



Worksheet 3: Identifying correct and incorrect statements

For each of the following statements, identify which ones are correct and which are not. Explain your choice in each case.

- 1 An outward shift in production possibility curves (PPC) may initially raise unemployment.

Correct ☐ Incorrect ☐

- 2 Buying shares of a profitable company is considered to be an investment and raises Aggregate Demand (AD).

Correct ☐ Incorrect ☐

- 3 A falling inflation rate does not mean that the price level is falling as well.

Correct ☐ Incorrect ☐

- 4 There is a higher number of people in employment in a country where the unemployment rate is low compared to a country with a high unemployment rate.

Correct ☐ Incorrect ☐

- 5 For the price level to be stable, the rate of inflation must be stable.

Correct ☐ Incorrect ☐



- 6 All goods provided by the government are public goods.

Correct ☐ Incorrect ☐

- 7 Public goods must only be provided by the government.

Correct ☐ Incorrect ☐

- 8 Roads and motorways are examples of public goods; therefore, they must be provided by the government.

Correct ☐ Incorrect ☐

- 9 Higher income taxes force consumers to consume less and save more.

Correct ☐ Incorrect ☐

- 10 A product has price elastic demand (PED) when a rise in its price causes a fall in its quantity demanded.

Correct ☐ Incorrect ☐

- 11 A perfectly competitive firm maximises profits where its sale price equals the marginal cost of the last unit produced.

Correct ☐ Incorrect ☐



- 12 The higher the Gini Coefficient, the greater would be the income inequalities.

Correct ☐ Incorrect ☐

- 13 According to the law of diminishing returns, adding more and more variable inputs will result in falling output.

Correct ☐ Incorrect ☐

- 14 Lowering income taxes and lowering interest rates are demand side tools as well as supply side tools.

Correct ☐ Incorrect ☐

- 15 Rising marginal cost leads to a rise in average cost.

Correct ☐ Incorrect ☐

- 16 A comparatively higher inflation rate in country X than country Y necessarily means that the price level in country X is higher.

Correct ☐ Incorrect ☐

- 17 Minimum price should be imposed on demerit goods and maximum prices should be imposed on merit goods to change their consumption to the optimal level.

Correct ☐ Incorrect ☐



- 18 According to Keynesians, a market economy is inherently unstable, and the government must play a stabilising role through monetary and fiscal policies.

Correct ☐ Incorrect ☐

- 19 A business should shut down immediately if it is incurring a loss.

Correct ☐ Incorrect ☐

- 20 Persuasive advertisement can help prevent a market failure.

Correct ☐ Incorrect ☐

- 21 Tax revenues rise when tax rates are raised.

Correct ☐ Incorrect ☐

- 22 Increased government expenditures financed by borrowing from the central bank raises the money supply by an amount higher than the increase in government expenditures.

Correct ☐ Incorrect ☐

- 23 Decreasing the period when the unemployed are eligible for welfare payments will help reduce the natural rate of unemployment.

Correct ☐ Incorrect ☐



- 24 According to Phillips curve, it is possible to achieve low inflation and high economic growth at the same time.

Correct ☐

Incorrect ☐

- 25 The exchange rate should be raised, and interest the rate should be decreased to reduce unemployment.

Correct ☐

Incorrect ☐