

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/03**

Paper 3 Multiple Choice

October/November 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 **12** printed pages.



- 1 What is always a feature of a mixed economy?
- A All capital goods are produced in the public sector.
  - B Resources are used in the public and the private sector.
  - C The allocation of all resources is determined by the price mechanism.
  - D The public sector is larger than the private sector.
- 2 A woman playing a quiz game starts with no money, but correctly answers the question that is worth \$4000. The next question is worth \$10 000 but if she answers incorrectly she will leave the game with no money.
- What is her opportunity cost of choosing to answer the \$10 000 question if her answer is incorrect?
- A nothing      B \$4000      C \$6000      D \$10 000
- 3 What will increase the level of specialisation in an economy?
- A A computer manufacturer takes over an advertising company.
  - B A retail store issues its own credit card.
  - C A travel agent provides transport to the airport.
  - D A vehicle assembler reduces its range of vehicles.
- 4 Why do bank notes function as money?
- A They are durable.
  - B They are generally acceptable.
  - C They count as legal tender.
  - D They have intrinsic value.
- 5 What is usually a function of a trade union?
- A It advertises the products that the members make.
  - B It appoints company employees.
  - C It negotiates with employers for increased wages.
  - D It negotiates with suppliers for reduced costs of materials.

- 6 Shares in the Japanese part of the American fast-food giant McDonald's hit an all-time low in August 2002. Sales at McDonald's 3800 restaurants in Japan fell dramatically despite the assurance that the company used only imported beef, which was free from a disease affecting Japanese cows.

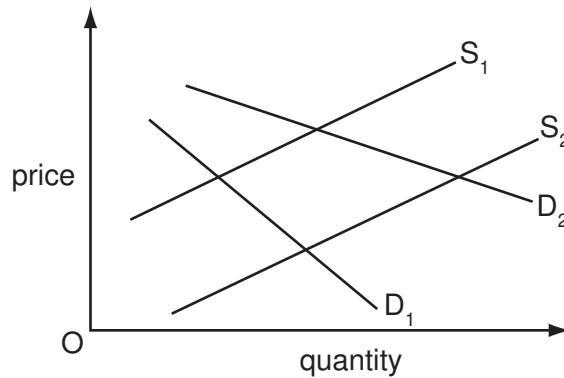
From the above statement what is true about McDonald's?

- A It is a multi-national because it has 3800 restaurants.
  - B It is a multi-national because it imports raw materials.
  - C It is a public company because it issues shares on the stock exchange.
  - D It is a public company because it operates in America and Japan.
- 7 'International companies have made substantial investments in computer production in India. India is now a major centre of the world computer industry. Profit margins are high since labour costs are a tenth of those in the USA.'

What does this suggest is the reason for companies locating in India rather than in the USA?

- A access to cheap land
  - B availability of capital investment
  - C availability of investment funds
  - D competitive wage rates
- 8 To whom does the central bank usually make loans?
- A individuals
  - B limited companies
  - C the government
  - D trade unions
- 9 When will a trade union be most effective in pursuing its members' interests?
- A The economy is in recession with rising unemployment.
  - B The employers have few orders for the product.
  - C The government passes a law to increase competition in the labour market.
  - D The members' wages make up a small part of total costs.

- 10 The diagram shows the market for bicycles. The demand for bicycles increases and at the same time manufacturers are able to cut costs through new production methods.



According to the diagram, what would be the result of these changes?

	price	quantity
<b>A</b>	increase	increase
<b>B</b>	increase	unchanged
<b>C</b>	unchanged	increase
<b>D</b>	unchanged	decrease

- 11 The major oil producers sometimes try to raise the price of oil.

How would this be shown on a demand and supply diagram?

- A** a movement along the demand curve to the right  
**B** a shift in the supply curve to the right  
**C** a shift in the demand curve to the left  
**D** a shift in the supply curve to the left
- 12 If 'Sunshine Oranges' were successfully advertised with the statement 'They help you live longer', which would be likely to occur?

	price elasticity of demand	total revenue
<b>A</b>	fall	fall
<b>B</b>	fall	rise
<b>C</b>	rise	fall
<b>D</b>	rise	rise

13 Which will encourage domestic producers to grow more maize?

- A granting subsidies to maize producers
- B increasing the sales tax on maize
- C removing guaranteed minimum prices for maize
- D removing quotas on imported maize

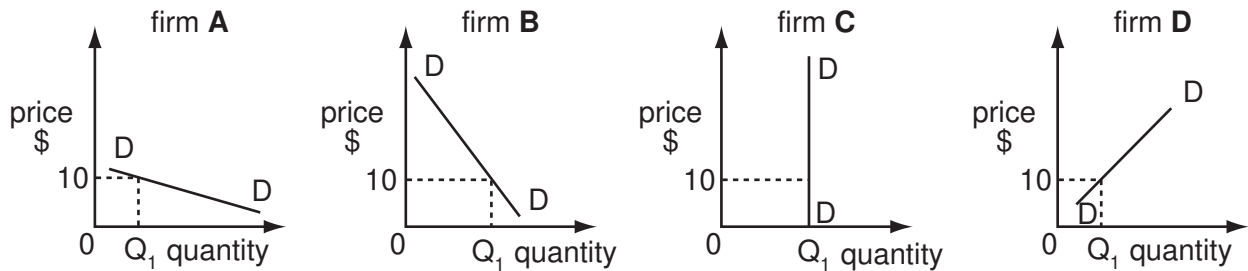
14 The world price of cocoa has been falling while the prices of products made from cocoa have been rising.

Which combination might explain this?

	market for cocoa	advertising expenditure on products made from cocoa
<b>A</b>	excess demand	decrease
<b>B</b>	excess supply	decrease
<b>C</b>	excess demand	increase
<b>D</b>	excess supply	increase

15 The graphs, drawn to the same scale, show the demand curves of four firms. The market price is \$10. The price then falls to \$8.

Which firm will have the largest increase in total revenue?



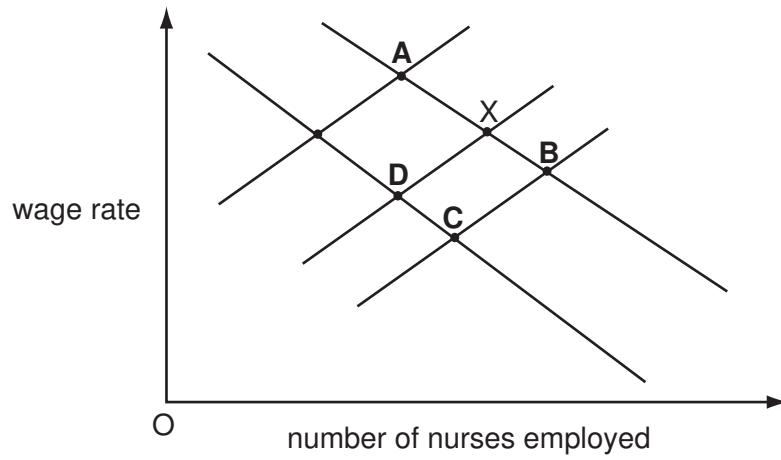
16 Which combination is most likely to result in lower rates of pay?

	supply of workers	productivity of workers
<b>A</b>	falls	falls
<b>B</b>	falls	rises
<b>C</b>	rises	falls
<b>D</b>	rises	rises

17 Point X shows the original equilibrium in the market for nurses in a country.

There is a fall in the number of people who wish to be trained as nurses.

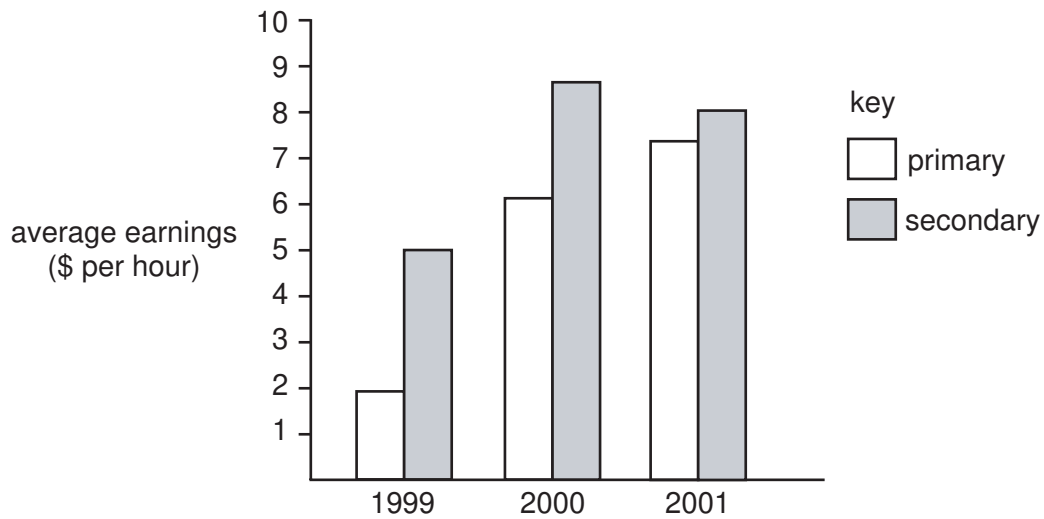
What is the new equilibrium point?



18 What is likely to be the effect of a fall in interest rates on a consumer's borrowing and saving?

	borrowing	saving
<b>A</b>	falls	falls
<b>B</b>	falls	rises
<b>C</b>	rises	falls
<b>D</b>	rises	rises

- 19 The diagram shows the average earnings of workers in the primary sector and the secondary sector between 1999 and 2001.



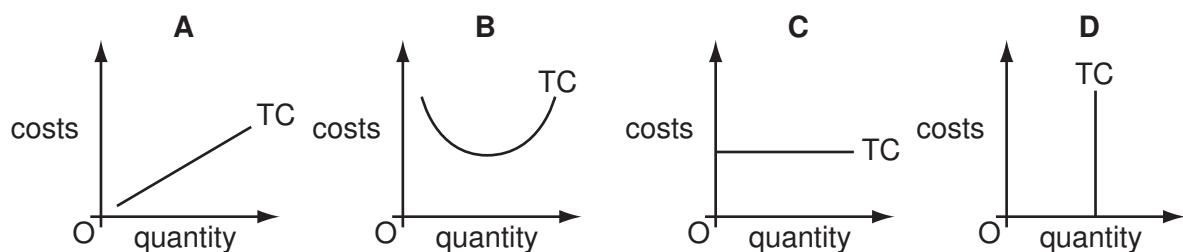
What happened in this period?

- A Average earnings in the primary sector grew faster than those in the secondary sector.
  - B Earnings in the secondary sector were a larger proportion of total cost than those in the primary sector.
  - C Total earnings in the secondary sector were higher than those in the primary sector.
  - D Workers in both sectors benefited from a continuous rise in average earnings.
- 20 A large clothing manufacturer expanded by acquiring retail clothing outlets.

Of what is this an example?

- A diversification
  - B external economies of scale
  - C horizontal integration
  - D vertical integration
- 21 The diagrams represent total cost curves (tc) of four firms in the short run.

Which firm has only fixed costs?



22 Which cost incurred by a firm manufacturing shirts is a variable cost?

- A buildings insurance
- B interest on bank loans
- C raw materials
- D rent on property

23 Fifty people are employed in a business to produce 10 000 units per week.

The weekly costs are:

	\$
hire of machinery	230
power	200
raw materials	1000
wages per employee	40

What are the variable costs for the week?

- A \$1200      B \$1430      C \$1470      D \$3200

24 The table shows the units of factors of production that a firm needs to employ for two different levels of output.

land	labour	capital	output
5	2	4	10
10	4	8	300

What is the firm experiencing?

- A constant returns to scale
- B economies of scale
- C external diseconomies of scale
- D external economies

25 What is most likely to happen as unemployment falls?

- A Economic growth falls.
- B Inflation falls.
- C Spending on welfare benefits rises.
- D Tax revenue rises.



- 26 The US trades with Uruguay. In 2002 the US approved a loan of US\$ 1.5 billion to Uruguay to help boost Uruguay's economy.

What would be the most likely effect of this loan?

- A It would encourage Uruguay to import from the US.
- B It would make Uruguay less competitive.
- C It would result in imported inflation.
- D It would stop US citizens investing in Uruguay.

- 27 In September 2002 a government minister warned that tax changes were necessary to redistribute wealth from rich to poor.

Which policy would be likely to achieve that aim?

	regressive taxes	progressive taxes
A	decrease	unchanged
B	increase	decrease
C	increase	unchanged
D	unchanged	decrease

- 28 'The pound sterling made a dramatic recovery in the world's currency markets yesterday.'

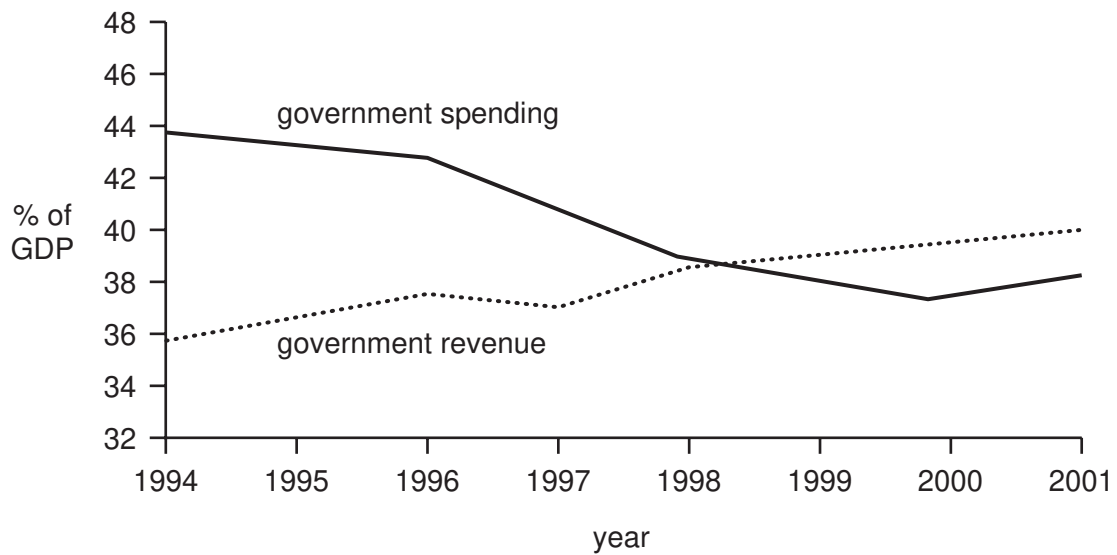
To what does this statement refer?

- A exchange rate
- B growth rate
- C interest rate
- D tax rate

- 29 Which aim of government policy is most likely to be achieved by a decrease in government spending?

- A economic growth
- B equality of income
- C full employment
- D price stability

30 The graph shows government revenue and spending in a country between 1994 and 2001.



What can be concluded from the graph?

- A The balance of payments position improved.
  - B The borrowing of the government increased.
  - C The economy went into recession.
  - D The government budget moved from deficit to surplus.
- 31 A survey of employment in a particular economy shows that the primary sector was diminishing in importance and more people were being employed in the tertiary sector.

What does this mean?

- A Fewer people were employed by central government.
  - B Fewer people were employed in manufacturing industries.
  - C More people were employed in the service industries.
  - D More people were employed in agriculture.
- 32 A newspaper reports that there has been economic growth in an economy.

What does this mean to an economist?

- A Population has increased.
- B Production has increased.
- C Saving has increased.
- D Taxation has increased.

33 A country is experiencing inflation.

What must be increasing?

- A wage levels
- B the output of goods and services
- C the amount of money spent on goods and services
- D the amount of money needed to purchase a given quantity of goods and services

34 The following extract appeared in an international newspaper.

**China's unemployed peasants flock to cities**

Hundreds of thousands of peasants, fleeing rural poverty and drudgery, have flocked into China's cities seeking work.

What would be the most likely result for the Chinese economy?

- A a reduction in productivity
- B a rise in unemployment in the city areas
- C a rise in the amount of unemployment in rural areas
- D a rise in the proportion of skilled labour in cities

35 There is a decrease in a country's birth rate.

What can lead to an increase in the country's population at the same time?

- A Zero net migration and a fall in the fertility rate.
- B Zero net migration and a fall in infant mortality.
- C Positive net migration and a fall in the death rate.
- D Positive net migration and a fall in the fertility rate.

36 What is usually found in a developed country?

- A a high GDP per head with a low level of employment
- B a high level of labour skills with a low level of car ownership
- C a high rate of adult literacy with a low level of poverty
- D a high rate of population growth with a low level of labour productivity

37 The table gives certain information about the population of three countries in 1995.

	birth rate per 1000	death rate per 1000	infant mortality rate per 1000	% of population under 16
Singapore	12	4	5	18
Hong Kong	15	6	8	20
China	20	9	28	38

Which conclusion can be drawn about the countries in the table in 1995?

- A China had the highest percentage of children who died in infancy.
- B People in Hong Kong lived the longest.
- C Singapore had the largest number of people aged over 16.
- D The population of Singapore was expected to fall in the next five years.

38 Chile specialises in the production of copper for export.

How would the Chilean economy be affected by a large rise in the supply of copper from other countries?

	employment	economic growth
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

39 What is an advantage of international specialisation?

- A Choice is limited.
- B Countries become over-dependent on each other.
- C Resources are used more efficiently.
- D Transport costs are decreased.

40 A tax on which of the following would most reduce external costs?

- A bicycles
- B bus fares
- C cars
- D ferry services