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

ECONOMICS **9708/12**

Paper 1 Multiple Choice (Core) **May/June 2010**

1 hour

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

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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.

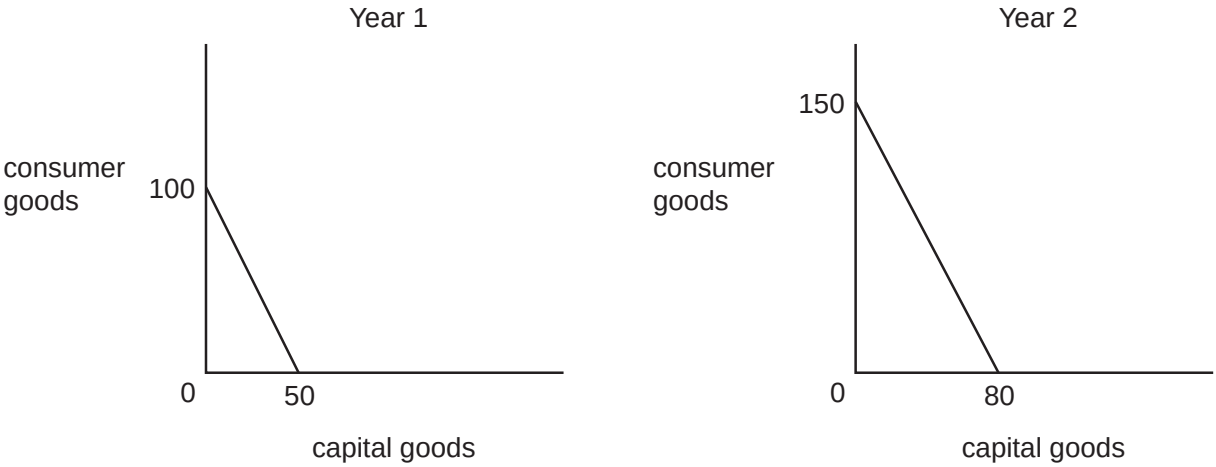
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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.

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1 The diagrams show the change in a country's production possibility curve between Year 1 and Year 2.



What can be deduced from the diagrams?

A Future growth prospects have been harmed.

B The level of unemployment has fallen.

C The opportunity cost of consumer goods has risen.

D The proportionate growth in production is greater in consumer goods.

2 Which statement about trade unions is normative?

A Since trade unions exist to safeguard the interests of their members, they deserve the legal protection of the state.

B In countries where trade unions are strong, income distribution is more equal.

C Uneven trade union membership has resulted in a widening of the wage gap between different industries.

D In industries where trade unions are powerful, technical progress tends to be much slower.

3 A worker can make 10 hats or 5 pairs of shoes in a day. In the market three hats can be sold at the same price as two pairs of shoes.

The worker should make

A 4 hats and 3 pairs of shoes daily.

B 6 hats and 2 pairs of shoes daily.

C hats only.

D shoes only.

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4 The table shows the market supply for a raw material and the individual demand of the three firms, X, Y and Z, which are its only buyers.

price $ (per kilo)	market supply (000s)	demand by X (000s)	demand by Y (000s)	demand by Z (000s)
7	30	13	27	20
8	40	12	25	18
9	50	11	23	16
10	60	10	20	15

What is the equilibrium market price of the raw material?

A $7 **B** $8 **C** $9 **D** $10

5 In 2008 the demand curve for new cars in the European Union shifted to the left.

Which change could have caused such a shift?

A an increase in real disposable income

B an increase in the cost of borrowing

C an increase in the price of new cars

D an increase in the price of train travel

6 Worldwide, the film industry has increased its expenditure to over $1 billion each year on successful anti-piracy measures which it finances by charges on DVD products.

How would this be shown in a demand and supply diagram of the market for legally produced DVDs?

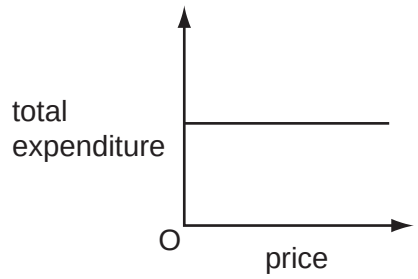
	demand curve	supply curve
A	shifts left	shifts left
B	shifts left	shifts right
C	shifts right	shifts left
D	shifts right	shifts right

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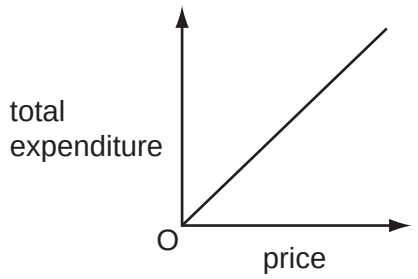
7 The demand for a commodity has unitary price elasticity.

Which diagram shows the relationship between total expenditure on the commodity and its price?

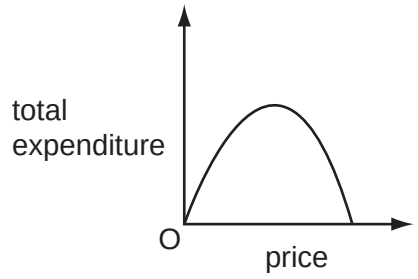
A



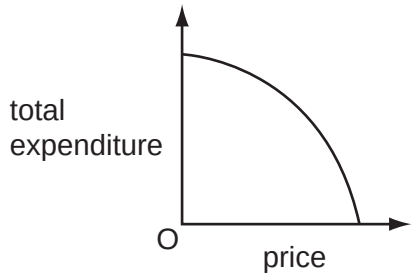
B



C



D



8 The table gives information about the market for two models of car.

model	number of cars sold per week	cross elasticity of demand with respect to the price of petrol
1200 cc	10 000	–0.25
2000 cc	5 000	–0.50

If the prices of the cars remain unchanged, but the price of petrol increases by 100 %, what will be the effect on the number of cars sold per week?

A increase by 5000

B no change

C decrease by 5000

D decrease by 15 000

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9 In 2008 a disease killed a significant number of sheep used to produce wool.

How would the short-run effect be shown on a demand and supply diagram for wool?

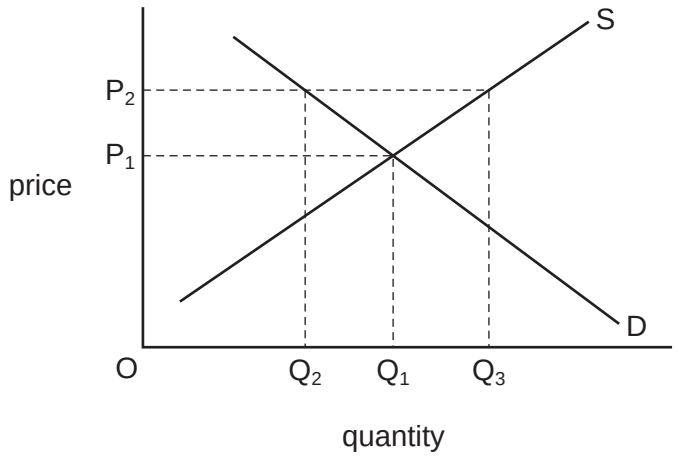
A a movement down the existing supply curve

B a movement up the existing supply curve

C a shift to the left of the supply curve

D a shift to the right of the supply curve

10 The government imposes a maximum price of P_2 on a product.



What will be the position after this action?

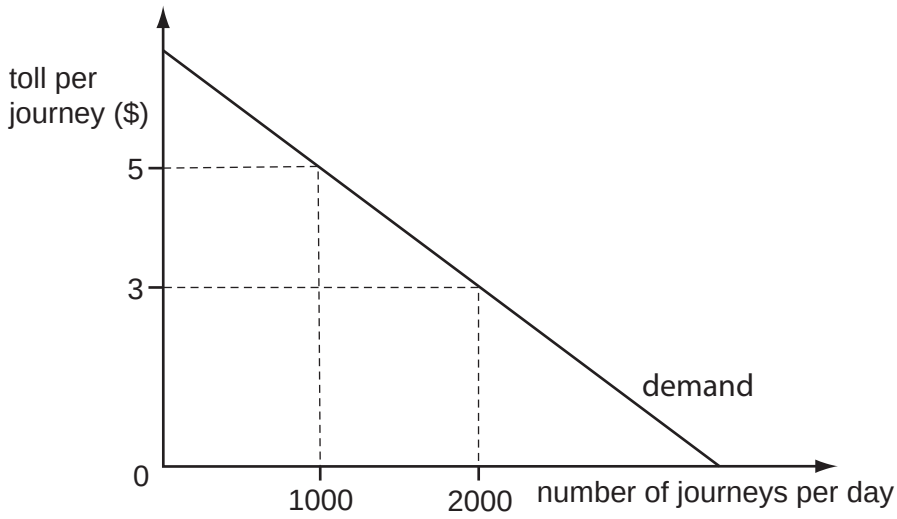
A an equilibrium with price P_1 and quantity Q_1

B an equilibrium with price P_2 and a quantity between Q_2 and Q_3

C an oversupply in the market by Q_2Q_3

D a shortage in the market of Q_2Q_3

11 The diagram shows a demand curve for journeys on a toll road.



If there is a reduction in the toll from $5 to $3, what is the resulting increase in the daily consumer surplus?

A $1000 **B** $2000 **C** $3000 **D** $4000

12 What does **not** happen when price acts as a means to allocate resources?

A Price determines the supply of public goods.

B Price operates in the markets for both goods and factors of production.

C Price recognises consumers' ability to pay rather than consumers' needs.

D Price signals to producers which goods are most profitable.

13 James grows fruit trees in his garden. They attract butterflies and bees.

What is **not** an externality of this?

A Neighbours may be stung by the bees that pollinate the trees.

B Neighbours may buy fruit more cheaply from James than the local supermarket.

C Neighbours may enjoy better air quality as the trees naturally improve the atmosphere.

D Neighbours may like to watch the activity of the wildlife at no cost.

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14 The table shows some of the costs when a firm produces a good.

output	total cost to society $	external cost $
23	316	16
24	322	18

What is the additional cost to a firm of producing the 24th unit?

A $2 **B** $4 **C** $6 **D** $8

15 What makes it particularly difficult to take decisions using cost-benefit analysis?

A External costs are difficult to estimate accurately.

B Governments have no method of valuing time savings.

C Market forces have no influence on the outcome.

D Private costs can vary from one day to the next.

16 Which good is excludable but non-rival?

A air defence

B public libraries

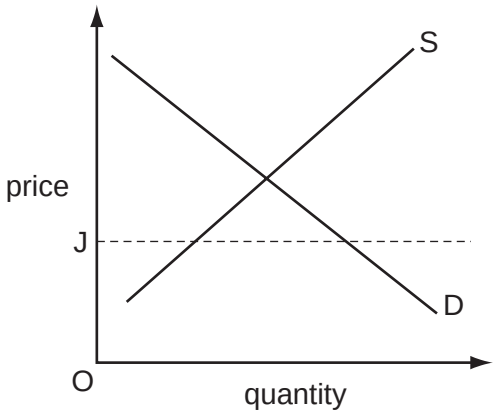
C street lighting

D television broadcasts

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[Turn over

17 The diagram shows the demand and supply curves of a good.

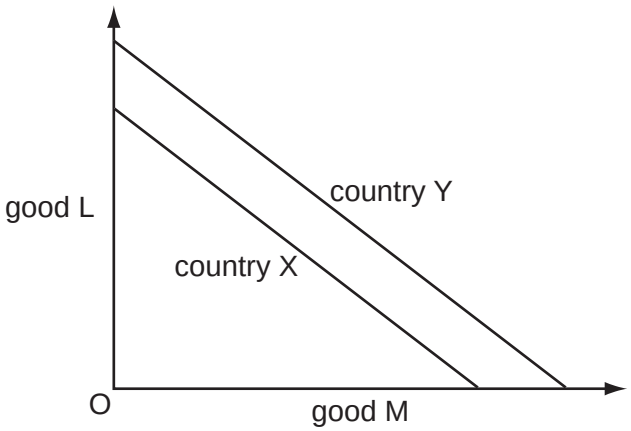


The government sets a maximum price of OJ for the good.

How will this affect the consumers and producers of the good?

	effect on consumers	effect on producers
A	All consumers will gain.	Producers will lose.
B	All consumers will gain.	Producers will gain.
C	Some consumers will gain and some will lose.	Producers will gain.
D	Some consumers will gain and some will lose.	Producers will lose.

18 The diagram shows production possibility curves for two countries, X and Y.



What can be deduced from the diagram?

A Both countries can benefit from specialisation.

B Country X has a higher opportunity cost than Y in producing good M.

C Country Y has a comparative advantage in both goods.

D Trade between X and Y will not take place.

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19 The statements that follow relate to possible gains from an increase in free trade.

Which gain is **least** certain to result?

A Increased specialisation leads to improvements in productivity.

B Trade extends the choice of goods available to consumers.

C Trade leads to an increase in the number of jobs.

D Trade leads to a reduction in costs of production.

20 A group of countries decides to change from being a customs union to being an economic union.

What additional feature will this give the group?

A a common external quota on imports from non-members

B a common external tariff on imports from non-members

C the removal of restrictions on the movement of capital and labour between members

D the removal of tariffs and quotas on products exchanged between members

21 The table shows the balance in $ million for four items in a country's current account for two years.

	visibles	invisibles	income	transfers
Year 1	–72	84	–3	–24
Year 2	–87	96	12	–44

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

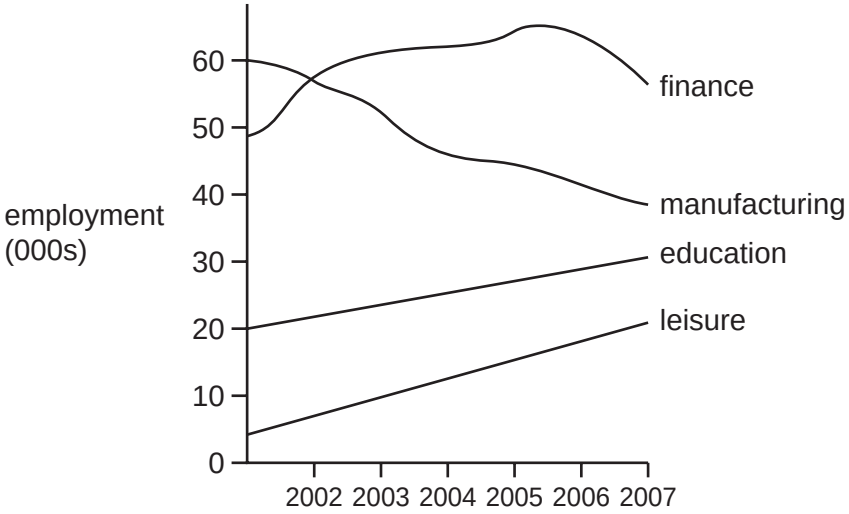
A Income has moved from a net inflow to a net outflow.

B The difference between the value of exported and imported services has increased.

C The value of exported goods has fallen.

D Transfers into the country have increased.

22 The diagram shows changes in the numbers employed in four different industries in a city between 2002 and 2007.



What can be concluded from the diagram?

A Finance was always the largest employer.

B Leisure had the fastest growth rate in employment.

C Manufacturing was the only industry to show signs of decline.

D Total employment in the four industries decreased over the period.

23 The average consumer divides his expenditure between food, accommodation and clothing in the ratio 5 : 3 : 2.

During the course of a year, the price of food rises by 10 %, the price of accommodation remains constant and the price of clothing falls by 5 %.

What is the increase in the Consumer Price Index over the year?

A 2.5 % **B** 4 % **C** 5 % **D** 6 %

24 Which statement about inflation is correct?

A Cost-push inflation is likely to occur when the government increases its expenditure.

B Demand-pull inflation is likely to occur when the country's exchange rate appreciates.

C The Quantity Theory of Money predicts that changes in money supply can cause inflation.

D When inflation is unanticipated real values remain unchanged.

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25 The table shows a country's rate of inflation for four years.

year	rate of inflation %
2005	4.0
2006	3.0
2007	2.5
2008	2.0

What fell between 2005 and 2008?

A average prices

B the cost of living

C the exchange rate

D the value of money

26 When is a deficit on the current account of the balance of payments likely to worsen?

A when the government adopts a deflationary macroeconomic policy

B when the government devalues the currency

C when the prices of imported products that are demand-inelastic increase significantly

D when tariffs are placed on imported products that are demand-elastic

27 What would identify a country with a balance of payments disequilibrium?

A alternate annual deficits and surpluses in the current account

B a continually growing balancing item

C a large short-term outflow of foreign direct investment

D a persistent rise in foreign currency reserves

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28 The table shows the number of Jamaican dollars which exchanged for one unit of other currencies in June and July 2001.

	Jamaican $ June 2001	Jamaican $ July 2001
US$	45.78	45.77
UK£	63.86	64.37
Guyana $	0.25	0.25
Barbados $	23.19	23.12

What might be concluded from the table?

A There was an increased demand for US$ by Jamaicans.

B There was an increased supply of UK£ to Jamaicans.

C There was a reduced supply of Guyana $ to Jamaicans.

D There was a reduced demand for Barbados $ by Jamaicans.

29 Following a long period of depreciation of the US$, both the US and UK monetary authorities raised their domestic interest rate.

What will happen to the value of the exchange rate of the US$ in terms of UK£?

A It will remain unchanged.

B It will fall.

C It will rise.

D The outcome is uncertain.

30 In a command economy, what is the basis for determining the allocation of factors of production?

A the pattern of consumers' spending

B the perceived needs of the country

C the revenue from taxes

D the size of public sector companies

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