

CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/01

Paper 1 Multiple Choice

May/June 2003

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has been done for you.

There are **forty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C, and D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate answer sheet.

Read the instructions on the answer sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This document consists of **12** printed pages.



- 1 An unemployed worker accepts a job.

Which of the following is the opportunity cost of this decision?

- A the cost of travel to work
- B the income from the new job
- C the leisure time lost
- D the training in the new job

- 2 A hospital cannot treat all the people that need treatment. This is an example of

- A excess supply.
- B limited wants.
- C scarcity.
- D unlimited resources.

- 3 Economic growth in Russia and China used to be led by the public sector. Now it results more from activities in the private sector. However, both sectors are important.

Which term describes the current system in Russia and China?

- A market
- B mixed
- C planned
- D subsistence

- 4 The table shows how employment in five industries changed in a country between 1985 and 2000.

	1985 (thousand)	2000 (thousand)
banking and finance	2336	2881
distribution and catering	4678	5323
extraction of minerals	2278	1794
manufacturing	4102	3128
transport	2550	2304

According to the table, which type of employment has increased?

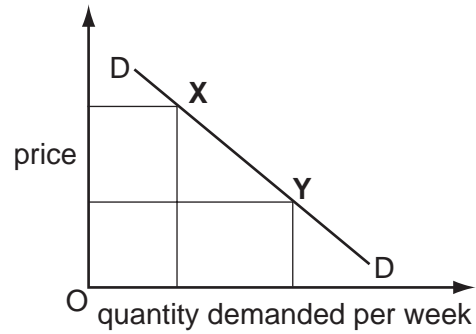
- A primary
- B secondary
- C tertiary
- D total

- 5 What is necessary for a company to be classified as a multi-national?
- A It diversifies its range of products.
 - B It exports most of its output.
 - C It increases its scale of production.
 - D It produces some of its output in different countries.
- 6 Which advantage is most likely to enable a small retailer to compete with larger stores?
- A a convenient location
 - B a wide range of products
 - C internal economies of scale
 - D national advertising
- 7 In 2001 some countries, including India and Pakistan, criticised the European Union for continuing to protect European farmers with a subsidy while expecting poorer African countries not to restrict trade.

Identify the concepts that are **not** involved in this situation.

- A developing and developed economies
 - B free trade and protection
 - C market prices and official intervention
 - D multi-nationals and public corporations
- 8 A commercial bank is appointed to act as a country's central bank.
- What new function would it now have?
- A controlling monetary policy
 - B dealing in foreign exchange
 - C ensuring security for loans
 - D holding liquid assets
- 9 Which trade union action is most likely to have harmful effects on the productivity of a firm?
- A acceptance of new technology
 - B agreement to a bonus system
 - C opposition to planned redundancies
 - D participation in a profit-sharing scheme

10 The diagram shows the demand for chocolate.



What could cause the movement from point X to point Y?

- A a change in tastes
- B a fall in the price of chocolate
- C an increase in income
- D a successful advertising campaign for chocolate

11 The table shows the price of, demand for and supply of X per week.

price (\$)	demand (tonnes)	supply (tonnes)
20	16	10
30	12	12
40	10	14

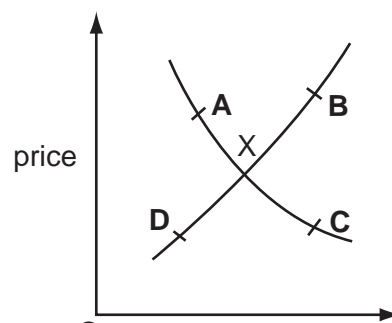
What will be the effect if the government imposes a minimum price of \$40 per tonne?

- A a fall in the price of X
- B a shortage of X
- C a surplus of X
- D a waiting-list for X

12 The diagram shows the market for white sugar which is in equilibrium at X.

A report is published stating that brown sugar is healthier to eat than white sugar.

What will be the new equilibrium position for white sugar?

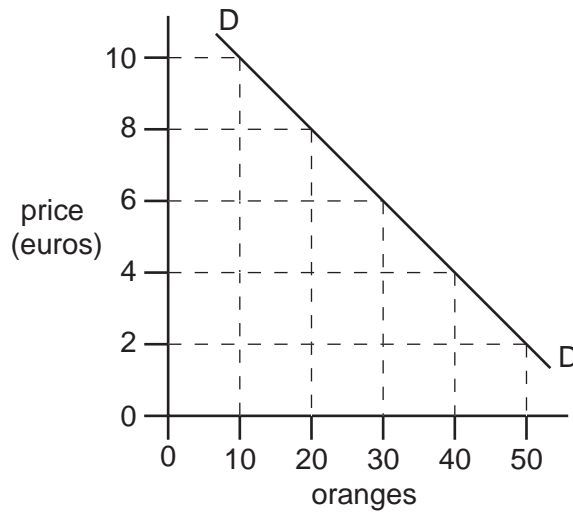


- 13 In many countries, extra staff are employed by the postal service and additional post are made to clear the large amount of mail before holiday periods.

What happens to the demand and supply curves for postal services during these periods?

	demand curve	supply curve
A	moves to left	moves to left
B	moves to left	stays the same
C	moves to right	moves to right
D	stays the same	moves to right

- 14 In the south of Spain, a man sells oranges from his garden to passers-by. The demand curve (DD) for oranges is shown in the diagram.

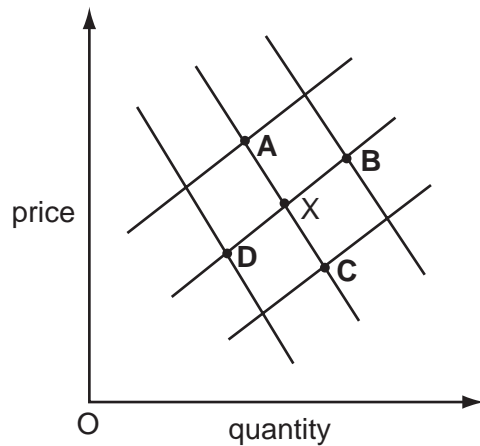


What price per orange should he charge to maximise his revenue?

- A** 2 euros **B** 4 euros **C** 6 euros **D** 8 euros

- 15 The graph shows the market for rice. It was in equilibrium at X. Later, there is a very large increase in the supply of rice.

What is the new equilibrium point?



- 16 Nazmin Uddin works in a local office as a secretary three days a week. She lives with her parents in a small apartment.

Meer Ali owns a successful fitness centre that employs about twenty people and lives in a large house.

Which is likely to be true?

- A Nazmin spends a smaller proportion of her income than Meer.
 - B Nazmin saves most of her income.
 - C Nazmin would find it easier than Meer to borrow money.
 - D Nazmin has a lower disposable income than Meer.
- 17 In a country, male workers on average earn more than female workers, although male and female workers receive equal pay for equal work.

What could explain this?

- A Female workers are more experienced.
- B Female workers are more likely to achieve promotion.
- C Male workers are more likely to be in trade unions.
- D Male workers have fewer qualifications.

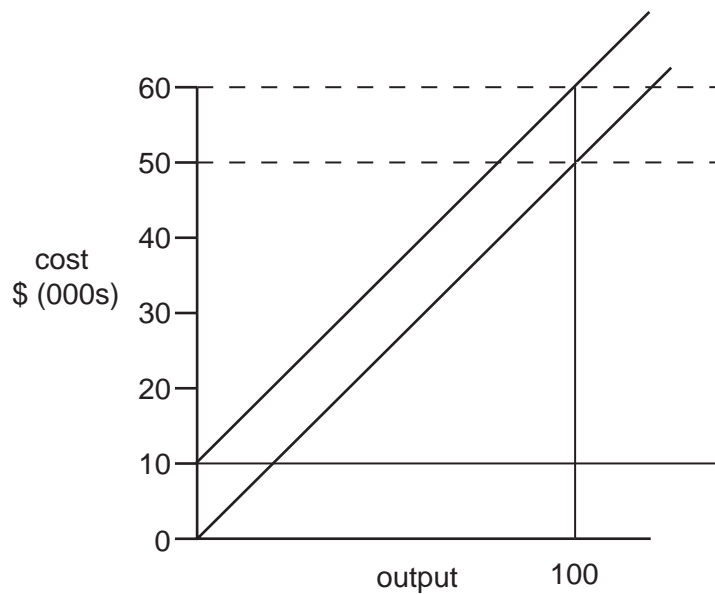
- 18 Which of the following groups of workers is most likely to be successful in obtaining a wage increase?
- A building workers during a period of bad weather
 - B computer operators when firms are installing new computers
 - C doctors when entrance qualifications to the profession are reduced
 - D farm workers as farming becomes more mechanised

- 19 There is an increase in interest rates.

What is the likely effect on saving and borrowing?

	saving	borrowing
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

- 20 The diagram shows the costs of a firm.



What is the firm's total variable cost at an output of 100 units?

- A \$100
- B \$500
- C \$10 000
- D \$50 000

21 A firm is producing an output which enables it to make more than normal profit.

What must be true at that output?

- A Average revenue must equal average cost.
- B Average revenue must be greater than total revenue.
- C Total revenue must be greater than total cost.
- D Variable cost must equal price.

22 The table shows how a firm's total cost rises with output.

output	total cost (\$)
0	40 000
2000	48 000
4000	56 000
6000	64 000
8000	72 000

What is the average fixed cost of producing 8000 units?

- A \$4
- B \$5
- C \$32 000
- D \$40 000

23 The price of a firm's product is \$10. It sells 2000 units.

What is the firm's total revenue (TR) and average revenue (AR)?

	TR (\$)	AR (\$)
A	10	10
B	2 000	200
C	20 000	10
D	20 000	200

24 What would improve a firm's profits in the short run?

- A government controls on its prices
- B grants for the purchase of new machines
- C an increase in the wages paid to its workers
- D rising costs of raw materials

- 25** What is likely to result in the creation of a large business rather than a small business?
- A** expensive technology that reduces the average cost of producing standardised products
 - B** higher incomes that allow consumers to be more selective in purchases
 - C** unemployment that causes people to set up their own companies
 - D** widely scattered markets that cause high transport costs
- 26** Which of the following is likely to be a disadvantage of economic growth?
- A** Government tax revenue falls.
 - B** Resources are depleted.
 - C** The level of unemployment rises.
 - D** The standard of living of the population falls.
- 27** The government of a country used fiscal policy to achieve price stability.
- What is another way of saying this?
- A** The government increased taxes to achieve low inflation.
 - B** The government reduced the money supply to achieve low inflation.
 - C** The government used interest rates to achieve economic growth.
 - D** The government used restrictions on banks to achieve stable exchange rates.
- 28** Which is a description of indirect taxes?
- A** They are easy to avoid and deter effort.
 - B** They are levied on income and cause inflation.
 - C** They are levied on spending and are regressive.
 - D** They are progressive and discourage consumption.
- 29** In a country, income tax is charged at \$50 on an income of \$500.
- Compared with this, which of the following would indicate that the income tax scale was progressive?
- A** \$150 tax on \$2000 income
 - B** \$300 tax on \$3000 income
 - C** \$450 tax on \$4000 income
 - D** \$480 tax on \$5000 income

- 30 Which of the following is an example of cyclical unemployment?
- A An airline cuts jobs in a world recession.
 - B Cleaners lose their jobs as more machines are used.
 - C Fishermen sell their boats owing to a reduction in fish stocks.
 - D Hotels employ fewer people in the rainy period.

- 31 In constructing a retail price index, what is **not** used?

- A a base year
- B the prices of a basket of goods
- C the wage rate
- D a weight given to each good

- 32 The table shows some changes in the output of Namibia between 1998 and 1999.

agriculture	+11.7 %
fishing	+1.3 %
diamond mining	+9.4 %
manufacturing	-0.8 %
construction	-18.3 %
fish processing	-9.6 %

What can be concluded from this information about the Namibian economy between 1998 and 1999?

- A Exports of fish increased.
 - B Namibia's primary sector production became more important.
 - C Stocks of fish increased.
 - D Unemployment rose by 0.8 % in manufacturing.
- 33 Two industries in Namibia are fishing and tourism. The value of the currency of Namibia fell in 2001.

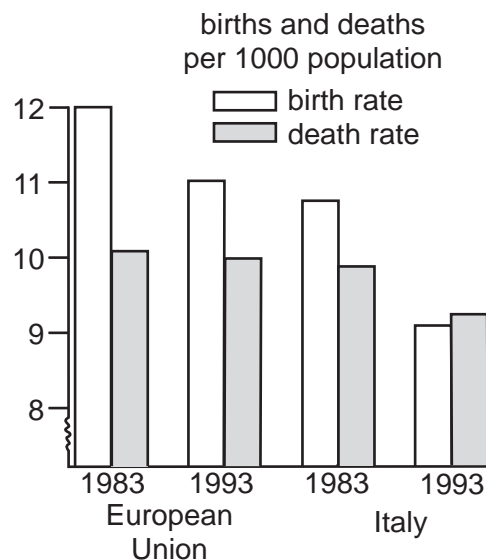
If there were no other changes what resulted from the fall?

- A Imported goods in Namibian shops became cheaper.
- B The price of Namibia's fish sold in foreign markets became cheaper.
- C The volume of Namibia's exports decreased.
- D Tourists were discouraged by higher prices in Namibia.

- 34 As a result of two months of bad weather, the demand for hotel rooms decreases. Some hotel rooms are not required.

What type of unemployment is this?

- A cyclical
B frictional
C seasonal
D structural
- 35 The most common way of comparing the living standards of two countries is to study each country's
- A average weekly working hours.
B consumer expenditure.
C GNP per head.
D national income.
- 36 The chart shows the birth rate and death rate in 1983 and 1993 in the European Union (EU) as a whole and in Italy.



What does this chart show?

- A The average age of the population rose in Italy but not in the EU as a whole.
B The birth rate remained above the death rate in the EU as a whole.
C The size of the population increased in the EU as a whole but not in Italy.
D People tended to live longer in Italy but not in the EU as a whole.

37 Many developed countries are faced with an ageing population.

What is the likely result of this?

- A** a reduced dependency ratio
- B** increased mobility of labour
- C** increased spending on medical care
- D** reduced tax levels

38 A country which itself produces copper puts a 10% tariff on imports of copper.

What is likely to decrease in that country's copper industry?

- A** the amount of investment
- B** the level of employment
- C** the price of copper
- D** the stock of copper reserves

39 What is most likely to be a reason for taxing oil?

- A** to conserve oil resources
- B** to encourage economic growth
- C** to create employment
- D** to reduce oil prices

40 What directly sets a fixed limit on the quantity of goods which can be imported?

- A** administrative regulations
- B** foreign exchange control
- C** a quota
- D** a tariff