



'Multiple choice' - Improving your knowledge of the key concepts

The Aim: To improve your knowledge of economic concepts that are commonly examined in multiple choice questions.

Instructions: Read the notes in the 'Content' section before attempting the exercises. Each 'exercise' allows you to apply the information to MC questions.

Exercise 1: **Content** ✂ Read this text before attempting the next exercise.

If withdrawals exceed injections ($S+T+M > I+G+X$), national income falls, which means there is lower growth. Over time, the economy trends towards a new equilibrium. The fall in demand causes firms to decrease output (and the level of unsold goods increases). When incomes fall, people save less, spend less on imports, and pay less in taxes, so withdrawals fall to become equal once again with injections. The new equilibrium level of national income, though, will be lower.

On the other hand, if injections are greater than withdrawals ($I+G+X > S+T+M$), economic activity will increase. The economy will grow towards a new, higher equilibrium level of national income.

Firms may increase output and reduce the level of unsold inventories. When incomes rise, people tend to save more money, spend more on imports and pay more in taxes (they may even enter a higher tax bracket). Consequently, withdrawals rise to become equal with injections.

Q 1A: Select the alternative that best answers the question.

If injections are greater than withdrawals:

- The economy is at equilibrium
- There is higher economic growth, as national income has fallen
- There is higher economic growth, as national income has risen
- There is lower economic growth, as national income has decreased

Q 1B: Select the alternative that best answers the question.

What are injections?

- Investment, government spending, and import spending
- Savings, taxation, and export revenues
- Investment, taxation, and government spending
- Investment, government spending, and export revenues

Q 1C: Select the alternative that best answers the question.

When is the economy at equilibrium?

- When savings, taxation, and import spending are equal to investment, government spending, and export revenues
- When savings, taxation, and government spending are equal to investment, export revenues, and import spending
- When there is no taxation
- When investment, government spending, and import spending are equal to savings, taxation, and export revenues

 'Multiple choice' - Improving your knowledge of the key concepts

Exercise 2: **Content** ✂ Read this text before attempting the next exercise.

The economy as a whole works like most markets. The total level of activity is determined by both supply and demand factors. The total productive capacity (national income - Y) is one factor. This is called aggregate supply. However, aggregate supply is more an indicator of potential economic activity. The ability to produce goods does not mean the market will consume them.

When aggregate demand is equal to aggregate supply ($AD = Y$), the economy is in equilibrium. If there is disequilibrium and AD is more or less than Y , Y will rise or fall to move towards a new equilibrium, thereby creating either higher or lower economic growth.

Demand for domestic goods and services comes from four areas: household consumer spending (C), business investment expenditure (I), government spending (G), and net exports ($X - M$).

Q 2A: Select the alternative that best answers the question.

Assuming all other factors remain equal, what will happen if there is a decrease in consumer spending?

- There will be higher aggregate demand and the economy will expand
- There will be lower aggregate demand and the economy will contract
- There will be higher aggregate demand and the economy will contract
- There will be lower aggregate demand and the economy will expand

Q 2B: Select the alternative that best answers the question.

Which of the following is not a component of aggregate demand?

- Consumer spending
- Government spending
- Productive capacity
- Net exports

Exercise 3: **Content** ✂ Read this text before attempting the next exercise.

Unemployment is a derived demand of economic growth. Increased economic growth causes lower unemployment because when there is more economic activity, more jobs become available. Peoples' living standards rise as they can satisfy more wants and needs, but these gains are unevenly distributed, so inequality grows. However, as unemployment falls, wages rise, which causes cost inflation. Also, as people have higher incomes, they consume more, fuelling demand inflation.

Q 3A: Select the alternative that best answers the question.

Which statement accurately outlines effects of economic growth?

- Unemployment falls and inflation falls
- Employment falls and inflation rises
- Employment rises and inflation falls
- Unemployment falls and inflation rises

**'Multiple choice' - Recognising the tactics used by examiners**

The Aim: To alert you to the common tactics and tricks used by examiners.
Instructions: Study the 'Creative Economics Tips' before attempting the exercises.
 Each exercise will give you skills you can apply to multiple choice questions.

Exercise 1: Creative Economics Tip ✂ Read the following 'tip' before attempting the next exercise.

Tip: Students often struggle to precisely define economic growth. It refers to an increase in the total productive output of an economy over time. This is usually **measured by a rise in real GDP**. Also, examiners sometimes try to confuse students with real and nominal GDP. Remember, nominal GDP is **the total value of goods and services produced at current prices**. Nominal GDP can increase but the economy may not actually expand because of inflation. Real GDP is nominal GDP adjusted for inflation, and so is the correct method to measure economic growth. Nominal GDP is sometimes also called money GDP and **real GDP is also known as constant GDP**.

Q 1: Complete this paragraph. ✂ Cover up this tip before attempting the exercise.
 The key words are - increase, Gross Domestic Product, output, time

Economic growth is the term used to refer to the _____
 in the total productive _____ of an economy over
 _____, usually measured by _____.

Q 2: Using the tip, select the alternative that best answers the question.

Real Gross Domestic Product is:

- a. Nominal GDP adjusted for unemployment
- b. Constant GDP adjusted for inflation
- c. Nominal GDP adjusted for inflation
- d. Nominal GDP adjusted for income inequality

Exercise 2: Creative Economics Tip ✂ Read the following 'tip' before attempting the next exercise.

Tip: Students sometimes mix up economic growth with concepts of welfare and development. Remember, the term economic growth deals only with a quantitative increase in economic output, not qualitative measures relating to quality of life.

Q 1: Applying the tip, explain why 'a' is the correct answer.
 Question: Which of the following indicates economic growth?

- a. Higher real GDP
 - b. Higher nominal GDP
 - c. Higher HDI
 - d. Lower unemployment
- _____



The Aim: To apply the skills you have learned as if you were the examiner.

Exercise 1: Constructing questions.

Q 1: Write four options for the following question. Make 'a' the correct answer.

Which of the following macro policies will increase economic growth?

- a. _____
- b. _____
- c. _____
- d. _____

Q 2: Write four options for the following question. Make 'c' the correct answer.

Which of the following micro policies will increase economic growth?

- a. _____
- b. _____
- c. _____
- d. _____

Exercise 2: Constructing questions.

Q 1: Complete this question for which 'a' is the correct answer.

When there is a/an _____ in government spending:

- a. There is higher economic growth as national income rises
- b. There is lower economic growth as national income falls
- c. There is higher economic growth as national income rises
- d. This is higher economic growth as inflation rises

Q 2: Complete this question for which 'c' is the correct answer.

When there is _____ economic growth:

- a. Inflation increases
- b. Environmental outcomes worsen
- c. Unemployment rises
- d. Inequality is exacerbated



The Aim: To practise calculation-based exercises.

Instructions: Study the formulae before attempting the exercises.

Exercise 1: The simple multiplier

Formula time: The simple multiplier

The simple multiplier is represented by the symbol 'k' and is calculated using the formula:

$$k = \frac{1}{\text{MPS}} \quad \text{or} \quad k = \frac{1}{1 - \text{MPC}}$$

Note: $\text{MPS} = 1 - \text{MPC}$

Formula time: The Marginal Propensity to Consume (MPC)

The triangular symbol Δ is the mathematical symbol for change.

$$\text{MPC} = \frac{\text{Change in Consumption } (\Delta C)}{\text{Change in Income } (\Delta Y)}$$

✂ For exams, it is usually safer to keep the MPC in a fraction form. ✂

Example time:

Year	Income	Consumption
1	1000	800
2	1100	860

$$\text{MPC} = \frac{\Delta C}{\Delta Y} = \frac{60}{100} = \frac{3}{5}$$

$$k = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 3/5} = 2.5$$

Q 1:

Calculate the MPC and the simple multiplier.

Year	Income	Consumption
1	1000	800
2	1100	860

MPC =

K (multiplier) =

 'Multiple choice / Short answers' - Calculations

Exercise 2: Applying the multiplier

Formula time: Change in income

The multiplier indicates how many times the initial injection will be multiplied to increase national income. This is expressed as:

$$\Delta Y = \Delta AD \times k$$

Therefore, the change in national income is equal to the **initial change** in aggregate demand (government spending, investment, or net exports) **multiplied** by the simple **multiplier**.

The two most common formulae are:

$$\Delta Y = \Delta I \times k, \quad \Delta Y = \Delta G \times k$$

Calculation time:

If the MPC is 0.6 and there is an initial injection of \$100,000 from investment, by how much would national income rise? (When you do these types of questions, make sure you do each calculation properly, rather than just in your head, to avoid silly errors.)

1. Find the MPC 2. Find k (the multiplier) 3. Find the change in income

$$MPC = 0.6 = \frac{3}{5} \quad k = \frac{1}{1 - 3/5} = 2.5 \quad \Delta Y = \$100\,000 \times 2.5 = \$250\,000$$

Q 1:

Income	Consumption
1500	1000
2100	1200

Based on this data, by how much would national income change if government expenditure increased by \$200 000? Show all your working below.

Q 2:

Income	Consumption
3000	2000
3300	2200

Based on this data, by how much does the government have to increase its spending to raise national income by \$1.35 million?

 'Multiple choice / Short answers' - Calculations
Exercise 3: Economic growth**Formula time: Real GDP**

Calculating real GDP involves adjusting nominal GDP for inflation.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{CPI (current year)}} \times \frac{100}{1}$$

(Assuming the base year is 100)

Formula time: Economic Growth

$$\text{Growth rate (\%)} = \frac{[\text{real GDP (current year)} - \text{real GDP (previous year)}]}{\text{real GDP (previous year)}} \times 100$$

Q 3A: Based on the data, calculate the rate of economic growth. Show working.

Year	Nominal GDP (\$ Million)	CPI	Real GDP (\$ Million)
1	236	100	236
2	287	107	?

Q 3B: Referring to the table below, in which year was economic growth strongest?

- a. Year 2 b. Year 3
c. Year 4 d. Year 5

Year	Nominal GDP (\$ Million)	CPI
1	238	100
2	256	105
3	268	107
4	284	111
5	298	114



Exercise 4: Aggregate demand

Formula time: Aggregate demand (AD)

$$AD = C + I + G + (X - M)$$

Q 4: Based on the data, calculate aggregate demand: _____

Consumption	100
Government spending	30
Investment	140
Exports	290
Imports	320

Exercise 5: Injections and withdrawals

Formula time: Injections and withdrawals

The economy is at equilibrium when:

$$I + G + X = S + T + M$$

Q 5A: Based on the data, is the economy growing or declining? _____

Savings	700
Government revenue	400
Exports	300
Government expenditure	600
Investment	300
Imports	150

Q 5B: Combination questions

Questions sometimes require you to apply knowledge about both economic growth and policies.

Based on the data, select the correct statement.

Imports	200
Savings	700
Exports	500
Government expenditure	500
Investment	350
Government revenue	600

- a. The economy is expanding and there is a budget surplus
- b. The economy is contracting and there is a budget deficit
- c. Economic activity is declining and there is expansionary monetary policy
- d. Economic activity is contracting and there is a budget surplus



The Aim: To prepare summaries to be used as short answer revision notes.

Instructions: Read the notes in the 'Content' section before preparing summaries.

Exercise 1: Content

Australia experienced strong growth for most of the last two decades. This was particularly impressive in light of the poor growth it experienced prior to this time fame. Australia could not, however, entirely escape the global downturn in the business cycle at the end of the 2000s, although it performed better than most other advanced countries.

Australia's post-World War II economic growth was initially fairly strong. Between 1961 and 1981, GDP growth averaged a little more than 4% per year, although it did have a minor recession in 1974. A recession is two successive quarters of negative growth. Over the next decade Australia's performance was inconsistent. In 1982-1983, it had a more serious recession where GDP shrank by 2.4%. In 1990-1991, there was another recession, following global trends. Prime Minister Paul Keating famously called this the recession the country "had to have".

Q 1: Prepare four key points that could be used to answer the following question:

Describe the trends in economic growth for Australia.

1. _____
2. _____
3. _____
4. _____

Exercise 2: Content

Natural resources can be a tremendous source of growth. Oil exporters are some of the wealthiest nations in the world. Australia's strong growth has been fuelled by its commodities. However, natural resources can only lead to economic growth if they are managed properly. This requires sound regulatory and taxation policies, effective institutions and a stable political and legal environment. Many African countries are resource rich, but lack the technology or capital to exploit these opportunities. Weak governance has often meant that natural resources become sources of conflict and instability rather than prosperity.

Q 1: Prepare four key points that could be used to answer the following question:

Describe how natural resources can lead to economic growth.

1. _____
2. _____
3. _____
4. _____



Exercise 3: Content

The labour force is an important factor in economic growth. People make products, extract natural resources, and provide services. Increasing the size of the labour force is therefore one way to maintain economic growth.

Australia has experienced a falling birth rate, so immigration has been used to help maintain the size of the workforce. It is more important, though, to improve the quality of the labour force.

Making the labour force more efficient boosts productivity, while increasing skills allows higher-value goods and services to be produced.

Australia does not have a large labour force relative to the rest of the world, so must work to improve the productivity of its workers.

Q 1: Prepare four key points that could be used to answer the following question:
Explain how changes to the labour force can strengthen growth.

1. _____
2. _____
3. _____
4. _____

Exercise 4: Content

Strong economic growth is beneficial to firms. As national income rises, people consume more, so demand for firms' products rises.

Also, as incomes rise, people consume a wider variety of goods, creating new growth opportunities for firms. As they expand, they become more efficient due to economies of scale, such as bulk buying and specialisation. They become more profitable and internationally competitive.

However, not all firms benefit equally, and the strong performance of one sector might reallocate resources away from others.

The commodities boom in Australia has reallocated resources to this sector, making some production inputs more expensive for other sectors.

Q 1: Prepare four key points that could be used to answer the following question:
Outline the impact of economic growth on firms.

1. _____
2. _____
3. _____
4. _____

*'Short answers' - Focusing on definitions as inputs for answers*

The Aim: To reinforce key definitions needed to answer short answer questions.

Instructions: Memorise the definition after completing these exercises.

Exercise 1: Match each word to the economic statement that best describes it.

The words are - net exports, taxation, real Gross Domestic Product, injection, business investment

👉 The following statement defines _____

Firms buying capital goods, such as machinery, and an increase in inventories (unsold goods).

👉 The following statement defines _____

Subtracts import spending (M) from export revenues (X). When foreigners buy Australian goods, they add to the overall demand for products made by Australian firms. This leads to higher domestic output. When Australians buy imports, money leaves the Australian system and so reduces overall demand.

👉 The following statement defines _____

Nominal Gross Domestic Product adjusted for inflation.

👉 The following statement defines _____

The means by which revenue is received by the government.

👉 The following statement defines _____

Money that boosts income in the circular flow model.

Exercise 2: Fill in the missing words to complete the definition.

The words needed to complete this exercise are - goods and services, removed.

👉 The following statement defines 'withdrawal'

A situation in which money is _____ from the circular flow of income.

👉 The following statement defines 'government spending'

Effectively the purchase of _____ by government such as in the construction of roads and provision of health services.



'Extended Response Questions' - Preparing inputs for essays

The Aim: To prepare introductions and conclusions for use in essays.

Instructions: After completing these exercises, memorise the paragraphs.

Exercise 1: Preparing an introduction.

Q 1: Fill in the missing words to complete an introduction for the essay - Discuss the influences on economic growth.

The words are - demand-side, labour, government expenditure and policies, real.

Economic growth, an increase in the _____ output of goods and services, is shaped by a variety of factors, both supply-side and _____. Consumption, investment, _____ and net exports affect aggregate demand, and hence economic growth. Natural resources, _____, capital and entrepreneurial skill, and policies to improve these attributes, also affect the level of growth.

Exercise 2: Preparing a conclusion.

Q 1: Fill in the missing words to complete an conclusion for the essay - Discuss the policies that can be used to stimulate economic growth.

The words are - constraints, micro, demand

Both macro and _____ policies can be utilised to influence economic growth. However, these policies have limitations, such as time lags, political and global _____, and conflicting objectives. Macro policies can lead to _____ inflation, whilst micro policies can take a very long time. Therefore, policy makers need to consider all policies and their relative advantages and disadvantages when targeting growth.



'Extended Response Questions' - Transforming plans into paragraphs

The Aim: To practise applying plans.

Instructions: Write paragraphs based on the plan.

Exercise 1: Plan: Discuss the causes of higher economic growth.

Part 1 - Demand-side factors

[C+I+G+(X-M)]

Part 2 - Supply-side factors

(land, labour, capital, entrepreneurship)

Part 3 - Government policies

(macro and micro)

Q 1:

Construct one paragraph that relates to Part 1 of the plan.

Q 2:

Construct one paragraph that relates to Part 2 of the plan.

Q 3:

Construct one paragraph that relates to Part 3 of the plan.



'Extended Response Questions' - Transforming plans into paragraphs

Exercise 2: Plan: Discuss the effects of higher economic growth.

Part 1 - Firms	(advantages and disadvantages)
Part 2 - Individuals	(advantages and disadvantages)
Part 3 - Government	(objectives and policies)

Q 1: Construct one paragraph that relates to Part 1 of the plan.

Q 2: Construct one paragraph that relates to Part 2 of the plan.

Q 3: Construct one paragraph that relates to Part 3 of the plan.

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