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 2012**

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.

This document consists of **13** printed pages and **3** blank pages.

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1 The term 'transition economy' is used to describe a country that is

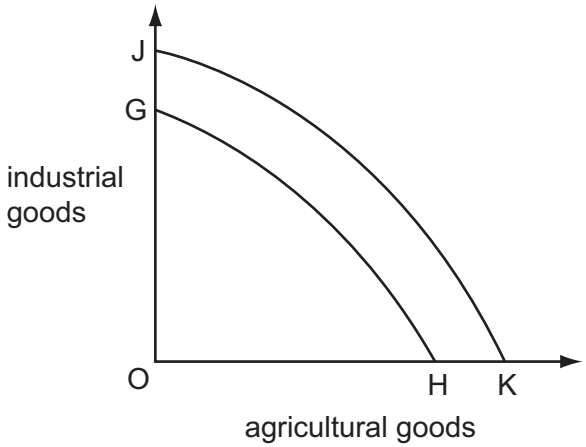
A adopting capital-intensive methods in place of labour-intensive methods.

B moving from central planning towards the market system.

C replacing a trade deficit with a trade surplus.

D substituting manufacturing output for agricultural output.

2 In the diagram, JK is an economy's production possibility curve.



What could cause the curve to shift to GH?

A a decrease in innovation

B an increase in the retirement age

C an increase in the price of energy

D an increase in the unemployment rate

3 What is the opportunity cost to a fully employed economy of increasing capital investment?

A a fall in consumption

B a fall in income

C a rise in saving

D a rise in the rate of interest

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4 Skilled actors deserve to receive a high income because they bring pleasure to people who attend the theatre.

What can be concluded about this statement?

A It is a normative statement because both services and goods are economic outputs.

B It is a normative statement because it expresses an opinion.

C It is a positive statement because actors do bring pleasure to people.

D It is a positive statement because greater skill results in higher pay.

5 What is a market demand curve?

A the demand for all of a country's products

B the total sum of individual demand curves for a product

C the output of all the firms in an industry

D the stocks of a particular good available for sale

6 A good has a unitary price elasticity of demand and at a price of $20 a firm sells 40 000 units.

How many will the firm sell if it charges a price of $5?

A 10 000 **B** 100 000 **C** 160 000 **D** 200 000

7 The cross elasticity of demand between two products, X and Y, is negative.

What would be the immediate effect of a rise in the price of product Y?

A Quantity demanded of product X will fall.

B Supply of product X will rise.

C The cross elasticity of demand will rise.

D The price of product X would rise.

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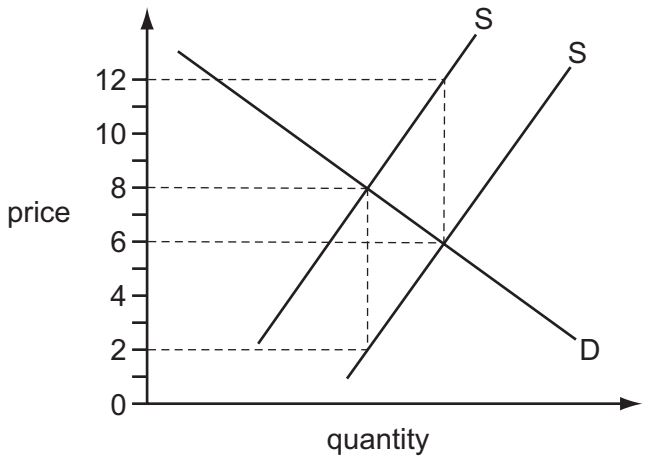
8 The table gives the short-run supply schedules of three firms X, Y and Z, which comprise an industry.

price	quantity supplied (units)		
($)	firm X	firm Y	firm Z
1	200	–	–
2	300	100	–
3	400	160	140
4	500	300	200

Which is a point on the short-run supply schedule of the industry?

	price ($)	quantity supplied (units)
A	1	600
B	3	650
C	3	700
D	4	900

9 The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.



What is the tax per unit of output and what is the price after the removal of the tax?

	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

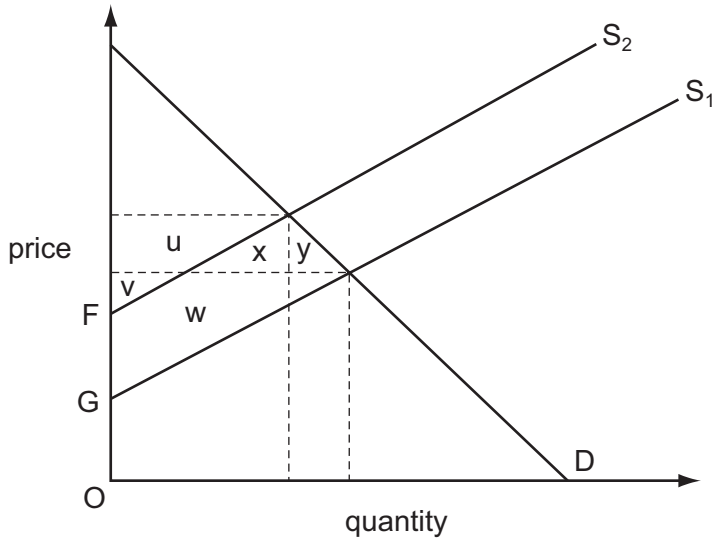
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10 The demand for a good falls at the same time as its costs of production decrease.

What will be the combined effect of these changes on the price and on the quantity supplied of the good?

	price	quantity supplied
A	decrease	decrease
B	decrease	uncertain
C	uncertain	decrease
D	uncertain	uncertain

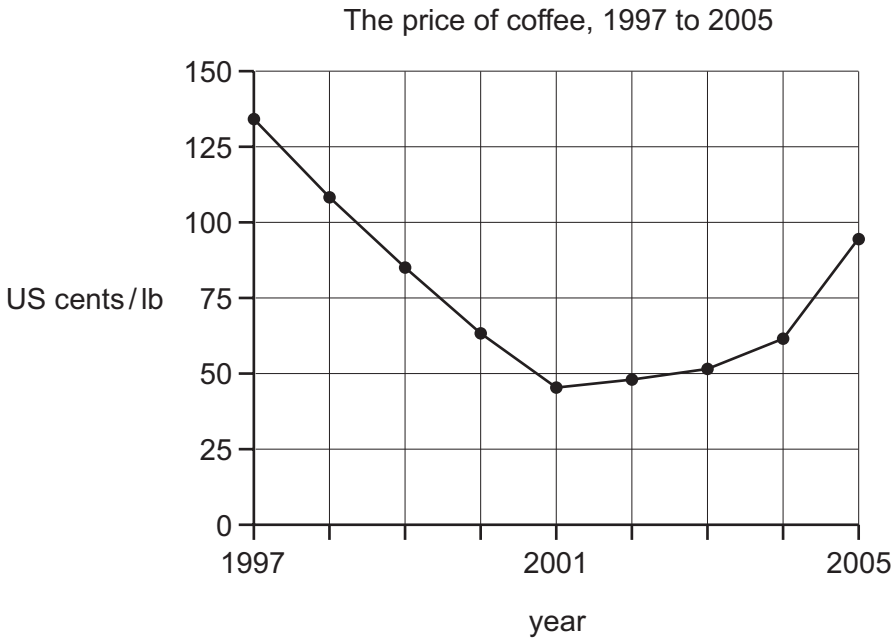
11 The diagram shows the effect of the imposition of a tax equal to FG on a commodity.



Which area represents the reduction in consumer surplus?

A u + v **B** u + x **C** u + x + y **D** x + w

12 The diagram shows the average world price of coffee in US cents per pound weight (lb) between 1997 and 2005.



Which event is consistent with the price behaviour shown in the specified time period?

A a continuous rise in the price of tea between 1997 and 2001

B the entry to the market of new producers of coffee between 1997 and 2001

C a series of good coffee harvests between 2001 and 2005

D increasing health worries about drinking coffee between 2001 and 2005

13 What is **not** a function of the price mechanism?

A to ensure that firms make profits

B to permit consumers to express their preferences

C to ration scarce resources

D to signal where resources are required

14 Which statement is correct?

A External cost equals social cost minus private cost.

B Private cost equals external cost minus social cost.

C Social cost equals external cost minus private cost.

D Social cost equals private cost minus external cost.

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15 In deciding whether to invest in a new project, what would be taken into account in government cost-benefit analysis but not by a private company?

A consultancy fees

B consumer surplus

C interest charges

D tax payments

16 Why does the production of public goods have to be financed by the government?

A One person's consumption of a public good means it is not available for anyone else.

B People are able to consume public goods without paying for them.

C Private sector firms will charge a price significantly above cost for public goods.

D The cost of producing public goods is higher in the private sector.

17 The government has to choose the best one of four possible sites to locate a port.

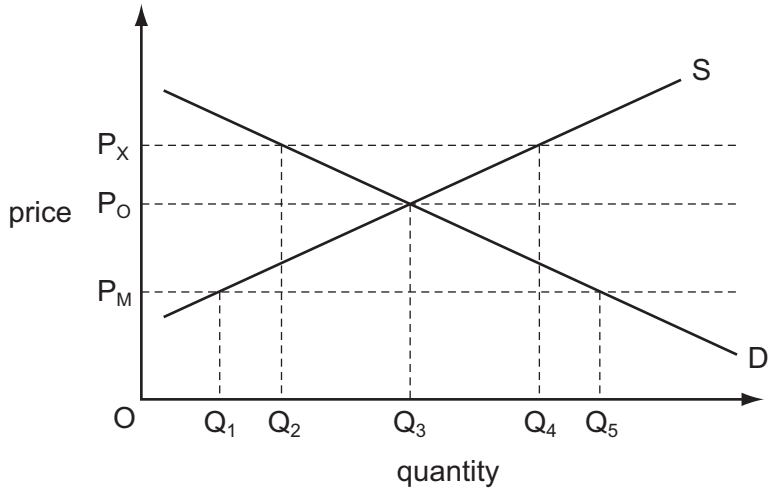
The benefits and costs of each site are shown in $m in the table.

Which site would be chosen?

	private benefits	external benefits	private costs	external costs
A	700	1100	20	5
B	800	1100	80	40
C	900	600	10	50
D	1000	900	100	200

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18 The diagram shows the market for spectacles. Initially the market equilibrium price is P_O and quantity Q_3 is bought and sold.



The government then sets both a maximum price of P_X and a minimum price of P_M.

What effect will these measures have on the market for spectacles?

A create a shortage of spectacles equal to Q_1Q_5

B create a surplus of spectacles equal to Q_2Q_4

C create a surplus of spectacles equal to Q_3Q_4

D leave the quantity bought and sold unchanged

19 Thailand produces rubber at a lower opportunity cost than China. It does, however, import some rubber from China.

What could explain Thailand importing rubber from China?

A China imposes lower tariffs on rubber imports than Thailand.

B China is consuming increasing quantities of rubber in industry.

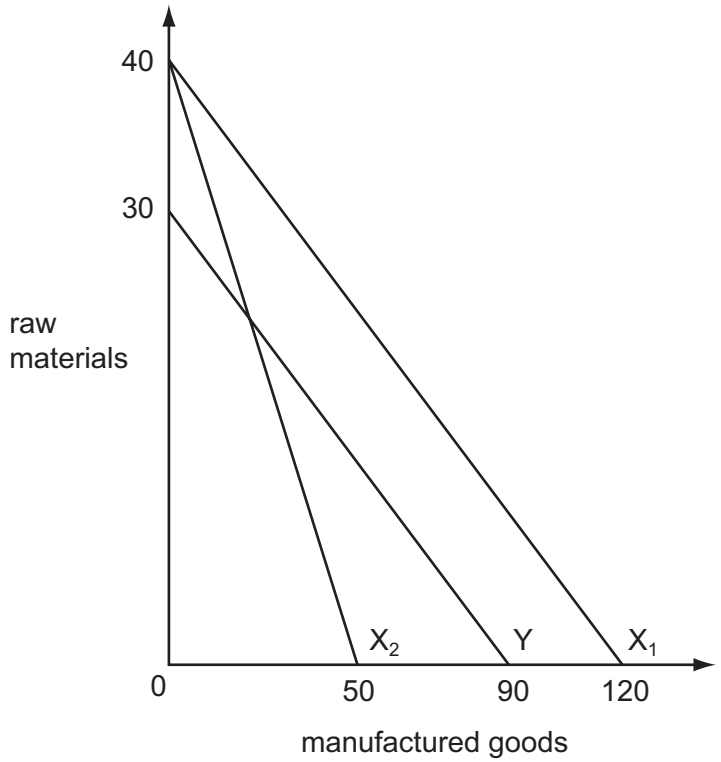
C Thailand has the absolute but not the comparative advantage in rubber production.

D Thailand wants to avoid the risks involved in overspecialising in rubber production.

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

A decrease in productivity moves country X's production possibility curve from X_1 to X_2.



Which statement is correct?

A After the change X would export raw materials and import manufactured goods.

B After the change there is no economic basis for trade.

C Before the change Y had an absolute advantage in the production of raw materials.

D Before the change X had a comparative advantage in both products.

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21 The diagram shows that the imposition of a tariff raises price from $10 to $14.



What is the value of tax revenue raised?

A $80 million

B $160 million

C $320 million

D $400 million

22 A firm borrows money from a bank based abroad in order to pay a lower rate of interest than that available from banks in its own country.

Which two parts of the balance of payments accounts will be affected by this transaction?

A capital account and currency reserves

B capital account and trade in services

C financial account and net income flows

D financial account and net current transfers

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23 The table gives unemployment rates (%) for four countries in 1993 and 2002.

	UK	Japan	France	Italy
1993	10.5	2.5	11.4	10.1
2002	5.0	5.4	8.8	8.5

What can be deduced from the table?

A France had the lowest rate of employment in both years.

B Italy had the most employed people in 2002.

C Japan more than doubled its labour productivity between 1993 and 2002.

D The UK created the most jobs between 1993 and 2002.

24 In which year did the real value of money rise?

	year	Price Index (base year 2001)
A	2002	100
B	2003	104
C	2004	104
D	2005	103

25 A country experienced a significant fall in unemployment but its inflation rate remained low.

What could explain this?

A Global competition prevented firms passing on higher costs.

B Increased spending on imports had lowered the exchange rate.

C There was a low level of spare capacity in the economy.

D Wage rates had increased by more than labour productivity.

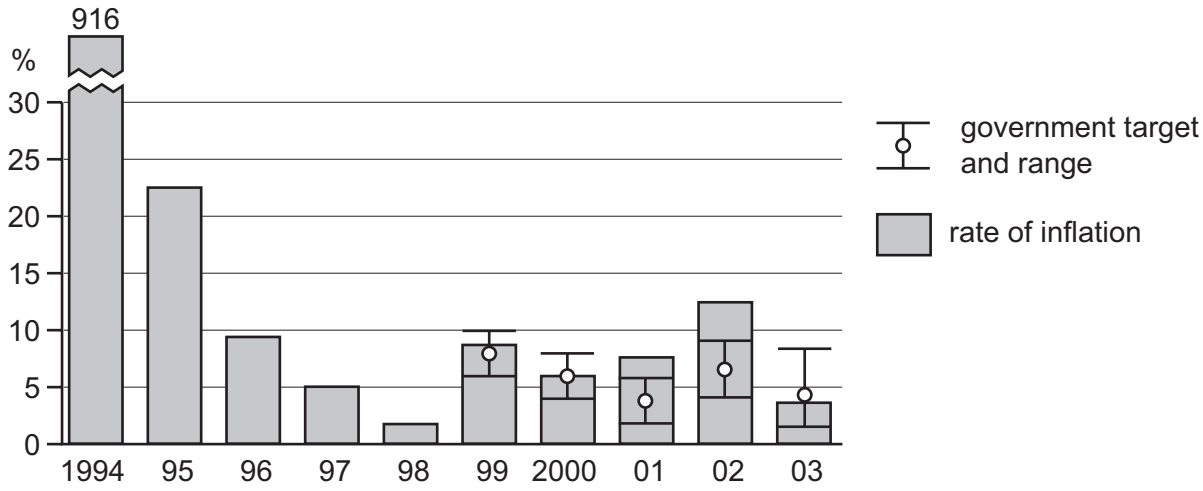
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26 Before 1999 the Brazilian government did not have a desired target rate of inflation. From 1999 it set target rates within an upper and lower boundary.

The diagram shows the rate of inflation between 1994 and 2003 and the target rate between 1999 and 2003.

Inflation and inflation targets in Brazil, 1994 to 2003



What can be concluded from the diagram?

A The Brazilian government achieved its target in each year from 1999 to 2003.

B The inflation target was continuously reduced.

C The lowest level of inflation was achieved when an inflation target was used.

D The inflation rate was more stable after inflation targets were introduced.

27 A government decides to reduce the quota on imported cars from 2000 to 1000 per year.

What is likely to happen?

A The balance of trade may improve.

B The demand for the good will increase.

C The good will become cheaper.

D The government's revenue will decline.

28 A representative basket of goods costs $2500 in the United States. The same basket of goods costs £2000 in the UK.

What can be deduced from this?

A The £ sterling is 25 % overvalued.

B The £ sterling is 20 % undervalued.

C The purchasing power parity exchange rate of the £ sterling is $0.80 to the £.

D The purchasing power parity exchange rate of the £ sterling is $1.25 to the £.

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29 The price of a good traded internationally increases.

Who would be disadvantaged the most?

A high income countries that pursue a policy of self sufficiency

B high income countries with a balance of payments surplus that export the good

C low income countries dependent on importing the good

D low income countries with alternative suppliers of the good

30 A country has a deficit on the current account of its balance of payments.

What might help the country to reduce its deficit?

A a decrease in its rate of income tax

B a decrease in its tariffs

C an increase in its level of employment

D an increase in its subsidies to exporters

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