IB DIPLOMA PROGRAMME
PROGRAMME DU DIPLÔME DU BI
PROGRAMA DEL DIPLOMA DEL BI

ECONOMICS
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PAPER 1

Monday 4 November 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. In economics, a good which is "scarce" is one which

    A. is provided by the government.

    B. has an opportunity cost.

    C. has increasing utility with consumption of it.

    D. is known as a Veblen good.

2. The diagram below shows a Production Possibility Frontier (PPF).
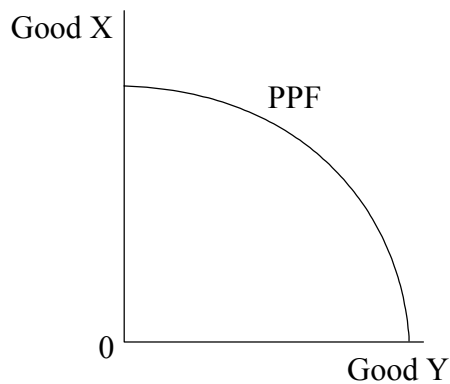
    The PPF, in the short run, curves outwards because

    A. good X is an economic good and good Y is a free good.

    B. of the law of diminishing returns.

    C. good X is a capital good and good Y is a consumer good.

    D. of the law of comparative advantage.

3. Positive economics differs from normative economics in that positive economics is based on

    A. the assumption that the government should set priorities.

    B. rational economic behaviour.

    C. propositions that can be verified by empirical observation.

    D. the maximisation of economic welfare.

4. The weekly balance sheet in $ of a one person business appears as follows:

|	
Total revenue	200
Rent	50
Wages	100
Interest Payments	25

The entrepreneur believes that he/she could earn a salary of $50 per week working for someone else. According to an economist, the entrepreneur has this week made a

A. loss of $25.

B. loss of $50.

C. profit of $25.

D. profit of $200.

5. According to a newspaper article, *"Thai government measures such as export subsidies are intended to help small landholders in Thailand"*.

The action taken by the Thai government would be illustrated on a supply and demand diagram as

A. a leftward shift of the supply curve.

B. a rightward shift of the supply curve.

C. a leftward shift of the demand curve.

D. a rightward shift of the demand curve.

Turn over

6. The diagram below shows the labour market for a particular country in which a minimum wage is introduced at W^m.
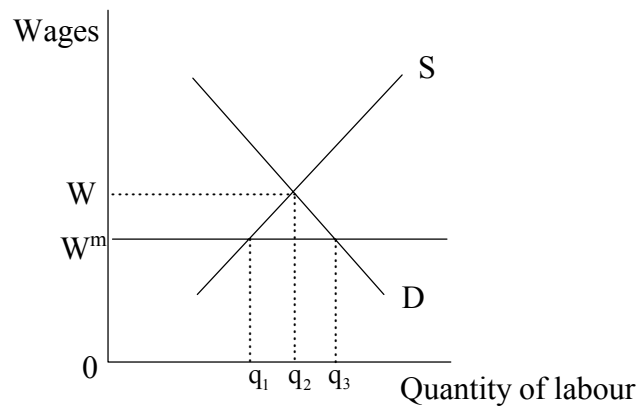

The effect of the minimum wage will be

A.   unemployment $q_1 q_3$.

B.   a labour shortage $q_1 q_3$.

C.   that employment remains unchanged at $0q_2$.

D.   an excess demand for labour.

7. Refer to the diagram below, which shows the market for widgets.
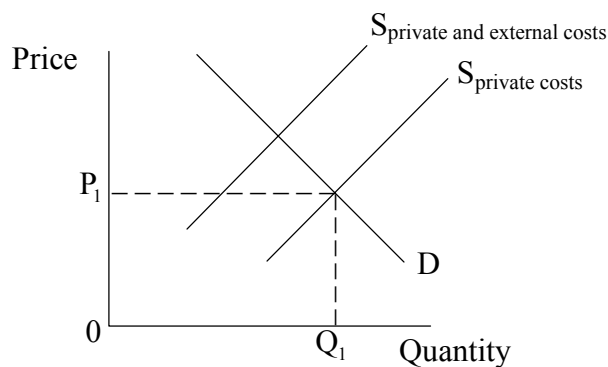
A firm producing at price P_1 and quantity Q_1 would be

A.   allocatively efficient.

B.   creating positive externalities of production.

C.   receiving subsidies to increase supply.

D.   responsible for a misallocation of resources.

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8. A student listens to music while doing economics homework. Another student also hears the music and enjoys it. This is an example of an external

    A. cost of production.

    B. cost of consumption.

    C. benefit of production.

    D. benefit of consumption.

9. A pen used to sign a famous document is sold at an auction for $11,000. Such a high price for a pen can be explained by an economist using the concept of

    A. the Giffen good.

    B. price elasticity of supply equal to zero.

    C. price elasticity of demand equal to minus one.

    D. the income and substitution effects of price changes.

**10.** The following diagram shows four different supply curves for good X.
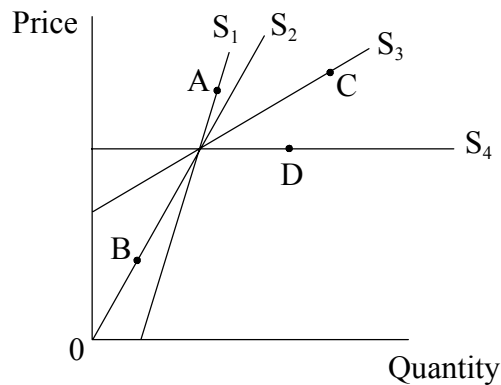
Which **one** of the following statements about elasticity of supply at the points A, B, C and D is correct?

    A. No comparison of elasticities can be made without numerical values on the axes.

    B. The elasticity of supply at point B is greater than the elasticity of supply at point C.

    C. The elasticity of supply at point D is less than the elasticity of supply at all the other points.

    D. The elasticity of supply at point A is less than the elasticity of supply at point C.

Turn over

11. The cross elasticity of demand for butter with respect to margarine shows how

    A.   both butter and margarine producers change price when consumer incomes change.

    B.   a change in the price of butter affects the quantity of margarine that is bought.

    C.   butter producers change output in response to a change in price.

    D.   a change in the price of margarine affects the quantity of butter that is bought.

12. The chart below shows the market share of firms who supply computer operating systems.

Server operating systems, market share, %

Other
Unix
NetWare
Linux
Windows NT

1998   1999
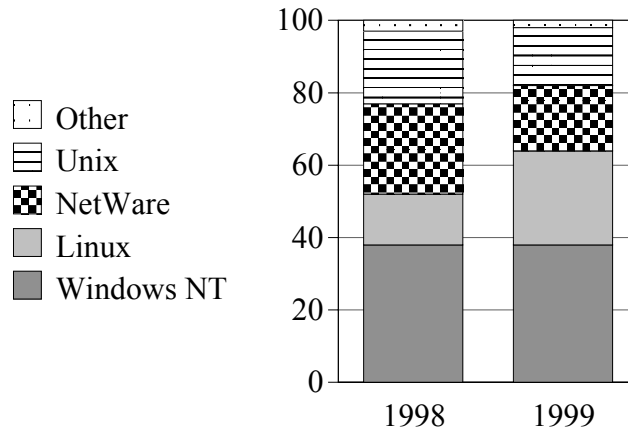
Which **one** of the following best describes the type of market structure shown in the chart?

    A.   Perfect Competition

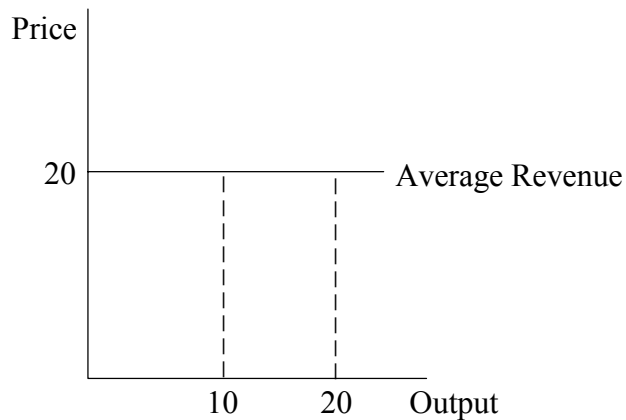   B.   Monopoly

    C.   Oligopoly

    D.   Price leadership

13. The following table shows how the costs of production for a firm vary with its output.

Output	Average Fixed Cost ($)	Total Variable Cost ($)
5	20	20
10	10	50
20	5	80
25	4	100

The marginal cost per unit of increasing output from 20 to 25 units is

A.   0.

B.   1.

C.   4.

D.   20.

14. Refer to the diagram below.

Which **one** of the following represents the marginal revenue for the firm of producing one extra unit of output?

A.   0

B.   20

C.   200

D.   400

Turn over

15. A profit maximising firm is in long run equilibrium under conditions of monopolistic competition. Its price and output will be such that

      I.   marginal cost is equal to marginal revenue.

      II.   price is equal to average cost.

      III.   total revenue is at a maximum and average total cost is at a minimum.

   A.   I only

   B.   I and II only

   C.   II and III

   D.   I, II and III

16. Study the following diagram which shows the marginal revenue curve of a profit maximising firm.
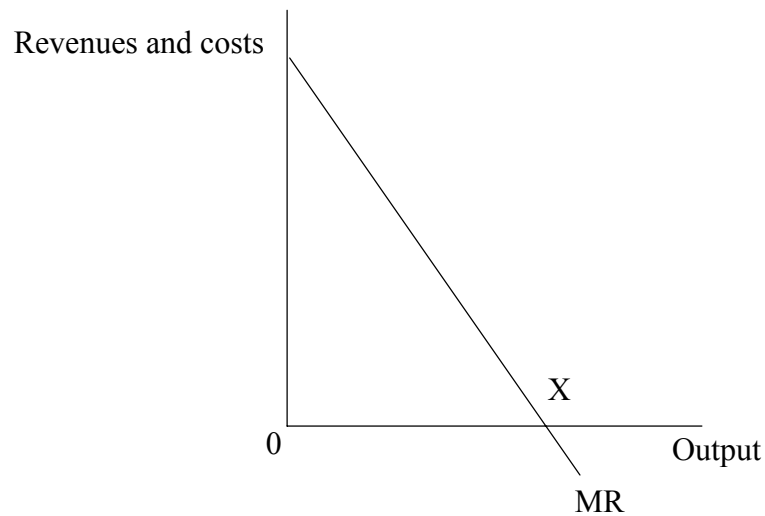

Point X shows the output level where the firm will

   A.   maximise total revenue.

   B.   maximise profits.

   C.   minimise costs.

   D.   maximise output.

17. The difference between the value of a country's national income at market price and its national income at factor cost is explained by

    A.   indirect (expenditure) taxes and subsidies.

    B.   the rate of inflation.

    C.   capital consumption (depreciation).

   D.   transfer payments.

18. Refer to the chart below.

GDP per person, $ '000
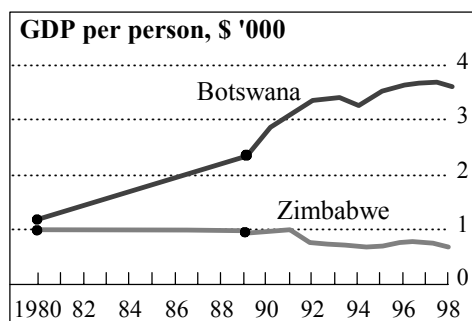
Which **one** of the following conclusions might an economist draw from this chart?

    A.   Inflation has been higher in Botswana than in Zimbabwe in the 1990s.

    B.   GDP was higher in Botswana than in Zimbabwe in 1998.

    C.   Botswana had a higher rate of economic growth than Zimbabwe in the 1990s.

   D.   Botswana and Zimbabwe had almost identical scores on the Human Development Index in 1980.

19. This question relates to the aggregate demand / aggregate supply diagram below.
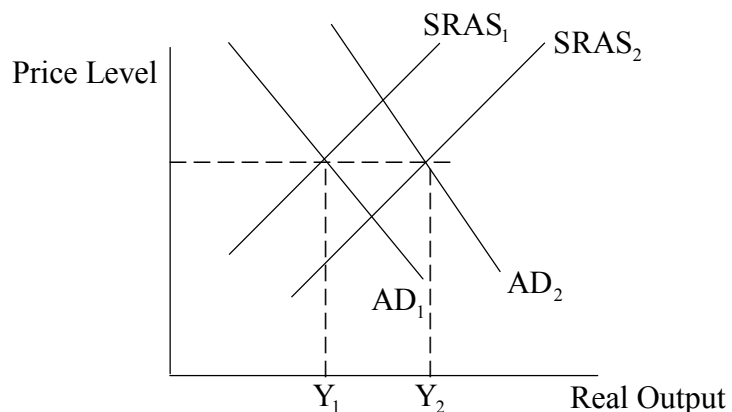
The movement from Y_1 to Y_2 on the diagram could have been caused by

A.   an increase in interest rates and an increase in the minimum wage.

B.   an increase in consumer spending and an increase in productivity.

C.   a fall in exports and an increase in oil prices.

D.   a decrease in interest rates and an increase in the rate of inflation.

20. The graph below shows private net savings in the USA as a % of GDP.

Private net savings as % of GDP
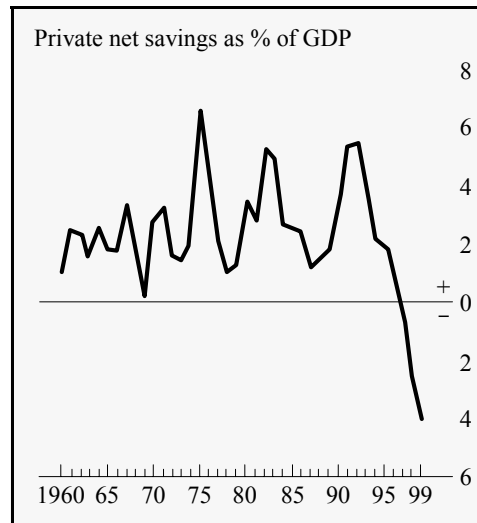
It could be concluded that, other things being equal,

A. there was likely to have been a noticeable increase in national debt from 1975–1978.

B. until 1997, the government maintained a positive rate of saving.

C. the value of the multiplier increased steadily from 1993–1999.

D. unemployment rose steadily from 1993–1999.

Turn over

21. The following question is based on an aggregate demand and supply diagram (diagram 1) and a Phillips Curve diagram (diagram 2).
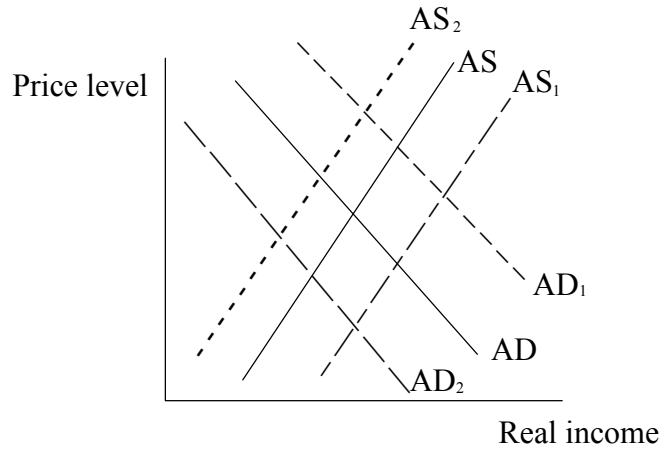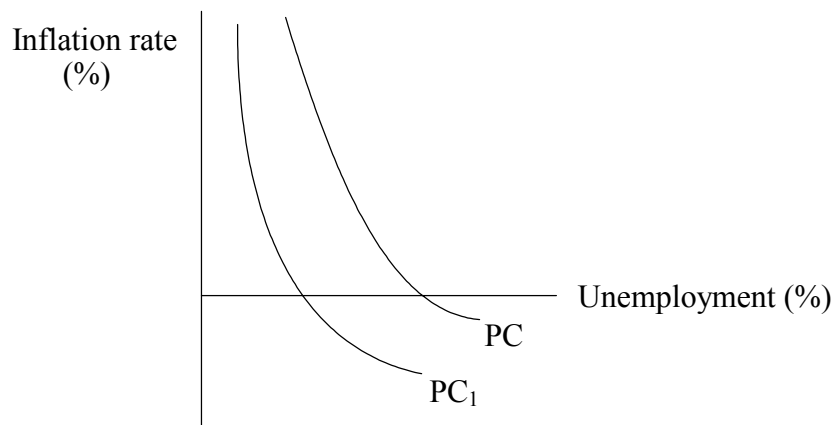
Diagram 1

Diagram 2

Based on Keynesian analysis, the movement in the Phillips Curve (PC) in diagram 2 from PC to PC$_1$ would be the result of which **one** of the following shifts of Aggregate Demand (AD) or Aggregate Supply (AS) in diagram 1?

A.   AD to AD$_1$

B.   AD to AD$_2$

C.   AS to AS$_1$

D.   AS to AS$_2$

22. Which **one** of the following best describes structural unemployment?

    A.   Unemployed workers are unable to find jobs because they have the wrong skills.

    B.   Students are unable to find work during their holidays.

    C.   A person is temporarily unemployed as a result of switching from one job to another.

    D.   Workers in command economies have jobs but no real work to do.

23. Which **one** of the following is a correct statement regarding the long-run Phillips Curve?

    A.   It is vertical at the natural rate of unemployment.

    B.   It reflects the inverse relationship between inflation and unemployment.

    C.   It is easily moved to the right using demand management techniques.

    D.   It illustrates the outcome when the expected rate of inflation is higher than the actual rate of inflation.

24. For an economy in a recession, which **one** of the following would be considered an effective tool of monetary policy?

    A.   Increasing the minimum wage

    B.   Increased subsidies to infant industries

    C.   Central Bank purchase of the domestic currency on the foreign exchange market

    D.   Reducing interest rates

25. If the same good has a different price in two different countries, this could be explained by differences in

        I.   the level of technology in the two countries.

        II.   resource endowment.

        III.   consumer preferences.

    A.   I only

    B.   I and II only

    C.   II and III only

    D.   I, II and III

26. The following diagram shows the position of a country initially practising free trade, where S^d is domestic supply, D^d is domestic demand and S^w is the world supply curve.
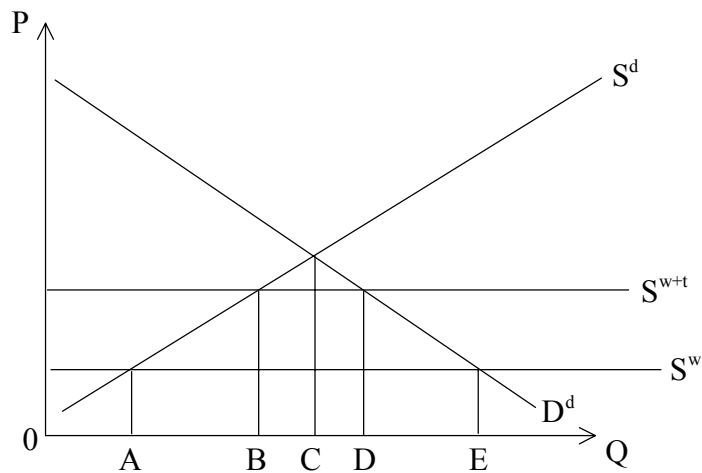
After the imposition of a tariff, world supply shifts to S^{w+t}. The action results in

    A.   an increase in domestic production from 0A to 0B.

    B.   a reduction in imports from 0E to BD.

    C.   an increase in government revenue from BD to AE.

    D.   a reduction in domestic consumption from 0E to 0C.

27. In country X the sum of the price elasticities of demand for exports and imports is greater than one. Country X also suffers from high unemployment and a large current account deficit. Which **one** of the following measures would be most suitable in this situation?

A. A currency revaluation

B. A reduction in taxes

C. A reduction in interest rates

D. A currency devaluation

28. Which **one** of the following newspaper headlines is based on a sound understanding of exchange rate determination?

A. Falling Interest Rates in Mexico Lead to an Appreciation of the Peso.

B. High World Demand for Japanese Exports Strengthens the Yen.

C. High Inflation Rates in Brazil and Venezuela may Boost their Exports.

D. A Fall in Real Incomes in the USA Seen as the Cause of an Increase in Imports.

29. The following graph shows the exchange rate for the US Dollar ($) against the Japanese Yen.
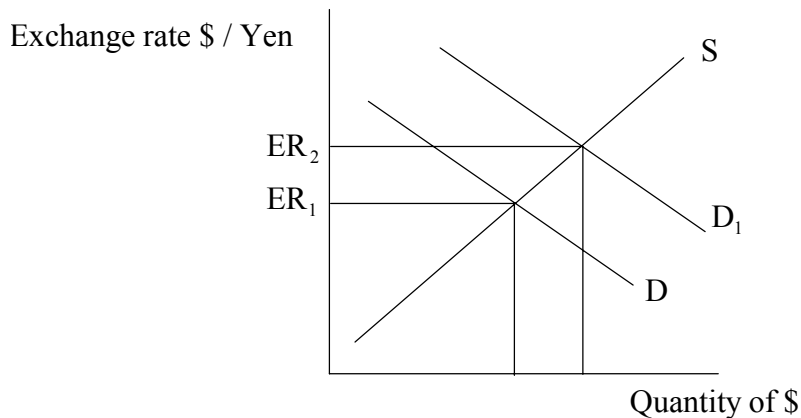
An increase in the $ / yen exchange rate from ER_1 to ER_2 could be caused by

A. increased demand for Japanese goods and services by US customers.

B. expectations of an increase in the value of the yen.

C. an increase in Japanese interest rates.

D. a reduction in Japan's trade barriers against US goods.

Turn over

30. The following data shows the balance of payments on current account of country X.

	1998	**1999**	**2000**	**2001**
Visible trade balance ($)	+ 240 m	+ 120 m	– 60 m	– 270 m
Current account balance ($)	+ 200 m	+ 100 m	– 50 m	– 250 m

From the above data, it can be concluded that the invisible balance (services, transfers and income) was

A.   always in surplus.

B.   positive in some years and negative in others.

C.   always in deficit.

D.   the same in 1999 and 2001.

31. Which **one** of the following would **not** be considered a benefit for countries that form a customs union?

A.   Increased competition

B.   Economies of scale

C.   Trade diversion

D.   Greater levels of domestic and international investment

32. The table below shows the terms of trade for a particular country.

	Index of Export Prices	Index of Import Prices
1995	112	112
1996	118	120
1997	130	140
1998	125	130
1999	130	110
2000	160	100

From your interpretation of the data which of the following statements is/are correct?

    I.   The terms of trade improved from 1998 to 2000.

    II.   The base year for the index is 1995.

    III.   When the index of export prices is greater than the index of import prices, the country has a balance of trade surplus.

A.   I only

B.   I and II only

C.   II and III only

D.   I, II, III

33. Economic growth is more likely to lead to economic development if it is accompanied by

A.   an increase in expenditure on merit goods.

B.   a transfer of assets from the public to the private sector.

C.   a reduction in trade business.

D.   increased foreign direct investment.

34. Which of the following is/are common features in less developed countries?

      I.   A high percentage of the population under the age of 15

      II.   Low productivity

      III.   High *per capita* energy consumption

  A.   I only

  B.   I and II only

  C.   II and III only

  D.   I, II and III

35. The following data compares the Human Development Index (HDI) for two countries.

	HDI Value	HDI Rank	GNP *per capita* Rank
Country A	0.970	9	21
Country B	0.965	10	4

From the data it can be concluded that both countries are less developed countries, and

  A.   Country A has allocated more resources to public goods.

  B.   Country B has allocated more resources to public goods.

  C.   Country A has allocated more resources to merit goods.

  D.   Country B has allocated more resources to merit goods.

36. The diagram below relates output per head to population size with given resource availability.
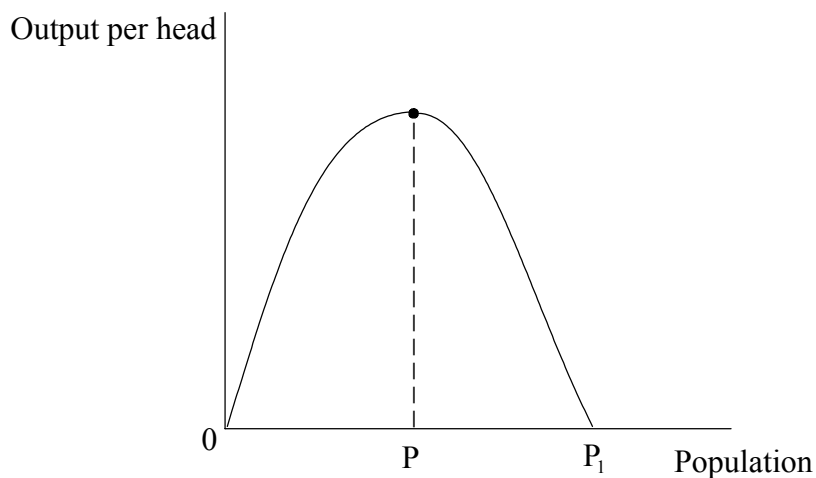
On the basis of this diagram, overpopulation occurs

A.   only at 0P.

B.   only at $0P_1$.

C.   between points 0 and P.

D.   between points P and P_1.

37. In a less developed country, investment in human capital is likely to be more effective than investment in physical capital because

A.   labour is abundant and inexpensive to employ.

B.   the factor of production labour is in short supply.

C.   physical capital is already available and inexpensive to employ.

D.   it leads to improved infrastructure.

38. A policy of import substitution is best described as

    A.   the decision of a less developed country to join a regional trade bloc.

    B.   a movement towards trade liberalisation.

    C.   a policy of heavy protectionism to encourage domestic production.

    D.   mass production of exports in order to obtain economies of scale.

39. Which of the following is/are impediments to economic growth in a less developed country (LDC)?

    I.   Low savings ratios

    II.   High population growth rates

    III.   Income elastic demand for LDC exports

    A.   I only

    B.   I and II only

    C.   II and III only

    D.   I, II and III

40. Sustainable development is best described as development which

    A.   involves real output increasing at a constant annual rate.

    B.   relies on a steady increase in manufacturing activity.

    C.   can be maintained in the future at present rates of economic growth.

    D.   does not put the needs of future generations at risk.