KYIV SCHOOL OF ECONOMICS

MA in Economic Analysis

Admission Examination in Economics

Version A

NAME:__________________________________

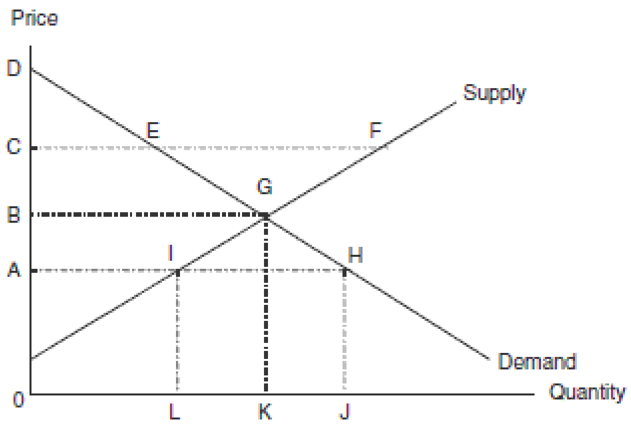
Instructions:

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 6, 2015

Kyiv

Questions 1 and 2 refer to the following graph:



Question 1

If the market is initially in equilibrium, which of the following would create a new equilibrium at point H?

A. A decrease in consumer income if this good is normal.
B. An increase in the price of a substitute for this good.
C. A decrease in the cost of a production input for this good.
D. An increase in the number of consumers of this good.
E. An increase in consumer income if this good is normal.

Question 2

If the price were to rise from 0B to 0C,

A. dollars spent on this good would increase if demand for the good were price elastic.
B. dollars spent on this good would decrease if demand for the good were price inelastic.
C. dollars spent on this good would increase if demand for the good were price inelastic.
D. dollars spent on this good would increase if demand for the good were unitary price elastic.
E. dollars spent on this good would decrease if demand for the good were unitary price elastic.

Question 3

Every day Ivan spends his lunch money consuming hotdogs, at 10 hryvnas each, and pizzas, at 20 hryvnas each. At his current level of consumption, Ivan's marginal utility of hotdogs is 12 and his marginal utility of pizzas is 18. If he has already spent all of his lunch money, how should Ivan change his consumption decision to maximize utility?

A. He should make no changes; he is consuming the utility maximizing combination of hotdogs and pizzas.
B. He should increase his hotdog consumption and decrease his pizza consumption until the marginal utility per dollar is equal for both.
C. He should decrease his hotdog consumption and increase his pizza consumption until the marginal utility per dollar is equal for both.
D. He should increase his hotdog consumption and decrease his pizza consumption until the marginal utility is equal for both.
E. He should decrease his hotdog consumption and increase his pizza consumption until the marginal utility is equal for both.

Question 4

When the production or consumption of a good creates a positive externality, it is deemed a market failure because at the market quantity

A. the marginal social benefit exceeds the marginal social cost.
B. the marginal social cost exceeds the marginal social benefit.
C. society produces too much of the good.
D. the private benefits from consuming the good exceed the social benefits.
E. a surplus of the good always exists without government intervention.

Question 5

Suppose the price elasticity of demand for cigarettes is less than one. When an excise tax is imposed on cigarette production, it changes the price, quantity, and consumer spending in which of the following ways?

	PRICE	QUANTITY	SPENDING
(A)	Decrease	Increase	Increase
(B)	Decrease	Decrease	Decrease
(C)	Increase	Decrease	Decrease
(D)	Increase	Decrease	Increase
(E)	Increase	Increase	Increase

Question 6

Which of the following is true of a price floor?

A. The price floor shifts the demand curve to the left.
B. An effective floor creates a shortage of the good.
C. The price floor shifts the supply curve of the good to the right.
D. To be an effective floor, it must be set above the equilibrium price.
E. The government sets the price floor to assist consumers who are exploited at the equilibrium price.

Question 7

You are told that the income elasticity for CDs is + 1.5. This means that

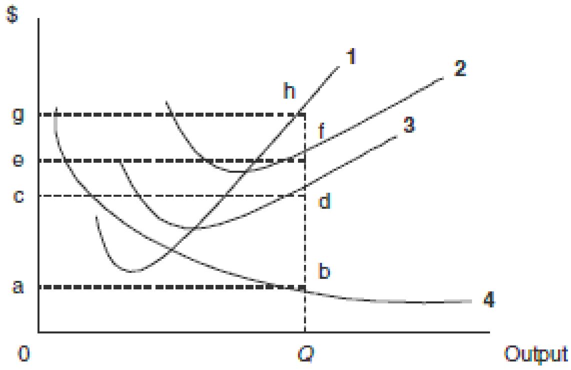
A. a 10 percent increase in income produces a 15 percent increase in consumption of CDs. CDs are a normal luxury good.
B. a 10 percent increase in income produces a 15 percent increase in consumption of CDs. CDs are an inferior good.
C. a 10 percent increase in income produces a 15 percent decrease in consumption of CDs. CDs are an inferior good.
D. a 10 percent increase in the price of CDs produces a 15 percent decrease in consumption of CDs. CDs are a price elastic good.
E. a 10 percent increase in the price of CDs produces a 15 percent decrease in consumption of CDs. CDs are a price inelastic good.

Question 8

Which of the following causes the supply curve of paper to shift to the left?

A. Paper producers expect lower paper prices in the months ahead.
B. The price of pencils, a complement to paper, increases.
C. Improvements in the technology used to produce paper.
D. Household income falls.
E. Environmental concerns reduce the yearly amount of timber that can be harvested.

Questions 9 and 10 refer to the graph below:



Question 9

The area 0ab*Q* is equal to

A. total cost.
B. total variable cost.
C. total fixed cost.
D. marginal cost.
E. average product of labor.

Question 10

If this firm was operating in a perfectly competitive market, and the price was equal to 0g, economic profit would be equal to which of the following areas?

A. abcd
B. cdgh
C. cdef
D. efgh
E. abgh

Question 11

Which is true of monopolistic competition?

A. Firms earn long-run economic profits.
B. *P* = MR = MC = ATC.
C. Firms spend money to differentiate and advertise their products.
D. In the long run the market is allocatively efficient.
E. Excess capacity is eliminated in the long run.

Question 12

If a monopsony labor market suddenly were transformed into a perfectly competitive labor market, how would the wage and employment change?

A. Both would increase.
B. Both would decrease.
C. The wage would remain constant, but employment would increase.
D. The wage would fall, but employment would increase.
E. The wage would rise, but employment would decrease.

Question 13

A nation is producing at a point inside of its production possibility frontier. Which of the following is a possible explanation for this outcome?

A. This nation has experienced a permanent decrease in its production capacity.
B. This nation has experienced slower than usual technological progress.
C. This nation has avoided free trade between other nations.
D. This nation is experiencing an economic recession.
E. This nation's economy is centrally planned.

Question 14

Which of the following are harmed by unexpectedly high rates of inflation?

I. Borrowers repaying a long-term loan at a fixed interest rate.
II. Savers who have put their money in long-term assets that pay a fixed interest rate.
III. Workers who have negotiated cost-of-living raises into their contracts.
IV. Persons living on fixed incomes.

A. I and III only
B. II and III only
C. II and IV only
D. I, II, and IV only
E. II, III, and IV only

Question 15

Suppose that the unemployment rate falls from 6 percent to 5 percent and the inflation rate falls from 3 percent to 2 percent. Which of the following best explains these trends?

A. An increase in aggregate demand.
B. A decrease in both aggregate demand and aggregate supply.
C. An increase in both aggregate demand and aggregate supply.
D. An increase in aggregate supply.
E. An increase in aggregate demand and a decrease in aggregate supply.

Question 16

Which of the following tends to increase the spending multiplier?

A. An increase in the marginal propensity to consume.
B. A decreased velocity of money.
C. An increase in the marginal propensity to save.
D. An increase in the real interest rate.
E. An increase in the price level.

Question 17

Real GDP of Ukraine most likely falls when

A. tariffs and quotas are removed.
B. investment in human capital is growing.
C. the money supply is increased.
D. there is a trade surplus in goods and services.
E. the value of the hryvna, relative to foreign currencies, is higher than before.

Question 18

If current real GDP of a country is $500 bil, and full employment real GDP is at $400 bil, which of the following combinations of policies is likely to be the most efficient in bringing the economy to its full-employment level?

A. A decrease in taxes and a lower discount (refinancing) rate.
B. An increase in government spending and an increase in taxes.
C. A decrease in taxes and selling bonds in an open market operation.
D. An increase in government spending and an increase in the discount (refinancing) rate.
E. A decrease in taxes and a decrease in government spending.

Question 19

The "crowding out" effect refers to which of the following?

A. Lower interest rates that result from government borrowing to finance expansionary monetary policy.
B. Higher interest rates that result from government borrowing to finance contractionary fiscal policy.
C. Higher interest rates that result from government borrowing to finance expansionary fiscal policy.
D. Higher interest rates due to government borrowing to finance contractionary monetary policy.
E. Lower interest rates due to government borrowing to finance expansionary fiscal policy.

Question 20

The short-run Phillips curve depicts the ____ relationship between ____ and ____.

A. positive, price level, interest rate
B. negative, interest rate, private investment
C. negative, the inflation rate, the unemployment rate
D. positive, price level, real GDP
E. negative, interest rate, money demand