14 Which statement about the quantity theory of money is correct?

A It suggests changes in liquidity preference lead to proportional changes in the price level.

B It suggests changes in the money supply lead to proportional changes in the price level.

C It suggests changes in the price level lead to proportional changes in liquidity preference.

D It suggests changes in the price level lead to proportional changes in the money supply.

15 What is a part of Keynesian economic analysis?

A a liquidity trap below which interest rates are ineffective

B an equilibrium price that always clears the market

C a small value for the government expenditure multiplier

D a vertical short-run aggregate supply curve

20 What may prevent a government achieving a faster rate of growth of real GDP?

A The multiplier has a small value.

B The consumer price index is below its target set by the central bank.

C The economy is operating on the vertical section of the long-run aggregate supply curve.

D There is a large negative output gap in the economy.

21 A fall in domestic investment leads to an increase in unemployment.

Which other economic problem is likely to occur as a result?

A an increase in interest rates on loans for house purchases

B an increase in the current account balance of payments deficit

C an increase in the government budget deficit

D an increase in the rate of price inflation

22 To overcome deflation in an economy the government increases the size of its budget deficit and funds this by increasing the money supply.

What is most likely to reduce the effectiveness of these measures?

A a high marginal propensity to save

B a rise in business confidence

C an inelastic demand for money

D low cash deposit ratios for commercial banks

13 What is likely to reduce the domestic money supply?

A Banks being allowed to hold a lower liquidity ratio.

B Individuals choosing to hold more money in the form of idle balances.

C The government financing its budget deficit by borrowing from the banking sector.

D The government increasing its borrowing from other countries.

17 What is most likely to increase if an economy enters a negative output gap?

A business confidence

B economic growth rate

C inflation rate

D unemployment rate

19 What would cause an individual's demand curve for an active money balance to move to the left?

A an increase in the frequency of income payments

B an increase in the general price level

C an increase in the individual's income

D an increase in the rate of interest

23 A government is aiming to reduce the unemployment rate in its country from 10% to 5%.

What is a likely effect if this aim is achieved?

A a decrease in interest rates

B a slow down in the rate of economic growth

C an increase in demand for exports

D an increase in inflation

A-Level Economics: **w25 33**

15 Which policy is most likely to lead to a reduction in the natural rate of unemployment?

A an increase in government expenditure on goods and services

B an increase in government expenditure on training schemes to address skill shortages

C an increase in the period when the unemployed are eligible for welfare benefits

D an increase in the minimum wage