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CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Subsidiary Level
and Advanced Level

ECONOMICS **9708/01**

Paper 1 Multiple Choice (Core)

May/June 2003

1 hour

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

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, 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.

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 **11** printed pages and **1** blank page.

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UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

[Turn over

1 A student decides to stay in her room to do some work rather than going to the cinema.

What is the opportunity cost of her decision?

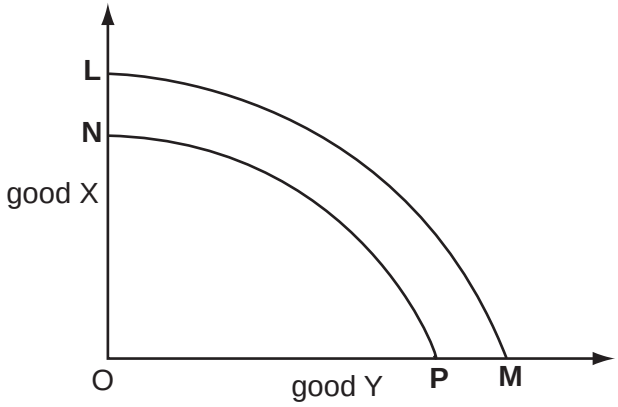
A the enjoyment she would have derived from a visit to the cinema

B the improvement in the mark she obtains for her assignment

C the cost of the extra electricity she uses

D the money she would have spent in the cinema

2 The diagram shows a production possibility curve **LM**.



What might cause the curve to shift to **NP**?

A technological progress

B unemployment of resources

C the depletion of natural resources

D a reallocation of resources

3 What would prevent a firm gaining the maximum benefit from the division of labour?

A a high interest rate

B a small market

C high production costs

D low productivity

4 What is the most abundant form of money (measured by value) in a developed economy?

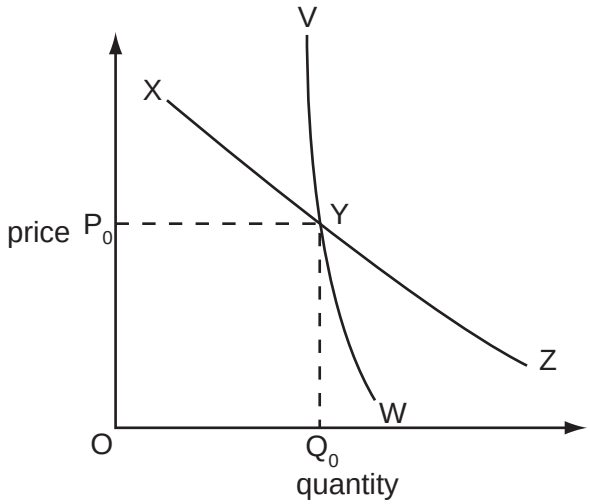
A bank deposits

B cash

C cheques

D credit cards

5 The diagram shows a consumer's short-run and long-run demand curves for coconuts. Initially, the consumer purchases quantity Q_0 at price P_0.



If the price of coconuts increases from P_0, the consumer's short-run response is greater than his long-run response. If the price decreases from P_0 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** XYZ **D** XYW

6 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

B by combining the price elasticity of individual demands

C by horizontally combining individual demand curves

D by multiplying price by quantity demanded

7 Other things being equal, which of the following would result in an increased demand by private motorists for petrol (gasoline)?

A an increase in the price of second-hand cars

B an increase in road toll charges

C a reduction in the price of steel

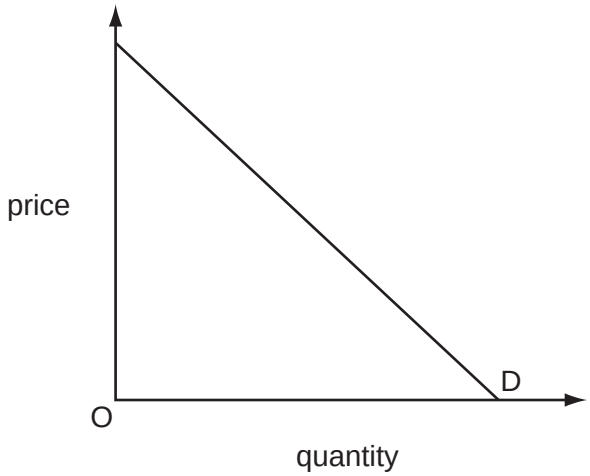
D a reduction in bus fares

8 The table gives an individual's demand for four goods at two income levels.

Over this range of income, for which good does the individual have an income elasticity of demand = 1?

income level	units of goods demanded			
	A	**B**	**C**	**D**
$1000	50	50	50	50
$1100	50	55	60	100

9 The diagram shows the demand curve for commodity X.



Which of the following statements is correct?

A Demand is less elastic at higher prices than at lower prices.

B Consumer expenditure on the commodity always rises whenever price falls.

C Price elasticity of demand is different at every price.

D Price elasticity of demand equals one at every price.

10 Product R is an inferior good with no close substitutes. It is also a complement to product S.

Which describes product R?

	income elasticity of demand	cross elasticity of demand with product S
A	negative	positive
B	positive	negative
C	negative	negative
D	positive	positive

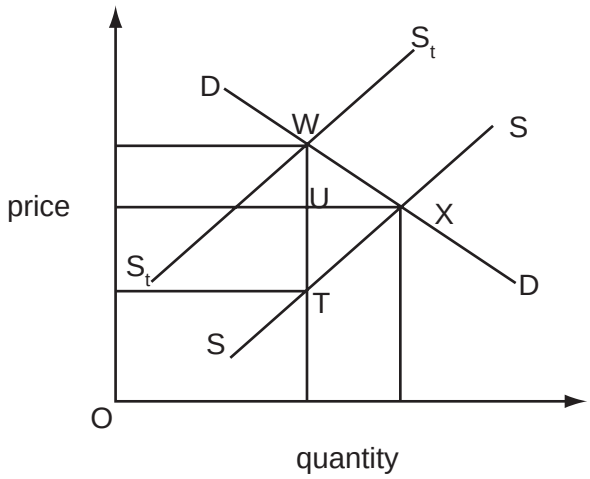
11 The table gives the short-run supply schedules of three firms X, Y and Z, which comprise an industry.

price ($)	quantity supplied (units)		
	firm X	firm Y	firm Z
1	100	-	-
2	150	50	-
3	200	80	70
4	250	150	100

Which is a point on the short-run supply schedule of the industry?

	price ($)	units
A	2	300
B	3	350
C	3	450
D	4	1150

12 A specific tax is placed on the sale of bottles of lemonade. In the diagram, SS is the supply curve before imposition of the tax and S_tS_t is the supply curve after tax.



Which distance represents the specific tax on each bottle?

A UT **B** WT **C** WU **D** WX

[Turn over

13 For price to act as a rationing mechanism, the effect of a rising price must be to

A attract new firms into the market.

B generate additional profits for producers.

C reduce the quantity demanded by some individuals.

D signal the need for a reallocation of resources.

14 Which of the following might explain a simultaneous increase in both price and quantity traded in the market for a normal good?

A the removal of an effective maximum price on the good

B technological progress in the production of the good

C the imposition of a tax on the good

D the granting of a subsidy to producers of the good

15 A financial investigation by a private firm finds that a new railway line would **not** be profitable.

A cost-benefit analysis finds that the line is worth constructing.

What could explain this difference?

A There are external costs not included in the financial investigation.

B There are external benefits not included in the financial investigation.

C A higher rate of interest is used in cost-benefit analysis.

D Cost-benefit analysis uses a higher estimate for wage costs.

16 Which of the following statements is correct?

A Education is a public good because the government subsidises schools.

B Healthcare is a public good when provided free of charge.

C Law and order is a public good because it is provided by the government.

D Street lighting is a public good because no one can be prevented from enjoying the benefits.

17 A government believes that consumers derive greater benefit from a good than consumers themselves realise.

Which type of good does this define?

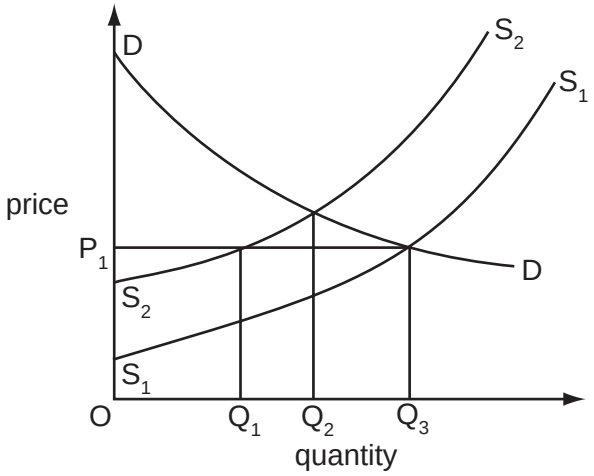
A inferior goods

B merit goods

C private goods

D superior goods

18 In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.



Bad weather then reduces supply to S_2S_2.

The government does not allow the price to rise above OP_1.

How much of the product will the government have to supply from a buffer stock if demand is to be met?

A OQ_1 **B** Q_1Q_3 **C** Q_1Q_2 **D** Q_2Q_3

19 Country X joins an existing customs union, comprising Y and W, which has a common external tariff equal to X's initial tariff.

After joining the customs union, X imports cars from Y which it previously imported from country V.

How will this affect the price of cars in country X and the cost of producing the cars imported into country X?

	price	cost of production
A	lower	lower
B	lower	higher
C	no effect	lower
D	no effect	higher

[Turn over

20 The table shows the levels of output which three countries can produce.

country X	25 tonnes of maize or 5 tractors
country Y	75 tonnes of maize or 15 tractors
country Z	225 tonnes of maize or 45 tractors

Which of the following would be the most likely outcome?

A Country X will specialise in maize and country Y in tractors.

B Country Y will specialise in maize and country Z in tractors.

C Country Z will specialise in both maize and tractors.

D There will be no gains from trade between the countries.

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 following prices 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	USA	USA
B	USA	Trinidad & Tobago
C	neither	USA
D	neither	Trinidad & Tobago

22 The index for a country's terms of trade changed from 100 in year 2001, to 104 in year 2002.

What could have caused this change?

A a fall in export prices with import prices unchanged

B a fall in invisible earnings

C an appreciation of the country's currency

D a rise in the value of imports

23 Which of the following is a measure of labour productivity?

A $\frac{\text{total output}}{\text{quantity of labour employed}}$

B $\frac{\text{total cost}}{\text{quantity of labour employed}}$

C $\frac{\text{total wage cost}}{\text{quantity of labour employed}}$

D $\frac{\text{total profit}}{\text{quantity of labour employed}}$

24 The average consumer divides his expenditure between food, accommodation and clothing in the ratio 5:3:2.

During the course of a year, the price of food rises by 10 %, the price of accommodation remains constant and the price of clothing falls by 5 %.

Assuming that the weights of a price index reflect the expenditure of the average consumer, what is the increase in the index over the year?

A 2.5 % **B** 4 % **C** 5 % **D** 6 %

25 Which factor will cause cost-push inflation?

A a higher level of consumption

B an increase in trade union power

C an increase in labour productivity

D an appreciation of the exchange rate

26 In what circumstances will money lose its value?

A The economy experiences a period of deflation.

B The general level of prices is falling.

C The rate of inflation is positive.

D The growth of money supply falls below the growth of output.

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 visible trade balance and on its current balance?

	visible trade balance	current balance
A	worsen	uncertain
B	worsen	improve
C	improve	uncertain
D	improve	improve

28 Country X trades with only two countries, USA and Japan.

90 % of the country's trade in goods and services is with the USA and 10 % is with Japan.

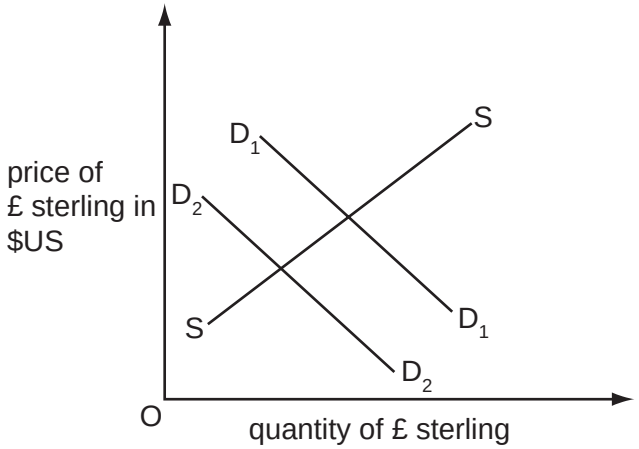
The original value of the trade-weighted exchange rate index is 100.

The change in the value of country X's currency against the US$ is +10 %. The change in the value of country X's currency against the Japanese yen is +50 %.

What will be the value of country X's new trade-weighted exchange rate index?

A 114 **B** 115 **C** 130 **D** 160

29 In the diagram, curves D_1D_1 and SS relate to the demand for and supply of £ sterling in the foreign exchange market.



What may cause the demand curve to shift from D_1D_1 to D_2D_2?

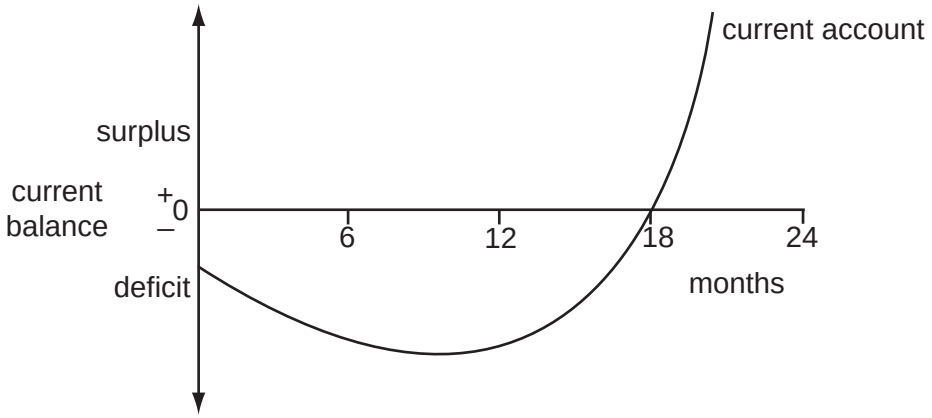
A an increase in UK interest rates

B an increase in the price of US goods sold in the UK

C the abolition of UK tariffs against US goods

D the development of US substitutes for UK goods

30 A country at the beginning of a given period seeks to improve the current account of its balance of payments by devaluing its currency. The effect of this policy in the following two years is shown in the diagram.



Which of the following statements is likely to explain this performance?

A The elasticity of demand for imports diminished after 12 months.

B The domestic inflation rate fell after 12 months before having the desired result.

C In the short run, the price elasticity of demand for exports and imports was very low.

D The policy was ineffective and other factors must have led to an improvement in the current account.

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