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 2015**

1 hour

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

2336298447

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 **11** printed pages and **1** blank page.

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1 Which combination of events must increase the level of scarcity in an economy?

A discovery of new oil reserves and higher saving ratios

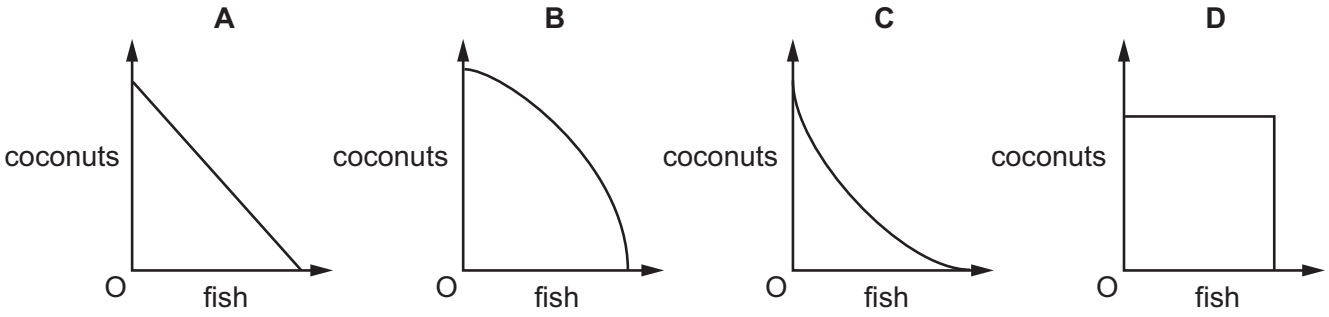
B improved application of technology and new invention

C less certain weather patterns and a fashion for greater consumption

D more efficient power generation and a reduced birth rate

2 Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

Which diagram represents the production possibility curve of this community?



3 Which characteristic of money is most essential if it is to serve effectively as a store of value?

A divisibility

B liquidity

C portability

D scarcity

4 A worker can make 10 hats or 5 pairs of shoes in a day. In the market, three hats can be sold at the same price as two pairs of shoes.

The worker should make

A hats only.

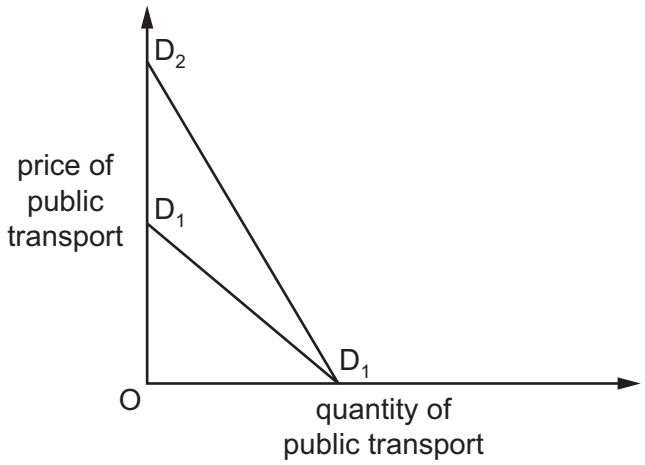
B shoes only.

C 4 hats and 3 pairs of shoes daily.

D 6 hats and 2 pairs of shoes daily.

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5 In the diagram, D_1D_1 shows an individual's initial demand curve for public transport.



What could cause the demand curve to shift to D_2D_1?

A The costs of running the individual's car fall.

B The individual is no longer able to drive.

C The price of public transport falls.

D The public transport services are reduced.

6 The table shows the price elasticity of demand for four goods and services.

	price elasticity
motorcycles	–1.6
telephone calls	–1.0
football tickets	–0.3
light bulbs	0.0

If the price of each item increased by 1%, for which items would the total expenditure increase?

A football tickets and light bulbs

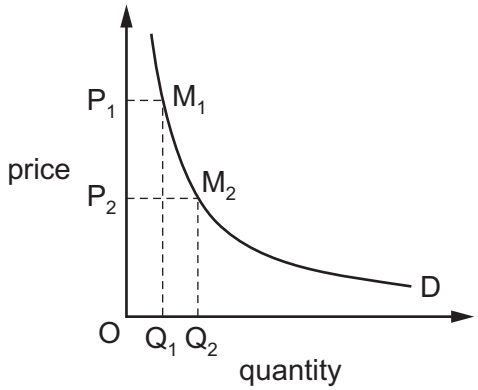
B football tickets only

C motorcycles and telephone calls

D motorcycles only

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7 In the diagram, area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$.



What is the value of the price elasticity of demand if the price is halved from P_1 to P_2?

A zero

B –0.5

C –1

D infinity

8 Four firms supply the market. The market supply is 50 units at $20 and 100 units at $40. The table shows the market share of each firm at the two prices.

Which firm does **not** have a normal upward-sloping supply curve?

	market share (%) at $20	market share (%) at $40
A	10%	10%
B	20%	50%
C	30%	20%
D	40%	20%

9 The price of a good doubles but firms are able to increase production by only 10%.

This is an example of

A excess supply.

B inelastic supply.

C market disequilibrium.

D market failure.

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10 In a market there is a surplus of a good.

Which change would cause the market to come to an equilibrium?

A a decrease in demand

B a fall in price

C a government minimum price

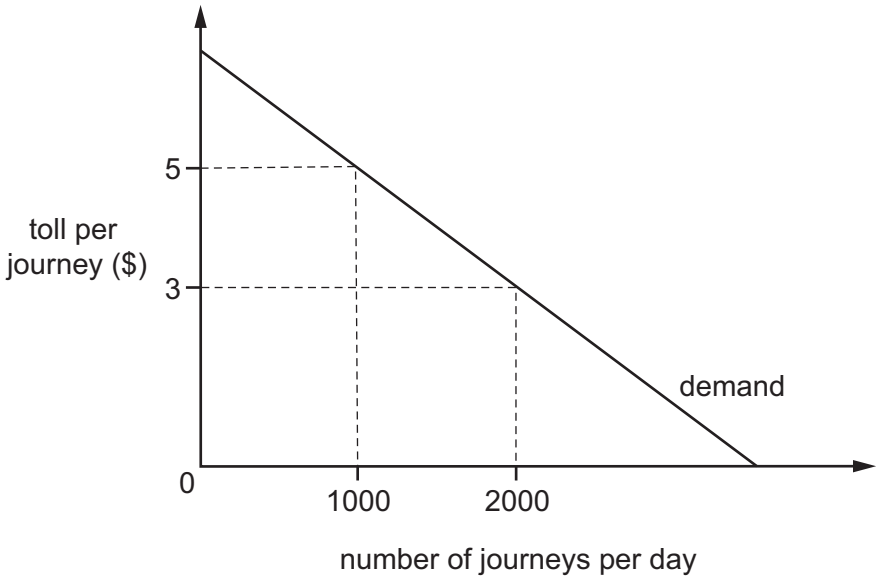
D an increase in supply

11 The market for sugar is in equilibrium. A disease affects the sugar crop and newspapers report harmful health effects of consuming sugar.

Which combination of changes in demand and supply matches these events?

	demand	supply
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

12 The diagram shows a demand curve for journeys on a toll road.



If there is a reduction in the toll from $5 to $3, what is the resulting increase in the daily consumer surplus?

A $1000 **B** $2000 **C** $3000 **D** $4000

13 What is an economic reason why hospitals are often built and funded by the government?

A Hospitals are a public good.

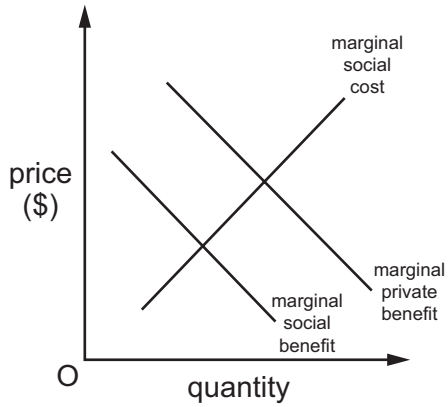
B Hospitals are very expensive to build and run.

C Hospitals cannot use price to allocate demand.

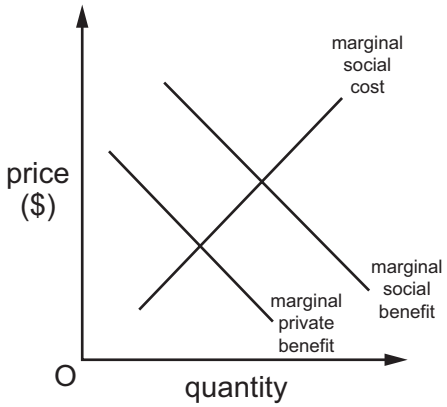
D Hospital treatments may benefit many apart from those who use them.

14 The diagrams show the costs and benefits in four markets.

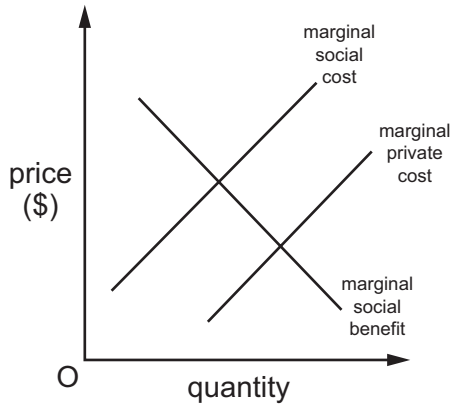
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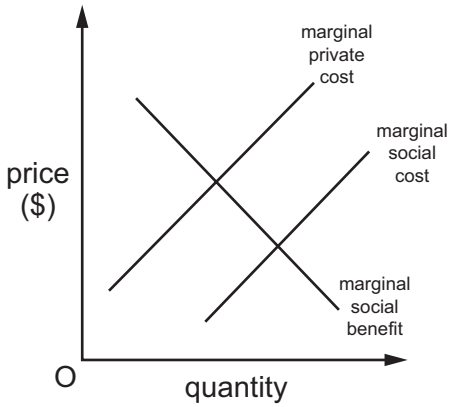
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3



4



Which pair of diagrams show the existence of a positive consumption externality and a negative production externality?

	positive consumption externality	negative production externality
A	1	2
B	2	3
C	3	4
D	4	1

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15 Which statement about costs is correct?

A External cost only affects consumers.

B Opportunity cost affects all transactions.

C Private cost only affects producers.

D Social cost affects all members of society equally.

16 A government is considering building a high-speed rail link.

Why would it **not** proceed with the project?

A The external benefit is greater than the external cost.

B The private cost is greater than the private benefit.

C The social benefit is greater than the social cost.

D The social cost is greater than the social benefit.

17 The production of a product generates a negative externality that increases as output rises.

Which form of government intervention in the market is most suitable to tackle this externality?

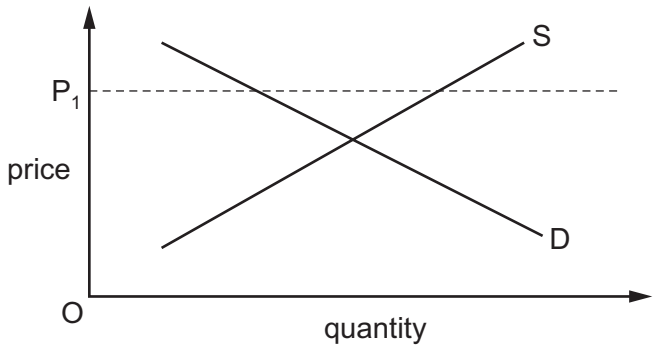
A a direct income tax

B a specific indirect tax

C a subsidy

D an ad valorem indirect tax

18 The government places a maximum price P_1 on an agricultural product. The supply and demand conditions for this product are shown in the diagram.



What will be the outcome in the market for this product?

A There will be an equilibrium price and output.

B There will be a surplus of the product.

C There will be higher than expected profits.

D There will be shortages of the product.

19 Country M specialises in the production of cars while country N specialises in the production of televisions. They then trade with each other.

What is most likely to reduce the level of specialisation and trade?

A There is rising productivity in the production of cars in M and televisions in N.

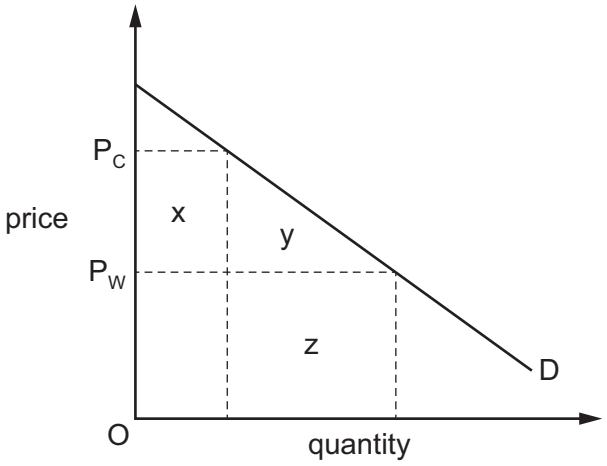
B There is a change from fixed to floating exchange rates between M and N.

C There is a decrease in the costs of transporting cars and televisions between M and N.

D There is an increase in the mobility of factors of production within M and within N.

20 In the diagram, D is a country's demand curve for an imported good.

The country's government imposes an import tariff equal to P_WP_C on the good.



Which areas measure the resulting loss in consumer surplus and the resulting gain in government revenue?

	loss in consumer surplus	gain in government revenue
A	x + y	x
B	x + y	z
C	y	x
D	y	z

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21 In the base year, which combination of export and import price changes will have the greatest effect on the country's terms of trade?

	export prices	import prices
A	decrease by 1%	increase by 1%
B	decrease by 2%	no change
C	increase by 1%	decrease by 1%
D	no change	increase by 2%

22 The table shows selected balances from a country's balance of payments accounts in 2012.

	$ billion
trade in goods	–20
trade in services	+5
net income	+8
net foreign transfers	–4
net foreign loans	–3

What was the country's current account balance in 2012?

A –$15 billion **B** –$14 billion **C** –$11 billion **D** –$7 billion

23 The table shows the changing structure of employment (%) in four countries between 1980 and 2012.

Which country did **not** follow the same trends as the other three countries between 1980 and 2012?

		1980				2012			
		agriculture (%)	industry (%)	services (%)	not employed (%)	agriculture (%)	industry (%)	services (%)	not employed (%)
A	Australia	3.8	16.7	37.8	41.7	1.8	12.2	48.7	37.3
B	Canada	3.0	16.5	40.8	39.7	1.4	12.0	49.1	37.5
C	Japan	6.2	21.5	33.6	38.7	2.1	13.9	40.2	43.8
D	Republic of Korea	19.0	16.0	20.9	44.1	3.7	14.2	41.5	40.6

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24 Aggregate demand in an economy may decrease as a result of an increase in

A consumption expenditure.

B government expenditure.

C import expenditure.

D investment expenditure.

25 The table shows the CPI rate of inflation (%) in the US from 2006 to 2013.

2006	2007	2008	2009	2010	2011	2012	2013
2.5%	4.1%	0.1%	2.7%	1.5%	3.0%	1.7%	2.0%

What can be concluded from the figures about the period 2006 to 2013?

A There was one year of constant prices.

B There were three years of deflation.

C There were only four years of inflation.

D There were eight years of rising living costs.

26 How might an increase in the general price level lead to a rise in real household expenditure?

A by increasing the expectations of further price increases

B by increasing the level of real household debts

C by increasing the level of real wages

D by increasing the spending on exports

27 Between 2011 and 2013, high street retailers reported that expenditure on home-produced and imported goods was reduced. Consumers did not take out loans as the economy was in a recession.

What is the likely result of this?

A a decline in the deficit in the trade account

B a decline in the level of savings

C a decline in the terms of trade

D a decline in unemployment

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28 What does **not** directly increase the supply of £ sterling on the world currency market?

A lower interest rates in the United Kingdom

B higher interest rates in the United States

C an increase in investment opportunities for foreign capital in Latin America

D an increase in sales of United Kingdom exports to the United States

29 There is a depreciation in a country's exchange rate.

If wage costs remain unchanged, what would be the most likely consequence?

A a fall in the rate of inflation

B an increase in profits of manufacturing exporters

C an increase in unemployment

D an outflow of foreign direct investment

30 The currency of a small island economy floats against the US$. The island's Government introduces foreign exchange control restrictions on its citizens.

What is the likely effect on the international value of the island currency and of the US$?

	island currency value	US$ value
A	falls	rises
B	rises	no effect
C	rises	rises
D	uncertain	falls

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