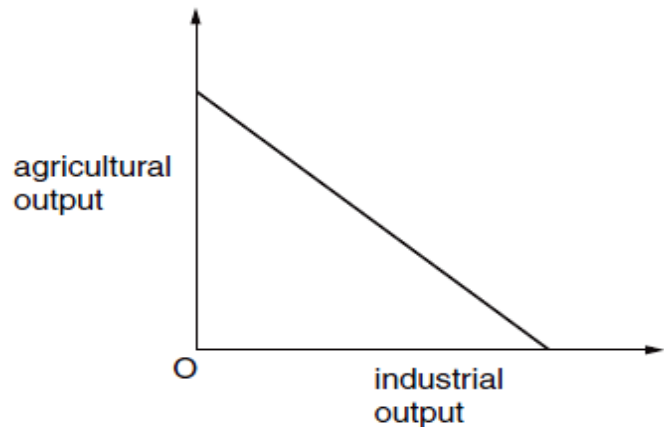


Section A

- 1 The diagram shows an economy's production possibility curve.



Why does the curve slope downwards?

- A Agriculture and industry are subject to decreasing returns to scale.
 - B Agriculture and industry are subject to increasing returns to scale.
 - C Resources are shared equally between industrial and agricultural production.
 - D Total resources available to the economy are limited.
- 2 Which of the following statements about trade unions is normative?
- A Since trade unions exist to safeguard the interests of their members, they deserve the legal protection of the state.
 - B In countries where trade unions are strong, income distribution is more equal.
 - C Uneven trade union membership has resulted in a widening of the wage gap between different industries.
 - D In industries where trade unions are powerful, technical progress tends to be much slower.

3 Given a rate of interest of 10% per year, what is the opportunity cost to an individual of saving an additional \$100 in year 1?

- A an increase in consumption of \$110 in year 2
- B an increase in consumption of \$10 in year 2
- C consumption of \$100 in year 1
- D consumption of \$110 in year 1

4 In the diagram LM is the production possibility curve of a country that has a comparative advantage in the production of good Y.



What might enable the country to consume the quantities of X and Y indicated by point R?

- A increased specialisation in the production of good X
- B international trade
- C a reduction in unemployment
- D increased specialisation in the production of good Y

- 5 For price to act as a rationing mechanism, the effect of a rising price must be to
- A attract new firms into the market.
 - B generate additional profits for producers.
 - C reduce the quantity demanded by some individuals.
 - D signal the need for a reallocation of resources.
- 6 What is not correct when price acts as a means to allocate resources?
- A Price determines the supply of public goods.
 - B Price operates in the markets for both goods and factors of production.
 - C Price recognises consumers' ability to pay rather than consumers' needs.
 - D Price signals to producers which goods are most profitable.
- 7 An economy is operating at a point on its production possibility curve.
What is true about the way the economy's resources are being used at this point?

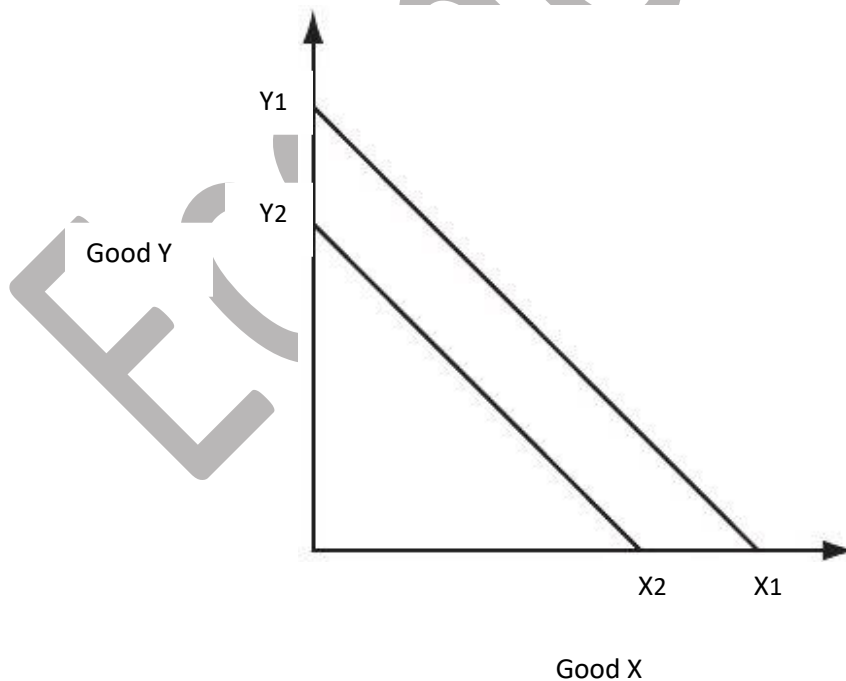
	Allocatively efficient	Productively efficient	Socially desirable
A	Possibly	Yes	Yes
B	Yes	Possibly	Possibly
C	possibly	Yes	Possibly
D	Yes	Possibly	Yes

- 8 Tom has set up his own business, which is based in premises owned by Fanda. All machinery is hired from an equipment company. Both Tom and Fanda are employed in the business.

What describes the earnings of Tom and Fanda?

	Tom	Fanda
A	rent and profit	interest and profit
B	wages and profit	wages and rent
C	interest and rent	rent and profit
D	wages and interest	wages and interest

- 9 The diagram illustrates the production possibility curves for an economy in Year 1 ($X_1 Y_1$) and Year 2 ($X_2 Y_2$).



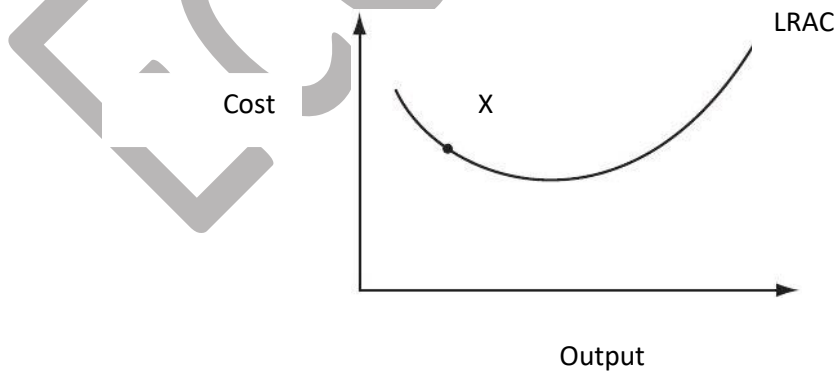
What can be concluded from the diagram?

- A** The cost of production was lower in Year 2 than in Year 1.
- B** The full employment level of output was lower in Year 2 than in Year 1.
- C** The opportunity cost of production was lower in Year 2 than in Year 1.
- D** Unemployment rose between Year 1 and Year 2.

10 What does the concept of ceteris paribus allow economists to do?

- A** calculate the monetary value of consumer surplus
- B** distinguish between economic and free goods
- C** distinguish between normative and positive statements
- D** isolate the effect of one variable on another variable

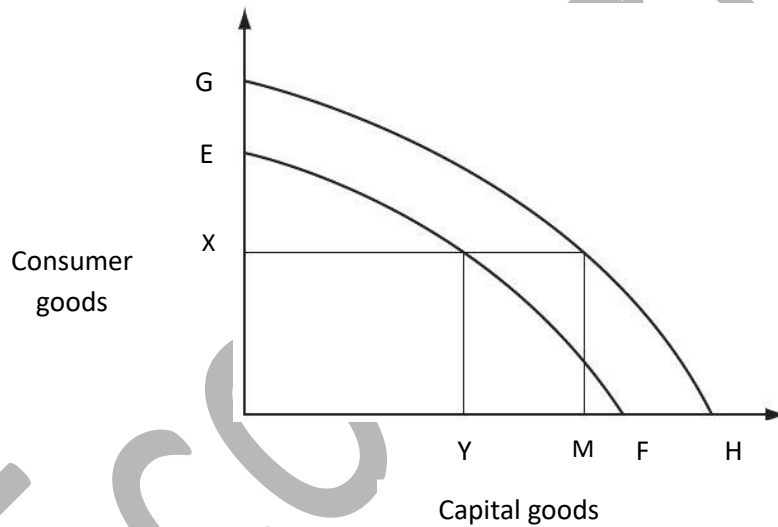
11 In the diagram, the firm is operating at point X on its long-run average cost curve.



Which statement about the firm is correct?

- A** It is operating at its optimal level of output.
- B** It is operating below its cost-minimising level of output.
- C** It is productively inefficient.
- D** It could produce its current level of output at a lower cost.

12 The diagram shows two production possibility curves (EF and GH), before and after technological progress has taken place.



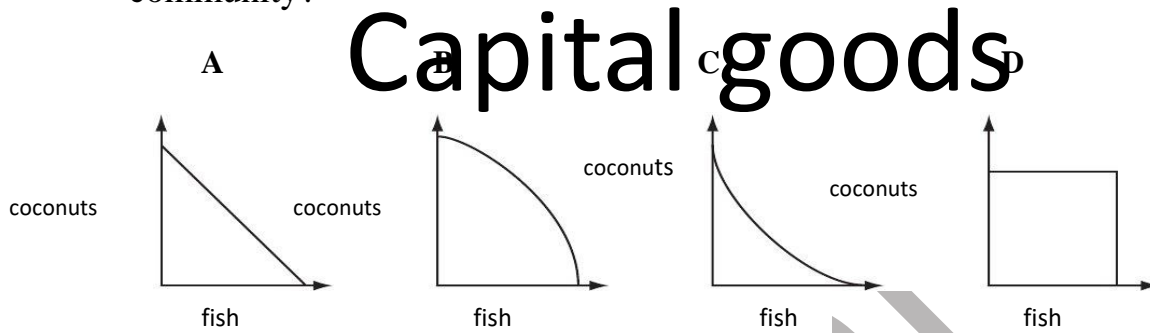
After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

- A** MH
- B** OH
- C** OM
- D** YF

- 13** What must be true of a positive statement?
- A** It is one that can be shown to be correct or incorrect.
 - B** It is one that deals with positive changes in economic well being.
 - C** It is one that is true by definition.
 - D** It is one with which everyone is in agreement
- 14** The steel required for the construction of a new car-assembly plant in a fully employed economy is obtained by increasing the output of the domestic steel industry.
- What is the opportunity cost of producing the steel?
- A** the alternative benefits forgone by diverting additional resources to steel manufacture
 - B** the alternative benefits forgone by increasing the capacity of the car industry
 - C** the alternative benefits that would have been obtained by putting the steel to other uses
 - D** zero, since there is no reduction in the steel supplied to other steel users

- 15** Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

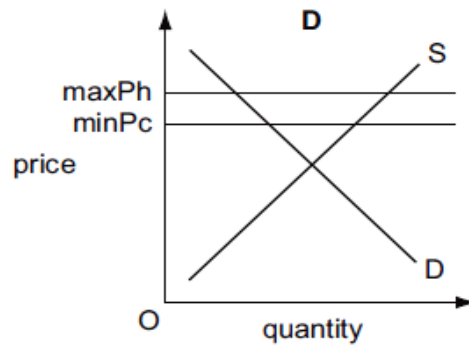
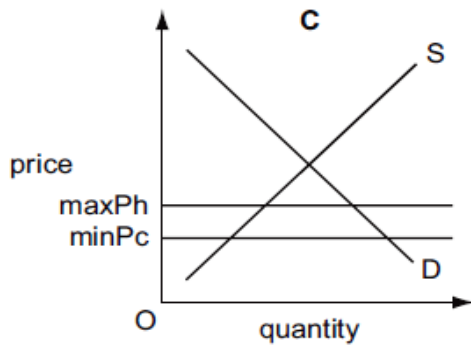
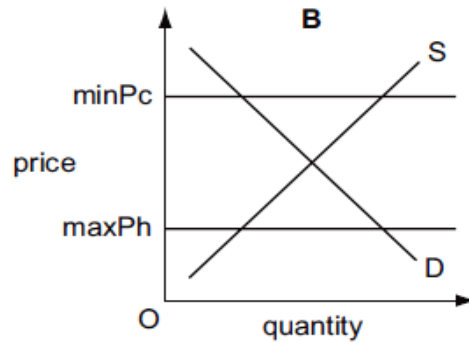
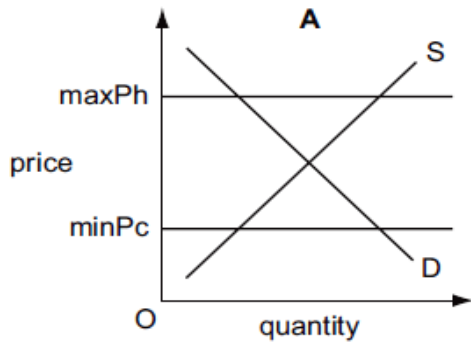
Which diagram represents the production possibility curve of this community?



- 16** What is the opportunity cost to an unemployed worker who becomes employed?
- A the leisure they would otherwise have had
 - B the value of the goods and services they produce
 - C the wages they are paid
 - D zero

- 17 A government introduces a maximum price for house rentals (maxPh) and a minimum price for cleaning services (minPc).

Which diagram shows that the maximum price will be effective and the minimum price will be ineffective in the respective markets?



- 18 Non-rivalry is a characteristic of which type of good?

- A an inferior good
- B a merit good
- C a private good
- D a public good

