



**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

Wednesday 9 May 2001 (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. One of the most famous definitions of economics is that it is ‘the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses’.

In this definition, the term ‘scarce means’ refers to

- A. money income.
  - B. human wants.
  - C. conflicting economic objectives.
  - D. productive resources.
2. Which **one** of the following is a positive economic statement?
- A. The level of inflation needs to be reduced.
  - B. There is too much government intervention in the economy.
  - C. The extent of inequality has increased in most industrialised countries over the last decade.
  - D. All workers should be guaranteed certain minimum employment rights.

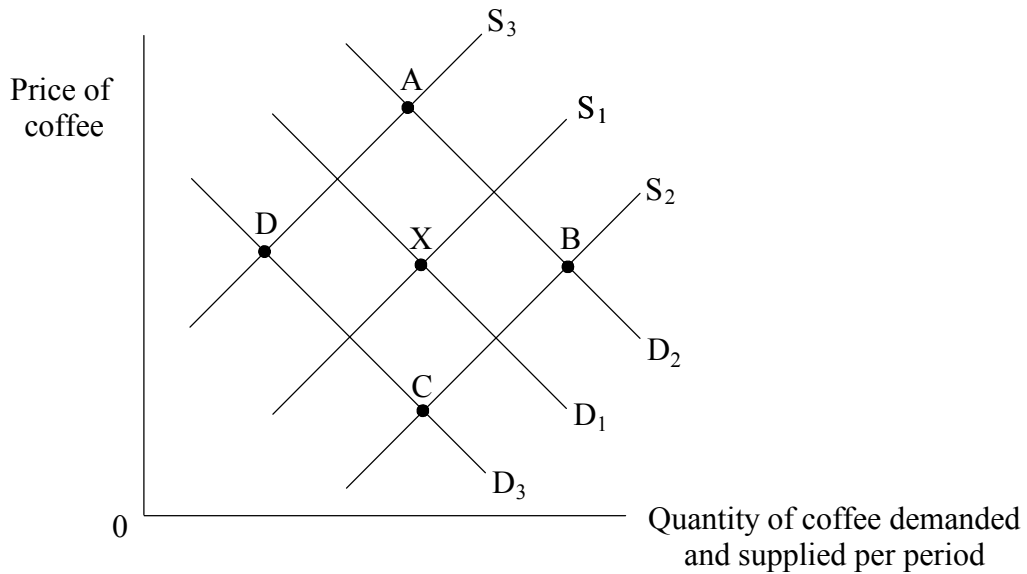
3. The table below shows a competitive market in equilibrium at two periods of time.

	<b>Market Price</b>	<b>Quantity Traded</b>
Period 1	\$10	250
Period 2	\$12	340

The change from Period 1 to Period 2 could be explained by an increase in

- A. real incomes of consumers.
- B. technological progress.
- C. the cost of credit.
- D. the cost of raw materials.

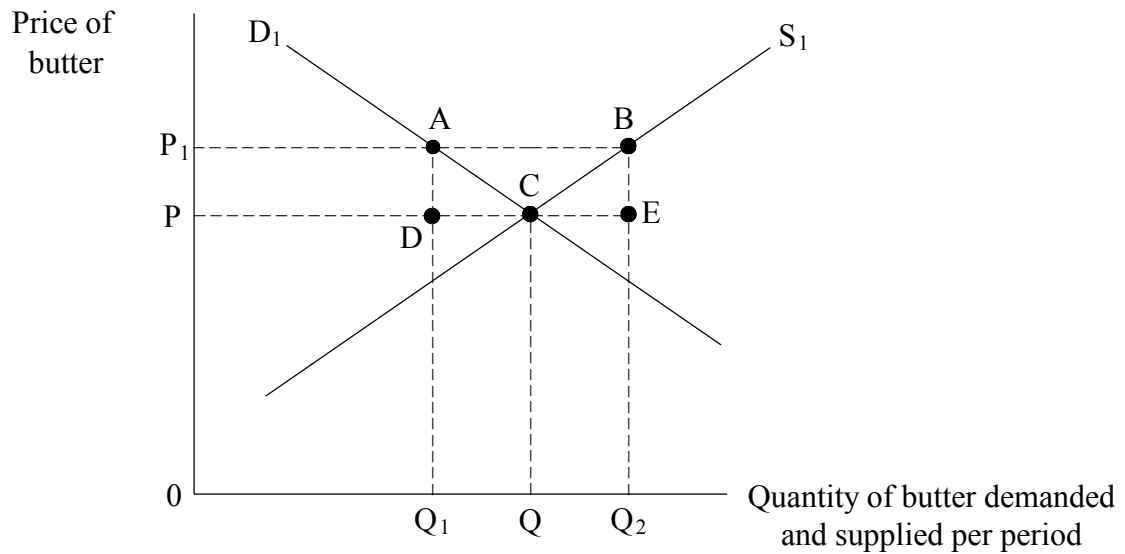
4. The diagram below shows the market for coffee, with the point X representing an initial equilibrium position.



Which of the points labelled A to D would indicate the new equilibrium if the price of tea, a substitute, fell and the wages of coffee workers rose?

- A. Point A
  - B. Point B
  - C. Point C
  - D. Point D
5. Goods X and Y are normal goods in joint demand. If the price of Y fell, the demand curve for X would shift to the right because of the
- A. substitution effect only.
  - B. substitution and income effects.
  - C. income effect only.
  - D. income effect offsetting the substitution effect.

6. The diagram below illustrates the market for butter, with a free market price of  $0P$  and quantity  $0Q$ .



If the government decides to fix a minimum price of  $0P_1$ , and undertakes to purchase any stocks left unsold at that price, the amount of government spending on butter would be indicated by the area

- A.  $A B Q_2 Q_1$ .
  - B.  $A B E D$ .
  - C.  $P_1 A Q_1 0$ .
  - D.  $D E Q_2 Q_1$ .
7. The market mechanism is often judged inadequate as a means of supplying
- A. Giffen goods.
  - B. normal goods.
  - C. inferior goods.
  - D. public goods.

8. The table below shows the changing shares of total income of the highest and lowest income groups in the United Kingdom from 1979 to 1994.

Income Groups		Share of total income in %	
		1979	1994
<b>Lowest</b>	10 %	4.1	2.5
<b>Lowest</b>	20 %	9.8	6.8
<b>Lowest</b>	30 %	16.0	12.0
<b>Highest</b>	30 %	47.0	54.0
<b>Highest</b>	20 %	35.0	41.0
<b>Highest</b>	10 %	20.0	26.0

From this data it may be concluded that over the period in question

- I. the distribution of income became more unequal.
  - II. the bottom income groups experienced a fall in their income.
  - III. the distribution of wealth became more unequal.
- A. I only
  - B. I and II
  - C. II and III
  - D. I, II and III

9. The diagrams below indicate supply curves of differing elasticities.

Diagram A

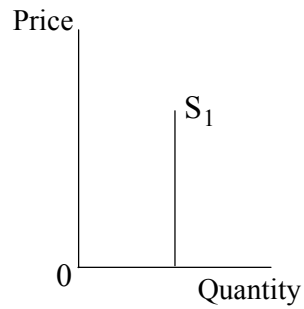


Diagram B

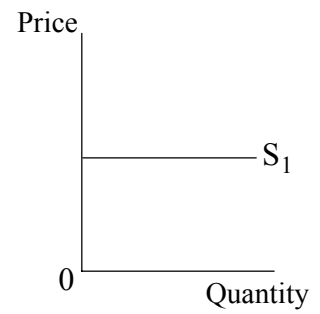


Diagram C

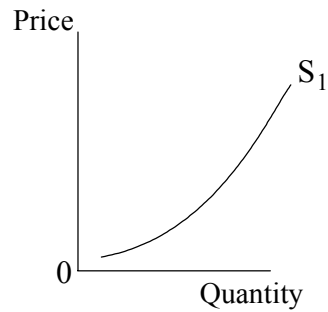
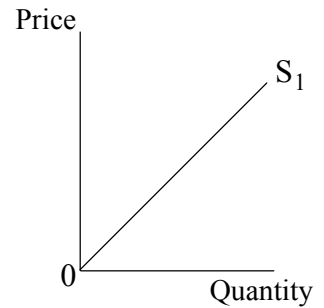


Diagram D



Which of the diagrams shows a supply curve with an elasticity equal to unity?

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

10. A normal good can be defined as a good

- A. where demand falls as income increases.
- B. where demand increases as income falls.
- C. that has a positive income elasticity of demand.
- D. that has a negative income elasticity of demand.

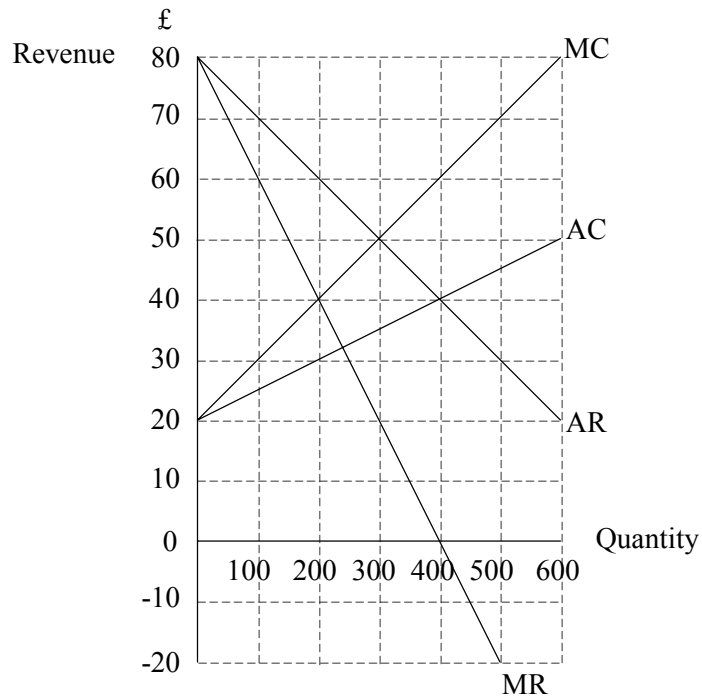
11. The following table shows the demand schedule and total revenue for good X.

£	Quantity demanded (000s)	Total revenue (£000s)
7.5	5	37.5
6.0	10	60.0
4.5	15	67.5
3.0	20	50.0
1.5	25	37.5
0	30	0.0

At what price is the price elasticity of demand unitary?

- A. 0
- B. 4.5
- C. 6.0
- D. 7.5
12. If the government imposes an indirect tax on a good, the consumer's share of the tax will be larger if demand
- A. is inelastic and supply is elastic.
- B. and supply are both inelastic.
- C. is elastic and supply is inelastic.
- D. and supply are both elastic.
13. Which **one** of the following market structures is characterised by both the presence of barriers to entry and non-price competition?
- A. Monopoly
- B. Oligopoly
- C. Perfect competition
- D. Monopolistic competition

14. What level of output should the monopolist produce to maximise total revenue?



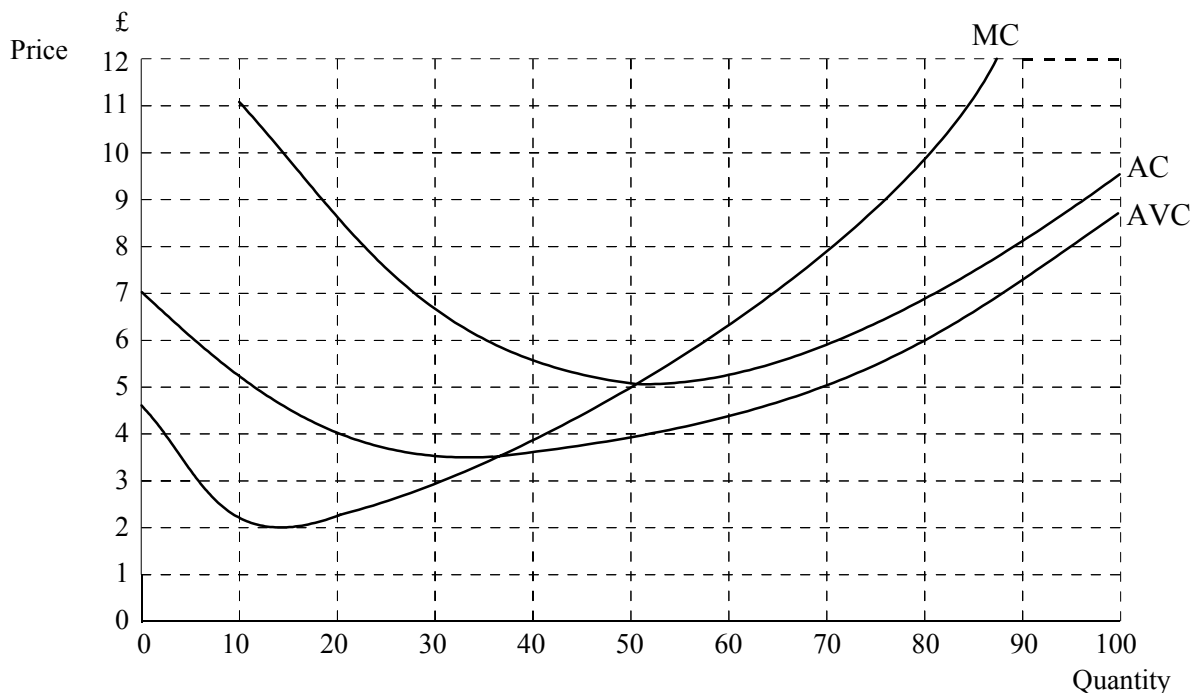
- A. 200 units
- B. 300 units
- C. 400 units
- D. 600 units

15. Which **one** of the following statements is true **only** for oligopolistic competition?

- A. Firms face a downward sloping demand curve.
- B. Firms may engage in collusive behaviour.
- C. Advertising gives consumers perfect knowledge of price and quantity.
- D. Profit maximising firms produce where  $MR=MC$ .



16. The diagram below shows the cost curves of a firm in perfect competition.

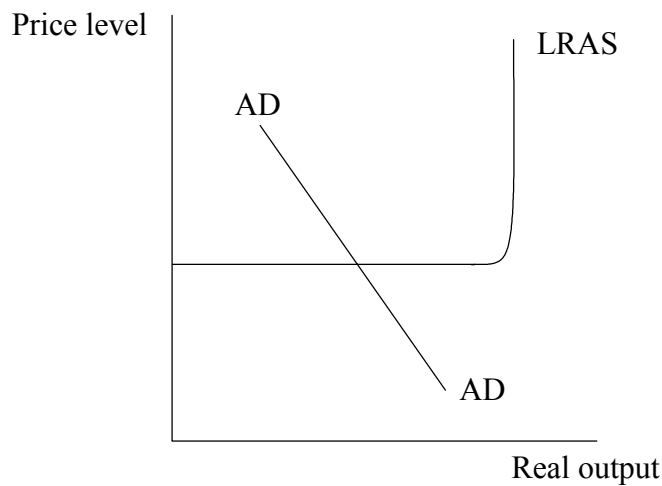


At which price level will the firm achieve both productive and allocative efficiency?

- A. £2.00
  - B. £3.50
  - C. £5.00
  - D. £8.00
17. Which **one** of the following constitutes an increase in injections?
- A. Government expenditure on defence increases but total public expenditure remains unchanged.
  - B. More tourists come to visit the country.
  - C. Petrol taxes increase in order to curb pollution.
  - D. Trading partners abroad enter a period of deep recession.

18. Which **one** of the following transactions would be counted in the calculation of GDP?
- A. A gardener plants flowers in his own garden.
  - B. A boy swaps his old skates for new ones with a friend.
  - C. A man buys 100 shares of stock in XYZ Corporation.
  - D. 'Classic Cars' manufactures 3,000 automobiles and holds them as inventory (stock).

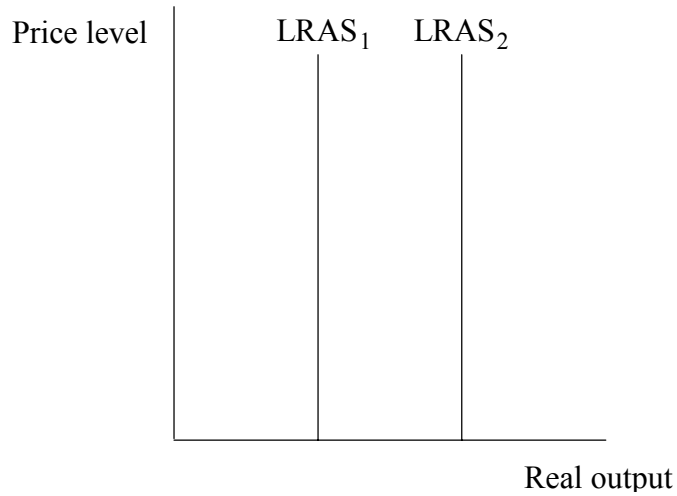
19. The following diagram shows an aggregate demand and a long run aggregate supply curve (LRAS).



Which **one** of the following factors helps to explain the shape of the LRAS curve?

- A. The multiplier.
  - B. The impact that interest rates have on expenditure and the price level.
  - C. Supply side shocks.
  - D. Long run equilibrium can be consistent with less than full employment.
20. In an economy, the equilibrium level of real GNP rises from \$95 billion to \$105 billion after an increase of \$2 billion in government spending. The marginal propensity to consume in this economy is
- A. 0.2.
  - B. 0.4.
  - C. 0.6.
  - D. 0.8.

21. The diagram below shows two long run aggregate supply (LRAS) curves.

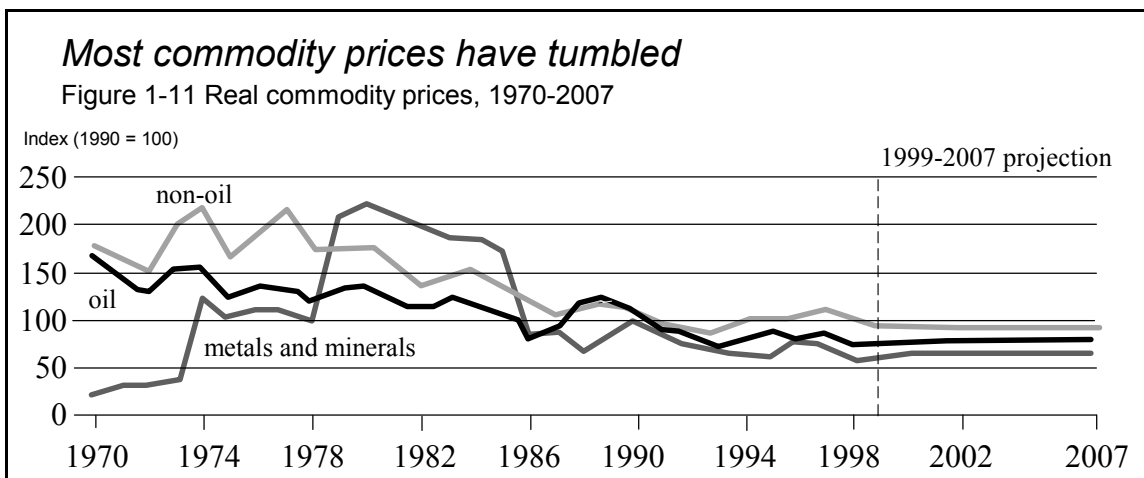


The shift to the right of the long run aggregate supply curve from LRAS<sub>1</sub> to LRAS<sub>2</sub> could have been caused by

- A. a reduction in the working week.
  - B. a reduction in unemployment led by a boom in exports.
  - C. the introduction of robots in manufacturing.
  - D. an increase in the school leaving age.
22. A woman earns \$20 per hour and the price index = 100. Other things being equal, what would her real salary be if the price index rose to 110?
- A. \$16
  - B. \$18
  - C. \$20
  - D. \$22

23. Inflation can be defined as
- A. a situation where prices are very high.
  - B. the rate of change in average prices.
  - C. a sustained increase in the general price level.
  - D. the process of measuring changes in the price level.

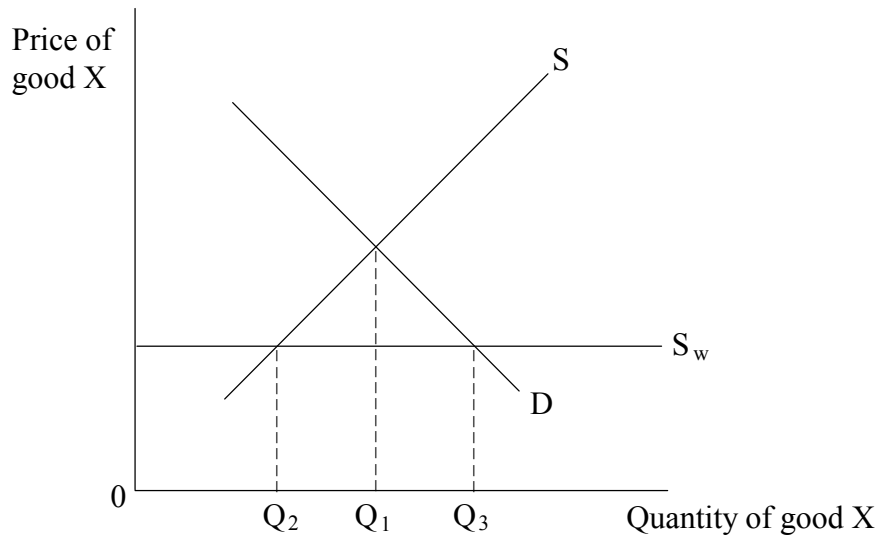
24. Below is a graph of commodity prices



It may be deduced from the graph that over the period shown there has been

- A. stagflation.
  - B. upward pressure on demand pull inflation.
  - C. downward pressure on cost push inflation.
  - D. downward pressure on monetary inflation.
25. If a nation gains from international trade, it is able to consume
- A. on its production possibility frontier.
  - B. inside its production possibility frontier.
  - C. beyond its current production possibility frontier.
  - D. only that which it produces.

26. In the diagram below, D and S represent the domestic demand and supply curves of good X.  $S_w$  represents the world supply of good X.



If there are no restrictions on imports of good X to this country, the domestic production of good X would be

- A. 0  $Q_2$ .
  - B. 0  $Q_1$ .
  - C.  $Q_1 Q_3$ .
  - D.  $Q_2 Q_1$ .
27. Countries A, B, C, and D form a customs union. After integration, the union replaces goods from non-member country G, which is a lower-cost producer, with goods from member country B, a higher-cost producer. This is an example of
- A. trade creation.
  - B. trade diversion.
  - C. crowding out.
  - D. dynamic welfare benefits.

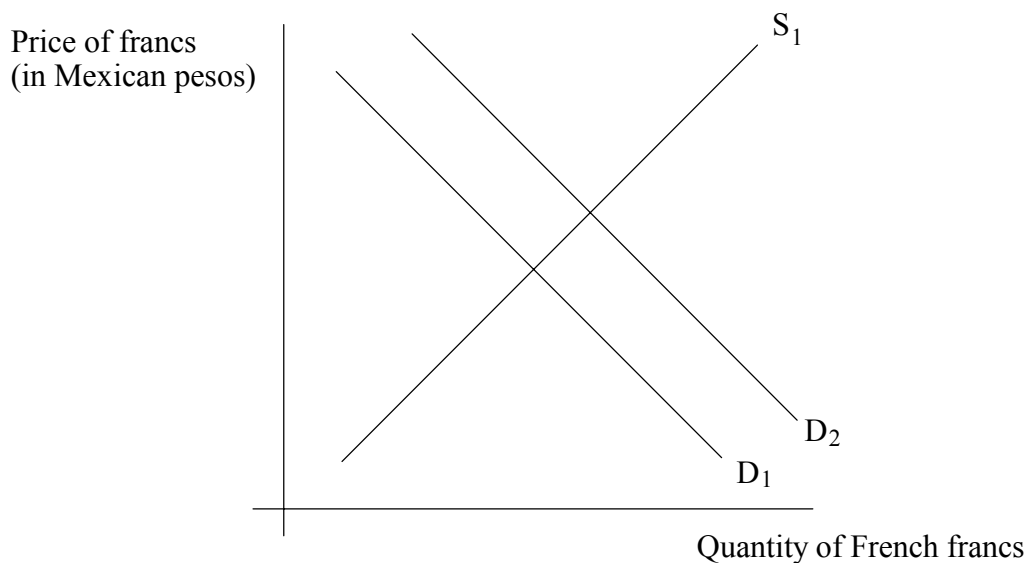
28. The table below summarises the United Kingdom’s current account balance from the beginning to the end of 1997.

<b>United Kingdom’s Current Balance (£bn)</b>				
Quarter	Goods	Services	Investment Income	Transfers
Q <sub>1</sub>	–2.1	2.5	2.9	–1.4
Q <sub>2</sub>	–3.0	2.8	3.1	–0.7
Q <sub>3</sub>	–2.9	2.9	3.0	–1.2
Q <sub>4</sub>	–4.0	3.1	3.2	–0.2

From the table it may be deduced that throughout the period shown

- A. there were net capital inflows into the United Kingdom.
- B. the current account was in surplus.
- C. United Kingdom official reserves were falling.
- D. the United Kingdom’s exchange rate must have depreciated.

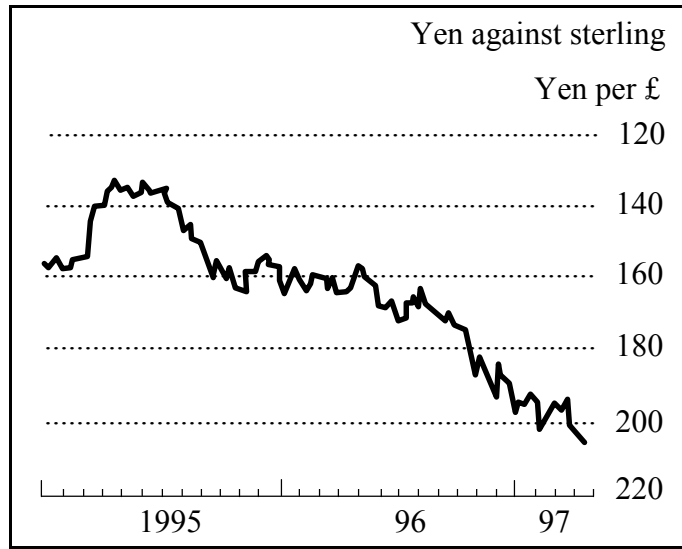
29. The diagram below shows the demand and supply curves for the French franc in Mexico.



A shift in the demand curve from  $D_1$  to  $D_2$  could have been caused by which of the following?

- I. Higher interest rates in Mexico than in France
  - II. Lower inflation rates in France than in Mexico
  - III. A fall in incomes in Mexico
- A. I only
  - B. I and II
  - C. II and III
  - D. I, II and III

30. The graph below indicates the exchange rate between the Japanese yen and the United Kingdom's pound sterling from 1995 to 1997.



From the graph it can be deduced that over the period in question

- A. Japanese exports to the United Kingdom became relatively dearer.
- B. the pound depreciated in value against the yen.
- C. British exports became more price competitive in Japanese markets.
- D. Japanese tourists found the cost of a holiday in the United Kingdom more expensive.



31. Under a managed float system, the Colombian peso is depreciating against the US dollar. If the Colombian monetary authorities wanted to halt this depreciation, which **one** of the following actions would they be most likely to take?
- A. Widen the exchange rate bands.
  - B. Lower interest rates.
  - C. Sell US dollars in the foreign exchange market.
  - D. Buy US dollars in the foreign exchange market.
32. Assume trade between two countries only, Microland and Macroland. If Microland's terms of trade are 4, Macroland's terms of trade must be
- A. 0.25.
  - B. 2.
  - C. 4.
  - D. 8.
33. Economic development
- A is the same as economic growth.
  - B. can only occur with economic growth.
  - C. must be led by the public sector.
  - D. generally results in lower population growth.

34. Which combination of birth rate, death rate and GDP per capita is most representative of the poorest less developed countries?

	<b>Birth Rate</b>	<b>Death Rate</b>	<b>GDP per Capita</b>
Combination A	High	Low	Low
Combination B	Low	Low	Low
Combination C	High	High	Low
Combination D	High	Low	High

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

35. The following table shows the percentage share of national income distributed over five groups of the population in four different less developed countries.

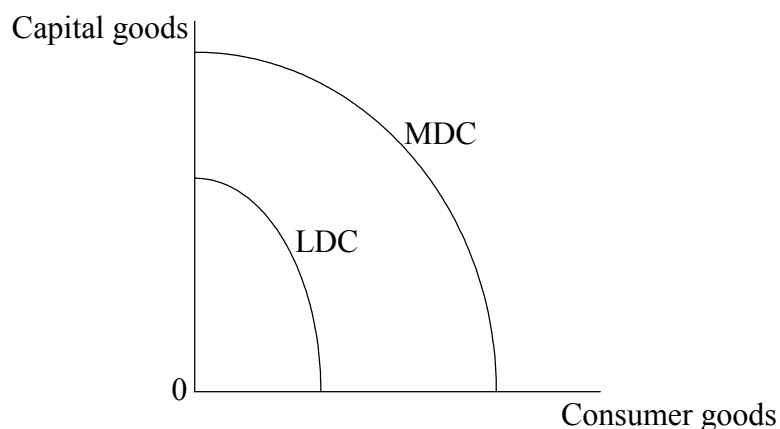
<b>Country</b>	<b>lowest 20 %</b>	<b>second 20 %</b>	<b>third 20 %</b>	<b>fourth 20 %</b>	<b>highest 20 %</b>
Brazil	2.1	4.9	8.9	16.8	67.5
Sri Lanka	8.9	13.1	16.9	21.7	39.3
Guatemala	2.1	5.8	10.5	18.6	63.0
Hong Kong	5.4	10.8	15.2	21.6	47.0

Which **one** of these four countries has the most unequal income distribution?

- A. Brazil
- B. Sri Lanka
- C. Guatemala
- D. Hong Kong

36. A policy of import substitution increases the likelihood of
- A. competitive exports.
  - B. greater consumer choice.
  - C. monopoly power.
  - D. the use of modern technology.
37. Which **one** of the following growth strategies for a less developed country would be described as ‘inward-orientated’?
- A. Removal of exchange controls
  - B. Adoption of free-market, supply side policies
  - C. Subsidies for domestic producers
  - D. Specialisation according to comparative advantage
38. A major feature of International Monetary Fund structural adjustment programmes for less developed countries is that they have encouraged
- A. an over-reliance on government subsidies.
  - B. greater use of Keynesian demand management techniques.
  - C. the adoption of closed, inward-orientated development strategies.
  - D. resource allocation to be determined to a much greater extent by market forces.

39. Many less developed countries have suffered from a long term deterioration in their terms of trade. This has meant that they have
- A. also suffered from balance of payment problems.
  - B. had to export ever greater amounts to purchase given quantities of imports.
  - C. experienced a rise in their export prices relative to their import prices.
  - D. necessarily also suffered from exchange rate instability.
40. The diagram below represents the production possibility curves for a less developed country (LDC) and a more developed country (MDC).



The production possibility curve of the LDC is to the left of that of the MDC because the LDC is likely to have a lower

- A. rate of inflation.
  - B. exchange rate.
  - C. productive potential.
  - D. level of unemployment.
-