1. Which of the following statements is TRUE of a country's Gross Domestic Product?

(A) It is always smaller than Gross National Product.
(B) It is always larger than Net Domestic Product.
(C) It reflects the total market value of all final goods and services produced in an economy in a given year.
(D) It reflects the total market value of all goods and services purchased in an economy in a given year.

2. In the expression “GDP is the market value”, ‘market value’ means the

(A) per unit price of the tax imposed
(B) per unit price of the subsidy granted
(C) price at which the inputs were purchased
(D) price persons are willing to pay for the goods

3. What is the value of aggregate demand?

(A) $1100
(B) $1300
(C) $1700
(D) $2300

4. Which of the following represents the marginal propensity to save?

(A) \(\frac{MT}{VT}\)
(B) \(\frac{VT}{MT}\)
(C) \(\frac{MT}{OT}\)
(D) \(\frac{NT}{OT}\)

5. The present level of national income is $75 million but the full employment level of national income is $85 million. If the multiplier is 2.5, by how much should government spending be increased in an attempt to raise national income to the desired level?

(A) $1.6 million
(B) $2.5 million
(C) $4 million
(D) $10 million
6. 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
\( \checkmark \) (D) marginal propensity to consume

Item 7 refers to the following diagram which shows the income expenditure model.

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

8. 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) GDP minus net property income from abroad
\( \checkmark \) (D) National income adjusted for inflation

9. In Country X, the year 2010 is used as the base year for measuring real GDP. What is the value of the price index in the year 2010?
(A) 0
(B) 10
\( \checkmark \) (C) 100
(D) 150

10. The underground economy may BEST be described as
(A) the production of intermediate goods
(B) those activities which are heavily taxed
(C) economic activities that foster growth
\( \checkmark \) (D) economic activities that are hidden from the government

11. “As wages increase, the number of workers willing to work also increases.” This statement explains why the
(A) aggregate supply curve for labour is upward sloping
\( \checkmark \) (B) aggregate demand curve for labour is downward sloping
(C) equilibrium wage rate is maintained at $5 000.00
(D) equilibrium national output is maintained by 20 000 workers
Item 12 refers to the diagrams below showing Equilibrium National Income ($Y_e$).

12. Which of the diagrams above represents a recessionary gap?

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

13. The classical economists believed that the existence of unemployment had to be voluntary because

(A) governments usually step in with measures designed to reduce unemployment
(B) those persons who are unemployed are so because they refuse to be self-employed
(C) the possibility of emigration allows those persons who cannot find jobs to leave the labour market
(D) market forces will always clear the labour market, therefore those persons without jobs have chosen to be out of the labour market
14. Which of the following situations would MOST likely cause an increase in nominal GDP?

(A) Prices have increased while output remains constant.
(B) Output has increased while prices remain constant.
(C) Output has fallen and prices have increased.
(D) Either output or prices have increased.

15. In the Tringam economy, the ‘marginal propensity to consume’ for the unemployed is lower than that of taxpayers.

If the Government increases its spending on unemployment benefits by 50 million dollars, then to maintain national income equilibrium level, taxation MUST be

(A) increased by 50 million dollars
(B) reduced by more than 50 million dollars
(C) reduced by less than 50 million dollars
(D) increased by more than 50 million dollars

16. The speculative motive for holding money is based on money’s function as a

(A) store of value
(B) unit of account
(C) medium of exchange
(D) means of deferred payment

17. Which of the following CANNOT be used to measure inflation?

(A) GDP deflator
(B) Expenditure method
(C) Producer price index
(D) Consumer price index

18. The liquidity preference curve shows the relationship between the

(A) demand for money and the interest rate
(B) demand for foreign currency and bond prices
(C) demand for bonds and shares and the interest rate
(D) idle money balances and active money balances

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

(A) average time in which households spend their money income
(B) money stock in a given time period divided by the level of prices
(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

20. What type of policy is a government implementing when it places a tax on gasoline?

(A) Expansionary fiscal policy
(B) Contractionary fiscal policy
(C) Expansionary monetary policy
(D) Contractionary monetary policy
21. Which of the following is TRUE about automatic stabilizers?

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

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

22. The relationship between price levels and inflation is embodied in the notion that the higher the

(A) rate of increase in the price level, the higher the rate of inflation  
(B) rate of increase in the price level, the lower the rate of inflation  
(C) price level, the higher the rate of inflation  
(D) price level, the lower the rate of inflation

23. An example of expansionary monetary policy is an increase in the Central Bank’s

(A) discount rate  
(B) open-market sales  
(C) required revenue ratio  
(D) open-market purchases

24. What type of budgetary policy is used by the government at point T in the diagram?

(A) Budget deficit  
(B) Budget surplus  
(C) Balanced budget  
(D) Monetary policy

25. In the situation above, NM indicates that the government is using a

(A) deficit budget  
(B) budget surplus  
(C) balanced budget  
(D) monetary policy

26. The term ‘price index’ is BEST defined as

(A) continuous increase in the overall price level  
(B) decrease in the overall price level of all goods produced in a country  
(C) measurement showing the cost of goods at a particular point in time  
(D) measurement showing how the average price of a basket of goods changes over time
27. The demand for money is determined by the 
I. rate of interest 
II. level of income 
III. level of taxation 
IV. amount of savings 
✓(A) I and II only 
(B) I and IV only 
(C) II and III only 
(D) III and IV only 

28. The precautionary motive for holding money is based on 
(A) uncertainties about the movement of bond and share prices 
? (B) ✓ uncertainties about the timing of receipts and payments by a firm’s customers 
(C) the fact that money is needed for purchasing bonds and shares and money is received at intervals 
(D) the fact that bond and share prices have been on a downward trend 

29. 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 

30. An increase in a country’s national debt results in negative consequences for its citizens if borrowing is used as a means to 
(A) develop the health sector of the economy 
(B) improve educational facilities in the nation’s schools 
(C) refurbish the country’s infrastructure, for example, roads 
✓(D) increase the salaries and wages of medical practitioners 

31. Which of the following defines ‘economic growth’? 
✓(A) The increase in real per capita output over time 
(B) An increase in the standard of living over time 
(C) The meeting of two production possibility boundaries 
(D) A representation of the maximum recovery of existing resources over time 

Items 32 – 33 refer to the data below, which show the human development indices of four countries. 

<table>
<thead>
<tr>
<th>Country</th>
<th>H.D.I</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>0.21</td>
</tr>
<tr>
<td>Q</td>
<td>0.56</td>
</tr>
<tr>
<td>R</td>
<td>0.76</td>
</tr>
<tr>
<td>S</td>
<td>0.03</td>
</tr>
</tbody>
</table>

32. Which country would have the highest level of development? 
✓(C) R 

33. Which country would have the lowest level of human development? 
✓(D) S
38. An advantage of a fixed-exchange-rate system is that it:

(A) forces the government to constantly monitor its value
(B) reduces the uncertainties caused by fluctuating import and export prices
(C) provides an automatic solution to balance-of-payment problems
(D) requires the strong support of government to maintain its value

39. Which of the following factors BEST determines export revenue of a country?

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

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

40. 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 for that country?

(A) −$1 400 million
(B) −$1 300 million
(C) $2 500 million
(D) $2 700 million

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

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

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

35. Which of the following refers to the creation of a single monetary and fiscal authority having jurisdiction over a number of countries?

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

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

(A) Economic dependence on FDIs
(B) Protectionism
(C) Poverty
(D) Openness
41. When the value of a country’s currency appreciates, the country’s

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

42. Trinidad and Tobago, and Jamaica produce natural gas and coffee. Trinidad and Tobago is said to have a comparative advantage in the production of natural gas when

(A) the opportunity cost of producing natural gas is greater than in Jamaica
(B) it can produce both natural gas and coffee with half the input of factors required by Jamaica
(C) ✔ natural gas exchanges for far more units of coffee in Trinidad and Tobago than in Jamaica
(D) the amount of coffee that is foregone for every unit of natural gas produced is less than in Jamaica

43. Which of the following are strategies that the Caribbean can employ to ensure that it benefits from globalisation?

I. Open up branches of domestic firms globally.
II. Advertise and export indigenous goods to the world.
III. Ensure MNCs hire workers at all levels, including management.
IV. Invest locally and employ only domestic labour and other resources.

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

44. Which of the following BEST describes the situation if the exchange rate were at US $1 = £ 0.4?

(A) The dollar would be under-valued.
(B) The dollar would be over-valued.
(C) Demand would be less than supply.
(D) The market would be in equilibrium.

45. What would be the equilibrium quantity of the US dollars?

(A) Q1
(B) Q2
(C) ✔ Q3
(D) Q4

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

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