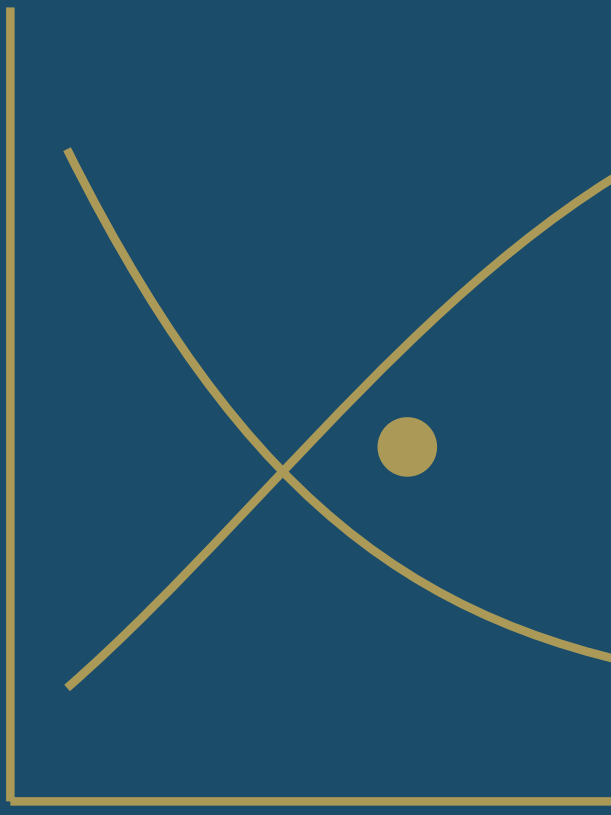
EXAM READY ECONOMICS

Exam Ready Economics

GRADE 11

Study Guide, Worked Examples and Practice Tests for the Grade 11 Examination



- ✓ 7 units with clear key ideas, worked examples and “Watch out!” boxes
- ✓ 172 worked examples and 344+ practice questions at three levels
- ✓ 140 unit-quiz questions and 3 full mock exams (70 MCQ each)
- ✓ Diagnostic test · Key Formulas Sheet · Top 20 Mistakes · teacher notes

Follows the units and order of the Ethiopian Grade 11 Economics textbook

ERMIAS WEDAJE TEGBARU

Exam Ready Economics

Grade 11 · Study Guide, Worked Examples and Practice Tests

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First edition, 2026

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This is an independent study guide. It follows the units and order of the Ethiopian Grade 11 Economics student textbook, but it is not published or endorsed by the Ministry of Education. All explanations, examples and questions are original. Keep your textbook and your teacher's notes beside this book.

The answers were calculated and checked before printing, but no book is free of errors. If you find a mistake or disagree with an answer, please tell the author on Telegram (@Ermias_Wedaje) and it will be reviewed for the next edition.

How to Use This Book

Each unit follows the same pattern, so you always know where to look.

Key ideas
The rules and facts of the section, short and clear.

Worked examples
Step-by-step solutions. Cover the solution and try first.

⚠ Watch out!
The mistakes students make most often, and the right way.

Practice
Level 1 Basic · Level 2 Standard · Level 3 Challenge.

Unit quiz
20 multiple-choice questions in the style of the national examination.

For the Teacher
Timing, starters, misconceptions, activities and assessment.

For students

- Begin with the Diagnostic Test. It shows which units need the most work.
- Read the key ideas, then study each example with the solution covered.
- Do Level 1 and Level 2 practice for every section; try Level 3 when you are ready.
- Take each quiz in 30 minutes, mark it, and redo every question you got wrong.
- In the last weeks, learn the Key Facts Sheet and the Top 20 Mistakes page, and sit the three mock exams. Their answer keys show which unit each question comes from.

For teachers

- Each unit follows the textbook sections, so the book can sit beside your lessons.
- The “For the Teacher” page gives timing, starters, misconceptions and activities.
- The quizzes and mock exams can be used as class tests; every answer has a short reason.

For parents

- Ask your child to explain one worked example to you each day. Teaching is the best way to learn.
- Look at the quiz score after each unit, and celebrate progress, not only high marks.

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Diagnostic Test · Where Should I Start?

14 questions · 15 minutes. Take this test before you start the book. There are two questions on each unit. Your score only shows you where to spend your time.

1. Utility is
   A. the income of a consumer
   B. satisfaction obtained from consuming a good
   C. the price of a good
   D. the cost of production

2. The law of diminishing marginal utility says that as more of a good is consumed
   A. price falls
   B. MU of each extra unit falls
   C. income rises
   D. TU always falls

3. A market with many sellers and identical products is
   A. monopoly
   B. cartel
   C. perfect competition
   D. oligopoly

4. Profit maximisation requires
   A. MR = MC
   B. MC = AVC
   C. TR = TC
   D. P = AC

5. GDP counts goods produced
   A. by foreigners only
   B. in the past
   C. by the country's citizens anywhere
   D. within the country's borders

6. GDP = 950; income from abroad = 70, paid abroad = 40. GNP is
   A. 950
   B. 920
   C. 1 060
   D. 980

7. Keynes' consumption function is
   A. $C = Y + S$
   B. $C = a + bY$
   C. $C = bY^2$
   D. $C = a/b$

8. The MPC is
   A. Y/C
   B. C/Y
   C. $\Delta S/\Delta Y$
   D. $\Delta C/\Delta Y$

9. Selling goods in small quantities directly to consumers is
   A. wholesale trade
   B. retail trade
   C. barter
   D. export trade

10. A weakness of mercantilism is that it
    A. supports free trade
    B. treats trade as zero-sum
    C. ignores gold
    D. values labour

11. Economic growth is measured by
    A. Gini
    B. capability
    C. HDI
    D. real GDP growth

12. Productivity is
    A. profit
    B. output divided by input
    C. input divided by output
    D. price

Unit 1 · Theory of Consumer Behaviour and Demand

By the end of this unit you will be able to:

- differentiate between the cardinal and ordinal utility approaches
- define indifference sets, curves and maps and state their properties
- calculate and interpret the marginal rate of substitution
- construct a budget line and show the effects of changes in income and prices
- determine the optimum of the consumer
- derive the demand curve from the price consumption curve

Before you start — check yourself. (a) What is utility? (b) If TU rises from 18 to 24 when a 3rd unit is consumed, what is MU? (c) What is the slope of a budget line? (d) Where is the consumer in equilibrium?
Answers: (a) satisfaction from consuming a good (b) 6 (c) $-P_X/P_Y$ (d) where MRS = P_X/P_Y

Key words: utility · marginal utility · indifference curve · MRS · budget line · optimum · normal good · inferior good · price consumption curve · demand curve

How this unit is examined

Question types that appear again and again in Ethiopian model examinations:

- Cardinal utility
- Ordinal utility and preferences
- Indifference curves and the MRS
- The budget line
- Optimum of the consumer
- Income and price changes; the demand curve

1.1 Cardinal Utility

Key ideas

- **Utility** is the satisfaction a consumer gets from consuming a good or service. The **cardinal approach** says utility can be **measured** in units called **utils**.
- **Total utility (TU)** = total satisfaction from all units consumed. **Marginal utility (MU)** = **change in TU from one more unit** = **ΔTU/ΔQ**.
- **Law of diminishing marginal utility:** as a consumer consumes more units of a good in a given time, the **MU of each extra unit falls**. TU rises at a decreasing rate, is **maximum when MU = 0**, and falls when MU is negative.
- **Consumer equilibrium (one good):** the consumer buys until **MU = price** (if utility is measured in money). **Two goods: $MU_x/P_x = MU_y/P_y$** (equal marginal utility per birr), using the whole income.
- **Assumptions:** rational consumer, utility is measurable, MU of money is constant, utility is additive, and the consumer has a fixed income.
- **Weakness:** utility cannot really be measured in numbers; the **ordinal** approach only needs a ranking.

Example 1.1 — Find MU

TU of a snack is 0, 10, 18, 24, 28, 30 for 0 to 5 units. Find MU of each unit.

Solution. MU = change in TU: **10, 8, 6, 4, 2**. MU falls, so the law of diminishing marginal utility holds.

Example 1.2 — Maximum TU

In the table above, a 6th unit has MU = 0. What is TU, and what happens if a 7th unit has MU = −2?

Solution. TU(6) = 30 + 0 = **30** (the maximum). With the 7th unit TU = 30 − 2 = **28**, so TU falls.

Example 1.3 — Exam Booster · Equilibrium

$MU_x = 20$, $P_x = 4$, $MU_y = 10$, $P_y = 2$. Is the consumer in equilibrium?

Solution. 20/4 = 5 and 10/2 = 5. **Equal, so yes** (if the budget is fully spent).

Example 1.4 — Exam Booster · Reallocation

$MU_x = 30$, $P_x = 5$, $MU_y = 20$, $P_y = 5$. What should the consumer do?

Solution. 30/5 = 6 > 20/5 = 4. X gives more utility per birr, so **buy more X and less Y** until the ratios are equal.

⚠ Watch out!

× Wrong	✓ Right
TU is maximum when MU is at its maximum.	TU is maximum when MU = 0.
Diminishing MU means TU falls from the first unit.	TU keeps rising while MU is positive; it rises more slowly.
Equilibrium means $MU_x = MU_y$.	It means $MU_x/P_x = MU_y/P_y$.

Practice 1.1

Level 1 — Basic

1. Define utility.
2. MU is the change in what?
3. State the law of diminishing marginal utility.

Level 2 — Standard

4. TU is 5, 9, 12 for 1, 2, 3 units. Find the MU of the 3rd unit.
5. At what point is TU maximum?
6. What is the equilibrium condition for two goods?

Level 3 — Challenge

7. $MU_x = 12$, $P_x = 3$, $MU_y = 20$, $P_y = 5$. Is the consumer in equilibrium?
8. Explain why the cardinal approach is criticised.

1.2 Ordinal Utility Theory and Preferences

Key ideas

- The **ordinal approach** says the consumer only needs to **rank** bundles of goods (1st, 2nd, 3rd), not measure utility in numbers.
- **Assumptions about preferences: completeness** (the consumer can compare any two bundles), **transitivity** (if A is preferred to B and B to C, then A to C), **more is better** (non-satiation), **diminishing marginal rate of substitution**, and **rationality**.
- A **bundle** (or basket) is a combination of quantities of goods, e.g. (X = 4, Y = 6). The consumer may **prefer** one bundle, or be **indifferent** between two bundles (they give the same satisfaction).
- The **ordinal** approach is more realistic than the cardinal approach because it needs only comparisons.

Example 1.5 — Transitivity

A consumer prefers bundle A to B and B to C. What does transitivity say about A and C?

Solution. The consumer must prefer **A to C**.

Unit 2 · Market Structure and the Decision of Firms

By the end of this unit you will be able to:

- describe the four market structures and their features
- explain how a perfectly competitive firm decides its output in the short run and long run
- explain the equilibrium of a monopoly and price discrimination
- describe monopolistic competition and oligopoly
- compare the market structures

Before you start — check yourself. (a) What does a price-taking firm face? (b) State the profit-maximising rule. (c) How many sellers are in a monopoly? (d) Name a feature of oligopoly.
Answers: (a) a horizontal demand curve at the market price (b) MR = MC (c) one (d) few firms; interdependence

Key words: perfect competition · monopoly · monopolistic competition · oligopoly · marginal revenue · marginal cost · price taker · barrier to entry · price discrimination · collusion

How this unit is examined

Question types that appear again and again in Ethiopian model examinations:

- Market structures; perfect competition: revenue, cost and the short run
- Perfect competition: supply curve and long run
- Pure monopoly and price discrimination
- Monopolistic competition
- Oligopoly
- Comparing the market structures

Unit 3 · National Income Accounting

By the end of this unit you will be able to:

- define GDP, GNP and the other measures of national income
- calculate GDP by the expenditure, income and value-added approaches
- explain the circular flow of income
- identify problems in measuring GDP
- calculate real GDP, the GDP deflator, the CPI and the inflation rate
- distinguish between GDP, GNP, NNP, national income, personal income and disposable income

Before you start — check yourself. (a) Write GDP in terms of C, I, G and NX. (b) Define NX. (c) Is GDP a flow or a stock? (d) If prices double and output is unchanged, what happens to nominal GDP?
Answers: (a) GDP = C + I + G + NX (b) exports minus imports (c) a flow (d) it doubles

Key words: GDP · GNP · expenditure approach · income approach · value added · nominal GDP · real GDP · GDP deflator · CPI · circular flow

How this unit is examined

Question types that appear again and again in Ethiopian model examinations:

- National income accounts and GDP/GNP
- The expenditure approach
- The income and value-added approaches; circular flow
- Problems with GDP measurement
- Nominal and real GDP, the deflator and the CPI
- Other measures of national income

Unit 5 · Trade and Finance

By the end of this unit you will be able to:

- describe domestic trade and the reasons for international trade
- explain mercantilism, absolute advantage and comparative advantage
- identify the components of the balance of payments and calculate the balances
- explain trade policies, tariffs and quotas
- distinguish nominal and real exchange rates and fixed and floating exchange-rate systems
- discuss regional integration and globalisation in Ethiopia

Before you start — check yourself. (a) What is the opportunity cost? (b) Which account records exports and imports of goods? (c) What is a tariff? (d) Name a regional economic community Ethiopia belongs to.
Answers: (a) the next best alternative given up (b) the current account (c) a tax on imports (d) COMESA or IGAD

Key words: absolute advantage · comparative advantage · opportunity cost · balance of payments · current account · tariff · quota · exchange rate · depreciation · regional integration

How this unit is examined

Question types that appear again and again in Ethiopian model examinations:

- Domestic trade and the basis of international trade
- Mercantilism and the classical theories
- Balance of payments
- Trade policies and strategies
- Exchange rates
- Regional integration and globalisation

Unit 7 · Main Sectors, Sectoral Policies and Strategies of Ethiopia

By the end of this unit you will be able to:

- distinguish uni-modal and bi-modal agricultural strategies
- describe agricultural policies and strategies and their problems and remedies
- describe industrial policies under the Imperial regime, the Derg and after 1991
- explain the problems of the industrial sector and possible remedies
- describe policies in education, health, transport and tourism

Before you start — check yourself. (a) Name the three sectors of the economy. (b) What does ADLI stand for? (c) Name one problem of agriculture in Ethiopia. (d) Name one tourist attraction in Ethiopia.
Answers: (a) agriculture, industry, services (b) Agricultural Development-Led Industrialization (c) drought or land fragmentation (d) Lalibela

Key words: uni-modal · bi-modal · ADLI · PADETES · package project · import substitution · export promotion · industrial park · ESDP · HSDP

How this unit is examined

Question types that appear again and again in Ethiopian model examinations:

- Agricultural strategies
- Agricultural policies through history
- Problems of agriculture and remedies
- Industrial policies
- Problems of industry and remedies
- Service sector: education and health
- Transport and tourism

Mock Examination 1

70 multiple-choice questions · 90 minutes · one mark each. A calculator is allowed. Circle one answer. Mark with the answer key at the back and use the unit number to see where to revise.

1. Utility is
   A. the income of a consumer
   B. satisfaction obtained from consuming a good
   C. the price of a good
   D. the cost of production

2. The unit used to measure utility in the cardinal approach is the
   A. gram B. util C. dollar D. birr

3. Marginal utility is
   A. total spending
   B. the average of all units
   C. additional utility from one more unit
   D. total utility divided by price

4. The law of diminishing marginal utility says that as more of a good is consumed
   A. price falls
   B. MU of each extra unit falls
   C. income rises
   D. TU always falls

5. When TU is at its maximum, MU is
   A. equal to price B. zero C. negative D. at its maximum

6. TU: 10, 18, 24, 28. MU of the 4th unit is
   A. 10 B. 28 C. 4 D. 24

7. If MU of a good is negative, TU
   A. is constant B. falls C. is zero D. rises

8. In the cardinal approach, a consumer maximises satisfaction when
   A. $P_x = P_y$
   B. $TU_x = TU_y$
   C. $MU_x/P_x = MU_y/P_y$
   D. $MU_x = MU_y$

9. $MU_x = 40$, $P_x = 8$, $MU_y = 30$, $P_y = 5$. The consumer should buy
   A. more X and less Y
   B. more Y and less X
   C. no change
   D. neither

10. The ordinal approach requires the consumer to
    A. rank bundles
    B. avoid choice
    C. measure utils
    D. know total income only

11. A market with many sellers and identical products is
    A. monopoly
    B. cartel
    C. perfect competition
    D. oligopoly

12. In perfect competition, the demand curve facing a firm is
    A. downward sloping
    B. upward sloping
    C. vertical
    D. horizontal

13. A perfectly competitive firm has
    A. MR = 0 B. P = AR = MR C. P > MR D. AR < P