Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice (Core) **October/November 2014**

1 hour

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

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READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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 **13** printed pages and **3** blank pages.

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1 What are involved in the allocation of resources in a market economy?

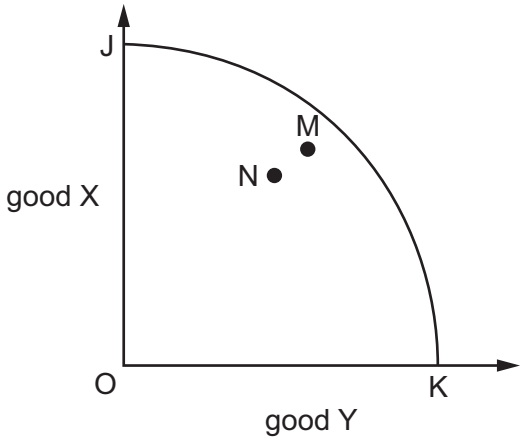
A factors of production and subsidies for essential goods

B prices and choices

C production possibilities and trade restrictions

D unlimited wants and public goods

2 The curve JK in the diagram is an economy's production possibility curve.



What could cause the economy to move from point M to point N?

A a decrease in the dependency ratio

B a decrease in the population of working age

C an increase in the participation rate

D an increase in the unemployment rate

3 In the twentieth century the nature of a typical car assembly plant changed. The industry had fewer firms, they operated on larger sites and they had more automated machinery.

How is this change most likely to have affected the relative use of factors of production in the industry?

	increased relative use	decreased relative use
A	capital and enterprise	labour and land
B	enterprise and labour	land and capital
C	labour and land	capital and enterprise
D	land and capital	enterprise and labour

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4 What is meant by 'the value of money'?

A the amount of goods that can be purchased with a given sum of money

B the amount of wealth stored in the form of money

C the cost of production of money

D the opportunity cost of holding wealth in the form of money

5 What might shift an individual's demand curve for petrol to the right?

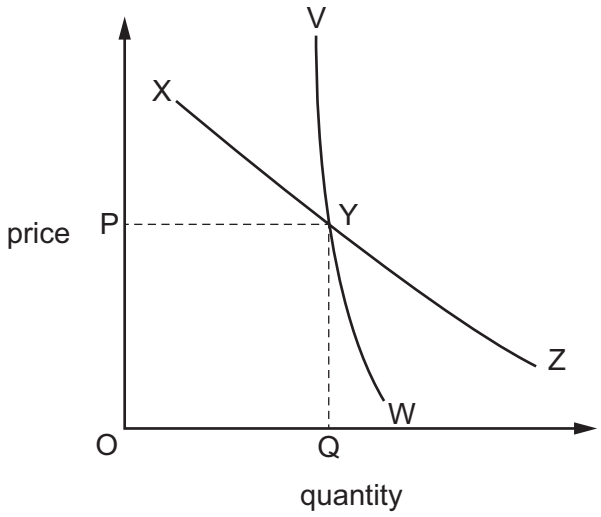
A a fall in the price of cars

B a fall in the price of public transport

C a rise in the price of parking

D a rise in the price of petrol

6 The diagram shows a consumer's short-run and long-run demand curves for coconuts. Initially, the consumer purchases quantity Q at price P.

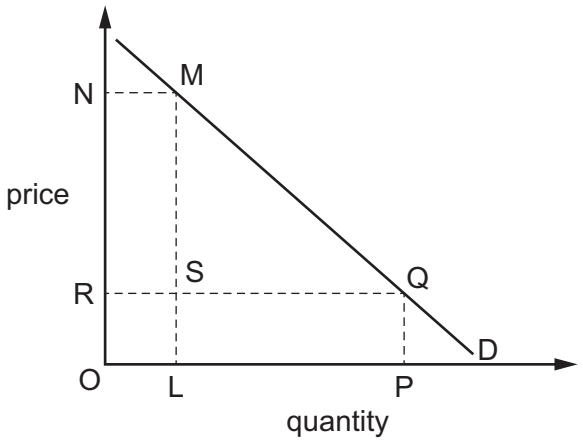


If the price of coconuts increases from P, the consumer's short-run response is greater than his long-run response. If the price decreases from P his short-run response is smaller than his long-run response.

What is the consumer's short-run demand curve?

A VYW **B** VYZ **C** XYW **D** XYZ

7 The diagram shows the demand curve for a product.



If the rectangle OLMN is equal in area to the rectangle OPQR, which statement is correct?

A A rise in price from OR to ON results in the same proportionate fall in quantity demanded.

B Consumer surplus falls by RSMN if the price rises from OR to ON.

C The price elasticity of demand is unitary for all changes in price.

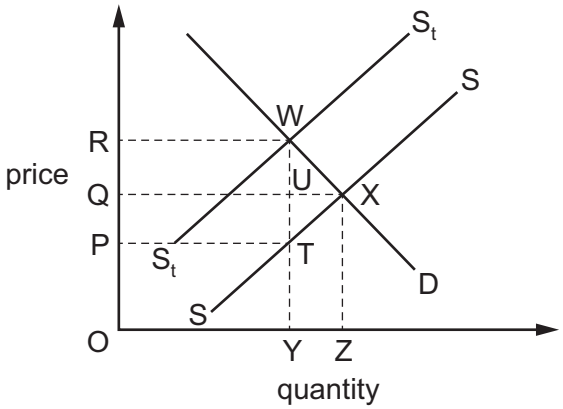
D Total revenue falls by MSQ if the price rises from OR to ON.

8 Which elasticity values indicate that cars are normal goods and that petrol is a complement to car use?

	income elasticity of demand (YED) for cars	cross elasticity demand of (XED) for petrol relative to changes in car prices
A	YED is negative	XED is negative
B	YED is negative	XED is positive
C	YED is positive	XED is negative
D	YED is positive	XED is positive

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9 A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax and S_tS_t is the supply curve after tax.



Which area represents the revenue received by the government from the tax?

A ORWY **B** PQUT **C** PRWT **D** QRWU

10 When demand for a good increases, equilibrium price stays the same.

What is the good's elasticity of supply?

A –1

B zero

C +1

D infinite

11 A manufacturer has estimated that the price elasticity of supply of ice cream is +1.5.

If the demand for ice cream rises and price increases by 10%, how much more will the manufacturer supply to the market?

A 0.15% **B** 1.5% **C** 15% **D** 150%

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12 Consumer X is the largest of five consumers and buys 50% of sales.

The table shows the quantity of the good demanded by consumer X and the market supply of the good.

price $	demand from consumer X	market supply
4	20	28
6	16	32
8	12	40
10	10	45

What would be the market equilibrium price?

A $4 **B** $6 **C** $8 **D** $10

13 The difference between what consumers pay for a product and what they are prepared to pay is known as

A a shortage.

B consumer surplus.

C excess demand.

D opportunity cost.

14 What types of externalities arise from

1 a firm creating an extra supply of trained labour and,

2 the excessive noise made by a householder cutting his lawn?

	1	2
A	negative production externality	negative consumption externality
B	negative production externality	positive consumption externality
C	positive production externality	negative consumption externality
D	positive production externality	positive consumption externality

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15 The table shows the total amount consumers are willing to pay for different quantities of good X and the total external benefits that arise from the consumption of X.

quantity of good X (000 units)	consumers' willingness to pay ($000)	total external benefits ($000)
1	100	20
2	180	38
3	240	54
4	280	68
5	300	80

What is the value of the marginal social benefit when 5000 units are consumed?

A $12 000 **B** $32 000 **C** $80 000 **D** $380 000

16 A company applied to build a supermarket on the edge of a town near a river. Permission to do this involved an expensive planning process with the local government. In order to gain approval the company agreed to build a bridge across the river near the supermarket.

What would be included in a social cost-benefit study of this application which would **not** be included in a private calculation?

A the value of the extra customers the supermarket gets by people using the new bridge

B the value of the land used which could have been used for housing

C the value of the time of the local government's officials in the planning process

D the value of the time saved by people using the new bridge to get to work in the town

17 A good is most suitable to be provided by the market if it is

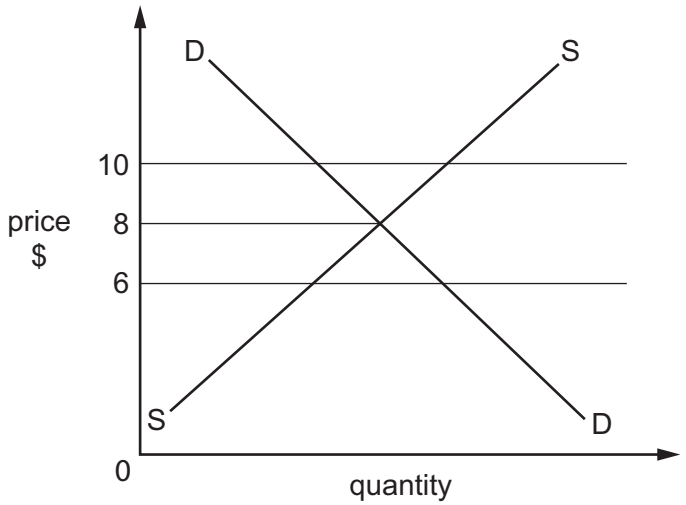
A excludable and non-rival.

B excludable and rival.

C non-excludable and non-rival.

D non-excludable and rival.

18 In moving towards a market economy government price controls were removed. In the diagram below, the government initially set an effective maximum price.

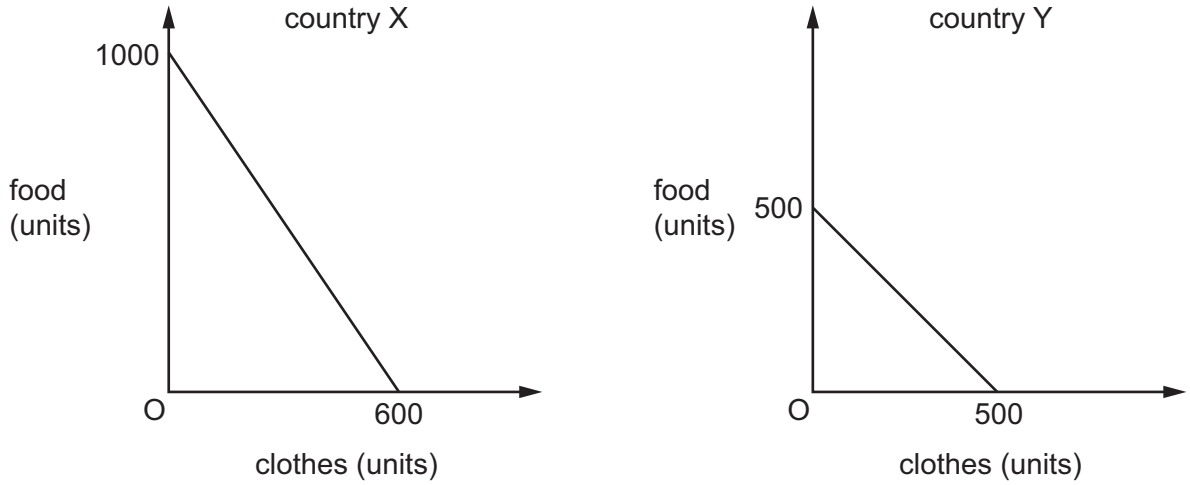


What effect was there on price and quantity when the government removed the maximum price?

	price	quantity
A	falls from $10 to $8	removes shortage
B	falls from $10 to $8	removes surplus
C	rises from $6 to $8	removes shortage
D	rises from $6 to $8	removes surplus

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19 The diagrams show the production possibility curves of two countries, X and Y, both of which can produce food and clothes.



Which statement about production in the two countries is correct?

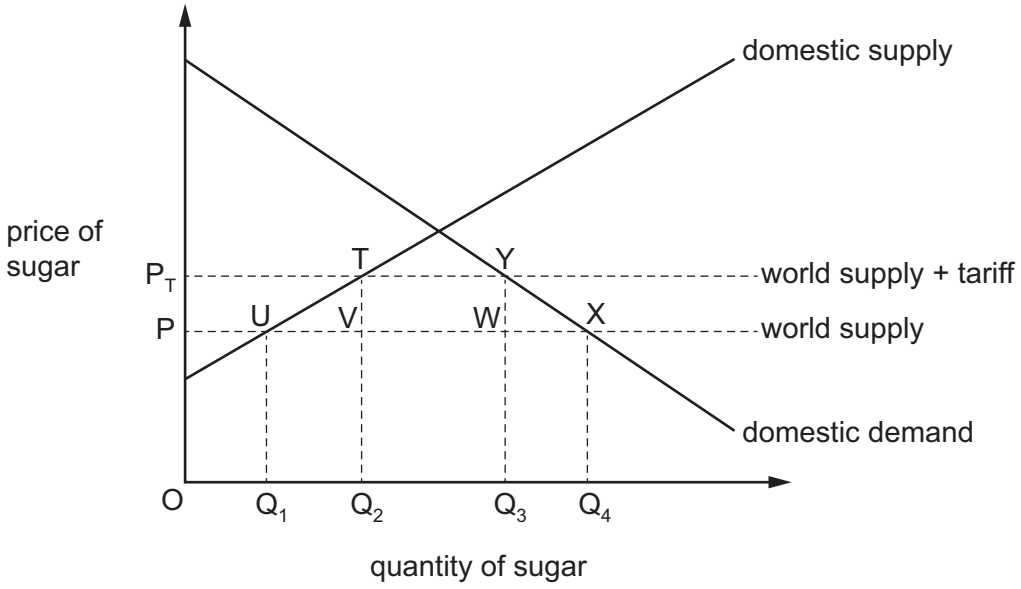
A X has absolute advantage in clothes and Y has absolute advantage in food.

B X has absolute advantage in clothes and Y has comparative advantage in food.

C X has absolute advantage in food and Y has absolute advantage in clothes.

D X has absolute advantage in food and Y has comparative advantage in clothes.

20 The diagram shows the effect of removing a tariff on imports of sugar into a country.



Which area represents the loss of producer surplus for domestic producers of sugar in the country?

A P_TTUP **B** P_TTVP **C** P_TYXP **D** TYWV

21 What must be the result for a country of a rise in its export prices relative to its import prices?

A a deficit in its trade in goods

B an improvement in its terms of trade

C an increase in its inflation rate

D a rise in its exchange rate

22 A country imports components which it uses in the production of electrical goods for the domestic market. The country is experiencing a rise in incomes.

What is likely to happen to the price of electrical goods and the country's balance of trade?

	price of electrical goods	balance of trade
A	fall	improve
B	fall	worsen
C	rise	improve
D	rise	worsen

23 The table gives figures for household spending in the UK economy between 2008 and 2010.

	nominal household consumption spending (£ million)	real household consumption spending (£ million)
2008	878 024	878 024
2009	858 242	846 961
2010	900 204	855 302

What can be concluded from the figures?

A All households bought more goods and services in 2010 than in 2008.

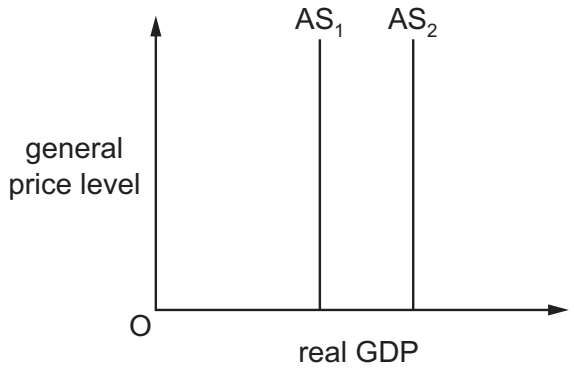
B Households saved more in 2008 than in 2010.

C Inflation was higher in 2010 than in 2009.

D Living standards were lower in 2009 than 2010.

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24 In the diagram AS_1 is an economy's long-run aggregate supply curve.



What will cause the aggregate supply curve to shift from AS_1 to AS_2?

A an increase in consumer spending

B an increase in inflation

C an increase in net exports

D an increase in productivity

25 The table shows an index of consumer prices (2005 = 100) for a number of countries for 2009, 2010 and 2011.

Which country experienced the lowest rate of **fall** in the real value of money between 2009 and 2011?

		2009	2010	2011
A	Canada	107.8	108.9	112.0
B	Japan	100.3	99.6	99.3
C	Portugal	107.4	108.9	112.9
D	Switzerland	104.3	104.5	104.7

26 National inflation rates vary widely but they have declined for most countries in recent years.

Which combination might best explain this decline in inflation rates?

A increased consumer expenditure and tighter control on international trade

B increasing international competition and reduced world incomes

C low interest rates and expectations of future price increases

D protectionist trade measures and a rise in raw material prices

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27 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

A Domestic money supply will increase.

B Rival economies may react with trade protection measures.

C The economy's foreign exchange reserves may decrease.

D The economy's short-run standard of living will be reduced.

28 What is most likely to cause Australia's exchange rate to depreciate?

A an increase in Australia's demand for imports

B an increase in Australia's interest rate

C an increase in demand for Australia's exports

D an increase in tourist visits to Australia

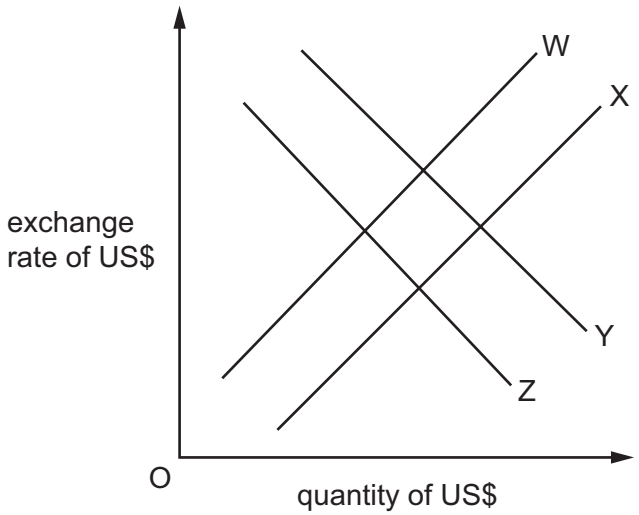
29 With an exchange rate of 4 Egyptian pounds (EGP) = 1 US$, an American product sells in Egypt for EGP120.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound depreciates to EGP5 = 1 US$?

A EGP90 **B** EGP96 **C** EGP144 **D** EGP150

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30 The US Central Bank lowers its interest rate to raise aggregate demand. This has an effect on the exchange rate of the US$. The diagram shows the resulting changes in the demand for and supply of US$ in the foreign exchange market.



Assume a change is shown by a move from a curve numbered 1 to a curve numbered 2.

What should curves W, X, Y and Z be labelled to show the effect of the interest rate rise on the exchange rate?

	W	X	Y	Z
A	S_1	S_2	D_1	D_2
B	S_1	S_2	D_2	D_1
C	S_2	S_1	D_1	D_2
D	S_2	S_1	D_2	D_1

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Copyright Acknowledgements:

Question 25 Based on data from OECD; Index of Consumer Prices; http://stats.oecd.org

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