

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

General Certificate of Education
June 2004
Advanced Subsidiary Examination



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

Monday 14 June 2004 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 Unemployment is most likely to occur because

- A there is excess demand in the economy.
- B GDP is higher than that suggested by the underlying trend rate of growth.
- C the long run aggregate supply has shifted to the right.
- D aggregate demand is less than aggregate supply.

2 The table below shows index numbers for labour productivity, GDP per hour worked (UK=100).

Year	UK	France	Germany	Japan	USA
1991	100	144	123	97	140
1995	100	138	131	99	132
1999	100	124	123	94	128

Source: ONS Economic Trends, 2002

From the figures it can be concluded that

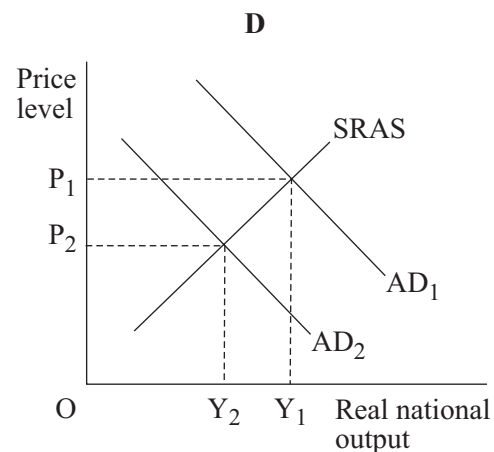
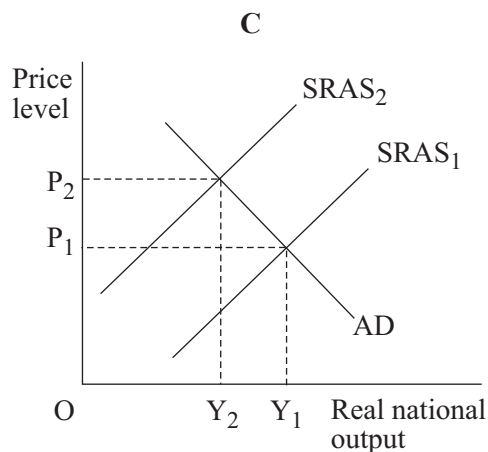
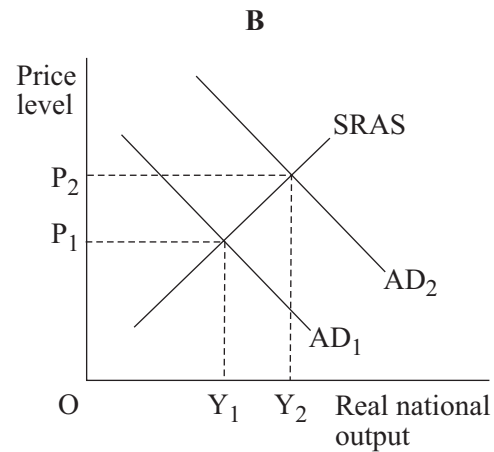
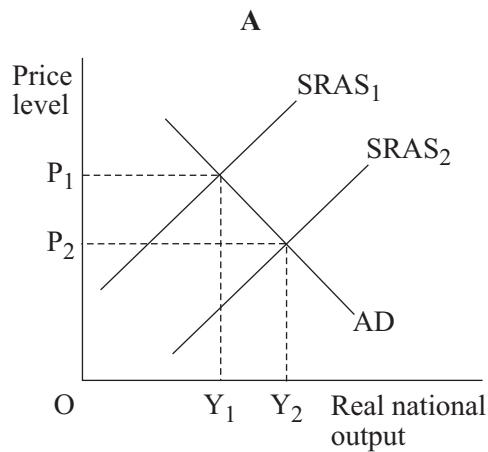
- A levels of labour productivity remained constant in the UK between 1991 and 1999.
- B labour productivity fell in the USA between 1991 and 1999.
- C Japan had the lowest level of labour productivity in all three years.
- D labour productivity was highest in France in all three years.

- 3 “Close to £20 billion is expected to be spent using credit and debit cards by the end of December, up 10% on last year.” (*Daily Mail*, 27 December 2001)

The most likely consequence of this increase in spending is a rise in

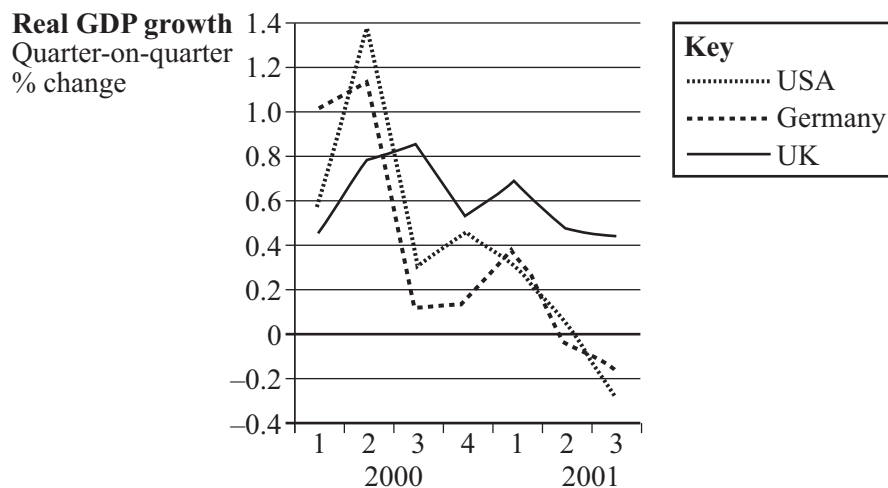
- A imports.
- B unemployment.
- C household savings.
- D exports.

- 4 Which of the following diagrams represents the short run effect on the economy of a rise in the price of imported raw materials and semi-finished goods?



Turn over ►

- 5 Monetary policy used to reduce the rate of inflation involves increasing
- A interest rates.
 - B the money supply.
 - C taxes.
 - D government spending.
- 6 Which one of the following statements about saving is correct?
- A Saving is a component of aggregate demand.
 - B Saving can finance investment expenditure.
 - C In the short run, less household saving means less consumption.
 - D Increased saving increases demand-pull inflationary pressure.
- 7 The diagram below shows quarterly real GDP growth for three countries, the USA, Germany and the UK, covering the period from the first quarter of 2000 to the third quarter of 2001.



Source: *Financial Times*, 21 December 2001

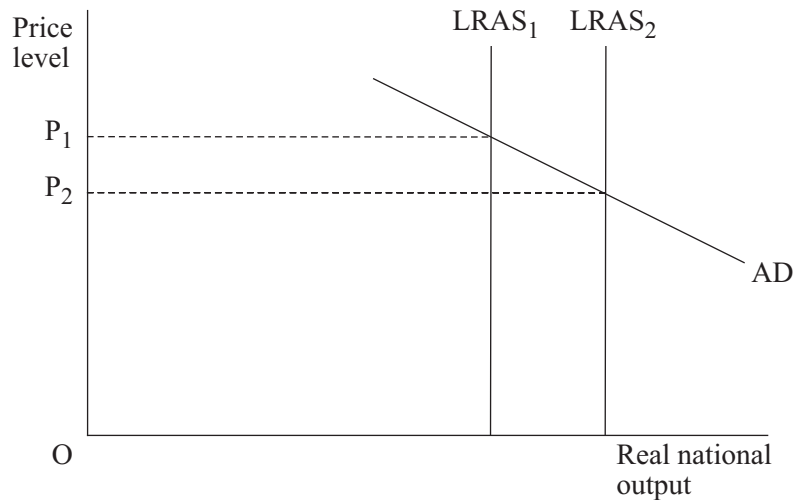
Which of the following can be inferred from the data?

- A Germany's GDP was lower at the end of the period than at the beginning.
- B The USA had the highest average rate of economic growth over the whole period.
- C The UK grew at approximately its long run trend rate growth of 2.25 per cent per year over the period.
- D Prices in both Germany and the USA fell from the first quarter of 2001 to the end of the period.

- 8 According to the UK government definition, the economy is said to be in recession when
- A employment in manufacturing declines.
 - B the balance of payments on current account moves into deficit.
 - C economic growth falls below the underlying trend rate.
 - D real output falls for two successive quarters or more.
- 9 “The pound had another bad day on the foreign exchange market yesterday when it fell to its lowest value against the dollar for two years. Currency dealers expect the pound to decline further against the other major international currencies before it reaches a new stable level.”
- Which of the following is most likely to result from the fall in the value of the pound described in the above extract?
- A The price of imports will fall.
 - B UK exports will become more competitive.
 - C The rate of inflation will decrease.
 - D The Bank of England will reduce the rate of interest.
- 10 The household savings ratio measures household saving as a proportion of
- A household consumption.
 - B household investment.
 - C household disposable income.
 - D the number of households.
- 11 The short run aggregate supply curve is drawn on the assumption that
- A the prices of factors of production are constant.
 - B investment in the economy is constant.
 - C the money supply is constant.
 - D consumption expenditure by households is constant.

Turn over ►

- 12 The diagram below shows the aggregate demand and long run aggregate supply curves for an economy.



The shift in the long run aggregate supply curve from $LRAS_1$ to $LRAS_2$ is most likely to have resulted from

- A an increase in the natural rate of unemployment.
- B investment in human capital.
- C a fall in the price level.
- D an increase in the money supply.
- 13 The government increases its spending. At the same time, the Bank of England reduces interest rates. All other things being equal, the most likely outcome is that
- A aggregate demand will rise but inflation will fall.
- B aggregate supply will rise but economic growth will fall.
- C unemployment will rise but the current account on the balance of payments will deteriorate.
- D inflation will rise but unemployment will fall.
- 14 A multiplier effect occurs when an initial change in government expenditure leads to a larger change in the level of
- A investment.
- B national income.
- C prices.
- D taxation.

- 15** Which one of the following measures of fiscal policy would be most likely to increase aggregate demand?
- A** Reducing welfare payments and leaving taxation unchanged.
 - B** Increasing indirect taxes and reducing direct taxes on higher income levels to maintain the same revenue.
 - C** Increasing state retirement pensions and leaving taxation unchanged.
 - D** Reducing government spending and increasing taxation by equal amounts.

**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

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Part 2 Data Response: The National Economy

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Enclosed

- Question Papers for Unit 2 Part 1 (ECN2/1) **and** Unit 2 Part 2 (ECN2/2)
(Part 2 is an insert to Part 1)

To be provided by the Invigilator

- One objective test answer sheet per candidate for Unit 2 Part 1 (ECN2/1)
- One 8-page answer book per candidate for Unit 2 Part 2 (ECN2/2)

To be provided by the candidate

- A black ball-point pen

Information

- Candidates may use a calculator.

5 copies of ECN2/1



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