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.

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 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.

	Unemployment rate (%)	**Inflation rate (%)**
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?

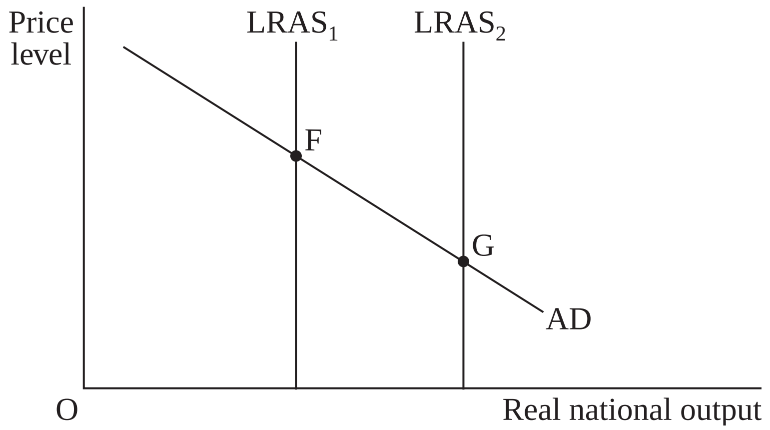
A Reducing imports

B Increasing investment

C Increasing savings

D Reducing taxes on income

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

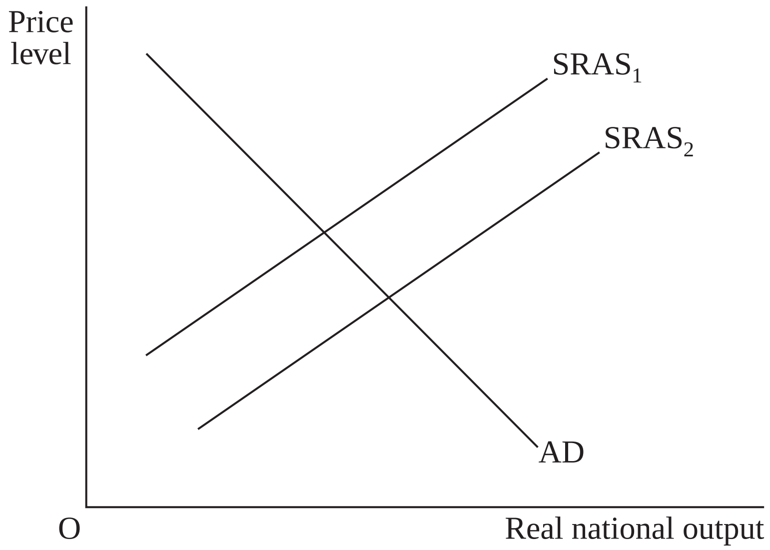
A reduce aggregate demand and reduce productive capacity.

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

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

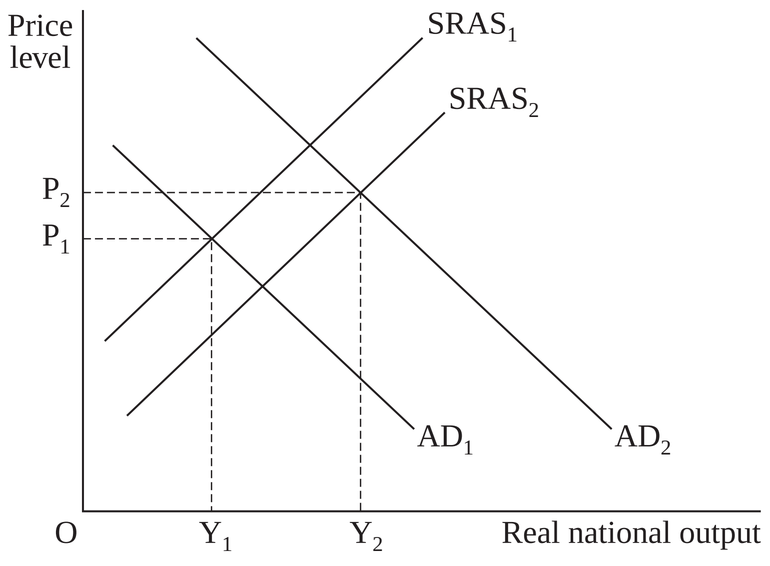
A an increase in the savings ratio.

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