

# **THE SOCIETY OF ACCOUNTING EDUCATION**

## **CERTIFIED FINANCIAL & MANAGEMENT ACCOUNTANT MEMBERSHIP**

### **PROGRAM**

**Model Paper for Course :Business Economics**

**Course Code: OL-04**

**Level: Operational Level**

1. The fundamental economic problem faced by all societies is:
  - a. unemployment
  - b. inequality
  - c. poverty
  - d. **scarcity**
2. "Capitalism" refers to:
  - a. the use of markets
  - b. government ownership of capital goods
  - c. **private ownership of capital goods**
  - d. private ownership of homes & cars
3. There are three fundamental questions every society must answer. Which of the following is/are one of these questions?
  - a. What goods and services are to be produced?
  - b. How are the goods and services to be produced?
  - c. Who will get the goods and services that are produced?
  - d. **All of the above**
4. If you were working full-time now, you could earn \$20,000 per year. Instead, you are working part-time while going to school. In your current part-time job, you earn \$5,000 per year. At your school, the annual cost of tuition, books, and other fees is \$2,000. The opportunity cost of completing your education is:
  - a. \$2,000
  - b. \$5,000
  - c. **\$17,000**
  - d. \$20,000
  - e. \$22,000
5. The bowed shape of the production possibilities curve illustrates:
  - a. **the law of increasing marginal cost**
  - b. that production is inefficient
  - c. that production is unattainable
  - d. the demand is relatively inelastic
6. You have taken this quiz and received a grade of 3 out of a possible 10 points (F). You are allowed to take a second version of this quiz. If you score 7 or more, you can raise your score to a 7 (C). You will need to study for the second version. In making a rational decision as to whether or not to retake the test, you should
  - a. always retake the quiz
  - b. consider only the marginal benefits from of retaking the quiz (four extra points)

- c. consider only the marginal opportunity costs from taking the quiz (the time spent studying and taking the quiz)
  - d. consider both the marginal benefits and the marginal opportunity costs of retaking the quiz**
7. The law of demand states that:
- a. as the quantity demanded rises, the price rises
  - b. as the price rises, the quantity demanded rises
  - c. as the price rises, the quantity demanded falls**
  - d. as supply rises, the demand rises
8. The price elasticity of demand is the:
- a. percentage change in quantity demanded divided by the percentage change in price**
  - b. percentage change in price divided by the percentage change in quantity demanded
  - c. dollar change in quantity demanded divided by the dollar change in price
  - d. percentage change in quantity demanded divided by the percentage change in quantity supplied
9. Community Colleges desired to increase revenues. They decided to raise fees paid by students with Bachelors degrees to \$50 per unit because they believed this would result in greater revenues. But in reality, total revenues fell. Therefore, the demand for Community College courses by people with Bachelors degrees must have actually been:
- a. relatively inelastic
  - b. unit elastic
  - c. relatively elastic**
  - d. perfectly elastic
10. The demand for a product would be more inelastic:
- a. the greater is the time under consideration
  - b. the greater is the number of substitutes available to buyers
  - c. the less expensive is the product in relation to incomes**
  - d. all of the above
11. In the case of agriculture,
- a. the demand has shifted to the right more than the supply has shifted to the right
  - b. the demand has shifted to the right less than the supply has shifted to the right**
  - c. the demand has shifted to the left more than the supply has shifted to the left
  - d. the demand has shifted to the left less than the supply has shifted to the left
12. The agricultural price support program is an example of
- a. a price ceiling
  - b. a price floor**
  - c. equilibrium pricing
13. If there is a price floor, there will be
- a. shortages
  - b. surpluses**
  - c. equilibrium
14. If there is a price ceiling, there will be
- a. Shortages**

- b. surpluses
  - c. equilibrium
15. If there is a price ceiling, which of the following is NOT likely to occur?
- a. rationing by first-come, first-served
  - b. black markets
  - c. gray markets
  - d. sellers providing goods for free that were formerly not free**
16. The goal of a pure market economy is to best meet the desires of
- a. consumers**
  - b. companies
  - c. workers
  - d. the government
17. In a pure market economy, which of the following is a function of the price?
- I. provide information to sellers and buyers , II. provide incentives to sellers and buyers
- a. I only
  - b. II only
  - c. both I and II**
  - d. neither I nor II
18. In a market system, sellers act in \_\_\_\_\_ interest , but this leads to behaviors in \_\_\_\_\_ interest.
- a. self; self
  - b. self; society's**
  - c. society's; society's
  - d. society's; self
19. The law of diminishing (marginal) returns states that as more of a variable factor is added to a certain amount of a fixed factor, beyond some point:
- a. Total physical product begins to fall
  - b. The marginal physical product rises
  - c. The marginal physical product falls**
  - d. The average physical product falls
20. Why is the law of diminishing marginal returns true?
- a. specialization and division of labor
  - b. spreading the average fixed cost
  - c. limited capital**
  - d. all factors being variable in the long-run
21. Which of the following is a characteristic of pure monopoly?
- a. one seller of the product**
  - b. low barriers to entry
  - c. close substitute products
  - d. perfect information
22. In pure monopoly, what is the relation between the price and the marginal revenue?
- a. the price is greater than the marginal revenue**
  - b. the price is less than the marginal revenue
  - c. there is no relation
  - d. they are equal

23. In order to maximize profits, a monopoly company will produce that quantity at which the:
- marginal revenue equals average total cost
  - price equals marginal revenue
  - marginal revenue equals marginal cost**
  - total revenue equals total cost
24. Quantity Price Total Cost
- |   |       |       |
|---|-------|-------|
| 1 | \$100 | \$ 60 |
| 2 | 95    | 130   |
| 3 | 90    | 210   |
| 4 | 85    | 300   |
| 5 | 80    | 400   |
- This monopolist should produce:
- 1
  - 2
  - 3**
  - 4
  - 5
25. Compared to the case of perfect competition, a monopolist is more likely to:
- charge a higher price
  - produce a lower quantity of the product
  - make a greater amount of economic profit
  - all of the above**
26. Which of the following is necessary for a natural monopoly?
- economies of scale
  - a high proportion of the total cost is the cost of capital goods
  - the market is very small
  - all of the above**
27. Which of the following is true about the way by which SDG&E has been regulated by the PUC?
- SDG&E has been allowed to earn very high economic profits
  - The profits of SDG&E are calculated as a percent of the value of the capital goods**
  - When the demand for electricity would fall, the price of electricity would also fall
  - All of the above
28. Which of the following best defines price discrimination?
- charging different prices on the basis of race
  - charging different prices for goods with different costs of production
  - charging different prices based on cost-of-service differences
  - selling a certain product of given quality and cost per unit at different prices to different buyers**
29. In order to practice price discrimination, which of the following is needed?
- some degree of monopoly power
  - an ability to separate the market
  - an ability to prevent reselling
  - all of the above**

30. In price discrimination, which section of the market is charged the higher price?
- the section with the richest people
  - the section with the oldest people
  - the section with the most inelastic demand**
  - the section with the most elastic demand
31. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?
- total revenue
  - marginal physical product
  - marginal revenue product**
  - marginal revenue
32. Workers Quantity Produced
- 15
  - 28
  - 39
  - 48
  - 55
  - 60

This company is a profit-maximizing firm selling in a competitive product market and hiring in a competitive labor market. It uses semi-skilled labor to produce dampers used in office building ventilation systems. Assume that the current market price per damper is \$50 and that the prevailing weekly salary per semi-skilled worker is \$550. This company should employ \_\_\_\_\_ workers.

- 2
  - 3**
  - 4
  - 5
  - 6
33. The demand for labor is the same as the
- marginal revenue product**
  - marginal physical product
  - marginal cost
  - wage
34. The demand for labor slopes down and to the right because of
- the law of demand
  - the iron law of wages
  - the law of diminishing marginal returns**
  - economies of scale
35. The demand for labor will be more elastic if:
- there are few substitutes for labor
  - there is a short time under consideration
  - labor is a large percent of the total cost of production**
  - the demand for the product is relatively inelastic
  - all of the above
36. Skills that can be transferred to other employers are called:

- a. **general skills**
  - b. specific skills
  - c. non-pecuniary skills
  - d. all of the above
37. Which skills are most likely to be paid for by the employer?
- a. General skills
  - b. **Specific skills**
  - c. Educational skills
38. If worker A earns more in wages than worker B, it could be because:
- a. The product made by worker A sells for a higher price than that made by worker B
  - b. Worker A uses more capital per worker than worker B
  - c. Worker A has more natural ability than worker B
  - d. **All of the above**
39. Skills that embodied in a person are called
- a. **Human capital**
  - b. Embodied skills
  - c. Physical capital
  - d. Experience skills
40. “Treating an individual as typical of a group” is the definition of
- a. pure discrimination
  - b. **statistical discrimination**
  - c. human capital
  - d. specific skills
41. The largest source of tax revenue for the federal government is:
- a. **the personal income tax**
  - b. the social security tax
  - c. the property tax
  - d. the sales tax
42. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$40,000 in taxes. My marginal tax rate is:
- a. 10%
  - b. 20%
  - c. **30%**
  - d. 40%
43. Which of the following taxes is regressive?
- a. the federal income tax
  - b. the state income tax
  - c. **the sales tax**
  - d. the Medicare tax
44. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 20 units of A at a price of \$20 and 30 units of B at a price of \$30. The Nominal GDP for 2002 is:
- a. \$100
  - b. \$400

- c. \$500
  - d. \$900
  - e. **\$1300**
45. Using the numbers in question 5, the Real GDP for 2002 is:
- a. \$400
  - b. \$500
  - c. **\$800**
  - d. \$900
  - e. \$1,300
46. Which of the following statements is/are true?
- a. Business Investment Spending occurs when individuals buy stock in the stock market
  - b. **Productivity in the United States grew very slowly between 1973 and 1996**
  - c. Because of discouraged workers, the official unemployment rate is too high
  - d. "Full employment" occurs when there is no frictional unemployment
47. Immediately after a trough, we would expect to have a/an
- a. peak
  - b. recession
  - c. **recovery**
  - d. another trough
48. Last week, Martha spent one day cleaning a house. For this, she was paid \$50. The rest of the week, she spent looking for a job. Martha would be classified as
- a. **employed**
  - b. unemployed
  - c. not in the labor force
49. John lost his accounting job when Montgomery Wards closed its stores in San Diego. He looked for a similar job for ten months before finding an accounting job at Sears. During the month John was unemployed, he was
- a. frictionally unemployed
  - b. seasonally unemployed
  - c. cyclically unemployed
  - d. **structurally unemployed**
50. Assume that there are only two goods: A and B
- In the base year, Quantity Price
- A 10 \$1
- B 10 \$4
- In the current year, Quantity Price
- A 20 \$ 5
- B 25 \$20
- The Consumer Price Index (CPI) for the current year is:
- a. 50
  - b. 100
  - c. 200
  - d. **500**
  - e. 600
51. Which of the following groups is most hurt by unexpected inflation?

- a. workers with cost of living adjustments in their labor contracts
  - b. homeowners
  - c. people with large debts to pay for their homes and cars
  - d. people with large retirement savings held in savings accounts**
52. If the nominal interest rate is 5% and the inflation rate is 2%, the real interest rate is:
- a. 2%
  - b. 3%**
  - c. 5%
  - d. 7%
  - e. 2 ½%
53. For which of the following reasons might inflation cause Real GDP to grow slower than it otherwise would?
- a. Inflation makes everyone poorer
  - b. Inflation reduces the value of consumer debt
  - c. Inflation increases business investment spending
  - d. Inflation decreases savings in financial form**
54. Disposable Income is equal to:
- a. National Income c. National Income Minus Taxes
  - b. Real GDP
  - c. National Income Minus Taxes
  - d. National Income Minus Taxes Plus Transfers**
55. Assume that Potential Real GDP equals \$10,000. National Income is therefore \$10,000. Of this, consumers will pay \$2,000 in taxes, save \$1,000, and spend \$7,000 on consumer goods. Business Investment spending is \$2000. In order to avoid recessions and inflation (to have equilibrium), the government should have a:
- a. balanced budget
  - b. budget deficit of \$1000
  - c. budget surplus of \$1000**
  - d. budget deficit of \$2000
56. According to Keynes, when the Great Depression started, the government should have:
- a. done nothing
  - b. decreased the money supply
  - c. had a large increase in government spending**
  - d. enacted high tariffs, such as the Smoot-Hawley Tariff
57. If the government lowers taxes by \$10 billion, the Real GDP will rise by
- a. more than \$10 billion**
  - b. less than \$10 billion
  - c. exactly \$10 billion
58. Which of the following is an automatic stabilizer?
- a. unemployment benefits**
  - b. spending on education
  - c. defense spending
  - d. net interest
59. “Crowding out” means that
- a. a government budget deficit lowers interest rates and causes investment spending to rise



- b. an increase in marginal tax rates lowers production
  - c. a government budget deficit raises interest rates and causes investment spending to fall**
  - d. a government budget deficit raises American exports and lowers American imports
60. Which of the following IS a function of money?
- a. medium of exchange
  - b. store of value
  - c. unit of accounting
  - d. all of the above**
61. Which of the following is a component of M-1?
- a. savings deposits
  - b. credit card
  - c. checkable deposits**
  - d. gold
62. Which of the following is a NOT component of M-2?
- a. small time deposits
  - b. money market mutual funds
  - c. stocks**
  - d. checkable deposits
63. Which of the following is true about the Federal Reserve System (Fed)?
- a. it is a system of 12 central banks**
  - b. its Board of Governors is elected by a vote of the people
  - c. its main policy-making body is the FDIC
  - d. it accepts deposits from the public and makes loans to businesses
  - e. all of the above
64. An IOU of the Federal Reserve Bank of San Francisco to Bank of America is called:
- a. discounts
  - b. federal funds
  - c. reserves**
  - d. collateral
65. Which of the following is the most liquid?
- a. a savings account**
  - b. a 6 month CD
  - c. a home
  - d. water
66. The monetary base is composed of:
- a. gold and silver
  - b. currency only
  - c. currency and reserves**
  - d. currency and checkable deposits
67. If the monetary base is increased by \$1,000 and the reserve requirement is 10% (1/10), by how much will the money supply be increased?
- a. \$100
  - b. \$1,000
  - c. \$5,000

- d. **\$10,000**
68. If the Federal Reserve wishes to increase the money supply, it should:
- raise the reserve requirement
  - raise the discount rate
  - buy Treasury securities in the open market**
  - all of the above
69. An increase in the money supply will cause interest rates to
- rise
  - fall**
  - remain unchanged
70. Which of the following is a characteristic of pure monopoly?
- one seller of the product**
  - low barriers to entry
  - close substitute products
  - perfect information
71. In pure monopoly, what is the relation between the price and the marginal revenue?
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  - d. marginal revenue
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  - b. marginal physical product
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  - d. wage
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- a. the law of demand
  - b. the iron law of wages
  - c. the law of diminishing marginal returns**
  - d. economies of scale
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- a. there are few substitutes for labor
  - b. there is a short time under consideration
  - c. labor is a large percent of the total cost of production**
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  - b. Embodied skills
  - c. Physical capital
  - d. Experience skills
87. “Treating an individual as typical of a group” is the definition of
- a. pure discrimination
  - b. statistical discrimination**
  - c. human capital
  - d. specific skills
88. Resources in an economy:
- a. Are always fixed
  - b. Can never decrease
  - c. Always increase over time
  - d. Are limited at any moment in time**
89. Human wants are:
- a) Always fixed
  - b) Limited
  - c) Unlimited**
  - d) Likely to decrease over time
90. The sacrifice involved when you choose a particular course of action is called the:
- a) Alternative
  - b) Opportunity cost**
  - c) Consumer cost
  - d) Producer cost
91. Which of the following is **not** one of the basic economic questions?
- a) What to produce
  - b) Who to produce for
  - c) How to produce
  - d) How to maximise economic growth**
92. The basic economic problems will **not** be solved by:
- a) Market forces
  - b) Government intervention
  - c) A mixture of government intervention and the free market
  - d) The creation of unlimited resources**
93. The free market involves:
- a) The free provision of products**

- b) The subsidising of products by the government
- c) Market forces of supply and demand**
- d) All trade via barter

94. A mixed economy:

- a) Has supply but not demand
- b) Has demand but not supply
- c) Has supply and demand
- d) Has market forces and government intervention**

95. In a command (planned) economy:

- a) The price mechanism acts as an incentive
- b) Resources are allocated by market forces
- c) Individual firms make decisions for themselves about what to produce and how to produce it
- d) The The public sector is large**

96. The public sector includes:

- a) Investors owning companies
- b) Government ownership of assets**
- c) Market forces of supply and demand
- d) All trade via barter

97. Which of the following is a normative statement in economics?

- a) More spending by the government reduces poverty
- b) Higher taxes lead to less desire to work
- c) The UK economy is growing fast relative to other European Union members
- d) The government should concentrate on reducing unemployment**

98. If an economy is productively efficient:

- a) Everyone is wealthy
- b) Resources are unemployed
- c) More of one product can only be produced if less of another product is produced**
- d) The distribution of income is equal

99. Economic growth can be shown by:

- a) An inward shift of the production possibility frontier
- b) A movement down the production possibility frontier
- c) An outward shift of the production possibility frontier**
- d) A movement up the production possibility frontier

100. As resources are shifted from one industry to another this can be shown by:

- a) An inward shift of the production possibility frontier
- b) A movement along the production possibility frontier**
- c) An outward shift of the production possibility frontier

- d) A outward shift in the demand curve for the products**
101. In a free market the combination of products produced will be determined by:  
**a) Market forces of supply and demand**  
b) The government  
c) The law  
d) The public sector
102. If an economy moves from producing 10 units of A and 4 units of B to producing 7 As and 5Bs, the opportunity cost of the 5th B is:  
**a) 7As**  
b) 10As  
c) 3As  
d) 1A
103. An economy may operate outside the Production Possibility Frontier if:  
**a) It is not utilising its resources fully**  
b) It is being productively efficient  
c) It is a mixed economy  
**d) It is trading with other economies**
104. The resources in the economy do **not** include:  
**a) Demand**  
b) Land  
c) Labour  
d) Capital
105. The resources in an economy are:  
**a) Constantly increasing**  
**b) Fixed at any moment**  
c) Constantly decreasing  
d) Able to be transferred easily between industries
106. Any combination of products inside the production possibility frontier is:  
**a) Allocatively inefficient**  
b) X inefficient  
c) Consumer inefficient  
**d) Productively inefficient**
107. An outward shift of the production possibility frontier may be caused by:  
**a) An increase in demand**  
b) More government spending  
**c) Better training of employees**  
d) Productive inefficiency
108. Which best describes a demand curve?

- a) The quantity consumers would like to buy in an ideal world
  - b) The quantity consumers are willing to sell
  - c) The quantity consumers are willing and able to buy at each and every income all other things unchanged
  - d) The quantity consumers are willing and able to buy at each and every price all other things unchanged**
109. A fall in price:
- a) Will cause an inward shift of demand
  - b) Will cause an outward shift of supply
  - c) May be caused by a fall in demand**
  - d) Leads to a higher level of production
110. Demand for a normal product may shift outwards if:
- a) Price decreases
  - b) The price of a substitute falls**
  - c) The price of a complement rises
  - d) Income falls
111. According to the law of diminishing utility:
- a) Utility is at a maximum with the first unit
  - b) Increasing units of consumption increase the marginal utility
  - c) Marginal product will fall as more units are consumed
  - d) Total utility will rise at a falling rate as more units are consumed**
112. If marginal utility is zero:
- a) Total utility is zero
  - b) An additional unit of consumption will decrease total utility
  - c) An additional unit of consumption will increase total utility
  - d) Total utility is maximised**
113. A decrease in income should:
- a) Shift demand for an inferior product outwards
  - b) Shift demand for an inferior product inwards**
  - c) Shift supply for an inferior product outwards
  - d) Shift supply for an inferior product inwards
114. An increase in the price of a complement for product A would:
- a) Shift demand for product A outwards
  - b) Shift demand for product A inwards**
  - c) Shift supply for product A outwards
  - d) Shift supply for product A inwards
115. An increase in price all other things unchanged leads to:
- a) Shift demand outwards
  - b) Shift demand inwards**

- c) **A contraction of demand**  
d) An extension of demand
116. If a product is a Veblen good:  
a) Demand is inversely related to income  
b) Demand is inversely related to price  
c) **Demand is directly related to price**  
d) Demand is inversely related to the price of substitutes
117. If a product is an inferior good:  
a) **Demand is inversely related to income**  
b) Demand is inversely related to price  
c) Demand is directly related to price  
d) Demand is inversely related to the price of substitutes
118. Average income increases from £20,000 p.a. to £22,000 p.a. Quantity demanded per year increases 5000 to 6000 units. Which of the following is correct?  
a) Demand is price inelastic  
b) The good is inferior  
c) Income elasticity is -2  
d) **The product is normal**
119. The price decreases from £2,000 to £1,800. Quantity demanded per year increases 5000 to 6000 units. Which of the following is correct?  
a) **The price elasticity of demand is -2**  
b) The good is inferior  
c) Income elasticity is + 0.5  
d) Income elasticity is + 2
120. If the price elasticity of demand is unit then a fall in price:  
a) Reduces revenue  
b) **Leaves revenue unchanged**  
c) Increases revenue  
d) Reduces costs
121. If the cross elasticity of demand is -2:  
a) The products are substitutes and demand is cross price elastic  
b) The products are substitutes and demand is cross price inelastic  
c) **The products are complements and demand is cross price elastic**  
d) The products are complements and demand is cross price inelastic
122. The income elasticity is +2 and income increases by 20%. Sales were 5000 units, what will they be now?  
a) 3000  
b) **7000**  
c) 5500



- d) 4500
123. The price elasticity of demand is a negative number this means:  
a) Demand is price elastic  
b) Demand is price inelastic  
c) **The demand curve is downward sloping**  
d) An increase in income will reduce the quantity demanded
124. Price increases from 10 to 12 pence and the price elasticity of demand is -0.5. The quantity demanded was 500 units. What will it be now?  
a) 550 units  
b) 500 units  
c) **450 units**  
d) 490 units
125. If demand is price inelastic:  
a) An increase in price must raise profits  
b) An increase in price decreases revenue  
c) **An increase in price increases revenue**  
d) A decrease in price reduces sales
126. For an inferior good:  
a) **The price elasticity of demand is negative; the income elasticity of demand is negative**  
b) The price elasticity of demand is positive; the income elasticity of demand is negative  
c) The price elasticity of demand is negative; the income elasticity of demand is positive  
d) The price elasticity of demand is positive; the income elasticity of demand is positive
127. For a normal good:  
a) The price elasticity of demand is negative; the income elasticity of demand is negative  
b) The price elasticity of demand is positive; the income elasticity of demand is negative  
c) **The price elasticity of demand is negative; the income elasticity of demand is positive**  
d) The price elasticity of demand is positive; the income elasticity of demand is positive
128. Which best describes a supply curve?  
a) The quantity consumers would like to buy in an ideal world  
b) The quantity producers are willing and able to sell at each and every price all other things unchanged

- c) The quantity producers are willing and able to sell at each and every income all other things unchanged
- d) The quantity producers are willing and able to sell at each and every point in time all other things unchanged**
129. If a 4% increase in price leads to a increase in the quantity supplied of 8%:
- a) **Supply is price elastic**
- b) Supply is income elastic
- c) Price elasticity of demand is -2
- d) Price elasticity of supply is -2
130. Supply is likely to be more price elastic:
- a) In the short run rather than the long run
- b) If factors of production are relatively immobile between industries
- c) If there are very few producers
- d) If it is easy to expand output**
131. A supply curve that starts at the origin has:
- a) A price elasticity of supply greater than one
- b) A price elasticity of supply equal to one**
- c) A price elasticity of supply less than one
- d) A positive price elasticity of supply
132. A contraction in supply occurs when:
- a) Demand shifts outwards
- b) The supply curve shifts inwards
- c) The quantity supplied falls when the price falls**
- d) The supply curve shifts outwards
133. An increase in the costs of production will:
- a) Shift demand outwards
- b) Shift demand inwards
- c) Shift supply outwards so more is supplied at each and every price, all other things unchanged
- d) Shift supply inwards**
134. An increase in price all other things unchanged leads to:
- a) A shift in supply outwards
- b) A shift in supply inwards
- c) A contraction of supply
- d) An extension of supply**
135. An increase in productivity should:
- a) Lead to a contraction of supply
- b) Lead to an expansion of supply**

- c) **Lead to a shift in supply outwards (i.e. more supplied at each and every price)**  
 d) Lead to a higher equilibrium and lower equilibrium quantity
136. An increase in price from 25 pence to 30 pence leads to an increase in the quantity supplied from 40 units to 44 units. The price elasticity of supply is:  
 a) + 2  
 b) **+ 0.5**  
 c) - 2  
 d) - 0.5
137. The price elasticity of supply is +4. The price increases by 15%. Sales were originally 200 units. What will they be now?  
 a) 80 units  
 b) **320 units**  
 c) 60 units  
 d) 120 units
138. If demand increases in a market this will usually lead to:  
 a) **A higher equilibrium price and output**  
 b) A lower equilibrium price and higher output  
 c) A lower equilibrium price and output  
 d) A higher equilibrium price and lower output
139. An increase in income will:  
 a) Lead to a movement along the demand curve  
 b) Shift the supply curve  
 c) **Shift the demand curve**  
 d) Lead to an extension of demand
140. A reduction in the costs of production will:  
 a) Lead to a movement along the supply curve  
 b) Shift the demand curve  
 c) **Shift the supply curve**  
 d) Lead to an extension of supply
141. A shift in supply will have a bigger effect on price than output if demand is:  
 a) Income elastic  
 b) Income inelastic  
 c) Price elastic  
 d) **Price inelastic**
142. Assuming a downward sloping demand curve and upward sloping supply curve, a higher equilibrium price may be caused by:  
 a) An fall in demand  
 b) **An increase in supply**

- c) Improvements in production technology
  - d) An increase in demand**
143. If the price was fixed below the equilibrium price there would be:
- a) Excess supply
  - b) Excess demand**
  - c) Equilibrium
  - d) Downward pressure on prices
144. A movement along the demand curve may be caused by:
- a) A change in income
  - b) A change in the number of buyers
  - c) A change in advertising
  - d) A shift in supply**
145. A subsidy paid to producers:
- a) Shifts the supply curve**
  - b) Shifts the demand curve
  - c) Leads to a contraction in supply
  - d) Leads to an extension of supply
146. A movement along the supply curve may be caused by:
- a) A change in technology
  - b) A change in the number of producers
  - c) A shift in demand**
  - d) A change in costs
147. The price mechanism cannot:
- a) Act as a signal
  - b) Act as an incentive
  - c) Act as a rationing device
  - d) Shift the demand curve**
148. Which best describes consumer surplus?
- a) The price consumers are willing to pay for a unit
  - b) The cost of providing a unit
  - c) The profits made by a firm
  - d) The difference the price a consumer pays for an item and the price he/she is willing to pay**
149. The price mechanism **does not** act as a:
- a) Signal
  - b) Incentive
  - c) Rationing device
  - d) Indicator of income**

150. A shift in demand will have more effect on price than quantity if:  
**a) The price elasticity of supply is price inelastic**  
b) The price elasticity of supply is price elastic  
c) The price elasticity of supply is perfectly elastic  
d) The price elasticity of supply is infinity
151. A shift in demand will have more effect on price than quantity if:  
**a) The price elasticity of supply is + 3**  
**b) The price elasticity of supply is + 0.2**  
c) The price elasticity of supply is + 2  
d) The price elasticity of supply is infinity
152. A shift in supply will have more effect on price than quantity if:  
**a) The price elasticity of demand is -3**  
**b) The price elasticity of demand is -0.2**  
c) The price elasticity of demand is -2  
d) The price elasticity of demand is infinity
153. A decrease in demand for a product should:  
**a) Increase equilibrium price and quantity**  
**b) Decrease equilibrium price and quantity**  
c) Increase equilibrium price and decrease quantity  
d) Decrease equilibrium price and increase quantity
154. An increase in demand for a product should:  
**a) Increase equilibrium price and quantity**  
b) Decrease equilibrium price and quantity  
c) Increase equilibrium price and decrease quantity  
d) Decrease equilibrium price and increase quantity
155. "Income inequality can be high in the free market and should be reduced." This is an example of what?  
**a) Judicial economic statement**  
b) Positive economic statement  
c) Formative economic statement  
**d) Normative economic statement**
156. A public good will:  
**a) Be underprovided in the free market**  
b) Be overprovided in the free market  
**c) Not be provided in the free market**  
d) Has no opportunity cost
157. A positive externality occurs when:  
**a) The social marginal costs are higher than the private marginal costs**  
b) A product is not provided in the free market

- c) The social marginal cost equals the social marginal benefit
  - d) **The social marginal benefits are higher than the private marginal benefits**
158. If the price in a market is fixed by the government below equilibrium:
- a) There is excess equilibrium
  - b) There is excess supply
  - c) **There is excess demand**
  - d) There is equilibrium
159. If the price in a market is fixed by the government above equilibrium:
- a) There is excess equilibrium
  - b) **There is excess supply**
  - c) There is excess demand
  - d) There is equilibrium
160. Merit goods are:
- a) Not provided in the free market economy
  - b) **Under provided in the free market economy**
  - c) Over provided in the free market economy
  - d) Provided free
161. Agricultural prices tend to be unstable because:
- a) Supply is price elastic
  - b) Demand is price elastic
  - c) Supply is stable
  - d) **Demand and supply are price inelastic**
162. When supply increases in an agricultural market farmer's earnings might fall because:
- a) Supply is price elastic
  - b) **Demand is price inelastic**
  - c) The government buys up all the excess production
  - d) All output must be sold at a maximum price
163. Which of the following is the government most likely to subsidise?
- a) Negative externalities
  - b) **Positive externalities**
  - c) Monopolies
  - d) Oligopolies
164. With a positive externality:
- a) **There is under-consumption in the free market**
  - b) There is over consumption in the free market
  - c) The government may tax to decrease production
  - d) Society could be made off if less was produced

165. A public good:
- a) Is provided by the government
  - b) Is free
  - c) **Has the properties of being non-excludable and non-diminishable**
  - d) Has external costs
166. Nationalisation occurs when:
- a) The government sells assets to a the private sector
  - b) The government bans a product
  - c) **The government takes control of an industry**
  - d) The government taxes a product to a raise its price
167. If a maximum price is set below equilibrium there will be:
- a) A price fall
  - b) A price increase
  - c) Excess supply
  - d) **Excess demand**
168. Which of the following is true?
- a) If the marginal cost is greater than the average cost the average cost falls
  - b) **If the marginal cost is greater than the average cost the average cost increases**
  - c) If the marginal cost is positive total costs are maximised
  - d) If the marginal cost is negative total costs increase at a decreasing rate if output increases
169. According the law of diminishing returns:
- a) **The marginal product falls as more units of a variable factor are added to a fixed factor**
  - b) Marginal utility falls as more units of a product are consumed
  - c) The total product falls as more units of a variable factor are added to a fixed factor
  - d) The marginal product increases as more units of a variable factor are added to a fixed factor
170. The law of diminishing returns assumes:
- a) There are no fixed factors of production
  - b) There are no variable factors of production
  - c) Utility is maximised when marginal product falls
  - d) **Some factors of production are fixed**
171. When internal economies of scale occur:
- a) Total costs fall
  - b) Marginal costs increase
  - c) **Average costs fall**

- d) Revenue falls
172. The first level of output at which the long run average costs are minimised is called:
- a) **The Minimum Efficient Scale**
  - b) The Minimum External Scale
  - c) The Maximum External Scale
  - d) The Maximum Effective Scale
173. The average variable cost curve:
- a) Is derived from the average fixed costs
  - b) **Converges with the average cost as output increases**
  - c) Equals the total costs divided by the output
  - d) Equals revenue minus profits
174. If marginal cost is positive and falling:
- a) Total cost is falling
  - b) **Total cost is increasing at a falling rate**
  - c) Total cost is falling at a falling rate
  - d) Total cost is increasing at an increasing rate
175. Total increases from £500 to £600 when output increases from 20 to 30 units. Fixed costs are £200. Which of the following is true?
- a) Marginal cost is £20
  - b) Average cost falls
  - c) **Variable cost rises by £100**
  - d) Average fixed cost is £10
176. Total increases from £500 to £600 when output increases from 20 to 30 units. Fixed costs are £200. Which of the following is true?
- a) Marginal cost is £20
  - b) Average cost rises
  - c) Variable cost rises by £200
  - d) **Average fixed cost was £10 originally**
177. If marginal product is below average product:
- a) The total product will fall
  - b) **The average product will fall**
  - c) Average variable costs will fall
  - d) Total revenue will fall
178. If the marginal revenue is less than the marginal cost then to profit maximise a firm should:
- a) **Reduce output**
  - b) Increase output
  - c) Leave output where it is



d) Increase costs

179. If the price is less than the average costs but higher than the average variable costs:
- a) The firm is making a loss and will shutdown in the short term
  - b) The firm is making a profit
  - c) **The firm is making a loss but will continue to produce in the short term**
  - d) The firm is making a loss and is making a negative contribution to fixed costs
180. If firms earn normal profits:
- a) They will aim to leave the industry
  - b) Other firms will join the industry
  - c) **The revenue equals total costs**
  - d) No profit is made in accounting terms
181. In the long term a firm will produce provided the revenue covers:
- a) Fixed costs
  - b) Variable costs
  - c) **Total costs**
  - d) Revenue
182. In the short term a firm will produce provided the revenue:
- a) Covers fixed costs
  - b) **Covers variable costs**
  - c) Covers total costs
  - d) Covers revenue
183. The profit per sale is a measure of:
- a) Profit
  - b) **Profitability**
  - c) Feasibility
  - d) Realism
184. The total costs are £2000 and 10 units are produced. The marginal cost of an 11th unit is £1300. Which of the following is true?
- a) **The average cost increases from £20 to £30**
  - b) The total costs for 11 units are £700
  - c) The average cost for 10 units is £1300
  - d) The average cost for 11 units is £1300
185. Total revenue equals:
- a) Price plus quantity
  - b) Price multiplied by quantity sold
  - c) **Price divided by the quantity sold**

- d) Price minus quantity sold
186. If marginal revenue equals marginal cost:  
a) No profit is being made  
b) Total revenue equals total cost  
c) **Profits are maximised**  
d) Producing another unit would increase profits
187. Price equals:  
a) Total revenue - quantity  
b) **Total revenue / quantity sold**  
c) Total quantity sold \* quantity sold  
d) Total revenue / total cost
188. Firms in perfect competition face a:  
a) **Perfectly elastic demand curve**  
b) Perfectly inelastic demand curve  
c) Perfectly elastic supply curve  
d) Perfectly inelastic supply curve
189. In perfect competition:  
a) **The price equals the marginal revenue**  
b) The price equals the average variable cost  
c) The fixed cost equals the variable costs  
d) The price equals the total costs
190. A profit maximising firm in perfect competition produces where:  
a) Total revenue is maximised  
b) Marginal revenue equals zero  
c) **Marginal revenue equals marginal cost**  
d) Marginal revenue equals average cost
191. In perfect competition:  
a) **The products firm offer are very similar**  
b) Products are heavily differentiated  
c) A few firms dominate the market  
d) Consumers have limited information
192. In the long run in perfect competition:  
a) The price equals the total revenue  
b) Firms are allocatively inefficient  
c) **Firms are productively efficient**  
d) The price equals total cost
193. In perfect competition:

- a) Short run abnormal profits are competed away by firms leaving the industry
  - b) Short run abnormal profits are competed away by firms entering the industry**
  - c) Short run abnormal profits are competed away by the government
  - d) Short run abnormal profits are competed away by greater advertising
194. In perfect competition:
- a) A few firms dominate the industry
  - b) Firms are price makers
  - c) There are many buyers but few sellers
  - d) There are many buyers and sellers**
195. In the short run firms in perfect competition will still produce provided:
- a) The price covers average variable cost**
  - b) The price covers variable cost
  - c) The price covers average fixed cost
  - d) The price covers fixed costs
196. In the long run in perfect competition:
- a) Price = average cost = marginal cost**
  - b) Price = average cost = total cost
  - c) Price = marginal revenue = total cost
  - d) Total revenue = total variable cost
197. For a perfectly competitive firm:
- a) Price equals marginal revenue**
  - b) Price is greater than marginal revenue
  - c) Price equals total revenue
  - d) Price equals total cost
198. X inefficiency occurs when:
- a) The price is greater than the marginal cost
  - b) The price is greater than the average cost
  - c) Costs are higher than they could be due to a lack of competitive pressure**
  - d) There are external costs
199. The marginal revenue curve in monopoly:
- a) Equals the demand curve
  - b) Is parallel with the demand curve
  - c) Lies below and converges with the demand curve
  - d) Lies below and diverges from the demand curve**
200. In monopoly when abnormal profits are made:
- a) The price set is greater than the marginal cost**

- b) The price is less than the average cost
  - c) The average revenue equals the marginal cost
  - d) Revenue equals total cost
201. In monopoly in long run equilibrium:
- a) The firm is productively efficient
  - b) The firm is allocatively inefficient**
  - c) The firm produces where marginal cost is less than marginal revenue
  - d) The firm produces at the socially optimal level
202. Barriers to entry do **not** include
- a) Patents
  - b) Internal economies of scale
  - c) Mobility of resources**
  - d) High investment costs
203. In a monopoly which of the following is **not** true?
- a) Products are differentiated
  - b) There is freedom of entry and exit into the industry in the long run**
  - c) The firm is a price taker
  - d) There is one main seller
204. In monopoly which of the following is true?
- a) There are many buyers and sellers
  - b) There is one main buyer
  - c) There is one main seller**
  - d) The actions of one firm do not affect the market price and quantity
205. According to Schumpeter:
- a) Monopolies are inefficient
  - b) Monopoly profits act as an incentive for innovation**
  - c) Monopolies are allocatively efficient
  - d) Monopolies are productively efficient
206. A welfare loss occurs in monopoly where:
- a) The price is greater than the marginal cost**
  - b) The price is greater than the marginal benefit
  - c) The price is greater than the average revenue
  - d) The price is greater than the marginal revenue
207. In the UK the government:
- a) Bans monopolies
  - b) Fines all monopolies
  - c) Prevents firms acquiring more than 25% of the market
  - d) Has the right to investigate monopolies and will assess each one on its own merits**

208. If a few firms dominate an industry the market is known as:  
a) Monopolistic competition  
b) Competitively monopolistic  
c) Duopoly  
d) **Oligopoly**
209. In a cartel member firms may be given a fixed amount to produce. This is called a:  
a) Limit  
b) Factor  
c) **Quota**  
d) Quotient
210. In the Kinked Demand Curve theory it is assumed that:  
a) An increase in price by the firm is not followed by others  
b) An increase in price by the firm is followed by others  
c) **A decrease in price by the firm is followed by others**  
d) Firms collude to fix the price
211. The Kinked Demand Curve theory assumes:  
a) Firms cooperate  
b) Firms act as part of a cartel  
c) **Firms are competitive**  
d) Firms are not profit maximisers
212. In Game Theory:  
a) Firms are assumed to act independently  
b) Firms are assumed to cooperate with each other  
c) Firms collude as part of a cartel  
d) **Firms consider the actions of others before deciding what to do**
213. In the kinked demand curve theory:  
a) There is a kink in the marginal cost curve  
b) Demand is price inelastic  
c) Demand is price elastic  
d) **Non price competition is likely**
214. Firms in oligopoly are likely to:  
a) **Invest heavily in branding**  
b) Act independently of other firms  
c) Try to differentiate its products  
d) Try to be a price maker
215. A model of Game Theory of oligopoly is known as the:  
a) **Prisoner's Dilemma**

- b) Monopoly Cell
  - c) Jailhouse Sentence
  - d) Jury Box
216. In cartels:
- a) Each individual firm profit maximises
  - b) **There may be an incentive to cheat**
  - c) The industry as a whole is loss making
  - d) There is no need to police agreements
217. In a cartel:
- a) Firms compete against each other
  - b) Price wars are common
  - c) Firms use price to win market share from competitors
  - d) **Firms collude**
218. In monopolistic competition:
- a) Firms face a perfectly elastic demand curve
  - b) All products are homogeneous
  - c) **Firms make normal profits in the long run**
  - d) There are barriers to entry to prevent entry
219. In monopolistic competition:
- a) Demand is perfectly elastic
  - b) Products are homogeneous
  - c) Marginal revenue = price
  - d) **The marginal revenue is below the demand curve and diverges**
220. In monopolistic competition firms profit maximise where:
- a) Marginal revenue = Average revenue
  - b) **Marginal revenue = Marginal cost**
  - c) Marginal revenue = Average cost
  - d) Marginal revenue = Total cost
221. Which of the following is not one of the four Ps in marketing?
- a) Product
  - b) Price
  - c) Place
  - d) **Presence**
222. Effective branding will tend to make:
- a) **Demand more price inelastic**
  - b) Supply more price inelastic
  - c) Demand more income elastic
  - d) Supply more income elastic

223. In monopolistic competition if firms are making abnormal profit other firms will enter and:
- a) The marginal cost will shift outwards
  - b) The demand curve will shift inwards**
  - c) The average cost will shift downwards
  - d) The average variable cost will increase
224. In Porter's five forces model conditions are more favourable for firms within an industry if:
- a) Buyer power is high
  - b) Supplier power is high
  - c) Entry threat is low**
  - d) Substitute threat is high
225. If a firm takes over a competitor then, according to Porter's 5 forces model,:
- a) Buyer power is higher
  - b) Supplier power is higher
  - c) Substitute threat is higher
  - d) Rivalry is lower**
226. In marketing "USP" stands for:
- a) Unique Selling Proposition**
  - b) Underlying Sales Pitch
  - c) Unit Sales Point
  - d) Under Sales Procedure
227. In monopolistic competition:
- a) There are few sellers
  - b) There are few buyers
  - c) There is one seller
  - d) There are many sellers**
228. Barriers to entry:
- a) Do not exist in monopoly**
  - b) Cannot exist in oligopoly**
  - c) Do not exist in monopolistic competition**
  - d) Do exist in perfect competition**
229. Which best describes price discrimination?
- a) Charging different prices for different products
  - b) Charging the same prices for different products
  - c) Charging the same prices for the same products
  - d) Charging different prices for the same products**
230. For a firm operating in two markets and price discriminating the profit maximizing condition is:

- a) Marginal revenue in A = Price B
  - b) Marginal revenue in A = Marginal revenue B = Price A = Price B
  - c) **Marginal revenue in A = Marginal revenue B = Marginal cost**
  - d) Marginal revenue in A = Marginal revenue B = Average cost
231. If the price elasticity of demand for a product in market A is -0.2 and in market B is -3 a price discriminator will charge:
- a) **The higher price in market A**
  - b) The higher price in market B
  - c) The same price in both markets
  - d) Cannot tell which price will be higher
232. In perfect price discrimination:
- a) Consumer surplus is maximised
  - b) Produce surplus is zero
  - c) Community surplus is maximised
  - d) **Consumer surplus is zero**
233. A benefit to consumers of price discrimination is that:
- a) **Some products are produced that would not otherwise be produced**
  - b) Producer surplus increases
  - c) Consumer surplus decreases
  - d) Firms' profits increase
234. In perfect price discrimination:
- a) The demand curve is the marginal cost curve
  - b) The average revenue equals the average cost
  - c) The marginal cost is the average cost curve
  - d) **The demand curve is the marginal revenue**
235. In price discrimination abnormal profits are made if:
- a) Average revenue is greater than average variable cost
  - b) **Average revenue is greater than average cost**
  - c) Average revenue is greater than marginal revenue
  - d) Average revenue is greater than average fixed cost
236. Barriers to entry:
- a) **Enable abnormal profits to be made in the long run**
  - b) Enable losses to be made in the long run
  - c) Enable abnormal profits to be made in the short run only
  - d) Occur in perfect competition
237. If the price elasticity is -0.3 this means:
- a) Demand is upward sloping
  - b) Demand is price elastic
  - c) A price fall would increase revenue



**d) Demand is price inelastic**

238. If one car company takes over another car company this is an example of which type of integration?
- a) Vertical
  - b) Horizontal**
  - c) Conglomerate
  - d) Literal
239. If a car company takes over a clothes business this is an example of which type of integration?
- a) Vertical
  - b) Horizontal
  - c) Conglomerate**
  - d) Literal
240. Horizontal integration may lead to internal economies of scale. Which of the following is **not** a type of internal economy of scale?
- a) Purchasing
  - b) Technical
  - c) Financial
  - d) Safety**
241. Acquisition and merger are examples of:
- a) Internal growth
  - b) External growth**
  - c) Organic growth
  - d) Underlying growth
242. Unfair competition does not include:
- a) Price cutting**
  - b) Predatory pricing
  - c) Cartels
  - d) Price fixing
243. If firms join together to set prices and quantities this is known as what?
- a) Interaction
  - b) Conglomerate
  - c) Collusion**
  - d) Integration
244. In the Ansoff matrix a strategy focusing on new products and new markets is known as:
- a) New product development
  - b) Diversification**
  - c) Market development

- d) Market penetration
245. A monopoly in the UK can be investigated if it has a market share of:  
a) 100%  
b) 10% or over  
c) **25% or over**  
d) 33% or over
246. Anti-competitive behaviour in the UK can lead to fines of up to:  
a) 10% of profits  
b) **10% of turnover**  
c) 10% of costs  
d) 25% of market share
247. An example of backward vertical integration is:  
a) **A supermarket buying a farm**  
b) A supermarket buying another supermarket  
c) A supermarket buying an insurance company  
d) A supermarket buying a car rental business
248. To maximise sales revenue a firm should produce where:  
a) Marginal cost is zero  
b) Marginal revenue is maximised  
c) **Marginal revenue is zero**  
d) Marginal revenue equals marginal cost
249. To maximise growth without making a loss a firm should produce the highest output where:  
a) Average revenue equals marginal cost  
b) **Average revenue equals average cost**  
c) Marginal revenue equals marginal cost  
d) Average cost equals marginal cost
250. Profit is measured by:  
a) Revenue - fixed costs  
b) Fixed cost + revenue  
c) Revenue - sales  
d) **Revenue - total costs**
251. When marginal revenue equals marginal cost:  
a) Total revenue equals total cost  
b) **There is the biggest positive difference between total revenue and total cost**  
c) There is the biggest negative difference between total revenue and total cost  
d) Profits are zero

252. To be allocatively efficient a firm must produce where:
- a) The total cost equals demand
  - b) The average revenue equals the marginal revenue
  - c) The price equals the average cost
  - d) **The price equals the marginal cost**
253. To be productively efficient a firm must produce where:
- a) Marginal costs are maximised
  - b) Marginal costs are minimised
  - c) **Average costs are minimised**
  - d) Average revenue is maximised
254. Normal profit occurs when:
- a) Average revenue equals average variable cost
  - b) Marginal revenue equals marginal cost
  - c) Average revenue equals marginal cost
  - d) **Average revenue equals average cost**
255. If the marginal revenue is positive:
- a) **Selling another unit will increase total revenue**
  - b) Selling another unit will increase profits
  - c) Selling another unit will increase costs
  - d) Selling another unit will increase average revenue
256. Companies in the private sector are owned by:
- a) The government
  - b) **Shareholders**
  - c) Employees
  - d) The community
257. An independent assessment of the impact of firm's activities on society is called a:
- a) Financial audit
  - b) Balance sheet
  - c) Profit and loss account
  - d) **Social audit**
258. An increase in the wage rate:
- a) Will usually lead to more people employed
  - b) **Will decrease total earnings if the demand for labour is wage elastic**
  - c) Is illegal in a free market
  - d) Will cause a shift in the demand for labour
259. The Marginal Revenue Product is likely to be wage inelastic if:
- a) Labour costs are a high percentage of total costs
  - b) **Demand for the final product is price inelastic**

- c) It is relatively easy to substitute capital for labour
  - d) There are many substitutes for the final product
260. A fall in demand for labour is likely to lead to:
- a) **A lower equilibrium wage and lower quantity of labour**
  - b) A lower equilibrium wage and higher quantity of labour
  - c) A higher equilibrium wage and higher quantity of labour
  - d) A higher equilibrium wage and lower quantity of labour
261. A decrease in the supply of labour is likely to lead to:
- a) A lower equilibrium wage and lower quantity of labour
  - b) A lower equilibrium wage and higher quantity of labour
  - c) A higher equilibrium wage and higher quantity of labour
  - d) **A higher equilibrium wage and lower quantity of labour**
262. The Marginal Revenue Product is:
- a) Upward sloping due to the law of demand
  - b) Upward sloping due to the law of marginal utility
  - c) **Downward sloping due to the law of diminishing returns**
  - d) Downward sloping due to the law of supply
263. Demand for labour is more likely to be wage inelastic if:
- a) **Wages are a small proportion of total costs**
  - b) Demand for the final product is price elastic
  - c) It is easy to replace labour
  - d) Capital is a good substitute for labour
264. A profit maximising firm will employ labour up to the point where:
- a) Marginal revenue = marginal product
  - b) Marginal cost = marginal product
  - c) **Marginal revenue product = average cost of labour**
  - d) Marginal revenue product = marginal cost of labour
265. In a perfectly competitive labour market firms are wage takers and the marginal cost of labour equals:
- a) **The average cost of labour**
  - b) The marginal product
  - c) The marginal revenue
  - d) The total cost of labour
266. If employees cannot accept a job because of the costs of moving this is known as:
- a) Occupational immobility
  - b) Cyclical unemployment
  - c) Structural immobility
  - d) **Geographical immobility**

267. If the minimum wage is set above the equilibrium wage rate, then other things unchanged:
- a) There will be equilibrium in the labour market
  - b) There will be excess demand in the labour market
  - c) **There will be excess supply in the labour market**
  - d) More people will be employed
268. Which of the following is a macroeconomic issue?
- a) The price of houses in Oxford
  - b) The wage rate for plumbers in London
  - c) Your decision to work or stay at home
  - d) **The level of unemployment in the UK**
269. What is meant by an objective?
- a) A policy
  - b) A way of reaching a target
  - c) **A target**
  - d) A strategy
270. Which of the following is **not** involved with fiscal policy?
- a) Income tax
  - b) National insurance
  - c) VAT
  - d) **Interest rates**
271. Which does the government **not** control directly?
- a) Spending on health
  - b) Spending on defence
  - c) **Firms' investment decisions**
  - d) Spending on education
272. Which of the following is **not** a macroeconomic issue?
- a) Unemployment
  - b) Inflation
  - c) **The wages paid to footballers**
  - d) Economic growth
273. Which of the following can the government **not** use directly to control the economy?
- a) **Pay rates within the private sector**
  - b) Pay rates in the public sector
  - c) Investment in education
  - d) Benefits available for the unemployed and sick
274. Which of the following is a policy instrument as opposed to a government objective?

- a) **Lower interest rates**
- b) A better balance of trade position
- c) Faster economic growth
- d) Lower unemployment

275. Which of the following is a possible government objective as opposed to a policy?

- a) Lower interest rates
- b) Lower taxation rates
- c) Lower government spending
- d) **Lower inflation**

276. Which of the following is **not** likely to be a government objective?

- a) Increasing employment
- b) Increasing economic growth
- c) **Increasing government spending**
- d) Increasing the level of exports

277. "Reducing inflation is a more important objective than economic growth" is an example of:

- a) **Normative economics**
- b) Positive economics
- c) Objective economics
- d) Reality economics

278. An increase in national income is:

- a) Likely to increase exports
- b) Likely to decrease savings
- c) Likely to decrease investment
- d) **Likely to increase spending on imports**

279. An increase in national income is likely to:

- a) Decrease tax receipts
- b) **Worsen the balance of trade**
- c) Automatically cause an increase in government spending
- d) Cause an increase in injections into the economy

280. A significant increase in the government budget deficit is likely to:

- a) Reduce injections into the economy
- b) Reduce national income
- c) Move the economy away from full employment
- d) **Boost aggregate demand**

281. If injections are greater than withdrawals:

- a) **National income will increase**
- b) National income will decrease

- c) National income will stay in equilibrium
  - d) Prices will fall
282. Injections are:
- a) **Assumed to be exogenous**
  - b) Assumed to be a function of national income
  - c) Decrease aggregate demand
  - d) Decrease the investment into an economy
283. For equilibrium in an open four sector economy:
- a) Actual injections = actual withdrawals
  - b) **Planned injections = planned withdrawals**
  - c) Savings = investment
  - d) Government spending = tax revenue
284. A deflationary policy could include:
- a) Increasing injections
  - b) Reducing taxation rates
  - c) Reducing interest rates
  - d) **Reducing government spending**
285. A reflationary policy:
- a) Increases aggregate supply
  - b) **Increases aggregate demand**
  - c) Decreases the price level
  - d) Increases full employment
286. Which of the following is an injection into the economy?
- a) **Investment**
  - b) Savings
  - c) Taxation
  - d) Import spending
287. Gross National Product equals:
- a) Net National Product adjusted for inflation
  - b) Gross Domestic Product adjusted for inflation
  - c) **Gross Domestic Product plus net property income from abroad**
  - d) Net National Product plus net property income from abroad
288. Net National Product equals:
- a) Gross National Product adjusted for inflation
  - b) Gross Domestic Product adjusted for inflation
  - c) Gross Domestic Product plus net property income from abroad
  - d) **Gross National Product minus depreciation**
289. The standard of living is often measured by:

- a) **Real GDP per capita**
  - b) Real GDP
  - c) Real GDP \* population
  - d) Real GDP plus depreciation
290. In a recession:
- a) Unemployment is likely to be low
  - b) Prices are likely to increase
  - c) **Growth is negative**
  - d) Growth is slow
291. In a boom:
- a) Surpluses are likely to occur
  - b) Prices are likely to fall
  - c) Supply will increase immediately to match demand
  - d) **Shortages may occur**
292. GDP plus net property income from abroad equals what?
- a) **GNP**
  - b) NNP
  - c) Depreciation
  - d) Real GDP
293. To adjust GDP from market prices to factor cost:
- a) Add indirect taxes
  - b) Subtract subsidies
  - c) Deduct indirect taxes and subsidies
  - d) **Deduct indirect taxes and add subsidies**
294. To adjust from Gross National Product to Net National Product:
- a) **Deduct depreciation**
  - b) Deduct indirect taxes
  - c) Deduct subsidies
  - d) Add inflation
295. In a recession a government:
- a) **Is likely to want to increase demand in the economy**
  - b) Is likely to want to decrease demand in the economy
  - c) Is likely to want to stabilise demand in the economy
  - d) Is likely to want to increase supply in the economy
296. A higher GDP per capita may not mean that the quality of life has really improved because:
- a) It measures wealth not income
  - b) It measures Gross Domestic Product
  - c) It does not measure the quality of the items produced
  - d) **It is only measured every five years**



297. Economic growth can be measured by:  
a) The CPI  
b) The CBI  
c) **GDP**  
d) MPC
298. In a boom:  
a) **Unemployment is likely to fall**  
b) Prices are likely to fall  
c) Demand is likely to fall  
d) Imports are likely to grow
299. In a recession, GDP:  
a) **Grows negatively**  
b) Grows slowly  
c) Grows by 0%  
d) Grows rapidly
300. If labour productivity per week is 200 units and there are 5 employees what is the total output?  
a) 40 units  
b) 195 units  
c) **1000 units**  
d) 200 units
301. Labour productivity measures:  
a) **The output per worker**  
b) The output per machine  
c) Total output  
d) Marginal output
302. Potential growth measures:  
a) The growth of the fastest economy in the world  
b) The fastest growth an economy has ever achieved  
c) The present rate of growth of an economy  
d) **The rate of growth that could be achieved if resources were fully employed**
303. Economic growth can be seen by an outward shift of:  
a) **The Production Possibility Frontier**  
b) The Gross Domestic Barrier  
c) The Marginal Consumption Frontier  
d) The Minimum Efficient Scale
304. The socially optimal rate of growth is:

- a) Zero
  - b) Negative
  - c) Where the marginal social benefit = the marginal social cost**
  - d) Total social costs are minimised
305. To anticipate what the economy is going to do next the government will look at:
- a) Lagging indicators
  - b) Flashing indicators
  - c) Coincidental indicators
  - d) Leading indicators**
306. When an economy first begins to grow more slowly:
- a) GDP increases
  - b) Inflation is likely to increase
  - c) Stock levels are likely to increase**
  - d) Investment in equipment is likely to increase
307. A shift in aggregate supply is likely to:
- a) Reduce the general price level and reduce national income
  - b) Reduce the general price level and increase national income**
  - c) Increase the general price level and reduce national income
  - d) Increase the general price level and increase national income
308. Aggregate demand will increase if:
- a) Consumption falls
  - b) Investment falls
  - c) Exports fall
  - d) Imports fall**
309. An increase in aggregate demand will have most effect on prices if:
- a) Aggregate supply is price inelastic**
  - b) Aggregate supply is price elastic
  - c) Aggregate supply has a unitary price elasticity
  - d) Aggregate demand is price inelastic
310. Which of the following would increase aggregate demand?
- a) Increased saving
  - b) Increasing import spending
  - c) Increased taxation revenue
  - d) Increased investment**
311. Which of the following would decrease aggregate demand?
- a) Increased consumption
  - b) Increasing export revenue
  - c) Increased taxation revenue**
  - d) Increased investment

312. Improved training of employees would:  
**a) Shift aggregate supply to the right**  
b) Shift aggregate supply to the left  
c) Shift aggregate demand to the right  
d) Shift aggregate demand to the left
313. Increased unemployment benefits and less incentive to work would:  
**a) Shift aggregate supply to the right**  
**b) Shift aggregate supply to the left**  
c) Shift aggregate demand to the right  
d) Shift aggregate demand to the left
314. Increased levels of consumption:  
**a) Shift aggregate supply to the right**  
b) Shift aggregate supply to the left  
**c) Shift aggregate demand to the right**  
d) Shift aggregate demand to the left
315. Increased levels of spending on imports:  
**a) Shift aggregate supply to the right**  
b) Shift aggregate supply to the left  
c) Shift aggregate demand to the right  
**d) Shift aggregate demand to the left**
316. An increase in aggregate demand if aggregate supply is totally inelastic will:  
**a) Increase price but not output**  
b) Increase output but not price  
c) Increase output and price  
d) Decrease output and price
317. If the marginal propensity to consume on domestic products is 0.9 the size of the multiplier is:  
**a) 10**  
b) 1  
c) 9  
d) 0.1
318. An increase in the marginal propensity to consume will:  
**a) Increase the size of the multiplier**  
b) Increase the marginal propensity to save  
c) Decrease national income  
d) Reduce injections into the economy
319. If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, total consumption is what?

- a) 0.8
- b) 800
- c) **810**
- d) 0.81

320. If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, the marginal propensity to consume is what?

- a) **0.8**
- b) 800
- c) 810
- d) 0.81

321. If the Keynesian consumption function is  $C = 10 + 0.8 Y_d$  then when disposable income is £1000, the average propensity to consume is what?

- a) 0.8
- b) 800
- c) 810
- d) **0.81**

322. As income increases:

- a) **The average propensity to consume gets nearer in value to the marginal propensity to consume**
- b) The average propensity to consume diverges in value from the marginal propensity to consume
- c) The average propensity to consume falls
- d) The average propensity to consume always approaches 0

323. An increase in consumption at any given level of income is likely to lead to:

- a) **A fall in savings**
- b) An increase in exports
- c) A fall in taxation revenue
- d) A decrease in import spending

324. Lower interest rates are likely to:

- a) Decrease consumption
- b) Increase cost of borrowing
- c) Encourage saving
- d) **Increase spending**

325. Friedman's theory of consumption focuses on:

- a) Past income
- b) Current income
- c) Disposable income
- d) **Permanent income**

326. The marginal propensity to consume is equal to:

- a) Total spending / total consumption
  - b) Total consumption / total income
  - c) **Change in consumption / change in income**
  - d) Change in consumption / change in savings
327. An increase in investment is most likely to be caused by:
- a) **Lower interest rates**
  - b) Lower national income
  - c) A decrease in the marginal propensity to consume
  - d) An increase in withdrawals
328. An outward shift in the Marginal Efficiency of Capital should:
- a) Decrease consumption
  - b) **Increase aggregate demand**
  - c) Reduce aggregate supply
  - d) Slow economic growth
329. An increase in interest rates:
- a) Is likely to reduce savings
  - b) Is likely to reduce the external value of the currency
  - c) Leads to a shift in the MEC schedule
  - d) **Leads to a movement along the MEC schedule**
330. The accelerator assumes:
- a) The marginal propensity to consume is constant
  - b) The economy is at full employment
  - c) **There is a constant relationship between net investment and the rate of change of output**
  - d) The multiplier is constant
331. Investment depends mainly on:
- a) Past levels of income
  - b) **Future expected profits**
  - c) Present national income levels
  - d) Historic data
332. A profit maximising firm will invest up to the level of investment where:
- a) **The cost of borrowing equals the marginal efficiency of capital**
  - b) The cost of borrowing is greater than the marginal efficiency of capital
  - c) The cost of borrowing is less than the marginal efficiency of capital
  - d) The cost of borrowing equals the marginal propensity to consume
333. 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
334. Investment is an unstable element of aggregate demand because it depends heavily on:
- a) Government policy
  - b) Expectations**
  - c) National income
  - d) Historic trends
335. If an increase in investment leads to a bigger increase in national income this is called the:
- a) Accelerator
  - b) Aggregate demand
  - c) Monetarism
  - d) Multiplier**
336. The difference between gross investment and net investment is:
- a) Depreciation**
  - b) Acceleration
  - c) Deceleration
  - d) Capital investment
337. An expansionist fiscal policy could include:
- a) Lower interest rates
  - b) Increased lending by the banks
  - c) An increase in corporation tax
  - d) An increase in discretionary government spending**
338. If the economy grows the government's budget position will automatically:
- a) Worsen
  - b) Improve**
  - c) Stay the same
  - d) Increase with inflation
339. Fiscal drag occurs when:
- a) Tax bands do not increase with inflation**
  - b) Tax rates move inversely with inflation
  - c) Government spending falls to reduce aggregate demand
  - d) Tax bands increase with inflation
340. If the marginal rate of tax is 40% and consumers' income increases from £10,000 to £12,000:
- a) The amount of tax paid will increase by £4,800
  - b) The amount of tax paid will increase by £4,000
  - c) The amount of tax paid will increase by £800**
  - d) The total tax paid will be £4,800

341. Imagine there is no tax on income up to £10000; after that, there is a tax of 50%. What is the average tax rate on an income of £20000?
- a) £5000
  - b) 20%
  - c) **25%**
  - d) £10,000
342. The marginal rate of tax paid is:
- a) The total tax paid / total income
  - b) Total income / total tax paid
  - c) **Change in the tax paid / change in income**
  - d) Change in income / change in tax paid
343. In a regressive tax system:
- a) The amount of tax paid increases with income
  - b) **The marginal rate of tax decreases with more income**
  - c) The average rate of tax falls as income increases
  - d) The average rate of tax is constant as income increases
344. The Public Sector Net Cash Requirement (PSNCR) is:
- a) A measure of the country's trade position
  - b) **A measure of the country's budget position**
  - c) A measure of the country's total debt
  - d) A measure of the government's monetary stance
345. A government might use tax to:
- a) Discourage consumption of positive externalities
  - b) Discourage consumption of public goods
  - c) Discourage consumption of merit goods
  - d) **Discourage consumption of negative externalities**
346. As an economy grows:
- a) **The government's budget position should automatically improve**
  - b) The government's budget position should automatically worsen
  - c) This will have no effect on the government's budget position
  - d) This will reduce the government's tax revenue
347. If people are made unemployed because of a fall in aggregate demand this is known as:
- a) Frictional unemployment
  - b) Seasonal unemployment
  - c) **Cyclical unemployment**
  - d) Structural unemployment
348. Supply side policies are most appropriate to cure:
- a) Involuntary unemployment

- b) Cyclical unemployment
  - c) Voluntary unemployment**
  - d) A fall in aggregate demand
349. The natural rate of unemployment is likely to fall if:
- a) Unemployment benefits increase
  - b) Income tax increases
  - c) More training is available for the unemployed**
  - d) Geographical immobility increases
350. If the real wage is too high in the labour market:
- a) The quantity demanded of labour is higher than the quantity supplied
  - b) The quantity demanded of labour equals the quantity supplied
  - c) The quantity demanded of labour is lower than the quantity supplied**
  - d) It will automatically adjust in the short run to bring about equilibrium
351. If there is cyclical unemployment in the economy the government might:
- a) Increase interest rates
  - b) Encourage savings
  - c) Cut taxes**
  - d) Reduce government spending
352. Occupational immobility of labour occurs if:
- a) People lack information
  - b) People do not want to work
  - c) People do not have the right skills to work**
  - d) People cannot afford to move location
353. Which of the following is not a supply side measure?
- a) Increased training
  - b) Providing more information
  - c) Helping individuals to move location to find work
  - d) Increasing spending on existing industries**
354. Reducing involuntary unemployment:
- a) Helps the economy move on to the Production Possibility Frontier**
  - b) Helps shift the economy's Production Possibility Frontier outwards
  - c) Helps the economy move along its Production Possibility Frontier
  - d) Helps the economy move inside the Production Possibility Frontier
355. Less demand in the economy may increase unemployment; this may lead to less spending which may reduce demand further. This is called:
- a) The upward accelerator
  - b) The downward multiplier**
  - c) The upward PPF



- d) The downward mpc
356. To reduce cyclical unemployment the government might:
- a) Increase the budget surplus
  - b) Increase the balance of payments deficit
  - c) **Reduce interest rates**
  - d) Reduce government expenditure
357. The precautionary demand for money is:
- a) An idle balance
  - b) **An active balance**
  - c) Directly related to interest rates
  - d) Inversely related to income
358. The liquidity trap occurs when the demand for money:
- a) **Is perfectly interest elastic**
  - b) Is perfectly interest inelastic
  - c) Means that an increase in money supply leads to a fall in the interest rate
  - d) Means that an increase in the money supply leads to an increase in the interest rate
359. A fall in interest rates is likely to:
- a) **Increase aggregate demand**
  - b) Increase savings
  - c) Decrease consumption
  - d) Decrease exports
360. According to the quantity theory of money an increase in the money supply is most likely to lead to inflation if:
- a) The velocity of circulation decreases
  - b) The number of transactions decreases
  - c) There is deflation
  - d) **The velocity of circulation and the number of transactions is constant**
361. A reduction in the money supply is likely to:
- a) Reduce the interest rate
  - b) **Increase the interest rate**
  - c) Increase inflation
  - d) Decrease deflation
362. To reduce the supply of money the government could:
- a) Reduce interest rates
  - b) Buy back government bonds
  - c) **Sell government bonds**
  - d) Encourage banks to lend

363. The speculative demand for money occurs when:
- a) Individuals hold money just in case an emergency happens
  - b) Individuals hold money to buy things
  - c) **Individuals hold money rather than other assets because they are worried about the price of the other assets falling**
  - d) Individuals hold money to shop
364. An outward shift in the demand for money, other things being equal should lead to:
- a) A lower interest rate but the same quantity of money
  - b) **A higher interest rate but the same quantity of money**
  - c) A higher quantity of money but lower interest rates
  - d) A higher quantity of money but the same interest rate
365. The interest rate in the UK is determined by:
- a) The government
  - b) The electorate
  - c) **The Monetary Policy Committee**
  - d) The Federal Reserve Board
366. Open Market Operations occur when the government:
- a) Reduces the interest rate
  - b) **Buys and sells bonds and securities**
  - c) Increases taxation
  - d) Increases the exchange rate
367. Demand pull inflation may be caused by:
- a) An increase in costs
  - b) **A reduction in interest rate**
  - c) A reduction in government spending
  - d) An outward shift in aggregate supply
368. Inflation:
- a) Reduces the cost of living
  - b) Reduces the standard of living
  - c) Reduces the price of products
  - d) **Reduces the purchasing power of a pound**
369. An increase in injections into the economy may lead to:
- a) **An outward shift of aggregate demand and demand pull inflation**
  - b) An outward shift of aggregate demand and cost push inflation
  - c) An outward shift of aggregate supply and demand pull inflation
  - d) An outward shift of aggregate supply and cost push inflation

370. An increase in aggregate demand is more likely to lead to demand pull inflation if:
- a) Aggregate supply is perfectly elastic
  - b) Aggregate supply is perfectly inelastic**
  - c) Aggregate supply is unit elastic
  - d) Aggregate supply is relatively elastic
371. An increase in costs will:
- a) Shift aggregate demand
  - b) Shift aggregate supply**
  - c) Reduce the natural rate of unemployment
  - d) Increase the productivity of employees
372. The effects of inflation on the price competitiveness of a country's products may be offset by:
- a) An appreciation of the currency
  - b) A revaluation of the currency
  - c) A depreciation of the currency**
  - d) Lower inflation abroad
373. Menu costs in relation to inflation refer to:
- a) Costs of finding better rates of return
  - b) Costs of altering price lists
  - c) Costs of money increasing its value**
  - d) Costs of revaluing the currency
374. In the short run unemployment may fall below the natural rate of unemployment if:
- a) Nominal wages have risen less than inflation**
  - b) Nominal wages have risen at the same rate as inflation
  - c) Nominal wages have risen more than inflation
  - d) Nominal wages have risen less than unemployment
375. According to the Phillips curve unemployment will return to the natural rate when:
- a) Nominal wages are equal to expected wages
  - b) Real wages are back at equilibrium level**
  - c) Nominal wages are growing faster than inflation
  - d) Inflation is higher than the growth of nominal wages
376. The Phillips curve shows the relationship between inflation and what?
- a) The balance of trade
  - b) The rate of growth in an economy
  - c) The rate of price increases
  - d) Unemployment**

377. If the value of the pound in other currencies is strong:
- a) The price of UK products abroad in foreign currency will fall
  - b) The price of UK products abroad in foreign currency will rise**
  - c) The price of UK products in the UK will rise
  - d) The price of UK products in the UK will fall
378. If the value of the pound in other currencies rises:
- a) The spending on UK exports in pounds must rise
  - b) The spending on UK exports in foreign currency will rise if demand is price elastic
  - c) The demand for UK exports will rise
  - d) The spending on UK exports in foreign currency will fall if demand for UK exports is price elastic**
379. The supply of pounds to the currency market will be upward sloping if:
- a) The demand for UK exports is price elastic
  - b) The demand for UK exports is price inelastic
  - c) The demand for imports into the UK is price elastic**
  - d) The demand for imports into the UK is price inelastic
380. A fall in the value of the pound is likely to decrease spending on imports if:
- a) The price elasticity of demand for imports is price elastic
  - b) The price elasticity of demand for imports is price inelastic**
  - c) The price elasticity of demand for imports has a unit price elasticity
  - d) The price elasticity of demand for exports is price elastic
381. If the exchange rate is above the equilibrium level:
- a) There is excess demand and the exchange rate will fall
  - b) There is excess supply and the exchange rate will fall**
  - c) There is excess demand and the exchange rate will rise
  - d) There is excess supply and the exchange rate will rise
382. If the exchange rate is below the equilibrium level:
- a) There is excess demand and the exchange rate will fall
  - b) There is excess supply and the exchange rate will fall
  - c) There is excess demand and the exchange rate will rise**
  - d) There is excess supply and the exchange rate will rise
383. To prevent the exchange rate rising the government could:
- a) Sell its own currency**
  - b) Increase interest rates
  - c) Buy its own currency
  - d) Sell foreign currency
384. A depreciation of a currency occurs when:
- a) The value of the currency falls**

- b) The value of the currency increases
  - c) Inflation falls
  - d) The balance of payments improves
385. An appreciation of the currency may occur if:
- a) Domestic interest rates fall
  - b) There is an increase in demand for imports
  - c) **There is an increase in demand for exports**
  - d) There is an increase in the balance of payments deficit
386. A fall in the external value of a currency:
- a) May cause an outward shift in the demand for the currency
  - b) May cause an inward shift in the supply for the currency
  - c) **May lead to a movement along the demand curve for a currency**
  - d) May be due to a increase in demand for the country's exports
387. Which of the following is not an argument for protectionism?
- a) To protect infant industries
  - b) **To increase the level of imports**
  - c) To protect strategic industries
  - d) To improve the balance of payments
388. A demand switching policy could be
- a) Higher interest rates
  - b) Higher income tax
  - c) **Tariffs**
  - d) Reduced government spending
389. Free trade is based on the principle of:
- a) **Comparative advantage**
  - b) Comparative scale
  - c) Economies of advantage
  - d) Production possibility advantage
390. If a country can produce 10 of product A or 4 of product B the opportunity cost of 1B is:
- a) 0.4A
  - b) **2.5A**
  - c) 10A
  - d) 1B
391. Tariffs:
- a) Decrease the domestic price of a product
  - b) **Increase government earnings from tax**
  - c) Increase the quantity of imports
  - d) Decrease domestic production

392. The terms of trade measure:
- a) The income of one country compared to another
  - b) The GDP of one country compared to another
  - c) The quantity of exports of one country compared to another
  - d) **Export prices compared to import prices**
393. In a floating exchange rate system:
- a) The government intervenes to influence the exchange rate
  - b) **The exchange rate should adjust to equate the supply and demand of the currency**
  - c) The Balance of Payments should always be in surplus
  - d) The Balance of payments will always equal the government budget
394. The marginal propensity to consume is equal to:
- a) Total spending / total consumption
  - b) Total consumption / total income
  - c) **Change in consumption / change in income**
  - d) Change in consumption / change in savings
395. If there is a balance of payments deficit then in a floating exchange rate system:
- a) **The external value of the currency would tend to fall**
  - b) The external value of the currency would tend to rise
  - c) The injections from trade are greater than the withdrawals
  - d) Aggregate demand is increasing
396. To prevent the external value of the currency from falling the government might:
- a) Reduce interest rates
  - b) Sell its own currency
  - c) **Buy its own currency with foreign reserves**
  - d) Increase its own spending
397. Members of the European Union:
- a) Have the same interest rates
  - b) Have one set of laws
  - c) All have the euro currency
  - d) **Have common tariffs against non members**
398. Which of the following is **not** a member of the European Union?
- a) France
  - b) **Russia**
  - c) Bulgaria
  - d) Poland
399. The population of the European Union is approximately what?
- a) 50 million

- b) **450 million**
  - c) 1000 million
  - d) 2000 million
400. Within the European Union:
- a) **There are no tariffs between member countries**
  - b) All member countries have the euro currency
  - c) All member countries have the same taxation policies
  - d) All member countries have the same defence policy
401. Belonging to the European Union:
- a) Encourages trade with non member countries
  - b) **Encourages trade with member countries**
  - c) Encourages protectionism within the union
  - d) Encourages countries to act independently
402. The UK:
- a) May join the European Union in the future
  - b) Relies on the European Union for all of its trade
  - c) Relies on the European Union for much of its tax revenue
  - d) **Joined the European Union in 1973**
403. The CAP is:
- a) **The Common Agricultural Policy**
  - b) The Common Alien Policy
  - c) The Community Agricultural Premium
  - d) The Cost And Price agreement
404. By having a bigger target market within the European Union a firm might benefit from economies of scale. Which of the following is **not** an economy of scale?
- a) Purchasing
  - b) Financial
  - c) Managerial
  - d) **Allocative efficiency**
405. Which of the following is **not** a European institution?
- a) European Parliament
  - b) European Commission
  - c) **European Congress**
  - d) European Council
406. Which of the following could be a problem of being a member of the European Union?
- a) **Greater competition**
  - b) More customers
  - c) Easier access to markets

- d) Greater uniformity in markets
407. Which of the following is **not** a way of helping developing economies?  
a) Aid  
b) Loans  
c) **Protectionism of developed markets**  
d) Training and education programmes
408. Developing economies usually have:  
a) **Low GDP per capita**  
b) Low CPI  
c) Large balance of payments surpluses  
d) Large budget surpluses
409. Demand for primary products is likely to be:  
a) Very sensitive to price  
b) Price elastic  
c) Unit elastic  
d) **Income inelastic**
410. Developing economies usually:  
a) Have large industrialised sectors  
b) **Are dependent on primary products**  
c) Have high levels of wealth  
d) Earn more from exports than is spent on imports
411. Earning from primary products are often unstable because:  
a) Demand is price elastic  
b) Supply is price elastic  
c) Supply conditions are relatively stable  
d) **Supply conditions are unstable**
412. Over time the price of primary products tends to fall because:  
a) Demand is income elastic  
b) Supply is income elastic  
c) **Of outward shifts in supply**  
d) Demand is price elastic
413. Less Developed Countries tend to have:  
a) A high average age  
b) A slow population growth rate  
c) High life expectancy  
d) **A low literacy rate**
414. In a Less Developed Country:  
a) The infrastructure is likely to be good



- b) Real wages are likely to be high
  - c) Unemployment is likely to be low
  - d) **The primary sector is likely to be significant**
415. An injection of funds into a Less Developed Country might set off the:
- a) **Multiplier**
  - b) Marginal propensity to save
  - c) Average propensity to consume
  - d) The Laffer effect
416. The marginal propensity to consume in a Less Developed Country is likely to be:
- a) Less than 0
  - b) Nearly 0
  - c) **High**
  - d) Low
417. Which of the following is not a global organisation?
- a) IMF
  - b) World Bank
  - c) **Competition Commission**
  - d) WTO
418. Globalisation is likely to increase with:
- a) More protectionism
  - b) An increase in tariffs
  - c) More trade within countries
  - d) **Greater trade flows between countries**
419. A multinational business:
- a) Sells products abroad
  - b) **Produces in more than one country**
  - c) Imports from abroad
  - d) Sells only domestically
420. Which of the following best describes the selling of a production licence to another firm?
- a) Hands over all rights to its products
  - b) Sells its products abroad
  - c) **Sells the right to produce to another business**
  - d) Sells the business to another business
421. Globalisation is made more difficult by:
- a) The actions of the World Trade Organisation
  - b) The removal of protectionist measures
  - c) **Exchange rate instability**
  - d) More free trade agreements

422. Finding a partner to work with abroad is called a:
- a) Takeover
  - b) Merger
  - c) Acquisition
  - d) **Joint venture**
423. Some pressure groups oppose globalisation. The best economic reason for opposition would be:
- a) World trade may increase
  - b) **The marginal social benefits of globalisation are less than the marginal social costs**
  - c) Global standards of living may rise
  - d) World income inequality may increase
424. The UK would **not** have attracted inward investment because:
- a) It is within the European Union
  - b) English is a common world wide language
  - c) It has a stable economic system
  - d) **A strong pound may have made it cheaper for foreign buyers to purchase UK companies**
425. Why might a country resist globalisation?
- a) Greater choice of final products
  - b) Greater choice of supplies
  - c) **Greater competition for domestic firms**
  - d) More markets to sell to
426. World trade has been increasing due to:
- a) Increased tariffs
  - b) Increased legal barriers
  - c) Increased embargoes
  - d) **Reduced protectionism**