

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/01**

Paper 1 Multiple Choice

May/June 2005

**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 In a market economy, what does the entrepreneur decide?

- A the combination of resources used
- B the demand for the product
- C the equilibrium price of the product
- D the level of profits

2 China is changing from a centrally planned economy towards a market economy.

How will the influence of consumers and the government change?

|          | consumers | government |
|----------|-----------|------------|
| <b>A</b> | decrease  | decrease   |
| <b>B</b> | decrease  | increase   |
| <b>C</b> | increase  | decrease   |
| <b>D</b> | increase  | increase   |

3 A farmer pays a landowner for the use of a field.

What is the income to the landowner called?

- A interest
- B profit
- C rent
- D wages

4 Which of the following is **not** a feature of a public limited company?

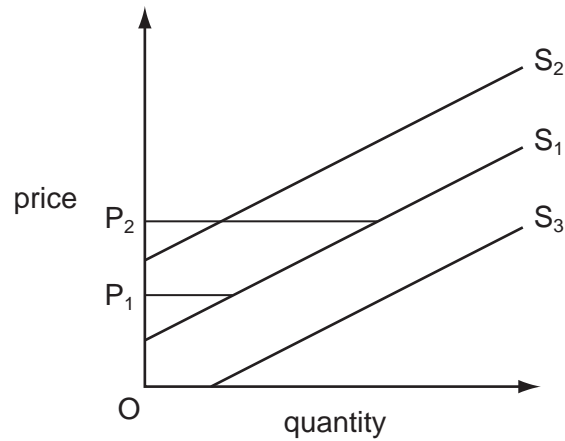
- A It has a board of directors.
- B It is owned by the government.
- C It raises capital from issuing shares.
- D Its profits go to the shareholders.

- 5 A business has two owners. They have limited liability. Its shares are not sold on a stock exchange.

What type of business is this?

- A partnership
  - B private limited company
  - C public corporation
  - D public limited company
- 6 What is most likely to be the main function of a central bank?
- A controlling the money supply
  - B investing in commerce and industry
  - C issuing and processing credit cards
  - D making loans to individuals
- 7 What would prevent an Egyptian company being classified as a multi-national company?
- A It concentrates on one stage of production only.
  - B It employs only Egyptians as managers.
  - C It manufactures only in Egypt.
  - D It uses other firms to transport its goods.
- 8 What would **not** cause a shift in the demand curve for a good?
- A a change in incomes
  - B a change in the price of a substitute good
  - C a change in the price of a good
  - D a change in the tastes of consumers

- 9 The supply curve  $S_1$  shows the supply of shirts, which are sold at price  $P_1$ .



What will be the effect if a government imposes a tax on shirts?

- A Supply will shift from  $S_1$  to  $S_2$ .
  - B Supply will shift from  $S_1$  to  $S_3$ .
  - C Price will rise from  $P_1$  to  $P_2$ .
  - D The price will remain at  $P_1$ .
- 10 What is an example of complementary demand?
- A buses and bus fares
  - B cotton and cotton seed
  - C televisions and electricity
  - D wood and sawdust
- 11 A good is successfully advertised.

What is the most likely impact on the demand and supply curves for the good?

|   | demand curve   | supply curve   |
|---|----------------|----------------|
| A | shift to left  | shift to left  |
| B | shift to left  | shift to right |
| C | shift to right | shift to left  |
| D | shift to right | shift to right |

12 The table shows the demand and supply schedules for eggs.

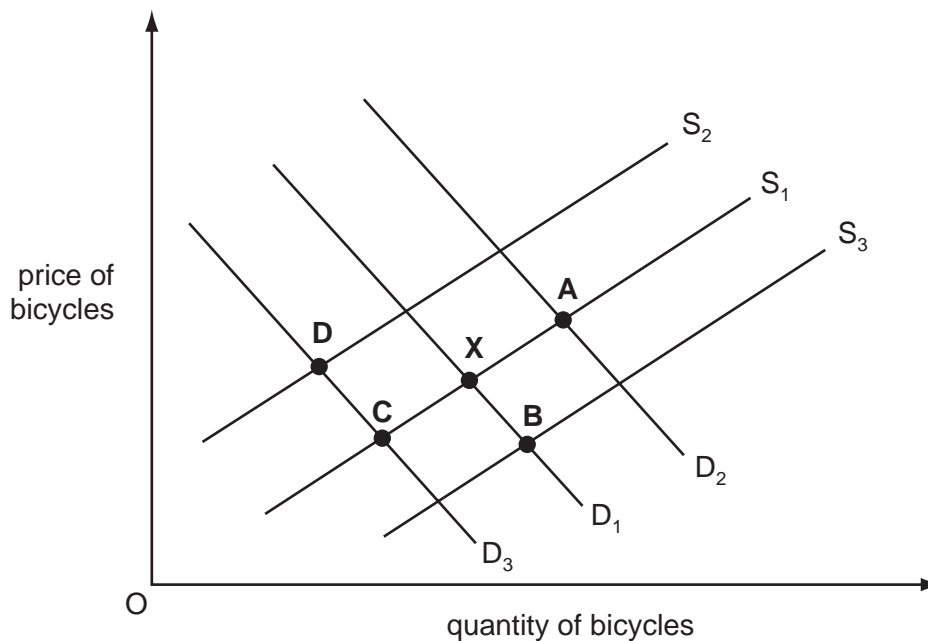
| price<br>\$ | number of eggs<br>demanded per week | number of eggs<br>supplied per week |
|-------------|-------------------------------------|-------------------------------------|
| 0.20        | 450                                 | 25                                  |
| 0.30        | 250                                 | 100                                 |
| 0.40        | 125                                 | 125                                 |
| 0.50        | 50                                  | 150                                 |

What will be the equilibrium price of eggs?

- A** \$0.20      **B** \$0.30      **C** \$0.40      **D** \$0.50

13 The diagram shows the demand for and the supply of bicycles.  $D_1$  and  $S_1$  are the original demand and supply curves and  $X$  is the original equilibrium position.

Which point shows the new equilibrium position after the granting of a subsidy to bicycle producers?



14 What might explain why wages paid in a particular occupation are high?

- A** a large supply of labour  
**B** a low price for the good produced  
**C** a strong trade union  
**D** pleasant working conditions

15 What is a non-wage factor that can affect an individual's choice of occupation?

- A bonuses
- B commission
- C long holidays
- D overtime pay

16 Which statement about different income groups is true?

- A High income groups do not need to borrow money.
- B High income groups save less money than low income groups.
- C Low income groups find it easier to borrow than high income groups.
- D Low income groups save a smaller percentage of their income than high income groups.

17 The table gives information about full-time workers in a country.

|        | average annual earnings |                       | hours worked per week |
|--------|-------------------------|-----------------------|-----------------------|
|        | \$                      | % increase in 2003–04 |                       |
| male   | 21 268                  | 4.4                   | 41.8                  |
| female | 15 444                  | 5.1                   | 37.6                  |

What can be concluded from the table?

- A All female workers earned less than male workers.
  - B The difference between male and female earnings became smaller.
  - C The hourly rate of pay for females was higher than for males.
  - D The productivity of female workers was higher than that of males.
- 18 What is likely to be found when there are many small firms in an industry?
- A There are few barriers to entry.
  - B There is high expenditure on research developments.
  - C There is not much competition.
  - D Very large capital costs are needed to establish a firm.

19 Which one of the following is a fixed cost to a firm?

- A the cost of raw materials
- B the payment for fuel for vehicles
- C the payment for telephone calls
- D the rent of a building

20 In 2003 Hewlett-Packard, a major computer company, announced that its profits had fallen below the level predicted.

What might have caused this?

- A increased advertising costs that greatly improved sales
- B low prices that made the company's product competitive
- C new technology that reduced costs
- D reduced sales and low prices

21 The table shows how employment in five industries changed in a country between 1996 and 2002.

| industries    | employment     |                |
|---------------|----------------|----------------|
|               | 1996<br>(000s) | 2002<br>(000s) |
| agriculture   | 600            | 700            |
| manufacturing | 1750           | 1700           |
| insurance     | 800            | 800            |
| tourism       | 1750           | 1700           |
| transport     | 550            | 500            |

Which statement about these industries for this period is correct?

- A Employment in the primary industries increased.
- B Employment in the secondary industries increased.
- C Employment in the tertiary industries increased.
- D Employment in the tertiary industries was less than in the secondary industries.

- 22 Ericsson is the world's leading maker of mobile phone machinery. It announced that it had secured a major contract to supply a Chinese phone company, China Mobile, with machinery. Ericsson also announced that it would become more efficient by reducing its workforce.

How would economists classify these changes for the two companies?

|          | Ericsson                        | China Mobile                    |
|----------|---------------------------------|---------------------------------|
| <b>A</b> | decreased average variable cost | decreased fixed cost            |
| <b>B</b> | decreased average variable cost | increased fixed cost            |
| <b>C</b> | increased fixed cost            | decreased average variable cost |
| <b>D</b> | decreased fixed cost            | decreased average variable cost |

- 23 The table shows the quantity of petrol (gasoline) demanded at different prices per litre.

Which price per litre gives maximum revenue?

|          | price per litre<br>(cents) | demand<br>(million of litres) |
|----------|----------------------------|-------------------------------|
| <b>A</b> | 40                         | 100                           |
| <b>B</b> | 30                         | 150                           |
| <b>C</b> | 20                         | 200                           |
| <b>D</b> | 10                         | 250                           |

- 24 The table gives information on the rate of economic growth in a country from 2001 to 2004.

|      | economic growth<br>(%) |
|------|------------------------|
| 2001 | 3.9                    |
| 2002 | 2.6                    |
| 2003 | 2.3                    |
| 2004 | 3.0                    |

What is likely to have fallen in this period?

- A** Gross Domestic Product
- B** imports
- C** prices
- D** unemployment



- 25 What is **most** likely to conflict with a government's aim of price stability?
- A higher direct tax rates
  - B higher government spending
  - C higher interest rates
  - D higher unemployment
- 26 What can a government do to increase demand in its economy?
- A budget for a surplus
  - B cut taxes
  - C encourage savings
  - D reduce its expenditure
- 27 Government advisers have suggested the following policies to reduce youth unemployment.
- Which would **not** increase public expenditure?
- A a cut in the minimum wage paid to young people
  - B a rise in the school-leaving age
  - C a subsidy to employers to recruit young people
  - D national military service for all
- 28 The government of Kenya wishes to help people with very low incomes.
- Which policy would achieve this?
- A increasing housing subsidies
  - B increasing income tax
  - C increasing indirect taxation
  - D increasing inheritance tax
- 29 What would increase the debits on a country's balance of trade?
- A A firm invests in a foreign country.
  - B Foreign tourists visiting the country spend less money.
  - C People buy imported instead of home-produced cars.
  - D Teams of doctors are sent to a country that has experienced an earthquake.



30 A newspaper reported that exports from Sweden remained low for five months as the rate of exchange meant that Swedish goods became more expensive to buy abroad.

What else would be likely to happen?

- A Imported goods would become cheaper in Sweden.
- B Swedish people would switch to buying home-produced goods.
- C The Swedish balance of payments would improve.
- D The Swedish balance of trade would improve.

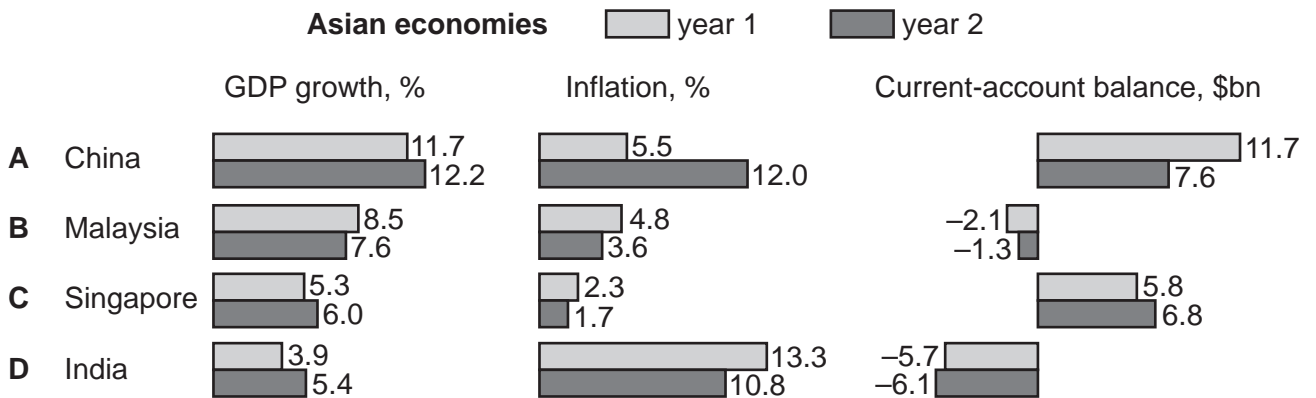
31 Instead of cleaning their own homes, a large number of households decide to clean each other's homes and charge for their services. They all declare their income to the tax authority.

What will increase as a result of this?

- A Gross Domestic Product
- B imports
- C investment
- D unemployment

32 The bar chart shows details of three economic indicators of several Asian economies in year 1 and year 2.

Which country improved its economic performance in all three indicators?



- 33 The table shows the trade in goods balance and the current account balance for four countries during a year.

Which country had the largest surplus on its trade in services?

|          | country   | trade in goods balance (\$ billion) | current account balance (\$ billion) |
|----------|-----------|-------------------------------------|--------------------------------------|
| <b>A</b> | Hong Kong | 6.2                                 | 6.2                                  |
| <b>B</b> | Indonesia | 4.4                                 | 4.3                                  |
| <b>C</b> | Mexico    | 7.8                                 | 7.6                                  |
| <b>D</b> | Singapore | 5.3                                 | 5.4                                  |

- 34 Many fishermen are unemployed owing to long-term legislation to conserve fish stocks in the North Sea.

What type of unemployment is this?

- A** demand-deficient
- B** frictional
- C** seasonal
- D** structural

- 35 The table gives information on four countries.

Which country is likely to be most developed?

|          | population (m) | Gross Domestic Product (\$ billion) | life expectancy (years) |
|----------|----------------|-------------------------------------|-------------------------|
| <b>A</b> | 100            | 800                                 | 51                      |
| <b>B</b> | 1000           | 1600                                | 63                      |
| <b>C</b> | 60             | 600                                 | 48                      |
| <b>D</b> | 150            | 6000                                | 63                      |

- 36 Which is the best measure of a country's standard of living?

- A** money national income per head
- B** national income
- C** national income per head
- D** real national income per head

- 37 When must there be a rise in a country's population?
- A when the birth rate is greater than death rate and there is net emigration
  - B when the birth rate is greater than death rate and there is no migration
  - C when the death rate is greater than birth rate and there is net immigration
  - D when the death rate is greater than birth rate and there is no migration
- 38 When does free trade occur?
- A when goods are exported with government subsidies
  - B when goods are given as part of an aid programme
  - C when goods are traded using barter
  - D when goods face no import barriers
- 39 Multi-national companies often set up business in developing countries. These countries benefit in a number of ways.
- What effect could **not** be considered a benefit for a developing country?
- A Investment in infrastructure is increased.
  - B More local workers are employed.
  - C New ideas and skills are introduced.
  - D Profits earned are sent abroad.
- 40 If a country places a tax on imports of food, which group in the country is most likely to benefit?
- A consumers
  - B farmers
  - C food importers
  - D supermarkets