CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/03**

Paper 3 Multiple Choice

October/November 2003

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 **14** printed pages and **2** blank pages.

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1 Which of the following is an advantage of the market economic system?

A It aims for equality of income.

B It ensures the provision of defence and law and order.

C It gives an incentive to produce.

D It reduces pollution and congestion.

2 The table shows the various combinations of food and clothing which a village can produce using all its resources.

food units	clothing units
0	500
100	400
200	250
300	50
400	0

What is the opportunity cost to the village of increasing the production of food from 200 to 300 units?

A 50 units of clothing

B 100 units of clothing

C 200 units of clothing

D 250 units of clothing

3 Why did planned economies often experience long queues for consumer goods?

A The factors of production were able to move freely.

B The distribution of goods was inefficient.

C The output decisions were taken to maximise profits.

D The needs of consumers determined production.

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4 The table shows how employment in five industries changed in a country between 1985 and 2000.

	1985 (thousand)	2000 (thousand)
banking and finance	1336	1881
distribution and catering	3678	4323
extraction of minerals	1278	1094
manufacturing	3102	2128
transport	1550	1304

Which statement about these industries can be concluded from the table?

A Output in the primary industries decreased.

B Output in the tertiary industries increased.

C Employment in the tertiary industries increased.

D Employment in the tertiary industries was less than the secondary industries.

5 Which of the following is likely to be the most suitable form of business organisation for a group of four doctors?

A partnership

B private company

C public company

D public corporation

6 Mr Lee bought shares in Intel, a computer company producing throughout the world.

Sandip Patel owns and runs a grocery store.

Which of the following is **not** represented by the above businesses?

A co-operative

B multi-national company

C public company

D sole proprietor

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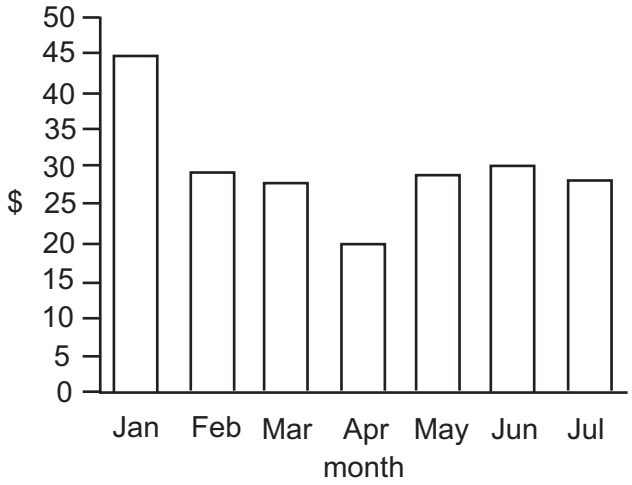
7 The graph shows the price of a company's shares from January to July 2001.



For the buyer of these shares

A January was the best time to buy shares as an investment.

B shares bought in April would be worth more in July.

C the company's profits were highest in January.

D the company's goods were cheapest in April.

8 In what circumstances are trade unions more likely to be effective in wage negotiations for their members?

A an economic boom

B a recession

C a period of declining productivity

D a period of rising unemployment

9 What function do central banks and commercial banks have in common?

A acting as a banker's bank

B controlling monetary policy

C dealing with foreign exchange

D supervising the banking system

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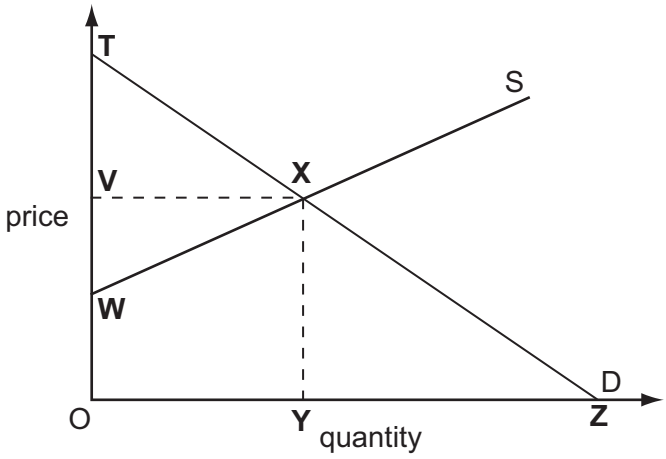
10 The diagram shows a market for wheat that is in equilibrium.



Which area represents the total revenue for wheat farmers?

A O**TXY** **B** O**VXY** **C** O**VXZ** **D** O**WXY**

11 A government taxes the production of cars.

What is likely to decrease?

A the cost of supplying cars

B the price of cars

C the revenue for the government

D the supply of cars at every price

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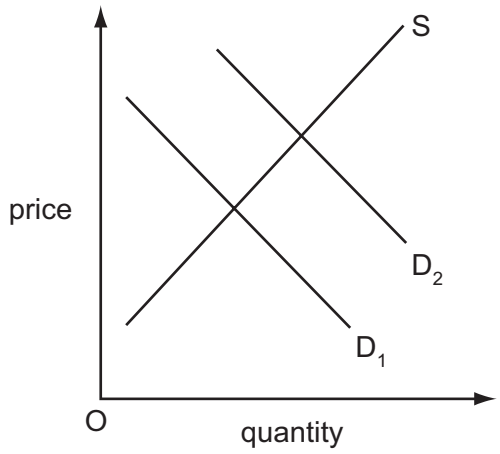
12 The graph shows the market for bread.



Which of the following might have caused a change in demand from D_1 to D_2?

A a fall in the cost of producing bread

B a fall in the price of an alternative to bread

C a newspaper report that eating bread is healthy

D a rise in price of a complement to bread

13 Prices tend to be lower in a competitive industry than in a monopoly.

Why is this?

A A monopoly has less influence on the market.

B Competitive industry has more economies of scale.

C New firms are free to enter the competitive industry.

D Profits are lower in a monopoly.

14 The demand for a product is known to be price-elastic.

Which fall in quantity demanded could follow a 10 % price rise?

A 0 % **B** 5 % **C** 10 % **D** 15 %

15 Demand for Japanese video-recorders on sale in Germany is price-elastic.

Which statement will therefore be true?

A A tariff will keep all the Japanese video-recorders out of Germany.

B German manufacturers cannot compete in the video-recorder market.

C Japanese manufacturers' profits will decrease if the price is reduced.

D Japanese manufacturers' revenue from sales will increase if the price is reduced.

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16 Which government policy is most likely to encourage an experienced teacher to remain in the teaching profession?

A increasing alternative career opportunities

B increasing class sizes in schools

C increasing teachers' working hours

D increasing the levels of teachers' salaries

17 The table gives weekly earnings for different groups in 1998.

	London		Great Britain	
	male	female	male	female
managers	£779.30	£539.20	£625.60	£435.30
unskilled workers	£381.90	£237.80	£332.90	£228.60

Which statement about the influence on earnings is supported by the table?

A Female workers gain more promotion than male workers.

B Female managers earn more than unskilled workers.

C Great Britain has a higher cost of living than London.

D Repetitive work is compensated by higher incomes.

18 The table shows the change in annual wage of four workers over one year.

The rate of inflation during the year was 10 %.

Which worker had a fall in her real wage?

	start of year	end of year
A	$10 000	$11 000
B	$10 000	$11 500
C	$20 000	$21 500
D	$20 000	$22 000

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19 The diagram shows the average earnings per hour of postal workers between 1999 and 2001.

Which of the following could explain the above diagram?

A a reduction in trade union membership

B the introduction of more efficient work practices

C the employment of more part-time workers

D an increase in the number of hours worked

20 The table shows a firm's total revenue and total cost.

output (units)	total revenue ($)	total cost ($)
10	20	14
20	25	17
30	30	21
40	35	27

What level of output gives maximum profit?

A 10 units **B** 20 units **C** 30 units **D** 40 units

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21 The table shows the costs incurred by a firm producing computers.

output (000s)	total costs ($000)
0	20
1	1200
2	1350
3	1450

What are the fixed costs if 3000 computers are produced?

A $20 000 **B** $1 430 000 **C** $1 450 000 **D** $4 020 000

22 What is a feature of economies of scale but not diseconomies of scale?

A They are caused by management problems.

B They operate in the short run.

C They lead to falling average costs.

D They result in rising average revenue.

23 An entrepreneur can use either capital or labour in the production process. The actual combination changes as the prices of the factors alter.

When is capital most likely to replace labour?

	price of capital	price of labour
A	constant	falling
B	falling	rising
C	rising	constant
D	falling	falling

24 Which measure of a firm's size would a government use to identify a monopoly?

A the amount of profits earned by the firm in one year

B the firm's percentage share of the market for its goods

C the number of factories operated by the firm

D the value of the firm's capital

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25 A government decided to increase its spending on building schools and hospitals.

Which aim of government policy is most likely to be achieved by this?

A balance of payments surplus

B economic growth

C price stability

D stronger exchange rate

26 What is most likely to cause the government to have a budget surplus?

A an increase in exports

B an increase in unemployment

C a decrease in government spending

D a decrease in private sector investment

27 Which of the following government policies would lead to a more even distribution of income?

A allowing a balance of payments deficit

B a change in the rate of exchange

C control of lending by commercial banks

D expenditure on unemployment benefits

28 A government wishes to make firms pay for the total cost of producing their goods, including external costs such as pollution.

Which measure could the government use to do this?

A an increase in an indirect tax on the firm's goods

B an increase in grants to the firm

C an increase in subsidies for the firm's goods

D fixing a minimum price for the firm's goods

29 A person pays $500 tax when earnings are $5000.

Which of the following tax payments would indicate that the country has a regressive tax system if his income rose to $12 000?

A $1000 **B** $1200 **C** $1500 **D** $2400

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30 Which of the following is a reason for collecting national income statistics?

A to calculate population changes

B to compare standards of living

C to fix exchange rates

D to keep inflation low

31 In order to reduce unemployment, a government moves one of its departments to a different part of the country, even though this is expensive.

Which type of unemployment is most likely to be reduced?

A cyclical

B frictional

C regional

D seasonal

32 In 1999 South Africa exported its goods using its own ships, instead of using UK ships.

What would have been the effect on South Africa's Balance of Payments?

	balance of trade in goods	balance of trade in services
A	improved	improved
B	improved	unchanged
C	unchanged	improved
D	unchanged	unchanged

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33 The table shows the number of Jamaican dollars (J$) which are exchanged for one unit of other currencies in June and July 2001.

currency	June 2001 J$	July 2001 J$
US $	45.78	45.77
UK £	63.86	64.37
Guyana $	0.25	0.25
Barbados $	23.19	23.12

Against which currency did the Jamaican dollar depreciate?

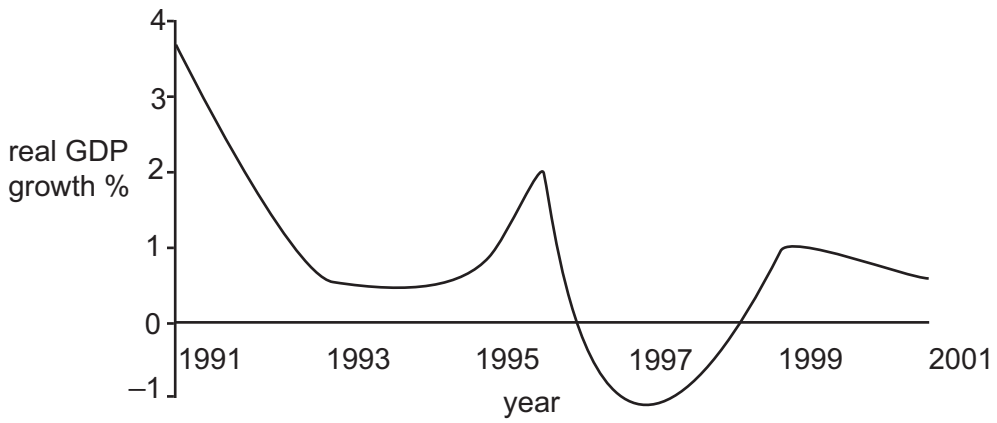
A US $

B UK £

C Guyana $

D Barbados $

34 The graph shows changes in a country's annual percentage growth in real GDP between 1991 and 2001.



What happened to the growth of real GDP?

A It was highest in 1996.

B It was negative from 1991 to 1993.

C It was on a downward trend between 1991 and 2001.

D It was positive between 1997 and 1998.

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35 What is the most likely cause of a fall in the population growth of a developing country?

A a decrease in the birth rate

B a decrease in emigration

C a decrease in immigration

D a decrease in the standard of living

36 Which of the following would an economist use to measure living standards?

A the average size of families

B the gross domestic product per head

C the number of workers in agriculture

D the size of cities

37 Malaysia decides to put more of its resources into the production of rubber, because it can produce rubber more efficiently than the rest of the world.

This means that Malaysia will combine the benefits from

A comparative advantage and diversification.

B comparative advantage and specialisation.

C competition and diversification.

D specialisation and protection.

38 In Singapore a tax was placed on the use of cars in the city centre to encourage the use of public transport.

What changes to private costs and external costs were intended?

	private costs	external costs
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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39 In an African country, large amounts of land were taken from farmers to make a national park to protect rare animals and provide a tourist attraction with accommodation.

Which of the following is likely to decrease as a result of these changes?

A earnings from foreign visitors

B employment in the primary sector

C employment in the tertiary sector

D the price of land elsewhere

40 What will reduce the volume of international trade in the world economy?

A a Dutch bank making a loan to a Taiwanese manufacturer

B a Japanese electronics firm establishing a subsidiary in the UK

C the Swedish government granting foreign aid to Somalia

D the US government introducing quotas for European steel products

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