

**ECONOMICS
STANDARD LEVEL
PAPER 1**

Thursday 16 May 2002 (afternoon)

1 hour

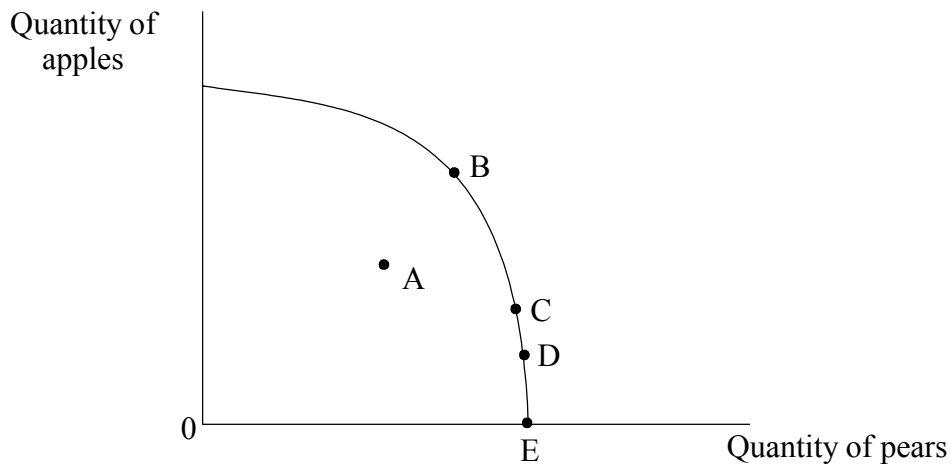
INSTRUCTIONS TO CANDIDATES

- 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. Which **one** of the following statements best describes the nature of economics?
 - A. The purpose of economics is to improve people's standard of living.
 - B. The science of economics is about achieving a balance between public and private provision of goods and services.
 - C. The purpose of economics is to maximise the efficiency of markets.
 - D. The purpose of economics is to study how limited resources can best be allocated to meet unlimited wants.

2. In economics, a free good is a good that is
 - A. provided free of charge to consumers.
 - B. communally owned.
 - C. obtained without opportunity cost.
 - D. a gift from nature.

3. 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
4. Which **one** of the following would be most likely to cause the demand curve for cars to shift to the left?
- A. The imposition of an indirect tax on cars aimed at curbing pollution.
 - B. A fall in the price of travelling by public transport.
 - C. The imposition of a tariff on cheaper imported cars.
 - D. The removal of subsidies to car producers.

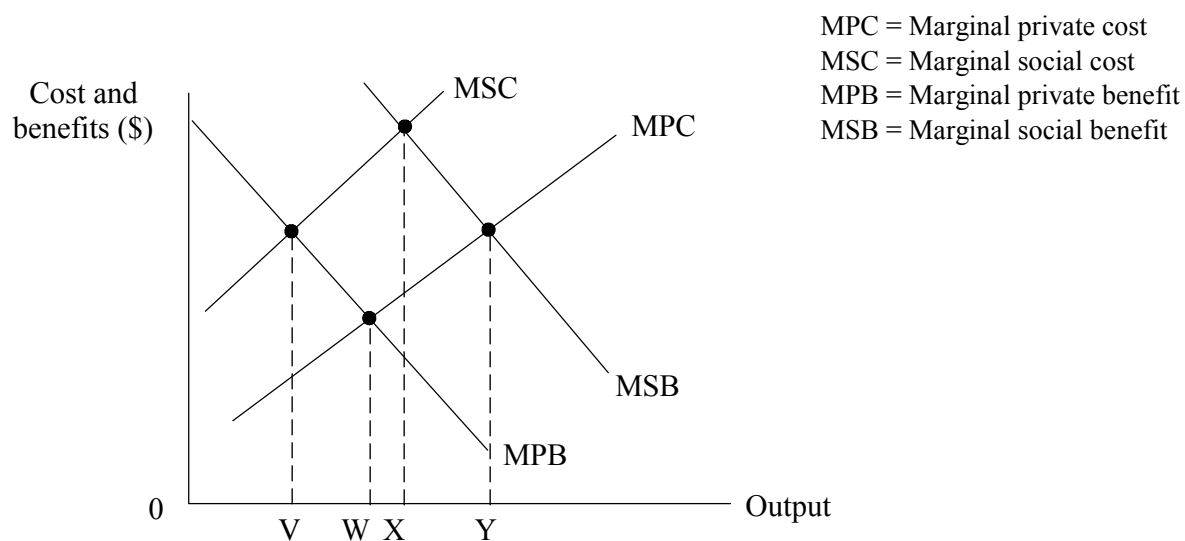
5. The table below shows the demand and supply schedules for oranges.

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
6. Other things being equal, a fall in the productivity of labour will cause
- A. a contraction in supply.
 - B. a decrease in supply.
 - C. an extension in supply.
 - D. an increase in supply.

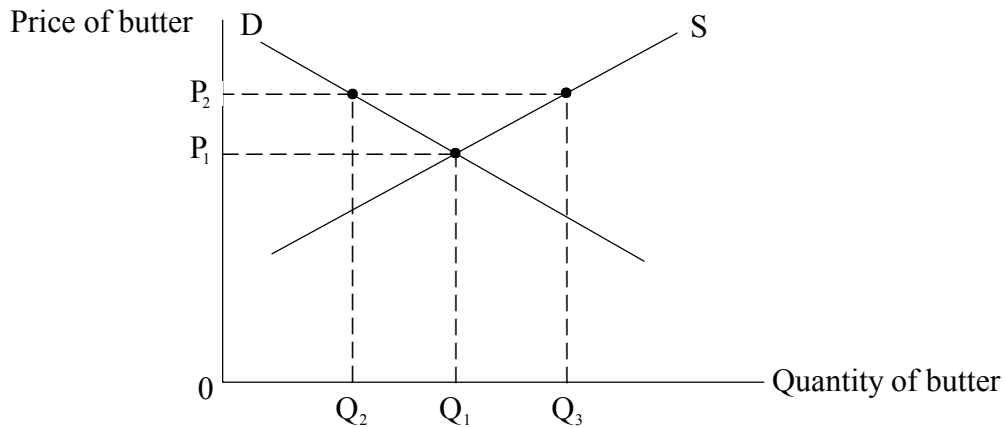
7. The diagram below shows all the costs and benefits of producing good X.



The optimal output of good X for society would be

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

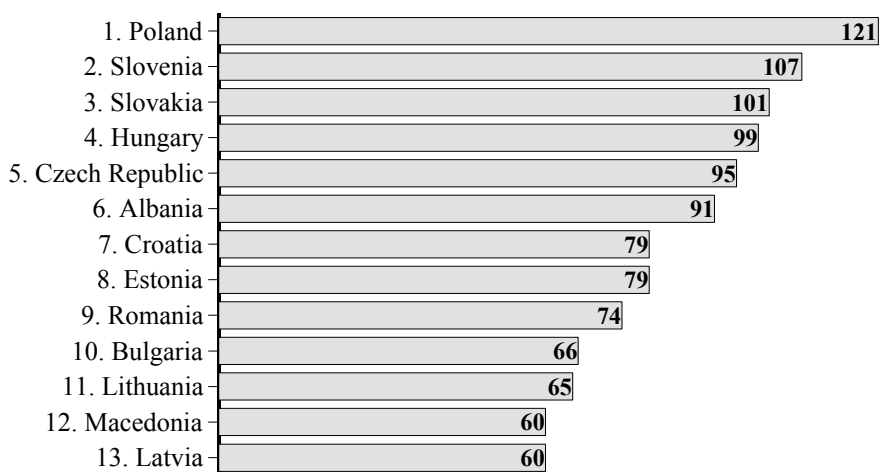
8. The diagram below shows the supply and demand curves for butter.



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 $Q_2 Q_3$.
9. 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.

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

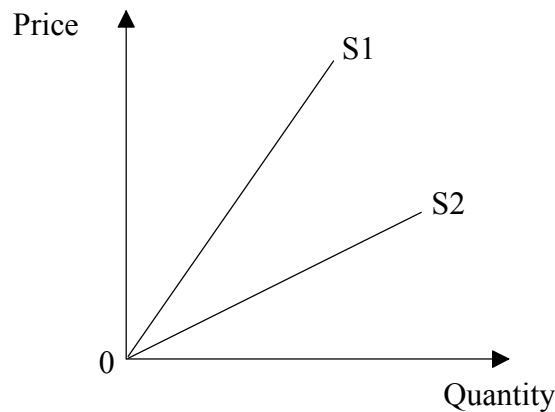


From the data, it may be concluded that

- 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.
11. The price of a product falls by 20 % and, as a result, the total expenditure on the product also falls by 20 %. The value of price elasticity of demand for the product is
- A. perfectly inelastic.
 - B. inelastic.
 - C. unitary.
 - D. elastic.

12. The price of beef rises from \$12 per kilo to \$15 per kilo and, as a result, the demand for chicken rises from 120 tonnes to 132 tonnes. The value of cross elasticity for the **two** products will be
- A. -0.4.
 - B. +0.4.
 - C. -2.5.
 - D. +2.5.

13. The diagram below shows two supply curves.



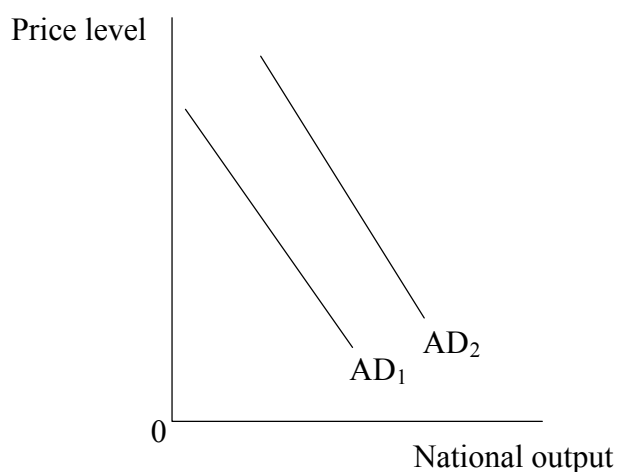
The value of price elasticity of supply for S1 is

- A. greater at all points than that for S2.
 - B. less at all points than that for S2.
 - C. the same at all points as that for S2.
 - D. not comparable with S2.
14. An example of monopolistic competition would be
- A. a city centre area with many small restaurants.
 - B. a nationalised electricity industry.
 - C. the car industry.
 - D. a stock exchange.

15. Product differentiation occurs where a product is
- A. sold for different prices in different markets.
 - B. sold in a different form abroad than it is in the domestic economy.
 - C. identical to its competitors, but is sold for a different price.
 - D. noticeably different from its competitors, so that an increase in price does not lose all demand.
16. Perfect competition is best described as a market situation where there is a
- A. small number of large firms competing to sell identical products.
 - B. large number of small firms competing to sell slightly different products.
 - C. small number of large firms competing to sell slightly different products.
 - D. large number of small firms competing to sell identical products.
17. Which **one** of the following is **not** a macroeconomic objective?
- A. To ensure price stability
 - B. To ensure high levels of growth
 - C. To maintain full employment
 - D. To reduce the tax burden
18. Which **one** of the following represents an injection into the circular flow of income?
- A. A balance of payments surplus
 - B. A budget surplus
 - C. The purchase of foreign advanced technology
 - D. Aid contributions to less developed countries

19. Gross Domestic Product can best be defined as the total money value of a country's domestic output
- A. plus net property income from abroad.
 - B. over a given period of time.
 - C. minus capital consumption.
 - D. plus indirect taxes.

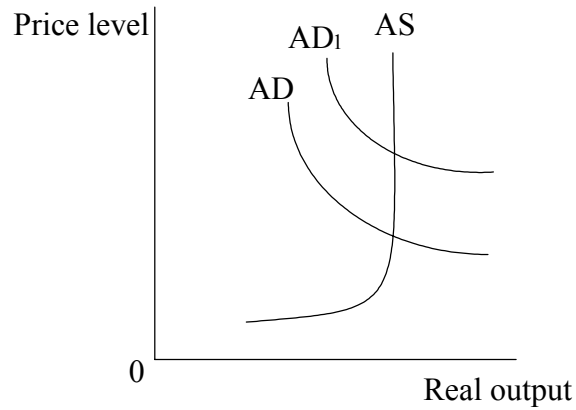
20. The diagram below illustrates two aggregate demand curves (AD) for an economy.



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.

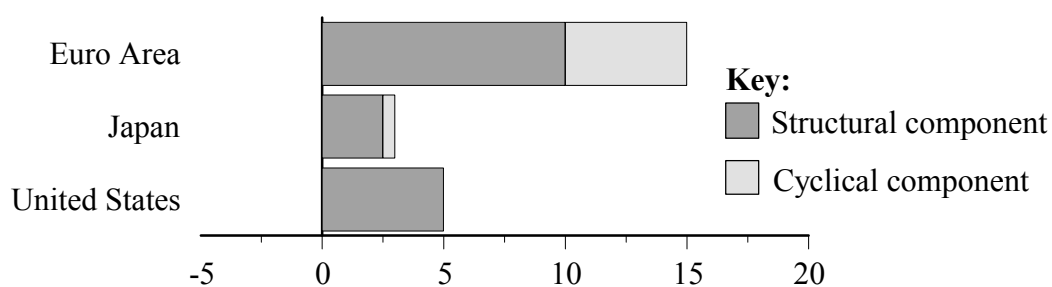
21. The diagram below shows an aggregate demand / aggregate supply diagram.



The shift of AD to AD₁ will cause an increase in

- A. real output.
 - B. employment.
 - C. the price level.
 - D. productivity.
22. Other things being equal, an increase in domestic interest rates is likely to reduce
- A. the exchange rate.
 - B. unemployment.
 - C. investment expenditure.
 - D. savings.

23. 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

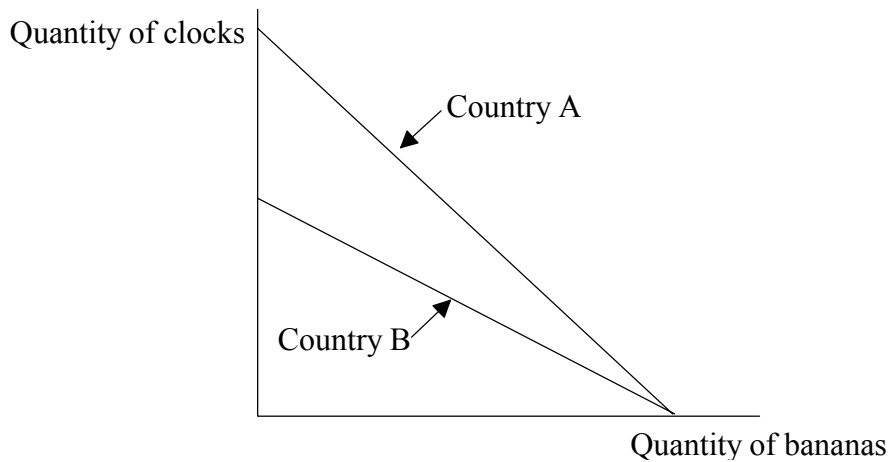
24. The table below shows three indicators for an advanced economy.

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.

25. The diagram below indicates the production possibility boundaries for Country A and Country B.



Given mutually beneficial terms of trading between the two countries, it may be assumed that Country A will

- A. gain no advantage from trading with Country B.
 - B. export clocks and bananas.
 - C. import clocks and export bananas.
 - D. export clocks and import bananas.
26. The data below indicates the average import share of GDP (%) for 4 countries from 1970 to 1998.

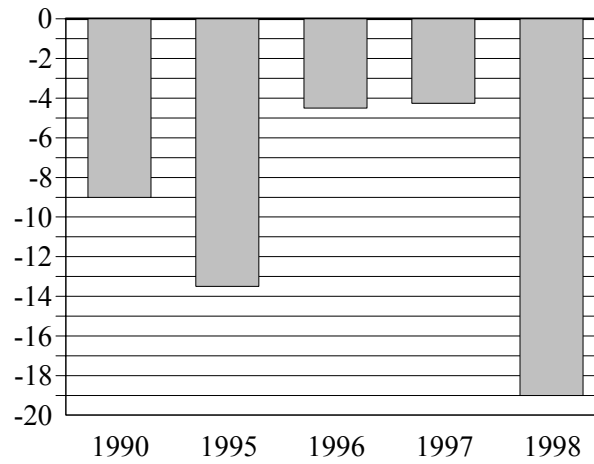
Brazil	Mexico	Italy	Korea
8.6	16.5	20.4	33.1

From this data it may be deduced that, over the period shown,

- A. Korea experienced the largest balance of payments deficits.
- B. Brazil was most likely to have been in surplus on its current account.
- C. the value of Mexico's imports accounted for 16.5 % of its national income.
- D. Italy's export share of GDP was 79.6 %.

27. A government wishes to decrease imports by a specific amount. In order to achieve this goal directly it is most likely to
- A. reduce domestic subsidies.
 - B. increase import duties.
 - C. decrease quotas.
 - D. increase non-tariff barriers.
28. The establishment of a common internal market across a group of countries is most likely to result in
- A. greater tariff barriers between member countries.
 - B. less international specialisation.
 - C. a wider disparity in the tax rates of member countries.
 - D. greater mobility of factors of production between member countries.

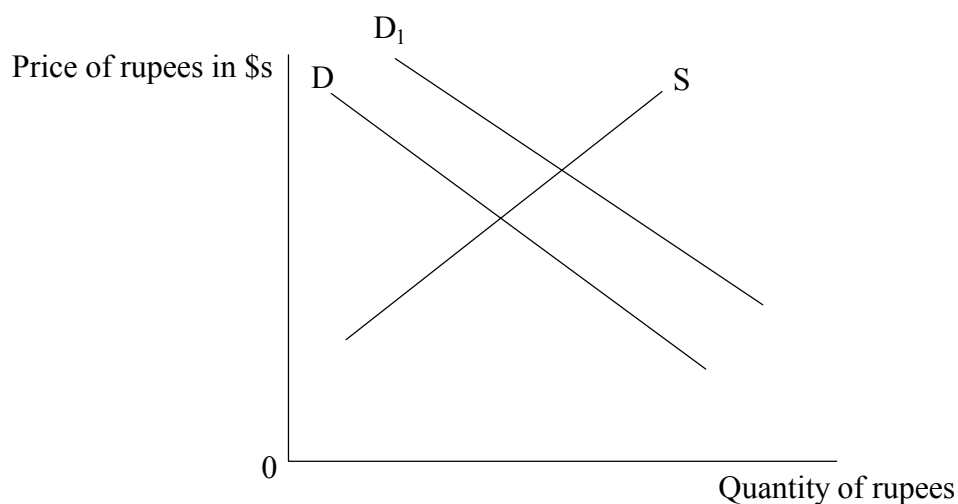
29. The diagram below shows the current account balance (in billions of \$US) for Africa as a whole from 1990 to 1998.



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.

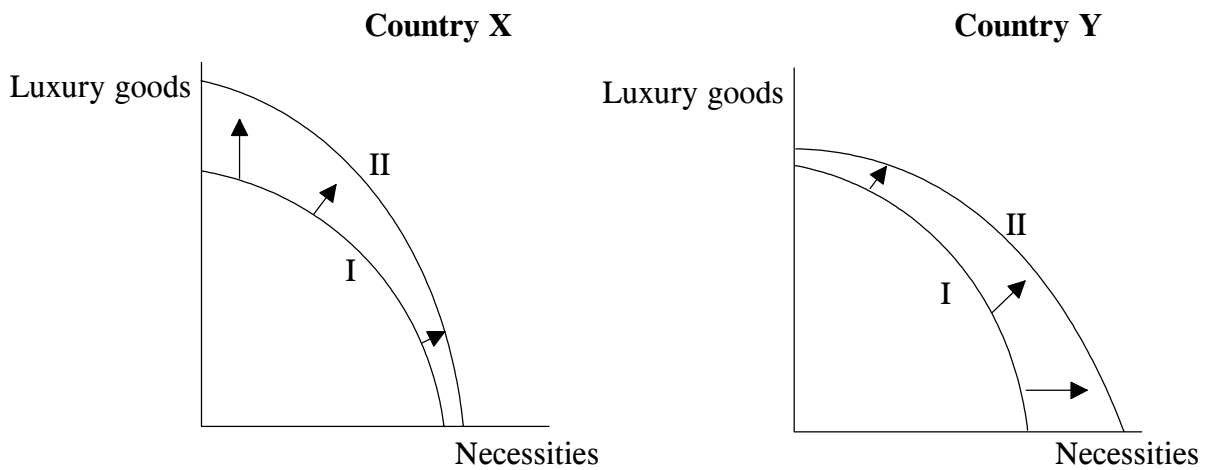
30. The diagram below indicates the demand for and the supply of rupees on the Indian foreign exchange market.



The movement from D to D₁ is most likely to have been caused by an increase in

- A. overseas investment by Indian companies.
 - B. the Indian current account surplus.
 - C. the number of Indians holidaying abroad.
 - D. the volume of imports entering India.
31. A government which wishes to combat simultaneously the problems of inflation and persistent current account deficits is most likely to increase
- A. import duties.
 - B. the money supply.
 - C. interest rates.
 - D. public expenditure.

32. An appreciation of a country's currency would **necessarily** result in a rise in its
- A. terms of trade.
 - B. balance of payments deficit.
 - C. level of interest rates.
 - D. rate of inflation.
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. Which **one** of the following represents the economic indicators used in the calculation of the Human Development Index (HDI)?
- A. Real GDP per head, energy consumption per head, distribution of income, combined first, second and third level enrolment ratios in education
 - B. Life expectancy at birth, live birth rate, population growth rate, adult literacy
 - C. Life expectancy at birth, adult literacy, combined first, second and third level enrolment ratios in education, real GDP per head
 - D. Distribution of income, real GDP per head, adult literacy, population growth rate
36. Which **one** of the following is an example of Foreign Direct Investment?
- A. The World Bank lends funds to a national government for the development of domestic infrastructure.
 - B. Speculators purchase shares in an existing car manufacturing company located in a country where the speculators have not previously held investments.
 - C. A domestic manufacturer of soft drinks borrows from a multi-national financial institution to expand its operations within the domestic economy.
 - D. A multi-national mining company establishes a new mine in a country where it does not presently operate.

37. 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.
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. Consider the statement: “Economic development needs to meet ‘the needs of the present generation without compromising the needs of future generations.’”

Development which has this effect may be described as

- A. profitable.
 - B. equitable.
 - C. marginal.
 - D. sustainable.
40. A country chooses to follow a path of economic development built around the growth of export industries. Which **one** of the following is most likely to assist the country in its economic development in the long run?
- A. The value of the exchange rate gradually appreciates against the currencies of its major trading partners.
 - B. Resources are diverted towards goods and services for export that have income elasticity greater than 1.
 - C. The terms of trade gradually deteriorate over time.
 - D. The rate of inflation is consistently above that of its major competitors.
-