

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/03

Paper 3 Multiple Choice

May/June 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 In a market economy, what does the entrepreneur decide?

- A the combination of resources used
- B the demand for the product
- C the equilibrium price of the product
- D the level of profits

2 China is changing from a centrally planned economy towards a market economy.

How will the influence of consumers and the government change?

| | consumers | government |
|----------|-----------|------------|
| A | decrease | decrease |
| B | decrease | increase |
| C | increase | decrease |
| D | increase | increase |

3 A factory working at full capacity is producing tennis racquets and golf clubs. The management decides to produce fewer racquets and more clubs because of an increase in demand for golf clubs.

What is the opportunity cost of producing more golf clubs?

- A the cost of retraining some workers to make golf clubs
- B the cost of transporting and selling the extra golf clubs produced
- C the materials bought to make extra golf clubs
- D the tennis racquets that will not now be produced

4 Anything used as money must have

- A a fixed supply.
- B general acceptability.
- C recognition as legal tender.
- D value in itself.

- 5 A business has two owners. They have limited liability. Its shares are not sold on the stock exchange.

What type of business is this?

- A partnership
 - B private limited company
 - C public corporation
 - D public limited company
- 6 What is most likely to be the main function of a central bank?
- A controlling the money supply
 - B investing in commerce and industry
 - C issuing and processing credit cards
 - D making loans to individuals
- 7 What would prevent an Egyptian company being classified as a multi-national company?
- A It concentrates on one stage of production only.
 - B It employs only Egyptians as managers.
 - C It manufactures only in Egypt.
 - D It uses other firms to transport its goods.
- 8 What would **not** cause a shift in the demand curve for a good?
- A a change in incomes
 - B a change in the price of a substitute good
 - C a change in the price of the good
 - D a change in the tastes of consumers
- 9 Four changes affecting the supply of a good are listed below.
- What would cause the supply curve to shift to the right?
- A an improvement in technology
 - B an increase in its market price
 - C a reduction in labour productivity
 - D the introduction of a sales tax

10 What is an example of complementary demand?

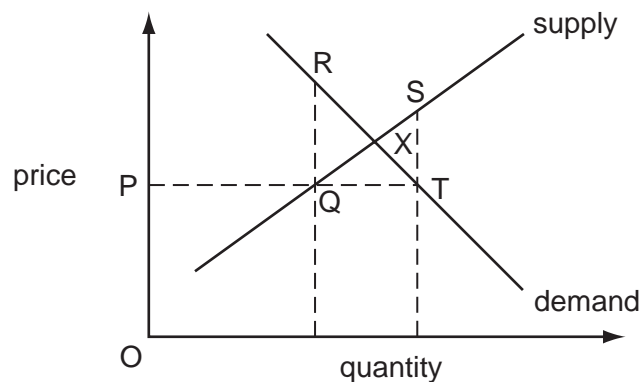
- A buses and bus fares
- B cotton and cotton seed
- C televisions and electricity
- D wood and sawdust

11 A good is successfully advertised.

What is the most likely impact on the demand and supply curves for the good?

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

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



What is the excess demand at price P?

- A PT
- B QR
- C QT
- D ST

13 The table shows the value of the price elasticity of demand for four products.

| product | price elasticity of demand |
|---------------|----------------------------|
| cars | 2.0 |
| mobile phones | 1.0 |
| radios | 0.5 |
| salt | 0.1 |

What would have an increase in sales revenue if prices rose by 10 %?

- A** cars only
- B** cars and mobile phones
- C** radios and salt
- D** salt only

14 What might explain why wages paid in a particular occupation are high?

- A** a large supply of labour
- B** a low price for the good produced
- C** a strong trade union
- D** pleasant working conditions

15 What is a non-wage factor that can affect an individual's choice of occupation?

- A** bonuses
- B** commission
- C** long holidays
- D** overtime pay

16 A person has no outstanding debts.

What might cause that person to save more and spend less from their monthly income?

- A** a rise in the choice of products
- B** a rise in income tax
- C** a rise in interest rates
- D** a rise in the price of essential products

17 The table gives information about full-time workers in a country.

| | average annual earnings | | hours worked per week |
|--------|-------------------------|--------------------------|--------------------------|
| | \$ | % increase in 2003–04 | |
| male | 21 268 | 4.4 | 41.8 |
| female | 15 444 | 5.1 | 37.6 |

What can be concluded from the table?

- A All female workers earned less than male workers.
 - B The difference between male and female earnings became smaller.
 - C The hourly rate of pay for females was higher than for males.
 - D The productivity of female workers was higher than that of males.
- 18 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.
- 19 A firm producing instant coffee previously paid for the disposal of the waste. It now sells the waste to be made into garden fertiliser.
- Which cost to the firm has **not** changed?
- A average cost
 - B fixed cost
 - C total cost
 - D variable cost
- 20 In 2003 Hewlett-Packard, a major computer company, announced that its profits had fallen below the level predicted.

What might have caused this?

- A increased advertising costs that greatly improved sales
- B low prices that made the company's product competitive
- C new technology that reduced costs
- D reduced sales and low prices

- 21** Wal-Mart, the world's biggest food retailer, has acquired a large number of supermarkets.

What type of integration is this?

- A** conglomerate
- B** horizontal
- C** vertical backward
- D** vertical forward

- 22** Ericsson is the world's leading maker of mobile phone machinery. It announced that it had won a major contract to supply a Chinese phone company, China Mobile, with machinery. Ericsson also announced that it would become more efficient by reducing its workforce.

How would economists classify these changes for the two companies?

| | Ericsson | China Mobile |
|----------|---------------------------------|---------------------------------|
| A | decreased average variable cost | decreased fixed cost |
| B | decreased average variable cost | increased fixed cost |
| C | increased fixed cost | decreased average variable cost |
| D | decreased fixed cost | decreased average variable cost |

- 23** A firm bottles 10 000 bottles of cola a week. Its fixed costs are \$1000 a week. Its variable costs are \$0.50 a bottle. Each bottle of cola is sold for \$1.

What is the profit per bottle of cola?

- A** \$0.40
- B** \$0.50
- C** \$0.60
- D** \$0.90

- 24** The table gives information on the rate of economic growth in a country from 2001 to 2004.

| | economic growth (%) |
|------|---------------------|
| 2001 | 3.9 |
| 2002 | 2.6 |
| 2003 | 2.3 |
| 2004 | 3.0 |

What is likely to have fallen in this period?

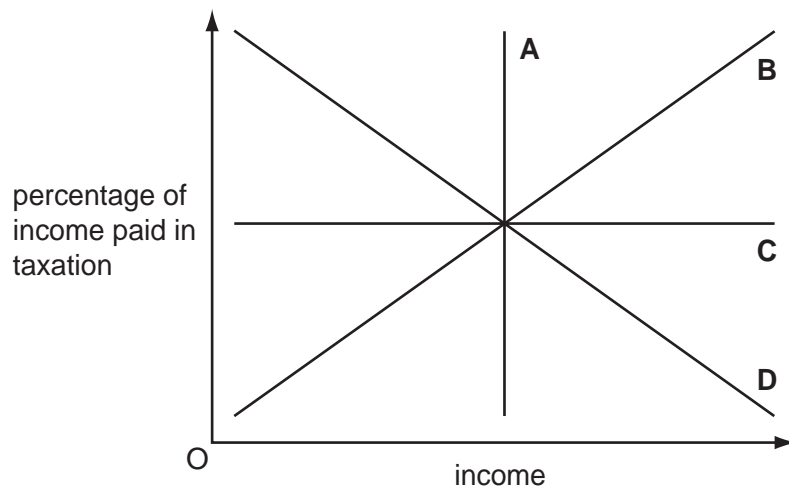
- A** Gross Domestic Product
- B** imports
- C** prices
- D** unemployment

25 What is **most** likely to conflict with a government's aim of price stability?

- A higher direct tax rates
- B higher government spending
- C higher interest rates
- D higher unemployment

26 The graph shows the percentage of tax taken from different levels of income by four different taxes.

Which illustrates a regressive tax?



27 The table shows the working population and value of production in four areas of a country.

The government wants to encourage industrial development in the area with the lowest productivity.

Which area will it select?

| area | working population (millions) | production (\$ millions) |
|----------|----------------------------------|-----------------------------|
| A | 6 | 700 |
| B | 16 | 1000 |
| C | 12 | 1200 |
| D | 12 | 1100 |

28 The government of Kenya wishes to help people with very low incomes.

Which policy would achieve this?

- A** increasing housing subsidies
- B** increasing income tax
- C** increasing indirect taxation
- D** increasing inheritance tax

29 In March 2000 the Ministry of Trade and Industry in Singapore stated that Gross Domestic Product grew by 5.4 % in the previous year. This produced higher revenues from taxation and resulted in a budget surplus.

What may be concluded from this statement?

- A** The change in Gross Domestic Product was caused by a change in taxation.
- B** The government had increased the rate of taxation and the expenditure on its services.
- C** The national income of the country had increased and so more was paid in taxes.
- D** There had been economic growth because the government had reduced its expenditure and budgeted for a surplus.

30 The table gives selected details of the UK trade in goods in 1998 and 1999 in £ billion.

| year | exports of goods | imports of goods |
|------|------------------|------------------|
| 1998 | 164.1 | 184.9 |
| 1999 | 165.0 | 191.2 |

What happened to the balance of trade in goods between 1998 and 1999?

- A** The deficit decreased.
- B** The deficit increased.
- C** The surplus decreased.
- D** The surplus increased.

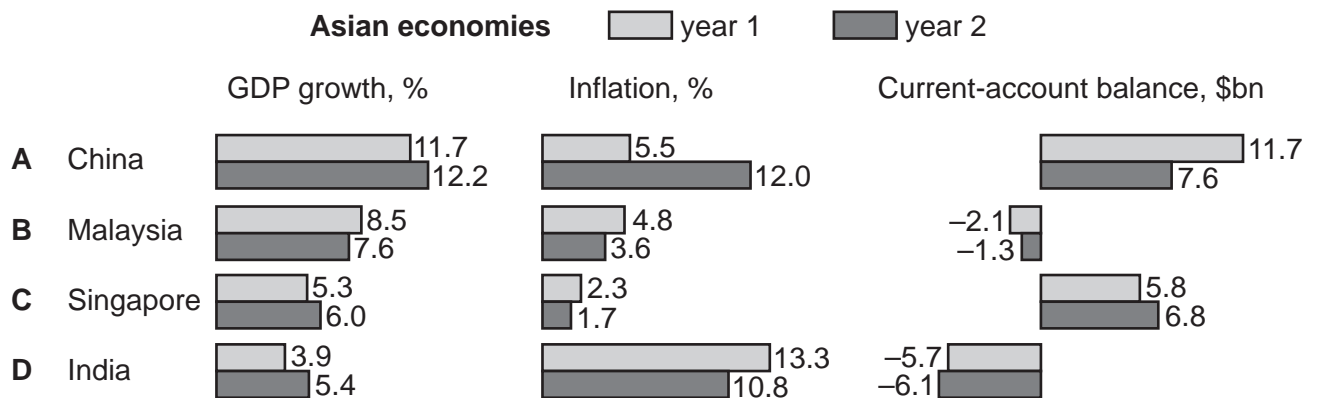
- 31 Instead of cleaning their own homes, a large number of households decide to clean each other's homes and charge for their services. They all declare their income to the tax authority.

What will increase as a result of this?

- A Gross Domestic Product
- B imports
- C investment
- D unemployment

- 32 The bar chart shows details of three economic indicators of several Asian economies in year 1 and year 2.

Which country improved its economic performance in all three indicators?



- 33 Which citizens are most likely to become worse off in a period of falling prices?

- A those earning fixed incomes
- B those saving at a fixed rate of interest
- C those who have borrowed money at a fixed rate of interest
- D those who have lent money at a fixed rate of interest

- 34 Many fishermen are unemployed owing to long-term legislation to conserve fish stocks in the North Sea.

What type of unemployment is this?

- A demand-deficient
- B frictional
- C seasonal
- D structural

- 35** In producing a table of economic statistics about a developed country (Italy) and a developing country (Ethiopia) one pair of statistics has been placed in the wrong columns.

Which is it most likely to be?

| | | Italy | Ethiopia |
|----------|-----------------------|-------|----------|
| A | adult literacy % | 97.1 | 25.3 |
| B | birth rate (per 1000) | 9.6 | 45.7 |
| C | death rate (per 1000) | 16.4 | 9.9 |
| D | life expectancy | 78.3 | 50.2 |

- 36** Which aspect of population will be most likely to change when the importance of the tertiary sector increases?

- A** the dependency ratio
- B** the geographical distribution
- C** the occupational distribution
- D** the total size

- 37** When must there be a rise in a country's population?

- A** when the birth rate is greater than death rate and there is net emigration
- B** when the birth rate is greater than death rate and there is no migration
- C** when the death rate is greater than birth rate and there is net immigration
- D** when the death rate is greater than birth rate and there is no migration

- 38** In Indonesia the opportunity cost of producing timber is lower than in any other country.

To protect the environment, the Indonesian government decides to conserve its timber and ban timber exports.

What would happen in Indonesia to the balance of trade and external costs?

| | balance of trade | external costs |
|----------|------------------|----------------|
| A | worsens | fall |
| B | worsens | unchanged |
| C | improves | rise |
| D | unchanged | rise |

- 39** Multi-national companies often set up business in developing countries. These countries benefit in a number of ways.

What effect could **not** be considered a benefit for a developing country?

- A** Investment in infrastructure is increased.
 - B** More local workers are employed.
 - C** New ideas and skills are introduced.
 - D** Profits earned are sent abroad.
- 40** If a country places a tax on imports of food, which group in the country is most likely to benefit?
- A** consumers
 - B** farmers
 - C** food importers
 - D** supermarkets