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

ECONOMICS **9708/13**

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)

* 9 4 7 0 3 6 9 4 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.

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1 Why can division of labour benefit an economy?

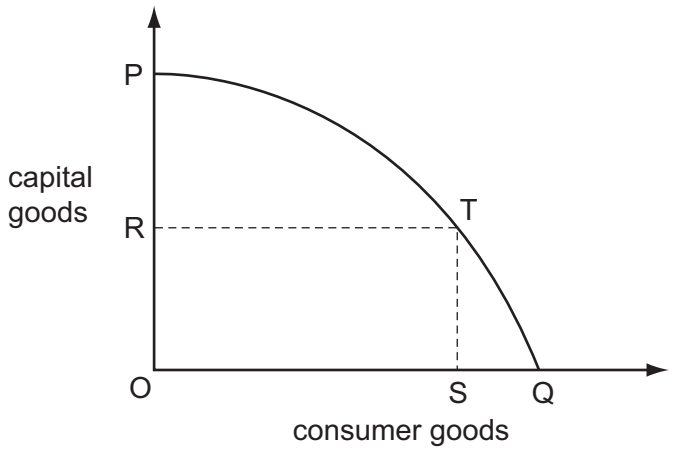
A Costs of trading are reduced.

B Individual workers learn a wider range of skills.

C Less money is required as a medium of exchange.

D The total supply of goods and services rises.

2 The production possibility curve for an economy producing capital goods and consumer goods is represented by the line PQ.



What is the opportunity cost of producing OS of consumer goods?

A OR of capital goods

B PR of capital goods

C SQ of consumer goods

D SQ of consumer goods + PR of capital goods

3 How is labour allocated in a market economy and in a planned economy?

	market economy	planned economy
A	according to changes in wage levels	according to the profit motive
B	according to demand and supply in product markets	according to input-output analysis
C	according to government decisions	according to the price mechanism
D	according to government microeconomic and macroeconomic policies	according to consumer surplus

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4 A person who has bought a DVD player using a credit card does not have to settle the account until 56 days after making the purchase.

What function of money is illustrated by this delay in settlement?

A medium of exchange

B standard of deferred payment

C store of value

D unit of account

5 When will the demand curve for motorcycles shift to the left?

A when the price of cars falls

B when the price of motorcycles falls

C when the tax on motorcycles rises

D when the price of public transport rises

6 There are three firms, X, Y and Z, supplying a market. The table shows their supply at four different prices.

price ($)	firm X's supply	firm Y's supply	firm Z's supply
70	60	60	30
80	65	70	65
90	75	80	95
100	80	90	130

Which price change is required for market supply to halve?

A $90 to $70 **B** $90 to $80 **C** $100 to $70 **D** $100 to $90

7 A government wishes to impose a tax on a good so that the producer and not the consumer pays most of the tax.

Which type of elasticity would it be best for the good to have to achieve this aim?

A high price elasticity of demand

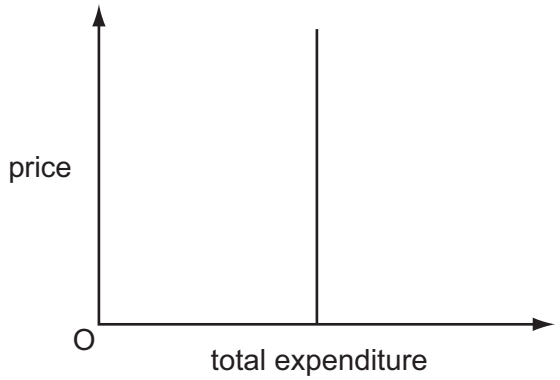
B low price elasticity of demand

C totally inelastic price elasticity of demand

D unitary price elasticity of demand

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8 The diagram shows the relationship between the price and the total expenditure on a good.



Which statement is correct?

A The income elasticity of demand for the commodity is unity.

B The income elasticity of demand for the commodity is zero.

C The price elasticity of demand for the commodity is unity.

D The price elasticity of demand for the commodity is zero.

9 The table gives an individual's demand for four goods at two income levels.

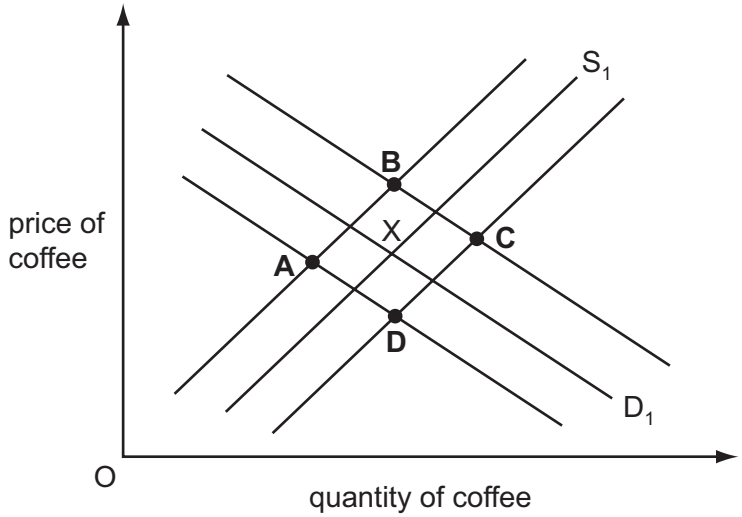
Over this range of income, for which good does the individual have an income elasticity of demand = 1?

good	income level	
	$1000	$1100
A	50	50
B	50	55
C	50	60
D	50	100

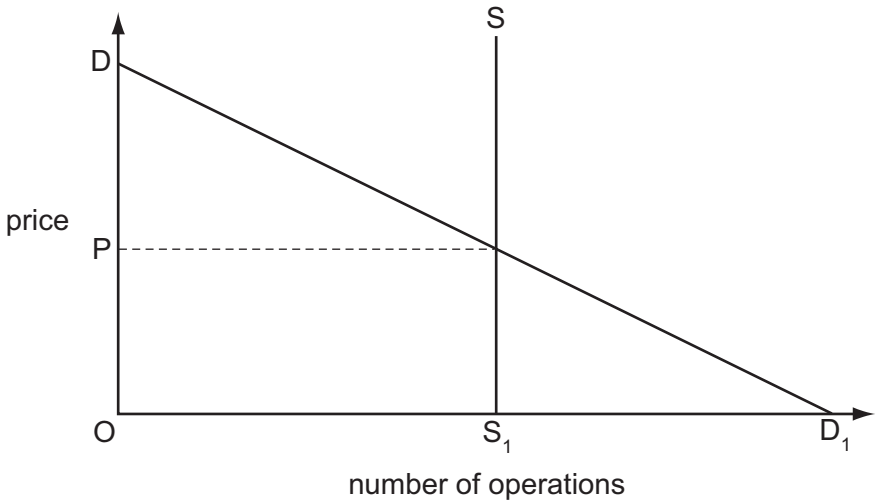
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10 The diagram shows the market for coffee. The initial equilibrium position is X. The price of tea, a substitute, falls and an indirect tax is imposed on coffee.

What will be the new equilibrium position?



11 The diagram shows the demand curve, DD_1, and the supply curve, SS_1, for eye operations.



The operations are provided free to the consumer.

Which statement is correct?

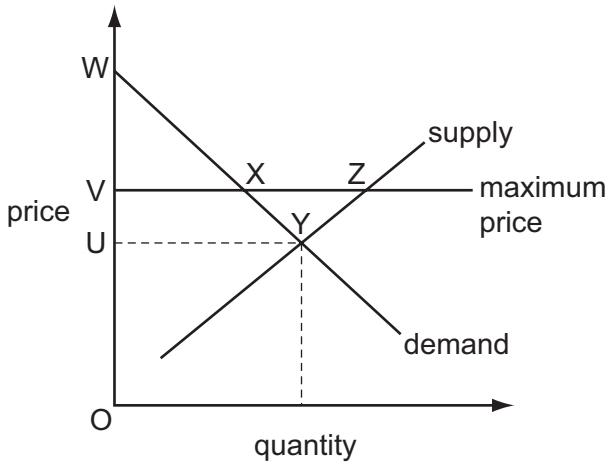
A Consumer surplus from the operations is ODD_1.

B The equilibrium price is P.

C The equilibrium price is indeterminate, because the supply curve is vertical.

D The equilibrium price is zero.

12 The diagram represents a market for a good, in which the equilibrium price is OU.



A maximum price of OV is imposed by the government.

What effect does this have on consumer surplus?

A It decreases by area VXYU.

B It increases by area WXV.

C It increases by area XYZ.

D It is not affected.

13 Which government policy might limit the rationing function of the price mechanism?

A the imposition of tariffs on imported consumer goods

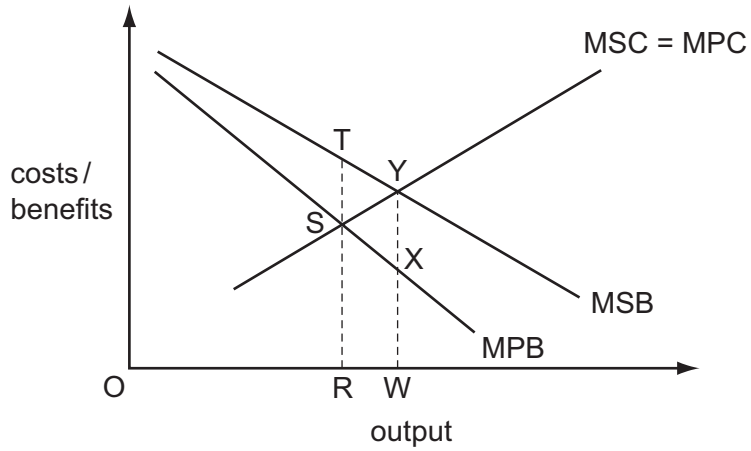
B the levy of indirect taxes at varying rates on different goods

C the payment of subsidies to food producers

D the setting of maximum prices for rented housing

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14 A government is planning to intervene in a market to fix output at the socially desirable level by giving a subsidy.



To achieve its objective, what should be the subsidy per unit?

A ST **B** SX **C** TY **D** XY

15 Which statement is correct?

A External benefit minus private benefit equals social benefit.

B Private benefit minus external benefit equals social benefit.

C Social benefit minus external benefit equals private benefit.

D Social benefit plus private benefit equals external benefit.

16 A government carries out a cost-benefit analysis on the building of a new airport.

It calculates that the cost of constructing and running the airport will be less than the revenue the airport will generate. It also estimates that benefits to third parties will be greater than the cost to third parties.

Which reason might the government give for **not** building this airport?

A The external costs exceed the external benefits.

B The net private benefit is greater on another project.

C The net social benefit is greater on another project.

D The social costs exceed the social benefits.

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17 What is a defining characteristic of a public good?

A An increase in consumption by one individual leaves the quantity available to others unchanged.

B Consumption of the good by one individual confers benefits on other individuals.

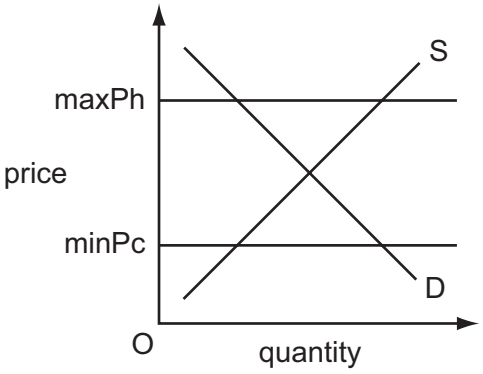
C The benefits obtained by those who consume the good are greater than they themselves realise.

D The good is consumed jointly by all members of society.

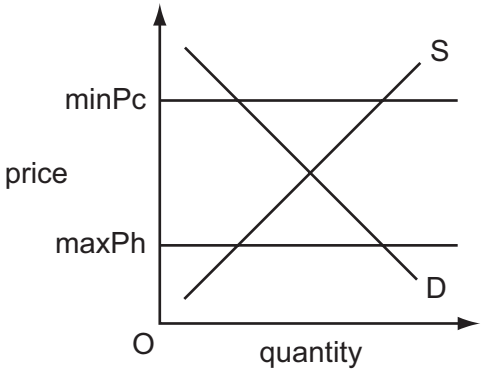
18 A government introduces a maximum price for house rentals (maxPh) and a minimum price for cleaning services (minPc). Both markets have identical demand and supply curves.

Which diagram shows that the maximum price will be effective and the minimum price will be ineffective in the respective markets?

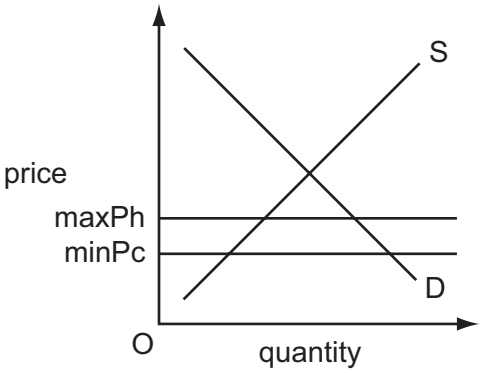
A



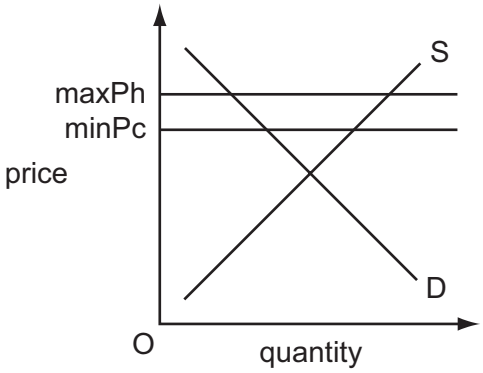
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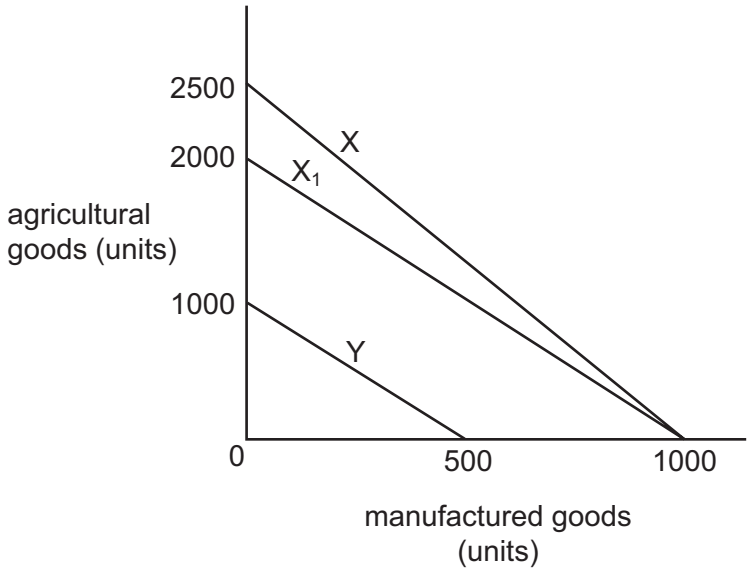
C



D



19 The diagram represents the production possibility curves of two economies X and Y.



As a result of soil erosion in economy X, the production possibility curve shifts from X to X_1.

According to the law of comparative advantage, what should country Y do following this change?

A cease to trade with country X

B export agricultural goods to country X

C export manufactured goods to country X

D import both agricultural and manufactured goods from country X

20 What is an assumption behind the basic theory of comparative advantage?

A Each country sets its own tariff barriers.

B Factors of production are mobile between countries.

C Producers benefit from economies of scale.

D There are no significant transport costs.

21 Which statement about the impact of a quota and a tariff is correct?

A A quota benefits the seller of the imports while a tariff raises government revenue.

B A quota decreases the quantity of imports while a tariff leaves the quantity of imports unchanged.

C A quota leaves import prices unchanged while a tariff raises the price of imports.

D A quota shifts the demand curve for imports while a tariff shifts the supply curve of imports.

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22 Between 2005 and 2010, a country's import prices rose by 25 % and its terms of trade rose to 120 (2005 = 100).

Which change has there been in the country's export prices?

A –5 % **B** 12.5 % **C** 45 % **D** 50 %

23 A firm initially employs 50 workers, each working 40 hours a week, and produces a total output of 18 000 units. It then employs an additional 10 workers, again each working 40 hours, and total output rises to 19 200 units.

What effect does this rise in employment have on labour productivity?

A decreases it by 1 unit

B decreases it by 40 units

C increases it by 120 units

D increases it by 1200 units

24 The table shows some of the elements of aggregate demand in selected countries in US$ in 2009.

country	aggregate demand (US$ bn)	consumer expenditure + investment + government spending (US$ bn)	exports (US$ bn)
Argentina	262	251	64
Brazil	1313	1291	180
Kenya	24	27	6
South Africa	283	292	89

What can be concluded from this information?

A Argentina had a trade surplus of US$53 bn.

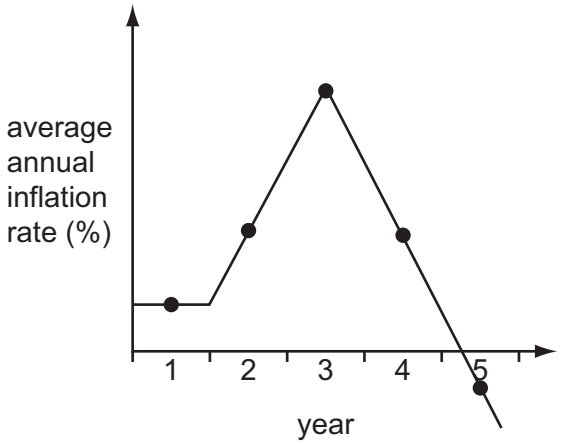
B Brazil had a trade surplus of US$158 bn.

C Kenya had a trade deficit of US$3 bn.

D South Africa had a trade deficit of US$98 bn.

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25 The graph shows a country's average annual inflation rate over a five year period.



What can be concluded about the general price level during the five years?

A It fell in only one year.

B It fell in only two years.

C It rose in only two years.

D It was constant in only one year.

26 A country has a balance of payments disequilibrium with a long-run deficit on its current account.

Which outcome of the disequilibrium will cause inflationary pressure?

A the depreciation of the country's exchange rate

B the fall in the country's reserves of international currencies

C the increase in the demand for imports of goods and services

D the introduction of expenditure-dampening policies by the government

27 If interest rates are reduced, what is most likely to decrease?

A borrowing by firms

B consumer spending

C import prices

D short-term capital inflows

28 The table gives information about the trade between Singapore and New Zealand during 2001, the first year after they signed a free trade agreement. The values are given both in Singapore dollars (S$) and New Zealand dollars (NZ$).

	S$ m	NZ$ m	percentage change from 2000
Singapore exports to New Zealand	508	618	+20 %
Singapore imports from New Zealand	331	403	–17 %

What can be concluded from the table?

A New Zealand gained more than Singapore from the trade agreement.

B New Zealand's trade position with Singapore improved in 2001.

C Singapore had a trade surplus with New Zealand in 2001.

D The exchange rate in 2001 was approximately NZ$ 1 = S$ 1.2.

29 At present, one unit of a country's currency exchanges for US$1.2. The country aims to set its exchange rate at US$1.4.

Which combination of government actions in the foreign exchange market must achieve this aim?

A buying US currency and buying its own currency

B buying US currency and selling its own currency

C selling US currency and buying its own currency

D selling US currency and selling its own currency

30 The government wishes to encourage a rise in the external exchange rate of a currency in order to dampen inflationary expectations.

What should it do?

A discourage inward foreign direct investment

B raise interest rates

C raise the level of aggregate demand in the economy

D remove quotas on imported products

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