

THEORY PROGRAM FORTNIGHTLY REVIEW [FNR]	FNR: 04	Issued on: 5 th Feb 2021
	AL - 2023	Due on: 19 th Feb 2021

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

(01) When a country that produces only two goods namely, good (A) and good (B), is producing on its production possibilities frontier, the decision to produce more of good (A) means that,

- (1) More of good (B) also will be produced.
- (2) The same amount of good (B) will be produced.
- (3) Less of good (B) will be produced.
- (4) The opportunity cost will be constant always.
- (5) There is no opportunity cost involved.

(02) Economics may best be defined as a

- (1) Scientific study of supply and demand.
- (2) Study of efforts to satisfy seemingly unlimited wants with scarce resources.
- (3) Limited description of economic activities.
- (4) Branch of sociology.
- (5) Study of human behaviour and productivity.

(03) Which of the following is NOT a factor of production?

- (1) A new computer used by a small business owner.
- (2) The time worked by primary school teachers.
- (3) A tractor used by a wheat farmer.
- (4) A share of equity capital stock issued by a firm.
- (5) The water used in a hydropower plant.

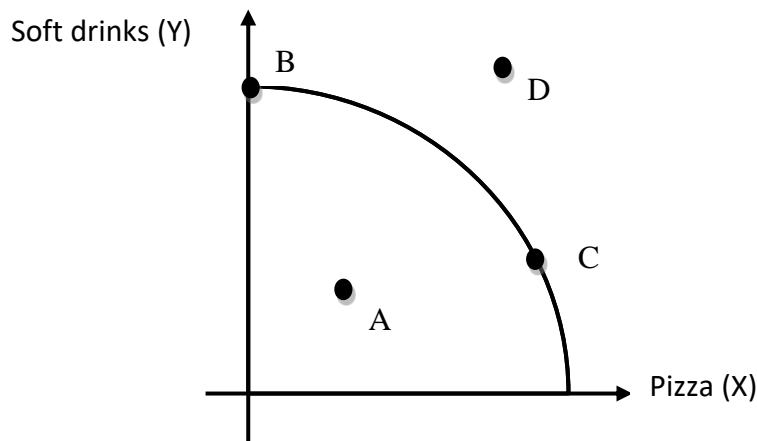
(04) A good is considered scarce in a society when,

- (1) More output of the good is possible.
- (2) Everyone in that society cannot have all they want of the good.
- (3) The government restricts production of the good.
- (4) Only the richest people in the economy can buy all they want of the good.
- (5) The good's price is fixed irrespective of the supply.

(05) Mr. Fernando decides to spend two hours playing golf rather than working at his job which pays Rs. 1,000 per hour. His trade-off is,

- (1) The increase in skill he obtains from playing golf for two hours.
- (2) Nothing because he enjoys playing golf more than working.
- (3) Nothing, because he spent Rs.2,000 for the membership to play golf.
- (4) Nothing, because his membership to play golf is free.
- (5) The Rs.2,000 he could have earned working for two hours.

Use the following diagrams to answer questions [06] – [09].



(06) In the diagram, which labeled points are attainable?

- (1) Only A
- (2) Only B and C
- (3) Only D
- (4) A, B and C
- (5) Only A and D

(07) In the diagram, which labeled points are unattainable?

- (1) Only A
- (2) Only B and C
- (3) Only D
- (4) A, B and C
- (5) Only B

(08) In the diagram, which labeled points represent the existence of unemployment?

- (1) Only A
- (2) Only B and C
- (3) Only D
- (4) A, B and C
- (5) Only A and D

- (09) In the diagram, which labeled point indicates that there are sufficient resources and technology to produce the combination of goods represented by that point?**
- (1) Only A
 - (2) Only B and C
 - (3) Only D
 - (4) A, B and C
 - (5) Only B
- (10) In the diagram, which labeled point indicates that there are insufficient resources or technology to produce the combination of goods represented by that point?**
- (1) Only A
 - (2) Only B and C
 - (3) Only D
 - (4) A, B and C
 - (5) Only C
- (11) Which statement best represents the concept “there is no such thing as a free lunch”?**
- (1) Nilu can only attend the concert if she takes her sister with her.
 - (2) Ravi is hungry and homeless.
 - (3) Saman must repair the tire on his bike before he can ride it to class.
 - (4) Ruvini must decide between going to Singapore or Malaysia for the BSc. Degree.
 - (5) Kalum can't buy a car because he is poor.
- (12) Opportunity cost of capital investment is,**
- (1) Sacrifice of current consumption.
 - (2) More consumption on luxury items.
 - (3) Lower capital growth in future.
 - (4) Wastage of resources.
 - (5) Full employment in the economy
- (13) If an economy is working at a point left to the PPC curve it shows that;**
- (1) The economy is working at less than the full employment level.
 - (2) The economy is at full employment level.
 - (3) The economy is currently faced with excess production.
 - (4) There is a glut of imports.
 - (5) The economy is achieving improvements in production technology.

(14) In the circular flow model, households furnish labor, capital, land, and entrepreneurship to businesses for which they are paid _____, _____, _____, and _____, respectively.

- (1) Profit, interest, rent, wages
- (2) Wages, interest, rent, profit
- (3) Wages, interest, profit, rent
- (4) Wages, profit, interest, rent
- (5) Wages, rent, interest, profit

(15) A production possibilities curve would be negatively sloped due to,

- (1) Scarcity of production resources.
- (2) Unlimited wants of the society.
- (3) Improvements in technology.
- (4) Increasing opportunity cost.
- (5) Unemployment in the economy.

(16) A person is trying to decide whether to buy an additional bottle of soft drinks. This is an example of;

- (1) Opportunity cost.
- (2) A marginal decision.
- (3) Irrational decision making.
- (4) Insatiability.
- (5) Scarcity.

(17) You bought 5GB data with your last Rs.500. What is your opportunity cost?

- (1) The cost to make the provide the data bandwidth and the price you paid.
- (2) The satisfaction you receive when using the data on the internet
- (3) The Rs.500 that you gave to the seller for the data.
- (4) The movie with your friends that you cannot afford now.
- (5) The joy of knowing you always have enough data bandwidth on your phone.

(18) Which of the following statements about production possibilities curves is true?

- (1) It shows various combinations of two goods which yields same level of satisfaction.
- (2) It shows various combinations of two goods which an economy can produce with a given amount of resources.
- (3) It shows various combinations of two goods which an economy can produce with a given budget.
- (4) It shows the various combinations of two goods which an economy can produce within a given time.
- (5) None of the above statements are true about PPCs.

(19) A factory bottles apple juice and cranberry juice. If it wants to bottle more apple juice, what is the trade-off?

- (1) A smaller factory.
- (2) Less cranberry juice.
- (3) A bigger factory.
- (4) More cranberry juice.
- (5) More capital investment.

(20) Economic growth is best depicted by;

- (1) Upward movement on the PPC.
- (2) Inward movement of the PPC.
- (3) Downward movement on the PPC.
- (4) Outward movement of the PPC.
- (5) None of the above.

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

(01 mark each)

(I)	Marginal utility is always a very small quantity.	
(II)	Utils are the units which psychologists use to determine the utility people obtain from consumption.	
(III)	Even consuming a free good or resource is associated with opportunity cost in economics.	
(IV)	All renewable resource tend to be live or living resources.	
(V)	Opportunity cost is a direct result of making an economic choice.	
(VI)	Factors of production include consumption goods.	
(VII)	Human capital and labour are identical.	
(VIII)	An entrepreneur is a person who assumes the risks associated with undertaking a business venture.	
(IX)	A concave PPC implies increasing marginal opportunity cost.	
(X)	Economies of scales is a reason for increasing marginal opportunity cost along the PPC.	

[Sub-total 10 marks]

Total Marks [Part A]: 50 marks

Part – [B]

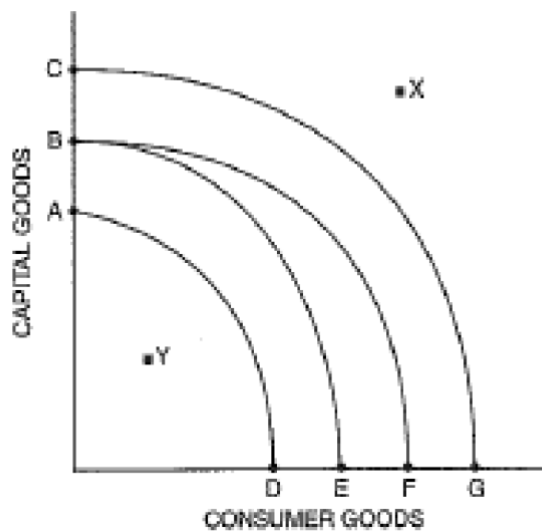
[01] **Briefly explain** what is meant by the concept of 'Economic Efficiency'. [04 marks]

[02] **Briefly explain** the following concepts.

- (I) Allocative efficiency
- (II) Productive efficiency
- (III) Full employment
- (IV) Full Production

[02 marks each]

[03] Assume the (BE) represents a given country's current PPC and answer the following questions.



Indicate the curve chosen with two letters. Eg: (BE)

- A. Suppose there is a major technological breakthrough in the consumer goods industry, and the new technology is widely adopted. Which curve in the diagram would represent the new PPC?
- B. Suppose a new government comes into power and forbids the use of automated machinery and modern production techniques in all industries. Which curve in the diagram would represent the new PPC?
- C. Suppose massive new sources of oil and coal are found within the economy, and there are major technological innovations in both industries. Which curve in the diagram would represent the new PPC?
- D. If (BE) represents a country's current PPC, what can you say about a point like (X) ?
- E. If (BE) represents a country's current PPC, what can say about a point like (Y) ?

[02 marks each]

[04]

- (I) The following table contains some data pertaining to a linear Production Possibilities Frontier (PPF) complete the table and answer the proceeding questions

Agro Goods: A (Units)	Military Goods: M (Units)	Opportunity Cost of Agro Goods [$\Delta M / \Delta A$]	Opportunity Cost of Military Goods [$\Delta A / \Delta M$]
00	10		
01	08		
02	06		
03	04		
04	02		
05	00		
		[02 mark]	[02 mark]

[Total 04 marks]

- (II) Construct the PPC pertaining to the above table, represent Military Goods (M) on the vertical axis and Agro Goods (A) on the horizontal axis

[04 marks]

- (III) Briefly describe the general Marginal Opportunity Cost (MOC) behaviour along the PPF constructed by you and state the main reasons which would explain such MOC behaviour

[04 marks]

[05] Represent the given situations using concave PPF diagrams

- (I) Economic Growth
- (II) Unemployment of Resources
- (III) Productive Efficiency
- (IV) Economic Downturn (Recession) **[02 marks each]**

- [06] Explain using appropriate Production possibilities Frontier (PPF) diagram(s), how a country's present resource allocation decisions may affect their future economic growth potential**

[04 marks]

- [07] State the main characteristics of 'Land' as an economic factor of production** **[04 marks]**

END OF FNR [04]

