



ECONOMICS
STANDARD LEVEL
PAPER 1

Wednesday 9 May 2001 (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. Economics is the study of
 - A. income allocation in a context of changing wants.
 - B. how limited resources can be allocated between competing uses to satisfy unlimited wants.
 - C. how social welfare can be increased in a context of limited resources.
 - D. how unlimited resources can be allocated to satisfy limited wants.

2. Which **one** of the following is a ‘positive’ economic statement?
 - A. The social costs associated with present levels of car usage are too high.
 - B. The imposition of road pricing will discourage car usage.
 - C. Road and petrol taxes should be increased to discourage car usage.
 - D. Alternatives to the car, such as public transport, should be subsidised.

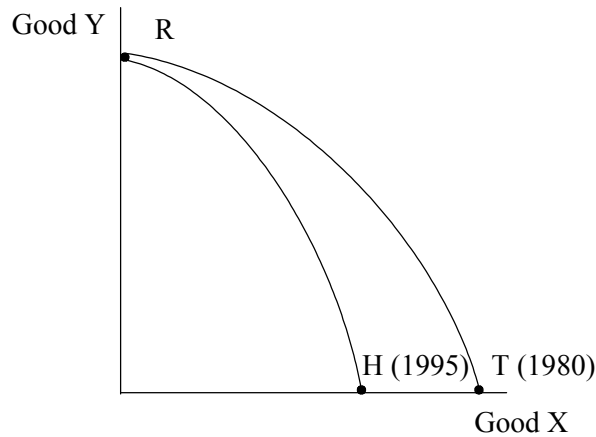
3. The table below shows a competitive market in equilibrium at two periods of time.

	Market Price	Quantity Traded
Period 1	\$10	250
Period 2	\$12	340

The change from Period 1 to Period 2 could be explained by an increase in

- A. real incomes of consumers.
- B. technological progress.
- C. the cost of credit.
- D. the cost of raw materials.

4. The diagram below shows the production possibility frontier of a country for two years, 1980 and 1995.

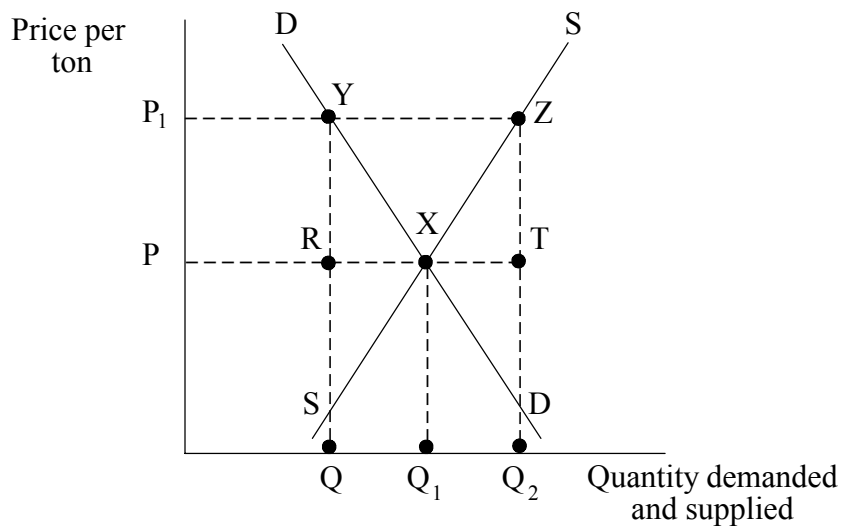


If RT is the production possibility frontier for 1980 and RH is the production possibility frontier for 1995, which **one** of the following factors could explain the change from RT to RH?

- A. Unemployment in the industry producing good X has increased.
 - B. The demand for good X has fallen.
 - C. Government expenditure has fallen.
 - D. Productivity has fallen in the good X sector of the economy.
5. Which **one** of the following would be an example of market failure?
- A. The presence of abnormal profits in the short run
 - B. Sudden changes in demand leading to business failures
 - C. The presence of traffic congestion caused by the increased use of motor cars
 - D. Low levels of research and development

6. Which **one** of the following would **not** cause a shift of the demand curve for cars?
- A. A reduction in the price of cars
 - B. A reduction in the costs of public transport
 - C. A reduction in interest rates
 - D. The introduction of a tax on petrol

7. The diagram below shows the demand for and supply of salt.



If producers increase the price from P to P₁ this would mean that, other things being equal,

- A. there would be a movement along the supply curve from X to Z.
- B. consumers would move along the demand curve from R to Y.
- C. supply would increase by YZ.
- D. demand would fall by XT.

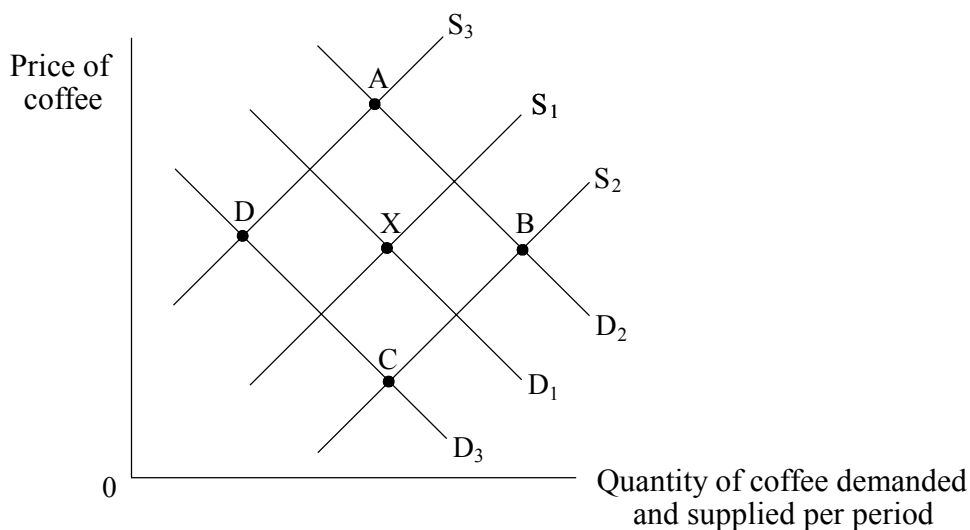
8. The table below shows the supply and demand schedules for good X.

Price of X	Quantity demanded (units per week)	Quantity supplied (units per week)
80	50	0
85	40	15
90	30	30
95	20	45
100	10	60

If the government introduces a guaranteed minimum price of \$95 for good X, the total cost to the government of supporting this scheme would be

- A. \$2375.
- B. \$2250.
- C. \$1425.
- D. \$125.

9. The diagram below shows the market for coffee, with the point X representing an initial equilibrium position.



Which of the points labelled A to D would indicate the new equilibrium if the price of tea, a substitute, fell and the wages of coffee workers rose?

- A. Point A
- B. Point B
- C. Point C
- D. Point D

10. The table below shows the changing shares of total income of the top and bottom income groups in the United Kingdom from 1979 to 1994.

		1979	1994
BOTTOM	10%	4.1	2.5
	20%	9.8	6.8
	30%	16.0	12.0
TOP	30%	47.0	54.0
	20%	35.0	41.0
	10%	20.0	26.0

From this data it may be concluded that over the period in question

- I. the distribution of income became more unequal.
 - II. the bottom income groups experienced a fall in their income.
 - III. the distribution of wealth became more unequal.
- A. I only
 - B. I and II
 - C. II and III
 - D. I, II and III

11. The diagrams below indicate supply curves of differing elasticities.

Diagram A

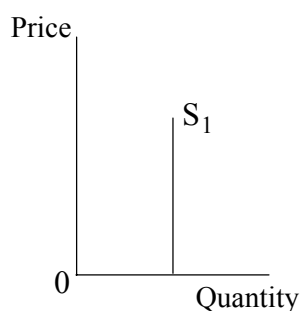


Diagram B

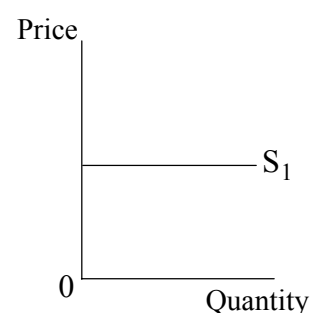


Diagram C

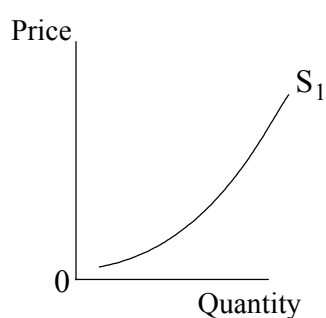
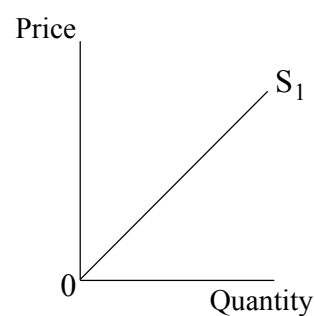


Diagram D



Which of the diagrams shows a supply curve with an elasticity equal to unity?

- A. A
- B. B
- C. C
- D. D

12. The data below refers to the market for a particular brand of pocket calculator.

Current Price	20 francs
Sales (per month)	5,000 units
Price elasticity of demand	-2.00

What would be the change in monthly sales following a price reduction to 15 francs?

- A. 2,500 units
- B. 5,000 units
- C. 7,500 units
- D. 10,000 units

13. The price elasticity of demand for a good is likely to be low when
- A. it is habit-forming.
 - B. spending on it constitutes a large proportion of total spending.
 - C. it has several close substitutes.
 - D. it is considered to be non-essential.
14. The income elasticity of demand for a good measures the responsiveness of
- A. income to changes in price.
 - B. price to changes in income.
 - C. income to changes in demand.
 - D. demand to changes in income.

15. The information below depicts the characteristics of a particular type of market.

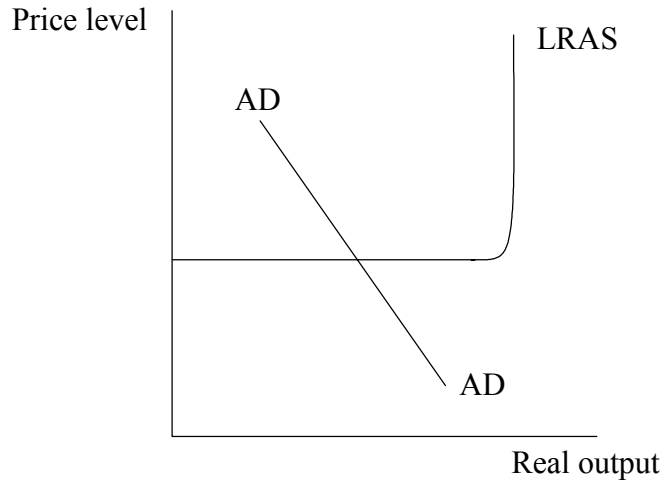
Number of buyers and sellers	Few
Entry barriers	Some
Nature of product	Similar but differentiated
Type of competition	Non-price

This market could most accurately be described as

- A. monopolistic.
- B. oligopolistic.
- C. competitive.
- D. a monopoly.

16. Productive efficiency occurs when a firm is
- A. equating price with marginal cost.
 - B. producing the greatest possible amount.
 - C. maximising its total revenue.
 - D. operating with minimum average cost.
17. Which **one** of the following constitutes an increase in injections?
- A. Government expenditure on defence increases but total public expenditure remains unchanged.
 - B. More tourists come to visit the country.
 - C. Petrol taxes increase in order to curb pollution.
 - D. Trading partners abroad enter a period of deep recession.
18. Which **one** of the following transactions would be counted in the calculation of GDP?
- A. A gardener plants flowers in his own garden.
 - B. A boy swaps his old skates for new ones with a friend.
 - C. A man buys 100 shares of stock in XYZ Corporation.
 - D. 'Classic Cars' manufactures 3,000 automobiles and holds them as inventory (stock).

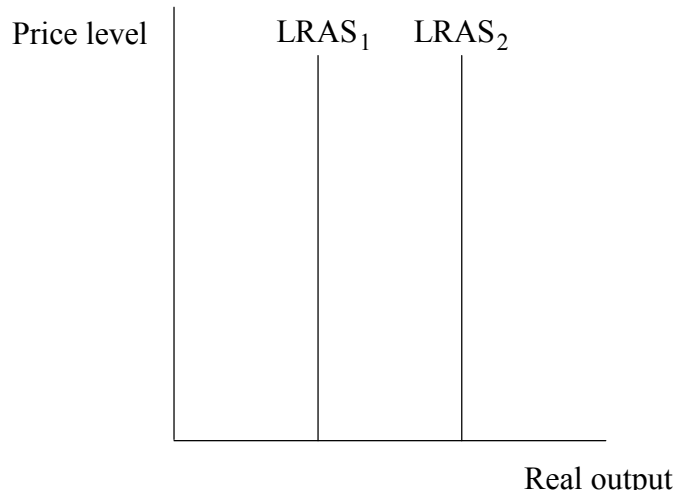
19. The following diagram shows an aggregate demand and a long run aggregate supply (LRAS) curve.



Which **one** of the following factors helps to explain the shape of the LRAS curve?

- A. The multiplier.
 - B. The impact that interest rates have on expenditure and the price level.
 - C. Supply side shocks.
 - D. Long run equilibrium can be consistent with less than full employment.
20. According to Keynesian theory, a shift to the right of the aggregate demand curve, at a time when the economy is in deep recession, will result in an increase in
- A. real national income.
 - B. nominal national income but not in real national income.
 - C. potential output but not in actual output.
 - D. real but not nominal national income.

21. The diagram below shows two long run aggregate supply (LRAS) curves.



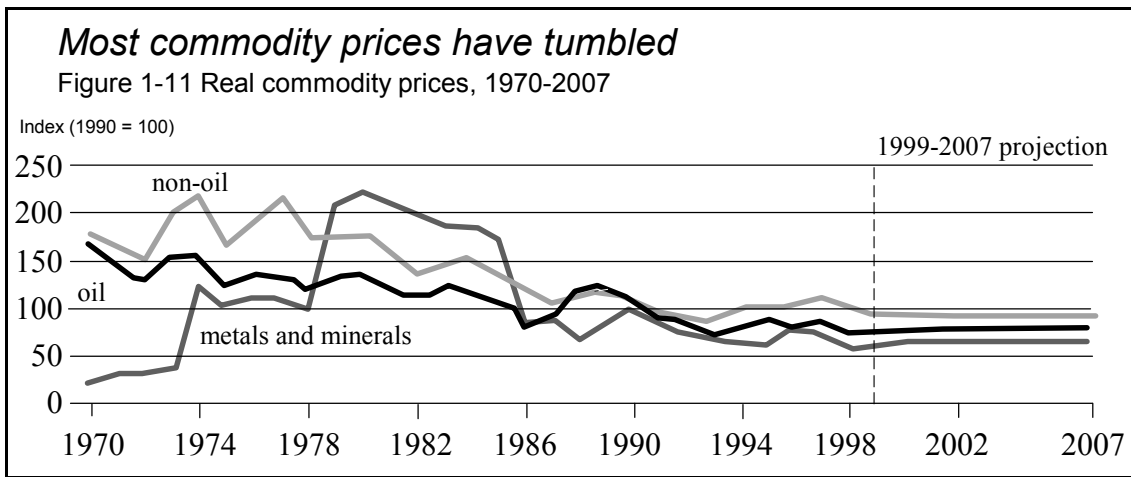
The shift to the right of the long run aggregate supply curve from LRAS₁ to LRAS₂ could have been caused by

- A. a reduction in the working week.
 - B. a reduction in unemployment led by a boom in exports.
 - C. the introduction of robots in manufacturing.
 - D. an increase in the school leaving age.
22. A woman earns \$20 per hour and the price index = 100. Other things being equal, what would her real salary be if the price index rose to 110?
- A. \$16
 - B. \$18
 - C. \$20
 - D. \$22

23. Inflation can be defined as

- A. a situation where prices are very high.
- B. the rate of change in average prices.
- C. a sustained increase in the general price level.
- D. the process of measuring changes in the price level.

24. Below is a graph of commodity prices



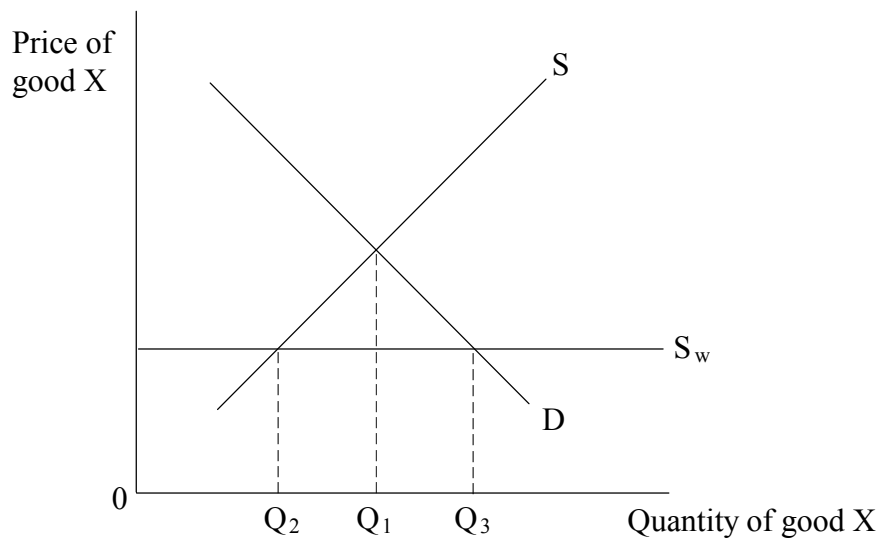
It may be deduced from the graph that over the period shown there has been

- A. stagflation.
- B. upward pressure on demand pull inflation.
- C. downward pressure on cost push inflation.
- D. downward pressure on monetary inflation.

25. The gains in production achieved when countries specialise in producing goods in which they have a relative cost advantage depend on all the following **except**

- A. the existence of competitive import and export markets in each country.
- B. the full employment of all resources within each country.
- C. an absence of government measures to protect domestic producers and exporters.
- D. the mobility of resources between industries within each country.

26. In the diagram below, D and S represent the domestic demand and supply curves of good X. S_w represents the world supply of good X.



If there are no restrictions on imports of good X to this country, the domestic production of good X would be

- A. 0 Q₂.
- B. 0 Q₁.
- C. Q₁ Q₃.
- D. Q₂ Q₁.

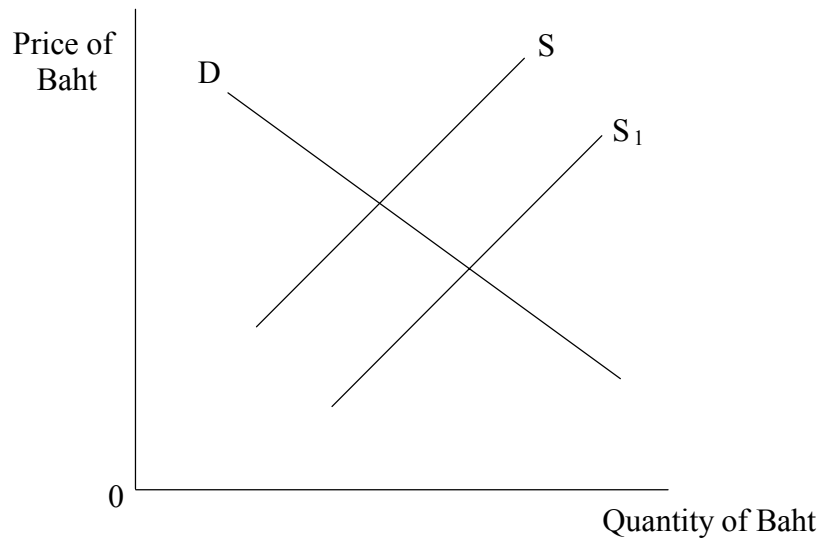
27. The essential difference between a free trade area and a customs union is that members of a free trade area
- A. permit free trade in goods and services between themselves.
 - B. may impose their own restrictions on trade with non-member countries.
 - C. fix their exchange rates against each other.
 - D. allow the free movement of finance capital between member countries.
28. The table below summarises the United Kingdom's current account balance from the beginning to the end of 1997.

United Kingdom's Current Balance (£bn)				
Quarter	Goods	Services	Investment Income	Transfers
Q1	-2.1	2.5	2.9	-1.4
Q2	-3.0	2.8	3.1	-0.7
Q3	-2.9	2.9	3.0	-1.2
Q4	-4.0	3.1	3.2	-0.2

From the table it may be deduced that throughout the period shown

- A. there were net capital inflows into the United Kingdom.
- B. the current account was in surplus.
- C. United Kingdom official reserves were falling.
- D. the United Kingdom's exchange rate must have depreciated.

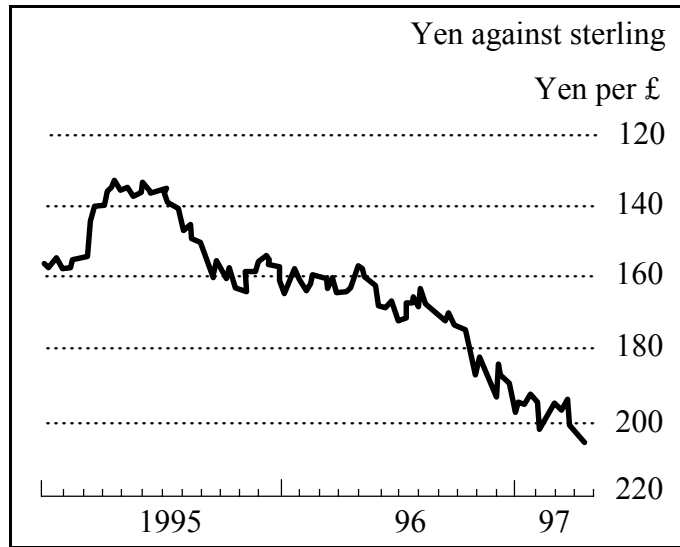
29. The diagram below indicates the foreign exchange market for Thai Baht.



Other things being equal, the shift from S to S₁, is most likely to arise if

- A. the Thai money supply increases.
- B. greater selling of Baht occurs on the foreign exchange market.
- C. Thailand increases its supply of goods for export.
- D. exchange controls are imposed in Thailand.

30. The graph below indicates the exchange rate between the Japanese yen and the United Kingdom's pound sterling from 1995 to 1997.



From the graph it can be deduced that over the period in question

- A. Japanese exports to the United Kingdom became relatively dearer.
 - B. the pound depreciated in value against the yen.
 - C. British exports became more price competitive in Japanese markets.
 - D. Japanese tourists found the cost of a holiday in the United Kingdom more expensive.
31. Which **one** of the following would be most likely to lead to an outflow of capital funds from India?
- A. An anticipated appreciation of the Indian Rupee
 - B. An increase in overseas prices
 - C. An increase in foreign interest rates
 - D. A worsening of India's terms of trade

32. A Japanese national purchases US bonds. For balance of payments purposes, this transaction represents a credit on the
- A. US official reserve account.
 - B. US capital account.
 - C. US current account.
 - D. Japanese capital account.
33. Economic development
- A. is the same as economic growth.
 - B. can only occur with economic growth.
 - C. must be led by the public sector.
 - D. generally results in lower population growth.
34. A situation where a population or section of the population is able to meet only its bare subsistence essentials to maintain minimum levels of living is known as
- A. relative poverty.
 - B. absolute poverty.
 - C. the international poverty line.
 - D. insufficient conditions.

35. The following table shows the percentage of national income distributed over five groups of the population in four different less developed countries.

Country	lowest 20%	second 20%	third 20%	fourth 20%	highest 20%
Brazil	2.1	4.9	8.9	16.8	67.5
Sri Lanka	8.9	13.1	16.9	21.7	39.3
Guatemala	2.1	5.8	10.5	18.6	63.0
Hong Kong	5.4	10.8	15.2	21.6	47.0

Which **one** of these four countries has the most unequal income distribution?

- A. Brazil
 - B. Sri Lanka
 - C. Guatemala
 - D. Hong Kong
36. A policy of import substitution increases the likelihood of
- A. competitive exports.
 - B. greater consumer choice.
 - C. monopoly power.
 - D. the use of modern technology.
37. Which **one** of the following is **not** a common indicator of economic development?
- A. Higher levels of labour productivity
 - B. Increased savings ratios
 - C. A higher percentage of total income spent on food
 - D. Increased per capita energy consumption

38. A major feature of International Monetary Fund structural adjustment programmes for less developed countries is that they have encouraged
- A. an over-reliance on government subsidies.
 - B. greater use of Keynesian demand management techniques.
 - C. the adoption of closed, inward-orientated development strategies.
 - D. resource allocation to be determined to a much greater extent by market forces.
39. Many less developed countries have suffered from a long term deterioration in their terms of trade. This has meant that they have
- A. also suffered from balance of payment problems.
 - B. had to export ever greater amounts to purchase given quantities of imports.
 - C. experienced a rise in their export prices relative to their import prices.
 - D. necessarily also suffered from exchange rate instability.
40. The International Monetary Fund requires a less developed country to restructure its economy. Which **one** of the following measures is most likely to be included in the stabilisation package?
- A. Increased use of barriers to trade
 - B. More public sector participation in the economy
 - C. A devaluation of the currency
 - D. Expansionary fiscal policies
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