



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/03

Paper 3 Multiple Choice (Extended)

October/November 2008

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 What is **not** a factor of production?

- A company shares
- B machinery
- C raw materials
- D unskilled workers

2 What is a feature of a mixed economic system but not a planned economic system?

- A It has both industrial and service sectors.
- B It has both large and small firms.
- C It has both public and private sectors.
- D It has both rural and urban areas.

3 The purchase of new machinery enables a firm to increase output with fewer workers.

What is the effect on labour productivity and total costs?

| | change in labour productivity | change in total costs |
|----------|-------------------------------|-----------------------|
| A | fall | constant |
| B | rise | rise |
| C | rise | uncertain |
| D | uncertain | fall |

4 The UK government gave subsidies to orchestras so that the number of concert performances could be increased. However, the advertisements for these concerts caused such extra demand that ticket prices rose despite the subsidy.

What can be concluded about these changes?

- A the demand curve for concerts moved to the left
- B the government alone determined the market price
- C the market allocation of resources was altered
- D there is now no scarcity of resources available for concerts

- 5 A woman playing a quiz game starts with no money, but correctly answers the question that is worth \$4000. The next question is worth \$10 000 but if she answers incorrectly she will leave the game with no money.

What is her opportunity cost of choosing to answer the \$10 000 question if her answer is incorrect?

- A nothing B \$4000 C \$6000 D \$10 000

- 6 A company producing coffee in Europe has operations in Brazil and Kenya.

What is a reason why a company might decide to have operations in more than one country?

- A availability of cheaper raw materials
B easier central control of operations
C greater risk of supply disruption
D increased transport costs

- 7 In which situation will a trade union be **least** likely to be effective in supporting the interests of its members?

- A The economy is experiencing an increase in unemployment.
B The firms have a large increase in demand for the product.
C The government passes a law weakening the powers of employers.
D The workers' wages are a small proportion of total costs.

- 8 Which disadvantage is likely to arise when a private company grows and becomes a public company?

- A Banks may have less confidence in its financial stability.
B Customers may expect a reduced range of products.
C Suppliers may be more uncertain about receiving payment for materials.
D Workers may feel less motivated within a larger organisation.

9 The following table gives information about four companies.

Which one of these companies is **not** a multi-national company?

| company | number of countries in which the company has shareholders | number of countries in which the company has factories | number of countries in which the company sells its products |
|----------|---|--|---|
| A | 2 | 1 | 100 |
| B | 1 | 2 | 50 |
| C | 10 | 20 | 20 |
| D | 20 | 5 | 1 |

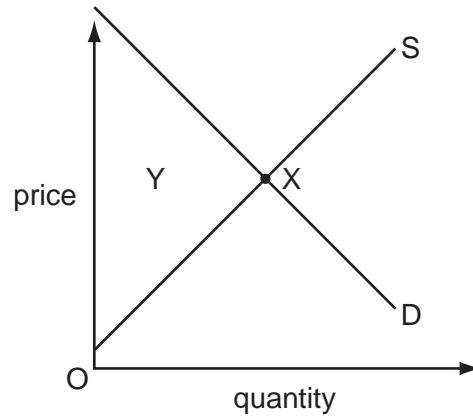
10 In 2004, Dyson, a UK company, launched a luxury version of its vacuum cleaner in Japan.

Within two years, it became the top-selling vacuum cleaner in the country.

What could have caused this increase in demand?

- A** a fall in the population of Japan
- B** a fall in the price of alternative vacuum cleaners in Japan
- C** rising levels of unemployment in Japan
- D** successful advertising of Dyson vacuum cleaners in Japan

11 The diagram shows the market for a product. The equilibrium is at X.



Which combination of demand and supply changes would result in a new equilibrium in the area marked Y?

| | demand change | supply change |
|----------|---------------|---------------|
| A | decrease | decrease |
| B | decrease | increase |
| C | increase | decrease |
| D | increase | increase |

12 Four changes affecting the supply of a good are listed below.

Which would cause the supply curve to shift to the left?

- A** a decrease in its market price
- B** an improvement in technology
- C** an increase in labour productivity
- D** the introduction of a sales tax

13 Many people prefer to buy clothes from a local shop rather than travel to a specialist tailor to have them made.

Which combination of characteristics of the local shop would make this most likely?

- | | | | |
|----------|------------------------------|-------------------------|----------------|
| A | easily accessible shop | high quality product | more expensive |
| B | easily accessible shop | average quality product | less expensive |
| C | shop owner known to customer | average quality product | more expensive |
| D | shop owner known to customer | poor quality product | less expensive |

- 14 The price elasticity of demand for a good is calculated as -0.5 .

What will occur if the price of the good increases by 10%?

- A Demand will fall by 20 %.
- B Demand will fall by 5 %.
- C Revenue will fall by 20 %.
- D Revenue will fall by 5 %.

- 15 Each of the four sets of descriptions applies to a different person who was appointed to a job.

Each job was different.

Which job was likely to have offered the lowest pay?

- A skilled inexperienced older worker
- B unskilled experienced older worker
- C skilled experienced younger worker
- D unskilled inexperienced younger worker

- 16 What is most likely to explain why a worker receives above average hourly earnings?

- A Demand for the product is high and the production process is simple.
- B The employer provides the worker with fringe benefits.
- C The product is difficult to produce and requires the worker to be highly skilled.
- D Working in the job provides the worker with a high level of job satisfaction.

- 17 In which way will an increase in income be most likely to affect the amount of spending and saving of an individual?

| | spending | saving |
|----------|----------|--------|
| A | fall | fall |
| B | fall | rise |
| C | rise | fall |
| D | rise | rise |

- 18 Why might a person buy ordinary shares on the stock exchange rather than put the money in a savings account?
- A to earn a fixed income
 - B to gain a high return
 - C to keep money in a safe place
 - D to start a company

- 19 25 % of both rural and urban consumers were reported to prefer products from Japan when buying electronic goods.

Which combination of characteristics are the Japanese electronic goods likely to have which persuade consumers to make this choice?

| | technology | length of guarantee | running costs |
|----------|------------|---------------------|---------------|
| A | latest | 12 months | high |
| B | standard | 12 months | low |
| C | latest | 24 months | low |
| D | standard | 24 months | high |

- 20 The financial director of a company adds up the expenditure on items such as electricity, petrol (gas) and diesel fuel and raw materials. The director then divides that total by the firm's output.

What has the director calculated?

- A average revenue
 - B average fixed cost
 - C average variable cost
 - D average total cost
- 21 A business aims to maximise profits.
- To do this, it will have to
- A maximise sales revenue.
 - B maximise the difference between sales revenue and production costs.
 - C minimise production costs.
 - D minimise the difference between actual production and maximum production.

22 The following report appeared in a newspaper.

'British American Tobacco (BAT), the cigarette producer, said it would invest \$1.5 million in China during the next two years as it set up new factories. China is estimated to be the world's most important market for the sale of cigarettes.'

What is likely to happen to the total cost, total revenue and profit of BAT?

| | total cost | total revenue | profit |
|----------|------------|---------------|-----------|
| A | decrease | increase | uncertain |
| B | decrease | decrease | increase |
| C | increase | increase | uncertain |
| D | increase | decrease | increase |

23 Increasing returns to scale means that if all inputs are doubled, output will

- A** remain the same.
- B** increase but less than double.
- C** double.
- D** more than double.

24 A motor car manufacturer buys a chain of showrooms where the new cars are sold to the public.

Of what is this an example?

- A** conglomerate integration
- B** horizontal integration
- C** vertical integration backwards
- D** vertical integration forwards

25 Which of the following is **not** included in public expenditure?

- A** capital spending by public companies
- B** expenditure by government departments
- C** investment by nationalised industries
- D** spending by local governments

26 What is most likely to improve the economic performance of a country in the long run?

- A a decrease in investment
- B a decrease in the school-leaving age
- C an increase in government spending on education
- D an increase in the rate of interest

27 Rose earns \$12 000 per annum and pays \$4000 per annum in income tax. Johann earns \$20 000 per annum and pays \$5000 per annum in income tax.

What describes this system of income tax?

- A flat rate
- B progressive
- C proportional
- D regressive

28 A government could be successful in achieving one of its economic aims. However, this could cause a subsequent result which might be undesirable.

Which case would the government think undesirable?

| | successful aim | subsequent result |
|----------|------------------------------|--------------------------|
| A | improved balance of payments | fewer people out of work |
| B | faster economic growth | higher living standards |
| C | steadier prices | lower trade deficit |
| D | reduced unemployment | higher rate of inflation |

29 The government puts a \$2.00 tax on each \$8.00 DVD sold. As a result, the price of a DVD rises from \$8.00 to \$8.50.

What can be concluded from this?

- A The demand for DVDs is price inelastic.
- B The government will receive only 25% of its expected tax revenue.
- C The incidence of the tax will fall mainly on the producer.
- D The tax is progressive.

30 Which type of unemployment is likely to lead to the most serious regional problems in a country?

- A cyclical
- B frictional
- C residual
- D structural

31 The Gross Domestic Product (GDP) of Hong Kong rose more slowly than the rest of South East Asia between 1997 and 2002.

What is the most likely reason?

- A a fall in competitiveness in Hong Kong
- B a fall in production costs in Hong Kong
- C an economic recession throughout South East Asia
- D a rise in productivity in Hong Kong

32 The table shows the index numbers for Gross Domestic Product (GDP) for four countries between 2001 and 2005.

Which country experienced the greatest economic growth over the period 2001 to 2005?

| country | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------|------|------|------|-------|-------|
| A | 96.7 | 98.6 | 100 | 103.7 | 106.1 |
| B | 85.3 | 98.5 | 100 | 102.6 | 105.0 |
| C | 94.4 | 99.0 | 100 | 106.6 | 108.1 |
| D | 92.8 | 94.5 | 100 | 105.8 | 110.0 |

33 Which combination is most likely to be found in a developing country compared with a more developed country?

| | population growth rate | death rate |
|----------|------------------------|------------|
| A | higher | higher |
| B | higher | lower |
| C | lower | higher |
| D | lower | lower |

- 34 Real Gross Domestic Product per head is often used as a measure of the change in average living standards.

What reduces its effectiveness in representing this change?

- A It omits increases in the cost of living.
 - B It omits increases in the general price level.
 - C It omits increases in the hours people work.
 - D It omits increases in the size of the population.
- 35 What will be found in a typical developed country?
- A a dominant primary sector
 - B a large percentage of employment in the informal (unofficial) sector
 - C a population with a rising average age
 - D labour intensive production methods in manufacturing industry
- 36 Which commercial activity will **not** destroy the natural environment?
- A intensive fishing in coastal waters using modern fishing boats
 - B large-scale farming using chemical fertilisers
 - C picking apples from trees using local labour
 - D tree felling by timber companies in tropical forests
- 37 World-wide campaigns to reduce smoking will affect Malawi, which has relied on tobacco for its main export earnings.
- What is likely to happen if Malawi is successful in replacing its earnings from tobacco by developing its tourist trade?
- A The number of jobs required in the service sector will decrease.
 - B The primary sector will become more significant in the economy.
 - C There will be greater expenditure on new roads and infrastructure.
 - D Visible earnings will increase while invisible earnings will decrease.
- 38 Which of the following increases specialisation?
- A A farmer decides to convert some of his farm buildings into holiday cottages for rent.
 - B A government decides that a country should be more self-sufficient in food production.
 - C A restaurant owner decides to have only vegetarian meals on his menu.
 - D A taxi driver decides to train for an additional licence to drive a bus.

- 39** A major market for bananas from Latin America is the European Union (EU). In 2006, the EU imposed a 35 % tariff on banana imports from Latin America but not on substitutes from other regions.

What impact is the tax likely to have had on the price of Latin American bananas in the EU and the revenue of Latin American producers?

| | EU price of Latin American bananas | revenue of Latin American producers |
|----------|------------------------------------|-------------------------------------|
| A | decrease | decrease |
| B | decrease | increase |
| C | increase | increase |
| D | increase | decrease |

- 40** Greenhouse gases caused by burning fuel in Europe are leading to global warming.

This results in effects on non-European countries which are called

- A** average costs.
- B** external costs.
- C** private costs.
- D** social costs.