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7) Other things equal, if a good has many substitutes, its price elasticity of demand is

A. Large
B. Smaller
C. Zero
D. Unity
E. None

8) It is a branch of economics that deals with the effects and consequences of the aggregate behavior of all decision-making units in a certain economy.

A. Macroeconomics
B. Microeconomics
C. Supply
D. Demand
E. Equilibrium

9) Suppose the demand for bananas sold from one roadside stand in Arba Minch is elastic. This fact means that a 10 percent increase in the price charged by the owner would lead to

A. A greater than 10 percent increase in the quantity demanded at this stand.
B. A less than 10 percent increase in the quantity demanded at this stand.
C. A less than 10 percent decrease in the quantity demanded at this stand.
D. A greater than 10 percent decrease in the quantity demanded at this stand.

10) Which of the following is an example of normative economics?

A. The inflation rate in Ethiopia is very high.
B. Political unrest causes a decline in economic growth
C. What is the impact of devaluation in Ethiopian economy?
D. The poor should pay no taxes
E. GDP growth in Ethiopia is raised by 5% annually

11) The basic economic question of "What to produce" relates to:

A. The problem of allocation of resources for goods production
B. the problem of distribution of national product
C. the problem of choice of types of goods and services to be produced
D. the problem of choice of techniques of production

12) Which of the following best explains about positive economic analysis?

A. Positive economics is concerned with providing value judgments and subjective opinions about economic policies,
B. Positive economic analyzes what has occurred or is occurring in the economy based on factual and objective evidence,
C. Positive economics focuses on what ought to happen, and evaluates policy situations to test economic theories,

PART II: - Choose the Best Answer and Write Your Letter of Choice (1.5 Point Each)

1) Which of the following is an advantage of capitalist economic system?
   A. Higher rate of capital formation
   B. Inequality of income
   C. Unbalanced economic activity
   D. Exploitation of labor

2) Which of the following statement is **not correct** about determinants of elasticity?
   A. Elasticity of the demand tends to be inelastic in the short run
   B. The demand for the commodity with many close substitutes is more elastic
   C. The smaller the proportion of income spent for a good, the less price elastic
   D. The demand for necessity goods is more elastic to change in price.

3) If the cross-price elasticity of demand for two goods is positive. Which of the following most probably representatives of these two goods?
   A. Butter and edible oil
   B. Tea and sugar
   C. Car & fuel
   D. A & B
   E. None

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4) If the substantial change in price does not bring any change in quantity demanded is called perfect inelasticity of demand. Which good is most appropriately reflects this condition in Ethiopia?
   A. Agricultural goods
   B. Insulin (medicine for diabetes)
   C. Soap
   D. Butter
   E. None

5) Suppose market research has revealed the following information about the market for apple. The demand schedule can be represented by the equation QD=1,600-300p and the supply schedule can be represented by the equation QS=1,400+700p. How much was the equilibrium price and quantity in the market for apple?
   A. 0.5 and 1,540.
   B. 0.2 and 1,400.
   C. 0.2 and 1,540.
   D. 0.5 and 1,600.
   E. None

6) What happens to the equilibrium price and quantity in a market when there is an increase in demand is more than supply?
   A. Equilibrium price increases and equilibriums quantity increases.
   B. Equilibrium prices decreases and equilibrium quantity increases.
   C. Equilibrium price increases and equilibrium quantity remains unchanged.
   D. Equilibrium price decreases and equilibrium quantity remains unchanged.

D. Normative economics relies entirely on factual data to explain economic phenomena.

E. None of the above.

13) Which of the following statement is **not** describes a change in quantity demand?

A. A movement along the demand curve due to a change in price of the good.

B. A shift of the demand curve due to a change in factors other than price.

C. A decrease or an increase in the price of the good.

D. An increase in the number of buyers.

E. A change in consumer preferences.

14) In economics, "scarcity" means:

A. There are limited resources to satisfy unlimited wants

B. There is a shortage of specific goods

C. All goods are free to consumers

D. The economy has a surplus of resources

15) A production possibilities frontier (PPF) shows:

A. The relationship between supply and demand

B. The total amount of resources available in an economy

C. The maximum combination of two goods that can be produced with given resources and technology

D. The cost of production in a fully employed economy

16) The concept of price elasticity of demand refers to:

A. How much demand increases as a product's price increases

B. The responsiveness of quantity demanded to a change in price

C. How much supply increases as the price of a good increases

D. The constant relationship between price and demand

Part Two: Workout Questions:

17) Given the demand function, $P = 50 - Q/20$ and supply function, $Qs = 100 + 10$.

A. Calculate the equilibrium price and quantity demand? (2.5 pts)

B. If price is given as p=30, determine whether there is surplus or shortage? (2.5pts)

18) Suppose that the price of a product falls by 10% and its quantity demand rises by 20%.

Calculate the price elasticity of demand and indicate the nature of product