

THEORY PROGRAM FORTNIGHTLY REVIEW [FNR]	FNR: 05	Issued on: 21/02/2022
	AL - 2023	Due on: 07/03/2022

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

(01) If an economy’s production possibilities frontier shifted to the right, this would illustrate;

- (1) Increasing opportunity cost
- (2) Decreasing opportunity cost
- (3) A fall in resource utilization
- (4) Economic growth
- (5) A rise in resource utilization

(02) The slope of the production possibilities curve may indicate the,

- (1) Marginal utility.
- (2) The same as the demand curve.
- (3) Marginal opportunity cost.
- (4) Always linear.
- (5) (3) and (4).

(03) The law of diminishing marginal utility suggests that,

- (1) Total utility will begin to diminish.
- (2) Additional units of consumption will add less to total utility.
- (3) Consumers’ wants are insatiable.
- (4) Most consumers will limit their consumption even when they earn a high income.
- (5) Marginal utility diminishes faster than total utility as more goods are consumed.

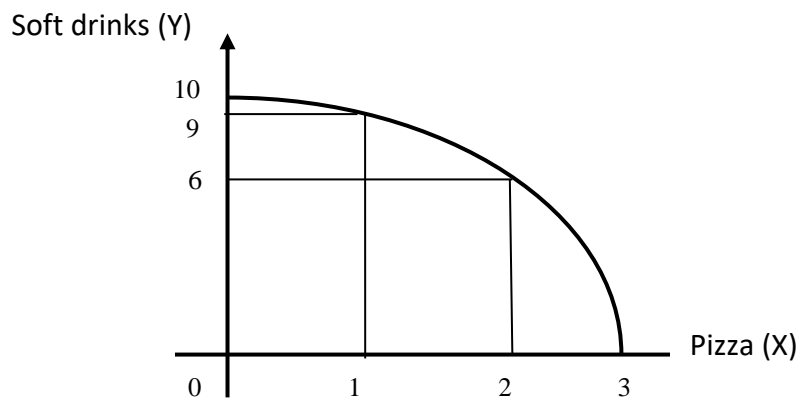
(04) A risk-taker in search of profits is called,

- (1) A capitalist.
- (2) An economist.
- (3) An entrepreneur.
- (4) A conspicuous consumer.
- (5) A businessman.

(05) If technology used to produce goods improves, that will be reflected on the PPC as,

- (1) A decrease (shift left)
- (2) An increase (shift right)
- (3) No change.
- (4) An upward movement along the curve.
- (5) A downward movement along the curve.

An economy produces two goods Pizza (X) and Soft drinks (Y). The diagram shows the economy's production possibility frontier. Use the diagram to answer questions 06 – 10.



- (06) Based on the above diagram, when 3 units of Pizza is produced, how many units of soft drinks can be produced?**
- (1) 10 units
 - (2) 6 units.
 - (3) 1 unit.
 - (4) Zero units.
 - (5) Cannot comment based on the diagram.
- (07) Based on the above PPC, the production of 6 units of soft drinks and 2 units of pizza is,**
- (1) Possible, but there would be unemployment.
 - (2) Possible, but only if all resources were fully employed.
 - (3) Possible with further economic growth.
 - (4) Impossible because we have the resources but do not have the technology.
 - (5) Impossible because we have the resources but do not have the skills
- (08) Based on the above PPC, the production of 9 units of soft drinks and 2 units of pizza is,**
- (1) Possible, but there would be unemployment.
 - (2) Possible, but only if all resources were fully employed.
 - (3) Undesirable.
 - (4) Impossible because we either do not have the resources or the technology.
 - (5) Impossible because of inefficient use of existing resources.
- (09) Based on the above PPC, the production of 4 units of soft drinks and 2 units of pizza is,**
- (1) Possible, but there would be unemployment.
 - (2) Possible, but only if all resources were fully employed.
 - (3) Undesirable.
 - (4) Impossible because we either do not have the resources or the technology.
 - (5) Impossible because of inefficient use of existing resources.

(10) Which of the following statements is true on the above PPC diagram?

- (1) The above PPC represents increasing opportunity cost.
- (2) The above PPC represents decreasing opportunity cost.
- (3) The above PPC represents constant opportunity cost.
- (4) There is unemployment of production resources.
- (5) None of the above statements are true about the PPC.

(11) Which of the following changes will have an effect on the PPC?

- (1) The development of a new and superior fertilizer.
- (2) An increase in unemployment.
- (3) The development of a more productive method of steel production.
- (4) Growth in the labour force.
- (5) All of the above changes.

(12) If a point was inside the production possibilities curve, that would represent,

- (1) An impossible point to achieve.
- (2) An efficient point.
- (3) An inefficient point.
- (4) A reduction in resources.
- (5) An increase in resources.

(13) Which of the following is NOT illustrated by a Production Possibilities Boundary?

- (1) Scarcity.
- (2) Opportunity cost.
- (3) Essential trade offs
- (4) Utility.
- (5) Productive efficiency.

(14) Making choices in an economy is fundamental because;

- (1) Prices are always rising.
- (2) Provisions must be made for the future.
- (3) Supply of money is unrestricted.
- (4) Wants are many and resources are scarce.
- (5) Investments must yield profits.

(15) Which economy can be considered most efficient in general terms?

- (1) One that makes fewer goods because workers are laid off.
- (2) One that uses fewer resources than are available.
- (3) One that makes most goods and services possible.
- (4) One that doesn't waste fuel when making goods and services.
- (5) One that has the richest people in the world.

(16) Which would a company do to increase its human capital?

- (1) Build a company cafeteria.
- (2) Provide training.
- (3) Buy comfortable chairs for employees.
- (4) Hire more part-time workers.
- (5) Lease cars for employees.

(17) On Saturday morning, you rank your choices for activities in the following order: go to the library, work out at the gym, have breakfast with friends, and sleep late. Suppose you decide to go to the library. Your opportunity cost is the benefit foregone from,

- (1) Working out at the gym, having breakfast with friends, and sleeping late.
- (2) Working out at the gym.
- (3) Zero because you do not have to pay money to refer the library books.
- (4) The annual membership fee paid to the library to borrow books.
- (5) Not clear because not enough information is given.

(18) Economists use the phrase “There is no such thing as a free lunch,” to illustrate,

- (1) How inflation increases prices.
- (2) That to get one thing, we must give up something else.
- (3) That nothing is free in a market economy.
- (4) That if something looks too good to be true, it probably is.
- (5) That poor people never get anything free.

(19) Scarcity requires that people must,

- (1) Trade.
- (2) Compete.
- (3) Cooperate.
- (4) Make choices.
- (5) Produce.

(20) Which of the following is not an example of opportunity cost:

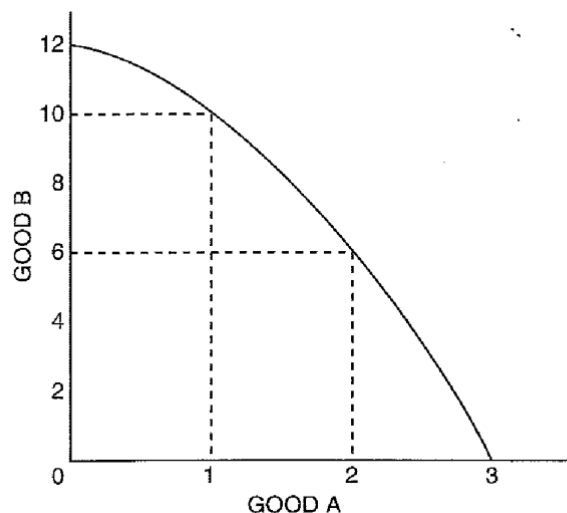
- (1) The leisure time sacrificed to study for an exam.
- (2) The tuition fees paid to a university.
- (3) The income which could have been earned by a college student working full time instead of attending college.
- (4) The building which could have been built with the construction material and labour used to build a library.
- (5) None, all of the above are examples of opportunity cost.

State whether the following statements are True (T) or False (F) (01 mark each)

(I)	Economic models are simplifications or abstract representations of economic reality.	
(II)	The main difference between renewable and nonrenewable resources is that we will never run out of renewable resources, but we will someday exhaust our nonrenewable resources.	
(III)	An economy that has unemployed resources can still operate on its production possibilities curve.	
(IV)	Production possibilities for an economy expands as the supplies of factors of production increase.	
(V)	When a hired housekeeper vacuums a house, he/she is performing labour.	
(VI)	The personal computer used to play games on is a capital good.	
(VII)	The ceteris paribus assumption is often used to simplify economic analysis.	
(VIII)	'How to produce?' is the allocation problem	
(IX)	An economic system is a social and institutional mechanism created for the purpose of allocating the scarce resources of a society.	
(X)	Regulatory function is a role of the Government in a market economy.	

Part – [B]

(01) Assume the economy represented in the given PPC is presently producing 12 units of Good (B) and 0 units of Good (A).



- (a) The opportunity cost of increasing production of Good (A) from 0 units to 1 unit is the loss of _____ **unit(s)** of Good (B).
- (b) The opportunity cost of increasing production of Good (A) from 1 unit to 2 units is the loss of _____ **unit(s)** of Good (B).
- (c) The opportunity cost of increasing production of Good (A) from 2 units to 3 units is the loss of _____ **unit(s)** of Good (B).
- (d) Underline the answer. This is an example of (constant/**increasing**/decreasing/zero) opportunity cost per unit for Good (A).

[02 marks each]

(02) Complete the following table using your knowledge of 'Economic Systems'.

Basis for Classifying Economic Systems [Reasons for Variety of Economic Systems]	Corresponding Types of Economic [Variety of Economic Systems]
[01] Ownership of Resources [Ownership, rights, entrepreneurship]	_____ _____
[02] The Mechanism of Resource Allocation	_____ _____ _____ _____
[03] The Incentive Structure /System	_____ _____

[01 mark each] [Total 08 marks]

(03) Match the key terms given below with the most suitable statement.

Scarcity Production Possibilities Microeconomics
 Macroeconomics Economics Economic Efficiency

(A) Statements	(B) Key Terms
Social science that studies scarcity and choice.	
The study of individual economic behaviour.	
Finiteness of resources relative to unlimited wants.	
The study of the economy as a whole.	
Reaching the maximum possible output with resources fully utilized.	
Combinations of goods and services that can be potentially produced.	

[02 marks each]

(04) (I) The following table contains some data pertaining to a PPM, complete the table and answer the relating questions

[04 marks]

Private Goods (Units)	Public Goods (Units)	Opportunity Cost of Private Goods	Opportunity Cost of Public Goods
00	20		
01	18		
02	15		
03	11		
04	06		
05	00		

(II) Construct the PPC pertaining to the above table, represent Private goods in the vertical axis and Public goods in the horizontal axis

[04 marks]

(III) State three (3) reasons for the nature of marginal opportunity cost behavior along the above PPC

[03 marks]

(05) Complete the following table, differentiating between a 'Command' and 'Market' economic systems, based on the following attributes

Attribute	Command	Market
Manner of decision making [e.g., centralization or ...]		
Mechanism of decision making		
Ownership of property resources		
Nature of enterprise		
Nature of competition [e.g. monopoly or ..]		
Level of government Involvement		
Nature of Incentives		
[Total 07 marks]	[½ mark each, 3 ½ marks]	[½ mark each, 3 ½ marks]

(06) State the main functions of the Government within a market economy.

[04 marks]

END OF FNR [05]