General Certificate of Education
January 2007
Advanced Subsidiary Examination

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

Thursday 18 January 2007 9.00 am to 10.00 am

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 An increase in aggregate demand is most likely to cause inflation when

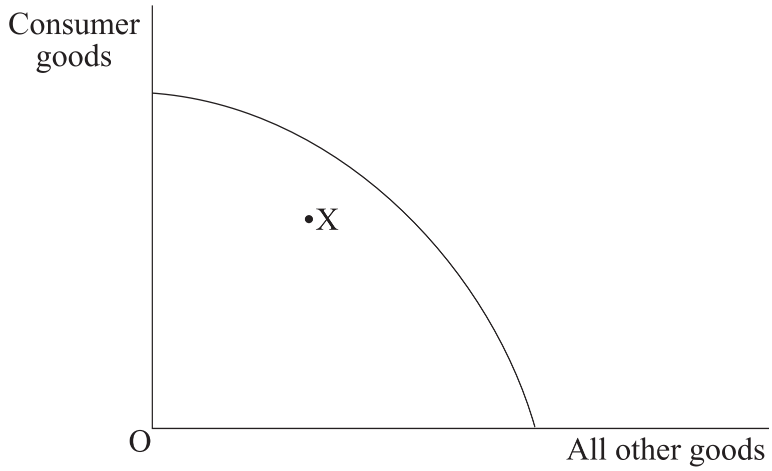
A there are substantial unemployed resources in the economy.

B the government is balancing its budget.

C the balance of payments on current account is neither in deficit nor in surplus.

D the growth rate of GDP is above its long term trend rate.

2 The diagram below shows a production possibility frontier for an economy.



If the economy is operating at point X on the diagram, this must indicate that

A spare capacity exists.

B there is inflationary pressure.

C the current account is in deficit.

D GDP is falling.

3 The underlying long term trend rate of economic growth can be defined as the

A highest rate of economic growth achieved in the long term by an economy.

B average rate of economic growth in a boom period.

C rate of economic growth that can be maintained in the long term.

D rate of economic growth achieved for a period of more than two quarters.

4 The table below shows index numbers for GNP per head for two countries, X and Y, in 2000 and 2006.

	GNP per head	
	2000	**2006**
Country X	100	120
Country Y	100	110

From the above information we can conclude that

A GNP rose faster in Country X than in Country Y.

B GNP was the same in Country X and Country Y in 2000.

C GNP per head was, in 2006, higher in Country X than in Country Y.

D the rate of increase of GNP per head was higher in Country X than in Country Y.

5 All other things being equal, an increase in welfare benefits might lead to an increase in

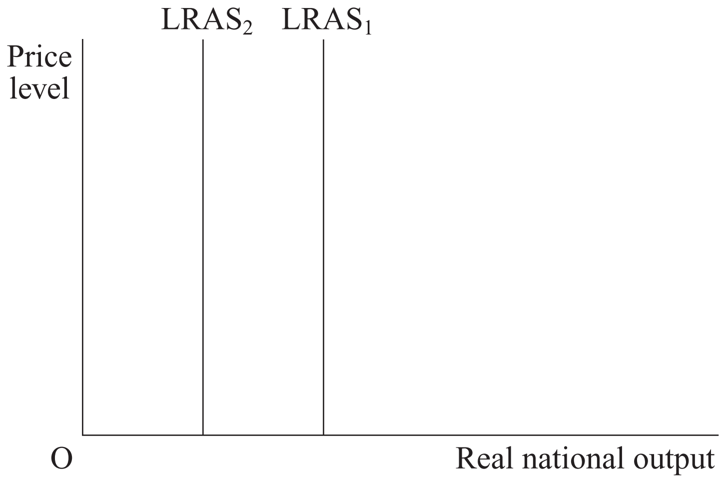
A exports.

B a government budget surplus.

C imports.

D a balance of payments surplus on current account.

6 The diagram below shows a shift in the long run aggregate supply curve for an economy from $LRAS_1$ to $LRAS_2$.



The shift in the long run aggregate supply curve is most likely to have been caused by a fall in

A the growth of labour productivity.

B income tax rates.

C the capital stock.

D interest rates.

7 As a component of aggregate demand, consumption is best defined as planned expenditure

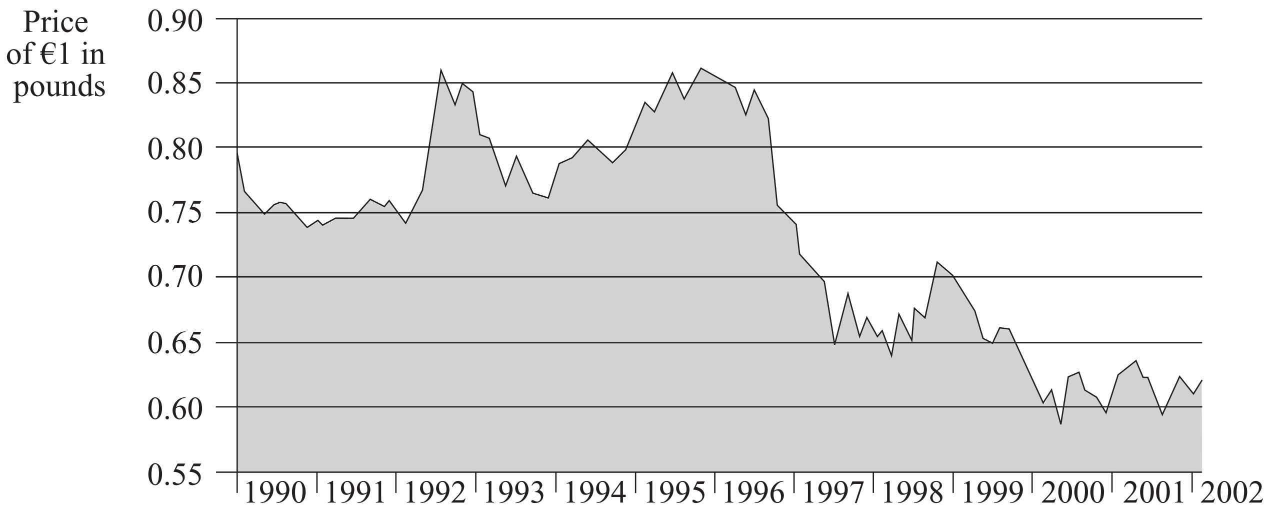
A by households on goods and services.

B in the economy on all goods and services.

C in the economy minus expenditure on exports.

D by the private sector on goods and services.

8 The chart below shows how the value of the euro has changed against the pound between 1990 and 2002.



Source: adapted from *The Independent*, 14 January 2002

For the period 1990 to 2001, the value of the euro has been calculated as an average of the individual currencies of the countries which introduced the euro in 2002. The Eurozone is the group of countries which introduced the euro into their economies in 2002.

Which one of the following can be concluded from the data?

A A business in the Eurozone could get more pounds for 1 euro in 2002 than in 1990.

B The price of Eurozone imports of UK goods was likely to have been lower in 2002 than in 1990.

C The value of the pound was approximately 26% lower against the euro in 2002 than in 1990.

D Over the period shown, the value of the euro against the pound was lowest in 2000.

9 On an aggregate demand/aggregate supply diagram, cost-push inflation results from a shift of the

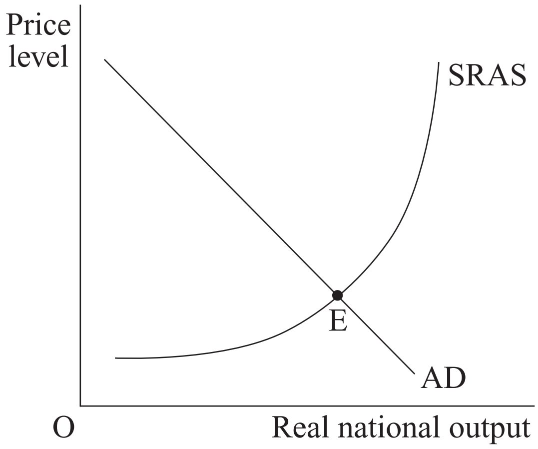
A aggregate demand curve to the left.

B short run aggregate supply curve to the left.

C long run aggregate supply curve to the right.

D short run aggregate supply curve to the right.

10 The diagram below shows an economy in equilibrium at point E.



Which one of the following would be likely to lead to a new equilibrium position, with a fall in the price level?

A A fall in exports

B An increase in government spending

C A fall in productivity

D An increase in wage rates

11 All other things being equal, a fall in the exchange rate will stimulate aggregate demand through a fall in the

A price of exports.

B rate of inflation.

C price of imports.

D current account surplus.

12 A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to

A lower interest rates.

B increase the size of the budget deficit.

C increase interest rates.

D encourage a depreciation of the exchange rate.

13 The following table gives index numbers for a measure of an economy's money national income, 2002–2006.

Year	**Gross Domestic Product (GDP)**
2002	100
2003	98
2004	95
2005	92
2006	88

From the data it can be concluded that in the period 2002–2006 there must have been a fall in

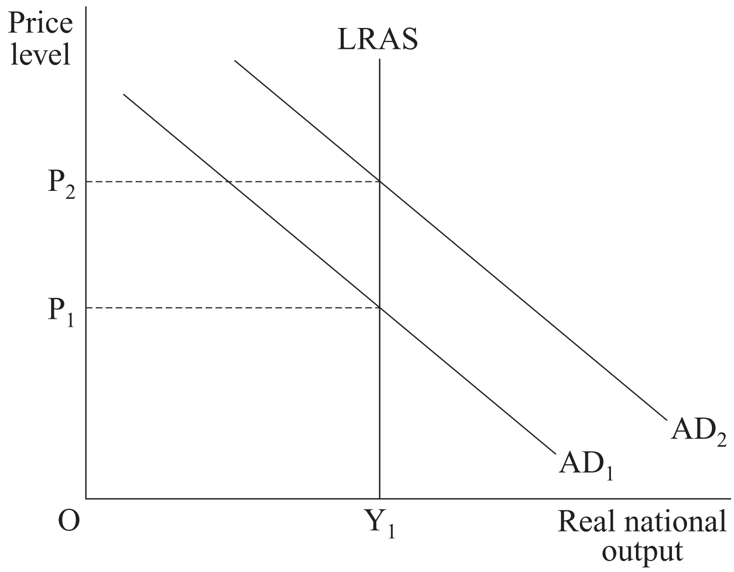
A aggregate demand.

B the size of the labour force.

C the rate of inflation.

D the government's budget deficit.

14 The diagram below shows two aggregate demand curves and the long run aggregate supply curve for an economy.



The movement of the aggregate demand curve from AD_1 to AD_2 could result from an increase in

A demand for imports.

B the price level.

C the underlying trend rate of economic growth.

D one of the components of aggregate demand.

Turn over ▶

15 All other things being equal, which one of the following is most likely to lead to an increase in the size of the UK's current account deficit on the balance of payments?

A A fall in the exchange rate

B A reduction in consumer spending

C A reduction in income tax rates

D A fall in the rate of inflation

QUESTION 15 IS THE LAST QUESTION IN THE PAPER

On your answer sheet ignore rows 16 to 50

END OF TEST

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