

General Certificate of Education  
January 2008  
Advanced Subsidiary Examination



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

Thursday 17 January 2008 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.

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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 There is an output gap when
  - A productivity is 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.
  
- 2 All other things being equal, lower inflation in an economy is most likely to be achieved if there is an increase in
  - A productivity.
  - B exports.
  - C consumption.
  - D welfare benefits.
  
- 3 Which one of the following is most likely to increase the level of investment in a particular economy? An increase in
  - A the value of a country's currency on the foreign exchange market
  - B aggregate demand in the economy
  - C the level of unemployment
  - D the spare capacity of the economy

- 4 On 22 September 2004, it was reported that, despite an ‘oil crisis’ which had seen a 40% increase in oil prices since January 2004, the world’s wealthiest 30 countries were still on course to grow by about 3.5% over the year. The oil crisis had only had a very limited effect on inflation.

Based on this information, which one of the following is most likely to be correct? For these 30 countries, the 2004 ‘oil crisis’ caused

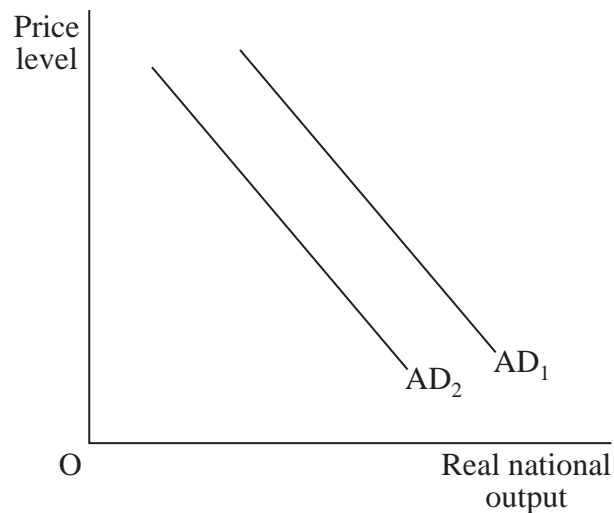
- A inflation due to growth in productive capacity.
  - B both negative economic growth and inflation.
  - C inflation due to excess aggregate demand.
  - D inflation due to a rise in costs.
- 5 The table below shows the index of Gross Domestic Product (GDP) measured at current prices and the associated price index for an economy.

Year	Index of GDP at current prices 2003 = 100	Price index 2003 = 100
2000	80	85
2007	130	115

The table shows that between 2000 and 2007 real GDP rose by

- A less than 50%.
- B 50%.
- C more than 50%.
- D an amount that is not possible to calculate from the data.

- 6 The diagram below shows two aggregate demand curves for an economy.



In the short term, which one of the following is most likely to have caused the shift from  $AD_1$  to  $AD_2$ ? An increase in

- A the level of saving
  - B real incomes
  - C unemployment benefits
  - D the availability of credit
- 7 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.
- 8 All other things being equal, if government policies succeed in raising the level of investment in the economy then
- A there will be no effect on the level of consumption in the short run.
  - B the production possibility frontier will shift inwards.
  - C the underlying trend rate of economic growth will fall.
  - D future productive capacity will be affected.

- 9 All other things being equal, an increase in aggregate demand would result from an increase in
- A the deficit in the current account of the balance of payments.
  - B the household savings ratio.
  - C the government budget surplus.
  - D the ratio of household consumption to national income.
- 10 The table below contains data on the components of aggregate demand in an economy in 2007.

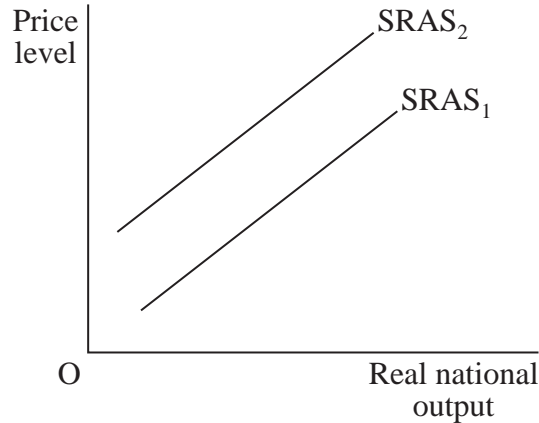
	<b>Components of aggregate demand, 2007</b>	
	<b>£bn at 2005 prices</b>	<b>% change on 2006</b>
Household consumption	524.0	4.0
Government consumption	146.0	3.4
Gross fixed investment	153.0	5.2
Exports of goods and services	248.0	2.6
Imports of goods and services	285.0	7.1

Which one of the following is supported by the data?

- A Gross fixed investment was the greatest component of aggregate demand in 2007.
- B The increase in the value of the components of aggregate demand between 2006 and 2007 was due to inflation.
- C The economy had a balance of payments surplus on current account in 2007.
- D Household consumption amounted to approximately two-thirds of aggregate demand in 2007.

**Turn over for the next question**

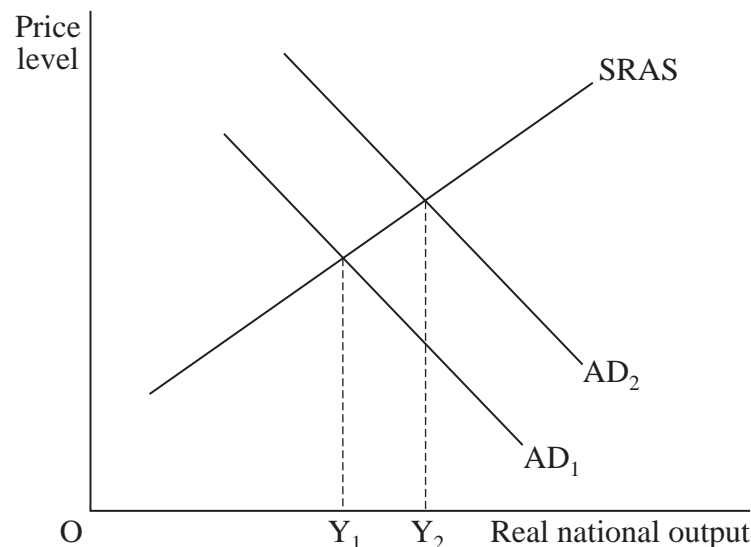
- 11 The diagram below shows two short run aggregate supply curves,  $SRAS_1$  and  $SRAS_2$ .



The shift from  $SRAS_1$  to  $SRAS_2$  could be explained by an increase in

- A savings.
  - B wage rates.
  - C employment.
  - D the exchange rate.
- 12 Which one of the following would be classified as fiscal policy? A UK government decision to
- A increase the budget deficit
  - B decrease the exchange rate against the euro
  - C reduce the growth of the money supply
  - D raise interest rates
- 13 The consequence of increasing the interest rate when the exchange rate is rising is likely to be an increase in
- A the level of unemployment.
  - B aggregate supply.
  - C the current account surplus.
  - D aggregate demand.

- 14** The Monetary Policy Committee (MPC) of the Bank of England meets each month to decide on the rate of interest that is most likely to help it achieve the government's inflation target. The MPC is most likely to increase interest rates if
- A** the exchange rate is high and rising.
  - B** the rate of growth of money wages is below the rate of growth of labour productivity.
  - C** employment is falling.
  - D** the rate of growth of GDP is above the long term trend rate of growth of the economy.
- 15** The diagram below shows an economy's aggregate demand curves and short run aggregate supply curve.



The change in real national output from  $Y_1$  to  $Y_2$  could be due to

- A** the introduction of new supply-side policies.
- B** an increase in the government's budget surplus.
- C** an expansionary monetary policy.
- D** an increase in the current account deficit on the balance of payments.

**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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**There are no questions printed on this page**