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 2013**

1 hour

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

* 1 2 6 0 9 1 7 4 1 4 *

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.

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1 What is **not** a factor of production?

A fish stocks

B money

C oil reserves

D roads

2 Two workers, George and Zaheer, can produce the following amounts in one working day if they concentrate on producing only one of the products.

	units of food		units of clothing		pairs of shoes
George	9	or	18	or	36
Zaheer	15	or	45	or	30

First they decide to produce for themselves the 6 units of food they need to survive. Then they specialise in the product at which they are relatively efficient.

What will be the total output of clothing and shoes, in addition to the 12 units of food, that is produced in one working day?

	units of clothing	pairs of shoes
A	6	18
B	21	22
C	27	12
D	36	12

3 A centrally planned economy introduces a significant role for free market forces in determining how its economic resources are allocated.

What is most likely to occur in the short run?

A an improvement in the balance of trade

B an increase in the general level of prices

C an increase in the level of employment

D an increase in the level of output

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4 In recent years there was an extremely rapid inflation rate in Zimbabwe.

Which two functions of money might the Zimbabwe dollar have still performed during this hyperinflation?

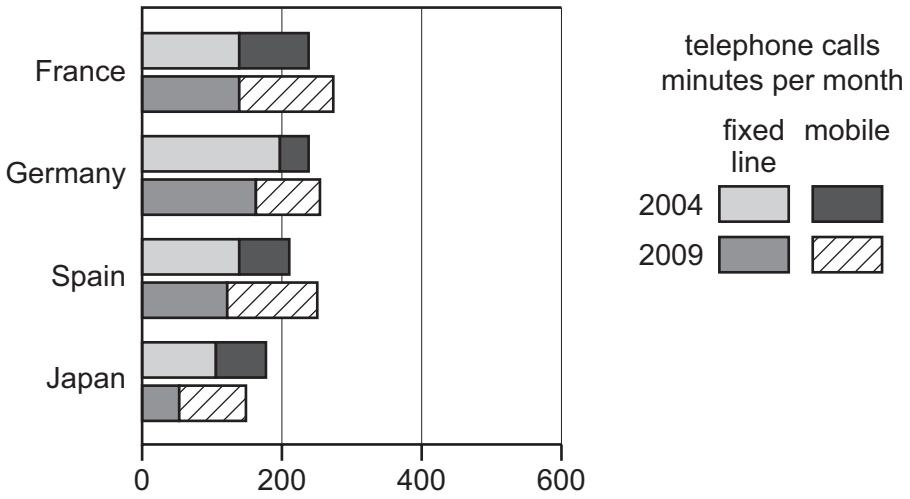
A medium of exchange and store of value

B standard for deferred payments and unit of account

C store of value and standard for deferred payments

D unit of account and medium of exchange

5 The diagram shows the demand for telephone calls in four countries in 2004 and 2009.



Which statement about the demand for telephone calls is correct?

A Between 2004 and 2009 the demand for fixed line calls decreased in each of the four countries.

B Between 2004 and 2009 the total demand for telephone calls increased in each of the four countries.

C In 2004 demand for fixed line calls was greater than demand for mobile calls in each of the four countries.

D In 2009 demand for mobile calls was greater than demand for fixed line calls in each of the four countries.

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

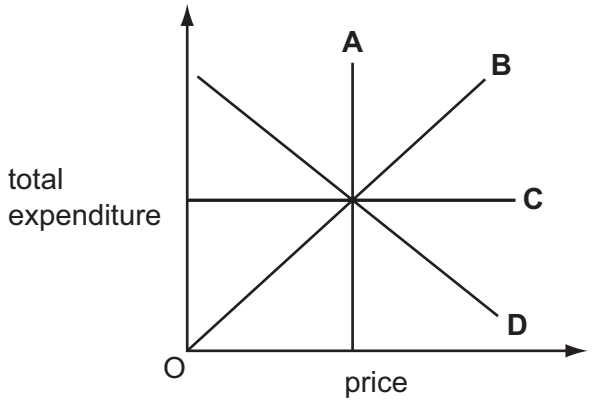
price ($)	firm X's supply	firm Y's supply	firm Z's supply
10	50	40	10
20	60	60	20
30	85	80	35
40	120	100	55

Which price change is required for market supply to double?

A $10 to $20 **B** $10 to $30 **C** $20 to $30 **D** $20 to $40

7 The price elasticity of demand for a product is constant and equal to unity.

Which curve in the diagram shows the relationship between total expenditure on the product and its price?



8 The price of good X rises by 20 %. As a result, the demand for a substitute good Y rises by 10 %.

What is the cross-elasticity of demand for good Y with respect to good X?

A +2 **B** +0.5 **C** –0.5 **D** –2

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9 A car rental firm rents out the cars in its fleet on weekdays to business users and at weekends to tourists.

What is likely to result from an increase in the demand by tourists for car rentals?

	price of weekend rentals	size of car fleet	price of weekday rentals
A	decrease	unchanged	decrease
B	decrease	unchanged	unchanged
C	increase	increase	decrease
D	increase	increase	unchanged

10 The table shows the demand and supply schedules for a good before and after the imposition of a tax.

price ($)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

What was the amount of the tax revenue raised for the government?

A $1020 **B** $1360 **C** $5440 **D** $6460

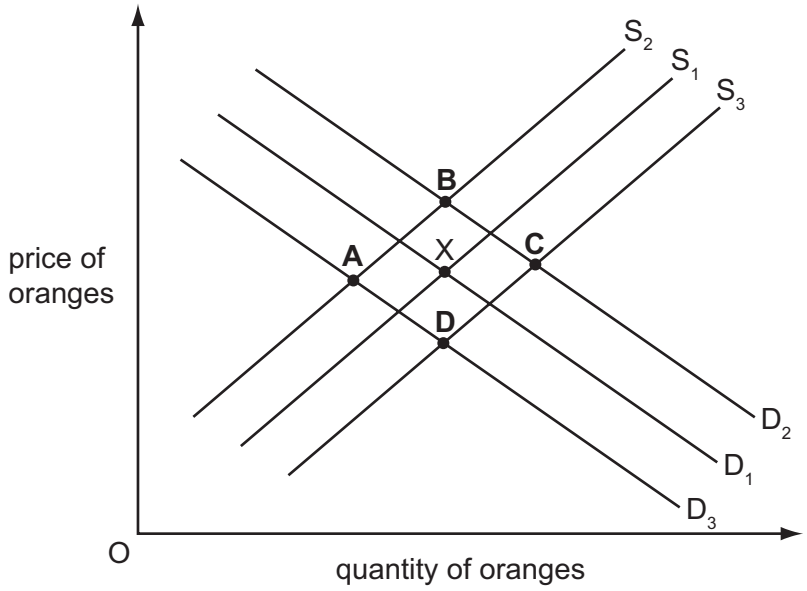
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11 Oranges and apples are substitutes.

The diagram shows the equilibrium position in the market for oranges at X.

Weather conditions reduce the number of oranges grown but increase the number of apples grown.

Which point is likely to indicate the new equilibrium for oranges?



12 A consumer saved $700 and preferred to spend the money on a new television rather than a new washing machine. When she went to the shop she discovered that the television cost $500 and the washing machine cost $400. She bought the television.

What was the consumer surplus and the opportunity cost?

	consumer surplus	opportunity cost
A	$100	$400
B	$200	the washing machine
C	$200	$500
D	$400	the washing machine

13 What is generally considered to be one of the advantages of using the price mechanism as a rationing device?

A It ensures that goods are allocated in accordance with the needs of consumers.

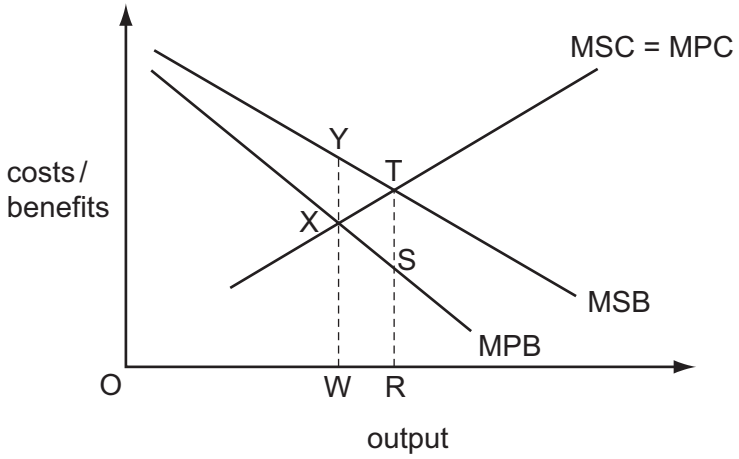
B It ensures that suppliers cannot make excessive profits.

C No one can be prevented from consuming a good if they are willing and able to pay the market price.

D The allocation of goods is determined by consumers' wealth.

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14 A government is planning to intervene in a free market to fix output at the currently economically desirable level.



To achieve its objective, what should the government introduce?

A a subsidy of TS

B a subsidy of YX

C a tax of TS

D a tax of YX

15 What does a government compare when carrying out a cost-benefit analysis of a project?

A external benefit and external cost

B financial benefit and opportunity cost

C real benefit and monetary cost

D social benefit and social cost

16 What is the defining characteristic of a private good?

A Consumption by one individual reduces the amount of the good available to others.

B The benefits derived from the good are confined to those who consume it.

C The good is wholly produced within the private sector.

D To acquire the good a consumer must be willing and able to pay for it.

17 Which pair of government actions are intended to directly benefit suppliers?

A government provision of consumer goods and maximum price laws

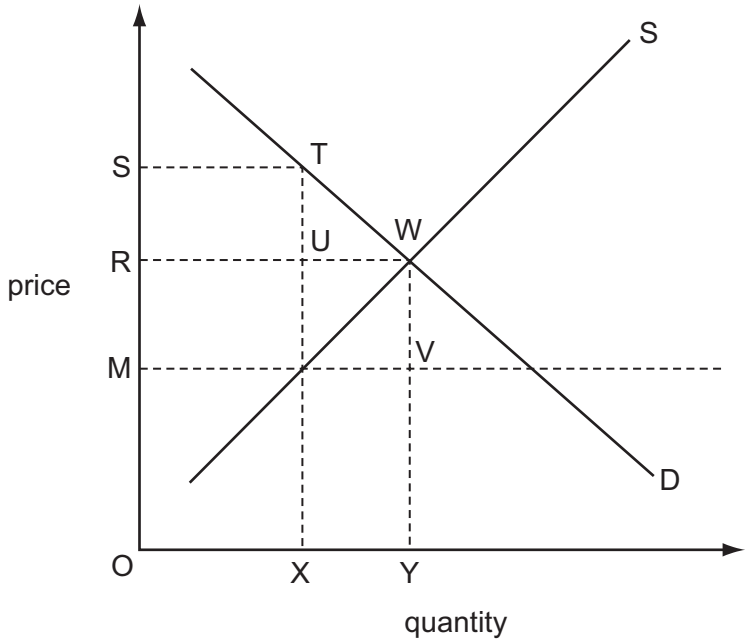
B maximum price laws and price stabilisation policies

C price stabilisation policies and indirect taxes

D production subsidies and minimum price laws

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18 The diagram shows the imposition of a maximum price (OM) on a product.



An organisation buys up the total supply at the maximum price and then resells it illegally to gain maximum revenue.

What is the organisation's revenue?

A OMVY **B** ORUX **C** ORWY **D** OSTX

19 Which two groups within a country are likely to benefit from the introduction of tariffs?

A consumers and shareholders

B declining industries and importers

C exporters and monopolies

D growing industries and the government

20 What will cause a deterioration in a country's terms of trade?

A a fall in its inflation rate

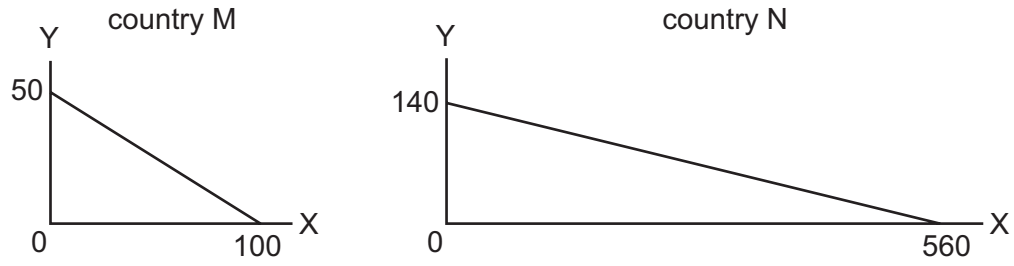
B a fall in the price of its imports

C a rise in incomes abroad

D a rise in its exchange rate

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21 The graphs show the production possibilities for commodities X and Y in two countries M and N.



What will be the effect of an agreement between M and N to exchange the commodities at a rate of 1Y for 3X?

A Both countries will gain, because their consumption possibilities will increase.

B Consumers in country M will lose, because a unit of Y will now cost 3X instead of 2X.

C Only country N will gain, because N can produce more of both commodities than M.

D Neither country will gain, because they both have a comparative advantage in the production of the same commodity, X.

22 What is **not** an item in a country's current account of its balance of payments?

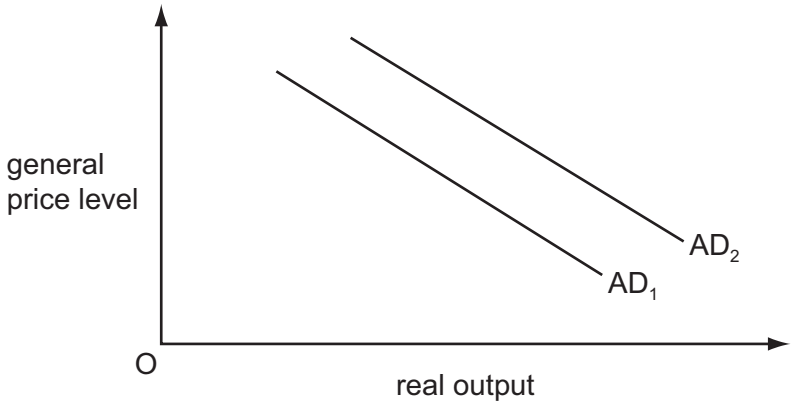
A exports of primary commodities

B money received from banking services

C overseas investment

D profits sent back by companies overseas

23 In the diagram, AD_1 is an economy's initial aggregate demand curve.



What could cause the curve to shift to AD_2?

A Businessmen have come to expect a lower rate of return on capital investment.

B Domestic consumers have become more thrifty.

C Exports have become more competitive in overseas markets.

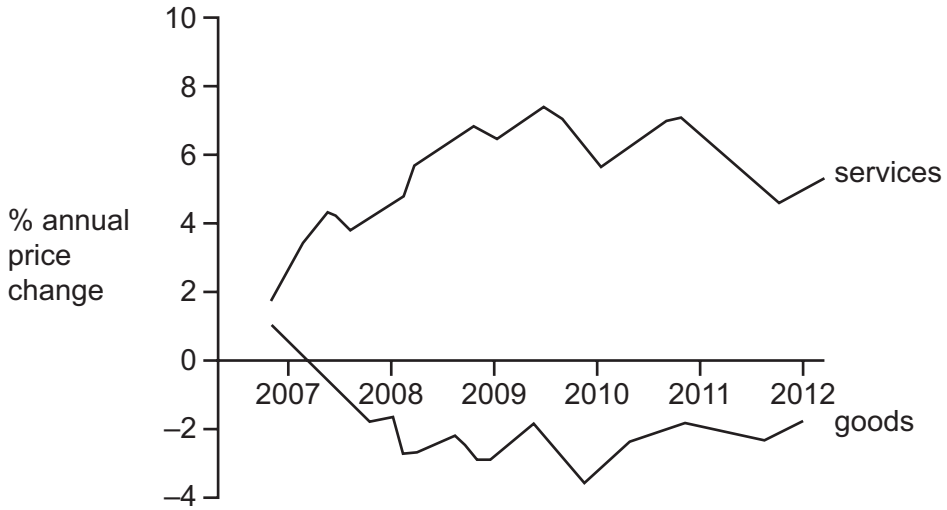
D The economy's propensity to import has increased.

24 A country has a population of 100 million. 5 million people are unemployed and the country has an unemployment rate of 10%.

What is the size of the labour force?

A 10 million **B** 50 million **C** 90 million **D** 95 million

25 The graph shows the annual percentage change in the prices of services and in the prices of goods between 2007 and 2012.



What can be deduced from the graph?

A On average the price of services was higher than the price of goods throughout the period.

B The average price of goods was higher in 2012 than in 2010.

C The average price of services was higher in 2012 than in 2010.

D There was a fall in the general price level between 2008 and 2010.

26 What combination is most likely to cause a surplus in a country's trade in goods and services?

	rate of inflation	international value of currency
A	high	strong
B	high	weak
C	low	strong
D	low	weak

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27 With an exchange rate of 30 Thai baht to $US1 an American export sells in Thailand for 150 baht.

What change in the exchange rate of the baht would cause the export to sell for 165 baht?

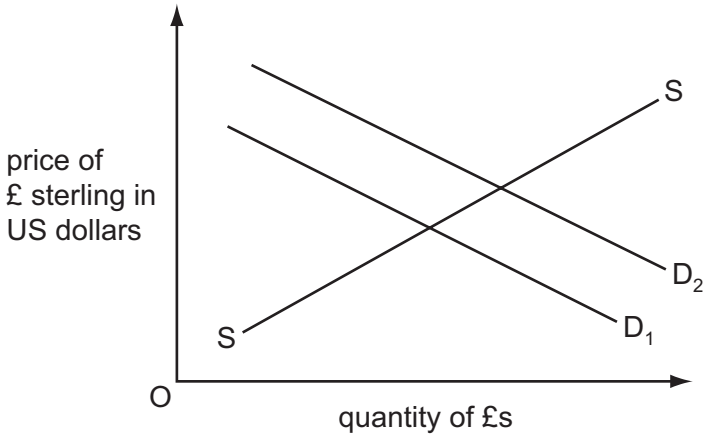
A a depreciation of 10%

B a depreciation of 15%

C an appreciation of 10%

D an appreciation of 15%

28 The diagram shows demand and supply curves of the £ sterling against the US dollar.



What is likely to cause a shift in the demand curve from D_1 to D_2?

A an adverse balance of payments in the UK

B an increased demand for UK goods in the USA

C an increase in UK tourists visiting the USA

D an increase in US interest rates

29 According to the Purchasing Power Parity theory, what determines the rate of exchange between two countries?

A relative price levels in the two countries

B the bargaining power of the respective governments

C the comparative advantage of the two countries

D the size of their foreign currency reserves

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30 What is most likely to immediately reduce the deficit on the current account of a country's balance of payments?

A a cut in its interest rates

B a rise in its income tax rates

C cuts in subsidies to domestic industry

D purchases of its currency by its government

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