



Cambridge
IGCSE[®]
and O Level

Economics

Workbook

Paul Hoang
Margaret Ducie

 **HODDER**
EDUCATION



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Text:

p.21, Table showing employed persons by detailed occupation and age, 2013 annual averages, Current Population Survey (CPS). From U.S. Bureau of Labor Statistics; p.27, Table from Trading Economics, <http://www.tradingeconomics.com/country-list/personal-savings>; p.61, Table showing World Development Indicators, from The World Bank; p.63, Chart from Trading Economics, <http://www.tradingeconomics.com/mexico/population>.

Answers:

p.32, Table: Human Development Report 2014, Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience. From <http://hdr.undp.org/en/content/copyright-and-terms-use>.

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First published in 2015

by Hodder Education,

an Hachette UK Company,

338 Euston Road

London NW1 3BH

Impression number	5	4	3	2	1
Year	2019	2018	2017	2016	2015

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Cover photo © Oleksandr Dibrova – Fotolia

Illustrations by Aptara Inc.

Typeset in FrutigerLTStd 10/13 by Aptara Inc.

Printed in England

A catalogue record for this title is available from the British Library

ISBN 978 1471845123

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Introduction

Welcome to the IGCSE Economics Workbook. The aim of this book is to provide you with further opportunities to practise the skills you have acquired by using the IGCSE Economics textbook. This Workbook is planned to complement the student book and to provide additional exercises to help you in your preparation for the Cambridge IGCSE Economics examination.

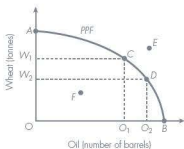
The chapters in this Workbook reflect the topics in the student book and links to the relevant chapters in the student's book can be found in the contents list of this Workbook. Each of the sections in this book contains a range of practice exercises covering the types of questions that are set for both Core and Extended Tiers. As the book is intended for students to use, both in lessons and individually, its focus is on the two main written papers of the examination.

There is no set way to approach using this Workbook. You may wish to use it to supplement your understanding of the different exam topics as you work through each chapter of the student book or you may prefer to use it to reinforce your skills at dealing with particular topics as you prepare for the examination. The book is intended to be sufficiently flexible to suit the best approach for an individual's needs.

1 The basic economic problem

- 1 The basic economic problem is
 - A how to satisfy limited wants and needs with unlimited resources
 - B how to allocate scarce resources to satisfy unlimited needs and wants
 - C the interaction of market forces to satisfy unlimited needs and wants
 - D meeting increased demand for goods and services with limited resources
- 2 An example of a free good is
 - A public domain web pages
 - B running shoes
 - C housing
 - 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 crushing the olives to extract the oil
 - B growing olive trees
 - C selling the oil over the internet
 - D bottling the olive oil

Study the production possibility frontier diagram below 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 C to D
 - B an increase in oil production from O_1 to O_2
 - C a decrease in oil production from O_2 to O_1
 - D an outward shift of the PPF curve to point E

5 At which point is there spare capacity in the economy?

- A C
- B F
- C D
- D E

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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7 Give one example of a capital-intensive industry and one example of a labour-intensive industry. [2 marks]

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8 Define opportunity cost using a real-life example. [2 marks]

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9 The table shows the sectors of industry in Country Y expressed as a percentage of annual GDP in 2014.

Percentage of GDP %	Type of industry
47	Agriculture
23	Manufacturing
30	Services (including tourism)

Between 1994 and 2014 the percentage of Country Y's GDP made up of agriculture decreased from 62% to 47% and the service sector increased by 16%. Suggest two reasons for this change. [4 marks]

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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 classes on how to use computers and how to post useful information, such as energy saving and new planting techniques.

- a Use a PPF curve to show the impact of the internet café on the output of the village. [4 marks]

- b Explain two reasons why productivity in the village has increased as a result of the internet.

[4 marks]

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2

Economic systems

- 1 What term is used to describe the way in which an economy is organised and run, including how resources are best allocated?
 - A The basic economic problem
 - B Scarcity
 - C Economic systems
 - D Economic agents

- 2 Which economic agent(s) are the decision makers in a mixed economy?
 - A Households and firms
 - B Households, firms and the government
 - C Government
 - D Government and firms

- 3 Which economic system relies on the government to allocate resources?
 - A Market economy
 - B Planned economy
 - C Mixed economy
 - D Free market economy

- 4 Which of the following is a disadvantage of operating a free market economic system?
 - A Bureaucracy
 - B Lack of economic freedom
 - C Lack of incentives to work
 - D Income and wealth inequalities

- 5 Which of the following is *not* a fundamental economic question that needs to be addressed by any economic system?
 - A How should production take place?
 - B For whom should production take place?
 - C Why should production take place?
 - D What production should take place?

6 Outline two features of a planned economic system.

[4 marks]

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100 101 102 103 104 105 106 107 108 109 110 111 112 113 114 115 116 117 118 119 120 121 122 123 124 125 126 127 128 129 130 131 132 133 134 135 136 137 138 139 140 141 142 143 144 145 146 147 148 149 150 151 152 153 154 155 156 157 158 159 160 161 162 163 164 165 166 167 168 169 170 171 172 173 174 175 176 177 178 179 180 181 182 183 184 185 186 187 188 189 190 191 192 193 194 195 196 197 198 199 200 201 202 203 204 205 206 207 208 209 210 211 212 213 214 215 216 217 218 219 220 221 222 223 224 225 226 227 228 229 230 231 232 233 234 235 236 237 238 239 240 241 242 243 244 245 246 247 248 249 250 251 252 253 254 255 256 257 258 259 260 261 262 263 264 265 266 267 268 269 270 271 272 273 274 275 276 277 278 279 280 281 282 283 284 285 286 287 288 289 290 291 292 293 294 295 296 297 298 299 300 301 302 303 304 305 306 307 308 309 310 311 312 313 314 315 316 317 318 319 320 321 322 323 324 325 326 327 328 329 330 331 332 333 334 335 336 337 338 339 340 341 342 343 344 345 346 347 348 349 350 351 352 353 354 355 356 357 358 359 360 361 362 363 364 365 366 367 368 369 370 371 372 373 374 375 376 377 378 379 380 381 382 383 384 385 386 387 388 389 390 391 392 393 394 395 396 397 398 399 400 401 402 403 404 405 406 407 408 409 410 411 412 413 414 415 416 417 418 419 420 421 422 423 424 425 426 427 428 429 430 431 432 433 434 435 436 437 438 439 440 441 442 443 444 445 446 447 448 449 450 451 452 453 454 455 456 457 458 459 460 461 462 463 464 465 466 467 468 469 470 471 472 473 474 475 476 477 478 479 480 481 482 483 484 485 486 487 488 489 490 491 492 493 494 495 496 497 498 499 500 501 502 503 504 505 506 507 508 509 510 511 512 513 514 515 516 517 518 519 520 521 522 523 524 525 526 527 528 529 530 531 532 533 534 535 536 537 538 539 540 541 542 543 544 545 546 547 548 549 550 551 552 553 554 555 556 557 558 559 560 561 562 563 564 565 566 567 568 569 570 571 572 573 574 575 576 577 578 579 580 581 582 583 584 585 586 587 588 589 590 591 592 593 594 595 596 597 598 599 600 601 602 603 604 605 606 607 608 609 610 611 612 613 614 615 616 617 618 619 620 621 622 623 624 625 626 627 628 629 630 631 632 633 634 635 636 637 638 639 640 641 642 643 644 645 646 647 648 649 650 651 652 653 654 655 656 657 658 659 660 661 662 663 664 665 666 667 668 669 670 671 672 673 674 675 676 677 678 679 680 681 682 683 684 685 686 687 688 689 690 691 692 693 694 695 696 697 698 699 700 701 702 703 704 705 706 707 708 709 710 711 712 713 714 715 716 717 718 719 720 721 722 723 724 725 726 727 728 729 730 731 732 733 734 735 736 737 738 739 740 741 742 743 744 745 746 747 748 749 750 751 752 753 754 755 756 757 758 759 760 761 762 763 764 765 766 767 768 769 770 771 772 773 774 775 776 777 778 779 780 781 782 783 784 785 786 787 788 789 790 791 792 793 794 795 796 797 798 799 800 801 802 803 804 805 806 807 808 809 810 811 812 813 814 815 816 817 818 819 820 821 822 823 824 825 826 827 828 829 830 831 832 833 834 835 836 837 838 839 840 841 842 843 844 845 846 847 848 849 850 851 852 853 854 855 856 857 858 859 860 861 862 863 864 865 866 867 868 869 870 871 872 873 874 875 876 877 878 879 880 881 882 883 884 885 886 887 888 889 890 891 892 893 894 895 896 897 898 899 900 901 902 903 904 905 906 907 908 909 910 911 912 913 914 915 916 917 918 919 920 921 922 923 924 925 926 927 928 929 930 931 932 933 934 935 936 937 938 939 940 941 942 943 944 945 946 947 948 949 950 951 952 953 954 955 956 957 958 959 960 961 962 963 964 965 966 967 968 969 970 971 972 973 974 975 976 977 978 979 980 981 982 983 984 985 986 987 988 989 990 991 992 993 994 995 996 997 998 999 1000 1001 1002 1003 1004 1005 1006 1007 1008 1009 1010 1011 1012 1013 1014 1015 1016 1017 1018 1019 1020 1021 1022 1023 1024 1025 1026 1027 1028 1029 1030 1031 1032 1033 1034 1035 1036 1037 1038 1039 104

7 With the use of a relevant example, explain how prices are determined in a free market economy.

[2 marks]

[illegible]

8 a Explain what is meant by a mixed economy.

[2 marks]

b Explain why most countries operate mixed economies.

[6 marks]

[illegible]

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- [illegible]

3

Demand and supply

- The willingness and ability of customers to pay a given price to buy a good or service is known as
 - Effective demand
 - Market demand
 - Quantity demanded
 - The law of demand
- Which of the following statements explains why there might be a decrease in the demand for sugar?
 - Demand for coffee and tea has increased
 - There is an increase in the supply of land to produce sugar
 - New technologies increase the output of sugar
 - Consumers are more aware of health issues related to sugar
- Which factor below does *not* explain why the demand for cars in China has continuously increased?
 - Greater household disposable incomes
 - Effective advertising and marketing from car makers
 - Higher interest rates in China
 - Lower import taxes on cars made outside of China
- Which of the following products are considered to be complementary goods?
 - Shampoo and conditioner
 - Apples and oranges
 - Sugar and tea
 - Tea and coffee
- The data below shows the demand and supply schedule for mushrooms each week. Which of the statements below is incorrect?
 - At \$10 per unit, there is excess supply of 3000 units
 - Equilibrium exists at \$9 per unit
 - At \$8 per unit, there is excess demand of 3000 units
 - There is a shortage in the market at \$10 per unit

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

- Distinguish between a *movement* in demand and a *shift* in demand.

[2 marks]

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- 7 Explain why an ordinary supply curve is upwards sloping. [2 marks]

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- 8 Explain the differences 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. [5 marks]

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- 10 Use an appropriate diagram to explain how the imposition of a tax on suppliers of oil (petrol) affects the market equilibrium price and quantity traded. [5 marks]

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4 Price elasticity

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

A +0.5
B +2.0
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 -0.25
B -1.6
C -2.5
D -4.0
- 3 Which of the following is a use of price elasticity of demand?
- A To calculate consumer spending based on their disposable income
B To identify changes in the spending patterns of consumers
C To calculate changes in the general price level
D To estimate the changes in a firm's costs of production
- 4 Which of the following is likely to have the highest value for price elasticity of supply (PES)?
- A Original Picasso paintings
B Haircuts at a local hair salon
C Season tickets at Real Madrid Football Club
D Organic oranges
- 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 +0.6
C -1.67
D -0.6

- 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 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.

[3 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.

[5 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]

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]

- 10 With the use of appropriate examples, explain three factors that determine the value of price elasticity of supply (PES). [6 marks]

5 Market failure

- 1 Which of the following is *not* an example of market failure?
 - A Air pollution
 - B Congestion caused by the number of cars on the road
 - C Car parks in a town centre
 - D A supermarket charging high prices because of its monopoly power
- 2 A possible solution for traffic congestion is to
 - A Build more roads
 - B Increase tax on cars
 - C Create more car parks
 - D Improve road safety
- 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 not mentioned in the above statements?
 - A External costs
 - B External benefits
 - C Opportunity cost
 - D Conservation of resources
- 4 Which of the following is most likely to reduce the demand for electric cars?
 - A An increase in tax on petrol-fuelled cars
 - B A government subsidy on the price of electric cars
 - C A fall in the price of petrol
 - D Increased advertising for electric cars
- 5 Which of the following does not provide external benefits to society?
 - A New public housing funded by the government
 - B A new history museum
 - C A public park
 - D A local college that provides education and training to increase people's skills and qualifications

[illegible]

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- A large rectangular area with a light gray background, containing several horizontal dashed lines.

- (This area contains horizontal lines for writing.)*

- 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]

[illegible]

- 10 Students in the USA, Canada and the UK have to pay to go to university. In Sweden the government funds university education.

- a Define, using an example, 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]

- c Explain two disadvantages of charging people for a university education. [4 marks]

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- d Draw a suitable diagram to show the effects of a government subsidising university education. [4 marks]

- e Discuss the short-term and long-term effects of a government subsidising university education. [8 marks]

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- 1 Which of the following is *not* a function of money?
 - A Measure of value
 - B Medium of exchange
 - C Durability
 - D Store of value

- 2 Which of the following is *not* a problem of bartering as a medium of exchange?
 - A The need for a double coincidence of wants
 - B The need for divisibility
 - C The need for portability
 - D The need for trade and exchange

- 3 Which of the following is *not* a function of a central bank?
 - A The sole issuer of bank notes and coins in the country
 - B The government's bank
 - C The lender of last resort
 - D The facilitation of company growth

- 4 Which of the following is a secondary function of commercial banks?
 - A Accepting deposits
 - B Credit creation
 - C Offering internet banking
 - D Making advances

- 5 What is the name of the institutional marketplace for trading the shares of public limited companies?
 - A Stock exchanges
 - B Commercial banks
 - C Central banks
 - D Corporate banks

- 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 September 2014, e-commerce giant Alibaba.com's initial public offering (IPO) in the USA raised a record \$25 billion (the largest amount ever raised in an IPO in world history).

a Define the term *initial public offering*.

[2 marks]

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b Explain two functions of a stock exchange.

[4 marks]

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c Comment on why Alibaba.com might have decided to float its shares on the stock exchange in the USA.

[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 The working life of a professional footballer is relatively short
 - B The job is high-risk so needs to be highly compensated
 - C Some professional footballers have a unique set of skills and talent
 - D Being a footballer is a seasonal job
- 2 In 2014, new graduates in the UK could earn an annual salary of approximately £22 500 working in the public sector and £39 000 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 Higher earning potential
 - C More opportunities to earn bonuses
 - D Greater job security and pension
- 3 Following an increase in the national minimum wage (NMW), which of the following is most likely to reduce government expenditure on welfare payments?
 - A Unemployed workers have a greater incentive to work
 - B Increased consumer spending in the economy
 - C Greater productivity of public sector workers
 - D Increased tax revenues from higher income taxes
- 4 Women in general tend to earn less than men. Which of the following is a possible reason for this?
 - A More women are enrolled on medicine and law courses
 - B More women are focused on their careers and delaying having children
 - C A number of women work part-time or work flexible working hours
 - D There is a greater female participation rate in the workforce
- 5 A disadvantage of specialisation of labour for a firm is
 - A Workers become skilled in the job and more productive
 - B The production process may become dependent upon a particular worker
 - C Workers make less mistakes
 - D The quality of the products increases

- 6 Describe two wage and two non-wage factors that affect a person's choice of occupation. [8 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). Identify and 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 2013 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
4458	13599	31242	30650	32523	23776	7681

Source: United States Bureau of Statistics

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- 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 are required to work in hotels, guesthouses, restaurants and other businesses related to the tourism trade. Analyse the factors that will 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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- 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 there is low inflation in the economy
 - B there is high demand for toys produced in the factory
 - C there is a large pool of people willing to work in the toy factory
 - D the productivity of workers in the toy factory has fallen
- 2 Which of the following is a reason why a trade union may ask for a wage increase for its members?
 - A Increased profits in the industry
 - B Lower productivity in the industry
 - C A lower rate of inflation
 - D Higher unemployment in the economy
- 3 Which of the following is an example of action taken by a trade union?
 - A Go-fast
 - B Sit-down
 - C Work-to-rule
 - D Lie-in
- 4 The main aim of a trade union is to
 - A Gain publicity for its members
 - B Improve pay and working conditions for its members
 - C Call its members out on strike action
 - D Cause disruptions to employers and the economy
- 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
 - B strike action
 - C work-to-rule
 - D sit-in

6 Describe the process of collective bargaining.

[2 marks]

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7 Trade union membership in the UK decreased from 13 million members in 1979 to 6.5 million members in 2013. 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 and the UK, there has been an increase in female membership of trade unions. Suggest two reasons why more women 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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10 Some governments have made deliberate efforts to reduce the power of trade unions. For example, in Britain a trade union must have at least 50% of its members voting 'yes' in favour of taking industrial action before it can do so. Discuss the costs and benefits of trade unions to an economy.

[8 marks]

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

9

Income and expenditure

- 1 Which of the following policies would give people an incentive to save?
- A Lower interest rates
 - B Higher interest rates
 - C Higher income tax rates
 - D Banks make it easier to borrow money
- 2 Which of the following is the most likely motive for taking out a long-term loan?
- A To fund current spending
 - B To purchase residential property
 - C To go on holiday
 - D To spend more on food and drink
- 3 A government is concerned about the level of household borrowing in an economy. Which of the following may have caused an increase in borrowing?
- A An increase in direct and indirect taxation
 - B An increase in real wages
 - C Negative economic outlook for the economy
 - D An increase in interest rates
- 4 Which profile of spending, saving and borrowing as a proportion of income is most likely to be that of a retired person?
- | | Spending | Saving | Borrowing |
|---|----------|----------|-----------|
| A | High | Moderate | High |
| B | Low | High | Low |
| C | Moderate | High | High |
| D | High | Low | Low |
- 5 Which of the following is likely to cause a decrease in consumer spending?
- A An increase in the rate of inflation
 - B A decrease in interest rates
 - C An increase in government spending on health care and education
 - D An increase in business and consumer confidence in the economy

- 6 Analyse the effect of an increase in interest rates on spending, saving and borrowing in an economy.

[6 marks]

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- 7 Explain the advantages to a government of its citizens saving a high proportion of their income.

[6 marks]

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- 8 The Chinese government wishes to encourage its citizens to spend more so that China's economic growth is less dependent on exports and more dependent on domestic spending. Discuss how the Chinese government could influence the level of spending in an economy. [8 marks]

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- 9 Discuss how spending, borrowing and saving patterns may differ between high, middle and low income earners.

[8 marks]

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- 10 The following table shows the percentage of personal income saved in four different countries.

Country	Percentage of income saved (2014)
Australia	9.4
Finland	0.4
Mexico	19.9
UK	6.7

Source: Trading economics

- a Explain reasons why people save a proportion of their income.

[4 marks]

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- b With reference to the table of data above, discuss reasons why the percentage of income saved in 2014 varied between the given countries.

[8 marks]

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- 1 A firm which makes men's shirts wishes to raise more finance for expansion. It has issued shares but can only sell them to friends and family. Which type of business organisation is the shirt manufacturer?
 - A Public corporation
 - B Private limited company
 - C Public limited company
 - D Partnership

- 2 Over 66 000 jobs were created by foreign firms in the United Kingdom in 2013. A disadvantage of foreign firms operating in an economy is
 - A they provide competition for local firms which encourages innovation
 - B they may avoid paying income tax in the UK by declaring profits elsewhere
 - C they choose to take advantage of cheap land and labour
 - D they provide employment and training opportunities for workers

- 3 One reason a group of farmers may form a producer co-operative is
 - A to take advantage of bulk-buying discounts for agricultural supplies
 - B to reduce competition between farmers
 - C to be able to exert monopoly power
 - D to provide external benefits for the wider society

- 4 Which type of business organisation is owned and run by its members, who may be employees or customers, and aims to create value for them in a socially responsible way?
 - A Public corporation
 - B Private limited company
 - C Co-operative
 - D Partnership

- 5 A similarity between a sole trader and a partnership is
 - A they both have a single owner
 - B they have between 2 and 20 members
 - C they have unlimited liability
 - D they can sell shares to family and friends

- 6 Explain the main differences between a partnership and a private limited company. [4 marks]

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- 7 Explain what motivates an individual to buy shares in a public limited company. [4 marks]

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- 8 Analyse the role of business organisations in an economy. [6 marks]

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- 9 Intel, one of the world's largest microchip makers, closed its manufacturing plant in Costa Rica at the end of 2014 after being there for over 17 years. Discuss the effects of Intel's closure on Costa Rica's economy. [8 marks]

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- 10 IKEA, the Swedish furniture manufacturer and retailer, has remained a private limited company despite being a large and successful multinational. In 1998, IKEA entered China by opening its first store in Shanghai. By the end of 2014, the company had opened 16 outlets in China.

- a Explain two advantages to IKEA of being a private limited company. [4 marks]

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- b Discuss the extent to which IKEA opening in China benefited the Chinese economy. [8 marks]

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11 Production

- 1 Which of the following is not a factor of production?
 - A Labour
 - B Enterprise
 - C Money
 - D Land

- 2 The production of which of the following goods or services is least likely to be labour-intensive?
 - A A made-to-measure wedding dress
 - B A Hollywood movie
 - C Private piano lessons
 - D Carbonated soft drinks

- 3 Which economic term is used to describe or measure how well resources are used in the production process?
 - A Economies of scale
 - B Productivity
 - C Competitiveness
 - D Innovation

- 4 The commercialisation of new ideas and products as an essential source of productivity is known as
 - A innovation
 - B productivity
 - C efficiency
 - D entrepreneurial spirit

- 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 investment
 - B derived demand
 - C factor inputs
 - D competitiveness

- 6 Explain what is meant by *capital-intensive production*.

[2 marks]

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- 7 'The demand for factors of production (land, labour, capital and enterprise) are 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 number of cars sold and the number of sales staff involved are also shown.

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. Comment on your findings. [4 marks]

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- b Examine 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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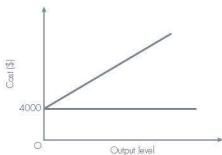
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12 Costs, revenues and profits

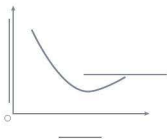
- Which of the following is a fixed cost of production for a manufacturing firm?
 - Rental payments
 - Workers' wages
 - Overtime pay
 - Electricity charges
- What is the term used to describe the costs of production that have to be paid regardless of how much a firm produces or sells?
 - Fixed
 - Variable
 - Average
 - Total
- What is the correct label for the upwards sloping line shown in the graph below?



- Variable costs
- Total costs
- Average costs
- Fixed costs

- A firm's variable costs are \$20 000 in a given week when its output is 2000 units, whilst fixed costs are \$10 000. What is the value of the firm's average costs?
 - \$5
 - \$10
 - \$15
 - \$20
- The payment received by a firm from the sale of its goods and/or services is known as
 - salaries
 - income
 - revenue
 - total costs

- 6 The diagram below shows economies of scale. Complete the diagram with appropriate labels.



- 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. [3 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 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. [3 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 Identify the total fixed costs of production. [1 mark]

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- b Calculate the unit price from the data above. [1 mark]

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

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- d 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	

- 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. [3 marks]

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13

Perfect competition and monopoly

- 1 Which of the following characteristics is not relevant to the model of perfect competition?
 - A Many buyers and sellers
 - B Differentiated products
 - C Perfect knowledge
 - D No barriers to entry

- 2 Which of the following characteristics is not relevant to the model of monopoly?
 - A Extreme barriers to entry
 - B Price setter
 - C Perfect knowledge
 - D Sole supplier

- 3 Which of the following is least likely to be an entry barrier to the publishing industry?
 - A Existing publishers with established market share
 - B Set-up costs
 - C Economies of scale enjoyed by the leading publishing firms
 - D Consumer protection laws

- 4 Which term is used to describe the market structure where only one supplier of a good or service exists?
 - A Price setter
 - B Price maker
 - C Monopoly
 - D Market leader

- 5 What is the term used to describe the practice of monopolists charging different prices to different customers for essentially the same product?
 - A Price discrimination
 - B Price maker
 - C Price taker
 - D Promotional pricing

- 6 Define the term *market structure*.

[2 marks]

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- 7 Explain two disadvantages of monopoly.

[4 marks]

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

[6 marks]

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- 9 Using an appropriate diagram, demonstrate the impact of monopoly power on the market price and equilibrium output. [6 marks]

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- 10 Discuss the information needed in order to assess whether a monopoly is beneficial to consumers. [8 marks]

[illegible]

14 Business growth

- 1 In 2014 Facebook purchased WhatsApp for \$19 billion. This is an example of
 - A horizontal integration and a takeover
 - B forward vertical integration and a merger
 - C conglomerate integration and a takeover
 - D backward vertical integration and a merger
- 2 Three ways in which the size of a firm can be measured are
 - A sales revenue, number of employees, advertising budgets
 - B capital employed, number of employees, market size (market share)
 - C number of employees, financial budgets, sales revenue
 - D capital employed, sales revenue, number of branches that earn a profit
- 3 A clothing manufacturer first purchased some cotton farms to produce organic cotton followed by a chain of retail shops in which to sell its garments. This is an example of
 - A forward vertical integration followed by backward vertical integration
 - B horizontal integration followed by forward vertical integration
 - C backward vertical integration followed by forward vertical integration
 - D a takeover followed by horizontal integration
- 4 Small shops (retailers) exist in all countries alongside larger shops selling similar items. A possible reason for this is
 - A they tend to be older than larger shops
 - B they can take advantage of economies of scale
 - C they sell less expensive goods
 - D they offer a personalised service
- 5 Three hairdressers located in a town, each operating as a sole trader, decide to merge to form one firm, a private limited company, with three branches. The combined firm can take advantage of which of the following internal economies of scale?
 - A Bulk buying discounts on hair products and more efficient advertising
 - B A large pool of trainee hairdressers in the area
 - C More productive employees
 - D Communication problems between staff

- 6 Explain and give an example of a conglomerate merger. [2 marks]

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- 7 Explain, using examples, the difference between a takeover and a merger. [4 marks]

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- 8 L'Occitane, a French firm which produces and sells beauty products and toiletries in its own shops in many countries around the world, purchased a number of farms in Africa which produce shea butter, an ingredient in a large number of its products.

- a Describe which type of integration took place when L'Occitane purchased the shea butter farms. [2 marks]

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- b Analyse the advantages and disadvantages of L'Occitane selling its products in its own shops. [6 marks]

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- 9 A small town has only small independent shops and no large chain stores or supermarkets. Analyse the advantages and disadvantages of having only small independent shops in a town.

[6 marks]

[illegible]

- 10 Discuss the advantages and disadvantages of two firms of accountants merging to form a new firm.

[8 marks]

This image shows a full page of primary-ruled notebook paper. It features ten sets of horizontal lines designed for teaching handwriting. Each set consists of three lines: a solid top blue line, a dashed middle blue line, and a solid bottom blue line. These sets are repeated down the page with small gaps between them. The paper is white and contains no other markings or text.

15 Government aims and influences

- 1 Which of the following is an example of a merit good?
 - A Street lighting
 - B Public fireworks displays
 - C Public roads
 - D Public libraries

- 2 What is the name of the term used to determine the boundaries within which private producers can operate?
 - A Regulations
 - B Taxes
 - C Intellectual property rights
 - D Tariffs

- 3 Which of the following is most likely to conflict with the government aim of high economic growth?
 - A Employment opportunities
 - B Balance of payments deficit
 - C Inflationary pressures
 - D Higher tax revenues

- 4 Which of the following is least likely to be a government aim?
 - A Full employment
 - B Balance of payments stability
 - C Price stability
 - D Provision of welfare services

- 5 Which of the following is not used explicitly by a government to influence private sector producers?
 - A Investment
 - B Taxes
 - C Regulations
 - D Subsidies

- 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). Outline what is meant by real GDP. [2 marks]

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- 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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16 Government policies

- 1 The sale or transfer of public sector assets and industries to the private sector is known as
 - A public expenditure
 - B monetary policy
 - C privatisation
 - D supply-side policy
- 2 If a government loosens fiscal policy in an attempt to expand the economy, what does this involve?
 - A Raising taxes and raising government expenditure
 - B Reducing taxes and reducing government expenditure
 - C Reducing taxes and raising government expenditure
 - D Raising taxes and reducing government expenditure
- 3 A government aims to expand aggregate demand in the economy to boost national output and employment. Which of the following policies should it use?
 - A Raise expenditure on education and health care
 - B Raise taxes and raise interest rates
 - C Reduce taxes and reduce interest rates
 - D Reduce government spending and raise taxes
- 4 Which of the following does not outline how fiscal policy can be used to reduce unemployment in the economy?
 - A A cut in taxes may increase consumer spending
 - B Lower interest rates increase the spending ability of households and encourages firms to invest more
 - C Government spending can create jobs in both the private and public sectors
 - D Greater government spending increases aggregate demand, causing the derived demand for labour to rise
- 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 monetary policy
 - B fiscal policy
 - C demand-side policies
 - D supply-side policies

- 6 Explain two reasons why the government might choose to increase public expenditure in the economy. [4 marks]

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- 7 Suggest two policies the government could use if it wanted to reduce the amount of imports coming into its country. [4 marks]

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

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

[2 marks]

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- b Examine how fiscal policy can impact on the supply-side of an economy.

[6 marks]

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- 10 Discuss the effectiveness of supply-side policies in achieving economic growth.

[8 marks]

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17 Taxation

- 1 What is the term used to describe taxes paid from the income, wealth and profits of individuals and firms?
 - A Income tax
 - B Corporation tax
 - C Direct tax
 - D Indirect tax
- 2 When does a budget surplus occur?
 - A When public expenditure exceeds government revenues
 - B When government revenues exceed public expenditure
 - C When a country exports more than it imports
 - D When a country imports more than it exports
- 3 Under which tax system does the percentage tax paid stay the same, irrespective of the taxpayer's level of income, wealth or profits?
 - A Direct tax
 - B Progressive tax
 - C Regressive tax
 - D Proportional tax
- 4 Which of the following is not a direct tax?
 - A Income tax
 - B Customs duties
 - C Corporation tax
 - D Capital gains tax
- 5 Which of the following is the most likely positive impact on the economy if taxes are increased?
 - A Incentives to work
 - B Higher economic growth
 - C Lower inflation
 - D Impact on business location

- 6 Explain the meaning of indirect taxes.

[3 marks]

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- 7 Andorra, Brunei Darussalam, Oman and Qatar have a zero rate of income tax. The Bahamas and Estonia have a zero rate of corporation tax. Explain two reasons behind such government decisions.

[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.

[4 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 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. [7 marks]

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10 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 Identify the tax (A, B or C) that is progressive. [1 mark]
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- b Identify the tax (A, B or C) that is proportional. [1 mark]
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- c Distinguish between a regressive and a proportional tax. [2 marks]
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18 Inflation

- 1 Which of the following will cause an increase in a country's rate of inflation?
- A Lower consumer and business confidence in the economy
 - B Lower rates of interest
 - C Discount food prices at the major supermarkets
 - D Subsidised energy prices
- 2 Which of the following suggests why savers lose out during times of inflation?
- A Real interest rates become negative during inflationary periods
 - B Real interest rates become positive during inflationary periods
 - C Money loses its ability to act as a store of value
 - D Money loses its ability to act as a unit of account
- 3 If the weighting for food in a country's consumer price index (CPI) exceeds that of shoes, what does this indicate?
- A The average household buys more food than shoes
 - B The average household buys more shoes than food
 - C Food is deemed to be more important to the average household than shoes
 - D On average, the price of food has increased more than the price of shoes
- 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%
 - B 1.6%
 - C 1.68%
 - 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
- B Year 2
- C Year 3
- D Year 4

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

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

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- 8 Calculate the rate of inflation if the consumer price index increases from 112.3 to 114.4. [2 marks]

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- 9 A basket of goods and services currently costs \$1500. Calculate how much it would cost if the consumer price index increased from 125.5 to 135.54. [3 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. [4 marks]

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

19 Employment

- 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 Unemployment
 - B Unemployment rate
 - C Voluntary unemployment
 - D Classical unemployment
- 2 Which government policy is best suited to deal with imperfections in the labour market?
 - A Protectionist policies
 - B Supply-side policies
 - C Fiscal policies
 - D Monetary policies
- 3 Which of the following types of unemployment is generally regarded as the most severe form of unemployment?
 - A Structural unemployment
 - B Voluntary unemployment
 - C Cyclical unemployment
 - D Real wage unemployment
- 4 From the population data below for a particular country, calculate the number of unemployed people if the unemployment rate is 7%.

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

 - A 2.66 million
 - B 4.62 million
 - C 10 million
 - D 28 million
- 5 What is the main cause of frictional unemployment?
 - A People changing jobs
 - B Wages set higher than the market equilibrium
 - C Changes in demand for certain goods and services
 - D People choosing not to work

- 6 Explain what is meant by the unemployment rate. [2 marks]

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- 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 the business cycle. [2 marks]

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- 9 Explain how the International Labour Organisation 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 Economic growth can be defined as
- A an increase in a country's exports earnings
 - B an increase in the productive capacity of an economy
 - C an increase in a country's potential earnings
 - D a reduction in the cost of living
- 2 An increase in which of the following best indicates whether a country has experienced economic growth?
- A Real GDP per capita
 - B Consumer price inflation
 - C Employment
 - D Current account on the balance of payments
- 3 As a country experiences economic growth, what is likely to fall?
- A Employment opportunities
 - B Infant mortality rates
 - C National income per capita
 - D Average years of schooling
- 4 Which of the following is most likely to be a concern about rapid economic growth in a country?
- A Higher costs of production
 - B Resource depletion
 - C Higher tax revenues
 - D Increased demand for imports
- 5 Which of the following is not part of the Human Development Index (HDI)?
- A Education
 - B Income levels
 - C Health care
 - D Environmental issues
- 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 Briefly explain two causes of economic growth.

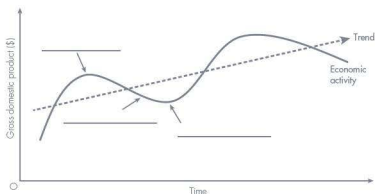
[4 marks]

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- 9 The diagram below shows a typical business cycle. Complete the labels from the diagram. [4 marks]



- 10 Study the Human Development Index (HDI) data below to determine the correct countries from the following: Indonesia, Norway, Sierra Leone and Turkey. Briefly explain the reasoning behind your answers.

[6 marks]

Country	HDI	Country	HDI
A =	0.944	C =	0.684
B =	0.759	D =	0.363

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21

Standards of living

- 1 Which of the following factors is not an indicator used to measure poverty within a country?
 - A Homelessness and inadequate housing
 - B High mortality rates
 - C Hunger and malnutrition
 - D High cost of living
- 2 Which of the following is a limitation of using real national income per capita as a measure of standards of living in a country?
 - A It does not consider the size of the population
 - B It does not account for inflation over time
 - C It does not reflect the distribution of income and wealth
 - D It does not consider income earned in every industry
- 3 In an attempt to improve standards of living, which of the following is a government most likely to cut?
 - A Housing subsidies
 - B Tariffs on imports
 - C Indirect taxes
 - D Corporation taxes
- 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 of the following is not a direct criticism of using the Human Development Index (HDI) to classify countries?
 - A The definitions of economic development and standards of living are subjective
 - 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 Inequalities in income and wealth are ignored

- 6 Briefly explain three characteristics of less economically developed countries (LEDs). [6 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. Suggest and describe two reasons why this might be the case. [4 marks]

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- 8 Economic growth is associated with an improvement in standards of living.

- a Define what is meant by *standard of living*. [2 marks]

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- b Explain two ways that a government can improve the standard of living in its country. [6 marks]

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- c Discuss whether economic growth in a country always results in higher standards of living for its people. [7 marks]

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- 9 Using examples, distinguish between absolute and relative poverty. [4 marks]

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- 10 Discuss which of the following countries is most likely to have a lower standard of living based on the economic development indicators below. [8 marks]

Country	GDP per capita (\$)	Life expectancy (years)	Adult literacy rate (%)	Population growth (%)
Malawi	365	54	75	3.2
Sierra Leone	374	48	42	2.2

Source: World Bank

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22 Population

- 1 Which of the following factors 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
- 2 Which of the following factors is likely to increase the population in a country?
 - A Increased education expenditure
 - B Greater female participation in the workforce
 - C Higher cost of living
 - D Higher fertility rates
- 3 The net migration rate is calculated by the formula
 - A number of immigrants – number of emigrants
 - B number of emigrants – number of immigrants
 - C birth rate – death rate
 - D death rate – birth rate
- 4 Which of the statements below about population distribution is correct?
 - A Low income countries generally have a lower average age than high income countries
 - B The gender split is uneven in most countries with more females being born
 - C Most countries are experiencing ageing populations
 - D Poorer countries tend to have lower dependency ratios
- 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 positive population growth rate
 - B It has an ageing population
 - C It has a declining death rate
 - D It has a declining birth rate
- 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 Distinguish between under-population and over-population. [4 marks]

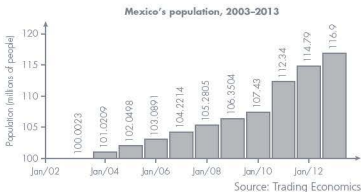
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- 9 The chart below illustrates the growth in Mexico's population between 2003 and 2013.



- a Outline 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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- b Explain two reasons for the average Japanese woman having a higher life expectancy than the average Indonesian woman. [4 marks]

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- c Examine the effects of higher life expectancy on the government. [6 marks]

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- d Examine the effects of higher life expectancy on the economy. [6 marks]

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- 1 Which of the following is most likely to result from greater specialisation in manufacturing?
 - A Consumers have more choice over individually made goods
 - B Households benefit from a lower prices
 - C Employees benefit from greater variety in the nature of their work
 - D Employees benefit from greater job satisfaction
- 2 Which of the following is most likely to be a direct benefit of specialisation to workers in a specific industry?
 - A Employees become more skilled
 - B Reduced wastage
 - C Improved labour productivity
 - D Improved competitiveness
- 3 Which of the following best explains why top Hollywood actors earn extremely high incomes?
 - A There is low demand for Hollywood actors
 - B There is a high supply of Hollywood actors
 - C Top Hollywood actors work on one or two movies only each year
 - D It takes a relatively long time to train to become a top Hollywood actor
- 4 Which of the following is a disadvantage of specialisation?
 - A Efficiency gains
 - B Improved competitiveness
 - C Increased labour turnover
 - D Economies of scale
- 5 Which of the following is an advantage of a high degree of specialisation?
 - A Lower unit costs
 - B Low labour mobility
 - C High labour mobility
 - D Greater variety for consumers
- 6 With the use of relevant examples, explain what is meant by the term *specialisation*. [4 marks]

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

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

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- 9 Explain why overspecialisation can be problematic for firms and the economy. [6 marks]

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

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- What is the name of the record of a country's exports and imports of physical goods?
 - The balance of payments
 - The current account
 - Visible trade balance
 - Invisible trade balance
- Which of the following is not part of a country's net income flows and transfers?
 - Interest, profits and dividends
 - Bank deposits held in overseas banks
 - Money sent home from people working abroad
 - Money spent on intangible products
- What is the correct formula for calculating a country's current account on the balance of payments?
 - Visible balance + invisible balance
 - Trade balance + net exports
 - Visible trade balance + invisible trade balance + net income flows and transfers
 - Visible trade balance + invisible trade balance – net income flows and transfers
- Which of the following is a result of a sustained current account deficit for the domestic economy?
 - Higher aggregate demand
 - Higher unemployment
 - Higher standards of living
 - Higher exchange rate
- Which of the following policies is least likely to result in an improvement in the current account of the country?
 - Lower income taxes
 - Lower exchange rate
 - Subsidies for export-driven firms
 - Trade protection policies
- Using the data below, explain what has happened to the country's balance of trade. [2 marks]

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

- 7 State the three components included in the current account of the balance of payments. [3 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 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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- 10 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]

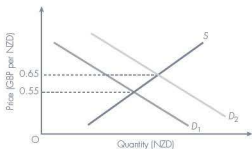
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- b Calculate the missing figures in the data above for Country D. [4 marks]

25 Exchange rates

- Which of the following 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
 - Revaluation
 - Devaluation
- 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?
 - Floating
 - Fixed
 - Devalued
 - Revalued
- In which exchange rate system does the exchange rate get determined by the market forces of demand for and the supply of the currency?
 - Floating
 - Managed
 - Fixed
 - 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.



- A An increase in interest rates in New Zealand
- B Greater demand from British households for New Zealand exports
- C More British tourists visiting New Zealand
- D 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 $\text{GBP1} = \text{HKD12.5}$. How much does it cost the 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 $\text{AUD1} = \text{GBP0.55}$ and the Hong Kong dollar (HKD) is $\text{AUD1} = \text{HKD7.25}$. 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 Examine the likely effects of China's currency appreciation on its exports and imports. [6 marks]

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26 Trade protectionism

- 1 Which of the following is an objective of trade protection?
 - A To reduce the costs of international trade
 - B To increase the demand for domestically produced goods and services
 - C To improve the economic efficiency of domestic industries
 - D To create domestic jobs
- 2 Which of the following methods of trade protection is used to reduce the price of exports?
 - A Tariffs
 - B Quotas
 - C Embargoes
 - D Subsidies
- 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 Embargoes
 - B Dumping
 - C Administrative barriers
 - D Subsidies
- 4 International trade that takes place without any form of protection (barriers to international trade) is called
 - A international relations
 - B dumping
 - C free trade
 - D exchange
- 5 Which of the following is not a benefit of free international trade and exchange?
 - A Transportation costs
 - B Economies of scale
 - C Choice
 - D Efficiency gains

- 6 Define the term *trade protectionism*.

[2 marks]

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- 7 Explain two economic reasons why Americans 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.

[7 marks]

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ISBN 978-1-471-84512-3



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