GRADE 12 ECONOMICS FINAL EXAMINATION FIRST SEMESTER 2016 E.C

Time Allowed: 2 hours

INSTRUCTION: FOR EACH OF THE FOLLOWING QUESTIONS, CHOOSE THE BEST ANSWER AND WRITE IT ON YOUR ANSWER SHEET. USE CAPITAL LETTER ONLY FOR YOUR ANSWERS.

1. Which of the following deals with structure and performance of national economies, and the policies that governments use to affect economic performance?
   A. Microeconomics
   B. Macroeconomics
   C. Growth Economics
   D. Trade Economics

2. Which of the following is the central study of macroeconomics?
   A. Decreasing Employment
   B. Increasing Inflation
   C. Increasing Budget Deficit
   D. Decreasing Income Inequality

3. Which of the following is the measure of the total market value of all final goods and services produced in a country during a year regardless of ownership of factors of production?
   A. Gross Domestic Product (GDP)
   B. Gross National Product (GNP)
   C. Gross Personal Income (GPI)
   D. Gross National Income (GNI)

4. How Gross Domestic Product (GDP) and Gross National Product (GNP) be related?
   A. GDP is the sum of GNP and Net Factor Income.
   B. GDP is the product of GNP and Net Factor Income.
   C. GNP is the sum of GDP and Net Factor Income.
   D. GNP is the product of GDP and Net Factor Income.

5. The real difference between GDP and GNP is:
   A. time reference
   B. ownership reference
   C. market value reference
   D. final goods reference

6. An estimation of Gross Domestic product (GDP) by summing up personal consumption, gross private domestic investment, government purchase and net exports is:
   A. income approach
   B. expenditure approach
   C. value added approach
   D. nominal approach

7. Which one of the following is an indicator of development?

A. Low level of life expectancy
C. Poor health condition
B. Greater educational opportunity
D. Greater income disparity

8. Real per capita income is:
   A. the ratio of total population to total income
   B. the ratio of total GDP to Total GNP
   C. the ratio of total Income to total population
   D. the ratio of total GNP to total Population

9. The rate at which the real Gross Product (GDP) of a country increases over a period of time is known as:

A. rate of economic growth
C. rate of economic development
B. rate of economic change
D. rate of economic welfare

10. Which of the following is true about Economic Growth and Development?
    A. The measure of economic growth takes into account indicators of quality of life.
    B. Economic development shouldn't be takes into account indicators of quality of life.
    C. Economic development couldn't be achieved without economic growth.
    D. Economic growth necessarily contains economic development in scope.

11. Which of the following is plausibly true about inflation?
    A. Intermittent general price rise of goods and services.
    B. Limited general price rise of goods and services.
    C. Unlimited general price rise of goods and services.
    D. Unknown general price rise of goods and services.

12. Which of the following is true about labor force?
    A. Total labor force is the percentage of population unable to work
    B. Unemployment rate is the percentage of labor force willing to work
    C. Employment rate is the percentage of labor force get employed
    D. Labor force participation rate is the percentage of adult get employed

13. Mrs. Chaltu Beksisa has been working in Commercial Bank of Ethiopia (CBE) since she graduated from Addis Ababa University. Recently she gave a birth to a sweet little girl and she will be out of work for at least four months. This kind of unemployment is known as?

A. cyclical unemployment
B. underemployment
C. structural unemployment
D. frictional unemployment

14. The phase of the business cycle is characterized by increasing employment, economic growth, and upward on price pressure on prices is:

A. contraction
B. expansion
C. recession
D. depression

15. A country with a Current Account Deficit is:

A. sending money abroad is the same amount it receives from abroad
B. neither receives money from abroad nor sends money to abroad
C. sending more money abroad than it receives from abroad
D. receiving more money from abroad than it sends to abroad

16. Which of the following is true about demand for money according to Keynesian thought?

A. Precautionary demand is money demand for uncertain events
B. Transaction demand is money demand for earning future income
C. Precautionary demand is money demand for future investment
D. Speculative demand is money demand for current transaction

17. Which one of the following is correct about classical school of economic thought?

A. Advocate for absence of government interventions in the economy.
B. Fail to accept market clearing price and output in the economy.
C. Don't support demand and supply balance in the economy.
D. Against to free market economy in any circumstances.

18. The government policy used to control expenditure and revenue is termed as:

A. monetary policy
B. income Policy
C. fiscal Policy
D. wage Policy

19. Regulation of financial institutions is conducted by:

A. commercial Banks
C. insurance Companies
B. credit Associations
D. central Banks

20. When a country experiences a Trade Surplus:

A. net capital outflow is greater than zero
B. net capital outflow is less than zero
C. net capital outflow is equal to zero
D. Saving is equal to investment

21. Which of the following changes shifts the long-run aggregate supply curve to the right?

A. A decrease in the demand for labor
B. An increase in consumer confidence
C. An increase in labor supply
D. A decrease in taxes

22. All of the following are the main factors for downward sloping curve of aggregate demand **except;**

A. Interest rate effect
C. International trade effect
B. Real balance effect
D**.** Money metric effect

23. A deliberate decrease in the value of a currency by Central Bank is termed as:

A. devolution
C. appreciation
B. deprecation
D. revaluation

24. Which of the following is among the factors for upward sloping curve of short-run aggregate supply?

A. Sticky wage rate
C. consistent perception
B. Dynamic wage
D. Flexible wage

25. Suppose the Ethiopian Population is estimated to be 110 million in the year 2015 E.C. The number of children below the age of 14 is 35 million while the number of the elder ones above the age of 65 is 15 million. If the total number of economically inactive population is 10 million whereas those people who are employed are 30 million. Then what are the total number of unemployed people and the unemployment rate, respectively?
    A. 40 million and 20%
    B. 20 million and 20 %
    C. 40 Million and 40%
    D. 20 million and 40%

26. When aggregate demand and aggregate supply are in balance:
    A. the economy said to be deviated from equilibrium
    B. the equilibrium price and quantity are attained
    C. downward quantity adjustment is said to be takes place
    D. downward price adjustment is said to be takes place

27. Which of the following the basic features of public goods?
    A. Excludable in use
    B. Rival in consumption
    C. Non-diminishable in consumption
    D. Non-comparable in production

28. The kind of inflation that arises due to excess demand and supply shortfall is known as:
    A. Demand Pull Inflation
    B. Structural Inflation
    C. Cost Push Inflation
    D. Stagflation

29. Which of the following helps to encourage consumer behavior that can result in positive externalities?
    A. Tax
    B. Expenditure
    C. Subsidy
    D. Revenue

30. ____ refers to the quantity supplied of all goods and services (real GDP) at various price levels in a given period of time, ceteris paribus.

A. Aggregate Supply
C. Aggregate demand
B. Aggregate expenditure
D. aggregate income

31. Which of the following is among the factor affecting Investment?

A. Proximity to School
C. Interest rate
B. Household size
D. Household wealth

32. Which one of the following refers to the recurrent ups and downs in the level of economic activity?

A. Economic boom
C. Economic Trough
B. Unemployment
D. Business Cycle

33. Which one of the following goods or services is non-excludable?

A. Street light
C. Private bread
B. Washing machine
D. Money in the pocket

34. Real wage is:

A. profit multiplied by price
C. price divided by nominal wage
B. nominal wage divided by Price
D. nominal wage divided by real wage

35. Which of the following is **NOT** the factor affecting consumption?

A. Income tax
C. Wealth
B. Business tax
D. Interest rate

36. Which of the following is a feature of public goods?

A. Aggregate demand curve in the economy for a public good is the horizontal summation of individual demand curves
B. The reason inefficiency arises in providing public goods is that public goods are non-rivals.
C. The market provision of public goods tends to be inefficient
D. Public goods are consumed by several individuals simultaneously, resulting in a diminishing the value of consumption for any one of the individuals

37. What is the reason behind the existence of free-ridership for the public good?

A. The indivisibility of the public good.

B. The existence of a zero marginal cost in the public good provision.

C. The presence of the diseconomies of scale in the production.

D. Non-excludability of the public good.

38. What kind of market failure is it if a company producing steel also pollutes the air?

A. Tragedy of commons

C. Positive externality

B. Negative Externality

D**.** Asymmetric Information

39. ____refers to a situation in which a buyer cannot observe the actions of the seller in the market.

A. Adverse selection

C**.** Asymmetric information

B. Market signaling

D. Moral hazard

40. Of the following business malpractices, which is the most prevalent and has a serious implication for the health of the consumer?

A. Sale of adulterated goods

C. Charging unfair price

B. False Weight

D**.** Hoarding and Black Marketing

41. The Ethiopian Consumer Proclamation No. 813/2013 has provided the following rights to consumers **except;**

A. The right to receive sufficient and accurate information about the quality and type of goods or services they purchase

B. The right to bargain for the best price

C. The right to buy goods and services on the basis of their own choice

D. The right to be received humbly and respectfully by any business person

42. ____states that markets can reduce the problem of externalities without direct government involvement in the production process by using well-designed property rights.

A. Marketable Permits
C. Coasean Theorem
B. Hotelling Theorem
D. Command and Control Approach

43. The concept of externality indicates that:

A. positive externalities lead to excess production.
B. when externalities are existed, the price of products reflects its social value.
C. negative externalities alone are a source of economic inefficiency.
D. externality occurs when exclusivity fail to function properly.

44. If the marginal benefit of the resource is greater than the marginal cost of the resource, then the allocation is:

A. efficient and more resource should be produced.
B. inefficient and more resource should be produced.
C. efficient and less resource should be produced.
D. inefficient and less resource should be produced

45. When positive externalities are present in the market;

A. Private costs will be greater than social costs.
B. Social costs will be greater than private costs.
C. Social benefits will be greater than private benefits.
D. Private benefits will be greater than social costs.

46. Government spending/expenditure as a tool of fiscal policy contains the following components, **except**

A. Transfer Payments
C**.** Grants in Aid
B. Net Interest Payments
D. Taxes

47. Expansionary Fiscal Policy is adopted when there is

A. a depression marked by underproduction
C. a fall in unemployment
B. a fall in prices and incomes
D**.** a rise in the interest rate

48. A contractionary monetary policy would likely involve:

A. decreasing the discount rate
C. selling securities via OMO
B. decreasing the required reserve ratio
D**.** decreasing government spending

49. Which of the following economic policy is mainly instituted as a response to control inflation and establish wages and prices below free market level?

A. Fiscal Policy
C. Monetary Policy
B. Income Policy
D**.** Exchange rate Policy

50. Which one of the following is associated with a price policy?

A. A Price policy usually seeks to establish prices which are below free market level.
B. A price floor keeps a price from rising above a certain level.
C. A Price ceiling is applied to luxury goods that become unaffordable to regular consumers.
D. A price policy can lead to the efficient allocation of resources in the market system.

51. If the government is interested to target specific sectors of the economy, which policy instrument would be used?

A. Fiscal policy
C**.** Monetary policy
B. Income policy
D**.** Exchange rate policy

52. Which of the following is the potential benefit of using a flexible exchange rate system?

A. Increased competitiveness of imports.

B. Slow adjustment to trade imbalances.

C. Greater stability in economic growth.

D. Reduced risk of currency speculation.

53. A fixed exchange rate system means that:

A. exchange rate determined by the government's economic decision only.

B. exchange rate is allowed to fluctuate freely.

C. central/national bank intervenes to maintain a constant exchange rate.

D. exchange rate is some determined by supply and demand

54. Which of the following is **TRUE** about the determinants of exchange rate?

A. A country with a lower inflation rate than another will see an appreciation in the value of its currency

B. Increases in interest rates cause a country's currency to appreciate

C. A surplus in the current account causes depreciation

D. A country prone to political unrest may see depreciation in exchange rates

55. Which of the following is a potential drawback of using a floating exchange rate system?

A. The floating exchange rates can be prone to large fluctuations in value and this can cause uncertainty for firms.

B. If the exchange rate is free to float, then it can change in response to external shocks.

C. A floating exchange rate can depreciate to compensate for a balance of payments deficit.

D. A government is free with a floating exchange rate system to pursue the policies they feel are appropriate for the domestic economy.

56. Which one is **NOT** the disadvantage of using fiscal policy?

A. Time lags in implementation.
B. Risk of increasing government debt.
C. Difficulty of adjustment compared to monetary policy.
D. Possibility of creating private investment crowd outing.

57. Which of the following assertions is linked to the concept of tax incidence?

A. Tax incidence is the percentage rate at which the economic activity is taxed.
B. Tax incidence relates to the way the burden of a tax is distributed among economic units.
C. Tax incidence refers to the level or quantity of an economic activity that is taxed.
D. Though taxes may be collected from all economic units, the ultimate burden may fall on firms.

58. One of the following is the principle of taxation as proposed by Adam Smith:

A. the citizens of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities.
B. the tax system ought to take as high as possible out of the pockets of the people, above what it brings into the public treasury of the state.
C. every tax ought to be levied in the manner that makes it the most convenient for the contributor to pay it.
D. the tax system should be able to yield enough revenue for the government so that it should not be forced to resort to deficit financing.

59. Which one of the following is a feature of a tax?

A. A tax is a voluntary payment to be paid by the citizens who are supposed to be liable to pay it.
B. A taxpayer should receive a benefit proportional to the tax that he has paid.
C. A tax is a payment for the indirect service to be provided by the government to community as a whole.
D. A tax is a price paid by the taxpayer for any definite service rendered or a commodity offered by the government.

60. During a recession, which policy instrument can primarily be used by the government to stimulate the economy?

A. Contractionary Fiscal Policy
C. Expansionary Fiscal Policy
B. Contractionary Monetary Policy
D**.** Expansionary Monetary Policy

61. A moral hazard problem exists, when:

A. one side of the market has more information than the other.
B. an individual does not bear the full consequences of its actions.
C. a party's behavior changes after entering a transaction due to changed incentives**.**
D. an event outside the market affects its outcome.

62. Which of the following is a potential consequence of asymmetric information?

A. Increased market efficiency
C**.** Increased transaction costs
B. Enhanced Social welfare
D. Raised consumer confidence

63. Which of the following is **NOT** count as a potential tax advantage?

A. Providing funding for government services
C**.** Redistributing wealth
B. Promoting environmental protection
D**.** Reducing income disparity

64. Which one is a potential disadvantage of taxation?

A. Absence of deadweight loss
C**.** fair taxation
B. Non-existence of compliance costs
D. Tax evasion and avoidance

65. All are the primary goals of macroeconomic policy, **except?**

A. Promoting economic growth
C**.** Balancing the government budget
B. Maintaining full employment
D**.** Controlling inflation

66. When a central bank raises interest rates, the primary goal is to

A. promote economic growth.
C. decrease government debt.
B. regulate inflation.
D. attract foreign investment.

67. Which of the following is an example of the tragedy of the commons?

A. Nuclear disasters and industrial accidents.
B. Overfishing and depletion of fish stocks in shared oceans.
C. Volcanic eruptions and landslides.
D. Industrial smokestacks and sewage treatment plants

68. What is the difference between direct and indirect taxes?

A. Indirect taxes are paid directly to the government, while direct taxes are collected by businesses and passed on to consumers.
B. Indirect taxes are levied on goods and services, while direct taxes are levied on individuals and businesses.
C. Indirect taxes are more visible to taxpayers, while direct taxes are hidden in the price of goods and services.
D. Direct tax can be shifted, while indirect tax cannot be shifted.

69. Which of the following tax types is a direct tax?

A. Value Added Tax
C. Entitlement Tax
B. Turnover Tax
D. Custom Duty

70. What is the major problem with negative externality?

A. It raises the cost of goods and services.
B. It results in inefficient resource allocation.
C. It gives certain enterprises unfair advantages over others.
D. It increases the burden on government regulators.