ARADA SUBCITY EDUCATION OFFICE

2018 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. The law of diminishing marginal utility states that
   A. Total utility always decreases
   B. Marginal utility increases with consumption
   C. Marginal utility decreases as consumption increases
   D. Price decreases as consumption increases
2. If total utility increases from 50 utils to 56 utils when consumption increases from 7 utils to 8 utils, what is MU
   A. 56 utils B 6 utils C 1 utils D 8 utils
3. The ordinal utility approach assumes that
   A. Utility can be m measured in monetary units
   B. Utility is constant
   C. Utility can only be ranked, not measured
   D. Utility is equal for all consumers
4. Which of the following is NOT an assumption of ordinal utility theory
   A. Cardinal measurement of utility
   B. Diminishing marginal rate of substitution
   C. Limited money income
   D. Rational consumer behavior
5. The derivation of the demand curve is based on
   A. Law of increasing returns
   B. Income effect only
   C. Law of supply
   D. Law of diminishing marginal utility
6. Which of the following causes a movement along the demand curve
   A. Change in income
   B. Change in price of the commodity
   C. Change in taste of the consumer
   D. Change in population
7. An increase in demand is shown by
   A. Rightward shift of the demand curve
   B. Upward movement along the demand curve
   C. Downward movement along the demand curve
   D. Leftward shift of the demand curve

8. What was the purpose of Ethiopia's 1992 currency devaluation
   A. To peg the Birr to the US dollar permanently
   B. To liberalize the exchange rate market
   C. To eliminate the interbank market
   D. To fix the Birr at an overvalued rate
9. Which factor can cause a country's currency to appreciate
   A. High inflation rate compared to other country
   B. Lower interest rate than other country
   C. Political stability and strong e economic performance
   D. Large current account balance
10. Appreciation of a currency leads to
   A. Exports becoming cheaper for foreigners
   B. Imports becoming more expensive
   C. Exports becoming more expensive and imports cheaper
   D. Increase in foreign exchange reserve automatically
11. What is an exchange rate
   A. The government tax rate on imports
   B. The price of one currency in terms of another
   C. The interest rate set by the central government
   D. The minimum wage for labor
12. What is the main purpose of income policy in economics
   A. To regulate international trade
   B. To increase the government revenue
   C. To reduce unemployment only
   D. To control wage and prices , especially during inflation
13. The free rider problem arises because :
   A. Public goods are non-excludable
   B. Private goods are scarce
   C. Public goods are rivalrous
   D. Private firms always provide public goods efficiently
14. Public goods are characterized by:
   A. Rivalry in consumption and excludable
   B. Non-rivalry in consumption and excludable
   C. Non- rivalry in consumption and non- excludable
   D. Rivalry in consumption and non- excludable

15. A negative supply shock will;
    A. Shift the AD curve right
    B. Shift the SRAS curve left
    C. Shift the LRAS curve right
    D. Decrease both price and output
16. Underemployment refers to;
    A. People who are unemployed
    B. People working fewer hours than they want
    C. Retired workers
    D. People working in jobs below their skill level
17. Structural unemployment can be caused by;
    A. A mismatch between workers skills and jobs
    B. Temporary layoffs due to seasonal demand
    C. Workers voluntarily leaving a job
    D. High inflation
18. Real GDP differs from nominal GDP because it:
    A. Measures production at current market prices
    B. Only counts goods produced for export
    C. Adjusts for changes in the price level
    D. Includes income from abroad
19. Value added at any stage of production is defined as:
    A. Final price minus total revenue
    B. Price of final good minus price of intermediate input
    C. Output minus depreciation
    D. Total sales minus profit
20. If the monopolist demand function is p=a-bQ , the marginal revenue function is:
    A. MR=a-bQ B. MR=a-2bQ C. MR= b- a Q D. aQ- b
21. A perfectly competitive firm is a price taker because :
    A. It restricts output
    B. It can fix its own price
    C. It sells differentiated products
    D. It is too small to influence market price

22. In perfect competition, the demand curve faced by an individual firm is:
    A. Horizontal B. vertical C. upward sloping D. downward sloping
23. Which of the following is NOT a characteristic of perfect competition
    A. Homogenous product C. perfect information
    B. Free entry and exit D. product differentiation
24. The marginal cost curve intersects the average total cost at:
    A. The maximum point of ATC C. the maximum point of MC
    B. The minimum point of ATC D. the minimum point of AFC
25. Average fixed cost will;
    A. Decreases as output increases C. remain constant as output increases
    B. First rise then fall D. increases as output increases
26. When total product is at its maximum marginal product is:
    A. Maximum B. negative C. zero D. equal to average product
27. If producers expect prices to rise in the future, current supply will:
    A. Increase B. decrease C. remain unchanged D. become perfectly elastic
28. The price of commodity increases by 10% and as a result, quantity demanded decreased by 20%. What is the price elasticity of demanded
    A. 0 B. 1.5 C. 1 D. 2
29. Price elasticity of demand is defined as the ratio of:
    A. Change in price to change in quantity demanded
    B. Percentage in price to percentage change in income
    C. Percentage change in quantity demanded to percentage change in price
    D. Quantity demanded to price
30. Marginal product of labor defined as:
    A. Percentage change in labor C. total output divided by labor
    B. Additional output from one more unit of labor D. total output produced
31. If the market price is Birr 50 and a competitive firm sells 10 units, what is its Total revenue
    A. 500 B. 60 C. 5 D. 40
32. Under monopoly average revenue is equal to :
    A. Marginal revenue B. total revenue C. price D. marginal cost

33. Economies of scale lead to monopoly because:
    A. Small firms can produce more cheaply
    B. Average cost increases with output
    C. Large firms can produce at lower cost
    D. Government restrict output
34. A monopolistically competitive market is best described as a market with:
    A. One seller and no substitutes
    B. Few sellers and homogeneous products
    C. Many sellers and homogeneous products
    D. Many sellers and differentiated products
35. A duopoly is a market structure in which:
    A. There is only one firm
    B. There are two firms
    C. There are many firms
    D. There are no barriers to entry
36. The marginal revenue curve under monopolistic competition is:
    A. Equal to average revenue
    B. Above average revenue
    C. Below average revenue
    D. Horizontal
37. Cross elasticity of demand is positive when two goods are:
    A. Complementary goods C. Independent goods
    B. Inferior goods D. Substitute goods
38. If income elasticity of demand is greater than one , the commodity is considered as:
    A. Luxury (normal) good C. Independent good
    B. Necessity good D. Inferior good
39. What is price ceiling
    A. A minimum price set by the government
    B. A mandatory maximum price below the equilibrium price
    C. A price determined by market forces only
    D. A subsidy for producers

40. Which of the following best explains the *relativity of utility*
    A. Utility can be measured in money
    B. Utility is the same for all consumers
    C. Utility differs from person to person
    D. Utility is always constant
41. A consumer is in equilibrium when
    A. MUx = MUy B. Px = Py C. MUx/Px = MUy/Py D. TUx = TUy
42. Which of the following is a common effect of a price floor
    A. Shortage of goods C. Decrease in producer revenue
    B. Surplus of goods D. Lower prices of consumers
43. When the central bank buys government bonds
    A. Money supply increases C. Money supply remain unchanged
    B. Money supply decreases D. Interest rate increases automatically
44. Which of the following action is part of expansionary monetary policy
    A. Increasing the required reserve ratio
    B. Increasing the discount rate
    C. Buying government securities
    D. Increasing interest rats
45. The Coase theory suggests that negative externality can be solved by:
    A. Ignoring the external cost C. Increasing production
    B. Government taxes only D. Private bargaining between affected parties
46. Which of the following is NOT a solution to market failure
    A. Lobbying by special interest groups
    B. Government taxes and subsidies
    C. Private collective actions
    D. Lawsuits to correct externalities
47. Which of the following shifts the short-run aggregate supply curve
    A. Change in foreign demand
    B. Change in household wealth
    C. Change in the cost of inputs
    D. Change inn consumer preference
48. The short run aggregate supply curve is upward sloping because:
    A. firms can sell unlimited output at any price C. Technology is fixed
    B. wage and prices are sticky D. AD is downward sloping

49. the long-run equilibrium occurs at:
    A. The intersection of AD and SRAS curves only
    B. The intersection of AD and LRAS curves
    C. The point where SRAS=LRAS=0
    D. When price level stop changing
50. A positive shock to aggregate demand will:
    A. Shift the AD curve left
    B. Shift the SRAS curve right
    C. Shift LRAS curve, increasing output only
    D. Shift AD curve right
51. When the price level falls below the short-run equilibrium
    A. Shortage occurs, and firms increase output
    B. Aggregate demand decreases automatically
    C. Surplus occurs, and firms reduce output
    D. Economy reaches long-run equilibrium
52. If the interest rate rises, what happen to investment and aggregate demand
    A. Investment rises, AD rises C. Investment falls, AD rises
    B. Investment falls, AD falls D. Investment rises, AD falls
53. Keynes argued that recessions occur because:
    A. Aggregate supply exceeds potential output
    B. Aggregate demand is insufficient
    C. There is too much government spending
    D. Interest rates always adjust to clear markets
54. A trade deficit occurs when:
    A. Exports equal imports C. Imports exceed exports
    B. Exports exceed imports D. Government spending is higher than taxes
55. If the consumer price index rises from 200 to 250, the inflation rate is:
    A. 25% B. 20% C. 50% D. 30%
56. Inflation is defined as:
    A. Reduction in money supply
    B. A decrease in the general price level
    C. A one-time increase in the general price level
    D. A continuous rise in the general price level

57. Gross national product is calculated as:
A. GDP+NFI B. GDP-NFI C. GDP*Net export D. GDP/population
58. Disposable income is defined as:
A. Total income minus saving
B. Gross income plus personal taxes
C. Gross income minus personal taxes
D. Total income minus consumption
59. Autonomous consumption is:
A. Consumption that depends on disposable income
B. Consumption at zero disposable income
C. Saving at zero income
D. The slop of the consumption function
60. If the household saves 500 ETB out of the disposable income of 2000 ETB the average propensity to consume is:
A. 0.25 B. 4 C. 0.2 D. 0.75
61. Suppose an economy produces only two goods: 100 units of bread at 2 ETB each and 50 units of milk at 4 ETB each. What is the nominal GDP
A. 150 ETB B. 156 ETB C. 400 ETB D.5000 ETB
62. The GDP deflator is defined as:
A. Nominal GDP/Real GDP *100 C. CPI/GDP*100
B. Real GDP/Nominal GDP*100 D. GDP/population
63. Which of the following is TRUE about GDP
A. It includes only goods produced by citizens
B. It includes production outside the country
C. It measures production within a country's border
D. It excludes services
64. Which institution is responsible for conducting monetary policy in a country
A. Commercial banks C. Ministry of finance
B. National bank or Central bank D. International monetary fund
65. Expansionary monetary policy is usually adopted to :
A. Reduce inflation C. Restrict bank lending
B. Raise taxes on households D. Increase economic activity during recession

66. According to economic theory market efficiency requires
    A. Price equals marginal cost
    B. Price equals marginal social cost
    C. Marginal social cost equals marginal social benefits
    D. Profit is maximized
67. Moral hazard occurs when:
    A. One party cannot observe the actions of another
    B. One party has more information than the other
    C. Negative externality affects third parties
    D. Consumers are overcharged for goods
68. Signaling as a solution to asymmetric information involves:
    A. Ignoring the information gap
    B. The government providing subsidies
    C. Private bargaining to reduce pollution
    D. One party conveying credible to the other party
69. Rationality of consumer means that consumers
    A. Always buy the cheapest goods
    B. Aim to maximize satisfaction from available resources
    C. Prefer luxury goods to necessities
    D. Follow government consumption rules
70. An indifferent curve represents
    A. Different bundle of goods with different prices
    B. Consumer demand for a single good
    C. Maximum satisfaction from given income
    D. Combination of two goods giving the same level of satisfaction
71. The slop of an indifference curve represents
    A. Marginal utility C. Marginal rate of substitution
    B. Price ratio D. Income elasticity of demand
72. According to classical economists an increase in government spending :
    A. Leads to crowding out effect C. Reduce interest rates
    B. Stimulates GDP without any side effect D. Decreases price level

73. Keynesian economics emphasizes:
    A. Long-run supply-side growth
    B. Active fiscal policy to boost AD
    C. The self-correcting nature of market
    D. Policy ineffectiveness of government intervention
74. Which of the following is correct:
    A. Classical economics focuses on short-run demand
    B. Keynesian focuses on long-run supply
    C. Keynesian rejects sticky prices
    D. Classical believes markets self-correct
75. Which school of thoughts emphasis the rational expectation hypotheses and policy ineffectiveness:
    A. Classical B. Keynesian C. New classical D. Monetarists
76. Frictional unemployment occurs because:
    A. Workers are entering the labor market for the first time
    B. Workers skill do not match jobs available
    C. There is a mismatch in capital and labor
    D. The economy is in recession
77. Economic growth rate measures:
    A. The change in the general price level
    B. The increase in the capacity of an economy
    C. The per capita consumption of households
    D. The population growth of a country
78. Per-capita GDP is calculated by dividing:
    A. GDP by labor force C. GDP by inflation rate
    B. GDP by population D. GDP by CPI
79. Nominal GDP differ from real GDP because nominal GDP is measured using;
    A. Base year prices C. Constant prices
    B. Current prices D. Average prices
80. GDP is described as a flow concept because it:
    A. Includes stock only
    B. Measures wealth at a point in time
    C. Measures accumulated assets
    D. Measures output over a period of time

81. Which of the following is an advantage of a floating exchange rate system
    A. Provides certainty for firms in trade
    B. Reduces exchange rate volatility completely
    C. Protects the economy from external shocks
    D. Requires large foreign exchange reserves
82. In a perfect competitive labor market, wages are determined by:
    A. Government decree C. Minimum wage law
    B. Collective bargaining only D. Intersection of labor supply and demand
83. Which of the following is an example of an income policy
    A. Implementing minimum wages C. Printing new currency
    B. Reducing corporate tax D. Building infrastructure
84. Which economist argued for government intervention to stabilize the economy
    A. Adam smith B. John M. Keynes C. Milton Friedman D. David Ricardo
85. Why do markets fail to supply pure public goods efficiently because
    A. The goods are perishable C. Government always intervenes
    B. The goods are scars D. Producers cannot charge everyone who benefits
86. One way to prevent free riding is:
    A. Prohibit everyone from consuming the good
    B. Sell the good only to the richest consumer
    C. Use taxes to fund non-excludable goods
    D. Only allow private consumption
87. A rise in equilibrium wage rates:
    A. Increases firm profits and quantity supplied
    B. Decreases firms profits and shifts SRAS left
    C. Has no effect on SRAS
    D. Shift the SRAS curve right
88. The marginal cost of allowing an additional person to consume a pure public good is:
    A. Very high B. Constant C. Increasing D. Zero
89. Goods that satisfy only one property of public goods are called:
    A. Impure public goods C. Free goods
    B. Pure private goods D. Merit goods

90. Market failure occurs when:
    A. Market always reach equilibrium
    B. Resources are efficiently allocated
    C. The price mechanism fails to reflect all costs and benefits
    D. Government intervention is excessive
91. What is meant by a floating exchange rate
    A. Currency value is fixed by government decree
    B. Currency value is determined by supply and demand forces
    C. Currency value is liked to gold only
    D. Currency cannot be exchanged internationally
92. Which factors can cause a country's currency to appreciate
    A. High inflation rate compared to other countries
    B. Lower interest rate than other countries
    C. Large current account deficit
    D. Strong economic performance
93. What happens to money supply when central banks buys government bonds
    A. Money supply increases C. Money supply remain unchanged
    B. Money supply decreases D. Interest rate increases automatically
94. Government spending affects aggregate demand by:
    A. Increasing exports automatically
    B. Shifting AD when spending rises
    C. Changing the interest rate directly
    D. Reducing consumption
95. New Keynesian argued that:
    A. Markets are always perfectly competitive
    B. Fiscal policy is completely ineffective
    C. Government intervention stabilize the economy
    D. Long-run growth is unaffected by AD
96. The unemployment rate is:
    A. The percentage of adults who are willing to work
    B. The percentage of population over 60
    C. The percentage of the labor force that is unemployed
    D. Total population minus workers

97. The four phases of a business cycle are:
    A. Growth, inflation, deflation, recession
    B. Boom, bust, recovery, stagnation
    C. Surplus, deficit, equilibrium, stagnation
    D. Expansion, peak, contraction, trough
98. Disposable income is defined as:
    A. Gross income plus personal taxes
    B. Gross income minus personal taxes
    C. Total income minus savings
    D. Total income minus consumption
99. If a consumers disposable income increases from 1000 ETB to 2000 ETB and consumption increases from 800 ETB to 1400 ETB, the marginal propensity to save is:
    A. 0.4 B. 0.5 C. 0.6 D. 0.7
    100. Which of the following best measure of economic growth over time:
    A. Nominal GDP B. Real GDP C. GDP deflator D. CPI