



**Subject: Business Economics –
Macro**

Chapter: Unit 2

Category: Practice Questions

Globalization, International Trade and Protectionism

1. Subject CT7 April 2018 Question 13

Which of the following will result in a deterioration in the domestic country's terms of trade?

- A. a rise in the average price of exports relative to the average price of imports
- B. a rise in the average price of imports relative to the average price of exports
- C. an appreciation of the domestic currency
- D. a rise in the domestic country's terms of trade index from 100 to 120

2. Subject CT7 September 2018 Question 11

Which of the following is NOT an example of the market drivers of globalisation?

- A. Establishment of world brands.
- B. Increasing travel, creating global consumers.
- C. Per capita income converging among industrialised nations.
- D. Reduction of tariff barriers.

3. Subject CT7 September 2018 Question 12

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.

4. Subject CT7 April 2017 Question 13

The terms of trade index is initially set at 100. If the average price of exports has risen by 50% since the base year and the average price of imports has risen by 20% since the base year, what is the current figure for the terms of trade index to the nearest whole number?

- A 83
- B 125
- C 250
- D 80

5. Subject CT7 October 2017 Question 14

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

6. Subject CT7 April 2014 Question 26

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

7. Subject CT7 September 2014 Question 15

Given an initial terms of trade price index of 100, 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

8. Subject CT7 September 2012 Question 24

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

9. Subject CT7 September 2012 Question 26

The law of comparative advantage states that countries should specialise in producing and exporting the goods that they produce at a lower:

- A. marginal cost than other countries.
- B. labour cost than other countries.
- C. absolute cost than other countries.
- D. opportunity cost than other countries.

10. Subject CT7 September 2018 Question 33

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

11. Subject CT7 October 2017 Question 29

- (i) Explain why a government favours placing a sales tax on goods that have a relatively price inelastic demand.
- (ii) Show on a diagram, the producers' and consumers' share of the tax burden.

12. Subject CT7 October 2017 Question 34

State TWO arguments for and TWO arguments against globalisation.

13. Subject CT7 April 2016 Question 36

- (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.

14. Subject CT7 September 2016 Question 33

Describe, with the use of a diagram, the economic cost of imposing an import tariff.

15. Subject CT7 October 2015 Question 33

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

16. Subject CT7 April 2015 Question 33

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.

<i>Country</i>	<i>Good X</i>	<i>Good Y</i>
<i>A</i>	5,000	10,000
<i>B</i>	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.

17. Subject CT7 September 2013 Question 36

Describe the main types of policies that governments can use to encourage competition.

18. Subject CT7 April 2012 Question 37

(i) Draw a diagram to show the demand and supply for Good X in Country A which is producing and importing Good X where the world price P_W is below the domestic market equilibrium price of Good X.

Show on your diagram the quantity of Good X supplied in Country A labelled as Q_1 , the quantity demanded of Good X in Country A labelled as Q_2 and the amount of Good X imported.

(ii) Now assume that Country A imposes a tariff (t). The new world price after imposing the tariff is still below the domestic market equilibrium price of Good X. Show the new world price P_{W+t} on your diagram following the imposition of the tariff, the new quantity supplied Q_3 , the new quantity demanded Q_4 and the amount imported of Good X.

(iii) Explain with the use of your diagram who gains and who loses as a result of Country A imposing a tariff.

(iv) Show on your diagram and explain the impact of the government introducing a subsidy to assist domestic producers of Good X in Country A.

19. Subject CT7 April 2011 Question 15

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

20. Subject CT7 April 2011 Question 34

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.

21. Subject CT7 April 2011 Question 35

(i) Explain the difference between a tariff and a quota.

(ii) State three arguments that can be used to support the introduction of barriers to trade.

22. Subject CT7 September 2011 Question 25

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?

<i>Country</i>	<i>Good X</i>	<i>Good Y</i>
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.

23. Subject CT7 April 2010 Question 34

Countries A and B produce just two Goods X and Y. Assume that for a given amount of land and capital, the following number of hours of labour is required to produce one unit of each good:

	<i>Good X</i>	<i>Good Y</i>
Country A	60	10
Country B	120	12

- (i) Calculate the opportunity cost of producing each good in each country.
- (ii) State which country would export each of the goods if the two countries engage in trade.
- (iii) Assuming that the price equals marginal cost, state the range of possible exchange ratios (terms of trade) of Good Y for Good X.

24. Subject CT7 September 2010 Question 32

- (i) Draw a diagram showing the demand D and supply S curves for a good. Show the equilibrium price by P_1 and the equilibrium level of sales by Q_1 .
- (ii) On your diagram draw the line $S + T$ to show the new supply curve after an excise tax of T is imposed on the good. Denote the new equilibrium price and quantity by P_2 and Q_2 .
- (iii) Show clearly on your diagram consumer and producer surplus before and after the tax, the government revenue and the excess burden (i.e. net welfare loss) from the tax.

25. Subject CT7 September 2010 Question 34

- (i) Describe four broad categories of globalisation drivers.
- (ii) State four of the market drivers within the market category of drivers that influence globalisation.

26. Subject CT7 April 2009 Question 4

If the government chooses to use resources to build a nuclear power plant instead of building new wind farms, this illustrates the concept of:

- A a market system.
- B macroeconomics.
- C competition.
- D opportunity cost

27. Subject CT7 April 2009 Question 6

Assume two countries, with the same level of technology and resources, do not presently trade. In Country X one unit of labour and one unit of capital can produce 20 units of Good A or 15 units of Good B. In Country Y one unit of labour and one unit of capital can produce 50 units of Good A or 25 units of Good B.

Country	Good A	Good B
X	20	15
Y	50	25

Which of the following is TRUE?

- A. Country Y has a comparative advantage in the production of Good A.
- B. Country X has an absolute advantage in the production of Good B.
- C. Country X has an absolute advantage in the production of Good A.
- D. Country Y has a comparative advantage in the production of Good B.

Level of overall Economic Activity

1. Subject CT7 April 2018 Question 15

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.

2. Subject CT7 April 2018 Question 17

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

- A. an increase in interest rates
- B. a depreciation in its exchange rate
- C. a fall in government expenditure
- D. a decrease in business confidence

3. Subject CT7 April 2018 Question 18

The business cycle is defined as:

- A. the annual cycle of output.
- B. the long run trend path of output after removing short run variations
- C. the periodic fluctuations of output around the long run trend.
- D. none of the above.

4. Subject CT7 September 2018 Question 17

In the circular flow of income model which of the following is TRUE?

- A. Savings, taxes and investment are withdrawals.
- B. Exports, imports and government expenditure are withdrawals.
- C. Investment, government expenditure and exports are injections.
- D. Investment, exports and consumption are injections.

5. Subject CT7 April 2017 Question 15

The aggregate demand curve slopes downwards because at higher price levels the real money supply:

- A. decreases and national income is lower.
- B. decreases and national income is higher.
- C. increases and national income is lower.
- D. increases and national income is higher

6. Subject CT7 April 2017 Question 18

If the total output of goods and services increases and the price index falls then the nominal Gross Domestic Product (GDP):

- A. may rise or fall and real GDP will fall.
- B. will stay the same and real GDP will rise.
- C. will rise and real GDP will rise.
- D. may rise or fall and real GDP will rise.

7. Subject CT7 October 2017 Question 26

Which of the following does NOT form part of a country's Gross Domestic Product (GDP)?

- A. salaries of school teachers
- B. net income from abroad
- C. company profits
- D. investment expenditure

8. Subject CT7 April 2016 Question 14

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

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9. Subject CT7 April 2016 Question 15

You are given the following data for an economy: (in £ 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.

10. Subject CT7 April 2016 Question 18

In a simple economy, consumption is given by the relationship

$$C = 0.75Y$$

where C is consumption expenditure and Y is Gross Domestic Product.

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

11. Subject CT7 April 2016 Question 19

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

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

12. Subject CT7 April 2016 Question 22

In Country A, government expenditure is £250 billion, tax revenue is £275 billion, aggregate saving is £300 billion and aggregate investment is £250 billion. The net exports of Country A are equal to a:

- A surplus of £25 billion.
- B deficit of £75 billion.
- C surplus of £75 billion.
- D deficit of £25 billion

13. Subject CT7 April 2016 Question 23

If the Gross Domestic Product (GDP) in an economy rises and the unemployment rate falls then:

- A. the GDP per capita must rise.
- B. the GDP per capita must fall.
- C. the GDP per capita remains constant.
- D. there is insufficient information to determine what has happened to GDP per capita.

14. Subject CT7 September 2016 Question 17

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

15. Subject CT7 September 2016 Question 22

If private savings exceeds private investment by £300 million and government expenditure on goods and services exceeds government tax revenue by £200 million then net exports will be:

- A. zero.
- B. +£100 million.
- C. -£100 million.
- D. +£500 million.

16. Subject CT7 April 2015 Question 13

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.

17. Subject CT7 April 2015 Question 14

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.

18. Subject CT7 April 2015 Question 15

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

19. Subject CT7 April 2015 Question 16

If private savings exceed private investment by £300 million and government expenditure on goods and services exceeds government tax revenue by £200 million then net exports will be:

- A zero.
- B £100 million.
- C -£100 million.
- D £500 million.

20. Subject CT7 April 2015 Question 17

You are given the following information for an economy:

Consumer Expenditure	£80 million
Investment Expenditure	£20 million
Government Expenditure	£40 million
Exports	£20 million
Imports	£30 million
Net Income from abroad	£10 million

What is the value of this economy's Gross Domestic Product?

- A £130 million
- B £140 million
- C £150 million
- D £160 million

21. Subject CT7 April 2015 Question 24

In the model of the circular flow of income if injections are greater than withdrawals:

- A. national income will tend to increase.
- B. national income will tend to decrease.
- C. unemployment and production will tend to fall.
- D. the general level of prices will tend to fall.

22. Subject CT7 April 2013 Question 12

Which of the following are the three injections into the circular flow of income:

- A. Investment, government expenditure and exports
- B. Consumption, government expenditure and investment
- C. Consumption, investment and exports
- D. Investment, government expenditure and imports

23. Subject CT7 April 2013 Question 17

Which of the following will result in a decrease in aggregate demand for an economy with international trade, other things being equal?

- A A rise in imports
- B A fall in savings
- C A fall in interest rates
- D A fall in economic and business uncertainty

24. Subject CT7 April 2013 Question 24

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

25. Subject CT7 April 2012 Question 19

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.

26. Subject CT7 September 2012 Question 16

If a country has a negative 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.

27. Subject CT7 April 2017 Question 35

You are given the following data on a simple closed economy:

$$C = £10 \text{ million} + 0.75 Y$$

$$I = £20 \text{ million}$$

$$G = £40 \text{ million}$$

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.

28. Subject CT7 September 2018 Question 34

- (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.

29. Subject CT7 September 2018 Question 37

- (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

30. Subject CT7 October 2017 Question 38

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

31. Subject CT7 September 2016 Question 34

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

32. Subject CT7 April 2015 Question 30

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.

33. Subject CT7 April 2015 Question 32

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

34. Subject CT7 September 2014 Question 32

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

35. Subject CT7 September 2014 Question 36

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.

36. Subject CT7 April 2013 Question 37

- (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.

37. Subject CT7 September 2012 Question 36

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

<i>Income level Y</i>	<i>Planned Consumption C</i>	<i>Planned Investment I</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.

38. Subject CT7 April 2011 Question 20

Given the following macroeconomic data:

Consumer expenditure £70 million

Investment expenditure £20 million

Government expenditure £40 million

Export £20 million

Imports £30 million

Net income from abroad £10 million

What is the value of the Gross Domestic Product?

- A. £150 million
- B. £130 million
- C. £120 million
- D. £110 million

39. Subject CT7 April 2011 Question 32

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.

40. Subject CT7 September 2011 Question 24

You are given the following data for an economy: (in £ millions)

Consumer expenditure (including indirect taxes) 120

Investment 60

Government expenditure (including transfer payments) 70

Exports 40

Imports 30

Net income from abroad 20

Indirect taxes 10

Capital depreciation 20

Transfer payments 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

41. Subject CT7 April 2010 Question 37

- (i) Describe the reasons why countries can gain from free trade.
- (ii) Discuss the arguments for and against trade restrictions

42. Subject CT7 April 2009 Question 16

Gross National Income is equal to:

- A. Gross Domestic Product – depreciation.
- B. Net Domestic Product + net property income from abroad.
- C. Gross Domestic Product + net property income from abroad.
- D. Net National Income + depreciation

43. Subject CT7 April 2009 Question 32

The following information is given for an open economy:

Consumer expenditure = $0.6Y_d$

Investment expenditure = £200 million

Government expenditure = £400 million

Exports = £300 million

Imports = $0.3Y$

The rate of taxation is 50% of all income.

Calculate the equilibrium level of GDP.

Calculate the equilibrium level of consumption expenditure.

44. Subject CT7 September 2009 Question 15

Given the following data for an economy, what is the value of its Gross National Income?

Consumption expenditure £140 million

Investment £40 million

Government expenditure £80 million

Exports £20 million

Imports £60 million

Net property income from abroad £20 million

- A £180 million
- B £200 million
- C £220 million
- D £240 million

45. Subject CT7 September 2009 Question 17

Which one of the following is NOT part of the Gross National Income?

- A wages from self employment
- B property rental income
- C transfer payments
- D net property income from abroad

46. Subject CT7 September 2009 Question 20

An open economy has the following characteristics:

Consumption expenditure = $0.6Y$

Investment expenditure = £200 million

Government expenditure = £500 million

Exports = £300 million

Imports = $0.3Y$

The rate of taxation is 50% of all income, where Y is national income.

Determine the value of Y .

- A £500 million
- B £700 million
- C £1,000 million
- D £1,300 million

47. CB2 April 2021 Q31

(i) Explain, with the example of the car industry, the concept of 'value added' in terms of calculating GDP. [2]

(ii) Describe how inventories, government expenditure on education and owner-occupied housing are accounted for in measuring GDP using the product method.

48. CB2 September 2020 Q35

(i) Describe how the growth of international trade can benefit a country and the firms that operate within it. [5]

(ii) Describe, in your own words, the key rules of the World Trade Organization on international trade. [5]

[Total 10]



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