Subject Area: Economics
Level: CSEC
Curriculum Topic: **Economic Management: Policies and Goals**
Section 6 Objective 1

Key teaching points:
Discuss the role of government in stabilising the economy.

Test – Economic Stabilisation   Time 11/4 hour

Section 1 - Multiple Choice

1. There is excessive consumer spending in Trinidad and the inflation rate is increasing steadily. The Central bank has increased the rate of interest on borrowing. This action can be described as
   a) deflation policy
   b) monetary policy
   c) fiscal policy
   d) fixed policy

2. A country has experienced economic growth when there are positive changes in
   a) real national income
   b) gross domestic product
   c) net national product
   d) infrastructure

3. Citizens seem to prefer consumption of foreign products rather than local ones. There was a concerted effort by the government to ensure that people change their consumption habits by promoting local businesses with an aim for selling local products abroad. This action will MOST likely affect which of the following?
   a) Inflation
   b) Balance of Payments
   c) Full Employment
   d) Economic Development

4. The following table shows economic data for Carnival Isle.

Year	Annual Percentage Increase in GDP	Annual Decline in Inflation Rate
2016	2.2	2.0
2017	5.0	1.2
2018	2.0	1.1
2019	1.0	0.5
2020	0.5	0.4

After analysing these statistics, what conclusion can be drawn about the standard of living of the citizens of Carnival Isle?
a) It has decreased
b) It has not increased
c) It is the same
d) It has improved

5. Which of the following actions can be categorised as monetary policy aimed at increasing employment?
a) Reducing interest rates
b) Increasing interest rates
c) Reducing government expenditure
d) Increasing government expenditure

6. A record of all transactions between one country and the rest of the world is known as the
a) balance of payments
b) Chequing account
c) international trade
d) savings account

Section 2 – Structured Responses

1. a) Explain the concept of economic stabilisation.

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   b) Identify three measures that can aid economic stabilisation.

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   c) Using one of the measures identified in b) above, discuss two ways government can aim to achieve full employment.

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2. a) Compare and contrast economic growth and economic development.

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   b) Identify one measure of economic growth and one measure of economic development.

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   c) Explain the differences between GDP, GNP, Real GDP and GDP per capita.

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Answer Key
Multiple Choice

1. B
2. A
3. B
4. D
5. A
6. A

Structured Responses

1. a) Economic stabilization is the result of the governmental use of direct and indirect controls to maintain and stabilize the nation's economy during emergency conditions. The direct control measures employed by the government include setting or freezing of wages, prices, and rents or the direct rationing of goods. Indirect controls measures include monetary, credit, tax, or other policy measures.

   b) Fiscal Policy
   Monetary Policy
   Transfer Policies (Social/transfer payments)

   c) Government can use fiscal policy by
   spending money to create jobs
   lowering corporation taxes so businesses can hire more workers
   reducing income taxes so persons have more disposable income and by spending more, businesses will have income to hire more workers.

   Governments can use monetary policy by
   lowering interest rates so businesses borrow more money, invest in their business and hire more workers
   reducing the reserve requirement or liquidity ratio so banks have more money to lend

   Governments can use Transfer payments – when persons receive these they continue to spend and consume and generate income to allow for hiring of more workers by businesses.

2. a) Economic Growth
   This refers to an increase in a country's real output of goods and services over a period of time, usually a year.

   Economic Development
   A qualitative concept which includes economic growth but is more than growth as it includes the overall increase in the standard of living and reduction in poverty.

b) Economic Growth – GDP, GNP, Real GDP, GDP per capita
Economic Development – HDI

c) Gross Domestic Product (GDP) - all goods and services that businesses in a country produce for sale whether they are sold domestically or overseas.
Gross National Product (GNP) – GDP + income sent back by citizens employed abroad.
Real GDP = GDP – Inflation
Per capita income – GDP/population size