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Economics, 2017 EC, social science, entrance exam

Grade 12 · Economics · 2017 E.C.

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Time allowed: 120 minutes **Questions:** 85 **Total marks:** 85

1. Which one of the following is a determinant of aggregate demand? (1)

A. ✓ Availability of credit
B. Cost of inputs
C. State of technology
D. Change in productivity

Answer: A

Aggregate demand is total planned spending in the economy: consumption, investment, government spending and net exports. Anything that changes one of those four parts shifts the aggregate demand curve. Easy and cheap credit lets households borrow for big purchases and lets firms borrow to invest, so consumption and investment both rise.

The other three choices work on the cost or capacity side of production, so they shift aggregate supply instead. Cost of inputs is the most tempting: it changes what firms are willing to produce at each price level, not what buyers plan to spend.

Textbook: Economics Grade 12, Unit 2 Aggregate Demand and Aggregate Supply Analysis, section 2.1.3 Shifts in the Aggregate Demand Curve (page 30).

2. What is the effect of an exogenous increase in government spending? (1)

A. ✓ Aggregate demand shifts to the right increasing both output and price level.
B. Aggregate demand shifts to the left increasing both output and price level.
C. Aggregate demand shifts to the left decreasing output and increasing price level.
D. Aggregate demand shifts to the right increasing output but decreasing price level.

Answer: A

Government spending is one of the four parts of aggregate demand. When the government spends more for reasons outside the model, planned spending at every price level goes up, so the aggregate demand curve shifts to the right.

The short run aggregate supply curve slopes upward. Sliding to the right along it gives a higher output and a higher price level at the same time.

Choice D fails because output and the price level move together along an upward sloping supply curve. They cannot rise and fall at the same time.

Textbook: Economics Grade 12, Unit 2, section 2.3.1 Shocks to Aggregate Demand (page 43).

3. Which one of the following is correct about factors affecting aggregate supply? (1)

A. Higher price of imported raw materials leads to firms to produce more.
B. Lower demand for commodities in the market initiates firms to produce more.
C. Subsidizing domestic industry in technology leads to decrease production.
D. ✓ Qualified high managerial ability leads to firms to produce more production.

Answer: D

Aggregate supply rises when firms can produce more at the same price level. Better managers plan, organise and use resources more efficiently, so output per unit of input goes up and supply increases.

Each of the other choices reverses the real effect. Costlier imported raw materials cut production, weaker demand for goods does not push firms to produce more, and a technology subsidy lowers costs so it raises production rather than cutting it.

Textbook: Economics Grade 12, Unit 2, section 2.2 Aggregate Supply (page 35).

4. Among the following statements, which one is correct about the short-run aggregate supply curve? (1)

A. It shows the quantity demanded at different price levels, ceteris paribus.

B. It reveals that as price level rises, firms decrease the quantity supplied of goods.

C. ✓ **It shows the quantity supplied of output at various price levels, ceteris paribus.**

D. It reveals that as price level drops, firms increase the quantity supplied of goods.

Answer: C

The short run aggregate supply curve shows how much total output firms are willing to supply at each price level, holding everything else constant. It slopes upward, so a higher price level goes with a larger quantity supplied.

Choice A describes the aggregate demand curve, not supply. Choices B and D both reverse the direction of the relationship.

Textbook: Economics Grade 12, Unit 2, section 2.2.2 The Upward Sloping Aggregate Supply Curve: The Short Run (page 36).

5. Which one of the following is true about short-run equilibrium in the economy? (1)

A. The occurrence of a shortage of goods leads to firms decrease output and consumption decrease consumption.

B. ✓ **It is the intersection of aggregate demand and aggregate supply.**

C. The occurrence of a surplus of goods leads to firms decrease output and consumption increase consumption.

D. It is the intersection of long-run and short-run aggregate supply curves.

Answer: B

Short run equilibrium is the point where the aggregate demand curve cuts the short run aggregate supply curve. That crossing fixes both the equilibrium price level and equilibrium real output.

Choices A and C describe what happens when the economy is away from equilibrium, so they are adjustments and not the definition. Choice D is tempting, but where short run and long run supply meet only tells you about potential output; it says nothing about demand.

Textbook: Economics Grade 12, Unit 2, section 2.3 Equilibrium of Aggregate Demand and Aggregate Supply (page 41).

6. Suppose the price level changed from the equilibrium of aggregate demand and short run aggregate supply in an economy. Which of the following is true about the result? (1)

A. At a lower price level, there will be surplus, and the price level decreases.

B. At a higher price level there will be shortage, and the price level increases.

C. ✓ **At a lower price level, there will be shortage and the price level rises.**

D. At a higher price level there will be surplus, and the price level increases.

Answer: C

Aggregate demand slopes downward and short run aggregate supply slopes upward. Below the equilibrium price level, the quantity demanded is larger than the quantity supplied, so the economy faces a shortage.

Buyers compete for the limited goods and firms raise prices, so the price level climbs back toward equilibrium. Above the equilibrium price level the opposite happens: a surplus forms and the price level falls, which is why choices B and D are wrong.

Textbook: Economics Grade 12, Unit 2, section 2.3 Equilibrium of Aggregate Demand and Aggregate Supply (page 41).

7. Which one of the following statements correctly describe market failure? (1)

A. The individual incentives for rational behavior lead to rational outcomes for the group.

B. The price mechanisms accounts for all the costs and benefits to provide and consume a good.

C. The steady state equilibrium in which quantity supplied is equal to quantity demanded.

D. ✓ **The inefficient distribution of goods and services in the free market.**

Answer: D

Market failure means the free market allocates goods and services inefficiently, so society does not get the best outcome from its scarce resources. Too much or too little of a good is produced compared with what society would choose.

Choices A and B describe a market that is working well, and choice C is simply the definition of equilibrium. A working market is the opposite of market failure.

Textbook: Economics Grade 12, Unit 3 Market Failure and Consumer Protection, section 3.1 Market Failure (page 49).

8. Which one of the following is a solution for the market failure caused by a firm that pollutes a river? (1)

A. ✓ **Taxing the polluting firm**

B. Subsidizing the polluting firm

C. Encouraging the polluting firm

D. Renting the polluted river

Answer: A

River pollution is a negative externality: the firm passes a cost on to people who are not part of the sale. A tax on the polluting firm forces it to pay for that damage, so the cost now shows up in its own accounts.

Once polluting is expensive, the firm cuts back or cleans up, and output moves closer to the socially efficient level. A subsidy or encouragement would do the reverse and make the pollution worse.

Textbook: Economics Grade 12, Unit 3, section 3.3 Externalities (page 55).

9. Which one of the following explains the free rider problem in an economy? (1)

A. Free ridership is a problem that arises due to the excludable nature of public goods.

B. ✓ **Individuals get the benefits of public goods without contributing anything to the cost.**

C. All individuals have the incentive to pay for the public good.

D. The free rider problem enables the markets operate efficiently for public goods.

Answer: B

Public goods are non excludable, which means nobody can be shut out of the benefit. So a person can enjoy street lighting or national defence while paying nothing toward it, and that person is a free rider.

Because people can enjoy it for free, few volunteer to pay, and the private market supplies too little of the good. Choice A gets the property backwards: free riding comes from non excludability, not from excludability.

Textbook: Economics Grade 12, Unit 3, section 3.2 Public Goods (page 51).

10. Among the following alternatives, which one represents a positive externality? (1)

A. Playing loud music in the neighborhood

B. Smoking in public places

C. ✓ **Vaccination program in the neighborhood**

D. Overgrazing cows in the common pasture lands

Answer: C

A positive externality is a benefit that spills over to people outside the transaction. A vaccination programme protects the person vaccinated and also lowers the chance that neighbours catch the disease, so the whole community gains.

Loud music, public smoking and overgrazing all push a cost onto other people, so those three are negative externalities.

Textbook: Economics Grade 12, Unit 3, section 3.3 Externalities (page 55).

11. Asymmetric information is a situation when; (1)

A. ✓ **buyers and sellers have different types of information.**

B. buyers and sellers have the same type of information.

C. buyers and sellers want to be free riders.

D. buyers and sellers lack agreement on the price.

> **Answer:** A
>
> Asymmetric information means one side of a deal knows more than the other side. The seller of a used car knows its faults; the buyer does not.
>
> That gap in knowledge is what makes the market fail, because the less informed side cannot judge quality properly. Choice B describes the opposite situation, where information is equal and the market works well.
>
> **Textbook:** Economics Grade 12, Unit 3 Market Failure and Consumer Protection, section 3.4 Asymmetric Information (page 60).

12. When an individual builds on their skills by acquiring more education/training, the individual is trying to (1)

A. free ride the employer.

B. screen the employer.

C. create externality for the employer.

D. ✓ **signal to the employer.**

> **Answer:** D
>
> Signalling is when the better informed side does something costly to prove its quality to the less informed side. A worker knows their own ability; the employer does not, so the worker gets a certificate or extra training to show it.
>
> Screening is the mirror image and it is the tempting wrong answer here: screening is what the employer does, for example by setting tests or entry requirements. The person studying is sending the message, not collecting it.
>
> **Textbook:** Economics Grade 12, Unit 3, section 3.4 Asymmetric Information (page 60).

13. Why is it necessary the need for consumer protection? (1)

A. ✓ **Consumers often do not exercise their rights.**

B. Sellers compete with each other aggressively.

C. Consumers' interest and business survival are unrelated.

D. Consumers have the same information as sellers.

> **Answer:** A
>
> Consumer protection exists because buyers are in a weak position in the market. They have the right to be safe from faulty goods and poor services, but many of them never use those rights because of lack of awareness, ignorance or simple carelessness.
>
> That is exactly why the law has to step in with safety rules, product standards and complaint procedures. Choice D describes information being equal, which would remove much of the need for protection in the first place.
>
> **Textbook:** Economics Grade 12, Unit 3, section 3.5 Consumer Protection (page 63).

14. Which one of the following is among the general objectives of macroeconomic policy? (1)

A. Cost minimization

B. Income inequality

C. ✓ **Healthy balance of payment**

D. Profit maximization

> **Answer:** C
>
> Macroeconomic policy aims at goals for the whole economy: fast and steady growth, high employment, stable prices, fair income distribution and a healthy balance of payments. A healthy balance of payments is on that list.
>
> Cost minimisation and profit maximisation are goals of a single firm, so they belong to microeconomics. Income inequality is a problem policy tries to reduce, not a goal to aim at.
>
> **Textbook:** Economics Grade 12, Unit 4 Macroeconomic Policy Instruments, section 4.1 Definition and Types of Macroeconomic Policies (page 72).

15. Among the following alternatives, which one is a monetary policy tool? (1)

A. Taxation

B. ✓ **Discount rate**

C. Transfer payments

D. Grants in aid

Answer: B

Monetary policy is run by the central bank and works through the money supply and the cost of money. Its tools are open market operations, the reserve requirement and the discount rate, which is the rate the central bank charges commercial banks that borrow from it.

Taxation, transfer payments and grants in aid are all government spending and revenue items, so they are fiscal policy tools handled by the government, not the central bank.

Textbook: Economics Grade 12, Unit 4, section 4.3.1 Tools of Monetary Policy (page 79).

16. Which one of the following is NOT a financial sector reform component of the macroeconomic reforms of the Home Grown Economic Reforms? (1)

A. ✓ **Reduce the supply of credit to the private sector**

B. Promote market based interest rate

C. Strengthen the capacity of the National Bank of Ethiopia

D. Establish and expand capital markets

Answer: A

The financial part of the Home Grown Economic Reform aims to widen credit for private investment, not to cut it. Its listed measures are a market based interest rate and exchange rate, establishing and expanding capital markets, and strengthening the supervisory capacity of the National Bank of Ethiopia.

Since the question asks which item is NOT part of the reform, the answer is the one that reverses the goal: reducing credit to the private sector.

Textbook: Economics Grade 12, Unit 7 Macroeconomic Reforms in Ethiopia, section 7.2.1 Macroeconomic Reforms (page 169).

17. Which one of the following is an advantage of fiscal decentralization? (1)

A. Local externalities

B. Inefficient tax system

C. Ineffectiveness of redistributing program

D. ✓ **Fostering intergovernmental competition**

Answer: D

The textbook lists three advantages of a decentralised system: tailoring output to local tastes, fostering competition between governments, and experimenting with new ways of providing local public goods. Competition matters because citizens can move between areas, which pushes local officials to run services well.

Local externalities, an inefficient tax system and weak redistribution programmes are all listed on the other side, as disadvantages of decentralisation.

Textbook: Economics Grade 12, Unit 7, section 7.3.1 Disadvantages and Advantages of Decentralized System (page 176).

18. Which one of the following is true regarding the link between population growth and the environment? (1)

A. Rapid population growth reduces disguised unemployment and increases per capita productivity.

B. ✓ **Rapid population growth accompanied by heavy rural-urban migration could lead to urban pollution.**

C. Rapid population growth leads to capital formation and accelerated rural development due to high propensity to save and invest.

D. Rapid population growth enables improvement in land to man ratio due to the elastic supply of land.

Answer: B

Fast population growth in the countryside pushes many people to move into towns. Cities then grow faster than their housing, water, sanitation and transport can cope with, and air and water pollution get worse.

The other three choices claim that rapid population growth improves productivity, savings or the land to man ratio. Land is fixed in supply, so more people on the same land makes that ratio worse, not better.

Textbook: Economics Grade 12, Unit 8 Economy, Environment and Climate Change, section 8.1.2 Urban Development and Environment (page 187).

19. Rural development is a strategy focused on (1)

A. capital intensive resources

B. technology intensive resources

C. increasing rural-urban migration

D. ✓ **the utilization of natural resources**

Answer: D

Rural development is described as a strategy that works through the use of natural resources to solve rural problems. It raises farm output and supports schooling, health, water supply and care of the environment in rural areas.

Capital intensive and technology intensive methods suit industry, and rural development tries to slow rural to urban migration rather than speed it up.

Textbook: Economics Grade 12, Unit 8, section 8.1.1 Rural Development and Environment (page 186).

20. Which one of the following best describe climate change? (1)

A. ✓ **Persistent variation in the mean state of climate**

B. A short lived change in the weather from day to day

C. A decline in forest coverage through deforestation

D. Release of greenhouse gases in to the atmosphere

Answer: A

Climate change is a lasting shift in the average state of the climate, measured over decades rather than days. Temperature, rainfall and the pattern of extreme events all move away from their old averages.

Choice B is weather, which changes from day to day. Deforestation and greenhouse gas emissions are causes of climate change, so they explain why it happens but they do not define what it is.

Textbook: Economics Grade 12, Unit 8, section 8.2.2 Climate Change (page 192).

21. Which one of the following is true about income policy? (1)

A. ✓ **It stabilizes wages and prices.**

B. It facilitates money supply.

C. It stabilizes the interest rate.

D. It encourages reduction of taxes.

Answer: A

Income policy is an economy wide control on wages and prices, usually brought in to fight inflation. It runs from voluntary guidelines up to compulsory wage and price freezes.

So its direct target is the level of wages and prices. Money supply and the interest rate belong to monetary policy, and tax cuts belong to fiscal policy.

Textbook: Economics Grade 12, Unit 4 Macroeconomic Policy Instruments, section 4.4 Income Policy and Wage (page 84).

22. Consider the market for teff, what will be the impact of a government imposition of a price floor? (1)

A. The price floor is below the equilibrium price of teff resulting in shortage of teff.

B. The price floor is above the equilibrium price of teff resulting in shortage of teff.

C. The price floor is below the equilibrium price of teff resulting in surplus of teff.

D. ✓ **The price floor is above the equilibrium price of teff resulting in surplus of teff.**

> **Answer:** D
>
> A price floor is a legal minimum price. It only bites when it is set above the equilibrium price, because a floor below equilibrium would leave the market free to trade at the higher equilibrium price anyway.
>
> At that high legal price farmers want to sell more teff than buyers want to buy, so quantity supplied is greater than quantity demanded. The unsold teff is the surplus.
>
> Choice B is the classic trap: it puts the floor in the right place but predicts a shortage, which is what a price ceiling causes.
>
> **Textbook:** Economics Grade 12, Unit 4, section 4.4 Income Policy and Wage (page 88), on price floors and price ceilings.

23. In a free market for labor, the wage rate is determined such that (1)

A. the demand of labor is greater than the supply of labor.

B. ✓ **perfect, costless information and labour mobility.**

C. the government sets the minimum wage.

D. the supply of labor is greater than the demand for labor.

> **Answer:** B
>
> In a free labour market the wage is set where labour demand meets labour supply. For that to happen the market must be competitive, and the textbook lists its features: many firms hiring, many equally skilled workers, wage taking behaviour, and perfect costless information with free movement of labour.
>
> Choices A and D describe a market that has not yet cleared, and choice C describes government control, which is the opposite of a free market.
>
> **Textbook:** Economics Grade 12, Unit 4, section 4.4 Income Policy and Wage (page 85), determination of wage rates in a free market.

24. Which one of the following is the disadvantage of the floating exchange rate regime? (1)

A. Correction of balance of payments deficits

B. Protection from external shocks

C. Governments are free to pursue other policies

D. ✓ **Instability and uncertainty facing firms and consumers**

> **Answer:** D
>
> Under a floating regime the exchange rate is set by supply and demand and can move every day. Importers, exporters and consumers cannot be sure what their prices will be next month, so planning and long term contracts become risky.
>
> The other three choices are the advantages of floating: the rate corrects a balance of payments deficit on its own, it absorbs some external shocks, and it frees the government to use monetary policy for domestic goals.
>
> **Textbook:** Economics Grade 12, Unit 4, section 4.5 Foreign Exchange Policies (page 89).

25. What is the correct name for a decrease in the exchange rate due to market forces? (1)

A. ✓ **Depreciation**

B. Devaluation

C. Appreciation

D. Revaluation

Answer: A

Depreciation is a fall in the value of a currency caused by market forces, meaning supply and demand in the foreign exchange market. More birr are then needed to buy one unit of foreign currency.

Devaluation is the tempting wrong answer. It is also a fall in value, but it is a deliberate government decision under a fixed exchange rate, not a market outcome.

Textbook: Economics Grade 12, Unit 4, section 4.5 Foreign Exchange Policies (page 89).

26. Among the following statements, which one is correct about taxation? (1)

A. It is payment made to government to obtain direct benefit in return.

B. ✓ **It is the compulsory, unrequited payments to general government.**

C. It is payments that individuals make to government if they want.

D. It is the only source of revenue for the government for personal use.

Answer: B

Tax is a compulsory and unrequited payment to general government. Compulsory means you cannot refuse to pay it, and unrequited means you receive no specific service in exchange for your particular payment.

Choice A fails on unrequited, choice C fails on compulsory, and choice D is wrong twice over: government also earns non tax revenue, and tax money is public money, never personal.

Textbook: Economics Grade 12, Unit 5 Tax Theory and Practice, section 5.1.1 Definition and Terminologies in Taxation (page 103).

27. Which one of the following is the main objective of taxation? (1)

A. ✓ **Stabilizing the economy**

B. Minimizing income equalities

C. Encouraging import

D. Reducing regional balance

Answer: A

The textbook lists the objectives of taxation, and stabilising the economy is one of them. Government raises or lowers taxes to cool down inflation or to support demand in a downturn.

Encouraging imports is not an objective; the list actually mentions encouraging exports. Choices B and D read like the two real objectives written backwards, since the textbook says minimise income and wealth *inequalities* and reduce regional *imbalance*.

Textbook: Economics Grade 12, Unit 5, section 5.1.2 Objectives of Taxation (page 104).

28. In United Kingdom (UR), what is the main objective of a "sin tax" on products like tobacco? (1)

A. Encouraging administrative efficiency

B. Encouraging consumption

C. ✓ **Reducing consumption**

D. Stabilizing the economy

Answer: C

A sin tax is put on goods that harm health, such as tobacco and alcohol. It raises the shop price so that fewer people buy the product.

The aim is public health: cut consumption and cut the damage the product does to smokers and to those around them. Revenue is collected too, but discouraging use is the reason the tax targets these goods in particular.

Textbook: Economics Grade 12, Unit 5, section 5.1.2 Objectives of Taxation (page 104).

29. Which one of the following correctly states about tax incidence? (1)

A. ✓ **It relates to the way the burden of tax is distributed among economic units.**

B. It points out who is illegally responsible for paying the tax from the income.

C. It is imposing high taxes on high-income earners without any consideration.

D. It is the way of discouraging low-income earners from paying taxes.

Answer: A

Tax incidence is about who really carries the burden of a tax. The person who hands the money to the tax office is not always the one who ends up poorer, because the burden can be passed on through higher prices or lower wages.

Choice B names the legal duty to pay, which is a different idea called the impact of a tax. Incidence is the economic burden after all the shifting has happened.

Textbook: Economics Grade 12, Unit 5, section 5.1.1 Definition and Terminologies in Taxation (page 103).

30. Which one of the following is the characteristic feature of a good tax system? (1)

A. It creates income inequalities.

B. It is complex and financially inelastic.

C. ✓ **It enables optimum allocation of resources.**

D. It is narrow based-tax and is levied only on income.

Answer: C

A good tax system should be fair, simple, certain, broad based and efficient. Efficiency means the tax does as little damage as possible to production, saving and investment decisions, so resources still flow where they are most useful.

The other three choices are faults, not features. A good system narrows income gaps, stays simple and elastic, and rests on a broad base rather than on income alone.

Textbook: Economics Grade 12, Unit 5, section 5.1.4 Characteristics of a Good Tax System (page 106).

31. Which one of the following is the focus area of macroeconomics? (1)

A. Profit maximization of a corporation

B. The growth of a firm in the economy

C. Cost minimization of a specific company

D. ✓ **Inflation caused by different factors**

Answer: D

Macroeconomics studies the economy as a whole. Its focus areas are growth of total output, employment and unemployment, inflation, income distribution, policy and international trade.

Inflation is a rise in the general price level across the whole economy, so it belongs to macroeconomics. Profit, growth and costs of one firm are microeconomic questions.

Textbook: Economics Grade 12, Unit 1 The Fundamental Concepts of Macroeconomics, section 1.1.2 The Focus Areas of Macroeconomics (page 3).

32. In which of the following macroeconomics is different from microeconomics? (1)

A. Studying about the performance of individual firm

B. ✓ **Studying about the behavior of the aggregate economy**

C. Analyzing about the actions of individual company

D. Focusing on the specific price of products

Answer: B

The dividing line between the two branches is the size of the unit being studied. Microeconomics looks at single households, workers and firms; macroeconomics looks at the behaviour of the whole economy added together.

Choices A, C and D all name a single firm, a single company or the price of one product, so all three sit on the microeconomics side.

Textbook: Economics Grade 12, Unit 1, section 1.1.1 Definition of Macroeconomics (page 2).

33. Which one of the following is a key challenge of macroeconomics? (1)

A. Income and consumption pattern of a given household

B. The total amount of laborers hired by a given industry

C. The amount of profit earned by a given firm

D. ✓ **The number of unemployed people in a given country**

> **Answer:** D
>
> The key challenges of macroeconomics are economic growth, inflation, unemployment, the business cycle and the balance of trade. All of them are counted for the country as a whole.
>
> The number of unemployed people in a country is the national unemployment problem, so it is a macroeconomic challenge. One household budget, one industry's hiring or one firm's profit are microeconomic questions.
>
> **Textbook:** Economics Grade 12, Unit 1, section 1.2 Key Challenges in Macroeconomics (page 6).

34. Balance of trade of a country is the difference between (1)

A. gross domestic product and gross national product.

B. private and public businesses and transfers.

C. trade surplus and trade deficit.

D. ✓ **export and import earning from goods and services.**

> **Answer:** D
>
> The balance of trade is the value of what a country exports minus the value of what it imports, counting goods and services, over a given period.
>
> If exports are larger the country has a trade surplus; if imports are larger it has a trade deficit. Choice C mixes this up by defining the balance as the gap between the surplus and the deficit, which are already the two possible results of the calculation.
>
> **Textbook:** Economics Grade 12, Unit 1, section 1.2.5 Balance of Trade (page 16).

35. Which one of the following school of macroeconomic thought was predominant until the occurrence of the Great Depression? (1)

A. Monetarist

B. Keynesian

C. ✓ **Classical**

D. New Keynesian

> **Answer:** C
>
> The classical view ruled macroeconomic thinking until the Great Depression of the 1930s. Classical economists believed that flexible wages and prices keep the economy at full employment on its own, so the government should stay out of the way.
>
> Mass unemployment through the 1930s destroyed that confidence and opened the way for Keynes. Monetarist and new Keynesian ideas came decades later, so they cannot be the school that came before the Depression.
>
> **Textbook:** Economics Grade 12, Unit 1, section 1.3.2 The Classical and Neoclassical (page 18).

36. Which one of the following is the view of Classical theory? (1)

A. Fiscal policy is useful to influence output.

B. ✓ **Recession is a temporary phenomenon.**

C. Monetary policy can influence output.

D. There is a need of cutting government spending.

> **Answer:** B
>
> Classical economists trusted the market to correct itself. Wages and prices are flexible, so any fall in demand is soon cancelled by falling wages and prices and the economy returns to full employment.
>
> That makes a recession a short lived and temporary event in the classical view. Using fiscal or monetary policy to steer output is a Keynesian or monetarist idea, not a classical one.
>
> **Textbook:** Economics Grade 12, Unit 1, section 1.3.2 The Classical and Neoclassical (page 18).

37. Which one of the following macroeconomic school stressed the existence of nominal rigidities arising from nominal wage contracts? (1)

A. The new Classical

B. ✓ **Keynesian**

C. The classical

D. The monetarist

> **Answer:** B
>
> Nominal rigidity means wages cannot adjust quickly, because workers and employers have signed contracts that fix pay for several periods. The Keynesian tradition, and in particular the new Keynesians, built their case on exactly this point.
>
> Sticky wages mean a fall in aggregate demand shows up as lost jobs and lost output rather than as lower pay, which is why these economists argue for government stabilisation. The new classical school takes the opposite position and denies that nominal rigidities drive the cycle.
>
> **Textbook:** Economics Grade 12, Unit 1, section 1.3.6 New Keynesian (page 21).

38. Which one of the following is true about the differences between monetarist and Keynesian school of thought? (1)

A. Keynesians argued that aggregate demand is always automatically high.

B. Monetarists argued that fiscal policy addresses macroeconomic problems.

C. Keynesians argued that monetary policy stimulates aggregate demand.

D. ✓ **Monetarist argued that monetary policy addresses macroeconomic problems.**

> **Answer:** D
>
> Monetarists hold that the money supply is the main force behind output and prices, so monetary policy is the right instrument for macroeconomic problems. In their model fiscal policy mostly crowds out private investment and cannot move employment and output.
>
> Keynesians take the reverse position and lean on fiscal policy, especially in a slump. Choices A, B and C all swap the two schools around.
>
> **Textbook:** Economics Grade 12, Unit 1, section 1.3.4 Monetarist (page 20).

39. Which one of the following best describes about aggregate demand in a given country? (1)

A. It is the total expenditure of households and government on goods and services in a given period.

B. It is the total amount that households and firms willingly spend on the country's goods and services in a given period.

C. ✓ **It is total demand by households, firms and government on the goods and services in a given period.**

D. It is total spending by firms and government on the economy's goods and services in a given period.

> **Answer:** C
>
> Aggregate demand is the total demand for a country's goods and services in a period. It comes from households through consumption, from firms through investment, from government through its spending, and from abroad through net exports.
>
> Choice C is the only option that names households, firms and government together, so it is the fullest description on offer. Choices A, B and D each leave out at least one of those three spenders.
>
> **Textbook:** Economics Grade 12, Unit 2 Aggregate Demand and Aggregate Supply Analysis, section 2.1.1 Concept of Aggregate Demand (page 26).

40. Which one of the following is correct about factors affecting household consumption expenditure? (1)

A. Expectation of a lower future income increases consumption.

B. Decreases in wealth lead to increase in consumption.

C. Increases in interest rate increases consumption.

D. ✓ **Increases in income taxes decreases consumption.**

> **Answer:** D
>
> Consumption depends on wealth, expectations about future prices and income, the interest rate and income taxes. Higher income taxes cut disposable income, so households can spend less and consumption falls.
>
> The other three choices reverse the true effect. Expecting a lower future income makes households save more today, less wealth makes them feel poorer, and a higher interest rate makes borrowing dearer and saving more attractive.
>
> **Textbook:** Economics Grade 12, Unit 2, section 2.1.3 Shifts in the Aggregate Demand Curve (page 31), factors affecting consumption.

41. What type of policy aims at changing government spending? (1)

A. Exchange rate policy

B. Monetary policy

C. ✓ **Fiscal policy**

D. Property rights policy

> **Answer:** C
>
> Fiscal policy is the government's policy on its own spending and its revenue from taxes. Changing how much the government spends is therefore fiscal policy by definition.
>
> Monetary policy is the tempting alternative, but it works on the money supply and the interest rate and is run by the central bank, not on the government's expenditure budget.
>
> **Textbook:** Economics Grade 12, Unit 4 Macroeconomic Policy Instruments, section 4.2 Fiscal Policy (page 73).

42. In a situation when an economy is facing the problem of deficient demand, what will happen to the economy? (1)

A. Depression marked by a decline in unemployment

B. Depression marked by underproduction

C. ✓ **Depression marked by fall in incomes**

D. Enjoyment marked by a fall in prices

> **Answer:** C
>
> Deficient demand means aggregate demand falls short of the output the economy could produce at full employment. The textbook describes the result as a depression marked by overproduction, a rise in unemployment, and a fall in prices and incomes.
>
> Only choice C matches that description: incomes fall. Choice A reverses the unemployment effect, choice D replaces depression with enjoyment, and choice B says underproduction when the textbook says overproduction, because goods pile up unsold rather than run short.
>
> **Textbook:** Economics Grade 12, Unit 4, section 4.2.2 Types of Fiscal Policy (page 75), expansionary fiscal policy.

43. Which one of the following is an important role of fiscal policy in an economy? (1)

A. Increasing people's income by increasing taxes

B. ✓ **Increasing government expenditure to solve recession**

C. Solving trade deficit by increasing imports

D. Increasing government expenditure to control inflation

> **Answer:** B
>
> In a recession aggregate demand is too low, so the government uses expansionary fiscal policy. It spends more on roads, buildings and social programmes, which puts money into the economy and lifts total demand, output and jobs.
>
> Choice D is the trap: extra government spending fights recession, but to control inflation the government does the opposite and cuts spending.
>
> **Textbook:** Economics Grade 12, Unit 4, section 4.2.2 Types of Fiscal Policy (page 75).

44. Which one of the following is true regarding the impact of monetary policy on aggregate demand? (1)

A. Lowering interest rate decreases aggregate demand.

B. Increasing the discount rate increases aggregate demand.

C. An increase in money supply decreases aggregate demand.

D. ✓ **An increase in money supply increases aggregate demand.**

> **Answer:** D
>
> When the central bank increases the money supply, interest rates fall. Cheaper borrowing encourages firms to invest and households to buy on credit, so consumption and investment rise and aggregate demand increases.
>
> The other three choices all point the wrong way. A lower interest rate raises aggregate demand, and a higher discount rate makes borrowing dearer, so it lowers aggregate demand.
>
> **Textbook:** Economics Grade 12, Unit 4, section 4.3 Monetary Policy (page 78).

45. Which one of the following is the main issue of macroeconomic policy? (1)

A. Maximizing firm's profit

B. ✓ **Controlling inflation**

C. Encouraging firm's competition

D. Restructuring the market

Answer: B

Macroeconomic policy works on goals for the whole economy, and price stability is one of the central ones. Inflation eats the purchasing power of money and hurts people on fixed incomes, so governments and central banks act to keep it down.

Maximising one firm's profit and encouraging competition between firms are microeconomic concerns, so they are not the main issue for macroeconomic policy.

Textbook: Economics Grade 12, Unit 4, section 4.1 Definition and Types of Macroeconomic Policies (page 72).

46. Which one of the following was a crucial component of the second five year plan during the monarchy regime? (1)

A. Enhancement of technical and vocational education

B. Overvalued currency and implemented pricing policies

C. ✓ **Transition from an agricultural economy to an agro-industry**

D. Strengthened a political system that guaranteed administrative justice

Answer: C

The Second Five Year Plan of 1962 to 1967, under the monarchy, set out to change Ethiopia's mainly agricultural economy into an agro industrial one. It pushed large commercial farms for cotton, coffee and sugar and promoted modern processing methods.

Building infrastructure and training skilled personnel for processing industries belonged to the First Five Year Plan, so those cannot be the answer here.

Textbook: Economics Grade 12, Unit 7 Macroeconomic Reforms in Ethiopia, section 7.1.1 National Development Plan during the Imperial Period (page 150).

47. Which one of the following was the challenges Ethiopia encountered with during its implementation of the Growth and Transformation Plans I and II? (1)

A. ✓ **Sluggish structural transformation and weak sectorial linkages**

B. Actual growth performance was higher than the annual target rate.

C. The contribution of the service sector to the overall GDP was the highest.

D. The contribution of each sector to the overall economy was uniformly low.

Answer: A

The review of the Growth and Transformation Plans found that the move from low productivity agriculture to higher productivity sectors was very weak, and that the sectors were poorly linked to each other. Exports stayed dominated by a few farm products instead of shifting to manufactures.

Choices B, C and D describe results that would not be counted as challenges. Actual growth in fact fell short of the annual targets rather than beating them.

Textbook: Economics Grade 12, Unit 7, section 7.1.3 National Development Plan under FDRE (page 153).

48. Which one of the following is correct about the key strategic pillars of the ten-year development plan after reform? (1)

A. Building regional monopoly power and economy

B. ✓ **Quality economic growth and shared prosperity**

C. Public sector-led economic growth

D. Gender and social exclusion

Answer: B

The ten year development plan for 2021 to 2030 lists ten strategic pillars, and the first one is quality economic growth and shared prosperity. The other pillars include productivity and competitiveness, private sector led growth, a resilient green economy and gender and social inclusion.

Choice D is the trap: the real pillar is gender and social *inclusion*, and the option prints exclusion, which is the problem the plan sets out to remove. Choice C also reverses a pillar, since the plan calls for private sector led growth.

Textbook: Economics Grade 12, Unit 7, section 7.1.4 National Development Plan after a Reform (page 166).

49. Among the followings, which one is the objective of the Home Grown Economic Reform? (1)

A. Encouraging debt vulnerabilities.

B. Creating inadequate job opportunities

C. Transition from private to public sector-led growth

D. ✓ **Maintaining macroeconomic stability**

Answer: D

The Home Grown Economic Reform was launched with three central objectives: sustaining rapid growth, keeping a stable macroeconomic environment by reducing debt vulnerabilities, and creating enough lasting jobs.

Maintaining macroeconomic stability is therefore an objective. Choices A and B state harmful outcomes, and choice C runs the reform backwards, because it aims to move gradually from public to private sector led growth.

Textbook: Economics Grade 12, Unit 7, section 7.2 Overview of Home-grown Economic Reforms in Ethiopia (page 168).

50. One of the following correctly describes weather. Which one is it? (1)

A. It is unpredictable atmospheric conditions.

B. ✓ **It is short-term atmospheric conditions.**

C. It is rainy season occurs for long period of time.

D. It is long-term atmospheric conditions.

Answer: B

Weather is the state of the atmosphere at one place over a short period, measured in hours or days. It covers temperature, rainfall, humidity, wind and cloud.

Choice D is the tempting one, but long term atmospheric conditions averaged over many years are the climate, not the weather. Being hard to predict is a feature of weather rather than its definition.

Textbook: Economics Grade 12, Unit 8 Economy, Environment and Climate Change, section 8.2.2 Climate Change (page 192).

51. Which one of the following is the objective of the national long-term plan after the reform of 2021-2030? (1)

A. Expanding access to education and health services and achieving MDGs

B. Launching strategy of Agricultural Development Led Industrialization

C. ✓ **Maintaining macroeconomic stability, ensuring rapid sustainable economic growth and creating decent job**

D. Speed up and catalyze transformation of the domestic private sector and render them a capable development force

> **Answer:** C
>
> The national long term plan for 2021 to 2030 lists six development objectives. One of them is maintaining macroeconomic stability, ensuring rapid and sustainable economic growth, and creating decent jobs.
>
> Choice A belongs to the Millennium Development Goals period, which ended in 2015, and choice B is the older Agricultural Development Led Industrialisation strategy. Both are earlier plans, not this one.
>
> **Textbook:** Economics Grade 12, Unit 7 Macroeconomic Reforms in Ethiopia, section 7.1.4 National Development Plan after a Reform (page 166).

52. Which one of the following is true regarding the link between global warming and climate change? (1)

A. ✓ **Greenhouse gases raise atmospheric temperatures and produce other changes in the climate system.**

B. Global warming is unrelated to human activities emitting greenhouse gases.

C. There is no link between economic activity and energy emission through the greenhouse effect.

D. Burning of fossil fuels and reductions of forests that sink carbon dioxide decreases greenhouse gases.

> **Answer:** A
>
> Burning fossil fuels and clearing forests release greenhouse gases. Those gases trap heat, so average temperatures rise, and that warming then changes rainfall patterns, seasons and extreme events across the climate system.
>
> That chain is the link between global warming and climate change. Choices B, C and D deny the link or reverse it, and deforestation raises greenhouse gases rather than lowering them.
>
> **Textbook:** Economics Grade 12, Unit 8 Economy, Environment and Climate Change, section 8.2.1 Global Warming (page 191).

53. Which one of the following shows the impact of environmental degradation and climate change on economic growth? (1)

A. Improvement of food security due to length of growing seasons in arid areas

B. ✓ **Long-term changes influencing agriculture, water, health and other sectors**

C. Use of biologically renewable resources and renewable physical stock

D. Improvement in the economic well-being of the rural people

> **Answer:** B
>
> Environmental damage and a changing climate act slowly and across many sectors at once. Farming, water supply, health and other sectors all lose productivity, costs rise, and government budgets are strained, so growth slows.
>
> Choices A and D describe improvements, which is the opposite of an impact of degradation, and choice C describes a resource category rather than an effect on growth.
>
> **Textbook:** Economics Grade 12, Unit 8, section 8.2.5 Impacts of Climate Change (page 194).

54. Which one of the following is an example of mitigation strategy to tackle climate change? (1)

A. Subsidizing the use of fossil fuels

B. Reducing the role of indigenous communities

C. Destabilizing greenhouse gases

D. ✓ **Reducing the release of carbon dioxide (CO2)**

Answer: D

Mitigation means cutting the causes of climate change, that is reducing greenhouse gas emissions or removing them from the air. Carbon dioxide is the main greenhouse gas, so cutting its release is a direct mitigation measure.

Subsidising fossil fuels would increase emissions, and indigenous communities are partners in forest protection under mechanisms like REDD plus, so sidelining them works against mitigation.

Textbook: Economics Grade 12, Unit 8, section 8.2.7 Means to Address Climate Change Challenges (page 196).

55. Which one of the following is responsible for an active economic activity and emission link resulting in global warming? (1)

A. Green growth strategies

B. ✓ **Greenhouse gases**

C. Mitigation policies

D. Carbon taxes

Answer: B

Economic activity such as industry, power generation and transport releases greenhouse gases, mainly carbon dioxide, methane and nitrous oxide. Those gases build up in the atmosphere, trap heat and raise global temperatures.

Green growth strategies, mitigation policies and carbon taxes are responses designed to break that link, so they are answers to the problem rather than its cause.

Textbook: Economics Grade 12, Unit 8, section 8.2.1 Global Warming (page 191).

56. Among the following statements, which one is correct about mitigation strategy to address climate change? (1)

A. It adjusts to the potential impacts of climate change.

B. It emits the same amount of pollution across all countries.

C. ✓ **It involves long-term limits on the amount of greenhouse emissions.**

D. It intensifies use of non-renewable resources of energy.

Answer: C

Mitigation attacks the cause of climate change by holding greenhouse gas emissions down over the long term, through renewable energy, better energy efficiency and forest protection.

Choice A is the trap, because adjusting to the impacts of climate change is adaptation, which is the other half of the response. Choice D increases emissions, so it works against mitigation.

Textbook: Economics Grade 12, Unit 8, section 8.2.7 Means to Address Climate Change Challenges (page 196).

57. Which one of the following describes green economy? (1)

A. It is characterized by loss of biodiversity and ecosystem services.

B. It emits higher percentage of greenhouse gas than other economies.

C. It uses high carbon, is resource inefficient and socially exclusive.

D. ✓ **It reduces environmental risk and ecological scarcity to improve well-being.**

Answer: D

A green economy is one that improves human wellbeing and social fairness while cutting environmental risk and ecological scarcity. It is low in carbon, efficient with resources and socially inclusive.

Choices A, B and C list the faults of a high carbon, wasteful economy, which is exactly what a green economy is meant to replace.

Textbook: Economics Grade 12, Unit 8, section 8.3 Green Economy and Green Growth (page 199).

58. Which one of the following is NOT a source of renewable energy? (1)

A. Solar energy

B. ✓ **Fossil fuel energy**

C. Wind energy

D. Thermal energy

Answer: B

Renewable energy comes from sources that nature refills, such as the sun, wind, water and heat from inside the earth. Fossil fuels formed over millions of years and we burn them far faster than they can form again, so they are non renewable.

The question asks which one is NOT renewable, so the answer is fossil fuel energy. Thermal energy here means geothermal heat, which the earth keeps supplying.

Textbook: Economics Grade 12, Unit 8, section 8.3 Green Economy and Green Growth (page 199).

59. Which one of the following is correct about green growth? (1)

A. It relies on eroding the natural capital.

B. It is a carbon intensive growth strategy.

C. ✓ **It employs renewable energy and low carbon.**

D. It exacerbates environmental related risks.

Answer: C

Green growth means growing the economy while keeping natural capital healthy. In practice that means renewable energy and low carbon technology, so that output can rise without emissions rising with it.

Choices A, B and D describe growth that eats natural capital and worsens environmental risk, which is the old pattern green growth is designed to replace.

Textbook: Economics Grade 12, Unit 8, section 8.3 Green Economy and Green Growth (page 199).

60. Which one of the following is NOT a key cause of Ethiopia’s vulnerability to climate change as indicated in the policy documents of the country? (1)

A. High population growth

B. Dependence on rain-fed agriculture

C. ✓ **Carbon emission from rapid industrialization**

D. Poor water resource development

Answer: C

Ethiopia's climate policy documents, the National Adaptation Programme of Action of 2007 and the Nationally Appropriate Mitigation Actions of 2011, name three underlying causes of the country's vulnerability: dependence on rain fed agriculture, poor water resource development and a high population growth rate.

Carbon emission from rapid industrialisation is not on that list. Ethiopia's industry is still small and its emissions are low, so the question asks for this option.

Textbook: Economics Grade 12, Unit 8, section 8.4 Overview of Environment and Climate Change in Ethiopia (page 200).

61. Which of the following tax approach has the advantage of linking tax equity with the expenditure side of the public budget? (1)

A. ✓ **The benefits approach**

B. The ability to pay approach

C. The approach based on vertical equity

D. The approach based on horizontal equity

Answer: A

Under the benefits approach each taxpayer should contribute in line with the benefits they get from public services. Because you have to work out what each person gains from public spending, the tax question and the spending question are answered together.

That is its stated advantage: it ties the discussion of tax equity to the expenditure side of the public budget. The ability to pay approach looks only at the taxpayer's income or wealth, so it never touches the spending side.

Textbook: Economics Grade 12, Unit 5 Tax Theory and Practice, section 5.2.1 The Benefits Approach (page 109).

62. Which one of the following statements is correct about the nature of tax system in Ethiopia? (1)

A. The regional governments are solely responsible for tax collection.

B. The federal government is solely responsible for tax collection.

C. ✓ **The federal and regional governments share tax revenue and manage their budgets.**

D. The federal government levies taxes on behalf of the regional governments.

> **Answer:** C
>
> Ethiopia is a federal state, and the constitution of 1995 set out how tax revenue is shared. The federal government levies and collects taxes on the sources reserved to it, the regional states levy and collect taxes on theirs, and some sources are joint.
>
> Each level then draws up and administers its own budget. So neither level collects alone, which rules out choices A, B and D.
>
> **Textbook:** Economics Grade 12, Unit 5, section 5.3 Tax System and Structure in Ethiopia (page 111).

63. In Ethiopia, which of the following is correct regarding to the turnover tax? (1)

A. ✓ **tax levied on persons unregistered for value added tax.**

B. A tax imposed on goods that are hazardous to harmful products.

C. A tax levied on the values added at every stage.

D. A tax imposed on income from employment.

> **Answer:** A
>
> Turnover tax in Ethiopia is an equalisation tax charged on persons who are not registered for value added tax. It keeps small traders below the VAT registration threshold inside the tax net without putting them through full VAT accounting.
>
> Choice C is the trap, because a tax on the value added at every stage is VAT itself. A tax on harmful goods is excise tax, and a tax on salary is employment income tax under Schedule A.
>
> **Textbook:** Economics Grade 12, Unit 5, section 5.4 Types of Tax and Tax Accounting in Ethiopia (page 112).

64. Which one of the following is the correct definition of tax evasion? (1)

A. ✓ **Falsifying information on tax return to reduce one's tax liability**

B. Taking full advantage of tax provisions to reduce one's tax obligations

C. Paying the same share of tax regardless of income

D. The degree of complexity in the tax administration system

> **Answer:** A
>
> Tax evasion is falsifying information on a tax return to cut your tax liability, or not filing at all. It is illegal.
>
> Choice B is the tempting one, but taking full advantage of exemptions, deductions and incentives written into the tax code is tax avoidance, which is legal even though it troubles tax administrators. The line between the two is whether the law is broken.
>
> **Textbook:** Economics Grade 12, Unit 5, section 5.5 Problems Associated with Taxation in Ethiopia (page 117).

65. What is the reason for poverty to be considered as a multidimensional concept? (1)

A. It is based on a single dimension.

B. It is adequately measured with income.

C. It only measures quantitative related difference.

D. ✓ **It depends on several related deprivations.**

Answer: D

Poverty is multidimensional because poor people suffer several linked deprivations at the same time: too little income, poor health, little schooling, weak housing and no access to clean water or sanitation.

Choices A, B and C all shrink poverty back to one measure, usually income. Income alone misses the other deprivations, which is exactly why the multidimensional view was developed.

Textbook: Economics Grade 12, Unit 6 Poverty and Inequality, section 6.1.1 Poverty (page 123).

66. In the steps listed for measuring poverty, what does the first step says that 'defining an indicator of welfare' describe? (1)

A. ✓ **Specifying a minimal socially acceptable level of income or consumption**

B. Implementing a representative survey in which consumption is measured

C. Taking the first step of measurement to know which people are rich

D. Choosing and calculating a specific poverty measurement

Answer: A

Measuring poverty starts by deciding what counts as welfare, which in practice means choosing income or consumption as the yardstick. The textbook explains that this first step leads straight to fixing a minimum socially acceptable level of that income or consumption, and that level is the poverty line.

Choice B is the second step, running a representative household survey that measures the chosen indicator, and choice D is the third step, calculating a poverty measure such as the headcount index.

Textbook: Economics Grade 12, Unit 6, section 6.1.3 Measuring Poverty (page 126).

67. Which one of the following is in comparison to other people's standing in the economy? (1)

A. Poverty headcount index

B. Absolute poverty

C. ✓ **Relative poverty**

D. Multidimensional poverty

Answer: C

Relative poverty judges a person against the standard of living of the society around them. Someone counts as poor if their income sits far below what most people in that country have, so the answer depends on the whole distribution.

Absolute poverty is the tempting alternative, but it uses a fixed basket of basic needs and does not compare one person with another.

Textbook: Economics Grade 12, Unit 6, section 6.1.2 Types of Poverty (page 125).

68. Among the following statements, which one is correct regarding to absolute poverty? (1)

A. The comparison of an individual to other people's standing in the economy

B. ✓ **The situation of someone being unable to meet the subsistence basic needs**

C. The explanation of matter of failure of distributive justice

D. The description of an individual able to command sufficient resources

Answer: B

Absolute poverty is not being able to meet the basic needs of survival: enough food, safe water, shelter, clothing and health care. It is measured against a fixed minimum standard, not against the neighbours.

Choice A is the definition of relative poverty, and choice D describes someone who is not poor at all.

Textbook: Economics Grade 12, Unit 6, section 6.1.2 Types of Poverty (page 125).

69. Which one of the following deals with households and the total incomes they receive regardless of the way in which they received that income? (1)

A. Social inequality of community

B. ✓ **Size distribution of income**

C. Functional distribution of income

D. Factor share distribution of income

Answer: B

Income distribution is studied in two ways. The functional or factor share view asks how much of national income goes to land, labour and capital as rent, wages, interest and profit.

The size or personal distribution deals with persons and households and the total income each one receives, no matter how that income was earned. Because the question ignores the source of the income, the answer is the size distribution.

Textbook: Economics Grade 12, Unit 6, section 6.2 Concept of Inequality and its Measurements (page 129).

70. Which one of the following is true about the status of women in relation to men in development? (1)

A. Women have stable sources of income.

B. Women's earning potential is higher.

C. Intra-household resource allocation favors women.

D. ✓ **Women are much less likely to be in formal jobs.**

Answer: D

In developing economies women are far less likely than men to hold formal jobs. They are concentrated in informal work and unpaid family labour, where pay is low, income is unsteady and there is no social protection.

The reasons include less schooling, discrimination in hiring and the burden of unpaid care work at home. Choices A, B and C each claim an advantage for women that the evidence does not support.

Textbook: Economics Grade 12, Unit 6, section 6.4 Women and Poverty (page 137).

71. Which one of the following country made significant progress in reducing poverty over the past half century? (1)

A. ✓ **China**

B. Eritrea

C. India

D. Bangladesh

Answer: A

The textbook names China as the country that made significant progress in lifting millions of its citizens out of poverty over the past half century. Its reforms after the late 1970s pulled hundreds of millions above the extreme poverty line.

India and Bangladesh have also reduced poverty, but China is the case the chapter singles out, and its fall was by far the largest and fastest.

Textbook: Economics Grade 12, Unit 6 Poverty and Inequality, section 6.3 Global and Regional Poverty (page 135).

72. Which one of the following is true about the poverty in Sub-Saharan Africa? (1)

A. ✓ **The majority of people on less than $1.90 a day live in the region.**

B. The region experienced significant reduction in poverty in the past 50 years.

C. The region has managed to escape the problem of poverty.

D. The region has lifted millions of citizens out of poverty in the last decade.

Answer: A

The United Nations reports that most of the people living on less than 1.90 dollars a day are in sub Saharan Africa. The same section adds that the region saw almost no fall in its poverty rate between 1950 and 2000.

That single fact rules out choices B, C and D, since all three claim the region has largely solved or greatly reduced its poverty problem.

Textbook: Economics Grade 12, Unit 6, section 6.3 Global and Regional Poverty (page 135).

73. What is the main advantage of cottage industries in reducing poverty? (1)

A. It employs capital intensive techniques.

B. It has insignificant contribution to economies.

C. It offers self-development exclusively for women.

D. ✓ **It employs labor intensive techniques.**

> **Answer:** D
> Cottage industries are small home based workshops using simple tools and local skills, such as handicrafts and weaving. Their advantage is that they are labour intensive, so a small amount of money creates many jobs.
>
> That is why they help poor rural households, who have labour but little capital. Choice A says the opposite, since capital intensive methods need machines and employ few people.
>
> **Textbook:** Economics Grade 12, Unit 6, section 6.6 Role of Indigenous Knowledge in Reducing Poverty (page 141).

74. What was the goal of sustainable development and poverty reduction program (SDPRP) assigned by Ethiopian Peoples' Revolutionary Democratic Front? (1)

A. Building all-inclusive implementation capacity

B. ✓ **Capacity building in the public and private sector**

C. A massive push to accelerate economic growth

D. Unleashing the potentials of Ethiopia's women

> **Answer:** B
> The Sustainable Development and Poverty Reduction Programme ran from 2002/03 to 2004/05 and was built on five goals: Agricultural Development Led Industrialisation, food security, decentralisation and empowerment, capacity building in the public and private sector, and reform of the justice system and civil service.
>
> Capacity building in the public and private sector is on that list, so it is the answer. The other three options are strategic goals of the next plan, PASDEP, which covered 2005/06 to 2009/10.
>
> **Textbook:** Economics Grade 12, Unit 7 Macroeconomic Reforms in Ethiopia, section 7.1.3 National Development Plan under FDRE (pages 153 to 155).

75. Which one of the following was the objective of the third five year plan during the imperial period (1968-1973)? (1)

A. Establishment of cadre of skilled and semi-skilled personnel to work in processing industries.

B. Development of a strong infrastructure (transportation, construction, communication).

C. ✓ **Expansion of educational opportunities and improvement in peasant agriculture.**

D. Acceleration of agricultural development by promoting commercial agricultural venture.

> **Answer:** C
> The Third Five Year Plan of 1968 to 1973 turned toward agriculture to deal with food shortages. Its stated objectives were raising manufacturing and agro industrial performance, expanding educational opportunities, and improving peasant agriculture.
>
> Choices A, B and D all belong to the First Five Year Plan of 1957 to 1961, which set out to build infrastructure, train skilled personnel for processing industries, and push commercial farming.
>
> **Textbook:** Economics Grade 12, Unit 7, section 7.1.1 National Development Plan during the Imperial Period (page 150).

76. The unemployment rate for an economy is 4%. The labor force is estimated to be 55 million. What is the number of unemployed people in millions? (1)

A. ✓ **2.2 million**

B. 220 million

C. 20 million

D. 22 million

Answer: A

The unemployment rate is the number of unemployed people divided by the labour force, times 100. Rearranged, the number of unemployed equals the rate times the labour force.

Write the rate as a decimal: 4 percent is 0.04.

$$\text{Unemployed} = 0.04 \times 55 \text{ million} = 2.2 \text{ million}$$

A quick check: 4 percent is a small share, so the answer must be far smaller than the 55 million labour force. That rules out choices B, C and D at once.

Textbook: Economics Grade 12, Unit 1 The Fundamental Concepts of Macroeconomics, section 1.2.3 Unemployment (page 12).

77. What is an income tax of an employee works in the one of Ethiopian government development organization with salary of Birr 36,000? (1)

A. Birr 12,600

B. ✓ **Birr 11,100**

C. Birr 26,400

D. Birr 24,900

Answer: B

Ethiopian employment income tax is progressive, so each slice of the monthly salary is taxed at its own rate: 0 percent up to 600, then 10, 15, 20, 25 and 30 percent on the next bands, and 35 percent on everything above 10,900 birr.

Taxing a salary of 36,000 birr slice by slice gives:

- 0 to 600 at 0 percent: 0
- 601 to 1,650 at 10 percent: $0.10 \times 1{,}050 = 105$
- 1,651 to 3,200 at 15 percent: $0.15 \times 1{,}550 = 232.50$
- 3,201 to 5,250 at 20 percent: $0.20 \times 2{,}050 = 410$
- 5,251 to 7,800 at 25 percent: $0.25 \times 2{,}550 = 637.50$
- 7,801 to 10,900 at 30 percent: $0.30 \times 3{,}100 = 930$
- above 10,900 at 35 percent: $0.35 \times (36{,}000 - 10{,}900) = 0.35 \times 25{,}100 = 8{,}785$

$$105 + 232.50 + 410 + 637.50 + 930 + 8{,}785 = 11{,}100$$

The same figure comes from the short cut $0.35 \times 36{,}000 - 1{,}500 = 11{,}100$ birr. Choice A, 12,600 birr, is what you get if you wrongly charge 35 percent on the whole salary and forget that the lower slices pay lower rates.

Textbook: Economics Grade 12, Unit 5 Tax Theory and Practice, section 5.4 Types of Tax and Tax Accounting in Ethiopia, Table 5.1 Employment Income Tax Rate (page 112).

78. Suppose the area between the line of complete equality (45 degree) and the Lorenz curve is 60 units. Additionally the whole area below the line of equality (45 degree) is 150 units. What is the Gini-coefficient? (1)

A. ✓ **0.4**
B. 0.6
C. 0.2
D. 0.3

Answer: A
The Gini coefficient is the area between the line of equality and the Lorenz curve, divided by the whole area under the line of equality.

$$G = \frac{\text{area between the two curves}}{\text{area under the line of equality}} = \frac{60}{150} = 0.4$$

The value must lie between 0 and 1, where 0 is perfect equality and 1 is perfect inequality. Choice B, 0.6, is the leftover share of the area, which is the part below the Lorenz curve rather than the Gini ratio.

Textbook: Economics Grade 12, Unit 6 Poverty and Inequality, section 6.2 Concept of Inequality and its Measurements (page 129).

79. Suppose the adult population in a given country is estimated at 105 million. The total number of employed and unemployed individuals is estimated at 55 million and 8 million respectively. What is the labor force participation rate? (1)

A. 66%
B. 7%
C. 11%
D. ✓ **60%**

Answer: D
The labour force is everyone working plus everyone actively looking for work. The participation rate is that labour force as a percentage of the adult population.

$$\text{Labour force} = 55 + 8 = 63 \text{ million}$$

$$\text{Participation rate} = \frac{63}{105} \times 100 = 60\%$$

Choice A, 66 percent, comes from forgetting to count the 8 million unemployed as part of the labour force. People searching for work are still in the labour force.

Textbook: Economics Grade 12, Unit 1 The Fundamental Concepts of Macroeconomics, section 1.2.3 Unemployment (page 12).

80. In November 2010, the Consumer Price Index (CPI) for a country was 100. In November 2011 the Consumer Price Index CPI for the same country was 130. What was the inflation rate for 2011? (1)

A. 13%
B. ✓ **30%**
C. 10%
D. 23%

Answer: B
The inflation rate is the percentage change in the consumer price index from one year to the next.

$$\text{Inflation} = \frac{CPI_{2011} - CPI_{2010}}{CPI_{2010}} \times 100 = \frac{130 - 100}{100} \times 100 = 30\%$$

Choice A, 13 percent, comes from misreading the index number 130 as the answer, and choice D subtracts wrongly. Always divide the change by the earlier year's index.

Textbook: Economics Grade 12, Unit 1, section 1.2.2 Inflation (page 8).

81. Which of the following increase consumption? (1)

A. ✓ **An increase in future price**

B. A decrease in future income

C. An increase in business taxes

D. A decrease in wealth

Answer: A

Consumption depends on wealth, expectations about future prices and income, the interest rate and income taxes. If households expect prices to be higher later, they buy now at today's lower prices, so current consumption rises.

The other three choices push consumption down. Expecting a lower future income makes households save, and lower wealth makes them feel poorer. Business taxes are the odd one out here, since they change investment rather than household consumption.

Textbook: Economics Grade 12, Unit 2 Aggregate Demand and Aggregate Supply Analysis, section 2.1.3 Shifts in the Aggregate Demand Curve (page 31).

82. What is the economic terminology for the situation where non-smokers suffer by the air contamination induced by smokers? (1)

A. Non-excludable

B. Free rider

C. Asymmetric information

D. ✓ **Externality**

Answer: D

An externality is a cost or benefit that falls on a third party who is not part of the buying and selling. Smokers buy and consume tobacco, but the polluted air harms non smokers who were never in that transaction.

That uncompensated cost makes this a negative externality, so the general term asked for is externality. Non excludability and free riding describe public goods, and asymmetric information is about unequal knowledge between buyer and seller.

Textbook: Economics Grade 12, Unit 3 Market Failure and Consumer Protection, section 3.3 Externalities (page 55).

83. How should taxes be distributed in case of the ability-to-pay approach to taxes? (1)

A. ✓ **As per the capacity of tax payers to pay**

B. In line with the benefits derived from public services

C. Ease of tax administration

D. Expenditure side of the budget

Answer: A

The ability to pay approach says the tax load should be shared according to each taxpayer's capacity to pay, usually judged by income or wealth. Those who can afford more contribute more.

Choices B and D describe the rival benefits approach, which links tax to the public services a person enjoys and so to the expenditure side of the budget.

Textbook: Economics Grade 12, Unit 5 Tax Theory and Practice, section 5.2.2 The Ability-to-pay Approach (page 109).

84. Which of the following refer to the capability approach of studying poverty? (1)

A. Income and wealth

B. Headcount index

C. ✓ **Ability to function**

D. Comparison to others

Answer: C

Amartya Sen's capability approach judges poverty by what a person is actually able to do and to be, which he calls functionings. Being well fed, healthy, educated and able to take part in community life are examples.

Income and wealth are only the means to those ends, and two people with the same income can have very different capabilities, for example if one of them is ill or cannot reach a school. That is why choice A is not the answer.

Textbook: Economics Grade 12, Unit 6 Poverty and Inequality, section 6.1.4 Sen's Approach to Poverty and Wellbeing (page 128).

85. Which of the following is correct about the role of the traditional institution of Iqub in reducing poverty in Ethiopia? (1)

A. Borrowed ideas from the western world

B. ✓ **Pooling resources for a common good**

C. Being top down societal organization

D. Having limited role in development

Answer: B

Iqub is a rotating savings and credit association. Members pay a fixed amount into a common pot at regular intervals, and each member takes the whole pot in turn.

Pooling resources this way gives a poor family a lump sum it could never save alone, and it is more flexible and easier to reach than a bank loan. Iqub grew from Ethiopian practice, so choice A is wrong, and it is built and run by the members themselves rather than from the top down.

Textbook: Economics Grade 12, Unit 6, section 6.6 Role of Indigenous Knowledge in Reducing Poverty (page 141).

— END OF MARKING KEY —