

General Certificate of Education
June 2008
Advanced Subsidiary Examination



ECONOMICS
Unit 2 Part 1 Objective Test: The National Economy

ECN2/1

Wednesday 4 June 2008 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**.

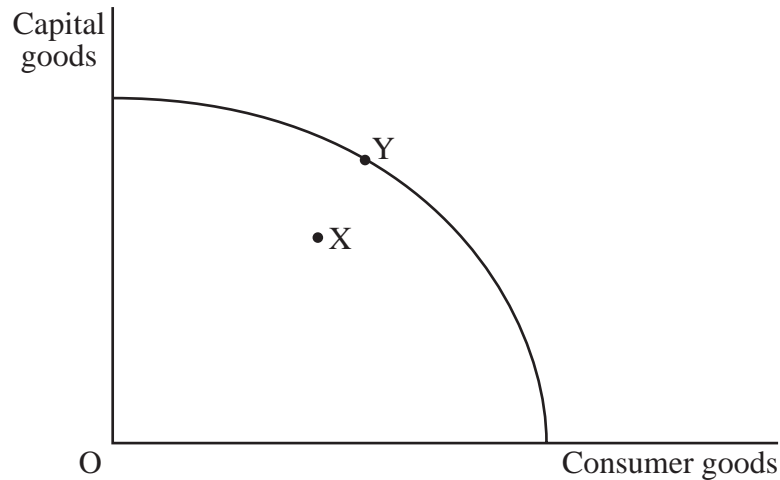
For each question select the best response and mark its letter on the answer sheet provided.

- 1** Which one of the following is most likely to lead to an increase in the underlying rate of inflation?
 - A** An increase in the exchange rate
 - B** A fall in the balance of payments surplus
 - C** A rise in the budget surplus
 - D** A fall in interest rates

- 2** In the short term, contractionary fiscal policy is most likely to cause
 - A** a deterioration in the current account on the balance of payments.
 - B** a rise in unemployment.
 - C** a fall in export volumes.
 - D** an increase in the rate of inflation.

- 3** An economy is most likely to be in the boom phase of the trade cycle when there is a rise in
 - A** business pessimism.
 - B** the savings ratio.
 - C** spare capacity.
 - D** the demand for imports.

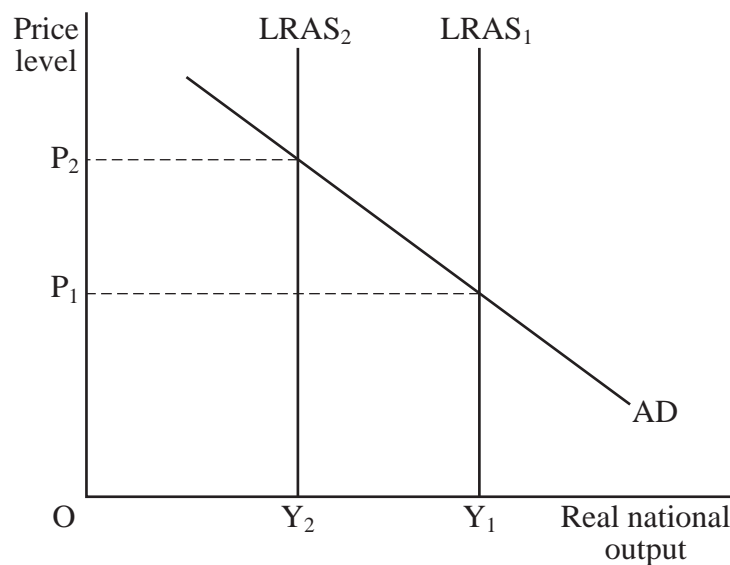
- 4 The diagram below shows an economy operating within its production possibility boundary at point X.



Which one of the following is most likely to move the economy to point Y on its production possibility boundary?

- A An increase in inflation
 - B An increase in the exchange rate
 - C A reduction in income tax
 - D An improvement in technology
- 5 Aggregate demand may fall as a result of a decrease in
- A the government's budget deficit.
 - B the government's budget surplus.
 - C savings relative to investment.
 - D imports.
- 6 Which one of the following is a fundamental determinant of long run aggregate supply?
- A The multiplier
 - B The output gap
 - C Real national output
 - D The institutional structure of the economy

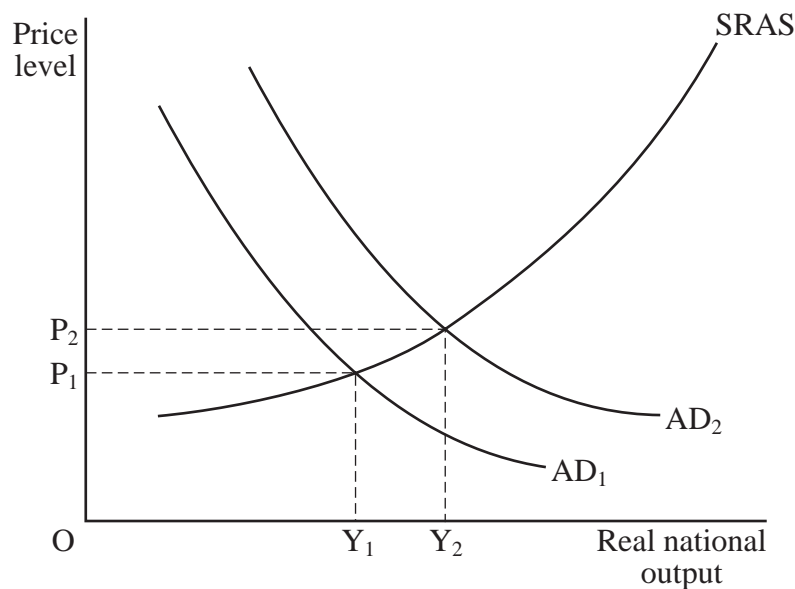
- 7 The multiplier effect of an increase in investment in an economy is
- A an increase in productive capacity.
 - B a larger increase in national income than that in investment.
 - C an increase in the underlying trend rate of growth.
 - D the movement of the economy from recession to boom.
- 8 The diagram below shows the aggregate demand curve and two long run aggregate supply curves for an economy.



The change in real national output from Y_1 to Y_2 implies that the economy

- A is operating within its production possibility boundary.
- B has a falling level of unemployment.
- C has a negative rate of economic growth.
- D is experiencing a low rate of productivity growth.

- 9 In 2007, an economy's nominal national income grew by 8%, the price level rose by 5% and the population grew by 1%. From this information, it can be concluded that real national income per head grew by
- A exactly 3%.
 - B more than 3%.
 - C less than 3%.
 - D 4%.
- 10 The diagram below shows the short run aggregate supply curve and two aggregate demand curves for an economy.



The change in real national output from Y_1 to Y_2 could have been caused by an increase in

- A inflation.
- B interest rates.
- C the rate of taxation.
- D the money supply.

- 11 The table below shows the expenditure components of gross domestic product (GDP) in Year 1 and Year 2 (£ billion at constant prices).

Year	Government and private consumption expenditure	Government and private investment expenditure	Exports	Imports
1	100	20	30	40
2	110	25	35	45

Between Year 1 and Year 2, the level of aggregate demand increased by

- A £10 billion.
 - B £15 billion.
 - C £20 billion.
 - D £25 billion.
- 12 Which one of the following is most likely to be an example of a supply-side policy?
- A A reduction in the rate of interest to reduce inflation
 - B An increase in government expenditure on state pensions
 - C A reduction in company taxes to encourage greater investment
 - D A rise in the exchange rate to increase exports
- 13 A country experiences both unemployment and persistent surpluses in the balance of payments. Which one of the following is most likely both to increase employment and to reduce a balance of payments surplus?
- A Increasing interest rates
 - B Increasing government expenditure
 - C Increasing the government's budget surplus
 - D Revaluing the currency

- 14** All other things being equal, which one of the following would be the most likely consequence of an appreciation in the external value of a currency? An increase in
- A** the domestic price level
 - B** the volume of exports
 - C** employment in the domestic economy
 - D** the volume of imports
- 15** All other things being equal, in the short run which one of the following is most likely to lead to a rise in national income?
- A** A rise in interest rates and a rise in the exchange rate
 - B** A fall in interest rates and a fall in the exchange rate
 - C** A rise in interest rates and a fall in the exchange rate
 - D** A fall in interest rates and a rise in the exchange rate

**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