

ECONOMICS

Standard 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

1. 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.

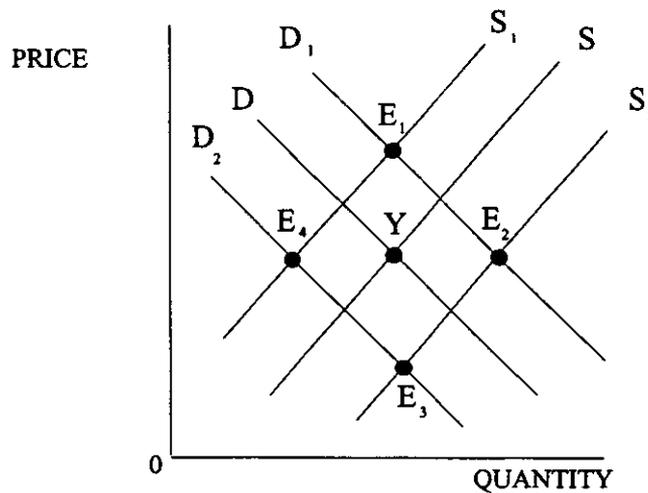
2. The statement that 'all economic goods are scarce' implies that these goods have
 - A. opportunity costs.
 - B. a limited demand.
 - C. a low price.
 - D. a high price.

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 would be most likely to cause the demand curve for cars to shift to the right?

- A. A fall in the price of cars
- B. An increase in public transport prices
- C. A decrease in credit availability
- D. A rise in petrol prices

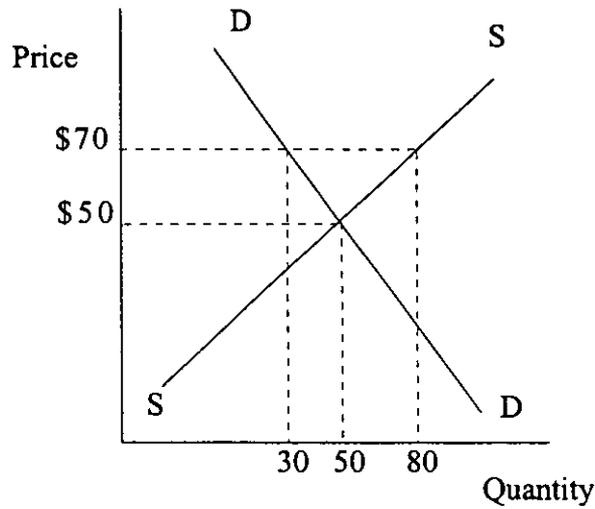
5. The diagram below shows the market for a particular brand of personal computer.



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

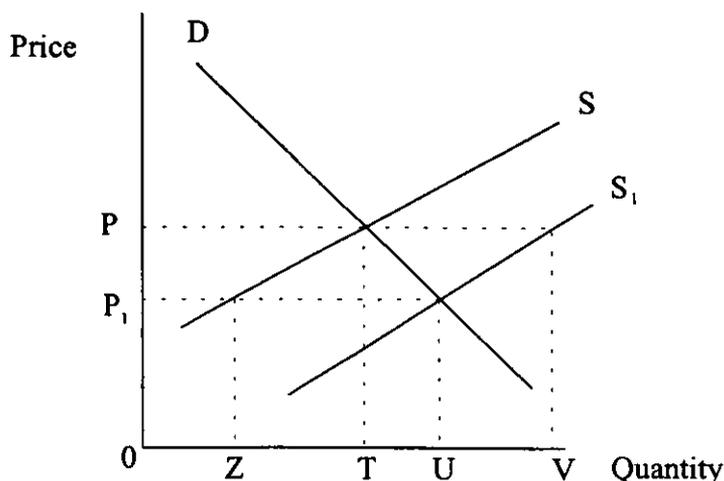
6. The following diagram represents the domestic demand and supply for wheat in a given country.



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. In the diagram below, DD and SS indicate the initial demand and supply curves for apples.



Producers aim to stabilise price at $0P$ the target price. If, subsequently, supply increases to S_1

- I. TV must be removed from the market to maintain the price at $0P$.
- II. the price would fall to $0P_1$, without any intervention.
- III. the equilibrium output will increase from $0Z$ to $0T$.

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

8. In a market economy, changes in prices perform all the following functions **except**

- A. signalling to the government those citizens in greatest need.
- B. equating the supply of and demand for goods and services.
- C. indicating changes in consumer tastes.
- D. inducing supply to respond to changes in demand.

9. The government subsidises product A because it would be underconsumed at the free market price. It also taxes another product B in order to discourage consumption. Into which categories of good do A and B fall?

- | | A | B |
|----|--------|---------|
| A. | Merit | Demerit |
| B. | Free | Public |
| C. | Public | Demerit |
| D. | Public | Private |

10. A basic difference between a planned and a market economy is that in a planned economy

- A. aggregate demand will be equated with aggregate supply.
- B. all markets are perfectly competitive.
- C. resources are allocated through the use of directives rather than prices.
- D. there is always an equal distribution of income and wealth.

11. The table below indicates the supply schedule for product X.

PRICE (£)	QUANTITY SUPPLIED (PER WEEK)
4	14
5	20
6	28
7	49

What is the elasticity of supply when the price of product X rises from £5 to £6?

- A. 5
- B. 4
- C. 3
- D. 2

12. 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.
13. The elasticity of supply of a good will be greater if
- A. it is easy for firms to enter the industry.
 - B. there is little spare capacity in the industry.
 - C. close substitutes are available to consumers.
 - D. it is difficult for firms to store stocks of the good.
14. If the demand by motorists to cross a toll bridge is price elastic, then a policy of lowering toll charges for users of the bridge would
- A. increase the amount of revenue generated by the bridge.
 - B. reduce the consumers' surplus currently enjoyed by motorists.
 - C. reduce the amount of traffic congestion approaching the bridge.
 - D. reduce the demand for people to work at the toll booths.

15. The table below indicates the proportion of the USA tobacco market accounted for by the major firms in the industry.

<u>The USA tobacco market</u>	<u>% share of sales, 1997</u>
Philip Morris	49 %
R.Y.R Nabisco	24 %
BAT	16%

From the table it can be deduced that the market structure of the USA tobacco market is

- A. oligopolistic.
 - B. contestable.
 - C. perfectly competitive.
 - D. monopolistic.
16. An economy has achieved allocative efficiency if
- A. it stops responding to technical change.
 - B. it is unable to produce more output by transferring any resources between industries.
 - C. all negative externalities have been eliminated.
 - D. the price mechanism is set free to allocate all goods and services.

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

AVERAGE ANNUAL GROWTH RATES

	1960-73	1973-79	19979-89	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]

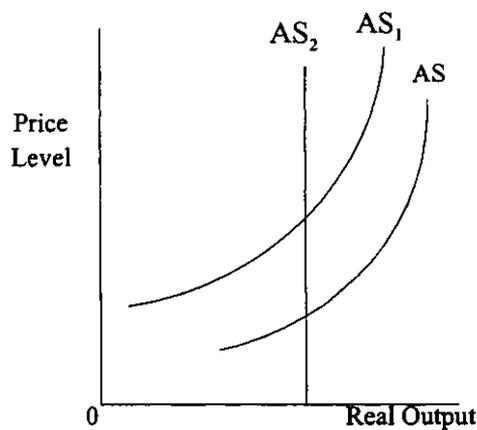
From the table, it can be concluded that

- 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. Which of the following is **not** included in the measurement of national income?
- A. The value of the work of a servant
 - B. The value of the work of a housewife or house husband in the home
 - C. The value of profits distributed to shareholders
 - D. The value of army wages

19. Real national income may be defined as

- A. the sum of all the incomes earned over a given time period.
- B. money national income revalued at constant prices.
- C. money national income expressed in current prices.
- D. money national income net of all tax payment.

20. The diagram below indicates the relationship between the price level and aggregate supply in the short run (AS and AS_1) and in the long run (AS_2).



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

21. A permanent reduction in demand for a single product will cause

- A. demand deficient unemployment.
- B. frictional unemployment.
- C. voluntary unemployment.
- D. structural unemployment.

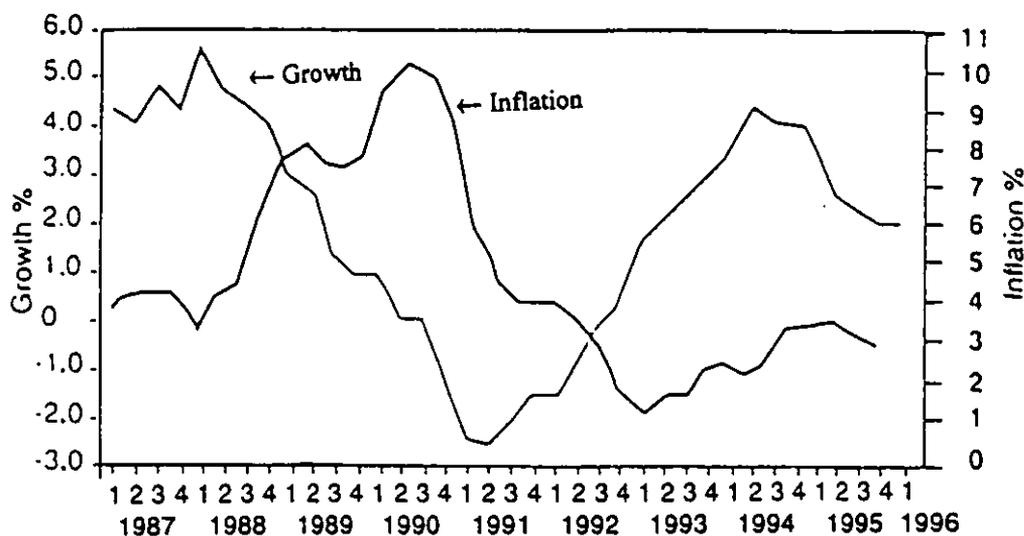
22. The following table shows the year on year percentage change in the retail price index of Country X between 1992 and 1996.

<u>Year</u>	<u>% change in RPI</u>
1992	3.3
1993	1.6
1994	2.4
1995	3.5
1996	2.4

Which of the following statements is correct?

- A. The price level was at its lowest in 1992
- B. The price level was at its highest in 1995
- C. Prices fell between 1992–1993 and 1995–1996
- D. Prices rose and fell throughout the period in question

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



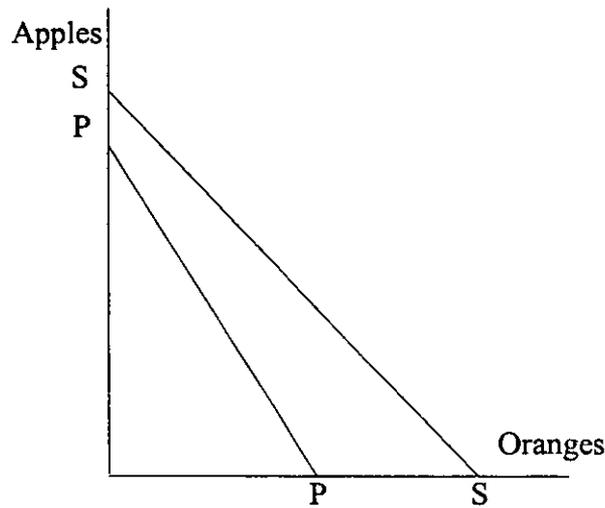
UK growth and inflation 1987-96

[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.
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.

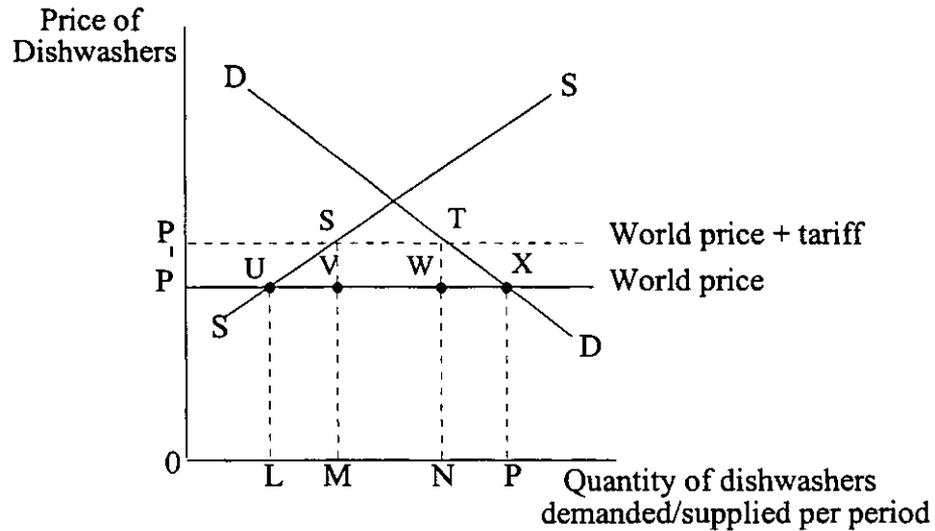
25. In the diagram below, SS represents the production possibility frontier for one country, Snodland, and PP represents the production possibility frontier of another country, Plodland.



According to international trade theory

- A. Plodland has an absolute advantage in both goods.
 - B. Identical opportunity cost ratios mean that there would be no gains from trade.
 - C. Plodland should import oranges.
 - D. Snodland should specialise in the output of apples.
26. 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

27. 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.



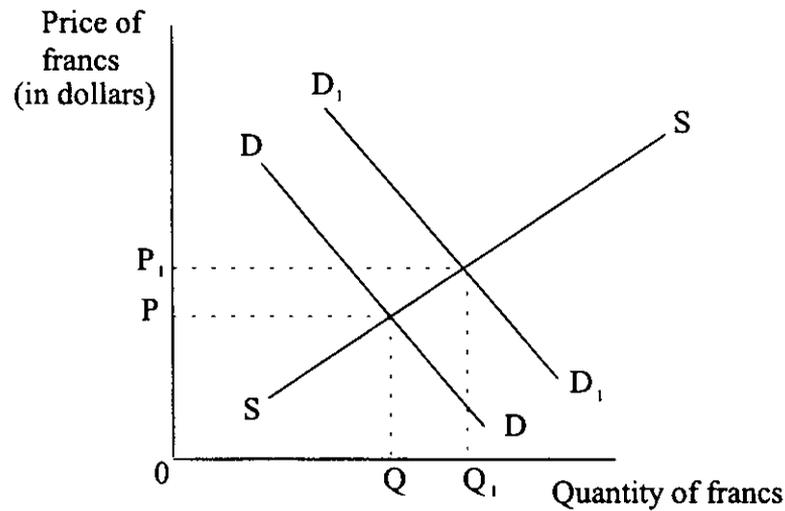
After the imposition of the tariff, the tax revenue which is received by the government is shown by the area

- A. USV.
 - B. VSTW.
 - C. MSTN.
 - D. USTX.
28. Which of the following is (are) characteristic of both free trade areas and customs unions?
- I. The abolition of internal trade barriers
 - II. No barriers to the mobility of labour
 - III. The levying of a common external tariff
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

29. Which one of the following is not included in the current account of the balance of payments?

- A. Export of cars
- B. Foreign Direct Investment
- C. Spending by tourists
- D. Dividend payments on shares held abroad

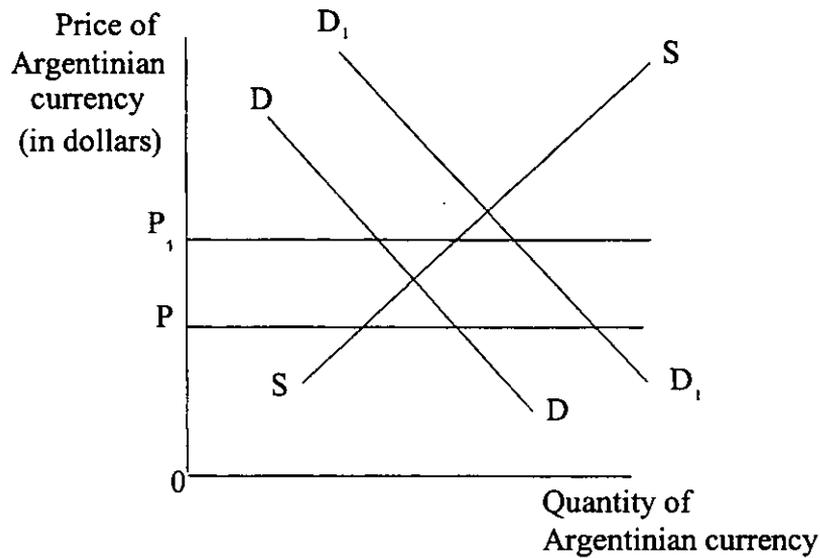
30. The diagram below indicates the demand for and supply of francs in international money markets.



The increase in the price of francs in terms of dollars is most likely to have been caused by an increase in

- A. French interest rates relative to those in the USA.
- B. the price elasticity of demand for imports into France.
- C. the demand by France for goods from the USA.
- D. the extent of capital outflows from France.

31. Suppose that the monetary authorities of Argentina are committed to maintaining the exchange of their currency against the German mark between P and P_1 on the diagram below.

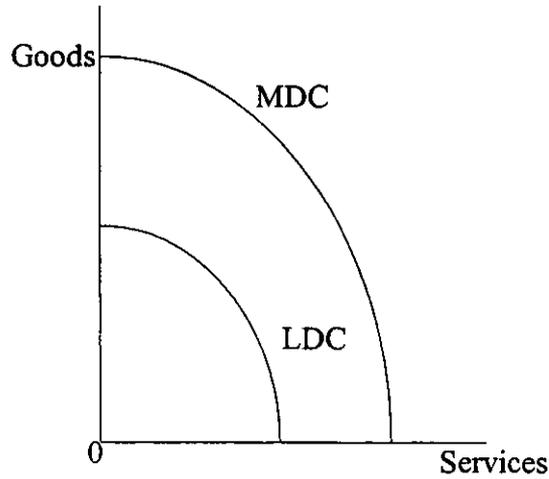


What action might the monetary authorities of Argentina take if the demand for their currency changes from D to D_1 ?

- A. Raise the general level of interest rates
 - B. Sell dollars on the foreign exchange market
 - C. Subsidise domestic producers engaged in exporting
 - D. Sell Argentinean currency on the foreign exchange market
32. The terms of trade must be moving in a country's favour when
- A. there is a rise in both its import and export prices.
 - B. the revenue from export earnings exceeds import expenditure.
 - C. its export prices are rising at a faster rate than its import prices.
 - D. there are net capital inflows.

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. In attempting to compare the general standard of living of the citizens of two countries, knowledge of the national income per head in each country may be misleading because
- I. the distribution of income within each country may be different.
 - II. one country may be more heavily taxed to finance defence expenditure.
 - III. externalities may vary between the two countries.
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

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. Which of the following would be classed as examples of 'aid'?
- I. Cancelling debts owed by Less Developed Countries (LDCs)
 - II. Donations from non-governmental organisations
 - III. World Bank loans at interest rates below market rates
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
37. 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.
38. 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.

39. Which of the following contributed to the debt crisis experienced by the Less Developed Countries in the 1980s?
- I. Higher interest rates in the More Developed Countries
 - II. A deterioration in the terms of trade of the Less Developed Countries
 - III. Falling levels of export revenue in the Less Developed Countries
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
40. In the long run, increased use of the motor car in cities in Less Developed Countries (LDCs) is most 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.
-