Kyiv School of Economics

Admission Examination in Economics

Version A

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 4, 2012

Kyiv

Question 1

Which of the following would *not* shift a country's production possibility frontier outwards (further away from the origin)?

A. An increase in exports.

B. Technical progress reducing production costs.

C. An increase in the working population.

D. An increase in the literacy rate.

E. An improvement in the national health care system.

Question 2

Which of the following would increase the potential benefits from international trade?

(i) The existence of economies of scale in production
(ii) A high mobility of capital and labour between economies
(iii) Large differences in the opportunity costs of production between countries
(iv) Low international transport costs

A. (i), (ii) and (iii) only

B. (ii), (ii) and (iv) only

C. (i), (iii) and (iv) only

D. (i), (iii) and (iv) only

E. All of them

Question 3

The multiplier effect of government investment is likely to be greater where:

A. There is excess production capacity in the private sector of industry.

B. There is a high marginal propensity to consume.

C. The increased spending is financed by higher taxation.

D. There is a high level of inventories in firms.

E. A and D.

Question 4

According to the view represented by a Phillips curve, which of the following is correct?

A. Higher inflation causes unemployment.
B. Higher unemployment causes inflation.
C. Lower unemployment causes inflation.
D. Unemployment and inflation are not related.
E. Full employment and low inflation cannot be achieved together.

Question 5

If the unemployment rate is 9 percent and the natural rate of unemployment is 5 percent, then the:

A. frictional unemployment rate is 5 percent.
B. cyclical unemployment rate and the frictional unemployment rate together are 5 percent.
C. cyclical unemployment rate is 4 percent.
D. structural unemployment rate is 5 percent.
E. natural rate of unemployment will eventually increase.

Question 6

"Too much money chasing too few goods" best describes

A. the GDP gap.
B. demand-pull inflation.
C. the inflation premium.
D. cost-push inflation.
E. expansionary monetary policy.

Question 7

If future price changes were perfectly anticipated by both borrowers and lenders, what would happen to the ex-post real rate of interest if the price level increased in the future?

A. real interest rate would increase.
B. real interest rate would decrease.
C. real interest rate would decrease by the amount of the price increase.
D. real interest rate would not change.
E. real interest rate can both increase and decrease.

Question 8

Which one of the following would benefit most from an expansionary monetary policy?

A. Companies in the supermarket industry that finance their operations mostly with own capital (equity) rather than debt.
B. Cash rich companies producing consumer durables.
C. Companies that produce consumer durables and finance their operations mostly with debt rather than equity.
D. Companies that finance their operations mostly with own capital rather than debt and whose inputs are mainly imported.

Question 9

The government of a country has decided to implement a contractionary fiscal policy in order to control economic growth in the country. What will be the most likely impact of this policy, if all other factors remain the same?

A. National output will fall but the price level will rise
B. National output will fall and the price level will fall
C. National output will fall but the rate of interest will rise.
D. National output will rise and the rate of interest will rise.
E. National output will rise but the price level will fall.

Question 10

Which *one* of the following statements is incorrect?

A. Investment in surplus capacity is a way in which a monopoly firm can try to deter other firms from entering the market.
B. A natural monopoly is a market in which economies of scale are achievable up to a very high level of output.
C. Predatory pricing is one method by which firms seek to enter a market which is dominated by a monopoly form or a few oligopolies.
D. A competitive market typically is one in which sunk costs are low, so that the costs of entry and exit for predator firms are low.

Question 11

Product X has inelastic demand. The recent introduction of productivity-improving equipment in the manufacture of product X is expected to result, short term, in conditions of excess supply.

Which of the following changes is most likely to remove the conditions of excess supply?

A. A small reduction in price that stimulates a large increase in demand
B. A small reduction in price, resulting in a large shift to the left in the supply curve, and so a large fall in demand
C. A large number of firms will leave the industry, and so total supply will fall
D. A large number of new firms will enter the industry to take advantage of lower production costs.
E. A large fall in price, creating a fairly small increase in demand and a large fall in supply

Question 12

Chortkiv is a small town in Ternopil oblast where a municipal swimming pool and sports centre has just been built by a private firm “Olympic Sports”. Which of the following is an external benefit of the project?

A. The decreased sickness rate among kids attending this sports centre.
B. The increased trade of local shops.
C. The increased traffic in the neighborhood.
D. The increased profits for the sports firm.
E. The increased building on previously open land.

Question 13

A shift to the right in the demand curve for product A can be most reasonably explained by saying that

A. consumer incomes have declined and they now want to buy less of A at each possible price.
B. the price of A has increased and, as a result, consumers want to purchase less of it.
C. consumer preferences have changed in favor of A so that they now want to buy more at each possible price.
D. the price of A has declined and, as a result, consumers want to purchase more of it.
E. the supply of A has increased because production costs have declined.

Question 14

If the supply of product X is perfectly elastic, an increase in the demand for it will increase

A. equilibrium quantity but reduce equilibrium price
B. equilibrium quantity but equilibrium price will be unchanged
C. equilibrium price but reduce equilibrium quantity
D. equilibrium price but equilibrium quantity will be unchanged
E. both equilibrium price and equilibrium quantity

Question 15

If the price-quantity relationship for a product can be expressed by the equation P = 100 - .05Q, then

A. the equation for the corresponding MR function is MR = 100 -.10Q;
B. the total revenue derived from the sale of the item will be maximum at a sales volume
C. of 1000 units;
D. the equation for the corresponding TR function is TR = 100Q - .05Q2;
E. marginal revenue will be zero at a sales volume of 1000 units;
F. all of the above.

Question 16

A monopolist's average revenue curve always slopes downwards because

A. Economies of scale exist in distribution
B. There are allocative inefficiencies
C. There are productive inefficiencies
D. Market demand increases as price falls
E. Marginal revenue can be negative

Question 17

If marginal revenue is $4, average variable cost is $3 and marginal cost is $6, a competitive firm seeking to maximize profits should

A. increase its output
B. reduce its output
C. raise its price
D. reduce its costs
E. shut down

Question 18

The basic difference between the short run and the long run is that:

A. all costs are fixed in the short run, but all costs are variable in the long run.
B. the law of diminishing returns applies in the long run, but not in the short run.
C. at least one resource is fixed in the short run, while all resources are variable in the long run.
D. economies of scale may be present in the short run, but not in the long run.
E. firms can shut down their operations in the long run but not in the short run.

Question 19

A natural monopoly is a market situation in which

A. all firms sell natural resources
B. a single firm buys natural resources
C. a single firm supplies natural resources to an entire industry
D. a single firm can supply the market output more efficiently than many firms
E. none of the above

Question 20

A rise in interest rates in a country can be expected to lead to all of the following *except* which *one*?

A. A fall in share prices
B. A rise in investment
C. A rise in the value of domestic currency relatively to foreign currencies
D. A shift of income from borrowers to savers
E. A fall in the demand for durable goods