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 2012**

1 hour

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

8789534142

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 What is a characteristic of a planned economy?

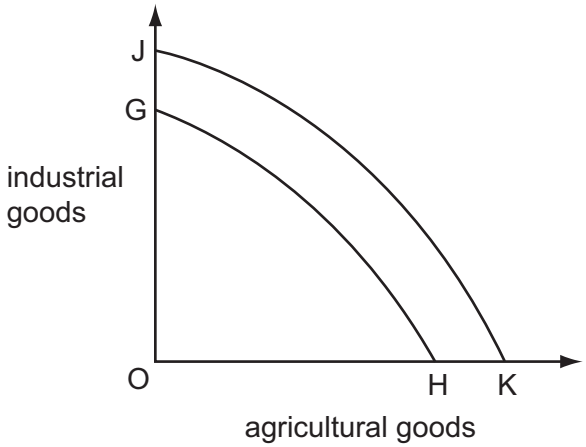
A All property is owned privately.

B All resources are allocated centrally.

C Supply and demand always determine prices.

D There is competition in most markets.

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 The growing domestic, agricultural and industrial demand for water is leading to a world shortage of water.

Which change would reduce this problem of water scarcity?

A an increase in demand for food

B an increase in population growth

C climate change which leads to lower rainfall

D more efficient water management

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4 What is considered as money if money is defined as anything which is always acceptable when paying for goods and services?

	credit cards	cheques	cash
A	yes	yes	no
B	yes	no	yes
C	no	no	yes
D	no	yes	no

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

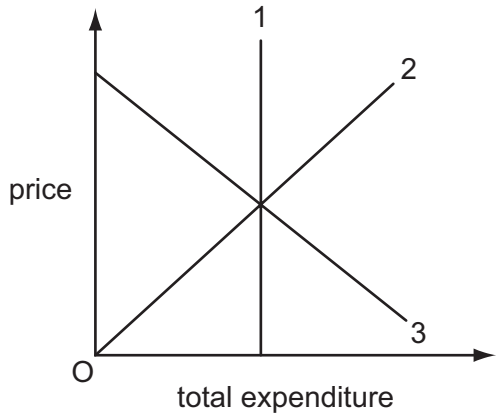
price ($)	quantity supplied (units)		
	firm X	firm Y	firm Z
1	100	–	–
2	150	50	–
3	200	80	70
4	250	150	100

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

	price ($)	quantity supplied (units)
A	2	300
B	3	350
C	3	450
D	4	1150

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7 The diagram shows the relationship between total expenditure and price for three products, 1, 2 and 3.



Which curves represent the products with price elastic and unitary price elasticity of demand?

	elastic	unitary
A	1	2
B	2	3
C	3	1
D	3	2

8 The table shows the quantities demanded (Q) of goods X and Y corresponding to different prices (P) of the two goods.

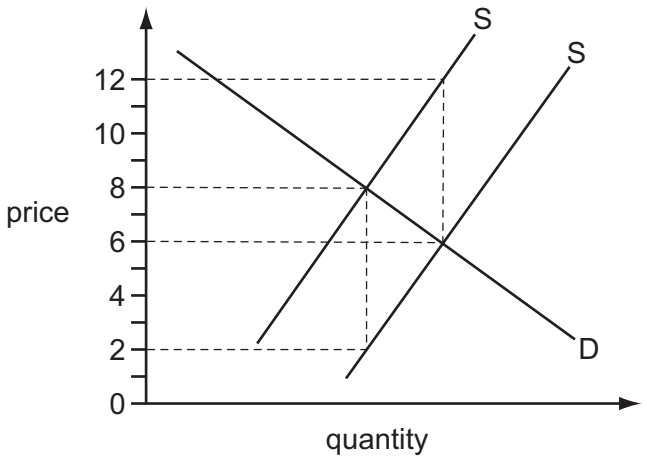
	P_X = \$8	P_X = \$10
P_Y = \$3	Q_X = 16 Q_Y = 20	Q_X = 12 Q_Y = 30
P_Y = \$4	Q_X = 20 Q_Y = 16	Q_X = 16 Q_Y = 24

Within which range is the value of the cross elasticity of demand for good Y with respect to the price of good X?

A 0.75 to 1.5 **B** 1.50 to 2.4 **C** 1.66 to 2.0 **D** 1.75 to 2.5

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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

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?

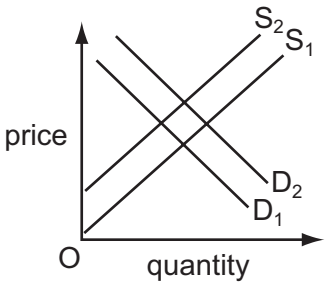
	price	quantity supplied
A	decrease	decrease
B	decrease	uncertain
C	uncertain	decrease
D	uncertain	uncertain

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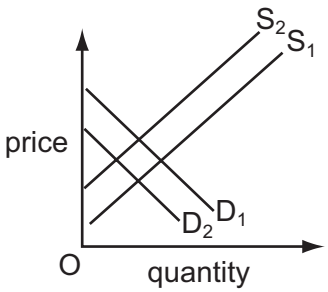
11 The diagrams show a change in demand from D_1 to D_2 and a change in supply from S_1 to S_2 for four different goods.

Which diagram illustrates the good for which additional new uses have been found and which receives an increase in government subsidy?

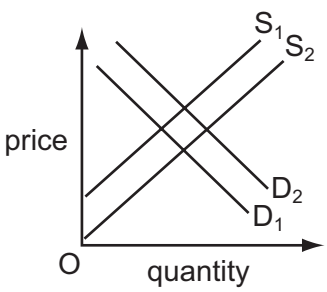
A



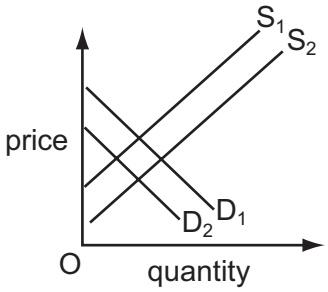
B



C



D



12 The table shows the maximum amount three students would each be willing to pay for a taxi to take them home from a night club.

	$
Jane	10.00
Sara	8.00
Yasmin	6.00

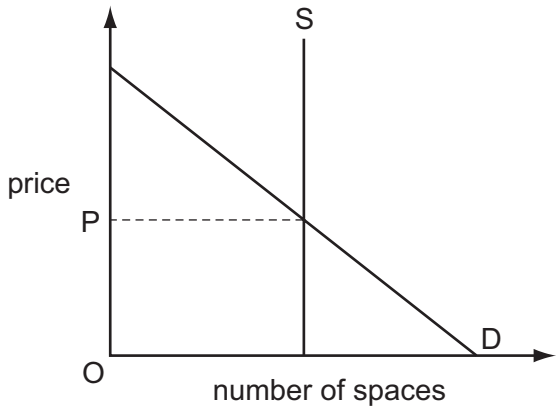
Assume they share the taxi fare as shown in the table below.

Which shows how much they each should pay so that they each obtain the same consumer surplus?

	Jane $	Sara $	Yasmin $
A	2.00	4.00	6.00
B	4.00	4.00	4.00
C	5.00	4.00	3.00
D	6.00	4.00	2.00

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13 The diagram shows the demand and supply curves for parking spaces in a hospital car park.



The managers decide to rely on the price mechanism to allocate parking spaces at the hospital.

What is required for this to work?

A Alternative means of transport must be provided for those unable to afford price OP.

B A survey will be needed to find out the amount users are willing to pay.

C The capacity of the car park will need to be expanded.

D The price charged for parking spaces must be OP.

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.

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

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

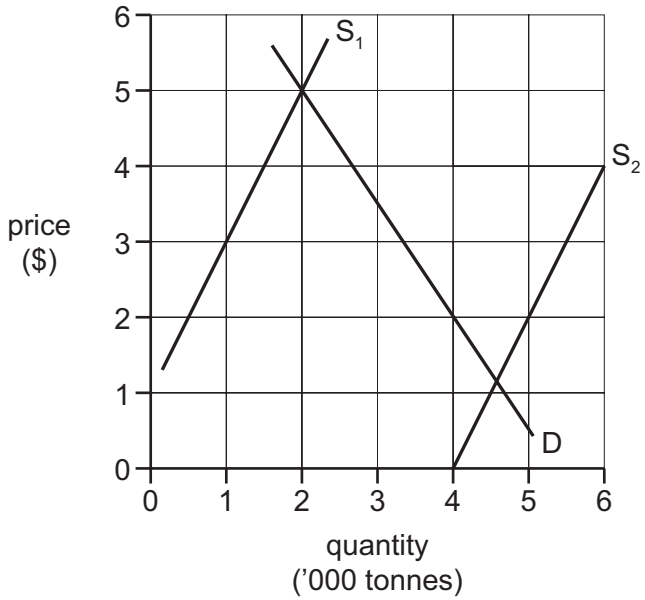
A One person's consumption of a public good means it is not available for anyone else.

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 In the diagram, D is the demand curve for an agricultural commodity and S_1 is the initial supply curve.



A good harvest causes the supply curve to shift to S_2.

By how much will the demand curve have to shift to leave farm incomes unchanged?

A 500 tonnes

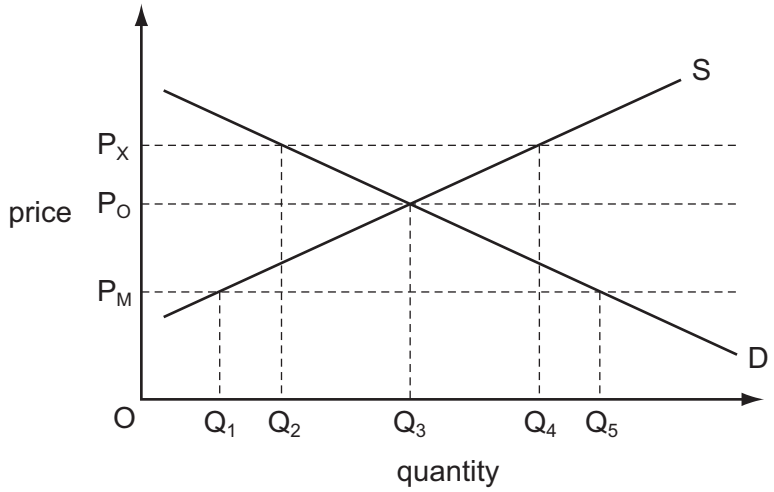
B 1000 tonnes

C 2000 tonnes

D 4000 tonnes

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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 A country has a comparative advantage in producing spices.

Why may it choose **not** to specialise in spices?

A The country experiences a lower opportunity cost in producing spices than other countries.

B There are high tariffs imposed by other countries on the import of spices.

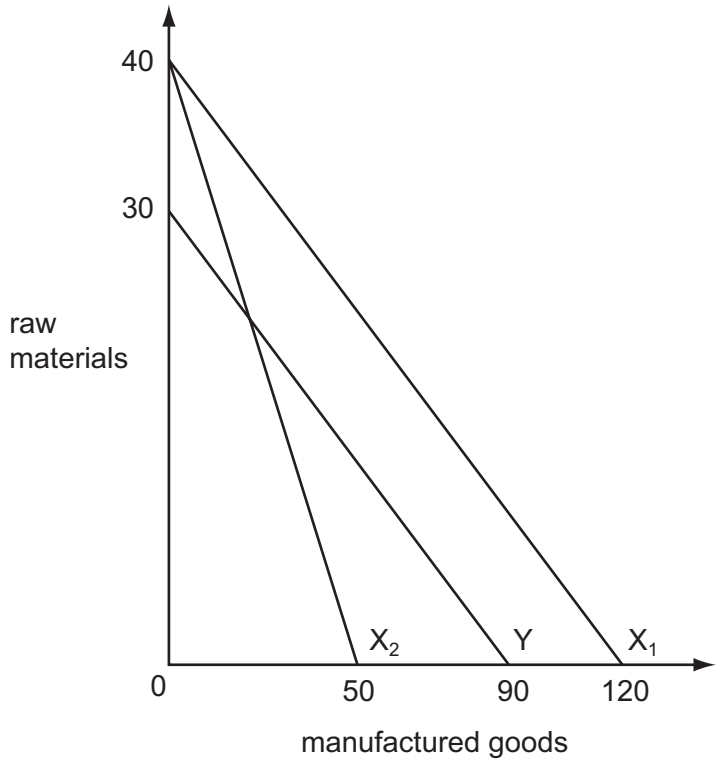
C There is a low cost of transporting spices to other countries.

D There is high world income elasticity of demand for spices.

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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.

21 Which statement about the impact of a tariff and a quota is correct?

A A tariff leaves the quantity of imports unchanged while a quota decreases the quantity of imports.

B A tariff raises government revenue while a quota benefits the seller of the imports.

C A tariff raises the price of imports while a quota leaves import prices unchanged.

D A tariff shifts the supply curve of imports while a quota shifts the demand curve for imports.

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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

23 Which change would directly reduce the size of a country's labour force?

A Some employees are made redundant.

B Some employees change to self-employment.

C Some employees retire early.

D Some employees switch from full-time to part-time employment.

24 The figures show the Consumer Price Index (CPI) of a country. (1990 = 100)

	CPI
2007	200
2008	204
2009	206
2010	209

What can be deduced from the data?

A There was hyperinflation between 1990 and 2007.

B The rate of inflation rose in 2009.

C The rate of inflation in 2008 was 4 %.

D The country experienced inflation in each year from 2008 to 2010.

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 A country has a fixed exchange rate.

What is likely to result in an improvement in its balance of payments?

A a decrease in interest rates in foreign countries

B a decrease in the country's interest rates

C a decrease in the income of foreign countries

D an increase in the country's national income

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.

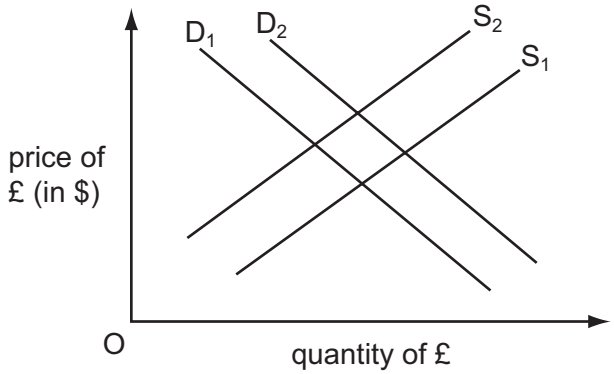
B The £ sterling is 20 % undervalued.

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 In the diagram D_1 and S_1 are the initial supply and demand curves of the pound sterling (£) on the foreign exchange markets.



What will cause the demand curve to shift to D_2 and the supply curve to S_2?

A a depreciation of the pound sterling

B a decrease in UK interest rates

C an increase in the price levels of other countries

D an increase in the level of UK import tariffs

30 The currency of a country is fixed by the Central Bank at a certain value in terms of US dollars.

If currency devaluation is not possible, which policy might be used to reduce a current account deficit on the balance of payments?

A a decrease in interest rates

B a decrease in tax rates

C a decrease in tariffs on imports

D a decrease in public expenditure

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