Surname		Other Names							
Centre Number						Candidate Number			
Candidate Signature									

General Certificate of Education
June 2003
Advanced Subsidiary Examination

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

Friday 6 June 2003 Morning 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.
- 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 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.
- 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 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 firms to increase the amount of investment they undertake?

- **A** A fall in company taxation.
- **B** A fall in business confidence.
- **C** A fall in the rate of business innovation.
- **D** An increase in the cost of borrowing.

2 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.

3 If an economy is operating at full capacity, an increase in aggregate demand usually leads to an increase in inflation because it is likely that

- **A** the exchange rate will appreciate.
- **B** government tax revenues will increase.
- **C** the rate of increase in money wages will rise.
- **D** interest rates will fall.

4 The following table gives index numbers for a measure of UK money national income, 1996-2000.

Year	**Gross Domestic Product (GDP) (1995 = 100)**
1996	106.0
1997	112.8
1998	119.6
1999	125.3
2000	131.2

Source: ONS, Economic Trends, October 2001

From the data it can be concluded that in the period 1996-2000 there must have been an increase in

A aggregate demand.

B the size of the labour force.

C the rate of inflation.

D the balance of trade deficit.

5 Other things being equal, the aggregate demand curve is most likely to shift rightward following

A a rightward shift of aggregate supply.

B an increase in the price level.

C a fall in the proportion of income saved.

D a fall in government spending.

6 Macro-economic disequilibrium exists when

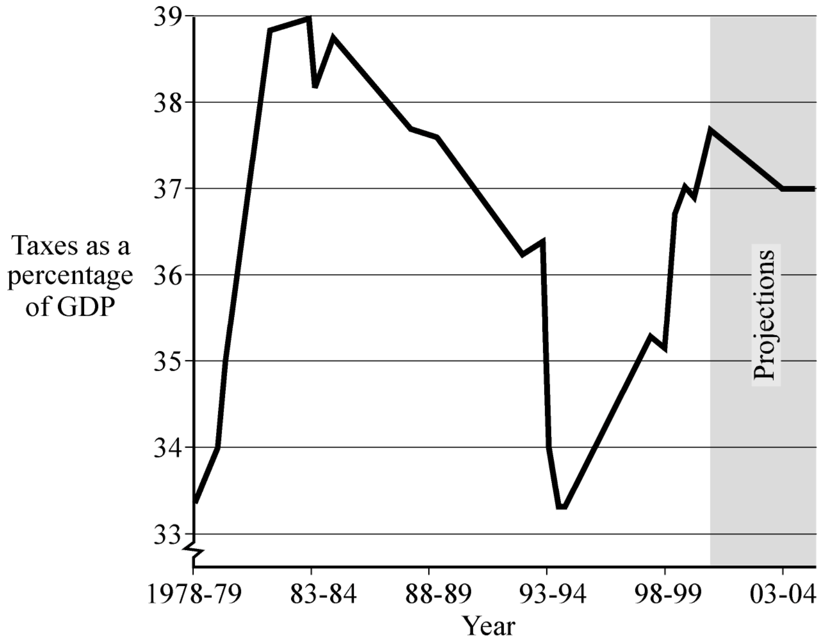
A aggregate saving is not equal to aggregate investment.

B aggregate supply is not equal to aggregate demand.

C aggregate exports are not equal to aggregate imports.

D government expenditure is not equal to tax revenue.

7 The graph below shows taxes as a proportion of GDP for the UK economy 1978/79 to 2003/04 (projected).



Source: adapted from the Budget Statement 2001

It can be concluded from the graph that

A GDP rose from 1978/79 to 1983/84.

B total tax revenue fell from 1983/84 to 1993/94.

C the government budget deficit was projected to rise between 2000/01 and 2002/03 before stabilising in 2003/04.

D taxes relative to national income were projected to be higher in 2003/04 than they were in 1978/79.

8 "Since the sharp appreciation of sterling in 1996, UK export volumes have tended to grow more slowly." (*Bank of England Inflation Report*, August 2000)

Which of the following might help to explain the slow growth in export volumes following an appreciation in the sterling exchange rate? The rise in the exchange rate increases

A the average costs of domestic manufacturing companies.

B the average foreign currency price of UK exports.

C the demand for UK products in the home market, and so fewer goods are exported.

D inflation and makes UK products less competitive.

9 Which one of the following changes in fiscal policy is most likely to explain a rightward shift of an economy's aggregate demand curve?

A A reduction in capital expenditure by government.

B An increase in the rate of Value Added Tax.

C A reduction in the level of welfare benefits.

D A reduction in the rate of income tax.

10 The Bank of England can reduce inflationary pressure in the economy if an increase in interest rates leads to a decrease in

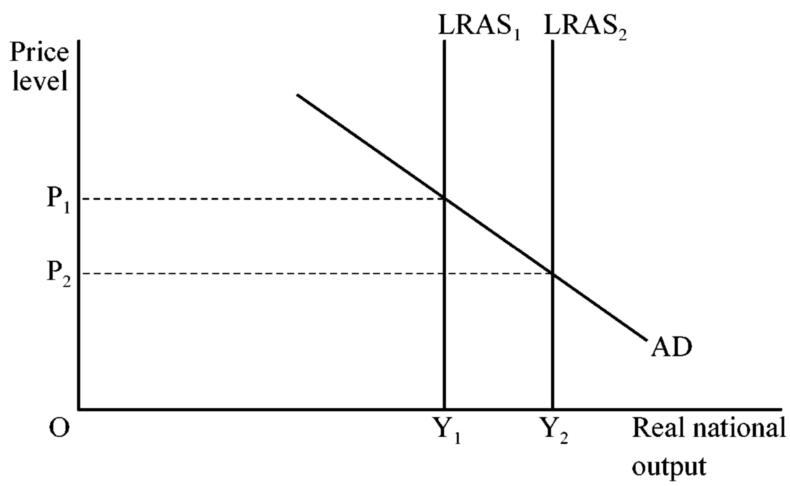
A savings.

B the exchange rate.

C consumer borrowing.

D unemployment.

11 The diagram below shows an economy that is initially in long run equilibrium producing an output of Y_1 at a price level of P_1.



Which of the following is most likely to move the economy to a new equilibrium output of Y_2 and price level of P_2?

A An increase in consumer spending.

B A fall in the exchange rate.

C A rise in interest rates.

D An increase in the capital stock.

12 Which one of the following is most likely to lead to an increase in an economy's underlying trend rate of growth?

A A supply-side policy.

B An expansionary monetary policy.

C An expansionary fiscal policy.

D A depreciation of the currency.

13 Other things remaining constant, aggregate consumer expenditure is most likely to increase if there is

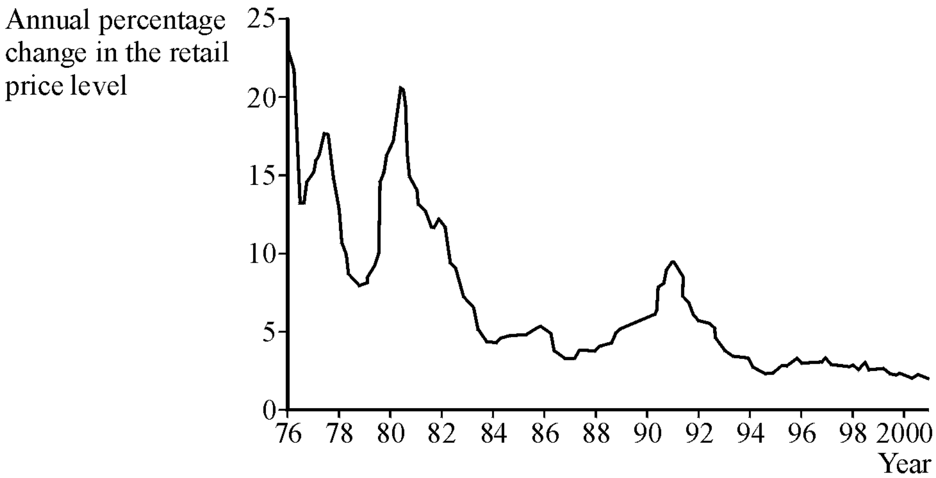
A an increase in taxation.

B a decrease in the rate of interest.

C an increase in savings.

D a decrease in the exchange rate.

14 The graph below shows the annual percentage change in the average level of retail prices between 1976 and 2000.



Source: ONS, Economic Update, March 2001

From the graph above it may be concluded that, over the period in question,

A average prices fell in some years and rose in others.

B prices were at their highest level in 1976.

C prices remained constant from 1994 onwards.

D the price level increased at different rates in different years.

15 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.

QUESTION 15 WAS THE LAST QUESTION IN THE PAPER

ON YOUR ANSWER SHEET IGNORE ROWS 16 TO 50

END OF TEST