UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice (Core) **October/November 2010**

1 hour

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

7556438089

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, 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.

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 **12** printed pages.

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1 What is the central problem for an economy?

A to achieve maximum growth in production

B to allocate resources between alternative uses

C to ensure all resources are fully exploited

D to overcome inequalities in income distribution

2 What are most likely to be disadvantages found in a market economy?

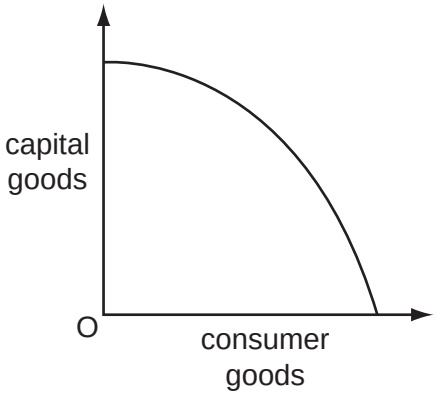
A economic growth and state-owned companies

B merit goods and free competition

C public goods and economic specialisation

D unemployment and external costs

3 The diagram shows the production possibility curve of an economy.



Which statement explains the shape of this curve?

A More efficient workers are drawn away from the production of consumer goods.

B Resources cannot be switched between producing capital and consumer goods.

C The economy is more efficient at producing capital than consumer goods.

D The opportunity cost of producing capital goods increases the more capital goods are made.

4 What is a correct statement about money?

A Its functions mean the characteristics that it possesses.

B Its liquidity means its use as legal tender.

C Its supply means the total value of banknotes in circulation.

D Its value means its purchasing power.

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5 What might shift an individual's demand curve for petrol to the left?

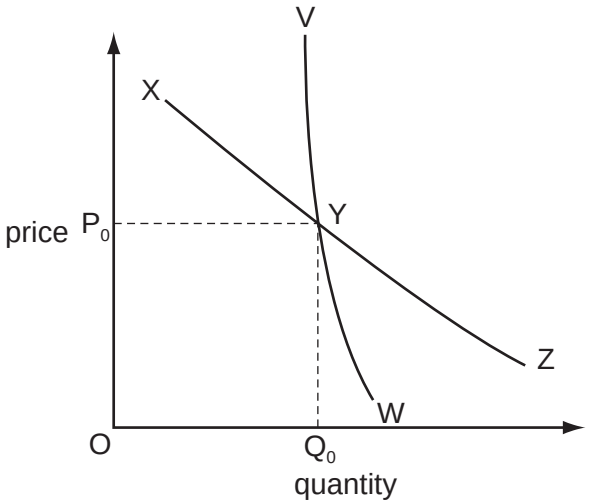
A a fall in the price of parking

B a fall in the price of petrol

C a rise in the price of cars

D a rise in the price of public transport

6 The diagram shows a consumer's short-run and long-run demand curves for coconuts. Initially, the consumer purchases quantity Q_0 at price P_0.



If the price of coconuts increases from P_0, the consumer's short-run response is greater than his long-run response. If the price decreases from P_0 his short-run response is smaller than his long-run response.

What is the consumer's short-run demand curve?

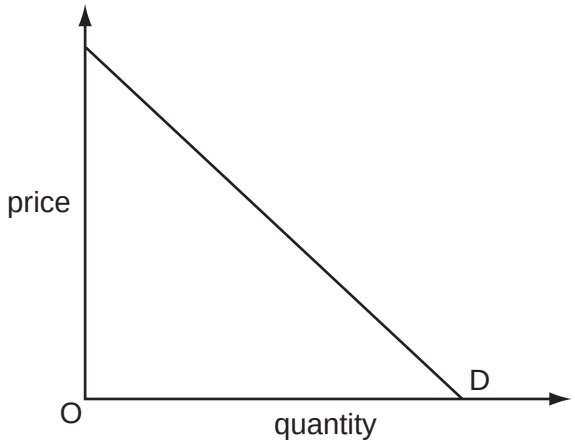
A VYW **B** VYZ **C** XYZ **D** XYW

7 The table shows a consumer's expenditure on a range of goods at different levels of income.

For which good does the consumer have an income elasticity of demand greater than zero, but less than one?

	consumer's income ($)		
	40	50	100
good	consumer's expenditure ($)		
A	10	18	40
B	10	11	20
C	10	10	10
D	10	8	6

8 The diagram shows the demand curve for a product.



Which statement is correct?

A Demand is less elastic at higher prices than at lower prices.

B Consumer expenditure on the product always rises when price falls.

C Price elasticity of demand is different at every price.

D Price elasticity of demand equals one at every price.

9 The table shows the market demand for a product and the individual supply of the three firms X, Y and Z in the industry.

price $	market demand (000)	supply by X (000)	supply by Y (000)	supply by Z (000)
40	60	50	10	20
30	70	41	11	18
20	80	34	10	16
10	90	30	9	11

What is the equilibrium market price?

A $40 **B** $30 **C** $20 **D** $10

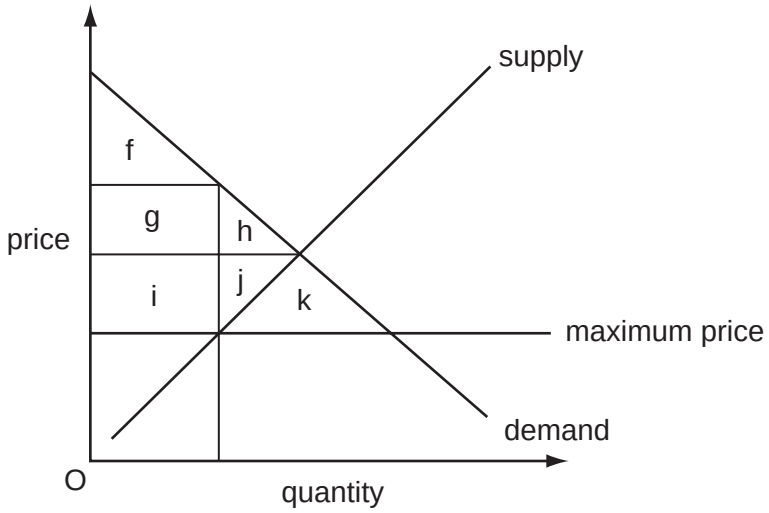
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10 Domino Pizza, the largest US pizza chain, said that its profits had been reduced by price inflation on ingredients and by a reduction in consumers' disposable income.

How would these changes affect the demand and supply curve for its products?

	demand	supply
A	move to the left	move to the left
B	move to the left	move to the right
C	move to the right	move to the left
D	move to the right	move to the right

11 Which area in the diagram represents the amount of consumer surplus that would occur in a market if a government enforced an effective maximum price?



A f only

B f + g + h only

C f + g + i only

D f + g + h + i + j + k

12 Rising demand for oil from China and other countries is leading to concerns that there may be a world shortage of oil.

How should a change in the price of oil prevent such a shortage developing?

A Price should fall to reduce demand and encourage a search for more oil.

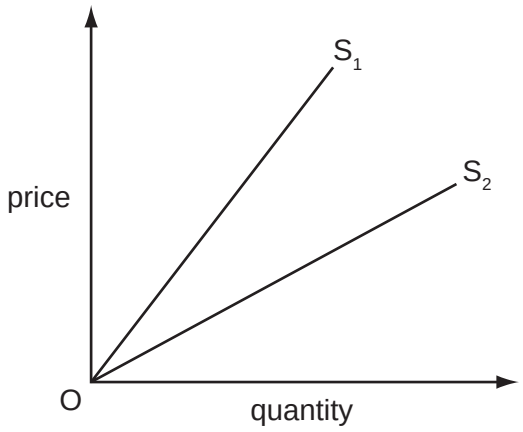
B Price should fall to reduce supply and encourage a reduction in fuel use.

C Price should rise to reduce demand and encourage a search for alternative fuels.

D Price should rise to reduce supply and encourage a switch to alternative fuels.

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13 In the diagram OS_1 and OS_2 are two straight-line supply curves.



As price increases, the elasticity of supply

A decreases along both OS_1 and OS_2.

B increases less rapidly along OS_1 than along OS_2.

C increases more rapidly along OS_1 than along OS_2.

D is constant along both OS_1 and OS_2.

14 What is the most likely reason economists will give to explain why large hospital projects are often funded by governments?

A Governments usually control the construction industry.

B Hospitals benefit many people who do not use them.

C Hospitals are non-excludable.

D Hospitals are an essential service.

15 How would net external benefit be calculated?

A external benefit minus external cost

B external benefit plus private benefit

C private benefit plus social benefit

D social benefit minus private cost

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16 The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits $m	external benefits $m	private costs $m	external costs $m
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

17 What will make it more likely that road tolls will reduce traffic congestion?

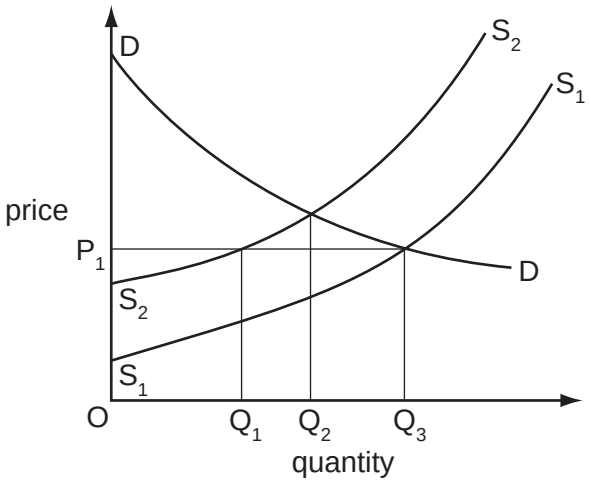
A Cross-elasticity of demand between private and public transport is zero.

B Demand for car use is income-elastic.

C Demand for car use is price-elastic.

D Supply of public transport is price-inelastic.

18 In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.



Bad weather then reduces supply to S_2S_2.

The government does not allow the price to rise above OP_1.

How much of the product will the government have to supply from stocks if the price is to be maintained at OP_1?

A OQ_3 **B** Q_1Q_3 **C** Q_1Q_2 **D** Q_2Q_3

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19 Steel is produced in a number of countries, including China, Japan and the US. It is used in the manufacture of cars. The US protects its domestic steel industry by imposing high tariffs on foreign steel imports.

Which two groups would benefit from the removal of the US tariffs?

A Chinese steel producers and Japanese car manufacturers

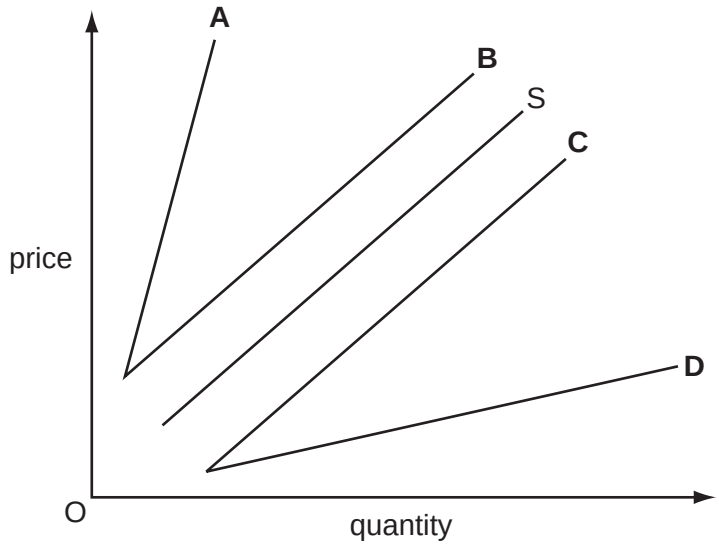
B Japanese steel producers and US car manufacturers

C US steel producers and Chinese steel workers

D the US government and Japanese steel workers

20 The supply of an imported good is shown by curve S.

What will be the new supply curve if an ad valorem (percentage) tariff is imposed on the good?



21 What is found in a customs union but **not** a free trade area?

A a common currency

B a common external tariff

C fixed exchange rates

D free movement of labour

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22 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 m	100 m
wheat (units)	300 m	50 m

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

23 What must fall when the rate of unemployment rises?

A the effectiveness of the use of resources

B the level of labour productivity

C the number of workers in employment

D the size of the labour force

24 The table shows the percentage price changes in some items in the UK Consumer Price Index (CPI) in the year to 1 June 2006.

item	% change in price
rents, electricity and gas	9.0
education	4.7
transport	4.0
restaurants and hotels	3.2
health services	2.9

The increase in the overall CPI over the same period was 2.5 %.

What can be concluded from the data above?

A The CPI is not an accurate measure of inflation.

B Some prices must have fallen.

C The average price increase of other items was less than 2.5 %.

D The real value of money rose by more than 2.5 %.

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.

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 A government has low reserves of foreign currency. When would it be 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

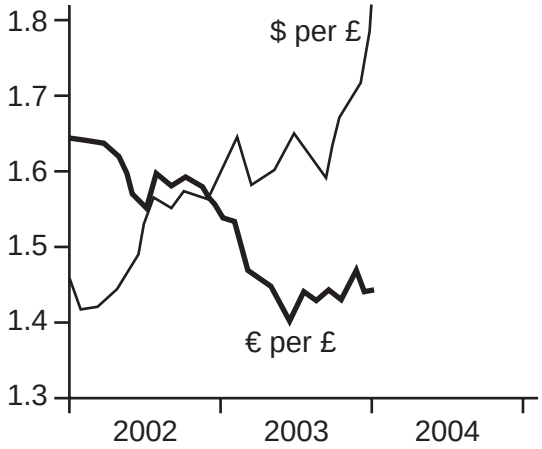
B when the deficit alternates regularly with a surplus

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

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27 The diagram shows the number of US dollars ($) and Euros (€) which exchanged for one pound sterling (£) between 2002 and 2004.

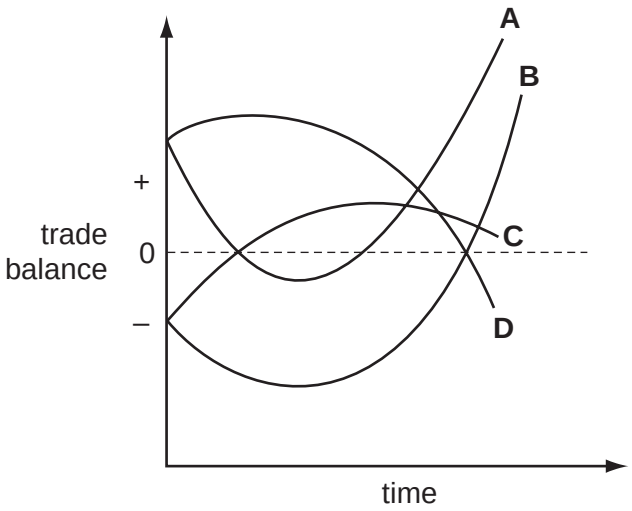


What happened to the exchange rate of the $ against the £ and € during this period?

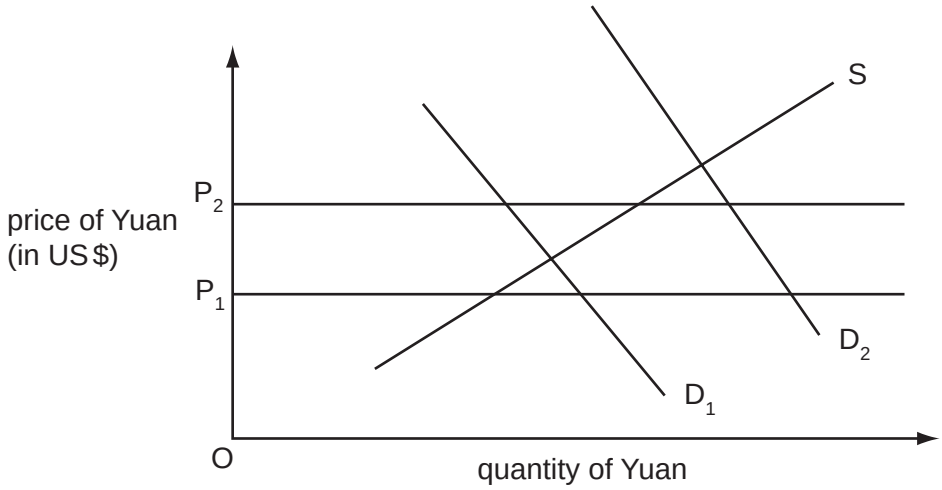
	$ exchange rate against £	$ exchange rate against €
A	appreciated	appreciated
B	appreciated	depreciated
C	depreciated	appreciated
D	depreciated	depreciated

28 In a country the Marshall-Lerner condition for an improvement in the trade balance is satisfied in the long run, but quantities of imports and exports are slow to respond to price changes. The government devalues its currency to reduce its trade deficit.

Which curve indicates the probable behaviour of the trade balance?



29 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$ out of foreign exchange reserves.

D Sell Yuan on the foreign exchange markets.

30 In 2008 the Chinese government was under pressure from other countries to reduce its current account surplus on its balance of payments.

Which combination of Chinese measures would help to reduce China's current account surplus?

	Chinese rate of tariffs	Chinese subsidies to the country's exporters
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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