

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/03

Paper 3 Multiple Choice (Extended)

October/November 2006

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **forty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This document consists of **11** printed pages and **1** blank page.



- 1 A government decides to spend more on defence and, therefore, cannot spend as much on improving the country's infrastructure.

What economic idea is illustrated by this decision?

- A budget surplus
 - B monetary policy
 - C opportunity cost
 - D specialisation
- 2 Countries that have changed from command to market economies will expect to find an increase in
- A choice.
 - B price control.
 - C rationing.
 - D subsidies.
- 3 What makes an industry capital-intensive?
- A It employs many unskilled workers.
 - B It manufactures expensive products.
 - C It occupies sites on cheap land.
 - D It uses a large amount of equipment and a small labour force.
- 4 What is an example of the factor of production enterprise?
- A a shop assistant
 - B a shop's profits
 - C a shop owner
 - D a shopping centre
- 5 What makes Barclays Bank a public limited company?
- A It experiences economies of scale.
 - B It has more than two directors.
 - C It is quoted on the London Stock Exchange.
 - D It operates in more than one country.

6 Why might a country's central bank raise its interest rate?

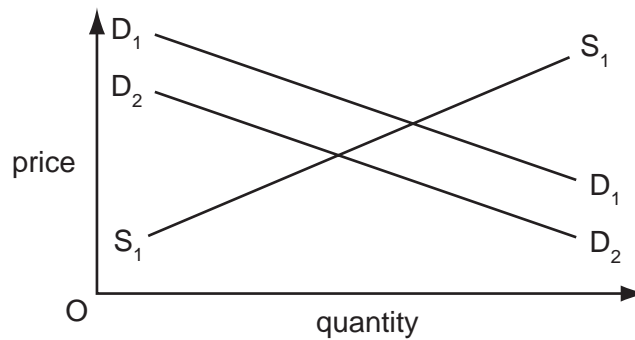
- A to encourage saving
- B to increase the money supply
- C to raise funds for the government
- D to reduce the level of employment

7 A trade union is negotiating a wage rise for its members.

What will increase the chance of the wage rise being granted?

- A The company's product has many substitutes.
- B The economy is entering a period of recession.
- C The government has made strike action illegal.
- D Wages are a small part of the company's costs.

8 The diagram shows a change in the demand for a company's products as a result of a change in advertising.



What has increased?

- A the cost of advertising to the company
- B the cost of advertising to a rival company
- C the expenditure on advertising by the company
- D the expenditure on advertising by a rival company

- 9 The demand for and supply of a good both change. As a result the price of the good rises but the quantity traded remains the same.

What must have happened to demand and supply?

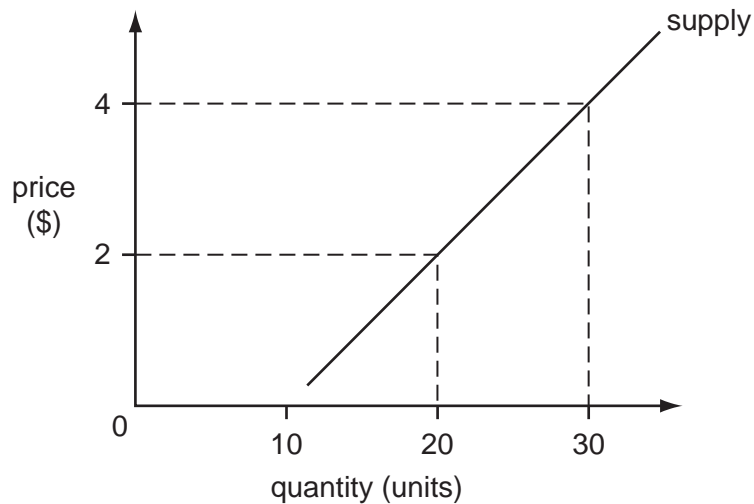
	demand	supply
A	fallen	fallen
B	fallen	risen
C	risen	fallen
D	risen	risen

- 10 In a market there is a shortage of a good.

What change would cause the market to come to an equilibrium?

- A** an increase in demand
- B** a decrease in supply
- C** a fall in price
- D** a rise in price

- 11 The diagram shows the supply curve for a good.



What is the price elasticity of supply when the price rises from \$2 to \$4?

- A** 0.2
- B** 0.5
- C** 1
- D** 2

- 12 A firm changes the price of its product and finds that its revenue increases.

What combination of price change and price elasticity of demand would have caused this?

	price	price elasticity
A	falls	between 0 and 1
B	falls	equal to 1
C	rises	between 0 and 1
D	rises	greater than 1

- 13 A government wishes to impose a tax on a good to raise revenue.

It would be most likely to achieve this aim if the price elasticity of demand for the good were

- A** high.
 - B** infinite.
 - C** low.
 - D** unitary.
- 14 Which feature of working in an occupation might tend to keep the basic wage rate down?
- A** handling dangerous materials
 - B** receiving commission payments
 - C** undertaking training
 - D** working unsocial hours
- 15 An athlete needs an income and also needs time for training and competitions.
- Which occupation is most appropriate for the athlete?
- A** department store manager who is paid a salary
 - B** livestock farmer working for profit
 - C** assembly-line worker who is paid a wage
 - D** self-employed photographer

- 16 Which change would be most likely to cause the earnings of hotel managers in Mauritius to rise more than the earnings of sugar cane workers there?
- A a decrease in the supply of sugar cane workers in Mauritius
- B a decrease in the price of hotel rooms in Mauritius
- C an increase in the productivity of hotel managers in Mauritius
- D an increase in the price of sugar cane from Mauritius
- 17 The table shows percentage increases in earnings in a country between 1997 and 2004.

male workers		female workers	
highest paid	lowest paid	highest paid	lowest paid
+117.5%	+80.0%	+126.6%	+97.8%

According to the table what happened between 1997 and 2004?

- A All female workers became better paid than male workers.
- B The highest paid male workers had the most rapid growth in earnings.
- C The earnings of male workers became more evenly distributed.
- D The earnings of female workers became less evenly distributed.
- 18 What is most likely to increase a firm's profits?
- A government controls on its prices
- B grants for the purchase of new machines
- C an increase in the wages paid to its workers
- D rising costs of its raw materials
- 19 The table shows the quantity of coffee demanded per day and the quantity supplied per day.

price (\$) per kilo	demand (kilos)	supply (kilos)
12	16	26
11	18	23
10	20	20
9	22	17
8	24	14
7	26	11

At the equilibrium price, what will be the total expenditure on coffee?

- A \$10 B \$20 C \$200 D \$400

- 20 Which statement about fixed costs is correct?
- A They exist only in the long run.
 - B They include raw material and direct labour costs.
 - C They increase at the same rate as output.
 - D They must be paid even if there is no output.
- 21 What is an example of backward vertical integration?
- A An aircraft manufacturer takes over an airline.
 - B A bank takes over another bank.
 - C A plastics manufacturer takes over a drinks firm.
 - D A tyre manufacturer takes over a rubber plantation.
- 22 Which is a diseconomy of scale?
- A Bulk buying reduces costs.
 - B Communications deteriorate.
 - C Employees are more motivated.
 - D Technological improvements take place.
- 23 Governments are often concerned about inflation and unemployment. The table shows price changes and unemployment rates in four countries.

Which country improved its economic performance on both these measures between 2003 and 2004?

	country	% price change 2003	% price change 2004	unemployment % 2003	unemployment % 2004
A	Austria	1.1	2.3	4.4	4.2
B	Canada	2.6	2.5	7.7	7.3
C	France	2.0	2.4	9.7	9.8
D	Sweden	1.8	0.5	4.2	5.3

- 24 What is a long-term advantage of economic growth?
- A Employment falls.
 - B Incomes rise.
 - C Prices rise.
 - D Savings fall.

- 25 The governments of many countries raise revenue from a tax on a wide range of essential goods and services.

What is the nature of this tax?

- A It is direct and proportional.
- B It is direct and regressive.
- C It is indirect and proportional.
- D It is indirect and regressive.

- 26 The table shows a number of economic indicators for four countries in 2004.

Which country best fits the description of 'the fastest real economic growth with the strongest international position'?

	country	GDP (annual % change)	prices (annual % change)	trade balance (\$bn)	foreign reserves (\$bn)
A	Chile	4.8	1.1	+6.2	15.9
B	Hungary	4.2	7.5	-4.2	12.6
C	Peru	4.2	4.3	+1.5	10.4
D	Philippines	6.4	5.1	-1.3	13.0

- 27 Why might a new indirect tax be undesirable?

- A It encourages firms to export.
- B It creates a more regressive tax system.
- C It produces a narrower basis of taxation.
- D It creates a more progressive tax system.

- 28 What would **not** be recorded in the current account of Argentina's balance of payments?

- A An Argentine company builds a factory in Kenya.
- B An Argentine insurance company insures an American ship.
- C Argentine beef is sold to South Africa.
- D A large group of Italians visit Argentina.

- 29 A country has a surplus on its trade in goods and services of \$20 m and a deficit on its current account of \$10 m.

What position on its current income balance and current transfer balance is consistent with this?

	current income balance (\$m)	current transfer balance (\$m)
A	+20	+10
B	+10	-30
C	-10	-20
D	-20	+10

- 30 The UK pound depreciates against the US dollar from £1 = \$1.80 to £1 = \$1.50.

What does this mean?

- A** UK imports from the US will cost less.
 - B** US imports from the UK will cost more.
 - C** UK pounds will be dearer in terms of US dollars.
 - D** US dollars will be dearer in terms of UK pounds.
- 31 A person receives annual interest of 4% on their saving. Inflation is 5% per annum.

What is the change in the real value of their saving?

- A** It falls 1%.
 - B** It rises 4%.
 - C** It falls 5%.
 - D** It rises 9%.
- 32 What else is likely to rise when the rate of unemployment in a country rises?
- A** business confidence
 - B** consumer spending
 - C** government revenue
 - D** government spending

33 The table shows the Gross Domestic Product (GDP) and population of four countries.

Which country is likely to have the lowest standard of living?

	GDP (\$ millions)	population (millions)
A	2 000	1
B	10 000	10
C	80 000	20
D	90 000	30

34 In a country the birth rate increased but the population decreased.

What could have happened to other factors to cause this?

- A** no change in migration but the death rate fell
- B** a fall in infant mortality but no change in the death rate
- C** no change in migration but the death rate rose
- D** a rise in net immigration but no change in the death rate

35 Which of the following is usually found in a developed economy?

	low	high
A	birth rate	adult literacy rate
B	access to safe water	infant mortality rate
C	gross domestic product per head	access to safe water
D	infant mortality rate	death rate

36 Which situation must produce an ageing population?

- A** a falling birth rate and a falling death rate
- B** a rising birth rate and a rising death rate
- C** a rising fertility rate and a falling death rate
- D** a rising marriage rate and a rising death rate

37 A developing country finds it difficult to export goods to a developed country.

What could explain this?

- A The developing country's exchange rate has depreciated.
- B There are no tariffs on goods bought from the developing country.
- C There are quotas on goods bought from this developing country.
- D There is cheap labour in the developing country.

38 Many people in Zimbabwe want to buy foreign cars, which would be shipped by foreign companies.

What happens if the Zimbabwe government removes the quota on the import of motor cars?

	balance on trade in goods	balance on trade in services
A	improves	no change
B	improves	worsens
C	worsens	no change
D	worsens	worsens

39 A country's farmers specialise in a single cash crop for export.

What might have encouraged this policy?

- A a fall in commodity prices
- B comparative advantage
- C diminishing returns
- D diseconomies of scale

40 Which action by the operators of an airport directly reduces external costs?

- A the abolition of night flights
- B the building of a new runway
- C the payment of a productivity bonus
- D the reduction of charges for landing aircraft

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