

Economics, 2016 EC, social science, entrance exam, round 1

Grade 12 · Economics · 2016 E.C.

MARKING KEY — CONFIDENTIAL

Time allowed: 120 minutes

Questions: 78

Total marks: 78

1. Which one of the following represents the increase in the quantity supplied of real GDP due to the increase in the price level? (1)
- A. The right wards shifts of the aggregate supply curve
 - B. The left wards shifts of the aggregate supply curve
 - C. The downwards movements along the aggregate supply curve
 - D. ✓ **The upwards movements along the aggregate supply curve**

Answer: D

A change in the price level causes a movement along the aggregate supply curve. An increase in the price level leads to an upward movement along the curve, representing an increase in the quantity of real GDP supplied.

2. When the economy is in the long run, which of the following is correct? (1)
- A. Sticky wages and workers misperception still holds true.
 - B. ✓ **What the economy produces is the full employment real GDP.**
 - C. The short run and the long run real GDP will be the same.
 - D. The level of real GDP the economy produces is less than the natural real GDP.

Answer: B

In the long run, prices and wages are fully flexible, and the economy operates at its potential level of output, which is the full-employment real GDP (or natural real GDP).

3. What is the pressure on price when the quantity demanded of real GDP is greater than the quantity supplied of real GDP during the short run? (1)
- A. ✓ **The price level rises**
 - B. The price level drops
 - C. No pressure at all
 - D. Initially downwards

Answer: A

When the quantity demanded of real GDP exceeds the quantity supplied, there is a shortage in the economy, which puts upward pressure on prices, causing the price level to rise.

4. Which one of the following is correct about the economy when it is in long run equilibrium? (1)
- A. ✓ **The economy produces the real GDP which is called the natural real GDP.**
 - B. The short run aggregate demand curve intersects the short run aggregate supply curve.
 - C. The long run aggregate demand curve intersects the short run aggregate supply curve.
 - D. Price temporarily deviates from equilibrium even if aggregate demand and aggregate supply remain unchanged.

Answer: A

In long-run macroeconomic equilibrium, the economy produces at its potential level of output, which is also known as the natural real GDP, where the AD, SRAS, and LRAS curves intersect.

5. Which of the following represents an economic situation where there is an inefficient distribution of goods and services in the free market? (1)
- A. Externalities
 - B. Asymmetric information
 - C. ✓ **Market failure**
 - D. Free riding

Answer: C

Market failure is defined as an economic situation where the allocation of goods and services by a free market is not Pareto efficient, often due to externalities, public goods, or asymmetric information.

6. What impacts on our aggregate demand do you expect if the level of economic activities in other countries increase? (1)
- A. ✓ **Aggregate demand will increase.**
 - B. Aggregate demand will decrease.
 - C. Aggregate demand remains unaffected.
 - D. Aggregate demand first declines and then rises.

Answer: A

An increase in the economic activities of foreign nations increases their income, leading to an increase in their demand for our exports, which shifts our aggregate demand curve to the right.

7. Among the following, which one differentiates change in quantity demanded from change in aggregate demand? (1)
- A. ✓ **As the price level falls, the quantity demanded of real GDP rises, ceteris paribus.**
 - B. It is represented as a movement from one point to another along different demand curve.
 - C. A positive change in any factors causes a rightward shift in the AD curve.
 - D. It is a shift in aggregate demand curve from AD1 to AD2 on different curve.

Answer: A

A change in quantity demanded refers to a movement along the same aggregate demand curve due to a change in the price level, which is correctly illustrated by option A, whereas a change in aggregate demand refers to a shift of the curve due to non-price factors.

8. Which of the following is correct about aggregate demand curve? (1)
- A. It represents the inverse relationship between the real GDP demanded and consumption expenditure, all else being equal.
 - B. It is a schedule that represents the amount of real output that sellers collectively desire to sell at each price, ceteris paribus.
 - C. **It shows the inverse relationship between the amount of real output buyers desire to buy at each price, ✓ all else being equal.**
 - D. It shows the inverse relationship between the amount of real output sellers desire to sell at each price, all else being equal.

Answer: C

The aggregate demand curve represents the inverse relationship between the price level and the quantity of real GDP demanded by buyers (households, firms, government, and foreigners), ceteris paribus.

9. What is the implication of the Keynesian horizontal aggregate supply curve? (1)
- A. ✓ **Firms can supply whatever amount demanded at the existing price because of unemployment.**
 - B. Firms can obtain much labour as they want as long as they pay more.
 - C. As output level changes, the average cost of production increases.
 - D. The labour market is in equilibrium with full employment of the labour force.

Answer: A

The horizontal Keynesian aggregate supply curve assumes that the economy is in a deep recession or depression with high unemployment, meaning firms can increase production at the existing price level without raising wages or prices.

10. Which one of the following is the main factor that affects the amount of output firms are willing to supply? (1)
- A. The price of related goods produced by other firms
 - B. ✓ **The price they receive for their goods**
 - C. The level of economic activity in other countries
 - D. The price they anticipate to prevail in the future

Answer: B

The main factor that determines the quantity of output firms are willing to supply in the market is the price they receive for their products, with higher prices generally incentivizing more production.

11. Which of the following is NOT the cause of market failure? (1)
- A. Monopoly
 - B. Externalities
 - C. Factor immobility
 - D. ✓ **Private goods**

Answer: D

Private goods are excludable and rival, allowing the free market to allocate them efficiently; hence, they do not cause market failure, unlike public goods, externalities, or monopolies.

12. Suppose Sol-ech - company receives positive externalities from COMP educated graduates subsidize computer education through scholarships, in which of the following group is this type of solution for market failure listed? (1)
- A. Voluntary collective action solutions
 - B. Government-imposed solutions
 - C. ✓ **Private market solutions**
 - D. Non-excludability

Answer: C

Private market solutions refer to actions taken by private individuals or organizations (such as scholarship programs or voluntary subsidies) to internalize or mitigate externalities without direct government intervention.

13. Which one of the following is an example of public goods? (1)
- A. Houses
 - B. Food items
 - C. ✓ **Wilderness**
 - D. Clothes

Answer: C

A wilderness area exhibits non-excludability and non-rivalry in consumption, making it a public good (or common resource), unlike houses, food, and clothes, which are private goods.

14. Which of the following characterize Public goods? (1)
- A. Rivalry and excludability
 - B. Rivalry and non-excludability
 - C. Non-rivalry and excludability
 - D. ✓ **Non-rivalry and non-excludability**

Answer: D

Public goods are defined by two key characteristics: non-rivalry (one person's consumption does not reduce availability for others) and non-excludability (it is impossible to prevent non-payers from consuming them).

15. Which one of the following factor is the reason for market inefficiency in the provision of public goods? (1)
- A. Externality
B. ✓ **Free riding**
C. Divisibility
D. High marginal cost

Answer: B

Because public goods are non-excludable, individuals have an incentive to let others pay for the good while they consume it for free, resulting in the free-rider problem and market underprovision.

16. Which of the following macroeconomic policy involves by which the government manipulates its expenditure and revenue side? (1)
- A. Monetary policy
B. ✓ **Fiscal policy**
C. Income policy
D. Exchange rate policy

Answer: B

Fiscal policy is the use of government spending (expenditure) and taxation (revenue) to influence the path of the economy over time.

17. Which one of the following instrument is considered by the contractionary fiscal policy when there is an excess demand and inflationary pressure in the economy? (1)
- A. ✓ **A decrease in expenditure**
B. Reduction of taxes
C. An increase in expenditure
D. Reduction of revenue

Answer: A

Contractionary fiscal policy aims to cool down an overheating economy by reducing aggregate demand through a decrease in government spending and/or an increase in taxes.

18. A tight monetary policy is applied in circumstances where there is (1)
- A. ✓ **high inflation.**
B. high economic growth.
C. high unemployment.
D. slow economic growth.

Answer: A

A tight (contractionary) monetary policy is implemented by the central bank to decrease the money supply and raise interest rates, aiming to reduce aggregate demand and curb high inflation.

19. If tight fiscal and monetary policies fail to address the problem of rising price level, what is the alternative policy that the government should consider? (1)
- A. Exchange rate policy
B. Trade policy
C. ✓ **Income policy**
D. Interest rate policy

Answer: C

Incomes policy involves direct government intervention in establishing wage and price guidelines or controls, which serves as an alternative when standard monetary and fiscal policies fail to stabilize rising prices.

20. Which of the following exchange rate regime is the one that is determined by the government political and economic decisions? (1)
- A. Floating exchange rate regime
B. ✓ **Fixed exchange rate regime**
C. Managed floating
D. Crawling peg regime

Answer: B

A fixed exchange rate regime is one where the currency's value is pegged to another currency or a basket of currencies, determined entirely by government or central bank policy decisions rather than market forces.

21. Which one of the following difference is the cause for efficiency loss in the presence of negative externality? (1)
- A. Between marginal social benefit and marginal private benefit
 - B. ✓ **Between marginal social cost and marginal private cost**
 - C. Between private marginal cost and marginal external cost
 - D. Between private marginal benefit and marginal external benefit

Answer: B

Negative externalities create a divergence between the private cost and the social cost of production; the efficiency loss occurs because the market equilibrium is based only on marginal private costs, ignoring the higher marginal social costs.

22. When an insurance company provides fringe benefits on the basis of an average rate over a set of employees and guarantees them to participate in the program, then this can be seen as a solution for which one of the following problem? (1)
- A. ✓ **Adverse selection**
 - B. Moral hazard
 - C. Signalling
 - D. Screening

Answer: A

Adverse selection occurs when high-risk individuals are more likely to buy insurance. Group coverage with mandatory participation solves this by averaging risk across all employees, preventing low-risk individuals from opting out.

23. Which of the following macroeconomic policies involves management of money supply and interest rate? (1)
- A. Fiscal policy
 - B. Exchange rate policy
 - C. ✓ **Monetary policy**
 - D. Income policy

Answer: C

Monetary policy is the process by which the monetary authority (central bank) of a country controls the supply of money and targets interest rates to promote economic growth and stability.

24. Which one of the following is the monetary policy tool that involves the purchase and sale of securities by the nation's central bank? (1)
- A. Discount rate
 - B. ✓ **Open market operation**
 - C. Required reserve ratio
 - D. Government spending

Answer: B

Open market operations refer to the buying and selling of government securities (like Treasury bonds) by the central bank in the open market to regulate the money supply.

25. One of the following is considered to be fiscal policy tool. Which one is it? (1)
- A. ✓ **Taxation**
 - B. Investment
 - C. Grants in aid
 - D. Transfer payments

Answer: A

Taxation is a primary tool of fiscal policy, alongside government spending, used by the government to manage economic activity and aggregate demand.

26. Which one of the following is correct about price ceilings? (1)
- A. It is one of the income policies that keeps a price from declining from a certain limit.
 - B. ✓ **It is a maximum price set by law to make basic consumption goods affordable to buyers.**
 - C. It should be set above the equilibrium price to make it more effective.
 - D. It discourages consumers from buying goods and services since they are now paying higher price.

Answer: B

A price ceiling is a government-imposed maximum price set below the market equilibrium to protect consumers by making essential goods and services more affordable.

27. Suppose the value of an Ethiopian Birr in terms of Kenyan Shilling is getting higher. What is the impact of this on the Ethiopian export to Kenya? (1)
- A. It will make the price of Ethiopian goods in the Kenyan market cheaper.
 - B. It will make the price of Kenyan import in the Ethiopian market expensive.
 - C. It will increase Ethiopia's export earnings.
 - D. ✓ **It will reduce Ethiopia's export earnings.**

Answer: D

An appreciation of the Ethiopian Birr relative to the Kenyan Shilling makes Ethiopian exports more expensive in the Kenyan market, which leads to a decrease in the quantity demanded of exports and subsequently reduces Ethiopia's export earnings.

28. Which one of the following clearly defines taxation? (1)
- A. It is a voluntary payment.
 - B. It is the only source of government revenue.
 - C. ✓ **It is levied without anything in direct return.**
 - D. It encourages inexistence of government.

Answer: C

Taxation is defined as a compulsory contribution to state revenue, levied on workers' income and business profits, or added to the cost of some goods, services, and transactions, without any direct quid pro quo (direct return) to the taxpayer.

29. Which one of the following explains the tax principles called "canon of economy"? (1)
- A. Everyone should pay tax according to his ability.
 - B. The amount of tax that we are supposed to pay should be known in advance.
 - C. Every tax payer should pay the tax in his own convenient time.
 - D. ✓ **The cost of tax collection should be as minimum as possible.**

Answer: D

The 'canon of economy' is a tax principle formulated by Adam Smith stating that the cost of collecting a tax should be kept to a minimum relative to the revenue it brings to the government.

30. Which of the following is the implication of one of a good tax system that is referred to as broad based? (1)
- A. The system should impose tax on all people without discrimination.
 - B. The system should ensure that an income inequality is reduced.
 - C. ✓ **The system should impose tax on income and properties and commodities.**
 - D. The system should ascertain that national income and living standard is increasing.

Answer: C

A broad-based tax system spreads the tax burden across a wide variety of economic bases, including income, property, and commodities, which helps keep tax rates relatively low while maximizing revenue.

31. Which one of the following is the advantage of fiscal decentralization? (1)
- A. Provide scale economies in the collection of taxes
 - B. Provide scale economies in the provision of public goods
 - C. ✓ **Provision of public goods and services desired by local residents.**
 - D. Effective to implement equity measures

Answer: C

The primary advantage of fiscal decentralization is that local governments, being closer to the people, can better understand and provide the public goods and services that meet the specific preferences of local residents.

32. One of the following is considered to be the aim of fiscal decentralization. Which one is it? (1)
- A. Promoting regional partnership
 - B. Enhancing the role of private sector
 - C. Encouraging free movement of labour
 - D. ✓ **Ensuring equity and efficiency**

Answer: D

Fiscal decentralization aims to improve both efficiency (by aligning local public goods with local preferences) and equity (by distributing resources and decision-making powers across different regions).

33. Which one of the following is the reason for the federal government to make fiscal equalization payments to local governments? (1)
- A. To enhance intergovernmental competition
 - B. To discourage fiscal centralization under goods and services provided locally
 - C. To encourage regional gaps in the provision of basic public services
 - D. ✓ **To narrow regional gaps and need for conservation of environmental resources**

Answer: D

Fiscal equalization payments are made by federal governments to subnational governments to reduce regional disparities and ensure that all citizens have access to comparable public services regardless of their region's fiscal capacity.

34. What is the reason for the growing need for conservation of environmental resources? (1)
- A. These resources are underutilized
 - B. These resources are less costly
 - C. Their use is less costly; most of these resources are infinite
 - D. ✓ **Most of these resources are finite**

Answer: D

The growing need for the conservation of environmental resources is driven by the reality that most of these vital resources are scarce and finite, and their depletion threatens future generations.

35. What is the cause for rising greenhouse gases in the earth's atmosphere? (1)
- A. An increase in afforestation program
 - B. A decrease in deforestation due to government policy
 - C. An increase in hydropower generation
 - D. ✓ **The decomposition and disposal of waste**

Answer: D

The decomposition and anaerobic breakdown of organic waste in landfills and open dumps is a significant source of greenhouse gases, particularly methane (CH₄).

36. Among the following direct taxes, which one is a tax that is imposed on the land and buildings? (1)

- A. Income tax
- B. ✓ **Property tax**
- C. Transfer tax
- D. Capital gain tax

Answer: B

Property tax is a direct tax levied on real property, which includes land and any buildings constructed on that land.

37. Which one of the following is an objective of taxation? (1)

- A. ✓ **Reducing income disparity**
- B. Promoting consumption of harmful products
- C. Widening regional imbalance
- D. Encouraging import

Answer: A

One of the key social and economic objectives of taxation is the redistribution of wealth to reduce income inequality through progressive taxation schemes.

38. The burden and incidence is imposed by one of the following tax categories on different individuals. Which one is it? (1)

- A. Payroll tax
- B. Corporate income tax
- C. ✓ **Value added tax**
- D. Rental income tax

Answer: C

For indirect taxes like Value Added Tax (VAT), the legal liability (impact) falls on the business that sells the goods, while the actual economic burden (incidence) is shifted onto the final consumer through higher prices.

39. In Ethiopia, which one of the following institution is responsible to collect tax on behalf of the government? (1)

- A. The Ministry of Finance
- B. The Central Bank
- C. The Commercial bank
- D. ✓ **The Ministry of Revenue**

Answer: D

The Ministry of Revenues is the federal institution in Ethiopia officially mandated to administer and collect federal taxes and custom duties.

40. Which one is the type of indirect tax imposed on luxury items and other goods that are demand inelastic when the goods is imported? (1)

- A. Value added tax
- B. Turnover tax
- C. ✓ **Excise tax**
- D. Withholding tax

Answer: C

Excise taxes are indirect taxes typically levied on specific luxury items, non-essential goods, or items with inelastic demand (such as alcohol, tobacco, and high-end vehicles) when they are manufactured or imported.

41. Which one of the following explains climate change? (1)

- A. ✓ **It refers to an average weather pattern over many years.**
- B. It is expressed in terms of daily changes in rainfall and humidity.
- C. It is a short term changes in the atmosphere conditions.
- D. It is the problem of the developed world only.

Answer: A

Climate change is defined as long-term, significant shifts in global or regional climate and average weather patterns over extended periods, typically decades or longer.

42. Which one of the following indicates the direct health dimension of the impacts of climate change? (1)
- A. Drought
 - B. Expansion of desertification
 - C. Water shortages
 - D. ✓ **Malaria**

Answer: D

Malaria represents a direct health dimension of climate change, as rising temperatures and changing rainfall patterns expand the geographic range and transmission seasons of vector-borne diseases.

43. Which one of the following is said to have more than 20% contribution to harmful greenhouse gas emissions in the developing countries? (1)
- A. Burning of fossil fuel
 - B. Carbon dioxide emission
 - C. ✓ **Deforestation**
 - D. Nitric oxide emission

Answer: C

Deforestation and forest degradation, particularly in developing countries, release large amounts of stored carbon dioxide into the atmosphere, contributing significantly (about 20%) to global greenhouse gas emissions.

44. The effort that poor developing economies exerts to bring growth and development is jeopardized due to (1)
- A. lack of support for adaptation from the developed countries
 - B. allocation of a good proportion of their budget to finance adaptation
 - C. ✓ **high dependence on climate sensitive resources**
 - D. absence of mitigation and adaptation mechanisms

Answer: C

The economic growth of developing nations is highly vulnerable to climate change because their economies depend heavily on climate-sensitive sectors like rain-fed agriculture, forestry, and fisheries.

45. What action has been taken by the government to address climate change problems in Ethiopia? (1)
- A. ✓ **Implementation of Climate Resilient Green Economy facility**
 - B. Taxes on carbon emission to avoid the problem of climate change
 - C. Provision of incentives to encourage technological progress
 - D. Achieving economic growth and development in any possible ways

Answer: A

Ethiopia established the Climate Resilient Green Economy (CRGE) facility and strategy in 2011 to coordinate and finance activities aimed at addressing climate change while building a green economy.

46. Which one of the following features characterizes the National development plan during the Derg period? (1)
- A. The main development strategy was agriculture led development
 - B. Private commercial farming was encouraged
 - C. Land tenancy still existed
 - D. ✓ **Cooperatives were encouraged**

Answer: D

During the socialist Derg regime (1974–1991), the government nationalized land and strongly promoted agricultural and peasant cooperatives as a primary rural development strategy.

47. Which one of the following is the key priority area that is considered to be the basis for the locally developed economic reform program recently? (1)

- A. Sustainable rural development
- B. Widening the demographic dividend
- C. Uni - polar source of growth
- D. ✓ **Inclusive financial sector development**

Answer: D

Inclusive financial sector development is a key priority under the macroeconomic pillar of Ethiopia's Home-Grown Economic Reform (HGER) program, aiming to expand access to finance and savings mobilization.

48. Which one of the following factor is the one that necessitated the formation of the home-grown economic reform in Ethiopia? (1)

- A. The crowding out public investment by private investment
- B. The failure of gradual transition from private to public sector led growth
- C. ✓ **Failure to create additional job opportunities**
- D. Continuous inflow of external finance

Answer: C

The Home-Grown Economic Reform (HGER) program was necessitated by structural bottlenecks in the previous model, which failed to generate sufficient jobs for the growing youth population and suffered from public-sector crowding out.

49. Which one of the following is duly emphasized in one of the home-grown economic reform called sectoral reform? (1)

- A. Service sectors
- B. External Trade
- C. Internal trade
- D. ✓ **Tourism**

Answer: D

The sectoral reform pillar of the HGER targets five key sectors to drive economic growth: Agriculture, Manufacturing, Mining, ICT, and Tourism.

50. Which one of the three home-grown economic reforms is mainly concerned with minimizing external loan and rescheduling the existing external public debt? (1)

- A. Growth and transformation plan
- B. ✓ **Macroeconomic reform**
- C. Sectoral reform
- D. Structural reform

Answer: B

The macroeconomic reform pillar of the HGER focuses on correcting imbalances by managing public debt, rescheduling external loans, reducing inflation, and stabilizing the exchange rate.

51. Which of the following indicates the rank of Ethiopia in its human development despite the effort made to reduce the headcount poverty over the past twenty years? (1)

- A. ✓ **Low human development index**
- B. Low Gini coefficient
- C. Low poverty gap
- D. Low headcount ratio

Answer: A

Despite significant progress in reducing headcount poverty over the last two decades, Ethiopia remains ranked in the Low Human Development category of the Human Development Index (HDI).

52. Which one of the following is the common feature of both "Idir" and "Iqub"? (1)
- A. In both, members assist each other on a rotational basis.
 - B. Both are formal financial institutions.
 - C. ✓ **"Mutual benefit" is the basis among their members.**
 - D. In both, the strings ties among the members encourage defaults.

Answer: C

Both 'Idir' (a funeral and emergency association) and 'Iqub' (a rotating savings association) are informal, community-based financial institutions built on the foundation of mutual benefit and social trust.

53. What was the objective of the first five year development plan that was formulated during the imperial era from 1957 to 1961? (1)
- A. ✓ **Expansion of educational opportunities**
 - B. Promotion of commercial agriculture
 - C. Product diversification
 - D. Promotion of industries aiming towards export

Answer: A

The First Five-Year Plan (1957–1961) focused primarily on developing infrastructure (such as transport, communication, and power generation) and expanding basic educational and training opportunities to build human capacity.

54. Which one of the following development plan of the imperial period had more focus on the agriculture sector to address the problem of increasing food shortages? (1)
- A. The First five year plan
 - B. The Second five year plan
 - C. ✓ **The Third five year plan**
 - D. The Fourth Five year plan

Answer: C

The Third Five-Year Plan (1968–1973) shifted more focus toward agricultural development, aiming to modernize both peasant and commercial agriculture to address persistent food shortages and supply raw materials.

55. In Ethiopia, which of the following has got particular attention in the past yet characterized as the lowest productive in its performance? (1)
- A. ✓ **Agricultural sector**
 - B. Mining sector
 - C. Tourism sector
 - D. Trade sector

Answer: A

The agricultural sector has historically received substantial policy focus in Ethiopia (such as through the ADLI strategy), yet it remains characterized by very low productivity due to traditional farming practices and reliance on rainfed systems.

56. What does the Gini coefficient of 1 represent? (1)
- A. Perfect equality of income
 - B. Moderate inequality of income
 - C. Moderate equality of income
 - D. ✓ **All income owned by one person**

Answer: D

The Gini coefficient ranges from 0 to 1, where 0 represents perfect income equality and 1 represents absolute inequality, meaning all the income is owned by a single person.

57. Which one of the following country has made great success in lifting millions of people out of poverty in the past three decades? (1)
- A. Brazil
 - B. Russia
 - C. ✓ **China**
 - D. Ethiopia

Answer: C

China's economic reforms and rapid growth over the past three to four decades have lifted more than 800 million people out of extreme poverty, representing the largest poverty reduction in human history.

58. What is the reason for extreme poverty to remain a challenge in Sub-Saharan African countries? (1)
- A. Existence of efficient institutions
 - B. ✓ **Absence of mitigation policies**
 - C. Lack of growth and development plans
 - D. Lack of using indigenous knowledge

Answer: B

Extreme poverty persists in Sub-Saharan Africa due to a combination of weak institutions, high population growth, and the lack or ineffective implementation of comprehensive poverty mitigation policies and safety nets.

59. What is the reason for women to experience extreme poverty in the developing world? (1)
- A. Dominance of male-headed households
 - B. The earning capacity of women is high
 - C. ✓ **Their control over their spouses' income is limited**
 - D. Their access to the formal sector employment is high

Answer: C

In many developing nations, gender inequality within households means that women have limited control over their spouses' income or household assets, disproportionately exposing them to extreme poverty and deprivation.

60. Which one of the following is among the measures that should not be considered to alleviate the problem of poverty facing women? (1)
- A. Adoption of policy that integrates women in various programs and influences their welfare
 - B. Increasing female participation in education and other training programs
 - C. Enhancing female participation in formal sector employment
 - D. ✓ **Discouraging women activity in agricultural extension programmes**

Answer: D

Discouraging women's participation in agricultural extension programs would harm their productivity and income, so it is not a measure that should be considered to alleviate poverty among women.

61. Which one of the following expresses the classical view? (1)
- A. ✓ **The economy will move towards full employment of GDP is necessary.**
 - B. Expansionary fiscal or monetary policy is necessary.
 - C. Demand side policies only affect the real wages, employment and output.
 - D. Monetary policy has effects on the real sphere of the economy.

Answer: A

Classical economists believe that the market is self-correcting and that the economy will automatically move toward full-employment GDP in the long run without government intervention.

62. What is the important lesson the world has learnt from the 1930's Great Depression? (1)
- A. The self-correcting feature of the market works
 - B. The additional government spending will stimulate unemployment.
 - C. The possibility of real GDP to fall below the potential GDP is nil.
 - D. ✓ **The importance of active stabilization policies**

Answer: D

The Great Depression of the 1930s demonstrated that market forces are not always self-correcting, highlighting the need for active government stabilization policies (Keynesian demand-management) to combat severe recessions.

63. Which one of the following school of thoughts suggested that the Central bank should follow a constant growth rule for some monetary aggregate to address macroeconomic problems? (1)
- A. Keynesian
 - B. Classical
 - C. ✓ **Monetarism**
 - D. New Keynesian

Answer: C

Monetarism, pioneered by Milton Friedman, argues that central banks should adhere to a constant money growth rule (growing the money supply at a fixed, predictable rate) to maintain long-run price stability.

64. Which one of the following is the component of aggregate demand that includes private purchases of structures, equipment's and accumulation of inventories? (1)
- A. Consumption
 - B. ✓ **Investment**
 - C. Government Purchases
 - D. Net Exports

Answer: B

Gross private domestic investment is the component of aggregate demand that includes business expenditures on capital structures, machinery and equipment, and net changes in business inventories.

65. In macroeconomics, the current consumption expenditure is likely to increase due to (1)
- A. expectation of lower price in the future
 - B. increase in income tax
 - C. increase in interest rate
 - D. ✓ **expectation of higher future income**

Answer: D

An expectation of higher future income shifts current consumption upwards as households feel wealthier and increase their current spending in anticipation of their future gains.

66. Which one of the following is a branch of economics that studies about the aggregate behavior of the economy? (1)
- A. Microeconomics
 - B. ✓ **Macroeconomics**
 - C. International economics
 - D. Development economics

Answer: B

Macroeconomics is the branch of economics that studies the behavior, structure, performance, and decision-making of an entire economy as a whole, rather than individual markets.

67. Among the following, which one is a macroeconomic issue? (1)
- A. Actions of an individual agent within an economy
 - B. The economic activities of a consumer, a producer or industry
 - C. Resource allocation or price determination as central problem
 - D. ✓ **Structure and performance of the economy as a whole**

Answer: D

While microeconomics deals with individual economic units (consumers, firms, and industries), macroeconomics focuses on aggregates and the structure and performance of the economy as a whole.

68. Which of the following is used to calculate GDP by adding all the incomes accruing to all factors of production used in producing the national output? (1)
- A. Product approach
 - B. Expenditure approach
 - C. ✓ **Income approach**
 - D. Value added approach

Answer: C

The income approach calculates gross domestic product (GDP) by summing all of the factor incomes earned by households, including wages, rent, interest, and profits, plus taxes and depreciation.

69. Which one of the following characterizes period of expansion in the business cycle? (1)
- A. Unemployment rises at this stage.
 - B. ✓ **The pressure on prices is upward.**
 - C. Economic growth slows down.
 - D. Full employment occurs at this stage.

Answer: B

During the expansion phase of a business cycle, rising aggregate demand and economic activity put upward pressure on the price level, which can lead to inflation.

70. In which of the following is the market values of country's exports and imports of goods and services are shown? (1)
- A. Capital account
 - B. Terms of trade
 - C. ✓ **Current account**
 - D. Budget surplus

Answer: C

The current account of the balance of payments records a nation's net trade in goods and services (exports minus imports), along with net earnings on cross-border investments and net transfer payments.

71. Which one of the following is the problem of taxation in Ethiopia that is considered to be legal from the point of view of law but poses problems on the tax administration? (1)
- A. Tax evasion
 - B. ✓ **Tax avoidance**
 - C. Tax compliance
 - D. Unreported transaction

Answer: B

Tax avoidance is the legal arrangement of one's financial affairs to minimize tax liability. Though legal, it creates administrative difficulties and reduces national tax revenues.

72. What remedial solutions do you think should be put in place to alleviate tax collection problem in Ethiopia? (1)
- A. ✓ **Provide client oriented service to tax payers**
 - B. Lowering the tax rate far below the current rate
 - C. Following broad based tax system
 - D. Adopting expansionary fiscal policy

Answer: A

Providing client-oriented services helps simplify tax compliance procedures, improves taxpayer education, and fosters trust, which directly mitigates tax administration and collection issues in Ethiopia.

73. The World Bank defines poverty as "the pronounced deprivation in wellbeing". Which one of the following is NOT the implication of wellbeing? (1)
- A. The poor are those who do not have any control over commodities.
 - B. It relates poverty with some specific types of consumption.
 - C. It relates to lack of key capability to function in the society.
 - D. ✓ **Poverty is only about the lack of one thing, food.**

Answer: D

Defining poverty as deprivation in well-being implies a multi-dimensional perspective; hence, viewing poverty as strictly the lack of a single commodity like food is incorrect.

74. Which one of the following is a uni-dimensional measure of poverty that helps to understand the degree of income-inequality among the poor? (1)
- A. Total poverty gap
 - B. ✓ **The Foster - Greer - Thorbecke index**
 - C. Multidimensional poverty index
 - D. Poverty headcount ratio

Answer: B

The Foster-Greer-Thorbecke (FGT) index includes the squared poverty gap (P_2), which is a uni-dimensional measure that captures the severity of poverty by accounting for income inequality among the poor.

75. One of the following shows the proportion of total national income that factors of production receives, which one is it? (1)
- A. Personal distribution of income
 - B. Size distribution of income
 - C. ✓ **Functional distribution of income**
 - D. Income distribution

Answer: C

The functional distribution of income describes how the total national income is distributed among the different factors of production (land, labor, capital, and entrepreneurship) in the form of rent, wages, interest, and profit.

76. Suppose that the nominal wage that the firm has agreed to pay for worker is birr 60 per hour. What is the change in the real wage rate if the price level as measured by the price index increases from 2.50 to 3.00? (1)
- A. The real wage rises by 4 birr.
 - B. ✓ **The real wage declined by 4 birr.**
 - C. The real wage declined by 6 birr.
 - D. The real wage rises by 6 birr.

Answer: B

The initial real wage is $60 / 2.50 = 24$ Birr, and the final real wage is $60 / 3.00 = 20$ Birr, resulting in a decline of 4 Birr.

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