

Name: _____

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A-Level Economics — Practice Exam

Instructions: Answer ALL 30 questions. Each question has four options, A to D, of which exactly one is correct. There is no penalty for wrong answers. A calculator may be used. Time allowed: 45 minutes.

Time Limit: 45 minutes

- [1 point] 1. A cinema cuts its ticket price from 10 pounds to 8 pounds. Weekly attendance rises from 1,200 to 1,560. Over this range, the price elasticity of demand for tickets and the effect on the cinema's total revenue are:
- A. $PED = -0.67$; demand is price inelastic and total revenue falls
 - B. $PED = -1.5$; demand is price elastic and total revenue falls
 - C. $PED = -1.5$; demand is price elastic and total revenue rises
 - D. $PED = -0.3$; demand is price inelastic and total revenue falls
- [1 point] 2. When average incomes rise by 5 percent, the quantity demanded of a good falls by 2 percent, other things being equal. The income elasticity of demand for the good is:
- A. -2.5 , so the good is an inferior good
 - B. -0.4 , so the good is an inferior good
 - C. $+0.4$, so the good is a normal good and a necessity
 - D. $+2.5$, so the good is a luxury
- [1 point] 3. The price of butter rises from 2.00 pounds to 2.20 pounds per pack. As a result, the quantity of margarine demanded rises from 500 to 540 packs per week. The cross elasticity of demand for margarine with respect to the price of butter is:
- A. $+1.25$, so the goods are substitutes
 - B. -0.8 , so the goods are complements
 - C. $+0.08$, so the goods are weak substitutes
 - D. $+0.8$, so the goods are substitutes

- [1 point] 4. The price elasticity of supply of fresh strawberries in the short run is estimated to be 0.2. This means that:
- A. a 10 percent rise in price leads to a 2 percent rise in quantity supplied; supply is price inelastic because output cannot be increased quickly within a growing season
 - B. a 10 percent rise in price leads to a 50 percent rise in quantity supplied
 - C. a 2 percent rise in quantity supplied causes a 10 percent rise in price
 - D. supply is price elastic because strawberries are perishable and must be sold quickly
- [1 point] 5. A firm's total cost rises from 5,000 pounds to 5,400 pounds when its output rises from 100 to 120 units. Over this range the marginal cost per unit, and the average cost at 120 units, are:
- A. marginal cost 400 pounds; average cost 45 pounds
 - B. marginal cost 20 pounds; average cost 45 pounds
 - C. marginal cost 20 pounds; average cost 50 pounds
 - D. marginal cost 45 pounds; average cost 20 pounds
- [1 point] 6. A firm faces a downward-sloping, straight-line demand curve. At the level of output where its total revenue is maximised:
- A. marginal revenue equals price
 - B. marginal revenue equals marginal cost
 - C. marginal revenue is zero and the price elasticity of demand is -1
 - D. marginal revenue is positive and demand is price inelastic
- [1 point] 7. Which of the following is an example of an EXTERNAL economy of scale?
- A. A supermarket chain negotiates bulk discounts from its suppliers
 - B. A car manufacturer spreads the cost of designing a new model over a larger number of cars
 - C. A large firm borrows at a lower interest rate than a small firm
 - D. A university near a cluster of software firms starts courses that supply all the firms with trained programmers
- [1 point] 8. In an industry, the market shares of the six largest firms are 30 percent, 22 percent, 15 percent, 8 percent, 6 percent and 4 percent. The four-firm concentration ratio is:
- A. 81 percent
 - B. 75 percent
 - C. 85 percent
 - D. 25 percent
- [1 point] 9. A monopolist produces 1,000 units per week at the output where marginal cost equals marginal revenue, both 20 pounds. At this output, the price on the demand curve is 50 pounds and average total cost is 35 pounds. The monopolist's weekly supernormal profit is:
- A. 15,000 pounds
 - B. 30,000 pounds
 - C. 50,000 pounds
 - D. 35,000 pounds

- [1 point] 10. Street lighting is usually provided by local government rather than by private firms because it is:
- A. a merit good whose benefits consumers underestimate
 - B. non-rival but excludable, like a toll road
 - C. non-excludable and non-rival, so free riders would prevent a private firm from covering its costs
 - D. a good with high fixed costs, which makes it a natural monopoly
- [1 point] 11. The weekly market for a vaccine has demand $Q_d = 100 - 2P$ and supply $Q_s = 20 + 2P$, where P is the price in pounds per dose and Q is thousands of doses. The government imposes a maximum price of 15 pounds per dose. The result is:
- A. a surplus of 20,000 doses per week
 - B. a shortage of 10,000 doses per week
 - C. no shortage, because 15 pounds is below the equilibrium price and so the maximum price is not binding
 - D. a shortage of 20,000 doses per week
- [1 point] 12. A specific tax of 6 pounds per unit is imposed on a good. As a result, the equilibrium price paid by consumers rises from 20 pounds to 24 pounds. The incidence of the tax is:
- A. 6 pounds per unit on consumers and nothing on producers
 - B. 4 pounds per unit on consumers and 2 pounds on producers, because demand is less price elastic than supply
 - C. 2 pounds per unit on consumers and 4 pounds on producers
 - D. 4 pounds per unit on consumers and 6 pounds on producers
- [1 point] 13. A firm sells its output in a competitive market at 15 pounds per unit. Employing a tenth worker raises weekly output from 400 to 420 units. The weekly wage is 250 pounds. Should the firm employ the tenth worker?
- A. No, because the worker's marginal physical product of 20 units is less than the wage of 250 pounds
 - B. No, because the worker adds only 50 pounds of revenue, which is less than the wage
 - C. Yes, because the worker's marginal revenue product of 300 pounds exceeds the wage of 250 pounds
 - D. Yes, because the average revenue product per worker, 630 pounds, exceeds the wage
- [1 point] 14. In a labour market with a single employer (a monopsony), the marginal cost of labour curve lies above the supply of labour (average cost of labour) curve because:
- A. to attract one more worker the employer must offer a higher wage, which it must then pay to all its existing workers as well
 - B. the employer must pay a premium to the trade union for each worker hired
 - C. the marginal revenue product of labour falls as more workers are hired because of diminishing returns
 - D. the employer hires workers up to the point where the marginal revenue product equals the wage rate

- [1 point]** 15. Two firms, X and Y, each independently choose to set either a high price or a low price. If both set a high price, each earns a profit of 10 million pounds. If both set a low price, each earns 6 million pounds. If one firm sets a low price while the other sets a high price, the low-price firm earns 14 million pounds and the high-price firm earns 2 million pounds. Which statement is correct?
- A. Setting a high price is a dominant strategy for each firm, so both earn 10 million pounds
 - B. Neither firm has a dominant strategy, so the outcome depends on which firm moves first
 - C. Both firms will set a high price because that maximises their joint profit
 - D. Setting a low price is a dominant strategy for each firm, so without collusion both end up earning 6 million pounds
- [1 point]** 16. Which of the following would cause a leftward shift of the short-run aggregate supply curve, with no direct effect on aggregate demand?
- A. A cut in income tax
 - B. A rise in the world price of oil
 - C. A rise in interest rates
 - D. An increase in the size of the labour force
- [1 point]** 17. In an economy, out of each additional pound of national income, 0.20 is saved, 0.25 is paid in taxes and 0.15 is spent on imports. Government spending rises by 6 billion pounds. Using the multiplier, the eventual total increase in national income is:
- A. 15 billion pounds
 - B. 30 billion pounds
 - C. 10 billion pounds
 - D. 3.6 billion pounds
- [1 point]** 18. A simplified consumer price index has two categories: food, with a weight of 40 percent, and housing, with a weight of 60 percent. Over a year, food prices rise by 10 percent and housing costs rise by 5 percent. The rate of inflation measured by the index is:
- A. 7 percent
 - B. 7.5 percent
 - C. 15 percent
 - D. 5 percent
- [1 point]** 19. Nominal wages rise by 3 percent in a year in which the consumer price index rises by 5 percent. Real wages have:
- A. risen by 3 percent
 - B. risen by approximately 8 percent
 - C. fallen by 5 percent
 - D. fallen by approximately 2 percent

- [1 point]** 20. A coal mine closes as the economy shifts away from coal. Many of the miners lack the skills required by the growing industries in their region and remain unemployed for several years. This is an example of:
- A. frictional unemployment
 - B. structural unemployment
 - C. cyclical (demand-deficient) unemployment
 - D. seasonal unemployment
- [1 point]** 21. In a country, 30 million people are employed, 2 million are unemployed and actively seeking work, and a further 8 million people of working age are economically inactive. The unemployment rate is:
- A. 5 percent
 - B. 6.67 percent
 - C. 6.25 percent
 - D. 25 percent
- [1 point]** 22. The central bank unexpectedly raises its policy interest rate. Through the exchange-rate channel of the transmission mechanism, the most likely sequence of effects is:
- A. hot money flows out, the currency depreciates, exports become more competitive and aggregate demand rises
 - B. the currency appreciates, import prices rise and cost-push inflation increases
 - C. the currency appreciates, exports become more competitive and aggregate demand rises
 - D. hot money flows in, the currency appreciates, exports become less competitive and imports cheaper, so net exports and aggregate demand fall
- [1 point]** 23. A government's budget deficit remains at 3 percent of GDP even when the economy is operating at full employment. This deficit is best described as:
- A. a structural deficit
 - B. a cyclical deficit
 - C. the national debt
 - D. a current account deficit
- [1 point]** 24. A country's balance of payments for a year shows: exports of goods 400 billion, imports of goods 520 billion, exports of services 180 billion, imports of services 110 billion, net primary income +20 billion and net secondary income 30 billion. The current account balance is:
- A. a deficit of 120 billion
 - B. a deficit of 60 billion
 - C. a deficit of 50 billion
 - D. zero: the account is balanced
- [1 point]** 25. The pound rises from 1.20 US dollars to 1.32 US dollars. A UK firm exports a product priced at 50 pounds. As a result of the change in the exchange rate:
- A. the product's dollar price falls from 66 to 60 dollars, making UK exports more competitive
 - B. the product's dollar price rises from 60 to 66 dollars, making UK exports more competitive
 - C. the product's dollar price rises from 60 to 66 dollars, a 10 percent appreciation that makes UK exports less competitive
 - D. the product's dollar price is unchanged at 60 dollars because its pound price has not changed

- [1 point]** 26. A country's real GDP grows by 3 percent in a year in which its population grows by 1 percent. Real GDP per capita has grown by approximately:
- A. 2 percent
 - B. 4 percent
 - C. 3 percent, because population growth does not affect GDP per capita
 - D. 1.5 percent
- [1 point]** 27. The Human Development Index (HDI) is a composite measure that combines indicators of:
- A. GDP per capita, the unemployment rate and the inflation rate
 - B. health (life expectancy at birth), education (mean and expected years of schooling) and living standards (GNI per capita at purchasing power parity)
 - C. life expectancy, the Gini coefficient and the rate of GDP growth
 - D. adult literacy, infant mortality and access to clean water
- [1 point]** 28. Which of the following is most likely to raise an economy's long-run rate of economic growth by shifting the long-run aggregate supply curve to the right?
- A. A cut in the central bank's policy interest rate
 - B. An increase in state pension payments
 - C. A depreciation of the currency that raises demand for exports
 - D. Government investment in education and training that raises the productivity of the labour force
- [1 point]** 29. A government bond has a nominal (face) value of 100 pounds and pays a fixed coupon of 4 pounds per year. Its market price rises to 125 pounds. The bond's yield is now:
- A. 4 percent
 - B. 5 percent
 - C. 3.2 percent
 - D. 25 percent
- [1 point]** 30. A commercial bank shifts some of its assets out of cash and short-term government bills and into long-term mortgage loans. The most likely effect on the bank is:
- A. higher profitability but lower liquidity
 - B. higher liquidity but lower profitability
 - C. higher liquidity and higher profitability
 - D. no change in liquidity, because the bank's total assets are unchanged