

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

Friday 10 June 2005 Afternoon Session

In addition to this paper you will require:

- 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: 1 hour for papers ECN2/1 and ECN2/2 together

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.
- Do 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.

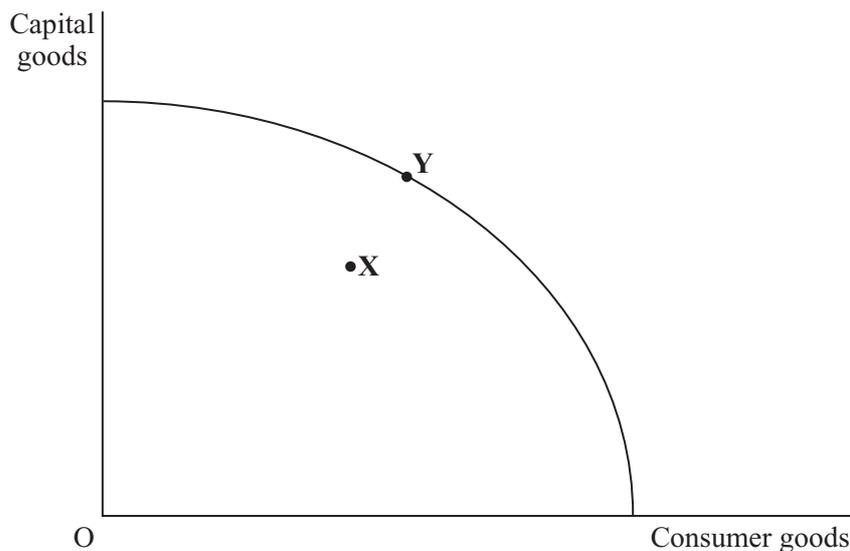
Each item consists of a question or an incomplete statement followed by four suggested answers or completions. You are to select the most appropriate answer in each case.

- 1 Which one of the following is most likely to cause an increase in aggregate investment expenditure?
 - A A rise in interest rates.
 - B A fall in aggregate demand.
 - C A rise in the exchange rate.
 - D A fall in the price of capital goods.

- 2 The UK government wants to lower the rate of inflation in the economy but this is likely to conflict with some of its other policy objectives in the short run. Which one of the following is most likely to deteriorate as a result of using contractionary fiscal policy?
 - A The current account position.
 - B The unemployment figures.
 - C Export volumes.
 - D UK international competitiveness.

- 3 All other things being equal, a rise in imports is most likely to be caused by an increase in
 - A household saving.
 - B the government's budget surplus.
 - C consumption expenditure.
 - D the current account surplus.

- 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 a new equilibrium at point Y?

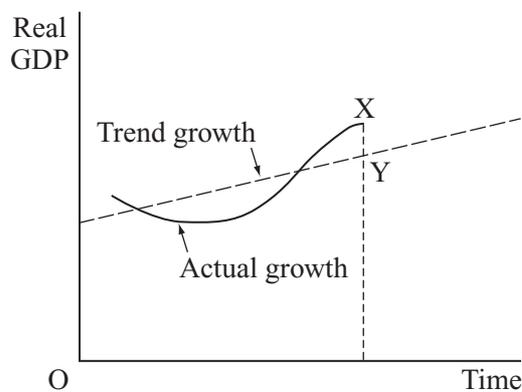
- A An increase in interest rates.
 - B An increase in the exchange rate.
 - C A reduction in income tax.
 - D An improvement in technology.
- 5 Expansionary monetary policy is most likely to
- A shift the long run aggregate supply curve to the left.
 - B result from a reduction in taxation.
 - C cause a surplus on the current account of the balance of payments.
 - D shift the aggregate demand curve to the right.
- 6 A rise in the exchange rate of the pound sterling is likely to assist UK government policies aimed at reducing the
- A level of imports.
 - B level of unemployment.
 - C rate of inflation.
 - D balance of payments deficit.

Turn over ►

7 Which one of the following is a supply-side policy aimed at reducing unemployment?

- A A cut in interest rates.
- B An increase in the money supply.
- C An increase in unemployment benefits.
- D A cut in the rate of income tax.

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



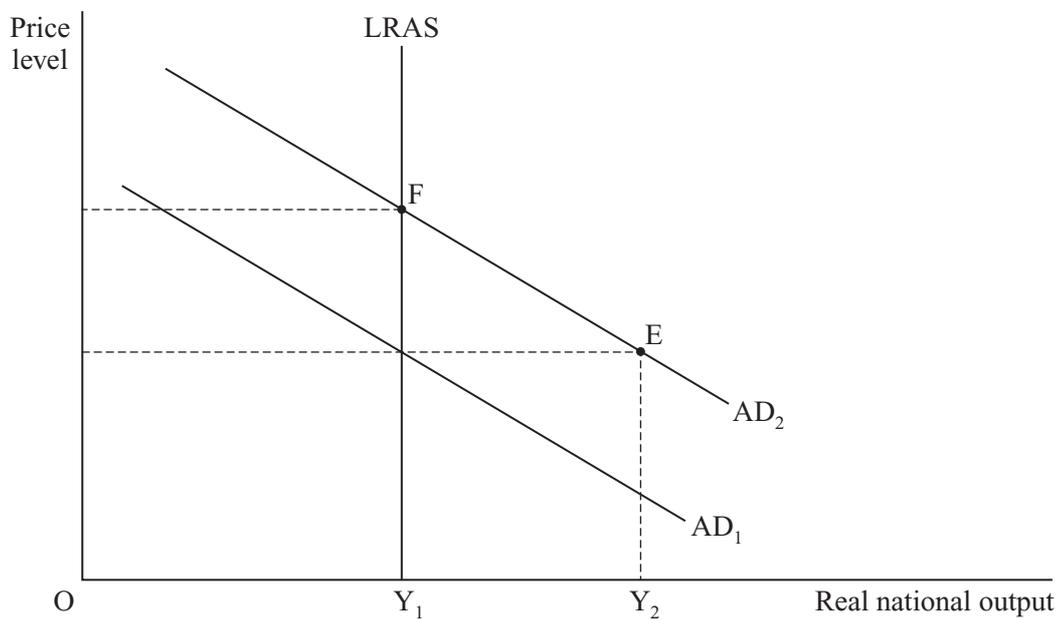
The policy most appropriate to close the output gap XY by influencing aggregate demand would be

- 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.
- 9 If the level of GDP (Gross Domestic Product) falls, it is likely that
- A the amount of spare capacity will increase.
 - B the rate of inflation will rise.
 - C net investment will increase.
 - D the level of unemployment will fall.

10 Which one of the following is likely to result in a rightward shift of the short run aggregate supply curve?

- A A decrease in wage rates.
- B A decrease in government spending.
- C An increase in taxation.
- D An increase in investment expenditure.

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

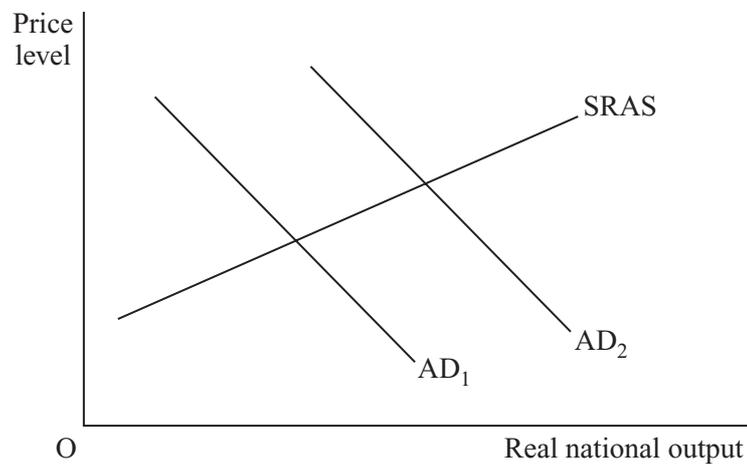


The government predicts that aggregate demand will increase in the long run from AD_1 to AD_2 . Which one of the following policies is most likely to move the economy to a new long run equilibrium at point E rather than point F?

- A Pursuing an expansionary monetary policy.
- B Allowing the exchange rate to rise.
- C Increasing taxation.
- D Improving the flexibility of the labour market.

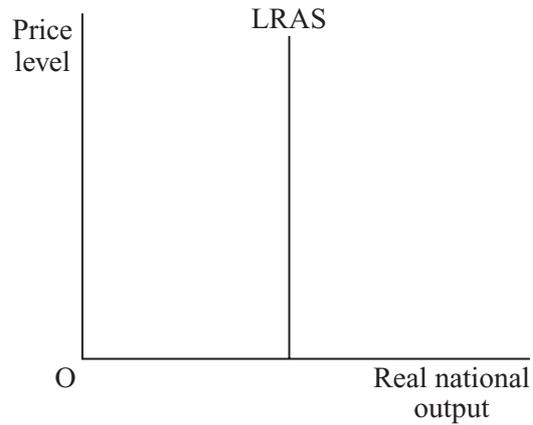
Turn over ►

- 12 Aggregate demand may rise as a result of an increase in
- A the budget deficit.
 - B the budget surplus.
 - C savings relative to investment.
 - D imports.
- 13 All other things being equal, in a country with full employment, which one of the following is most likely to lead to an increase in inflationary pressure? An increase in
- A savings.
 - B imports.
 - C exports.
 - D the exchange rate.
- 14 The diagram below illustrates two aggregate demand curves and a short run aggregate supply curve for an economy.



- Which one of the following could have caused the rightward shift of the aggregate demand curve? An increase in
- A inflation.
 - B government expenditure.
 - C taxation.
 - D interest rates.

15 The diagram below shows a long run aggregate supply curve (LRAS) for an economy.



The LRAS curve shows the economy's

- A equilibrium price level.
- B potential output.
- C level of inflation.
- D actual economic growth.

**QUESTION 15 WAS 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