

**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Tuesday 6 May 2003 (afternoon)

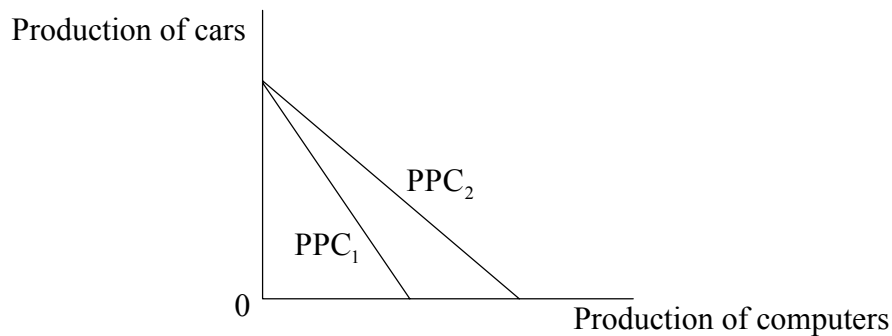
1 hour

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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.

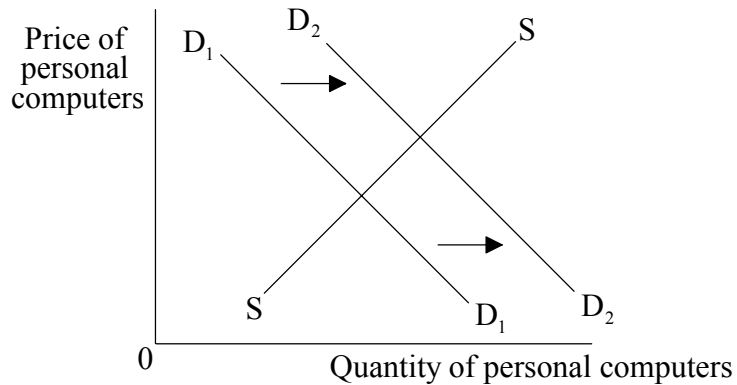
1. Which **one** of the following is a normative statement?
  - A. The rate of inflation has been falling.
  - B. A decline in inflation will follow an increase in interest rates.
  - C. The government should use fiscal policy rather than monetary policy to combat inflation.
  - D. High rates of inflation could have an adverse effect on the balance of payments.
  
2. Economic goods are goods that
  - A. are cheap and everyone can afford.
  - B. can be produced with just a few resources.
  - C. have an opportunity cost.
  - D. are unlimited in supply.
  
3. 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<sub>1</sub> to PPC<sub>2</sub>?

- 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

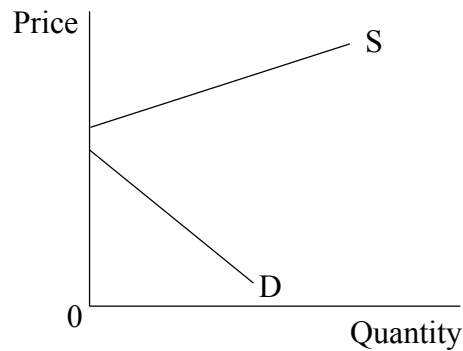
4. The following diagram represents the market for personal computers.



Which **one** of the following will cause the demand for personal computers to increase from  $D_1$  to  $D_2$ ?

- A. A fall in the price of personal computers
- B. A more equal distribution of income within the economy
- C. An expansion in the supply of personal computers
- D. A fall in the price of substitutes for personal computers

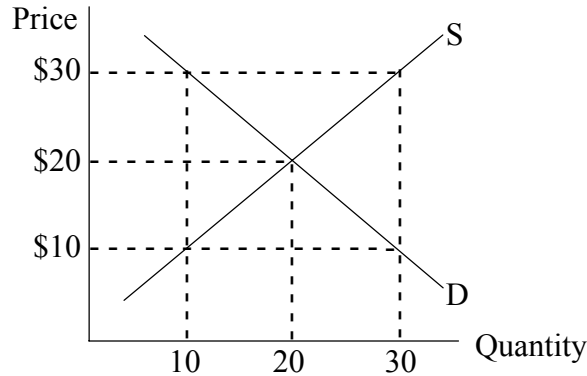
5. The following graph shows the demand and supply for a good.



From the graph we can deduce that this good

- A. is oversupplied.
- B. is underconsumed.
- C. will not be produced.
- D. will not be demanded.

6. The following graph shows the demand and supply for oil in a given country.

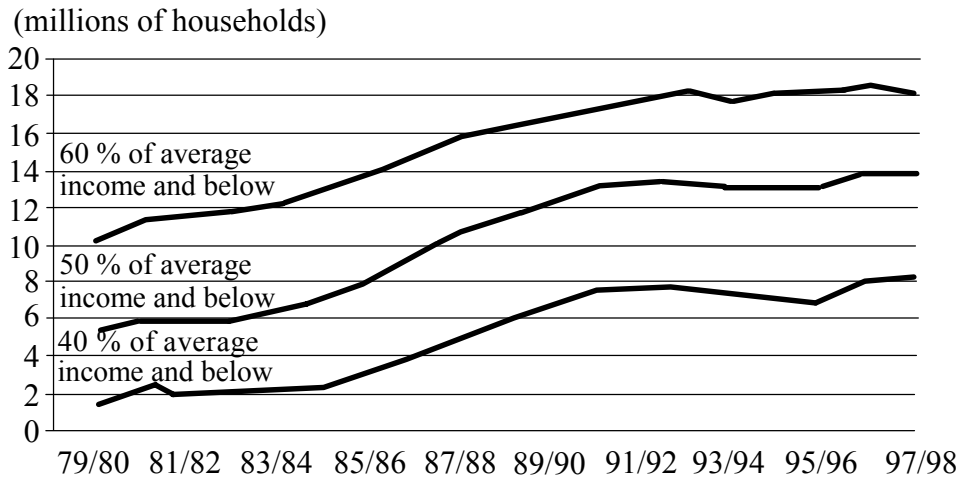


The government decides to impose a price floor of \$30. It also manages to sell the surplus to foreign buyers at \$10 per unit. The cost of this scheme to the taxpayers will be

- A. \$300.
  - B. \$400.
  - C. \$600.
  - D. \$900.
7. 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.
8. 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

9. 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.

10. 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.
11. Demand is inelastic if a certain percentage increase in price causes
- A. no change in the quantity demanded.
  - B. a smaller percentage decrease in the quantity demanded.
  - C. the quantity demanded to change by the same percentage.
  - D. a larger percentage decrease in the quantity demanded.

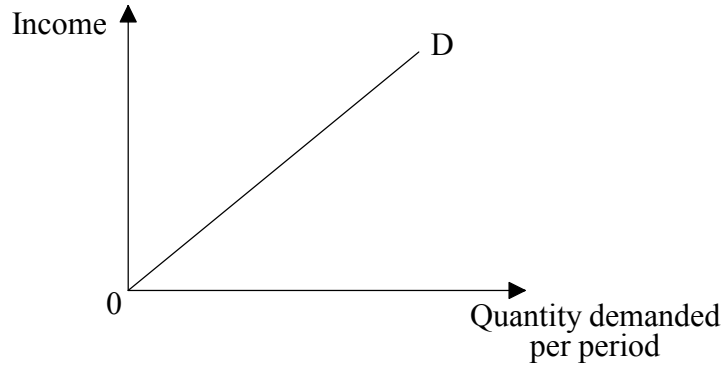
12. The table below indicates the supply schedule for Good Y.

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
13. 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.

14. 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.
15. 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.



16. The combination of barriers to entry and non-price competition is characteristic of which **one** of the following market structures?
- A. Oligopoly
  - B. Monopolistic Competition
  - C. Monopoly
  - D. Perfect Competition
17. Macroeconomic policy is best described as government action designed to
- A. reduce the costs of production for individual firms.
  - B. increase the size of the government sector in a mixed economy.
  - C. influence the aggregate level of economic activity.
  - D. reallocate resources away from the government sector to the private sector.
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

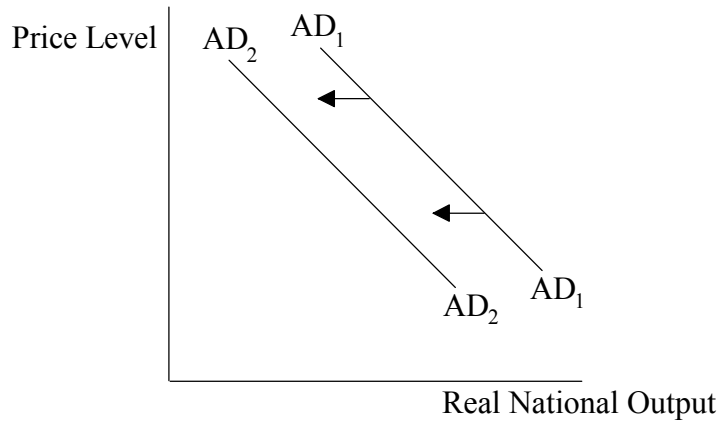
19. The following information is for New Zealand.

	1995	1998
<b>GDP at market prices (\$US millions)</b>	60 000	53 600
<b>Population (millions)</b>	3.7	3.8

The change in GDP *per capita* for New Zealand between 1995 and 1998 was

- A. \$0.1.
- B. -\$2 111.
- C. -\$6 400.
- D. \$14 105.

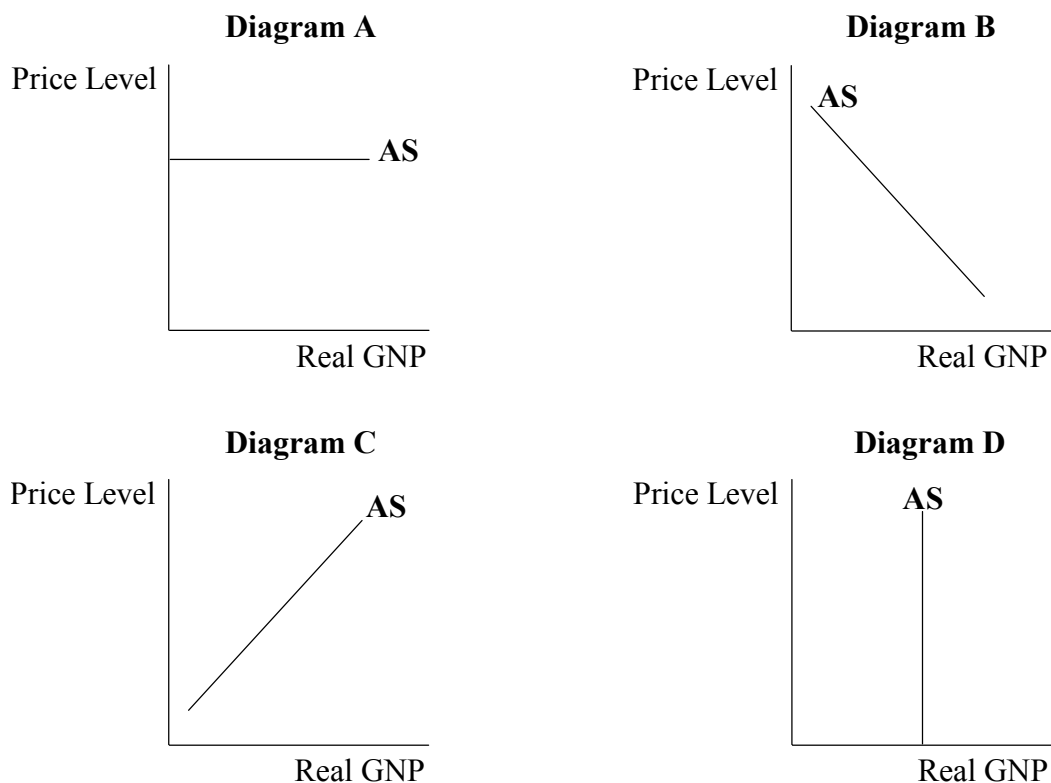
20. The following diagram shows two aggregate demand curves.



The shift in aggregate demand indicated would be most likely to be caused by

- A. an increase in interest rates.
- B. an increase in government spending.
- C. a decrease in taxation rates.
- D. wage levels increasing at a faster rate than the rate of inflation.

21. The following diagrams show four different types of aggregate supply (AS) curve.



According to supply side economists, the diagram that represents Long Run Aggregate Supply (LRAS) is

- A. Diagram A.
  - B. Diagram B.
  - C. Diagram C.
  - D. Diagram D.
22. 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."

23. Cyclical unemployment refers to unemployment which occurs
- A. because of the seasonal nature of some industries.
  - B. during recessions.
  - C. as a result of the long term decline of an industry.
  - D. when people are temporarily unemployed between jobs.

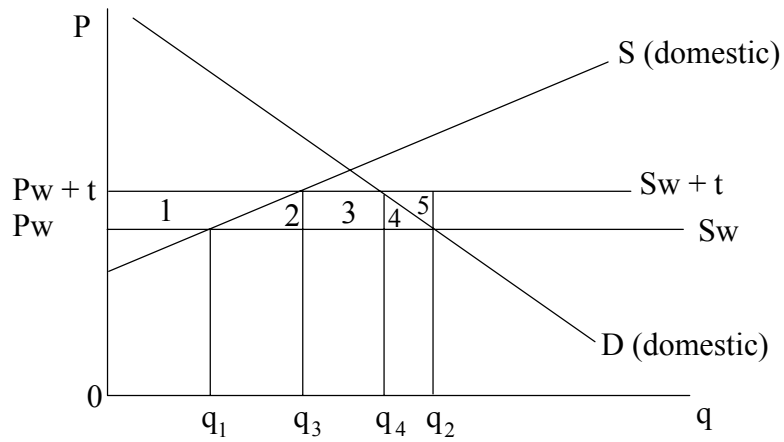
24. The following table provides price index information for an economy.

<b>Year</b>	<b>1 (Base Year)</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Price Index Number</b>	<b>100</b>	<b>120</b>	<b>132</b>	<b>136</b>

The rate of inflation for Year 3 was

- A. 10 %.
  - B. 12 %.
  - C. 32 %.
  - D. 132 %.
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 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 by the government, 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.
27. Which **one** of the following represents a central aim of the World Trade Organization?
- A. Support for small scale producers
  - B. Support for greater income equality in LDCs
  - C. Opposition to trade in products that have been made by child labour
  - D. Opposition to preferential trading agreements

28. A central argument in support of the introduction of protectionist policies is to
- A. ensure cheaper prices for consumers.
  - B. protect infant industries.
  - C. encourage economies of scale.
  - D. promote specialization according to comparative advantage.
29. Examine the table below which provides some economic data for Portugal.

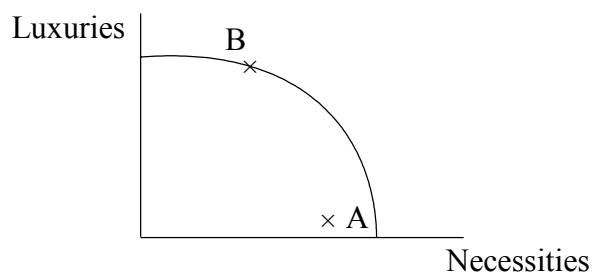
<b>(1998 figures)</b>	<b>Portugal (\$ billions)</b>
Exports (goods and services)	34
Imports (goods and services)	45
Net Income	– 0.5
Net Current Transfers	4
Gross International Reserves	21
Total GDP	106

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 %.

- 30.** In a system of freely floating exchange rates, the government will
- A. allow the exchange rate to fluctuate within a limited band.
  - B. not need to contribute to the International Monetary Fund.
  - C. need to keep large foreign exchange reserves.
  - D. allow market forces to determine the exchange rate.
- 31.** In a growing world economy, a country is likely to experience an appreciation in its exchange rate over time if
- A. the income elasticity of demand for its exports is less than 1.
  - B. domestic interest rates are consistently higher than interest rates in other countries.
  - C. the government redirects its spending away from human capital into defence spending.
  - D. financial institutions exchange the domestic currency on a large scale for foreign currency.
- 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.
-