

15.A progressive tax system is characterized by:

A. Higher marginal rates for higher income brackets

B. Flat rates regardless of income

C. Exemptions for low-income households

D. Tax credits for corporations

16.The Laffer Curve suggests that beyond a certain tax rate:

A. Tax revenue decreases due to reduced economic activity

B. Tax evasion becomes negligible

C. Government spending efficiency improves

D. Income inequality worsens

17.Which tax is most likely to be regressive?

A. Value-added tax (VAT)

B. Corporate income tax

C. Property tax

D. Capital gains tax

18. *During the 2008 crisis, the Federal Reserve implemented quantitative easing (QE), purchasing long-term securities to inject liquidity.*

What is the primary mechanism of QE, and what risk might arise if prolonged?

A. Lower short-term rates; deflation

B. Increase bank reserves; asset bubbles

C. Direct fiscal stimulus; crowding out

D. Currency devaluation; trade deficits

19.The Multidimensional Poverty Index (MPI) differs from the headcount ratio by incorporating:

A. Income inequality among the poor

B. Deprivation in health, education, and living standards

C. Regional disparities in poverty levels

D. Access to financial services

20.Microfinance institutions like "Idir" and "Iqub" primarily address:

A. Information asymmetry in credit markets

B. Lack of collateral among low-income borrowers

C. Currency volatility in rural areas

D. Government corruption

21.Which factor is *not* a driver of the "feminization of poverty"?

A. Gender wage gaps

B. Limited access to education for women

C. Higher life expectancy among women

D. Overrepresentation in informal labor sectors

22.Fiscal federalism in Ethiopia aims to:

A. Centralize revenue collection for efficiency

B. Empower regional governments to tailor public services

C. Eliminate interregional competition

D. Standardize tax rates nationwide

23.The "Growth and Transformation Plan" prioritized:

A. Export-oriented industrialization

B. Agricultural-led industrialization

C. Privatization of state-owned enterprises

D. Urban infrastructure development

24. *Country Y has a 50% income tax rate but struggles with tax evasion and stagnant revenue. Economists debate lowering the rate to 30%.*

According to the Laffer Curve, what outcome is *most likely* if the tax rate is reduced?

A. Revenue increases due to higher compliance and economic activity

B. Revenue decreases, worsening the fiscal deficit

C. No change in revenue due to inelastic tax base

D. Income inequality rises sharply

25.A major challenge in implementing fiscal decentralization in Ethiopia is:

A. Inadequate local administrative capacity

B. Excessive reliance on foreign aid

C. High interregional income equality

D. Overlapping responsibilities with federal agencies

26.The "Climate Resilient Green Economy" strategy in Ethiopia focuses on:

A. Expanding fossil fuel extraction

B. Reducing emissions through reforestation and renewables

C. Importing carbon credits from developed nations

D. Subsidizing industrial pollution

27.Which policy instrument aligns with the "polluter pays" principle?

A. Cap-and-trade systems

B. Renewable energy subsidies

C. Carbon taxation

D. Green public procurement

28.The economic cost of climate change in developing countries is exacerbated by:

A. High adaptive capacity

B. Reliance on climate-sensitive agriculture

C. Abundant foreign aid

D. Advanced technological infrastructure

29.If nominal GDP is 500 billion birr and the GDP deflator is 125, real GDP equals:

A. 400 billion birr

B. 625 billion birr

C. 375 billion birr

D. 525 billion birr

30.Given a Lorenz Curve further from the line of equality, the Gini Coefficient is:

A. Closer to 0

B. Closer to 1

C. Unaffected

D. Indeterminate

31.If the velocity of money is 4 and the money supply is 200 billion birr, nominal GDP equals:

A. 50 billion birr

B. 800 billion birr

C. 200 billion birr

D. 1,600 billion birr

32.Ethiopia's "Home-Grown Economic Reform" prioritizes:

A. Debt restructuring and macroeconomic stability

B. Expansionary fiscal policies to boost consumption

C. Nationalization of foreign-owned industries

D. Elimination of agricultural subsidies

33.Quantitative easing (QE) primarily affects the economy by:

A. Increasing bank reserves and lowering long-term interest rates

B. Directly financing government budget deficits

C. Reducing income inequality through wealth redistribution

D. Stabilizing exchange rates via currency intervention

34.The "Dutch Disease" refers to:

A. Currency appreciation harming non-resource export sectors

B. Hyperinflation caused by excessive money printing

C. Deflationary pressures from technological advancement

D. Trade deficits due to consumer preference for imports

35.A floating exchange rate regime is characterized by:

A. Central bank intervention to stabilize currency values

B. Market-determined currency valuations

C. Fixed parity with a major foreign currency

D. Crawling pegs adjusted for inflation differentials

36.Ethiopia's current account deficit could be reduced by:

A. Increasing tariffs on imports

B. Devaluing the birr to boost exports

C. Expanding domestic consumption

D. Raising interest rates to attract foreign capital

37. *Ethiopia’s "Idir" microfinance group provides loans to women farmers but faces high default rates. Critics argue it fails to address structural poverty.*

Which factor *best* explains the limitations of such microfinance models?

A. Lack of collateral requirements

B. Gender bias in loan distribution

C. Absence of financial literacy programs

D. Focus on consumption over productive investment

38.The "J-Curve Effect" describes:

A. Short-term worsening of the trade balance post-devaluation

B. Long-term improvement in fiscal deficits after austerity

C. Cyclical fluctuations in unemployment rates

D. Nonlinear relationship between inflation and growth

39.Structural unemployment arises from:

A. Mismatch between worker skills and job requirements

B. Cyclical downturns in the economy

C. Seasonal fluctuations in demand

D. Voluntary job transitions

40.The "natural rate of unemployment" includes:

A. Frictional and structural unemployment

B. Cyclical and seasonal unemployment

C. Underemployment and discouraged workers

D. All forms of involuntary unemployment

41.The "Lewis Dual-Sector Model" focuses on:

A. Transition from agrarian to industrial economies

B. Role of human capital in technological innovation

C. Impact of foreign aid on poverty reduction

D. Urban-rural migration driven by wage differentials

42.Ethiopia's "demographic dividend" refers to:

A. Economic growth potential from a youthful population

B. Aging population increasing healthcare costs

C. Rural-urban migration reducing agricultural output

D. Gender imbalances in the labor force

43.Double taxation of dividends refers to:

A. Corporate profits taxed at both corporate and shareholder levels

B. VAT applied at multiple stages of production

C. Inheritance taxes on transferred assets

D. Tariffs on imported and exported goods

44. The "liquidity trap" occurs when:

A. Interest rates are near zero, rendering monetary policy ineffective

B. Banks hoard reserves instead of lending

C. Hyperinflation erodes money's store-of-value function

D. Central banks lose control over money supply

45. E*thiopia's regional governments receive fiscal equalization payments but still lag in healthcare quality. Local administrators lack training in budget allocation.*

What is the *root challenge* hindering effective fiscal decentralization?

A. Insufficient revenue generation

B. Weak local administrative capacity

C. Central government interference

D. Ethnic fragmentation

46.Open market operations (OMOs) directly affect:

A. Reserve balances of commercial banks

B. Government fiscal deficits

C. Foreign exchange rates

D. Consumer confidence indices

D. Educating the public through awareness campaigns

47.A "stagflation" scenario combines:

A. High inflation and high unemployment

B. Low inflation and high economic growth

C. Deflation and rising GDP

D. Currency appreciation and trade surplus

48. The "Phillips Curve" trade-off between inflation and unemployment holds in:

A. The short run but not the long run

B. Both short and long run

C. The long run but not the short run

D. Neither short nor long run

49.The "developmental state" model in Ethiopia emphasizes:

A. State-led investment in infrastructure and key sectors

B. Laissez-faire capitalism with minimal regulation

C. Decentralized decision-making by local governments

D. Privatization of all state-owned enterprises

50. *Ethiopia's "Climate Resilient Green Economy" invests in reforestation and solar energy but faces criticism for high upfront costs and slow job creation.*

Which economic concept justifies prioritizing long-term sustainability over short-term gains?

A. Discount rate

B. Opportunity cost

C. Pareto efficiency

D. Intergenerational equity

51. *Ethiopia's "Home-Grown Economic Reform" prioritizes debt restructuring and export diversification. Critics argue it neglects rural agriculture.*

Which trade-off is *most relevant* to this critique?

A. Short-term austerity vs. long-term growth

B. Urban industrialization vs. rural development

C. Foreign investment vs. domestic ownership

D. Public sector efficiency vs. private sector innovation

52. Which of the following best exemplifies a core tenet of Monetarism that distinguishes it from New Keynesian economics?

a) An emphasis on active fiscal policy to stimulate aggregate demand during recessions.
b) A belief in the inherent stability of the private sector if left relatively unregulated.
c) The acceptance of a short-run trade-off between inflation and unemployment.
d) The importance of rational expectations in shaping economic outcomes.
e) That government intervention is vital to help the economy recover fast.

53. The crowding-out effect, a concern for Keynesian policies, is *most* pronounced when:

a) The economy is operating far below full employment.
b) The money supply is held constant.
c) Investment is highly sensitive to changes in interest rates.
d) Government spending is financed by borrowing.
e) The economy is operating close to full employment.

54. A Classical economist would likely argue that a persistent rise in unemployment is primarily caused by:
a) Insufficient aggregate demand.
b) Sticky wages and prices that prevent markets from clearing.
c) Government intervention in labor markets, such as minimum wage laws.
d) A lack of consumer confidence.
e) That the economy is not working correctly

55. The concept of "animal spirits" is *most closely* associated with which school of economic thought?
a) Classical economics
b) Monetarism
c) Keynesian economics
d) Supply-side economics
e) Austrian Economics

56. Suppose there is a simultaneous increase in government spending, a decrease in consumer confidence, and a rise in global oil prices. What is the *most likely* short-run effect on the aggregate demand (AD) and aggregate supply (AS) curves?
a) AD shifts right, AS shifts left, resulting in higher prices and an uncertain effect on output.
b) AD shifts left, AS shifts left, resulting in lower output and an uncertain effect on prices.
c) AD shifts right, AS shifts right, resulting in higher prices and higher output.
d) AD shifts left, AS shifts right, resulting in lower prices and an uncertain effect on output.
e) An uncertain effect on both AD and AS curves.

57. Which of the following scenarios would most likely lead to a leftward shift in the long-run aggregate supply (LRAS) curve?
a) An unexpected increase in aggregate demand.
b) A technological breakthrough that increases productivity.
c) A significant decrease in the labor force participation rate.
d) A government policy that encourages investment in human capital.
e) An increase in net capital inflows.

58. If the economy is initially at long-run equilibrium, a sudden and unanticipated increase in the money supply will, according to the AS/AD model:
a) Lead to a short-run increase in both price level and output, and a long-run increase only in the price level.
b) Lead to a short-run increase in output, and a long-run decrease in the price level.
c) Lead to a short-run increase in the price level, and a long-run decrease in output.
d) Have no effect on either price level or output in the long run.
e) Lead to a long-run increase in real GDP.

59. A carbon tax is designed to address a negative externality associated with pollution. Its effectiveness is most likely to be reduced if:
a) The demand for the polluting good is highly elastic.
b) The tax is set at a level equal to the marginal external cost of pollution.
c) The tax revenue is used to fund research into clean energy technologies.
d) Other countries do not implement similar taxe s.
e) The tax causes the supply curve to be perfectly inelastic.

60. Which of the following is the best example of the "Tragedy of the Commons"?
a) Overfishing in international waters.
b) Underinvestment in basic research.
c) The provision of national defense.
d) A decrease in the supply of housing due to zoning regulations.
e) A decrease in the demand for housing due to an aging population.

61. A good is considered non-rivalrous if:
a) One person's consumption of the good prevents another person from consuming it.
b) The good is provided by the government.
c) The marginal cost of providing the good to an additional person is zero.
d) It is difficult to exclude non-payers from consuming the good.
e) It is difficult to set a price for the good.

62. Quantitative easing (QE) is most likely to be effective when:
a) Banks are already lending freely and interest rates are high.
b) Banks are reluctant to lend due to uncertainty and liquidity traps.
c) Inflation is above the central bank's target.
d) Fiscal policy is already highly stimulative.
e) The economy is already booming.

63. A contractionary fiscal policy is most likely to lead to:
a) A decrease in the national debt.
b) An increase in economic growth.
c) A decrease in interest rates.
d) A decrease in unemployment.
e) A budget surplus.

64. Which of the following scenarios would most likely prompt a central bank to raise the reserve requirement?
a) A period of deflation.
b) An increase in unemployment.
c) Rapidly accelerating inflation.
d) A decrease in consumer confidence.
e) A decline in imports.

65. A regressive tax system is *most likely* to:
a) Reduce income inequality.
b) Place a heavier burden on lower-income individuals as a percentage of their income.
c) Promote economic efficiency.
d) Be based on the ability-to-pay principle.
e) Be based on the benefits-received principle.

66. Compared to a progressive income tax, a value-added tax (VAT) is generally considered to be:
a) More progressive and less efficient.
b) More regressive and more efficient.
c) Less progressive and less efficient.
d) More progressive and more efficient.
e) It effects equity and efficiency the same way.

67. A critique of the Multidimensional Poverty Index (MPI) *could* be that:
a) It only considers monetary poverty.
b) It is too complex to be useful for policymakers.
c) It relies on arbitrary weights assigned to different dimensions of poverty.
d) It does not account for income inequality.
e) It relies too heavily on government data.

68. Microfinance institutions like "Idir" and "Iqub" are *most effective* in poverty alleviation when:
a) They provide large loans to wealthy entrepreneurs.
b) They operate in environments with strong legal frameworks and access to formal financial services.
c) They target the poorest of the poor, regardless of their entrepreneurial potential.
d) They offer small loans and savings opportunities to individuals excluded from traditional banking systems.
e) There is no need for other financial institutions.

69. Which of the following is least likely to contribute to sustainable economic development in a low-income country?
a) Investments in education and healthcare.
b) Policies that promote free trade and foreign investment.
c) A focus on exporting primary commodities.
d) Good governance and the rule of law.
e) Increased gender equality.

70. In ethnically diverse countries, a major challenge of fiscal federalism is:
a) Ensuring that all regions have equal levels of revenue.
b) Balancing regional autonomy with national unity and macroeconomic stability.

c) Eliminating all forms of regional disparities.
d) Centralizing all government functions at the national level.
e) Eliminating the need for regional development plans.

71. A potential drawback of centralized development planning is:
a) Increased coordination among government agencies.
b) Reduced duplication of effort.
c) A lack of local knowledge and responsiveness to specific needs.
d) Greater efficiency in resource allocation.
e) It increases corruption.

72. Suppose Ethiopia's Growth and Transformation Plan (GTP) focused heavily on large-scale infrastructure projects. A potential unintended consequence could be:
a) Increased foreign investment.
b) Rapid economic growth.
c) Displacement of smallholder farmers and environmental degradation.
d) Improved access to education and healthcare.
e) Increased employment opportunities in all sectors.

73. An economic impact of climate adaptation strategies, such as building seawalls, might include:
a) A decrease in the cost of insurance in coastal areas.
b) Increased economic activity in the construction sector.
c) Reduced incentives to mitigate greenhouse gas emissions.
d) All of the above.
e) b and c.

74. A major challenge in evaluating the effectiveness of international agreements like the Paris Accord is:
a) The lack of scientific consensus on climate change.
b) The difficulty in measuring the emissions reductions resulting from the agreement.
c) The absence of any enforcement mechanisms.
d) The unwillingness of developed countries to provide financial assistance to developing countries.
e) The cost of implementing climate adaptation strategies is too low.

75. Which of the following policies is most likely to encourage resource conservation?
a) Subsidies for resource extraction.
b) Price controls that keep resource prices artificially low.
c) Clearly defined property rights and market-based mechanisms.
d) A complete ban on resource extraction.
e) Restrictions on International trade.

76. Which statement below is true?

a) The environmental Kuznets curve (EKC) suggests that environmental degradation initially worsens with economic growth, but eventually improves as a country develops.
b) The environmental Kuznets curve (EKC) suggests that environmental quality always decreases with economic growth.
c) The environmental Kuznets curve (EKC) suggests that environmental quality always increases with economic growth.
d) The environmental Kuznets curve (EKC) suggests that economic growth has nothing to do with enviromental quality.
e) The environmental Kuznets curve (EKC) only applys to a limited number of countries.

77. What is a carbon offset?
a) A tax levied on carbon emissions.
b) A cap on carbon emissions imposed on industries.
c) A reduction in carbon emissions or an increase in carbon storage that is used to compensate for emissions elsewhere.
d) A subsidy for renewable energy production.
e) A payment made by countries that exceed their emissions targets to those that reduce their emissions.

78. What does the concept of "discounting" in environmental economics refer to?
a) Reducing the price of environmentally friendly products.
b) Lowering the price of pollution permits.
c) Giving less weight to future environmental benefits compared to present ones when making decisions.
d) Subsidizing environmental conservation projects.
e) Ignoring the long t erm consequences of economic decisions.

79. What is "Green GDP"?
a) A measure of GDP that only includes environmentally friendly industries.
b) Gross Domestic Product adjusted to account for environmental degradation and resource depletion.
c) Gross Domestic Product adjusted to account for social inequality.
d) The Gross Domestic Product of countries that prioritize environmental protection.
e) Green GDP is the same as Gross Domestic Product.

80. The "Porter Hypothesis" suggests what about environmental regulations?
a) Environmental regulations are always detrimental to economic competitiveness.
b) Stringent environmental regulations can actually lead to innovation and improved competitiveness for firms.
c) Environmental regulations have no effect on economic competitiveness.
d) Environmental regulations are only effective in developed countries.
e) Environmental regulations lead to greater profits for firms.

ANSWER KEY

1. **B**
2. **B**
3. **B**
4. **B**
5. **C**
6. **D**
7. **A**
8. **B**
9. **A**
10. **B**
11. **B**
12. **A**
13. **A**
14. **A**
15. **A**
16. **A**
17. **A**
18. **B**
19. **B**
20. **B**
21. **C**
22. **B**
23. **B**
24. **A**
25. **A**
26. **B**
27. **C**
28. **B**
29. **A**
30. **B**

31. **B**
32. **A**
33. **A**
34. **A**
35. **B**
36. **B**
37. **D**
38. **A**
39. **A**
40. **A**
41. **A**
42. **A**
43. **A**
44. **A**
45. **B**
46. **A**
47. **A**
48. **A**
49. **A**
50. **D**
51. **B**
52. **B**
53. **E**
54. **C**
55. **C**
56. **B**
57. **C**
58. **A**
59. **D**
60. **A**

61. **C**
62. **B**
63. **E**
64. **C**
65. **B**
66. **B**
67. **C**
68. **D**
69. **C**
70. **B**
71. **C**
72. **C**
73. **E**
74. **B**
75. **C**
76. **A**
77. **C**
78. **C**
79. **B**
80. **B**