



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

Paper 1 Multiple Choice (Core)

0455/01

May/June 2008

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.



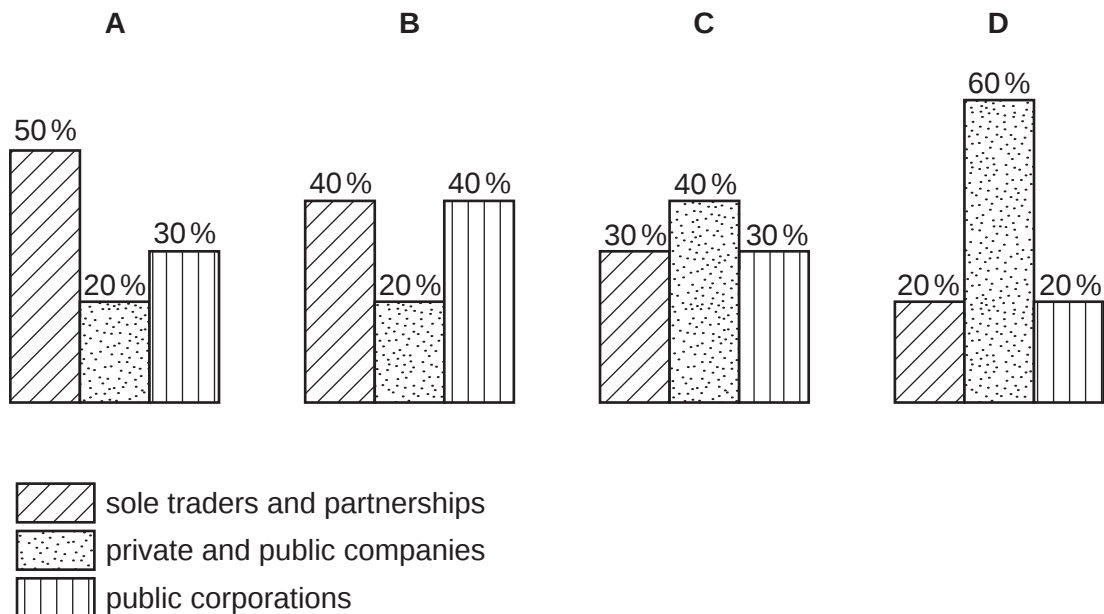
- 1 What can happen in a planned economy that does **not** happen in a market economy?
- A The allocation of resources can take account of the total effects on society.
 - B There can be full employment of factors of production.
 - C There can be inflation.
 - D There can be international trade.
- 2 Which of the following is a factor of production?
- A the payment of interest on a bank loan
 - B the profit declared by a company in its annual report
 - C the skill of the managers of a business
 - D the taxes paid to the government
- 3 In a mixed economy, resources are used as a result of
- A the decisions of consumers only.
 - B the decisions of firms only.
 - C the decisions of consumers and firms.
 - D the decisions of consumers, firms and government.
- 4 A farmer decides to use a more fertile field. As a result he is able to produce the same output as before but with fewer workers and less equipment.
- This is a substitution in which
- A capital replaces labour and land.
 - B labour replaces capital and land.
 - C land replaces capital and enterprise.
 - D land replaces capital and labour.

- 5 The table shows the various combinations of food and clothing which a village can produce using all its resources.

food units	clothing units
0	500
100	400
200	250
300	50
400	0

What is the opportunity cost to the village of increasing the production of food from 200 to 300 units?

- A 50 units of clothing
 B 100 units of clothing
 C 200 units of clothing
 D 250 units of clothing
- 6 The diagrams show the percentage (%) of output by type of business in four countries, A, B, C, D.
 Which country has the largest percentage of output in the private sector?

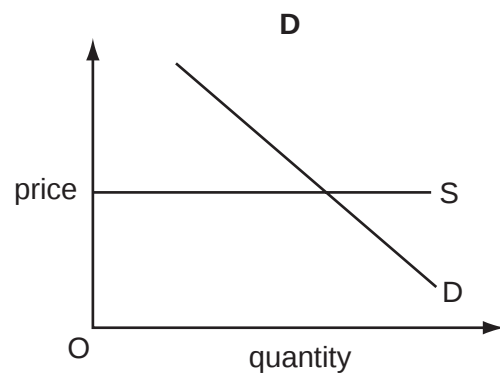
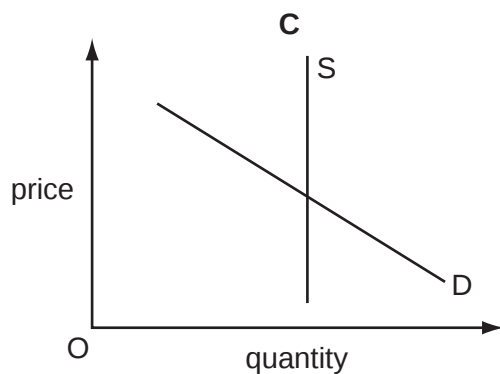
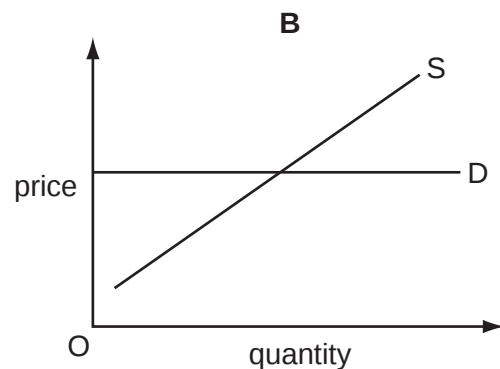
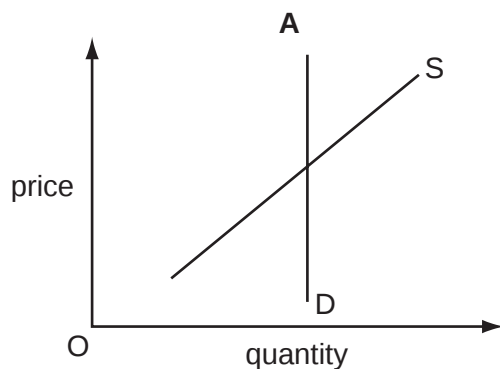


- 7 Which of the following benefits does a stock exchange provide?
- A a source of finance for private limited companies
 - B a safeguard against the risk of loss
 - C an opportunity to sell shares quickly
 - D an opportunity to purchase foreign currency
- 8 What is **not** a function of a trade union?
- A to act as a pressure group to change labour laws
 - B to negotiate with employers over conditions of work
 - C to promote the sales of products made by its members
 - D to protect the living standards of its members
- 9 A company is described as a multinational if it
- A employs workers of several nationalities.
 - B exports goods to several countries.
 - C has production units in several countries.
 - D has shareholders from several countries.
- 10 Due to good weather, there is a surplus in the market for an agricultural product.
- Which change would cause the market to return to equilibrium?
- A a decrease in demand
 - B a fall in price
 - C an increase in supply
 - D a rise in price
- 11 Which pair is an example of products in complementary (joint) demand?
- A bananas and oranges
 - B cars and petrol
 - C tea and coffee
 - D wheat and straw

- 12 What combination of events might cause a rise in the willingness and the ability of consumers to buy a product?

	price of a substitute product	tax rates
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

- 13 Which diagram best represents the market for tickets for a world famous tennis tournament?



- 14 What is a firm's aim when it advertises its product?

- A** to shift its demand curve to the left
- B** to shift its supply curve to the left
- C** to shift its demand curve to the right
- D** to shift its supply curve to the right

- 15 What would an individual be doing to be described as a worker in the secondary sector?
- A working in a firm that grows fruit trees and plants
 - B working in a firm that produces machines for other firms
 - C working in a government passport office
 - D working in the reception area of a hospital
- 16 A supermarket wishes to recruit a qualified manager for a senior position to control the stocks of goods. Some work will be required at night as the supermarket is open 24 hours. A good salary is being offered.
- Which applicant would be most likely to be suitable for the position?
- A a person currently employed as a supervisor in another supermarket
 - B a person who has experience of managing a small newsagents
 - C a person who has to travel a long way and has demanding family commitments
 - D a person who has recently graduated in Economics
- 17 What is the most likely reason for a firm to offer higher wages to recruit more staff?
- A falling incomes
 - B falling output
 - C falling prices
 - D falling unemployment
- 18 What is likely to be found when comparing high income earners with low income earners?
- A High income earners pay a lower proportion of their income in direct tax.
 - B High income earners spend a lower proportion of their income on food.
 - C High income earners spend a lower proportion of their income on foreign travel.
 - D High income earners save a lower proportion of their income.
- 19 What would encourage a rise in spending but not a rise in saving?
- A easier credit facilities
 - B more people working
 - C rising interest rates
 - D rising standards of living

20 An Economics student made the following statements about costs of production.

Average costs remain the same at all levels of output.

Fixed costs can exist when there is no output.

Total costs can include both fixed and variable costs.

Total variable costs fall as output increases.

How many of these statements are correct?

- A** 1 **B** 2 **C** 3 **D** 4

21 Which statement explains why cars are often repaired by small garages?

- A** bulk buying of spare parts can take place
B car-repair jobs are varied
C entry to the car-repair industry is restricted
D expensive machinery is required

22 A Japanese company which has spare capacity has agreed to refine 20 000 barrels of oil a day for a Chinese company.

What is likely to happen in the Japanese firm to fixed cost, to variable cost and to total cost?

	fixed cost	variable cost	total cost
A	rise	rise	rise
B	rise	fall	stay the same
C	stay the same	rise	rise
D	stay the same	fall	fall

23 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

24 As output increases, what happens to the average fixed cost of production?

- A** It falls continuously.
- B** It falls and then rises.
- C** It remains constant.
- D** It rises and then falls.

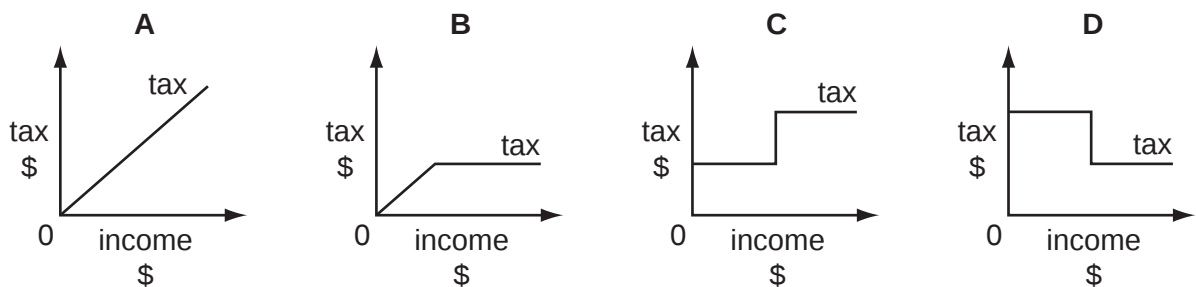
25 'The pound sterling made a dramatic recovery in the world's currency markets yesterday.'

To what does this statement refer?

- A** exchange rate
- B** growth rate
- C** interest rate
- D** tax rate

26 To pay for local projects the government imposes a charge of \$500 on each adult with a 100 % increase for those on higher incomes.

Which diagram illustrates this?



27 What might a government increase if it wished to raise the growth rate of an economy?

- A** expenditure on road building
- B** goods and services tax (value added tax)
- C** the rate of income tax
- D** the rate of interest

28 What is meant by a regressive indirect tax?

- A** a tax on income that falls more heavily on the poor
- B** a tax on income that falls more heavily on the rich
- C** a tax on spending that falls more heavily on the poor
- D** a tax on spending that falls more heavily on the rich

29 What is likely to be an advantage of economic growth?

- A** The country's resources will be depleted.
- B** The price level will increase.
- C** The rate of employment will fall.
- D** The standard of living will increase.

30 A government decreased the tax on all goods produced in a country.

What is the most likely result of this?

- A** a decrease in imports
- B** a decrease in industrial production
- C** a decrease in real incomes
- D** a deterioration in the balance of trade in goods

31 In 2003, interest rates in Southern Africa were reduced.

What might have happened as a result?

- A** an increase in investment
- B** an increase in unemployment
- C** a reduction in economic growth
- D** a reduction in government spending

- 32** The table gives information on Gross Domestic Product (GDP) growth rates, inflation and the unemployment rates for a number of countries in 2006.

country	GDP growth %	inflation %	unemployment rate %
Brazil	3.5	4.0	10.4
China	11.3	1.5	4.2
France	1.5	1.9	9.0
India	9.3	7.9	7.3
UK	2.6	2.5	3.0

What can be concluded from the table about 2006?

- A** Any particular product would cost most in India.
 - B** Economic growth was highest when unemployment was lowest.
 - C** Low inflation always causes low unemployment.
 - D** On average, the Chinese people were likely to have had an increase in real income.
- 33** Which of the following is most likely to be used as a measure of living standards?
- A** the balance of trade
 - B** the consumer price index
 - C** the government's budget position
 - D** the real GDP per head
- 34** In some developing countries, such as Rwanda, a large percentage of the population is involved in subsistence farming.

What can be concluded from this?

- A** In some developing countries, the natural resources are used efficiently.
- B** Production in some developing countries depends upon skilled labour.
- C** Production in some developing countries is not likely to be capital intensive.
- D** Some developing countries do not import food because each family is self-sufficient.

35 What is characteristic of a developed economy?

- A a high infant mortality rate
- B a high literacy rate
- C a low GDP per capita
- D a low life expectancy

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

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

- A conflicts of interest
- B free market economy
- C income creation
- D opportunity cost

37 Some countries protect their economies through barriers to free trade.

What would be the result in such countries of this protection?

- A Competition will be reduced.
- B Consumer choice will increase.
- C Prices will fall.
- D Unemployment will rise.

38 What is an advantage if a region specialises in a narrow range of products?

- A Other regions will become over-dependent on the region.
- B Scarce resources are used more efficiently.
- C The level of production in the region will decrease.
- D The region's system of transport is improved.

39 What is the main reason why the government, rather than the private sector, builds and runs hospitals?

- A Hospitals are expensive to build.
- B The government has enough tax revenue to pay for hospitals.
- C The government needs to be sure that the doctors are well-trained.
- D The whole country can benefit from the provision of good health facilities.

- 40** 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