**Cambridge International Examinations**
Cambridge International General Certificate of Secondary Education

**ECONOMICS** **0455/13**

Paper 1 Multiple Choice **May/June 2014**

**45 minutes**

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

* 5 6 3 9 6 2 2 2 7 6 *

**READ THESE INSTRUCTIONS FIRST**

Write in soft pencil.
Do not use staples, paper clips, 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.
DO **NOT** WRITE IN ANY BARCODES.

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 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 **10** printed pages and **2** blank pages.


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**1** The government of a developed country subsidises local private businesses, and encourages large foreign companies to locate in the country.

Which type of economic system is this?

**A** free market

**B** mixed

**C** planned

**D** subsistence

**2** What is most likely to reduce the supply of factors of production in an economy?

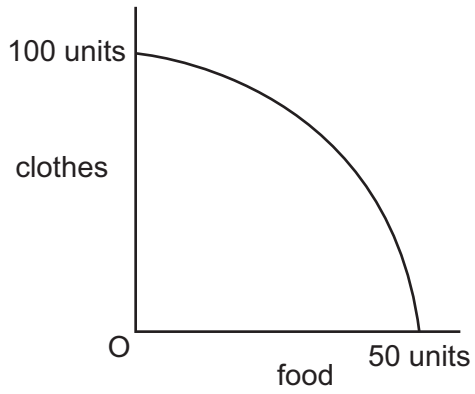
**A** increasing the age of retirement

**B** introducing new methods of irrigation

**C** lowering the cost of borrowing from banks

**D** raising the rate of tax on profits

**3** Using all available resources, an economy produces different combinations of two types of goods, clothes and food, shown by the production possibility curve (PPC) below.




What does the PPC indicate?

**A** It is more efficient to produce more of clothes than food.

**B** It is only possible to increase the output of clothes by reducing the output of food.

**C** The best situation is to produce equal units of clothes and food.

**D** The cost of producing a unit of clothes is always higher than that of food.

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**4** A power station was built to provide electricity to rural villages in Namibia.

What was its opportunity cost?

**A** the cost of producing the electricity

**B** the school which could have been built instead

**C** the time given up by the architect to design the power station

**D** the wages of the workers who built the power station

**5** Russia is the world's third largest exporter of grain but much of the country's farmland was damaged by fire in 2010.

How would this be represented on demand and supply diagrams for the Russian grain market and for a country importing Russian grain?

| | Russian grain market | market for Russian grain in the importing country |
|---|---|---|
| **A** | demand curve shifts to the left | demand curve shifts to the right |
| **B** | demand curve shifts to the right | supply curve shifts to the right |
| **C** | supply curve shifts to the left | supply curve shifts to the left |
| **D** | supply curve shifts to the right | demand curve shifts to the left |

**6** An area attracts tourists to see rare animals but the tourists have few hotels in which to stay. The local government has given permission for a developer to build a hotel. Conservationists say that the area will be ruined as the animals will move away and the nature of the area will be changed.

What is likely to happen as a result of this decision to the private benefit of the tourists and the external cost?

| | private benefit | external cost |
|---|---|---|
| **A** | increase | increase |
| **B** | decrease | decrease |
| **C** | uncertain | increase |
| **D** | uncertain | decrease |

**7** What would cause a movement down the demand curve for cars?

**A** a fall in the price of cars

**B** a fall in the price of petrol

**C** a rise in the price of car insurance

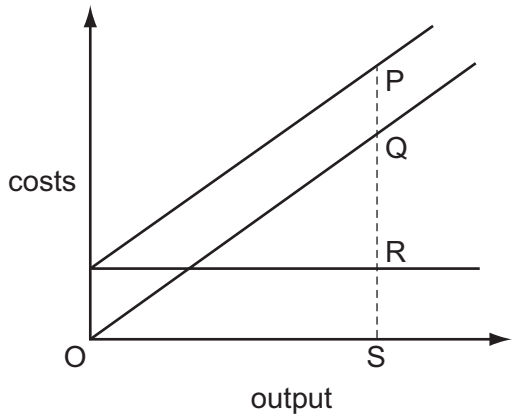
**D** a rise in the price of public transport

**8** When it produces 100 units, a firm's total variable cost is $300 and its total fixed cost is $2700.

What is the average cost?

**A** $3 **B** $24 **C** $27 **D** $30

**9** The diagram shows the fixed costs, variable costs and total costs of a firm.




Which distance represents the firm's fixed costs?

**A** PS **B** QR **C** QS **D** RS

**10** A market changes from perfect competition to monopoly.

What is likely to happen in this market?

| | barriers to entry | economies of scale | the size of the firm |
|---|---|---|---|
| **A** | decrease | decrease | increase |
| **B** | decrease | increase | decrease |
| **C** | increase | decrease | decrease |
| **D** | increase | increase | increase |

**11** Which type of economy of scale results from a firm producing a diverse range of products?

**A** buying

**B** financial

**C** risk bearing

**D** technical

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**12** A trade union is negotiating a wage rise for its members.

What will increase the chance of the wage rise being granted?

**A** The company's product has many substitutes.

**B** The economy is entering a period of recession.

**C** The government has made strike action illegal.

**D** Wages are a small part of the company's costs.

**13** Between 2009 and 2010 the number of potential jobs for qualified law students fell by 16%. During the same period the total number of applicants for places on law courses increased.

What is the most likely explanation for this?

**A** an economic recession and an increase in general unemployment

**B** an increase in crime rates and the possibility of high salaries in the legal profession

**C** an increase in the retirement age for existing lawyers and an increase in law course fees

**D** the merger of law firms and the closure of law courses

**14** Why are unskilled workers paid less than skilled workers?

**A** There is a higher demand for unskilled labour than skilled labour.

**B** There is a larger supply of unskilled labour than skilled labour.

**C** Unskilled labour belong to trade unions.

**D** Unskilled labour is more productive than skilled labour.

**15** What may cause an individual to save a higher proportion of their income?

**A** a belief that the price of goods will rise in the future

**B** a fall in the rate of interest paid by the country's banks

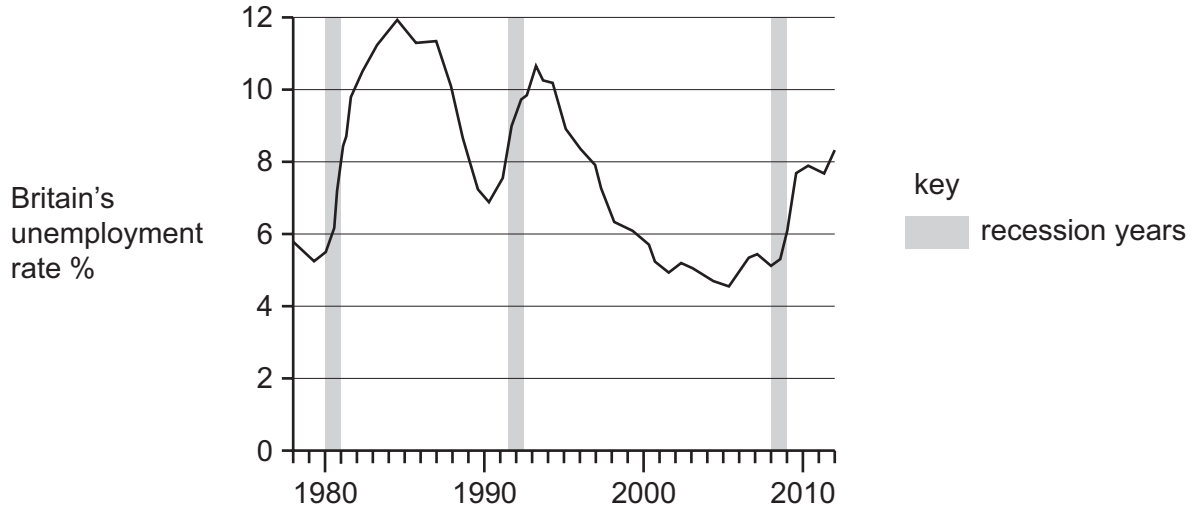
**C** a fear that income will fall in the future

**D** a rise in the individual's wish to enjoy higher consumption immediately

**16** In which case is success for the government in achieving the first aim likely to cause problems in achieving the second?

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

**17** The diagram shows the rate of unemployment and the periods of recession in Britain between 1978 and 2012.




What can be concluded from the diagram?

**A** Each recession lasted for more than two years.

**B** Recessions occurred at regular intervals.

**C** The unemployment rate peaked in a recession period.

**D** The unemployment rate rose during recession periods.

**18** It was reported in 2011 that an economy had negative economic growth for six months in a row.

What would be evidence for such a situation?

**A** an increase in GDP

**B** an increase in profit levels

**C** an increase in the level of unemployment

**D** an increase in the standard of living

**19** What is the definition of inflation?

**A** an increase in demand

**B** an increase in output

**C** an increase in the general price level

**D** an increase in wages

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**20** A government collects the following revenue in a year.

| | $m |
|---|---|
| taxes on goods | 30 |
| taxes on income | 500 |
| taxes on services | 20 |
| customs and excise duties | 50 |

What is the amount of indirect tax revenue?

**A** $30 m **B** $70 m **C** $100 m **D** $500 m

**21** Governments aim to encourage stable prices because inflation can result in a current account deficit on the balance of payments.

How does high inflation contribute to a current account deficit?

**A** Countries have to barter manufactured goods for raw materials.

**B** Goods manufactured for export lose their competitiveness.

**C** Numbers of foreign visitors increase.

**D** Spending on imported goods is reduced.

**22** The Mexican government has passed a law which prevents any monopoly charging a price significantly above its production costs. Any monopoly that breaks the law is fined.

Which type of policy measure is this?

**A** minimum price

**B** regulation

**C** subsidy

**D** tax

**23** Which are two aims that a Government normally pursues when managing the performance of the whole economy?

**A** to encourage an increase in production and to prevent high inflation

**B** to ensure no one is unemployed and to reduce exports

**C** to give everyone equal incomes and to increase government revenues

**D** to protect the environment and to reduce interest rates

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**24** Countries in Europe were in a recession in 2012. Usually a recession would mean oil prices fall. In fact in 2012, oil prices rose.

Which international events might have explained these changes?

| | possible causes of an oil price fall in the recession | possible causes of an oil price rise in 2012 |
|---|---|---|
| **A** | European industrial production declined | China increased its car production |
| **B** | India invested huge amounts in road building | Japan's economy had negative growth |
| **C** | Middle East conflicts made oil supplies uncertain | Saudi Arabia increased oil production |
| **D** | new oil exploration in Poland was successful | demand for alternative fuels increased |

**25** In 2012 the UK held the Olympic Games which attracted a large number of visitors from foreign countries.

Which item of the UK's current account balance will have benefitted directly from this event?

**A** export trade in goods

**B** export trade in services

**C** import trade in goods

**D** import trade in services

**26** The Sri Lankan government decides to offer financial support to local firms.

Of what is this an example?

**A** a quota

**B** a subsidy

**C** a tariff

**D** exchange control

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**27** The table gives information about four countries.

Which country has the lowest standard of living?

| | life expectancy | GDP per head (US $) | % of labour force in agriculture |
|---|---|---|---|
| **A** | 48 | 120 | 80 |
| **B** | 48 | 250 | 70 |
| **C** | 54 | 350 | 75 |
| **D** | 60 | 380 | 60 |

**28** The table shows data collected in 2010 for the average number of children a woman gave birth to and the education she received during her lifetime.

| education received | average number of children |
|---|---|
| none | 4.5 |
| primary school level | 3.0 |
| secondary school level | 2.0 |
| university level | 1.7 |

What can be concluded from this information?

**A** Average fertility was 2.8 in 2010.

**B** Most girls do not go to school.

**C** Providing more education for girls would reduce fertility rates.

**D** There is no relationship between education and fertility rates.

**29** Developing countries often wish to prevent the population in rural areas moving to the towns. Investment grants are given to companies if they set up their businesses in rural areas.

What is this policy intended to achieve?

**A** decreased transport costs

**B** decreased external cost

**C** increased economies of scale

**D** increased use of labour

**30** 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 measures the same goods and services in all countries.

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