

EXAMINATION PAPER

Assessment 2: Individual exam

SEMESTER TWO

MODULE TITLE: FOUNDATIONS OF ECONOMICS

DATE: Week 15

TIME: TBA

VENUE: TBA

INSTRUCTIONS TO CANDIDATES:

EXAMPLES:

Section A: Compulsory questions

Answer ALL the questions. Section A is worth 50 marks

Section B: Short essay

Answer any TWO out of FOUR questions. Section B is worth 50 marks.

You are allowed to use NON-SCIENTIFIC calculators, where applicable.

Answer all questions in the answer book provided

Time allowed: TWO HOURS and fifteen minute (135 minutes)

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THE INVIGILATOR**

Section A. Answer all questions (50 marks).

MULTIPLE CHOICE QUESTIONS (30 marks)

1. Which of the following is correct? Resources are (3 marks)
 - a. land, labor, price system, and capital, components and raw materials
 - b. always paid for with money
 - c. the factors of production used to produce goods and services
 - d. only land and labor

2. According to the concept of scarcity in economics, (3 marks)
 - a. wants will be fully satisfied in the future
 - b. there are no free goods
 - c. the wants of society cannot be satisfied by the goods and services that can be produced from given resources
 - d. free goods and scarce goods as well as services are equally available

3. Opportunity cost is best defined as (3marks)
 - a. an economic cost whose value is independent of the number of goods produced
 - b. the value of the best alternative use to which a resource, such as land or time, could be put
 - c. an expenditure that cannot be recovered and is thus irrelevant to rational decision-making
 - d. an economic cost whose value is dependent upon the number of goods produced

4. Price elasticity of demand is -1.8. Demand is (3 marks)
 - a. inelastic
 - b. unitary elastic
 - c. elastic
 - d. perfectly inelastic

5. Income elasticity of demand for good A is +0.5. The good A is (3 marks)
 - a. Giffen good
 - b. superior good
 - c. inferior good
 - d. normal good

6. The reserve requirement is 20%. The potential money multiplier is equal to: (3 marks)

- a. 10
- b. 20
- c. 5
- d. M2

7. In January 2015 the personal income tax rate was increased on 1% in Uzbekistan. Will it affect injection or withdrawal? Will it lead to expansion or contraction of the aggregate demand, *ceteris paribus*? **(3 marks)**

- a) Injection, expansion
- b) Injection, contraction
- c) Withdrawal, contraction
- d) Withdrawal, expansion

Table 1.4

Table 1.4: Production Possibilities Schedule		
Choice	Good A	Good B
1	45	0
2	40	10
3	30	20
4	10	30
5	0	40

8. According to the production possibilities schedule in Table 1.4, which of the following statements is *true*? **(3 marks)**

- a. This economy could produce 45 units of good A and 10 units of good B.
- b. The opportunity cost of producing more of good A decreases as the amount of good A produced increases.
- c. The opportunity cost of producing more of good B decreases as the amount of good B produced increases.
- d. This economy could produce 30 units of good A and 20 units of good B.
- e. If this economy were to fully and efficiently employ all its resources, it could provide 45 units of good A and 40 units of good B.

9. According to the production possibilities schedule in Table 1.4, which of the following statements is *true*? **(3 marks)**

- a. If one moves from choice 2 to choice 3, the opportunity cost of 10 more units of good B is 10 units of good A.
- b. There are increasing opportunity costs associated with producing more of good B.
- c. If one moves from choice 3 to choice 4, the opportunity cost of 10 more units of good B is 20 units of good A.
- d. If one moves from choice 1 to choice 2, the opportunity cost of 10 more units of good B is 5 units of good A.
- e. All of these

10. If the aggregate supply curve is flat,

- a. expansionary fiscal or monetary policy will cause a good deal of inflation with little increase in real output.
- b. expansionary fiscal or monetary policy will buy large gains in real output at low cost in terms of inflation.
- c. contractionary stabilization policy is an effective way to reduce inflation.
- d. decreasing the income tax will not shift aggregate demand.

(3 marks)

SHORT-ESSAY QUESTIONS (20 marks)

Q.11. Consider data provided in Table 6.1 and answer questions.

Table 6.1.

Of 1,350 people surveyed, 318 are not working.

The status of those not working is as follows:

122 full-time students

29 discouraged workers

18 in long-term-care facilities

21 seeking employment and aged 16 or older

50 retirees

63 under working age

15 working in the underground economy and not looking for a “real” job

Eight of those working were under working age.

- A. According to the data provided, what is the number of workers officially unemployed?

(3 marks)

- B. According to the data provided, the number of people officially in the labor force is:

(3 marks)

- C. According to the data provided, calculate the official unemployment rate.

(4 marks)

Q. 12. The interaction between money supply and money demand determines equilibrium interest rates in the money markets. Show on the demand and supply axes what impact each event, ceteris paribus, is likely to have on the market.

- A. People become more cautious and start holding more cash in their accounts

(3 marks)

- B. Higher levels of spending at Christmas

(3 marks)

- C. Substantial sales of gilt-edged securities

(2 marks)

- D. Increased printing of money to fund higher government expenditure

(2 marks)

Section B. Answer two out of four questions (50 marks).

Q1. Costs:

[25 marks]

Consider the information presented below:

<u># of units produced</u>	<u>Total fixed cost</u>	<u>Average variable cost</u>
1	30	17
2	30	15
3	30	12
4	30	15
5	30	19
6	30	29

- A. Define and bring examples of fixed costs, variable costs, marginal costs. [5 marks]
- B. Create a table in your answer sheet, and calculate average fixed cost, variable cost, total cost, average total cost and marginal cost. [10 marks]
- C. Using the numbers given and the ones you have found, draw average variable cost (AVC), average total cost (ATC) and marginal cost (MC) curves, clearly indicating the points where MC intersects AVC and ATC curves? [5 marks]
- D. Can we observe law of diminishing marginal returns in this case? If yes, which unit does it set after? [5 marks]

Q2. Supply and Demand. Price controls

(25 marks)

The weekly market demand and supply of tomatoes are given by the figures shown below:

Price (£ per kilo)	4.00	3.50	3.00	2.50	2.00	1.50	1.00
Qd (000 kilos)	30	35	40	45	50	55	60
Qs (000 kilos)	80	68	62	55	50	45	38

- A. Draw a graph using data provided in the table. [2.5 marks]
- B. What are the equilibrium price and quantity? [2.5 marks]
- C. What will be the effect of the government fixing a minimum price of (i) £3.00 per kilo; (ii) £1.50 per kilo? [5 marks]
- D. suppose that the government paid tomato producers a subsidy of £1.00 per kilo. (i) Give the new supply schedule. (ii) What will be the new equilibrium price? (iii) how much will this cost the government? [5 marks]
- E. alternatively, suppose that the government guaranteed tomato producers a price of £2.50 per kilo.
(i) how many tomatoes would it have to buy in order to ensure that all the tomatoes produced were sold? (ii) how much would this cost the government? [5 marks]
- F. alternatively, suppose it bought all the tomatoes produced at £2.50. (i) at what single price would it have to sell them in order to dispose of the lot? (ii) What would be the net cost of this course of action? [5 marks]

Q3. How does a central bank influence the lending capacity of the banks?

(outline policy instruments and explain how they work)

(25 marks)

Q4. Unemployment.

Describe the three main types of unemployment? Explain the reasons for each, and provide relevant examples, use graphs to answer questions.

(25 marks)