

2000

ECONOMICS

MCQ WITH HELPS

Frequently Examined Questions
FOR
AS & A
LEVEL

► 2300+ MCQs ► Answers with Help ► Topic By Topic

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Basic Economic Ideas

Contents that you will be examined on:

- (a) Scarcity, choice and opportunity cost
 - the fundamental economic problem
 - the meaning of scarcity and the inevitability of choices at all levels (individual, firms, governments)
 - the basic questions of what will be produced, how and for whom
 - the meaning of the term, 'ceteris paribus'
 - the margin and decision making at the margin
 - short run, long run, very long run
- (b) Positive and normative statements
 - the distinction between facts and value judgements
- (c) Factors of production
 - the rewards to the factors of production: land, labour, capital and enterprise
 - specialisation and division of labour
- (d) Resource allocation in different economic systems and issues of transition
 - decision making in market, planned and mixed economies
 - the role of the factor enterprise in a modern economy
- (e) Production possibility curves
 - shape and shifts of the curve
 - constant and increasing opportunity costs
- (f) Money
 - functions and characteristics in a modern economy
 - barter, cash and bank deposits, cheques, near money, liquidity

1.1 Scarcity, Choice and Resource Allocation

Q1

Which action by an individual would **not** be considered an action of the factor of production labour?

- A leaving college to work on the land
 - B moving from a labour-intensive industry to work in a capital-intensive industry
 - C setting up a new business in information technology
 - D undertaking a training course in computer skills
-

Q2

Why is scarcity the central feature of the economic problem?

- A People's needs are limited.
 - B Resources have alternative uses.
 - C Economic resources are finite.
 - D Consumers have limited choices.
-

Q3

What does the concept of ceteris paribus allow economists to do?

- A calculate the monetary value of consumer surplus
 - B distinguish between economic and free goods
 - C distinguish between normative and positive statements
 - D isolate the effect of one variable on another variable
-

Q4

What is the central problem for an economy?

- A to achieve maximum growth in production
 - B to allocate resources between alternative uses
 - C to ensure all resources are fully exploited
 - D to overcome inequalities in income distribution
-

Q5

Which combination of events must increase the level of scarcity in an economy?

- A discovery of new oil reserves and higher saving ratios
 - B improved application of technology and new invention
 - C less certain weather patterns and a fashion for greater consumption
 - D more efficient power generation and a reduced birth rate
-

Q6

What is the fundamental assumption of the economic problem?

- A Factors of production are finite.
 - B Individuals are the best judges of their own wellbeing.
 - C Individuals can be relied upon to behave rationally.
 - D The principal aim of private firms is profit maximisation.
-

Q7

Which question does **not** directly refer to the basic economic problem?

- A What goods and services should a firm produce?
 - B What price should a firm charge?
 - C What production methods should a firm use?
 - D Who should receive the goods and services that a firm produces?
-

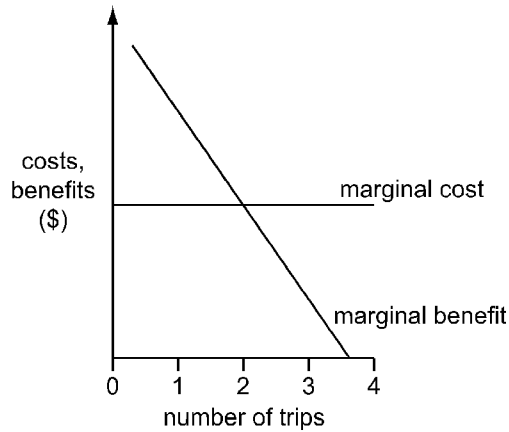
Q8

What term is used by economists for the income received by the factor of production enterprise?

- A capital
 - B interest
 - C profit
 - D revenue
-

Q9

The diagram shows a person's marginal costs and marginal benefits of making trips to the cinema.



How many trips will the person make?

- A None, as each extra trip reduces marginal benefit.
- B One, as this maximises the excess of marginal benefit over marginal cost.
- C Two, as this maximises the net benefit of making trips.
- D Three, as all trips have a positive marginal benefit.

Q10

A number of changes occur in an economy. Online training is made available to engineers, machinery in food processing is automated, profit taxes are imposed on information technology entrepreneurs and subsidised fertilisers are given to farmers.

Which factor of production is **least** likely to experience rising productivity?

- A capital
- B enterprise
- C labour
- D land

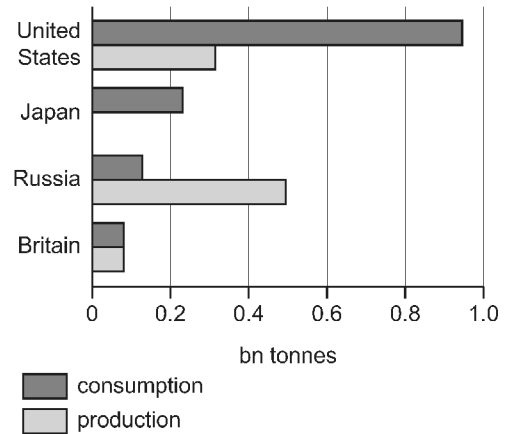
Q11

What confirms that scarcity exists?

- A A product has an opportunity cost.
- B The demand for a product has risen.
- C The government has set a minimum price for a product.
- D The supply of a product has fallen.

Q12

In 2007 there was a worldwide shortage of oil. The diagram shows the consumption and production of oil (billion tonnes) in 2007 for selected countries.



What can be concluded from the diagram?

- A In Britain, oil had zero opportunity cost.
- B In Japan, there was self sufficiency in oil.
- C In Russia, there was no shortage of oil.
- D In the United States, rationing was the only solution to oil shortage.

Q13

Why is choice central to the economic problem?

- A Different governments have different objectives.
- B Firms have access to unlimited resources.
- C Most resources have alternative uses.
- D People's wants are limited.

Q14

What must follow when scarcity exists?

- A Consumers have to make choices.
- B Governments are unable to supply public goods.
- C Producers must be misallocating resources.
- D Workers must be earning low wages.

Q15

Scarcity means that goods need to be rationed between competing consumers.

Which basis for rationing is the most likely to result in the most equal distribution of goods?

- A** consumer preference **B** market price
C political decision **D** seller preference

Q16

The diagram is from a chapter on ‘The Economic Problem’ in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the economic problem.



What is the correct order for the terms to appear in the diagram?

- A** choice → opportunity cost → scarcity
B choice → scarcity → opportunity cost
C scarcity → choice → opportunity cost
D scarcity → opportunity cost → choice

Q17

To overcome the problem of scarcity, countries with few natural resources need to concentrate on the quality of human resources.

Which set of policies would be most appropriate?

	natural resources policy	human resources policy
A	develop renewable energy supplies	improve education and training
B	plan the allocation of resources	discourage automation
C	protect land resources	protect jobs in manufacturing
D	restrict imports of raw materials	restrict influx of skilled migrants

Q18

Which statement about economics is **not** correct?

- A** Economic actions can produce unexpected side effects.
B Economic thinking is usually based on logical reasoning at the margin.
C The use of scarce resources to produce a good always has a cost.
D The value of a good or service involves a purely objective judgement.

1.2 Production Possibility Curve

Q19

Which one of the following could result in an outward shift in a community's production possibility curve?

- A an increase in the labour force
- B a reduction in the level of unemployment
- C a reduction in government expenditure on the armed forces
- D an increase in the general price level

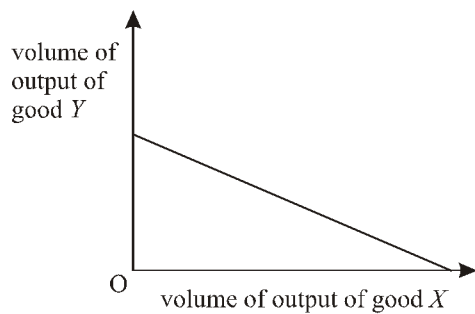
Q20

A situation where an economy is operating at a point inside its production possibility boundary can be described as inefficient because at such points

- A shortage of some goods and unsold stocks of others are inevitable.
- B individuals are necessarily enjoying too much leisure at the expense of productive work.
- C increased production of one good can be achieved without decreased production of another.
- D the economy is not participating in international trade.

Q21

The diagram below shows the production possibility curve for an economy.



From the information provided in the graph, which one of the following statements about the production of goods X and Y must be true?

- A The capital of labour ratios are different.
- B The marginal costs of good X in terms of good Y is constant.

- C Utility is maximised by specialising completely in the production of good X.
- D The factors of production are more efficiently employed in the production of good X than in the production of good Y.

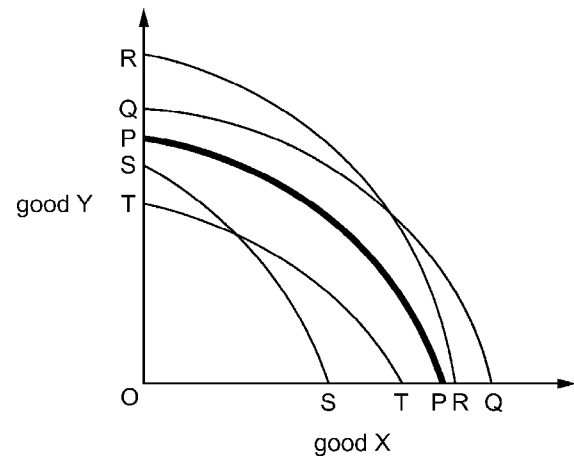
Q22

If military and civilian expenditure in the U.S.A. increased to the point where that country was on its production possibility curve then

- A further increases could only come from absorbing unemployed resources.
- B neither civilian nor military expenditure could be increased.
- C no further increases in output would be possible.
- D more of some goods could be produced but only at the expenses of others.

Q23

The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour-intensive than the production of Y.

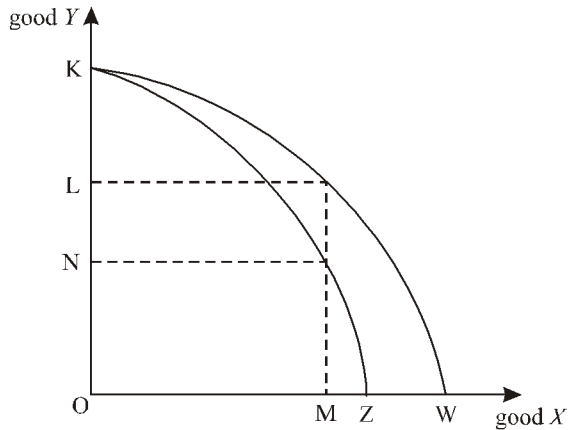


The working hours of the labour force are reduced by law. Which curve could be the country's new production possibility curve?

- A TT
- B SS
- C QQ
- D RR

Q24

The diagram below shows production possibility curves before and after a technical discovery affecting the production of good X.

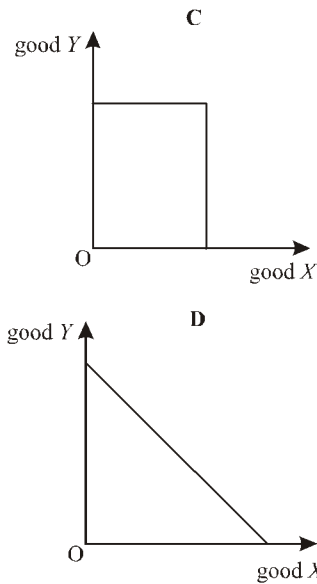
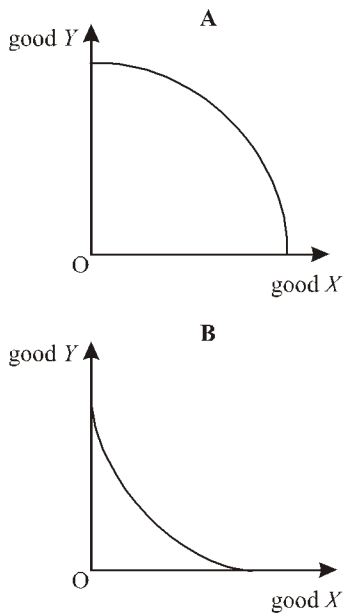


Which one of the following distances represents the *reduction* in the total opportunity cost of producing OM of X in terms of Y?

- A KL
- B KN
- C LN
- D MZ

Q25

Which one of the production possibility curves below is inconsistent with the statement that “scarce resources have alternative uses”?

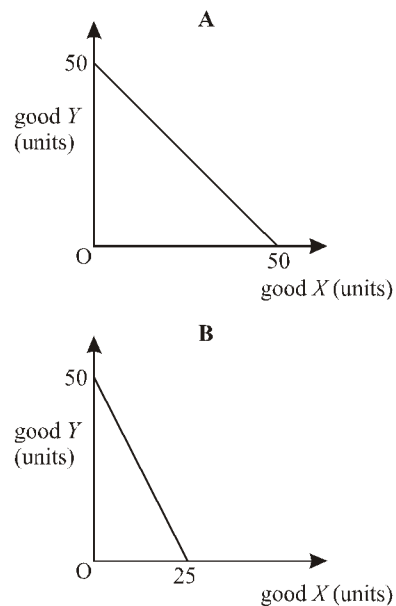


Q26

An economy has 100 units of capital and 200 units of labour. It produces two goods, X and Y, which require units of capital and labour per unit of output as shown in the table below.

	capital	labour
X	4	3
Y	2	4

Which one of the diagrams below represents the production possibility frontier of the economy?



MCQ ANSWERS

Remember: You are required to make a good effort in attempting to answer the questions first before referring and comparing the suggested answers given.

Topic

1

TOPIC 1: Basic Economic Ideas

1.1 Scarcity, Choice and Resource Allocation.

- 1 **C** Setting up a new business is entrepreneurship. All other options refer to the actions of factor of production labour
- 2 **C** Economic problem of scarcity signifies finite economic resources available in order to satisfy infinite human material wants.
- 3 **D** The concept of "ceteris paribus" is often used by economists to analyse the cause and effect relationship between any two variables in isolation i.e. assuming everything else is constant.
- 4 **B** Primarily the problem of "Scarcity of resources and unlimited wants" requires an efficient allocation of resources between alternative uses. Options **A**, **C** and **D** refer to the secondary issues.
- 5 **C** Scarcity in an economy refers to a shortfall of all different goods and services produced than what its people would want to consume at any point in time. Thus both a lower output resulting from uncertain weather pattern and an increasing desire to consume might accentuate this shortfall and hence result in a higher level of scarcity. Other options refer to an increase in productive potential leading to a higher output and hence a lower level of scarcity.
- 6 **A** The term "fundamental assumption" refers to the basic economic problem of finite (limited) factors of production (resources) and infinite wants. All other options suggest secondary issues.
- 7 **B** Basic economic problem relates three fundamental questions of what, how & for whom to produce. Other options are cancelled for they are related to the basic economic problem.
- 8 **C** By definition.
- 9 **C** Net benefit is the positive outcome of $MB - MC$. Hence, when $MB > MC$, an increase in number of trips adds to the net benefit. Similarly, when $MB < MC$ a decrease in number of trips increases net benefits by reducing net cost. Net benefit, therefore, is maximized when $MB = MC$.
- 10 **B** An imposition of profit taxes is likely to demotivate entrepreneurs and hence it could lower their productivity. However, training is likely to improve productivity of engineers, thus option **C** is incorrect. Automation improves productivity of capital while a subsidized fertilizer is likely to increase productivity of land, therefore, options **A** & **D** are ruled out.
- 11 **A** Scarcity of resources compels us to choose between the available options that usually involves a sacrifice of the second best alternative often quoted as opportunity cost. Other options do not confirm scarcity for they all refer to shortages that have more to do with the working of markets.
- 12 **C** In Russia oil production exceeds its consumption, so there should not be a shortage. Oil is a scarce resource, therefore, it has an opportunity cost, hence option **A** is invalid. Japan does not produce oil at all, therefore **B** is incorrect. US can import oil in order to make up for its shortfall; hence **D** is not necessarily true.
- 13 **C** Choices have to be made because alternative uses of scarce resources require the answer to the question of where to allocate them and how much. Option **A** is unrelated, while **B** & **D** contradict the central problem of limited resources and unlimited wants.
- 14 **A** Consumers need to choose between alternatives because only a limited quantity of goods & services can be produced from the available scarce resources. Other options refer to the problems related to allocation of scarce resources.
- 15 **C** Options **A**, **B** & **D** refer to the markets distributing goods between competing consumers according to their ability to pay, hence they are less likely to distribute goods equally. Governments, however, can take on distribution of goods on the basis of equality.
- 16 **C** Scarcity of resources leads to the choices that involve sacrifice of the next best alternative often quoted as opportunity cost.

MCQ ANSWERS

- 17 **A** Developing renewable energy sources would increase the overall availability of resources while education & training would improve productivity of workers. Both would result in higher output and hence will help address the problem of scarcity more effectively. Option **D** will further intensify the problem while **B & C** will have no impact.
- 18 **D** People place values on different goods & services in accordance with the satisfaction they expect to obtain from their consumption. The value of a good and service, therefore, involves a subjective judgement. Other choices are clearly related to economics.
- 25 **C** Inconsistent with alternative uses of scarce resources means single use resources. In such a case a change in quantity of X fails to bring a change in the output of Y and vice versa. Options **A, B & D** are consistent with the statement because in all three cases more of one good can be obtained by reducing the quantity of the other good.
- 26 **B** $100/4 = 25X$
 $100/2 = 50Y$
- 27 **B** Shift in PPC from GH to KL is due to the technological improvement in both industry and agriculture. PPC is drawn on the assumption that resources are fully and efficiently used, therefore, **A** and **D** are incorrect. A change in government expenditure does not shift PPC, thus **C** is incorrect.

1.2 Production Possibility Curve.

- 19 **A** An increase in the labour force increases productive potential of an economy as indicated by an outward shift in the PPC. Option **B** is incorrect because a reduction in unemployment moves the point from inside towards PPC. Also, a change in either government expenditure or price level do not affect the position of PPC, hence **C & D** are incorrect.
- 20 **C** An increase in production of one good without decreasing output of another is possible only when an economy operates below its PPC. Shortages and surpluses have to do with the working of markets, hence **A** is incorrect. Option **B** is unrelated while **D** cannot be concluded from the given information.
- 21 **B** A straight line downward sloping PPC reflects constant opportunity cost. PPC does not show factor ratio or utility, therefore, **A & C** are incorrect. Option **D** is marked as invalid because all points on a PPC suggest efficient use of resources in production of both goods.
- 22 **D** Operating on a PPC more of one product is produced only by decreasing the output of another, hence **B & C** are incorrect. Also, a PPC is drawn on the assumption that all the available resources are fully and efficiently used i.e. full employment, thus **A** is incorrect.
- 23 **B** A reduction in working hours would reduce the availability of labour, hence it will shift the PPC inward for both X & Y. However, the output of X could fall more than the output of Y because X uses a larger proportion of labour than capital.
- 24 **C** Opportunity cost of OM quantity of good X:
Before technological progress = KN
After technological progress = LK.
So, the reduction in opportunity cost = LN
- 28 **C** Primarily a PPC reveals opportunity cost of a good measured in terms of output of another. Other choices relate secondary issues.
- 29 **A** If the economy produces at point P, and exports 2 units of Y and possibly imports 3 units of X, it would be able to attain consumption at point R.
- 30 **C** A PPC reflects opportunity cost of one good in terms of another. The statement asserts that PPC is the only information available, thus the amount and preference of X & Y, or the extent to which resources are utilized cannot be concluded.
- 31 **A** Point Y indicates a higher output of capital goods than point X. Selection of point Y, therefore is likely to increase the rate of growth in future. Options **B & D** are incorrect because all points on the PPC assume that resources are fully and efficiently used. Option **C** is invalid because it contradicts the changes in output.
- 32 **A** A straight line PPC measures constant opportunity cost for it implies that resources are equally productive in the production of both products. Option **B** indicates increasing opportunity cost, while **C** suggests decreasing opportunity cost, and **D** represents zero opportunity cost.
- 33 **D** A point inside the PPC indicates unemployment and a point on the PPC signifies full employment. Option **A** is incorrect because opportunity cost of good N has increased. Since PPC has not shifted, therefore, **B** is incorrect. Option **C** is marked as invalid because PPC does not indicate desire.