Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/13**

Paper 1 Multiple Choice **May/June 2016**

45 minutes

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

* 1 2 3 5 5 0 7 7 6 8 *

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 Which statement about a production possibility curve is correct?

A A production possibility curve is an alternative name for an industry supply curve.

B A production possibility curve is an economic model of potential output.

C A realistic production possibility curve must be drawn as a straight line.

D A production possibility curve applies only to an economy's production of goods.

2 Which firm is likely to find it most difficult to expand the use of its main factor of production?

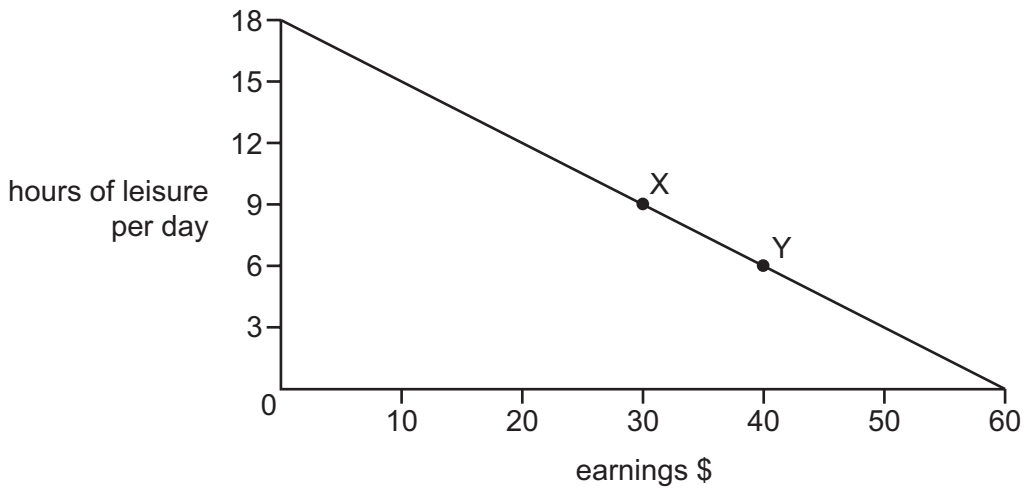
A a farm growing crops in extensive fields

B a technology firm dependent on risky innovations

C a textile firm making use of labour-intensive systems

D an engineering firm relying upon capital-intensive methods

3 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 $10

B $40

C 3 hours of leisure per day

D 6 hours of leisure per day

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4 A government taxes the production of cars.

What is likely to decrease?

A the cost of supplying cars

B the price of cars

C the revenue for the government

D the supply of cars at every price

5 Which pair of economic institutions can be found in a market economy?

A local government and charities

B monopolies and commercial banks

C nationalised industries and partnerships

D stock exchange and public corporations

6 Developers want to increase the size of a major retail shopping area in a city. It is thought that the proposal would create hundreds of jobs, be profitable for the shops but cause major traffic congestion.

What economic concepts are directly involved in this statement?

A external cost and private benefit

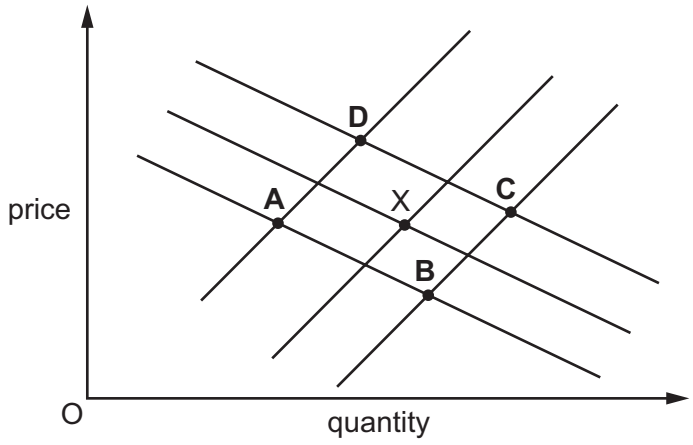
B income distribution and inelastic demand

C private investment and a decrease in supply

D social benefit and perfect competition

7 The diagram shows demand and supply curves for a product. Initially the market is in equilibrium at point X.

What would be the new equilibrium point if the costs of production fell and a rumour circulated that the product could become unsafe in extreme weather conditions?



8 What does the term 'closed shop' mean?

A a bankrupt retail establishment

B a trade union that is approved by the government

C an agreement that all workers must be members of the same trade union

D an agreement by trade unions to share members

9 What function does a central bank fulfil?

A It issues currency.

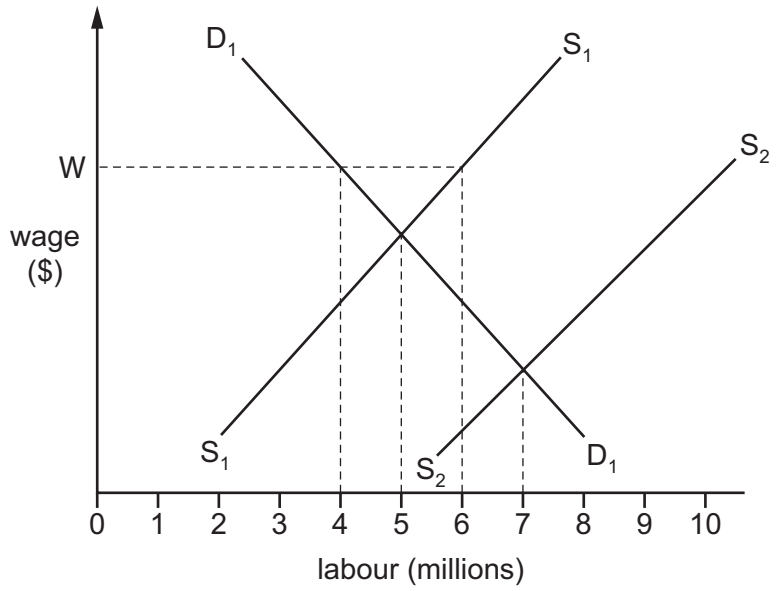
B It offers overdraft facilities to individuals.

C It operates deposit accounts.

D It raises taxation.

10 In the diagram, D_1D_1 and S_1S_1 represent the demand for and the supply of labour. W indicates a legal minimum wage.

An influx of immigrant labour causes the supply curve for labour to shift from S_1S_1 to S_2S_2.



How many people will be employed if the minimum wage legislation is then abolished?

A 4 million **B** 5 million **C** 6 million **D** 7 million

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11 The table shows how three people spend their income.

	person X	person Y	person Z
food, clothing and housing	30%	25%	50%
entertainment and leisure	35%	35%	25%
luxury goods	35%	40%	25%

For these three people, what is the most likely order of income, from lowest income to highest income?

A $Y \rightarrow X \rightarrow Z$

B $Y \rightarrow Z \rightarrow X$

C $Z \rightarrow X \rightarrow Y$

D $Z \rightarrow Y \rightarrow X$

12 How does a firm guarantee that it makes the maximum profit?

A by maximising the difference between its total revenue and total cost

B by maximising the number of goods that it sells

C by minimising the number of goods that it keeps in stock

D by minimising the difference between average revenue and average cost

13 What is true when comparing a monopoly to a perfectly competitive firm?

A Monopolies will have perfect knowledge of their market.

B Monopoly costs are always lower owing to economies of scale.

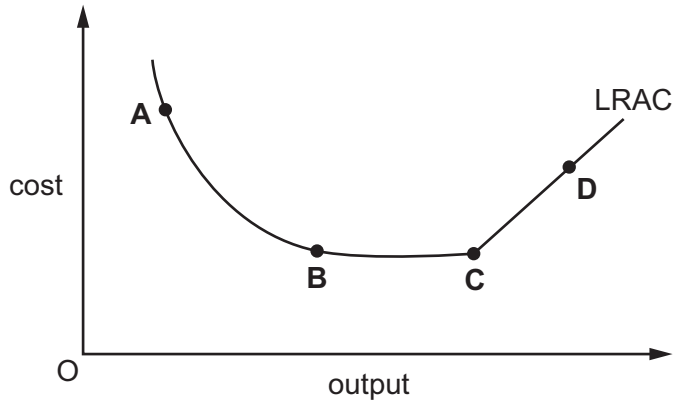
C Monopoly price is likely to be higher.

D The products that monopolies produce have more limited demand.

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14 A manufacturing firm increases the scale of its production. Its average total cost curve in the long run (LRAC) is shown below.

At which point on the LRAC curve is the firm experiencing diseconomies of scale?



15 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
4	3	5	20
8	6	10	40

What is the firm experiencing?

A constant returns to scale

B economies of scale

C external diseconomies of scale

D external economies of scale

16 A government wishes to stimulate economic recovery.

Which action will assist this?

A decreasing government investment

B decreasing income tax

C increasing indirect taxation

D increasing interest rates

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17 When a government aims to encourage economic growth it may adopt supply-side policies.

Which policy is a supply-side policy?

A increasing the money supply

B lowering interest rates

C reducing direct taxation

D retraining unemployed workers

18 The table shows a government's receipts from taxation.

	$m
air passenger duty	10
company profits tax	100
import duty	75
income tax	200
inheritance tax	50
sales tax (VAT)	300

What is the total amount of revenue raised by direct taxes?

A $135 m **B** $200 m **C** $300 m **D** $350 m

19 Which policy combination will be the **most** effective if a government wishes to increase the level of employment?

A decrease general taxation and increase the rate of interest

B decrease general taxation and decrease the rate of interest

C increase general taxation and decrease the rate of interest

D **i**ncrease general taxation and increase the rate of interest.

20 What is most likely to lead to a rise in the rate of inflation?

A a decrease in consumer spending

B a decrease in unemployment benefits

C an increase in import prices

D an increase in income tax

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21 Which measures, in addition to Gross Domestic Product per capita, are included in the Human Development Index?

A average earnings and inequalities of incomes

B balance of trade and balance of payments

C life expectancy at birth and expected years of schooling

D size of population and age structure of population

22 The table gives information about three economic indicators in four countries.

	inflation %	interest rates %	unemployment %
country W	1.4	3.4	10.2
country X	3.7	8.7	12.3
country Y	3.6	7.3	14.2
country Z	2.1	6.0	7.7

What may be concluded from this information?

A Countries with higher inflation have higher interest rates.

B Countries with higher interest rates have lower unemployment.

C The country with the lowest inflation had the highest unemployment.

D The country with the lowest unemployment had the lowest inflation.

23 Which type of government policy would be most suitable to control external costs of production?

A employment policy

B fiscal policy

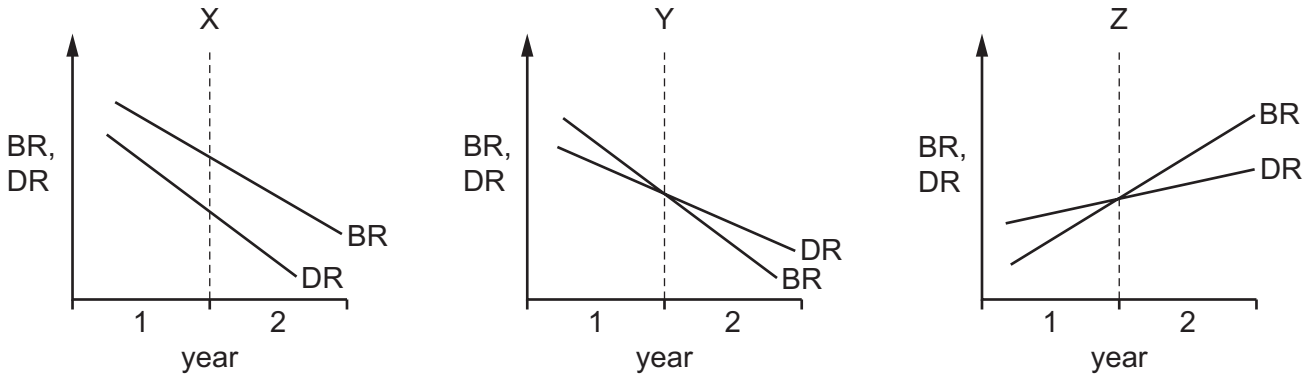
C monetary policy

D trade policy

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24 The diagrams show birth rate (BR) and death rate (DR) in three countries, X, Y and Z, in two years, 1 and 2.

There was no migration.



Where was there a rise in population in year 1 and a fall in population in year 2?

A X and Z **B** X only **C** Y and Z **D** Y only

25 Why might the emigration of workers help the economy of a developing country?

A The dependency ratio is likely to improve.

B The inflow of transfers of money is likely to increase.

C The least healthy workers are likely to be the last ones to leave.

D The more skilled workers are likely to be the ones to leave.

26 What combination of changes in the birth rate and death rate is most likely to increase the dependency ratio in a country?

	birth rate	death rate
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

27 What might cause the balance on the current account of Mauritius to improve?

A increased purchases of coffee from Kenya

B increased transport of Mauritian goods in Greek ships

C increased spending by Mauritians on holidays in South Africa

D increased spending by tourists in Mauritian hotels

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28 A country says that it wishes to increase its trade protection policies.

What might that involve?

A conservation of resources and taxes on external costs

B eliminating waste in the use of resources and grants to multinational companies

C increased self sufficiency and increased tariffs

D price controls and increased regulations on domestic monopoly industries

29 It has been suggested that all countries producing arms should ban the export of weapons and cut production in order to reduce the risk of war.

What would happen if this occurred?

A The balance of payments on current account of countries exporting weapons would immediately improve.

B The price of existing weapons would fall.

C There would be a risk of structural unemployment in countries that are major producers of weapons.

D There would be no overall effect on the balance of payments as countries would produce their own weapons.

30 The value of the Pakistani rupee changes, from 60 rupees to US$1, to 50 rupees to US$1.

What effect will this have on the price of Pakistani products sold in the US and the price of US products sold in Pakistan?

	price of Pakistani products sold in the US	price of US products sold in Pakistan
A	increase	increase
B	increase	decrease
C	decrease	increase
D	decrease	decrease

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