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 2013**

1 hour

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

* 2 7 0 9 7 3 5 5 7 4 *

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.

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1 What is likely to occur when an economy moves from state planning to a market system?

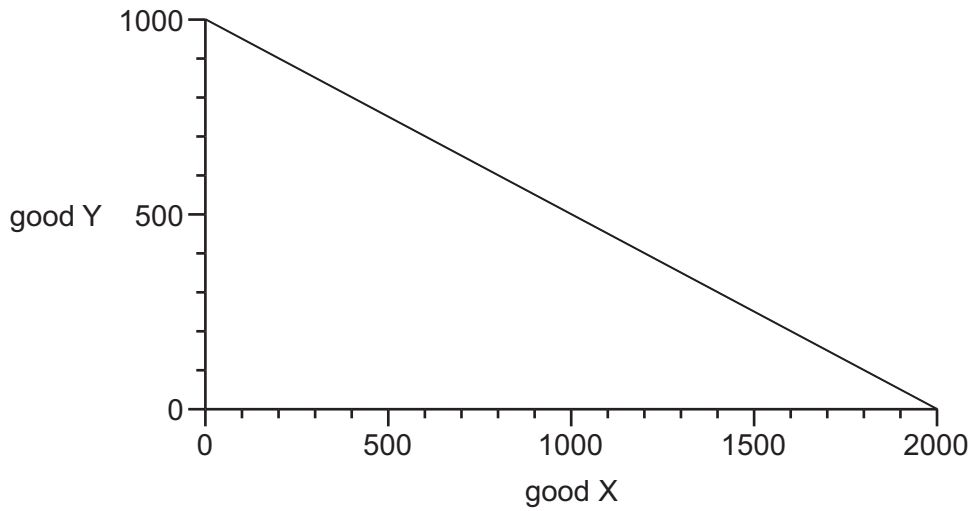
A Consumer choice is reduced.

B Enterprise is discouraged.

C The amount of innovation declines.

D The output of merit goods is reduced.

2 The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



The economy produces 400 of good Y and produces on its production possibility curve.

Which quantity of good X is given up?

A 600 **B** 800 **C** 1200 **D** 1600

3 In the recession of 2011 some governments decided to reduce expenditure and decrease the numbers working in the public sector. Trades unions organised a mass demonstration in protest.

Which question relating to the government decision is a normative question rather than a positive question?

A How should public sector industries be run?

B What goods and services are produced by the public sector?

C When the government reduced its expenditure what happened to the level of unemployment?

D Why was there a trade union protest?

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4 The table identifies the functions of money and the principal benefit that each function produces.

Which function of money is correctly matched with its principal benefit?

	function	benefit
A	medium of exchange	permits a system of credit to operate
B	standard of deferred payment	encourages the accumulation of funds for future use
C	store of wealth	overcomes the drawbacks of the barter system
D	unit of account	allows the relative value of goods to be compared

5 Which change does **not** have an immediate effect on the position of the demand curve for a product?

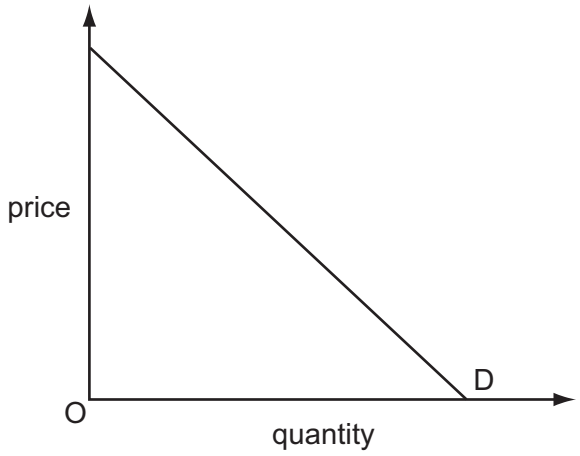
A a fall in the price of a complementary product

B an increase in the labour costs of its production

C a range of new products entering the market

D a rise in the price of a substitute product

6 The diagram shows the demand curve for a product.



Which statement is correct?

A Demand is less elastic at higher prices than at lower prices.

B Consumer expenditure on the product always rises when price falls.

C Price elasticity of demand is different at every price.

D Price elasticity of demand equals one at every price.

7 Why might a product have a high negative income elasticity of demand and a high price elasticity of demand?

A It is an inferior good with close substitutes.

B It is an inferior good with weak complements.

C It is a normal good with close substitutes.

D It is a normal good with weak complements.

8 The supply function of good X is given by the equation

$$Q_S = 10P_X$$

where P_X is the price of the good and Q_S is the quantity supplied.

What can be deduced from the equation about the elasticity of supply of good X?

A It is equal to 0.0.

B It is equal to 0.1.

C It is equal to 1.0.

D It is equal to 10.0.

9 There are three firms (X, Y and Z) supplying a market. The table shows their supply at four different prices.

price ($)	firm X's supply	firm Y's supply	firm Z's supply
10	50	40	10
20	60	60	20
30	85	80	35
40	115	100	55

Which price change is required for market supply to halve?

A $20 to $10 **B** $30 to $10 **C** $30 to $20 **D** $40 to $20

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10 Palm oil and sunflower oil are substitutes.
Palm oil and palm kernel cake for animal feed are in joint supply.

Other things being equal, what will be the effects of a fall in the price of sunflower oil?

	price of palm oil	price of palm kernel cake
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

11 A rise in the price of a good is accompanied by an increase in the quantity demanded.

What could explain this?

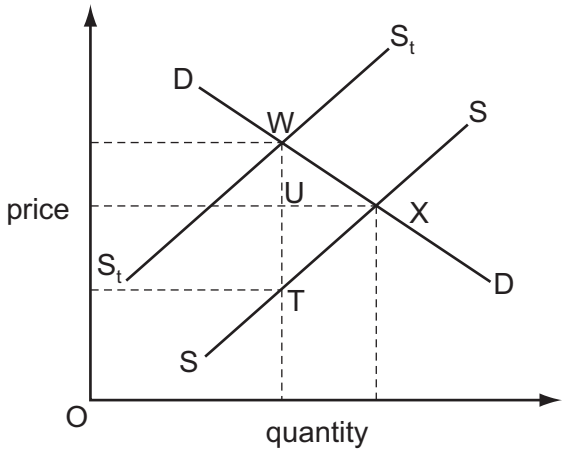
A Consumers spend a high proportion of disposable income on the good.

B The price of a complementary good has also increased.

C The substitute goods are all very much more expensive.

D The price of the good is taken to be an indication of the level of quality.

12 A specific tax is placed on the sale of bottles of lemonade. In the diagram, SS is the supply curve before imposition of the tax and S_tS_t is the supply curve after tax.



Which distance represents the specific tax on each bottle?

A UT **B** WT **C** WU **D** WX

13 The diagram shows a consumer's demand curve for a product.



How does consumer surplus change as the price of the product falls by $5 increments between $20 and $5?

A It increases at a constant rate (%) with each $5 fall.

B It increases by a constant amount with each $5 fall.

C It increases by a decreasing amount with each $5 fall.

D It increases by an increasing amount with each $5 fall.

14 The table below shows the results of a government survey into the economic effects of the use of chewing gum in a country.

	US $ million
private cost	300
social cost	400
private benefit	350
social benefit	450

What is the net external benefit of chewing gum to the economy?

A US $0 million

B US $50 million

C US $100 million

D US $800 million

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15 Which statement about a product with external costs must be correct?

A The consumption of the product has positive effects on third parties.

B The private costs of its production exceed the social costs of its production.

C The production of the product has negative effects on third parties.

D The social costs of its production exceed the social benefits of its production.

16 The government buys more speed cameras from the manufacturer. What would be included among the external benefits of increasing the number of speed cameras on a country's roads?

	additional jobs in camera production	additional government revenue from fines on motorists	a reduction in road accidents	a reduction in fuel consumption
A	no	no	yes	yes
B	no	yes	yes	no
C	yes	no	no	yes
D	yes	yes	no	no

17 Advances in technology are turning a number of goods which are usually thought of as public goods, for example, television broadcasting, into private goods.

Why might this be so?

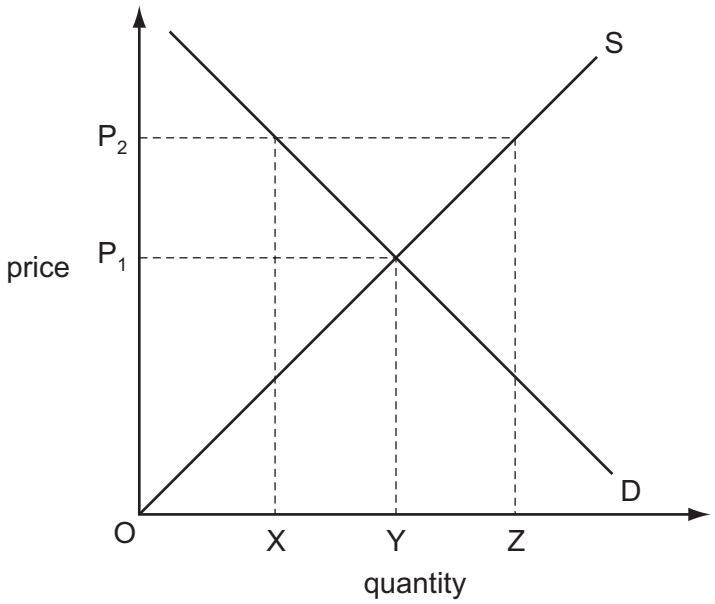
A Consumer surplus is being increased.

B The costs of production are being reduced.

C It is becoming easier to exclude non-payers.

D The technology is increasing the number of people consuming the goods.

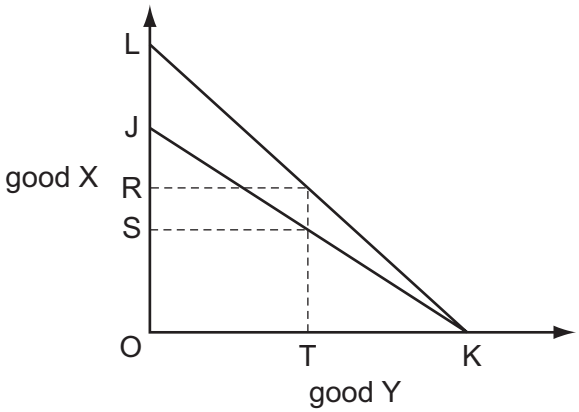
18 The diagram shows the market for wheat.



If the government wishes to fix the price at OP_2 what quantity of wheat must the government buy?

A OZ **B** XY **C** XZ **D** YZ

19 In the diagram, JK is a country's production possibility curve. LK is its trading possibility curve which shows possible combinations of good X and good Y after specialising in the product in which it has comparative advantage, and then trading it.



The country consumes OR of good X and OT of good Y.

Which quantities of goods X and Y does it produce?

	good X	good Y
A	JS	OT
B	OS	OT
C	RS	TK
D	zero	OK

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20 What would be least likely to restrict international trade?

A increasing shipping charges

B more complex customs procedures

C rising levels of global income

D rising unemployment in developed countries

21 A country's terms of trade increased from the base year value of 100 to 120 in the following year.

What changes in export prices and import prices would have caused this?

	export prices	import prices
A	decreased 10%	increased 10%
B	increased 10%	decreased 10%
C	increased 20%	unchanged
D	unchanged	decreased 20%

22 The balance of payments accounts are arranged in the following way.

Which total is the current account balance?

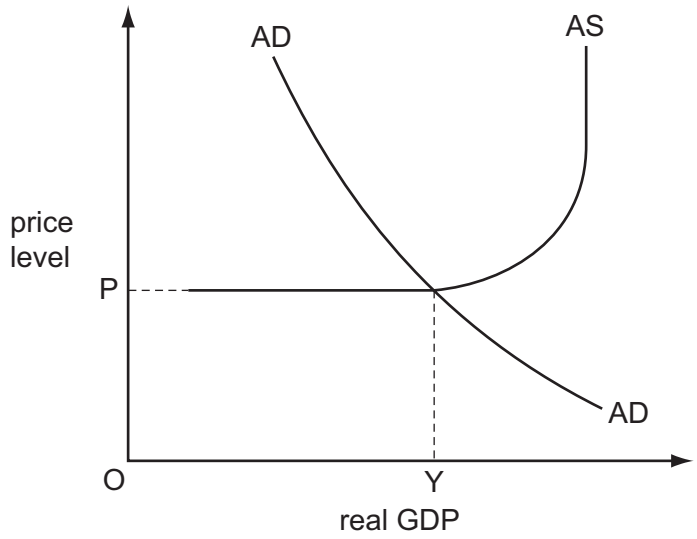
balance of trade in goods
+ balance of trade in services
=total **A**
+ net income
= total **B**
+ net transfers
= total **C**
+ capital balance
= total **D**
financial balance
errors and omissions

23 A country has a population of 100 million. 60 million are of working age and 50 million are in the labour force. The country's unemployment rate is 10%.

How many people are employed?

A 40 million **B** 45 million **C** 50 million **D** 54 million

24 The diagram shows the output of an economy.



What would be the effect of a decrease in net exports?

	aggregate supply	price level	real GDP
A	shift	decrease	unchanged
B	shift	unchanged	decrease
C	unchanged	increase	unchanged
D	unchanged	unchanged	decrease

25 A country experienced an annual inflation rate of 2% for four successive years.

Which statement is correct for the four-year period?

A The price level rose by 8%.

B The price level rose by more than 8%.

C The real value of money rose by 8%.

D The real value of money rose by more than 8%.

26 In 2010 it was reported that there were concerns when a government kept interest rates very low despite a threat of inflation.

Why might the government's policy have caused concern at this time?

A Low interest rates encourage increased consumer spending.

B Low interest rates lead to increased spending on capital equipment.

C Low interest rates mean imports will increase.

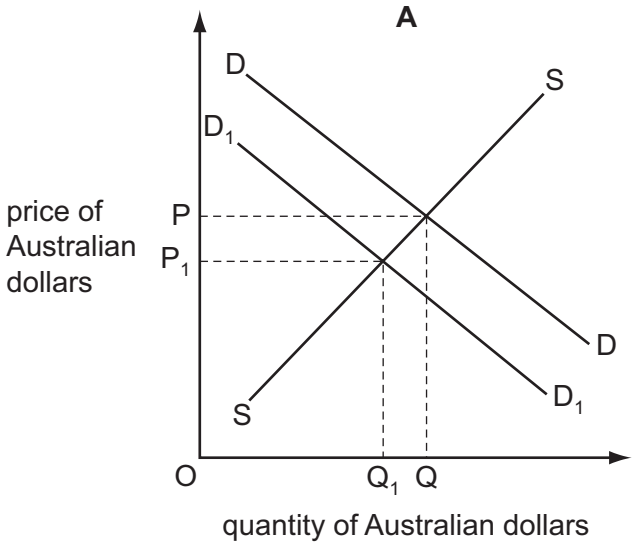
D Low interest rates will cause an increase in the exchange rate.

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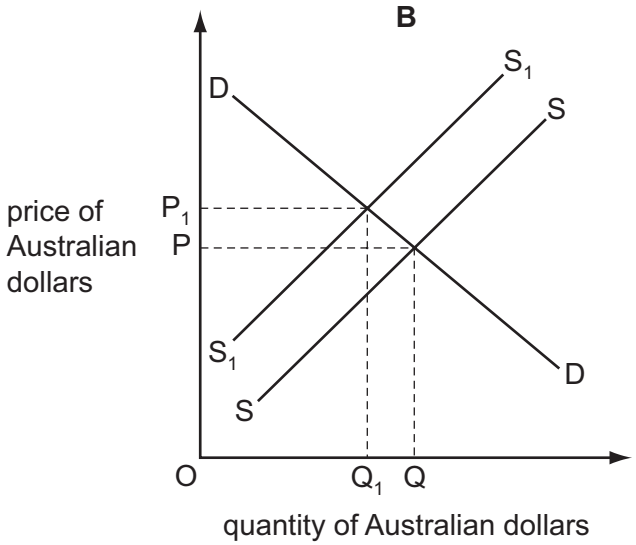
27 Australia's spending on imports falls and, at the same time, investment abroad by Australian firms declines.

Which diagram shows the immediate effect of these changes on the market for the Australian dollar?

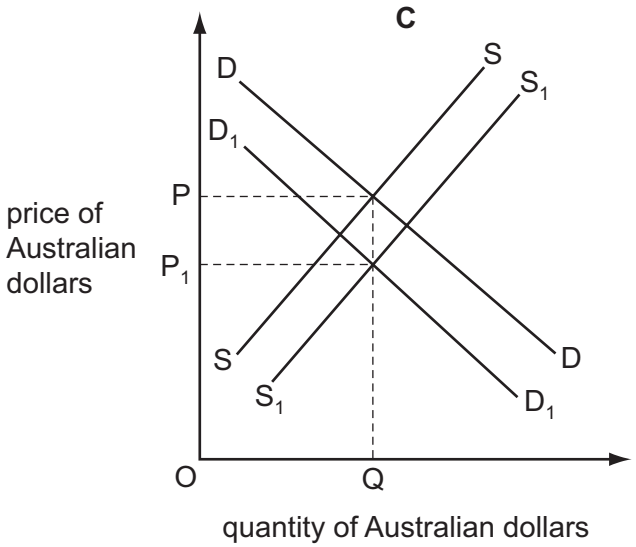
A



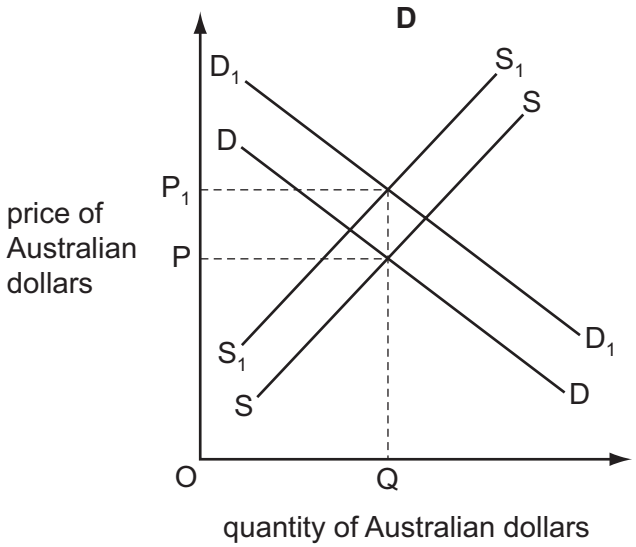
B



C



D



28 Which policy, adopted by a government with the intention of reducing the rate of inflation, might cause a greater deficit on the balance of payments?

A higher foreign exchange rates for its currency

B higher interest rates for domestic customers

C higher subsidies to domestic producers

D higher tax rates on consumer incomes

29 What is likely to result in an increase in a country's balance of payments deficit (disequilibrium) in the short run but may reduce it in the long run?

A an appreciation of the country's currency

B substantial foreign investment by the country's residents

C the introduction of controls on capital outflows

D the introduction of import quotas

30 A depreciation of the exchange rate of the pound sterling against the US dollar from £1 : $1.50 to £1 : $1.00 must mean that

A dollars will become more expensive in terms of pounds.

B the pound will be undervalued.

C UK imports from the US will become cheaper.

D US imports from the UK will become more expensive.

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