Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

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)

MODIFIED LANGUAGE

* 5 6 5 2 4 5 5 2 2 6 *

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.

© UCLES 2015

CAMBRIDGE International Examinations

1 Which question does **not** directly refer to the basic economic problem?

A What goods and services should a firm produce?

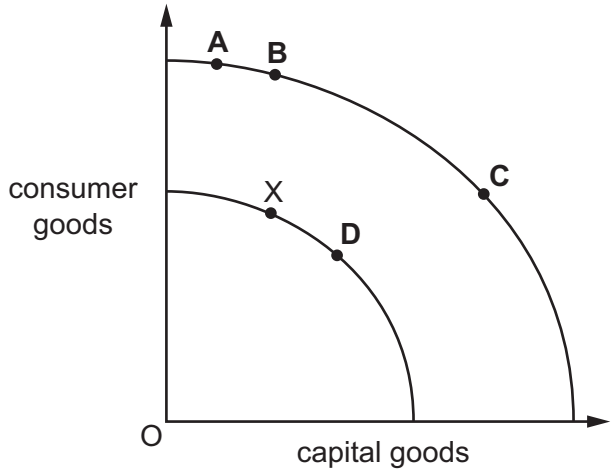
B What price should a firm charge?

C What production methods should a firm use?

D Who should receive the goods and services that a firm produces?

2 The diagram shows the change in an economy's production possibility curve as it grows in the long run.

Which movement from point X is **most** likely to show the highest potential for growth?



3 The diagrams show the change in a country's production possibility curve between Year 1 and Year 2.



What can be concluded from the diagrams?

A Future growth prospects have been harmed.

B The level of unemployment has fallen.

C The opportunity cost of consumer goods has risen.

D The proportionate growth in production is greater in consumer goods.

4 What term is used by economists for the income received by the factor of production enterprise?

A capital

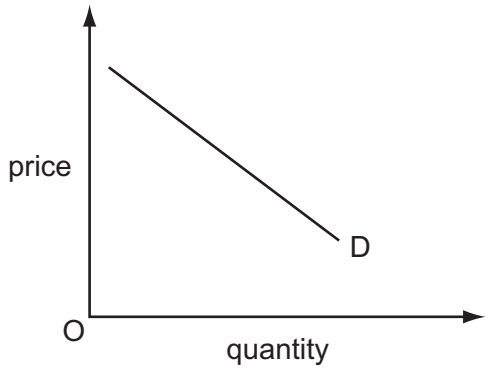
B interest

C profit

D revenue

© UCLES 2015

5 The diagram shows the demand curve for housing.



What is **not** assumed to remain constant when drawing this curve?

A consumer incomes

B expectations about future house prices

C the price of houses

D the rate of interest charged on loans for house purchase

6 What does **not** cause the demand curve for cars to shift to the right?

A a fall in the price of petrol (gas)

B a fall in the price of public transport

C an advertising campaign by car manufacturers

D an economy-wide increase in incomes

7 An individual reacts to a 5% increase in the price of good X by increasing the proportion of his income that he spends on good X from 2% to 3%.

If there are no other changes, what can be concluded from this about the individual's demand for good X?

A It is income-elastic.

B It is income-inelastic.

C It is price-elastic.

D It is price-inelastic.

© UCLES 2015

8 The cross-elasticity of demand for good X with respect to good Y is –0.5.

What can be concluded from this?

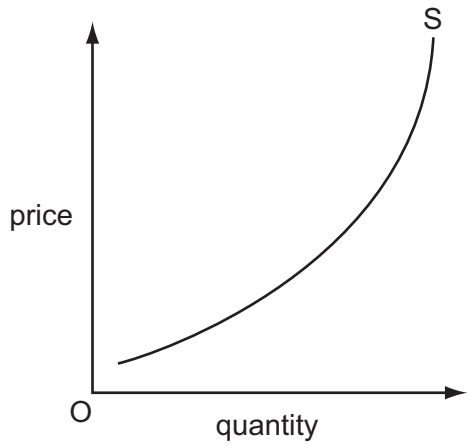
A Goods X and Y are complementary goods.

B Goods X and Y are substitute goods.

C Good X is an inferior good.

D Good Y is an inferior good.

9 The diagram shows a supply curve for beef.



What explains why the supply curve for beef slopes upwards?

A An increase in the demand for beef will bring about an increase in supply.

B Farmers' productivity rises as the price rises.

C Increased production leads to a reduction in costs.

D The cost of additional beef production rises as output increases.

10 Which business is likely to be the slowest to alter its output in response to a sustained increase in demand for its product?

A a fast-food restaurant

B a household cleaning service

C a newspaper printer

D an oil exploration company

11 In a particular year, 12 000 units of a good are sold at $1 per unit. In a later year, 14 000 units are sold at $1.20 per unit.

If consumer tastes have remained constant, what could account for the change between the two years?

A a decrease in the price of raw materials used by producers

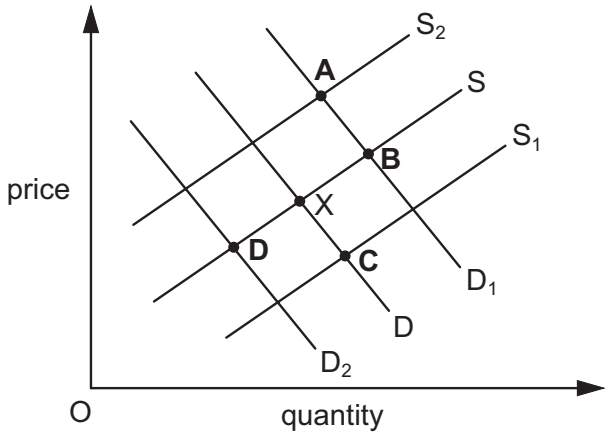
B an increase in the price of a substitute good

C an increase in the rate of tax imposed on producers

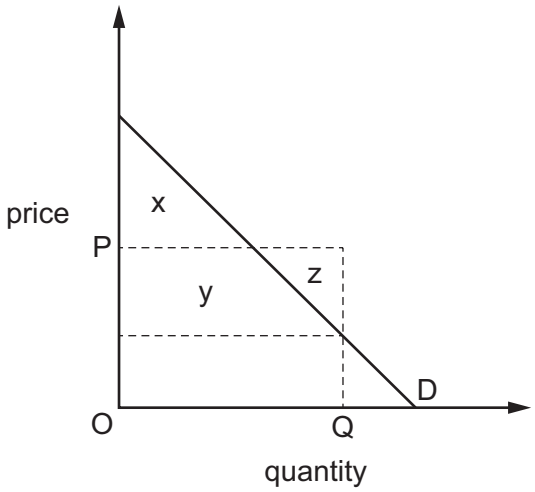
D the formation of a monopoly in the production of the good

12 The diagram shows demand and supply curves for petrol (gas). The initial equilibrium is at X.

What could be the new equilibrium if there were a large fall in the price of cars?



13 The diagram shows an individual's demand curve for a commodity.



The supplier of the commodity charges a unit price of OP but consumers are currently required to purchase a minimum quantity, OQ.

Which area(s) in the diagram measure the net gain in consumer surplus from the removal of the minimum purchase requirement?

A x + y **B** x – z **C** y only **D** z only

14 In 2011, the Health Ministry in a country encouraged parents to have their children vaccinated against measles. The parents did not have to use the vaccine and did not have to pay for it.

The government cancelled other projects to fund the programme from taxation because research concluded that the vaccine benefited the community by preventing the spread of a serious illness.

Which concepts are implied in the above statement?

A external benefit, public sector, opportunity cost

B market mechanism, fiscal policy, public good

C merit good, normative statement, regulatory control

D private cost, social benefit, monetary policy

15 A gardener plants bamboo to create an attractive environment along the roadside. The bamboo grows into the garden of his neighbour, who removes the bamboo with a chemical spray.

What **cannot** be concluded about the outcome of the planting?

A It increases external cost and external benefit.

B It increases private cost and private benefit.

C It increases social cost and social benefit.

D It increases social cost more than social benefit.

© UCLES 2015

16 A cost-benefit analysis of a proposed underground railway produced the following statistics.

annual costs and benefits	$ million
annual capital cost	10
operating and maintenance costs	3
fare revenue	6
savings to private travellers	5
savings to business	10
other economic benefits	7

What can be concluded from the statistics?

A If undertaken by the private sector there would be a loss of $13 million.

B If undertaken by the private sector there would be a profit of $3 million.

C If undertaken by the public sector there would be a net social benefit of $15 million.

D If undertaken by the public sector there would be a net social cost of $1 million.

17 What is the best example of what was once a public good becoming a private good?

A education

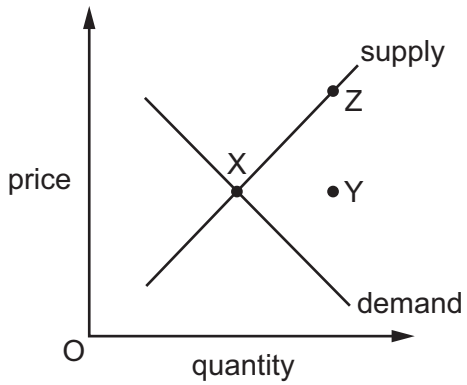
B medical care

C postal services

D television broadcasts

© UCLES 2015

18 The diagram shows the market for onions in equilibrium at point X. The government has a stock of onions and wants to establish a new equilibrium at point Y.



Which actions should the government take?

A It should buy an amount equal to XY and subsidise producers by a sum equal to YZ.

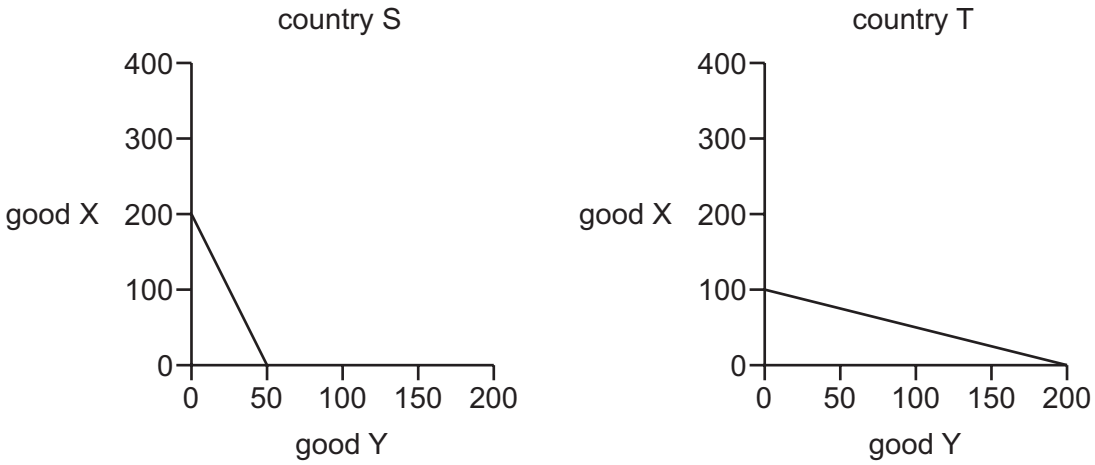
B It should buy an amount equal to XY and tax producers by a sum equal to YZ.

C It should sell an amount equal to XY and subsidise producers by a sum equal to YZ.

D It should sell an amount equal to XY and tax producers by a sum equal to YZ.

© UCLES 2015

19 The diagram illustrates the production possibility curves for countries S and T producing goods X and Y.



Countries S and T specialise in the product for which they have the lower opportunity cost. They trade with each other at the rate of two good X for one good Y.

What is a possible combination of goods for country S to consume after specialisation and trade have taken place?

	good X	good Y
A	100	50
B	150	75
C	200	100
D	300	150

20 What is the **most** likely reason why Pakistan might reduce its trade barriers on imports?

A to help Pakistan increase its gain from comparative advantage

B to help Pakistan invest more abroad

C to raise its foreign exchange rate

D to reduce government borrowing and international debt

© UCLES 2015

21 A particular good in the Barbados market could be supplied by domestic producers, or producers in Trinidad & Tobago, or producers in the USA, at the prices shown in US dollars.

origin of production	price
Barbados	$1.00
Trinidad & Tobago	$0.85
USA	$0.75

Originally, Barbados had a 20% ad valorem duty on imports from Trinidad & Tobago and the USA.

Barbados then formed a customs union with Trinidad & Tobago, with a common external tariff, also of 20%.

From which countries would Barbados import the good, before the formation of the customs union and after the formation of the customs union?

	before	after
A	neither	Trinidad & Tobago
B	neither	USA
C	USA	Trinidad & Tobago
D	USA	USA

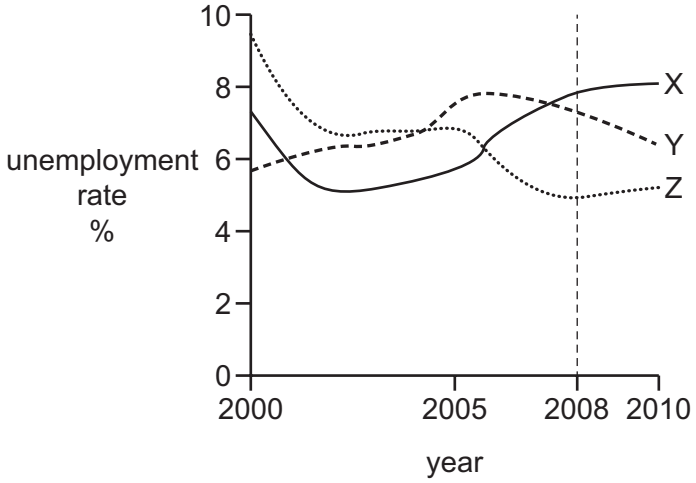
22 A Japanese car manufacturer established a successful factory in France.

How would this be shown in the Japanese balance of payments?

	investment in the factory	dividends and profits from the factory
A	negative entry in the financial account	positive entry in the current account
B	negative entry in the current account	positive entry in the financial account
C	positive entry in the financial account	negative entry in the current account
D	positive entry in the current account	negative entry in the financial account

© UCLES 2015

23 The graph shows changes in the unemployment rates in countries X, Y and Z over the period 2000 to 2010. All three countries faced recession between 2008 and 2010.



Which conclusion can be drawn from the graph about the period 2000 to 2010?

A All three countries experienced an upward trend in unemployment over the period.

B Country X had the highest number out of work in 2010.

C In terms of unemployment, the country least harmed by the recession was country Y.

D The total number out of work in the three countries was higher in 2010 than in 2000.

24 Which supply-side measure is most likely to produce short-run growth in a country's aggregate supply?

A easing of controls on immigration of workers

B expenditure on primary education

C expenditure on research and development

D privatisation of public utilities

25 An economy is experiencing accelerating cost-push inflation.

Which group is likely to be **least** concerned by this?

A borrowers

B consumers

C creditors

D exporters

© UCLES 2015

26 The table shows the Consumer Price Index (CPI) for a country.

year	CPI
2008	100
2009	104
2010	102
2011	105
2012	108
2013	111

Which statement about the period 2008 to 2013 is correct?

A Prices increased each year.

B Prices increased fastest in 2011.

C The rate of inflation was 2% in 2010.

D The smallest rise in prices was in 2013.

27 At a time when international demand for oil was high, Bolivia encouraged investment by foreign firms in order to exploit its oil and gas resources.

What overall impact would this have on the balance of payments of Bolivia?

A definitely favourable, as Bolivia could increase its exports of gas and oil

B definitely unfavourable, as the foreign companies would transfer profits out of the country

C uncertain, as there would be inflows and outflows of currency

D zero, as Bolivia itself would use the gas and oil produced

28 An economy with a fixed exchange rate experiences an increased deficit on the current account of the balance of payments.

What is most likely to increase as a consequence?

A employment

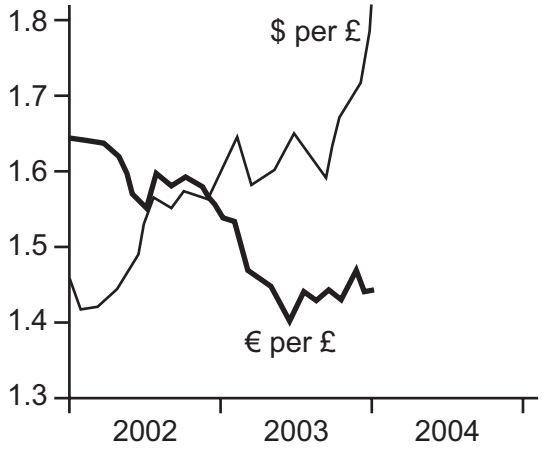
B interest rates

C investment

D national output

© UCLES 2015

29 The diagram shows the number of US dollars ($) and Euros (€) which exchanged for one pound sterling (£) between 2002 and 2004.



What happened to the exchange rate of the $ against the £ and € during this period?

	$ exchange rate against £	$ exchange rate against €
A	appreciated	appreciated
B	appreciated	depreciated
C	depreciated	appreciated
D	depreciated	depreciated

30 In a time of recession, a government decided to sell a loss-making state-owned industry to a foreign private company.

What is the **most** likely immediate result?

A an improvement in the financial account of the balance of payments

B an improvement in the level of unemployment

C an improvement in the rate of inflation

D an improvement in the trade account of the balance of payments

© UCLES 2015

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.