UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

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

Paper 1 Multiple Choice **October/November 2010**

**45 minutes**

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

*7775507302*

**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 **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 **9** printed pages and **3** blank pages.


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**1** A government is faced with the choice of spending on either education or healthcare.

Of what is this an example?

**A** conservation of resources

**B** monetary policy

**C** opportunity cost

**D** substitution of factors

**2** 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

**3** What makes choice an important element in the basic economic problem?

**A** Increased demand leads to higher market prices.

**B** Limited resources have many alternative uses.

**C** Reaching a market equilibrium may take a long time.

**D** Scarce economic resources are distributed equally.

**4** What is a factor of production?

**A** an advantage of producing on a large scale

**B** a resource used to produce goods and services

**C** a sub-section of a manufacturing process

**D** a unit of output

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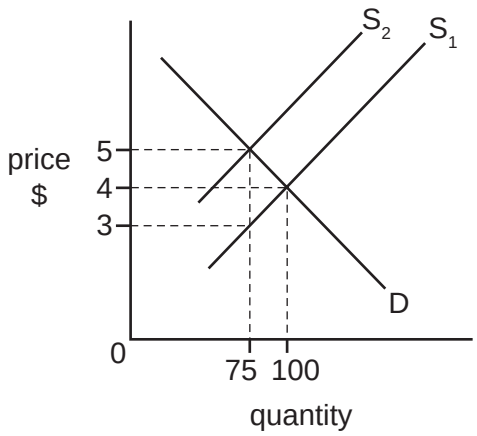
**5** The table illustrates the demand and supply for rice in a market in Africa.

| price per kg ($) | quantity demanded (kg) | quantity supplied (kg) |
|---|---|---|
| 10 | 50 | 10 |
| 20 | 40 | 20 |
| 30 | 30 | 30 |
| 40 | 20 | 40 |

When the price rises from $20 to $30 per kg, what is the approximate price elasticity of demand for rice?

**A** 0.25 **B** 0.5 **C** 1.0 **D** 2.0

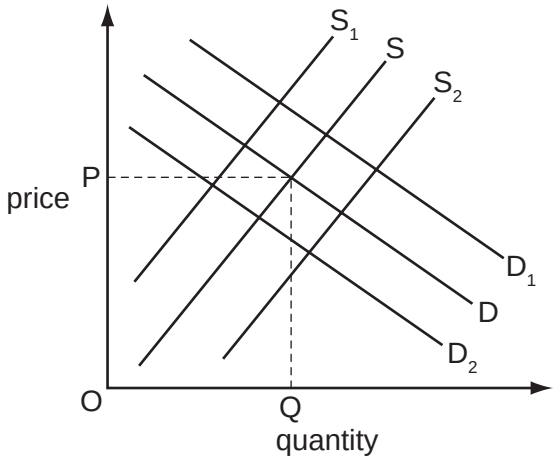
**6** The diagram shows that when a tax of $2 on a good raises the supply curve from $S_1$ to $S_2$, the price to the consumer rises from $4 to $5.




What is the total tax yield to the government?

**A** $75 **B** $150 **C** $200 **D** $375

**7** The diagram shows demand and supply curves for a product at its equilibrium price P.




How would the introduction of a subsidy be shown?

**A** Demand would shift to $D_1$.

**B** Demand would shift to $D_2$.

**C** Supply would shift to $S_1$.

**D** Supply would shift to $S_2$.

**8** Which statement could explain a decrease in the demand for natural rubber?

**A** Demand for car tyres has increased.

**B** New techniques of producing substitutes for rubber have been introduced.

**C** Productivity of rubber plantations has increased.

**D** The area of land on which rubber is grown has increased.

**9** 'There are actors who earn extremely high incomes.'

What best explains this?

**A** Acting is a popular career.

**B** Actors have regular employment.

**C** Actors work short hours.

**D** Some actors have a unique talent.

**10** What might be a direct benefit to the individual worker of a specialised job?

**A** Specialisation can enable the worker to become more skilled.

**B** Specialisation enables a better quality product to be produced.

**C** Specialisation enables the firm to introduce more machinery.

**D** Specialisation makes better use of resources.

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**11** A stock exchange is a market in which

**A** a system of barter operates.

**B** the interest rate is fixed.

**C** the value of the exchange rate is determined.

**D** shares are bought and sold.

**12** 'Savers suffer as inflation rises to 4.4 %.'

Which function of money is most involved in this statement?

**A** means of deferred payments

**B** medium of exchange

**C** store of value

**D** unit of account

**13** What is the most likely reason for a worker preferring to be employed by the government rather than by a firm in the private sector?

**A** more chance of a fast changing environment

**B** more chance to work in a large organisation

**C** more opportunity to gain from successful risk taking

**D** more possibility of productivity bonuses

**14** In 2008, the world's largest metal mining company, BHP, increased its profits by 20 %.

What could have helped that happen?

**A** a decrease in economic growth in the UK and the US

**B** an increase in demand from China

**C** more competition from other companies

**D** more difficult mining conditions

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**15** The table shows a firm's fixed and variable costs at four levels of output.

| output (units) | fixed costs ($) | variable costs ($) |
|---|---|---|
| 2 | 50 | 110 |
| 3 | 50 | 130 |
| 4 | 50 | 210 |
| 5 | 50 | 300 |

At which level of output is average cost at its lowest?

**A** 2 **B** 3 **C** 4 **D** 5

**16** A milk processing company takes over a group of dairy farms before merging with a chain of supermarkets.

Which types of integration have taken place?

**A** diversification followed by horizontal

**B** horizontal followed by vertical backward

**C** vertical backward followed by vertical forward

**D** vertical forward followed by diversification

**17** What is usually an advantage of a small firm?

**A** the ability to benefit from bulk buying arrangements

**B** the ability to raise finance from a stock exchange

**C** the ability to respond quickly to changes in consumer demand

**D** the ability to run a national advertising campaign

**18** In 2008, XL, the UK's third largest tour operator went out of business.

What would have been the effect of this on the level of competition in the industry, the external economies of scale experienced by the remaining firms and the level of business confidence in the UK?

| | level of competition | external economies of scale | UK business confidence |
|---|---|---|---|
| **A** | increase | increase | reduce |
| **B** | increase | reduce | increase |
| **C** | reduce | increase | increase |
| **D** | reduce | reduce | reduce |

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**19** What is most likely to be the responsibility of a central government?

**A** the provision of immigration officials at an airport

**B** the provision of security cameras in a shopping centre

**C** the provision of security staff at a bank

**D** the provision of ticket inspectors on a train

**20** In September 2008, the Chinese government increased the sales tax on cars with large engines whilst it reduced the sales tax on cars with small engines. Most cars in China with large engines are imported whilst most cars with small engines are home produced.

Which effects would the changes in sales tax be expected to have on China's trade surplus and the demand for home produced cars?

| | trade surplus | demand for home produced cars |
|---|---|---|
| **A** | increase | increase |
| **B** | increase | reduce |
| **C** | reduce | increase |
| **D** | reduce | reduce |

**21** Direct taxes can be used to

**A** place the burden of tax on sellers not buyers.

**B** protect domestic industries from foreign competition.

**C** raise revenue without affecting the number of hours employees work.

**D** redistribute incomes from rich to poor.

**22** Brazil is a highly taxed economy. Some Brazilian economists have suggested that if the government were to cut tax rates, the government would actually receive more tax revenue.

Why may cutting taxes increase revenue?

**A** It may encourage emigration.

**B** It may increase the tax burden.

**C** It may lead to a fall in investment.

**D** It may reduce tax evasion.

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**23** How is the pattern of employment likely to change when a country becomes more developed?

**A** from rural employment to urban employment

**B** from skilled employment to primary employment

**C** from technical employment to manual employment

**D** from tertiary employment to secondary employment

**24** In 2008, the US had a higher GDP per head than Iceland, but a lower Human Development Index ranking than Iceland.

What could explain this difference?

**A** Average family size is higher in Iceland.

**B** Life expectancy is higher in Iceland.

**C** School enrolments are higher in the US.

**D** The population of the US is larger.

**25** In Germany's 2007 retail price index, transport received a higher weighting than clothing and footwear.

What does this difference indicate?

**A** Households spent more on transport than on clothing and footwear.

**B** The price of transport rose by more than the price of clothing and footwear.

**C** Transport is more of a luxury good than clothing and footwear.

**D** Wage rises in the transport industry were higher than wage rises in the clothing and footwear industry.

**26** What will be the likely effect on the remaining population of a developing country when newly trained, skilled workers migrate to developed countries?

**A** Its average age will increase.

**B** Its mobility will increase.

**C** Its productivity will increase.

**D** Its total size will increase.

**27** What is most likely to indicate that an economy is developed rather than developing?

**A** a high birth rate and a low death rate

**B** a large primary sector and a high population growth

**C** a large service sector and capital intensive production

**D** a low level of investment and a high rate of savings

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**28** The table shows four countries in 2007.

Which country is most likely to have the lowest standard of living?

| | country | GDP (US$ billion) | population (million) |
|---|---|---|---|
| **A** | Bangladesh | 206.7 | 153.5 |
| **B** | India | 2989.1 | 1147.9 |
| **C** | Nigeria | 292.7 | 138.3 |
| **D** | South Africa | 467.1 | 43.8 |

**29** One argument for protectionism is to prevent dumping.

What is meant by dumping?

**A** countries paying low wages to their workers to gain price advantage

**B** countries providing poor working conditions for their employees to keep costs low

**C** countries selling products abroad at less than the cost of production

**D** countries selling products abroad that do not meet health and safety standards

**30** 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 Portuguese ships

**C** increased spending by Mauritians on holidays in Goa

**D** increased spending by tourists in Mauritian hotels

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