General Certificate of Education
June 2007
Advanced Subsidiary Examination

AQA

ASSESSMENT and
QUALIFICATIONS
ALLIANCE

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

Friday 8 June 2007   1.30 pm to 2.30 pm

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.

                                                 ECN2/1

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   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

2   The production possibility diagram below shows an economy operating on its boundary producing the combination of consumption and capital goods shown at point **Y**.
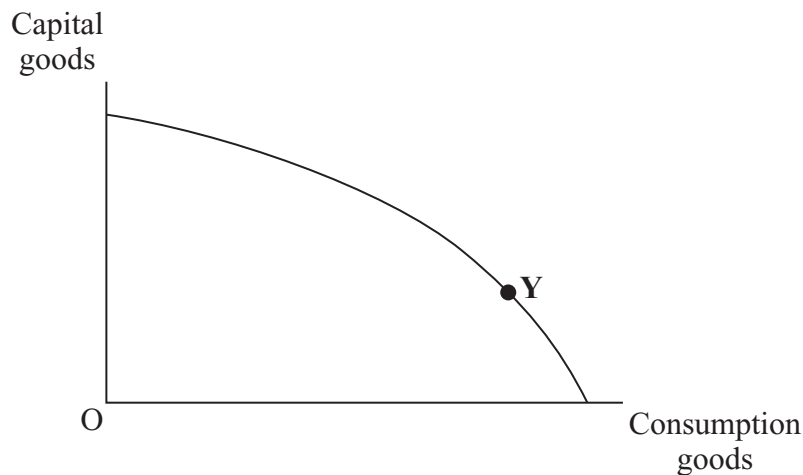

With no change in the position of the production possibility boundary, there is now an increase in the production of capital goods. Which one of the following, **A**, **B**, **C** or **D**, is most likely to happen because of this change?

	Short-term change in consumption goods	Long-term change in consumption goods
A	increase	increase
B	increase	fall
C	fall	fall
D	fall	increase

3 If the rate of growth of aggregate demand is less than the economy's underlying trend rate of growth, this will eventually lead to

    A   a reduction in aggregate supply.

    B   an output gap.

    C   a balance of trade deficit.

    D   an increase in inflation.

4 The current account on the balance of payments

    A   is always in deficit when imports are less than exports.

    B   includes trade in goods and services.

    C   goes into surplus whenever investment income rises.

    D   is in deficit when the government is forced to borrow money.

5 Foreign companies build new factories in a country to take advantage of cheap labour and cheap land. All other things being equal, the result of this investment for that country's economy would be

    A   a movement along both its aggregate demand curve and long run aggregate supply curve.

    B   a movement along its aggregate demand curve and a shift in its long run aggregate supply curve.

    C   a shift in its aggregate demand curve and a movement along its long run aggregate supply curve.

    D   a shift in both its aggregate demand curve and long run aggregate supply curve.

6 Demand-pull inflation is most likely to be caused by

    A   total spending exceeding productive capacity.

    B   an increase in output.

    C   a rise in raw material prices.

    D   a rise in interest rates.

7 All other things being equal, which one of the following will cause an aggregate demand curve to shift to the left? A decrease in

A unemployment

B productivity

C exports

D interest rates

8 The diagram below shows the aggregate demand curve and two short run aggregate supply curves for an economy.
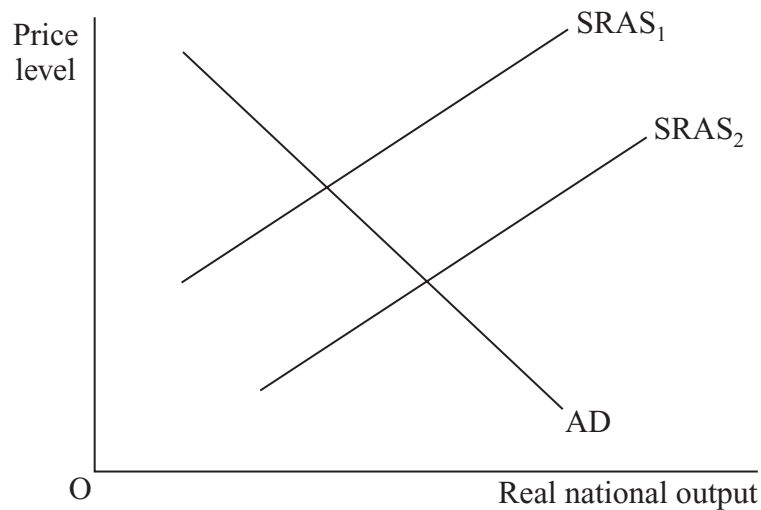
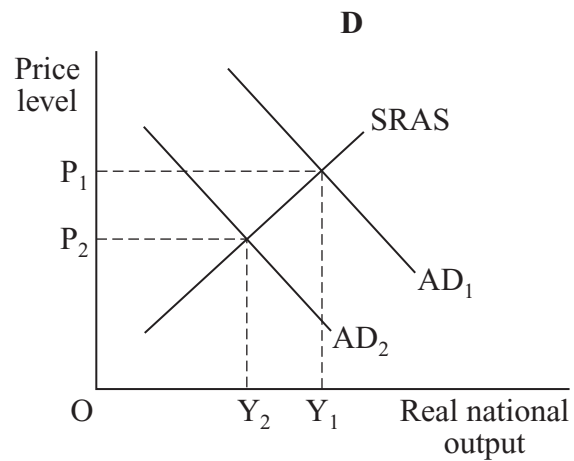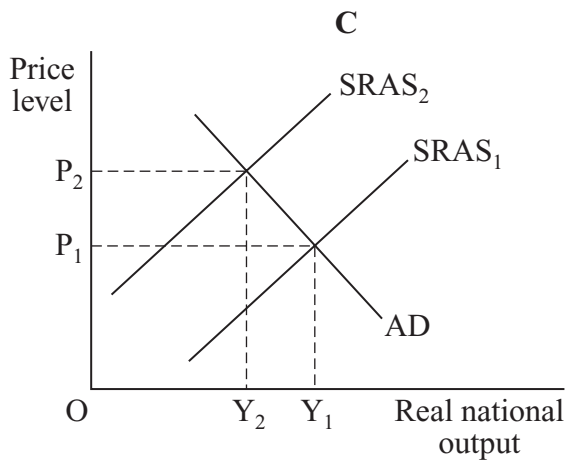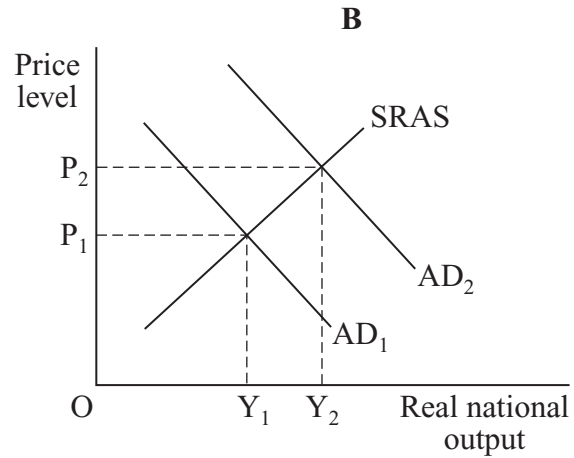The shift of the short run aggregate supply curve from $SRAS_1$ to $SRAS_2$ can be explained by a fall in
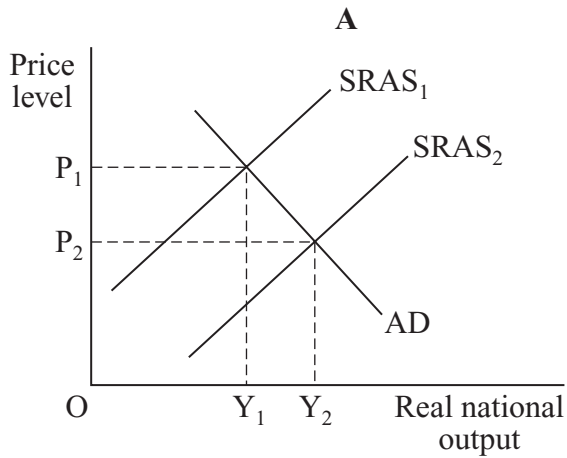
A prices.

B productivity.

C the trend rate of growth.

D the world price of oil.

9 All other things being equal, which one of the following is most likely to lead to an increase in imports? A fall in

    A   the exchange rate

    B   national income

    C   government expenditure

    D   the savings ratio

10 Which one of the following is most likely to increase the rate of investment in an economy?

    A   A decrease in the rate of change of income

    B   A decrease in the tax on firms' profits

    C   An increase in the price of capital goods

    D   An increase in the rate of interest

11 Supply-side policies are generally understood to be policies which

    A   improve productivity and reduce market imperfections.

    B   enable the government to supply as many goods and services as possible.

    C   reduce the supply of labour in order to minimise the problem of unemployment.

    D   reduce inflation by controlling interest rates.

Turn over for the next question

12 Which one of the following diagrams, **A**, **B**, **C** or **D**, represents the short run effect on the economy of a rise in the price of imported raw materials and semi-finished goods?

A

Price level

P$_1$

P$_2$

SRAS$_1$

SRAS$_2$

AD

O   Y$_1$ Y$_2$ Real national output

B

Price level

P$_2$

P$_1$

SRAS

AD$_2$

AD$_1$

O   Y$_1$ Y$_2$ Real national output

C

Price level

P$_2$

P$_1$

SRAS$_2$

SRAS$_1$

AD

O   Y$_2$ Y$_1$ Real national output

D

Price level

P$_1$

P$_2$

SRAS

AD$_1$

AD$_2$

O   Y$_2$ Y$_1$ Real national output

13 The rate of inflation is measured by

A taking the difference between this year's prices and last year's prices.

B calculating the percentage change in prices between two time periods.

C the level of the RPI (Retail Price Index).

D changes in the relative prices of goods and services.

14   The table below shows selected indicators for an economy in 2000 and 2006.

	% change in real GDP	% change in prices	% change in earnings	Unemployment rate (%)
2000	2.1	2.3	4.7	4.2
2006	3.0	2.1	4.6	3.6

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

A   The price level fell between 2000 and 2006.

B   Economic growth was accompanied by a falling unemployment rate.

C   A fall in the rate of unemployment was accompanied by a rise in the rate of inflation.

D   The level of earnings fell by 0.1% between 2000 and 2006.

15   The government reduces its spending. At the same time, the Bank of England increases interest rates. All other things being equal, the most likely outcome is that

A   aggregate demand will fall but inflation will rise.

B   aggregate supply will fall but economic growth will rise.

C   unemployment will fall but the current account on the balance of payments will improve.

D   inflation will fall but unemployment will rise.

**QUESTION 15 IS 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