S5 Economics Practice Paper 2 | national income, unemployment, inflation, exchange rate and multipliers

Senior Secondary Economics

S5 Economics practice paper with answers: GDP by expenditure, unemployment, CPI inflation, real wage, exchange rate, trade balance, fiscal and deposit multipliers.

1. National income: expenditure approach and output per head (16 marks)

An economy (amounts in billions of dollars): private consumption 1,200, gross domestic fixed capital formation 380, government final consumption expenditure 450, exports of goods and services 900, imports of goods and services 780, net factor income from abroad -40 and depreciation 120. Population 7.5 million.

#	Question
1	(a) Calculate gross domestic product (GDP) using the expenditure approach.
2	(b) Calculate gross national product (GNP).
3	(c) Calculate net national product (NNP).
4	(d) Calculate GDP per head in dollars to the nearest dollar and state two limitations of using it to compare living standards.

2. Unemployment rate and labour force participation (18 marks)

In a place the working-age population is 6.2 million, the labour force is 3.72 million and employment is 3.57 million. Give rates to two decimal places.

#	Question
5	(a) Calculate the number of unemployed persons and the unemployment rate.
6	(b) Calculate the labour force participation rate.
7	(c) If 40000 unemployed persons give up job search, recalculate the unemployment rate and the participation rate and explain the direction of change.
8	(d) Apart from the case above, state one other factor that makes the official unemployment rate understate labour market slack.

3. Consumer price index, real wage and real interest rate (16 marks)

Basket weights: food 0.35, housing 0.32, transport 0.12, others 0.21. All base period group indices are 100 and the current period indices are 108, 106, 103 and 102. The nominal wage rises by 6.2 per cent and the nominal interest rate is 3.5 per cent.

#	Question
9	(a) Calculate the current weighted consumer price index to two decimal places.
10	(b) Calculate the inflation rate.
11	(c) Calculate the percentage change in the real wage to two decimal places.

#	Question
12	(d) Calculate the exact real interest rate to two decimal places and state whether the saver purchasing power rises or falls.

4. Exchange rate movements and the trade balance (18 marks)

The Hong Kong dollar is linked to the US dollar and the rate falls from 7.80 to 7.85 Hong Kong dollars per US dollar. A Hong Kong exporter charges 100 US dollars per unit and imports raw materials costing 250 US dollars. Annual goods exports are 420 billion dollars and goods imports are 450 billion dollars.

#	Question
13	(a) How much does the exporter receive per unit in Hong Kong dollars before and after the change, and what is the percentage change?
14	(b) What is the Hong Kong dollar cost of the imported materials per unit before and after the change?
15	(c) Calculate the trade balance and the ratio of exports to imports as a percentage to two decimal places.
16	(d) A weaker Hong Kong dollar should improve export competitiveness, yet the deficit may not narrow at once. Explain why.

5. Fiscal multiplier and the balanced budget multiplier (16 marks)

In an economy the marginal propensity to consume is 0.75, there is substantial spare capacity and the price level is constant.

#	Question
17	(a) Calculate the government expenditure multiplier.
18	(b) Government expenditure rises by 80 billion dollars. Calculate the change in equilibrium output.
19	(c) If the government also raises lump sum tax by 80 billion dollars to keep the budget balanced, calculate the tax multiplier and the net change in output.
20	(d) Explain why the balanced budget multiplier equals 1 rather than zero.

6. Deposit multiplier and the required reserve ratio (16 marks)

The required reserve ratio is 10 per cent, the public holds no extra cash and banks hold no excess reserves. The central bank buys 50 billion dollars of bonds in the open market.

#	Question
21	(a) Calculate the deposit multiplier of the banking system.
22	(b) Calculate the total deposits the banking system can eventually create.
23	(c) If the required reserve ratio is raised to 12.5 per cent, recalculate the multiplier and the deposits created by the same 50 billion dollars.
24	(d) Explain why the actual deposit creation is usually smaller than the theoretical value.