

General Certificate of Education
January 2005
Advanced Subsidiary Examination



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

Tuesday 18 January 2005 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.
- 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

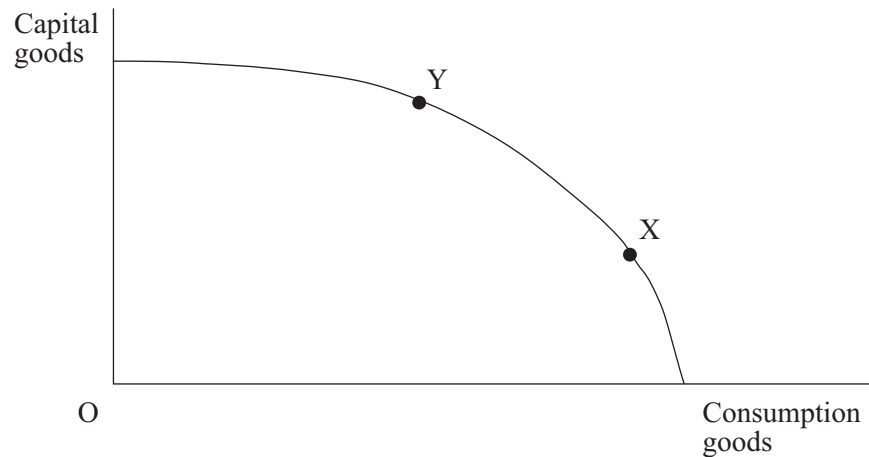
- You are advised to spend no more than 15 minutes on paper ECN2/1.
- Do not spend too long on any question. If you have time at the end, go back and answer any question you missed out.

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 The diagram below shows an economy operating on its production possibility frontier.



The movement from point X to point Y represents an increase in

- A growth.
 - B employment.
 - C investment.
 - D productivity.
- 2 As a component of aggregate demand, consumption is best defined as total expenditure in the economy
- A by households on all goods and services.
 - B on all goods and services including imports.
 - C on all goods and services minus expenditure on exports.
 - D by households, government and firms plus expenditure on exports less expenditure on imports.

3 An increase in imports of consumer goods is most likely to be caused by a

- A rise in household saving.
- B rise in household income.
- C fall in the exchange rate.
- D fall in employment.

4 The table below shows the rate of real economic growth (% year on year), the Retail Price Index (RPI) level (January 1987 = 100) and the unemployment rate (%), for the period fourth quarter 1999 to third quarter 2001.

Year	Quarter	Real GDP (% change, year on year)	RPI (Jan 1987 = 100)	Unemployment rate (%)
1999	Q4	2.7	166.8	4.0
2000	Q1	3.0	167.5	3.8
2000	Q2	3.3	170.6	3.7
2000	Q3	2.8	170.9	3.5
2000	Q4	2.4	172.0	3.4
2001	Q1	2.7	171.8	3.3
2001	Q2	2.3	173.9	3.2
2001	Q3	2.2	174.0	3.1

Source: adapted from ONS, *Economic Trends*

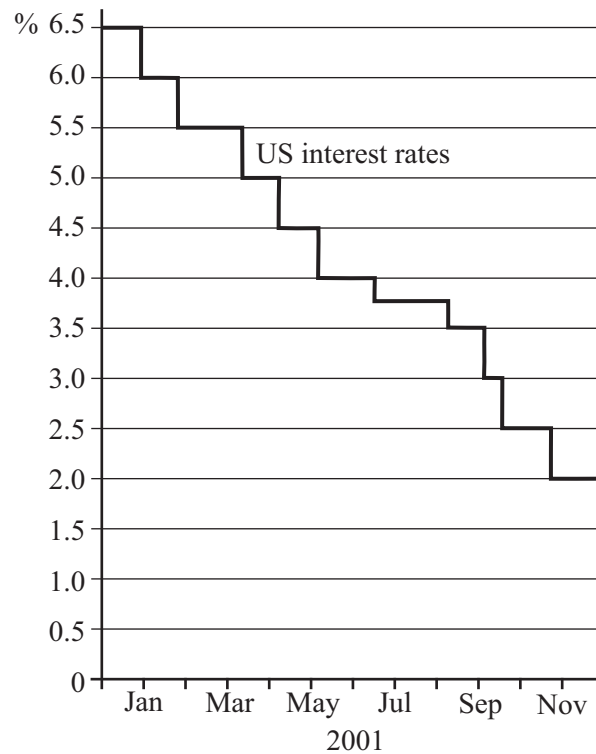
The data show that

- A the economy had moved into recession by the end of the period.
- B GDP was lower at the end of the period than at the start.
- C the price level was higher at the end of the period than at the start.
- D falling unemployment over the period increased the rate of inflation.

Turn over ►

- 5 The consequence of increasing the interest rate when the exchange rate is rising is most likely to be an increase in
- A the level of unemployment.
 - B aggregate supply.
 - C the current account surplus.
 - D aggregate demand.
- 6 An economy is experiencing a balance of payments deficit and inflation. All other things being equal, which policy is most likely to reduce **both** the balance of payments deficit on current account **and** the rate of inflation?
- A A fall in government spending.
 - B A cut in interest rates.
 - C A decrease in the rate of income tax.
 - D A reduction in the exchange rate.
- 7 Which of the following is most likely to shift the short run aggregate supply curve to the left?
- A A fall in money wage rates.
 - B A fall in the price level.
 - C A rise in the exchange rate.
 - D A rise in world commodity prices.
- 8 An increase in investment is most likely to occur if there is an increase in
- A interest rates.
 - B the rate of inflation.
 - C aggregate demand.
 - D unemployment.

- 9 The graph below shows the changes in US interest rates during 2001 announced by the Federal Reserve (central bank).



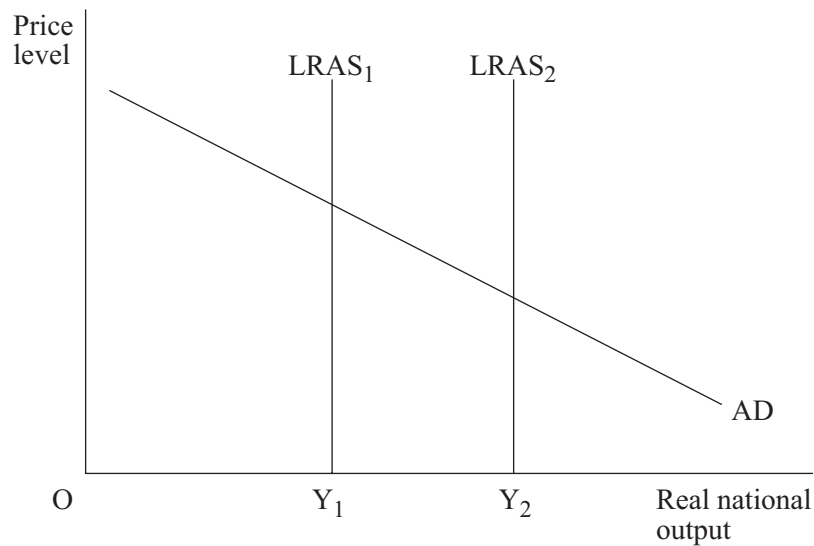
Source: adapted from *Daily Telegraph*, 12 December 2001

Which of the following would be the most likely consequence of the change in interest rates shown?

- A A rise in household saving in the USA.
 - B An increase in demand for consumer credit.
 - C House buyers facing more expensive mortgages.
 - D A fall in aggregate demand in the US economy.
- 10 There is an output gap when
- A productivity is continuously higher in one country than in another.
 - B the economy is continuously producing more capital goods than consumer goods over a period of time.
 - C unemployment occurs because the rate of economic growth increases above its trend rate of growth.
 - D national output is higher or lower than it would have been if the country had grown continuously at its trend rate of growth.

Turn over ►

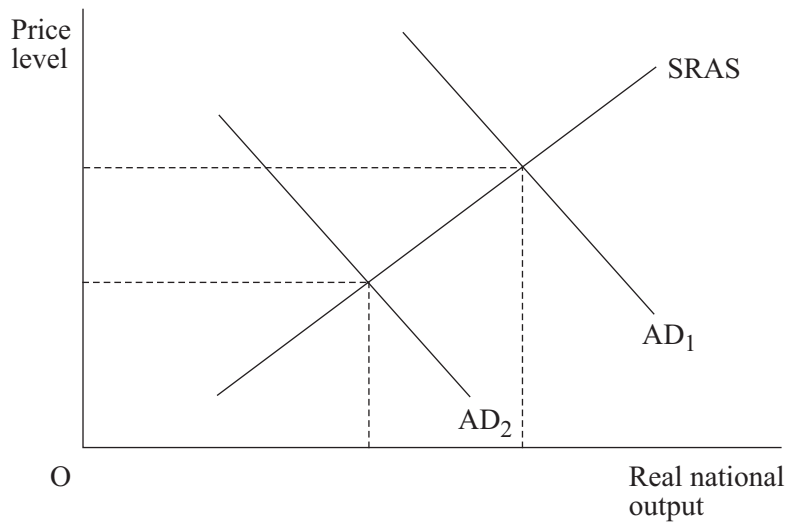
11 The diagram below shows the aggregate demand and supply curves for an economy.



The rightward shift of the economy's long run aggregate supply curve from $LRAS_1$ to $LRAS_2$ is most likely to result from

- A an increase in the stock of capital.
 - B a decrease in the rate of inflation.
 - C an increase in the level of consumption.
 - D a decrease in wage rates.
- 12 In a recent year, nominal national income grew by 5%, the price level by 2.5%, and population by 0.5%. From this information it can be concluded that real national income per head grew by
- A exactly 2.5%.
 - B more than 2.5%.
 - C less than 2.5%.
 - D zero.
- 13 Which of the following is most likely to increase the level of consumption in the UK economy?
- A A rise in house prices.
 - B A rise in interest rates.
 - C A rise in taxes on expenditure.
 - D A rise in taxes on income.

- 14 The diagram below shows the aggregate demand and supply curves for an economy.



Which one of the following could explain the shift of the aggregate demand curve from AD_1 to AD_2 ?

- A A reduction in the rate of inflation.
 - B An increase in government spending.
 - C A reduction in taxation.
 - D An increase in interest rates.
- 15 'When economic conditions look gloomy, interest rates may be cut to make borrowing cheaper and encourage spending.'

The policy measure described above is an example of a

- A supply-side policy.
- B monetary policy.
- C budgetary policy.
- D fiscal policy.

**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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Question 9: © Telegraph Group Limited (2001)

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