



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/01

Paper 1 Multiple Choice (Core)

October/November 2007

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 **11** printed pages and **1** blank page.



1 What is found in a command economy but **not** a market economy?

- A banks
- B division of labour
- C price controls
- D profit motive

2 Commercial companies are reclaiming marsh land to construct golf courses.

What is the opportunity cost to society?

- A the expense of installing drainage
- B the natural environment that is lost
- C the profits of the companies
- D the value of the land cleared

3 There are more people in developing countries who cannot read or write than in developed countries.

What can be concluded from this?

- A Developed countries will use more labour than capital as it is skilled.
- B In developing countries, factors of production are not used to their maximum potential.
- C Less money needs to be spent on education in developed countries than in developing countries.
- D Production in developing countries is likely to rely more on capital than labour.

4 In wartime conditions, cigarettes have been used as money.

What **disadvantage** do cigarettes have for trading compared with notes and coins?

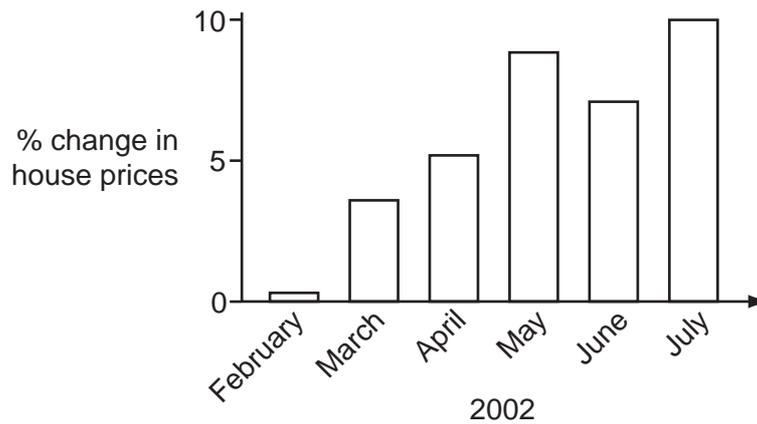
- A They cannot act as a medium of exchange.
- B They have no intrinsic value.
- C They lack durability.
- D They make a double coincidence of wants necessary.

- 5 A farmer employs one man to plough a large field.

As well as labour, which factors of production are involved in this activity?

- A land and capital only
 - B land and enterprise only
 - C capital and enterprise only
 - D land, capital and enterprise
- 6 In most countries which organisation controls the banking system?
- A central bank
 - B commercial bank
 - C investment bank
 - D World Bank
- 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.
- What 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 Which type of business organisation has its shares quoted on a stock exchange?
- A private company
 - B public company
 - C co-operative
 - D public corporation
- 9 What is the main purpose of a trade union?
- A to achieve profit maximisation
 - B to encourage free trade
 - C to promote private ownership of industry
 - D to protect the interests of its members

10 The graph shows changes in house prices in a developed country.



What might have caused these changes in prices?

- A an increase in government subsidies to house builders
 - B an increase in income
 - C an increase in the supply of houses
 - D an increase in unemployment
- 11 Sometimes travel companies advertise holidays at prices below cost.

What might be a reason for this?

- A an excess demand for holidays
 - B an excess supply of holidays
 - C a price inelastic demand for holidays
 - D insufficient competition in the holiday market
- 12 The table shows demand and supply schedules for a commodity.

| price (\$ per tonne) | quantity demanded (tonnes per month) | quantity supplied (tonnes per month) |
|-------------------------|---|---|
| 20 | 400 | 1600 |
| 18 | 480 | 1200 |
| 16 | 600 | 600 |
| 14 | 800 | 480 |
| 12 | 1200 | 320 |

What is the equilibrium price?

- A \$20
- B \$18
- C \$16
- D \$14

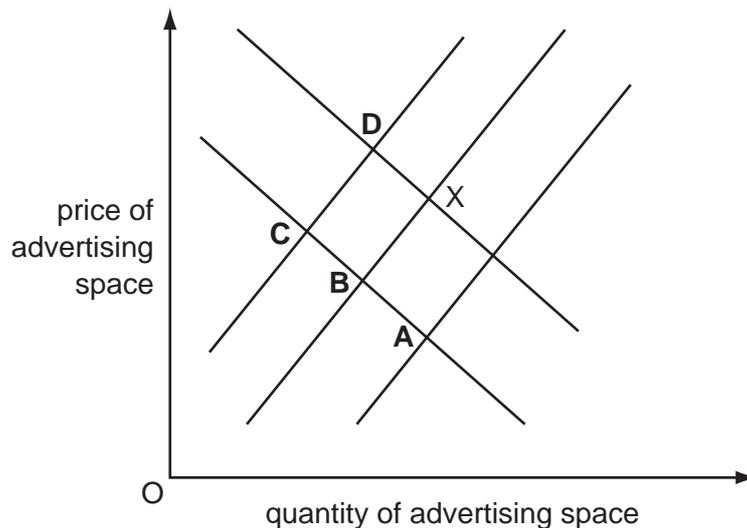
- 13** A country imports oil which is used in the production and distribution of goods. The country has also experienced a rise in incomes which has resulted in a large increase in the demand for goods, some of which it imports.

What is likely to happen to the country's balance of trade in goods and to the price of oil?

| | balance of trade in goods | price of oil |
|----------|---------------------------|--------------|
| A | worsens | falls |
| B | improves | falls |
| C | worsens | rises |
| D | improves | rises |

- 14** X is the equilibrium point for a company that sells advertising space. During the year, the demand for advertising decreased and the company's labour cost increased.

What would be the new equilibrium?



- 15** In developed economies, as a person's real income rises, a lower proportion of that income is usually spent on
- A** food.
 - B** holidays.
 - C** leisure activities.
 - D** personal transport.

16 What would cause disposable incomes to become less equal?

- A increased employment
- B increased welfare benefits
- C more progressive taxes
- D more regressive taxes

17 Which occupation would suit a person who wanted to work in the public sector?

- A a journalist for an independent newspaper
- B a nurse in a government hospital
- C a sales manager for a multi-national food business
- D a teacher in a private fee-paying school

18 Male workers on average get paid more than female workers.

What might explain this?

- A Male workers have better qualifications.
- B Female workers are more likely to be in trade unions.
- C Male workers live nearer to their place of work.
- D Female workers are less likely to take time off work.

19 A firm manufactures toys.

Which cost will vary **least** as output and sales increase?

- A distribution to retailers
- B insurance payments on the factory
- C wages of production workers
- D raw materials

20 In 2005, world oil prices increased significantly.

What effect would an increase in oil prices have on a firm that transports products for other firms?

- A average fixed costs would increase
- B profits would increase
- C total fixed costs would increase
- D variable costs would increase

- 21 Which statement is correct?
- A Average revenue is total revenue divided by output.
 - B Fixed cost is total cost plus variable cost.
 - C Total cost is variable cost multiplied by fixed cost.
 - D Total revenue is fixed revenue minus variable revenue.
- 22 What is a firm seeking profit maximisation trying to achieve?
- A the fastest rate of profit growth
 - B the highest level of profit per unit produced
 - C the highest level of total profit
 - D the lowest level of total cost
- 23 The table shows earnings and total income tax paid per annum.

| earnings \$ | total income tax paid \$ |
|-------------|--------------------------|
| 5000 | 1000 |
| 8000 | 2000 |
| 9000 | 3000 |

Which type of tax system does this illustrate?

- A indirect
 - B progressive
 - C proportional
 - D regressive
- 24 Which policy would best enable a government to encourage greater specialisation in the use of its country's resources?
- A encouraging diversification in industry
 - B protecting small businesses
 - C reducing tariffs on imports
 - D subsidising job creation in rural areas

25 What could a government in a developed economy do to increase demand?

- A create a budget surplus
- B increase taxes
- C reduce government spending
- D reduce interest rates

26 What is **not** an aim of government economic policy?

- A economic growth
- B full employment
- C interest rates
- D stable prices

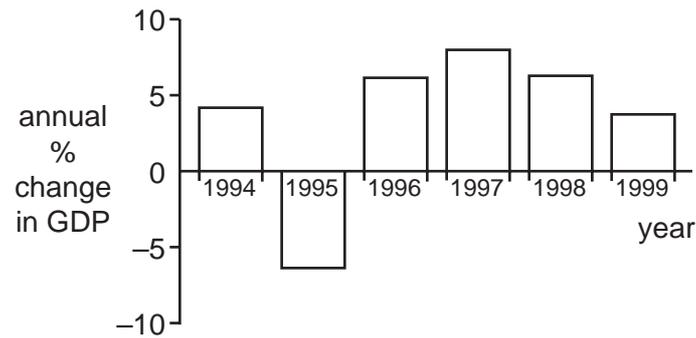
27 Which situation would definitely cause a fall in real incomes?

| | price level | money income level |
|----------|-------------|--------------------|
| A | falls | rises |
| B | falls | unchanged |
| C | rises | rises |
| D | rises | unchanged |

28 What would **not** be required in the construction of an index of consumer prices (retail price index)?

- A the selection of a base year
- B the selection of a representative range of items
- C the calculation of average wage levels
- D the weighting of each item in the index

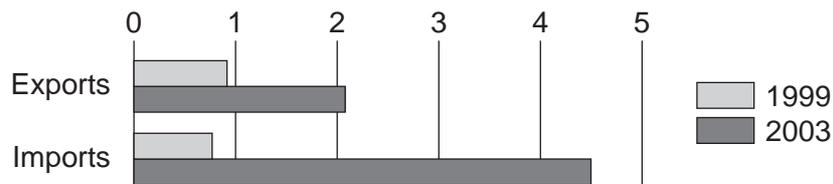
29 The graph shows the annual percentage changes in Mexico's GDP between 1994 and 1999.



Which conclusion may be drawn from the graph?

- A GDP fell between 1998 and 1999.
 - B GDP rose between 1997 and 1998.
 - C GDP was highest in 1997.
 - D Prices fell in 1995.
- 30 What is likely to lead to a decrease in structural unemployment?
- A reducing the interest rate
 - B increasing the rate of unemployment benefit
 - C reducing the rate of income tax
 - D increasing labour mobility

31 The diagram shows China's trade with Brazil for 1999 and 2003 in billions of dollars.



What happened to China's trade balance with Brazil between 1999 and 2003?

- A It experienced a falling surplus.
- B It experienced a rising deficit.
- C It moved from deficit to surplus.
- D It moved from surplus to deficit.

- 32 What might explain the high population growth in some developing countries?
- A high birth rates and falling death rates
 - B high immigration and low emigration
 - C falling birth rates and rising death rates
 - D falling life expectancy
- 33 Turkey's agricultural sector employs 48 % of the country's workforce compared with 17 % in the US and 3.9 % in France.

What could be concluded from this?

- A France is likely to import more agricultural produce than the US.
 - B The workers in France are not as productive as those in Turkey.
 - C Total agricultural production is likely to be higher in Turkey than in the US.
 - D Turkey is likely to be less developed than France.
- 34 Changes in the standard of living of a country are best measured by changes in
- A national income.
 - B national income per head.
 - C real national income.
 - D real national income per head.
- 35 As a country develops, what is **most** likely to happen?
- A A greater proportion of the workforce will be employed in the service sector.
 - B The average age will decrease.
 - C The birth rate will increase.
 - D There will be reduced occupational mobility of labour.
- 36 Firms often advertise saying that they specialise in providing a certain product or service.
- What is an advantage of such specialisation?
- A Employees become experts in that area.
 - B Employees can easily switch to other jobs.
 - C Firms can quickly adapt production if their service is no longer required.
 - D Production is dependent on other firms supplying components.

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

- A administrative regulations
- B foreign exchange controls
- C quotas
- D tariffs

38 A water pump has been invented which is operated when people play on a roundabout in the village. The roundabout provides the power to pump water from the well.

Of what is this an example?

- A conserving labour and conserving natural resources
- B conserving labour and using natural resources
- C using labour and conserving natural resources
- D using labour and using natural resources

39 The governments of developing countries often allow multi-nationals to mine minerals in their territory.

Which conflict between possible benefit and cost does this present to the developing country?

| | benefit | cost |
|---|-------------------------------------|-------------------------------------|
| A | improved balance of trade | increased training by the companies |
| B | higher employment | loss of finite resource |
| C | increased profits for the companies | more efficient production |
| D | more sustainable development | faster economic growth |

40 The introduction of a tariff on imported goods is likely to

- A ensure that the domestic industry becomes more efficient.
- B increase the demand for domestically produced goods.
- C reduce the price of domestically produced goods.
- D reduce the price of imported goods into a country.

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