ADDIS ABABA CITY GOVERNMENT EDUCATION BUREAU

GRADE 12 ECONOMICS MODEL EXAMINATION

2018E.C/ 2026G.C

NUMBER OF QUESTIONS: 80 **TIME ALLOWED: 2:30 HOURS**

GENERAL DIRECTIONS

THIS BOOKLET CONTAINS **ECONOMICS** MODEL EXAMINATION. THIS EXAMINATION CONSISTS OF A TOTAL OF **80 MULTIPLE CHOICE QUESTIONS**. CAREFULLY SELECT THE BEST ANSWER AND WRITE THE LETTER OF YOUR CHOICE ON THE SEPARATE ANSWER SHEET PROVIDED. FOLLOW THE INSTRUCTIONS ON BOTH THE ANSWER SHEET AND THE EXAMINATION PAPER CAREFULLY.

PLEASE DO NOT WRITE UNNECESSARY MARKS ON THE ANSWER SHEET.
YOU ARE ALLOWED TO WORK ON THE EXAMINATION FOR **2:30 HOURS**. WHEN TIME IS CALLED, YOU MUST IMMEDIATELY STOP WORKING, PUT YOUR PEN DOWN, AND WAIT FOR FURTHER INSTRUCTIONS.

ANY FORM OF CHEATING OR AN ATTEMPT TO CHEAT DURING THE EXAMINATION WILL RESULT IN AUTOMATIC DISMISSAL FROM THE EXAMINATION HALL AND CANCELLATION OF YOUR SCORE(S).

PLEASE MAKE SURE THAT YOU HAVE WRITTEN ALL THE REQUIRED INFORMATION ON THE ANSWER SHEET BEFORE YOU BEGIN WORKING ON THE EXAMINATION.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

DIRECTION: - EACH OF THE FOLLOWING QUESTIONS IS FOLLOWED BY FOUR POSSIBLE ALTERNATIVES. READ EACH QUESTION CAREFULLY AND BLACKEN THE LETTER OF YOUR CHOICE ON THE ANSWER SHEET PROVIDED.

1. In cardinal utility analysis, the Law of Diminishing Marginal Utility suggests that when a consumer continues to consume additional units of a good while keeping other goods constant, the marginal utility of the good will:
    A. Increase continuously
    B. Remain constant throughout consumption
    C. Become negative immediately after the first unit
    D. Decline with each successive unit consumed

2. Which of the following best explains the concept of a demand curve in microeconomic analysis?
    A. Graphical representation of production efficiency
    B. A curve showing the relationship between income and consumption
    C. A graphical representation showing the quantity demanded at each possible price
    D. A diagram explaining how firms maximize profit

3. Which of the following is true for a commodity that has a perfectly elastic demand?
    A. Consumers will buy any quantity at a price slightly higher than the market price.
    B. Consumers can buy all possible quantities at the given price, but nothing at other prices.
    C. The elasticity coefficient is equal to zero.
    D. The demand curve is vertical.

4. According to the Law of Diminishing Marginal Returns, what eventually happens as more units of a variable input are added to a fixed input?
    A. The marginal product will eventually decrease.
    B. Total product will increase at an increasing rate indefinitely.
    C. Average product will always remain higher than marginal product
    D. Fixed costs will begin to decrease.

5. Based on the mirror image relationship between production and cost, if marginal product is at its maximum, what is the state of marginal cost?
    A. Marginal cost is also at its maximum.
    B. Marginal cost is zero.
    C. Marginal cost is equal to Average Cost.
    D. Marginal cost is at its minimum.

6. Which of the following describes the relationship between the Market Demand curve and the Firm's Demand curve in perfect competition?
    A. Both are horizontal.
    B. Both are downward-sloping
    C. The market demand is downward-sloping, while the firm's demand is horizontal.
    D. The firm's demand is upward-sloping, and market demand is horizontal.

7. Why is the demand curve for a monopolistically competitive firm flatter than the demand curve for a monopoly?
    A. Monopolistic competition has higher barriers to entry than a monopoly.
    B. The existence of many close substitutes makes the demand more elastic.
    C. The monopolistically competitive firm is a price-taker.
    D. Government regulates prices

8. Which of the following is NOT an example of a Non-Banking Financial Institution?
    A. Central Bank of Ethiopia
    B. Pawn shop.
    C. Payday lending organizations
    D. Microloan organizations.

9. Which institution is primarily responsible for formulating the monetary policy framework in Ethiopia?

A. Development Bank of Ethiopia
C. National Bank of Ethiopia
B. Ministry of Finance
D. Commercial Bank of Ethiopia

10. In Micro-finance Institutions clients the ‘economically active poor' are described as having which specific characteristic?

A. They are already served by traditional commercial banks.
B. They possess entrepreneurial skills and economic opportunities.
C. They have significant physical assets to use as collateral.
D. They use loans primarily for immediate food and clothing

11. Which characteristic best distinguishes 'Iqqub' from formal banking institutions in terms of its administrative structure?

A. Reliance on pre-established social ties and negligible transaction costs.
B. Strict adherence to government-mandated interest rate ceilings.
C. Centralized management by the National Bank of Ethiopia.
D. Requirement of a high minimum investment threshold for all participants.

12. Which type of inflation is specifically triggered by producers increasing prices to maintain profitability due to rising production expenses?

A. Demand-pull inflation
C. Structural inflation
B. Cost-push inflation
D. Cyclical inflation

13. Which condition often makes monetary authorities and businesses become cautious**,** signaling the possible beginning of a recession?

A. A sudden and unexplained increase in business confidence.
B. A surge in the production of luxury goods.
C. The economy becoming 'over-heated'.
D. The achievement of full employment without inflation.

14. In the Ethiopian economy, how can a productive agricultural sector create forward linkages with the industrial sector by influencing labor costs?
    A. By supplying untrained workers directly to factories.
    B. By taxing farm exports to fund worker housing.
    C. By raising rural wages to urban levels.
    D. By lowering the cost of living and easing pressure on industrial wages.

15. In the Ethiopian agricultural structure, which sub-sector contributes the largest share to the sector's total GDP?
    A. Crop production
    B. Animal husbandry or Livestock
    C. Forestry and Fishery
    D. Commercial state farms

16. Which of the following is an 'internal' factor determining the choice of business organization?
    A. The gender of the owner
    B. The color of the business logo
    C. Amount of capital required
    D. The physical location of the business

17. Which of the following defines the 'Consumer Optimum' in the cardinal approach when multiple goods are involved?
    A. The point where marginal utility per dollar spent is equal across all goods.
    B. The point where the consumer saves half of their income.
    C. The point where the price of all goods is equal to their total utility.
    D. The point where total utility is maximized regardless of income.

18. Which of the following best describes the fundamental departure of Ordinal Utility Theory from Cardinal Utility Theory?
    A. Ordinal theory assumes consumers are irrational.
    B. Ordinal theory relies on the ranking of bundles rather than absolute measurement.
    C. Ordinal theory ignores the concept of marginal utility entirely.
    D. Ordinal theory assumes money has a constant marginal utility.

19. A consumer has a budget of birr120. The price of Good X is birr 15, and the price of Good Y is birr10. If the consumer spends all of their income on Good X, what is the maximum quantity of X they can purchase?

A. 6 units
C. 8 units
B. 10 units
D. 12 units

20. What happens to the consumer's optimum position when income increases and both goods are normal?

A. The optimum moves along the same indifference curve to a new tangency point.
B. The consumer consumes more of X and less of Y.
C. The optimum position does not change because prices are constant.
D. The optimum moves to a higher indifference curve, increasing consumption of both goods.

21. Suppose the firm's marginal cost function is given by MC = 5Q + 10, where Q represents the quantity of output produced. If the market price of the product is Birr 110, determine the profit-maximizing level of output for the firm.

A. 10 units
C. 25 units
B. 15 units
D. 20 units

22. Why is the Total Revenue curve for a competitive firm a straight line starting from the origin?

A. Because the firm faces diminishing returns.
B. Because the firm must lower its price to sell more.
C. Because the price is constant for every unit sold.
D. Because Total Cost is also a straight line.

23. In third-degree price discrimination, a monopolist charges a higher price in the market where:

A. Demand is more elastic.
C. Consumers have lower incomes.
B. Demand is inelastic.
D. There are more competitors.

24. Which of the following is a primary reason why tacit collusion is virtually impossible in monopolistic competition?

A. The products are identical.

B. There are too many producers in the market to coordinate effectively.

C. Firms face a perfectly elastic demand curve.

D. Government regulations strictly forbid branding.

25. If a firm in a non-collusive oligopoly expects its rivals to match any price cut but ignore any price increase, it faces a demand curve that is:

A. More elastic for price increases than for price decreases C. Perfectly inelastic.

B. More elastic for price decreases than for price increases. D. A vertical line.

26. If a Japanese company operates a factory in Ethiopia, the value of the final goods produced is included in:

A. Both countries' GDP C. Ethiopia's GDP and Ethiopia's GNP

B. Ethiopia's GDP and Japan's GNP D. Japan's GDP and Ethiopia's GNP

27. Which of the following best defines a 'final good' in the context of GDP measurement via the expenditure approach?

A. Any good that has a lifespan of more than three years.

B. A good produced and sold within the same fiscal year

C. A good in the hands of the ultimate consumer or final user.

D. A good used as an input for the production of other goods.

28. Suppose that in a certain economy, the Nominal GDP is 120 billion birr, while the Real GDP that measured in base-year prices is 100 billion birr. Based on this information, determine the GDP Deflator for that economy.

A. 1.2 C. 83.3

B. 20 D. 120

29. According to the properties of the Keynesian consumption function, what happens to the Average Propensity to Consume as disposable income increases?

A. It falls
C. It becomes equal to the MPC
B. It remains constant
D. It increases

30. Which of the following is a stated property of the Marginal Propensity to Save (MPS)?

A. MPS values lie between zero and one
B. MPS values are always negative.
C. MPS decreases with an increase in income.
D. MPS of the poor is greater than the MPS of the rich

31. If households expect prices to fall significantly in the future, what is the likely impact on present saving?

A. Present saving will increase.
C. There will be no change in saving.
B. Present saving will decrease.
D. Present consumption will increase.

32. Which of the following is the best example of induced investment?

A. The government building a new highway.
B. A firm building a new factory because consumer demand for its product is rising.
C. A firm replacing its old, broken-down delivery trucks.
D. The government increasing spending on national defense.

33. Which of the following is NOT listed as an advantage of engaging in international trade?

A. It allows for the most efficient use of world resources.
B. It allows domestic firms to exploit economies of scale.
C. It guarantees that all countries will have a trade surplus.
D. It helps harmonize international political relations.

34. The classical economists, like Adam Smith, refuted mercantilism by arguing that a nation's wealth is reflected in its:

A. Gold reserves.
B. Trade surplus
C. Productive capacity
D. Military power.

35. Which of the following is NOT indicator used to construct the Human Development Index?

A. Life expectancy at birth.
B. Educational attainment.
C. Standard of living.
D. Level of industrialization.

36. According to Amartya Sen's argues that development should be concerned with enhancing people's:

A. Material wealth.
B. Ability to achieve a trade surplus.
C. Accumulation of physical capital.
D. Capabilities and freedoms

37. Which of the following is NOT a priority issue for the repositioning of Africa in the global arena?

A. Democratic governance and peace.
B. Continental and regional integration.
C. The return to colonial administrative structures.
D. Inclusive social and economic development.

38. What is the primary objective of a 'Structural Adjustment Program' in the context of Ethiopia's economy?

A. To prevent the commercialization of the agricultural sector.
B. To reduce the role of the government and increase the role of market forces.
C. To provide free seeds and fertilizers to all rural households.
D. To increase the role of the government in resource allocation.

39. Which of the following was a central pillar of the Derg's agricultural policy post-1974?

A. Promotion of a centrally planned economy and industry-led development.
B. Implementation of the Agricultural Development-Led Industrialization
C. The Derg shifted from a centrally planned where service was the lead sector.
D. Discouraging foreign investment in commercial farming.

40. Which of the following best describes the primary natural constraint affecting Ethiopian agriculture in the highlands?

A. Heavy reliance on unpredictable rainfall patterns for crop and livestock production.
B. The presence of pests those are unique to the Ethiopian highlands.
C. Over-forestation leading to a lack of available grazing land.
D. The lack of fertile soil in high-altitude regions.

41. Which of the following is NOT a primary focus area of macroeconomics?

A. International trade and inflation.
B. The determination of the price for a single consumer good.
C. Distribution of income and macroeconomic policies.
D. Economic growth and employment.

42. In developing countries, national income accounts often understate the actual production. What is a primary structural reason for this underestimation?

A. Strict adherence to the rule of law which prevents informal trading.
B. The lack of international trade partners to verify export values.
C. The prevalence of subsistence farming where output is consumed directly by the producer.
D. The high cost of industrial pollution in rural areas.

43. An Ethiopian university graduate who spends three months searching for a job that matches their degree is experiencing which type of unemployment?

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

44. Which of the following best describes the Classical view regarding economic self-correction during a recession?
    A. The economy requires active fiscal intervention to shift aggregate demand.
    B. Monetary expansion is the only way to restore full employment.
    C. Government spending is necessary to prevent a permanent decline in GDP.
    D. Flexible prices and wages allow the economy to adjust back to full employment naturally.

45. Based on the principles of the Keynesian model, which of the following is the primary reason why businesses decrease investment expenditure?
    A. They face reduced expectations of the profitability of investment.
    B. The government reduces its own spending.
    C. Interest rates become too low.
    D. Wages become too flexible.

46. Which of the following is categorized as an 'exogenous variable' affecting Ethiopia's Aggregate Demand?
    A. A sudden technological change that improves production efficiency.
    B. A change in the domestic personal income tax rate.
    C. The National Bank's decision to change the reserve requirement.
    D. A change in the price of a loaf of bread in Addis Ababa.

47. If the general price level in Ethiopia rises, why does the 'Real Balance Effect' lead to a decrease in the quantity demanded of real GDP?
    A. The nominal value of money holdings increases, leading to higher savings.
    B. The purchasing power of monetary wealth declines, making households feels less wealthy.
    C. Banks increase the interest rate to compensate for the higher prices.
    D. Foreigners find Ethiopian goods cheaper and increase their purchases.

48. When the economy has significant unused resources, such as labor and capital, the aggregate supply curve is often depicted as horizontal. Why is this case?

    A. Prices are perfectly flexible and adjust instantly to changes in demand.
    B. The economy has high unemployment, allowing firms to hire more labor at the existing wage.
    C. Firms face increasing marginal costs as they expand production.
    D. Firms are operating at full capacity and cannot increase output further.

49. A negative supply shock, such as a severe drought affecting Ethiopian agriculture, would most likely lead to:

    A. No change in output but a significant drop in the price level.
    B. An increase in real GDP and a decrease in the price level.
    C. A decrease in real GDP and an increase in the price level.
    D. An increase in both real GDP and the price level.

50. In a situation of a 'Shortage' where quantity demanded exceeds quantity supplied, how does the price level respond to restore equilibrium?

    A. The price level falls to make the goods more affordable for the excess demand.
    B. The price level fluctuates randomly until it hits the natural rate of output.
    C. The price level rises, causing a decrease in consumption and an increase in production.
    D. The price level remains static while firms wait for government intervention.

51. In the context of externalities, a 'subsidy' is most appropriate for a behavior that results in:

    A. Monopoly power.
    B. Rent-seeking behavior
    C. Negative externalities.
    D. Positive externalities

52. Which of the following best describes the 'marginal cost' of allowing an additional consumer to enjoy a pure public good like national defense?

A. It is high due to the difficulty of excluding non-payers.
B. It is determined by the individual's subjective valuation of the good.
C. It is zero because the good is non-rivalrous in consumption.
D. It is equal to the average cost of providing the good to the population.

53. When a firm pollutes a river used by downstream farmers, the 'market mechanism' fails because:

A. No compensation is made to the farmers through the price of the firm's product.
B. The firm is producing a good that no one wants to buy.
C. The farmers are not working hard enough to filter the water themselves.
D. The government has already set a price for the pollution that is too high.

54. Which problem of asymmetric information describes the 'hidden action' that occurs after a contract is signed?

A. Signalling
B. Moral hazard
C. Negative selection
D. Screening

55. If a shopkeeper adds stones to a bag of lentils to increase the weight, which malpractice has occurred?

A. Inferior services.
B. Sale of spurious goods.
C. Sale of adulterated goods.
D. Misleading advertisement.

56. In a country with a working-age population of 1,000,000 people, there are 600,000 individuals who are currently employed and 100,000 who are unemployed but actively seeking work. Based on this information, what is the labor force participation rate?

A. 50%
B. 60%
C. 65%
D. 70%

57. Which component of government expenditure is characterized as 'entitlements' because they are locked in by earlier legislation and do not require a service in return?

A. Government spending on final goods
C. Net interest payments
B. Transfer payments
D. Grants in aid

58. When the National Bank of Ethiopia purchases government bonds from the public through Open Market Operations, what is the immediate effect on the monetary base?

A. The monetary base decreases because bonds are removed from the market.
B. The monetary base increases because the bank pays out Birr to the public.
C. The monetary base decreases because the NBE is spending its own reserves.
D. The monetary base remains unchanged as it is a neutral exchange.

59. What happens to the labor market equilibrium when the demand for labor increases, ceteris paribus?

A. The supply of labor automatically decreases.
C. The equilibrium wage rises
B. The wage remains constant due to income policy
D. The equilibrium wage falls.

60. Which disadvantage of a floating exchange rate system might discourage a firm from engaging in international trade?

A. Protection from external oil price shocks.
B. The lack of policy constraints on the government.
C. The automatic correction of trade deficits.
D. Instability and large fluctuations in currency value.

61. Which term refers to the final resting place of a tax burden, identifying who is ultimately made worse off by the tax?

A. Tax Effect
C. Tax Incidence
B. Tax Base
D. Impact of tax

62. Which principle of taxation suggests that tax obligations should be distributed based on the level of public services an individual consumes?

A. Vertical equity principle
C. Proportional tax approach
B. Benefits approach
D. Ability-to-pay approach

63. Which government entity is currently responsible for the collection of taxes at the federal level in Ethiopia?

A. The Federal Ministry of Revenues
C. The National Bank of Ethiopia
B. The House of Peoples' Representatives
D. The Ministry of Finance

64. Which indirect tax is specifically used to discourage the consumption of hazardous or luxury goods while targeting demand-inelastic items?

A. Excise Tax.
C. Surtax
B. Turnover Tax
D. Stamp Duty

65. Which of the following best describes the primary focus of criticisms regarding global tax systems?

A. The transition from indirect to direct taxation methods.
B. The lack of digital infrastructure in developing nations.
C. High marginal tax rates for middle-income earners.
D. Administrative complexity and the difficulty of taxpayer comprehension.

66. If a researcher wants to know the total amount of income necessary to raise everyone below the poverty line up to that line, they should calculate the:

A. Foster-Greer-Thorbecke Index
C. Total Poverty Gap
B. Average Poverty Gap
D. Headcount Index

67. A Lorenz curve is constructed by plotting which of the following on the horizontal axis?

A. Absolute income levels in currency units.

B. Cumulative percentage of income recipients.

C. Cumulative percentage of total income.

D. The Gini coefficient values.

68. Which specific region is highlighted as having experienced 'virtually no rate reduction' in poverty between 1950 and 2000?

A. East Asia

B. Latin America

C. Sub-Saharan Africa

D. South Asia

69. Which of the following describes the 'intra-household bias' mentioned in the text?

A. Prioritizing resources like medical care and education for male members.

B. The higher cost of education for girls compared to boys.

C. The tendency of women to spend more on luxury goods than men.

D. Government programs that only provide subsidies to large families.

70. Which specific group is identified as the largest category of poor people in Ethiopia?

A. Micro-finance employees

B. Urban industrial workers

C. Smallholder farmers

D. Public servants

71. What is a primary distinction between Idir and Iqub based on their operational duration?

A. Both are strictly temporary and dissolve after one year.

B. Idir is a long-term association, whereas Iqub can be temporary or permanent.

C. Idir only functions during the harvest season.

D. Iqub is always permanent, while Idir is strictly temporary.

72. Which institution was established by the Derg regime to control agricultural pricing and set production quotas significantly lower than market prices?
    A. The National Economic Council.
    B. The Development through Cooperation Campaign.
    C. The Agricultural Marketing Corporation.
    D. The Central Statistical Authority.

73. Which specific system was introduced under ADLI to distribute inputs like fertilizers and seeds and spread information to smallholder farmers?
    A. The Millennium Development Goals.
    B. The Sustainable Development and Poverty Reduction Program
    C. The Participatory Demonstration and Training Extension System
    D. The Agricultural Marketing Corporation.

74. Which structural reform is specifically aimed at alleviating the high rate of unemployment by looking beyond domestic borders?
    A. Promoting free movement of labor both domestically and internationally
    B. Implementing high tariffs on all imported labor
    C. Focusing only on jobs within the government sector
    D. Restricting skilled labor from leaving the country

75. Fiscal equalization payments in Ethiopia are primarily designed to achieve which of the following goals?
    A. To eliminate the need for any regional tax collection systems.
    B. To ensure that all regional governments have identical industrial outputs.
    C. To increase the competition between regional states for foreign investment.
    D. To reduce differences in net fiscal benefits so citizens receive similar services regardless of region.

76. According to the fundamental principle of economic theory, why does the use of natural resources inevitably involve an opportunity cost?

A. Economic activities are always intended to degrade the environment.

B. Technology has not yet reached the "Limits to Growth" threshold.

C. Environmental resources always produce monetized benefits.

D. Natural resources are limited while human wants are virtually unlimited.

77. Which country is currently the world's largest emitter of greenhouse gases, despite having lower per capita emissions than most developed countries?

A. Ethiopia

B. China

C. The United States

D. India

78. Why does climate change make poverty reduction more difficult in developing countries such as Ethiopia?

A. Climate unrelated to economy

B. Developing countries caused emissions

C. It damages resource-based livelihoods

D. Poverty alone causes climate change

79. Which of the following energy sources is produced from organic materials such as plant matter and animal waste?

A. Biomass and biofuel

B. Hydroelectric power

C. Geothermal energy

D. Wind energy

80. Which of the following is the main objective of Ethiopia's Climate Resilient Green Economy Strategy, launched in 2011?

A. Achieve middle-income status through low-carbon growth

B. Expand fossil-fuel–based industrial development

C. Focus only on climate mitigation

D. Relocate agriculture to urban areas