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 2012**

1 hour

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

* 1 8 3 1 4 2 2 5 8 0 *

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 Which type of firm is able to exploit division of labour to the greatest extent?

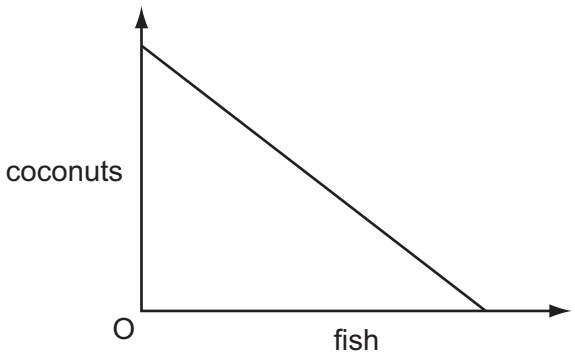
A a bakery employing two workers making a range of bread and cakes

B a motorcycle assembler employing two hundred workers making a standardised model

C a tailor employing ten workers making men's suits to order

D a well established furniture maker employing three hundred workers making high quality individual items

2 The diagram shows the production possibility frontier of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.



What explains the shape of the production possibility frontier?

A Coconuts and fish are perfect complements.

B Coconuts and fish are perfect substitutes.

C Fishing and coconut growing are equally efficient.

D The opportunity cost of fish increases as more time is devoted to fishing.

3 India is failing to reach its full economic potential because of poor rail, road and electricity infrastructure. Its problem is not lack of government spending but a lack of skilled civil engineers.

Which factors of production need to be increased?

A capital and land

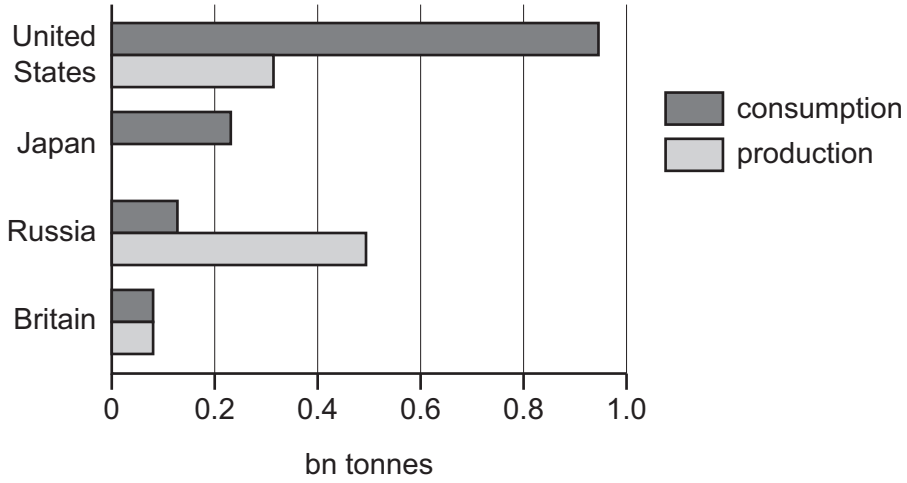
B enterprise and labour

C labour and capital

D land and enterprise

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4 There is a worldwide shortage of oil. The diagram shows the consumption and production of oil (billion tonnes) in 2007 for selected countries.



What can be concluded from the diagram?

A In Britain, oil has zero opportunity cost.

B In Japan, there is self sufficiency in oil.

C In Russia, the problem of oil shortage has been solved.

D In the United States, rationing will be the only solution to oil shortage.

5 What will happen to an industry's supply curve if new firms enter the industry?

A It will shift to the left at any given price.

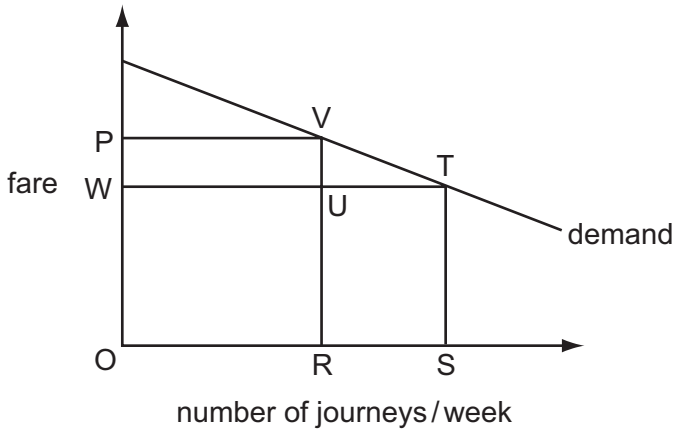
B It will shift to the right at any given price.

C There will be a downward movement along the supply curve.

D There will be an upward movement along the supply curve.

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6 The number of passenger journeys per week by train on a certain route is shown by the demand curve in the diagram.



Initially the fare is OP, but it is then reduced by PW.

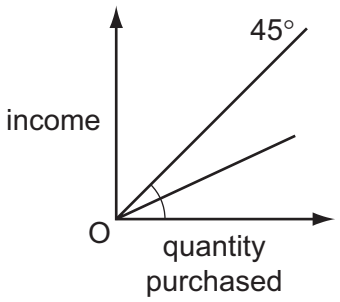
Which area measures the amount spent on the extra journeys resulting from the lower fare?

A VUT **B** PWTV **C** VRST **D** URST

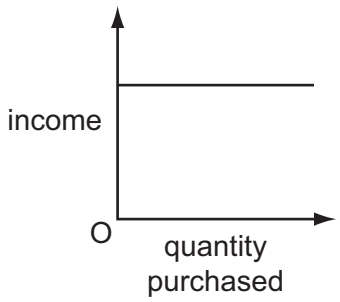
7 The diagrams show possible relationships between income and the quantity of a good purchased.

Which diagram shows an inferior good?

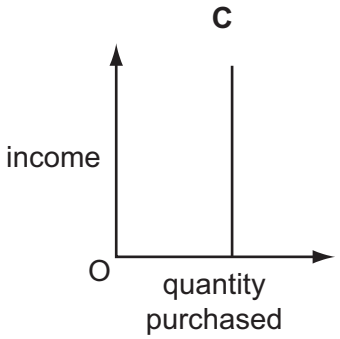
A



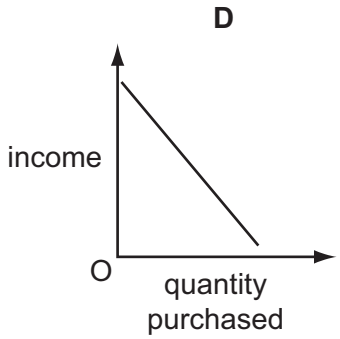
B



C



D



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8 The price elasticity of demand for good X is 1. At a price of $12, quantity demanded is 4000 units.

What will be the price when the quantity demanded is 20 000 units?

A $2.00 **B** $2.40 **C** $12.00 **D** $20.00

9 Consumer spending decreased in the recession of 2009-10. A firm tried to keep revenue high by giving discounts to encourage demand. It measured the price elasticity of demand (PED) for its own product and the cross elasticity of demand (XED) with its competitors' products.

When might such promotions achieve the result the company hoped?

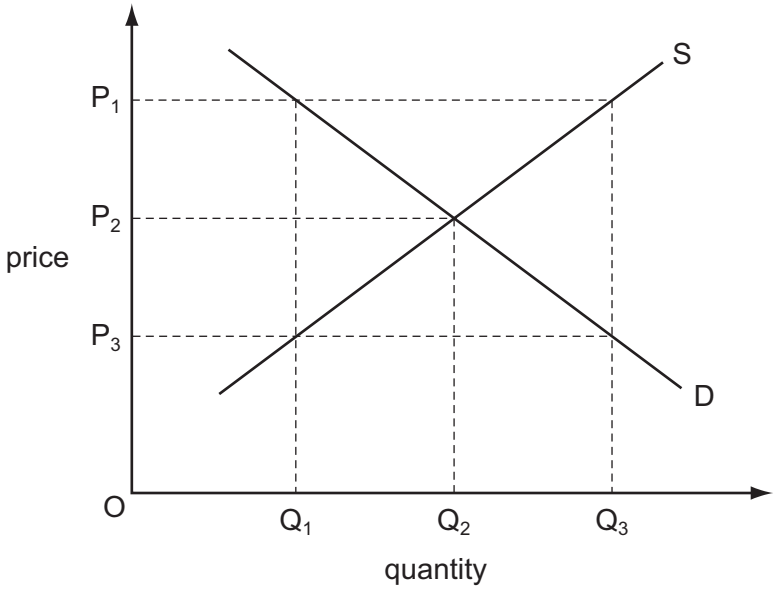
A when PED is greater than one and XED is positive

B when PED is less than one and XED is negative

C when PED is less than one and XED is positive

D when PED is unity and XED is negative

10 Which combination of price and quantity will lead to a rise in price and a contraction in quantity to reach equilibrium?



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

11 In a market economy, demand for a product rises and price increases but output remains unchanged.

What could explain this?

A a lack of financial incentives for entrepreneurs

B a perfectly inelastic supply of factors of production

C consumer influence exceeding producer influence

D social benefits equalling private benefits

12 What must be the effect on consumer surplus if the supply of a product, that has a normal demand curve, halves?

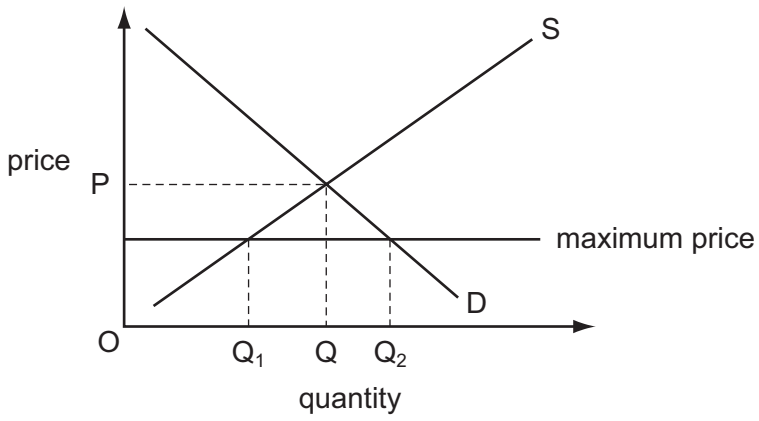
A Consumer surplus will fall.

B Consumer surplus will fall by 50 %.

C Consumer surplus will rise.

D Consumer surplus will rise by 100 %.

13 The diagram shows a market subject to a maximum price.



What will happen if the maximum price is removed?

A There will be allocation by a queuing system.

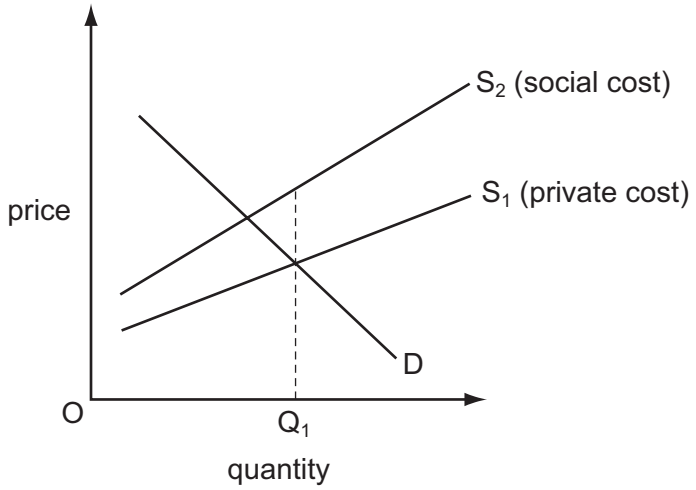
B There will be allocation by government rationing.

C There will be allocation by seller's preference.

D There will be allocation by the price system.

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14 In the diagram, Q_1 is the quantity produced of a good as the result of market forces.



What concept is present at output Q_1?

A a government subsidy

B a negative externality

C a positive externality

D price instability

15 A government carries out a cost-benefit analysis to determine whether to build a new airport.

In which circumstance will it proceed with the project?

A when external benefit exceeds external cost

B when private benefit exceeds private cost

C when there is a net private benefit

D when there is a net social benefit

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16 An international oil company announced that it would stop exploring for oil off the coast of Namibia. This was because there was only enough oil to support a local power station for Namibia and not enough to allow exports of oil.

What might be a possible advantage and disadvantage to Namibia of this decision?

	advantage	disadvantage
A	a reduction in potential external costs of pollution	the loss of cheaper oil
B	a reduction in taxes paid by the oil company to the Namibian government	the conservation of a natural resource
C	a saving in costly research paid for by the oil company	a loss of employment opportunities
D	the exhaustion of a natural resource	the loss of potential exports

17 A government wishes to encourage the consumption of a merit good and reduce the consumption of a demerit good.

Which policy should it adopt towards each good?

	merit good	demerit good
A	confine access to certain age groups	tax output
B	increase advertising on the benefits of the good	set a minimum level of output
C	subsidise the good	put legal controls on output
D	tax the good	produce only in the public sector

18 A government aims to stabilise the incomes received by farmers. To achieve this it uses a policy of buying and selling farm products on the free market.

When will it **not** need to respond to changes in the supply of farm products?

A when elasticity of supply of farm products is zero

B when farmers produce record harvests

C when price elasticity of demand for farm products is unitary

D when weather conditions can be accurately predicted

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19 The table shows the levels of output which three countries can produce.

country X	25 tonnes of maize or 5 tractors
country Y	75 tonnes of maize or 15 tractors
country Z	225 tonnes of maize or 45 tractors

What would be the most likely outcome?

A Country X will specialise in maize and country Y in tractors.

B Country Y will specialise in maize and country Z in tractors.

C Country Z will specialise in both maize and tractors.

D There will be no gains from trade between the countries.

20 An economy with a long history of extensive barriers to trade decides to switch to totally free trade.

What is most likely to increase in the short term?

A consumer surplus

B government revenue

C inflationary pressure

D profits of all domestic companies

21 Russia is a significant exporter of wheat. In 2010 there was a poor harvest and the Russian government stopped all exports of wheat to ensure enough supplies for domestic use.

Which statement about Russia's policy is correct?

A It is an embargo and will worsen Russia's balance of trade.

B It is a market approach to resource allocation to prevent price rises in Russia.

C It is a quota and will improve the importing country's balance of payments.

D It is a tariff and will increase the price of wheat.

22 Which is the only combination of price changes that must result in a deterioration 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

23 The table shows the number of workers and the annual output of an industry.

	year 1	year 2	year 3
workers in 000s	120	130	100
output in $m	12.00	14.30	13.00

Which statement is correct?

A Labour productivity increases in year 2 and in year 3.

B Labour productivity increases in year 2 and then declines in year 3.

C Labour productivity is at its highest in year 1.

D Labour productivity is at its lowest in year 3.

24 Which statement about a rise in the general price level in a country is correct?

A It is likely to create economic winners and losers in the country.

B It is unacceptable to modern governments.

C It means that no goods have fallen in price.

D It must make the average citizen poorer.

25 The table shows detail of the nominal interest rate and the inflation rate for selected countries in July 2010.

country	nominal interest rate	inflation rate
China	2.5	2.9
India	5.7	13.9
Indonesia	7.0	5.0
Japan	0.2	–1.1
Pakistan	12.3	12.7

What can be concluded from this information?

A The cost of living was higher in India than in China.

B The money rate of interest was higher in Indonesia than in Pakistan.

C The real rate of interest was positive in Japan but negative in Pakistan.

D The standard of living was higher in Indonesia than in India.

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26 Two industries in a country are fishing and tourism. The international exchange rate of the country's currency fell in 2010.

If there were no other changes, how was the country affected?

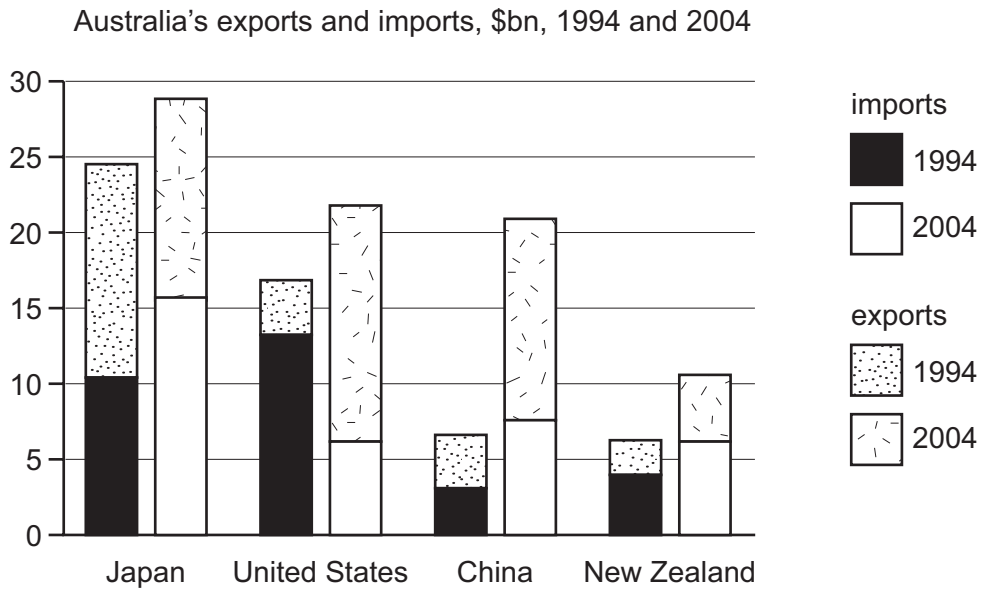
A Local people bought more imported goods because they were cheaper.

B The price of fish sold in foreign markets became cheaper.

C The volume of exports decreased.

D Tourists to the country were discouraged by higher prices.

27 The diagram shows Australia's exports to and imports from four trade partners in $billion in 1994 and 2004.



With which country did Australia have a trade deficit in 1994 and a trade surplus in 2004?

A Japan

B United States

C China

D New Zealand

28 Country X trades with only two countries, Nigeria and Malaysia.

80 % of the country's trade is with Nigeria and 20 % is with Malaysia.

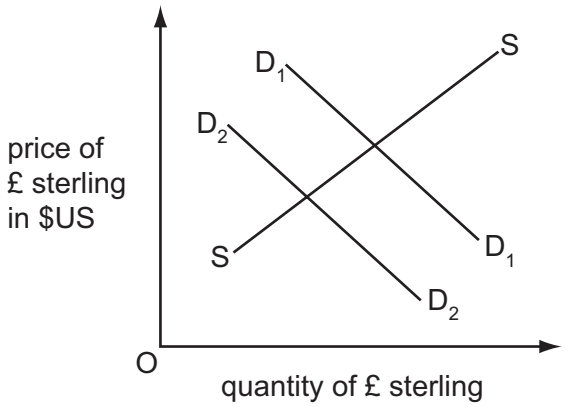
The original value of the trade-weighted exchange rate index is 100.

The value of the country X's currency against the Nigerian Naira rises by 10 %. The value of the country X's currency against the Malaysian Ringgit rises by 50 %.

What will be the value of country X's new trade-weighted exchange rate index?

A 115 **B** 118 **C** 130 **D** 160

29 In the diagram, curves D_1D_1 and SS relate to the demand for and supply of £ sterling in the foreign exchange market.



What may cause the demand curve to shift from D_1D_1 to D_2D_2?

A an increase in UK interest rates

B an increase in the price of US goods sold in the UK

C the removal of UK tariffs against US goods

D the development of US substitutes for UK goods

30 What is an example of an expenditure-dampening policy?

A an increase in income tax rates

B an increase in the level of import tariffs

C an upward revaluation of the exchange rate

D the introduction of import quotas

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