

CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/03**

Paper 3 Multiple Choice

May/June 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 An unemployed worker accepts a job.

Which of the following is the opportunity cost of this decision?

- A the cost of travel to work
- B the income from the new job
- C the leisure time lost
- D the training in the new job

- 2 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.

- 3 Economic growth in Russia and China used to be led by the public sector. Now it results more from activities in the private sector. However, both sectors are important.

Which term describes the current system in Russia and China?

- A market
- B mixed
- C planned
- D subsistence

- 4 The table shows how employment in five industries changed in a country between 1985 and 2000.

	1985 (thousand)	2000 (thousand)
banking and finance	2336	2881
distribution and catering	4678	5323
extraction of minerals	2278	1794
manufacturing	4102	3128
transport	2550	2304

According to the table, which type of employment has increased?

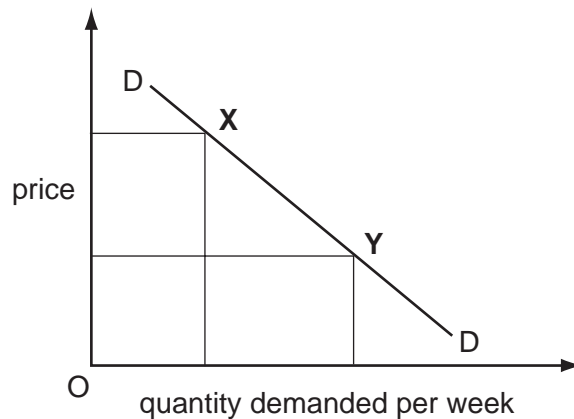
- A primary
- B secondary
- C tertiary
- D total

- 5 What is necessary for a company to be classified as a multi-national?
- A It diversifies its range of products.
  - B It exports most of its output.
  - C It increases its scale of production.
  - D It produces some of its output in different countries.
- 6 Which advantage is most likely to enable a small retailer to compete with larger stores?
- A a convenient location
  - B a wide range of products
  - C internal economies of scale
  - D national advertising
- 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.

Identify the concepts that 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 A commercial bank is appointed to act as a country's central bank.
- What new function would it now have?
- A controlling monetary policy
  - B dealing in foreign exchange
  - C ensuring security for loans
  - D holding liquid assets
- 9 Which trade union action is most likely to have harmful effects on the productivity of a firm?
- A acceptance of new technology
  - B agreement to a bonus system
  - C opposition to planned redundancies
  - D participation in a profit-sharing scheme

- 10 The diagram shows the demand for chocolate.



What could cause the movement from point **X** to point **Y**?

- A** a change in tastes
  - B** a fall in the price of chocolate
  - C** an increase in income
  - D** a successful advertising campaign for chocolate
- 11 The table shows the price of, demand for and supply of X per week.

price (\$)	demand (tonnes)	supply (tonnes)
20	16	10
30	12	12
40	10	14

What will be the effect if the government imposes a minimum price of \$40 per tonne?

- A** a fall in the price of X
  - B** a shortage of X
  - C** a surplus of X
  - D** a waiting-list for X
- 12 A bus company knows that demand for travel before 09 00 hours is inelastic and that after 09 00 hours it is elastic.

How is the company certain to increase total revenue?

- A** by increasing all fares
- B** by increasing fares before 09 00 hours
- C** by reducing all fares
- D** by reducing fares before 09 00 hours

- 13** In many countries, extra staff are employed by the postal service and additional collections of post are made to clear the large amount of mail before holiday periods.

What happens to the demand and supply curves for postal services during these periods?

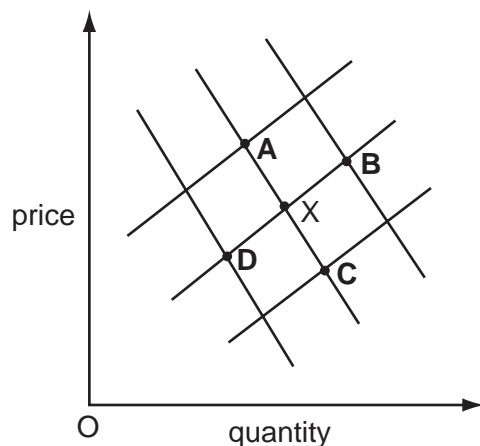
	demand curve	supply curve
<b>A</b>	moves to left	moves to left
<b>B</b>	moves to left	stays the same
<b>C</b>	moves to right	moves to right
<b>D</b>	stays the same	moves to right

- 14** Which of the following is true for any inelastic demand curve?

- A** A price cut causes a fall in expenditure.
- B** A price rise has no effect on demand.
- C** A price rise has no effect on total profit.
- D** The percentage change in demand is greater than the percentage change in price.

- 15** The graph shows the market for rice. It was in equilibrium at X. Later, there is a very good harvest of rice.

What is the new equilibrium point?



- 16** Nazmin Uddin works in a local office as a secretary three days a week. She lives with her parents in a small apartment.

Meer Ali owns a successful fitness centre that employs about twenty people and lives in a large house.

Which is likely to be true?

- A** Nazmin spends a smaller proportion of her income than Meer.
  - B** Nazmin saves most of her income.
  - C** Nazmin would find it easier than Meer to borrow money.
  - D** Nazmin has a lower disposable income than Meer.
- 17** In a country, male workers on average earn more than female workers, although male and female workers receive equal pay for equal work.

What could explain this?

- A** Female workers are more experienced.
  - B** Female workers are more likely to achieve promotion.
  - C** Male workers are more likely to be in trade unions.
  - D** Male workers have fewer qualifications.
- 18** The table shows the proportion of income saved for different age groups.

age	15 - 29	30 - 39	40 - 49	50 - 62	62+
% of income saved	–34 %	–4 %	18 %	29 %	–23 %

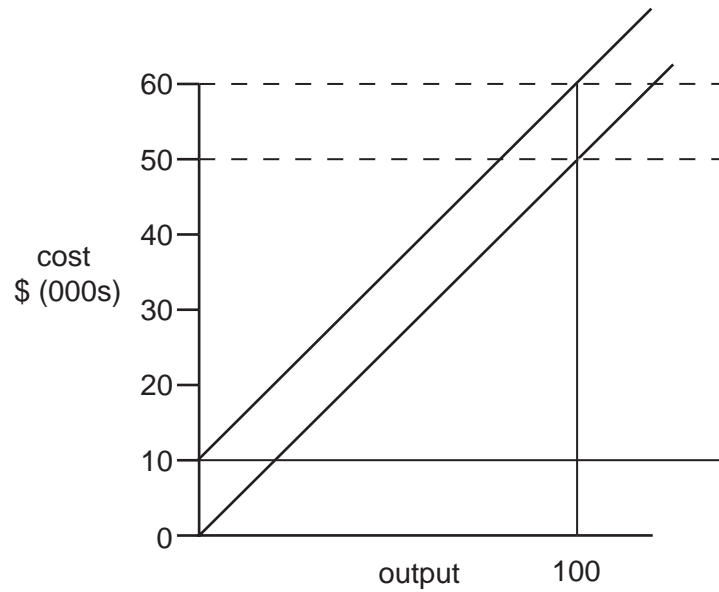
What can be concluded from this data?

- A** The youngest age group spends more than the oldest age group.
  - B** The 50 - 62 age group saves the highest proportion of its income.
  - C** The 50 - 62 age group has the highest level of income.
  - D** The older age groups earn more than the younger age groups.
- 19** There is an increase in interest rates.

What is the likely effect on saving and borrowing?

	saving	borrowing
<b>A</b>	falls	falls
<b>B</b>	falls	rises
<b>C</b>	rises	falls
<b>D</b>	rises	rises

**20** The diagram shows the costs of a firm.



What is the firm's total variable cost at an output of 100 units?

- A** \$100                      **B** \$500                      **C** \$10 000                      **D** \$50 000

**21** In a company fixed costs are a high proportion of the total costs.

What will result in the short run if production is cut by 50 %?

- A** Average costs will rise.  
**B** Fixed costs will fall.  
**C** Total costs will remain constant.  
**D** Variable costs will rise.

**22** The retail store Woolworth's has expanded the range of products it sells to include sweets, toys and compact discs.

What term describes this change?

- A** diversification  
**B** integration  
**C** merger  
**D** specialisation

- 23** Which is an external economy of scale?
- A** buying machines from other companies
  - B** carrying out research with other companies
  - C** lending money to other companies
  - D** selling output to other companies
- 24** What is **unlikely** to be a feature of a large firm in a monopoly position in a market?
- A** It achieves economies of scale.
  - B** It will attract government attention.
  - C** It charges high prices.
  - D** It experiences intense competition in that market.
- 25** The government puts a \$2.00 tax on each \$8.00 video tape sold. As a result, the price of a video tape rises from \$8.00 to \$8.50.
- What can be concluded from this?
- A** The demand for video tapes is price inelastic.
  - B** The government will receive only 25 % of its expected tax revenue.
  - C** The incidence of the tax will fall mainly on the producer.
  - D** The tax is progressive.
- 26** Which of the following is likely to be a disadvantage of economic growth?
- A** Government tax revenue falls.
  - B** Resources are depleted.
  - C** The level of unemployment rises.
  - D** The standard of living of the population falls.



- 27** In a country where the government pays the unemployed a small weekly income, there is a reduction in consumer expenditure and, as a result, unemployment increases.

What will be the effect on tax revenue of the government and on government expenditure?

	tax revenue	government expenditure
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 28** Which is a description of indirect taxes?

- A** They are easy to avoid and deter effort.
- B** They are levied on income and cause inflation.
- C** They are levied on spending and are regressive.
- D** They are progressive and discourage consumption.

- 29** In a country, income tax is charged at \$50 on an income of \$500.

Compared with this, which of the following would indicate that the income tax scale was progressive?

- A** \$150 tax on \$2000 income
- B** \$300 tax on \$3000 income
- C** \$450 tax on \$4000 income
- D** \$480 tax on \$5000 income

- 30** Which of the following is an example of cyclical unemployment?

- A** An airline cuts jobs in a world recession.
- B** Cleaners lose their jobs as more machines are used.
- C** Fishermen sell their boats owing to a reduction in fish stocks.
- D** Hotels employ fewer people in the rainy period.

**31** In constructing a retail price index, what is **not** used?

- A** a base year
- B** the prices of a basket of goods
- C** the rate of interest
- D** a weight given to each good

**32** The exchange rate of the Jamaican \$ changed from US\$ 4 to US\$ 5.

What is a possible reason for this change?

- A** Fewer exports from Jamaica were being bought in the USA.
- B** Less investment was made in Jamaica by US firms.
- C** More imports from the USA were bought in Jamaica.
- D** More tourists from the USA visited Jamaica.

**33** The table shows the percentage changes in income and consumer prices for four countries for one year.

Which country is likely to have experienced the greatest increase in real income during the year?

	country	percentage change in income	percentage change in consumer prices
<b>A</b>	Italy	+13.0	+15.0
<b>B</b>	France	+12.5	+9.5
<b>C</b>	UK	+8.5	+5.0
<b>D</b>	Germany	+4.0	+4.0

**34** Inflation in Argentina fell from 400 % in the 1980s to 15 % in the 1990s.

What could have been a result of this change?

- A** falling prices
- B** fewer exports from Argentina
- C** lower wage rises
- D** a trade deficit

**35** The most common way of comparing the living standards of two countries is to study each country's

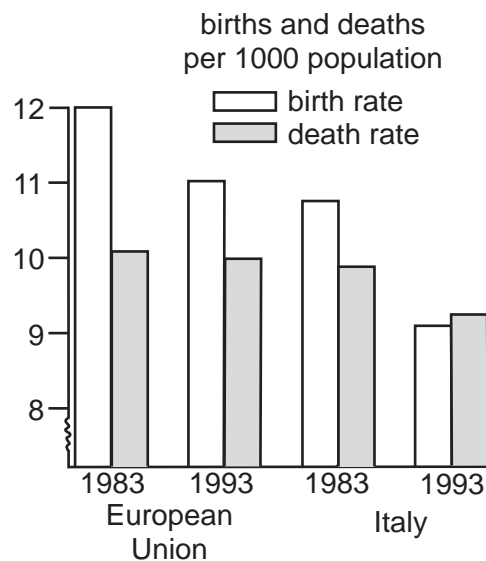
- A** average weekly working hours.
- B** consumer expenditure.
- C** GNP per head.
- D** national income.

**36** Many developed countries are faced with an ageing population.

What is the likely result of this?

- A** a reduced dependency ratio
- B** increased mobility of labour
- C** increased spending on medical care
- D** reduced tax levels

**37** The chart shows the birth rate and death rate in 1983 and 1993 in the European Union (EU) as a whole and in Italy.



What does this chart show?

- A** The average age of the population rose in Italy but not in the EU as a whole.
- B** The birth rate remained above the death rate in the EU as a whole.
- C** The size of the population increased in the EU as a whole but not in Italy.
- D** People tended to live longer in Italy but not in the EU as a whole.

- 38** A country which itself produces copper puts a 10 % tariff on imports of copper.

What is likely to decrease in that country's copper industry?

- A** the amount of investment
- B** the level of employment
- C** the price of copper
- D** the stock of copper reserves

- 39** In 2001 a government enquiry approved a major new air terminal for London, which will create many new jobs. However, it will cause extra noise and pollution. Compensation will have to be paid to some people whose houses will be demolished.

What is **not** involved in this exploitation of resources?

- A** externalities
- B** free market economy
- C** income creation
- D** opportunity cost

- 40** Which effect is an external benefit when a new motorway is built through the outskirts of a town?

- A** increased air pollution
- B** reduced accident levels
- C** reduction in property values
- D** the profits of the construction company

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Question 37

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