

FORM 7 ECON
ELITE CLASS
TEST 1

1. A certain country's capital stock was valued at \$500 million at the beginning of a year, and valued at \$550 million at the end of the year. Assume that the price level remained constant throughout the year and capital consumption was estimated at \$20 million. What was the amount of net investment in that year?
- A. \$10 million
 - B. \$20 million
 - C. \$30 million
 - D. \$50 million
2. Which of the following statements about national income statistics is correct?
- A. Net National Product (NNP) is always greater than Gross National Product (GNP).
 - B. Gross Domestic Product (GDP) is always greater than GNP.
 - C. GDP at market price is always greater than GDP at factor cost.
 - D. Nominal GDP is always greater than real GDP when there is inflation.

3.

Gross National Product (GNP) Components	\$billion
Private consumption expenditure	30
Net domestic fixed capital formation	6
Government consumption expenditure	12
Capital consumption allowances	4
Indirect taxes	2
Subsidies	3
Net exports of goods and services	-6
Net income from abroad	-4

Refer to the above table. The GNP at factor cost (in \$ billion) is

- A. 42
- B. 43
- C. 46
- D. 50

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4. Refer to the table below.

Gross National Product (GNP) Components	\$billion
Private consumption expenditure	160
Government consumption expenditure	60
Gross domestic fixed capital formation	20
Increase in inventory	5
Depreciation	4
Indirect taxes	8
Subsidies	2
Net exports of goods and services	40
Net income from abroad	-10

The gross national product at factor cost (in \$billion) is

- A. 269
- B. 275
- C. 277
- D. 285

5.

GDP Components	\$ billion
Private consumption expenditure	20
Gross domestic fixed capital formation	8
Government consumption expenditure	10
Capital consumption allowances	2
Indirect taxes	3
Subsidies	4
Net export of goods and services	3
Net income from abroad	6

Refer to the above table. The GNP at market price (in billion \$) is

- A. 36.
- B. 41.
- C. 42.
- D. 44.

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6.

Gross Domestic Product (GDP) Components	\$billion
Private consumption expenditure	50
Government consumption expenditure	30
Net domestic fixed capital formation	20
Decrease in inventory	5
Depreciation	10
Indirect taxes	4
Subsidies	3
Net exports	15
Net profit	12
Profits tax	6

Refer to the above table. The GDP at factor cost (in billion \$) is

- A. 119
- B. 123
- C. 129
- D. 150

7. Refer to the table below.

Gross National Product (GNP) Components	\$ billion
Private consumption expenditure	200
Gross domestic fixed capital formation	X
Increase in inventory	20
Government consumption expenditure	24
Net exports	10
Indirect taxes	60
Subsidies	30
Depreciation	40
Net factor income from abroad	16

If the gross national product at factor cost is \$280 billion, the value of X is _____.

- A. -20
- B. 0
- C. 40
- D. 80

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8. Which of the following statements about national income accounting are correct?
1. An increase in interest paid on a government bond may raise national income level
 2. A rise in the salary of a citizen working overseas will leave the GDP unchanged.
 3. A previously self-occupied apartment which is now rented out at the officially estimated value will have no effect on the national income level.
- A. 1 & 2 only
B. 1 & 3 only
C. 2 & 3 only
D. 1, 2 and 3 only
9. Which of the following statements is/are INCORRECT?
- (1) Gross national product (GNP) is always larger than net national product.
 - (2) GNP is always larger than gross domestic product (GDP).
 - (3) GNP at current market prices is always larger than GNP at constant market prices.
- A. (1) and (2) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
10. Consider the following information on an economy:
- | | |
|------------------------------------|-----|
| Nominal GNP Growth Rate | -3% |
| Real GNP Growth Rate | -4% |
| Per Capita Nominal GNP Growth Rate | 5% |
- The above table shows that there is a _____ in price level and a/an _____ in population.
- A. rise ...increase
B. rise...decrease
C. fall...increase
D. fall...decrease

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11. Consider the following information on an economy:

	Growth rate (relative to previous year) (%)	
	Year 1	Year 2
Nominal gross domestic product (Nominal GDP)	-3	0
General price level	-4	-2
Population	2	-1

Which of the following about the economy is TRUE?

- A. The nominal GDP in the about the above two years is the same.
- B. The real output decreased in year 2.
- C. The general price level is increasing.
- D. The per capita real GDP decreased in year 2.
12. If the growth rate of per-capita real Gross Domestic Product (GDP) is smaller than that of the real GDP as well as that of the per-capita nominal GDP, we can conclude that
- A. both the population and the general price level have risen..
- B. the growth rate of population is higher than that of real output and the standard of living has fallen.
- C. the growth rate of population is lower than that of real output and the standard of living has risen.
- D. the inflation rate is greater than the growth rate of real output.
13. Suppose the GNP at current market prices and the GNP at constant market prices of an economy decrease by the same percentage. This means that
- A. real output decreases but price level remains unchanged.
- B. both price level and real output decrease by the same percentage.
- C. price level falls at a greater percentage than real output.
- D. price level falls but real output remains unchanged.

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14. Nominal gross domestic product is NOT a good measure of the welfare of a country because it does not take into account
- (1) the population size.
 - (2) non-market transactions.
 - (3) the change in the price level.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
15. Given $C=20+0.8Y$, where C is consumption and Y is income, which of the following statements are correct?
- (1) Marginal propensity to consume is smaller than average propensity to consume.
 - (2) Marginal propensity to consume is constant.
 - (3) Average propensity to save is less than 0.2.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
16. When an upward parallel shift of the consumption function occurs,
- A. the marginal propensity to consume rises.
 - B. the average propensity to consume rises.
 - C. the marginal propensity to consume rises more than the average propensity to consume.
 - D. both the marginal and the average propensity to consume remain unchanged.

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17.

Monthly income (\$mn)	Monthly consumption expenditure (\$mn)
40	40
45	43
50	46
55	49

When the monthly income increases from \$40mn to \$55mn,

- (1) the average propensity to consume decreases.
 - (2) the marginal propensity to save is constant.
 - (3) the marginal propensity to consume is larger than the marginal propensity to save.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

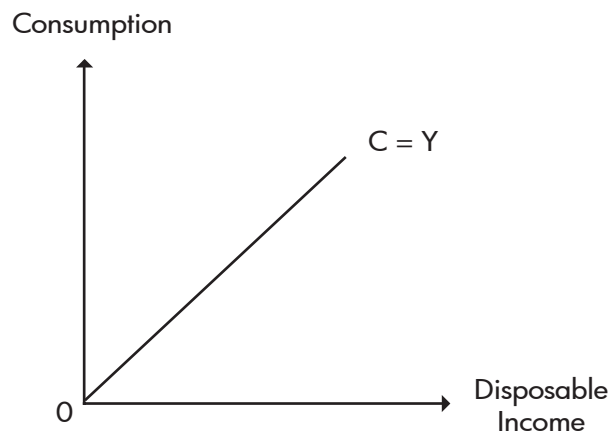
18. The table below shows the consumption function of an economy.

Disposable income (\$)	0	100	200	300	400	500
Consumption expenditure(\$)	100	180	250	300	340	370

Which of the following statements is correct?

- A. The level of saving decreases as disposable income increases.
- B. The marginal propensity to consume decreases as disposable income increases.
- C. The average propensity to save decreases as disposable income increases.
- D. The marginal propensity to consume is greater than the average propensity to consume when disposable income is below 300.

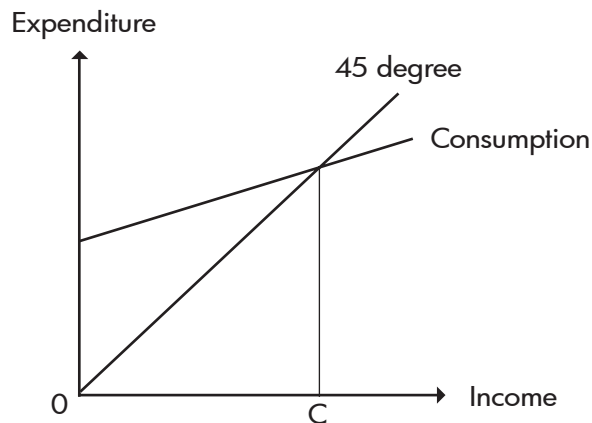
19.



The above diagram shows the consumption function of an economy.
Which of the following statements are correct?

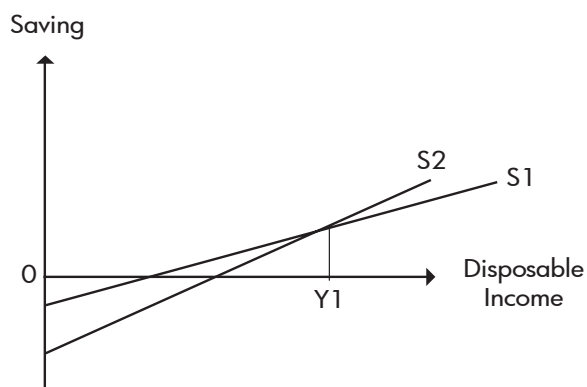
- (1) The marginal propensity to consume is larger than the average propensity to consume.
 - (2) The average propensity to consume is equal to the average propensity to save.
 - (3) The marginal propensity to consume is greater than the marginal propensity to save.
 - (4) The average propensity to consume and marginal propensity to save are constant.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (4) only
D. (3) and (4) only

20. Which of the following gives a CORRECT description of the diagram?



- A. The marginal propensity to save is constant.
B. The marginal propensity to consume falls as income rises.
C. The marginal and average propensity to consume are equal when income is at $0C$.
D. Dissaving occurs when income is larger than $0C$.

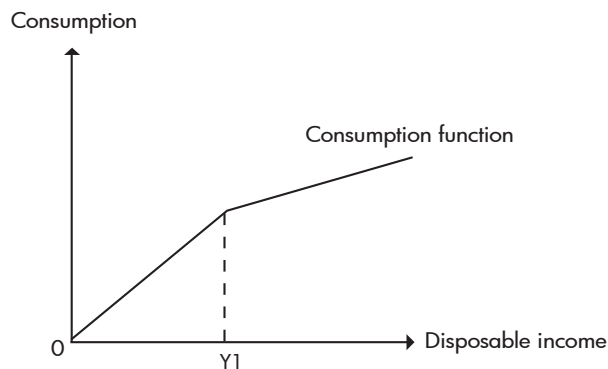
- 21.



A shift of the saving curve from $S1$ to $S2$ implies that

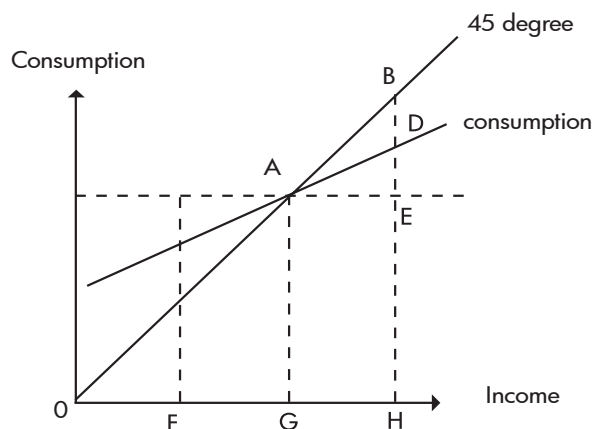
- (1) the marginal propensity to consume has decreased.
(2) the autonomous consumption expenditure has increased.
(3) The average propensity to consume has increased below $Y1$.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

22. Refer to the following diagram of the consumption function in an economy.



Which of the following statements about the consumption function is correct?

- A. When disposable income is below Y_1 , marginal propensity to consume is smaller than average propensity to consume.
 - B. When disposable income is above Y_1 , marginal propensity to consume is equal to average propensity to consume.
 - C. The average propensity to save is always equal to the marginal propensity to save below Y_1
 - D. The marginal propensity to save decreases as disposable income rises from a level below Y_1 to a level above Y_1 .
- 23.

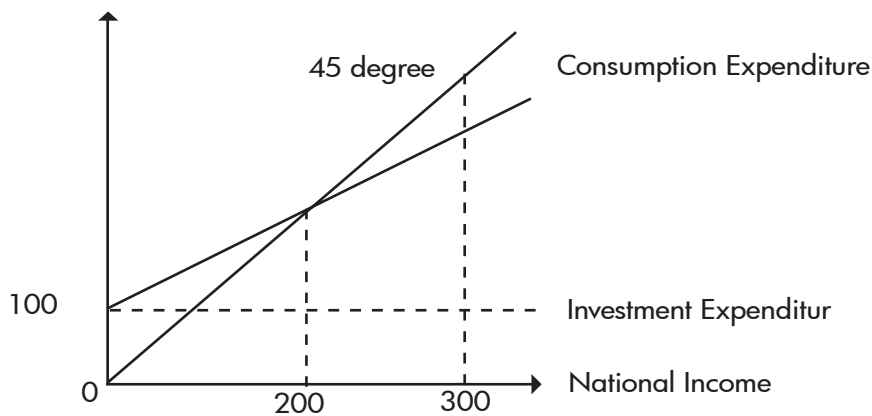


In the above diagram, the marginal propensity to consume is equal to

- A. BD/GH
- B. DE/GH
- C. BD/OH
- D. BE/OH

24. Which of the following statements about the marginal propensity to save is correct?
- A. The marginal propensity to save is always smaller than the average propensity to save at all levels of national income.
 - B. The magnitude of marginal propensity to save does not affect the effectiveness of fiscal policy.
 - C. The magnitude of marginal propensity to save affects the effectiveness of monetary policy.
 - D. The sum of marginal propensity to save and average propensity to consume is always equal to 1.

25. Refer to the following diagram. Assume there is no government or foreign trade.

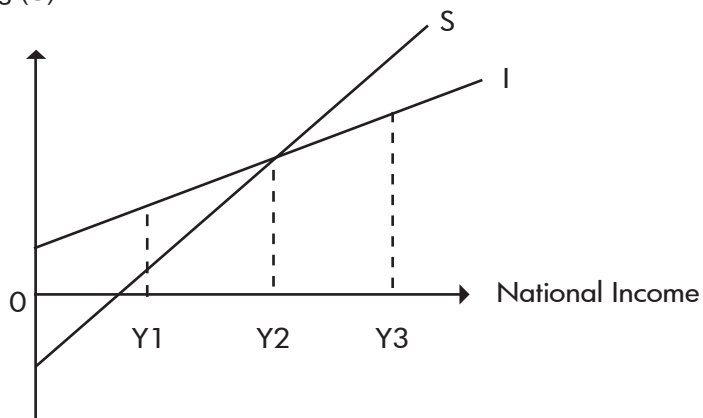


We can conclude from the above diagram that

- A. the average propensity to consume is equal to the marginal propensity to consume.
- B. saving is zero if national income is equal to 100.
- C. the equilibrium income is 200.
- D. there is an unintended decrease in inventories when national income is 300.

26.

Investment (I),
Saving (S)



Which of the following statements about an elementary Keynesian model without external trade is correct?

- A. At Y2, the economy is at full employment.
- B. At Y1, the stock of the economy will increase.
- C. At Y3, there will be an unintended increase in stock.
- D. There is insufficient information to answer.

27. An excess supply of goods will lead to

- A. falling interest rate.
- B. rising unemployment.
- C. falling output.
- D. There is insufficient information to answer.

28. Consider the following model:

$$C = 10 + 0.6 Y$$

$$I = a$$

$$Y = 4 L$$

C = consumption

I = investment

Y = national income

L = labour employment

Suppose there are 100 units of labour. At full employment, 'a' equal to

- A. 70
- B. 100
- C. 120
- D. 150

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29. In an elementary Keynesian model without a government, investment is positively related to national income. Suppose the equilibrium level of income increases as a result of an increase in the marginal propensity to consume, then the equilibrium level of saving will
- A. Increase
 - B. Decrease
 - C. remain constant
 - D. be indeterminate
30. Suppose the national income (Y) is 1 000. The consumption function and the investment function are $C=100+0.8Y$ and $I=100$ respectively. Then, the realized investment is _____ and the unplanned inventory investment is _____.
- A. 100 20
 - B. 80 20
 - C. 80 0
 - D. 100 0