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 2013**

1 hour

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

* 4 1 7 5 9 4 9 0 9 1 *

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.

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1 A government minister states that the main economic benefit of locating a new factory in a coastal region is the 500 jobs it will create.

What does this statement imply about the coastal region?

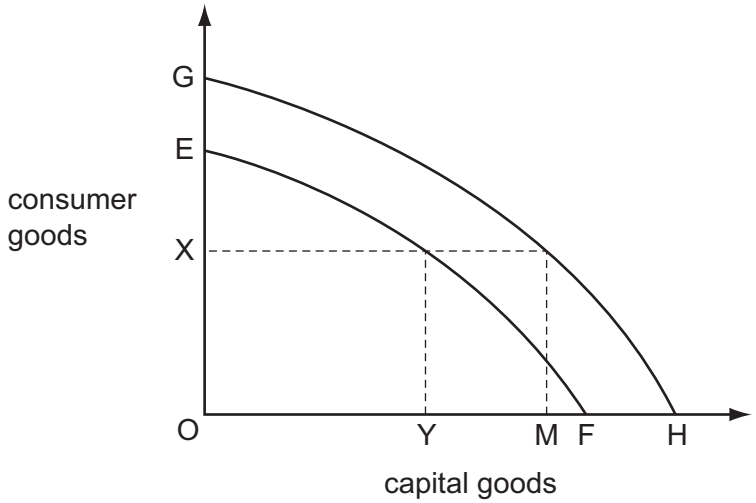
A Alternative employment opportunities are scarce.

B Job seekers have a wide range of choices open to them.

C Labour is a scarce resource.

D Unemployment is at a low level.

2 The diagram shows two production possibility curves (EF and GH), before and after technological progress has taken place.



After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

A MH **B** OH **C** OM **D** YF

3 The table shows indicators for four countries undergoing a transition to a market economy.

Which country has achieved the most indicators of a successful transition?

	prices	exchange rate system	stock exchange	inward investment
A	administered	managed	yes	allowed
B	administered	floating	no	controlled
C	liberalised	floating	no	allowed
D	liberalised	managed	yes	controlled

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4 A kitchen manufacturer wanted to become more efficient. It decided to move to an industrial estate and to increase the division of labour in the manufacture of its products.

Which statement about the division of labour is correct?

A It occurs only in manufacturing industry.

B It occurs only in market economies.

C It occurs only when similar firms are located in the same area.

D It occurs only when workers become more specialised.

5 What will cause a shift in the demand curve for a computer?

A a change in the cost of production of the computer

B a change in the price of the computer

C a change in the performance of the computer

D the imposition of a specific tax on the computer

6 If the price of maize rises, the quantity of maize demanded should fall.

If the demand for maize decreases, the price of maize should rise.

What can be said about these two statements?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

7 When the supply of a good decreases, equilibrium price stays the same.

What is the price elasticity of demand of the good?

A –1

B zero

C +1

D infinite

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8 A product is an inferior good with no close substitutes. It is also a complement to good X.

Which product matches the above description?

product	price elasticity of demand	income elasticity of demand	cross elasticity of demand with respect to the price of X
A	–2	+2	+1
B	–2	+2	–1
C	–0.5	–2	+1
D	–0.5	–2	–1

9 A supply curve is represented by the equation, quantity supplied = 10 + 5P, where P = the price of the product.

Which price rise would cause the quantity supplied to double?

A $1 to $2 **B** $1 to $3 **C** $1 to $4 **D** $1 to $5

10 Firm Z is one of a number of firms producing televisions.

What would cause firm Z's supply curve to shift to the left whilst the market supply curve for televisions shifts to the right?

A Firm Z benefits more from advances in technology than the other firms in the industry.

B Firm Z experiences a strike whilst more firms enter the industry.

C Firm Z passes on more of a tax to its customers than the other firms in the industry.

D Firm Z reduces its costs of raw materials whilst other firms in the industry lower their wage costs.

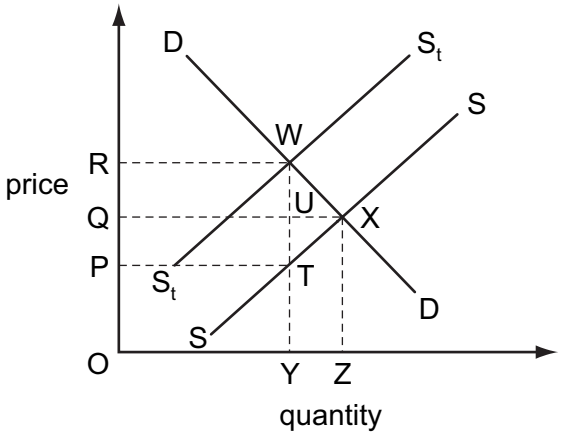
11 A country's government announces that the penalties imposed on those found guilty of supplying an illegal drug to others are to be increased but that possession of small quantities of the drug for an individual's own use will no longer be illegal.

What effect are these changes likely to have on the illegal market price of that drug and on the quantity consumed?

	illegal market price	quantity consumed
A	increase	decrease
B	increase	uncertain
C	uncertain	decrease
D	uncertain	uncertain

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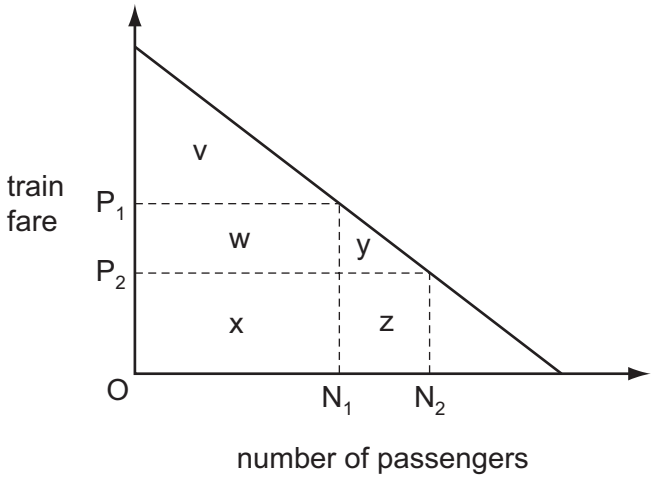
12 A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax, S_tS_t is the supply curve after tax.



Which area represents that part of the tax revenue paid by consumers?

A ORWY **B** PQUT **C** PRWT **D** QRWU

13 The diagram shows the change in the number of passengers when a company reduces the fare for a train journey from OP_1 to OP_2.



Which areas measure the consumer surplus at the new fare for the original passengers and for the additional passengers?

	original passengers	additional passengers
A	v	y
B	v + w	y
C	v + w + x	y + z
D	x	z

14 Which is **not** an example of an externality?

A The establishment of a new firm in an area increases the general level of wage rates in the area.

B The flowers planted by a householder in his garden give pleasure to his neighbours.

C The immunisation of children against smallpox reduces the danger of the risk of infection to others.

D The installation of security cameras in a city centre results in an increase in thefts elsewhere.

15 A government decided to approve a private airport-building scheme because it was socially beneficial. In making its decision it calculated private costs at $700 m, private benefits at $800 m and external costs at $200 m.

What must have been true about the external benefits of the scheme?

A External benefits equalled private benefits.

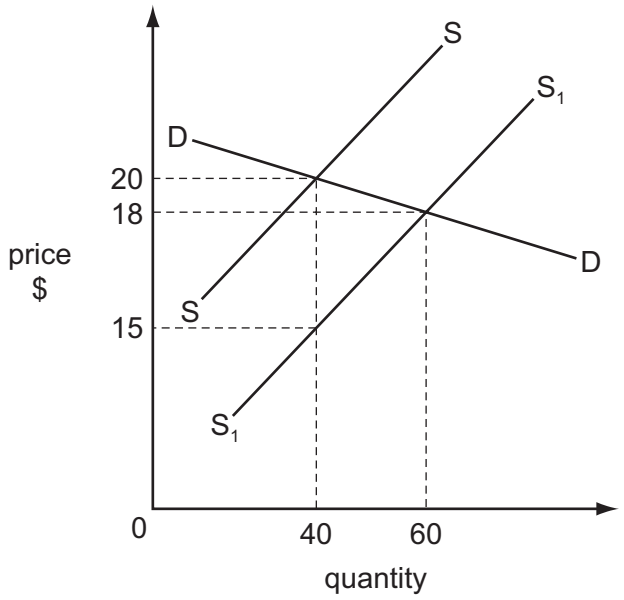
B External benefits exceeded external costs.

C External benefits exceeded $100 m.

D There were no external benefits.

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16 A tax on a product is removed causing supply to increase from SS to S_1S_1 as shown in the diagram.



What effect does the move have on government tax revenue and consumer expenditure?

	tax revenue	consumer expenditure
A	reduce by $80	increase by $280
B	reduce by $80	increase by $480
C	reduce by $200	increase by $280
D	reduce by $200	increase by $480

17 Which type of government intervention runs the risk of causing shortages?

A maximum price controls

B specific indirect taxes

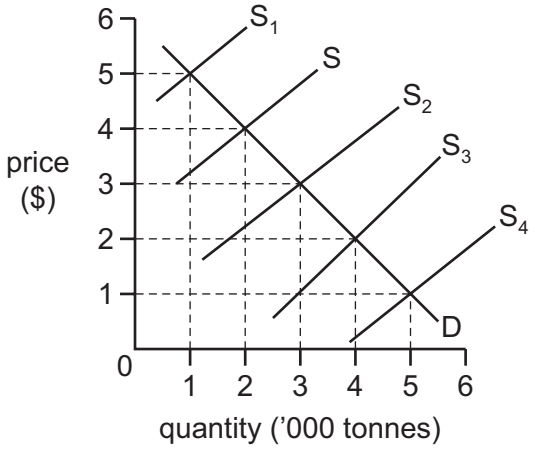
C subsidies paid to some producers

D taxes on company profits

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18 In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves $S_1 – S_4$.



In which years will the government need to provide extra income to farmers?

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

19 The table shows the costs of producing a unit of food and a unit of clothing in countries X and Y, expressed in the currency of each country.

country	food	clothing
X	$2	$4
Y	£1	£1

The exchange rate is fixed at £1 = $3.

What level of transport cost per unit of each commodity would exactly eliminate the benefits of trade?

A £0.33 **B** £0.50 **C** £1.00 **D** £1.50

20 What is the most likely aim of a government that increases the level of tariffs on imported manufactured goods?

A a fall in interest rates

B a fall in the exchange rate

C a rise in domestic employment

D a rise in the general price level

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21 What is a characteristic of a customs union but is **not** of a free trade area?

A abolition of import quotas

B abolition of tariffs between member countries

C a common currency

D a common external tariff

22 Since 2000 a country's export prices have increased on average by 50% and its import prices by 25%.

What is the current figure for the country's terms of trade (2000 = 100)?

A 75 **B** 83 **C** 120 **D** 125

23 The table gives details of the unemployment rates and expenditure on unemployment benefits for the United Kingdom in 2007 and 2009.

	unemployment rate (%)	expenditure on unemployment benefits as % of GDP
2007	2.7	1.6
2009	4.7	3.4

What can definitely be concluded from the table?

A More of the workforce was unemployed in 2009 than in 2007.

B The number of workers in employment was higher in 2007 than in 2009.

C Unemployment benefits were more generous in 2009 than in 2007.

D Unemployment increased faster than expenditure on unemployment benefits.

24 The exchange rate of the Mexican peso against the US$ changed from 10 pesos = 1 US$ to 9 pesos = 1 US$. During the same period, the general price level in Mexico fell by 10% while the US price level remained unchanged.

What happened to the nominal and real exchange rate of the peso against the US$?

	nominal peso exchange rate	real peso exchange rate
A	appreciated	appreciated
B	appreciated	unchanged
C	depreciated	depreciated
D	depreciated	unchanged

25 The table shows an index number of prices between 2009 and 2012.

In the base year of 2008, inflation was 2% per annum.

What was the first year in which the rate of inflation fell?

	year	price index
A	2009	103
B	2010	104
C	2011	104
D	2012	101

26 What will be the probable effect of an increase in indirect taxes on demand-pull inflation and on cost-push inflation?

	demand-pull inflation	cost-push inflation
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

27 When is a balance of trade deficit likely to be considered a particularly difficult problem for a country?

A when the imported goods are identical to domestic products

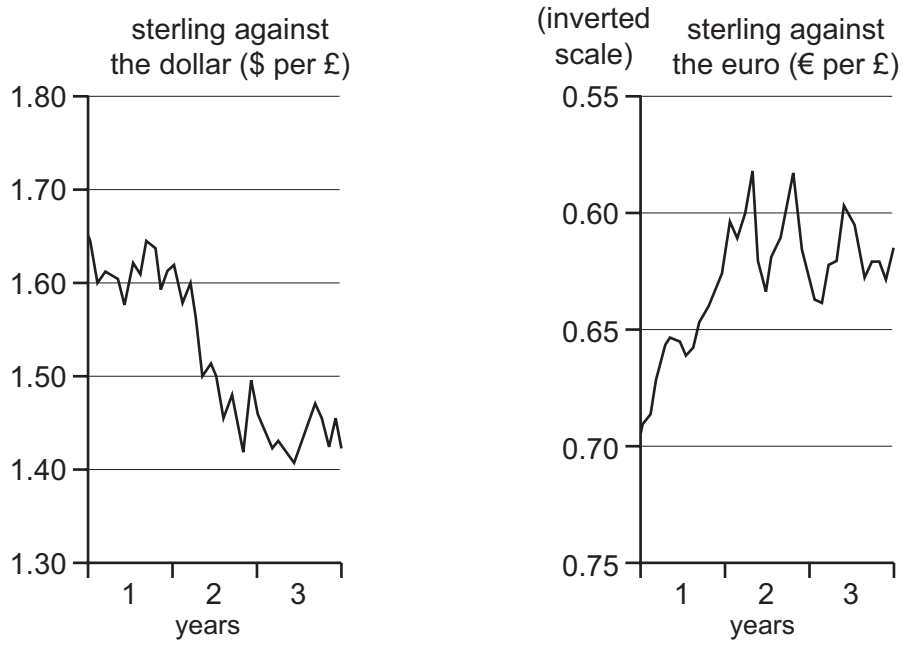
B when the imported goods are items of capital equipment

C when the imported goods are the raw material for exports

D when the imported goods are to cover a temporary shortage

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28 The graphs show the changes in the exchange rates of the £ sterling against the US$ and against the euro. The exchange rate of sterling against the euro is shown by an inverted scale.



Which statement about the period year 1 to year 3 is correct?

A the £ appreciated against the $ and the €

B the £ appreciated against the $ and depreciated against the €

C the £ depreciated against the $ and the €

D the £ depreciated against the $ and appreciated against the €

29 In spring 2011 the US$ exchanged for 81.6 yen.

In spring 2012 the US$ exchanged for 76.1 yen.

What would be expected to rise for the United States as a result of this change?

A the level of unemployment

B the price of exports sold in Japan

C the rate of imported inflation

D the volume of imports

30 A country with a fixed exchange rate experiences a balance of payments surplus.

Which policy measure will enable it to maintain its exchange rate at its target level?

A decreasing government borrowing

B decreasing government spending

C decreasing the interest rate

D decreasing the money supply

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