

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/01

Paper 1 Multiple Choice (Core)

October/November 2005

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 is the basic economic problem facing all economies?

- A inequality of income
- B insufficient resources
- C low economic growth
- D shortages of skilled labour

2 The table shows information about government spending for an economy for two years.

	government spending as a % of GDP
1992	39
2002	43

What type of economy is this?

- A a free enterprise economy
- B a market economy
- C a mixed economy
- D a planned economy

3 A government spends \$100 m on employing extra teachers instead of extra nurses.

What will be the opportunity cost of this?

- A \$100m
- B the cost of training extra teachers
- C the extra nurses
- D the reduction in unemployment among teachers

4 Which is part of the factor of production land?

- A an airport
- B a car park
- C a fish farm
- D a forest

- 5 A shopkeeper runs a business as a sole proprietor.

What does this mean?

- A The business has limited liability.
- B The business is owned by shareholders.
- C The business is quoted on a stock exchange.
- D The profits of the business go to the shopkeeper.

- 6 What is **least** likely to be a function of a trade union?

- A improving working conditions
- B reducing the cost of labour
- C representing members' interests
- D securing adequate pay for members

- 7 The table shows information about four financial institutions, **A**, **B**, **C** and **D**.

Which institution is most likely to be a commercial bank?

	It is the government's bank.	It is owned by shareholders.
A	no	no
B	no	yes
C	yes	no
D	yes	yes

- 8 What is **most** likely to cause a shift in the supply curve for oil?

- A an increase in purchases of cars
- B an increase in the price of oil
- C a rise in consumer incomes
- D the discovery of new oilfields

- 9 A consumer's demand curve for a commodity shows how quantity purchased varies with

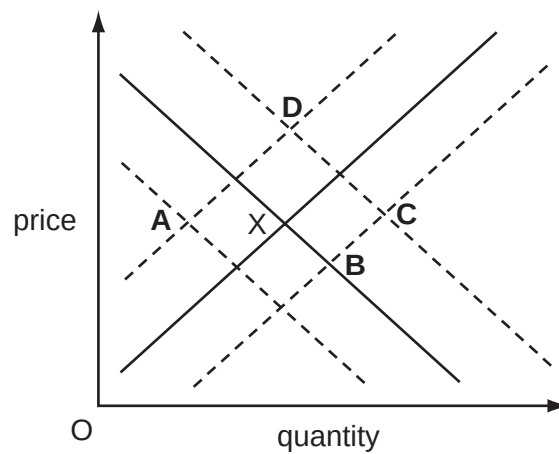
- A the consumer's income.
- B the consumer's tastes.
- C the price of substitutes.
- D the price of the commodity.

10 What is most likely to cause an increase in the demand for oranges?

- A a decrease in the supply of oranges
- B a health scare about eating oranges
- C an increase in the price of a complement
- D an increase in the price of a substitute

11 The diagram shows demand and supply curves for a good. The market is in equilibrium at point X.

What would be the new equilibrium position if there were a successful advertising campaign for the good and an increase in the cost of raw materials?

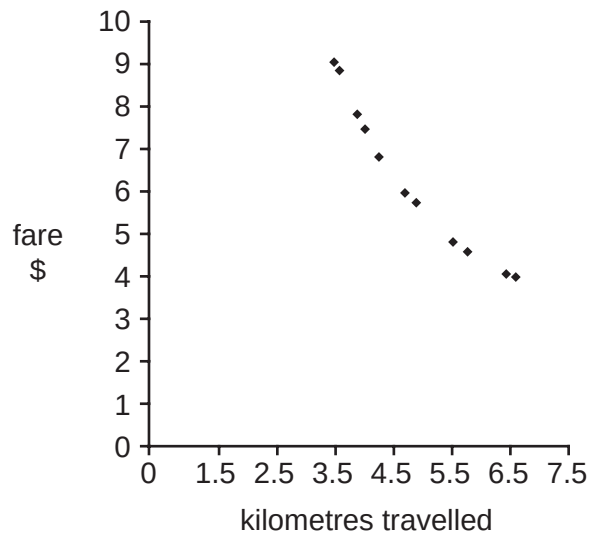


12 In 2002 the world price of cocoa was higher than in 2001.

Which combination of changes in the demand for and the supply of cocoa would always lead to a rise in price?

	demand for cocoa	supply of cocoa
A	higher	higher
B	higher	lower
C	lower	higher
D	lower	lower

- 13 The diagram shows the relationship between railway fares and passenger use in a capital city.



What is this diagram?

- A a demand curve
 - B a supply curve
 - C an average total cost curve
 - D a variable cost curve
- 14 Which reason can explain the high earnings of star footballers?
- A There are many of them.
 - B The training is easy.
 - C They enjoy playing football.
 - D They have special skills.
- 15 Which method of payment is a government official most likely to receive?
- A commission
 - B hourly rates
 - C piece rates
 - D salary

16 Interest rates fall.

How might this affect consumers' saving and spending?

	saving	spending
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

17 The table shows the percentages of consumer spending on different items in four countries, which have similar geographical conditions and climate.

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

country	percentage of consumer spending on each item		
	food	housing	entertainment
A	20	30	25
B	30	25	15
C	40	25	10
D	40	20	10

18 Which activity can a small firm carry out more easily than a large firm?

- A** adapting to changing fashions
- B** having specialised managers
- C** raising finance
- D** undertaking research and development

19 A firm manufacturing china plates has the following costs.

Which is a variable cost?

- A** building insurance
- B** interest on a loan
- C** raw materials
- D** rent of property

20 Which group has profit maximisation as a goal?

- A entrepreneurs
- B governments
- C savers
- D workers

21 When it produces 100 units, a firm's total variable cost is \$1000 and its total fixed cost is \$4000.

Calculate the average cost.

- A \$10 B \$30 C \$40 D \$50

22 What is **most** likely to be supplied by small firms?

- A banking
- B hairdressing
- C rail travel
- D water supply

23 The following information relates to a company producing shoes.

total output of pairs of shoes	total costs (\$)	total revenue (\$)
100	1000	1300
200	1800	2200
300	2700	3000
400	3200	3400

At which output does the firm maximise profits?

- A 100 B 200 C 300 D 400

24 Which policy would be most likely to increase the number of people in employment?

- A introducing a minimum wage
- B introducing a sales tax
- C reducing income tax
- D reducing tariffs on imports

- 25 What is likely to be the main aim of a government policy that increases both progressive taxes and welfare payments?
- A economic growth
 - B full employment
 - C price stability
 - D redistribution of income
- 26 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
- 27 What is likely to be a disadvantage of economic growth?
- A Government tax revenue falls.
 - B Resources are used up.
 - C The level of unemployment rises.
 - D The standard of living of the population falls.
- 28 Which of the following is **not** included in public sector expenditure?
- A capital spending of public companies
 - B expenditure by government departments
 - C investment by public corporations
 - D spending by local governments
- 29 Which type of unemployment is directly caused by a general lack of demand?
- A cyclical
 - B frictional
 - C seasonal
 - D structural

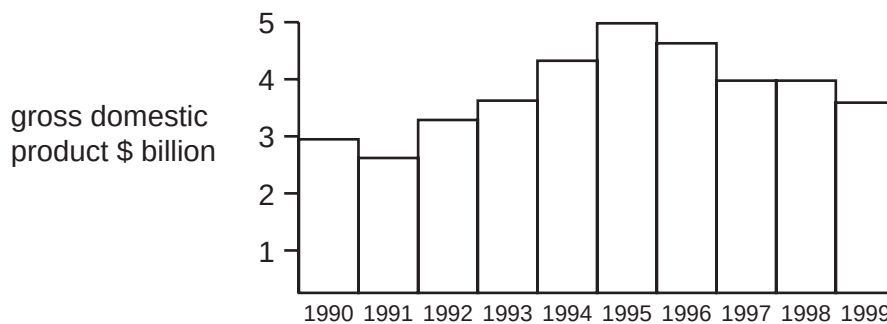
30 The table shows some changes in the output of Namibia between 1998 and 1999.

	%
agriculture	+11.7
fishing	+1.3
diamond mining	+9.4
manufacturing	−0.8
construction	−18.3
fish processing	−9.6

What can be concluded from this information about the Namibian economy between 1998 and 1999?

- A Exports of fish increased.
- B Namibia's primary sector production became more important.
- C Stocks of fish increased.
- D Unemployment rose by 0.8 % in manufacturing.

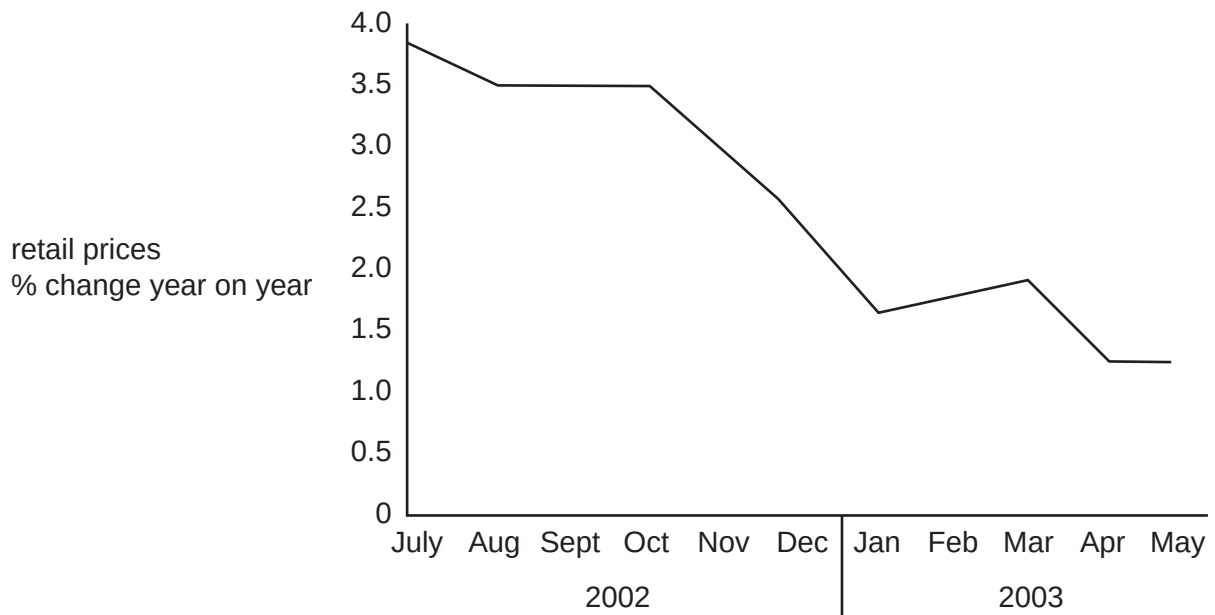
31 The diagram gives data for an economy from 1990 to 1999.



What can be deduced about the state of the economy in 1991 and 1995?

	1991	1995
A	budget surplus	budget deficit
B	inflation	deflation
C	recession	boom
D	trade deficit	trade surplus

32 The graph shows a change in retail prices for a country from July 2002 to May 2003.

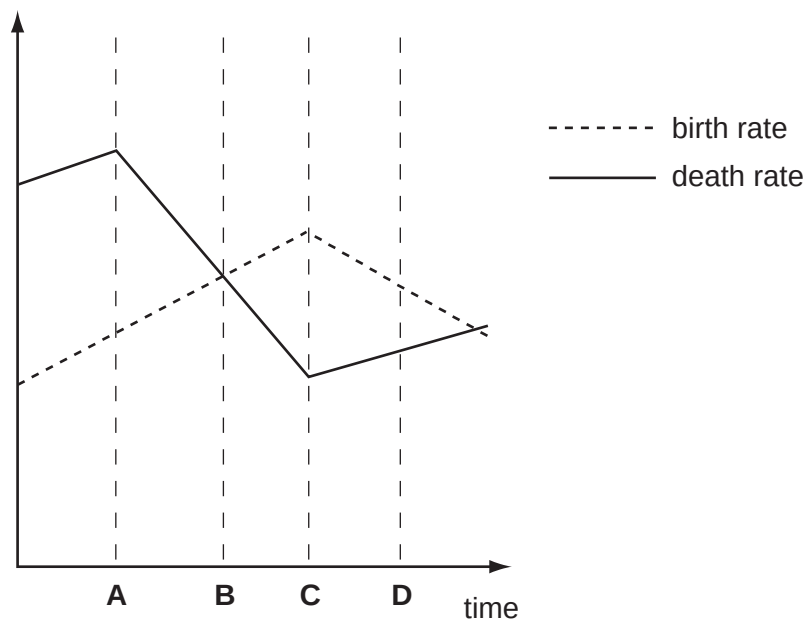


According to the graph,

- A** retail prices fell from October 2002 to January 2003.
- B** retail prices remained constant between September and October 2002.
- C** the rate of inflation fell each month throughout the period.
- D** the rate of inflation fell over the period.

33 The diagram shows the birth and death rates for a country over a period of time.

At which point did the country reach its highest population growth rate?



34 What is most likely to cause economic growth?

- A an increase in capital investment
- B an increase in interest rates
- C an increase in taxation
- D an increase in wages

35 The table shows information about four countries.

Which country is likely to be the **least** developed?

country	% population in urban areas	birth rate	death rate	% population under 15	% population over 60
A	86	16	8	25	10
B	76	13	6	23	9
C	69	30	8	37	5
D	75	13	10	21	14

36 The charts show the distribution of employment between the three sectors in Countries X and Y.



Which statement is true about Country X compared with Country Y?

- A Country X employs more people in the service industries.
- B Country X enjoys lower living standards.
- C Country X has a higher proportion of workers in manufacturing.
- D Country X produces more agricultural products.

- 37 The agricultural minister of a country said “the biggest challenge the country faces is to develop irrigation so that we are not at the mercy of the weather for crucial export earnings.”

Which type of country is this most likely to be?

- A developed, exporting manufactured goods
- B developed, exporting services
- C developing, exporting primary commodities
- D developing, exporting services

- 38 Country X decides to protect its industries with tariffs.

What would be most likely to result in the short run?

- A cheaper exports from country X
- B lower costs for industry in country X
- C more expensive imports to country X
- D more specialisation in country X

- 39 The table shows the main source of export earnings by product for selected countries.

country	product	% of export earnings
W	diamonds	80 %
X	sugar	90 %
Y	cars	55 %
Z	oil	80 %

From this table we can conclude that

- A all these countries specialise in the production of primary products.
 - B W and X specialise in the production of tertiary products.
 - C the largest % of export earnings from Y is from the sale of secondary products.
 - D export earnings of W and Z are identical.
- 40 What is an advantage of increased division of labour?
- A There is less risk of unemployment.
 - B There is usually an increase in productivity of labour.
 - C The work is repetitive.
 - D Workers are less dependent on others.

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