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 2013**

1 hour

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

2633649293

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.
DO **NOT** WRITE IN ANY BARCODES.

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.

© UCLES 2013

1 What will encourage a higher degree of division of labour?

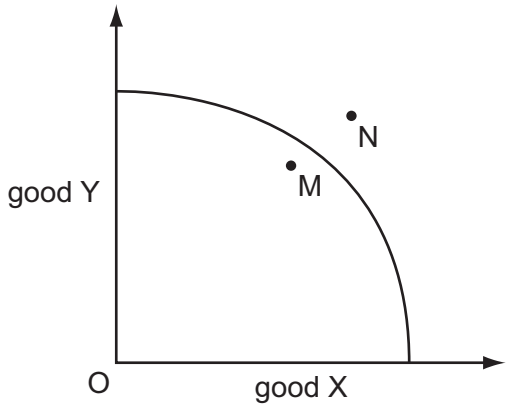
A firms wishing for a greater level of self-sufficiency

B firms wishing to increase their flexibility in production

C firms wishing to raise their level of productivity

D firms wishing to reduce their level of risk

2 The diagram shows a country's production possibility curve.



What could allow the economy to move from M to N in the long run?

A an increase in consumer spending

B an increase in demand for exports

C an increase in government spending on pensions

D an increase in investment

3 Which statement about factors of production is correct?

A All factors of production can earn income for their owner.

B The factor capital includes human capital, money capital and physical capital.

C The factor labour involves only physical effort.

D The natural resources classed as land are in unlimited supply.

4 A website compares the prices of groceries.

Which function of money is illustrated by this?

A medium of exchange

B standard of deferred payment

C store of value

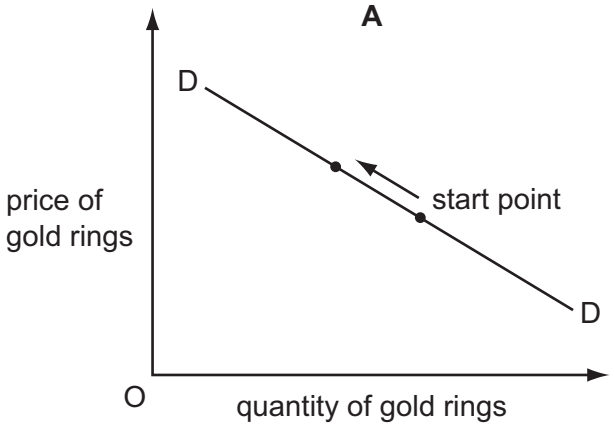
D unit of account

© UCLES 2013

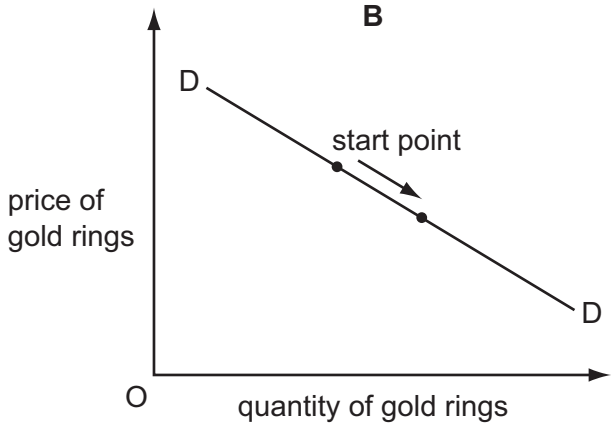
5 It is expected that the price of gold rings will increase in the future.

Which diagram shows the impact this expectation is likely to have on demand for gold rings in the present?

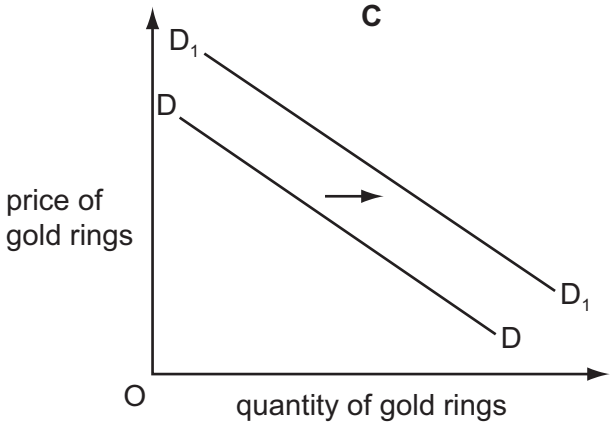
A



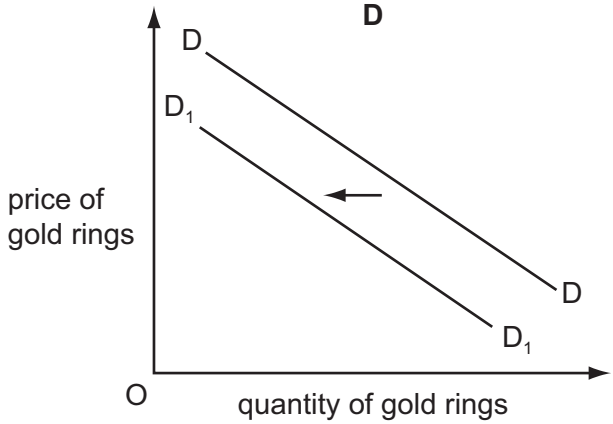
B



C



D



6 Which combination of changes could leave the position of the demand curve for a normal good X unchanged?

A a decrease in taste for product X and a decrease in the quality of product Y for which product X is a complement

B a decrease in the quality of a substitute and an increase in incomes

C an increase in the price of a substitute and an increase in population size

D an increase in the price of product Y for which product X is a complement and a successful advertising campaign for product X

© UCLES 2013

[Turn over

7 A product has a normal demand curve and a normal supply curve.

What would explain a rise in the price of the product and a fall in the quantity of the product traded?

A The decrease in demand is double the decrease in supply.

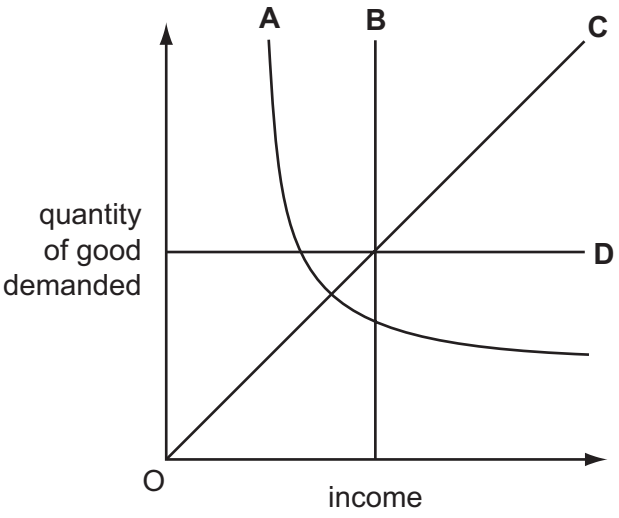
B The decrease in supply is double the decrease in demand.

C The increase in demand is double the increase in supply.

D The increase in supply is double the increase in demand.

8 The diagram shows how the quantity demanded of four goods changes as income changes.

Which good has an income elasticity of demand which is always +1?



9 The cross elasticity of demand between bus travel and rail travel is +2. A rise in the price of bus fares caused the demand for rail travel to rise by 10%.

Which change in bus fares has brought this about?

	from (cents)	to (cents)
A	20	21
B	30	33
C	40	45
D	50	60

© UCLES 2013

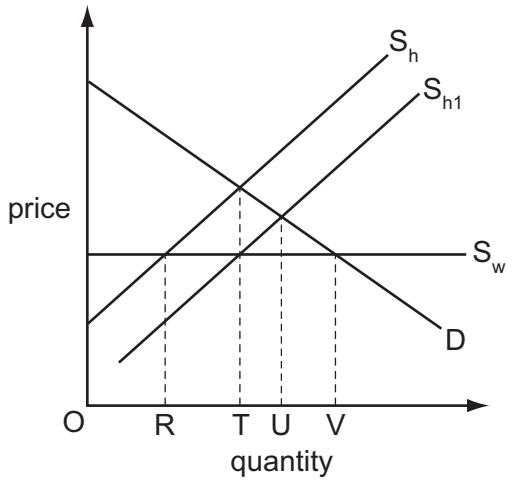
10 The supply function for a good can be written as Q = 2P + 10, where Q is the quantity supplied in kilos and P is the price per kilo in dollars.

The price rises from $10 to $15 per kilo.

The value of price elasticity of supply for this price increase lies in a range from

A $\frac{1}{6}$ to $\frac{1}{4}$. **B** $\frac{3}{8}$ to $\frac{1}{2}$. **C** $\frac{2}{3}$ to $\frac{3}{4}$. **D** $1\frac{1}{4}$ to $1\frac{1}{2}$.

11 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_h shows domestic supply and S_w shows world supply.
Domestic supply then shifts to S_{h1}.



What will be the level of consumption and the associated volume of imports after the supply shift?

	consumption	volume of imports
A	OU	TU
B	OU	UV
C	OV	TV
D	OV	UV

12 The table shows the price Rashid is willing to pay for successive cans of cola.

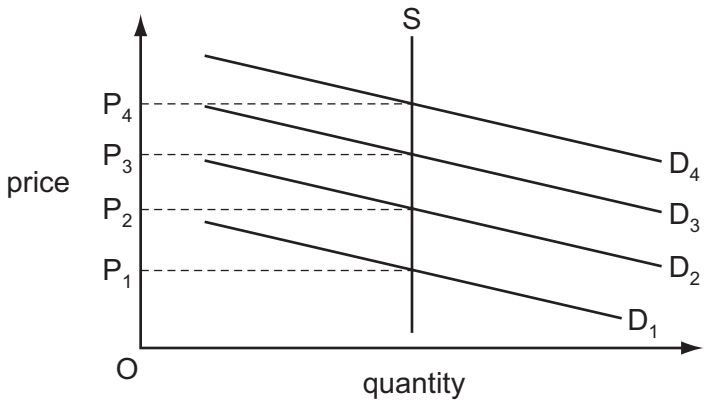
cans of cola	1st	2nd	3rd	4th
price willing to pay	$0.90	$0.80	$0.65	$0.50

If the price is $0.50 and Rashid buys four cans, what is the monetary value of Rashid's consumer surplus?

A $0.15 **B** $0.85 **C** $0.90 **D** $1.35

© UCLES 2013

13 In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days (D_1, D_2, D_3 and D_4).



The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

A set a fixed price at P_1

B set a fixed price at P_4

C vary prices between P_2 and P_3

D vary prices between P_1 and P_4

14 Which situation would indicate the presence of an externality?

A Producers' actions cause a shortage of a particular good.

B Private motorists contribute to traffic congestion in city centres.

C Differences in ability cause inequality in the distribution of income in an economy.

D Increased demand for a good by the rich raises its price for poorer consumers.

15 The term 'cost' in public sector cost-benefit analysis is defined as

A external costs.

B financial costs.

C private costs.

D social costs.

© UCLES 2013

16 One definition of a merit good is that it is one that will be underconsumed because of poor decision making.

Who would usually be responsible for this poor decision making?

A the consumers of the good

B the dealers who trade the good

C the firms producing the good

D the government

17 A local council charges for the use of tennis courts but not for the use of street lights.

How would an economist explain this?

A Tennis courts are a luxury but street lights are a necessity.

B Tennis courts are worth more than street lights.

C There is an opportunity cost of using land to build tennis courts but not street lights.

D The use of street lights cannot be restricted.

18 The government is considering building flood defences along a river. It has calculated the costs and benefits as follows.

	costs $m	benefits $m
private	450	260
external	60	190

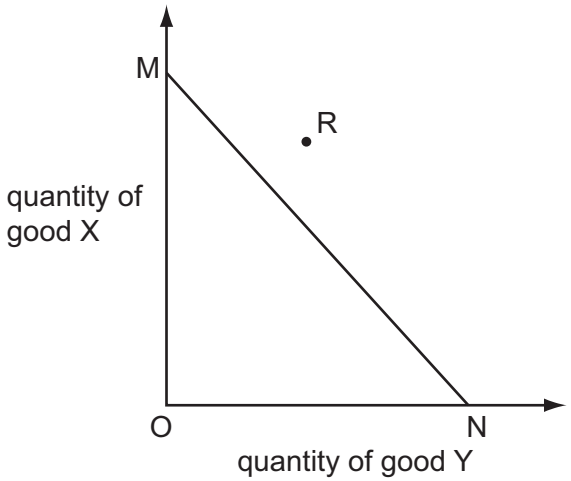
According to cost-benefit analysis, which decision and reasoning about flood defences is correct?

	decision	reasoning
A	build	external benefits are greater than external costs
B	build	social benefits are greater than private benefits
C	do not build	private costs are greater than the external benefits
D	do not build	social costs are greater than the social benefits

© UCLES 2013

[Turn over

19 In the diagram, MN is the production possibility curve of a country that has a comparative advantage in the production of good Y.



What might enable the country to consume the quantities of X and Y indicated by point R?

A increased specialisation in the production of good X

B international trade

C a reduction in unemployment

D increased specialisation in the production of good Y

20 A country is willing to undertake free trade with its neighbours and to allow the free movement of factors of production with them. It is unwilling, however, to share a common currency and common external tariff.

In what sort of economic relationship is it likely to be with its neighbours?

A a common market

B a customs union

C an economic union

D a free trade area

21 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

© UCLES 2013

22 Which item that relates to a Japanese-owned car assembly plant in the US will not be recorded in the current account of the balance of payments of the US?

A components imported from Japan

B interest charges on a loan from a US based international bank

C investment by the parent company in the plant's assembly line

D profits remitted to the Japanese parent company

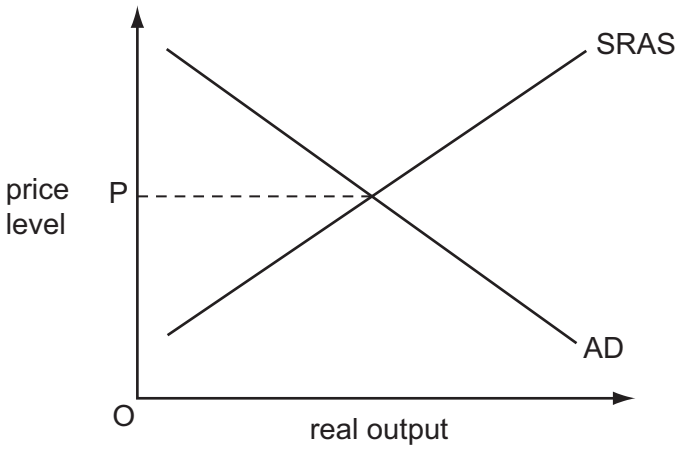
23 The table shows the number of workers employed by four firms in the same industry, the average number of hours worked each day and the total output each firm produces each day.

Which firm's workers have the highest productivity?

	number of workers	average number of hours worked per day	total output per day (units)
A	4	8	320
B	5	7	420
C	6	7	462
D	7	9	630

© UCLES 2013

24 The diagram shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for an economy with a price level OP.



Which combination of events would definitely cause a rise in the general price level?

	world commodity prices	domestic unemployment
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

25 It is anticipated that the rate of inflation in a country will continue to rise.

What is most likely to increase as a result?

A balance of payments surplus

B confidence in fixed interest bonds

C individuals' need for cash balances

D the real value of money

© UCLES 2013

26 A country experiences a devaluation of its currency.

Under which circumstances is this most likely to cause inflation in the country?

	dependence on imported raw materials	price elasticity of demand for imports	price elasticity of demand for exports
A	high	inelastic	elastic
B	high	elastic	inelastic
C	low	inelastic	elastic
D	low	elastic	inelastic

27 Why may a government seek to reduce a current account surplus on the balance of payments?

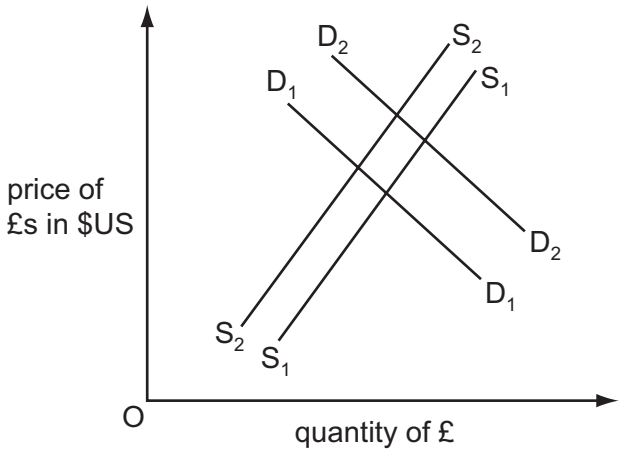
A to lower inflation

B to lower unemployment

C to raise the economic growth rate

D to raise the exchange rate

28 In the diagram, D_1D_1 and S_1S_1 are the initial demand and supply curves of the pound sterling (£) on the foreign exchange market.



What will cause the demand curve to shift to D_2D_2 and the supply curve to S_2S_2?

A an appreciation of the pound

B an increase in UK interest rates

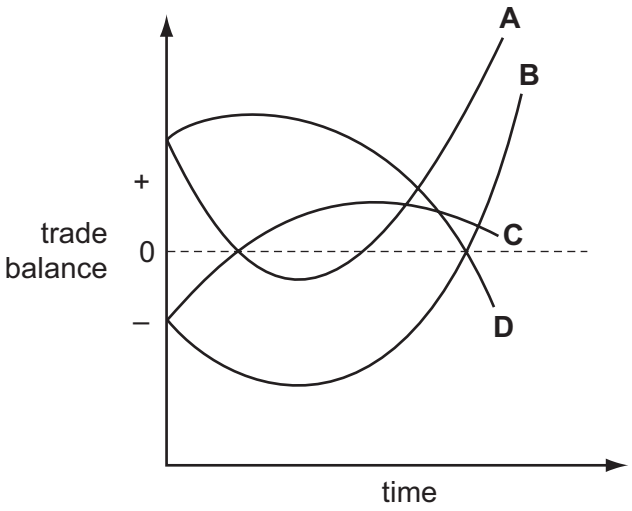
C a reduction in the level of UK import tariffs

D a reduction in the quality of UK goods

© UCLES 2013

29 In a country the Marshall-Lerner condition for an improvement in the trade balance is satisfied in the long run, but quantities of imports and exports are slow to respond to price changes. The government devalues its currency to reduce its trade deficit.

Which curve indicates the probable behaviour of the trade balance?



30 A country has a long running current account deficit on the balance of payments.

Its government was using an expenditure switching policy but decides to change to an expenditure reducing policy.

What could have been the old policy and its new policy?

	old policy	new policy
A	export subsidies	quotas
B	income tax	interest rate
C	quotas	exchange rate control
D	tariffs	income tax

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 ay 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.