Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

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)

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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.

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1 One of the central themes of economics is that resources are scarce.

What is certain from this?

A Difficult choices are unavoidable for economic agents.

B Food shortages will become more severe over time.

C Resource allocation cannot be left solely to the price mechanism.

D There will be a continuing upward trend in commodity prices.

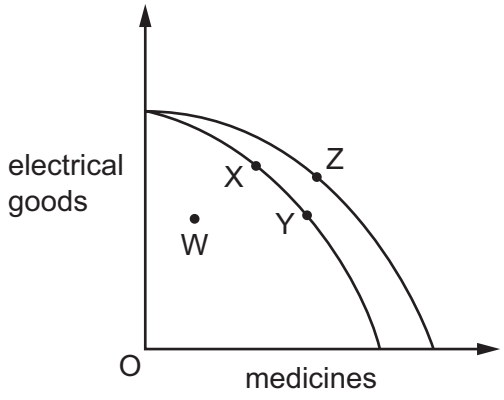
2 In their transition to market economies some former command economies have adopted a gradual approach. This has meant continuing with some of the features of their command system.

What is **not** a valid, short-run reason for continuing with the feature shown?

	feature	reason for continuation
A	inconvertible currency	to attract foreign direct investment
B	price controls on foodstuffs	to protect the real value of workers' incomes
C	state ownership of banks	to avoid large-scale bankruptcies
D	tariffs on imported manufactures	to allow comparative advantage to develop

3 A country is producing electrical goods and medicines at full capacity. An innovation is developed that enables the country to produce a new medicine which becomes in great demand.

How would this be represented by its production possibility curves?



A as a movement from W to X

B as a movement from X to Y

C as a movement from X to Z

D as a movement from Y to X

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4 What would encourage the growth of the international division of labour?

A an improvement in transport systems

B instability in international exchange rates

C restrictions on the movement of resources

D the widespread introduction of tariffs

5 What would **not** cause the demand curve for foreign holidays to shift to the left?

A a fall in consumers' disposable income

B a fall in the price of domestic holidays

C a rise in advertising of domestic holidays

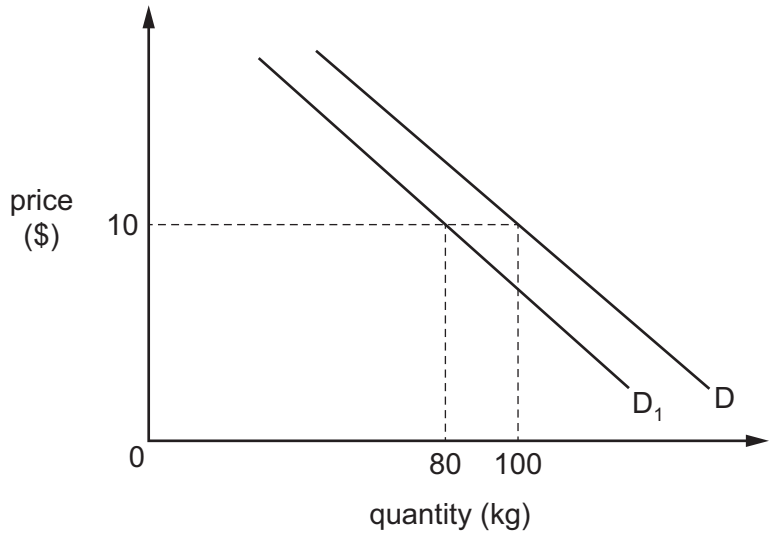
D a rise in the price of foreign holidays

6 A good has unitary price elasticity of demand and at a price of $25 it sells 100 000 units.

Which price must the firm charge if it wants to sell 125 000 units of the good?

A $24 **B** $20 **C** $16 **D** $12

7 The diagram shows how a 10% increase in consumer incomes shifts the demand for good X from D to D_1.



Which statement about good X is correct?

A It is a normal good with income elastic demand.

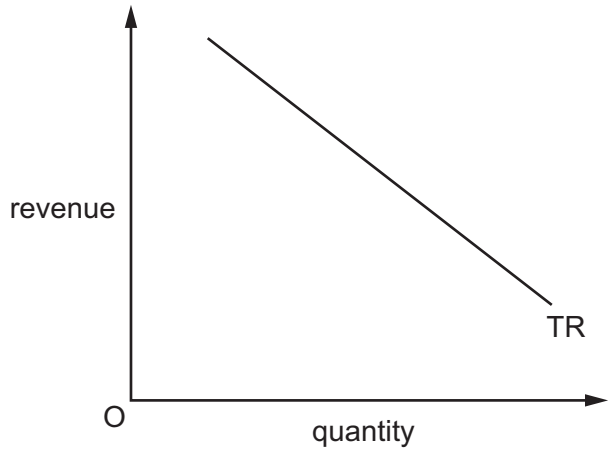
B It is a normal good with income inelastic demand.

C It is an inferior good with income elastic demand.

D It is an inferior good with income inelastic demand.

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8 The diagram shows the relationship between a firm's total revenue and the quantity of goods sold.



What is the price elasticity of demand for the good?

A zero

B between zero and one

C one

D between one and infinity

9 A movement along a supply curve for a product is likely to occur if there is a rise in

A the demand for a complementary product.

B the distribution costs of the product.

C the subsidy a producer receives for producing the product.

D the wages of the employees who produce the product.

10 A firm makes televisions.

What does the elasticity of supply for the firm represent?

A the need to increase production because of a successful advertising campaign

B the possibility of switching production from other goods the firm makes to televisions

C the speed at which additional fixed factors used to produce televisions can be obtained

D the way the firm's production changes as a result of a change in price of televisions

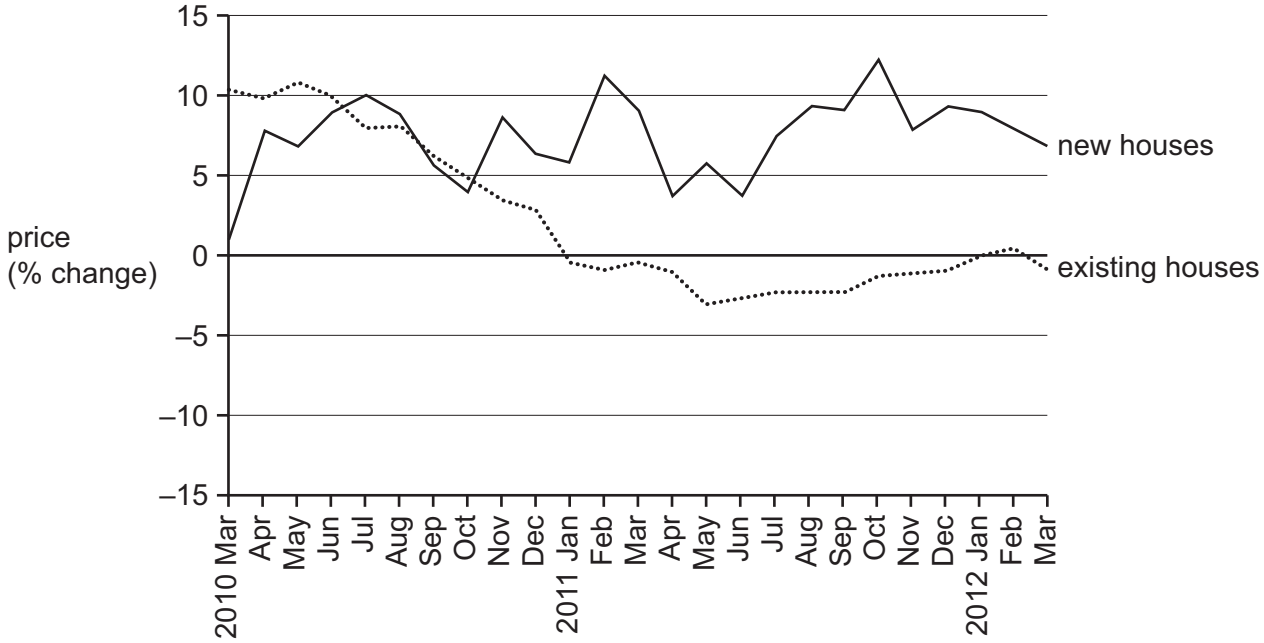
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11 Demand and supply in a competitive market both decrease by 10% at all prices.

What will be the effect on the equilibrium price and quantity sold?

	price	quantity sold
A	10% decrease	10% decrease
B	10% decrease	no change
C	5% decrease	5% decrease
D	no change	10% decrease

12 The graph shows the annual % changes in the prices of new houses and existing houses in the United Kingdom between 2010 and 2012.



What can be concluded about the graph?

A In the period after October 2010, new houses were more expensive than existing houses.

B In the period up until January 2011, there was a steady fall in the prices of existing houses.

C The average price of existing houses was lower in March 2012 than two years earlier.

D The prices of new houses continued to rise throughout the period.

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[Turn over

13 Between 2006 and 2007, the price of skimmed milk powder on the world market rose from $1000 per tonne to $2400 per tonne.

Assuming that the market is a free market, what will result from the price change?

A Consumers will buy more complements to skimmed milk powder.

B Farmers will increase the size of their dairy herds to supply more milk.

C Firms processing milk into skimmed milk will switch to producing substitutes.

D Governments will introduce a system of rationing.

14 A firm opens a new factory on the outskirts of a town.

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

	an increase in traffic congestion	an increase in the wages paid to workers in a neighbouring factory	an increase in the sales revenue of local shopkeepers
A	no	no	yes
B	no	yes	yes
C	yes	no	no
D	yes	yes	no

15 The table shows some of the costs when a firm produces a good.

output	total cost to society $	external cost $
23	316	16
24	322	18

What is the additional cost to a firm of producing the 24th unit?

A $2 **B** $4 **C** $6 **D** $8

16 What impact would internalising negative externalities have on the output and price of a product?

	output	price
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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17 A local council runs a museum. It used to charge an admission fee. It decided to give free entry in the hope of encouraging more people to use the museum and find out about the history of its area which the council regards as being important.

What can be said about the museum?

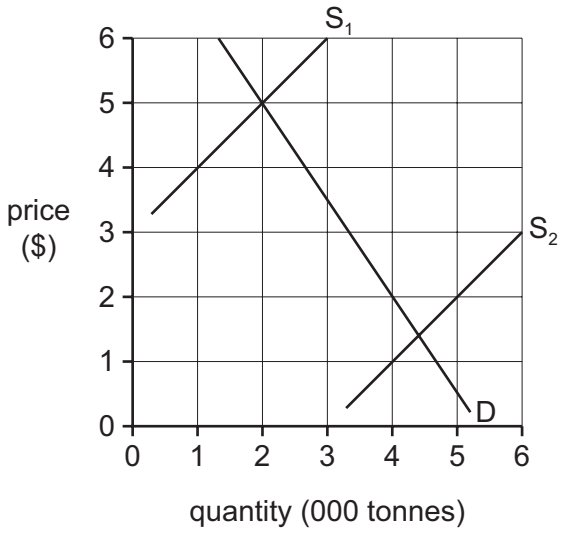
A It is a merit good because it is believed to be worth greater attendance.

B It is a merit good because it is run by the local council.

C It is a public good because anyone can use the museum.

D It is a public good because people do not now have to pay for admission

18 In the diagram, D is the demand curve of an agricultural commodity and S_1 is the initial supply curve.



The government introduces a buffer scheme to maintain farm incomes at their initial level.

What quantity would the government need to buy from the farmers to add to the buffer stock if a bumper harvest causes the supply curve to move to S_2?

A 1000 tonnes

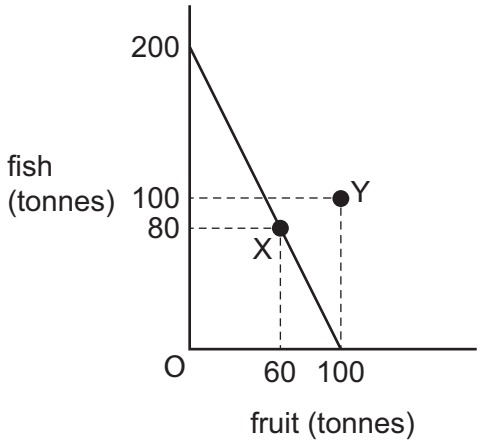
B 2000 tonnes

C 3000 tonnes

D 4000 tonnes

19 The production possibility curve shows island J's ability to produce fish and fruit. It specialises entirely in fish in which it has a comparative advantage and trades fish for fruit from island K.

As a result, island J increases its consumption from 80 tonnes of fish and 60 tonnes of fruit, point X, to 100 tonnes of fish and 100 tonnes of fruit, point Y.



What was island J's exchange rate of fish for fruit?

A 1 tonne of fish for $\frac{1}{2}$ tonne of fruit

B 1 tonne of fish for $\frac{3}{4}$ tonne of fruit

C 1 tonne of fish for 1 tonne of fruit

D 1 tonne of fish for 2 tonnes of fruit

20 The table shows details on the Gross Domestic Product (GDP) and the balance of payments of four countries.

Which country had the largest net errors and omissions figure in terms of US$?

	GDP (US$)	current account balance as a % of GDP	total of capital and financial accounts (US$)
A	50bn	–8.0	4bn
B	50bn	–2.0	3bn
C	100bn	–3.0	3bn
D	100bn	+4.0	–4bn

21 What would **not** be a reason for a government to impose a quota on imports?

A to prevent dumping

B to raise tax revenue

C to reduce a balance of trade deficit

D to support an important industry

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22 The European Union imposes a quota on the volume of garments imported from China.

What is likely to be the effect on the prices received by Chinese garment producers and on the prices paid by the consumers of Chinese garments in Europe and the United States (US)?

	prices received by Chinese producers	prices paid by European consumers	prices paid by US consumers
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

23 The table shows a country's employment statistics.

	million
population of working age	100
number in employment	60
number unemployed	4

What is the participation rate and the unemployment rate?

	participation rate %	unemployment rate %
A	60	4.0
B	60	6.25
C	64	4.0
D	64	6.25

24 The table shows the changes in the general price level of four countries over three years expressed as index numbers.

Which country experienced a constant rate of fall in the real value of money?

	year 1	year 2	year 3
A	100	80	60
B	100	90	81
C	100	108	116
D	100	120	144

25 In Year 1 the price of a barrel of oil increased from $60 to $110.

In Year 2 there was a further increase to $115 a barrel.

Assume that oil price changes have an immediate impact on the general level of prices and that their Consumer Price Index weightings remains unchanged.

What will be the effect of the changes in the oil price on a country's Consumer Price Index and on its inflation rate in Year 2 compared with Year 1?

	effect on the Consumer Price Index	effect on the rate of inflation
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

26 Why is a deficit on the current account of the balance of payments in economies with freely floating exchange rates often thought to be an economic problem?

A It implies a net outflow of capital from the economy.

B It involves borrowing from abroad.

C It leads to increases in unemployment.

D It results in a loss of foreign exchange reserves.

27 In which situation must a country's balance of trade in goods and services improve?

A Export costs rise more than import costs.

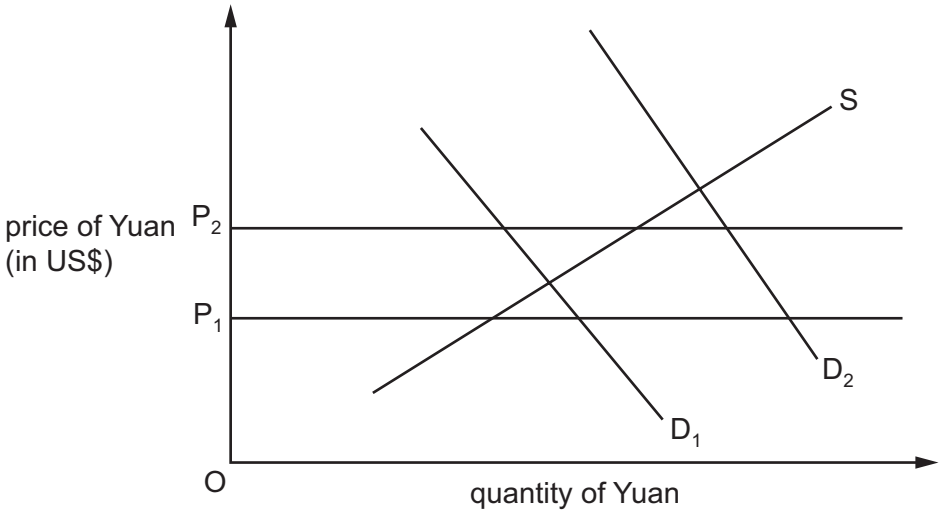
B Export prices rise more than import prices.

C Export revenues rise more than import revenues.

D Export volumes rise more than import volumes.

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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 demand changed from D_1 to D_2?

A impose controls on Chinese investment overseas

B increase interest rates

C sell US$ from foreign exchange reserves

D sell Yuan on the foreign exchange markets

29 The table shows observations of the exchange rate of an economy and its current account balance over six years.

year	exchange rate (US dollars per unit of domestic currency)	current account balance (billions of US dollars)
1	2.0	–3
2	1.5	–5
3	1.5	–4
4	1.5	–3
5	1.5	0
6	1.5	+3

Which concept does the data in the table illustrate?

A exchange rate appreciation

B purchasing power parity

C the J-curve effect

D trade-weighted exchange rates

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30 A country experiences a significant appreciation in its foreign exchange rate.

Which statement correctly describes the most likely combination of effects?

A Aggregate demand rises and international competitiveness falls.

B Exporters' profits rise and the terms of trade worsen.

C Inflation falls and unemployment rises.

D The current account deficit falls and production costs rise.

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