

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/01

Paper 1 Multiple Choice

October/November 2004

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 **13** printed pages and **3** blank pages.



- 1 What is always a feature of a mixed economy?
- A All capital goods are produced in the public sector.
 - B Resources are used in the public and the private sector.
 - C The allocation of all resources is determined by the price mechanism.
 - D The public sector is larger than the private sector.
- 2 A woman playing a quiz game starts with no money, but correctly answers the question that is worth \$4000. The next question is worth \$10 000 but if she answers incorrectly she will leave the game with no money.
- What is her opportunity cost of choosing to answer the \$10 000 question if her answer is incorrect?
- A nothing
 - B \$4000
 - C \$6000
 - D \$10 000
- 3 Which of the following is an example of the factor of production 'capital'?
- A a truck
 - B a truck driver
 - C a truck driver's savings
 - D a truck driver's wage
- 4 Why do bank notes function as money?
- A They are durable.
 - B They are generally acceptable.
 - C They count as legal tender.
 - D They have intrinsic value.
- 5 What is usually a function of a trade union?
- A It advertises the products that the members make.
 - B It appoints company employees.
 - C It negotiates with employers for increased wages.
 - D It negotiates with suppliers for reduced costs of materials.

- 6 Shares in the Japanese part of the American fast-food giant McDonald's hit an all-time low in August 2002. Sales at McDonald's 3800 restaurants in Japan fell dramatically despite the assurance that the company used only imported beef, which was free from a disease affecting Japanese cows.

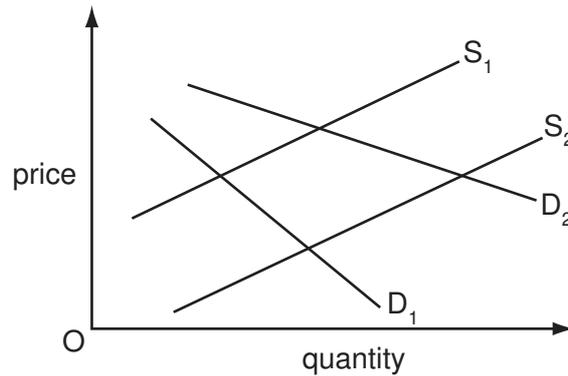
From the above statement what is true about McDonald's?

- A It is a multi-national because it has 3800 restaurants.
 - B It is a multi-national because it imports raw materials.
 - C It is a public company because it issues shares on the stock exchange.
 - D It is a public company because it operates in America and Japan.
- 7 'International companies have made substantial investments in computer production in India. India is now a major centre of the world computer industry. Profit margins are high since labour costs are a tenth of those in the USA.'

What does this suggest is the reason for companies locating in India rather than in the USA?

- A access to cheap land
 - B availability of capital investment
 - C availability of investment funds
 - D competitive wage rates
- 8 To whom does the central bank usually make loans?
- A individuals
 - B limited companies
 - C the government
 - D trade unions
- 9 When will a trade union be most effective in pursuing its members' interests?
- A The economy is in recession with rising unemployment.
 - B The employers have few orders for the product.
 - C The government passes a law to increase competition in the labour market.
 - D The members' wages make up a small part of total costs.

- 10 The diagram shows the market for bicycles. The demand for bicycles increases and at the same time manufacturers are able to cut costs through new production methods.



According to the diagram, what would be the result of these changes?

	price	quantity
A	increase	increase
B	increase	unchanged
C	unchanged	increase
D	unchanged	decrease

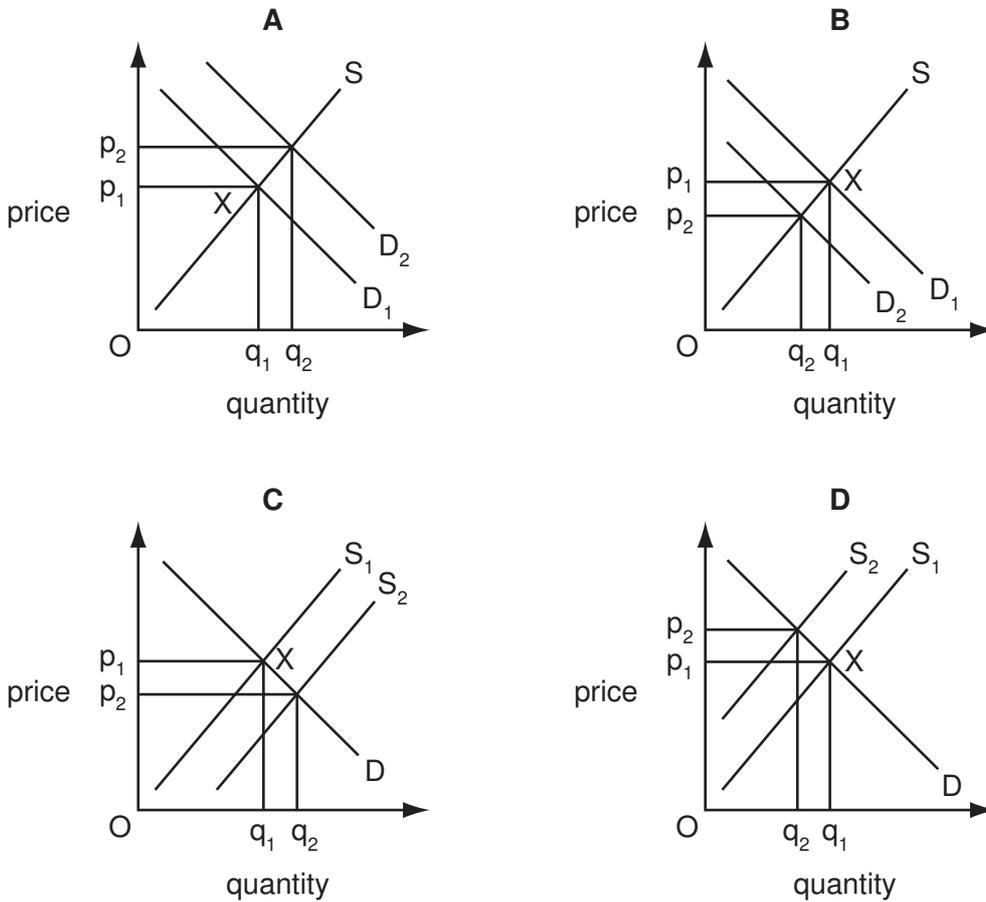
- 11 The major oil producers sometimes try to raise the price of oil.

How would this be shown on a demand and supply diagram?

- A** a movement along the demand curve to the right
- B** a shift in the supply curve to the right
- C** a shift in the demand curve to the left
- D** a shift in the supply curve to the left

12 The graphs show four changes in the market for tobacco. The original equilibrium is X.

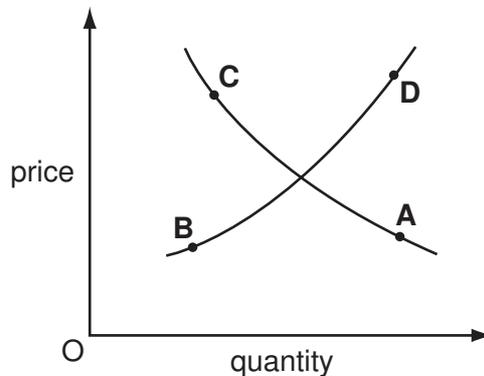
Which graph shows the effect of a successful government advertising campaign against smoking?



13 The supply and demand schedules for bananas are shown on the graph.

In an attempt to aid agriculture the government decides to pay a subsidy to farmers for each tonne of bananas grown.

What is the most probable equilibrium point?

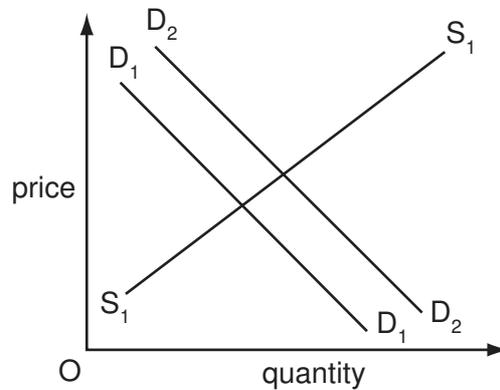


- 14 The world price of cocoa has been falling while the prices of products made from cocoa have been rising.

Which combination might explain this?

	market for cocoa	advertising expenditure on products made from cocoa
A	excess demand	decrease
B	excess supply	decrease
C	excess demand	increase
D	excess supply	increase

- 15 On the diagram D_1D_1 and S_1S_1 are the original demand and supply curves for tea in a country.



What would cause the demand curve to shift from D_1D_1 to D_2D_2 ?

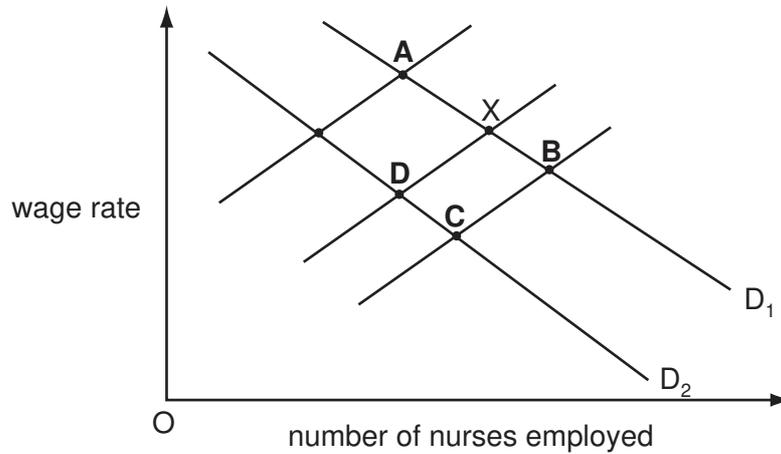
- A** a decrease in the population
 - B** a decrease in wage levels
 - C** an increase in the price of coffee
 - D** an increase in the price of sugar
- 16 Which combination is most likely to result in lower rates of pay?

	supply of workers	productivity of workers
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

17 Point X shows the original equilibrium in the market for nurses in a country.

There is a fall in the number of people who wish to be trained as nurses.

What is the new equilibrium point?



18 What is likely to be the effect of a fall in interest rates on a consumer's borrowing and saving?

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

19 What is most likely to cause the percentage of income saved in an economy to rise?

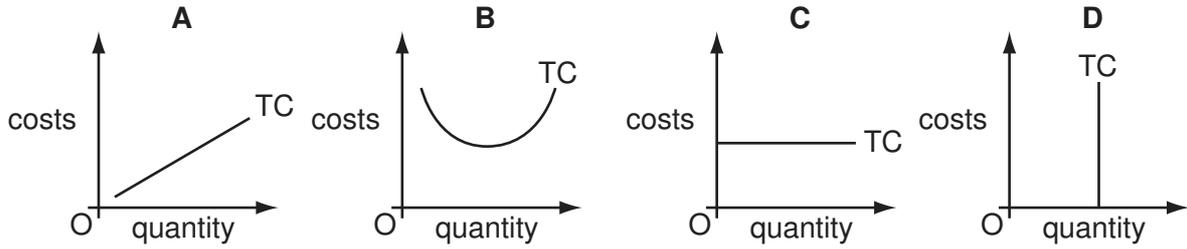
- A** a rise in consumer confidence
- B** a rise in direct taxation
- C** a rise in unemployment
- D** a rise in wage rates

20 What is **not** a factor of production?

- A** a \$10 note
- B** a farm
- C** a printing machine
- D** a teacher

21 The diagrams represent total cost curves (TC) of four firms in the short run.

Which firm has only fixed costs?



22 Which cost incurred by a firm manufacturing shirts is a variable cost?

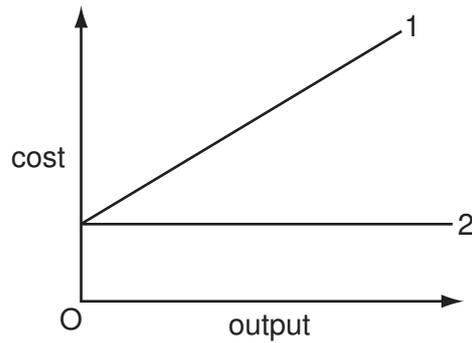
- A buildings insurance
- B interest on bank loans
- C raw materials
- D rent on property

23 The table shows a firm's total revenue and total cost.

What level of output, **A**, **B**, **C** or **D**, gives maximum profit?

	output (units)	total revenue (\$)	total cost (\$)
A	10	15	15
B	20	20	18
C	30	25	20
D	40	30	21

24 The diagram shows two cost curves of a firm in producing different outputs in the short run.



How should the curves be labelled?

	curve 1	curve 2
A	total cost	total variable cost
B	total cost	total fixed cost
C	total fixed cost	total cost
D	total variable cost	total fixed cost

25 What is most likely to happen as unemployment falls?

- A** Economic growth falls.
- B** Inflation falls.
- C** Spending on welfare benefits rises.
- D** Tax revenue rises.

26 The US trades with Uruguay. In 2002 the US approved a loan of US\$ 1.5 billion to Uruguay to help boost Uruguay's economy.

What would be the most likely effect of this loan?

- A** It would encourage Uruguay to import from the US.
- B** It would make Uruguay less competitive.
- C** It would result in imported inflation.
- D** It would stop US citizens investing in Uruguay.

- 27 In September 2002 a government minister warned that tax changes were necessary to redistribute wealth from rich to poor.

Which policy would be likely to achieve that aim?

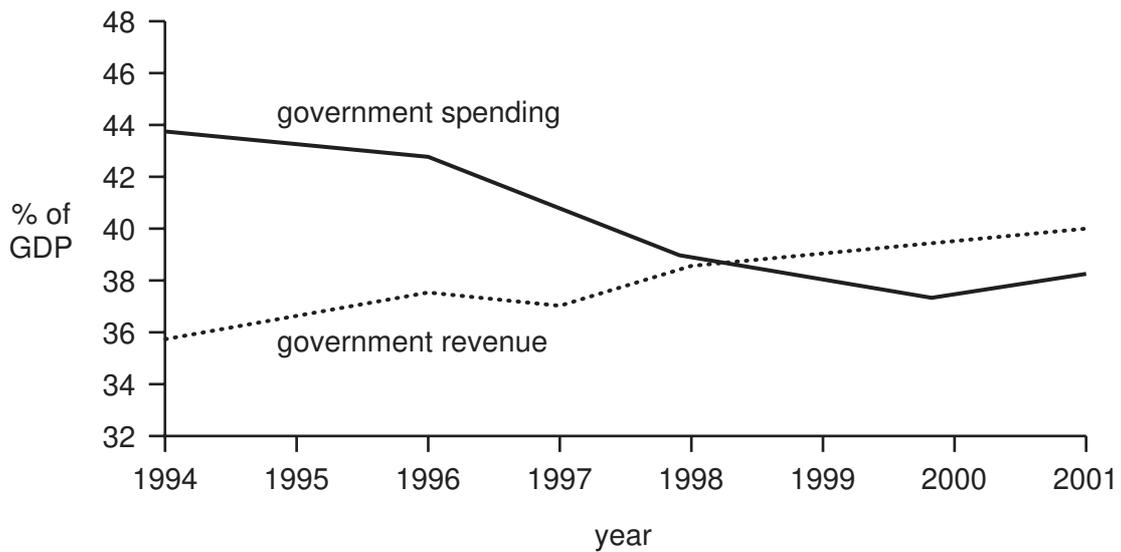
	regressive taxes	progressive taxes
A	decrease	increase
B	increase	decrease
C	increase	unchanged
D	unchanged	decrease

- 28 'The pound sterling made a dramatic recovery in the world's currency markets yesterday.'

To what does this statement refer?

- A** exchange rate
 - B** growth rate
 - C** interest rate
 - D** tax rate
- 29 Which aim of government policy is most likely to be achieved by a decrease in government spending?
- A** economic growth
 - B** equality of income
 - C** full employment
 - D** price stability

30 The graph shows government revenue and spending in a country between 1994 and 2001.



What can be concluded from the graph?

- A The balance of payments position improved.
 - B The borrowing of the government increased.
 - C The economy went into recession.
 - D The government budget moved from deficit to surplus.
- 31 A survey of employment in a particular economy shows that the primary sector was diminishing in importance and more people were being employed in the tertiary sector.

What does this mean?

- A Fewer people were employed by central government.
 - B Fewer people were employed in manufacturing industries.
 - C More people were employed in the service industries.
 - D More people were employed in agriculture.
- 32 A newspaper reports that there has been economic growth in an economy.

What does this mean to an economist?

- A Population has increased.
- B Production has increased.
- C Saving has increased.
- D Taxation has increased.

33 Which of the following is the most obvious sign of inflation?

- A an increase in imports
- B a rise in the national debt
- C a rise in the rate of interest
- D a rise in retail prices

34 The following extract appeared in an international newspaper.

China's unemployed peasants flock to cities

Hundreds of thousands of peasants, fleeing rural poverty and drudgery, have flocked into China's cities seeking work.

What would be the most likely result for the Chinese economy?

- A a reduction in productivity
- B a rise in unemployment in the city areas
- C a rise in the amount of unemployment in rural areas
- D a rise in the proportion of skilled labour in cities

35 The population of some developed countries is expected to fall in the next 25 years and the average age of the population is expected to rise.

Which of the following is likely to cause this?

	birth rate	death rate
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

36 What is usually found in a developed country?

- A a high GDP per head with a low level of employment
- B a high level of labour skills with a low level of car ownership
- C a high rate of adult literacy with a low level of poverty
- D a high rate of population growth with a low level of labour productivity

37 The table gives certain information about the population of three countries in 1995.

	birth rate per 1000	death rate per 1000	infant mortality rate per 1000	% of population under 16
Singapore	12	4	5	18
Hong Kong	15	6	8	20
China	20	9	28	38

Which conclusion can be drawn about the countries in the table in 1995?

- A China had the highest percentage of children who died in infancy.
- B People in Hong Kong lived the longest.
- C Singapore had the largest number of people aged over 16.
- D The population of Singapore was expected to fall in the next five years.

38 Chile specialises in the production of copper for export.

How would the Chilean economy be affected by a large rise in the supply of copper from other countries?

	employment	economic growth
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

39 The Egyptian government reduced tariffs on imported Japanese trucks.

What is **most** likely to benefit in Egypt from this reduction?

- A government revenue
- B the balance of payments
- C truck operators
- D truck producers

40 A tax on which of the following would most reduce external costs?

- A bicycles
- B bus fares
- C cars
- D ferry services

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