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 2013**

1 hour

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

0901143551

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.
DO **NOT** WRITE IN ANY BARCODES.

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.

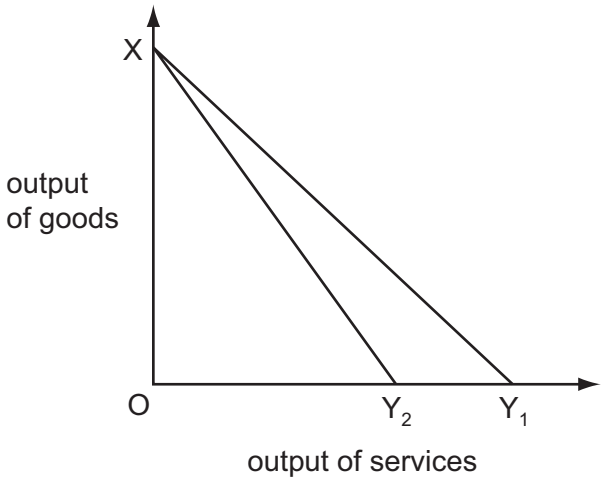
Read the instructions on the Answer Sheet very carefully.

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 **12** printed pages.

© UCLES 2013

1 The diagram shows the production possibility curve (PPC) of an economy that produces goods and services.



What might cause the shift of the PPC from XY_1 to XY_2?

A a decrease in the demand for services

B a decrease in the efficiency in the production of services

C a decrease in the opportunity cost of producing services

D a decrease in the resources employed in services

2 An economy has changed from a command economy to a market economy.

What might increase after this change?

A the amount of centralised decision making

B the extent of externalities

C the level of government economic intervention

D the production of merit goods

3 What is most likely to be a result from the division of labour?

A a decrease in job satisfaction

B a decrease in productivity

C an increase in the cost of living

D an increase in unit labour costs

© UCLES 2013

4 After hyperinflation, the Zimbabwe dollar was no longer used and instead the country used US dollars. A coin collector in Europe bought an old Zimbabwe 100 trillion dollar note at an auction in the hope that it would later become rare and increase in value.

If that happened, which function of money would the Zimbabwe dollar note fulfil?

A a generally accepted means of payment

B a medium of exchange

C a store of value

D a unit of account

5 In 2009, demand for second-hand used cars in Venezuela increased.

What could have explained this?

A a decrease in the number of Venezuelans passing their driving test

B a decrease in the price of public transport

C an increase in restrictions on new cars imported into Venezuela

D an increase in the domestic production of cars

6 The price elasticity of demand for a product is unitary for all price ranges.

What will be the effect of an increase in its price?

A an equal proportionate decrease in the amount demanded

B an equal proportionate decrease in expenditure on the product

C an increase in the product's percentage of total consumer expenditure

D no change in the amount of the product demanded

7 A fall in the price of cars causes the demand for petrol to rise by 20%. The cross-elasticity of demand between cars and petrol is –2.

Which change in car prices has brought this about?

	from	to
A	$6000	$5000
B	$5500	$4500
C	$5000	$4500
D	$5000	$4000

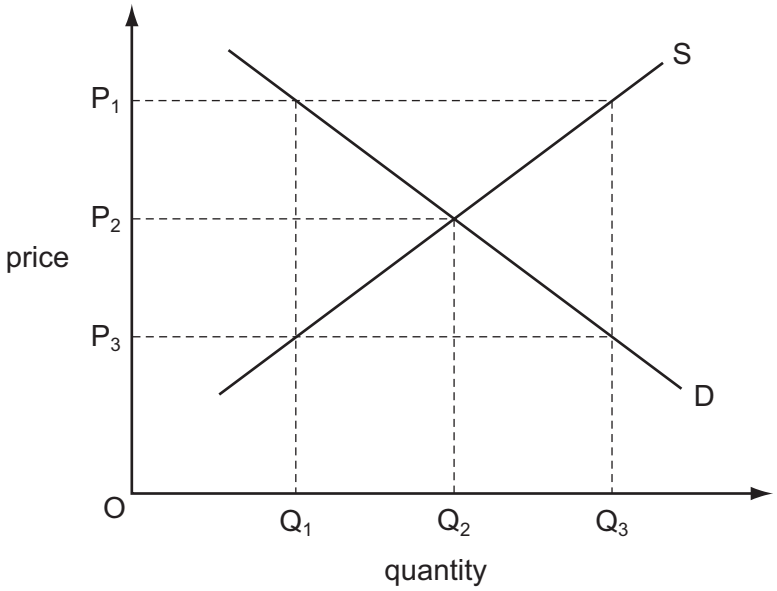
© UCLES 2013

8 In 2008, Ansell, makers of surgical products and rubber gloves, increased profits by 2.6 %, partly because of increased safety and health concerns in Brazil, Mexico, China and Russia.

What would happen to the demand and supply curves on a diagram for Ansell's products?

	demand curve	supply curve
A	a shift to the left	a shift to the left
B	a shift to the left	a shift to the right
C	a shift to the right	no change
D	no change	a shift to the left

9 Which combination of price and quantity will lead to a fall in price and a contraction in quantity produced to reach equilibrium?

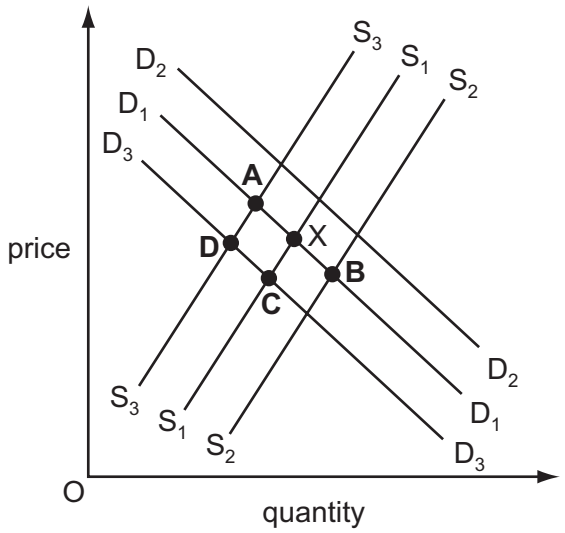


A P_1Q_1 **B** P_1Q_3 **C** P_3Q_1 **D** P_3Q_3

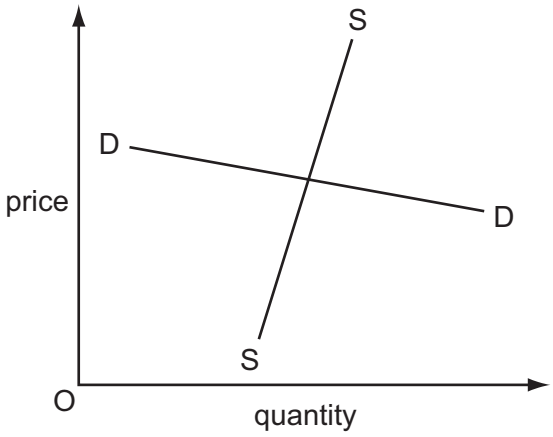
10 In the diagram below, D_1 and S_1 represent the demand and supply curves of a Malaysian industry in its home market. Equilibrium is at X.

The industry has to pay a large wage increase and at the same time faces increased competition from imported substitutes.

Which point on the diagram could represent the new equilibrium?



11 The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax.



What will be the result of this tax?

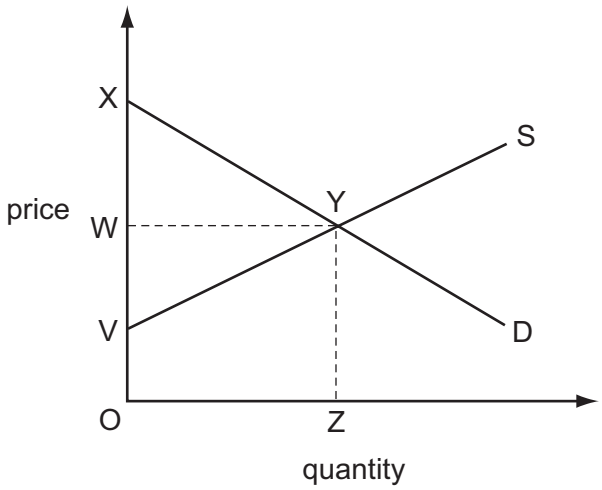
A Most of the incidence of the tax will fall on the producer.

B There will be a new demand curve parallel to DD.

C The price will rise by the full amount of the tax.

D The quantity bought will fall proportionately to the tax rate.

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



Which area measures the total amount consumers would be willing to pay for the equilibrium level of output?

A OWYZ **B** OXYZ **C** OVYZ **D** XYV

13 In which case is the price system **not** a possible method of allocating resources?

A in the distribution of foodstuff among the population

B in the hiring of workers by employers

C in the ownership of land for agricultural use

D in the provision of public goods by the government

14 A town council estimated the costs and benefits of operating a bus service in 2010 and 2011. These are shown in the table.

	2010 $000	2011 $000
private costs	2000	2200
external costs	500	900
private benefits	1500	2300
external benefits	1000	800

What can be concluded from the table?

A Between 2010 and 2011, social costs fell and social benefits rose.

B Between 2010 and 2011, social costs rose and social benefits fell.

C In both years, positive externalities exceeded negative externalities.

D In both years, social costs equalled social benefits.

© UCLES 2013

15 A cost-benefit analysis concludes that a nuclear power station project might be socially worthwhile, although it will take 10 years to bring into operation.

Why might a government decide **not** to undertake the project?

A Cost-benefit analysis has no method for valuing the long-term impact of a project.

B Cost-benefit analysis is only suitable for private sector projects.

C The government believes that the project has too high an opportunity cost.

D The government's policy is to restrict the extent of the market system.

16 A good is more likely to be supplied by the government rather than a private company if it is

A excludable and non-rival.

B excludable and rival.

C non-excludable and non-rival

D non-excludable and rival

17 A government fixes a maximum price for a product in order to increase its consumption.

What would be the likely outcome of such a policy?

A Consumption will fall if the maximum price is above the current equilibrium price.

B Consumption will rise if the maximum price is below the current equilibrium price.

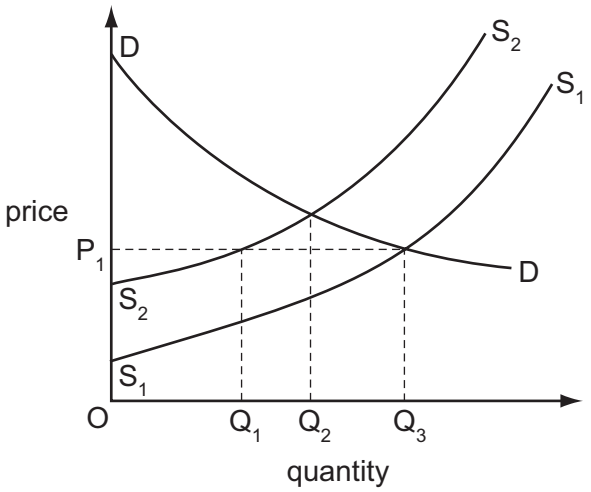
C Production will fall if the maximum price is above the current equilibrium price.

D Production will fall if the maximum price is below the current equilibrium price.

© UCLES 2013

[Turn over

18 In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.



Bad weather then reduces supply to S_2S_2.

How much of the product will the government have to supply from stocks if it wishes to keep the price at OP_1?

A OQ_3 **B** Q_1Q_3 **C** Q_1Q_2 **D** Q_2Q_3

19 What would cause a country to lose its comparative advantage in producing rice?

A Another country becomes able to produce rice at a lower opportunity cost.

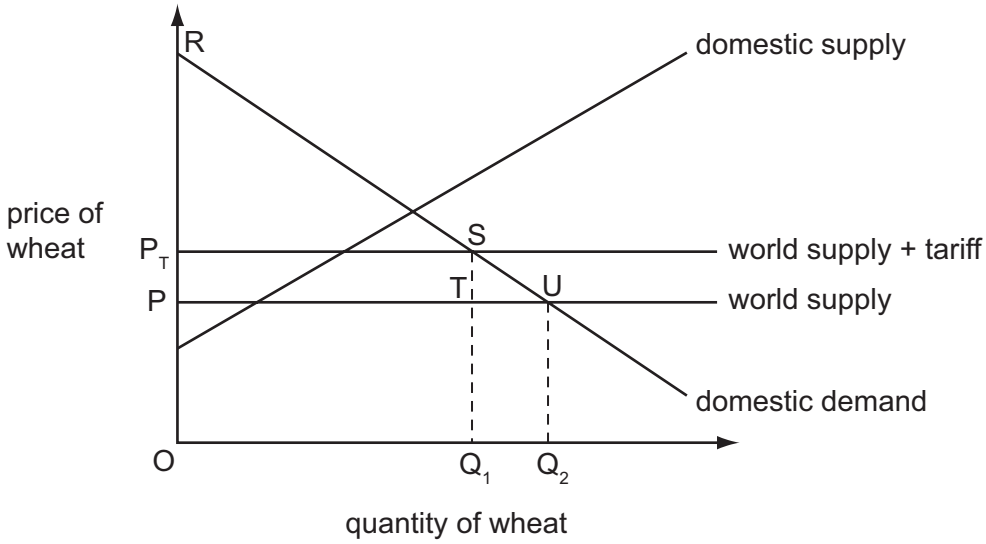
B There is a global fall in demand for rice.

C There is a fall in tariffs imposed by rice importers.

D Transport costs to and from another country producing rice decrease.

© UCLES 2013

20 The diagram shows the effects of introducing an import tariff on wheat in a country.



Which area represents the loss of consumer surplus from the tariff?

A P_TSR **B** P_TSUP **C** STU **D** SUQ_2Q_1

21 What is a feature of a customs union?

A the fixing of quotas for its members

B the introduction of a common currency

C the joint setting of prices

D the removal of tariff barriers between its members

22 The table shows the balances for four items in a country's current account on the balance of payments for two years.

	goods US$ m	services US$ m	income US$ m	current transfers US$ m
year 1	–72	84	12	–24
year 2	–87	46	–3	–4

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

A The current account balance has moved into deficit.

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

C The earnings from ownership of foreign assets have increased.

D The value of exported goods has fallen.

23 The table shows a country's employment statistics.

	million
population of working age	100
number in employment	75
number unemployed	5

What are the participation rate and the unemployment rate?

	participation rate %	unemployment rate %
A	75	5.0
B	75	6.25
C	80	5.0
D	80	6.25

24 The table shows the annual rate of inflation in the UK between 2005 and 2010 measured by the retail price index (RPI) and the consumer price index (CPI).

year	RPI (%)	CPI (%)
2005	2.8	2.1
2006	3.2	2.3
2007	4.3	2.3
2008	4.0	3.6
2009	–0.5	2.2
2010	4.6	3.6

What is a correct conclusion from the table?

A The RPI and the CPI both record a fall at some time in the general price level in the UK.

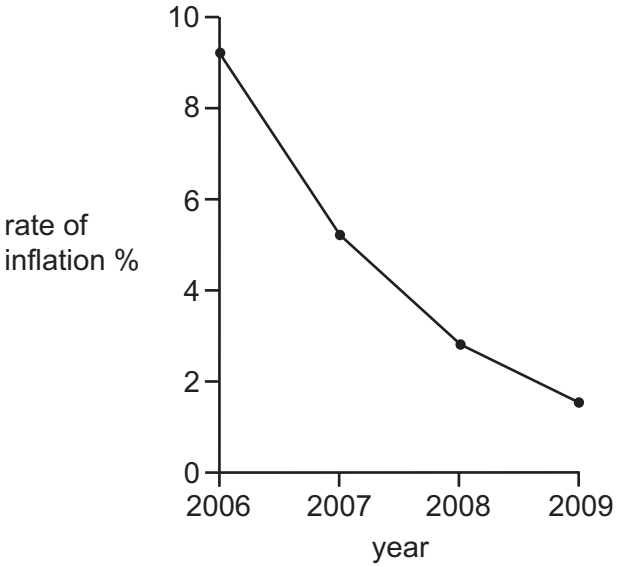
B The RPI and the CPI both show the same direction of change in inflation in each year.

C The RPI records a lower rate of total inflation for the whole period than the CPI.

D The RPI records a more unstable rate of inflation than the CPI.

© UCLES 2013

25 The diagram shows the annual rate of inflation in a country between 2006 and 2009.



Which statement about the period 2006 to 2009 is correct?

A The cost of living fell.

B The price level rose.

C The Retail Prices Index fell.

D The value of money rose.

26 If a country succeeds in attracting foreign direct investment in a single year, what is the result on its balance of payments in the short run and long run?

	short run	long run
A	a credit in the current account	a debit in the financial account
B	a debit in the current account	a credit in the financial account
C	a credit in the financial account	uncertain in the current account
D	uncertain in the financial account	a credit in the current account

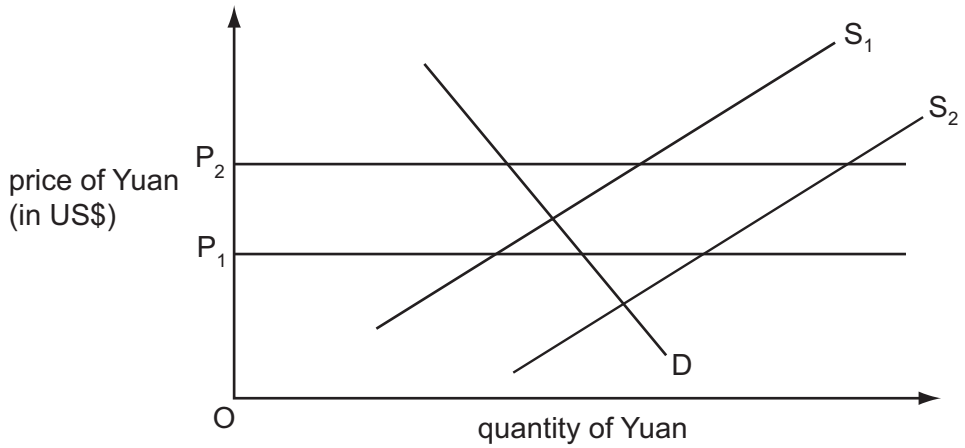
27 Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade weighted exchange rate index of country X is 100.

What will be its new trade weighted exchange rate index value if its currency falls in value by 20% against the currency of Y and rises by 10% against the currency of Z?

A 84 **B** 90 **C** 92 **D** 116

© UCLES 2013

28 Assume the Chinese monetary authorities are committed to maintaining the exchange rate of China's currency, the Yuan, against the US$ between P_1 and P_2 on the diagram.



What might they do if supply changed from S_1 to S_2?

A introduce controls on Chinese investment overseas

B lower interest rates

C remove tariffs on imports from USA

D sell Yuan on the foreign exchange markets

29 A revaluation (appreciation) of the exchange rate of a currency always has the effect of

A improving the current account of the balance of payments.

B improving the terms of trade.

C increasing the price of imports.

D increasing the value of imports.

30 What is an expenditure-switching policy measure?

A decreasing income tax

B decreasing the money supply

C devaluing the currency

D increasing government spending

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.