

	MIDTERM EXAMINATION SPRING 2006 ECO401 - ECONOMICS (Session - 4)	Marks: 40 Time: 60min
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StudentID/LoginID: _____

Student Name: _____

Center Name/Code: _____

Exam Date: Monday, June 12, 2006

INSTRUCTIONS:

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 Fill in the blanks carrying 1 mark each, 5 Short questions carrying 3 marks each and 1 Descriptive questions carrying 10 marks.
- You are required to show all the working of short questions as well as Descriptive question.
- This examination is closed book, closed notes, closed neighbors.
- Do not ask any questions 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

Economics is:

- ? the study of the allocation of resources
- ? allocating resources to minimize pain
- ? the study of unlimited human wants
- ? None of the given options

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

The two main branches of economics are _____ and _____:

- ? microeconomics, normative economics
- ? microeconomics, positive economics
- ? microeconomics, macroeconomics
- ? normative economics, positive economics

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

An increase in demand and an increase in supply will:

- ? Affect equilibrium quantity in an indeterminate way and price will decrease.
- ? Affect price in an indeterminate way and decrease the equilibrium quantity.
- ? Affect price in an indeterminate way and increase the equilibrium quantity.
- ? Affect equilibrium quantity in an indeterminate way and price will increase.

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

Other things being equal, the price elasticity of demand for a product will be less:

- ? If there are few or no substitutes available.
- ? If a small portion of the budget will be spent on it.
- ? In the short run than in the long run.
- ? All of the given options.

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

The "market":

- ? Refers to a physical location.
- ? Refers to the stock market.

? Is disappearing because of the Internet.

? Is a mechanism that brings buyers and sellers together.

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

A negative cross-elasticity of demand indicates:

? a substitute good

? a necessity

? an inferior good

? a complementary good

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

In economics, elasticity:

? Is a characteristic of chewing gum.

? Refers to prices that bounce around.

? Describes the strength of the relationship between two variables.

? Refers to the effect of a change in the quantity demanded on price.

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

A price ceiling set above the equilibrium price will:

- ? Create a shortage.
- ? Create a surplus.
- ? Be advantageous to producers.
- ? Have no impact on the market.

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

Monopoly power refers to the firm's ability to:

- ? Earn economic profit.
- ? Restrict entry into the industry.
- ? Set price above marginal cost.
- ? Possess economies of scale.

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

All of the following are features of perfect competition except:

- ? A large number of buyers and sellers.
- ? Easy entry and exit.

? A differentiated product

? Widely available information.

Question No: 11 (Marks: 1)

Optimum means to produce the _____.

Question No: 12 (Marks: 1)

_____ is an equational representation of demand as a function of its many determinants.

Question No: 13 (Marks: 1)

Unit elasticity means that a 1% change in price will result in an exact 1% change in _____.

Question No: 14 (Marks: 1)

_____ is the additional utility derived from the consumption of one or more unit of the good.

Question No: 15 (Marks: 1)

A firm that does not have the ability to influence market price is a _____.

Question No: 16 (Marks: 3)

Differentiate between marginal cost and marginal benefit.

Question No: 17 (Marks: 3)

Define law of demand.

Question No: 18 (Marks: 3)

If price of product increases by 20% and its quantity demanded falls by 10%, what will be price elasticity of demand?

Question No: 19 (Marks: 3)

Describe the relationship between average cost (AC) and average variable cost (AVC).

Question No: 20 (Marks: 3)

What is the optimal consumption point for consumer?

Question No: 21 (Marks: 10)

What is price discrimination? Briefly explain the consequences of price discrimination. In which situation is it possible? Is it harmful for society or not?

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