

International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS

ECONOMICS

PAPER 1 Multiple Choice

0455/1

MAY/JUNE SESSION 2002

1 hour

Additional materials:

Multiple Choice answer sheet

Soft clean eraser

Soft pencil (type B or HB is recommended)

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **forty** questions in 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 very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

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 question paper consists of 14 printed pages and 2 blank pages.



- 1 In China the government is concerned about the level of poverty and the need for more resources in the western regions of the country. As a result it is increasing its expenditure there and cutting it in the wealthier eastern regions.

What economic concept does this government policy illustrate best?

- A diminishing returns
- B market forces
- C opportunity cost
- D specialisation

- 2 In Hong Kong there is bad air pollution. As a result the government proposes to pass laws to make companies pay for the damage that they cause to the environment.

What will result if this is done?

- A a decrease in companies' costs
- B a decrease in private cost
- C a move away from the market system
- D an increase in external cost

- 3 A person planning for old age saves in the form of money rather than goods.

Which function does money perform when this is done?

- A medium of exchange
- B standard of deferred payment
- C store of value
- D unit of account

- 4 The table shows the value of output in various sectors of the Australian economy in 1999.

	\$ billion
agriculture	18.2
mining	23.0
manufacturing	123.3
financial services	100.3
other services	290.0

What conclusion may be drawn from these statistics?

- A** The value of the secondary sector was worth less than the value of the primary sector.
B The tertiary sector was the most valuable.
C The value of the primary sector was \$18.2 billion.
D The value of the secondary sector was \$146.3 billion.
- 5 The table shows information about the ownership of four businesses.

Which business is the private company?

type of business	ownership	liability
A	1 person	unlimited
B	2 persons	unlimited
C	2 persons	limited
D	government	limited

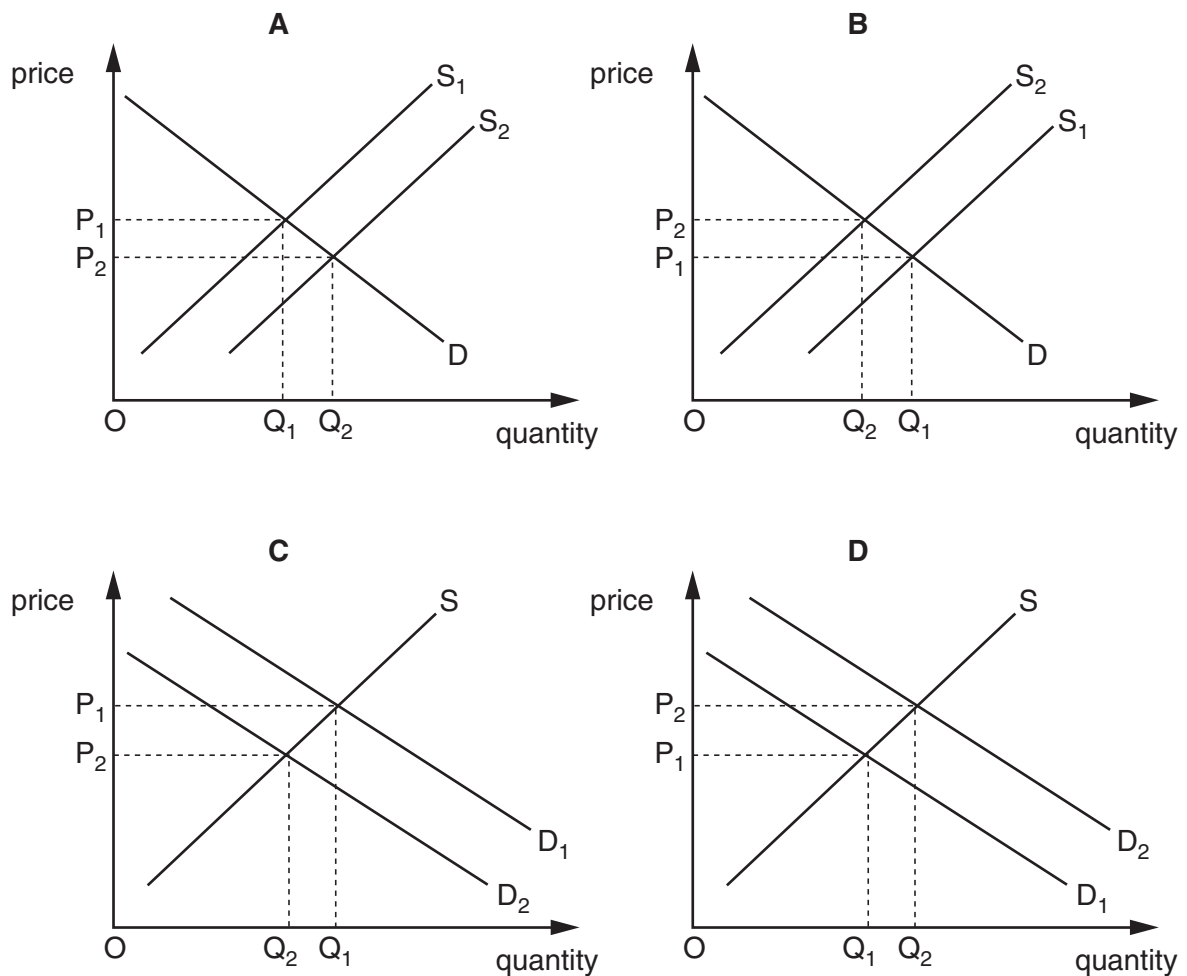
- 6 Which of the following is a disadvantage to a country of having a multi-national company producing in that country?
- A** The company buys raw materials from local suppliers.
B The company employs local people.
C The company pays taxes to the government of the country.
D The company's profits are paid to shareholders in other countries.

- 7 A trade union is negotiating a wage rise for its members.

What will increase the chance of the wage demand being granted?

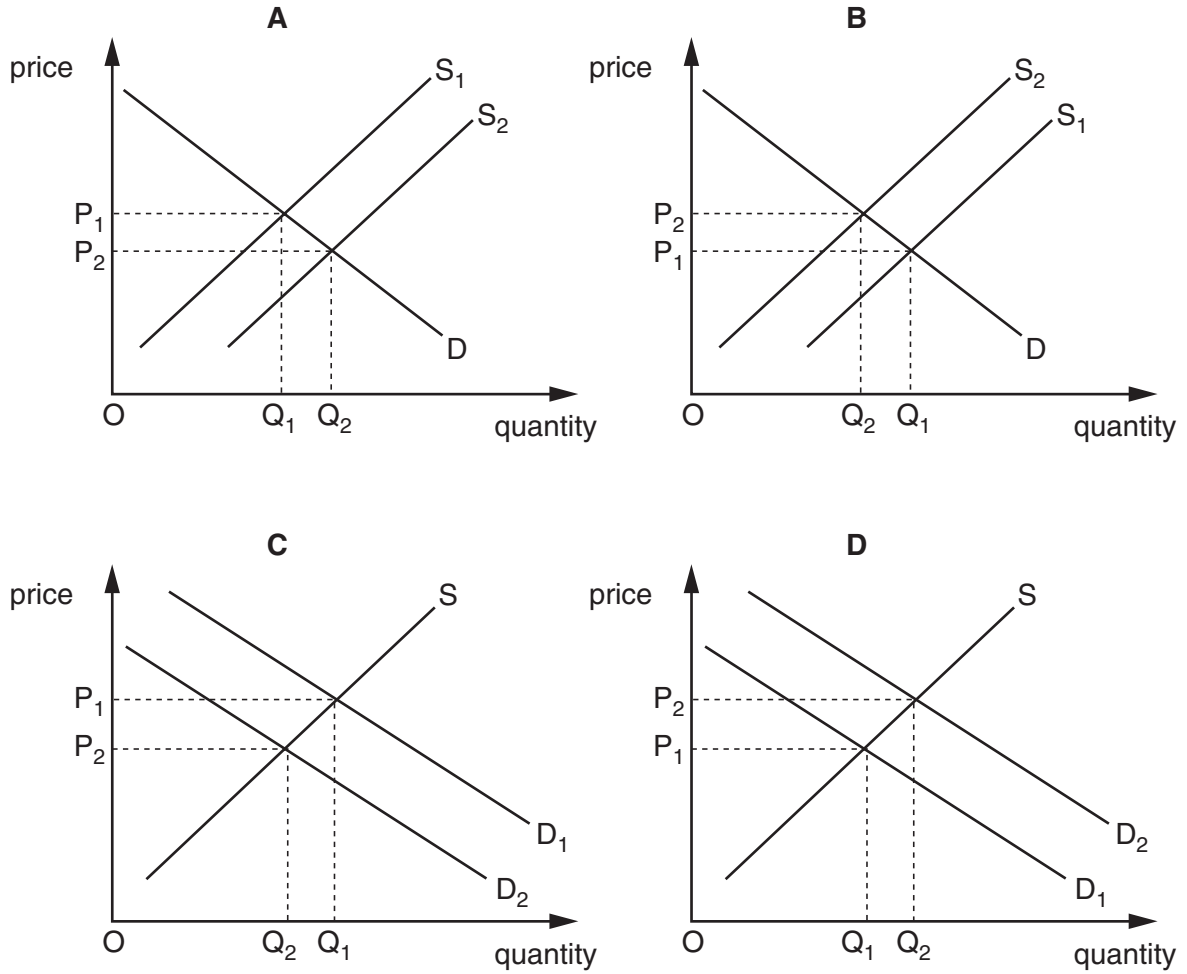
- A** The company's product has many substitutes.
B The economy is entering a period of recession.
C The government has made strike action illegal.
D Wages are a small part of the company's costs.
- 8 What is an example of joint (complementary) demand?
- A** butter and cooking oil
B cassette players and cassette tapes
C motorways and farm land
D tea and coffee
- 9 A firm spends a fixed amount on advertising but becomes more successful when the advertising changes from radio to TV.

Which diagram shows the effect of this on the price and quantity sold of the firm's product?

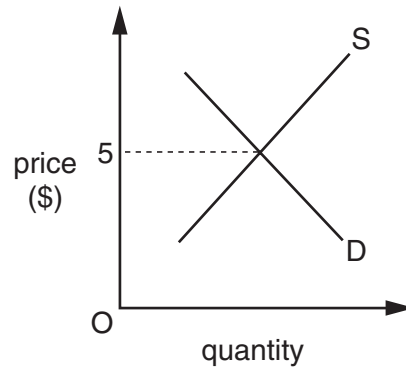


10 Owing to an explosion in a refinery, gasoline (petrol) production fell.

Which diagram shows the effect of this on the price and quantity sold of gasoline?



- 11 The diagram shows the equilibrium price for bread.



What will be the short-term effect if the government sets a maximum price below \$5?

- A a shift in the demand curve
 - B a shift in the supply curve
 - C an excess of supply over demand
 - D an excess of demand over supply
- 12 While the demand for coffee was increasing in June 2000 coffee-producing countries agreed to decrease the supply of coffee released onto the market.

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

	demand curve	supply curve
A	shift to left	shift to right
B	shift to left	shift to left
C	shift to right	shift to right
D	shift to right	shift to left

- 13 What would be likely to happen within a country if its government granted more work permits to doctors coming from other countries?
- A increased demand for doctors
 - B increased productivity of doctors
 - C increased salaries for doctors
 - D increased supply of doctors

14 Which worker is likely to receive the highest earnings?

- A a cleaner
- B a shop assistant
- C a television announcer
- D a waiter

15 The table shows a worker's total income and the deductions made in 1999.

annual wage	\$19 000
overtime pay	\$1 000
direct tax	\$5 000
other deductions from salary	\$3 000

The worker decided to save 10% of disposable income in 1999.

What sum did the worker save?

- A \$12 000 B \$8 000 C \$1 200 D \$1 000

16 The following advertisement appeared in a Singapore newspaper.

**An established Japanese Co. in Orchard
URGENTLY requires**

BUSINESS CO-ORDINATOR

- Chinese, male
- Advanced diploma holder
- Experienced in Import/Export Documentation
- Age below 30

Interested, please call xxx xxxx

Which type of person is most likely to be appointed?

- A a local qualified person
- B an immigrant to Singapore from the UK
- C an older man with experience in exporting
- D a young school-leaver requiring a first job

17 Which group is likely to save the largest proportion of its income?

- A employed workers
- B retired people
- C school students
- D unemployed workers

18 In June 2000, it was reported in Singapore that wages of office cleaners and sales staff had declined by 34%, while those of higher paid professional workers had increased.

What can be concluded from the above?

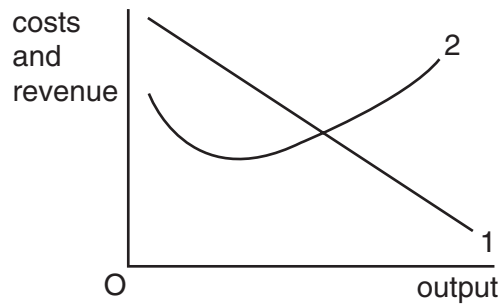
- A More highly skilled jobs always receive higher wages.
- B The difference in wages between skilled and unskilled workers increased.
- C Unskilled workers worked in the primary sector.
- D Wages increased because the number of skilled workers increased.

19 The price of a firm's product is \$5. It sells 1000 units.

Calculate the firm's total revenue (TR) and average revenue (AR).

	TR \$	AR \$
A	5 000	5
B	5 000	50
C	50 000	5
D	50 000	50

20 The diagram shows the cost and revenue curves of a firm.



What labels could apply to line 1 and line 2?

	line 1	line 2
A	average cost	average revenue
B	average cost	total revenue
C	average revenue	fixed cost
D	average revenue	average cost

21 When it produces 100 units, a firm's total variable cost is \$300 and its total fixed cost is \$2 700.

Calculate the average cost.

- A** \$3
- B** \$24
- C** \$27
- D** \$30

22 What is likely to be found when there are many small firms in an industry?

- A** There are few barriers to entry.
- B** There is high expenditure on research developments.
- C** Products are distributed to widely dispersed markets.
- D** Very large capital costs are needed to establish a firm.

23 The table shows a firm's output and total revenue.

output	total revenue \$
100	300
200	500
300	600
400	600

What happens to the price of the product when the output is increased from 200 to 300 units?

- A It increases by \$0.50.
- B It decreases by \$0.50.
- C It increases by \$1.00.
- D It stays the same.

24 As a firm increased the number of goods it produced it was able to reduce the price.

What does this suggest about the firm?

- A It is profitable to produce large quantities.
- B Total revenue falls as production increases.
- C The firm is a multi-national.
- D The firm does not want to make profits.

25 Which of the following is **not** an aim of government economic policy?

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

26 A person earns \$600 a month and pays \$200 income tax. Another person earns \$1000 a month and pays \$250 income tax.

Which of the following most accurately describes this tax?

- A indirect
- B progressive
- C proportional
- D regressive

27 Which of the following could be an example of frictional unemployment?

- A A school-leaver searches for a first job.
- B A construction worker loses his job because of bad weather.
- C A typist leaves a job and waits two weeks before starting a new one.
- D A coal miner loses his job because less coal is demanded.

28 During 2000 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
A	improve	fall
B	improve	rise
C	worsen	fall
D	worsen	rise

29 Which government policy would best protect the environment?

- A encouraging economic growth
- B exploiting natural resources
- C increasing tax on gasoline (petrol)
- D removing controls on industry

30 'Inflation falls from 10 % to 3 %.'

This means there was a fall in

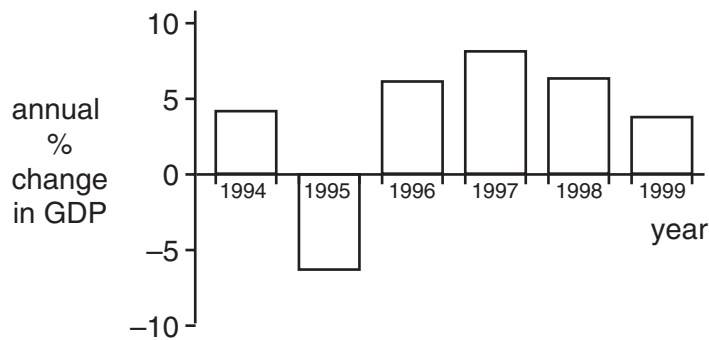
- A the cost of borrowing.
- B the price level.
- C the rate of increase in prices.
- D the standard of living.

- 31 The table shows the unemployment rate in five countries in June 1988, compared with the rate one month before and one year before.

country	Unemployment (%)		
	June 1988	May 1988	June 1987
United States	5.6	5.4	6.3
Japan	2.6	2.6	3.0
Europe: W Germany	8.9	8.8	8.9
France	11.2	11.5	11.5
UK	8.8	9.0	10.8

Which of the following can be concluded from the table?

- A Japan was unable to decrease unemployment further.
 B Unemployment rates were steadiest in the UK.
 C Unemployment rates in the European countries were generally higher than in the USA or Japan.
 D Unemployment was falling in all countries between June 1987 and June 1988.
- 32 The graph shows the annual percentage changes in Mexico's GDP between 1994 and 1999.



What conclusion may be drawn from the graph?

- A GDP fell between 1998 and 1999.
 B GDP was highest in 1997.
 C GDP rose between 1997 and 1998.
 D Prices remained constant over the period.

33 What would be likely to cause a fall in oil prices?

- A an increase in the production of goods and services in many countries
- B an increase in the supply of oil from oil-producing countries
- C the outbreak of war involving the main oil-producing countries
- D the stock-piling of oil by countries

34 As a result of a decrease in the demand for coal, several coal mines were closed.

What type of unemployment would this cause?

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

35 Given the following information, which country is most likely to have the greatest % increase in its population?

	A	B	C	D
	Iceland	India	Iran	Italy
birth rate	16	23	29	11
death rate	6	9	6	10
life expectancy	82	62	69	79
infant mortality	4	64	45	6

36 Which of the following are usually found in a developing economy?

- A a low GDP per head together with a high calorie intake
- B a low life expectancy together with a high rate of adult literacy
- C a low rate of infant mortality together with a high death rate
- D a low school-leaving age together with a high rate of unemployment

37 Which of the following is **not** a reason for a country to collect national income statistics?

- A to calculate changes in the size of the population
- B to compare standards of living between countries
- C to estimate the rate of economic growth
- D to measure changes in the standard of living

- 38 Which of the following is **not** an example of specialisation?
- A A vehicle manufacturer produces only buses, not cars.
 - B A nation encourages the most productive use of factors of production.
 - C A region manufactures a wide range of products.
 - D A worker makes only one part of a good.
- 39 A country decides to protect its industries with tariffs. What would be most likely to happen in that country in the short run?
- A cheaper exports
 - B lower costs for domestic industry
 - C more expensive imports
 - D specialisation according to comparative advantage
- 40 A government's aim is to reduce the amount of air pollution caused by producing electricity from coal-fired power stations.
- Which policy would conflict with this aim?
- A building nuclear power stations
 - B putting maximum limits on pollution levels
 - C subsidising coal prices
 - D taxing electricity produced by coal

