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

**ECONOMICS** **9708/11**

Paper 1 Multiple Choice (Core) **May/June 2011**

**1 hour**

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

* 0 9 7 4 4 2 9 5 7 0 *

**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.

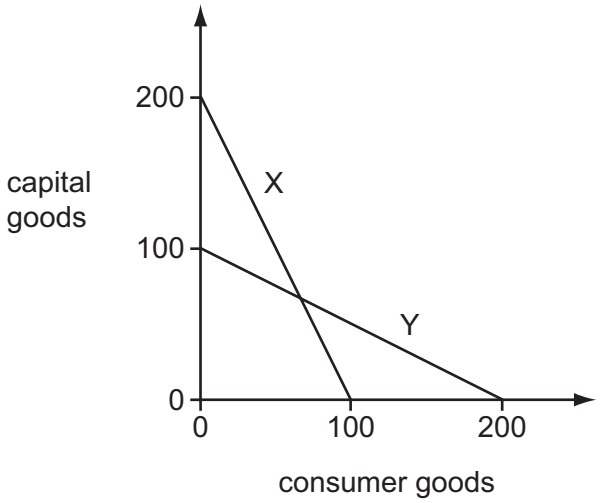
**Read the instructions on the Answer Sheet very carefully.**

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 diagram shows the production possibility curves of two economies, X and Y.




Which statement about the two economies is correct?

**A** Both economies always have the identical opportunity costs.

**B** Both economies have the same future growth prospects.

**C** The opportunity costs are constant in both economies.

**D** The two economies can never produce the same combination of products.

**2** What distinguishes capital from other factors of production?

**A** Capital exists only in capitalist market economies.

**B** Capital results from the operation of the other factors.

**C** The rewards earned by the owners of capital are uncertain.

**D** Unlike labour or land, capital must be owned rather than hired or rented.

**3** What is likely to be greater in a planned economy than a market economy?

**A** efficiency

**B** flexibility

**C** innovation

**D** stability

**4** Which is a normative statement?

**A** An increase in the rate of inflation will lead inevitably to an increase in unemployment.

**B** A reduction in unemployment below a certain level will lead to higher inflation.

**C** Inflation can be reduced only by increasing the level of unemployment.

**D** Unemployment is more harmful than inflation.

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**5** What is consistent with an individual demand curve that slopes down from left to right?

**A** As price falls, a person switches away from rival products towards the product.

**B** As price falls, a person's willingness and ability to buy the product will decline.

**C** As price rises, a person becomes less sensitive to price changes.

**D** As price rises, a person's opportunity cost of purchasing the product falls.

**6** What will cause the demand curve for domestically produced cars to shift to the left?

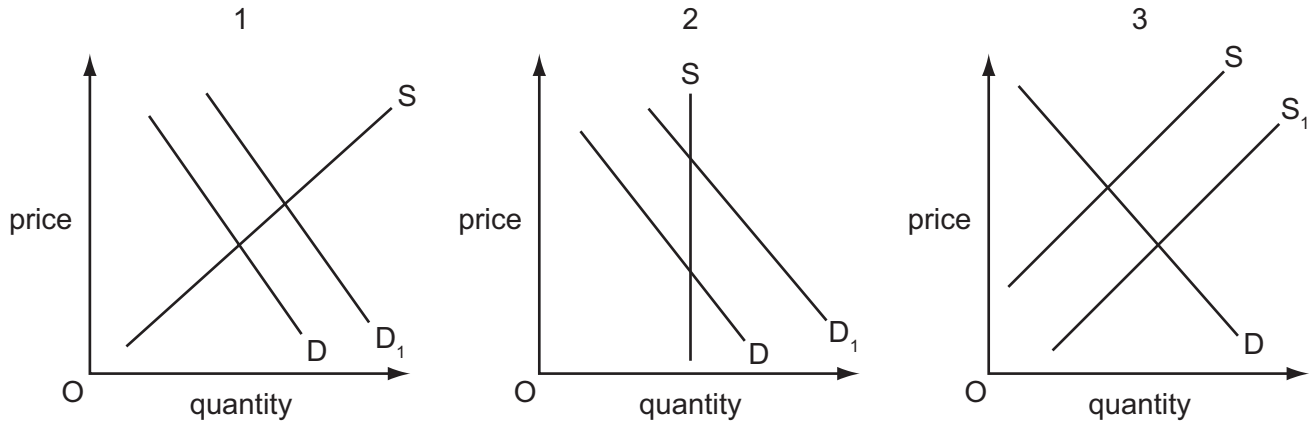
**A** an increase in the costs of production of domestically produced cars

**B** a reduction in taxes on the purchase of cars

**C** a reduction in the tariff on imported cars

**D** a reduction in the tax on petrol

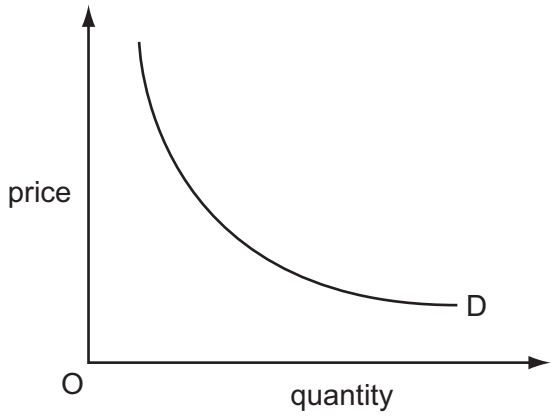
**7** The diagrams show changes in the market for a good.




Which diagrams represent 'a change in the quantity demanded'?

**A** 1 and 2 **B** 1 and 3 **C** 1 only **D** 3 only

**8** The diagram shows the demand curve for a product with unitary price elasticity.




What will happen with such a curve?

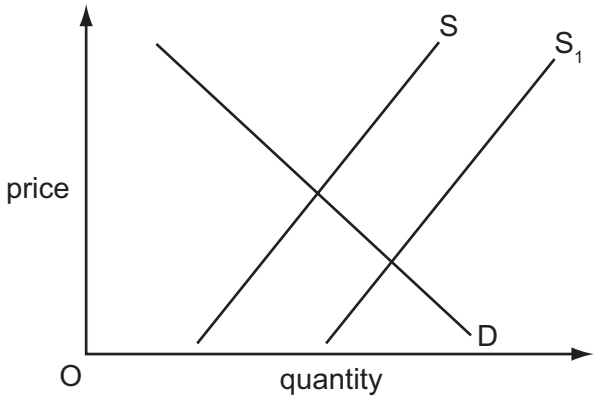
**A** A fall in price will bring about an increase in expenditure on the product.

**B** A fall in price will bring about an increase in sales but a fall in expenditure on the product.

**C** As the price rises, expenditure on the product stays the same.

**D** As the price rises, expenditure on the product rises and then falls.

**9** In the diagram D and S are the demand and supply curves of a good.




What could cause the supply curve to shift in the short run to $S_1$?

**A** a change in consumer preferences

**B** a decrease in the price of a complementary good

**C** a fall in the cost of raw materials

**D** a government warning that consumption of the good can damage health

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**10** A refinery which processes oil into petrol (gas) is faced with the following conditions.

1 It is working at full capacity.

2 Its petrol storage tanks are full.

3 It has received delivery of a new fleet of petrol tankers to transport its petrol.

4 It requires six months to train new workers to qualify in safety procedures.

Which of the conditions will tend to make the supply of petrol relatively price inelastic?

**A** 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

**11** The table gives estimates of the price elasticities and cross elasticities of demand for bus and rail travel.

| service | elasticity with respect to the price of: | |
|---|---|---|
| | bus travel | rail travel |
| bus travel | –0.37 | +0.13 |
| rail travel | +0.16 | –0.43 |

What would be the change in the volume of rail travel resulting from a 1 % increase in bus fares?

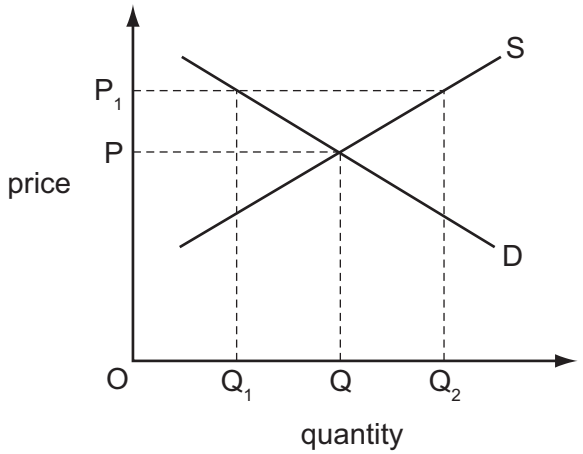
**A** an increase of 0.16 %

**B** an increase of 0.43 %

**C** a reduction of 0.13 %

**D** a reduction of 0.37 %

**12** The diagram shows the demand and supply curves for a good.




The government fixed a maximum price of $OP_1$.

What would this have achieved?

**A** the guarantee of supplies of $OQ_2$

**B** the market equilibrium of quantity OQ

**C** the need for a government subsidy of $PP_1$

**D** the rationing of the product for consumers to $OQ_1$

**13** Global stocks of cod are currently under threat due to over-fishing whilst there are plentiful supplies of the less popular Alaskan pollock.

How might the price mechanism operate to limit the depletion of fish stocks?

**A** The price of both cod and Alaskan pollock will fall.

**B** The price of both cod and Alaskan pollock will rise.

**C** The price of cod will fall whilst the price of Alaskan pollock will rise.

**D** The price of cod will rise whilst the price of Alaskan pollock will fall.

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**14** The table shows some of the costs and benefits at a given level of production of a good.

| costs | $m | benefits | $m |
|---|---|---|---|
| private | 80 | private | 90 |
| social | 200 | external | 100 |

What is correct at this level of production?

**A** External benefits exceed external costs.

**B** Private benefits exceed external costs.

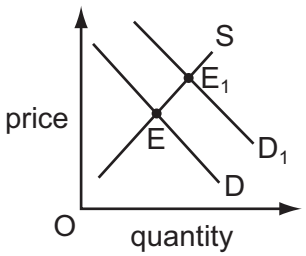
**C** Private costs exceed social benefits.

**D** Social costs exceed social benefits.

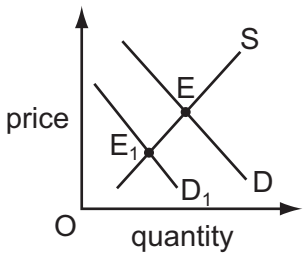
**15** The consumption of a good generates external benefits. Its market equilibrium is E.

Which diagram shows the change in the equilibrium (E to $E_1$) necessary to reflect the correct value of the good to society?

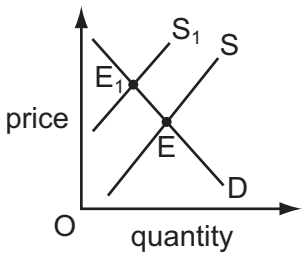
**A**



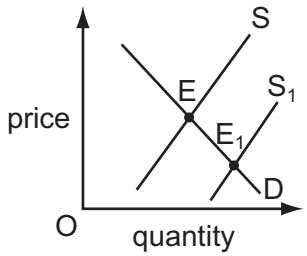

**B**




**C**




**D**




**16** What is an advantage, rather than a disadvantage, of cost-benefit analysis in deciding on a government investment project?

**A** Economic agents place different values on external costs and external benefits.

**B** Estimates of external costs and external benefits are included.

**C** Forecasts of future costs and benefits vary over time.

**D** Miscalculations of the costs are financed by the taxpayer.

**17** What is a distinguishing feature of a public good that is **not** found with private goods?

**A** Consumption depends on the ability to pay.

**B** It creates negative externalities.

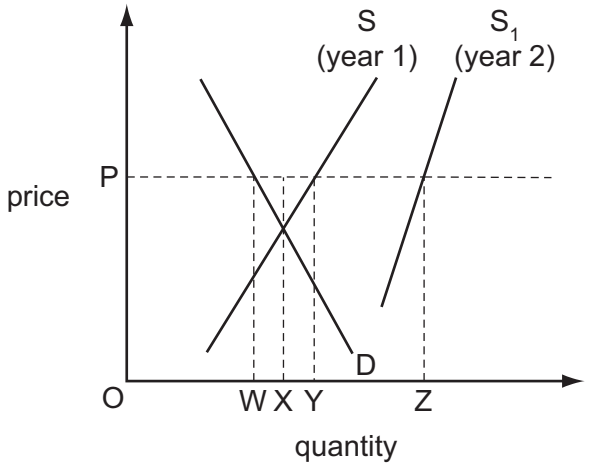
**C** Its consumption by one consumer can have an effect on other consumers.

**D** Its consumption by one consumer does not restrict consumption by other consumers.

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**18** In the diagram S and $S_1$ are the supply curves for an agricultural product in years 1 and 2 respectively. D is the demand curve in years 1 and 2.

In year 1 the government purchased an amount necessary to ensure that the price was OP.



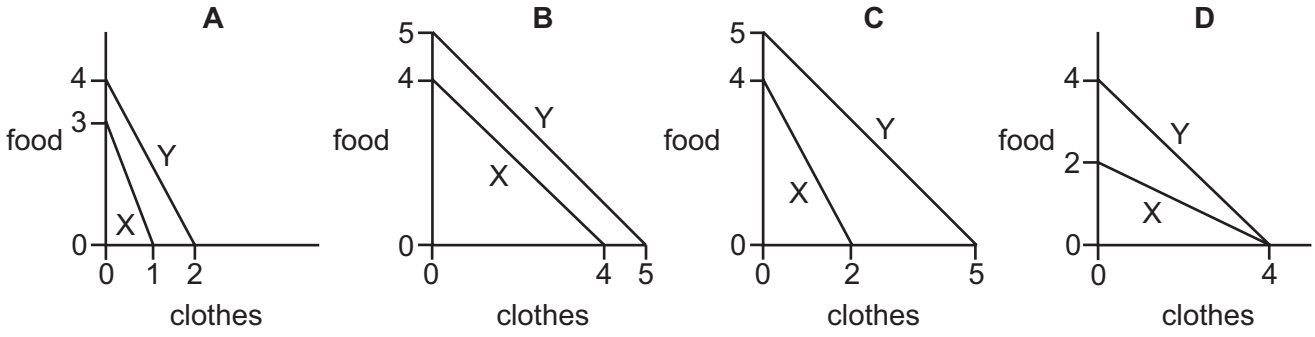

The price is held at OP in year 2.

How much more must the government buy in year 2 than it bought in year 1?

**A** WX **B** XY **C** XZ **D** YZ

**19** Each diagram shows the production possibility curves of two economies, X and Y, which produce food and clothes.

In which diagram would both economies benefit by specialising in the good in which they have comparative advantage and trading at an exchange rate of 1 unit of clothes to 1.5 units of food?




**20** An argument against trade protection is that it will increase

**A** competition for domestic industries.

**B** domestic price levels.

**C** opportunities for domestic infant industries.

**D** the current account deficit.

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**21** A country's terms of trade currently stands at 150 (base year 2000 = 100).

Since 2000 the average price the country has received for its exports has increased by 20%.

What has been the change in the average price it has paid for its imports?

**A** –25% **B** –20% **C** +20% **D** +25%

**22** A government wishes to present its final balance of payments account. It has calculated the current account balance, the capital account balance and the financial account balance.

What additional information is required to complete the task?

**A** change in foreign currency reserves

**B** foreign aid

**C** net errors and omissions

**D** speculative currency flows

**23** The table shows inflation rates, unemployment rates and changes in money wage rates between 2008 and 2009 for a number of countries.

| country | inflation % | unemployment % | money wages % |
|---|---|---|---|
| France | +0.2 | 9.4 | +3.0 |
| Germany | +0.2 | 8.3 | +2.7 |
| UK | +1.8 | 7.8 | +2.5 |
| US | –0.3 | 9.4 | +2.5 |

What can be concluded from the table?

**A** On average, those in employment in the UK had an increase in real incomes.

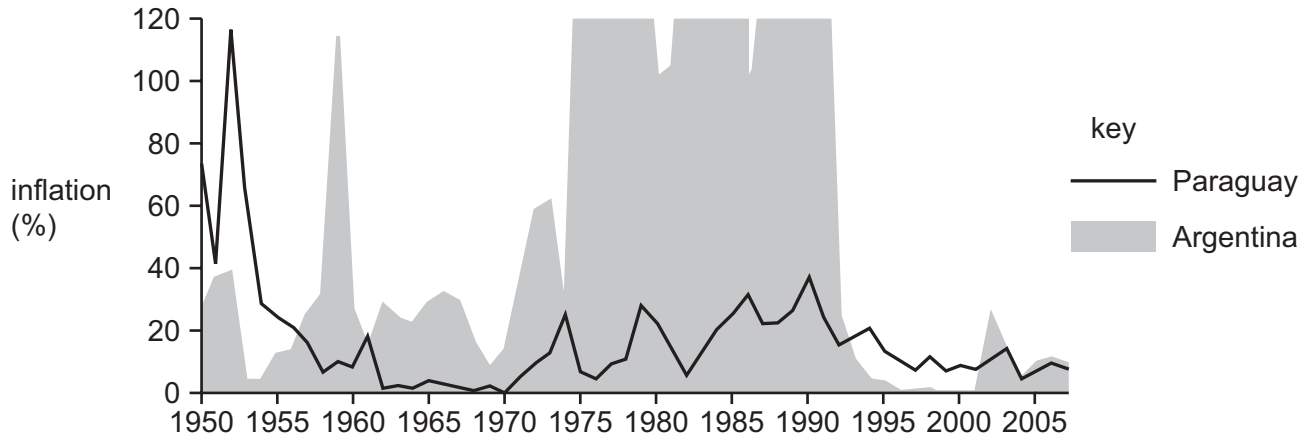
**B** The same number of people were unemployed in the US and France.

**C** The same product would have the same price in France and Germany.

**D** Unemployment was highest where inflation was highest.

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**24** The diagram compares the inflation rates of Paraguay and Argentina between 1950 and 2005.




What can be concluded about inflation rates in the two countries in the period 1950 to 2005?

**A** Argentina's prices fell rapidly between 1992 and 1995.

**B** Argentina stabilised its price level between 1973 and 1992.

**C** Paraguay was always more successful than Argentina at controlling its inflation rate.

**D** Paraguay was most successful at controlling its inflation rate between 1962 and 1970.

**25** Over a period of a year, the annual rate of inflation falls from 10 % to 6 %.

Which statement is correct?

**A** The cost of living has increased.

**B** The purchasing power of money has increased.

**C** There has been a reduction in the Retail Price Index.

**D** The standard of living has increased.

**26** A Japanese company builds a factory in the UK to supply both the UK market and the market in the rest of Europe.

What is likely to be the long-run impact on the UK's balance of trade in goods and on its current balance?

| | balance of trade in goods | current balance |
|---|---|---|
| **A** | improve | improve |
| **B** | improve | uncertain |
| **C** | worsen | improve |
| **D** | worsen | uncertain |

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**27** A country experiences changes in the value of its exports and imports of goods and services and its inflow of incomes and transfers. These are shown in the table.

Which set of changes is most likely to cause a depreciation in its floating exchange rate?

| | export value | import value | net inflow of incomes and transfers |
|---|---|---|---|
| **A** | fall | fall | fall |
| **B** | fall | rise | fall |
| **C** | rise | fall | rise |
| **D** | rise | rise | rise |

**28** What is likely to happen if there is a rise in the international value of a country's currency?

**A** a fall in the foreign currency price of its exports

**B** a fall in the volume of its exports

**C** a rise in the domestic currency price of its imports

**D** a rise in the domestic price level

**29** The table shows observations of the exchange rate of an economy and its current account balance over six years.

| year | exchange rate (US dollars per unit of domestic currency) | current account balance (billions of US dollars) |
|---|---|---|
| 1 | 2.0 | –3 |
| 2 | 1.5 | –5 |
| 3 | 1.5 | –4 |
| 4 | 1.5 | –3 |
| 5 | 1.5 | 0 |
| 6 | 1.5 | +3 |

Which concept does the data in the table illustrate?

**A** exchange rate appreciation

**B** purchasing power parity

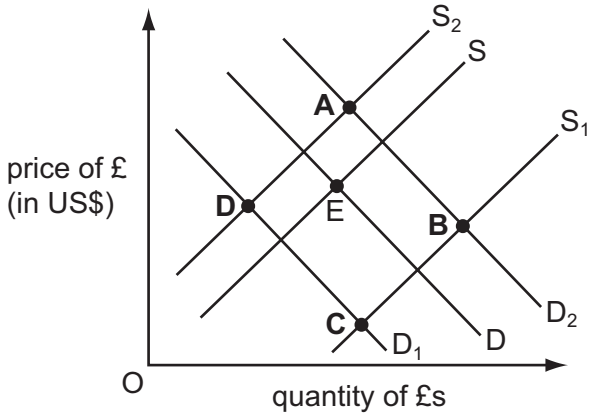
**C** the J-curve effect

**D** trade-weighted exchange rates

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**30** The diagram shows the exchange rate for the UK£ in terms of the US$. The original equilibrium exchange rate is at E.

What will be the new exchange rate equilibrium of the UK£ following a reduction in UK interest rates and a rise in US interest rates?




*Copyright Acknowledgements:*

Question 24 © Graph extracted from: www.imf.org/external/pubs/ft/wp/2008/wp08270.pdf p.29.

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