S6 Economics Practice Paper (Set 2) | GDP, CPI and inflation, unemployment rate, money creation, exchange rates and trade balance

S6 Economics | Time allowed: 75 minutes | Total: 100 marks | 24 questions

Section A: GDP and national income

Question 1 (16 marks)

1. The expenditure data of an economy are (in billions of dollars): private consumption 1200, gross domestic fixed capital formation 450, government consumption 380, exports of goods and services 900, imports of goods and services 950. Calculate GDP at market prices by the expenditure approach. (4 marks)

2. Net factor income from abroad is -40 (billion dollars). Calculate gross national product (GNP). (4 marks)

3. Population is 7.4 million. Calculate per capita GDP in dollars, to the nearest dollar. (4 marks)

4. Explain why a rise in GDP does not necessarily mean a better standard of living. (Give two points) (4 marks)

Section B: CPI and inflation

Question 2 (16 marks)

5. The expenditure weights of the CPI are: food 40 percent, housing 35 percent, others 25 percent; the base-year index is 100. This year the group indices are food 130, housing 115, others 120. Calculate this year CPI. (4 marks)

6. Calculate the inflation rate relative to the base year. (4 marks)

7. If last year CPI was 118.0, calculate this year year-on-year inflation rate to 2 decimal places. (4 marks)

8. State two limitations of using the CPI to measure changes in the cost of living. (4 marks)

Section C: Unemployment and the labour force

Question 3 (16 marks)

9. In an economy the number of employed persons is 3,600,000 and the unemployed 240,000. Find the labour force. (4 marks)

10. Calculate the unemployment rate. (4 marks)

11. The working-age population is 4,800,000. Calculate the labour force participation rate. (4 marks)

12. If 60,000 unemployed persons become discouraged and leave the labour force, calculate the new unemployment rate and explain why a lower rate does not mean better employment

conditions. (4 marks)

Section D: Deposit creation and money multiplier

Question 4 (16 marks)

13. The required reserve ratio of the banking system is 20 percent. Calculate the money multiplier. (4 marks)

14. A person deposits 50,000 dollars of cash into the banking system. Assuming no cash drain, find the maximum total deposits the system can create. (4 marks)

15. Find the excess reserves and the amount of new deposits (loans) created. (4 marks)

16. If the reserve ratio rises to 25 percent, find the new maximum total deposits and the difference from the original figure. (4 marks)

Section E: Exchange rates and trade

Question 5 (16 marks)

17. A Hong Kong exporter sells goods to the United States for US$120,000. If the exchange rate is US$1 = HK$7.80, find the Hong Kong dollar amount received. (4 marks)

18. If the Hong Kong dollar depreciates to US$1 = HK$7.85, find the Hong Kong dollar receipts for the same export and the increase. (4 marks)

19. A Hong Kong firm imports raw materials costing US$50,000. Calculate the Hong Kong dollar cost at 7.80 and at 7.85, and the increase. (4 marks)

20. Based on the above, explain the effect of a depreciation of the Hong Kong dollar on local exporters and importers, and the expected effect on the visible trade balance. (4 marks)

Section F: Fiscal policy and the trade balance

Question 6 (20 marks)

21. The marginal propensity to consume is 0.8. Calculate the simple expenditure multiplier. (5 marks)

22. Government spending rises by 20 billion dollars. Find the maximum increase in equilibrium income. (5 marks)

23. If instead the government cuts taxes by 20 billion dollars (a lump-sum tax), find the increase in equilibrium income and explain why it differs from the previous part. (5 marks)

24. Goods exports are 90 billion dollars, goods imports 95 billion dollars and net services exports 12 billion dollars. Find the visible trade balance and the overall trade balance, stating whether each is a surplus or a deficit. (5 marks)