

THEORY PROGRAM <b>FORTNIGHTLY REVIEW [FNR]</b>	FNR: 06	Issued on: 19 <sup>th</sup> Mar 2022
	AL - 2023	Due on: 2 <sup>nd</sup> Apr 2022

**ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.**

### **Part – [A]**

**(01) In principle, which of the following is an advantage of a planned economy?**

- (1) Decisions are taken on the basis of social costs and benefits
- (2) Production is characterised by decreasing returns to scale
- (3) The government always balances the budget
- (4) The pattern of production reflects the preferences of consumers
- (5) All of the above points are benefits of a planned economy

**(02) The fundamental issue of economics is to:**

- (1) Prove that market systems are superior to socialist systems.
- (2) Chose the proper goods for a society to produce.
- (3) Distribute income as equally as possible.
- (4) Analyze choices that must be made because of the scarcity of resources.
- (5) Prevent inflation and unemployment in market systems.

**(03) A free good is not scarce because;**

- (1) Individuals can have all they desire at zero price.
- (2) Price rations the good so that all individuals willing to pay the market price can buy the good, therefore not scarce.
- (3) Human desires for the good exceeds the amounts available at a zero price.
- (4) It is an abundant natural resource.
- (5) Both (I) and (II)

**(04) A given PPC will be concave from the origin (bowed out) because:**

- (1) Of the different intensities with which commodities and services are used in producing capital, land and labour.
- (2) Land, labour and capital are used in fixed proportions in producing all commodities and services.
- (3) Of the different intensities of people's labour efforts.
- (4) All productive resources are equally suited for producing all goods.
- (5) Productive resources differ in their suitability for producing different goods.

**(05) If an economy experiences unemployment, it would show up as a point,**

- (1) On the production possibilities curve but on one of the axes.
- (2) Outside the production possibilities curve.
- (3) Inside the production possibilities curve.
- (4) On the production possibilities curve.
- (5) On a production possibilities curve that is shifting to the right.

**(06) Which economy can be considered most efficient?**

- (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.

**(07) The type of economy a country has is determined by the amount of \_\_\_\_\_.**

- (1) Economic interest
- (2) Judicial review
- (3) Circular flow
- (4) Government involvement
- (5) Inflation

**(08) Which of the following is NOT a basic question of economics?**

- (1) Who will produce it?
- (2) For whom will it be produced?
- (3) What will be produced?
- (4) How will it be produced?
- (5) Which quantities to produce

**(09) The "how" trade-off occurs when,**

- (1) A firm decides to produce refrigerators instead of dishwashers.
- (2) A farm uses machinery to pick oranges instead of employing migrant workers.
- (3) The government increases income taxes paid by the rich.
- (4) We answer the macroeconomic question.
- (5) The government decides to allocate more funds for elementary education.

**(10) There is little or no government control in a \_\_\_\_\_ economy?**

- (1) Command
- (2) Mixed
- (3) Traditional
- (4) Free market
- (5) Public market

**(11) The four types of economic systems are:**

- (1) Traditional, Command, Mixed and Market
- (2) Traditional, Command, Combined and Market
- (3) Communism, Capitalism, Free market and Macroeconomics
- (4) Microeconomics, Macroeconomics, Individual and Traditional
- (5) Traditional, Public, Private and Mixed

**(12) If an economy is operating along its production possibilities curve, then it is clear that,**

- (1) Poverty is eliminated.
- (2) Technological change is assured.
- (3) All factors of production are fully employed.
- (4) Some resources may still be underemployed.
- (5) Economic growth must slow down.

**(13) Suppose that in the land of 'Plenty' there is no scarcity. We can conclude that:**

- (1) All resources are fully employed.
- (2) The production possibilities curve is concave to the origin.
- (3) Opportunity costs are zero when production of bread increases.
- (4) All goods are free.
- (5) Both (III) and (IV) are correct.

**(14) Which of the following would tend to increase production possibilities in the future of Country X?**

- (1) Country X enters a world war.
- (2) Country X discovers a way to increase their levels of resource utilization.
- (3) A government program is instituted that encourages college education.
- (4) A program to increase rate of employment.
- (5) The government decides to reduce budgetary allocations on RND.

**(15) To economists, the term “Capital” refers exclusively to:**

- (1) Goods used to produce other goods and services.
- (2) Money used to purchase capital in the form of stocks and bonds.
- (3) Savings accumulated by households to purchase capital.
- (4) Money used by an entrepreneur to purchase capital.
- (5) Real estate, forests, metals and minerals.

**(16) For an economy that produces along its production possibilities curve, the opportunity cost of increasing the production of military goods equals to the;**

- (1) Money value by which the defense budget increases.
- (2) Cost of the war in which they will be used.
- (3) Non-military goods sacrificed to produce the military goods.
- (4) Capital goods sacrificed to produce the military goods.
- (5) Consumer goods sacrificed to produce the military goods.

**(17) All of the following would tend to increase a nations production possibilities except:**

- (1) The society becomes more accepting of women who work.
- (2) A new improved production technology is discovered.
- (3) A government program is instituted that improves labour productivity.
- (4) The nation decides to increase production of investment goods and decrease production of consumption goods.
- (5) A sharp increase in labour force of the country.

**(18) Which of the following is not a feature of a mixed economy?**

- (1) Welfare payment to the long-term sick.
- (2) Public ownership of all means of production.
- (3) Government control of interest rates.
- (4) Private ownership of land.
- (5) Minimum wage control regulations by the government.

**(19) Something is generally considered to be a public good if;**

- (1) The private sector could provide the service more efficiently.
- (2) The benefit of the good are greater for the government than for the society.
- (3) The total benefit to society is greater than the total financial cost.
- (4) Inevitably the responsibility to provide the good is with government.
- (5) Government may or may not charge a price for it.

**(20) If it is impossible to make somebody better off without making someone else worse off, the current situation must:**

- (1) Be economically efficient.
- (2) Not be optimal.
- (3) Cure the problem of scarcity.
- (4) Be inequitable.
- (5) None of the above.

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

**(01 mark each)**

<b>(I)</b>	A 'Market' in economics must essentially be a specific place or location.	
<b>(II)</b>	Price mechanism is used for resource allocation in liberal market economic systems.	
<b>(III)</b>	Households are the factor owners in factor markets.	
<b>(IV)</b>	The nature of demand in factor markets are 'direct'.	
<b>(V)</b>	Monopoly is a market structure where the level of competition is lowest.	
<b>(VI)</b>	Effective demand is the desire or willingness to consume goods.	
<b>(VII)</b>	The function of a product market is to determine price and distribution.	
<b>(VIII)</b>	The size of the market doesn't determine the market demand for a good or service.	
<b>(IX)</b>	The function of demand is a mathematical summary of theory of demand.	
<b>(X)</b>	Substitute good essentially compete with each other.	

**Part – [B]**

(01) **Describe** what is meant by an economic system, and **list** the main components of the institutional structure of an economic system

[08 marks]

(02) **State** the characteristics of a mixed economic system [05 marks]

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

Natural Resources

Capital

Entrepreneur

Human Capital

Land

Labour

(A) - Statements	(B) – Key Terms
A natural-state resource.	
The knowledge and skills acquired by labour.	
Manufactures goods used to make other goods and services	
A person willing to assume the risk of a business.	
Renewable and nonrenewable gifts of nature.	
Physical and intellectual effort by people in the production process.	

[02 marks each]

(04) **Distinguish** between ‘Individual Demand’ and ‘Market Demand’ [06 marks]

(05) **State** the principal factors which affect a consumer’s demand for a given product.

[05 marks]

(06) **Briefly explain** what is meant by a Substitute good and a Complementary good.

[06 marks]

(07) State whether the give pairs of goods are Substitute Goods or Complementary Goods.

Pair of goods	Substitute or Complementary
Toothpaste & Toothbrush	
Tea & Coffee	
Eyeglasses & Contact lenses	
Mobile phone & Sim card	
Pen & Notebook	
Coke & Pepsi	
Tennis ball & Tennis racket	
Butter & Margarine	

[01 mark each]

**END OF FNR [06]**

**Notes...**