



ECONOMICS
STANDARD LEVEL
PAPER 1

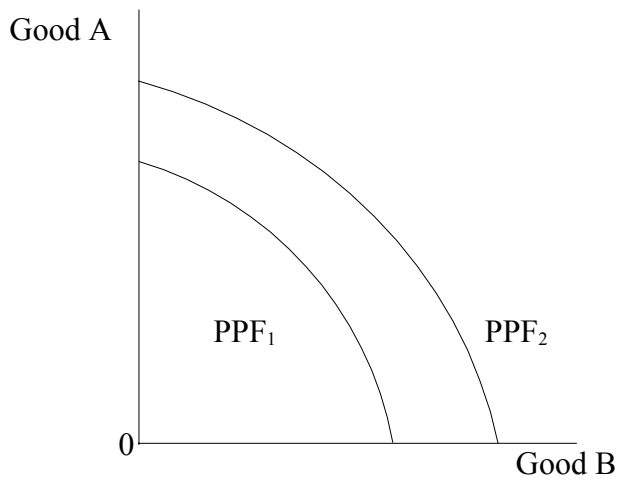
Wednesday 7 November 2001 (afternoon)

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.

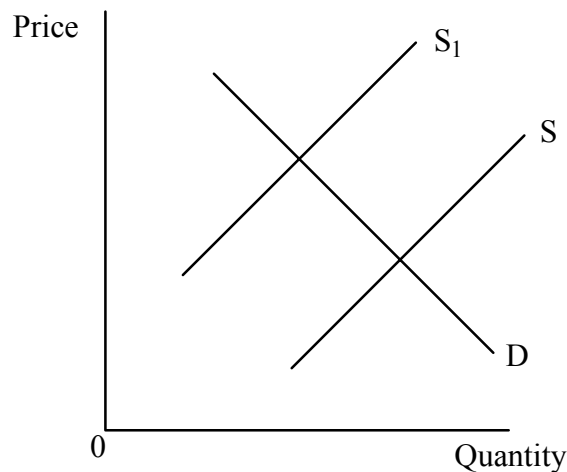
1. The following diagram shows two production possibility frontiers (PPF) for an economy which can produce two goods.



A shift from PPF₁ to PPF₂ is caused by

- A. an increase in aggregate demand.
 - B. price increases for both good A and good B.
 - C. an increase in the productivity of labour.
 - D. recovery from a recession.
2. A major distinction between an economic good and a free good is that a free good
- A. is provided by the government.
 - B. is always a public good.
 - C. has the same price as an inferior good.
 - D. has no opportunity cost.

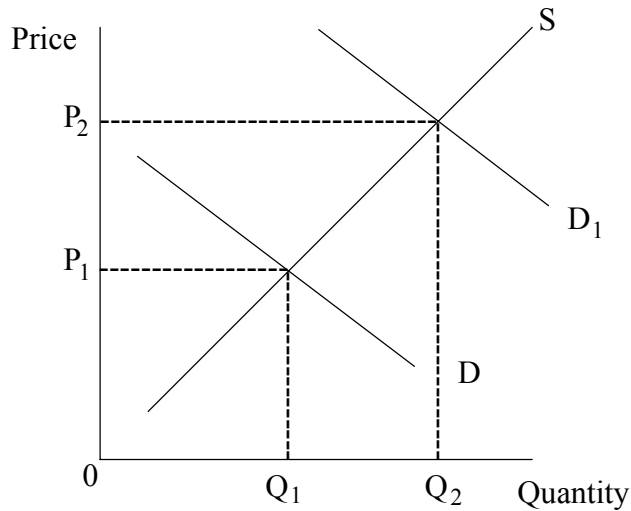
3. Which **one** of the following would be classified under the factor of production defined as ‘land’ by an economist?
- A. A tractor
 - B. Fish in the sea
 - C. A farmer
 - D. A packet of frozen vegetables
4. A general trend in the economic systems of More Developed Countries in the 1990s was
- A. an increase in employment in the primary sector of the economy.
 - B. more emphasis given to promoting income equality between rich and poor.
 - C. the increased growth of the public sector due to nationalisation.
 - D. greater emphasis given to promoting the private sector of the economy.
5. The diagram below shows the demand and supply for tennis balls.



Which **one** of the following could explain the shift in the supply curve from S to S₁?

- A. An increase in the price of a complement
- B. A decrease in the level of a government subsidy for tennis ball producers
- C. An improvement in the technology for making tennis balls
- D. A decrease in the cost of producing tennis balls

6. The diagram below shows the demand and supply for a good.



Which **one** of the following could explain the rise in price from P_1 to P_2 ?

- A. A fall in consumer incomes
- B. A rise in the cost of producing the good
- C. A fall in the price of a complementary good
- D. A fall in the price of a substitute good

7. The table below shows a demand and supply schedule.

Price in dollars	Quantity demanded	Quantity supplied
20	100	200
18	120	170
16	140	140
14	160	110
12	180	80
10	200	50

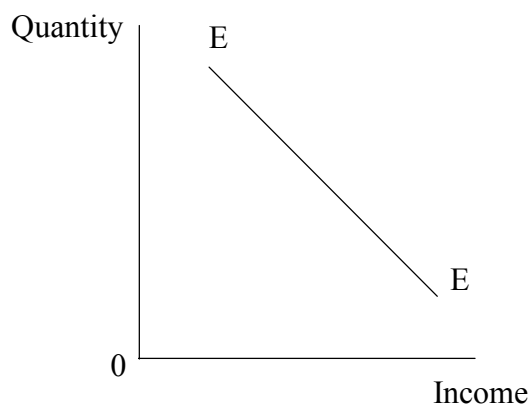
A government decision to impose a minimum price of 12 dollars would result in

- A. excess demand of 100.
- B. excess supply of 100.
- C. a fall in the equilibrium price to 12 dollars.
- D. no change in the equilibrium price or quantity.

8. Other things being equal, the existence of a negative externality is likely to be associated with
- A. underproduction.
 - B. overproduction.
 - C. under-consumption.
 - D. overpricing.
9. Which **one** of the following best describes a tradable permit?
- A. A means of creating a market in externalities
 - B. A non tariff import restriction
 - C. A licence issued to producers in command economies
 - D. An indicator of the band in which a fixed exchange rate is allowed to fluctuate
10. A key difference between a centrally planned economy and a free market economy is that a centrally planned economy
- A. uses administered prices rather than free market prices to determine the allocation of goods.
 - B. is more concerned with the problem of scarcity.
 - C. seeks to maximise allocative rather than productive efficiency.
 - D. has a different set of macroeconomic objectives.
11. Ryanair, a cut-price airline, claims that the price elasticity of demand for return economy fares between London and Dublin is -4 . Over the year 1995 one million people flew the return route at £240. How many are likely to have flown during 1999, when prices had dropped to £60?
- A. 1.4 million
 - B. 3 million
 - C. 4 million
 - D. 5 million

12. A value of -2 for income elasticity of demand for a good means that
- A. any 1 % increase in income leads to a 2 % increase in quantity demanded.
 - B. any 1 % increase in income leads to a $\frac{1}{2}$ % increase in quantity demanded.
 - C. any 1 % decrease in income leads to a 2 % increase in quantity demanded.
 - D. the good would be classified as a normal good.
13. A business in a more developed country believes that its product has a price elasticity of demand of -0.1 per year. It has an income elasticity of demand of $+0.1$ per year and a price elasticity of supply of 0 per year.
- The business is most likely to be in which **one** of the following industries?
- A. Computer manufacturing
 - B. Farming
 - C. Car manufacturing
 - D. Foreign exchange dealing
14. The extent to which a monopolist can exercise market power is limited by the
- A. income elasticity of demand for his product.
 - B. price elasticity of supply.
 - C. the availability of substitutes for the monopolist's product.
 - D. the costs of the factors of production used.

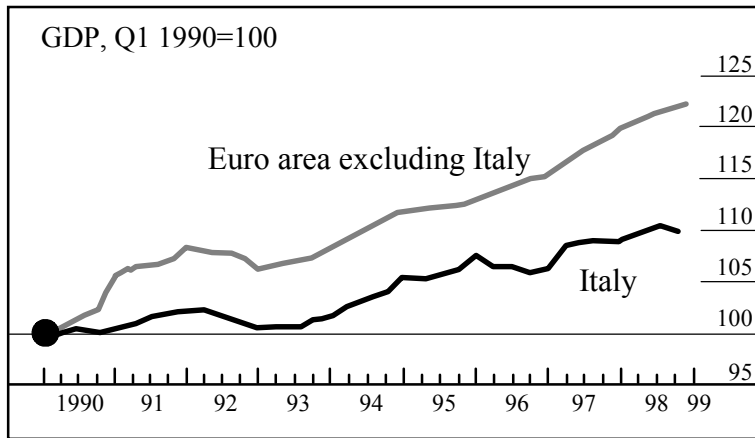
15. The following diagram shows the quantity demanded of good X in relation to income.



The curve indicates that good X is a good which

- A. is in joint demand with another good.
 - B. has no substitute.
 - C. is an inferior good.
 - D. is a normal good.
16. An industry which is characterised as an oligopoly
- A. includes many small producers.
 - B. has no barriers to entry.
 - C. includes only a few producers.
 - D. is likely to exist in city centre fruit markets.

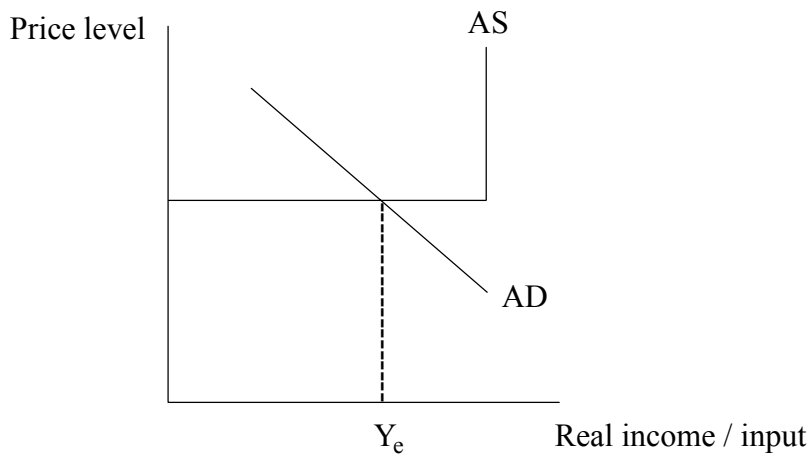
17. The graph below shows the rate of growth of GDP in Italy compared to the rest of the European Union.



From the above chart it can be concluded that

- I. the base year for the chart is 1990.
 - II. Italy's GDP has grown by 110 % between 1990 and 1997.
 - III. Italy's GDP is between 10 % to 15 % lower than that of the Euro area excluding Italy.
- A. I only
 - B. I and II
 - C. II and III
 - D. I, II and III

18. This question refers to the diagram below.



An economy that is in equilibrium at Y_e is likely to be experiencing

- A. a fall in the general level of prices.
 - B. an inflationary gap.
 - C. some general unemployment.
 - D. a low level of living standards.
19. A government decision to impose a tax on imports is likely to
- A. lower aggregate demand but raise the price level.
 - B. raise both aggregate demand and the price level.
 - C. leave aggregate demand unaffected but raise the price level
 - D. raise aggregate demand but lower the price level.

20. This question relates to the table below.

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Unemployment rate (%)	6.7	8.3	9.6	10.3	9.6	8.6	8.1	7.1	6.4
Less than six months unemployment rate (%)	3.5	4.5	4.1	3.8	3.5	3.4	3.5	3.2	3.5

From the data it can be concluded that this economy

- A. has had unemployment at above the natural level throughout the 1990s.
 - B. has been successful in reducing frictional unemployment through supply side measures.
 - C. experienced a recession in the early 1990s but has had a recovery since 1993.
 - D. has had a problem of underemployment in booms.
21. What type of unemployment best describes workers in the automobile industry who are still unemployed two years after their factory closed down?
- A. Frictional unemployment
 - B. Structural unemployment
 - C. Seasonal unemployment
 - D. Cyclical unemployment
22. A supply side economist is likely to argue that structural unemployment can be reduced by
- A. increasing the money supply in the economy.
 - B. reducing labour market rigidities.
 - C. increasing import duties.
 - D. reducing the age of retirement.

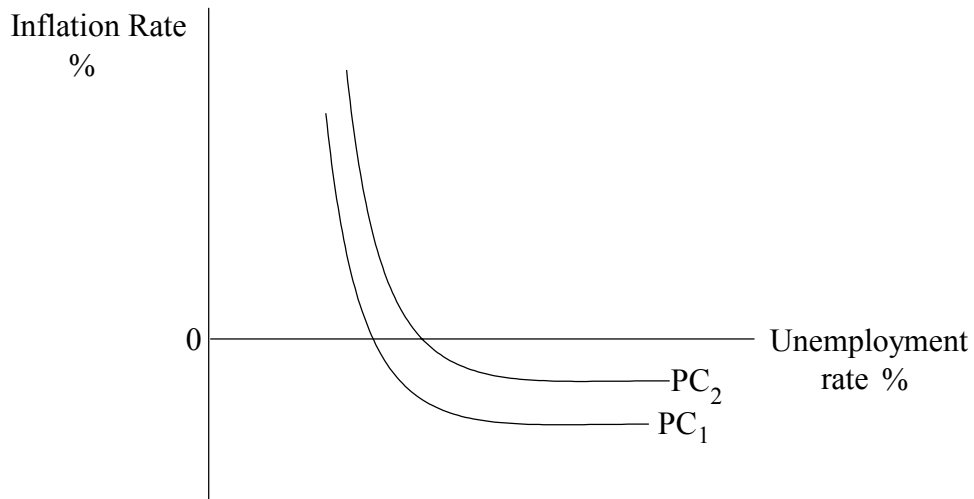
23. This question relates to the table below.

Sweden's Consumer Price Index	
1980	100.0
1985	153.8
1990	207.6
1995	254.8
1997	257.3
1998	257.0

From the above data it can be concluded that

- A. prices rose by 47.2 % between 1990 and 1995.
- B. there has been a greater increase in the price level in the 1990s than the 1980s.
- C. prices have increased by 257 % between 1980 and 1998.
- D. the price level fell in 1998.

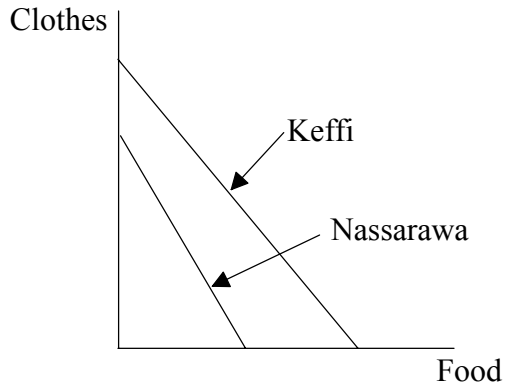
24. This question relates to the Phillips curve diagram below.



A shift in the Phillips curve from PC₁ to PC₂ is most likely to have been caused by an increase in

- A. government spending.
- B. investment.
- C. minimum wages.
- D. taxation.

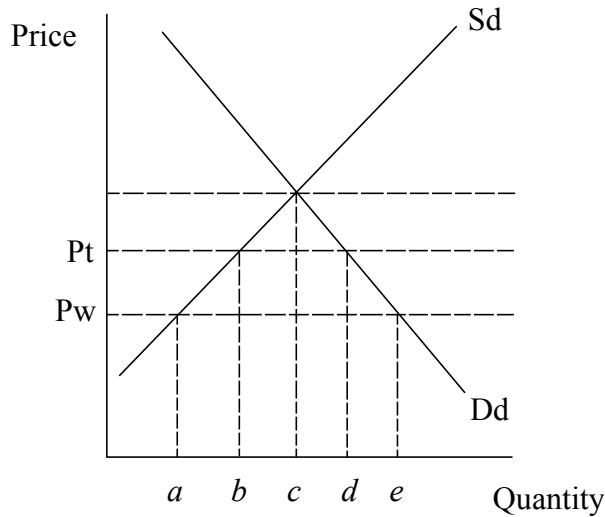
25. The diagram below shows the production possibility frontiers for two countries, Keffi and Nassarawa, which both make clothes and food.



From the diagram it may be concluded that

- A. Nassarawa has a lower rate of inflation than Keffi.
 - B. Nassarawa has a comparative advantage in producing clothes.
 - C. Keffi has an absolute advantage only in the production of food.
 - D. Keffi has a comparative advantage in both food and clothes.
26. Which group of countries dominates world trade?
- A. OPEC
 - B. OECD
 - C. NAFTA
 - D. ASEAN

27. The graph below shows the domestic supply (Sd) and domestic demand (Dd) for widgets in Platonia. Pw represents the world price for widgets, Pt is the price following the imposition of a tariff.



Which **one** of the following statements is correct?

- A. With free trade, Platonia will import *bd* widgets.
 - B. In moving from free trade to trade with a tariff, there has been an overall increase in efficiency.
 - C. As a result of the tariff, there is a decrease in the supply of widgets made in Platonia.
 - D. As a result of the tariff, imports fall from *ae* to *bd*.
28. Which of the following is an item on the Canadian Balance of Payments current account?
- A. The purchase of shares in a Japanese firm by a Canadian resident
 - B. The purchase of a Canadian firm by a foreign multinational company
 - C. The payment of interest by a Canadian bank to a foreign depositor
 - D. The payment of a loan to the Canadian government from the IMF

29. The question below refers to the following headline:

“Britain’s trade deficit widened to £2.18 billion in November from £1.64 billion in October as imports surged.”

Which **one** of the following was **most** likely to have caused the situation described in the headline?

- A. A fall in the exchange rate of the British pound
- B. An increase in British interest rates
- C. An improved balance of trade
- D. A rise in the exchange rate of the British pound

30. If the Japanese Yen declines against other currencies, then all of the following are likely to rise **except**

- A. Japanese output.
- B. the price level in Japan.
- C. the price of Japanese exports in terms of other countries.
- D. the volume of Japanese goods sold in other countries.

31. Which **one** of the following would be most likely to decrease unemployment and improve the visible trade balance in the United States?

- A. An increase in the money supply
- B. An increase in interest rates
- C. A depreciation of the US Dollar
- D. An increase in government spending

32. The following data shows a country's export and import prices.

	Index of export prices	Index of import prices
1996	100	100
1997	120	140
1998	130	130
1999	150	140

The terms of trade for this country

- A. rose between 1996 and 1997 and then fell.
 - B. fell between 1996 and 1997 and then rose.
 - C. fell between 1996 and 1998 and then rose.
 - D. rose continuously over the whole period.
33. In developing countries wealth does not often 'trickle down' as theory predicts because
- A. the wealth tends to be concentrated among the urban elites.
 - B. tax systems discourage domestic saving.
 - C. there is such a large amount of disguised unemployment.
 - D. land reform has led to increased equality of wealth.
34. As a country experiences economic growth
- I. there will necessarily be greater equality of income.
 - II. employment tends to shift from primary to secondary to tertiary industry.
 - III. real GNP increases.
- A. I only
 - B. I and II
 - C. II and III
 - D. I, II and III

35. The following table shows the percentage of national income distributed over five segments 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. Migration takes place in a less developed country from the countryside (where food is produced) to the town, yet there is no reduction in the country's domestic food supply. This is because rural farms
- A. were experiencing negative marginal returns to labour.
 - B. were experiencing diseconomies of scale.
 - C. were not paying money wages.
 - D. now provide less food to their remaining workers.

37. The following data gives values of GNP per capita in US dollars and the Human Development Index (HDI) for particular countries for a particular year.

	GNP per capita	HDI value
Country A	28,740	0.943
Country B	25,820	0.941
Country C	20,710	0.932
Country D	19,290	0.960

Which **one** of the following statements is consistent with the data?

- A. The citizens of Country A have the highest living standards.
 - B. Country D is the least developed of the four countries.
 - C. Life expectancy and adult literacy are highest in Country D.
 - D. Country A has the fastest economic growth rate.
38. In a poor less developed country, appropriate technology is likely to be labour intensive because
- A. the opportunity cost of labour is likely to be low and that of capital high.
 - B. the opportunity cost of capital is likely to be low and that of labour high.
 - C. it gives lower private and social rates of return.
 - D. small scale production is better for the environment.

39. The government of a country finds that the use of non-renewable resources is unavoidable. If it still wishes to pursue a policy of sustainable development, the government should
- A. deplete the country's non-renewable resources without polluting the environment.
 - B. reduce the rate of economic growth to ease pressure on aggregate demand.
 - C. exploit non-renewable resources more slowly than the rate of growth of renewable resources.
 - D. depreciate the stock of natural capital.
40. Pro-market economists often use the phrase 'trade, not aid' because
- A. the international trading system favours developing countries.
 - B. developing countries need to develop their comparative advantage.
 - C. they believe that fair trading agreements on a small scale can improve the welfare of producers in developing countries.
 - D. developing countries are facing better terms of trade.
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