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Economics, 2012 EC, social science, entrance exam

Grade 12 · Economics · 2012 E.C.

MARKING KEY — CONFIDENTIAL

Time allowed: 120 minutes | **Questions:** 30 | **Total marks:** 30

1. Two major service providers that help Ethiopia earn considerable foreign exchange compared to other service providers are (1)

A. National Museum and National Lottery.

B. National Lottery and Ethio-telecom.

C. ✓ **Ethiopian Airlines and Ethiopia Shipping Lines.**

D. National Museum and Ethio-telecom.

Answer: C

The two big earners of foreign currency in Ethiopia's service sector are **Ethiopian Airlines** and **Ethiopian Shipping Lines**. They sell transport to foreigners, so the payments come in as hard currency. In 2008/09 the service sector as a whole brought in close to 2 billion dollars, more than the export of goods that year.

The National Museum and the National Lottery earn small amounts and mostly in birr, and Ethio telecom serves domestic subscribers, so none of the other pairs can match those two.

Textbook: Economics Grade 10, Unit 7 The Ethiopian Economy, section 7.5 The Service Sector in the Ethiopian Economy.

2. The 1992 Proclamation on Ethiopian transport policy allows except (1)

A. free entry into existing transport associations.

B. obtaining licenses to form new transport associations.

C. ✓ **regulation of the freight transport industry.**

D. promotion of efficiency and equitable transport distribution.

Answer: C

Proclamation No. 14/1992 was a **liberalisation** measure. It ended the tight state control of the Derg era, deregulated the freight transport industry, and allowed free entry into existing transport associations, licensing of new associations, and the promotion of efficiency and equitable distribution of transport services.

The question asks for what the proclamation does not do. Regulation of the freight transport industry belongs to the earlier Proclamation No. 107/1976, so option C is the exception.

Textbook: Economics Grade 11, Unit 7 Main Sectors, Sectorial Policies and Strategies of Ethiopia, section 7.5.3 The Transport Sector.

3. Compared to other African countries, Ethiopia is more successful in terms of (1)

A. Railways transport.

B. Metro transport services.

C. Road transport.

D. ✓ **Air transport and Civil Aviation.**

Answer: D

Ethiopia's clearest transport success is **air transport and civil aviation**. Ethiopian Airlines flies to more destinations than any other African carrier, runs a large cargo business and has made Addis Ababa the main air hub of the continent.

Road density is still low by African standards, the railway network is short and new, and the light rail is a single city service, so none of the other three can be described as a lead over other African countries.

4. All are key resource bases of Ethiopia except; (1)

A. availability of many rivers and lakes.

B. ✓ **availability of sea port.**

C. abundant valuable minerals.

D. high potential to produce hydroelectric and geothermal energy.

Answer: B

Ethiopia is a **landlocked** country. Since it lost direct access to the sea, it moves almost all of its overseas trade through the ports of neighbouring countries, mainly Djibouti, and pays port and transit charges for it. A sea port is therefore not part of the country's resource base.

Rivers and lakes, valuable minerals such as gold and platinum, and a large hydroelectric and geothermal potential are all real Ethiopian resources, so A, C and D are true.

5. What can we say about the current population composition of Ethiopia (1)

A. ✓ **The proportion of female is close to 50%.**

B. More than half of the whole population lives in urban areas.

C. There is very high proportion of old age people in the economy.

D. The proportion of literate people is greater than 80%.

Answer: A

In the population census the two sexes came out almost even: about 50.5 percent male and 49.5 percent female. So the share of females is **close to 50 percent**, which makes option A the safe statement.

The other three fail on well known facts. Most Ethiopians still live in rural areas, the population is young rather than old, and the literacy rate is far below 80 percent.

6. The following are true of Bi-modal agricultural strategy except it (1)

A. ✓ **creates off-fam job opportunities.**

B. allows the transfers of technology.

C. supports individual rights to acquire land.

D. promotes large scale-diversification.

Answer: A

The bi modal strategy runs small peasant farms and large commercial farms side by side. Its listed advantages are that it supports individual rights to acquire land, invites capital and technology into farming, promotes large scale diversification and allows the transfer of technology.

Creating off farm jobs is not on that list. The textbook puts the **lack of off farm job opportunities** among the limitations of the bi modal approach, because peasants pushed off the land have nowhere else to work. That is why A is the exception.

Textbook: Economics Grade 11, Unit 7 Main Sectors, Sectorial Policies and Strategies of Ethiopia, section 7.1.2 Bi-Modal Agricultural Strategy.

7. Which of the following is not true about the agriculture sector in Ethiopia? (1)

A. It is the mainstay of the Ethiopian population.

B. It covers the largest share in terms of export earnings.

C. ✓ **It has contributed the largest share to the country's GDP in recent years.**

D. It dominated by small holder farm system.

> **Answer:** C
>
> This question asks for the false statement. Agriculture still employs most Ethiopians, supplies most export earnings and is dominated by smallholders, so A, B and D are true.
>
> What has changed is the GDP share. The **service sector** passed agriculture, rising to about 46 percent of GDP while agriculture fell to about 42 percent. So agriculture no longer holds the largest share of GDP, and option C is the statement that is not true.
>
> **Textbook:** Economics Grade 10, Unit 7 The Ethiopian Economy, section 7.5 The Service Sector in the Ethiopian Economy.

8. Challenges in an attempt to transform the Ethiopian agricultural sector include except (1)

A. ✓ **credit offering at lower interest rates.**

B. inadequate rural markets.

C. inappropriate pricing policy towards agricultural land property

D. inappropriate entitlement of land property.

> **Answer:** A
>
> The human made problems of Ethiopian agriculture include land fragmentation, poor infrastructure, backward technology, inadequate rural markets, weak land ownership entitlement and a **lack of credit facilities**.
>
> Option A says the opposite of that last item. Credit offered at low interest rates is a help to farmers, not a challenge, so it is the exception the question is looking for.
>
> **Textbook:** Economics Grade 11, Unit 7 Main Sectors, Sectorial Policies and Strategies of Ethiopia, section 7.3 Problems of the Agricultural Sector.

9. To mitigate the problems affecting the Ethiopian agricultural sector, it is important to take the following possible remedies except (1)

A. Pursue an effective land - ownership right in a way farmers can develop long-term farm practices

B. ✓ **use capital intensive technology**

C. reduce the prevailing heavy dependence on rain-fed agricultural practices.

D. promote committed literacy companies to help farmers understand price and farm-technique information.

> **Answer:** B
>
> The remedies listed for Ethiopian agriculture are irrigation and water storage to cut the dependence on rain, drought resistant crops, secure land ownership rights, extension services and literacy campaigns that pass on price and technique information. Options A, C and D are all on that list.
>
> **Capital intensive technology** is not. Ethiopia has plenty of labour and little capital, and most holdings are small, so machinery heavy farming would raise costs and cut rural jobs. That makes B the exception.
>
> **Textbook:** Economics Grade 11, Unit 7 Main Sectors, Sectorial Policies and Strategies of Ethiopia, section 7.3 Problems of the Agricultural Sector.

10. The industrial groups that have recently contributed most to the Ethiopian foreign exchange earnings are (1)

A. paper-printing and chemical.

B. metals and non-metals.

C. ✓ **food-beverage and textiles.**

D. leather-footwater and wood-furniture.l

Answer: C

Among Ethiopia's industrial groups, **textiles** earn the largest share of the sector's foreign exchange at about 41 percent, and **food and beverages** come next at about 32 percent. Together they dominate industrial exports.

Leather and footwear follow at roughly 11 percent and wood and furniture at about 6 percent, so option D is a distant third and fourth. Chemicals, metals, non metals, paper and printing each earn only a few percent or less.

Textbook: Economics Grade 10, Unit 7 The Ethiopian Economy, section 7.4 The Industrial Sector in the Ethiopian Economy.

11. Identify the correct statement about minerals and environment in Ethiopia. (1)

A. The contribution of the mineral sector to the GDP of the country is very high.

B. The economy has no environmental problems.

C. There are insufficient amount minerals in the country.

D. ✓ **The development the mineral sector is at infant stage.**

Answer: D

Ethiopia has a wide range of minerals, including gold, platinum, tantalum, potash and industrial minerals, but very little of it is mined on a modern scale. Mining adds only about one percent to GDP, which is why the sector is described as being at the **infant stage** of development.

Option A claims a high contribution to GDP, which the one percent figure contradicts, and option C claims the minerals are not there, which is also wrong. Option B ignores real problems such as deforestation, soil erosion and pollution from quarrying.

12. Under the Derg regime, (1)

A. ✓ **Ethiopia experienced a widespread drought.**

B. the private sector was able to grow at a very high rate.

C. Ethiopia had no development plans.

D. the country was structured Under a capitalist system.

Answer: A

The Derg years, from 1974 to 1991, were marked by war, forced resettlement and above all by **widespread drought and famine**, most severely in 1984 and 1985. Farm output fell, industry stagnated and foreign exchange ran short.

Option D is the tempting one. The Derg set up a socialist command economy with nationalised land, banks and factories, which is the opposite of a capitalist system. The regime also had development plans, including the Ten Year Perspective Plan, so option C is wrong too.

Textbook: Economics Grade 12, Unit 7 Macroeconomic Reforms in Ethiopia, section 7.1 National Development Objectives and Strategies.

13. What do the development plans under the Derg and EPRDF have in common? (1)

A. They focus on industrialization as the only way to growth and development.

B. The plans never talk about poverty reduction and buildings democracy.

C. ✓ **They aim to bring growth and development in the economy.**

D. They have nothing in common.

Answer: C

The two regimes chose very different routes. The Derg planned centrally under state ownership, while the EPRDF worked through markets, agriculture led industrialisation and poverty reduction programmes. What they shared was the destination: both wrote national plans meant to **bring economic growth and development**.

So option D is wrong because a common aim clearly exists, and option B is wrong because the EPRDF plans speak about poverty reduction directly.

Textbook: Economics Grade 12, Unit 7 Macroeconomic Reforms in Ethiopia, section 7.1 National Development Objectives and Strategies.

14. Relative to unimodal agriculture, bimodal agriculture (1)

A. protects peasants from eviction

B. focuses only on production of food crops.

C. reduces inequality among rural households.

D. ✓ **promotes transfer of technology.**

Answer: D

The bi modal strategy welcomes commercial farms beside peasant farms, so it draws in investment and **allows technology to be transferred** from large modern farms to the wider sector.

The other three options describe the uni modal strategy instead. Uni modal farming intensifies small peasant holdings, keeps the focus on food crops, protects peasants from eviction and works as a pro poor strategy that narrows rural inequality. Bi modal farming in fact tends to widen that inequality.

Textbook: Economics Grade 11, Unit 7 Main Sectors, Sectorial Policies and Strategies of Ethiopia, sections 7.1.1 and 7.1.2.

15. Today, the Ethiopian economy is predominantly an agrarian economy since (1)

A. the majority of the growth rate in the GDP comes from the agricultural sector.

B. most of the total national investment projects go to this sector.

C. ✓ **nearly 80% of Ethiopian live in rural areas.**

D. most of the GDP comes from this sector.

Answer: C

An economy is called agrarian when farming is the way of life of most of its people. In Ethiopia roughly **80 percent of the population lives in rural areas** and depends on crops and livestock, so agriculture still shapes employment and daily life.

Option D is the trap. Agriculture no longer supplies most of GDP, because the service sector now holds the larger share. Option A fails for the same reason, and most investment projects go to industry and services, so option B is wrong.

Textbook: Economics Grade 10, Unit 7 The Ethiopian Economy, section 7.3 The Agricultural Sector in the Ethiopian Economy.

16. The Ethiopian industrial sector is characterized by the following except (1)

A. strong competition from improved goods.

B. ✓ **usage of labor intensive technology.**

C. absence of adequate institutional support.

D. a consumer bias against loca products.

Answer: B

The problems listed for Ethiopian manufacturing are weak domestic demand, poor market information, strong competition from cheap imports, a consumer bias against local products, weak institutional and technological support, and technology that is **capital intensive** rather than labour intensive.

Because the sector leans on imported capital intensive machinery, option B states the opposite of the real feature and is the exception. Note that option A is printed as competition from improved goods; the intended sense is competition from imported goods, which does not change the answer.

Textbook: Economics Grade 11, Unit 7 Main Sectors, Sectorial Policies and Strategies of Ethiopia, section 7.4.4 Problems of the Industrial Sector Post 1991.

17. over recent years, to establish a large-scale manufacturing hub within Africa, the Ethiopian government has particularly been doubling its efforts on (1)

A. road constructions

B. hotel and tourism works.

C. ✓ **special zones of industrial parks establishment.**

D. agriculture and irrigation expansion.

Answer: C

To move from an agriculture led to an industry led economy, the government has concentrated on building **industrial parks and special economic zones**, such as Hawassa, Bole Lemi, Mekelle and Kombolcha. The parks are clustered by product, sit on road and rail corridors to the port, and are meant to pull in foreign investment, create jobs and raise manufactured exports.

Roads, tourism and irrigation have all received investment as well, but none of them was the chosen instrument for building a large scale manufacturing hub.

Textbook: Economics Grade 11, Unit 7 Main Sectors, Sectorial Policies and Strategies of Ethiopia, section 7.4 Industrial Park Development in Ethiopia.

18. The theory of linkages stresses that (1)

A. ✓ **when certain industries are developed first, their interconnections with other industries will induce the development of new industries.**

B. the relation between agriculture and non-agriculture sector is very strong in developing countries.

C. when certain industries are developed first, their interconnections with other industries will reduce the development of new industries.

D. when certain industries are developed fist, there is uncertainty whether this could help facilitate the development of new industries.

Answer: A

The theory of linkages says industries pull one another along. When a few industries are **developed first**, their need for inputs and their supply of outputs create business for other firms, and that **induces new industries** to appear around them. Planners use the idea to pick leading sectors.

Option C reverses the mechanism and option D denies that any effect can be predicted, so both contradict the theory. Option B states a fact about developing economies rather than the theory itself, and in most of them the link between farming and other sectors is in fact weak.

19. In an industry when a firm buys a good from another firm to use as an input for its outputs is called (1)

A. ✓ **backward linkages.**

B. localization economies.

C. agglomeration economies.

D. forward linkages.

Answer: A

Linkages are named from the point of view of the firm being described. A firm that **buys** goods from other firms to use as inputs is reaching back down its supply chain, so the connection is a **backward linkage**.

A forward linkage is the other direction: it exists when a firm's own output is sold on to another firm that uses it as an input. A tannery buying hides from an abattoir has a backward linkage to that abattoir, while the abattoir has a forward linkage to the tannery.

20. When transportation costs are significant to a main market, users of the outputs off an industry may benefit from a nearby location to save costs of transportation. This benefit is a type of (1)

A. backward linkages.

B. localization economies.

C. ✓ **agglomeration economies.**

D. forward linkages.

Answer: C

When many related firms sit close together, each one gains from the concentration itself: shorter hauls, shared suppliers, a common pool of skilled workers and quick exchange of ideas. Those external savings are called **agglomeration economies**. Here the saving is on transport cost, because the users of an industry's output locate near it.

Localization economies is the tempting answer, but that term is kept for gains shared by firms in the **same** industry. The firms described here are in a different industry, since they buy and use the output, so the wider term is the right one.

21. For a rational consumer, total utility will be a maximum when (1)

A. average utility is zero.

B. ✓ **marginal utility is zero.**

C. marginal utility equals total utility.

D. marginal utility equals average utility.

Answer: B

Total utility rises while each extra unit still adds satisfaction, that is while marginal utility is positive. It stops rising exactly when the next unit adds nothing, so **total utility is at its maximum where $MU = 0$**, and it falls once marginal utility turns negative.

Option C is wrong because marginal utility is small at that point while total utility is large, so the two cannot be equal there except at the very first unit.

Textbook: Economics Grade 10, Unit 1 Theory of Consumer Behaviour, section 1.2 The Cardinal Utility Theory.

22. Indifference curves are convex to the origin because we assume that two consumption goods are (1)

A. ✓ **imperfect substitutes.**

B. unrelated

C. perfect substitutes.

D. perfect complements.

Answer: A

A convex indifference curve has a marginal rate of substitution that falls as you move down it. The consumer gives up less and less of good Y for each extra unit of X, which happens only when the two goods are **imperfect substitutes**, that is when each one is somewhat useful in its own right.

Perfect substitutes give a constant rate of substitution, so their indifference curves are straight lines, and perfect complements give right angled L shaped curves. Neither of those is convex in the usual bowed sense.

Textbook: Economics Grade 11, Unit 1 Theory of Consumer Behavior and Demand, section 1.2.2 Properties of Indifference Curves.

23. A decrease in income of consumer with no changes in the price of either good will cause, assuming both goods are normal (1)

A. an outward shift of the budget line.

B. no change in the budget line.

C. a rotation of the budget line along the horizontal axis.

D. ✓ **an inward shift of the budget line.**

> **Answer:** D
>
> The budget line is $M = P_x Q_x + P_y Q_y$. Its slope is $-\frac{P_x}{P_y}$, fixed by the two prices, and its position is fixed by income M. If income falls while both prices stay the same, the slope does not change but the line moves **inward, parallel to itself**, because the consumer can now afford less of both goods.
>
> An outward shift would follow a rise in income, and a rotation about one axis would follow a change in one price only, so A and C describe different events.
>
> **Textbook:** Economics Grade 11, Unit 1 Theory of Consumer Behavior and Demand, section 1.3.3 Effects of Changes in Income.

24. In the ordinary theory of utility, the income consumption curve (ICC) shows the way in which (1)

A. income is affected as prices of two commodities change.

B. ✓ **consumption varies as income of the consumer changes.**

C. consumption varies as price of a commodity changes.

D. consumption varies as prices of two commodities change.

> **Answer:** B
>
> As income rises, the budget line shifts outward and the consumer reaches a new point of equilibrium on a higher indifference curve. Joining all those equilibrium points traces the **income consumption curve**, which therefore shows how the amounts bought change as **income** changes, with prices held constant.
>
> Option C describes the price consumption curve, the one used to derive the demand curve, so it is the closest wrong answer. Option A reverses cause and effect, since income is what changes here, not what is affected.
>
> **Textbook:** Economics Grade 11, Unit 1 Theory of Consumer Behavior and Demand, section 1.4.1 Effects of Changes in Income and Prices on Consumer's Equilibrium.

25. Which one of the following is true statement of short run production function with one variable input? (1)

A. The lowest Average product (AP) occurs where AP and Marginal product (MP) are equal to each other

B. AP and MP curves meet at MP's maximum point.

C. ✓ **When AP Curve is rising, MP is higher than AP.**

D. MP is above AP is falling.

> **Answer:** C
>
> Average product and marginal product are tied together like a mark and a class average. While the extra worker produces **more than the current average**, that is while $MP > AP$, the average is pulled up, so a rising AP curve means MP lies above it.
>
> The same rule settles the rest. $MP = AP$ at the **maximum** of AP, not at its minimum and not at the peak of MP, so A and B are wrong, and MP above AP makes AP rise rather than fall, so D is wrong.
>
> **Textbook:** Economics Grade 10, Unit 3 Theories of Production and Cost, section 3.1 Theory of Production.

26. Which of the following is a microeconomic issue? (1)

A. Inflation dramatically increased in Ethiopia in the previous year.

B. ✓ **The price of edible oil increased in Ethiopia over the last 2 months.**

C. The Ethiopian economy experienced rapid economic growth last year.

D. Unemployment rate soared in Ethiopia in recent years.

> **Answer:** B
>
> Microeconomics studies single units: one consumer, one firm, one product, one market. The **price of edible oil** is the price of a single commodity in a single market, so it is a microeconomic question.
>
> Inflation, national economic growth and the unemployment rate are all whole economy totals, which puts A, C and D in macroeconomics. Note that the trap in B is the word Ethiopia; the country is only where the market sits, and the subject is still one good.
>
> **Textbook:** Economics Grade 9, Unit 1 Introducing Economics, section 1.2 Branches of Economics.

27. The opportunity cost of any economic action is (1)

A. all the possible alternatives forgone.

B. ✓ **the next best alternative forgone.**

C. the monetary cost but not the time required.

D. the time required but not the monetary cost.

> **Answer:** B
>
> Opportunity cost is what you lose by choosing: the value of the **next best alternative** you gave up. If a farmer plants teff on a plot where maize was the best other option, the maize is the cost, and it is counted once.
>
> Option A adds up every alternative, which double counts, since the resources could only have gone to one of them. Options C and D split money and time, but opportunity cost covers everything sacrificed, including both.
>
> **Textbook:** Economics Grade 9, Unit 2 The Basic Economic Problems and Economic Systems, section 2.1 Scarcity, Choice and Opportunity Cost.

28. Shortage of economic resources mainly implies that people must (1)

A. ✓ **make choices to satisfy their wants.**

B. compete to satisfy their wants.

C. cooperate to satisfy their wants.

D. trade to satisfy their wants.

> **Answer:** A
>
> Wants are unlimited while resources are limited. That gap is scarcity, and its direct consequence is that people must **choose** which wants to satisfy and which to leave unmet. Choice is why economics exists as a subject.
>
> Competition, cooperation and trade are all ways people cope with scarcity afterwards, but each of them already assumes a choice has been made. The immediate result of scarcity is the need to choose.
>
> **Textbook:** Economics Grade 9, Unit 2 The Basic Economic Problems and Economic Systems, section 2.1 Scarcity, Choice and Opportunity Cost.

29. The major role entrepreneurs can play in an economy is (1)

A. borrowing money from financial institutions to start their businesses.

B. providing loans to financial companies at high rates of interest.

C. telling consumers what they should want or expect from the business environment.

D. ✓ **talking risks to create businesses that yield products that meet the wants and needs of consumers**

Answer: D

An entrepreneur is the person who brings land, labour and capital together and carries the **risk** of the business. The reward for that risk is profit, and the service to the economy is new firms and new products that answer what consumers actually want, along with the jobs those firms create.

Borrowing money is only one step in setting a business up, not the role itself, and option C reverses the relationship, since in a market economy consumers signal their wants through what they buy and the entrepreneur responds.

Textbook: Economics Grade 9, Unit 8 Basic Entrepreneurship, section 8.1 Definition of Enterprise, Entrepreneur and Entrepreneurship.

30. The law of demand states that, ceteris paribus, the higher the price of a good, (1)

A. the larger is the quantity of the good demanded.

B. ✓ **the smaller is the quantity of the good demanded.**

C. the smaller is the demand for the good.

D. the larger is the demand for the good.

Answer: B

The law of demand says price and quantity demanded move in opposite directions when everything else is held constant. So a **higher price brings a smaller quantity demanded**, which is why the demand curve slopes downward.

Option C is the classic trap. A price change moves the buyer along the same demand curve, so it changes the quantity demanded. Demand itself shifts only when something other than the price changes, such as income, tastes or the price of a related good.

Textbook: Economics Grade 9, Unit 4 Introduction to Demand and Supply, section 4.1 Concept of Demand.

— END OF MARKING KEY —