



Introduction to Economics and Finance

Foundation Examination
Autumn 2012
Module B

5 September 2012
100 marks - 3 hours
Additional reading time - 15 minutes

Instructions to candidates:

- (i) *All the Questions from Section A are compulsory.*
(ii) *Attempt any TWO out of THREE Questions from Section B.*

Section A

- Q.1 What is economic wealth? What attributes the goods must possess to be considered as wealth? Identify the classes of ownership of wealth and give **four** examples of each. **(08 marks)**
- Q.2 (a) What do you understand by the terms Iso-cost line and Iso-quant curve? How does a producer maximize his level of output? Support your answer with the help of a diagram. **(11 marks)**
(b) What is meant by “Decreasing returns to scale”? Describe its main causes. **(06 marks)**
- Q.3 (a) Explain with the help of an appropriate diagram, the price output determination under monopolistic competition in the short-run. **(10 marks)**
(b) Briefly explain the factors on which the size of a market depends. **(10 marks)**
- Q.4 Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). **Each MCQ carries ONE mark.**
- (i) Which one of the following is a basic economic problem?
(a) Unlimited wants and scarce resources (b) Lower incomes and higher indirect taxes
(c) Unemployment and inflation (d) Recession
- (ii) Which one of the following is part of the primary sector of an economy?
(a) Banking (b) Transport (c) Farming (d) Textile industries
- (iii) Which of the following has the most inelastic demand?
(a) Fuel (b) Wheat (c) Meat (d) Sugar
- (iv) Which of the following is **NOT** considered to be a protectionist measure?
(a) Tariff (b) Exchange control regulations
(c) Export subsidies (d) Free imports
- (v) Which one of the following is **NOT** a feature of a good tax system?
(a) It should be equitable (b) It should be economical
(c) The rate should be same for everybody (d) It should be certain
- (vi) When will savings increase in a country?
(a) When interest rate rises (b) When inflation increases
(c) When more credit cards are issued by the banks (d) When production of consumer goods decreases
- (vii) Demand curve slopes downward because of:
(a) Consumer indifference (b) Elasticity of demand
(c) Inelastic demand (d) Law of diminishing marginal utility

- (viii) The supply curve of a factor for a firm that is in perfect competition in the input market is:
 (a) Elastic (b) Inelastic
 (c) Perfectly elastic (d) Perfectly inelastic
- (ix) A prolonged and deep recession is called:
 (a) Hyperinflation (b) Depression
 (c) Stagflation (d) Great depression
- (x) The GDP deflator is the:
 (a) Ratio of nominal GDP to real GDP multiplied by 100 (b) Ratio of real GDP to nominal GDP multiplied by 100
 (c) Difference between real GDP and nominal GDP multiplied by 100 (d) Difference between nominal GDP and real GDP multiplied by 100
- (xi) The aggregate supply curve:
 (a) is the sum of the individual supply curves in the economy (b) is a market supply curve
 (c) embodies the same logic that lies behind an individual firm's supply curve (d) none of the above
- (xii) Economic growth in an industrial society results from:
 (a) Technological change (b) Innovation
 (c) Capital production (d) All of the above
- (xiii) Which of the following is **NOT** a method of holding wealth?
 (a) Bonds and equities (b) Human wealth
 (c) Consumer durables (d) Commodities
- (xiv) Which of the following instruments are **NOT** traded in the capital market?
 (a) Corporate bonds (b) Treasury bills
 (c) Mortgages (d) Shares
- (xv) The quantities of domestic goods given up to obtain a unit of imported goods is called:
 (a) Balance of trade (b) Terms of trade
 (c) Substitution effect (d) Balance of payment

Section B

- Q.5 (a) What do you understand by the terms **GDP**, **GNP** and **NNP**? Briefly describe GDP at market price and GDP at factor cost. *(08 marks)*
 (b) Determinants of consumption function do not change in short run. Explain. *(12 marks)*
- Q.6 (a) Describe the **four** major objectives of a government's economic policy. *(06 marks)*
 (b) Explain how monetary and fiscal policies can be used to achieve the above objectives. *(06 marks)*
 (c) What do you understand by the term "Financial intermediary"? Give example. Briefly describe their role in an economy with the help of a flow chart. *(08 marks)*
- Q.7 (a) Briefly describe the main causes of disequilibrium in the balance of payments. *(07 marks)*
 (b) State the measures for rectifying disequilibrium in the balance of payments. *(07 marks)*
 (c) Briefly describe **three** types of exchange rate policies which governments usually adopt for determination of exchange rate. *(06 marks)*

(THE END)