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

ECONOMICS **9708/01**

Paper 1 Multiple Choice (Core)

May/June 2004

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.

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UNIVERSITY of CAMBRIDGE
International Examinations

1 What is the opportunity cost to a fully employed economy of increasing capital investment?

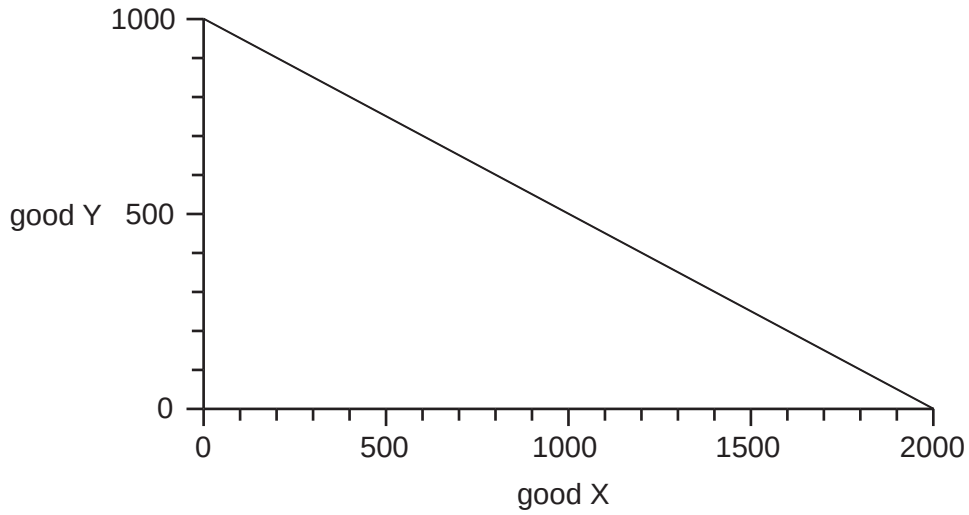
A a fall in consumption

B a fall in income

C a rise in saving

D a rise in the rate of interest

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



The economy produces 400 of good Y and produces on its production possibility curve.

Which quantity of good X is given up?

A 600 **B** 800 **C** 1200 **D** 1600

3 Which group may be disadvantaged by the introduction of division of labour?

A consumers who prefer standardised goods

B companies where the production process has many sub-divisions

C the government, if the product is taxed

D workers who prefer a variety of tasks

4 What is an advantage of using the market mechanism to allocate resources between alternative uses?

A It ensures that resources will be allocated efficiently.

B It ensures that resources are allocated in accordance with need.

C It minimises the time required to make decisions.

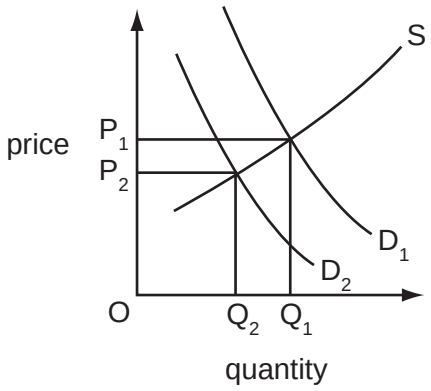
D It gives all consumers an equal voice in deciding how resources should be allocated.

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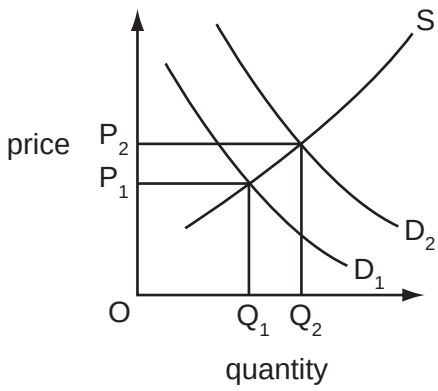
5 In the last ten years e-mail has increasingly been used in preference to postal services.

Which graph shows the changes in the market for postal services?

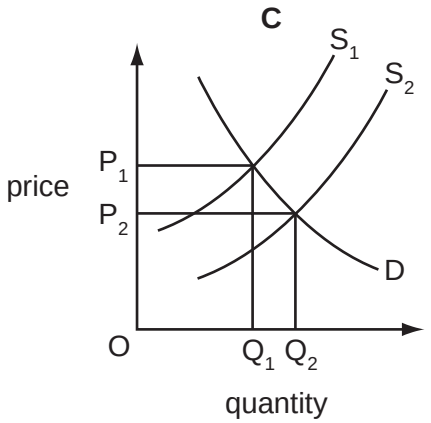
A



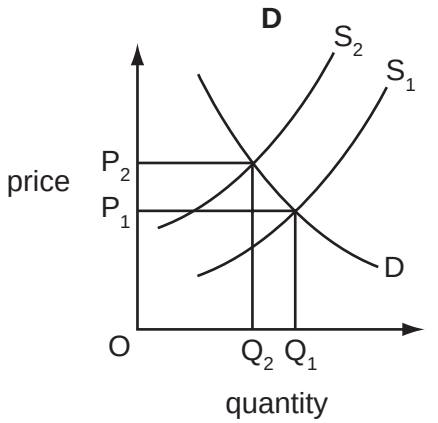
B



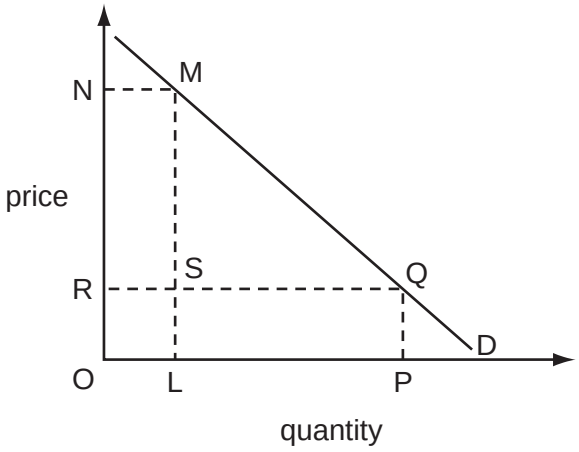
C



D



6 The diagram shows the demand curve for a product.



If the rectangle OLMN is equal in area to the rectangle OPQR, which statement is correct?

A Total revenue falls by MSQ if the price rises from OR to ON.

B Consumer surplus falls by RSMN if the price rises from OR to ON.

C The price elasticity of demand is unitary for all changes in price.

D A rise in price from OR to ON results in the same proportionate fall in quantity demanded.

7 During a certain period, 10 000 units of a normal good are sold at a price of 20 c. During a later period, 12 000 units are sold at a price of 22 c.

What could explain this change?

A a reduction in consumers' incomes

B an increase in the cost of raw materials

C an increase in the price of a substitute commodity

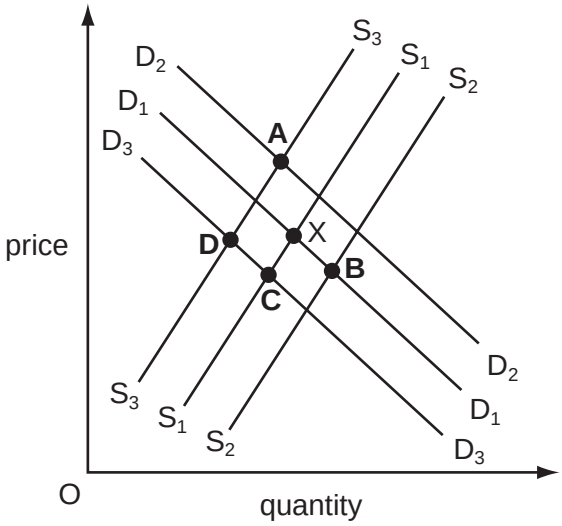
D an increase in the productivity of factors of production

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8 In the diagram below D_1 and S_1 represent the demand and supply curves of a Malaysian industry in its home market. Equilibrium is at X.

The industry has to pay a large wage increase and at the same time faces increased competition from imported substitutes.

Which point, **A**, **B**, **C**, or **D**, on the diagram could represent the new equilibrium?



9 In 2002 it was proposed that car owners should pay a charge to travel into the centre of London. Fares on public transport would also be reduced. It was hoped that more use would be made of public transport and that congestion would decrease.

What price elasticities of demand would be necessary for this policy to succeed?

	price elasticity of demand for travel by car	price elasticity of demand for travel by public transport
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	inelastic

10 The table gives estimates of the price elasticities and cross-elasticities of demand for bus and rail travel.

service	elasticity with respect to the price of:	
	bus travel	rail travel
bus travel	–0.37	+0.13
rail travel	+0.16	–0.43

What would be the change in the volume of rail travel resulting from a 1% increase in bus fares?

A an increase of 0.16 %

B an increase of 0.43 %

C a reduction of 0.13 %

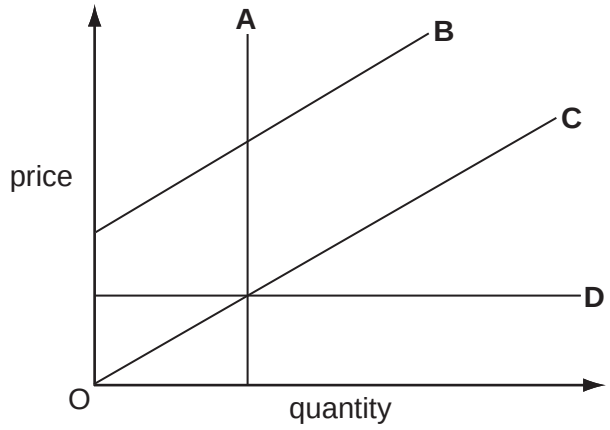
D a reduction of 0.37 %

11 The table shows a consumer's expenditure on a range of goods at different levels of income.

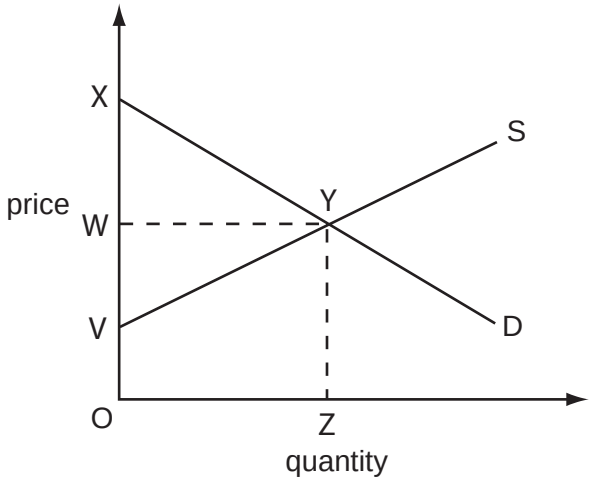
For which good does the consumer have an income elasticity of demand greater than zero, but less than one?

good	consumer's income ($)		
	40	50	100
	consumer's expenditure ($)		
A	10	18	40
B	10	11	20
C	10	10	10
D	10	8	6

12 Which of the supply curves shown in the diagram has unitary price elasticity?



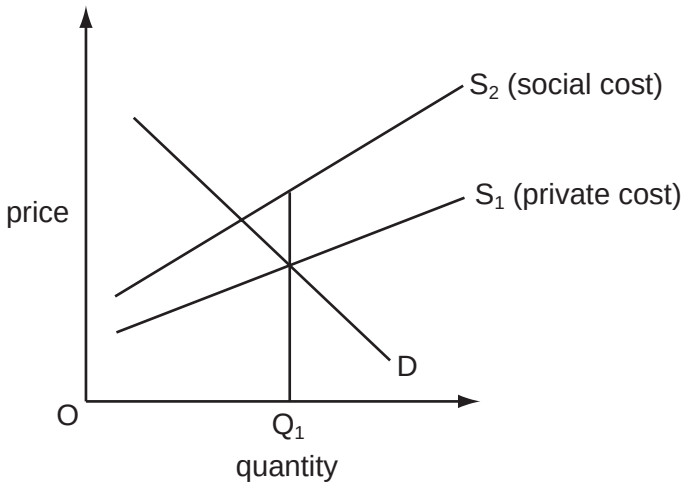
13 The diagram shows the demand and supply curves for a product.



Which area measures the total amount consumers would be willing to pay for the equilibrium level of output?

A OWYZ **B** OXYZ **C** OVYZ **D** XYV

14 In the diagram, Q_1 is the quantity produced of a good as the result of market forces.



What concept is present at output Q_1?

A a government subsidy

B a negative externality

C excess supply

D price instability

15 The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits $m	external benefits $m	private costs $m	external costs $m
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

16 What is always a characteristic of a public good?

A Consumption of the good by one individual prevents consumption by any other individual.

B It confers benefits on consumers that are greater than they themselves realise.

C It is supplied by a voluntary organisation.

D The benefits it confers on consumers can be extended to others at zero cost.

17 Brazil and Colombia attempt to control the supply of coffee in the world market to help stabilise their incomes.

What condition is essential for this to stabilise their incomes effectively?

A There must be large firms in the industry.

B It must be possible to store the coffee and release stocks when necessary.

C Other countries must supply a significant percentage of the total market.

D The demand for the product must be elastic.

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18 An international oil company announced in 2002 that it would **not** continue to explore for oil off the coast of Namibia. This was because there was only enough oil to support a local power station for Namibia and not enough to allow exports of oil.

What might be a possible advantage and disadvantage to Namibia of this decision?

	advantage	disadvantage
A	a saving in costly research paid for by the oil company	a loss of employment opportunities
B	a reduction in taxes paid by the oil company to the Namibian government	the conservation of a natural resource
C	a reduction in potential external costs of pollution	the loss of cheaper oil
D	the exploitation of a natural resource	the loss of potential exports

19 Which method of protection raises revenue for the government?

A domestic subsidies

B embargo

C quota

D tariff

20 In which of the following situations will a country's terms of trade worsen?

A The prices of its imports rise by more than the prices of its exports.

B The total value of external payments rises by more than the total value of external receipts.

C The value of its imports rises by more than the value of its exports.

D The volume of its imports rises by more than the volume of its exports.

21 The World Cup in 2002 caused a rise in demand by Japanese fans for football shirts made in Brazil, and increased travel to Japan by Brazilian fans using Japanese airlines.

What would be the effect on Brazil's balance of payments?

	exports of goods	imports of services
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

22 The table shows the numbers of goods X and Y which two countries produce. Each country uses half of its resources to make each good.

	country 1	country 2
good X	100	300
good Y	200	400

Later, each country specialises in the product in which it has a comparative advantage.

Which rate of exchange would be suitable so each country gains from trade?

A 1X = 1Y

B 1X = 1.5Y

C 1X = 2Y

D 1X = 3Y

23 In an economy, both employment and unemployment rose over a ten year period.

What must have risen?

A birth rate

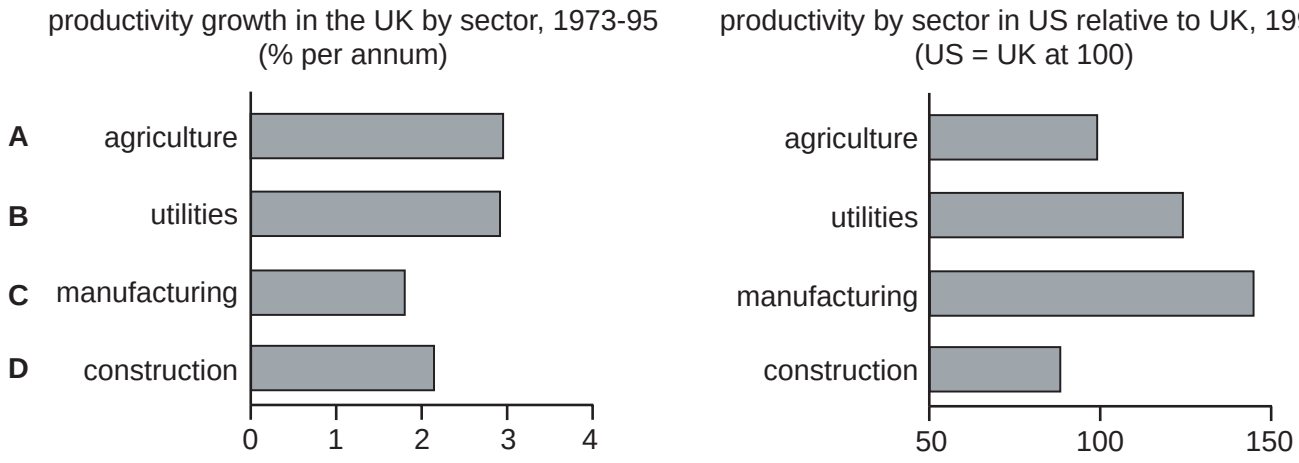
B life expectancy

C unemployment benefits

D working population

24 The diagram gives details of different aspects of productivity in the US and UK.

Which sector in the UK best fits the description 'a sector with a relatively fast growth rate in productivity but which is less productive than its US equivalent'?



25 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

26 When will a reduction in unemployment result in an increase in inflation?

A when a high percentage of the increase in income is saved

B when the economy reaches its production possibility curve

C when the jobs created are unskilled

D when the newly employed buy mainly imported goods

27 The table gives information about the trade between Singapore and New Zealand during 2001, the first year after they signed a free trade agreement. The values are given both in Singapore dollars (S$) and New Zealand dollars (NZ$).

	S$ m	NZ$ m	percentage change from 2000
Singapore exports to New Zealand	508	618	+20 %
Singapore imports from New Zealand	331	403	–17 %

What can be concluded from the table?

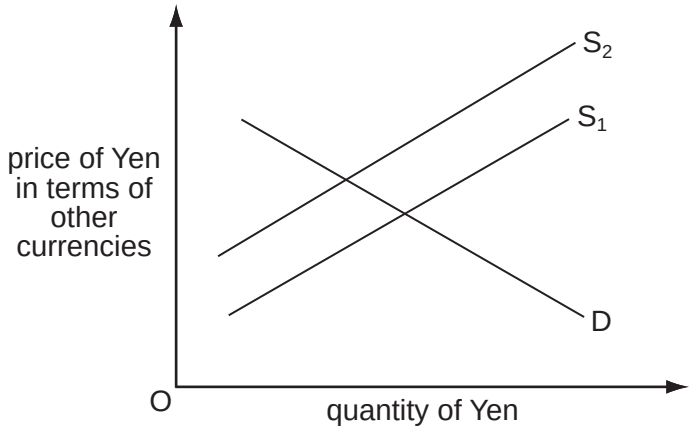
A New Zealand gained more than Singapore from the trade agreement.

B New Zealand's trade position with Singapore improved in 2001.

C Singapore had a trade surplus with New Zealand in 2001.

D The exchange rate in 2001 was approximately NZ$ 1 = S$ 1.2.

28 The diagram shows the market for Japanese Yen.



What could have caused the change in the supply of Yen from S_1 to S_2?

A a reduction in the level of international investment into Japan

B a reduction in the level of Japanese tariffs

C a reduction in the value of foreign goods imported into Japan

D a reduction in the value of Japanese goods exported

29 The value of the Swiss franc changes against the US dollar ($) from $0.60 to $0.80.

Which statement is consistent with this information?

A Swiss visitors to the US will now be worse off.

B The cost to the US of maintaining its embassy in Switzerland will decrease.

C The dollar has depreciated against the Swiss franc.

D US exports to Switzerland will now be more expensive.

30 In August 2002, the US President signed a trade agreement which allowed more duty-free access to the US market for Latin American and Caribbean countries.

Who might benefit in the short run from this agreement?

A Caribbean countries, because they may export to Latin America

B Latin American businesses, because they may be able to sell more in the US

C Latin American governments, because they will not have to pay so much duty

D the US, because it may export more to Latin America

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