Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

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)

1167540896

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 **13** printed pages and **3** blank pages.

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1 By 2030, as the human population grows, the world will need at least 50% more food, 45% more energy and 30% more water from the same resources.

What does this statement directly indicate?

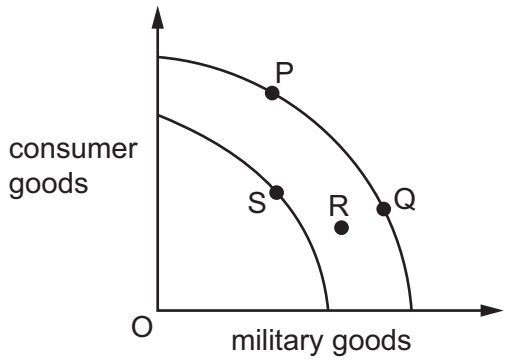
A comparative advantage

B merit goods

C negative externalities

D the economic problem

2 A country was at point P on its production possibility curve. Following the threat of invasion it prepared for war. The war then reduced the country's infrastructure.



What are the most likely changes on the production possibility curve diagram that are consistent with these events?

A P to Q followed by Q to R

B P to Q followed by Q to S

C P to R followed by R to Q

D P to R followed by R to S

3 Which is a normative statement?

A A reduction in unemployment below a certain level will lead to higher inflation.

B An increase in the rate of inflation will lead inevitably to an increase in unemployment.

C Inflation can be reduced only by increasing the level of unemployment.

D Unemployment is more harmful to economic welfare than inflation.

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4 Meera has just finished a course at art college and has decided to set up a business on her own producing clay figures of famous people.

Which factors of production is she likely to have to purchase from other businesses?

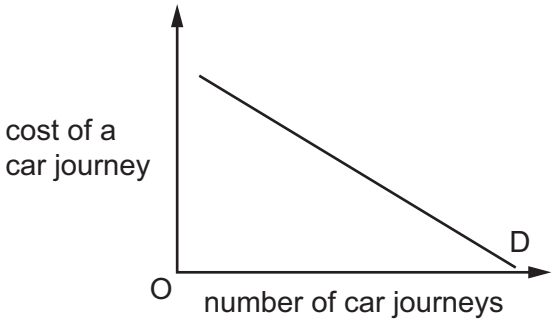
	land	labour	capital	enterprise
A	✓	✓	✓	✗
B	✓	✗	✓	✓
C	✓	✗	✓	✗
D	✗	✓	✗	✓

key

✓ = purchased

✗ = not purchased

5 The demand curve in the diagram shows the relationship between the number of car journeys and the cost of a car journey.



What would cause the demand curve to shift to the left?

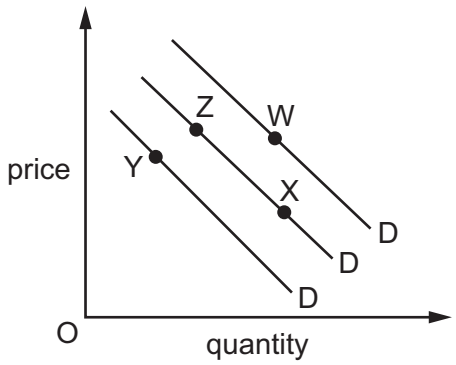
A a reduction in car tax

B a reduction in petrol prices

C a reduction in public transport prices

D the introduction of tolls on motorways

6 The diagram shows the market for milk. Two conditions change. The cost of cattle feed rises sharply and this is followed by the government raising the tax on cheese which uses milk in its production.



Which changes in position on the diagram of demand curves for milk are consistent with these events?

A from W to X, followed by X to Z

B from W to Z, followed by Z to X

C from X to Z, followed by Z to Y

D from Z to X, followed by X to Y

7 If the elasticity of demand for a commodity is unity, an increase in its price will

A decrease the quantity purchased.

B have no effect on consumer surplus.

C increase total expenditure on the commodity.

D leave the quantity purchased unchanged.

8 The table shows a consumer's expenditure on a range of goods at different levels of income.

For which good does the consumer have an income elasticity of demand greater than zero, but less than one?

	consumer's income ($)		
	40	50	100
good	consumer's expenditure ($)		
A	10	18	40
B	10	11	20
C	10	10	10
D	10	8	6

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9 What might cause a market supply curve to shift to the right?

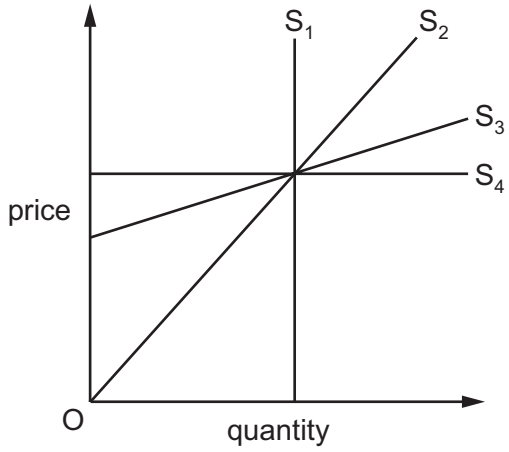
A increased government subsidies

B increased labour costs

C increased product advertising

D lower income tax rates

10 The diagram shows four different straight line supply curves.



What can be concluded from the diagram?

A S_1 has unitary elasticity.

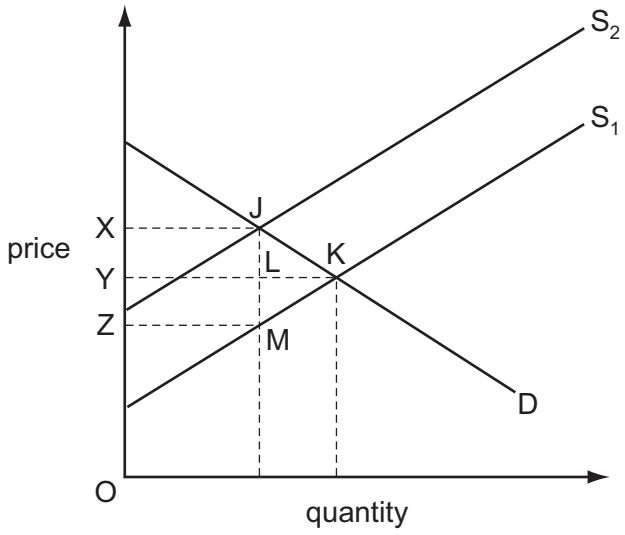
B S_2 has zero elasticity.

C S_3 has a constant elasticity.

D S_4 has infinite elasticity.

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11 The diagram illustrates the effects of placing a specific tax equal to JM on a good.



Which area represents total tax receipts?

A JKM **B** XJKY **C** XJLY **D** XJMZ

12 What is consumer surplus?

A the difference between the cost of producing a good and what consumers would be willing to pay for it

B the difference between what consumers actually pay for a good and its cost of production

C the difference between what consumers actually pay for a good and the maximum amount they would be willing to pay for it

D the difference between what consumers are willing to pay for a good and the amount required by producers to supply the good

13 In a market for a good both demand and supply change at the same time.

Which combination of changes would enable an economist to predict with confidence that more resources will be needed in its production but **not** the direction of the associated price change?

	demand	supply
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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14 The existence of a positive externality is possible when

A consumers are not the best judges of the future benefits from consuming a product.

B groups of consumers act together to negotiate a discount on the sale of a product.

C producers use a government scheme to clear waste from their offices at no cost to themselves.

D social costs of production exceed private costs of production.

15 A firm opens a new factory on derelict ground on the outskirts of a town.

What will be included among the externalities arising from the opening of the new factory?

	an increase in air pollution	an increase in the rents of neighbouring factory sites	the change in the appearance of the neighbourhood
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

16 A firm owns a bridge and charges all vehicle users who cross it.

How might the charge be classified?

A a private benefit and a private cost

B a private benefit and an external cost

C an external benefit and a private cost

D an external benefit and an external cost

17 The table shows the results of a cost-benefit analysis into the building of a new runway at an airport.

	costs US$m	benefits US$m
private	100	125
external	25	20

Which statement about the new runway is correct?

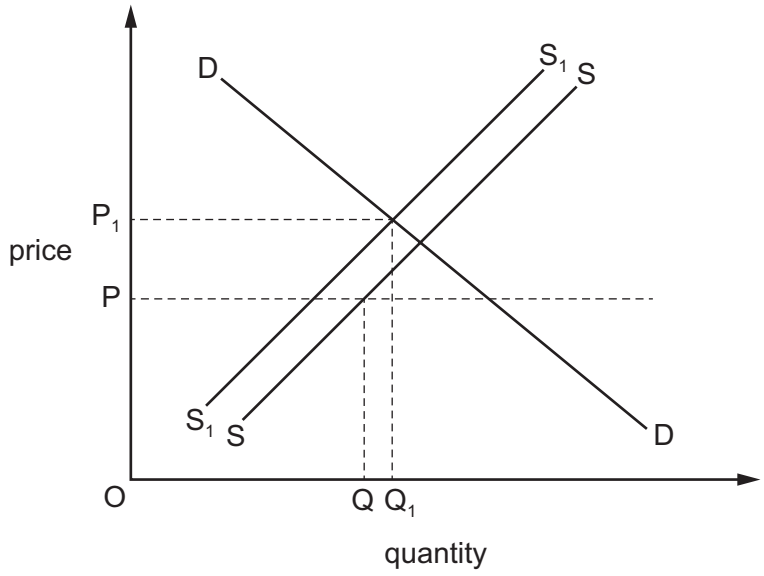
A The net external benefit is US$5 million.

B The net private benefit is US$25 million.

C The net social benefit is US$105 million.

D The net social benefit is US$145 million.

18 In the diagram, the initial quantity traded was Q and the price was P.



The price then rose to P_1 and the quantity traded rose to Q_1.

Which combination of government policy measures could explain this change?

A the removal of a maximum price and the imposition of an income tax on consumers

B the removal of a maximum price and the removal of a subsidy to producers

C the removal of a minimum price and the granting of a subsidy to producers

D the removal of a minimum price and the imposition of an indirect tax on the product

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19 The table shows the output of cars and televisions per worker per week before trade and specialisation.

	country X	country Y
cars	2	8
televisions	6	48

Each country specialises in the product where it has a comparative advantage and trades on the basis of an exchange rate which lies between their opportunity cost ratios.

Which change would stop the countries specialising and trading?

A The exchange rate moves to one car for five televisions.

B The exchange rate moves to one car for eight televisions.

C The productivity of workers in country X rises to three cars per week.

D The productivity of workers in country Y rises to fifty six televisions per week.

20 A country produces washing machines. The government lowered both the tax on washing machines produced in its country and the quota on imports of foreign washing machines.

What is the likely result?

A Government revenue increased.

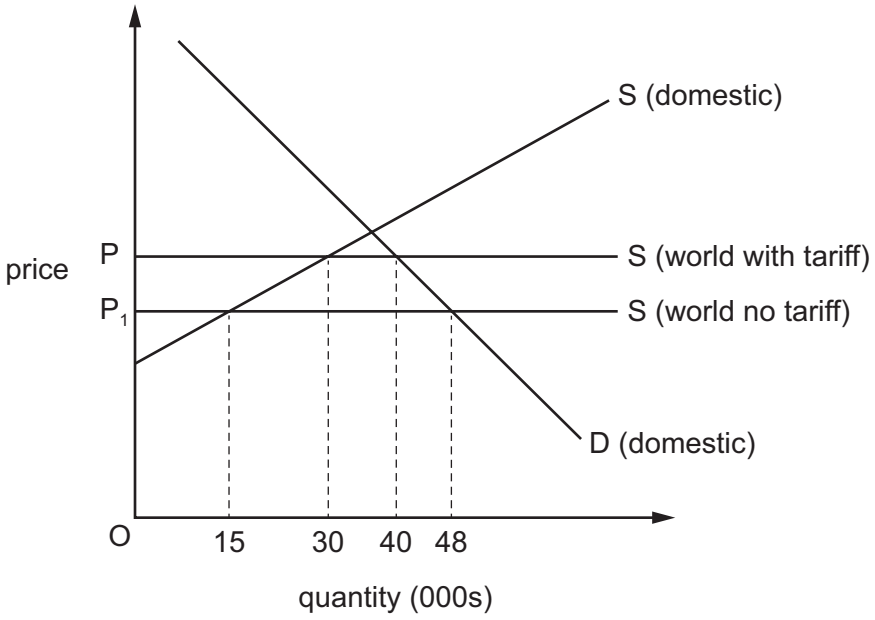
B Home production decreased.

C Prices of foreign washing machines fell.

D The balance of trade in goods improved.

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21 The diagram shows the effect on the quantity of an import to the domestic market of the removal of a tariff that reduces the import's price to P_1.



By how much will the quantity of imports increase?

A 8000 tonnes

B 10 000 tonnes

C 23 000 tonnes

D 33 000 tonnes

22 A group of countries join together to form a single market with a single common currency.

Which term best describes the resulting organisation?

A customs union

B economic union

C free trade area

D trade union

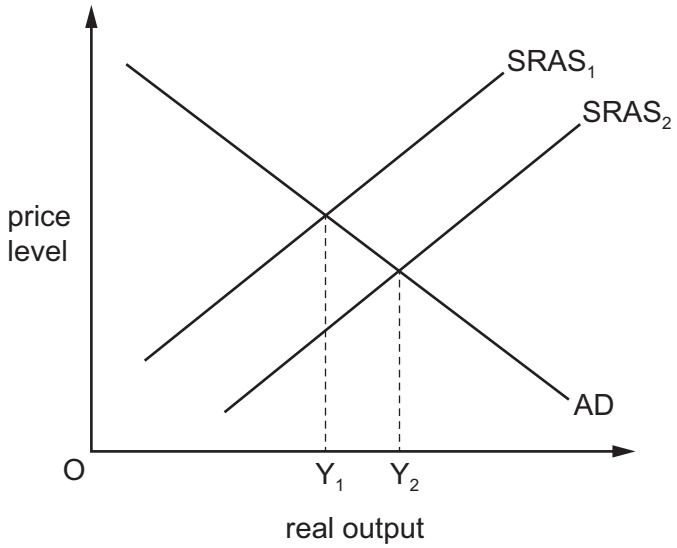
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23 The table shows the unemployment rate and the size of the labour force in four countries in 2012.

Which country had the highest number of people in employment in 2012?

	country	unemployment rate (%)	size of the labour force (millions)
A	Egypt	12.6	27.7
B	Iran	15.3	26.4
C	Italy	9.3	25.1
D	Turkey	8.0	27.4

24 The diagram shows an economy's aggregate demand curve and two short-run aggregate supply curves.



What could cause the change in real output from Y_1 to Y_2?

A a decrease in bank lending

B a decrease in world oil prices

C an increase in indirect taxation

D an increase in wage rates

25 The table shows a country's rate of inflation for four years.

year	rate of inflation %
2009	4.0
2010	3.0
2011	2.5
2012	2.0

What fell between 2009 and 2012?

A average prices

B the cost of living

C the exchange rate

D the value of money

26 What is **not** a possible cause of cost-push inflation?

A an increase in firms' profit margins

B an increase in raw material prices

C an increase in the supply of money

D an increase in trade union power

27 What would lead a country to move from a surplus to a deficit 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 What determines the purchasing power parity of a currency?

A relative costs of living

B relative rates of interest

C the balance of payments current account

D the volume of trade creation

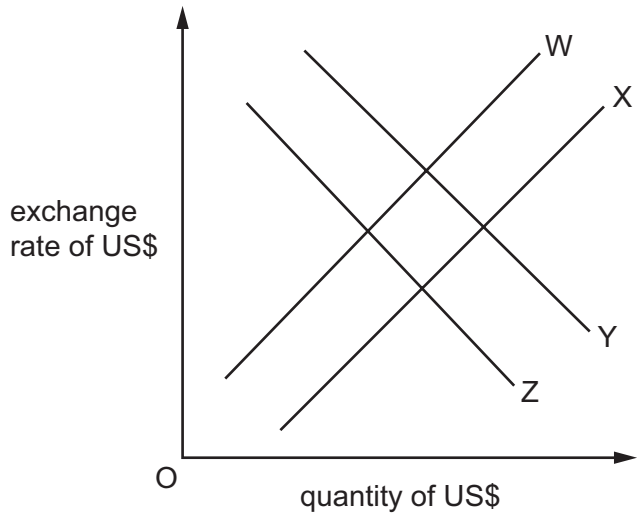
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29 With an exchange rate of 5 Egyptian pounds (EGP) = 1 US dollar ($), an American product sells in Egypt for EGP 100.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound appreciates to 4 EGP = 1 US$?

A EGP 75 **B** EGP 80 **C** EGP 120 **D** EGP 125

30 The US Central Bank raises its interest rate to improve its balance of payments position. The diagram shows the resulting changes in the demand for and supply of US$ in the foreign exchange market.



What should curves W, X, Y and Z be labelled to show the effect of the interest rate rise on the exchange rate? (Assume a change is shown by a move from a curve numbered 1 to a curve numbered 2.)

	W	X	Y	Z
A	S_1	S_2	D_1	D_2
B	S_1	S_2	D_2	D_1
C	S_2	S_1	D_1	D_2
D	S_2	S_1	D_2	D_1

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