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 2013**

1 hour

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

8469570923

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 **11** printed pages and **1** blank page.

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1 'From the age of twelve I made a living by buying towels, needles, shampoo and soap and re-selling them as a street vendor. Now, I run three hotels in Hanoi' - Duong Than Binh.

Which factors of production are likely to be involved in the above events?

A land only

B land and labour only

C land, labour and capital only

D land, labour, capital, enterprise

2 What is the correct order of these economic concepts?

A	B	C	D
inevitability of choices ↓ opportunity costs ↓ scarce resources	opportunity costs ↓ inevitability of choices ↓ scarce resources	opportunity costs ↓ scarce resources ↓ inevitability of choices	scarce resources ↓ inevitability of choices ↓ opportunity costs

key
↓ = leads to

3 A farmer can produce both beef and lamb. The opportunity cost of a kilo of beef is three kilos of lamb. The price of a kilo of beef is twice that of lamb.

What should he do if his aim is to maximise his revenue?

A concentrate on beef production

B concentrate on lamb production

C produce beef and lamb in the ratio 3:2

D produce twice as much beef as lamb

4 What advantage do banknotes (paper money) have over coins (metallic money)?

A They are cheaper to produce.

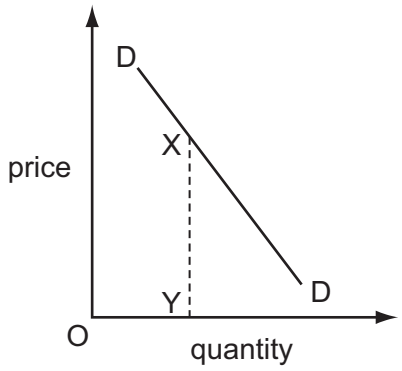
B They are more useful for low value transactions.

C They are the only form of legal tender.

D They have greater intrinsic value.

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5 The diagram shows an individual's demand curve.



What does XY measure?

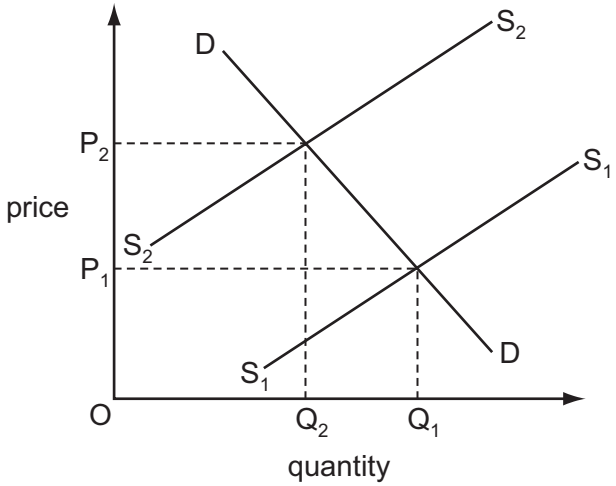
A the consumer surplus derived by the individual from the last unit consumed

B the equilibrium price of the good

C the quantity demanded by the individual at any given price

D the value of the individual's marginal benefit from the last unit consumed

6 The diagram represents the market for diamonds.



What could have caused price to change from P_1 to P_2?

A a fall in the price of substitute gems

B a fall in the tax on diamonds

C a rise in the productivity of diamond miners

D a rise in the wages of diamond miners

7 How is the market supply of a product in a competitive market obtained?

A by aggregating the supply of all firms producing the product

B by averaging the supply of all firms producing the product

C by calculating the supply of the typical firm producing the product

D by estimating the supply of the largest firm producing the product

8 The diagram shows the demand for a product for which there are only three buyers, Freeman, Hardy and Willis.



The table shows the demand from two of the three buyers.

price ($)	Freeman's demand	Hardy's demand
10	24	6
15	15	5
20	6	4

Which statement about the demand for the product from Willis is correct?

A It has unitary price elasticity of demand.

B It is a downward sloping straight line demand curve.

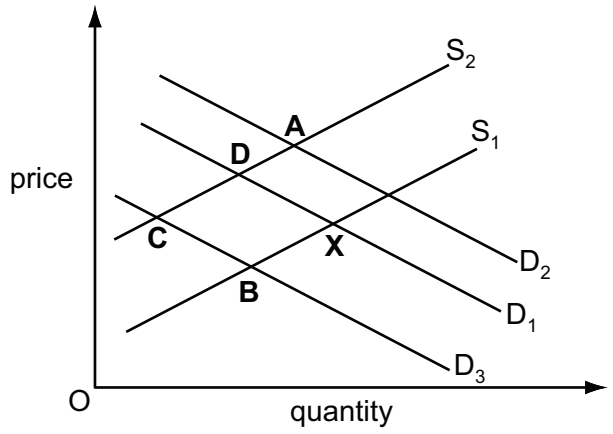
C It is a perfectly elastic demand curve.

D It is a perfectly inelastic demand curve.

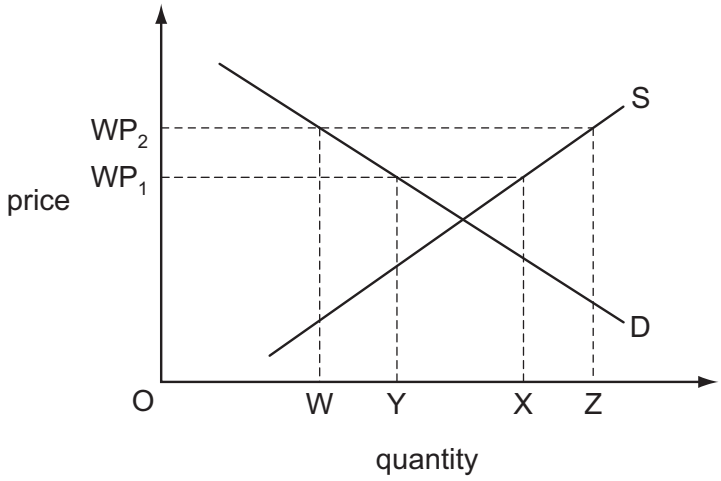
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9 The diagram shows the demand and supply curves for tractors. The present equilibrium point is at X.

What could be the new equilibrium if the government were to tax the country's tractor manufacturers?



10 The diagram shows a country's domestic supply of, and demand for, a commodity that it both consumes and exports.



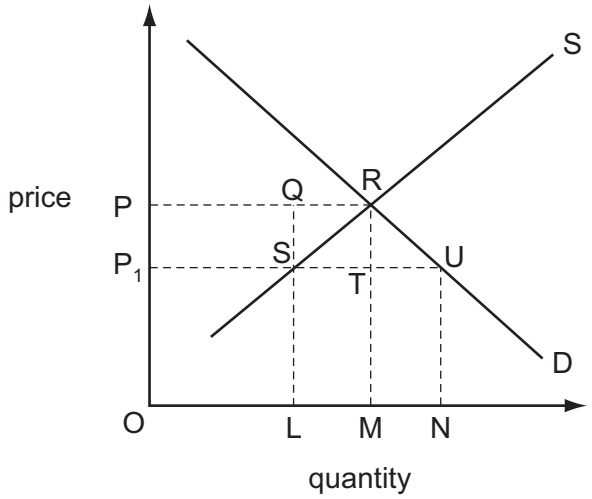
The world price changes from WP_1 to WP_2.

What are the resulting changes in domestic consumption and exports?

	domestic consumption	quantity of exports
A	OX to OZ	OY to OX
B	OX to OZ	OY to OZ
C	OY to OW	YX to WZ
D	OY to OW	YX to OZ

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11 The diagram shows the market for sugar which is in equilibrium at a price of OP.



A government then fixes a maximum price of OP_1.

What will happen as a result?

A an increase in consumer surplus equal to $PRUP_1$

B a reduction in expenditure by people who still buy sugar equal to $PQSP_1$

C a reduction in farmers' receipts equal to QRML

D farmers' receipts would be PQLO

12 A consumer needed a new camera and a new armchair. She was prepared to spend $500 on one item. She discovered that the camera cost $450 and the armchair $500. She bought the camera.

What was her opportunity cost and her consumer surplus?

	opportunity cost	consumer surplus
A	the armchair	$50
B	the armchair	$500
C	$50	$450
D	$450	$50

13 In which set of circumstances will prices play no part in determining how resources are allocated between alternative uses but may still have a role as a rationing mechanism?

A The government sets maximum prices for all goods above their market clearing price.

B The government sets minimum wages for all workers below the market rates of pay.

C The quantities of consumer goods produced are determined by the government.

D The total income consumers have available to spend is fixed by the government.

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14 The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits ($m)	external benefits ($m)	private costs ($m)	external costs ($m)
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

15 What will be the result, from society's view, if the market price for a product does not reflect the positive 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 A good is produced which consumers are unable to avoid consuming.

What type of good is this?

A demerit good

B inferior good

C private good

D public good

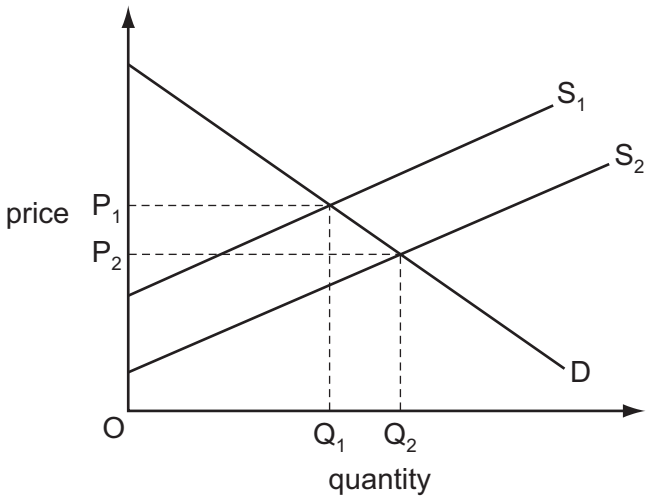
17 A government introduces a subsidy to reduce the price of heating oil, maximum rents for apartments and a national minimum wage rate.

Who is meant to benefit from each of these?

	heating oil market	apartment market	labour market
A	consumers	landlords	employers
B	consumers	tenants	workers
C	producers	landlords	workers
D	producers	tenants	employers

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18 In the diagram, D is the demand curve for a commodity. S_1 and S_2 are the supply curves before and after an intervention by the government.



What action has the government taken?

A It has given producers a subsidy to encourage greater output.

B It has given a subsidy to consumers.

C It has imposed a tax equal to $P_1 – P_2$ to discourage production.

D It has purchased a quantity $Q_2 – Q_1$ for government use.

19 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1000	1600
country Q	1500	2000

Which statement is correct?

A P has an absolute advantage in Z and Q has a comparative advantage in Y.

B P has an absolute advantage in Z and Q has an absolute advantage in Y.

C P has a comparative advantage in Z and Q has an absolute advantage in Y.

D P has a comparative advantage in Y and Q has an absolute advantage in Z.

20 What is the least likely outcome for participating countries of a move towards freer trade?

A greater international specialisation

B greater product choice

C higher standards of living

D more equal distribution of income

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21 A country joins a trade organisation, where the only requirements are that members must have identical tariff rates towards non-members and no trade barriers to fellow members.

With which possible change in status for the country is this condition consistent?

A from independent trade to membership of a free trade area

B from membership of a customs union to membership of an economic union

C from membership of a free trade area to membership of a customs union

D from membership of a free trade area to membership of an economic union

22 In Australia in 2005 a shipload of exported iron ore paid for 2200 imported flatscreen TVs. In 2010 the same size shipload paid for 22 000 imported flatscreen TVs.

Which combination of price changes is certain to cause this change in the terms of trade of Australia?

	average export price	average import price
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

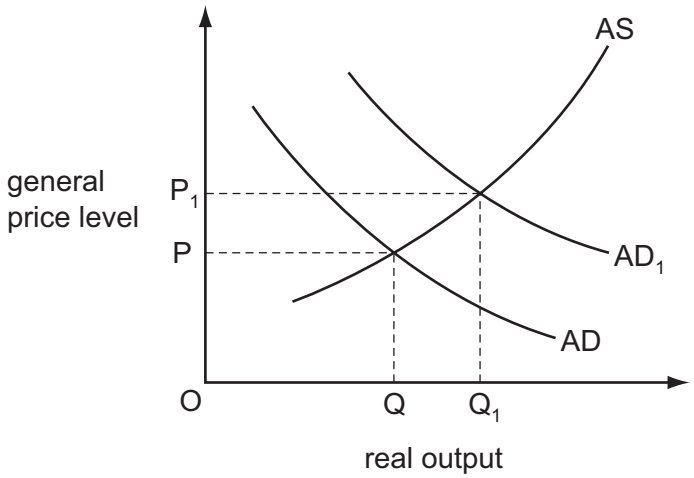
23 A country has a population of 500 million. 15 million people are unemployed and the country has an unemployment rate of 6 %.

What is the size of the labour force?

A 90 million **B** 250 million **C** 470 million **D** 485 million

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24 The diagram illustrates what happens to aggregate demand (AD) and aggregate supply (AS) in an economy during a year.



What explains the rise in the general price level?

A boom in consumer spending

B higher taxes on company profits

C reduction in government-financed projects

D rising costs of raw materials

25 What would increase both demand-pull and cost-push inflation?

A an appreciation of a country's currency

B an increase in the cost of borrowing

C an increase in the level of its import tariffs

D an increase in the price of oil

26 A UK resident buys shares in a Spanish company.

What will be the immediate and subsequent effects on the UK's balance of payments?

	immediate effect on financial account	subsequent effect on current account
A	credit	credit
B	credit	debit
C	debit	credit
D	debit	debit

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27 The table gives details of some parts of a country's balance of payments.

In which year did the country have its largest trade deficit?

	value of exports of goods ($m)	value of imports of goods ($m)	value of net income and transfers ($m)
A	3914	3005	+110
B	3950	4073	+80
C	4774	4781	–65
D	5226	5102	–101

28 Country X trades with only two countries, the USA and Japan.

90 % of the country's trade is with the USA and 10 % is with Japan.

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

The value of country X's currency against the US$ rises by 10%. The value of country X's currency against the Japanese yen rises by 50 %.

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

A 114 **B** 115 **C** 130 **D** 160

29 What is most likely to cause a rise in a country's exchange rate?

A a fall in its direct taxes

B a fall in its export orders

C a rise in its interest rates

D a rise in its imports

30 An economy has a high level of unemployment and a large balance of payments deficit on the current account.

What would be a suitable policy for the government to adopt?

A decrease government spending

B devalue the currency

C increase direct taxation

D increase interest rates

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