Past-paper walk-through

National income statistics ▪ 4.1

eXercise

Questions in this set

- 9708/11 N25 Q16 ▪ 1 mark
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Question 16

9708/11 N25 ▪ Q16 ▪ 1 mark

16 The table shows selected statistics for a country.

	$bn
gross domestic product at market prices	600
indirect taxes	100
subsidies	50

What is the value of gross domestic product at basic prices?

Question 16

A	\$500bn	**B**	\$550bn	**C**	\$650bn	**D**	\$700bn

Solution 16

Answer: **B**

Why

- GDP at market prices includes indirect taxes and is reduced by subsidies.
- GDP at factor cost strips those out: subtract indirect taxes and add subsidies back.
- $600 - 100 + 50 = 550$ bn.

Question 17

9708/13 N25 ▪ Q17 ▪ 1 mark

17 The table below shows some national income statistics.

	$ billion
GDP at basic prices	300
Indirect taxes	20
Subsidies	4

What is GDP at market prices?

Question 17

A $276bn **B** $284bn **C** $316bn **D** $324bn

Solution 17

Answer: **C**

Why

- GDP at market prices includes indirect taxes and excludes subsidies.
- So start from basic prices, add the indirect taxes and subtract the subsidies.
- $300 + 20 - 4 = 316$ bn.

Question 18

9708/13 N25 ▪ Q18 ▪ 1 mark

18 Under which conditions will real Gross Domestic Product (GDP) grow the fastest?

	rate of change in nominal GDP (% per year)	rate of change in general price level (% per year)
A	0	–2
B	0	+2
C	+2	–2
D	+2	+2

Solution 18

Answer: **C**

Why

- Real GDP growth is approximately nominal growth minus the inflation rate.
- So subtract the price-level change from the nominal GDP change in each row.
- The fastest real growth is where that difference is largest, not where nominal growth is largest.

Question 27

9708/13 N25 ▪ Q27 ▪ 1 mark

27 What is an example of primary income in the current account of the balance of payments of Pakistan?

A dividends received by a Pakistani resident from shares in a domestic firm

B profits of Pakistani businesses exporting goods

C rent received by a Pakistani resident from a property in another country

D salary received by a Pakistani engineer from a foreign-owned producer operating in Pakistan

Solution 27

Answer: **C**

Why

- Primary income is income earned from owning a factor of production *abroad*.
- So dividends from *foreign* shares, or wages earned overseas, count.
- Dividends from a *domestic* company are earned at home, so they never enter the current account.

Question 16

9708/11 J25 ▪ Q16 ▪ 1 mark

16 Which statement correctly describes an increase in real GDP?

A Nominal GDP rising faster than nominal income.

B Nominal GDP rising faster than the rate of inflation.

C The rate of inflation rising faster than aggregate demand.

D The rate of inflation rising faster than nominal income.

Solution 16

Answer: **B**

Why

- Real GDP strips out the effect of rising prices.
- So real GDP rises only when nominal GDP grows *faster* than the price level.
- If nominal GDP and inflation rise at the same rate, real GDP is unchanged.

Question 26

9708/11 J25 ▪ Q26 ▪ 1 mark

26 Why does the value of a country's terms of trade have no monetary units?

A It cannot be calculated accurately enough.

B It includes more than one currency.

C It is a ratio of two index numbers.

D It measures change over time.

Solution 26

Answer: **C**

Why

- The terms of trade is an index of export prices divided by an index of import prices.
- Dividing one index by another cancels the units entirely.
- That is why it is a pure ratio, usually expressed as an index number with no currency attached.

Question 20

9708/12 J25 ▪ Q20 ▪ 1 mark

20 The table shows figures estimated at the end of a train drivers' strike.

	$ (000s)
loss of ticket revenue for train companies	600
value placed on extra leisure time by strikers	20
loss of government tax revenue	40
overtime payments to police	30

What was the reduction in the recorded level of national income resulting from the strike?

Question 20

A $570 000 **B** $610 000 **C** $640 000 **D** $690 000

Solution 20

Answer: **A**

Why

- A cost–benefit analysis must include all the costs and benefits, private and external.
- Add the losses together and the gains together, then compare the totals.
- The strike is worthwhile only if the value of the benefits exceeds the value of the costs.