Cambridge Assessment International Education

Cambridge IGCSE™

ECONOMICS **0455/12**

Paper 1 Multiple Choice **February/March 2021**

45 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- There are **thirty** 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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1 Sanjay is a risk taker and sets up a restaurant in Chennai. Sanjay works for the business as a chef. He leases the restaurant building from Raghav and employs him to serve the customers.

Which income is earned by Sanjay and Raghav?

	Sanjay	Raghav
A	interest and profit	wages only
B	interest and wages	profits and rent
C	profits and wages	rent and wages
D	profits only	interest and wages

2 A government reduces social security spending by $10 bn in order to increase defence spending by $10 bn.

What is this an example of?

A expansionary fiscal policy

B market forces

C price stability

D reallocation of resources

3 The table shows the maximum production possibilities for goods and services for a country.

goods (millions of units)	services (millions of units)
100	0
80	20
60	40
40	60
20	80
0	100

The country originally produced only goods but now produces 20 million units of services. The country continues to operate at maximum production possibility.

What is the opportunity cost for this country?

A 20 million units of goods

B 100 million units of goods

C 20 million units of services

D zero

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4 What is included in macroeconomics?

A the causes of a change in the price of one product

B the causes of a market failure

C the causes of determinants of price elasticities of supply

D the causes of economic growth

5 What is an advantage of a market economy in the allocation of resources?

A It ensures that all consumers are willing to pay the same price.

B It fixes prices based on costs of production.

C It guarantees suppliers will make a profit.

D It indicates the relative demand for goods and services.

6 Which characteristics of a product will cause market failure?

A Information about the product is known equally by consumers and producers.

B The consumption of the product has no external benefits.

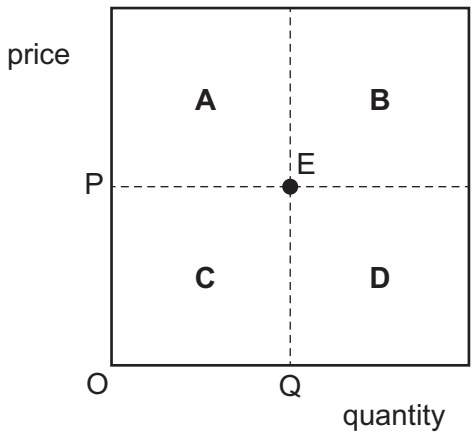
C The product is non-rival and non-excludable.

D The production of the product has no external costs.

7 The diagram shows the market equilibrium E for product X. Product X has a downward sloping demand curve and an upward sloping supply curve.

The price of a substitute good falls.

Into which area of the diagram would the market equilibrium for product X move?



8 The table shows the supply schedule for a good.

price ($)	quantity (000)
1	3
2	5
3	7

What is the price elasticity of supply when price increases from $1 to $3?

A 0.5 **B** 0.66 **C** 1.5 **D** 2.0

9 Which function does a central bank provide for the general public?

A accepting deposits

B issuing banknotes

C making loans

D providing overdrafts

10 What might cause a rise in wages?

A a more elastic supply of labour

B an increase in the size of the labour force

C improved fringe benefits for workers

D the introduction of a national minimum wage

11 A national trade union wishes to increase the wages of its members without reducing the numbers employed.

Which factor would help the union to do this?

A The demand for the industry's product is increasing.

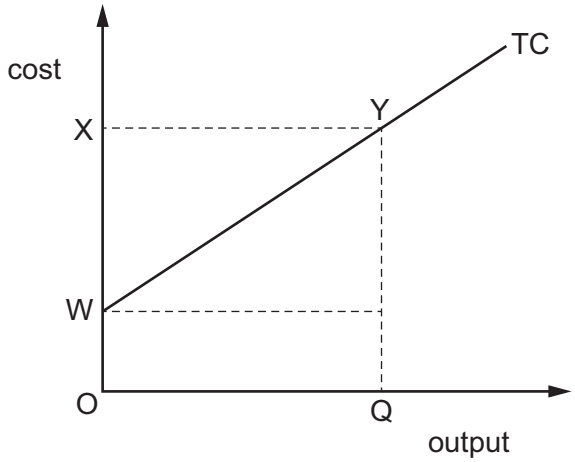
B The industry consists of a small number of well-organised employers.

C The union workers have low-level skills.

D The workers' wages are the largest cost of the industry.

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12 The diagram shows a firm's total cost (TC) curve.



What is the average variable cost if the firm produces an output of OQ?

A $\frac{OX}{OQ}$ **B** $\frac{OW}{OQ}$ **C** $\frac{WX}{OQ}$ **D** $\frac{WY}{OQ}$

13 What will occur when there is a conglomerate merger?

A increased control over supply of raw materials

B increased risk-bearing economies of scale

C reduced marketing economies of scale

D reduced technical economies of scale

14 What is total revenue?

A the money received by the firm for each additional unit of output sold

B the price of the good multiplied by the total quantity sold

C the revenue per unit sold divided by the quantity sold

D the revenue per unit sold minus the cost per unit sold

15 How would a state-owned oil refining firm be classified?

A as a multi-national company (MNC) in the private sector

B as a private sector firm in the tertiary sector

C as a public sector firm in the primary sector

D as a public sector firm in the secondary sector

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16 What is included in a government's budget?

A the balance of government revenue and government expenditure

B the balance of export revenue and import expenditure

C the difference between investment and saving

D the difference between social benefits and social costs of production

17 A country has rapidly increasing inflation.

What is an example of a monetary policy measure to reduce this problem?

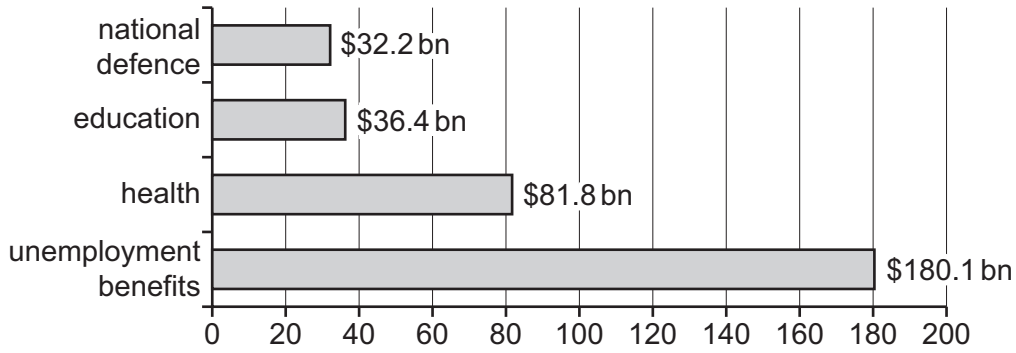
A increasing income tax

B increasing interest rates

C introducing maximum prices for some products

D subsidising key industries

18 The diagram shows selected areas of government spending for a country.



What was the total government spending on merit goods?

A $32.2 billion

B $81.8 billion

C $118.2 billion

D $261.9 billion

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19 The table shows the Consumer Prices Index (CPI) of an economy.

year	
1	100
2	101
3	104
4	108
5	106

What can be concluded from the data?

A Prices fell between years 4 and 5.

B Prices rose in every year.

C The rate of inflation rose 5% in year 4.

D There was a fall in living standards by year 5.

20 Deflation is a sustained fall in the general price level.

What might cause deflation?

A insufficient private capital investment

B loss of confidence in the government's economic policies

C rising oil prices

D shortages of skilled labour in relation to demand

21 Tax is charged at 1.45% on all wages earned to pay for basic medical provision.

How would this tax be described?

A direct and proportional

B direct and regressive

C indirect and proportional

D indirect and regressive

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[Turn over

22 The table shows some data about an economy.

	year 1
rate of inflation (%)	3.5
change in personal incomes (%)	2.5

What happened in year 1?

A Both prices and real incomes fell.

B Both prices and real incomes rose.

C Prices fell but real incomes rose.

D Prices rose but real incomes fell.

23 What is included in the construction of the Consumer Prices Index (CPI)?

A a base year

B incomes

C price elasticity of demand

D quantity supplied

24 Which country is likely to have the highest standard of living?

	birth rate	death rate	infant mortality rate	life expectancy
A	41	20	31	49
B	32	14	29	59
C	25	6	25	79
D	25	5	22	79

25 Which statement about poverty is correct?

A Absolute poverty occurs when income falls below what is needed for survival.

B An advanced economy is likely to have a higher level of absolute poverty than relative poverty.

C It is impossible for relative poverty to rise as absolute poverty falls.

D Relative poverty is measured by the same goods and services in all countries.

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26 The United Nations (UN) predicts that the population in low-income countries will increase.

What is likely to be a cause of this?

A Climate change will lead to lower food output and starvation.

B Improved education for girls will lead to a small decline in birth rates.

C Increasing numbers of people will migrate to higher income countries.

D Modern medicine and sanitation will lead to a rapid decline in death rates.

27 Which method of trade protection would enable domestic firms to lower their prices and undercut the price of imported goods?

A a subsidy

B a tariff

C an embargo

D an import quota

28 How might a multinational company (MNC) directly benefit a host country?

A It creates local employment.

B It depletes local natural resources.

C It imports raw materials.

D It receives tax concessions.

29 A country has a current account deficit on its balance of payments.

Which measure is **most** likely to reduce the deficit?

A a cut in interest rates

B a cut in the rate of income tax

C a depreciation of the exchange rate

D an increase in government expenditure

30 A country experienced a deficit on each of its trade in goods, primary income and secondary income. Overall, it had a surplus on the current account of its balance of payments.

What must this mean?

A It had a floating exchange rate.

B It had a surplus on its trade in services.

C It had a surplus on the government's budget.

D It was a low-income country.

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