



## Introduction to Economics & Finance

Mock Exam Spring 2013

Module : B

(Additional reading time - 15 minutes)

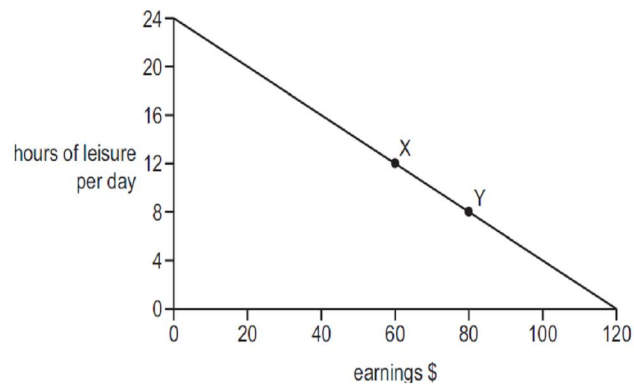
February 20, 2013

100 marks – 3 hours

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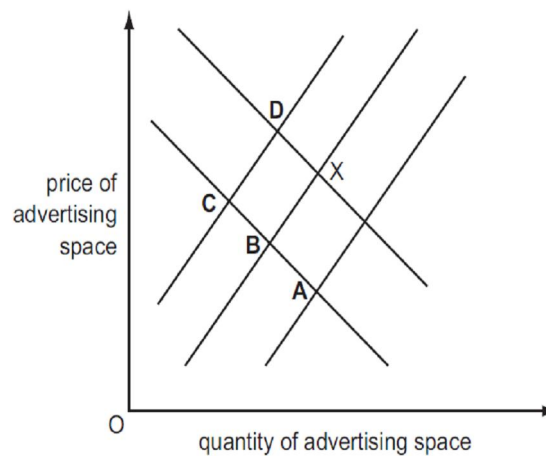
- Q.1 (a) Explain the function of price in market economy. *(05 marks)*
- (b) Discuss whether introduction of maximum prices by a government will solve the problem of scarcity. *(05 marks)*
- Q.2 (a) Explain what influences the price elasticity of supply of a commodity. *(05 marks)*
- (b) Discuss the usefulness to business of a knowledge of price elasticity of demand and income elasticity of demand. *(05 marks)*
- Q.3 (a) Explain, how the determination of floating exchange rate differs from fixed exchange rate? *(08 marks)*
- (b) Discuss the circumstances under which reducing exchange rate and introducing quotas are effective policies to tackle a trade deficit. *(04 marks)*
- Q.4 (a) Explain economic theory of wage determination under perfect competition. *(05 marks)*
- (b) Discuss whether the above mentioned theory is useful in explaining how wages are determined in reality? *(03 marks)*
- Q.5 (a) Explain two methods of calculating GDP used in national income statistics. *(05 marks)*
- (b) What is the importance of national income statistics to a country? *(04 marks)*
- Q.6 (a) What are the main features of an oligopolistic market? What are possible strategies under oligopoly for a firm? *(06 marks)*
- (b) What is meant by natural monopoly? Write down two advantages and two disadvantages of monopoly. *(06 marks)*
- Q.7 (a) Explain the multiplier theory. Also give assumptions and limitations of multiplier theory. *(10 marks)*
- (b) What are the main functions of commercial banks? *(04 marks)*
- Q.8 (a) Differentiate demand pull and cost push inflation. *(04 marks)*
- (b) What are the positive and negative effects of inflation? *(06 marks)*
- Q.9 Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). **Each MCQ carries ONE mark.**
- (i) What is found in a market economy but not a command economy?
- (a) division of labour (b) economies of scale
- (c) money as a store of value (d) the profit motive

- (ii) The diagram shows the choices for an individual between leisure and earnings.



What is the opportunity cost to the individual of the extra earnings when moving from position X to position Y?

- (a) \$ 20      (b) \$ 80      (c) 4 hours of leisure per day      (d) 8 hours of leisure per day
- (iii) In wartime conditions, cigarettes have been used as money. What disadvantage do cigarettes have for trading compared with notes and coins?
- (a) They cannot act as a medium of exchange      (b) They have no intrinsic value  
(b) They lack durability      (d) They make a double coincidence of wants necessary
- (iv) What advantage is gained by a company that becomes a multi-national?
- (a) It avoids trade barriers      (b) It reduces its fixed costs  
(c) It simplifies its management structure      (d) It makes communication easier
- (v) Good X has a price elasticity of demand of 0.25 while good Y has a price elasticity of demand of 1.5. A likely explanation of these values is that compared to good Y, good X.
- (a) has more substitutes      (b) is considered more of a luxury  
(c) is purchased more out of habit      (d) takes up a larger proportion of consumers' income
- (vi) X is the equilibrium point for a company that sells advertising space. During the year, the demand for advertising decreased and the company's labour cost increased. What would be the new equilibrium?



- (vii) What would cause disposable incomes to become less equal?
- (a) Increased employment (b) increased welfare benefits  
(c) more progressive taxes (d) more regressive taxes
- (viii) What is happening when a firm is experiencing diseconomies of scale?
- (a) It has rising long-run average costs (b) it is operating in the short run  
(c) its fixed costs are less than variable costs (d) its output is increasing faster than its inputs
- (ix) What is a firm seeking profit maximization trying to achieve?
- (a) the fastest rate of profit growth (b) the highest level of profit per unit produced  
(c) the highest level of total profit (d) the lowest level of total cost
- (x) What is likely to lead to a decrease in structural unemployment?
- (a) reducing the interest rate (b) increasing the rate of unemployment benefit  
(c) reducing the rate of income tax (d) increasing labour mobility
- (xi) What would be likely to increase inflation in an economy?
- (a) an increase in consumer saving (b) an increase in interest rates  
(c) an increase in labour productivity (d) an increase in taxes on imports
- (xii) In which situation must a country's balance of trade in goods and services improve?
- (a) Export orders rise more than import orders  
(b) Export prices rise more than import prices  
(c) Export revenues rise more than import revenues  
(d) Export volumes rise more than import volumes
- (xiii) In the UK in the summer of 2002, the Euro was worth £0.62. In the summer of 2003, the Euro was worth £0.72. How was this change likely to have affected the UK?
- (a) higher demand for imports (b) higher imported inflation  
(c) higher priced exports (d) higher unemployment
- (xiv) A country with a freely floating exchange rate has a persistent deficit on the current account of its balance of payments. Which policy can be used to correct this disequilibrium?
- (a) devalue the currency (b) increase government spending  
(c) increase tax rates (d) reduce tariffs on imports
- (xv) A consumer seeks to maximize his utility. Up to what point, should he continue to consume each good?
- (a) until the marginal utility from each good is the same  
(b) until the marginal utility per dollar from each good is the same  
(c) until the marginal utility from each good reaches a maximum  
(d) until the marginal utility from each good is zero

**(The End)**