SECTION 4

TEST II SAMPLE QUESTIONS

This section of the Georgia Assessments for the Certification of Educators® (GACE™) Preparation Guide provides sample selected-response questions with an annotated answer key for you to review as part of your preparation for the test. The sample selected-response questions are designed to illustrate the nature of the test questions. Work through the questions carefully before referring to the annotated answer key, which follows the sample selected-response questions. The answer key provides the correct response to each question, describes why each correct response is the best answer, and lists the objective within the test framework to which each question is linked.

QUESTIONS

1. **Use the chart below to answer the question that follows.**

• The inventories of major retail outlets decrease. • Consumer purchases of goods and services increase. • Companies report slower deliveries from vendors. • The length of the average workweek increases.

   The economic developments listed on the chart above would most likely occur during which phase of a business cycle?

   A. trough

   B. contraction

   C. peak

   D. expansion

2. In which of the following circumstances would the Federal Reserve most likely increase the purchase of government bonds in its open market operations?

   A. Inflation is high; unemployment is high; gross domestic product is increasing.

   B. Inflation is low; unemployment is high; gross domestic product is decreasing.

   C. Inflation is high; unemployment is low; gross domestic product is decreasing.

   D. Inflation is low; unemployment is low; gross domestic product is increasing.

3. A country's balance of trade can best be defined as the:

   A. total dollar value of all exports minus shipping costs and tariff duties.

   B. summary of all transactions involving the payment or receipt of foreign exchange.

   C. difference between the value of its exports and its imports.

   D. amount of interest and dividends earned by capital invested in other countries.

4. Which of the following best describes the relationship between risk and rate of return in investing?

   A. The higher the expected rate of return, the greater the risk is likely to be.

   B. The broader the range of investments, the greater the risk one incurs to achieve a given rate of return.

   C. There is rarely any strong relationship between risk and rate of return.

   D. The shorter the investment period, the stronger the relationship between risk and expected rate of return.

ANNOTATED ANSWER KEY

For question	The correct response is	Reason	Test Objective
1	D	The expansion phase of a business cycle begins when the general level of economic activity starts to rise. Indications that an economy has entered an expansion phase include a drop in business inventories and an increase in consumer purchases. As economic activity begins to pick up, vendors take longer to deliver the growing number of orders they are receiving and workers devote more hours to meet new demands for products and services.	0005
2	B	One way in which the Federal Reserve can increase the money supply and the general level of economic activity is by increasing the purchase of government bonds in its open market operations. This provides commercial banks with greater reserves, enabling them to expand the money supply through their loan operations. The Federal Reserve would most likely adopt such a policy during the contraction or trough phases of a business cycle when inflation is generally low, unemployment is high, and gross national product is decreasing.	0006
3	C	A country's balance of trade is the difference between the value of its annual exports versus the value of what it imports each year. When the value of a country's exports exceeds the value of its imports, that country is said to have a positive balance of trade. When the value of a country's imports exceeds the value of its exports, the country is said to have a negative balance of trade.	0007
4	A	Investment risk refers to how likely it is that an investor will lose some or all of the money she or he has made in a given investment. As a rule, the greater the amount of risk an investor is willing to take, the larger the return is likely to be should the investment prove successful. A good example is low-rated, high-yield bonds. The reason these bonds are low-rated is the questionable financial condition of the firm issuing them. As long as the issuer does not default, however, bond-holders will realize better than average returns on their investment.	0008