



Candidate Family Name:

Candidate Other Names:

Candidate Number:

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Centre Number:

Exam Paper Code (e.g. CT1):

Actuarial Reference Number (ARN):

Date of Examination:

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I have read, understood and agree to be bound by the examination Rules and Regulations and also the Actuaries' code, as in force from time to time.

(signature of candidate)

INSTRUCTIONS TO CANDIDATE

You will be guided by the supervisor on how to complete this form. Please do not start until instructed to do so.

Your script will be scanned electronically. Failure to comply with these instructions may lead to your paper not being marked. You **must**:

1. Complete the details on this page and in the booklet using black ball point pen. Do not use pencil or gel pen. Do not use correction fluid.
2. Write the information required in the spaces above. Complete in BLOCK CAPITALS and check that your details are correct and in full.
3. For questions 1-26 circle the letter of the answer that you believe to be correct. If you make an error cross out the answer that you do not want to be marked.

Example: ☒ A
B
☒ C
D

Graph Paper is NOT required for this paper

At the end of the examination hand in ALL your answer booklets and Part B question paper.

In addition to this paper you should have available the 2002 edition of the Formulae & Tables and your electronic calculator from the approved list.



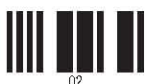
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Circle the letter of the answer that you believe to be correct.

- 1** The main categories of economic resources are:
- A natural resources, labour and money.
 - B labour, money and factories.
 - C natural resources, capital and factories.
 - D natural resources, labour and capital. [1½]
- 2** The solution to the economic problem of deciding which goods to produce requires:
- A a choice between the production of consumer goods and the sacrifice of alternatives.
 - B the establishment of freedom of entry and exit.
 - C the establishment of a system of market prices.
 - D a decision to be made on the degree to which capital will be used in the production process rather than labour. [1½]
- 3** If rail travel is an inferior good, which one of the following will lead to a shift of its demand curve to the left?
- A An increase in incomes
 - B A rise in car prices
 - C An increase in petrol prices
 - D A rise in the price of rail travel [1½]
- 4** The demand equation for Good X is $Q_d = 15 - 0.5P$ and the supply equation for Good X is $Q_s = 3 + 2P$, where P is the price in pounds. When the price is £6 there will be a:
- A surplus of Good X and the price will rise.
 - B shortage of Good X and the price will fall.
 - C surplus of Good X and the price will fall.
 - D shortage of Good X and the price will rise. [1½]
- 5** Given a linear downward sloping demand curve, higher prices along the demand curve are associated with a:
- A higher absolute price elasticity.
 - B lower absolute price elasticity.
 - C constant price elasticity.
 - D unitary price elasticity. [1½]



- 6** The socially efficient output for a monopoly is at the point where the:
- A marginal cost curve cuts the marginal revenue curve.
 - B marginal cost curve cuts the demand curve.
 - C average cost curve cuts the marginal revenue curve.
 - D average cost curve cuts the demand curve. [1½]
- 7** Consumer A has a higher income than Consumer B but they have identical marginal utility functions and pay the same prices for the goods which they consume. If they both maximise utility then the marginal utility from each good consumed will be:
- A higher for A than for B and A will have a higher total utility.
 - B higher for A than for B and A will have a lower total utility.
 - C lower for A than for B and A will have a higher total utility.
 - D lower for A than for B and A will have a lower total utility. [1½]
- 8** Adverse selection refers to a situation where:
- A having insurance makes an individual less careful.
 - B having insurance makes an individual more careful.
 - C the people taking out the insurance are those who have the highest risk.
 - D the people taking out the insurance are those who have the highest risk aversion. [1½]
- 9** Vertical product differentiation generally refers to differences between products which reflect:
- A different consumer's tastes but not different quality products.
 - B same quality products.
 - C different quality products reflecting different production costs.
 - D different varieties of products offered at the same price. [1½]



10 Consider the following table:

<i>Units of Labour</i>	<i>Units of Capital</i>	<i>Output</i>
1	1	100
2	2	190
3	3	270
4	4	340
5	5	400

The price of labour is £100 per unit; the price of capital is £200 per unit.

The table illustrates which one of the following?

- A Increasing returns to scale
- B Constant returns to scale
- C Decreasing returns to scale
- D The law of diminishing marginal returns

[1½]

11 Which of the following statements regarding the productivity of labour is correct?

- A Average physical product is maximised when average physical product equals marginal physical product.
- B Average physical product is maximised when marginal physical product is maximised.
- C Marginal physical product increases when average physical product is above marginal physical product.
- D Average physical product increases when marginal physical product is below average physical product.

[1½]

12 A perfectly competitive firm is producing at a level of output for which short run marginal cost exceeds marginal revenue. What should the firm do to maximise its short run profits?

- A Raise its price
- B Reduce its price
- C Raise its output
- D Reduce its output

[1½]



- 13** Which of the following is NOT a prediction of the theory of monopolistic competition?
- A When the monopolistically competitive industry achieves a long run equilibrium, price is greater than marginal cost.
 - B Monopolistically competitive firms offer differentiated products and face a downward sloping demand curve.
 - C Under monopolistic competition, the price charged to the consumer is equal to the average revenue of the firm.
 - D Monopolistically competitive firms can earn supernormal profits in the long run. [1½]
- 14** The kinked demand curve model of oligopoly is based upon the assumption that:
- A a firm's competitors match both its price increases and price reductions.
 - B one firm in the industry sets the price for all other firms.
 - C a firm's competitors match its price reductions but not its price increases.
 - D the price charged by a firm can either rise or fall depending on what happens to its competitors' prices. [1½]
- 15** The short run aggregate supply curves tell us that an increase in the average price level will encourage firms to:
- A reduce output and increase employment.
 - B reduce output and employment.
 - C increase output and reduce employment.
 - D increase output and employment. [1½]
- 16** Which one of the following is likely to be the most effective method of reducing the natural rate of unemployment?
- A Increase unemployment benefit
 - B Increase government expenditure
 - C Increase the money supply
 - D Increase information flows on job availability [1½]
- 17** Money that is held because of possible unforeseen events is held because of the:
- A speculative motive for holding money.
 - B transactions motive for holding money.
 - C precautionary motive for holding money.
 - D asset motive for holding money. [1½]



- 18** Which one of the following is NOT a cause of cost push inflation?
- A An increase in the price of raw materials
 - B An increase in wages above increases in labour productivity
 - C An increase in profit margins applied by firms
 - D An appreciation of the exchange rate
- [1½]
- 19** In the circular flow of income model of an economy with no government and no international trade, the flow of money is from:
- A firms to households in return for goods and services provided and from households to firms in return for the factor services provided.
 - B households to firms in return for the factor services provided.
 - C firms to households in return for the factor services provided and from households to firms in return for the goods and services provided.
 - D firms to households in return for goods and services provided.
- [1½]
- 20** In Country A the level of government expenditure is £275 billion, tax revenue is £310 billion, aggregate investment is £180 billion and aggregate savings is £150 billion. The level of net exports in Country A is a:
- A deficit of £5 billion.
 - B surplus of £5 billion.
 - C deficit of £35 billion.
 - D surplus of £35 billion.
- [1½]
- 21** The adoption of an expansionary fiscal policy will result in:
- A an increase in aggregate demand and a reduction in real output and unemployment.
 - B an increase in aggregate demand, real output and unemployment.
 - C an increase in aggregate demand and real output and a reduction in unemployment.
 - D a reduction in aggregate demand and real output and an increase in unemployment.
- [1½]
- 22** With a floating exchange rate system, monetary policy is:
- A very effective.
 - B not effective.
 - C equally effective as fiscal policy.
 - D less effective than fiscal policy.
- [1½]



- 23** Other things being equal, an increase in the level of real output in an economy will result in:
- A an increase in the money supply.
 - B a decrease in the demand for money.
 - C a rise in the rate of interest.
 - D an increase in the speculative demand for money. [1½]
- 24** An increase in the money supply will have a bigger impact on real output the more:
- A interest elastic is the demand for money and the more interest elastic is the level of investment.
 - B interest inelastic is the demand for money and the less interest elastic is the level of investment.
 - C interest elastic is the demand for money and the less interest elastic is the level of investment.
 - D interest inelastic is the demand for money and the more interest elastic is the level of investment. [1½]
- 25** Which one of the following would count as investment in the national income accounts for Country X?
- A The purchase of a £1,000 Country X Government bond.
 - B A museum purchases an 18th century work of art.
 - C A firm increases the quantity of cars it holds as stock.
 - D A firm places £1 million of its surplus funds with a Country X bank in a high interest account. [1½]
- 26** If the central bank has to intervene in the foreign exchange markets to prevent the home currency from appreciating, then its foreign exchange reserves will:
- A decrease and the domestic money supply will rise.
 - B decrease and the domestic money supply will fall.
 - C increase and the domestic money supply will rise.
 - D increase and the domestic money supply will fall. [1½]



