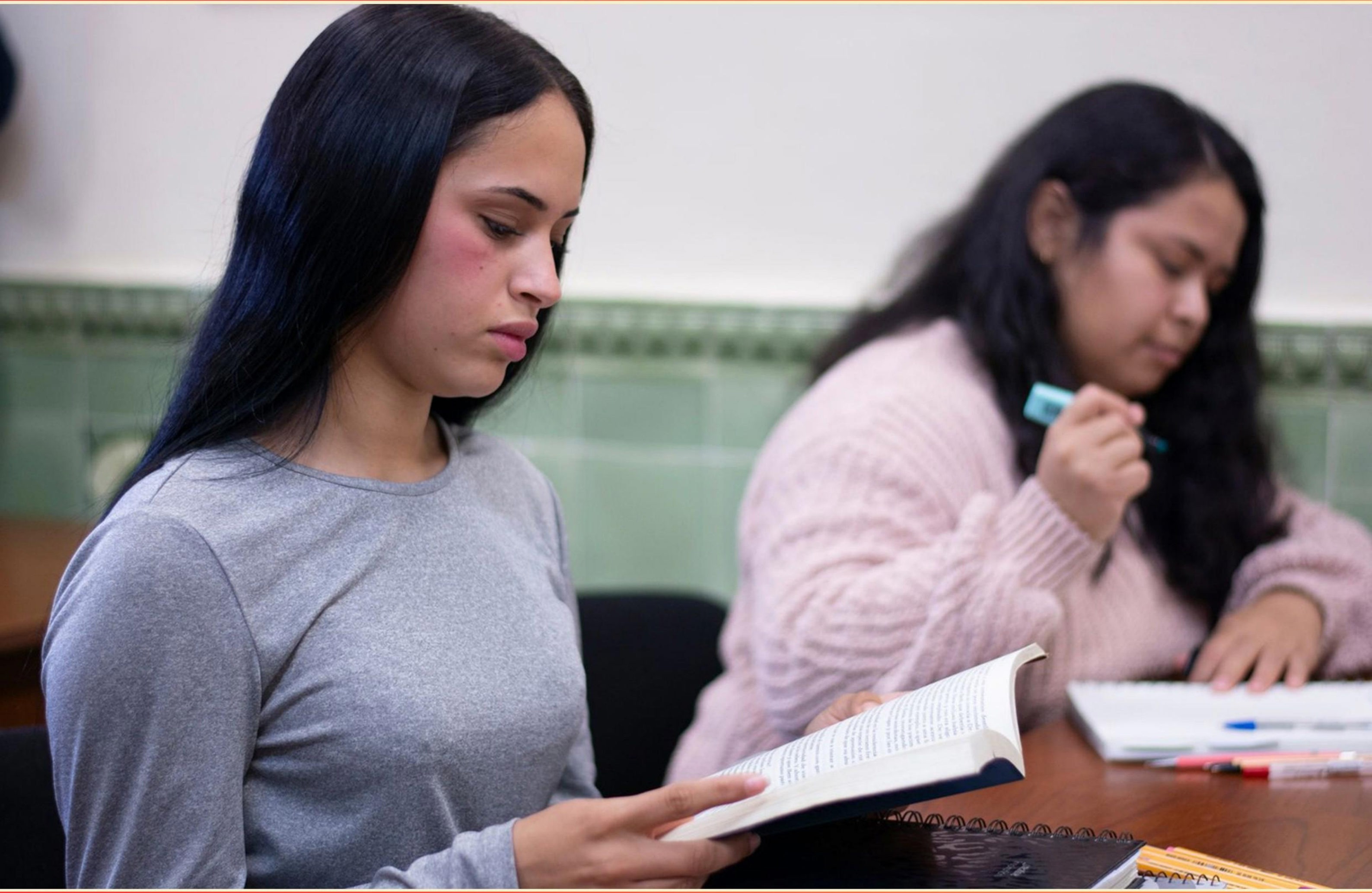
NCEA LEVEL 2 ECONOMICS PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

• Practice answering questions under realistic conditions,

• Improve accuracy and speed,

• Review explanations to strengthen weak areas, and

• Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. What is the price level?

A. The average price of all goods and services in an economy

B. The price of the most expensive good

C. The price of a basket of typical goods

D. The total money supply

2. Which of the following is an export?

A. A Korean student studies in New Zealand.

B. A New Zealand resident buys electronics from Japan.

C. A New Zealand company buys insurance from Australia.

D. A New Zealand tourist visits Australia.

3. Which set of components makes up the current account?

A. Goods balance + Services balance + Primary income balance + Secondary income balance

B. Goods balance + Services balance + Capital balance + Reserves

C. Trade balance + Financial balance + Current balance + Errors

D. Government balance + Investment balance + Current balance + Remittances

4. Demand-Pull Inflation effects on price level and output?

A. Output increases while price level remains unchanged

B. Price level increases and output increases

C. Price level decreases and output increases

D. Price level increases while output decreases

5. What are the assumptions of the basic two-country model?

A. Only two countries are trading, same currency and no costs of transportation or insurance

B. Many countries trade, different currencies, and fixed exchange rates

C. Zero transportation costs but full employment

D. Governments set exchange rates manually

6. Which measure of inflation includes all the goods that the average consumer buys?

A. Headline inflation

B. Core inflation

C. Hyperinflation

D. Deflation

7. Underlying inflation

A. Excludes one-off effects

B. Includes one-off effects

C. Is always higher than headline

D. Measures only services

8. Which equation represents aggregate demand in a simple open economy?

A. AD = C + I + G - (X - M)

B. AD = C + I + G + (X - M)

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

D. AD = C + I + G + X - M

9. What is the equation used for QTOM?

A. MV – PQ

B. MV = PQ

C. PQ = MV

D. PV = MQ

10. Which measure is adjusted to remove inflation to compare across years?

A. Real GDP

B. Nominal GDP

C. Headline inflation

D. Real Wages

Answers

1. A
2. A
3. A
4. B
5. A
6. A
7. A
8. B
9. A
10. A

Explanations

1. What is the price level?

<u>A. The average price of all goods and services in an economy</u>

B. The price of the most expensive good

C. The price of a basket of typical goods

D. The total money supply

The price level is the general level of prices for goods and services across the whole economy. It tells you how expensive things are on average at a given time and is what inflation measures over time. The idea that matches best is the average price of all goods and services in the economy. In practice we estimate this with price indices like the CPI or GDP deflator, which track how the price of a representative basket of goods and services changes to reflect overall price movements. The basket approach is a useful proxy, but the core concept is about the broad average, not the price of a single item. The price of the most expensive good is just one price, the basket price is a proxy for changes in the level, and the money supply affects the level over time but isn't the price level itself.

2. Which of the following is an export?

<u>A. A Korean student studies in New Zealand.</u>

B. A New Zealand resident buys electronics from Japan.

C. A New Zealand company buys insurance from Australia.

D. A New Zealand tourist visits Australia.

Exports are goods or services produced in a country and sold to people in other countries. A Korean student studying in New Zealand fits this because the education service is produced in New Zealand and is purchased by someone from another country, making it an export of New Zealand's services. In contrast, buying electronics from Japan is New Zealand importing a foreign-made good, getting insurance from Australia is an import of a service, and a New Zealand tourist visiting Australia means the tourism service is produced in Australia and consumed there, which is not an export for New Zealand.

3. Which set of components makes up the current account?

<u>A. Goods balance + Services balance + Primary income balance + Secondary income balance</u>

B. Goods balance + Services balance + Capital balance + Reserves

C. Trade balance + Financial balance + Current balance + Errors

D. Government balance + Investment balance + Current balance + Remittances

The current account records a country's net trade in goods and services plus the net income and transfers with the rest of the world. It includes four parts: the goods balance (exports minus imports of goods), the services balance (exports minus imports of services), the primary income balance (net earnings from factors like interest and dividends on foreign investments, plus wages), and the secondary income balance (net current transfers such as remittances and foreign aid). So the set that combines goods balance, services balance, primary income balance, and secondary income balance reflects all the flows that count in the current account. The other options mix in elements that belong to the capital or financial accounts (like capital or reserves) or include terms that aren't standard current account components, so they aren't correct.

4. Demand-Pull Inflation effects on price level and output?

A. Output increases while price level remains unchanged

B. Price level increases and output increases

C. Price level decreases and output increases

D. Price level increases while output decreases

Demand-pull inflation happens when overall demand in the economy increases. In the short run, higher aggregate demand shifts the demand curve to the right, and firms respond by producing more, so real output rises. At the same time, the stronger demand pushes up prices, so the price level also increases. That combination—higher price level and higher output—matches the described outcome. (If the economy is already at full capacity, output might not rise much and inflation appears mainly as higher prices, but the typical short-run picture shows both increasing.)

5. What are the assumptions of the basic two-country model?

A. Only two countries are trading, same currency and no costs of transportation or insurance

B. Many countries trade, different currencies, and fixed exchange rates

C. Zero transportation costs but full employment

D. Governments set exchange rates manually

The main idea being tested is the simplified setup used to study trade between just two countries. In this basic framework, only two countries trade with each other, and there are no frictions from currencies or transport. Having the same currency (or ignoring exchange-rate effects) and zero transportation or insurance costs means prices and opportunities are compared directly across borders, so trade is driven purely by relative productivity or costs (the idea behind comparative advantage). This clean setup lets us see how efficient differences determine who exports what. The other descriptions add extra complications—more countries or different currencies with exchange-rate frictions, or assumptions like zero transport costs paired with full employment or government-managed exchange rates—which go beyond the simplest two-country model used to illustrate the core idea.

6. Which measure of inflation includes all the goods that the average consumer buys?

A. Headline inflation

B. Core inflation

C. Hyperinflation

D. Deflation

Inflation is measured in different ways depending on what is included in the basket of goods. Headline inflation uses the full consumer price index, which tracks the prices of all items households actually buy, so it reflects changes across the entire range of goods and services in the average consumer's purchases. Core inflation, by contrast, excludes volatile items like food and energy to reveal the underlying price trend, so it doesn't include every item in the basket. Hyperinflation describes an extremely rapid rise in prices, not a standard measure, and deflation is when the price level falls, which is the opposite of inflation. So the measure that includes all goods the average consumer buys is headline inflation.

7. Underlying inflation

A. Excludes one-off effects

B. Includes one-off effects

C. Is always higher than headline

D. Measures only services

Underlying inflation focuses on the persistent rise in prices by removing temporary, one-off price movements. This makes it a clearer gauge of the inflation trend that policymakers care about. One-off effects are short-lived spikes or drops—things like a temporary tax change or a surge in oil prices due to a short-lived disruption—which don't indicate a lasting upward pressure on prices. By excluding these, the measure shows whether the overall price level is genuinely rising over time. The other statements don't fit: underlying inflation doesn't include one-off effects, it isn't necessarily always higher than headline (headline contains all items, including volatile ones), and it covers a broad range of goods and services, not just services.

8. Which equation represents aggregate demand in a simple open economy?

A. AD = C + I + G - (X - M)

B. AD = C + I + G + (X - M)

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

D. AD = C + I + G + X - M

Net exports matter for aggregate demand in an open economy. Aggregate demand includes consumption, investment, government spending, and the value of net exports (exports minus imports). So the correct expression is AD = C + I + G + (X - M). When exports exceed imports, net exports are positive and add to overall demand; when imports exceed exports, net exports are negative and subtract from demand. Subtracting the net export term would misstate its contribution, and the government spending term should be added, not subtracted. The form with X - M is just another way to write the same idea, but the convention is to show net exports as a single added term in parentheses.

9. What is the equation used for QTOM?

A. MV – PQ

B. MV = PQ

C. PQ = MV

D. PV = MQ

The key idea is the equation of exchange: money supply times velocity equals price level times real output. In symbols, M × V = P × Q. This says the total amount of money spent in the economy (M V) is equal to the total value of goods and services produced (P Q). Why the form with a difference fits the item? If you move all terms to one side, you get M × V – P × Q = 0. Some treatments use this zero-difference form to focus on whether the equation is in balance; it's the same idea as MV = PQ, just written as the left-hand side that would equal zero when in equilibrium. The essential point is that MV measures total spending, while PQ measures nominal GDP. When these are equal, spending matches the value of output; if not, it implies inflation or deflation depending on which side exceeds the other.

10. Which measure is adjusted to remove inflation to compare across years?

A. Real GDP

B. Nominal GDP

C. Headline inflation

D. Real Wages

When you want to compare across years, you strip out price changes to see true quantity changes. This is done by deflating a value with a price index to hold prices constant. Real GDP does exactly that for output: it's GDP measured using base-year prices, so inflation is removed and you're comparing actual growth in production. Nominal GDP uses current prices, so it mixes price changes with output changes and doesn't isolate real growth. Headline inflation is the rate of price changes, not a measure of output adjusted for inflation. Real wages adjust wages for inflation, but for comparing overall economic activity across years, real GDP is the standard measure.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://ncealvl2econ.examzify.com

We wish you the very best on your exam journey. You've got this!