

Economics, 2018 EC, model exam

Grade 12 · Economics · 2018 E.C.

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Time allowed: 120 minutes

Questions: 95

Total marks: 95

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1. As social science student which one of the following practices should be encourage the transformation of the rural economy in Ethiopia from agriculture to industry? (1)
- A. Inappropriate or incorrect pricing policy towards agricultural products.
 - B. Inappropriate or incorrect entitlement of land property
 - C. Increasing prices of agricultural inputs
 - D. ✓ **Credit offerings at lower interest rates**

Answer: D

Lower interest rate credit offerings encourage rural farmers to invest in improved technology, agricultural inputs, and small-scale industries, facilitating the transition from subsistence agriculture to more productive activities. Inappropriate pricing, insecure land rights, and expensive inputs hinder transformation.

2. Which of the following correctly describes the difference between nominal GDP and real GDP? (1)
- A. Nominal GDP is calculated using current prices, while real GDP is calculated using the current population.
 - B. Nominal GDP is calculated using constant prices, while real GDP is calculated using constant population.
 - C. ✓ **Nominal GDP is calculated using current prices, while real GDP is calculated using constant prices.**
 - D. Nominal GDP is calculated using constant prices, while real GDP is calculated using current prices

Answer: C

Nominal GDP uses current year prices to value output, which includes the effects of inflation. Real GDP uses constant base-year prices, adjusting for inflation and allowing comparison of actual output across years. The correct formula is:

$$GDP_{\text{real}} = \frac{GDP_{\text{nominal}}}{\text{Price deflator}} \times 100.$$

3. Which of the following statement describes aggregate demand (AD)? (1)
- A. The total expenditure by households on final goods and services in an economy
 - B. ✓ **The total spending by all sectors of an economy at different price levels**
 - C. The total quantity of goods supplied by individual firms in an economy
 - D. The total income of households spends on final durable goods.

Answer: B

Aggregate demand (AD) represents the total quantity of goods and services that all sectors of an economy (households, firms, government, and foreign buyers) are willing to purchase at different price levels during a given period. Option A only covers household consumption (C), not total AD which includes C + I + G + (X-M).

4. Which statement best explains consumer equilibrium under Indifference Curve Analysis? (1)
- A. When maximum income is achieved at higher level of production by firms
 - B. When the budget line intersects the demand curve
 - C. ✓ **When the highest possible indifference curve is tangent to the budget line**
 - D. When the total utility becomes constant at various level of income

Answer: C

Consumer equilibrium in indifference curve analysis occurs at the point where the budget line is tangent to the highest attainable indifference curve. At this tangency point, the slope of the indifference curve ($MRS = MU_x/MU_y$) equals the slope of the budget line (P_x/P_y), maximizing utility given income constraints.

5. If the government imposes strict wage controls during a period of inflation, this measure is part of: (1)
- A. Monetary policy
 - B. Fiscal policy
 - C. ✓ **Income policy**
 - D. Trade policy

Answer: C

Income policies (also called wage-price controls) are direct government interventions to regulate wages and prices to control inflation, distinct from monetary (interest rates, money supply) and fiscal (taxation, spending) policies. Wage controls aim to break inflationary wage-price spirals.

6. Suppose the Ethiopian economy is initially at short-run equilibrium. A sudden increase in government spending occurs. Which of the following is the likely short-run effect on output and price level? (1)
- A. ✓ **The aggregate demand curve shifts right, increasing both the price level and real GDP.**
 - B. The short-run aggregate supply curve shifts left, reducing output and lowering the price level.
 - C. The long-run aggregate supply curve shifts right, increasing output but leaving the price level unchanged.
 - D. The aggregate demand curve shifts left, decreasing output and price level.

Answer: A

An increase in government spending directly increases aggregate demand (AD shifts right). In the short run, with upward-sloping SRAS, this leads to a higher price level and higher real GDP (output). This is the standard Keynesian demand-side effect. Option A is correct.

7. The main difference between Consumer Price Index (CPI) and GDP deflator is: (1)
- A. **The CPI measures price changes for consumer goods and services, whereas the GDP deflator measures ✓ price changes of all domestically produced final goods and services.**
 - B. The CPI includes only domestically produced goods, whereas the GDP deflator includes imported goods.
 - C. The CPI measures changes in production levels, whereas the GDP deflator measures changes in consumer income.
 - D. The CPI is calculated using current quantities each year, whereas the GDP deflator is based on a fixed basket of goods.

Answer: A

CPI tracks price changes of a fixed basket of consumer goods and services (including imports) purchased by households. The GDP deflator measures price changes of all domestically produced final goods and services (excluding imports), using current-year quantities. $CPI = \frac{\text{Cost of basket in current year}}{\text{Cost of basket in base year}} \times 100$, while $GDP \text{ deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$.

8. Which theory provides a more realistic explanation of consumer choice? (1)
- A. ✓ **Ordinal Utility Theory** B. Production theory
C. Cardinal Utility Theory D. Supply and demand theory

Answer: A

Ordinal utility theory is considered more realistic because it only requires consumers to rank preferences (prefer A over B) rather than assign numerical utility values. This avoids the unrealistic assumption that utility is measurable cardinally. Indifference curve analysis is based on ordinal utility.

9. 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 short run 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 macroeconomic equilibrium occurs at the intersection of the Aggregate Demand (AD) curve and the Short-Run Aggregate Supply (SRAS) curve. At this point, the quantity of real GDP demanded equals the quantity supplied. This equilibrium can be above, below, or at potential GDP (LRAS).

10. Which of the following is a primary source of economic growth? (1)
- A. ✓ **Technological advancement** B. Inflation targeting
C. Political campaigns D. Budget deficits

Answer: A

Technological advancement increases productivity, allowing more output with the same inputs. Other primary sources include capital accumulation and labor force growth. Inflation targeting stabilizes prices but does not directly grow the economy. Political campaigns and budget deficits (unless used for productive investment) are not primary growth sources.

11. Which one of the followings is the impact of devaluation and depreciation in an economy? (1)
- A. They makes export expensive than before. B. ✓ **They improve current account balance.**
C. They make import cheaper than before. D. Both have no impact in an economy

Answer: B

Devaluation (fixed exchange rate) or depreciation (floating rate) makes exports cheaper (more competitive) and imports more expensive. This typically improves the current account balance over time by increasing export volumes and reducing import demand (J-curve effect).

12. Which of the following statements best evaluates the difference between Cardinal Utility theory and Ordinal Utility Theory in explaining consumer behavior? (1)
- A. Ordinal utility measures satisfaction numerically, while Cardinal utility ranks preferences without measuring satisfaction.
B. ✓ **Cardinal utility measures satisfaction numerically, while Ordinal utility ranks preferences without measuring satisfaction**
C. Cardinal utility focuses on income only, while ordinal utility focuses on price only.
D. Both theories measure utility in exactly the same way.

Answer: B

Cardinal utility theory assumes utility can be measured numerically (e.g., utils) and is additive. Ordinal utility theory only requires consumers to rank preferences (e.g., first choice, second choice) without numerical measurement. Modern economics favors ordinal utility as more realistic.

13. The difference between GDP and GNP is that GNP:

(1)

- A. Excludes net income from abroad
- B. Exclude export
- C. Excludes taxes
- D. ✓ **Includes net income from abroad**

Answer: D

GDP measures output within a country's borders regardless of ownership. GNP measures output by a country's residents regardless of location. $GNP = GDP + \text{net income from abroad}$ (income earned by residents from foreign investments minus income earned by foreigners within the country).

14. Which portion of the utility curve forms the appropriate basis for deriving the demand curve according to the cardinal utility theory?

(1)

- A. The entire segment of the total utility curve
- B. The entire segment of the marginal utility curve
- C. The positive segment of the total utility curve
- D. ✓ **The positive segment of the marginal utility curve**

Answer: D

According to cardinal utility theory, the demand curve is derived from the positive (downward-sloping) segment of the marginal utility curve. The law of diminishing marginal utility states that as consumption increases, MU decreases, and since price equals MU (in equilibrium), price decreases with quantity demanded.

15. Which of the following is NOT a commonly used measure of poverty?

(1)

- A. Headcount ratio
- B. ✓ **Lorenz curve**
- C. Poverty gap index
- D. Multidimensional poverty index

Answer: B

The Lorenz curve measures income inequality (distribution), not poverty. Poverty measures include headcount ratio (percentage of population below poverty line), poverty gap index (depth of poverty), and multidimensional poverty index (health, education, living standards).

16. Which of the following is not a component of aggregate demand?

(1)

- A. Household consumption
- B. Government spending
- C. Private investment
- D. ✓ **Nominal wages rate**

Answer: D

Components of aggregate demand are: Consumption (C), Investment (I), Government spending (G), and Net Exports (X-M). Nominal wages rate is a factor affecting production costs and aggregate supply, not a component of AD. It influences SRAS, not AD directly.

17. A German company operates in Ethiopia and earns profits there. How are GDP and GNP affected for both countries?

(1)

- A. Germany's GDP and GNP decreases, while Ethiopia's GDP and GNP increases.
- B. ✓ **Germany's GDP remains unchanged and its GNP increases, while Ethiopia's GDP increases and its GNP remains unchanged.**
- C. Germany's GDP and GNP increases, while Ethiopia's GDP and GNP decreases.
- D. Germany's GNP remains unchanged and its GDP increases, while Ethiopia's GNP increases and its GDP remains unchanged.

Answer: B

The profit is produced inside Ethiopia, so it adds to Ethiopia's GDP (regardless of ownership). For Germany, the profit is income earned by its residents abroad, so it adds to Germany's GNP but not Germany's GDP. Ethiopia's GNP excludes this profit because it is repatriated to Germany.

18. Which of the following best illustrates a market failure? (1)

- A. ✓ **A factory dumps toxic waste into a river, causing illness to nearby residents.**
- B. The price of a product increases when its demand rises.
- C. Some consumers cannot buy a product due to higher price than they are willing to pay.
- D. Producers increase supply when the market price rises.

Answer: A

Market failure occurs when the free market fails to allocate resources efficiently, often due to externalities, public goods, or information asymmetry. The factory dumping toxic waste creates a negative externality (cost imposed on third parties), leading to overproduction and inefficient resource allocation.

19. In the process of measuring poverty, the first step is "defining an indicator of welfare." What does this step primarily involve? (1)

- A. ✓ **Selecting an appropriate variable that reflects the economic well-being of individual**
- B. Determining the minimum threshold that separates the poor from the non-poor in society.
- C. Collecting nationwide household survey data to estimate living standards.
- D. Computing the poverty headcount ratio and poverty gap index.

Answer: A

The first step in poverty measurement is selecting a welfare indicator (income, consumption, or asset index) that reflects economic well-being. Step 2 is setting the poverty line (threshold). Step 3 is data collection. Step 4 is computing poverty statistics.

20. Which of the following best explains an indifference curve? (1)

- A. ✓ **A curve showing combinations of goods that give equal satisfaction to the consumer**
- B. A curve showing levels of national income that yield equal level of its distribution
- C. A curve showing total production of a firm in a given production function
- D. A curve showing changes in market price keeping other factors remain constant

Answer: A

An indifference curve represents all combinations of two goods that provide the consumer with the same level of utility or satisfaction. The consumer is indifferent among any points on the same curve. Indifference curves slope downward, are convex to the origin, and do not intersect.

21. Which of the following is an example of indigenous knowledge used to reduce poverty? (1)

- A. ✓ **Traditional soil conservation techniques**
- B. Dependence on imported technology only
- C. Exclusive reliance on foreign experts
- D. Eliminating traditional farming systems

Answer: A

Indigenous knowledge includes traditional soil conservation (terracing, agroforestry, crop rotation), water harvesting, and seed preservation techniques. These low-cost, sustainable practices enhance productivity, reduce poverty, and build resilience in rural communities.

22. When the costs of producing a good spill over to third parties is; (1)
- A. Positive externality occurs.
 - B. ✓ **Negative externality occurs.**
 - C. The price system will generate an efficient outcome on its own.
 - D. Government subsidy to the producer will correct the market failure.

Answer: B

A negative externality (or external cost) occurs when the production or consumption of a good imposes uncompensated costs on third parties not directly involved in the transaction (e.g., pollution). Government intervention (Pigouvian tax) is typically required to correct the inefficiency.

23. If a consumer's income increases while prices of goods remain constant, what will happen to the budget line? (1)
- A. It shifts inward
 - B. It becomes steeper
 - C. ✓ **It shifts outward parallel to the original line**
 - D. It remains unchanged

Answer: C

When income increases and prices remain constant, the budget line shifts outward (to the right) parallel to the original line. The intercepts on both axes increase proportionally because the consumer can afford more of both goods, but the slope ($-P_x/P_y$) remains unchanged.

24. Suppose that the Marginal Propensity to Consume (MPC) is 0.75 and income increases by 1,000 birr, the increase in saving will be: (1)
- A. 750 birr
 - B. ✓ **250 birr**
 - C. 1,000 birr
 - D. 220 birr

Answer: B

Marginal Propensity to Save (MPS) = $1 - \text{MPC} = 1 - 0.75 = 0.25$. Increase in saving = $\text{MPS} \times \text{increase in income} = 0.25 \times 1,000 = 250$ birr. Consumption increases by 750 birr, saving by 250 birr.

25. If the Lorenz curve moves further away from the line of equality, what happens to the Gini coefficient? (1)
- A. It decreases toward zero
 - B. ✓ **It increases toward one**
 - C. It remains unchanged
 - D. It becomes negative

Answer: B

The Gini coefficient measures area between Lorenz curve and line of equality (perfect equality). As Lorenz curve moves farther away (more inequality), the area increases, and the Gini coefficient rises toward 1 (complete inequality). Gini = 0 for perfect equality, 1 for perfect inequality.

26. Indifference curves that intersect would violate which of the following assumptions? (1)
- A. The assumption of diminishing marginal utility
 - B. ✓ **The transitivity property of consumer preferences**
 - C. The completeness property of consumer preferences
 - D. The law of opportunity cost

Answer: B

If indifference curves intersect, transitivity is violated. Suppose curve1 and curve2 intersect at point A, with point B on curve1 and point C on curve2. Then $A = B$ (same curve), $A = C$ (same curve), but B is preferred over C or vice versa, contradicting transitivity.

27. A tax imposed on activities that generate negative externalities is called:

(1)

- A. income tax
B. sales tax
C. ✓ **Pigouvian tax**
D. trade tax

Answer: C

A Pigouvian tax (named after economist Arthur Pigou) is designed to correct negative externalities by taxing activities that generate external costs (e.g., carbon tax on pollution, sugar tax on unhealthy consumption). It internalizes the externality, making private cost equal social cost.

28. Suppose a consumer is not at equilibrium because the marginal utility per birr spent on good X is greater than that of good Y. What should the consumer do to reach equilibrium?

(1)

- A. Buy more of good Y and less of good X
B. Stop consuming both goods
C. Buy more of good X and more of good Y
D. ✓ Buy more of good X and less of good Y

Answer: D

Consumer equilibrium condition requires $MU_x/P_x = MU_y/P_y$. If $MU_x/P_x > MU_y/P_y$, consuming more of good X and less of good Y will re-establish equilibrium. As more X is consumed, MU_x falls (diminishing MU); as less Y is consumed, MU_y rises, equalizing the ratios.

29. Education certificates used by employees to show their skills is an example of:

(1)

- A. Screening
B. Bargaining
C. ✓ **Signaling**
D. Taxation

Answer: C

Signaling theory (Spence, 1973) explains how education certifies signal productivity to employers when actual productivity is unobservable. Education acts as a signal of underlying ability and skills. Screening is the employer's counterpart in interpreting signals.

30. Which of the following best explains the concept of the feminization of poverty?

(1)

- C. ✓ A higher proportion of women experiencing poverty compared to men**

Answer: C

Feminization of poverty refers to the disproportionate burden of poverty borne by women due to gender wage gaps, unequal access to education/credit, higher unpaid care work, single motherhood, and discrimination. Globally, women face higher poverty rates than men.

31. Which statement correctly describes the relationship between consumption and saving?

(1)

- A. Consumption and saving are unrelated variables.
- B. Saving increases only when consumption increases.
- C. ✓ **Saving is the portion of income that remains after consumption.**
- D. An increase in consumption leads to an increase in saving.

Answer: C

By definition, disposable income (Y) = Consumption (C) + Saving (S). Therefore, $S = Y - C$. Saving and consumption are competing uses of income. When consumption increases, saving decreases if income is constant.

32. Which of the following statements correctly describes the relationship among MPC, APC, APS, and MPS in Keynesian consumption theory? (1)
- A. $MPC + APC = 1$ and $MPS + APS = 1$ B. $APC + MPS = 1$ and $MPC + APS = 1$
- C. $MPC = APS$ and $APC = MPS$ D. ✓ **$APC + APS = 1$ and $MPC + MPS = 1$**

Answer: D

APC (Average Propensity to Consume) = C/Y , APS (Average Propensity to Save) = S/Y . Since $C+S=Y$, dividing both sides by Y gives $APC+APS=1$. Similarly, MPC (Marginal Propensity to Consume) + MPS (Marginal Propensity to Save) = 1 because all additional income is either consumed or saved.

33. _____ is falsifying information on a tax return in order to reduce one's tax liability or not filling it at all. (1)
- A. ✓ **Tax evasion** B. Tax avoidance
- C. Remittance D. Transfer tax

Answer: A

Tax evasion is illegal, involving deliberate concealment or misrepresentation of income (falsifying returns, underreporting income, not filing). Tax avoidance is legal reduction of tax liability through lawful means (deductions, credits, loopholes). Remittance refers to money sent home, transfer tax is on asset transfers.

34. Which of the following best describes the current global distribution of extreme poverty? (1)
- A. Extreme poverty is equally distributed across all world regions.
- B. ✓ **The majority of people living in extreme poverty are concentrated in Sub-Saharan Africa and parts of South Asia.**
- C. Extreme poverty is primarily concentrated in high-income economies due to income inequality.
- D. Extreme poverty occurs mainly in regions with the highest population density.

Answer: B

According to World Bank data, extreme poverty ($<\$2.15/\text{day}$) is highly concentrated in Sub-Saharan Africa (about 60% of global extreme poor) and South Asia (about 30%). High-income economies have negligible extreme poverty. Population density alone does not determine poverty distribution.

35. A sudden increase in consumer income causes the demand curve for a normal good to shift right, while the supply curve remains unchanged. What happens to equilibrium price and quantity? (1)
- A. Price falls, quantity rises B. ✓ **Price rises, quantity rises**
- C. Price rises, quantity falls D. Price falls, quantity falls

Answer: B

For a normal good, an increase in income shifts the demand curve to the right (increase in demand). With supply unchanged, both equilibrium price and quantity increase. The upward pressure on price comes from excess demand at the original price.

36. The consumption function shows the relationship between: (1)
- A. Income and saving B. Saving and consumption
- C. Income and investment D. ✓ **Income and consumption**

Answer: D

The consumption function, expressed as $C = a + bY$ (where a is autonomous consumption and $b=MPC$), shows how household consumption expenditure varies with disposable income. Keynes proposed that consumption increases with income but not as much.

37. The law of demand states that, ceteris paribus: (1)
- A. As the price of a good rises, the quantity demanded rises
 - B. ✓ **As the price of a good falls, the quantity demanded rises**
 - C. Quantity demanded remains constant regardless of price
 - D. Quantity demanded and price is positive relationship

Answer: B

The law of demand states an inverse relationship between price and quantity demanded, ceteris paribus (all else equal). When price falls, quantity demanded rises; when price rises, quantity demanded falls. This is due to substitution and income effects.

38. Tax base is: (1)
- A. The per-unit amount of tax at which an economic activity is taxed.
 - B. ✓ **The quantity or value of an economic activity that is subject to taxation.**
 - C. The way the burden of a tax is distributed among economic units.
 - D. The first point of contact between the tax authority and a taxpayer.

Answer: B

Tax base refers to the measure or value (income, consumption, property, sales) upon which a tax is levied. Example: Income tax base is taxable income; sales tax base is total sales revenue. Option A describes tax rate, Option C describes tax incidence, Option D describes tax collection point.

39. A key challenge that led to the introduction of the Homegrown Economic Reform Program was: (1)
- A. Excessive agricultural exports
 - B. Lack of government institutions
 - C. ✓ **Macroeconomic imbalances and debt pressures**
 - D. Absence of international trade

Answer: C

Ethiopia's Homegrown Economic Reform Program (2019) was introduced to address macroeconomic imbalances: high inflation, foreign exchange shortages, rising public debt, low domestic revenue mobilization, and balance of payments pressures, while transitioning to private-sector-led growth.

40. Which of the following institutions plays a major role in implementing fiscal decentralization in Ethiopia? (1)
- A. International Monetary Fund
 - B. Private commercial banks
 - C. World Bank
 - D. ✓ **Regional state governments**

Answer: D

Fiscal decentralization in Ethiopia transfers revenue-raising and expenditure responsibilities to regional and woreda (district) governments. Regional state governments collect regional taxes, receive federal block grants, and manage local public services (education, health, agriculture) under the constitution.

41. According to the benefit approach of taxation, a taxpayer must pay tax in proportion to: (1)
- A. The taxpayer's ability to pay.
 - B. ✓ **The benefit received from public services.**
 - C. Regardless of whether the taxpayer uses public services or not.
 - D. An equal share for everyone, regardless of income.

Answer: B

The benefit principle of taxation states that individuals should pay taxes in proportion to the benefits they receive from government services (e.g., user fees, toll roads, gasoline taxes for roads). This contrasts with the ability-to-pay principle (progressive taxation).

42. Induced investment is investment that: (1)
- A. Is independent of income
 - B. Is determined only by government
 - C. ✓ **Depends on the level of income**
 - D. Is unrelated to profits

Answer: C

Induced investment varies with the level of income or output. When income rises, firms invest more to expand capacity (accelerator principle). Autonomous investment is independent of income (e.g., government infrastructure).

43. Which of the following correctly matches the value of price elasticity of demand (PED) with its type of demand? (1)
- A. PED = 0 → perfectly elastic demand
 - B. PED = 1 → Inelastic demand
 - C. ✓ **PED > 1 → Elastic demand**
 - D. PED = ∞ → Perfectly inelastic demand

Answer: C

PED > 1 indicates elastic demand (quantity demanded changes proportionally more than price). PED = 0 is perfectly inelastic, PED = 1 is unit elastic, PED = ∞ is perfectly elastic. Correct matching: PED > 1 → Elastic demand.

44. Which statement best reflects the core principle of the Mercantilist theory of international trade? (1)
- A. International trade benefits all countries through specialization & comparative advantage.
 - B. ✓ **National wealth is measured by the accumulation of gold and silver, achieved through a trade surplus.**
 - C. Free trade maximizes global welfare and economic efficiency.
 - D. Mercantilism views international trade as a mutually beneficial (non-zero-sum) game.

Answer: B

Mercantilism (16th-18th centuries) held that national wealth = precious metals. Countries should maximize exports and minimize imports to achieve a trade surplus, with government intervention. It viewed trade as zero-sum (one country's gain is another's loss).

45. The major pillar of Ethiopia's Homegrown Economic Reform Agenda is; (1)
- A. Abolishing financial institutions
 - B. Nationalizing private businesses
 - C. Eliminating the agricultural sector
 - D. ✓ **Macroeconomic stability and structural reforms**

Answer: D

The Homegrown Economic Reform Agenda has three pillars: (1) macroeconomic stability (inflation control, exchange rate flexibility, debt management), (2) structural reforms (private sector development, financial sector deepening, trade logistics), and (3) sectoral policies (agriculture, manufacturing, tourism).

46. Which of the following correctly distinguishes between tax impact and tax incidence? (1)
- A. Tax impact refers to who finally bears the burden of a tax, while tax incidence refers to who initially pays the tax.
 - B. Tax impact and tax incidence both refer to the final burden of taxation.
 - C. Tax impact refers to government revenue, while tax incidence refers to tax collection methods.
 - D. ✓ **Tax impact refers to who initially pays the tax to the government, while tax incidence refers to who ultimately bears the burden of the tax.**

Answer: D

Tax impact (statutory incidence) refers to the person or entity legally responsible for paying the tax to the government (e.g., employer pays payroll tax). Tax incidence (economic incidence) refers to who ultimately bears the burden after market adjustments (e.g., workers receive lower wages).

47. Which of the following best differentiates absolute advantage from comparative advantage? (1)

- A. **Absolute advantage is about overall productivity, while comparative advantage is about lower opportunity cost.**
- B. Absolute advantage focuses on opportunity cost, while comparative advantage focuses on efficiency.
- C. Absolute advantage applies only to imports, while comparative advantage applies only to exports.
- D. Both theories assume that international trade is always a zero-sum game.

Answer: A

Absolute advantage (Adam Smith): producing more output with same inputs. Comparative advantage (David Ricardo): producing at lower opportunity cost. A country can have absolute disadvantage in both goods but still benefit from trade based on comparative advantage.

48. An economist observes that after a decrease in the price of coffee, consumers buy more coffee while all other factors remain constant. Which conclusion is most appropriate? (1)

- A. There is an increase in demand for coffee.
- B. There is a decrease in demand for coffee.
- C. The demand curve for coffee shifts to the right.
- D. **There is a change in quantity demanded due to price change.**

Answer: D

This scenario describes a movement along the demand curve, not a shift. Price change (decrease) causes a change in quantity demanded (increase), not a change in demand itself. Demand shift would require changes in non-price factors (income, tastes, prices of related goods).

49. The Ethiopian tax system is (1)

- A. **progressive**
- B. proportional
- C. regressive
- D. constant

Answer: A

Ethiopia employs a progressive personal income tax system, where higher income earners pay a larger percentage of their income in taxes (marginal rates from 0% to 35% as of recent schedules). Corporate income tax is flat (proportional) at 30%, but the overall tax system leans progressive.

50. A firm produces 10 units of output at a total cost of 500 birr. When output increases to 11 units, total cost rises to 540 birr. The marginal cost of the 11th unit is: (1)

- A. 60 birr
- B. 50 birr
- C. 45 birr
- D. **40 birr**

Answer: D

Marginal cost (MC) = change in total cost / change in quantity = $(540 - 500) / (11 - 10) = 40 / 1 = 40$ birr. MC is the additional cost of producing one more unit.

51. Which of the following was the main objective of SDPRP (Sustainable Development and Poverty Reduction Program)? (1)
- A. Introduce a federal fiscal system
 - B. Promote privatization of state enterprises
 - C. ✓ **Reduce poverty through sustainable economic growth**
 - D. Expand international trade liberalization

Answer: C

SDPRP (2002-2005) was Ethiopia's first PRSP (Poverty Reduction Strategy Paper), aligned with the MDGs. Its core objective was poverty reduction through sustainable economic growth, agricultural development, human capital investment, and infrastructure expansion.

52. Which of the following is a major problem associated with the Ethiopian tax system? (1)
- A. ✓ **High compliance and administrative costs due to complex tax laws.**
 - B. Broad tax base and efficient revenue collection.
 - C. Excessive reliance on modern technology for tax collection.
 - D. Full taxpayer awareness and voluntary compliance.

Answer: A

Major challenges in Ethiopia include: complex and frequently changing tax laws, high compliance costs, narrow tax base (many informal enterprises and subsistence agriculture not taxed), low voluntary compliance, limited use of modern technology, and significant tax evasion/avoidance.

53. Ethiopia's participation in regional blocs like COMESA primarily aims to: (1)
- A. Restrict trade
 - B. Increase trade barriers
 - C. ✓ **Promote regional economic integration**
 - D. Reduce domestic production

Answer: C

COMESA (Common Market for Eastern and Southern Africa) aims to reduce trade barriers, promote free trade, and achieve economic integration among member states. Benefits include larger markets, economies of scale, and increased foreign investment.

54. Which of the following is true about fixed cost? (1)
- A. ✓ **Average fixed cost continuously decreases as output increases.**
 - B. Total fixed cost is the sum of total variable cost and total cost.
 - C. Total fixed cost continuously increases as output expands.
 - D. Total fixed cost varies with the level of output.

Answer: A

Average fixed cost ($AFC = TFC/Q$) continuously decreases as output increases because total fixed cost remains constant while the denominator increases. TFC does not vary with output; it is fixed in the short run. $TC = TFC + TVC$, so $TFC = TC - TVC$, not sum.

55. Which Ethiopian development plan emphasized industrial parks and manufacturing expansion? (1)
- A. ADLI
 - B. ✓ **GTP I and GTP II**
 - C. SDPRP
 - D. Structural Adjustment Program

Answer: B

Growth and Transformation Plan I (2010-2015) and GTP II (2015-2020) emphasized industrial parks (Bole Lemi, Hawassa, Kombolcha, Adama, Kilinto), manufacturing expansion (textiles, garments, leather, agro-processing), and export diversification to achieve middle-income status.

56. A government increases taxes while keeping public expenditure constant in order to reduce inflation. This policy is an example of: (1)
- A. Expansionary fiscal policy
 - B. Expansionary monetary policy
 - C. ✓ **Contractionary fiscal policy**
 - D. Contractionary monetary policy

Answer: C

Contractionary fiscal policy aims to reduce aggregate demand and control inflation by decreasing government spending, increasing taxes, or both. Increasing taxes with constant spending reduces disposable income, consumption, and AD, thereby reducing inflationary pressure.

57. What is the correct name for a decrease in the exchange rate due to political and economic decision of the government? (1)
- A. Depreciation
 - B. ✓ **Devaluation**
 - C. Appreciation
 - D. Revaluation

Answer: B

Devaluation is an official reduction in the value of a currency under a fixed exchange rate system, set by government policy. Depreciation occurs under floating rates due to market forces. Appreciation and revaluation are increases in currency value.

58. A systematic record of all economic transactions of a country with the rest of the world is; (1)
- A. Account Balance
 - B. Current account
 - C. Capital account
 - D. ✓ **Balance of payment**

Answer: D

Balance of Payments (BOP) is a comprehensive record of all economic transactions between residents of a country and the rest of the world over a period. It includes current account (trade, services, income), capital account, and financial account.

59. Which greenhouse gas contributes the largest share to global warming? (1)
- A. ✓ **Carbon dioxide**
 - B. Methane
 - C. Ozone
 - D. Nitrous oxide

Answer: A

Carbon dioxide (CO₂) accounts for approximately 76% of global greenhouse gas emissions (from fossil fuels, industry, land use change). Methane (CH₄) contributes ~16%, nitrous oxide (N₂O) ~6%, and fluorinated gases ~2%. Ozone is a short-lived climate pollutant but not a major long-term contributor.

60. Which of the following combinations represents Contractionary monetary policy? (1)
- A. Raising interest rates and lower reserve requirements
 - B. ✓ **Selling government securities and raising reserve requirements**
 - C. Buying government securities and raising reserve requirements
 - D. Lowering the discount rate and increasing lending

Answer: B

Contractionary monetary policy reduces money supply to fight inflation. Tools: selling government securities (open market sales to absorb money), raising reserve requirements (reduces lending capacity), raising discount rate (discourages borrowing). Option B correctly combines two contractionary actions.

61. If Marginal Product (MP) is greater than Average Product (AP), then: (1)
- A. AP is falling and MC is rising
 - B. AP is constant and MC is constant
 - C. ✓ **AP is rising and MC is falling**
 - D. AP is falling and MC is falling

Answer: C

When $MP > AP$, AP is increasing (rising). In production theory, when AP rises, MC (marginal cost) falls because $MC = \text{wage} / MP$. Inverse relationship between MP and MC. Thus $MP > AP$ implies rising AP and falling MC.

62. In a perfectly competitive market, a firm has an average cost (AC) of 50 Birr. If the market price (P) is 50 Birr, which of the following statements is correct? (1)
- A. The firm will incur a loss because price is equal to average cost.
 - B. The firm will be at shut down point because price is equal to average cost.
 - C. ✓ **Total revenue equals total cost, and the firm earns zero economic profit.**
 - D. The firm will earn super normal profit because P is greater than AC.

Answer: C

In perfect competition, when $P = AC$, the firm breaks even: total revenue ($P \times Q$) equals total cost ($AC \times Q$). Economic profit is zero (normal profit). The firm does not incur loss or earn supernormal profit. Shut-down point occurs when $P < AVC$, not $P = AC$.

63. A country experiencing a persistent BOP deficit may respond by: (1)
- A. Increasing imports
 - B. Reducing exports
 - C. ✓ **Devaluing its currency**
 - D. Ignoring capital flows

Answer: C

Currency devaluation makes exports cheaper and imports more expensive, improving trade balance. Other responses include contractionary fiscal/monetary policy, borrowing from IMF, or trade restrictions. Increasing imports or reducing exports would worsen the deficit.

64. ----- is a situation where there is no international trade and a country is assumed to be self-sufficient. (1)
- A. Laissez-faire
 - B. Zero sum game
 - C. ✓ **Autarky**
 - D. Positive sum game

Answer: C

Autarky refers to a state of self-sufficiency where a country does not engage in international trade. Laissez-faire is a policy of minimal government intervention. Zero-sum and positive-sum games describe different trade outcomes.

65. Which of the following correctly ranks market structures from the most competitive to the least competitive? (1)
- A. Monopoly → Oligopoly → Monopolistic Competition → Perfect Competition
 - B. ✓ **Perfect Competition → Monopolistic Competition → Oligopoly → Monopoly**
 - C. Oligopoly → Perfect Competition → Monopoly → Monopolistic Competition
 - D. Monopolistic Competition → Perfect Competition → Oligopoly → Monopoly

Answer: B

The spectrum of market competition from most to least: Perfect Competition (many firms, identical products, price takers) → Monopolistic Competition (many firms, differentiated products) → Oligopoly (few firms, interdependence) → Monopoly (single seller, price maker). Option B correctly orders them.

66. Green growth mainly promotes:

(1)

- A. ✓ **Economic growth with environmental sustainability**
- B. Economic growth without regulation
- C. Decline in technological innovation
- D. Unlimited use of natural resources

Answer: A

Green growth is a development approach that fosters economic growth and development while ensuring natural assets continue to provide resources and environmental services. It promotes resource efficiency, low-carbon technologies, renewable energy, and sustainable resource use.

67. Which of the following is included in the concept of economic development but NOT necessarily in economic growth?

(1)

- A. Increase in total output
- B. Increase in real GDP
- C. Increase in market value of goods and services
- D. ✓ **Improvement in self-esteem and freedom of choice**

Answer: D

Economic growth is narrowly defined as increase in real GDP/output. Economic development is broader, including improvements in health, education, self-esteem, freedom, reduced inequality, and other welfare dimensions. Sen's capability approach emphasizes freedoms and choices.

68. The Climate Resilient Green Economy (CRGE) strategy of Ethiopia aims to:

(1)

- A. Increase dependence on fossil fuels
- B. ✓ **Achieve middle-income status with low carbon emissions**
- C. Reduce agricultural production
- D. Expand heavy industries without regulation

Answer: B

Ethiopia's CRGE strategy (2011) aims to achieve middle-income status by 2025 while keeping greenhouse gas emissions low (green economy) and building resilience to climate impacts (climate resilience). Focus areas: agriculture, forestry, energy, transport, and industry with low-emission pathways.

69. Which of the following statements correctly compares monopoly and monopolistic competition with respect to AR, MR, and the demand curve?

(1)

- A. ✓ **In both market structures, AR is the demand curve and MR lies below AR curve**
- B. In monopolistic competition, the demand curve is perfectly elastic.
- C. In monopoly, the MR curve lies above the AR curve.
- D. In monopoly, AR equals MR, while in monopolistic competition MR lies below AR.

Answer: A

Both monopoly and monopolistic competition face downward-sloping demand curves (AR curves). For a downward-sloping demand curve, marginal revenue (MR) lies below average revenue (AR). In perfect competition, AR = MR (horizontal demand). Option A correctly describes both structures.

70. Which Ethiopian program focuses on mass tree planting and forest restoration? (1)
- A. Industrial Parks Program B. ✓ **Green Legacy Initiative**
C. Growth and Transformation Plan D. Urban Safety Net Program

Answer: B

The Green Legacy Initiative (launched 2019 by Prime Minister Abiy Ahmed) is Ethiopia's national tree-planting campaign aiming to plant billions of seedlings to combat deforestation, restore degraded lands, combat climate change, and promote environmental sustainability. It set a world record with over 350 million trees planted in one day (2019).

71. If a country's life expectancy is 70 years, the minimum value is 20 years, and the maximum value is 80 years, what is its Life Expectancy Index (LEI)? (1)
- A. 0.67 B. 0.75
C. ✓ **0.83** D. 0.50

Answer: C

Life Expectancy Index (used in HDI) = (Actual - Minimum) / (Maximum - Minimum) = (70 - 20) / (80 - 20) = 50 / 60 = 0.8333 ≈ 0.83. The minimum (20 years) and maximum (85 years in newer HDI) are goalposts. Higher index indicates better health outcomes.

72. Which of the following conditions best explains why firms in a perfectly competitive market are price takers? (1)
- A. There are significant barriers to entry that limit competition.
B. Firms sell differentiated products that create brand loyalty.
C. A single seller controls the total market supply.
D. ✓ **There are many buyers and sellers trading homogeneous products.**

Answer: D

In perfect competition, many buyers and sellers trade identical (homogeneous) products, and each firm produces a negligible share of total output. No individual firm can influence market price; they must accept (take) the market price determined by industry supply and demand.

73. Which of the following best describes first-degree price discrimination by a monopolist? (1)
- A. Charging different prices to different groups based on observable characteristics.
B. ✓ **Charging each consumer the maximum price he or she is willing to pay.**
C. Charging lower prices for bulk purchases only.
D. Charging the same price based on identifiable group differences.

Answer: B

First-degree (perfect) price discrimination occurs when a monopolist charges each consumer exactly their reservation price (maximum willingness to pay), extracting all consumer surplus. Option A describes third-degree discrimination, option C describes second-degree (quantity discounts).

74. If the exchange rate changes from 145 ETB per USD to 150 ETB per USD, this indicates: (1)
- A. Appreciation of ETB B. Revaluation of ETB
C. ✓ **Depreciation of ETB** D. Stabilization of ETB.

Answer: C

When more ETB are needed to buy 1 USD (145 → 150), the ETB has weakened in value. Under floating rates, this is depreciation. Appreciation would be fewer ETB per USD. Under fixed rates, the same direction would be devaluation.

75. A competitive firm will produce an optimum level of output in the short run as long as: (1)
- A. Average total cost is greater than price.
 - B. Price less than marginal cost.
 - C. Average variable cost is less than price.
 - D. ✓ **Price equal to marginal cost.**

Answer: D

In perfect competition, profit maximization (or loss minimization) occurs where $P = MC$, provided $P \geq AVC$ (shut-down condition). If $P > MC$, firm can increase profit by producing more; if $P < MC$, reduce output. Only at $P = MC$ is optimum output achieved.

76. Which of the following is a major criticism of the Human Development Index (HDI)? (1)
- A. It measures only life expectancy.
 - B. It ignores income completely.
 - C. It focuses only on developing countries.
 - D. ✓ **It does not adequately account for inequality and gender disparity.**

Answer: D

HDI combines life expectancy, education, and GNI per capita, but it does not measure inequality within a country, gender disparities, poverty, or environmental sustainability. The Inequality-adjusted HDI (IHDI) was developed to address this limitation.

77. Which of the following best distinguishes capability from functioning? (1)
- A. Capability is income; functioning is savings
 - B. ✓ **Capability is potential achievement; functioning is actual achievement**
 - C. Capability is consumption; functioning is production
 - D. Capability is freedom; functioning is restriction

Answer: B

In Amartya Sen's capability approach, functionings are the actual doings and beings a person achieves (e.g., being nourished, literate). Capabilities are the freedoms or opportunities to achieve those functionings (e.g., having access to food to be nourished).

78. Which of the following terms is NOT related to oligopoly? (1)
- A. Conscious parallelism
 - B. Collusion
 - C. ✓ **perfect competition**
 - D. Cartel

Answer: C

Perfect competition is a distinct market structure and not related to oligopoly. Oligopoly is characterized by few firms, interdependence, and strategic behavior. Conscious parallelism (tacit coordination), collusion (agreements), and cartels (formal collusion) are all oligopoly-related concepts.

79. The SDGs emphasize balancing which three dimensions of development? (1)
- A. Political, military, cultural
 - B. Religious, social, financial
 - C. ✓ **Social, economic, environmental**
 - D. Agricultural, industrial, technological

Answer: C

The 17 Sustainable Development Goals (SDGs) adopted by the UN in 2015 balance social (e.g., health, education), economic (e.g., decent work, innovation), and environmental (e.g., climate action, biodiversity) dimensions of sustainable development.

80. In an oligopolistic market, which statement best describes the difference between collusive and non-collusive behavior? (1)

- A. **Collusive oligopoly firms cooperate formally to maximize joint profits, while non-collusive firms ✓ independently set prices and output**
- B. Collusive oligopoly firms compete aggressively on price, while non-collusive firms cooperate to fix output and price
- C. Collusive oligopoly firms always produce differentiated products, while non-collusive firms produce homogeneous products.
- D. Collusive oligopoly firms face perfectly elastic demand, while non-collusive firms face downward-sloping demand.

Answer: A

Collusive oligopoly involves explicit or tacit cooperation (cartels, price-fixing) to maximize joint profits, behaving like a monopoly. Non-collusive oligopoly involves independent decision-making with strategic interdependence (Cournot, Bertrand, Stackelberg models). Option A correctly distinguishes them.

81. A development policy that promotes industrial growth while damaging forests contradicts the principle of: (1)

- A. Economic liberalization
- B. Globalization
- C. ✓ **Environmental sustainability**
- D. Political integration

Answer: C

Environmental sustainability requires that current development does not compromise future generations' ability to meet their needs. Damaging forests (carbon sinks, biodiversity) violates this principle. Sustainable development balances growth with environmental protection.

82. Which of the following best describes the primary function of financial intermediaries? (1)

- A. To set monetary policy and control inflation
- B. ✓ **To facilitate the transfer of funds from savers to borrowers**
- C. To regulate stock market activities
- D. To provide insurance services exclusively

Answer: B

Financial intermediaries (banks, credit unions, mutual funds) channel funds from surplus units (savers) to deficit units (borrowers). They reduce transaction costs, manage risk, and provide liquidity. Monetary policy is set by central banks, stock market regulation by securities authorities.

83. The Climate Resilient Green Economy (CRGE) strategy aims to; (1)

- A. Maximize industrial exports
- B. ✓ **Make carbon-neutral economy**
- C. Privatize agriculture
- D. Reduce education spending

Answer: B

Ethiopia's Climate Resilient Green Economy (CRGE) strategy, launched in 2011, aims to achieve middle-income status by 2025 while building a climate-resilient and carbon-neutral economy. Key sectors include agriculture, forestry, transport, and energy.

84. Microfinance institutions primarily differ from commercial banks because they: (1)
- A. Focus on providing loans to large corporations
 - B. Operate without any government regulation
 - C. ✓ **Provide small loans to low-income individuals or groups**
 - D. Do not charge interest on any loans

Answer: C

Microfinance institutions (MFIs) provide small loans (microcredit) and other financial services to low-income individuals, small entrepreneurs, and groups who lack access to traditional banking. Commercial banks typically serve larger, established customers with collateral. MFIs do charge interest but often at different rates.

85. Which stage of economic integration allows free movement of labor and capital among member countries? (1)
- A. Free trade area
 - B. ✓ **Common market**
 - C. Customs union
 - D. Political union

Answer: B

Stages of integration: Free trade area (no tariffs among members) → Customs union (+common external tariff) → Common market (+free movement of labor and capital) → Economic union (+harmonized policies) → Political union (+unified government).

86. If a company wants to raise long-term capital for expansion, which financial market should it primarily access? (1)
- A. Money market
 - B. Foreign exchange market
 - C. Traditional market
 - D. ✓ **Capital market**

Answer: D

Capital markets (stock markets and bond markets) are for raising long-term capital (maturity >1 year). Money markets are for short-term borrowing/lending (<1 year). Foreign exchange markets trade currencies. Companies issue stocks or bonds in capital markets for expansion financing.

87. The recent Ethiopian government's development strategy known as ADLI is based on the assumption that: (1)
- A. Industrial growth will automatically stimulate agricultural development
 - B. Agriculture should be replaced by service sector expansion
 - C. ✓ **Agricultural productivity growth can stimulate industrialization**
 - D. Industrialization must occur independently of agriculture

Answer: C

ADLI (Agricultural Development-Led Industrialization) is Ethiopia's strategy that prioritizes agricultural productivity growth. The assumption: 85% of population depends on agriculture; increased farm productivity raises rural incomes, creates demand for industrial goods (backward/forward linkages), and supplies raw materials for agro-industries.

88. Which of the following best distinguishes the agricultural policies of the Imperial and Derg governments in Ethiopia? (1)
- A. The Imperial government promoted state farms while the Derg encouraged private farms
 - B. ✓ **The Imperial government supported landlord-based agriculture, while the Derg nationalized land**
 - C. Both governments implemented identical agricultural reforms
 - D. The Derg abolished government involvement in agriculture

Answer: B

Under Imperial regime (pre-1974), land was privately owned with a landlord-tenant system. The Derg (1974-1991) nationalized all rural land, abolishing private ownership and implementing collectivization and state farms. The EPRDF later introduced land leasing and farmer rights.

89. Which of the following is considered a macroeconomic variable? (1)

- A. Individual income
- B. Personal savings account balance
- C. ✓ **GDP**
- D. Daily stock purchases

Answer: C

Macroeconomics studies aggregate economic variables: Gross Domestic Product (GDP), inflation, unemployment, national income, aggregate consumption, and investment. Individual income and personal savings are microeconomic variables. GDP is a key macroeconomic indicator.

90. Which phase of the business cycle is characterized by falling output and rising unemployment? (1)

- A. Expansion
- B. ✓ **Recession**
- C. Peak
- D. Recovery

Answer: B

Recession (or contraction) phase of the business cycle features declining real GDP, rising unemployment, falling consumer spending, and reduced investment. Expansion is growth, peak is the maximum, recovery is the transition from trough to expansion.

91. Which of the following situations best illustrates a macroeconomic problem rather than a microeconomic one? (1)

- A. A firm deciding the optimal level of production
- B. A consumer maximizing satisfaction from limited income
- C. ✓ **Persistent increase in the overall price level in the economy**
- D. A firm choosing between labor and capital

Answer: C

Macroeconomics studies economy-wide phenomena: inflation, unemployment, GDP growth. Microeconomics studies individual agents: firms (production, input choice) and consumers (utility maximization). Persistent inflation is a macroeconomic issue.

92. Which of the following measures the total market value of all final goods and services produced within a country in a year, regardless of the ownership of the factors of production? (1)

- A. ✓ **Gross Domestic Product (GDP)**
- B. Gross Personal Income (GPI)
- C. Gross National Product (GNP)
- D. Gross National Income (GNI)

Answer: A

GDP measures output produced within a country's geographic borders regardless of whether factors are owned by residents or foreigners. GNP/GNI measure output produced by domestically owned factors regardless of location. The key phrase "within a country" indicates GDP.

93. When unemployment occurs because workers' skills do not match new technological requirements, (1)

- A. Cyclical unemployment
- B. ✓ **Structural unemployment**
- C. Frictional unemployment
- D. Disguised unemployment

Answer: B

Structural unemployment results from mismatch between workers' skills and available jobs due to technological change, industry shifts, or geography. Frictional is short-term between jobs. Cyclical is due to recessions. Disguised is underemployment.

94. Which of the following policies would most likely be recommended by a Keynesian economist during an economic recession? (1)
- A. Decreasing government expenditure to reduce demand
 - B. Increasing taxes to balance the budget deficit
 - C. ✓ **Increasing government spending to stimulate demand**
 - D. Reducing public investment to reduce public deficit

Answer: C

Keynesian economics advocates expansionary fiscal policy during recessions: increase government spending (on infrastructure, social programs) and/or cut taxes to boost aggregate demand, reduce unemployment, and close the output gap.

95. Suppose the total population of Ethiopia is 125 million. Out of this, 75 million people are in the labor force, and 9 million people are unemployed but actively looking for work. What is the unemployment rate? (1)
- A. 7%
 - B. 9%
 - C. ✓ **12%**
 - D. 15%

Answer: C

Unemployment rate = (Number of unemployed / Labor force) × 100 = (9 million / 75 million) × 100 = 0.12 × 100 = 12%. Total population is irrelevant. Labor force = employed + unemployed actively seeking work.

END OF THE MARKING KEY

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