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**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Tuesday 9 November 2004 (afternoon)

1 hour

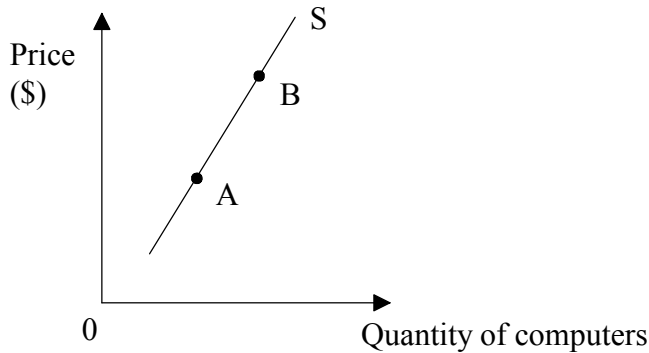
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**INSTRUCTIONS TO CANDIDATES**

- 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. Economics is based on the concept of
  - A. probability.
  - B. scarcity.
  - C. employment.
  - D. equality.
  
2. Which **one** of the following can be described as a normative statement?
  - A. The natural rate of unemployment is 4 %.
  - B. Unemployment has fallen in the last year.
  - C. Unemployment is too high.
  - D. The level of inflation has increased in the last year.

3. The graph below illustrates the supply of computers in Canada.



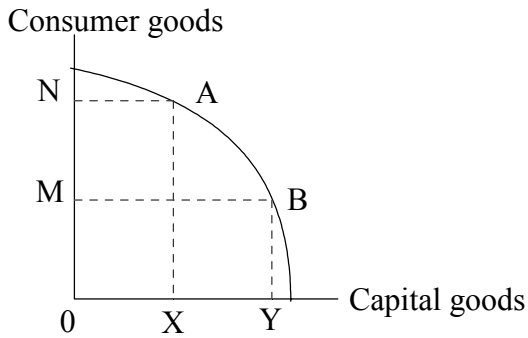
A movement from A to B may be caused by which **one** of the following?

- A. A fall in the price of machinery used to make computers.
- B. An increase in incomes.
- C. Increased subsidies to computer manufacturers.
- D. Improved technology in the computer industry.

4. Which **one** of the following would an economist classify as capital?

- A. Shares in a company
- B. Money in a savings account
- C. Dividends paid to shareholders
- D. Machinery in a factory

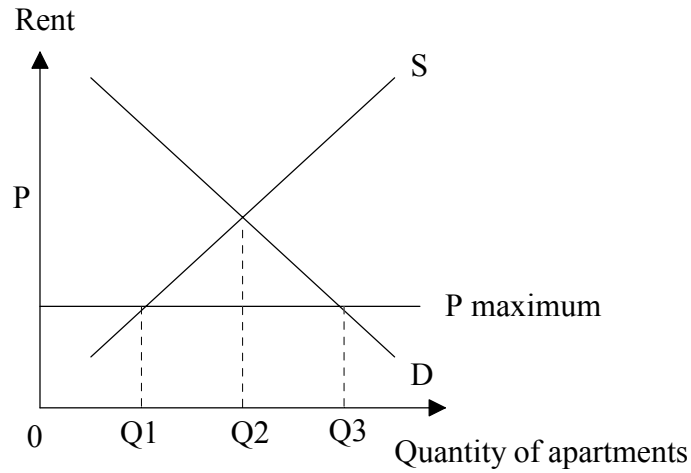
5. Use the diagram below to answer the following question.



The opportunity cost of moving from A to B is

- A. NM of consumer goods.
  - B. XY of capital goods.
  - C. 0Y of capital goods.
  - D. 0N of consumer goods.
6. An effective advertising campaign for milk is likely to lead to
- A. an increase in the quantity demanded and a fall in the supply.
  - B. an increase in demand and an increase in price.
  - C. an increase in the supply and a fall in the price.
  - D. an increase in the supply and a decrease in the quantity demanded.

7. The following diagram illustrates the market for rented accommodation in Paris.



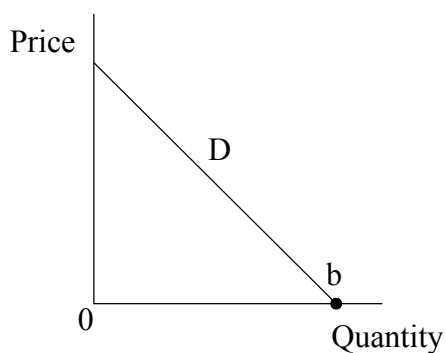
The imposition of a maximum price for rented apartments equal to “P maximum” is likely to result in

- A. a surplus of available apartments of  $Q2Q3$ .
  - B. an increase in the quantity of apartments demanded of  $Q1Q2$ .
  - C. a shortage of available apartments of  $Q1Q3$ .
  - D. demand for apartments of  $0Q1$ .
8. A parallel market is likely to occur when
- A. a market is at equilibrium.
  - B. a minimum price is imposed above the equilibrium.
  - C. a minimum price is imposed below the equilibrium.
  - D. a maximum price is imposed above the equilibrium.

9. A government wishing to correct a negative externality by using a market-based response is likely to
- A. ban the activity causing the market failure.
  - B. provide incentives to firms who are offering training programmes for workers.
  - C. tax the firm causing the market failure.
  - D. impose a product quota below the market equilibrium.

10. A country moving from a centrally planned system to a market system is likely to experience which **one** of the following?
- A. A fall in unemployment
  - B. An increase in inflation
  - C. More equitable distribution of income
  - D. An increase in the exchange rate of its currency

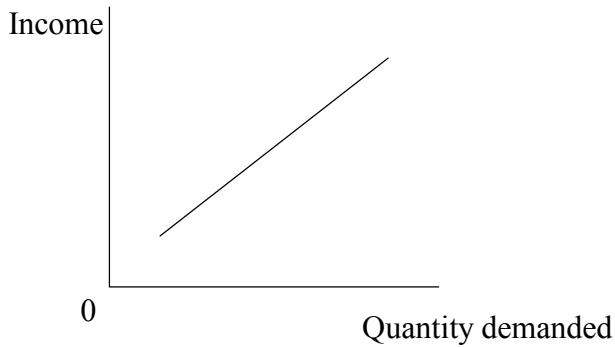
11. Study the following demand curve for good X.



At point b price elasticity of demand will be

- A. unitary.
- B. zero.
- C. infinity.
- D. variable.

12. The following diagram shows how demand for good X changes with income.



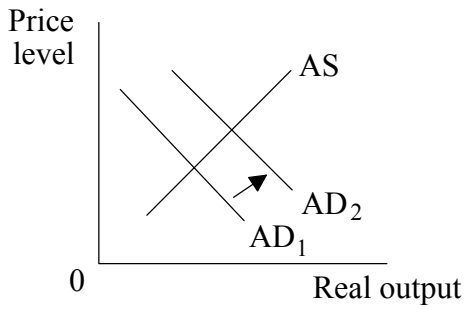
It can be concluded that good X

- A. is a normal good.
  - B. has no substitutes.
  - C. is an inferior good.
  - D. has negative income elasticity.
13. Good X has an income elasticity that is positive and greater than one. Good X is likely to be
- A. an inferior good.
  - B. a public good.
  - C. a luxury good.
  - D. a necessity.
14. As a result of a price change, total consumer expenditure for good Y increases. Which **one** of the following best describes the market for good Y?

	<b>Price has</b>	<b>Demand is</b>
A.	decreased	inelastic
B.	decreased	unitary elastic
C.	increased	elastic
D.	increased	inelastic

15. An economy in which consumer demand determines the allocation of resources can be described as having
- A. market imperfections.
  - B. consumer sovereignty.
  - C. central planning.
  - D. product differentiation.
16. In which **one** of the following types of market structure is allocative efficiency most likely to occur?
- A. Perfect competition
  - B. Monopoly
  - C. Oligopoly
  - D. Monopolistic competition
17. An economy is said to be in equilibrium when
- A. there is no unemployment.
  - B. government revenue equals government expenditure.
  - C. imports equal exports.
  - D. leakages equal injections.
18. Net national product is equal to
- A. gross national product minus depreciation.
  - B. the total value of all goods and services produced in the country in a year.
  - C. gross national product minus indirect taxes plus subsidies.
  - D. gross domestic product plus net property income from abroad.

19.



Which **one** of the following could cause the shift from AD<sub>1</sub> to AD<sub>2</sub>?

- A. An increase in income tax.
- B. An increase in the external balance.
- C. An increase in the interest rate.
- D. An increase in productivity.

20. Which **one** of the following policies would a government be least likely to use to regulate private monopolies?

- A. Subsidies
- B. Price controls
- C. Output restrictions
- D. Anti-trust laws



21. A group of workers who lose their jobs because their company decides to re-locate production to an overseas factory would be said to be
- A. frictionally unemployed.
  - B. seasonally unemployed.
  - C. structurally unemployed.
  - D. cyclically unemployed.

22. Below is a table showing the percentage change in average earning and retail prices for selected years in the UK.

	<b>Average earnings</b>	<b>Retail prices</b>
1995	2.7	3.6
1996	3.7	2.1
1997	4.2	3.5
1998	5.2	3.3
1999	4.9	1.1

[Source: www.statistics.gov.uk]

With reference to the above table, which of the following statements is correct?

- A. The inflation rate fell continuously in the period shown.
- B. The purchasing power of workers was highest in 1998.
- C. The retail price index was highest in 1995.
- D. Workers were relatively worse off in 1995.

23.

Year	Country A	Country B
1	110	110
2	106	116
3	104	120

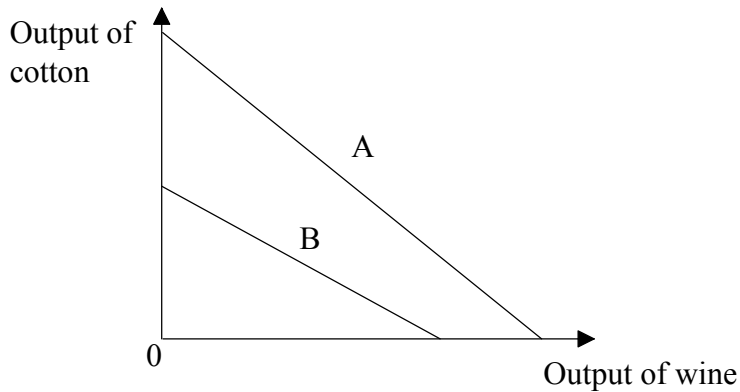
Which **one** of the following is a true statement about the consumer/retail price indices of Country A and Country B from Year 1 to Year 3?

- A. Prices fell continuously in Country A and rose in Country B.
- B. Prices rose continuously in both countries.
- C. Real prices were higher in Country B than in Country A.
- D. Year 1 is the base year for both countries.

24. The value of the euro is likely to rise against the US dollar if

- A. interest rates are higher in the USA than in the euro-zone countries.
- B. the USA has a trade surplus with the euro-zone countries.
- C. interest rates rise in the euro-zone countries.
- D. productivity is greater in the US economy than in the euro-zone countries.

25. The diagram below shows the production possibility frontiers for two countries, A and B, when they are producing wine and cotton.

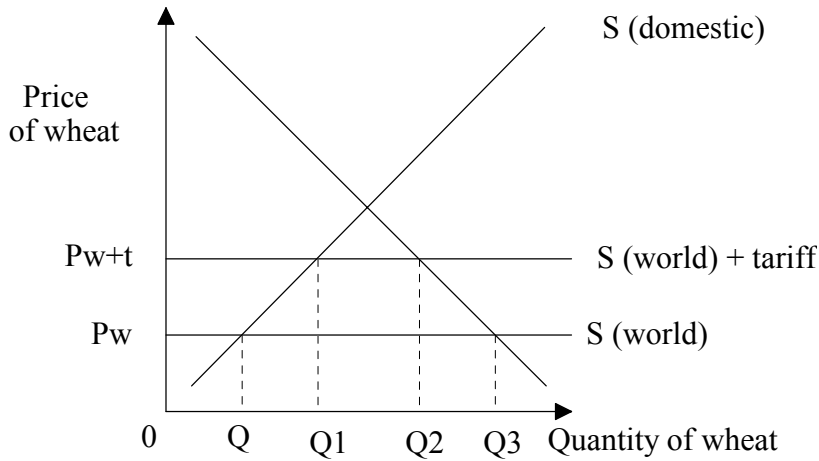


From the diagram, it can be seen that

- A. Country B has an absolute advantage in the production of both products.
  - B. Country A has a comparative advantage in the production of wine.
  - C. Country B has a comparative advantage in the production of wine.
  - D. Country B has a comparative advantage in the production of cotton.
26. Dumping occurs when a product is sold in a foreign market at a price
- A. below the world price of the product.
  - B. below the domestic price of the product.
  - C. below the level of the tariff.
  - D. below the unit cost of the production of the product.

27. Which of the following policies would be most appropriate in controlling cost-push inflation?
- A. Reducing income tax
  - B. Removing price ceiling on food
  - C. Increasing money supply
  - D. Increasing labour productivity

28. The diagram below shows the market for wheat in a country, after a tariff has been imposed by the government.



The imposition of the tariff will increase domestic production from

- A. 0 to  $Q$ .
- B.  $Q$  to  $Q_1$ .
- C.  $Q$  to  $Q_3$ .
- D.  $Q_1$  to  $Q_3$ .

29. Country X replaces a tariff with a quota. The effects of the change will be to
- A. increase income elasticity of demand for foreign goods in country X.
  - B. encourage foreign firms to export goods with lower value added to country X.
  - C. limit the profit to foreign exporters on each good exported to country X.
  - D. reduce revenues to the government of country X.
30. A teacher from a school in the USA attends a conference in Costa Rica. When she pays her hotel bill this will show in the US balance of payment as
- A. an invisible export.
  - B. a visible export.
  - C. a capital transaction.
  - D. an invisible import.
31. If the exchange rate of the pound to the US dollar was to depreciate from £1 = \$1.40 to £1 = \$1.20 and as a result of this, the volume of exports to the US was to increase by 20 % then, *ceteris paribus*, the elasticity of demand for exports would be
- A. 1.40.
  - B. 0.71.
  - C. 0.83.
  - D. 0.20.
32. The purchasing power parity theory suggests that
- A. freely fluctuating exchange rates will always move towards equilibrium.
  - B. the exchange rate between two currencies depends upon their relative domestic purchasing power.
  - C. exchange rates are determined by the balance of payments situation.
  - D. a country's purchasing power is determined by relative movements in exchange rates.

- 33.** Which **one** of the following statements about economic growth and development is true?
- A. Economic growth always leads to economic development.
  - B. IMF structural adjustment policies are well known for contributing to both growth and development in LDCs.
  - C. Economic development is possible without economic growth.
  - D. The majority of LDCs have achieved higher rates of economic development than economic growth.
- 34.** Economic growth in LDCs is usually accompanied by
- A. “crowding-out”.
  - B. an increase in employment in secondary industry.
  - C. greater income equality.
  - D. a fall in inflation.
- 35.** The Human Development Index includes which combination of indicators?
- A. GDP per capita at PPP, daily calorie supply and life expectancy.
  - B. Life expectancy, literacy/secondary school enrolment and GDP per capita at PPP.
  - C. Growth in GDP per capita at PPP, life expectancy and infant mortality.
  - D. GDP per capita at PPP, secondary school enrolment and infant mortality.

36.

<b>Country Rankings in the World</b>		
	<b>GDP per capita at PPP</b>	<b>HDI</b>
Country A	37	42
Country B	38	35

Using the information in the table above which **one** of the following statements is likely to be true?

- A. GDP per capita at PPP is the best indicator of economic development.
  - B. Country B has higher illiteracy than Country A.
  - C. Country A has invested more in human capital than Country B.
  - D. The average citizen of Country B has a better standard of living than the average citizen of Country A.
37. Investment in education in developing countries is extremely important because
- A. the external benefits of education are less than the external costs.
  - B. education is a public good.
  - C. education is a merit good.
  - D. education is a free good.
38. Which **one** of the following is a reason for a country to provide tied aid to a less developed country (LDC)?
- A. To increase the international competitiveness of the LDC.
  - B. To give the LDC increased choice in the goods it can buy.
  - C. To increase the exports of the donor country.
  - D. To reduce the debt service ratio of the LDC.

39. Import Substitution can best be described as a strategy to
- A. replace imports from high cost countries with imports from low cost countries.
  - B. use tariffs and other forms of trade barriers to replace imports with domestic goods.
  - C. use export revenues to replace imported agricultural products with imported manufactured goods.
  - D. use tax incentives to attract multinational investment to replace inefficient domestic manufacturing.
40. The terms of trade for a country dependent on its coffee export revenues and imports of manufactured goods deteriorate when
- A. the price of coffee increases and the prices of imported manufacturers fall.
  - B. the price of coffee falls and the price of imported manufactures rise.
  - C. it imports more than it exports.
  - D. it exports more than it imports.
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