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Provincial Department of Education - NWP

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Second Term Test - Grade 12 - 2019

Index No : ....

Economics I

Two Hours

Important

- **Answer all the questions.**
- **Select the correct or most suitable answer. (A supplementary paper is provided to mark the correct answer)**

01. Select the accurate statement among followings.
   1. Time is not a scarce resource.
   2. Economic decisions are made according to marginal cost and marginal benefit.
   3. When the economic development is reached by an economy, the problem of scarcity can be fully removed.
   4. The opportunity cost of economic factors that alternative uses are absent, is positive.
   5. The things which are unlimitedly supplied at zero price but used in the production process are the economic goods.

02. This is not a scarce resource in economics,
   1. Bottled water
   2. Wood collected from a forest
   3. Water from a well
   4. Sunlight used to generate solar powder
   5. Oxygen used in a submarine

03. Select the positive statement related to macro – economics
   1. The demand for motor vehicles increases due to petrol price reduction.
   2. The public service should be systematical for a higher economic growth
   3. When unemployment level reduces the rate of inflation of the economy is created.
   4. Tea small holdings should be subsidized to increase the foreign exchange.
   5. The demand for Giffen goods increases with an increase of its price.

04. A feature of "Capital" as a production factor is,
   1. Immovable factor
   2. Inelastic supply
   3. Having a productivity
   4. Gift of the nature
   5. Non - depreciating

05. Due to the skills and talents of an entrepreneur the profit that can be earned with different businesses are as follows.

Garment factory - Rs. 500,000
Tea plantation - Rs. 170,000
Software company - Rs 350,000

The opportunity cost of selecting the garment factory as his business is,

1. Rs. 350000 2. Rs. 520000 3. Rs. 170000 4. Rs. 180000 5. Rs. 150000

06. A function which cannot be performed by the price mechanism in a free market economy is,

1. Removing the excess demand and excess supply
2. Responding supply for demand changes
3. Supplying signals related to the changes of consumer desire.
4. Ensuring scarce resource distribution among alternative uses.
5. Ensuring fare distribution of outputs.

07. In a given situation, a certain economy can consume a point which lies above the production possibility curve.

1. By diversifying the import market
2. By encouraging exports
3. By acquiring the advantage of international trade
4. By introducing new products for domestic producers
5. By expanding the share of foreign market

08. A reason to shift the production possibilities curve to left is,

1. Decrease in aggregate supply. 2. Decrease in aggregate demand
3. Unemployment condition in both industries 4. Decrease in resource allocation on investments
5. Decrease in productivity of inputs.

09. Resource allocation problem means,

1. Making decision to utilize more capital with less labour for the production.
2. Making decision whether a hospital is constructed or school in constructed using scarce resources.
3. Making decision whether goods are produced for high income earners.
4. Marking decision whether good are produced for people who get low factor ownership.
5. Classifying resources as economic and non – economic resources.

10. Economic goods means,

1. Goods supplied only by public sector
2. Goods which have an opportunity cost
3. Goods supplied only by private sector
4. Goods produced for maximizing profit
5. Goods produced with a higher efficiency

11. A feature of a planned economy is,
   1. functioning the price mechanism
   2. The ownership of all the production resources is with the government
   3. Competitive market condition.
   4. Functioning on social welfare
   5. Consumer sovereignty

12. Which of the following would not be a criteria in assessing the performance of an economic system.
   1. Market competition
   2. Economic growth
   3. equal income distribution
   4. Economic freedom
   5. Economic efficiency

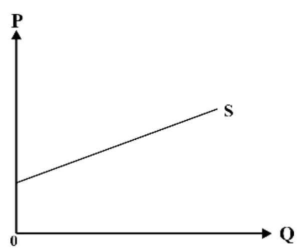
13. Select the correct group of countries that the social market economy exists
   1. China, German, Bulgaria
   2. China, Sweeden, Bulgaria
   3. Finland, Sweeden, German
   4. Sweeden, Hungaria, China
   5. German, Hungaria, Balgaria

14. "What to produce" is determined in a planned economy, according to the,
   1. Joint decisions made by consumers and producer
   2. Independent decisions of private entrepreneurs
   3. intervention of both private and public sectors
   4. Expenditure ability of consumers
   5. Commands given by the government

15. The reason to shift the downward sloped bread demand curve to left is,
   1. Increase in consumer taste on bread
   2. Increase in bread price
   3. Increase in price of butter
   4. Increase in rice price in the market
   5. Increase in number of buyers for bread

16. What would be the type of the commodity, when price demand elasticity of increasing the commodity price from Rs. 50 to Rs. 60 is 0.8
   1. A Giffen good
   2. An inferior good
   3. A complement good
   4. A normal good
   5. An essential good

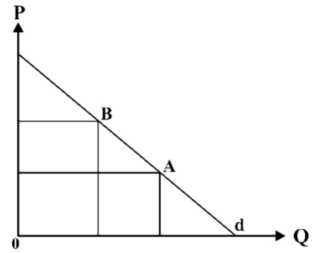
17.



The supply equation for the given supply curve is,
   1. QS = bP
   2. QS = a – bP
   3. QS = a + bP
   4. QS = -a + bP
   5. QS = -a - bP

18. Which of the following would be the relevant commodity of increasing quantity demanded by 20% due to increase in consumer income by 30%?
   1. Essential good
   2. Inferior good
   3. Luxury good
   4. Substitute good
   5. Complement good

19. What would be the reason to move the point A towards B in the given demand curve ?



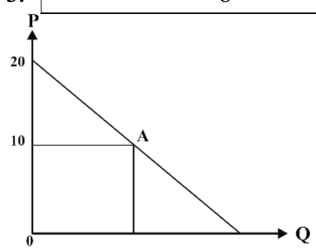
1. A technological improvement used in the production.
2. Following tax relief policies for the relevant good.
3. Expected price reduction in future
4. Increase in desire for the commodity
5. Increase in production cost of the good

20. Select the common determinant for both price demand elasticity and price supply elasticity.
1. Availability of substitute good
2. Time taken to react for the market due to price changes
3. Ability of alternative uses for the good
4. Ability of factor mobility
5. Ability of maintaining stocks

21. The demand and supply equations for a certain good are as follows.
Qd = 40-5P
Qs = -10+5P
The maximum demand price and the producer surplus of this are,

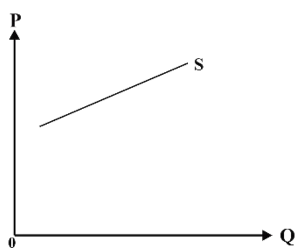
	Maximum Demand price	Producer surplus
1.	8	45
2.	5	75
3.	15	75
4.	5	30
5.	8	22.50

22.



Which of the following would be the possible elasticity, for "A" point at given demand curve.
1. -1.0
2. -0.1
3. 3
4. - 10
5. -2.0

23.



Positively sloped supply curve of a certain company is given and select the accurate statement related to the elasticity for this,

Due to increase in production of this commodity,
1. The supply elasticity is greater than one and the elasticity value increases gradually
2. The supply elasticity is greater than one and the elasticity value reduces gradually.
3. The supply elasticity is lesser than one and elasticity value gradually reduces.
4. The supply elasticity value is lesser than one and the elasticity value gradually increases.
5. The supply elasticity value equals to one and the elasticity value remains constant.

24. The definite reaction of the excess supply in a free market economy that price decisions are made by the price mechanism is,
1. Allowing to determine the market price according to consumer desire and making measures to sell the rest of all good with the government intervention
2. Price reduction of the relevant good
3. Purchasing the excess supply by the government
4. Creating by – products related the good.
5. Exporting the excess supply

25. Total cost and total variable cost of a certain firm are Rs. 650 and Rs. 250 respectively and the selling price and quantity of that good are Rs. 100 and 8 units respectively.
According to given information, the producer surplus of this firm is,
1. Rs. 150.00 2. Rs. 250.00 3. Rs. 500.00 4. Rs. 550.00 5. Rs. 400.00

26. To increase the equilibrium quantity at a higher percentage rather than increase in equilibrium price.
1. The demand should increase at a higher percentage rather than the percentage increase in supply.
2. Demand should increase at a lower percentage rather than increase in supply.
3. Demand should increase at a lower percentage rather than decrease in supply.
4. Increase in demand at the same percentage of decrease in supply.
5. Increase in demand at the same percentage of increase in supply.

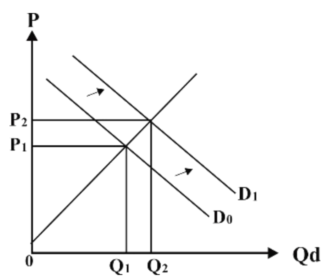
27. The demand and supply equations for the given market are,

$Qd = 150-3P$

$Qs = 50 + 7P$

The equilibrium price and equilibrium quantity of this market are respectively,
1. Rs. 20 and 90 units 2. Rs. 10 and 120 units 3. Rs. 25 and 75 units
4. Rs. 10 and 110 units 5. Rs. 20 and 120 units

28. Effects of increase in demand of a certain good in a competitive market are illustrated as follows,



A result of increase in demand is,
1. Decrease in production surplus and increase in consumer surplus
2. Increase in production surplus and decrease in consumer surplus
3. Production surplus remains constant and increase in consumer surplus
4. Both producer surplus and consumer surplus are reduced
5. Both producer surplus and consumer surplus are increased

29. The consumer expenditure of a certain good can be maximized when the demand elasticity of the good is,
1. Unitary 2. Infinite 3. Zero 4. Elastic 5. Inelastic

30. Certain information related to price and quantity supply of a good are as follows.

Price (Rs.)	Quantity supply (Rs.)
5.00	10
10.00	20

If government decides to levy Rs. 5.00 of unit tax on the above good, the prices that 10 and 20 units are supplied, after tax are respectively,

1. Rs 10 and 20 2. Rs 0 and 5 3. Rs 10 and 30
4. Rs 10 and 15 4. Rs 15 and 10

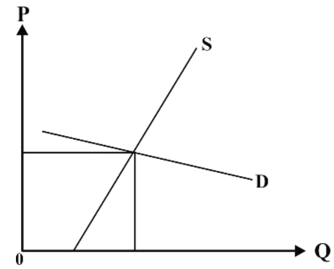
31. When a specific (Unit) tax is imposed on producers,
1. The price paid by the consumer and the price received by the producer is differed by the same amount of taxation.
2. The price paid by the consumer and the price received by the producer are the same.
3. The price paid by the consumer is lesser than the price received by the producer
4. When the tax amount is added to the equilibrium price, the net price received by the supplier can be derived .
5. When the tax amount is deducted from the market equilibrium price, the price paid by the buyer can be derived.

32. The share of tax burden between consumer and producer is determined according to the demand and supply elasticities The entire tax burden is gained by the supplier in a situation of
1. perfectly inelastic demand and perfectly elastic supply.
2. perfectly elastic demand and perfectly elastic supply.
3. perfectly inelastic demand and perfectly inelastic supply.
4. perfectly elastic demand and perfectly inelastic supply.
5. unitary elastic demand and perfectly inelastic supply.

33. Assume the supply elasticity of X good that is sold in the market is 0.6 and the demand elasticity is -0.2. If Rs.2.00 of specific tax is charged on X good, the price increase of the good due to tax is,
1. Rs. 2.00 2. Rs. 1.50 3. Rs. 2.50 4. Rs. 6.00 5. Rs. 4.00

34. A higher tax revue can be collected by the government, when tax is levied on products which have,
1. Inelastic demand and inelastic supply.
2. Elastic demand and inelastic supply
3. Elastic demand and elastic supply
4. Perfectly elastic demand and perfectly elastic supply
5. Unitary elastic demand and unitary elastic supply

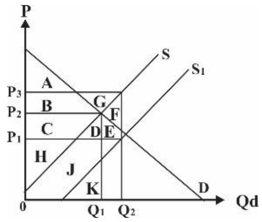
35.



How to share the subsidy advantage between consumer and producer, if government decides to provide a production subsidy on the given commodity in diagram ?
1. Entire advantage is gained by the producer
2. Entire advantage is gained by the consumer
3. More advantage is gained by producer than consumer
4. More advantage is gained by consumer than producer
5. Equal advantage is gained by both consumer and producer

36. Assume, the price demand elasticity of a certain commodity in a competitive market is zero. If Rs. 3.00 subsidy is given on each unit of this commodity, the market price would be,
1. Decreased by Rs. 1.00 2. Decreased by Rs. 3.00 3. Increased by Rs. 3.00
4. Remaining Constant 5. Increased by 1.00

37. A specific subsidy is given by the government on a certain product as follows.

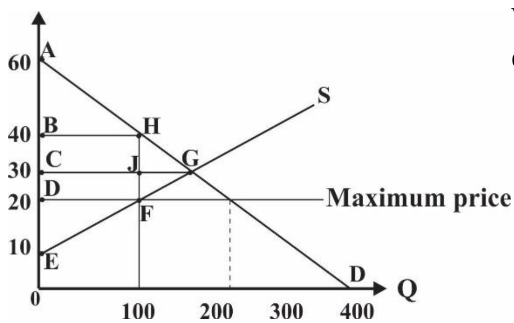


The producer surplus of this market after subsidy is,
1. C + H 2. H+J+K 3. B+C+G+H
4. C+D+E+F 5. B+C+G+H

38. Select the correct answer from the following, that shares the result of maximum price policy which is fixed below the equilibrium price,
1. Creating excess supply 2. Increases in equilibrium price 3. Creating excess demand
4. Decrease in demand 5. Increase in supply

39. What would be the change of economic effects of effective minimum price policy that the surplus is purchased by the government as the price supporting policy ?
1. The consumer surplus reduces and producer surplus increases
2. Both consumer surplus and producer surplus increase
3. Consumer surplus increases and producer surplus reduces
4. Both consumer surplus and producer surplus reduce
5. No change on consumer surplus and producer surplus

40.

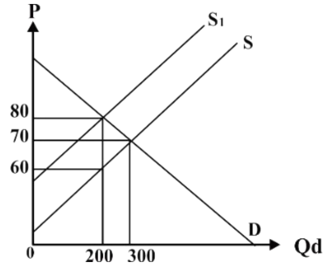


The demand and supply nature of a coconut market is as below. Which of the followings shows the producer surplus and the deadweight loss if the maximum price is satisfied.

	Producer Surplus	Deadweight loss
1.	CGE	JGF
2.	DEF	HFG
3.	ABH	HFG
4.	BEHF	HJG
5.	DEF	BDFH

41. Which of the following would not be used to make the minimum price meaningful
1. Storing the surplus 2. Introducing by - products 3. Encouraging the prevailing demand
4. Exporting 5. Importing

42. The economic effects of production taxation are illustrated an follows,



What would be the excess tax burden of this economy?
1. 2000 2. 500 3. 4000
4. 1000 5. 100

43. This would not be an effect of minimum price legislation.
1. Accumulation of the surplus production in the market
2. Making efforts by traders to avoid from law
3. No effect towards the economic surplus
4. Creating an excess investment
5. Effects on consumer surplus

44. When a deficiency payment system is practiced in the market,
1. The market price increases
2. The revenue received by the producer increases
3. The price paid by the consumer increases
4. Government revenue increases
5. Equilibrium price increases

45. Which of the following items would be included into direct cost and indirect cost respectively
(A) Forgone wage income (B) Forgone interest income (C) Amortization payment
(D) Electricity payment (E) Labour wage
1. D,E and B,C 2. A,B and C,D,E 3. B,D,E and B,A
4. D,E, and A,B,C 5. D,E,A and B,E

46. The difference between total cost and total variable cost of a firm is,
1. Total fixed cost 2. Total marginal cost 3. Average total cost
4. Average variable cost 5. Revenue cost

47.

Output (Units)	**Total cost (Rs.)**
1000	9000
2000	12000

According to given data, the marginal cost is,
1. Rs. 6.00 2. Rs. 3.00 3. Rs. 9.00 4. Rs. 10000.00 5. Rs. 3000.00

48. Which cost term should be appropriate to denote the expenditure made by a firm to purchase fixed assets in short run?
1. Variable cost 2. Indirect cost 3. Sunk cost
4. Average cost 5. Total cost

49. The reason for the "Flat U shape" (Source shape) of the long run average cost curve of a firm is ,
1. Creating diseconomies of scale 2. Creating Economies of scale
3. Practicing the law of diminishing marginal returns 4. Practicing the law of returns to scale
5. Reducing the production cost

50. Normal profit means
1. Annual profit amount earned by a firm
2. The profit amount of a firm earned within the year
3. The profit earned by utilizing production resources in the production
4. The profit margin of the maximum output gained by the production resources
5. The profit needed to retain the exiting production resources in the present production

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Provincial Department of Education - NWP

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Second Term Test - Grade 12 - 2019

Index No : ....

Economics II

Three Hours

Important

- **Select at least two questions from each section and answer for five questions.**

A - Part

01). i. Using relevant examples explain situations that non – economic goods can become into economic goods. (4 marks)

ii. Discuss reasons to not to consider money as a capital in economics. (2 marks)

iii. Introduce a mixed economic system in brief and highlight three salient features of that . (5 marks)

iv. As a way of scarce resource allocation, discuss the drawbacks of price mechanism. (4 marks)

v. Illustrate following incidence in an economy that food and machines are produced, using relevant production possibility curves.

a) Decrease in unemployment .

b) Production efficiency.

c) Expansion of resource accumulation of the economy .

d) Decrease in food cultivable land area due to a huge drought.

e) Net out migration of trained workers in machine production. (5 marks)

02). i. a) Explain the difference between opportunity cost and marginal opportunity cost. (2 marks)

b) Give reasons for increasing opportunity cost. (2 marks)

ii. What are the factors for rightward shift of the production possibility carve. (2 marks)

iii. Explain the difference between productive efficiency and allocative efficiency. (4 marks)

iv. Explain basic economic questions in brief and illustrate how these questions are solved by the market economy. (6 marks)

v. Describe "entrepreneurship" as a production factor and point out the role of the entrepreneur. (4 marks)

03). i. a) Define the law of demand. (2 marks)

b) Give the explanation for being the slope of the demand curve negative. (4 marks)

ii. Complete the following table related to price demand elasticity .

Price demand elasticity	Change in price	Producer revenue
-2.1	Reduces	1. ....
-0.1	2.	Increases
-1.0	Increases	3. ....
-1.5	4.	Reduces

(4 marks)

iii. The demand and supply equations for mobile phones in a certain market are as follows.

$Qd = 24 – 2P$ $Qs = 4 + 3P$

a) Calculate price elasticity of demand and price elasticity of supply at the equilibrium. (4 marks)

b) Derive the excess demand and excess supply equations. (4 marks)

c) In this mobile phone market, if supply increases at a higher rate rather than increase in demand, describe the way the market price and quantity are changed using a relevant diagram.(2 marks)

04). i. a) Define the market equilibrium. (2 marks)

b) What are the conditions in market equilibrium ? (4 marks)

ii. Comparatively analyse the goods and services market and the factor market in an economy. (4 marks)

iii. Hypothetical information of a certain market is given below.

Price	Quantity Demanded	Quantity supplied
2	250	50
4	200	100
6	150	150
8	100	200
10	50	250

a) Derive the demand and supply equations related to the given market. (4 marks)

b) Calculate the maximum demand price and minimum supply price using relevant equations. (2 marks)

c) Calculate the excess demand price at 50 units and excess supply price at 175 units. (4 marks)

05). i. Discuss the relationship among the slope of the supply equation, slope of the supply curve that price in vertical axis and the supply elasticity equation. (4 marks)

ii. Explain consumer surplus and producer surplus and show equations used to calculate them.(4 marks)

iii. Calculate the consumer surplus and producer surplus at the market equilibrium when demand and supply equations are given as,

$Qd = 200-5P$

$Qs = 50 + 5P$ (4 marks)

iv. Name the determinants of supply elasticity. (4 marks)

v. Using relevant demand and supply curves, illustrate the changes in equilibrium conditions due to following situations.

a) A situation of changing only the equilibrium quantity while equilibrium price remains constant. (2 marks)

b) A situation of reducing an equilibrium price while equilibrium quantity remains constant. (2 marks)

B - Part

06). i. Name the two forms of taxes levied on goods and services. (2 marks)

ii. When the price of a certain commodity is Rs. 10.00, 100 commodities are demanded and the market is reached to the equilibrium. If the price is Rs. 20.00, the quantity demanded is zero and quantity supplied is 200 units. At 200 units of quantity demand, the price is zero and at zero price, the quantity supplied also zero.

a) Using given information, prepare a demand and supply schedule. (2 marks)

b) Plot the demand and supply curves using given information. (2 marks)

c) If Rs. 5 of unit tax is imposed by the government derive the new supply curve in the same graph you drew. (2 marks)

d) What would be the government revenue due to tax . (2 marks)

e) Calculate the deadweight loss. (2 marks)

f) Calculate the loss of economic surplus due to tax. (2 marks)

iii. Using relevant diagrams, illustrate the way of tax burden is shared between consumer and producer due to imposing unit tax on goods which have following elasticities.

a) A good which has inelastic demand and elastic supply. (3 marks)

b) A good which has perfectly elastic demand and inelastic supply. (3 marks)

07). i. Mention two changes that can occur in the equilibrium goods market due unit subsidy given by the government on producers. (2 marks)

ii. The demand and supply equations for a certain market are as follows.

$Qd = 40 - 4P$

$Qs = 10 + 2P$

If government decides to provide Rs. 3.00 of unit subsidy,

a) Calculate the market equilibrium price and quantity after subsidy (4 marks)

b) Derive the price received by the producer and the price paid by the consumer due to subsidy. (3 marks)

c) What would be the total cost of the government due to the unit subsidy ? (2 marks)

d) How to share the unit subsidy between consumer and producer. (3 marks)

iii. What are the reasons for price instability of agricultural goods.? What are the steps that can be taken by the government to ensure the price stability. (6 marks)

08). i. Show the effects of imposing equal amounts of unit tax on producer and consumer, using two different demand and supply diagrams. (6 marks)

ii. Explain the maximum price and minimum price policies of the government in brief. (4 marks)

iii. Explain measures that can be taken to make the maximum price meaningful and benefit the consumer (4 marks)

iv. Considering the minimum price as the guaranteed price, explain two price supporting policies that are implemented by the government to protect producer by raising his income. (6 marks)

09). i. Explain the relationship between inputs and outputs related to a production function. (4 marks)

ii. Define the law of diminishing marginal returns and list out assumptions behind that. (4 marks)

iii. Distinguish direct cost and indirect cost using relevant examples. (4 marks)

iv. Using relevant curves, explain the behaviour of total production, marginal production and average production. (4 marks)

v. Define the law of returns to scale and point out 3 main behavioral patterns of that (4 marks)

10). i. Differentiate the short run and long run. (2 marks)

ii. A garment factory that shirts are produced produces 50 shirts per day. The selling price of a shirt is Rs. 200.00. To purchase cloths Rs. 4000 is spent and for labour cost, fuel and electricity, interest payments on obtained loans are paid. Rs. 1000.00, Rs. 400.00 and Rs. 200.00 respectively. Further, the forgone interest income of him is Rs. 100.00, the forgone salary is Rs. 1000.00, normal profit is Rs. 800 and economic depreciation is Rs. 200.00

a) Calculate the accounting profit of this firm (3 marks)

b) Calculate the economic profit of this firm (3 marks)

iii. Introduce the cost concept that is not vary with the short run production level of a firm and highlight salient features of that using a relevant diagram. (4 marks)

iv. Explain followings concepts related to the short run production process in brief.

a) Total cost   b) Average total cost

c) Variable cost   d) Marginal cost (8 marks)