MEKI CATHOLIC SCHOOL

Grade 12 Economics Unit 1-4 Questions

Name _____ _____ Roll No _____

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Exam 3:

Part 1: Fill-in-the-Blank Questions

Instructions: Fill in the blank with the most appropriate word or phrase.

1. The study of the economy as a whole is called _____.
2. A sustained increase in the general price level is known as _____.
3. The total market value of all final goods and services produced within a country's borders is called _____.
4. The business cycle consists of four phases: _____, _____, _____, and _____.
5. _____ unemployment results from a deficiency of aggregate demand.
6. The idea that markets will naturally return to full employment without government intervention is associated with the _____ school of thought.
7. The idea that government spending can help stabilize aggregate demand is associated with the _____ school of thought.
8. The theory stating that the relationship between tax rates and tax revenue is non-linear is called the _____.
9. The _____ curve shows the relationship between price level and real GDP demanded.
10. The real balance effect explains the relationship between the price level and _____.
11. The upward sloping short-run aggregate supply curve is often attributed to _____ wages.

12. The long-run aggregate supply curve is usually depicted as a _____ line.
13. When aggregate demand increases while potential output remain the same, this is referred as a _____ gap.
14. A situation where the free market does not allocate resources efficiently is called _____.
15. Goods that are non-rivalrous and non-excludable are called _____.
16. The _____ problem arises when people consume a good without paying for it.
17. A market situation where one party has more information than the other is called _____.
18. In insurance markets, the situation where a person changes their behavior because they are insured is an example of _____.
19. The policy instrument that relates to the government's spending and taxation is known as _____ policy.
20. The central bank's manipulation of the money supply is called _____ policy.
21. When a central bank buys government bonds, it _____ the money supply.
22. The interest rate at which banks borrow directly from the central bank is called the _____.
23. A legally mandated maximum price that sellers can charge is known as _____.
24. A legally mandated minimum price that can be charged is known as _____.
25. Exchange rates are a price of one currency in terms of another and are mainly determined by demand and _____.
26. A decrease in value of domestic currency is called _____
27. In terms of exchange rate policies, a rate that is allowed to adjust to market forces is a _____ exchange rate.
28. Tax levied on income and profit are _____ tax.
29. Tax levied on goods and services is _____ tax
30. A tax that taxes higher earners at a higher rate is a _____ tax.

31. A tax that taxes all taxpayers the same regardless of income is a _____ tax.
32. A tax that takes a lower share of income as income rises is a _____ tax.
33. The theory of taxation that argues that people should pay taxes according to the benefits they receive is called the _____ approach.
34. The theory of taxation that argues that people should pay taxes according to their ability to pay is called the _____ approach.
35. The horizontal equity principle refers to taxation of people who are in _____ circumstances.
36. A curve that visually represents income inequality is called the _____ curve.
37. A statistical measure used to represent the degree of income inequality is called the _____.
38. The three main dimensions used to measure multidimensional poverty is _____, _____, and _____.
39. According to Amartya Sen, wellbeing is best defined as _____
40. The lack of the ability to afford a minimally socially acceptable level of living standard is called _____ poverty.
41. The rate at which the real GDP of a country increases over a period of time is known as the _____
42. When the aggregate demand curve shifts to the right it is known as an _____ shock.
43. When the aggregate supply curve shifts to the left it is known as a _____ shock.
44. One explanation for an upward sloping supply curve is that wages are _____.
45. When a currency _____ in value, it means that more of the domestic currency is needed to buy the same amount of foreign currency.
46. A tax on goods or services based on their value at each stage of production is known as _____ tax
47. If the market price is above the price floor level, it is said to be _____.

48. The concept that there is a difference between what one pays and the price one is willing to pay is known as _____.
49. The concept which states that wages and prices do not respond quickly to changes in demand is known as _____.
50. A situation where the economy contracts and unemployment increases is called _____.
51. The economic policy that is designed to affect the money supply is known as _____.
52. The policy that intends to set prices below the market rate is known as _____.
53. The main goal of macroeconomic policy is to promote sustainable _____.
54. What describes the situation where an economy does not employ resources efficiently _____.
55. The effect of price change on the quantity demanded of goods and services can be explained by the _____.
56. The rate of interest the central bank charges banks for borrowing is called _____.
57. The amount of money that banks must keep in their accounts is called _____.
58. Changes in the nominal prices of goods and services is the main focus of _____.
59. An index that measures the changes in price of products typically bought by households is known as _____.
60. A rise in the value of a currency is called _____.
61. The government's financial plan for a particular year is called the government _____.
62. The use of the budget of a government for controlling the economy is called _____.
63. The economic policy designed to influence price and wages is called _____.
64. The type of inflation where price level is persistently increasing at a slow pace is called _____.
65. The name of the economic concept that refers to how different agents have different amounts of information is known as

_____.

66. The idea that taxes should be based on who benefits most from public services follows the _____ approach to tax equity.
67. What economic concept is described when individuals are not able to meet their basic needs?
68. The method through which an individual or institution seeks to convey information to others is known as _____
69. The key underlying factor for creating trade imbalance is said to be _____
70. The key to minimizing structural unemployment is through the provision of _____.
71. What type of unemployment occurs during the time when workers move between jobs? _____
72. The idea that money growth should not be used to stimulate economic activity is a part of _____ thinking
73. The total amount of money which all sections are ready to spend on goods and services is called _____
74. A situation where the government buys treasury bills from commercial bank is called _____
75. The type of unemployment that is linked to business depressions is _____
76. When households and firms lose confidence in the economy this may lead to a shift of _____ curve to the left.
77. In the short-run the prices of some inputs do not adjust quickly due to the presence of _____
78. An effect which is said to create a difference between private cost and social cost is known as _____.
79. The concept of using private action to resolve market failures is based on the _____.
80. When the value of domestic currency is reduced, it is called _____.
81. Which is a method used to describe the total quantity of goods and services supplied at different price levels? _____.
82. What does a high rate of unemployment indicate? _____.

83. The point where the aggregate demand and aggregate supply curves intersect is known as _____.
84. In a competitive labor market, the vertical height of the labor supply curve represents _____.
85. What is the name of the process where companies internalize the cost of pollution? _____.
86. The systematic record of a nation's financial transactions with the rest of the world is called _____.
87. The measure that is a ratio of total GNP to total population is called _____.
88. What term refers to the situation in which a person is forced by unemployment to take a job that he/she thinks is inadequate for his/her purpose._____
89. The most commonly used index to measure inflation is _____.
90. The term describing the time it takes to recognise a macroeconomic problem and implement relevant policy is known as _____.
91. What is the main limitation of the measure of development by per capita income? _____.
92. The theory that tries to show the relationship between tax rate and tax revenue is _____.
93. The type of inflation that is caused by an increase in the money supply is _____.
94. What does the monetary authority do in order to increase the money supply during a recession? _____
95. What can be said about a country when its balance of trade is positive? _____.
96. What policy is mostly used by governments to control price increases? _____.
97. The policy that is mostly concerned with how domestic currencies relate to other currencies is _____.
98. In economics, a situation where goods and services are not distributed properly in the market place is known as _____.
99. The rate at which money can buy a basket of goods and services is referred to as _____.

100. The name of the approach to assess wellbeing that places emphasis on individuals' capabilities rather than what they consume is called _____.

Part 2: Short Answer Questions

Instructions: Provide a short answer to each of the following questions.

1. What is the difference between microeconomics and macroeconomics?
2. List three key challenges that macroeconomists often face.
3. What is the formula used to calculate Gross Domestic Product (GDP) using the expenditure approach?
4. What is the difference between GDP and GNP?
5. What is a business cycle, and what are its four phases?
6. What are the main ideas behind classical economic theory?
7. What is "seigniorage" in the context of inflation?
8. What is the key difference between the Keynesian and Monetarist schools of thought in terms of the effectiveness of fiscal policy?
9. What are the main criticisms of using real per capita GDP as a measure of development?
10. What does the human development index (HDI) seek to measure?
11. What is the difference between nominal GDP and real GDP?
12. List three main causes of inflation.
13. List down three types of unemployment and describe each of them.
14. What do the terms "trade deficit" and "trade surplus" mean?
15. What is the main difference between the classical and new classical macroeconomic thought?
16. What does the term "opportunity cost" mean in economics?
17. How do sticky wages affect the labor market in the short run?
18. Define the term "aggregate demand".
19. What are the main factors that cause a shift in the aggregate demand curve?

20. What is the difference between a movement along the aggregate demand curve and a shift of the curve?
21. Explain the concept of real balance effect.
22. What does aggregate supply curve represent?
23. Explain the difference between short-run and long-run aggregate supply.
24. What two factors explain why the short-run aggregate supply curve is upward sloping?
25. What is an equilibrium in macroeconomics?
26. What happens to equilibrium price and output when there is a negative demand shock?
27. What happens to equilibrium price and output when there is a negative supply shock?
28. What is market failure, and why does it occur?
29. What are the two main characteristics of a public good?
30. What is a free rider problem, and how does it relate to public goods?
31. Define an externality and give an example of a positive and a negative externality.
32. What is asymmetric information, and how does it contribute to market failure?
33. What is moral hazard and adverse selection?
34. What is “signalling” and how does it help reduce information asymmetry?
35. What is “screening” and how does it differ from signalling?
36. What is meant by consumer protection?
37. What are the common malpractices that lead to consumer exploitation?
38. Why is consumer protection important?
39. List the main components of aggregate demand.
40. What are the main goals of macroeconomic policies?
41. What is fiscal policy, and what are its main tools?
42. What is monetary policy, and what are the main instruments used to implement it?

43. What is the difference between expansionary and contractionary fiscal policy?
44. What is the difference between expansionary and contractionary monetary policy?
45. What is the discount rate, and how does it affect the money supply?
46. What does a central bank do in open market operations?
47. What is the reserve requirement ratio and how does changing it affect banks?
48. What are income policies designed to accomplish?
49. What is a price floor and what effects does it have on the market?
50. What is a price ceiling and what effects does it have on the market?
51. What is foreign exchange policy?
52. Differentiate between a fixed and flexible exchange rate.
53. Explain the terms appreciation and depreciation in the context of a floating exchange rate system.
54. What are the different ways that countries classify their taxes?
55. What are direct taxes and indirect taxes?
56. Explain the ‘benefits approach’ of taxation.
57. Explain the ‘ability-to-pay’ approach of taxation.
58. Explain the concept of progressive tax.
59. What is the difference between horizontal and vertical equity in taxation?
60. What is the significance of ‘Laffer curve’?
61. What is meant by the term "poverty line"?
62. Explain what is meant by absolute poverty.
63. Explain what is meant by relative poverty.
64. How is the poverty headcount index calculated?
65. Explain the concept of Total Poverty Gap.
66. What is “Multidimensional Poverty Index (MPI)”?
67. What is Sen’s capability approach?
68. What are ‘functionings’ in terms of Sen’s theory?
69. What does it mean when a currency appreciates?
70. What is the difference between nominal and real interest rates?

71. What is the significance of the real interest rate?
72. What are the main types of inflation based on speed of occurrence?
73. What are the two main causes of inflation?
74. What is the meaning of supply side policies?
75. What is the role of technology in a production function?
76. How does the “money supply effect” impact the economy?
77. List the four categories of international participants in exchange market.
78. What are the key factors that affect exchange rates?
79. How do imports and exports of a country affect its exchange rate?
80. How can inflation rates impact a country's exchange rate?
81. List down the four major functions of government spending
82. What are the four major components of tax revenue?
83. What are the two primary objectives of tax policy?
84. Why do countries usually aim for trade surplus?
85. In what situation does the central bank buy government bonds?
86. Which policy is likely to reduce aggregate demand?
87. Briefly list the phases of the business cycle.
88. What are the different types of unemployment?
89. What are the two main arguments used to explain why wages are sticky?
90. Why does aggregate demand slope downwards?
91. How does a decrease in government spending affect the aggregate demand curve?
92. Explain how changes in business taxes impact investment and aggregate demand.
93. How does a change in expectations about future sales affect investment spending?
94. How does a government respond to situations of overproduction?
95. What is meant by 'policy ineffectiveness proposition'?
96. What are the main differences between classical and new classical economists?

97. How does the new Keynesian approach incorporate rational expectation?
98. What is the key concept behind the real balance effect?
99. List two policy recommendations that help to address adverse selection
100. What is the key difference between a price floor and price ceiling?

Answer

Part 1: Fill-in-the-Blank Questions (Answers with Explanations)

1. The study of the economy as a whole is called **macroeconomics**.
   - **Explanation:** Macroeconomics focuses on the aggregate level, unlike microeconomics.
2. A sustained increase in the general price level is known as **inflation**.
   - **Explanation:** Inflation is a general and continuous rise in the price level.
3. The total market value of all final goods and services produced within a country's borders is called **Gross Domestic Product (GDP)**.
   - **Explanation:** GDP measures domestic production within a country's territory.
4. The business cycle consists of four phases: **expansion**, **peak**, **contraction**, and **trough**.
   - **Explanation:** These are the characteristic stages of an economy's cyclical movement.
5. **Cyclical** unemployment results from a deficiency of aggregate demand.
   - **Explanation:** It is linked to the fluctuations in the business cycle.
6. The idea that markets will naturally return to full employment without government intervention is associated with the **classical** school of thought.
   - **Explanation:** Classical economists believe in the self-regulating nature of the market.

7. The idea that government spending can help stabilize aggregate demand is associated with the **Keynesian** school of thought.
    - **Explanation:** Keynesian economics advocates for government intervention to manage the economy.
8. The theory stating that the relationship between tax rates and tax revenue is non-linear is called the **Laffer curve**.
    - **Explanation:** The Laffer curve suggests tax revenue may fall at very high tax rates.
9. The **aggregate demand** curve shows the relationship between price level and real GDP demanded.
    - **Explanation:** It graphically illustrates the amount of output that will be purchased at different price level.
10. The real balance effect explains the relationship between the price level and **spending** or **consumption**.
    - **Explanation:** It highlights the change in consumption that occur due to the effect of change in price level on purchasing power.
11. The upward sloping short-run aggregate supply curve is often attributed to **sticky** wages.
    - **Explanation:** Wages do not immediately adjust to price changes in the short-run
12. The long-run aggregate supply curve is usually depicted as a **vertical** line.
    - **Explanation:** The LRAS curve represents the economy's output at full employment level.
13. When aggregate demand increases while potential output remain the same, this is referred to as a **positive** or **inflationary** gap.
    - **Explanation:** It represents excess demand that puts upward pressure on price level.
14. A situation where the free market does not allocate resources efficiently is called **market failure**.
    - **Explanation:** Market failure means markets do not lead to optimal social outcomes.
15. Goods that are non-rivalrous and non-excludable are called **public goods**.

- **Explanation:** Public goods pose a market challenge due to their characteristics.

16. The **free-rider** problem arises when people consume a good without paying for it.
    - **Explanation:** Free riders benefit from public goods without contributing to their cost.
17. A market situation where one party has more information than the other is called **asymmetric information**.
    - **Explanation:** Information imbalances can lead to market inefficiencies.
18. In insurance markets, the situation where a person changes their behavior because they are insured is an example of **moral hazard**.
    - **Explanation:** It happens when one is insulated from consequences of their actions.
19. The policy instrument that relates to the government's spending and taxation is known as **fiscal** policy.
    - **Explanation:** Fiscal policy uses government budgets to influence the economy
20. The central bank's manipulation of the money supply is called **monetary** policy.
    - **Explanation:** Central banks use monetary policy to manage inflation and unemployment
21. When a central bank buys government bonds, it **increases** the money supply.
    - **Explanation:** This increases the reserves of banks and in turn the money supply.
22. The interest rate at which banks borrow directly from the central bank is called the **discount rate**.
    - **Explanation:** Discount rate influences commercial banks borrowing decisions.
23. A legally mandated maximum price that sellers can charge is known as a **price ceiling**.
    - **Explanation:** Price ceilings prevent prices from going above a certain level.

24. A legally mandated minimum price that can be charged is known as a **price floor**.
    - **Explanation:** Price floors create a minimum price for a product to protect producers
25. Exchange rates are a price of one currency in terms of another and are mainly determined by demand and **supply**.
    - **Explanation:** Market forces of supply and demand will influence exchange rate.
26. A decrease in value of domestic currency is called **depreciation** or **devaluation**.
    - **Explanation:** Devaluation is a government decision while depreciation is based on market forces.
27. In terms of exchange rate policies, a rate that is allowed to adjust to market forces is a **flexible** or **floating** exchange rate.
    - **Explanation:** In this regime, currencies' price fluctuates according to market forces.
28. Tax levied on income and profit are **direct** tax.
    - **Explanation:** Direct taxes are imposed directly on the income and profit of the individuals or firms.
29. Tax levied on goods and services is **indirect** tax
    - **Explanation:** It is paid by the consumer but collected by the seller.
30. A tax that taxes higher earners at a higher rate is a **progressive** tax.
    * **Explanation:** Progressive taxes increase with the level of income.
31. A tax that taxes all taxpayers the same regardless of income is a **proportional** tax.
    * **Explanation:** Under proportional tax all taxpayers pay a fixed proportion.
32. A tax that takes a lower share of income as income rises is a **regressive** tax.
    * **Explanation:** A tax that is a higher percentage of lower incomes and smaller for the higher ones.
33. The theory of taxation that argues that people should pay taxes according to the benefits they receive is called the **benefits**

approach.
    - **Explanation:** It is the principle of paying tax based on how much one is benefitting.
34. The theory of taxation that argues that people should pay taxes according to their ability to pay is called the **ability-to-pay** approach.
    - **Explanation:** Tax payments according to the ability of taxpayers.
35. The horizontal equity principle refers to taxation of people who are in **similar** circumstances.
    - **Explanation:** Same income level taxpayers should have the same tax treatment.
36. A curve that visually represents income inequality is called the **Lorenz** curve.
    - **Explanation:** It measures income distribution visually through a curve.
37. A statistical measure used to represent the degree of income inequality is called the **Gini coefficient**.
    - **Explanation:** It is a coefficient between zero and 1.
38. The three main dimensions used to measure multidimensional poverty is **health**, **education**, and **standard of living** or **wealth**.
    - **Explanation:** MPI uses these dimensions as a basis for measuring poverty.
39. According to Amartya Sen, wellbeing is best defined as **functioning or capability**.
    - **Explanation:** Sen views poverty as lack of capability and not of income alone.
40. The lack of the ability to afford a minimally socially acceptable level of living standard is called **absolute** poverty.
    - **Explanation:** It refers to lack of essential goods and services to survive.
41. The rate at which the real GDP of a country increases over a period of time is known as the **economic growth rate**.
    - **Explanation:** It measures the increase in a country's output.
42. When the aggregate demand curve shifts to the right it is known as an **expansionary** shock.

- **Explanation:** Expansionary shock increases AD and output.

43. When the aggregate supply curve shifts to the left it is known as a **contractionary** shock.
    - **Explanation:** It decreases the overall supply of output.
44. One explanation for an upward sloping supply curve is that wages are **sticky**.
    - **Explanation:** Wages don't respond immediately to changes in price.
45. When a currency **depreciates** in value, it means that more of the domestic currency is needed to buy the same amount of foreign currency.
    - **Explanation:** The value of the currency declines compared to others.
46. A tax on goods or services based on their value at each stage of production is known as **Value Added Tax or VAT**.
    - **Explanation:** VAT is a common form of a consumption tax.
47. If the market price is above the price floor level, it is said to be **non-effective**.
    - **Explanation:** Price floors only make a difference if they are set above the equilibrium price.
48. The concept that there is a difference between what one pays and the price one is willing to pay is known as **consumer surplus**.
    - **Explanation:** It is a measure of consumer benefit from a transaction.
49. The concept which states that wages and prices do not respond quickly to changes in demand is known as **sticky prices and wages** or **nominal rigidities**.
    - **Explanation:** This limits the responsiveness of the markets to changes.
50. A situation where the economy contracts and unemployment increases is called **recession**.
    - **Explanation:** It is a state of economic downturn and rising unemployment.
51. The economic policy that is designed to affect the money supply is known as **monetary** policy.

- **Explanation:** Central banks use monetary policy to manage liquidity in the economy

52. The policy that intends to set prices below the market rate is known as **price ceiling**.
    - **Explanation:** Price ceilings are set below equilibrium price to make things affordable.
53. The main goal of macroeconomic policy is to promote sustainable **economic growth**.
    - **Explanation:** Sustainable growth balances economic needs with environmental needs
54. What describes the situation where an economy does not employ resources efficiently **market failure**.
    - **Explanation:** Market failures lead to suboptimal resource allocation.
55. The effect of price change on the quantity demanded of goods and services can be explained by the **law of demand**.
    - **Explanation:** The law of demand states that price and quantity are inversely related.
56. The rate of interest the central bank charges banks for borrowing is called the **discount rate**.
    - **Explanation:** It is a key tool of monetary policy.
57. The amount of money that banks must keep in their accounts is called **reserve requirement**.
    - **Explanation:** Banks must keep a portion of deposits as a reserve with the central bank.
58. Changes in the nominal prices of goods and services is the main focus of **inflation**.
    - **Explanation:** Inflation is measure by studying the changes in prices of products over time.
59. An index that measures the changes in price of products typically bought by households is known as **Consumer Price Index (CPI)**.
    - **Explanation:** CPI gives an indication of the cost of living.
60. A rise in the value of a currency is called **appreciation**.
    - **Explanation:** A currency becomes more valuable compared to another.

61. The government's financial plan for a particular year is called the government **budget**.
    - **Explanation:** It contains revenue and expenditure plans of the government.
62. The use of the budget of a government for controlling the economy is called **fiscal policy**.
    - **Explanation:** Fiscal policy is concerned with the government budget.
63. The economic policy designed to influence price and wages is called **income policy**.
    - **Explanation:** It directly intervenes in the market to control prices and wages.
64. The type of inflation where price level is persistently increasing at a slow pace is called **creeping inflation**.
    - **Explanation:** Creeping inflation is characterized by a slow rate of increase.
65. The name of the economic concept that refers to how different agents have different amounts of information is known as **asymmetric information**.
    - **Explanation:** Information asymmetry causes problems for a well functioning market.
66. The idea that taxes should be based on who benefits most from public services follows the **benefits** approach to tax equity.
    - **Explanation:** It advocates that the tax payers and beneficiaries should be same.
67. What economic concept is described when individuals are not able to meet their basic needs? **absolute poverty**.
    - **Explanation:** This relates to the state where basic needs for existence are not fulfilled.
68. The method through which an individual or institution seeks to convey information to others is known as **signalling**.
    - **Explanation:** Signalling attempts to solve the asymmetry by giving information.
69. The key underlying factor for creating trade imbalance is said to be **differences in competitiveness**.

- **Explanation:** Competitiveness differences is the source of differences in import and export.

70. The key to minimizing structural unemployment is through the provision of **education** or **retraining**.
    * **Explanation:** Structural unemployment arises from changes in the structure of the economy.
71. What type of unemployment occurs during the time when workers move between jobs? **Frictional unemployment**.
    - **Explanation:** Frictional unemployment is related to job searching.
72. The idea that money growth should not be used to stimulate economic activity is a part of **monetarist** thinking.
    - **Explanation:** They recommend stable monetary growth over time.
73. The total amount of money which all sections are ready to spend on goods and services is called **aggregate demand**.
    - **Explanation:** Aggregate demand depicts the overall demand in the economy.
74. A situation where the government buys treasury bills from commercial bank is called **open market operations**.
    - **Explanation:** Open market operation affects the money supply.
75. The type of unemployment that is linked to business depressions is **cyclical unemployment**.
    - **Explanation:** The level of employment falls when economic downturn occurs.
76. When households and firms lose confidence in the economy this may lead to a shift of the **aggregate demand** curve to the left.
    - **Explanation:** AD decreases when confidence declines.
77. In the short-run the prices of some inputs do not adjust quickly due to the presence of **sticky wages and prices**.
    - **Explanation:** Sticky prices and wages limits the responsiveness of the markets to changes.
78. An effect which is said to create a difference between private cost and social cost is known as **negative externality**.
    - **Explanation:** It is a divergence between private and social cost.

79. The concept of using private action to resolve market failures is based on the **Coase theorem**.
    - **Explanation:** It suggests private bargaining can resolve externalities.
80. When the value of domestic currency is reduced, it is called **devaluation or depreciation**.
    - **Explanation:** Devaluation is government led and depreciation is market determined.
81. Which is a method used to describe the total quantity of goods and services supplied at different price levels? **Aggregate Supply curve**
    - **Explanation:** It shows the overall output supply response to different prices.
82. What does a high rate of unemployment indicate? **Low economic activity or recession.**
    - **Explanation:** Low economic activity indicates low labor demand and high unemployment.
83. The point where the aggregate demand and aggregate supply curves intersect is known as **equilibrium**.
    - **Explanation:** Equilibrium shows the point where markets clear.
84. In a competitive labor market, the vertical height of the labor supply curve represents **opportunity costs** of labor.
    - **Explanation:** It is the minimum price that is required to supply labor.
85. What is the name of the process where companies internalize the cost of pollution? **mitigation**.
    - **Explanation:** Mitigation tries to reduce pollution at source.
86. The systematic record of a nation's financial transactions with the rest of the world is called **balance of payments**.
    - **Explanation:** Balance of Payment covers all international transactions.
87. The measure that is a ratio of total GNP to total population is called **per capita income**
    - **Explanation:** It is an average measure of a country’s income per person.

88. What term refers to the situation in which a person is forced by unemployment to take a job that he/she thinks is inadequate for his/her purpose. **Underemployment**.
    - **Explanation:** This relates to the situation of taking a job with less pay and skill levels.
89. The most commonly used index to measure inflation is **Consumer Price Index (CPI)**.
    * **Explanation:** It is the most common index to follow price levels and their changes over time.
90. The term describing the time it takes to recognise a macroeconomic problem and implement relevant policy is known as **policy lag**.
    - **Explanation:** Lags make it difficult to take timely action.
91. What is the main limitation of the measure of development by per capita income? **It hides income inequalities**
    - **Explanation:** Per capita income is an average and doesn't show how evenly or unevenly income is shared.
92. The theory that tries to show the relationship between tax rate and tax revenue is **Laffer curve**.
    - **Explanation:** Laffer curve tries to show the idea that increasing tax rate is not always a good way to increase revenue.
93. The type of inflation that is caused by an increase in the money supply is **demand-pull** inflation.
    - **Explanation:** Printing more money creates more demand, which raises prices
94. What does the monetary authority do in order to increase the money supply during a recession? **buy bonds and decrease discount rates**
    - **Explanation:** These actions add to the money supply and encourage banks to lend more money
95. What can be said about a country when its balance of trade is positive? **It has a trade surplus**
    - **Explanation:** A trade surplus means that the value of exports are higher than value of imports.

96. What policy is mostly used by governments to control price increases? **Price Ceiling**
    - **Explanation:** It set a maximum legal price to prevent price rise.
97. The policy that is mostly concerned with how domestic currencies relate to other currencies is **foreign exchange** policy.
    - **Explanation:** This manages a currency's relative value to others.
98. In economics, a situation where goods and services are not distributed properly in the market place is known as **market failure**
    - **Explanation:** Market failures occur when market forces don't allocate resources efficiently.
99. The rate at which money can buy a basket of goods and services is referred to as **purchasing power**.
    - **Explanation:** Purchasing power is the buying capacity of money.
100. The name of the approach to assess wellbeing that places emphasis on individuals' capabilities rather than what they consume is called **capability approach**.
    - **Explanation:** Sen's capability approach measures what people can do and be rather than what they have or consume.

Good Luck !