



Tricky Questions for AQA Economics

AS / A Level Year 1 Macroeconomics



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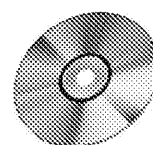
Teacher's Introduction

Multiple-choice questions are an integral part of 2015 AS/A Level Economics specifications, and to score highly in this section of the examination the candidate needs knowledge and technique acquired by practice! The aim of this collection of original questions with supported answers is not simply to replicate the style and content of exam questions by thorough coverage of the specification – and thus improve examination technique – but also to provide many 'trickier' questions which should stretch the student, enhance understanding and build competence and confidence.

Format

This resource consists of:

- Write-on **worksheets** with space for the answer and explanation for each question. The explanation is a useful way of indicating understanding and should help reduce guessing.
- **Answers:** Each question is supported with the correct answer with detailed discussion of why it is correct. Many of the answers contain advice about technique – how drawing diagrams can help to process the data within the question, how to avoid typical errors, how to apply formulae, and how to remove 'red herrings' from your decision-making.
- The CD includes the same questions in **PowerPoint** format, presented one by one. This format is ideal for starters/plenaries or for a timed test (simply add timings to the slides so they progress at the same speed students would be advised to spend on them in the exam). Each slide has the option to reveal the answer and explanation (this will only reveal if clicked on specifically, not as the slideshow progresses).



Valuable Exam Preparation

The resource will supply a valuable bank of questions both to the busy teacher wishing to test a given topic, as material for a 'mock' or for end-of-module revision, and to the student seeking to improve their performance on specific topics or preparing for their AS Paper 1. The teacher will find thorough coverage of the specification and the student will find that the 'question and supported answer' format is complementary to their other resources, whether it be their course notes, online facility or textbook.

I personally have used multiple-choice questions for over 30 years in teaching Economics, whether or not they form part of formal assessment. Past papers have been one reliable source; so too are original questions such as these, especially for a new specification.

Topic Coverage

Topic	AS Spec. ref.
1. The Objectives of Government Economic Policy	(3.2.1.1)
2. Macroeconomic Indicators	(3.2.1.2)
3. Use of Index Numbers	(3.2.1.3)
4. The Circular Flow of Income	(3.2.2.1)
5. AD and AS	(3.2.2.2–6)
6. Economic Growth and the Economic Cycle	(3.2.3.1)

Topic	AS Spec. ref.
7. Employment and Unemployment	(3.2.3.2)
8. Inflation and Deflation	(3.2.3.3)
9. Balance of Payments on Current Account	(3.2.3.4)
10. Conflicts between Macroeconomic Policy Objectives	(3.2.3.5)
11. Macroeconomic Policy	(3.2.4.1–3)

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* resulting from minor specification changes, suggestions from teachers and peer reviews, or occasional errors reported by customers

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Topic 1: The Objectives of Government Economic Policy

1) Which of the following is not an example of underemployment?

- a) A graduate working full time as a waiter
- b) A zero-hours contracted worker in KFC averages 10 hours paid work per week but wants more
- c) A Business graduate doing clerical work for a recruitment agency
- d) A footballer released by his club circulates his CV to clubs

Answer:

☐

2) With inflation at 3% which of the following statements is false.

- a) A 1% interest rate on savings is a negative real rate.
- b) Pay rises of less than 3% are effectively a cut in real wages.
- c) The real value of money, other things being equal.
- d) The Governor of the Bank of England must write to the Chancellor and explain why the inflation rate is so high.

Answer:

☐

3) Economic growth is likely to cause all but one of these outcomes. Which one?

- a) A rising standard of living
- b) A reduced budget deficit
- c) Reduced congestion
- d) Higher income tax revenues

Answer:

☐

4) Of the following four options which best reflects an 'economic slowdown'.

- a) A period of consecutive quarters of negative growth
- b) An annual fall in GDP of at least 10%
- c) A period of zero economic growth
- d) A reduction in a country's growth rate from 3% to 0.5%

Answer:

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Topic 2: Macroeconomic Indicators (3.2.1.2)

No.

- 1) Which one of these statements about key UK economic indicators is incorrect?
- a) GDP is the value of output produced within the UK per period.
 - b) GNP adds net property income from abroad to GDP.
 - c) GDP per capita measures output per worker.
 - d) GDP omits the value of unpaid work such as DIY. **Answer:** ☐
- 2) Economic activity within a country is not fully reflected in its GDP figures for each of the following reasons except:
- a) some transactions are illegal
 - b) some legal output is subject to tax evasion
 - c) some legal output is subject to tax avoidance
 - d) Transactions may be taken using barter. **Answer:** ☐
- 3) The Labour Force Survey (LFS) measure of unemployment includes all the following categories of people except:
- a) 'Returners' – often women seeking work after a period out of the workforce.
 - b) 'Discouraged workers' – former workers no longer involved in job search.
 - c) Retired people actively seeking employment.
 - d) IT workers with contracts due to begin in a fortnight. **Answer:** ☐
- 4) Only one of the following groups can claim Jobseeker's Allowance: Which one?
- a) People whose partners are working
 - b) Students looking for part-time work or vacation work
 - c) People who have left their job voluntarily
 - d) Redundant shop assistants **Answer:** ☐
- 5) The purchasing power parity exchange rate between the pound and the euro is where:
- a) £1 exchanges for 1 euro
 - b) valid international comparisons of per capita incomes between the UK and the Eurozone can be made
 - c) the pound is 'strong'
 - d) the trade deficit on goods should disappear. **Answer:** ☐
- 6) *Other things being equal* if a Big Mac is priced at 3 euros in the Eurozone and £2 in the UK:
- a) Big Macs are cheaper in the Eurozone than in the UK
 - b) an exchange rate of £1 to 1.5 euros would reflect purchasing power parity
 - c) Big Macs in the UK would outsell those in the Eurozone
 - d) there would be a trade balance in the goods subcategory of Big Macs **Answer:** ☐

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- 7) Which of these statements regarding inflation is incorrect?
- An increase in interest rates would cause the RPI to increase in the short run.
 - Inflation rates may be overstated if price rises reflect an improvement in the quality of goods.
 - The weight of inferior goods in a prices index should fall in a period of economic growth.
 - A fall in the rate of inflation means that deflation is occurring.

Answer: ☐

- 8) Consider the prices index figures for these years:

Year	1	2	3	4
Price Index	100	110	120	133.2

Which of these statements is incorrect?

- Inflation was highest from year 3 to year 4
- Prices were highest in year 4
- The rate of inflation was constant over the period
- The purchasing power of the average citizen fell over the period

Answer: ☐

- 9) To calculate the average material standard of living in a country we need knowledge of:

- the rate of inflation
- per capita income at constant prices
- the value of leisure time
- the value of unpaid work

Answer: ☐

- 10) Which of the following statistics help provide a more complete calculation of living standards of a country?

- Life expectancy
- The distribution of income
- Doctors per 1,000 of the population
- Options a) to c) inclusive

Answer: ☐

- 11) and 12) make use of the following table:

Year	1	5	9	13
Money GDP (£bn)	1000	1500	1750	2000
Price Index	90	100	125	150
Population (m)	50	60	55	55

- 11) In which year was real national income highest?

- 1
- 5
- 9
- 13

Answer: ☐

- 12) Which of these statements is incorrect?

- The average person's standard of living increased from year 1 to year 5.
- The average person's standard of living increased between year 9 and year 13.
- Between year 1 and year 5 prices grew more slowly than population.
- The base year for purposes of comparison is year 5.

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- 13) Study the table which shows changes in the average price of beer per pint and the CPI over a period of years:

Year	Beer price (per pint)	CPI
1	£2.50	100
N	£3.00	110

Which of these statements is *correct*?

- a) The standard of living has increased by 10% over the period.
- b) The nominal price of beer is constant.
- c) The tax on beer must have increased.
- d) the real price of beer has increased.

Answer: ☐

- 14) The preferred measures of inflation in the UK economy are, respectively:

- a) RPI and the Claimant Count
- b) CPI and the Claimant Count
- c) CPI and the LFS method
- d) RPI and the LFS method

Answer: ☐

- 15) Consider the prices index data for a country for several years:

Year	1	2	3	4
CPI	100	120	122	121

Which of these statements most accurately describes price changes over the period?

- a) Inflation was higher between year 1 and year 2 than between year 1 and year 4
- b) Between years 2 and 4, deflation followed disinflation
- c) Inflation was 20% between year 1 and year 2 and 2% between year 2 and 3
- d) Inflation was higher between year 1 and year 3 than between year 1 and year 4

Answer: ☐

- 16) Two ways of measuring inflation are the CPI and the RPI. Only one of these statements regarding the measurement of inflation is correct. Which one?

- a) CPI is a superior method for measuring inflation.
- b) RPI monitors housing costs such as mortgages, CPI does not.
- c) If interest rates rise, RPI tends to fall sooner than CPI.
- d) When prices rise on RPI the weights are immediately reduced.

Answer: ☐

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Topic 3: Use of Index Numbers (3.2.1.3)

1) Which one of these phrases refers to GDP figures adjusted for the impact of inflation?

- a) At nominal prices
- b) At current prices
- c) At constant prices
- d) Per capita

Answer: ☐

2) to 4) are based on these four items and their weights (totalling 1,000) which comprise a simple price index:

Category	Weight (1,000)	Price relative (v)
Food	400	100
Clothing	250	100
Entertainment	100	100
Gadgets	150	100

2) In the base year the value of the index would be:

- a) 250
- b) 400
- c) 150
- d) 100

Answer: ☐

3) Which of the following would have the biggest impact on the rate of inflation by year 2?

- a) Each category going up in price by 2%
- b) Food prices rising by 9%
- c) Entertainment prices rising by 8%
- d) Clothing prices rising by 10%

Answer: ☐

4) By year 2, with inflation at 100% and unchanged weights and money incomes, which of the following is/are true?

- a) Real incomes have fallen by 50%
- b) The prices index has doubled
- c) The proportion of income spent on food is unchanged
- d) Each of the three previous options is correct

Answer: ☐

5) Based on the table below, in which year were real wages highest?

Year	1	2	3	4
Wage p/w (£s)	400	450	550	600
CPI	100	125	125	150

- a) 1
- b) 2
- c) 3
- d) 4

Answer: ☐

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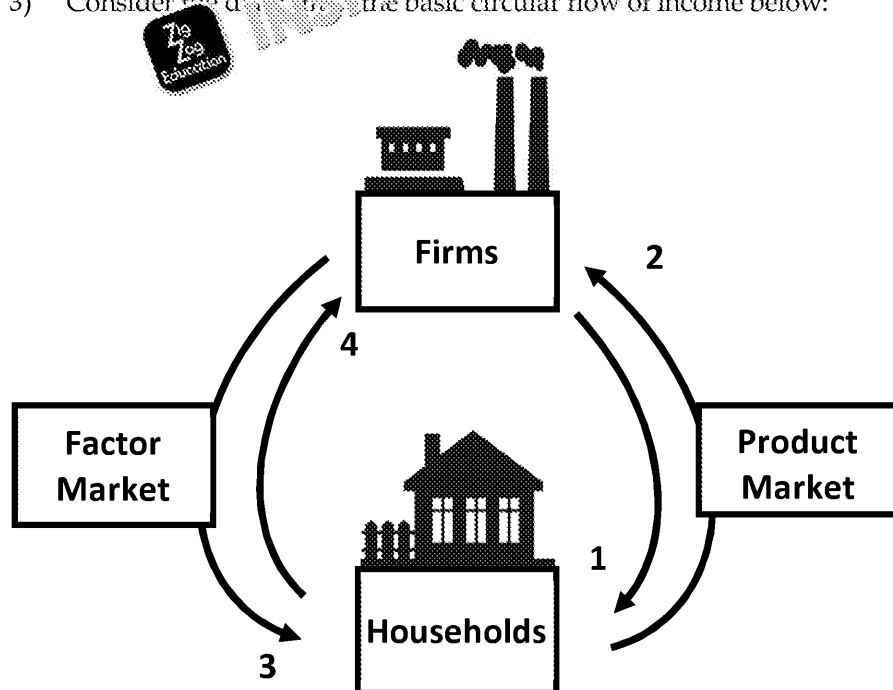
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Topic 4: The Circular Flow of income (3.2.2.1)

No

- 1) Which of the following combinations are both **leakages** from the circular flow of income:
 - a) VAT receipts and child benefit payments
 - b) Savings and investment
 - c) Imports and Individual Savings Accounts (ISAs)
 - d) Exports and tariffs
 Answer: ☐
- 2) There is only one **withdrawal** from the circular flow of income in this list. Which one?
 - a) Tariff-free imports
 - b) Credit card purchases of UK-made goods
 - c) Government subsidy to public transport
 - d) Road building
 Answer: ☐
- 3) Consider the diagram of the basic circular flow of income below:



Which of the arrows represents the flow of factor services from households to firms?

- a) 1
- b) 2
- c) 3
- d) 4

Answer: ☐

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- 4) Study the table, which shows an index of real GDP for three countries (A, B and C) across a three-year time span starting from a base year.

Years	1	2	3
Country A	100	105	110
Country B	100	104	110
Country C	100	104	115

All of the statements which follow are correct *except*:

- 'A' grew faster between year 1 and 2 than between year 2 and year 3.
- All three countries had identical GDPs in year 1.
- 'C' grew at more than 10% between year 2 and year 3.
- 'B' grew faster than 'A' between year 2 and year 3 but their growth rate was equal over the two years.

Answer: ☐

- 5) Savings would be expected to rise following all of the following changes *except*:

- An increase in the rate of interest
- a fall in the rate of inflation to zero
- an increase in disposable incomes
- an increase in the supply of credit.

Answer: ☐

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Topic 5: AD and AS (3.2.2.2–6)

No.

1) Which one of the following would be expected to cause a movement along rather than a shift of the UK AD curve?

- a) A cut in the basic UK rate of income tax
- b) A rise in GDP in Germany
- c) A 10% increase in the price of UK houses
- d) A fall in the UK pump price of petrol of 20%

Answer:

☐

2) Which of these statements about macroeconomics is **correct**?

- a) Higher exports boost AD and GDP.
- b) Wage rises always raise living standards
- c) Living standards can be measured using the prices index.
- d) An output gap is always negative

Answer:

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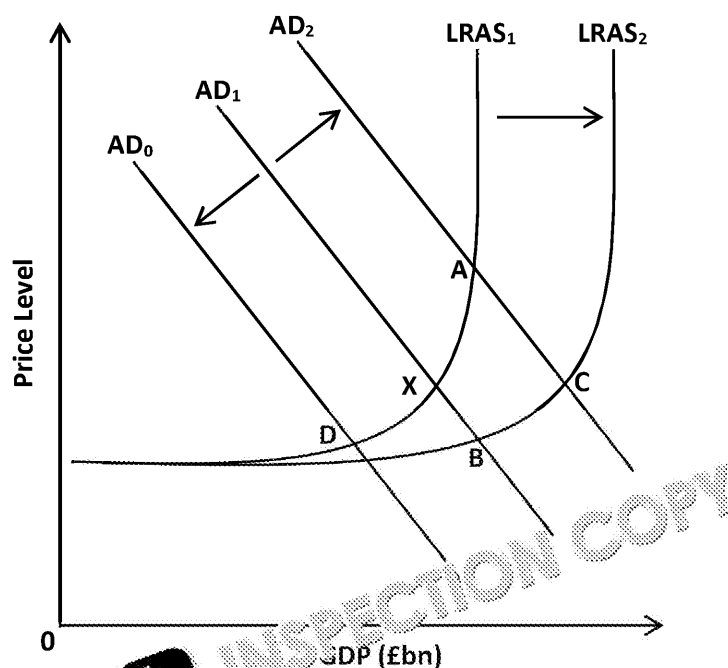
3) Which of the following would cause a movement along the LRAS curve rather than a shift of the curve?

- a) Net immigration of people of working age
- b) An increase in government current spending
- c) Falling oil prices
- d) Breaking up of monopolies

Answer:

☐

4) to 6) inclusive make use of the following diagram, which shows the intersection of two LRAS curves and three AD curves. Assume that the economy begins at point X, where AD₁ meets LRAS₁ in each case.



To which equilibrium point would the economy move if:

- 4) there is net immigration of 0.5m people of working age
- 5) cuts in income tax boost both consumer spending and incentives to work and start businesses
- 6) rising unemployment depresses consumer confidence

Answer:

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Answer:

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Answer:

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- 7) Each of the following may be expected to increase both AD and LRAS *except*:
- An increase in government capital expenditure
 - A reduction in the cost of borrowing
 - A reduction in the top rate of income tax
 - An increase in the Jobseeker's Allowance
- Answer: ☐
- 8) Assuming a Keynesian LRAS curve, which of the following will *inevitably* happen if there is a fall in AD:
- Lower output
 - Lower inflation
 - Lower output and lower inflation
 - None of these; the shape of LRAS makes none of a) to c) inevitable
- Answer: ☐
- 9) Aggregate demand (AD) is a measure of total planned expenditure on a country's output worldwide. All of the following statements regarding AD are true *except*:
- In a closed economy without a public sector AD is $C + I$.
 - In an open economy with a public sector AD is $C + I + G + X - M$.
 - With a public sector but an economy closed to trade, AD is $C + I + G$.
 - In an open economy with a government sector AD can be expressed as $C + X + G + I$.
- Answer: ☐

- 10) Consider the table, which shows how Consumption (C) varies with GDP (£bn) over several years:

Year	1	2	3
GDP (£bn)	1000	1200	1400
C (£bn)	800	950	1000

Which of these statements is *incorrect*?

- Between years 2 and 3 the marginal propensity to consume is 0.25
 - In year 1 the average propensity to consume is 0.8
 - The highest average propensity to consume is in year 2
 - In year three the average propensity to consume is 0.71
- Answer: ☐
- 11) Investment by private sector firms is likely to rise as a result of *one* of the following reasons:
- A rise in interest rates
 - A rise in profits
 - Rising demand for consumer goods
 - A rise in the negative output gap
- Answer: ☐
- 12) Investment is defined in economics as
- that part of disposable income not spent
 - the purchase of new vehicles by a car hire company
 - the creation of capital goods
 - 'investment' accounts from high-street banks
- Answer: ☐

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13) Other things being equal, an increase in exports from the UK will cause all of the following except:

- a) Economic growth
- b) Depreciation of the pound
- c) A positive multiplier effect
- d) Job creation

Answer:

☐

14) The accelerator effect explains:

- a) how lower interest rates stimulate investment
- b) that as demand or income increases in an economy, so does the investment made by firms
- c) that changes in AD cause GDP to change by a larger amount
- d) that demand for labour can 'fall' in a period of growth

Answer:

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15) If an increase in government spending of £150m causes GDP to eventually rise by more than £150m this can be explained by...

- a) the multiplier process
- b) economic interdependence
- c) induced investment
- d) rising wages

Answer:

☐

16) If 'poor' people have a marginal propensity to consume of 1 and 'rich' people have a marginal propensity to consume of 0.2 then a fiscal policy decision which redistributes £100m from 'rich' to 'poor' would, *initially*:

- a) leave AD unchanged
- b) cause 'rich' people to emigrate
- c) increase consumer spending by £100m
- d) increase consumer spending by £80m

Answer:

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17) The table below shows the composition of GDP (£bn) for an economy:

Economy	GDP (£00bn)
C	600
I	150
G	300
X	100
M	150

Based on the table, which of these statements is correct?

- a) The economy is at full employment output and is suffering from inflation.
- b) The government account is in deficit by £50bn which is 5% of GDP.
- c) Consumption is 45% of GDP.
- d) Government has a budget deficit.

Answer:

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18) Each of the following could cause cost-push inflation except:

- a) A 10% rise in the NMW
- b) An increase in the world price of oil
- c) New investment spending induced by growing business confidence
- d) An increase in the standard rate of VAT from 20% to 25%

Answer:

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19) An outward shift in the long-run aggregate supply (LRAS) curve for a country can be caused by each of the following except:

- a) An increase in the official retirement age
- b) An increase in the basic rate of income tax
- c) A liberal policy on migration
- d) Private sector investment

Answer:

☐

20) Only one of the following would cause a shift to the right of the LRAS curve. Which one?

- a) An increase in the state pension
- b) Raising of the official retirement age to 66
- c) A reduction in VAT
- d) A fall in imports

Answer:

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Topic 6: Economic Growth and the Economic Cycle (3.2)

1) If 'full employment output' for an economy is £1,000bn and the *current* equilibrium output is £950bn then:

- a) there is zero demand-deficient unemployment
- b) there is an output gap of -5%
- c) there is a positive output gap
- d) there is a budget deficit

Answer:

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2) If the level of AD in an economy is sufficient to buy £1,200bn of output but full employment GDP is £1,000bn which of the following pairs of outcomes is most likely?

- a) A positive output gap with rising unemployment
- b) Deflation and a balance of payments deficit
- c) Demand-pull inflation and a trade deficit
- d) Fewer applicants per job vacancy and falling real wages

Answer:

☐

3) A positive output gap would normally be associated with *each* of the following *except*:

- a) An increase in demand-pull inflation
- b) increased expenditure on imports
- c) workers doing overtime
- d) unemployment caused by insufficient demand in the economy

Answer:

☐

4) A recession is correctly defined as:

- a) a fall in GDP during any two quarters in a year
- b) a year during which GDP falls
- c) at least consecutive quarters of negative growth
- d) a period during which demand for normal goods falls

Answer:

☐

5) A recession would normally feature which *one* of these pairs of outcomes?

- a) A growing negative output gap and fewer applicants per job vacancy.
- b) A fall in demand for inferior goods and rising demand for goods with income inelastic demand.
- c) A reduction in income tax revenues and an increase in welfare spending.
- d) An increase in unemployment and a reduced but still positive rate of economic growth.

Answer:

☐

6) A UK 'economic boom' typically includes each of the following *except*:

- a) Asset price inflation
- b) A worsening trade deficit
- c) Increases in living standards above the long-run trend
- d) Excess supply of skilled labour

Answer:

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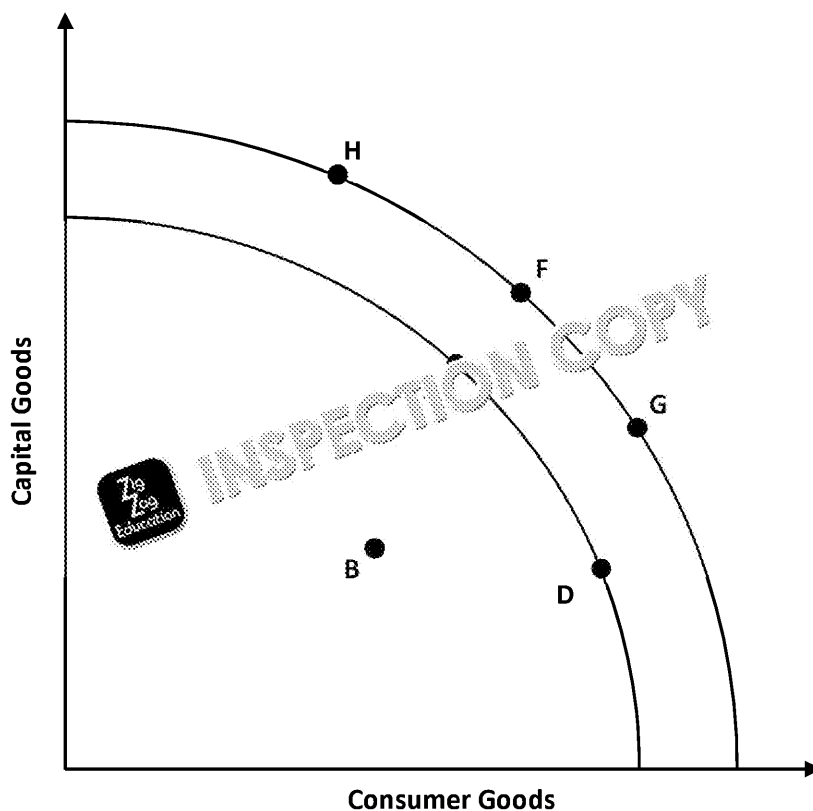
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- 7) On the production possibility frontier (PPF) diagram below, which of the following two-part statements is correct?



- a) Short-run growth is shown by movement from C to D, long-run growth is shown by F to H.
 b) Short-run growth is shown by movement from B to C, long-run growth from F to G.
 c) Short-run growth is shown by movement from B to C, long-run from C to F.
 d) Short-run growth is shown by movement from B to D, long-run from D to C.

Answer:

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- 8) The trend growth rate for an advanced economy is 2.5%. If it grows at 4% during a given year it follows that:

- a) the trend growth rate has increased
 b) productivity must have increased
 c) its AD curve only has shifted to the right
 d) its current growth rate could be unsustainable

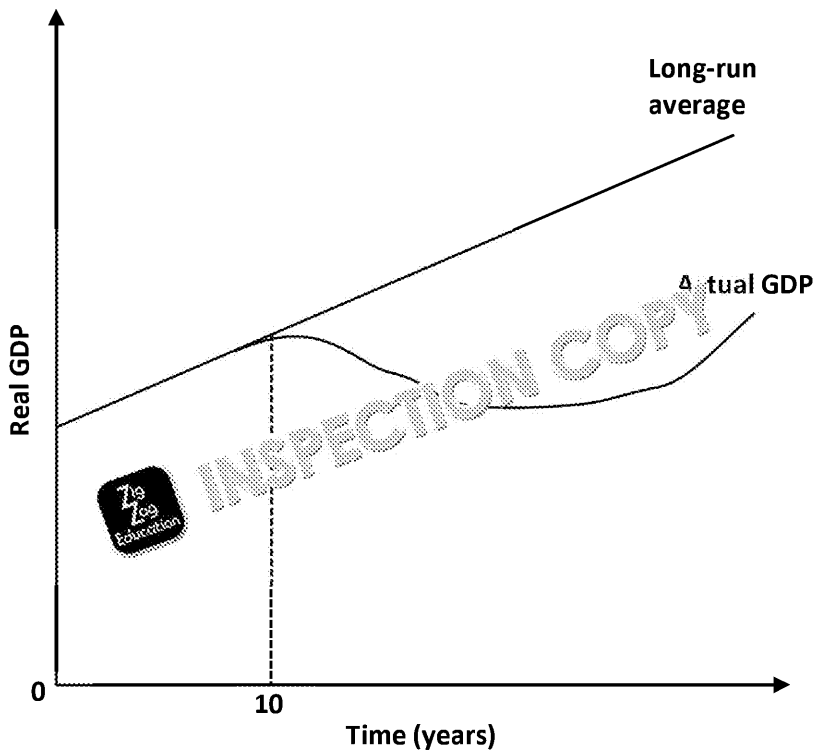
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- 9) Consider the diagram which plots the actual trend of real GDP for an advanced economy against its long-run average.



Based on the diagram it can be deduced that:

- a) up to year 10 there was zero unemployment in the economy
- b) there must have been deflation after year 10
- c) there was a recession after year 10
- d) after the recession the trend rate fell

Answer:

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Topic 7: Employment and Unemployment (3.2.3.2)

1) Each of the options 1 to 4 is a reason why a person is unemployed. All *except one* is matched up to the correct type of unemployment. Which one?

- [1] A person has concluded one contract and will start another in six weeks.
- [2] A shop assistant in Tesco has been made redundant due to investment in self-checkout technology.
- [3] An assembly-line worker in the car industry loses her job in a recession.
- [4] A temp with Argos concludes a seven-week contract on Christmas Eve.

- a) 1 is frictional
- b) 2 is structural
- c) 3 is seasonal
- d) 4 is frictional

Answer: ☐

2) The economic effects of rising unemployment in a recession include which *one* of these combinations?

- a) Lost output but pressure for higher wages
- b) Reduced income tax revenues but higher VAT receipts
- c) Increased welfare payments and more applicants per job vacancy
- d) A reduction in consumer confidence and reduced spending on inferior goods

Answer: ☐

3) Which of the following is *not* a likely consequence of rising unemployment in the UK?

- a) A decrease in income tax revenue
- b) A rise in government welfare expenditure
- c) Government increases the real value of the national minimum wage
- d) A decrease in demand for imported goods

Answer: ☐

4) Despite many local vacancies being available, unemployment remains high in a northern city. This is *unlikely* to be caused by

- a) occupational immobility of labour
- b) geographical immobility of labour
- c) high wages in the unfilled posts
- d) penalties for benefit recipients who refuse suitable interviews

Answer: ☐

5) Which of the following is *likely* to cause **demand-deficient** unemployment in the UK?

- a) A reduction in savings
- b) An increase in the proportion of income spent on imports
- c) Tax breaks for business investment
- d) Global warming

Answer: ☐

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6) Each of the following is an example of structural unemployment except:

- a) Tesco investment in 'shop-assistant free' stores
- b) Falling demand persuades some public schools to make their Latin teachers redundant
- c) Competition with cheap imports leads to the closure of textiles factories in Manchester
- d) Restaurants lay off waiting staff as business falls in a downturn

Answer: ☐

7) Only one of the statements about seasonal unemployment is false. Which one?

- a) The retail trade recruits thousands of temporary workers every November
- b) The unemployment figures rise at the end of the Christmas period
- c) Restaurant deckchair attendants can claim unemployment benefit.
- d) Seasonal workers are entitled to the minimum wage.

Answer: ☐

8) Which of the combination of policies listed below would be most appropriate for a government dealing with an economy facing both high structural unemployment and a negative output gap?

- a) Interest rate increase and a cap on unemployment benefit
- b) Central bank selling of the pound and cuts in income tax
- c) Increase in state pensions and a cut in excise duties
- d) Spending on training schemes and a cut in the cost of borrowing

Answer: ☐

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Topic 8: Inflation and Deflation (3.2.3.3)

No.

- 1) All of these statements regarding the price level are *incorrect*, except one. Which one?
 - a) If the inflation rate falls from 5% to 0.1% prices are still rising and this represents deflation.
 - b) Deflation can mean that consumers postpone their spending as much as possible.
 - c) Rising Aggregate Demand (AD) is always associated with demand-pull inflation.
 - d) An inflation rate of zero is the main macro-objective for UK government.

Answer: ☐
- 2) Cost-push inflation can be caused by each of the following except:
 - a) Rising oil prices
 - b) A weaker currency
 - c) Wages rising faster than productivity
 - d) The increase of frictional unemployment

Answer: ☐
- 3) The phrase 'too much money chasing too few goods' is associated with:
 - a) stagflation
 - b) demand-pull inflation
 - c) monetarism
 - d) import cost-push inflation

Answer: ☐
- 4) The reaction of workers to rising prices by seeking higher wages which in turn lead to higher production costs and further price rises is an example of:
 - a) expansionary fiscal policy
 - b) a positive output gap
 - c) a wage-price spiral
 - d) imported inflation

Answer: ☐
- 5) Deflation refers to a fall in the general price level. Which of these statements concerning deflation is *incorrect*?
 - a) Benign deflation is associated with a growing economy.
 - b) 'Bad' deflation can be caused when output falls due to reduced AD.
 - c) Deflation in goods prices does not guarantee deflation overall.
 - d) The value of money falls.

Answer: ☐
- 6) Consider the table below, which shows the UK's CPI inflation rate over several months in a given year:

Month	%
January	3.2
February	2.2
March	1.1
April	0.95
May	-0.22

Which of these statements is correct?

- a) Prices were higher in February than January so real wages fell.
 - b) Prices were lowest in May.
 - c) From given nominal wages, purchasing power was greater in May than April.
 - d) The Governor of the Bank of England would need to write to the Chancellor in both January and February to explain the inflation rate.
- Answer: ☐

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Topic 9: Balance of Payments on Current Account (3.2.)

1) A deficit on the current account of the balance of payments is least likely to be reduced by:

- a) a weakening of the exchange rate
- b) increases in income tax
- c) reduced government spending
- d) a rise in house prices

Answer:

☐

2) The UK trade deficit should fall for all but one of the following reasons. Which one?

A rise in:

- a) GDP in the Eurozone
- b) EU-wide tariffs on food products
- c) tax-free income allowances
- d) interest rates in the UK

Answer:

☐

3) A weakening of the exchange rate for the pound sterling may actually not help reduce the trade deficit for all of the following reasons except:

- a) Exporters leave their foreign currency prices unchanged in order to raise their sterling prices and profit margins.
- b) Recession in our main markets leads to lower demand for exports whatever their price.
- c) Imported raw materials become costlier, cancelling out the opportunity to reduce export prices.
- d) Price elasticity of demand for both our exports and imports is elastic.

Answer:

☐

No.

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Topic 10: Conflicts between Macroeconomic Policy Ob

- 1) Assuming a Keynesian LRAS, if there is a rise in AD in an economy that is close to full employment output, each of the following can be expected except:
- Rising inflation with some economic growth
 - Worsening of both the trade and budget deficits
 - Fewer applicants per job vacancy
 - Tightening of monetary policy
- Answer: ☐
- 2) With a Keynesian LRAS curve, we can expect what kind of trade-off between inflation and unemployment as AD rises?
- Positive
 - Inverse and constant
 - Inverse and non-linear
 - None
- Answer: ☐
- 3) Economic growth is likely to lead to all of the following except:
- increased producer surplus for sellers of normal goods
 - rising demand for houses
 - increased consumer surplus from inferior goods
 - rising real incomes
- Answer: ☐
- 4) The Phillips curve indicates a:
- positive linear trade-off between inflation and unemployment
 - negative linear trade-off between inflation and unemployment
 - positive non-linear trade-off between inflation and unemployment
 - negative non-linear trade-off between inflation and unemployment
- Answer: ☐
- 5) An increase in the propensity/tendency to save in the UK would lead (other things being equal) to which combination of outcomes?
- Higher GDP and higher consumer spending
 - Lower employment and less output
 - Increased exports and imports
 - Higher interest rates and increased investment.
- Answer: ☐
- 6) Keynesian and neoclassical economists disagree about the nature of LRAS in the economy. Based on this disagreement, which of these statements is false?
- In the neoclassical version, during a recession wage rates will fall, creating jobs and returning the economy to the natural rate of unemployment.
 - In Keynesian analysis there is an inverse, non-constant trade-off between inflation and unemployment.
 - Demand-pull inflation can only occur in the Keynesian model.
 - According to neoclassicists a wage-price spiral will result from expansionary monetary policy.
- Answer: ☐

No.

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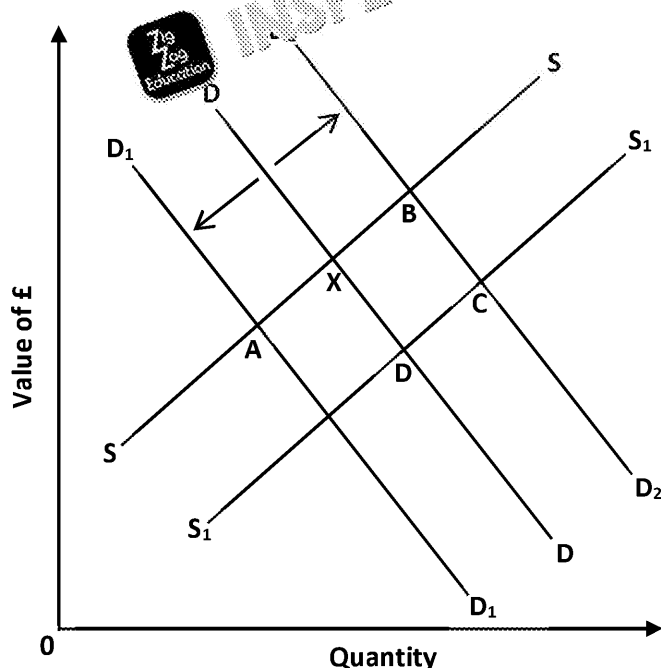
Topic 11: Macroeconomic Policy (3.2.4.1–3)

No.

- 1) An increase in interest rates is likely to cause all of the following paired economic effects *except*:
- A reduction in credit card borrowing and an increased propensity to save.
 - An appreciation of the pound and reduced sales of exports.
 - A fall in new mortgage applications and an increase in monthly repayments on existing fixed-rate mortgages.
 - An increase in income for 'saver' households and a lower inflation rate.

Answer: ☐

2) to 4) make use of this supply and demand diagram, which shows the exchange rate for the pound against the euro, currently in equilibrium at point X. For each question, point X is the starting point.



- 2) What letter represents the new equilibrium if demand for UK exports falls? Answer: ☐
- 3) What letter represents the new equilibrium if UK demand for imports rises? Answer: ☐
- 4) What letter represents the new equilibrium if the Bank of England starts buying £s on the foreign exchange market? Answer: ☐
- 5) An appreciation of the pound against the euro would have all of the following economic effects on the UK economy *except*:
- Costs of raw materials from the Eurozone
 - A reduction in import-cost push pressures
 - Pressure on exporters to the Eurozone to control their costs
 - Fewer UK citizens taking holidays in Spain

Answer: ☐

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- 6) If the £ is 'strong' on the foreign exchange rate market then which of these statements is valid:
- a) Exporters may face reduced orders and imported materials will cost more.
 - b) Aggregate demand may fall and demand-pull inflationary pressures fall too.
 - c) At the current exchange rate it is appropriate to compare living standards between countries.
 - d) All firms will face more difficult trading conditions.

Answer:

☐

- 7) Domestic interest rate cuts may not lead to a depreciation of a country's currency if:
- a) rates are still lower than in other economies
 - b) export demand is falling
 - c) inflation is rising
 - d) speculators are selling the currency

Answer:

☐

- 8) Only one of the following policies is fiscal rather than monetary. Which one?
- a) Reducing the base rate of interest to stimulate consumer spending.
 - b) Buying of bonds from high-street banks by the central bank to help boost their liquidity.
 - c) Reducing the income tax paid on savings interest.
 - d) Raising interest rates to bolster the exchange rate for £.

Answer:

☐

- 9) An increase in the base rate of interest may have all of the following combinations of economic effects except:
- a) Reduced credit card purchases and greater incentive to save.
 - b) Increased mortgage repayments and decreased demand for 'big ticket' items.
 - c) Falling demand for rented property and lower CPI inflation.
 - d) A strengthening of the pound and reduced import cost-push inflation.

Answer:

☐

- 10) Fiscal and monetary policy are two ways the government has of managing the economy. One of the policies in the group (a) to d) has been incorrectly categorised. Which one?
- a) Cutting VAT: *fiscal*; printing money: *monetary*
 - b) Removing child benefit from 'lone parent' households: *fiscal*; lowering interest rates: *monetary*
 - c) Reducing the tax paid on savings interest: *monetary*; raising payments to GPs: *fiscal*
 - d) Quantitative easing: *monetary*; raising the income tax-free allowance: *fiscal*

Answer:

☐

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11) If the 'USA sneezes the UK catches a cold'. This example of economic interconnectedness would suggest that:

- a) tax cuts in the USA may stimulate the UK economy as its imports from the UK rise
- b) tax cuts in the UK may stimulate the US economy as UK domestic consumption rises
- c) recession in the USA could cause recession in the UK as demand for UK exports falls
- d) growth in the UK is entirely dependent on conditions in the USA

Answer: ☐

12) If government simultaneously raises the rate of VAT and uses the expected proceeds to reduce the top rate of income tax this example of fiscal policy would cause each of the following except:

- a) Higher prices for many goods.
- b) Increased disposable income for some earners.
- c) A more equitable distribution of income.
- d) A reduction in the Budget deficit.

Answer: ☐

13) A cut in income tax will have a smaller multiplier effect than an increase in government expenditure to the same value if:

- a) there is a Budget deficit
- b) there is reduced tax evasion
- c) income-tax-paying households decide to save much of any extra disposable income
- d) the marginal propensity to consume and the marginal propensity to withdraw are equal

Answer: ☐

14) All of the following taxes are *direct* except:

- a) Tariffs
- b) Income
- c) Council
- d) Corporation

Answer: ☐

15) Consider tax A which works according to the table:

Tax Paid (£s)	1000	2000	2400
Income (£000s)	10	20	30

It is:

- a) progressive at all income levels shown
- b) proportional at all income levels shown
- c) proportional between £10,000 and £20,000 then regressive
- d) regressive at all income levels

Answer: ☐

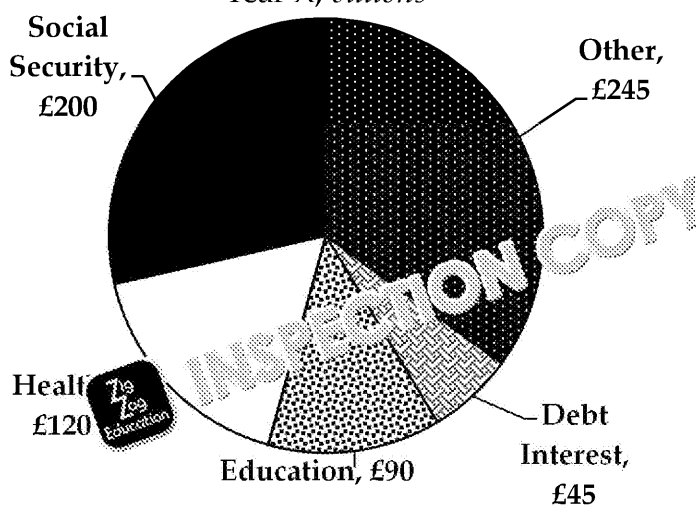
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- 16) Consider the pie charts which respectively show (for year 'X') what a government plans to spend and what its projected revenue is.

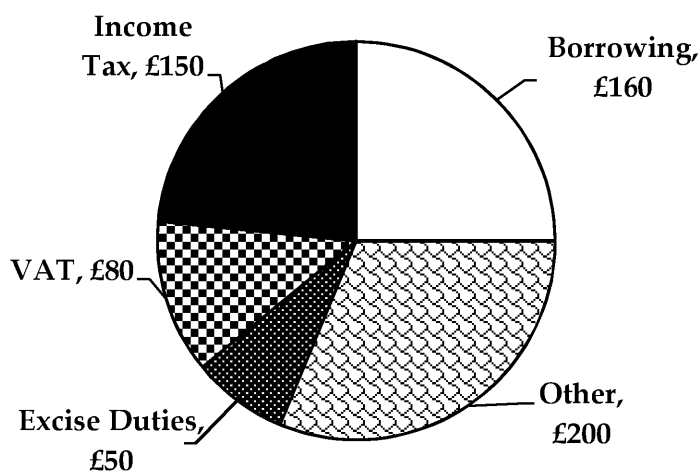
Government Expenditure

Year X, billions



Government Revenue

Year X, billions



Based on the charts we can deduce each of the following except:

- In year X government is borrowing at an interest rate in excess of 25%.
- Health expenditure consumes the relative of 80% of income tax revenue.
- Excise duties generate one third as much revenue as income tax.
- The budget deficit could spend all the VAT revenues and the excise duties.

Answer: ☐

- 17) If a government increases its expenditure by £100bn and pays for it by raising income taxes by the same amount then:

- there will be no change in GDP because the positive multiplier effects are cancelled out by negative ones
- any change in GDP depends on the size of the marginal propensity to consume (MPC)
- GDP will increase by £100bn.
- government spending departments will be unaffected

Answer: ☐

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18) Arguments in favour of a reduction in the top rate of income tax in the UK include only one of the following. Which one?

- a) A less unequal distribution of income would result
- b) Guaranteed extra income tax revenue.
- c) A possible shift in LRAS to the right.
- d) Reduced demand for imports should reduce the trade deficit.

Answer: ☐

19) Low productivity as measured by output per worker per hour could be caused by each of the following except:

- a) Excessive manning levels
- b) Low investment spending
- c) A fall in wage levels
- d) Performance-related

Answer: ☐

20) Real-wage employment is associated with each of these except:

- a) The impact of minimum wages
- b) The power of trades unions to influence wage rates
- c) Wages being 'sticky' in a downturn
- d) Reduced levels of welfare payment for job seekers

Answer: ☐

21) Supply-side policies to reduce unemployment include three of the following pairs. Which is the exception?

- a) Making it easier for employers to hire and fire workers; increases in the personal tax-free allowance.
- b) Reductions in benefit entitlement for job seekers; subsidising childcare costs.
- c) A reduction in the main rate of VAT; a liberal stance on immigration.
- d) Grants for business start-ups; vacancy information to be emailed to job seekers.

Answer: ☐

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Topic 1: The Objectives of Government Economic Policy

Q	A	Explanation
1	d)	Underemployment refers to workers who want more paid hours than they can supply or to workers who are 'overqualified' for their current job. On unemployment, the other options are underemployment.
2	c)	Option c) is right; inflation erodes the real value of debt. If the inflation rate had exceeded 3% then a letter (d) would have been correct. Options are correct.
3	d)	Economic growth is unlikely to lead to reduced congestion, if private cars are good and some forms of public transport are inferior – option d).
4	d)	Option d) – growth is still positive, but at a lower rate.



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Topic 2: Macroeconomic Indicators (3.2.1.2)

Q	A	Explanation
1	c)	Option c) is right – GDP per capita refers to output per head of population and b) are basic definitions, d) would not be counted.
2	c)	Options a), b) and d) would not be counted in GDP but c) would be as it is tax avoidance.
3	b)	Option b) the 'discouraged workers' – typically long-term unemployed as they are not actively seeking work and able to start. The other categories are unemployed by this measure.
4	d)	Jobseeker's allowance would only be available to those in option d) – unemployed assistants. The other groups would not qualify.
5	b)	An exchange rate is at PPP if a unit of local currency can buy the same amount of goods and services abroad – this rate would be the correct condition for option b) value between per capita income.
6	b)	The Big Mac Index is a simple way of determining whether exchange rates are at parity or not – based on a single, homogeneous good (the Big Mac). Option b) would reflect PPP.
7	d)	Option d) is incorrect, and, therefore, the right answer – deflation means a general price level not a reduction in the rate of inflation, which means prices are rising at a lower rate. a) is correct, because RPI includes mortgage costs (unlike CPI); so is YED so as demand for inferior goods falls so will their weighting in the index.
8	a)	A price index works like compound interest, price rises on top of price rises. Over the period shown, prices have risen by 33.2%, but year by year at a steady rate. The incorrect option, and thus the right answer, is option a). We cannot determine whether the average citizen is better or worse off without more information given.
9	b)	A concept such as the standard of living could include many variables. The most material measurement demands the data from option b). Option a) and d) are adjustments that could be made to the key statistic offered.
10	d)	Option d) comprises three additional indicators which provide a more comprehensive view of the economy.
11	b)	To calculate real income in a given year we need to adjust the figure for inflation; to compare with the base year, figures for year 1 need to be deflated, to year 5 prices. Year 5 produced the highest real income (option b) at £1,500bn At year 5 prices, year 1 GDP is worth $100/90 \times £1,000\text{bn}$ (£1,111.1bn) Year 9 deflates to: $100/125 \times £1,750\text{bn}$ (£1,400bn); year 13 is $100/150 \times £1,875\text{bn}$ (£1,250bn)
12	b)	Option a) is right since $£1500\text{bn}/60\text{m}$ (income per head at year 5 prices). Option b) is incorrect, and, therefore, the right answer. Real GDP fell due to a fall in population, leading to lower per capita GDP. Option c) is correct – prices rose by 10% whereas population increased by 10%. Option d) is correct – with a price index of 100, year 5 is the base year.
13	d)	Option d) is right – the price of beer has increased by 20% whereas the price of beer in general has increased by 10%. The real price of beer has increased faster than prices in general. The real price of beer has increased. Each of the other options is incorrect or unverifiable.
14	c)	Option c) offers the correct pair and is thus right.
15	b)	Option b) is right – disinflation marks a reduction in the positive rate of inflation. Deflation is a fall in the price level.
16	b)	Neither measure is superior, each measures inflation in a different way. RPI is that increases in interest rates raise its measure of inflation in the same way that aggregate demand falls. This is because mortgage repayments are on a fixed rate. Option b) is right then.

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Topic 3: Use of Index Numbers (3.2.1.3)

Q	A	Explanation
1	c)	For valid analysis of figures, they need to be 'real' – therefore, c) at constant prices/Nominal/current mean unadjusted for inflation.
2	d)	It is conventional to begin a prices index in a year of low inflation, called the base year (option d).
3	c)	The contributions of each category to the rate of inflation can be calculated by multiplying (its weighting) of 9% thus 3.6%; entertainment is 20% of 8%: 1.6%; clothing is 10% of 2.5% and, therefore, 2.5% and thus the right option, c), a higher rate than 2.5%.
4	d)	With the assumptions made, each of a, b, and c is wrong. The only correct option is d) the index has doubled, purchasing power has halved. If unchanged weights are used, the income spent are unchanged.
5	c)	The money wages need to be corrected for inflation, expressed in base year prices. Here is the formula: $\text{Price index in current year} \times \text{Base yr CPI Index} / \text{CPI index in base year}$. For example: $£550 \times 100/150 = £400$ at year one prices. The right answer is option c) $£550 \times 100/124 = £440$: a 10% increase in year 1.

Topic 4: The Circular Flow of Income (3.2.2.1)

Q	A	Explanation
1	c)	Option c) is right – leakages are monies leaving the circular flow, as savings. Each of the other options comprises both a leakage and an injection.
2	a)	Tariff-free imports (option a) are a leakage, the other three options are injections.
3	d)	Arrow 4 (option d) represents the flow of factors/services by households to firms via the factor market. (3 is payment to factors, 2 is output of goods/services, 1 is household expenditure)
4	b)	The three countries do not have equal GDP values in year 1 – the base point from which comparisons of growth rates originate: option b).
5	d)	An increase in the supply of credit may discourage saving whereas an increase in the demand for credit may encourage saving – option d).



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Topic 5: AD and AS (3.2.2.2–6)

Q	A	Explanation
1	d)	The first three options should all result in a rightward shift of AD – rising expenditure (a), rising X demand (b), ‘wealth effects’ (c) but cheaper contribute to benign deflation, lower general prices giving household (option d).
2	a)	Option a) is right – rising X leads to rising AD. Wage rises could be lower than inflation, reducing living standards; insufficient to measure living standards. An output gap can be positive for an economy’s current potential output.
3	b)	Movement along a LRAS curve is induced by a change in AD. The only among the options is option b) – increase in government current spending.
4	b)	Option b) where LRAS2 rises AD1.
5	c)	Option c) as LRAS and AS rise.
6	d)	Option d) as AD falls.
7	d)	An increase in JSA should boost AD as recipients are likely to spend more; however, higher welfare payments may deter participation – so option d) is correct. The other options should influence both variables, e.g. a reduced top marginal rate may have an impact on AD but also stimulate wealth creation.
8	d)	Option d) – the impact of a fall in AD on the price and output levels is shown by a movement from the original position on LRAS – if in the vertical section, prices only may fall.
9	d)	Options b) and d) are virtually the same, public and government sector saving, but d) excludes Imports (M) so is incorrect.
10	c)	The marginal propensity to consume/save refers to the proportion of income that is spent/saved. Average propensities refer to spending/saving as a proportion of income. Option c) is incorrect – the average propensity to consume falls from 0.8 to 0.7, thus the right answer.
11	c)	Investment demand can be induced by rising demand for consumer goods if businesses do not have unused capacity: option c). More costly borrowing and increased tax on profit would deter investment.
12	c)	Option c) is the definition of ‘investment’, b) is an example. a) is saving.
13	b)	Option b): increased demand for our exports would cause the £ to appreciate and it would be in greater demand. The other three would occur.
14	b)	The accelerator effect refers to the process in which additional investment leads to rising demand in the economy – option b). Option c) refers to the multiplier process, which is the accelerator effect.
15	a)	The multiplier process is being described – a change in AD causes the multiplier effect, more than the initial change in spending.
16	d)	Option d) is right – a £20m fall would reduce spending by £20m, ‘poor’ £100m fall in distribution would increase consumption by £80m.
17	b)	Option b) is correct – £1,000bn so this is the equilibrium output; the trade deficit is £100bn – this is the only calculable option: option b).
18	c)	Increased investment would raise both AD and LRAS, the other options would raise costs – so option c) is right.
19	b)	An increase in the basic rate of tax (option b) may reduce AD but it may also give incentives to work, to set up businesses, so would not cause an increase in the potential of the economy.
20	b)	Raising the official retirement age (option b)) would increase the supply of labour, hence shift LRAS to the right.

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Topic 6: Economic Growth and the Economic Cycle (3.2)

Q	A	Explanation
1	b)	The economy here could produce an extra £50bn output if there was sufficient demand – option a) is correct. A negative output gap is £50bn – option b) – we cannot speculate on the balance of payments and there must be some demand-deficient unemployment on account of the negative output gap.
2	c)	An injection of £50bn would 'overheat' the economy, creating a positive output gap. The multiplier was 1. Policy c) would close the gap – £40bn injected with a multiplier of 1.
3	c)	Option c) is right – this economy is being overworked so we can expect inflation and some of the frustrated domestic demand being satisfied by imports, worsening trade deficit; the relatively high domestic inflation rate will make the trade deficit worse again.
4	c)	The correct definition of a recession is that output must fall for at least six consecutive quarters.
5	c)	Option c) is right – it is automatic for tax revenues to fall and government expenditure to rise when an economy shrinks.
6	d)	Geographical labour is often in short supply during a period of rapid growth. Such scarce resources are unlikely – option d) is correct, therefore.
7	c)	Short-run growth reflects movement from inside a PPC to a point on the PPC, or a shift to a point on a new curve, to the right of the original one – hence option c) is correct.
8	d)	Years with above average growth rates may be unsustainable as they are 'booms' and tend to bring problems of inflation and a deteriorating current account – option d) is correct.
9	c)	The economy grew 'on-trend' from years 0 to 10 but there was a sharp decline in growth in year 11 – option c) is correct.

Topic 7: Employment and Unemployment (3.2.3.2)

Q	A	Explanation
1	c)	Option c) is incorrect, and, therefore, the right answer. The cause of a recession is cyclical, not voluntary.
2	c)	Option c) is right – welfare payments automatically rise as jobs are lost and there are more applicants per vacancy.
3	c)	It is unlikely that recession, which leads to excess labour supply, would lead to a rise in the real value of the NMW. The other options are typical features of a shrinking economy.
4	c)	Geographical labour immobility is unlikely to be a cause of unfilled vacancies – option c) is correct.
5	b)	Demand-deficient unemployment is caused by a fall in AD, so if an increase in income is spent on imports, AD must necessarily fall (negative multiplier effect) and unemployment would rise: b) is correct.
6	d)	The increase in unemployment here not caused by a fall in demand. The types of labour offer is d) which is caused by recession so is cyclical in nature.
7	b)	The unemployment figures are 'seasonally adjusted' so spikes in the data are omitted – so b) is the right answer.
8	d)	Structural unemployed workers need to become occupationally mobile to find work. Cheaper money can stimulate activity – option d) is correct.

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Topic 8: Inflation and Deflation (3.2.3.3)

Q	A	Explanation
1	b)	Option b) is right: deflation means falling prices so postponing purchases is rational consumer behaviour. The other options are false – a positive increase in the price level (a); rising Aggregate Demand may not cause inflation (b); if Aggregate Supply is perfectly elastic, say, government has never taken the risk of deflation would be too great (d).
2	d)	Option d): frictional unemployment is short term and an inevitable feature of free markets. It is not associated with cost-push inflation, unlike the other options.
3	c)	Forever associated with Milton Friedman and the monetarist school.
4	c)	Option c): a wage-price spiral is what is being described.
5	d)	Deflation leads to an increase in the real value of money, just as inflation causes a fall in the value of money.
6	c)	Prices fell in May 2009. Deflation would have given a marginal increase in the value of money. Option c) is right.

Topic 9: Balance of Payments on Current Account (3.2.3.4)

Q	A	Explanation
1	d)	Rising house prices tend to make existing homeowners feel wealthier and more likely to import goods – making the trade deficit bigger: option d). The other options could improve the trade position.
2	c)	A rise in income tax-free allowances in the UK would stimulate spending on imports, so would not be expected to help reduce the trade deficit. Higher interest rates depress import demand; rising incomes in the UK increase demand for UK exports.
3	d)	A weaker currency should help reduce the trade deficit ('WPIDEC') – such as in options a) to c). However, elastic demand for our exports and imports should lead to no change in the trade deficit – raised export earnings, reduced import expenditure – option d) is right.

Topic 10: Conflicts between Macroeconomic Policy Objectives (3.2.3.5)

Q	A	Explanation
1	b)	A worsening trade deficit is a common feature of UK economic growth. The budget – should improve as unemployment falls and tax revenues rise: option b). Higher interest rates and tighter credit conditions would be expected.
2	c)	The Keynesian LPA is in three sections so we would expect inflation to rise with unemployment. But for the relationship to be non-linear: option c).
3	c)	Longer term, goods would be in lower demand so with leftward shifts in demand curves, there would be reduced consumer surplus: option c).
4	d)	Option d) – inverse but non-constant trade-off. The opportunity cost of reducing unemployment tends to rise in terms of inflation.
5	b)	Increased willingness to save means reduced willingness to spend so sometimes referred to as 'the paradox of thrift'. Option b) is right the other options are wrong.
6	c)	Option c) – demand-pull inflation can occur under both perspectives. Classical economists believe that the economy tends towards full employment through market forces, whereas Keynesians believe government intervention is needed to get an economy out of a slump.

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Topic 11: Macroeconomic Policy (3.2.4.1–3)

Q	A	Explanation
1	c)	<i>Fixed</i> interest mortgage repayments would not rise although mortgage interest rates would be likely to fall, so c) is the correct pairing – option c). The other combinations are likely.
2	a)	A fall in demand for UK goods signals a fall in demand for the £, and the new equilibrium is where D1D1 cuts SS: option a).
3	d)	An increase in demand for imported goods requires an additional supply of goods: option d).
4	b)	Such intervention by the Bank of England would cause a shift to the left for £s, a movement to B.
5	d)	A 'stronger' pound makes imports cheaper but can make it more difficult to sell, but would not reduce sales to Spain from UK citizens (option d) is correct).
6	b)	Aggregate demand would fall and hence demand-pull pressure – if exports are rising, option b) is right.
7	a)	If domestic interest rates are still relatively high then the currency must be strong, keeping demand high, so option a) is right. Options b), c) and d) would all lead to a weaker currency.
8	c)	Fiscal policy concerns government expenditure and taxes so c) is an example of fiscal policy; the other three are monetary.
9	c)	Higher interest rates aim to reduce inflation by encouraging savings, including 'big ticket' items, and reducing the effective disposable income. However, demand for rented property may rise if mortgages become more expensive. Only the latter part of option c) is correct and thus the right answer.
10	c)	Reducing the tax paid on savings is fiscal not monetary: option c).
11	c)	Option c) – recession in the USA (a cold) causes snuffles in the UK as demand for exports falls.
12	d)	The fiscal policy changes described would leave the budget unchanged (at least) but would have the other effects – option d) is right.
13	c)	Any income tax multiplier tends to be weaker than an equivalent increase in government expenditure as households may only spend a proportion of their extra income: option c).
14	a)	Direct taxes are put on income or wealth; indirect (such as option a) tax) are put on goods and services.
15	c)	The tax shown is initially proportional – same % taken at both income levels – but then becomes regressive; although tax payments continue to rise they rise less than income making it regressive: option c).
16	a)	Debt interest includes payments on all outstanding government debt, not just the current year – so a) is incorrect and thus the right answer.
17	c)	The Balanced Budget Multiplier sees a fall in government spending and a rise in taxation. They don't cancel each other out because the multiplier effect of a direct injection into the economy are greater than those of a cut in tax. It is unlikely to see a fall in tax revenue as households are unlikely to spend an extra penny of their increased disposable income: option c).
18	c)	Option c) – a tax revenue is not guaranteed but there would be an increase in government revenue which could lead to an increase in productive potential: option c).
19	d)	It is unlikely that option d), performance-related pay, would not lead to an increase in output per worker per period.
20	d)	Real-wage unemployment is caused by wages being above their free market level. Option d) would drive wages downwards if the supply of labour increased. The demand of being unemployed having increased.
21	c)	Option c) a reduction in the base rate of interest is principally a demand-side policy to stimulate spending; liberal immigration may lead to unemployment if the supply price of their labour is higher than the new equilibrium.

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