1. Which of the following BEST defines the term 'real national income'?
   (A) The actual GDP in any given year
   (B) The money value of national income
   (C) National income adjusted for inflation
   (D) GDP minus net property income from abroad

2. The consumption function is given as \( C = a + bY \). In this equation 'b' represents
   (A) autonomous investment
   (B) autonomous consumption
   (C) marginal propensity to save
   (D) marginal propensity to consume

3. Which of the following statements is TRUE of a country’s Gross Domestic Product?
   (A) It is always smaller than Gross National Product
   (B) Reflects the total market value of all goods and services purchased in an economy in a given year
   (C) Reflects the total market value of all final goods and services produced in an economy in a given year
   (D) Is always larger than Net Domestic Product

4. The aggregate supply of a labour curve shows the
   (A) total number of people willing and able to work at different wage rates
   (B) total number of people who are willing to work
   (C) amount of goods a particular producer is selling
   (D) amount of factor services a particular producer is selling

5. The broken line between the \( AS_L \) and \( AD_L \) curve represents the
   (A) disequilibrium level of unemployment
   (B) natural level of unemployment
   (C) equilibrium wage rate
   (D) total labour force

Items 6 - 7 refer to the following table.

<table>
<thead>
<tr>
<th>Item</th>
<th>$ (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports and net property income from abroad</td>
<td>80</td>
</tr>
<tr>
<td>Imports and property income paid abroad</td>
<td>65</td>
</tr>
<tr>
<td>Taxes</td>
<td>25</td>
</tr>
<tr>
<td>Subsidies</td>
<td>18</td>
</tr>
<tr>
<td>Total domestic expenditure at market prices</td>
<td>260</td>
</tr>
</tbody>
</table>

6. What is the Gross National Product at factor cost?
   (A) $ 253 m
   (B) $ 267 m
   (C) $ 268 m
   (D) $ 275 m

7. What is the Gross National Product at market price?
   (A) $ 245 m
   (B) $ 268 m
   (C) $ 275 m
   (D) $ 448 m
Item 8 refers to the following graph which shows aggregate demand curves for an economy.

8. The movement from AD₁ to AD₂ is MOST likely caused by a rise in
   (A) inflation
   (B) taxation
   (C) interest rates
   (D) government spending

Item 9 refers to the following graph which shows the income expenditure model.

9. What does RS represent?
   (A) The inflationary gap
   (B) The deflationary gap
   (C) Autonomous saving
   (D) Autonomous investment

Item 10 refers to the following graph.

10. Which of the following BEST represents dissavings?
    (A) bc
    (B) QQ₁
    (C) Q₂Q
    (D) leafd

11. The neo-classical economists believe that the existence of unemployment has to be voluntary because
    (A) governments usually step in with measures designed to reduce unemployment
    (B) market forces will always clear the labour market, therefore those persons without jobs have chosen to be out of the labour market
    (C) the possibility of emigration allows those persons who cannot find jobs to leave the labour market
    (D) those persons who are unemployed are so because they refuse to be self-employed
12. Which of the following graphs correctly represents the slope of the Aggregate Supply Curve in the short run?

(A) \[
\begin{array}{c}
\text{Price level} \\
\uparrow \\
\text{AS} \\
\downarrow \\
\text{National Income}
\end{array}
\]

(B) \[
\begin{array}{c}
\text{Price level} \\
\downarrow \\
\text{AS} \\
\uparrow \\
\text{National Income}
\end{array}
\]

(C) \[
\begin{array}{c}
\text{Price level} \\
\uparrow \\
\text{AS} \\
\downarrow \\
\text{National Income}
\end{array}
\]

(D) \[
\begin{array}{c}
\text{Price level} \\
\downarrow \\
\text{AS} \\
\uparrow \\
\text{National Income}
\end{array}
\]

13. Why is national income NOT a reliable indicator of living standards?

I. It is unable to show income distribution.
II. It can be adjusted to acquire a per capita figure.
III. Income from the 'hidden' economy is not included.
IV. It is sometimes adjusted for inflation.

(A) I and III only  
(B) I and IV only  
(C) II and III only  
(D) III and IV only
Item 14 refers to the graphs below which show Equilibrium National Income ($Y_E$).

14. Which of the graphs above represents recessionary gap?

(A) I  
(B) II  
(C) III  
(D) IV
15. Which of the following BEST describes the underground economy?
   (A) The production of intermediate goods
   (B) Economic activities that foster growth
   (C) Economic activities that are hidden from the government
   (D) Those activities which are heavily taxed

16. What is the LIKELY effect of a surplus budget on government's total debt?
   (A) Total debt should increase.
   (B) Total debt should decrease.
   (C) Total debt should remain the same.
   (D) Government spending should decrease.

17. A fiscal surplus is BEST defined as the
   (A) excess of total government expenditures over total government revenues
   (B) amount of money spent by the government on social welfare benefits
   (C) excess of total government revenues over total government expenditures
   (D) sum of income collected by the government

18. According to the Keynesian Model, the primary cause of large-scale unemployment is
   (A) high level of prices
   (B) low level of prices
   (C) an increase in exports
   (D) inadequate aggregate demand

19. The 'crowding out' effect refers to a situation in which a rise in government spending
   (A) causes interest rates to rise and private investment spending to fall
   (B) causes both interest rates and private investment to rise
   (C) results in a rise in private savings
   (D) results in a rise in private investment spending

20. The Central Bank determines the stock of money which does not change as interest rates change, therefore the money supply curve is
   (A) upward sloping
   (B) perfectly elastic
   (C) perfectly inelastic
   (D) downward sloping

21. What is the MOST likely effect of a fall in interest rates?
   (A) A fall in bank lending
   (B) A fall in the savings ratio
   (C) A fall in the level of investment
   (D) An increase in the external value of a currency

22. What type of policy is a government implementing when it places a tax on gasoline?
   (A) Expansionary fiscal
   (B) Contractionary fiscal
   (C) Expansionary monetary
   (D) Contractionary monetary
23. Which of the following is TRUE about automatic stabilizers?

I. They prevent recession from occurring.
II. They cushion the economy from the full effects of a recession.
III. They cause output and unemployment levels to be very volatile.
IV. They reduce the volatility of output and employment levels.

(A) I and III only
(B) I and IV only
(C) II and III only
(D) II and IV only

Item 24 refers to the following graph.

24. A rightward shift of the liquidity preference curve is the result of

(A) an increase in the rate of interest
(B) expectation of a fall in share prices
(C) an increase in the level of national income
(D) expectation of a depreciation of the exchange rate

25. Which of the following are automatic fiscal stabilizers?

(A) State required pensions
(B) Unemployment benefits
(C) Fixed cost of living allowances
(D) Contributions to national income

26. Which of the following is NOT recommended to reduce a country's national debt?

(A) Protectionism
(B) Debt write-off
(C) Rescheduling of debt
(D) Debt for equity swap

27. Which of the following statements BEST explains the shift of the curve from AD to AD₁?

(A) A rise in personal disposable income
(B) A rise in private investment spending
(C) The purchase of new fire engines by government
(D) A cut in the spending budget for a highway construction project
28. Which of the following is included in an inflationary fiscal policy?

(A) An increase in indirect taxes
(B) A decrease in government expenditure on capital goods
(C) An increase in government expenditure on transfer payments
(D) A decrease in personal tax allowances

29. The velocity of money circulation can be defined as the

(A) money stock in a given time period divided by the level of prices
(B) average time in which households spend their money income
(C) total value of transactions in a given time period divided by the average price level
(D) number of times in a given time period that a unit is used to purchase final output

31. Which of the following BEST describes a situation if the exchange rate were $1 = £ 0.4?

(A) The dollar would be undervalued.
(B) The dollar would be overvalued.
(C) Demand would be less than supply.
(D) The market would be in equilibrium.

32. What would be the equilibrium quantity of dollars ($)?

(A) $Q_1$
(B) $Q_2$
(C) $Q_3$
(D) $Q_4$

33. A trade deficit indicates that a country imports

(A) have decreased significantly
(B) are more than its exports
(C) are less than its exports
(D) equal its exports
34. Which of the following refers to the creation of a single monetary and fiscal authority having jurisdiction over a number of countries?

(A) Customs union
(B) Free-trade area
(C) Economic union
(D) Common market

35. Which of the following is NOT an objective of the World Trade Organization (WTO)?

(A) Funding growth and development in first- and third-world countries
(B) Minimising or eliminating preferential arrangements
(C) Creating a level trading field amongst international traders
(D) Governing international trade amongst member countries

36. Which of the following is NOT included in a balance of payments account?

(A) The capital account
(B) The current account
(C) The financial account
(D) The government’s budget account

37. Which of the following BEST defines ‘economic growth’?

(A) The increase in real per capita output over time
(B) An increase in the standard of living over time
(C) A representation of the maximum recovery of existing resources over time
(D) The meeting of two production possibility boundaries

38. To which of the following do ‘equity sustainability, productivity and empowerment’ apply?

(A) Growth
(B) Development
(C) Liberalization
(D) Economic integration

39. How does an imposition of a quota at $S_1$ affect price and quantity imported?

(A) Price decreases; quantity decreases
(B) Price decreases; quantity increases
(C) Price increases; quantity increases
(D) Price increases; quantity decreases
40. Which of the following is NOT true about trans-national corporations (TNCs)?

(A) The parent firm in the home country controls the assets of subsidiaries.
(B) TNCs may shift the location of pollution-intensive production to countries where environmental laws are not imposed.
(C) The TNCs' practice of transfer pricing benefits both home and host countries.
(D) TNCs introduce new products, processes and technologies into the developing world.

41. Which of the following is NOT a characteristic of developing countries?

(A) Poverty
(B) Abundance of capital
(C) Economic dependence on FDIs
(D) Preferential trade arrangements

42. The following data refer to the balance of payments of a country.

<table>
<thead>
<tr>
<th>Item</th>
<th>$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import of goods</td>
<td>10,000</td>
</tr>
<tr>
<td>Export of goods</td>
<td>8,000</td>
</tr>
<tr>
<td>Invisible balance</td>
<td>+600</td>
</tr>
<tr>
<td>Investment and other capital flows</td>
<td>+100</td>
</tr>
</tbody>
</table>

What is the balance of payments?

(A) $1,300 m
(B) $1,400 m
(C) $2,500 m
(D) $2,700 m

43. The primary purpose of World Bank funds is to

(A) foster regional development
(B) finance temporary balance of payment problems in developing countries
(C) finance infrastructure development on a long-term basis in developing countries
(D) promote environmental development in developing countries
Item 44 refers to the following table.

Six Caribbean Economies
2004 - 2005: Main Indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Nominal GDP growth</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>4.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Barbados</td>
<td>4.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Grenada</td>
<td>-3.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Guyana</td>
<td>1.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.7</td>
<td>13.7</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>5.8</td>
<td>3.7</td>
</tr>
</tbody>
</table>

44. From the figures given in the table above, which country has the **lowest** level of real growth?

   (A) Guyana
   (B) Jamaica ✓
   (C) Grenada
   (D) Barbados

45. Which combination of factors BEST determines export revenue of a country?

   I. International price
   II. Domestic production
   III. Domestic income
   IV. Import restrictions

   (A) ✓ I and II only
   (B) I and IV only
   (C) II and III only
   (D) III and IV only

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.