

**MIDTERM EXAMINATION**  
**Spring 2009**  
**ECO401- Economics (Session - 2)**

**Question No: 1 ( Marks: 1 ) - Please choose one**  
**An individual whose attitude towards risk is known as:**

- ▶ Risk averse.
- ▶ **Risk loving.**
- ▶ Risk neutral.
- ▶ None of the given options

**Question No: 2 ( Marks: 1 ) - Please choose one**  
**The concept of a risk premium applies to a person that is:**

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

**Question No: 3 ( Marks: 1 ) - Please choose one**  
**A normative economic statement:**

- ▶ Is a statement of fact.
- ▶ Is a hypothesis used to test economic theory.
- ▶ **Is a statement of what ought to be, not what is.**
- ▶ Is a statement of what will occur if certain assumptions are true.

**Question No: 4 ( Marks: 1 ) - Please choose one**  
**Economics is different from other social sciences because it is primarily concerned with the study of \_\_\_\_\_, it is similar to other social sciences because they are all concerned with the study of \_\_\_\_\_.**

- ▶ Limited resources, market behavior.
- ▶ **Scarcity, human behavior.**
- ▶ Social behavior, limited resources.
- ▶ Biological behavior, scarcity.

**Question No: 5 ( Marks: 1 ) - Please choose one**  
**Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:**

- ▶  $P = MR$ .
- ▶  $P = AVC$ .
- ▶  $AR = MR$ .
- ▶  **$P = MC$ .**

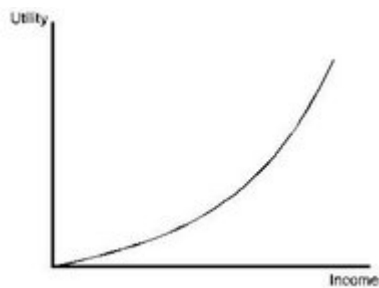
**Question No: 6 ( Marks: 1 ) - Please choose one**  
**A welfare loss occurs in monopoly where:**

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

**Question No: 7 ( Marks: 1 ) - Please choose one**  
**The "perfect information" assumption of perfect competition includes all of the following EXCEPT:**

- ▶ Consumers know their preferences.
- ▶ Consumers know their income levels.
- ▶ Consumers know the prices available.
- ▶ **Consumers can anticipate price changes.**

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



**In figure given above, the marginal utility of income is:**

- ▶ **Increasing as income increases.**
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.
- ▶ None of the given options.

**Question No: 9 ( Marks: 1 ) - Please choose one**  
**A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:**

▶ The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.

▶ The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.

▶ **The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.**

▶ The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

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

**If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:**

▶ Independent.

▶ Complements.

▶ **Substitutes.**

▶ Inferior.

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

**A demand schedule is best described as:**

▶ **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

▶ A graphical representation of the law of demand.

▶ A systematic listing of all the variables that might conceivably bring about a change in demand.

▶ A symbolic representation of the law of demand:  $P, Q$  and  $Q, P$ .

**Question No: 12 ( 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: 13 ( Marks: 1 ) - Please choose one**

**Which of the following would most likely shift the production possibilities curve for a nation outward?**

▶ A reduction in unemployment.

▶ An increase in the production of capital goods.

- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.**

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

**The primary use of the kinked-demand curve is to explain price rigidity in:**

- ▶ **Oligopoly.**
- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

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

**A 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: 16 ( 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.

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

**The maximum price that a consumer is willing to pay for a good is called:**

- ▶ The reservation price.
- ▶ **The market price.**
- ▶ The first-degree price.
- ▶ The block price.

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

**Third-degree price discrimination involves:**

- ▶ Charging each consumer the same two part tariff.
- ▶ Charging lower prices the greater the quantity purchased.
- ▶ The use of increasing block rate pricing.
- ▶ **Charging different prices to different groups based upon differences in elasticity of demand.**

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

**A tennis pro charges \$15 per hour for tennis lessons for children and \$30 per hour for tennis lessons for adults. The tennis pro is practicing:**

- ▶ First-degree price discrimination.
- ▶ Second-degree price discrimination.
- ▶ **Third-degree price discrimination.**
- ▶ All of the given options.

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

**An electric power company uses block pricing for electricity sales. Block pricing is an example of:**

- ▶ First-degree price discrimination.
- ▶ **Second-degree price discrimination.**
- ▶ Third-degree price discrimination.
- ▶ Block pricing is not a type of price discrimination.

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

**A firm never operates:**

- ▶ 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.

**Question No: 22 ( 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.

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

**If current output is less than the profit-maximizing output then which of the following must be TRUE?**

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

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

**At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?**

- ▶ **They must intersect with TC cutting TR from below.**
- ▶ They must intersect with TC cutting TR from above.
- ▶ They must be tangent to each other.

- ▶ They must have the same slope.

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

**The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the average total cost?**

- ▶  $5Q$ .
- ▶ 5.
- ▶  $5 + (200/Q)$ .
- ▶ None of the given options.

**Question No: 26 ( 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:**

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

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

**Costs determine all of the following EXCEPT:**

- ▶ **Demand for a product.**
- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

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

**The rate at which a firm can substitute capital for labour and hold output constant is the:**

- ▶ Law of diminishing marginal returns.
- ▶ Marginal rate of substitution.
- ▶ **Marginal rate of factor substitution.**
- ▶ Marginal rate of production.

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

**If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:**

- ▶ **Decreasing returns to scale.**
- ▶ Constant returns to scale.
- ▶ Increasing returns to scale.
- ▶ Diseconomies of scale.

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

**At any given point on an indifference curve, the absolute value of the slope equals:**

- ▶ Unity--otherwise there would be no indifference.
- ▶ **The marginal rate of substitution.**
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

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

**Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?**

- ▶ It would shift inward.
- ▶ It would rotate about the axis for food.
- ▶ It would rotate about the axis for racquetballs.
- ▶ **It would shift outward.**

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

**According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:**

- ▶ Vertical.
- ▶ U-shaped.
- ▶ Upward-sloping.
- ▶ **Downward-sloping.**

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

**Cross-price elasticity measures whether:**

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.**
- ▶ Demand is elastic or inelastic.
- ▶ Supply is steeper than demand or vice versa.

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

**Which of the following will be TRUE if demand is inelastic?**

- ▶ The coefficient of elasticity is greater than one.
- ▶ The percentage change in quantity demanded is same as the percentage change in the price.
- ▶ **An increase in price will increase total revenue.**
- ▶ None of the given options.

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

**Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:**

- ▶ A decrease in total revenue received by the course.
- ▶ **An increase in total revenue received by the course.**
- ▶ No change in total revenue received by the course.

- ▶ An increase in the amount of golf played on the course.

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

**Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:**

- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

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

**Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:**

- ▶ The economy's production possibilities curve will shift outward.
- ▶ The economy's production possibilities curve will become steeper.
- ▶ The economy will move downward along its production possibilities curve.
- ▶ **The economy will move from a point inside to a point closer to its production possibilities curve.**

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

**Land is best described as:**

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.**

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

**In pure capitalism, the role of government is best described as:**

- ▶ Significant.
- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

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

**Microeconomics is the branch of economics that deals with which of the following topics?**

- ▶ The behavior of individual consumers.
- ▶ Unemployment and interest rates.
- ▶ The behavior of individual firms and investors.
- ▶ **The behavior of individual consumers and behavior of individual firms and investors.**



**Question No: 41 ( Marks: 10 )**

**A. Define “Law of supply” and explain it with a schedule and diagram.**

**B. What are the factors which cause the shift in market supply curve?**

**(Marks: 6+4)**

**ANSWER:**

**LAW OF SUPPLY:**

It states that as the price goes up the quantity supplied also goes up and when price falls quantity supplied also falls.

**Schedule for Supply:**

<b>Price (Rs.)</b>	<b>Quantity supplied</b>
<b>5</b>	<b>100</b>
<b>4</b>	<b>95</b>
<b>3</b>	<b>80</b>
<b>2</b>	<b>60</b>
<b>1</b>	<b>40</b>

**Factors Causing Shift in Supply Curve:**

There are various factors causing shift in market supply curve which are as follows:

<b>Factors changing supply</b>	<b>Effect on supply</b>	<b>Direction of Shift in supply</b>	<b>Equilibrium Price</b>	<b>Equilibrium quantity</b>
Increase in number of suppliers	Increase	Rightward shift	Decrease	Increase
Decrease in number of suppliers	Decrease	Leftward shift	Increase	Decrease
Improved technology	Increase	Rightward shift	Decrease	Increase
Declined technology	Decrease	Leftward shift	Increase	Decrease
Increase in future price	Decrease	Leftward shift	Increase	Decrease
Decrease in future price	Increase	Rightward shift	Decrease	Increase
Increase in resources' price	Decrease	Leftward shift	Increase	Decrease
Decrease in resources' price	Increase	Rightward shift	Decrease	Increase

