

**ADDIS ABABA CITY ADMINISTRATION EDUCATION BUREAU
ARADA SUB CITY EDUCATION OFFICE
2017 E.C 1ST SEMESTER ECONOMICS GRADE 12TH MODEL
EXAMINATIONS**

TIME ALLOWED 2:30

GENERAL DIRECTIONS:

I. FOLLOW THE FOLLOWING RULES AND REGULATIONS IN DOING THE EXAMINATION

- THIS EXAM PAPER CONTAINS **115** MULTIPLE CHOICE QUESTIONS
- QUESTIONS FROM **101** TO **115** TO BE ATTEMPTED BY **VISUALLY IMPAIRED CANDIDATES ONLY.**
- SELECT ONLY THE CORRECT ANSWER FOR EACH QUESTION.
- USE ONLY PENCIL TO MARK YOUR ANSWERS ON ANSWER SHEET PROVIDED FOR YOU.
- ANY FORM OF CHEATING IS PROHIBITING AND RESULTS IN CANCELLATION OF YOUR SCORES.
- YOU MUST IMMEDIATELY STOP WORKING WHEN TIME OVER.

II. ATTENTIONS!

MAKE SURE THAT YOU HAVE WRITTEN ALL THE REQUIRED INFORMATION ON THE SEPARATED ANSWER SHEET.

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

1. Which of the following defines marginal utility?
 - A. The change in total utility divided by the price of a product.
 - B. The maximum amount of satisfaction from consuming a product.
 - C. The total satisfaction received from consuming as much of the product that is available for consumption.
 - D. The additional satisfaction received from consuming one more unit of a product.
2. Which one of the following best expresses the law of diminishing marginal utility?
 - A. The more consumption of a product, the smaller is the total and marginal utility from the consumption.
 - B. The less consumption of a product, the greater is the total and marginal utility of the consumption.
 - C. The more consumption of a product, the smaller is the marginal utility from consuming an additional unit.
 - D. The more consumption of a product, the smaller is the total and marginal utility from the consumption.
3. Which one of the following is **incorrect** statement about characteristics of indifference curve?
 - A. Indifference curves are convex to the origin.
 - B. Indifference curves can cross each other.
 - C. Indifference curves are downward sloping.
 - D. The further indifference curve away from the origin gives high level of satisfaction.
4. All are assumptions of ordinal utility theory **except one** .
 - A. Consumers are rational
 - B. Utility is ordinal
 - C. Utility is cardinal
 - D. complete ordering
5. Consider two goods, X and Y. If the consumer is indifferent between consuming bundles of (10X, 5Y) and (5X, 10Y) then, what kind of relationship exists between the goods?
 - A. Perfect complements
 - B. Perfect substitutes
 - C. Independent.
 - D. Cannot be determined from this information
6. The locus of combinations or bundle of goods that can be purchased if all the income spent is -

 - A. Demand
 - B. Utility
 - C. Budget Line
 - D. Supply
7. When a consumer is below his budget line rather than on it, this implies that the consumer
 - A. Has spent all of his income.
 - C. Has obtained maximum satisfaction
 - B. Did not spend all of his /her personal.
 - D. Is at equilibrium
8. If the consumer's income is Birr 900 and the price of X is Birr 8 per unit and the price of Y is Birr 16 per unit then, Calculate the slope of budget line.
 - A. 0.3
 - B. 0.5
 - C. 0.8
 - D. 0.7

9. Given two commodities X and Y and level of income M, if price of good X decreases (money income and price of Y remaining the same), which of the following is true?
- The budget line rotates to the left.
 - The budget line rotates inward for the X commodity.
 - The slope of the budget line remains the same.
 - The budget line rotates outward for the X commodity.
10. At equilibrium, the slope of highest attainable Indifference curve is :
- Greater than the slope of the budget line
 - Less than the slope of the budget line
 - Equal to the slope of the budget line
 - Indeterminate
11. The main criteria to classify or distinguish markets are
- Nature of the product
 - Locations of the firm
 - Locations of Consumers
 - Profit of the firm
12. Based on the numbers of firm in the market which one indicates correctly chronological order from largest to smallest.
- Monopoly - Oligopoly - Monopolistic Competition - Perfect Competition
 - Oligopoly - Monopolistic Competition - Monopoly Perfect Competition
 - Monopolistic Competition - Perfect Competition - Oligopoly - Monopoly
 - Perfect Competition - Monopolistic Competition - Oligopoly - Monopoly
13. Perfect competition is characterized by all of the following **EXCEPT**
- Well-informed buyers and sellers with respect to prices.
 - A large number of buyers and sellers.
 - No restrictions on entry into or exit from the industry.
 - considerable advertising by individual firms
14. All of the following are true about the long-run equilibrium of perfectly competitive firms **EXCEPT** one.
- The downward portion of long-run average cost curve is tangent to the demand curve, then long run equilibrium is achieved.
 - The minimum long-run average cost curve is tangent to the demand curve then, long run equilibrium is achieved.
 - Firms in perfectly competitive market earn a normal profit.
 - Price and average cost of the firm are equal due to free entry
15. Perfectly competitive firm has a marginal cost function of $MC = 2Q + 20$ and the equilibrium price is Birr 100. Find the profit maximizing level of output.
- 50
 - 30
 - 40
 - 80
16. Which one of the following is **NOT** true about reasons for the existence of monopolies?
- Absence of close-substitute
 - Diseconomies of scale in production
 - Ownership of strategic or key input
 - Patent right for products

17. What is the difference between first degree and Second degree price discrimination in monopoly market?

A. The first charges difference price based on amount but the second charges difference price based on consumers ability.

B. The first charges difference price based on consumer's ability but the second charges difference price based on amount.

C. The first charges difference price based on divided the market into sub market but the second charges difference price based on amount.

D. The first charges difference price based on amount but the second charges difference price based on divided the market into sub market.

18. Which market structure differentiated product ?

A. perfect competition B. oligopoly C. monopolistic competition D. Monopoly

19. What is the difference between perfect competition and monopolistic competition?

A. Perfect competition has a large number of small firms while monopolistic competition does not.

B. In perfect competition, firms produce identical goods, while in monopolistic competition, firms produce slightly different goods.

C. Perfect competition has no barriers to entry, while monopolistic competition does.

D. Perfect competition has barriers to entry while monopolistic competition does not

20. Which one of the following are not the features of oligopoly firm?

A. Produce homogenous or differentiated product

B. Interdependence among firms

C. Many sellers and buyers

D. Few dominant firms in the market

21. If a firm sells its output on a market that is characterized by few sellers and many buyers and limited long-run resource mobility, then the firm is

A. Monopoly B. An oligopolistic. C. a perfect competitor D. a monopolistic competitor

22. Which one are not the reasons of National income accounting practice is good for an economy?

A. It enables us to know the level of output of an economy.

B. To observe the short-run trend of the economy.

C. It helps in policy formulation since it can be used as evidence in policy making.

D. It makes cross-country comparison easier.

23. Which one of the following is best describe national income accounting?

A. It is regional measurements of economy of the world.

B. It is official measurement of flow of income and product.

C. It is the official measure of income only in the economy.

D. It measures net transfers and aids only.

24. Which one of the following statement is false **EXCEPT**.

- A. National income accounting is represented by GDP.
- B. GDP is wider concept than GNP
- C. GDP measures both territorial products and factor income.
- D. GDP is not official measure of flow of income and products.

25. Which one of the following statement correctly represent GNP.

- A. It is the difference between GDP and factor income.
- B. It is a flow concept but not stock measure.
- C. It measure the only factors of production produce in a country.
- D. It measures the market value of human labour in the economy

26. Which one of the following statement is false about product approach of measuring GDP except.

- A. It is the market value of all final goods and services.
- B. It is the market values all Intermediate goods.
- C. It is the market value of only necessity goods.
- D. It is the amount of money collected by sellers on final goods and services.

27. Which statement is correct about trade balance?

- A. It is the difference between buying to foreigner and sell to foreigners
- B. It may be deficit when export greater than import.
- C. It may be surplus when export less than import.
- D. It may be balance when import less than export.

28. Which one of the following is **NOT** common problem of measuring GDP?

- A. Double counting
- C. The existence of large formal sector.
- B. Un productive transactions
- D. transfer payments and aids.

29. Which statement is false about nominal and real GDP?

- A. Nominal GDP measured by constant price but real GDP measured by current price.
- B. Nominal GDP value by current price but real GDP measures by constant price.
- C. Nominal GDP increase when amount of goods and services crease.
- D. Real GDP increase when either output or price increases.

30. The measure of price typical basket of goods bought by firm.

- A. consumer price index
- C. producer price index
- B. GDP deflator
- D. nominal GDP.

31. Which one of the following statement is true about price index?

- A. GDP deflator measures the price of producer goods but CPI measures only consumer goods
- B. GDP deflator measures the price of both producer and consumer goods but CPI measures goods bought by consumers.
- C. Both GDP deflator and CPI measure the same thing.
- D. Increase in imported goods affect GDP deflator.

32. If a consumer has 3000ETB and makes consumption expenditure of 2000ETB, the APC of a household is:

- A 0.75 B.0.66 C. 0.5 D.1

33. Which one of the following statements is **true**?

- A. APC greater than 1 when income is very high. B. APC less than 1 when income is very low
C. APC greater than 1 when income is very low. D. APC equal to 1 when income is very low

34. An increase in consumer confidence is MOST likely to lead to:

- A. decrease in autonomous consumption B. decrease in overall consumption
C. An increase in overall consumption D. A decrease in the marginal propensity to consume

35. Which of the following best describes the concept of marginal propensity to consume (MPC)?

- A. The total amount of income spent on consumption.
B. The proportion of total income that is saved.
C. The change in consumption resulting from a change in income.
D. The average level of consumption over time

36. If the marginal propensity to save (MPS) is 0.2, what is the marginal propensity to consume (MPC)?

- A. 0.1 B. 0.2 C. 0.8 D. 1.2

37. What is the primary purpose of investment in economics?

- A. To consume goods and services. B. To increase current spending.
C. To increase future production and income. D. To reduce savings.

38. Which of the following is **NOT** typically considered a component of business investment?

- A. Purchase of new equipment. B. Construction of new factories.
C. Government bonds. D. Changes in inventory.

39. What does the term "present value" refer to in the context of investment?

- A. The original cost of an asset B. The current value of a future sum of money.
C. The expected profit from an investment. D. The total costs associated with an investment.

40. Suppose BEKELE has a monthly income of \$3,000 and he wants to save 15% of it. What is the amount he allocates to save in each month?

- A. \$150 B. \$300 C. \$450 D. \$500

41. What would be the consequence of a country consistently having a trade deficit?

- A. A consistent increase in the country's GDP
B. A constant increase in the country's standard of living
C. A decrease in the country's net exports which negatively affects the GDP
D. A significant increase in local production

42. Which of the following is a key measure of national income?

- A. Consumer Price Index (CPI) B. Gross Domestic Product (GDP)
C. Unemployment Rate D. Interest Rate

43. The expenditure approach to calculating GDP includes which of the following components?

- A. Wages, rents, and profits. B. Consumption, investment, government spending, and net exports.
- C. Taxes, transfers, and subsidies. D. Imports, exports, and tariffs.

44. Which approach to measuring GDP is most likely to be affected by changes in inventory levels?

- A. Income Approach B. Expenditure Approach
C. Production Approach D. The production and income approaches are equally affected by inventory.

45. An economy experiences a decline in business investment and an increase in consumer spending. What would likely be the impact on the different approaches to calculating GDP?

- A Both approaches will measure the same decline in GDP.
- B. Both approaches will measure the same increase in GDP.
- C. The expenditure approach will show a smaller increase than the income approach.
- D. The expenditure approach may show a smaller impact than the income approach, due to less production, but the results will be the same.

46. What is a potential limitation of using the income approach to measure GDP?

- A. It does not measure consumption. B. It only includes profits.
C. It can be difficult to accurately measure all types of income. D. It fails to account for government

47. Which of the following is a potential weakness of the expenditure approach to measuring GDP?

- A. It ignores government spending.
- B. It does not include investment.
- C. It does not capture all economic activities within a given economy.
- D. It includes double counting of the value of goods and services.

48. Why are firms in an oligopoly considered "mutually interdependent"?

- A. Because they operate completely independently of each other.
B. Because their actions directly impact each other's profits.
C. Because they produce identical products.
D. Because they all share the same production methods.

49. How does product differentiation affect firms in an oligopoly?
- A. Reduces the power of each individual firm.
 - B. Increases the power of each individual firm.
 - C. Has no impact on the firms' power.
 - D. Encourages perfect competition in the market, what does the term "collusion" refer to in the context of an oligopoly?
50. Which one of the following is **false** in perfectly competitive market?
- A. Goods is heterogeneous
 - B. Free exit and entry
 - C. Firms are price taker
 - D. many buyers and many sellers
51. What is a "kinked demand curve" used to describe in oligopoly theory?
- A. Highly elastic demand for a product.
 - B. Relatively stable prices due to mutual interdependence.
 - C. A single firm with no competition.
 - D. Firms having very little market share.
52. How might the presence of an oligopoly affect consumer choice compared to a perfectly competitive market?
- A. Consumers will have more product choice.
 - B. Consumers will have less product choice.
 - C. Oligopoly will have no impact on the amount of choice that consumers have.
 - D. Consumers will have access to homogenous products
53. In evaluating an oligopolistic market, which of the following is the most relevant factor to analyze?
- A. The total number of firms in the industry
 - B. The extent of barriers to entry
 - C. The degree of government regulation
 - D. The level of product differentiation and the degree of collusion.
54. Which one of the following is **not** the objective of macroeconomics analyzing?
- A. It helps to understanding how individual economy growth
 - B. It help to understanding how to nation increasing economic growth
 - C. It helps to how inflation is controlled
 - D. It help to understanding how the domestic economy interact with the rest of the world
55. Which one of the following is **correct**?
- A $GNP = GDP + NFI$
 - B. $GNP = GDP - NFI$
 - C. $NFI - GNP = GDP$
 - D. $NF = GDP$
56. Consumers Price Index in 2001 E. C is 140, and in 2002 is 120, then, what is the inflation rate from 2000 to 2002?
- A. 14.3%
 - B. 9.5%
 - C. -14.3%
 - D. B. -9.5%
57. What is the minimum amount of remuneration that an employer is required to pay to wage earners for the work that is performed during a given period?
- A. Minimum wages
 - B. maximum wage
 - C. Income wages
 - D. Price floor

58. What are the types of inflation, if the inflation rate is 3% to 10%?
- A. Galloping inflation
 - B. Hyperinflation
 - C. Walking inflation
 - D. Running inflation
59. Which one of the following refers to the recurrent ups and downs in the level of economic activity?
- A. Economic boom
 - B. Economic trough
 - C. unemployment
 - D. Business cycle
60. Which one of the following is **not** true about the GDP?
- A. total income earned by all citizens of the country
 - B. The total value of all goods and services sold in economy
 - C. The total value of all final goods and service with in a countries border
 - D. The total value of goods and service of intermediate in country
61. In a country A, the price index was 100 in 2003, 125 in 2004 and 150 in 2005 .What was the changes to inflation in the country in 2005?
- A. decreasing inflation
 - B. Increased inflation
 - C. un changed
 - D. not determined?
62. The phase of business cycle during which business confidence in the economy is at its lowest is known as:
- A. Peak
 - B. Depression
 - C. Recovery
 - D. Contraction
63. Labour force consists of all those:
- A. Who are fit for work
 - B. Who are not willing to work
 - C. Who are not available for work
 - D. Pensioners
64. Suppose the government of Ethiopia decided to build a new school. Which category of Expenditure budget will the money be spent?
- A. Recurrent expenditure budget
 - C. Capital expenditure budget
 - B. Revenue budget
 - D. Deficit financial budget
65. The Government body responsible for the implementation of monetary policy is
- A. Commercial Bank of Ethiopia
 - B. Ministry of Finance and Economic Development
 - C. Ministry of Trade and Industry
 - D. National Bank of Ethiopia
66. Macroeconomic policy reforms taken in Ethiopia include
- A. A tight monetary policy to ensure macro-economic instability
 - B. A exchange rate policy which revalued birr to encourage exports and discourage imports
 - C. A fiscal policy undertaken to increase fiscal deficit
 - D. Interest rate policy which imposed interest rate ceiling on borrowers
67. Who is the economist mostly close to associated with monetarist school thought?
- A. Karl Marks
 - B. John Maynard Keynes
 - B. Milton Fried man
 - D. Adam smith

68. Which one of the following is the best description of the inflation?
 A. A situation where unemployment is low
 B. A growth of economy
 C. An increase in the general price level of goods and services
 D. A decrease in the price level of goods and services
69. Under fixed exchange rate policy, what is an increase in the exchange rates due to political and economic decisions of the government?
 A. Devaluation
 B. Revaluation
 C. Depression
 D. Floating
70. Which one of the following factors causes an increase of one country's GDP?
 A. Decreases in the value of exports
 B. An increasing value of investment
 C. An increase in the value of imports
 D. Decreasing government investment.
71. In the case of an inflationary gap:
 A. $AD > AS$
 B. $AD = AS$
 C. $AD < AS$
 D. AD and $AS = 0$
72. Aggregate demand is determined by:
 A. population of the country
 B. cost of inputs
 C. managerial efficiency
 D. state of technology
73. To control the situation of deficient demand, what is the government's measure?
 A. Government expenditure is reduced.
 B. Tax rates are increased.
 C. Public borrowing is increased.
 D. The interest rate is increased.
74. What is the role of the central bank to control the situation of excess demand?
 A. The central bank reduces the bank rate.
 B. The central bank sells government securities.
 C. The central bank decreases CRR.
 D. The central bank collects tax.
75. A reduction in the bank interest rate is:
 A. Contractionary fiscal policy
 B. An expansionary fiscal policy
 C. An expansionary monetary policy
 D. Contractionary monetary policy
76. Which one of the following is the component of aggregate demand that includes output, the cost of capital and expectation about the future.
 A. Consumption
 B. Investment
 C. Government purchase
 D. Net export
77. $C + I + G + (X - M) = ?$
 A. Aggregate Supply
 B. Aggregate demand
 C. GNP
 D. GTP
78. Which one of the following is **not** true about aggregate demand?
 A. The total amount of money which all sectors spend.
 B. All spent money by households, firms, and governments
 C. Sum of spending by consumers, businesses, and governments which depends on the level of prices
 D. Total amount of goods and services different sectors in the economy willingly supply
79. Which one of the following is **NOT** the determinant of aggregate demand?
 A. General level of income of the people
 B. Real interest rate,
 C. The level of exports
 D. Taste of the preference

- 80.** The Keynesian aggregate supply curve is:
 A. vertical B. horizontal C. parallel D. straight line
- 81.** An increase in aggregate demand :
 A. Lowers real GDP B. Raises the employment rate
 C. Raises aggregate level of prices D. reduces the employment rate
- 82 .** Suppose that the nominal wages is\$ 30 an hours , and the price level as measured by price index is 1.50 .What is the real wages ?
 A. \$20 B. \$30 C. \$40 D. \$50
- 83.** Aggregate demand curve is typically:
 A. up ward sloping B. Down ward sloping
 C. vertical D. Horizontal
- 84.** Which one of the following is **not** the components of aggregate demand?
 A. consumption B. Investment
 C government spending D. aggregate supply
- 85.** What is the market failure in economics ?
 A. an inefficient distribution of goods and services in the free market.
 B. an efficient distribution of goods and service in free market
 C. an in efficient distribution of goods but not service in free market
 D. an efficient distribution of service but not good in free market
- 86.** Which one of the following is **not** the cause of market failure?
 A. Externalities B. public goods
 C. in perfect competition D. information symmetric
- 87.** Which one of the following is not the example of pure public goods?
 A. national defense B. Clean air C. biodiversity D .food
- 88.** A positive externality exists when:
 A. Third party incurs accost from transaction B. The market produces too much of good
 C. A third party benefits from a transaction D. Market fails to exist
- 89 .** According to **A.C. Pigou**, which one is **not** solution assumptions of externality ?
 A. Externality is the difference between MSC and MPC B. There no competitive industry.
 C. A firm producing output and emitting smoke. D. The external cost of pollution is borne by others.
- 90.** Which one of the following is correct about externalities?
 A. externalities can be either positive or negative B. Externalities can be generated by only consumers
 C. Externalities are not reciprocal in nature D . Externalities can be generated by only producers.

91. When there is negative externality:

- A. $MSC > PMC$ B. $MSC < PMC$ C. $MSC = PMC$ D. $MSC + PMC = 0$

92. What is a situation in which different agents have a different amount of information about a good, when one party in a transaction is in possession of more information than the other ?

- A. Asymmetric information B. Signaling C. Screening D. Producer surplus

93. Which types of asymmetric information is situations where one side of the market cannot observe the “type” or quality of the goods on the other side of the market?

- A. hidden information problem B. moral hazard C. Ex-post moral hazard D. Signaling

94. What is the goal of consumer’s protection?

- A. To safeguarding the interest and rights of consumers only.
B. To measures adopted for the protection of consumers as they affected by unscrupulous
C. To provide them with speedy redressed of their grievances.
D. To promote misleading advertisements,

95. Which one of the following arguments that favors of consumer protection, when business must be guided by certain social and ethical norms?

- A. Social Responsibility B. Increasing Awareness
C. Consumer Satisfaction D. Principle of Trusteeship

96. The main objectives of the Consumer Protection Act in Ethiopia are to:

- A. Protect the business community from anti-competitive and unfair market practices
B. To discourage of a competitive free market.
C. Ensure that consumers get goods and services less safe guarded.
D. To accelerate economic development and unscrupulous market

97. What is the general objectives of macroeconomic policy?

- A. To minimize feasible output B. To decreases rate of economic growth
C. To achieve full employment and price instability D. To equality in the distribution of income

98. Which economic thought believed that an automatic mechanism works to restore stability in the economy recession would cure itself and inflation will be automatically controlled?

- A. classical B. Keynesian C. Monetarism D. New Keynesians

99. Which one of the following is excluded under the government spending?

- A. salaries of public servants B. purchase of weapons for the military
C. investment expenditure D. capital gains from investment

100. Which types of tax the government imposes on export and import goods?

- A. Tariff B. personal income tax
C. excise tax D. Value added tax

101. What do you think would be the sign of the net exports (NX) of Ethiopia?

- A. Negative B. Positive C. Zero D. Un known.

102. The total market value of all final goods and services which are produced annually by resources of a country irrespective of the location of these resource.

- A. GNP B. GDP C. NET EXPORT D. Import

103. Which one of the following is **NOT** parts of consumption expenditure?

- A. Investment B. durable goods C. non-durable goods D. service

104. When there is a single owner, these types of business form is:

- A. Sole proprietorship B. Owner ship C. micro enterprise D. Corporation

105. Product differentiation is a typical feature of:

- A. oligopoly B. monopoly C. pure competition D. monopolistic competition

106. Which one of the following is not method of measuring GDP?

- A. Sum of transactions in economy B. Value of final goods and services in economy
C. Sum of value added in economy D. Sum of incomes

107. What is the types of unemployment exists due to technological change?

- A. frictional unemployment B. cyclical unemployment
C. Structural unemployment D. Full employment

108. Which one of the following factors shifts the aggregate demand curve to the right?

- A. Increases in interest rate B. Decreases income tax
C. Increases in future expectation D. increases in general price level.

109. Which one of the following is mostly likely to cause decreasing aggregate demand?

- A. Decreasing interest rate B. Decreasing taxes
C. An increasing government spending D. decreasing consumer price index

110. The increase in spending that occurs because of the increases the real value of money, when the price level falls is called

- A. Wealth effect. B. Interest rate effect. C. Foreign trade effect. D. Income effect

111. Which one of the following is **NOT** the determinant of aggregate demand?

- A. General level of income of the people B. real interest rate
C. the level of exports D. Weather condition

112. Which one of the following is the element of fiscal policy?

- A. Tax policy B. interest rate policy C. open market operation D. Reserve requirement policy

113. Which one of the following is **not** tool of fiscal policy ?

- A. Money supply B. Government purchase C. Tax D. Social security

114. The primary goal of central bank is to:

- A. maximizes un employment B. minimizes un employment
C. Maintain price stability D. create job

115. Which one of the following is not tool of monetary policy?

- A. Open market operation B. the reserve requirement C. government spending D. Discount rate

THE END