

A-Level Economics

Name: \_\_\_\_\_ Score: \_\_\_\_\_

1. Which is NOT one of the four main macroeconomic objectives?
  - ☐ maximising firms' profits
  - ☐ price stability
  - ☐ low unemployment
  - ☐ economic growth
2. If the marginal propensity to consume (MPC) is 0.8, what is the multiplier  $= 1/(1 - \text{MPC})$ ?  
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3. Monetary policy is mainly conducted by changing:
  - ☐ income tax rates
  - ☐ government spending
  - ☐ the minimum wage
  - ☐ interest rates and the money supply
4. Supply-side policies aim to:
  - ☐ shift aggregate supply to the right (raise capacity)
  - ☐ shift aggregate demand left
  - ☐ raise interest rates
  - ☐ increase the budget deficit
5. Stimulating demand to reduce unemployment often causes:
  - ☐ deflation
  - ☐ a trade surplus
  - ☐ higher inflation
  - ☐ lower growth
6. A budget deficit occurs when:
  - ☐ government spending exceeds tax revenue
  - ☐ tax revenue exceeds spending
  - ☐ the economy is in surplus
  - ☐ inflation is zero

7. Fiscal policy is set by the central bank, whereas monetary policy is set by the government.

☐ True      ☐ False

8. A successful rightward shift of AS can raise output AND lower the price level.

☐ True      ☐ False

9. Price stability means keeping inflation at exactly zero.

☐ True      ☐ False

10. The multiplier equals 1 divided by  $(1 - \text{_____})$ .

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1. **maximising firms' profits**

The four are growth, low unemployment, price stability and a sound balance of payments.

2. **5**

$$1 / (1 - 0.8) = 1 / 0.2 = 5.$$

3. **interest rates and the money supply**

The central bank uses interest rates and the money supply; spending/taxes are fiscal policy.

4. **shift aggregate supply to the right (raise capacity)**

They raise productivity and capacity, shifting AS right.

5. **higher inflation**

The unemployment–inflation trade-off: more demand → fewer jobless but rising prices.

6. **government spending exceeds tax revenue**

Spending > revenue → the government borrows → a deficit.

7. **False**

False. It is the other way round: the central bank sets monetary policy (interest rates, money supply) and the government sets fiscal policy (spending and taxation).

8. **True**

Unlike demand-side policy, supply-side success eases inflation while raising output.

9. **False**

False. Price stability usually means low and stable inflation, often a target of about 2%. A small positive target leaves a margin against the dangers of deflation.

10. **MPC**

$$\text{Multiplier} = 1 / (1 - \text{MPC}).$$