

ECO401 Economics

Mid Term Examination – Spring 2006

Time Allowed: 90 Minutes

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.

Question No. 1

Marks : 1

OPEC stands for: _____

Question No. 2

Marks : 1

_____ means doing unfair favors for near ones when in power.

Question No. 3

Marks : 3

Define substitutes with two examples.

Question No. 4

Marks : 3

Write down formulas of total cost (TC), average cost (AC) and marginal cost (MC).

Question No. 5

Marks : 1

If a 20% increase in price causes quantity supplied to increase by 50%, the price elasticity of supply is:

- ? 5/2.
- ? 2/5
- ? 5/4
- ? 4/5

Question No. 6

Marks : 1

Consumer surplus is the _____ between willingness to pay and what the consumer actually has to pay.

Question No. 7

Marks : 1

Two variables have a _____ if they move in the same direction:

- ? positive correlation

- ? non-correlation
- ? causation
- ? negative correlation

Question No. 8

Marks : 1

The _____ of a choice is the value of the foregone alternative that was not chosen:

- ? fixed cost
- ? variable cost
- ? opportunity cost
- ? sunk cost

Question No. 9

Marks : 1

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. 10

Marks : 1

The change in total revenue divided by a one-unit change in output sold is known as:

- ? Average revenue.
- ? Average profit.
- ? Marginal cost.
- ? Marginal revenue.

Question No. 11

Marks : 1

The supply curve for a monopolist:

- ? Is its marginal cost curve above average variable cost.
- ? Is its marginal revenue curve.
- ? Is the same as the demand curve.
- ? Does not exist.

Question No. 12

Marks : 1

The price elasticity of demand is defined as the absolute value of the ratio of:

- ? Price over quantity demanded.
- ? Change in price over change in quantity demanded.
- ? Percentage change in price over the percentage change in quantity demanded.
- ? Percentage change in quantity demanded over the percentage change in price.

Question No. 13

Marks : 1

Microeconomics is concerned with:

- ? The establishing of an overall view of the operation of the economic system.
- ? A detailed examination of specific economic units which comprise the economic system
- ? The aggregate or total levels of income, employment and output.
- ? None of the given option

Question No. 14

Marks : 3

What is the shape of indifference curve for perfect substitutes and perfect compliments?

Question No. 15

Marks : 1

Perfect competition refers to a situation in which no firm or consumer is big enough to affect the _____.

Question No. 16

Marks : 1

In economics, capital is defined as:

- ? The willingness of business owners to take risks.
- ? Human creations used in the production process.
- ? The natural, unskilled abilities of people.
- ? Natural resources, such as water, oil, and iron.

Question No. 17

Marks : 1

An increase in supply:

- ? Refers to an upward movement along a supply curve.
- ? Refers to a rightward shift in the supply curve.
- ? Has the same meaning as the phrase “an increase in the quantity supplied.”
- ? None of the given options

Question No. 18

Marks : 3

What is price discrimination? How many degrees are there for price discrimination?

Question No. 19

Marks : 1

Costs that vary with the level of activity (or output) are called _____.

Question No. 20

Marks : 3

Differentiate between free market economy and planned economy.

Question No. 21

Marks : 10

- a. Define equilibrium.
- b. Given the following demand and supply functions:

$$Q_d = 196 - 5P$$

$$Q_s = 20 + 3P$$

- Find the equilibrium price and quantity.

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