

WORKBOOK



Cambridge
IGCSE[®] and O Level

Economics

Second edition



WORKBOOK



Cambridge Assessment
International Education

Endorsed for learner support

Cambridge
IGCSE[®] and O Level

Economics

Second edition

Paul Hoang
Margaret Ducie



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Introduction

Welcome to the Cambridge IGCSE® and O Level Economics Workbook. The aim of this workbook is to provide you with further opportunity to practise the skills you have acquired through using the IGCSE and O Level Economics textbook. It is designed to complement the second edition of the textbook and to provide additional exercises to help you consolidate your learning. It supports the Cambridge IGCSE and O Level Economics syllabuses.

The chapters in this workbook reflect the topics in the textbook. There is no set approach to using this workbook. You may wish to use it to supplement your understanding of the different topics as you work through each chapter of the textbook. You may also prefer to use it to reinforce your skills in dealing with particular topics as you prepare for examination. The workbook is intended to be sufficiently flexible to suit whatever you feel is the best approach for your needs.

1

The nature of the economic problem

- 1 The basic economic problem is
 - A how to allocate scarce resources to satisfy unlimited needs and wants.
 - B how to satisfy limited wants and needs with unlimited resources.
 - C meeting increased demand for goods and services with limited resources.
 - D the interaction of market forces to satisfy unlimited needs and wants.
- 2 An example of a free good is
 - A housing.
 - B public domain web pages.
 - C running shoes.
 - D tennis rackets.
- 3 An olive farm in northern Italy produces organic olive oil which it sells on its website to specialist shops around the world. An example of tertiary industry activity is
 - A bottling the olive oil.
 - B crushing the olives to extract the oil.
 - C growing olive trees.
 - D selling the oil over the internet.
- 4 Which is **not** one of the three basic economic questions addressed by an economy?
 - A For whom should production take place?
 - B How should production take place?
 - C What production should take place?
 - D When should production take place?
- 5 Which term is used to describe non-physical items, such as haircuts, bus journeys and internet access?
 - A factors of production
 - B goods
 - C opportunity costs
 - D services

1 THE NATURE OF THE ECONOMIC PROBLEM

6 Define the term *public sector*. [2 marks]

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7 Using relevant examples, explain the difference between *needs* and *wants*. [4 marks]

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8 Explain the difference between *economic goods* and *free goods*. [4 marks]

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9 Use examples to explain how *goods* differ from *services*. [4 marks]

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10 Explain how poverty in the real world is an example of the basic economic problem. [4 marks]

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2

The factors of production

- 1 Production of any good or service requires resources known as

A factors of production. B land.	C production facilities. D raw materials.
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- 2 What is the generic name for the natural resources required in the production process?

A capital B enterprise	C labour D land
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- 3 What is the name of the reward for use of enterprise in the production process?

A income B profit	C rent D salaries and wages
------------------------------------	--

- 4 Which refers to the willingness and ability of a person to relocate from one area to another for employment purposes?

A geographical mobility B incentives to work	C occupational mobility D regional unemployment
---	--

- 5 What is the name given to manufactured resources required in the production process?

A capital B enterprise	C labour D land
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- 6 With the use of a relevant example, describe the meaning of *land* as a factor of production. [2 marks]

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- 7 Explain **two** causes of changes in the quantity and quality of factors of production. [4 marks]

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2 THE FACTORS OF PRODUCTION

- 8 a** Explain what is meant by geographical mobility of labour as a factor resource. [2 marks]

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- b** Explain why labour, as a factor of production, is essential in the production process. [4 marks]

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- 9** With the use of at least one example, explain how new technologies might affect the quantity and quality of factors of production in an economy. [4 marks]

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- 10** Using relevant examples, analyse how all four factors of production are needed in the production of a good or service of your choice. [6 marks]

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3

Opportunity cost

1 Why does almost every economic choice made have an opportunity cost?

- A In most cases, there is an alternative option.
- B In most cases, there is no alternative option.
- C People have infinite wants.
- D Resources are not allocated efficiently.

2 Which is least likely to be an opportunity cost of studying economics at university?

- A other things the money could be spent on instead of going to university
- B the difference in earning potential by attending university
- C the option to study geography at university
- D the option to work

3 From the data below, what is the opportunity cost of 1 kilogram (kg) of potatoes in terms of kilograms of carrots?

Carrots (kg)		Potatoes (kg)
65	plus	25
55	plus	30

- A 1 kg
- B 2 kg
- C 5 kg
- D 10 kg

4 From the table below, what is the opportunity cost of producing 1 extra unit of producer goods?

Producer goods (units)	Consumer goods (units)
30	52
33	43
36	34
39	25

- A 1 unit
- B 3 units
- C 6 units
- D 9 units

5 Yann bought a new bicycle for \$350 but has never used it. The second-hand value of the bicycle is \$250. What is the opportunity cost to Yann of keeping the bicycle?

- A \$0
- B \$100
- C \$250
- D \$350

3 OPPORTUNITY COST

- 6 Define the term *opportunity cost*. [2 marks]

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- 7 Explain the opportunity cost to society of constructing a new airport. [4 marks]

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- 8 Colleen earns \$10.50 an hour, but has chosen to take 2 hours off work in order to attend a school trip with her son to a theatre show. Her ticket costs \$15. Calculate the opportunity cost of Colleen attending this school trip. [2 marks]

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- 9 Sangita pays \$30 for each 1-hour driving lesson taken over a 20-week period. In that time, she could have earned \$18 per hour as a teaching assistant, or \$12 per hour working in a local restaurant. Explain what the opportunity cost is of her taking the driving lessons. [2 marks]

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- 10 Tiga is an outstanding 14-year-old football player who has been spotted by a top London football club. They have offered him the opportunity to play full-time, on a scholarship of £35,000 per year for the next 4 years, with the intention of becoming professional within this time. Analyse the possible opportunity costs to Tiga if he decides to take up this offer. [6 marks]

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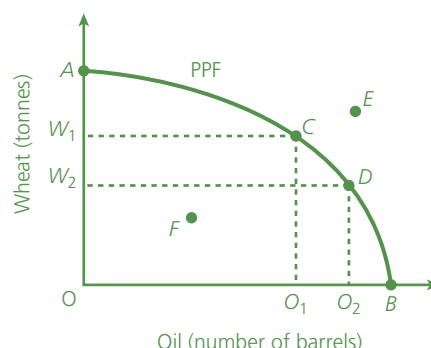
4

Production possibility curve

- 1 Which does **not** shift the production possibility curve outwards?
 - A higher prices
 - B higher productivity levels
 - C improved education and healthcare
 - D technological advances
- 2 What do most economies strive to increase?
 - A consumer goods
 - B opportunity cost
 - C productive capacity
 - D unemployment
- 3 Which is most likely to cause an outwards shift of an economy's production possibility curve?
 - A a fall in the quality of factors of production
 - B a fall in the quantity of factors of production
 - C an increase in the quantity of factors of production
 - D higher levels of unemployment

Study the production possibility frontier diagram for Country X, which produces only two goods, wheat and oil. Use this diagram to answer Questions 4 to 6.

- 4 If Country X wishes to increase the production of wheat from W_2 to W_1 the opportunity cost in terms of oil is
 - A a decrease in oil production from O_2 to O_1
 - B an increase in oil production from O_1 to O_2
 - C an outward shift of the PPF curve to point E
 - D C to D



- 5 At which point is there spare capacity in the economy?
 - A C
 - B D
 - C E
 - D F
- 6 Describe **two** ways in which Country X could increase the productive capacity of the economy and cause its PPF curve to shift outwards to point E. [4 marks]

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4 PRODUCTION POSSIBILITY CURVE

7 Define the term *productive capacity*. [2 marks]

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8 a Describe what a production possibility curve (PPC) diagram shows. [2 marks]

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b Explain how the concept of opportunity cost is shown on a PPC diagram. [4 marks]

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9 Explain the **two** conditions that must hold for an economy to be operating on its PPC. [4 marks]

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10 With the use of an appropriate diagram, discuss the consequences of an outwards shift of the production possibility curve for an economy. [8 marks]

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5

Microeconomics and macroeconomics

- 1 What is the study of particular markets and sections of the economy, rather than the economy as a whole, known as?

A development economics B international economics	C macroeconomics D microeconomics
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- 2 What is the name of the study of economic behaviour and decision making of the whole economy, rather than individual markets?

A development economics B international economics	C macroeconomics D microeconomics
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- 3 Which would be studied in microeconomics?

A economic growth B employment and unemployment	C inflation and deflation D labour markets
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- 4 Which would be studied in macroeconomics?

A market failure B market structures	C price elasticity of demand D redistribution of income
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- 5 Which is most likely to be a decision maker in macroeconomics?

A entrepreneurs B firms	C governments D individual households
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- 6 Define the term *microeconomics*. [2 marks]

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- 7 Define the term *macroeconomics*. [2 marks]

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5 MICROECONOMICS AND MACROECONOMICS

- 8 Explain **two** types of decision makers affected by microeconomics. [4 marks]

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- 9 Explain **two** types of decision makers affected by macroeconomics. [4 marks]

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- 10 Facebook opened a new office in central London in 2018, creating 800 jobs in the process. The social media company first entered the UK in 2007, and earned revenue of £800 million in 2017. The investment was welcomed, especially given the uncertainties surrounding Brexit (the UK's exit from the European Union).

- a Give one reason why Facebook might have chosen to expand its operations in the UK. [2 marks]

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- b Explain **two** benefits to the British economy of Facebook's decision to invest in the UK. [4 marks]

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6

The role of markets in allocating resources

- 1 Changes in non-price factors that affect demand or supply will cause a change in the

A equilibrium price only.	C quantity traded only.
B equilibrium price and quantity traded.	D tax rate.
- 2 The impact of the imposition of a sales tax for a product is likely to lead to

A a higher level of quantity demanded and a lower price.	C both a higher price and higher level of quantity demanded.
B a higher price and lower level of quantity demanded.	D both a lower price and lower level of quantity demanded.
- 3 Which is **not** a supply factor that causes a change in the equilibrium price of a product?

A price changes	C spare capacity
B sales taxes	D subsidies
- 4 Which is a consequence of lower demand for a particular product?

A Equilibrium quantity falls and the price falls.	C Equilibrium quantity rises and the price falls.
B Equilibrium quantity falls and the price rises.	D Equilibrium quantity rises and the price rises.
- 5 Which will cause a rightwards shift of the demand curve?

A higher production costs	C lower sales taxes
B lower income taxes	D subsidies provided to producers

- 6 State **two** factors that can shift the demand curve for a good or service. [2 marks]

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- 7 'Price changes can occur due to shifts in demand or supply.' Explain what this statement means. [4 marks]

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6 THE ROLE OF MARKETS IN ALLOCATING RESOURCES

- 8 Explain **two** reasons why the demand for foreign holidays might increase. [4 marks]

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- 9 Explain **two** reasons for a leftwards shift of the supply curve of avocados. [4 marks]

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- 10 Using an appropriate demand and supply diagram, explain the impact on the market for electric cars following a government announcement to subsidise the purchase of such vehicles. [4 marks]

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7

Demand

- 1 The willingness and ability of customers to pay a given price to buy a good or service is known as

A effective demand.	C quantity demanded.
B market demand.	D the law of demand.

- 2 Which statement explains why there might be a decrease in the demand for sugar?

A Consumers are more aware of health issues related to sugar.	B Demand for coffee and tea has increased.
C New technologies increase the output of sugar.	D There is an increase in the supply of land to produce sugar.

- 3 Which factor does **not** explain why the demand for cars in China has continuously increased?

A effective advertising and marketing from car makers	B greater household disposable incomes
C higher interest rates in China	D lower import taxes on cars made outside of China

- 4 Which products are considered to be complementary goods?

A apples and oranges	C sugar and tea
B shampoo and conditioner	D tea and coffee

- 5 Which is **not** a determinant of demand?

A income	C subsidies
B price	D substitutes

- 6 Explain why an ordinary demand curve is downwards sloping. [2 marks]

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7 DEMAND

- 7 Explain the difference between a *movement* and a *shift* in demand. [4 marks]

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- 8 Explain **two** factors that might affect the demand for ice cream. [4 marks]

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- 9 Using a relevant example, describe the difference between *individual demand* and *market demand* for a product. [4 marks]

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- 10 Using an appropriate demand diagram, analyse the impact on the demand for Coca-Cola following a successful advertising campaign by Pepsi Cola. [6 marks]

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8

Supply

- 1 The willingness and ability of firms to supply goods and services at a given price is known as
A demand. **B** equilibrium. **C** supply. **D** the law of supply.
- 2 Which statement suggests why there might be a fall in the market supply of coal?
A Consumer incomes have fallen.
B New technologies mean customers have switched to alternative energy sources.
C The price of coal has increased.
D There is a discovery of new coal supplies.
- 3 Which factor does **not** shift the supply curve of motor cars to the right?
A an increase in household disposable incomes
B high volume of stocks (inventories) of motor cars
C improved technologies that enable cars to be produced at a faster rate
D lower costs of production from moving production facilities to where labour is more affordable
- 4 Which will cause a contraction in the supply of tomato sauce?
A a fall in the price of tomato sauce **C** a poor harvest of tomatoes
B an increase in sales taxes of food products **D** fewer farmers growing tomatoes
- 5 Which is **not** a determinant of supply?
A income **B** price **C** productive capacity **D** time
- 6 Explain why an ordinary supply curve is upwards sloping. [2 marks]

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- 7 Explain the difference between a *movement* and a *shift* in supply. [4 marks]

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8 SUPPLY

- 8 Explain **two** factors that might shift the supply curve of motor vehicles. [4 marks]

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- 9 Using an appropriate supply diagram, explain the impact on the supply of textbooks following subsidies being awarded to educational publishers. [4 marks]

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- 10 Use an appropriate diagram to analyse how the imposition of a tax on suppliers of oil (petrol) affects the quantity supplied. [6 marks]

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9

Price determination

- 1 The position where the demand for a product is equal to the supply of the product is known as
 - A demand.
 - B equilibrium price.
 - C market equilibrium.
 - D supply.
- 2 What exists when there are shortages or surpluses in a market?
 - A excess demand
 - B excess supply
 - C market disequilibrium
 - D market equilibrium
- 3 What occurs when the demand for a product exceeds the supply of the product due to the price being lower than the market equilibrium?
 - A excess supply
 - B market equilibrium
 - C shortage
 - D surplus
- 4 Which situation exists when the price is set above the market equilibrium price, thus creating a surplus in the market?
 - A excess demand
 - B excess supply
 - C market disequilibrium
 - D market equilibrium
- 5 The data below shows the demand and supply schedule for mushrooms each week. Which of the statements below is incorrect?

Supply	Price per unit (\$)	Demand
21 000	10	18 000
20 000	9	20 000
19 000	8	22 000

- A At \$8 per unit, there is excess demand of 3000 units.
 - B At \$10 per unit, there is excess supply of 3000 units.
 - C Equilibrium exists at \$9 per unit.
 - D There is a shortage in the market at \$10 per unit.
- 6 Define the term *market equilibrium*. [2 marks]

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9 PRICE DETERMINATION

- 7 Using appropriate examples, explain the difference between a shortage and a surplus. [4 marks]

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- 8 Explain the difference between equilibrium price and disequilibrium price. [4 marks]

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- 9 With the aid of a diagram, explain what is meant by excess demand. [4 marks]

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- 10 Use an appropriate diagram to analyse how the imposition of a tax on suppliers of oil (petrol) affects the market equilibrium price and quantity traded. [6 marks]

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10

Price changes

- 1 Which is the most probable outcome if a government raises the tax on the sale of cigarettes and tobacco?

A higher price and higher quantity traded	C lower price and higher quantity traded
B higher price and lower quantity traded	D lower price and lower quantity traded

- 2 Which factor below would **not** cause a rightwards shift of the supply curve for the agricultural sector?

A government subsidies for farmers	C technological progress in agriculture
B favourable weather conditions	D higher costs of fertilisers

- 3 Which of the factors below would **not** cause a rightwards shift of the demand curve for petrol cars?

A effective persuasive advertising	C imposition of a new vehicle registration tax
B higher disposable household income	D significantly higher prices of electric cars

- 4 What is the general outcome if there is excess demand in a market?

A The price falls.	C The price falls but demand rises.
B The price rises.	D The quantity traded rises.

- 5 What is most likely to occur in the market for Nike sports shoes following a fall in price of Adidas sports shoes?

A Quantity demanded falls.	C The price falls and quantity demanded rises.
B Quantity demanded rises.	D The price rises and quantity demanded falls.

- 6 State **two** factors that would cause the supply curve for a product to shift to the left. [2 marks]

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- 7 Give one reason why technological progress might increase prices, and one reason why it might cause prices to fall. [2 marks]

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10 PRICE CHANGES

- 8 Explain **two** factors that might cause the price of milk to fall. [4 marks]

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- 9 Explain the impact of the imposition of higher fuel taxes on the market for motor vehicles. [4 marks]

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- 10 In 2017, Starbucks opened its largest outlet — a 30 000-square-foot store in Shanghai, China, capable of serving up to 550 customers at one time. At the time, the coffee company already had 3000 coffee shops in China, and announced plans to increase this to 5000 stores by 2021. Explain **two** factors that may have increased the demand for Starbucks coffee in China. [4 marks]

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11

Price elasticity of demand (PED)

- 1 What is the price elasticity of demand (PED) for a product for which a 10% price rise reduces sales volume by 5%?

A -2.0 **B** -0.5 **C** +0.5 **D** +2.0

- 2 What is the price elasticity of demand for rice based on the information below?

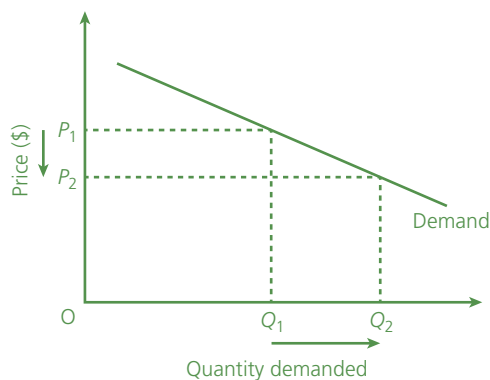
Change in price	Change in demand
+8%	-2%

A -4.0 **B** -2.5 **C** -1.6 **D** -0.25

- 3 Which is a use of price elasticity of demand?

- A** to calculate changes in the general price level
B to calculate consumer spending based on their disposable income
C to estimate the changes in a firm's costs of production
D to identify changes in the spending patterns of consumers

- 4 With reference to the diagram below, if the price is lowered from P_1 to P_2 what will happen to total revenue?



- A** It will decrease.
B It will increase.
C It will increase to Q_2 .
D It will stay the same.

- 5 A price cut from \$2 to \$1.50 causes the demand for peas to rise from 10 000 units to 11 500 units. What is the price elasticity of demand for peas?

A -3.0 **B** -1.67 **C** -0.6 **D** +0.6

11 PRICE ELASTICITY OF DEMAND (PED)

- 6 Suppose HTC sells 8000 smartphones in Taiwan per week at a price of \$250. Due to competition, HTC reduces the price to \$225 and subsequently notices that demand for its smartphones increases to 8640 units in the following week.

a Calculate the price elasticity of demand for HTC smartphones. [2 marks]

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b Explain whether it was a good decision for HTC to reduce its price. [4 marks]

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- 7 The price elasticity of demand (PED) for cigarettes in a particular country is known to be -0.55 .

a Describe what would happen to the demand for cigarettes if the price of cigarettes increases by 10%. [2 marks]

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b Explain one factor which affects the PED for cigarettes. [2 marks]

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- 8 Analyse how an airline company can use the concept of price elasticity of demand to decide whether or not to reduce its air fares. [6 marks]

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- 9 Sanchez Sunglasses sells 240 pairs of its best-selling sunglasses at \$250 each per month. Following an increase in price to \$280, Sanchez Sunglasses discovers that the quantity demanded falls to 215 units per month.

- a Calculate the price elasticity of demand for Sanchez Sunglasses' best-selling sunglasses. [2 marks]

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- b Using your answer from Question 9a above, explain how knowledge of price elasticity of demand (PED) can be of use to Sanchez Sunglasses. [4 marks]

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- 10 With the use of appropriate examples, analyse the factors that determine the value of price elasticity of demand (PED). [6 marks]

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12

Price elasticity of supply (PES)

- 1 What is the price elasticity of supply (PES) for a product that experiences a 5% increase in supply following a 10% price rise?

A -2.0 **B** -0.5 **C** +0.5 **D** +2.0

- 2 What is the price elasticity of supply for rice based on the information below?

Change in price	Change in supply
+8%	+2%

A -4.0 **B** -2.5 **C** +0.25 **D** +4.0

- 3 Which is a use of price elasticity of supply?

- A** to calculate changes in the general price level
B to calculate consumer spending based on their disposable income
C to estimate the changes in a firm's costs of production
D to identify changes in the spending patterns of consumers

- 4 Which is likely to have the highest value for price elasticity of supply (PES)?

- A** haircuts at a local hair salon **C** original Picasso paintings
B organic oranges **D** season tickets at Real Madrid Football Club

- 5 The market price of cherries falls from \$5 per kilogram (kg) to \$4 per kg, which causes the market supply to fall from 10 000 kg to 9 500 kg. What is the price elasticity of supply for cherries?

A 0.05 **B** 0.2 **C** 0.25 **D** 4.0

- 6 The price elasticity of supply (PES) for chocolate in a particular country is known to be +0.95.

- a** Describe what would happen to the supply of chocolate if the market price increases by 10%. [2 marks]

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- b** Explain one factor which affects the PES for chocolate. [2 marks]

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- 7** Suppose the market price of lemons increases from \$4 per kilogram (kg) to \$4.8 per kg, causing quantity supplied to rise from 10 000 kg to 10 500 kg.

a Calculate the price elasticity of supply for lemons. [2 marks]

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b Explain the results of your answer. [4 marks]

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- 8** With reference to **two** different industries, explain the difference between *price inelastic supply* and *price elastic supply*. [4 marks]

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- 9** Explain whether the PES for breakfast cereal is elastic or inelastic. [4 marks]

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- 10** With the use of appropriate examples, analyse the factors that determine the value of price elasticity of supply (PES) for a product of your choice. [6 marks]

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13

Market economic system

- 1 Which term describes the way in which an economy is organised and run?

A command economy	C market economic system
B economic system	D mixed economy
- 2 Which is **not** a disadvantage of the market economic system?

A environmental issues	C income inequalities
B incentives to work	D social hardship
- 3 Which economic system relies on the market forces of demand and supply (in the private sector) to allocate resources?

A free market economy	C mixed economy
B market economy	D planned economy
- 4 Which is a disadvantage of operating a free market economic system?

A bureaucracy	C lack of economic freedom
B income and wealth inequalities	D lack of incentives to work
- 5 Which is an example of wasteful competition in a market economic system?

A decisions about how production should take place	C excess packaging
B environmental issues	D social hardship
- 6 With the use of a relevant example, explain how prices are determined in a market economic system. [2 marks]

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7 Describe **two** features of a market economic system.

[4 marks]

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8 a Explain what is meant by a market economic system.

[2 marks]

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b Analyse the costs and benefits of operating a market economic system.

[6 marks]

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13 MARKET ECONOMIC SYSTEM

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- 9 Explain why there is greater inequality in income and wealth distribution in a market economic system than in a mixed economic system.

[4 marks]

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- 10 Discuss whether most people living in a market economic system (free market economy) benefit from such an economic system.

[8 marks]

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14

Market failure

- 1 Which is **not** an example of market failure?
 - A air pollution
 - B a supermarket charging high prices because of its monopoly power
 - C car parks in a town centre
 - D congestion caused by the number of cars on the road

- 2 Which is an example of a public good?

A healthcare	C public fireworks display
B museums	D public playgrounds

- 3 A government decides to build another airport terminal at an existing airport. This will increase air and road traffic around the airport but will also increase trade and tourism and create business and employment opportunities. Which economic concepts are mentioned in the above statements?
 - A conservation of resources, economic growth, external benefits
 - B external costs, external benefits, opportunity cost
 - C external costs, opportunity cost, conservation of resources
 - D opportunity cost, occupational mobility of labour, geographical mobility

- 4 Which is **not** a characteristic of a merit good?

A over-provided	C under-consumed
B provides social benefits	D under-provided

- 5 Which does **not** provide external benefits to society?
 - A a local college that provides education and training to increase people's skills and qualifications
 - B a new history museum
 - C a public park
 - D new public housing funded by the government

- 6 Give **two** examples of goods and/or services that are provided by a government because they would otherwise be under-consumed by society. [2 marks]

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14 MARKET FAILURE

- 7 The development of Macau, a Special Administrative Region of China, as an entertainment centre has brought mass tourism and many job opportunities to the region. The construction of hotels has required reclamation of the sea, a loss of vegetation and areas of natural beauty and a loss of local culture. Explain **two** examples of market failure which have occurred in Macau. [4 marks]

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- 8 Explain why governments provide public goods. [4 marks]

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- 9 The construction of the Three Gorges Dam in China cost \$37 billion. It is the world's largest power station. Over 1 million people were relocated because their homes were destroyed during the construction of the dam and many farmers lost their livelihoods (means of earning income) because they lost their land. Discuss the social costs and social benefits of the construction of the Three Gorges Dam. [8 marks]

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10 Students in the USA, Canada and England have to pay to go to university. In Sweden and Scotland, the governments fund university education because of the perceived social benefits.

a Define what is meant by *social benefits*. [2 marks]

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b Explain **two** advantages of charging people for a university education. [4 marks]

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c Discuss whether or not subsidising university education will benefit society. [8 marks]

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- 1 Which economic regime uses a combination of both the planned economy and the market economy?

A command economy	C market economic system
B economic system	D mixed economy

- 2 What is the term that describes the imposition of a price guarantee set above the market price to encourage supply of a certain good or service?

A excess demand	C maximum price
B excess supply	D minimum price

- 3 Which economic system relies on the government to allocate resources?

A free market economy	C mixed economy
B market economy	D planned economy

- 4 Which is a form of price control, involving the government setting the price below the market equilibrium in order to make products more affordable?

A excess demand	C maximum price
B excess supply	D minimum price

- 5 Which can be provided by governments to encourage the consumption of certain goods and services?

A minimum prices	C subsidies
B minimum wages	D taxes

- 6 With the use of a relevant example, explain the meaning of privatisation. [2 marks]

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- 7 Describe **two** features of a planned economic system. [4 marks]

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8 a Explain what is meant by a mixed economy.

[2 marks]

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b Analyse why most countries operate mixed economies.

[6 marks]

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9 Explain why there is less inequality in income and wealth distribution in planned (command) economies than in market economies.

[4 marks]

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10 Discuss whether people living in a mixed economy would benefit if their country changed to a market system (free market economy).

[8 marks]

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16

Money and banking

- 1 Which is **not** a function of money?

A durability	C medium of exchange
B measure of value	D store of value

- 2 Which is **not** a problem of bartering as a medium of exchange?

A the need for a double coincidence of wants	C the need for portability
B the need for divisibility	D the need for trade and exchange

- 3 Which is **not** a function of a central bank?

A the facilitation of company growth	C the lender of last resort
B the government's bank	D the sole issuer of bank notes and coins in the country

- 4 Which is a secondary function of commercial banks?

A accepting deposits	C making advances
B credit creation	D offering internet banking

- 5 Which are **not** functions of a commercial bank?

A cheque clearance and foreign exchange dealings	C lender of the last resort and bankers' bank
B internet banking and money transfer facilities	D loans and credit creation

- 6 'Money acts as a medium of exchange.' Explain what this means. [4 marks]

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7 Explain **two** reasons why bank notes and coins are used as money. [4 marks]

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8 Explain **two** functions of a central bank. [4 marks]

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9 Explain **two** functions of commercial banks. [4 marks]

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10 In some countries people can pay for goods and services using an app on their smartphone, for example Apple Pay or Android Pay. Discuss whether or not these payment apps are a new form of money. [8 marks]

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- 1 What is the main source of income for most people?

A dividends B interest	C profit D wages and salaries
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- 2 Which term describes income earned by an individual after income tax and other charges have been deducted?

A disposable income B gross income	C nominal income D real income
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- 3 Money intended for spending on goods and services within the next twelve months is known as

A capital B capital expenditure	C current expenditure D savings
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- 4 Which type of consumption occurs when people buy goods and services that they feel increase their social status or image?

A capital consumption B conspicuous consumption	C current consumption D household consumption
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- 5 Which is the least likely determinant of the level of spending, saving and borrowing in an economy?

A consumer confidence levels B inflation rates	C interest rates D trade policies
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- 6 Define the term *wealth*. [2 marks]

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- 7 State **two** factors that determine the level of savings in an economy. [2 marks]

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8 Explain **two** reasons why an individual might choose to borrow money. [4 marks]

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9 Explain how the use of interest rates affects the amount of spending and savings in an economy. [4 marks]

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10 Some countries, such as Belgium and France, impose high rates of income tax. Explain how direct taxes impact on the amount a person saves or spends. [4 marks]

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- 1 Some professional footballers earn over \$1.5 million per week. What is the most likely reason for this?
 - A Being a footballer is a seasonal job.
 - B Some professional footballers have a unique set of skills and talent.
 - C The job is high-risk so needs to be highly compensated.
 - D The working life of a professional footballer is relatively short.
- 2 In 2017, new graduates in the UK could earn an annual salary of approximately £29 000 working in the public sector and £42 500 working in the legal profession. Identify the most likely reason why a graduate may choose to work in the public sector rather than the private sector of an economy.
 - A better promotion prospects and career progression
 - B greater job security and pension
 - C higher earning potential
 - D more opportunities to earn bonuses
- 3 Following an increase in the national minimum wage (NMW), which is most likely to reduce government expenditure on welfare payments?
 - A greater productivity of public sector workers
 - B increased consumer spending in the economy
 - C increased tax revenues from higher income taxes
 - D unemployed workers having a greater incentive to work
- 4 Women, in general, earn less than men. Which is a possible reason for this?
 - A A larger number of women work part-time or work flexible working hours.
 - B More women are enrolled on medicine and law courses.
 - C More women are focused on their careers and delaying having children.
 - D There is a greater female participation rate in the workforce.
- 5 A disadvantage of specialisation of labour for a firm is that
 - A the production process may become dependent upon a particular worker
 - B the quality of the products increases
 - C workers become skilled in the job and more productive
 - D workers make fewer mistakes

- 6 Explain **two** non-wage factors that affect a person's choice of occupation. [4 marks]

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- 7 The UK government provides people who wish to train to be teachers of mathematics and physics with a bursary (a sum of money which does not have to be repaid). Explain **two** other ways a government may influence the supply of labour in an economy. [4 marks]

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- 8 Study the following table showing the average earnings over a lifetime in 2017 for all occupations in the USA, and explain the reasons why earnings typically change over a person's lifetime. (All figures are in US dollars.) [4 marks]

16 to 19 years	20 to 24 years	25 to 34 years	35 to 44 years	45 to 54 years	55 to 64 years	65 years and over
21 840	27 456	39 416	49 400	50 024	49 608	46 176

Source: United States Bureau of Statistics

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18 WORKERS

- 9 Koh Lanta is an island in southern Thailand and the main industries are fishing, farming and tourism. During the peak season, a large number of workers is required to work in hotels, guesthouses, restaurants and other businesses related to the tourism trade. Analyse the factors that affect the demand and supply of labour in the tourism industry in Koh Lanta. [6 marks]

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- 10 Frederica is an expert in producing hand-knitted garments. Analyse the advantages and disadvantages of specialisation of labour for an individual. [6 marks]

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19

Trade unions

- 1 A request by a trade union for a pay rise for its members who work in a toy factory is likely to be successful if
 - A the productivity of workers in the toy factory has fallen.
 - B there is a large pool of people willing to work in the toy factory.
 - C there is high demand for toys produced in the factory.
 - D there is low inflation in the economy.

- 2 Which is a reason why a trade union may ask for a wage increase for its members?
 - A a higher rate of inflation
 - B higher unemployment in the economy
 - C lower productivity in the industry
 - D lower profits in the industry

- 3 Which is an example of action taken by a trade union?

A go-fast	C sit-down
B lie-in	D work-to-rule

- 4 The main aim of a trade union is to
 - A call its members out on strike action.
 - B cause disruptions to employers and the economy.
 - C gain publicity for its members.
 - D improve pay and working conditions for its members.

- 5 A group of workers in a Bangladesh garment factory is concerned about the low pay, poor working conditions and extended hours of work. They decide to work only for their contracted hours of work and put a ban on overtime. This type of industrial action is known as

A go-slow.	C strike action.
B sit-in.	D work-to-rule.

- 6 Describe the process of collective bargaining. [2 marks]

19 TRADE UNIONS

- 7 Trade union membership in the UK decreased from 13 million members in 1979 to 6.2 million members in 2016. Describe **two** reasons for the decline in trade union membership during this period.

[4 marks]

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- 8 In some countries, such as China, there has been an increase in membership of trade unions. Explain **two** reasons why more people are becoming members of trade unions.

[4 marks]

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- 9 Describe **two** functions of a trade union.

[4 marks]

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- [8 marks]

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20 Firms

- 1 Which sector of the economy contains firms that provide services to the general public and other firms?
A primary **C** secondary
B public **D** tertiary
- 2 Which is **not** a method used to measure the size of firms?
A costs of production **C** sales revenue
B market share **D** the number of employees
- 3 Which is **not** an advantage of small firms?
A easier to set up **C** opportunities to gain economies of scale
B greater degree of control **D** quicker decision making
- 4 Which type of growth occurs when firms expand using their own resources?
A external **C** mergers and acquisitions
B inorganic **D** organic
- 5 Which type of economies of scale arise due to the location of the firm?
A external **C** internal
B financial **D** risk-bearing

- 6 Define the term *diseconomies of scale*. [2 marks]

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- 7 Give **two** examples of external economies of scale. [2 marks]

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- 8 McDonald's uses franchising to grow its business. Define the term *franchise*. [2 marks]

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9 Explain the difference between backward and forward vertical integration. [4 marks]

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10 Explain **two** disadvantages of (challenges facing) small firms. [4 marks]

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

A enterprise

C land

B labour

D money

2 The production of which goods or services is least likely to be labour-intensive?

A a Hollywood movie

C carbonated soft drinks

B a made-to-measure wedding dress

D private piano lessons

3 Which economic term is used to describe or measure how well resources are used in the production process?

A competitiveness

C innovation

B economies of scale

D productivity

4 The commercialisation of new ideas and products as an essential source of productivity is known as

A efficiency.

C innovation.

B entrepreneurial spirit.

D productivity.

5 The demand for factors of production is dependent on the demand for the goods and services which they will be used to produce. This concept is known as

A competitiveness.

C factor inputs.

B derived demand.

D investment.

6 Define the term *capital-intensive production*.

[2 marks]

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7 'The demand for factors of production (land, labour, capital and enterprise) is derived in demand.' Explain what this means.

[2 marks]

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- 8** Explain how productivity can improve due to an increase in investment expenditure in the economy. [4 marks]

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- 9** Study the data below for two car sales firms over a typical month. The sales revenue for each firm is shown, as well as the number of cars sold and the number of sales staff involved.

Firm	Sales revenue (\$)	Cars sold	Sales staff
Morganics Cars	284 850	15	5
Agent Cars	366 440	30	8

- a** Calculate the labour productivity as measured by the monthly sales per worker for both Morganics Cars and Agent Cars. [2 marks]

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- b** Describe your findings. [2 marks]

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- c** Explain why it might be difficult to determine whether Morganics Cars or Agent Cars is the more productive firm. [4 marks]

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- 10** Using relevant examples, explain why productivity is vital for the survival of firms. [4 marks]

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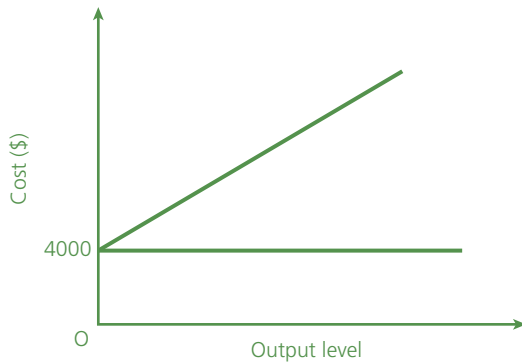
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Firms' costs, revenue and objectives

- Which is a fixed cost of production for a manufacturing firm?

A electricity charges	C rental payments
B overtime pay	D workers' wages
- What is the term used to describe the costs of production that have to be paid regardless of how much a firm produces or sells?

A average	C total
B fixed	D variable
- What is the correct label for the upwards sloping line shown in the graph below?

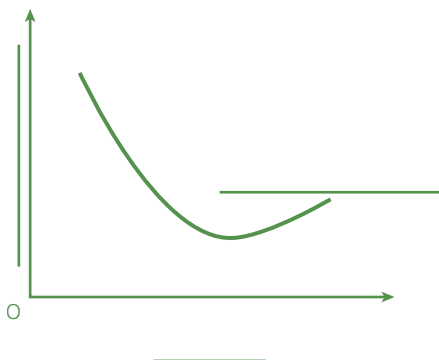


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|-------------------------|
| A average costs |
| B fixed costs |
| C total costs |
| D variable costs |

- A firm's variable costs are \$20 000 in a given week when its output is 2000 units, while fixed costs are \$10 000. What is the value of the firm's average costs?

A \$5	B \$10	C \$15	D \$20
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- The payment received by a firm from the sale of its goods and/or services is known as

A income	C salaries
B revenue	D total costs
- The diagram below shows economies of scale. Identify appropriate labels to complete the diagram. [2 marks]



- 7 The table below shows a firm's fixed and variable costs of production at different levels of output. Calculate the level of output where average costs are at their lowest. [2 marks]

Output (units)	Fixed costs (\$)	Variable costs (\$)	Total costs (\$)	Average costs (\$)
100	2000	400		
200	2000	760		
300	2000	1200		
400	2000	2320		

- 8 The table below shows the total costs of a firm at different levels of output. It sells each unit for \$20.

Quantity produced (units)	20	30	40	50
Total cost (\$)	200	285	360	460
Average cost (\$)				

- a Calculate the level of output required to minimise average costs. [2 marks]

- b Calculate how many units the firm needs to produce and sell in order to maximise profits. [2 marks]

- 9 Study the data for a firm below and answer the questions that follow.

Output (tonnes)	Total cost (\$)	Total revenue (\$)
0	1000	0
100	2000	1500
200	2800	3000
300	3700	4500
400	5200	6000

- a Calculate the unit price from the data above. [2 marks]

22 FIRMS' COSTS, REVENUE AND OBJECTIVES

- b** Calculate the level of output at which average costs are minimised for the firm. [2 marks]

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- c** Calculate the profit at each level of output. [2 marks]

Output (tonnes)	Total cost (\$)	Total revenue (\$)	Profit (\$)
0	1000	0	
100	2000	1500	
200	2800	3000	
300	3700	4500	
400	5200	6000	

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- 10** Nina's Bakery has fixed costs of \$8000 each month. The firm's average variable costs are \$3 per unit of output. The current level of demand at Nina's Bakery is 20 500 units per month. The average price of its products is \$5.50.

- a** Calculate the monthly total costs of production at Nina's Bakery. [2 marks]

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- b** Calculate the current average costs each month for Nina's Bakery. [2 marks]

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- c** Calculate the profit if demand at Nina's Bakery increases to 25 000 units per month. [2 marks]

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23 Market structure

Market structure

- 1** Which is **not** a characteristic of firms in a highly competitive market?

A barriers to entry C many buyers and sellers
B differentiated products D non-price competition

2 Which characteristic is **not** relevant to the model of monopoly?

A extreme barriers to entry C price taker
B price setter D sole supplier

3 Which is least likely to be an entry barrier to the publishing industry?

A consumer protection laws C existing publishers with established market share
B economies of scale enjoyed by the leading publishing firms D set-up costs

4 Which term is used to describe the market structure where only one supplier of a good or service exists?

A market leader C price maker
B monopoly D price setter

5 Which is **not** a key characteristic of a market?

A degree and intensity of price and non-price competition C number of firms in the market
B nature of barriers to entry D number of price takers and makers

6 Define the term *market structure*. [2 marks]

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7 Explain **two** disadvantages of monopoly. [4 marks]

23 MARKET STRUCTURE

- 8 Using an appropriate diagram, analyse the impact of competition on market price and equilibrium output.

[6 marks]

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- 9 Analyse the benefits of competition in a market.

[6 marks]

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- 10 Discuss whether or not monopolies are always bad for consumers.

[8 marks]

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- 1 Which form of government collects taxes to fund services such as refuse (rubbish) collection, street lighting, libraries and public parks?

A central government	C local government
B international government	D national government
- 2 Which is **not** included in the uses of tax revenues?

A healthcare	C national security
B infrastructure	D tariffs and excise duties
- 3 Which is used by international governments to promote free trade and mobility of factors of production between member countries?

A enterprise zone	C planned economy
B market economy	D trading bloc
- 4 The Paris Agreement, a treaty to protect the natural and ecological environment, is an example of the role of which type of government?

A central government	C local government
B international government	D national government
- 5 Which type of policy is used to achieve economic growth through increasing the productive capacity of the economy?

A demand-side policies	C monetary policy
B fiscal policy	D supply-side policies

- 6 Explain the meaning of *fiscal policy*. [2 marks]

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- 7 State any **two** macroeconomic aims that national governments strive to achieve. [2 marks]

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24 THE ROLE OF GOVERNMENT

- 8 Andorra, Brunei Darussalam, Oman and Qatar have a zero rate of income tax. Explain **two** reasons behind such a government decision.

[4 marks]

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- 9 Explain the role of the government on an international level.

[4 marks]

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- 10 Some countries, such as Belgium and France, impose high rates of income tax and corporation tax.

- a Some economists argue that, if governments were to cut direct tax rates, they would actually receive more tax revenue. Explain the reasons behind this argument.

[4 marks]

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- b Discuss whether imposing corporation taxes on the profits of multinational companies will discourage them from setting up in a country.

[8 marks]

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The macroeconomic aims of government

1 Which refers to an increase in a country's real gross domestic product (GDP) over time?

- | | |
|--------------------------|-----------------------------------|
| A economic growth | C inflation |
| B full employment | D redistribution of income |

2 Which is calculated by using a weighted price index?

- | | |
|--------------------------|-----------------------------------|
| A economic growth | C inflation |
| B full employment | D redistribution of income |

3 Which is most likely to conflict with the government aim of high economic growth?

- | | |
|--------------------------------------|---------------------------------|
| A balance of payments deficit | C higher tax revenues |
| B employment opportunities | D inflationary pressures |

4 Which is least likely to be a government aim?

- | | |
|--|--|
| A balance of payments stability | C price stability |
| B full employment | D provision of welfare services |

5 Which is **not** used explicitly by a government to influence private sector producers?

- | | |
|----------------------|--------------------|
| A investment | C subsidies |
| B regulations | D taxes |

6 Most governments strive to achieve full employment. Describe what is meant by full employment.

[2 marks]

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7 All countries aim to achieve economic growth by increasing real gross domestic product (real GDP). Describe what is meant by real GDP.

[2 marks]

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25 THE MACROECONOMIC AIMS OF GOVERNMENT

- 8 Explain why a government aims to redistribute income in the economy. [4 marks]

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- 9 Explain why price stability is a key government aim. [4 marks]

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- 10 In some countries, governments use subsidies to reduce the impact of inflation.

- a Define the term *subsidy*. [2 marks]

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- b Define the term *inflation*. [2 marks]

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- c Explain how the use of subsidies can help to reduce inflation. [4 marks]

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26 FISCAL POLICY

- 6 Explain **two** reasons why the government might choose to increase public expenditure in the economy.

[4 marks]

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- 7 The Bahamas and Estonia have a zero rate of corporation tax. Explain **two** reasons behind such a government decision.

[4 marks]

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- 8 Suppose in a country the progressive tax rates are 12% (for those earning between \$10 001 and \$50 000 per year) and 17% (for those earning over \$50 000 per year).

- a Complete the table below and calculate the total amount of tax paid by an individual who earns \$80 000 a year.

[2 marks]

Income level (\$)	Tax rate (%)	Amount of tax paid (\$)
\$10 000	0%	
\$10 001–\$50 000	12%	
\$50 000+	17%	
Total tax:		

- b Calculate the average rate of income tax paid by the individual.

[2 marks]

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- 9 a Define the term *supply-side policy*.

[2 marks]

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- b** Analyse how fiscal policy can impact on the supply-side of an economy. [6 marks]

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- 10 a** Define the term *contractionary fiscal policy*. [2 marks]

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- b** Discuss whether raising income taxes is in the best interest of the economy. [8 marks]

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- 1 The amount of money in the economy at a particular point in time is known as

A credit creation.	C notes and coins.
B monetary policy.	D the money supply.
- 2 If a government loosens monetary policy in an attempt to expand the economy, what does this involve?

A raising interest rates by reducing the money supply	B raising taxes and raising government expenditure
C reducing interest rates by increasing the money supply	D reducing taxes and reducing government expenditure
- 3 Which is **not** a monetary policy measure?

A changes in foreign exchange rates	C changes in money supply
B changes in interest rates	D changes in tax rates
- 4 Which is a monetary measure that helps to reduce unemployment in the economy?

A a cut in taxes	C investment in training and development
B higher amount of government spending	D lower interest rates
- 5 An increase in interest rates, used to reduce overspending in the economy, is an example of

A fiscal policy.	C supply-side policy.
B loose monetary policy.	D tight monetary policy.

- 6 Define the term *monetary policy*. [2 marks]

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- 7 Explain **one** reason why the government might choose to reduce interest rates in the economy. [2 marks]

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8 Explain why a government might choose to use monetary policy. [4 marks]

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9 Explain how monetary policy can impact on the supply-side of an economy. [4 marks]

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10 Discuss the effectiveness of monetary policy in achieving economic growth. [8 marks]

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- 1 The sale or transfer of public sector assets and industries to the private sector is known as
- A** monetary policy. **C** public expenditure.
B privatisation. **D** supply-side policy.
- 2 Which is **not** a supply-side policy?
- A** education and training **C** labour market reforms
B improving incentives to work **D** reducing taxes and raising government expenditure
- 3 Which type of supply-side policy involves reducing or removing barriers to entry, in order to make markets more competitive?
- A** deregulation **C** lower direct taxes
B enterprise zones **D** privatisation
- 4 Which type of supply-side policy involves changes to labour union legislation, welfare benefits and minimum wage laws in order to create better incentives to work?
- A** deregulation **C** labour market reforms
B education and training **D** lower direct taxes
- 5 Government policies designed to improve the quantity and quality (productivity) of resources in the economy by removing barriers to economic growth are known as
- A** demand-side policies. **C** monetary policy.
B fiscal policy. **D** supply-side policies.
- 6 Explain why the government might choose to use supply-side policies. [4 marks]
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- 7 Explain **two** supply-side policies the government could use if it wanted to improve the competitiveness of the economy. [4 marks]
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- 8 Explain how a government can use supply-side policies to create incentives for firms to invest in the economy.

[4 marks]

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- 9 With the use of appropriate examples, explain why labour market reforms are a type of supply-side policy.

[4 marks]

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- 10 Discuss the effectiveness of supply-side policies in achieving an economy's macroeconomic objectives.

[8 marks]

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- 1 Economic growth can be defined as
 - A an increase in a country's exports earnings.
 - B an increase in a country's potential earnings.
 - C an increase in the productive capacity of an economy.
 - D a reduction in the cost of living.
- 2 Whether a country has experienced economic growth is best indicated by an increase in
 - A consumer price inflation.
 - B current account on the balance of payments.
 - C employment.
 - D real GDP per capita.
- 3 As a country experiences economic growth, what is likely to fall?
 - A average years of schooling
 - B employment opportunities
 - C infant mortality rates
 - D national income per capita
- 4 Which is most likely to be a concern about rapid economic growth in a country?
 - A higher costs of production
 - B higher tax revenues
 - C increased demand for imports
 - D resource depletion
- 5 Which is **not** a policy used to promote economic growth?
 - A increase spending on education
 - B lower government spending
 - C lower income tax rates
 - D lower interest rates

6 Define the term *recession*.

[2 marks]

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7 Explain how a country's net exports are calculated.

[2 marks]

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8 Explain **two** causes of economic growth.

[4 marks]

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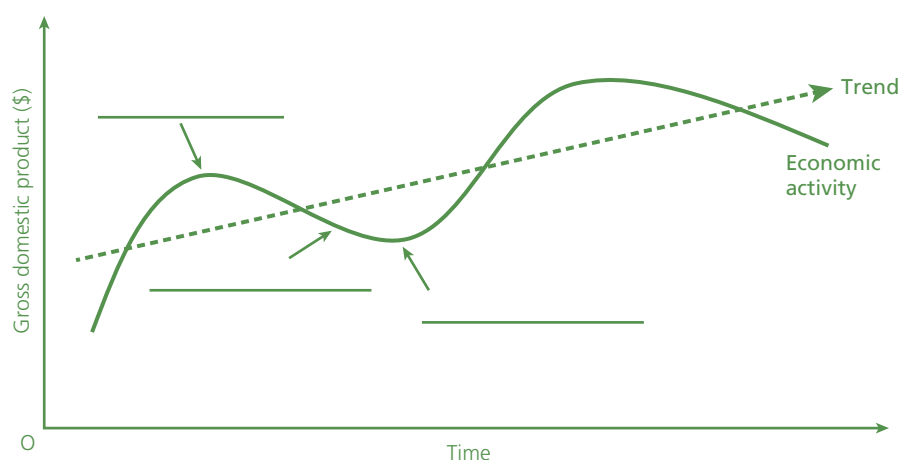
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9 The diagram below shows a typical business cycle. Identify appropriate labels to complete the diagram.

[3 marks]



29 ECONOMIC GROWTH

10 Diaby, an entrepreneur, opened an internet café in a village in Ghana equipped with ten computers and wi-fi for customer use. The café is very popular with students, farmers and people in the village who run or would like to run their own businesses. Farmers use it to research information about new farming techniques and where to get the best market price for their produce. Other villagers use it to find out about installing solar power and how to access funds available for financing new and existing businesses. Diaby organises computing classes and displays useful information about energy saving and new planting techniques on the café notice board.

a Using a PPC curve, explain the impact of the internet café on the output of the village. *[4 marks]*

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b Explain **two** reasons why output in the village has increased as a result of the internet. *[4 marks]*

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- 1** What is the name given to the situation when people of working age are both willing and able to work but cannot find employment?

A classical unemployment

C unemployment rate

B unemployment

D voluntary unemployment

- ## 2 Which type of government policy is best suited to deal with imperfections in the labour market?

A fiscal policies

C protectionist policies

B monetary policies

D supply-side policies

- ### 3 Which is generally regarded as the most severe form of unemployment?

A cyclical unemployment

C structural unemployment

B real wage unemployment

D voluntary unemployment

- 4** The table below gives population data for a particular country.

Population:	66 million
Aged 0–14:	17 million
Aged 15–64:	38 million
Aged over 65:	11 million

If the unemployment rate is 7%, the number of unemployed people is

A 2.66 million

C 10 million

B 4.62 million

D 28 million

- ### 5 What is the main cause of frictional unemployment?

A changes in demand for certain goods and services

B people changing jobs

C people choosing not to work

D wages set higher than the market equilibrium

- 6** Explain what is meant by the unemployment rate.

[2 marks]

30 EMPLOYMENT AND UNEMPLOYMENT

- 7 Calculate the unemployment rate in a country that has a population of 46.6 million people, of which 30 million are employed and 2.7 million are unemployed. [2 marks]

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- 8 Explain which type of unemployment is most associated with a downturn in the business cycle. [2 marks]

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- 9 Explain how the International Labour Organization measures unemployment. [2 marks]

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- 10 Explain **two** economic advantages of a fall in unemployment. [4 marks]

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- 1 Which will cause an increase in a country's rate of inflation?
 - A discount food prices at the major supermarkets
 - B lower consumer and business confidence in the economy
 - C lower rates of interest
 - D subsidised energy prices

- 2 Which statement suggests why savers lose out during times of inflation?
 - A Money loses its ability to act as a store of value.
 - B Money loses its ability to act as a unit of account.
 - C Real interest rates become negative during inflationary periods.
 - D Real interest rates become positive during inflationary periods.

- 3 If the weighting for food in a country's consumer price index (CPI) exceeds that for shoes, what does this indicate?
 - A Food is considered to be more important to the average household than shoes.
 - B On average, the price of food has increased more than the price of shoes.
 - C The average household buys more food than shoes.
 - D The average household buys more shoes than food.

- 4 If the consumer price index in a country rises from 115.2 to 116.8 in the subsequent year, what is the inflation rate?

A 1.39%	C 1.68%
B 1.6%	D 16.8%

- 5 The tables below show the consumer price index (CPI) data.

Year	CPI
1	102.2
2	104.6

Year	CPI
3	103.9
4	105.4

It can be concluded that prices were at their lowest in

- | | |
|----------|----------|
| A Year 1 | C Year 3 |
| B Year 2 | D Year 4 |

31 INFLATION AND DEFLATION

- 6 Calculate the rate of inflation if the consumer price index drops from 135.6 to 130.2. [2 marks]

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- 7 A basket of goods and services currently costs \$1500. Calculate how much it would cost if the consumer price index fell from 125.5 to 121.1. [2 marks]

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- 8 Explain **two** reasons why governments calculate a consumer price index. [4 marks]

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- 9 Explain why food and furniture have different weightings when calculating the consumer price index. [4 marks]

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10 The data below is for a hypothetical country, Satcolbe.

Item	Retail prices index	Weight
Clothing	120	15
Food	130	30
Housing	140	40
Other	125	15

a Define what is meant by a *retail prices index* (RPI).

[2 marks]

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b 'The typical household in Satcolbe spends more money on food than on clothing.'
Explain this statement.

[2 marks]

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c Complete the table below and calculate the weighted retail prices index (RPI) in Satcolbe.

[2 marks]

Item	Retail prices index	Weight	Weighted index
Clothing	120	15	
Food	130	30	
Housing	140	40	
Other	125	15	
Weighted RPI			

32 Living standards

- 1 Which factor is **not** an indicator used to measure poverty within a country?
 - A high cost of living
 - B high mortality rates
 - C homelessness and inadequate housing
 - D hunger and malnutrition
- 2 Which is a limitation of using real national income per capita as a measure of standards of living in a country?
 - A It does not account for inflation over time.
 - B It does not consider income earned in every industry.
 - C It does not consider the size of the population.
 - D It does not reflect the distribution of income and wealth.
- 3 Which is **not** part of the Human Development Index (HDI)?
 - A education
 - B environmental issues
 - C healthcare
 - D income levels
- 4 From the limited data below, which country is most likely to have the highest standard of living?

Country	GDP (\$ billion)	Population (million)
A	129.7	18.5
B	153.6	150.0
C	43.2	15.2
D	89.9	9.2

- A** Country A
- B** Country B
- C** Country C
- D** Country D
- 5** Which is **not** a direct criticism of using the Human Development Index (HDI) to classify countries?
- A** Inequalities in income and wealth are ignored.
- B** Longevity, education and income are not the only factors that affect human development.
- C** The components of the HDI are indiscriminately weighted equally.
- D** The definitions of economic development and standards of living are subjective.

- 6 Explain **two** reasons for differences in income distribution within countries. [4 marks]

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- 7 Dhaka in Bangladesh is rated by the Economics Intelligence Unit as one of the least liveable cities in the world. Explain **two** reasons why this might be the case. [4 marks]

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- 8 Explain **two** reasons why an increase in real GDP per capita may not result in a rise in living standards in a country. [4 marks]

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32 LIVING STANDARDS

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9 Economic growth is associated with an improvement in living standards.

a Define what is meant by *living standards*.

[2 marks]

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b Analyse **two** ways that a government can improve the living standards in its country.

[6 marks]

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c Discuss whether or not economic growth in a country always results in higher living standards for its people.

[8 marks]

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- 10** Discuss which of the two countries below is most likely to have lower living standards based on the economic development indicators given in the table.

[8 marks]

Country	GDP per capita (\$)	Life expectancy (years)	Expected years of schooling	Mean years of schooling
Guinea	508	59	8.8	2.6
Sierra Leone	496	51	9.3	3.3

Source: World Bank (GDP per capita), UNDP (other data)

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- 1 Which is least likely to be an indicator of poverty in an economy?

A homelessness and inadequate housing	C inadequate income
B hunger and malnutrition	D unemployment

- 2 What exists when there is extreme outright poverty in an economy, i.e. average income is equal to or less than \$1.25 per day?

A absolute poverty	C poverty trap
B poverty line	D relative poverty

- 3 What is experienced by those who have a lower standard of living in comparison to the average member of society?

A absolute poverty	C poverty trap
B poverty line	D relative poverty

- 4 Which is **not** a United Nations Sustainable Development Goal (SDG)?

A clean water and sanitation	C reduced inequalities
B reduce, reuse, recycle	D zero hunger

- 5 Which is **least** likely to be a cause of poverty?

A high public debt	C low GDP per capita
B high rates of tax	D low literacy rates

- 6 Use an example to explain the meaning of relative poverty. [2 marks]

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- 7 Study the data below and answer the questions that follow.

Income (\$ per year)	Tax paid per year (\$)		
	Tax A	Tax B	Tax C
10 000	1000	650	500
15 000	1650	650	750
20 000	2400	650	1000
25 000	3250	650	1250

a Explain which tax (A, B or C) is progressive.

[2 marks]

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b Explain which tax (A, B or C) is proportional.

[2 marks]

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c Explain the difference between a regressive and a proportional tax.

[2 marks]

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8 According to the World Bank, the GDP per capita in Mozambique was \$392 in 2016 (just over \$1 per day). Explain why poverty is a concern for the Mozambican government. [4 marks]

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9 Explain any **two** causes of poverty.

[4 marks]

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10 Explain any **two** policies that can be used to alleviate poverty.

[4 marks]

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- 1 Which factor is most likely to raise the average age of a population?

A a higher birth rate B a higher death rate	C improved health technologies D net migration
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- 2 Which factor is likely to increase the population in a country?

A greater female participation in the workforce B higher cost of living	C higher fertility rates D increased education expenditure
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- 3 The net migration rate is calculated by the formula

A birth rate – death rate B death rate – birth rate C number of emigrants – number of immigrants D number of immigrants – number of emigrants	
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- 4 Which statement about population distribution is correct?

A Low-income countries generally have a lower average age than high-income countries. B Most countries are experiencing ageing populations. C Poorer countries tend to have lower dependency ratios. D The gender split is uneven in most countries with more females being born.	
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- 5 The median age of the UK population was 35.4 years in 1985 and is projected to be 42.2 by the year 2035. What does this suggest about the population in the UK?

A It has a declining birth rate. B It has a declining death rate.	C It has a positive population growth rate. D It has an ageing population.
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- 6 Define the term *dependency ratio*. [2 marks]

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- 7 Explain **two** factors that affect the rate of population growth. [4 marks]

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- 8 Explain the difference between underpopulation and overpopulation. [4 marks]

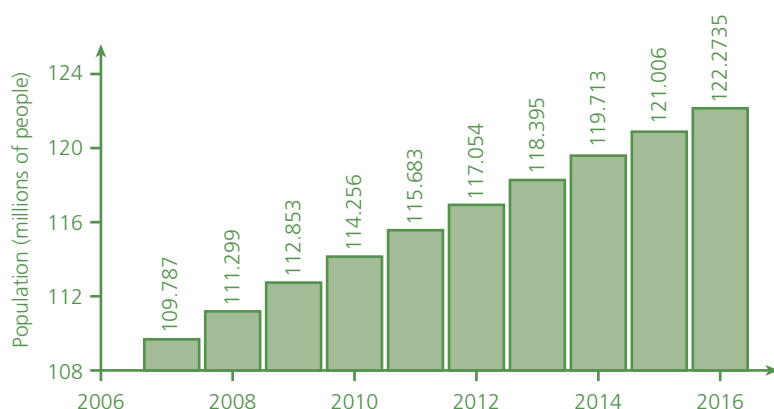
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- 9 The chart below illustrates the growth in Mexico's population between 2006 and 2016.



Mexico's population, 2006–2016

Source: Trading Economics

- a Explain what has happened to Mexico's population in the time period shown. [2 marks]

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- b Explain **two** economic problems which could be associated with the continual rise in the size of Mexico's population. [4 marks]

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34 POPULATION

- c** Discuss whether or not the population growth will bring about negative consequences for the government and natural environment.

[8 marks]

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- 10** Japan has an average age of 46.7 years whereas it is only 28.3 in Indonesia. The fertility rate is 1.42 in Japan and 2.42 in Indonesia. (Source: www.worldometers.info/world-population/)

- a** Define what is meant by an *ageing population*.

[2 marks]

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b Define what is meant by an *optimum population*.

[2 marks]

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c Analyse the impact of a high median age and low fertility rate on Japan's population structure.

[6 marks]

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d Analyse the impact of the low median age on Indonesia's dependency ratio.

[6 marks]

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Differences in economic development between countries

- 1 Which refers to an increase in the economic wellbeing and standard of living within a country?

A economic development	C gross domestic product
B economic growth	D production possibility frontier

- 2 Which factor does **not** account for differences in the economic development of countries?

A exchange rate fluctuations	C population growth
B investment in education and healthcare	D productivity levels

- 3 Which is least likely to be an indicator of economic development?

A gender equality	C higher interest rates
B greater self-esteem	D political freedom

- 4 Which sector of the economy do most people in less economically developed countries (LEDs) tend to work in?

A primary	C secondary
B public	D tertiary

- 5 Attracting foreign direct investment (FDI) will enable a country to enjoy higher levels of what?

A imports	C savings
B productivity	D unemployment

- 6 Define the term *economic development*. [2 marks]

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- 7 With reference to investment in the economy, explain the importance of savings. [2 marks]

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- 8** Explain how differences in population growth between countries have an impact on their level of economic development. [4 marks]

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- 9** As an economy develops, there tends to be a shift away from reliance on primary and secondary sector production. Explain why this is the case. [4 marks]

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- 10** Analyse how healthcare and education have a direct impact on a country's economic development. [6 marks]

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- 1 Which is most likely to result from greater specialisation in manufacturing?
 - A Consumers have more choice over individually made goods.
 - B Employees benefit from greater job satisfaction.
 - C Employees benefit from greater variety in the nature of their work.
 - D Households benefit from lower prices.

- 2 Which is most likely to be a direct benefit of specialisation to workers in a specific industry?

A employees becoming more skilled	C improved labour productivity
B improved competitiveness	D reduced wastage

- 3 Which best explains why top Hollywood actors earn extremely high incomes?
 - A It takes a relatively long time to train to become a top Hollywood actor.
 - B There is a high supply of Hollywood actors.
 - C There is low demand for Hollywood actors.
 - D Top Hollywood actors work on one or two movies only each year.

- 4 Which is a disadvantage of international specialisation?

A economies of scale	C improved international competitiveness
B efficiency gains	D increased labour turnover

- 5 Which is an advantage of a high degree of international specialisation?

A greater variety for consumers	C lower average costs
B higher labour mobility	D lower labour mobility

- 6 With the use of relevant examples, explain what is meant by the term *specialisation*. [2 marks]

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- 7 With the use of examples, explain how division of labour is a form of international specialisation. [4 marks]

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- 8 Explain **two** reasons why specialisation can lead to higher incomes for workers. [4 marks]

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- 9 Analyse why overspecialisation can be problematic for the economy. [6 marks]

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- 10 With the use of examples, discuss the advantages and disadvantages of international specialisation for firms. [8 marks]

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Globalisation, free trade and protection

- 1 Which is an objective of trade protection?
 - A to create domestic jobs
 - B to improve the economic efficiency of domestic industries
 - C to increase the demand for domestically produced goods and services
 - D to reduce the costs of international trade
- 2 Which method of trade protection is used to directly reduce the price of exports?
 - A embargoes
 - B quotas
 - C subsidies
 - D tariffs
- 3 What is the name given to the act of selling exports at artificially low prices, below those charged by domestic firms, and often less than the cost of production?
 - A administrative barriers
 - C embargoes
 - B dumping
 - D subsidies
- 4 International trade that takes place without any form of protection (barriers to international trade) is called
 - A dumping.
 - C free trade.
 - B exchange.
 - D international relations.
- 5 Which is **not** a benefit of free international trade and exchange?
 - A choice
 - C efficiency gains
 - B economies of scale
 - D transportation costs

- 6 Define the term *trade protection*. [2 marks]

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- 7 Explain **two** economic reasons why the USA might import fewer cars from the European Union. [4 marks]

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8 Explain **two** benefits to an economy that engages in free international trade. [4 marks]

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9 Explain **two** methods that can be used to protect domestic industries from foreign competition. [4 marks]

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10 Discuss whether the government should protect domestic industries from foreign competition. [8 marks]

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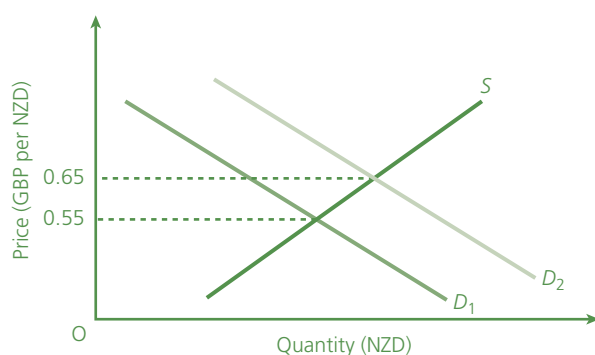
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- Which is a drawback of using a fixed exchange rate system?
 - a fall in the demand for exports
 - a rise in the demand for imports
 - the large opportunity cost of using foreign exchange reserves to maintain the fixed rate
 - the uncertainty it creates for international trade and exchange
- In a floating exchange rate system, what is the name given to a rise in the value of an exchange rate?
 - appreciation
 - depreciation
 - devaluation
 - revaluation
- In which exchange rate system does the government intervene in the foreign exchange market to maintain its exchange rate at a predetermined level against other currencies?
 - devalued
 - fixed
 - floating
 - revalued
- In which exchange rate system is the exchange rate determined by the market forces of demand for and supply of the currency?
 - fixed
 - floating
 - managed
 - mixed
- With reference to the diagram below, identify the option that does **not** explain the change in the exchange rate of the New Zealand dollar.



- an increase in interest rates in New Zealand
- greater demand from British households for New Zealand exports
- more British tourists visiting New Zealand
- more firms from New Zealand investing in Britain

- 6 Define the term *exchange rate*. [2 marks]

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- 7 Suppose the exchange rate between the US dollar (USD) and the euro (EUR) is $\text{USD1} = \text{EUR0.73}$. Calculate the price for customers in Europe of buying textbooks priced at USD70 from the USA. [2 marks]

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- 8 Suppose the exchange rate between the British pound (GBP) and the Hong Kong dollar (HKD) is $\text{GBP1} = \text{HKD10.5}$. Calculate how much it costs a British tourist (in pounds) to buy an iPad in Hong Kong that is priced at HKD6000. [2 marks]

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- 9 Suppose that the exchange rate between the Australian dollar (AUD) and the British pound (GBP) is $\text{AUD1} = \text{GBP0.57}$ while that between the Australian dollar and the Hong Kong dollar (HKD) is $\text{AUD1} = \text{HKD6}$. Calculate the exchange rate of the British pound against the Hong Kong dollar. [2 marks]

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- 10 Although the Chinese government controls the value of its exchange rate, it has been known to allow the yuan (the Chinese currency) to appreciate.

- a Explain what is meant by an appreciation in the value of a currency. [2 marks]

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- b Analyse the likely effects of China's currency appreciation on its exports and imports. [6 marks]

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Current account of balance of payments

- 1 What is the name of the record of a country's exports and imports of physical goods?
 - A the balance of payments
 - B the current account
 - C the invisible trade balance
 - D the visible trade balance
- 2 What is **not** part of a country's net income flows and transfers?
 - A bank deposits held in overseas banks
 - B interest, profits and dividends
 - C money sent home from people working abroad
 - D money spent on intangible products
- 3 What is the correct formula for calculating a country's current account on the balance of payments?
 - A trade balance + net exports
 - B visible balance + invisible balance
 - C visible trade balance + invisible trade balance + net income flows and transfers
 - D visible trade balance + invisible trade balance – net income flows and transfers
- 4 What is a result of a sustained current account deficit for the domestic economy?
 - A higher aggregate demand
 - B higher exchange rate
 - C higher standards of living
 - D higher unemployment
- 5 Which policy is **least** likely to result in an improvement in the current account of the country?
 - A lower exchange rate
 - B lower income taxes
 - C subsidies for export-driven firms
 - D trade protection policies
- 6 Using the data below, describe what has happened to the country's balance of trade. [2 marks]

Year	Invisible balance (\$bn)	Visible balance (\$bn)
1	15.2	12.3
2	16.7	13.4

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- 7 State any **two** components included in the current account of the balance of payments. [2 marks]

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- 8 Explain how it is possible for a country to have a deficit on its visible trade balance (trade in goods) but still have a current account surplus on its balance of payments. [4 marks]

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- 9 Study the data below and answer the questions that follow.

Trade balance for Country D (\$billion)	
Exports	103
Goods	87
Services	
Imports	113
Goods	87
Services	
Visible balance	
Invisible balance	10
Trade balance	

- a Define the term *visible balance*. [2 marks]

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- b Calculate the missing figures in the data above for Country D. [2 marks]

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- 10 Analyse how a fall in the exchange rate can reduce a country's current account deficit on its balance of payments. [6 marks]

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