

GENERAL CERTIFICATE OF EDUCATION BOARD

General Certificate of Education Examination

0725 ECONOMICS 1

JUNE 2022

ADVANCED LEVEL

Centre No. & Name	
Centre Name	
Candidate Identification No	
Candidate Name	

Mobile phones are NOT allowed in the examination room

MULTIPLE CHOICE QUESTION PAPER

1 Hour 30 Minutes

INSTRUCTIONS TO CANDIDATES

Read the following instructions carefully before you start answering the questions in this paper. Make sure you have a soft HB pencil and an eraser for this examination.

1. USE A SOFT HB PENCIL THROUGHOUT THE EXAMINATION.
2. DO NOT OPEN THIS BOOKLET UNTIL YOU ARE TOLD TO DO SO.

Before the examination begins:

3. Check that this question booklet is headed "Advanced Level – 0725 Economics 1"
4. Fill in the information required in the spaces above.
5. Fill in the information required in the spaces provided on the answer sheet using your HB pencil:
Candidate Number and Name, Centre Number and Name.
Take care that you do not crease or fold the answer sheet or make any marks on it other than those asked for in these instructions.

How to answer the questions in this examination

6. Answer ALL the 50 questions in this Examination. All questions carry equal marks.
7. Each question has FOUR suggested answers: A, B, C and D. Decide on which answer is correct. Find the number of the question on the Answer Sheet and draw a horizontal line across the letter to join the square brackets for the answer you have chosen.

For example, if C is your correct answer, mark C as shown below:

[A] [B] ☒ [C] [D]

8. Mark only one answer for each question. If you mark more than one answer, you will score a zero for that question. If you change your mind about an answer, erase the first mark carefully, then mark your new answer.
9. Avoid spending too much time on any one question. If you find a question difficult, move on to the next question. You can come back to this question later.
10. Do all rough work in this booklet, using, where necessary, the blank spaces in the question booklet.
11. At the end of the examination, the invigilator shall collect the answer sheet first and then the question booklet after. DO NOT ATTEMPT TO LEAVE THE EXAMINATION HALL WITH IT.

Turn Over

1. If by creating a private garden, passers-by enjoy its view, this can be referred to in Economics as
 - A a free good.
 - B free riding.
 - C social benefit.
 - D positive externality.
2. Economics is a science which deals basically with
 - A the allocation of scarce resources.
 - B what and how to produce?
 - C scarcity, where and for whom to produce?
 - D unlimited human wants.
3. In certain circumstances, a centrally planned economy adopts the rationing system because of
 - A low real and money income of consumers.
 - B transportation and distribution difficulties.
 - C the need for equitable distribution of goods and services.
 - D the scarcity of goods and services in the market.
4. Which of the following characteristics of a free market economy is implied in the statement, "the decisions of producers determine the supply of a good; the decisions of the consumers determine the demand"?
 - A Freedom of choice and enterprise.
 - B The absence of government intervention.
 - C Self-interest is the dominating motive.
 - D There is competition among producers and consumers.
5. Which of the following statements about factors of production is correct?
 - A Capital comprises the money which the owners of firms need in order to start business.
 - B Land refers only to dry land surface area.
 - C Labour refers only to the mental efforts of humans.
 - D Entrepreneur is the manager of a business.
6. Firms usually set up close to each other in order to take advantage of
 - A external economies of scale.
 - B internal economies of scale.
 - C financial economies of scale.
 - D market economies of scale.

Question 7 is based on Table 1 showing the number of workers and the annual output of an industry.

Table 1

	Year 1	Year 2	Year 3
No. of Workers	110,000	120,000	100,000
Output (tons)	13,000,000	15,000,000	14,000,000

7. It can be concluded that labour productivity.
 - A declines in year 2 and increases in year 3.
 - B increases in year 2 and declines in year 3.
 - C is at its lowest in year 1.
 - D is at its highest in year 2.
8. The percentage of a company's profit that is distributed to shareholders is known as
 - A interest.
 - B profit.
 - C dividend.
 - D yield.
9. The type of pricing policy used by multinational corporations to shift profit from high tax countries to low tax countries is known as
 - A limit pricing.
 - B transfer pricing.
 - C predatory pricing.
 - D skimming pricing.
10. An accurate population census of a country is of economic importance because it helps
 - A in providing a basis for formulating economic policy.
 - B in solving unemployment problems
 - C to reduce false declarations made by people.
 - D to ensure equitable population redistribution

Question 11 is based on table 2.

Table 2

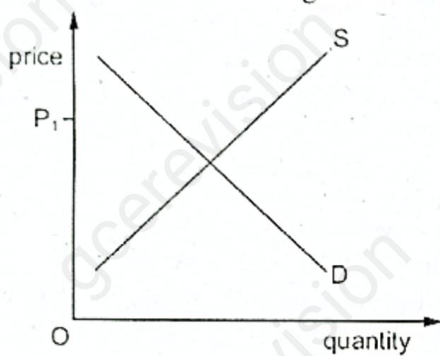
Age range(years)	% of population	
	1990	1995
1-17	25	20
18-59	40	42
60 and above	35	38

11. It can be concluded that the dependency ratio between 1990 and 1995
 - A increased by 2 %.
 - B increased by 5%.
 - C reduced by 2%.
 - D reduced by 5%.

12. A shift in the demand curve will have a greater effect on price than on quantity demanded if supply is
- fairly elastic.
 - fairly inelastic.
 - perfectly inelastic.
 - perfectly elastic.

Question 13 is based on figure 1 which shows the demand for and supply of oranges.

Figure 1



13. At P_1 , there will be
- a shortage of oranges.
 - a surplus of oranges.
 - an increased sale of oranges.
 - market clearing of oranges.

Question 14 is based on table 3 which shows a consumer's expenditure on a range of goods at different levels of income.

Table 3

Good	Consumer's Income (FCFA)	
	40,000	24,000
	Quantity demanded	
W	12	12
X	10	24
Y	14	14
Z	16	18

14. Which of the goods is the best example of a luxury?
- W.
 - X.
 - Y.
 - Z.

15. For a government buffer stock stabilization policy to succeed, the government should

- buy any excess in years of good harvest.
- provide enough storage facilities to farmers.
- supplement supply in years of good harvest.
- encourage farmers to sell all their produce.

16. Suppose a market is in equilibrium and then the demand increases. This may likely lead to an excess

- supply at the new equilibrium price.
- demand at the initial equilibrium.
- demand at the new equilibrium.
- supply at the initial equilibrium price.

17. A firm's expenditure on the purchase of raw material is regarded as

- explicit costs.
- implicit cost.
- variable cost.
- prime cost.

18. Output restrictions, fixing of price, creating obstacles to free entry into the market are features of

- monopolistic competition.
- pure monopoly.
- monopsony.
- perfect competition.

19. If the total sales revenue for a firm is 20 million FCFA, whereas the total fixed cost is 24 million FCFA and variable cost is 18 million FCFA, in the short run it should

- continue to produce in the short run.
- shut down in the short run.
- continue to produce in the long run.
- shut down in the medium term.

20. A nationalized firm practising MC pricing policy will produce

- a greater output and sell at a lower price than a private monopoly.
- at output level where $MR=MC$.
- a lower output and sell at a higher price than a private monopoly.
- at output level where $AR=AC$.

Turn Over

21. When a firm in monopolistic competition is producing below its technical optimum, it is said to be
- experiencing x-efficiency.
 - incurring losses.
 - earning subnormal profit.
 - experiencing excess capacity.

22. Time rates as a method of wage payment is most appropriate where
- work is easily measured.
 - it is difficult to measure the work done.
 - quantity is more important than quality.
 - workers can proceed at their own pace.

23. An outward shift of the liquidity preference curve will cause the rate of interest to rise because
- of the increase in the demand for securities.
 - of an increase in income.
 - the stronger desire to hold money.
 - it leads to an increased desire to sell securities.

24. Profit is the only factor reward that
- may be negative.
 - is contractual.
 - is certain.
 - is negotiated.

25. The difference between the return made by a factor of production and the return necessary to keep it in its present line of production is termed
- quasi rents.
 - economic rents.
 - normal profit
 - surplus.

Question 26 refers to the following information concerning the national income accounts of an imaginary country.

Taxes on expenditure	20 million FCFA
TDE at market prices	460 million FCFA
GDE at market prices	480 million FCFA
TFE at market prices	500 million FCFA

26. What is the value of exports?

- 20 million FCFA.
- 30 million FCFA.
- 40 million FCFA.
- 50 million FCFA.

27. If a country fails to deduct external costs arising from the production of goods and services from its GNP figures, this may likely result in
- double counting.
 - a fall in living standard.
 - an overestimation of economic welfare.
 - an underestimation of national income.

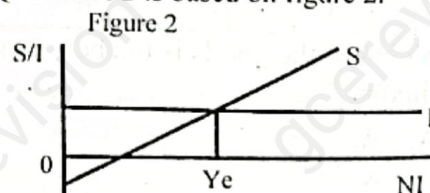
28. Personal income minus _____ gives the personal disposable income.
- direct tax.
 - indirect tax.
 - transfer payments.
 - bonuses.

29. The consumption function in a two-sector economy is represented by $C = 100 \text{ million FCFA} + 0.6Y$, where Y represents disposable income. What is the value of autonomous dissaving?
- 100 million FCFA.
 - +100 million FCFA.
 - +80 million FCFA.
 - 80 million FCFA.

30. What is the GNP of a country?
- GDP + Property income from abroad.
 - Value of goods and services produced within a country.
 - National output of goods and services.
 - The value of a country's output produced by its resources.

31. The Paradox of Thrift holds if
- there is a constant capital-output ratio.
 - there are unemployed resources.
 - capital goods industry has no excess capacity.
 - no stocks exist in consumer goods industry.

Question 32 is based on figure 2.



32. It can be concluded that saving is
- only induced.
 - only autonomous.
 - both autonomous and induced.
 - inversely related to income.

33. At the point where the income line intersects the consumption curve, APC is
- less than zero.
 - greater than zero.
 - equal to one.
 - equal to zero.

34. In a three-sector governed economy, saving is one quarter of disposable income and government taxes are one fifth of income. What is the value of the multiplier?
- 1.05
 - 1.5
 - 2.22
 - 2.5

35. The demand curve for active money balances will shift to the left if there is an increase in the
- individual's income.
 - rate of interest.
 - frequency of income payments.
 - general price level.

36. For money to serve as a good standard for deferred payment, it must be
- Portable.
 - durable.
 - stable in value.
 - divisible.

37. Ignoring improvements in the quality of a good in constructing a retail price index may likely
- understate the rate of inflation.
 - overstate the rate of inflation.
 - indicate menu cost.
 - illustrate money illusion.

38. Customers' sight deposits are considered as liabilities to commercial banks because
- they are used to settle interbank indebtedness.
 - they are items that commercial banks possess.
 - they are total amount of claims by commercial banks on other people.
 - commercial banks are obliged to pay them to customers on demand.

39. "A good tax should achieve its intended aims with minimum undesired side effects". This principle of a good tax is known as
- efficiency.
 - convenience.
 - certainty.
 - consistency.

40. Why will the burden of an external national debt likely fall during a period of inflation?
- A small percentage of GNP will be required for its servicing.
 - The debt has been used to acquire real assets.
 - The debt will certainly be cancelled.
 - A small volume of imports will be required for its repayment.

41. The deliberate action by the government to regulate the level of economic activity through fiscal policy instruments is known as
- fiscal stance.
 - fiscal drag.
 - automatic stabilizers.
 - discretionary fiscal policy.

42. A worker's monthly income increases from 150,000 FCFA to 250,000 FCFA and the amount of tax paid increases from 25,000 FCFA to 40,000 FCFA. What is the marginal rate of tax?
- 6.7%.
 - 15%.
 - 16%.
 - 16.7%.

43. If the terms of trade between Cameroon and Nigeria lie within the limits set by their domestic opportunity cost ratios, then
- it is impossible for both countries to trade with each other.
 - trade will benefit only one of the countries.
 - it is unprofitable for them to trade.
 - it is profitable for both countries to trade with each other.

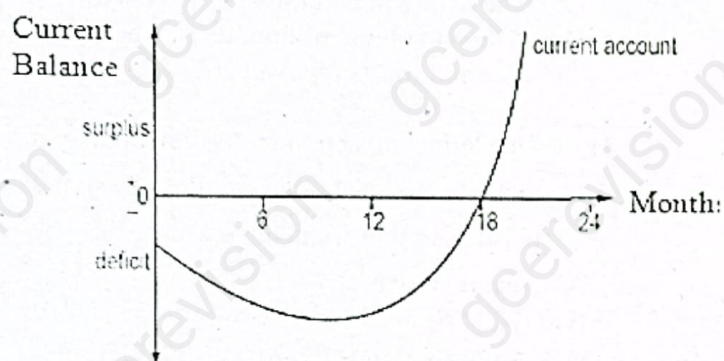
44. An argument against trade protection is that it will increase
- the current account deficit.
 - competition for domestic industries.
 - opportunities for domestic infant industries.
 - domestic price levels.

45. When the exchange rate is maintained within agreed margins around a central parity with the possibility of changing the central parity, this exchange rate system is known as
- managed floating.
 - adjustable peg.
 - crawling peg.
 - managed fixed.

Turn Over

Question 46 is based on figure 7 below which shows the effect in two years as a country intended to improve on its balance of payments situation by devaluing its currency.

Figure 7



46. Which of the following statements is likely to explain this performance?

- A The domestic inflation rate fell after 12 months before having the desired result.
- B The policy was ineffective and other factors must have led to an improvement in the current account.
- C In the short run, the price elasticities of demand for exports and imports were very low.
- D The elasticity of demand for imports diminished after 12 months.

47. The introduction of improved machinery may result in slow economic growth if

- A labour unions are too powerful to resist their use.
- B the demand for the final product increases.
- C there is poverty alleviation.
- D there is redistribution of income.

48. Which of the following is a possible indicator of development?

- A High dependency ratio.
- B High birth rate.
- C Improved access to health care.
- D High proportion of people employed in agriculture.

49. Which of the following is a policy instrument?

- A Interest rate.
- B Price stability.
- C High employment.
- D Economic growth.

50. The reduction in government control over economic activities carried out by the private sector is known as

- A deregulation.
- B rehabilitation.
- C renationalization.
- D denationalization.

GO BACK AND CHECK YOUR WORK