**Unit 2 Multiple Choice Practice Questions**

**Unemployment, Balance of Payments, the Public Sector, Economic Objectives and Macroeconomic Performance**

1. The participation rate is defined as
2. The proportion of the working age population at work or actively seeking work
3. The proportion of people who participated in work for at least one hour during the week in which the ABS completed its employment survey
4. The proportion of the civilian population who are either at work or actively seeking work
5. The proportion of the population who participate in the labour force
6. Assume the current unemployment rate is 4.5 per cent. This means that:
7. 4.5 per cent of the population cannot find work
8. 95.5 per cent of the population were in paid work for at least one hour in the survey week
9. 4.5 per cent of people over the age of 15 years cannot find work
10. 4.5 per cent of the labour force are unemployed
11. Stephanie is a baroque cellist in a world demanding to hear music played on an electric cello. She cannot find suitable employment, so she is
12. Cyclically unemployed
13. Frictionally unemployed
14. Structurally unemployed
15. Voluntarily unemployed
16. If the population is 20 million, 10 million are employed and 1 million are unemployed, then the unemployment rate would equal
17. 10%
18. 9%
19. 50%
20. 3%
21. The major cause of frictional unemployment in our economy is
22. Capital for labour substitution in the production process
23. Changing patterns in consumer demand for some products
24. Lower levels of spending in a trough
25. Imperfect information about labour market conditions
26. A small amount of structural unemployment may be beneficial to the economy because
27. Outdated capital equipment and technology needs to be replaced with new equipment
28. This type of unemployment is a result of the decline in the primary industry workforce over the years
29. The skill level of the workforce is improved by workers who retrain and move from sectors in decline to sectors which are growing
30. Younger workers take over the jobs from which older workers have been displaced
31. The main cost of unemployment is
32. Welfare payments such as the Job Search allowance
33. The services which the government could have provided with the money it was forced to spend on welfare payments
34. The negative impact of unemployment on business confidence
35. Lost output and income
36. The short-run Phillips curve illustrates \_\_\_\_\_\_\_\_\_\_\_\_\_ relationship between the unemployment rate and the inflation rate
37. A positive
38. A negative
39. A cyclical
40. No
41. Free foreign trade may benefit the residents of a nation via
42. Higher real incomes for its people
43. Lower consumer prices
44. More efficient utilisation of resources
45. All of the above
46. A nation will gain if
47. Exports increase and imports decrease
48. Exports decrease and imports increase
49. Both exports and imports increase
50. Both exports and imports decrease
51. Which of the following is not an important determinant of a country’s exports?
52. It’s rate of economic growth
53. Its rate of exchange
54. Its inflation rate
55. The rate of growth of trading partners
56. Australia’s top two trading partners are
57. Japan and the United States
58. China and the United States
59. Japan and India
60. China and Japan
61. In 2017, Australia’s largest export was
62. Iron ore
63. Natural gas
64. Tourism
65. Coal
66. Australia’s largest category of exports is
67. Rural
68. Services
69. Manufactures
70. Minerals and fuels
71. In 2017, Australia’s largest import was
72. Motor vehicles
73. Crude petroleum
74. Personal trade services
75. Refined petroleum
76. Australia’s largest category of imports is
77. Consumer foods
78. Intermediate goods
79. Services
80. Capital goods
81. The ranking of Australia’s major export sectors, from largest to smallest is
82. Services, manufacturing, resources, rural
83. Resources, services, rural, manufacturing
84. Manufacturing, resources, services, rural
85. Resources, manufacturing, services, rural
86. Which of the following statements relating to Australia’s trade over the last decade is correct?
87. The total value of non-mineral exports has fallen
88. While Asia has become Australia’s major market for export, Europe has maintained its position as Australia’s main source of imports
89. Mineral exports have increased as a proportion of total exports
90. Iron ore and gold have been Australia’s largest exports by value
91. Which of the following development does not explain the change in direction of Australia’s pattern of trade in recent years?
92. The Asia-Pacific region has achieved higher rates of economic growth than Europe
93. The discovery and development of major natural gas reserves in Australia in expanding
94. Lower transport costs have given Australia an advantage when exporting to the Asia-Pacific region compared with Europe
95. China has become a more significant participant in world trade
96. Australia’s main source of imports by value is \_\_\_\_\_\_\_\_\_\_, while the largest service export is \_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_ is the largest service import.
97. China, personal travel, transport services
98. Japan, tourism, transport services
99. China, education, tourism
100. United States, education, tourism
101. In the theory of international trade
102. Exports are more important than imports
103. Imports are more important than exports
104. Both exports and imports are equally important
105. Exports increase economic welfare but imports decrease it
106. The balance of payments is a record of
107. A country’s purchases and sales of goods and services on world markets
108. The value of goods and service bought and sold on world markets
109. A country’s economic transactions with other countries
110. All investment flow between countries
111. Which of the following statement(s) is correct

(i) a current account deficit will be balanced by a capital/financial account surplus

(ii) a capital/financial account surplus will be balanced by a current account surplus

(iii) a capital/ financial account deficit will be balanced by a current account surplus

1. ( I ) only
2. ( ii ) only
3. ( I ) and ( iii ) only
4. ( I ), ( ii ) and ( ii )
5. The largest item by value in Australia’s current account is
6. The value of goods imported
7. The value of services exported
8. The interest payments associated with foreign debt
9. The value of direct foreign investment in Australia
10. Australia has recorded a current account deficit in its balance of payments
11. Far less frequently than it’s has experienced surpluses
12. Only because of persistent merchandise deficits
13. In every year from the 1980s until the present
14. In only two of the last 20 years
15. Which of the following would be a credit items in the current account
16. An Australian tourist spending while on holiday in Singapore
17. An Australian firm hires a non-resident Indonesian citizen
18. An Australian firm invests overseas
19. An Australian firm sells computer software overseas
20. Which of the following purchases by an Australian resident would be recorded as a service import in the current account
21. A foreign newspaper
22. Computer software from the U.S
23. Shares in an overseas company
24. A flight on a foreign airline

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| --- | --- |
|  | **$billions** |
| **Exports** | 400 |
| **Imports** | 430 |
| **Net services** | -20 |
| **Net income** | -50 |

1. Which of the following statements is correct
2. The capital and financial account has a deficit of $100 billion
3. The current account has a deficit of $50 billion
4. The balance on net goods is a surplus of $30 billion
5. The capital and financial account has a surplus of $100 billion
6. The payment of dividends by an Australian company to a foreign investor will appear in Australia’s balance of payments as a
7. Credit item in the current account
8. Debit item in the financial account
9. Debit item in the services account
10. Debit item in the primary income account
11. The balance on goods and services
12. Must be zero
13. Must be positive
14. Must be negative
15. Must be negative, positive or zero
16. The financial account of the balance of payments show the
17. Value of net foreign investment
18. Interest repayment on borrowing from overseas
19. Inflow of pensions and migrant funds
20. Net trade in goods and services
21. Which of the following is included in the capital and financial account of the Australian balance of payments
22. Dividends paid to foreigners
23. Expenditure by Australian tourists overseas
24. Expenditure by Japanese tourists overseas
25. Purchases of share in Australian companies by foreign residents
26. If the value of imports exceeds the value of exports, a country will record a:
27. Balance of payments deficit
28. Current account deficit
29. Financial account deficit
30. Balance of trade deficit
31. When an Australian buys shares in an American company, this would be recorded in our balance of payments as a
32. A credit on Australia’s current account
33. A debit on Australia’s current account
34. A debit on Australia’s financial account
35. A credit on Australia’s primary income account
36. When an Australia purchases a New Zealand financial asset
37. Australia’s balance of goods and services decreases
38. Australia’s capital and financial account surplus is reduced
39. Australia’s current account deficit increases
40. Australia’s capital and financial account surplus is increased
41. Which of the following statements is correct?
42. A country will have a current account surplus if it imports more than it exports
43. A country will have a capital and financial account deficit if it imports more than it exports
44. A country that has a current account deficit will borrow savings from the rest of the world
45. A current account deficit is an indication that a country has excessively high level of imports
46. In the balance of payments, in what account is foreign investment into Australia recorded
47. The current account
48. The capital account
49. The financial account
50. The income account
51. The current account balance is equal to
52. The trade balance + net foreign investment
53. Net goods + net services + net income + net investment
54. Net goods + net services + net income
55. Net goods + net services

|  |  |
| --- | --- |
|  | **$billion** |
| **Exports of goods** | 275 |
| **Imports of goods** | 265 |
| **Net services** | -2 |
| **Primary Income** | -56 |
| **Secondary Income** | 6 |

1. Which of the following statements is correct
2. The trade balance is $10bn
3. The net income balance is $50bn
4. The net goods and services balance is in deficit
5. The current account is in deficit by $42bn

1. Australia is classified as a modified market economy because
2. The government produces the public goods that the economy needs, in competition with private sector providers
3. The size of the government sector has grown to become larger than the public sector
4. Regulation govern the activities of firms providing all goods and services
5. The government intervenes to correct for market shortcomings
6. Which of the following is an example of a public good
7. A new car
8. A footpath
9. Health services
10. A natural resource such as fishery or forest
11. An example of a merit good is
12. A public hospital
13. A private fee-paying secondary school
14. Free-to-air radio and television transmission
15. The taxi industry
16. One important feature that distinguishes a public good from a private good is that
17. Only the government can produce public goods
18. If you pay for a unit of a public good, you are guaranteed sole consumer
19. It is impossible to prevent a person from enjoying the benefits of a public good
20. If you consume a unit of a public good, there is one unit less for someone else
21. The ‘optimum’ amount of government intervention in a modified market economy is
22. That which provides all public and merit goods not provided by the public sector
23. That which reduces the free-rider problem associated with public goods
24. That which protects the environment and society’s standard of living
25. That where the marginal costs of intervention are equal to the marginal benefits of intervention
26. Which of the following statements best defines a proportional tax?
27. The dollar amount of tax increases as income increases
28. The dollar amount of tax paid is proportional to income
29. The rate of tax is constant at all levels of income
30. Tax payments place more burden on low than high income earners
31. Consider a proposal to charge no income tax until income reached $25,000 per annum, then 20% each dollar earned after that. The proposal would:
32. Be proportional
33. Hurt high income earners
34. Make the tax system simpler and fairer
35. Reduce the average rate of tax
36. Progressive taxes are intended to improve
37. Equity
38. Efficiency
39. Simplicity
40. Certainty
41. Two examples of Australian Commonwealth taxes that are indirect and regressive are:
42. Income tax and excise tax on fuel
43. The GST and excise tax
44. Company tax and sales tax
45. Stamp duty and company tax
46. On a Lorenz Curve showing distribution of income, the diagonal line between the lower left and upper right of the curve represents
47. Perfect income inequality
48. A society in which wealth is concentrated in the hands of a few people
49. Complete equality of income
50. A Gini co-efficient close to 1
51. Which of the following would be more likely to redistribute income effectively?
52. An indirect tax such as excise on fuel or alcohol
53. A company tax, because funds are diverted from business owners to workers
54. A direct and progressive tax
55. Taxes on property, wealth transfer in families
56. To help redistribute income in the Australian economy, the Common government uses
57. Excise taxes and pension payments
58. Income taxes and transfer payment
59. Company taxes and unemployment benefits
60. Sales taxes and Medicare
61. A society that wished to reduce the degree of income inequality would have a \_\_\_\_\_\_\_\_\_\_ income tax system and \_\_\_\_\_\_\_\_\_\_ wealth taxes
62. Progressive, low
63. Proportional, low
64. Progressive, high
65. Proportional, low
66. The term ‘sustainable economic growth’ refers to a rate of economic growth
67. That is not high enough to drive up price levels
68. At which the economy stays close to the natural rate of unemployment
69. That can be maintained without creating problems in the future
70. That does not deplete natural resources or harm the environment
71. During a downturn in the economy such as which occurred in the GFC, we would expect that
72. Inflation and cyclical unemployment would both increase
73. Frictional and structural unemployment would both fall
74. The level of unemployment would be close to the ‘natural rate’
75. Cyclical unemployment would rise, and total unemployment would be above the ‘natural rate’
76. Lagging indicators
77. Confirm trends after they have been established
78. Predict changes in the business cycle
79. Typically follow coincident indicators by about 6 months
80. Are influenced by exogenous factors such as gold price
81. Which of the following statements about economic events between 2008 and 2017 is FALSE?
82. The impact of the GFC on the Australian economy was less than it might have been because of rising Chinese demand for Australian commodity exports
83. After the mining boom the terms of trade decreased which increased demand for Australian exports
84. During the mining boom, the terms of trade increased meaning Australians could buy more imports for any given quantity of exports
85. The Australian government introduced stimulus measures to boost spending shortly after the onset of the GFC
86. A possibly problem arising from higher levels of house debt is
87. Some households will come under financial stress if interest rates on mortgage rise
88. The RBA is under pressure to raise interest rates to give better return to savers
89. The savings rate would fall
90. House prices will continue to rise as householders try to sell expensive houses to purchase cheaper ones
91. Policies that help promote full employment conflict with the objective of
92. Economic growth
93. Price stability
94. Equitable income distribution
95. Higher living standards