PEARSON EDEXCEL IAL ECONOMICS · YEC11

# ECONOMICS



## EXAM QUESTION PACK

### UNIT 2: NATIONAL INCOME

| SCORE | PERCENTAGE |
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STEMUP

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Q1.

**Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

Which **one** of the following is likely to cause a decrease in the value of a country's multiplier?

☒ **A** A decrease in the marginal propensity to tax

☒ **B** A decrease in the marginal propensity to save

☒ **C** An increase in the marginal propensity to import

☒ **D** An increase in the marginal propensity to consume

**(Total for question = 1 mark)**

Q2.

**Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering this question.**

With reference to Figure 2, analyse **one** macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.

**(Total for question = 6 marks)**

Q3.

In April 2020 it was estimated that an increase in government spending of RM30 billion in Malaysia would eventually result in an increase in the country's national income of RM150 billion.

Based on this information, calculate the marginal propensity to consume (MPC) in Malaysia. Show your workings.

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**(Total for question = 4 marks)**

Q4.

In 2022 it was estimated that an increase in government spending of $25 billion in an economy would eventually result in an increase in the country's national income of $100 billion.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

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**(Total for question = 4 marks)**

Q5.

It was estimated that an increase in investment of $150 million in an economy would eventually result in an increase in the country's national income of $1 500 million.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

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**(Total for question = 4 marks)**

Q6.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

It is estimated that the marginal propensity to consume in Germany is 0.4.

Which **one** of the following represents the value of the multiplier in Germany?

☒ **A** 0.5

☒ **B** 0.6

☒ **C** 1.7

☒ **D** 2.5

**(Total for question = 1 mark)**

Q7.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

Which **one** of the following is a withdrawal from the circular flow of income?

☒ **A** Investment

☒ **B** Consumption

☒ **C** Savings

☒ **D** Exports

**(Total for question = 1 mark)**

Q8.

In January 2016 the world price of oil was $29.78 per barrel. By May 2019 this had increased to $66.83 per barrel. Saudi Arabia is a net exporter of oil.

Draw a diagram showing the change in AD for Saudi Arabia's economy following the increase in the price of oil. Show the effect on the price level and real output.

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**(Total for question = 4 marks)**

Q9.

Between January 2014 and September 2020 the price of natural gas fell from $5.60 per cubic foot to $1.66 per cubic foot. Natural gas is an important source of energy for Japanese producers.

Draw a SRAS and AD diagram to show the effect of the decrease in the price of natural gas on the price level and real output for Japan.

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**(Total for question = 4 marks)**

Q10.

Between May 2020 and March 2022 the global oil price increased from $39 a barrel to $106 a barrel.

Evaluate the view that very high global oil prices will always harm a country's macroeconomy.

**(Total for question = 20 marks)**

Q11.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

The value of a country's multiplier decreases from 1.7 to 0.9.

Which **one** of the following is a likely cause of a decrease in the value of a country's multiplier?

☐ **A** A decrease in the marginal propensity to tax

☐ **B** A decrease in the marginal propensity to save

☐ **C** An increase in the marginal propensity to consume

☐ **D** An increase in the marginal propensity to import

**(Total for question = 1 mark)**

Q12.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

South Africa's annual government expenditure as a proportion of GDP increased from 31.4% to 34.6% between 2012 and 2019.

Which **one** of the following is most likely to have contributed to this increase in government expenditure as a proportion of GDP?

☐ **A** Lower welfare payments

☐ **B** A lower exchange rate

☐ **C** Less economic activity

☐ **D** Increased business confidence

**(Total for question = 1 mark)**

Q13.

Turkey's central bank increased its base interest rate from 12.75% in April 2018 to 24% in September 2018.

Draw a LRAS and AD diagram to show the possible long-run impact of this significant increase in the base interest rate on AD, the price level **and** real output for Turkey.

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**(Total for question = 4 marks)**

Q14.

**The Romanian economy**

**Figure 1 Year-on-year real GDP growth by quarter, 2016–2017**

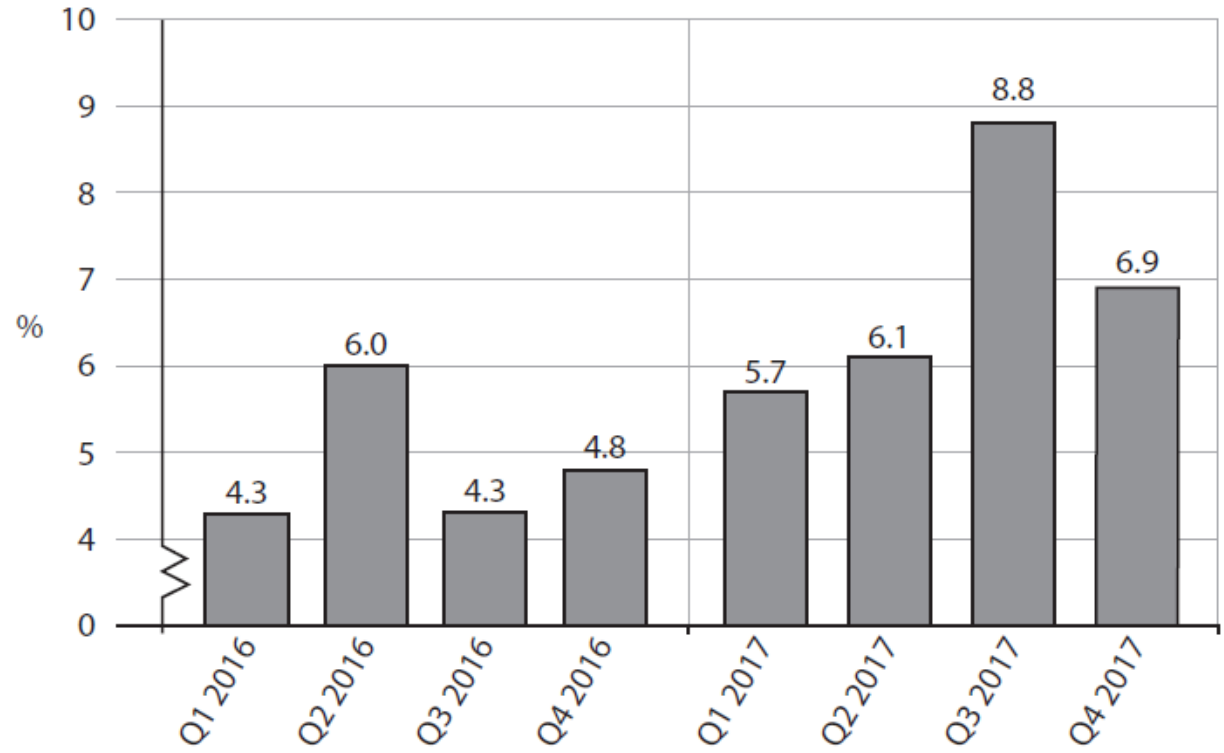
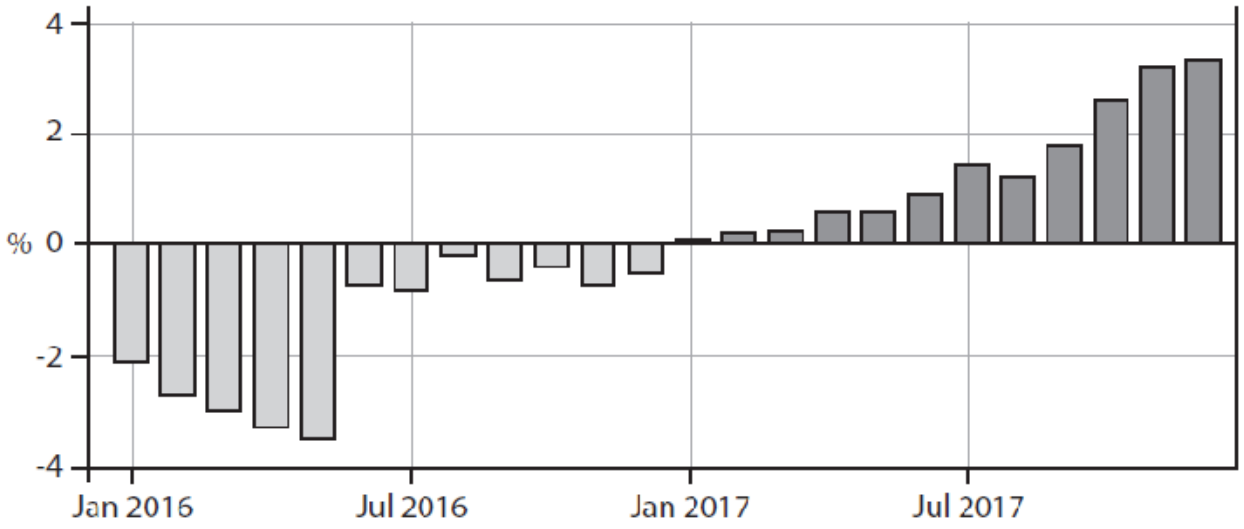



**Figure 2 The rate of inflation, as measured by the consumer price index, 2016-2017**



**Extract A Romania's economic growth**

For many years Romania had been viewed as a poor country by European standards, experiencing low wages and a slow rate of economic growth. However, since 2015, Romania's rate of economic growth outperformed other European countries. This growth was stimulated by a number of factors including the Government's expansionary fiscal policy, increased household consumption and high levels of investment in new technology for manufacturing industries.

In 2015 the Government cut VAT from 24% to 20%. It planned to double the minimum wage over a four-year period. It also increased the salaries of public sector employees. However, wage levels are still low compared to other European countries leading to high levels of migration out of the country. This resulted in labour shortages as businesses found it hard to fill vacancies. The unemployment rate fell to 4.6% in 2017.

Romania has one of the fastest broadband internet speeds in the world, behind Singapore, Hong Kong, South Korea and Iceland. It also has a very well-educated workforce, with excellent language, maths and science skills. The technology sector is expanding fast in the country, and many large foreign firms such as Siemens and Ford have set up factories in Bucharest, the Romanian capital. This has increased production in the country and generated strong growth in exports.

**Extract B Inflationary pressures**

As disposable incomes have risen, consumption has also increased significantly reaching a ten-year peak in 2017. The rate of inflation has risen throughout 2017. This was partly caused by a 3.8% increase in food prices and by a 4.1% price increase in non-food products.

The central bank responded to this inflationary pressure by increasing its base interest rate for the first time in 10 years from 1.75% to 2%. Mugur Isarescu, the Governor of the central bank, suggested that the Romanian Government's fiscal policies are to blame for the higher rate of inflation. The fiscal deficit rose to 3% of GDP in 2016. The Government defended its position, believing that reductions in tax rates and increased government spending on infrastructure will lead to long-term economic growth.

With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

**(Total for question = 6 marks)**

Q15.

It is estimated that the marginal propensity to consume for Spain is 0.72. In January 2018 the Spanish Government announced an €18 billion investment on national defence.

Calculate the final increase in GDP resulting from this €18 billion investment.
Show your workings.

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**(Total for question = 4 marks)**

Q16.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

Which **one** of the following is an injection into the circular flow of income?

☒ **A** Savings

☒ **B** Exports

☒ **C** Imports

☒ **D** Taxation

**(Total for question = 1 mark)**

Q17.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

From Quarter 1 2020 to Quarter 2 2020, government expenditure in Russia increased by 25 billion roubles.

*Ceteris paribus*, what was the most likely effect of this increase?

☒ **A** Aggregate demand decreased

☒ **B** Withdrawals from the circular flow increased

☒ **C** Aggregate supply decreased

☒ **D** Injections into the circular flow increased

**(Total for question = 1 mark)**

Q18.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

Which **one** of the following is an injection into the circular flow of income?

☒ **A** Investment

☒ **B** Savings

☒ **C** Imports

☒ **D** Consumption

**(Total for question = 1 mark)**

Q19.

An economy has the following injections into, and withdrawals from, its circular flow of income in one year.

| Injections ($bn) | | Withdrawals ($bn) | |
|---|---|---|---|
| Government spending | 500 | Taxation | 400 |
| Investment | 150 | Saving | 200 |
| Exports | 450 | Imports | 550 |

Which **one** of the following can be concluded from the data?

☒ **A** The economy has a government budget surplus

☒ **B** There is a net withdrawal out of the economy

☒ **C** The economy has a balance of trade surplus

☒ **D** There is a net injection into the economy

**(Total for question = 1 mark)**

Q20.

**Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering this question.**

With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.

**(Total for question = 8 marks)**

Q21.

**Study Figure 1, Extract A and Extract B in the Source Booklet before answering this question.**

Analyse **one** likely effect of the ‘increase in the number of overseas visitors’ (Extract A, lines 8 and 9) on Japan's circular flow of income.

Illustrate your answer with a circular flow diagram.

**(Total for question = 6 marks)**

Q22.

**Study Figure 1, Figure 2, Figure 3 and Extract A in the Source Booklet before answering this question.**

With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

**(Total for question = 6 marks)**

Q23.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

The Government of Saudi Arabia estimates that, in 2022, its spending will be $255 billion and its tax revenue will be $279 billion.

*Ceteris paribus*, which **one** of the following can be deduced from this information?

☒ **A** There will be a net withdrawal from the circular flow of income

☒ **B** There will be a net injection into the circular flow of income

☒ **C** There will be a balance of trade deficit

☒ **D** There will be a balance of trade surplus

**(Total for question = 1 mark)**

Q24.

The UK Government is spending £56 billion on building HS2, a high-speed railway network.

Which **one** of the following is also an injection into the circular flow of income?

☒ **A** Increased spending on imports

☒ **B** Increased spending on exports

☒ **C** Increased levels of saving

☒ **D** Increased income tax receipts

**(Total for question = 1 mark)**

Q25.

For the year ending June 2020, there were 153 900 immigrants arriving in New Zealand and 74 200 emigrants leaving New Zealand.

Draw a LRAS **and** AD diagram to show the effect of this net migration on the price level and real output for New Zealand.

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**(Total for question = 4 marks)**

Q26.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

It is estimated that the marginal propensity to consume in China is 0.5. Assume that the Chinese Government increased its spending on infrastructure by ¥1.5 billion.

*Ceteris paribus*, what would be the final increase in GDP following this injection?

☒ **A** ¥0.50 bn

☒ **B** ¥0.75 bn

☒ **C** ¥2 bn

☒ **D** ¥3 bn

**(Total for question = 1 mark)**

Q27.

**Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

The value of Burundi's multiplier is estimated to be approximately 0.1.

*Ceteris paribus*, which **one** of the following would cause an increase in the value of a country's multiplier?

☒ **A** An increase in the marginal propensity to save

☒ **B** An increase in the marginal propensity to import

☒ **C** A decrease in the marginal propensity to tax

☒ **D** A decrease in the marginal propensity to consume

**(Total for question = 1 mark)**

Q28.

The table shows marginal propensities to withdraw for an economy.

| | |
|---|---|
| Marginal propensity to save (MPS) | 0.4 |
| Marginal propensity to tax (MPT) | 0.3 |
| Marginal propensity to import (MPM) | 0.1 |

With reference to the table, calculate the value of the multiplier for this economy.
Show your workings.

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**(Total for question = 4 marks)**

Q29.

**Study Figures 1–3 and Extract A in the Source Booklet before answering this question.**

With reference to Extract A, analyse the likely effect of France's trade balance in April 2020 on its circular flow of income.

**(Total for question = 6 marks)**