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 2015**

**1 hour**

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

*3911365324*

**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.

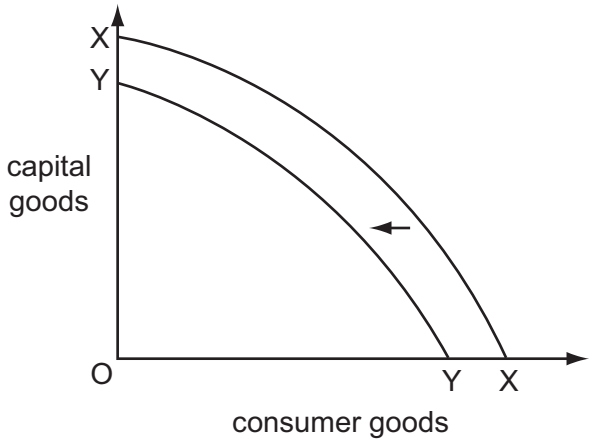
**Read the instructions on the Answer Sheet very carefully.**

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.



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**1** A country's production possibility curve moves from XX to YY as shown in the diagram.




What could have caused this movement?

**A** a rise in technological progress

**B** a rise in the retirement age

**C** an increase in investment

**D** an increase in net emigration

**2** What would explain why the transition from a planned economy to a market economy often results in a decrease in national output in the short run?

**A** an accompanying decrease in inward investment

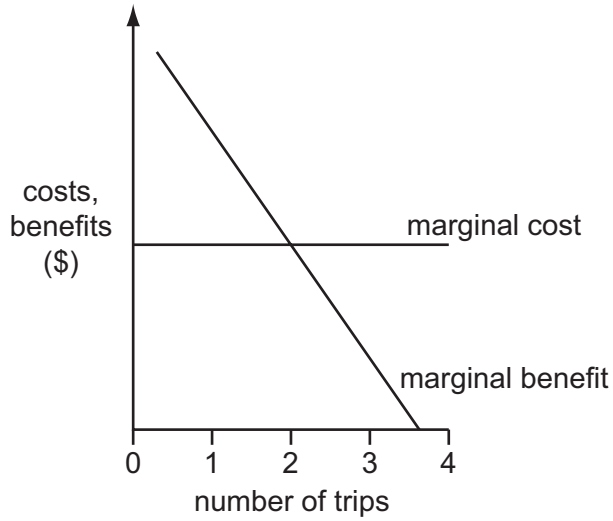
**B** an accompanying decrease in the wish to save

**C** an accompanying increase in inward migration

**D** an accompanying increase in structural unemployment

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**3** The diagram shows a person's marginal costs and marginal benefits of making trips to the cinema.




How many trips will the person make?

**A** None, as each extra trip reduces marginal benefit.

**B** One, as this maximises the excess of marginal benefit over marginal cost.

**C** Two, as this maximises the net benefit of making trips.

**D** Three, as all trips have a positive marginal benefit.

**4** A number of changes occur in an economy. Online training is made available to engineers, machinery in food processing is automated, profit taxes are imposed on information technology entrepreneurs and subsidised fertilisers are given to farmers.

Which factor of production is **least** likely to experience rising productivity?

**A** capital

**B** enterprise

**C** labour

**D** land

**5** What is correct about market demand?

**A** Market demand can increase only when all individuals increase their consumption.

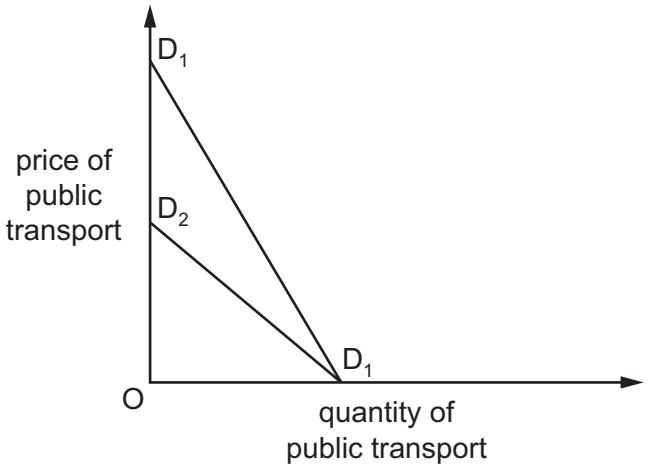
**B** Market demand for an inferior good falls as price falls.

**C** Market demand is effective when consumers desire to buy the good.

**D** Market demand is the result of aggregating the demand of all individuals.

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**6** $D_1D_1$ shows an individual's initial demand curve for public transport.




What would cause the demand curve to shift to $D_2D_1$?

**A** The cost of running the individual's car rises.

**B** The individual is banned from driving.

**C** The price of public transport rises.

**D** The quality of public transport declines.

**7** A theatre increases the price of its tickets from $5 to $10. As a result, its total receipts increase from $2500 to $4000.

Within what range does the price elasticity of demand for theatre tickets lie?

**A** 0.2 to 0.5

**B** 0.6 to 0.75

**C** 0.8 to 1.0

**D** 1.2 to 2.5

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**8** The table shows how an individual's weekly consumption of biscuits and coffee varies with income.

| income ($) | biscuits (packs) | coffee (cups) |
|---|---|---|
| 100 | 0 | 5 |
| 150 | 5 | 10 |

Which statement about the income elasticity of demand over the range of income shown is true?

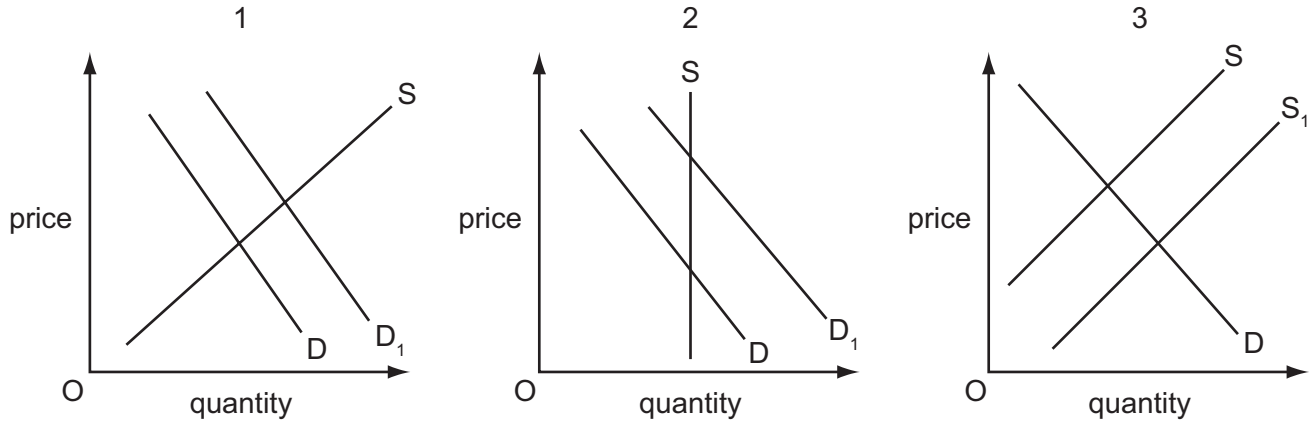
**A** For biscuits it is greater than 1.

**B** For biscuits it is zero.

**C** For coffee it is less than 1.

**D** For coffee it is unitary.

**9** The diagrams show changes in the market for a good.




Which show(s) an increase in the quantity supplied?

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

**10** A product has a high price elasticity of supply.

What might explain this?

**A** The product has a high opportunity cost.

**B** The product has a non-perishable nature.

**C** The product is classed as an inferior good.

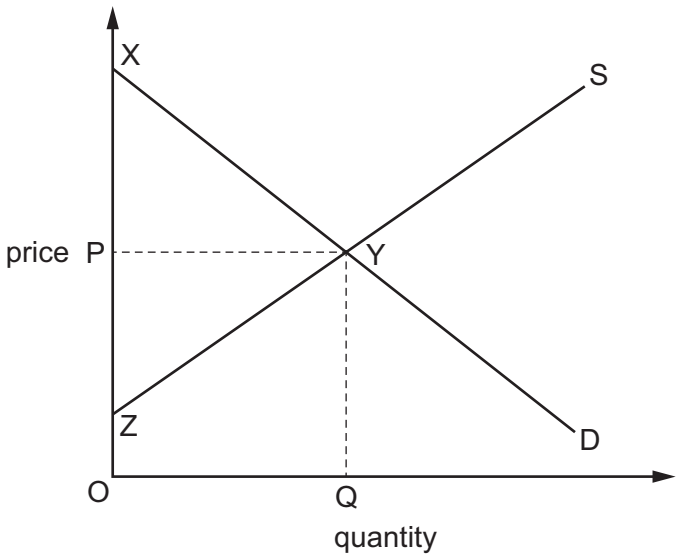
**D** The product is considered to be a luxury.

**11** The market for onions is in equilibrium. A disease strikes the onion crop and new health benefits of consuming onions are discovered.

Which combination of changes in demand and supply matches these events?

| | demand | supply |
|---|---|---|
| **A** | falls | falls |
| **B** | falls | rises |
| **C** | rises | falls |
| **D** | rises | rises |

**12** The diagram shows a competitive market in equilibrium with price P and quantity Q.

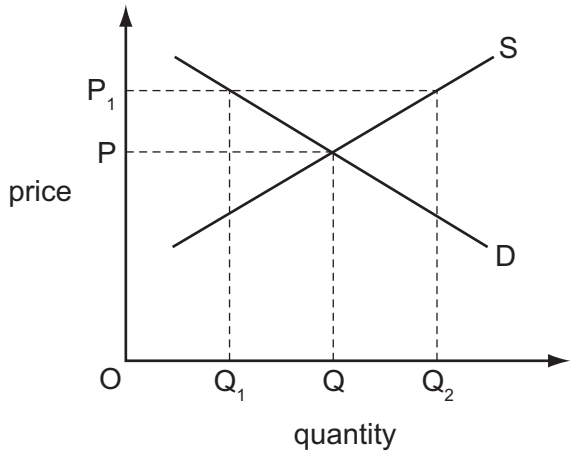



Which area shows the consumer surplus and which area shows the producer surplus?

| | consumer surplus | producer surplus |
|---|---|---|
| **A** | OXYQ | OZYQ |
| **B** | OXYQ | PYZ |
| **C** | XYP | OZYQ |
| **D** | XYP | PYZ |

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**13** The diagram shows the demand and supply curves for a good.




The government fixes a maximum price of $OP_1$.

What would happen?

**A** Consumers would have to be rationed to quantity $OQ_1$.

**B** The government would have to introduce a subsidy of $PP_1$.

**C** The market equilibrium quantity OQ would be demanded and supplied.

**D** The supply of quantity $OQ_2$ would be guaranteed.

**14** People walking past a bakery often comment on the pleasure of smelling freshly baked bread.

Of what is this an example?

**A** a negative consumption externality

**B** a negative production externality

**C** a positive consumption externality

**D** a positive production externality

**15** When would cost-benefit analysis definitely indicate that a government project should be approved?

**A** if it eliminated all external costs

**B** if it gave a higher rate of return than a private sector project

**C** if it maximised net social benefit

**D** if it minimised total social cost

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**16** The table gives information about the 2011 Australian Grand Prix in Australian dollars (AUD).

| | AUD (millions) |
|---|---|
| costs of operating the Grand Prix | 85 |
| revenue from sales of tickets and sponsorship | 32 |
| external costs e.g. noise, congestion etc. net of external benefits | 4 |
| consumer surplus for those attending the Grand Prix | 6 |

What was the value of the welfare outcome of holding the Australian Grand Prix?

**A** –AUD 49 million **B** –AUD51 million **C** –AUD53 million **D** –AUD63 million

**17** Which statement is correct?

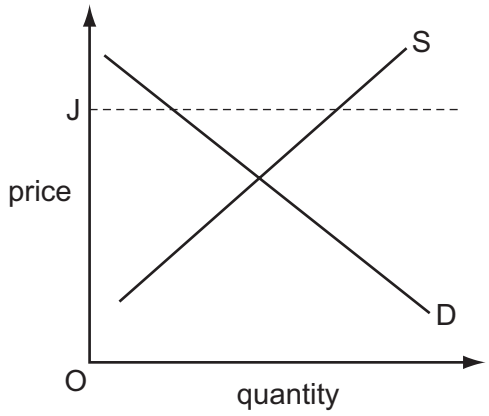
**A** A demerit good is overconsumed.

**B** A demerit good produces zero consumer surplus.

**C** A merit good is defined by its non-excludability and non-rivalry.

**D** A merit good is provided free of charge.

**18** The diagram shows the demand and supply curves of a good.




The government sets a minimum price of OJ for the good.

How will this affect the producers and consumers of the good?

| | effect on producers | effect on consumers |
|---|---|---|
| **A** | all producers will gain | consumers will lose |
| **B** | all producers will gain | consumers will gain |
| **C** | some producers will gain and some will lose | consumers will lose |
| **D** | some producers will gain and some will lose | consumers will gain |

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**19** The table shows the annual production per worker per year in three countries. There are no trade barriers, no transport costs and the countries specialise on the basis of opportunity cost.

| product (tonnes) | Southland | Westland | Eastland |
|---|---|---|---|
| yams | 100 | 80 | 12 |
| wheat | 80 | 70 | 16 |
| rice | 60 | 60 | 8 |

Which country will export which product?

| | Southland | Westland | Eastland |
|---|---|---|---|
| **A** | rice | yams | wheat |
| **B** | wheat | rice | yams |
| **C** | yams | rice | wheat |
| **D** | yams | wheat | rice |

**20** What may limit the benefits a country derives from engaging in international trade?

**A** The country is specialised in agricultural production.

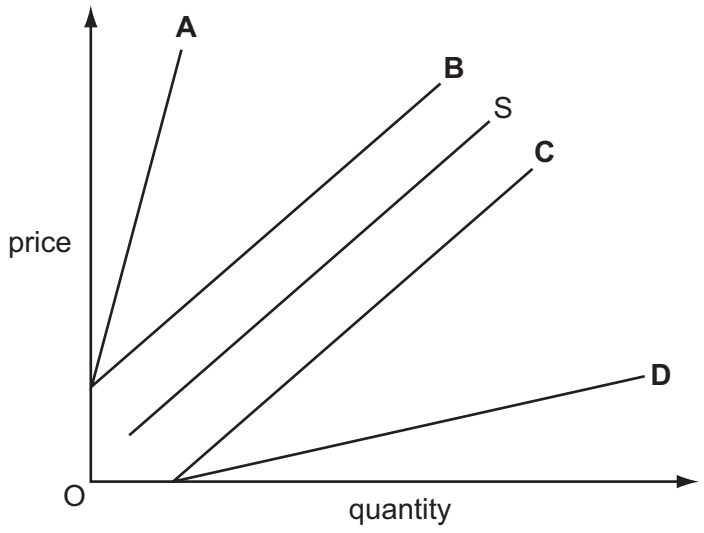
**B** The country's labour force is highly immobile.

**C** There are no product areas where the country enjoys an absolute advantage.

**D** Wage rates are lower in the country's principal competitors.

**21** The supply of an imported good is shown by curve S.

What will be the new supply curve if an ad valorem (percentage) tariff is imposed on the good?



**22** Trade relations between two countries have gone through four stages.

At which stage was a customs union established?

**A** The countries removed tariffs on selected goods from each other.

**B** The countries removed tariffs on all goods from each other.

**C** The countries set up a common external tariff towards other countries.

**D** The countries introduced a single currency for use by both countries.

**23** The table gives the percentage (%) rates of youth unemployment and total unemployment in France and the UK in 2001 and 2005.

| | France | | UK | |
|---|---|---|---|---|
| | youth unemployment (%) | total unemployment (%) | youth unemployment (%) | total unemployment (%) |
| 2001 | 19.2 | 8.7 | 12.0 | 5.2 |
| 2005 | 22.1 | 10.1 | 12.5 | 4.8 |

What can be concluded from the table?

**A** France and the UK experienced the same trends in unemployment.

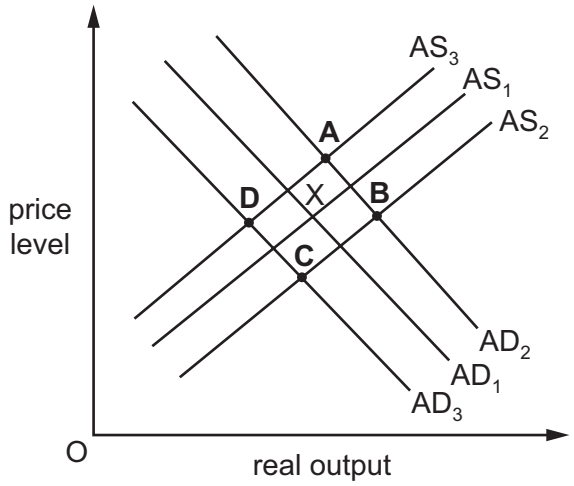
**B** France had a higher number of unemployed people than the UK.

**C** The UK used a different definition of unemployment from France.

**D** The UK was more successful than France in controlling unemployment.

**24** The diagram shows the original aggregate demand curve, $AD_1$, and the original aggregate supply curve, $AS_1$.

What will be the new equilibrium if there is a fall in the country's exports and an increase in government subsidies to firms?



**25** In June 2013, the Governor of the Bank of Namibia announced that the Central Bank's lending rate would remain low as long as inflation remained low.

What would **not** lead to a risk of inflation?

**A** increased output in the mining, manufacturing and construction industries

**B** Namibian dollar depreciation against the currencies of its trading partners

**C** severe weather problems that harm crop production

**D** the Namibian Government's policy of increased public expenditure

**26** The capital value of a non-interest bearing asset is index-linked.

During a period of inflation, how will its money value and its real value change?

| | money value | real value |
|---|---|---|
| **A** | rises | rises |
| **B** | rises | stays constant |
| **C** | stays constant | falls |
| **D** | stays constant | stays constant |

**27** For many years, Japan had a current account surplus which then became a current account deficit.

What might explain this change?

**A** Japan has faced deflation.

**B** Japan has introduced protectionist policies.

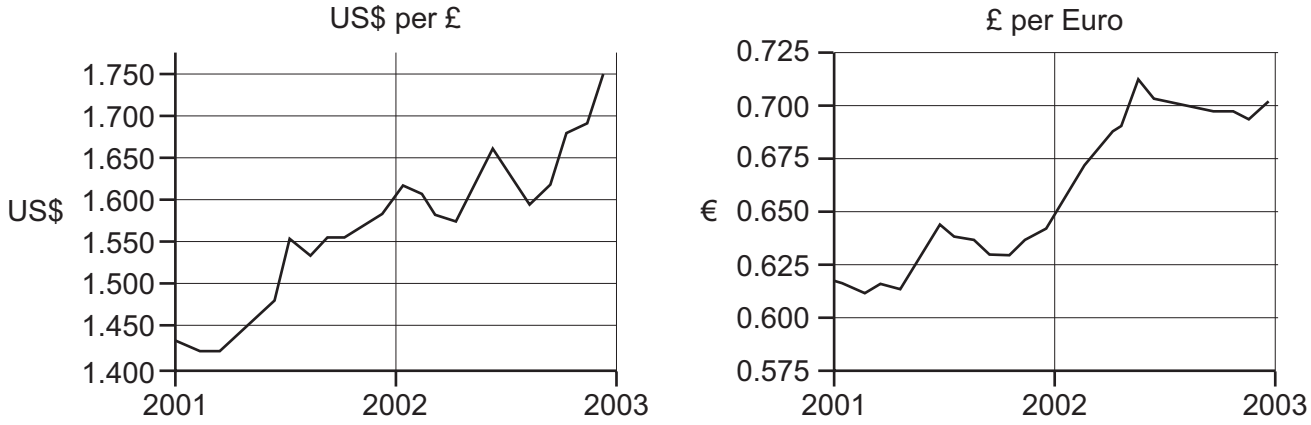
**C** Japan's currency has depreciated.

**D** Japanese manufacturing has lost its comparative advantage.

**28** What is the likely effect on the volume of exports and imports if a country with a fixed exchange rate experiences a higher rate of inflation than its trading partners?

| | exports | imports |
|---|---|---|
| **A** | increase | decrease |
| **B** | decrease | increase |
| **C** | increase | increase |
| **D** | decrease | decrease |

**29** The graphs show the changes in the exchange rates of the £ sterling against the US$ and the Euro (€) between 2001 and 2003.




What happened to the value of the £ sterling between 2001 and 2003?

**A** The £ appreciated against the US$ and depreciated against the Euro.

**B** The £ appreciated against the US$ and the Euro.

**C** The £ depreciated against the US$ and appreciated against the Euro.

**D** The £ depreciated against the US$ and the Euro.

**30** A government devalues its exchange rate.

What is most likely to be its aim?

**A** to decrease a current account surplus

**B** to decrease demand-pull inflation

**C** to improve the terms of trade

**D** to increase the level of employment

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