

International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS

ECONOMICS

PAPER 3 Multiple Choice

0455/3

OCTOBER/NOVEMBER SESSION 2002

1 hour

Additional materials:

Multiple Choice answer sheet

Soft clean eraser

Soft pencil (Type B or HB is recommended)

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **forty** questions in 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 very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

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.

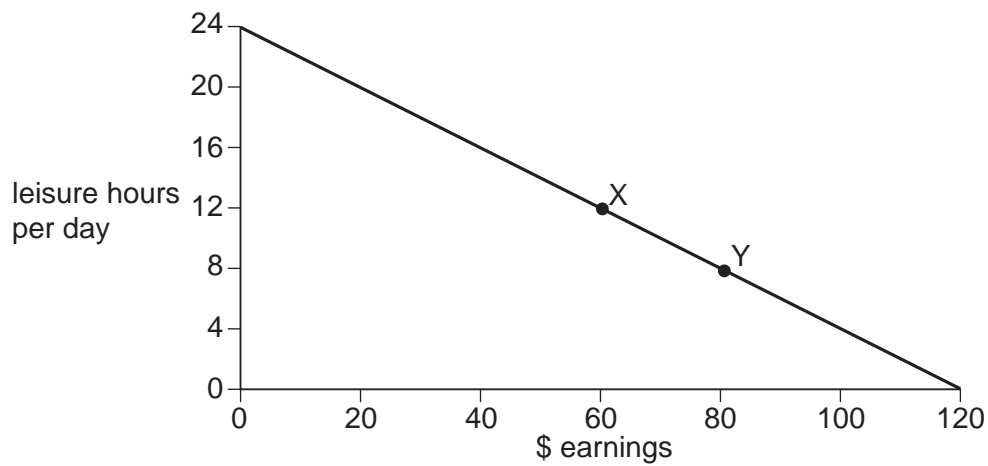
This question paper consists of 12 printed pages.



- 1 Although people may satisfy their basic needs there is always something more that they want.

To what economic issue does this statement refer?

- A exchange
 - B income distribution
 - C market forces
 - D scarcity
- 2 The diagram shows the choices for an individual between leisure and earnings.



What is the opportunity cost to the individual of the extra earnings when moving from position X to position Y?

- A \$20
 - B \$80
 - C 4 hours' leisure
 - D 8 hours' leisure
- 3 Which asset is **not** part of the factor of production 'land'?
- A a forest
 - B a natural harbour
 - C an oilfield
 - D a road

- 4 A student records her income and spending for the past month.

What function is money performing in this situation?

- A medium of exchange
- B standard of deferred payments
- C store of value
- D unit of account

- 5 A claim for higher wages by a trade union would **not** be helped by an increase in

- A consumers' demand.
- B labour productivity.
- C profit.
- D unemployment.

- 6 What is meant by 'the separation of ownership and control' in business organisations?

- A increased control by the workforce
- B government intervention in business organisations
- C the employment of managers who are not shareholders
- D the expansion of private enterprise

- 7 Which organisation controls the banking system in most countries?

- A central bank
- B commercial bank
- C investment bank
- D World Bank

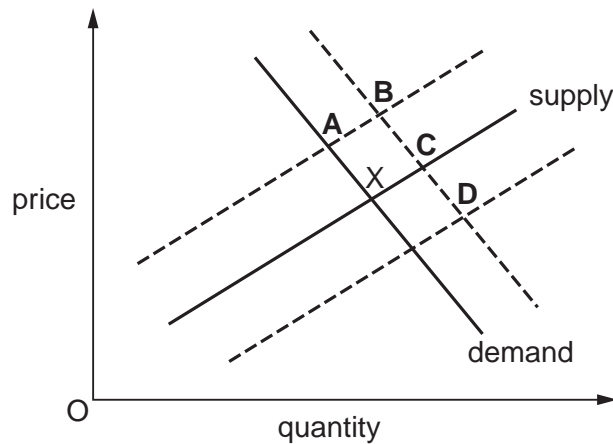
- 8 Many countries have been extending the role of market forces in their economies.

What is intended to result from this action?

- A greater economic efficiency
- B greater equality of income
- C less specialisation
- D more government control

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

What would be the new equilibrium situation if this good were successfully advertised and the cost of raw materials for the good rose?



- 10 The table shows Rover car sales in the UK in 1999 and 2000. In 1999 the sales followed the usual seasonal pattern.

month	sales 1999	sales 2000
January	8 445	7 767
February	4 524	3 348
March	18 765	15 210
April	7 109	20 150
May	7 157	7 793

In which month of 2000 did an aggressive price cutting policy disturb the usual pattern?

- A** January **B** March **C** April **D** May
- 11 A product has totally inelastic price elasticity of demand.

What will happen to total revenue if the price of the product rises by 10%?

- A** It will fall by 10%.
B It will fall to zero.
C It will remain unchanged.
D It will rise by 10%.

- 12** Changes in the market for gasoline (petrol) in Zimbabwe in 2000 resulted in fuel shortages and long queues.

Which combination of changes would have been certain to cause this situation?

	demand for gasoline	supply of gasoline
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

- 13** In the 1970s and 1980s coffee was a high proportion of Brazil's exports. Brazil is now also a major exporter of sugar, orange juice, tobacco and beef. What is this change an example of?

- A** diversification
- B** economies of scale
- C** expansion of the secondary sector
- D** specialisation

- 14** Which type of saving will appeal most to a saver whose main motive is a secure current income?

- A** current account
- B** government stocks
- C** pension funds
- D** shares

- 15** In 2000 the governments in a number of European countries had decided to reduce the amount of gold held in their central banks.

What was likely to happen to the price of gold and the wages of gold miners as a result of this decision?

	price of gold	wages of gold miners
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

16 Which of the following factors is likely to cause wages in an occupation to be low?

- A** extra responsibility
- B** rising unemployment
- C** the need for special skills
- D** unpleasant working conditions

17 On completing your studies, you decide you want to work in an organisation which is big enough to give you a chance of promotion, but where shift work will not normally be required.

Which of the following would be the best one to choose?

- A** a government office
- B** a hairdressing salon
- C** a hospital emergency department
- D** a local electrician's

18 Which combination of government actions is likely to increase borrowing in an economy?

	direct tax rates	interest rates
A	lower	lower
B	lower	raise
C	raise	lower
D	raise	raise

19 The table shows the total costs and profits of a firm making bracelets.

sales of bracelets	total costs (\$)	profit (\$)
100	400	-200
200	500	-100
300	600	0
400	700	+100

What is the average revenue from selling bracelets?

- A** \$1
- B** \$2
- C** \$100
- D** \$200

- 20** The table shows how a firm's total costs rise with output in the long run.

output (units)	total cost (\$)
2000	40 000
4000	60 000
6000	72 000
8000	80 000

Over which range of output does the firm achieve economies of scale?

- A** only up to 2000 units
 - B** only up to 4000 units
 - C** only up to 6000 units
 - D** over the whole range of output shown
- 21** Which statement about fixed costs is correct?
- A** They exist only in the long run.
 - B** They include raw material and direct labour costs.
 - C** They increase at the same rate as output.
 - D** They must be paid even if there is no output.
- 22** In 2000 there was a proposal for British Airways to merge with the Dutch Airline KLM. As a result one in six of the workforce and some offices would no longer be required.

What does this statement suggest would happen if the two companies were merged?

- A** Air fares would rise.
 - B** Average cost would rise.
 - C** Diseconomies of scale would occur.
 - D** Fixed and variable costs would decrease.
- 23** A firm earned the same profits after it invested in new equipment but reduced its workforce.

What was the result of the firm's actions?

- A** Fixed costs of production fell.
- B** Labour was replaced by capital.
- C** The productivity of labour fell.
- D** Variable costs of production rose.

24 What is an example of forward vertical integration?

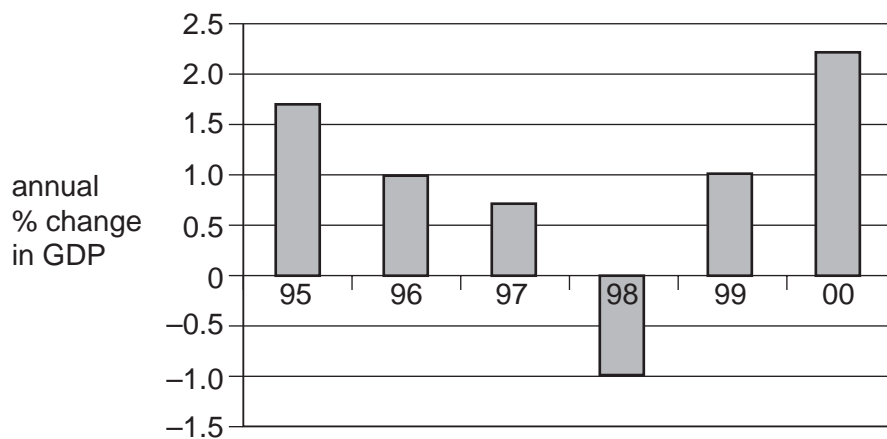
- A A car manufacturer takes over a tyre manufacturer.
- B A tyre manufacturer takes over a firm selling cars.
- C A tyre manufacturer takes over a rubber plantation.
- D A tyre manufacturer takes over another tyre producer.

25 A government increases pension payments to its retired employees.

What must increase immediately?

- A Gross Domestic Product
- B public expenditure
- C the budget surplus
- D the cost of living

26 The graph shows the rate of economic growth in country X.



Which of the following statements is true?

- A Gross Domestic Product fell from 1996 to 1997.
- B Gross Domestic Product was lowest in 1998.
- C Gross Domestic Product rose from 1995 to 1996.
- D There was no economic growth between 1996 and 1999.

27 The following are a government's receipts from taxation.

	\$m
corporation tax	85
customs duties	20
income tax	550
inheritance tax	35
sales tax	200

What is the total amount of revenue raised from direct taxes?

- A** \$340 m **B** \$585 m **C** \$670 m **D** \$785 m

28 A government wishes to raise the general standard of living in its country.

In the short run, which policy would be the most likely to achieve this aim?

- A** preventing the merger of two companies into a monopoly
B raising taxation to repay a loan
C reducing the rate of income tax while maintaining the services it provides
D spending more on roads in rural areas rather than in city centres

29 The rate of inflation in the UK in 2001 was very low. Which of the government objectives does this directly meet?

- A** balance of payments stability
B economic growth
C full employment
D price stability

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

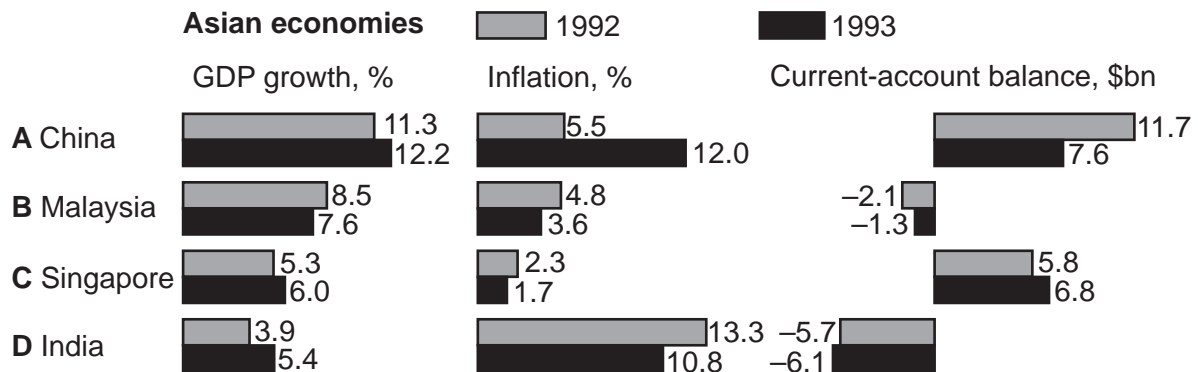
year	exports of goods	imports of goods
1998	164.1	184.9
1999	165.0	191.2

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 The bar chart shows details of three economic indicators of several Asian economies in 1992 and 1993.

Which country improved its economic performance in all three indicators?



- 32 Two important industries in Zimbabwe are tourism and tobacco. The value of the currency of Zimbabwe fell in the 1990s. If there were no other changes what resulted from the fall?

- A Imported goods in Zimbabwe shops became cheaper.
- B The price of Zimbabwe's tobacco sold in foreign markets became cheaper.
- C The volume of Zimbabwe's exports decreased.
- D Tourists were discouraged by higher prices in Zimbabwe.

- 33 The economy of the USA grew by approximately 4% a year between 1990 and 2000.

What must have increased from 1990 to 2000?

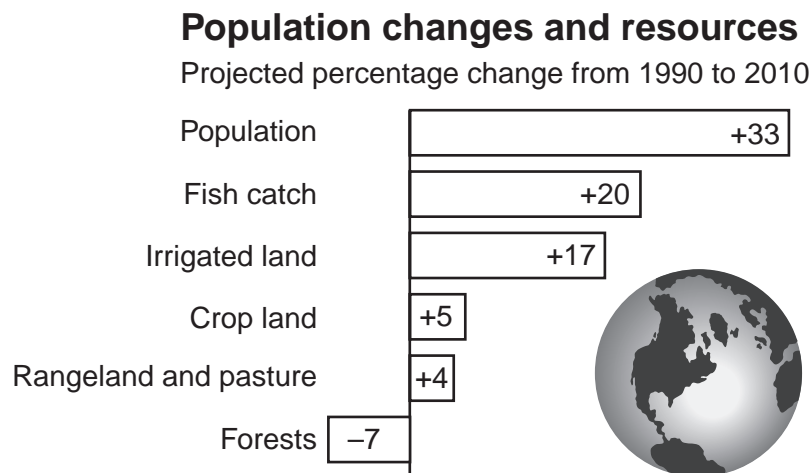
- A average price level
- B gross domestic product
- C labour productivity
- D level of employment

- 34 Suppose Germany buys less insurance from Britain.

How does this change affect the German balance of payments?

- A invisible exports fall
- B invisible exports rise
- C invisible imports fall
- D invisible imports rise

- 35 The diagram shows the changes predicted in population and resources between 1990 and 2010.



According to the diagram what will increase between 1990 and 2010?

- A all resources
B food production
C living standards
D resources per head of population
- 36 What is most likely to cause an immediate increase in the size of the dependent population?
- A a decrease in net migration
B a fall in the average size of families
C a lowering of the age of retirement
D a rise in the death rate
- 37 Given the following information, which country is most likely to have the highest standard of living?

	A	B	C	D
	Bangladesh	Bhutan	Botswana	Brunei
birth rate	27	36	31	25
death rate	10	14	21	5
life expectancy	58	53	40	72
infant mortality	93	107	57	22

- 38** A government intends to build a new road through a forest.

What will be an external cost of this?

- A** the cost of building the road
- B** the forest that is lost
- C** the improved transport system created
- D** the new jobs created

- 39** In 1994 the government of Singapore removed taxes from 406 products imported into the country. 96% of all imports are now tax-free.

What will be the effect of this change on the cost of living and on government revenue?

	cost of living	government revenue
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

- 40** A company has the choice of either producing at home and exporting finished goods or establishing factories in its export markets.

Other things being equal, what is most likely to encourage the company to set up a plant in another country?

- A** High tariffs are imposed on manufactured imports by most countries.
- B** Investment grants are available to companies producing in the home market.
- C** Labour and other costs tend to be the same in all countries.
- D** Restrictions are placed on companies wishing to invest in other countries.