Instructions for the class for the Economics Skipping Test

1. There are two parts (Micro and Macro), each of three sections: six sections in all. Recommendation: spend 45 minutes on the Micro, and 15 minutes of the Macro. (You need to pass both parts.)

2. Don’t expect to complete the test in the hour allowed. Don’t guess.

3. Circle your answer:
   A   B   C   D   E

4. There is only one correct answer per question. *Marks will be deducted for wrong answers, so don’t guess.*

5. OK — make sure you’ve written your name (legibly!)
RPL Skipping Test for Economics

The Skipping Test will allow you to demonstrate (by passing both parts of the Test) that you retain enough economics (both micro and macro) from your previous study of economics to avoid the Term 1 course, Core Economics. If you do sufficiently well in the micro part (Sections 1, 2, and 4), you may also be able to skip the Term 3 Prime Elective, Managerial Economics, as well.

The Test takes 60 minutes. You will not be expected to complete the Test, which is multiple choice. Wrong answers will count against you (there is only one correct answer per question), so don't answer if you're unsure. The Test includes three different formats of question: (1) simple alternative questions, (2) multiple completion questions, and (3) assertion-reason questions; the content is examined in all three formats. There are 87 questions in the Micro part (Sections 1, 2, and 4), and 19 questions in the Macro part (Sections 5, 6, and 7). There is no Section 3.

Your Name: ____________________________

Your previous university study in micro or macro economics:

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<th>Subject or Course Name</th>
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Micro Economics Test

(Take 45 minutes on this, and 15 minutes on the Macro section.)

There are THREE micro sections:
1. Simple Completion Questions (32 questions)
2. Multiple Completion Questions (15 questions)
3. Assertion–Reason Questions (20 questions)

Section 1

Simple completion questions: select the correct answer from the alternatives lettered A to E.

1.6 When we say that all economic goods are scarce, we mean that

A very few items of the goods exist
B the goods are scarce in relation to higher standards of living
C production has not kept pace with other goods
D the goods have opportunity costs
E the supply of the goods has decreased

1.8 An economy is ‘efficient’ when it

A uses its resources so as to maximise the satisfaction of wants
B develops industries to the point of being independent of foreign suppliers
C adopts the latest techniques in all lines of production
D produces the greatest possible volume of goods
E operates at a level of full employment

1.12 A ‘free’ good is so-called because

A no charge is made to the consumer
B it is supplied freely by a public authority
C the supply is adequate to meet all needs without rationing
D there is an unlimited supply
E nobody wants it

1.15 A production possibility curve (frontier) indicates the

A quantities in which a community decides to produce various commodities
B methods by which a community produces different types of commodities
C allocation of the supply of commodities among the members of a community
D efficiency with which a community’s resources are used to satisfy its wants
E attainable combinations of commodities for a community using all its available resources
2.4 Which of the following constitute real investment?
A purchase of shares through the Stock Exchange
B the opening of a deposit account with a bank
C the buying of a factory completed last year
D the building of a block of flats
E the purchase of Aussie Bonds

2.17 Which of the following would you regard as the best measure of change in a country's standard of living? Changes in:
A total real income
B real income per head of the working population
C total consumers' expenditure
D private sector expenditure per head
E consumption of goods and services per head

3.13 The opportunity cost ratio in Sicily is 10 kilos grapes: 20 kilos lemons and in Northern Italy 20 kilos grapes: 10 kilos lemons. If there was an exchange rate of 1 kilo grapes: 2 kilos lemons
A Sicily could gain from trade but Northern Italy couldn't
B Northern Italy could gain from trade but Sicily couldn't
C both could gain from trade but Northern Italy more than Sicily
D both could gain from trade but Sicily more than Northern Italy
E neither community could gain from trade

6.10 If the discount rate is 10%, then a three-month bill for $1000 will be sold for
A $750   B $900   C $975   D $1000   E $1100

7.2 If, when an income tax is progressive, the tax assessment on an income of $5000 an annum is $500, then the assessment on an annual income of
A $10,000 could be $1000
B $20,000 could be $1500
C $30,000 could be $2500
D $40,000 could be $3400
E $50,000 could be $5000

7.6 A tax on capital is one which
A must be paid out of the capital of the person assessed
B has to be paid to obtain the use of a capital good
C is assessed on the annual value of a person's or firm's capital
D is levied on the profits of very large firms
E is assessed on the capital value of property or any increase in it
7.7 The imposition of an ad valorem tax on a good will tend to cause its price to rise most when its elasticity of supply is

A 0  B ½  C 1  D 2  E infinite

7.9 The imposition of a specific tax will raise the price of a commodity most if the elasticity of demand for the good is

A 0  B ½  C 1  D 2  E infinite

13.1 Perfect competition is distinguished from other forms of competition by

A each producer maximizing his profits at an output at which marginal revenue equals marginal cost
B producers within the industry making identical short-run profits
C producers' freedom to leave the industry in order to produce something else
D the individual producer's inability to influence the market price by his own production decisions
E each producer operating at the same level of output in the short run

8.12 A firm practising price discrimination will be

A charging different prices for different qualities of a product
B buying in the cheapest and selling in the dearest market
C charging different prices in different markets for a product
D buying only from firms selling in bulk at a discount
E fixing the price at which its goods are retailed

8.14

If a firm is in long-period equilibrium when $q$ units of output are sold at $p$ per unit, then it is

A operating at its most efficient output
B making less than normal profit
C making super-normal profit
D operating under monopolistic competition
E experiencing decreasing returns to scale
9.6 A consumer will obtain the most utility from his income when he spends it in such a way that
A he concentrates expenditure on those goods which are scarce in relation to people's wants
B the expenditure of an additional unit of income would yield a diminishing marginal rate of satisfaction
C the price paid for the last unit purchased of each commodity is equal to its marginal utility
D the average return on his expenditure on each item purchased is maximized
E the relationship between marginal utility and price is the same to him for all commodities.

9.13 An indifference curve indicates, other things remaining the same.
A combinations of goods which a consumer would prefer to any others
B a consumer's preferences for any two goods
C the relationship between one good and another which rate differently in the consumer's schedule of preference
D combinations of goods which yield a consumer equal degrees of satisfaction
E the amounts of commodities that a consumer will buy at given prices

9.20 The income effect of a rise in the price of a good is the
A extent to which the incomes of suppliers increase
B decrease in the purchasing power of a consumer's income
C increase in the money incomes of consumers
D extent to which consumers of substitutes are better off
E decrease in the demand for the good

10.3 If total consumer expenditure on a good falls as its price falls, this indicates that
A it is an inferior good
B its price elasticity of demand is less than 1
C it is being produced under conditions of decreasing cost
D taste for it is declining
E producers are experiencing economies of large-scale production
In this diagram the price elasticity of demand will be
A the same at 1, 2 and 3
B greater at 3 than at 1 and 2
C greater at 1 than at 2 and 3
D greater at 2 than at 1 and 3
E less at 2 than at 1 and 3

10.9 A 10 per cent fall in the price of chips causes a 2 per cent increase in the demand for fish. The cross elasticity of the demand for fish is
A $-\frac{1}{3}$  B $\frac{1}{3}$  C $-2$  D $+2$  E $+3$

10.11 The supply curve of a product produced under perfect competition
A always has unit elasticity
B tends to slope downwards from left to right
C usually takes the form of a straight line
D is derived from the marginal cost curves of its producers
E will have infinite elasticity at equilibrium price

10.12 If it has become very difficult to increase the output of a good by combining additional units of labour with the existing stock of capital, then
A the elasticity of supply of the good will be low
B the demand for labour will diminish
C the elasticity of supply of the good will be high
D the demand for capital will diminish
E the substitutability of capital for labour will be high
10.13 The elasticity of supply of a good will be 3 when
A a 1 per cent fall in price causes a 0.3 per cent contraction in supply
B a 3 per cent fall in price causes a 1 per cent contraction in supply
C a 1 per cent rise in price causes a 0.3 per cent extension in supply
D a 1 per cent rise in price causes a 3 per cent extension in supply
E a 3 per cent rise in price causes a 1 per cent extension in supply

10.15 If a decrease in the demand for a good results in a fall in its price but no change in the amount exchanged in the market, then
A its elasticity of supply is zero
B its elasticity of supply is infinite
C its elasticity of demand is zero
D its elasticity of demand is infinite
E its elasticity of both supply and demand equal one

11.11 The economic rent earned by any factor will be higher if its elasticity of supply is
A zero
B between zero and one
C equal to one
D between one and infinity
E infinite

<table>
<thead>
<tr>
<th>men employed</th>
<th>product (tonne per week)</th>
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<tr>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>2</td>
<td>52</td>
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<td>3</td>
<td>90</td>
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<tr>
<td>4</td>
<td>124</td>
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<tr>
<td>5</td>
<td>144</td>
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</table>

11.13-14

13 when four men are employed the marginal physical product is (tons)
A 496        B 124        C 34        D 31        E 22

14 If the production sells at $2 per tonne, the weekly wage rate is $44, and no other factors are used, how many men will be employed?
A 1          B 2          C 3          D 4          E 5

10.8 The average incomes of consumers of a particular good increase from $25 to $27 per week and their demand for that good rises from 1000 to 1040 units per week. The income elasticity of demand for the good is
A 0.2        B 0.5        C 2        D 4        E 5
The supply curve indicates that:

A. as the amount of labour available increases, wage rates tend to fall.
B. the substitution effect of a rise in wage rates exceeds the income effect.
C. a rise in wages reduces the size of the working population.
D. the rate of increase in wage rates diminishes as the supply of labour falls.
E. a rise in wage rates may cause people to substitute leisure for work.

This indifference map illustrates the impact of a fall in the price of commodity x.

18. The consumer's price consumption curve passes through:
A. or B. or C. or D. or E.

19. The commodity x is:
A. a normal good
B. a necessity
C. an inferior good
D. a luxury
E. a giffen good.
1.18 The real cost to the country of building a new power station is
1 the taxpayers' money used for its construction
2 the other goods which the materials and labour involved could have been used to produce
3 the amount of money which has been paid for materials and labour.
A 1 only       B 1 and 2 only       C 2 only
D 2 and 3 only       E 3 only

8.22 In perfect competition when a firm is in short-period equilibrium
1 marginal cost must equal marginal revenue
2 average cost must equal average revenue
3 marginal revenue must equal average revenue
4 marginal cost must equal average cost
A 1, 2 and 4 only       B 1 and 3 only       C 2, 3 and 4 only
D 3 only       E all of them

8.26 The conditions of long-period equilibrium for a firm operating under perfect competition are
1 MC = MR
2 AC = AR
3 AR = MR
4 AC = MC
A 1 only       B 1 and 3 only       C 2, 3 and 4 only
D 2 and 4 only       E all of them
1.21 If a community with a production possibility curve AB is at G, then it is
1 producing Oy consumer goods and OX capital goods
2 producing Ay consumer goods and OX capital goods
3 producing fewer of both types of goods than it could
4 unable to reach a production possibility frontier
A 1 and 3 only   B 2 and 3 only   C 2, 3 and 4 only
D 2 and 4 only   E 3 and 4 only

23 A reduction in the community's annual production capability could be represented by a movement from
1 H to L
2 K to H
3 M to H
4 L to G
A 1 and 2 only   B 1, 2 and 3 only   C 3 only
D 3 and 4 only   E 4 only

1.24 If the community is at point L, then
1 Its present standard of living will be lower than if it were at K or H
2 it will be making use of its available resources
3 its level of unemployment will be lower than if it were at G
4 it will be more likely to push its frontier to DF than if it were at K
A 1 and 4 only   B 2 and 3 only   C 2, 3 and 4 only
D 4 only         E all of them

25 The effect of an increase in unemployment could be represented by a movement from
1 H to L
2 K to H
3 M to H
4 K to G
A 1 and 2 only   B 1, 2 and 3 only   C 3 only
D 3 and 4 only   E 4 only
2.24 Consider the following questions:
1. Is the output being produced at minimum marginal cost?
2. Is the factor opportunity cost greater or less than the market value of the output?
3. Could the same output be achieved using less resources?
4. Is production under increasing or decreasing returns?

Which pair of questions would make suitable tests of the economic efficiency of a producer?

A 1 and 2 only  D 1 and 3 only  G 2 and 3 only
D 2 and 4 only  E 3 and 4 only

3.27 Countries do not specialize completely in accordance with the law of comparative costs because
1. Comparative costs are distorted by the existence of tariffs and quotas
2. Economic growth requires some degree of self-sufficiency
3. Diminishing returns limit the scope of effective specialization
4. Transport costs sometimes exceed differences in comparative costs

A 1 and 4 only  B 1, 3 and 4 only  C 2 and 3 only
D 2, 3 and 4 only  E 4 only
3.29 Trade between countries will only be mutually beneficial if

1. the terms of trade lie between their opportunity cost ratios
2. no country has a plentiful supply of cheap labour
3. there is a general acceptance of the need to protect declining industries
4. exchange rates between different currencies are fixed

A 1 only    B 1, 2 and 4 only    C 2 and 3 only
D 2, 3 and 4 only    E 4 only

2.29 Total revenue and cost (in £s)

When ON is the equilibrium output of the firm

1. the gradients of curves S and T are the same at L and M
2. S and T are the firm's average cost and average revenue curves respectively
3. LM is the longest vertical distance between S and T to the left of their intercept

A 1 only    B 1 and 3 only    C 2 and 3 only
D 3 only    E all of them
9.36 A fall in the price of pork which is a substitute for beef will cause, ext. purp., the
1 price of beef to rise
2 demand for beef to contract up the demand curve
3 supply of beef to increase at all prices
4 demand for beef to remain constant
A 1 and 2 only  B 1, 2 and 3 only  C 2 only
D 3 and 4 only  E none of them

10.26 The demand for pepper is likely to have a low price elasticity because it
1 involves only a small proportion of consumers’ expenditure
2 is a single use good
3 has no close substitutes
4 can readily be foregone
A 1 and 2 only  B 1, 2 and 3 only  C 2 and 3 only
D 2 and 4 only  E 2, 3 and 4 only

10.27 When demand for a good has a price elasticity of 2, a given decrease in its supply will cause its price to
1 fall more than if elasticity of demand = 1
2 fall less than if elasticity of demand = 0
3 rise more than if elasticity of demand = 1
4 rise less than if elasticity of demand = 1
A 1 and 2 only  B 1 and 4 only  C 2, 3 and 4 only
D 3 and 4 only  E 4 only

11.23 The elasticity of the derived demand for a factor depends on the
1 mobility of the factor
2 proportion of the total cost of the product accounted for by the factor
3 substitutability of the factor
4 net advantages of other uses of the factor
A 1 and 3 only  B 1, 2 and 4 only  C 2 and 3 only
D 2, 3 and 4 only  E all of them
Assertion-Reason questions: consider the two statements and select your answer from A to E according to the following guide:

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<td>B correct</td>
<td>correct but not correct explanation of the first</td>
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<td>C correct</td>
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<td>D incorrect</td>
<td>Correct</td>
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<tr>
<td>E incorrect</td>
<td>Incorrect</td>
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1.43 One opportunity cost of growing wheat is the potato crop which could have been grown on the same land.

   - A
   - B
   - C
   - D
   - E

2.47 The addition of extra units of one factor to a fixed quantity of another will, sooner or later, lead to smaller additions to output.

   - A
   - B
   - C
   - D
   - E

2.48 A grocer whose deliveries require only one van must be less efficient than a supermarket.

   - A
   - B
   - C
   - D
   - E

2.50 Economists know that large scale production is desirable.

   - A
   - B
   - C
   - D
   - E

3.44 Free trade is harmful to under-developed countries.

   - A
   - B
   - C
   - D
   - E

3.45 Tariffs can prevent unemployment in particular industries.

   - A
   - B
   - C
   - D
   - E
Assertion-Reason questions: consider the two statements and select your answer to A to E according to the following guide:

First statement       Second statement
A correct             correct and correct explanation of the first
B correct             correct but not correct explanation of the first
C correct             incorrect
D incorrect            correct
E incorrect            incorrect

3.47 Economists always support free trade
Tariffs always encourage inefficient industries.
A      B      C      D      E

7.44 Raising income tax might increase the incentive to effort.
Trying to maintain a given standard of living may outweigh the substitution of leisure for work at the margin.
A      D      C      D      E

8.44 A monopolist will not seek to restrict output to below levels at which the demand for his product has unit elasticity.
When elasticity of demand for a commodity equals one, the seller's marginal revenue will be zero.
A      B      C      D      E

8.50 A firm's marginal cost curve will always intersect its average cost curve at the latter's highest point.
When AC is falling it is greater than MC and when it is rising it is less than MC.
A      B      C      D      E

9.44 A monopolist will always charge a higher price per unit of his product than firms in perfect competition.
A monopolist can be in long-period equilibrium when price per unit is above AC but firms in perfect competition cannot.
A      D      C      D      E

9.44 The gradient of an indifference curve at any point measures the marginal rate of substitution of one good for another.
An indifference curve's gradient indicates the extent to which a fall in the price of one good will cause it to be substituted for the other.
A      B      C      D      E

9.50 An increase in the demand for a good is shown by drawing a new demand curve to the right of the previous one.
As price per unit falls, more of a commodity will tend to be demanded.
A      B      C      D      E
Assertion-Reason questions: consider the two statements and select your answer to A to E according to the following guide:

First statement                                      Second statement
A  correct                                           correct and correct explanation of
B  correct                                           the first
C  correct                                           correct but not correct explanation
D  incorrect                                         of the first
E  incorrect                                         incorrect

10.45 A market demand curve                               A straight-line demand curve
which is a rectangular                                      indicates that a marginal change
hyperbola indicates infinite                                 in price causes an equal proportion-
elasticity of demand.                                        ate change in quantity

                                        A  B  C  D  E

10.50 A rise in the price of pork                          The cross elasticity of demand
causes the demand for beef                                  between substitutes is always
to increase.                                                 positive.

                                        A  R  r  D  E

10.51 The elasticity of supply of                         Resources become more difficult
a good is likely to increase                                 to acquire as the level of
as an economy approaches                                      aggregate demand rises.
full employment.

                                        A  B  C  D  E

10.52 The imposition of an                                 The demand for sweets is more
eadditional tax on tobacco                                    elastic than the demand for tobacco.
would raise more revenue                                      
for the government than a                                        
comparable tax on sweets.

                                        A  B  C  D  E

11.44 The users of any factor of                         The demand for a factor is the
production will employ such                                     amount that will be employed at
quantities of it that its                                       any given price per unit.
price per unit equals the                                       
average value of its product.

                                        A  B  C  D  E

11.46 The level of investment in                            Investors require prospects of
the private sector is determined by the expected levels        adequate compensation for risking
of profits.                                                    their capital before taking up new

                                        A  B  C  D  E

11.52 Any factor the supply of                             Economic rent is any revenue
which is infinitely elastic                                     received by a factor in excess
can earn a rent.                                               of its necessary supply price.

                                        A  B  C  D  E
Macro Economics Test

(Take 15 minutes on this, and 45 minutes on the Micro section.)

There are THREE macro sections:

5. Simple Completion Questions (11 questions)
6. Multiple Completion Questions (5 questions)
7. Assertion–Reason Questions (3 questions)

Section 5

Simple completion questions: select the correct answer from the alternatives lettered A to E.

12.3 Three methods of computing the national income are:
   A. savings, investment and income methods
   B. outlay, depreciation and production methods
   C. balance of payments, income and consumption methods
   D. production, outlay and income methods
   E. inland revenue, consumption and production methods

12.7 Given the following figures ($ million) from a country's national accounts:

   wages and salaries 20,000
   profits and rents 6,000
   income from foreign-based assets 1,500
   payments to foreigners owning internal assets 1,000
   capital depreciation for the year 2,500

   Gross national product is:
   A. $24,000  B. $25,000  C. $26,500  D. $27,500  E. $29,000

12.10 In 1997 a country's national income at 1990 prices was $55,000m.
In 1997 the retail price index (1988 = 100) was 125.
In 1997 the national income at current prices was ($m):

   A. 200  B. 20,000  C. 25,125  D. 31,250  E. 32,000
12.15 If, in equilibrium, imports exceed exports and government expenditure equals tax revenue, then:

A. the level of consumption will be falling
B. the government will have to budget for a surplus
C. there will be a deflationary gap
D. national income will tend to rise
E. investment will exceed saving

15.11 Of the following groups, which is the most certain to benefit from reflation?

A. creditors    B. retirement pensioners
C. unemployed    D. salaried officials
E. debenture holders

15.13 Our demand for money would be likely to rise if:

A. the rate of interest rose
B. everyone was paid monthly instead of weekly
C. the banks’ reserve ratio was increased
D. the treasury bill rate issue was increased
E. a period of economic stability was expected

15.21

The effect of an increase in liquidity preference, *C*l*P*ar, on the rate of interest could be represented by a movement:

A. from *g* to *m*
B. from *k* to *l*
C. from *l* to *k*
D. from *m* to *l*
E. from *k* to *g*
16.3 Which of the following is not likely to be a cause of economic growth?
   A. improved mobility of labour
   B. increased money supply
   C. increase in investment in education and training
   D. increase in stocks and capital equipment
   E. increase in technical progress

16.9 In the growth equation the stable rate of growth is often given as s/g, where s is the
propensity to save. What is g?
   A. the increase in autonomous investment
   B. the gross increase in investment
   C. the capital-output rate
   D. the ratio of real investment to planned investment
   E. the increase in government investment

16.10 The capital-output ratio of a country indicates:
   A. the gross national output per annum yielded by the national capital
   B. the amount of investment needed to yield a given increase in output per annum
   C. the proportion of annual output consisting of capital goods
   D. total investment expressed as a percentage of total output
   E. national output per unit of national capital

16.12 Any poor country find it more difficult than a rich country to achieve any given rate of
economic growth because it has:
   A. a lower capital-output ratio
   B. a more difficult population problem
   C. a small average propensity to save
   D. a weaker balance of payments
   E. more idle resources
Section 6.

Multiple completion questions: select the correct answer from the alternative combinations lettered A to E.

12.19 Which of the following should be included in the calculation of a country's national income?

1. government employees' salaries
2. winnings in lotteries
3. retirement pensions
4. interest received from overseas investments

A. 1 and 2 only   B. 1, 3 and 4 only   C. 1 and 4 only
D. 2, 3 and 4 only E. 2 and 4 only

12.30

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<thead>
<tr>
<th></th>
<th>year x</th>
<th>year y</th>
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<tr>
<td>National income ($)</td>
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<td>120,000m</td>
</tr>
<tr>
<td>retail price index</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>population</td>
<td>40m</td>
<td>60m</td>
</tr>
</tbody>
</table>

In year y the above country:

1. enjoyed a higher standard of living
2. had a lower real national income
3. experienced lower average money incomes
4. was just as well off as in year x

A. 1 only       B. 2 and 3 only   C. 3 and 4 only
D. 4 only       E. none of them

15.23 The demand for money is positively related to the:

1. level of incomes
2. value of money
3. short-term interest rates
4. long-term interest rates

A. 1 only       B. 1 and 3 only   C. 2 only
D. 3 and 4 only E. 4 only
15.29 The demand for money consists of:

1. holding balances for speculative reasons
2. the desire to buy more goods and services
3. providing for day-to-day payments
4. the covering of uncertainties about the flow of receipt and payment

A. 1, 2 and 3 only    B. 1, 3 and 4 only    C. 2, 3 and 4 only
D. 4 only            E. all of them

15.36 Interest rates tend to fall if there is a fall in:

1. the stock of money
2. the demand for money
3. money incomes
4. liquidity preference

A. 1 and 2 only      B. 1 and 3 only      C. 2, 3 and 4 only
D. 4 only            E. all of them
Section 7.

Assertion–Reason questions: consider the two statements and select your answer from A to E according to the following guide:

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<tr>
<td>A correct</td>
<td>correct and correct explanation of the first</td>
</tr>
<tr>
<td>B correct</td>
<td>correct but not correct explanation of the first</td>
</tr>
<tr>
<td>C correct</td>
<td>incorrect</td>
</tr>
<tr>
<td>D incorrect</td>
<td>correct</td>
</tr>
<tr>
<td>E incorrect</td>
<td>incorrect</td>
</tr>
</tbody>
</table>

12.41

Measurement of national income at constant price indicates trends in real national income.

The constant price technique eliminates fluctuations in national income caused by changes in the value of money.

A.  B.  C.  D.  E.

15.49

An increase in the supply of money will, ceteris paribus, cause interest rates to fall.

Inflation reduces the demand for loans.

A.  B.  C.  D.  E.

16.47

Wage systems and labour relations influence any country's rate of economic growth.

The efforts made by people at work depend upon the rewards they receive and their general co-operation in industry.

A.  B.  C.  D.  E.