



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

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**ECONOMICS**

**0455/03**

Paper 3 Multiple Choice (Extended)

**October/November 2007**

**1 hour**

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

\* 0 7 9 4 5 9 6 0 6 9 \*

**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.

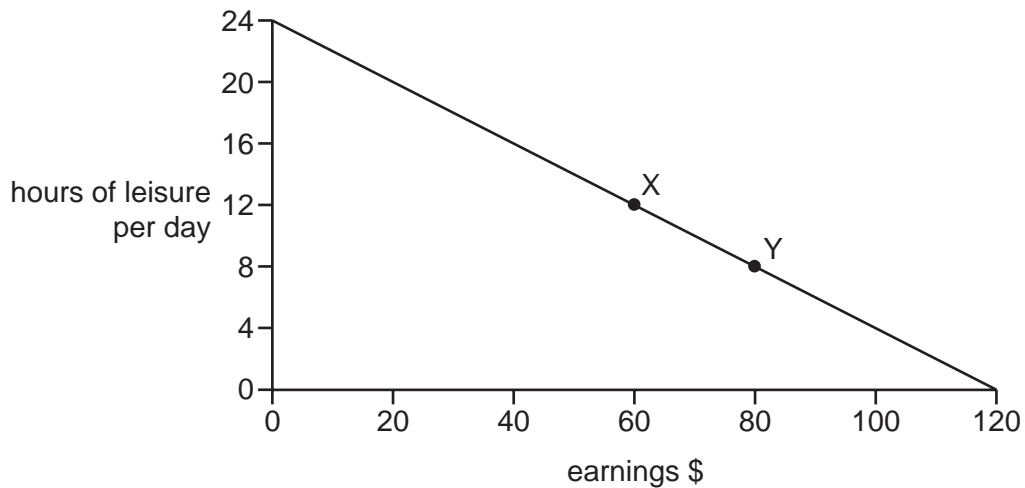
This document consists of **11** printed pages and **1** blank page.



1 What is found in a market economy but **not** a command economy?

- A division of labour
- B economies of scale
- C money as a store of value
- D the profit motive

2 The diagram shows the choices for an individual between leisure and earnings.



What is the opportunity cost to the individual of the extra earnings when moving from position X to position Y?

- A \$20
- B \$80
- C 4 hours of leisure per day
- D 8 hours of leisure per day

3 There are more people in developing countries who cannot read or write than in developed countries.

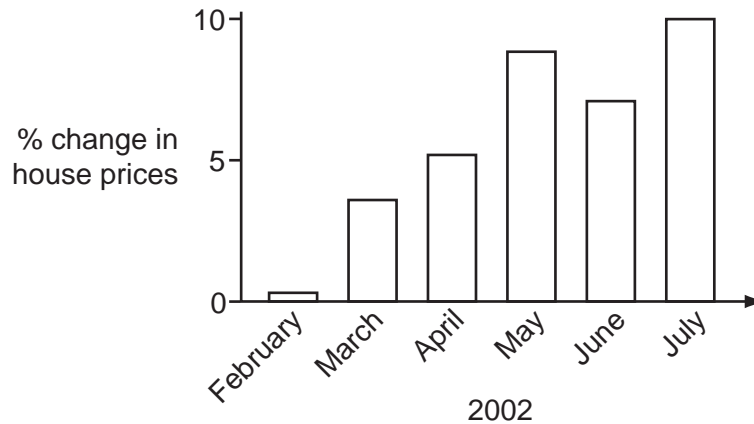
What can be concluded from this?

- A Developed countries will use more labour than capital as it is skilled.
- B In developing countries, factors of production are not used to their maximum potential.
- C Less money needs to be spent on education in developed countries than in developing countries.
- D Production in developing countries is likely to rely more on capital than labour.

- 4 In wartime conditions, cigarettes have been used as money.  
What **disadvantage** do cigarettes have for trading compared with notes and coins?
- A They cannot act as a medium of exchange.
  - B They have no intrinsic value.
  - C They lack durability.
  - D They make a double coincidence of wants necessary.
- 5 Which economic question is **least** likely to arise as a result of scarcity?
- A For whom shall we produce?
  - B How shall we produce?
  - C What shall we produce?
  - D When shall we produce?
- 6 In most countries which organisation controls the banking system?
- A central bank
  - B commercial bank
  - C investment bank
  - D World Bank
- 7 What advantage is gained by a company that becomes a multi-national?
- A It avoids trade barriers.
  - B It reduces its fixed costs.
  - C It simplifies its management structure.
  - D It makes communication easier.
- 8 Which pair of economic institutions would be found in a command economy?
- A central bank and public companies
  - B public corporations and central bank
  - C public corporations and stock exchange
  - D stock exchange and public companies

- 9 What is the main purpose of a trade union?
- A to achieve profit maximisation
  - B to encourage free trade
  - C to promote private ownership of industry
  - D to protect the interests of its members

- 10 The graph shows changes in house prices in a developed country.



What might have caused these changes in prices?

- A an increase in government subsidies to house builders
  - B an increase in income
  - C an increase in the supply of houses
  - D an increase in unemployment
- 11 Sometimes travel companies advertise holidays at prices below cost.

What might be a reason for this?

- A an excess demand for holidays
- B an excess supply of holidays
- C a price inelastic demand for holidays
- D insufficient competition in the holiday market

- 12 Good X has a price elasticity of demand of 0.25 while good Y has a price elasticity of demand of 1.5.

A likely explanation of these values is that compared to good Y, good X

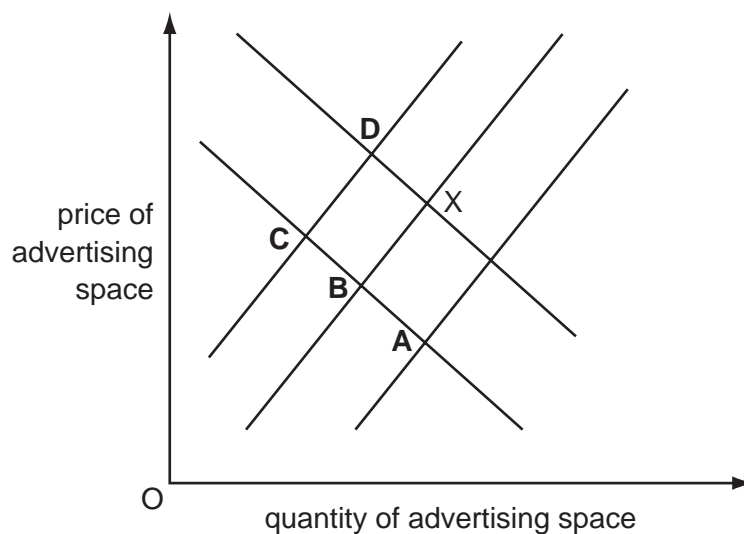
- A** has more substitutes.  
**B** is considered more of a luxury.  
**C** is purchased more out of habit.  
**D** takes up a larger proportion of consumers' income.
- 13 A country imports oil which is used in the production and distribution of goods. The country has also experienced a rise in incomes which has resulted in a large increase in the demand for goods, some of which it imports.

What is likely to happen to the country's balance of trade in goods and to the price of oil?

|          | balance of trade in goods | price of oil |
|----------|---------------------------|--------------|
| <b>A</b> | worsens                   | falls        |
| <b>B</b> | improves                  | falls        |
| <b>C</b> | worsens                   | rises        |
| <b>D</b> | improves                  | rises        |

- 14 X is the equilibrium point for a company that sells advertising space. During the year, the demand for advertising decreased and the company's labour cost increased.

What would be the new equilibrium?



- 15 In developed economies, as a person's real income rises, a lower proportion of the income is usually spent on
- A food.
  - B holidays.
  - C leisure activities.
  - D personal transport.
- 16 What would cause disposable incomes to become less equal?
- A increased employment
  - B increased welfare benefits
  - C more progressive taxes
  - D more regressive taxes
- 17 The first worker in each pair of workers below is usually paid more.  
In which case is this **not** likely to be the result of the first worker's greater value to the firm?
- A a worker in a trade union compared with a worker with no trade union
  - B a worker with training compared with a worker with no training
  - C a worker with supervisory responsibilities compared with a worker with no responsibility
  - D a worker with years of experience compared with a worker with no experience
- 18 Which is the most important factor that affects how much a family saves?
- A the income of the family
  - B the level of taxation
  - C the rate of inflation
  - D the reliability of banks
- 19 What is happening when a firm is experiencing diseconomies of scale?
- A It has rising long-run average costs.
  - B It is operating in the short run.
  - C Its fixed costs are less than variable costs.
  - D Its output is increasing faster than its inputs.

20 In 2005, world oil prices increased significantly.

What effect would an increase in oil prices have on a firm that transports products for other firms?

- A average fixed costs would increase
- B profits would increase
- C total fixed costs would increase
- D variable costs would increase

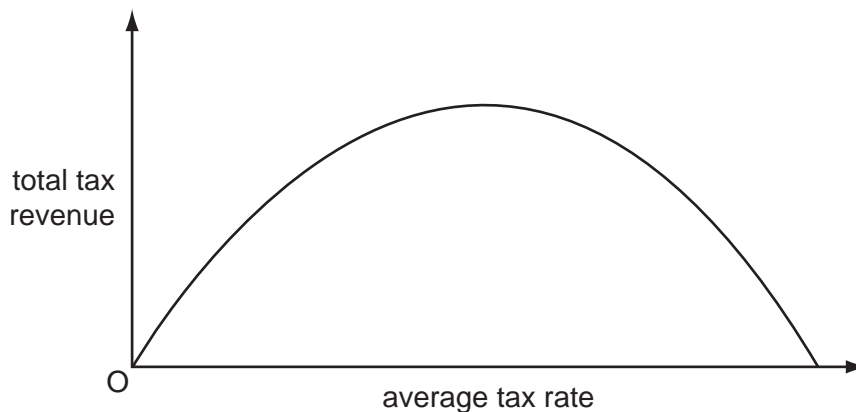
21 Which statement is correct?

- A Average revenue is total revenue divided by output.
- B Fixed cost is total cost plus variable cost.
- C Total cost is variable cost multiplied by fixed cost.
- D Total revenue is fixed revenue minus variable revenue.

22 What is a firm seeking profit maximisation trying to achieve?

- A the fastest rate of profit growth
- B the highest level of profit per unit produced
- C the highest level of total profit
- D the lowest level of total cost

23 The diagram relates the government's total tax revenue to the average tax rate.



What can be deduced from the diagram?

- A A rise in the average tax rate may decrease government revenue.
- B The tax system is regressive.
- C Low tax rates have an incentive effect upon labour.
- D The burden of taxation is evenly spread.

- 24 In which case is success for the government in achieving the first aim likely to cause achieving the second?

|          | first aim                  | second aim                       |
|----------|----------------------------|----------------------------------|
| <b>A</b> | full employment            | price stability                  |
| <b>B</b> | high economic growth       | full employment                  |
| <b>C</b> | price stability            | stable balance of payments       |
| <b>D</b> | stable balance of payments | more even distribution of income |

- 25 What is a possible disadvantage of the changes caused by long-term economic growth?

- A** rising cyclical unemployment
- B** rising employment
- C** rising seasonal unemployment
- D** rising structural unemployment

- 26 A report predicted that South Africa's economy was likely to grow at 4.2%.

What might cause this growth?

- A** an increase in exports
- B** an increase in imports
- C** an increase in interest rates
- D** an increase in unemployment

- 27 A government wishes to increase demand in the economy.

What should it reduce?

- A** benefits to the unemployed
- B** borrowing by consumers
- C** spending on health and education
- D** taxation

- 28 What would **not** be required in the construction of an index of consumer prices (retail price index)?

- A** the selection of a base year
- B** the selection of a representative range of items
- C** the calculation of average wage levels
- D** the weighting of each item in the index



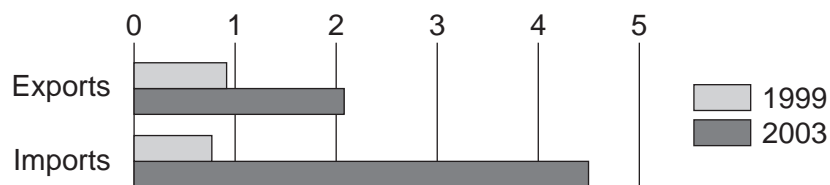
29 The table shows data on selected European nations for the year 2001.

|         | GDP % change | unemployment % | inflation % |
|---------|--------------|----------------|-------------|
| Ireland | 5.9          | 3.8            | 4.9         |
| Belgium | 1.0          | 6.7            | 2.5         |
| Greece  | 4.1          | 10.5           | 3.4         |
| Poland  | 1.1          | 16.2           | 5.5         |

What can be concluded from the table?

- A** A small change in GDP always leads to high unemployment.
- B** Belgium had the lowest growth rate and the lowest rise in prices.
- C** Low unemployment leads to low levels of inflation.
- D** Poland had a low growth rate and a rise in purchasing power.
- 30 What is likely to lead to a decrease in structural unemployment?
- A** reducing the interest rate
- B** increasing the rate of unemployment benefit
- C** reducing the rate of income tax
- D** increasing labour mobility

31 The diagram shows China's trade with Brazil for 1999 and 2003 in billions of dollars.



What happened to China's trade balance with Brazil between 1999 and 2003?

- A** It experienced a falling surplus.
- B** It experienced a rising deficit.
- C** It moved from deficit to surplus.
- D** It moved from surplus to deficit.

32 What might explain the high population growth in some developing countries?

- A high birth rates and falling death rates
- B high immigration and low emigration
- C falling birth rates and rising death rates
- D falling life expectancy

33 Turkey's agricultural sector employs 48 % of the country's workforce compared with 17 % in the US and 3.9 % in France.

What could be concluded from this?

- A France is likely to import more agricultural produce than the US.
- B The workers in France are not as productive as those in Turkey.
- C Total agricultural production is likely to be higher in Turkey than in the US.
- D Turkey is likely to be less developed than France.

34 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

35 As a country develops, what is **most** likely to happen?

- A A greater proportion of the workforce will be employed in the service sector.
- B The average age will decrease.
- C The birth rate will increase.
- D There will be reduced occupational mobility of labour.

36 Why might a country specialise in growing coffee?

- A It has comparative advantage in coffee production.
- B It needs a diversified economy.
- C Its export markets have tariffs on coffee imports.
- D Other countries subsidise coffee growing.

- 37** Why are schools provided by governments?
- A** Education generates external costs.
  - B** The government controls the numbers of teachers.
  - C** Schools are too expensive for the private sector to provide.
  - D** The whole country can benefit from the provision of education.
- 38** A water pump has been invented which is operated when people play on a roundabout in the village. The roundabout provides the power to pump water from the well.
- Of what is this an example?
- A** conserving labour and conserving natural resources
  - B** conserving labour and using natural resources
  - C** using labour and conserving natural resources
  - D** using labour and using natural resources
- 39** Which effect is an external cost when an airport is developed on the edge of a city?
- A** a reduction in local property values
  - B** a reduction in noise pollution
  - C** an increase in the profits of the railway company that serves the airport
  - D** an increase in transport links for the city's population
- 40** The introduction of a tariff on imported goods is likely to
- A** ensure that the domestic industry becomes more efficient.
  - B** increase the demand for domestically produced goods.
  - C** reduce the price of domestically produced goods.
  - D** reduce the price of imported goods into a country.

