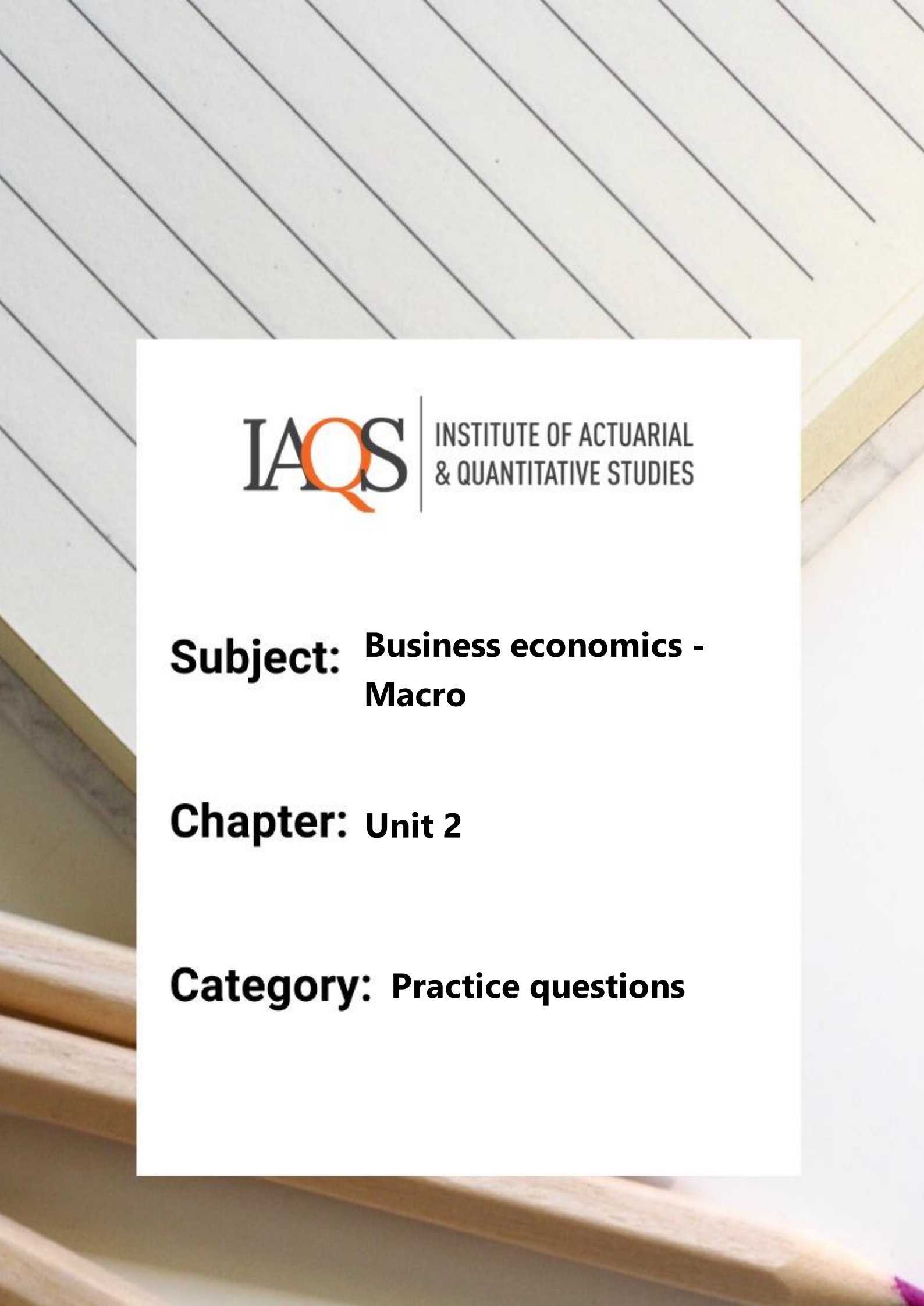

INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Business economics - Macro

Chapter: Unit 2

Category: Practice questions

MCQ Questions

1. CT7 April 2011 Q15

If the average price of exports has risen by 50% since the base year and the average price of imports has risen by 25% since the base year, what is the current figure for the terms of trade?

A. 75
B. 120
C. 125
D. 150

Answer – B

2. CT7 September 201 Q16

In the circular flow of income model:

A. savings, taxes and investment are withdrawals.
B. savings, imports and taxes are withdrawals.
C. investment, government expenditure and imports are injections.
D. investment, exports and consumption are injections.

Answer – B

3. CT7 September 2011 Q19

In a simple economy, consumption is given by the relationship
C = 0.75 Y
Where C is consumption expenditure and Y is Gross Domestic Product.
If government expenditure is £150 million, investment is £50 million and there is no taxation or international trade, what will be the equilibrium value of Gross Domestic Product of the economy?

A. £200 million
B. £312.5 million
C. £1,000 million
D. £800 million

Answer – D

4. CT7 September 2011 Q25

Given the following labour hours required to produce 1 unit of each of Goods X and Y, which one of the statements below is TRUE?

Country	*Good X*	*Good Y*
A	8	10
B	10	20

A. Country A has a comparative advantage and an absolute advantage in producing Good Y.

B. Country B has a comparative advantage in producing Good X and an absolute advantage in producing Good Y.
C. Country A has a comparative advantage in producing Good X and an absolute advantage in producing Good Y.
D. Country B has a comparative advantage in producing Good Y and an absolute advantage in producing Good X.

Answer - A

5. CT7 April 2012 Q19

Which of the following is a possible explanation for an increase in the average price level and a decrease in real national income?

A. An increase in short run aggregate supply.
B. A decrease in short run aggregate supply.
C. An increase in aggregate demand.
D. A decrease in aggregate demand.

Answer – B

6. CT7 September 2012 Q19

In a closed economy with no government sector if the amount people plan to save exceeds the amount they plan to invest then there will be:

A. a rise in national income.
B. an unplanned rise in stocks.
C. inflationary pressures.
D. a rise in the amount people plan to invest.

Answer – B

7. CT7 April 2013 Q24

Which ONE of the following is NOT part of the calculation for the Gross National Income?

A. Net income from abroad
B. Gross capital formation
C. Capital depreciation
D. Imports of goods and services

Answer – C

8. CT7 April 2014 Q26

Which one of the following will result in an improvement in a country's terms of trade?

A. A fall in the price of its imports combined with a rise in the price of its exports.
B. A fall in the price of its imports combined with a fall in the price of its exports.
C. A rise in the price of its imports combined with a rise in the price of its exports.
D. A rise in the price of its imports combined with a fall in the price of its exports.

Answer – A

9. CT7 September 2014 Q25

PRACTICE QUESTIONS 2

UNIT 2

Firms can benefit through specialisation and international trade due to:

A. comparative advantage.
B. absolute advantage.
C. different factor endowments.
D. all of the above.

Answer – D

10. CT7 April 2015 Q14

If a country has a positive balance of net income from abroad 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- B

11. CT7 April 2015 Q15

To obtain a measure of Net National Income from Gross Domestic Product it is necessary to:

A. add net income from abroad and deduct transfer payments.
B. deduct net income from abroad and add capital depreciation.
C. add net income from abroad.
D. add net income from abroad and deduct capital depreciation.

Answer – D

12. CT7 April 2016 Q14

Which one of the following will have net exports directly measured in the method used to calculate Gross Domestic Product (GDP)?

A. the income method
B. the expenditure method
C. the product method
D. the investment method

Answer – B

13. CT7 April 2016 Q15

You are given the following data for an economy:

	£ millions
Consumer expenditure (including taxes on products)	120
Investment	60
Government expenditure (including transfer payments)	70
Exports	40
Imports	20
Taxes on products (Indirect taxes)	10
Capital depreciation	20
Transfer payments	10
Net Income from abroad	10

The value of the economy's Gross National Income at market prices is:

A. £250 million.
B. £260 million.
C. £270 million.
D. £280 million.

Answer – C

14. CT7 April 2017 Q17

Which of the following could explain why a country's aggregate demand curve might shift inwards to the left?

A. an appreciation of the domestic currency
B. a decrease in interest rates
C. a rise in government expenditure
D. an increase in business confidence

Answer – A

15. CT7 April 2017 Q16

Which of the following is least likely to lead to an increase in long run economic growth?

A. An increase in the money supply.
B. An increase in capital investment expenditure.
C. An increase in education expenditure.
D. An increase in research and development expenditure

Answer – A

16. CB2 April 2019 Q14

To calculate Gross National Income, you need to know all of the following EXCEPT:

A. gross fixed capital formation.
B. capital depreciation.
C. consumption expenditure.
D. net income from abroad

Answer – B

17. CB2 September 2019 Q14

Which of the following will result in an improvement in the domestic country's terms of trade?

A. A rise in the average price of imports relative to the average price of exports.
B. A fall in the quantity of imports relative to the quantity of exports.
C. A rise in the quantity of exports while imports remain the same.
D. A rise in the average price of exports relative to the average price of imports

Answer – D

Longer questions

1. CT7 April 2011 Q32

State the adjustments needed to:
(i) obtain Gross Value Added at basic prices from Gross Domestic Product at market prices.
(ii) obtain Gross National Income at market prices from Gross Domestic Product at market prices.
(iii) obtain Net National Income at market prices from Gross National Income at market prices.
(iv) obtain households' disposable income from Gross National Income at market prices.

2. CT7 September 2011 Q37

(i) Explain why firms might wish to grow.
(ii) Explain the relationship between growth and profitability in a firm.

3. CT7 April 2012 Q29

Outline with the aid of a diagram the four stages of the business cycle.

4. CT7 September 2012 Q31

The market demand curve (Qd) and supply curve (Qs) of Good X are given by the following equations:
$Q_d = 120 - 2P$
$Q_s = 2P$
where P is the price in pounds.

(i) Calculate the market equilibrium price and quantity.
(ii) Calculate the market equilibrium price and quantity if a sales tax of £10 per unit is imposed on Good X.
(iii) Calculate the total tax revenue raised by the sales tax.

5. CT7 September 2012 Q35

(i) Explain what is meant by economic growth.
(ii) Discuss THREE factors which influence a developed country's economic growth.

6. CT7 September 2012 Q36

The following data relates to a closed economy with no government sector:

Income level Y	*Planned Consumption* C	*Planned Investment* I
80	64	22
100	78	22
120	92	22
140	106	22

where:

- $C = 8 + 0.7Y$.
- planned consumption is the amount of consumption expenditure households plan to undertake.
- planned investment is the amount of investment firms plan to carry out.
- planned savings is the amount that households plan to save.

(i) Determine the equilibrium level of national income.
(ii) If the national income were £140 million calculate the rise or fall in unplanned stocks.
(iii) Determine the level of planned savings that will yield a level of income at which there will be no rise or fall in unplanned stocks.
(iv) Calculate the amount by which planned savings exceed planned investment at an income level of £120 million.
(v) Determine the increase in the level of national income if planned investment rose from £22 million to £28 million.

7. CT7 April 2013 Q33

(i) The data below refers to a closed economy with no government expenditure or taxes. Investment expenditure is assumed to be constant at all levels of national income at £20 billion. For each of the levels of income in the table, state the associated levels of injections, withdrawals and aggregate expenditure.

Income (Y) (£ billions)	40	80	120	160	200	240	280
Consumption (£ billions)	40	70	100	130	160	190	220

(ii) Determine the marginal propensity to consume domestically produced goods.

(iii) State the equilibrium level of national income in the economy.

8. CT7 April 2013 Q37

(i) Explain the difference between actual and potential economic growth.
(ii) Discuss the various factors that can raise a country's actual economic growth rate including measures that can be taken by governments.

9. CT7 September 2013 Q34

PRACTICE QUESTIONS 2

UNIT 2

For a given amount of resources, the table below shows weekly production of either socks or shoes in Country A and Country B.

Country	*Socks*	*Shoes*
A	20	20
B	18	9

(i) State:

(a) which country has an absolute advantage in the production of each of the two goods.
(b) which country should specialise in the production of socks.
(c) which country should specialise in the production of shoes.

(ii) Now assume that each country wishes to produce equal amounts of socks and shoes.

(a) Determine the production of each good in Country A.
(b) Determine the production of each good in Country B.

(iii) Determine the total gain in production of each good when countries specialise using all of the available resources in comparison to the case (ii) above.

10. CT7 April 2014 Q30

Explain with the aid of a diagram the four phases of the business cycle. In your diagram make clear the distinction between the full capacity output trend and the actual trend in economic output.

11. CT7 April 2014 Q32

Explain, with the use of a diagram, the circular flow of income in an open economy with a government, financial/banking and a foreign sector, making clear which are the withdrawals and which are the injections in the system.

12. CT7 April 2014 Q33

Workers in two countries A and B can produce either Good X or Good Y. The annual output of a worker in each country is given in units of each good in the table below.

Country	*Good X*	*Good Y*
A	5,000	10,000
B	200	5,000

(i) State which country has a comparative advantage in the production of Good X.
(ii) State if Country B has an absolute advantage in either of the goods.
(iii) State whether trade would take place between the two countries if the terms of trade were 20 units of Good Y for 1 unit of Good X and explain how each country would benefit from trade on these terms.

13. CT7 April 2014 Q34

The government in a closed economy undertakes expenditure on goods and services of £200 million. Investment expenditure is £100 million and the rate of direct taxation is 25 per cent of all income. The consumption function is given by the equation:

$$C = 0.8\ Yd$$

where C is planned consumption and Yd is disposable income (i.e. after deduction of income tax).

(i) Calculate the level of national income at which the government has a balanced budget.
(ii) Calculate the government budget deficit/surplus if national income were £600 million.
(iii) Calculate the increase in the national income if government expenditure is increased from £200 million to £300 million.
(iv) Calculate the level of government expenditure required to achieve the full employment level of income of £900 million.

14. CT7 September 2014 Q32

Outline the influence that actual economic growth may have on potential economic growth.

15. CT7 September 2014 Q36

The following data is provided on a simple closed economy:
$C = 10 + 0.75Y$
$I = 20$
$G = 40$
where C is consumer expenditure, Y is national income, G is government expenditure on goods and services and I is investment expenditure. All amounts are in € million.

Calculate the following:
(a) The equilibrium level of national income.
(b) Consumer savings at the equilibrium level of national income, if direct taxation is 10% of all income.
(c) The value of withdrawals at the equilibrium level of national income.
(d) The new level of national income if government expenditure were to increase by €10 million.

16. CT7 April 2015 Q33

In Europa, a country which has no trade with other countries, consumption is represented by C = 0.6Y where C and Y are consumption expenditure and national income in billions of Euros respectively. Assume that investment is €20bn and the government expenditure is €80bn.

(i) Calculate the equilibrium level of national income.
(ii) If the government has a budget deficit of €17.5bn, calculate the government's tax revenue and the level of savings in the economy, assuming that the rate of direct taxation is a fixed percentage of all income.
(iii) Calculate the proportion of national income that is invested.
(iv) Ignoring capital replacement and assuming that each €1 of investment yields 25 cents of extra income per year, calculate, showing your workings, the country's rate of growth and the level of national income in the following year.

PRACTICE QUESTIONS 2

UNIT 2

(€1 = 100 cents)

17. CT7 September 2015 Q33

Discuss who gains and who loses as markets become continually more globalised.

18. CT7 April 2016 Q36

(i) Explain, with the aid of a diagram, the net loss of economic welfare resulting from a tariff.
(ii) State the rules according to which the World Trade Organization requires its members to operate.

19. CT7 September 2016 Q34

Define, in relation to the national income accounting framework, the following terms:

(a) gross national income
(b) depreciation (or capital consumption)
(c) net national income

20. CT7 April 2017 Q35

You are given the following data on a simple closed economy:
C = £10 million + 0.75 Y
I = £20 million
G = £40 million
where C is consumer expenditure, Y is national income, G is government expenditure on goods and services and I is investment expenditure. There are no taxes so all government expenditure is financed by borrowing.

(a) Calculate the equilibrium level of national income.
(b) Calculate savings at the equilibrium level of national income.
(c) Calculate the value of injections at the equilibrium level of national income.
(d) Calculate the new level of national income if government expenditure increases by £10 million.

21. CT7 September 2017 Q34

State TWO arguments for and TWO arguments against globalization

22. CT7 September 2017 Q38

Assess, using aggregate demand/aggregate supply (AD/AS) diagrams, the likely impact on real GDP, employment and the price level given the following events which should be treated separately:

(a) a decrease in government expenditure on health care
(b) a rise in the price of oil

23. CT7 April 2018 Q33

Labour is the only factor of production in countries A and B.
In Country A, production of 1 unit of Good X requires 5 hours of labour input and 1 unit of Good Y requires 10 hours of labour input.
In Country B, production of 1 unit of Good X requires 4 hours of labour input and 1 unit of Good Y requires 5 hours of labour input.

(i) State which country has a comparative advantage in producing Good X.
(ii) Calculate the opportunity cost of producing a unit of Good Y in Country A.
(iii) State which good Country B will export to Country A according to the principle of comparative advantage.

(iv) State which ONE of the following is a valid terms of trade between the two countries at which they will both benefit from trade:

A. 2.5 units of Good X for 1 unit of Good Y
B. 1.5 units of Good X for 1 unit of Good Y
C. 1 unit of Good X for 1 unit of Good Y
D. 0.5 units of Good X for 1 unit of Good Y

24. CT7 April 2018 Q34

(i) Draw the aggregate supply curve.
(ii) Explain why the aggregate supply curve for a closed economy slopes upward from left to right.
(iii) Give TWO factors that may shift the aggregate supply curve to the left in a closed economy.
(iv) Outline how a fall in the price of oil is likely to affect the aggregate supply curve in an oil importing country.

25. CT7 September 2018 Q33

Describe TWO gains that countries may experience as a result of engaging in international trade.

26. CT7 September 2018 Q34

(i) State the THREE methods that can be used to calculate Gross Domestic Product (GDP).
(ii) Explain with the use of the circular flow of income diagram why the three methods all result in the same value of GDP.

27. CT7 September 2018 Q37

(i) Describe how the government might seek to increase the potential growth of the economy.
(ii) Discuss the problems the government faces in its attempt to achieve its macroeconomic objectives of high economic growth, full employment and low inflation.

28. CB2 April 2019 Q33

With a given amount of resources (labour, land and capital) two countries, A and B, can produce either Good X or Good Y according to the production possibilities set out in the table below:

Country		*Units of Good X*		*Units of Good Y*
A	Either	500	or	1,500
B	Either	200	or	1,000

(i) State the opportunity cost of producing one unit of Good X in each country prior to the commencement of international trade.
(ii) State which country has a comparative advantage in the production of Good Y.
(iii) State which Good will be exported by Country A if trade is opened up between the two countries.
(iv) Calculate in whole units the amount of Good Y per unit of Good X at which trade would be mutually beneficial between both countries.
(v) Describe what is meant by an improvement in a country's terms of trade

29. CB2 April 2019 Q34

For a simple closed economy with no government taxes:
C = 10 + 0.75 Y
I = 20
G = 40
where C is consumption expenditure, Y is national income, G is government expenditure on goods and services, I is investment expenditure (all measured in millions of pounds).

(i) Calculate the equilibrium level of national income.
(ii) Calculate the level of consumption expenditure at the equilibrium level of national income.
(iii) Calculate the amount of savings at the equilibrium level of national income.
(iv) Calculate the value of injections at the equilibrium level of national income.
(v) Calculate the new level of national income if government expenditure is increased by £10 million.

30. CB2 September 2019 Q33

With a given amount of resources, two countries produce either Product A or Product B. There is constant opportunity cost and the table below shows the production possibilities for the two countries.

Country	*Product A (units)*	*Product B (units)*
X	50	20
Y	60	40

(i) Calculate, for each country, the opportunity cost of each Product A and B.
(ii) State which country has a comparative advantage in the production of Product A.
(iii) State the range of exchange ratios which the countries could use to trade so that they both benefit from trade.

PRACTICE QUESTIONS 2

UNIT 2

31. CB2 September 2019 Q34

Draw a fully labelled circular flow of income diagram, including the related injections and withdrawals

32. CB2 September 2019 Q37

(i) Discuss, with the use of examples, why private sector expenditure is linked to the business cycle.
(ii) Discuss the role of the financial sector in affecting the business cycle.

33. CB2 April 2020 Q36

Discuss, with reference to examples, the view that the costs of economic growth may outweigh the benefits

34. CB2 September 2020 Q31

You are given the following information on an open economy:
Consumption expenditure = 0.6Yd
Investment expenditure = £200 million
Government expenditure = £400 million
Exports = £100 million Imports = 0.3Y
The rate of taxation is 50% of all income, where Y is national income and Yd is disposable income.

(i) Calculate the equilibrium level of national income.
(ii) Calculate the equilibrium level of consumption expenditure.
(iii) Calculate the fiscal budget surplus/deficit at the equilibrium level of national income.
(iv) Calculate the current account surplus/deficit at the equilibrium level of national income.

35. CB2 September 2020 Q35

(i) Describe how the growth of international trade can benefit a country and the firms that operate within it.
(ii) Describe, in your own words, the key rules of the World Trade Organization on international trade.

36. CB2 April 2021 Q31

(i) Explain, with the example of the car industry, the concept of 'value added' in terms of calculating GDP.
(ii) Describe how inventories, government expenditure on education and owner-occupied housing are accounted for in measuring GDP using the product method.

37. CB2 April 2021 Q32

You are given the following data for a Keynesian economy.

- Consumption expenditure is £300 million plus 70% of disposable national income.
- The tax rate is 25% of national income.
- Investment expenditure is £250 million.
- Government expenditure is £200 million.
- Export expenditure is £150 million.
- Imports are 15% of national income.

(i) Calculate the equilibrium level of national income.
(ii) Calculate the level of consumption expenditure at the equilibrium national income.
(iii) Calculate the surplus or deficit on the current account at the equilibrium national income.
(iv) Calculate the fiscal surplus (+) or deficit (–) at the equilibrium national income.

38. CB2 September 2021 Q32

You are given the following national accounting data for Country A

	£ billions
Consumer expenditure (excluding indirect taxes and subsidies)	80
Government expenditure on goods/services	50
Transfer payments	20
Investment expenditure	30
Import expenditure	40
Export expenditure	25
Subsidies	15
Indirect taxes	20
Capital depreciation	5
Net property income from abroad	20

(i) Calculate the Gross Domestic Product at market prices.
(ii) Calculate the Gross Domestic Product at basic prices.
(iii) Calculate the Gross National Income at basic prices.
(iv) Calculate the Net National Income at basic prices.
(v) Calculate the Net National Income at market prices.

39. CB2 April 2022 Q31

You are given the following data on a simple closed economy:
C = £40 million + 0.75 Yd
I = £30 million
G = £50 million
T = 0.2 Y
where C is consumer expenditure, Y is national income, Yd is disposable national income, G is government expenditure on goods and services, I is investment expenditure and T is total taxes.

(i) Calculate the equilibrium level of national income.
(ii) Calculate the amount of consumer expenditure at the equilibrium level of national income.

(iii) Calculate the value of the fiscal surplus (+) or deficit (–) at the equilibrium level of the national income.
(iv) Calculate the value of leakages (withdrawals) when the national income is in equilibrium.
(v) Calculate the increase in the national income if investment expenditure is increased by £20 million.

40. CB2 April 2023 Q33

You are given the following data for an economy:

	Year 2020 (£ millions)
Consumer expenditure (excluding indirect taxes)	140
Investment	60
Government expenditure (including transfer payments)	70
Exports	40
Imports	30
Net income from abroad	20
Indirect taxes	15
Capital depreciation	20
Transfer payments	10

(i) Calculate the GDP at market prices.
(ii) Calculate the gross national income at basic prices.
(iii) Calculate the net national income at market prices.
(iv) Explain under what circumstances a 4% rise in the nominal GDP may be accompanied by a fall of 2% in the real GDP.
(v) Explain whether a car that is produced during 2020 but is not sold will be included in the GDP figures for 2020.

41. CB2 September 2023 Q36

The market demand and supply for portable charging devices for mobile phones at each price in Country A, which has an open economy are shown in the table below. The industry in Country A competes with international suppliers of the device that can be imported at prices given below, but this industry is undeveloped compared to the international market.

Price (US$)	*Demand (000s)*	*Supply (000s)*
15	70	50
14	80	40
13	90	30
12	100	20
11	110	0
10	120	0
9	130	0

The world price for the devices, which has been US$13 for some time, has now fallen to US$10. As a result, domestic suppliers are lobbying the government in Country A to provide protection from international competition to enable them to develop the industry further and improve efficiency.

Describe the situation the industry faces in relation to its demand and supply in Country A under each of the following circumstances. In your answer, you should highlight the factors that the government in Country A should take into consideration were it to implement a policy of protectionism.

(i) prior to protectionism
(ii) post-protectionism with a tariff of US$4 or an import quota restriction of 20,000 units.