THEORY PROGRAM **FORTNIGHTLY REVIEW [FNR]**	FNR: **08**	**Issued on:**
	2024 A/L	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

(01) If the income elasticity of demand for a good is greater than 0 but less than 1.0, then the good is

(1) An economic luxury
(2) An economic necessity
(3) One with relatively little demand
(4) Provided by a monopoly producer
(5) Provided by competitive producers

(02) Economics is the study of,

(1) How much people should buy and the prices they should be willing to pay.
(2) How much people should sell and the prices they should be willing to accept.
(3) The allocation of the world's freely available resources and who should get them.
(4) The allocation and efficiency of use of scarce resources to satisfy unlimited human wants.
(5) The allocation and use of scarce resources to satisfy unlimited human needs.

(03) In economics, the “long run” is a time period in which

(1) All inputs are variable.
(2) All inputs are paid for.
(3) All outputs are determined.
(4) All loans are repaid.
(5) All interest is paid.

(04) A supply curve which is a straight line passing through the origin:

(1) Is perfectly elastic.
(2) Is elastic.
(3) Has unitary elasticity.
(4) Is inelastic.
(5) Is perfectly inelastic.

(05) A certain type of Face Cream at a price of Rs.500, most stores cannot keep it in stock because consumers buy them all as soon as shipments arrive. This implies that there;

(1) Is an excess supply of the cream, and the price must fall for equilibrium to be reached.
(2) Will be a downward shift in the demand curve for face cream.
(3) Will be an upward shift in the supply curve for face cream.
(4) Is an excess demand for the cream, and the price must rise for equilibrium to be reached.
(5) Is an excess demand for the cream, and the price must fall for equilibrium to be reached.

(06) The problem of scarcity

(1) Exists only in economies which rely on a mixed economy.
(2) Could be eliminated if we could force prices to fall
(3) Means there are shortages of some goods,
(4) Exists because human wants cannot be satisfied with available resources.
(5) Exists now but will be eliminated with economic growth.

(07) If a firm's long-run Average Total Cost (ATC) is falling,

(1) There are economies of scale in production.
(2) There are diseconomies of scale in production.
(3) Costs per unit increase as output increases.
(4) Cost per unit remain constant as output increases.
(5) Cost per unit increasing even when output remain constant.

(08) The demand curve, relating price to output, which is a straight line slopping downwards,

(1) Has a constant elasticity along its whole length.
(2) Has a falling elasticity as you move down the line.
(3) Has a raising elasticity as you move down the line
(4) Has an elasticity at each point on the line which has no predictable pattern.
(5) Has a positive elasticity along its whole length.

(09) When only a small proportion of a consumer's income is spent on a good,

(1) The demand for the good will be highly price elastic.
(2) The good is described as 'inferior'.
(3) The good is a luxury good.
(4) The demand for the good will be price inelastic.
(5) The good is always a commodity

(10) Opportunity costs arise in production because,

(1) Resources are unlimited
(2) Resources must be shifted away from producing one good in order to produce another
(3) Wants are limited in society
(4) Monetary costs of inputs usually outweigh non-monetary costs
(5) The monetary costs of only a few resources are zero

(11) The opportunity cost of a particular production activity,

(1) Is the same for everyone pursuing this activity.
(2) May include both monetary costs and forgone income.
(3) Always decreases as more of that activity is pursued.
(4) Usually is known with certainty.
(5) Measures the direct benefits of that activity.

(12) Average Total Cost is:

(1) Variable cost.
(2) The cost of producing an additional unit of output.
(3) The total average fixed cost plus the average variable cost per unit.
(4) The minimum manufacturing cost.
(5) The difference between the fixed and variable cost

(13) A tax of Rs.10 per liter on petrol;

(1) Places a tax wage of Rs 10 between the price the buyers pay and the price the sellers receive.
(2) Decreases the price the sellers receive by Rs. 10 per liter.
(3) Increase the price the buyers pay by Rs.10 per liter.
(4) Increase the price the buyers pay by Rs.10 and reduces the price received by sellers by precisely Rs. 10.
(5) Increase the price the buyers pay by precisely Rs.5 and reduces the price received by sellers by precisely Rs.5.

(14) A production possibilities frontier is a simple model of

(1) Resource scarcity and allocation
(2) Production and costs
(3) Demand and supply
(4) Market prices and output
(5) Inputs and outputs

(15) Which of the following leads to the producer paying all of a tax?

(1) The supply is perfectly elastic.
(2) The demand is unit elastic.
(3) The demand is elastic.
(4) The supply is perfectly inelastic.
(5) The demand is perfectly inelastic.

(16) What is a monopsony?

(1) A market with a single buyer.
(2) A market with a single supplier.
(3) A market with multiple buyers and multiple supplier.
(4) A market dominated by a small number of large buyers.
(5) A market dominated by a small number of large suppliers.

(18) Marginal cost curve represents,

(1) Variable costs plus fixed costs.
(2) Fixed costs only.
(3) The cost of producing the last unit at a given level of production.
(4) Per-unit total costs.
(5) Average costs at the margin.

(17) Which of the following takes place when a tax is placed on a good?

(1) A decrease in the price buyers pay, an increase in the prices sellers receive, and a decrease in the quantity sold.
(2) An increase in the price buyers pay, a decrease in the prices sellers receive, and a decrease in the quantity sold.
(3) A decrease in the price buyers pay, a decrease in the prices sellers receive, and an increase in the quantity sold.
(4) A possible increase in the price buyers pay, a decrease in the prices sellers receive, and a possible decrease in the quantity sold.
(5) An increase in the price buyers pay, an increase in the prices sellers receive, and an increase in the quantity sold

(19) A monopoly firm will produce at minimum ATC:

(1) When in long-run equilibrium.
(2) If MR happens to equal MC where ATC is at a minimum.
(3) If price happens to equal ATC at the output where ATC is at its minimum.
(4) Under no circumstances.
(5) Whenever price is everywhere below the monopolist's ATC.

(20) The short-run shutdown point for the perfectly competitive firm occurs:

(1) Where total revenue is just sufficient to cover total cost.
(2) When the demand curve facing the firm is tangent to its average variable cost curve.
(3) Where total revenue is just sufficient to cover all explicit cost but not any implicit costs.
(4) When the firm is able to cover all of its fixed costs and part of its variable costs.
(5) At the same quantity level as the long-run shutdown point.

(21) The law of diminishing returns can apply to a business only when:

(1) All factors of production can be varied.
(2) At least one factor of production is fixed.
(3) All factors of production are fixed.
(4) Capital used in production is fixed.
(5) None of the above situations result in diminishing returns.

(22) When a price floor is imposed above the market equilibrium level,

(1) A shortage will result.
(2) A surplus would result.
(3) Scarcity will result.
(4) The good is no longer scarce.
(5) Consumer utility will be reduced.

(23) Which of the following is necessary for there to be a "natural monopoly"?

(1) The company is in a very large market
(2) Initial Fixed or Capital Costs are a very high proportion of the Total Cost of Production
(3) Diseconomies of Scale exist over the entire market
(4) Price is greater than Marginal Revenue
(5) None of the above

(24) Last year, the government raised the tax on cigarettes so that cigarettes in country would sell for about Rs.3,200 per pack. The government's purpose in doing this was to increase its tax revenues. The government must have assumed that the demand for cigarettes is:

(1) Relatively Inelastic.
(2) Unit Elastic.
(3) Relatively Elastic.
(4) Perfectly Elastic.
(5) None of the above.

(25) For a given normal supply curve, the amount of a tax paid by the buyer will be larger,

(1) The more elastic the demand.
(2) The more inelastic the demand.
(3) The income elasticity is equal to zero.
(4) When the price is high.
(5) When there is a normal demand curve.

Part – [B]

<u>Question [01]</u>

(A) **'All economic resources are productive resources, but all productive resources are not economic resources'**

Do you agree with this statement, **Explain** your answer **briefly** **(03 marks)**

(B) **Define** and **state** two examples for each category of economic resources given below:

1) Land
2) Capital
3) Labour
4) Entrepreneurship **(02 marks each)**

(Technical and standard definition is expected)

<u>Question [02]</u>

(A) **Define** a Production Possibilities Frontier (PPF) and **state** the principal assumptions upon which a PPF is constructed

(B) **Define** and **state** the main reasons for Fixed and Increasing Opportunity Cost behaviour along PPFs

(04 marks each)

<u>Question [03]</u>

(A) **Distinguish** between the following pairs of concepts

Hint: simply provide a technical and standard definition for each concept (with examples **as appropriate**)

(1) Substitute Goods and Complementary Goods
(2) Normal Goods and Inferior Goods

[03 marks each]

(B) **Explain briefly** the link between consumers' future income and price 'expectations' and present demand for iPhones

[02 marks]

Question [04]

(A) **Distinguish** between the economic 'Short run' and 'Long run' stages of production

(04 marks)

(B) **Define** the 'Law of Diminishing Marginal Product' and **outline** the link between a short run firm's Total Product (TP) and Marginal Product (MP) as Labour input is incrementally increased

(C) **What is meant by** the 'Law of Returns to Scale' and **outline** the three types of returns to scale faced by a long run production firm

(05 marks each)

Question [05]

(A) **What is meant by** the Macroeconomic Management Process **(02 marks)**

(B) **Define** Gross Domestic Product (GDP) and **briefly outline** the Core Five Components of GDP

(07 marks)

END OF FNR [8] PAPER