



ECONOMICS

Standard Level

Monday 17 May 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 the 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

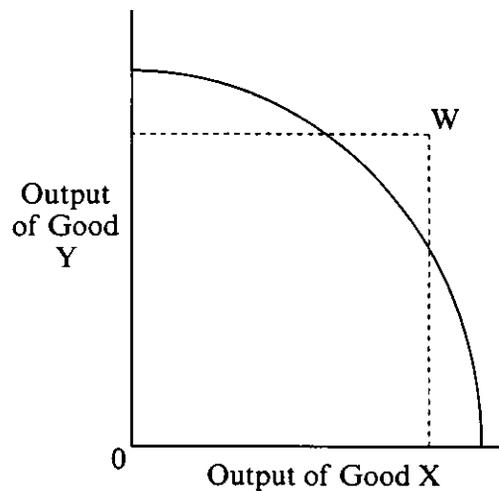
Required:
Optically Mark Read (OMR) answer sheet

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

1. Economics is primarily concerned with the question of how
 - A. limited human wants may be satisfied through the use of limited resources.
 - B. unlimited factors of production can be best allocated for different uses.
 - C. limited government funds should be used to achieve specific social and political goals.
 - D. unlimited human wants can be satisfied using limited productive resources.

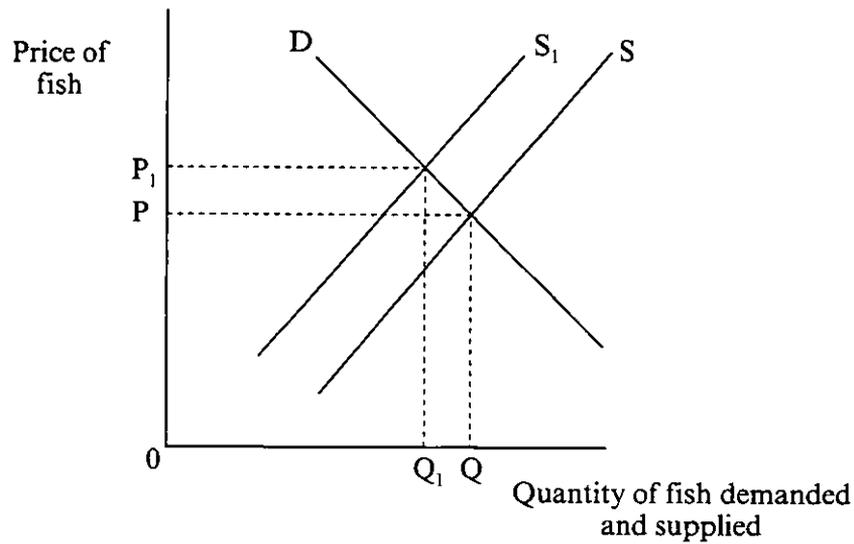
2. A basic difference between a centrally planned economy and a market economy is that in a planned economy
 - A. there is always an equal distribution of income and wealth.
 - B. factor and product markets are perfectly competitive.
 - C. resource allocation is achieved through directives rather than prices.
 - D. substantial subsidies are granted to private sector production.

3. The following diagram shows the production possibilities for good X and good Y.



- The economy can consume at point W in the short run by
- A. employing unemployed resources.
 - B. cutting taxation and raising government expenditure.
 - C. running a balance of payments deficit.
 - D. cutting interest rates.

4. The diagram below shows the market for fresh fish.



The shift of the supply curve from S to S_1 is most likely to have resulted from

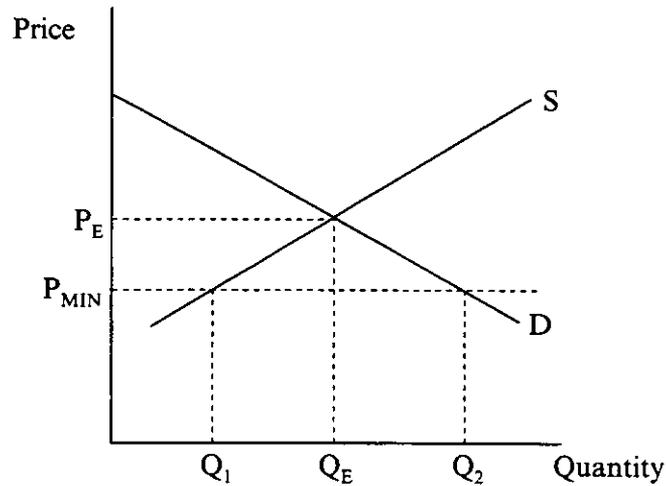
- A. an increase in wages in the fishing industry.
 - B. improved technology in the fishing industry.
 - C. an increased preference for fish on behalf of consumers.
 - D. a fall in consumer incomes.
5. An increase in the price of good X causes a fall in the demand for good Y . This could be explained by
- I. good X and Y being in joint demand.
 - II. good Y being an inferior good.
 - III. X and Y being substitutes.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

6. A rise in house prices may be caused by a fall in

- I. interest rates.
- II. house building.
- III. the level of disposable incomes.

- A. I only
- B. I and II only
- C. II and III only
- D. I, II and III

7. In the diagram below the equilibrium price and quantity for a product is at P_E Q_E .



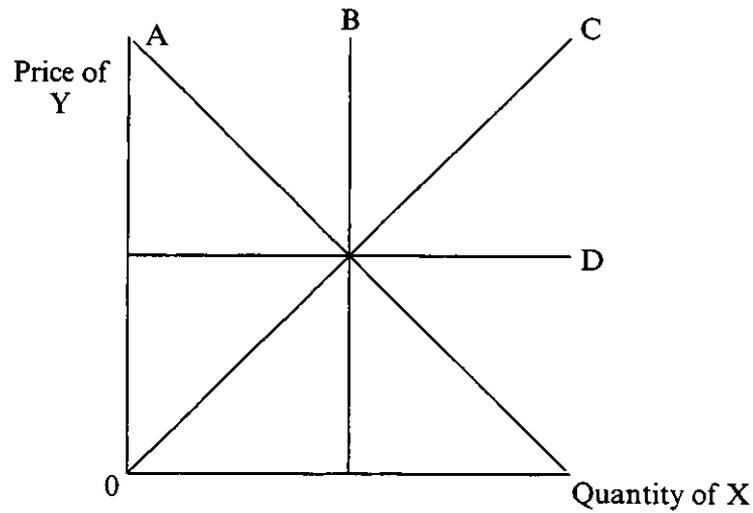
If the government imposes a minimum price of P_{MIN} for a product then

- A. supply will fall to $0Q_1$.
- B. demand will rise to $0Q_2$.
- C. price will fall to $0Q_{MIN}$.
- D. price and quantity will remain unchanged.

8. Which of these is not normally regarded as a factor of production?
- A. land
 - B. labour
 - C. capital
 - D. money
9. Which one of the following is a characteristic of a free good?
- A. It has a zero price.
 - B. Its production involves no opportunity cost.
 - C. It is always provided by the government.
 - D. It gives consumers no satisfaction.
10. Which of the following would be described as a merit good?
- A. defence
 - B. car production
 - C. health
 - D. broadcasting
11. As a result of the price of a product rising from 50 cents to 60 cents the quantity produced rises from 1000 units to 1200 units. The elasticity of supply for the product is
- A. 0.
 - B. 0.2.
 - C. 1.
 - D. 2.

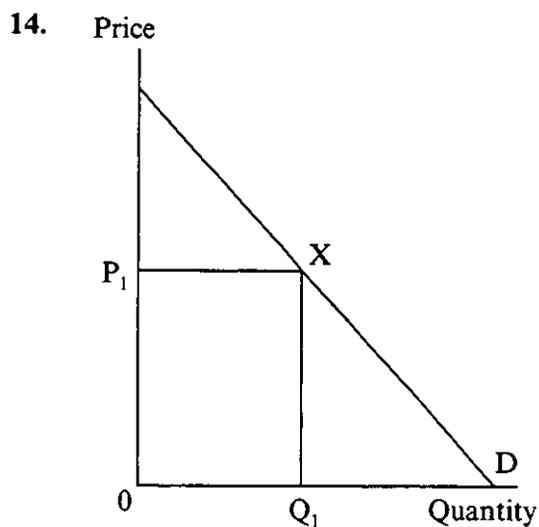
12. The demand for a product will tend to be elastic with respect to a change in its price if
- A. its price is low in relation to income.
 - B. it has several substitutes.
 - C. its consumption is habit forming.
 - D. it is a necessity.

13. The diagram shows cross demand curves for products Y and X.



Which one of these lines shows zero cross elasticity of demand between the two products?

- A. A
- B. B
- C. C
- D. D

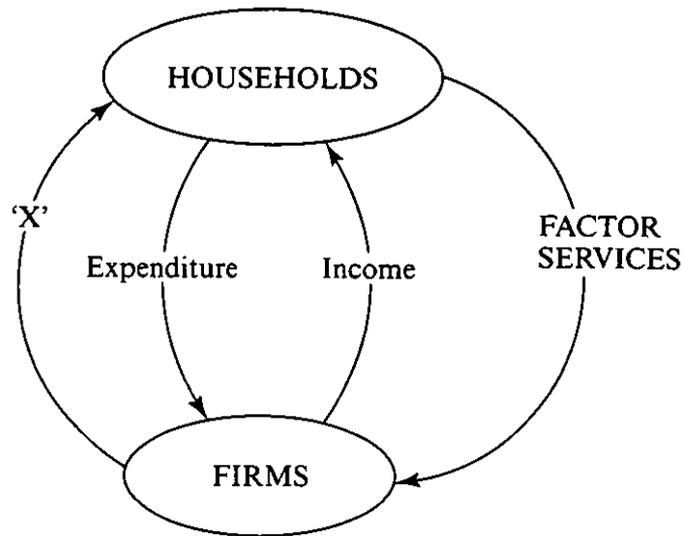


In the above diagram a firm is pricing its product at P_1 and X is the mid-point of the demand curve. If the firm raises its price above P_1 then it follows that

- A. revenue will rise.
 - B. profits will fall.
 - C. revenue will fall.
 - D. profits will rise.
15. If the supply of a product is dominated by a small number of large firms the structure of the market can be said to be
- A. monopolistic.
 - B. perfectly competitive.
 - C. monopolistic competition.
 - D. oligopolistic.

16. An economy achieves allocative efficiency when it
- A. maximises its rate of economic growth.
 - B. produces more capital goods than consumer goods.
 - C. has a large balance of payments surplus.
 - D. can only produce more of one good by producing less of another.
17. To convert gross national product at market prices to gross national product at factor cost it is necessary to
- I. deduct indirect sales taxes.
 - II. add subsidies.
 - III. add net property income from abroad.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

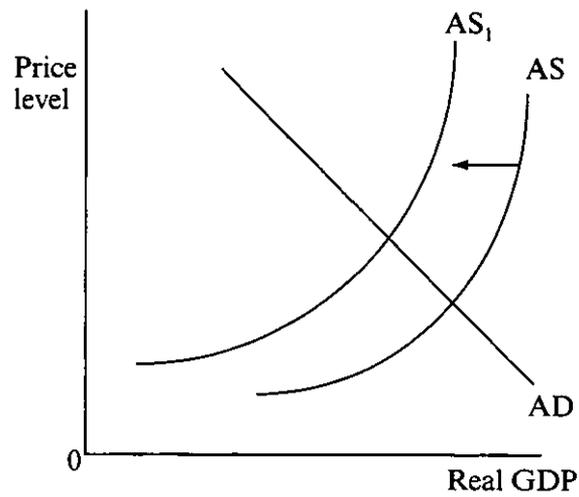
18. The following diagram represents the circular flow of income in a closed economy.



The flow 'X' represents

- A. output of goods and services.
 - B. investment in human capital.
 - C. exports.
 - D. subsidies.
19. Which of the following statements might represent the views of a monetarist economist?
- I. In the long run, an increase in government spending, financed by an increase in the PSBR (government borrowing), will be unsuccessful in reducing unemployment below its natural rate.
 - II. Budgeting for a deficit is an effective way of reducing unemployment.
 - III. Inflation is always and everywhere primarily a cost push phenomenon.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

20. The diagram shows aggregate supply and demand for an economy.

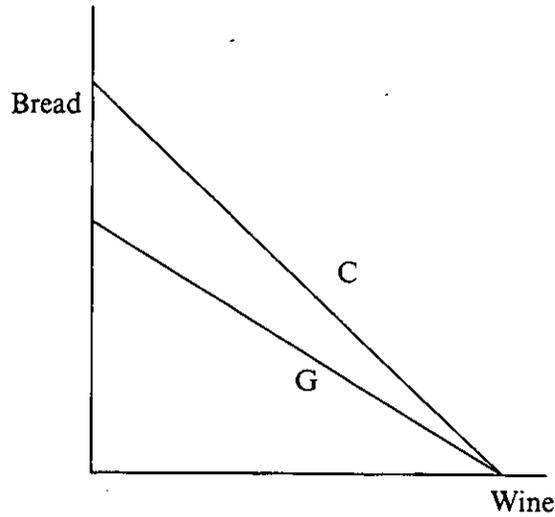


A shift of the aggregate supply curve from AS to AS₁ could have been caused by

- A. a fall in interest rates.
 - B. a rise in wages and commodity prices.
 - C. an increase in the money supply.
 - D. a rise in government expenditure.
21. In an economy the money supply is £30 000m and the velocity of circulation is 8. Given that the number of transactions is 120 000m then the average price level is
- A. £2.
 - B. £4.
 - C. £8.
 - D. £12.

22. The use by the government of a high interest rate policy as a counter inflationary device is based on the assumption that one of its effects will be to increase the
- A. level of borrowing by private businesses.
 - B. interest repayments on the national debt.
 - C. level of investment.
 - D. level of saving.
23. The multiplier principle suggests that employment increases as a direct result of higher
- A. saving.
 - B. investment.
 - C. interest rates.
 - D. exchange rates.
24. Which one of the following would a neo-classical economist recommend as a means of reducing the natural rate of unemployment?
- A. higher import tariffs
 - B. increased state benefits for the unemployed
 - C. an increase in aggregate demand
 - D. de-regulation of the labour market

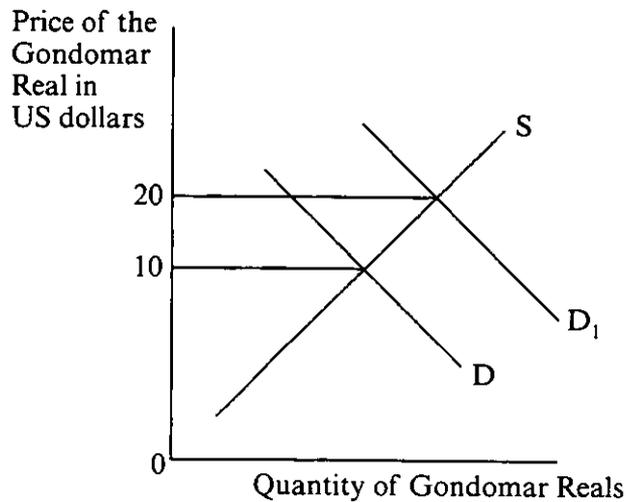
25. In this diagram, C represents the production possibility frontier of Catalonia, and G represents the production possibility frontier of Galicia.



- The law of comparative advantage suggests that
- A. Galicia will export wine, and import bread.
 - B. Galicia will export wine, but will not import bread.
 - C. Catalonia will export wine, and import bread.
 - D. Catalonia will export wine, but will not import bread.
26. Methods used for protectionism include
- I. subsidies.
 - II. foreign exchange controls.
 - III. import licences.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

27. A regional trading bloc with a single internal market can be expected to produce the following advantages **except**
- A. economies of scale.
 - B. cheap imports from other trading blocs.
 - C. harmonisation of indirect taxes.
 - D. increased mobility of labour.
28. Which of the following would **not** be included in a country's balance of payments figures?
- A. borrowing from the International Monetary Fund
 - B. private investment in other countries
 - C. exports and imports of goods and services
 - D. the terms of trade

29. The diagram shows the market for the Gondomar Real.

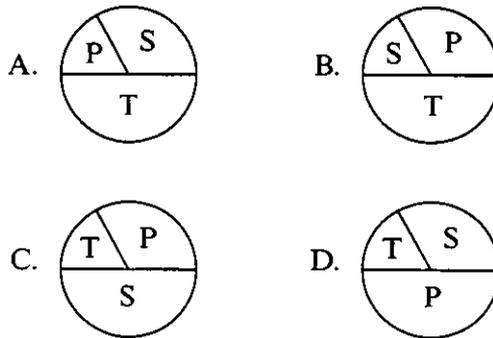


An increase in the exchange rate from \$10 to \$20 could have been caused by

- A. higher interest rates in Gondomar.
 - B. higher prices for Gondomar.
 - C. more Gondomar tourists travelling to the USA.
 - D. increased imports of American products into Gondomar.
30. A basket of goods in Bayona costs 25 Bayona pesos. The same basket of goods in Mondariz costs 125 Mondariz pesetas. If all these goods are freely traded between the two countries, and the basket of goods is an accurate reflection of typical spending patterns, then it is likely that the Bayona peso will exchange for
- A. 0.2 pesetas.
 - B. 2 pesetas.
 - C. 5 pesetas.
 - D. 100 pesetas.

31. If the terms of trade of a country have deteriorated, then its
- A. currency has appreciated.
 - B. balance of payments has improved.
 - C. foreign currency reserves have fallen.
 - D. imports have become more expensive relative to exports.
32. A country changes from an 'inward' to an 'outward' development strategy. The citizens of this country are likely to notice
- I. a greater variety of goods available.
 - II. a fall in the level of exports.
 - III. an immediate reduction in unemployment.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
33. 'Development' differs from 'growth' in that development takes account of
- A. the economic efficiency of a country.
 - B. output per capita.
 - C. income distribution.
 - D. shifts in production possibility frontiers.

34. In these diagrams P, S and T represent the contribution to GDP of the primary, secondary and tertiary sectors of the economy.



Which of these patterns is the most typical of a More Developed Country?

- A. A
 - B. B
 - C. C
 - D. D
35. Each of the following is included in the Human Development Index **except**
- A. life expectancy.
 - B. social costs.
 - C. literacy.
 - D. spending power.
36. Countries with high saving ratios are likely to have
- A. low levels of investment, because investment funds will be tied up in savings.
 - B. low levels of investment, because of low incomes.
 - C. high levels of investment, because people are willing to postpone consumption.
 - D. high levels of investment because of high rates of interest.

37. Total Foreign Direct Investment is less than total world investment. The difference is explained by
- A. inflation.
 - B. flows of government spending between countries.
 - C. investment that does not cross national boundaries.
 - D. investment by developed countries in their former colonies.
38. 'Capital widening' results in
- A. more capital being combined with more labour.
 - B. more capital being combined with the same amount of labour.
 - C. more capital being combined with less labour.
 - D. less capital being combined with less labour.
39. When sponsoring an investment programme in a Less Developed Country, the World Bank is likely to support policies that promote
- A. greater income equality.
 - B. high wages.
 - C. government spending.
 - D. anti-inflation measures.
40. Sustainable development is likely to
- I. use resources which can be recycled.
 - II. support local trades and crafts.
 - III. encourage common land to be taken into private ownership.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III