ARADA SUBCITY EDUCATION OFFICE

2016 E.C FIRST 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 PENSCIL 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 process is specific to inductive method?

A. Identifying the problem C. defining technical term

B. . developing hypotheses D. collecting data

_____ 2. The general objective of Macroeconomics policy to achieve _____

A. Price stability B. full employment C. maximum feasible output D. All of the above

_____ 3. Which of the following **is not** a feature of a command economy?

A. right to private property C. central economic planning

B. collective ownership D. maximum social welfare

_____ 4. During business cycles the opposite of trough is _____

A. a trend B. an inflation C. a peak D. a hyperinflation

_____ 5. . Limitation of supply of a commodity in relation to the need for it refers to

A. Choice B. Scarcity C. Shortage D. Surplus

_____ 6. One of the following terms refers to a situation in which people are engaged in jobs but these jobs do not measure up to their capabilities and qualifications.

A. Full employment C. Involuntary Unemployment

B. Underemployment D. Seasonal Unemployment

_____ 7. Which one followingis the main determinant of supply?

A. Tast of consumers C. Change in factor pirces

B. consumer's income D. Preferencs of the conumer

_____ 8. Once inflation is an outcome of a rise in the value of production factors, the outcome is _

A. Demand-pull inflation C. Devaluation

B. Supply-shocked inflation D. Stagflation

_____ 9. from the basic economic questions, "how to produce" reference to

A. a question of amount C. a question of technological choice

B. a question of distribution D. a question of resource allocation

_____ 10.An important indicator of a nation`s well-being is _____

A. Gross national income (GNI) C. Gross National Product (GNP)

B. Gross domestic product (GDP) D. Net Factor Income (NFI)

_____ 11. When a producer introduce modern technology in his firm

A. his supply curve shifts inwards C. his supply curve remains constant

B. his supply curve shifts out wards D. supply of goods decreases

_____ 12.One of the following estimation method of GDP include the market value of all final goods and services produced in a country.

A. Production Method C. Expenditure Method

B. Income Method D. All of the above

_____ 13. Goods whose demand changes directly with income are called

A. complementary goods C. substitute goods

B. inferior goods D. normal goods

_____ 14. The difference between Nominal and Real Gross Domestic Product is that ____

A. Nominal GDP uses Market price levels
B. Real GDP uses Market price levels
C. Nominal GDP uses price levels of same base year.
D. Real GDP uses actual price levels

_____ 15. keeping other variable constant ,If the price of a commodity increases, the quantity supplied will _.

A. increase B. decrease C. unchanged D. indeterminet

_____ 16. Statistical or Practical problems in measuring GDP include _____

A. Double counting C. Barter System
B. Self-consumption D. All of the above

_____ 17. Market demand and supply functions for a commadity are given as D=100-20P and S=40P-140 . Calculate the equlbrium price and quantity respectively?

A. (4,40) B. (4,20) C. (20,4) D. (40,4)

_____ 18. Assume the year 2003 G.C Nominal GDP was 313 billion and price index of that year was 100. Accordingly one of the following is the correct Real GDP

A. 313 B. 213 C. 413 D. 3.13

_____ 19. Suppose an increase in price of a car from birr 10,000 to birr 20,000 results in an increase in its quantity supplied from 500 to 1000 units. Find the price elasticity of supply using the Arc method?

A. 1 B. 1/2 C. 2 D. 30

_____ 20.When the depreciation is deducted from the GDP, the net value is known as

A. Net National Product C. National Product
B. Net domestic Product D. Domestic Product

_____ 21. The firm and industry are one and the same under

A. Perfect completion B. Duopoly C. Oligopoly D. Monopoly

_____ 22. Green GDP is different from an increase in GDP in terms of _____

A. Attain equitable distribution of income C. sustainable use of natural environment
B. Economic welfare for a long period time D. All of the above.

_____ 23.One of the following is an example of normative economics statement.

A. Higher income tax leads to lower consumption
B. Government should provide a tax holiday for investors who invest in manufacturing
C. Inflation negatively affects the purchasing power of money.
D. An increase in price leads to a decrease in quantity demanded

_____ 24.Consumption expenditures are a function of _____

A. Induced Consumption C. Disposable income
B. Real interest rate D. Autonomous Consumption

_____ 25. Any point lying on PPC indicates_____

A. Full utilization of resources C. inefficient utilization of resources

B. unattainable combination of goods D. minimum level of production

_____ 26.The major determinates of saving at the individual and national level is _____

A. Level of unemployment C. Level of income

B. Fiscal policy D. Monetary policy

_____ 27. The demand curve of a peerfect competition is:-

A. A down ward sloping line C. A verticval line

B. A horizontal line D. An in detedrminate curve

_____ 28. What is the value of MPS when MPC is 0.4?

A. 0.4 B. 0.6 C. 1.4 D.1.6

_____ 29. A firm will always maximize profit or maximize lose when:-

A. Mc=MR C. MC-curve is falling

B. P=Avc D. MC = zero

_____ 30. APS continuous to increase as long as _____

A. Consumption increase C. income increases

B. Interest rate increases D. All of the above

_____ 31. A firm shuts down its production if:

A. TR<VC C. P < AVC

B. TR/Q < VC D. TR = TC

_____ 32. Which one of the following **is a not** determinant of investment?

A. Profit expectation C. Rate of interest

B. Corporate tax D. Rate of unemployment

_____33. When total utility reaches its maximum point, _____.

A. Marginal utility is negative C. Average utility reaches its minimum point.

B. Marginal utility is zero D. Marginal utility is positive

_____34. One of the following statements with respect to factors determining international trade is wrong?

A. Unequal distribution of natural resources

B. No difference in demand

C. Unequal distribution of people

D. Difference in demand

_____ 35. Utility is best describe as

A. Mixture of pleasure and pain

B. The difference between marginal benefit & cost

C. The enjoyment consumers drive from the choices they make on product.

D. The difference between demand and supply

_____36.Which of the following **is not** a component of the Balance of payments?

A. Capital account C. Current account

B. Personal account D. All of the above

_____ 37. Indifference curves are convex to the origin because the tow goods are:

A. perfect substitutes C. Imperfect substitutes

B. perfect complementary goods D. imperfect complements

_____ 38. A decrease in the value of the currency of a country in terms of foreign currency

A. Makes its imports cheaper for local buyers

B. Makes its export costlier for foreign buyers

C. Makes its imports costlier for local buyers

D. Makes its exports cheaper for local buyers

_____ 39. When a person consumes a product more and more, the extra of satisfaction will:

A. Remain constant B. diminishes C. increase D. similar to the first

_____ 40. The main components of aggregate demand include

A. Net export demand (X – M)

B. Gross private investment demand (Ig)

C. Gov`t demand for goods and services (G)

D. All of the above

_____ 41. The production cost that always decreases as output increases is _____.

A. TFC B. AFC C. MC D. ATC

_____ 42. All are factors that determine Aggregate supply except _____

A. Cost of inputs C. State of technology

B. General level of income of people D. availability of capital and labour

_____ 43. In the short run, the cost that is incurred at zero output is:

A. Total fixed cost C. total variable cost

B. total average cost D. marginal cost

_____ 44. An increase in bank rate is:

A. Expansionary Monetary policy C. Contractionary Monetary policy

B. Contractionary fiscal policy D. Expansionary Fiscal Policy

_____ 45. Decreasing return to scale occurs when;

A. Percentage increase in output is greater than percentage increase of input

B. Percentage increase in output is less than percentage increase of input

C. Percentage increase in output is equal to percentage increase of input

D. Output is maximum.

_____ 46. Which of the following **is not** a method to calculate Gross Domestic Product?

A. Expenditure Method C. Diminishing cost method

B. Income Method D. Product Method

_____ 47. The curve that shows different combination of two inputs that give equal amount of output is known as:

A. Production possibility curve C. an Iso-quant curve
B. Indifference curve D. Budget line

_____ 48.Which of the following statements gives a true picture of the central Macroeconomic questions?

A. How do Gov`t policies affect growth?
B. How inflation can be controlled?
C. Why do outputs and employment fail?
D. All of the above.

_____ 49. Economic cost includes explicit cost and
A. Implicit cost B. Fixed cost C. Social cost D. Money cost

_____ 50. One of the following **is not** Macroeconomics goals.
A. Economic growth C. Price stability
B. Budget deficit D. Reducing budget deficit

_____ 51. The three broad types of productive resources are:
A. Money profit, tax and interest C. Capital, labor and natural resources
B. Bond, stock shares and deposits D. Technology, human capital and markets

_____ 52. An upward or downward movement in real GDP is widely used to measure _____
A. Nominal GDP B. Level of price C. Real GDP D. Growth of output

_____ 53. If average product is falling, marginal product
A. Is less than average product C. Is equal to average product
B. Is greater than average product D. Can be greater than or equal to average product

_____ 54. The rate at which the real GDP of a country increases over a period of time is known as

A. Economic development C. Economic Growth Rate
B. Real GDP Rate D. Sustainable development

_____ 55. A firm can achieve equilibrium when its
A. MC=MR B. MC=AC C.MR=AR D. MR=AC

_____ 56.Which of the following **is true** regarding the balance of payment?

A. It shows the volume of private foreign investment
B. It shows the market value of country`s export and imports of goods and services.
C. It is systematic record of a nation`s financial transactions with the outside world.
D. It is any gap between a nation`s dollar value of exports and imports.

_____ 57. The reward for capital is
A. rent B. interest D. profit E. wage

_____ 58 Labour force equals

A. Number of employed plus unemployment rate
B. Adult population minus number of unemployed
C. Number of employed plus number of unemployed
D. Adult population minus labour force participation rate

_____ 59 Under floating exchange rate system, a fall in the value of currency in terms of foreign currency is called---------.

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

._____ 60. If you hear a person saying ``I lost my job because I was replaced by a machine, `` you should conclude that this person is _____ unemployed.

A. Seasonally B. structurally C. Frictionally D. Cyclically

_____ 61. Excess demand is controlled by ------

A. selling government security C. Reduction in RRR
B. Reduction in discount rate D. None of the above

_____ 62. One of the inflation rates is correct based on the following data: the current date CPI 30% and past date CPI is 25%.

A. 30% B. 20% C. 40% D. 50%

_____ 63. A per unit tax solution for negative externality is proposed for the first time by:

A. A.C. Pigou B. Coase C. Adam Smith D. J.m. Keynes

_____ 64. What do Classical economists believe?

A. Wages are sticky C, the economy is self-correcting
B. The economy needs fiscal policy D. the economy needs monetary policy

_____ 65. Free riding can occur if a good is:

A. excludable and non-rival B. non- excludable and rival
C. non- excludable and non- rival D. a private good

_____ 66. Macroeconomics distinguishes between the real economy and the _____

A. Normative economy C. Positive economy
B. Monetary economy D. Descriptive economy

_____ 67. Fiscal policy refers to:

A. control of money supply C. control of the producer's price index
B. government spending and taxation decision D. change in interest rate

_____ 68**.** The most well-known contemporary monetarist is who?

A. Milton Friedman B. Adam Smith C. John Maynard Keynes D. Irving Fisher

_____ 69. To control the situation of deficient demand

A. the bank rate is reduced C. tax rate is increased
B. government expenditure is reduced D. All of the above

_____ 70. The natural rate of Unemployment is generally thought of as the _____

A. Sum of frictional unemployment and cyclical unemployment
B. Ratio of structural unemployment rate to the cyclical unemployment.
C. Sum of frictional unemployment and structural unemployment
D. Ratio of the frictional unemployment rate to the cyclical unemployment rate.

_____ 71. Which of the following are NOT the characteristics of externality?

A. it can be either positive or negative
B. it can be generated by consumers or producers
C. it is reciprocal in nature
D. it can only be generated by producers

_____ 72. Keynesian Economics suggests governments need to use _____

A. Fiscal policy C. Microeconomic Policies
B. Trade policies D. Monetary Policy

_____ 73. The economic situation by an inefficient distribution of goods and services in the free market is known as ------

A. Scarcity B. market failure D. market disequilibrium D. shortage

_____ 74. Downward slope of Aggregate demand is explained by ____

A. The real balance effect C. The international trade effect
B. The interest rate D. All of the above

_____ 75. If a good is public good

A. consumers must pay high price to enjoy its benefits
B. anyone can be excluded from enjoying its benefits
C. no one can be excluded from enjoying its benefits
D. consumers pay a low price

_____ 76. A change in the quantity demand of real GDP is represented as _____

A. a shift in the AD curve C. a shift in the AS curve
B. movement along the same curve D. movement along in different two curve

_____ 77. Which of the following is NOT the common business malpractice leading to consumer exploitation?

A. Supply of superior good C. sale of adulterated goods
B. Sale of duplicate goods D. misleading advertisement

_____ 78. Factors for shift in the AD curve include:

A. real interest rate C. general level of income of people

B. availability of credit D. All of above

_____ 79. The situation where one side of the market cannot observe the action of the other is known as -----.

A. Moral hazard problem C. Adverse selection problem

B. Hidden information problem D. Anti-selection problem

_____ 80. Which of the following shifts the AD curve leftward?

A. decreases in wealth C. decrease in interest rate

B. Increase in wealth D. decrease in income taxes.

_____ 81. When the is negative externality

A. MSC > MPC B. MSC > MPC C. MSC = MPC D. MSC is negative

_____ 82. If businesses become optimistic about future sales, then

A. Aggregate demand decreases C. Aggregate demand increases

B. Investment decreases D. None of the above

_____ 83. The mandated maximum amount that a seller is allowed to charge for a product or service is called---------.

A. Price ceiling B. Price floor C. equilibrium price D. initial price

_____ 84. Moving along the aggregate supply curve,

A. The quantity of capital used increases C. technology advances

B. Only the price level changes D. the real wage rate is constant

_____ 85. Which of the following is an expansionary monetary policy?

A. buying of bonds and bills C. Increasing lending rate

B. Increasing reserve requirement D. Increasing deposit rate

_____ 86. The Short-run aggregate supply (SRAS) curve is _____

A. Upward sloping B. downward sloping C. a vertical line D. U-shaped

_____ 87. A deliberate manipulation of government expenditure and revenue so as to achieve a certain economic objective is known as --------

A. Employment B. fiscal policy C. Monetary policy D. income policy

_____ 88.Real wage equals ____

A. Nominal wages divided by the price level C. Nominal wages divided by Interest rate

B. Interest rate divided by Nominal wages D. The price level divided by Nominal wage

_____ 89. Which of the following is mechanism to provide public goods?

A. private provision of excludable public goods

B. Preventing free riding by religious service

C. public provision of non- excludable public goods

D. All of the above

_____ 90. Aggregate supply is determined by

A. Domestic resource availability C. state of technology

B. Cost of input D. All of the above

_____ 91. Which one of the following are NOT non-excludable goods or service

A. house hold furniture B. roads C. Primary education D. police protection

_____ 92. At a constant price, higher wage rates mean _____

A. Higher profits B. lower costs C. higher costs D. None of the above

_____ 93. One of the following is NOT the advantage of flouting exchange rate

A. speculation C. correction of BOP deficits

B. Lack of policy constraints D. Protection from external shocks

_____ 94. An expansionary demand shock shifts the AD curve to the right, _____

A. Decreasing both P and Y C. decreasing P and remaining constant Y

B. Increasing both P and Y D. increasing P and remaining constant Y

_____ 95. Reduction in government expenditure and increase in taxation is likely to achieve to ---

A. expand the economic activity C. Control inflation

B. increase the national income D. expand its control over activities

_____ 96. The long run Aggregate supply curve is

A. a vertical line B. downward sloping C. Upward sloping D. U-shaped

_____ 97. Deliberate fixation of prices of goods and services and wage rates by the government is known as:

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

_____ 98. Monetarist argued that _____

A. Fiscal policy addresses the macroeconomic problems.
B. Fiscal policy has real effects.
C. Monetary policy has no real effects.
D. Monetary policy addresses the macroeconomic problems.

_____ 99. A reduction in bank rate is:

A. a contractionary fiscal policy
B. an expansionary fiscal policy
C. an expansionary monetary policy
D. a contractionary monetary policy

_____ 100. Most economists use the AD and AS model primarily to analyze which of the following?

A. Short-run fluctuations in the economy.
B. Productivity and economic growth
C. The long-run effects of international trade policies
D. The effects of macroeconomic policy on the prices of individual goods.