THEORY PROGRAM **FORTNIGHTLY REVIEW [FNR]**	FNR: **09**	**Issued on:**
	2024 A/L	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

(01) Which of the following indicates that two goods are complements?

(1) A positive income elasticity.
(2) A horizontal demand curve.
(3) A negative cross- price elasticity.
(4) A demand elasticity greater than one.
(5) A positive cross –price elasticity.

(02) Sales of good X have increases from 15,000 to 17,000 following a rise in household incomes from Rs. 40,000 to Rs. 42,000. What is the income elasticity of demand for good X?

(1) -2 (2) -2.6 (3) -1 (4) +1 (5) +2.6

(03) All of the following shift the supply of watches to the right except;

(1) An advance in the technology used to manufacture watches.
(2) An increase in the price of watches.
(3) All of these answers cause an increase in the supply of watches.
(4) A decrease in the wage of workers employed to manufacture watches.
(5) Manufactures' expectation of lower watch prices in the future.

(04) The cross-price elasticity of demand between Brand (A) Fruit juice and Brand (B) fruit juice sold at the same town would be

(1) Positive
(2) Negative
(3) 0
(4) 1.0
(5) Infinity

(05) A product with a negatively sloped Engle curve and positively sloped demand, most probably

(1) Is a normal good
(2) Is an inferior good
(3) Is a giffen good
(4) Is luxary good
(5) Is an essential good

(06) Total surplus is the area;

(1) Above the supply curve and below the price.
(2) Below the demand curve and above the price.
(3) Below the demand curve and above the supply curve.
(4) Below the supply curve and above the price.
(5) Above the demand curve and below the price.

(07) A market is considered imperfectly competitive whenever

(1) The government intervenes to set a price floor
(2) The government intervenes to set a price ceiling
(3) Supply and demand explain how prices are determined
(4) A single buyer or seller has the power to affect the price of the product
(5) Supply and demand fail to establish an equilibrium

(08) When the price of a good is held above the equilibrium price, the result will be

(1) Excess demand
(2) A shortage of the good
(3) A surplus of the good
(4) An increase in demand
(5) None of the above

(09) When the minimum wage is set above the equilibrium market wage,

(1) There will be an excess demand for labor at the minimum wage
(2) It will have no effect on the quantity of labor employed
(3) The unemployment rate will rise
(4) The quality of the labor force will rise
(5) The unemployment rate will fall

(10) Last year, the government raised the tax on cigarettes so that cigarettes in country would sell for about Rs.7.50 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.

(11) Which of the following statements is true,

(1) Long-run average cost is calculated by multiplying marginal cost by the unit of time in question.
(2) In computing marginal cost, we can ignore fixed costs.
(3) Constant returns to scale result from increasing marginal returns to production.
(4) Diseconomies of scale occur when long-run average cost declines with rising output.
(5) Increasing factory size always leads to decreasing marginal costs.

(12) The owner of a competitive firm making zero economic profit,

(1) Should consider shutting down because she could make more elsewhere.
(2) Is making less than normal profits.
(3) Is making exactly what she would make in her next best alternative job.
(4) Will most likely make more profits in the long run.
(5) Is making serious resource allocation errors.

(13) A firm will shut down in the short run if,

(1) Fixed costs exceed revenues.
(2) Total costs exceed revenues.
(3) It is suffering a loss.
(4) Variable costs exceed revenues.
(5) Total cost equals revenues.

(14) Perfect competition is an industry with,

(1) A few firms producing identical goods.
(2) Many firms producing goods that differ somewhat.
(3) A few firms producing goods that differ somewhat in quality.
(4) Many firms producing identical goods.
(5) None of the above.

(15) At the profit maximizing output for a monopolist, price;

(1) Always exceeds average total cost.
(2) Is less than marginal cost.
(3) Exceeds marginal cost.
(4) Equals marginal cost.
(5) May be greater than or equal to average total cost but will never be less

(16) Short run average total costs eventually rise because of;

(1) Rising overhead costs.
(2) Reduced incentives to work in larger plants.
(3) Rising factor or input prices.
(4) Diminishing marginal and average productivity of the variable inputs.
(5) Technological inefficiency.

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

(1) The company is in a very large market
(2) 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) All of the above

(18) Short run cost curves are U-shaped due to,

(1) Increasing input prices.
(2) Increasing marginal product.
(3) Decreasing marginal product.
(4) The returns to specialization of labour that occurs at low production levels and the congestion that occurs at high production levels.
(5) The returns to specialization of labour that occurs at high production levels and the congestion that occurs at low production levels.

(19) A competitive firm's demand curve is determined by;

(1) Firm demand and firm supply.
(2) The price set by the individual firm.
(3) Market demand and market supply.
(4) The level of the firm's short-run average total cost.
(5) The MC curve above average variable cost.

(20) In the long-run, competition in competitive markets;

(1) Yields economic inefficiency in the absence of external costs.
(2) Results in output being produced at maximum opportunity cost.
(3) Forces all surviving firms to adopt the most efficient technology.
(4) Guarantees each firm long-run economic profits.
(5) May result in economic losses.

(21) The difference between Gross Value of Output and Gross Value Added (GVA) is

(1) Consumption of Fixed Capital
(2) Intermediate Consumption
(3) Net Indirect Taxes
(4) Net Primary Income
(5) Primary Inputs

(22) Which of the following activities are excluded from National Accounting

(1) Service provided by owner occupied dwellings
(2) Produce from the home garden.
(3) Free education from the government
(4) Legal services provided by unlicensed lawyers
(5) Children taking care of their elderly parents

(23) Which of the following condition(s) should be satisfied for an activity to be within the production boundary

(1) Should be legal and ethical in nature
(2) An economic activity
(3) Productive activity
(4) Tradable activity
(5) Economic and productive activity

(24) Gross Value Added (GVA) is

(1) Gross Value of Output – Intermediate Consumption + Net Tax on Products
(2) Interest + Profits (Net) + Wages + Rent
(3) Gross Value of Output – Intermediate Consumption
(4) Gross Domestic Product – Net Tax on Products
(5) Gross Domestic Product – Consumption of Fixed Capital

(25) Gross Domestic Product (GDP) is

(1) Gross Value of Output + Net Tax on Products
(2) Gross Value Added + Net Tax on Production
(3) Gross Value Added + Consumption of Fixed Capital
(4) Gross Value Added + Tax minus subsidy on products
(5) Gross Value of Output + Net Tax on Products – Consumption of Fixed Capital

Part – [B]

Question [01]

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

(1) Capital and Human Capital
(2) Human Capital and Social Capital
(3) Human Resource and Human Capital

[02 marks each]

(B) **Outline** the main functions of an entrepreneur **[04 marks]**

(C) **Define** 'Division of Labour' and **state** four main merits and demerits of division of labour as a productivity improvement strategy

[06 marks]

Question [02]

(A) With the help of a Production Possibilities Frontier (PPF) diagram **briefly explain** the fundamental economic concepts [Hint: Scarcity, alternative uses of resources…,]

(B) **Briefly outline** the 'Concept', 'Conditions' and 'PPF Implications' of 'Productive and Allocative Efficiency'

(C) With the help of a Production Possibilities Frontier (PPF) diagram **distinguish** between the dynamic macro phenomena of 'Economic Recession', 'Economic Depression' and 'Economic Decline'

[06 marks each]

Question [03]

'Why' is the demand curve for a normal good tends to positively sloped.

[06 marks]

Question [04]

Define, outline the main features of the following cost related concepts, and **present** the standard functions in a diagram.

(A) Average Fixed Cost (ATC)
(B) Average Variable Cost (AVC)
(C) Average Total Cost (ATC)
(D) Marginal Cost (MC)

[02 marks for each concept, and 02 marks for the correct cost diagram]

END OF FNR [9] PAPER