



LIDETA SUB CITY ADMINISTRATION EDUCATION OFFICE

GRADE 12 ECONOMICS MODEL EXAMINATION

2016E.C/ 2024G.C

NUMBER OF QUESTIONS: 75

TIME ALLOWED: - $2\frac{1}{2}$ HOURS

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GENERAL DIRECTIONS

THIS BOOKLET CONTAINS ECONOMICS EXAMINATION. IN THIS EXAMINATION, THERE ARE A TOTAL OF 75 MULTIPLE CHOICE QUESTIONS. CAREFULLY SELECT THE BEST ANSWER AND BLACKEN ONLY THE LETTER OF YOUR CHOICE ON THE SEPARATE ANSWER SHEET PROVIDED. FOLLOW THE INSTRUCTIONS ON THE ANSWER SHEET AND THE EXAMINATION PAPER CAREFULLY. USE ONLY PENCIL TO MARK YOUR ANSWERS. YOUR ANSWER MARK SHOULD BE HEAVY AND DARK, COVERING THE ANSWER SPACE COMPLETELY. PLEASE ERASE ALL UNNECESSARY MARKS COMPLETELY FROM YOUR ANSWER SHEET.

YOU ARE ALLOWED TO WORK ON THE EXAM FOR $2\frac{1}{2}$ HOURS. WHEN TIME IS CALLED, YOU MUST IMMEDIATELY STOP WORKING, PUT YOUR PENCIL DOWN, AND WAIT FOR FURTHER INSTRUCTIONS.

ANY FORM OF CHEATING OR AN ATTEMPT TO CHEAT IN THE EXAMINATION WILL RESULT IN AN AUTOMATIC DISMISSAL FROM THE EXAMINATION HALL AND CANCELLATION OF YOUR SCORE (S).

PLEASE MAKE SURE THAT YOU HAVE WRITTEN ALL THE REQUIRED INFORMATION ON THE ANSWER SHEET BEFORE YOU START TO WORK ON THE EXAMINATION.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

Direction: Each of the following questions is followed by four possible alternatives. Read each question carefully and blacken the letter of your choice on the answer sheet provided.

1. Which of the following universal truths laid the foundation for the field of economics?
 - A. Resources are unlimited and human wants are limited.
 - B. Resources are limited and human wants are unlimited.
 - C. Resources and human wants are both unlimited.
 - D. Resources and human wants are both limited.
2. The process of economic reasoning that starts with explaining theories and then assesses their application for specific facts is
 - A. inductive
 - B. normative
 - C. descriptive
 - D. deductive
3. Which decision-making units of an economy is the main owner of factors of production?
 - A. Foreign sector
 - B. Business sector
 - C. Household sector
 - D. Government sector
4. Which of the following is **NOT** a feature of command economy?
 - A. Maximum social welfare
 - B. Central economic planning
 - C. Collective ownership of property
 - D. The right to private property
5. A buyer is said to have a demand for a good only when
 - A. The buyer wants to own the good.
 - B. The buyer is both willing and able to purchase the good.
 - C. The price of the good is low.
 - D. There is enough supply of the good available for purchase.
6. The equilibrium quantity of a good will increase and its equilibrium price might rise, fall, or stay the same when
 - A. its demand decreases and supply increases.
 - B. its demand increases and supply decreases.
 - C. its demand and supply both decrease.
 - D. its demand and supply both increase.
7. Which one of the following is the effect of increasing price on total revenue when the demand is price inelastic? Total revenue
 - A. is indeterminate.
 - B. remains constant.
 - C. increases.
 - D. declines.

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8. If a price decrease of 50% results in a decrease in the quantity supplied of a commodity from 4 to 3 units, the coefficient of price elasticity of supply is:
- A. 0.25 B. 0.5 C. 1 D. 1.5
9. A decrease in the price of a particular good, with all other variables constant, causes
- A. a shift to a different demand curve with higher quantities demanded.
B. a shift to a different demand curve with lower quantities demanded.
C. a movement along a given demand curve to a lower quantity demanded.
D. a movement along a given demand curve to a higher quantity demanded.
10. Which of the following is assumed constant along the demand curve for bread?
- A. The price of bread and the prices of related goods
B. All variables affecting demand other than the price of bread
C. All variables affecting demand other than the supply of bread
D. Buyers' incomes and tastes, but not the prices of related goods
11. When marginal utility is decreasing but positive, total utility is
- A. increasing at a decreasing rate. C. increasing at an increasing rate.
B. decreasing at a decreasing rate. D. decreasing at an increasing rate.
12. A consumer with a fixed income will maximize utility when each good is purchased in amounts such that the
- A. total utility is the same for each good.
B. marginal utility is the same for each good.
C. marginal utility per birr spent is the same for all goods.
D. total utility per birr spent is the same for all goods.
13. Which situation is consistent with the law of diminishing marginal utility?
- A. The more pizza Haile eats, the more he enjoys another slice.
B. The more pizza Haile eats, the less he enjoys another slice.
C. Haile's marginal utility from eating pizza becomes positive after eating three slices.
D. Haile's marginal utility from eating pizza reaches a maximum when total utility is zero.
14. Which one of the following assumptions of ordinal utility theory states that 'the biggest bundle is preferred to the smaller one'?
- A. Transitivity B. Rationality C. Measurability D. Non-satiation

15. Whenever total utility (TU) curve declines:

- A. marginal utility (MU) curve is always negative.
- B. marginal utility (MU) curve is always positive.
- C. marginal utility (MU) curve is always zero.
- D. marginal utility (MU) curve will increase.

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16. Which one is correct at the shut-down point?

- A. $TR = TVC$
- B. $TR = TC$
- C. $TR = TFC$
- D. $TR < TVC$

17. When a firm triples its inputs and finds that its output has doubled, this is known as

- A. increasing returns to scale
- B. constant returns to scale
- C. diminishing marginal returns
- D. diminishing returns to scale

18. If the short run average variable costs of production are rising, then this indicates that

- A. Average total costs are at a maximum
- B. Average fixed costs are constant
- C. Marginal costs are above average variable costs
- D. Average variable costs are below average fixed costs

19. Which one of the following is correct about the second stage of production?

- A. Both average product and marginal product decline as the variable input increases.
- B. Marginal product decreases and average product increases as the variable input increases.
- C. Average product decreases and marginal product increases as the variable input increases.
- D. Both average product and marginal product increase as the variable input increases.

20. Average total cost is equal to:

- A. Total cost – Total quantity of output
- B. Average fixed cost + Average variable cost
- C. Average variable cost + Total fixed cost
- D. Average variable cost \times Total quantity of output

21. The law of diminishing marginal returns starts to operate:

- A. after the marginal cost curve reaches at its minimum.
- B. immediately after the first worker is hired.
- C. after total product curve reaches at its maximum.
- D. after marginal product curve reaches at its maximum.

22. When production volume is zero:
- A. total fixed cost is higher than total cost.
 - B. total variable cost is higher than total fixed cost.
 - C. total fixed cost is 0.
 - D. total variable cost is 0.
23. Which of the following cost curves is never U-shaped?
- A. Average fixed cost curve
 - B. Average variable cost curve
 - C. Average cost curve
 - D. Marginal cost curve
24. The market structure in which entry into the industry is the most prohibitive (hardest) is
- A. perfect competition
 - B. monopolistic competition
 - C. pure monopoly
 - D. oligopoly
25. Which of the following is the feature of pure monopoly?
- A. Single producer
 - B. Close substitute products
 - C. More elastic demand
 - D. Uniform price
26. The use of government spending and taxation for the purpose of stabilizing the economy is called
- A. income policy
 - B. fiscal policy
 - C. monetary policy
 - D. trade policy
27. Which of the following are harmed by inflation?
- A. Debtors and creditors
 - B. Debtors and people on fixed income
 - C. Creditors and people on fixed income
 - D. Sales people and creditors
28. To adjust GDP from market prices to factor cost
- A. deduct corporate tax and add transfer income
 - B. add income tax and deduct net factor income from abroad
 - C. add indirect taxes and deduct subsidies
 - D. deduct indirect taxes and add subsidies
29. The difference between Real and Nominal GDP is
- A. Nominal GDP uses price levels of some base year.
 - B. Real GDP uses actual price levels.
 - C. Real GDP measures standard of living.
 - D. Nominal GDP is adjusted to inflation.

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30. In the expenditure approach, GDP equals
- A. $C + I_g + G + (M + X)$ C. $C + I_g + G - (M + X)$
 B. $C + I_g + G + (M - X)$ D. $C + I_g + G + (X - M)$
31. Investment is
- A. an injection that increases aggregate demand
 B. a withdrawal that increases aggregate demand
 C. an injection that decreases aggregate demand
 D. a withdrawal that decreases aggregate demand
32. If the dollar price of the German Mark increases, then,
- A. the German Mark has appreciated while the U.S. Dollar has depreciated.
 B. the German Mark has depreciated while the U.S. Dollar has appreciated.
 C. both the German Mark and the U.S. Dollar have depreciated.
 D. both the German Mark and the U.S. Dollar have appreciated
33. Which of the following is correct?
- A. $GDP = GNP + NFI$ C. $GNP = GDP + NFI$
 B. $GNP = GDP - NFI$ D. $NFI = GNP + GDP$
34. Dissaving occurs where:
- A. consumption exceeds income C. saving exceeds consumption
 B. saving exceeds income D. income exceeds consumption
35. At the point where the consumption curve intersects the 45degree line:
- A. the MPC equals 1 C. consumption equals income
 B. consumption is zero D. the APC is zero
36. If balance of trade indicates a surplus birr 4 million and the value of imports is one-third of the value of exports, then what will be the value of imports in birr?
- A. 1 million B. 2 million C. 5 million D. 6 million
37. While an import tariff on a good will both raise the domestic price of that good and its domestic production level, a quota
- A. will lower the domestic price but will increase the amount of the good produced domestically.
 B. will raise the domestic price but will decrease the amount of the good produced domestically.
 C. will both raise the domestic price and the amount of the good produced domestically.
 D. will neither raise the domestic price nor the amount of the good produced domestically.

38. Which one of the following factors is responsible for the rise of international trade?
- A. Differences in demand
 - B. Constant returns to scale
 - C. Similar resource endowment
 - D. Similarity in the level of technology
39. Which one of the following is an instrument of expansionary monetary policy?
- A. Increase in cash reserve ratio
 - B. Increase in bank rate
 - C. Open market purchase
 - D. Increase in tax rate
40. Which of the following is **NOT** focus area of macroeconomics?
- A. Economic growth
 - B. Market demand
 - C. International trade
 - D. General price level
41. The form of involuntary unemployment that happens when there is lack of adjustment between demand for and supply of labour is known as:
- A. Frictional unemployment
 - B. Cyclical unemployment
 - C. Structural unemployment
 - D. Disguised unemployment

The table below shows the production alternatives of country A and country B for producing computers and cars with equal amounts of resources that are fully and efficiently employed.

Country	Computers	Cars
A	24	0
	0	12
B	45	0
	0	15

42. Which one of the following is true according to the data in the above table?
- A. Country A has an absolute advantage and comparative advantage in the production of computers.
 - B. Country B has an absolute advantage and comparative advantage in the production of computers.
 - C. Country B should import computers and export cars.
 - D. Since country B has an absolute advantage in the production of both goods, it will not trade with country A.
43. When a country devalues its currency, we expect that
- A. Income will rise because the devaluation stimulates aggregate demand.
 - B. Income will rise because the devaluation stimulates aggregate supply.
 - C. Income will fall because the devaluation reduces aggregate demand.
 - D. Income will fall because the devaluation reduces aggregate supply.

44. Which of the following will **NOT** shift the aggregate demand curve?
- A. Change in real interest rate C. Change in general level of income
B. Change in general price level D. Change in government spending
45. The missing element in the equation, $GDP = Wage + Rent + Interest + Profit + Indirect\ tax$ is
- A. Transfer income B. Investment C. Depreciation D. Direct tax
46. The phase of the business cycle that comes immediately after a boom is
- A. trough B. recession C. recovery D. bust
47. Which of the following is correctly matched?
- A. New Keynesian → Adam Smith C. Monetarist → Milton Friedman
B. New classical → George Akerlof D. Classical → Thomas Sargent
48. Which of the following is the assumption of new classical economics?
- A. Flexible wage and price C. Nominal rigidity
B. Imperfect competition D. Coordination failure
49. Which of the following statement is **inconsistent** with the classical school of thought?
- A. The economy has flexible wages and prices.
B. The economy's level of investment solely depends on the level of income.
C. The economy will produce at full employment level of output.
D. The economy has an environment of "laissez faire".
50. During a boom:
- A. unemployment is likely to fall C. imports are likely to fall
B. prices are likely to fall D. demand is likely to fall
51. Which of the following is **NOT** the component of aggregate demand?
- A. Consumption spending C. Net exports
B. Government purchases D. Net transfers
52. Which one of the following factors shifts the aggregate demand curve to the right?
- A. Increase in interest rate C. Increase in future price expectation
B. Increase in income tax D. Increase in the general price level
53. Ceteris paribus, upward movement along the same aggregate demand curve is caused by:
- A. Increase in the general level of income C. Increase in the price level
B. Decrease in the general level of income D. Decrease in the price level
54. Change in the aggregate demand is **NEVER** caused by:
- A. Change in the price level C. Change in the general level of income
B. Change in the interest rate D. Change in the availability of credit

55. If businesses become pessimistic about future sales, then:
- both investment and aggregate demand fall.
 - both investment and aggregate demand rise.
 - investment increases but aggregate demand decreases.
 - investment decreases but aggregate demand increases.
56. If nominal wages are sticky, a decrease in the price level will result in:
- a rise in the quantity demanded of labour.
 - a fall in the quantity supplied of labour.
 - a higher real wage.
 - an increase in output.
57. The aggregate Keynesian supply curve is:
- vertical straight line
 - horizontal straight line
 - upward sloping straight line
 - downward sloping straight line
58. Lower interest rates are likely:
- Decrease consumption.
 - Encourage saving.
 - Increase cost of borrowing.
 - Increase borrowing and spending.
59. Which of the following is a common type of market failure?
- Private goods
 - Factor mobility
 - Information symmetry
 - Public goods
60. Which of the following characterizes pure public goods?
- Absence of externality
 - Zero marginal cost
 - Increasing average cost
 - Benefits can be priced
61. Which of the following is **wrong** about externality?
- Externalities can be neither positive nor negative.
 - Externalities can be unidirectional or reciprocal in nature.
 - Externalities can be viewed as special kind of public good or bad.
 - Externalities are generated when something is made or used.
62. Which of the following is an example of impure public good?
- A lighthouse provided by government
 - A congested highway during peak hours
 - A polio vaccination program sponsored by the government
 - National defence and the security offered by it
63. A good that is non-rival and excludable is a
- common resource.
 - pure private good.
 - club good.
 - pure public good.

64. Which of the following illustrates the concept of external cost?
- A. Smoking harms the health of nearby nonsmokers
 - B. Bad weather reduces the size of the wheat crop.
 - C. . Smoking harms the health of the smoker.
 - D. Public health services reduce the transmission of disease.
65. Air pollution generated by a paper mill factory is an example of a
- A. negative production externality.
 - C. positive consumption externality.
 - B. negative consumption externality.
 - D. positive production externality.
66. Which of the following is **NOT** the main argument in favour of consumer protection?
- A. Increasing awareness
 - C. Black marketing
 - B. Consumer satisfaction
 - D. Principle of social justice
67. Which of the following is a key tool of fiscal policy?
- A. Open Market Operation
 - C. Discount rate
 - B. Required reserve ratio
 - D. Taxation
68. A reduction in bank rate is a tool for:
- A. Contractionary monetary policy
 - C. Expansionary monetary policy
 - B. Contractionary fiscal policy
 - D. Expansionary fiscal policy
69. To manage the condition of deficient demand:
- A. Government expenditure is reduced.
 - B. Tax rates are increased.
 - C. The bank rate is increased.
 - D. The required reserve ratio is reduced.
70. which of the following is the disadvantage of floating exchange rate?
- A. Certainty
 - B. Speculation
 - C. Policy conflicts
 - D. Deflation

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Answer the following questions 71 - 72 based on the information given below.

Assume the basket of goods to a typical consumer in a country is composed of two goods - *teff* and meat. His/her annual consumption is 200 kg of *teff* and 20 kg of meat.

Year	Price of <i>teff</i> per kg	Price of meat per kg
2008	10 Birr	50 Birr
2009	12 Birr	60 Birr
2010	15 Birr	60 Birr

71. The consumer price index (CPI) in the year 2010 was
A. 100 B. 120 C. 140 D. 160
72. What happened to inflation in the year 2010 compared to the year 2009?
A. It increased. C. It remained the same.
B. It decreased. D. It cannot be determined.
73. In Country 'X' the number of unemployed persons is about 10 million and the unemployment rate is 20%. How much is the total labour force?
A. 20 million B. 30 million C. 40million D. 50 million
74. Suppose the quantity demanded of a good is 60 when the unit price for it is Birr 5, and the quantity demanded decreased to 54 when its price rises to birr 6. What is the price elasticity of demand?
A. 0.5 B. 1 C. 1.5 D. 2
75. An economy has a consumption function of $C = 100 + 0.7Y_d$. Then, the economy's saving function will be
A. $S = 50 + 0.3Y_d$ C. $S = -100 + 0.75Y_d$
B. $S = -50 - 0.3Y_d$ D. $S = -100 + 0.3Y_d$