NIFAS SILK SUB CITY ADMINISTRATION EDUCATION OFFICE

GRADE 12 ECONOMICS MODEL EXAMINATION

2016E.C/ 2024G.C

NUMBER OF QUESTIONS: 75 TIME ALLOWED: - 2:1/2 HOURS

GENERAL DIRECTIONS

THIS BOOKLET CONTAINS ECONOMICS EXAMINATION. IN THIS EXAMINATION, THERE ARE A TOTAL OF 100 MULTIPLE CHOICE QUESTIONS. CAREFULLY SELECT THE BEST ANSWER AND BLACKEN ONLY THE LETTER OF YOUR CHOICE ON THE SEPARATE ANSWER SHEET PROVIDED. FOLLOW THE INSTRUCTIONS ON THE ANSWER SHEET AND THE EXAMINATION PAPER CAREFULLY. USE ONLY PENCIL TO MARK YOUR ANSWERS. YOUR ANSWER MARK SHOULD BE HEAVY AND DARK, COVERING THE ANSWER SPACE COMPLETELY. PLEASE ERASE ALL UNNECESSARY MARKS COMPLETELY FROM YOUR ANSWER SHEET.

YOU ARE ALLOWED TO WORK ON THE EXAM FOR 2:1/2 HOURS. WHEN TIME IS CALLED, YOU MUST IMMEDIATELY STOP WORKING, PUT YOUR PENCIL DOWN, AND WAIT FOR FURTHER INSTRUCTIONS.

ANY FORM OF CHEATING OR AN ATTEMPT TO CHEAT IN THE EXAMINATION AS WELL AS USING *CELL PHONE* WILL RESULT IN AN 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 START TO WORK ON THE EXAMINATION.

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

NOTE THAT YOU ARE ALLOWED TO USE CALCULATOR.

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. Which one of the following are NOT the characteristics of a perfectly competitive labour market?
   A. Numerous qualified people who have identical skill and independently supply their labour services.
   B. Perfect, high cost information and labour mobility.
   C. Wage taking behavior, that is neither workers nor firms exert control over the market wage.
   D. A large number of firms competing each other to hire a specific type of labour.
2. What is price ceiling?
   A. Minimum price fixation for goods and services provided for customers.
   B. Maximum price fixation for goods and services provided for customers.
   C. Neither maximum nor minimum price fixation, it is a moderate price by itself.
   D. It is intervention of the government in a market to protect producers.
3. _____ Increases the quantity of real GDP supplied and is shown as a movement along the aggregate supply curve.
   A. A decrease in the quantity of money
   B. A decrease in consumption expenditure
   C. A fall in the expected rate of profit
   D. A rise in the price level
4. If the cost of production increases, there is :
   A. an increase in aggregate supply and aggregate supply curve shift right ward.
   B. a decrease in aggregate supply and aggregate supply curve shift leftward.
   C. an increase in the quantity of real GDP supplied and a movement up along the aggregate supply curve
   D. a decrease in the quantity of real GDP supplied and a movement down along the aggregate supply curve.

5. The price system will allocate resources efficiently except when
    A. Market are perfectly competitive
    B. Consumer pursue their own best interest
    C. Firms seek to maximize profit
    D. Market failure exist
6. When market failures occur
    A. the invisible hand will correct for the market failures.
    B. the price system will correct the market failures.
    C. the government can step in to correct the market failures.
    D. people will reduce their consumption.
7. Macroeconomics is
    A. the study of individual decision making behaviour of different economic unit at disaggregated level.
    B. the study of a nation's money supply and demand irrespective of the type of economic activities.
    C. studies aggregate behavior of the economy as a whole.
    D. studies about revenue and expenditure of the government.
8. Which of the following is not central macroeconomic question?
    A. What factors determine the flow of total output produced in the economy over time?
    B. How can a nation increase its economic growth?
    C. How can business cycle downturn be managed?
    D. How can an individual accumulate capital and wealth?
9. _____ is falsifying information on a tax return in order to reduce one's tax liability or not filling it at all.
    A. Tax evasion
    B. Tax avoidance
    C. Remittance
    D. Transfer tax
10. All of the followings are Adam Smith canons of taxation, but
    A. the tax system should be able to yield enough revenue for government
    B. every tax ought to be planned in a manner it takes as little as possible out of the pocket of the people.
    C. the tax which everyone is bound to pay ought to be certain and not arbitrary.
    D. every tax can be simply collected with a minimum cost.
11. All of the followings are macroeconomic policy except,
    A. maximum feasible output
    B. high rate of economic growth
    C. balance of payment defcit
    D. equality in the distribution of income
12. Which of the following is not the component of government spending?

A. Government spending C. Net export
B. Transfer payment D. Grants in aid

13. Price floor is
    A. a minimum price fixation for goods and services provided for customers.
    B. a maximum price fixation for goods and services provided for customers.
    C. neither maximum nor minimum price fixation it is a high price by itself.
    D. it is intervention of the government in a market to protect consumers.
14. Which one of the following is a major instrument of fiscal policy?
    A. reserve requirement rate C. minimum wage law
    B. taxation D. open market operation
15. The aggregate supply curve illustrates that
    A. the higher the price level, the greater the quantity of real GDP supplied.
    B. the higher the price level, the smaller the quantity of real GDP supplied.
    C. aggregate demand curve is not needed to determine the aggregate price level.
    D. price level does not affect the quantity of real GDP supplied.
16. Rise in the price level brings a _____ in the purchasing power of money that _____ consumption expenditure and cause the quantity of real GDP demanded to _____.
    A. rise; decrease; decrease
    B. fall; decrease; decrease
    C. fall; increase; increase
    D. rise; increase; increase
17. An example of a market failure is
    A. a firm dumping toxic waste that makes people sick.
    B. when not everyone who wants to see football game can afford tickets.
    C. when there is an increase in demand for a good and its price rises.
    D. when the equilibrium price of a good is high enough that some consumers choose not to purchase it
18. When costs of producing a good spill over to third parties
    A. positive externality results.
    B. negative externality results
    C. the price system will generate an efficient out come in its own.
    D. a government subsidy to the producer can correct to the market failure.

19. _____ is calculating GDP by adding the value of goods and services that are currently produced by each sector of the economy.
    A. Value added approach
    B. Expenditure approach
    C. Final product approach
    D. Income approach
20. Measuring real income in developing countries is not simple because of all of the following reasons except
    A. the national income may understate GDP in developing countries.
    B. under reporting income is common in developing countries.
    C. distortion in price is much lower in developing countries.
    D. the cost of pollution and environmental degradation are not deducted from GNP.
21. Tax base
    A. is the per unit amount of the tax at which the economic activity is taxed.
    B. is the quantity of an economic activity that is obliged to taxation.
    C. relates to the way the burden of a tax is distributed among economic units.
    D. is tax first point of contact with a tax payer.
22. All of the following are reasons behind the imposition of tax on economic participants, but
    A. To minimize income and wealth inequality.
    B. To discourage the consumption of harmful products.
    C. To discourage private trade partcipants.
    D. To stabilize the economy.
23. According to the benefit approach of taxation, tax must be paid in accordance with
    A. the capacity of the tax payer to pay the tax.
    B. the benefit received from the enjoyment of public services.
    C. no matter whether you get public service or not but you have to pay the tax.
    D. everyone pays the same share of tax regardless of income level.
24. The national bank of Ethiopia finds out that the total supply of money in the market is much higher than the market actually demands. What monetary policy measure must be taken by the national bank?
    A. Buying government policies.
    B. Decreasing reserve requirement rate
    C. Decreasing interest rate
    D. Increasing reserve requirement rate
25. If the market supply of money exceeds the market demand for money what will be the possible consequence for this imbalance?

A. inflation B. deflation C. full employment D. stable price

26. Which one of the followings is the impact of devaluation and depreciation in an economy?
    A. They makes export expensive than before.
    B. They make import cheaper than before.
    C. They improve current account balance.
    D. Both have no impact in an economy.
27. All of the followings are the impact of revaluation and appreciation in an economy but
    A. They worsen external balance.
    B. They make import cheaper.
    C. They make export expensive.
    D. Both have no impact in an economy.
28. a reason why an increase in the price level decreases the quantity of real GDP demanded is that
    A. the buying power of money increases.
    B. the real interest rate falls.
    C. the price of domestic good and services increases relative to foreign goods.
    D. the inflation rate decreases
29. If the aggregate demand curve shifts right ward, then
    A. both the price level and real GDP will increase.
    B. the price level will increase but no change will occur in the real GDP.
    C. the price level will not change but real GDP will increase.
    D. both price level and real GDP will decrease.
30. Which of the followings statement is the correct definition of a market failure?
    A. It means that a market economy will fail to secure economic efficiency.
    B. It means that a market economy has a capacity to secure economic efficiency.
    C. It means that a market economy will fail to secure productive efficiency.
    D. It means that a market economy will fail to secure technical efficiency.
31. Which of the following is not a type of market failure?
    A. Lags in adjustment
    B. Information asymmetry
    C. Macroeconomic instability

D. Competitiveness

32. Market failure is said to occur when ever
    A. private markets do not allocate resources in the most economically desirable way.
    B. price rise
    C. some consumers who want a good do not obtain it because the price is higher than they are willing to pay
    D. government intervenes in the functioning of the private market.
33. Which of the following is true about inflation?
    A. It increases the purchasing power of money.
    B. It decreases the purchasing power of money.
    C. It has no impact on the purchasing power of money.
    D. It is the decline in general price level of goods and services.
34. Assume the consumer price index of year 2022 is 200 and consumer price index for year 2023 is 240. How much is the inflation rate?
    A. 20% B. 30% C. 40% D. 25%
35. _____ refers to a situation where the price of goods and services increases at more than 50% a month.
    A. Jumping inflation C. Galloping inflation
    B. Running inflation D. Hyper inflation
36. Ato Abebe is an importer of different materials from abroad. When his commodities arrived at the port, he finished every import tax but remains with a 10% flat tax. What is that 10% flat tax?
    A. Withholding tax B. Excise tax C. Turnover tax D. Sur tax
37. A regressive tax is a type of tax at which
    A. a higher income earner pays a higher share of income.
    B. everyone pays the same share of tax regardless of income level.
    C. high income earner pays lower share of income taxes.
    D. neither high income nor low income earners pay a small proportion of tax.
38. According to the tax proclamation of FDRE schedule A is
    A. income from rental building
    B. income from employment
    C. income from business
    D. exempt income
39. “Income and wealth are not an end by themselves but rather instruments for other purposes.” This argument belongs to
    A. Simon kuznet B. Milton freidman C. Amartya son D. Corado Gini

40. A situation of someone being un able or barely able to meet the subsistence essentials is known as _____.
    A. absolute poverty C. poverty line
    B. relative poverty D. poverty index
41. When reference is made to the _____ it means the specific amount of income is needed for a basic standard of living.
    A. poverty trap B. income line C. income gap D. poverty line
42. If income rise for both low income and high income workers but rise less for high income group, then
    A. poverty will rise and inequality will fall
    B. poverty will fall and inequality will rise
    C. both Poverty and inequality will rise
    D. poverty will fall and inequality will also fall
43. Sticky wage is
    A. a situation where workers perceive that there wage is declining.
    B. that wages are “locked in” for a few years due to labour contact agreements.
    C. that wages are flexible depending on the situation in the market.
    D. an economic phenomenon that one cannot determine about wage of labours.
44. Which of the following is not a factor that affects net exports of a country?
    A. Relative price C. foreign trade policy
    B. Exchange rate D. interest rate

45. A change in the expected price level shifts
    A. the long run aggregate supply curve but not the short run aggregate supply curve.
    B. neither short run aggregate supply curve nor long run aggregate supply curve.
    C. a short run aggregate supply curve but not the long run aggregate supply curve.
    D. both long run and short run aggregate supply curves.

    Question no 46 and 47 are based on the following information
    A competitive refining industry produces one unit of waste for each unit of refined product. The industry desposes the waste by releasing it into atmosphere. The demand function for refined

product (MBC) is P= 24-Q. the supply curve MPC =2+Q and the MEC=0.5Q where, MEC is the marginal external cost.

46. How much is the equilibrium price and quantity respectively, when there is no correction for the externality?
    A. (11,13) B. (13,11) C. (24,11) D. (11,24)
47. How much of the refined product should the market supply at the socially optimal level?
    A. 8.8 B. 9.8 C. 10.8 D. 7.8
48. Once the good is provided, consumption by one person doesn't reduce the quantity which is available for consumption by another. this means the good is
    A. non- excludable C. non rivalry
    B. excludable D. rivalry
49. Which of the following true about structural un-employment?
    A. It is a form of un-employment that happens when there is luck of adjustment between demand for and supply of labour.
    B. It occurs due to a deficiency of aggregate effective demand resulting from business depression.
    C. It occurs when workers move from one organization to the other in need of a new job.
    D. It occurs when productivity is low and too many workers filling too few jobs.
50. A systematic record of a nation's financial transaction with the outside world is known as_____
    A. balance of trade C. capital account
    B. balance of payment D. trade deficit
51. "An economy is self-adjusting and self-correcting by itself there is no need of government intervention." This economic thought belongs to
    A. Keynesian school of thought C. Classical economic thought
    B. Monetarist economic thought D. new Keynesian school of thought
52. Which one of the following is known for being a classical economic thinker?
    A. David Ricardo B. Milton Freidman C. Jhonn M Keynes D. Alfred Marshall
53. Transfer tax is
    A. the type of tax that is levied on the taxable portion of a deceased individual.

B. this tax is charged when an individual sells assets such as stocks and real estate.
C. this tax is levied on properties such as land and building.
D. this tax is imposed on income generated by individuals.

54. All of the following are characterstics of a good tax system except
A. Ensures the reduction of economic inequalities
B. Enables optimum allocation of resources
C. Act as an instrument of economic growth
D. Difficult, financially inadequate and inelastic

55. The Ethiopian tax system is
A. progressive B. regressive C. proportional D. constant

56. A situation of _____ arises when one group receives a higher share of total income or wealth than others.
A. poverty B. inequality C. poverty line D. quantiles

57. Lorenze curve shows
A. the gap between saving and investment.
B. the gap between line of equality and population below the equality line.
C. the gap between aggregate demand and aggregate supply.
D. the gap between international trade and domestic trade.

58. Among the following choices, which one is not the key factor affecting foreign exchange of a country?
A. inflation C. other countries financial policy
B. balance of payment D. government debt

59. Which one of the following is the advantage of fixed exchange rate?
A. speculation B. certainty C. deflation D. policy conflict

60. An advantage of a floating exchange rate is that
A. it causes wages in different regions to be equal.
B. it raises the value of a currency to a higher level.
C. it permits a country to conduct an independent monetary policy.
D. it prevents inflation.

61. Aggregate demand curve shows
A. the quantity of labour and other inputs that firms want to buy at each inflation rate.
B. the quantity of domestically produced goods and services that households want to buy at each price level.

C. the quantity of domestically produced goods and services that firms, government and customers abroad want to buy at each price level.
D. the quantity of labour and other inputs that firms want to buy at each price level.

62. Which of the following would help to explain why the aggregate demand curve slopes down ward?
A. a higher price level increases real wealth which stimulates spending in consumption.
B. a lower price level reducing the interest rate which encourages greater spending in investment.
C. a lower price level causes domestic interest rate to rise and the real exchange rate to appreciate, which stimulates spending in export.
D. an expectedly low price level raises the real wage, which causes firms to hire fewer workers and produce a smaller quantity of goods and services.

63. If there are flood and drought or a decrease in the availability of raw materials
A. Aggregate supply shifts to the right
B. Aggregate demand shifts to the left
C. Output fall in the short run
D. Price fall in the short run

64. A common resource is
A. non rival and non-excludable
B. rival and non-excludable
C. regulated and excludable
D. non rival and excludable

65. If a good is public good,
A. anyone can be excluded from enjoying its benefit.
B. no one can be excluded from enjoying its benefit.
C. can be excluded for some selected phenomena.
D. consumers must pay a high price to enjoy its benefit.

66. All of the followings are Ethiopia’s consumer right provided by consumer proclamation no 813/2013 except
A. They should not be obliged if they have the question of quality.
B. Consumers should receive sufficient and accurate information to the quality and types of goods.
C. They should be received humbly and respectfully by any business person.
D. They should by goods and services on the basis of government choice.

67. Monetarist argued that
    A. all observable fluctuation in the economy is due to rational agents responding to the incentives not nominal rigidities.
    B. government should stabilize the economy even under rational expectation hypothesis.
    C. there must be active fiscal policy to alleviate weak aggregate demand.
    D. it is monetary policy not fiscal policy that addresses the macro economic problems.
68. One of the following is not true about the evolution and recent development of macroeconomics?
    A. The classical view was the predominant economic philosophy until the great depression.
    B. The Keynesian economics is more useful for analyzing the macro economy in the short run.
    C. The most recent wave of new Keynesian economics is more micro based.
    D. Monetarists argue that it is fiscal policy that addresses the macroeconomic problem.
69. Which of the following theory is related to Jean Baptist Say?
    A. “An economy is self-adjusting and self-correcting.”
    B. “Supply creates its own demand”
    C. “Nothing is as permanent as a temporary government program.”
    D. “There is no such a thing as free lunch.”
70. A tax that is imposed on the service given to individual affixing seals
    A. Withholding tax B. stamp duty C. sur tax D. turnover tax
71. Which one of the followings is linked to the concept of tax incidence?
    A. Tax incidence is the percentage rate at which the economic activity is taxed
    B. Tax incidence relates to the way the burden of a tax is distributed among economic units.
    C. Tax incidence refers to the quantity of an economic activity is taxed.
    D. Though taxes may be collected from all economic units, the ultimate burden may fall on firms.

72. Which one of the following is a feature of a tax?

A. A tax is voluntary payment to be paid by citzens who are supposed to be liable to pay it
B. A tax payer should receive a benefit proportional to the tax he/she has paid.
C. A tax is a payment for the indirect service to be provided by the government to a community as a whole.
D. A tax is a price paid by the tax payer for any definite service render or a commodity offered by the government.

73. Which of the following government authority is responsible for making monetary policy in Ethiopia?
A. The Ministry of Revenue
B. The National Bank of Ethiopia
C. The Commercial Bank of Ethiopia
D. Ministry of Finance and Economic Development

74. Which of the following is the disadvantage of fixed exchange rate policy?
A. Absence of speculation
B. Constraint on government policy
C. Certainty
D. Problem with reserve

75. Which exchange rate system is currently in use in Ethiopia?
A. fixed exchange rate
B. managed floating exchange rate
C. free floating exchange rate
D. mixed

76. Which of the following is not the advantage of floating exchange rate?
A. protection from external shocks
B. lack of policy constraint
C. no constraint on domestic policy
D. correction of balance of payment deficit

77. “freely floating exchange rates” describes the exchange regime of
A. all but a small minorities of the countries of the world
B. the major industrialized countries
C. most very small countries
D. most very poor countries

78. A floating exchange rate
A. is determined by the national governments involved
B. remain extremely stable over long period of time
C. remains extremely unstable over long period of time
D. is allowed to vary according to market forces

79. Government spending
A. tends to increase with increase in the price level.

B. tends to increase with decrease in the price level
C. is not component of aggregate demand
D. remains generally un affected by changing in the price level

80. The relationship between the overall price level in the economy and total production by firms is shown in the
A. aggregate supply curve C. inflation
B. aggregate demand curve D. business cycle

81. _____ is the idea that one party (agent) conveys some meaningful information about itself to another party.
A. Screening B. Moral hazard C. Signaling D. Consumer protection

82. Free riding can occur if the good is
A. excludable and non-rival
B. excludable and rival
C. non-excludable and rival
D. non-excludable and non-rival

Answer question no 83 and 84 based on the following information.

Components of GDP	**Birr**
Private final consumption expenditure	**120,000**
Government final consumption expenditure	**200,000**
Investment	**70,000**
Gross capital formation	**40,000**
Net export	**(-20,000)**
Net factor income	**(-10,000)**
Indirect tax	**5,000**
Depreciation	**7,000**

83. GDP is _____
A. 410,000 B. 400,000 C. 422,000 D. 430,000

84. GNP is
A. 400,000 B. 410,000 C. 430,000 D. 422,000

85. A tax that is imposed based on the value of the commodity that you purchase is known as_____
A. value added tax C. sales tax
B. turn over tax D. withholding tax

86. Which of the following is an example of a direct tax in the Ethiopian tax system?

A. Value Added Tax (VAT) C. Excise Tax
B. Customs Duty D. Corporate Income Tax (CIT)

Question number 87 and 88 are based on the following data

Individual	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
Income	**280**	**350**	**220**	**310**	**270**	**260**	**230**	**320**

The poverty line is 300.

87. The head count index is _____.
A. 5/8 B. 3/5 C. 5/3 D. 8/5
88. The poverty gap index is _____.
A. 23/240 B. 30/240 C. 25/240 D. 28/240
89. Assume there are a total of 14 persons in an economy. Half of the total population earns 100 birr per day and the other half earns 200 birr per day. How much is the Gini coefficient?
A. 0.456 B. 0.175 C. 0.087 D. 0.412
90. One of the following is not the use of measuring poverty.
A. To keep poor people on the agenda.
B. To be able to identify poor people so that we are able to target appropriate interventions.
C. To show that how much proportion of the society is poor to those who are rich.
D. To monitor and evaluate projects and policy interventions geared to poor people.
91. An aggregate supply curve that is vertical line parallel to the y axis must be
A. a short run curve C. a long run curve
B. an individual supply curve D. an industries supply curve
92. Sticky wage causes
A. the short run aggregate supply curve to slope upward.
B. the short run aggregate supply curve to slope down ward.
C. long run aggregate supply curve to slope upward.
D. long run aggregate supply curve to slope down ward
93. Which of the following is not the way to measure poverty?
A. Head count index C. total poverty gap
B. Gini coefficient D. multidimensional poverty index
94. Poverty head count index is not a preferable measure of poverty because
A. it is not clear to apply head count index for stasticians.

B. it doesn’t indicate degree of inequality among the poor.
C. it is costly to implement.
D. it is a better measure for inequality than poverty.

95. As the Lorenz curve is far from the line of equality, it shows
A. the income inequality between the rich and the poor become narrow.
B. the income gap between the rich and the poor become wide
C. neither the income gap narrow nor wide, rather it shows how much percent of the population is rich.
D. it doesn’t indicate inequality of income and wealth. It indicates the gap between saving and investment

96. Assume the Gini coefficient of Ethiopia is **0.6** what is the interpretation of the no 0.6?
A. The tendency of inequality is much higher than being unequal.
B. It means 60% of the total population is below the poverty line.
C. It means 60% of the total population is above the poverty line.
D. The tendency of inequality is much higher than being equal.

97. Which one of the following is not the dimension of measuring poverty by multidimensional poverty index?
A. Education B. road construction C. health D. standard of living

98. Functional distribution of income is:
A. the share of total national income that each of the factors of production receives.
B. the share of individual persons or house hold and the total income they receive regardless of the way they receive that income.
C. it is the difference between household income from different source and business firm’s income.
D. it is the difference between total poverty gap and poverty line

99. Which of the following is not the reason that women are poor especially in sub-Saharan African countries?
A. Women have less access to education, formal sector employment, social security and government employment program.
B. Women are much likely to obtain formal employment in private companies.
C. Women are much likely to obtain formal employment in public agencies.
D. Women in sub-Saharan Africa never use their capacity to withdraw from poverty.

100. _____ is a rotating credit association which is established by a small group of people in order to provide substantial funding to improve their living condition.

A. Equb B. Idir C. Debo D Micro finance institution