

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/01

Paper 1 Multiple Choice (Core)

October/November 2006

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 A government decides to spend more on defence and therefore cannot spend as much on improving the country's infrastructure.

What economic idea is illustrated by this decision?

- A budget surplus
 - B monetary policy
 - C opportunity cost
 - D specialisation
- 2 Countries that have changed from command to market economies will expect to find an increase in
- A choice.
 - B price control.
 - C rationing.
 - D subsidies.

- 3 'The tertiary sector of the economy is increasing in importance'.

This statement is most likely to mean that a higher proportion of the labour force is

- A being educated.
 - B employed in manufacturing.
 - C employed in the production of services.
 - D unemployed but looking for work.
- 4 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.

5 The following report appeared in a newspaper.

‘The Chinese government is to allow the cigarette producer, BAT, to set up new factories in China.’

What type of organisation is BAT likely to be?

- A a multi-national company
- B a partnership
- C a private company
- D a public corporation

6 Why might a country’s central bank raise its interest rate?

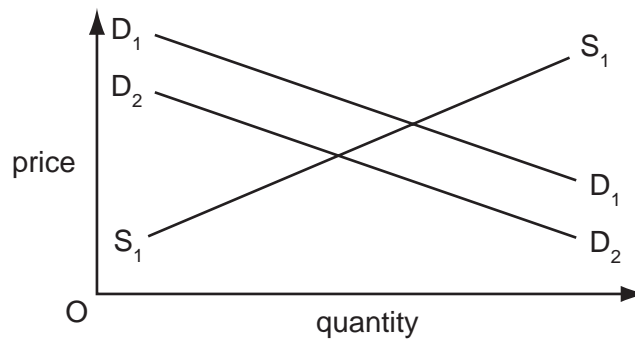
- A to encourage saving
- B to increase the money supply
- C to raise funds for the government
- D to reduce the level of employment

7 UK flights were severely disrupted in August 2004 after a pay dispute involving trade union members.

Which change would the union **not** have used to support their pay claim?

- A a downturn in the booking of flights
- B a fall in the real wages of airline staff
- C an increase in the airlines’ profits
- D a rise in inflation

- 8 The diagram shows a change in the demand for a company's products as a result of a change in advertising.



What has increased?

- A the cost of advertising to the company
 - B the cost of advertising to a rival company
 - C the expenditure on advertising by the company
 - D the expenditure on advertising by a rival company
- 9 The demand for and supply of a good both change. As a result the price of the good rises but the quantity traded remains the same.

What must have happened to demand and supply?

	demand	supply
A	fallen	fallen
B	fallen	risen
C	risen	fallen
D	risen	risen

- 10 A demand curve for a product shows the relationship between its price and

- A the cost of production.
- B the demand for a substitute good.
- C the quantity of the product consumed.
- D the tastes of consumers.

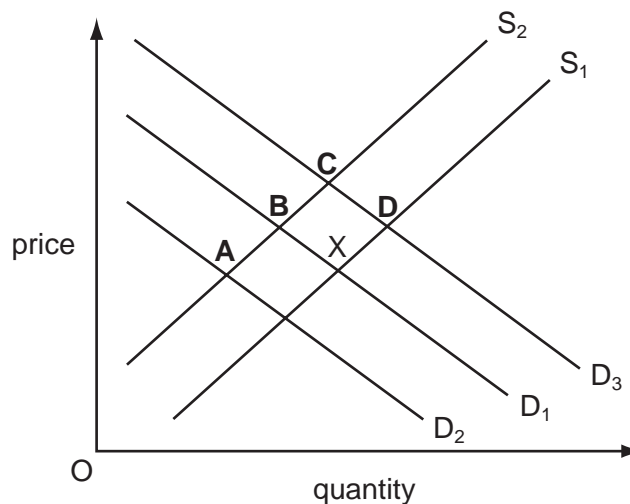
11 In January 2005 house prices in the UK fell.

What might have caused this?

- A Average incomes rose.
- B Interest rates fell.
- C The number of buyers rose.
- D The number of houses for sale rose.

12 The diagram shows the demand for and the supply of mobile (cell) phones. The market is in equilibrium at point X.

What would be the most likely new equilibrium if the government placed an indirect tax on mobile (cell) phones while reducing income tax?



13 What is likely to reduce the price of Air Namibia's flights?

- A increased competition from new airline companies
- B increased demand for flights
- C increased oil prices
- D increased wages for airline staff

14 Which feature of working in an occupation might tend to keep the basic wage rate down?

- A handling dangerous materials
- B receiving commission payments
- C undertaking training
- D working unsocial hours

15 An athlete needs an income and also needs time for training and competitions.

Which occupation is most appropriate for the athlete?

- A** department store manager who is paid a salary
- B** livestock farmer working for profit
- C** assembly-line worker who is paid a wage
- D** self-employed photographer

16 Which change would be most likely to cause the earnings of hotel managers in Mauritius to rise more than the earnings of sugar cane workers there?

- A** a decrease in the supply of sugar cane workers in Mauritius
- B** a decrease in the price of hotel rooms in Mauritius
- C** an increase in the productivity of hotel managers in Mauritius
- D** an increase in the price of sugar cane from Mauritius

17 On average, male employees are paid more than female employees.

What could be a reason for this?

- A** A higher percentage of female employees belong to trade unions.
- B** A higher percentage of females work in unskilled occupations.
- C** Females have a longer working life.
- D** There are fewer female employees.

18 What is most likely to increase a firm's profits?

- 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 its raw materials

19 The table shows the quantity of coffee demanded per day and the quantity supplied per day.

price (\$) per kilo	demand (kilos)	supply (kilos)
12	16	26
11	18	23
10	20	20
9	22	17
8	24	14
7	26	11

At the equilibrium price, what will be the total expenditure on coffee?

- A** \$10 **B** \$20 **C** \$200 **D** \$400

20 What is the most likely reason for a company to employ more workers?

- A** increased demand for its product
- B** increased taxes on the product
- C** investment in labour-saving machinery
- D** wage rises in the company

21 How is the average cost of a product calculated?

- A** by adding total variable and total fixed costs
- B** by dividing total cost by output
- C** by multiplying total variable cost by output
- D** by subtracting fixed cost from total cost

22 Which of a firm's costs do **not** change as production changes?

- A** average cost
- B** fixed cost
- C** total cost
- D** variable cost

- 23 When is a government said to balance its budget?
- A when all goods and services are taxed equally
 - B when economic growth is the same in all regions of the economy
 - C when total exports equal total imports
 - D when its total income equals its total expenditure
- 24 What is a long-term advantage of economic growth?
- A Employment falls.
 - B Incomes rise.
 - C Prices rise.
 - D Savings fall.
- 25 The governments of many countries raise revenue from a tax on a wide range of essential goods and services.
- What is the nature of this tax?
- A It is direct and proportional.
 - B It is direct and regressive.
 - C It is indirect and proportional.
 - D It is indirect and regressive.
- 26 A country has a proportional system of taxation.
- A person pays \$500 tax when earnings are \$5000.
- How much tax will be paid if earnings rise to \$12 000?
- A \$120 B \$500 C \$1200 D \$7500
- 27 Which of the following is **not** included in public expenditure?
- A capital spending by companies
 - B interest payments on government borrowing
 - C investment in defence by the central government
 - D subsidies to bus companies from local government

28 What would **not** be recorded in the current account of Argentina's balance of payments?

- A An Argentine company builds a factory in Kenya.
- B An Argentine insurance company insures an American ship.
- C Argentine beef is sold to South Africa.
- D A large group of Italians visit Argentina.

29 A country has a surplus on its trade in goods and services of \$20 m and a deficit on its current account of \$10 m.

What position on its current income balance and current transfer balance is consistent with this?

	current income balance (\$m)	current transfer balance (\$m)
A	+20	+10
B	+10	-30
C	-10	-20
D	-20	+10

30 The UK pound depreciates against the US dollar from £1 = \$1.80 to £1 = \$1.50.

What does this mean?

- A UK imports from the US will cost less.
- B US imports from the UK will cost more.
- C UK pounds will be dearer in terms of US dollars.
- D US dollars will be dearer in terms of UK pounds.

31 A person receives annual interest of 4% on their saving. Inflation is 5% per annum.

What is the change in the real value of their saving?

- A It falls 1%.
- B It rises 4%.
- C It falls 5%.
- D It rises 9%.

- 32 The French government bought 30 % of a private French industrial group which was facing economic difficulties.

What might be a possible result of this?

- A a budget deficit
- B an increase in the role of the consumer
- C an increase in the role of the market system
- D a reduction in central planning

- 33 The table shows the Gross Domestic Product (GDP) and population of four countries.

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

	GDP (\$ millions)	population (millions)
A	2 000	1
B	10 000	10
C	80 000	20
D	90 000	30

- 34 In a country the birth rate increased but the population decreased.

What could have happened to other factors to cause this?

- A no change in migration but the death rate fell
- B a fall in infant mortality but no change in the death rate
- C no change in migration but the death rate rose
- D a rise in net immigration but no change in the death rate

- 35 Which of the following is usually found in a developed economy?

	low	high
A	birth rate	gross domestic product per head
B	death rate	infant mortality rate
C	gross domestic product per head	birth rate
D	infant mortality rate	death rate

36 How is the death rate defined?

- A the excess of deaths over births in any one year
- B the number of deaths of infants per thousand births
- C the number of deaths per year
- D the number of deaths per year per thousand of the population

37 What is a benefit of tariffs?

- A increased choice
- B increased government revenue
- C more competition
- D more trade

38 Many people in Zimbabwe want to buy foreign cars, which would be shipped by foreign companies.

What happens if the Zimbabwe government removes the quota on the import of motor cars?

	balance on trade in goods	balance on trade in services
A	improves	no change
B	improves	worsens
C	worsens	no change
D	worsens	worsens

39 A government must decide whether to build a new road. The road would bring work to a town, but would destroy part of a forest.

Who is most likely to oppose this?

- A conservationists
- B road builders
- C suppliers of road materials
- D the town's unemployed

- 40** Some people think that the debts and interest payments of the poorest countries in the world should be cancelled.

What might be a disadvantage for the poorest countries if this were done?

- A** International banks might be less willing to give loans to poor countries.
- B** Interest payments to the lenders would fall.
- C** The standard of living of people in the poorest countries would increase.
- D** Trade between the poorest countries and the rest of the world would increase.