Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2016**

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.

This document consists of **13** printed pages and **3** blank pages.

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1 A driver makes the following estimates in considering the purchase of a car which she intends to use only when she would otherwise have used public transport.

	$
purchase price of car	6000
value of car after one year	4500
car operating and repair costs, insurance and taxation for one year	1800
cost of using public transport for one year instead of travelling by car	800
potential earnings after tax on $6000 invested for one year	500

What will be the opportunity cost in monetary terms to the driver over the year of travelling by car rather than by public transport?

A $1500 **B** $3000 **C** $3700 **D** $7800

2 The transition of centrally planned economies to market economies was accompanied by a significant change in the composition of output.

What was an immediate consequence of this transition?

A a build-up of unsold stocks of goods

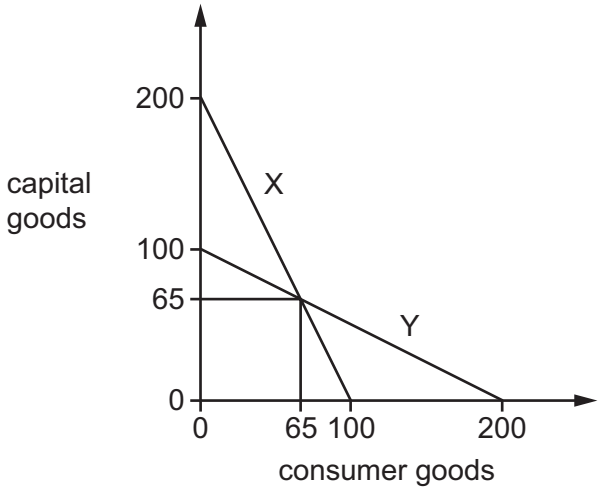
B an increase in exports of goods

C an increase in structural unemployment

D decreasing prices of goods and services

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3 The diagram shows the production possibility curves of two economies, X and Y.



Which statement about the two economies is correct?

A Both economies always have identical opportunity costs.

B Both economies have the same future growth prospects.

C The opportunity costs are constant in each economy.

D The terms of trade for both countries will be one capital good for one consumer good.

4 A production possibility curve shows labour-intensive farming output and capital-intensive manufacturing output.

What would **not** cause a shift in this curve?

A a reduction in sales tax on manufactured products

B better training of workers in the manufacturing sector of the economy

C improvements in the productivity of agricultural machinery

D the reclamation of land to be used for both agriculture and manufacturing

5 In calculating the short-run supply schedule for a firm, what is assumed to remain unchanged?

A the number of consumers

B the price of the good

C the quantities of all factors

D the state of technology

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6 There are two main types of coffee grown, arabica and robusta. The table gives details of the four largest coffee producers for 2013-2014. Production is measured in thousand 60 kilogram bags.

coffee producer	arabica coffee	robusta coffee	total output
Brazil	39 400	14 400	53 800
Vietnam	1 175	27 800	28 975
Indonesia	1 650	7 850	9 500
Colombia	11 000	0	11 000

What can be concluded from the table about production in the four countries?

A Brazil has the highest level of specialisation.

B Brazil produces more coffee than the other three named producers together.

C Robusta coffee production is greater than arabica coffee production.

D Vietnam has a comparative advantage in robusta and Colombia in arabica.

7 A manufacturer progressively reduces the price of his product in an attempt to increase total revenue.

The table shows the outcome of this policy.

price ($)	total revenue 000s ($)
10	750
9	750
8	750

What is the price elasticity of demand for the product?

A perfectly inelastic

B relatively inelastic

C perfectly elastic

D unitary

8 Public transport has an income elasticity of demand of –0.36.

What does this mean about public transport?

A It has close substitutes.

B It is a necessity.

C It is a normal good.

D It is an inferior good.

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9 The price elasticity of supply of an 'App' for a phone is perfectly elastic. The current selling price for the 'App' is $10 and 200 'Apps' are sold per day. The 'App' becomes more popular and, as a result, demand increases by 50% at every price.

What will be the outcome of the change in demand?

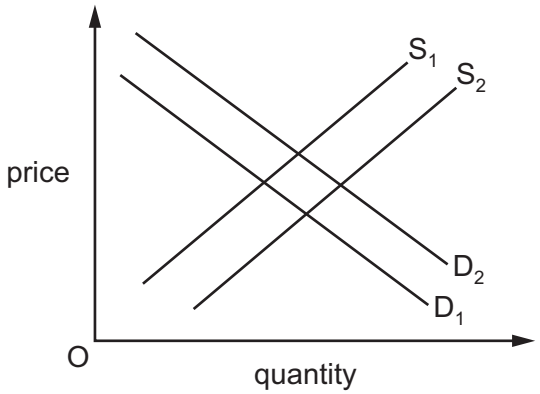
A The price increases by 50% and the firm's revenue increases by 50%.

B The price increases by less than 50% and the firm's revenue increases by less than 50%.

C The price stays the same and the firm's revenue increases by 50%.

D The price stays the same and the firm's revenue increases by an infinite amount.

10 In the diagram shown, D_1 and S_1 are the initial demand and supply curves for the US car market.



What will cause the demand curve for cars to shift to D_2 and the supply curve for cars to shift to S_2?

A a fall in real income and an increase in a unit tax on cars

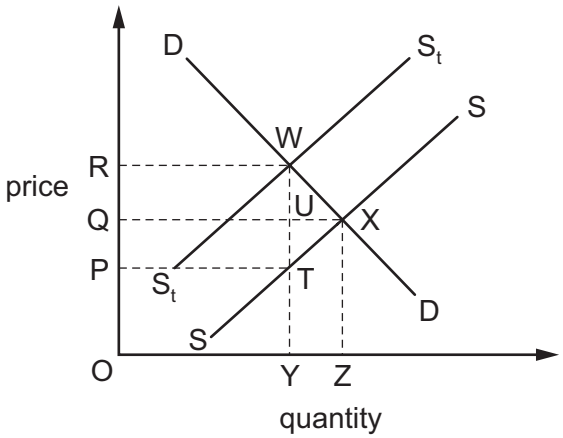
B a fall in unemployment and the removal of subsidies from the car industry

C a rise in the price of bus fares and a fall in the cost of production of the car industry

D a rise in the price of petrol and a fall in the number of firms in the car market

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11 A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax, S_tS_t is the supply curve after tax.



Which area represents that part of the tax revenue paid by consumers?

A ORWY **B** PQUT **C** PRWT **D** QRWU

12 Goods X and Y are complements.

What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

	equilibrium price of X	equilibrium quantity of X
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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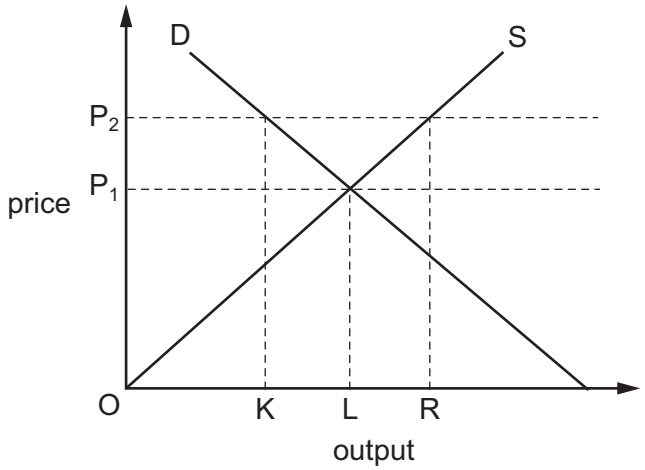
13 The table shows the price Rashid is willing to pay for successive cakes and their production cost.

cakes	1st	2nd	3rd	4th
price willing to pay	$0.90	$0.80	$0.65	$0.50
production cost	$0.20	$0.30	$0.40	$0.50

If the price is $0.50 and Rashid buys four cakes, what is the monetary value of the consumer surplus and the producer surplus?

	consumer surplus ($)	producer surplus ($)
A	0	0
B	0.15	0.10
C	0.85	0.60
D	2.85	1.40

14 The diagram shows the market supply and demand curves for wheat.



What should a government do to maintain a minimum price of OP_2?

A buy quantity KL

B buy quantity KR

C sell quantity LR

D sell quantity KR

15 A product with infinite elasticity of supply has sales of 1000 units a week at a price of $1 per unit. Price elasticity of demand is 1.5 over the relevant range.

The government imposes a tax of 10%.

What will be the government's weekly tax revenue?

A $15 **B** $85 **C** $100 **D** $150

16 A government pays a subsidy to a country's onion producers.

With which price elasticity of demand (PED) will this action be most effective in reducing the price of onions?

A PED equals 0.

B PED is greater than 0 but less than 1.

C PED equals 1.

D PED is greater than 1 but less than infinity.

17 Which statement best describes a transfer payment?

A It is a loan from the government to help firms.

B It is a payment to individuals not linked to economic activity.

C It is the redistribution of income from government to individuals for work done.

D It is the redistribution of income from households to firms for goods purchased.

18 On 1 May 2012 President Morales of Bolivia announced the nationalisation of Transportadora de Electricidad (TDE), a subsidiary of a Spanish company that owned and ran approximately three-quarters of Bolivia's power grid.

What can be concluded from this?

A Bolivian employees of TDE will own 100% of its shares.

B Only Bolivian nationals will be allowed to work at TDE.

C TDE company shares will be sold to a Bolivian company.

D The Bolivian government will take over ownership of TDE.

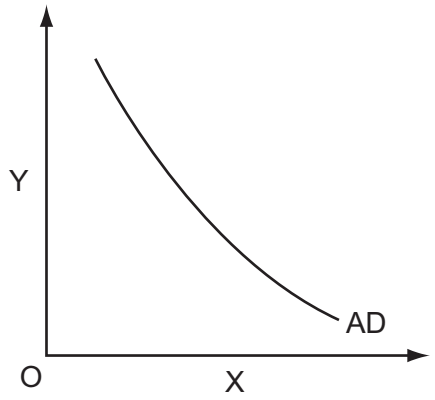
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19 An economy faces rising raw material costs and a fall in business confidence.

How will the economy's real GDP and the price level be affected?

	real GDP	price level
A	it may rise or fall	it will rise
B	it will fall	it may rise or fall
C	it will fall	it will fall
D	it will rise	it may rise or fall

20 The diagram shows an aggregate demand curve (AD).



What is measured on the horizontal (X) axis and the vertical (Y) axis?

	horizontal axis X	vertical axis Y
A	money national output	real disposable income
B	price level	real GDP
C	real GDP	price level
D	real disposable income	money national output

21 The table shows information about a country whose consumers spend their income on three commodities, P, Q and R.

commodity	index of prices in year 1	index of prices in year 2	consumers' expenditure in year 1
P	100	160	$100 million
Q	100	80	$300 million
R	100	100	$100 million

Between year 1 and year 2 how has the general level of prices changed?

A It has risen by 40%.

B It has risen by 10%.

C It has remained the same.

D It has fallen by 5%.

22 The UK inflation rate as measured by the Consumer Price Index was 5.2% in September 2011. In June 2014 the UK inflation rate as measured by the Consumer Price Index was 1.6%.

What can definitely be concluded about the period September 2011 to June 2014?

A Fixed income earners had increased purchasing power.

B Prices were falling.

C The rate of price increases was slowing.

D The real rate of interest became positive.

23 If a country has a surplus in its balance of payments then its money supply is likely to

A fall because more of its goods were purchased by foreign consumers than by consumers at home.

B increase because the foreign currency received for exports will be exchanged for domestic currency.

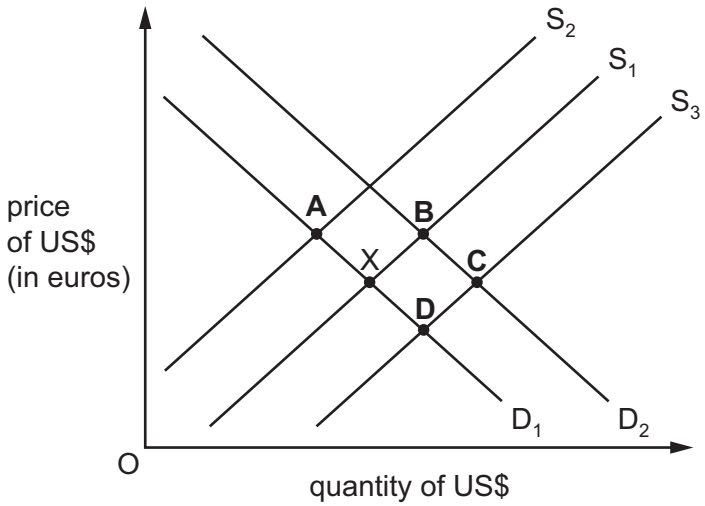
C remain constant because the surplus is automatically offset by a loan for the deficit countries.

D remain unchanged because its exports are bought with foreign currency.

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24 In the diagram the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after an increase in demand from US residents for holidays in Europe?



25 Which combination of changes in import prices and export prices would result in a fall in the value of a country's terms of trade?

	average import prices	average export prices
A	decrease by 5%	decrease by 10%
B	decrease by 10%	decrease by 5%
C	decrease by 10%	increase by 5%
D	increase by 5%	increase by 10%

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[Turn over

26 The diagram shows the production possibility curves for two countries, X and Y.

A decrease in productivity moves country X's production possibility curve from X_1 to X_2.



Which statement is correct?

A After the change X would export raw materials and import manufactured goods.

B After the change there is no economic basis for trade.

C Before the change Y had an absolute advantage in the production of raw materials.

D Before the change X had a comparative advantage in both products.

27 What is the main argument a government of a small country might use in times of a worsening worldwide recession to justify an increase in import tariffs and other trade protectionist policies?

A to protect the country from a rise in domestic unemployment

B to protect the country's terms of trade

C to protect the domestic economy from increasing prices

D to protect the domestic economy from the import of poor quality goods

28 What would be classified as a supply-side policy measure?

A a law to alter the power of trade unions

B a reduction in the government's fiscal deficit

C an open market sale of securities

D the imposition of a tariff on imported goods

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29 Which policy measure is an expenditure-switching measure designed to reduce a current account surplus?

A a cut in income tax rates

B a depreciation of the exchange rate

C the removal of government subsidies to producers

D the removal of limits on bank lending

30 A country faces twin problems of deflation and a current account deficit on the balance of payments. It decides to run a budget deficit and to lower interest rates.

Which effects are these measures likely to have on its twin problems?

	deflation	current account deficit
A	improves	uncertain
B	improves	worsens
C	worsens	uncertain
D	worsens	worsens

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