

General Certificate of Education  
June 2006  
Advanced Subsidiary Examination



**ECONOMICS** **ECN2/1**  
**Unit 2 Part 1 Objective Test: The National Economy**

Friday 9 June 2006 1.30 pm to 2.30 pm

**For this paper you must have:**

- an objective test answer sheet
- a black ball-point pen
- the question paper for Part 2 (ECN2/2)

You may use a calculator.

Time allowed: the total time for papers ECN2/1 and ECN2/2 together is 1 hour

**Instructions**

- Use a black ball-point pen. Do **not** use pencil.
- Answer **all** questions.
- For each question there are four alternative responses. When you have selected the response which you think is the best answer to a question, mark this response on your objective test answer sheet. If you wish to change your answer to a question, follow the instructions on your objective test answer sheet.
- Do all rough work in this book, **not** on your answer sheet.

**Information**

- The maximum mark for this paper is 15 marks.
- Each question carries one mark. No deductions will be made for wrong answers.

**Advice**

- You are advised to spend no more than 15 minutes on paper ECN2/1.
- You should not spend too long on any question. If you have time at the end, go back and answer any question you missed out.

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**OBJECTIVE TEST QUESTIONS**

You are advised to spend no more than 15 minutes on these questions.

Each question is followed by four responses, **A**, **B**, **C** and **D**.  
For each question select the best response and mark its letter on the answer sheet provided.

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- 1** The position of an economy's long run aggregate supply curve is determined by the
  - A** rate of inflation in the economy.
  - B** productive capacity of the economy.
  - C** level of aggregate demand in the economy.
  - D** level of wages in the economy.
  
- 2** Economic growth is best defined as
  - A** an increase in short run aggregate supply.
  - B** fluctuations in the level of real national output.
  - C** growth in the productive potential of the economy.
  - D** a movement to the right within the production possibility boundary of the economy.
  
- 3** Which one of the following is most likely to lead to an increase in aggregate demand? An increase in
  - A** savings.
  - B** imports.
  - C** government tax revenue.
  - D** investment.

- 4 The table below indicates the unemployment rate and inflation rate for an economy between 2000 and 2002.

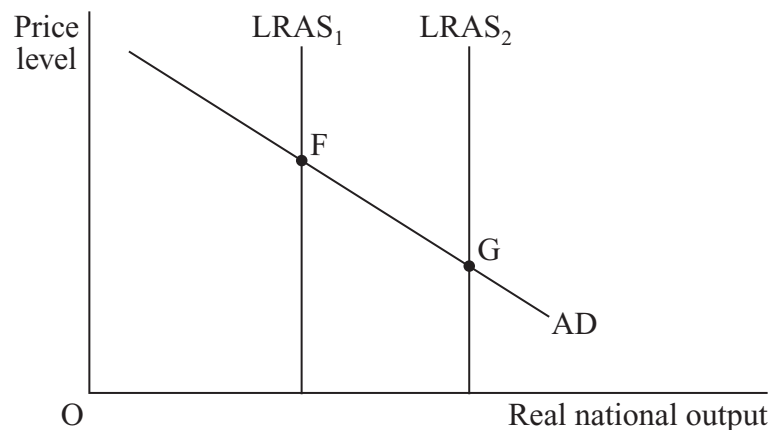
|      | <b>Unemployment rate (%)</b> | <b>Inflation rate (%)</b> |
|------|------------------------------|---------------------------|
| 2000 | 4.2                          | 1.5                       |
| 2001 | 3.7                          | 3.0                       |
| 2002 | 3.3                          | 1.8                       |

Which one of the following can be deduced from the data?

- A Employment rose between 2000 and 2002.
  - B Prices fell between 2001 and 2002.
  - C There was an inverse relationship between inflation and unemployment throughout the period.
  - D The value of money fell throughout the period.
- 5 A rise in the general level of interest rates is most likely to cause a fall in the
- A savings ratio.
  - B level of investment.
  - C level of unemployment.
  - D exchange rate.
- 6 When the economy is operating at full employment, which one of the following will be most effective in reducing inflation in the short run?
- A Reducing imports
  - B Increasing investment
  - C Increasing savings
  - D Reducing taxes on income

**Turn over ►**

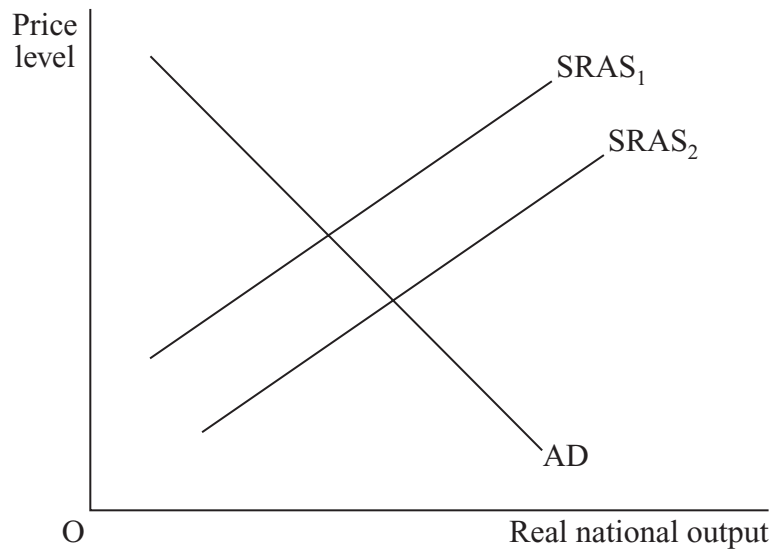
7 The diagram below shows aggregate demand and supply curves for the UK economy.



The move of the economy from equilibrium at F to G could be explained by an increase in

- A the level of taxation.
  - B the level of interest rates.
  - C government expenditure on education and training.
  - D the level of welfare benefits.
- 8 An increase in the exchange rate is most likely to contribute to
- A an increase in the volume of exports.
  - B an increase in the price of imports.
  - C a reduction in unemployment.
  - D a reduction in the rate of inflation.
- 9 A rise in investment is likely to
- A reduce aggregate demand and reduce productive capacity.
  - B reduce aggregate demand and increase productive capacity.
  - C increase aggregate demand and reduce productive capacity.
  - D increase aggregate demand and increase productive capacity.

- 10 The diagram below shows the aggregate demand and aggregate supply curves for an economy in the short run.

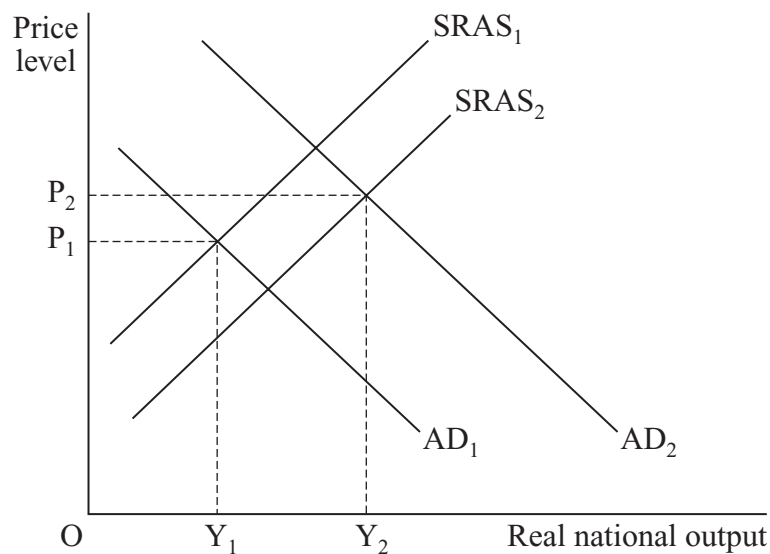


The shift of the aggregate supply curve from  $SRAS_1$  to  $SRAS_2$  could have been caused by

- A a decrease in oil prices.
  - B an increase in employment.
  - C a decrease in the availability of credit.
  - D an increase in business costs.
- 11 All other things being equal, which one of the following is most likely to reduce a balance of payments deficit on current account? An increase in
- A the price level
  - B government spending
  - C income tax
  - D the money supply

Turn over ►

- 12 All other things being equal, an initial increase in aggregate investment expenditure will lead to an even larger increase in national income. This statement refers to
- A an increase in the savings ratio.
  - B the multiplier process.
  - C the use of fiscal policy.
  - D the economy's underlying trend rate of growth.
- 13 The diagram below shows an economy initially in equilibrium producing an output of  $Y_1$  at a price level of  $P_1$ .



Which one of the following is likely to have increased the equilibrium level of output from  $Y_1$  to  $Y_2$  and the price level from  $P_1$  to  $P_2$ ?

- A A cut in taxation and a fall in raw material prices
- B A cut in taxation and a rise in raw material prices
- C An increase in taxation and a fall in raw material prices
- D An increase in taxation and a rise in raw material prices

- 14** All other things being equal, a government would be undertaking a contractionary fiscal policy if it reduced
- A** government expenditure.
  - B** interest rates.
  - C** taxation.
  - D** the exchange rate.
- 15** All other things being equal, demand pull inflation is most likely to result from an increase in
- A** the level of interest rates.
  - B** government spending.
  - C** the rate of income tax.
  - D** the cost of imported raw materials.

**QUESTION 15 IS THE LAST  
QUESTION IN THE PAPER**

**On your answer sheet  
ignore rows 16 to 60**

**END OF TEST**

**There are no questions printed on this page**