



Kyiv School^{of} Economics

founded by EERC and the Victor Pinchuk Foundation

MA in Business and Financial Economics

Admission Examination in Economics

Version A

NAME: _____

Instructions:

1. Do not turn this page until told to do so.
2. The exam consists of 20 questions that are all **equally weighted**.
3. Each question has several suggested answers for you to choose from (multiple choice). **Attention! Only one answer is correct.** If you think that several answers can be correct, choose the most precise and complete one.
4. No dictionaries are allowed.
5. No calculators or other similar devices are allowed. Mobile phones must be switched off for the duration of the exam.
6. **Positively no cheating. If caught cheating, you will be asked to leave the room immediately, and your grade for this exam will be zero.**

July 3, 2013

Kyiv

Question 1

In all economies, the best definition of the fundamental economic problem is that

- A. Consumers never have as much money as they would wish.
- B. Resources are scarce relative to human wants.
- C. There is always some unemployment of resources.
- D. Resources are not always allocated efficiently.

Question 2

If the demand for a firm's product has a price elasticity of -2 , a 10 per cent *fall* in its price will:

- A. Decrease total revenue by 20 per cent
- B. Increase the quantity of product sold by 10 per cent
- C. Increase the quantity of product sold by 20 per cent
- D. Increase total revenue by 20 per cent

Question 3

In general, monopolies are undesirable because they:

- A. Control most of the market
- B. Maximize profits
- C. Do not pass on to consumers the benefits of economies of scale
- D. Do not produce where average costs are lowest in the long run

Question 4

If a change in price from \$10 to \$11 causes demand for a good to decrease from 10,000 units to 9,500 units, the point price elasticity of demand is:

- A. -0.5
- B. -2
- C. +0.5
- D. +2

Question 5

Which of the following are functions of money?

- (i) A medium of exchange
- (ii) A store of value
- (iii) A unit of account
- (iv) A measure of liquidity

- A. and (ii) only
- B. (i), (ii) and (iii) only
- C. (ii), (iii) and (iv) only
- D. All of them

Question 6

All of the following would raise the demand for imports in a country except which one?

- A. A rise in consumer incomes
- B. A reduction in tariffs
- C. A rise in the domestic price level
- D. A devaluation of the exchange rate

Question 7

Consider the supply of racing cars. Just recently, the price of some components used in making engines for yachts has fallen substantially. The supply of racing cars is perfectly inelastic in the short term. What would happen in the short term?

- A. The equilibrium supply quantity and price of racing cars would be unchanged
- B. The supply curve for racing cars would shift to the right, and the price of sailing racing cars would fall. More racing cars would be made and sold
- C. The supply curve for racing cars would shift to the right, and the price of racing cars would fall. The same quantity of racing cars as before would be made and sold.
- D. The supply curve for racing cars would be unchanged, and the quantity made would be the same as before. However, their price would fall, with cost savings being passed on to the customer.

Question 8

Which *one* of the following would be likely to lead to a fall in the value of the UK pound sterling against the euro?

- A. A rise in UK interest rates
- B. A rise in interest rates in the Euro Zone
- C. The UK central bank buying sterling in exchange for euros
- D. Increased capital flows from the Euro Zone to the UK

Question 9

Which *one* of the following will tend to *increase* the degree of competition in an industry?

- A. Product differentiation
- B. Diminishing marginal returns to factors of production
- C. Economies of scale
- D. Low fixed costs

Question 10

Which of the following accurately states the difference between accounting profit and economic profit?

- A. Accounting profit understates economic profit as it includes all expenses including such items as depreciation, amortization and interest expense
- B. Accounting profit understates economic profit, as it includes explicit and implicit costs whereas economic profit considers only explicit cost
- C. Accounting profit overstates economic profit, as no allowance is made for the implicit cost of equity capital
- D. Accounting profit and economic profit are equal. Both are calculated by subtracting total cost from total revenues

Question 11

The imposition of a minimum wage will cause unemployment in a labour market only if:

- A. The demand for labor is elastic
- B. The demand for labor is inelastic
- C. The minimum wage is above the equilibrium wage
- D. The minimum wage is below the equilibrium wage

Question 12

A firm is considering an investment of \$10m. It applies an interest rate of 10% when discounting future cash flows (discount rates are $1/1.1=0.909$ (year 1), $(1/1.1)^2=0.826$ (year 2) and $(1/1.1)^3=0.751$ (year 3)). The firm expects the investment project to yield cash flows of \$3m in year 1, \$4m in year 2 and \$5m in year 3.

What is the expected net present value of the investment project?

- A. \$0.91m loss
- B. \$0.21m loss
- C. \$0.09 loss
- D. \$0.21m profit

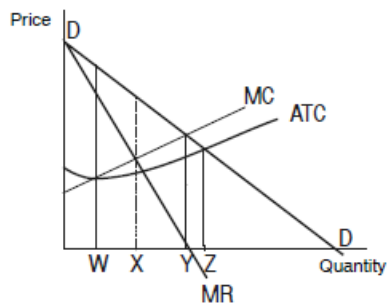
Question 13

Which of the following may cause an increase in National Income?

- A. A fall in investment
- B. A rise in exports
- C. An increase in saving
- D. A fall in consumer spending

Question 14

The following graph relates to a monopoly.



What quantity will the firm seek to produce?

- A. Quantity W
- B. Quantity X
- C. Quantity Y
- D. Quantity Z

Question 15

Which *one* of the following is *not* an example of an external social cost?

- A. Reduction of oil reserves owing to increased use of cars
- B. River pollution caused by a manufacturing process
- C. Health problems caused by vehicle emissions
- D. Discarded packaging outside fast-food outlets

Question 16

Governments wish to control inflation because it

- A. Tends to reduce government tax revenue
- B. Causes the money supply to expand
- C. Damages international competitiveness
- D. Shifts income towards holders of financial assets

Question 17

Structural unemployment is most likely caused by

- A. Long-term decline in demand for an industry's products
- B. Falling levels of aggregate demand
- C. High levels of inflation
- D. A downturn in national economic activity

Question 18

Which *one* of the following is *not* a benefit of adopting a single currency within a trading bloc of countries?

- A. A reduction in international transactions costs
- B. The elimination of exchange rate uncertainty
- C. The ability for each country to adopt an independent monetary policy
- D. Increased international price transparency

Question 19

Which one of the following statements *least likely* reflects the law of comparative advantage?

- A. Specialization and exchange will permit trading partners to maximize their joint output
- B. A nation cannot gain from trade when its trading partners are low-wage countries
- C. A nation can gain from trade even when it has an absolute disadvantage in the production of all goods
- D. A nation will import goods in which it has the highest opportunity cost of production

Question 20

The marginal propensity to consume (MPC) in Country Y is 0.75. A recent increase in investment has led to an increase in national income of 200 mil. monetary units. If all other factors remain unchanged, what was the value of the initial increase in investment?

- A. 50mil
- B. 125mil
- C. 150mil
- D. 175mil