

ECONOMICS

ECN2/1

Unit 2 Part 1 Objective Test: The National Economy

Friday 16 January 2009 9.00 am to 10.00 am

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.

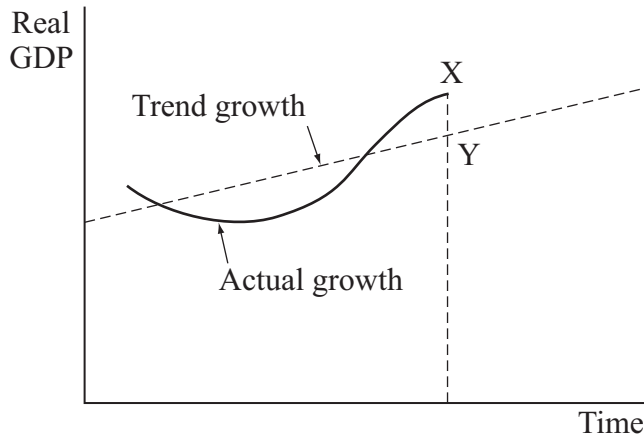
OBJECTIVE TEST QUESTIONS

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.

- 1** Which one of the following statements about saving is correct?
- A** Saving is a component of aggregate demand.
 - B** Saving can finance investment expenditure.
 - C** In the short run, less household saving means less consumption.
 - D** Increased saving increases demand-pull inflationary pressure.
- 2** An economy is currently operating inside its production possibility frontier. In the short run, if the rate of growth of aggregate demand is less than the rate of growth of productive capacity, then the economy is most likely to experience
- A** an increase in unemployment.
 - B** a decrease in output.
 - C** a decrease in its trend rate of growth.
 - D** a decrease in imports.
- 3** As a component of aggregate demand, consumption is best defined as total expenditure in the economy
- A** on all goods and services including imports.
 - B** on all goods and services minus expenditure on exports.
 - C** by households on all goods and services.
 - D** by households, government and firms plus expenditure on exports less expenditure on imports.

- 4 The diagram below shows the relationship between trend growth and actual growth for an economy.

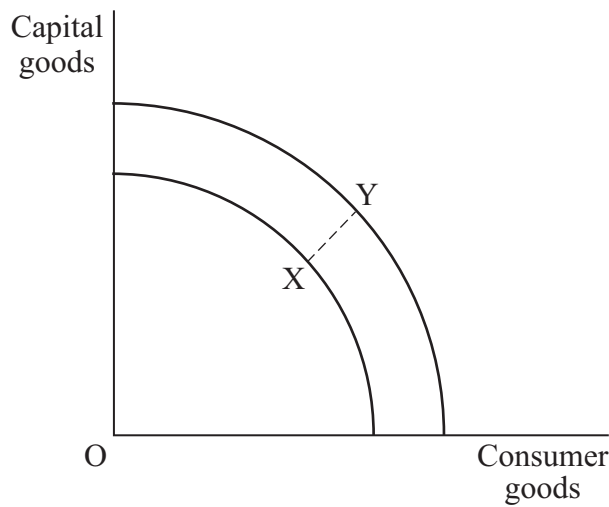


The policy most appropriate to close the output gap XY by influencing aggregate demand would be

- A an increase in the rate of interest.
- B a fall in the exchange rate of the currency.
- C a cut in income tax rates.
- D an increase in government spending.
- 5 Which one of the following is most likely to shift the short run aggregate supply curve to the right?
- A A fall in money wages
- B A reduction in government spending
- C A fall in the exchange rate
- D A decrease in the productivity of labour
- 6 'The multiplier' usually refers to the effect of a change in the level of
- A aggregate demand upon imports.
- B national income upon aggregate demand.
- C saving upon investment.
- D investment upon national income.

Turn over ►

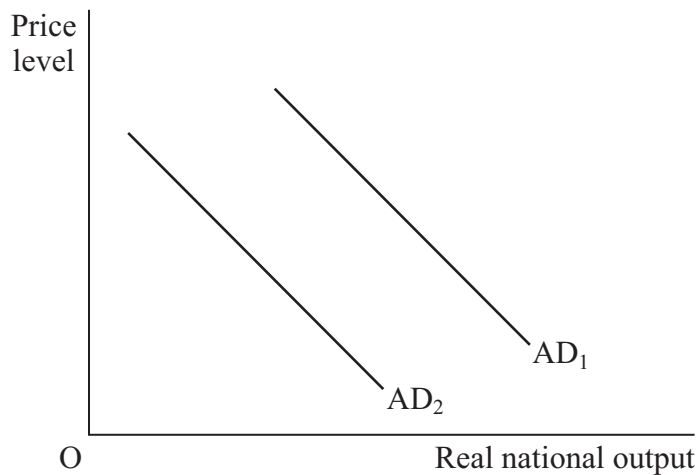
7 The diagram below shows two production possibility frontiers for an economy.



The movement of the economy from position X to position Y must indicate that there has been

- A a reduction in the level of unemployment.
 - B an increase in the economy's output gap.
 - C a rightward shift in the economy's long run aggregate supply curve.
 - D an increase in income per head.
- 8 Expansionary monetary policy is most likely to
- A shift the long run aggregate supply curve to the left.
 - B result from a reduction in taxation.
 - C cause a surplus on the current account of the balance of payments.
 - D shift the aggregate demand curve to the right.

9 The diagram below shows two aggregate demand curves for an economy.



The shift from AD₁ to AD₂ could be explained by an increase in

- A imports.
 - B the price level.
 - C costs of production.
 - D investment.
- 10 All other things being equal, an economy is most likely to experience inflation if
- A aggregate supply increases at a faster rate than aggregate demand.
 - B the country runs a balance of trade deficit at full employment.
 - C aggregate demand is increased when the economy is on its production possibility frontier.
 - D the government runs a budget deficit when long run aggregate supply increases.
- 11 A rise in the level of domestic investment will most likely result from a rise in
- A the current account deficit.
 - B interest rates.
 - C company profits.
 - D the exchange rate.

Turn over ►

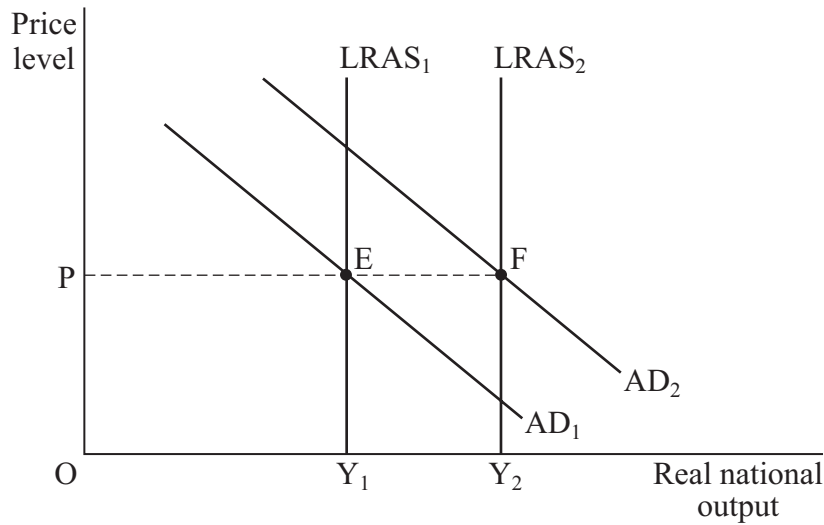
- 12 A sustained rise in the exchange rate is most likely to increase
- A inflation.
 - B unemployment.
 - C economic growth.
 - D international competitiveness.
- 13 The table below shows the change in the Consumer Prices Index for a country between 2007 and 2008.

Year	Consumer Prices Index
2007	200
2008	210

The figures indicate that, approximately, between 2007 and 2008

- A the purchasing power of money fell by 5%.
 - B the rate of inflation was 10%.
 - C the price of consumer goods increased by 10%.
 - D the standard of living increased by 5%.
- 14 Which one of the following is most likely to be an example of a contractionary fiscal policy designed to reduce inflationary pressures?
- A A reduction in the exchange rate
 - B A reduction in the supply of money available to banks for lending purposes
 - C Higher interest rates
 - D An increase in the government budget surplus

- 15 The diagram below shows an aggregate demand/aggregate supply diagram for an economy. The economy is initially in equilibrium at E.



Which one of the following combinations of government policy is most likely to have brought about the change in equilibrium from E to F?

An increase in

- A interest rates and unemployment benefits
- B government spending on transport infrastructure and vocational retraining programmes
- C the exchange rate and the money supply
- D measures to encourage emigration and greater saving

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

**On your answer sheet
ignore rows 16 to 50**

END OF TEST

There are no questions printed on this page