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

ECONOMICS **9708/13**

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)

* 1 4 1 7 8 7 0 4 3 7 *

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

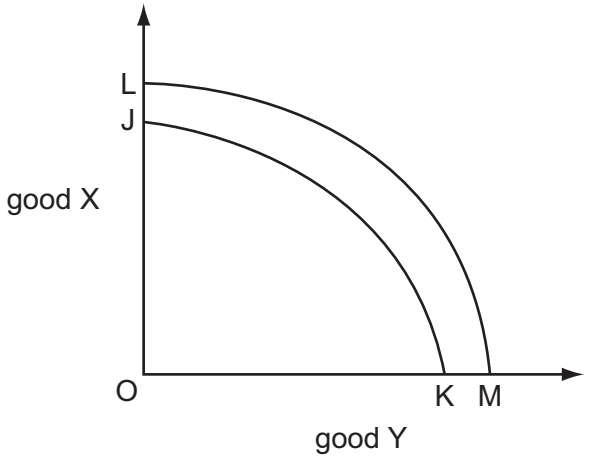
A adopting capital-intensive methods in place of labour-intensive methods.

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, the curve JK is a country’s production possibility curve.



What could cause the curve to shift to LM?

A a decrease in the participation rate

B a decrease in the unemployment rate

C an increase in the dependency ratio

D an increase in the population of working age

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 the definition of a normal good?

A one where the demand for the good is both price and income elastic

B one where the income elasticity of demand for the good is greater than zero

C one where the proportion of income a consumer spends on the good increases with a rise in income

D one where the quantity demanded increases when the price of the good falls

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 market for tractors is supplied by two firms, X and Y, each initially having 50 % of the market.

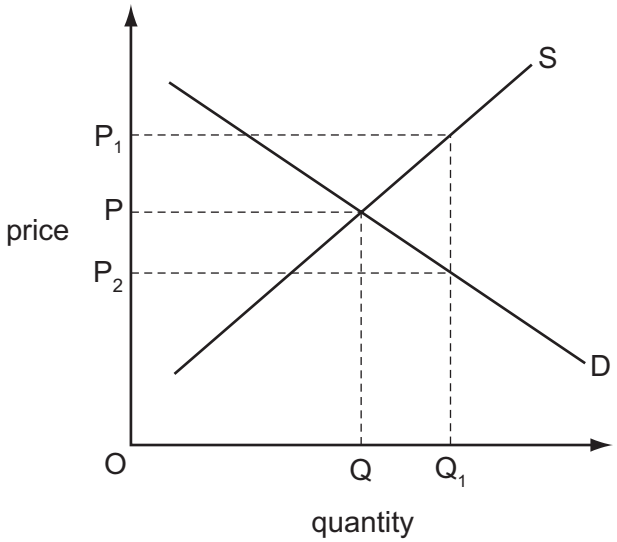
A 10 % increase in the price of tractors leads to an increase in output from firm X of 10 % and from firm Y of 20 %.

What is the price elasticity of supply of tractors in this market?

A 1 **B** 1.5 **C** 2 **D** 3

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10 The diagram shows the equilibrium price (OP) and quantity (OQ) in the market for maize.



The government wants to achieve a target price of OP_1.

What will be the outcome if the government enters the market and increases the demand by $Q\text{-}Q_1$?

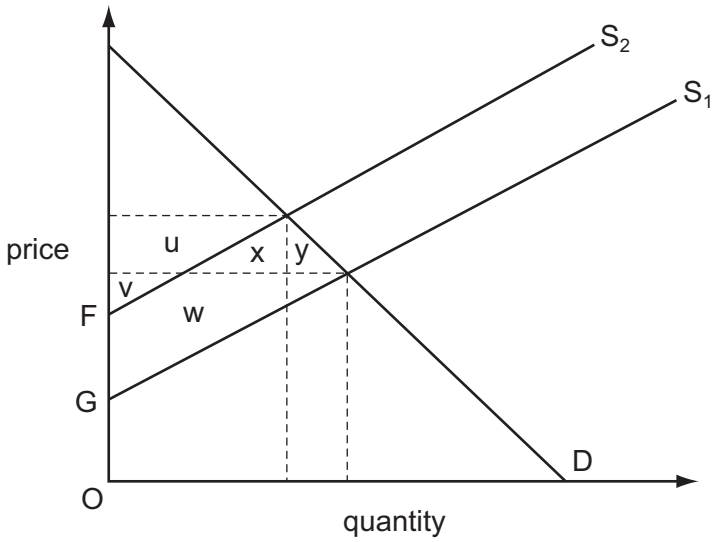
A The original equilibrium price will continue to operate.

B The equilibrium price will be at the target price.

C The equilibrium price will be OP_2.

D The equilibrium price will be between the target price and the original equilibrium price.

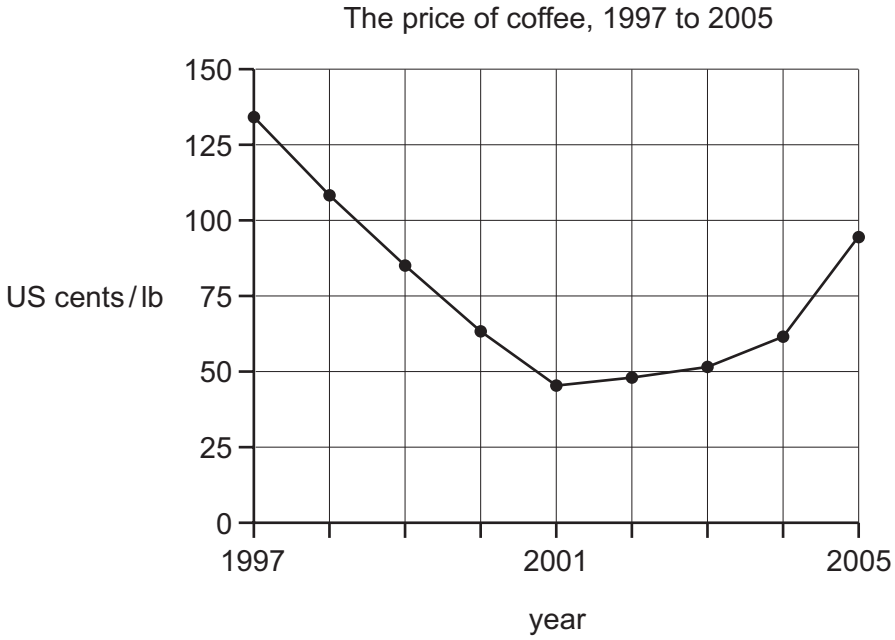
11 The diagram shows the effect of the imposition of a tax equal to FG on a commodity.



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 In Europe it was decided that farm subsidies would be paid to farmers who protect the environment as well as producing food.

What would this mean for farmers who receive the subsidy?

A They must not increase the price of food.

B They must not make excessive profits.

C They must take into account external costs as well as private costs.

D They should produce additional food only if externalities are zero.

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15 UK supermarkets can buy some vegetables at a lower price from Kenyan farmers than from UK farmers.

When the environmental damage caused by transporting the vegetables is taken into account, the social costs of UK supermarkets buying Kenyan vegetables is higher than the social costs of buying UK grown ones.

What can be concluded from this information about the buying by UK supermarkets?

A The external benefit of buying vegetables from Kenya is higher than buying them from the UK.

B The external cost of buying vegetables from Kenya is higher than buying them from the UK.

C The private cost of buying vegetables from Kenya is higher than buying them from the UK.

D The social cost of buying vegetables from Kenya is lower than buying them from the UK.

16 What can be calculated as part of a government cost-benefit analysis that would **not** be calculated by a firm seeking only to maximise profits?

A long-run cost

B monetary cost

C net social cost

D opportunity cost

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

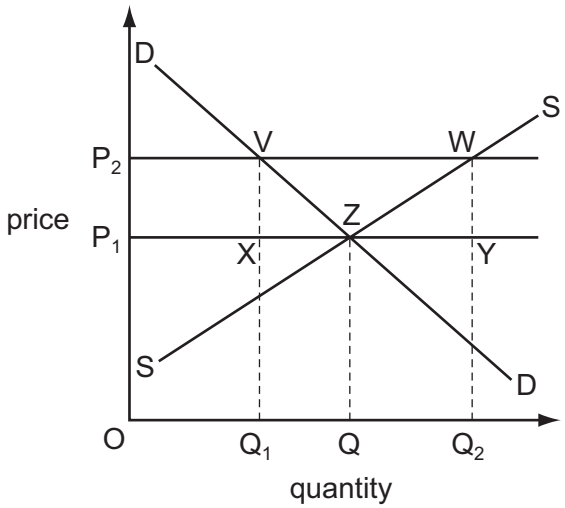
The benefits and costs of each site are shown in $m in the table.

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 apples. A government maintains a minimum price P_2 by buying apples.



Which area shows the amount of money the government has to spend to maintain the price P_2?

A P_2WYP_1 **B** P_2VQ_1O **C** P_2WQ_2O **D** VWQ_2Q_1

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.

20 Which argument supports trade protection?

A It might decrease domestic prices.

B It might help new industries.

C It might increase competition.

D It might increase specialisation.

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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?

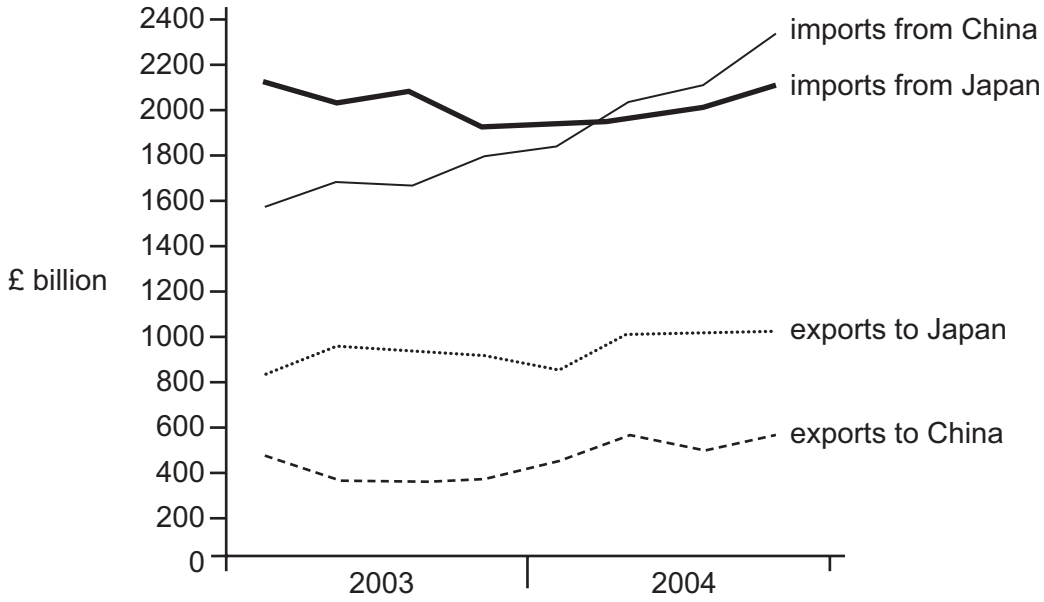
A $80 million

B $160 million

C $320 million

D $400 million

22 The diagram shows the UK trade balance with China and Japan in 2003 and 2004.



How did the trade balance of the UK change between the start of 2003 and the end of 2004?

A There was a fall in the trade surplus with China.

B There was a fall in the trade surplus with Japan.

C There was a rise in the trade deficit with China.

D There was a rise in the trade deficit with Japan.

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.

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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 The table shows the price indices and weights for the three commodity groups that make up the calculation of a country's consumer price index.

commodity group	index	weight
X	400	5
Y	120	3
Z	80	2

By how much has the cost of living increased since the base year?

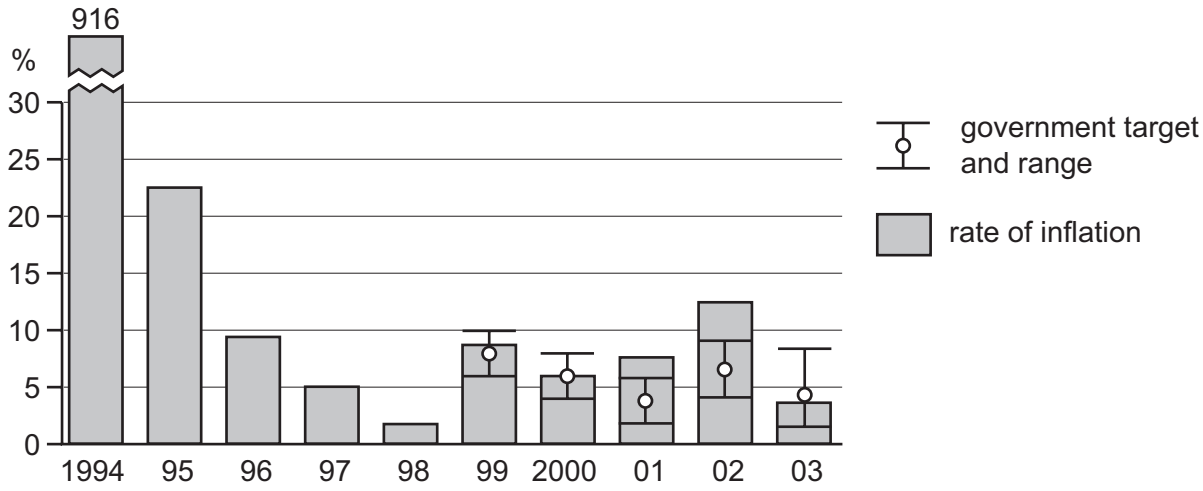
A 52 % **B** 60 % **C** 152 % **D** 520 %

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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 The UK experienced a growing deficit in its trade in goods during 2003 to 2007 but it also had a stable exchange rate.

What could have explained why the trade deficit failed to cause the exchange rate to change?

A Investment income earned by foreigners in the UK was greater than that earned by UK residents on assets held abroad.

B Speculators anticipated that the trade deficit would result in a fall in the value of the pound.

C The UK's trade in goods deficit was larger than its trade in services surplus.

D The UK attracted a net inflow of foreign direct and portfolio investment.

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28 Assuming that the supply of exports and imports are perfectly elastic, at which combination of elasticities of demand for imports and exports would a 10 % fall in the value of a currency lead to a worsening of the trade account of a country's balance of payments?

	elasticity of demand for exports	elasticity of demand for imports
A	0.5	0.25
B	0.5	0.5
C	1.0	0.75
D	1.0	1.0

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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