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Consumption spending, investment expenditures, government expenditures and net exports are:

- ► The components of household income.
- ► The components of aggregate supply.
- ► **The components of aggregate demand**
- ► The components of government revenue.

Classical economics was replaced as the dominant theory of macroeconomic analysis by:

- ► Monetarism.
- ► Rational expectations.
- ► **Keynesian economics.**
- ► Neoclassical economics.

According to classical economics, the economy will always tend toward full employment due to:

- ► Minimum wages.
- ► **Flexible wages and prices.**
- ► Extended periods of unemployment.
- ► Inequality between saving and investment.

The real interest rate will increase:

- ► **If there is an excess supply of loanable funds in the financial markets.**
- ► If there is an excess demand for loanable funds in the financial markets.

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► If there is an excess supply of loanable funds in the foreign exchange markets.

► If there is an excess demand for loanable funds in the foreign exchange markets.

A source of fluctuations in investment spending is:

► Changes in government expectations of future output growth.

► Changes in household's expectations about future output growth.

► Changes in household's expectations about future risk.

► **Changes in investor's expectations about future profits.**

What does the term "balance of payment deficit" refer to?

► An increase in official international reserves.

► A positive statistical discrepancy.

► A negative statistical discrepancy.

► **A decline in official international reserves.**

M1 component of money supply consists of:

► Paper currency and coins.

► **Paper currency, coins and check writing deposits.**

► Paper currency, coins, check writing deposits and savings deposits.

► Paper currency, coins, check writing deposits, savings deposits

When one producer can produce a given amount of output with fewer inputs, which of the following would occur?

► Comparative advantage.

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► Comparative disadvantage.

► **Absolute advantage.**

► Absolute disadvantage.

The concave shape of the production possibilities curve for two goods X and Y illustrates:

► **Increasing opportunity cost for both goods.**

► Increasing opportunity cost for good X but not for good Y.

► Increasing opportunity cost for good Y but not for good X.

► Constant opportunity cost for both goods.

When college students leave town for the summer, the demand for meals at the local restaurants decline. This results in:

► A decrease in equilibrium price and an increase in quantity of meal.

► An increase in equilibrium price and quantity of meal.

► **A decrease in equilibrium price and quantity of meal.**

► An increase in equilibrium price and a decrease in quantity of meal.

A demand curve is price elastic when:

► **Changes in demand are proportionately greater than changes in price.**

► Changes in demand are equal to changes in price.

► None of the given options.

► Changes in demand are proportionately smaller than changes in price.

The numerical measurement of a consumer's preference is called:

► Use.

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► Pleasure.

► **Utility.**

► Satisfaction.

Which of the following is TRUE about price-consumption curve for good X?

► Nominal income falls as the price of X falls.

► The absolute price of X falls, but the relative price between X and the composite good Y stays the same.

► It is always downward sloping for a normal good.

► **It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.**

Marginal profit is equal to:

► **Marginal revenue minus marginal cost.**

► Marginal revenue plus marginal cost.

► Marginal cost minus marginal revenue.

► Marginal revenue times marginal cost.

The supply curve for a competitive firm is:

► Its entire marginal cost curve.

► The upward-sloping portion of its marginal cost curve.

► Its marginal cost curve above the minimum point of the average variable cost curve.

► **Its marginal cost curve above the minimum point of the average total**

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cost curve.

Second-degree price discrimination is the practice of charging:

- The reservation price to each customer.
- **Different prices for different blocks of the same good or service.**
- Different groups of customers different prices for the same products.
- Each customer the maximum price that he or she is willing to pay.

A market with few entry barriers and with many firms that sell differentiated products is:

- Purely competitive.
- A monopoly.
- **Monopolistically competitive.**
- Oligopolistic.

The market structure in which strategic considerations are most important is:

- Monopolistic competition.
- **Oligopoly.**
- Pure competition.
- Pure monopoly.

The price elasticity of demand for any good must be less than or equal to zero unless:

- The good is a necessity.
- The good is a luxury.
- **The good is a Giffen good.**

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► None of the given options.

What would result from a depreciation of the pound on the foreign exchange market?

► An increase in the price of imported computers.

► A fall in the purchasing power of US tourists in London.

► **A fall in the price of imported computers.**

► An increase in the purchasing power of UK tourists overseas.

The news on the television reports that the dollar has strengthened relative to the Japanese yen. This means that:

► The dollar can now purchase more yen.

► The US trade balance with the Japanese economy has improved.

► **The yen can now purchase more dollars.**

► The dollar has depreciated relative to the yen.

In Keynesian economics, if aggregate expenditures are less than aggregate output then:

► The price level rises.

► Inventories decrease.

► Employment decreases.

► **Aggregate output increases.**

In the Keynesian cross model, the aggregate expenditure line has a slope of:

► 1.

► 0.

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► Infinity.

► **Less than 1.**

Demand is elastic when the elasticity of demand is:

► Greater than 0 but less than 1.

► **Greater than 1.**

► Less than 0.

► Equal to 1.

Which of the following statements is TRUE about cartels?

► These are considered as part of monopolistic competition.

► these are organizations of independent firms, producing similar products, that work together to raise prices and restrict output.

► **these are organizations of interdependent firms, producing similar products, that work together to raise prices and restrict output.**

► These are organizations of independent firms, producing different products, that work together to raise prices and restrict output.

After the collusion, oligopolists are able to:

► Raise price but not restrict output.

► Raise price and restrict output but not attain the monopoly profit.

► **Raise price and restrict output and therefore attain the monopoly profit.**

► Restrict output but not raise price.

Which of the following statements is TRUE about the difference between nominal and real Gross Domestic Product (GDP)?

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► Real GDP includes only goods; nominal GDP includes goods and services.

► **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**

► Real GDP is equal to nominal GDP less the depreciation of the capital stock.

► Real GDP is equal to nominal GDP multiplied by the CPI.

If production remains the same and all prices double, then which of the following will happen?

► Real GDP and nominal GDP will both remain constant.

► Real GDP will remain constant and nominal GDP will reduce by half.

► **Real GDP will remain constant and nominal GDP will double.**

► Real GDP will double and nominal GDP will remain constant.

The situation when a country imports more than it exports is known as:

► **A trade deficit.**

► A trade surplus.

► An expansion.

► A recession.

Public investment expenditure for highways, schools, and national defense is included in which component of GDP?

► Consumption.

► Gross private investment.

► **Government purchases.**

► Public investment.

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The government has a balanced budget if:

- **Its total revenues are equal to its total expenditures.**
- Its total revenues are less than its total expenditures.
- Its total revenues are greater than its total expenditures.
- The money supply is less than total expenditures.

In general, personal income taxes:

- Rise automatically during a recession.
- **Rise automatically during an expansion**
- Fall automatically during an expansion.
- Remains same in all phases of economic fluctuations.

A tax on individual's income is known as:

- Sales tax.
- . Excise tax
- Corporate income tax.
- **Personal income tax.**

Which of the following is TRUE for banks?

- **They deal with money only.**
- They deal with shares and assets.
- They not only deal with money but also create money.
- They deal with money but do not create money.

In a period of boom, credit creation is:

- Small.

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► **Heavy.**

► Unchanged.

► Zero.

What will be the impact of an increase in taxes?

► It will shift the IS curve to the left and decrease both the interest rate and the level of income.

► It will shift the IS curve to the right and increase both the interest rate and the level of income.

► It will shift the IS curve to the right and increase the level of income but decrease the interest rate.

► **It will shift the LM curve downward (to the right) and increase the level of income but decrease the interest rate.**

To determine whether an economy's output is growing or shrinking, one must keep track of:

► Changes in nominal GDP.

► Changes in the growth rate of nominal GDP.

► Changes in the general price level.

► **Changes in real GDP.**

Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?

► **The demand curve for airline travel shifts left.**

► The demand curve for airline travel shifts right.

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► The supply curve of airline travel shifts left.

► The supply curve of airline travel shifts right.

Production possibilities curve will shift upward if there is:

► A reduction in unemployment.

► **An increase in the production of capital goods.**

► A reduction in discrimination.

► All of the given options.

Which of the following is NOT included in the perfect information assumption of perfect competition?

► Consumers know their preferences.

► Consumers know their income levels.

► Consumers know the prices available.

► **Consumers can anticipate price changes.**

Suppose a monopolist set his output at the level where marginal revenue, marginal cost and average total cost are equal. In this case, economic profit will be:

► Negative.

► **Positive.**

► Zero.

► Indeterminate from the given information.

Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:

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- The economic perspective.
- Marginal analysis.
- Allocative efficiency.
- **Opportunity cost.**

Firm A produces cotton worth Rs. 1000 and sells it to firm B. From this, firm B makes yarn worth Rs. 1500 and sells to firm C. Firm C manufactures cloth worth Rs. 2500 and sells to consumers. The value added is:

- **1000+1500+2500 = Rs. 5000**
- 1000+500+2500 = Rs. 4000
- 1000+500+1000 = Rs. 2500
- 1000+1500+1000 =Rs. 3500

Which of the following is a transfer payment?

- Payment made to housewife.
- Pocket allowance to children.
- Maintenance allowance to old parents.
- **All of the given options.**

The relationship between hours provided by labor and wage rate is:

- **Positive.**
- Negative.
- Ambiguous.
- Very strong.

Market failure occurs when:

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► Competitive markets do not achieve equitable outcomes.

► Competitive markets do not achieve efficient outcomes.

► Government takes steps to intervene in markets.

► **All of the given happen.**

A graph that depicts the relationship between the total quantity of goods and services demanded and the price level is known as:

► **Aggregate demand curve.**

► Average price level.

► Circular flow model.

► GDP curve.

Changes in aggregate demand can be caused by changes in:

1. **Wages.**
2. **Raw materials costs.**
3. **Government spending.**
4. **Government regulations that increase the cost of doing business.**

► I, II, III, and IV.

► I and III only.

► I, III, and IV.

► **III only.**

In the long run, the output level is determined by:

► Aggregate demand.

► **Aggregate supply.**

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► The government.

► Household income.

Which of the following is TRUE?

► **1 – MPS = MPC**

► 1 + MPS = MPC

► 1 / MPS = MPC

► 1 × MPS = MPC

If the government wishes to achieve a fall in unemployment, which of the following policies should it adopt?

► Reduce the real value of income tax free allowances.

► Reduce government spending on capital projects.

► Raise Value Added Tax (VAT).

► **Start public job training programs.**

In the long run, sustained inflation is due to:

► A one-time increase in money growth.

► **A continuous increase in the money growth rate.**

► A continuous increase in aggregate demand.

► The rising price of oil.

A good for which income and quantity demanded are inversely related is known as:

► **Inferior good.**

► Complementary good.

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- ► Normal good.
- ► None of the given options.

An increase in supply is shown by:

- ► Shifting the supply curve to the left.
- ► **Shifting the supply curve to the right.**
- ► Upward movement along the supply curve.
- ► Downward movement along the supply curve.

Price floor results in:

- ► All of the given options.
- ► **Excess supply.**
- ► Equilibrium.
- ► Excess demand

The price elasticity of demand measures the responsiveness of quantity demanded to:

- ► Quantity demanded.
- ► Quantity supplied.
- ► **Price.**
- ► Output.

Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:

- ► -14.
- ► **14.**

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► 83.

► 97.

Indifference curves that are convex to the origin reflect:

► An increasing marginal rate of substitution.

► **A decreasing marginal rate of substitution.**

► A constant marginal rate of substitution.

► A marginal rate of substitution that first decreases, then increases.

To find the profit maximizing level of output, a firm finds the output level where:

► **Price equals marginal cost.**

► Marginal revenue and average total cost.

► Price equals marginal revenue.

► None of the given options.

As compared to existing firms, a new firm entering in monopolist market has:

► **High costs**.

► Low costs.

► Equal costs.

► None of the given options.

A firm is charging a different price for each unit purchased by a consumer. This

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is called:

- ► First-degree price discrimination.
- ► Second-degree price discrimination.
- ► **Third-degree price discrimination.**
- ► None of the given options.

McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given 50 cents off any special meal. This practice is an example of:

- ► Collusion.
- ► Price discrimination.
- ► **Two-part tariff.**
- ► Bundling.

The price elasticity of demand for any good must be less than or equal to zero unless:

- ► The good is a necessity.
- ► The good is a luxury.
- ► **The good is a Giffen good.**
- ► None of the given options.

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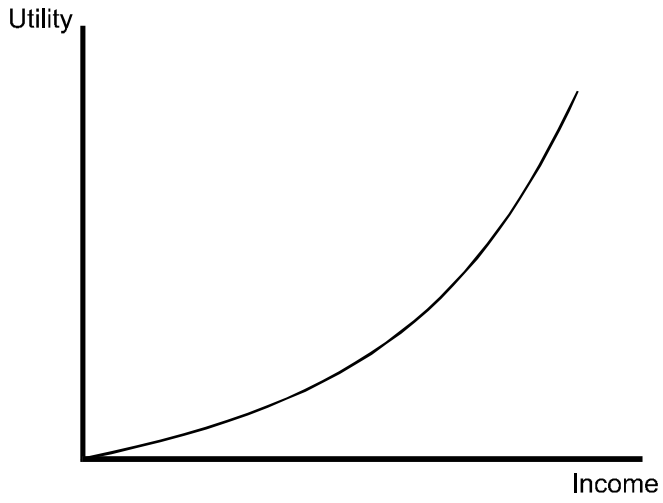

In figure given above, the marginal utility of income is:

- **Increasing as income increases.**
- Constant for all levels of income.
- Diminishes as income increases.
- None of the given options.

In monopoly, which of the following is NOT true?

- Products are differentiated.
- **There is freedom of entry and exit into the industry in the long run.**
- The firm is a price maker.
- There is one main seller.

Welfare economics is the branch of economics which deals with:

- Positive issues.
- **Normative issues.**
- Micro issues.

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► Macro issues.

Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?

► Duopoly.

► **Cartel.**

► Market sharing monopoly.

► Natural monopoly.

In the complete classical model, a rightward shift of the labor supply curve will:

► Decrease the price level and increase the nominal wage.

► Decrease the nominal wage and increase the price level.

► Decrease both the price level and the nominal wage.

► **Increase both the price level and the nominal wage.**

Which of the following events could cause the aggregate demand curve to shift to the right?

► An increase in the rate of inflation.

► A decrease in government expenditures.

► A decrease in investment spending.

► **A decrease in income tax rates.**

Which of the following statements describes the difference between nominal and real Gross Domestic Product (GDP)?

► Real GDP includes only goods; nominal GDP includes goods and services.

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► **Real GDP is measured using constant base-year prices; nominal GDP is measured using current prices.**

► Real GDP is equal to nominal GDP less the depreciation of the capital stock.

► Real GDP is equal to nominal GDP multiplied by the CPI.

If we compare Gross Domestic Product (GDP) with Gross National Product (GNP) then:

► GNP = GDP – Net income from abroad.

► **GNP = GDP + Net income from abroad.**

► GNP = NNP – Net income from abroad.

► GNP = NNP + Net income from abroad.

Gross domestic product (GDP) is the market value of:

► All transactions in an economy during one-year period.

► All goods and services exchanged in an economy during one-year period.

► All final goods and services exchanged in an economy during one-year period.

► **All final goods and services produced in a domestic economy during one-year period.**

Which of the following shows the Fisher equation of exchange?

► MT=PV.

► VT=PM.

► **MV=PQ.**

► MY=VP.

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An exchange rate that varies according to the supply and demand for the currency in the foreign exchange market is called:

- ► Overvalued exchange rate.
- ► Undervalued exchange rate.
- ► Fixed exchange rate.
- ► **Flexible exchange rate.**

In the equation MV = PQ, according to the crude quantity theory of money:

- ► M has no effect on the price level.
- ► **V is the number of times each dollar is spent per year.**
- ► Q is the real price level.
- ► P rises as V falls, other things constant.

In the Keynesian cross model, the 45-degree line has a slope of:

- ► 45.
- ► Infinity.
- ► **1.**
- ► 0.

In Keynesian economics, equilibrium can occur:

- ► Only at full employment level.
- ► Only at levels less than full employment.
- ► Only at levels greater than full employment.
- ► **At any level of aggregate output which is equal to aggregate expenditures.**

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After a decrease in the wage, the substitution effect implies that:

- ► Only the amount demanded of capital decreases.
- ► Only the amount demanded of labor decreases.
- ► **Only the amount demanded of capital increases.**
- ► The amount demanded of all inputs increases.

If pen and ink are complements, then an increase in the price of pen will cause:

- ► An increase in the price of ink.
- ► **Less ink to be demanded at each price.**
- ► A decrease in the demand for pen.
- ► A rightward shift in the demand curve for ink.

A demand curve is price inelastic when:

- ► **Changes in demand are proportionately smaller than changes in price.**
- ► Changes in demand are proportionately greater than changes in price.
- ► Changes in demand are equal to changes in price.
- ► None of the given options.

A demand curve is price elastic when:

- ► **Changes in demand are proportionately greater than changes in price.**
- ► Changes in demand are equal to changes in price.
- ► None of the given options.
- ► Changes in demand are proportionately smaller than changes in price.

A production function:

- ► **Relates inputs with output.**

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► Generates a curve that is upward sloping.

► Shows diminishing marginal product of an input, since it gets flatter as output rises.

► All of the given options.

The market structure in which there is interdependence among firms is:

► Monopolistic competition.

► **Oligopoly.**

► Perfect competition.

► Monopoly.

Insurance companies operate under the principle of:

► **Law of large numbers.**

► Law of small numbers.

► Law of zero numbers.

► All of the given options.

Who may start a price war in order to get a larger share of the market?

► Perfect competitor.

► Oligopolist.

► **Monopolist.**

► Economist.

The long run aggregate supply curve will shift to the right if:

► The price level increases.

► **Factors of production (such as labor and capital) increase.**

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► Expenditures (such as consumption and net exports) increase.

► The prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

How many methods are there to measure Gross Domestic Product?

► **Three.**

► Four.

► Five.

► Six.

Suppose the government increases spending. Which of the following would be part of the crowding out effect?

► **Interest rate rises and investment falls.**

► Interest rate rises and velocity of circulation also rises.

► Higher interest rates encourage the central bank to increase the money supply.

► Interest rate falls and exports rise.

Gross Domestic Product (GDP) is:

► **Net National Product (NNP) plus depreciation.**

► National income discounted by the GDP deflator.

► Income from foreign investments.

► Gross Domestic Product (GDP) minus depreciation.

Real Gross National Product (GNP) is best defined as:

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► The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.

► The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.

► The current pound value of all new and used goods produced and sold in the economy during a particular time period.

► The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period

In the complete Keynesian cross model, the aggregate expenditure line is specified as:

► AE = C + I.

► AE = C + I + X.

► AE = C + I + G.

► AE = C + I + G + (X - M).

Under monopoly, when the demand curve is downward sloping, marginal revenue is:

► Equal to price.

► Equal to average cost.

► Less than price.

► More than price.

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All of the following conditions lead to the successful operation of a cartel EXCEPT:

► Market demand for the good is relatively inelastic.

► The cartel supplies all of the world's output of the good.

► Cartel members have substantial cost advantages over non-member producers.

► The supply of non-cartel members is very price elastic.

Which of the following best describes the "Capital widening"?

► More capital per unit of labour.

► More capital and more labour but with the same amount of capital per unit of labour.

► Increasing the usage of existing capital.

► Importing capital from the developed world.

Which of the following statements best describes the difference between endogenous growth theory and the Solow growth theory?

► Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.

► Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.

► In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.

► All of the given options are correct.

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The Great Depression of 1930s opened the door to the _____ revolution in macroeconomic theory.

► **Keynesian.**

► New classical.

► Old classical.

► New Keynesian.

Keynesian economics was the predominant economic theory:

► Prior to the late 1700s.

► From the late 1700s to the early 1900s.

► **From 1930s to 1970s.**

► Since 1970s.

Classical economics was replaced as the dominant theory of macroeconomic analysis by:

► Monetarism.

► Rational expectations.

► **Keynesian economics.**

► Neoclassical economics.

According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:

► Both prices and output to rise.

► Prices to fall and output to remain unchanged.

► Both prices and output to fall.

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► **Prices to rise and output to remain unchanged.**

Intermediate goods are meant for:

► Direct use by the consumers.

► **Further processing.**

► The term do not exist.

► None of the given options.

Final goods are meant for:

► **Direct use by the consumers.**

► Further processing.

► The term do not exist.

► None of the given options.

Which of the following is a flow variable?

► The value of the house in which you live.

► **The balance in your savings account.**

► Your monthly consumption on food items.

► The number of carrots in your refrigerator at the beginning of the month.

Which of the following is NOT a stock variable?

► Government debt.

► Capital.

► **The amount of money held by the public.**

► Inventory investment.

All other things remain the same, Gross Domestic Product (GDP) will rise if:

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- ► Imports rises.
- ► Exports falls.
- ► **Durable goods consumption rises.**
- ► Military spending falls.

If disposable income increases from $5 trillion to $6 trillion and as a result, consumption expenditure increases from $7 trillion to $7.8 trillion, the Marginal Propensity to Consume is:

- ► 1.0.
- ► **0.8.**
- ► 5/7 = 0.71.
- ► 6/7.8 = 0.77.

The slope of the consumption function (or line) is the:

- ► Average propensity to save.
- ► Average propensity to consume.
- ► Marginal propensity to save.
- ► **Marginal propensity to consume.**

Suppose that your income increases from $100,000 to $150,000 and your consumption increases from $80,000 to $120,000. Your Marginal Propensity to Save (MPS) is:

- ► 0.2.
- ► 0.4.
- ► 0.6.

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► **0.8.**

The unemployment rate is equal to:

► Number of employed / labour force x 100.

► **Number of unemployed / labour force.**

► (Number of unemployed / labour force) x 100.

► None of the given options.

The traditional Phillips Curve shows the:

► **Inverse relationship between the rate of inflation and unemployment rate.**

► Inverse relationship between the nominal and real wage.

► Direct relationship between unemployment and demand-pull inflation.

► Tradeoff between the short run and long run.

Deflation is:

► An increase in the overall level of economic activity.

► An increase in the overall price level.

► A decrease in the overall level of economic activity.

► **A decrease in the overall price level.**

Is Grosss Domestic Product (GDP) an accurate measure of a country's well being?

► Yes, it is the best measure of national well being.

► **Yes, provided we use real GDP and not nominal GDP.**

► Uncertain, depending on whether GDP is rising or falling.

► No, it is not.

Real Gross Domestic Product (GDP):

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► **Is nominal GDP adjusted for changes in the price level.**

► Is also called nominal GDP.

► Measures GDP minus depreciation of capital.

► Will always change when prices change.

If a war destroys a large portion of a country's capital stock but the saving rate is unchanged, the exogenous model predicts that output will grow and the new steady state will approach:

► A higher output level than before.

► The same output level as before.

► **A lower output level than before.**

► The Golden Rule output level.

A currency appreciation:

► **Reduces aggregate demand and increases aggregate supply.**

► Reduces both aggregate demand and aggregate supply.

► Increases aggregate demand and reduces aggregate supply.

► Increases both aggregate demand and aggregate supply.

M1 component of money supply consists of:

► Paper currency and coins.

► **Paper currency, coins and check writing deposits.**

► Paper currency, coins, check writing deposits and savings deposits.

► Paper currency, coins, check writing deposits, savings deposits

Personal income:

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► Is income received by individuals during a given year.

► Is the income individuals have available for spending during a given year.

► Equals national income minus indirect taxes.

► Is the sum of wages plus interest received by individuals during a given year.

Real Gross National Product (GNP) is best defined as:

► The pound value of all final goods and services produced in the economy during a particular time period and measured in current prices.

► The pound value of all goods produced for final consumption by households in a particular year and measured in constant prices.

► The current pound value of all new and used goods produced and sold in the economy during a particular time period.

► The market value of all final goods and services produced by the economy during a given time period, with prices held constant relative to some base period.

Which of the following is NOT to be included in national product?

► Wheat produced and consumed by a farmer.

► House built by the owner himself.

► Old house sold by its owner A to person B.

► Machines made by firm A.

The demand curve for chicken is downward-sloping. Suddenly the price of chicken rises from Rs.130 per kg to Rs.140 per kg. This will cause:

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► The demand curve for chicken to shift to the left.

► The demand curve for chicken to shift to the right.

► Quantity demanded of chicken to increase.

► **Quantity demanded of chicken to decrease.**

The government supports research in basic science because:

► It is a public good.

► External costs are created.

► **Internal benefits are created.**

► Free markets would do so otherwise.

National defense is a good example of:

► **Public good.**

► Inferior good.

► Giffen good.

► Private good.

In classical theory, excess supply of a product would be associated with:

► **Rising interest rates.**

► Falling interest rates.

► Rising price for the product.

► Falling price for the product.

The Monetarist key to solve the inflation problem was:

► **Stable money supply.**

► Stable output.

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► Stable prices.

► Stable economic growth.

Which of the following predictions can be made using the growth rates associated with the equation of exchange, given that velocity is stable and that the economy moves to its potential output (*YP*) in the long run?

► If the money supply grows at a faster rate than growth in *YP*, there will be inflation.

► If the money supply grows at the same rate as growth in *YP*, the price level will fall and there will be deflation.

► If the money supply grows at the same rate as growth in *YP*, the price level will also increase at the same rate as growth in *YP*,.

► None of the given options.

Which of the following will happen by a reduction in net exports all other things being equal?

► It will result in a movement up along the aggregate demand curve.

► It will reduce aggregate supply.

► It will reduce aggregate demand.

► It will not change aggregate demand or aggregate supply in the domestic economy.

Which of the following will happen by an increase in net exports all other things being equal?

► It will result in a movement downward along the aggregate demand curve.

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► **It will increase aggregate demand.**

► It will increase aggregate supply.

► It will not change aggregate demand or aggregate supply in the domestic economy.

A change from $1.00 = Rs. 80.00 to $1.00 = Rs. 85.00 represents:

► Depreciation of the dollar.

► An appreciation of the dollar.

► **An appreciation of the rupee.**

► None of the given options.

We can measure economic growth with the help of:

► The Consumer Price Index.

► The Producer Price Index.

► **Gross Domestic Product.**

► Marginal Propensity to Consume.

Questions:

1. **Differentiate between the terms flow and stock.**
2. **What should be the optimal role of government in an economy according to the Classical school of thought? Discuss.**
3. **Explain the difference between current account and capital account.**

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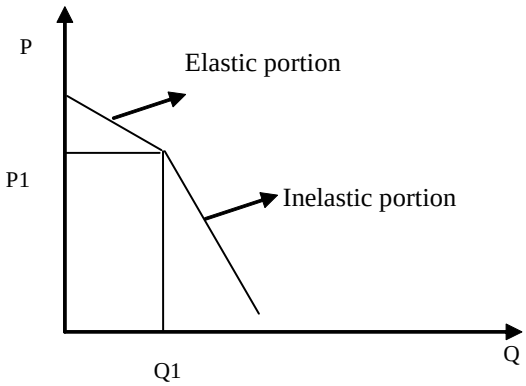

4.

(A) The above demand curve has two distinct segments which have different elasticities that join to form a corner or kink. Why the firms are reluctant to change the price in these two segments?

(B) What are the major advantages that an oligopoly offers for public interests?

5. The items of balance sheet of State Bank of Pakistan are given as follows:

Forex reserves = Rs. 500

Notes and coins = Rs. 800

Credit to government = Rs. 200

Government and commercial bank deposits = Rs. 300

Credit to private sector = Rs. 700

Liquidity paper = Rs. 300

Prepare the balance sheet in its proper format of asset and liabilities side. Also calculate total assets and total liabilities.

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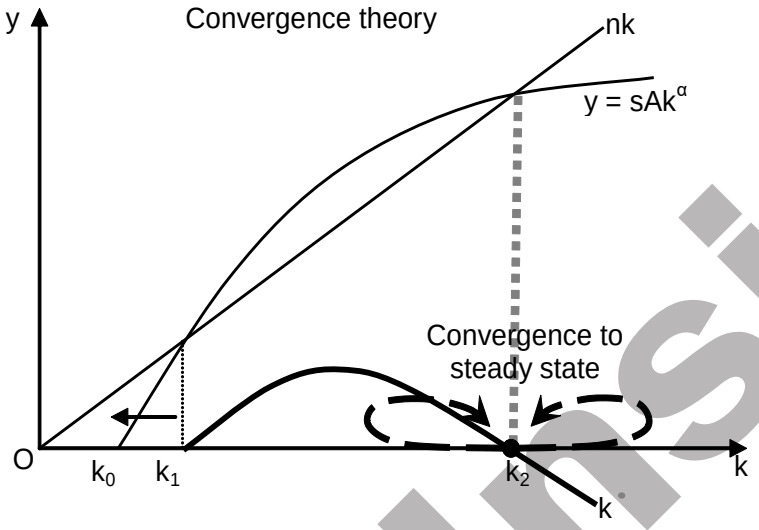
6. Briefly discuss the private cost of advertising. How we can calculate the marginal social cost?

7. What conclusions are derived from exogenous growth theory?

8. What is meant by convergence theory? Explain the convergence theory in the given graph.



9. Define fiscal policy. Differentiate between contractionary and expansionary fiscal policy. In which situations, budget deficit and budget surplus exist?

10. **Difference between Contractionary and Expansionary Fiscal Policy:**

11. Discuss the basic theories regarding IMF's stabilization program. Are these theories successful? If not, give reasons.

12. What is meant by exchange rate? Also give example of exchange rate.

13. On what basis countries gain from trade?

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14. A. "Slope of the consumption function is less than 1".What is meant by this statement?

15. What are the major macroeconomic variables involved in the determination of national income?

16. Why is taxation necessary? What are the principles of taxation?

17. Why could the world as a whole not experience a problem of a current account balance of payments deficit?

18. Difference between inflation and deflation? Marks 3

19. How the central banks plays its important role in order to control the activities of commercial banks? Marks 3

20. Difference between depreciation and appreciation of currency?

21. what is meant by laffer curve? Also explain the shape of this curve?

22. A slope of consumption function is less than 1." What is meant by this statement?

23. Differentiate between Inflation and deflation. Marks3

24. Define balance of payment (BOP). How the BOP can be determined?

25. Explain the shape of money demand curve with the help of diagram.

26. How can a current account, which is in deficit, be restored to balance under fixed exchange rate regimes?

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27. Identify which of the following are stock variables and which are flow variables?

a) Unemployment

b) Redundancies (job lay-offs)

c) Profits

d) A firm's stock market valuation (share price)

e) The value of property after a period of inflation

28. World Bank suggests some structural reform policies for the poor countries to grow. Discuss those policies briefly.

29. Differentiate between the terms flow and stock.

30. What should be the optimal role of government in an economy according to the Classical school of thought? Discuss.

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