



ÉCOLE GLOBALE

INTERNATIONAL GIRLS' SCHOOL

Dehradun

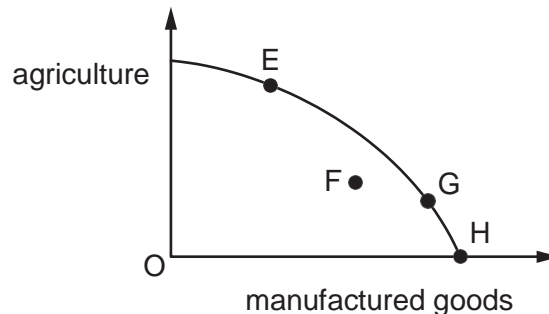
PAPER 1

March Paper 1 (2017)

- 1 A person bought a shop and stocked it with fresh fruit. He employed one member of his family to help in the shop.

Which factors of production have been used?

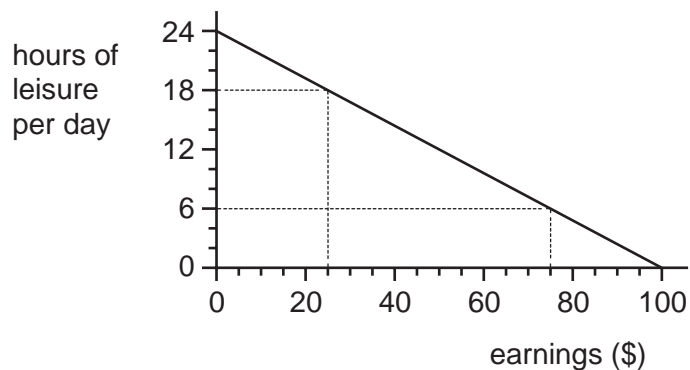
- A labour and capital only
 - B labour, capital and enterprise only
 - C land and labour only
 - D land, labour, capital and enterprise
- 2 The diagram shows a production possibility curve for a country. As a result of an increase in demand for manufactured goods it moves from a situation of unemployment to full employment.



How would this be represented on this diagram?

- A by a movement from E to G
- B by a movement from F to E
- C by a movement from F to G
- D by a movement from G to H

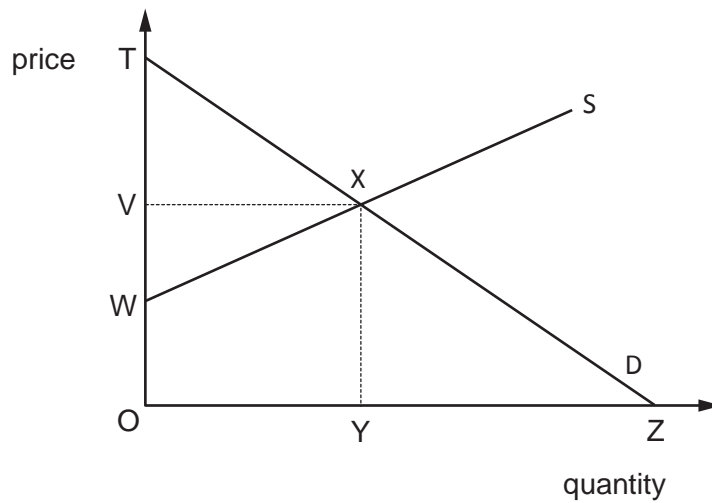
- 3 The diagram shows the choices for an individual between leisure and earnings. He currently earns \$25 a day.



What is the opportunity cost for the person if he accepts more work and earns \$75 a day?

- A \$25
 - B \$50
 - C 6 hours of leisure a day
 - D 12 hours of leisure a day
- 4 What is an example of market failure?
- A a growth of competition
 - B a spread of pollution
 - C a surplus of production in the short term
 - D an existence of scarcity
- 5 What will be the impact on the market for oil of the closure of the world's largest oil field for maintenance work?
- A a movement down the supply curve
 - B a movement up the demand curve
 - C a shift of the demand curve to the left
 - D a shift of the supply curve to the right

6 The diagram shows a market for rice that is in equilibrium.



Which area represents the total revenue for rice farmers?

- A** OTXY **B** OVXY **C** OVXZ **D** OWXY

7 A product has a price elasticity of demand that is greater than one.

What will happen to total revenue if the price of the product is reduced by 3%?

- A** It will fall by more than 3%.
B It will fall to zero.
C It will be unchanged.
D It will rise.

8 Why are some assembly workers poorly paid?

- A** because their work is exhausting
B because their work is repetitive
C because their work is unskilled
D because they work long hours

9 The table shows the change in income for selected occupations between 1995 and 2015.

occupation	change in income %
car assembly workers	110
builders	110
teachers	60
nurses	30
shop assistants	-5

What can be concluded from the table?

- A Car assembly workers and builders earned the same in 2015.
- B Everyone was better off in 2015 than 1995.
- C Nurses earned less than teachers in 2015.
- D Secondary sector workers received the highest percentage increase.

10 This table shows how three people spend their income.

	person X	person Y	person Z
food and housing	60%	20%	30%
travel and leisure	20%	40%	30%
luxury goods	20%	40%	40%

Put the three people in the most likely order of income from the lowest to the highest income.

- A X, Y, Z B X, Z, Y C Y, Z, X D Z, Y, X

11 What is usually a function of a trade union?

- A It advertises the products that the members make.
- B It conducts negotiations with employers for increased wages.
- C It hires company employees.
- D It negotiates with suppliers for reduced costs of materials.

12 A firm's aim is to become a monopoly supplier.

Which policy is it most likely to use to eliminate competition?

- A adopt price reductions and advertising
- B avoid diseconomies of scale
- C maximise output and profit
- D reduce financial barriers to entry

13 When is a firm most likely to reduce its demand for labour?

- A when the demand for the final good increases
- B when the firm's profitability increases
- C when the price of labour decreases
- D when the productivity of labour decreases

14 The high volume of goods sold by large supermarkets enables them to reduce prices, but the most important advantage that these businesses have is that they can sell non-food items as well as food.

Which economic results does the statement suggest are available to large supermarkets?

- A economies of scale and diversification
- B external benefits and specialisation
- C horizontal integration and optimum output
- D increased sales and diminishing returns

15 A firm produces five units of output at an average cost of \$20 per unit. The cost of the sixth unit is \$26.

What is the average cost of six units?

- A \$4.33 B \$6 C \$8.33 D \$21

16 What is **not** a public sector expenditure?

- A claims paid on travel insurance for cancelled flights
- B collections of rubbish by a local council to meet regulations on recycling waste
- C grants from central funds to compensate people whose property has been damaged by storms
- D the establishment of a national database to assist the police in finding criminals

17 The Indian government uses direct and indirect taxation.

Which is a direct tax?

- A corporate (profits) tax
- B customs duty
- C goods and services tax
- D petrol tax

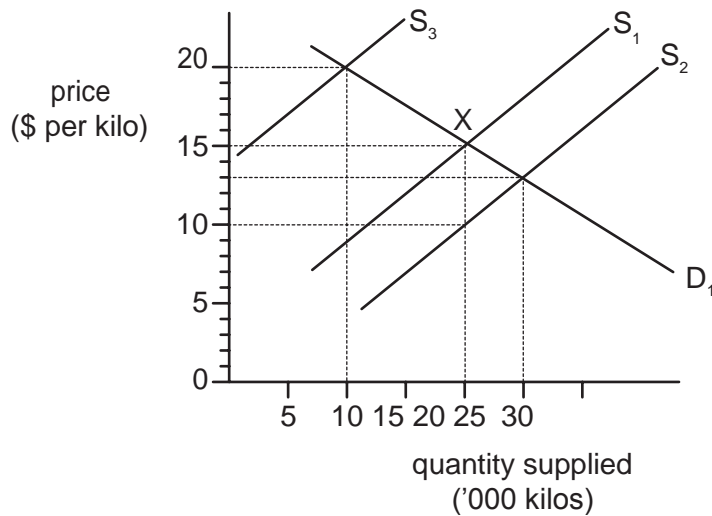
18 A worker earns \$60000 a year and pays 25% income tax. He spent \$2000 on furniture and \$5000 on a computer and paid 20% sales tax on each.

How much indirect tax did he pay?

- A \$1000
- B \$1400
- C \$15000
- D \$16400

19 The Indian government gives farmers a subsidy of \$5 per kilo to supply food in a market where X is the equilibrium position.

The effect is illustrated in the diagram below.



What will be the new equilibrium price and quantity supplied as a result of the subsidy?

	equilibrium price (\$ per kilo)	quantity supplied ('000 kilos)
A	10	20
B	13	25
C	15	20
D	20	10

20 What may cause an immediate decrease in the working population?

- A** a falling death rate
- B** a falling infant mortality rate
- C** a rising birth rate
- D** a rising rate of net emigration

21 Which combination of changes in national output and population would cause an increase in GDP per head?

	national output	population
A	decrease by 4%	unchanged
B	decrease by 5%	decrease by 6%
C	increase by 3%	increase by 5%
D	unchanged	increase by 2%

22 The table shows the Consumer Price Index (CPI) of an economy over five years.

year	CPI
1	100
2	103
3	105
4	107
5	110

Between which years was the rate of inflation the greatest?

- A** from year 1 to year 2
- B** from year 2 to year 3
- C** from year 3 to year 4
- D** from year 4 to year 5

- 23** In a year the rate of inflation in a country was 3%. During that year company managers' salaries rose by 6% and office workers' wages rose by 2%.

What happened to real income (purchasing power)?

	company managers	office workers
A	fell	fell
B	fell	rose
C	rose	fell
D	rose	rose

- 24** 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 government expenditure
 - B** decreased transport costs
 - C** increased economies of scale
 - D** increased use of labour
- 25** The population structure of many developed countries is changing. Birth rates are low, those over 65 are living longer and the working population (16-65 years) is a smaller proportion of the total population.

What is the most likely consequence of this changing structure?

- A** Economic migrants make up shortages in the working population.
- B** Overall the standard of living is gradually falling.
- C** The population is healthier and needs less medical care.
- D** The ratio of those under 16 dependent on the working population is rising.

26 The table shows data for four countries in 2006.

	life expectancy (years)	computers per 100 population	percentage of labour force employed in agriculture	birth rate
Bangladesh	64.1	1.2	66	24.8
Egypt	71.3	3.7	27	24.2
India	64.8	1.5	60	23.0
Pakistan	65.6	1.6	42	27.2

On the basis of the information given, what is the likely ranking order of the four countries in terms of development, starting from the most developed to the least developed?

- A Bangladesh → India → Pakistan → Egypt
- B Egypt → Pakistan → India → Bangladesh
- C India → Egypt → Bangladesh → Pakistan
- D Pakistan → Bangladesh → Egypt → India

27 The table shows details of India's current account of the balance of payments in the 1st quarter of 2014.

	\$ billion
trade in goods (visible) balance	-34
trade in services (invisible) balance	?
primary income (income) balance	-7
secondary income (current transfers) balance	16
current account balance	-8

What is the trade in services (invisible) balance?

- A surplus of \$9bn
- B surplus of \$17bn
- C surplus of \$27bn
- D surplus of \$33bn

28 Which policy is a form of protectionism?

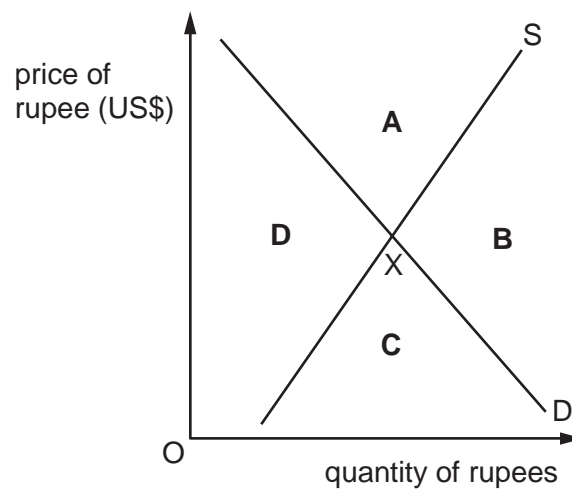
- A a tax on emissions
- B a tax on imports
- C a tax on income
- D a tax on property

29 When does free trade occur?

- A when goods are exported with government subsidies
- B when goods are given as part of an aid programme
- C when goods are traded using barter
- D when goods face no import barriers

30 The diagram shows the market for the Indian rupee priced in US dollars. The equilibrium point is at X.

If more Americans take holidays in India and fewer Indians buy American exports, in which sector of the diagram will the new equilibrium point for price and quantity of the Indian rupee be?



1 Which is **not** a factor of production?

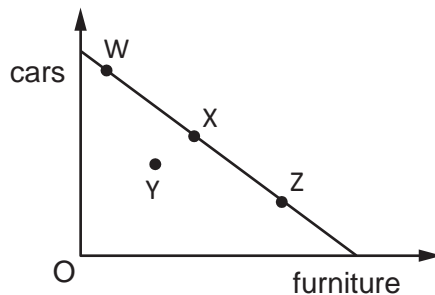
- A a farm
- B a farmer
- C a farmer's bank account
- D a second-hand tractor

2 Heavy rain caused floods in an area of a country.

What may be an opportunity cost of repairing the damage caused?

- A the allocation of government funds to the area instead of on a new airport
- B the cost of providing shelter for those made homeless
- C the decline in the tourist industry in the area
- D the loss of profits from businesses affected by the flood

3 The diagram shows a production possibility curve for cars and furniture.



A recession causes a decrease in production in both cars and furniture.

Which movement would represent this change?

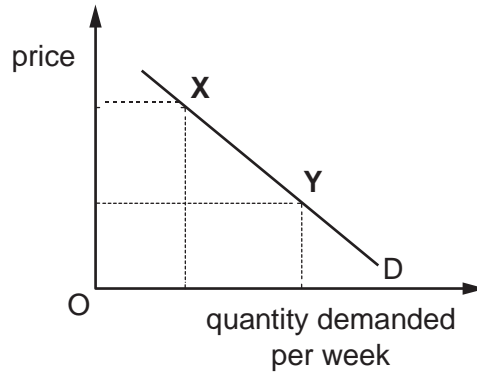
- A X to W B X to Y C Z to W D Z to Y

4 In response to an increase in price from \$5 per kilo to \$6 per kilo a chicken farmer increased supply from 400 kilos to 500 kilos per week.

What is the price elasticity of supply?

- A 0.8 B 0.9 C 1.2 D 1.25

- 5 The diagram shows the demand for chocolate.



What could cause the movement from point X to point Y?

- A a change in tastes
 - B a fall in the price of chocolate
 - C an increase in income
 - D a successful advertising campaign for chocolate
- 6 A bee-keeper maintains hives of bees to produce honey. The bees can pollinate neighbours' fruit trees but also give a painful sting to gardeners.

If both of these events occur, how will costs and benefits be affected?

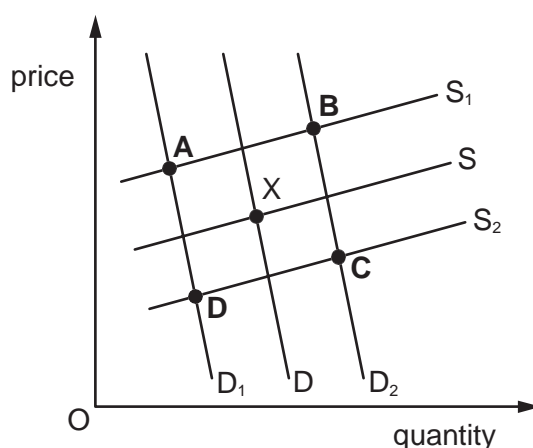
- A External benefits will fall and social costs will fall.
 - B External costs will rise and social benefits will fall.
 - C Social costs and social benefits will fall.
 - D Social costs and social benefits will rise.
- 7 In 2015 there was a significant fall in the world price of petrol (gasoline).

What would **not** have been a cause of the price fall?

- A the continuing global recovery from the world economic recession
- B the increasing exploitation of US oil reserves
- C the re-entry of Iranian producers to the world oil market
- D the shorter journeys from using the new Suez Canal

- 8 Which statement about financial matters is correct?
- A Commercial banks' main activity is the finance of international trade.
- B Paper banknotes possess all the desirable properties needed to act as money.
- C Stock exchanges trade mainly in second-hand stocks and shares.
- D The central bank acts as the lender of last resort to companies facing bankruptcy.
- 9 What is most likely to be used to support a claim for wage increases in an industry?
- A a decrease in the industry's sales
- B a decrease in the need for specialist training
- C an increase in cheap imports of a rival product
- D an increase in wages in a similar industry
- 10 The government increases the rate of income tax and decreases the rate of a sales tax (VAT).

From the initial equilibrium point of X, which letter indicates the new equilibrium point in a market for normal goods?



- 11 In South Africa, the number of skilled workers is relatively low. However, average wages in South Africa are double the average wage in Brazil and Turkey and they are 1.6 times higher than in Malaysia.

What may be concluded from this information?

- A Malaysian workers are more skilled than South African workers.
- B Prices in South Africa are double those in Brazil.
- C South Africa's labour productivity is low.
- D South African trade union bargaining power is strong.

- 12 To achieve horizontal integration, a firm producing tyres could merge with another firm producing
- A motor cars.
 - B rubber.
 - C tyre-producing machinery.
 - D tyres.

- 13 Which costs will necessarily fall continuously as output increases?

- A average fixed costs
- B average variable costs
- C opportunity costs
- D repayment costs of borrowing

- 14 A monopoly takes over an industry from competitive firms.

What is **not** likely to be true about a monopoly compared with a competitive firm?

- A A monopoly will earn a higher rate of profit.
- B A monopoly will gain a greater share of the market.
- C A monopoly will offer a wider choice to the consumer.
- D A monopoly will operate on a larger scale of production.

- 15 The table shows the costs of a firm.

units of output	variable cost (\$)	total cost (\$)
10	15	85
20	25	95
30	35	105
40	45	115

What is the value of the firm's fixed costs?

- A \$10
- B \$15
- C \$70
- D \$85

16 When is a tax progressive?

- A when some goods have a higher tax than others
- B when the rate of tax increases as income increases
- C when the tax is linked to the rate of inflation
- D when the tax is on incomes rather than on goods or services

17 A government wishes to try to make the distribution of income in the country more equal.

Which policy would be most likely to achieve this?

- A reducing housing subsidies
- B reducing indirect tax on food
- C reducing inheritance tax
- D reducing tax on the dividends on stocks and shares

18 In trying to achieve one of its aims a government may make it difficult to achieve another aim.

What is an example of this conflict?

- A Achieving a more even distribution of income may prevent a rise in the average standard of living.
- B Achieving an increase in economic growth may prevent full employment.
- C Achieving full employment may prevent stable prices.
- D Achieving stable prices may prevent a current account surplus on the balance of payments.

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

- A decrease general taxation and decrease the rate of interest
- B decrease general taxation and increase the rate of interest
- C increase general taxation and decrease the rate of interest
- D increase general taxation and increase the rate of interest

20 A newspaper reported that a country's economy had grown by 3% during the last year.

What must have increased in that year?

- A costs of production
- B gross domestic product
- C unemployment
- D wage levels

21 What is meant by deflation?

- A a fall in the general price level
- B a fall in the international value of a currency
- C a fall in the rate of inflation
- D a fall in the real value of money

22 The information below refers to an economy for a financial year.

government expenditure = \$2866 million

government revenue = \$1940 million

What was the budget balance of the government in that year?

- A \$926 million in deficit
- B \$4806 million in deficit
- C \$926 million in surplus
- D \$4806 million in surplus

23 What is the change in GDP per head, after taking account of price increases (real change), between 2000 and 2013?

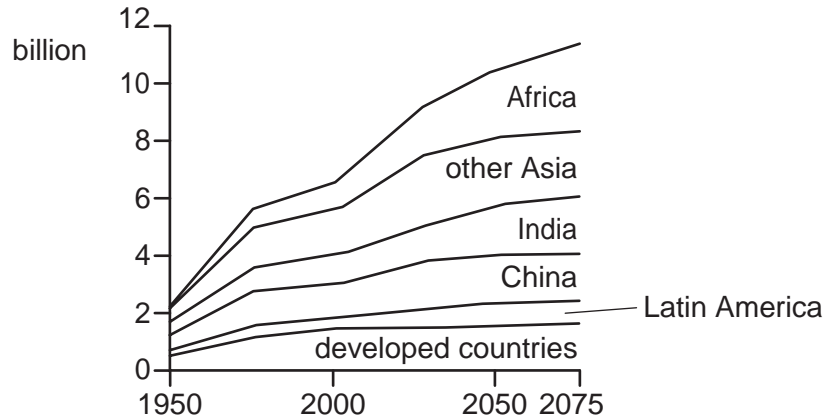
year	population million	consumer prices index (CPI)	GDP \$billion
2000	3	100	4000
2013	4	120	6000

- A from \$15 to \$125
- B from \$1250 to \$1333
- C from \$1333 to \$1250
- D from \$1333 to \$1500

24 Which statement about the poorest families in developing economies is **not** likely to be correct?

- A The children will be expected to work to help provide income.
- B The family will find it easy to obtain loans to develop their farms.
- C The family will have a low earning capacity.
- D The family will suffer from malnutrition and lack of medical care.

25 The diagram shows population projections until the year 2075 for selected areas.



Assuming no migration, which situation must exist if the population is to change in the manner shown in the diagram?

- A birth rate falling and death rate falling
- B birth rate greater than death rate
- C death rate greater than birth rate
- D death rate rising and birth rate falling

26 The table shows information about four countries.

Which country is likely to be least developed?

	% of labour force in service industries	life expectancy	GDP per head (\$)
A	20	49	380
B	35	49	350
C	40	53	350
D	45	63	450

27 Which government policy is most likely to increase the volume of exports?

- A devaluation
- B embargoes
- C quotas
- D tariffs

28 What might encourage international specialisation between countries?

- A free trade
- B inefficiencies in production
- C labour immobility
- D tariffs

29 In 2015, Russia banned the imports of food, such as milk, from the European Union (EU).

Which outcomes are most likely to happen as a result?

	milk market in Europe	price of milk in Russia	profits of EU farmers
A	excess demand	fall	rise
B	excess demand	rise	rise
C	excess supply	fall	fall
D	excess supply	rise	fall

30 In 2010, Vietnam experienced a deficit in the value of its trade in goods (visible) despite exporting a greater number of goods than it imported.

What could explain this?

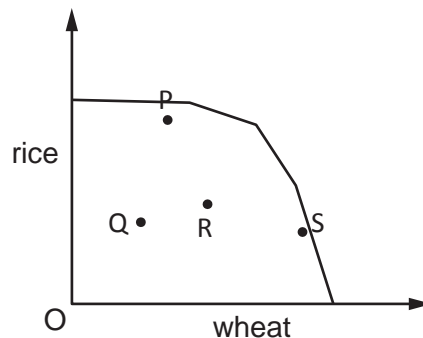
- A The average price of its goods imported exceeded the average price of its goods exported.
- B The average value of its goods exported exceeded the average value of its goods imported.
- C The country had a deficit on its trade in services.
- D The country's government imposed tariffs on imports

1 An economy with few resources is encouraged to improve the quality of its human resources.

Which policy will lead to such an improvement?

- A conserving and protecting more of its natural resources
- B limiting the immigration of skilled labour
- C providing more opportunities for education and training
- D reducing the use of machines in production

2 The diagram shows a country's production possibility curve for rice and wheat.



A major flood destroys a large area of agricultural land.

Which movement could represent the resulting change in output?

- A P to Q B Q to R C R to S D S to P

3 A country raises the school leaving age from 15 to 17 years.

What is the opportunity cost of this increased period of school education to the young people affected?

- A costs of training and employing more teachers
- B financial help necessary for school leavers who go to university
- C government expenditure on building extra classrooms
- D lost income from paid employment because of school attendance

4 In a market there is a shortage of a good.

What change would cause the market to come to an equilibrium?

- A a decrease in supply
- B a fall in price
- C an increase in demand
- D a rise in price

- 5 A product has a totally inelastic price elasticity of demand.

What will happen to total revenue if the price of the product falls by 25%?

- A It will fall by 25%.
 - B It will fall to zero.
 - C It will remain unchanged.
 - D It will rise by 25%.
- 6 In 2014, a plan for a major new rail link funded by central and regional government was announced. It would involve the redevelopment of a city area, generate 14000 jobs and allow the development of 2000 homes and offices for private businesses.
- What economic concepts are indicated directly in the above statement?
- A budget surplus and inflation
 - B factors of production and multinational companies
 - C fiscal policy and mixed economy
 - D regional unemployment and average wage rates
- 7 How are social costs calculated?
- A fixed costs plus variable costs
 - B private benefits less private costs
 - C private costs plus external costs
 - D social benefits less external costs
- 8 What is a disadvantage for a trade union representing workers in a company that has increased specialisation?
- A Capital equipment can be substituted for labour.
 - B Different abilities can be used fully.
 - C Production levels are decreased.
 - D Workers are able to gain a higher level of skill.

- 9 A government finance minister said that the purchasing power of most people's incomes had risen in the last year.

What must have increased for the purchasing power to rise?

- A money wages
 - B net income after tax
 - C real wages
 - D wage rates
- 10 The table shows the change in incomes for a number of occupations between 2003 and 2013.

occupation	change in income %
builders	80
plumbers	60
electricians	50
police officers	12
teachers	10
nurses	-5

What can be concluded from the table?

- A All occupations were better off in 2013 than in 2003.
- B Builders earned the highest income in 2013.
- C Electricians earned 40% more than teachers in 2013.
- D Non-manual workers had lower percentage increases in income than manual workers.

11 The table shows information for two workers.

	doctor	window cleaner
annual income (\$)	60 000	24 000
total deductions (\$)	10 000	8 000

Both workers save 10% of their disposable income.

How much is this in each case?

	doctor	window cleaner
A	\$1 000	\$800
B	\$5 000	\$1 600
C	\$6 000	\$2 400
D	\$50 000	\$16 000

12 What is most likely to increase a firm's profits?

- A government controls on its prices
- B grants for the purchase of new machines
- C an increase in the wages paid to its workers
- D rising costs of its raw materials

13 Sohrab bought shares in a French telecommunications company operating in many countries.

Joel owns and runs a mobile telephone accessories and repair shop.

What is not identified above?

- A multinational company
- B partnership
- C public company
- D sole proprietor

14 A firm's average revenue is \$20. It sells 1000 units.

What is the firm's total revenue and the price of the product?

	total revenue (\$)	price (\$)
A	20	20
B	1 000	500
C	20 000	20
D	20 000	500

15 The table shows the daily output and costs of four firms making chairs.

Which firm has the highest average cost of production?

	output (units)	fixed costs (\$)	variable costs (\$)
A	6	100	140
B	9	30	150
C	12	200	160
D	15	120	330

16 Other things being equal, what is likely to decrease public spending?

- A an increase in the age of retirement
- B an increase in the birth rate
- C an increase in the school-leaving age
- D an increase in unemployment

17 When is a tax regressive?

- A when some goods have a lower tax than others
- B when the tax as a proportion of income decreases as income increases
- C when the tax is linked to the rate of inflation
- D when the tax is on incomes rather than on goods or services

18 The Government of India wishes to help the very poorest people.

Which policy would be most likely to achieve this?

- A lowering capital gains tax
- B lowering housing subsidies
- C lowering indirect taxation
- D lowering inheritance tax

19 Suppose the Indian Government raises the rate of interest.

What is likely to be the direct effect on the economy?

- A It will raise any deficit on the current account.
- B It will raise the economic growth rate.
- C It will raise the foreign exchange rate.
- D It will raise the inflation rate.

20 What is involved in the construction of a retail price index?

- A a basket of goods
- B average incomes
- C economic growth rate
- D income tax rate

21 What identifies a recession?

- A a fall in the general price level
- B a fall in the level of national output
- C a fall in the real value of money
- D a fall in the stock market index

- 22 The table shows the percentage changes in earnings and consumer prices for four countries for one year.

Which country is likely to have experienced the greatest increase in real income during the year?

	country	earnings	consumer prices
A	France	+6.5	+3.5
B	Germany	+4.0	+4.0
C	Japan	+4.0	-1.0
D	UK	+6.5	-2.0

- 23 In the US Consumer Price Index (CPI), food has a weighting of 13.7%. In India food has a weighting of 46.2% in the CPI.

What can be concluded from this?

- A Consumers in India spend more on food than US consumers.
- B Food is a bigger proportion of consumer spending in India than in the US.
- C The farming sector's output of food is higher in India than in the US.
- D The price of food is rising more rapidly in India than in the US.

- 24 In many developing economies there is a high rate of population growth.

What is a cause of this?

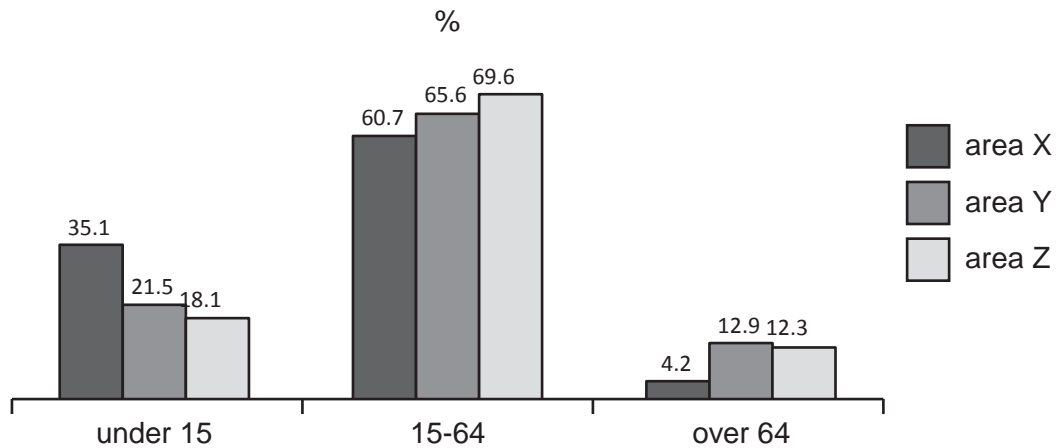
- A Jobseekers migrate from rural to urban centres.
- B Poor people have many children to provide labour on family farms.
- C There is increased resistance to life saving drugs.
- D There is not enough clean water.

- 25 A country has a birth rate of 30 per 1000 and a death rate of 35 per 1000 and no migration.

What is most likely to cause the population to fall?

- A The birth rate decreases and the death rate increases.
- B The birth rate increases and the death rate remains the same.
- C The birth rate remains constant and the death rate decreases.
- D The increase in the birth rate is greater than the increase in the death rate.

26 The diagram shows the different age distribution of the population in three areas of the world.



Other things being equal, what can be deduced from the diagram?

- A X has the highest dependency ratio.
 - B Y has the largest working population.
 - C Y spends most on schools.
 - D Z spends most on pensions.
- 27 What is likely to cause a rise in a country's foreign exchange rate?
- A a fall in its exports of goods and services
 - B a fall in its imports of goods and services
 - C a fall in its inflow of income
 - D a rise in its outflow of transfers
- 28 Drinks producers in India are resisting plans to remove tariffs on imported drinks. They claim that a reduction in tariffs would destroy the emerging drinks industry with large-scale imports of cheap drinks.

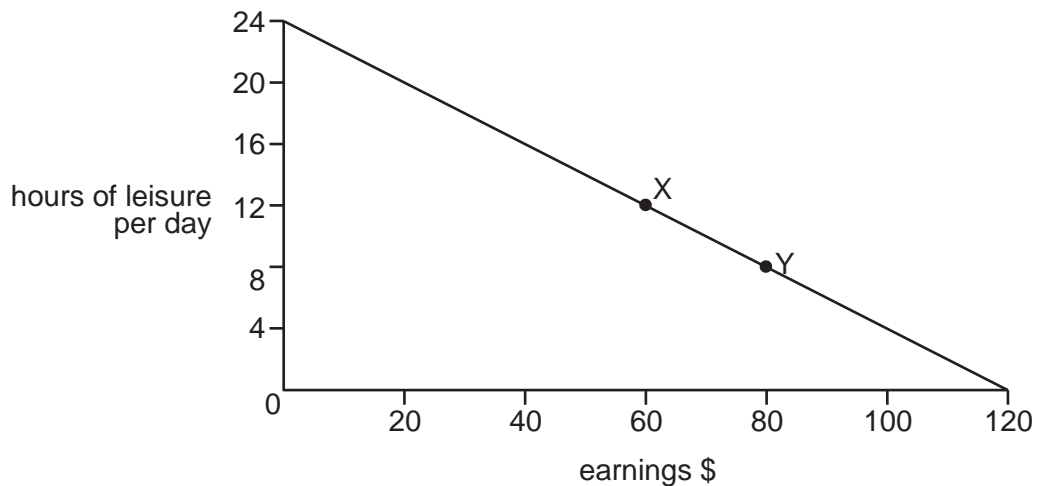
Which argument for protectionism are they putting forward?

- A the declining industry argument
- B the infant industry argument
- C the strategic industry argument
- D the sunset industry argument

- 29 Who is most likely to benefit if India bans all steel imports?
- A buyers of steel in India
 - B foreign steel producers
 - C Indian firms buying steel
 - D Indian firms selling steel at home
- 30 What is certain to encourage a higher level of international trade?
- A conservation of resources and unstable exchange rates
 - B exploitation of resources and wider use of quotas
 - C increased support for home industries and increased tariffs
 - D more specialisation and falling transport costs

MAY/ JUNE 2016

- 1 What economic concept must be at work when there is movement by a country along its production possibility curve?
- A economies of scale
 - B equilibrium price
 - C maximum profit
 - D opportunity cost
- 2 The diagram shows the choices for an individual between leisure and earnings.



The person decides to take a job that gives more leisure time.

What is the opportunity cost to the individual of moving from position Y to position X?

- A \$20
- B \$80

- C 4 hours of leisure per day
- D 12 hours of leisure per day

- 3 What is the best example of the existence of the economic problem?
- A A government provides accommodation for all those who are homeless.
 - B A police force has a lengthening list of unsolved crimes.
 - C Janitha hands her homework in at the last permitted deadline.
 - D Musa completes his journey without putting petrol in his car.

- 4 A government taxes the production of cars.

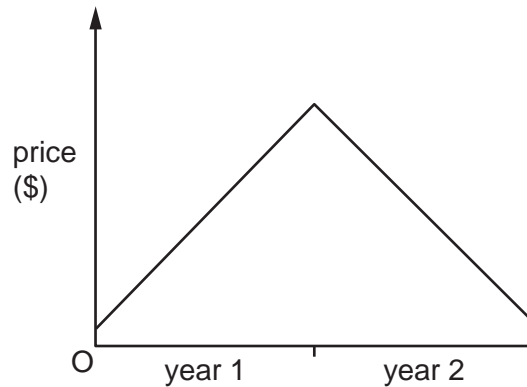
What is likely to decrease?

- 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 is most likely found in a market economy?
- A free accident and emergency hospitals and charities
 - B partnerships and public corporations
 - C stock exchange and monopolies
 - D trade unions and local government schools
- 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 the price of a product during year 1 and year 2.



Which changes in demand and supply are consistent with the price behaviour in year 2?

	demand	supply
A	falls by 5%	falls by 10%
B	falls by 10%	falls by 5%
C	unchanged	falls by 10%
D	rises by 15%	falls by 5%

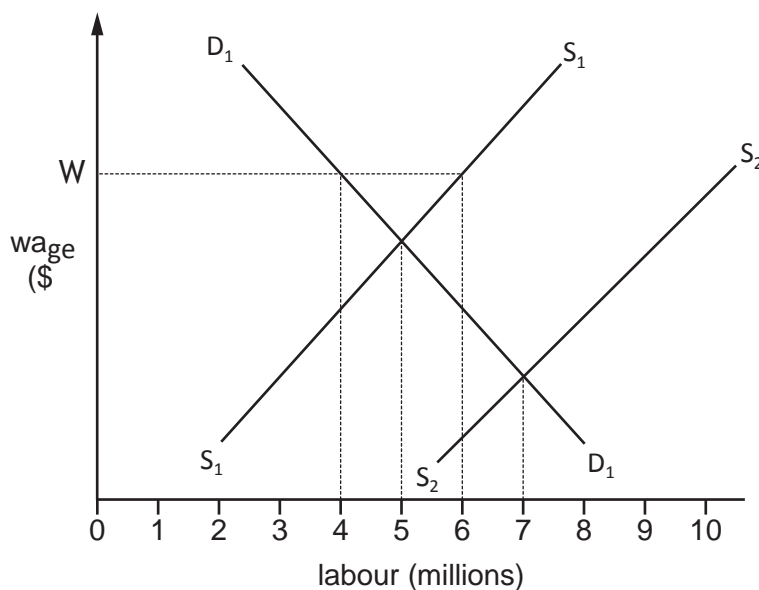
- 8 A trade union agrees on a 'closed shop' policy with employers in an industry.

How does this operate?

- A** All workers will be members of the trade union.
 - B** Employment will be open only to skilled workers.
 - C** The employers cannot make workers redundant.
 - D** Workers cannot move between employers.
- 9 When will a central bank act as lender of last resort to a commercial bank?
- A** when a commercial bank faces a liquidity crisis
 - B** when a commercial bank fails to make a profit
 - C** when a commercial bank needs to raise share capital
 - D** when a commercial bank reduces its lending rates

- 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
- 11 The table shows how three people spend their income.

	person X	person Y	person Z
food, clothing and housing	35%	50%	20%
entertainment and leisure	25%	20%	40%
luxury goods	40%	30%	40%

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

- A** $X \rightarrow Y \rightarrow Z$
B $Y \rightarrow X \rightarrow Z$
C $Y \rightarrow Z \rightarrow X$
D $Z \rightarrow X \rightarrow Y$

- 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 Two firms agree to integrate their activities.

What must result?

- A a change in their ownership structure
 - B a lowering of average costs of production
 - C a move from national to international markets
 - D a reduction in the level of market risk
- 14 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
6	8	4	100
9	12	6	200

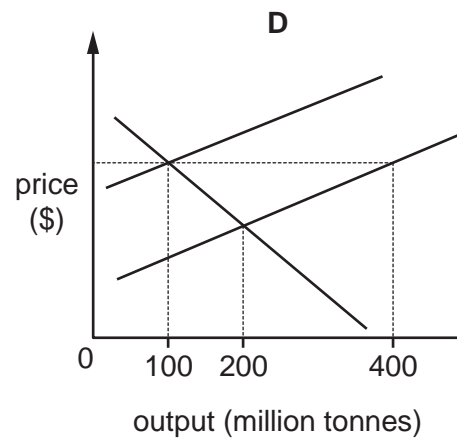
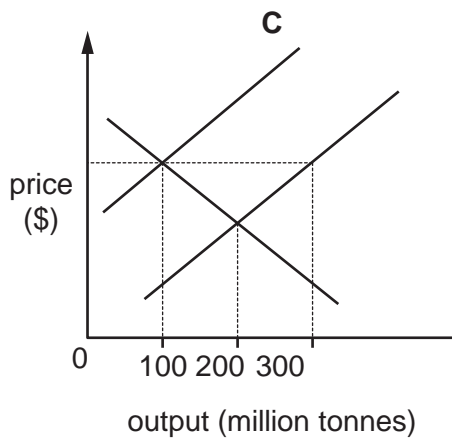
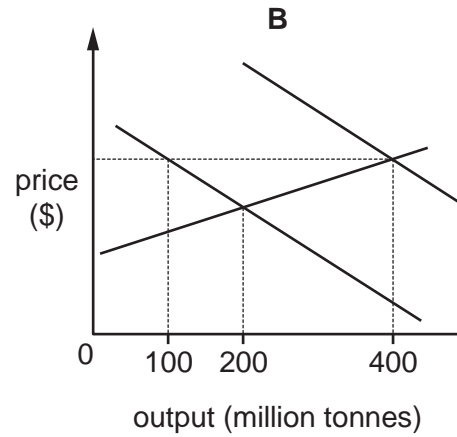
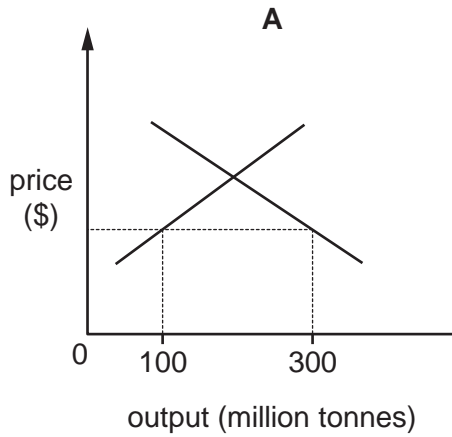
What is the firm experiencing?

- A constant returns to scale
- B economies of scale
- C external diseconomies of scale
- D external economies of scale

- 15 By 2014, government subsidies for the Chinese steel industry led to 200 million tonnes of excess output.

The diagrams show the market for Chinese steel.

Which would represent the position after the subsidy but before the market adjusted?



- 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

17 A government fixes the rate of income tax at \$0.20 per dollar earned.

What describes this type of taxation?

- A indirect
- B progressive
- C proportional
- D regressive

18 A government introduces a law to reduce the restrictive practices of trade unions.

What would be the most likely purpose of this law?

- A to change from a mixed to a planned economy
- B to ensure a fairer distribution of earnings
- C to increase competition in labour markets
- D to reduce government expenditure on job training

19 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 indirect taxes?

- A \$300 m
- B \$350 m
- C \$385 m
- D \$435 m

20 What would best indicate the start of an economic boom?

- A negative growth of Gross Domestic Product
- B rising interest rates
- C rising levels of employment
- D steadily falling price levels

- 21** A country has a very high Gross Domestic Product and a small population but has a low standard of living.

What may be the cause of this low standard of living?

- A** There is a high inequality of income distribution and a high provision of merit goods.
- B** There is a high inequality of income distribution and a limited provision of merit goods.
- C** There is equality of income distribution and a high provision of merit goods.
- D** There is equality of income distribution and a low provision of merit goods.

- 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** The weight for a product in the consumer price index was increased.

What is most likely to have caused this adjustment?

- A** The product has become more expensive to produce.
- B** The product has been offered for sale in more retail outlets.
- C** The product has improved in quality and performance.
- D** The product has taken a bigger share of consumers' income.

- 24 China is classified as a developing country. Recently, contributions to its Gross Domestic Product (GDP) were agriculture 10%, construction 13%, manufacturing 32% and services 45%.

Which contribution to GDP usually decreases first when countries move to a higher level of development?

- A agriculture
 - B construction
 - C manufacturing
 - D services
- 25 Some people think that the debts and interest payments of the poorest countries in the world should be cancelled.

What might be a disadvantage for the poorest countries if this were done?

- A International banks might be less willing to give loans to poor countries.
 - B Interest payments to the lenders would fall.
 - C The standard of living of people in the poorest countries would fall.
 - D Trade between the poorest countries and the rest of the world would increase.
- 26 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

- 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

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.

OCTOBER/ NOVEMBER 2016

1 Each factor of production earns an income.

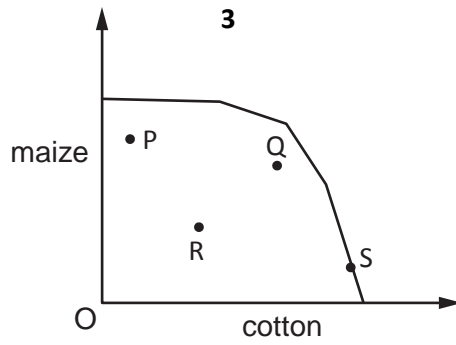
What correctly identifies the income for labour and capital?

	labour	capital
A	profit	interest
B	rent	profit
C	wages	profit
D	wages	interest

2 What could be the opportunity cost of a nuclear power station?

- A the running costs of the power station
- B a coal-fired power station
- C the current value of the power station
- D the cost of building the power station

3 The diagram shows a production possibility curve for maize and cotton.



Bad weather causes a poor harvest for both crops.

Which movement could be used to represent this change?

- A** P to R **B** Q to R **C** S to Q **D** S to R

- 4** The market for a good was in equilibrium. A change occurred which resulted in a new equilibrium with a higher price for the good and a lower quantity traded.

What change would have caused this?

- A** the demand curve moved to the left
B the demand curve moved to the right
C the supply curve moved to the left
D the supply curve moved to the right

- 5 A demand curve shows the relationship between the quantity demanded and
- A a change in income
 - B consumer tastes
 - C the supply of the product
 - D the price of the product
- 6 A government subsidises the production of pineapples.
- This is likely to
- A increase the price of pineapples
 - B raise the costs of supplying pineapples
 - C raise revenue for the government
 - D cause the supply of pineapples to increase at every price
- 7 What indicates the existence of external costs in an economy?
- A An international trade deficit has caused the country to be in debt.
 - B National companies have borrowed from foreign investors.
 - C Private costs of production are less than social costs.
 - D Private costs of production are more than social benefits.
- 8 What might be a disadvantage to a trade union when arguing for an increase in its members' pay?
- A an increase in imports of a cheaper, similar product
 - B the closure of a local training college resulting in fewer potential workers
 - C the development of a new and profitable brand of the company's product
 - D the development of new techniques that increase productivity
- 9 What shows the correct examples of income and wealth?

	income	wealth
A	dividends from shares	wages
B	rent from a house	overtime payments
C	overtime payments	wages
D	wages	house

- 10 Nazmin Uddin works in a local office as a secretary three days a week. She lives with her parents in a small apartment.

Meer Ali owns a successful fitness centre that employs about twenty people. He owns a large house.

Which is most likely to be correct?

- A Nazmin spends a smaller proportion of her income than Meer.
 - B Nazmin saves most of her income.
 - C Nazmin would find it easier than Meer to borrow money.
 - D Nazmin has a lower disposable income than Meer.
- 11 The table shows how household spending changes with income.

income (\$ per month)	spending (\$ per month)
4000	4150
4300	4375
4600	4650
4900	4900
5200	4975
5500	5275

What is the **first** level of income shown at which savings are positive?

- A \$4000
 - B \$4600
 - C \$4900
 - D \$5200
- 12 A survey of managers in the USA revealed that most businessmen feel that a company's responsibility is 'to serve the interests of owners, employees, customers and the public'.

The idea of profit maximisation, in contrast, implies that a company's main responsibility should be to the

- A customers
- B employees
- C owners
- D public

- 13 Some agricultural co-operatives have changed from labour-intensive to capital-intensive methods of production.

What might be a cause of this change?

- A Average productivity of agricultural workers has increased.
- B Farming equipment has become more efficient.
- C People are eating less food for health reasons.
- D Some agricultural land has been sold for housing.

- 14 A firm has fixed costs of \$200 for its daily output. The table shows its daily total variable costs.

output (units)	1	2	3	4
total variable costs (\$)	300	400	700	800

What can be concluded about the firm's average total cost?

- A it falls continuously
 - B it is highest at output 4 units
 - C it is lowest at output 4 units
 - D it rises continuously
- 15 The table shows the growth rate of output (%) in four sectors of an economy.

	construction sector %	energy sector %	manufacturing sector %	services sector %
first quarter of 2014	0.9	0.1	-0.7	-3.4
second quarter of 2014	0.5	1.6	-0.5	0.5

Which two sectors showed an increase in the growth rate in the first half of 2014?

- A construction and energy
- B construction and manufacturing
- C services and construction
- D services and manufacturing

- 16** A government decides to sell the monopoly supply of gas to households to a private firm.

How could the government protect the interests of households after selling a large company to the private sector?

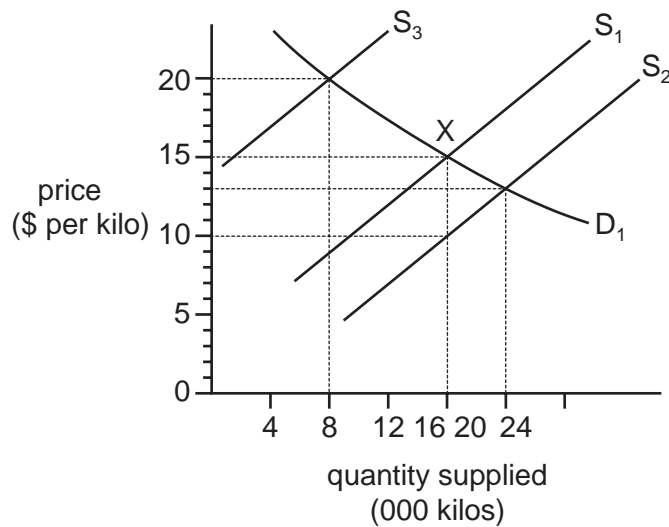
- A** by excluding all competition from foreign companies
 - B** by imposing a tax on excess profits
 - C** by introducing a quota system for imports of gas
 - D** by removing price controls on gas
- 17** In 2015, 70 000 extra people lost their jobs but total employment rose by 75 000. What could explain this?
- A** Some people may have emigrated.
 - B** Some people may have gone back to education.
 - C** Some people may have re-entered the labour force.
 - D** Some people may have retired early.
- 18** The table shows taxes as a percentage of Gross Domestic Product (GDP) for four countries.

From this information, which country had the highest percentage of direct taxation as a percentage of GDP?

	income tax %	tax on business profits %	tax on dividends %	tax on goods and services %
A	12	14	2	5
B	14	15	2	14
C	17	13	5	10
D	18	10	1	10

- 19 A government gives farmers a subsidy of \$5 per kilo to supply food on the open market where X is the original equilibrium position.

The effect is illustrated in the diagram.



What will be the new equilibrium price and quantity supplied as a result of the subsidy?

	equilibrium price (\$ per kilo)	quantity supplied (000 kilos)
A	10	16
B	13	20
C	15	16
D	20	8

- 20 What is involved in the construction of a Retail Price Index?
- A a base year
 - B incomes
 - C price elasticity of products
 - D quantity supplied
- 21 Why is nominal Gross Domestic Product **not** a good measure to compare the standard of living in a country between two years?
- A It does not account for inflation.
 - B It does not allow for savings.
 - C It does not include government expenditure.
 - D It only compares export prices with import prices.

22 In 2010 there was an increase in net emigration from Ireland.

What is most likely to have caused this increase?

- A a decrease in job security abroad
- B a decrease in wage rates abroad
- C an increase in Ireland's real GDP
- D an increase in unemployment in Ireland

23 Some goods take a greater percentage of a typical household's total spending than others.

How is this accounted for in the construction of a Retail Price Index?

- A by deducting the goods and services
- B by giving a weight to the goods
- C by taking an average of price fluctuations during a year
- D by using the price elasticity of demand for the goods

24 Which outcome is **least** likely to be found with greater economic development?

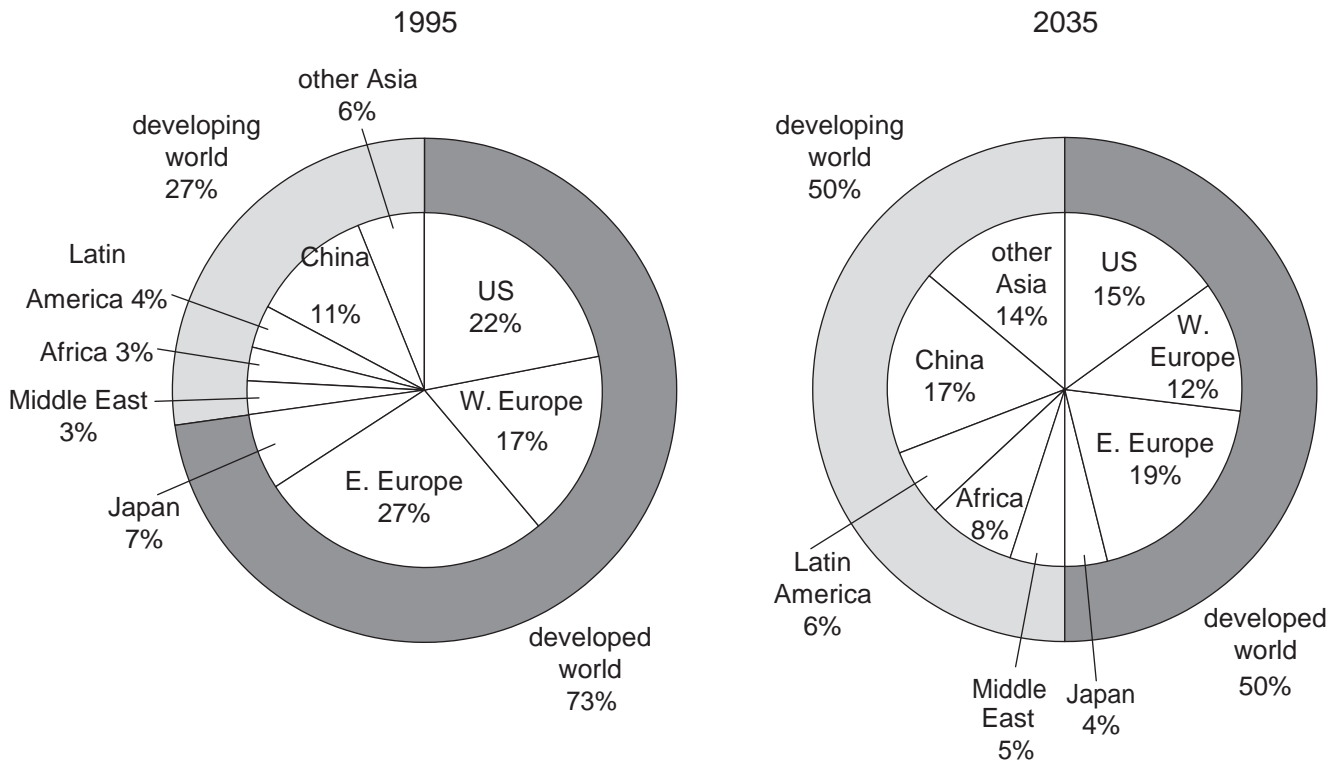
- A A greater percentage of the population are highly educated.
- B A greater percentage of the population are homeowners.
- C A greater percentage of the population are old.
- D A greater percentage of the population are very poor.

25 A government introduces state benefits for the unemployed and increases the top rate of income tax to pay for the benefits.

What effect will these changes have on poverty and the tax system?

	poverty	tax system
A	increase	make it more progressive
B	increase	make it more regressive
C	reduce	make it more progressive
D	reduce	make it more regressive

26 The chart shows total world carbon emissions in 1995 and predicted emissions by 2035.



If the chart proves to be correct, what will have happened by 2035?

- A Africa and the Middle East will have responsibility for the same amount of carbon emissions in 2035 as in 1995.
- B Between 1995 and 2035, the Middle East will have increased its industrialisation by as much as Latin America.
- C By 2035 the combined percentage of carbon emissions caused by Africa and Latin America will have doubled.
- D The US will have decreased its carbon emissions by a smaller percentage than Western Europe.

27 What encourages international specialisation?

- A a foreign exchange shortage
- B diseconomies of scale
- C free trade
- D quotas

28 A Japanese car manufacturer decided to produce its cars in a factory in Europe.

What would **not** be a reason why they might have chosen to do this?

- A cheaper wage costs in Europe
- B the availability of raw materials
- C to gain external economies from skilled labour in Europe
- D to increase Japanese self-sufficiency

29 A government removed the quota on goods imported into the country.

What is the **most** likely result of this?

- A a decrease in demand for domestic production
- B a decrease in domestic unemployment
- C a decrease in exports
- D a decrease in the balance of trade deficit

30 The table shows components of Japan's current account balance in trillion Yen for 2011 and 2012.

year	balance of goods ¥ trillion	balance of services ¥ trillion	balance of current transfers ¥ trillion	balance of income ¥ trillion
2011	-1.61	-1.76	-1.11	14.04
2012	-5.23	-2.33	-1.02	13.55

Which balance improved between 2011 and 2012?

- A balance of current transfers
- B balance of goods
- C balance of income
- D balance of services

MARCH 2015

1 Which statement about factors of production is correct?

- A Capital is the money people keep in the bank.

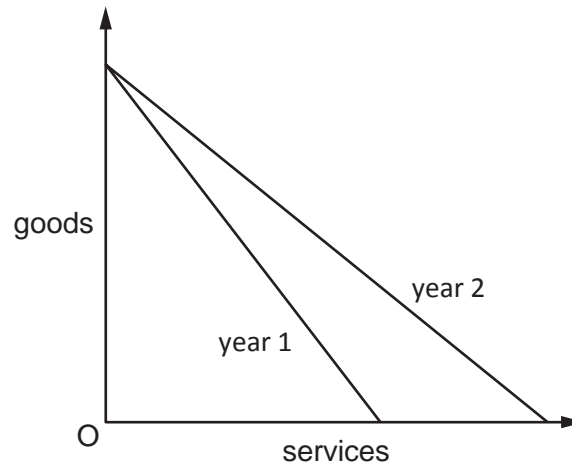
- B Enterprise is found more in service industries than in manufacturing industries.
- C Labour includes only those who work using their hands.
- D Land includes resources found in or under the sea.

2 China earns enough income to purchase large quantities of natural resources from developing countries.

Which statement explains this situation?

- A China does not experience the economic problem of scarcity.
- B Supplies of natural resources in China are limited relative to demand.
- C There are unlimited supplies of natural resources in developing countries.
- D There is an excess stock of land in China.

3 The diagram shows the change in an economy's production possibility curve from year 1 to year 2.



What might explain the change from year 1 to year 2?

- A Resources have moved from the production of services to the production of goods.
- B The number of workers unemployed in manufacturing has fallen.
- C The producers of services have introduced better technology.
- D The workers in the production of goods have become less efficient.

- 4 The table shows the demand and supply schedules for eggs.

price \$	number of eggs demanded per week	number of eggs supplied per week
0.20	450	25
0.30	250	100
0.40	125	125
0.50	50	150

What will be the equilibrium price of eggs?

- A \$0.20 B \$0.30 C \$0.40 D \$0.50
- 5 As incomes have risen in India, cinema attendance has increased.

How would this change be shown on a demand and supply diagram?

	demand curve for cinema tickets	supply curve of cinema tickets
A	movement along	shifts to the left
B	movement along	shifts to the right
C	shifts to the left	movement along
D	shifts to the right	movement along

- 6 Although some economists believe that resources should be allocated through market forces, markets often fail.

What might be an example of market failure?

- A access to subsidised health care
 B monopoly pricing of electricity supplies
 C prohibiting cigarette smoking in public places
 D regulation of interest rates charged by banks

- 7 A group of shops sells all its products at the same price of \$1. It is still able to make a profit, although in other shops the products are sold at a higher price.

Which statement about this group of shops must be correct?

- A Consumers recognise that the group's products are better value.
- B Costs will be lower than in the other shops.
- C Revenue will be less than in the other shops.
- D The group does not advertise nor use any form of marketing.

- 8 In 2011, the Bank of England released into circulation a new design for the £50 note to replace the old design £50 note.

What might have been the reason for issuing these notes?

- A to ease the use of the barter system
- B to enable a means of exchange
- C to lower the external value of the £ sterling
- D to reduce inflationary pressures in the economy

- 9 A security company wishes to recruit an experienced person for a senior position to answer customers' emergency calls, some of which would be during the night. It is offering a good salary and a small apartment next to the company premises.

Which person would be most likely to apply and be offered the position?

- A a confident person currently employed in installing security systems for the company
- B a person who has experience of answering customers' queries in a travel company
- C a recently qualified engineering graduate in security systems
- D a reliable person who says that he needs to live with his young family of five children

- 10 Why do female workers in many countries have a lower income than male workers?

- A Female workers are more experienced.
- B Female workers are more likely to be employed part-time.
- C Female workers are more likely to be in trade unions.
- D Female workers have more qualifications.

- 11 India is experiencing rapid growth in air travel. The number and size of airlines is increasing every year.

Which effect arising from this growth is an external economy of scale?

- A Banks are more prepared to lend to large airlines rather than small airlines.
- B Colleges are established to train flight crew.
- C Fuel suppliers charge less to airlines that buy in bulk.
- D Larger airlines operate aircraft which can carry more passengers.

- 12 The financial director of a company adds up the cost for the firm of rent, insurance, new machinery and the chief executive's basic salary. The director then divides that total by the firm's output.

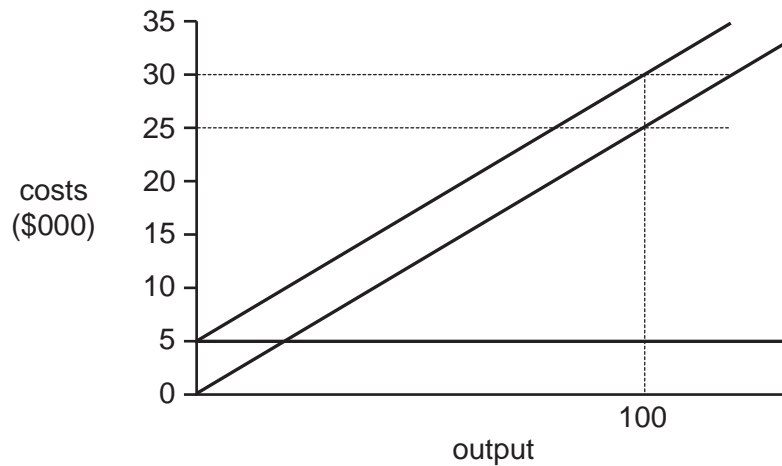
What has the director calculated?

- A average fixed cost
- B average revenue
- C average total cost
- D average variable cost

- 13 If a perfectly competitive market becomes a monopoly, what will be likely to increase and what will be likely to decrease?

	increase	decrease
A	barriers to entry	economies of scale
B	consumer choice	prices
C	long-run profits	competition
D	output	market share

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



What is the firm's total variable cost at an output of 100 units?

- A \$250 B \$5000 C \$25 000 D \$30 000

15 A government achieves a high rate of economic growth.

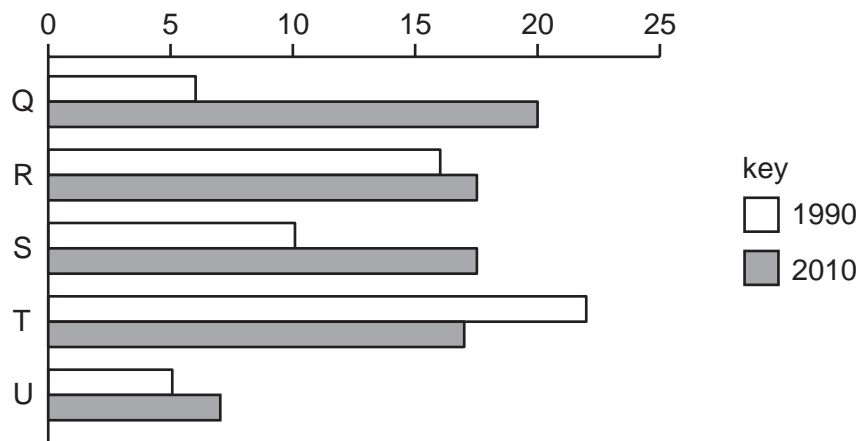
What may result from this that might cause a conflict with other government aims?

- A it may increase government income
 B it may increase incomes for the lower paid
 C it may increase the supply of exports
 D it may increase the volume of imports

16 What type of tax is a tax of 10% on the price of petrol?

- A a direct tax
 B a progressive tax
 C an income tax
 D an indirect tax

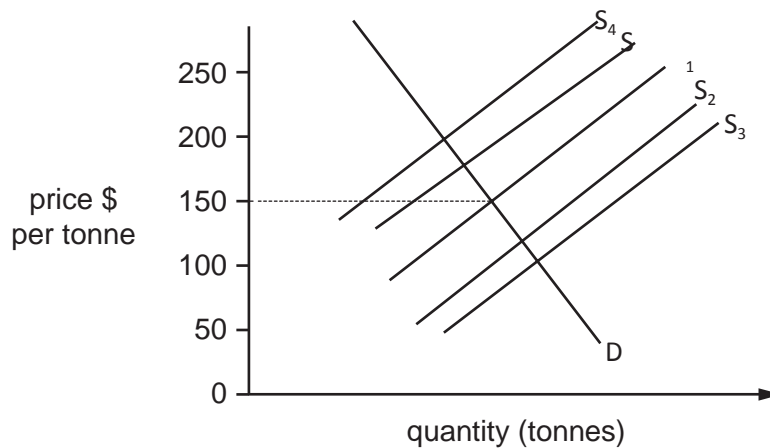
- 17 The graph shows taxes on consumption as a percentage of total tax paid in some countries in 1990 and 2010.



Which conclusion can be drawn from the graph?

- A Country Q collected more revenue from taxes than other countries in 2010.
 B Country T collected less revenue from taxes in 2010 than in 1990.
 C Country U collected less revenue from taxes than Country S in 1990.
 D Most countries imposed a higher percentage of indirect taxation in 2010 than in 1990.
- 18 When the equilibrium price of wheat is \$150 per tonne, a government pays farmers a subsidy of \$50 per tonne.

Which new supply curve represents the effect of this subsidy?



- A S₂ B S₃ C S₄ D S₅

19 What could a government in a developed economy do to decrease demand?

- A create a budget deficit
- B increase government spending
- C increase taxes
- D reduce interest rates

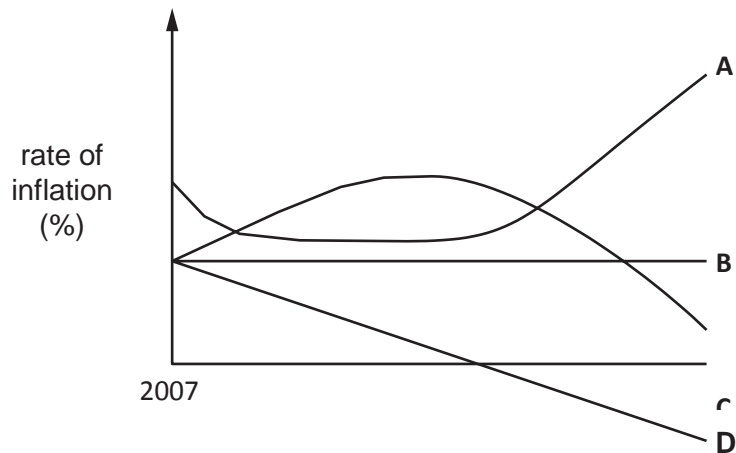
20 A country closed its oil wells because it had used up most of its supplies of oil.

What type of unemployment would this cause?

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

21 The diagram shows the rate of inflation of four countries between 2007 and 2014.

Which country experienced some period in which the real value of money rose?



22 In a country, in one year, average transport prices rose by 15% and the price of electrical products fell by 15%. The two products had equal weights in the retail price index.

If no other prices changed, what happened to the index?

- A It fell by less than 15%.
- B It fell by over 15%.
- C It remained unchanged.
- D It rose by less than 15%.

23 There is a decrease in a country's birth rate.

What must occur at the same time to lead to an increase in the country's population?

- A positive net migration and a fall in the death rate
- B positive net migration and a fall in the fertility rate
- C zero net migration and a fall in infant mortality
- D zero net migration and a fall in the fertility rate

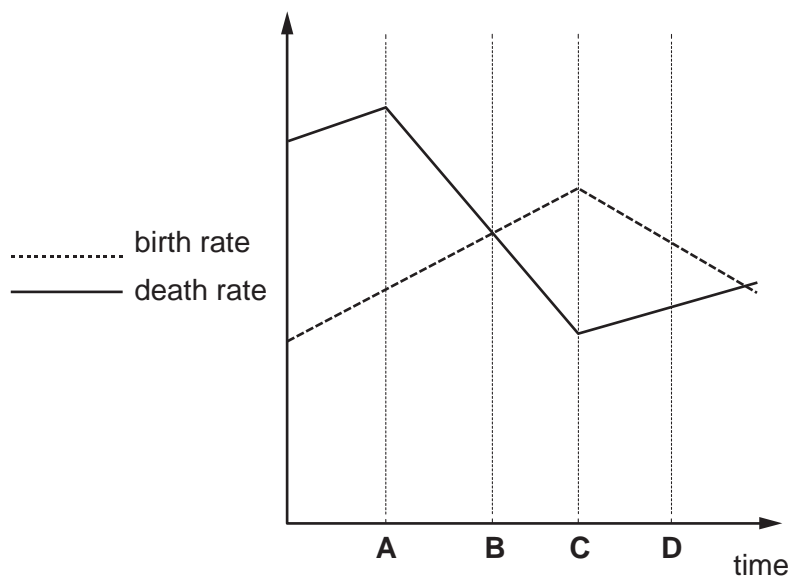
24 In 2008, the Peruvian Government set itself the target of reducing the number of its people in poverty to 30% of the population.

What change does not indicate that the Peruvian Government had made progress towards this objective?

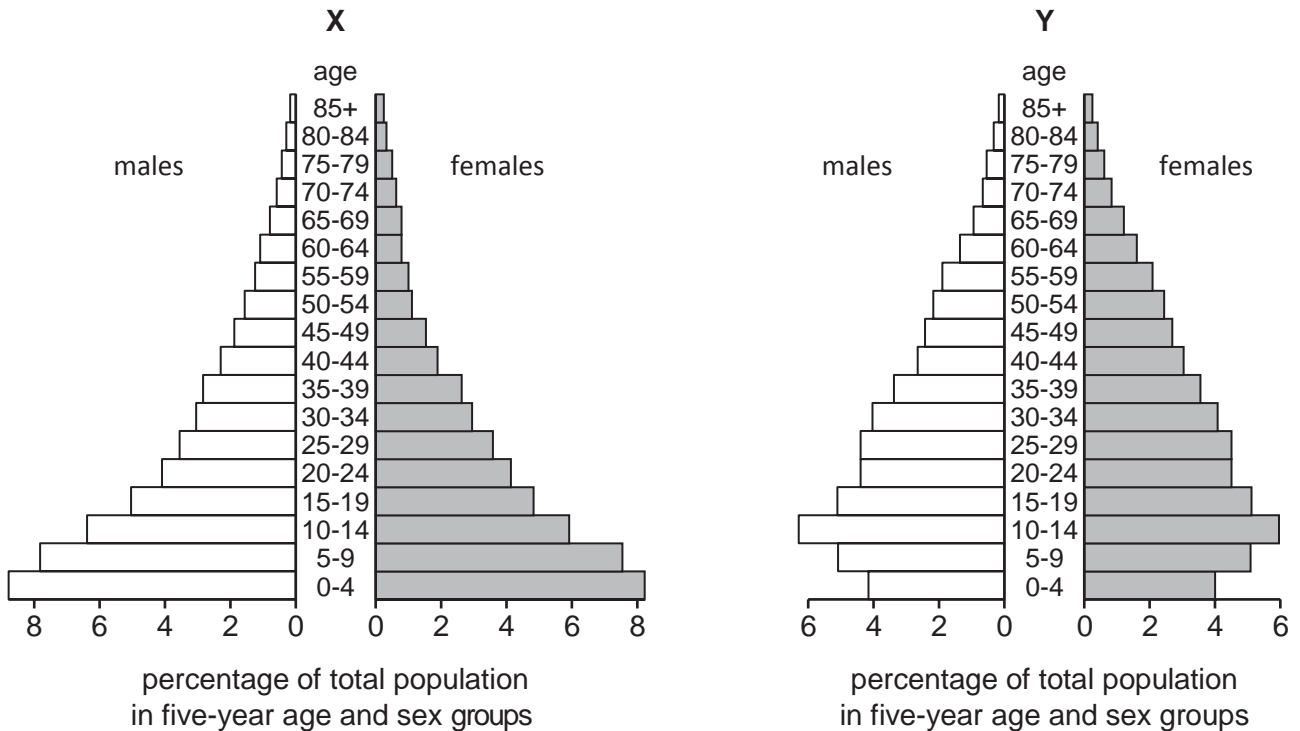
- A a rise in employment
- B a rise in infant mortality
- C a rise in life expectancy
- D a rise in the level of adult literacy

25 The diagram shows the birth and death rates for a country over a period of time.

At which point did the country's population fall?



26 The diagrams show population pyramids for two countries, X and Y.



What can be concluded from these pyramids?

- A country X has the highest population
 - B country X is more typical of a developed country
 - C country Y has a higher birth rate
 - D country Y has a lower dependency rate
- 27 Which would cause a favourable change in the Kenyan trade in services (invisible) account?
- A A Kenyan company wins a contract to transport exports from Uganda.
 - B A Kenyan tea company increases its exports.
 - C A Kenyan trade delegation visits India.
 - D A Zambian company increases its exports to Kenya.
- 28 What is most likely to result from an extension of specialisation in manufacturing?
- A for the consumer some prices will be reduced
 - B for the country there will be less dependency on international trade
 - C for the employee the work will become more varied
 - D for the producer there will be less efficiency

29 What would reduce the volume of international trade in the world economy?

- A a German bank making a loan to a Nigerian company
- B a Japanese car manufacturer establishing a factory in the Czech Republic
- C the Canadian Government introducing quotas on Malaysian electronics products
- D the Swedish Government granting aid to Somalia

30 The table shows the number of units of four currencies which exchanged for one US\$ in 2003 and 2013.

In which country's currency would imports have become cheaper?

	country's currency	2003	2013
A	Hong Kong Dollar	7.7	7.7
B	Indian Rupee	45.2	61.6
C	Nepalese Rupee	72.1	98.8
D	Swiss Franc	1.3	0.9

3
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Section A

Answer this question.

1 Low-cost airlines

For several decades, low-cost airlines have been competing on short-distance flights not just with established airlines, but also with train travel and car travel. Now they are starting to compete with established airlines on long-distance flights. In response to this increased competition there have been some horizontal mergers occurring between the established airlines.

It is predicted that by 2030 China will become the world's largest domestic air travel market, with 20% of all global air travel. The USA is currently the dominant market and it is predicted that between 2015 and 2030 the country will order 6160 of the 28 000 passenger aircraft that will be produced.

India, which has both state-owned and private-sector airlines, is experiencing a great increase in both internal flights and flights to other countries. More airports are being built in India, with more facilities being provided inside and around the airports. For example, more taxi firms are being set up to take passengers to and from the airports. The rapid expansion of air travel in India and other countries is having an impact on the market for pilots, as shown in Fig. 1.

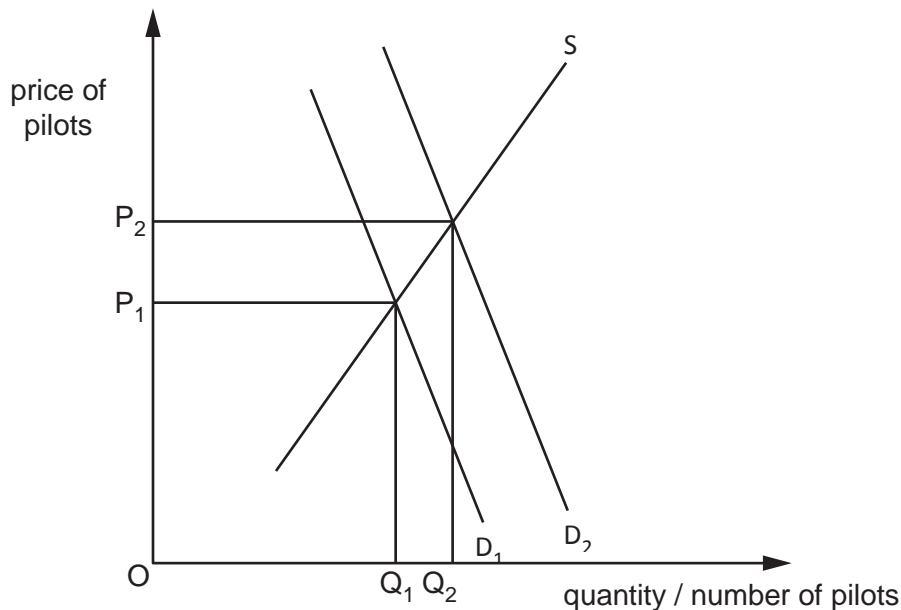


Fig. 1 The market for pilots

How rapidly the Indian air travel market will grow will be influenced by a number of factors. These include the extent to which business travel will grow and how rapidly demand for foreign holidays will increase. Demand for these forms of air travel is, in turn, influenced by changes in price. The price elasticity of demand for air travel has been estimated at -1.2 . One factor that influences prices, and so the inflation rate, is changes in taxation.

- (a) Identify, using information from the extract:
- (i) a substitute for air travel [1]
 - (ii) a complement to air travel. [1]
- (b) Explain **two** advantages that firms may gain from a horizontal merger. [4]
- (c) Calculate, using information from the extract:
- (i) the percentage of the new passenger aircraft that the USA is predicted to purchase between 2015 and 2030 [2]
 - (ii) the percentage change in demand for air travel if the price of air travel falls by 15%. [2]
- (d) Analyse why demand for a luxury holiday may be price elastic. [5]
- (e) Discuss whether airlines should be state-owned or operated by the private sector. [5]
- (f) Explain, using information from the extract and Fig. 1, what happened to the market for pilots in India in 2015. [4]
- (g) Discuss whether a cut in taxation will reduce inflation. [6]

Section B

Answer any **three** questions from this section.

- 2 The actions of the Government of Georgia to reduce inflation and unemployment had an impact on the business organisations operating in the country in 2015. The country has an expanding tertiary sector including its banking sector. The country now has some features of a market economy.
- (a) Identify **two** goals that business organisations may have. [2]
 - (b) Explain **two** functions of a commercial bank. [4]
 - (c) Analyse how the price mechanism influences the allocation of resources in a market economy. [6]
 - (d) Discuss whether an increase in output will increase the profits that firms receive. [8]
- 3 Firms use different quantities of land, labour, capital and enterprise in producing their products. The ways in which a country's resources can be used, and the extent to which they are employed, can be shown on a production possibility diagram.
- (a) What is the difference between capital and land? [2]
 - (b) Explain **two** reasons why a firm may decide to use more labour and less capital in producing its products. [4]
 - (c) Analyse, using a production possibility diagram, the effect on an economy's output when there is a change from full employment to unemployment. [6]
 - (d) Discuss whether it is always possible for a country to have low unemployment and low inflation at the same time. [8]

- 4 The amount that workers earn influences their living standards. Some workers receive relatively low pay. There are a number of ways a government can help the low-paid.
- (a) Identify **two** wage factors that workers take into account when deciding on their occupation. [2]
- (b) Explain **two** indicators of living standards. [4]
- (c) Analyse how fiscal policy can produce a more even distribution of income. [6]
- (d) Discuss whether a rise in the wages paid to low-paid workers would benefit an economy. [8]
- 5 Abu Dhabi is a rapidly developing economy. It is building three new museums in its new cultural district, which may attract more tourists and help its balance of payments. The museums will include some very highly priced works of art.
- (a) Define 'balance of payments'. [2]
- (b) Explain two characteristics of a rapidly developing economy. [4]
- (c) Analyse how an increase in tourism can increase a country's inflation rate. [6]
- (d) Discuss whether the rich always save more than the poor. [8]
- 6 At the start of 2015, dockworkers on the west coast of the USA took industrial action in the form of a go-slow, disrupting exports and imports. This was coordinated by their trade union. Unions in the USA are declining in strength, particularly in the private sector. Most workers in the USA work in the private sector.
- (a) Identify **two** aims of a trade union. [2]
- (b) Explain **two** reasons for a decline in trade union membership. [4]
- (c) Analyse why someone may switch from working in the public sector to working in the private sector. [6]
- (d) Discuss whether a decrease in imports would increase a country's economic growth rate. [8]
- 7 One way in which governments seek to reduce market failure is to introduce regulation. Governments also produce some goods and services by employing workers in the public sector.
- (a) Define 'regulation'? [2]
- (b) Explain **two** causes of market failure. [4]
- (c) Analyse the possible opportunity costs of an increase in government spending on higher education services [6]
- (d) Discuss whether government policy measures can reduce unemployment. [8]

Section A

Answer this question.

1 India, the United States of America (US) and wheat production

Agriculture accounted for 17% of India's Gross Domestic Product (GDP) of US\$1 890 billion in 2013. GDP had increased from US\$1 769 billion the year before. The country's population increased from 1.22 billion in 2012 to 1.26 billion in 2013.

In 2013, both India and the US were in the top ten producers of wheat. India achieved third place with an output of 95 million tonnes while the US was placed fourth with an output of 62 million tonnes.

Only 1.6% of the US labour force was employed in agriculture, in contrast to India's 45% in 2013. While agricultural subsidies have decreased in the US, they remain high in India. The Indian Government considers that help for its farmers is important for its national security and that food subsidies help reduce poverty. Between 2010 and 2013, the Indian Government had spent US\$15 billion on subsidising fertilisers to raise the fertility of the soil. Subsidising fertilisers has increased the output of wheat but has also resulted in polluted rivers.

The Indian Government thinks that in the long run its agricultural sector will become more efficient and the need for subsidies will be reduced. It expects that its workers will become more educated and that the amount of capital equipment that will be used in agriculture will increase. Some US economists have questioned this optimism. They point out that the state-owned Food Corporation of India had to buy 30% of the country's annual wheat harvest and that the country had a large stockpile of unsold wheat in 2014.

Trade between India and the US is increasing. US citizens are buying a greater quantity of goods and services from India. For example, with rising life expectancy in the US, which had already reached 79 years in 2014, there is an increase in the imports of Indian medicines into the US.

The trend in trade between the two countries will be influenced by a number of factors. These include the exchange rate between the US dollar and the Indian rupee. The price of the US dollar is determined by market forces, so there may be fluctuations in the long-term trend.

- (a) Using information from the extract, identify **two** examples of the factor of production 'land'. [2]
- (b) Explain the type of exchange rate system referred to in the extract. [2]
- (c) Using information from the extract, calculate the rise in GDP per head in India from 2012 to 2013. [3]
- (d) Explain **two** characteristics of the US mentioned in the extract that suggest that it is a developed country. [4]
- (e) Using information from the extract, analyse **two** reasons why the productivity of Indian agricultural workers is likely to increase in the future. [4]
- (f) Discuss whether an increase in output always reduces average cost. [5]
- (g) Explain the cause of the example of market failure referred to in the extract. [4]
- (h) Discuss whether food subsidies reduce poverty. [6]

Section B

Answer any **three** questions from this section.

- 2** The price of shares in a large UK supermarket firm fell on the London Stock Exchange in 2014 when it was announced that it was expecting a reduction in its profits. The increased competition from German supermarket firms had forced the UK supermarket to consider a number of ways of cutting its costs by, for example, reducing some of its workers' wage rates and increasing some workers' working hours.
- (a) Define a 'stock exchange'. [2]
- (b) Explain why some firms may have survival as a short-term goal. [4]
- (c) Analyse how consumers may suffer as a result of a fall in the profits firms earn. [6]
- (d) Discuss whether a decrease in wage rates and an increase in working hours will always reduce the supply of workers to a firm. [8]
- 3** A falling death rate is affecting the size of China's population, which in turn is influencing demand for a range of products including table salt. The Chinese Government has recently considered ending the state salt monopoly. An online survey, however, revealed that most Chinese people oppose introducing more competition into the market, thinking it will cause the price of salt to rise.
- (a) Define a 'monopoly'. [2]
- (b) Explain how a falling death rate may affect demand in a country. [4]
- (c) Analyse why price can be lower in a monopoly market than in perfect competition. [6]
- (d) Discuss whether an increase in a country's population size will cause an increase in living standards. [8]
- 4** Between 2008 and 2014, Greece's Gross Domestic Product fell by 25%. Thousands of sole proprietors and other business organisations went out of business. As a result, the unemployment rate increased to 28%. The Government reduced its spending and was being encouraged by the International Monetary Fund to cut its corporation tax (the tax on firms' profits).
- (a) Identify **two** costs of unemployment. [2]
- (b) Explain **two** advantages of a sole proprietor. [4]
- (c) Analyse how a reduction in government spending may affect unemployment. [6]
- (d) Discuss whether a cut in corporation tax will increase economic growth. [8]

- 5** In 2014 the inflation rate in the United States of America (US) was 2.0%. The unemployment rate in the US was 6.1%, the lowest rate in six years. The economy was not yet at full employment but not all job vacancies were filled. A higher proportion of US students were going to university. Investment, which is spending on capital goods, was increasing.
- (a) What is the opportunity cost to a person of going to university? [2]
- (b) Explain why there may be some people unemployed whilst there are job vacancies. [4]
- (c) Analyse how an increase in investment may affect unemployment. [6]
- (d) Discuss whether supply-side policy measures will reduce inflation. [8]
- 6** In 2014 the World Trade Organisation ordered China to end its export quotas on its rare earth metals, which are used in smartphones, laptops, tablets and other electronic equipment. China supplies 90% of the world's rare earth metals and is also the world's largest consumer. The supply of these metals is inelastic, and changes in their price affect the costs of producing a range of products.
- (a) Define an 'export quota'. [2]
- (b) Explain the difference between inelastic supply and perfectly inelastic supply. [4]
- (c) Using a demand and supply diagram, analyse how an increase in the cost of producing smartphones will affect the market for smartphones. [6]
- (d) Discuss whether a country exporting its raw materials always benefits its economy. [8]
- 7** There has been a growth in foreign tourism. More people from both developed and developing countries are taking holidays abroad. Foreign tourism brings both advantages and disadvantages. Employment is created but some of the jobs are low-paid and low-skilled. The quality of employment can vary between developed and developing countries, as can the problems they face, including population problems.
- (a) How are earnings received by a country from foreign tourism recorded in the current account of its balance of payments? [2]
- (b) Explain **two** factors that could cause an increase in foreign tourists to a country. [4]
- (c) Analyse why workers with the same skills may be paid different wage rates. [6]
- Discuss how population problems in developing countries may differ from those in developed countries. [8]

Section A

Answer this question.

1 The challenges facing India

The year 2013 brought a number of challenges to India's economy. For instance, in 2010, India's Gross Domestic Product (GDP) rose by 9.5%. In 2012, it increased by 5.3% and, in 2013, it increased by only 4.5%.

In August 2013, the Indian rupee fell to a record low against the US dollar. This pushed up the price of a range of products in India. In response, the Reserve Bank of India, India's central bank, tried to prevent further falls in the international value of the rupee. At the same time, the Indian Government tried to reduce the deficit on the current account of the country's balance of payments.

The Government raised the tax on imports of gold, to reduce both the current account deficit and the fall in the exchange rate. Spending on imported gold is second only to spending on imported oil in India's trade in goods.

A country's import expenditure and export revenue are influenced by a number of factors. One key influence on export revenue is changes in world GDP. Table 1 shows world GDP and India's export revenue over the period 2008 to 2012.

Table 1: World GDP and India's export revenue 2008–2012

Year	World GDP (US\$ trillion)	India's export revenue (US\$ billion)
2008	50	166
2009	48	189
2010	56	182
2011	58	251
2012	62	305

Investment fell in the country between 2010 and 2012. The Reserve Bank of India was considering changing the rate of interest to influence investment, that is spending on capital goods by firms, and borrowing by households.

India is the world's second largest producer of onions after China. Whilst India's farmers produce large quantities of onions, their productivity is low. India usually exports more onions than it imports, making it a net exporter of onions.

In 2013, there was a rise in the price of onions caused by poor harvests resulting from bad weather. This then led to the country having to import more onions.

The Government put a tax on the export of onions to increase the supply of onions on the home market. It was also hoping that farmers would respond in a positive way to the rise in the price of onions.

- (a) Using information from the extract, explain whether India experienced a recession or economic growth in 2013. [2]
- (b) Explain **two** ways a central bank could try to stop a fall in the international value of its country's currency. [4]
- (c) Using information from the extract, explain what is likely to have happened to the price of gold in India in 2013. [3]
- (d) Using Table 1, comment on the relationship shown between the change in world GDP and India's export revenue. [4]
- (e) Explain **two** ways a government could try to increase investment. [4]
- (f) Discuss whether governments should encourage households to borrow more. [5]
- (g) Using information from the extract, explain the opportunity cost of exporting onions. [2]
- (h) Discuss whether India is likely to be a net importer or a net exporter of onions in the future. [6]

Section B

Answer any **three** questions from this section.

- 2** Changes in global weather conditions are increasing the risks of some of the islands of the Maldives disappearing under the sea. They are also affecting the country's fishing industry which experiences frequent changes in equilibrium price. The country is considering whether to devote more of its resources to fishing. The country has recently created a new island, called Hulhumale, from reclaimed land.
- (a) Why do choices have to be made about how resources are used? [2]
- (b) Explain why price tends to move towards equilibrium over time. [4]
- (c) Using a production possibility curve diagram, analyse the effect of an increase in land on an economy. [6]
- (d) Discuss whether devoting more of its resources to fishing would benefit an economy. [8]
- 3** Tesco is a large multinational supermarket firm based in the UK. It sells a wide range of products which vary in their degree of price elasticity of supply. In 2013, the firm's profits fell in its home market and also in every other country in which it operates. For instance, in the UK, profits fell due to greater competition while in South Korea they fell as the Government placed additional restrictions on opening hours.
- (a) Define 'price elasticity of supply'. [2]
- (b) Explain why many firms try to maximise profits. [4]
- (c) Analyse what determines in which countries a multinational company produces. [6]
- (d) Discuss whether a government should regulate supermarket firms. [8]
- 4** In Myanmar (Burma) people prefer using clean bank notes. The country has relied largely on cash transactions but recently the Government has been encouraging the use of other forms of money. The use of monetary policy has reduced inflation, as measured by the consumer prices index, from 35% in 2007 to 1.5% in 2012. There is even the possibility that the country may experience deflation in the future.
- (a) Define 'consumer prices index'. [2]
- (b) Explain **two** functions of money. [4]
- (c) Analyse how monetary policy can reduce the rate of inflation. [6]
- (d) Discuss whether deflation always harms an economy. [8]

5 Qatar has a fertility rate of 1.7. Males make up 75% of the country's population. The oil and gas industries are major employers in the country but the pattern of employment is likely to change in the future. In 2013, the country had the lowest unemployment rate in the world of 0.5%.

- (a) Define 'fertility rate'. [2]
- (b) Explain **two** reasons why a country may have more males than females in its population. [4]
- (c) Analyse why the pattern of employment in a country may change over time. [6]
- (d) Discuss whether a government should aim for an unemployment rate as low as 0.5%. [8]

6 Madagascar has highly fertile land but is one of the poorest countries in the world. In 2013, 92% of its population were living in poverty. In that year, Gross Domestic Product (GDP) and GDP per head declined. The country has low tax revenue and the Government is considering raising tax rates.

- (a) Giving an example, define the factor of production 'land'. [2]
- (b) Explain **two** reasons why a country may have a low GDP per head. [4]
- (c) Analyse how a rise in tax rates may influence poverty. [6]
- (d) Discuss whether a fall in GDP may reduce living standards. [8]

7 The World Economic Forum has stated that Brazil is in the final stage of becoming a developed country. Brazil is, however, facing a number of economic problems including a large deficit on the current account of its balance of payments. The Brazilian Government is not considering introducing a fixed exchange rate system but it is trying to improve education and to keep more of its skilled workers in the country.

- (a) Define 'developed country'. [2]
- (b) Explain **two** economic reasons why someone may decide to work in another country. [4]
- (c) Analyse how a more educated labour force could reduce a country's current account deficit on its balance of payments. [6]

Discuss whether a country's exchange rate should be determined by market forces or by the government. [8]