



Objective Based Assessment

CB2 Specimen Examination

Core Business - Economics

This specimen examination aligns to the 2023 syllabus and core reading and is a representation of the depth and breadth that will be covered in a single examination.

There are 65 questions in total.

Answers can be viewed in the bottom right corner of each page. Use the drop-down menu to reveal the correct answer.

If you are practicing under exam-conditions, you should not exceed 1 hour and 40 minutes.

This PDF specimen examination is not representative of the new exam system, some question formats have therefore been adapted accordingly.

This specimen examination will also be made available in the new exam system in 2023 to allow familiarisation with all question formats prior to September 2023.

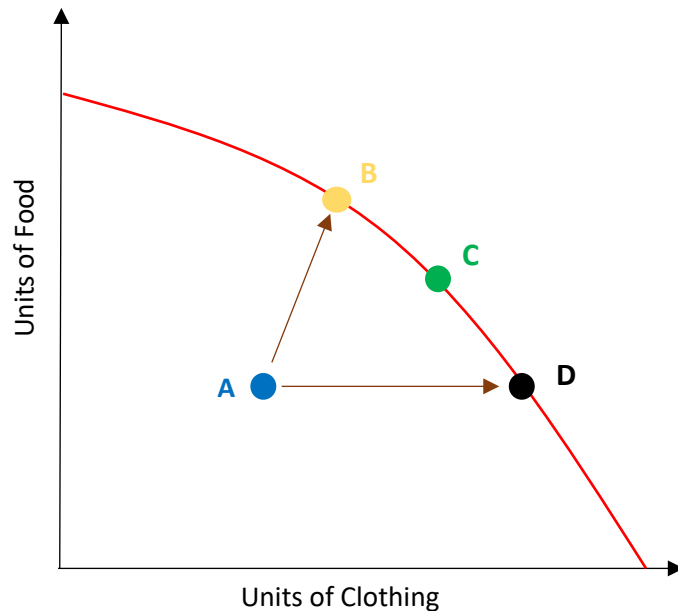
Q. 1

Instructions to candidates:

Select **ONE (1)** option.

Question:

The diagram shows a production possibility curve for two products, food and clothing.



Consider these statements:

- (i) The movement from A to B will create zero opportunity costs.
- (ii) The movement from A to D will create zero opportunity costs.
- (iii) The movement from B to D will indicate decreasing opportunity cost.

Which of the statements are true?

Options:

- A. (i) only
- B. (iii) only
- C. (i) and (ii)
- D. (ii) and (iii)

Q. 2

Instructions to candidates:

Select **ONE (1)** option.

Question:

Which statement best describes the **main** challenge banks face during periods of high economic growth?

Options:

- A.** Increased bank credit losses due to increase in loan defaults
- B.** Fewer loan applications due to less need for financing in a healthy economy
- C.** Difficulty assessing credit risks
- D.** Fewer opportunities to raise finance.

Q. 3

Instructions to candidates:

Select **ONE (1)** option.

Question:

Some senior tranches of a Collateralised Debt Obligations (CDOs) were given a high credit score by credit rating agencies before the global financial crisis because it was expected that:

Options:

- A.** they would only offer relatively low interest rates.
- B.** they would be purchased by sovereign wealth funds.
- C.** they would be backed by a diversified range of assets.
- D.** they would be accepted by large financial institutions.

Q. 4

Instructions to candidates:

Select **ONE (1)** option.

Question:

Which statement characterises monetary policy used in response to the global financial crisis in the United States and the United Kingdom compared to the traditional monetary policy?

Options:

- A.** Central banks being prepared to raise longer term interest rates by selling government bonds and decreasing the money supply
- B.** Central banks undertaking purchases of longer-term government and corporate bonds to lower longer term interest rates
- C.** Central banks cutting taxes and raising government expenditure to boost aggregate demand
- D.** Central banks selling government bonds to the private sector to put downward pressure on bond prices.

Q. 5

Instructions to candidates:

Select **ONE (1)** option.

Question:

In the context of perfect competition, firms are described as price takers because:

Options:

- A.** firms control the amount of goods to produce at each price level.
- B.** firms can only increase prices if the level of demand is high.
- C.** competitive factors mean firms are unable to increase prices.
- D.** large firms control the prices other firms can charge consumers.

Q. 6

Instructions to candidates:

Select **TWO (2)** options.

Question:

The effect of an increase in commuters' income on the supply and demand for cars and train travel will be:

Options:

- A.** a fall in car prices.
- B.** a shift in the demand curve for cars.
- C.** a shift in the supply curve for cars.
- D.** a movement along the demand curve for cars.
- E.** a movement along the supply curve for cars.

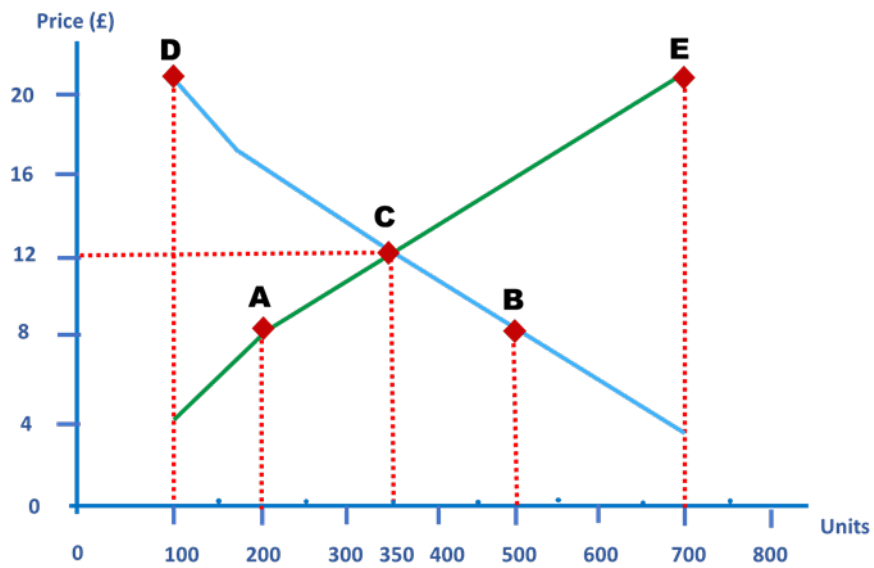
Q.7

Instructions to candidates:

Click on **ONE (1)** point: A, B, C, D or E.

Question:

Which point represents the quantity purchased if there is a maximum price control of £20, which is above the free market equilibrium price.



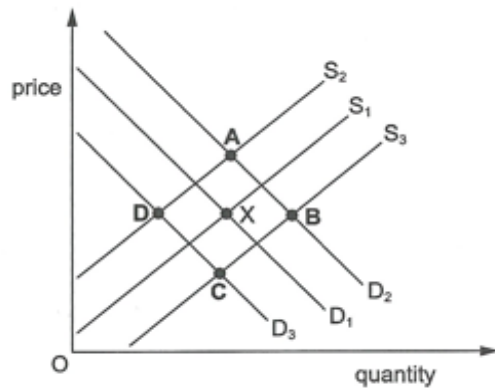
Q. 8

Instructions to candidates:

Click on ONE (1) point: A, B, C, or D.

Question:

The diagram shows supply and demand curves for an inferior good which is initially in equilibrium at point X.



What would be the new equilibrium if there is a general fall in consumer incomes and at the same time a specific tax is imposed on this good?

Q. 9

Instructions to candidates:

Calculate to the nearest whole number and enter it in the box.

Question:

The average price elasticity of demand for a good is -2.

If the price of the good is £7, the quantity of the good purchased is 50 units.

Calculate, using the average (or mid-point) formula, the number of units of the good purchased if its price rises to £9.

Q. 10

Instructions to candidates

Select from the drop-down menus to complete the sentences.

Question

Based on a recent consumer survey, an economics student has calculated two price elasticities, -0.52 and -0.79.

One relates to beer and the other relates to alcoholic drinks, but the student has not specified which is which.

Given this information alone, the price elasticity of other alcohol drinks is

The fall in the demand for beer because of a price increase is partly due to a substitution effect.

Q. 11

Instructions to candidates:

Select **ONE (1)** option.

Question:

A monopoly supplier faces rising demand.

How is this likely to affect price outcomes in the short run and long run?

	Short-run price	Long-run price
A.	rise	fall
B.	rise	rise
C.	no change	fall
D.	no change	rise

Q. 12

Instructions to candidates:

Select **ONE (1)** option.

Question:

Which statement is **TRUE** about indifference curves?

Options:

- A.** They are always convex to the origin as the consumer gives up one good for another
- B.** The marginal rate of substitution on the curve can be determined by adding the marginal utilities of the two goods alone
- C.** The marginal rate of substitution in most cases diminishes as the consumer moves up the curve
- D.** They can be used to rank various combinations of goods without measuring the amount of utility a person gains.

Q. 13**Instructions to candidates:**

Match each descriptor to its corresponding option by drawing a line between them.

Question:

An indifference curve diagram with a budget line added depicts quantities of Good X consumed on the horizontal axis and the quantity of Good Y consumed on the vertical axis.

Descriptor		Option:	
A.	A parallel shift outwards of the budget line	(i)	A shift in tastes towards X and away from Y
B.	The budget line becomes steeper	(ii)	A rise in income
C.	The indifference curve becomes steeper	(iii)	A decrease in the relative price of Y
D.	A parallel shift inwards of the budget line	(iv)	A fall in income

Q. 14

Instructions to candidates:

Select from the drop-down menus to complete the sentence.

Question:

A rational consumer has £480 of income, all of which is spent on diamonds and water.

Diamonds are £60 per unit.

Water is £20 per unit.

Units of Diamonds	Marginal Utility of Diamonds	Total Utility of Diamonds	Units of Water	Marginal Utility of Water	Total Utility of Water
1	240	240	1	2000	2000
2	220	460	2	600	2600
3	200	660	3	40	2640
4	180	840	4	30	2670
5	160	900	5	20	2690
6	140	1040	6	10	2700
7	120	1160	7	8	2708
8	60	1220	8	6	2714
9	40	1260	9	4	2718

Calculate the number of units of diamonds and water consumed by a rational consumer.

A rational consumer will consume _____ diamonds and _____ units of water.

Q. 15

Instructions to candidates:

Select from the drop-down menus to complete the sentence.

Question:

GFH Limited has decided to increase its expenditure on advertising for one of its flagship products. What is the most likely impact of this decision on the demand curve?

The demand curve will shift to the _____ and become
that is become _____ elastic.

Q. 16

Instructions to candidates:

Select **ONE (1)** option.

Question:

A small electricity station uses oil to generate electricity.

Oil is the variable input into the production of electricity.

The table shows the units of electricity generated per kilolitre (1,000 litres) of oil.

Kilolitres of oil	Units of electricity (kilowatts)
0	0
1	100
2	240
3	390
4	560
5	750
6	930

Consider these statements:

- (i) The average physical product increases with each kilolitre of oil.
- (ii) The average and marginal physical products peak at 5 kilolitres of oil.
- (iii) The marginal physical product shows only increasing returns per kilolitre of oil.

Which statements are true?

Options:

- A. (i) only
- B. (i) and (ii)
- C. (ii) and (iii)
- D. (ii) only

Q. 17

Instructions to candidates:

Calculate to the nearest whole number and enter it in the box.

Question:

In the table, calculate the missing value X for the output of the good, which is consistent with constant returns to scale.

Units of capital	Units of Labour	Output of the Good
5	3	60
10	6	150
15	9	X
20	12	280
25	15	300

Q. 18

Instructions to candidates

Select **TWO (2)** options.

Question

A firm is engaged in mineral exploration.

Which **two** statements about the firm's operations are correct?

Options:

- A.** Normal profit for a firm is the opportunity cost of using the capital in the business
- B.** Normal profit for a firm is the risk premium attached to its business
- C.** The firm's business has a higher than average risk premium
- D.** The firm's normal profit is its economic profit
- E.** The firm's normal profit includes an opportunity cost and a risk premium.

Q. 19

Instructions to candidates:

Select **ONE (1)** option.

Question:

A company is making a loss. However, its Chief Financial Officer (CFO) does not believe the company has reached the short-run shut-down point.

Which statement would best support the CFO's belief?

Options:

- A.** The company can turn all its fixed costs into variable costs in a short space of time
- B.** The company's marginal revenue is greater than the company's marginal costs
- C.** The company's fixed costs are sunk costs that need not be covered by revenues
- D.** The company's average revenue exceeds its average variable costs.

Q. 20

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
A profit-maximising firm will never reach the short-run shut-down point	because	Profit maximisation strategy requires average revenues to exceed average variable costs, which ensures that a firm can contribute towards its fixed costs.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 21

In the country of Actuaría, a local journalist has described developments in the country's smartphone industry as follows:

Competition is intense between a few companies who also control the market. Prior strong sales growth in the market has been slowing, and companies are increasingly looking to be innovative and differentiate their offerings to increase market share.

Based on the journalist's words, which statement is most likely to be currently true about the smartphone industry in Actuaría?

Options:

- A. Oligopolistic market in a declining smartphone industry
- B. Monopolistic market in a growing smartphone industry
- C. Monopolistic market in a declining smartphone industry
- D. Oligopolistic market in a mature smartphone industry.

Q. 22

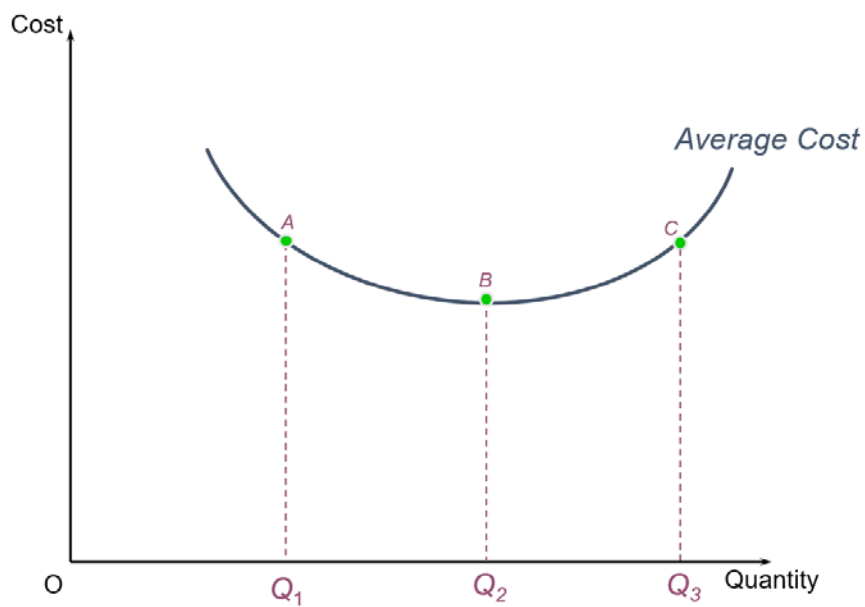
Instructions to candidates:

Click on **ONE (1)** point: A, B, or C.

Question:

The diagram depicts the average cost for a firm that operates in a market structure characterised by monopolistic competition.

Select the point at which the firm operates in the long run.



Q. 23

Instructions to candidates:

Select **ONE (1)** option.

Question:

The table shows the profit for Firm X and Firm Y when the two firms (X and Y) set their prices at £20 or £15.

Profits for Firms X and Y at different prices

		X's price	
		£20	£15
Y's price	£20	A £20 million each	B £10 million for Y £24 million for X
	£15	C £24 million for Y £10 million for X	D £16 million each

Select the outcome which will occur if the two firms independently set their prices based upon their own self-interest.

Options:

- A. £20 million each
- B. £10 million for Firm Y and £24 million for Firm X
- C. £24 million for Firm Y and £10 million for Firm X
- D. £16 million each.

Case Study 1 (Q24-27)

Instructions to candidates:

This scenario applies to the next four (4) questions (Q24-Q27).

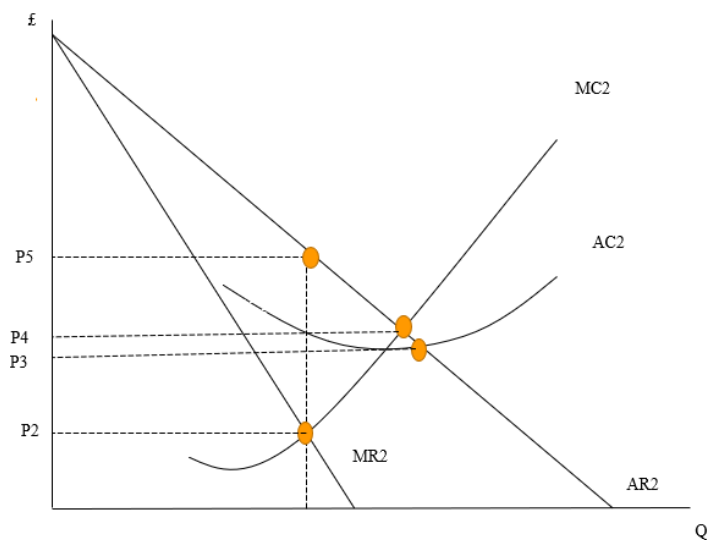
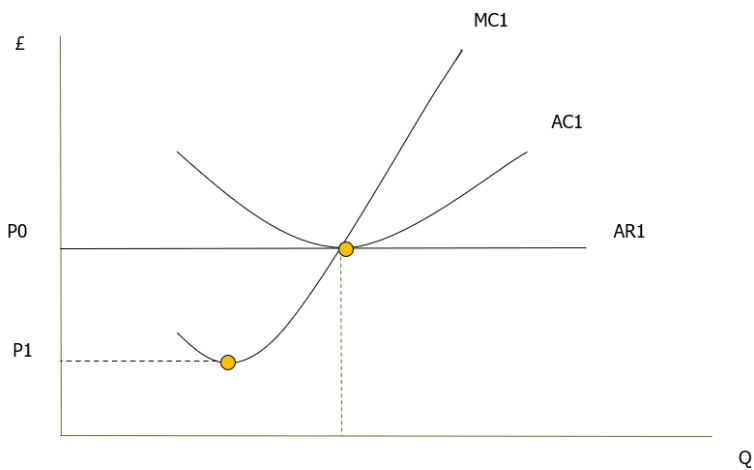
Scenario:

In Country Financia, the energy company FinPower holds an exclusive licence to provide the country's power network, supplying electricity to households and businesses.

Company FinEx is one of many companies which operate in Financia's foreign exchange market.

Both FinPower and FinEx aim to maximise profits.

The diagrams shows the average revenue (AR), marginal revenue (MR), average cost (AC), and marginal cost (MC) curves for each company.



Q. 24 (case study)

Instructions to candidates:

Select from the drop-down menus to complete the answers.

Question:

Select the option closest to the market structures in which FinPower and FinEx operate:

FinPower:

FinEx:

Q.25 (case study)

Instructions to candidates:

Select from the drop-down menus to complete the answers.

Question:

Assign either FinPower or FinEx to each statement that describes operations.

This company:

- A. produces at its minimum long run average cost.
- B. can only earn normal profits in the long run.
- C. has market power so it can decide its price and output.
- D. is likely to have a downward sloping long run average cost curve at the profit maximizing level of output.
- E. is not likely to benefit from economies of scale.
- F. can earn supernormal profits in the short and long run.

Q. 26 (case study)

Instructions to candidates:

Select from the drop-down menus to complete the sentences.

Question:

- A. The profit maximizing price for FinPower is
- B. The profit maximizing price for FinEx is

Q. 27 (case study)

Instructions to candidates:

Select **ONE (1)** option.

Question:

If the government of Financia decides to nationalize FinPower and produce the socially optimum output, determine the price level in this case:

Options:

- A. P0
- B. P1
- C. P2
- D. P3
- E. P4
- F. P5

Q. 28

Instructions to candidates:

Select **ONE (1)** option.

Question:

An antique dealer initially decides to charge her customers the maximum price they are prepared to pay for each item purchased.

The following week, this dealer then decides to change her pricing policy so that new customers pay a higher price than existing customers.

This would be an example of switching from:

Options:

- A.** 1st degree price discrimination to 2nd degree price discrimination.
- B.** 2nd degree price discrimination to 3rd degree price discrimination.
- C.** 3rd degree price discrimination to 1st degree price discrimination.
- D.** 1st degree price discrimination to 3rd degree price discrimination.

Q. 29

Instructions to candidates:

Select **ONE (1)** option.

Question:

A company is producing baseball caps in a monopolistic competitive industry.

The unit price of a baseball cap is £20 and the company is making an excess profit of £2.

If the long run unit cost of the baseball cap is £16, what would the company charge for one baseball cap in the long run?

Options:

- A. It will charge less than £20 and make excess profits
- B. It will charge more than £20
- C. It will charge £18
- D. It will charge £16.

Q. 30

Instructions to candidates:

Select **ONE (1)** option.

Question:

A profit maximising coal mining firm operating in a perfectly competitive market for which there are external costs of production and no external costs or benefits of consumption will:

Options:

- A.** produce **below** the socially optimal output and charge **lower** than the socially optimal price.
- B.** produce **above** the socially optimal output and charge **lower** than the socially optimal price.
- C.** produce **below** the socially optimal output and charge **higher** than the socially optimal price.
- D.** produce **above** the socially optimal output and charge **higher** than the socially optimal price.

Q. 31

Instructions to candidates:

Select from the drop-down menus to complete the sentences as true or false.

Question:

- A. Social efficiency is achieved when marginal utility (MU) = Price (P)
- B. Social efficiency is achieved when consumer surplus is maximised
- C. Social efficiency is achieved when marginal cost (MC) = Price (P)

Q. 32

Instructions to candidates:

Select **ONE (1)** option.

Question:

A government imposes an indirect tax on a particular good which raises £300 million in tax revenue.

What will be the impact of the indirect tax on total producer and consumer surplus?

Options:

- A.** A decrease by more than £300 million
- B.** A decrease by less than £300 million
- C.** A decrease by exactly £300 million
- D.** A decrease by the value of the consumer surplus.

Q. 33

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
Since 2000 UK gross expenditure on research and development as a percentage of GDP has been significantly lower than other industrial countries.	because	Low levels of expenditure on research and development by firms in the private sector is only due to a failure to raise sufficient finance through the issue of new shares.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 34

Instructions to candidates:

Select **ONE (1)** option.

Question:

The table shows gross fixed capital formation of the government and private sectors as a percentage of Gross Domestic Product (GDP) for different countries.

	GOVERNMENT SECTOR	PRIVATE SECTOR
BELGIUM	1.8	18.7
CANADA	2.9	17.5
DENMARK	1.9	17.2
FRANCE	3.2	16.3
GERMANY	1.8	18.1
NETHERLANDS	3.3	17.0
UK	2.4	15.1
USA	2.4	15.4

Consider these statements:

- (i) The UK has the lowest level of gross fixed capital formation to GDP ratio in the private sector.
- (ii) France has a highest level of government gross fixed capital formation relative to GDP.
- (iii) The gap between the government and private sector gross fixed capital formation to GDP ratio is lower for Canada than it is for Denmark.

Which statements are true?

Options:

- A. (i) only
- B. (i) and (ii)
- C. (i) and (iii)
- D. D.(ii) and (iii)

Q. 35

Instructions to candidates:

Select **ONE (1)** option.

Question:

Which statement does **not** apply to the process of globalization?

Options:

- A.** Increased free movement of financial flows across national borders
- B.** Greater labour migration
- C.** The raising of tariffs between countries
- D.** Greater inward and outward foreign direct investment.

Q. 36

Instructions to candidates:

Select **ONE (1)** option.

Question:

The table shows two production possibilities (output of oil or cement) for two countries (A and B).

Country B uses fewer resources than Country A to produce one unit of output of both oil and cement.

	Barrels of oil (millions)		Bags of cement (millions)
Country A	10	OR	20
Country B	25	OR	20

Consider these statements.

- (i) Country A has a comparative advantage to Country B in the production of cement.
- (ii) Country A has an absolute advantage over Country B in the production of oil only.
- (iii) Country A and B will trade oil and cement with each other if the terms of trade of oil and cement between the two countries is 1:1.

Which statements are true?

Options:

- A.** (i) only
- B.** (i) and (iii)
- C.** (ii) and (iii)
- D.** (ii) only

Q. 37

Instructions to candidates:

Match each descriptor to its corresponding option by drawing a line between them.

Each option can only be used once and there is one extra option.

Descriptor	
A.	Restrictions on importers access to foreign currency
B.	A car manufacturer selling its cars cheaper abroad than at home
C.	A ban on exports to countries that finance terrorism
D.	Buying government vehicles locally
E.	Increasing the amount of paperwork involved in the customs clearance process.

Options:
(i) Dumping
(ii) Foreign exchange controls
(iii) Embargo
(iv) Administrative barriers
(v) Procurement policy
(vi) Foreign subsidising

Q. 38

Instructions to candidates:

Match each descriptor to its corresponding definition by drawing a line between them.

Each option can only be used once.

Question:

Match the description of World Trade Organisation (WTO) rules to its corresponding definition.

Descriptor	
A.	Any concession made to one WTO member shall automatically be extended to other signatories
B.	Any country benefitting from tariff reductions by other countries should make concessions itself
C.	Countries cannot raise existing tariffs without consulting other WTO members
D.	If there is to be protection then tariffs are the preferred mechanism

Definition	
(i)	Binding Tariffs
(ii)	Non discrimination
(iii)	Reciprocity
(iv)	General prohibition of quotas

Q. 39

Instructions to candidates:

Select **THREE (3)** options.

Question:

Which **three** of the options would be the most likely causes of domestic cost push inflation in an open economy?

Options:

- A. A depreciation of the foreign currency
- B. A cut in short term interest rates
- C. A depreciation of the domestic currency
- D. Increases in the regulatory burden facing businesses
- E. A rise in labour productivity in the domestic economy
- F. A fall in labour productivity in the domestic economy.

Q. 40

Instructions to candidates:

Calculate to the nearest whole number and enter it in the box.

Question:

This data relates to a country's economy:

Data	\$ billions
Consumer expenditure (excluding indirect taxes and subsidies)	160
Government expenditure on goods/services	100
Transfer payments	40
Investment expenditure	60
Import expenditure	80
Export expenditure	50
Subsidies	30
Indirect taxes	40
Capital depreciation	10
Net property income from abroad	40

Calculate the Net National Income of this country at basic prices to the nearest whole number.

\$ billions

Q. 41

Instructions to candidates:

Match each descriptor to its corresponding option by drawing a line between them.

Each option can only be used once and there is one extra option.

Question:

Match in context of the circular flow of income.

Descriptor	Options
A. The government pays benefits to the unemployed	(i) equilibrium
B. Households pay firms for goods and firms pay households salaries and dividends	(ii) injections
C. The government spends money on domestic law enforcement, schools, etc.	(iii) withdrawals
D. Households save money instead of buying goods and services	(iv) transfer payments
	(v) inner flow

Q. 42

Instructions to candidates:

Select from the drop-down menus to complete the sentence.

Question

Economies A and B are identical other than their marginal propensity to consume and elasticity of investment demand.

If the money supply is increased in two economies by the same amount, the economy with a _____ marginal propensity to consume and more _____ investment demand will have a smaller _____ in output.

Q. 43

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
A reduction in income tax is potentially a supply side policy because it could lead to an increase in productivity.	because	An increase in productivity will lead to an increase in output and employment.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 44

Instructions to candidates:

Select from the drop-down menus to complete the sentence as true or false.

Question:

Economic growth and sustainability are most likely to be achieved when:

1. real GDP grows faster than available resources.
2. real GDP grows faster than nominal GDP.
3. all output is produced where marginal social benefit = marginal social cost.
4. real GDP and available resources grow at the same rate.
5. consumers and firms focus on short term goals.

Q. 45

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
Volatility of consumption can be a major factor contributing to the ups and downs of the business cycle.	because	Consumption is generally the largest component of aggregate demand meaning that fluctuations in consumer expenditure can have a significant impact.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 46

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
Real wage unemployment is equilibrium unemployment and occurs when the effective cost to firms of employing workers increases.	because	The wage rate paid by firms increases in line with prices.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 47

Instructions to candidates:

Select **ONE (1)** option.

Question:

Assuming no other changes in the general economy, what is the likely impact of an increase in corporate tax rates on the short-run aggregate supply curve and the general price level?

Options:

	Short-run aggregate supply curve	General price level
A.	Leftward shift	Fall
B.	Rightward shift	Rise
C.	Leftward shift	Rise
D.	Rightward shift	Fall

Q. 48

Instructions to candidates:

Select from the drop-down menus to complete the sentence.

Question:

An expansionary fiscal policy financed by borrowing when there is large scale unemployment is likely to _____ interest rates, and the expansion of output will _____ the natural rate of unemployment.

Q. 49

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
When the central bank sells treasury bills to commercial banks the equilibrium rate of interest falls	because	The purchases of the Treasury bills by the commercial banks will increase the money supply and the price of Treasury bills.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 50

Instructions to candidates

Select **THREE (3)** options.

Question:

The government of a country is considering pursuing supply side policies in order to stimulate economic growth.

Which **three** of these policies are most likely to be considered?

Options:

- A. Increasing national pension contributions for employers
- B. Increasing unemployment benefits
- C. Upgrading road and internet infrastructure
- D. Reducing income tax rates by 20%
- E. Increasing money supply and cutting interest rates
- F. Reducing corporation tax rates by 20%.

Q. 51

Instructions to candidates:

Select **ONE (1)** option.

Question:

Country XYZ has a floating exchange rate system.

Its inflation is substantially below that of its international trading partners.

In addition, the markets believe that its central bank will be raising interest rates from 3% to 6%.

What is the most likely impact on Country XYZ's exchange rate?

Options:

- A.** Appreciate significantly
- B.** Appreciate marginally
- C.** Depreciate significantly
- D.** Depreciate marginally.

Q. 52

Instructions to candidates:

Select from the drop-down menus to complete the sentence.

Question:

Countries A and B have negotiated a trade agreement.

As a result, tariffs have been removed on 80% of Country A's exports to Country B in exchange for Country B investors having greater access to Country A's economy.

Complete the sentence to demonstrate how this agreement is expected to impact Country B's balance of payments in the short to medium term?

There will be an increase in _____ in Country B's current
account and increased _____ on its financial account.

Q. 53

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
In theory, purchasing power parity predicts that floating exchange rates will adjust to ensure that goods prices are equal between countries when expressed in the same currency.	because	Floating exchange rates will adjust to offset differences between countries' rates of inflation.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 54

Instructions to candidates:

Match each descriptor to its corresponding option to complete the sentence by drawing a line between them.

Each option can only be used once.

Question:

Descriptor	
A.	Conventional expansionary open market operations involve
B.	Expansionary fiscal policy tends to involve
C.	Quantitative easing policies may involve
D.	A combined fiscal expansion and monetary contraction can lead to

Option	
(i)	either a rise or fall in the rate of interest.
(ii)	a rise in the price of treasury bills and a fall in the short term rate of interest.
(iii)	a rise in government expenditure and/or cuts in taxes.
(iv)	the purchase of government and corporate bonds by the central bank

Q. 55

Instructions to candidates:

Select **ONE (1)** option.

Question:

An individual uses a bank loan to purchase shares (equity) in a company and then sells the shares one year later.

This individual then uses the money gained from the sale of the shares to repay their bank loan.

Which functions of money have the shares fulfilled?

Options:

- A.** Shares acted as a medium of exchange and a store of value
- B.** Shares acted as a standard for deferred payment only
- C.** Shares did not fulfil any of the functions of money
- D.** Shares acted as a store of value only.

Q. 56

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
When there is a persistent balance of payments deficit, a central bank policy of sterilization will allow fixed exchange rates and control of the domestic money supply.	because	The availability of foreign exchange reserves and open market operations will enable a central bank to use a policy of sterilization, to maintain fixed exchange rates and control the domestic money supply.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 57

Instructions to candidates:

Select **ONE (1)** option.

Question:

Assuming the money supply in a country is endogenous and the rate of interest in the money market is below the market equilibrium, which statement is correct?

Options:

- A.** The price of long-term securities would rise and the money supply would rise
- B.** The central bank would buy long-term securities and the speculative demand for money would rise
- C.** The central bank would buy long-term securities and the money supply would rise
- D.** The price of long-term securities would fall and the speculative demand for money would fall.

Q. 58

Instructions to candidates:

Select **ONE (1)** option.

Question:

Which statement is **false** about the functions of the financial sector?

Options:

- A. Maturity transformation
- B. Risk transformation
- C. Channelling funds from borrowers to depositors
- D. Matching lenders and borrowers of funds.

Case Study 2 (Q59 – Q62)

Instructions to candidates:

This scenario applies to the next four (4) questions (Q59-Q62)

Scenario:

The economy of the Country Noland can be represented by a simple Keynesian model, its currency is Noland dollars and the national debt is 40% of the national income.

The following data is available for the economy of Noland:

- Consumption expenditure is \$800 million plus 80% of disposable national income
- The tax rate is 25% of national income
- Investment expenditure is \$500 million
- Government expenditure is \$400 million
- Export expenditure is \$300 million
- Imports are 10% of national income

Q.59 (case study)

Instructions to candidates:

Calculate to the nearest whole number and enter it in the box.

Question:

Calculate the equilibrium level of income for Noland expressed in millions of dollars.

\$ million

Q. 60 (case study)

Instructions to candidates:

Calculate to the nearest whole number and enter it in the box.

Question:

If the government of Noland increases its expenditure by 10%, calculate the new equilibrium level of income in millions of dollars.

\$ million

Q. 61 (case study)

Instructions to candidates:

Select **TWO (2)** options.

Question:

A 25% increase in the government expenditure of Noland will result in which **two** outcomes?

Options:

- A. a budget deficit
- B. a budget surplus
- C. a balanced budget
- D. an increase in the national debt
- E. a decrease in the national debt.

Q. 62 (case study)

Instructions to candidates:

Consider both Statement 1 and Statement 2 and decide, for each statement, whether it is true or false.

If, and only if, you consider both statements to be true, you must decide whether Statement 2 is a valid explanation as to why Statement 1 is true.

Select **ONE (1)** option.

Question:

Statement 1 (Assertion)		Statement 2 (Reason)
When the economy of Noland is close to full employment, we expect an increase in aggregate demand to increase the size of the multiplier.	because	Inflationary pressures tend to result in a large part of an increase in aggregate demand to be reflected in higher prices and a smaller part in higher output.

Options:	Statement 1 (Assertion)	Statement 2 (Reason)	Is Statement 2 a valid explanation for Statement 1?
A.	True	True	Yes, Statement 2 is a valid explanation to support Statement 1
B.	True	True	No, Statement 2 is NOT a valid explanation to support Statement 1
C.	True	False	Not applicable because Statement 2 is false
D.	False	True	Not applicable because Statement 1 is false
E.	False	False	Not applicable because both Statements are false.

Q. 63

Instructions to candidates:

Calculate to 2 decimal places and enter in the box.

Question:

This is data for a closed economy with no taxes:

- National Income = £1 billion
- Government Expenditure = £200 million
- Marginal propensity to consume = 0.75

Calculate the new level of national income if government spending is increased by 25%.

£ billion

Q. 64

Instructions to candidates:

Select **ONE (1)** option.

Question:

Country X is currently in a recession.

The government of this country decides to use monetary policy to try to increase output and employment.

Consider these statements in terms of supporting the effectiveness of the monetary policy:

- (i) The speculative demand for money is infinite.
- (ii) Investment demand is interest elastic.
- (iii) The marginal propensity to consume is high.

Which statements are true?

Options:

- A. (i) only
- B. (ii) and (iii)
- C. (iii) only
- D. (i) and (ii)

Q. 65

Instructions to candidates:

Select **TWO (2)** options.

Question:

Following the peak of the business cycle, a slowdown can be expected to occur because of which **two** reasons?

Options:

- A.** The accelerator effect, where rising investment can only continue if output grows at a faster rate
- B.** Rising consumer expenditure negatively affecting business confidence and investment
- C.** Government may be using contractionary macroeconomic policy to curb inflation and reduce private sector debt
- D.** The current account surplus induced by rising incomes leading to a depreciation of the domestic currency
- E.** The deterioration of the government fiscal position as consumers spend more money due to rising incomes