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Economics, 2011 EC, social science, entrance exam

Grade 12 · Economics · 2011 E.C.

MARKING KEY — CONFIDENTIAL

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

1. External assistance, which a country can receive from friendly governments is: (1)

A. Multilateral assistance
B. Multilateral loans
C. ✓ **Bilateral assistance**
D. Unilateral assistance

Answer: C

Aid is named after how many parties are on each side. Assistance that passes from one friendly government straight to another government is **bilateral** assistance, because only two states are involved.

Multilateral assistance is different. It comes from an institution that many countries fund together, such as the World Bank, the IMF or the African Development Bank, so option A fails even though the money may still reach the same treasury.

Textbook: Economics Grade 11, Unit 5 Trade and Finance.

2. Which one of the following statements is true? (1)

A. Real GDP is GDP at market prices at any time of the year
B. ✓ **Nominal GDP is GDP measured in current market prices**
C. Nominal GDP can grow only when there is growth in output
D. Real GDP can grow when prices increase

Answer: B

Nominal GDP values this year's output at **this year's prices**, so it is measured in current market prices. Real GDP values the same output at the prices of a fixed base year, which is why it is called GDP at constant prices.

Option D is the common trap. Real GDP cannot rise just because prices rise, since the base year prices are held fixed. Only more physical output can raise real GDP.

Textbook: Economics Grade 10, Unit 7 The Ethiopian Economy, section 7.2 Real GDP versus Nominal GDP.

3. Which one of the following costs increases as output increases in the short run? (1)

A. Overhead cost
B. Rent of land (land cot)
C. Cost on factory building
D. ✓ **Labor cost**

Answer: D

In the short run, costs split into two groups. **Fixed costs** stay the same whatever the firm produces, and **variable costs** rise as output rises. Wages paid to workers hired for production are the standard variable cost, so labour cost is the one that grows with output.

Overhead cost is another name for fixed cost, and rent of land and the cost of the factory building are fixed by contract for the short run. The firm pays them even on a day it produces nothing, so none of them can be the answer.

Textbook: Economics Grade 9, Unit 5 Introduction to Production and Cost, section 5.3 Cost of Production.

4. Which one of the following conditions characterizes the capitalist economics system? (1)

A. ✓ **Private ownership of resources is the dominant ownership type**

B. There is no wastage of resources

C. There is a smooth and constant growth of the economy

D. All citizens equally benefit from economic activities

Answer: A

Capitalism is defined by who owns the means of production. Under a capitalist system, land, capital and firms are owned mainly by **private individuals**, and they decide what to produce by following profit and prices.

The other three options describe outcomes that capitalism does not promise. Competition can waste resources, growth comes in booms and slumps, and income is shared unequally, so B, C and D are not features of the system.

Textbook: Economics Grade 9, Unit 2 The Basic Economic Problems and Economic Systems, section 2.3 Economic Systems.

5. Which of the following statements is true about the historical development of the industrial sector in Ethiopia? (1)

A. ✓ **The earliest types of industrial activities were largely confined to small-scale establishments**

B. The earliest types of industrial activities were largely confined to medium-scale establishments

C. The earliest types of industrial activities were largely confined to large-scale establishments

D. The military government followed export-promotion industrialization strategy

Answer: A

Modern industry started late in Ethiopia and started small. The first manufacturing units were **small scale establishments** making simple consumer goods such as flour, edible oil, soap, leather items, wood and furniture, mostly for the local market.

Option D is wrong on a separate point. The Derg period followed an inward looking, import substitution line under state ownership, not export promotion.

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

6. Which one of the following is an expansionary monetary Policy Instrument? (1)

A. Increasing cash reserve ratio

B. Increasing bank rate

C. Decreasing money supply

D. ✓ **Decreasing cash reserve ratio**

Answer: D

Expansionary monetary policy means the central bank wants **more money circulating** and cheaper credit. Cutting the cash reserve ratio leaves banks holding less of each deposit in reserve, so they can lend more and the money supply grows.

Raising the reserve ratio, raising the bank rate and cutting the money supply all pull money out of the economy, so A, B and C are contractionary measures.

Textbook: Economics Grade 12, Unit 4 Macroeconomic Policy Instruments, section 4.3 Monetary Policy.

7. The lowest level of investment, employment, output, income and prices during a business cycle is: (1)

A. Recession

B. ✓ **Depression**

C. Boom

D. Contraction

Answer: B

The business cycle runs through boom, recession, depression and recovery. **Depression** is the trough of the cycle, the point where investment, employment, output, income and prices are all at their lowest and business confidence is weakest.

Recession and contraction name the downward journey, the stretch during which those values are still falling. The question asks for the lowest level itself, which is the bottom of that fall.

Textbook: Economics Grade 10, Unit 6 Economic Growth, section 6.5 The Business Cycle and Its Phases.

8. The greatest contribution to Ethiopia's agricultural GDP comes from the (1)

A. livestock sub-sector
B. forestry and fishery sub-sector
C. nomadic/pastoral system
D. ✓ **crop-production sub-sector**

Answer: D

Ethiopian agriculture is made up of crop production, livestock, and forestry with fishery. The largest share of agricultural GDP comes from the **crop production sub sector**, where smallholder farmers grow cereals, pulses, oilseeds and cash crops such as coffee.

Livestock is second and matters a lot for exports and household income, but it is still smaller than crops. Forestry and fishery contribute the least, and pastoral farming is a farming system, not a sub sector.

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

9. The largest contribution of industrial products to export in Ethiopia comes from export of (1)

A. food products
B. leather products
C. chemical products
D. ✓ **textile products**

Answer: D

Among Ethiopia's manufactured exports, the syllabus puts **textile and garment products** first in foreign exchange earnings, at roughly 41 percent of the sector's export income.

Food and beverages come next at about 32 percent, and leather and footwear follow at about 10 percent. Leather is the tempting answer because it is famous abroad, but its export value is smaller than that of textiles.

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

10. Which one of the following is true about the current account balance in international trade? (1)

A. The current account balance refers to the difference between gross domestic product and net factor income from abroad
B. The current account balance refers to the difference between the exports and imports of goods and services
C. The current account balance refers to all the transactions in financial assets and liabilities
D. ✓ **The current account balance refers to all exports and imports of goods and services and unilateral transfers**

Answer: D

The current account of the balance of payments records three flows: the trade balance in goods, the balance in services, and **unilateral transfers** such as remittances, gifts and grants. Its balance is the sum of all three.

Option B names only goods and services, which is the trade and service balance and leaves transfers out. Option C describes the capital and financial account instead.

Textbook: Economics Grade 11, Unit 5 Trade and Finance, section 5.4 Balance of Payment Components.

11. Which one of the following is not included in current account of balance of payments? (1)

A. Trade balance
B. ✓ **Capital account**
C. Services account
D. Transfer account

Answer: B

The current account holds the trade account, the services account and the transfer account. The **capital account** is a separate part of the balance of payments, because it records dealings in assets and liabilities rather than in goods, services and transfers.

So options A, C and D are all inside the current account, and only the capital account sits outside it.

Textbook: Economics Grade 11, Unit 5 Trade and Finance, section 5.4 Balance of Payment Components.

12. A country imports more goods than it exports. This shows that: (1)

A. there is surplus trade balance

B. there is a positive balance of trade

C. ✓ **there is a deficit trade balance**

D. there is a favorable balance trade

Answer: C

The trade balance is exports of goods minus imports of goods. If imports are larger, the balance is negative, and a negative trade balance is called a **deficit** or unfavourable balance of trade.

A surplus, a positive balance and a favourable balance all mean the opposite case, exports larger than imports, so A, B and D describe the reverse situation.

Textbook: Economics Grade 11, Unit 5 Trade and Finance, section 5.4 Balance of Payment Components.

13. Which one of the following is a factor that causes international trade to take place between two or more countries? (1)

A. The same income level in different countries

B. The same population size in different countries

C. The same distribution of resources between countries

D. ✓ **Unequal distributions of resources**

Answer: D

Countries trade because they are **different**. Resources such as land, minerals, climate, labour and capital are spread unequally across the world, so each country can produce some goods more cheaply than others and gains by exchanging them.

Options A, B and C describe countries that are alike. If two countries had identical resources, incomes and populations, neither would have a cost advantage and there would be little reason to trade.

Textbook: Economics Grade 11, Unit 5 Trade and Finance, section 5.2 Basis of International Trade.

14. Which one of the following is not true about the performance of education sector in Ethiopia? (1)

A. Enrolment at secondary schools is still low compared to other countries

B. Access to education has increased over time

C. ✓ **The gross enrolment rate for boys and girls is equal**

D. Female enrolment at higher institution is very low

Answer: C

This question asks for the false statement. Enrolment in Ethiopia has grown fast, but it has not grown evenly: the **gross enrolment rate for boys is still higher than for girls**, and the gap widens at higher levels. So saying the two rates are equal is not true.

The other three statements match the record. Access has widened over the years, secondary enrolment is still low by international comparison, and female enrolment in higher institutions remains small.

15. The law of equi-marginal utility states that a consumer gets maximum satisfaction when the __________ (1)

A. ratio of marginal utilities of all commodities is greater than its price

B. ratio of marginal utilities of all commodities is less than its price

C. ✓ **ratio of marginal utilities of all commodities and their prices is equal**

D. ratio of average utilities of all commodities and its prices is equal

Answer: C

The law of equi marginal utility says a consumer spends a fixed budget best when the **last birr spent on each good brings the same extra satisfaction**. In symbols the ratios of marginal utility to price must be equal across all goods: $\frac{MU_x}{P_x} = \frac{MU_y}{P_y} = \cdots = \frac{MU_n}{P_n}$.

If one ratio were larger than another, the consumer could gain by moving a birr to that good, so an unequal ratio cannot be the point of maximum satisfaction. That is why A and B fail, and D fails because the rule uses marginal utility, not average utility.

Textbook: Economics Grade 10, Unit 1 Theory of Consumer Behaviour, section 1.3 The Consumer Maximization Problem.

16. Demand for a commodity will be elastic if __________ (1)

A. its price does not change

B. ✓ **its consumption can be postponed**

C. its consumption cannot change

D. its consumption cannot be postponed

Answer: B

Demand is elastic when buyers can react strongly to a price change. If the purchase can be **postponed**, a shopper who sees the price rise simply waits, so quantity demanded falls a lot and elasticity is high. Luxuries and durable goods behave this way.

Option D describes the opposite case. A good whose use cannot be delayed, such as salt or medicine, has inelastic demand because the buyer must purchase it at almost any price.

Textbook: Economics Grade 10, Unit 2 Theories of Demand and Supply, section 2.4 Elasticities of Demand and Supply.

17. Price elasticity of demand is defined as the _________ (1)

A. percentage change in quantity demanded of a commodity as a result of one percent change in price of related commodity

B. percentage change in quantity demanded of a commodity as a result of one percent change in come of the consumer

C. ✓ **percentage change in quantity demanded for a commodity as a result of one percent change in its own price**

D. percentage change in quantity demanded of commodity as a result of one unit change in its own price

Answer: C

Price elasticity of demand measures the response of quantity demanded to a change in the good's **own price**: $E_p = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in own price}}$. Both parts of the ratio are percentages, so the measure has no units.

Option A defines cross elasticity, which uses the price of a related good, and option B defines income elasticity. Option D fails because elasticity uses a percentage change in price, not a one unit change.

Textbook: Economics Grade 10, Unit 2 Theories of Demand and Supply, section 2.4 Elasticities of Demand and Supply.

18. Which one of the following is true about the structure of government budget? (1)

A. The government budget is an economic plan of government savings and investments

B. ✓ **The government budget is a financial plan of government revenues and expenditures**

C. The government budget is a financial plan of government assets and liabilities

D. The government budget is an economic plan of exports and imports

> **Answer:** B
>
> A government budget is a **financial plan for a fiscal year** that sets out expected revenue, mainly taxes, on one side and planned expenditure on the other. Comparing the two sides gives a surplus, a deficit or a balanced budget.
>
> Assets and liabilities belong on a balance sheet, and exports and imports belong in the balance of payments, so options C and D describe different documents.
>
> **Textbook:** Economics Grade 12, Unit 4 Macroeconomic Policy Instruments, section 4.2 Fiscal Policy.

19. Individual supply schedule refers to a _________ (1)

A. tabular statement which shows the different quantities of a commodity offered for sale by an individual firm at the same price per time period

B. tabular statement which shows the different quantities of a commodity offered for sale by an individual firm at different prices at a point in time

C. ✓ **tabular statement which shows the different quantities of a commodity offered for sale by an individual firm at different prices per time period**

D. tabular statement which shows the different quantities of a commodity offered for sale by an individual firm at the same price at a given point in time

> **Answer:** C
>
> A supply schedule is a table that pairs **different prices** with the quantities a single firm is willing to sell, all measured **over a period of time** such as a week or a year. Both parts matter: prices must vary, and the quantities are flows per period.
>
> Options A and D keep the price the same, so they show nothing about supply behaviour. Option B uses different prices but reads them at a point in time, which does not fit a flow of goods offered for sale.
>
> **Textbook:** Economics Grade 9, Unit 4 Introduction to Demand and Supply, section 4.2 Concept of Supply.

20. Which of the following best describes opportunity cost of producing a commodity? (1)

A. The amount of other commodities gained when producing the commodity

B. The amount of the same commodity forgone when producing the commodity

C. The amount of the same commodity gained when producing the commodity

D. ✓ **The amount of other commodities forgone when producing the commodity**

> **Answer:** D
>
> Resources are scarce, so producing more of one good means giving up something else. The opportunity cost of a commodity is the amount of **other commodities that must be forgone** to make it, that is the value of the next best use of the same resources.
>
> Options A and C speak of goods gained, which is the benefit rather than the cost. Option B forgoes the same commodity, which makes no sense, since producing a good cannot cost units of itself.
>
> **Textbook:** Economics Grade 9, Unit 2 The Basic Economic Problems and Economic Systems, section 2.1 Scarcity, Choice and Opportunity Cost.

21. Which one of the following represents transfer income? (1)

A. ✓ **Gifts and subsidies**
B. Wages and salaries
C. Personal disposable income
D. Factor income

Answer: A
Transfer income is income received **without producing anything in return**. Gifts, subsidies, pensions, donations and remittances are all transfers, which is why national income accountants leave them out when they add up factor incomes.

Wages and salaries are payments for labour actually supplied, so they are factor income, not transfer income. That makes B and D wrong, and C names a total, not a type of income.

Textbook: Economics Grade 11, Unit 3 National Income Accounting, section 3.6 Other Measures of National Income Account.

22. What is the role of the National Bank of Ethiopia? (1)

A. Provision of loans to the individual farmers
B. Taxing the private sector
C. Collecting interest income
D. ✓ **Regulation of the financial sector**

Answer: D
The National Bank of Ethiopia is the country's **central bank**. It issues currency, holds foreign reserves, sets monetary policy and licenses and supervises banks, insurers and microfinance institutions, which is the regulation of the financial sector.

Lending to individual farmers is the work of commercial banks and microfinance institutions, and collecting taxes is the job of the revenue authority, so A, B and C belong to other bodies.

Textbook: Economics Grade 10, Unit 5 Banking and Finance, section 5.4 Historical Development of Banks in Ethiopia.

23. If an economic system is experiencing economic growth, which one of the following best expresses the situation? (1)

A. ✓ **The economy operates beyond its previous production possibility curve**
B. The economy operates within the production possibility curve to save its resources
C. The economy moves along its production possibility curve to produce more of all goods
D. The Economy produces more of one goods than before

Answer: A
The production possibility curve shows the most a country can produce with the resources and technology it has today. Economic growth means that limit itself moves outward, so the economy can produce combinations that lay **beyond the old curve**.

Option C only slides along the same curve, which is a change of choice rather than growth, and option B sits inside the curve, which means idle resources. Option D gains one good only, so something else must have been given up.

Textbook: Economics Grade 10, Unit 6 Economic Growth, section 6.2 Definition and Measurement of Economic Growth.

24. The basic characteristic of the service sector is that it produces (1)

A. tangible goods
B. commodities
C. ✓ **intangible goods**
D. food

Answer: C
The service sector sells work rather than objects. Transport, banking, teaching, health care, hotels and trade all produce **intangible** output that cannot be touched or stored, and that is produced and consumed at the same moment.

Tangible goods, commodities and food are the output of agriculture and industry, so A, B and D belong to the other two sectors.

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

25. An increase in dependency ratio could be due to (1)

A. decrease in number of children

B. ✓ **increase in the number of children**

C. decrease in old aged population

D. increase in the economically active population

Answer: B

The dependency ratio compares people who normally do not work with those who do: $\text{dependency ratio} = \frac{\text{population under 15} + \text{population 65 and above}}{\text{population aged 15 to 64}} \times 100.$

A rise in the **number of children** makes the top of that fraction bigger, so the ratio goes up. Fewer children or fewer elderly people would shrink the top, and more working age people would make the bottom bigger, so A, C and D all push the ratio down.

26. When does quantity supplied of a good increase? (1)

A. When the prices of goods related to the product decreases

B. When the price of the food decreases

C. When the price of factors of production increases

D. ✓ **When the price of the good increases**

Answer: D

The law of supply says price and quantity supplied move in the **same direction**, other things held equal. A higher price makes each unit more profitable, so the firm offers more for sale.

Option C raises the cost of inputs, which shifts supply to the left and reduces the amount offered. That is the tempting answer, because it also concerns prices, but it is the price of factors, not the price of the good itself.

Textbook: Economics Grade 9, Unit 4 Introduction to Demand and Supply, section 4.2 Concept of Supply.

27. An indifference curve shows __________ (1)

A. the same combinations of two goods which give equal satisfactions to the consumer

B. ✓ **various combinations of two goods which give equal satisfactions to the consumer**

C. various combinations of three goods which give equal satisfactions to the consumer

D. the combinations of three goods which give equal satisfactions to the consumer

Answer: B

An indifference curve joins the **various combinations of two goods** that give a consumer exactly the same level of satisfaction. Because every point on the curve is equally good, the consumer is indifferent between them.

Option A says the same combinations, which would be a single point rather than a curve, and options C and D use three goods, which would need a three dimensional surface instead of a curve on a flat diagram.

Textbook: Economics Grade 11, Unit 1 Theory of Consumer Behavior and Demand, section 1.2 The Ordinal Utility Theory and Preferences.

28. Real GDP is measured at _________ prices (1)

A. current market

B. factor

C. ✓ **constant**

D. nominal

Answer: C

Real GDP is measured at **constant prices**, meaning the prices of a chosen base year. Holding prices fixed removes inflation from the figure, so any change in real GDP shows a change in the quantity of goods and services produced.

Nominal GDP is the one measured at current market prices, so A and D describe nominal GDP. Factor prices in option B relate to national income at factor cost, which is a different measure.

Textbook: Economics Grade 10, Unit 7 The Ethiopian Economy, section 7.2 Real GDP versus Nominal GDP.

29. Which one of the following statements best expresses a characteristics of perfectly competitive market? (1)

A. There are a few large producers which can fix their prices freely

B. ✓ **Many producers supply homogeneous products to the market**

C. Different producers set different prices for their products

D. Mobility firms between different economic activities is limited

Answer: B

A perfectly competitive market has very many buyers and sellers, a **homogeneous product**, free entry and exit, and full information. Because every seller offers an identical good and each one is tiny, no firm can set its own price; all of them take the market price.

Option A describes oligopoly, option C describes monopolistic competition where products differ, and option D contradicts free entry and exit.

Textbook: Economics Grade 10, Unit 4 Market Structures, section 4.1 Perfectly Competitive Markets.

30. Which one of the following best expresses the relation between consumption and saving? (1)

A. ✓ **At break even point between income and consumption, there is no saving**

B. Consumption is equal to income plus saving

C. Over-time consumption is dependent only on income

D. Saving is equal to consumption plus income

Answer: A

Disposable income is split between consumption and saving, so $Y_d = C + S$. The break even point is where consumption exactly equals income, and at that point $S = Y_d - C = 0$, so there is no saving.

Option B reverses the identity, since it is income that equals consumption plus saving, not consumption that equals income plus saving. Option D is wrong for the same reason.

Textbook: Economics Grade 11, Unit 4 Consumption, Saving and Investment, section 4.3 The Relationship between Saving and Consumption.

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