

MEKI CATHOLIC SCHOOL

"Knowledge is the key to unlocking your future. Keep studying, keep growing! 📚💡"

Prepared By Student Habtamu Tefera

Unit 1: The Fundamental Concepts of Macroeconomics

1. Which of the following best distinguishes macroeconomics from microeconomics?

A. Macroeconomics focuses on individual firms, while microeconomics studies aggregate economic behavior.

B. Macroeconomics examines the economy as a whole, while microeconomics analyzes individual units like households and firms.

C. Macroeconomics studies price determination, while microeconomics focuses on employment trends.

D. Macroeconomics deals with short-term fluctuations, while microeconomics addresses long-term growth.

B. Macroeconomics examines the economy as a whole, while microeconomics analyzes individual units like households and firms.

Explanation: Macroeconomics studies aggregate economic variables like GDP and unemployment, while microeconomics focuses on individual decision-making units (page 12).

2. What is the primary focus of macroeconomics as revisited in Grade 12?

A. The behavior of individual consumers in markets.

B. Aggregate economic variables such as GDP, inflation, and unemployment.

C. The pricing strategies of firms in competitive markets.

D. The allocation of resources at the household level.

B. Aggregate economic variables such as GDP, inflation, and unemployment.

Explanation: The focus areas of macroeconomics include national income, employment, and price levels, as outlined in Table 1.1 (page 14).

3. If a country's GDP increases from 500 billion Birr to 550 billion Birr over a year, but its population grows from 100 million to 110 million, what happens to per capita GDP?

A. It increases because total GDP rises.

B. It decreases because population growth outpaces GDP growth.

C. It remains constant as GDP and population grow proportionally.

D. It cannot be determined without price level data.

B. It decreases because population growth outpaces GDP growth.

Explanation: Per capita GDP = GDP / Population. Initially, $500/100 = 5$ Birr per capita; after, $550/110 \approx 5$ Birr per capita, but population growth (10%) exceeds GDP growth (10%), slightly reducing per capita GDP when calculated precisely (page 17).

4. Which of the following is NOT a central macroeconomic question?

A. What factors determine the total output produced in an economy?

B. How can a nation increase its economic growth rate?

C. What determines the price of a specific good in a market?

D. How do government policies affect unemployment?

C. What determines the price of a specific good in a market?

Explanation: This is a microeconomic question, while the others relate to aggregate economic phenomena (page 13).

5. In calculating GDP using the expenditure approach, which component is excluded to avoid double counting?

- A. Government purchases of goods and services.
- B. Intermediate goods used in production.
- C. Net exports of goods and services.
- D. Gross private domestic investment.

B. Intermediate goods used in production.

Explanation: Only final goods and services are included in GDP to avoid counting intermediate goods twice (page 15).

6. If nominal GDP grows by 8% and inflation is 3%, what is the approximate real GDP growth rate?

- A. 11%
- B. 8%
- C. 5%
- D. 3%

C. 5%

Explanation: Real GDP growth $\approx$ Nominal GDP growth - Inflation rate; $8\% - 3\% = 5\%$ (page 15).

7. Which challenge of macroeconomics is most directly tied to the purchasing power of money?

- A. Economic growth
- B. Inflation
- C. Unemployment
- D. Business cycles

B. Inflation

Explanation: Inflation reduces the purchasing power of money by increasing the general price level (page 18).

8. Hyperinflation is best described as:

- A. A moderate rise in prices at 3% annually.
- B. A rapid price increase exceeding 50% per month.
- C. A single-digit annual inflation rate.
- D. A temporary spike in prices due to supply shocks.

B. A rapid price increase exceeding 50% per month.

Explanation: Hyperinflation is defined as inflation exceeding 50% per month, as seen in historical cases like Zimbabwe (page 21).

9. If the Consumer Price Index (CPI) rises from 120 to 132 over a year, what is the inflation rate?

- A. 10%
- B. 12%
- C. 8%
- D. 11%

A. 10%

Explanation: Inflation rate = $[(132 - 120) / 120] \times 100 = 10\%$ (page 19).

10. Which type of unemployment is caused by a mismatch between workers' skills and job requirements?

- A. Frictional
- B. Cyclical
- C. Structural
- D. Seasonal

C. Structural

Explanation: Structural unemployment arises from a lack of adjustment between labor supply and demand, often due to skill mismatches (page 24).

11. During a recession, which type of unemployment is most likely to increase?

- A. Frictional
- B. Structural
- C. Cyclical
- D. Disguised

C. Cyclical

Explanation: Cyclical unemployment rises during economic downturns due to reduced aggregate demand (page 24).

12. If the labor force is 50 million, with 45 million employed, what is the unemployment rate?

- A. 5%
- B. 10%
- C. 15%

D. 20%

B. 10%

Explanation: Unemployment rate = (Number of unemployed / Labor force) $\times$ 100 = (5 / 50) $\times$ 100 = 10% (page 23).

13. Which phase of the business cycle is characterized by maximum output and full employment?

A. Expansion

B. Peak

C. Contraction

D. Trough

B. Peak

Explanation: The peak is the highest point of the cycle, with maximum output and employment (page 25).

14. A trade deficit occurs when:

A. Exports exceed imports.

B. Imports exceed exports.

C. Exports and imports are equal.

D. Net exports are positive.

B. Imports exceed exports.

Explanation: A trade deficit is when the value of imports surpasses exports (page 26).

15. Which school of thought advocates for minimal government intervention, believing markets self-correct to full employment?

A. Keynesian

B. Classical

C. Monetarist

D. New Keynesian

B. Classical

Explanation: Classical economists argue that flexible prices ensure quick adjustments to full employment without government action (page 28).

16. The Keynesian school differs from the Classical school by emphasizing:

- A. Flexible prices and wages.
- B. Aggregate demand management to stabilize the economy.
- C. The ineffectiveness of fiscal policy.
- D. Long-run equilibrium without government intervention.

B. Aggregate demand management to stabilize the economy.

Explanation: Keynesians advocate active government policy to boost demand during downturns (page 11).

17. According to the Monetarist school, what is the primary driver of inflation?

- A. Government spending
- B. Excessive money supply growth
- C. Wage increases
- D. Trade imbalances

B. Excessive money supply growth

Explanation: Monetarists, led by Milton Friedman, link inflation to money supply growth (page 11).

18. Which school of thought introduced the concept of rational expectations?

- A. New Classical
- B. Keynesian
- C. Monetarist
- D. Neoclassical

A. New Classical

Explanation: The New Classical school emphasizes rational expectations, where agents predict policy impacts (page 11).

19. If real GDP per capita decreases despite nominal GDP growth, what is the most likely cause?

- A. Deflation
- B. Population growth exceeding GDP growth
- C. A trade surplus
- D. Reduced unemployment

B. Population growth exceeding GDP growth

Explanation: Real GDP per capita falls when population grows faster than output (page 17).

20. Which macroeconomic variable is most directly affected by printing money to finance government deficits?

- A. Unemployment rate
- B. Inflation rate
- C. Economic growth rate
- D. Trade balance

B. Inflation rate

Explanation: Printing money increases the money supply, leading to inflation (page 22).

Unit 2: Aggregate Demand and Aggregate Supply Analysis

1. Aggregate demand represents:

- A. The total supply of goods in an economy.
 - B. The total demand for final goods and services at various price levels.
 - C. The demand for labor in the short run.
 - D. The supply of money in the economy.
- B. The total demand for final goods and services at various price levels.**

Explanation: Aggregate demand (AD) is the total spending on goods and services at different price levels (page 26).

2. Why does the aggregate demand curve slope downward?

- A. Higher prices increase production costs.
- B. Lower prices increase purchasing power and demand.
- C. Higher prices reduce unemployment.
- D. Lower prices decrease exports.

B. Lower prices increase purchasing power and demand.

Explanation: The wealth effect and interest rate effect cause AD to slope downward (page 27).

3. Which of the following shifts the aggregate demand curve to the right?

- A. A decrease in government spending
- B. An increase in consumer confidence
- C. A rise in interest rates
- D. A decrease in exports

B. An increase in consumer confidence

Explanation: Increased consumer confidence boosts spending, shifting AD rightward (page 30).

4. In the short run, the aggregate supply curve slopes upward because:

- A. Prices and wages are fully flexible.
- B. Input prices are sticky, and output increases with higher prices.
- C. The economy operates at full capacity.
- D. Unemployment is zero.

B. Input prices are sticky, and output increases with higher prices.

Explanation: In the short run (SRAS), sticky wages allow firms to increase output as prices rise (page 36).

5. The long-run aggregate supply curve (LRAS) is vertical because:

- A. Prices are sticky in the long run.
- B. Output depends only on resources and technology, not price levels.
- C. Demand determines production in the long run.
- D. Inflation adjusts output levels.

B. Output depends only on resources and technology, not price levels.

Explanation: LRAS reflects potential output, independent of price levels (page 40).

6. If government spending increases by 50 billion Birr and equilibrium output rises by 100 billion Birr, what is the multiplier?

- A. 0.5
- B. 1
- C. 2
- D. 3
- C. 2**

Explanation: Multiplier = Change in output / Change in spending = 100 / 50 = 2 (page 41).

7. A negative supply shock, such as an oil price increase, will:

- A. Shift the AD curve leftward.
- B. Shift the SRAS curve leftward, raising prices and reducing output.
- C. Shift the LRAS curve rightward.
- D. Increase equilibrium output in the short run.

B. Shift the SRAS curve leftward, raising prices and reducing output.

Explanation: A supply shock increases production costs, shifting SRAS left (page 44).

8. In the AD-AS model, stagflation is characterized by:

- A. High inflation and low unemployment.
- B. High inflation and high unemployment.
- C. Low inflation and high output.
- D. Low prices and full employment.

B. High inflation and high unemployment.

Explanation: Stagflation occurs when a leftward SRAS shift raises prices and reduces output (page 44).

9. If the economy is below full employment and the government cuts taxes, what happens in the short run?

- A. AD shifts left, reducing output.
- B. AD shifts right, increasing output and prices.
- C. SRAS shifts right, lowering prices.
- D. LRAS shifts left, reducing potential output.

B. AD shifts right, increasing output and prices.

Explanation: Tax cuts boost disposable income, shifting AD rightward (page 43).

10. Which of the following is a determinant of long-run aggregate supply?

- A. Consumer spending
- B. Technological advancements
- C. Interest rates
- D. Government deficits

B. Technological advancements

Explanation: LRAS depends on factors like technology and resources, not demand-side variables (page 40).

Unit 3: Market Failure and Consumer Protection

1. Market failure occurs when:

- A. Markets achieve equilibrium efficiently.
- B. Resource allocation is inefficient, leading to suboptimal outcomes.
- C. Prices are stable over time.
- D. Supply exceeds demand consistently.

B. Resource allocation is inefficient, leading to suboptimal outcomes.

Explanation: Market failure happens when markets fail to allocate resources efficiently (page 49).

2. Which of the following is a common cause of market failure?

- A. Perfect competition
- B. Externalities
- C. Price stability
- D. Full employment

B. Externalities

Explanation: Externalities, like pollution, cause market failure by imposing unaccounted costs or benefits (page 60).

3. Public goods are characterized by:

- A. Excludability and rivalry in consumption.
- B. Non-excludability and non-rivalry in consumption.
- C. High production costs and low demand.
- D. Private ownership and profit motives.

B. Non-excludability and non-rivalry in consumption.

Explanation: Public goods, like national defense, are non-excludable and non-rivalrous (page 55).

4. A factory's pollution of a river represents:

- A. A positive externality benefiting fishermen.
- B. A negative externality harming downstream users.
- C. A public good enhancing welfare.
- D. An efficient market outcome.

B. A negative externality harming downstream users.

Explanation: Pollution imposes costs on others not reflected in market prices (page 60).

5. Asymmetric information in markets can lead to:

- A. Perfect competition
- B. Adverse selection and moral hazard
- C. Increased consumer surplus
- D. Efficient resource allocation

B. Adverse selection and moral hazard

Explanation: Unequal information causes issues like adverse selection (pre-contract) and moral hazard (post-contract) (page 63).

6. Which policy is most effective in addressing negative externalities like pollution?

- A. Subsidizing polluters
- B. Imposing a Pigovian tax
- C. Reducing consumer taxes
- D. Increasing public spending

B. Imposing a Pigovian tax

Explanation: A Pigovian tax internalizes external costs, aligning private and social costs (page 51).

7. If a good is non-excludable but rivalrous, it is classified as:

- A. A private good
- B. A common resource
- C. A public good
- D. A club good

B. A common resource

Explanation: Common resources, like fisheries, are non-excludable but rivalrous (page 55).

8. Consumer protection laws aim to:

- A. Increase production costs for firms.
- B. Reduce information asymmetry and ensure fair trade.
- C. Eliminate all market competition.
- D. Subsidize inefficient producers.

B. Reduce information asymmetry and ensure fair trade.

Explanation: Consumer protection addresses market failures like asymmetric information (page 65).

9. The “tragedy of the commons” is most associated with:

- A. Public goods
- B. Common resources
- C. Private goods
- D. Externalities

B. Common resources

Explanation: Overuse of non-excludable, rivalrous resources leads to depletion (page 55).

10. If a government provides free vaccinations, it is addressing:

- A. A negative externality
- B. A positive externality
- C. Asymmetric information
- D. Market power

B. A positive externality

Explanation: Vaccinations benefit society beyond the individual, a positive externality (page 60).

Unit 4: Macroeconomic Policy Instruments

1. Fiscal policy primarily involves:

- A. Adjusting interest rates
- B. Changing government spending and taxation
- C. Regulating the money supply
- D. Setting exchange rates

B. Changing government spending and taxation

Explanation: Fiscal policy uses government budgets to influence the economy (page 73).

2. An expansionary monetary policy would most likely:

- A. Increase interest rates
- B. Decrease the money supply
- C. Lower interest rates to stimulate borrowing
- D. Reduce government spending

C. Lower interest rates to stimulate borrowing

Explanation: Expansionary monetary policy boosts money supply, reducing rates (page 79).

3. Which tool of fiscal policy directly affects aggregate demand?

- A. Open market operations
- B. Government infrastructure spending
- C. Reserve requirements
- D. Discount rate adjustments

B. Government infrastructure spending

Explanation: Government spending directly increases AD (page 74).

4. If the central bank sells government bonds, what is the effect on the money supply?

- A. It increases due to higher liquidity.
- B. It decreases as banks' reserves fall.

C. It remains unchanged.

D. It depends on fiscal policy.

B. It decreases as banks' reserves fall.

Explanation: Selling bonds reduces bank reserves, contracting the money supply (page 79).

5. Income policy is designed to:

A. Control inflation by regulating wages and prices.

B. Increase exports through subsidies.

C. Adjust interest rates for stability.

D. Reduce government debt directly.

A. Control inflation by regulating wages and prices.

Explanation: Income policy targets wage-price spirals to curb inflation (page 84).

6. A fixed exchange rate regime:

A. Allows market forces to determine currency value.

B. Requires central bank intervention to maintain currency value.

C. Increases currency volatility.

D. Reduces trade balances automatically.

B. Requires central bank intervention to maintain currency value.

Explanation: Fixed rates need active management to peg the currency (page 89).

7. If a government increases taxes during inflation, this is an example of:

A. Expansionary fiscal policy

B. Contractionary fiscal policy

C. Neutral fiscal policy

D. Monetary policy

B. Contractionary fiscal policy

Explanation: Higher taxes reduce disposable income, curbing demand and inflation (page 75).

8. Which monetary policy tool is most effective in controlling liquidity quickly?

- A. Changing reserve requirements
- B. Open market operations
- C. Adjusting the discount rate
- D. Setting income ceilings

B. Open market operations

Explanation: Buying/selling bonds directly and rapidly adjusts money supply (page 79).

9. A devaluation of the Ethiopian Birr would likely:

- A. Increase imports and decrease exports.
- B. Make exports cheaper and imports more expensive.
- C. Reduce foreign investment inflows.
- D. Stabilize domestic prices immediately.

B. Make exports cheaper and imports more expensive.

Explanation: Devaluation boosts export competitiveness and raises import costs (page 89).

10. Which policy combination best addresses stagflation?

- A. Expansionary fiscal and contractionary monetary policy
- B. Contractionary fiscal and expansionary monetary policy
- C. Expansionary fiscal and monetary policies
- D. Contractionary fiscal and monetary policies

A. Expansionary fiscal and contractionary monetary policy

Explanation: Expansionary fiscal policy boosts output, while tight monetary policy curbs inflation (page 41).

Unit 5: Tax Theory and Practice

1. The primary objective of taxation is to:

- A. Reduce income inequality exclusively.
- B. Raise revenue for public goods and services.
- C. Increase private investment.
- D. Stabilize exchange rates.

B. Raise revenue for public goods and services.

Explanation: Taxation funds government expenditure on public needs (page 104).

2. According to the ability-to-pay principle, taxes should be levied based on:

- A. Benefits received from public services.
- B. An individual's income or wealth.
- C. Equal rates for all citizens.
- D. Consumption patterns alone.

B. An individual's income or wealth.

Explanation: This principle ties tax burden to financial capacity (page 109).

3. A progressive tax system implies that:

- A. Tax rates decrease as income rises.
- B. Tax rates increase with higher income levels.
- C. All taxpayers pay the same rate.
- D. Taxes are based on consumption, not income.

B. Tax rates increase with higher income levels.

Explanation: Progressive taxes impose higher rates on higher incomes (page 107).

4. In Ethiopia, which tax is a major source of revenue?

- A. Property tax
- B. Value-added tax (VAT)
- C. Excise tax
- D. Capital gains tax

B. Value-added tax (VAT)

Explanation: VAT is a significant revenue source in Ethiopia's tax system (page 112).

5. A regressive tax disproportionately affects:

- A. High-income earners
- B. Low-income earners
- C. Middle-income earners
- D. Corporate entities

B. Low-income earners

Explanation: Regressive taxes take a larger percentage of income from lower earners (page 107).

6. Which characteristic of a good tax system ensures fairness?

- A. Simplicity
- B. Equity
- C. Efficiency
- D. Flexibility

B. Equity

Explanation: Equity ensures taxes are just and fair, per taxation principles (page 106).

7. If a tax raises 100 million Birr but administrative costs are 20 million Birr, what is the tax's efficiency loss?

- A. 20%
- B. 25%
- C. 16.7%
- D. 10%

A. 20%

Explanation: Efficiency loss = (Admin cost / Revenue) × 100 = (20 / 100) × 100 = 20% (page 106).

8. In Ethiopia, tax evasion is a problem due to:

- A. Excessive government subsidies
- B. Weak enforcement and informal economy
- C. High progressive tax rates
- D. Over-reliance on direct taxes

B. Weak enforcement and informal economy

Explanation: Poor administration and informal sectors hinder tax collection (page 117).

9. The benefits approach to tax equity suggests taxes should be:

- A. Based on income levels
- B. Proportional to benefits received from public services
- C. Equal for all citizens
- D. Adjusted for inflation

B. Proportional to benefits received from public services

Explanation: This approach links tax burden to service benefits (page 109).

10. Which tax type in Ethiopia is imposed on imported luxury goods?

- A. Income tax
- B. Excise tax
- C. Sales tax
- D. Property tax

B. Excise tax

Explanation: Excise taxes target specific goods like luxury imports (page 112).

Unit 6: Poverty and Inequality

1. Absolute poverty is defined as:

- A. Income inequality within a society.
- B. Living below a minimum income threshold for basic needs.
- C. Relative deprivation compared to others.
- D. Lack of access to luxury goods.

B. Living below a minimum income threshold for basic needs.

Explanation: Absolute poverty measures survival-level income (page 123).

2. The Gini coefficient measures:

- A. Absolute poverty levels
- B. Income inequality within a population
- C. Economic growth rates
- D. Unemployment trends

B. Income inequality within a population

Explanation: The Gini coefficient quantifies income distribution (page 129).

3. If a country's Gini coefficient increases from 0.3 to 0.5, it indicates:

- A. Reduced poverty
- B. Greater income inequality
- C. Higher economic growth
- D. Improved living standards

B. Greater income inequality

Explanation: A higher Gini value shows a wider income gap (page 129).

4. Sen's approach to poverty emphasizes:

- A. Income alone as a poverty indicator
- B. Capabilities and wellbeing beyond income
- C. Relative poverty comparisons
- D. Economic growth metrics

B. Capabilities and wellbeing beyond income

Explanation: Sen focuses on functionings and freedoms, not just income (page 128).

5. Which factor exacerbates poverty in Ethiopia?

- A. High industrial output
- B. Dependence on rain-fed agriculture
- C. Extensive urbanization
- D. Strong export markets

B. Dependence on rain-fed agriculture

Explanation: Vulnerability to weather shocks increases poverty (page 140).

6. Globally, women are more likely to experience poverty due to:

- A. Higher education levels
- B. Gender discrimination and limited opportunities
- C. Equal labor force participation
- D. Strong social safety nets

B. Gender discrimination and limited opportunities

Explanation: Women face systemic barriers to income and resources (page 137).

7. Indigenous knowledge in Ethiopia can reduce poverty by:

- A. Increasing reliance on imported goods

- B. Enhancing sustainable agricultural practices
- C. Promoting urbanization
- D. Reducing tax revenues

B. Enhancing sustainable agricultural practices

Explanation: Local knowledge supports resource-efficient farming (page 141).

8. If a poverty line is set at 2,000 Birr per year and 30% of a population earns below this, what is the headcount ratio?

- A. 70%
- B. 30%
- C. 50%
- D. 20%

B. 30%

Explanation: The headcount ratio is the percentage below the poverty line (page 126).

9. Relative poverty differs from absolute poverty in that it:

- A. Focuses on a fixed income threshold
- B. Compares income to societal averages
- C. Ignores wellbeing indicators
- D. Measures only rural populations

B. Compares income to societal averages

Explanation: Relative poverty is context-specific, unlike absolute poverty (page 125).

10. Which region globally has the highest poverty rates?

- A. North America
- B. Sub-Saharan Africa
- C. Western Europe
- D. East Asia

B. Sub-Saharan Africa

Explanation: Sub-Saharan Africa has persistent high poverty levels (page 135).

Unit 7: Macroeconomic Reforms in Ethiopia

1. The Derg's National Development Plans aimed to:

- A. Promote free-market capitalism
- B. Establish a socialist state through nationalization
- C. Enhance agricultural exports
- D. Decentralize fiscal policy

B. Establish a socialist state through nationalization

Explanation: The Derg pursued socialism via state control (page 152).

2. Which plan under the EPRDF emphasized private-sector development?

- A. SDPRP
- B. PASDEP
- C. GTP-I
- D. GTP-II

B. PASDEP

Explanation: PASDEP focused on private-sector growth and MDGs (page 188).

3. The Home-Grown Economic Reform (HGER) in Ethiopia seeks to:

- A. Reduce economic growth rates
- B. Sustain rapid growth and reduce debt vulnerabilities
- C. Increase reliance on foreign aid
- D. Centralize fiscal policy

B. Sustain rapid growth and reduce debt vulnerabilities

Explanation: HGER aims for stability and job creation (page 168).

4. Fiscal decentralization in Ethiopia is intended to:

- A. Increase central government control
- B. Tailor public services to local needs
- C. Reduce tax revenues
- D. Eliminate regional disparities

B. Tailor public services to local needs

Explanation: Decentralization aligns services with local preferences (page 175).

5. A disadvantage of fiscal decentralization is:

- A. Enhanced local accountability
- B. Loss of economies of scale in public goods provision
- C. Improved resource allocation
- D. Greater experimentation in policy

B. Loss of economies of scale in public goods provision

Explanation: Decentralization can raise costs due to reduced scale (page 176).

6. The GTP-I aimed for an average real GDP growth rate of:

- A. 5%
- B. 8%
- C. 11%
- D. 15%

C. 11%

Explanation: GTP-I targeted 11% annual growth (page 189).

7. During the Imperial Period, the Five-Year Plans focused on:

- A. Industrialization alone
- B. Infrastructure and economic diversification
- C. Socialist restructuring
- D. Agricultural collectivization

B. Infrastructure and economic diversification

Explanation: Plans under the monarchy emphasized broad development (page 150).

8. The 10-Year Plan (2021-2030) prioritizes:

- A. Quality economic growth and shared prosperity
- B. Reducing private-sector involvement
- C. Increasing external debt
- D. Limiting social inclusion

A. Quality economic growth and shared prosperity

Explanation: The plan focuses on sustainable and inclusive growth (page 189).

9. Which challenge persisted despite rapid growth under GTP-I and GTP-II?

- A. Low unemployment
- B. Inequitable benefit distribution
- C. Excessive exports
- D. Stable inflation

B. Inequitable benefit distribution

Explanation: Growth benefits were not evenly shared (page 188).

10. The Peace, Democracy, and Development Program under EPRDF linked:

- A. Economic growth with political stability
- B. Agricultural decline with urbanization
- C. Centralized planning with socialism
- D. Fiscal policy with monetary expansion

A. Economic growth with political stability

Explanation: It emphasized interrelationships between peace and development (page 188).

Unit 8: Economy, Environment, and Climate Change

1. The link between economy and environment is best described as:
- A. Economic growth always enhances environmental quality.
 - B. Economic activities can degrade finite environmental resources.
 - C. Environmental resources are infinite and unaffected by economics.
 - D. Population growth has no environmental impact.

B. Economic activities can degrade finite environmental resources.

Explanation: Economic expansion often depletes natural resources (page 183).

2. Renewable resources differ from non-renewable resources in that they:
- A. Are always exhaustible

- B. Can regenerate over time
- C. Yield only monetary benefits
- D. Are unaffected by economic activity

B. Can regenerate over time

Explanation: Renewable resources, like forests, can replenish if managed sustainably (page 183).

3. The Environmental Kuznets Curve suggests that:

- A. Environmental degradation rises indefinitely with income.
- B. Pollution increases then decreases as income rises.
- C. Economic growth has no environmental impact.
- D. Poverty eliminates environmental concerns.

B. Pollution increases then decreases as income rises.

Explanation: It posits an inverted-U relationship between income and degradation (page 194).

4. In rural Ethiopia, poverty and environmental degradation interact through:

- A. Increased industrial emissions
- B. Deforestation and soil erosion from subsistence farming
- C. High technological adoption
- D. Reduced population pressure

B. Deforestation and soil erosion from subsistence farming

Explanation: Poor households overexploit resources, worsening degradation (page 196).

5. Urban development in developing countries often leads to:

- A. Improved environmental conditions initially
- B. Rising pollution and strain on infrastructure
- C. Decreased population density
- D. Lower industrial emissions

B. Rising pollution and strain on infrastructure

Explanation: Rapid urbanization increases environmental stress (page 197).

6. Rapid population growth affects the environment by:

- A. Reducing resource demand

- B. Increasing pressure on land and resources
- C. Enhancing agricultural productivity
- D. Stabilizing ecosystems

B. Increasing pressure on land and resources

Explanation: More people strain finite resources like land (page 198).

7. Global warming is primarily driven by:

- A. Declining greenhouse gas emissions
- B. Increased emissions of gases like CO₂ from human activity
- C. Natural climate cycles alone
- D. Reduced deforestation

B. Increased emissions of gases like CO₂ from human activity

Explanation: Anthropogenic GhG emissions cause warming (page 200).

8. Which gas contributes the most to the greenhouse effect?

- A. Methane (CH₄)
- B. Carbon dioxide (CO₂)
- C. Nitrous oxide (N₂O)
- D. Ozone (O₃)

B. Carbon dioxide (CO₂)

Explanation: CO₂ accounts for 77% of the greenhouse effect (page 202).

9. An indicator of climate change in Ethiopia is:

- A. Consistent rainfall patterns
- B. Unpredictable rain and droughts
- C. Declining temperatures
- D. Reduced flooding

B. Unpredictable rain and droughts

Explanation: Ethiopia faces erratic weather due to climate change (page 202).

10. The poorest countries are most vulnerable to climate change because:

- A. They emit the most greenhouse gases

B. They lack adaptive capacity and rely on climate-sensitive resources

C. They have advanced infrastructure

D. They benefit from global warming

B. They lack adaptive capacity and rely on climate-sensitive resources

Explanation: Low income limits adaptation to climate impacts (page 204).

Additional Complex Questions Across Units

1. If Ethiopia's nominal GDP is 1,200 billion Birr, inflation is 10%, and population grows by 2%, what is the real GDP per capita growth rate?

A. 8%

B. -2%

C. 0%

D. -1%

D. -1%

Explanation: Real GDP growth = Nominal growth (10%) - Inflation (10%) = 0%; Per capita growth = 0% - Population growth (2%) = -2%, but adjusting for compounding, it's approximately -1% (page 15, 17).

2. A supply shock shifts SRAS leftward, causing stagflation. Which policy mix best addresses this?

A. Increase taxes and money supply

B. Decrease government spending and interest rates

C. Increase government spending and reduce money supply

D. Decrease taxes and increase money supply

C. Increase government spending and reduce money supply

Explanation: Fiscal stimulus boosts output, while tight money curbs inflation (page 44, 50).

3. If Ethiopia imposes a carbon tax to address pollution, this reflects:

- A. A solution to asymmetric information
- B. Internalizing a negative externality
- C. A public good provision
- D. A trade policy adjustment

B. Internalizing a negative externality

Explanation: Carbon taxes make polluters pay for external costs (page 51, 205).

4. During the Derg regime, nationalization aimed to:

- A. Reduce inflation through monetary policy
- B. Achieve socialist goals by controlling production
- C. Enhance fiscal decentralization
- D. Promote private-sector growth

B. Achieve socialist goals by controlling production

Explanation: The Derg centralized economic control (page 152).

5. Ethiopia's reliance on rain-fed agriculture increases vulnerability to:

- A. Inflation
- B. Climate change-induced droughts
- C. Trade surpluses
- D. Unemployment

B. Climate change-induced droughts

Explanation: Weather shocks disrupt farming, worsening poverty (page 210).

**"Knowledge is the key to unlocking your future. Keep studying,
keep growing! 📖💡"**

Prepared By Student Habtamu Tefera