

1 Question 1

In 2019, GDP per capita is 41,428 Euro in Germany and 26,680 Euro in Spain. If the annual growth rate is 1.5% in Germany and 4% in Spain, how long will it take for Spain to catch up with Germany in terms of GDP per capita?

Select one alternative:

- 22 years
- 10 years
- 14 years
- 18 years



Maximum marks: 1

2 Question 2

If the price elasticity of supply for a product is 0.5, a price increase from \$1.00 to \$1.20 will cause the quantity supplied to:

Select one alternative:

- Rise by 10 per cent
- Rise by 0.5 per cent
- Rise by 20 per cent
- Rise by 1 per cent




Maximum marks: 1

3 Question 3

Recent studies have suggested that eating fresh salmon is good for the heart. There have also been recent increases in the supply of salmon due to better “farming” techniques. Considering both these facts, what may we conclude about the price and quantity of salmon at the new equilibrium compared to the original situation?

Select one alternative:


- Neither price nor quantity traded will change
- Both the price and quantity traded will be higher
- Price will be higher but the quantity traded will fall
- The quantity sold will be higher but the effect on price is ambiguous. 

Maximum marks: 1

4 Question 4

Which one of the following are regarded as being in the labour force?

Select one alternative:

- People who have lost their jobs because of the recession and cannot at present find another job. 
- Full-time students who do not have paid employment.
- People aged 60 who have retired early.
- People who have chosen to care for their families or homes rather than seek paid employment.

Maximum marks: 1

5 Question 5

According to the idea of the neutrality of money, which of the following statements describes the long-run effect of a rise in the money stock?

Select one alternative:

- It has no effect.
- It affects variables expressed in real terms, notably output and unemployment, but not variables expressed in nominal terms, notably prices.
- It affects variables expressed in nominal terms, notably prices, but not variables expressed in real terms, notably output and unemployment. ✓
- It affects variables expressed in nominal terms and variables expressed in real terms, notably prices, output and unemployment.

Maximum marks: 1

6 Question 6

Which of the following policies would increase production by taking it to a point closer to the production possibility frontier, but would not shift the frontier?

Select one alternative:

- A policy that encouraged firms to buy more industrial plant.
- A policy that encouraged firms to buy more machinery.
- A policy that encouraged firms to adopt better technologies that are already available. ✓
- A policy that encouraged firms to develop and introduce improved technology.

Maximum marks: 1

7 Question 7

Under which of the following circumstances would the incidence of a specific tax fall wholly on consumers?

Select one alternative:

- Both demand and supply have unit elasticity.
- Supply is perfectly elastic ✔
- Under no circumstances.
- Demand is perfectly elastic.

Maximum marks: 1

8 Question 8

Which of the following statements about a price ceiling is **false**?

Select one alternative:

- The ceiling creates an excess demand.
- The number of buyers who gain from the ceiling is smaller than the original number of buyers.
- The ceiling generates losers as well as gainers.
- To have any effect, the price ceiling must be set at a higher level than the original market price. ✔

Maximum marks: 1

9 Question 9

Suppose a consumer faces a rise in the price of product A while the consumer's income remains unchanged. Which of the following statements about the income effect is **false**?

Select one alternative:

- There is no income effect because the consumer's income is unchanged. ✓
- If the product is normal, the income effect works in the same direction as the substitution effect.
- If the product is inferior, the income effect works in the opposite direction to the substitution effect.
- Between them the income and substitution effects cover the entire change in the quantity that the consumer demands.

Maximum marks: 1

10 Question 10

Suppose a market has only one seller and only one buyer of a good in the market. The buyer is willing to pay \$50 for the good and the seller is willing to accept \$15. The market price of the good is determined to be \$30. If they trade, the social surplus will be

Select one alternative:

- \$20
- \$15
- \$35 ✓
- \$45

Maximum marks: 1

11 Question 11

Kevin deposits a certain sum in a bank at an annual compound rate of interest for 2 years. Interest in the second year will be calculated on _____.

Select one alternative:

- the amount in the account after 1 year ✓
- the sum of the principal amount and the amount in the account after 1 year
- the principal amount only
- the difference between the principal amount and the amount in the account after 1 year

Maximum marks: 1

12 Question 12

Wendy and John each deposit \$2,000 in a bank account at different rates of interest. Wendy receives interest on her deposit at an annual rate of 6 percent, while John receives interest at an annual rate of 9 percent. What will be the difference between the future values of John's deposit and Wendy's deposit after 3 years?

Select one alternative:

- \$439.15
- \$208.03 ✓
- \$112.26
- \$56.04

Maximum marks: 1

13 Question 13

What is the present value of \$10,000 to be received after 1 year if the current annual rate of interest is 6 percent?

Select one alternative:

- \$9,433.96
- \$10,000
- \$8,922.34
- \$8,644.26



Maximum marks: 1

14 Question 14

There is only one firm in a small island country. The firm produced 1,000 units of Good X during a particular year, out of which it could sell 900 units. If each unit of the good sells for \$500, what is the GDP of the country?

Select one alternative:

- \$500,000
- \$450,000
- \$40,000
- \$150,000




Maximum marks: 1

15 Question 15

Which of the following would not be included in the calculation of GDP?

Select one alternative:


- The purchase of a new car by a family
- The purchase of ice cream by a student at a store
- The purchase of a steak by a customer at a restaurant
- The purchase of a cow by a restaurant to turn into steaks 

Maximum marks: 1

16 Question 16

How are inventories included in the calculation of the expenditure measure of GDP?

Select one alternative:

- They are not included until they are purchased by a consumer.
- The value of the inputs to create the inventory is used until the inventories are purchased.
- They are counted as being purchased and owned by the firm if they are not sold to a consumer. 
- They are counted as soon as they are produced.

Maximum marks: 1

17 Question 17

The value of a country's exports during a particular year was \$120,000 and the value of its imports was \$85,000. Which of the following is true?

Select one alternative:

- The country ran a trade deficit of \$35,000 during that year.
- The country ran a budget surplus of \$205,000 during that year.
- The country ran a fiscal deficit of \$205,000 during that year.
- The country ran a trade surplus of \$35,000 during that year. ✔

Maximum marks: 1

18 Question 18

Which of the following will lead to an increase in the GDP of a country, all other variables remaining unchanged?

Select one alternative:

- An increase in consumption expenditure ✔
- A fall in the expenditure incurred by the government
- A fall in the expenditure on investment goods
- An increase in imports

Maximum marks: 1

19 Question 19

The value of the marginal product of labor is the _____.

Select one alternative:

- amount of output produced by the first unit of labor hired by a firm
- value of the output produced by all the workers in a firm
- contribution of an additional unit of labor to a firm's revenue
- extra output that is produced by hiring an additional unit of labor

Maximum marks: 1

20 Question 20

Suppose the market wage facing a firm in the perfectly competitive candle-making industry is \$20 per hour, and the firm sells its candles for \$2 each. Given this information, the firm should hire workers until the marginal product of labor equals _____.

Select one alternative:

- 22 candles per hour
- 20 candles per hour
- 10 candles per hour
- 18 candles per hour

Maximum marks: 1

21 Question 21

The slope of a production possibility curve represents _____.

Select one alternative:

- combinations of two goods that are not attainable with existing technology
- the rate at which people in an economy would like to trade one good for another
- the total cost of producing a given level of output
- the opportunity cost of producing one more unit of a good in terms of the forgone production of the other good ✓

Maximum marks: 1

22 Question 22

The ability of an individual, firm, or country to produce a certain good at a lower opportunity cost than other producers is referred to as _____.

Select one alternative:

- cardinal advantage
- comparative advantage ✓
- marginal advantage
- absolute advantage

Maximum marks: 1

23 Question 23

Compared to a perfectly competitive industry, _____ in a monopoly.

Select one alternative:

- both consumer surplus and social surplus are larger
- consumer surplus is lower but social surplus is larger
- consumer surplus is higher but social surplus is smaller
- both consumer surplus and social surplus are smaller



Maximum marks: 1

24 Question 24

A firm with market power _____.

Select one alternative:

- faces a horizontal demand curve
- has long-run economic profits of zero
- has no ability to affect price
- faces a downward-sloping demand curve



Maximum marks: 1

25 Question 25

A fundamental feature of a monopolistic market is that the firm _____.

Select one alternative:

- can obtain any price for any quantity of output
- faces the price and quantity trade-off dictated by market demand
- can sell any quantity it desires at the current market price
- faces a perfectly inelastic demand curve

Maximum marks: 1

26 Question 26

Which of the following is an example of legal market power?

Select one alternative:

- Control of a key resource
- Economies of scale
- The presence of a network externality
- A patent

Maximum marks: 1

27 Question 27

A network externality occurs when _____.

Select one alternative:

- the government interferes to prevent the concentration of market power in the hands of a few firms
- a firm that has control over key resources auctions the resources off to other firms
- firms collude to sell products at a price higher than the equilibrium market price
- the value of a product increases as more consumers start to use it ✔

Maximum marks: 1

28 Question 28

Marginal revenue is less than the price for a monopolist because _____.

Select one alternative:

- None of the alternatives is correct
- the firm sets the price
- there are no close substitutes for the firm's product
- a monopolist must lower its price to sell another unit of output ✔

Maximum marks: 1

29 Question 29

All firms in a monopolistically competitive industry face a _____ demand curve, so they have _____.

Select one alternative:

- downward-sloping; market power ✓
- downward-sloping; no market power
- flat; market power
- flat; no market power

Maximum marks: 1

30 Question 30

Which of the following is an example of adverse selection?

Select one alternative:

- A passenger traveling in a subway without a ticket
- Overgrazing of a common piece of land
- The generation of hazardous waste by the production of a good
- A customer buying a defective appliance from a used goods market ✓

Maximum marks: 1

31 Question 31

A monopolist imposes a deadweight loss on society: _____.

Select one alternative:

- because it makes a profit.
- because it does not have an economic incentive to minimise costs
- by producing too little output
- when it perfectly price discriminates

Maximum marks: 1

32 Question 32

A firm has a technology which exhibits increasing returns to scale. It is currently producing 100 units at an average cost of \$5 per unit. If there is a contraction in demand for its product and its output falls to 50 units, then: _____

Select one alternative:

- we don't have enough information to be certain of any of the above claims
- its average costs will fall
- its average costs will stay the same
- its average costs will rise

Maximum marks: 1

33 Question 33

If producers do not bear the external cost of pollution, then it is reasonable to expect that:

_____.

Select one alternative:

- production is greater than the economically efficient level. ✔
- the economically efficient level of production is achieved.
- the market price is too high.
- production is below the economically efficient level.

Maximum marks: 1

34 Question 34

Other things being equal, relatively poor countries tend to grow faster than relatively rich countries because:

Select one alternative:

- workers in countries with low incomes work more hours than workers in countries with high incomes
- new capital adds more to production in a country that doesn't have much capital than in a country that already has a lot of capital. ✔
- the capital stock in rich countries deteriorates at a higher rate since they already have a lot of capital.
- None of the alternatives is correct.

Maximum marks: 1

35 Question 35

A used car market in which the market price is too low to attract high quality used cars, so only low quality used cars ('lemons') are offered for sale, illustrates:

Select one alternative:

- a moral hazard problem.
- that used cars are an inferior good
- an adverse selection problem. ✓
- economic irrationality

Maximum marks: 1

36 Question 36

Which of the following, other things remaining the same, would necessarily raise the current account deficit?

Select one alternative:

- A decline in saving and a rise in investment. ✓
- A decline in saving and a decline in investment.
- A rise in saving and a decline in investment.
- An increase in the value of the New Zealand dollar with no changes in saving or investment.

Maximum marks: 1

37 Question 37

Which of the following statements is correct?

Select one alternative:

- Potential real GDP (Gross Domestic Product) is always greater than equilibrium real GDP
- None of the alternatives is correct. ✓
- The purchase of shares in the stock market is an example of investment spending.
- Real GDP is the total value, in measured current prices, of all final goods and services produced in a country in one year

Maximum marks: 1

38 Question 38

If nominal GDP fell while real GDP rose, which of the following must be true?

Select one alternative:

- The inflation rate was negative. ✓
- Net exports were negative.
- Nominal interest rates rose by less than the rate of inflation.
- Unemployment increased.

Maximum marks: 1

39 Question 39

Suppose that the consumer price index rises from 100 to 200. We may conclude:

Select one alternative:

- All alternatives are correct.
- consumer incomes have doubled.
- the real income of a person on a fixed nominal income has been cut in half
- all prices in the economy have doubled.

Maximum marks: 1

40 Question 40

Over the course of 10 years, a country's population doubles. During this time, its GDP increases from \$10 trillion to \$12 trillion. Pete, who lives in this country and buys the same goods and services every year, finds that he is still paying the same price for them. This implies that:

Select one alternative:

- productivity in this country has decreased
- real GDP in this country has decreased
- None of the alternatives is correct
- the country's workforce has more than doubled

Maximum marks: 1

41 Question 41

Why might we want to use the Human Development Index to compare standards of living between countries?

Select one alternative:

- Because countries may have different currencies, so that we cannot compare GDP per capita.
- Because other factors, such as schooling and life expectancy, might vary between countries even if they have the same GDP per capita.
- Because GDP per capita is inaccurate when there is income inequality in a country.
- Because we need to adjust for purchasing power parity between countries.

Maximum marks: 1

42 Question 42

Which of the following statements is true?

Select one alternative:

- To depict variables that have exponential growth, it is more convenient to use a logarithmic axis with a proportional scale.
- Exponential growth refers to growth by the same amount in every time period.
- To depict variables that have exponential growth, it is more convenient to use an axis with a linear scale.
- Linear growth refers to growth by the same proportion in every time period.

Maximum marks: 1

43 Question 43

Which of the following is an alternative measure of exchange rate proposed by *The Economist* magazine?

Select one alternative:

- The midcap index
- The Big Mac index
- The GDP deflator
- The Consumer Price Index



Maximum marks: 1

44 Question 44

If a firm hires a worker by paying him a wage higher than the value of the marginal product of the worker, _____.

Select one alternative:

- firing the worker will increase the firm's profits
- firing the worker will reduce the firm's profits
- the firm is making an optimum decision
- the firm will earn higher profits



Maximum marks: 1

45 Question 45

The real interest rate is equal to _____.

Select one alternative:

- the nominal interest rate adjusted for inflation
- the nominal interest rate adjusted for income changes
- the nominal interest rate adjusted for changes in exchange rate
- the nominal interest rate adjusted for tax rates

Maximum marks: 1

46 Question 46

Alfonso's income increases. He spends the extra income on purchasing more potatoes for his evening meal.

Select one alternative:

- a Giffen good.
- an inferior good
- a normal good
- a complementary good

Maximum marks: 1

47 Question 47

In long run equilibrium in a monopolistically competitive industry:

Select one alternative:

- price equals marginal cost and profits are zero
- price is greater than marginal cost and profits are zero
- price equals average cost and profits are positive
- price is greater than marginal cost and profits are positive.

Maximum marks: 1

48 Question 48

Good A has an income elasticity of demand of +1.5 and a cross price elasticity of demand with good B of +0.5. This indicates good A is a(n) _____ good and goods A and B are _____.

Select one alternative:

- normal; complements.
- normal, substitutes.
- inferior; complements.
- inferior; substitutes.

Maximum marks: 1

49 Question 49

Suppose an increase in the deficit has caused the governmental demand for loans to increase by more than the supply of loanable funds. Which of the following will be the most likely effect?

Select one alternative:

- a smaller capital stock for future generations. ✔
- All alternatives are correct.
- lower interest rates
- higher bond prices.

Maximum marks: 1

50 Question 50

Which of the following statements about price discrimination is NOT true?

Select one alternative:

- Price discrimination requires that the seller be able to separate buyers according to their willingness to pay
- Price discrimination increases a monopolist's profit.
- For a monopolist to engage in price discrimination, buyers must be unable to engage in arbitrage.
- Perfect price discrimination generates a deadweight loss ✔

Maximum marks: 1