



Skoolumy

**CAMBRIDGE A LEVEL ECONOMICS TOPICAL
MULTIPLE CHOICE QUESTIONS**

**NATIONAL INCOME, ECONOMIC GROWTH &
DEVELOPMENT**

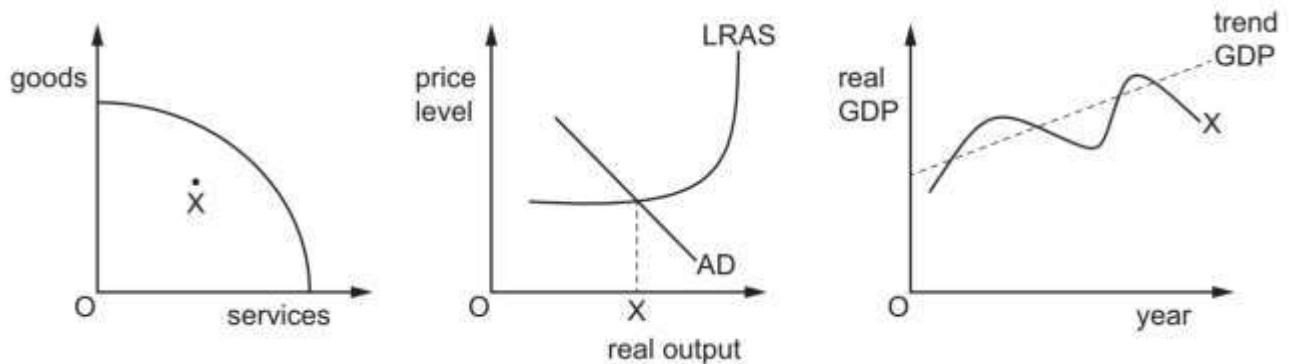
PAST QUESTIONS

1 The table shows the GDP and population of four countries.

Which country is most likely to have the lowest standard of living?

	country	GDP US\$ billion	population million
A	Bangladesh	206.7	153.5
B	India	2989.1	1147.9
C	Nigeria	292.7	138.3
D	South Africa	467.1	43.8

2 The diagrams show the performance of an economy using different measures.



If an economy is currently at point X on each diagram, what is the most likely conclusion that can be made based on this evidence?

- A Prices will increase significantly as the economy grows in the near future.
- B Supply-side policies would be the best option to encourage economic growth.
- C The economy is currently experiencing a deflationary gap.
- D There are shortages of skilled labour throughout the economy.

3 Which row correctly identifies the characteristics of an economy experiencing the liquidity trap?

	rate of economic growth	rate of inflation	rate of interest
A	high	high	low
B	low	high	low
C	low	low	low
D	low	low	high

4 Over the period of a year, nominal national income increased by 2%, inflation was 3% and population increased by 1%.

Which statement is correct?

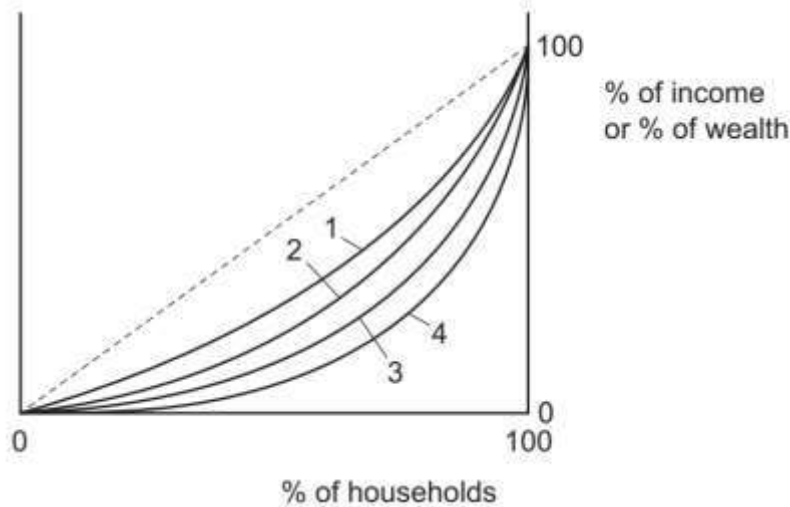
A Real income decreased by 2% per head.

B Real income increased by 1% per head.

C Real income increased by 4% per head.

D There was no change in real income per head.

5 The Lorenz curves in the diagram show different distributions of income and of wealth.



At first, income in a country is more equally distributed than wealth.

In a period, the distribution of income becomes more unequal but the distribution of wealth becomes more equal.

Which movement would show the effects of these changes on the distribution of income and wealth within the country?

	distribution of income	distribution of wealth
A	shift from curve 1 to curve 2	shift from curve 4 to curve 3
B	shift from curve 2 to curve 1	shift from curve 3 to curve 4
C	shift from curve 3 to curve 4	shift from curve 2 to curve 1
D	shift from curve 4 to curve 3	shift from curve 1 to curve 2

6 What is likely to happen in a developing country as it becomes more developed?

A A lower percentage of people will go to university.

B Average life expectancy will rise.

C The rate of population growth will increase.

D The tertiary sector will decline in importance.

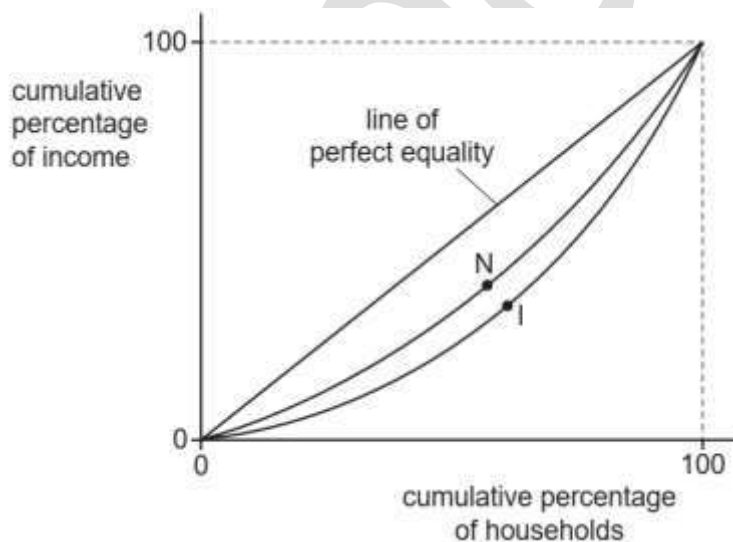
7 The table shows the values of the Gini coefficient for some countries in a given year.

	Gini coefficient
Namibia	74.3
Zambia	50.4
France	32.7
Denmark	24.7

Using this information, which statement is correct?

- A Income is distributed more equally in Denmark than France.
- B Income is distributed more equally in Namibia than Zambia.
- C Income per capita is higher in Zambia than Namibia.
- D There are proportionally more people below the poverty line in Zambia than France.

8 The diagram shows the Lorenz curves for Norway (N) and India (I).



What can be concluded from a comparison of the Lorenz curves?

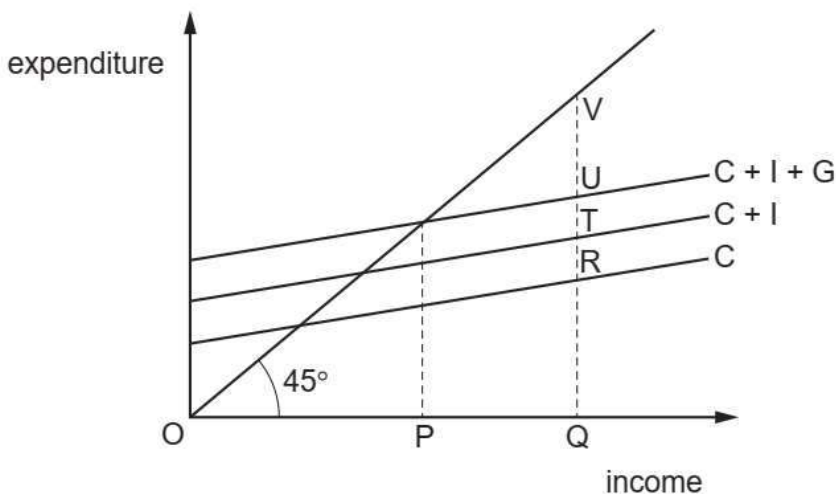
- A India is more likely to have lower indirect taxes and a public sector education system than Norway.

B India is more likely to have a progressive income tax system and means tested benefits than Norway.

C Norway is more likely to have a progressive tax system and public sector pensions than India.

D Norway is likely to have a higher percentage of tax generated from indirect taxes and privately funded pensions than India.

9 In the diagram, OP is the equilibrium level of income and OQ is the full employment level of income in a closed economy.



What is the deflationary gap?

A PQ B RV C TV D UV

10 In a closed economy with no government sector, when will an increase in investment spending generate the largest increase in equilibrium national income?

A when households have a high level of autonomous consumption

B when households have a high level of compulsory saving

C when households have a high marginal propensity to consume

D when households have a high marginal propensity to save

11 To indicate the changing income distribution, the Kuznets curve plots gross domestic product per capita against an economic variable X.

What is variable X?

A the exchange rate

B the level of income inequality

C the price level

D the rate of interest

12 The table shows some United Nations population statistics for 2010 and estimates for 2050.

type of region	total population (m) 2010	total population (m) 2050	urban population (m) 2010	urban population (m) 2050	population urbanised (%) 2010	population urbanised (%) 2050
more developed	1237	1275	930	1100	75	86
less developed	5671	7875	2556	5186	45	66
least developed	855	1673	249	914	29	55

Which relationship can be confirmed from the table?

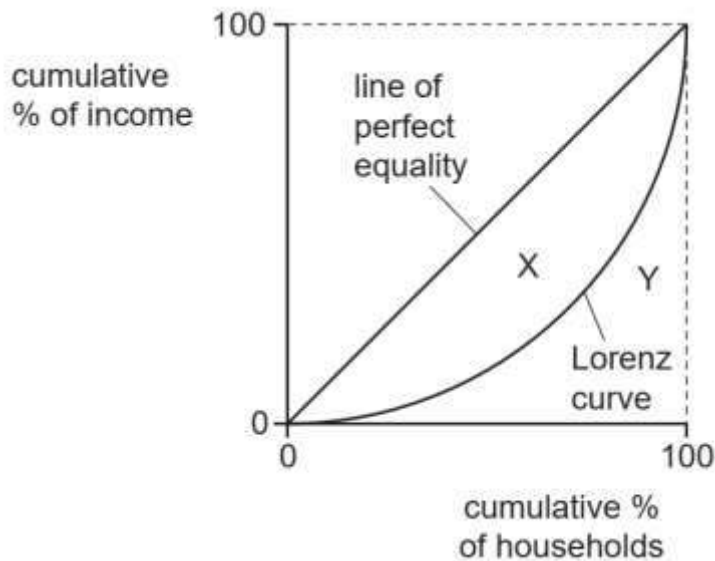
A The least developed regions have the largest urban populations, actual or predicted, in both years.

B The more developed regions have the lowest growth rate of urbanisation between 2010 and 2050.

C The type of region with the greatest total population in 2010 is predicted to have the greatest rate of population growth by 2050.

D The type of region with the greatest urban population in 2010 is predicted to have the highest level of urbanisation by 2050.

13 The diagram shows a Lorenz curve with two areas, X and Y, identified.



How is the corresponding Gini coefficient calculated?

- A** X divided by (X plus Y)
- B** (X plus Y) divided by X
- C** (X plus Y) divided by Y
- D** Y divided by (X plus Y)

14 To indicate the changing income distribution, the Kuznets curve plots gross domestic product per capita against an economic variable X. What is variable X?

- A** the exchange rate
- B** the level of income inequality
- C** the price level
- D** the rate of interest

15 What is likely to cause a more equal distribution of income in the long run?

- A** a reduction in the top rate of taxation
- B** an increase in government spending on education and training

C an increase in unemployment

D privatisation of the education sector

16 Which statement best describes demand-induced investment?

A It is spending on capital goods by firms because the rate of growth in demand for final goods and services increases.

B It is spending on capital goods by firms because the cost of borrowing has fallen.

C It is spending on capital goods by firms because they want to access new technology to improve the output per worker.

D It is spending on new capital goods by firms replacing old and obsolete capital goods.

17 Middle Eastern countries earn foreign exchange from exports of oil and natural gas. The World Economic Forum has encouraged oil producers to assist low-income countries in achieving economic growth.

Which policy by Middle Eastern countries would be least likely to achieve this economic growth in low-income countries?

A assisting low-income countries to overcome foreign exchange shortages by writing off debts

B enabling low-income countries to undertake capital projects for supplies of clean water through financial aid

C hiring mainly labour from low-income countries to build infrastructure in the Middle East

D reducing exports of fuels to low-income countries to lower pollution of the environment

18 What will cause a household to be caught in the poverty trap?

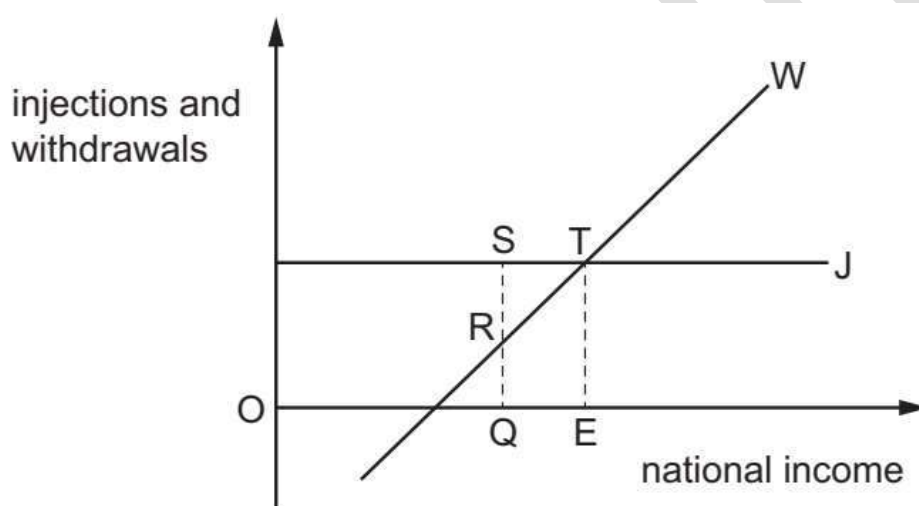
A A household earns less than the international poverty line of \$2.15 per person per day.

B A household spends more than it earns in a month.

C A household's earnings rise at a lower rate than the rise in inflation.

D An extra dollar earned by a household causes a greater loss in government benefit payments.

19 An open economy has injections, J, into the circular flow of income and withdrawals, W.



If the full employment level of national income is OQ, what represents the inflationary gap?

A QE B RT C SR D ST

20 The table shows the Human Development Index (HDI) values for India in 2014 and 2020.

	HDI value
2014	0.60
2020	0.64

Which conclusion is most likely to be drawn from the table about the change in the HDI value from 2014 to 2020?

- A India had a fall in life expectancy at birth.
- B India had a fall in real national income per head.
- C India had a rise in environmental pollution and crime rates.
- D India had a rise in the mean years of schooling of the adult population.

21 Which country is likely to be the most highly developed?

	Gini coefficient	death rate	relative size of tertiary sector
A	high	high	high
B	low	low	low
C	low	low	high
D	low	high	low

22 What is central to economic growth but not necessarily to economic development?

- A an expansion of the range of economic choices available to individuals
- B an increase in Gross Domestic Product
- C the eradication of absolute poverty
- D the satisfaction of basic needs amongst the whole population

23 Which changes in direct and indirect tax are likely to increase the inequality in the distribution of income in a developed economy?

	direct taxes	indirect taxes
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	remain constant

24 In a country, the top 20% of earners pay 45% in income tax and 25% on sales taxes, and receive 5% in cash benefits.

What is the percentage of disposable income for this group?

A 30% B 55% C 60% D 80%

25 What is most likely to be the biggest contribution to sustainable economic growth in a developed economy?

A a movement of people from rural to urban areas

B an increase in technical training

C an increase in the size of the population

D rising consumer credit levels

26 Which cause of economic growth would involve the least cost for present and future generations of a country's population?

A increased exploitation of a country's mineral resources

B investment financed by borrowing from abroad

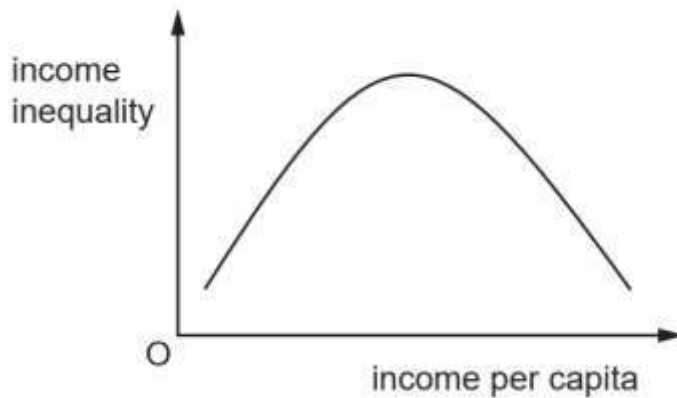
C investment financed by high rates of domestic savings

D technological innovations in production processes

27 Which additional components may be included when measuring economic development that are not included in measures of economic growth?

	changes in the distribution of GDP	level of poverty	real income per capita
A	no	no	yes
B	no	yes	no
C	yes	yes	no
D	yes	yes	yes

28 Which curve is shown in the diagram?



A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

29 Which indicator is least likely to be used when measuring the comparative economic development of an economy?

A mean years of schooling

B average life expectancy at birth

C level of real GNP per head

D size of population

30 Economic growth has both benefits and costs.

In which situation would living standards be judged to have definitely increased?

A As countries became industrialised, economic growth led to a fall in hours worked, as well as a rise in real incomes.

B China had a huge rise in real GDP per head in the last 20 years but there was a decrease in air quality in urban areas.

C Economic growth in high-income countries has seen childhood obesity increase, but has also seen increased resources devoted to its treatment.

D The 1990s saw a significant rise in real GDP per head in the US with only a relatively small increase in the Gini coefficient during the same period.

31 What is not included in National Income accounts?

A a gift by a parent to her daughter as a deposit on an apartment

B earnings of a part-time worker in a school dining room

C interest earned on savings accounts intended for retirement

D profits re-invested by a company to fund capital expenditure

32 A government wishes to attract foreign direct investment to assist the development of its economy.

What is most likely to encourage this?

A improved health and safety standards for workers

B increased import quotas

C increased spending on infrastructure

D introducing a minimum wage

33 Which indicator is least likely to be used when measuring the comparative economic development of a country?

A adult literacy rate

B average life expectancy at birth

C level of real GNP per head

D size of population

34 Rapid economic growth is claimed by some to harm the environment.

Which outcome would not harm the environment?

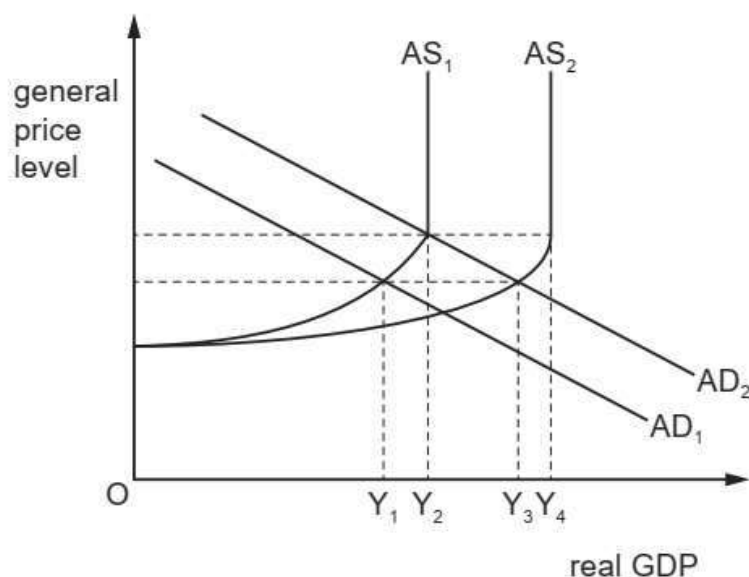
A the greater mobility of workers resulting from increased vehicle ownership

B the increased levels of income that reduce fertility rates and family size

C the relocation of workers from agricultural to manufacturing employment

D the use of improved technology to access previously inaccessible natural resources

35 The diagram shows an increase in both aggregate demand from AD_1 to AD_2 and aggregate supply from AS_1 to AS_2 .



What shows the output gap after the increase in AD and AS?

A Y_1Y_2 B Y_1Y_3 C Y_2Y_3 D Y_3Y_4

36 The table shows the annual percentage economic growth rates of three countries from 2012 to 2018.

	annual percentage change in real GDP		
	Brazil %	Japan %	Spain %
2012	1.9	1.5	-2.9
2013	3.0	2.0	-1.7
2014	0.5	0.4	1.4
2015	-3.5	1.2	3.7
2016	-3.3	0.6	3.2
2017	1.1	1.9	3.0
2018	1.1	0.8	2.6

What can be concluded from the table?

A Brazil was in the downturn of its trade cycle in 2015.

B Japan's real GDP was at its smallest in 2014.

C Spain experienced the worst recession of the period.

D Spain was in the downturn of its trade cycle in 2014.

37 What could cause the official statistics for the national income per head of a developing country to overstate the true level of economic well-being of its inhabitants?

A if there is dependence on barter in internal trade

B if subsistence agriculture dominates total economic activity

C if services are an important component of exports

D if there is extreme income inequality

38 What is shown by the Kuznets curve?

A the rise and then fall in the balance of trade deficit following a devaluation

B the rise and then fall in the economic growth rate as the GDP increases

C the rise and then fall in inequality as the level of income per head rises

D the rise and then fall in tax revenue as the tax rate is increased

39 What is most likely to be found in an economy with a positive output gap?

A a higher potential than actual GDP

B high unemployment

C inflation

D low labour costs

40 Many governments adopt sustainable economic growth as a macroeconomic policy aim.

What is meant by sustainable economic growth?

A increasing the current productive potential of the economy as fast as possible

B increasing the current productive potential of the economy by using only low-cost resources

C increasing the current productive potential of the economy without reducing future productive potential

D increasing the future productive potential of the economy as fast as possible

41 What would cause estimates of the money value of the Measure of Economic Welfare for a country to be greater than the value of Gross National Product?

A negative externalities, such as pollution

- B property income received from abroad
- C regrettable necessities
- D the value of non-marketed activities and leisure

42 The data provides information on indicators of the standard of living in four countries in 2019, each with a population below 10 million.

country	life expectancy at birth (years)	Gross National Income per capita (\$)	expected years of schooling	skilled labour (% of labour force)
Croatia	78.3	23 061	15.0	91.5
Norway	82.3	68 059	18.1	84.3
United Arab Emirates	77.8	66 912	13.6	52.8
Qatar	80.1	110 489	12.2	43.9

Based (overall) on these indicators, which country is most likely to have had the highest HDI ranking?

- A Croatia
- B Norway
- C United Arab Emirates
- D Qatar

43 What might help improve economic growth in developing countries over the next five years?

- A an increase in income tax
- B an increase in the birth rate
- C an increase in the budget surplus
- D an increase in training

44 What is the least likely consequence of a significant rise in unemployment during an economic recession?

- A a fall in aggregate demand
- B a fall in expenditure on welfare
- C a fall in revenues from income tax
- D a fall in the rate of economic growth

45 What does not change the level of withdrawals from the circular flow of income?

- A households having more of their income taken in tax following a rise in the rate of income tax
- B households spending more on imported cars following a currency appreciation
- C households taking money from their savings to spend on a celebration
- D households transferring money from an account in one bank to a different bank

46 What could be used to offset a leakage from the circular flow of income?

- A a reduction in domestic consumption
- B a reduction in government expenditure
- C an increase in the rate of interest
- D an increase in investment

47 The government's chief economist says that increasing the top rate of income tax from 40% to 45% is likely to reduce tax revenue by 2%.

Which economic concept might explain this prediction?

- A Kuznets curve
- B Laffer curve
- C Lorenz curve

D Phillips curve

48 In which circumstances is a poverty trap least likely to operate?

A A female worker is paid less than a male worker for doing the same job.

B A worker is paid the minimum wage and refuses a higher paid job because net income is lower after tax.

C A worker refuses higher paid work as it means more expensive travel and childcare costs.

D An unemployed worker refuses a job because earnings are less than unemployment benefit.

49 Which influence is least likely to promote sustainable economic growth in a developing economy?

A high saving rates

B involvement in free trade

C protected property rights

D rapid population growth

50 Governments are interested in providing statistics on the standard of living. They measure the value of material goods and services.

Non-material characteristics that affect the standard of living cannot easily be measured.

What is an example of a non-material characteristic?

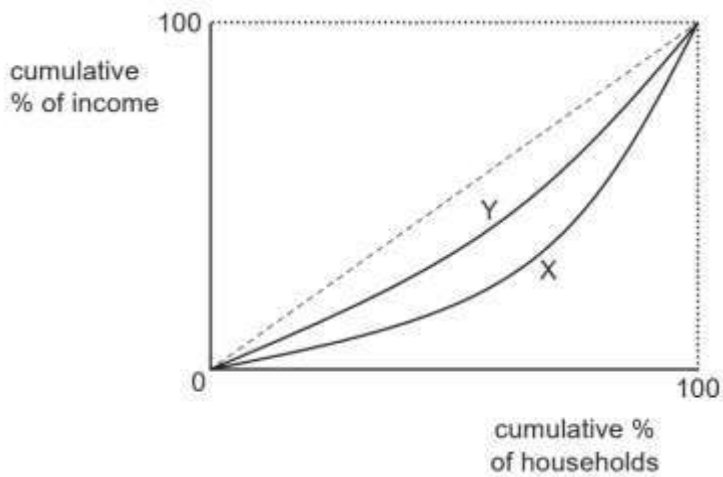
A the failure to include unpaid work in the home

B the freedom to make informed economic choices

C the proportion of GNP used for weapons of war

D the removal of taxes from all forms of consumer expenditure

51 The diagram shows Lorenz curves for a developed economy.



Which combination of supply-side policies would shift the Lorenz curve from X to Y?

	top rate of income tax	education	national minimum wage
A	increase	free	increase
B	increase	students pay	abolish
C	reduce	free	abolish
D	reduce	students pay	increase

52 Which row correctly identifies injections into a country's circular flow of income?

	private sector ($S > I$)	public sector ($T > G$)	trade sector ($X > M$)
A	no	no	no
B	no	no	yes
C	yes	no	no
D	yes	yes	yes

53 Which policy by developed economies would be most beneficial for developing economies?

- A a ban on resource exploration by mining companies in developing economies
- B restrictions on investment by global firms in developing economies
- C the removal of restrictions on emigration of skilled labour from developing economies
- D the withdrawal of agricultural subsidies in developed economies

54 The Measure of Economic Welfare (MEW) is often regarded as a better measure of economic welfare than Gross Domestic Product (GDP) per head.

What is additionally included in the calculation for MEW?

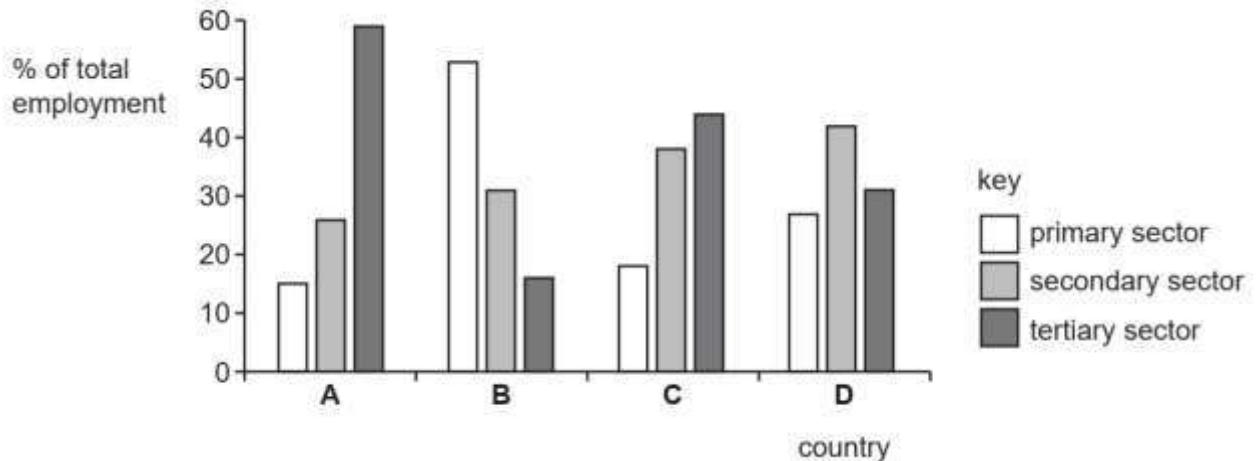
- A the cost of paid work
- B the cost of producing armaments
- C the estimated cost of damage to the environment
- D the negative impact on the shadow economy

55 Which statement about national income accounting is correct?

- A Depreciation does not need to be subtracted from GDP figures because it has already been taken into account by firms.
- B GDP greatly overstates the true value of output because some of the profit it includes is supernormal profit.
- C GDP is a better measure of living standards than GNP because net property income from abroad is not available for citizens.
- D GNP per capita ignores many important factors that affect citizens' living standards.

56 The chart provides information about employment rates, as a percentage of total employment, in the primary, secondary and tertiary sector of four countries.

What is most likely to represent the most economically developed country?



57 In an economy with no government sector:

C = consumption

I = investment

X = exports

M = imports

Y = national income.

If $C = 40 + 0.5Y$, $I = 80$, $X = 100$ and $M = 100$, what will be the equilibrium level of Y?

A 60 B 240 C 280 D 640

58 What would be an increase in leakages or withdrawals from the circular flow of income?

A increase in government spending on anti-smoking campaigns

B increase in spending on imports of luxury cars

C increase in spending on transfer payments

D increase in wages paid to government employees

59 It is often argued that the UN Human Development Index (HDI) is a better indicator of economic development than income per capita because it adjusts for

A average hours worked by the population.

B environmental pollution.

C inequality in income distribution.

D life expectancy at birth.

60 What is most likely to cause the living standards of a country to rise?

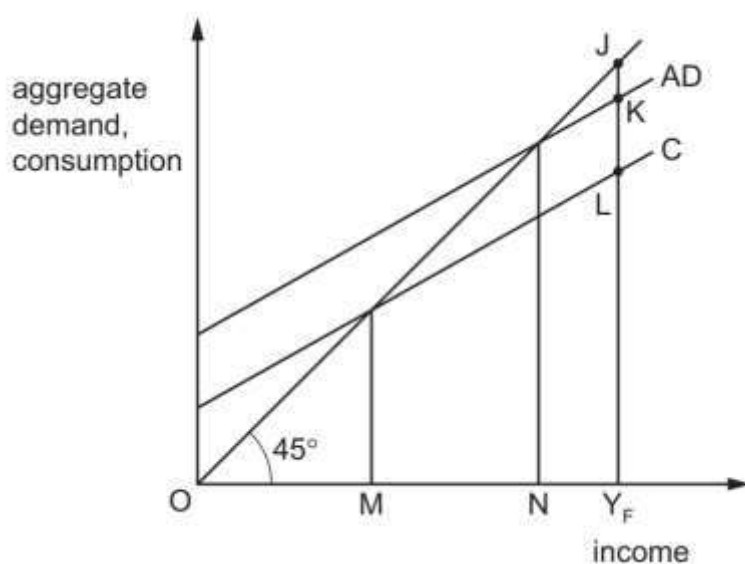
A an increase in the number of doctors

B an increase in the gold reserves

C an increase in the number of people per house

D an increase in the money supply

61 The diagram shows a closed economy in which the full employment level of income is Y_F .



Which distance measures the deflationary gap?

A JK **B** JL **C** NY_F **D** MY_F

62 Which cause of economic growth is most likely to ensure that the growth is sustainable?

A deregulation of industrial production that uses mineral resources and fossil fuel

B increased government spending on environmental education, financed through taxes on harmful goods

C increased trade barriers on imports to protect domestic jobs and incomes

D reduced planning regulations to encourage construction in areas of natural beauty

63 Which adjustment is made to gross domestic product (GDP) to calculate a measure of economic welfare (MEW)?

	environmental costs and benefits	the value of leisure activity	the value of unpaid work
A	no	no	yes
B	yes	no	no
C	yes	yes	no
D	yes	yes	yes

64 Purchasing power parity (PPP) allows a comparison of the purchasing power in two countries.

What is a definition of PPP?

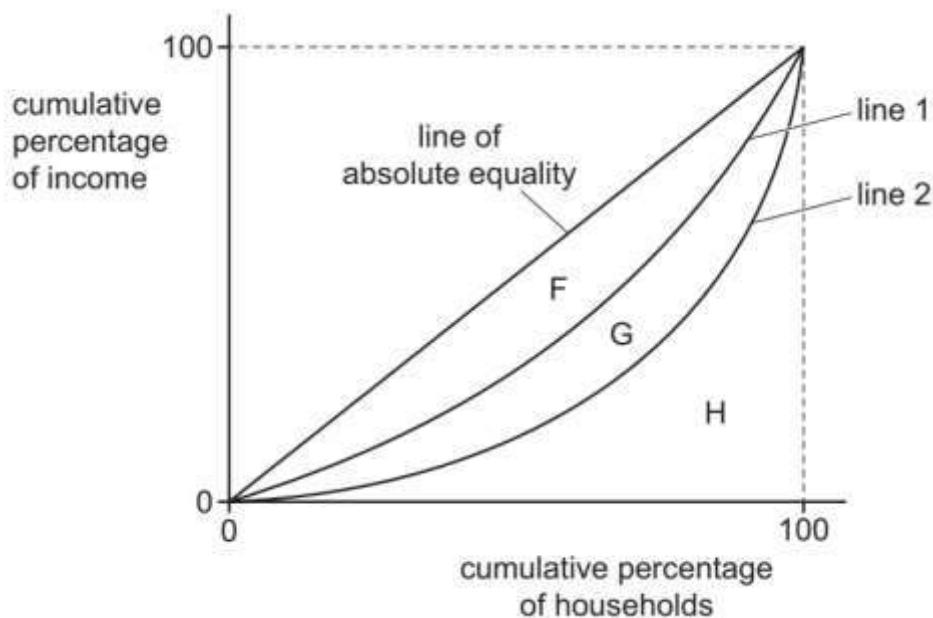
A the amount of the domestic currency needed to purchase a unit of foreign currency

B the quantity of a currency required to purchase the same basket of goods in both countries

C the quantity of goods and services that can be purchased by a person on an average income

D the value of expenditure by households on goods and services in a country

65 A Lorenz curve measures the income distribution in a country. The further the Lorenz curve is from the line of absolute equality, the greater the level of inequality.



What is the value of the Gini coefficient when the Lorenz curve is at line 2?

A $\frac{F+G}{H}$

B $\frac{F+G}{F+G+H}$

C $\frac{G}{G+H}$

D $\frac{H}{F+G+H}$

66 The turning point on the Kuznets curve for income inequality has been estimated to be in the region of US\$10 500.

For a country that has a GDP per capita of \$8000, what is most likely?

A A reduction in GDP per capita will have no effect on income inequality.

B A reduction in GDP per capita will increase income inequality.

C An increase in GDP per capita will have no effect on income inequality.

D An increase in GDP per capita will increase income inequality.

67 What would not be regarded as an example of a possible negative impact of rapid economic growth?

A Greater production could result in greater atmospheric pollution.

B A higher level of income could cause a higher balance of trade deficit.

C Increased AD could cause domestic inflation to increase.

D Increased GDP could generate greater tax receipts.

68 How can GDP at market prices be calculated if GDP at factor cost is known?

A add taxes, add subsidies

B add taxes, subtract subsidies

C subtract taxes, add subsidies

D subtract taxes, subtract subsidies

69 Which combination indicates that GDP per capita is likely to be an accurate indicator of living standards in a country over time?

	income distribution	hidden economy as % of GDP	quality of goods and services produced
A	equal	large	constant
B	unequal	large	improving
C	equal	small	improving
D	unequal	small	constant

70 What will decrease if an open economy experiences a positive output gap?

A general price level

B import spending

C spare capacity

D wage rates

71 A developing (low-income) economy is heavily dependent on the production of primary products. A multinational car manufacturing company invests in the country and builds a new factory.

What will not be a long lasting benefit of the company's investment in the developing economy?

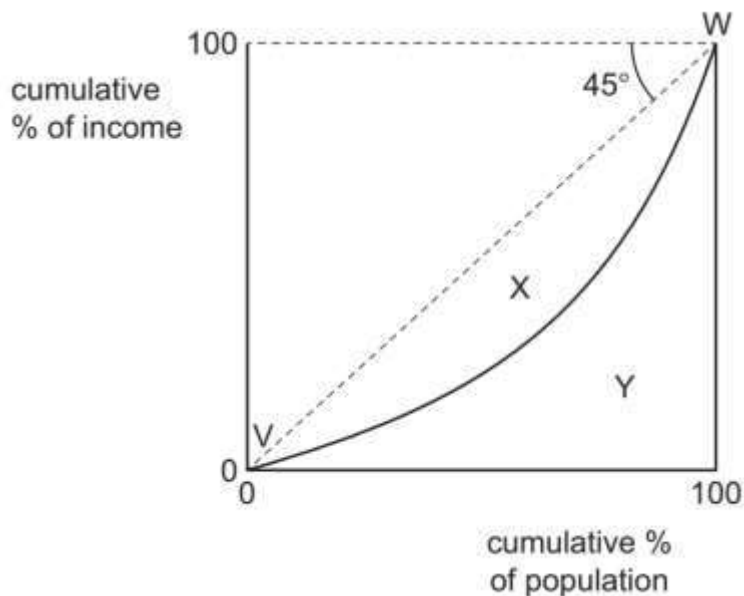
A The company introduces new technology to the economy.

B The company provides diversification of production for the economy.

C The company provides skills training for local workers.

D The company purchases non-renewable local construction materials for the factory.

72 The diagram shows an economy's Lorenz curve (VW).



The area of Y is three times bigger than the area of X.

What is the value of the economy's Gini coefficient?

- A** $\frac{1}{3}$ **B** $\frac{1}{4}$ **C** $\frac{3}{4}$ **D** $\frac{4}{3}$

73 The aggregate demand in country X is calculated by the equation $AD = C + I + (X - M)$.

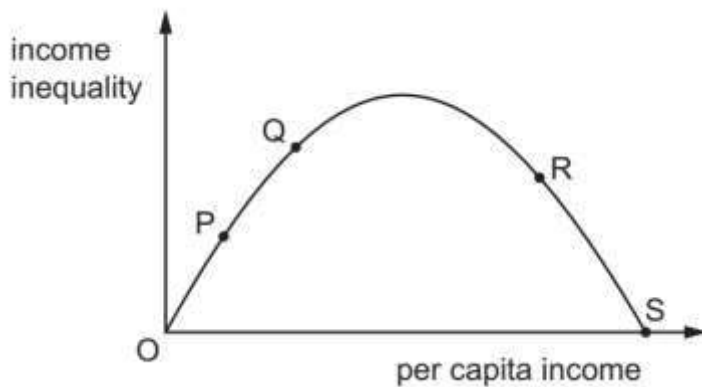
Four students are asked to fill in the two gaps in the following sentence describing the economy of country X.

'Country X is1..... economy2..... a government.'

Which student is correct?

	gap 1	gap 2
A	a closed	with
B	a closed	without
C	an open	with
D	an open	without

74 The diagram shows the Kuznets curve.



Which statement is correct with respect to the description of an economy and the corresponding letter on the Kuznets curve?

- A P is a market economy.
- B Q is a developed economy.
- C R is a developing economy.
- D S is an economy with a Gini coefficient = 0.

75 When measuring the value of total output of a country, economists use the concept of value added.

What could explain this?

- A They want to avoid double counting.
- B They want to avoid the impact of inflation.

C They want to find the value of the hidden economy.

D They want to include indirect taxes and subsidies.

76 A government uses personal disposable income per head as a measure of the standard of living.

What does this measure not take into account?

A changes in the average price level

B the level of direct taxation

C the level of national income

D the size of the population

77 What are the characteristics of most developing economies?

	ratio of government debt to GDP	average propensity to save
A	high	high
B	high	low
C	low	high
D	low	low

78 Why do economists draw a distinction between economic development and economic growth?

A because a country's stage of economic development depends on its level of output rather than its growth rate

B because it is the allocation rather than the overall level of a country's resources which determines its economic well-being

C because of the concern about quality of life rather than quantity of output

D because the prime determinant of economic development is investment rather than consumption

SKOOLUMY

MARK SCHEME

1 A

2 C

3 C

4 A

5 A

6 B

7 A

8 C

9 D

10 C

11 B

12 B

13 A

14 B

15 B

16 A

17 D

18 D

19 C

20 D

21 C

22 B

23 B

24 C

25 B

26 D

27 C

28 A

29 D

30 A

31 A

32 C

33 D

34 B

35 D

36 A

37 D

38 C

39 C

40 C

41 D

42 B

43 D

44 B

45 D

46 D

47 B

48 A

49 D

50 B

51 A

52 B

53 D

54 C

55 D

56 A

57 B

58 B

59 D

60 A

61 A

62 B

63 D

64 B

65 B

66 D

67 D

68 B

69 C

70 C

71 D

72 B

73 D

74 D

75 A

76 A

77 B

78 C

SKOOLUMY