INTERNATIONAL BACCALAUREATE
BACCALAURÉAT INTERNATIONAL
BACHILLERATO INTERNACIONAL

ECONOMICS
STANDARD 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. When resources are allocated according to the price mechanism

   A. there is no certainty that all desired goods will be produced.

   B. consumer surplus will be maximised.

   C. market failure is unlikely to occur.

   D. it is likely that there will be an equitable distribution of income.

2. The following diagram shows the market for a particular good.
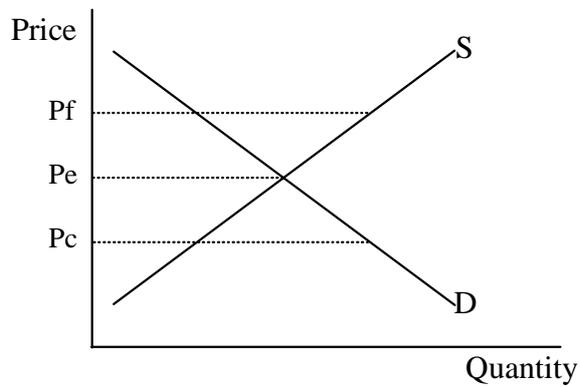
   Pc is a ceiling price, which means that

   A. all consumers are better off.

   B. it has no impact on the market.

   C. it leads to surpluses.

   D. it leads to shortages.

3. The following diagram shows the private and social costs involved in producing a certain commodity.
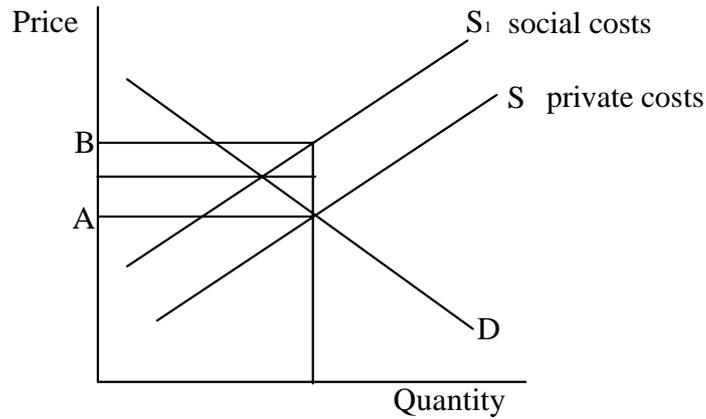
The vertical distance AB shows the

A.   amount by which the producers of a merit good should be subsidized by the government.

B.   amount by which the producers of a merit good should be taxed by the government.

C.   amount of tax needed to internalize an externality.

D.   benefit to society of a positive externality.

4. If the market, rather than the government, were left to supply merit goods

A.   it would be impossible to exclude free riders.

B.   the economy would experience unemployment.

C.   they would be underconsumed at market prices.

D.   foreign companies might offer them.

5.   A country in transition from central planning to a market system is likely to experience

   A.   a lower price level.

   B.   a short run increase in unemployment.

   C.   a general increase in living standards for the majority of citizens.

   D.   higher restrictions on imports.

6.   Which one of the following is a positive statement?

   A.   The level of unemployment is too high.

   B.   The distribution of income and wealth is not equitable.

   C.   Multinational corporations exert too much power and influence in most developing countries.

   D.   The use of import controls could improve the balance of payments.

7.   Which of the following is considered a free good in economics?

   I.   A good that has no opportunity cost

   II.   A good that is supplied free of charge by the public agencies

   III.   A good that is produced by the state

   A.   I only

   B.   I and II only

   C.   II and III only

   D.   I, II and III

8.
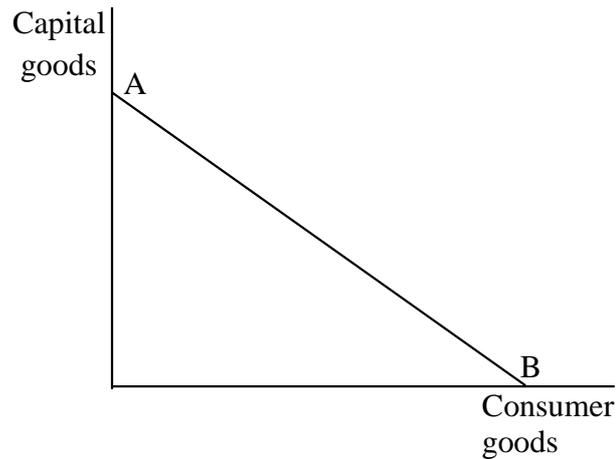
The production possibility frontier shown above indicates that

A.   the economy will always achieve technical efficiency.

B.   there is a constant opportunity cost in the allocation of resources between consumer and capital goods.

C.   consumers are indifferent between any alternative combinations of consumer and capital goods that this society is capable of producing.

D.   the output of consumer goods will be greater than the output of capital goods.

9.   Which one of the following will cause the demand curve for chocolate candy bars to shift to the left?

A.   Doctors discovering that chocolate increases longevity

B.   An increase in the wages of chocolate candy bar workers

C.   A decrease in the price of chocolate candy bars

D.   Consumers expecting prices of chocolate candy bars to fall

10. The table below shows the change in sales of two newspapers following a fall in price of one, *The Daily News*, from 50 cents to 40 cents.

NEWSPAPER SALES

Title of Newspaper	Sales (copies per week)	
The Daily News	Week 1	10 000
	Week 2	11 000
The Daily Gossip	Week 1	8000
	Week 2	4000

From this information, it may be deduced that the cross elasticity of demand for the *Daily Gossip* in relation to the price reduction in the *Daily News* is
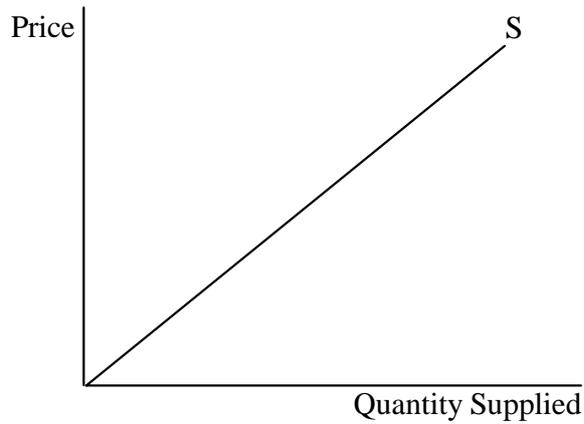
A.   1.0.

B.   1.5.

C.   2.0.

D.   2.5.

11. The table below represents a demand schedule for commodity Y.

Price ($)	Quantity Demanded
8	0
7	1
6	2
5	3
4	4
3	5

Demand is inelastic in the price range

A. $3 to $4.

B. $4 to $5.

C. $5 to $6.

D. $6 to $7.

880-049

12.   The diagram below shows an upward sloping supply curve.

This curve has a price elasticity of supply which is

A.   positive and greater than 1.

B.   positive and equal to 1.

C.   negative and equal to 1.

D.   positive and less than 1.

13.   The demand for pharmaceutical drugs for the treatment of AIDS is likely to be price inelastic because

A.   they are very expensive.

B.   the incidence of AIDS is increasing globally.

C.   there are few effective alternative treatments for this disease.

D.   a fall in their price will cause a rise in the total spending on treatment for AIDS.

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

Firm	Percentage Market Share	Typical Brand
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

15. Productive efficiency would exist if

A.   there is full employment of all resources.

B.   the economy is producing the goods and services most valued by the society as a whole.

C.   the economy is operating inside the production possibility frontier.

D.   firms are producing at the lowest possible average cost.

16. When demand is price inelastic, the percentage change in

A. the quantity demanded is greater than the percentage change in price.

B. price is greater than the percentage change in quantity demanded.

C. price is less than the percentage change in quantity demanded.

D. quantity demanded is the same as the percentage change in price.

17. The following information is given for an economy:

|	
Initial level of national income	= $20 billion
The autonomous increase in exports	= $1 billion
The eventual change in national income	= $5 billion
The new level of national income	= $25 billion

This information most clearly illustrates

A. an increase in net national income.

B. a rise in living standards.

C. the multiplier effect.

D. an increase in real national income.

18. 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%

Turn over

19. The diagram below indicates the distributional impact of the United Kingdom budget in 1996.
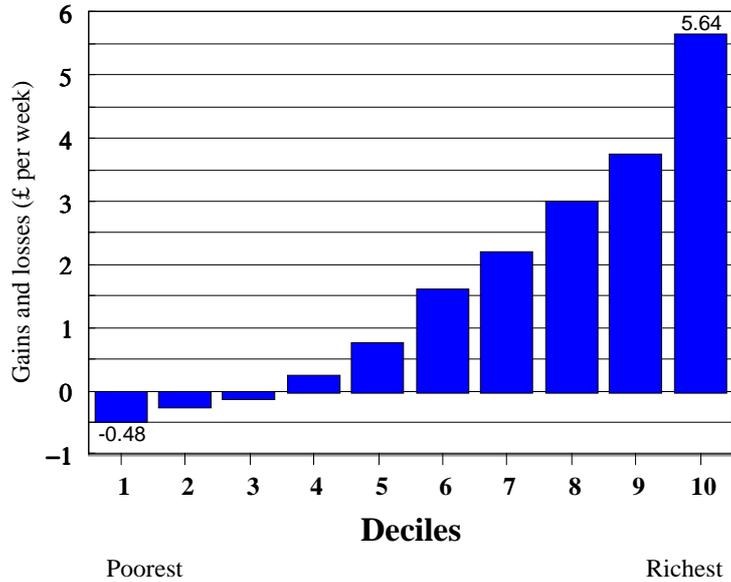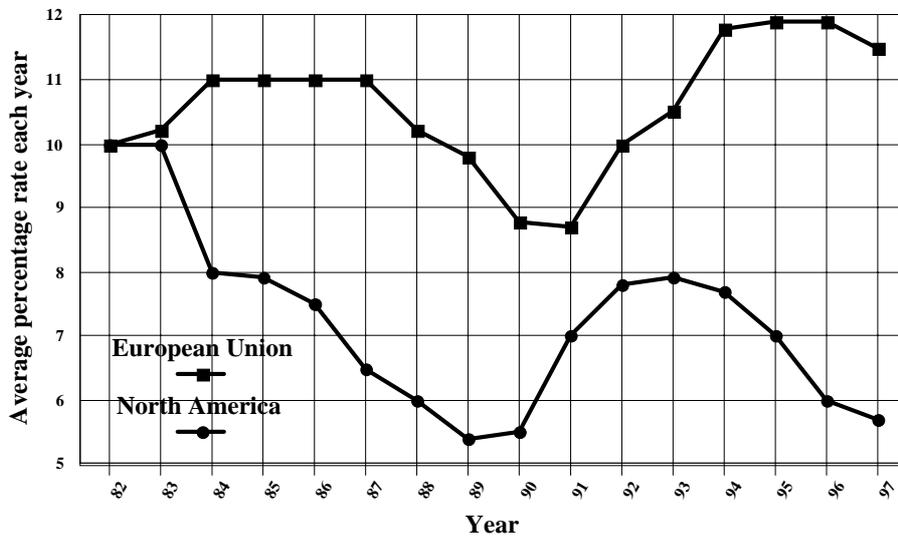

[Source: *Economics Update 1997*]

From the diagram it can be deduced that, as a result of this budget, the richer the income group the greater the gain in

      I.   cash terms.

      II.   percentage terms.

      III.   real terms.

A.   I only

B.   I and II only

C.   II and III only

D.   I, II and III

20. The diagram below shows comparative rates of unemployment for the European Union and North America from 1982 to 1997.


[Source: *Economics Update, 1998*]

From the diagram it may be concluded that

A.   unemployment in both regions was mainly structural.

B.   there was a positive correlation between unemployment in the two regions from 1987 to 1990.

C.   falling unemployment in North America caused unemployment to fall in the European Union.

D.   European Union labour markets were more flexible than those of North America.

21. Which one of the following represents a withdrawal from the circular flow of income?

A.   Private funding for a national arts centre to mark the millennium celebrations

B.   The extension, by the government, of the existing highway network

C.   A foreign student paying fees to study at a local college

D.   The purchase by a domestic department store of designer clothes produced abroad

22. The diagram below shows AD and AS curves of an economy.
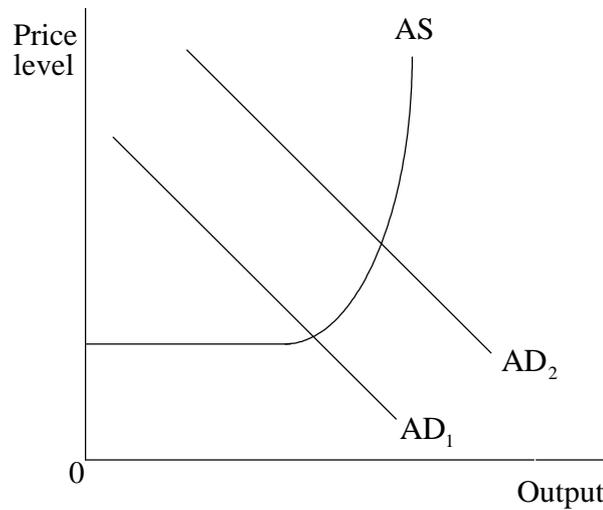
The shift from AD$_1$ to AD$_2$ could be explained by

A.   an increase in interest rates.

B.   a relaxation of fiscal policy.

C.   a reduction in consumer confidence.

D.   a fall in money wages.

23. The following diagram displays a shift in the aggregate supply curve from AS$_1$ to AS$_2$.
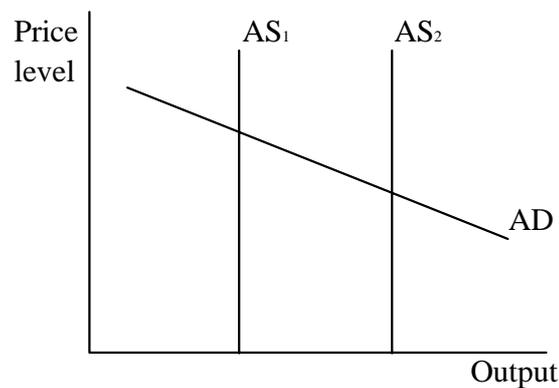
Which one of the following could have caused this shift?

A.   Greater flexibility in the labour market

B.   A reduction in the price level

C.   A reduction of government expenditure on vocational training

D.   An increase in the money supply

**24.** The diagram below shows the aggregate demand and supply curves for an economy.
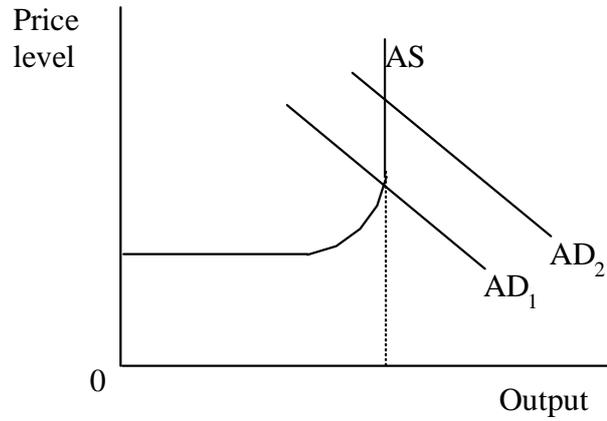
According to this diagram, an increase in aggregate demand from AD_1 to AD_2

    I.   will not increase real output.

    II.   will increase prices.

    III.   cannot occur because at AD_1 the economy is at full employment.

    A.   I only

    B.   I and II only

   C.   II and III only

    D.   I, II and III.

25. The following diagram shows the production possibility frontiers for 2 countries, each producing food and machines.
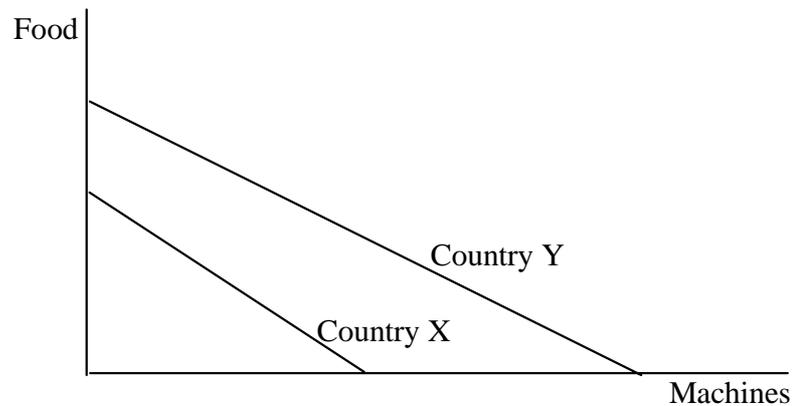
Which one of the following statements is correct?

A. Country Y has a comparative advantage in the production of both commodities.

B. Country X is relatively less efficient in the production of both commodities.

C. Only country Y will benefit from specialization and trade.

D. Country Y should specialize in the production of machines and country X in the production of food.

26. Which of the following can be considered as an example of a non-tariff barrier to trade?

 I. The imposition of specific quality standards on all imported goods

 II. A boycott of goods produced by child labour

 III. A refusal to import goods whose method of production causes severe environmental damage

A. I only

B. I and II only

C. II and III only

D. I, II and III

27. The diagram below shows the demand and supply of pesetas on the foreign exchange market.
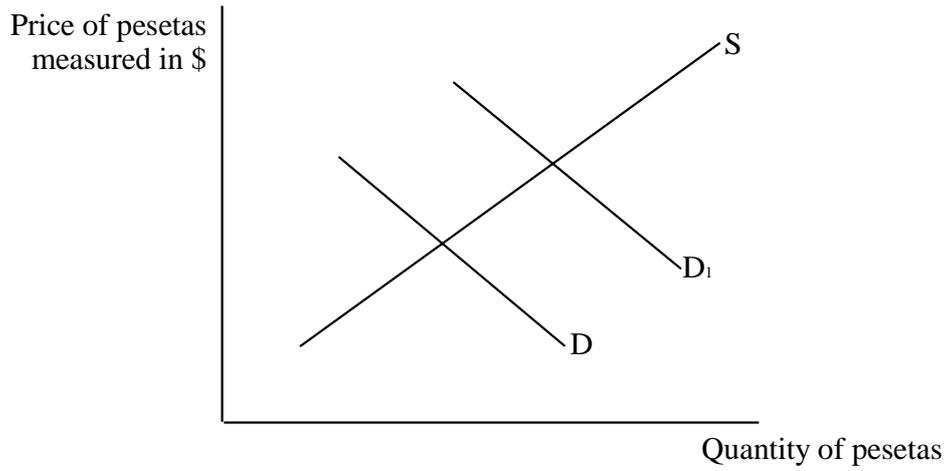
Which of the following is most likely to cause the shift from D to D_1?

A.   A rise in demand for USA produced goods in Spain

B.   A rise in interest rates in the USA relative to those in Spain

C.   A rise in the demand for Spanish goods by USA residents

D.   A belief by foreign speculators that the value of the peseta will fall

Turn over

28. The two pie charts below show the changing pattern of exports of goods of Less Developed Countries (LDCs) between 1970 and 1992.

1970

Other manufactures 13%

Textiles and clothing 6%

Machinery and transport equipment 8%

Fuels, minerals and metals 37%

Other primary commodities 35%

1992

Other manufactures 23%

Fuels, minerals and metals 29%

Textiles and clothing 14%

Other primary commodities 18%

Machinery and transport equipment 15%
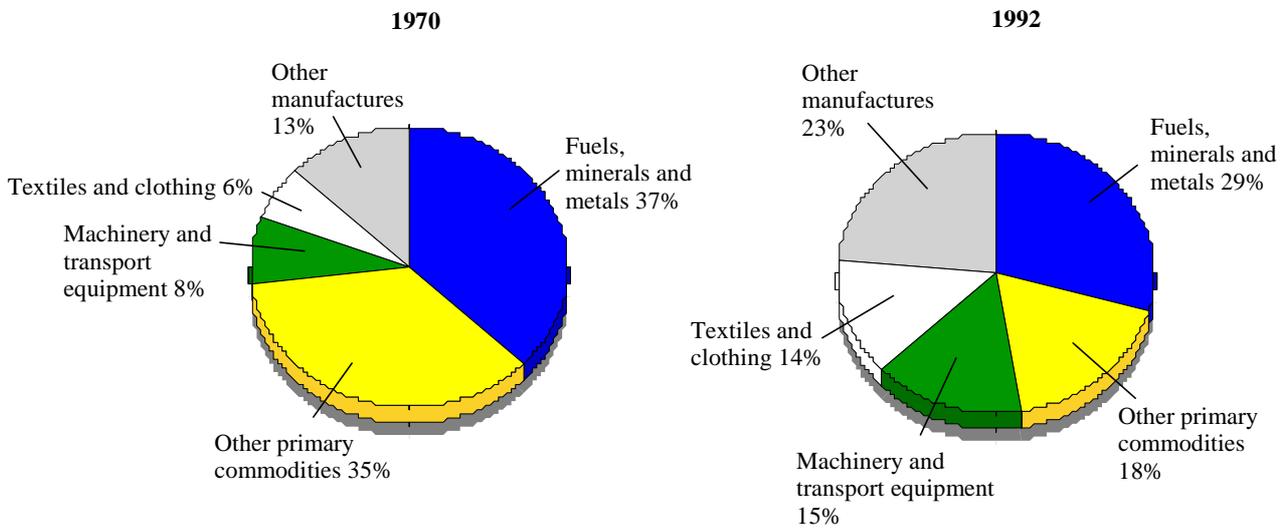
From the pie charts, it can be concluded that over the period in question, the LDCs had reduced their

A.   overall trade in services.

B.   share of manufactured goods in world trade.

C.   balance of payments deficits.

D.   dependence on exports of primary commodities.

29. The primary objective of the World Trade Organization is to

A.   reduce the power of multinationals.

B.   reduce trade barriers.

C.   promote export-led growth in Less Developed Countries.

D.   reduce the debt burden of Less Developed Countries.

30. A deterioration in the terms of trade for primary commodity producing countries implies that

    A.   imported manufactured goods are becoming relatively more expensive.

    B.   exports are declining due to a change in the international division of labour.

    C.   the volume of imports is increasing.

    D.   trading balances are generally deteriorating.

31. A country with a persistent balance of payments deficit on its current account believes that this is caused by excess domestic demand. Appropriate policies to reduce the deficit include

        I.   increasing interest rates.

        II.   increasing taxation.

        III.   increasing government expenditure.

    A.   I only

    B.   I and II only

    C.   II and III only

    D.   I, II and III

**32.** The currency of Country X depreciates on the foreign exchange markets.

A Fall in the Exchange Rate of Country X

Outcome Combinations	Export Prices	Import Prices	Domestic inflation
W	Fall	Fall	Fall
X	Fall	Rise	Rise
Y	Rise	Fall	Fall
Z	Rise	Rise	Rise

Which one of the above represents the most likely combination of outcomes?

A.   W

B.   X

C.   Y

D.   Z

33. 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.

34. The following diagram shows change over time in the Production Possibility Frontier (PPF) of a country.
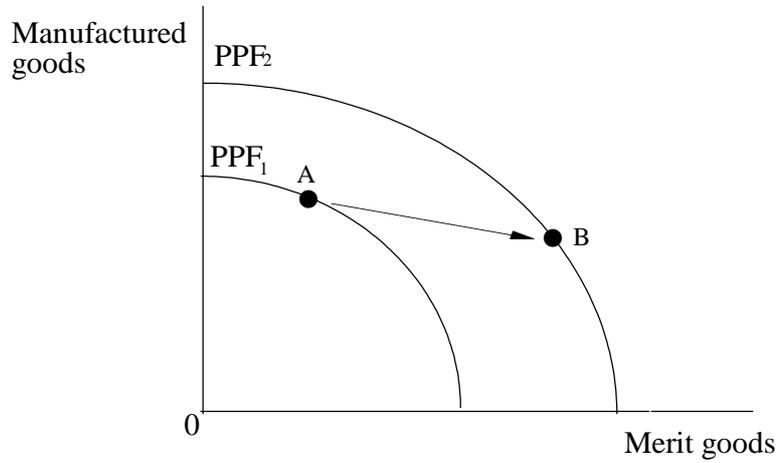
Movement from point A on PPF$_1$ to B on PPF$_2$ indicates

      I.   economic growth.

      II.   economic development.

      III.   unused resources in the manufacturing sector.

A.   I only

B.   I and II

C.   II and III

D.   I, II and III

35. Why might sub-Saharan countries have found it difficult to attract Foreign Direct Investment in the 1990s?

      I.   Lack of natural resources attractive to multinational enterprises

      II.   Weak currencies and a weak private sector

      III.   Perceptions in the business community that there is greater risk to economic activity in these countries

A.   I

B.   I and II

C.   II and III

D.   I, II and III

36. 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

37. 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

38. A Less Developed Country follows a development strategy that includes reducing the value of its currency relative to those of its trade partners. The aim of this policy is likely to be

    A.   import promotion.

    B.   lower inflation.

    C.   export promotion.

    D.   trade diversion.

39. Which of the following contributed to the debt crisis of the 1980s?

    I.   Increased real interest rates in the More Developed Countries

    II.   Inelasticity of demand for the exports of Less Developed Countries

    III.   Depreciation in the exchange rates of the currencies of Less Developed Countries

    A.   I

    B.   I and II

    C.   II and III

    D.   I, II and III

40. Which one of the following would **not** normally be part of an IMF structural adjustment programme?

    A.   Depreciation or devaluation of the currency

    B.   An outward-orientated trade policy

    C.   A minimum wage policy

    D.   Tighter fiscal and monetary policy