



Entrance Prep Tutorial

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Direction: Choose the best answer from the given alternatives and write on your answer paper in observable font and size.

⇒ Your answers should be written with neat hand writing.

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

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

2. 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

3. Which of the following is the central study of macroeconomics?

- A. Decreasing Employment C. Increasing Budget Deficit
- B. Increasing Inflation D. Decreasing Income Inequality

4. How does the text suggest that "individual incentives for rational behaviour do not lead to rational outcomes for the group."?

- A. That individuals are never rational
- B. That what is rational for an individual might be detrimental to the group as a whole
- C. That individuals are always in agreement
- D. That individual decision making is always optimal for the entire group

5. Suppose the population of Kenya is estimated to be 150 million in the year 2020. The number of children below the age of 14 is 45 million, while the number of elderly individuals above the age of 65 is 20 million. If the total number of economically inactive individuals is 15 million and those who are employed amount to 50 million, what are the total number of unemployed people

- A. 10 million
- B. 5 million
- C. 7 million
- D. 2.2 million

6. In the above question what is the value of unemployment rate ?

- A. 7.2 %
- B. 0.8 %
- C. 15 %
- D. 9.09 %

7. According to the Classical view, what happens if an economy slips into *recession*?

A. The economy will need active fiscal or monetary policy to return to a full employment level of GDP.

B. The economy will temporarily exhibit a surplus of goods, and falling prices will eliminate this surplus, returning the economy to a full employment level of GDP.

C. The economy will need government intervention to correct market failures and return to a full employment level of GDP.

D. The economy will remain in recession until government spending is increased.

8. How can “tradable permits” be used to address the issue of pollution?

A. By making pollution more profitable

B. By incentivizing the creation of more pollution

C. by setting a limit to pollution and allowing firms to buy and sell permits

D. by not having any impact on pollution

9. ____ 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

10. What are factor immobilities a problem for economic efficiency?

A. because they always create perfect outcomes.

B. because they make sure that resources are always allocated to their most productive uses.

C. because they mean that resources may not move to where they are most needed and productive.

D. because they do not impact market outcomes.

11. The real difference between GDP and GNP is:

A. time reference

C. market value reference

B. ownership reference D. final goods reference

12. How do government responses to market failure affect the allocation of resources in an economy?

- A. They ensure that resources are always allocated perfectly efficiently.
- B. They can cause shifts in resource allocation through taxes, subsidies, and direct provision.
- C. They always prevent any shift in resource allocation.
- D. They are never effective in allocation of resources

13. Real wage is:

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

14. If a good is rivalrous, what does that imply about its consumption?

- A. That its consumption by one does not affect the ability of others to consume it.
- B. That its consumption by one does limit the consumption by others.
- C. That only those who can afford it may use it.
- D. That it can be used by all members of a community simultaneously

15. Which of the following is NOT the factor affecting consumption?

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

16. How do tort lawsuits help to address negative externalities like pollution?

- A. By providing tax breaks for polluters
- B. By making sure pollution is always profitable.
- C. By making polluters liable for damages to those affected by the pollution
- D. By preventing anyone from creating negative externalities

17. 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. GDP C. Gross Personal Income (GPI)
- B. GNP D. Gross National Income (GNI)

18. According to the text, how might a monopoly lead to an inefficient allocation of resources?

- A. by always providing goods at the lowest prices.
- B. by having too much competition
- C. by restricting output and charging higher prices
- D. by never providing enough goods to meet the demand

19. What is the "free rider" problem associated with public goods?

- A. They never have enough consumers
- B. They are always too expensive
- C. That individuals may benefit from the good without contributing to its cost.
- D. that only people who pay can consume it.

20. In the expenditure approach to calculating GDP, which of the following components is *NOT* included!

- A. Personal consumption of households
- B. Gross private domestic investment
- C. Government purchases of goods and services
- D. Net imports

21. Which of the following is the main focus of consumer protection policies?

- A. To ensure that private actors always make a profit.
- B. To create more market inefficiencies.
- C. To protect and support producers
- D. To provide consumers with more equitable outcomes

22. Based on the text, why might private market actors be unable to solve a market failure on their own?

- A. Because private markets always guarantee perfect outcomes**
- B. Because they never have an incentive to solve them.**
- C. Because market failures are always caused by the government.**
- D. Because the incentives that private markets have may not be aligned with the goal of solving the market failure.**

23. Which of the following is NOT a focus area of macroeconomics.

- A. Distribution of income**
- B. Economic growth**
- C. Individual consumer behavior**
- D. Inflation**

24. If a government taxes an activity that creates negative externalities, what is the main goal of this tax?

- A. To help pay for government services**
- B. To make that activity more profitable**
- C. To reduce activity by making it more costly.**
- D. To never impact consumer activity**

25. What is the difference between nominal GDP and real GDP?

- A. Nominal GDP is calculated in constant prices, while real GDP is measured in actual market prices.**
- B. Nominal GDP accounts for differences in price levels in different countries, while real GDP does not.**
- C. Nominal GDP is measured in actual market prices, while real GDP is calculated in constant prices.**
- D. There is no difference between nominal GDP and real GDP.**

26. In the income approach to calculating GDP, which of the following is NOT a form of income to owners of factors of production

- A. Wages and salaries**
- B. Rental income**
- C. Interest income**
- D. Personal consumption**

27. How can private collective action help address market failures?

- A. By allowing individuals to always act in their own self-interest.**
- B. By enforcing rules and setting limits on consumption.**
- C. By relying on government intervention.**
- D. By never taking action to resolve the issue.**

28. If nominal wages are sticky, a decrease in the price level will result in:

- A. a rise in the quantity demanded of labour.**
- B. a higher real wage.**
- C. a fall in the quantity supplied of labour.**
- D. None**

29. 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.**

30. Which of the following represents how the text defines a market failure?

- A. A perfect distribution of goods and services in the free market**
- B. An inefficient distribution of goods and services in the free market.**

- C. That all market operations are always beneficial to everyone
- D. That the market is always perfectly balanced.

31. Which of the following is NOT the component of aggregate demand?

- A. Consumption spending C. Net exports
- B. Government purchases D. Net transfers

32. According to the text, is it always possible to solve market failures, even with proper regulations?

- A. Yes, all market failures always have a solution if the government intervenes.
- B. Yes, market failures are always fixed by private markets.
- C. No, not all market failures can be completely solved even with government regulations.
- D. No, market failures are completely unfixable.

33. Which one of the following factors shifts the aggregate demand curve to the right?

- A. Increase in interest rate
- B. Increase in future price expectation
- C. Increase in income tax
- D. Increase in the general price level

34. Ceteris paribus, upward movement along the same aggregate demand curve is caused by:

- A. Increase in the general level of income
- B. Increase in the price level
- C. Decrease in the general level of income
- D. Decrease in the price level

35. Change in the aggregate demand is NEVER caused by:

- A. Change in the price level
- B. Change in the general level of income

C. Change in the interest rate

D. Change in the availability of credit

36. If businesses become pessimistic about future sales, then:

A. both investment and aggregate demand fall.

B. both investment and aggregate demand rise.

C. investment increases but aggregate demand decreases.

D. investment decreases but aggregate demand increases.

37. In Country „X“ the number of unemployed persons is about 10 million and the unemployment rate is 20%. How much is the total labour force?

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

38. Which approach to measuring GDP/GNP involves adding the market value of goods and services produced by each sector of the economy!

A. Expenditure approach

B. Income approach

C. Product approach

D. None of the above

39. What role does legislation play in addressing market failures, as described in the text?

A. To allow markets to act completely independently

B. To completely prevent any private actors from being a part of the market

C. To regulate the market and to protect consumers.

D. To let monopolies have a bigger impact in markets.

40. What is the labor force in an economy,

A. The total population of the country.

B. The sum of the employed and unemployed.

- C. The total number of people who are willing to work.
- D. The sum of the employed, unemployed, and those not looking for work.

41. which type of goods are both non-rivalrous and non-excludable?

- A. Private goods
- B. Public goods
- C. Merit goods
- D. Demerit goods

42. How might international cooperation among governments help address market failures?

- A. by creating more market failures
- B. by working independently of each other
- C. by addressing issues that span across different nations.
- D. by never addressing market failures

43. Which type of unemployment occurs when there is a lack of adjustment between demand for and supply of labour!

- A. Frictional unemployment
- B. Cyclical unemployment
- C. Structural unemployment
- D. Underemployment

