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

ECONOMICS **9708/11**

Paper 1 Multiple Choice (Core) **October/November 2011**

1 hour

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

* 2 2 5 1 0 3 6 8 2 6 *

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.

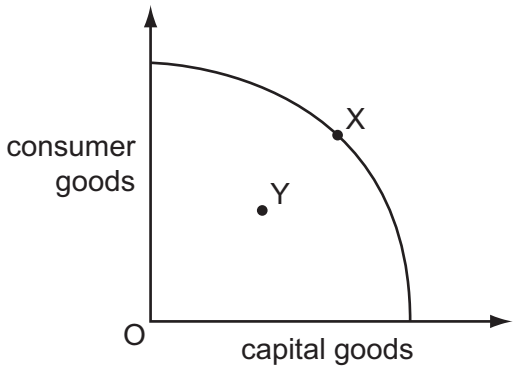
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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.

IB11 11_9708_11/3RP
© UCLES 2011

1 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 a rise in unemployment due to a recession

D the exhaustion of a natural resource

2 What is an example of the factor of production capital?

A a bank account held by a small firm to be used for future purchases

B a forest of hardwood trees ideal for furniture making

C the market value of a company's shares

D word processing software used by a writer to complete her new book

3 What is the opportunity cost to an unemployed worker who becomes employed?

A the leisure they would otherwise have had

B the value of the goods and services they produce

C the wages they are paid

D zero

4 Which statement is normative?

A As a general rule, people are happier in more equal societies.

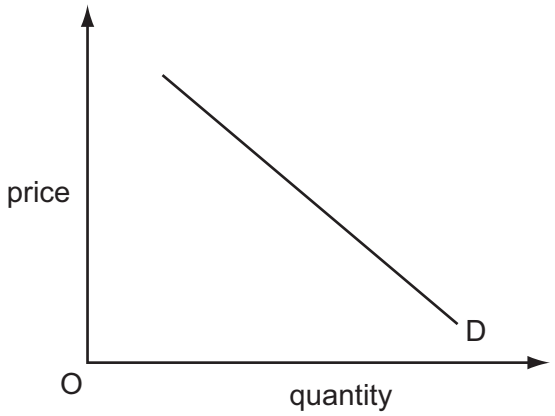
B Despite a large increase in income per head, people are no happier today than they were 50 years ago.

C Happiness depends not on the absolute level of a person's income but on his relative income.

D The promotion of happiness is a more important goal than the maximisation of production.

© UCLES 2011

5 The diagram shows a demand curve for a good.



Which statement describes the nature of this demand curve?

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

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

C As demand increases so does price.

D Quantity changes in proportion to the change in price.

6 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

B by combining individual demand curves horizontally

C by combining the price elasticity of individual demands

D by multiplying price by quantity demanded

7 What could cause a shift in the supply curve of good X and a movement along its supply curve?

	shift in the curve	movement along the curve
A	a change in consumer preferences	an increase in the price of a substitute good
B	a decrease in factor productivity	the imposition of a tax on good X
C	an increase in the price of a complementary good	an increase in factor productivity
D	an increase in the wage rates in the industry	a change in consumer preferences

8 The price of good X rises by 10 %. As a result, the demand for a complementary good Y changes by 20 %.

What is the cross elasticity of demand for good Y with respect to good X?

A +2 **B** +0.5 **C** –0.5 **D** –2

9 An industry is comprised of three firms, R, S and T which produce product X.

price of X $	output of X		
	firm R	firm S	firm T
36	80	59	85
29	73	48	76
22	52	0	68

By how much is a rise in the price of product X from $22 to $36 likely to increase the market supply of X?

A 27 **B** 77 **C** 104 **D** 224

10 A firm estimates that the price elasticity of supply of its product is 0.4.

Should the firm be concerned by this figure?

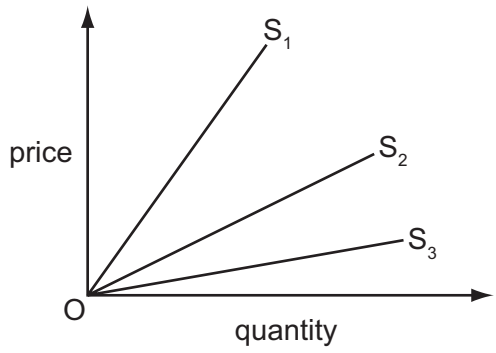
A No, as it implies that the firm will be able to raise revenue by raising price.

B No, as it suggests there are few substitutes for the product.

C Yes, as it indicates that the firm is not able to adjust supply easily when demand changes.

D Yes, as it means that demand for its product is increasing at a slow rate.

11 The diagram shows three supply curves.



What can be concluded about the price elasticity of supply of the curves?

A As price rises, the price elasticity of supply of S_2 will increase.

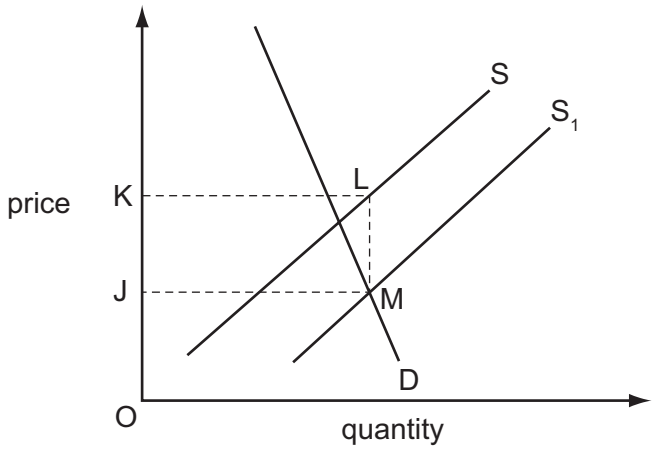
B At any price, the price elasticity of supply of S_1 will be less than that of S_3.

C At any price, the price elasticity of supply of S_2 will be higher than that of S_3.

D The price elasticity of supply of all three curves will be the same.

© UCLES 2011

12 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 additional saving to importers of the removal of a tariff on rice

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

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

13 What is necessary for consumer surplus to be zero?

A Demand is perfectly elastic.

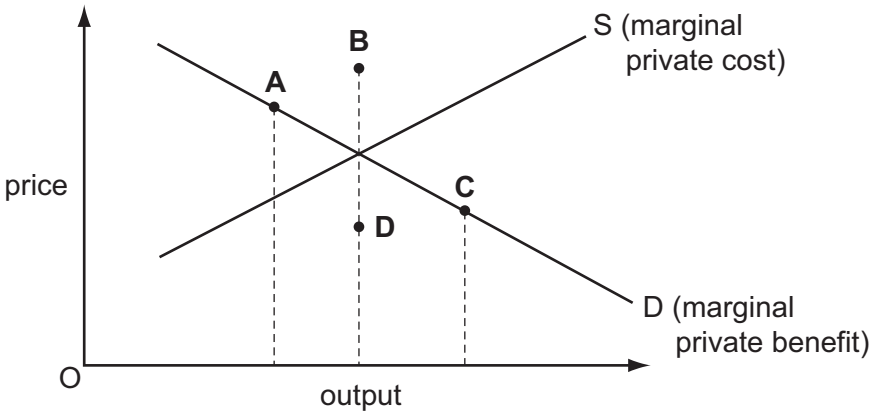
B Demand is perfectly inelastic.

C Supply is perfectly elastic.

D Supply is perfectly inelastic.

14 In a free market in equilibrium, the production of the good illustrated below imposes an external cost upon society.

Which letter could represent the total cost of producing the free market equilibrium output?



15 The table shows, for two different quantities of good X, the total amount consumers are willing to pay and the total external benefits that are generated.

quantity of good X (units)	consumers' willingness to pay ($)	total external benefits ($)
3	240	54
4	280	68

What is the additional social benefit when 4 units rather than 3 units are produced?

A $14 **B** $40 **C** $54 **D** $348

16 What is a merit good?

A a good that is made available to consumers according to merit

B a good that the government believes consumers will buy too little of if it is provided by private enterprise at market prices

C a good where any benefit obtained by one consumer is extended to all consumers

D a good where the private benefits of consuming the good exceed its social benefits

17 Which good or service is excludable but non-rival in consumption?

A fish stocks

B national defence

C street lighting

D TV broadcasting

18 What must a government do to stabilise the price of an agricultural commodity?

	when demand exceeds supply	when supply exceeds demand
A	add the excess demand to a buffer stock	release an amount equal to the excess supply from a buffer stock
B	meet excess demand by running down a buffer stock	purchase the excess supply and add it to a buffer stock
C	subsidise production	impose a tax on consumers
D	tax consumers of the commodity	subsidise production

© UCLES 2011

19 The world consists of Sealand and Fantasia. Each produces two goods, X and Y.

Good X needs much land but little labour. Good Y needs much labour but little land.

Sealand has plentiful land and labour. Fantasia has more labour than Sealand.

What can be deduced from the above about Sealand?

A It is unlikely to gain from trade with Fantasia.

B It will have an absolute advantage in the production of both X and Y.

C It will have a comparative advantage in the production of X.

D It will have a comparative advantage in the production of Y.

20 Which measure would encourage domestic production?

A reduction in

A the safety standards for imports.

B the size of import quotas.

C the subsidies on home produced goods.

D the time taken to process import paperwork.

21 Which combination of export and import prices will cause the greatest change in a 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 %

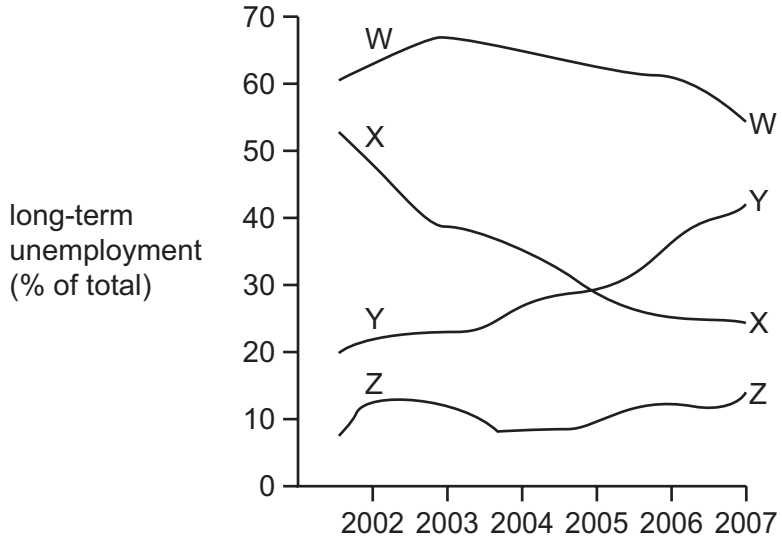
22 An Indian multinational company receives profits from its factories based in the UK. It then buys a US-owned firm based in the UK.

How will these transactions appear in India's balance of payments?

	the remittance of profit	the purchase of the US-owned firm
A	a credit item in the current account	a debit item in the financial account
B	a credit item in the financial account	a debit item in the current account
C	a debit item in the current account	a credit item in the financial account
D	a debit item in the financial account	a credit item in the current account

23 Unemployment is usually divided into two categories: long-term (more than 12 months) and short-term (less than 12 months).

The diagram shows the long-term unemployment rate as a percentage of total unemployment for four countries between 2002 and 2007.



What is correct about unemployment from the diagram?

A Country W had the lowest percentage of short-term unemployment.

B Country X was least successful in reducing the percentage of long-term unemployment.

C Country Y was least successful in reducing the percentage of short-term unemployment.

D Country Z had the highest percentage of long-term unemployment.

24 The table shows the annual percentage change in an index of prices.

country	2008	2009
China	6.3	–1.2
Pakistan	24.3	11.2
Saudi Arabia	10.9	10.7
United States	5.6	–1.4

What can be concluded from the table?

A Prices were lowest in the United States in both 2008 and 2009.

B Prices were most stable in Saudi Arabia.

C The fall in inflation between 2008 and 2009 was greater in China than Saudi Arabia.

D The price of all products sold by Chinese firms fell in 2009.

© UCLES 2011

25 Which combination is likely to result from demand-pull inflation?

	balance of trade	profits
A	improving	falling
B	improving	rising
C	worsening	falling
D	worsening	rising

26 In 2008-9 American households reduced their consumption of domestic and imported goods and used part of the money to pay back some of their debts.

Which outcome could be consistent with this change?

A a decline in the US trade deficit

B a decrease in savings

C a decrease in the US terms of trade

D a decrease in unemployment

27 A country's floating exchange rate falls and its export revenue declines.

What could explain this?

A Demand for its exports is inelastic.

B Supply of its exports is elastic.

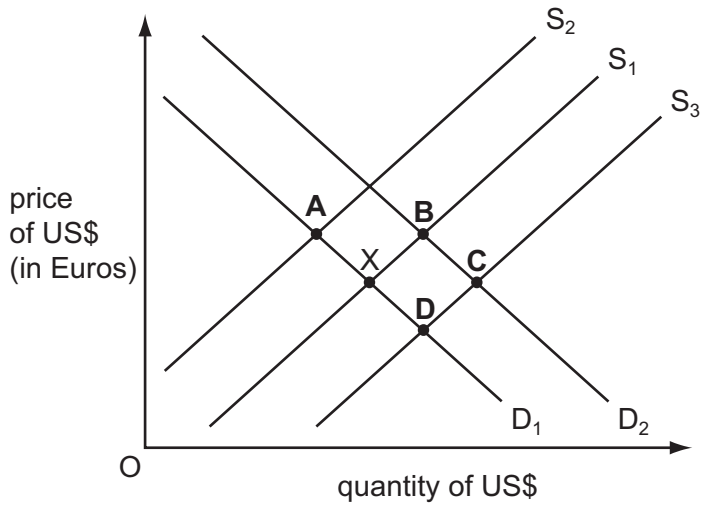
C The exchange rate is in disequilibrium.

D The price of exports, in terms of foreign currency, rises.

© UCLES 2011

28 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?



29 In 2004, when international demand for oil was high, Bolivia encouraged investment by foreign firms in order to exploit its oil and gas resources.

What impact would this have on the balance of payments of Bolivia?

A definitely favourable, as Bolivia could increase its exports of gas and oil

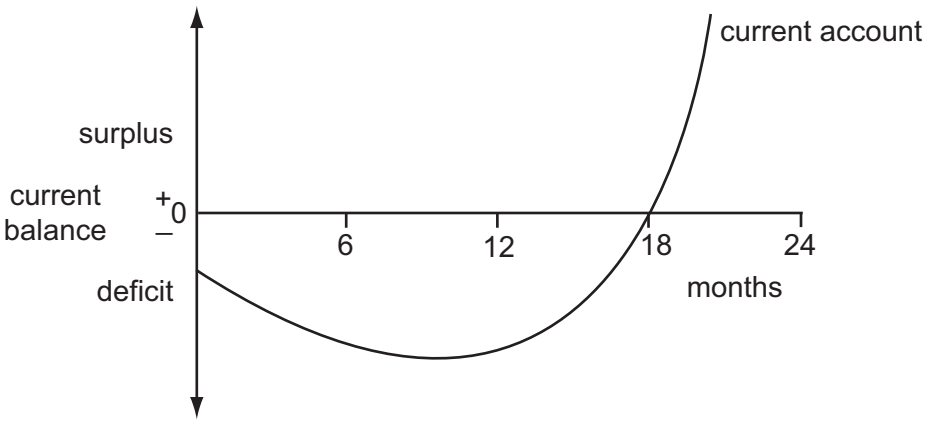
B definitely unfavourable, as the foreign companies would transfer profits out of the country

C uncertain, as there would be inflows and outflows of currency

D zero, as Bolivia itself would use the gas and oil produced

© UCLES 2011

30 A country at the beginning of a given period seeks to improve the current account of its balance of payments by devaluing its currency. The effect of this policy in the following two years is shown in the diagram.



Which statement is likely to explain this performance?

A In the short run, the price elasticity of demand for exports and imports was very low.

B The domestic inflation rate fell after 12 months before having the desired result.

C The elasticity of demand for imports diminished after 12 months.

D The policy was ineffective and other factors must have led to an improvement in the current account.

© UCLES 2011

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.

University of 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.