

ECONOMICS

Higher Level

Thursday 11 November 1999 (afternoon)

Paper 1

1 hour

This examination paper consists of 40 questions.

Each question offers 4 suggested answers.

The maximum mark for this paper is 40.

INSTRUCTIONS TO CANDIDATES

Do NOT open this examination paper until instructed to do so.

Answer ALL questions.

For each question, choose the answer you consider to be the best from the 4 answers given.
Indicate your choice on the answer sheet provided.

EXAMINATION MATERIALS

Required:

Optically Mark Read (OMR) answer sheet

Allowed:

A simple translating dictionary for candidates not working in their own language

Calculator

889-040

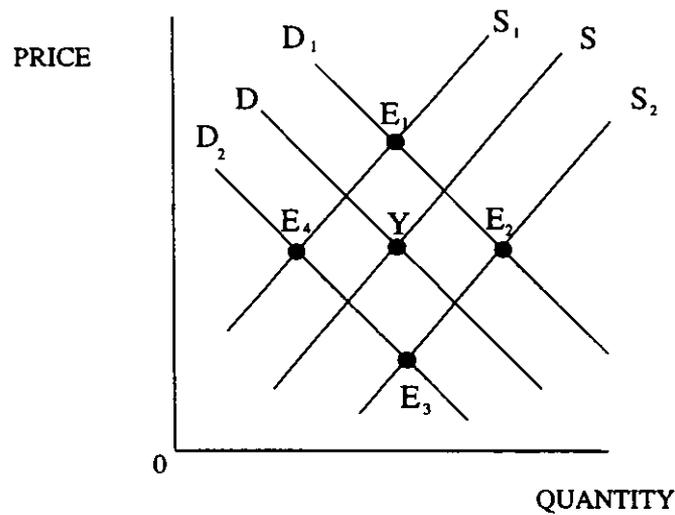
21 pages

1. Economics, as a social science, works upon the assumption that the basic economic problem exists because of
 - A. unpredictable human behaviour.
 - B. scarce resources.
 - C. profit maximisation.
 - D. social costs.

2. Which **one** of the following is a positive statement?
 - A. The main priority of any government should be to abolish poverty.
 - B. A national minimum wage should be introduced to end the exploitation of low paid workers.
 - C. The distribution of income and wealth in most Latin American countries is extremely unequal.
 - D. Trade Unions/Labour Unions ought to be given greater legal rights to defend the interests of their members.

3. Assume you bought a washing machine for \$ 300 a year ago, and that the same washing machine would now cost \$ 320 new. If your washing machine could now sell for \$ 150 on the second hand market, the current opportunity cost of owning your washing machine is
 - A. \$ 320.
 - B. \$ 300.
 - C. \$ 170.
 - D. \$ 150.

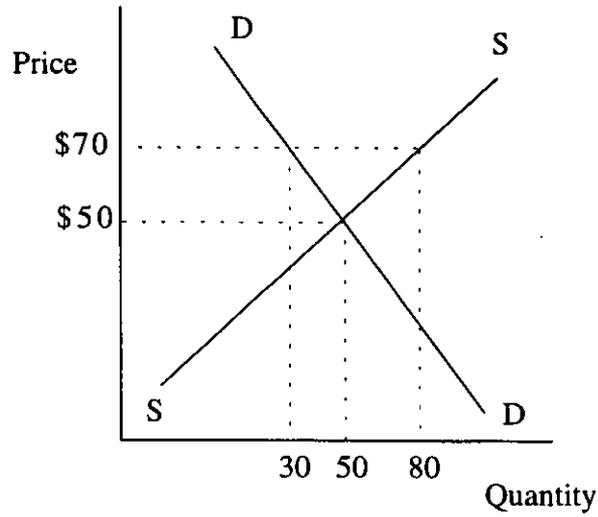
4. Which one of the following best describes the substitution effect of a price decrease for a normal good?
- A. Consumers buy more of the good because their real income has increased.
 - B. It is the difference between real income and money income.
 - C. Consumers buy more of a good because it is cheaper relative to other goods.
 - D. It is the difference between a shift in the demand curve and a movement along it.
5. The diagram below shows the market for a particular brand of personal computer.



If the initial equilibrium is indicated by point Y, what will be the new equilibrium position if the costs of producing this particular personal computer rise, and the price of a substitute personal computer falls?

- A. E₁
- B. E₂
- C. E₃
- D. E₄

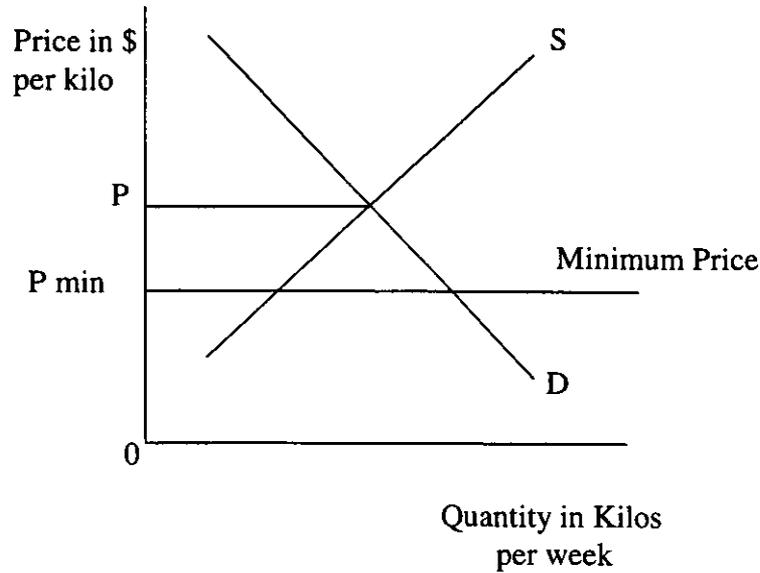
6. The following diagram represents the domestic demand and supply for wheat in a given country.



The government decides to support the price of wheat at \$ 70 per unit of output. It then sells the whole surplus in the export market for \$ 40 per unit of output. The cost of this scheme to the taxpayers will be

- A. \$ 1500.
- B. \$ 2500.
- C. \$ 3500.
- D. \$ 5600.

7. Question 7 is based on the diagram below where P is the equilibrium price.



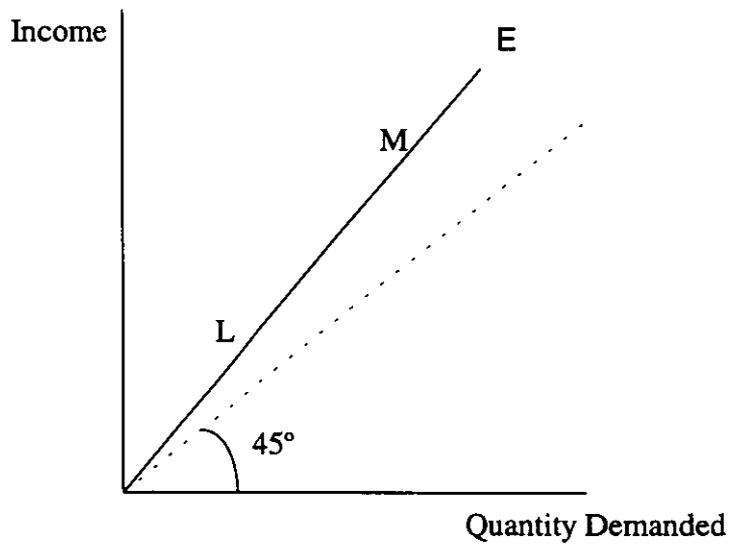
The effect of the government imposing a minimum price of P min will be to

- A. leave the market price unchanged.
 - B. reduce the market price.
 - C. cause excess demand.
 - D. cause excess supply.
8. Queues (lines) and shortages of goods in former Centrally Planned Economies came about as a result of
- A. the existence of parallel/informal markets.
 - B. planning in physical quantities rather than using administered prices.
 - C. administered prices that did not reflect consumer preference.
 - D. the problem of negative production externalities.

9. A 4% fall in the price of strawberries causes a 2% increase in the demand for cream. The cross elasticity of demand for cream with respect to the price of strawberries is

- A. +2.
- B. $+\frac{1}{2}$.
- C. $-\frac{1}{2}$.
- D. -2.

10. The diagram below shows an Engel Curve (income against quantity demanded).



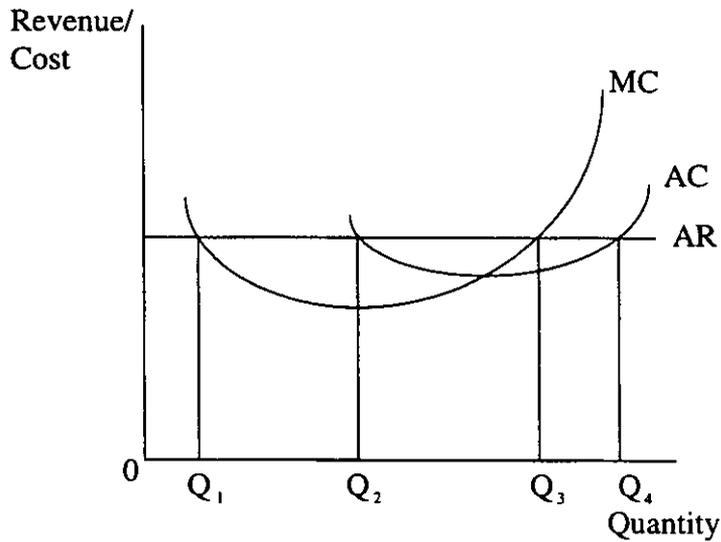
Which of the following describes the value of income elasticity at points L and M?

- | | L | M |
|----|----------------|----------------|
| A. | greater than 1 | greater than 1 |
| B. | equal to 1 | equal to 1 |
| C. | less than 1 | less than 1 |
| D. | less than 1 | greater than 1 |

11. A Veblen (or status symbol) good is characterised by which **one** of the following combinations of income elasticity and price elasticity of demand?

	Price	Income
A.	negative	negative
B.	positive	positive
C.	negative	positive
D.	positive	negative

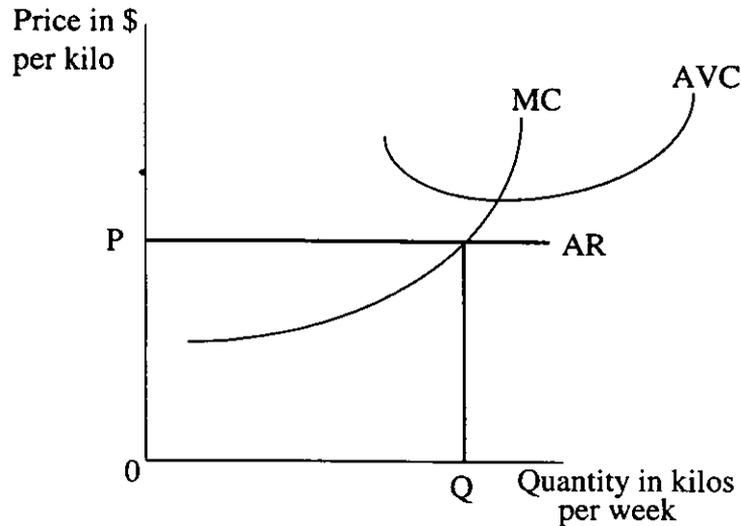
12. The diagram below shows the marginal cost, average revenue and average cost curves for a product.



The profit maximising level of output is

- A. Q_1 .
- B. Q_2 .
- C. Q_3 .
- D. Q_4 .

13. The diagram below indicates a firm operating in a perfectly competitive market.



In this situation the firm should

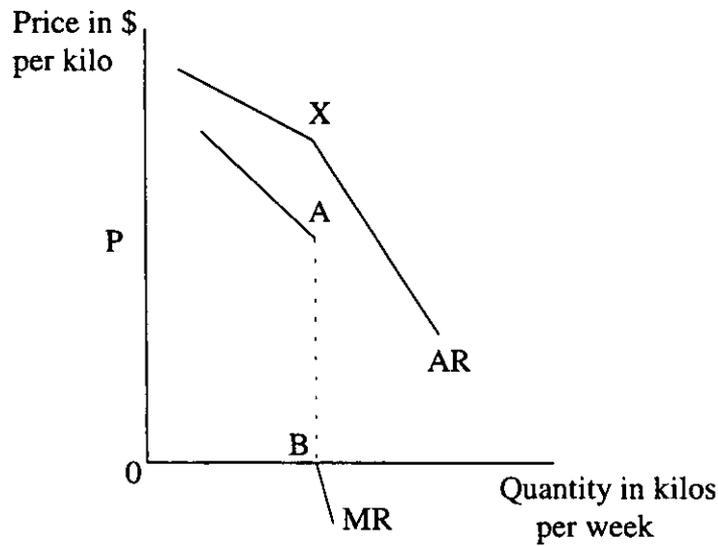
- A. charge the price of P because this is the profit maximising price.
 - B. charge a price which is higher than P.
 - C. charge a price which is lower than P.
 - D. stop production immediately.
14. The table below indicates total cost at various outputs.

Output	Total cost
0	100
10	115
20	140
30	175
40	220

From the information in the table, we can conclude that the Average Variable Cost at the output of 20 is

- A. 2.
- B. 7.
- C. 14.
- D. 120.

15. The diagram below shows a firm operating in an oligopolistic market with a kink in the demand curve at X.



- The discontinuous section AB in the marginal revenue curve occurs because
- A. demand is price inelastic to the left of X and price elastic to the right of X.
 - B. demand is price elastic to the left of X and price inelastic to the right of X.
 - C. demand is perfectly inelastic over a given price range.
 - D. non-price competition is a feature of oligopoly.
16. The market for product X consists of several segments. Which of the following would work against the operation of price discrimination?
- I. The value of elasticity in each segment moving away from each other
 - II. Consumers in one segment selling product X to consumers in other segments
 - III. The opening of the market to international competition
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

17. The table below shows average annual growth rates for selected countries between 1960 and 1995.

AVERAGE ANNUAL GROWTH RATES

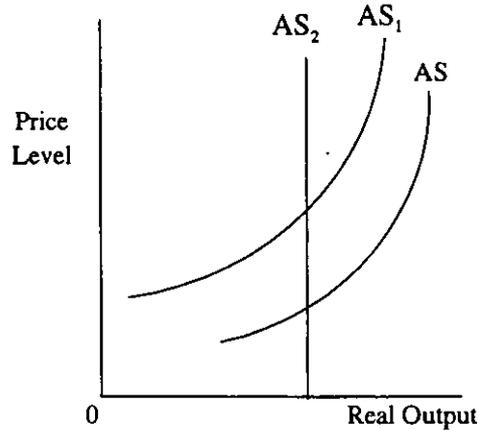
	1960-73	1973-79	1979-89	1989-95
Japan	9.6	3.6	4.0	1.9
Germany	4.3	2.4	1.8	3.0
France	5.4	2.8	2.2	1.4
Italy	5.3	3.7	2.4	1.1
OECD countries in Europe	4.7	2.5	2.3	1.4
UK	3.1	1.5	2.4	1.4

[Source: OECD]

From the table, it can be concluded that

- A. output fell continuously in France over the period in question.
 - B. Japan had the highest level of output in the period from 1969-1973.
 - C. the UK's rate of growth of output was the lowest of all the countries given between 1960 and 1979.
 - D. throughout the period 1989-95, all countries except Germany must have experienced rising unemployment.
18. To convert gross domestic product to net national product, it is necessary to
- A. subtract indirect taxes and subsidies.
 - B. subtract net property income from abroad and add depreciation.
 - C. subtract savings and add the surplus of exports over imports.
 - D. subtract depreciation and add net property income from abroad.

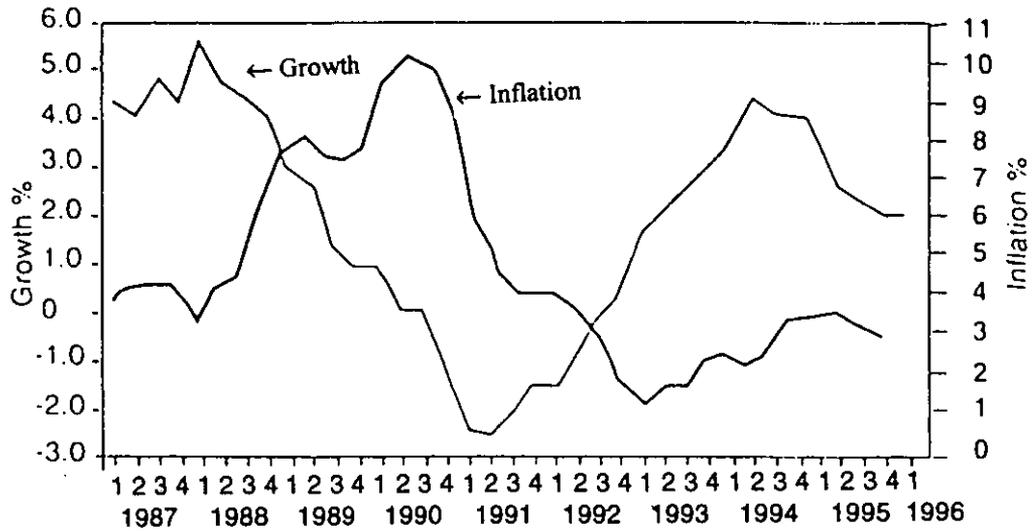
19. The diagram below indicates the relationship between the price level and aggregate supply in the short run (AS and AS₁) and in the long run (AS₂).



The diagram is consistent with the view that

- I. in the short run, fluctuations in aggregate demand will affect the level of output and the price level.
 - II. in the long run, the economy will always move towards the natural rate of unemployment.
 - III. in the short run, the price level and unemployment will rise together.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
20. A closed economy with no government has a marginal propensity to consume of 0.6 and is at equilibrium national income of \$ 375 bn. If investment increases from \$ 150 bn to \$ 200 bn, what will be the new equilibrium national income?
- A. \$ 425 bn
 - B. \$ 450 bn
 - C. \$ 500 bn
 - D. \$ 575 bn

21. The graph below indicates UK growth and inflation from 1987 to 1996.



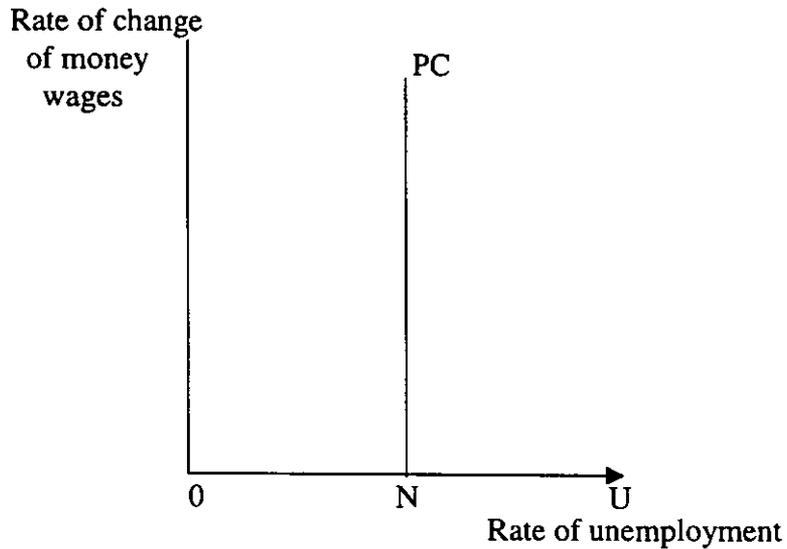
UK growth and inflation 1987-96

[Source: adapted from ONS, *Economic Trends and the Monthly Digest of Statistics*]

From the graph it can be deduced that

- A. from 1993 onwards, the inflation and growth rates moved in roughly the same direction.
- B. prices fell between 1990 and 1992.
- C. rising growth from 1990 caused lower inflation rates.
- D. negative growth rates cause reduced inflation rates.

22.



In the above diagram, which shows a long-run Phillips curve, the natural rate of unemployment is N. It follows that inflation will accelerate when

- A. $U > N$.
 - B. $U < N$.
 - C. $U = N$.
 - D. there is a decrease in money wages.
23. In a country with full employment, which **one** of the following is most likely to give rise to demand induced inflation?
- A. Higher rates of interest
 - B. A reduction in investment in the public sector
 - C. An increase in the quantity of money
 - D. An appreciation of the currency

24. Which **one** of the following would represent the standpoint of a supply-side economist?
- A. Governments should increase their own expenditure during periods of slow economic growth.
 - B. Lower taxes on company profits would encourage greater output.
 - C. In unregulated labour markets there would be a tendency for workers to be exploited.
 - D. Greater protection against imports would encourage domestic production.

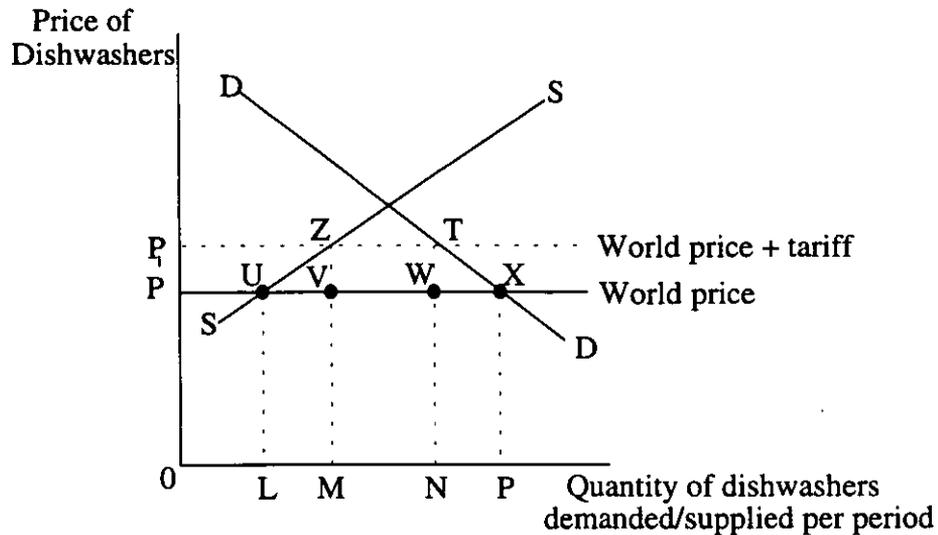
25. The following quantities represent the output of a day's work in each country.

	Pots	Kettles
Gondomar	30	20
Bayona	20	10

Which **one** of the following statements can be deduced from the table?

- A. Trade is to the advantage of neither Gondomar nor Bayona.
- B. The productivity of labour is higher in Bayona.
- C. Gondomar has a comparative advantage in kettles.
- D. Bayona has absolute advantage in both pots and kettles.

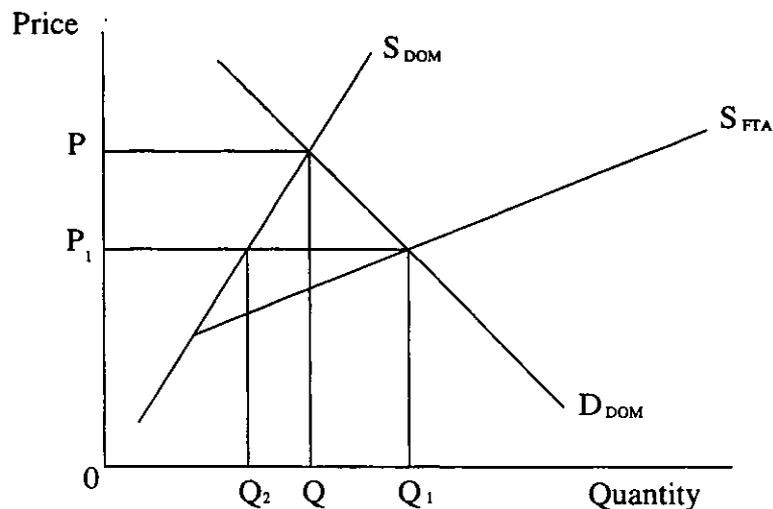
26. The diagram below represents the domestic market for dishwashers, and DD and SS are the domestic demand and supply curves for dishwashers. P and P₁ indicate the world price of dishwashers before and after the imposition of a tariff.



After the imposition of the tariff, the tax revenue which is received by the government is shown by the area

- A. UZV.
 - B. VZTW.
 - C. MZTN.
 - D. UZTX.
27. Country A joins a free trade area with country B and after a few years finds that its output has grown as a result of the new trading arrangements. This is an illustration of
- A. trade diversion.
 - B. trade creation.
 - C. trade surplus.
 - D. trade improvement.

28. In the diagram below D_{DOM} and S_{DOM} represent domestic demand and supply curves for washing machines in a particular country.



S_{FTA} represents the combined supply curve of the country and its trade partners after it has joined a free trade area. By what amount will domestic quantity supplied change as a result of joining the free trade area?

- A. $0Q_2$
 - B. Q_2Q_1
 - C. Q_2Q
 - D. $0Q_1$
29. Which of the following is most likely to increase the international demand for a country's currency?
- A. A fall in domestic interest rates
 - B. Greater price competitiveness of the country in international markets
 - C. An increase in the country's rate of inflation
 - D. An increase in the productivity of workers in neighbouring countries

30. The Theory of Purchasing Power Parity suggests that a currency's exchange rate changes to reflect differences in
- A. the home country's real growth rate compared with other countries.
 - B. movements in the international trade (business) cycle.
 - C. the home country's inflation rate compared with other countries.
 - D. relative interest rates in the home country and its trading partners.

31. The table below refers to a particular country.

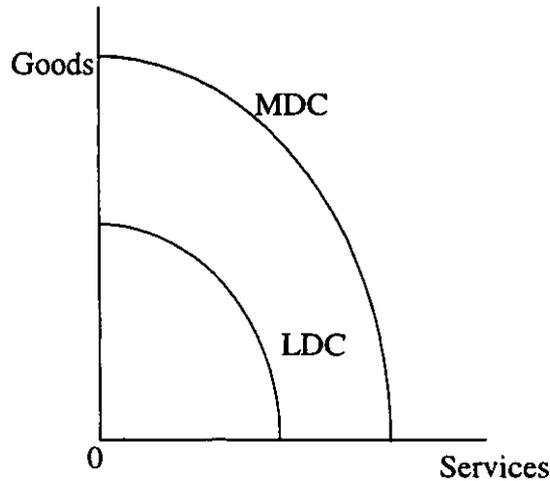
	Index of Import Prices (1995 = 100)	Index of Export Prices (1995 = 100)
1993	90	92
1997	110	128

From the information given it can be concluded that

- A. the balance of trade worsened.
 - B. the balance of trade improved.
 - C. the terms of trade improved.
 - D. the terms of trade deteriorated.
32. Which of the following would **not** increase barriers to world trade?
- A. The imposition by the Indian government of controls on medicines produced overseas
 - B. The abolition of agricultural support systems provided to farmers in the European Union
 - C. A requirement by the Chinese government that customs documents be presented and completed in Chinese
 - D. A voluntary agreement between the government of the USA and foreign producers limiting the volume of textile imports to the USA

33. Which of the following is **not** a typical feature of a Less Developed Country?
- A. Migration from urban to rural areas
 - B. A relatively large agricultural sector
 - C. High population growth
 - D. High dependence on primary products
34. Economic growth is more likely to lead to economic development if it is accompanied by
- A. a greater reliance on international aid.
 - B. a reduction in government welfare programmes.
 - C. redistribution of income to poorer citizens.
 - D. a rapid increase in the population.

35. The diagram below represents the production possibility frontiers for a Less Developed Country (LDC) and a More Developed Country (MDC).



The production possibility boundary of the MDC is to the right of the production possibility boundary of the LDC because the MDC is likely to have

- I. greater productive potential.
 - II. more resources, particularly capital.
 - III. a lower productivity of existing resources.
- A. I only
- B. I and II only
- C. II and III only
- D. I, II and III
36. 'Appropriate' technology in a Less Developed Country is likely to use
- A. existing skills and local resources.
 - B. mechanisation to replace labour.
 - C. large scale production techniques.
 - D. imported raw materials.

37. Which of these current indicators is (are) likely to result in future economic growth for a Less Developed Country?
- I. Higher saving
 - II. Investment in education
 - III. Reduced infrastructure spending
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
38. A policy of import substitution increases the likelihood of
- A. competitive exports.
 - B. monopoly power.
 - C. greater consumer choice.
 - D. the use of modern technology.
39. Over recent years structural adjustment programmes have been imposed by the International Monetary Fund on several Less Developed Countries (LDCs). For the LDCs involved, these have usually resulted in the short run in
- A. greater equality of income.
 - B. lower levels of unemployment.
 - C. less use of market forces.
 - D. lower spending on social welfare programmes.

40. In the long run, increased use of the motor car in cities in Less Developed Countries (LDCs) is likely to lead to development which is
- A. sustainable, because it increases economic efficiency.
 - B. sustainable, because both LDCs and MDCs will benefit.
 - C. unsustainable, because cars are too expensive for consumers in LDCs.
 - D. unsustainable because social costs outweigh social benefits.
-