

**ECONOMICS
HIGHER LEVEL
PAPER 1**

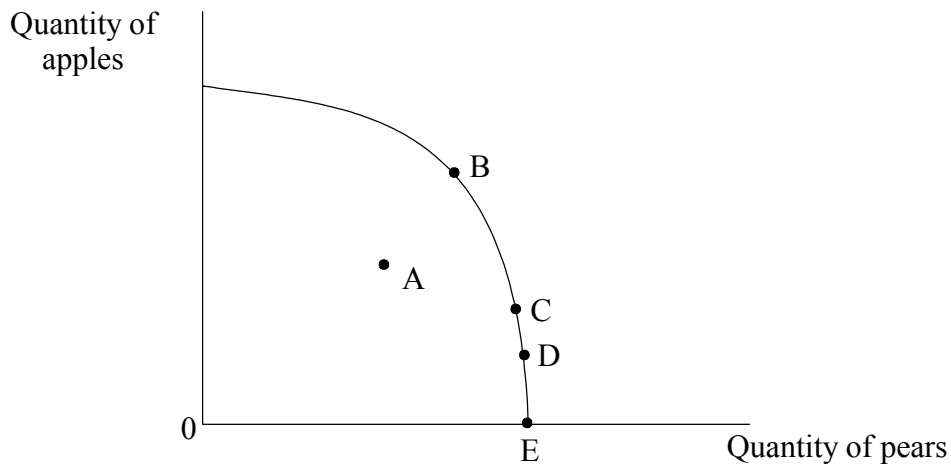
Thursday 16 May 2002 (afternoon)

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. The diagram below shows the production possibility curve for an economy.



Which **one** of the following movements does not involve an opportunity cost?

- A. A to B
 - B. B to C
 - C. C to D
 - D. D to E
2. A mixed economy may be defined as one in which resource allocation is
- A. dependent on the decisions of producers and consumers.
 - B. designed to meet the needs of all.
 - C. a mix between the production of consumer and capital goods.
 - D. carried out partly by the state and partly by market forces.

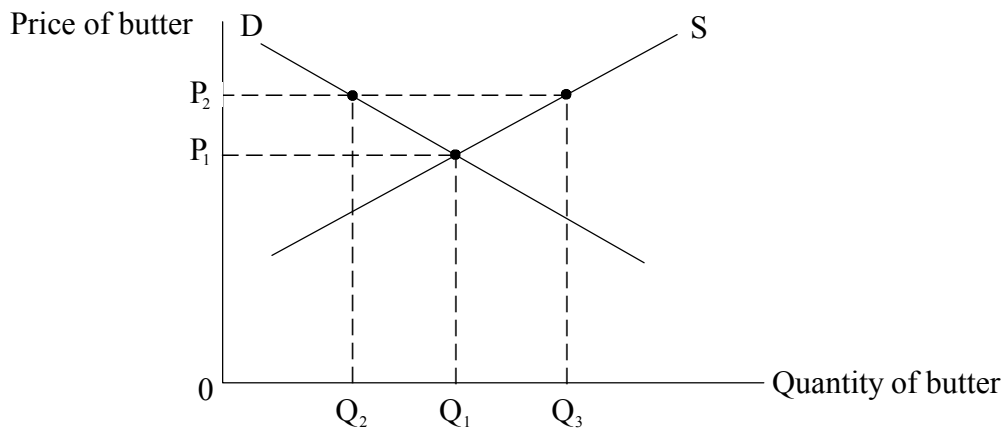
3. The table below shows the demand and supply schedules for oranges.

Price (pesetas)	Quantity demanded	Quantity supplied
4	160	220
3	180	180
2	200	140
1	220	100

As a result of a fall in production costs, supply rises by 60 at all prices. What would be the new equilibrium price?

- A. 4 pesetas
- B. 3 pesetas
- C. 2 pesetas
- D. 1 peseta

4. The diagram below shows the supply and demand curves for butter.

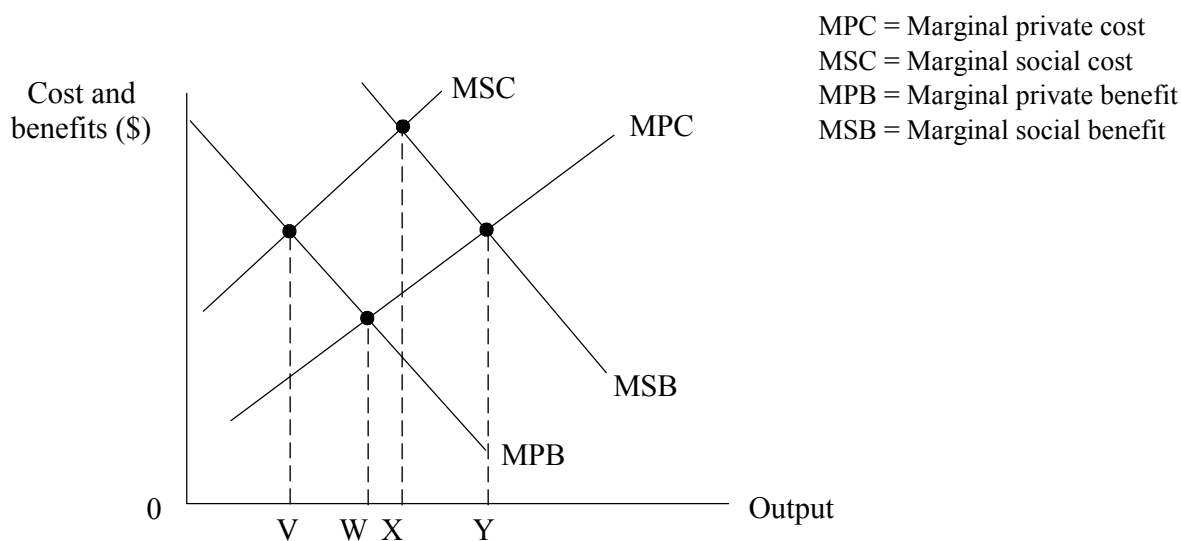


If a government wished to maintain a target price of OP_2 by intervening in the market by buying or selling stocks of butter, it would

- A. sell quantity $Q_1 Q_3$.
- B. sell quantity $Q_2 Q_3$.
- C. buy quantity $Q_1 Q_3$.
- D. buy quantity $Q_2 Q_3$.

5. Which **one** of the following statements about the price system is **not** true?
- A. Factor mobility is necessary for the reallocation of resources to occur.
 - B. Low prices signal to producers the relative strength of consumer demand.
 - C. The price system ensures that the needs of all members of society are met.
 - D. High prices and profits tend to attract factors of production from less productive activities.
6. Which **one** of the following provides the best definition of a merit good? A merit good is a good which
- A. cannot be supplied by the free market.
 - B. has to be provided by the government because of the free-rider problem.
 - C. is provided free of charge by the government.
 - D. is likely to be underprovided by the free market.

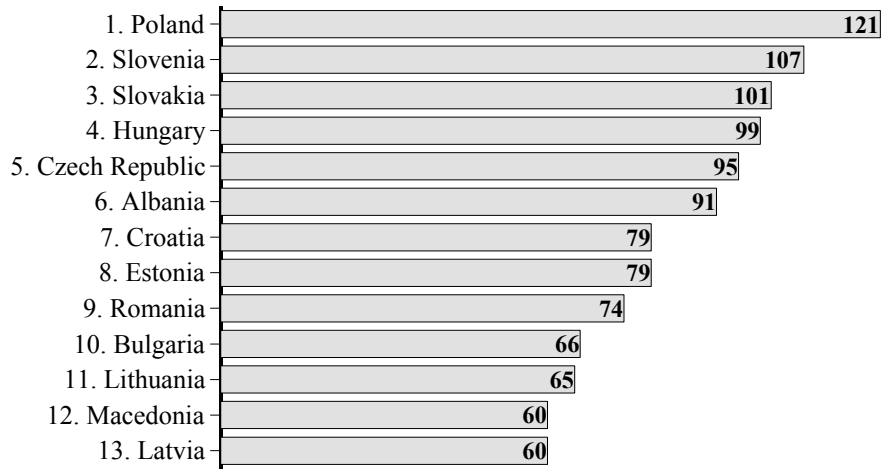
7. The diagram below shows all the costs and benefits of producing good X.



The optimal output of good X for society would be

- A. OV.
- B. OW.
- C. OX.
- D. OY.

8. The data below indicates an index of real GDP in 1999 for individual countries in transition (1989 = 100).



From the data, it may be concluded that

- A. Slovakia (3) had experienced some economic growth since 1989.
 - B. Poland (1) had the highest real GDP in 1999.
 - C. Latvia (13) had the lowest standard of living.
 - D. The countries numbered (4) to (13) were all experiencing balance of payments problems.
9. The price elasticity of a demand for a given product will equal -3 when a
- A. 0.1 % reduction in price causes a 0.3 % increase in quantity demanded.
 - B. 0.1 % increase in price causes a 3 % reduction in quantity demanded.
 - C. 3 % reduction in price causes a 1 % increase in quantity demanded.
 - D. 3 % increase in price causes a 1 % fall in quantity demanded.

10. The price elasticity of demand for a given product will be greater the more

- A. essential it is considered to be.
- B. different uses it can have.
- C. time it takes to produce.
- D. close substitutes are available.

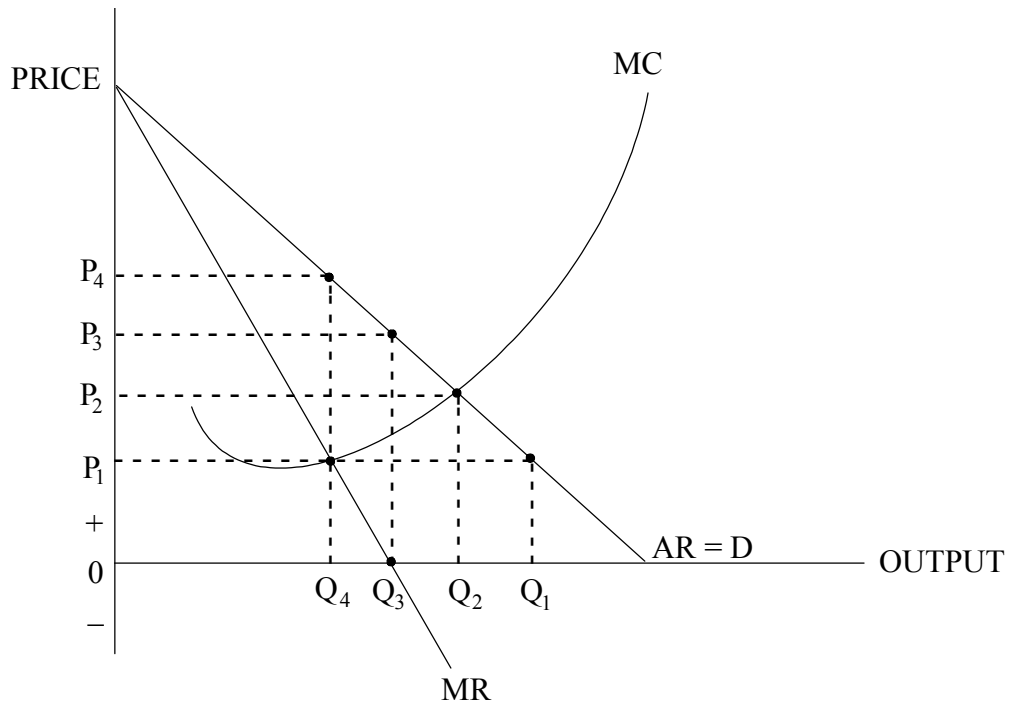
11. The table below shows price and total revenue (TR) for a given good.

Price (£)	TR (£)
1	12 000
2	18 000
3	18 000
4	12 000
5	0

From the information given, it may be concluded that the price elasticity of demand is inelastic over the price range

- A. £1.00 to £2.00.
- B. £2.00 to £3.00.
- C. £3.00 to £4.00.
- D. £4.00 to £5.00.

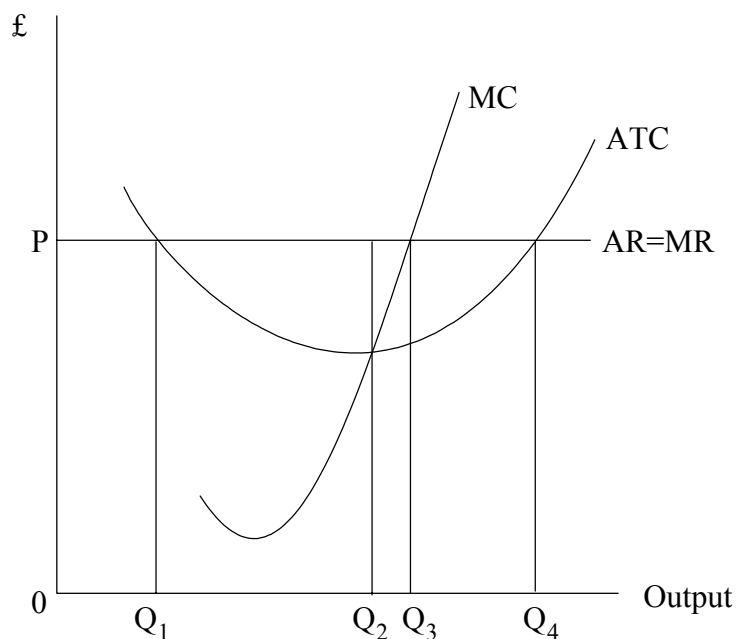
12. The diagram below shows the costs and revenue curves of a given firm.



It may be concluded that price elasticity of demand is unitary at

- A. P_1 .
 - B. P_2 .
 - C. P_3 .
 - D. P_4 .
13. When a government decides to charge an indirect tax on a product with a perfectly inelastic demand curve and an elastic supply curve, the incidence of the tax will fall
- A. mostly on the producer.
 - B. entirely on the producer.
 - C. mostly on the consumer.
 - D. entirely on the consumer.

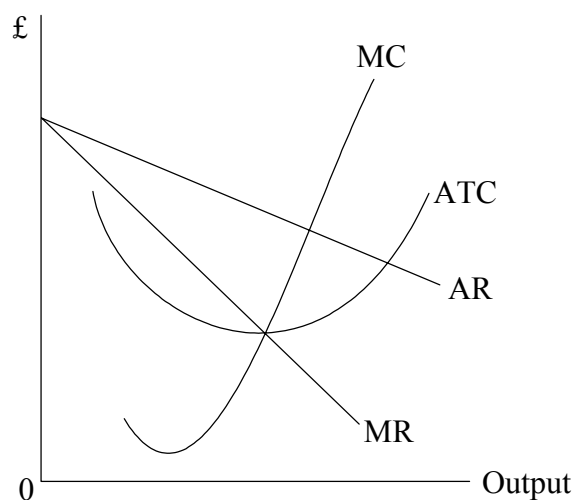
14. The graph below shows the cost and revenue curves of a firm operating under perfect competition.



It may be concluded that profits will be maximised at output

- A. Q_1 .
 - B. Q_2 .
 - C. Q_3 .
 - D. Q_4 .
15. A firm operating under perfect competition will be allocatively efficient if it produces at the point where marginal cost
- A. is below average total cost.
 - B. equals average revenue.
 - C. equals average variable cost.
 - D. equals average total cost.

16. The graph below shows the cost and revenue curves of a profit maximising firm operating under conditions of imperfect competition.



It may be concluded that this firm is

- A. allocatively efficient.
- B. productively efficient.
- C. productively inefficient.
- D. allocatively and productively inefficient.

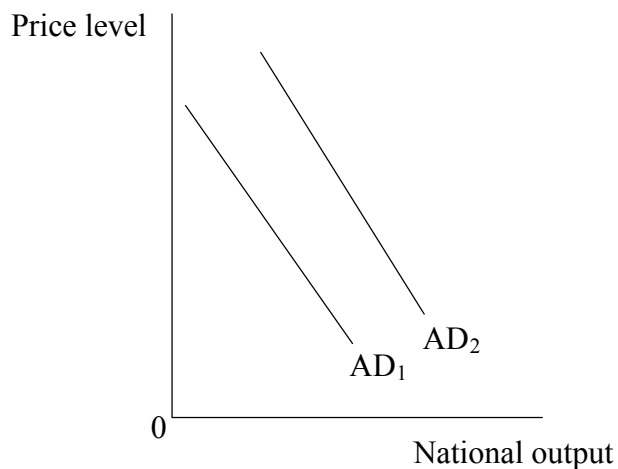
17. The table below shows Gross Domestic Product by category of expenditure for a country.

	(\$m)
Consumer expenditure	3045
Government final consumption	1800
Gross domestic fixed capital formation	1500
Depreciation (capital consumption)	1200
Net property income from abroad	1000
Taxes on expenditure	1500
Subsidies	150

Gross Domestic Product at market prices is

- A. \$4845m.
- B. \$4795m.
- C. \$5145m.
- D. \$6345m.

18. The diagram below illustrates two aggregate demand curves (AD) for an economy.

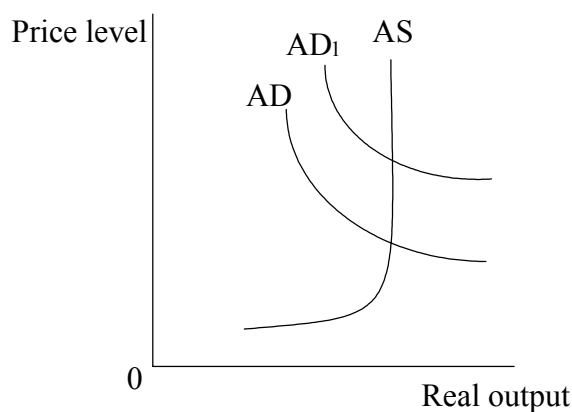


The increase in aggregate demand from AD₁ to AD₂ is likely to have been caused by

- A. a current account deficit.
 - B. an increase in productivity.
 - C. a deflationary monetary policy.
 - D. a fiscal deficit.
19. A fall in the value of which **one** of the following would lead to a fall in the value of the multiplier? The marginal propensity to
- A. tax
 - B. save
 - C. consume
 - D. import

20. The **accelerator** theory of investment states that the level of investment will mostly depend upon the
- A. rate of interest.
 - B. level of savings.
 - C. level of national income.
 - D. rate of change of national income.

21. The diagram below shows an aggregate demand / aggregate supply diagram.



The shift of AD to AD₁ will cause an increase in

- A. real output.
 - B. employment.
 - C. the price level.
 - D. productivity.
22. Fiscal drag
- A. delays the timing of fiscal policy action.
 - B. reduces the effectiveness of expansionary demand management policies.
 - C. increases the time in which governments respond to economic problems.
 - D. causes high levels of unemployment.

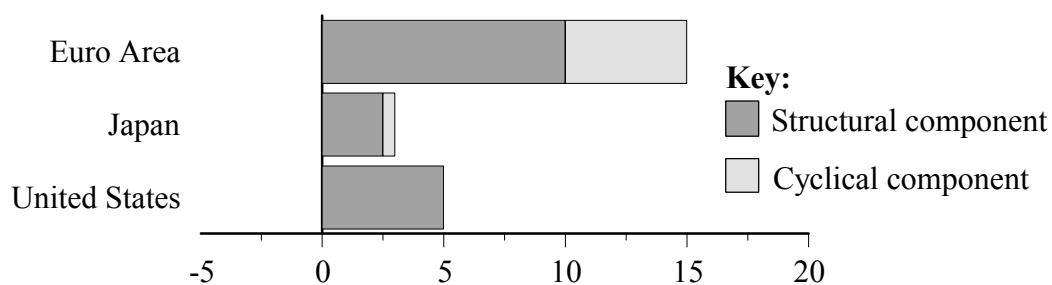
23. The table below shows three indicators for an advanced economy.

Year	Interest rates %	Unemployment %	Inflation %
1996	4.1	7.2	2.4
1997	4.0	7.0	2.1
1998	4.0	6.9	1.6
1999	3.9	6.9	1.4

From the above data it can be concluded that over the period

- A. prices have fallen.
- B. demand pull inflation has decreased.
- C. real interest rates have remained positive.
- D. there have been persistent levels of demand deficiency.

24. The graph below shows the structural and cyclical components of unemployment for the Euro Area, USA and Japan.



On the basis of the above data, which one of the following policy measures would have the greatest impact on the unemployment rates of these countries?

- A. A reduction in income tax
- B. A reduction in interest rates
- C. An increase in government funded training schemes
- D. An increase in the money supply

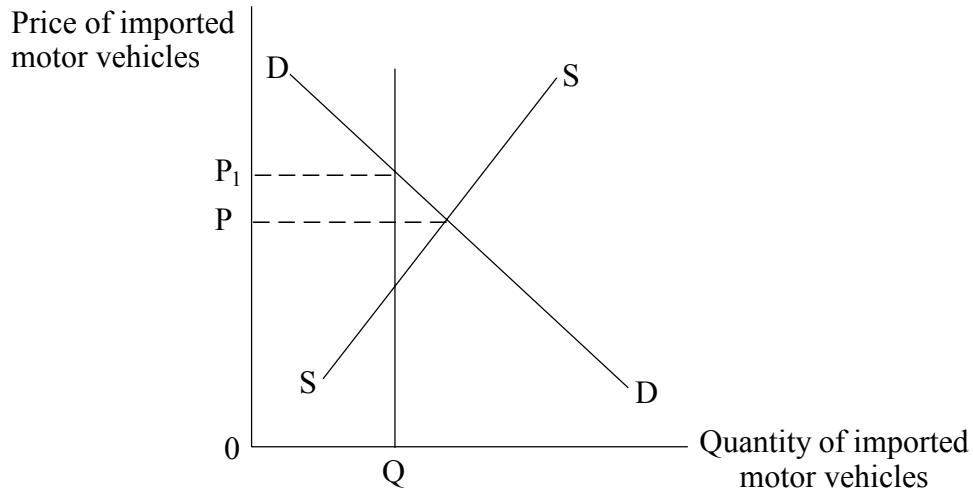
25. The following table shows the maximum number of computers or television sets that can be produced by two countries using the same resources.

Country	Computers	Television sets
Country X	800	400
Country Y	600	200

From this information it can be said that

- A. Country X should not trade with Country Y because it can produce more computers and television sets using the same resources.
 - B. wage levels in Country Y are lower than in Country X.
 - C. Country Y should specialise in the production of computers and then trade with Country X for television sets.
 - D. Country X has a comparative advantage in the production of computers.
26. A Multinational Corporation (MNC) engages in transfer pricing when
- A. it is able to transfer the same prices for its commodities to markets all over the world.
 - B. prices are set world-wide to maximise revenue rather than profits.
 - C. prices are set so that wealth is transferred from consumers on low incomes to the MNC.
 - D. internal pricing policies minimise tax liabilities by transferring profits between divisions of the MNC.

27. In the diagram below, SS represents the supply of imported cars and DD represents the domestic demand for imported cars.



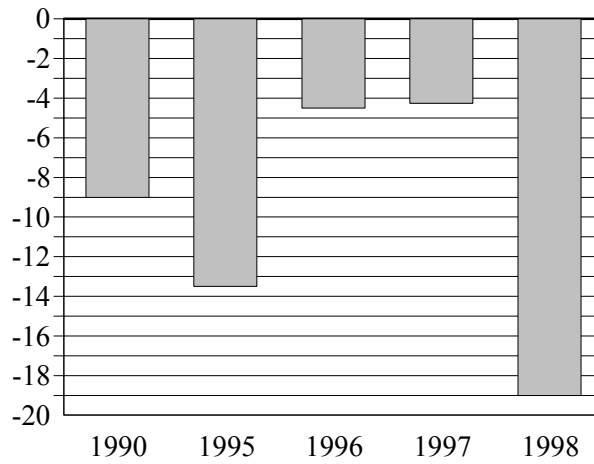
If the government imposes a quota of $0Q$ on the import of cars,

- A. there will be no effect on the market price for imported cars.
 - B. there is likely to be an increase in demand for domestically produced cars.
 - C. the level of unemployment for workers in the domestic car manufacturing industry is likely to increase.
 - D. PP_1 represents the increase in revenue the government will receive from the sale of each imported car.
28. “The World Trade Organisation (WTO) is the only international organisation dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.”

In performing this function, the WTO relies mostly on

- A. bilateral agreements.
- B. multilateral agreements.
- C. trade blocs.
- D. free trade areas.

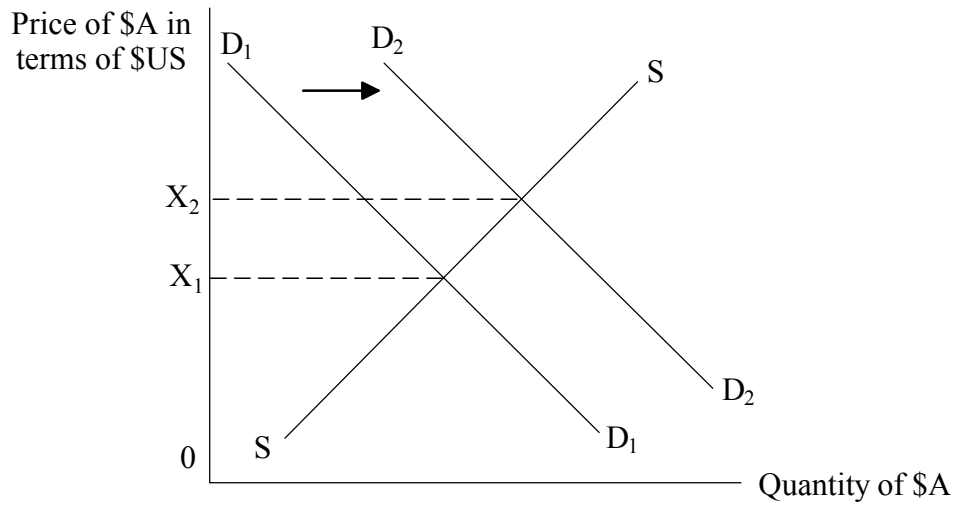
29. The diagram below shows the current account balance (in billions of \$US) for Africa as a whole from 1990 to 1998.



From the data it may be concluded that, over the period shown,

- A. there were net capital outflows from Africa.
- B. the sum of trade in goods and services, investment income and transfers was negative.
- C. the value of imported goods exceeded that of exported goods.
- D. the value of imported services exceeded that of exported services.

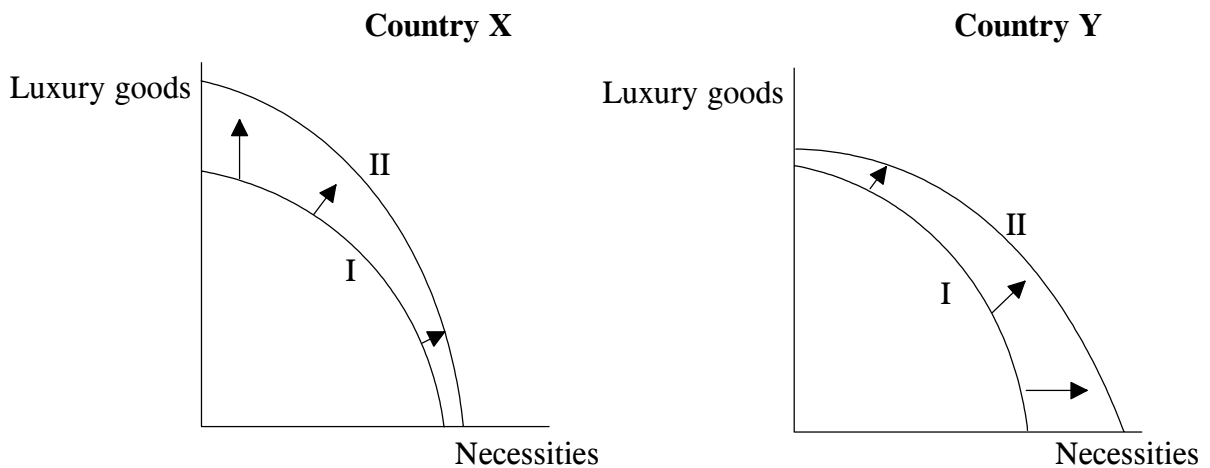
30. The diagram below illustrates an appreciation of the Australian Dollar (\$A) in terms of United States Dollars (\$US) in a freely floating foreign exchange market.



Which **one** of the following is the most likely cause of the appreciation of the Australian dollar illustrated in the diagram?

- A. The rate of inflation in Australia is higher than that of its major trading partners.
 - B. More Australian tourists are travelling outside Australia.
 - C. Australian interest rates are higher than the rates of interest in other countries.
 - D. The level of imports into Australia has fallen.
31. In the short run, the depreciation of a country's currency is most likely to lead to
- A. a worsening of the balance on current account.
 - B. an improvement in the terms of trade.
 - C. an increase in unemployment.
 - D. a decrease in inflation.

32. All of the following are characteristics of a common market except one. Which **one** is the **exception**?
- A. A common external tariff
 - B. Free trade in goods and services among member states
 - C. Common levels of direct taxation
 - D. Free movement of factors of production between member states
33. The following diagrams show production possibility curves (PPCs) for two less developed countries (LDCs).



Curve I represents the initial position of the PPC and curve II represents the position of the PPC after economic growth.

These diagrams suggest that

- A. Country X has achieved a more equal income distribution.
- B. Country X will experience more economic growth in the future than Country Y.
- C. Country Y has experienced greater economic development than Country X.
- D. Country Y will experience more economic growth in the future than Country X.

34. The following table contains some selected statistics for Nepal.

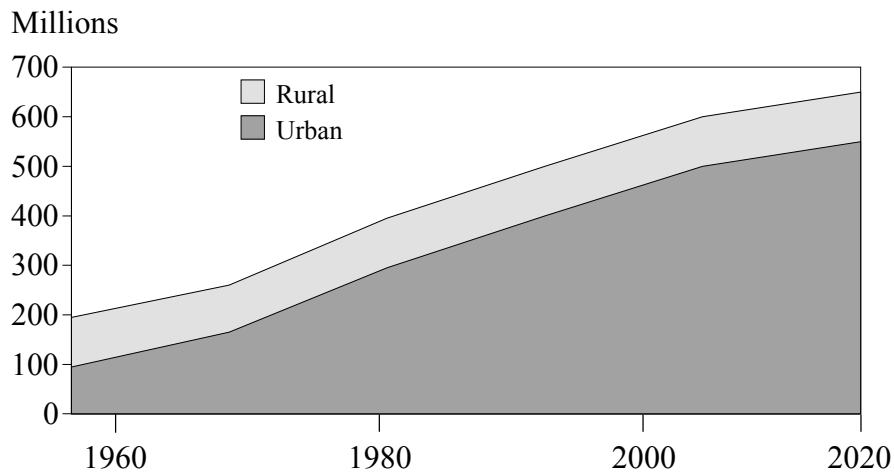
Nepal

Year	GNP (thousands of \$US)	Population (thousands)
1995	4 200 000	21 000
1998	4 889 000	22 900

The change in GNP per capita for Nepal between 1995 and 1998 is

- A. 0.013 %.
- B. 6.75 %.
- C. 13.49 %.
- D. 16.40 %.
35. Capital flight from a less developed country is likely to cause a serious problem because it
- I. reduces the growth potential of the economy.
 - II. contributes to balance of payments instability.
 - III. erodes the tax base.
- A. I only
- B. I and II only
- C. II and III only
- D. I, II and III
36. Which **one** of the following best represents an investment in human capital?
- A. Higher spending on basic healthcare
- B. Policies to promote increased population growth
- C. An increase in the capital/labour ratio
- D. Wage payments related to productivity increases

37. The graph below shows actual and projected rural and urban populations in Latin America and the Caribbean from 1960 to 2020.



Which **one** of the following is **not** a likely consequence of the trends indicated?

- A. Increased pressure on urban housing stocks
 - B. Greater underemployment in urban areas
 - C. The generation of negative externalities in cities
 - D. Growing importance of the primary sector
38. The International Monetary Fund (IMF) requires a country with a foreign debt crisis to implement a structural adjustment programme. In the short run this is likely to lead to
- I. an increased use of supply side economic policies.
 - II. an improvement in the standard of living of the people of the country.
 - III. a revaluation of the country's currency.
- A. I only.
 - B. I and II only.
 - C. II and III only.
 - D. I, II and III.

39. Read the following extract from an article about China.

“Between 1990 and 1993 the rate of absolute poverty in urban areas fell below 0.1 %. The level of relative poverty is also very low, at less than 3 % of urban households. But relative poverty is growing.” (Relative poverty is defined as 50 % of the urban national income.)

This extract suggests that in urban China

- A. 3 % of households cannot afford the necessities of life.
- B. 50 % of urban national income is the minimum required to purchase the necessities of life.
- C. the distribution of income is becoming less equal.
- D. almost all households have an acceptable standard of living.

40. The table below shows the index of export and import prices for a less developed country (LDC) between 1998 and 2001.

	1998	1999	2000	2001
Index of Export Prices	100	92	95	101
Index of Import Prices	100	103	107	115

For this LDC, over the period shown, it may be deduced that it

- A. experienced persistent balance of payments problems.
- B. had to sell more exports to buy a given quantity of imports.
- C. suffered from higher inflation.
- D. benefited from a favourable movement in its terms of trade.