THEORY PROGRAM **FORTNIGHTLY REVIEW [FNR]**	FNR: **02**	**Issued on:**
	2024 A/L	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

(01) If buyers expect the price of a good to rise in the future, the result is

(1) A decrease in supply today
(2) An increase in supply today
(3) A decrease in quantity demanded today
(4) An increase in demand today
(5) An increase in quantity demanded today

(02) The basic economic problem is that,

(1) Scarce resources have to be allocated between competing uses.
(2) Consumers have infinite wants.
(3) Governments cannot always deal effectively with market failure.
(4) Every economic decision generates externalities.
(5) Inflation cannot be controlled.

(03) The "how" tradeoff 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.

(04) Kasun produces only rice and cloth. Taking account of his preference for rice and cloth;

(1) Makes his production possibilities frontier straighter.
(2) Does not affect the shape of his production possibilities frontier.
(3) Makes his production possibilities frontier flatter.
(4) Makes his production possibilities frontier steeper.
(5) Makes his production possibilities frontier move inwards.

(05) New bicycles that are maintained as inventory in a sporting goods store are,

(1) Consumption goods.
(2) Capital goods.
(3) Held at a high opportunity cost.
(4) Capital goods if they are intended for travelling to and from a job.
(5) Consumption goods if they are intended for recreation.

(06) The law of downward sloping demand indicates that,

(1) Consumer demand has increased significantly.
(2) Consumer demand has not changed significantly.
(3) Consumer demand has dropped drastically.
(4) Consumers demand more at lower prices.
(5) Consumers demand less at lower prices.

(07) A decrease in the price of a particular good, with all other variables constant, causes

(1) A shift to a different demand schedule with higher quantities demanded
(2) A shift to a different demand schedule with lower quantities demanded
(3) A movement along a given demand curve to a lower quantity demanded
(4) A movement along a given demand curve to a higher quantity demanded
(5) No movement along a given demand curve unless supply also changes

(08) The supply curve of sofas has moved to the right. Which of the following could have caused this shift?

(1) A decrease in the price of sofas.
(2) A decrease in the price of cane chairs (a substitute).
(3) A decrease in the cost of fabrics used produce sofas.
(4) A decrease in the wage rate in the cane chair factory workers.
(5) An increase in the wage rate of the sofa factory workers.

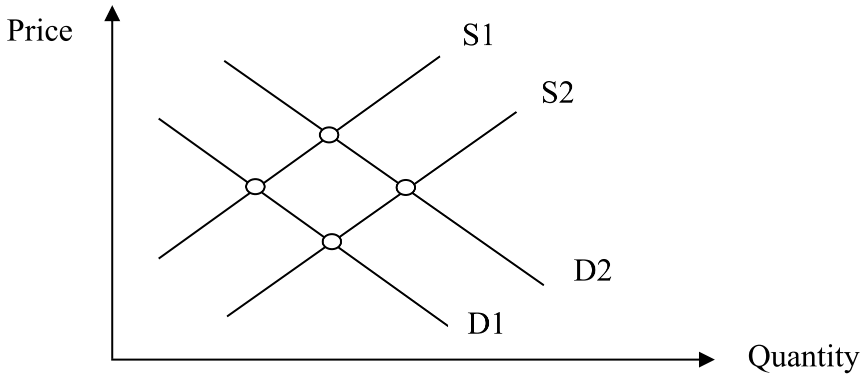
(09) Suppose people buy more of a good (A) when the price of good (B) falls. These goods are,

(1) Substitutes
(2) Inferior
(3) Normal
(4) Complements
(5) Giffen

(10) Which of the following events will cause an increase in the market demand for Milk powder X (Brand)?

(1) A decrease in the price of Milk powder ‘X’.
(2) An increase in the price of Milk powder ‘Y’ (another brand).
(3) An increase in the price of sugar.
(4) An increase in income, if Milk powder ‘X’ is an inferior good.
(5) None of the above will cause an increase in demand.

Refer to the given diagram to answer questions 11 – 15.



(10) If the figure above represents the market for Candy. People become more concerned that eating candy causes then to gain weight, which they do not like. As a result,

(1) The demand curve will not shift, and the supply curve shifts from S1 to S2.
(2) The demand curve shifts from D1 to D2 and the supply curve shifts from S1 to S2.
(3) The demand curve shifts from D2 to D1 and the supply curve shifts from S2 to S1.
(4) The demand curve shifts from D2 to D1 and the supply curve will not shift.
(5) The demand curve shifts from D1 to D2 and the supply curve will not shift.

(11) If the above figure represents the market for oil. Because of the development of a new deep sea drilling technology,

(1) The demand curve shifts from D1 to D2 and the supply curve shifts from S1 to S2.
(2) The demand curve shifts from D1 to D2 and the supply curve will not shift.
(3) The demand curve will not shift, and the supply curve shifts from S1 to S2.
(4) The demand curve will not shift, and the supply curve shifts from S2 to S1.
(5) The demand curve shifts from D2 to D1 and the supply curve will not shift.

(12) If the above figure represents the market for oil. When terrorists blow up a major refinery,

(1) The demand curve for oil will not shift, and the supply curve shifts from S2 to S1.
(2) The demand curve for oil shifts from D1 to D2 and the supply curve will not shift.
(3) The demand curve shifts from D1 to D2 and the supply curve shifts from S2 to S1.
(4) The demand curve will not shift, and the supply curve for oil shifts from S1 to S2.
(5) The demand curve for oil shifts from D2 to D1 and the supply curve will not shift.

(13) If the above figure represents the market for bicycles. When there is a physical fitness craze,

(1) The demand curve for bicycles shifts from D1 to D2.
(2) The demand curve for bicycles shifts from D2 to D1.
(3) The supply curve of bicycles shifts from S1 to S2.
(4) The supply curve of bicycles shifts from S2 to S1.
(5) The demand curve and the supply curve of bicycles do not shift.

(14) If the above figure represents the market for French fries at fast food joints. If the price of potatoes rise and simultaneously people become concerned that French fries can cause heart attacks,

(1) The demand curve for French fires will shift from D2 to D1, and the supply curve will shift from S2 to S1.
(2) The demand curve for French fires will shift from D2 to D1, and the supply curve will not shift.
(3) The demand curve for French fires will not shift, and the supply curve will shift from S1 to S2.
(4) The demand curve for French fires will shift from D2 to D1, and the supply curve will shift from S1 to S2.
(5) The demand curve for French fires will shift from D1 to D2, and the supply curve will shift from S1 to S2.

(16) By definition, an inferior good is,

(1) A normal substitute good.
(2) A good for which demand decreases when its price rises.
(3) A want that is not expresses by demand.
(4) A good for which demand decreases when income increases.
(5) Never a substitute good.

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

(i)	Scarcity is a temporary situation in some societies.	
(ii)	Normative economics is free from value judgments	
(iii)	Salt water from the ocean is not a scarce good because there is more than the amount people want when it is available and free.	
(iv)	Inability to satisfy basic human wants shall create the complex economic problem of 'Poverty'.	
(v)	Economics is one of the social sciences because it examines individual and social behavior.	
(vi)	Opportunity cost of free goods depends on the cost of the good given up for it.	
(vii)	The personal computer that my brother uses to play games on is a capital good.	
(viii)	An entrepreneur is a person who assumes the risks associated with undertaking a business venture.	

Part – [B]

Question [01]

(A) **Briefly explain** the **three functions** of the **price mechanism.**

(B) **Sate** the **main conditions** of **'Effective Demand'** and **'Effective Supply'**

[03 marks each]

Question [02]

Match the key terms given below with the most suitable statement.

Law of demand	Utils	Complementary goods
Substitute goods	Normal good	Opportunity Cost

A - Statements	B – Key Terms
A good whose demand increases when income increase.	
Hypothetical units for measuring utility.	
Inverse relationship between price and quantity demanded.	
Goods that can replace each other.	
Goods that are used together.	
The quantity of goods that must be given up obtaining a good.	

[02 marks each]

Question [03]

Define the following 'Concepts' (Ensure to provide a **complete** and **theoretically correct** definition, using the **correct technical terms**)

(1) Normal Goods
(2) Inferiror goods
(3) Giffen Goods **[03 marks each]**

END OF FNR [02]