



**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

Monday 13 November 2000 (afternoon)

1 hour

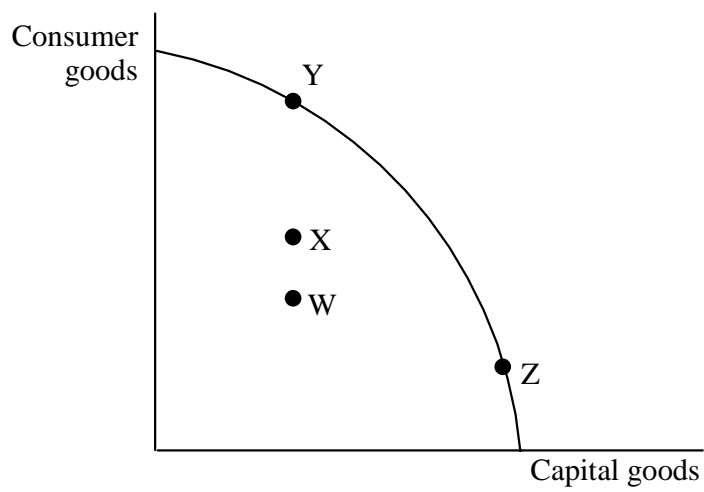
---

**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 and indicate your choice on the answer sheet provided.

1. A market economic system
  - A. usually responds to changes in demand and supply.
  - B. keeps prices stable.
  - C. ensures enough goods for all.
  - D. ensures equality of income distribution.

2. The following diagram shows the production possibility frontier for an economy.

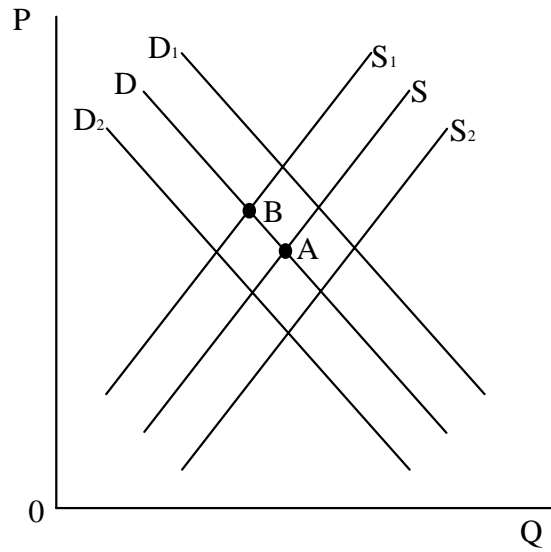


Which point is likely to give the fastest long term growth?

- A. W
- B. X
- C. Y
- D. Z

3. Which one of the following does **not** apply to the use of an economy's productive resources?
- A. They are scarce relative to potential demand.
  - B. Fixed factor proportions are necessary to produce a given commodity.
  - C. Factor substitution within a given productive process may be possible.
  - D. They become cheaper in price, the more plentiful their supply for a certain use.
4. The main difference between a fully planned and a mixed economy is that in a mixed economy
- A. there is a public and private sector.
  - B. both public goods and merit goods are provided by the state.
  - C. resource allocation is influenced by government spending.
  - D. the forces of demand and supply exist.

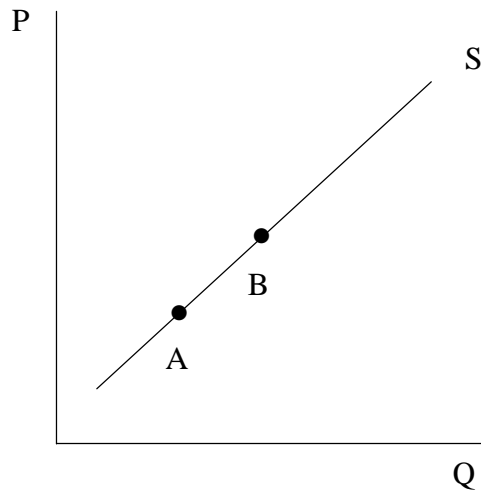
5. The graph below shows the supply and demand curves for semi-conductors.



A movement from A to B could be caused by

- A. a negotiated increase in wages in the semi-conductor industry.
- B. an increase in incomes.
- C. an increase in the availability of inputs used to produce semi-conductors.
- D. a removal of tariff barriers on semi-conductors.

6. The graph below gives the supply curve for oranges in the United States.



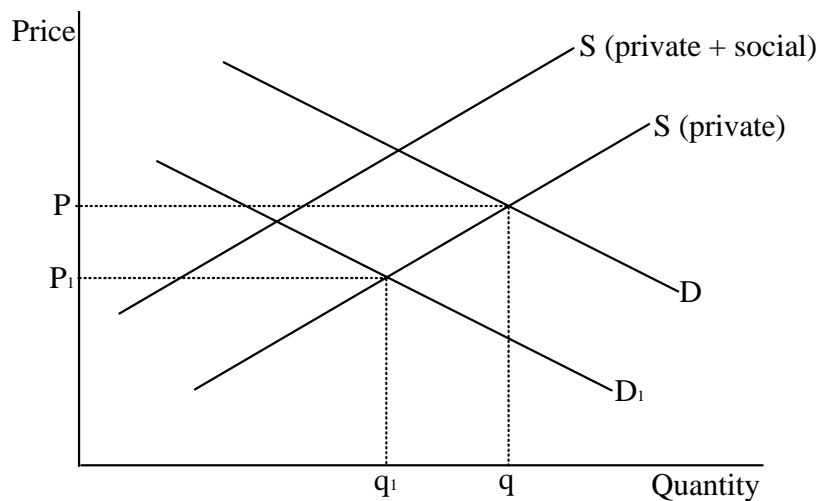
A movement from point A to point B could be caused by all of the following **except**

- A. publication of evidence proving that eating oranges reduces stress.
  - B. an increase in subsidies to orange producers.
  - C. an increase in the price of other types of fruit.
  - D. a decrease in the price of orange juice.
7. If a maximum price is imposed on the price of tickets for the Olympic Games, which of the following is (are) likely to occur?
- I. Excess demand for tickets
  - II. The development of a parallel market for tickets
  - III. Rationing of tickets
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III

8. Merit goods are likely to be underprovided by the free market for all the following reasons **except**

- A. the presence of income inequality.
- B. the existence of positive externalities.
- C. the difficulty of predicting future needs.
- D. the problem of non-excludability.

9. The diagram below shows the results of government action to discourage consumption of a demerit good.

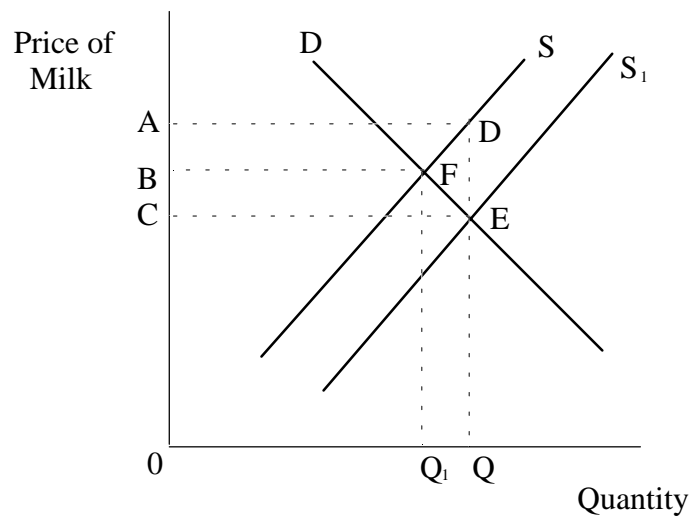


What is the government action most likely to have been?

- A. Introduction of a tax on the demerit good
- B. Advertising against the use of the demerit good
- C. Rationing of the demerit good
- D. Introduction of annual licence fees for users of the demerit good

10. Under central planning there are often shortages of consumer goods. This is because
- A. planners cannot predict quantity demanded at their chosen price.
  - B. of the existence of differences in earnings.
  - C. consumers prefer to buy foreign imports.
  - D. income is insufficient to buy the goods available.
11. If a product has a negative income elasticity of demand, the quantity demanded must fall as
- A. the price of the product falls.
  - B. real income falls.
  - C. the price of the product rises.
  - D. real income rises.
12. In which one of the following circumstances would a decrease in the price of good A lead to an increase in the demand for good B?
- A. The demand for B is price elastic.
  - B. A and B are in joint demand.
  - C. A is an inferior good.
  - D. A and B are in competitive demand.

13. The diagram below depicts a situation in which the government has granted a subsidy to producers of milk.



Which area represents the total sum spent by the government on subsidies?

- A. CADE
  - B. BFEC
  - C. 0BFQ<sub>1</sub>
  - D. 0CEQ
14. The theory of diminishing marginal returns states that
- A. as additional variable inputs are used, total output always decreases.
  - B. marginal product will decline eventually.
  - C. all inputs are increased in equal amounts.
  - D. costs will fall as output increases.



15. The table below refers to the market share of firms competing in the U.S. cigarette industry in 1997.

<b>Firm</b>	<b>Percentage Market Share</b>	<b>Typical Brand</b>
Philip Morris	49%	Marlboro
RJR Nabisco	24%	Winston
BAT Industries	16%	State Express
Others	11%	—

[Source: *Financial Times*]

From the above information it can be deduced that the U.S. cigarette market is likely to be characterised by

- I. normal profit.
  - II. barriers to entry.
  - III. product differentiation.
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III
16. When price is greater than marginal cost
- A. a firm in perfect competition will decrease output.
  - B. a firm in monopoly will increase output.
  - C. allocative efficiency has not been achieved.
  - D. the government will grant subsidies to the industry.

17. An increase in aggregate demand is unlikely to lead to an increase in employment when

- I. there is excess capacity in the economy.
- II. the increased demand is for imports.
- III. the aggregate supply curve is vertical.

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

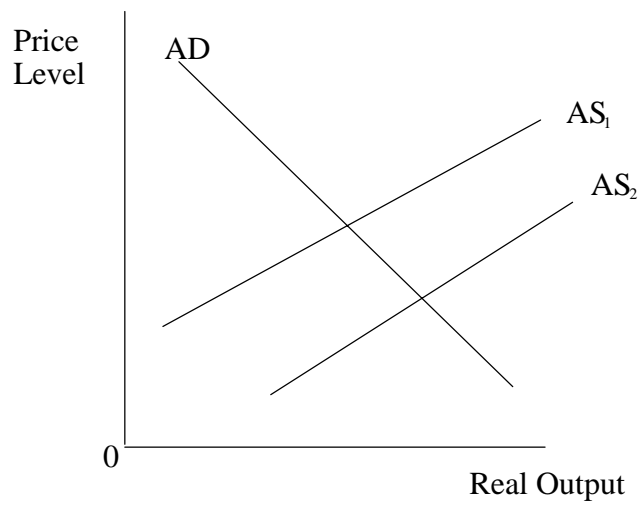
18. The figures below are from a country's national accounts for a particular year.

	\$ billion
Wages and salaries	30
Profits and rents	5
Income from foreign owned assets	2
Payments to foreigners owning domestic assets	1
Capital depreciation	2

What is the value of this country's gross national product?

- A. \$ 34 billion
- B. \$ 35 billion
- C. \$ 36 billion
- D. \$ 40 billion

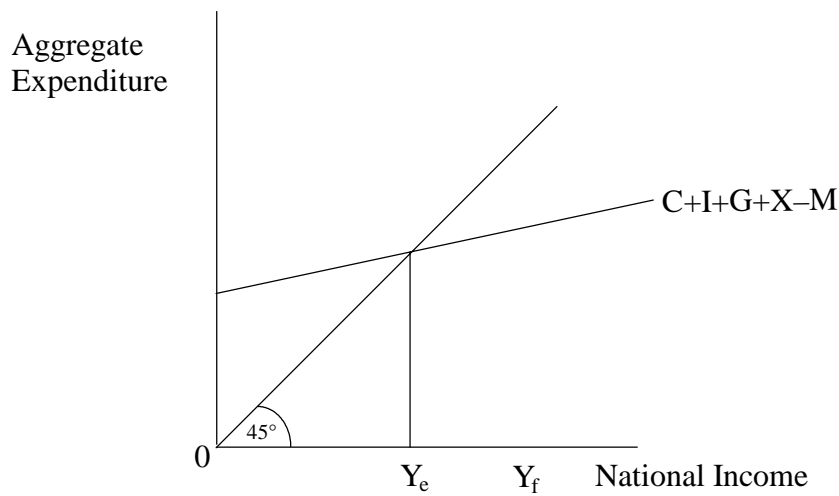
19. In the diagram below AD is the aggregate demand curve and AS is the aggregate supply curve.



The shift of the AS curve from  $AS_1$  to  $AS_2$  is most likely to have been caused by a fall in

- A. the price level.
  - B. money wage rates.
  - C. the money supply.
  - D. the capital stock.
20. If the multiplier in an economy is 4 and the level of national income is \$ 200 million below its full employment level, what is the deflationary gap?
- A. \$ 800 M
  - B. \$ 750 M
  - C. \$ 250 M
  - D. \$ 50 M

21. In the graph below, the economy is in equilibrium at  $Y_e$  and  $Y_f$  represents full employment output.



According to this model, full employment is most likely to be achieved by

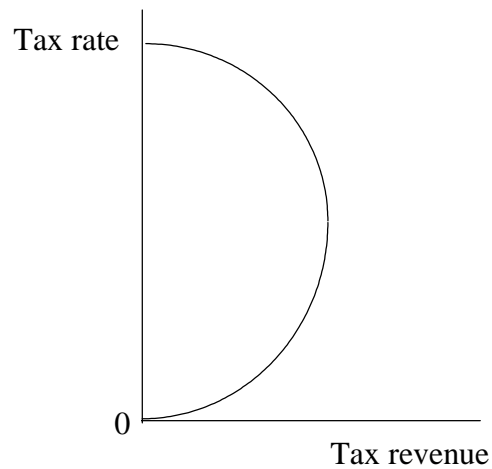
- A. an increase in the marginal propensity to save.
  - B. a depreciation in the value of the domestic currency.
  - C. an increase in taxation.
  - D. a decrease in the minimum wage.
22. Structural unemployment is most likely to be reduced through
- A. fiscal policy to increase disposable income.
  - B. increased unemployment benefits.
  - C. lower interest rates to stimulate aggregate demand.
  - D. re-training schemes to increase the mobility of labour.

23. The following table shows a consumer price index for a particular country over a period of time.

Year	Consumer Price Index
1995	140
1996	144
1997	150
1998	156

What is the rate of inflation for 1998?

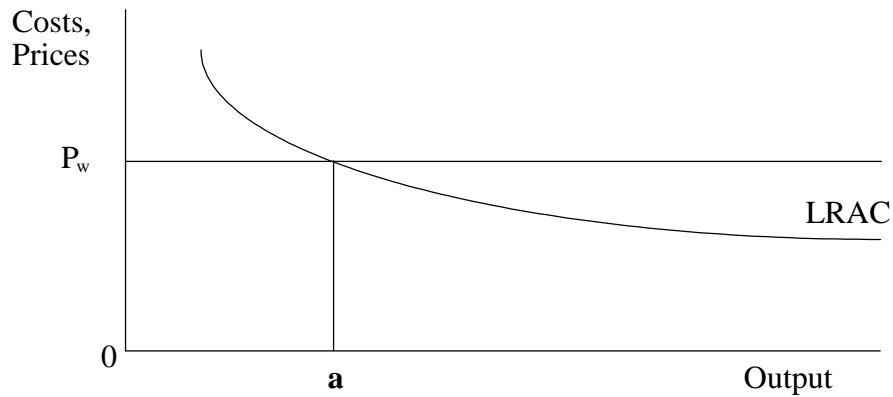
- A. 6%
  - B. 4%
  - C. 16%
  - D. 56%
24. The diagram below represents a Laffer Curve.



From this diagram it can be deduced that

- A. rising tax rates will always increase tax revenue.
- B. rising tax rates will first increase tax revenue to a maximum and then reduce it.
- C. falling tax rates will always reduce tax revenue.
- D. falling tax rates will always increase tax revenue.

25. The diagram shows the Long Run Average Cost Curve (LRAC) of a Multinational Enterprise (MNE). The world price of the product in which it competes is  $P_w$ .



The MNE finds it easier to expand sales when output exceeds point **a** because it

- A. is experiencing decreasing returns to scale.
  - B. has reached the minimum efficient scale for international trade.
  - C. no longer experiences diminishing marginal returns.
  - D. is no longer based in a single national market.
26. A government might impose a quota on imports for all of the following reasons **except**
- A. to raise tax revenue.
  - B. to support a strategic industry.
  - C. to deter dumping.
  - D. to enhance competitiveness in domestic industry.

27. A Japanese automobile assembly plant is built in a member country of the North American Free Trade Area. Which of the following might explain the motivation of the Japanese automobile company?
- I. Access to an enlarged market without internal trade barriers
  - II. Opportunities to exploit factor costs different from those in Japan
  - III. Avoidance of a common external tariff on goods made in Japan
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III
28. Which one of the following would **not** appear in the Current Account of the Balance of Payments?
- A. Transfers from migrant workers abroad
  - B. Investment income paid to foreign shareholders
  - C. An adjustment in IMF Special Drawing Rights
  - D. Aid in the form of surplus food donated to another country
29. The theory of Purchasing Power Parity implies that
- A. interest rates adjust to control inflation and maintain the relative value of real income in different countries.
  - B. exchange rates quoted in the foreign exchange markets of different countries will tend to converge over time.
  - C. exchange rates adjust to allow a given basket of goods to be bought in all countries with a given amount of one currency.
  - D. inflation rates in one country will adjust to those of its trading partners.

30. Which one of the following is **not** an advantage of a fixed exchange rate regime?
- A. It creates predictable stability, which reduces the cost of trade.
  - B. It opens the way for economic integration between trade partners.
  - C. It frees the central bank to pursue monetary policies based on domestic needs.
  - D. It makes it harder for politicians to inflate the economy by printing money.

31. A country's currency depreciates. Which one of the following combinations of price elasticity of demand for imports and exports will lead to the greatest improvement in the balance of trade?

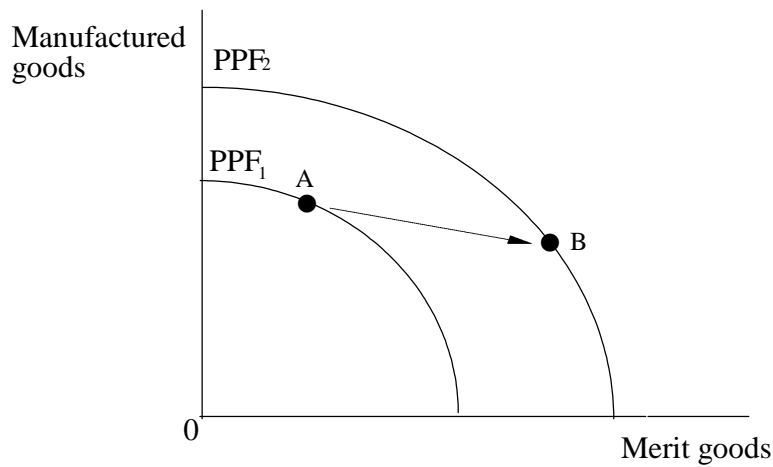
	<b>Price Elasticity of Demand for Exports</b>	<b>Price Elasticity of Demand for Imports</b>
A.	1.0	1.0
B.	1.9	1.6
C.	0.5	2.1
D.	0.3	0.2

32. During the 1990s a Less Developed Country exported a range of primary products and imported a mixture of manufactured goods and services. Other things being equal, its terms of trade and exchange rate respectively are most likely to have

	<b>Terms of Trade</b>	<b>Exchange Rate</b>
A.	deteriorated	depreciated
B.	deteriorated	appreciated
C.	improved	depreciated
D.	improved	appreciated



33. The following diagram shows the change over time in the Production Possibility Frontier (PPF) of a country.



Movement from Point A on PPF<sub>1</sub> to B on PPF<sub>2</sub> indicates

- I. economic growth.
  - II. economic development.
  - III. unused resources in the manufacturing sector.
- A. I only
- B. I and II only
- C. II and III only
- D. I, II and III
34. Measuring GDP per head of Less Developed Countries using Purchasing Power Parity rather than market exchange rates results in most cases in
- A. substantial decreases in the level of GDP per head.
  - B. substantial increases in the level of GDP per head.
  - C. an indication of a greater degree of income inequality within countries.
  - D. weaker grounds for comparison with More Developed Countries.

- 35.** A developing country finds that its ranking in the HPI (Human Poverty Index) is considerably higher than its ranking in the HDI (Human Development Index). Other things being equal, this means that within the country
- A. the proportion of the population which is deprived of basic services is small relative to income per head.
  - B. levels of literacy, health care and longevity are low relative to income per head.
  - C. growth rates of income per head are high.
  - D. the proportion of the population with access to basic services is falling.
- 36.** In a Less Developed Country with abundant, low-cost labour and a relative shortage of capital, appropriate technology will involve labour-intensive methods because it is likely to
- A. preserve small scale production.
  - B. maximise both private and social rates of return.
  - C. make the best use of scientific knowledge.
  - D. encourage economic diversification.
- 37.** Economists often criticise inward-orientated strategies of development because they lead to
- A. unfair competition in world markets.
  - B. substitution of low-cost domestic products for high cost imported products.
  - C. greater inefficiency in the allocation of resources.
  - D. a greater reliance on market forces.

38. The following table shows the share of total income received by the poorest 40 per cent of the population for selected countries in 1997.

Country	Income share of poorest 40%
Japan	22%
Hong Kong	16%
Mexico	12%
Brazil	7%

Why might these figures provide an incomplete account of relative inequality at different levels of development?

- I. There is no information concerning wealth distribution.
- II. Tax systems vary from one country to another.
- III. Healthcare and Social Security provision varies from one country to another.

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

39. Government planning can help the development process in a Less Developed Country because

- A. the development process can only start with help from the public sector.
- B. it justifies the use of subsidies and import substitution.
- C. market failure is a common feature in the initial stages of development.
- D. only the state can gather the institutional preconditions for take-off.

40. Which one of the following is an acceptable definition of sustainable development?
- A. Development which meets the needs of the present without compromising the ability of future generations to meet their own needs
  - B. A rate of exploitation of non-renewable resources which does not exceed the rate at which renewable resources are developed
  - C. The reflection of market prices in the private cost of producing and consuming resources
  - D. Development which maintains agreed minimum standards of quality of life for future generations.
-