

**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

Tuesday 6 May 2003 (afternoon)

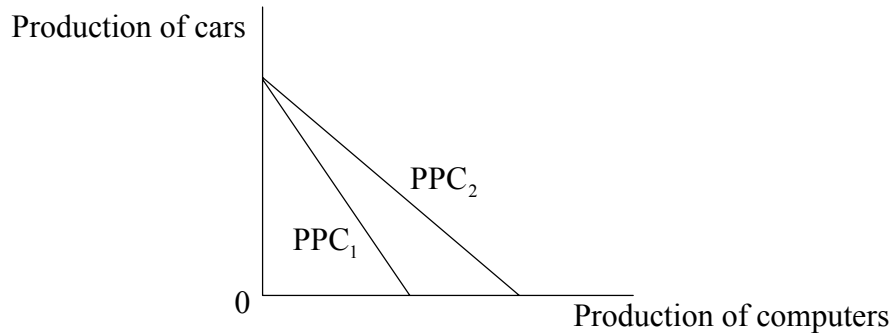
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**INSTRUCTIONS TO CANDIDATES**

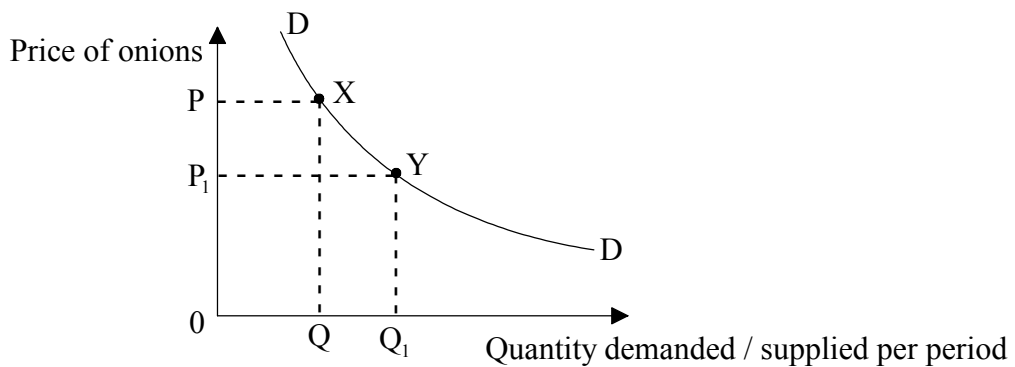
- Do not open this examination paper until instructed to do so.
- Answer all the questions.
- For each question, choose the answer you consider to be the best and indicate your choice on the answer sheet provided.

1. The following diagram represents a production possibility curve for an economy that produces only two goods, computers and cars.



Which **one** of the following changes in the economy will shift the Production Possibility Curve from  $PPC_1$  to  $PPC_2$ ?

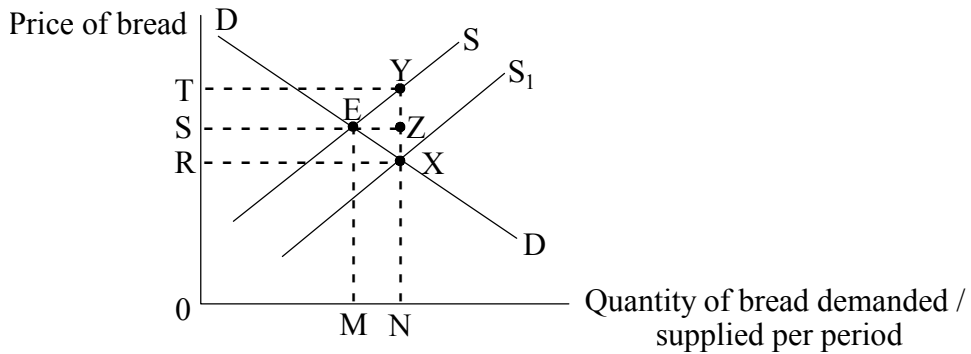
- A. Improvements in the standard of education and training of workers in the car industry
  - B. A fall in the level of unemployment
  - C. Entrepreneurs choosing to produce computers and not cars
  - D. The development of more efficient computer production techniques
2. The graph below shows the demand curve for onions.



The movement from point X to point Y on the demand curve could have been caused by

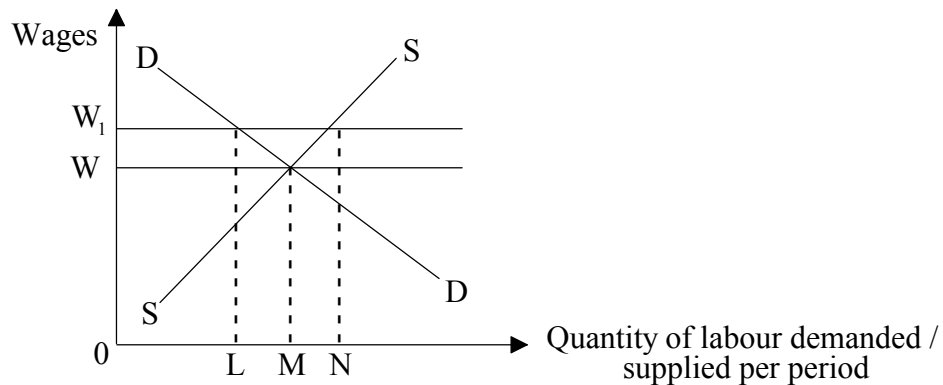
- A. increased productivity in onion growing.
- B. a decrease in the demand for onions.
- C. a poor onion harvest.
- D. a rise in the price of leeks, a substitute.

3. In the diagram below, SS and DD are the original supply and demand curves for bread.



If the government grants a flat rate subsidy to bread producers, the total subsidy given would be represented by the area

- A. RTYX.
  - B. 0TYN.
  - C. 0SEM.
  - D. RSZX.
4. In the diagram below, curves SS and DD represent the supply and demand for labour in a freely operating market.



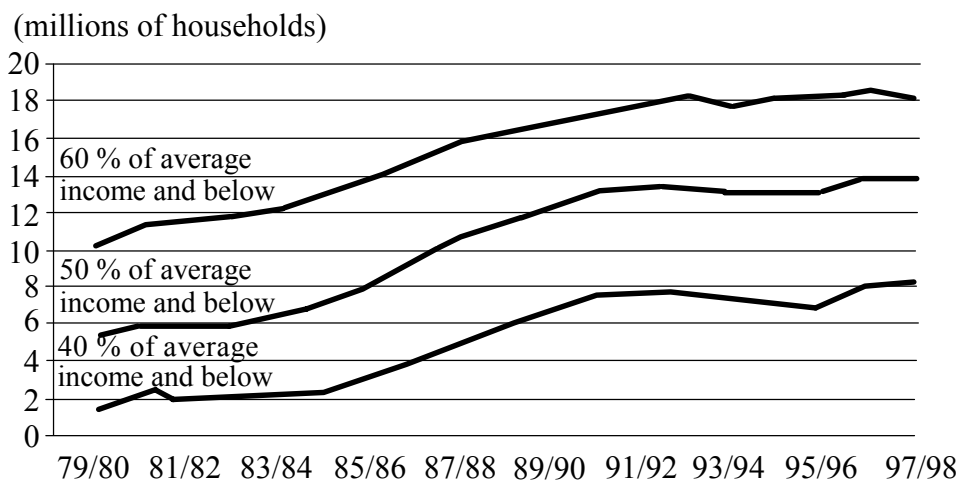
A trade union enters the market and negotiates a wage of  $0W_1$ . According to the diagram, the effect of this would be to create a surplus of labour equal to

- A. LM.
- B. MN.
- C. LN.
- D. 0N.

5. The price system helps to allocate resources efficiently because
- A. it ensures that priority is given to those in greatest need.
  - B. the free interplay of market forces always leads to a socially optimum outcome.
  - C. competition between firms allows consumers to make rational choices.
  - D. the prices of natural resources will rise as the stock of such resources nears depletion.
6. If a merit good such as education is supplied completely through the price system, market failure is likely to result because

	The <b>output</b> of the good will be too	The <b>price</b> of the good will be too
A.	High	High
B.	Low	Low
C.	High	Low
D.	Low	High

7. The graph below shows the number of households in the UK on low incomes.



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

- A. average incomes rose.
- B. inequality of wealth fell.
- C. there was an increase in the absolute level of poverty.
- D. income inequalities increased.

8. The table below indicates growth in real GDP for selected eastern European economies in transition.

<b>GROWTH IN REAL GDP</b>		
	<b>2000 (%)</b>	<b>2000 as % of 1989 GDP</b>
Bulgaria	3.5	70
Czech Republic	2.0	95
Hungary	4.5	104
Poland	5.0	128
Romania	0.5	76
Central and Eastern Europe and Baltic States	3.6	100
Kazakhstan	3.5	65
Russia	4.0	59
Ukraine	2.0	37
CIS	3.6	57

From the table it may be deduced that

- A. Romania experienced negative growth of real GDP in 2000.
  - B. Poland achieved a 28% increase in real GDP as compared to its 1989 level.
  - C. Ukraine had the lowest level of real GDP in 2000.
  - D. Poland had the lowest inflation rate in 2000.
9. A 5% decrease in the price of one brand of beer (Brand A) causes a 10% decrease in the demand for another brand of beer (Brand B). The cross elasticity of demand for Brand B with respect to the price of Brand A is
- A. + 2.
  - B. + 0.5.
  - C. - 2.
  - D. - 0.5.

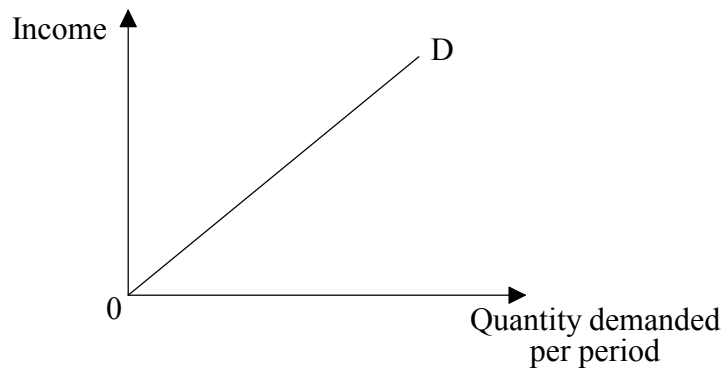
10. The table below indicates the supply schedule for Good Y.

Price (\$)	Quantity supplied per week
1	10
2	16
3	24
4	34

What is the elasticity of supply when the price of Good Y increases from \$2 to \$3?

- A. 0.25
- B. 0.50
- C. 1.00
- D. 2.00

11. The diagram below shows the quantity demanded of a certain good in relation to income.



The line OD represents

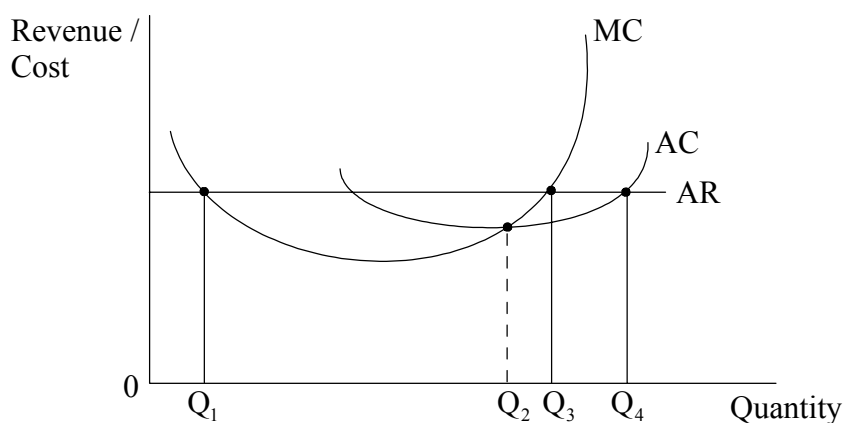
- A. an inferior good.
- B. a good where price elasticity of demand is unity throughout its length.
- C. a normal good.
- D. an exceptional demand curve.

12. The table below shows how the total revenue derived from the sales of a good varies with the quantity demanded.

Quantity demanded	Total revenue (\$)
55	30
25	40
16	48
12	48
8	40

From the change in total revenue, it may be concluded that price elasticity of demand is equal to one when the quantity demanded falls from

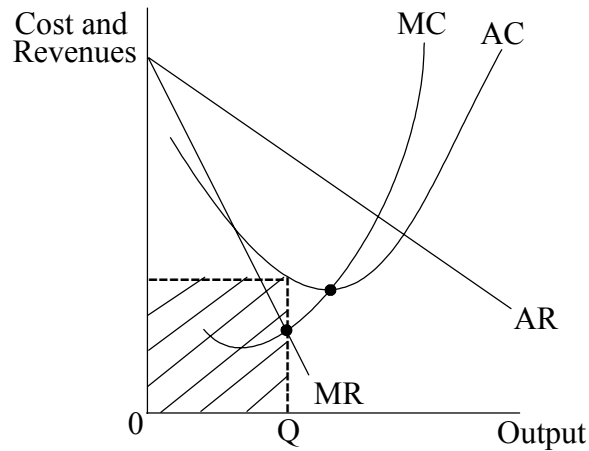
- A. 55 to 25.
  - B. 25 to 16.
  - C. 16 to 12.
  - D. 12 to 8.
13. The diagram below shows the marginal cost, average revenue and average cost curves for a product.



The profit maximizing level of output is at

- A.  $Q_1$ .
- B.  $Q_2$ .
- C.  $Q_3$ .
- D.  $Q_4$ .

14. The diagram below shows the cost and revenue curves of a firm.



The shaded area of the diagram could represent

- A. normal profits in imperfect competition.
  - B. monopoly costs.
  - C. oligopoly profits.
  - D. abnormal profits.
15. The table below indicates total cost at various outputs.

Output	Total cost
0	100
10	115
20	140
30	175
40	220

From the information in the table, we can conclude that the average variable cost at an output of 20 is

- A. 2.
- B. 7.
- C. 14.
- D. 120.



16. The economist’s concept of “normal profit” is the level of return
- A. needed to persuade an entrepreneur to stay in his/her present line of business.
  - B. made by an average firm in the industry.
  - C. that results from production where average costs are at a minimum.
  - D. when total revenues exceed total costs.

17. The table below shows three indicators of performance of the UK economy during the 1990s.

<b>Year</b>	<b>Economic growth %</b>	<b>Unemployment %</b>	<b>Current account balance £bn</b>
1991	– 1.0	8.0	– 5.8
1992	– 2.6	9.7	– 7.4
1993	2.3	10.3	– 6.7
1994	3.9	9.4	– 4.6
1995	2.7	8.1	– 2.8
1996	1.6	7.4	– 4.2
1997	2.2	5.6	0
1998	3.2	4.8	– 8.0

From the table it may be concluded that over the period shown

- A. economic growth was the main policy objective.
- B. imports usually exceeded exports.
- C. the size of the working population increased.
- D. the sum of trade in goods and services, investment income and transfers was usually negative.

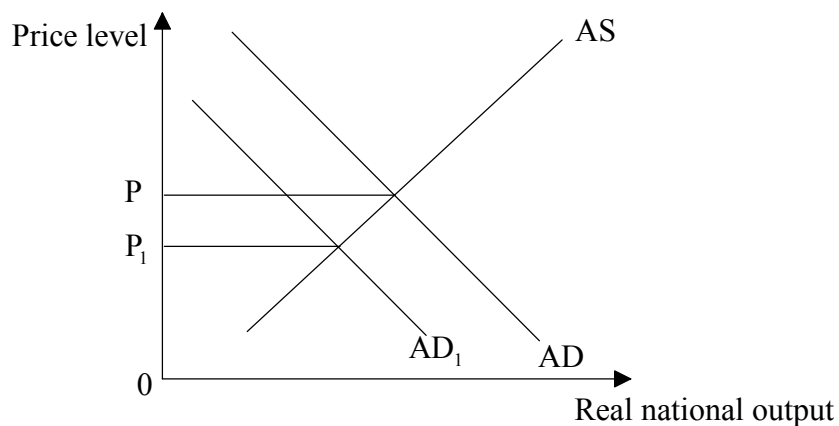
18. Which **one** of the following, if decreased, would be most likely to have an expansionary effect on an economy?

- A. Imports of goods and services
- B. Public expenditure on infrastructure projects
- C. Exports of goods and services
- D. The rate of growth of the money supply

19. Which **one** of the following combinations would reduce average living standards in an economy?

	Real GNP	Population
A.	5 % increase	5 % increase
B.	4 % increase	5 % increase
C.	4 % increase	5 % decrease
D.	4 % decrease	5 % decrease

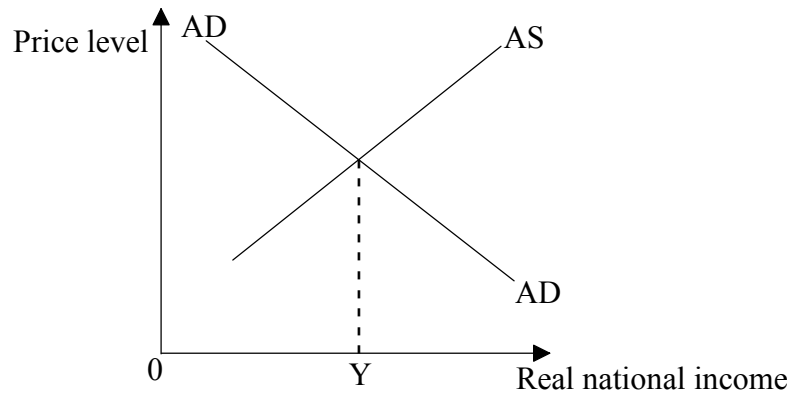
20. The diagram below shows the aggregate supply and demand curves for an economy.



A fall in the price level from  $OP$  to  $OP_1$  could be explained by an increase in

- A. interest rates.
- B. money wages.
- C. labour productivity.
- D. inward investment.

21. The diagram below shows an aggregate demand / aggregate supply diagram, with 0Y representing the current equilibrium level of real national income.



Which **one** of the following combinations is most likely to occur if there is an increase in the price of imported raw materials?

	<b>Price Level</b>	<b>Real Output</b>
A.	Increase	Increase
B.	Decrease	Decrease
C.	Increase	Decrease
D.	Increase	Remain unchanged

22. The accelerator principle can best be used to indicate how investment will be affected by a change in the level of
- A. savings.
  - B. interest rates.
  - C. income.
  - D. inflation.

23. Which **one** of the following headlines indicates the use of monetary policy?

- A. “More money in everyone’s pockets as taxes are lowered.”
- B. “Government declares its determination to halt the fall in the value of money.”
- C. “Misery for homeowners as interest rates are raised.”
- D. “Big reduction in government borrowing announced in the budget.”

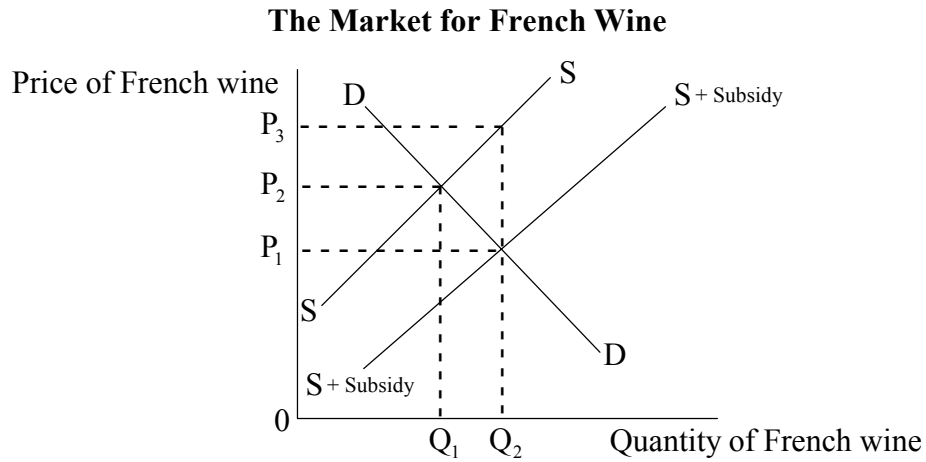
24. The table below indicates the percentage change in Peru’s domestic prices in different years.

Domestic prices in Peru (% change)			
1979	1989	1998	1999
64.7	339.8	6.0	3.5

From the table, it may be deduced that, over the period shown, there was a fall in

- A. the average price level.
  - B. the cost of living.
  - C. *per capita* real incomes.
  - D. the rate of inflation.
25. Given different opportunity cost ratios, if a country can produce all goods more efficiently than its trading partner, it should export
- A. all goods.
  - B. only those goods in which it has an absolute advantage.
  - C. no goods.
  - D. only those goods in which its efficiency advantage is greatest

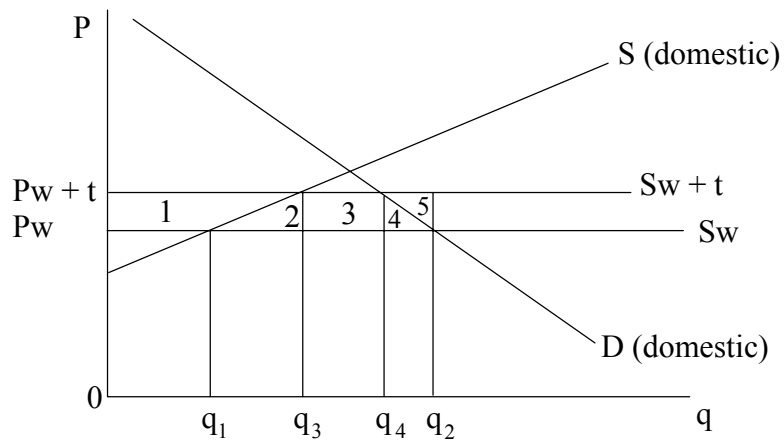
26. The following diagram shows the impact of a decision by the French government to provide a subsidy to French wine producers.



The outcome of such a decision is likely to be

- I. a reduction in the quantity of French farmland devoted to the production of other agricultural products.
  - II. a loss of income by wine producers in countries that compete with French wine producers.
  - III. an improvement in the terms of trade for France.
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III

27. The diagram below illustrates the case of a good that is partly home produced and partly imported. The world price is  $P_w$ . After a tariff is imposed the price is  $P_w + t$ .



The amount of revenue that the government collects from this tariff is indicated by the areas

- A. 1, 2, 3, 4 and 5.
  - B. 3 only.
  - C. 1, 2, and 3.
  - D. 2, 3, 4 and 5.
28. Examine the table below which provides some economic data for Portugal.

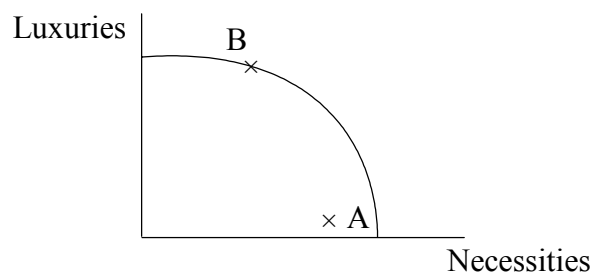
(1998 figures)	Portugal (\$ billions)
Exports (goods and services)	34
Imports (goods and services)	45
Net Income	- 0.5
Net Current Transfers	4
Gross International Reserves	21
Total GDP	106

The size of Portugal's current account deficit in 1998 relative to the size of its domestic economy was approximately

- A. 7 %.
- B. 14 %.
- C. 18 %.
- D. 26 %.

29. Under a system of floating exchange rates, a country with a persistent balance of payments deficit will necessarily experience
- A. a reduction in its foreign currency reserves.
  - B. an increase in its interest rates.
  - C. a decline in its manufacturing base.
  - D. a fall in the value of its currency.
30. The government of a country that has a persistent current account surplus takes steps to deliberately revalue the currency to restore balance. This is an example of
- A. supply-side policy.
  - B. an expenditure-neutral policy.
  - C. an expenditure-switching policy.
  - D. fiscal policy.
31. The theory of the J-curve suggests that for a country that experiences a devaluation in the value of its currency,
- A. there will be an inverse relationship between inflation and unemployment.
  - B. as the size of the money supply falls the rate of interest will increase.
  - C. speculators will buy the local currency because it will be seen to be undervalued.
  - D. a current account deficit will initially worsen before it improves.
32. The terms of trade can be defined as the ratio of an index of
- A. export volumes over an index of import volumes.
  - B. export prices over an index of import prices.
  - C. export values over an index of import values.
  - D. import prices over an index of export prices.

33. The following graph shows the Production Possibility Curve for a given country.



The movement from producing at point A to producing at point B represents

- A. actual growth and development.
  - B. actual growth but less development.
  - C. potential growth but less development.
  - D. potential growth and development.
34. The following question is based on the table below, which shows the international rankings of four countries in relation to their real GDP *per capita* and the Human Development Index (one is high).

Real GDP <i>per capita</i> and HDI Rankings		
Country	Real GDP <i>per capita</i> Rank	HDI Rank
Canada	9	1
Kuwait	5	36
Mozambique	162	168
Cuba	166	56

Which **one** of the following countries has demonstrated the highest level of development relative to its economic performance?

- A. Canada
- B. Kuwait
- C. Mozambique
- D. Cuba



35. Multilateral aid is
- A. aid provided from one government to another.
  - B. foreign credits for purchases within the donor countries.
  - C. emergency relief by non-governmental organizations.
  - D. aid channelled to recipient countries through intergovernmental agencies.
36. In an import substitution model of development, a necessary limit to continuous economic growth is
- A. the size of the domestic market.
  - B. the establishment of monopolies.
  - C. overvalued exchange rates.
  - D. environmental costs.
37. Which **one** of the following is **not** a feature of Structural Adjustment Programmes?
- A. Abolition of price controls for key food staples
  - B. Removal of exchange controls
  - C. Fixed exchange rates
  - D. Reduction of import tariffs
38. For creditor nations, the most important aspect of debt rescheduling is to
- A. allow debtor nations to continue to purchase imports.
  - B. ease financial discipline in the debtor nation.
  - C. reduce the total debt burden of debtor nations.
  - D. decrease the exports of the debtor nations.

- 39.** Which **one** of the following is most likely to follow the successful implementation of land reform policies in a less developed country?
- A. An increase in wealth inequality
  - B. A reduction in rural poverty
  - C. An increase in commodity prices
  - D. An increase in rural-urban migration
- 40.** Sustainable development
- A. attributes prices to the environmental costs of pollution.
  - B. continuously improves the Human Development Index.
  - C. allows for continuous growth.
  - D. does not jeopardize the environment's ability to meet the needs of future generations.
-