



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

ECONOMICS

9708/11

Paper 1 Multiple Choice (Core)

October/November 2013

1 hour

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



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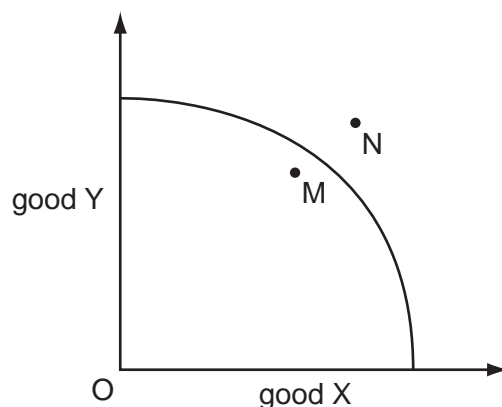


2

1 What will encourage a higher degree of division of labour?

- A firms wishing for a greater level of self-sufficiency
- B firms wishing to increase their flexibility in production
- C firms wishing to raise their level of productivity
- D firms wishing to reduce their level of risk

2 The diagram shows a country's production possibility curve.



What could allow the economy to move from M to N in the long run?

- A an increase in consumer spending
- B an increase in demand for exports
- C an increase in government spending on pensions
- D an increase in investment

3 Which statement about factors of production is correct?

- A All factors of production can earn income for their owner.
- B The factor capital includes human capital, money capital and physical capital.
- C The factor labour involves only physical effort.
- D The natural resources classed as land are in unlimited supply.

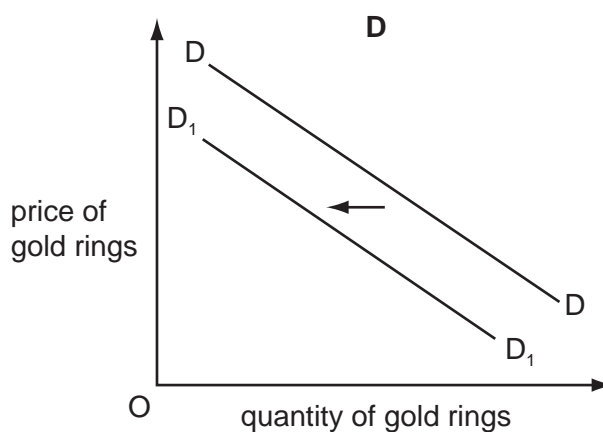
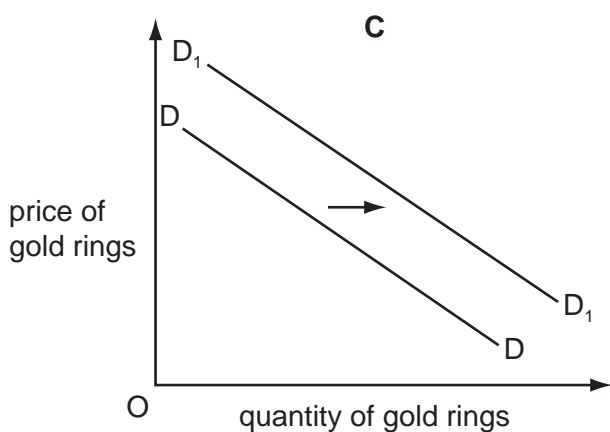
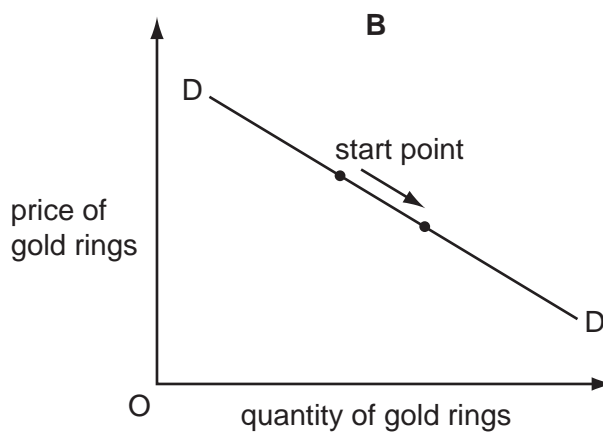
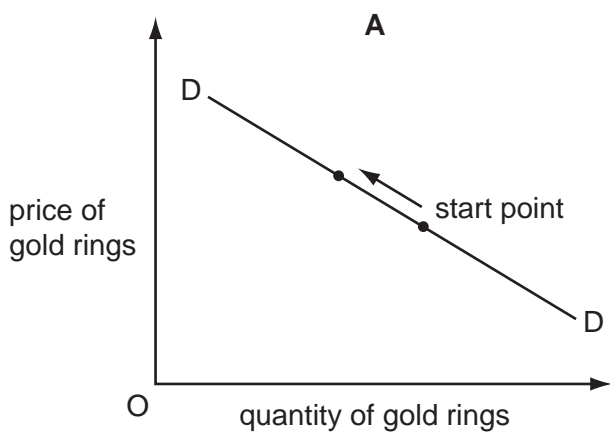
4 A website compares the prices of groceries.

Which function of money is illustrated by this?

- A medium of exchange
- B standard of deferred payment
- C store of value
- D unit of account

- 5 It is expected that the price of gold rings will increase in the future.

Which diagram shows the impact this expectation is likely to have on demand for gold rings in the present?



- 6 Which combination of changes could leave the position of the demand curve for a normal good X unchanged?
- A** a decrease in taste for product X and a decrease in the quality of product Y for which product X is a complement
 - B** a decrease in the quality of a substitute and an increase in incomes
 - C** an increase in the price of a substitute and an increase in population size
 - D** an increase in the price of product Y for which product X is a complement and a successful advertising campaign for product X

4

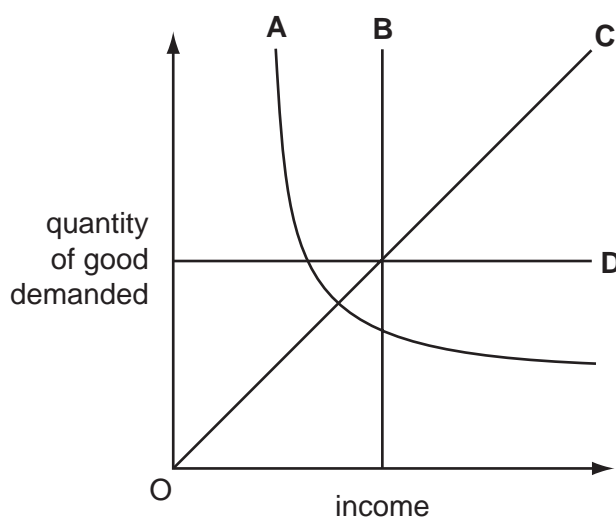
- 7 A product has a normal demand curve and a normal supply curve.

What would explain a rise in the price of the product and a fall in the quantity of the product traded?

- A The decrease in demand is double the decrease in supply.
- B The decrease in supply is double the decrease in demand.
- C The increase in demand is double the increase in supply.
- D The increase in supply is double the increase in demand.

- 8 The diagram shows how the quantity demanded of four goods changes as income changes.

Which good has an income elasticity of demand which is always +1?



- 9 The cross elasticity of demand between bus travel and rail travel is +2. A rise in the price of bus fares caused the demand for rail travel to rise by 10%.

Which change in bus fares has brought this about?

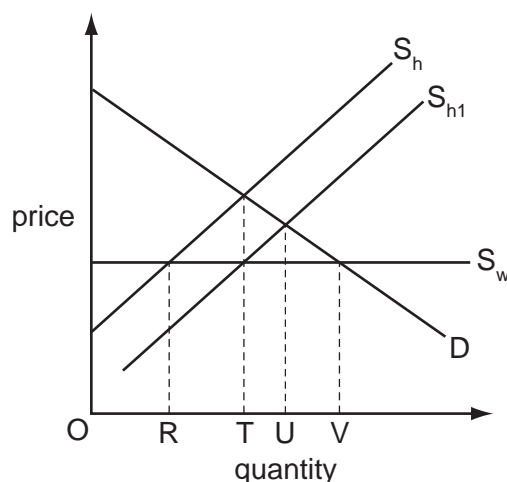
	from (cents)	to (cents)
A	20	21
B	30	33
C	40	45
D	50	60

- 10 The supply function for a good can be written as $Q = 2P + 10$, where Q is the quantity supplied in kilos and P is the price per kilo in dollars.

The price rises from \$10 to \$15 per kilo.

The value of price elasticity of supply for this price increase lies in a range from

- A** $\frac{1}{6}$ to $\frac{1}{4}$. **B** $\frac{3}{8}$ to $\frac{1}{2}$. **C** $\frac{2}{3}$ to $\frac{3}{4}$. **D** $1\frac{1}{4}$ to $1\frac{1}{2}$.
- 11 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_h shows domestic supply and S_w shows world supply. Domestic supply then shifts to S_{h1} .



What will be the level of consumption and the associated volume of imports after the supply shift?

	consumption	volume of imports
A	OU	TU
B	OU	UV
C	OV	TV
D	OV	UV

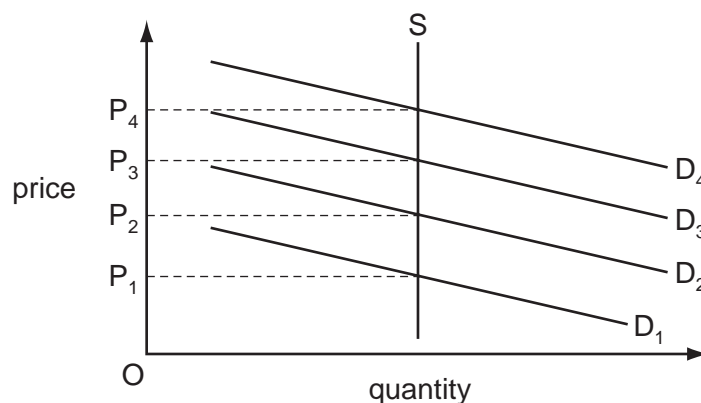
- 12 The table shows the price Rashid is willing to pay for successive cans of cola.

cans of cola	1st	2nd	3rd	4th
price willing to pay	\$0.90	\$0.80	\$0.65	\$0.50

If the price is \$0.50 and Rashid buys four cans, what is the monetary value of Rashid's consumer surplus?

- A** \$0.15 **B** \$0.85 **C** \$0.90 **D** \$1.35

- 13 In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days (D_1 , D_2 , D_3 and D_4).



The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

- A set a fixed price at P_1
 - B set a fixed price at P_4
 - C vary prices between P_2 and P_3
 - D vary prices between P_1 and P_4
- 14 Which situation would indicate the presence of an externality?
- A Producers' actions cause a shortage of a particular good.
 - B Private motorists contribute to traffic congestion in city centres.
 - C Differences in ability cause inequality in the distribution of income in an economy.
 - D Increased demand for a good by the rich raises its price for poorer consumers.
- 15 The term 'cost' in public sector cost-benefit analysis is defined as
- A external costs.
 - B financial costs.
 - C private costs.
 - D social costs.

- 16 One definition of a merit good is that it is one that will be underconsumed because of poor decision making.

Who would usually be responsible for this poor decision making?

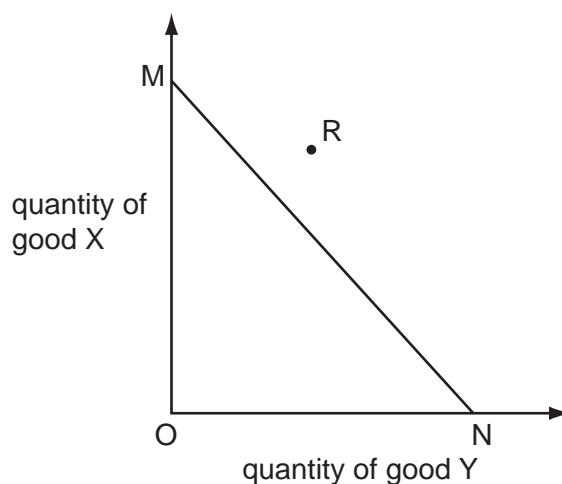
- A the consumers of the good
 - B the dealers who trade the good
 - C the firms producing the good
 - D the government
- 17 A local council charges for the use of tennis courts but not for the use of street lights.
- How would an economist explain this?
- A Tennis courts are a luxury but street lights are a necessity.
 - B Tennis courts are worth more than street lights.
 - C There is an opportunity cost of using land to build tennis courts but not street lights.
 - D The use of street lights cannot be restricted.
- 18 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

- 19 In the diagram, MN is the production possibility curve of a country that has a comparative advantage in the production of good Y.



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

- A increased specialisation in the production of good X
 - B international trade
 - C a reduction in unemployment
 - D increased specialisation in the production of good Y
- 20 A country is willing to undertake free trade with its neighbours and to allow the free movement of factors of production with them. It is unwilling, however, to share a common currency and common external tariff.

In what sort of economic relationship is it likely to be with its neighbours?

- A a common market
 - B a customs union
 - C an economic union
 - D a free trade area
- 21 Which combination of price changes must cause an improvement in the country's terms of trade?

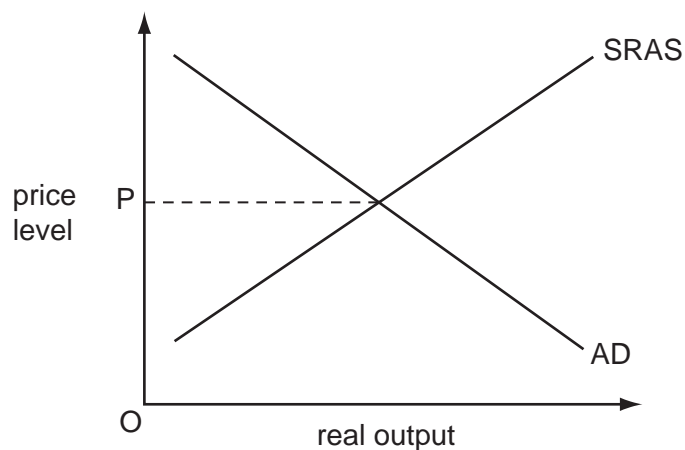
	average price of exports	average price of imports
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

- 22 Which item that relates to a Japanese-owned car assembly plant in the US will not be recorded in the current account of the balance of payments of the US?
- A components imported from Japan
 - B interest charges on a loan from a US based international bank
 - C investment by the parent company in the plant's assembly line
 - D profits remitted to the Japanese parent company
- 23 The table shows the number of workers employed by four firms in the same industry, the average number of hours worked each day and the total output each firm produces each day.

Which firm's workers have the highest productivity?

	number of workers	average number of hours worked per day	total output per day (units)
A	4	8	320
B	5	7	420
C	6	7	462
D	7	9	630

- 24 The diagram shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for an economy with a price level OP .



Which combination of events would definitely cause a rise in the general price level?

	world commodity prices	domestic unemployment
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 25 It is anticipated that the rate of inflation in a country will continue to rise.

What is most likely to increase as a result?

- A** balance of payments surplus
- B** confidence in fixed interest bonds
- C** individuals' need for cash balances
- D** the real value of money

26 A country experiences a devaluation of its currency.

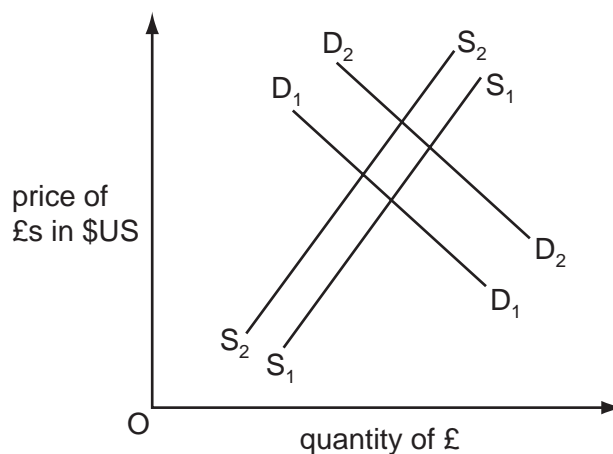
Under which circumstances is this most likely to cause inflation in the country?

	dependence on imported raw materials	price elasticity of demand for imports	price elasticity of demand for exports
A	high	inelastic	elastic
B	high	elastic	inelastic
C	low	inelastic	elastic
D	low	elastic	inelastic

27 Why may a government seek to reduce a current account surplus on the balance of payments?

- A** to lower inflation
- B** to lower unemployment
- C** to raise the economic growth rate
- D** to raise the exchange rate

28 In the diagram, D_1D_1 and S_1S_1 are the initial demand and supply curves of the pound sterling (£) on the foreign exchange market.

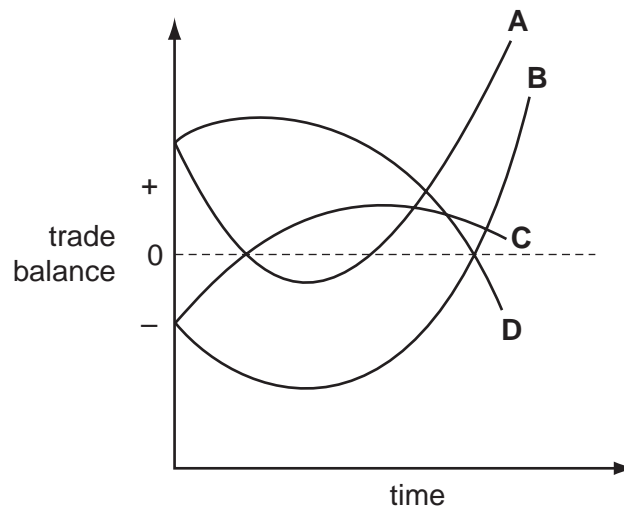


What will cause the demand curve to shift to D_2D_2 and the supply curve to S_2S_2 ?

- A** an appreciation of the pound
- B** an increase in UK interest rates
- C** a reduction in the level of UK import tariffs
- D** a reduction in the quality of UK goods

- 29 In a country the Marshall-Lerner condition for an improvement in the trade balance is satisfied in the long run, but quantities of imports and exports are slow to respond to price changes. The government devalues its currency to reduce its trade deficit.

Which curve indicates the probable behaviour of the trade balance?



- 30 A country has a long running current account deficit on the balance of payments.

Its government was using an expenditure switching policy but decides to change to an expenditure reducing policy.

What could have been the old policy and its new policy?

	old policy	new policy
A	export subsidies	quotas
B	income tax	interest rate
C	quotas	exchange rate control
D	tariffs	income tax

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2

- 1 'From the age of twelve I made a living by buying towels, needles, shampoo and soap and re-selling them as a street vendor. Now, I run three hotels in Hanoi' - Duong Than Binh.

Which factors of production are likely to be involved in the above events?

- A land only
 B land and labour only
 C land, labour and capital only
 D land, labour, capital, enterprise
- 2 What is the correct order of these economic concepts?

A	B	C	D
inevitability of choices	opportunity costs	opportunity costs	scarce resources
↓	↓	↓	↓
opportunity costs	inevitability of choices	scarce resources	inevitability of choices
↓	↓	↓	↓
scarce resources	scarce resources	inevitability of choices	opportunity costs

key
 ↓ = leads to

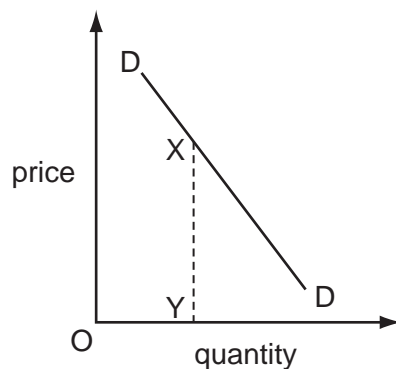
- 3 A farmer can produce both beef and lamb. The opportunity cost of a kilo of beef is three kilos of lamb. The price of a kilo of beef is twice that of lamb.

What should he do if his aim is to maximise his revenue?

- A concentrate on beef production
 B concentrate on lamb production
 C produce beef and lamb in the ratio 3:2
 D produce twice as much beef as lamb
- 4 What advantage do banknotes (paper money) have over coins (metallic money)?
- A They are cheaper to produce.
 B They are more useful for low value transactions.
 C They are the only form of legal tender.
 D They have greater intrinsic value.

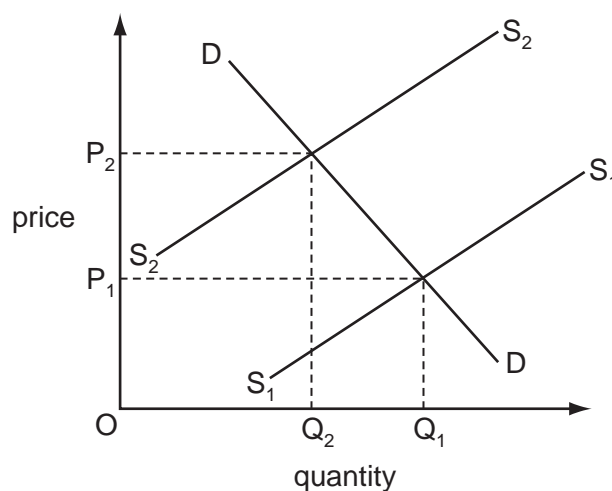
3

- 5 The diagram shows an individual's demand curve.



What does XY measure?

- A the consumer surplus derived by the individual from the last unit consumed
 - B the equilibrium price of the good
 - C the quantity demanded by the individual at any given price
 - D the value of the individual's marginal benefit from the last unit consumed
- 6 The diagram represents the market for diamonds.



What could have caused price to change from P_1 to P_2 ?

- A a fall in the price of substitute gems
- B a fall in the tax on diamonds
- C a rise in the productivity of diamond miners
- D a rise in the wages of diamond miners

4

- 7 How is the market supply of a product in a competitive market obtained?
- A by aggregating the supply of all firms producing the product
 - B by averaging the supply of all firms producing the product
 - C by calculating the supply of the typical firm producing the product
 - D by estimating the supply of the largest firm producing the product
- 8 The diagram shows the demand for a product for which there are only three buyers, Freeman, Hardy and Willis.



The table shows the demand from two of the three buyers.

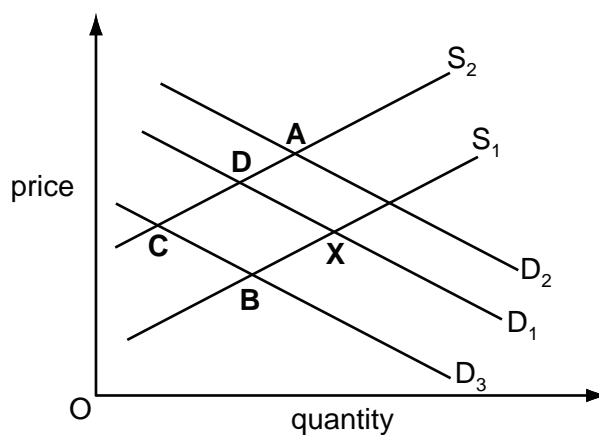
price (\$)	Freeman's demand	Hardy's demand
10	24	6
15	15	5
20	6	4

Which statement about the demand for the product from Willis is correct?

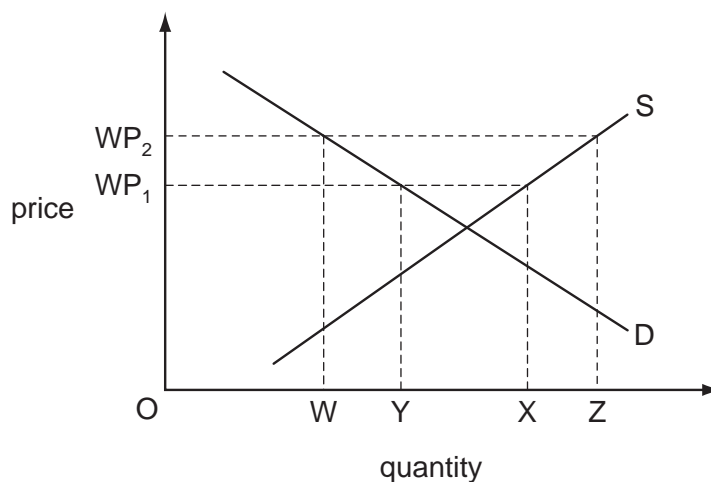
- A It has unitary price elasticity of demand.
- B It is a downward sloping straight line demand curve.
- C It is a perfectly elastic demand curve.
- D It is a perfectly inelastic demand curve.

- 9 The diagram shows the demand and supply curves for tractors. The present equilibrium point is at X.

What could be the new equilibrium if the government were to tax the country's tractor manufacturers?



- 10 The diagram shows a country's domestic supply of, and demand for, a commodity that it both consumes and exports.

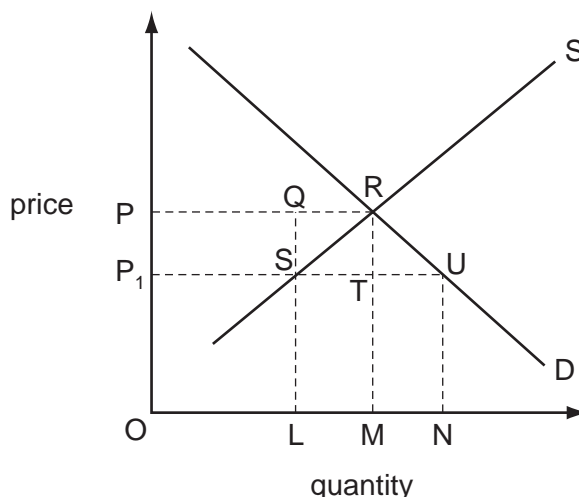


The world price changes from WP_1 to WP_2 .

What are the resulting changes in domestic consumption and exports?

	domestic consumption	quantity of exports
A	OX to OZ	OY to OX
B	OX to OZ	OY to OZ
C	OY to OW	YX to WZ
D	OY to OW	YX to OZ

- 11 The diagram shows the market for sugar which is in equilibrium at a price of OP .



A government then fixes a maximum price of OP_1 .

What will happen as a result?

- A** an increase in consumer surplus equal to $PRUP_1$
B a reduction in expenditure by people who still buy sugar equal to $PQSP_1$
C a reduction in farmers' receipts equal to $QRML$
D farmers' receipts would be $PQLO$
- 12 A consumer needed a new camera and a new armchair. She was prepared to spend \$500 on one item. She discovered that the camera cost \$450 and the armchair \$500. She bought the camera.

What was her opportunity cost and her consumer surplus?

	opportunity cost	consumer surplus
A	the armchair	\$50
B	the armchair	\$500
C	\$50	\$450
D	\$450	\$50

- 13 In which set of circumstances will prices play no part in determining how resources are allocated between alternative uses but may still have a role as a rationing mechanism?
- A** The government sets maximum prices for all goods above their market clearing price.
B The government sets minimum wages for all workers below the market rates of pay.
C The quantities of consumer goods produced are determined by the government.
D The total income consumers have available to spend is fixed by the government.

- 14 The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits (\$m)	external benefits (\$m)	private costs (\$m)	external costs (\$m)
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

- 15 What will be the result, from society's view, if the market price for a product does not reflect the positive externalities in its production?

- A** too little consumption and too little production
- B** too little consumption and too much production
- C** too much consumption and too little production
- D** too much consumption and too much production

- 16 A good is produced which consumers are unable to avoid consuming.

What type of good is this?

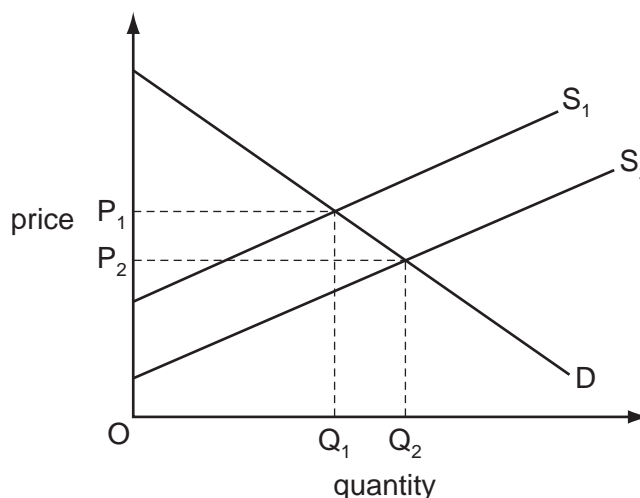
- A** demerit good
- B** inferior good
- C** private good
- D** public good

- 17 A government introduces a subsidy to reduce the price of heating oil, maximum rents for apartments and a national minimum wage rate.

Who is meant to benefit from each of these?

	heating oil market	apartment market	labour market
A	consumers	landlords	employers
B	consumers	tenants	workers
C	producers	landlords	workers
D	producers	tenants	employers

- 18 In the diagram, D is the demand curve for a commodity. S_1 and S_2 are the supply curves before and after an intervention by the government.



What action has the government taken?

- A It has given producers a subsidy to encourage greater output.
 B It has given a subsidy to consumers.
 C It has imposed a tax equal to $P_1 - P_2$ to discourage production.
 D It has purchased a quantity $Q_2 - Q_1$ for government use.
- 19 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1000	1600
country Q	1500	2000

Which statement is correct?

- A P has an absolute advantage in Z and Q has a comparative advantage in Y.
 B P has an absolute advantage in Z and Q has an absolute advantage in Y.
 C P has a comparative advantage in Z and Q has an absolute advantage in Y.
 D P has a comparative advantage in Y and Q has an absolute advantage in Z.
- 20 What is the least likely outcome for participating countries of a move towards freer trade?
- A greater international specialisation
 B greater product choice
 C higher standards of living
 D more equal distribution of income

- 21** A country joins a trade organisation, where the only requirements are that members must have identical tariff rates towards non-members and no trade barriers to fellow members.

With which possible change in status for the country is this condition consistent?

- A** from independent trade to membership of a free trade area
 - B** from membership of a customs union to membership of an economic union
 - C** from membership of a free trade area to membership of a customs union
 - D** from membership of a free trade area to membership of an economic union
- 22** In Australia in 2005 a shipload of exported iron ore paid for 2200 imported flatscreen TVs. In 2010 the same size shipload paid for 22 000 imported flatscreen TVs.

Which combination of price changes is certain to cause this change in the terms of trade of Australia?

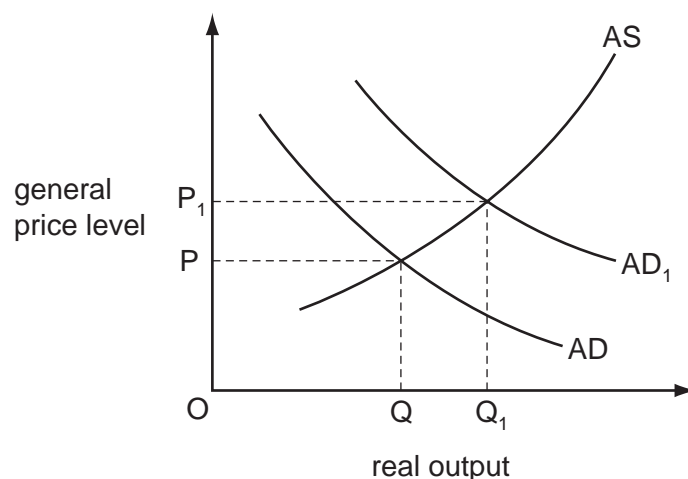
	average export price	average import price
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 23** A country has a population of 500 million. 15 million people are unemployed and the country has an unemployment rate of 6%.

What is the size of the labour force?

- A** 90 million
- B** 250 million
- C** 470 million
- D** 485 million

- 24 The diagram illustrates what happens to aggregate demand (AD) and aggregate supply (AS) in an economy during a year.



What explains the rise in the general price level?

- A boom in consumer spending
 - B higher taxes on company profits
 - C reduction in government-financed projects
 - D rising costs of raw materials
- 25 What would increase both demand-pull and cost-push inflation?
- A an appreciation of a country's currency
 - B an increase in the cost of borrowing
 - C an increase in the level of its import tariffs
 - D an increase in the price of oil
- 26 A UK resident buys shares in a Spanish company.

What will be the immediate and subsequent effects on the UK's balance of payments?

	immediate effect on financial account	subsequent effect on current account
A	credit	credit
B	credit	debit
C	debit	credit
D	debit	debit

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

In which year did the country have its largest 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

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 What is most likely to cause a rise in a country's exchange rate?

- A** a fall in its direct taxes
B a fall in its export orders
C a rise in its interest rates
D a rise in its imports

30 An economy has a high level of unemployment and a large balance of payments deficit on the current account.

What would be a suitable policy for the government to adopt?

- A** decrease government spending
B devalue the currency
C increase direct taxation
D increase interest rates

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

- A fish stocks
- B money
- C oil reserves
- D roads

2 Two workers, George and Zaheer, can produce the following amounts in one working day if they concentrate on producing only one of the products.

	units of food		units of clothing		pairs of shoes
George	9	or	18	or	36
Zaheer	15	or	45	or	30

First they decide to produce for themselves the 6 units of food they need to survive. Then they specialise in the product at which they are relatively efficient.

What will be the total output of clothing and shoes, in addition to the 12 units of food, that is produced in one working day?

	units of clothing	pairs of shoes
A	6	18
B	21	22
C	27	12
D	36	12

3 A centrally planned economy introduces a significant role for free market forces in determining how its economic resources are allocated.

What is most likely to occur in the short run?

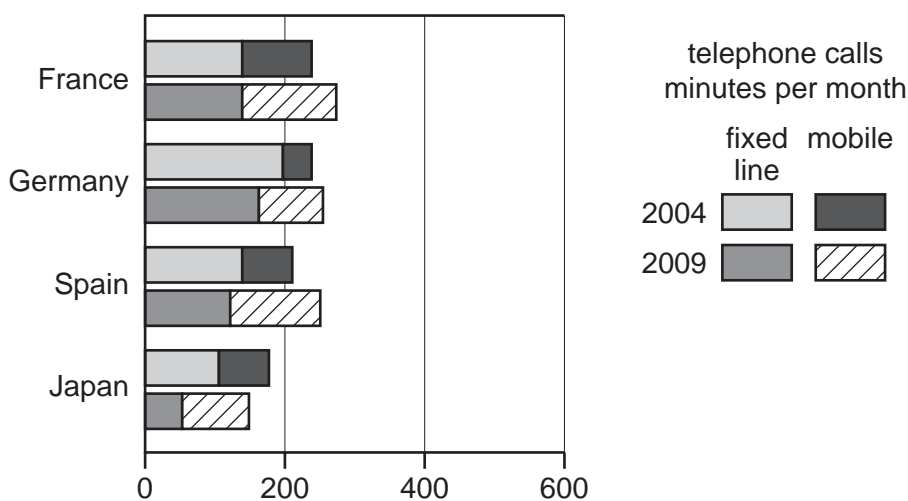
- A an improvement in the balance of trade
- B an increase in the general level of prices
- C an increase in the level of employment
- D an increase in the level of output

- 4 In recent years there was an extremely rapid inflation rate in Zimbabwe.

Which two functions of money might the Zimbabwe dollar have still performed during this hyperinflation?

- A medium of exchange and store of value
- B standard for deferred payments and unit of account
- C store of value and standard for deferred payments
- D unit of account and medium of exchange

- 5 The diagram shows the demand for telephone calls in four countries in 2004 and 2009.



Which statement about the demand for telephone calls is correct?

- A Between 2004 and 2009 the demand for fixed line calls decreased in each of the four countries.
- B Between 2004 and 2009 the total demand for telephone calls increased in each of the four countries.
- C In 2004 demand for fixed line calls was greater than demand for mobile calls in each of the four countries.
- D In 2009 demand for mobile calls was greater than demand for fixed line calls in each of the four countries.

4

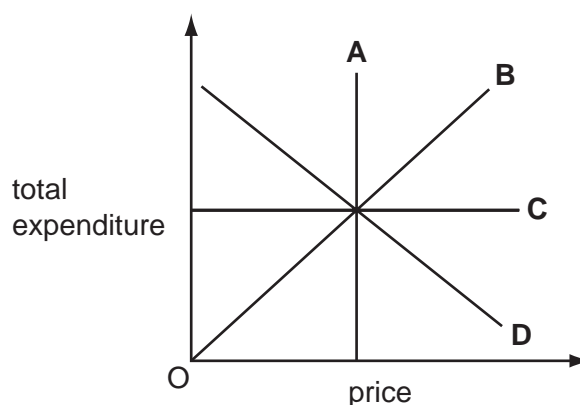
- 6 There are three firms (X, Y and Z) supplying a market. The table shows their supply at four different prices.

price (\$)	firm X's supply	firm Y's supply	firm Z's supply
10	50	40	10
20	60	60	20
30	85	80	35
40	120	100	55

Which price change is required for market supply to double?

- A** \$10 to \$20 **B** \$10 to \$30 **C** \$20 to \$30 **D** \$20 to \$40
- 7 The price elasticity of demand for a product is constant and equal to unity.

Which curve in the diagram shows the relationship between total expenditure on the product and its price?



- 8 The price of good X rises by 20%. As a result, the demand for a substitute good Y rises by 10%.

What is the cross-elasticity of demand for good Y with respect to good X?

- A** +2 **B** +0.5 **C** -0.5 **D** -2

- 9 A car rental firm rents out the cars in its fleet on weekdays to business users and at weekends to tourists.

What is likely to result from an increase in the demand by tourists for car rentals?

	price of weekend rentals	size of car fleet	price of weekday rentals
A	decrease	unchanged	decrease
B	decrease	unchanged	unchanged
C	increase	increase	decrease
D	increase	increase	unchanged

- 10 The table shows the demand and supply schedules for a good before and after the imposition of a tax.

price (\$)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

What was the amount of the tax revenue raised for the government?

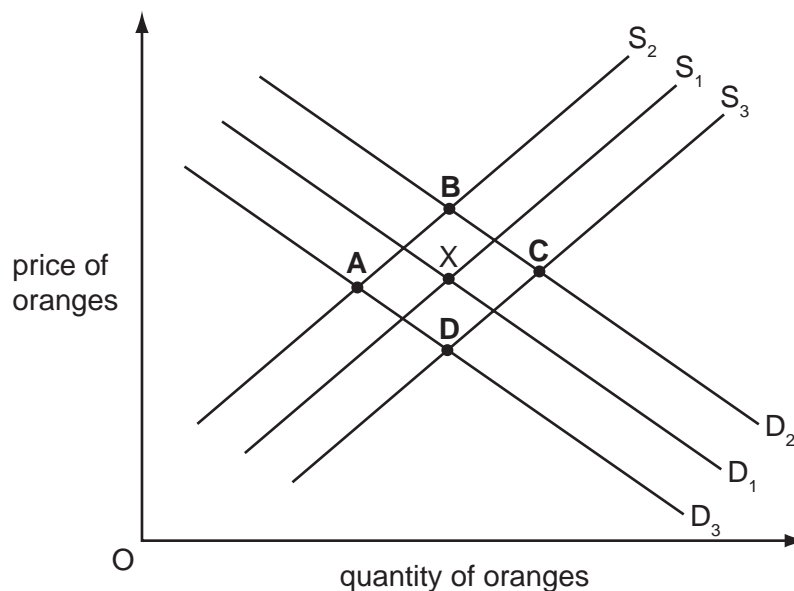
- A** \$1020 **B** \$1360 **C** \$5440 **D** \$6460

- 11 Oranges and apples are substitutes.

The diagram shows the equilibrium position in the market for oranges at X.

Weather conditions reduce the number of oranges grown but increase the number of apples grown.

Which point is likely to indicate the new equilibrium for oranges?



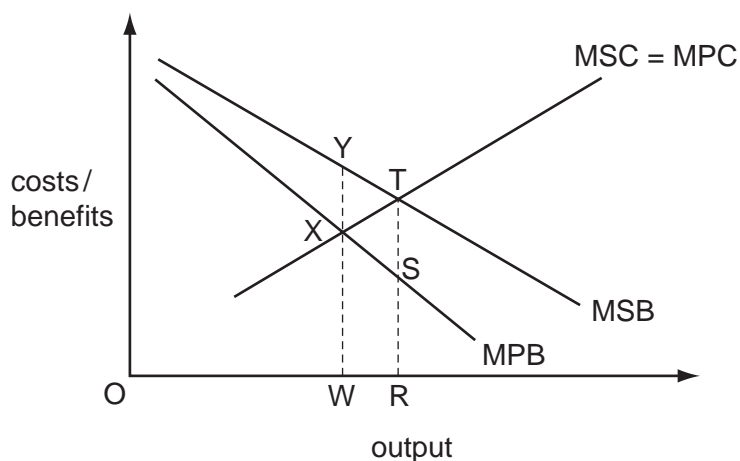
- 12 A consumer saved \$700 and preferred to spend the money on a new television rather than a new washing machine. When she went to the shop she discovered that the television cost \$500 and the washing machine cost \$400. She bought the television.

What was the consumer surplus and the opportunity cost?

	consumer surplus	opportunity cost
A	\$100	\$400
B	\$200	the washing machine
C	\$200	\$500
D	\$400	the washing machine

- 13 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.

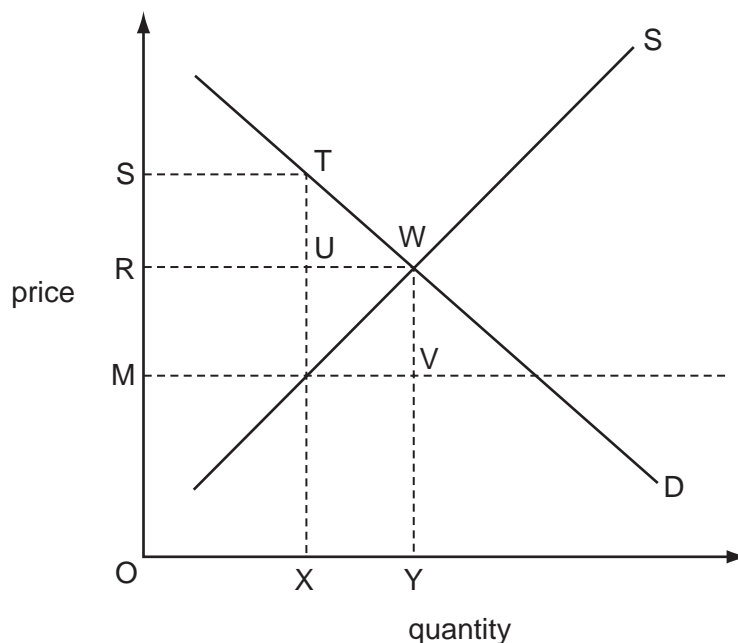
- 14 A government is planning to intervene in a free market to fix output at the currently economically desirable level.



To achieve its objective, what should the government introduce?

- A** a subsidy of TS
B a subsidy of YX
C a tax of TS
D a tax of YX
- 15 What does a government compare when carrying out a cost-benefit analysis of a project?
- A** external benefit and external cost
B financial benefit and opportunity cost
C real benefit and monetary cost
D social benefit and social cost
- 16 What is the defining characteristic of a private good?
- A** Consumption by one individual reduces the amount of the good available to others.
B The benefits derived from the good are confined to those who consume it.
C The good is wholly produced within the private sector.
D To acquire the good a consumer must be willing and able to pay for it.
- 17 Which pair of government actions are intended to directly benefit suppliers?
- A** government provision of consumer goods and maximum price laws
B maximum price laws and price stabilisation policies
C price stabilisation policies and indirect taxes
D production subsidies and minimum price laws

18 The diagram shows the imposition of a maximum price (OM) on a product.



An organisation buys up the total supply at the maximum price and then resells it illegally to gain maximum revenue.

What is the organisation's revenue?

- A** OMVY **B** ORUX **C** ORWY **D** OSTX

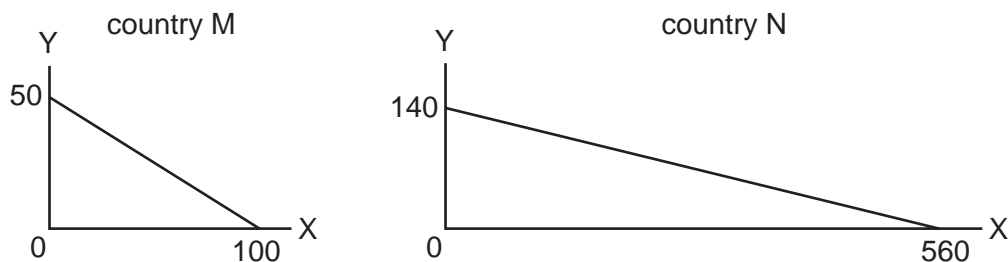
19 Which two groups within a country are likely to benefit from the introduction of tariffs?

- A** consumers and shareholders
B declining industries and importers
C exporters and monopolies
D growing industries and the government

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

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

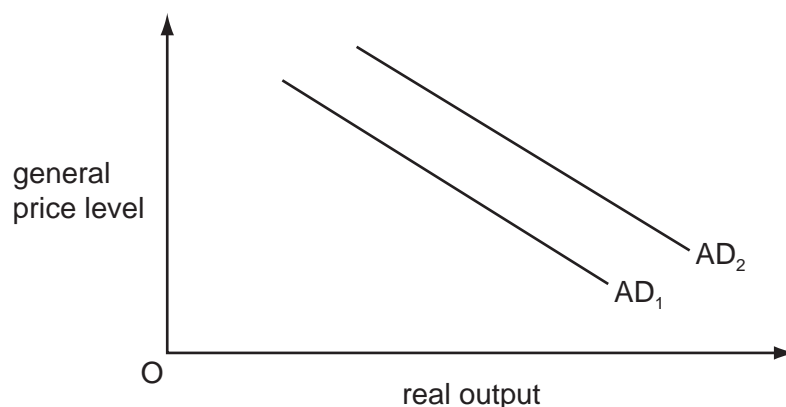
21 The graphs show the production possibilities for commodities X and Y in two countries M and N.



What will be the effect of an agreement between M and N to exchange the commodities at a rate of 1Y for 3X?

- A** Both countries will gain, because their consumption possibilities will increase.
- B** Consumers in country M will lose, because a unit of Y will now cost 3X instead of 2X.
- C** Only country N will gain, because N can produce more of both commodities than M.
- D** Neither country will gain, because they both have a comparative advantage in the production of the same commodity, X.
- 22 What is **not** an item in a country's current account of its balance of payments?
- A** exports of primary commodities
- B** money received from banking services
- C** overseas investment
- D** profits sent back by companies overseas

23 In the diagram, AD_1 is an economy's initial aggregate demand curve.



What could cause the curve to shift to AD_2 ?

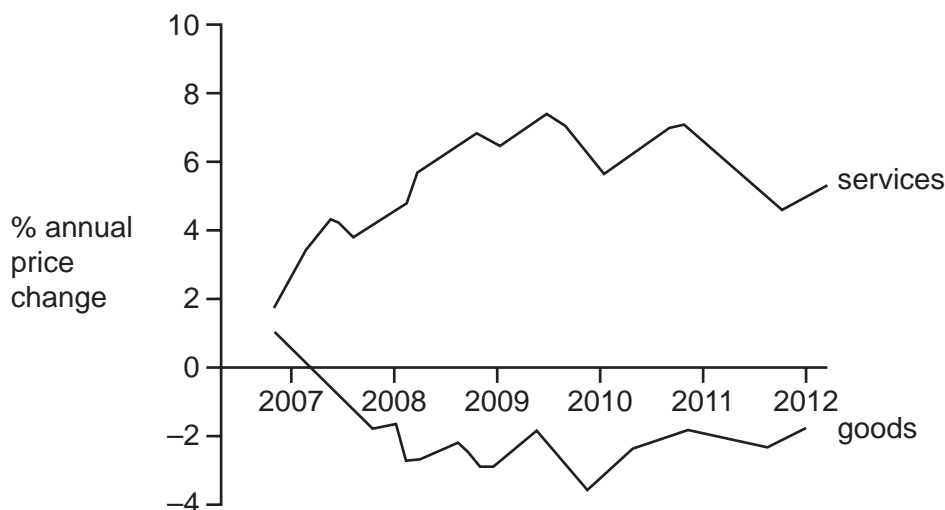
- A** Businessmen have come to expect a lower rate of return on capital investment.
- B** Domestic consumers have become more thrifty.
- C** Exports have become more competitive in overseas markets.
- D** The economy's propensity to import has increased.

- 24 A country has a population of 100 million. 5 million people are unemployed and the country has an unemployment rate of 10%.

What is the size of the labour force?

- A 10 million B 50 million C 90 million D 95 million

- 25 The graph shows the annual percentage change in the prices of services and in the prices of goods between 2007 and 2012.



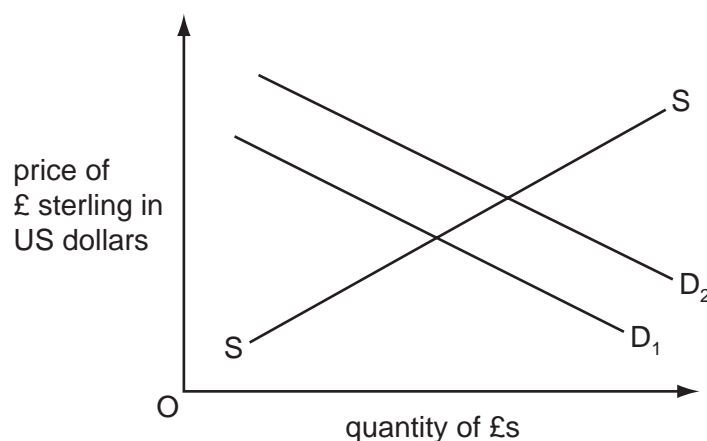
What can be deduced from the graph?

- A On average the price of services was higher than the price of goods throughout the period.
 B The average price of goods was higher in 2012 than in 2010.
 C The average price of services was higher in 2012 than in 2010.
 D There was a fall in the general price level between 2008 and 2010.
- 26 What combination is most likely to cause a surplus in a country's trade in goods and services?

	rate of inflation	international value of currency
A	high	strong
B	high	weak
C	low	strong
D	low	weak

- 27 With an exchange rate of 30 Thai baht to \$US1 an American export sells in Thailand for 150 baht. What change in the exchange rate of the baht would cause the export to sell for 165 baht?
- A a depreciation of 10%
 - B a depreciation of 15%
 - C an appreciation of 10%
 - D an appreciation of 15%

- 28 The diagram shows demand and supply curves of the £ sterling against the US dollar.



What is likely to cause a shift in the demand curve from D_1 to D_2 ?

- A an adverse balance of payments in the UK
 - B an increased demand for UK goods in the USA
 - C an increase in UK tourists visiting the USA
 - D an increase in US interest rates
- 29 According to the Purchasing Power Parity theory, what determines the rate of exchange between two countries?
- A relative price levels in the two countries
 - B the bargaining power of the respective governments
 - C the comparative advantage of the two countries
 - D the size of their foreign currency reserves

- 30 What is most likely to immediately reduce the deficit on the current account of a country's balance of payments?
- A a cut in its interest rates
 - B a rise in its income tax rates
 - C cuts in subsidies to domestic industry
 - D purchases of its currency by its government

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