

Question No: 1 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ To  
calculate the price elasticity of demand, you need to know \_\_\_\_\_ point(s)  
on the \_\_\_\_\_ demand curve.

- ▶ One, same.
- ▶ Two, same.
- ▶ One, opposite.
- ▶ Two, opposite.

Question No: 2 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ Governments protect domestic industries from foreign competition by \_\_\_\_\_.

- ▶ Encouraging agreements like NAFTA.
- ▶ Using tariff and non tariff barriers.
- ▶ Discouraging union membership.
- ▶ Keeping the minimum wage low.

Question No: 3 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ To  
make the equation of exchange in the quantity theory of money:

- ▶ V and Q are assumed to be constant.
- ▶ The money supply is assumed to be produced by the banking system and not exclusively in currency.
- ▶ The quantity of money is assumed to determine the amount of Real GDP.
- ▶ M and P are considered constant.

Question No: 4 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ In  
the equation  $MV = PQ$ , according to the crude quantity theory of money:

- ▶ M has no effect on the price level.
- ▶ V is the number of times each dollar is spent per year.
- ▶ Q is the real price level.
- ▶ P rises as V falls, other things constant.

Question No: 5 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ What would result from a depreciation of the pound on the foreign exchange market?

- ▶ An increase in the price of imported computers.
- ▶ A fall in the purchasing power of US tourists in London.
- ▶ A fall in the price of imported computers.
- ▶ An increase in the purchasing power of UK tourists overseas.

**Question No: 6 ( Marks: 1 ) - Please choose one**

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**Disposable income is:**

- ▶ Total income plus transfer payments.
- ▶ Total income minus saving.
- ▶ Total income plus net taxes.
- ▶ **Total income minus net taxes.**

**Question No: 7 ( Marks: 1 ) - Please choose one**

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**How should monetary policy be used during recessions?**

- ▶ Decrease money supply to increase interest rate and increase aggregate demand.
- ▶ Increase money supply to increase interest rate and increase aggregate demand.
- ▶ **Decrease money supply to decrease interest rate and increase aggregate demand.**
- ▶ Increase money supply to decrease interest rate and increase aggregate demand.

**Question No: 8 ( Marks: 1 ) - Please choose one**

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**Which of the following policy options would simultaneously increase interest rates and decrease output?**

- ▶ **The central bank sells bonds through open market operations.**
- ▶ The federal government increases its defense purchases.
- ▶ The central bank expands the money supply.
- ▶ The federal government increases the tax rate.

**Question No: 9 ( Marks: 1 ) - Please choose one**

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**increase in the money supply will cause interest rates to:**

- ▶ **Rise.**
- ▶ Fall.
- ▶ Remain unchanged.
- ▶ None of the given options.

**Question No: 10 ( Marks: 1 ) - Please choose one**

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**Commercial banks in Pakistan are supervised by:**

- ▶ **State bank.**
- ▶ National bank.
- ▶ Finance minister.
- ▶ World bank.

Question No: 11 ( Marks: 1 ) - Please choose one

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Fiscal policy is the government program with respect to its:

- ▶ Expenditure and tax revenue.
- ▶ Increase in unemployment.
- ▶ Steel Mill Privatization.
- ▶ Unemployment reduction.

Question No: 12 ( Marks: 1 ) - Please choose one

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expansionary fiscal policy can:

- ▶ Raise the national debt.
- ▶ Decrease the national debt.
- ▶ Have no effect on national debt.
- ▶ None of the given options.

Question No: 13 ( Marks: 1 ) - Please choose one

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If a war destroys a large portion of a country's capital stock but the saving rate is unchanged, the exogenous model predicts that output will grow and the new steady state will approach:

- ▶ A higher output level than before.
- ▶ The same output level as before.
- ▶ A lower output level than before.
- ▶ The Golden Rule output level.

Question No: 14 ( Marks: 1 ) - Please choose one

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If the prices of all goods and services rise during the year:

- ▶ Real GDP may fall.
- ▶ Nominal GDP must fall.
- ▶ Nominal GDP may increase.
- ▶ Real GDP must rise.

Question No: 15 ( Marks: 1 ) - Please choose one

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Is Gross Domestic Product (GDP) an accurate measure of a country's well being?

- ▶ Yes, it is the best measure of national well being.
- ▶ Yes, provided we use real GDP and not nominal GDP.
- ▶ Uncertain, depending on whether GDP is rising or falling.
- ▶ No, it is not.

Question No: 16 ( Marks: 1 ) - Please choose one

Economic activity moves from a trough into a period of ----- until it reaches a ----- and then into a period of -----.

- ▶ Expansion; trough; recession
- ▶ Recession; trough; expansion
- ▶ **Expansion; peak; recession**
- ▶ Recession; peak; expansion

Question No: 17 ( Marks: 1 ) - Please choose one

The

Phillips curve will shift to the right:

- ▶ If there is a decrease in the expected inflation rate.
- ▶ If there is an increase in the expected inflation rate.
- ▶ If there is a decrease in the natural rate of unemployment.
- ▶ **If there is a favorable supply shock.**

Question No: 18 ( Marks: 1 ) - Please choose one

A

decrease in the natural rate of unemployment will:

- ▶ Shift the Phillips curve to the left.
- ▶ Result in a decrease in the inflation rate along the Phillips curve.
- ▶ **Shift the Phillips curve to the right.**
- ▶ Result in an increase in the inflation rate along the Phillips curve.

Question No: 19 ( Marks: 1 ) - Please choose one

The

unemployment rate is equal to:

- ▶ Number of employed / labour force x 100.
- ▶ Number of unemployed / labour force.
- ▶ **(Number of unemployed / labour force) x 100.**
- ▶ None of the given options.

Question No: 20 ( Marks: 1 ) - Please choose one

Suppose that your income increases from \$100,000 to \$150,000 and your consumption increases from \$80,000 to \$120,000. Your Marginal Propensity to Save (MPS) is:

- ▶ 0.2.
- ▶ 0.4.
- ▶ 0.6.
- ▶ **0.8.**

**Question No: 21 ( Marks: 1 ) - Please choose one**

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**Which of the following is NOT a stock variable?**

- ▶ Government debt.
- ▶ **Capital.**
- ▶ The amount of money held by the public.
- ▶ Inventory investment.

**Question No: 22 ( Marks: 1 ) - Please choose one**

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**Which of the following is a flow variable?**

- ▶ The value of the house in which you live.
- ▶ The balance in your savings account.
- ▶ **Your monthly consumption on food items.**
- ▶ The number of carrots in your refrigerator at the beginning of the month.

**Question No: 23 ( Marks: 1 ) - Please choose one**

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**Real Gross Domestic Product (GDP) is measured:**

- ▶ At base year prices.
- ▶ At current year prices.
- ▶ At a constant output level but at current prices.
- ▶ **As the difference between the current year's GDP and last year's GDP.**

**Question No: 24 ( Marks: 1 ) - Please choose one**

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**According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:**

- ▶ Both prices and output to rise.
- ▶ Prices to fall and output to remain unchanged.
- ▶ Both prices and output to fall.
- ▶ **Prices to rise and output to remain unchanged.**

**Question No: 25 ( Marks: 1 ) - Please choose one**

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**According to classical economics, the economy was unlikely to experience:**

- ▶ **Full employment.**
- ▶ Flexible wages and prices.
- ▶ Equality between saving and investment.
- ▶ High rates of unemployment.

**Question No: 26 ( Marks: 1 ) - Please choose one**

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**primary implication of Keynesian economics is:**

- ▶ The best government is the least government.
- ▶ **Flexible wages and prices ensure full employment.**
- ▶ Monetary policy is far superior to fiscal policy.
- ▶ Business-cycle instability is best corrected through government policies.

**Question No: 27 ( Marks: 1 ) - Please choose one**

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**Keynesian economics was the predominant economic theory:**

- ▶ Prior to the late 1700s.
- ▶ From the late 1700s to the early 1900s.
- ▶ From 1930s to 1970s.
- ▶ **Since 1970s.**

**Question No: 28 ( Marks: 1 ) - Please choose one**

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**According to Keynes, the economy does not self correct quickly because:**

- ▶ With less consumption and more savings the interest rate will drop.
- ▶ In the short run workers are fully employed and cannot produce enough to get to long run equilibrium.
- ▶ Wages and prices are flexible in the short run.
- ▶ **Wages and prices are sticky in the short run.**

**Question No: 29 ( Marks: 1 ) - Please choose one**

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**Which of the following will lead to an increase in aggregate demand?**

- ▶ An increase in government tax revenues.
- ▶ An increase in household savings.
- ▶ **An increase in business capital investment.**
- ▶ An increase in demand for imports.

**Question No: 30 ( Marks: 1 ) - Please choose one**

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**aggregate supply curve is the relationship between:**

- ▶ The price level and the real domestic output purchased.
- ▶ **The price level and the real domestic output produced.**
- ▶ The price level which producers are willing to accept and the price level purchasers are willing to pay.

- ▶ The real domestic output purchased and the real domestic output produced.

**Question No: 31 ( Marks: 1 ) - Please choose one**

The marginal revenue product is:

- ▶ Upward sloping due to the law of demand.
- ▶ Upward sloping due to the law of marginal utility.
- ▶ **Downward sloping due to the law of diminishing returns.**
- ▶ Downward sloping due to the law of supply. #Upward sloping

**Question No: 32 ( Marks: 1 ) - Please choose one**

Cartels are:

- ▶ **Organizations of independent firms, producing similar products, that work together to raise prices and restrict output.**
- ▶ Organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.
- ▶ Organizations of independent firms, producing different products, that work together to raise prices and restrict output.
- ▶ Considered as part of monopolistic competition.

**Question No: 33 ( Marks: 1 ) - Please choose one**

"The situation in which two or more firms set their prices and output according to a plan agreed upon between them in order to divide the market among themselves". Which of the following best describes this situation?

- ▶ Strategic interaction.
- ▶ Monopolistic competition.
- ▶ Oligopoly.
- ▶ **Collusion.**

**Question No: 34 ( Marks: 1 ) - Please choose one**

Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?

- ▶ Duopoly.
- ▶ Cartel.
- ▶ Market sharing monopoly.
- ▶ **Natural monopoly.**

**Question No: 35 ( Marks: 1 ) - Please choose one**

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Under the kinked demand curve model, an increase in marginal cost will lead to:

- ▶ An increase in output level and a decrease in price.
- ▶ **A decrease in output level and an increase in price.**
- ▶ A decrease in output level and no change in price.
- ▶ Neither a change in output level nor a change in price.

Question No: 36 ( Marks: 1 ) - Please choose one

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Welfare economics is the branch of economics which deals with:

- ▶ Positive issues.
- ▶ **Normative issues.**
- ▶ Micro issues.
- ▶ Macro issues.

Question No: 37 ( Marks: 1 ) - Please choose one

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welfare loss occurs in monopoly where: A

- ▶ The price is greater than the marginal cost.
- ▶ The price is greater than the marginal benefit.
- ▶ The price is greater than the average revenue.
- ▶ **The price is greater than the marginal revenue.**

Question No: 38 ( Marks: 1 ) - Please choose one

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monopoly, which of the following is NOT true? In

- ▶ **Products are differentiated.**
- ▶ There is freedom of entry and exit into the industry in the long run.
- ▶ The firm is a price maker.
- ▶ There is one main seller.

Question No: 39 ( Marks: 1 ) - Please choose one

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Graphically, the Marginal Cost curve cuts through the Average Total Cost curve at:

- ▶ The lowest point on the MC curve.
- ▶ The highest point on the MC curve.
- ▶ **The lowest point on the ATC curve.**
- ▶ The middle of the upward-sloping portion of the total cost curve.

Question No: 40 ( Marks: 1 ) - Please choose one

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current output is less than the profit-maximizing output then which of the following must If

be TRUE?

- ▶ Total revenue is less than total cost.
- ▶ Average revenue is less than average cost.
- ▶ **Marginal revenue is less than marginal cost.**
- ▶ Marginal revenue is greater than marginal cost.

Question No: 41 ( Marks: 1 ) - Please choose one

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A

production function:

- ▶ **Relates inputs with output.**
- ▶ Generates a curve that is upward sloping.
- ▶ Shows diminishing marginal product of an input, since it gets flatter as output rises.
- ▶ All of the given options.

Question No: 42 ( Marks: 1 ) - Please choose one

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A

normal good can be defined as one which consumers purchase more of as:

- ▶ Prices fall.
- ▶ Prices rise.
- ▶ Incomes fall.
- ▶ **Incomes increase.**

Question No: 43 ( Marks: 1 ) - Please choose one

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If a

market basket is changed by adding more to at least one of the goods, then every consumer will:

- ▶ Rank the market basket more highly after the change.
- ▶ Rank the market basket more highly before the change.
- ▶ **Rank the market basket just as desirable after the change.**
- ▶ Be unable to decide whether he prefers the first market basket to the second or the second to the first.

Question No: 44 ( Marks: 1 ) - Please choose one

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The

concept of a risk premium applies to a person that is:

- ▶ All of the given options.
- ▶ Risk averse.
- ▶ Risk neutral.
- ▶ **Risk loving.**

Question No: 45 ( Marks: 1 ) - Please choose one

Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

- ▶ Horizontal.
- ▶ Vertical.
- ▶ **Negative.**
- ▶ Positive.

Question No: 46 ( Marks: 1 ) - Please choose one

The extra value that consumers receive above what they pay for that good is called:

- ▶ Producer surplus.
- ▶ Utility.
- ▶ Marginal utility.
- ▶ **Consumer surplus.**

Question No: 47 ( Marks: 1 ) - Please choose one

If a decrease in price increases the total revenue then:

- ▶ **Demand is elastic.**
- ▶ Demand is inelastic.
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

Question No: 48 ( Marks: 1 ) - Please choose one

The concave shape of the production possibilities curve for two goods X and Y illustrates:

- ▶ **Increasing opportunity cost for both goods.**
- ▶ Increasing opportunity cost for good X but not for good Y.
- ▶ Increasing opportunity cost for good Y but not for good X.
- ▶ Constant opportunity cost for both goods.

Question No: 49 ( Marks: 1 ) - Please choose one

While moving from left to right, the typical production possibilities curve has:

- ▶ **An increasingly steep negative slope.**
- ▶ A decreasingly steep negative slope.
- ▶ An increasingly steep positive slope.
- ▶ A constant and negative slope.

**Question No: 50 ( Marks: 1 ) - Please choose one**

**Our**

**economy is characterized by:**

- ▶ **Unlimited wants and needs.**
- ▶ Unlimited material resources.
- ▶ No energy resources.
- ▶ Abundant productive labor.

**Question No: 51 ( Marks: 5 )**

**Define foreign exchange markets. Also give some examples of foreign exchange markets.**

Foreign exchange markets:

The foreign exchange market is a specific system of a country for a foreign trade and currency exchange. For example, if Pakistan imports a product from USA, Pakistan will buy dollars from rupees, so Pakistan exchanged its currency in foreign market.

Foreign markets depend on imports, exports and currency exchanged process. By these ways two countries exchange their markets.

**Question No: 52 ( Marks: 10 )**

**What will be the role of government in the foreign exchange market in the following cases?**

**a. If the supply curve of dollars shifts to the right due to rise in exports.**

if the supply curve of dollars shifts to the right due to rise in exports, the government role in foreign markets will be very good. Because due to rise in exports government will exchange money and they will gain high price against its currency. The government will increase its exports so it raises the price of its currency in foreign exchange.

**b. If the demand curve for dollars shifts to right due to rise in imports.**

If the demand curves for dollars shifts to right due to rise in imports, the government should decrease the imports rate to save the currency from falling its price. Basically rise in imports decreases the price of currency in foreign exchange markets. So government will slow down the imports and will try to increase its own products to complete the necessary requirement of the country.

**(Marks:5+5)**

**Question No: 53 ( Marks: 10 )**

**Define fiscal policy. Differentiate between contractionary and expansionary fiscal policy. In which situations, budget deficit and budget surplus exist?**

**Fiscal policy:**

Fiscal policy is basically a government policy for expenses, imports, exports of goods, benefits from unemployment, interest on debts etc.

**Expansionary fiscal policy:**

When there is an increase in government spending, there will be more interest rate of bank loan which government has borrowed for spending.

**Contractionary fiscal policy:**

In this policy the aggregate demand rises due to increase in unemployment rate of country. Unemployment rise the government expenditures.

(Marks: 2+4+4)

**Question No: 54 ( Marks: 10 )**

A. \_\_\_\_\_

**If there is a gradual increase in the saving rate over time, would this lead to sustained economic growth? Give your answer with brief explanation.**

Definitely, it will increase economic growth rate. As we save more and more money or goods from spendings. Our economical position becomes good. If we have much more savings we can invest it in a good business or production. This savings will produce more goods and and may be more people will be employed in this process. So our country will develop gradually. By this way we will be able to increase our growth rate economically.

**B. If this is true, why do people not increase their rate of saving?**

Some times People are afraid because of decrease in saving rate and from low exchange rate. They don't put their money in banks. And they sometimes don't invest. For a good economical growth extra time is required which more people don't want to wait. Sometimes the savings rate from banks is too low.

**C. If there is a higher participation rate and GDP per capita rises, would output per worker also rise? Give your answer with brief explanation.**

Yes, because when the rate of GDP per capita rises, there will be more and more chances for employment and the life of people will become standard. They will increase the salaries and wages of workers. By this way the workers will be motivated and they will produce more output.

(Marks:4+3+3)