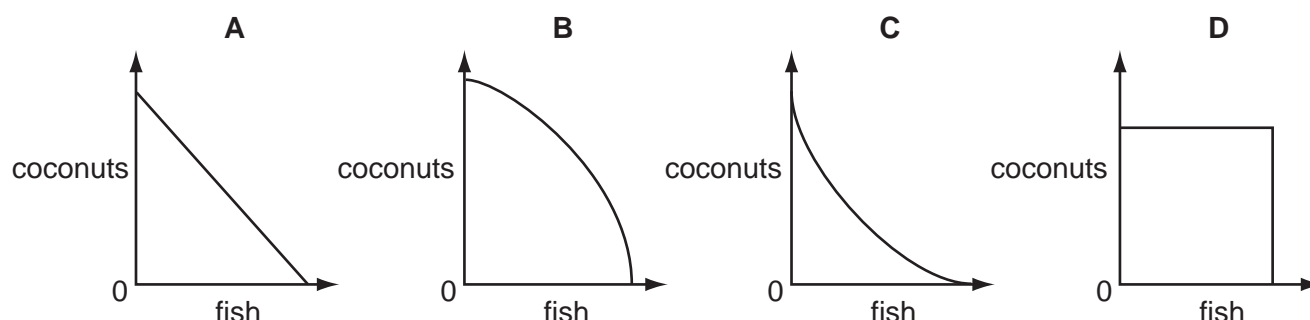


- 1 Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

Which diagram represents the production possibility curve of this community?



- 2 Which is a normative statement?

- A** Inflation can be reduced only by increasing the level of unemployment.
- B** An increase in the rate of inflation will lead inevitably to an increase in unemployment.
- C** Unemployment is more harmful than inflation.
- D** If unemployment is reduced below a certain level, this will lead to higher inflation.

- 3 In which situation would an economist assume ceteris paribus?

- A** when calculating the retail prices index
- B** when deciding what to include in a cost benefit analysis
- C** when making normative statements to advise the government
- D** when studying the effect of a price rise on demand

- 4 In the 20th century the nature of a typical car assembly plant changed. Company mergers meant there were fewer firms, they operated on larger sites and they had more automated machinery and robots.

How is this change most likely to have affected the relative employment of factors of production in the industry?

| | increased relative use | decreased relative use |
|----------|------------------------|------------------------|
| A | capital and enterprise | labour and land |
| B | enterprise and labour | land and capital |
| C | land and capital | enterprise and labour |
| D | labour and land | capital and enterprise |