

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/03**

Paper 3 Multiple Choice

May/June 2004

**1 hour**

Additional Materials: Multiple Choice Answer Sheet  
Soft clean eraser  
Soft pencil (type B or HB is recommended)

**READ THESE INSTRUCTIONS FIRST**

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has been done for you.

There are **forty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C, and D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate answer sheet.

**Read the instructions on the Answer Sheet very carefully.**

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This document consists of **13** printed pages and **3** blank pages.



- 1 Which action is evidence that a country is a planned economy?
- A A central bank plans an interest rate change.
  - B A government plans the allocation of all resources.
  - C A local authority plans a new library.
  - D A ministry of finance plans the annual budget.
- 2 Which statement best explains why drought is an economic problem?
- A Drought cannot be controlled.
  - B Rainfall is unreliable.
  - C The effects of drought involve the government.
  - D Water is a scarce good.
- 3 In 2002 the government of Zimbabwe diverted US\$18 million, originally intended to support private business, to help feed millions of people threatened by famine. Some of the money was used to import up to 1.8 million tonnes of corn.

What was the opportunity cost to Zimbabwe of this decision?

- A the cost of the extra food
  - B the cost of the 1.8 million tonnes of corn
  - C the effect on private business
  - D the US\$18 million
- 4 What might increase the use of money as a medium of exchange?
- A an increase in income tax
  - B an increase in interest rates
  - C an increase in savings
  - D an increase in specialisation
- 5 A state-owned industry is sold to the private sector. The industry consists of a number of very large factories.
- Which is the most likely change in business organisation to result from this?
- A from private company to public corporations
  - B from public company to public corporations
  - C from public corporation to public companies
  - D from public corporation to private companies

6 The following table gives information about four companies.

Which one of these companies is **not** a multi-national company?

company	number of countries in which the company has shareholders	number of countries in which the company has factories	number of countries in which the country sells its products
<b>A</b>	2	1	100
<b>B</b>	1	2	50
<b>C</b>	10	20	20
<b>D</b>	20	5	1

7 In 2002 the trade union representing workers on the London Underground public transport system called a strike.

Which condition would make a strike **least** likely to be successful?

- A** The demand has to be met at a certain time.
- B** The product or service is regarded as a necessity.
- C** The union represents a high percentage of the workforce.
- D** There is a wide range of alternative services.

8 What is a function of a central bank?

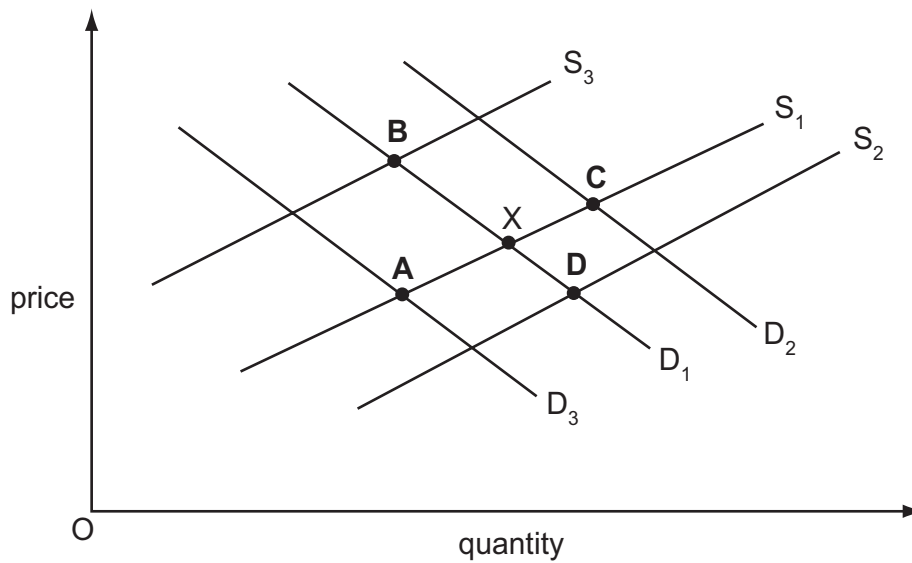
- A** to decide government spending
- B** to determine all interest rates
- C** to issue new currency
- D** to lend to private businesses

9 Which company operates in the primary sector?

	company	description
<b>A</b>	Century City	Hong Kong holding company with property and hotel interests
<b>B</b>	Compass East Industries	Thai ceiling fan manufacturer
<b>C</b>	Delta Gold	rapidly expanding Australian gold and platinum mining company
<b>D</b>	First Bangkok City Bank	medium-sized commercial Thai bank

- 10 The diagram shows the demand for and supply of a product. The original equilibrium is at X.

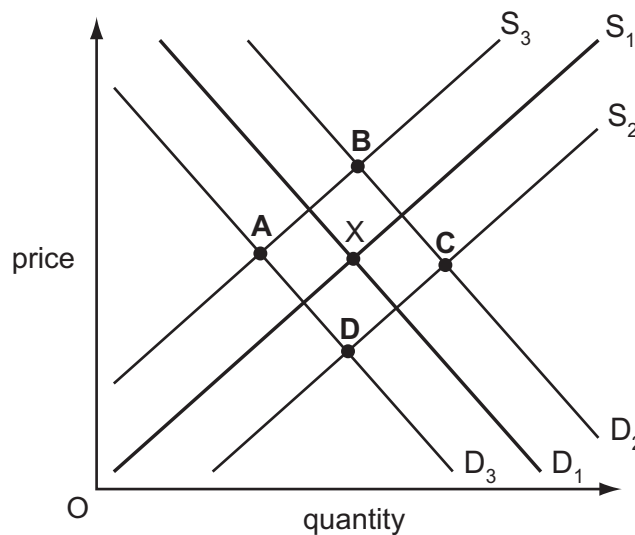
Which point indicates the new equilibrium position if there is an increase in the price of a close substitute for the commodity while other things remain the same?



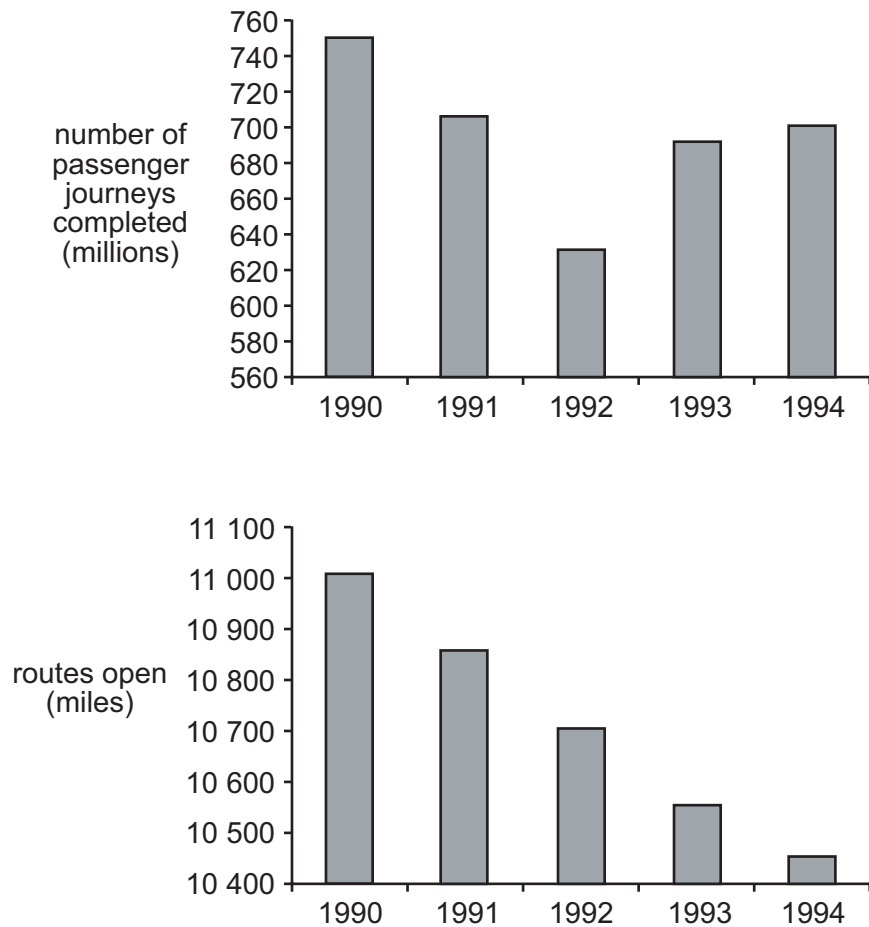
- 11 The diagram shows the demand for and supply of a firm's product. The original equilibrium is at X.

The firm pays for a successful advertising campaign.

What is the new equilibrium?



12 The charts show the number of railway passenger journeys made and the miles of route open.



What can be concluded from the charts?

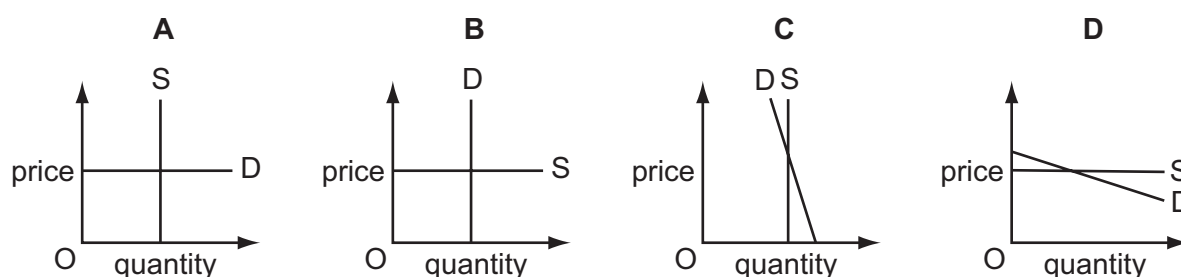
- A The overall trend in passenger journeys between 1990 and 1994 was upwards.
  - B The routes had more people travelling on them in 1994 than in 1992.
  - C The revenue of the railway decreased between 1990 and 1994.
  - D There were more trains running in 1994 than in 1992.
- 13 Which method of advertising would be the most cost-effective way of selling economics textbooks to schools?
- A commercial television
  - B daily newspapers
  - C direct mail
  - D local radio stations

- 14 The demand for cocoa beans is price-inelastic.

What is most likely to increase as a result of a decrease in demand for cocoa beans?

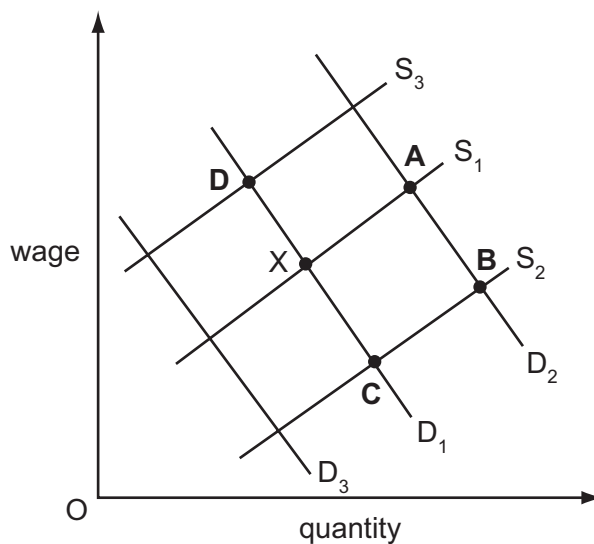
- A income of cocoa bean producers
  - B price of cocoa bean products
  - C production of cocoa beans
  - D unemployment among cocoa bean farmers
- 15 There are a fixed number of seats at a concert. Most of the audience would continue to attend even if the seat prices were increased.

Which diagram represents this situation?



- 16 The graph shows the market for unskilled workers in a city. The original equilibrium is at X.

What would be the new equilibrium if there was a migration of workers to the city?



17 The table shows how three people spend their income.

	person X	person Y	person Z
food, clothing and housing	35 %	50 %	20 %
entertainment and leisure	25 %	20 %	40 %
luxury goods	40 %	30 %	40 %

Place the three people in the most likely order of income, from highest income to lowest income.

- A X, Y, Z
- B Y, Z, X
- C Z, X, Y
- D Z, Y, X

18 The table shows the weekly values of certain items for the average person in each group.

Which group saves the most on average?

		income (\$)	spending (\$)	borrowing (\$)
A	employed workers	500	400	50
B	retired people	150	140	0
C	school students	25	30	5
D	unemployed	200	300	100

19 'Between 1988 and 1998 the real income of the poorest 5 % of the world's people fell by almost 25 %, while the real income of the richest 5 % increased by 12 %.'

What does this mean?

- A Rich and poor people were equally affected.
- B The poor lost 25 % of their money.
- C The poor lost about twice as much money as the rich gained.
- D The poor were relatively worse off in 1998 than 1988.

20 Why are firms making similar products often located near each other?

- A Competition may be reduced.
- B External economies may be possible.
- C Land may be cheaper.
- D Overheads may be increased.

21 The table shows a firm's average revenue and average cost.

What level of output, **A**, **B**, **C** or **D**, gives maximum profit?

	output (units)	average revenue (\$)	average cost (\$)
<b>A</b>	5	10	30
<b>B</b>	10	20	20
<b>C</b>	15	25	15
<b>D</b>	20	30	18

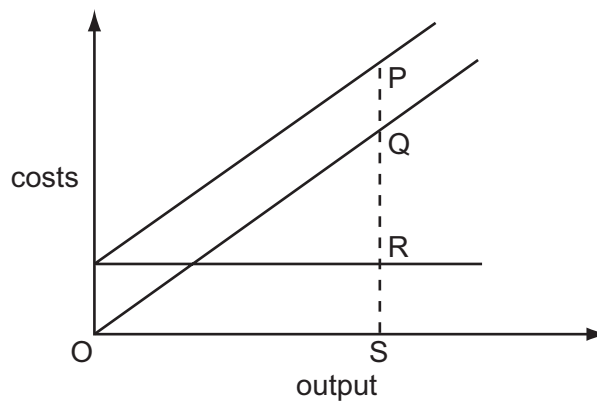
22 The following extract appeared in a UK newspaper.

'The UK construction firm Wimpey yesterday announced an £85 million deal to buy two companies in the United States which supply its raw materials.'

Which term best describes Wimpey's actions?

- A** diversification
- B** horizontal integration
- C** vertical integration backwards
- D** vertical integration forwards

23 The diagram shows the fixed costs, variable costs and total costs of a firm.



Which distance represents the firm's fixed costs?

- A** PQ
- B** PS
- C** QR
- D** QS



24 The table shows output and total costs of a firm with three workers.

	output	total costs (\$)
week 1	5	1500
week 2	6	1600
week 3	7	1700
week 4	8	1800

How did output per worker and average cost change over the period?

	output per worker	average cost
<b>A</b>	decrease	no change
<b>B</b>	increase	decrease
<b>C</b>	increase	no change
<b>D</b>	no change	increase

25 Which statement describes a progressive tax?

- A** a tax that increases government income over time
- B** a tax that places an increasing burden on the poor
- C** a tax that rises in line with the rate of inflation
- D** a tax that has a higher rate as income rises

26 What is **not** a main economic government objective?

- A** a balance of payments deficit
- B** economic growth
- C** full employment
- D** price stability

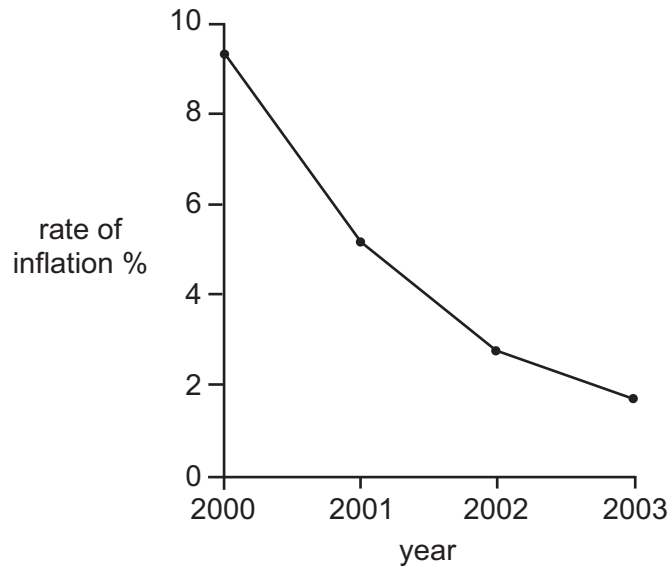
27 When is the budget described as balanced?

- A** when direct taxes and indirect taxes are equal
- B** when exports and imports are equal
- C** when government spending and government revenue are equal
- D** when the demand for money and the supply of money are equal

28 What would be most likely to encourage saving?

- A a rise in the exchange rate
- B a rise in the goods and services tax rate
- C a rise in the income tax rate
- D a rise in the interest rate

29 The diagram shows the annual rate of inflation for a country between 2000 and 2003.



Which statement is true of the period 2000 to 2003?

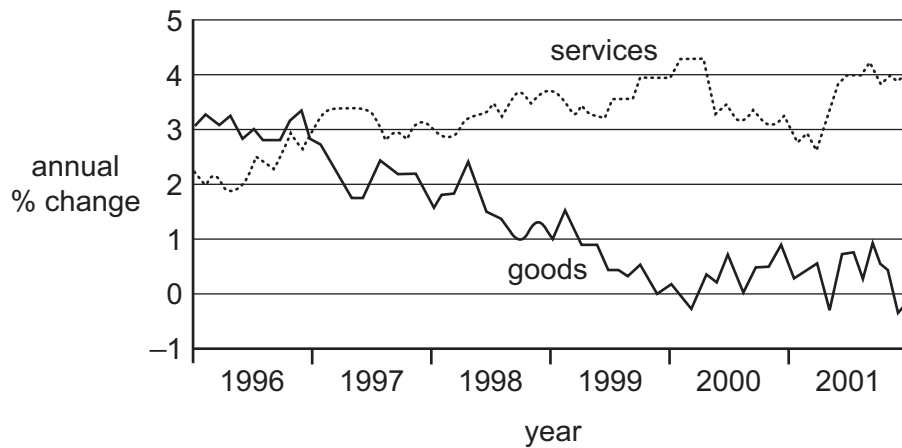
- A The cost of living fell.
  - B The price level rose.
  - C The retail price index fell.
  - D The value of money rose.
- 30 Which of the following would cause a favourable change in the UK trade in services (invisible) account?
- A A Malaysian company increases its exports to the UK.
  - B A Japanese company invests in a subsidiary in the UK.
  - C A large UK company increases its exports of goods.
  - D A UK company wins a contract to transport South African exports.

- 31 The table shows units of output, value of output and number of people employed in an industry over three years.

	output (units, millions)	output value (\$ millions)	number employed (000)
year 1	10	10	5
year 2	21	25	7
year 3	32	40	8

What could be concluded from the table above?

- A Inflation has increased.  
 B Productivity has increased.  
 C Profit has increased.  
 D Working population has increased.
- 32 The graph shows annual changes in the prices of goods and services in a country between 1996 and 2001.



What can be concluded from the graph?

- A Goods were cheaper in 2001 than 1996.  
 B Goods were cheaper than services from 1997.  
 C The price of goods fell at the start of 2000.  
 D The price of services fell in 2000.

- 33 On a holiday island criminals have frightened away tourists. To give tourists confidence the government has increased the number of police.

What is likely to happen as a result of such action by the government?

- A Overseas earnings fall.
  - B Public expenditure increases.
  - C Taxes fall.
  - D Unemployment increases.
- 34 Why are weights used in the construction of a price index?
- A Some prices tend to change according to the season.
  - B Some prices change more than others.
  - C Some goods are more expensive than others.
  - D Some goods take a greater proportion of total spending than others.
- 35 Botswana has achieved high rates of economic growth.
- What is **most** likely to have fallen as a result of this economic growth?
- A employment
  - B income per head
  - C infant mortality rate
  - D literacy rates
- 36 Other things being equal, what will cause a population both to increase and to age?
- A a fall in the birth rate
  - B a rise in both the birth rate and the death rate
  - C a rise in the death rate and a fall in the birth rate
  - D a fall in the death rate
- 37 What is usually found in a developing country?
- A Primary products are important exports.
  - B The agricultural industry has high productivity.
  - C There is a high level of investment in education.
  - D There is a low birth rate.

- 38 What is an effect of trade protection?
- A It encourages home industries to be more efficient.
  - B It increases the demand for home produced goods.
  - C It reduces the price of home produced goods.
  - D It reduces the price of imports.
- 39 External benefits are
- A private benefits minus private costs.
  - B private benefits plus social benefits.
  - C social benefits minus private benefits.
  - D social benefits plus social costs.
- 40 What encourages international specialisation?
- A diseconomies of scale
  - B foreign exchange
  - C free trade
  - D quotas

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