

Economics, 2018 EC, social science, entrance exam, round 1

Grade 12 · Economics · 2018 E.C.

MARKING KEY — CONFIDENTIAL

Time allowed: 120 minutes

Questions: 77

Total marks: 77

1. Economic inequality is the disproportionate distribution of total national income among households. Which one of the following is correct about the alternative measurements of income inequality? (1)
- A. **Kuznets ratio is a measure of the degree of inequality between high income and low-income groups in the country.** ✓
 - B. The Gini-coefficient value equals to zero implies perfect inequality.
 - C. The higher is the value of Gini coefficient, the lower the inequality.
 - D. In the Lorenz curve if income distribution were perfectly unequal, it would be represented by the 45-degree line.

Answer: A

The Kuznets ratio measures the ratio of income going to the highest earners (e.g., top 20%) to that of the lowest earners (e.g., bottom 20% or 40%), serving as a direct measure of inequality between high- and low-income groups.

2. Which one of the following is correct about the situation of global and regional poverty? (1)
- A. There are clear indications that the conditions of global poverty has worsened over the past half century.
 - B. **✓ Extreme poverty remains wide spread in developing world in past decades.**
 - C. Sub-Saharan Africa showed a remarkable achievement in eradicating poverty from 1950 to 2000.
 - D. China has experienced virtually no rate of poverty reduction in the past decades.

Answer: B

Despite overall global progress, extreme poverty has remained a persistent and widespread challenge in many parts of the developing world, particularly in Sub-Saharan Africa and parts of South Asia.

3. Which one of the following is the main reason why women face poverty? (1)
- A. **✓ They have less access to education, formal sector employment and social security.**
 - B. They are more likely to obtain formal employment in private companies.
 - C. They have unlimited control over household income and resources.
 - D. They have equal access to the resources that are necessary to create stable income.

Answer: A

Gender inequality in access to education, employment in the formal sector, and social protection programs limits women's earning potential and makes them disproportionately vulnerable to poverty.

4. Which one of the following is the objective of the third five-year plan (1968-1973) during the Imperial Period? (1)
- A. Developing strong infrastructure particularly in transportation and communication
 - B. **✓ Accelerating agriculture development by promoting commercial agriculture**
 - C. Diversifying of production and introduction of modern processing methods
 - D. Raising manufacturing and agro-industrial performance and expansion of educational opportunities

Answer: B

While the first and second five-year plans focused on infrastructure and manufacturing respectively, the Third Five-Year Plan (1968-1973) prioritized agricultural development, specifically the promotion of commercial agriculture.

5. The 1974 revolution by Derg resulted in the establishment of a socialist state which aimed at the nationalization and restricting of the Ethiopian economy. The regime changed the previous national development strategy placing the major emphasis on a centrally planned economy. Which one of the following is correct about the major changes? (1)
- A. The agriculture-led development was deployed as the main development strategy.
 - B. The rural land and other productive assets were privatized, and land was distributed among farmers.
 - C. ✓ **The commercial farms were put under government control, and land tenancy was abolished.**
 - D. Rural lands are transferred to large manufacturers due shift to industry-led development policy.

Answer: C

Under the Derg regime's land reform proclamation of 1975, all rural land was nationalized, private commercial farms were converted into state farms, and land tenancy was completely abolished.

6. To measure the general price level of an economy policy makers, use the GDP deflator, Consumer's Price Index (CPI) and Producer Price Index (PPI). Which one of the following is correct about these measures? (1)
- A. The ratio of Nominal GDP to real GDP is equivalent to CPI.
 - B. The ratio of Real GDP to GDP deflator is equivalent to Nominal GDP.
 - C. The ratio of Nominal GDP to real GDP is equivalent to PPI.
 - D. ✓ **The ratio of Nominal GDP to real GDP is equivalent to GDP deflator.**

Answer: D

The GDP deflator is a measure of the price level calculated as the ratio of nominal GDP to real GDP (usually multiplied by 100).

7. Which one of the following is correct about the role of investment on economic growth? (1)
- A. It boosts economic growth by increasing consumption expenditure.
 - B. It leads to lower economic growth by reducing saving.
 - C. ✓ **It leads to higher economic growth by increasing capital stock.**
 - D. It limits economic growth by postponing gains in to longer period.

Answer: C

Investment involves spending on capital goods (machinery, infrastructure, factories), which increases the economy's capital stock and enhances its productive capacity, leading to economic growth.

8. Which one of the following statements is correct about the relationship between consumption and saving? (1)
- A. ✓ **When income is more than consumption there is a positive saving.**
 - B. When income equals to consumption there is a positive saving.
 - C. When income is more than consumption there is a dissaving.
 - D. When income is less than consumption there is a positive saving.

Answer: A

Since disposable income is divided between consumption and saving ($Y = C + S$), saving is positive when income exceeds consumption ($Y > C$).

9. Which one of the following correctly defines investment? (1)
- A. It is the amount of goods purchased for current consumption.
 - B. It involves reducing saving for purchasing consumer goods.
 - C. ✓ **It is the amount of goods purchased and not consumed in present time.**
 - D. It involves increasing consumption by selling fixed assets.

Answer: C

In macroeconomics, investment refers to the purchase of goods (capital assets, equipment, and inventories) that are not consumed today but are used to produce future wealth.

10. Which one of the following is among the top priorities of the Ethiopian government in the recent development of the agricultural sector? (1)
- A. Nationalization of all private and commercial farms
 - B. Government control of virtually all agricultural input and output markets
 - C. ✓ **Small and large-scale irrigation development and financing inputs**
 - D. Forced food-grain quota deliveries at predetermined price

Answer: C

Recent Ethiopian agricultural development strategies focus on modernizing the peasant sector through small- and large-scale irrigation schemes and providing financial support for modern inputs like fertilizer and improved seeds.

11. Which one of the following is the focus area of macroeconomics? (1)
- A. What factors determine the productivity of manufacturing firms?
 - B. How does the increase in selling price affect profitability of firms?
 - C. ✓ **What is the cause of inflation and how it can be determined?**
 - D. Why do outputs and employment of manufacturing firms fail?

Answer: C

Macroeconomics focuses on economy-wide phenomena such as inflation, national output (GDP), and aggregate unemployment, whereas the other options deal with individual firms (microeconomics).

12. Which one of the following correctly explains the concept of aggregate demand? (1)
- A. The total amount of goods produced in an economy at a given period.
 - B. ✓ **The total spending by different sectors of the economy at a given period.**
 - C. The sum of individuals demands for a given product with in a year.
 - D. The total amount of spending by an individual with in a year.

Answer: B

Aggregate demand represents the total spending on final goods and services in an economy by households, businesses, the government, and foreign buyers during a given period.

13. What explains the upward slope of the aggregate supply curve? (1)
- A. ✓ **Sticky wages**
 - B. Wage-inflation spiral
 - C. Limited labor supply
 - D. Sticky prices

Answer: A

The sticky-wage theory explains that because nominal wages are slow to adjust in the short run, a rise in the price level lowers real wages, making hiring more profitable and inducing firms to produce more output.

14. Which one of the following is correct about the short-run market equilibrium? (1)
- A. At equilibrium the aggregate demand is greater than the aggregate supply.
 - B. ✓ **At equilibrium the aggregate demand is equals to the aggregate supply.**
 - C. At equilibrium the aggregate demand is less than the aggregate supply.
 - D. At equilibrium the aggregate demand and aggregate supply equals to zero.

Answer: B

Short-run macroeconomic market equilibrium is achieved at the price level where aggregate demand equals aggregate supply ($AD = AS$).

15. Suppose an open economy interacting with the rest of the world through trade and investment. Which one of the following is a desirable outcome for this economy? (1)
- A. ✓ **A decrease in overall price level of good and services over a certain period**
 - B. An increase in the value of import more than the value of export
 - C. A decrease in the level of output with in an economy over a given time period
 - D. An increase in unemployment with in an economy over a given period of time

Answer: A

A decrease in the overall price level (or price stability/disinflation) is a favorable macroeconomic goal, whereas trade deficits, recessions, and rising unemployment (options B, C, and D) are undesirable economic outcomes.

16. Which one of the following is correct about economic growth? (1)
- A. Short run growth occurs when there is a sustained increase in per capita income.
 - B. Structural change is characterized by a decrease in share of industry in GDP.
 - C. ✓ **Long-run economic growth is associated with structural change in the economy.**
 - D. Structural change is characterized by an increase in share of agriculture in GDP.

Answer: C

Long-run economic growth is structurally characterized by a shifting share of economic activity and employment away from agriculture toward industry and services.

17. Among the followings, which one is NOT the possible reason behind why some countries are rich while the others are poor? (1)
- A. Difference in nature of institutions
 - B. Difference in natural resources endowment
 - C. Difference in productivity of factor inputs
 - D. ✓ **Difference in location of the country**

Answer: D

While institutional quality, natural resource management, and input productivity are direct and widely accepted causes of wealth disparities, geographical location alone does not prevent a country from becoming rich (as demonstrated by landlocked but wealthy nations like Switzerland).

18. Which one of the following is categorized under consumption expenditure on goods? (1)
- A. Expenditure by households on medical care
 - B. ✓ **Households' expenditure on appliances**
 - C. Expenditure by households on education
 - D. Households' expenditure on haircuts

Answer: B

Appliances are categorized as durable consumer goods, whereas medical care, education, and haircuts are classified as consumer services.

19. Total spending in the economy rises from one year to the next due to either the economy is producing a larger output or outputs are being sold at higher prices. To measure these effects, economists use real GDP and Nominal GDP. Which one of the following is correct about the two measures? (1)
- A. ✓ **Change in real GDP reflects only changes in the amounts being produced.**
 - B. Nominal GDP values the economy's production of goods and services at a constant base year price.
 - C. Change in nominal GDP reflects only changes in the amounts being produced.
 - D. Real GDP values the economy's production of goods and services at current price.

Answer: A

Because real GDP measures economic output valued at constant base-year prices, changes in real GDP isolate and reflect only changes in the physical quantity of goods produced.

20. Which one of the following statements is correct about product differentiation? (1)
- A. It is the characteristic of firms operating under perfectly competitive market structure.
 - B. It shows that fancied differentiation occurs when there are differences in input use.
 - C. ✓ **It shows that real differentiation occurs when there are differences in product specification.**
 - D. It is one way that firms operating in a pure monopoly market can acquire market power.

Answer: C

Real product differentiation occurs when products differ in physical specifications, quality, or functional features, whereas fancied differentiation is based on consumer perception shaped by branding and advertising.

21. Which one of the following statements is correct about collusive oligopoly? (1)
- A. There are few dominant sellers selling only differentiated product.
 - B. Cartel and price leadership are two alternative forms of competition.
 - C. In a collusive oligopoly firms determine the price of their product independently.
 - D. ✓ **In collusive oligopoly firms can set up a monopoly price on their product.**

Answer: D

In a collusive oligopoly (such as a cartel), firms cooperate rather than compete, allowing them to restrict output and set a joint profit-maximizing monopoly price.

22. Which one of the following GDP measurement approaches captures government purchase and net export as its component? (1)
- A. The income approach
 - B. ✓ **The expenditure approach**
 - C. The value-added approach
 - D. The product approach

Answer: B

The expenditure approach measures GDP by summing all final spending in the economy, represented by the formula $GDP = C + I + G + NX$, which explicitly includes government purchases (G) and net exports (NX).

23. Suppose the planning expert wants to measure the GDP of the country using alternative approaches by including all the necessary components in each approach. Which one of the following statements is correct about the components of approaches? (1)
- A. In expenditure approach, we add the returns of factors of production to measure GDP.
 - B. The income approach of GDP accounting represents the demand for final goods and services.
 - C. ✓ **In the product approach GDP is estimated by calculating the value added at each stage of production.**
 - D. Rent and profit payments are components of the value-added approach of measuring GDP.

Answer: C

Under the product (or value-added) approach, GDP is computed by finding the difference between the value of outputs and intermediate inputs at each successive stage of production.

24. Which one of the following is correct about nominal GDP and real GDP? (1)
- A. ✓ **Nominal GDP values goods and services at current price.**
 - B. Nominal GDP is GDP adjusted for price changes.
 - C. Real GDP values goods and services at current price.
 - D. Nominal is GDP computed using a base year price.

Answer: A

Nominal GDP evaluates an economy's output of goods and services using current prices, meaning it is not adjusted for inflation, unlike real GDP which uses base-year prices.

25. Which one of the following is among the key strategic pillars of the ten-year development plan in the home-grown economic reform period? (1)
- A. Strengthen human resource development
 - B. ✓ **Quality economic growth and shared prosperity**
 - C. A massive push to accelerate economic growth
 - D. Managing risk and volatility

Answer: B

The Ten-Year Development Plan (2021-2030) of Ethiopia, formulated during the homegrown economic reform period, identifies 'Quality economic growth and shared prosperity' as its first strategic pillar.

26. Which one of the following is correct about the vulnerability and impact of climate change? (1)
- A. The poor and marginalized people are the least exposed to adverse impact of climate change.
 - B. ✓ **Africa and South Asia are identified as the two most vulnerable regions to climate change.**
 - C. The developed countries will be hit the earliest and hardest by climate change.
 - D. Developed countries have contributed little to causing the problem.

Answer: B

Reports by the IPCC and other international bodies consistently identify Africa and South Asia as the two regions most vulnerable to the impacts of climate change due to high exposure and low adaptive capacity.

27. For developing countries like Ethiopia, climate change complicates the existing challenges of poverty reduction. To minimize its effect, if Ethiopia follows tax on carbon and subsidies to encourage faster technological progress, which one of the following terms best reflects the country's strategy? (1)
- A. ✓ **Mitigation of climate change**
 - B. Adaptation to climate change
 - C. Coping with climate change
 - D. Vulnerability to climate change

Answer: A

Using a carbon tax and technology subsidies aims to lower greenhouse gas emissions, which is the definition of climate change mitigation.

28. Which one of the following terms explains an economy characterized by low carbon usage, resource efficiency and socially inclusive? (1)

- A. ✓ **Green economy**
- B. Green growth
- C. Developed economy
- D. Developing economy

Answer: A

According to the United Nations Environment Programme (UNEP), a green economy is defined as one that is low carbon, resource efficient, and socially inclusive.

29. Ethiopia is cited as one of the most vulnerable countries to future climate change. Accordingly, the country has been implementing an environment and climate change strategy which envisaged carbon-neutral growth based on an energy efficient development trajectory. Which one is it? (1)

- A. National Adoption Programme of Action
- B. Nationally Appropriate Mitigation Actions
- C. ✓ **Climate Resilient Green Economy Strategy**
- D. Green Industrialization Strategy

Answer: C

Ethiopia's Climate Resilient Green Economy (CRGE) strategy, launched in 2011, targets achieving middle-income status by 2025 while keeping greenhouse gas emissions neutral through energy-efficient development.

30. Which one of the following is the extra or additional total cost that results from producing one more unit of output? (1)

- A. Average Variable Cost
- B. Average Total Cost
- C. ✓ **Marginal Cost**
- D. Average Fixed Cost

Answer: C

Marginal Cost is defined as the change in total cost that arises when the quantity produced is incremented by one unit.

31. Among the following statements, which one is a character of pure monopoly market structure? (1)

- A. A single buyer and many sellers
- B. Many buyers and many sellers
- C. Few sellers and many buyers
- D. ✓ **Single seller and many buyers**

Answer: D

A pure monopoly is a market structure characterized by a single seller (monopolist) selling a unique product to many buyers.

32. The beverage industry is composed of many firms producing and supplying differentiated products. What kind of market structure does the beverage industry resembles? (1)

- A. Perfectly Competitive
- B. Oligopoly
- C. ✓ **Monopolistically competitive**
- D. Monopoly

Answer: C

Monopolistic competition is characterized by a large number of firms producing differentiated products, which is typical for the beverage industry.

33. Which one of the following is the major role of non-banking financial institutions? (1)
- A. Mobilizing savings from depositors
 - B. ✓ **Facilitating bank-related financial services**
 - C. Providing loan to borrowers
 - D. Serving as intermediary between borrowers and lenders

Answer: B

Non-bank financial institutions (NBFIs) complement commercial banks by facilitating bank-related financial services such as investment, risk pooling, and contractual savings.

34. Which one of the following is correct about the roles and functions of microfinance institutions? (1)
- A. Controlling the creation of credit by commercial banks
 - B. Selling and purchasing foreign currencies and issue letter of credit
 - C. Providing large loans for development of agriculture and industry
 - D. ✓ **Providing credit without a collateral through group lending**

Answer: D

A key characteristic of microfinance institutions (MFIs) is providing credit to low-income clients without requiring traditional physical collateral, often utilizing group lending and peer pressure instead.

35. Which one of the following principles of taxation states that the tax system should be able to yield enough revenue so that it should not be forced to resort to deficit financing? (1)
- A. ✓ **Principle of fiscal adequacy**
 - B. Principle of economy
 - C. Principle of maximum revenue
 - D. Principle of tax equity

Answer: A

The principle of fiscal adequacy states that the government's tax revenue should be sufficient to cover its necessary public expenditures so that it does not need to rely heavily on deficit financing.

36. Which one of the following is the objective of tax imposition by the government? (1)
- A. Increasing income and wealth inequalities
 - B. Encouraging the consumption of harmful products
 - C. ✓ **Encouraging export and minimize unemployment**
 - D. Increasing regional imbalances

Answer: C

Governments use tax policy and tax incentives to encourage exports and stimulate business investment, which helps minimize unemployment.

37. Which type of tax is imposed and payable on luxury items according to the Ethiopian tax policy? (1)
- A. Turnover tax
 - B. Surtax
 - C. Value added tax
 - D. ✓ **Excise tax**

Answer: D

Excise taxes are selective taxes levied on specific luxury items, such as expensive cars and perfumes, as well as socially harmful products like tobacco and alcohol.

- 38.** Suppose an Ethiopian importer is importing commodities by taking a full advantage of the deductions or incentives approved in the tax schedule by the government to reduce its tax obligation. Which one of the following terms reflects such kind of a tax non-compliance problem? (1)
- A. ✓ Tax avoidance** **B. Tax evasion**
C. Tax reduction **D. Tax advantage**

Answer: A

Tax avoidance involves utilizing legal methods, such as approved deductions and government tax incentives, to minimize the amount of tax owed.

- 39.** Which one of the following is a measure of inequality which is often expressed by the ratio of the area between the Lorenz curve and a 45° line and the total area under the 45° line? (1)
- A. Kuznets ratio B. Human Development Index
- C. Per capita income D. ✓ **Gini Coefficient**

Answer: D

The Gini Coefficient is a standard measure of inequality, calculated as the ratio of the area between the Lorenz curve and the 45-degree line of perfect equality to the total area under the 45-degree line.

40. Which one of the following is correct about the effect of change in income? (1)
- A. Normal goods are goods for which consumption decreases as income increases.
 - B. When consumer income increases, ceteris paribus, budget line shifts downward.
 - C. ✓ **Inferior goods are goods of which consumption decreases as income increases.**
 - D. When consumer income decreases, ceteris paribus, budget line shifts outward.

Answer: C

An inferior good is defined as a good whose consumption decreases as the consumer's income increases, resulting in a negative income elasticity of demand.

41. Given two goods X and Y, and income of the consumer, what happens if the price of X changes, ceteris paribus? (1)
- A. A decrease in price of X will lead to inward rotation of the budget line.
 - B. ✓ **An increase in price of X decreases the maximum amount of good X that the consumer can buy.**
 - C. An increase in price of X increases the maximum amount of good X that the consumer can buy.
 - D. An increase in price of X will lead to outward rotation of the budget line.

Answer: B

The maximum amount of good X a consumer can buy is given by Income Divided by the price of X (I/P_X). Therefore, an increase in the price of X decreases this maximum purchasing capacity, rotating the budget line inward along the X-axis.

42. Suppose the firm is operating under the market structure characterized by the increase price will reduce its quantity demanded and the decrease in price will result in an increase in quantity demanded. The shape of the demand curve for the firm will be
- A. horizontal. B. vertical.
- C. ✓ **downward sloping.** D. upward sloping.

Answer: C

A market where an increase in price reduces quantity demanded and a decrease in price increases quantity demanded obeys the law of demand, yielding a downward-sloping demand curve.

43. Short-run equilibrium of the monopolist is a point where (1)
- A. ✓ **profits are maximized.**
 - B. losses are maximized.
 - C. profits are minimized.
 - D. revenues are minimized.

Answer: A

A monopolist, like any rational profit-maximizing firm, achieves short-run equilibrium at the output level where total profits are maximized (where $MR = MC$).

44. What differentiates a product group from an industry? A product group is a (1)
- A. collection of firms producing identical commodities.
 - B. group of firms supplying to identical consumers.
 - C. group of products having the same quality.
 - D. ✓ **collection of firms producing differentiated products.**

Answer: D

In monopolistic competition theory, a 'product group' represents a collection of firms producing closely related but differentiated products, whereas a traditional 'industry' consists of firms producing identical products.

45. Which one of the following is correct about the optimum of the consumer under the cardinal utility theory? (1)
- A. The equilibrium is defined by the tangency of the indifference curve and the budget line.
 - B. The equilibrium is defined by equality between the total utility and income of the consumer.
 - C. ✓ **At equilibrium, the marginal utility from the commodity must be equal to the price of the commodity.**
 - D. At equilibrium, the total utility of the commodity must be equal to the price of the commodity.

Answer: C

Under the cardinal utility theory, a consumer maximizes utility when the marginal utility of a commodity is equal to its price, assuming the marginal utility of money remains constant.

46. Which one of the following is correct about market demand and individual demand for a commodity? (1)
- A. Individual demand is the quantity of the commodity that a person is willing to buy based on his/her preference.
 - B. Quantity demanded in the market of the commodity that a person is willing to buy based on his/her preference.
 - C. Market demand is the sum of the individual demand of all consumers in the market at that price.
 - D. ✓ **Market demand curve can be derived by taking horizontal summation of individual demand curves.**

Answer: D

The market demand curve represents the total quantity demanded by all consumers in the market at each price level, which is derived by horizontally summing individual demand curves.

47. Excess supply occurs in the market when (1)
- A. ✓ **quantity supplied exceeds quantity demanded**
 - B. quantity supplied equals quantity demanded
 - C. quantity supplied is less than quantity demanded
 - D. quantity demanded exceeds quantity supplied

Answer: A

Excess supply, or a surplus, occurs in a market when the quantity supplied at a given price is greater than the quantity demanded at that price.

48. Which one of the following is correct about capital side technical progress? (1)
- A. It increases the marginal product of Labor more than the marginal product of capital.
 - B. It increases the marginal product of capital and the marginal product of labor equally.
 - C. ✓ **It increases the marginal product of capital more than the marginal product of labor.**
 - D. It increases the marginal product of capital while the marginal product of labor is constant.

Answer: C

Capital-biased (or capital-augmenting) technical progress is defined as technological improvement that increases the marginal product of capital more than it increases the marginal product of labor.

49. If the economy is facing deficient demand, which one of the following fiscal policy should be applied? (1)
- A. ✓ **Increasing government expenditure**
 - B. Increasing the tax rate
 - C. Increasing the discount rate
 - D. Increasing required reserve ratio

Answer: A

To combat deficient aggregate demand (recession), expansionary fiscal policy should be implemented, which involves increasing government expenditure or decreasing taxes.

50. Which one of the following is the objective of income policies? (1)
- A. It can be used as substitute when expansionary fiscal and monetary policies fail
 - B. ✓ **It can be used to reduce the price level.**
 - C. It can be used as substitute when expansionary monetary policy fails
 - D. It can be used to increase money supply during inflation.

Answer: B

Incomes policies involve direct or indirect government intervention in setting wages and prices, primarily used as a tool to control inflation and keep the general price level stable.

51. Assume that the private manufacturing firm is paying a wage for a worker which is lower than their marginal productivity. What should be the possible solution to protect these workers from this unduly low pay? (1)
- A. Setting a price ceiling
 - B. ✓ **Setting a minimum wage**
 - C. Setting income range
 - D. Setting a profit ceiling

Answer: B

Setting a minimum wage is a price floor in the labor market that prevents employers from paying workers below a legally mandated minimum rate, protecting them from exploitation and unduly low wages.

52. Which one of the following is correct about the pricing policy? (1)
- A. A price ceiling keeps a price from falling below a particular level.
 - B. A price ceiling provides unintended incentives causing a surplus in the market.
 - C. ✓ **A price floor must be higher than the equilibrium price in order to be effective.**
 - D. A price floor is a maximum legal price below the equilibrium price.

Answer: C

A price floor is a minimum legal price set above the equilibrium price to prevent prices from falling to the equilibrium level, making it binding (effective).

53. Which one of the following is correct about the major challenges of the agricultural sector in the Ethiopian economy? (1)

- A. Increasing availability of marketing facilities
- B. Increasing adaption of modern agricultural practices
- C. Increasing prices of agricultural outputs
- D. ✓ **Increasing prices of agricultural inputs**

Answer: D

The rising prices of agricultural inputs, such as chemical fertilizers and improved seeds, increase production costs and represent a primary barrier and challenge to smallholder agricultural development in Ethiopia.

54. Which one of the following is correct about the contribution of the service sector in the Ethiopian Economy over the last two decades? (1)

- A. Its employment contribution is largest next to the industrial sector.
- B. Its large contribution to the GDP comes from government employment.
- C. Its contribution to foreign exchange earning has been decreasing overtime.
- D. ✓ **Its achievements have been mainly reflected in areas of wholesale trade.**

Answer: D

Within the service sector of the Ethiopian economy, wholesale and retail trade has historically been the largest contributor to both the sector's GDP share and its growth over the last two decades.

55. Gemechu owns a sole proprietorship type of business and incurred a loss. Which one of the following could result in the sale of his private house if his business assets are not enough to cover the business liabilities? (1)

- A. ✓ **Unlimited liability**
- B. Non-transferability of shares
- C. Not suitable for large scale operations
- D. Limited managerial expertise

Answer: A

In a sole proprietorship, the owner has unlimited liability, meaning their personal assets (such as a private home) can be seized and sold to settle any unpaid debts of the business.

56. Which one of the following statements is correct about the budget line? (1)

- A. It shows the optimal combination of two goods that the consumer can buy when his or her income changes.
- B. It shows the various combinations of two commodities which give equal satisfaction to the consumer.
- C. ✓ **It shows different combinations of two goods that a consumer can buy with a given income at a given price.**
- D. It shows the locus of points representing various combinations of the two commodities purchased by the consumer.

Answer: C

A budget line represents the boundary of the consumer's budget set, showing all combinations of two goods that can be purchased given the consumer's income and the prices of the goods.

57. Which one of the following factors causes upward shift of the budget line? (1)

- A. Increase in both income of the consumer and prices of commodities
- B. ✓ **Increase in income keeping the price of commodities unchanged**
- C. Decrease in income keeping the price of commodities unchanged
- D. Decrease in both income of the consumer and price of commodities

Answer: B

An increase in the consumer's income while the prices of both goods remain constant increases purchasing power and results in a parallel outward (upward) shift of the entire budget line.

58. For a constant aggregate demand, if the shock in the economy shifts the aggregate supply curve to the left, what would be the possible cause? (1)
- A. Improvement in production technology
 - B. An increase in money supply, given the price level
 - C. Increase in the amount of capital and labor
 - D. ✓ **An increase in price of factors of production**

Answer: D

An increase in the price of factors of production (such as raw materials or labor) increases production costs, leading to a decrease (leftward shift) in aggregate supply.

59. Which one of the following is the major feature of pure public goods? (1)
- A. Rivalry in consumption and excludability
 - B. ✓ **Non rivalry in consumption and non-excludability**
 - C. Non rivalry in consumption and excludability
 - D. Rivalry in consumption and non-excludability

Answer: B

Pure public goods are characterized by two distinct properties: non-rivalry in consumption (one person's use does not diminish its availability to others) and non-excludability (it is impossible to prevent anyone from using it).

60. Which one of the following is correct about the difference between pure private good and pure public goods? (1)
- A. In pure private goods additional cost incurred by the additional person is zero.
 - B. In pure public goods additional cost incurred by the additional person is positive.
 - C. In pure private goods the benefits of using the good cannot be priced.
 - D. ✓ **In pure public goods the benefits of using the good cannot be priced.**

Answer: D

Because pure public goods are non-excludable, it is difficult or impossible to charge a price for their consumption in the market, leading to the free-rider problem, whereas private goods can easily be priced.

61. Which one of the following is correct about the characteristics of externality? (1)
- A. ✓ **Externalities are reciprocal in nature**
 - B. Externalities can only be generated by consumers
 - C. Externalities are rival and non-excludable
 - D. Externalities are the result of one person's action

Answer: A

An essential economic characteristic of externalities is that they are reciprocal in nature, meaning the presence of the affected party is what creates the conflict with the generator of the externality.

62. Suppose in a car market transaction, sellers take advantage of buyers because the sellers have better information about the dynamic of product quality and market price change of cars than the buyers. Which one of the following is the implication of such kind of asymmetric information? (1)
- A. It results in efficient market equilibrium for involving parties.
 - B. It guarantees the same decision for the involving parties.
 - C. ✓ **It creates an imbalance in power in transactions to involving parties.**
 - D. It helps all involving parties to have equal information about the good.

Answer: C

Asymmetric information occurs when one party has more or superior information than the other, creating an imbalance of transactional power and frequently resulting in market inefficiencies or failures.

63. Among the following statements, which one is correct about the limitation of Human Development Index (HDI)? (1)
- A. ✓ **It assigns weights to certain factors that have equal trade-offs.**
 - B. It correlates factors that are more common in developing economies.
 - C. It takes into account factors such as inequality and poverty.
 - D. The values of the factors that make up the HDI are limited between 0 and 2.

Answer: A

A key limitation of the HDI is that it assigns equal weight to its three dimensions, which implies subjective and unrealistic constant trade-offs between indicators like health and education.

64. In which one of the following Millenium Development Goal (MDG) that Ethiopia made significant progress? (1)
- A. ✓ **Eradicating extreme poverty and hunger**
 - B. Ensuring environmental sustainability
 - C. Improving maternal health
 - D. Developing a global partnership for development

Answer: A

Ethiopia made outstanding progress and successfully met the target of MDG 1 by halving the proportion of people living in extreme poverty and hunger within the designated period.

65. Which one of the following is correct about the relationship between the Millennium Development Goals and the Sustainable Development Goals? (1)
- A. Millennium development goals are less ambitious and narrow compared to sustainable development goals.
 - B. Millennium development goals include affordable and clean energy as a goal which are not included in sustainable development goals.
 - C. Millennium development goals exclude poverty reduction as a goal which are included in sustainable development goals.
 - D. ✓ **Sustainable development goals are more universal in coverage compared to millennium development goals.**

Answer: D

While MDGs targeted only developing countries, SDGs are more universal in coverage, applying to all countries globally (both developed and developing) regardless of their income levels.

66. Which one of the following is separately categorized under the Sustainable Development Goals? (1)
- A. Reduce child mortality
 - B. ✓ **Responsible consumption and production**
 - C. Combat HIV/AIDS, malaria and other diseases
 - D. Achieve universal primary education

Answer: B

Responsible consumption and production is SDG Goal 12, whereas reducing child mortality, combating major diseases, and achieving universal primary education were distinct goals under the predecessor MDG framework.

67. Which one of the following is advantage of bi-modal agricultural strategy? (1)
- A. It protects peasants from eviction.
 - B. It reduces poverty in the rural economy.
 - C. It reduces outgoing migration from rural areas.
 - D. ✓ **It promotes large-scale diversification.**

Answer: D

A bi-modal agricultural strategy, which supports both smallholder peasant farming and large-scale commercial farming, encourages high-tech commercialization and large-scale diversification of agricultural output.

68. Which one of the following is correct about the Mercantilists' view on trade? (1)
- A. To promote a favorable trade balance, they advocate trade liberalization.
 - B. ✓ **To minimize imports, they advocate imposition of tariff and quota.**
 - C. To generate more revenue for importing nation imports were considered good.
 - D. To prevent the country's holdings of gold being depleted increasing imports is important.

Answer: B

Mercantilists advocated protectionist economic policies, specifically endorsing tariffs and import quotas, to minimize imports and sustain a favorable trade balance to accumulate gold reserves.

69. Assume that the total value of export of goods and services of Country "X" in the year 2020 was less than the total value of imported goods. Which one of the following statements is correct about the status of this country? (1)
- A. There is trade surplus
 - B. There is trade balance
 - C. There is capital account deficit
 - D. ✓ **There is trade deficit**

Answer: D

A trade deficit occurs when a country's total value of imported goods and services exceeds the total value of its exports during a specific timeframe.

70. Which of the following is correct about the effect of devaluation of local currency on the economy? (1)
- A. It is expected to equally encourage export and imports.
 - B. ✓ **With devaluation, imports become expensive while exports become cheap.**
 - C. It is expected to encourage imports and discourage exports.
 - D. With devaluation, import becomes cheaper while exports become expensive.

Answer: B

Devaluation reduces the value of the domestic currency, making foreign imports more expensive in terms of local currency and making exports cheaper and more competitive for international buyers.

71. Which one of the following explains the basic difference between economic growth and development? (1)
- A. **While a country may grow richer through the growth of its real output it does not necessarily mean that it will develop.**
- B. Economic growth is a process where there is improvement in the lives of all people in the country.
- C. Economic development is determined by the percentage increase of the GDP from one time period to other.
- D. GDP per capita measures the effect of economic development on living standard of the population.

Answer: A

Economic growth is purely quantitative (an increase in real GDP), whereas economic development is qualitative, encompassing structural changes and improvements in the standard of living; thus, growth can occur without development.

72. Which one of the following indicators is component of Human Development Index? (1)
- A. Multidimensional Poverty Index
- B. Gender Empowerment Measure
- C. Gender Inequality Index
- D. **✓ Educational Attainment Index**

Answer: D

The Human Development Index (HDI) is a composite index composed of three dimensions: life expectancy, standard of living (GNI per capita), and educational attainment (knowledge).

73. If the Real GDP of country "A" in the year 2023 is 19,550,000 dollar and in the year 2022 it was 18,600,000 dollar, then the real GDP growth in 2023 as compared to the previous year will be equal to (1)
- A. **✓ 5.11%**
- B. 3.39%
- C. 6.55%
- D. 4.86%

Answer: A

The real GDP growth rate is calculated as $[(\text{Real GDP in 2023} - \text{Real GDP in 2022}) / \text{Real GDP in 2022}] * 100 = [(19,550,000 - 18,600,000) / 18,600,000] * 100 = 5.11\%$.

74. Given the following short run total production function (TP) where Labor(L) is the only variable input used in the production process: $TP = L^3 - 3L$, if the firm want to increase the amount of labor(L) used from 4 to 5, then which one of the following is the Marginal Product (MP) of extra unit of labor? (1)
- A. 80
- B. 52
- C. **✓ 58**
- D. 32

Answer: C

The Marginal Product (MP) of the extra unit of labor is the change in total production. Calculating TP for 4 and 5 units: $TP(4) = 4^3 - 3(4) = 52$, and $TP(5) = 5^3 - 3(5) = 110$. Thus, $MP = 110 - 52 = 58$.

75. Given the budget equation as: $2X + 3Y = 60$ where Price of commodity X ($P_x = 2$), Price of commodity Y ($P_y = 3$), and income of the consumer ($M = 60$), then which one of the following is slope of the budget line? (1)
- A. $\frac{3}{2}$
- B. $\frac{-3}{2}$
- C. $\frac{1}{3}$
- D. **✓ $\frac{-2}{3}$**

Answer: D

The slope of the budget line is given by $-P_x/P_y$, which is the negative of the price ratio of commodity X to commodity Y. With $P_x = 2$ and $P_y = 3$, the slope is $-2/3$.

76. Given the following numerical values of marginal and total utility derived from consumption of orange in the table below. Quantity Consumed(Q) 0 1 2 3 4 5 6 7 8 9 Total Utility (TU) 0 13 24 ? 37 38 38 37 34 30 Marginal Utility (MU) - 13 11 7 6 1 0 -1 -3 -4 Depending on the information provided in the table, what is the total utility of the 3rd unit of orange? (1)
- A. 36
B. ✓ 31
C. 30
D. 37

Answer: B

Total utility (TU) at any level of consumption is the sum of previous total utility and the marginal utility of the additional unit. Thus, TU at 3 units is $TU(2) + MU(3) = 24 + 7 = 31$.

77. In a hypothetical country, (K) the number of employed labor is 25 million and the number of unemployed labors is 5 million. Moreover, the total adult population of the country is given as 80 million. How much is the labor force participation rate? (1)
- A. 25.1
B. 25%
C. 31.3%
D. ✓ 37.5%

Answer: D

The labor force consists of both the employed and unemployed ($25 + 5 = 30$ million). The labor force participation rate is $(\text{Labor Force} / \text{Adult Population}) * 100 = (30 \text{ million} / 80 \text{ million}) * 100 = 37.5\%$.

— END OF MARKING KEY —

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