Past-paper walk-through

Economic growth and sustainability ▪ 9.2

eXercise

Questions in this set

- 9708/33 N25 Q13 ▪ 1 mark
- 9708/33 N25 Q26 ▪ 1 mark
- 9708/34 N25 Q15 ▪ 1 mark
- 9708/34 N25 Q28 ▪ 1 mark

Question 13

9708/33 N25 ▪ Q13 ▪ 1 mark

13 Which stage of the business (trade) cycle is most likely to be characterised by an increasing negative output gap?

A boom

B recession

C recovery

D trough

Solution 13

Answer: **B**

Why

- A negative output gap means actual output is below potential.
- It grows during a downturn, as output falls further below capacity.
- That is the recession phase; at the trough it stops growing, and in recovery it narrows.

Question 26

9708/33 N25 ▪ Q26 ▪ 1 mark

26 Which combination of events would cause the biggest increase in real GDP per capita?

	GDP	population	general price level
A	rises	falls	falls
B	rises	falls	rises
C	rises	rises	falls
D	rises	rises	rises

Solution 26

Answer: **A**

Why

- Real GDP per capita is nominal GDP adjusted for prices and divided by population.
- So it rises most when GDP rises, prices fall and population falls.
- All three effects then work in the same direction.

Question 15

9708/34 N25 ▪ Q15 ▪ 1 mark

15 What leads to an inflationary gap?

A Aggregate demand is greater than the maximum potential output of the economy.

B Investment increases at a greater rate than profits received by a firm.

C The economy is operating below its full capacity.

D Innovation results in increased productivity in the economy.

Solution 15

Answer: **A**

Why

- An inflationary gap exists when aggregate demand exceeds the economy's potential output.
- There is no spare capacity, so the excess demand raises prices instead of output.
- It is a *demand* excess relative to capacity, not a statement about investment or profits.

Question 28

9708/34 N25 ▪ Q28 ▪ 1 mark

28 A multinational company is planning to invest in a new factory in a low-income country.

What is **not** a possible benefit to the low-income country?

A acquiring improved technology

B better training for the workforce

C extra tax revenue for the government

D increased competition for small domestic producers

Solution 28

Answer: **D**

Why

- Inward investment can bring technology, training, jobs, tax revenue and export earnings.
- The risks are profit repatriation, environmental damage and the loss of local firms.
- So the option that is *not* a benefit is the one describing value flowing out of the country.