AGEW MIDER COMPREHSIVE & SECONDARY SCHOOL ECONOMICS WORK SHEET FROM CHAPTER-1&2 FOR GRADE 12 STUDENTS ON NOVEMBER 2018 E.C

PART I: ***Choose the correct answer for the following alternative***

Concept of macro economics

1. **Macroeconomics primarily studies:**
   A. Individual households B. Individual firms C. The economy as a whole D. Single product markets
2. **The term "macro" comes from the Greek word meaning:**
   A. Small B. Market C. Large D. Production
3. **Macroeconomics emerged as a separate field mainly due to:**
   A. Milton Friedman's work B. Adam Smith's book
   C. Keynes' *General Theory* (1936) D. Ricardo's *Principles of Economics*
4. **Which of the following is NOT a key area of macroeconomics?**
   A. Inflation B. National income C. Consumer utility D. Employment
5. **A major goal of macroeconomics is:**
   A. Price stability B. Maximizing firm profit
   C. Minimizing cost of production D. Determining product elasticity

GDP, GNP, AND ECONOMIC MEASUREMENT

6. **GDP measures:**
   A. Total value of goods produced by nationals abroad B. Final goods produced within a country
   C. Income from foreign investments D. Total population income
7. **GNP is calculated as:**
   A. GDP – NFI B. GDP + NFI C. GDP × NFI D. GDP ÷ NFI
8. **The expenditure formula for GDP is:**
   A. C + I + G B. W + R + I + P C. C + I + G + (X – M) D. Total value added – depreciation
9. **Real GDP differs from nominal GDP because real GDP:**
   A. Excludes services B. Uses current prices C. Uses constant prices
   D. Excludes government spending
10. **Real GDP is preferred for comparing:**
    A. Taxes B. Prices only C. Production over time D. Firm profits
11. **Intermediate goods are excluded from GDP because:**
    A. They have no value B. They are illegal
    C. Counting them causes double counting D. They are produced abroad

12. **Net Factor Income from Abroad (NFI) is:**
A. Export earnings B. Income earned by foreigners
C. Income received from abroad minus income paid to foreigners D. None of the above

13. **If NFI is negative, then:**
A. GNP > GDP B. GDP > GNP C. GDP = GNP D. NFI has no effect

14. **The value added method sums up:**
A. Sales of all firms B. Profits of all firms
C. Value addition at each production stage D. Total money supply

15. **GDP does NOT include:**
A. Market goods B. Government purchases
C. Household unpaid work D. Investment

16. **Which increases GDP?**
A. Increase in illegal activities B. More home gardening
C. Higher market production of goods D. More leisure time

ECONOMIC GROWTH AND HDI

17. **Economic growth refers to an increase in:**
A. Government income B. Money supply
C. A country's capacity to produce goods/services D. Employment only

18. **Which is NOT a determinant of economic growth?**
A. Labor B. Capital C. Technology D. Consumer taste

19. **A major challenge in measuring GDP in developing countries is:**
A. Too many large industries B. Underestimation due to subsistence farming
C. No informal sector D. Over reporting of income

20. **HDI includes all EXCEPT:**
A. Life expectancy B. Education C. GNI per capita D. Military strength

21. **HDI was developed by:**
A. IMF B. World Bank C. UNDP D. WTO

22. **A fall in the general price level is called:**
A. Inflation B. Deflation C. Disinflation D. Reflation

23. **GDP deflator measures:**
A. Consumer prices only B. Producer costs
C. Prices of all final goods and services D. Household income

24. **Real GDP increases only if:**

A. Prices rise B. Money supply increases C. Output increases D. Exchange rate rises

INFLATION

25. **Inflation is defined as:**
A. Fall in prices B. Rise in general price level C. Increase in imports only D. Decrease in money supply

26. **CPI measures the price changes of:**
A. Producer goods B. Consumer goods basket C. Export goods D. Raw materials

27. **A common cause of demand-pull inflation is:**
A. Higher wages B. Increased production costs C. Excessive demand over supply D. Decreased money supply

28. **Cost-push inflation occurs due to:**
A. Higher consumer demand B. Increase in production costs C. Excess money supply D. Increase in imports

29. **Hyperinflation refers to inflation that exceeds:**
A. 5% per year B. 10% per month C. 50% per month D. 2% per year

30. **Which policy can control inflation?**
A. Increasing government spending B. Lowering interest rates C. Raising interest rates D. Increasing subsidies

31. **Which factor MOST enhances long-run economic growth?**
A. Increasing money supply B. Improved technology C. Rising inflation D. Higher imports

32. **HDI measures development in how many dimensions?**
A. One B. Two C. Three D. Four

33. **Which indicator in HDI measures the *standard of living*?**
A. Life expectancy B. Adult literacy C. Gross National Income per capita D. School enrollment

34. **Which type of inflation is caused by a rise in production costs?**
A. Demand-pull B. Cost-push C. Hyperinflation D. Structural inflation

35. **Which is a consequence of inflation?**
A. Increase in purchasing power B. Reduction in cost of living
C. Decline in real value of money D. Higher real wages

36. **Which group benefits from inflation?**
A. Lenders B. Creditors C. Firms with fixed prices D. Borrowers

37. **Monetary inflation results from:**
A. Increase in wages B. Increase in money supply
C. Increase in exports D. Fall in cost of production

38. **Which measure of inflation is based on a consumer goods basket?**
A. GDP deflator B. CPI C. PPI D. GNP deflator

LABOUR MARKET & UNEMPLOYMENT

39. **A person actively looking for work but not employed is:**
A. Employed B. Not in labor force C. Unemployed D. Retired

40. **Labor force consists of:**
A. Only employed B. Only unemployed C. Employed + unemployed D. Population above 18

41. **Frictional unemployment occurs when:**
A. There is a recession B. Workers are between jobs
C. Skills do not match available jobs D. Technology replaces workers

42. **Cyclical unemployment is caused by:**
A. Lack of job search effort B. Low aggregate demand C. Seasonal jobs D. Technology changes

43. **Structural unemployment results from:**
A. Job switching B. Skills mismatch C. Business cycles D. High inflation

44. **Underemployment refers to:**
A. People working more hours B. Overqualified workers in low-skill jobs
C. Unwilling workers D. Workers who refuse jobs

45. **A full-time student not looking for a job is:**
A. Unemployed B. Employed C. Not in labor force D. Underemployed

46. **Which type of unemployment is temporary and unavoidable?**
A. Cyclical B. Structural C. Frictional D. Seasonal

47. **Cyclical unemployment occurs during:**
A. Economic booms B. Recessions C. Seasonal job changes D. High inflation periods

48. **Structural unemployment can be reduced by:**
A. Printing money B. Training and skill programs C. Increasing interest rates D. Raising taxes

49. **A mismatch between job skills and job requirements leads to:**
A. Frictional unemployment B. Seasonal unemployment C. Structural unemployment D.Cyclical unemployment

BUSINESS CYCLE

50. **A business cycle refers to:**

A. Long-run GDP trend only B. Short-term fluctuations in economic activity

C. Yearly tax changes D. Trade cycles only

51. **During expansion:**

A. GDP falls B. Unemployment increases C. GDP rises D. Inflation drops sharply

52. **The lowest point of a business cycle is:**

A. Peak B. Expansion C. Trough D. Midpoint

53. **A contraction phase is characterized by:**

A. Rising GDP B. Falling inflation C. Increasing unemployment D. Increasing consumption

54. **Peaks occur when:**

A. Economy is weakest B. Output is at maximum C. Unemployment is highest D. Prices collapse

55. **During the peak phase, the economy experiences:**

A. High unemployment B. Low GDP C. Maximum output D. High poverty

56. **The turning point from expansion to contraction is:**

A. Trough B. Peak C. Recession D. Depression

57. **Which causes business cycle fluctuations?**

A. Consumer confidence changes B. Tax evasion C. Illegal trade D. Weather conditions alone

58. **When aggregate demand decreases sharply, the economy may enter:**

A. Expansion B. Boom C. Recession D. Peak

59. **In the trough phase:**

A. Output is highest B. Output is at its lowest C. Investment is high D. Inflation is very high

MICROECONOMICS

60. **Microeconomics focuses on:**

A. Aggregate output B. National income C. Individual households and firms D. Inflation trends

61. **Which is NOT a microeconomic topic?**

A. Supply and demand B. Market structures C. Consumer behavior D. GDP growth rate

62. **Which policy is used to influence *aggregate demand*?**

A. Trade policy B. Fiscal and monetary policy C. Labor laws D. Environmental policy

63. **Which of the following is a macroeconomic issue?**

A. How many cars one firm should produce B. How consumers maximize utility

C. The national inflation rate D. The price of one specific commodity

Balance of Trade

64. Trade surplus occurs when:
A. Imports exceed exports B. Exports exceed imports
C. Exports equal imports D. Government revenue exceeds spending

65. A persistent trade deficit may lead to:
A. Currency appreciation B. Reduced borrowing C. Financial crises D. Higher tax revenue

66. Ethiopia’s trade balance in 2020 recorded:
A. Trade surplus B. Trade deficit C. Balanced trade D. No recorded data

Managing Trade Imbalances

67. A trade deficit can be sustainable if:
A. It funds consumption only B. It is financed by productive investments
C. Imports fall to zero D. The government prints more money

68. A major historical financial crisis caused by large trade imbalances includes:
A. 2008 Global Crisis B. 1997–98 Asian Financial Crisis C. 1980 Oil Crisis D. 1929 Stock Crash

Classical & Neoclassical Economics

69. Classical economists believe recessions are corrected by:
A. Sticky prices B. Government spending C. Price and wage flexibility D. Increasing money supply

70. Classical economists argue for:
A. Active fiscal policy B. Minimal government intervention
C. Fixed prices D. Expansionary monetary policy

71. Neoclassical economics focuses on:
A. Short-run fluctuations B. Long-run potential GDP and natural unemployment
C. Sticky wages D. Government stimulus

Keynesian Economics

72. Keynesian economists argue recessions are caused by:
A. Excessive government spending B. Insufficient aggregate demand

C. Low exports D. High money supply

73. According to Keynes, the best policy to fight recession is:
A. Reduce money supply B. Increase government spending
C. Increase interest rates D. Reduce wages

74. Keynesians believe monetary policy may be ineffective because:
A. People refuse to borrow B. Prices are flexible C. Wages and prices are sticky D. Investment always rises

Monetarism

75. Monetarists emphasize controlling:
A. Government spending B. Money supply C. Wage levels D. Trade balance

76. Monetarists argue fiscal policy is weak due to:
A. Sticky prices B. Crowding out C. High inflation D. Flexible markets

77. According to Milton Friedman, monetary policy should:
A. Rapidly change B. Be unpredictable C. Follow a constant growth rate D. Be replaced by fiscal policy

New Classical Economics

78. New Classical economics is based on the assumption of:
A. Sticky wages B. Rational expectations C. Fixed prices D. Market failures

79. Policy Ineffectiveness Proposition (PIP) states that:
A. Monetary policy strengthens GDP
B. Fiscal policy always works
C. Predictable policies are ineffective because people adjust expectations
D. Government can stabilize the economy

New Keynesian Economics

80. New Keynesians believe that unemployment occurs because:
A. Workers choose not to work B. Prices and wages are sticky
C. Markets always clear D. Expectations are irrational

81. Compared to New Classical theory, New Keynesians believe government intervention:
A. Is unnecessary B. Is harmful C. Can stabilize the economy D. Is useless due to rational expectations

Comparing Schools of Thought

82. Which school supports active fiscal policy?
A. Classical B. New Classical C. Keynesian D. Monetarist

83. Monetarists believe economic stability is achieved through:
A. Increasing government spending B. Controlling money supply
C. Wage regulation D. Export promotion

84. A key difference between New Classical and New Keynesian economics is:
A. Government role B. Inflation effects C. Productivity levels D. Interest rate levels

Monetary & Fiscal Policy

85. Which tool is NOT part of monetary policy?
A. Open-market operations B. Changing interest rates C. Changing tax rates D. Reserve requirements

86. Contractionary monetary policy is used to:
A. Increase inflation B. Decrease inflation C. Increase exports D. Increase government spending

87. Expansionary fiscal policy typically involves:
A. Increasing taxes B. Decreasing government spending
C. Increasing government spending D. Increasing interest rates

88. Which of the following is a fiscal policy tool?
A. Controlling money supply B. Raising or lowering government expenditure
C. Changing reserve ratios D. Printing currency

Balance of Trade

89. A country with exports equal to imports is said to have:
A. Trade surplus B. Trade deficit C. Balanced trade D. Negative balance

90. A persistent trade surplus tends to:
A. Depreciate the currency B. Strengthen the currency
C. Increase inflation automatically D. Reduce foreign investment

91. A country facing a trade deficit must often:
A. Reduce all imports B. Borrow from abroad C. Increase exports immediately D. Stop foreign investment

92. The balance of trade measures the difference between:
A. Government spending and taxes B. Exports and imports
C. Savings and investment D. Money supply and interest rates

93. If exports exceed imports, the country has a:
A. Trade deficit B. Balanced trade C. Trade surplus D. Negative trade balance

94. A trade deficit means:
A. Imports > Exports B. Exports > Imports C. Government revenue > Expenditure D. Money supply > Credit

95. Which of the following is a consequence of a trade deficit?
A. Currency appreciation B. Lower foreign borrowing C. Increased external debt D. Higher tax revenue

96. A country with balanced trade has:
A. Exports = Imports B. Exports > Imports C. Imports > Exports D. No foreign transactions

97. A persistent trade surplus tends to:
A. Strengthen the currency B. Increase unemployment C. Reduce money supply D. Worsen inflation

98. Ethiopia's 2020 trade deficit was caused mainly by:
A. Excessive exports B. High import demand and low export earnings
C. Overvalued currency only D. Excessive foreign aid

Trade Imbalances

99. Large trade deficits become dangerous when they lead to:
A. Increased productivity B. Rising foreign debt C. Currency appreciation D. Higher employment

100. Trade deficits can be sustainable if they finance:
A. Luxury imports B. Short-term consumption C. Productive investment D. Foreign vacations

101. The 1997–98 Asian Financial Crisis was partly caused by:
A. Trade surpluses B. Trade imbalances and excessive borrowing
C. Overproduction D. High government revenue

102. One reason large trade imbalances are dangerous is:
A. They always cause inflation B. They can lead to debt and crises
C. They reduce government spending D. They increase tax revenue

103. A trade deficit can be beneficial when it:
A. Increases consumption only B. Finances productive investments
C. Weakens domestic currency D. Leads to inflation

Classical & Neoclassical Economics

104. Classical economists believe unemployment is temporary because:
A. Wages are sticky B. Prices adjust quickly
C. Government intervenes quickly D. Interest rates fall immediately
105. According to classical theory, recessions correct through:
A. Price flexibility B. Government spending C. Wage rigidity D. Increased taxation
106. Neoclassical economists emphasize:
A. Long-run economic outcomes B. Short-run demand problems
C. Sticky wages D. Constant government stimulus
107. Classical economists believe the economy naturally returns to:
A. Recession B. Budget deficit C. Full employment D. Trade balance
108. Which economist is associated with classical economics?
A. John Maynard Keynes B. Adam Smith C. Milton Friedman D. Gregory Mankiw
109. Neoclassical economics focuses primarily on:
A. Short-run fluctuations B. Long-run equilibrium C. Recession management D. Sticky prices
110. In neoclassical theory, the economy returns to potential GDP because:
A. Prices are rigid B. Wages adjust slowly
C. Wages and prices adjust in the long run D. Government intervenes regularly
111. The main policy recommendation of neoclassical economists is:
A. Increase taxes B. Active government intervention
C. Encourage long-term growth policies D. Increase public spending during recessions
112. Supply-side economics advocates:
A. Cutting taxes to increase incentives B. Increasing government spending
C. More monetary policy D. Reducing exports
113. The classical view assumes:
A. Sticky wages B. Flexible wages and prices
C. Government intervention is essential D. Money has no effect on output

Keynesian Economics

114. Keynesians argue recessions persist because:
A. Prices are flexible B. Markets

adjust instantly

C. Aggregate demand is insufficient D. Money supply is unpredictable

115. Sticky wages imply that:

A. Wages adjust immediately B. Unemployment cannot exist

C. Wages do not fall quickly during recessions D. Prices will always rise

116. Keynesians believe fiscal policy is effective because it:

A. Reduces exports B. Influences aggregate demand directly

C. Cannot be changed D. Works even when demand is strong

117. Keynes argued that recessions occur due to:

A. Excessive taxation B. Insufficient aggregate demand

C. High interest rates D. Budget surpluses

118. Sticky wages mean:

A. Wages adjust quickly B. Wages do not fall easily during downturns

C. Wages always rise D. Wages fall faster than prices

119. Keynesian economists support:

A. Active fiscal policy B. No government intervention C. Constant money supply D. NONE

120. According to Keynes, monetary policy is weak during recessions because:

A. Interest rates rise B. Liquidity traps and low borrowing C. Wages fall quickly D. Exports increase

121. Keynesian policy response to unemployment includes:

A. Cutting wages B. Increasing government spending

C. Reducing aggregate demand D. Increasing interest rates\

122. Keynes rejected classical theory because:

A. Prices always rise B. Wages are perfectly flexible

C. Markets may not self-correct D. Governments never intervene

Monetarism

123. Monetarism is associated with:

A. Adam Smith B. David Ricardo C. Milton Friedman D. John Keynes

124. Monetarists believe the primary cause of inflation is:
A. Wage increases B. Excess government spending
C. Excessive growth of money supply D. Exchange rate fluctuations
125. Monetarists criticize fiscal policy because of:
A. Excess flexibility B. Time lags and crowding out C. Sticky wages D. Perfect markets
126. Monetarists argue monetary policy should involve:
A. Unpredictable changes B. Sudden policy shifts
C. A constant rate of money supply growth D. Increasing taxes
127. Monetarists argue that inflation is mainly caused by:
A. High wages B. Increases in government spending C. Increases in money supply D. Low interest rates
128. A major weakness of fiscal policy according to monetarists is:
A. Time lags and crowding out B. Government efficiency C. Sticky wages D. Flexible prices
129. Monetarists recommend that monetary policy should be:
A. Constant and predictable B. Aggressive and flexible C. Managed by politicians D. Eliminated entirely

New Classical & New Keynesian Economics

130. New Classical economists argue that people form:
A. Random expectations B. Adaptive expectations C. Rational expectations D. Imperfect expectations
131. According to New Classical theory, stabilization policies fail because:
A. Prices are sticky B. People adjust expectations
C. Government stops spending D. Money supply is constant
132. New Keynesians believe markets fail in the short run due to:
A. Rational expectations B. Sticky wages and prices C. Perfect competition D. Flexible markets
133. Unlike New Classical economists, New Keynesians support:
A. No intervention B. Full privatization C. Government stabilization policies D. NONE
134. New Classical economists believe people form:
A. Adaptive expectations B. Rational expectations C. Imperfect expectations D. No expectations
135. New Keynesians argue that output fluctuates because of:
A. Flexible wages B. Sticky wages and prices C. Perfect market competition D. Excessive saving

136. Unlike New Classical economists, New Keynesians believe government policy is:

A. Ineffective B. Effective in the short run C. Always harmful D. Unnecessary

CHAPTER-TWO
Aggregate Demand (AD)

1. Aggregate Demand (AD) represents:

A. Total income produced in the economy B. Total amount households save

C. Total spending on goods and services in an economy D. Total imports and exports

2. Which of the following is *not* a component of AD?

A. Consumption B. Investment C. Government spending D. Transfer payments

3. The formula for Aggregate Demand is:

A. AD = C + S + I + T B. AD = C + I + G + (X – M)

C. AD = C + I + T D. AD = Y – T + G

4. The AD curve slopes downward mainly because of the following EXCEPT:

A. Real balance effect B. Interest rate effect C. Income effect D. International trade effect

5. A fall in the price level causes:

A. Movement up the AD curve B. Movement down the AD curve

C. Rightward shift of AD D. Leftward shift of AD

6. A shift of the AD curve to the right occurs when:

A. Consumption decreases B. Interest rates increase

C. Government spending increases D. Exports decrease

7. Higher foreign income levels will:

A. Reduce domestic exports B. Increase domestic exports

C. Have no effect on exports D. Reduce government spending

8. An appreciation of domestic currency will:

A. Increase exports B. Increase imports C. Decrease imports D. Shift AD right

Factors Influencing Consumption, Investment, G, and Net Exports

9. Which factor increases consumption?

A. Higher taxes B. Higher wealth C. Lower future expected income D. Higher interest rates

10. Investment decreases when:

A. Interest rates fall B. Business taxes fall C. Interest rates rise D. Firms expect higher future sale

Aggregate Supply (AS)

11. Aggregate supply refers to the total:

A. Demand for goods and services B. Quantity of labor demanded

C. Quantity of goods and services firms are willing to supply D. Government expenditure

12. The Keynesian AS curve is:

A. Vertical B. Down ward sloping C. Horizontal D. Upward sloping

13. The Classical AS curve is:

A. Upward sloping B. Vertical C. Horizontal D. Downward sloping

14. The SRAS curve is upward sloping mainly due to:

A. Flexible wages B. Sticky wages C. Government regulations D. Productivity

15. An increase in wages shifts SRAS:

A. Right B. Left C. Downward D. Upward

16. A fall in the price level causes firms in the short run to:

A. Increase supply B. Reduce supply C. Not change supply D. Shift LRAS right

17. LRAS is:

A. Vertical B. Horizontal C. Downward sloping D. Upward sloping

Long-Run Aggregate Supply (LRAS)

18. LRAS represents:

A. Unemployment B. Natural level of output C. Surplus production D. Government spending

19. LRAS shifts to the right when:

A. Labor force decreases B. Technology improves C. Capital stock decreases D. Wages increase

Equilibrium of AD and AS

20. Market equilibrium occurs where:

A. AD = LRAS B. AD = SRAS C. SRAS = LRAS D. Consumption = Investment

21. A surplus in the goods market occurs when:

A. Price level is below equilibrium B. Quantity supplied < quantity demanded

C. Price level is above equilibrium D. AD > SRAS

22. A recessionary gap occurs when:

A. AD intersects LRAS B. AD < SRAS C. AD is to the left of LRAS D. AD is to the right of SRAS

23. A positive demand shock causes:

A. Lower price levels B. Higher output and higher prices C. Lower wages D. Lower equilibrium output

24. A negative supply shock causes:

A. Higher real GDP and lower price levels B. Higher price levels and lower real GDP

C. Lower price levels and higher real GDP D. No change in equilibrium

25. A rightward shift of LRAS indicates:

A. Economic decline B. Increase in potential output C. Higher unemployment D. Decrease in resources

26. Sticky wages are associated with:

A. Long run B. Classical theory C. Short run D. LRAS

27. A negative supply shock leads to:

A. Stagflation B. Deflation C. Full employment D. Increased LRAS

28. Demand-pull inflation occurs when:

A. AD shifts right B. SRAS shifts right C. LRAS shifts right D. AD shifts left

29. Real balance effect states that:

A. Higher price level increases purchasing power B. Higher price level reduces purchasing power

C. Money supply determines output D. Government spending determines prices

30. International trade effect means:

A. Lower domestic prices increase exports B. Lower domestic prices reduce exports

C. Higher domestic prices increase exports D. Higher domestic prices reduce imports

31. Business taxes increasing cause:

A. AD to shift right B. AD to shift left C. SRAS to shift right D. LRAS to shift right