

General Certificate of Education
January 2006
Advanced Subsidiary Examination



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

Wednesday 18 January 2006 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 item consists of a question or an incomplete statement followed by four suggested answers or completions. You are to select the most appropriate answer in each case.

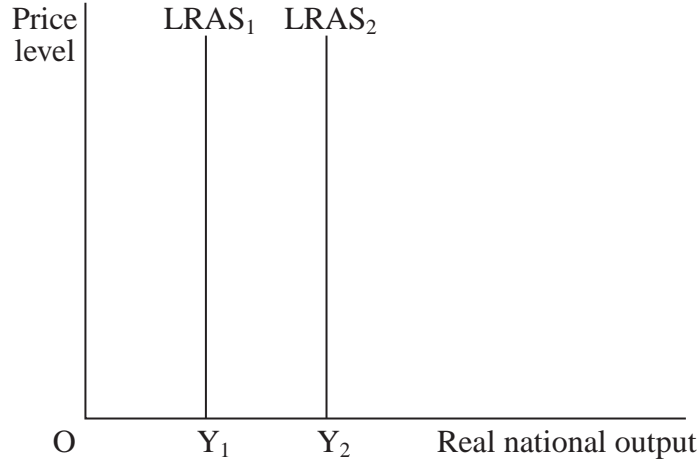
- 1 Which one of the following is most likely to shift the short run aggregate supply curve to the right?
 - A A fall in money wages
 - B A reduction in government spending
 - C A fall in the exchange rate
 - D A decrease in the productivity of labour

- 2 Economic growth is usually measured by the annual change in
 - A the retail price index.
 - B real national income.
 - C the output of manufacturing industry.
 - D consumer expenditure.

- 3 Which one of the following is an example of fiscal policy? A decision by the government to
 - A decrease the exchange rate.
 - B raise the minimum wage.
 - C increase its budget surplus.
 - D reduce the rate of interest.

- 4 A current account deficit on the UK's balance of payments means that generally
 - A the total value of imports exceeds the total value of exports.
 - B government expenditure exceeds government revenue.
 - C the value of imports of services is less than the value of exports of services.
 - D the volume of imports of goods and services exceeds the volume of exports of goods and services.

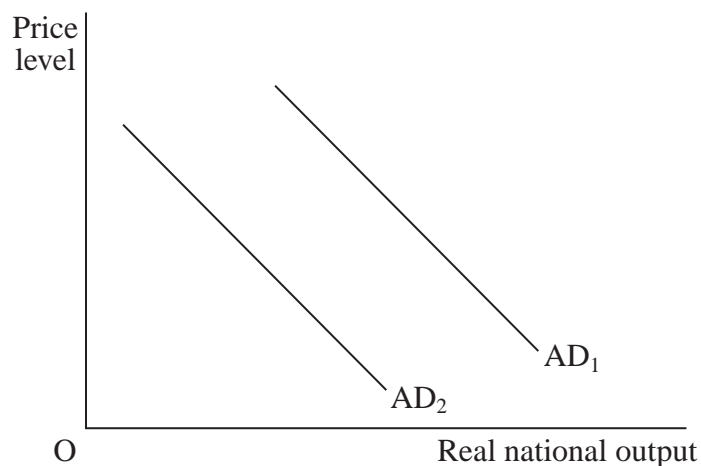
- 5 The diagram below shows two long run aggregate supply curves for an economy.



The economy is in equilibrium at Y₁. In order to move the economy to Y₂, a government should increase

- A the exchange rate.
 - B interest rates.
 - C expenditure on education and training.
 - D the level of taxation on business.
- 6 An economy had nominal GDP growth of 8% last year, inflation of 5.5% and population growth of 2.5%. The approximate percentage change in real GDP per capita was
- A -2.5
 - B 0
 - C +2.5
 - D +5.0
- 7 Which one of the following is most likely to raise an economy's underlying trend rate of economic growth?
- A A fall in exports
 - B A rise in imports
 - C An increase in taxation
 - D An increase in investment

- 8 In the short run, an increase in the government's budget deficit is most likely to reduce
- A imports.
 - B unemployment.
 - C interest rates.
 - D inflation.
- 9 All other things being equal, a fall in the level of labour productivity in the economy is most likely to lead to a
- A shift to the left in the long run aggregate supply curve.
 - B shift to the right in the aggregate demand curve.
 - C rise in the trend rate of economic growth.
 - D reduction in the rate of inflation.
- 10 The diagram below shows two aggregate demand curves for an economy.



The shift from AD_1 to AD_2 could be explained by an increase in

- A imports.
- B the price level.
- C costs of production.
- D investment.

- 11** A large rise in interest rates is most likely to lead to an increase in
- A** national output.
 - B** investment.
 - C** unemployment.
 - D** consumption.
- 12** Real incomes rise whenever
- A** nominal incomes rise.
 - B** the price level rises by more than nominal incomes.
 - C** nominal incomes rise by more than the price level.
 - D** the rate of inflation slows down.
- 13** Investment, in economics, is best defined as
- A** spending on capital goods in the economy.
 - B** the flow of money into the stock of savings.
 - C** the profit kept back by firms to finance future expenditure on new machinery and equipment.
 - D** the stock of economic resources such as factories and machinery.
- 14** The multiplier process 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.

15 Which one of the following is most likely to cause a fall in aggregate consumer spending?

- A** An increase in house prices
- B** A reduction in interest rates
- C** A rise in real national income
- D** A reduction in government spending on welfare benefits

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

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

END OF TEST

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