4 With the help of a diagram, evaluate the effectiveness of using monetary policy to increase the rate of economic growth in a country. [20]

7 When the incomes of consumers of good X fall by 5%, under which conditions will the demand curve shift furthest to the right?

	nature of good X	income elasticity of demand for good X
A	inferior good	–0.8
B	inferior good	–1.2
C	normal good	+0.9
D	normal good	+1.5

6 What is **not** a function of the price mechanism?

A to act as a signal to firms when allocating resources

B to maximise consumer surplus

C to provide an incentive to firms to produce goods

D to ration scarce resources

1 Which factor of production is needed first in order to set up a new business?

A capital

B enterprise

C labour

D land

13 Demand for medical face masks exceeds supply during a disease outbreak.

What is the most likely cause of this excess demand?

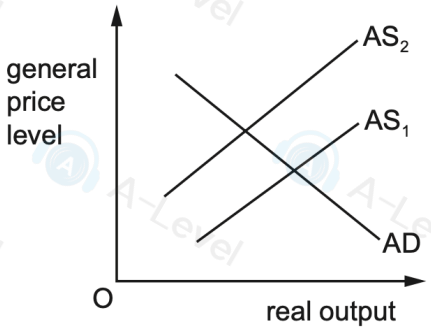
A Some consumers do not have effective demand.

B The demand for medical face masks is price inelastic in the short run.

C The price of medical face masks is fixed below the equilibrium price.

D The supply of medical face masks is inelastic in the short run.

19 The diagram shows the aggregate demand (AD) and aggregate supply (AS) for an economy.



Which changes in subsidies and indirect taxes would have caused the change from AS_1 to AS_2?

A higher subsidies and higher indirect taxes

B higher subsidies and lower indirect taxes

C lower subsidies and higher indirect taxes

D lower subsidies and lower indirect taxes

1 What is 'a produced means of further production'?

A capital

B enterprise

C labour

D land

15 Which government policy will increase aggregate demand?

A raising indirect taxation

B reducing the budget surplus

C removing domestic subsidies

D removing import quotas

15 The table shows the tax an individual would pay at different levels of income.

annual income ($)	tax paid ($)
20 000	1 000
30 000	3 000
40 000	6 000
50 000	8 000
60 000	12 000

What is the average rate of taxation and the marginal rate of taxation for an individual with an annual income of $50 000?

	average rate of taxation %	marginal rate of taxation %
A	15	16
B	16	20
C	16	28
D	20	20

3 A country's health care is funded by taxation but can be used free of charge by patients.

Which type of good is health care in this country?

A demerit good

B free good

C private good

D public good

5 With the help of a diagram, evaluate the effectiveness of the use of expenditure-switching policies to reduce a current account deficit on the balance of payments. [20]

9 What is true for income elasticity of demand but **not** for price elasticity of demand?

A It helps firms differentiate between goods with elastic and inelastic demand.

B It helps firms differentiate between normal and inferior goods.

C It helps firms predict the changes in the quantity demanded.

D It helps firms predict the changes in sales revenues.

17 What is required to prevent a rising price level due to an increase in aggregate demand?

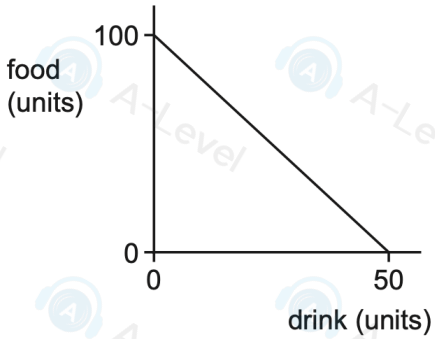
A Additional productive capacity must be created.

B Government investment must remain at a constant level to stabilise supply.

C Greater reliance must be placed on imported goods to overcome any domestic shortfalls.

D Wage rates must change more frequently to maintain levels of employment and output.

1 The diagram shows a country's production possibility curve.



What can be concluded from the diagram?

A Food and drink are normal goods.

B The country is self-sufficient in the production of food and drink.

C The opportunity cost of food falls as more drink is produced.

D There is a constant opportunity cost between food and drink.

10 Butter is a normal good. It is in joint demand with bread and in joint supply with buttermilk. The demand for butter increases because of a rise in consumer incomes.

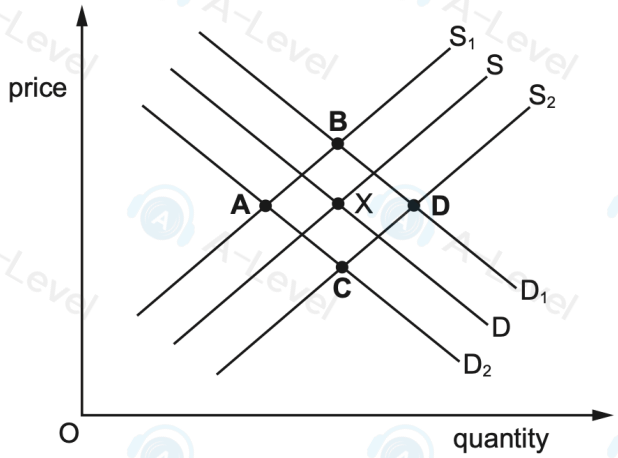
What are the effects of this increase on the prices of bread and buttermilk?

	price of bread	price of buttermilk
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

10 In the diagram, D and S represent the demand for and supply of smartphones. Many components used in the production of smartphones are imported. The initial equilibrium is at point X.

The exchange rate has depreciated at the same time as the price of a complementary good decreased.

Which point in the diagram could represent the new equilibrium?



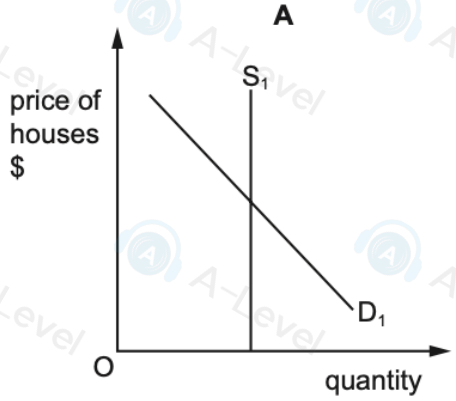
4 With the help of a diagram, assess the effectiveness of government policies which might be used to reduce cost-push inflation. [20]

11 The diagrams show the demand for and the supply of houses.

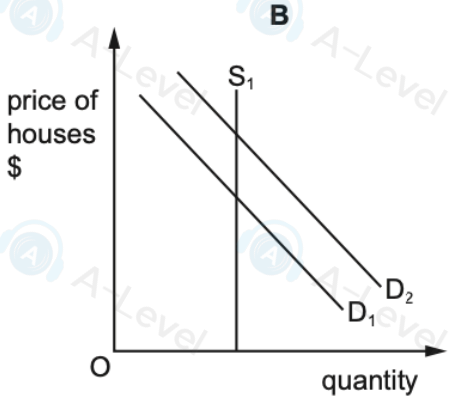
In the short run, the stock of houses for sale, S_1, is fixed. A government decides to allow some agricultural land to be used for building houses and subsidises lower-income buyers of the new houses.

Which diagram shows the long-run situation?

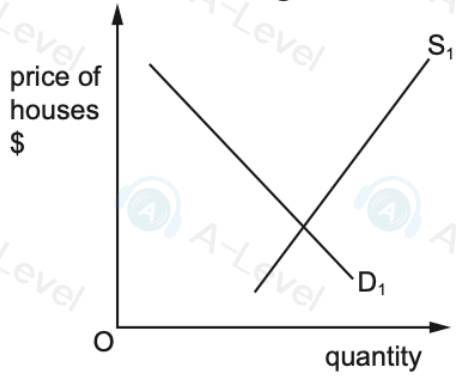
A



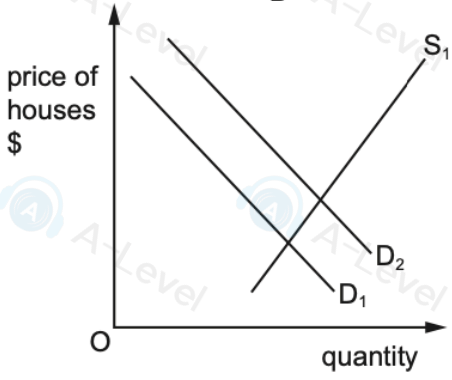
B



C



D



8 What would **not** cause a shift in the demand curve for a good?

A a change in the price of a complement

B a change in the price of a substitute

C a change in the price of the good itself

D a change in consumers' incomes

21 Which macroeconomic objective is most likely to be achieved by increasing income tax?

A depreciation of the exchange rate

B economic growth

C low unemployment

D price stability

9 The pressure to reduce the use of fossil fuels has led to oil companies reducing the level of investment in the exploration of new reserves.

What will be the long-run effect of such a policy on the market for oil?

	market change	price change
A	upward movement along the demand curve	price decreases
B	downward movement along the demand curve	price increases
C	supply shifts to the left	price increases
D	supply shifts to the left	price decreases

8 A survey into the market for good X found that it is an inferior good and a close substitute for good Y.

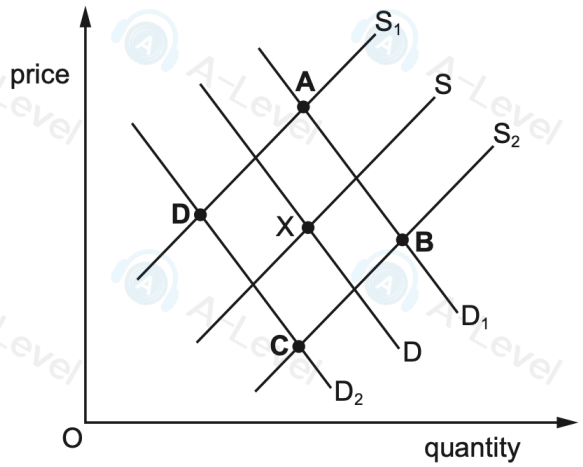
Which values for the income elasticity of demand for good X and its cross elasticity of demand with respect to the price of good Y would support this?

	income elasticity of demand for good X	cross elasticity of demand for good X with respect to the price of good Y
A	–1.2	–0.9
B	–1.2	+0.9
C	+1.2	–0.9
D	+1.2	+0.9

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13 In the diagram, the demand and supply curves for wheat in Australia are shown. Initial equilibrium is at X. The government imposes a sales tax on wheat at the same time as increasing the rate of income tax.

Which point could represent the new equilibrium?



4 An increase in a government's budget surplus will increase unemployment in the short run but it will make it easier to control a balance of payments deficit on the current account in the long run.

Evaluate this statement. [20]

28 The table shows the output of goods X and Y in China and the United States (US) before specialisation.

	good X	good Y
China	20 000	70 000
US	20 000	50 000
total	40 000	120 000

Assuming both China and the US use 50% of their resources to produce each product, what will the combined total output be after specialisation has occurred?

A 120 000 **B** 140 000 **C** 160 000 **D** 180 000

8 The cross elasticity of demand between bus travel and rail travel is +2. A rise in the price of bus fares caused the demand for rail travel to rise by 10%.

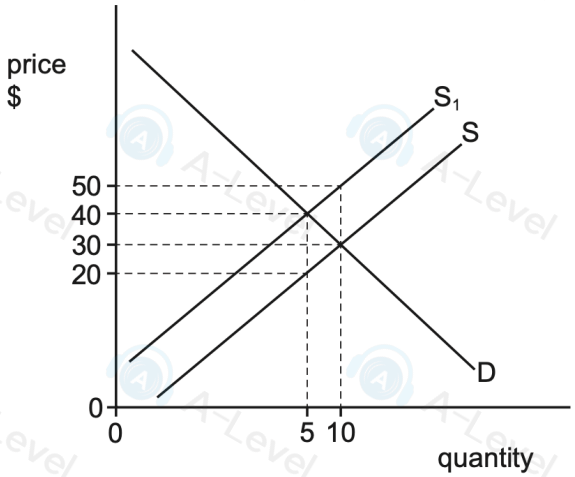
Which change in bus fares would have caused this?

	from (cents)	to (cents)
A	20	21
B	30	33
C	40	45
D	50	60

2 Market failure exists in all economies.

Evaluate, with the aid of a diagram(s), the meaning of market failure and **two** policies a government may use to correct market failure. [20]

15 The diagram shows the impact of a government imposing a unit tax on a demerit good. S is the supply curve before the tax and S_1 is the supply curve after the tax.



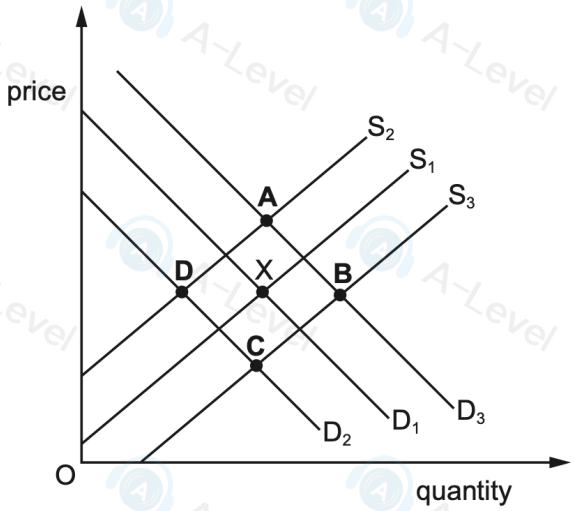
What is the after-tax revenue of the firm producing the demerit good?

A $100 **B** $200 **C** $300 **D** $500

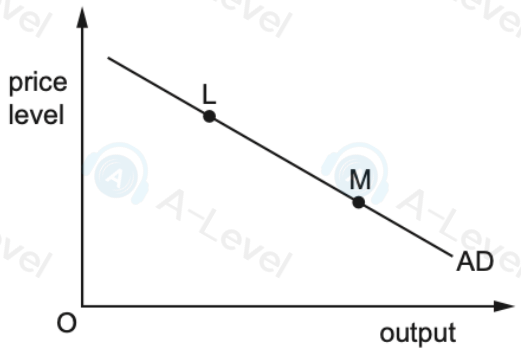
11 The diagram shows the demand and supply curves for the global air cargo market.

The initial equilibrium is at point X.

What would the new equilibrium be if there is a global recession and an increase in fuel costs?



18 The diagram shows an economy's aggregate demand curve.



What explains the downward movement from L to M along the AD curve?

A an increase in tariffs leading to decreased imports

B a decrease in taxes on firms, causing an increase in short-run aggregate supply

C an increase in consumer confidence, prompting higher spending on local goods as well as imports

D a slow-down in economic activity, resulting in decreased investment spending

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