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 2015**

1 hour

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

* 6 1 8 3 8 8 8 9 4 *

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.

IB15 06_9708_13/4RP
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1 What is the fundamental assumption of the economic problem?

A Factors of production are finite.

B Individuals are the best judges of their own wellbeing.

C Individuals can be relied upon to behave rationally.

D The principal aim of private firms is profit maximisation.

2 To improve their economic performance, Eastern European countries have switched from planned economies to mixed economies.

What is likely to be the most common outcome of such a change?

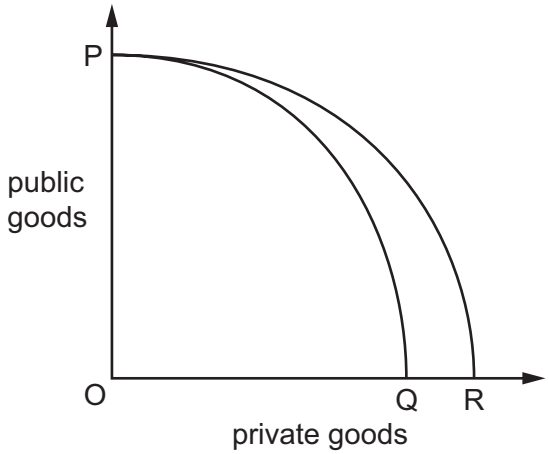
A short-term and long-term success in improving economic performance

B short-term and long-term failure in improving economic performance

C short-term failure and long-term success in improving economic performance

D short-term success and long-term failure in improving economic performance

3 The diagram shows the change in a country's production possibility curve from PQ to PR.



What increases as a result of the change from PQ to PR?

A the price of private goods

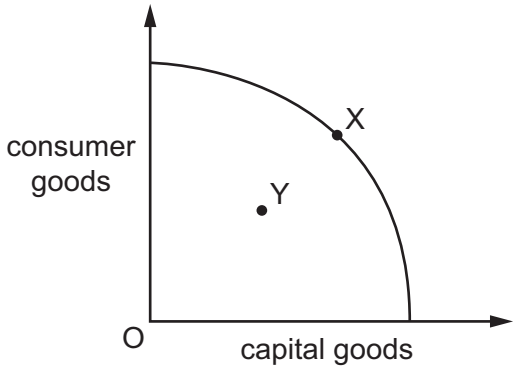
B the price of public goods

C the opportunity cost of private goods

D the opportunity cost of public goods

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4 The diagram shows a production possibility curve for an economy.



Assuming that the production possibility curve remains unchanged, what is the most likely reason for the movement from point X to point Y?

A a civil war causing a widespread loss of resources

B a permanent fall in productivity in both capital and consumer goods

C the exhaustion of a natural resource

D the rise in unemployment due to a recession

5 Buses currently run every two hours between X and Y.

The bus company which operates the service decides to introduce an hourly service.

How will this most likely affect the number of passengers carried per day and the number of passengers carried per journey?

	number of passengers per day	number of passengers per journey
A	increase	decrease
B	increase	uncertain
C	unchanged	decrease
D	unchanged	uncertain

6 The table refers to exports of sugar from Jamaica in 1999 and 2000.

	exports of sugar (tonnes)	export earnings from sugar (US$ millions)
1999	177 522	95.79
2000	180 481	83.8

What can be concluded from the data?

A The demand for sugar was price elastic.

B The income elasticity of demand for sugar was negative.

C The price of sugar in US$ fell between 1999 and 2000.

D The supply of sugar was price elastic.

7 The price elasticity of demand for grapes is –2.0. When the price is $15, quantity demanded is 5000 units.

How much will be demanded when the price falls to $12?

A 3000 units

B 5500 units

C 7000 units

D 7500 units

8 The Toyota Motor Corporation makes cars in response to customer orders rather than attempting to sell cars it has already built.

If the company received a large increase in orders for its Prius model, what will be expected of its current supply curve on a demand and supply diagram?

A It will be unchanged.

B It will become flatter.

C It will shift to the left.

D It will shift to the right.

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9 The table shows the demand and supply schedules for a good before and after the imposition of a tax.

price ($)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

What was the amount of the tax?

A $1 **B** $2 **C** $3 **D** $4

10 What is the likely nature of the price elasticity of supply of a crop such as rice?

A highly elastic in both the short and the long run as rice is an essential product

B highly elastic in the short run and more inelastic in the long run as production methods improve

C highly inelastic in both the short and the long run as the land area of a country is fixed

D highly inelastic in the short run and more elastic in the long run as it takes time to plant rice

11 During a certain period, 10 000 units of a normal good are sold at a price of US$20. During a later period, 12 000 units are sold at a price of US$22.

What could explain this change?

A an increase in indirect taxation

B an increase in the cost of raw materials

C an increase in the price of a substitute commodity

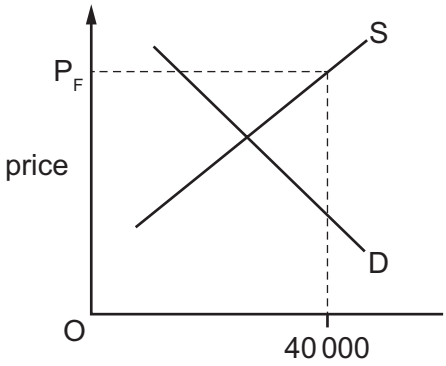
D an increase in the productivity of factors of production

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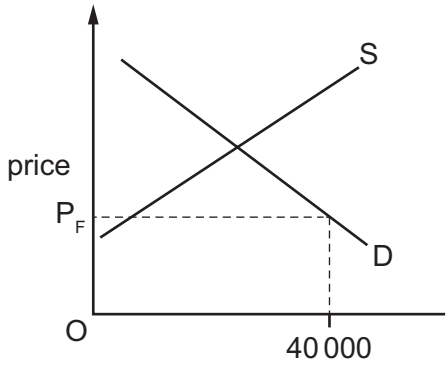
12 The final of a major sports event is held in a stadium which has a fixed capacity of 40 000 people. The price for a seat is set at P_F but when the tickets go on sale all tickets are sold very quickly with many disappointed people unable to buy a ticket.

Which diagram best represents this?

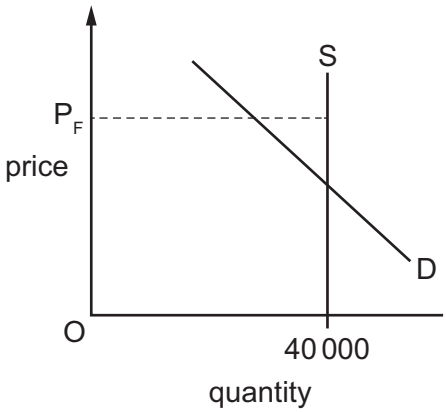
A



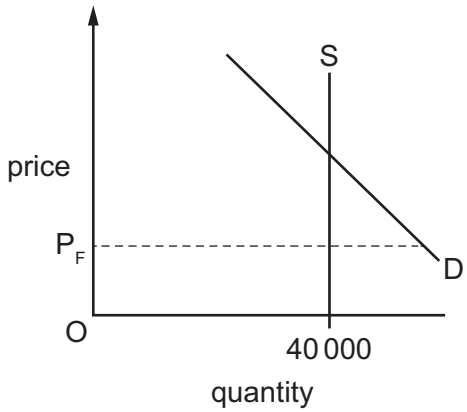
B



C



D



13 In recent years, downloading music to computers and other electronic devices has become more popular replacing other ways of buying music, e.g. compact discs (CDs).

What is likely to happen to the price and the amount of resources allocated to each of these markets?

	downloaded music market		CD market	
	price	resources allocated	price	resources allocated
A	decrease	decrease	increase	decrease
B	decrease	increase	increase	increase
C	increase	decrease	decrease	increase
D	increase	increase	decrease	decrease

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14 James grows fruit trees in his garden. They attract butterflies and bees.

What is **not** an externality of this situation?

A Neighbours may be stung by the bees that pollinate the trees.

B Neighbours may buy fruit more cheaply from James than from the local supermarket.

C Neighbours may enjoy better air quality as the trees naturally improve the atmosphere.

D Neighbours may like to watch the activity of the wildlife at no cost.

15 Jaguar-Land Rover launched a car in 2013 that could run on electricity as well as gas (petrol). This would reduce harmful emissions by about 14% compared with the next most efficient car. However, it was more expensive to buy.

What can be concluded if these cars are bought rather than the existing models?

A Private benefits and external costs would rise.

B Private costs would rise and external costs would fall.

C Private costs and external costs would fall.

D Social costs would rise.

16 A government conducts a cost-benefit analysis into the construction of a new high-speed railway network. The analysis reveals the following information.

	US$ billion
private benefits	120
external benefits	40
private costs	100

If it is to build the railway network, the government requires that the net social benefit is more than US$20 billion.

What must the external costs be to satisfy the government?

A under US$40 billion

B over US$40 billion but below US$60 billion

C over US$60 billion but below US$160 billion

D over US$160 billion

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17 Prisoners are able to buy an upgrade on the type of prison cell they are allocated in some state-run prisons in California.

What does this indicate?

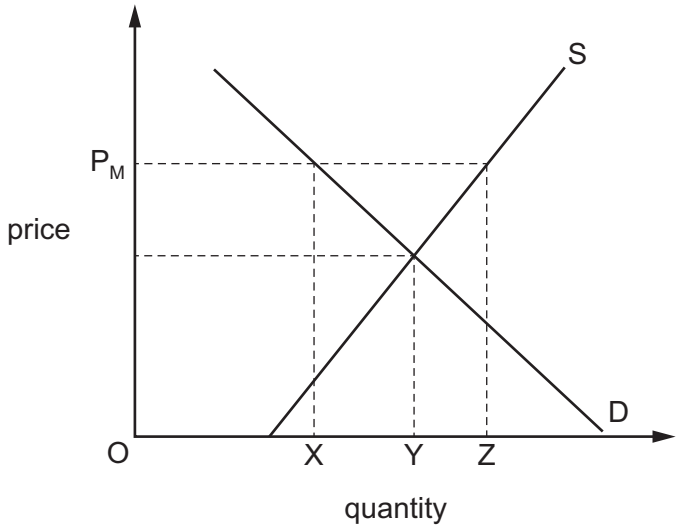
A Public goods can be made excludable.

B Public goods use price as an allocative mechanism.

C The market system is not only used for private enterprise.

D The market system misallocates resources.

18 The diagram shows the demand and supply curves of a good.



If the government sets a maximum price of OP_M, what will be the quantity bought by consumers and the quantity supplied by producers?

	quantity bought by consumers	quantity supplied by producers
A	OX	OX
B	OX	OZ
C	OY	OY
D	OY	OZ

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19 A trading country can produce two goods, X and Y. It specialises completely in the production of good Y.

What will be the opportunity cost to the country of consuming additional imports of good X?

A the additional imports of good X

B the increase in the resources required to produce good X

C the reduction in the domestic consumption of good Y

D the reduction in the resources available to produce good Y

20 What will rise as a consequence of removing a tariff?

A domestic consumer surplus

B domestic price

C domestic producer surplus

D government revenue

21 The table shows how much rice and wheat two countries, X and Y, can grow when each country divides its resources equally between growing rice and wheat.

	country X	country Y
rice (units)	900 million	100 million
wheat (units)	300 million	50 million

Assume that each country now specialises according to comparative advantage and trades with the other country.

Which terms of trade would benefit both countries?

A 1 wheat = 5 rice

B 1 wheat = 3 rice

C 1 wheat = 2.5 rice

D 1 wheat = 2 rice

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22 The table gives details of the balance of trade in the US in 2011 and 2012.

	2011	2012
value of goods exported (US$ millions)	1 496 000	1 561 000
value of goods imported (US$ millions)	2 240 000	2 303 000
balance of trade in goods (US$ millions)	–744 000	–742 000
balance of trade in goods and services (US$ millions)	–557 000	–535 000

What can be concluded about the US in 2012?

A The balance of trade in goods worsened.

B The balance of trade in services improved.

C The prices of goods imported and exported increased.

D The volumes of goods imported and exported increased.

23 A country increases its labour productivity in the manufacturing industry.

What is **least** likely to result from this?

A higher economic growth

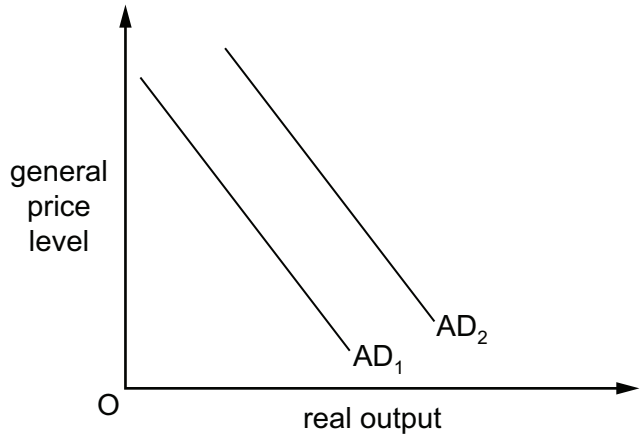
B higher levels of exports of manufacturing

C lower inflation

D lower wage rates in manufacturing

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24 The diagram shows a shift in an economy's aggregate demand curve from AD_1 to AD_2.



What could **not** be a cause of the shift?

A a decrease in income tax

B a decrease in the price of goods

C an increase in money wage rates

D an increase in the money supply

25 What will be the impact on demand-pull inflation and on cost-push inflation of an increase in indirect taxes?

	demand-pull inflation	cost-push inflation
A	lower	lower
B	lower	raise
C	raise	lower
D	raise	raise

26 At the start of 2009, a worker earned US$ 100 a week. In 2009, the Retail Price Index (RPI) rose by 4% and his average wage rose by 7%. In 2010, the RPI fell by 3% and his wage fell by 2%.

What happened to his real wage between the start of 2009 and the end of 2010?

A It fell by less than 5%.

B It fell by more than 5%.

C It rose by less than 5%.

D It rose by more than 5%.

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27 A government has low reserves of foreign currency. When would it be most likely to consider a deficit on current account to be a serious problem?

A when the country is experiencing a period of high, sustained growth

B when the deficit alternates regularly with a surplus

C when the deficit exceeds the sum of errors and omissions in the balance of payments account

D when the level of international confidence in the country is low

28 The table shows indicators of a country's economic performance over a two-year period.

year	exchange rate index	volume of exports index	volume of imports index	balance of trade in goods and services ($)
1	100	100	100	zero
2	100	90	100	+500 million

What is consistent with the above information?

A There has been a fall in the price of exports.

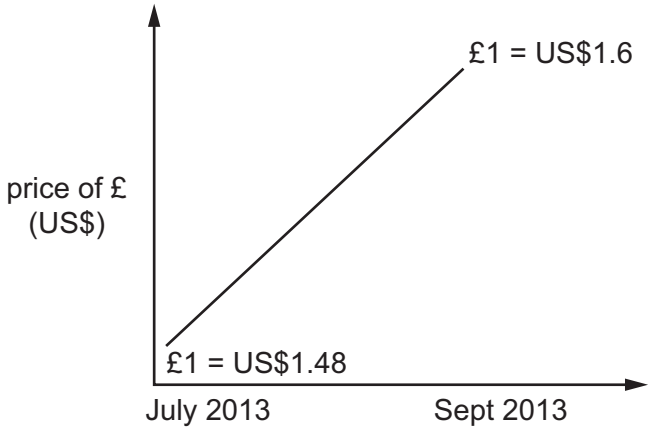
B There has been an improvement in the terms of trade.

C There has been an increase in the level of real income per head.

D There has been an increase in the price of imports.

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29 The graph shows the movement of the £ sterling against the US$ over a three-month period in 2013.



What could explain this change?

A an increase in confidence about the UK economy

B an increase in productivity in the US

C an increase in UK Government debt

D an increase in US interest rates

30 China had US$155 billion current account surplus in 2012.

Which combination of policies might the Chinese Government use to restore equilibrium?

A Decrease income tax and raise the value of the Chinese currency, the Yuan.

B Increase income tax and lower the value of the Chinese currency, the Yuan.

C Increase subsidies to Chinese firms and reduce income tax.

D Increase tariffs on imports and increase income tax.

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