PAPER CODE	1
SERIES CODE	A

Registration No. : _____

Centre of Exam. : _____

Name of Candidate : _____

S A U

Entrance Test for MA (Development Economics)

[May 27, 2012]

Time : 3 hours *Maximum Marks* : 100

INSTRUCTIONS FOR CANDIDATES

Candidates must read carefully the following instructions before attempting the Question Paper :

(i) Write your Name and Registration Number in the space provided for the purpose on the top of this Question Paper and in the Answer Sheet.

(ii) This Question Paper has Two Parts.

(iii) Part—A has 20 questions of **1** mark each.

(iv) Part—B has 40 questions of **2** marks each.

(v) All questions are compulsory for both the Parts.

(vi) **Please darken the appropriate Circle of Question Paper Series Code on the Answer Sheet in the space provided.**

(vii) Answer written by the candidates inside the Question Paper will not be evaluated.

(viii) Calculators and Log Tables may be used.

(ix) Pages at the end have been provided for Rough Work.

(x) Return the Question Paper and the Answer Sheet to the invigilator at the end of the Entrance Examination.

(xi) **DO NOT FOLD THE ANSWER SHEET.**

INSTRUCTIONS FOR MARKING ANSWERS IN THE OMR SHEET

1. Use only Blue/Black Ballpoint Pen (do not use Pencil) to darken the Circle.
2. Please darken the whole Circle.
3. Darken ONLY ONE CIRCLE for each question as shown below in the example :

Wrong	Wrong	Wrong	Wrong	Correct
● ⓑ ⓒ ●	⊘ ⓑ ⓒ ⓓ	⊘ ⓑ ⓒ ⊘	⊙ ⓑ ⓒ ●	ⓐ ⓑ ⓒ ●

4. Once marked, no change in the answer is allowed.
5. Please do not make any stray marks on the Answer Sheet.
6. Please do not do any rough work on the Answer Sheet.
7. Mark your answer only in the appropriate space against the number corresponding to the question.
8. **Ensure that you have darkened the appropriate Circle of Question Paper Series Code on the Answer Sheet in the space provided.**
9. There will be no negative marking in evaluation.

PART—A

1. The Dependency Theory School of Thought originated in
   (a) Europe
   (b) South Asia
   (c) Latin America
   (d) Sub-Saharan Africa

2. Contingent valuation is best suited to ascertain the economic value of
   (a) a pair of trousers
   (b) a museum
   (c) piped water at home
   (d) a cup of ice cream

3. Fact 1 : Pictures can tell a story.

   Fact 2 : All storybooks have pictures.

   Fact 3 : Some storybooks have words.

   If the above three statements are facts, which of the following statements must also be fact(s)?

   I. Pictures can tell a story better than words can.
   II. The stories in storybooks are very simple.
   III. Some storybooks have both words and pictures.

   (a) I only
   (b) II only
   (c) III only
   (d) I and III only

4. In development economics, a 'dual' economy is characterized by the coexistence of
   (a) a private sector and a public sector
   (b) an import-substituting sector and an export-led sector
   (c) a traditional agricultural sector and a modern industrial sector
   (d) a traded sector and a non-traded sector

5. According to the Kuznets hypothesis, as per capita income grows, income inequality
   (a) tends to diminish continuously
   (b) tends to increase at a diminishing rate
   (c) tends to decline first and then increase
   (d) tends to increase first and then decline

6. To make meaningful international comparisons of income and living standards, which one of the following is the most appropriate?

(a) Compare levels of per capita incomes measured in US dollars at official exchange rates

(b) Compare national poverty lines

(c) Compare levels of domestic inflation

(d) Compare levels of per capita income adjusted by indices of purchasing power parity

7. The theoretical framework underlying the Human Development Reports undertaken by the UNDP is the

(a) capabilities approach

(b) theory of balanced growth

(c) efficiency wage hypothesis

(d) theory of big push

8. A merit good

(a) has positive externalities

(b) is non-excludable and non-rival

(c) is a good in which the country producing it has comparative advantage

(d) All of the above

9. In the standard neoclassical model, the initial distribution of resources in a market economy is determined by

(a) rational choices of individuals

(b) different levels of education of individuals

(c) different levels of productivity of individuals

(d) exogenous factors

10. Under which of the following circumstances, the consumers may have to bear most of the burden of a unit tax imposed on a good?

(a) Demand is elastic

(b) Demand is unit elastic

(c) Demand is inelastic

(d) Excess demand is equal to zero

11. If labor supply rises as the wage rate rises, the substitution effect is

(a) positive

(b) negative

(c) zero

(d) indeterminate

12. Suppose nominal GDP grows by 4%, population grows by 1·5% and price level increases by 2·5%. What is the percentage change in real per capita GDP?

(a) 0

(b) 5

(c) 1·5

(d) 2·5

13. Consider a commercial banking sector. The initial total primary deposit is $ 100. Every bank has to maintain 10% of its deposit as reserve. Transactions are made through cheques only. The total volume of credit created out of the primary deposit of $ 100 is

(a) $ 100

(b) $ 900

(c) $ 1,000

(d) None of the above

14. If uncovered interest parity prevails (i.e., asset holders view domestic and foreign assets as perfect substitutes), a foreign interest rate of 10 percent and a domestic interest rate of 12 percent imply that domestic currency is expected to

(a) appreciate by 2 percent

(b) appreciate by 10 percent

(c) depreciate by 22 percent

(d) depreciate by 2 percent

15. A country's GDP is 50, its exports 5, its imports 6 and its net income from abroad is 2. Its GNP must be

(a) 55

(b) 44

(c) 56

(d) 52

16. The arithmetic mean of two numbers is 10, the geometric mean of these numbers is 8. Find the harmonic mean.

(a) 5·4

(b) 6·4

(c) 7·4

(d) 7·0

17. When two events are independent and we are calculating the conditional probability $P(A / B)$, then it follows that

(a) $P(A) = P(B)$

(b) $P(A / B) = P(A)$

(c) $P(A \cap B) = 0$

(d) $P(A \cup B) = 0$

18. If $P(A \cap B) = 0$, then A and B are

(a) independent events

(b) collectively exhaustive events

(c) mutually exclusive events

(d) None of the above

19. When a population is skewed to the left or right with a very long tail, the best measure to use for the central tendency is population

(a) mean

(b) mode

(c) median

(d) standard deviation

20. Which of the following countries is not included in BRICS?

(a) India

(b) China

(c) Singapore

(d) South Africa

PART—B

21. Some actors are young. Some young people are rich.

From the above two facts, which of the following statements must necessarily follow?

I. Some actors are rich.

II. Some rich people are actors.

(a) Only statement I

(b) Only statement II

(c) Both statements I and II

(d) Neither statement I nor statement II

22. What is the missing number in the series below?

4, 8, 9, 27, 16, ...

(a) 58

(b) 64

(c) 48

(d) 66

Answer Question Nos. **23** to **26** in the context of the following passage :

Perhaps the most important thematic deficiency of traditional development economics is its concentration on national product, aggregate income and total supply of particular goods rather than on 'entitlements' of people and the 'capabilities' these entitlements generate. Ultimately, the process of economic development has to be concerned with what people can or cannot do, e.g., whether they can live long, escape avoidable morbidity, be well-nourished, be able to read and write and communicate, take part in literary and scientific pursuits, and so forth. It has to do, in Marx's words, with "replacing the domination of circumstances and chance over individuals by the domination of individuals over chance and circumstances".

Entitlement refers to the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she faces. Entitlements are relatively simple to characterize in a purely market economy. If a person can, say, earn $ 200 by selling his labor power and other saleable objects he has or can produce, then his entitlements refer to the set of all commodity bundles costing no more than $ 200. He can buy any such bundle, but no more than that, and the limit is set by his ownership ('endowment') and his exchange possibilities ('exchange entitlement'), the two together determining his overall entitlement. On the basis of this entitlement, a person can acquire some capabilities, i.e., the ability to do this or that (e.g., be well-nourished), and fail to acquire some other capabilities.

The process of economic development can be seen as a process of expanding the capabilities of people. Given the functional relation between entitlements of persons over goods and their capabilities, a useful-though derivative-characterization of economic development is in terms of expansion of entitlements.

(Source : Amartya Sen, 1983, "Development : Which Way Now?", *The Economic Journal*, 93(372): pp 754–755)

23. According to the author, traditional development economics is deficient because it focusses on

(a) total supply of commodities

(b) individual's command over commodities

(c) individual's rights

(d) None of the above

24. The ability "to read and write and communicate"

(a) is an entitlement

(b) is a capability

(c) is an endowment

(d) is a right

25. Which of the following is true?

(a) Aggregate supply of commodities is the most adequate measure of development

(b) Entitlement is a function of capabilities

(c) A person's endowments exclusively determine her entitlements

(d) None of the above

26. An unemployed person fails to acquire certain capabilities because

(a) she has no endowment

(b) she does not want to sell her endowment

(c) she gets unemployment benefits

(d) she cannot sell her endowment

Answer Question Nos. **27** to **30** in the context of the following passage :

Among researchers, there is a base consensus that the 1980s crisis—during which informal-sector employment grew two to five times faster than formal-sector jobs—has inverted their relative structural positions, establishing informal survivalism as the new primary mode of livelihood in a majority of Third World cities. Even in rapidly industrializing urban China, "there has been a proliferation of rudimentary informal activities which provide means of survival to the urban poor". Part of the informal proletariat, to be sure, is a stealth workforce for the formal economy, and numerous studies have exposed how the subcontracting networks of Wal-Mart and other mega-companies extend deep into the misery of the *colonias* and *chawls*. Likewise, there is probably more of a continuum than an abrupt divide between the increasingly casualized world of formal employment and the depths of the informal sector. Yet at the end of the day, the majority of the slum-dwelling laboring poor are truly and radically homeless in the contemporary international economy. Researchers accordingly have been forced to scrap the optimistic "Todaro model" embraced by modernization theorists and Alliance for Progress ideologues in the 1960s, according to which the informal sector is simply a school of urban skills from which most rural immigrants eventually graduate to formal-sector jobs. Instead of upward mobility, there is seemingly only a down staircase by which redundant formal-sector workers and sacked public employees descend into the black economy.

(Source : Mike Davis, 2006, *The Planet of Slums*, New York and London : Verso, pp 178–179)

27. According to the author, informal-sector economic activities are

(a) profit-maximizing

(b) subsistence

(c) criminal

(d) unskilled

28. Modernization theorists believed that the urban informal sector

(a) is a transitory phenomenon

(b) is complementary to formal industries

(c) is a business-cycle phenomenon

(d) is a historical feature of underdeveloped countries

29. Which of the following statements fits the author's views best?

(a) Rapid industrialization may not reduce informal sector employment

(b) Globalization offers unique opportunities for inclusive growth

(c) Rural economy has created more jobs than urban formal sector

(d) There is a radical discontinuity between formal and informal sectors

30. According to the author, majority of slum-dwellers are

(a) gaining formal-sector employment

(b) casual, ill-paid workers of the formal sector

(c) excluded from the formal sector

(d) None of the above

31. Let the savings rate in an economy be 30 percent and the output-capital ratio be 3. The warranted rate of growth in the economy will be

(a) 9%

(b) 0·1%

(c) 0·9%

(d) None of the above

32. In an economy with an urban and a rural sector, total employment in the urban sector is 60000; total urban unemployment is 40000; and prevailing urban and rural wage rates are Rs 200 and Rs 120 respectively. According to the Harris-Todaro model, the pattern of migration between the two sectors should be the following (assume there is no migration cost)

(a) Migration from rural to urban sector

(b) Migration from urban to rural sector

(c) No migration between the sectors

(d) Cannot be determined from the given information

33. When current and future consumptions are normal goods, an increase in the interest rate always increases savings by the household if the household is

(a) a borrower

(b) a lender

(c) either a lender or a borrower

(d) None of the above

34. A consumer has a utility function $U(x, y) = \min(2x, 3y)$ between goods x and y. Market price of x is 2 taka and y is 3 taka. She has an income of 120 taka. What would be the consumer equilibrium?

(a) $x = 25;\ y = 70/3$

(b) $x = 15;\ y = 30$

(c) $x = 30;\ y = 20$

(d) $x = 40;\ y = 40/3$

35. For a consumer, 1 unit of coffee is as good as 2 units of tea. Price of coffee is double that of tea. She would

(a) be better off consuming coffee only

(b) be better off consuming tea only

(c) be indifferent between the two

(d) not consume either of them

36. In country X, it takes 50 labor-hours to produce 1 unit of steel and 20 labor-hours to produce 1 unit of bread. In country Y, it takes 100 labor-hours to produce 1 unit of steel and 100 labor-hours to produce 1 unit of bread. Which of the following statements is true?

(a) Country Y has absolute advantage in both steel and bread

(b) Country X has comparative advantage in bread

(c) Country Y has comparative advantage in bread

(d) There is no basis for trade between these two countries

37. In a market for used cars, buyers are willing to pay \$ 5,000 for a good car and \$ 2,000 for a bad car. Buyers do not know of the exact quality of the car. 40% of the cars are good, the rest are bad. The buyers know the probability of a car being good or bad. The buyers' maximum willingness-to-pay for a used car is

(a) \$ 2,000

(b) \$ 3,800

(c) \$ 3,200

(d) \$ 3,500

38. An individual has a utility function $U = W^{1/2}$, where W is her total wealth. She has one safe asset worth Rs 5,000, and another risky asset whose value can be either Rs 5,000 or Rs 1,400 with equal probabilities. What is her expected utility?

(a) Rs 11,400

(b) Rs 100

(c) Rs 2,580

(d) Rs 90

39. A monopolistic firm is faced with a demand curve $P = 100/Q$, where P is the price in taka and Q is quantity. If the marginal cost of producing this good is 5 taka, how many goods should be produced if the firm works under profit-maximization principle?

(a) $Q = 20$

(b) $Q = 10$

(c) $Q = 0$

(d) $Q = 100$

40. Price elasticity of demand for a good is –0·2. Fill in the blank in the following sentence :

A 10% increase in price will lead to —— in demand.

(a) 2% increase

(b) 50% increase

(c) 2% decrease

(d) 50% decrease

41. Suppose, in an open economy, the tariff rate on a traded good is \$ 1·50 per unit, the domestic supply of the good is 100 units, and the domestic demand of the good is 300 units. What is the tariff revenue for the government?

(a) \$ 100

(b) \$ 150

(c) \$ 300

(d) \$ 450

42. A farmer sells \$ 100 of wheat to the flour mill. The mill produces flour worth \$ 300, out of which flour worth \$ 150 is sold to consumers and the rest sold to a bakery. The bakery produces bread worth \$ 500, all of which is sold to the consumers. National income in this economy has increased, as a result of these transactions, by

(a) \$ 900

(b) \$ 650

(c) \$ 500

(d) None of the above

43. Total income of an economy is composed of wages and profits. Workers consume 80% of their income (wages) and capitalists consume 25% of their income (profits). Wages constitute 40% of national income. What is the aggregate savings rate of the economy?

(a) 47·5%

(b) 31%

(c) 53%

(d) 40%

44. According to the Baumol-Tobin model of money demand, $M = \sqrt{bY/i}$, where Y is the consumer's income and i is the nominal interest rate (b is a constant). Hence the elasticity of money demand with respect to i is

(a) 1/2

(b) −1/2

(c) 1

(d) None of the above

45. If the real rate of interest on borrowing is 5 percent per annum and housing prices rise at 2 percent, then according to the neoclassical theory of investment with the price of houses at 100, the rental from houses (over the year) must be

(a) 2

(b) 3

(c) 5

(d) 7

46. If an individual earns \$ 50 for 40 years and hopes to live for 10 years in retirement, what is this person's consumption each year (assuming zero interest rate)?

(a) \$ 50

(b) \$ 40

(c) \$ 66·6

(d) \$ 30

47. If the marginal propensity to consume is 0·9 and the (income) tax rate is 0·2, then the multiplier is

(a) 10

(b) around 4

(c) around 7

(d) around 6

48. The investment (I) function is given by $I = 200 + 0 \cdot 25Y$, where Y is total output. In the money market, the equilibrium is established through $M = 100 + 5i$, where i is the nominal rate of interest and the money supply is 150. Consumption (C) function is given by $C = 300 + 0 \cdot 5Y$. If the rate of inflation is 5 percent, what is the equilibrium combination of output and real rate of interest?

(a) $Y = 2000;\ r = 10$

(b) $Y = 2000/3;\ r = 10$

(c) $Y = 2000/3;\ r = 5$

(d) $Y = 2000;\ r = 5$

49. The investment (I) function is given by $I = 200 - 5r$, where r is the real interest rate. In the money market, the equilibrium is established through $M = 50 + 10i$, where i is the nominal rate of interest and the money supply is 150. Consumption (C) function is given by $C = 300 + 0 \cdot 5Y$, where Y is total output. If the prices are constant, what is the equilibrium combination of output and real rate of interest?

(a) $Y = 200;\ r = 20$

(b) $Y = 900;\ r = 10$

(c) $Y = 1000;\ r = 10$

(d) $Y = 900;\ r = 20$

50. Relationship of investment (I) with the real interest rate (r) is given by $I = 100 - 2r$. The central bank is targeting an inflation rate of 5% by keeping the nominal rate of interest at 5%. Assuming that the central bank is successful in targeting the inflation rate, if autonomous consumption is 50 and the Keynesian multiplier is 2, what would be the equilibrium level of output? [Treat 5% as 5 for solving this problem]

(a) 150

(b) 75

(c) 280

(d) 300

51. In a particular year, if the GDP at factor cost is Rs 10,000 crores, net factor income from abroad is Rs 500 crores, current account deficit is Rs 500 crores, GNP at factor cost is equal to

(a) Rs 11,000 crores

(b) Rs 10,000 crores

(c) Rs 10,500 crores

(d) Cannot be determined due to insufficient data

52. The probabilities that Ram and Rahim can solve a given problem of Statistics are 1/2 and 1/3 respectively. Both made an attempt to solve the problem independently. What is the probability that at least one of them could solve the problem?

(a) 1/3

(b) 2/3

(c) 1/4

(d) 3/4

53. The value of the determinant of matrix

$$A = \begin{bmatrix} 1 & 2 & 4 \\ 4 & 5 & 6 \\ 7 & 8 & 9 \end{bmatrix}$$

is

(a) 3

(b) –3

(c) 7

(d) 8

54. The marginal cost function for the average cost function

$$AC = 1 \cdot 5Q + 4 + \frac{46}{Q}$$

is

(a) $3Q^2 + 4$

(b) $4Q^2 + 3$

(c) $3Q + 4$

(d) None of the above

55. The roots of the equation

$$8x - 2 = \frac{3}{x}$$

are

(a) $\frac{3}{4}, -\frac{1}{2}$

(b) $\frac{1}{4}, -\frac{3}{4}$

(c) $\frac{3}{4}, \frac{1}{2}$

(d) None of the above

56. $\int \left(\frac{10}{x} + e^x \right) dx$ is

(a) $10 \log x + e^x + c$

(b) $10 \log x + e^{x^2} + c$

(c) $\log x + 10e^x + c$

(d) None of the above

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57. $\int \frac{1}{x \log x} dx$ is

(a) $x \log x + c$

(b) $\log(\log x) + c$

(c) $\log(1 + e^x) + c$

(d) $(\log x)^2 + c$

58. Given the demand function $q = 150 - 15p$, where p is the price and q is the quantity of commodity. The absolute value of price elasticity of demand at $p = 5$ is

(a) greater than unity

(b) less than unity

(c) equal to unity

(d) infinity

59. A firm under non-perfect competition has the following total cost and demand functions :

$$C = 20 + 2x$$
$$p = 50 - x$$

The values of p and x that maximize profit are respectively

(a) 26 and 24

(b) 28 and 32

(c) 5 and 45

(d) None of the above

60. A husband and a wife appear in an interview for two vacancies. The probability of husband's selection is 1/7 and that of wife's selection is 1/5. The probabilities that (i) both and (ii) none of them will be selected are

(a) 1/35 and 24/35 respectively

(b) 24/35 and 1/35 respectively

(c) 10/35 and 24/35 respectively

(d) None of the above

★★★

SPACE FOR ROUGH WORK