

CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/01**

Paper 1 Multiple Choice

October/November 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 Which of the following is an advantage of the market economic system?
- A It aims for equality of income.
  - B It ensures the provision of defence and law and order.
  - C It gives an incentive to produce.
  - D It reduces pollution and congestion.
- 2 A student defined opportunity cost as 'the alternative given up when a course of action is followed'.

Why is this definition inadequate?

- A The 'next best' alternative is not stressed.
  - B The type of economic system is not identified.
  - C There is no mention of money values.
  - D There is no reference to finite resources and unlimited wants.
- 3 Why did planned economies often experience long queues for consumer goods?
- A The factors of production were able to move freely.
  - B The distribution of goods was inefficient.
  - C The output decisions were taken to maximise profits.
  - D The needs of consumers determined production.
- 4 The table shows how employment in five industries changed in a country between 1985 and 2000.

	1985 (thousand)	2000 (thousand)
banking and finance	1336	1881
distribution and catering	3678	4323
extraction of minerals	1278	1094
manufacturing	3102	2128
transport	1550	1304

Which statement about these industries can be concluded from the table?

- A Output in the primary industries decreased.
- B Output in the tertiary industries increased.
- C Employment in the tertiary industries increased.
- D Employment in the tertiary industries was less than the secondary industries.

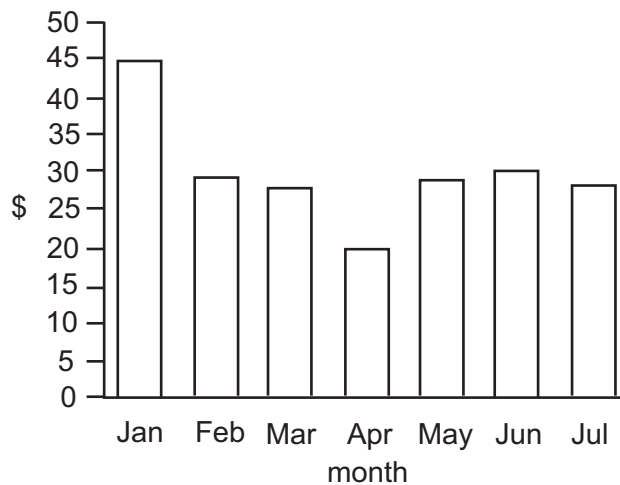
- 5 Which of the following is likely to be the most suitable form of business organisation for a group of four doctors?
- A partnership
  - B private company
  - C public company
  - D public corporation

- 6 Mr Lee bought shares in Intel, a computer company producing throughout the world.

Sandip Patel owns and runs a grocery store.

Which of the following is **not** represented by the above businesses?

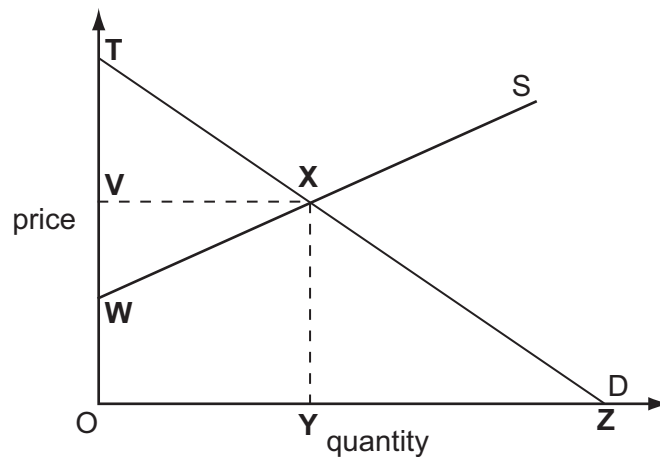
- A co-operative
  - B multi-national company
  - C public company
  - D sole proprietor
- 7 The graph shows the price of a company's shares from January to July 2001.



For the buyer of these shares

- A January was the best time to buy shares as an investment.
- B shares bought in April would be worth more in July.
- C the company's profits were highest in January.
- D the company's goods were cheapest in April.

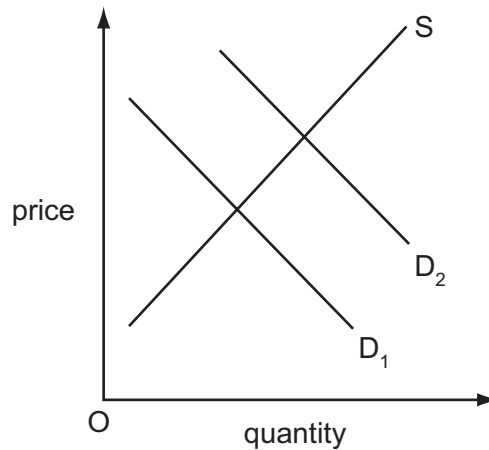
- 8 In what circumstances are trade unions more likely to be effective in wage negotiations for their members?
- A an economic boom
  - B a recession
  - C a period of declining productivity
  - D a period of rising unemployment
- 9 What function do central banks and commercial banks have in common?
- A acting as a banker's bank
  - B controlling monetary policy
  - C dealing with foreign exchange
  - D supervising the banking system
- 10 The diagram shows a market for wheat that is in equilibrium.



Which area represents the total revenue for wheat farmers?

- A OTXY
  - B OVXY
  - C OVXZ
  - D OWXY
- 11 A government taxes the production of cars.
- What is likely to decrease?
- A the cost of supplying cars
  - B the price of cars
  - C the revenue for the government
  - D the supply of cars at every price

12 The graph shows the market for bread.



Which of the following might have caused a change in demand from  $D_1$  to  $D_2$ ?

- A a fall in the cost of producing bread
  - B a fall in the price of an alternative to bread
  - C a newspaper report that eating bread is healthy
  - D a rise in price of a complement to bread
- 13 The table shows the sales of cold drinks made by a company in the UK in 2001 and 2002. Demand for cold drinks is influenced by changes in the temperature. In 2001 the sales followed the usual seasonal pattern.

month	sales 2001 (thousand cans)	sales 2002 (thousand cans)
April	300	290
May	400	350
June	550	270
July	570	490
August	620	590

In which month of 2002 was the usual pattern disturbed?

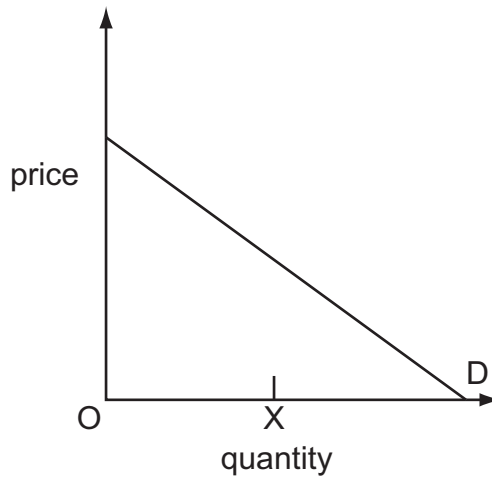
- A May
- B June
- C July
- D August

- 14 In December 2000 the demand for diamonds increased as people wanted to buy a gift to celebrate the millennium. At the same time the countries producing diamonds decreased the supply onto the market.

How would these changes be shown on a demand and supply diagram?

	demand curve	supply curve
<b>A</b>	shift to left	shift to right
<b>B</b>	shift to left	shift to left
<b>C</b>	shift to right	shift to right
<b>D</b>	shift to right	shift to left

- 15 The diagram illustrates the demand for places on a course at a college.



The college does not charge for the course because it is funded by the government. However it can only provide OX places on the course.

What would result?

- A** a shift in demand
  - B** equilibrium in the market
  - C** excess demand
  - D** excess supply
- 16 Which government policy is most likely to encourage an experienced teacher to remain in the teaching profession?
- A** increasing alternative career opportunities
  - B** increasing class sizes in schools
  - C** increasing teachers' working hours
  - D** increasing the levels of teachers' salaries

17 The table gives weekly earnings for different groups in 1998.

	London		Great Britain	
	male	female	male	female
managers	£779.30	£539.20	£625.60	£435.30
unskilled workers	£381.90	£237.80	£332.90	£228.60

Which statement about the influence on earnings is supported by the table?

- A** Female workers gain more promotion than male workers.
- B** Female managers earn more than unskilled workers.
- C** Great Britain has a higher cost of living than London.
- D** Repetitive work is compensated for by higher incomes.
- 18 In 2002 a car manufacturer closed one of its large factories and released its stocks of cars onto the market.

What was likely to happen to the price of the manufacturer's cars and the wages of car workers as a result?

	price of cars	wages of car workers
<b>A</b>	fall	fall
<b>B</b>	fall	rise
<b>C</b>	rise	fall
<b>D</b>	rise	rise

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

output (units)	total revenue (\$)	total cost (\$)
10	20	14
20	25	17
30	30	21
40	35	27

What level of output gives maximum profit?

- A** 10 units      **B** 20 units      **C** 30 units      **D** 40 units

20 The diagram shows the average earnings per hour of postal workers between 1999 and 2001.



Which of the following could explain the above diagram?

- A a reduction in trade union membership
- B the introduction of more efficient work practices
- C the employment of more part-time workers
- D an increase in the number of hours worked

21 The table shows the costs incurred by a firm producing computers.

output (000s)	total costs (\$000)
0	20
1	1200
2	1350
3	1450

What are the fixed costs if 3000 computers are produced?

- A \$20 000      B \$1 430 000      C \$1 450 000      D \$4 020 000

22 A recent newspaper report stated that there was a proposal for two companies to merge to achieve greater efficiency. As a result a quarter of the workforce and some offices would no longer be required.

What does this statement suggest would happen if the two companies were merged?

- A average costs would rise
- B diseconomies of scale would occur
- C fixed and variable costs would decrease
- D profits would fall



- 23** When it produces 200 units, a firm's total variable cost is \$600 and its total fixed cost is \$2000.  
What is the average cost at this output?
- A** \$3                      **B** \$10                      **C** \$13                      **D** \$2600
- 24** Which measure of a firm's size would a government use to identify a monopoly?
- A** the amount of profits earned by the firm in one year  
**B** the firm's percentage share of the market for its goods  
**C** the number of factories operated by the firm  
**D** the value of the firm's capital
- 25** A government decided to increase its spending on building schools and hospitals.  
Which aim of government policy is most likely to be achieved by this?
- A** balance of payments surplus  
**B** economic growth  
**C** price stability  
**D** stronger exchange rate
- 26** What is most likely to cause the government to have a budget surplus?
- A** an increase in exports  
**B** an increase in unemployment  
**C** a decrease in government spending  
**D** a decrease in private sector investment
- 27** Which of the following government policies would lead to a more even distribution of income?
- A** allowing a balance of payments deficit  
**B** a change in the rate of exchange  
**C** control of lending by commercial banks  
**D** expenditure on unemployment benefits

28 Which of the following is an aim of government policy?

- A income tax
- B interest rates
- C stable prices
- D unemployment

29 A person pays \$500 tax when earnings are \$5000.

Which of the following tax payments would indicate that the country has a regressive tax system if his income rose to \$12 000?

- A \$1000            B \$1200            C \$1500            D \$2400

30 Which of the following is a reason for collecting national income statistics?

- A to calculate population changes
- B to compare standards of living
- C to fix exchange rates
- D to keep inflation low

31 In order to reduce unemployment, a government moves one of its departments to a different part of the country, even though this is expensive.

Which type of unemployment is most likely to be reduced?

- A cyclical
- B frictional
- C regional
- D seasonal

32 A newspaper reported that a country's economy had grown by 3% during the last year.

What must have increased in that year?

- A costs of production
- B gross domestic product
- C unemployment
- D wage levels

33 The table shows figures from a developing economy.

year	consumer prices (base year 1995=100)
1996	180
1997	210
1998	230
1999	280

Which of the following statements is **not** true?

- A Consumer prices rose 80 % between 1995 and 1996.
- B The cost of living rose in every year.
- C The purchasing power of money rose throughout the period.
- D Inflation existed throughout the period.

34 Which of the following countries is likely to have the **lowest** standard of living?

country	A	B	C	D
birth rate	25	43	25	36
death rate	10	31	5	14
life expectancy	57	40	72	48
infant mortality	24	42	22	56

35 What is the most likely cause of a fall in the population growth of a developing country?

- A a decrease in the birth rate
- B a decrease in emigration
- C a decrease in immigration
- D a decrease in the standard of living

36 Which of the following would an economist use to measure living standards?

- A the average size of families
- B the gross domestic product per head
- C the number of workers in agriculture
- D the size of cities

- 37** Malaysia decides to put more of its resources into the production of rubber, because it can produce rubber more efficiently than the rest of the world.

This means that Malaysia will combine the benefits from

- A** comparative advantage and diversification.
  - B** comparative advantage and specialisation.
  - C** competition and diversification.
  - D** specialisation and protection.
- 38** What is an advantage of specialisation in jobs?
- A** Different abilities are fully used.
  - B** Jobs are repetitive.
  - C** Production becomes dependent on several groups of workers.
  - D** The possibility of unemployment increases due to automation.
- 39** In an African country, large amounts of land were taken from farmers to make a national park to protect rare animals and provide a tourist attraction with accommodation.
- Which of the following is likely to decrease as a result of these changes?
- A** earnings from foreign visitors
  - B** employment in the primary sector
  - C** employment in the tertiary sector
  - D** the price of land elsewhere
- 40** What will reduce the volume of international trade in the world economy?
- A** a Dutch bank making a loan to a Taiwanese manufacturer
  - B** a Japanese electronics firm establishing a subsidiary in the UK
  - C** the Swedish government granting foreign aid to Somalia
  - D** the US government introducing quotas for European steel products