

2010-AL  
ECON  
PAPER 2 A

# **MOCK EXAM**

## **(By James Lo)**

### **ECONOMICS A-LEVEL PAPER 2**

This paper must be answer in English (3 hours)

#### **INSTRUCTIONS FOR SECTION A**

1. Read carefully the instructions on the Answer Sheet. Stick a barcode label and insert the information required in the spaces provided.
2. When told to open this book, you should check that all the questions are there. Look for the words 'END OF SECTION A' after the last question.
3. You should mark all your answers on the Answer Sheet. You are advised to use an HB pencil to mark all your answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber..
4. You should mark only ONE answer for each question. If you mark more than one answer, you will receive NO MARKS for that question.
5. All questions carry equal marks. No marks will be deducted for wrong answers.

1. Refer to the table below.

Gross National Product (GNP) Components	\$ billion
Private consumption expenditure	300
Government consumption expenditure	50
Gross domestic fixed capital formation	40
Increase in inventory	8
Depreciation	5
Indirect taxes	4
Subsidies	2
Net exports of goods and services	20
Net income from abroad	-10

The net national product at factor cost (in \$billion) is

- A. 399
- B. 401
- C. 403
- D. 405

2. The existence of a deflationary gap indicates that

- (1) there is a gap between real income and nominal income, and the gap is caused by deflation.
- (2) there is a gap between the actual deflation rate and the expected deflation rate.
- (3) there is excess supply for aggregate output at the full employment level of income.

- A. (1) only
- B. (3) only
- C. (1) and (2) only
- D. All of the above

3. Unintended inventory investment

- A. is not included in investment.
- B. is gross investment minus capital consumption allowances.
- C. is zero when actual aggregate expenditure equals total output.
- D. can be negative.

4. In which of the following circumstances will the value of income multiplier in the IS-LM model be the same as that in the elementary Keynesian model?

- (1) The LM curve is perfectly interest inelastic.
- (2) The IS curve is perfectly interest inelastic.
- (3) The LM curve is perfectly interest elastic.
- (4) The IS curve is perfectly interest elastic.

- A. (1) 、(3) only
- B. (1) 、(4) only
- C. (2) 、(3) only
- D. (2) 、(4) only

5. Which of the followings is an example of automatic stabilizer?

- (1) Expansionary monetary policy.
- (2) Contractionary fiscal policy
- (3) Increase profit tax rate when the economy is too hot.

- A. (3) only
- B. (1) 、(3) only
- C. (2) 、(3) only
- D. None of the above.

6. The following table shows how the consumption expenditure is related to the income of a closed economy without a government.

Consumption expenditure	100	150	200	250	300	350
Income	0	100	200	300	400	500

Suppose the planned investment is 40 and the planned consumption is always realized. Which of the following statements is correct ?

- A. The equilibrium income is 200.
- B. The amount of planned investment is 100 when the income is 400.
- C. The amount of unplanned investment is 10 when the income is 300.
- D. unplanned investment is always equal to planned investment.

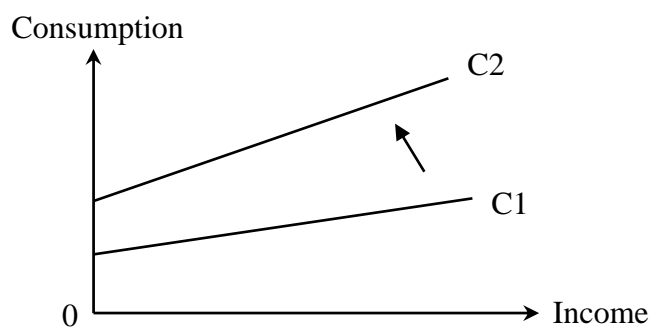
7. According to the equation of exchange, if money supply is rising, which of the following is correct ?

- A. Price level must be rising.
- B. Both price level and real output must be constant must be falling.
- C. The velocity of circulation of money will change at the same rate as real output.
- D. None of the above.

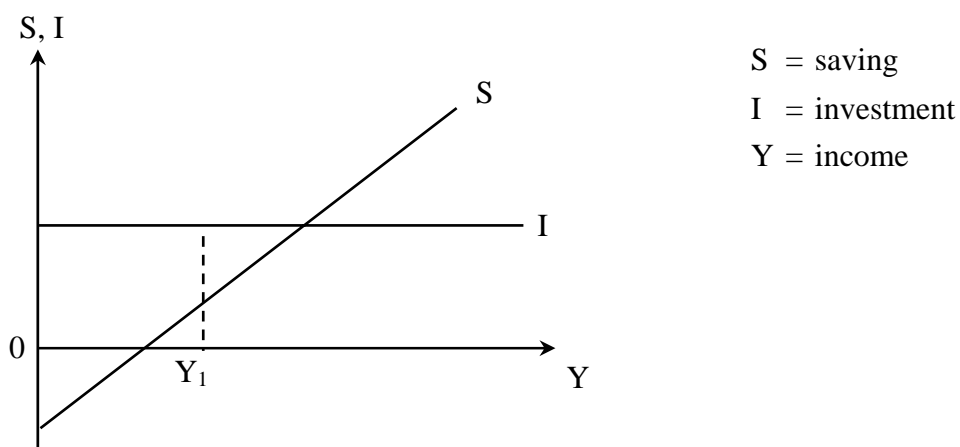
8. In an economy the growth rate of nominal GDP is negative and rising while the population growth rate and the inflation rate are both positive. It means that

- A. the per capita real GDP must be rising.
- B. the growth rate of real GDP must be falling.
- C. both per capita nominal GDP and real GDP are falling.
- D. the per capita real GDP cannot be determined.

9.



10. Consider the following diagram :



Which of the following are true at  $Y_1$  ?

- (1) Unplanned investment is smaller than zero.
- (2) Realized investment is higher than realized saving..
- (3) Inventory decreases.

- A. (1) 、(2) only
- B. (1) 、(3) only
- C. (2) 、(3) only
- D. (1) 、(2) 、(3)

11. Price level in IS-LM model

- A. is an exogenous variable.
- B. has upward pressure when LM curve shifts to the right.
- C. has downward pressure when IS curve shifts to the left.
- D. is determined in money market.

12. When central banks use interest rate (rather than money supply) as their instrument of monetary policy, LM curve

- A. cannot be derived.
- B. is a horizontal line.
- C. is a vertical line.
- D. is downward sloping.

13. In a closed economy without a government sector:

$$I = 30 - 100r$$

$$S = 0.1Y$$

$$M_d = 50 + 0.5Y - 400r$$

$$M_s = 200$$

$$I = \text{investment}$$

$$r = \text{interest rate}$$

$$S = \text{saving}$$

$$Y = \text{national income}$$

$$M_d = \text{money demand}$$

$$M_s = \text{money supply}$$

When  $Y = 200$  and  $r = 0.4$ , there is an \_\_\_\_\_ in the \_\_\_\_\_ market.

- A. excess demand ... product
- B. excess demand ... money
- C. excess supply ... product
- D. excess supply ... money

14. The existence of a liquidity trap

- A. leads to a fall in general price level.
- B. makes the fiscal policy completely ineffective.
- C. leads no crowding out effect.
- D. means that asset demand for money is perfectly interest inelastic.

Study the following information about a banking system in an economy and answer Question 15 and 16.

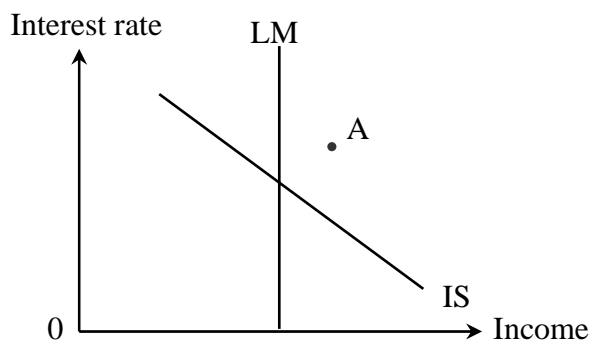
The cash-deposit ratio of the economy is 5% and no banks hold any excess reserves.

15. If the require reserve ratio is 5% and the reserves held by banks are \$1000, the current amount of money supply and monetary base are \_\_\_\_\_ and \_\_\_\_\_ respectively.

- A. \$20 000 ... \$2 000
- B. \$20 000 ... \$1 000
- C. \$21 000 ... \$2 000
- D. \$21 000 ... \$1 000

16. If the required reserve ratio is 20% and the monetary base remains unchanged, the total amount of deposit will be \_\_\_\_\_ and the amount of money supply will be
- A. \$4 000 ... \$4 400
  - B. \$5 000 ... \$5 250
  - C. \$6 000 ... \$6 300
  - D. \$8 000 ... \$8 400
17. If there is a decrease in the liquidity preference of an economy, the money supply will \_\_\_\_\_ and the velocity of circulation of money will \_\_\_\_\_ .
- A. decrease ... decrease
  - B. decrease ... increase
  - C. remain constant ... decrease
  - D. remain constant ... increase
18. According to the elementary Keynesian model, whether increasing government expenditures or issuing consumption coupons is a more efficient way to boost the economy?
- A. Government expenditures, as issuing consumption coupons brings inflation.
  - B. Government expenditures, as the government would expend all of the money.
  - C. Consumption coupons, as the administration of the government is inefficient.
  - D. Consumption coupons, as consumers can only use them to pay for consumptions.

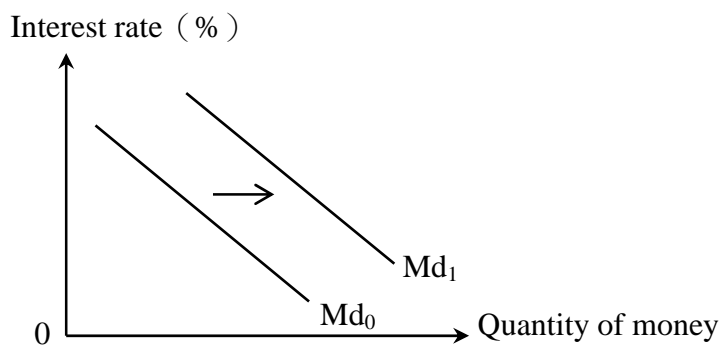
19.



At point A of the above diagram, there is an \_\_\_\_\_ in the goods market and an \_\_\_\_\_ in the money market.

- A. excess demand ... excess demand
- B. excess demand ... excess supply
- C. excess supply ... excess supply
- D. excess supply ... excess demand

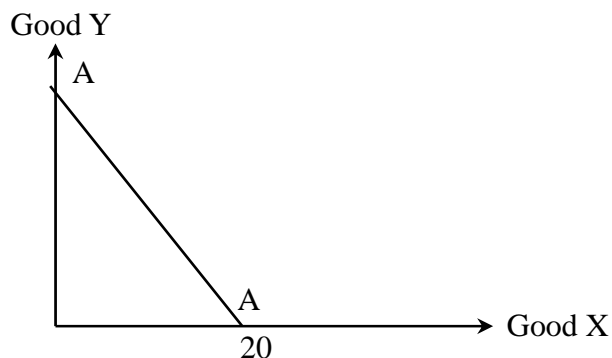
20. Which of the following can explain the shift of the total demand for money curve from  $Md_0$  to  $Md_1$  ?



- A. an increase in inflationary expectations.
- B. a fall in bond prices.
- C. expectations of a fall in bond prices.
- D. the government issues consumption coupons.

21. Along that section of any given short run Philips curve that lies to the left of the long run Philips curve, the actual inflation rate is \_\_\_\_\_ than the expected inflation rate, and the actual unemployment rate is \_\_\_\_\_ than the natural rate of unemployment.
- A. lower ... higher
  - B. lower ... lower
  - C. higher ... higher
  - D. higher ... lower
22. Moving along an IS curve,
- A. the interest rate is constant.
  - B. the level of consumption is constant.
  - C. the planned investment and realized investment are equal.
  - D. the price level is falling.
23. The nominal interest rate and the expected inflation rate are 9% and 5% respectively. If the actual inflation rate turns out to be 3%, then the realized real rate of interest will be \_\_\_\_\_ and the real rate of return on holding cash will be \_\_\_\_\_.
- A. 4% ... -3%
  - B. 4% ... -9%
  - C. 6% ... -3%
  - D. 6% ... -9%
24. Which of the followings will raise the natural rate of unemployment?
- A. More vocational trainings are provided by the authority.
  - B. There are more frequent changes in the relative contribution of different industries to GDP.
  - C. The central bank practices a contractionary monetary policy.
  - D. A new internet service is introduction to provide the latest information of the job market.

25.



In the above diagram, AA is the production possibility frontier of country A. Suppose the terms of trade is 1. The net gain of country A for each unit of its import is unit of good X.

- A. 1/6
- B. 1/5
- C. 1/4
- D. 1/3

26. The huge trade deficit of United States against China can be explained by

- A. lower production costs in China.
- B. the powerful labor unions in United States.
- C. the underestimated RMB.
- D. the negative national saving in United States.

27. If a 20% revaluation of a country's currency results in a rise in its volume of imports by 10% and a fall in its volume of exports by 15%, we can conclude that

- A. its balance of trade will improve by 15%.
- B. its terms of trade will worsen by 5%.
- C. its balance of payments will improve by 15%.
- D. None of the above.

28. Under a fixed exchange rate system, when a currency is said to be under-valued, it means that \_\_\_\_\_ is greater than \_\_\_\_\_.

- A. domestic inflation rate ... foreign inflation rate.
- B. foreign inflation rate ... domestic inflation rate.
- C. its fixed rate ... the equilibrium rate.
- D. the equilibrium rate ... its fixed rate.

29. Suppose the terms of trade index for a country in Year 1 and Year 2 were 115 and 105 respectively. Based on this information, we CANNOT conclude that compared to Year 1,

- (1) the price of exports in Year 2 has fallen.
- (2) the volume of exports in Year 2 has fallen.
- (3) the balance of trade in Year 2 has improved.

- A. (1) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

30. Which of the followings are the advantages of practicing fixed exchange rate system?

- (1) more stable.
- (2) lower the fluctuations of domestic price level
- (3) independent monetary policy

- A. (1) only.
- B. (3) only.
- C. (1) and (2) only.
- D. None of the above.

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PAPER 2  
B & C

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#### INSTRUCTIONS FOR CADIDATES

1. Write your Candidate Number in the spaces provided on this cover and **EACH** answer sheet in this book.
2. Write your answers in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
3. Answer each question on the pages provided for that particular question. **NO** marks will be given for answers written on the wrong pages.
4. There are **THREE** questions in Sections B and **THREE** questions in Section C . Attempt **ALL** questions and keep your answer **SHORT**.











