

Multiple Choice Questions

- 1) Investor J is convinced that there is a price bubble on the market and that it will burst in the future after the price rises a little more. If he acts in accordance with this belief, which of the following is true?
 - a) J will buy this asset and wait until the price falls to sell it
 - b) J will short sell this asset and wait until the price drops to buy it, gaining risk-free profit
 - c) J will short sell this asset and wait until the price drops to buy it, taking into account the importance of timing**
 - d) J will remain inactive since bubbles are risky and could lead to significant losses, unlike other assets

- 2) Think about the Lorenz curve constructed by lining up all the individuals in the world from lowest to highest income, irrespective of the country people live in. What is the closest estimate of the Gini coefficient of this curve?
 - a) 0.1
 - b) 0.2
 - c) 0.3
 - d) 0.7**

- 3) Which of the following scholars is most famous for using field experiments in their research?
 - a) Eric Maskin
 - b) Esther Duflo**
 - c) Eugene Fama
 - d) Gregory Mankiw

- 4) The market for widgets in country A is perfectly competitive; $D = 100 - 20P$ is the demand function, the supply function is given by $S = 20P - 20$. The world price for widgets is 2. Choose the correct statement:
 - a) The autarky price of widgets is 4
 - b) Under free trade, country A is an exporter of widgets
 - c) If the government introduces an import tariff $t = 2$, there is no trade**
 - d) If the government introduces an import tariff $t = 2$, domestic consumers are better off compared to free trade

- 5) When investors buy a share to cover their short positions, which results in a rapid increase in this share price, this is called...
 - a) Short squeeze**
 - b) Game stop
 - c) Long squeeze
 - d) Fundamental shock

- 6) Economist N calculates income inequality based on the Gini coefficient and the incomes of all individuals in the society. Economist M calculates income inequality based on the Gini coefficient and the incomes of all families in the society (simply adds up all family members' incomes before constructing the Lorenz curve). Which of the following is true?
- a) N's Gini coefficient is likely to be smaller than M's
 - b) M's Gini coefficient is likely to be smaller than N's**
 - c) The two Gini coefficients will be the same
 - d) None of the other statements is true

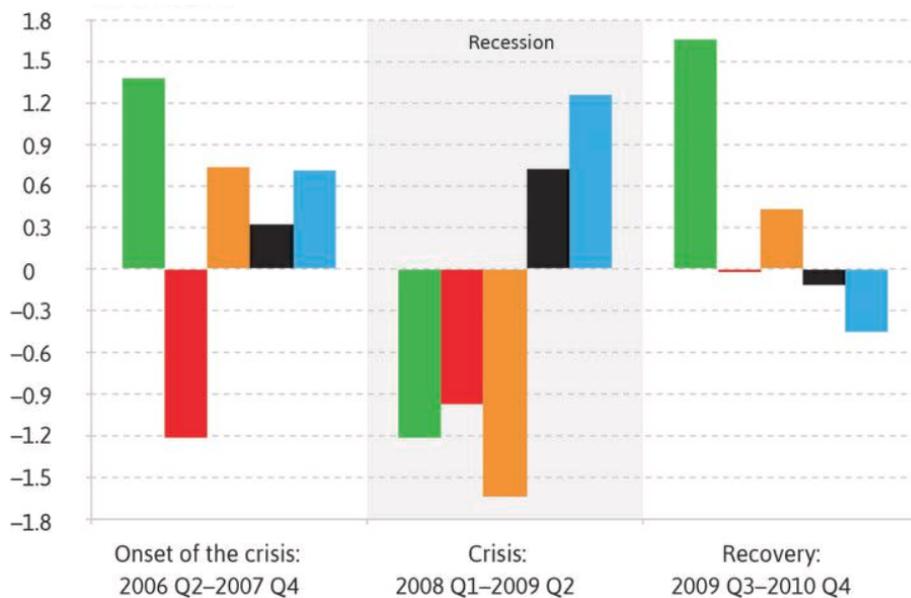
- 7) Which of the following statements best describes the Efficient Market Hypothesis?

- a) Share prices on the market reflect all available information**
- b) Stock markets produce no externalities
- c) Government interventions can make markets more efficient
- d) Natural monopolies should not be regulated

- 8) Which of the following letters is not used to describe the type of recession (and recovery)?

- a) U
- b) V
- c) L
- d) T**

- 9) In this diagram, you can see the contribution of different components of the aggregate demand to the U.S. GDP change during the global financial crisis (in annual percentage points). The bars represent government spending, net exports, private consumption, residential and non-residential investment.



Source: 'The Great Depression, golden age, and global financial crisis'.
Unit 17 in The CORE Team, The Economy (2017). Available at: <https://www.core-econ.org>.

Which of the following is **not** true?

- a) green bars are private consumption
- b) red bars are non-residential investment**
- c) black bars are government spending
- d) blue bars are net export

- 10) Choose the correct statement for a perfectly competitive market with supply and demand curves looking as usual:
- a) If the government sets the price floor above the equilibrium price, consumers are better off
 - b) If the government sets the price floor above the equilibrium price, producers (sellers) are better off
 - c) **If a government introduces a per-unit tax, the tax revenue is smaller than the combined loss of consumers and producers (sellers)**
 - d) If a government introduces a per-unit subsidy, the government expenditure is smaller than the combined gain of consumers and producers (sellers)
- 11) NiceCream, Inc. is a monopolist at the market of ice creams in town N. It enjoys the monopoly profit with the demand function given by $D = 100 - P$ and constant marginal cost $MC < 100$. Another firm with the same technology is going to enter the market, in this case, the firms will compete by choosing their outputs simultaneously. Choose the correct statement:
- a) The sum of profits of the two firms will be greater than the NiceCream's profit before entry
 - b) **The sum of outputs of the two firms will be greater than the NiceCream's output before entry**
 - c) The ice cream price after entry will be higher than before entry
 - d) None of the other statements is true
- 12) Globalization during the late 19th century involved the exchange of agricultural and manufactured goods between land-abundant/labor-scarce countries and labor-abundant/land-scarce countries. Based on this information, which of the following statements is correct?
- a) As a result of specialization, France would export agricultural goods and import manufactured goods
 - b) In Russia, the workers would be the winners while the land-owners would be the losers
 - c) **The U.S. would see the ratio of wages to land rents fall**
 - d) German workers would demand tariffs on agricultural imports
- 13) Choose the correct statement regarding economic growth:
- a) Economic growth in all countries of the world has had the same pace in all countries for the last few decades
 - b) **Compared to the pace of the 20th century, economic growth in the world was very slow before 1700**
 - c) Economic growth is defined as a long-lasting increase in the country's nominal GDP
 - d) All the differences in the pace of economic growth between countries can be explained by their geographical location

- 14) Rational João Pedro spends all his money on two goods, X and Y, and always knows for sure his optimal bundle. When the prices of both goods are 3, he chooses the bundle (4, 4). Choose the correct statement (other things being equal):
- If his income goes up, his consumption of X must increase
 - If the new prices of goods (X, Y) become (1, 5), it is possible that the bundle (3, 5) becomes the optimal choice
 - If the new prices of goods (X, Y) become (2, 4), it is possible that the bundle (6, 3) becomes the optimal choice**
 - If the new prices of goods (X, Y) become (2, 4), it is possible that the bundle (2, 5) becomes the optimal choice
- 15) Two players are negotiating where to place some object on the Cartesian plane. They choose the coordinates (x, y) in the following way: Player A sets the coordinate on the X-axis, Player B sets the coordinate on the Y-axis. Player A wants the object to be as close as possible to the point (2, 4); Player B wants the object to be as close as possible to the point (3, 1). Find the Nash equilibrium location of the object.
- (2, 1)**
 - (2.5, 2.5)
 - (3, 4)
 - (0, 0)
- 16) Which of the following is true regarding involuntary unemployment?
- Involuntary unemployment is forbidden by law in most countries
 - If a worker is fired against her will but finds a new job immediately, involuntary unemployment increases
 - If wages are above the market-clearing (efficiency wages), there is no involuntary unemployment
 - Setting a minimum wage above the market-clearing wage creates involuntary unemployment**
- 17) If the Central Bank of country K is trying to speed up the recovery of the country's economy using monetary policy, which of the following is correct, other things equal?
- The currency of country K is likely to appreciate
 - It is likely that country K's exports will become cheaper for foreigners**
 - Country K's bonds will go down in prices
 - The money supply will shrink
- 18) Choose the correct statement about externalities:
- When a person is vaccinated against COVID-19, it creates a positive externality in the future**
 - If some action is associated with negative externality, it must be forbidden to achieve economic efficiency
 - Positive externalities increase efficiency, so markets with them should not be subject to government intervention
 - If externality appears in a monopolized market, the inefficiency is doubled and strict regulation is called for

- 19) Which of the following best describes the Lucas Critique?
- a) The economy of the Galactic Empire in 'Star Wars' is very unrealistic
 - b) Economists should not use too much math in their papers
 - c) It is generally not a good idea to use relationships found in historical data for policy-making**
 - d) Consumers do not maximize utility in real life
- 20) Which of the following is typically **not** a role of a central bank?
- a) The executor of monetary policy
 - b) Lender of last resort
 - c) The sole issuer of legal tender
 - d) All other options are typical CB's roles**