



# IEOC 2021 OPEN ROUND SENIOR LEVEL

April 11<sup>th</sup> 2021

## Directions:

1. There are 30 multiple choice questions.
2. All of the questions will be graded (4 raw points for the correct answers, minus 1 raw point for the incorrect answers, and zero point for no answers).
3. Calculator is now allowed.

## Multiple-choice questions

### Answer Sheet

Question Number	Answer
1	C
2	C
3	A
4	C
5	B
6	C
7	C
8	A
9	B
10	C
11	A
12	B
13	A
14	C
15	C
16	C
17	C
18	C



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19	C
20	D
21	A
22	D
23	D
24	B
25	C
26	B
27	B
28	C
29	B
30	C

**1. Which of the following statement about concentration ratio is correct?**

- A. The higher the concentration ratio, the higher degree of competition.
- B. Concentration ratio not only reflects the concentration in a national market, but also reflects competition from abroad.
- C. A concentration ratio provides an indication of the percentage of output produced by the largest firms in an industry.
- D. A three-firm concentration ratio of 90% could consist of three firms with 30% of the market each, or of three firms, one of which has 60% of the market and the other two have 15% each. In the above analysis, a three-firm concentration ratio helps distinguish between different sizes of the firm.

**Answer: C**

A is wrong because the higher the concentration ratio, the lower degree of competition.

B is wrong because although concentration ratio reflects the concentration in a national market, they do not reflect competition from abroad.

D is wrong because a three-firm concentration ratio doesn't help distinguish between different sizes of the firm.



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**2. Which of the following statement is correct?**

- A. demand refers to the quantity of a product that purchasers are willing to buy at various prices per period of time.
- B. if the price of DVDs goes up, consumers might find other goods more attractive and choose to buy something else instead of DVDs. This is refereed as income effect of a price increase.
- C. A positive correlation between price and quantity supplied means when price goes up, there is an increase in quantity supplied.
- D. The concept that helps to look at the extent of any change in price and its effects on quantity demanded and quantity supplied is gradient.

**Answer: C**

A is wrong because quantity demanded refers to the consumers' willing and able to buy when others things being equal.

B is wrong because it is substitution effect.

D is wrong it is the concept of elasticity.

**3. The table shows the maximum price that a consumer would be wiling to pay for successive cups of coca. The price a cup of coca is \$5 and having bought three cups, the consumer decides to buy a fourth.**

Cup	First	Second	Third	Fourth	Fifth
Price (\$)	13	11	7	5	3

**How does buying the forth can affect the consumer surplus?**

- A. It leaves the consumer surplus unchanged
- B. It raises the consumer surplus by \$5
- C. It lowers the consumer surplus by \$3
- D. It raises the consumer surplus by \$4

**Answer: A**

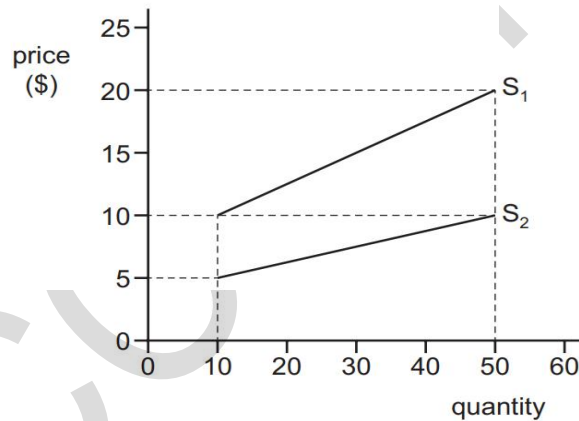
Consumer surplus doesn't change because the price is equal to the max price that the consumer is willing to pay.



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4. The diagram below shows the supply curve before government subsidy ( $S_1$ ) and after government subsidy ( $S_2$ ).



Which of the following is correct to show the result of subsidy from the graph?

- A. The subsidy increases as the quantity of goods sold increases
- B. the subsidy decreases as the quantity of goods sold increases
- C. the subsidy is a fixed percentage of price of each unit of goods sold.
- D. the subsidy is in increased percentages of the price of each unit of goods sold.

**Answer: C**

$$10 * 50\% = 5, \quad 20 * 50\% = 10$$

5. Which of the following statement is correct about monopoly?

- A. For a non-discriminating monopoly, price equals marginal revenue.
- B. The monopolist with first-degree price discrimination will realize the socially efficient quantity.
- C. A monopolist would not benefit from selling extra units at lower price than previous units
- D. Since the monopolist has the strong monopoly power, the purpose of monopolist would not fail to realize the profit maximization

**Answer: B**

A is wrong because non-discriminating monopoly,  $\text{price} > \text{MR}$

C is wrong because monopolist would benefit from selling extra units at lower price than previous units.

D is wrong because sometimes monopolist might not only care about the profit max.



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**6. Which of following statement is correct?**

- A. The Coase theorem applies when transaction costs make negotiating difficult.
- B. Market equilibrium is Pareto-efficient in the presence of externalities.
- C. If two firms compete by choosing quantities in stackelberg model models, each of them will want to choose quantity first.
- D. Loss of consumer surplus to the oligopolists is due to its higher price resulting from price higher than average total cost

**Answer: C**

A is wrong because the Coase theorem does not apply when transaction costs make negotiating difficult.

B is wrong because Market equilibrium is not Pareto-efficient in the presence of externalities.

C is correct because stackelber model show choosing quantity first and to be the leader.

D is wrong because loss of consumer surplus to the oligopolists is due to its higher price resulting from price higher than marginal cost

**7. Which of the following statement is correct?**

- A. In the monetarist perspective, recessionary gaps will not eliminate in the long run.
- B. In the new classical perspective, changes in aggregate demand curve might have an influence on real GDP in the long run.
- C. In the Keynesian model, inflexible wages in the downward direction mean that the economy cannot move into the long run when experiencing a deflationary gap.
- D. Macroeconomic equilibrium in the Keynesian model is determined by the point where AD curve intersects the Keynesian AS curve. This occurs at the full employment level of real GDP.

**Answer: C**

A is wrong because in the monetarist perspective, recessionary gaps will eliminate in the long run.

B is wrong because in the new classical perspective, change in aggregate demand curve will have n influence on real GDP only in the short run.

D is wrong because Macroeconomic equilibrium in the Keynesian model is determined by the point where AD curve intersects the Keynesian AS curve. This occurs at any level of real GDP.



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**8. Which of the following statement is correct?**

- A. Supposed that inventories decreased by \$10 billions in 2016. This means that the economy sold \$10 billion more of output in 2016 than it produced that year.
- B. U.S. GNP consists of all the final goods and services produced by American supplied resources, whether those goods and services are produced within the borders of the United States or abroad.
- C. Real GDP is GDP measured in terms of the prices operating in the year in which output is produced.
- D. Comparisons of GDP per capital across countries require measures of output or income based on conversions of national currencies into US\$ by use of purchasing power parity (PPPs) to eliminate the influence of price differences on the value of output or income.

**Answer: A**

B is wrong because U.S. GNP consist of the total value of all the final goods and services produced by American supplied resources, whether those goods and services are produced within the borders of the United States or abroad.

C is wrong because money GDP (nominal GDP) is GDP measured in terms of the prices operating in the year in which output is produced.

D is wrong because Comparisons of GDP per capital across countries require measures of per capita output or income based on conversions of national currencies into US\$ by use of purchasing power parity (PPPs) to eliminate the influence of price differences on the value of output or income.

**9. Which of the following statement about transfer payment is correct?**

- A. Student's loans and scholarships made by government to students who are studying at university are transfer payment.
- B. Government makes transfer payments not in exchange for a good or service.
- C. The extent to which transfer payment can be paid dependent on heavily on the number of populations.
- D. The transfer payment is necessary to protect the most vulnerable group and help to increase the employment.

**Answer: B**

A is wrong because students' loan is not transfer payment.

C is wrong because transfer payment heavily depend on how much tax is collected and how many people have paid tax.

D is wrong because the transfer payment is necessary to protect the most vulnerable group but might increase the unemployment.



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**10. Which one is correct?**

- A. A higher tariff on imported cars would reduce an economy's protection against the imported of cars.
- B. If a firm wants to produce a new product, the specialized labor required by the new product might limit the firm's ability to use division of labor.
- C. Specific taxes on beer and tobacco are regressive in most of countries.
- D. If a country has a deficit on the current account of balance of payments, an introduction of imported quotas would be expected to increase the deficit.

**Answer: C**

A is wrong because higher tariff on imported cars would increase an economy's protection against the imported of cars.

B is wrong because if a firm wants to produce a new product, the specialized labor required by the new product might not limit the firm's ability to use division of labor. This is the specialized skill required.

D is wrong because if a country has a deficit on the current account of balance of payments, an introduction of imported quotas would not be expected to increase the deficit.

**11. GDP as a concept was developed in the United States in 1934 by U.S. economist \_\_\_\_.**

- A. Simon Kuznets
- B. Joseph Stiglitz
- C. Elinor Ostrom
- D. Robert Lucas

**Answer : A**

GDP as a concept was developed in the United States in 1934 during the Great Depression by U.S. Nobel Prize winner economist Simon Kuznets.

**12. Which economic policy would be help in reducing deficit in the balance of payment?**

- A. Reducing the level of tax
- B. Increasing the interest rate
- C. Increasing the exchange rate
- D. Reducing subsidies to exporter

**Answer: B**



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- A is wrong because reducing the level of direct tax don't have relationship with BOP  
B is right because after increasing the interest rate, hot money will enter into the country and deficit will be reduced  
C is wrong because increasing the exchange rate will be difficult to export and current account deficit will be even worse.  
D is wrong because reducing subsidies to exporter will make export more difficult and current account deficit will be even worse.

**13. Country A's production possibility frontier is given by the equation  $X^2 + Y^2 = 200$ . Country B's production possibility frontier is given by the equation  $X + Y = 100$ . Choose the correct statement.**

- A. For any given  $X < 100$  same for both countries, country A can produce less of good Y than country B.
- B. If the countries want to produce 60 units of X together, the maximum possible amount of Y that they can produce together equals approximately 54.
- C. The opportunity cost of producing an additional unit of X is equal between the countries at all points of their PPFs.
- D. If the countries join their production possibilities, their PPF will be given by  $X^2 + X + Y^2 + Y = 300$ .

**Answer: A**

**14. Which of the following statement about terms of trade is correct?**

- A. the Prebisch-Singer hypothesis suggests that the terms of trade tend to move towards primary producing countries.
- B. the Terms of trade is a measure of export and import value.
- C. An unfavorable movement in the terms of trade may reduce a deficit on the current account of balance of payments.
- D. A devaluation is sometimes referred to as a deliberate deterioration of its terms of trade because reducing import price and raise export price might cause current account deficit of balance of payment.

**Answer: C**

- A is wrong because The Prebisch-Singer hypothesis suggest that the terms of trade tend to move against primary producing countries.  
B is wrong because the Terms of trade is a measure of export and import price.  
D is wrong because devaluation is sometimes referred to as a deliberate deterioration of its terms of trade because reducing export price and raise import price in order to make the country's products more internationally competitive.





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15. The demand for good X on a monopoly market is given by  $Q=100-P$ , the cost function is  $TC=Q^2+5$ . How will the monopolist's output change if the government introduced the price ceiling at 50?

- A. It will increase by 25
- B. It will decrease by 25
- C. It will remain the same
- D. It will increase by 60

**Answer: C**

$$100-P=Q \quad P=100-Q$$

$$TR=(100-Q) \cdot Q$$

$$MR=100-2Q$$

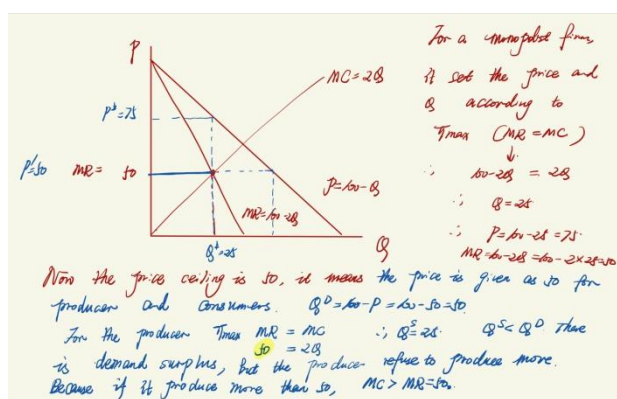
$$TC=Q^2+5 \quad MC=2Q$$

$$MR=MC \quad 100-2Q=2Q \quad Q=25 \quad P=75$$

$$MR=MC=25$$

$$\text{Price ceiling} = 25$$

Q doesn't change.



16. Which of following statement about GDP is correct?

- A. If real GDP is growing faster than the population, then the amount of real GDP that corresponds to each person increases, resulting in positive growth in real GDP per capita.
- B. If real GDP grew by 2% in a year, and the population grew by 1.5%, then real GDP per capita growth was divided 2% by 1.5%.
- C. Real GDP per capita is a better indicator of the standard of living of a population, since it measures the amount of real GDP corresponding to each person on average.
- D. In the AD-AS model, economic growth, or increases in real GDP, occurs as a result of increase in both aggregate demand and in short-run aggregate supply.

**Answer: C**

A is wrong because If real GDP is growing faster than the population, then the amount of real GDP that corresponds to each person on average increases, resulting in positive growth in real GDP per capita.

B is wrong because if real GDP grew by 2% in a year, and the population grew by 1.5%, then real GDP per capita growth was 0.5%.

D is wrong because in the AD-AS model, economic growth, or increases in real GDP, occurs as a result of increase in aggregate demand, short-run aggregate supply and



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long-run aggregate supply.

**17. Which of the following statement about economic development is correct?**

- A. Economic development is defined as the process where increase in real per capita output.
- B. Income poverty occurs when income falls below government determined income level.
- C. Since the same amount of money in a low-price country has greater purchasing power than in a high-price country, using purchasing power parity exchange rates might help to eliminate the effect of price level difference.
- D. The Human Development Index measures achievement of human development in dimensions of a long and healthy life and a wide access of knowledge.

**Answer: C**

A is wrong Economic development is defined as the process where increase in real per capita output and income are accompanied by improvements in standards of living of the population and reductions in poverty, increased access to goods and services that satisfy basic needs.

B is wrong because Income poverty occurs when income falls below a nationally or internationally determined poverty line.

D is wrong because the Human Development Index measures average achievement of human development in dimensions of a long and healthy life and a wide access of knowledge and a decent standard of living.

**18. Which of the following statement describing the result from research of prospect theory in behaviorist economics is correct?**

- A. People judge gains and losses based on their past and current situations.
- B. The fact that consumers may view a price increase as a loss explains the fact that many food producers react to rising input costs by innovation to save the cost of their products.
- C. Because people evaluate situations in terms of gains and losses, their decision making can be very sensitive to the mental frame that they use to evaluate whether a possible outcome should be viewed as a gain or a loss.
- D. Before people can calculate their gains and losses, they measure carefully and find a lot of relevant information.

**Answer: C**

A is wrong because from the research by behaviorist economist, people judge good things and bad things in relative terms, as gains and losses to their current situations, or status quo.

B is wrong because the fact that consumers may view a price increase as a loss



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explains the fact that many food producers react to rising input costs by shrinking the sizes of their products.

D is wrong because before people can calculate their gains and losses, they must first define the status quo from which to measure those changes, but it turns out that irrelevant information can unconsciously influence people's feelings about the status quo.

**19. Which of the following is not a characteristic of monopoly?**

- A. Only a single firm in the market
- B. Faces a downwards sloping MR curve
- C. Produces at the lowest point on the ATC
- D. Has strong barriers to entry

**Answer: C**

C is not a characteristic of monopoly because the monopolist doesn't produce at the lowest point on the ATC

**20. In an economy, no one can be made better off without making someone else worse off. What does not necessarily get from that?**

- A. The economy is operating at a point on its production possibility frontier.
- B. The conditions for allocative efficiency have been met.
- C. The conditions are the best choices for a society.
- D. The distribution of income is socially acceptable.

**Answer: D**

Pareto optimality is a minimum standard of efficiency, a baseline for analysis; what is Pareto optimal is not necessary the best choice for a society.

**21. Tom is applying for insurance for his new home. Which of the following is correct?**

- A. He should base the amount of insurance on the price to rebuild or repair the new home.
- B. He should insure the building for 75% of its replacement cost.
- C. He should use the actual cash value method for settling claims to receive the full cost of repairing or replacing his personal belongings.
- D. His personal belongings should be covered with his home at 125% of his home's insured amount.

**Answer: A**

The house insurance is normally based on the price to rebuild or repair the new home.



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22. Tom has an ownership interest in many different companies, but he owns the shares of stock of just one organization. Tom undoubtedly owns shares in a(n):

- A. investment trust
- B. security account
- C. options association.
- D. mutual fund

**Answer: D**

A mutual fund is an investment group that buys stocks and bonds of many different organizations and then sells shares in the investment group to the public.

23. Tom is thinking about using the computer to do his investing. To justify using a computer instead of using telephone orders to buy and sell stock, he should consider all of the following except

- A. His ability to manage his investments closely
- B. Whether he is an active investor or not
- C. The size of his investment portfolio
- D. A, B, and C are appropriate considerations.

**Answer: D**

To justify using a computer instead of using telephone orders to buy and sell stock, he needs to think about neither of the choices.

24. Which of the following statement is correct?

- A. The broker pays you interest on money borrowed to purchase stock on margin.
- B. Selling short is selling stock borrowed from a brokerage firm.
- C. A put option is the right, but not the obligation, to purchase a stock at a specified price by a given date.
- D. A brokerage firm receives double of its commission when stock is bought and sold when the investor is selling short

**Answer: B**

A is wrong because you must pay interest on money borrowed to purchase stock on margin.

C is wrong because an option is the right, but not the obligation, to purchase a stock at a specified price by a given date.

D is wrong because a brokerage firm receives regular its commission when stock is



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bought and sold when the investor is selling short.

**25. Kathy purchased 100 shares of XYZ Growth fund for \$10.00 per share. She had income dividends of \$15, capital gain distributions of \$35, and a capital gain of \$120 in the year she sold her shares. What was her percentage of total return on this investment?**

- A. 10%
- B. 15%
- C. 17%
- D. 35%

**Answer: C**

Total dollar amount of return = income dividends + capital gain distributions + change in share price (capital gain) = \$15 + \$35 + \$120 = \$170.

Then, Percent of total return = dollar amount of total return / original cost your investment =  $\$170 / (100 \text{ shares} \times \$10.00) = \$170 / \$1,000 = 0.17 = 17\%$ .

**26. Tom is employed by Fortune Bank, one of the largest banks in the country. His job is to help customer to get home equity loans. Peter, Tom's favorite and wealthiest uncle, passed away last month and left Tom a sizable amount of money. Tom is thinking about how to invest his newly acquired wealth. He is considering many options. Although his bank job pays well and offers pleasant working conditions, Tom is frustrated because he has little freedom or flexibility to deal with customers since every decision he makes must be approved by his supervisor. Besides, he's looking for a challenge. He thinks he might get a lot of satisfaction from owning his own business. If he can come up with an idea he likes, he might just quit his current job and use his inheritance to go into business for himself. Tom's frustration with his lack of freedom and flexibility at work indicates that Fortune Bank**

- A. prefers the use of cross-functional teams rather than individual initiative.
- B. has not adopted a strategy of empowerment.
- C. knows that the best way to ensure good customer service is to closely monitor its lower-level employees.
- D. is trying to please customers as well as other stakeholders.

**Answer: B**

A is wrong because the bank might not use individual initiative

C is wrong because the bank might not quite understand the good relationship of employees.

D is wrong because Tom is one of the stakeholders



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**27. Which of the following situations represents a successful use of financial leverage?**

- A. A firm issues new shares of stock and uses the proceeds from the sale to retire its outstanding debt.
- B. A firm borrows money at 8% and earns an 11% return on its investment of these funds.
- C. A firm attracts the interest of two venture capitalists and plays one against the other to gain the best deal.
- D. A retail firm purchases merchandise at \$10 and sells it for \$15.

**Answer :B**

A is wrong because using the proceeds from the sale to retire its outstanding debt might not be successful.

C is wrong because venture capitalists are not leverage.

D is wrong because purchasing merchandise is not financial leverage.

**28. Steven searched for a new bank prior to filling out his direct deposit form at his new employer. He noted that WE E-Bank, Inc., offered better interest rates on savings accounts and money market accounts; and it offered other amenities such as online banking and funds transfer that many traditional banks offer. What is the most logical reason that WE E-Bank can compete for customers by offering higher interest rates?**

- A. WE E-Bank probably cannot compete this way for long. In order to build its market share, it is offering this as a one-time promotion.
- B. Its bank reserve requirement is less, due to the fact that the assets it is holding are not as substantial as bigger, traditional banks.
- C. WE E-Bank has no buildings and locations. Due to low overhead, it is able to share the savings it realizes with its customers.
- D. WE E-Bank pay its employees less than other banks.

**Answer: C**

A is wrong because it can offer this interest for long.

B is wrong because the bank requirement is same for nearly all banks

D is wrong because it is irrelevant.



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**29. Which of the following description about the evaluation of investment is correct?**

- A. Payback period refers to the amount of time needed for an investment project to earn enough revenue to repay the initial cost of the investment.
- B. Average rate of return calculates the average profit on an investment project as a percentage of the amount of invested.
- C. Net present value is the sum of all cash flow minus the cost of a particular investment.
- D. An entrepreneur takes every reasonable step to increase the accuracy of the business cash-flow forecast, so that it will always be accurate.

**Answer: B**

A is wrong because Payback period refers to the amount of time needed for an investment project to earn enough profit to repay the initial cost of the investment.

C is wrong because net present value is the sum of all discounted cash flow minus the cost of a particular investment.

D is wrong because many factors either internal or external environment can make cash-flow forecast off course.

**30. Which of the following statement could be a marketing strategy of IEOC marketing department?**

- A. To increase market share of IEOC by 15%
- B. To have a low penetration pricing for the registration fee of IEOC
- C. To have the niche marketing to meet the requirements of the IEOCer.
- D. To maintain current prestige image of IEOC.

**Answer: C**

A and D are marketing objective

B is price tactic.

*(The end)*