

	MIDTERM EXAMINATION FALL 2007 ECO401 - ECONOMICS (Session - 4)	Marks: 40 Time: 120min
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StudentID/LoginID: _____

Student Name: _____

Center Name/Code: _____

Exam Date: Wednesday, November 28, 2007

Please read the following instructions carefully before attempting any question:

- ? All questions are compulsory.
- ? This exam consists of 10 Multiple Choice Questions (MCQ's) carrying 1 mark each, 5 true/false carrying 1 mark each, 3 short questions carrying 5 marks each and 1 long question carrying 10 marks.
- ? For each MCQ, read the choices available and **ENCIRCLE** one which you consider is the most suitable answer. Don't make tick mark (v), only **ENCIRCLE** the correct option. **Zero marks will be given if more than one option will be encircled.**
- ? Cutting and overwriting in objective type questions will lead towards zero marks of that question.
- ? **Attempt all MCQ's on the question paper, no credit will be given to the MCQ's attempted on the answer sheet.**
- ? Remember not to spend too much time on any MCQ, since all MCQ's carry equal marks. Attempt your paper according to the marks allocated to each question, avoid irrelevant or extra details.
- ? **Attempt all the short questions and long question in the sequence as it is given in the question paper; for example, solve Q # 16 first then 17 then 18 & 19.**

- ? Write the same question number as given in the question paper, for example, if you are attempting Q # 16 first then don't write it Q # 01, write it Q # 16 and so on.
- ? Do not ask any question about the contents of this examination from anyone.
- ? This examination is closed book, closed notes, closed neighbors.
- ? Use of **calculator** is allowed.
- ? You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.
- ? Use of **mobile phone** is strictly prohibited; switch it off if it is in your custody.
- ? Failure to comply with the Supervisor's directions will result in your exam paper being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

For Teacher's use only											
Question Marks	1	2	3	4	5	6	7	8	9	10	Total
Question Marks	11	12	13	14	15	16	17	18	19		
Question Marks											

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

The two opposing forces that reach balance in market equilibrium are:

- ? Government and scarcity.
- ? Competition and monopoly.
- ? Demand and supply.
- ? Science and policy.

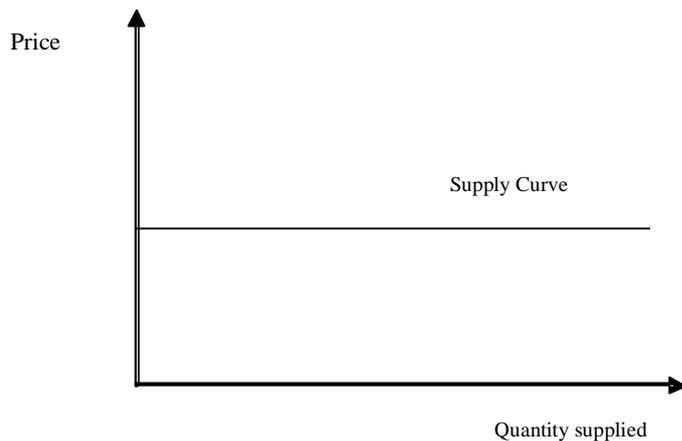
Question No: 2 (Marks: 1) - Please choose one

Which of the following is a normative statement?

- ? The taxes paid by the poor should be reduced.
- ? Unemployment should be reduced for better economic growth.
- ? The sea otter should not be allowed to spread into Southern California coastal waters, because it will reduce the value of fisheries.
- ? All of the given options.

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

Which of the following statements about the diagram below is true?



- ? Supply is perfectly elastic.
- ? Supply is completely inelastic.
- ? Supply becomes more inelastic the lower the price.
- ? Supply becomes more elastic the lower the price.

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

A firm in which two or more owners are responsible for the activities of the business is a(n):

- ? Industry
- ? Partnership
- ? Corporation
- ? Sole Proprietorship

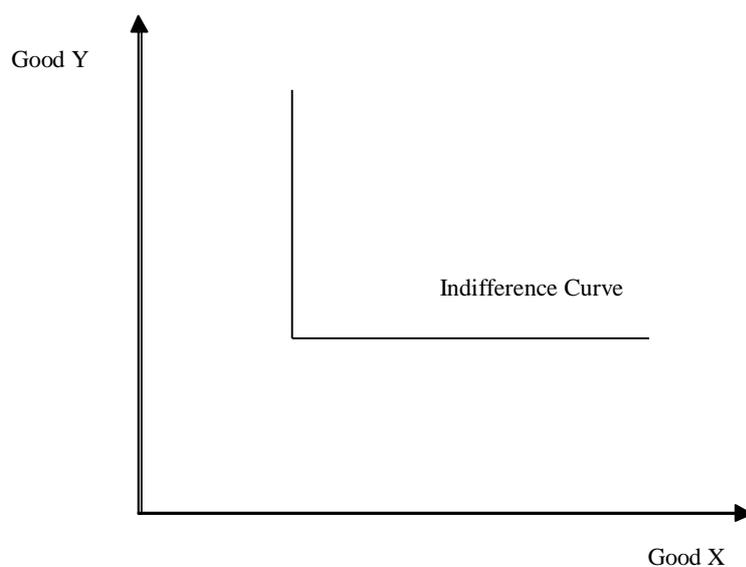
Question No: 5 (Marks: 1) - Please choose one

If quantity demanded of any product is equal to its quantity supplied, then the price of that product will:

- ? Fall.
- ? Rise then fall.
- ? Fall then rise.
- ? Remain unchanged.

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

This figure refers that:



- ? Good X and Good Y are perfect substitutes.
- ? Good X and Good Y are perfect compliments.
- ? Good X and Good Y are imperfect substitutes .
- ? None of the given options.

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

Marginal utility measures:

- ? The slope of the indifference curve.
- ? The additional satisfaction derived from consuming one more unit of a good.
- ? The slope of the budget line.
- ? The marginal rate of substitution.

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

----- are benefits accruing to any one firm due to actions or the presence of other firms:

- ? An increase in average total costs
- ? Diseconomies of scale
- ? External Economies
- ? Constant returns to scale

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

The endpoints (horizontal and vertical intercepts) of the budget line:

- ? Measure its slope.
- ? Measure the rate at which one good can be substituted for another.
- ? Measure the rate at which a consumer is willing to trade one good for another.
- ? Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

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

The cost of best alternative forgone is known as:

- ? Opportunity Cost
- ? Total Cost
- ? Average Cost
- ? Marginal Cost

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

According to the Law of Supply, the higher the price, the larger the quantity supplied:

- ? True
- ? False

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

Goods market is the market in which factors are bought and sold for the purpose of production:

- ? True
- ? False

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

Short run is a period of time in which at least one of the factors of production is fixed:

- ? True
- ? False

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

A price taking firm does not have the ability to influence on the market price:

- ? True
- ? False

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

Increasing returns to scale arises when a 1 % increase in the amount of input causes less than 1% increase in output:

- ? True
- ? False

Question No: 16 (Marks: 5)

Items	Cost (Rs)	Benefit derived in terms of Satisfaction Unit
Book	300	10
Clothes	300	5
Shoes	300	8

You go to the market and want to purchase the book, clothes or shoes. All of these have the same cost. But the satisfaction derived from each item is different from each other. You have to select one item.

By considering the concept of benefit & opportunity cost, decide which one of these 3 items you will purchase? Is your decision optimal? How?

Question No: 17 (Marks: 5)

A. Define Marginal Cost (MC). Graphically show how MC curve look like?

B. The total physical product of labor is given in the following table; calculate the average physical product of labor.

Labor input	Total Physical Product (TPP _L)
0	0
1	3
2	10
3	24
4	36
5	40

(Marks: 2+3)

Question No: 18 (Marks: 5)

Explain the shape of the total revenue (TR) curve for price taking and price making firms with the help of diagram. (Make diagrams separately for both firms)

(Marks: 2.5+2.5)

Question No: 19 (Marks: 10)

Given the following quadratic demand function:

$$Q_d = 30 - 7P + P^2$$

- A. Find out the quantity demanded when $P = 4$.**
- B. Differentiate this demand function with respect to price.**
- C. Calculate the point elasticity of demand when $P = 4$.**
- D. INTERPRET whether the absolute result shows elastic or inelastic demand?**

(Marks: 2+2+4+2)

BEST OF LUCK