| Surname | | Other Names | |
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| Centre Number | | Candidate Number | |
| Candidate Signature | | | |

General Certificate of Education
June 2002
Advanced Subsidiary Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

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

Friday 31 May 2002 Morning Session

**In addition to this paper you will require:**
- an objective test answer sheet;
- a blue or black ball-point pen;
- the question paper for Part 2 (ECN2/2).

You may use a calculator.

Time allowed: 1 hour 30 minutes for papers ECN2/1 and ECN2/2 together

**Instructions**
- Use a blue or black ball-point pen. Do **not** use pencil.
- Fill in the boxes at the top of this page.
- 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 25 marks.
- Each question carries one mark. No deductions will be made for wrong answers.

**Advice**
- You are advised to spend no more than 30 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.
- Make sure that you hand in **both** your answer sheet **and** this question book at the end of the examination.

## OBJECTIVE TEST QUESTIONS

You are advised to spend no more than 30 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** To distinguish between real and money national income, which one of the following would have to be considered?

**A** The rate of economic growth.

**B** The rate of interest.

**C** The rate of inflation.

**D** The exchange rate of the currency.

**2** All other things being constant, 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.

**3** Which one of the following is most likely to raise an economy's underlying trend rate of economic growth?

**A** An increase in exports.

**B** A fall in imports.

**C** An increase in consumption.

**D** An increase in investment.

**4** The chart below indicates output per hour worked for several countries in 1999.

The chart is not reproduced here due to third-party copyright constraints.
The full copy of this paper can be obtained by ordering ECN2-1 from our Publications section
Tel: 0161 953 1170

From the chart, it may be deduced that

**A** the USA had the highest level of output.

**B** Japan had the lowest growth rate.

**C** Japan had a lower labour productivity level than the UK.

**D** the index number 100 represents the average output per hour worked for the countries shown.

**5** The figures below represent components of the UK balance of payments for 1998 (£ billion).

The table is not reproduced here due to third-party copyright constraints.
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*Invisible balance = balance of trade in services, investment and other income, and transfers

What is the balance on current account?

**A** + 0.2

**B** - 0.2

**C** + 4.2

**D** - 4.2

**6** The graph below shows the UK current account balance from 1970 to 1998.

The graph is not reproduced here due to third-party copyright constraints.

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From the graph it may be concluded that over the period shown

**A** the value of the UK's exports was greatest in 1981 and 1997.

**B** UK manufacturing industry went into serious decline.

**C** the level of imports was greatest in 1989.

**D** the largest excess of current account debits over credits occurred in 1989.

**7** The table below shows index numbers for UK national income at current prices (i.e. money or nominal national income) and inflation from 1990 to 2000.



From the table it can be inferred that

**A** the rate of inflation increased between 1990 and 2000.

**B** real GDP grew more slowly than nominal GDP between 1990 and 2000.

**C** economic growth leads to lower prices.

**D** real GDP declined between 1990 and 1996.

**8** Which one of the following is **not** a component of aggregate demand?

**A** Exports.

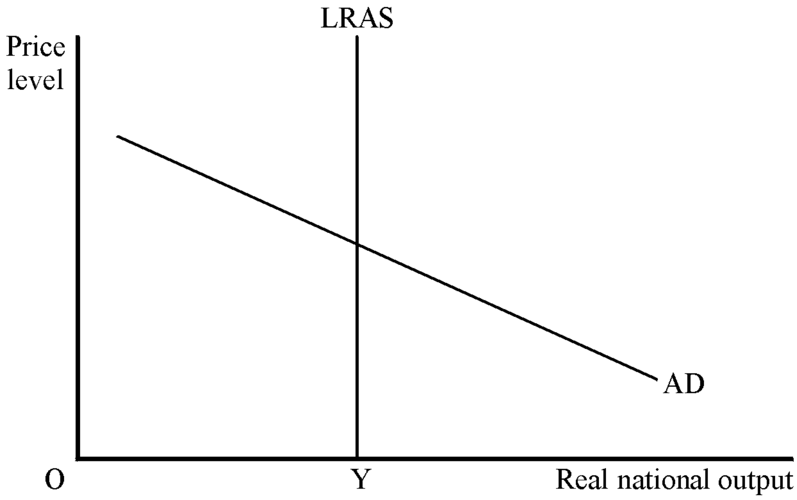
**B** Consumption.

**C** Productivity.

**D** Investment.

**TURN OVER FOR THE NEXT QUESTION**

**9** The diagram below shows a long run aggregate supply curve and an aggregate demand curve.




At the real national output of OY

**A** the economy is on its production possibility frontier.

**B** the rate of inflation is increasing in the long run.

**C** the standard of living is improving.

**D** the underlying trend rate of growth is rising.

**10** A decrease in the rate of interest is most likely to lead to a rise in

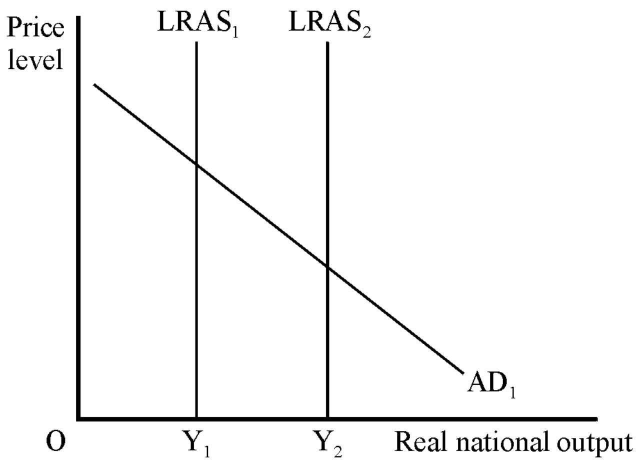
**A** savings.

**B** consumption.

**C** rates of taxation.

**D** the rate of unemployment.

**11** The diagram below shows an aggregate demand curve and long run aggregate supply curves for an economy.




The economy is in equilibrium at $Y_1$. In order to move the economy to $Y_2$ using supply-side policies, a government should increase

**A** the power of trade unions.

**B** the money supply.

**C** expenditure on education and training.

**D** the level of taxation on business.

**12** 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.

**13** 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.

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

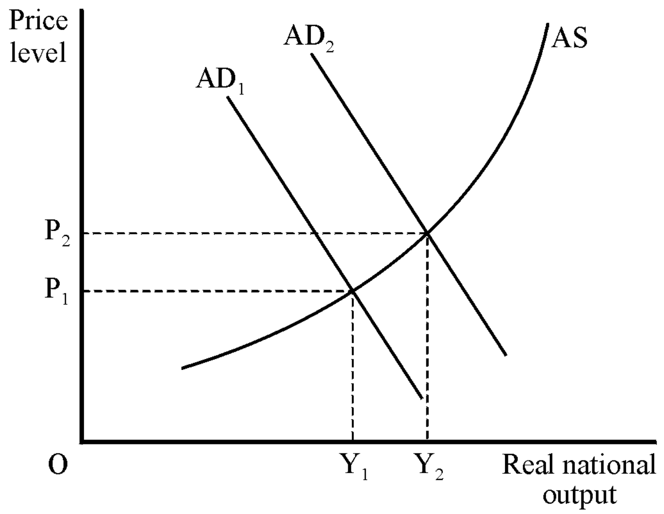
**A** A decrease in wage rates.

**B** A decrease in government spending.

**C** An increase in taxation.

**D** An increase in investment expenditure.

**15** The diagram below shows the aggregate demand and supply curves for an economy.




The shift of the aggregate demand curve from $AD_1$ to $AD_2$ could be explained by an increase in

**A** exports.

**B** savings.

**C** the exchange rate.

**D** rates of taxation.

**16** Which one of the following is likely to decrease the level of aggregate demand?

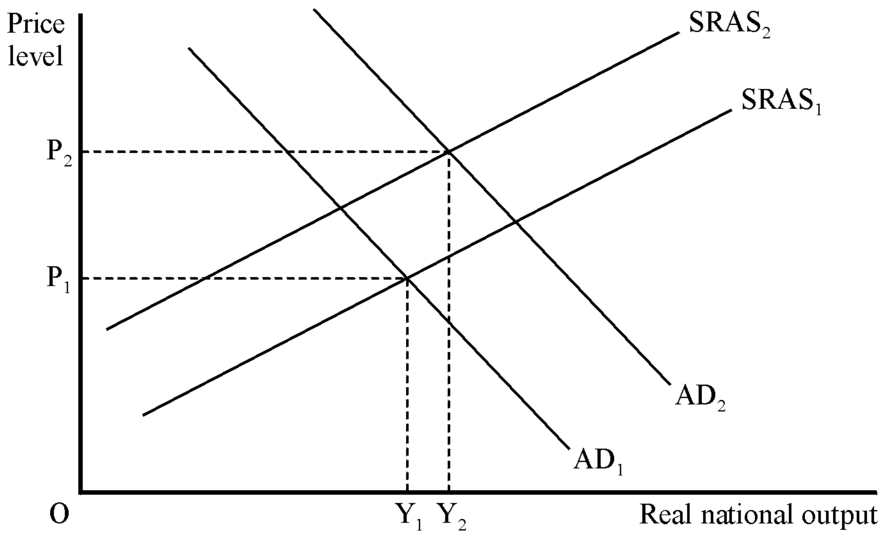
**A** A decrease in the level of unemployment.

**B** An increase in the state retirement pension.

**C** A growing current account deficit.

**D** An increase in government spending on road building.

**17** The diagram below shows an economy initially in equilibrium producing an output of $Y_1$ at a price level of $P_1$.




Which of the following is most likely to have increased the equilibrium level of output to $Y_2$ and the price level to $P_2$?

**A** An increase in interest rates and a rise in money wages.

**B** A fall in interest rates and a rise in money wages.

**C** An increase in interest rates and a fall in money wages.

**D** A fall in interest rates and a fall in money wages.

**18** Which one of the following is an example of monetary policy?  An increase in

**A** the rate of inflation.

**B** the rate of interest.

**C** government expenditure.

**D** the balance of trade deficit.

**19** Which one of the following would be an example of a tightening of fiscal policy?

**A** A rise in the exchange rate.

**B** A fall in the rate of inflation.

**C** A rise in interest rates.

**D** A fall in the government budget deficit.

**20** Expansionary monetary policy is most likely to

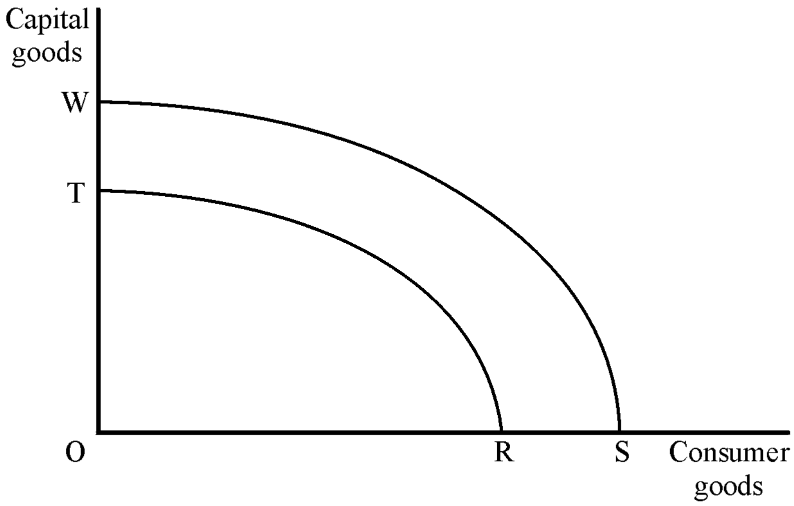
**A** shift the long run aggregate supply curve to the left.

**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.

**21** The diagram below shows the production possibility boundary for the UK economy.




The shift of the production possibility boundary from TR to WS could have occurred because

**A** education has improved the skills of UK workers.

**B** more workers are retiring early.

**C** production has switched from capital goods to consumer goods.

**D** the number of unemployed resources has fallen.

**22** In the short run an increase in a budget deficit is most likely to reduce

**A** imports.

**B** unemployment.

**C** interest rates.

**D** inflation.

**23** The UK Government's Spending Review of July 2000 forecast a budget deficit in 2003/2004 compared to a budget balance in 2001/2002. Which of the following would bring about this change?

**A** A decrease in public spending and an increase in tax revenue.

**B** A decrease in public spending and no change in tax revenue.

**C** An increase in public spending and a decrease in tax revenue.

**D** No change in public spending and an increase in tax revenue.

**24** An increase in interest rates when the exchange rate is rising is most likely to lead to an increase in

**A** unemployment levels.

**B** aggregate supply.

**C** the current account surplus.

**D** economic growth.

**25** A fall in the exchange rate is most likely to lead to

**A** a rise in the price of exports.

**B** a fall in the price of imports.

**C** higher demand for exports.

**D** higher demand for imports.

**QUESTION 25 WAS THE LAST QUESTION ON THE PAPER**

**ON THE ANSWER SHEET IGNORE ROWS 26 TO 50**

**END OF TEST**