

ARADA SUBCITY EDUCATION OFFICE
2016 E.C SECOND SEMSETER ECONOMICS GRADE 12th MODEL EXAM

TIME ALLOWED: 2:30

GENERAL DIRECTIONS

THIS EXAM PAPER CONTAINCS ECONOMICS EXAMINATION. IN THIS EXAMINATION, THERE ARE A TOTAL OF **100 MULTIPLE CHOICE** QUESTIONS CAREFULLY SELECT THE BEST ANSWER AND BLACKEN ONLY THE LETTER OF YOUR CHOICE ON THE SEPARATE ANSWER SHEET PROVIDED. FOLLOW THE INSTRUCTION ON THE ANSWER SHEET AND THE EXAMINATION PAPER CAREFULLY. USE ONELY **PENCIL** TO MARK YOUR ANSWERS; YOU ANSWER MARK SHOULD BE HEAVY AND DARK, COVERING THE ANSWER SPACE COMPLETELY. PLEASE ERASE ALL UNNCESSARY MARKS COMPLETELY FROM YOUR ANSER SHEET.

YOU ARE ALLOWED TO WORK ON THE EXAM FOR 150 MINUTES, WHEN TIME IS CALLED, YOU MUST IMMEDIATELY STOP WORKING, PUR YOU PENSIL DOWN, AND WAIT FOR FURTHER INSTRUCTIONS.

ANY FORM OF CHEATING OR AN ATTEMPT TO CHEAT IN THE EXAMINATION CLASS ROOM RESULTS CANCELLATION OF YOUR SCORE (S).

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

DO NOT TURN THIS PAE UNTIL YOU ARE TOLD TO DO SO.

1. Which of the following is NOT true about Macroeconomics
 - A. Macroeconomics is relatively old branch of economics
 - B. Macroeconomics studies overall behavior of the economy
 - C. Macroeconomics is the study of the structure and performance of national economics
 - D. All of the above
2. The book entitled “The General Theory of Employment ,Interest and Money “ is written by:
 - A. Adam Smith B. John Maynard Keynes C. Karl Marks D. Ministry of Education
3. Macroeconomics helps to understand and try to find answers for the following questions ,except:
 - A. The problem of allocation of resources B. Why do output and employment sometimes fail
 - C. How do government policies affect growth D. How can business cycle are managed
4. Which of the following is true?
 - A. $NFI = GNP + GDP$ B. $GDP = GNP + NFI$ C. $GNP = GDP + NFI$ D. $GDP = NFI + GNP$
5. Which of the following is NOT true about measuring GDP?
 - A. Only the value of final goods and services are included
 - B. GDP is calculated by adding the market value of goods and services that are produced currently
 - C. Intermediate goods are included in the GDP calculation
 - D. GDP is measured by adding all expenditures on final goods and services
6. Which of the following is the reason for the understatement of the real income in developing countries are due to:
 - A. Over reporting of income B. Reduction of the cost of pollution and environmental degradation
 - C. Making allowance for non-monetary sectors D. The majority of the population is subsistence
7. To include indicators of quality of life in measuring development UNDP developed an index known as;
 - A. Per capita income B. HDI C. CPI D. GDP deflator
8. An inflation that occurs in dual or triple digit of annual rates for a short period of time is called
 - A. Hyperinflation B. creeping inflation C. Walking inflation D. Galloping inflation
9. Which of the following is NOT true about inflation?
 - A. The all-time record inflation took place in Hungary
 - B. As prices rise, the real value of money in one’s wallet also rises
 - C. The most extreme cases of inflation are hyperinflation
 - D. There is a consistent pattern that wars are associated with inflation
10. The percentage of the population that is willing and able to work is
 - A. The labor force participation rate B. The unemployment rate
 - C. The natural unemployment rate D. The labor force
11. A form of involuntary unemployment that happens when there is lack of adjustment between demand for and supply of labor is known as
 - A. Structural unemployment B. Cyclical unemployment
 - C. Frictional unemployment D. Total unemployment
12. Inflation the cost of living, and the purchasing power of currency.
 - A. increase/increase B. decrease/decrease C. increase/decrease D. decrease/increase

13. Which of the following is NOT true about business cycle?
 - A. economic fluctuation is not regular and predictable
 - B. recession is common but irregular
 - C. every boom is followed by a slump and vice versa
 - D. business cycle has five distinct phases
14. Which school of thought bases its idea on the writings of Alfred Marshal and his followers?
 - A. Neoclassical economics
 - B. Classical economics
 - C. Keynesians
 - D. Monetarists
15. All of the following are the new Keynesian economists, except
 - A. Gregory Mankiw
 - B. John B. Taylor
 - C. Stanley Fisher
 - D. John Maynard Keynes
16. Which of the following is NOT true
 - A. New Keynesians accepted the rational expectation hypotheses
 - B. New classicalist came up with the term "policy ineffectiveness propositions"
 - C. Classical economy implied a "hand-off" policy approach
 - D. Monetarists argue that fiscal policy addresses the macroeconomic problem
17. The relationship between the price level and real GDP demanded is
 - A. inverse
 - B. positive
 - C. direct
 - D. B and C are correct
18. Which of the following is NOT factor that shifts the AD curve
 - A. real interest rate
 - B. Availability of credit
 - C. general level of income of the people
 - D. change in impute price
19. Which of the following is NOT factor that affects consumption?
 - A. exchange rate
 - B. Interest rate
 - C. Income taxes
 - D. wealth
20. Which of the following is NOT the determinant of Net Export (X- M)
 - A. government spending decisions
 - B. domestic and foreign income
 - C. relative prices
 - D. exchange rates
21. One of the following is factor that leads to an increase in aggregate demand
 - A. Expecting lower future prices
 - B. decrease in interest rate
 - C. Increase in income taxes
 - D. Appreciation of Ethiopian Birr
22. Depreciation of a nation's currency makes foreign goods
 - A. Less expensive
 - B. don't affect
 - C. more expensive
 - D. None of the above
23. Which of the following is NOT the determinant of aggregate supply?
 - A. Market power
 - B. price of imported resources
 - C. cost of input
 - D. Income of the people
24. Which of the following is the reason for sticky wage?
 - A. negative externality
 - B. market failure
 - C. elasticity
 - D. labor contract agreement
25. Which of the following is true?
 - A. as the real wage falls the quantity demanded of labor rises
 - B. quantity supplied of labor is inversely related to the real wage
 - C. quantity demanded of labor is directly related to the real wage
 - D. None of the above
26. If wages are sticky in the price level will result in in output.
 - A. increase /increase
 - B. increase / decrease
 - C. decrease /decrease
 - D. decrease / increase
27. A. rise in equilibrium wage rates leads to a Shift in the aggregate supply curve.
 - A. right ward
 - B. Leftward
 - C. circular
 - D. cyclical
28. Aggregate supply shocks cause P and Y to change in directions.
 - A. opposite
 - B. Similar
 - C. don't affect each other
 - D. None of the above

29. A one-time unexpected exogenous positive shock to aggregate demand could arise from ...
 A. an expansionary monetary policy action B. an expansionary fiscal policy action
 C. an increase in desired expenditure D. All of the above
30. Which of the following is NOT true?
 A. an expansionary demand shock shifts the AD curve to the right
 B. an expansionary demand shock increases both P and Y
 C. A demand shock can only be expansionary
 D. A and B are correct
31. If the aggregate demand curve and aggregate supply curves were to remain unchanged
 A. equilibrium price is constant B. the economy would continue to produce the natural rate of output
 C. equilibrium output is declining D. None of the above
32. If the quantity supplied of real GDP is greater than that of the quantity demanded ...
 A. there is surplus of good B. the price level rises C. there is shortage of the commodity
 D. B and C are correct
33. The economic situation defined by an inefficient distribution of goods and services in the free market is known as
 A. Externality B. inflation C. deflation D. market failure
34. The reason for the imperfection of market in the real world is ...
 A. inefficient producers B. Externalities C. lack of public goods D. competitiveness
35. The followings are government responses to market failure; except
 A. Legislation B. direct provision of merit and public goods C. avoiding taxes D. subsidies
- ___ 36. Market equilibrium occurs when
 A. prices fluctuate continuously B. Demand exceeds supply
 C. Quantity demanded equals quantity D. Supply exceeds demand
- ___ 37. Which of the following is a potential consequence of market failure?
 A. Efficient allocation of resources B. Decrease in consumers surplus
 C. Promotion of fair competition D. Increase in producer surplus
- ___ 38. Which of the following is NOT a reason for government intervention in the market?
 A. To correct income inequality B. To ensure fair competition
 B. To correct market failure D. To maximize profit for businesses
- ___ 39. Externality occurs when;
 A. when the government intervenes in the market to correct inefficiency
 B. Consumer makes informed decision about products
 C. The production and consumption of a product affects third parties not directly involved in the transaction
 D. Price fluctuate due to changes in supply and demand
- ___ 40. A common form of market failure due to incomplete information is
 A. Adverse selection B. monopoly power C. Moral hazard D. Perfect competition
- ___ 41. Which of the following is NOT a reason for market failure?
 A. Externalities B. Perfect competition C. Information asymmetry D. monopoly power
- ___ 42. Which of the following is an example of positive externalities?
 A. A firm producing goods at a lower cost due to economies of scale
 B. Pollution from a factory harming nearby residents health
 C. A company dumping toxic wastes into a river
 D. A beekeeper bees pollinating nearby farmer crops
- ___ 43. Which government agency in Ethiopia is responsible for enforcing consumer protection law?
 A. National Bank of Ethiopia B. Ethiopian Investment Commission
 C. Ministry of Trade and Industry D. Ethiopian Revenue and Custom Authority

- ___ 44. Which of the following is an example of a public good?
A. cable TV subscription B. private beach resort C. street lighting D. Designer handbag
- ___ 45. A common resource is ...
A. non-rival and non-excludable B. non-rival and excludable
C. rival and non-excludable D. rival and excludable
- ___ 46. A good that is rival and non-excludable is a
Public good B. common resources C. Private good D. government good
- ___ 47. Free riding can occur if a good is a
A. non-excludable and non-rival B. excludable and rival
C. non-excludable and rival D. Excludable and non-rival
- ___ 48. During recession, there is a lot of _____
A. utilized productive capacity C. economic instability
B. productive capacity D. economic stability
- ___ 49. In which economists' view, recession and inflation will be automatically controlled ____
A. Keynesian B. Classical C. Monetarist D.
- ___ 50. One of the following is not component of tax revenue ____
A. Corporate taxes B. Personal taxes C. Grants in aid D. Tariffs
- ___ 51. Which economic instruments are adopted by gov't to control situation of excess demand
A. reduce expenditure B. reduce tax rate C. increase expenditure D. reduce interest rate
- ___ 52. An overheated economy causes _____
A. downward pressure on price B. lower wages C. inflation D. budget surplus
- ___ 53. Major instrument of contractionary fiscal policy that reduces budget deficit ____
A. increase expenditure C. decrease expenditure
B. reduce interest rate D. increase interest rate
- ___ 54. One of the following is an open market operation (OMO)
A. Making bank loan C. Central bank set required reserve ratio
B. purchases and sales of gov't bonds D. Curtailing bank lending

A. tax rate

B. required reserve ratio (RRR)

C. discount rate (DR)

D. Open market operation (OMO)

A. lowers the cash reserve ratio
B. sales gov't bonds and securities
C. increases the discount rate
D. uses contractionary policy

A. buy government bonds C. decrease the reserve requirement

B. increase the discount rate D. All of the above is correct

A. guarantee that workers are paid fairly C. protect workers from unduly low pay
B. reduce inequality D. All of the above

A. wage taking behavior C. wages are determined by demand and supply

B. numerous qualified people have identical skills D. All of the above

A. shortage B. charge higher price C. surplus D. fewer willing buyers

A. demanded; supplied; shortage C. demanded; supplied; surplus
B. supplied, demanded; surplus D. supplied, demanded; shortage

A. 85 B. 1.17 C. 0.011 D. 0.85

A. flexible B. floating C. fixed D. None of the above

A. Depreciation B. Devaluation C. Appreciation D. Revaluation

- ___ 65. Which of the following is the effects of devaluation or depreciation of currency?
- A. Foreigners find exports more expensive C. foreigners find exports cheaper
B. Residents find imports cheaper D. raises the price of the country's exports
- ___ 66. All are the objectives of taxation except one:
- A. stabilize the economy C. reduce regional imbalance
B. minimize unemployment D. impose higher tax
- ___ 67. A good tax system has features of ____
- A. balanced and harmonious C. simple, financially adequate and elastic
B. administratively efficient D. All of the above
- ___ 68. Amongst the following, _____ is an example of indirect tax.
- A. Capital gains tax B. Turnover tax (TOT) C. Income tax D. Property tax
- ___ 69. Which of the following does not come under the issues of approach to tax equity?
- A. Who benefits most from public spending C. horizontal equity and vertical equity
B. The capacity of taxpayers to pay D. None of the above
- ___ 70. Which taxation system is applied in Ethiopia Economy
- A. A progressive tax B. A regressive tax c. A proportional tax D. All of the above
- ___ 71. In which equity situation people in the same circumstances pay the same taxes.
- A. Vertical equity B. Progressive tax C. Horizontal equity D. Regressive tax
- ___ 72. Currently who is responsible for tax collection in Ethiopia
- A. Ministry of Trade C. Ministry of Defense
B. Ministry of Revenues D. Ministry of Foreign Affairs
- ___ 73. One of the following is the correct employment income tax for who earned 3200 birr per month?
- A. 323.50 B. 337.50 C. 343.50 D. 332.50
- ___ 74. Which tax is required to deduct at rate of 2% on domestic transaction of the value of the transaction.
- A. Custom Duty B. Stamp Duty C. Withholding tax D. Business income tax

- ___ 75. According to Ethiopian tax proclamation, which one of the following schedule refers to exempt income.
- A. Schedule B B. Schedule E C. Schedule A D. Schedule C
- ___ 76. Which types of indirect tax is an additional 10% imposed on imported goods except for fertilizers, petroleum and lubricants including motor vehicles for freight.
- A. Surtax B. Rental income tax C. Value added tax (VAT) D. Turnover tax (TOT)
- ___ 77. Which income from the following is fully tax exempted?
- A. cost of medical treatment of employees C. house allowance for employees
- B. salary paid for employees D. position allowance for employees
- ___ 78. Excise tax rate ranges from ___ to ____
- A. 2%---10% B. 2%---15% C. 5%---250% D. 5%---500%
- ___ 79. In Ethiopia, tax systems face diverse problems that include _____
- A. tax compliance C. attitude of tax payers
- B. bureaucracy in tax system D. All of the above
- ___ 80. One of the following statements correctly show the difference between tax evasion and tax avoidance?
- A. Tax avoidance is illegal, but tax evasion refers to minimize one`s tax burden by any lawful means.
- B. Both are illegal, but tax evasion is falsifying information to reduce one`s tax liability.
- C. Tax evasion is illegal, but tax avoidance is falsifying information to reduce one`s tax liability.
- D. Both are illegal, but tax avoidance refers to minimize one`s tax burden without tax code.
- ___ 81. One of the tools for improving efficiency in tax administration is to _____
- A. increase underground economy C. increase complexity of the tax system
- B. Modernize customer services D. All of the above
- ___ 82. According to World Bank (2000). poverty defines as _____
- A. people who do not have enough income C. people in poor health or feel powerless
- B. the pronounced deprivation in wellbeing D. All of the above
- ___ 83. When poverty is simply the deprivation of basic needs, it is called _____
- A. Relative poverty B. Absolute poverty C. Law line poverty D. None of the above

___ 84. We need to measure poverty to _____

- A. monitor and evaluate policy interventions
- B. keep poor people on the agenda
- C. identify poor people and target interventions
- D. All of the above

___ 85. According to Multidimensional Poverty index (MPI), it incorporates three dimensions at the household level that includes _____

- A. health, education and wealth
- B. Income, food and clothing
- C. clothing, shelter and food
- D. wealth, income and education

___ 86. All are Sen's approach to poverty and wellbeing except one: _____

- A. it relies on individuals' capabilities
- B. income and wealth are instruments
- C. What matters is what a person is or can be
- D. Whether someone can convert a set of resources

___ 87. Which one of the following is not true about the concept of inequality

- A. it refers to the situation of being unequal
- B. it takes different dimensions.
- C. it is not closely related to poverty
- D. inequalities of power can be an example

___ 88. One of the following is measured by the Lorenz Curve.

- A. inequality of income
- B. population growth rate
- C. illiteracy
- D. unemployment

___ 89. If the Gini coefficient is 1, it shows _____

- A. higher the inequality
- B. perfect inequality
- C. lower the inequality
- D. perfect equality

___ 90. Which of the following is the ratio of income received by the richest 20% and the income received by the poorest 40%?

- A. Gini coefficient
- B. Lorenz curve
- C. Kuznets ratio
- D. None of the above

___ 91. In which part of the developing world extreme poverty remains widespread.

- A. Sub-Sahara Africa
- B. Asia
- C. Middle East
- D. North America

___ 92. According to Todaro (2015), how many of the world's population lived on less than \$2 a day

- A. 25%
- B. one third
- C. 50%
- D. one fourth

___ 93. Which of the option is not included as sustainable development parameters?

- A. health and well being C. clean water and sanitation
- B. education D. None of the above

___ 94. In developing countries, women are disproportionately poor due to _____

- A. restricted to legal and productive jobs C. unlimited control over their spouses` income
- B. lower earning capacity D. receive medical services, clean water and other benefits

___ 95. In order to decline women`s relative or absolute economic status, it needs _____

- A. integrates into the growth process C. inclusive public programs
- B. Women-centered poverty strategy D. All of the above

___ 96. According to UNDP, how many percentage of people earn less than a dollar per day

- A. 89% B. 29.5 C. 44% D. 24%

___ 97. Why the majority of Ethiopian smallholder farmers are the largest group of poor people?

- A. Exposed to climate related vulnerabilites C. livelihoods depend on rain-fed agriculture
- B. Due to inadequate health and education system D. All of the above

___ 98. According to MoFED, 2012, the headcount poverty in Ethiopia _____

- A. Increased B. declined C. unchanged D. None of the above

___ 99. One of the following indigenous knowledge and practices is serving as credit association.

- A. Iqub B. Idir C. Debo D. None of the above

___ 100. Indigenous knowledge and associated practices in Ethiopia is used to solve different problems that include _____

- A. Poverty B. inequality C. unemployment D. All of the above