



**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Wednesday 10 May 2000 (afternoon)

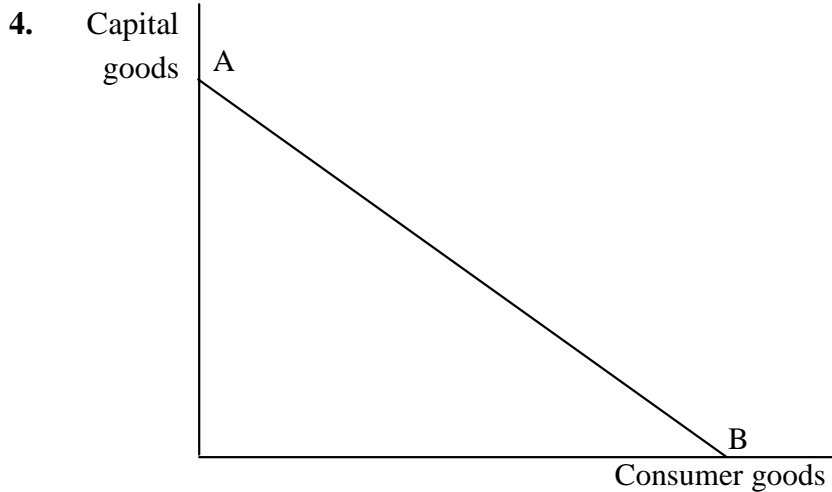
1 hour

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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. Cans of beans are sold at a lower price in Supermarket X than Supermarket Y. As a result, Maria decides to buy her beans from Supermarket X. Economic theory would suggest that this is an example of
  - A. rational behaviour.
  - B. brand loyalty.
  - C. the law of supply.
  - D. positive behaviour.
  
2. Which one of the following is **not** a positive economic statement?
  - A. Unemployment is higher in Spain than in any other European Union country.
  - B. The number of people living in relative poverty in the United Kingdom has increased over the last 10 years.
  - C. Income should be redistributed to eliminate absolute poverty.
  - D. The steep increase in the cost of public rail transport is likely to increase congestion on the roads.
  
3. A free good in economics is considered to be one that
  - I. has no opportunity cost.
  - II. is supplied free of charge by the public agencies.
  - III. is produced by the state.
  - A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III



The production possibility frontier shown above indicates that

- A. the economy of this country will always achieve technical efficiency.
  - B. there is a constant opportunity cost involved in the decision concerning the allocation of resources between consumer and capital goods.
  - C. consumers are indifferent about the alternative combinations of consumer and capital goods that this country is capable of producing.
  - D. the output of consumer goods will be greater than the output of capital goods.
5. All of the following are common features of both centrally planned economies and market economies **except**
- A. privatised property rights.
  - B. use of a central bank.
  - C. use of taxes.
  - D. wage differentials.

6. After a serious pollution incident at sea, a government introduces stricter safety measures for oil tankers. The table below represents four possible combinations of market responses.

Combination	Movement along the Demand Curve	Movement along the Supply Curve	Shift of the Demand Curve	Shift of the Supply Curve
W	✓			✓
X		✓	✓	
Y			✓	✓
Z	✓	✓		

Which one represents the most likely combination of short term market responses?

- A. W
  - B. X
  - C. Y
  - D. Z
7. What is the most likely effect of a law which establishes a minimum wage above the market rate in a predominantly competitive economy?
- A. Fewer people will be employed.
  - B. Firms substitute more labour for capital.
  - C. Most producers will experience efficiency gains.
  - D. Costs of production will necessarily increase.

8. Which of the following policies would be most effective in reducing income inequalities?
- I. Progressive income taxes
  - II. Widespread state provision of merit goods
  - III. Abolition of wealth taxes
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III
9. Merit goods, such as health care and education
- A. are always supplied through the market.
  - B. have identical characteristics to public goods.
  - C. would be oversupplied if provided by the market.
  - D. have positive externalities.
10. Private road transport has large negative externalities. Which one of the following is **least** likely to internalise the externality?
- A. Subsidies to public transport
  - B. Higher fuel duties
  - C. Road pricing
  - D. Higher ownership taxes for private vehicles

11. If the price of a good with a price elasticity of supply equal to 2.5 increases by 10%, the quantity supplied will
- A. decrease by 25%.
  - B. increase by 0.4%.
  - C. increase by 25%.
  - D. decrease by 40%.
12. The price elasticity of demand for good X is given by the percentage change in the
- A. quantity demanded of good X divided by the percentage change in income.
  - B. price of good X divided by the percentage change in the quantity demanded of good X.
  - C. quantity demanded of good X divided by the percentage change in price of good X.
  - D. quantity demanded of good X divided by the percentage change in the price of good Y.

13. The following diagram represents the relationship between the quantity demanded of good X and the price of good Y.



From the diagram it can be concluded that good X is

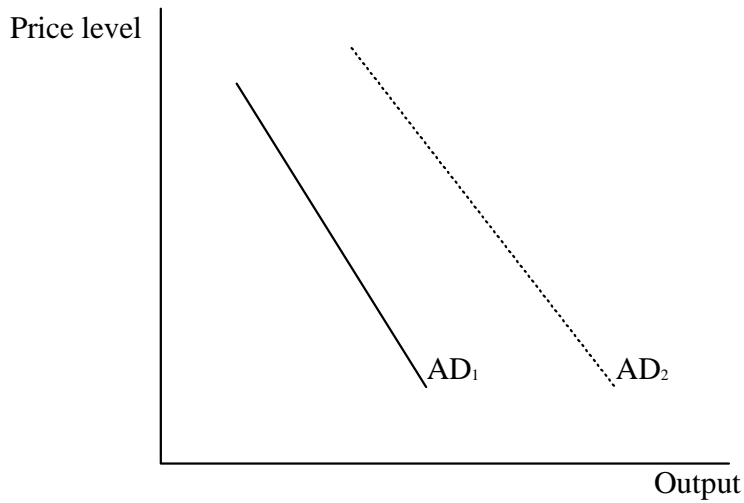
- A. a substitute for good Y.
  - B. a complement to good Y.
  - C. an inferior good in relation to Y.
  - D. in joint supply with good Y.
14. The quantity demanded of an inferior good will increase as
- I. the price falls.
  - II. income falls.
  - III. supply falls.
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III

- 15.** The supply of organically produced food tends to be price inelastic in the short run because
- A. the land on which it is grown must be free of fertilisers for a number of years.
  - B. it is more expensive than non-organic food.
  - C. some consumers are increasingly concerned about the health effects of chemicals on food.
  - D. there is limited availability of close substitutes.
- 16.** When demand is price inelastic and price increases
- I. total revenue will increase.
  - II. sales will fall.
  - III. expenditure will fall.
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III
- 17.** Macroeconomics differs from microeconomics mainly because macroeconomics is concerned with
- A. aggregates rather than individual sectors of the economy.
  - B. the way in which incomes are distributed.
  - C. levels of employment and unemployment.
  - D. the way prices are determined in particular markets.



18. If national income is in equilibrium, it follows that
- A. all resources are fully employed.
  - B. prices are determined by market forces.
  - C. planned injections and withdrawals are equal.
  - D. all the goods produced have been sold.
19. The distinction between ‘gross’ and ‘net’ national income is important because it tells us something about the amount of investment which
- A. comes inward from other countries.
  - B. is sponsored by the government.
  - C. benefits the average person.
  - D. replaces worn-out capital.

20. The diagram below shows two aggregate demand curves.



Which one of the following is most likely to have caused the shift from AD<sub>1</sub> to AD<sub>2</sub> ?

- A. A reduction in interest rates
  - B. An increase in taxes
  - C. Lower government spending
  - D. Increased unemployment
21. When a given increase in investment leads to a larger increase in income, this is known as
- A. crowding out.
  - B. equilibrium.
  - C. the multiplier.
  - D. a deficit.

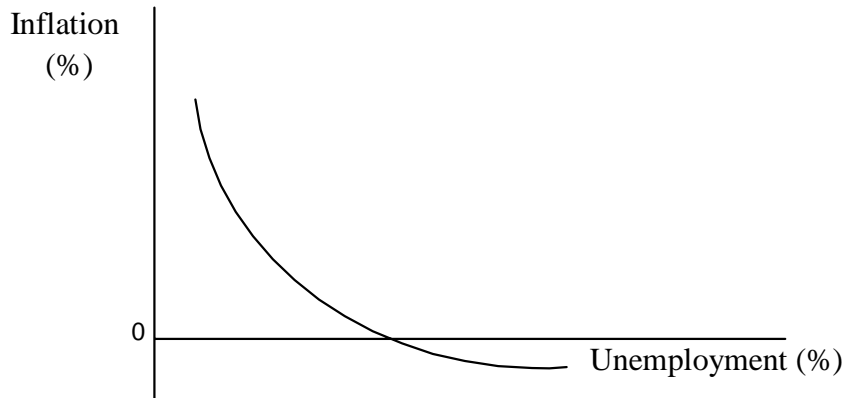
22. Using index numbers, the table below shows money wages and the price level in a certain economy.

	Money Wages	Price Level
Year 1	100	100
Year 2	120	110

From this information, we can conclude that there has been an increase in real wages of

- A. just over 120%.
  - B. exactly 20%.
  - C. exactly 19%.
  - D. just over 9%.
23. A government wishes to reduce aggregate demand by increasing interest rates. This will have the effect of reducing
- A. industrial costs.
  - B. disposable income.
  - C. the external value of the domestic currency.
  - D. the propensity to save.

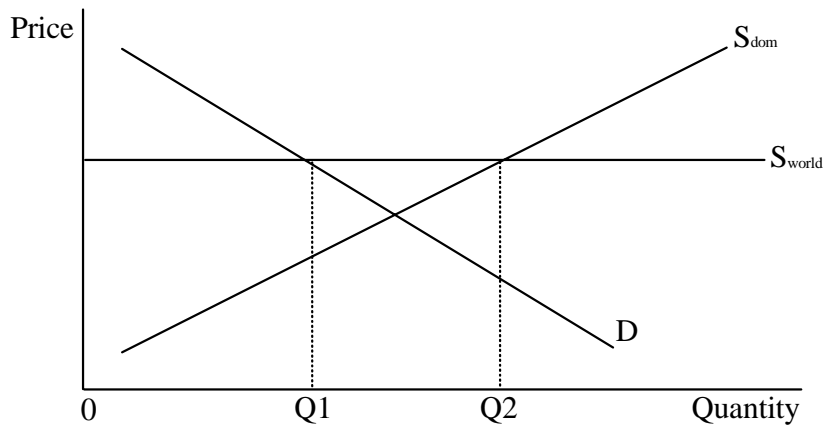
24. The diagram below shows a Phillips Curve.



A diagram like this is generally used to show that

- A. it is impossible to reduce unemployment in the long run.
  - B. there is a 'trade-off' between inflation and unemployment in the short run.
  - C. unemployment may be negative, but inflation is always positive.
  - D. higher levels of unemployment result in higher levels of inflation.
25. The theory of comparative advantage tells us that in order to benefit from international trade a country must
- A. be the best in the world at producing a particular product.
  - B. produce at a lower opportunity cost than its trading partners.
  - C. have a natural monopoly in the production of a certain item.
  - D. have a stronger currency than any of its rivals.
26. 'Globalisation' depends upon each of the following **except**
- A. the growth of multinational companies.
  - B. faster communications.
  - C. workers moving to high-income countries.
  - D. the ability of firms to place profits in money markets round the world.

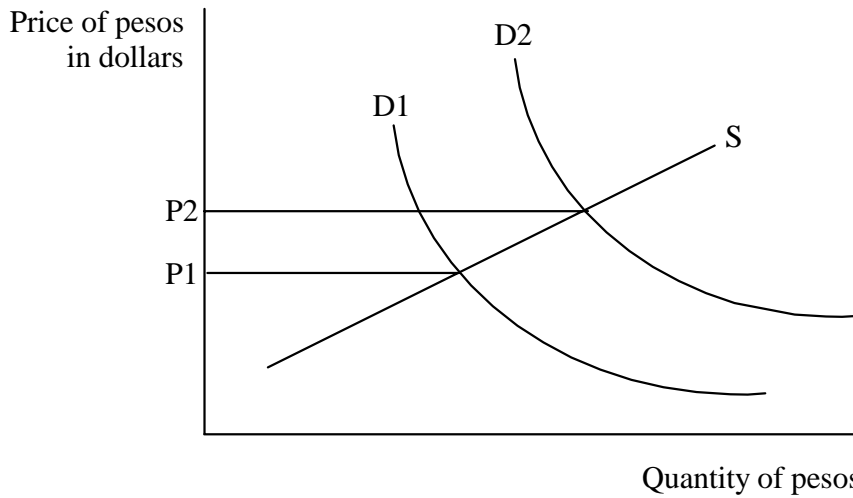
27. The diagram below shows the domestic supply curve ( $S_{\text{dom}}$ ) and world supply curve ( $S_{\text{world}}$ ) for shoes in a certain country.



If domestic producers decide to sell at the world price, the diagram suggests that

- A. domestic consumers will purchase the quantity  $0Q2$ .
  - B. the quantity of imported shoes will be  $0Q1$ .
  - C. domestic production will be equal to  $0Q1$ .
  - D. exports will be equal to  $Q1Q2$ .
28. The World Trade Organisation exists in order to encourage countries to
- A. form themselves into customs unions.
  - B. set up regional trading blocs.
  - C. abolish tariffs and quotas.
  - D. provide assistance to economic refugees.
29. Which one of the following transactions would be recorded in the balance of payments accounts as a positive item for Alba, but a negative item for Bayona?
- A. An oil company from Alba develops an oil field in Bayona.
  - B. Oil executives from Alba stay in hotels in Bayona.
  - C. Petrol (gasoline) from a refinery in Alba is sold in Bayona.
  - D. Petrol (gasoline) from Alba is taxed by the Bayona government.

30. The diagram below shows the price of the Mexican peso against the US dollar.



A change in the exchange rate of the peso from P1 to P2 could be caused by

- I. increased exports from Mexico to the USA.
- II. increased numbers of tourists from the USA to Mexico.
- III. lower interest rates in Mexico, with higher interest rates in the USA.

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

31. A loaf of bread costs 4 Gondomar pesos in Gondomar, and 5 Monforte dollars in Monforte. If bread is typical of all other goods, the idea of 'purchasing power parity' suggests that 1 Gondomar peso will exchange for how many Monforte dollars?

- A. 0.8
- B. 1.0
- C. 1.25
- D. 4.5

32. The index of export prices is falling faster than the index of import prices in Bayona. The result **must** be
- A. an improvement in Bayona's terms of trade.
  - B. an improvement in Bayona's balance of trade.
  - C. a worsening in Bayona's terms of trade.
  - D. a worsening in Bayona's balance of trade.
33. Which one of the following is **not** a reason for the continued use of real GDP per head as an important indicator of economic development?
- A. It correlates well with changes in welfare in the long run.
  - B. Nearly all countries agree on how to measure it.
  - C. It allows for differences in domestic inflation rates.
  - D. It correlates well with indicators of deprivation.
34. A major difference between the Human Development Index (HDI) and the Human Poverty Index (HPI) is that the HDI
- A. measures progress towards target indicator levels, the HPI measures relative deprivation.
  - B. reflects income inequality, the HPI measures income equality.
  - C. is more accurate for high and middle income countries, the HPI is more accurate for low income countries.
  - D. measures relative poverty, the HPI measures absolute poverty.

35. A Less Developed Country which wishes to attract Foreign Direct Investment might consider each one the following measures **except**
- A. investing in human capital through improved technical education.
  - B. taking manufacturing companies into state ownership.
  - C. making capital flight more difficult.
  - D. improving the political stability of the economy.
36. The government of a Less Developed Country awards scholarships for able students to study Economics at university. This represents
- A. capital broadening.
  - B. investment in social capital.
  - C. investment in human capital.
  - D. social returns to scale.
37. Multilateral aid is best defined as aid which
- A. is used for many different purposes in the country which receives the aid.
  - B. comes from a non-governmental organisation.
  - C. is used to both widen and deepen capital-labour ratios.
  - D. comes indirectly from several donor countries through a body such as the United Nations.



- 38.** Commodity agreements have tended to break down because
- I. producer countries have not kept to agreed quotas.
  - II. producer countries have different cost structures.
  - III. consumer countries have been hostile to them.
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III
- 39.** Structural Adjustment Programmes of the type favoured by the International Monetary Fund for indebted Less Developed Countries are primarily intended to
- A. increase the role of government to stabilise the economy.
  - B. increase government spending to meet social needs.
  - C. improve the economy's earnings from the world economy through trade and outward orientation.
  - D. eliminate inflation through the imposition of price controls.
- 40.** Sustainable development is concerned with development which
- A. meets the needs of the present and future generations.
  - B. sustains existing growth and consumption patterns.
  - C. favours "appropriate technology" methods of production.
  - D. promotes agricultural growth so as to sustain food production.
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