

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

the quantity supplied of oranges exceeds the quantity demanded then:

If

- ▶ There is a shortage of oranges.
- ▶ Market forces will cause the price to fall.
- ▶ Market forces will cause the price to rise.
- ▶ The market is in equilibrium.

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

Indifference curves that are convex to the origin reflect:

- ▶ An increasing marginal rate of substitution.
- ▶ A decreasing marginal rate of substitution.
- ▶ A constant marginal rate of substitution.
- ▶ A marginal rate of substitution that first decreases, then increases.

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

Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is $\frac{1}{4}$ then to maximize total utility, a consumer should:

- ▶ Buy more pizzas and fewer jeans.
- ▶ Buy fewer pizzas and more jeans.
- ▶ Continue to buy the same quantities of pizza and jeans.
- ▶ Spend more time consuming pizza.

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

long as all prices remain constant, an increase in money income results in:

As

- ▶ An increase in the slope of the budget line.
- ▶ A decrease in the slope of the budget line.

- ▶ An increase in the intercept of the budget line.
- ▶ A decrease in the intercept of the budget line.

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

Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

- ▶ Economies of scale.
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs.

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

Total costs are the sum of:

- ▶ Marginal costs and variable costs.
- ▶ Fixed costs and variable costs.
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

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

supply curve for a competitive firm is:

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.
- ▶ Its marginal cost curve above the minimum point of the average variable cost curve.
- ▶ Its marginal cost curve above the minimum point of the average total cost curve.

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

monopolistically competitive firm in short run equilibrium:

- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ Any of the given are possible.

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

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: 10 (Marks: 1) - Please choose one

The

long run aggregate supply curve will shift to the right if:

- ▶ The price level increases.
- ▶ Factors of production (such as labor and capital) increase.
- ▶ Expenditures (such as consumption and net exports) increase.
- ▶ The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

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

Keynesian economics rejected the classical assumption that:

- ▶ Supply creates its own demand.
- ▶ Prices and wages are inflexible.
- ▶ Self-correction takes a long time.
- ▶ Consumption expenditures depend on disposable income.

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

Final goods are meant for:

- ▶ Direct use by the consumers.
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

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

The

slope of the saving function (or line) is the:

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ Marginal propensity to save.
- ▶ Marginal propensity to consume.

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

investment demand curve shows the relationship between the levels of:

The

- ▶ Investment and consumption.
- ▶ Consumption and interest rate.
- ▶ Investment and interest rate.
- ▶ Investment and saving.

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

circular flow principle guarantees that in equilibrium:

The

- ▶ The level of investment spending will be equal to the level of private savings.
- ▶ The level of exports will be equal to the level of imports.
- ▶ The level of aggregate demand will be equal to real Gross Domestic Product.
- ▶ The level of government spending will be equal to tax revenue.

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

real interest rate will increase:

The

- ▶ If there is an excess supply of loanable funds in the financial markets.
- ▶ If there is an excess demand for loanable funds in the financial markets.
- ▶ If there is an excess supply of loanable funds in the foreign exchange markets.
- ▶ If there is an excess demand for loanable funds in the foreign exchange markets.

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

trend of unemployment over the last forty years is:

The

- ▶ A decrease in unemployment.
- ▶ It has remained largely unchanged.
- ▶ An increase in unemployment.
- ▶ It is too difficult to tell so don't bother.

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

Phillips curve will shift to the right:

The

- ▶ 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: 19 (Marks: 1) - Please choose one

Current account deficit is equal to:

- ▶ Private sector resource deficit.
- ▶ Government budget deficit.
- ▶ Private sector resource deficit + Government budget deficit.
- ▶ None of the given options.

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

Fiscal policy is the government program with respect to its:

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

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

Keynesian economics, an inflationary gap results if:

- ▶ Aggregate expenditures are less than aggregate production.
- ▶ Aggregate expenditures are greater than aggregate production.
- ▶ Aggregate expenditures are equal to aggregate production.
- ▶ There are no changes in inventories.

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

accelerator is a related concept which formalizes the investment response to:

- ▶ Consumption.
- ▶ Interest rate.
- ▶ Output.
- ▶ None of the given options.

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

principle economic difference between a competitive and a non-competitive market is:

- ▶ The number of firms in the market.
- ▶ The extent to which any firm can influence the price of the product.
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

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

The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ The firm's output is a small fraction of the entire industry's output.
- ▶ The short run market price is determined solely by the firm's technology.

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

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

- ▶ Risk loving.
- ▶ Risk averse.
- ▶ Risk neutral.
- ▶ Rational.

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

Keeping in view 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: 27 (Marks: 1) - Please choose one

Suppose a country has flexible exchange rate and has more rapid inflation rate than other countries. What will happen to its currency in this situation?

- ▶ Its currency will appreciate.
- ▶ Its currency will depreciate.
- ▶ There will be no effect on its currency.
- ▶ All of the given options can be possible.

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

Which of the following statements best reflects the implication of law of comparative advantage?

- ▶ Trade between two countries is always to the advantage of both.
- ▶ Trade between two countries can be to the advantage of both even though one may be more productively efficient at producing everything.
- ▶ Trade between two countries is to the advantage of both if countries import only those goods that they are incapable of producing themselves.
- ▶ Trade between two countries is beneficial to both if the exporter uses less resource than the importer would use to produce the same quantity of goods.

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

Firm A produces and sells cotton to firm B for Rs. 500. Firm B makes yarn out of it and sells to firm C for Rs. 700. Firm C makes cloth and sell to consumers for Rs. 1200. Which figure has to be used for finding the economy's product?

- ▶ Rs. 500 of firm A.
- ▶ Rs. 700 of firm B.
- ▶ Rs. 1200 of firm C.
- ▶ Total of all three Rs. 2400.

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

largest contribution in value terms to Pakistan GNP is made by:

- ▶ Construction sector.
- ▶ Organized industries.
- ▶ Unorganized industries.
- ▶ Agriculture sector.

The

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

National income figures are:

- ▶ Very exact.
- ▶ Practically exact.
- ▶ Only estimates.
- ▶ Wrong.

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

marginal propensity to consume (MPC) of 0.95 indicates that:

- ▶ ΔC to ΔY_d is 0.95.
- ▶ C / Y_d is 0.95.
- ▶ ΔY_d to ΔC is 0.95.
- ▶ Y_d / C is 0.95.

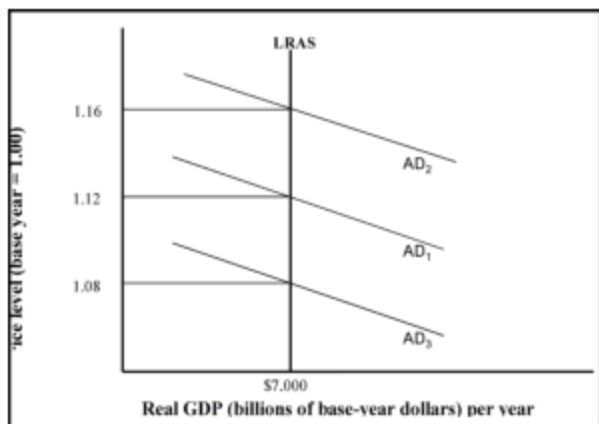
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Question No: 33 (Marks: 1) - Please choose one

Which of the following describes the four sources of aggregate demand?

- ▶ Consumption, private investment, taxes, and expenditures.
- ▶ Consumption, private investment, wage increases, and government expenditures.
- ▶ Consumption, private investment, expenditures, and net exports.
- ▶ Consumption, private investment, government purchases, and net exports.

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



Refer to the above figure, the potential output in this economy is:

- ▶ \$7,000 billion at a price level of 1.16.
- ▶ \$7,000 billion at a price level of 1.12.
- ▶ \$7,000 billion at a price level of 1.08.
- ▶ All of the given options.

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

Changes in aggregate demand can be caused by changes in:

- I. Wages.
 - II. Raw materials costs.
 - III. Government spending.
 - IV. Government regulations that increase the cost of doing business.
- ▶ I, II, III, and IV.
 - ▶ I and III only.
 - ▶ I, III, and IV.
 - ▶ III only.

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

The short run in macroeconomic analysis is a period:

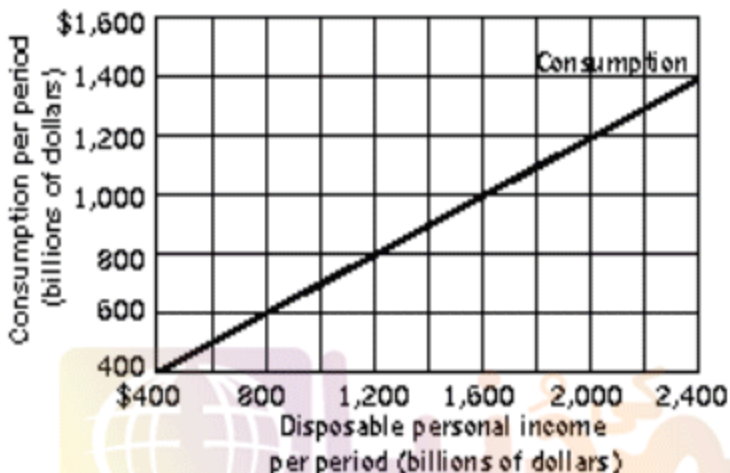
- ▶ In which wages and some other prices do not respond to changes in economic conditions.
- ▶ In which full wage and price flexibility and market adjustment have been achieved.
- ▶ Of less than 12 months.
- ▶ In which all macroeconomic variables are fixed.

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

Which of the following is TRUE?

- ▶ $1 - \text{MPS} = \text{MPC}$
- ▶ $1 + \text{MPS} = \text{MPC}$
- ▶ $1 / \text{MPS} = \text{MPC}$
- ▶ $1 \times \text{MPS} = \text{MPC}$

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



Refer to the above figure, when disposable personal income is \$1,200 billion, consumption is:

- ▶ \$600 billion.
- ▶ \$800 billion.
- ▶ \$1,200 billion.
- ▶ \$2,000 billion.

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

Unemployment generally ----- when the "real" GDP grows rapidly.

- ▶ Remains the same.
- ▶ Decreases.
- ▶ Increases.
- ▶ All of the above are possible.

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

Which of the following will influence a country's exports?

- ▶ Consumer tastes for domestic and foreign goods.
- ▶ Prices of goods at home and abroad.
- ▶ Costs of transporting goods from country to country.
- ▶ All of the given options.

- ▶ Laffer curve.
- ▶ Demand curve.
- ▶ Supply curve.
- ▶ Investment curve.

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

The optimum tax rate in which government revenue is maximized lies somewhere between:

- ▶ 0% and 1%.
- ▶ 0% and 50%.
- ▶ 50% and 100%.
- ▶ 0% and 100%.

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

Money is defined as an item that:

- ▶ Serves as a medium of exchange for goods and services.
- ▶ Can be converted into silver with relatively little loss in value.
- ▶ Can be converted into gold with relatively little loss in value.
- ▶ Facilitates a connecting link between credit instruments and debt instruments.

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

A tax imposed by a country on an imported good or service is called a:

- ▶ Quota.
- ▶ Tariff.
- ▶ Non-tariff barrier.
- ▶ Trade embargo.

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

Poor countries remained poor because of:

- ▶ Higher per capita income.
- ▶ Vicious circle of poverty.
- ▶ High level of investment.
- ▶ High rates of savings.

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

If other things remaining the same, expected income can be used as a direct measure of well-being in which of the following situations?

- ▶ It can be used if and only if individuals are not risk-loving.
- ▶ It can be used if and only if individuals are risk averse.
- ▶ It can be used if and only if individuals are risk neutral.

- ▶ I and II.
- ▶ I, II and III.

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

What will be the impact of an increase of \$1 in government purchases?

- ▶ It will shift the expenditure line upward by \$1.
- ▶ It will shift the IS curve to the right by $\$1 / (1 - MPC)$.
- ▶ It will not shift the LM curve.
- ▶ All of the given options.

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

Countries that are not among the high income nations of the world are categorized as:

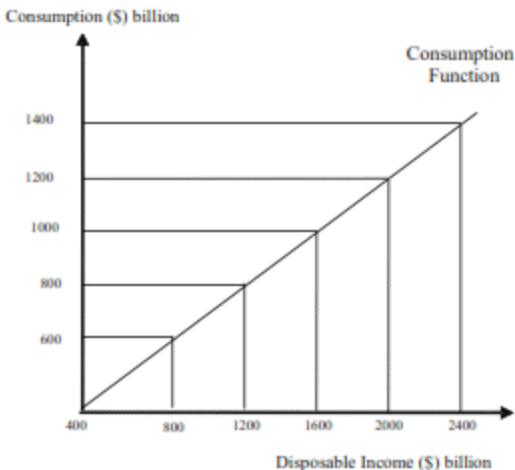
- ▶ Developed countries.
- ▶ Progressed countries.
- ▶ Developing countries.
- ▶ High income countries.

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

Which of the following is a characteristic of low income countries?

- ▶ Higher rates of population growth.
- ▶ Greater government control.
- ▶ A larger share of income used for investment.
- ▶ A smaller proportion of the labor force in agriculture.

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



Refer to the above figure, when disposable personal income is \$2,000 billion:

- ▶ Personal saving is \$1,200 billion.
- ▶ Consumption is \$1,600 billion.
- ▶ Saving is \$800 billion.
- ▶ Consumption is \$800 billion.

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

How many points you need to know to calculate the price elasticity of demand on the same demand curve?

- ▶ One.
- ▶ Two.
- ▶ Three.
- ▶ Four.

Question No: 51 (Marks: 1) - Please choose one

What is meant by the negative slope of a production possibilities curve?

- ▶ It means that some resources are always unemployed.
- ▶ It means that an economy can produce more of one thing only by producing less of something else.
- ▶ It means that opportunity costs are constant.
- ▶ It means that business can sell more when prices are low.

Question No: 52 (Marks: 1) - Please choose one

Which of the following will happen if the current market price is set below the market clearing level?

- ▶ There will be a surplus to accumulate.

- ▶ There will be downward pressure on the current market price.
- ▶ There will be upward pressure on the current market price.
- ▶ There will be lower production during the next time period.

Question No: 53 (Marks: 1) - Please choose one

For which of the following good, the substitution effect of a lowered price is counteracting by the income effect?

- ▶ For an inferior good.
- ▶ A substitute good.
- ▶ For an independent good.
- ▶ For a normal good.

Question No: 54 (Marks: 1) - Please choose one

Which of the following is TRUE about the marginal product of labour in any production process?

- ▶ It is total output divided by total labour inputs.
- ▶ It is total output minus the total capital stock.
- ▶ It is the change in total output resulting from a 'small' change on the labour input.
- ▶ It is total output produced by labour inputs.

Question No: 55 (Marks: 3)

What are the different components of aggregate demand? Discuss briefly.

Aggregate demand is the total demand for final goods and services in the economy at a given time and price level. It is the amount of goods and services in the economy that will be purchased at all possible price levels. There are four components of aggregate demand which are most important:

1. **Consumption:** Consumption (C) is the amount of national income that is spent on goods and services produced by domestic firms in a given period of time.
2. **Investment:** Investment (I) or gross capital formation is any economic activity that forgoes consumption today with an eye to increase output in future.
3. **Net Exports:** It is net demand from rest of world for country's output.
4. **Government Spending:** These are gross investments and consumption expenditure done by government.

Question No: 56 (Marks: 5)

Explain the difference between Gross National Product (GNP) and Net National Product (NNP) with the help of their formulas.

Difference between GNP and NNP:

- GNP is the value, at current market prices, of all final goods and services produced during a year by the factors owned by the citizens of a country.

$$\text{GNP} = \text{GDP} + \text{net factor income from abroad}$$

- NNP is same application as NDP (National Domestic Product) which equal to GDP minus depreciation. Here, deprecation is amount which spends on capital goods that measure GNP. In other words, it is the net output of commodities and services flowing during the year from the country's production system in the hands of ultimate consumers.

Question No: 57 (Marks: 5)

Some economists suggest “growth through resource transfer” and “growth through stabilization and reforms” strategies to tackle the problem of poverty of under developed countries. What is the basic theme of both these strategies? Discuss.

Growth through resource transfer:

The businesses core resources transfer strategies are having close effect on customer satisfaction, production performance, and personnel expertise of the non-financial performance of business performances; but, these strategies show minor influences on the variance breadth of costs, sales performance, and development performance of business performances. For the growth of it, larger effect exists on the transfer of expertise, organizational learning, reputation and innovation of core resources. However, this strategy shows minor effect on the transfer of brand, management skills, interpersonal relationship, and management.

Growth through stabilization and reforms:

A stabilization strategy centers on addressing people's basic needs and opportunities at the local level by improving their access to basic services, by expanding economic opportunities and by promoting political/civic empowerment. Livelihood, for the purposes of this strategy, is defined as the combination of factors in a community that have a direct impact on the quality of individuals' lives. Those factors include the elements in a community that affect citizen well-being, prosperity, and future choices, such as income, health, education, security, water, small infrastructure and citizen participation.

Question No: 58 (Marks: 10)

Following are the items of balance sheet of bank A

Loans = 80
Deposits = 100
Reserves = 20

Prepare the balance sheet in proper form and find out total assets and total liabilities.

(B) Following are the items of balance sheet of bank A

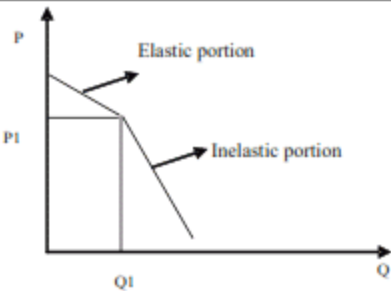
Loans = 60
Deposits = 110
Reserves = 50

(A)

Firm A deposits Rs. 50 in bank A. Prepare the balance sheet in proper form and find out total assets and total liabilities after the deposits of firm A.

(Marks: 5+5)

Question No: 59 (Marks: 10)



(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?

(B) What are the major advantages that an oligopoly offers for public interests?

(Marks: 5+5)

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

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

- ▶ **There is a shortage of the product.**
- ▶ There is a surplus of the product.
- ▶ The product is a normal good.
- ▶ The product is an inferior good.

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

The cross price elasticity of demand for complementary goods is:

- ▶ Less than 0.
- ▶ Equal to 0.
- ▶ Greater than 0.
- ▶ **Between 0 and 1.**

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

Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ▶ Increase hours of work.
- ▶ **Decrease hours of work.**
- ▶ Not change hours of work.
- ▶ None of the given options.

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

_____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

- ▶ **Economies of scale; constant returns to scale.**
- ▶ Constant returns to scale; decreasing returns to scale.
- ▶ Decreasing returns to scale; economies of scale.
- ▶ Economies of scale; decreasing returns to scale.

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

An isoquant curve shows:

▶ All the alternative combinations of two inputs that yield the same maximum total product.

- ▶ All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.
- ▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- ▶ None of the given options.

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

Total costs are the sum of:

- ▶ Marginal costs and variable costs.
- ▶ Fixed costs and variable costs.
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

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

A firm is charging a different price for each unit purchased by a consumer. This is called:

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ Third-degree price discrimination.
- ▶ None of the given options.

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

Which of the following best expresses the law of demand?

- ▶ A higher price reduces demand.
- ▶ A lower price reduces demand.
- ▶ A higher price reduces quantity demanded.
- ▶ A lower price shifts the demand curve to the right.

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

If a sales tax on beer leads to reduced tax revenue, this means:

- ▶ Elasticity of demand is < 1 .
- ▶ Elasticity of demand is > 1 .
- ▶ Demand is upward-sloping.
- ▶ Demand is perfectly inelastic.

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

For a firm buying labor competitively, the marginal input cost is equal to the:

- ▶ **Wage.**
- ▶ Interest rate.
- ▶ Price of output.
- ▶ Cost of raw materials.

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

The classical economists thought that the economy would quickly overcome any short run instability because:

- ▶ Price level and quantity are flexible.
- ▶ Prices would get stuck at a low level.
- ▶ The long run aggregate supply would shift to the left.
- ▶ **Prices and wages are flexible.**

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

Final goods are meant for:

- ▶ **Direct use by the consumers.**
- ▶ Further processing.
- ▶ The term do not exist.
- ▶ None of the given options.

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

The average propensity to consume is the ratio of:

- ▶ **A change in consumption to a change in disposable income.**
- ▶ A change in consumption to total disposable income at a specific income level.
- ▶ Total consumption to total disposable income at a specific income level.
- ▶ Total consumption to a change in disposable income.

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

The slope of the saving function (or line) is the:

- ▶ Average propensity to save.
- ▶ Average propensity to consume.
- ▶ **Marginal propensity to save.**
- ▶ Marginal propensity to consume.

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

The government increases the number of job centres and uses more advanced computers to improve the information database. This creates:

- ▶ Structural Unemployment.
- ▶ Regional Unemployment.
- ▶ **Frictional Unemployment.**
- ▶ Demand Deficient Unemployment.

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

Which one of the following can lead to a rise in inflation?

- ▶ **An increase in costs of production.**
- ▶ An increase in productive capacity.
- ▶ An increase in the level of direct taxation.
- ▶ An increase in the exchange rate.

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

What does the term "balance of payment deficit" refer to?

- ▶ An increase in official international reserves.
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.
- ▶ **A decline in official international reserves.**

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

How should fiscal policy be used during inflation?

- ▶ Increase Government expenditure and decrease taxes to decrease aggregate demand.
- ▶ Increase Government expenditure and decrease taxes to increase aggregate demand.
- ▶ Decrease Government expenditure and increase taxes to increase aggregate demand.
- ▶ **Decrease Government expenditure and increase taxes to decrease aggregate demand.**

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

If the demand curve for a good is downward sloping, then the good:

- ▶ Must be inferior.
- ▶ Must be giffen.
- ▶ Can be normal or inferior.
- ▶ **Must be normal.**

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

Keeping in view 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: 21 (Marks: 1) - Please choose one

Which of the following is TRUE according to classical economists?

- ▶ **Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.**
- ▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.
- ▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

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

Why calculations of Gross Domestic Product (GDP) count only final goods and services?

- ▶ Because it is difficult to measure the prices of intermediate goods produced.
- ▶ Because these are the only goods and services that are purchased in an economy.
- ▶ **Because counting all goods and services would lead to double-counting of many activities.**
- ▶ Because one cannot calculate the quantities of intermediate goods produced.

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

----- plays an important role in making sure that the economy reaches and stays at equilibrium at the potential output level.

- ▶ Real exchange rate.
- ▶ The production function.
- ▶ Real price level.
- ▶ Real interest rate.

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

Why a \$1 increase in government spending will have a larger impact upon national income than a \$1 tax cut?

- ▶ Because the government prints the currency it spends.
- ▶ Because not all of the tax cut is spent.
- ▶ Because when taxes are cut, government spending is also cut.
- ▶ Because taxes are an injection into the system.

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

Commercial banks in Pakistan are supervised by:

- ▶ State bank of Pakistan.
- ▶ National bank of Pakistan.
- ▶ Finance minister of Pakistan.
- ▶ World bank.

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

Trade can be beneficial in which of the following situations?

- ▶ Two countries produce the same goods at the same costs.
- ▶ Two countries produce different goods at different costs.
- ▶ Two countries are isolated.
- ▶ Two countries have the same markets.

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

Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

- ▶ $1000+1500+2500 = \text{Rs. } 5000$
- ▶ $1000+500+2500 = \text{Rs. } 4000$
- ▶ $1000+500+1000 = \text{Rs. } 2500$
- ▶ $1000+1500+1000 = \text{Rs. } 3500$

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

Which of the following best defines "subsidies"?

- ▶ Payment by Government for purchase of goods and services.
- ▶ Payment by business enterprises to factors of production.

- ▶ Payment by companies to share holders.
- ▶ Payment by Government to business enterprises without buying any goods and services.

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

National product at market prices incorporate:

- ▶ Prices which buyers actually pay.
- ▶ Payments made to the factor owners.
- ▶ Costs incurred in producing goods and services.
- ▶ Costs minus subsidies.

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

A marginal propensity to consume (MPC) of 0.95 indicates that:

- ▶ ΔC to ΔY_d is 0.95.
- ▶ C / Y_d is 0.95.
- ▶ ΔY_d to ΔC is 0.95.
- ▶ Y_d / C is 0.95.

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

When MPC is 0.80 and APC is 0.95 then MPS is:

- ▶ 0.20 and APS is 0.05.
- ▶ 0.05 and APS is 0.20.
- ▶ 0.20 and APS is 0.20.
- ▶ 0.05 and APS is 0.05.

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

Which of the following are leakages from the circular flow?

- ▶ Consumption and saving.
- ▶ Saving and imports.
- ▶ Imports and exports.
- ▶ Exports and savings.

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

The time that a laborer uses for relaxation and all activities other than work or necessary sleep is known as:

- ▶ Free time.
- ▶ Leisure.
- ▶ Time not used for earning.
- ▶ All of the given options.

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

Labor supply curve is backward bending because:

▶ The income effect of higher income dominates the substitution effect of higher wages.

▶ The substitution effect of higher income dominates the income effect of higher wages.

▶ The income effect of higher income dominates the price effect of higher wages.

▶ None of the given options.

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

The government supports research in basic science because:

▶ It is a public good.

▶ External costs are created.

▶ Internal benefits are created.

▶ Free markets would do so otherwise.

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

In classical theory, excess supply of a product would be associated with:

▶ Rising interest rates.

▶ Falling interest rates.

▶ Rising price for the product.

▶ Falling price for the product.

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

Which of the following is NOT a determinant of net exports?

▶ Domestic and foreign incomes.

▶ Relative price levels.

▶ Domestic and foreign trade policies.

▶ Producers' expectations about future prices.

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

A trade surplus occurs when:

▶ A country's firms open more stores abroad than foreign firms open in the country.

▶ A country sells more abroad than it purchases from abroad.

▶ Foreign firms open more stores in a country than the country opens in foreign countries.

▶ A country purchases more from abroad than other countries purchase from it.

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

A change from \$1.00 = Rs. 80.00 to \$1.00 = Rs. 85.00 represents:

- ▶ Depreciation of the dollar.
- ▶ An appreciation of the dollar.
- ▶ An appreciation of the rupee.
- ▶ None of the given options.

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

There is an increase in the economy's potential output when there is:

- ▶ An increase in government spending.
- ▶ A decrease in government spending.
- ▶ An increase in the economy's capital stock.
- ▶ An increase in the economy's depreciation rate.

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

One of the implications of Solow growth model is that all other things remaining the same, countries with rapidly growing population will tend to:

- ▶ Be poorer than countries with lower population growth.
- ▶ Grow slower than countries with lower population growth.
- ▶ Grow higher than countries with lower population growth.
 - ▶ Have lower marginal products of capital than countries with lower population growth.

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

The rapid population growth in today's developing nations is due to the:

- ▶ High birth rates only.
- ▶ Low death rates only.
- ▶ High birth rate and low death rate.
- ▶ Higher standard of living.

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

The principle of taxation which emphasizes on fairness or just sacrifice is known as:

- ▶ Efficiency.
- ▶ Equity.
- ▶ Progressive tax.
- ▶ Regressive tax.

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

The relationship between tax rates and total tax collections by government is known as:

- ▶ Laffer curve.
- ▶ Demand curve.
- ▶ Supply curve.
- ▶ Investment curve.

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

The optimum tax rate in which government revenue is maximized lies somewhere between:

- ▶ 0% and 1%.
- ▶ 0% and 50%.
- ▶ 50% and 100%.
- ▶ 0% and 100%.

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

Money is defined as an item that:

- ▶ Serves as a medium of exchange for goods and services.
- ▶ Can be converted into silver with relatively little loss in value.
- ▶ Can be converted into gold with relatively little loss in value.
- ▶ Facilitates a connecting link between credit instruments and debt instruments.

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

A tax imposed by a country on an imported good or service is called a:

- ▶ Quota.
- ▶ Tariff.
- ▶ Non-tariff barrier.
- ▶ Trade embargo.

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

Poor countries remained poor because of:

- ▶ Higher per capita income.
- ▶ Vicious circle of poverty.
- ▶ High level of investment.
- ▶ High rates of savings.

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

If other things remaining the same, expected income can be used as a direct measure of well-being in which of the following situations?

- ▶ It can be used if and only if individuals are not risk-loving.
- ▶ It can be used if and only if individuals are risk averse.
- ▶ It can be used if and only if individuals are risk neutral.

- ▶ It can be used no matter what a person's preference to risk.

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

What questions are related with explanation? What questions are related with what ought to be?

- ▶ Positive, negative.
- ▶ Negative, normative.
- ▶ Normative, positive.
- ▶ Positive, normative.

Question No: 51 (Marks: 1) - Please choose one

What will happen to the demand for product X, if there is an increase in consumer's income?

- ▶ It will necessarily remain unchanged.
- ▶ It will shift to the right if X is a complementary good.
- ▶ It will shift to the right if X is a normal good.
- ▶ It will shift to the right if X is an inferior good.

Question No: 52 (Marks: 1) - Please choose one

Which of the following occur when an isocost line is just tangent to an isoquant?

- ▶ Output is being produced at minimum cost.
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

Question No: 53 (Marks: 1) - Please choose one

Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. This means that the firm experiences:

- ▶ Decreasing returns to scale.
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ None of the given options.

Question No: 54 (Marks: 1) - Please choose one

In which of the following conditions, a firm will never operate?

- ▶ At the minimum of its average total cost curve.
- ▶ At the minimum of its average variable cost curve.
- ▶ On the downward-sloping portion of its average total cost curve.
- ▶ On the downward-sloping portion of its average variable cost curve.

- a) **What is interest parity condition?**
- b) **When does this condition hold?**
- c) **What is the equation of this condition?**
- d) **What will happen if the equality of the condition does not hold?**

(Marks: 2+2+2+4)



Question No: 1 (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.

The shape of a production possibility curve commonly drawn as concave downward to represent increasing opportunity cost with increased output of a good.

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

When college students leave town for the summer, the demand for meals at the local restaurants declines. This results in:

- ▶ A decrease in equilibrium price and an increase in quantity of meal.
- ▶ An increase in equilibrium price and quantity of meal.
- ▶ **A decrease in equilibrium price and quantity of meal.**
- ▶ An increase in equilibrium price and a decrease in quantity of meal.

A decrease in equilibrium price and quantity. The demand curve shifts to the left because the town population declines, resulting in lower prices and quantity.

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

A demand curve is price elastic when:

- ▶ **Changes in demand are proportionately greater than changes in price.**
- ▶ Changes in demand are equal to changes in price.
- ▶ None of the given options.
- ▶ Changes in demand are proportionately smaller than changes in price.

For elastic demand curve, firm does not increase its prices. Because as prices increases, quantity Demanded decreases much larger. Decrease in quantity demanded is greater than the increase in prices. So firm will earn less revenue. So TR decreases as price increases.

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

The numerical measurement of a consumer's preference is called:

- ▶ Use.
- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

Utility is a numerical representation of a preference ranking

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

Which of the following is TRUE about price-consumption curve for good X?

- ▶ Nominal income falls as the price of X falls.
- ▶ The absolute price of X falls, but the relative price between X and the composite good Y stays the same.
- ▶ It is always downward sloping for a normal good.
- ▶ **It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.**

The price consumption curve (PCC) traces out the optimal choice of consumption at different prices. The PCC can be used to derive the demand curve, which shows the relationship between price & quantity demanded.

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

Marginal profit is equal to:

- ▶ **Marginal revenue minus marginal cost.**
- ▶ Marginal revenue plus marginal cost.
- ▶ Marginal cost minus marginal revenue.
- ▶ Marginal revenue times marginal cost.

marginal profit is the term used to refer to total when marginal cost is subtracted from marginal revenue.

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

The supply curve for a competitive firm is:

- ▶ Its entire marginal cost curve.
- ▶ The upward-sloping portion of its marginal cost curve.
- ▶ Its marginal cost curve above the minimum point of the average variable cost curve.
- ▶ **Its marginal cost curve above the minimum point of the average total cost curve.**

A perfectly competitive firm's supply curve is that portion of its marginal cost curve that lies above the minimum of the average variable cost curve.

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

Second-degree price discrimination is the practice of charging:

- ▶ The reservation price to each customer.
- ▶ **Different prices for different blocks of the same good or service.**
- ▶ Different groups of customers different prices for the same products.
- ▶ Each customer the maximum price that he or she is willing to pay.

Second degree price discrimination, allows the supplier to set different prices to the different groups and capture a larger portion of the total market surplus.

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

A market with few entry barriers and with many firms that sell differentiated products is:

- ▶ Purely competitive.
- ▶ A monopoly.
- ▶ **Monopolistically competitive.**
- ▶ Oligopolistic.

Monopolistic competition is also characterized by a large number of buyers and sellers and absence of entry barriers.

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

The market structure in which strategic considerations are most important is:

- ▶ Monopolistic competition.
- ▶ **Oligopoly.**
- ▶ Pure competition.
- ▶ Pure monopoly.

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

The price elasticity of demand for any good must be less than or equal to zero unless:

- ▶ The good is a necessity.
A good for which the "income elasticity of demand" is >0 & <1
- ▶ The good is a luxury.
A good for which the "income elasticity of demand" is > 1 .

- ▶ **The good is a Giffen good.**
- ▶ None of the given options.

Goods for which the "quantity demanded" of one good does not depend upon the price of the other. (i.e. Pencils & cars). The "cross elasticity of demand" will be 0.

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

Consumption spending, investment expenditures, government expenditures and net exports are:

- ▶ The components of household income.
- ▶ The components of aggregate supply.
- ▶ **The components of aggregate demand**
- ▶ The components of government revenue.

AD is the sum of consumption, investment, government spending and net exports (i.e. exports minus imports), and is inversely related to the aggregate price level through the wealth, interest rate and international purchasing power effects.

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

Classical economics was replaced as the dominant theory of macroeconomic analysis by:

- ▶ Monetarism.
- ▶ Rational expectations.
- ▶ **Keynesian economics.**
- ▶ Neoclassical economics.

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

According to classical economics, the economy will always tend toward full employment due to:

- ▶ Minimum wages.
- ▶ **Flexible wages and prices.**
- ▶ Extended periods of unemployment.
- ▶ Inequality between saving and investment.

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

The real interest rate will increase:

- ▶ **If there is an excess supply of loanable funds in the financial markets.**
- ▶ If there is an excess demand for loanable funds in the financial markets.

- ▶ If there is an excess supply of loanable funds in the foreign exchange markets.
- ▶ If there is an excess demand for loanable funds in the foreign exchange markets.

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

A source of fluctuations in investment spending is:

- ▶ Changes in government expectations of future output growth.
- ▶ Changes in household's expectations about future output growth.
- ▶ Changes in household's expectations about future risk.
- ▶ **Changes in investor's expectations about future profits.**

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

What does the term "balance of payment deficit" refer to?

- ▶ An increase in official international reserves.
- ▶ A positive statistical discrepancy.
- ▶ A negative statistical discrepancy.
- ▶ **A decline in official international reserves.**

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

M1 component of money supply consists of:

- ▶ Paper currency and coins.
- ▶ **Paper currency, coins and check writing deposits.**
- ▶ Paper currency, coins, check writing deposits and savings deposits.
- ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

M1 includes currency held by the public, plus travelers' checks, demand deposits, other checkable deposits (including negotiable order of withdrawal (NOW) accounts, Automatic Transfer Service (ATS) accounts, and credit union share draft accounts).

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

When one producer can produce a given amount of output with fewer inputs, which of the following would occur?

- ▶ Comparative advantage.
- ▶ Comparative disadvantage.
- ▶ **Absolute advantage.**
- ▶ Absolute disadvantage.

Absolute advantage.: Capability of one producer to produce a given good using fewer resources than any other producer.

Question No: 20 (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.

A currency is said to depreciate in value if its exchange rate decreases, such as a decrease in the exchange rate of dollars from 0.5 pounds per dollar to 0.33 pounds per dollar. Currency depreciation makes exports from the country relatively less expensive resulting in more exports and usually fewer imports.

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

The news on the television reports that the dollar has strengthened relative to the Japanese yen. This means that:

- ▶ The dollar can now purchase more yen.
- ▶ The US trade balance with the Japanese economy has improved.
- ▶ **The yen can now purchase more dollars.**
- ▶ The dollar has depreciated relative to the yen.

The exchange rate increases (i.e., a unit of your currency is worth more in foreign currency than previously), the currency is said to have *strengthened, appreciated, or increased in value* (revaluation). For example, assume that the exchange rate between the U.S. dollar and the Japanese yen changed from US\$1=104 yen to US\$1=110 yen. This would strengthen the value of the U.S. dollar in that you would receive more yen in exchange for your dollar

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

In Keynesian economics, if aggregate expenditures are less than aggregate output then:

- ▶ The price level rises.
- ▶ Inventories decrease.
- ▶ Employment decreases.
- ▶ **Aggregate output increases.**

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

In the Keynesian cross model, the aggregate expenditure line has a slope of:

- ▶ 1.
- ▶ 0.
- ▶ Infinity.

► **Less than 1.**

In the Keynesian cross model If we draw a graph with expenditure on the vertical axis, we can see that the Expenditure line should have a slope of (<1),

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

Demand is elastic when the elasticity of demand is:

- Greater than 0 but less than 1.
- **Greater than 1.**
- Less than 0.
- Equal to 1. unit elastic

If $Ped > 1$, then demand responds more than proportionately to a change in price i.e. demand is elastic.

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

Which of the following statements is TRUE about cartels?

- These are considered as part of monopolistic competition.
- these are organizations of independent firms, producing similar products, that work together to raise prices and restrict output.
- **these are organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.**
- These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.

A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products.

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

After the collusion, oligopolists are able to:

- Raise price but not restrict output.
- Raise price and restrict output but not attain the monopoly profit.
- **Raise price and restrict output and therefore attain the monopoly profit.**
- Restrict output but not raise price.

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

Which of the following statements is TRUE about the difference between nominal and real Gross Domestic Product (GDP)?

- Real GDP includes only goods; nominal GDP includes goods and services.
- **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**

- ▶ Real GDP is equal to nominal GDP less the depreciation of the capital stock.
- ▶ Real GDP is equal to nominal GDP multiplied by the CPI.

Nominal GDP: The total market value, measured in current prices,

Real GDP: The total market value, measured in constant prices

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

If production remains the same and all prices double, then which of the following will happen?

- ▶ Real GDP and nominal GDP will both remain constant.
- ▶ Real GDP will remain constant and nominal GDP will reduce by half.
- ▶ **Real GDP will remain constant and nominal GDP will double.**
- ▶ Real GDP will double and nominal GDP will remain constant.

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

Assume that there is no government or foreign sector, if the marginal propensity to consume (MPC) is 0.9, then the value of multiplier will be equal to:

- ▶ 2.
- ▶ 5.
- ▶ 8.
- ▶ 10.

NO IDEA... MAY BE WRONG QUESTION

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

Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

- ▶ **$1000+1500+2500 = \text{Rs. } 5000$**
- ▶ $1000+500+2500 = \text{Rs. } 4000$
- ▶ $1000+500+1000 = \text{Rs. } 2500$
- ▶ $1000+1500+1000 = \text{Rs. } 3500$

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

Which of the following is a transfer payment?

- ▶ Payment made to housewife.
- ▶ Pocket allowance to children.
- ▶ Maintenance allowance to old parents.
- ▶ **All of the given options.**

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

The relationship between hours provided by labor and wage rate is:

- ▶ Positive.
- ▶ Negative.
- ▶ Ambiguous.
- ▶ Very strong.

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

Market failure occurs when:

- ▶ Competitive markets do not achieve equitable outcomes.
- ▶ Competitive markets do not achieve efficient outcomes.
- ▶ Government takes steps to intervene in markets.
- ▶ All of the given happen.

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

A graph that depicts the relationship between the total quantity of goods and services demanded and the price level is known as:

- ▶ Aggregate demand curve.
- ▶ Average price level.
- ▶ Circular flow model.
- ▶ GDP curve.

The aggregate demand curve illustrates the relationship between economic goods demanded and the price level, assuming all else is held constant (that is, under a *ceteris paribus* assumption).

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

In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:

- ▶ The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The short-run aggregate supply and the long-run aggregate supply curves.
- ▶ The aggregate demand and the short-run aggregate supply curves.
- ▶ The aggregate demand and the long-run aggregate supply curves.

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

Changes in aggregate demand can be caused by changes in:

- I. Wages.
- II. Raw materials costs.

III. **Government spending.**

IV. **Government regulations that increase the cost of doing business.**

- ▶ I, II, III, and IV.
- ▶ I and III only.
- ▶ I, III, and IV.
- ▶ **III only.**

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

In the long run, the output level is determined by:

- ▶ Aggregate demand.
- ▶ **Aggregate supply.**
- ▶ The government.
- ▶ Household income.

Long run aggregate supply (LRAS): LRAS shows total planned output when both prices and average wage rates can change - it is a measure of a country's potential output and the concept is linked strongly to that of the production possibility frontier

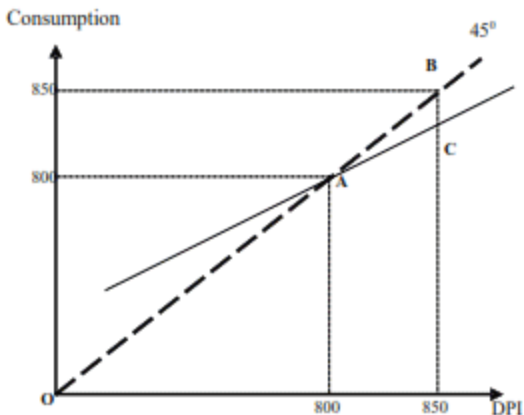
Question No: 38 (Marks: 1) - Please choose one

Which of the following is TRUE?

- ▶ **$1 - \text{MPS} = \text{MPC}$**
- ▶ $1 + \text{MPS} = \text{MPC}$
- ▶ $1 / \text{MPS} = \text{MPC}$
- ▶ $1 \times \text{MPS} = \text{MPC}$

(MPS) is the fraction of the additional dollar of disposable income that is saved. Thus, $\text{MPC} = 1 - \text{MPS}$.

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



The above figure shows disposable personal income on the horizontal axis and consumption per period on the vertical axis. Which of the following is TRUE at every point on the 45-degree line?

- ▶ The value of disposable income equals the sum of personal saving and consumption.
- ▶ The value of disposable income equals consumption.
- ▶ The value of disposable income equals personal saving.
- ▶ The value of disposable income and consumption equals 1.

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

If the government wishes to achieve a fall in unemployment, which of the following policies should it adopt?

- ▶ Reduce the real value of income tax free allowances.
- ▶ Reduce government spending on capital projects.
- ▶ Raise Value Added Tax (VAT).
- ▶ **Start public job training programs.**

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

In the long run, sustained inflation is due to:

- ▶ A one-time increase in money growth.
- ▶ **A continuous increase in the money growth rate.**
- ▶ A continuous increase in aggregate demand.
- ▶ The rising price of oil.

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

The situation when a country imports more than it exports is known as:

- ▶ **A trade deficit.**
- ▶ A trade surplus.
- ▶ An expansion.
- ▶ A recession.

A negative balance of trade, i.e. imports exceed exports. opposite of trade surplus.

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

Public investment expenditure for highways, schools, and national defense is included in which component of GDP?

- ▶ Consumption.
- ▶ Gross private investment.
- ▶ **Government purchases.**
- ▶ Public investment.

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

The government has a balanced budget if:

▶ Its total revenues are equal to its total expenditures.

- ▶ Its total revenues are less than its total expenditures.
- ▶ Its total revenues are greater than its total expenditures.
- ▶ The money supply is less than total expenditures.

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

In general, personal income taxes:

- ▶ Rise automatically during a recession.
- ▶ Rise automatically during an expansion. **Not sure**
- ▶ Fall automatically during an expansion.
- ▶ Remains same in all phases of economic fluctuations.

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

A tax on individual's income is known as:

- ▶ Sales tax.
- ▶ Excise tax
- ▶ Corporate income tax.
- ▶ **Personal income tax.**

Personal income tax: A tax on individual income. This is the primary source of revenue for the federal government, a big source for many state and local governments. In principle, personal income taxes are progressive, based on a graduated tax scale. However, it's much more proportional today than it was several decades ago.

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

Which of the following is TRUE for banks?

- ▶ They deal with money only.
- ▶ They deal with shares and assets.
- ▶ They not only deal with money but also create money.
- ▶ They deal with money but do not create money.

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

In a period of boom, credit creation is:

- ▶ Small.
- ▶ **Heavy.**
- ▶ Unchanged.
- ▶ Zero.

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

What will be the impact of an increase in taxes?

- ▶ It will shift the IS curve to the left and decrease both the interest rate and the level of income.

▶ It will shift the IS curve to the right and increase both the interest rate and the level of income.

▶ It will shift the IS curve to the right and increase the level of income but decrease the interest rate.

▶ **It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.** Not sure

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

To determine whether an economy's output is growing or shrinking, one must keep track of:

▶ Changes in nominal GDP.

▶ Changes in the growth rate of nominal GDP.

▶ Changes in the general price level.

▶ **Changes in real GDP.**

Economic growth is increase in an economy's level of production, output or income. We can talk about production or output in two broad definitional contexts. One, we can compare real GDP with some other measure of welfare (for e.g., one which adjusts for externalities, social indicators, the black market, purchasing power parity, income inequality etc.).

Question No: 51 (Marks: 1) - Please choose one

Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?

▶ **The demand curve for airline travel shifts left.**

▶ The demand curve for airline travel shifts right.

▶ The supply curve of airline travel shifts left.

▶ The supply curve of airline travel shifts right.

The demand curve shifts left. Rail and airline travel are substitutes. If the price of a substitute declines, then the demand curve for the substitute product shifts to the left.

Question No: 52 (Marks: 1) - Please choose one

Production possibilities curve will shift upward if there is:

▶ A reduction in unemployment.

▶ **An increase in the production of capital goods.**

▶ A reduction in discrimination.

▶ All of the given options.

Question No: 53 (Marks: 1) - Please choose one

Which of the following is NOT included in the perfect information assumption of perfect competition?

▶ Consumers know their preferences.

▶ Consumers know their income levels.

▶ Consumers know the prices available.

► Consumers can anticipate price changes.

Question No: 54 (Marks: 1) - Please choose one

Suppose a monopolist set his output at the level where marginal revenue, marginal cost and average total cost are equal. In this case, economic profit will be:

- Negative.
- Positive.
- Zero.
- Indeterminate from the given information.

As profit is maximized at the point where $MR = MC$,
Depending upon the level of AC at the point where $MR=MC$, the monopolist might be earn supernormal profits, breaking even or minimizing short run losses.

Question No: 55 (Marks: 3)

Differentiate between the terms flow and stock.

Stocks and those which are flows; these differ in their units of measurement. A stock variable is measured at one specific time, and represents a quantity existing at that point in time, which may have been accumulated in the past. A flow variable is measured over an interval of time. Therefore a flow would be measured per unit of time.

Stocks and flows have different units and are thus not commensurable – they cannot be meaningfully compared, equated, added, or subtracted. However, one may meaningfully take ratios of stocks and flows, or multiply or divide them.

Question No: 56 (Marks: 5)

What should be the optimal role of government in an economy according to the Classical school of thought? Discuss.

Question No: 57 (Marks: 5)

Explain the difference between current account and capital account.

Current account :

Current account is one of the two primary components of the balance of payments, the other being the capital account. It is the sum of the balance of trade (exports minus imports of goods and services).

Current account = balance of trade + net factor income from abroad + net unilateral transfers from abroad

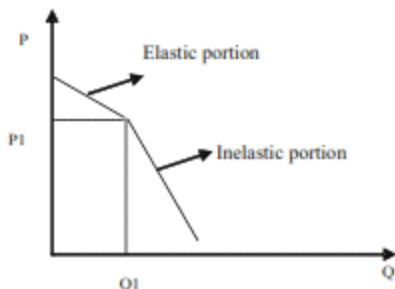
Current account deals with international trade in goods and services and with earnings on investments.

Capital account:

The capital account consists of capital transfers and the acquisition and disposal of non-produced, non-financial assets. A subdivision of the capital account, the financial account records transfers of financial capital and non-financial capital.

The official reserves account, which is part of the financial account, is the foreign currency held by central banks, and is used to pay balance-of-payment deficits. Each account is further divided into sub-accounts.

Question No: 58 (Marks: 10)



(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?

(B) What are the major advantages that an oligopoly offers for public interests?

(Marks: 5+5)

Question No: 59 (Marks: 10)

The items of balance sheet of State Bank of Pakistan are given as follows:

Forex reserves = Rs. 500

Notes and coins = Rs. 800

Credit to government = Rs. 200

Government and commercial bank deposits = Rs. 300

Credit to private sector = Rs. 700

Liquidity paper = Rs. 300

Prepare the balance sheet in its proper format of asset and liabilities side.

Also calculate total assets and total liabilities.

Solution: (this question solved by kash again)

Assets	Liabilities
Forex reserves = Rs. 500	Government and commercial bank deposits = Rs. 300
Credit to government = Rs. 200	Notes and coins = Rs. 800
Credit to private sector = Rs. 700	Liquidity paper = Rs. 300
Total= RS 1400	Total= RS 1400

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

In a free-market economy, the allocation of resources is determined by:

- ▶ Votes taken by consumers.
- ▶ A central planning authority.
- ▶ Consumer preferences.
- ▶ The level of profits of firms.

Question No: 2 (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: 3 (Marks: 1) - Please choose one

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

- ▶ There is a shortage of the product.

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ Elastic.
- ▶ Inelastic.

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

Suppose price rises from \$15 to \$17 and quantity demanded decreases by 20%. We can conclude:

- ▶ Demand is unitary elastic.
- ▶ Demand is elastic.
- ▶ The elasticity of demand is 2.
- ▶ Total revenue will decrease.

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

"Utility" is most closely related to the term:

- ▶ Useless.
- ▶ Require.
- ▶ Necessary.
- ▶ Satisfaction.

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

When the marginal utility of a good is zero, this implies that:

▶ The consumer would not spend any additional income to buy more of that good.

- ▶ Consumption of additional units would have positive marginal utility.
- ▶ Total utility is minimized.
- ▶ Total utility is also zero.

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

When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:

▶ An inferior good.

- ▶ A substitute good.
- ▶ An independent good.
- ▶ A normal good.

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

Diminishing marginal returns implies:

- ▶ Decreasing marginal costs.
- ▶ Increasing marginal costs.
- ▶ Decreasing average variable costs.
- ▶ Decreasing average fixed costs.

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

A graph showing all the combinations of capital and labour available for a given total cost is the:

- ▶ Budget constraint.

- ▶ Expenditure set.
- ▶ Isoquant.
- ▶ Isocost.

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

When an isocost line is just tangent to an isoquant, we know that:

- ▶ Output is being produced at minimum cost.
- ▶ Output is not being produced at minimum cost.
- ▶ The two products are being produced at the medium input cost to the firm.
- ▶ The two products are being produced at the highest input cost to the firm.

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

In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of: **mid question**

- ▶ A fixed cost.
- ▶ A variable cost.
- ▶ An implicit cost.
- ▶ An opportunity cost.

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

The good produced by a monopoly:

- ▶ Has perfect substitutes.
- ▶ Has no substitutes at all.
- ▶ Has no close substitutes.
- ▶ Can be easily duplicated.

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

Welfare economics is the branch of economics which deals with:

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

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

The oligopoly model which predicts that oligopoly prices will tend to be very rigid is the:

- ▶ Cournot model.
- ▶ Cobweb model.
- ▶ Dominant firm model.
- ▶ **Kinked demand model.**

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

The kinked demand curve model is based on which of the following assumptions?

- ▶ Each firm considers its rival's output to be fixed.
- ▶ Each firm considers its rival's price to be fixed.
- ▶ **Each firm believes rival will match all price changes.**
- ▶ None of the given options.

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

Which of the following is NOT conducive to the successful operation of a cartel?

- ▶ Market demand for the good is relatively inelastic.
- ▶ The cartel supplies all of the world's output of the good.
- ▶ **Cartel members have substantial cost advantages over non-member producers.**
- ▶ The supply of non-cartel members is very price elastic.

Question No: 20 (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: 21 (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.

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

A reason why some economists basically ignore the short run is because they believe that the economy:

- ▶ **Has self-correcting mechanisms. (no sure)**
- ▶ Can only be graphed with a horizontal curve.
- ▶ Never needs correction.
- ▶ None of the given options.

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

The long run aggregate supply curve will shift to the right if:

- 
- ▶ The price level increases.
 - ▶ **Factors of production (such as labor and capital) increase.**
 - ▶ Expenditures (such as consumption and net exports) increase.
 - ▶ The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

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

A 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: 25 (Marks: 1) - Please choose one

The economic analysis most closely related to Say's Law is:

- ▶ Short-run aggregate market.
- ▶ Production possibilities.
- ▶ Imperfect competition.
- ▶ Circular flow.

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

Which of the following is NOT a reason of downward slope of aggregate demand curve?

- ▶ The exchange-rate effect.
- ▶ The wealth effect.
- ▶ **The classical dichotomy / monetary neutrality effects.**
- ▶ The interest-rate effect.

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

The upward-sloping aggregate supply curve indicates that:

- ▶ **As firms increase their level of output, the cost of producing an extra unit increases.**
- ▶ An increase in aggregate demand causes little, if any increase in real output the economy is operating in the long run.
- ▶ Any increase in aggregate demand causes the output of producers to fall because the general price level rises.

- ▶ None of the given options.

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

An important difference between the Classical and Keynesian approaches to achieve a macroeconomic equilibrium is that:

▶ **Keynesian economists actively promote the use of fiscal policy while the classical economists do not.**

▶ Keynesian economists actively promote the use of monetary policy to improve aggregate economic performance while the classical economists do not.

▶ Classical economists believe that monetary policy will certainly affect the level of output while the Keynesians believe that money growth affects only prices.

▶ Classical economists believe that fiscal policy is an effective tool for achieving economic stability while the Keynesians do not.

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

According to classical economists, the:

▶ **Aggregate demand curve is downward sloping and the aggregate supply curve is vertical.**

▶ Aggregate demand curve is downward sloping and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is upward sloping.

▶ Aggregate demand curve is vertical and the aggregate supply curve is horizontal.

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

How many methods are there to measure Gross Domestic Product?

- ▶ **Three.**

- ▶ Four.
- ▶ Five.
- ▶ Six.

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

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: 32 (Marks: 1) - Please choose one

Which of the following is NOT a stock variable?

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

Question No: 33 (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:

$\Delta \text{consumption} / \Delta \text{income} = 40/50 = .8$

- ▶ 0.2.
- ▶ 0.4.

▶ 0.6.

▶ **0.8.**

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

Which of the following plays the key balancing role in making sure that the economy reaches and stays at equilibrium at the potential output level?

▶ Real exchange rate.

▶ The production function.

▶ Real price level.

▶ Real interest rate.

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

If injections are less than withdrawals at the full-employment level of income then there arises:

▶ A deflationary gap.

▶ Hysteresis.

▶ Hyperinflation.

▶ An inflationary gap.

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

The labour force is made up of:

▶ The number of people employed minus the number of people unemployed.

▶ **The number of people employed plus the number of people unemployed.**

- ▶ Just the number of people employed.
- ▶ The whole population.

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

Deflation is:

- ▶ An increase in the overall level of economic activity.
- ▶ An increase in the overall price level.
- ▶ A decrease in the overall level of economic activity.
- ▶ **A decrease in the overall price level.**

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

Which of the following will result if there is a decrease in aggregate demand?

- ▶ Expansion; inflation.
- ▶ Recession; deflation.
- ▶ Expansion; deflation.
- ▶ Recession; inflation.

Question No: 39 (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: 40 (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: 41 (Marks: 1) - Please choose one

If a country has flexible exchange rate and has more rapid inflation rate than other countries, its currency will:

- 
- ▶ Appreciate.
 - ▶ **Depreciate.**
 - ▶ Not effect.
 - ▶ All of the given are possible.

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

The nominal exchange rate is defined as the:

- ▶ Market on which currencies of various nations are traded for one another.
- ▶ Price of one unit of foreign good in terms of domestic good.
- ▶ **Price of one unit of foreign currency in terms of domestic currency.**
- ▶ All of the given options.

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

Current account deficit is equal to:

- ▶ Private sector resource deficit.
- ▶ Government budget deficit.
- ▶ **Private sector resource deficit + Government budget deficit.**
- ▶ None of the given options.

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

In the exogenous growth model, if investment exceeds depreciation, the capital stock will ----- and output will----- until the steady state is attained.

▶ **Increase; increase.**

- ▶ Increase; decrease.
- ▶ Decrease; decrease.
- ▶ Decrease; increase.

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

Endogenous growth theory differs in what essential aspect from the Solow theory of economic growth?

▶ Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.

▶ Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.

▶ **In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.**

- ▶ All of the given options are correct.

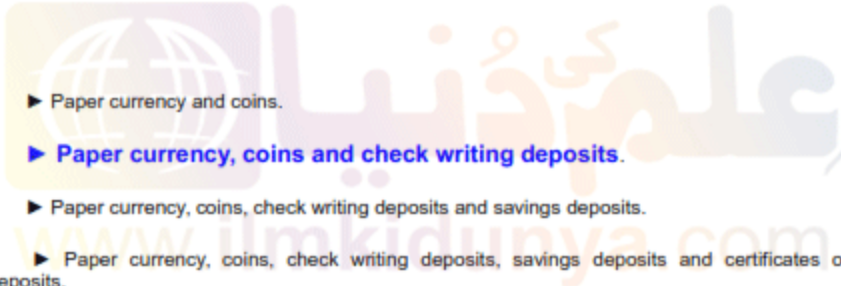
Question No: 46 (Marks: 1) - Please choose one

A currency appreciation should:

- ▶ Reduce net exports and therefore increase aggregate demand.
- ▶ Raise net exports and therefore decrease aggregate demand.
- ▶ Reduce net exports and therefore decrease aggregate demand.
- ▶ **Raise net exports and therefore increase aggregate demand.**

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

M1 component of money supply consists of:

- 
- ▶ Paper currency and coins.
 - ▶ **Paper currency, coins and check writing deposits.**
 - ▶ Paper currency, coins, check writing deposits and savings deposits.
 - ▶ Paper currency, coins, check writing deposits, savings deposits and certificates of deposits.

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

Commercial banks in Pakistan are supervised by:

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

Question No: 49 (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: 50 (Marks: 1) - Please choose one

An example of hysteresis having a negative effect on a country's economy would be:

- ▶ Hyperinflation caused by excessive demand.
- ▶ Nervous investors selling all their shares, causing the stockmarket to crash.
- ▶ **Unemployed workers not taking available jobs.**
- ▶ Women being kept out of jobs traditionally held by men.

Question No: 51 (Marks: 5)

Briefly discuss the concept of comparative advantage with the help of example.

Question No: 52 (Marks: 10)

A. Differentiate between Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS).

B. Suppose a household has the consumption function (C) presented in the figure given below:

- a. Find consumption when disposable income is \$8,000 and \$10,000.
- b. Find consumption when disposable income is \$ 6,000. How can a household consume more than its disposable income?
- c. What is true for every point on the 45° line?

(Marks: 4+6)

Question No: 53 (Marks: 10)

Define M0 and M1. Briefly discuss the three broad motives of holding money.

(Marks:4+6)

Question No: 54 (Marks: 10)

Recall the Equation of Quantity theory of money and calculate the missing figure in each of the following cases:

- Money supply (M) =100, Price (P) = 3 and real output (Q) = 200. Calculate the missing figure.
- Velocity of money (V) = 4, Price (P) = 5 and output (Q) =100. Calculate the missing figure.
- Money supply (M) = 200, velocity of money (V) = 7 and output (Q) = 700. Calculate the missing figure.
- Money supply (M) =150, velocity of money (V) = 8, Price level (P) = 3. Calculate the missing value.

(Marks: 2.5 each)