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 2011**

1 hour

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

5218024859

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.

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1 An individual has an appointment with his bank manager.

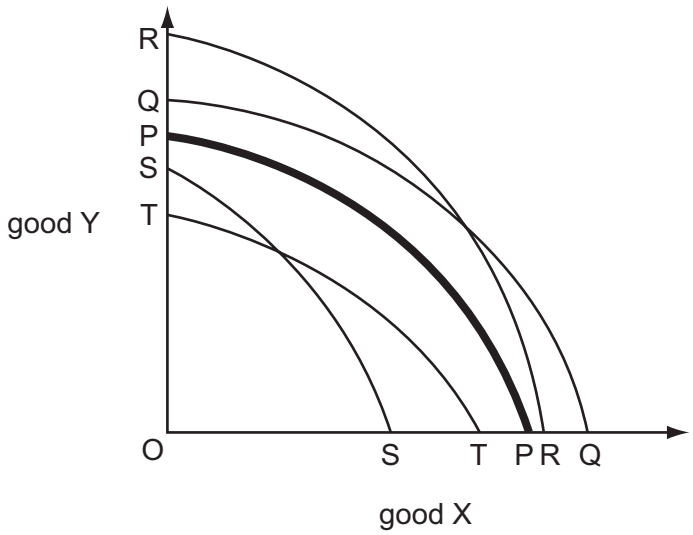
He has a choice between travelling to the appointment by car, or leaving the car at home and travelling by bus and then by train. The costs of the journey are given below.

	$
bus fare	2
train fare	3
car parking charge	4
petrol	2
car wear and tear costs	1

Given this information, what is the opportunity cost to the individual of travelling by car rather than by bus and train?

A $2 **B** $4 **C** $7 **D** $12

2 The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour intensive than the production of Y.



The working hours of the labour force are reduced by law.

Which curve could be the country's new production possibility curve?

A TT **B** SS **C** QQ **D** RR

3 In Economics, decisions are usually taken 'at the margin'.

What does this mean?

A They are concerned with actions that occur in free market not planned economies.

B They are concerned with issues on the boundary between macroeconomics and microeconomics.

C They are concerned with the choice between normative and positive actions.

D They are concerned with the effect of adding a further action to the current level of activity.

4 Which factor of production and example are correctly linked?

	factor of production	example
A	capital	$10 000 in a savings account
B	enterprise	a company accountant
C	labour	a robot
D	land	the flow of a river

5 During a period of falling incomes in Germany in 2009, demand for jewellery declined. There was, however, a rise in demand for frozen foods.

How would the effect on the demand for the two products be illustrated?

	jewellery	frozen food
A	a movement downwards along the demand curve	a movement upwards along the demand curve
B	a movement upwards along the demand curve	a shift to the right of the demand curve
C	a shift to the left of the demand curve	a shift to the right of the demand curve
D	a shift to the right of the demand curve	a movement upwards along the demand curve

6 It was estimated in 2010 that milk had an income elasticity of demand of –0.6.

What can be concluded about milk from this information?

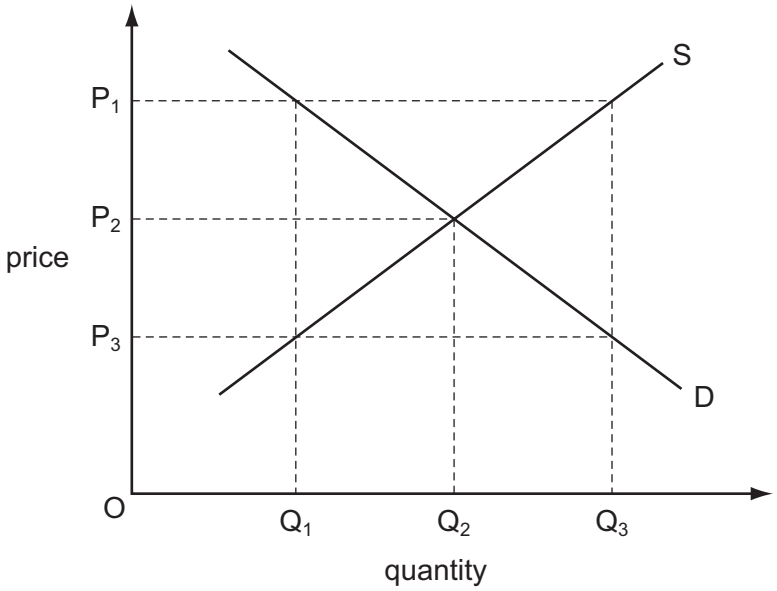
A It accounts for only a small proportion of household expenditure.

B It has very few substitutes.

C Household expenditure on milk will decrease if the price of milk increases.

D It is an inferior good.

7 In a free market in disequilibrium, which combination of price and quantity will lead to a fall in price and a contraction in output to reach equilibrium?



A P_1Q_1 **B** P_1Q_3 **C** P_3Q_1 **D** P_3Q_3

8 A manufacturer has estimated that the price elasticity of supply of ice cream is +1.5.

If the demand for ice cream rises and price increases by 10 %, how much more will the manufacturer supply to the market?

A 0.15 % **B** 1.5 % **C** 15 % **D** 50 %

9 The table shows demand and supply schedules for red peppers. The equilibrium price is initially 15 cents per kg.

price per kg cents	amount demanded kg (thousands)	amount supplied kg (thousands)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
5	20	11

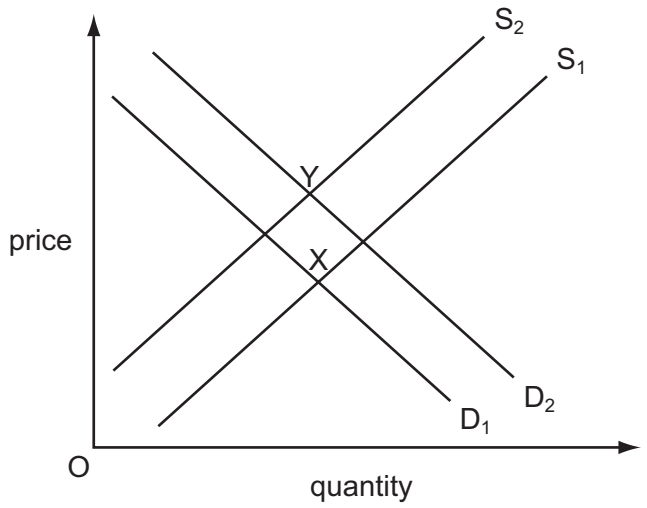
The government pays a subsidy of 10 cents per kg to producers.

What will be the new equilibrium price charged to consumers?

A 5 cents **B** 10 cents **C** 15 cents **D** 20 cents

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10 The diagram shows the market for new houses.



What would cause the change in the market equilibrium position from X to Y?

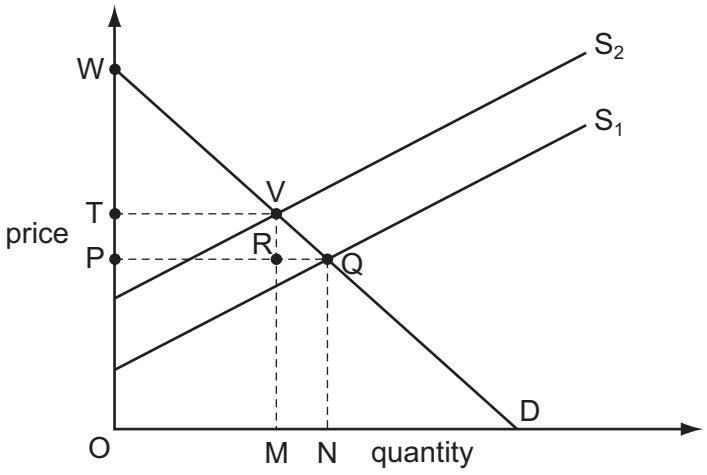
A a fall in income tax and a rise in building costs

B a fall in interest rates and increased efficiency in house-building

C a fall in population and a rise in taxes on building materials

D a rise in building subsidies and a fall in incomes

11 In the diagram, S_1 is the original supply curve and D is the original demand curve.



If supply shifts to S_2, which area represents the change in consumer surplus?

A PQVT **B** PQW **C** PRVT **D** TVW

12 When demand for a good falls, its price falls.

What is the function of the price fall?

A to eliminate shortages

B to reduce consumer surplus

C to send a signal to producers

D to stimulate a further fall in demand

13 When is a rise in the price of a product likely to cause more resources to be allocated to its production?

A if demand increases when the supply curve is perfectly inelastic

B if the demand curve shifts to the right when the supply curve is inelastic

C if supply increases when the demand curve is perfectly inelastic

D if the supply curve shifts to the left when the demand curve is elastic

14 A congestion charge of £10 per day has been imposed on motorists taking their cars into Central London.

What is it about driving into Central London that provides the economic justification for this charge?

A The external benefits are greater than the external costs.

B The private costs are greater than the external costs.

C The social benefits are greater than the private benefits.

D The social costs are greater than the private costs.

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15 A cost-benefit analysis of a proposed underground railway produced the following statistics.

annual costs and benefits	$ million
annual capital cost	10
operating and maintenance costs	3
fare revenue	6
savings to private travellers	5
savings to business	10
other economic benefits	7

What can be concluded from the statistics?

A If undertaken by the private sector there would be a loss of $13m.

B If undertaken by the private sector there would be a profit of $3m.

C If undertaken by the public sector there would be a net social benefit of $15m.

D If undertaken by the public sector there would be a net social cost of $1m.

16 A government admits that building a new bridge would produce a positive net benefit to society.

Owing to a lack of public funds, the bridge would have to be built and operated by a private company, that would charge the public to use the bridge.

Private companies insist that building the bridge would not be profitable.

What could explain the companies' unwillingness to build the bridge?

A A private company will be unable to obtain the consumer surplus of the users.

B Building the bridge will give rise to negative externalities.

C The demand for bridge crossings is price-inelastic.

D The potential benefits are non-excludable.

17 What is a merit good?

A a good or service which has higher social costs than private costs

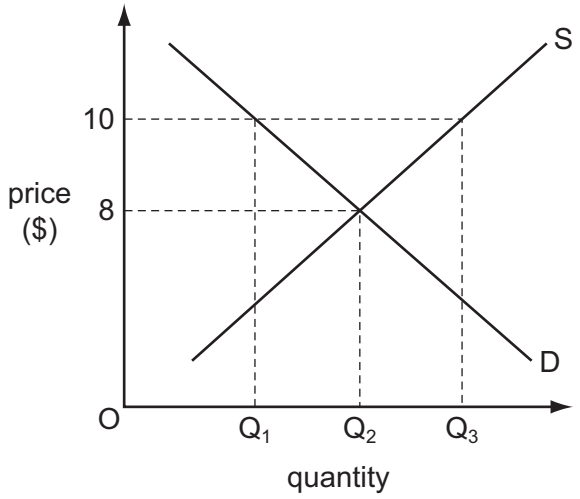
B a good or service which has no opportunity cost

C a good or service which is both non-excludable and non-rival

D a good or service which has a greater value than individuals recognise

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18 The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

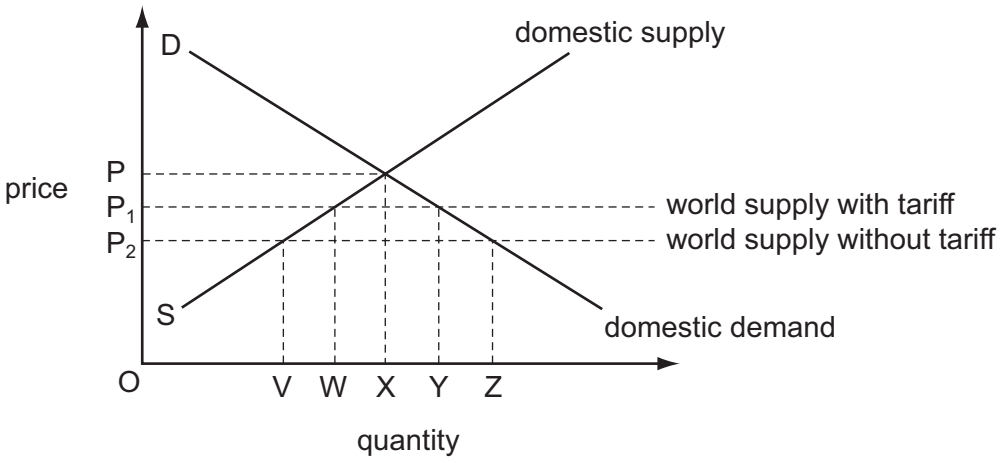
A The government would need to supply Q_1 to Q_3.

B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

19 A government removes the tariff on a product as shown in the diagram.



What will be the change in domestic production?

A a reduction of WV

B a reduction of XV

C a reduction of XW

D a reduction of ZY

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20 Country X joins an existing customs union comprising countries Y and Z. Country W remains outside the customs union.

Both X's initial tariff and W's tariff are at the same level as the customs union's common external tariff.

What is likely to be the effect on trade flows when X joins the customs union?

	trade between X and W	trade between Y and Z
A	unchanged	decrease
B	decrease	decrease
C	unchanged	increase
D	decrease	increase

21 The table shows four combinations of price changes which may affect a country's terms of trade.

Which combination of price changes must cause an improvement in the country's terms of trade?

	average price of exports	average price of imports
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

22 The table shows all of the items on the current account of a country's balance of payments.

	$ million
exports of goods	143
imports of goods	156
exports of services	75
imports of services	72
net transfers	+ 5

What is the value of the current account balance?

A $13 m deficit

B $10 m deficit

C $5 m deficit

D $3 m surplus

23 The table shows the rate of unemployment and population for selected countries in 2009.

country	unemployment rate (%)	population (millions)
Brazil	8.1	196
India	6.8	1 120
Indonesia	8.1	237
Malaysia	4.0	26
Thailand	2.4	65

What can be concluded from this information?

A A higher proportion of those willing and able to work are in employment in Malaysia than in India.

B The labour force of Thailand is smaller than that of Malaysia.

C The same number of workers were unemployed in Brazil and Indonesia.

D There are more people employed in Thailand than in India.

24 The average consumer divides his expenditure between food, clothing, accommodation and transport in the ratio 2 : 1 : 4 : 3.

During the course of a year, the price of food falls by 2 %, the price of clothing increases by 4 %, the price of accommodation increases by 10 % and the price of transport remains constant.

Assuming that the weights of a price index reflect the expenditure of the average consumer, what is the increase in the index over the year?

A 2.5 % **B** 4 % **C** 10 % **D** 12 %

25 At the start of 2009, a worker earned $100 a week. In 2009, the Retail Price Index (RPI) rose 4 % and his average wage rose 7 %. In 2010, the RPI fell 3 % and his wage fell 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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26 The table shows items from the balance of payments for countries **A**, **B**, **C** and **D**.

Official Financing including changes in reserves is excluded from the Financial Account.

Which country has the greatest disequilibrium on its balance of payments?

	Current Account $m	Capital Account $m	Financial Account $m
A	–41	13	28
B	44	12	25
C	–32	–5	–37
D	–15	–17	4

27 What must be the necessary result of a surplus in the current account of a country's balance of payments?

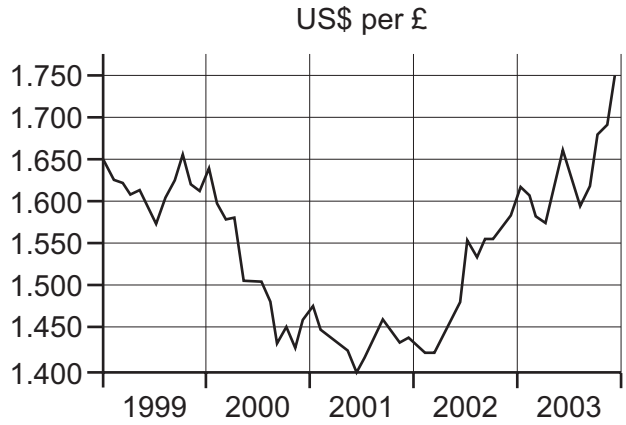
A a depreciation of the currency

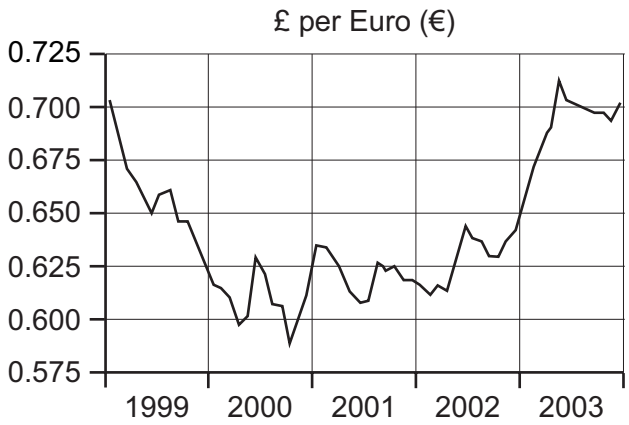
B an improvement in the terms of trade

C an increase in foreign exchange reserves

D an increase in net holdings of foreign assets

28 The graphs show the changes in the exchange rates of the £ sterling between 1998 and 2003.





What happened to the value of the £ sterling between 2001 and 2003?

A The £ appreciated against the $ and the €.

B The £ appreciated against the $ and depreciated against the €.

C The £ depreciated against the $ and the €.

D The £ depreciated against the $ and appreciated against the €.

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29 Other things being equal, what will happen if a British company raises the sterling (£) price of goods it sells to Pakistan by the full extent of a depreciation of sterling against the Pakistan rupee?

A The demand for the company's goods will fall in Pakistan.

B The company's earnings in Pakistan will remain constant in pounds sterling.

C The company's earnings in Pakistan will remain constant in Pakistan rupees.

D The profit margin on sales to Pakistan will decline.

30 When will a country's balance of payments current account deficit be reduced?

A when it raises its rate of income tax

B when it reduces tariffs on its imports

C when it revalues its currency

D when it removes export subsidies

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