

THEORY PROGRAM

FORTNIGHTLY REVIEW [FNR]

FNR: 06

Issued on: 22nd Mar 2022

AL - 2023

Due on: 5th 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)

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

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