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Economics Mock for Spring 2014 Attempt (Skans)

SKANS School of Accountancy

Introduction to Economics and Finance

Mock (Attempt: Spring 2014)

Foundation Examination
Section : B1, B2

100 marks- 3 hours

Instructions: *All the questions from section A and Q# 8 are compulsory. Attempt any two questions from section B.*

Section A

Q1. What is capital formation? Discuss briefly the sources of capital formation. (8)

Q2. a) Explain the law of demand in terms of diminishing marginal utility, discussing a price increase in your explanation. (8)

b) What similarities do you find in cardinal and ordinal approach of utility? (7)

Q3. a) Explain how a producer is in equilibrium when he is producing desired output at the least possible cost? (7)

b) What is price discrimination? Identify and describe briefly the conditions under which a monopolist can keep the sub markets separate for exercising price discrimination? (8)

Q4. Briefly explain the sources of loanable funds. (7)

Section B

Q5. a) Explain the product method to measure GDP. What are the precautions of this method? (9)

b) Calculate the following with the help of given information:

Year	*Nominal GDP (in billions)*	*GDP Deflator (base year 1996)*
2000	9873	121
1999	9269	111

a) What was the growth rate of nominal GDP between 1999 and 2000?
b) What was the growth rate of the GDP deflator between 1999 and 2000?
c) What was real GDP in 1999 measured in 1996 prices?
d) What was real GDP in 2000 measured in 1996 prices?
e) What was the growth rate of real GDP between 1999 and 2000? (5)

c) What are the macroeconomic goals of an economy? Explain (6)

Q6. a) What is trade cycle? How does it occur? (8)

b) What are the reasons of downward sloping aggregate demand curve? (6)

c) Explain the term deficit budget with reference of fiscal budget of govt. of Pakistan 2013-2014. (6)

Q7. a) How do commercial banks create credit? (8)

b) Differentiate the term absolute advantage and comparative advantage. Use the law of comparative advantage to explain the gains that nations can make through specialization and trade. (12)

Q8. Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQ).Each MCQ carries ONE mark. (15)

1. If the goal of economic growth leads to inflation, then the goals of growth and price stability can be said to be:
a) mutually exclusive
b) complementary
c) opposite
d) conflicting

2. When a firm in competitive markets earns economic profits and there is an absence of entery and barriers, the changes in the industry will result in:
a) the supply curve moving to the right causing prices to fall.
b) the supply curve moving to the left causing prices to rise.
c) the demand curve moving to the right causing prices to rise.
d) the demand curve moving to the left causing prices to fall.

3. When an excise tax is placed on a good with a given elasticity of supply, the more inelastic the demand for the good:
a) the lower the tax collected by govt.
b) the greater the proportion of tax paid by consumers
c) the larger is the fall in sales suffered by producers
d) the lower the incidence of tax on consumers

4. Consumers maximize their utility by:
a) spending their income so that the marginal utility per Rs. on each product is equal.
b) spending their income on a product until the marginal utility per Rs. reaches zero.
c) allocating their income equally across all products they purchase.
d) consuming products until their marginal utilities are equal.

5. A natural monopoly may be beneficial to the consumer because
a) the company controls a larger share of the market
b) the company can obtain economies of scale
c) the company can restrict output
d) none of the above

6. 'X' inefficiency is a situation where a firm:
a) does not achieve all economies of scale available to firm.
b) fails to produce each level of output at the minimum level of average cost attainable.

c) incurs costs whose source it can identify but which it cannot eliminate.
d) incurs costs by using inappropriate technology.

7. Which of the following best explains the concept of derived demand?
a) the quantity demanded that is derived from a price fall.
b) the reduction in margarine consumption that results from a fall in the price of butter.
c) the fall in the demand for carpenters that results from a fall in the demand for housing.
d) the fall in the demand for shoes that derives from a drop in disposable incomes.

8. The asset demand for money is
a) inversely related to the rate of interest.
b) directly related to transaction demand.
c) inversely related to the level of nominal GDP.
d) directly related to the rate of interest.

9. A closed economy with no government sector has a marginal propensity to consume of 0.8 and a full employment level of Rs.100 million. The current level of national income is Rs.80 million. To achieve full employment, investment must rise by
a) Rs. 4 million
b) Rs. 8 million
c) Rs. 16 million'
d) Rs. 20 million

10. If the price of imported resources increases then:
a) short run aggregate supply will decrease
b) short run aggregate supply will increase
c) aggregate demand will decrease
d) aggregate demand will increase

11. Both the banks and non bank financial institutions:
a) accept the deposits of the public
b) make loans to the public
c) can expand the money supply as measured by broad money
d) do all of the above

12. Money functions as a unit of account when:
a) It is used to buy goods and services
b) We use it to price different commodities in terms of common money unit
c) We wish to store our wealth for future use
d) Its liquidity exceeds that of bonds and shares

13. The recession phase of the trade cycle will normally be accompanied by all of the following EXCEPT which ONE?
a) a rise in the rate of inflation
b) a fall in the level of national output
c) an improvement in the trade balance
d) a rise in the level of unemployment

14. If a nation had a balance of payments surplus and exchange rates floated freely:
a) the foreign exchange rate for its currency would rise, its exports would increase and the imports would decrease.
b) the foreign exchange rate for its currency would rise, its exports would decrease and the imports would increase.
c) the foreign exchange rate for its currency would fall, its exports would increase and the imports would decrease.
d) the foreign exchange rate for its currency would fall, its exports would decrease and the imports would increase.

15. When the exchange rates are fixed and nation at full employment has balance of payment surplus, the result in that nation will be:
a) a declining price level
b) a falling money income
c) inflation
d) rising real income

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Thanks to our member (Tahir Waseem) for sharing.