Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

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)

3087722454

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 **12** printed pages.

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1 Under normal circumstances, taking a breath of fresh air involves no opportunity cost.

This shows that fresh air is

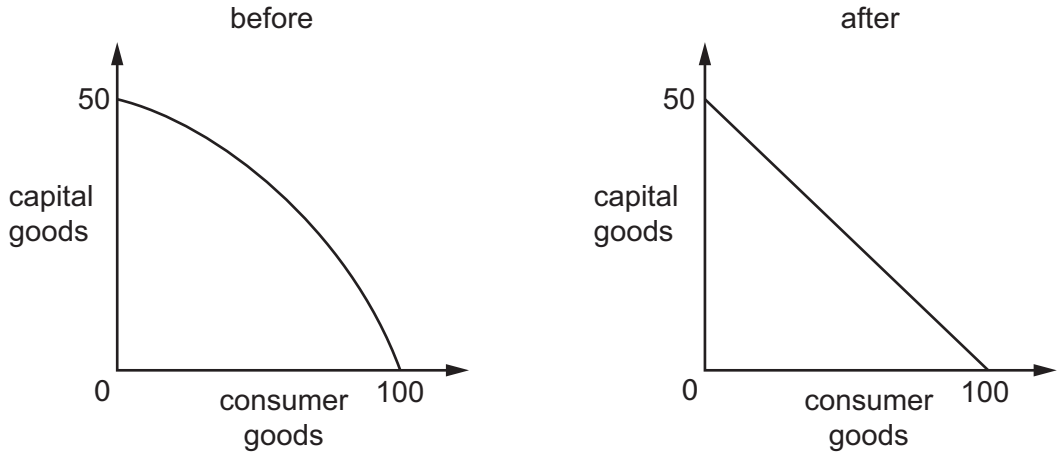
A a free good.

B a merit good.

C a public good.

D an economic good.

2 The diagrams show an economy's production possibility curve before and after a change has occurred.



What would this change indicate about opportunity cost and the production possibility curve?

	opportunity cost	production possibility curve
A	switched from constant to increasing	involved some increase
B	switched from decreasing to constant	involved some decrease
C	switched from decreasing to increasing	involved some increase
D	switched from increasing to constant	involved some decrease

3 Which statement about factors of production is correct?

A All economic output requires the use of four factors of production.

B Capital may take the form of shares in a manufacturing company.

C Enterprise can only be found in owner-run organisations.

D Land includes both renewable and non-renewable resources.

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4 A farmer can produce both wheat and barley at constant costs of production. The opportunity cost of a kilo of wheat is 1.5 kilos of barley. The price of a kilo of wheat is twice that of barley.

What should the farmer do to maximise revenue?

A Concentrate on barley production.

B Concentrate on wheat production.

C Produce wheat and barley in the ratio 2 : 1.

D Produce wheat and barley in the ratio 3 : 2.

5 The table shows the price and quantity demanded of a successful film DVD in the first four weeks after its release.

week	price of DVD ($)	quantity demanded per week
1	16	3000
2	14	5000
3	12	6500
4	10	7800

What can be concluded from the table?

A Sales do not reflect price changes.

B Sales increase less than proportionally to changes in price.

C Sales increase more than proportionally to changes in price.

D Sales reflect proportionately the changes in price.

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

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

A –2 **B** –0.5 **C** +0.5 **D** +2

7 The price elasticity of demand for a product is inelastic.

How will a decrease in supply affect producer revenue and consumer surplus?

	producer revenue	consumer surplus
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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8 Two goods, X and Y, are complementary goods. Column 1 of the table below shows the original market situation at time period 1 and column 2 shows the situation following an increase in the price of good Y.

	1	2
price of good X	10	10
quantity demanded	50	40
price of good Y	20	30
quantity demanded	80	60

The value of cross elasticity of demand for good X with respect to the price of good Y lies between

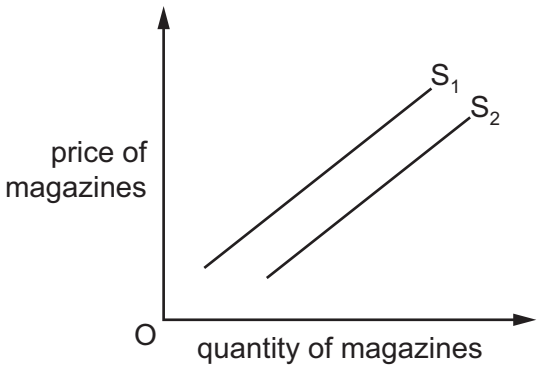
A –1.7 and –2.6.

B –0.8 and –1.3.

C –0.3 and –0.8.

D +0.3 and +0.6.

9 A firm publishes and sells magazines. The diagram shows a shift in the firm's supply curve from S_1 to S_2.



What would have caused this shift in the firm's supply curve?

A a fall in the subsidies paid to magazine publishers

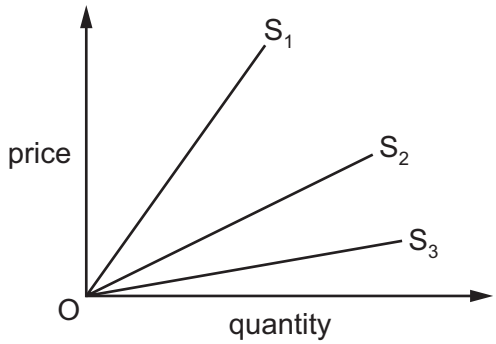
B a fall in the price of paper

C a rise in the real income of customers

D a rise in the wages of the firm's workers

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10 The diagram shows three supply curves.



What can be concluded about the price elasticity of supply of the curves?

A As price rises, the price elasticity of supply of S_2 will increase.

B At any price, the price elasticity of supply of S_1 will be less than that of S_3.

C At any price, the price elasticity of supply of S_2 will be higher than that of S_3.

D The price elasticity of supply of each curve is constant.

11 Demand for shoes increases which pushes up their price. Firm Y increases its supply more quickly than firm Z.

What would explain this difference in the speed of their responses?

A Firm Y has limited stocks of unsold shoes whereas firm Z has plentiful stocks of unsold shoes.

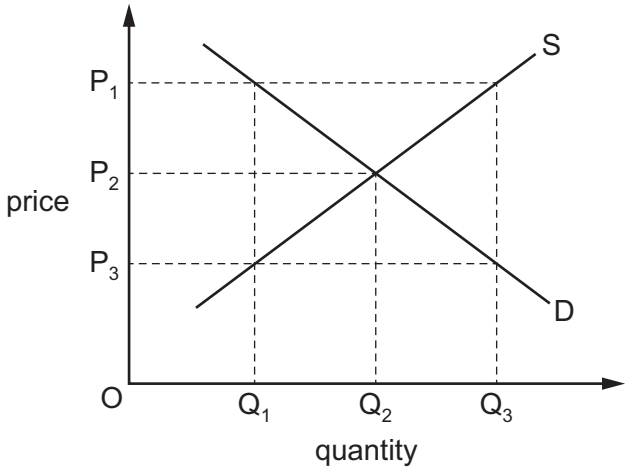
B Firm Y has spare capacity in its factories whereas firm Z's factories are working at full capacity.

C Firm Y's shoes are handmade whereas firm Z's shoes are made by machine.

D Firm Y's shoes need raw materials which are in short supply whereas firm Z's shoes need raw materials which are in plentiful supply.

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12 In a free market in disequilibrium, which combination of price and quantity will lead to a fall in price and a contraction in output to reach equilibrium?



A P_1Q_1 **B** P_1Q_3 **C** P_3Q_1 **D** P_3Q_3

13 In which set of circumstances will prices **not** be able to perform their function as an allocative mechanism, but may still have a role as a rationing device?

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 all goods available to consumers are in fixed supply.

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

14 The table shows, for two different quantities of good X, the total amount consumers are willing to pay and the total external benefits that are generated.

quantity of good X (units)	consumers' willingness to pay ($)	total external benefits ($)
3	240	54
4	280	68

What is the additional social benefit when 4 units rather than 3 units are produced?

A $14 **B** $40 **C** $54 **D** $348

15 Which statement about the provision of goods is correct?

A Governments and private producers supply merit goods.

B Governments and private producers supply public goods.

C Governments are unable to supply private goods.

D Governments subsidise the production of demerit goods.

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16 A country exports olives. The government is involved in their production because it wishes to ensure that private producers of olives have the confidence to plan investment despite changes in the harvest of olives.

Which economic term would describe this situation?

A a command economy

B a constant income elasticity

C an export quota

D a price stabilisation policy

17 The table shows demand and supply schedules for a product. The government then subsidises the product because it provides external benefits.

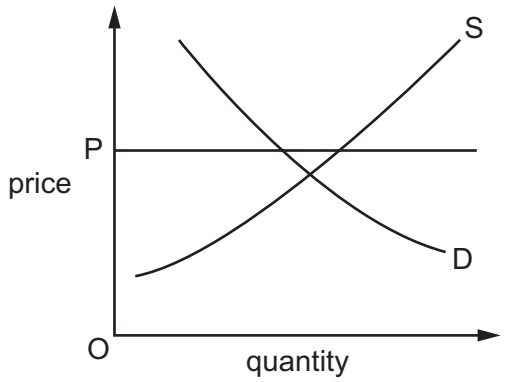
price ($)	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
10	160	80	120
11	140	100	140
12	120	120	160
13	100	140	180
14	80	160	200

By how much does the subsidy increase consumption of the product?

A 20 units **B** 40 units **C** 120 units **D** 140 units

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18 The diagram illustrates a market for wheat. The government sets a maximum price of OP.



What could cause the maximum price to have an impact on the market?

A a fall in the price of rice

B an advertising campaign for bread

C an increased wheat harvest

D an increase in subsidies to wheat farmers

19 Country X exports agricultural commodities to country Y and country Y exports industrial goods to country X.

Given that the pattern of trade between X and Y can be explained by the theory of comparative advantage, what can be concluded from this?

A Both countries derive an equal benefit from engaging in trade.

B Country X has more fertile agricultural land than country Y.

C Neither country has an absolute advantage in the production of both sets of goods.

D The opportunity cost of producing agricultural commodities is greater in Y than in X.

20 What is **not** usually a motive for a country to use protection in international trade?

A to increase global economic welfare

B to prevent the dumping of products by another country

C to prevent unemployment within the country

D to shelter an infant industry within the country

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21 A government decides to increase a quota on an imported good.

What is likely to happen?

A The demand for the good will fall.

B The good will become more expensive.

C The government's revenue will decline.

D There will be more of the good imported.

22 A Japanese car manufacturer sets up a factory to produce car parts in Malaysia.

How is this likely to affect Malaysia's trade balance and its income balance in the current account of the balance of payments?

	trade balance	income balance
A	improve	improve
B	improve	worsen
C	worsen	improve
D	worsen	worsen

23 The weighting given to food in the construction of the United Kingdom's Retail Price Index fell from 16.7% in 1987 to 11.8% in 2011.

What would help to explain this?

A The average price of food decreased by 4.9% points between 1987 and 2011.

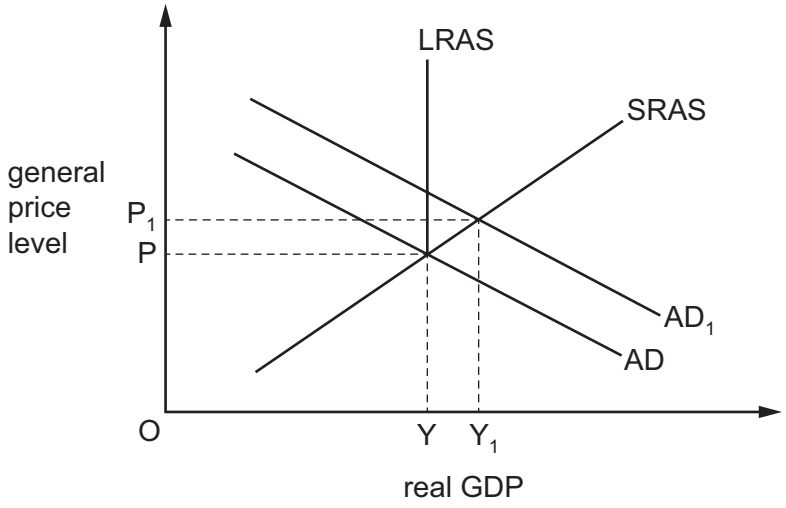
B The demand for food is price inelastic.

C The income elasticity of the demand for food is less than one.

D There was an increase in the relative price of food over the period.

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24 People in an economy become more optimistic about the future. This results in an increase in consumer expenditure which shifts the aggregate demand curve to the right, as shown.



What could cause the economy's output to return to Y?

A a decrease in indirect taxes

B a decrease in tariffs on imports

C an increase in investment

D an increase in wage rates

25 Which statement about inflation is correct?

A Cost-push inflation is likely to occur when the government increases its expenditure.

B Demand-pull inflation is likely to occur when the country's exchange rate appreciates.

C The Quantity Theory of Money predicts that changes in money supply can cause inflation.

D When inflation is unanticipated real values remain unchanged.

26 A country experienced an annual inflation rate of 4% for three successive years.

Which statement is correct for the three-year period?

A The price level rose by 12%.

B The price level rose by more than 12%.

C The real value of money rose by 12%.

D The real value of money rose by more than 12%.

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27 Why might an increase in a current account surplus cause inflation?

A It will decrease aggregate supply.

B It will decrease the money supply.

C It will increase aggregate demand.

D It will increase the exchange rate.

28 Demand for imports is often price inelastic in the short term. Over time, demand tends to become more price elastic.

What does this help to explain?

A why a fall in the exchange rate causes a deficit on the current account of the balance of payments to increase before decreasing

B why a fall in the exchange rate causes inflation to rise before falling

C why a rise in the exchange rate causes a surplus on the current account of the balance of payments to decrease before increasing

D why a rise in the exchange rate causes the terms of trade to worsen before improving

29 The table shows the number of Jamaican dollars which exchanged for one unit of other currencies in time period 1 and time period 2.

	Jamaican $ time period 1	Jamaican $ time period 2
Barbados $	23.19	23.12
Guyana $	0.25	0.25
US$	45.78	45.77
UK£	63.86	64.37

What might be concluded from the table?

A There was a decreased demand for Barbados $ by Jamaicans.

B There was a decreased supply of Guyana $ to Jamaicans.

C There was an increased demand for US$ by Jamaicans.

D There was an increased supply of UK£ to Jamaicans.

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30 An economy has a high rate of inflation and a balance of payments deficit.

Which policy change would help to reduce the balance of payments deficit without making inflation worse?

A a devaluation of the currency

B a reduction in government spending

C the imposition of import quotas

D the removal of import tariffs

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