



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
 General Certificate of Education
 Advanced Subsidiary Level and Advanced Level

ECONOMICS

9708/12

Paper 1 Multiple Choice (Core)

October/November 2009

1 hour

Additional Materials: Multiple Choice Answer Sheet
 Soft clean eraser
 Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

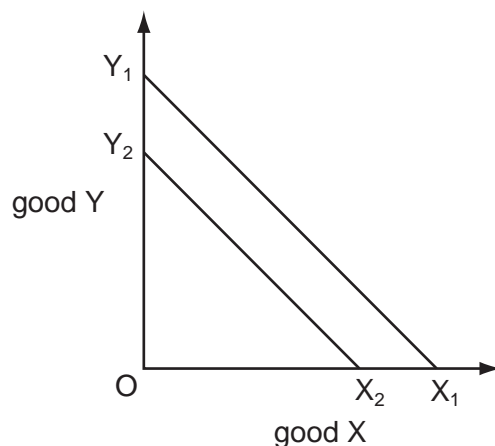
Any rough working should be done in this booklet.

This document consists of **12** printed pages.



2

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

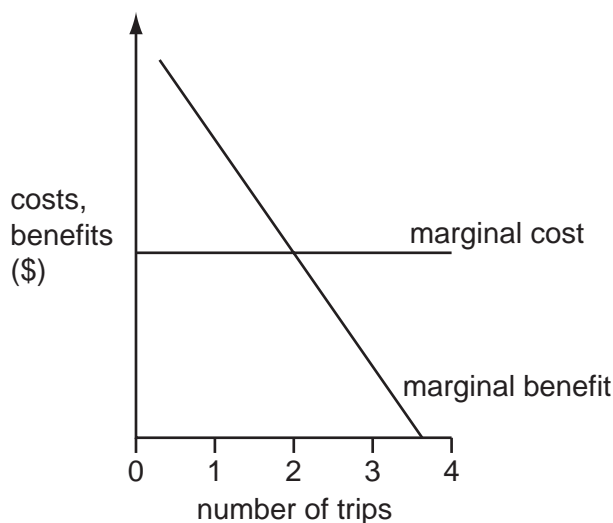


What can be concluded from the diagram?

- A The cost of production was lower in Year 2 than in Year 1.
 - B The full employment level of output was lower in Year 2 than in Year 1.
 - C The opportunity cost of production was lower in Year 2 than in Year 1.
 - D Unemployment rose between Year 1 and Year 2.
- 2 What does the concept of ceteris paribus allow economists to do?
- A calculate the monetary value of consumer surplus
 - B distinguish between economic and free goods
 - C distinguish between normative and positive statements
 - D isolate the effect of one variable on another variable

3

- 3 The diagram shows a person's marginal costs and marginal benefits of making trips to the cinema.



How many trips will the person make?

- A None, as each extra trip reduces marginal benefit.
 - B One, as this maximises the excess of marginal benefit over marginal cost.
 - C Two, as this maximises the net benefit of making trips.
 - D Three, as all trips have a positive marginal benefit.
- 4 A change in market conditions causes a reduction in supply. This results in a higher price for the product, which has a downward-sloping demand curve.

What must be the outcome of this higher price?

- A an increase in the factors employed in the industry
 - B an increase in producer's revenue
 - C a reduction in the quantity demanded
 - D a reduction in the demand for substitutes
- 5 A government wishes to impose a tax on a good so that the consumer and not the producer pays most of the tax increase.

Which type of elasticity would best achieve this aim?

- A high price elasticity of supply
- B low price elasticity of supply
- C unitary price elasticity of supply
- D perfectly inelastic price elasticity of supply

4

- 6 The table shows the price elasticity of demand for four goods and services.

	price elasticity
motor cycles	1.6
telephone calls	1.0
football tickets	0.3
light bulbs	0.0

If the price of each item increased by 1 %, for which items would the total expenditure increase?

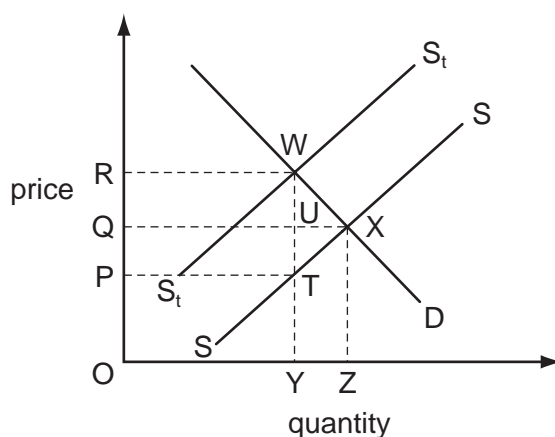
- A** football tickets only
- B** football tickets and light bulbs
- C** motor cycles and telephone calls
- D** motor cycles only
- 7 Two goods, X and Y, are complementary goods. Column 1 of the table below shows the original market situation at time period 1 and column 2 shows the situation following an increase in the price of good Y.

	1	2
price of good X	10	10
quantity demanded	50	40
price of good Y	20	30
quantity demanded	80	60

The value of cross elasticity of demand for good X with respect to the price of good Y lies between

- A** -1.7 and -2.6 .
- B** -0.8 and -1.3 .
- C** -0.3 and -0.8 .
- D** $+0.3$ and $+0.6$.

- 8 A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax, S_tS_t the supply curve after tax.



Which area represents the revenue received by the government from the tax?

- A ORWY B PQUT C PRWT D QRWU
- 9 The table shows the maximum price a consumer would be willing to pay for successive cans of fruit juice.

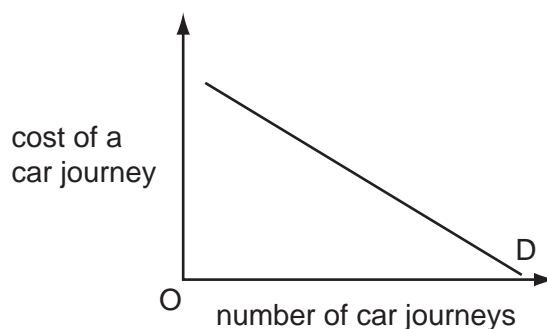
cans	first	second	third	fourth	fifth
price (\$)	14	10	6	4	3

The price of a can of fruit juice is \$4 and, having bought three cans, the consumer decides to buy a fourth.

How does buying the fourth can affect his consumer surplus?

- A It leaves it unchanged.
 B It lowers it by \$2.
 C It raises it by \$4.
 D It raises it by \$34.
- 10 What is generally considered to be one of the advantages of using the price mechanism as a rationing device?
- A It ensures that goods are allocated in accordance with the needs of consumers.
 B It ensures that suppliers cannot make excessive profits.
 C No one can be prevented from consuming a good if they are willing and able to pay the market price.
 D The allocation of goods is determined by consumers' wealth.

- 11 The demand curve in the diagram shows the relationship between the number of car journeys and the cost of a car journey.



What would cause the demand curve to shift to the left?

- A** a reduction in car tax
B a reduction in petrol prices
C a reduction in public transport prices
D the introduction of tolls on motorways
- 12 What would cause a failure of the market mechanism's rationing function?
- A** falling prices
B price controls
C rising profits
D self interest
- 13 The government is considering building flood defences along a river. It has calculated the costs and benefits as follows.

	costs \$m	benefits \$m
private	450	260
external	60	190

According to cost-benefit analysis, which decision and reasoning about flood defences is correct?

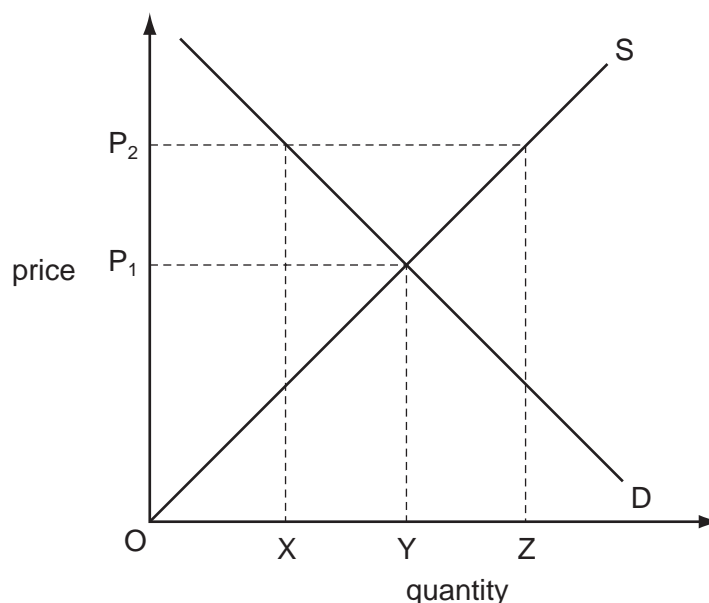
	decision	reasoning
A	Build.	External benefits are greater than external costs.
B	Build.	Social benefits are greater than private benefits.
C	Do not build.	Private costs are greater than the external benefits.
D	Do not build.	Social costs are greater than the social benefits.

- 14 Despite much opposition, the local government in a popular tourist resort built a leisure centre and swimming pool which is open to everyone. Many tourists visit the centre. Local residents are charged a reduced entry fee.

How would economists classify this service?

- A It is a demerit good because some people objected to the development.
 - B It is a merit good because the entry fee is reduced for local residents.
 - C It is a private good because there is an entry fee for all users.
 - D It is a public good because it is open to everyone and provided by the local government.
- 15 What can be provided only as a public good?
- A road use
 - B security services
 - C street lighting
 - D TV broadcasting

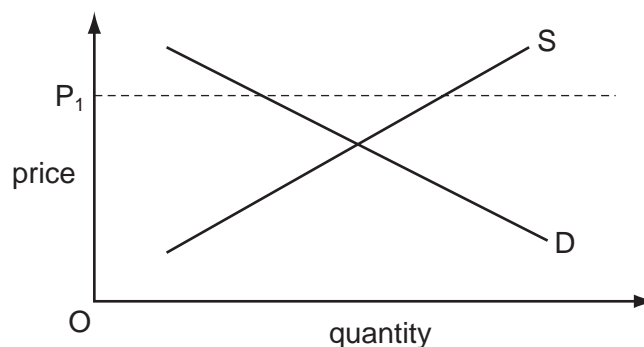
- 16 The diagram shows the market for wheat.



What quantity of wheat must the government buy if it wishes to raise the market price from P_1 to P_2 ?

- A OZ
- B XY
- C XZ
- D YZ

- 17 The government places a maximum price P_1 on an agricultural product. The supply and demand conditions for this product are shown.



What will be the outcome in the market for this product?

- A There will be an equilibrium price and output.
 - B There will be a surplus of the product.
 - C There will be higher than expected profits.
 - D There will be shortages of this product.
- 18 A country has the correct climate for growing tea, which is produced very cheaply and exported. Fruit is also grown, but this costs more as the climate is not as suitable.

Fruit can be sold at a higher price than tea so some of the land used for tea is switched to fruit.

What will definitely happen as a result?

- A There will be an increase in specialisation by the country.
 - B There will be an increase in the imports of tea.
 - C There will be an opportunity cost of the loss of the tea production.
 - D There will be production in line with absolute advantage.
- 19 A government has been protecting its domestic car industry with a quota on imported cars. It then removes the quota and replaces it with a subsidy to domestic car producers.

How will this change affect the price of cars and the level of consumer choice?

	price of cars	level of choice
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

20 What will cause an improvement in a country's terms of trade?

- A a fall in incomes abroad
- B a fall in its exchange rate
- C a rise in its inflation rate
- D a rise in the price of its imports

21 The table shows the balances for four items in a country's current account on the balance of payments for two years.

	visible	invisible	income	current transfers
year 1	-72	84	12	-24
year 2	-87	46	-3	-4

What can be concluded about the changes between year 1 and year 2?

- A The current account balance has moved into deficit.
- B The difference between the value of exported and imported services has increased.
- C The earnings from ownership of foreign assets have increased.
- D The value of exported goods has fallen.

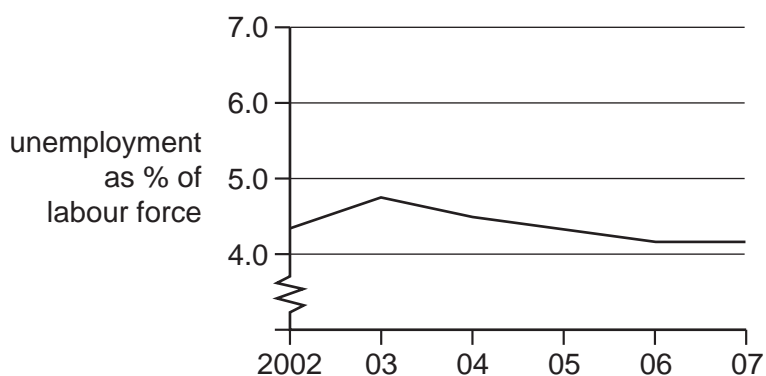
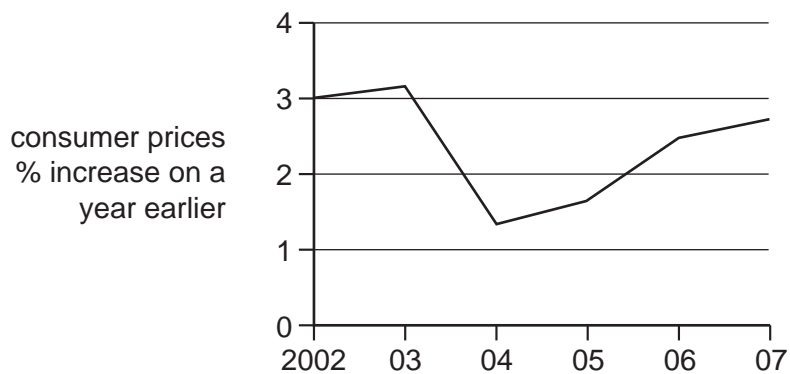
22 What could lead to an increase in the size of a country's labour force?

- A a decrease in unemployment
- B a decrease in the retirement age
- C an increase in the participation rate
- D an increase in the school-leaving age

23 What may cause cost-push inflation?

- A an appreciation of the exchange rate
- B a higher level of consumption
- C an increase in labour productivity
- D an increase in trade union power

24 The graphs show consumer prices and employment for Ireland.



What can be concluded from the graphs?

- A Between 2003 and 2004, unemployment and prices moved in the same direction.
- B Prices were at their lowest in 2004.
- C Prices rose continuously over the period.
- D The number of unemployed workers fell over the period.

25 The table gives details of some parts of a country's balance of payments.

In which year did the country have its largest visible trade deficit?

	value of exports of goods (\$m)	value of imports of goods (\$m)	value of net income and transfers (\$m)
A	3914	3005	+110
B	3950	4073	+80
C	4774	4781	-65
D	5226	5102	-101

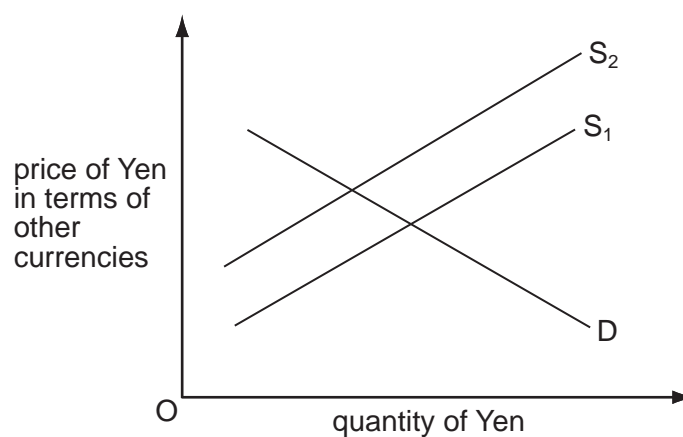
26 The table shows indicators of a country's economic performance over a two-year period.

year	exchange rate index	volume of exports index	volume of imports index	balance of trade in goods and services (\$)
1	100	100	100	zero
2	100	90	100	+500 million

What is consistent with the above information?

- A There has been a fall in the price of exports.
- B There has been an improvement in the terms of trade.
- C There has been an increase in the level of real income per head.
- D There has been an increase in the price of imports.

27 The diagram shows the market for Japanese Yen.



What could have caused the change in the supply of Yen from S_1 to S_2 ?

- A a reduction in the level of international investment into Japan
- B a reduction in the level of Japanese tariffs
- C a reduction in the value of foreign goods imported into Japan
- D a reduction in the value of Japanese goods exported

28 Country X trades with only two countries, the USA and Japan.

90 % of the country's trade is with the USA and 10 % is with Japan.

The original value of the trade-weighted exchange rate index is 100.

The value of country X's currency against the US\$ rises by 10%. The value of country X's currency against the Japanese yen rises by 50%.

What will be the value of country X's new trade-weighted exchange rate index?

- A** 114 **B** 115 **C** 130 **D** 160

29 A government with a floating exchange rate wishes to encourage a rise in the international value of its currency.

What should it do?

- A** Lower the level of domestic interest rates.
B Reduce the amount of foreign currency available to its citizens.
C Reduce subsidies to its exporters.
D Remove trade barriers on imports.

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

What describes the earnings of Tom and Fanda?

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

Copyright Acknowledgements:

Question 24

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