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 2015**

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 **14** printed pages and **2** blank pages.

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1 Which feature of travelling by road would be seen in a mixed economy but **not** in a pure market economy?

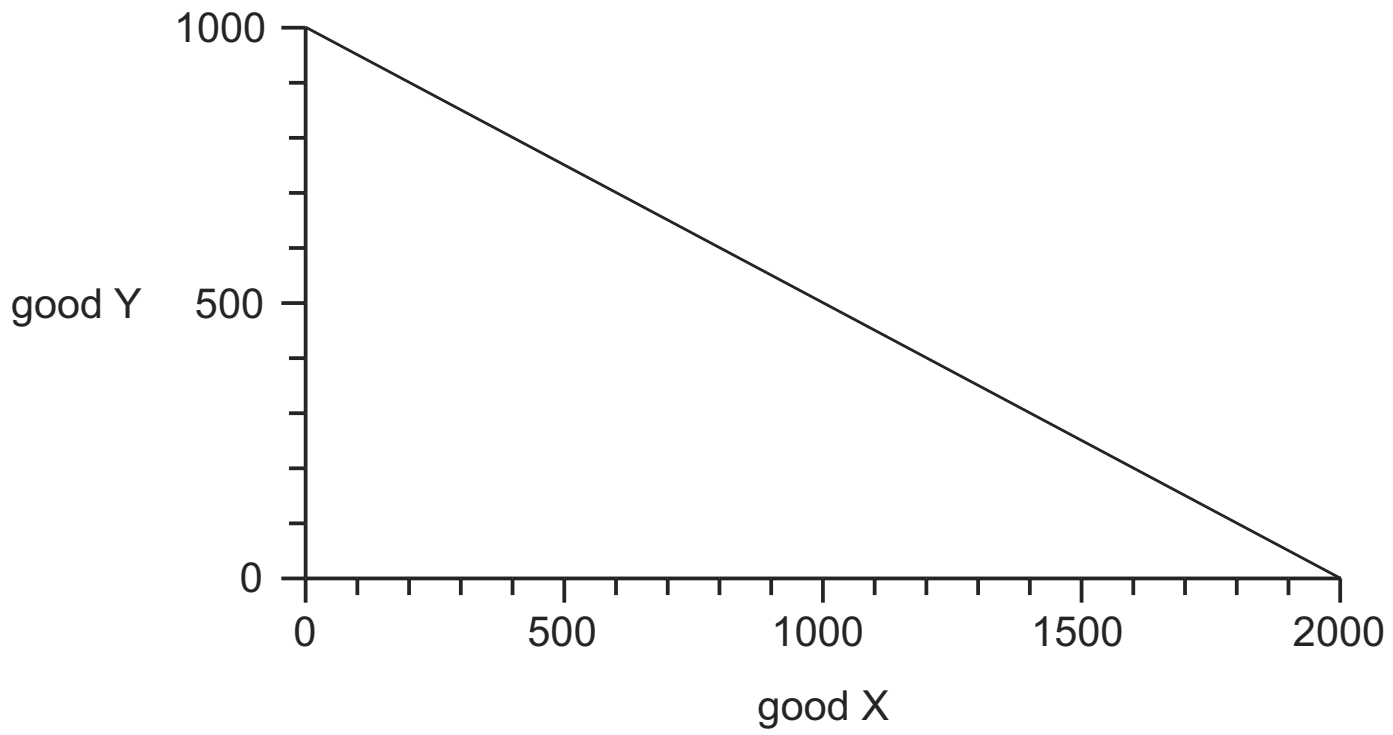
A bus services

B petrol (gas) stations

C streetlights

D toll bridges

2 The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



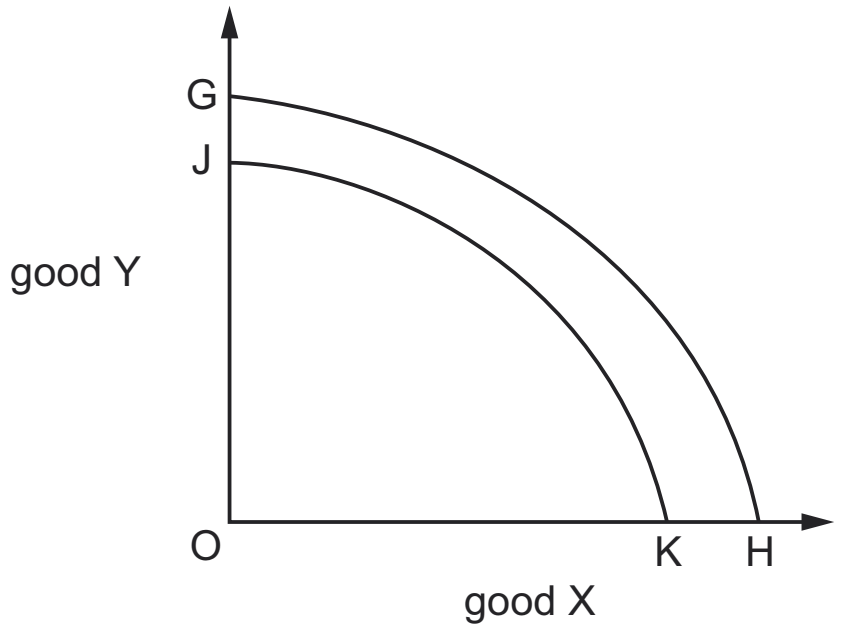
The economy produces 800 of good Y and produces on its production possibility curve.

Which quantity of good X is given up?

A 200 **B** 400 **C** 800 **D** 1600

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3 In the diagram, GH is an economy's initial production possibility curve.



What could cause the curve to shift to JK?

A a decrease in net exports

B an increase in the average price level

C an increase in the unemployment rate

D net outward migration

4 Unemployment among young people in Spain was 56.1% in June 2013. Youth unemployment in Spain should be reduced.

Which combination correctly describes these two statements?

	unemployment among young people in Spain was 56.1% in June 2013	youth unemployment in Spain should be reduced
A	normative statement	normative statement
B	normative statement	positive statement
C	positive statement	normative statement
D	positive statement	positive statement

5 A government tried to increase the sales of cars by offering consumers $3000 if they scrapped any car over 10 years old and bought a new one.

How would this be shown on a demand and supply diagram for new cars?

A The demand curve would move to the left.

B The demand curve would move to the right.

C There would be a shift along the demand curve to the left.

D There would be a shift along the demand curve to the right.

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6 Good X and good Y are in joint supply.

When would an increase in the supply of good X **not** lead to a change in the price of good X?

A Good X has a perfect price elasticity of demand.

B Good X has a perfect price inelasticity of demand.

C Good Y has a perfect price elasticity of demand.

D Good Y has a perfect price inelasticity of demand.

7 A businessman had intended to borrow $5000 at an interest rate of 8% per year. When the interest rate rose to 10% he decided to borrow only $4000.

Within what range is his interest elasticity of demand for loans?

A 0.0 to –0.3

B –0.4 to –0.7

C –0.8 to –1.2

D –1.3 to –1.7

8 What is **not** held constant when aggregating individual firms' supply curves to give the short-run market supply curve?

A the number of firms in the industry

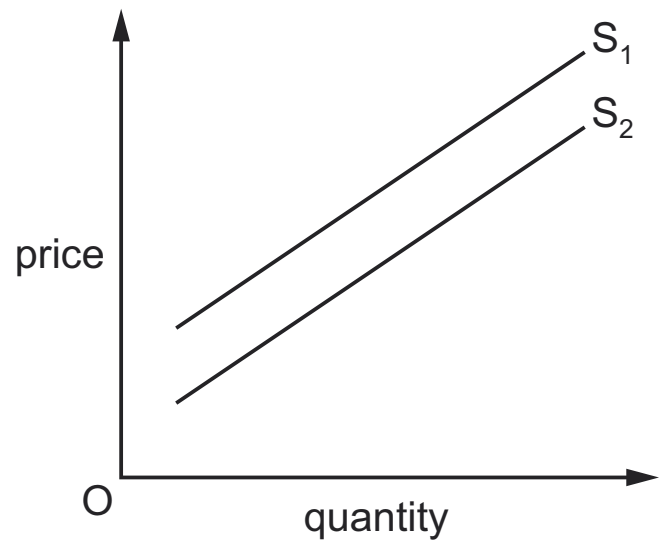
B the price of the product

C the prices of factors of production

D the state of technology

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9 In the diagram, S_1 is the initial market supply curve of good X.



What could cause the curve to shift to S_2?

A an increase in the price of a substitute good

B an increase in the profitability of supplying good X

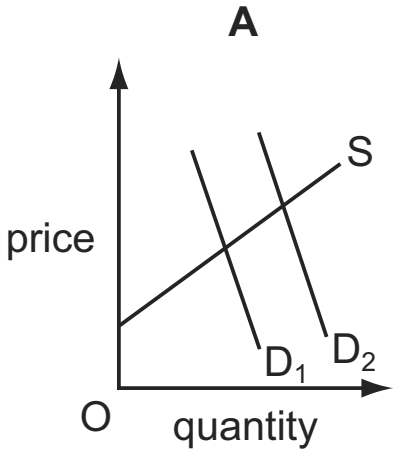
C an increase in the wage rates paid by good X suppliers

D the introduction of a specific tax on good X

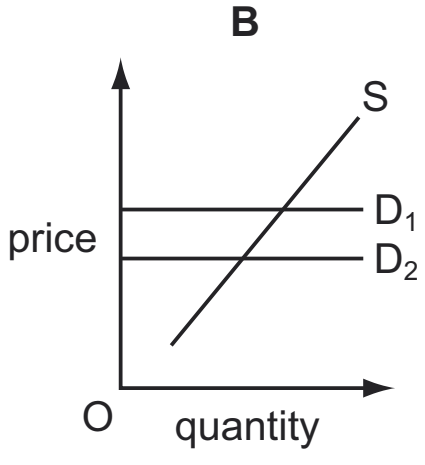
10 A competitive industry producing textbooks experiences an increase in demand for its product.

Which diagram illustrates the effect on the industry of this increase in demand in the short-run?

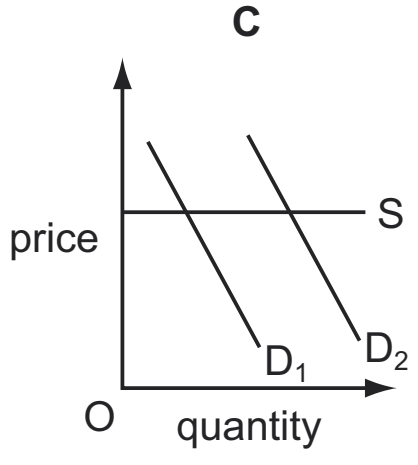
A



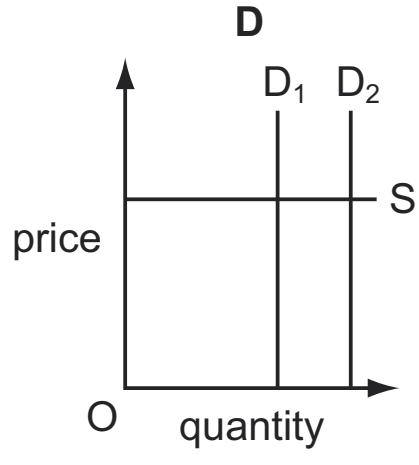
B



C



D



11 The table shows demand and supply schedules for red peppers. The equilibrium price is initially 15 cents per kilogram (kg).

price per kg cents	amount demanded kg (thousands)	amount supplied kg (thousands)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
5	20	11

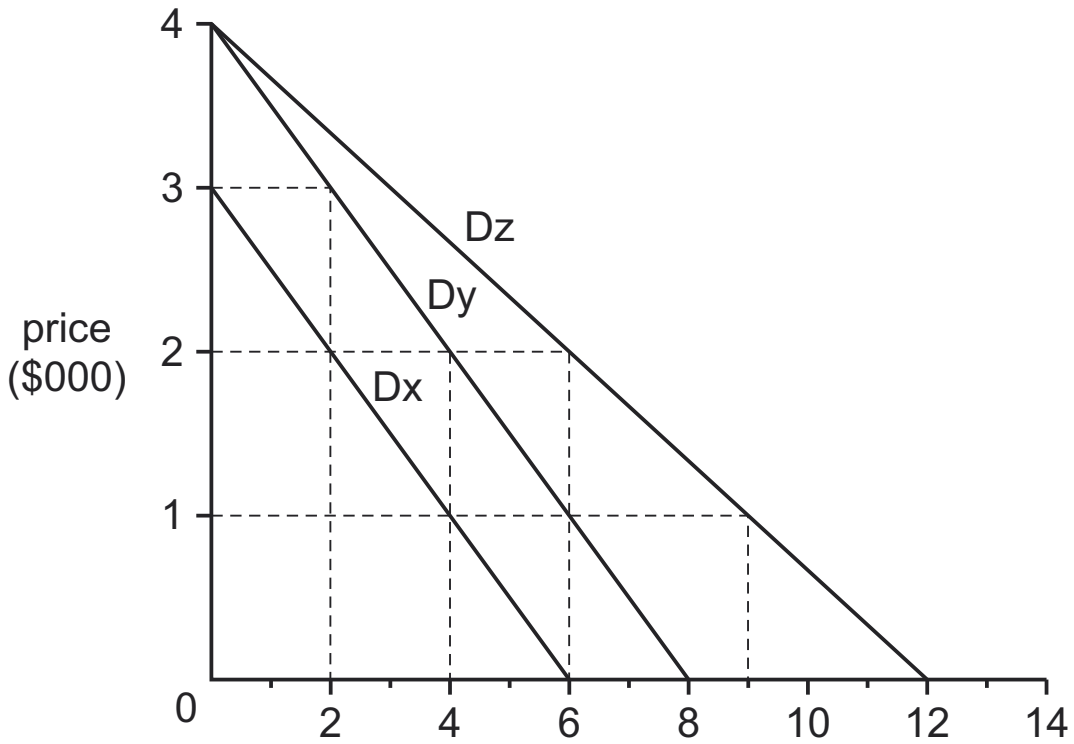
The government pays a subsidy of 10 cents per kg to producers.

What will be the new equilibrium price?

A 5 cents **B** 10 cents **C** 15 cents **D** 20 cents

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12 An eighteenth century clockmaker made a total of 12 identical clocks. There are currently just three collectors of these clocks, X, Y and Z. The diagram shows their demand curves.

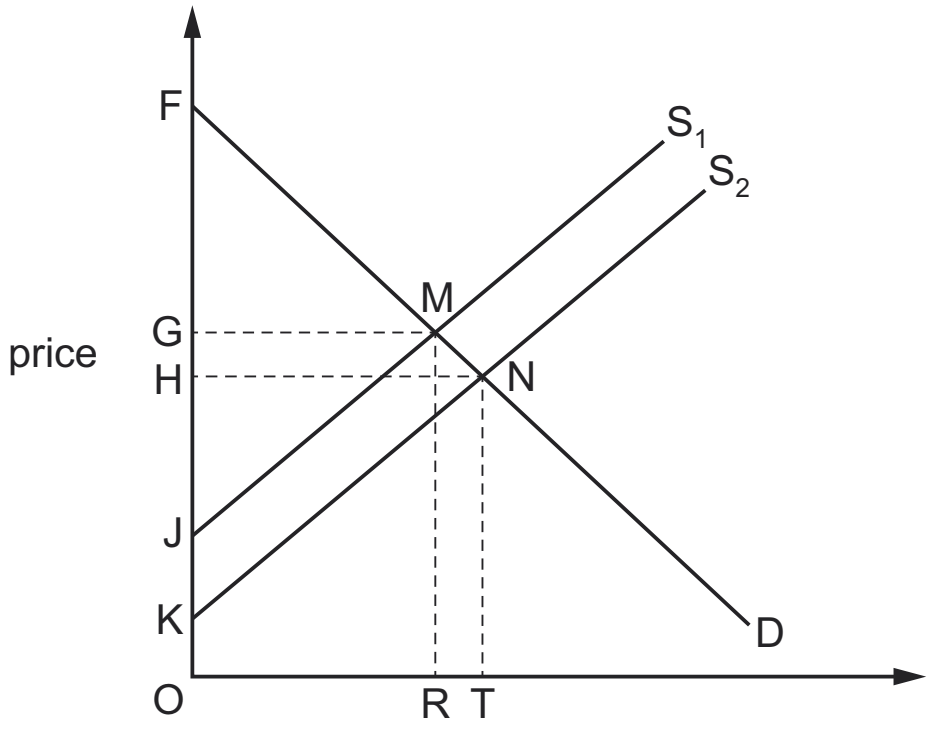


X, Y and Z initially own 4 clocks each. They come together to trade between themselves.

At the market clearing price (or equilibrium price), what is correct?

	buyer(s)	seller(s)
A	X	Y and Z
B	Y and Z	X
C	X	Z
D	Z	X

13 The diagram shows the European airline market.



New entrants have come into the market, shifting supply from S_1 to S_2.

Which area represents the new producer surplus?

A HNK **B** HNF **C** GMJ **D** KNTO

14 What would be **least** likely to have an external benefit?

A a new drug to prevent malaria in Nigeria

B the granting of permission to develop a rural area in Bangladesh

C the imposition of a quota on fishing in the Atlantic Ocean

D the purchase of tickets to attend the Olympics in Brazil

15 Which statement is correct?

A External cost is the sum of social cost and private cost.

B Private costs are usually larger than social costs.

C Social costs are usually smaller than external costs.

D Social cost is the sum of private cost and external cost.

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16 A government has sufficient funds to pay for two transport projects. It has to choose between four projects, all of which have the same social cost of $200 million. The table shows the benefits from the projects.

	project 1	project 2	project 3	project 4
private benefit ($ million)	100	110	120	150
external benefit ($ million)	120	100	90	80

Which two projects would the government choose?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

17 What will make it **most** likely that road tolls will reduce traffic congestion?

A Cross-elasticity of demand between private and public transport is zero.

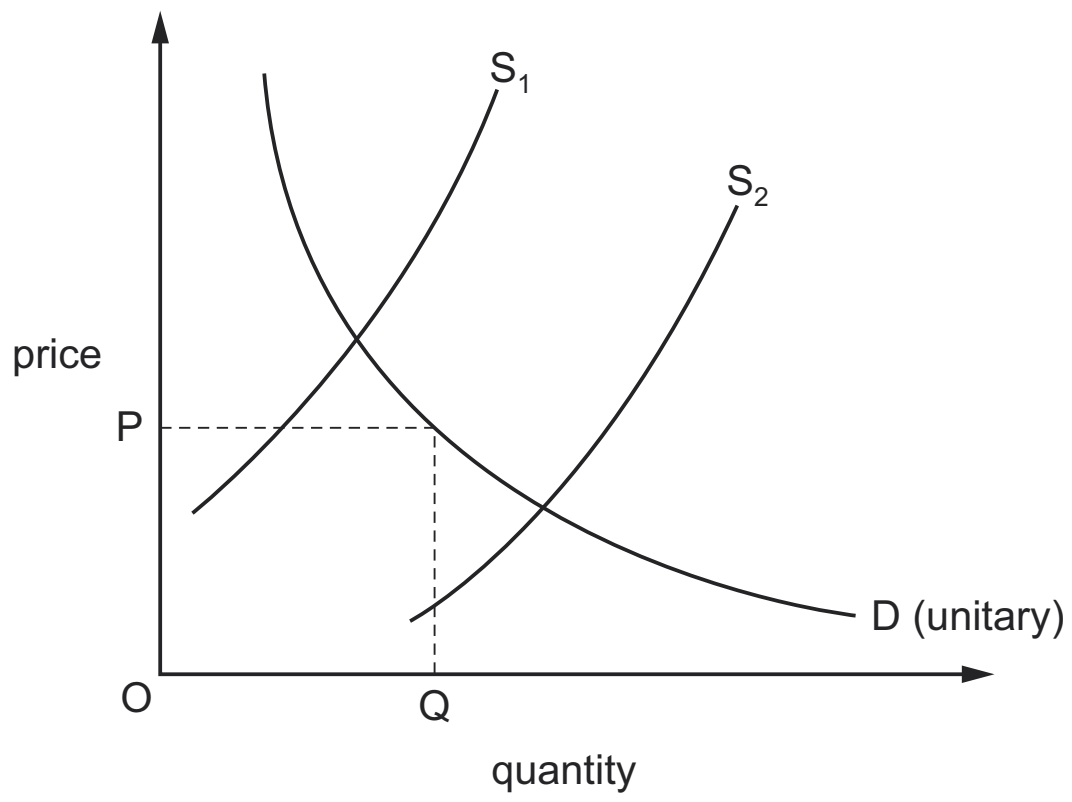
B Demand for car use is income-elastic.

C Demand for car use is price-elastic.

D Supply of public transport is price-inelastic.

18 The diagram shows the demand curve for an agricultural commodity that has unitary elasticity.

S_1 is the supply curve if there is a bad harvest and S_2 is the supply curve if there is a good harvest.



What should the government do to keep the total revenue of farmers the same?

A allow the price of the commodity to be determined by the market

B fix the price paid to farmers at price OP

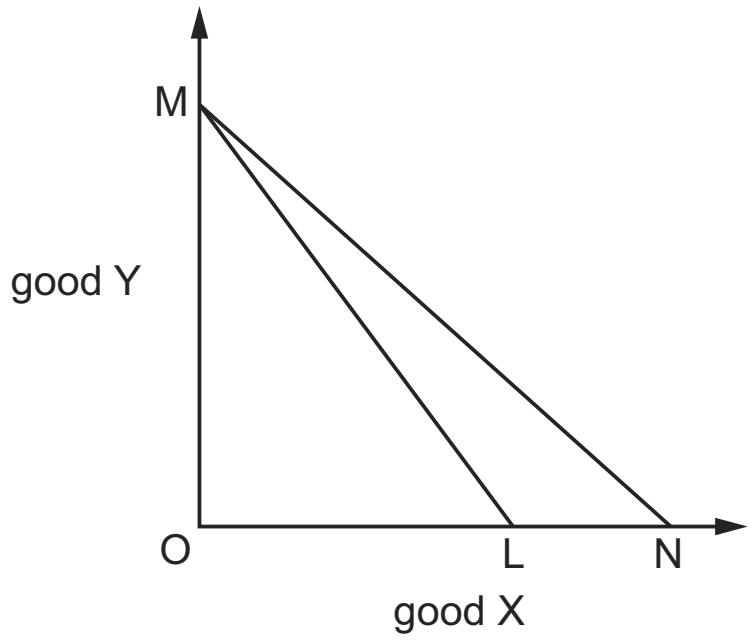
C introduce a quota on production equal to OQ

D provide subsidies in bad years and impose indirect taxes in good years

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19 An economy produces two goods, X and Y.

In the diagram, the line ML is the economy's production possibility curve and the line MN its trading possibility curve.



What does the diagram show?

A The economy's consumers prefer good X to good Y.

B The economy's consumers prefer good Y to good X.

C The economy has a comparative advantage in the production of good X.

D The economy has a comparative advantage in the production of good Y.

20 A group of people in a country start a campaign for free trade because they believe that it will benefit the economy.

Which argument in favour of free trade is **not** likely to appear in their campaign?

A It encourages competition between producers in different countries.

B It encourages global specialisation and better product quality.

C It gives consumers a greater choice of products from other countries.

D It lets countries dump cheap surplus products in other countries.

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21 The table refers to a particular country.

year	index of import prices (2010 = 100)	index of export prices (2010 = 100)
2005	48.1	57.0
2015	122.4	120.8

Which statement about the period 2005 to 2015 is correct?

A The balance of payments worsened.

B The balance of trade improved.

C The exchange rate appreciated.

D The terms of trade worsened.

22 A foreign government pays a UK university to educate its students.

How would this be recorded on the balance of payments current account of the UK?

	current account component	money flows
A	current transfers	inflow
B	current transfers	outflow
C	trade in services	inflow
D	trade in services	outflow

23 During a recession, when there was a large fall in national output, the increase in unemployment in an economy was much lower than expected.

What might have accounted for this?

A a decrease in labour productivity

B a decrease in net outward migration

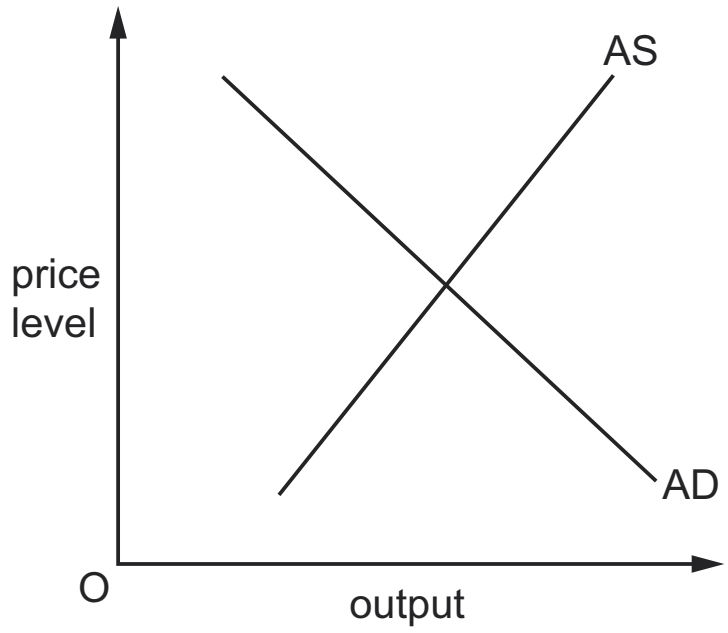
C a decrease in part-time working

D a decrease in the number of students

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[Turn over

24 The diagram shows an economy's aggregate demand and aggregate supply curves.



How are the curves likely to be affected by a natural disaster that destroys a large proportion of an economy's resources?

	AD curve	AS curve
A	shift to left	shift to left
B	shift to left	shift to right
C	shift to right	shift to left
D	shift to right	shift to right

25 What is the **most** likely cause of cost-push inflation in an economy?

A an increase in the exchange rate

B an increase in the money supply

C an increase in the prices of imports

D an increase in the rate of income tax

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26 The table shows the consumer price index (CPI) for a country.

year	CPI
1	100
2	110
3	105
4	103
5	108

What can be concluded from the table?

A Prices fell continuously from year 2 to year 5.

B Prices rose between year 1 and year 5.

C Prices rose only from year 1 to year 2.

D Prices were at their highest in year 5.

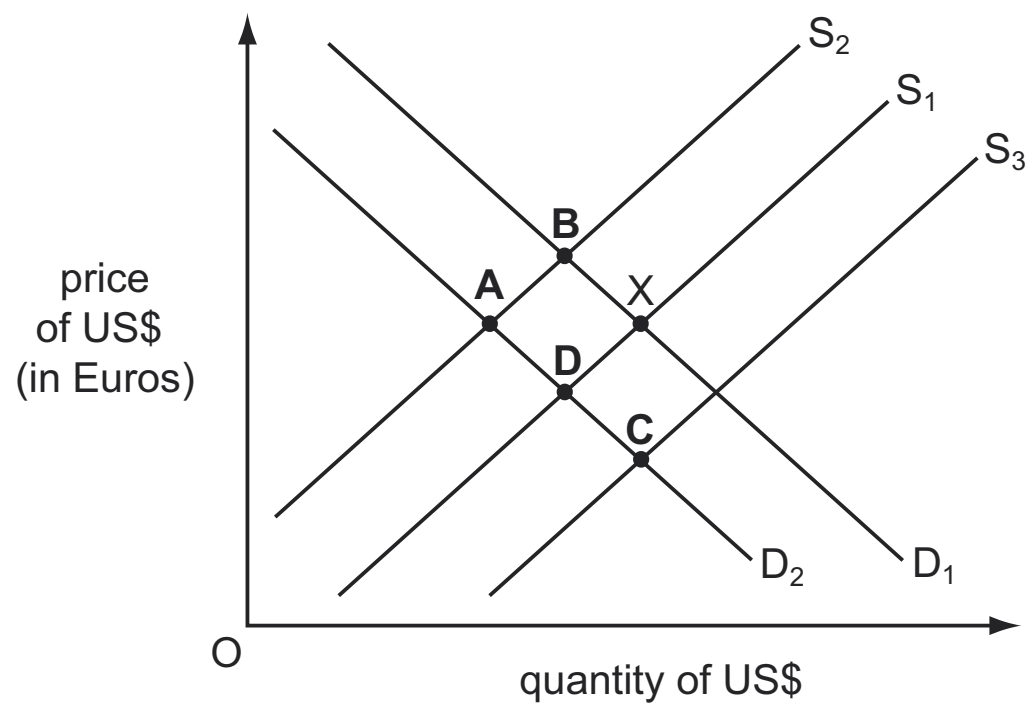
27 A Japanese company builds a factory in the UK to supply both the UK market and the market in the rest of Europe.

What is likely to be the long-run impact on the UK's balance of trade in goods and on its current account balance?

	balance of trade in goods	current account balance
A	improve	improve
B	improve	uncertain
C	worsen	improve
D	worsen	uncertain

28 In the diagram, the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after a decrease in demand from US residents for European consumer goods?



29 In the absence of offsetting changes, what would be likely to increase if a country's exchange rate appreciates?

A the cost of imported consumer goods

B the level of domestic inflation

C the rate of unemployment

D the volume of manufacturing exports

30 Tourism is seen as a good way of increasing net export earnings. Luxury tourism, such as wildlife safaris and cultural tours, is considered by an economy to have a very price-inelastic demand.

If this is correct, which is **most** likely to increase export revenue earned by this economy from luxury tourism?

A a depreciation of the economy's currency

B a reduction in the taxes levied on hotels

C an appreciation of the economy's currency

D cheap government loans to increase the construction of hotels

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