

**ECONOMICS
STANDARD LEVEL
PAPER 1**

Thursday 6 November 2003 (afternoon)

1 hour

INSTRUCTIONS TO CANDIDATES

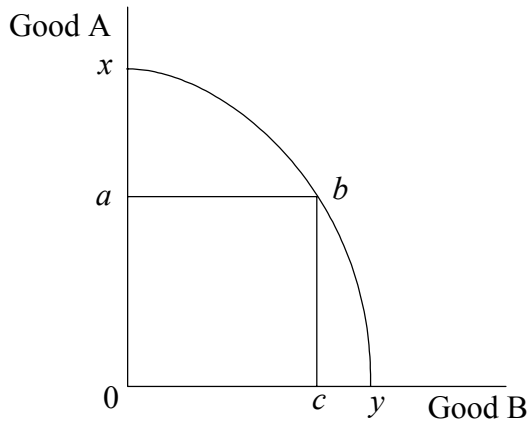
- Do not open this examination paper until instructed to do so.
- Answer all the questions.
- For each question, choose the answer you consider to be the best and indicate your choice on the answer sheet provided.

1. The basic economic problem is
 - A. whether to produce consumption or investment goods.
 - B. how to distribute income equally.
 - C. what goods to produce, how to produce them and how to allocate them.
 - D. how to enable the market system to produce with the greatest efficiency.

2. Which **one** of the following is a normative statement?
 - A. The World Trade Organization (WTO) was created as a permanent forum for trade negotiations in 1994.
 - B. Average tariffs on manufactured goods have dropped from 40 % to 4 % over the past 50 years.
 - C. In 1997, seven countries started anti-dumping investigations.
 - D. In WTO negotiations, the More Developed Countries have made insufficient attempts to eliminate textile quotas.

3. Which **one** of the following is an example of the factor of production capital?
 - A. An acre of Amazon Rainforest
 - B. An automobile used for leisure purposes
 - C. The purchase of shares in the Delta Oil Company
 - D. A photocopying machine used in the Delta Oil Company

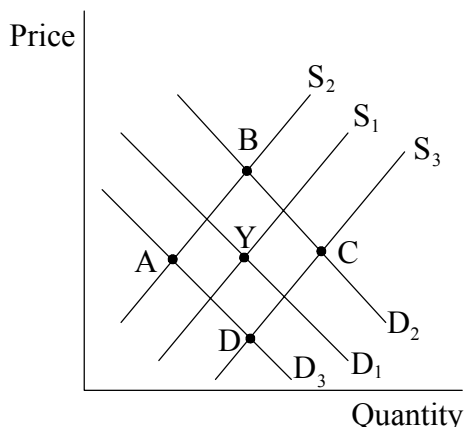
4. The diagram below shows a production possibility curve or frontier for an economy.



What is the opportunity cost of increasing output from $0c$ to $0y$?

- A. Quantity ax of Good A
 - B. Quantity $0a$ of Good A
 - C. Quantity $0c$ of Good B
 - D. Area $0abc$ of Goods A and B
5. A mixed economy is **best** described as an economy in which the economic decisions are made by a combination of
- A. consumers and firms.
 - B. national companies and multinational companies.
 - C. government and command forces.
 - D. government and market forces.

6. The diagram below shows the market for computer chips. The original equilibrium is at point Y.



What will be the new equilibrium following significant technological improvements in the production of computer chips, along with a global recession?

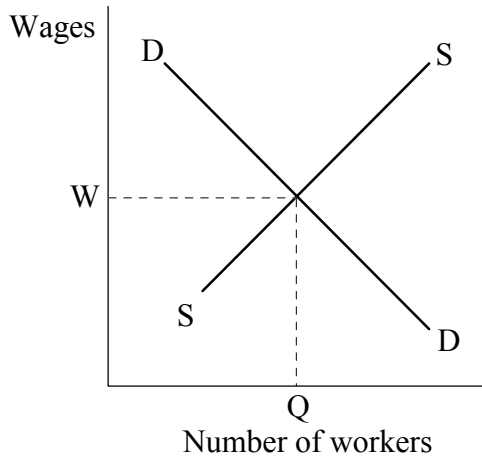
- A. A
 - B. B
 - C. C
 - D. D
7. The following table shows the market for a good.

Price	Quantity demanded	Quantity supplied
50	100	220
40	120	180
30	140	140
20	160	100
10	180	60

A government decision to impose a maximum price of 40 would

- A. leave the equilibrium quantity unchanged and raise the equilibrium price.
- B. create excess supply of 60 units.
- C. reduce the equilibrium price and create excess demand.
- D. leave the equilibrium price unchanged.

8. The following diagram shows the market for labour.



If the government imposed a minimum wage that was greater than W , the following would result:

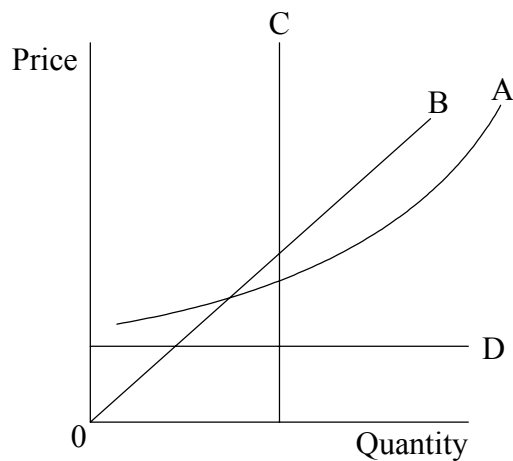
- I. a decrease in the number of workers seeking employment in the industry.
- II. an increase in the wages of workers.
- III. a decrease in the number of workers in employment.

- A. I only
- B. I and II
- C. II and III
- D. I, II and III

9. Governments often subsidise merit goods because it is thought that merit goods

- A. have external benefits in their production and consumption.
- B. cannot be provided by the free market without subsidies.
- C. are like free goods and have no opportunity cost.
- D. are price inelastic in supply and demand.

10. Which **one** of the following is true of a command economy?
- A. Unemployment increases following periods of inflation.
 - B. The signalling function of price plays little part in resource allocation.
 - C. Wage levels are the same in all occupations.
 - D. The value of the currency is determined by supply and demand.
11. The price elasticity of demand for a good is defined as the
- A. lack of responsiveness of price to a change in quantity demanded.
 - B. degree of responsiveness of quantity demanded to a change in price.
 - C. extent of responsiveness of price to a change in income.
 - D. amount of responsiveness of quantity demanded to a change in price of another good.
12. The diagram below shows four supply curves.



Which **one** of the curves represents a unit elastic supply curve?

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

13. A shopkeeper's weekly sales of chocolate bars total \$250. She reduces the price of chocolate bars and the new sales total is \$220. The price elasticity of demand for chocolate bars is
- A. elastic.
 - B. unit elastic.
 - C. inelastic.
 - D. perfectly inelastic.
14. Demand for a good is unit elastic. If quantity demanded is 500 at price \$3.00, what will quantity demanded be at price \$7.50?
- A. 100
 - B. 200
 - C. 300
 - D. 400
15. The values of income elasticity of demand for four products are shown below:

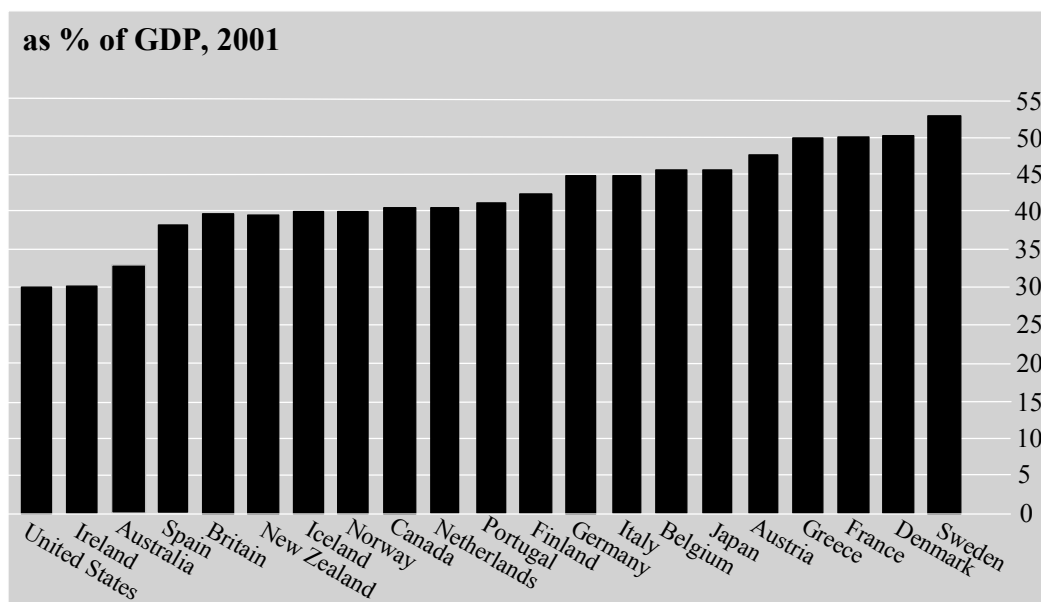
Breakfast cereal	0.2
Oranges	0.3
Soap powder	0.1
Eggs	0.03

If there is a 5 % increase in income, for which **one** of the following products will there be an increase in quantity demanded greater than 1 % ?

- A. Breakfast cereal
- B. Oranges
- C. Soap powder
- D. Eggs

16. A particular industry is oligopolistic. Which **one** of the following would help to improve consumer sovereignty for those who buy its products?
- A. A reduction in barriers to entry to the industry
 - B. Mergers between firms in the industry
 - C. Price fixing by the government
 - D. A faster rate of economic growth in the economy
17. Which **one** of the following is a leakage from the circular flow of income?
- A. The payment of a tax on a domestically-produced dishwasher
 - B. The purchase of a domestic firm by a foreign company
 - C. Government spending on unemployment benefits
 - D. Spending by domestic firms on capital equipment

18. Refer to the following bar chart concerning government spending.

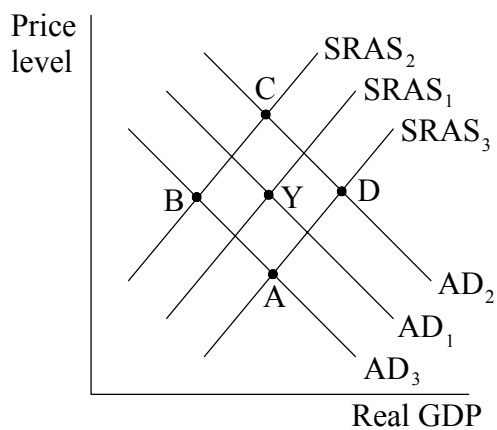


[Source: OECD *The Economist*, 4 August 2001, p.82]

Which **one** of the following conclusions can be made from this data?

- A. The Irish and US governments spent the lowest amounts.
- B. The Belgian and Japanese governments spent approximately the same amount.
- C. Public spending in Japan was roughly 46 % of GDP.
- D. The amount of public spending in Austria was higher than in Germany.

19. The diagram below shows aggregate demand and short run aggregate supply curves for an economy, with an original macro-economic equilibrium at Y.



Which point represents the most likely position following an increase in business taxes?

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

20. Examine each of the following diagrams in which aggregate demand increases from AD_1 to AD_2 .

DIAGRAM A

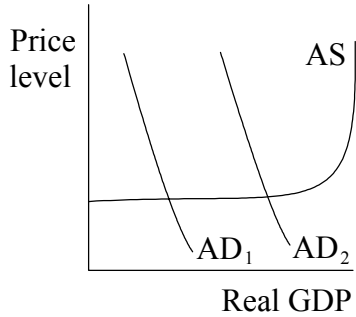


DIAGRAM B

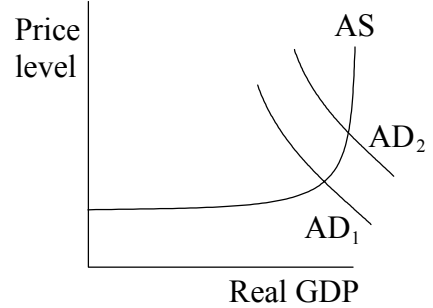


DIAGRAM C

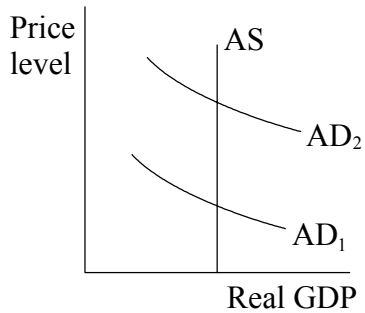
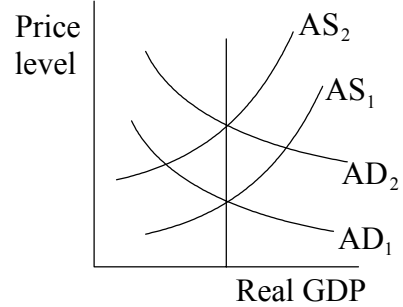


DIAGRAM D

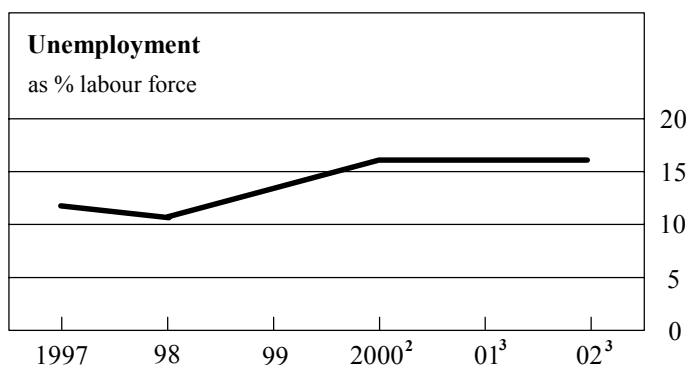
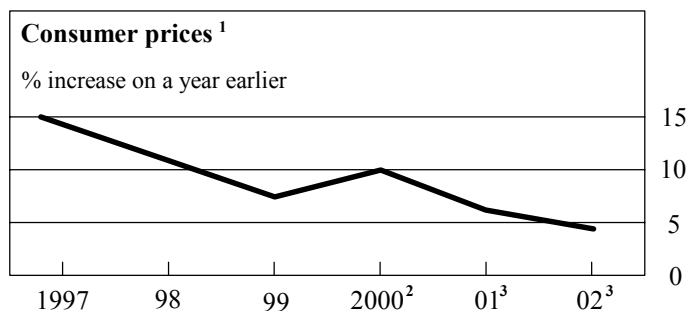


Which **one** of the diagrams best illustrates the success of a government policy to reduce unemployment?

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

21. If a government wishes to increase the level of aggregate demand, it might
- A. reduce taxes.
 - B. reduce its spending on goods and services.
 - C. bring about an appreciation of the currency.
 - D. reduce transfer payments.
22. What type of unemployment best describes a worker in the textile industry who is looking for work but is still unemployed two years after her factory was closed down?
- A. Frictional unemployment
 - B. Structural unemployment
 - C. Demand-deficient unemployment
 - D. Cyclical unemployment
23. Cost-push inflation could be the result of increases in any of the following **except**
- A. the value of the currency.
 - B. import prices.
 - C. the minimum wage.
 - D. indirect (expenditure) taxes.

24. Consider the following data about unemployment and inflation in the Polish economy.



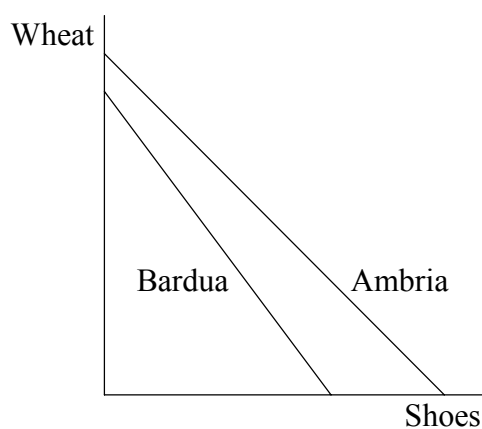
¹ Private-consumption deflator ² Estimate ³ Forecast

[Source: *The Economist*, 21 April 2001, p.110]

The trade-off between unemployment and inflation described by the Phillips Curve is **best** illustrated between the years

- A. 1997–1998.
- B. 1998–1999.
- C. 1999–2000.
- D. 2000–2001.

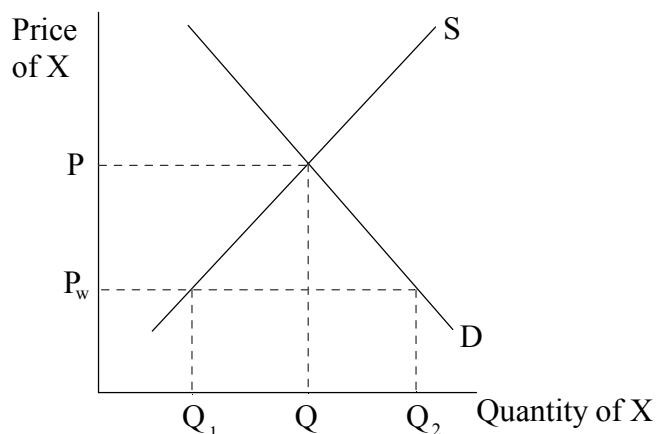
25. The diagram below shows the production possibility curves for two countries, Ambria and Bardua, which both produce wheat and shoes.



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

- A. Bardua has an absolute disadvantage in the production of shoes, but not wheat.
- B. Ambria has a comparative advantage in the production of both shoes and wheat.
- C. Ambria has a comparative advantage in the production of shoes.
- D. Bardua should not produce any wheat at all.

26. Study the diagram below.



Bayona is a closed economy and the domestic price of good X is P and the quantity bought and sold is Q. If Bayona opens itself to world trade it can import unlimited quantities of good X at the world price of P_w . The result of opening up trade would be

- A. an increase in the domestic production of good X to Q_2 .
- B. Bayona would export Q_1, Q of good X.
- C. Bayona would import Q_1, Q_2 of good X.
- D. no change in either the price or output of good X in Bayona.

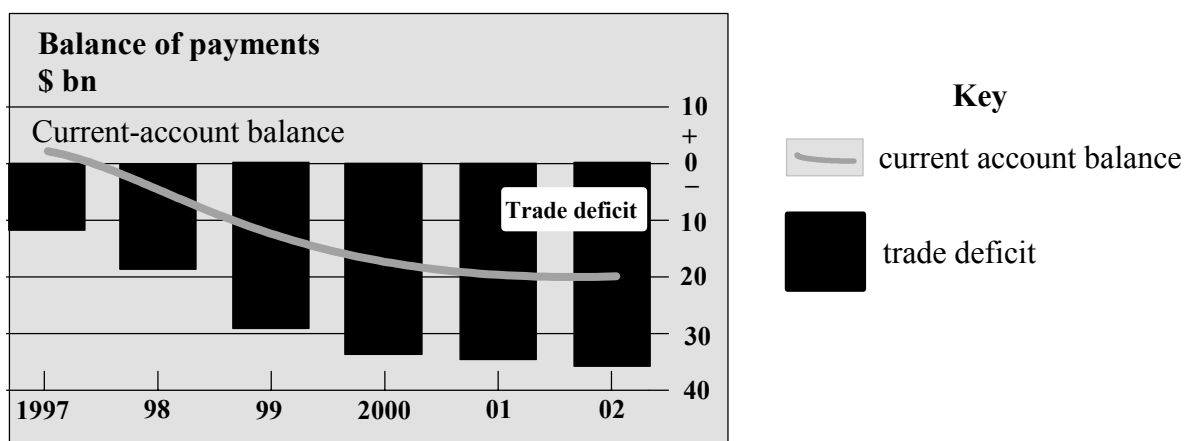
27. Which of the following is/are features of a customs union?

- I. A common external tariff
 - II. A common currency
 - III. A common central bank
- A. I only
 - B. I and II
 - C. II and III
 - D. I, II and III

28. Country X wishes to achieve the benefits of economic integration with other countries but does not wish to sacrifice sovereignty over its economic policies. Which **one** of the following should it join?

- A. A common currency
- B. A free trade area
- C. A customs union
- D. A common market

29. The bar chart below refers to Spain's Balance of Payments' account.



[Source: OECD adapted from *The Economist*, 30 June 2001, p.98]

From the data, it can be concluded that over the period shown

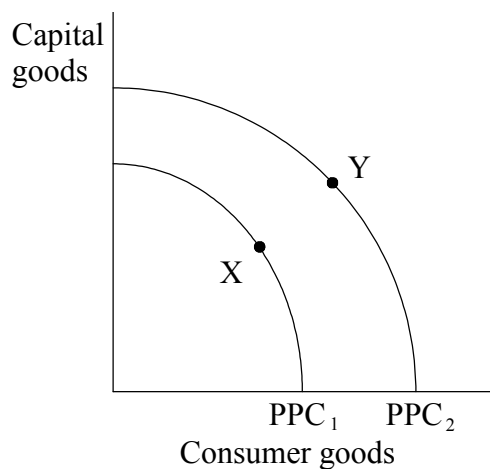
- A. Spain's trade deficit decreased.
- B. there were net capital outflows from Spain.
- C. Spain's trade in services was in surplus.
- D. Spain's current account balance decreased.

30. From the data given below, calculate the value of a country's invisible balance (balance in services).

Visible balance (balance in goods)	+ 200
Current balance	+ 600
Capital balance (transaction in external assets and liabilities)	– 600
Change in reserves of foreign currency	zero

- A. – 200
- B. zero
- C. + 400
- D. + 800
31. If an identical good costs \$20 in Bayona and 200 rupees in Gondomar then the theory of purchasing power parity predicts that
- A. prices are lower in Bayona than in Gondomar.
- B. the terms of trade are favourable to Bayona.
- C. Bayona will have a current account surplus with Gondomar.
- D. the exchange rate should be \$1 to 10 rupees.
32. A government wishing to reduce a persistent current account deficit could do any of the following **except**
- A. increase interest rates.
- B. increase government spending.
- C. increase taxes.
- D. increase tariffs.

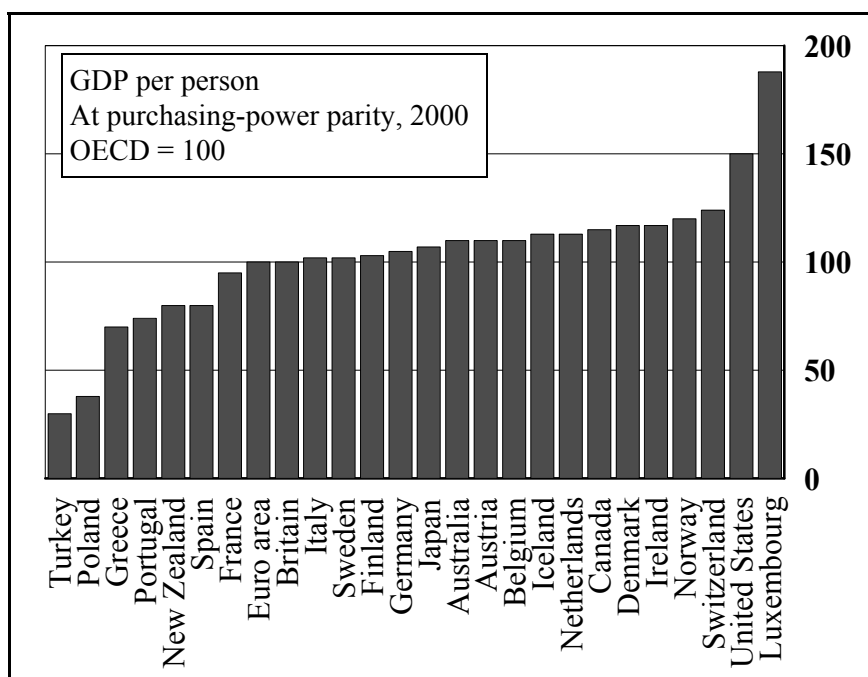
33. Study the diagram below.



A movement from point X on the production possibilities curve PPC_1 to point Y on the production possibilities curve PPC_2 is consistent with the idea of

- I. an increase in the country's GDP.
 - II. an increase in the country's standard of living.
 - III. a reduction in income inequality in the country.
- A. I only
 - B. I and II
 - C. II and III
 - D. I, II and III

34. Study the data in the table below.



[Source: OECD]

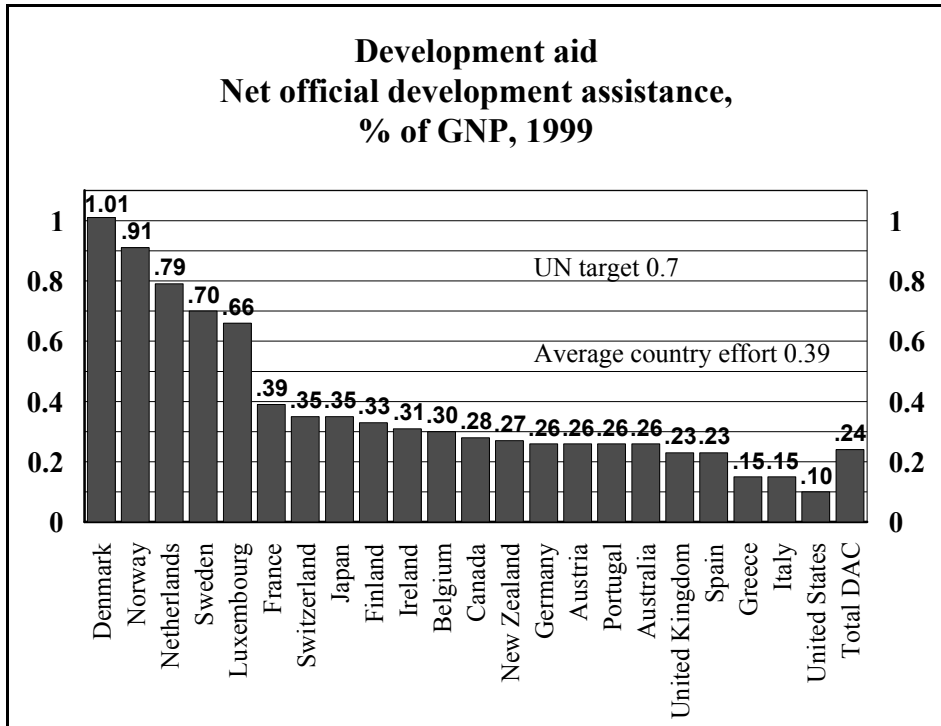
Which **one** of the following statements is correct?

- A. GDP per person at purchasing power parity makes allowance for short term fluctuations in the nominal exchange rate.
- B. GDP per person in the USA is 150 % higher than that in Britain.
- C. Luxembourg has the highest GDP of the countries shown in the chart.
- D. Turkey is the country with the slowest rate of economic growth.

35. Living a long and healthy life, being knowledgeable and enjoying a decent standard of living are goals which are best represented by which **one** of the following concepts?

- A. Sustainable development
- B. Economic growth
- C. Human development
- D. Sectoral change

36.



From the data in the table it can be concluded that

- A. the total amount of official aid given by the countries shown in the chart fell in 1999.
 - B. the USA is the smallest aid contributor in percentage terms but the largest in absolute terms.
 - C. Luxembourg contributes twice the amount of aid that Finland does.
 - D. only four countries met the UN target for aid.
37. A major difference between commodity agreements and cartels is that a commodity agreement, unlike a cartel,
- A. includes consumers as well as producers of the product.
 - B. is a voluntary agreement rather than a legal agreement.
 - C. does not attempt to control prices by setting production quotas.
 - D. seeks to maximise the producer's total revenue rather than their total profit.

- 38.** Which of the following is/are part of an IMF approved development strategy?
- I. Freely floating exchange rates
 - II. Cuts in government subsidies to help balance the government's budget
 - III. Making income (direct) taxes more progressive so as to reduce income inequality
- A. I only
 - B. I and II
 - C. II and III
 - D. I, II and III
- 39.** Outward-orientated growth strategies are characterized by
- A. government intervention through long term economic planning.
 - B. import substitution and protection of infant industries.
 - C. export-led growth and free interaction of market forces.
 - D. the formation of cartels and buffer stocks through international commodity agreements.
- 40.** The concept of “sustainable development” has been much discussed in recent years because of a realization that
- A. the debt repayments of LDCs cannot be sustained at their present level.
 - B. the exchange rates of LDCs are more unstable than those of MDCs.
 - C. technological change has allowed for the market mechanism to operate in a more efficient manner.
 - D. present MDC production and consumption patterns cannot be enjoyed by all the world's population.
-