Cambridge Assessment International Education

# Cambridge IGCSE™

**ECONOMICS** **0455/12**

Paper 1 Multiple Choice **May/June 2021**

**45 minutes**

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

**INSTRUCTIONS**

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

**INFORMATION**

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.

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**1** What is an advantage of competitive markets?

View solution

**A** Competition causes inequalities of wealth.

**B** Competition encourages the efficient use of resources.

**C** The economic problem of scarcity is eliminated.

**D** The right quantity of merit goods is guaranteed.

**2** A multinational company (MNC) wishes to invest in a low-income country to expand its palm oil production.

View solution

What is **most** likely to make this investment possible?

**A** high cost of clearing forests to increase land for plantations

**B** increased demand for palm oil

**C** shortages of labour in the rural economy

**D** the removal of subsidies for palm oil production

**3** A farmer sells land used for crops to a firm that will use the land for wind turbines to produce electric power.

View solution

What is the opportunity cost of this decision by the farmer?

**A** the cost of installing wind turbines

**B** the loss of revenue from crops that grow on the land

**C** the profit made from selling the land

**D** the reduced cost of producing renewable energy

**4** What is **not** included in microeconomics?

View solution

**A** economies of scale

**B** forms of competition

**C** individual demand

**D** the inflation rate

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**5** What determines a consumer's demand for a product?

View solution

| | the consumer's income | the consumer's willingness to buy the product | the price of the product |
|---|---|---|---|
| **A** | ✓ | ✓ | ✓ |
| **B** | ✓ | ✓ | ✗ |
| **C** | ✗ | ✓ | ✓ |
| **D** | ✓ | ✗ | ✓ |

**6** Which problem will be reduced by a government subsidy to a firm?

View solution

**A** absence of a public good

**B** abuse of monopoly power

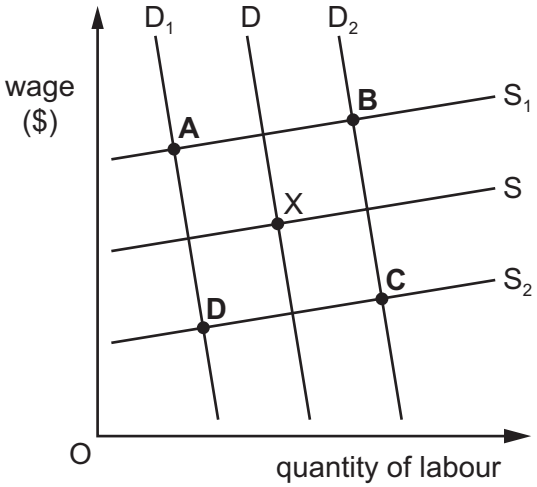
**C** overconsumption of a demerit good

**D** underconsumption of a merit good

**7** The diagram shows the market for information technology (IT) graduates. The original equilibrium was X. Later, more IT students graduated from university and greater use of artificial intelligence (AI) increased the demand for IT staff.

What is the new equilibrium?

View solution




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

What is the price elasticity of supply?

View solution

**A** 0.8 **B** 0.9 **C** 1.2 **D** 1.25

**9** What might cause consumers in a high-income economy to both save more and spend more?

View solution

**A** an increase in the rate of interest

**B** an increase in wealth

**C** expectation that prices will fall in the future

**D** inflation rising at a faster rate than wages

**10** What would be a disadvantage of specialisation for a worker?

View solution

**A** a low price of the product that they make

**B** boredom due to repetition of the same task

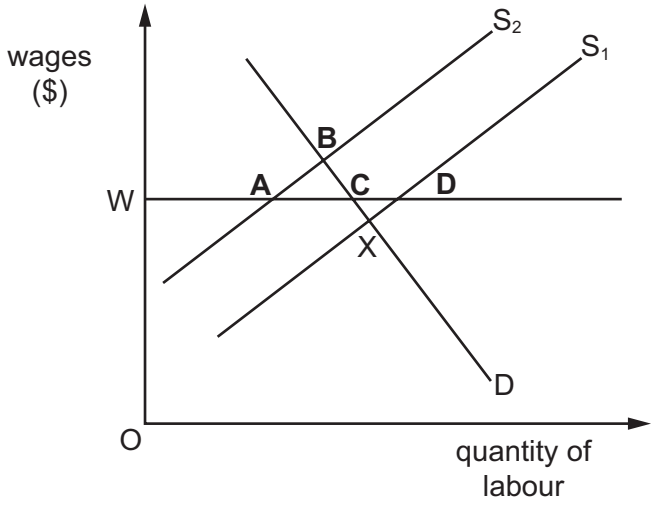
**C** higher quality of the good

**D** the opportunity to undertake training

**11** The diagram shows a market for labour. X is the original equilibrium. A trade union negotiates a minimum wage at W, and the government restricts the supply of immigrant labour.

View solution

What is the new equilibrium?




**12** Which cost of production falls continuously as output increases?

View solution

**A** average fixed cost

**B** average total cost

**C** average variable cost

**D** total variable cost

**13** A Swedish furniture maker bought a Romanian firm that owned 83 000 hectares of trees.

View solution

Which type of merger is this **most** likely to be?

**A** diversification

**B** horizontal

**C** vertical backward

**D** vertical forward

**14** What is calculated when price is multiplied by the quantity demanded of a product?

View solution

**A** average revenue

**B** profit

**C** total cost

**D** total revenue

**15** A private sector firm is the only supplier of rail services between two cities.

View solution

What will stop the firm charging very high ticket prices?

**A** barriers to entry into rail services

**B** competition from public road transport

**C** government policy encouraging monopoly power

**D** high costs of maintaining rail tracks

**16** What is a fiscal policy measure?

View solution

**A** direct tax

**B** exchange rates

**C** interest rates

**D** regulation

**17** A government uses expansionary monetary policy.

View solution

What does the government decrease?

**A** bank lending

**B** interest rates

**C** the budget deficit

**D** the money supply

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**18** A country is experiencing unemployment. It has a progressive income tax policy and benefits for the poor. The government aims to increase employment and reduce income inequality.

View solution

Which fiscal policy measures are **most** likely to achieve these aims?

| | income tax | benefits for the poor |
|---|---|---|
| **A** | decrease the highest tax rate | decrease |
| **B** | increase the highest tax rate | decrease |
| **C** | decrease the lowest tax rate | increase |
| **D** | increase the lowest tax rate | increase |

**19** The table shows changes in the Consumer Prices Index (CPI) from the base year, 1, and for the next three years.

View solution

| year | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| CPI | 100 | 101.1 | 101.8 | 102.1 |

Which statement is correct?

**A** Consumer prices were highest in year 3.

**B** The rate of inflation was 2.1% in year 4.

**C** The rate of inflation was highest in year 2.

**D** The rate of inflation was lowest in year 1.

**20** What is likely to happen when a country is experiencing deflation?

View solution

**A** Consumers delay spending.

**B** Governments raise interest rates.

**C** The level of imports increases.

**D** The real value of money falls.

**21** Economic growth can be defined as

View solution

**A** a reduction in a country's rate of inflation.

**B** an increase in a country's exports.

**C** an increase in a country's population.

**D** an increase in a country's productive capacity.

**22** The table compares the distribution of employment in selected industries in two years.

View solution

| industry | employment in millions | |
|---|---|---|
| | year 1 | year 2 |
| agriculture | 4 | 3 |
| mining | 2 | 2 |
| manufacturing | 6 | 6 |
| retailing | 4 | 4 |
| transport | 4 | 5 |
| total | 20 | 20 |

How did the distribution of employment change between year 1 and year 2?

| | primary sector | secondary sector |
|---|---|---|
| **A** | fell | rose |
| **B** | fell | unchanged |
| **C** | rose | fell |
| **D** | rose | unchanged |

View solution

**23** In a year, two changes occurred in a company.

Company directors' salaries increased by 15%.

Office workers' wages increased by 5%.

The rate of inflation was 3.4%.

What happened to real income?

| | company directors' real income | office workers' real income |
|---|---|---|
| **A** | fell | fell |
| **B** | fell | rose |
| **C** | rose | fell |
| **D** | rose | rose |

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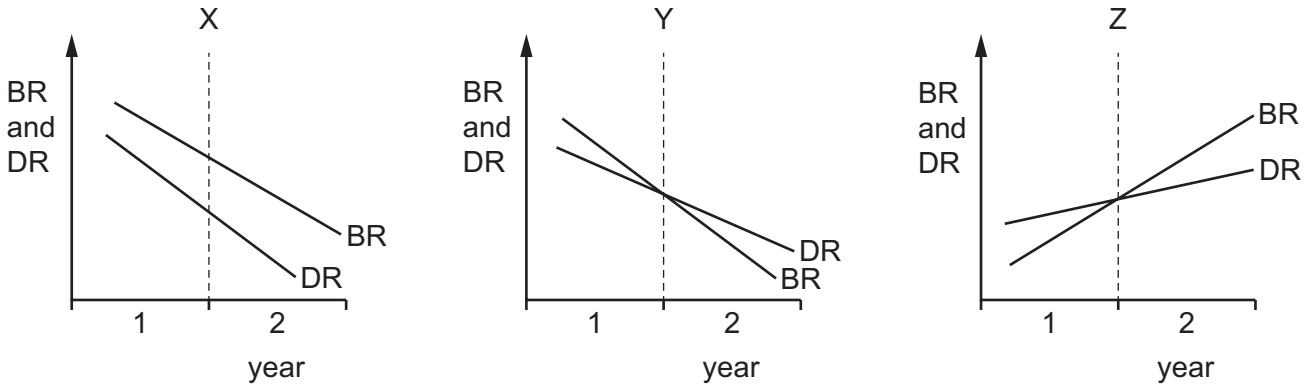
**24** The diagrams show birth rate (BR) and death rate (DR) in three countries, X, Y and Z, in two years, 1 and 2.

View solution

There was no migration.




Where was there a rise in population in year 1 and a fall in population in year 2?

**A** X and Z **B** X only **C** Y and Z **D** Y only

**25** The richest 60% of the population of a high-income economy received an increase in income. The income of the rest of the population did not change.

View solution

What happened to absolute and relative poverty?

| | absolute poverty | relative poverty |
|---|---|---|
| **A** | increased | increased |
| **B** | increased | remained constant |
| **C** | remained constant | increased |
| **D** | remained constant | remained constant |

**26** Gross Domestic Product (GDP) is a better measure of comparative living standards when it is adjusted for the effects of

View solution

**A** exports and inflation.

**B** imports and exports.

**C** population change and exports.

**D** population change and inflation.

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**27** What is the **most** likely benefit for a low-income economy if it removes tariffs on imported goods and services?

View solution

**A** more choice for domestic consumers

**B** more employment in declining industries

**C** more exports by domestic firms

**D** more tax revenue from imports

**28** Economies have become increasingly linked through globalisation.

View solution

What would discourage this?

**A** creation of a single world market

**B** direct foreign investment by multinational companies

**C** expansion of trade in financial services

**D** protectionist policies by trading groups

**29** What may result from a balance of payments trade surplus?

View solution

**A** The exchange rate appreciates and causes export prices to fall.

**B** The exchange rate appreciates and causes export prices to rise.

**C** The exchange rate depreciates and causes export prices to fall.

**D** The exchange rate depreciates and causes export prices to rise.

**30** A country has a deficit on its current account of its balance of payments.

View solution

What could increase the size of its deficit?

**A** increased exports of its services

**B** increased international competitiveness of its goods

**C** increased numbers of visitors from abroad

**D** increased spending on its military bases abroad

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