

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/03**

Paper 3 Multiple Choice (Extended)

October/November 2005

**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 What is the basic economic problem facing all economies?
- A inequality of income
  - B insufficient resources
  - C low economic growth
  - D shortages of skilled labour
- 2 What occurs in a planned economy but **not** a market economy?
- A allocation by the government
  - B allocation by the price system
  - C economies of scale
  - D specialisation
- 3 A government spends \$100 m on employing extra teachers instead of extra nurses.
- What will be the opportunity cost of this?
- A \$100 m
  - B the cost of training extra teachers
  - C the extra nurses
  - D the reduction in unemployment among teachers
- 4 It was reported in 2002 that South Africa, a mixed economy, would face sharp increases in air and water pollution unless action was taken to develop environmentally friendly policies for its citizens.
- Why is a mixed economic system thought to be a satisfactory means of achieving environmentally friendly development?
- A because all development is paid for by the government
  - B because it allows external costs to be considered
  - C because it ensures development at lowest cost
  - D because it is the most productive system
- 5 What is **least** likely to be a function of a trade union?
- A improving working conditions
  - B reducing the cost of labour
  - C representing members' interests
  - D securing adequate pay for members

- 6 A shopkeeper runs a business as a sole proprietor.

What does this mean?

- A The business has limited liability.
- B The business is owned by shareholders.
- C The business is quoted on a stock exchange.
- D The profits of the business go to the shopkeeper.

- 7 The table shows changes in the Retail Price Index (Index of Consumer Prices) and percentage changes in money wages, after trade union bargaining, between 2001 and 2004.

|      | Retail Price Index | annual % change in money wages |
|------|--------------------|--------------------------------|
| 2001 | 100                | 10                             |
| 2002 | 110                | 10                             |
| 2003 | 120                | 10                             |
| 2004 | 130                | 10                             |

From this we can conclude that between 2001 and 2004 trade union members experienced

- A a fall in average earnings.
  - B a fall in real wages.
  - C a rise in disposable income.
  - D a rise in purchasing power.
- 8 What is **most** likely to cause a shift in the supply curve for oil?
- A an increase in purchases of cars
  - B an increase in the price of oil
  - C a rise in consumer incomes
  - D the discovery of new oilfields
- 9 Which method of advertising is likely to be the **most** effective for promoting the sales of textbooks?
- A direct mail
  - B local radio
  - C national television
  - D posters on buses and taxis

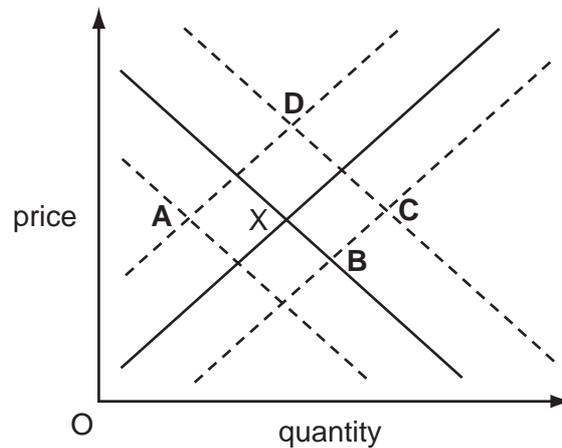
- 10 In 2003 the US government was asked to stop subsidising tobacco growers.

What would happen if the government agreed?

|          | output of tobacco | price of tobacco |
|----------|-------------------|------------------|
| <b>A</b> | fall              | fall             |
| <b>B</b> | fall              | rise             |
| <b>C</b> | rise              | fall             |
| <b>D</b> | rise              | rise             |

- 11 The diagram shows demand and supply curves for a good. The market is in equilibrium at point X.

What would be the new equilibrium position if there were a successful advertising campaign for the good and an increase in the cost of raw materials?



- 12 In 2002 the world price of cocoa was higher than in 2001.

Which combination of changes in the demand for and the supply of cocoa would always lead to a rise in price?

|          | demand for cocoa | supply of cocoa |
|----------|------------------|-----------------|
| <b>A</b> | higher           | higher          |
| <b>B</b> | higher           | lower           |
| <b>C</b> | lower            | higher          |
| <b>D</b> | lower            | lower           |

13 A product has a price elasticity of demand that is greater than one.

What will happen to total revenue if the price of the product is reduced by 3%?

- A It will fall by more than 3%.
- B It will fall to zero.
- C It will be unchanged.
- D It will rise.

14 What is likely to cause a person's wages to rise?

- A additional responsibility
- B falling demand for his output
- C falling production
- D rising unemployment

15 Which method of payment is a government official most likely to receive?

- A commission
- B hourly rates
- C piece rates
- D salary

16 What might cause a fall in the proportion of income that a person saves?

- A a rise in income tax
- B a rise in interest rates
- C a rise in real incomes
- D a rise in the population

17 The table shows the percentages of consumer spending on different items in four countries, which have similar geographical conditions and climate.

Which country is likely to have the highest standard of living?

| country  | percentage of consumer spending on each item |         |               |
|----------|--|---------|---------------|
|          | food   | housing | entertainment |
| <b>A</b> | 20   | 30      | 25            |
| <b>B</b> | 30   | 25      | 15            |
| <b>C</b> | 40   | 25      | 10            |
| <b>D</b> | 40   | 20      | 10            |

- 18** Which activity can a small firm carry out more easily than a large firm?
- A** adapting to changing fashions
  - B** having specialised managers
  - C** raising finance
  - D** undertaking research and development
- 19** A firm finds that it can increase its production by replacing some of its workers by a machine. If this happens, what changes occur?
- A** Fixed costs increase and variable costs increase.
  - B** Fixed costs increase and it becomes more capital-intensive.
  - C** Variable costs decrease and it becomes more labour-intensive.
  - D** Variable costs increase and fixed costs decrease.
- 20** Which group has profit maximisation as a goal?
- A** entrepreneurs
  - B** governments
  - C** savers
  - D** workers
- 21** In 2004 Banco Santander, a Spanish bank, bought Abbey National, a British bank. What was achieved by this?
- A** diversification
  - B** horizontal integration
  - C** vertical integration backwards
  - D** vertical integration forwards
- 22** IKEA, the world's largest retailer in home furnishings, opened a new store in Malaysia in 2003. What was likely to happen to fixed costs, variable costs and profits for IKEA?

|          | fixed costs | variable costs | profits   |
|----------|-------------|----------------|-----------|
| <b>A</b> | decrease    | decrease       | uncertain |
| <b>B</b> | decrease    | increase       | increase  |
| <b>C</b> | increase    | increase       | uncertain |
| <b>D</b> | increase    | increase       | increase  |

23 The following information relates to a company producing shoes.

| total output of pairs of shoes | total costs (\$) | total revenue (\$) |
|--------------------------------|------------------|--------------------|
| 100                            | 1000             | 1300               |
| 200                            | 1800             | 2200               |
| 300                            | 2700             | 3000               |
| 400                            | 3200             | 3400               |

What is the profit per pair of shoes when the firm is maximising its profits?

- A** \$0.50      **B** \$1.00      **C** \$2.00      **D** \$3.00

24 Which policy would be most likely to increase the number of people in employment?

- A** introducing a minimum wage  
**B** introducing a sales tax  
**C** reducing income tax  
**D** reducing tariffs on imports

25 What is likely to be the main aim of a government policy that increases both progressive taxes and welfare payments?

- A** economic growth  
**B** full employment  
**C** price stability  
**D** redistribution of income

26 During 2004 the price of crude oil rose to record levels.

How would this be likely to affect the balance of payments and the rate of inflation of an oil-importing country in the short run?

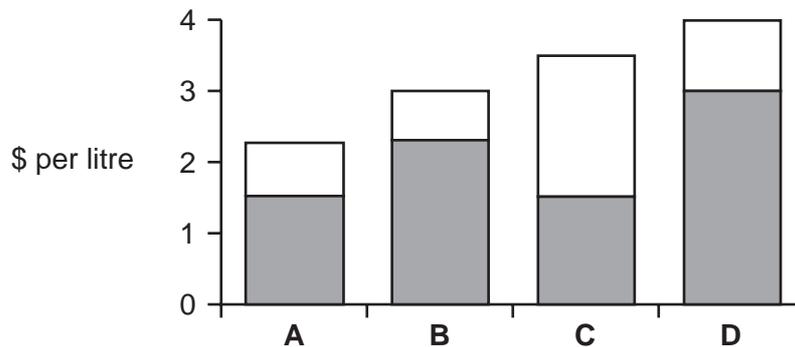
|          | balance of payments | rate of inflation |
|----------|---------------------|-------------------|
| <b>A</b> | improve             | fall              |
| <b>B</b> | improve             | rise              |
| <b>C</b> | worsen              | fall              |
| <b>D</b> | worsen              | rise              |

27 What is likely to be a disadvantage of economic growth?

- A Government tax revenue falls.
- B Resources are used up.
- C The level of unemployment rises.
- D The standard of living of the population falls.

28 The diagram shows the price per litre paid for petrol in four countries in a year, and (shaded) the amount of tax included in that price.

If there were **no** tax on petrol, which country would have the highest petrol price?



29 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  |

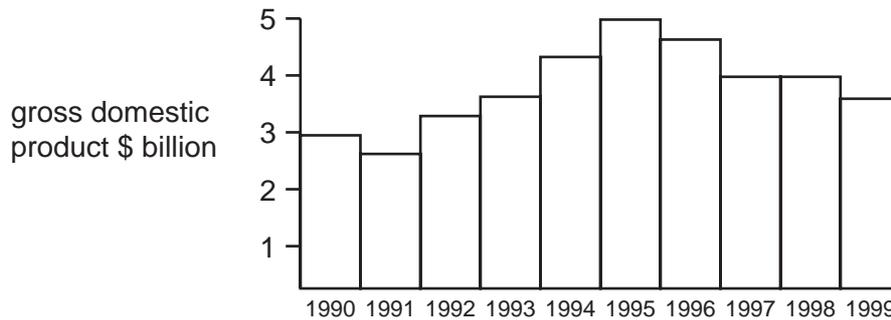
What can be concluded from this information about the Namibian economy between 1998 and 1999?

- 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.

- 30 90 % of Zambia's foreign exchange used to come from copper exports. In the late copper prices collapsed, putting a severe strain on the economy.

What does this information suggest?

- A The national income of Zambia increased.
  - B The Zambian balance of payments worsened.
  - C Zambia could become dependent on service industries.
  - D Zambia could afford more imports.
- 31 The diagram gives data for an economy from 1990 to 1999.



What can be deduced about the state of the economy in 1991 and 1995?

|   | 1991           | 1995           |
|---|----------------|----------------|
| A | budget surplus | budget deficit |
| B | inflation      | deflation      |
| C | recession      | boom           |
| D | trade deficit  | trade surplus  |

- 32 Which group is **most** likely to benefit from inflation?

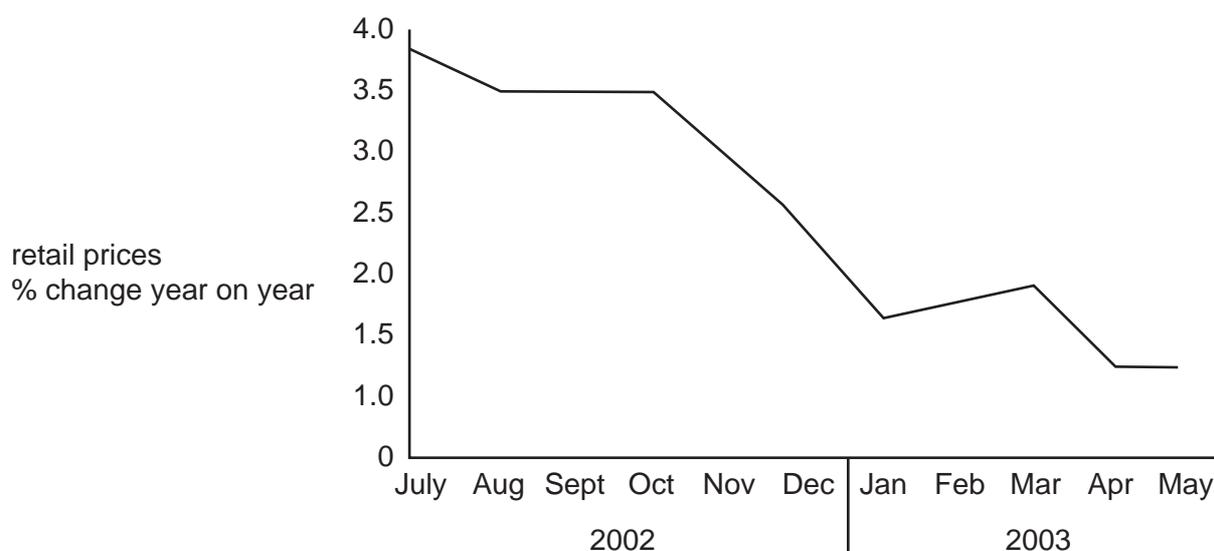
- A debtors
- B retirement pensioners
- C salaried officials
- D unemployed persons

33 A UK government minister stated that increased immigration would benefit the UK.

What might be the immediate advantage of increased immigration to the UK?

- A greater availability of skilled people
- B greater demand on the UK's resources
- C greater dependent population
- D greater pressure for wage increases

34 The graph shows the changes in retail prices for a country from July 2002 to May 2003.



According to the graph,

- A retail prices fell from October 2002 to January 2003.
- B retail prices remained constant between September and October 2002.
- C the rate of inflation fell each month throughout the period.
- D the rate of inflation fell over the period.

35 The table shows information about four countries.

Which country is likely to be the **least** developed?

| country  | % population in urban areas | birth rate | death rate | % population under 15 | % population over 60 |
|----------|-----------------------------|------------|------------|-----------------------|----------------------|
| <b>A</b> | 86                          | 16         | 8          | 25                    | 10                   |
| <b>B</b> | 76                          | 13         | 6          | 23                    | 9                    |
| <b>C</b> | 69                          | 30         | 8          | 37                    | 5                    |
| <b>D</b> | 75                          | 13         | 10         | 21                    | 14                   |

36 The charts show the distribution of employment between the three sectors in Country X and Country Y.



Which statement is true about Country X compared with Country Y?

- A Country X employs more people in the service industries.
- B Country X enjoys lower living standards.
- C Country X has a higher proportion of workers in manufacturing.
- D Country X produces more agricultural products.

37 The table shows birth and death rates per thousand people.

|           | birth rate<br>1980 | death rate<br>1980 | birth rate<br>1997 | death rate<br>1997 |
|-----------|--------------------|--------------------|--------------------|--------------------|
| Argentina | 24                 | 9                  | 20                 | 8                  |
| Brazil    | 31                 | 9                  | 21                 | 7                  |
| Uruguay   | 19                 | 10                 | 18                 | 10                 |
| Venezuela | 33                 | 6                  | 25                 | 5                  |

Assuming there was no migration, what does the table show?

- A Between 1980 and 1997 all countries reduced their death rates.
- B In 1980 Brazil's population had the lowest rate of growth.
- C In 1997 Venezuela's population had the highest rate of growth.
- D Uruguay's population fell between 1980 and 1997.

38 Which economic argument is in favour of free trade?

- A It allows countries to benefit from comparative advantage.
- B It encourages the protection of domestic industries.
- C It helps declining industries by slowing the rate of decline.
- D It results in the expansion of all industries in a country.

39 The table shows the main source of export earnings by product for selected countries.

| country | product  | % of export earnings |
|---------|----------|----------------------|
| W       | diamonds | 80 %                 |
| X       | sugar    | 90 %                 |
| Y       | cars     | 55 %                 |
| Z       | oil      | 80 %                 |

From this table we can conclude that

- A all these countries specialise in the production of primary products.
  - B W and X specialise in the production of tertiary products.
  - C the largest % of export earnings from Y is from the sale of secondary goods.
  - D export earnings of W and Z are identical.
- 40 How is the social benefit of an activity calculated?
- A private benefit minus positive externalities
  - B private benefit minus private cost
  - C private benefit plus negative externalities
  - D private benefit plus positive externalities