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 2012**

1 hour

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

9623970296

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 defining characteristic of a mixed economy?

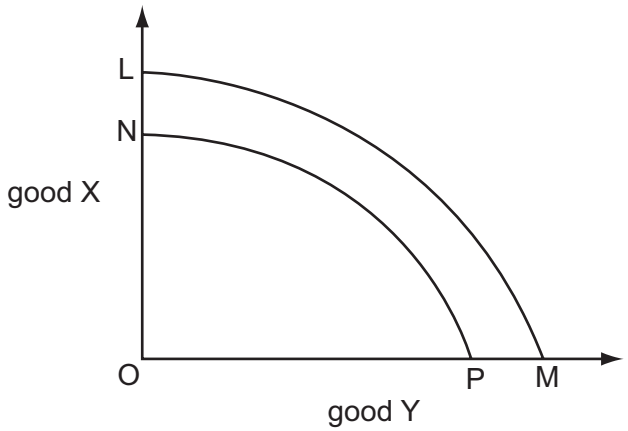
A one in which the allocation of resources is determined partly by the state and partly by individual producers and consumers

B one in which there are both monopolies and purely competitive industries

C one in which there are features of both more economically developed and less economically developed economies

D one which produces a mixture of agriculture and industrial products

2 In the diagram the original production possibility curve is LM.



What might cause the curve to shift to NP?

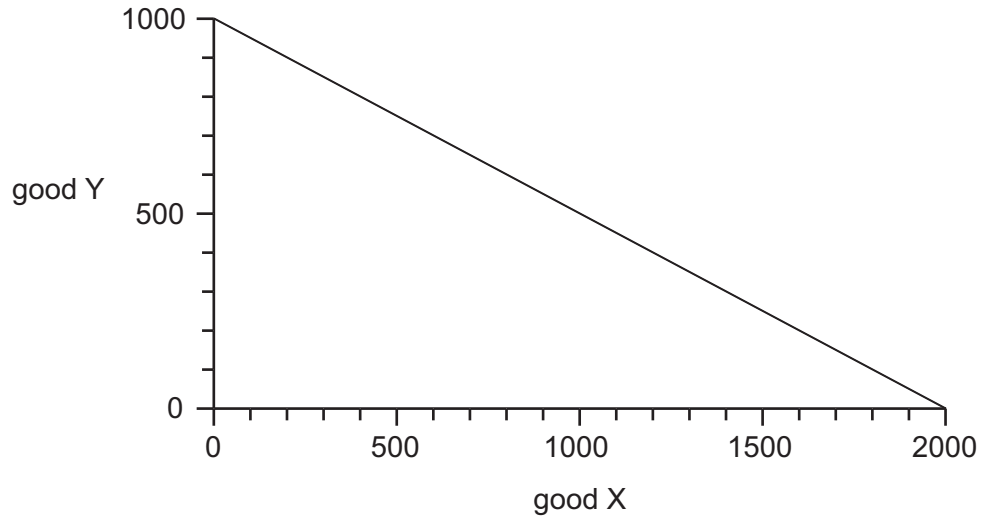
A a higher retirement age

B a reallocation of resources

C the depletion of natural resources

D the underemployment of resources

3 The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



The economy produces 1200 of good X and produces on its production possibility curve.

Which quantity of good Y is given up?

A 400 **B** 600 **C** 800 **D** 1000

4 What might cause a country's currency notes to cease to act as money?

A the notes are issued in smaller denominations

B the notes become harder to counterfeit

C the notes become more long lasting

D the notes become unlimited in supply

5 What does **not** cause the demand curve for a good to shift its position?

A advertising expenditure

B consumer tastes

C the price of substitute goods

D the price of the good

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6 What can be concluded about a product which has an income elasticity of demand (YED) of +1.5 and a cross elasticity of demand (XED) of +1.2?

	YED figure	XED figure
A	the product is an inferior good	the product has a close complement
B	the product is an inferior good	the product has a close substitute
C	the product is a normal good	the product has a close complement
D	the product is a normal good	the product has a close substitute

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

The table shows the outcome of the policy.

price ($)	total revenue 000's ($)
4	400
5	500
6	600

What is the price elasticity of demand for the product?

A perfectly elastic

B perfectly inelastic

C relatively elastic

D relatively inelastic

8 A free market is in disequilibrium with a shortage of a product.

As the market moves towards equilibrium, what will happen to the price, the quantity demanded and the quantity supplied?

	price	quantity demanded	quantity supplied
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

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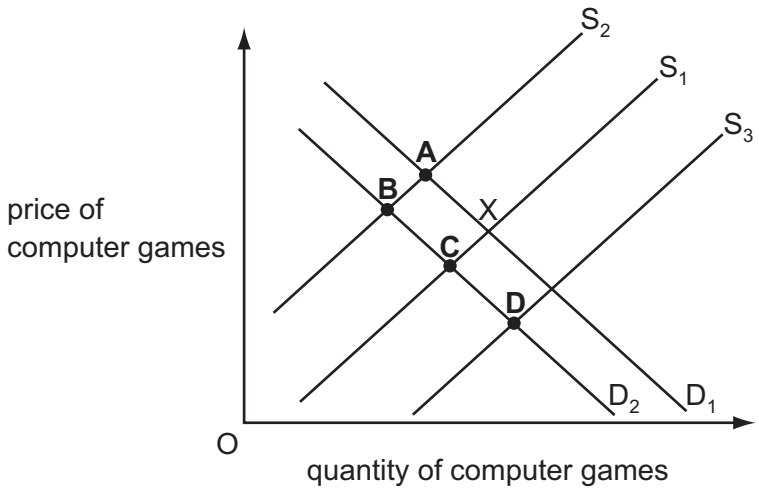
9 The market demand equation for a good is given by $Q_d = 310 - 20p$ and the supply equation by $Q_s = 10 + 10p$ where p denotes the price of the good.

What is the equilibrium price?

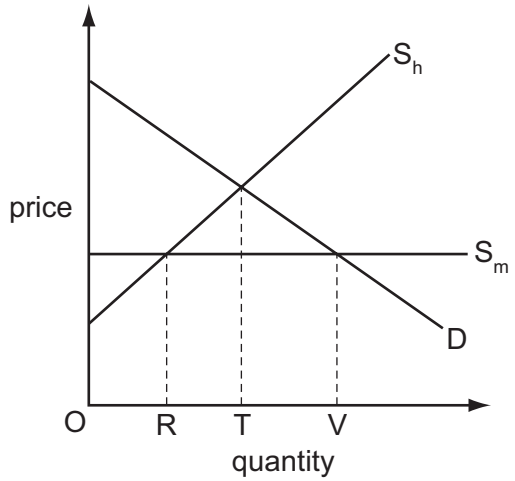
A 5 **B** 10 **C** 15 **D** 20

10 The diagram shows the market for computer games. The market starts in equilibrium at X.

What will be the new equilibrium if the tax on computer games is increased and incomes fall?



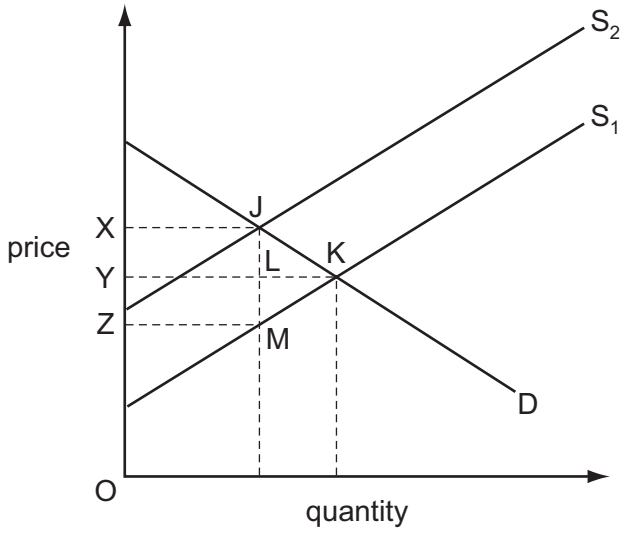
11 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_h represents domestic supply and S_m represents imports.



What will be the level of consumption and the associated quantity of imports?

	consumption	quantity of imports
A	OT	RT
B	OT	OT
C	OV	RT
D	OV	RV

12 The diagram illustrates the effects of placing a specific tax equal to JM on a good.



Which area represents total tax receipts?

A JKM **B** XJKY **C** XJLY **D** XJMZ

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13 In which situation will it be necessary to use an alternative to the price mechanism to allocate a good between consumers?

A Producers of the good receive a subsidy.

B The government imposes a specific tax on the good.

C The government sets a maximum price below the equilibrium price.

D The quantity of the good available is fixed.

14 Which policy adopted by an airline is the result of an externality?

A price cutting against rival airlines

B the prohibition of smoking on aircraft

C the provision of different classes of seating accommodation

D the use of internet booking facilities

15 What will be the result, from society's view, if the market price for a product does not reflect the negative externalities in its production?

A too little consumption and too little production

B too little consumption and too much production

C too much consumption and too little production

D too much consumption and too much production

16 The table shows some of the costs and benefits, in $ millions, associated with a road building project. Both a government department and a profit-maximising private firm are considering building the road.

private costs	external costs	external benefits	social benefits
450	75	50	550

Who would be willing to build the road?

A Both would be willing to build it.

B Neither would be willing to build it.

C Only the government department would be willing to build it.

D Only the private firm would be willing to build it.

17 A government wishes to raise the incomes of farmers without raising the price of food to consumers.

Which policy should it use?

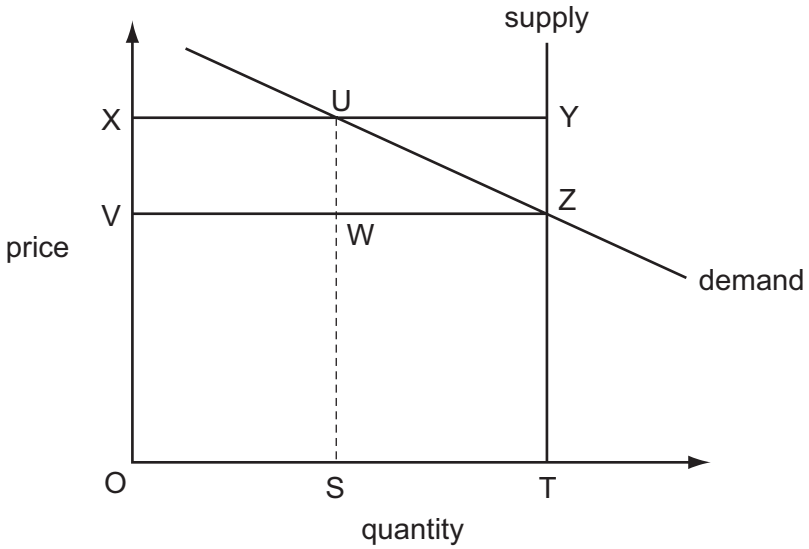
A a maximum price below the market price for food

B a minimum price below the market price for food

C a payment of a subsidy to farmers to produce food

D a release of government food stocks onto the market

18 The diagram shows the market supply and demand curves for an agricultural product. The government guarantees producers a minimum price of OX for their output, but allows the market price to be freely determined by demand and supply.



Which area in the diagram represents the total subsidy payments made by the government to producers?

A UYTS **B** UYZW **C** XUWV **D** XYZV

19 Why might a government decide to reduce tariffs on agricultural imports?

A to develop greater specialisation

B to increase government revenue

C to promote job creation in rural areas

D to protect small businesses

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20 A government believes that it can reduce its trade deficit by the introduction of a tax on its main export.

When is this likely to be most effective?

A when demand for the export is price elastic

B when the exporting country is a member of a customs union

C when the exporting country is the major world supplier of the product

D when the terms of trade of the exporting country are favourable

21 A country's terms of trade increased from a base year value of 100 to 120 in the following year.

If export prices had increased by 50 %, what was the change in the price of the country's imports?

A –30 % **B** –25 % **C** +25 % **D** +30 %

22 The table shows in millions of US$ the balance for four items in a country's current account for two years.

	goods	services	income	transfers
year 1	–72	84	12	–24
year 2	–87	46	–3	–44

What can be concluded about the changes between year 1 and year 2?

A Income has moved from a net inflow to a net outflow.

B The value of exported goods has fallen.

C The value of imported services has increased.

D Transfers into the country have increased.

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23 The table gives some information on inflation rates, unemployment rates, and changes in wages for a number of countries in 2006.

country	inflation rate %	unemployment rate %	annual change in wages %
Britain	+1.9	+5.0	+3.5
Germany	+2.1	+11.3	+0.8
Italy	+2.1	+7.5	+2.3
Japan	+0.5	+4.5	–0.6
Spain	+4.0	+8.4	+2.5

What can be concluded from the table about 2006?

A Britain had an increase in real incomes.

B High wage rises caused high rates of inflation.

C The price of an identical product was the same in Germany and Italy.

D There were more people unemployed in Spain than in Japan.

24 What is **not** one of the criteria used by the International Labour Office to determine whether a person should be classified as being unemployed when a labour force survey is carried out?

A She is actively seeking employment.

B She is available to take up employment.

C She is eligible to claim unemployment benefits.

D She is currently not in paid employment.

25 The data given below refers to money supply and prices in the years 2006 and 2010 in four countries.

Between 2006 and 2010, in which country was the rate of inflation the highest?

Country	2006		2010	
	money supply ($ million)	price index (2005 = 100)	money supply ($ million)	price index (2005 = 100)
A	69	104	78	153
B	65	112	120	247
C	70	101	213	157
D	172	105	360	210

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26 A sudden rise in the price of imported oil caused the annual rate of inflation in a given period to be higher than expected.

What might be a likely result of this?

A Borrowers would gain.

B Real wages would rise.

C The balance of trade would improve.

D Unemployment would fall.

27 The table shows the Canadian current account of the balance of payments in 2005 and 2006.

	2005 ($m)	2006 ($m)
goods	62 372	–4 568
services	12 055	–22 663
investment income	–22 917	–14 145
transfers	–1 498	–2 148
total	25 902	–43 523

The change in which item contributed the least and the change in which item contributed the most to the move from surplus to deficit in the Canadian current account balance between 2005 and 2006?

	item contributing the least	item contributing the most
A	investment income	goods
B	investment income	services
C	transfers	goods
D	transfers	services

28 What is most likely to result from a rising deficit in a country's balance of payments from increased imports of consumer goods?

A a rise in aggregate monetary demand in the country

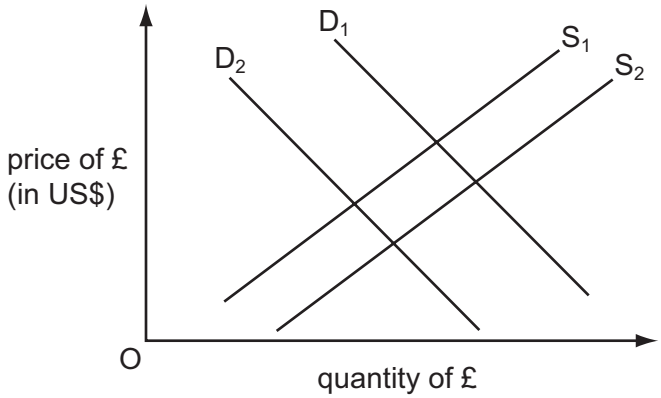
B a rise in the country's aggregate supply

C a rise in the country's unemployment

D a rise in the international value of the country's currency

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29 In the diagram D_1 and S_1 are the initial demand and supply curves of the UK pound (£) on the foreign exchange markets.



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

A an appreciation of the pound

B an increase in incomes in the US

C an increase in the price level in the US

D a decrease in UK interest rates

30 When is the imposition of a tariff on a good most likely to reduce a trade deficit?

A when the country has a potential comparative advantage in producing that good

B when the country is a member of an economic union

C when the elasticity of supply of the good domestically is zero

D when the price elasticity of demand for the good is zero

Copyright Acknowledgements:

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Question 27 © *Canada's Balance of International Payments Extracts;* www40.statcan.gc.ca/cst01/ECON01A-eng.htm; 20 July 2010.

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