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Unit 1: The Fundamental Concepts of Macroeconomics

1. If a nation's nominal GDP doubles over a decade but its population triples, what can be inferred about the standard of living, assuming constant prices?
   A. It has increased significantly
   B. It has declined due to population pressure
   C. It remains unchanged
   D. It depends solely on employment rates
2. How does the inclusion of intermediate goods in GDP calculations distort the measurement of economic activity?
   A. It underestimates total production
   B. It overestimates value added by double counting
   C. It accurately reflects household consumption
   D. It excludes government expenditure
3. In a closed economy with no government, if consumption rises by 80 billion Birr and GDP increases by 100 billion Birr, what does this imply about the savings rate?
   A. Savings must have increased
   B. Savings must have decreased
   C. Savings remain constant
   D. Savings data is insufficient to determine
4. If real GDP grows at 4% annually while nominal GDP grows at 10%, what can be deduced about the velocity of money?
   A. It must have increased
   B. It must have decreased

C. It is unaffected by GDP changes
D. It depends on the money supply growth rate

5. Why might GDP per capita fail to reflect income inequality in a rapidly growing economy like Ethiopia?
   A. It accounts for wealth distribution
   B. It is an average that masks disparities
   C. It excludes non-market activities
   D. It overestimates rural incomes
6. If the CPI increases from 150 to 165 over two years, what factors could complicate the interpretation of this inflation rate?
   A. Changes in consumption patterns
   B. Stable unemployment levels
   C. Fixed government spending
   D. Constant export volumes
7. How does disguised unemployment in Ethiopia's agricultural sector challenge the accuracy of official unemployment statistics?
   A. It overestimates labor productivity
   B. It underestimates the true unemployment rate
   C. It aligns with cyclical unemployment trends
   D. It reflects full employment conditions
8. During a business cycle trough, what macroeconomic variable is most likely to signal an impending recovery?
   A. Rising inflation rates
   B. Increasing investment expenditures
   C. Declining export volumes
   D. Stable unemployment rates
9. If a country experiences a persistent trade deficit, what adjustment might occur in its domestic savings-investment balance over time?
   A. Savings exceed investment
   B. Investment exceeds savings

C. Savings and investment equalize
D. Savings become negative

10. How does the Classical assumption of wage flexibility conflict with observed unemployment persistence in developing economies?
    A. It predicts immediate market clearing
    B. It ignores structural rigidities
    C. It assumes constant aggregate demand
    D. It overestimates government intervention
11. In the Keynesian framework, what role does animal spirits play in explaining business cycle fluctuations?
    A. They stabilize consumer spending
    B. They drive unpredictable investment decisions
    C. They ensure full employment
    D. They reduce inflationary pressures
12. If the money supply grows faster than real output, what Monetarist prediction aligns with this scenario?
    A. Deflation due to excess capacity
    B. Inflation due to too much money chasing too few goods
    C. Stagnation in economic growth
    D. Increased unemployment rates
13. How does the New Classical emphasis on rational expectations undermine traditional Keynesian policy effectiveness?
    A. It assumes agents anticipate and neutralize policy impacts
    B. It supports active fiscal intervention
    C. It predicts sticky prices in the short run
    D. It ignores supply-side adjustments
14. If Ethiopia's nominal GDP grows by 15% and inflation is 12%, what constraint limits real GDP growth interpretation?
    A. Population growth data is missing
    B. Export volumes are stable
    C. Unemployment rates are constant
    D. Investment levels are unchanged

15. Why might hyperinflation disproportionately harm fixed-income earners in a developing economy?
    A. Their purchasing power erodes rapidly
    B. Their wages adjust to inflation instantly
    C. They benefit from rising asset prices
    D. They increase consumption during inflation
16. In a recession, how does cyclical unemployment interact with structural unemployment to complicate recovery efforts?
    A. Both decline simultaneously
    B. Cyclical unemployment masks structural issues
    C. Structural unemployment disappears
    D. Both are unaffected by demand changes
17. If a country's trade surplus increases during an expansion phase, what might this imply about its domestic demand?
    A. Domestic demand exceeds supply
    B. Domestic demand is weaker than export demand
    C. Domestic demand drives inflation
    D. Domestic demand stabilizes prices
18. How does the inclusion of non-market activities in GDP estimates alter perceptions of economic welfare in rural Ethiopia?
    A. It reduces reported GDP
    B. It highlights unmeasured contributions
    C. It overestimates urban output
    D. It ignores informal sector growth
19. What challenge does seasonal unemployment pose to macroeconomic policy design in an agrarian economy?
    A. It requires permanent labor subsidies
    B. It demands flexible, temporary interventions
    C. It aligns with long-run growth trends
    D. It reduces aggregate supply volatility
20. If a government finances deficits by borrowing rather than printing money, what trade-off emerges in the long run?

A. Lower inflation vs. higher debt burden
B. Higher unemployment vs. lower growth
C. Stable prices vs. reduced investment
D. Increased exports vs. reduced imports

Unit 2: Aggregate Demand and Aggregate Supply Analysis

1. If consumer confidence falls sharply, how does this affect the AD curve and short-run equilibrium output?
   A. AD shifts right, output rises
   B. AD shifts left, output falls
   C. AD remains unchanged, prices rise
   D. AD shifts left, prices stabilize
2. Why does the wealth effect contribute to the downward slope of the aggregate demand curve?
   A. Higher prices increase real wealth
   B. Lower prices boost purchasing power
   C. Higher prices reduce export demand
   D. Lower prices decrease investment
3. If the government increases spending by 200 billion Birr and the multiplier is 2.5, what is the total change in equilibrium output, assuming no crowding out?
   A. 80 billion Birr
   B. 200 billion Birr
   C. 500 billion Birr
   D. 800 billion Birr
4. How does a rise in interest rates influence the components of aggregate demand differently?
   A. Consumption rises, investment falls
   B. Investment and consumption both fall
   C. Exports increase, imports decrease
   D. Government spending rises, investment falls

5. In the short-run aggregate supply framework, what limits output expansion when prices rise significantly?
   A. Flexible input prices
   B. Sticky wages and resource constraints
   C. Full employment conditions
   D. Declining consumer demand
6. If a technological breakthrough increases productivity, how does this affect the LRAS curve and potential output?
   A. LRAS shifts left, potential output falls
   B. LRAS shifts right, potential output rises
   C. LRAS remains vertical, output unchanged
   D. LRAS slopes upward, output increases
7. During stagflation, what combination of AD-AS shifts best explains the simultaneous rise in prices and unemployment?
   A. AD shifts right, SRAS shifts right
   B. AD shifts left, SRAS shifts left
   C. AD shifts right, SRAS shifts left
   D. AD shifts left, SRAS shifts right
8. If the economy operates above full employment, what pressure builds on the SRAS curve over time?
   A. Downward pressure on wages
   B. Upward pressure on input prices
   C. Stabilization of output levels
   D. Reduction in production costs
9. How does an increase in net exports affect the AD-AS equilibrium in a small open economy?
   A. AD shifts left, prices fall
   B. AD shifts right, output and prices rise
   C. SRAS shifts right, prices fall
   D. LRAS shifts left, output decreases
10. If the multiplier effect is weaker than expected after a tax cut, what might explain this outcome?
    A. High marginal propensity to consume

B. Increased savings or imports
C. Reduced government borrowing
D. Lower interest rates

11. Why does the LRAS curve remain unaffected by changes in aggregate demand?
A. Prices adjust fully in the long run
B. Output depends on demand levels
C. Wages are sticky in the long run
D. Investment drives resource availability

12. If a drought reduces agricultural output in Ethiopia, how does this impact the SRAS and equilibrium price level?
A. SRAS shifts right, prices fall
B. SRAS shifts left, prices rise
C. SRAS remains unchanged, output rises
D. SRAS shifts left, prices stabilize

13. In the AD-AS model, what happens to the price level if both AD and SRAS shift rightward simultaneously?
A. Price level falls unambiguously
B. Price level rises unambiguously
C. Price level change is indeterminate
D. Price level remains constant

14. How does a decrease in the marginal propensity to consume alter the multiplier's magnitude?
A. Multiplier increases
B. Multiplier decreases
C. Multiplier becomes negative
D. Multiplier is unaffected

15. If an economy is at full employment and government spending rises, what is the likely long-run outcome?
A. Higher output, stable prices
B. Higher prices, unchanged output
C. Lower output, higher prices
D. Stable output, lower prices

16. Why might a leftward shift in SRAS fail to reduce output in the long run?
    A. AD adjusts to restore equilibrium
    B. LRAS determines potential output
    C. Prices remain sticky indefinitely
    D. Investment offsets supply shocks
17. If import prices rise due to a global oil shock, how does this affect Ethiopia's AD-AS equilibrium?
    A. AD shifts right, output rises
    B. SRAS shifts left, prices rise
    C. LRAS shifts right, prices fall
    D. AD shifts left, output stabilizes
18. In the short run, what role does price stickiness play in amplifying output fluctuations?
    A. It prevents demand adjustments
    B. It allows firms to adjust output without cost changes
    C. It stabilizes aggregate supply
    D. It reduces inflationary pressures
19. If the government increases taxes and AD shifts left, what secondary effect might mitigate the output decline?
    A. Rising consumer confidence
    B. Falling interest rates
    C. Increased import demand
    D. Reduced export competitiveness
20. How does an anticipated increase in future taxes affect current AD and SRAS dynamics?
    A. AD shifts right, SRAS shifts left
    B. AD shifts left, SRAS remains unchanged
    C. AD shifts left, SRAS shifts right
    D. AD and SRAS both shift right

Unit 3: Market Failure and Consumer Protection

1. If a firm's production process generates uncompensated pollution, how does this affect social welfare compared to private welfare?
   A. Social welfare exceeds private welfare
   B. Private welfare exceeds social welfare
   C. Both are equally diminished
   D. Social welfare remains unaffected
2. Why do public goods like clean air lead to market failure under private provision?
   A. High rivalry prevents consumption
   B. Non-excludability causes free-riding
   C. Excessive supply reduces prices
   D. Low demand limits production
3. If a fishery collapses due to overfishing, what type of market failure is exemplified?
   A. Negative externality
   B. Tragedy of the commons
   C. Asymmetric information
   D. Monopoly power
4. How does a positive externality from education create a divergence between private and social benefits?
   A. Private benefits exceed social benefits
   B. Social benefits exceed private benefits
   C. Both benefits are fully internalized
   D. Private benefits decline over time
5. In a market with perfect information, why might externalities still cause inefficiency?
   A. Prices reflect all costs and benefits
   B. External costs are not priced into transactions
   C. Consumers adjust behavior perfectly
   D. Producers eliminate external effects
6. If a government imposes a subsidy on vaccinations, what inefficiency is it attempting to correct?

A. Overproduction of a private good
B. Underproduction due to positive externalities
C. Overconsumption of a common resource
D. Price distortion from monopoly power

7. How does asymmetric information in Ethiopia's informal markets exacerbate adverse selection?
A. Buyers overpay for high-quality goods
B. Sellers withhold low-quality goods
C. Low-quality goods dominate the market
D. Information gaps reduce trade volumes
8. Why might a Pigovian tax fail to fully internalize a negative externality like industrial emissions?
A. Tax rates exceed external costs
B. Measurement of external costs is imprecise
C. Firms increase output in response
D. Consumers benefit from lower prices
9. If a good is non-rivalrous but excludable, what market structure is likely to emerge?
A. Perfect competition
B. Club goods provision
C. Common resource depletion
D. Public goods oversupply
10. How does moral hazard in insurance markets affect resource allocation efficiency?
A. It increases preventive behavior
B. It encourages risk-taking, raising costs
C. It stabilizes premium rates
D. It reduces demand for insurance
11. If a factory's waste reduces downstream crop yields, what policy could equate marginal social cost to marginal private cost?
A. Subsidizing the factory
B. Taxing the factory's output

C. Increasing downstream irrigation
D. Reducing consumer taxes

12. Why does the free-rider problem prevent private markets from supplying national defense?
    A. High production costs deter firms
    B. Non-excludability reduces incentives
    C. Rivalry limits consumption
    D. Demand exceeds supply capacity
13. In Ethiopia, how might consumer protection laws mitigate the effects of counterfeit goods?
    A. By increasing production costs
    B. By reducing information asymmetry
    C. By subsidizing low-quality producers
    D. By eliminating market competition
14. If a common resource like a forest is overexploited, what economic principle explains the resulting inefficiency?
    A. Marginal benefit exceeds marginal cost
    B. Marginal cost exceeds marginal benefit
    C. Total benefit equals total cost
    D. Private cost exceeds social cost
15. How does market power contribute to allocative inefficiency beyond externalities?
    A. It reduces output below the socially optimal level
    B. It increases consumer surplus
    C. It aligns prices with marginal costs
    D. It enhances resource distribution
16. If a government bans child labor to address exploitation, what type of market failure is indirectly targeted?
    A. Negative externalities
    B. Asymmetric information
    C. Public goods provision
    D. Common resource depletion

17. Why might a subsidy for renewable energy fail to achieve environmental goals in a developing country?
    A. It increases fossil fuel demand
    B. Adoption costs remain prohibitive
    C. It eliminates all externalities
    D. It reduces energy consumption
18. In a market with significant externalities, how does the absence of property rights affect efficiency?
    A. It ensures optimal resource use
    B. It prevents cost internalization
    C. It stabilizes production levels
    D. It reduces transaction costs
19. If consumers are unaware of a product's health risks, what market failure leads to overconsumption?
    A. Positive externality
    B. Negative externality
    C. Asymmetric information
    D. Public goods underprovision
20. How does the tragedy of the commons in Ethiopia's pastoral lands relate to population growth?
    A. It reduces grazing pressure
    B. It intensifies resource overuse
    C. It stabilizes herd sizes
    D. It improves land productivity

Unit 4: Macroeconomic Policy Instruments

1. If the central bank raises reserve requirements during inflation, what is the expected impact on aggregate demand?
    A. AD increases due to higher liquidity
    B. AD decreases due to reduced money supply
    C. AD remains unchanged
    D. AD shifts right due to investment growth

2. How does an expansionary fiscal policy financed by borrowing affect long-run interest rates?
   A. Interest rates fall due to increased savings
   B. Interest rates rise due to crowding out
   C. Interest rates stabilize with output
   D. Interest rates decline with inflation
3. If the government increases spending and the central bank tightens monetary policy simultaneously, what is the net effect on output?
   A. Output rises unambiguously
   B. Output falls unambiguously
   C. Output change is indeterminate
   D. Output remains at full employment
4. In a fixed exchange rate regime, how does a trade deficit pressure domestic monetary policy?
   A. It forces money supply expansion
   B. It requires reserve sales, contracting money supply
   C. It stabilizes the money supply
   D. It increases interest rates automatically
5. Why might income policies fail to control cost-push inflation in Ethiopia's labor market?
   A. Wages adjust flexibly to demand
   B. Informal sectors evade wage controls
   C. Productivity rises with wage caps
   D. Unions enforce price stability
6. If the central bank conducts open market purchases, how does this alter the banking system's lending capacity?
   A. It decreases due to lower reserves
   B. It increases due to higher reserves
   C. It remains unchanged
   D. It depends on tax policy
7. In a small open economy, how does a currency devaluation affect the trade balance over time?

A. Immediate improvement due to export growth
B. J-curve effect with initial worsening
C. No change due to fixed prices
D. Permanent deficit due to import reliance

8. If fiscal policy targets unemployment but ignores inflation, what risk emerges in the short run?
A. Deflationary spiral
B. Overheating and price surges
C. Stable output growth
D. Reduced investment flows

9. How does a contractionary monetary policy influence Ethiopia's import-dependent economy?
A. It reduces import costs
B. It increases import prices via currency appreciation
C. It stabilizes trade deficits
D. It boosts export competitiveness

10. Why might a tax cut fail to stimulate aggregate demand as expected?
A. High marginal propensity to save
B. Low interest rate sensitivity
C. Increased government borrowing
D. Stable consumer confidence

11. If the discount rate is lowered, what secondary effect might amplify its impact on output?
A. Reduced bank lending
B. Increased investment borrowing
C. Higher savings rates
D. Decreased export demand

12. In a recession, how does an expansionary fiscal policy interact with automatic stabilizers?
A. It offsets their contractionary effects
B. It reinforces their expansionary effects

C. It neutralizes their impact
D. It reduces their effectiveness

13. If Ethiopia adopts a floating exchange rate, what challenge arises in managing inflation?
A. Currency volatility amplifies import price shocks
B. Fixed rates limit monetary flexibility
C. Trade balances adjust automatically
D. Interest rates stabilize prices
14. How does a budget deficit financed by foreign borrowing affect Ethiopia's external balance?
A. It improves the trade surplus
B. It worsens the current account deficit
C. It stabilizes the capital account
D. It reduces foreign reserves
15. Why might monetary policy be less effective in a liquidity trap?
A. Interest rates are already near zero
B. Money supply growth exceeds demand
C. Banks lend excessively
D. Inflation adjusts rapidly
16. If the government imposes price controls to curb inflation, what unintended consequence might arise?
A. Increased supply of goods
B. Shortages due to reduced production
C. Higher export volumes
D. Stabilized wage growth
17. In a fixed exchange rate system, how does a capital inflow affect domestic money supply?
A. It decreases due to reserve losses
B. It increases unless sterilized
C. It remains constant
D. It depends on fiscal policy
18. How does a contractionary fiscal policy influence the crowding-out effect in reverse?

A. It increases private investment
B. It reduces private borrowing
C. It stabilizes interest rates
D. It raises government debt

19. If Ethiopia devalues the Birr by 20%, what condition must hold for exports to boost GDP significantly?
A. Export demand must be price elastic
B. Import demand must be inelastic
C. Domestic prices must rise
D. Foreign investment must decline

20. Why might a combination of fiscal and monetary expansion lead to stagflation in the long run?
A. Supply constraints limit output growth
B. Demand stabilizes prices
C. Investment offsets inflation
D. Unemployment falls permanently

Unit 5: Tax Theory and Practice

1. If Ethiopia increases its VAT rate from 15% to 20%, what assumption ensures no change in real tax revenue?
A. Perfectly elastic demand
B. Perfectly inelastic demand
C. High income elasticity
D. Low administrative efficiency

2. How does a progressive tax system interact with income inequality in a growing economy?
A. It exacerbates inequality
B. It reduces inequality if enforced
C. It has no effect on distribution
D. It increases poverty rates

3. If a tax yields 500 million Birr but deadweight loss is 50 million Birr, what does this imply about tax efficiency?

A. Efficiency is maximized
B. Efficiency is reduced by excess burden
C. Efficiency equals administrative cost
D. Efficiency is unaffected by revenue

4. In Ethiopia, why might reliance on indirect taxes like VAT increase regressivity?
A. High-income earners pay more
B. Low-income earners bear a larger burden
C. Tax rates are uniform across incomes
D. Consumption patterns are progressive
5. If the ability-to-pay principle is applied to property taxes, what challenge arises in rural Ethiopia?
A. Wealth is easily measurable
B. Land value assessment is inconsistent
C. Income exceeds property wealth
D. Tax evasion is eliminated
6. How does a flat tax rate conflict with the equity principle in tax theory?
A. It ensures horizontal equity only
B. It violates vertical equity
C. It balances both equity types
D. It reduces tax evasion
7. If a tax on luxury imports raises 100 million Birr but reduces consumer surplus by 150 million Birr, what is the economic cost?
A. 50 million Birr in deadweight loss
B. 100 million Birr in revenue loss
C. 150 million Birr in total welfare loss
D. Zero due to revenue gains
8. Why might Ethiopia's tax administration struggle to enforce direct taxes effectively?
A. High compliance in formal sectors
B. Large informal economy and weak capacity

C. Progressive rates deter evasion
D. Taxpayers overreport income

9. If a tax is designed to follow the benefits approach, how should public spending be allocated?
A. Equally across all citizens
B. Proportionally to tax contributions
C. Based on income levels
D. Independently of tax revenue

10. How does a regressive tax on basic goods affect Ethiopia's poverty incidence?
A. It reduces poverty through revenue
B. It increases poverty by taxing essentials
C. It has no impact on the poor
D. It shifts poverty to high earners

11. If tax revenue grows by 10% but GDP grows by 15%, what does this imply about tax buoyancy?
A. Tax system is highly buoyant
B. Tax system is less than buoyant
C. Tax system is perfectly elastic
D. Tax system is inelastic

12. In a progressive tax regime, what happens to the average tax rate as income doubles?
A. It decreases
B. It increases
C. It remains constant
D. It becomes negative

13. If Ethiopia introduces a carbon tax, how might it balance efficiency and equity objectives?
A. By taxing all firms equally
B. By redistributing revenue to low-income households
C. By exempting large polluters
D. By reducing other taxes uniformly

14. Why might a high excise tax on alcohol fail to achieve its revenue goals?
    A. Demand is perfectly elastic
    B. Substitution to untaxed alternatives
    C. Consumption rises with price
    D. Producers absorb the tax fully
15. If administrative costs of a tax exceed its revenue, what principle of taxation is violated?
    A. Equity
    B. Efficiency
    C. Simplicity
    D. Flexibility
16. How does tax evasion in Ethiopia's informal sector affect fiscal policy effectiveness?
    A. It increases government revenue
    B. It reduces funds for public goods
    C. It stabilizes budget deficits
    D. It enhances tax equity
17. If a tax shifts from progressive to proportional, what happens to the tax burden on low-income earners?
    A. It decreases relatively
    B. It increases relatively
    C. It remains unchanged
    D. It becomes zero
18. In Ethiopia, how might reliance on trade taxes distort domestic production incentives?
    A. It encourages export growth
    B. It discourages import substitution
    C. It stabilizes local prices
    D. It reduces production costs
19. If a tax reduces consumer purchasing power by 200 million Birr but raises 150 million Birr, what is the welfare implication?
    A. Net gain of 50 million Birr

B. Net loss of 50 million Birr
C. No welfare change
D. Welfare depends on spending

20. Why might a tax holiday for foreign investors conflict with long-run revenue stability?
A. It boosts immediate tax collections
B. It erodes the tax base over time
C. It increases domestic investment
D. It reduces administrative costs

Additional Cross-Unit Advanced Questions (Units 1–5)

1. If Ethiopia's nominal GDP grows by 20%, inflation is 15%, and population grows by 3%, what constraint limits real GDP per capita growth analysis?
A. Lack of unemployment data
B. Unknown sectoral contributions
C. Stable trade balances
D. Fixed investment rates
2. How does a leftward SRAS shift due to drought interact with Ethiopia's trade deficit in the AD-AS model?
A. It worsens the deficit via higher import prices
B. It improves the deficit via export growth
C. It stabilizes the deficit with output
D. It reduces the deficit via lower demand
3. If a factory's pollution reduces agricultural output, how might a Pigovian tax affect Ethiopia's GDP measurement?
A. It overestimates GDP by excluding externalities
B. It underestimates GDP by taxing production
C. It adjusts GDP for social costs
D. It ignores non-market impacts
4. In a recession, how does expansionary fiscal policy financed by borrowing influence the Classical vs. Keynesian debate?

A. Classical predicts quick recovery, Keynesian predicts debt issues

B. Keynesian supports demand boost, Classical warns of crowding out

C. Both agree on output growth

D. Both predict inflation spikes

5. If Ethiopia raises VAT to fund infrastructure, how might this alter the AD-AS equilibrium and tax equity?

A. AD shifts right, equity improves

B. AD shifts right, equity worsens

C. SRAS shifts left, equity stabilizes

D. LRAS shifts right, equity declines

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