

BURKA SECONDARY SCHOOL ECONOMICS MODEL EXAM-I FOR GRADE 12, 2016 E.C
TIME ALLOWED: 2 HOURS

DIRECTION: READ CAREFULLY AND CHOOSE THE BEST ANSWER FROM THE GIVEN ALTERNATIVES AND BLACKEN THE LETTER OF CHOICE ON SEPARATE ANSWER SHEET PROVIDED.

1. What is the focus of microeconomics?
 - A. Aggregate behavior of the economy
 - B. Individual decision-making behavior of economic units
 - C. Macroeconomic policies
 - D. International trade
2. Which of the following is a focus area of macroeconomics?
 - A. Market structure analysis
 - B. Household budgeting
 - C. Economic growth
 - D. Firm-level production decisions
3. What are the central macroeconomic questions related to achieving macroeconomic goals?
 - A. How to maximize individual utility
 - B. How to minimize government intervention?
 - C. How to achieve full employment and price stability
 - D. How to increase firm profitability
4. Which of the following is NOT a macroeconomic goal?
 - A. Economic growth.
 - B. Price stability
 - C. Maximizing shareholder wealth
 - D. Fair distribution of income
5. What does macroeconomics study?
 - A. Individual consumer choices
 - B. Aggregate behaviour of the economy
 - C. Micro-level market trends
 - D. Short-term price fluctuation

6. Which of the following best describes macroeconomics?

- A. Study of individual economic units
- B. Focus on aggregate behavior of the economy
- C. Analysis of market structures
- D. Examination of household consumption patterns

7. What is the primary focus of macroeconomic policies?

- A. Maximizing profits for firms.
- B. Minimizing government intervention
- C. Achieving economic growth and stability
- D. Promoting individual consumer choices

8. Which of the following is a macroeconomic indicator?

- A. Price of a specific product.
- B. Unemployment rate
- C. Household savings rate
- D. Company profit margins

9. What are the main components of aggregate demand?

- A. Consumption, investment, government spending, and net exports
- B. Savings, imports, exports, and government revenue
- C. Household income, business profits, government debt, and trade balance
- D. Inflation rate, interest rates, exchange rates, and GDP growth

10. How does macroeconomics contribute to understanding the economy?

- A. By focusing on individual preferences
- B. By analyzing firm-level decision-making
- C. By studying overall economic performance
- D. By examining short-term market trends

11. Which of the following is NOT a macroeconomic policy goal?

- A. Achieving full employment.
- B. Promoting income inequality
- C. Ensuring price stability
- D. Sustaining economic growth

12. What is the primary concern of macroeconomic analysis?

- A. Maximizing individual utility.
- B. Minimizing government spending
- C. Understanding overall economic trends
- D. Analyzing micro-level production decisions

13. What is the primary indicator used to measure economic growth in a country?

- A. Gross Domestic Product (GDP)
- B. Consumer Price Index (CPI)
- C. Unemployment Rate
- D. Trade Balance

14. Inflation is defined as:

- A. decrease in the general price level
- B. An increase in the general price level of goods and services
- C. A decrease in the money supply
- D. A decrease in the velocity of money circulation

15. Frictional unemployment is best described as:

- A. Unemployment caused by a mismatch between job seekers and available jobs
- B. Unemployment resulting from a decline in overall economic activity
- C. Unemployment caused by changes in technology
- D. Unemployment due to cyclical fluctuations in the economy

16. Which phase of the business cycle is characterized by high levels of economic activity and low unemployment?

- A. Expansion
- B. Peak
- C. Contraction
- D. Trough

17. A trade surplus occurs when:

- A. Exports exceed imports.
- B. Imports exceed exports
- C. The balance of trade is zero.
- D. There is no international trade activity

18. Which of the following factors is most likely to contribute to long-term economic growth?

- A. High levels of government debt
- B. Decreased investment in infrastructure
- C. Technological advancements and innovation
- D. Decreased consumer spending

19. Demand-pull inflation is caused by:

- A. decrease in aggregate demand
- B. An increase in aggregate supply
- C. Excessive demand for goods and services relative to supply
- D. A decrease in the money supply

20. Structural unemployment is primarily caused by:

- A. Cyclical fluctuations in the economy
- B. Technological changes and shifts in industries
- C. Inadequate aggregate demand.
- D. Government policies

21. The peak of a business cycle is characterized by:

- A. High levels of unemployment and low economic output
- B. Low levels of inflation and stable economic growth
- C. Maximum possible output and full employment
- D. A period of economic contraction and declining GDP

22. A trade deficit occurs when:

- A. Exports exceed imports
- B. Imports exceed exports
- C. The balance of trade is zero
- D. There is no international trade activity

23. Which school of thought in macroeconomics emphasizes the importance of aggregate demand in influencing economic activity?

- A. Classical economics.
- B. Keynesian economics
- C. Monetarist economics
- D. Austrian economics

24. According to classical economics, what is the primary driver of economic growth and stability?

- A. Government intervention
- B. Consumer spending

- C. Market forces
- D. Technological

advancements

25. Keynesian economics suggests that during economic downturns, the government should:
- A. Reduce taxes and regulations
 - B. Increase government spending
 - C. Implement strict monetary policies.
 - D. Privatize key industries
26. Monetarist economists believe that changes in the money supply primarily affect:
- A. Aggregate supply
 - B. Unemployment rates
 - C. Interest rates
 - D. Aggregate demand
27. According to Austrian economics, what role does government intervention play in the economy?
- A. Government intervention is necessary for economic stability
 - B. Government intervention distorts market signals
 - C. Government intervention ensures equitable income distribution
 - D. Government intervention promotes innovation
28. Which school of thought would advocate for a hands-off approach by the government in economic affairs?
- A. Keynesian economics.
 - B. Monetarist economics
 - C. Austrian economics.
 - D. Neo-Keynesian economics
29. In the context of inflation, which school of thought would prioritize controlling the money supply?
- A. Classical economics
 - B. Keynesian economics
 - C. Monetarist economics.
 - D. Behavioral economics
30. Which school of thought would be most likely to recommend fiscal stimulus during a recession?
- A. Classical economics
 - B. Keynesian economics
 - C. Monetarist economics
 - D. Supply-side economics
31. According to classical economics, what is the best way to achieve long-term economic growth?

- A. Government investment in infrastructure spending
- B. Encouraging consumer spending
- C. Allowing markets to operate freely.
- D. Implementing strict price controls

32. Which school of thought would argue that business cycles are a natural part of the economy and should be left to self-correct?

- A. Keynesian economics
- B. Monetarist economics
- C. Austrian economics
- D. Behavioral economics

33. What does Aggregate Demand (AD) represent in an economy?

- A. Total government spending
- B. Total household income
- C. Total spending on goods and services.
- D. Total savings in the economy

34. Which of the following factors can cause a shift in the Aggregate Demand curve?

- A. Changes in the price level
- B. Changes in government policies
- C. Changes in the labor market
- D. Changes in technology

35. In the short run, how do changes in Aggregate Demand affect the equilibrium price level and real GDP?

- A. Price level increases, real GDP decreases
- B. Price level decreases, real GDP increases
- C. Price level and real GDP both increase
- D. Both Price level and real GDP decrease

36. What does the Long-Run Aggregate Supply (LRAS) curve represent in the economy?

- A. Short-term fluctuations in output levels.
- B. Full-employment level of real GDP
- C. Government spending patterns.
- D. Consumer savings behavior

37. How do demand shocks impact the economy in terms of price and output levels?

- A. Increase in demand leads to lower prices and higher output

- B. Decrease in demand leads to higher prices and lower output
- C. Increase in demand leads to higher prices and higher output
- D. Decrease in demand leads to lower prices and lower output

38. Which of the following is an example of a negative supply shock?

- A. Increase in government spending.
- B. Decrease in oil prices
- C. Increase in technology advancements
- D. Increase in the price of oil

39. What adjustments occur in the economy to reach short-run equilibrium using the AD-AS model?

- A. Increase in prices and decrease in output.
- B. Decrease in prices and increase in output
- C. Increase in prices and increase in output
- D. Decrease in prices and decrease in output

40. How do flexible wages and prices contribute to achieving full-employment real GDP in the long run?

- A. By causing inflation in the economy
- B. By ensuring accurate perceptions and adjustments
- C. By reducing government intervention.
- D. By increasing consumer savings rates

41. What factors can cause a rightward shift in the Aggregate Demand (AD) curve?

- A. Increase in government spending and decrease in exports
- B. Decrease in consumer spending and increase in imports
- C. Increase in investment and decrease in taxes
- D. Decrease in interest rates and increase in savings

42. How does a contractionary demand shock affect the economy?

- A. Shifts the AD curve to the left, leading to lower prices and output
- B. Shifts the AD curve to the right, leading to higher prices and output
- C. Causes a decrease in prices but an increase in output

D. Causes an increase in prices but a decrease in output

43. Which of the following is a determinant of Aggregate Demand?

A. Unemployment rate

B. Real interest rate

C. Consumer preferences.

D. Government regulations

44. In the short run, what happens when the quantity supplied of real GDP exceeds the quantity demanded?

A. Surplus of goods leads to a decrease in prices and an increase in output

B. Surplus of goods leads to an increase in prices and a decrease in output

C. Shortage of goods leads to a decrease in prices and a decrease in output

D. Shortage of goods leads to an increase in prices and an increase in output

45. How do changes in government spending impact Aggregate Demand?

A. Increase in government spending leads to a leftward shift in the AD curve

B. Decrease in government spending leads to a rightward shift in the AD curve

C. Increase in government spending leads to a rightward shift in the AD curve

D. Decrease in government spending has no effect on the AD curve

46. What effect does an increase in the price of oil have on Aggregate Supply?

A. Shifts the AS curve to the right

B. Shifts the AS curve to the left

C. Causes a decrease in output but an increase in prices

D. Causes an increase in output but a decrease in prices

47. How do changes in consumer confidence impact Aggregate Demand?

A. Increase in consumer confidence leads to a decrease in AD

B. Decrease in consumer confidence leads to an increase in AD

C. Increase in consumer confidence leads to an increase in AD

D. Decrease in consumer confidence has no effect on AD

48. What is market failure in economics?

- A. Efficient distribution of goods and services
- B. Perfect functioning of the price mechanism
- C. Inefficient distribution of goods and services in the free market
- D. Rational outcomes for the group

49. Which of the following contributes to market failure?

- A. Perfect competition
- B. Externalities
- C. Efficient producers
- D. Lack of government intervention

50. What is the primary focus of market systems in relation to market failure?

- A. Achieving perfect competition
- B. Maximizing externalities
- C. Providing public goods
- D. Minimizing environmental concerns

51. Why do individual incentives for rational behavior sometimes lead to market failure?

- A. Due to lack of government regulation
- B. Because individuals prioritize group outcomes
- C. Each individual makes correct decisions for themselves
- D. Externalities are not considered in decision-making

52. Which of the following is NOT a factor contributing to market failure?

- A. Inefficient producers
- B. Externalities
- C. Perfect competition.
- D. Lack of public goods

53. How does market failure impact the distribution of goods and services?

- A. Ensures efficient allocation
- B. Leads to fair distribution
- C. Results in inefficient distribution.
- D. Promotes individual incentives

54. What role does government intervention play in addressing market failure?

- A. Aggravates market failure
- B. Minimizes externalities
- C. Promotes inefficiency.
- D. Provides public goods

55. Why is it not possible for markets to be perfect in the real world?

- A. Due to lack of competition
- B. Presence of externalities, inefficient producers, and lack of public goods
- C. Overregulation by the government
- D. Absence of individual incentives

56. What is the primary focus of macroeconomic analysis?

- A. Individual consumer behavior.
- B. Aggregate economic variables
- C. Micro-level production decisions.
- D. Market structure analysis

57. Why do nations need to adopt various macroeconomic policies?

- A. To maximize individual utility
- B. To achieve desirable changes in aggregate economic variables
- C. To promote international trade
- D. To minimize government intervention

58. What characterizes the economy during a recession?

- A. High levels of national income and output
- B. Low levels of unemployment
- C. Excess capital stock and idle productive capacity.
- D. Stable economic growth

59. What are the general objectives of macroeconomic policy?

- A. Maximizing government spending
- B. Achieving full employment and economic growth
- C. Minimizing aggregate demand.
- D. Promoting inflation

60. Why is it important for nations to address economic instability?

- A. To encourage excessive government intervention.

- B. To ensure fair distribution of income
- C. To achieve maximum feasible output and economic growth
- D. To promote individual consumer choices

61. What are the key objectives of macroeconomic policy?

- A. Maximizing government revenue.
- B. Achieving full employment and price stability
- C. Minimizing economic growth
- D. Promoting income inequality

62. How does macroeconomic policy aim to address fluctuations in economic activity?

- A. By increasing government regulation
- B. By promoting excessive government spending
- C. By implementing various policy instruments
- D. By minimizing international trade

63. What is the primary goal of macroeconomic policy instruments?

- A. To maximize individual utility
- B. To achieve desirable changes in aggregate economic variables
- C. To promote market competition
- D. To minimize government intervention

64. What is the primary focus of fiscal policy?

- A. Regulating interest rates
- B. Managing government spending
- C. Controlling inflation.
- D. Promoting international trade

65. How does taxation impact the economy?

- A. Increases government spending.
- B. Affects consumer income and consumption
- C. Reduces aggregate demand
- D. Promotes economic growth

66. What are the key tools of fiscal policy?

- A. Monetary policy and exchange rates.
- B. Taxation and government

C. Inflation targeting and price stability. D. Trade barriers and subsidies

A. Reduces consumer income. B. Increases aggregate demand

A. Maximizing government debt. B. Achieving price stability

A. Increases GDP through higher taxes

C. Stimulates GDP growth through increased demand

A. To reduce government revenue inequality

A. By minimizing government intervention

B. By promoting international trade

C. By influencing aggregate demand and economic growth

A. Reduce inflation. B. Increase unemployment

- C. Stimulate economic growth D. Decrease money supply

73. Which of the following is a tool of expansionary monetary policy?

- A. Increasing the discount rate B. Selling government securities
C. Decreasing the money supply D. Lowering the reserve requirement

74. What is the main objective of income policy?

- A. Control inflation. B. Stabilize exchange rates
C. Reduce income inequality. D. Increase government spending

75. How does income policy impact the distribution of income and wealth?

- A. It aims to increase income inequality
B. It has no effect on income distribution
C. It promotes equality in income distribution
D. It focuses on increasing corporate profits

76. What is the purpose of a fixed exchange rate policy?

- A. Allow for currency speculation B. Provide flexibility in monetary policy
C. Stabilize exchange rates. D. Encourage trade deficits

77. Which of the following is an advantage of floating exchange rates?

- A. Certainty in exchange rate movements B. Protection from external shocks
C. Constraint on government policy D. Lack of policy constraints

78. What is the purpose of reducing the discount rate in expansionary monetary policy?

- A. Decrease money supply B. Increase borrowing costs C. Stimulate investment and consumption D. Control inflation

79. How does selling securities through open market operations impact the economy?

- A. Increases money supply B. Reduces government debt

C. Lowers interest rates

D. Absorbs liquidity from the system

80. What is the primary goal of income policies in economics?

A. Increase inflation B. Control unemployment

B. Establish wages and prices below market level

C. Promote income equality

81. How is the wage rate determined in a free market?

A. By government intervention

B. By the intersection of supply and demand

C. Based on fixed government guidelines

D. Through collective bargaining agreements

82. What happens to a country's currency when its exchange rate weakens compared to other countries?

A. Strengthens B. Stays the same C. Depreciates D. Appreciates

83. What advantage does a fixed exchange rate system provide in terms of certainty?

A. Predictable exchange rate movements

B. Speculative opportunities

C. Flexible monetary policy
fluctuations.

D. Unpredictable currency

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