INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Macro Economics

Chapter: Unit 3

Category: Practice Questions

Unemployment and Inflation

1. Subject CT7 April 2018 Question 14

Which one of the following is most likely to be the best method of reducing long term structural unemployment?

A. expansionary fiscal policy
B. expansionary monetary policy
C. better education and training
D. a reduction in trade union powers

2. Subject CT7 September 2014 Question 22

Which one of the following is most likely to be the best method of reducing long term structural unemployment?

A. Expansionary fiscal policy.
B. Increasing the money supply.
C. A reduction in trade union powers.
D. Better education and training

3. Subject CT7 September 2016 Question 15

The need to employ workers with certain skills may decline even if the industry as a whole is not in decline. This form of unemployment is called:

A. regional.
B. structural.
C. technological.
D. demand-deficient.

4. Subject CT7 September 2016 Question 16

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

5. Subject CT7 September 2016 Question 18

The short run aggregate supply curves show that an increase in the average price level will encourage firms to:

A. reduce both output and employment.
B. increase both output and employment.
C. increase output and reduce employment.
D. reduce output and increase employment.

6. Subject CT7 April 2018 Question 16

A country with a population of 20 million has 15 million in employment and 1 million unemployed. What is the unemployment rate?

A. 4.76%
B. 5.0%
C. 6.25%
D. 6.67%

7. Subject CT7 September 2018 Question 22

The short run Phillips curve shows:

A. the influence of fiscal policy on the level of inflation and unemployment.
B. the influence of monetary policy on the level of inflation and unemployment.
C. a negative relationship between inflation and unemployment.
D. a positive relationship between inflation and unemployment.

8. Subject CT7 April 2018 Question 19

If the rate of inflation is higher 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. lenders will gain at the expense of borrowers and workers will gain at the expense of employers.
C. borrowers will gain at the expense of lenders and employers will gain at the expense of workers.
D. borrowers will gain at the expense of lenders and workers will gain at the expense of employers.

9. Subject CT7 April 2017 Question 14

Which of the following types of unemployment would exist even in a well functioning free market economy?

A. classical
B. frictional
C. technological
D. structural

10. Subject CT7 April 2018 Question 21

An unexpected fall in the price level which causes a temporary rise in the real wage rate may:

A. give an actual rate of unemployment which is temporarily greater than the natural rate.
B. give an actual rate of unemployment which is temporarily lower than the natural rate.
C. increase the natural rate of unemployment.
D. decrease the natural rate of unemployment

11. Subject CT7 April 2017 Question 17

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.

12. Subject CT7 September 2018 Question 13

Structural unemployment is unemployment that:

A. increases in a recession and falls in a boom.
B. arises when the unemployed lack the skills needed by newly created jobs.
C. arises when those seeking work give up hope of finding a job.
D. occurs as the result of a transition from one job to another.

13. Subject CT7 April 2017 Question 24

The nominal rate of interest is 2% and the rate of inflation is negative at -3%. Which one of the following is TRUE?

A. The real rate of interest is greater than the nominal rate of interest.
B. The real rate of interest is negative.
C. The rate of inflation is greater than the real rate of interest.
D. The real rate of interest is -1%.

14. Subject CT7 April 2010 Question 2

An increase in the natural rate of unemployment will cause:

A. the long run and short run Phillips curves to shift to the right.
B. the long run and short run Phillips curves to shift to the left.
C. the long run Phillips curve to shift to the right and the short run Phillips curves to shift to the left.
D. the long run Phillips curve to shift to the left and the short run Phillips curves to shift to the right

15. Subject CT7 April 2016 Question 24

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

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

16. Subject CT7 September 2016 Question 20

Which of the following is a potential source of cost push inflation?

A. a decrease in direct taxes
B. an increase in consumer expenditure
C. a depreciation of the domestic currency
D. a decrease in imported commodity prices

17. Subject CT7 April 2015 Question 7

If, due to pollution concerns, consumers switch from travelling to work by car to travelling by public transport, the resulting unemployment in the car industry is:

A. frictional unemployment.
B. seasonal unemployment.
C. structural unemployment.
D. technical unemployment.

18. Subject CT7 April 2015 Question 18

Which one of the following is NOT likely to lead to cost push inflation?

A. An increase in trade union powers.
B. An appreciation of the domestic currency's exchange rate.
C. An increased budget deficit which causes interest rates to rise.
D. An increase in the profit margins applied by firms.

19. Subject CT7 October 2015 Question 16

The need to employ workers with certain skills may decline even if the industry as a whole is not in decline. This form of unemployment is called:

A. regional.
B. structural.

C. technological.
D. demand-deficient.

20. Subject CT7 April 2012 Question 24

In a country with a population of 25 million people there are 16 million in the total workforce and 2 million unemployed. What is the rate of unemployment?

A. 8%
B. 11.1%
C. 12.5%
D. 44%

21. Subject CT7 April 2012 Question 26

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.

22. Subject CT7 October 2015 Question 17

A country with a population of 38 million has 32 million in employment and 2 million unemployed. What is the unemployment rate?

A. 5.0%
B. 5.3%

C. 5.9%
D. 6.3

23. Subject CT7 October 2015 Question 18

Which one of the following is NOT a cause of cost push inflation?

A. an appreciation of the exchange rate
B. an increase in the price of raw materials
C. an increase in profit margins applied by firms
D. an increase in wages above increases in labour productivity.

24. Subject CT7 September 2012 Question 21

Which of the following is best suited to reducing the level of structural unemployment?

A. Lowering the rate of interest.
B. Raising the rate of unemployment benefit.
C. Higher voluntary redundancy payments for workers in declining industries.
D. More government funds for retraining of the unemployed.

25. Subject CT7 April 2015 Question 17

Assume that the actual rate of unemployment is above the natural rate of unemployment because the expected rate of inflation is above the actual rate of inflation. If the expected rate of inflation falls to equal the actual rate of inflation then real wage growth will:

A. fall and real output will rise.
B. fall and real output will fall.
C. rise and real output will rise.
D. rise and real output will fall.

26. Subject CT7 September 2018 Question 16

Which of the following is NOT a cost of inflation?

A. Menu costs.
B. Cost of employing extra resources.
C. Arbitrary redistribution of wealth from lenders to borrowers.
D. Arbitrary redistribution of wealth from borrowers to lenders.

27. Subject CT7 October 2017 Question 23

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

28. Subject CT7 April 2011 Question 19

Which of the following is an example of disequilibrium unemployment?

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

29. Subject CT7 October 2017 Question 24

If unemployment is above the natural level, the long run Phillips curve would suggest that, other things remaining the same, real wages would:

A. fall and unemployment would rise.
B. fall and unemployment would fall.
C. rise and unemployment would fall.

D. rise and unemployment would rise

30. Subject CT7 September 2011 Question 34

(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

31. Subject CT7 April 2017 Question 31

(i) Describe FOUR reasons why rising unemployment is regarded by economists as undesirable both for the economy and the government.
(ii) Explain issues that concern economists and economic policy makers about unemployment, other than the headline unemployment rate

32. Subject CT7 April 2018 Question 35

(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.

33. Subject CT7 September 2009 Question 37

Discuss the following statement.

"Inflation can be caused by either cost-push or demand-pull factors. Whatever the cause, inflation is especially harmful to an economy when it is unanticipated."

34. Subject CT7 September 2010 Question 30

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

Real wage (£'s per hour)	AD_L	AS_L	N
3	480,000	320,000	500,000
4	440,000	360,000	528,000
5	400,000	400,000	556,000
6	360,000	440,000	584,000
7	320,000	480,000	612,000

where AD_L, AS_L and N are the aggregate demand for labour, the aggregate supply of labour and the labour force respectively.

Assume that the real wage is flexible.

a. State the equilibrium wage rate per hour.
b. State the number of unemployed at the natural rate of unemployment.
c. Determine the level of disequilibrium unemployment if the wage rate is rigid at £2 per hour above the equilibrium wage.
d. Explain the reason why the gap between AS_L and N becomes closer as the wage rate rises.

35. Subject CT7 October 2017 Question 35

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

36. Subject CT7 April 2010 Question 36

(i) Discuss the view that governments can control inflation by controlling the money supply.
(ii) Describe the problems associated with this method of controlling inflation.

37. Subject CT7 September 2016 Question 37

(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

38. Subject CT7 October 2015 Question 34

Describe FOUR of the costs of unanticipated inflation.

39. **Subject CT7 April 2015 Question 35**

(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

40. **Subject CT7 September 2014 Question 33**

Outline some of the costs of unemployment to individuals, firms and the economy.

41. **Subject CT7 April 2013 Question 35**

(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 w1 and state the natural level of unemployment.
(iii) Select on your diagram a wage level w2 higher than w1 and state the level of disequilibrium unemployment.
(iv) State a possible cause of disequilibrium unemployment and explain how it can be eliminated

42. **Subject CT7 September 2013 Question 35**

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

43. **Subject CT7 September 2013 Question 37**

Explain, using a diagram, the Phillips curve relationship

44. Subject CT7 April 2012 Question 36

Discuss the various categories of unemployment that can exist in an economy.

45. Subject CT7 September 2012 Question 38

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

46. 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. [2]

(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. [4]
[Total 6]

47. CB2 April 2021 Q34

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

Real wage (£ per hour)	*Demand for labour*	*Will accept a job*	*Labour force*
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. [1]

(ii) State the level of involuntary unemployment if the wage rate is rigid at £1 per hour above the equilibrium wage. [1]

(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. [1]

(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. [1]

(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. [1]
[Total 5]

Balance of payments and Exchange rates

1. Subject CT7 April 2018 Question 26

Which one of the following will NOT happen following a devaluation of the domestic currency on the foreign exchange market?

A. Exports become cheaper when measured in the foreign currency.
B. Imports become more expensive when measured in the domestic currency.
C. Export volumes will decrease.
D. Import volumes will decrease

2. Subject CT7 September 2018 Question 18

Under a fixed exchange rate system the following approaches might be considered by governments to correct a balance of payments deficit.

I. Discouragement of imports.
II. Support for exporters.
III. Increase the level of aggregate demand.

Which of the following is most likely to achieve this objective?

A. I only.
B. II only.
C. I and II only.
D. I, II and III.

3. Subject CT7 April 2017 Question 20

Devaluation of a country's currency will lead to the greatest improvement in the current account of a country's balance of payments when the demand for:

A. imports is price elastic and the demand for exports is price inelastic.
B. imports is price inelastic and the demand for exports is price elastic.
C. both imports and exports is price inelastic.
D. both imports and exports is price elastic.

4. Subject CT7 April 2017 Question 21

All other things being equal, which one of the following statements is always TRUE?

A. An appreciation of a country's exchange rate will increase its import expenditure and decrease its export revenues.
B. An appreciation of a country's exchange rate will increase its import volumes and decrease its export volumes.
C. A depreciation of a country's exchange rate will decrease its import volumes and decrease its export volumes.
D. A depreciation of a country's exchange rate will decrease its import expenditure and increase its export revenues

5. Subject CT7 October 2017 Question 21

All other things being equal, which of the following events would cause the value of Country A's currency to appreciate against the value of Country B's currency?

A. a fall in the interest rate of Country A with an even bigger fall in Country B's interest rate
B. a fall in the interest rate of Country A with constant interest rate in Country B
C. a rise in the interest rate of Country A with an even bigger rise in Country B's interest rate
D. a fall in the interest rate of Country A with a rise in the interest rate of Country B

6. Subject CT7 October 2017 Question 22

If the central bank has to intervene in the foreign exchange markets to prevent the domestic currency from appreciating, then its foreign exchange reserves will:

A. decrease and the domestic money supply will rise.
B. decrease and the domestic money supply will fall.
C. increase and the domestic money supply will rise.
D. increase and the domestic money supply will fall.

7. Subject CT7 April 2011 Question 21

An economy with a floating exchange rate has a deficit on the current account of its balance of payments. Which policy combination would be most likely to solve this problem?

A. Decrease interest rates and increase income tax rates.
B. Increase interest rates and leave income tax rates unchanged.
C. Decrease interest rates and decrease income tax rates.

D. Increase interest rates and increase income tax rates.

8. Subject CT7 April 2011 Question 22

Where would interest payments on short term foreign deposits in banks be entered on the balance of payments account?

A. Visible payments
B. Income flows
C. Portfolio investment
D. Direct investment

9. Subject CT7 April 2014 Question 20

The budget deficit tends to decrease when:

A. national income falls.
B. national income rises.
C. governments decrease the personal income tax rate.
D. government expenditure increases.

10. Subject CT7 April 2015 Question 19

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

11. Subject CT7 April 2016 Question 20

If the money supply rises as a result of central bank policy, this will normally result in:

A. a depreciation of the domestic currency as the short term domestic interest rate falls.
B. a depreciation of the domestic currency as the short term domestic interest rate rises.
C. an appreciation of the domestic currency as the short term domestic interest rate rises.
D. an appreciation of the domestic currency as the short term domestic interest rate falls.

12. Subject CT7 September 2016 Question 14

If a resident of a country purchases a foreign company's shares, the value of the transaction is entered in which of the domestic country's balance of payments accounts?

A. trade account
B. current account
C. capital account
D. financial account

13. Subject CT7 April 2014 Question 25

To prevent the value of the euro from depreciating against the US dollar, the European Central Bank might:

A. buy the euro in the foreign exchange market and increase its foreign exchange reserves.
B. buy the euro in the foreign exchange market and decrease its foreign exchange reserves.
C. sell the euro in the foreign exchange market and increase its foreign exchange reserves.
D. sell the euro in the foreign exchange market and decrease its foreign exchange reserves

14. Subject CT7 September 2014 Question 19

Under a floating exchange rate system:

A. domestic inflation rates are unavoidably linked across national boundaries.
B. domestic inflation in one country can lead to inflation in another.
C. domestic inflation is dictated outside the bounds that would have constrained prices in a fixed rate regime.
D. none of the above

15. Subject CT7 September 2012 Question 25

Which of the following would NOT be included in the current account of a country's balance of payments?

A. Migrant remittances
B. Interest, profits and dividends paid to the rest of the world.
C. Exports of services
D. The purchase of foreign shares by a domestic pension fund.

16. Subject CT7 September 2011 Question 26

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

17. Subject CT7 April 2012 Question 23

If the central bank has to intervene in the foreign exchange markets to prevent the home currency from appreciating, then its foreign exchange reserves will:

A. decrease and the domestic money supply will rise.
B. decrease and the domestic money supply will fall.
C. increase and the domestic money supply will rise.
D. increase and the domestic money supply will fall.

18. Subject CT7 September 2010 Question 18

Which of the following is not included in a country's current account?

A. exports of goods
B. foreign direct investment flows
C. unilateral transfers to other nations
D. imports of services

19. Subject CT7 September 2010 Question 19

Suppose that you import DVDs from France and write a £10,000 cheque to cover a €12,500 billing for your latest purchase of DVDs. The exchange rate is:

A. £0.8 / €1.00
B. €0.8 / £1.00
C. £1.25 / €1.00
D. none of the above

20. Subject CT7 September 2010 Question 25

Which one of the following will NOT happen following a devaluation of the domestic currency on the foreign exchange market?

A. Exports become less expensive when measured in the foreign currency.
B. Imports become more expensive when measured in the domestic currency.
C. Export values measured in the domestic currency will increase.
D. Import volumes will increase

21. Subject CT7 April 2009 Question 23

The record of a country's transactions in goods and services and assets with the rest of the world is referred to as its:

A. balance of trade.
B. capital account.
C. balance of payments.
D. current account.

22. Subject CT7 April 2009 Question 25

The idea that exchange rates adjust so that standard goods, such as a BIG MAC©, will cost the same in the USA as in the UK is called:

A. floating exchange rates.
B. terms of trade.
C. purchasing power parity.
D. exchange equalization.

23. Subject CT7 April 2009 Question 26

With a floating exchange rate system, monetary policy is:

A. very effective.
B. not effective.
C. equally effective as fiscal policy.
D. less effective than fiscal policy.

24. Subject CT7 April 2017 Question 33

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

25. Subject CT7 April 2018 Question 32

(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.

26. Subject CT7 September 2016 Question 35

Outline how a central bank may intervene in the foreign exchange market in order to reduce short-term fluctuations in the exchange rate. [5]

27. Subject CT7 April 2015 Question 35

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

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:

(i) the balance of trade.
(ii) current account balance.
(iii) financial account balance.
(iv) net errors and omissions

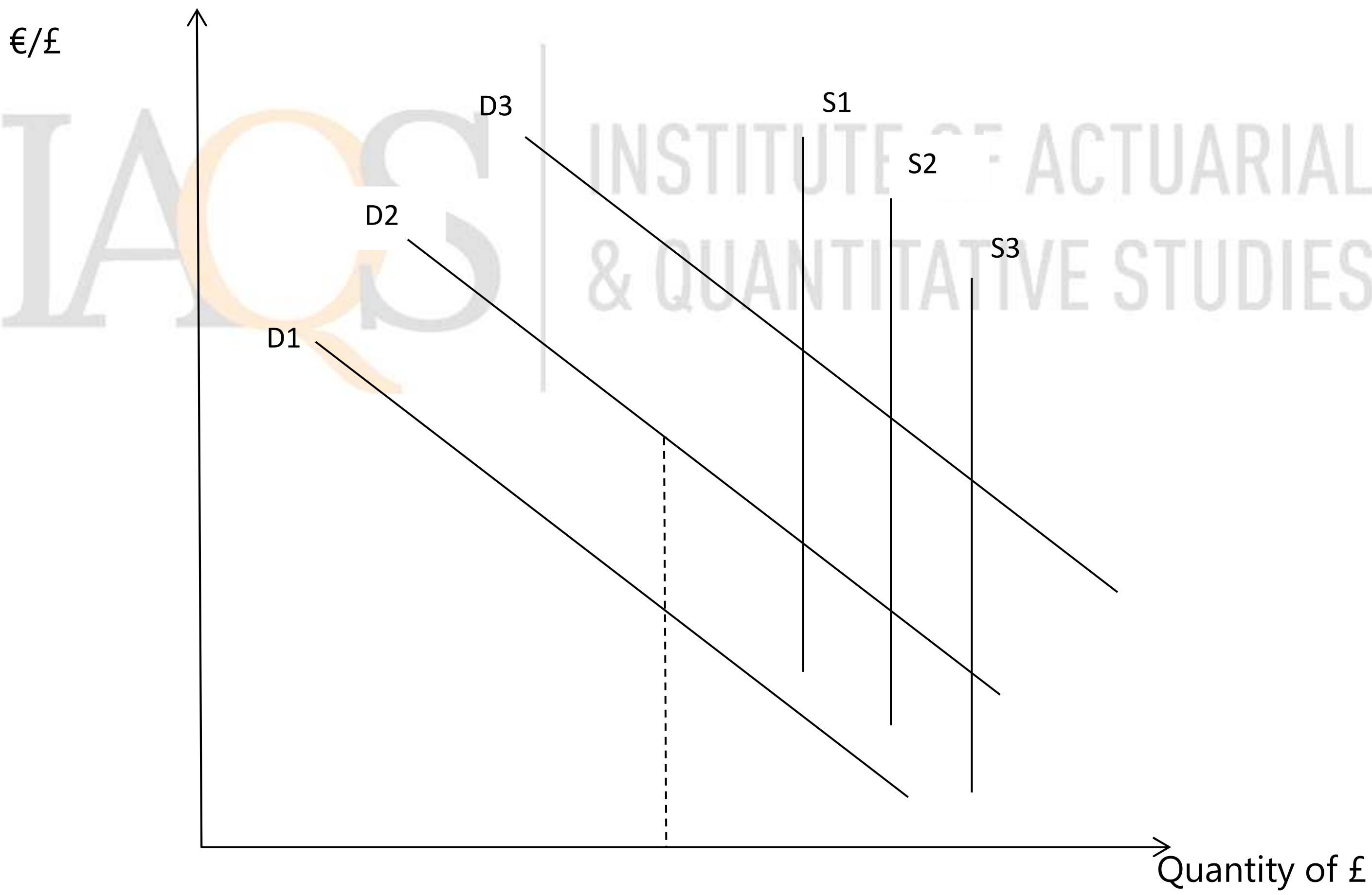
28. Subject CT7 October 2015 Question 36

(i) Explain, with reference to the dollar/sterling exchange rate, THREE factors in the UK economy which may lead to an appreciation of sterling.

(ii) Explain the likely impact on UK exports, imports and the rate of inflation following an appreciation of the dollar/sterling exchange rate.

29. Subject CT7 April 2015 Question 31

The following diagram shows the initial supply and demand for sterling denoted by S2 and D2 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.
e) a fall in UK incomes relative to incomes abroad.

30. Subject CT7 April 2015 Question 36

(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.

31. Subject CT7 September 2014 Question 38

(i) Explain why governments may wish to avoid fluctuations in the value of a country's currency and how they can maintain its value in the short and long term.
(ii) Following the banking crisis of 2008, some countries resorted to restricting foreign exchange trading. Explain the problems associated with this and other methods of restricting the outflow of money.

32. Subject CT7 September 2012 Question 37

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

33. Subject CT7 September 2011 Question 36

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

Exports of goods +200

Imports of goods -250

Exports of services +100

Imports of services -150

Income balance -50

Net current transfers +10

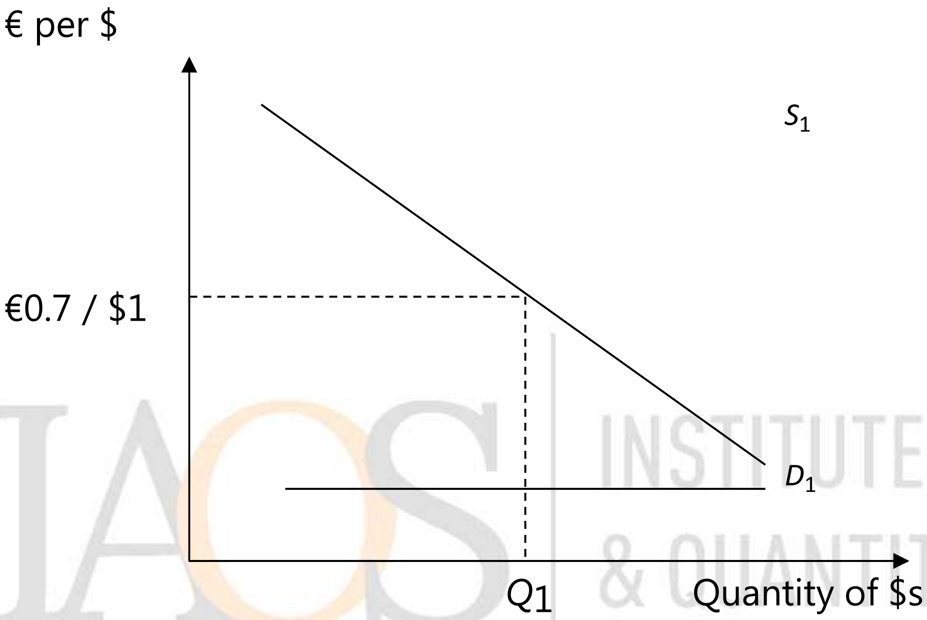
Capital account balance +80

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.

34. Subject CT7 September 2010 Question

The following diagram shows the market demand D_1 and supply S_1 for the United States dollar against the Euro. Assume that the US government does not intervene in the foreign exchange market and increases government expenditure in order to reduce unemployment.



Explain the effects that this fiscal expansion would have on the US current account, the financial account and the euro per dollar exchange rate. Show the effects of the government policy on a copy of the diagram.

35. Subject CT7 September 2009 Question 36

Given the following data on Country A's balance of payments:

	£ millions
Exports of goods	+ 200
Imports of goods	-150
Exports of services	+120
Imports of services	-160
Interest, profits and dividends received	+15
Interest, profits and dividends paid	-10
Unilateral receipts	+30
Unilateral payments	-20
Capital outflows	-185
Capital inflows	+140
Statistical error	?
Change in reserves [rise (-), fall (+)]	+10

(i) Calculate the "invisibles" balance.

(ii) Calculate the current account balance.

(iii) Calculate the balance for official financing.

(iv) Determine the statistical error.