Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice (Core) **May/June 2014**

1 hour

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

9087156594

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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 What is likely to occur as a result of a permanent rise in unemployment resulting in loss of skills?

A a reduction in the economy's long-run production possibility

B a reduction in the scarcity of resources

C an increase in the cost of allocating resources

D an increase in the number of adults experiencing the economic problem

2 What is likely to be the short-run consequence of replacing central planning with a market-based system?

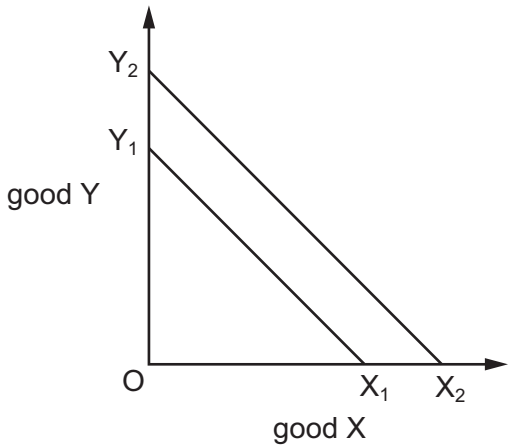
A a decrease in the rate of inflation

B a lower rate of return on capital investment

C a more equal distribution of income and wealth

D an increase in the level of unemployment

3 The diagram illustrates the production possibility curve of an economy in Year 1 (X_1 Y_1) and in Year 2 (X_2 Y_2).



What can be concluded from the diagram?

A The cost of production was higher in Year 2 than in Year 1.

B The full employment level of output was higher in Year 2 than in Year 1.

C The opportunity cost of production was higher in Year 2 than in Year 1.

D Unemployment was higher in Year 2 than in Year 1.

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4 An American bought an English football team in 2013. The money to purchase the club came from loans, which meant future interest payments of more than US $95 million.

Which function of money is best illustrated by this transaction?

A double coincidence of wants

B general acceptability

C standard of deferred payments

D store of value

5 The market demand for a product is made up of the demand from three firms, X, Y and Z.

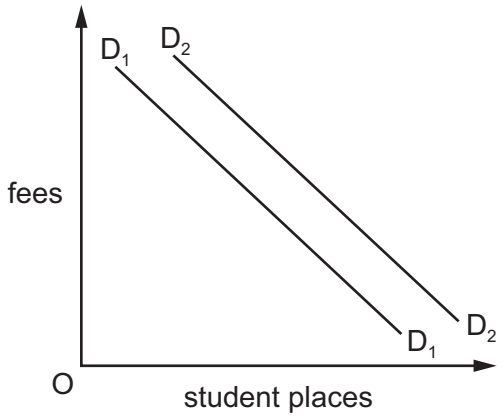
The table shows the demand from each firm and the market supply.

price $	demand from X	demand from Y	demand from Z	market supply
7	3300	3300	3300	3 300
8	3100	2900	3100	6 200
9	2800	2500	2900	8 200
10	2500	2100	2700	10 000

What is the equilibrium price in the market?

A $7 **B** $8 **C** $9 **D** $10

6 In the diagram, D_1 is the initial demand curve for student places at universities.



What could cause the demand curve to shift to D_2?

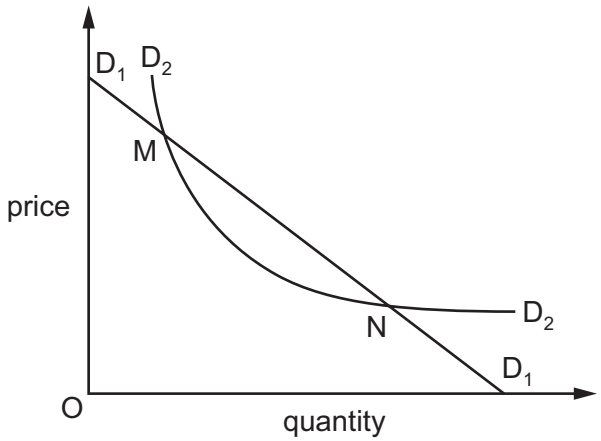
A a decrease in student fees for universities

B a decrease in the level of youth unemployment

C an increase in graduate earnings compared with non-graduate earnings

D higher A Level grades demanded for university entrance

7 In the diagram D_1D_1 is a straight line demand curve and D_2D_2 is a rectangular hyperbola curve.



Which statement is correct?

A D_2D_2 is more elastic than D_1D_1 at point M.

B D_2D_2 is more elastic than D_1D_1 at point N.

C The elasticity of demand increases on moving down both curves.

D The elasticity of demand is inelastic at point M on both curves.

8 The table shows changes in a consumer's expenditure on various goods when her income increases from $20 000 to $24 000.

good	income $20 000: amount spent on good ($)	income $24 000: amount spent on good ($)
W	100	96
X	100	100
Y	200	224
Z	200	248

Assuming all else remains unchanged, for which goods is the consumer's income elasticity of demand greater than 1.0?

A W, Y and Z

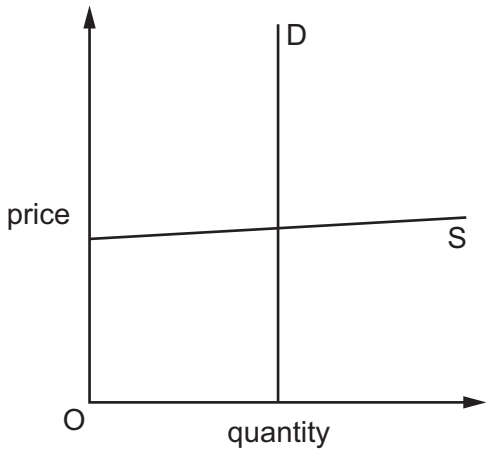
B W and Z only

C W only

D Z only

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9 The diagram shows the demand for and supply of a product.



What can be deduced about the product?

A It has infinite price elasticity of demand.

B It has no substitutes.

C It is an inferior good.

D It takes a large proportion of consumer income.

10 In 2010, poor harvests reduced fruit crops, and furniture producers gave big discounts on furniture products.

How might these changes have affected the position of the supply curve for the products?

	fruit	furniture producers
A	no change	shift to the left
B	shift to the left	no change
C	shift to the left	shift to the left
D	shift to the right	no change

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11 The diagram shows a supply curve.



Which statement describes the price elasticity of supply along this curve?

A It diminishes as quantity increases.

B It is constant and greater than unity at all quantities.

C It is constant and less than unity at all quantities.

D It increases as quantity increases.

12 The table shows a competitive market in equilibrium in two periods.

period	market price	quantity traded
1	50 cents	10 000 units
2	60 cents	12 000 units

What could explain the change from period 1 to period 2?

A an increase in the price of a complement

B an increase in the price of a substitute

C the imposition of a minimum price of 60 cents by a government

D the imposition of an indirect tax on suppliers

13 A country experiences a very wet and cold summer.

How might this affect the price of umbrellas and the price of ice creams?

	price of umbrellas	price of ice creams
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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14 What is an externality created by an individual consuming take-away food?

A the cost to the individual of purchasing the take-away food

B the litter created by the individual's take-away food packaging being discarded

C the pleasure derived by the individual from eating the take-away food

D the time saved by the individual purchasing the take-away food

15 A project has a social cost of $100 million, a private cost of $40 million and an external benefit of $20 million. Its net social value is zero.

What can be concluded about the project?

A External cost is greater than external benefit.

B Private cost is greater than external cost.

C Private cost is greater than private benefit.

D Social cost is greater than social benefit.

16 What is least likely to be included in a cost-benefit analysis of a proposed new university?

A the costs of building the new university

B the extra income earned by the new university's graduates

C the future staffing costs of other universities

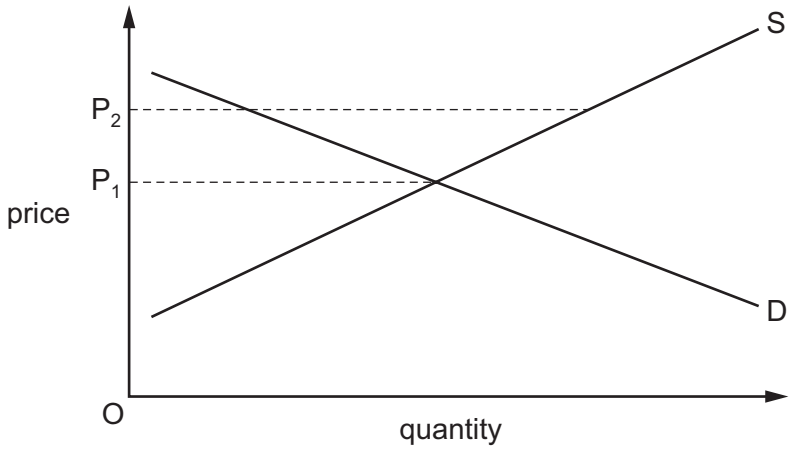
D the staffing costs of the new university five years into the future

17 A local government decided to organise a craft show in its exhibition centre. Admission was $3. It promoted the show by paying for advertisements on advertising sites around the area.

How may the craft show and the advertisements be classified from the viewpoint of local residents?

	craft show	advertisements
A	private good	private good
B	private good	public good
C	public good	private good
D	public good	public good

18 The diagram shows the original market clearing price is P_1. The government then imposes a maximum price of P_2 on the industry.



What will result from this?

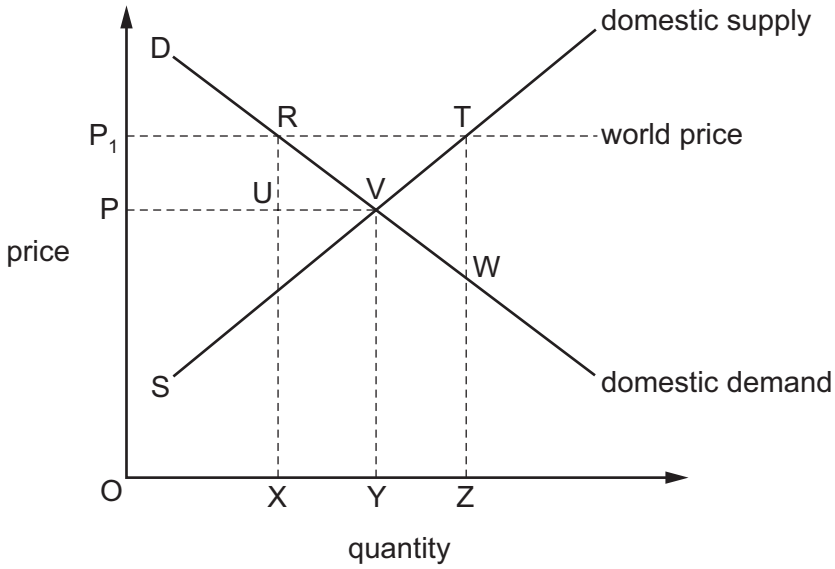
A a higher price and output

B a shortage

C a surplus

D an unchanged price and output

19 The diagram shows that a country can make a product at less than the world price.



What will happen if it engages in international trade?

A Domestic consumers will experience a fall in consumer surplus of RVT.

B Domestic output of OY will be exported.

C Domestic producers will gain an increase in revenue of PP_1TV.

D Revenue from exports will be XRTZ from the product.

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20 Which argument is an importer most likely to use to gain the support of consumers for free trade?

A More imports allow the government to raise revenue from tariffs.

B More imports improve the country's terms of trade.

C More imports increase competition in the domestic economy.

D More imports raise total employment in the domestic economy.

21 A country is a major producer of cotton. Its government imposes a tax on exports of its cotton.

What effect will this have on the price of cotton in the domestic and world markets?

	domestic price	world price
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

22 A US company receives a US$20 million dividend from shares that it owns in a Brazilian company.

How would this dividend be shown in the balance of payments of the United States?

A a credit in the capital account

B a credit in the current account

C a debit in the capital account

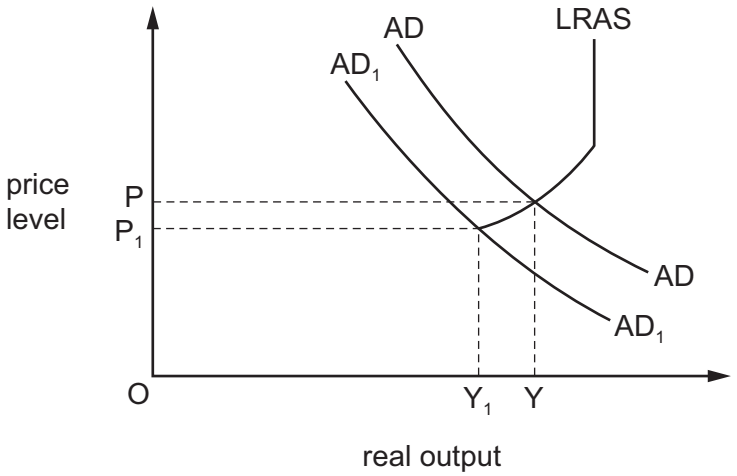
D a debit in the current account

23 In 2007 Turkey had a population of 73 m. Its labour force was 36 m, of which 12 m were trained for the primary sector and 24 m were trained for the secondary and tertiary sectors. The unemployment rate was 10%.

What was the number of people unemployed?

A 1.2 m **B** 2.4 m **C** 3.6 m **D** 7.3 m

24 The diagram shows the macroeconomic equilibrium output and price level changing from Y and P to Y_1 and P_1.



What could have caused this change?

A a decrease in exports

B a decrease in labour productivity

C an increase in the government's spending

D an increase in the money supply

25 The table shows an index of consumer prices (2005 = 100) for a number of countries for 2009, 2010 and 2011.

	2009	2010	2011
Canada	107.8	108.9	112.0
Greece	111.9	117.2	121.1
India	135.2	151.4	164.8
Japan	100.3	99.6	99.3
Portugal	107.4	108.9	112.9
Switzerland	104.3	104.5	104.7

Which statement about the period 2009 to 2011 is **not** correct?

A Prices fell in Japan.

B Prices increased in Switzerland.

C Prices rose more in Greece than in India.

D Prices rose more in Portugal than in Canada.

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26 In what circumstances will money lose its value?

A The economy experiences a period of deflation.

B The general level of prices is falling.

C The growth of money supply falls below the growth of output.

D The rate of inflation is positive.

27 What would most help a country to achieve a surplus on the current account of the balance of payments?

A a depreciating exchange rate combined with a high rate of inflation and falling productivity

B a depreciating exchange rate combined with a low rate of inflation and rising productivity

C an appreciating exchange rate combined with a high rate of inflation and falling productivity

D an appreciating exchange rate combined with a low rate of inflation and rising productivity

28 At the start of the year, the exchange rate of Country X's dollar (X$) to Country Y's pound (Y£) is X$4.80 : Y£1

During the year prices increase by 10% in Country X and by 20% in Country Y.

According to Purchasing Power Parity theory, what will be the exchange rate at the end of the year?

A X$4.40 : Y£1

B X$4.90 : Y£1

C X$5.00 : Y£1

D X$5.20 : Y£1

29 Devaluation always has the effect of

A decreasing the price of imports.

B decreasing the value of imports.

C worsening the balance of payments.

D worsening the terms of trade.

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30 Policies to correct a balance of payments deficit fall into two categories: expenditure-dampening policies and expenditure-switching policies.

Which pair of policies in the table are classified correctly?

	expenditure-dampening policy	expenditure-switching policy
A	an increase in the rate of income tax	the imposition of import quotas
B	an increase in the rate of value added tax	an increase in the rate of income tax
C	devaluation of the currency	an increase in the rate of value added tax
D	the imposition of import quotas	devaluation of the currency

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