

General Certificate of Education  
June 2008  
Advanced Subsidiary Examination



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

Wednesday 4 June 2008 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.

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**OBJECTIVE TEST QUESTIONS**

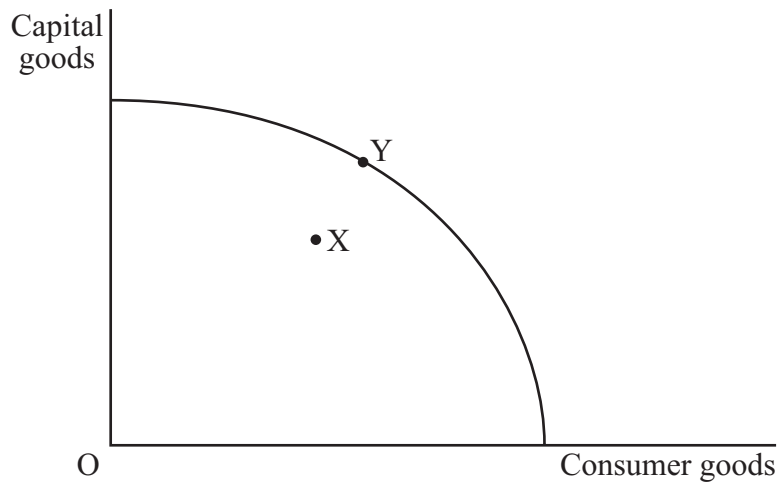
You are advised to spend no more than 15 minutes on these questions.

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.

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- 1** Which one of the following is most likely to lead to an increase in the underlying rate of inflation?
  - A** An increase in the exchange rate
  - B** A fall in the balance of payments surplus
  - C** A rise in the budget surplus
  - D** A fall in interest rates
  
- 2** In the short term, contractionary fiscal policy is most likely to cause
  - A** a deterioration in the current account on the balance of payments.
  - B** a rise in unemployment.
  - C** a fall in export volumes.
  - D** an increase in the rate of inflation.
  
- 3** An economy is most likely to be in the boom phase of the trade cycle when there is a rise in
  - A** business pessimism.
  - B** the savings ratio.
  - C** spare capacity.
  - D** the demand for imports.

- 4 The diagram below shows an economy operating within its production possibility boundary at point X.

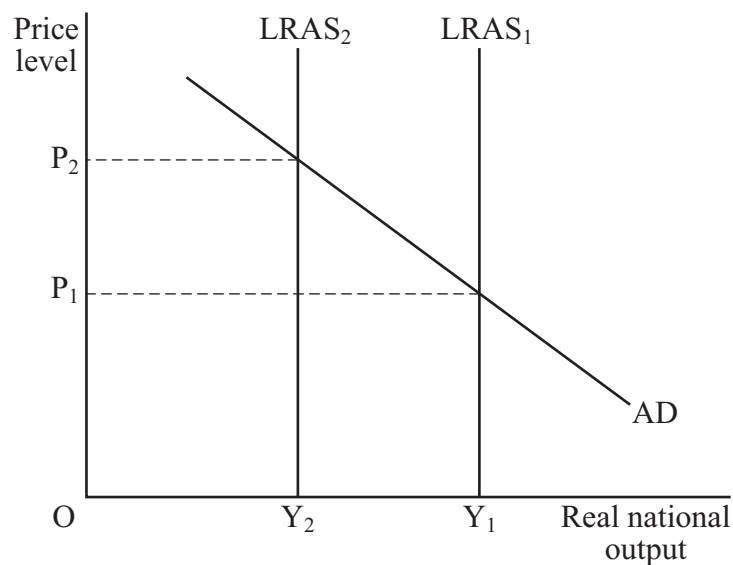


Which one of the following is most likely to move the economy to point Y on its production possibility boundary?

- A An increase in inflation
  - B An increase in the exchange rate
  - C A reduction in income tax
  - D An improvement in technology
- 5 Aggregate demand may fall as a result of a decrease in
- A the government's budget deficit.
  - B the government's budget surplus.
  - C savings relative to investment.
  - D imports.
- 6 Which one of the following is a fundamental determinant of long run aggregate supply?
- A The multiplier
  - B The output gap
  - C Real national output
  - D The institutional structure of the economy

Turn over ►

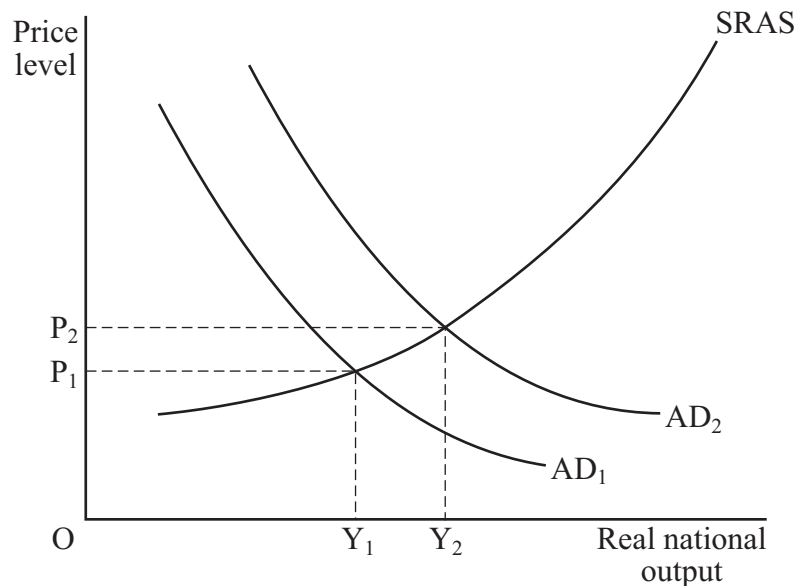
- 7 The multiplier effect of an increase in investment in an economy is
- A an increase in productive capacity.
  - B a larger increase in national income than that in investment.
  - C an increase in the underlying trend rate of growth.
  - D the movement of the economy from recession to boom.
- 8 The diagram below shows the aggregate demand curve and two long run aggregate supply curves for an economy.



The change in real national output from  $Y_1$  to  $Y_2$  implies that the economy

- A is operating within its production possibility boundary.
- B has a falling level of unemployment.
- C has a negative rate of economic growth.
- D is experiencing a low rate of productivity growth.

- 9 In 2007, an economy's nominal national income grew by 8%, the price level rose by 5% and the population grew by 1%. From this information, it can be concluded that real national income per head grew by
- A exactly 3%.
  - B more than 3%.
  - C less than 3%.
  - D 4%.
- 10 The diagram below shows the short run aggregate supply curve and two aggregate demand curves for an economy.



The change in real national output from  $Y_1$  to  $Y_2$  could have been caused by an increase in

- A inflation.
- B interest rates.
- C the rate of taxation.
- D the money supply.

Turn over ►

- 11 The table below shows the expenditure components of gross domestic product (GDP) in Year 1 and Year 2 (£ billion at constant prices).

Year	Government and private consumption expenditure	Government and private investment expenditure	Exports	Imports
1	100	20	30	40
2	110	25	35	45

Between Year 1 and Year 2, the level of aggregate demand increased by

- A £10 billion.
  - B £15 billion.
  - C £20 billion.
  - D £25 billion.
- 12 Which one of the following is most likely to be an example of a supply-side policy?
- A A reduction in the rate of interest to reduce inflation
  - B An increase in government expenditure on state pensions
  - C A reduction in company taxes to encourage greater investment
  - D A rise in the exchange rate to increase exports
- 13 A country experiences both unemployment and persistent surpluses in the balance of payments. Which one of the following is most likely both to increase employment and to reduce a balance of payments surplus?
- A Increasing interest rates
  - B Increasing government expenditure
  - C Increasing the government's budget surplus
  - D Revaluing the currency

- 14 All other things being equal, which one of the following would be the most likely consequence of an appreciation in the external value of a currency? An increase in
- A the domestic price level
  - B the volume of exports
  - C employment in the domestic economy
  - D the volume of imports
- 15 All other things being equal, in the short run which one of the following is most likely to lead to a rise in national income?
- A A rise in interest rates and a rise in the exchange rate
  - B A fall in interest rates and a fall in the exchange rate
  - C A rise in interest rates and a fall in the exchange rate
  - D A fall in interest rates and a rise in the exchange rate

**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**