1. Inflation is BEST defined as a
   (A) steady decline in the overall price level
   (B) steady increase in the overall price levels
   (C) continuous improvement in the quality of goods produced in a country
   (D) continuous increase in the interest rates imposed on loans by the commercial banks

2. Nominal interest rates adjusted to reflect the inflation rates are known as
   (A) real interest rates
   (B) actual interest rates
   (C) capital interest rates
   (D) nominal interest rates

3. Inflation and unemployment are the focus of
   (A) economic history
   (B) microeconomics
   (C) macroeconomics
   (D) positive economics

4. Which of the following statements BEST defines a price index?
   (A) A continuous increase in the overall price level
   (B) A measurement showing how the average price of a basket of goods changes over time
   (C) A decrease in the overall price level of all goods produced in a country
   (D) A measurement showing the cost of goods at a particular point in time

5. Which of the following can be used to calculate the unemployment rate?
   (A) \[ \frac{\text{Number of unemployed}}{\text{Total population}} \times 100 \]
   (B) \[ \frac{\text{Number of unemployed}}{\text{Working age population}} \times 100 \]
   (C) \[ \frac{\text{Number of unemployed}}{\text{Number of employed}} \times 100 \]
   (D) \[ \frac{\text{Number of unemployed}}{\text{Labour force}} \times 100 \]

6. Given the following information for Country Z.

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP</td>
<td>10 000</td>
<td>12 000</td>
</tr>
<tr>
<td>Real GDP</td>
<td>9 500</td>
<td>10 500</td>
</tr>
</tbody>
</table>

Calculate the Gross Domestic Product (GDP) deflator for 2009.

   (A) 95
   (B) 114
   (C) 141
   (D) 187

7. Which of the following BEST defines '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
8. In GDP calculation the value of intermediate goods is
   (A) not counted
   (B) counted separately
   (C) included only if they are imported
   (D) not included in the year they are produced

Items 9 - 10 refer to the diagram below showing the classical model for a labour market.

9. The curve N represents the total number of persons in the
   (A) economy
   (B) labour force
   (C) employed bracket
   (D) unemployed bracket.

10. The broken lines between the ASₐ and the N curve represent the
    (A) total labour force
    (B) equilibrium wage rate
    (C) natural level of unemployment
    (D) disequilibrium level of unemployment

11. 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 difficult to calculate.
   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
12. Which of the diagrams above represents an inflationary gap?

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

13. An increase in aggregate supply will

(A) reduce the price level and reduce real domestic output
(B) reduce the price level and increase real domestic output
(C) increase the price level and reduce real domestic output
(D) have no effect on price level and real domestic output

14. The Keynesian model states that government has a responsibility to

(A) reduce wages
(B) manage aggregate demand
(C) limit the power of trade unions
(D) promote the importation of goods
15. The relationship between investment and the rate of change in national output is reflected in the
   (A) multiplier  
   (B) classical model  
   (C) accelerator model  
   (D) investment function

16. The speculative motive for holding money refers to holding money
   (A) to see if the prices of bonds and shares will fall  
   (B) to see if prices of bonds and shares will rise  
   (C) until the prices of consumer items fall  
   (D) until scarce items become available

17. If there is an increase in the demand for money, the interest rate, according to Keynes' analysis will change from
   (A) W to Y  
   (B) Z to X  
   (C) Y to X  
   (D) Z to W

18. The quantity theory of money may be expressed as
   (A) \( MV = PT \)  
   (B) \( MT = PV \)  
   (C) \( V = M \div P \)  
   (D) \( V = PT \div P \)

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

20. The difference between narrow money and broad money lies in the
   (A) decision to hold money either as cheques or as currency  
   (B) decision to save money locally or abroad  
   (C) ease with which money serves as a medium of exchange  
   (D) size of deposits held as non-chequeable and time deposits

21. The total quantity of money demanded is
   (A) negatively related to the rate of interest and nominal GDP  
   (B) negatively related to the rate of interest and positively related to nominal GDP  
   (C) positively related to the rate of interest and negatively related to the nominal GDP  
   (D) positively related to the rate of interest and nominal GDP
22. 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

23. An example of expansionary monetary policy is an increase in the
   (A) Central Bank required revenue ratio
   (B) Central Bank open-market purchases
   (C) Central Bank open-market sales
   (D) Central Bank discount rate

24. 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

25. In order to expand monetary policy the government agent could
   (A) issue new government bonds
   (B) sell existing government bonds
   (C) buy existing government bonds
   (D) sell government-held investments overseas

26. Changes in taxes and transfer payments that dampen economic fluctuations are known as
   (A) automatic destabilizers
   (B) automatic stabilizers
   (C) money multipliers
   (D) budget deficits

27. Ceteris paribus, which of the following will MOST likely result in the closure of a deflationary gap?
   (A) Decrease spending and decrease taxes
   (B) Decrease spending and increase taxes
   (C) Increase spending and increase taxes
   (D) Increase spending and decrease taxes

28. In an economy, potential GDP is $8,000 and the equilibrium level of income is $7,000. With a multiplier of 2.5, by how much should government spending increase in order to close the gap?
   (A) $ 400
   (B) $ 600
   (C) $1,000
   (D) $1,200
Item 29 refers to the diagram below showing aggregate demand (AD) and aggregate supply (AS).

![Aggregate Demand and Supply Diagram]

Items 31 - 32 refer to the following Production Possibilities Curve (PPC) for a country producing investment and consumption goods.

![Production Possibilities Curve Diagram]

29. 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

30. What is the effect of a surplus budget on government's total debt?

(A) Government spending should decrease.
(B) Total debt should decrease.
(C) Total debt should increase.
(D) Total debt should remain the same.

31. Actual growth is represented by

(A) A and C
(B) A and D
(C) B and D
(D) C and D

32. Which of the following CANNOT be inferred if the country is producing at point C?

(A) Point C represents actual growth.
(B) The economy is underutilising its productive resources.
(C) A move from C to D can only occur if there is an increase in productive capacity.
(D) Point C indicates that full employment has not been achieved in the country.

33. Which of the following factors is NOT a determinant of economic growth?

(A) Increased use of economic resources
(B) Improvement in labour productivity
(C) Technological advances
(D) Globalisation
34. What would be the effect on Jamaican imports when Jamaica experiences strong economic growth but its major trading partners experience sluggish economic growth?

(A) Jamaican imports will increase more than Jamaican exports.
(B) Jamaican exports will increase more than Jamaican imports.
(C) Jamaican imports will decrease but Jamaican exports will increase.
(D) There will be no effect on Jamaican imports and exports.

35. Country X and Country Y both produce and consume coffee and bananas. From the same quantity of inputs for each commodity, Country X and Country Y produce according to the following table.

<table>
<thead>
<tr>
<th>Country</th>
<th>Kilos of Coffee</th>
<th>Kilos of Banana</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>45</td>
<td>9</td>
</tr>
<tr>
<td>Y</td>
<td>30</td>
<td>6</td>
</tr>
</tbody>
</table>

Which of the following is TRUE?

(A) Country Y is more efficient in the production of both goods.
(B) Country Y has a comparative advantage in coffee production.
(C) Country X has a comparative advantage in banana production.
(D) Country X is more efficient in the production of both goods.

36. What effect will an import quota have on the quantity of wheat imported by St. Lucia from the United States?

I. Increase the volume of wheat that is traded.
II. Reduce the volume of wheat that is traded.
III. Raise the price of wheat in the importing country and lower the price in the exporting country.
IV. Lower the price of wheat in the importing country and raise the price in the exporting country.

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

37. A systematic record of accounts that monitors economic transactions between one country and the rest of the world is referred to as

(A) capital account
(B) current account
(C) balance of trade
(D) balance of payment

38. The following information was given for Country R’s balance of payments for the year 2007.

<table>
<thead>
<tr>
<th>$ mn</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current balance</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>Capital account</td>
<td>– 20</td>
</tr>
<tr>
<td></td>
<td>Financial account</td>
<td>–206</td>
</tr>
<tr>
<td></td>
<td>Net errors and omissions</td>
<td>X</td>
</tr>
</tbody>
</table>

What is the value of ‘net errors and omissions’ in the balance of payments?

(A) 0 mn
(B) $226 mn
(C) $274 mn
(D) –$274 mn
39. For several years the national currency of Zetaland, a country in the Eastern Caribbean, has been losing value against other currencies. This is called

(A)       devaluation  
(B)       revaluation  
(C)       depreciation  
(D)       appreciation

40. Exchange rates can BEST be defined as the rate at which

(A)       one good exchanges for another during barter  
(B)       one currency exchanges for another money is exchanged for goods and services  
(C)       local goods are exchanged for foreign currency

41. When the value of a country’s currency appreciates, the country’s

(A)       exports become more expensive  
(B)       exports become cheaper  
(C)       imports become more expensive  
(D)       balance of trade improves

42. The World Bank and its associated institutions function in ways that serve to

I.       curtail the lending activities of the advanced industrialised nations  
II.      channel funds from rich countries to poor countries  
III.     provide technical assistance to Less Developed Countries (LDC’s)  
IV.      lend long-term, low-interest loans to Less Developed Countries

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

43. Which of the following is NOT an objective of the World Trade Organisation (WTO)?

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

44. One drawback of foreign direct investment is

(A)       downsizing of local firms  
(B)       transfer of skills and cultural practices  
(C)       access to technology  
(D)       access to new resources

45. Which of the following factors are the focus of globalisation?

I.       Trade liberalisation  
II.      Promotion of different cultures  
III.     Technological innovation  
IV.      Liberalisation of capital markets

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

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