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

ECONOMICS
STANDARD LEVEL
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.
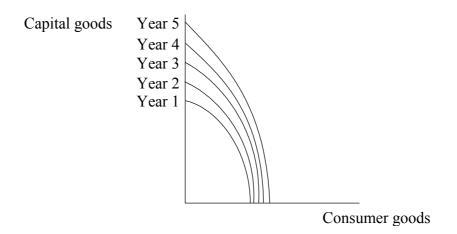
1.   In economics, a good which is "scarce" is one which

      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.   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.

3.   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.

4.   For there to be an increase in the factor of production known as "capital" it is necessary for

   A.   share prices to rise.

   B.   firms to invest in physical capital such as new machinery.

   C.   the savings ratio of the country to increase.

   D.   there to be an increase in allocative efficiency.

5.   The diagram below shows changes in a country's production possibility curve in different years over a period of five years.

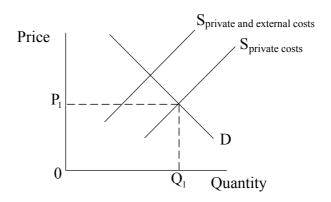A growth pattern of this kind is most likely to be associated with a

   A.   more developed country which has allowed free movement of financial capital.

   B.   transitional economy which opens a Stock Exchange.

   C.   less developed country which follows an outward orientation strategy.

   D.   centrally planned economy.

6. 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.

7. A minimum wage policy will be most effective in reducing income inequality for wage earners when

A.   the new minimum wage rate is above the equilibrium wage rate.

B.   there is little union power.

C.   there is high unemployment.

D.   there is high inflation.

8. Increased consumer awareness of environmentally damaging products and production processes is

  I.   a sign that the market system can be used to protect the environment.

  II.   likely to lead to a more efficient allocation of resources.

  III.   a negative externality.

A.   I only

B.   I and II only
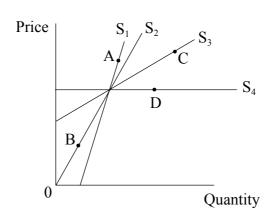
C.   II and III only

D.   I, II and III

9. 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.

10. Which **one** of the following is considered to be a typical result of the transition from a centrally planned to a market economy?

A.   Increased income equality

B.   Appreciation of the exchange rate

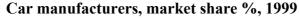C.   Nationalisation of industries

D.   Increased unemployment

11. The following diagram shows four different supply curves for good X.

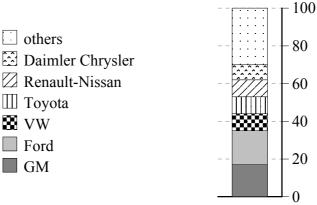Which **one** of the following statements about elasticity of supply at the points A, B, C and D is correct?

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.

12. An entrepreneur sells 1000 widgets at a price of $125. The elasticity of supply for widgets is $+0.5$. If the price is increased to $150, then the quantity supplied for sale will be

A.   800 widgets.

B.   900 widgets.

C.   1100 widgets.

D.   1200 widgets.

13. A 4 % increase in the price of butter causes a 2 % increase in the demand for margarine. The cross-price elasticity of demand for margarine with respect to the price of butter is

A. -0.5.

B. $+0.5$.

C. -2.0.

D. $+2.0$.

14. In a rapidly growing economy, a producer of an inferior good is likely to

    A.   try to increase output as quickly as possible.

    B.   be able to increase the price in response to higher demand.

    C.   make a greater effort to differentiate the product.

    D.   seek allocative efficiency.

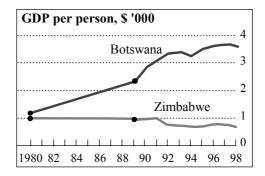**15.** The chart below shows the market share of firms in the world's car industry.

Car manufacturers, market share %, 1999

- others
- Daimler Chrysler
- Renault-Nissan
- Toyota
- VW
- Ford
- GM

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

    A.   Perfect competition

    B.   Monopoly

    C.   Oligopoly

    D.   Monopolistic competition

16. Productive efficiency occurs when

    A.   factor output is maximised for a given factor input.

    B.   profits are maximised.

    C.   a natural monopoly is broken up.

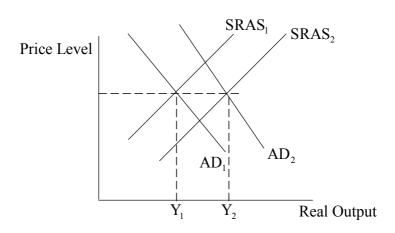   D.   an economy produces the goods and services most valued by society.

17. Which **one** of the following would be considered an injection into the circular flow of income?

    A.   Spending by domestic consumers on computer games

    B.   Investment by domestic residents on foreign assets

    C.   Spending by foreign tourists in domestic hotels

    D.   The purchase of shares on the domestic stock exchange

18. Refer to the chart below.

GDP per person, $ '000

Which **one** of the following conclusions might an economist draw from this chart?
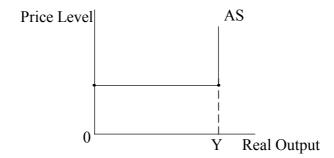
    A.   Inflation has been higher in Botswana than in Zimbabwe in the 1990s.

    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. 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.

20. 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.

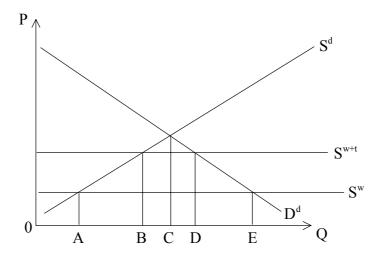**21.** An aggregate supply curve is shown in the diagram below.

Given the AS curve indicated, an increase in aggregate demand beyond 0Y level of income would raise the level of

A.   output.

B.   prices.

C.   unemployment.

D.   the exchange rate.

22. An increase in national income is likely to be accompanied by all of the following **except**

    A.   a worsening in the current account.

    B.   a fall in unemployment.

    C.   an increase in the growth rate.

    D.   a fall in saving.

23. 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.

24. Which **one** of the following is **not** considered to be a policy to deal with high inflation?

    A.   A decrease in the value of the exchange rate

    B.   An increase in taxes

    C.   A decrease in government spending

    D.   An increase in interest rates

25. Which **one** of the following is **not** an assumption upon which the Law of Comparative Advantage is based?

    A.   Free trade

    B.   Perfect labour mobility

    C.   Increasing costs of production

    D.   Zero transportation costs

26. Recent changes in world trading patterns can be explained by all of the following **except**

    A.   reduced barriers to trade in agriculture.

    B.   increased use of quotas in more developed countries.

    C.   the growth of trade blocs.

    D.   increased foreign direct investment.

27. 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.

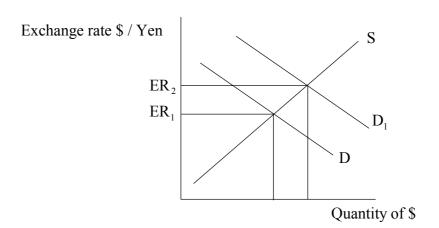   D.   a reduction in domestic consumption from 0E to 0C.

28. The main role of the World Trade Organisation (formerly GATT) has been to

A. organise negotiations leading to the reduction of protectionism.

B. provide short term loans to countries with temporary trade deficits.

C. finance large scale development schemes to build infrastructure.

D. supervise exchange rate parities for more developed countries.

29. The major difference between a free trade area and a customs union is that a customs union

A. has free movement of factors of production.

B. has a common external tariff.

C. has a common currency.

D. uses only quotas as a form of restricting imports.

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. 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

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 and 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.
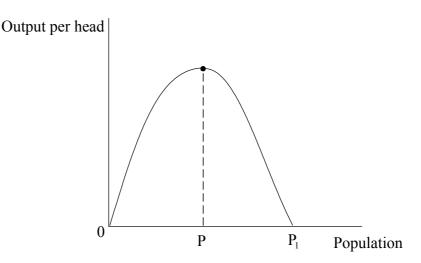
D. increased foreign direct investment.

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.