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 2015**

1 hour

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

2403794833

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.

© UCLES 2015

1 In 2013, there was much criticism of a government project to build a new high-speed rail link between two cities.

What is the most likely reason for abandoning such a project?

A The construction cost is greater than the running cost.

B The external cost is greater than the external benefit.

C The future costs are difficult to calculate.

D The opportunity cost is too high.

2 The transition of the former Soviet Union from a planned economy towards a market economy was accompanied by a reduction in the proportion of incomes that households saved.

What could explain this?

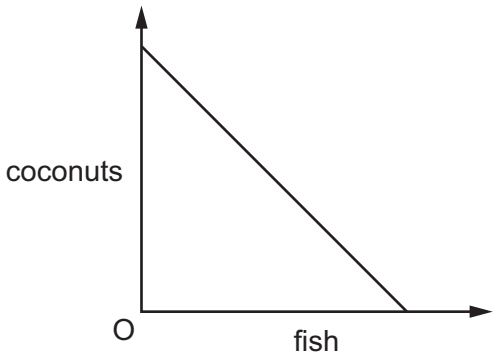
A an increase in income inequality

B an increase in job insecurity

C increased availability of consumer goods

D the introduction of charges for hospital treatment

3 The diagram shows the production possibility curve of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.



What explains the shape of the production possibility curve?

A Coconuts and fish are in joint demand.

B Coconuts and fish are perfect substitutes when consumed.

C Fishing and coconut growing are equally efficient.

D The opportunity cost of fish falls as more time is devoted to fishing.

© UCLES 2015

4 Three women work in a pottery workshop, each dividing their time equally between three products. The table shows how many units of each product are made.

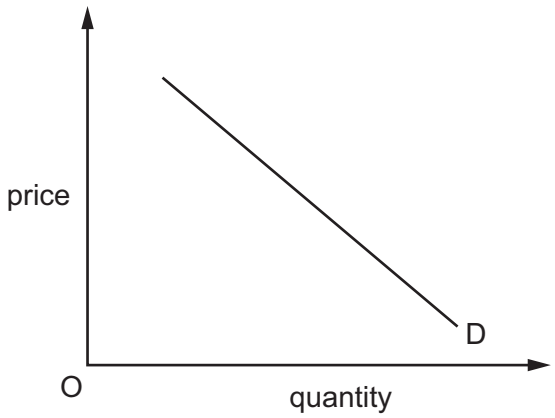
	plates	bowls	mugs
Jane	100	50	50
Sarah	50	100	50
Seema	50	50	100
total	200	200	200

Later, division of labour is introduced and each woman makes only the product in which she has absolute advantage.

What is the rise in total output?

A 150 units **B** 300 units **C** 600 units **D** 900 units

5 The diagram shows a demand curve for a good.



Which statement describes the nature of this demand curve?

A A greater or smaller quantity is demanded as price changes.

B A lower price is the result of a fall in demand.

C As demand increases so does price.

D Quantity changes in proportion to the change in price.

6 Assume that Tiger Woods, a famous golfer, announces that his final golf appearance will be at the next US Open Tournament.

How might this affect the demand for tickets for the tournament?

A It will cause a movement downward along the demand curve.

B It will cause a movement upward along the demand curve.

C It will cause a shift to the left in the position of the demand curve.

D It will cause a shift to the right in the position of the demand curve.

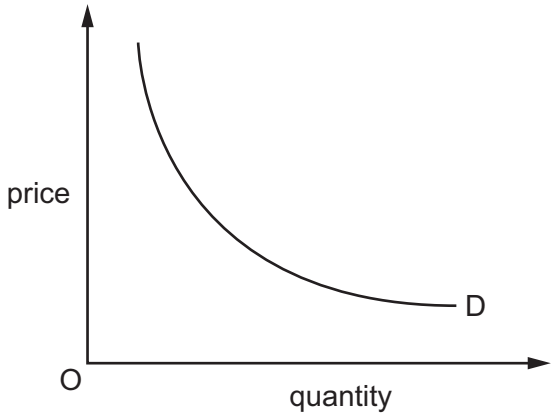
© UCLES 2015

7 A survey into the market for good X found that it is an inferior good and a close substitute to good Y.

Which values for the income elasticity of demand for good X and its cross elasticity of demand with respect to the price of good Y would support this?

	income elasticity of demand for good X	cross elasticity of demand for good X with respect to the price of good Y
A	–1.2	–0.9
B	–1.2	+0.9
C	+1.2	–0.9
D	+1.2	+0.9

8 The diagram shows the demand curve for a product with unitary price elasticity.



What will happen with such a curve?

A A fall in price will bring about an increase in total expenditure on the product.

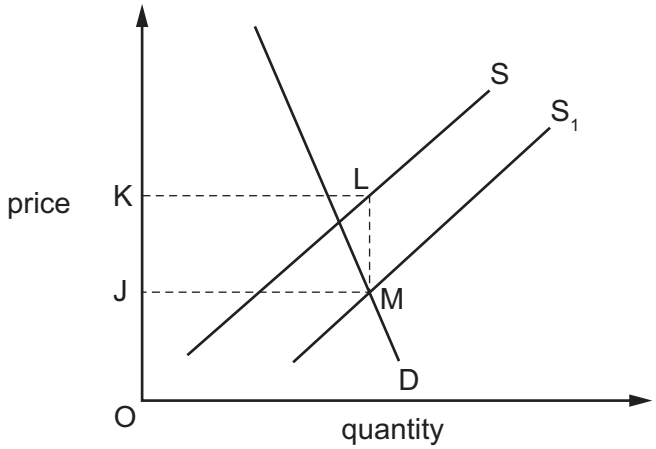
B A fall in price will bring about an increase in sales but a fall in total expenditure on the product.

C As the price rises, total expenditure on the product stays the same.

D As the price rises, total expenditure on the product rises and then falls.

© UCLES 2015

9 The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the cost to the government of a subsidy to rice growers

B the extra saving to importers of the removal of a tariff on rice

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

10 The price of a firm's product rises by 12%.

After one week the firm is only able to produce the same quantity but after one month it can increase the quantity by 6%.

How would the price elasticity of supply be described after one week and after one month?

	after one week	after one month
A	infinite	elastic
B	infinite	inelastic
C	zero	elastic
D	zero	inelastic

© UCLES 2015

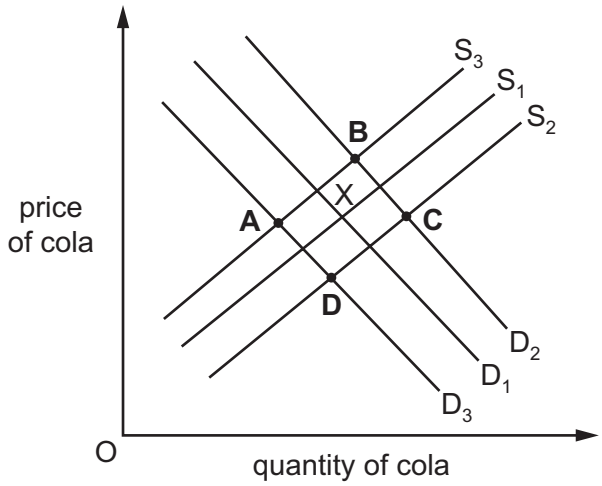
11 Many people used to smoke in restaurants. Restaurant owners have found that the decline in smoking caused by a tax on cigarettes has decreased their sales of meals.

How would this be shown on demand and supply diagrams for cigarettes and for meals?

	cigarettes	meals
A	a movement along the demand curve	a shift inwards of the demand curve
B	a movement along the supply curve	a movement along the demand curve
C	a shift outwards of the demand curve	a shift outwards of the supply curve
D	a shift outwards of the supply curve	a movement along the supply curve

12 S_1 and D_1 show the original supply and demand curves for cola. Point X is the initial equilibrium.

What will be the new equilibrium position following a rise in production costs and a fall in the price of lemonade?



13 Producer surplus is the difference between

A the consumer surplus from the good and the producers' total cost in supplying the good.

B the highest price that the consumer would be willing to pay for the good and the price the producer actually sold it for.

C the lowest price that the producer would accept for the good and the price the producer actually sold it for.

D the quantity that the producers manufacture in a week and the amount sold to consumers in that week.

© UCLES 2015

14 What is an example of an externality?

A Production of good X directly affects the cost of producing good Y.

B The entry of a new firm reduces the profits of existing firms producing good X.

C The introduction of bus-only lanes reduces the travel times of bus passengers.

D The opening of a new underground railway reduces the revenue of bus operators.

15 The table gives the estimated costs and benefits of a proposed new leisure complex.

	$000s
private benefits	120
external benefits	80
private costs	140
external costs	20

What is the estimated value of the social benefits of the project?

A $40 000 **B** $60 000 **C** $80 000 **D** $200 000

16 The production of what is **most** likely to require a government cost-benefit analysis?

A houses

B medicines

C roads

D schools

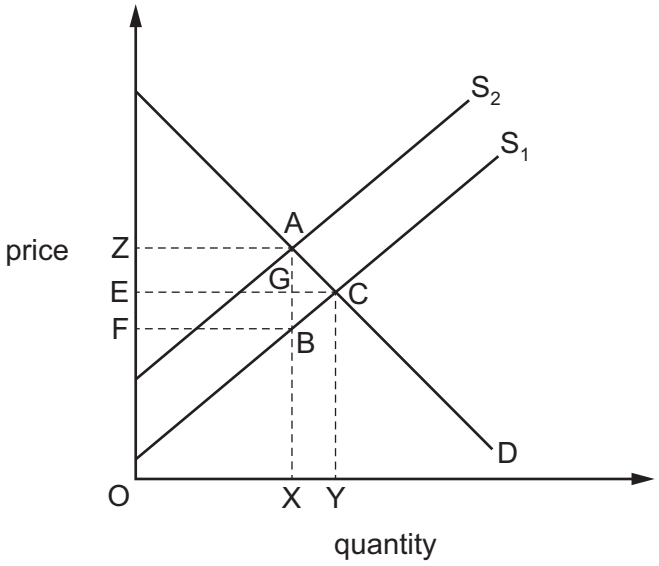
17 A national museum charges an entry fee for admission.

Which combination of rival and excludable qualities would apply to visits to the national museum on a day when there are very few visitors?

	rival	excludable
A	no	no
B	no	yes
C	yes	no
D	yes	yes

© UCLES 2015

18 The diagram shows the effects of placing a unit tax equal to AB on a good.



Which area represents the burden of tax paid by the producer?

A ECBF **B** EGBF **C** ZABF **D** ZAGE

19 Below are production possibilities for two countries showing their daily production of food and drink, each using the same quantity of resources.

	food (units)	drink (units)
country X	50	100
country Y	40	60

What can be concluded from the figures?

A Country X has absolute advantage in food and comparative advantage in drink.

B Country X has comparative advantage in both goods.

C Country Y has absolute advantage in drink and comparative advantage in food.

D Country Y has neither absolute nor comparative advantage.

20 How might trade protection reduce a country's ability to compete in export markets?

A by increasing firms' profit margins on goods supplied to the domestic market

B by increasing the cost to the country's manufacturers of imported components

C by increasing the real disposable income of the country's consumers

D by making the country more attractive to inward investors

© UCLES 2015

21 What is found in an economic union but **not** in a customs union?

A a common external tariff on trade with non-member countries

B an absence of quotas on trade between member countries

C an absence of tariffs on trade between member countries

D free movement of labour and capital between member countries

22 The table shows the balance in $million for four items in a country's current account for two years.

	goods	services	income	transfers
Year 1	–72	84	–3	–24
Year 2	–87	96	12	–44

What can be concluded about the changes between Year 1 and Year 2?

A Income has moved from a net inflow to a net outflow.

B The difference between the value of exported and imported services has increased.

C The value of exported goods has fallen.

D Transfers into the country have increased.

23 Company X reduces its workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.

Company Y increases its workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	falls	rises
B	rises	falls
C	rises	rises
D	falls	falls

© UCLES 2015

24 In 2012, a survey of household expenditure identified X and Y as the contents of a basket of goods for a price index. The value of the index in 2012 was 100. In 2013, the index was valued at 116. During 2013, the prices of X and Y increased by 10% and 20%, respectively.

In percentage terms, which weights were attached to X and Y in calculating the index?

	good X (%)	good Y (%)
A	25	75
B	40	60
C	50	50
D	70	30

25 In an economy with an interest rate of 4% per annum, the rate of inflation falls from 5% to 3% per annum.

What will be a benefit of this fall?

A Menu costs will fall to zero.

B People on fixed incomes will be better off in real terms.

C Savers will gain in real terms.

D The purchasing power of the currency will rise.

26 When is a deficit on the current account of the balance of payments likely to worsen?

A when a government adopts a deflationary macroeconomic policy

B when a government devalues the currency

C when prices of essential imported raw materials increase significantly

D when tariffs are placed on imported products with a wide range of domestic substitutes

27 What is the real exchange rate?

A the exchange rate at which foreign currency traders can buy a country's currency

B the exchange rate between a country's currency and the US Dollar

C the exchange rate with international differences in price inflation removed

D the weighted average of a country's exchange rates with its major trading partners

© UCLES 2015

28 An appreciation of country X's currency leads to an increase in its foreign currency earnings from tourism.

What can be concluded from this about the demand by foreigners for holidays in country X?

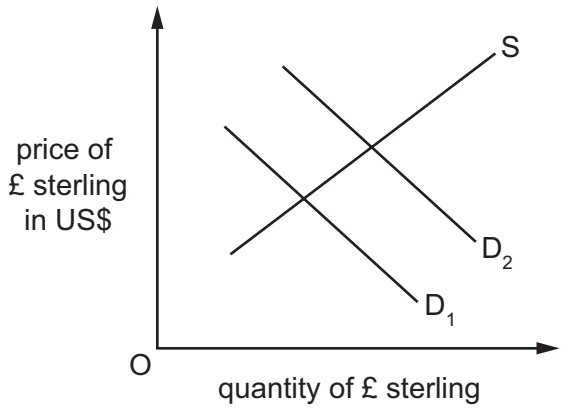
A It is income elastic.

B It is price elastic.

C It is income inelastic.

D It is price inelastic.

29 In the diagram, curves D_1 and S relate to the demand for and supply of £ sterling in the foreign exchange market.



What may cause the demand curve to shift from D_1 to D_2?

A a decrease in UK interest rates

B a decrease in the price of US goods sold in the UK

C the removal of UK tariffs against US goods

D the development of UK substitutes for US goods

30 A government uses monetary policy to manage its economy.

Which sequence correctly describes the most likely consequence of an increase in the country's inflation rate?

	expectations about future interest rates	→	capital inflows	→	exchange rates
A	fall		decrease		depreciate
B	fall		increase		appreciate
C	rise		decrease		depreciate
D	rise		increase		appreciate

© UCLES 2015

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.