	MIDTERM EXAMINATION SPRING 2007 ECO401 - ECONOMICS (Session - 3)	Marks: 40 Time: 90min

StudentID/LoginID: ______________________________

Student Name: ____________________________

Center Name/Code: ____________________________

Exam Date: Monday, May 07, 2007

INSTRUCTIONS:

Please read the following instructions carefully before attempting any question:

? All questions are compulsory.

? This exam consists of **10** Multiple Choice Questions (MCQs) of **1** mark each, **5** true false of **1** mark each**, 5** Short questions of **3** marks each and one Descriptive question of **10** marks.

? For each Multiple Choice Question, read the options available and select which you consider is the correct one.

? You are required to show all the working of short as well as practical question.

? Use of calculator is allowed.

? This examination is closed book, closed notes and closed neighbours.

? Do not ask question about the contents of this examination from anyone.

? You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.

? Failure to comply with the Supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

For Teacher's use only											
Question	1	2	3	4	5	6	7	8	9	10	Total

Marks										
Question	11	12	13	14	15	16	17	18	19	20
Marks										
Question	21									
Marks										

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

Which of the following is a positive statement?

? When the price of a good goes up, consumers buy less of it.

? When the price of a good goes up, firms produce more of it.

? When the Federal government sells bonds, interest rates rise and private investment is reduced.

? All of the given options.

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

Economists use the term marginal utility to mean:

? Additional satisfaction gained divided by additional cost of the last unit

? Total satisfaction gained when consuming a given number of units

? Additional satisfaction gained by the consumption of one more unit of a good.

? The process of comparing marginal units of all goods which could be purchased

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

The income-consumption curve:

? Illustrates the combinations of incomes needed with various levels of consumption of a good.

? Is another name for income-demand curve.

? Illustrates the utility-maximizing combinations of goods associated with every income level.

? Shows the utility-maximizing quantity of some good (on the horizontal axis) as a function of income (on the vertical axis).

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

A Giffen good:

? Is a good that people buy more of as their incomes fall.

? Is a good which people buy more of as its price increases.

? Has a vertical demand curve.

? Is another name for a free good.

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

The income elasticity of demand is the:

? Absolute change in quantity demanded resulting from a one-unit increase in income.

? Percent change in quantity demanded resulting from the absolute increase in income.

? Percent change in quantity demanded resulting from a one percent increase in income.

? Percent change in income resulting from a one percent increase in quantity demanded.

Question No: 6 (Marks: 1) - Please choose one
The slope of an indifference curve reveals: ? That preferences is complete. ? The marginal rate of substitution of one good for another good. ? The ratio of market prices. ? That preferences are transitive.

Question No: 7 (Marks: 1) - Please choose one
An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket? ? MRSxy is at a maximum. ? Px/Py = money income. ? MRSxy = money income. ? MRSxy = Px/Py.

Question No: 8 (Marks: 1) - Please choose one
Which of following is a key assumption of a perfectly competitive market? ? Firms can influence market price ? Commodities have few sellers ? It is difficult for new sellers to enter the market.

? Each seller has a very small share of the market.

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

The difference between monopolistic competition and oligopoly is:

? The type of good or service.

? That there is only one firm in monopolistic competition but there are many in oligopoly.

? That there are many firms in monopolistic competition and only a few in oligopoly.

? None of the given options

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

Revenue is equal to:

? Price times quantity.

? Price times quantity minus total cost.

? Price times quantity minus average cost.

? Price times quantity minus marginal cost.

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

Total cost (TC) is zero when the firm does not produce any output.

? True

? False

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

The consumer is in equilibrium when he or she equalizes the marginal utilities derived from the last dollar spent on each commodity.

? True

? False

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

A surplus exists when the market price is above the equilibrium price.

? True

? False

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

Demand for table salt is elastic.

? True

? False

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

Quantity demanded falls when the government imposes price floor.

? True

? False

Question No: 16 (Marks: 3)

The following are some costs incurred by a shoe manufacturer. Decide whether each one is a fixed cost or a variable cost or has some element of both.

a. The cost of leather.
b. The fee paid to an advertising agency.
c. Wear and tear on machinery

Question No: 17 (Marks: 3)

How does the individual decide about the optimal choice?

Question No: 18 (Marks: 3)

Define demand. What is the relationship between quantity demanded and price?

Question No: 19 (Marks: 3)

Write down the formulas for Total Profit, average revenue (AR) and marginal revenue (MR).

Question No: 20 (Marks: 3)

Define elasticity. Write down the types of elasticity.

Question No: 21 (Marks: 10)

a. Describe the law of supply using schedules and diagrams?
b. What are the determinants of Law of supply. Marks(6+4)