



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject: Business economics –
Macro

Chapter: Unit 3

Category: Practice questions

MCQ questions

1. CT7 April 2011 Q19

Which of the following is an example of disequilibrium unemployment?

- A. Frictional unemployment
- B. Cyclical unemployment
- C. Seasonal unemployment
- D. Structural unemployment

Answer – B

2. CT7 September 2011 Q26

A country is running a current account surplus. In relation to the rest of the world it is:

- A. increasing its net liabilities and/or increasing its net assets.
- B. decreasing its net liabilities and/or increasing its net assets.
- C. increasing its net liabilities and/or decreasing its net assets.
- D. decreasing its net liabilities and/or decreasing its net assets

Answer – B

3. CT7 April 2012 Q26

If the rate of inflation is lower than the anticipated rate used for negotiating interest rates and wages:

- A. lenders will gain at the expense of borrowers and employers will gain at the expense of workers.
- B. borrowers will gain at the expense of lenders and employers will gain at the expense of workers.
- C. borrowers will gain at the expense of lenders and workers will gain at the expense of employers.
- D. lenders will gain at the expense of borrowers and workers will gain at the expense of employers.

Answer – D

4. CT7 September 2012 Q24

Country A exports Good X and imports Good Y from Country B. The price of Good X rises by 20 per cent and the price of Good Y falls by 40 per cent. Which of the following statements is correct about Country A's terms of trade?

- A. A It has improved by 100 per cent.
- B. B It has improved by 60 per cent.
- C. C It has deteriorated by 100 per cent.
- D. D It has deteriorated by 60 per cent.

Answer – A

5. CT7 April 2013 Q26

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Answer – C

6. CT7 April 2014 Q15

Which one of the following is likely to lead to cost push inflation?

- A. A decrease in trade union powers.
- B. An appreciation of the domestic currency's exchange rate.
- C. A fall in labour productivity.
- D. A decrease in the profit margins applied by firms.

Answer – C

7. CT7 April 2014 Q18

The US has been running a large current account deficit, and China has a large current account surplus. If their exchange rates were both flexible, how would such imbalances be eliminated?

- A. The US dollar appreciates and the Chinese renminbi depreciates.
- B. The US dollar depreciates and the Chinese renminbi depreciates.
- C. The US dollar appreciates and the Chinese renminbi appreciates.
- D. The US dollar depreciates and the Chinese renminbi appreciates.

Answer – D

8. CT7 September 2014 Q21

The adoption of an expansionary fiscal policy will result in:

- A. an increase in aggregate demand and a reduction in real output and unemployment.
- B. an increase in aggregate demand, real output and unemployment.
- C. an increase in aggregate demand and real output and a reduction in unemployment.
- D. a reduction in aggregate demand and real output and an increase in unemployment.

Answer – C

9. CT7 April 2015 Q19

If a country experiences high domestic inflation compared to its trading partners with a fixed exchange rate then the effect of the inflation will be to:

- A. decrease the country's imports.
- B. increase the country's exports.
- C. shift the country's currency supply curve in the foreign exchange market to the right requiring central bank purchases of the domestic currency to maintain the fixed exchange rate.
- D. shift the demand curve for the country's foreign exchange to the right requiring central bank purchases of the domestic currency to maintain the fixed exchange rate.

Answer – C

10. CT7 September 2015 Q16

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- C. technological.
- D. demand-deficient.

Answer – C

11. CT7 September 2016 Q16

Which one of the following is likely to be the most effective method of reducing the natural rate of unemployment?

- A. increase the money supply
- B. increase unemployment benefit
- C. increase government expenditure
- D. increase information flows on job availability

Answer – D

12. CT7 April 2017 Q17

Unanticipated inflation:

- A. increases the opportunity cost of holding money and redistributes wealth from fixed rate borrowers to lenders.
- B. increases the opportunity cost of holding money and redistributes wealth from fixed rate lenders to borrowers.
- C. reduces the opportunity cost of holding money and redistributes wealth from fixed rate borrowers to lenders.
- D. reduces the opportunity cost of holding money and redistributes wealth from fixed rate lenders to borrowers.

Answer – B

13. CT7 September 2017 Q23

The unemployment rate, expressed as a percentage, is given by the number of unemployed divided by:

- A. the total population.
- B. the total labour force.
- C. the number of employed.
- D. the number in the population who are of working age

Answer – B

14. CT7 April 2018 Q15

If a country has a current account surplus then:

- A. Gross Domestic Product is greater than Gross National Income.
- B. Gross Domestic Product is less than Gross National Income.
- C. Gross Domestic Product is the same as Gross National Income.
- D. we cannot say whether Gross Domestic Product differs from Gross National Income from this information.

Answer – D

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The new policy is most likely to have been:

- A. an expansionary fiscal policy.
- B. an expansionary monetary policy.
- C. a contractionary fiscal policy.
- D. a contractionary monetary policy.

Answer – A

16. CT7 September 2018 Q14

A country with a population of 38 million has 32 million in employment and 2 million unemployed. What is the unemployment rate rounded up to one decimal point?

- A. 5.9%
- B. 5.3%
- C. 5.0%
- D. 6.3%

Answer – A

Longer questions

1. CT7 April 2011 Q34

Each of the two countries A and B produce two products, bread and wine. Assume that before trade and with given resources, the alternatives shown in the table below can be produced by each country.

	<i>Wine</i>	<i>Bread</i>
Country A	10	20
Country B	4	16

- (i) Which country should specialise in the production of bread?
- (ii) Calculate the global production of bread and wine by both countries after complete specialisation.
- (iii) Select an appropriate terms of trade of units of bread for units of wine and demonstrate why both countries can be better off after specialisation and exchange.

2. CT7 September 2011 Q34

- (i) Explain the concepts of voluntary and involuntary unemployment.
- (ii) Outline two reasons which might explain why some people choose to be voluntarily unemployed on a long term basis.

3. CT7 September 2011 Q36

You are given the following data on Country A's balance of payments:

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4)	Imports of services	-150
5)	Income balance	-50
6)	Net current transfers	+10
8)	Capital account balance	+80
9)	Financial account net flows	+60

- (i) Calculate the value of the balance of trade for Country A.
- (ii) Calculate the value of the current account balance for Country A.
- (iii) Explain what a net surplus in the capital account and financial account means in terms of the Country's foreign assets and liabilities.
- (iv) Explain what an increase in the national income of the Country which is not caused by an increase in exports will imply for the current account balance.

4. CT7 September 2011 Q38

- (i) Explain the solutions that have been advocated by Keynesian economists to solve demand deficient unemployment.
- (ii) Discuss criticisms that have been made concerning these Keynesian solutions.

5. CT7 April 2012 Q34

The following table represents an economy's labour market:

<i>Average (real) wage rate US \$</i>	<i>Aggregate demand for labour (thousands of workers)</i>	<i>Aggregate supply for labour (thousands of workers)</i>	<i>Total labour force (thousands of workers)</i>
20	700	100	200
40	500	200	300
60	350	350	400
80	200	530	600
100	100	700	750

- (i) Calculate the following:
 - (a) the equilibrium wage rate.
 - (b) the natural level of unemployment.
 - (c) the level of disequilibrium unemployment that would arise if trade union pressure increased the average (real) wage to US\$ 80.
 - (d) the equilibrium unemployment rate.
- (ii) Draw a diagram to show and explain the impact of an increase in immigration on the labour market equilibrium.

7. CT7 September 2012 Q37

Discuss the main advantages and disadvantages of both fixed and floating exchange rates.

8. CT7 September 2012 Q38

Discuss the merits and problems of alternative measures that the government might adopt to alleviate the various categories of unemployment.

9. CT7 April 2013 Q34

- (i) State the items that are included in the current account of a country's balance of payments.
- (ii) Explain the economic significance of a current account surplus and a current account deficit in the balance of payments.

10. CT7 April 2013 Q35

- (i) Draw a diagram showing the aggregate supply of labour curve (AS_L), aggregate demand for labour curve (AD_L) and a total labour force curve (N).
- (ii) Show on your diagram the equilibrium wage w_1 and state the natural level of unemployment.
- (iii) Select on your diagram a wage level w_2 higher than w_1 and state the level of disequilibrium unemployment.
- (iv) State a possible cause of disequilibrium unemployment and explain how it can be eliminated.

11. CT7 September 2013 Q35

Use the aggregate demand and supply model to illustrate and explain the difference between demand pull and cost push inflation.

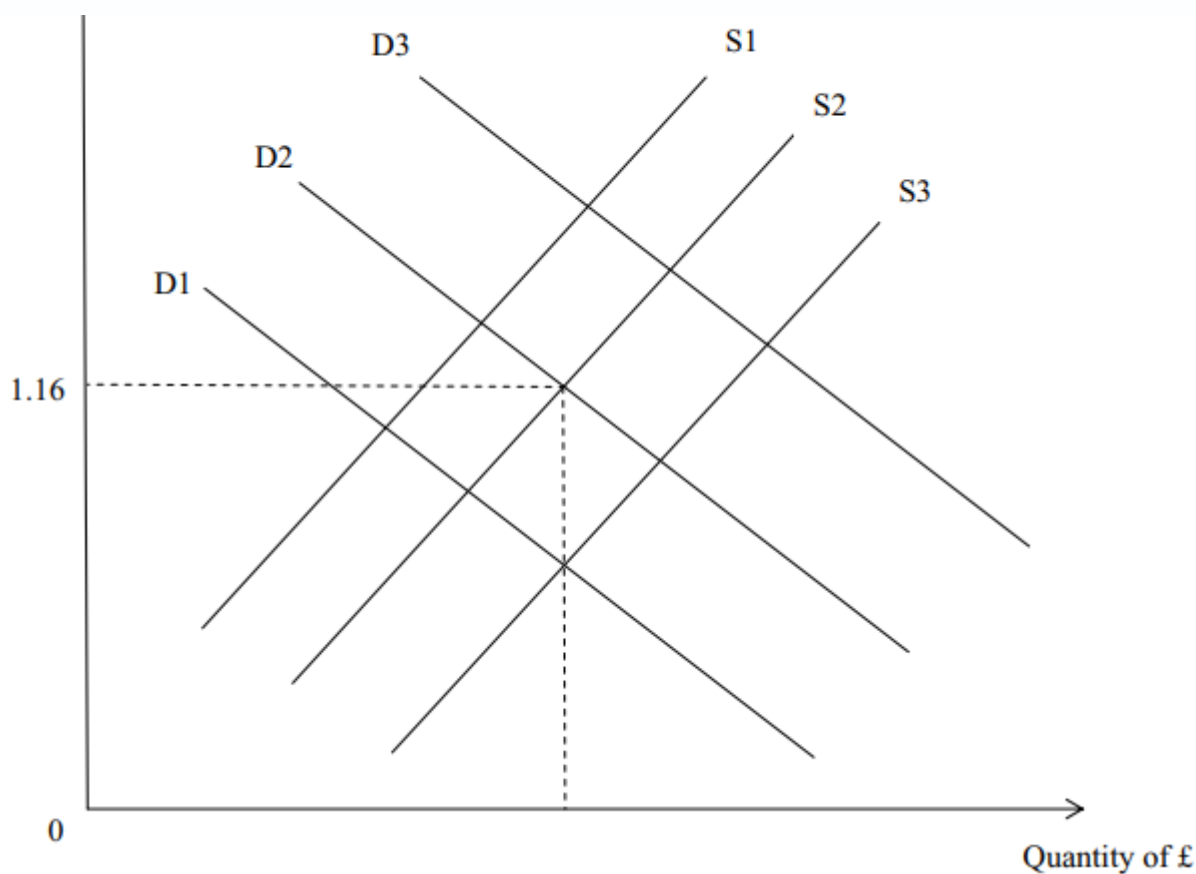
12. CT7 September 2013 Q37

- (i) Explain, using a diagram, the Phillips curve relationship.
- (ii) Explain, with reference to a diagram, the expectations-augmented Phillips curve and the accelerationist theory of money and discuss the implications this has for government policy

13. CT7 April 2014 Q31

The following diagram shows the initial supply and demand for sterling denoted by S_2 and D_2 respectively, and the Euro/Sterling exchange rate. With reference to the diagram, state the relevant supply and demand lines and comment on the movement of the exchange rate resulting from each of the following changes:

- (a) a rise in the UK interest rates.
- (b) higher inflation in the UK than abroad.
- (c) improvement in relative investment prospects abroad.
- (d) speculation that the exchange rate will fall.



14. CT7 April 2014 Q35

- (i) With the aid of aggregate supply and demand curves, explain the distinction between demand pull and cost push inflation.
- (ii) Give two examples of the factors that can cause each type of inflation.

15. CT7 April 2014 Q36

- (i) Outline the main items that are recorded in the current account of the balance of payments and the macroeconomic significance of a large current account deficit.
- (ii) Discuss the alternative macroeconomic measures that can be used by policy makers to reduce a large current account deficit. In your discussion, consider the relative merits of the alternative measures.

16. CT7 April 2014 Q37

- (i) Discuss why control of inflation has been a major policy objective of governments in the industrialised countries.
- (ii) Discuss how a policy to control inflation may conflict with the attainment of other macroeconomic objectives.

18. CT7 September 2014 Q34

Firm A produces Good X, has fixed costs of £10,000 per year and has a variable cost of £5,000 per year for each worker. Firm A can sell all of Good X produced at a price of £200 per ton. The table below shows the total production of Good X per year as additional workers are employed.

<i>Number of Workers Per Year</i>	<i>Total Production in Tons per Year</i>
0	0
1	25
2	75
3	127
4	179
5	212
6	225

- (i) Draw a table to illustrate at each level of employment the firm's:
- marginal product of labour per year (in tons).
 - marginal revenue product of labour per year (in £s).
- (ii) Calculate the total revenue, total cost and profit/loss per year when four workers are employed

19. CT7 April 2015 Q35

The following table shows items in a country's balance of payments accounts:

	<i>£ millions</i>
Balance of trade in goods	-80,600
Balance of trade in services	+50,500
Income balance	+20,300
Net current transfers	-25,000
Capital account balance	+5,000
Net direct investment	-40,500
Balance of other investments and financial flows	+63,000
Reserves assets	-5,000

Calculate:

- the balance of trade.
- current account balance.
- financial account balance.
- net errors and omissions.

20. CT7 April 2015 Q37

21. CT7 September 2015 Q34

Describe FOUR of the costs of unanticipated inflation.

22. CT7 September 2015 Q36

- (a) Explain, with reference to the dollar/sterling exchange rate, THREE factors in the UK economy which may lead to an appreciation of sterling.
- (b) Explain the likely impact on UK exports, imports and the rate of inflation following an appreciation of the dollar/sterling exchange rate.

23. CT7 April 2016 Q32

- (i) Describe what is meant by discretionary fiscal policy.
- (ii) Assess why discretionary fiscal policy may not be effective in smoothing fluctuations in the business cycle.

24. CT7 April 2016 Q35

- (i) Using aggregate supply and demand curves, discuss the different effects on output of demand-pull and cost-push inflation.
- (ii) Suggest TWO examples of factors that could lead to cost-push inflation and TWO examples of factors that could lead to demand-pull inflation.
- (iii) Describe, with the aid of a diagram, what is meant by the Phillips curve.
- (iv) Discuss the demand side explanation of the relationship represented by the Phillips curve.

25. CT7 September 2016 Q35

Outline how a central bank may intervene in the foreign exchange market in order to reduce short-term fluctuations in the exchange rate.

26. CT7 September 2016 Q37

- (i) Describe, with the use of a diagram, the difference between equilibrium and disequilibrium unemployment.
- (ii) Recommend, giving reasons, suitable supply and demand policy interventions to reduce the following types of unemployment within an economy:
 - (a) structural
 - (b) frictional
 - (c) cyclical

27. CT7 April 2017 Q31

28. CT7 April 2017 Q33

Describe FOUR advantages that floating exchange rates have over a fixed exchange rate.

29. CT7 September 2017 Q35

- (i) Describe the difference between the claimant unemployment count and the standardised unemployment rate.
- (ii) Explain which measure of unemployment a government might prefer to use if the government were coming up to an election.

30. CT7 April 2018 Q32

- (i) Describe what is meant by a floating exchange rate.
- (ii) Describe what a movement in the exchange rate of US dollars to UK pounds from \$1.50/£1 to \$1.30/£1 would imply for the cost of UK imports from the United States.
- (iii) Explain FOUR advantages of a floating exchange rate for a country

31. CT7 April 2018 Q35

- (i) Describe equilibrium (voluntary) unemployment and disequilibrium (involuntary) unemployment.
- (ii) Outline TWO reasons which are likely to raise the level of voluntary unemployment in the economy in the long run.

32. CT7 April 2018 Q36

Discuss the advantages, disadvantages and potential problems associated with using fiscal policy and monetary policy to boost economic activity in an open economy.

33. CB2 April 2019 Q35

- (i) Describe what is meant by the equation of exchange.
- (ii) Discuss the relevance of the equation of exchange to the view that governments can control inflation by controlling the money supply.
- (iii) Discuss the problems associated with controlling the money supply as a means to control the rate of inflation.

34. CB2 April 2020 Q34

Describe the operation of the following exchange rate regimes:

- adjustable peg
- managed floating

35. CB2 September 2020 Q30

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36. CB2 September 2020 Q34

Discuss the monetarist proposition that in the long run monetary policy can affect the inflation rate but not the unemployment rate.

37. CB2 September 2020 Q36

- (i) Explain why control of inflation has been a major policy objective of governments in both developed and developing economies.
- (ii) Explain how a policy to control inflation may conflict with the attainment of other macroeconomic objectives

38. CB2 April 2021 Q33

- (i) Describe what is meant by demand deficient unemployment, indicating how it is reflected in both the economy and labour market.
- (ii) Discuss the Keynesian economic policy recommendations regarding government intervention to bring an economy facing demand deficient unemployment closer to the desired level of full employment.

39. CB2 April 2021 Q34

The following information is available about the labour market in a small country:

<i>Real wage (£ per hour)</i>	<i>Demand for labour</i>	<i>Will accept a job</i>	<i>Labour force</i>
9	560,000	400,000	490,000
10	520,000	440,000	520,000
11	480,000	480,000	550,000
12	440,000	520,000	580,000
13	400,000	560,000	610,000

Assume that, unless told otherwise, the real wage is flexible.

- (i) State the number of voluntary unemployed at the equilibrium wage rate.
- (ii) State the level of involuntary unemployment if the wage rate is rigid at £1 per hour above the equilibrium wage.
- (iii) Explain the reason why the gap between the number who will accept a job and the labour force narrows as the wage rate rises.
- (iv) Assume that starting at the equilibrium wage, there is a cut in social security benefits. Explain what will happen to the equilibrium wage rate and total employment if, at any given wage per hour, there are extra workers prepared to accept a job than prior to the social security cut.
- (v) State the total level of employment if the government introduces a payment of £2 per hour to each employee at each level of the wage rate.

40. CB2 September 2022 Q27

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rate of 6%. After a year has passed, he is paid £120 in interest. Explain whether Robert is now better off than he was the year before based on your answer in part (i).

41. CB2 September 2022 Q32

- (i) Describe the type of inflation that would be expected to arise with an increase in the price of an energy source, such as gas, in an energy-importing country.
- (ii) Outline a potential policy response to manage the type of inflation identified in part (i), in the long run and the practical challenges that may be associated with such a response.



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