

Economic 0058 Sample Paper

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- (1) Tim starts selling cakes from home. The cost of producing of producing each cake is £3 and he can produce as many cakes as he wants at this price. Which of the following statements is correct?
- (a) The total cost curve is a horizontal straight line.
 - (b) The average cost curve is downward sloping.
 - (c) The marginal cost curve is upward sloping.
 - (d) *The average cost and the marginal cost curves are the same.*
- (2) In firm production, which of the following statements about its average cost (AC) and marginal cost (MC) is correct?
- (a) *The slope of average cost is zero if marginal cost crosses average cost.*
 - (b) The marginal cost is decreasing in quantity if average cost is higher than marginal cost.
 - (c) The average cost curve is decreasing in quantity if average cost is less than marginal cost.
 - (d) The marginal cost curve cannot be flat.
- (3) If price of oranges drops by 1%, the quantity of oranges demanded increases by 1%. Which of the following statement is true?
- (a) Elasticity is -1.
 - (b) Elasticity is greater than 1.
 - (c) *Elasticity is 1.*
 - (d) Elasticity is between 1 and -1.
- (4) The employer pays the worker efficiency wage when
- (a) Employer does not know the worker before hiring her
 - (b) *Worker's effort is hidden from the employer*
 - (c) Employer's actions are hidden from the worker
 - (d) Employer does not pay the worker a wage premium
- (5) An *uber* driver is able to see the demand for rides on her phone app. She would like to take a break based on the information she can see on her phone app. She is likely to take a break when

- (a) it is time for lunch
 - (b) when demand for rides is high
 - (c) when demand for rides is medium
 - (d) *when demand for rides is low*
- (6) Pareto efficiency is defined as a situation when
- (a) You can't make anyone better off
 - (b) You can't make anyone worse off
 - (c) *You can't make anyone better off without making anyone worse off*
 - (d) You can make someone better off
- (7) In a country where everyone incomes is identical
- (a) Gini coefficient is 1
 - (b) *Gini coefficient is 0*
 - (c) Gini coefficient is -1
 - (d) Gini coefficient is less than 0
- (8) What is a dominant strategy in a game?
- (a) A strategy that earns a player a no payoff, regardless of what the others do
 - (b) *A strategy that earns a player a larger payoff than any other, regardless of what the others do*
 - (c) The dominant player wins the game
 - (d) The dominant action wins the game
- (9) In a Nash equilibrium,
- (a) all players have incentive to deviate.
 - (b) some players have incentive to deviate.
 - (c) *no player has an incentive to deviate unilaterally.*
 - (d) some players have an incentive to deviate unilaterally.
- (10) Creative destruction is a process by which:
- (a) creative firms prosper
 - (b) *old technologies and the firms that do not adapt are swept away by the new, because they cannot compete in the market.*
 - (c) old technologies and the firms that do not adapt prosper away because they can compete in the market.
 - (d) old technologies and the firms that do not adapt are swept away by the new, because of lack of competition in the market.