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 2005

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 **12** printed pages.

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1 What is the main economic problem facing all societies?

A how to reduce unemployment

B how to reduce poverty

C how to allocate scarce resources

D how to control inflation

2 What is the opportunity cost to an unemployed worker who becomes employed?

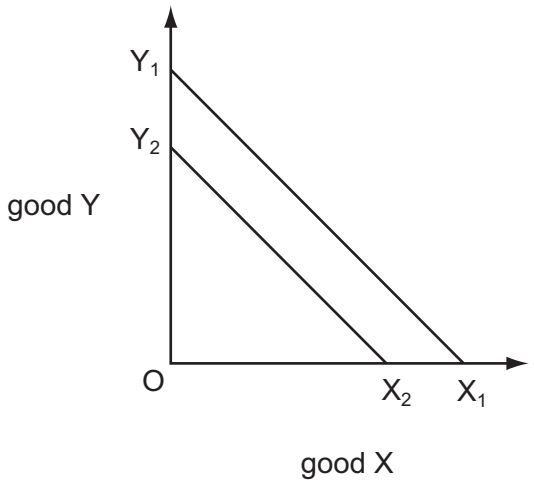
A the leisure they would otherwise have had

B the value of the goods and services they produce

C the wages they are paid

D zero

3 The diagram illustrates the production possibility curves for an economy in Year 1 (X_1, Y_1) and Year 2 (X_2, Y_2)



What can be deduced from the diagram?

A The cost of production was lower in Year 2 than in Year 1.

B The full employment level of output was lower in Year 2 than in Year 1.

C The opportunity cost was lower in Year 2 than in Year 1.

D Unemployment rose between Year 1 and Year 2.

4 Which is a normative economic statement?

A Money is the least liquid form of wealth.

B Some firms are subsidised by the government.

C Some workers earn more than others.

D Taxes are the best way to discourage smoking.

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5 What could **not** cause a shift in an individual's demand curve for Good Z?

A a change in the price of Z

B a change in the individual's income

C a change in the individual's tastes

D a change in advertising expenditure on Z

6 What is most likely to make the demand for Good X inelastic?

A Good X is a luxury good.

B Good X is habit-forming.

C The proportion of income spent on Good X is very high.

D There are a large number of substitutes for Good X.

7 The market for tractors is supplied by two firms, X and Y, each initially having 50 % of the market.

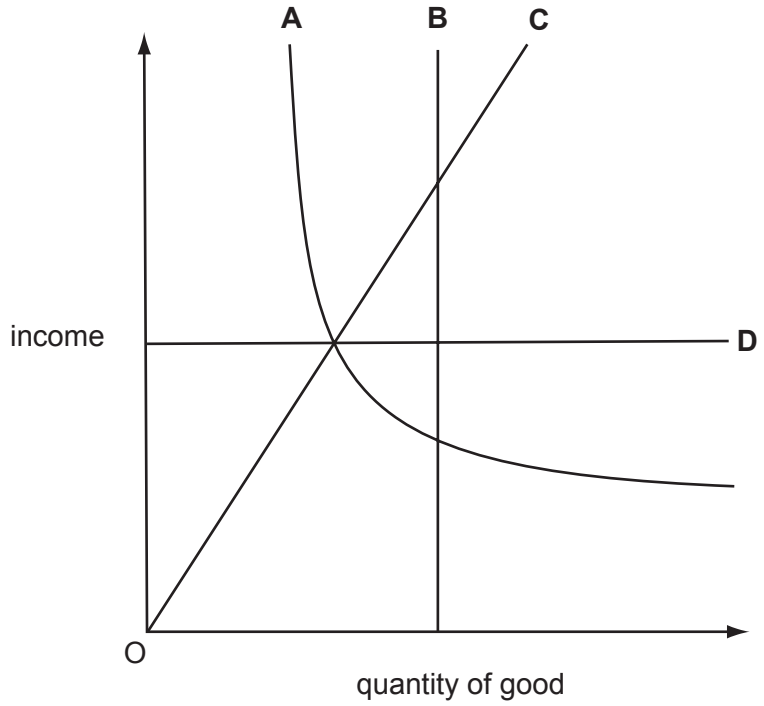
A 10 % increase in the price of tractors leads to an increase in output from firm X of 10 % and from firm Y of 20 %.

What is the price elasticity of supply of tractors in this market?

A 1 **B** 1.5 **C** 2 **D** 3

8 The diagram shows how the quantity demanded of four goods changes as income changes.

Which good has an income elasticity of demand which is always +1?



9 Good X is a substitute for Good Y and a complement to Good Z.

What would be the effect of a fall in the price of Good X?

A Only the demand for X will rise.

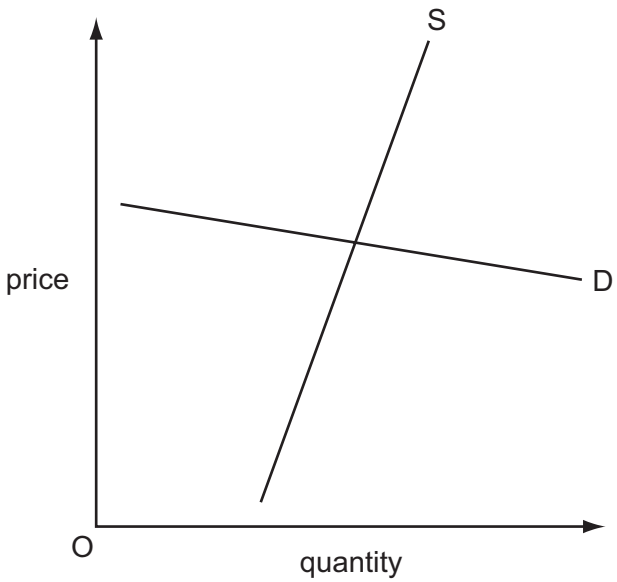
B Demand for X, Y and Z will rise.

C Demand for Y will fall and for Z will rise.

D Demand for Y will rise and for Z will fall.

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

The government imposes an indirect tax on the product.

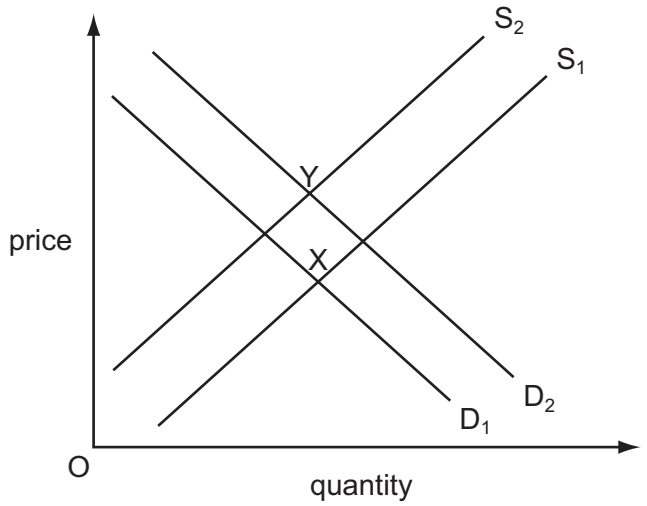


What will be the outcome of this for the producers' revenue and the incidence of the tax burden?

	effect on revenue	main incidence of the tax
A	fall	consumer
B	fall	producer
C	rise	consumer
D	rise	producer

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11 The diagram shows the market for new houses.



What would cause the change in the market equilibrium position from X to Y?

A a fall in income tax and a rise in building costs

B a fall in interest rates and an increased efficiency in house-building

C a fall in population and a rise in taxes on building materials

D a rise in building subsidies and a fall in incomes

12 The market demand equation for a good is given by $Q_d = 310 - 20\ p$
and the supply equation by $Q_s = 10 + 10\ p$,
where p denotes the price of the good.

What is the equilibrium price?

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

13 What is necessary for consumer surplus to be zero?

A Demand is perfectly inelastic.

B Demand is perfectly elastic.

C Supply is perfectly inelastic.

D Supply is perfectly elastic.

14 The growing of flowers in a private garden results in a positive externality.

What can be concluded from this?

A External benefits exceed private costs.

B External costs exceed private costs.

C Private costs exceed social benefits.

D Social benefits exceed private benefits.

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15 Prior to an election, the government proposes to build a new urban motorway.

In a cost-benefit analysis, what would **not** be included among the prospective benefits?

A the lower operating costs of public transport

B the lower running costs incurred by private motorists

C the value of time saved by commuters

D the improved chance of the re-election of the government

16 What are the characteristics of a private good?

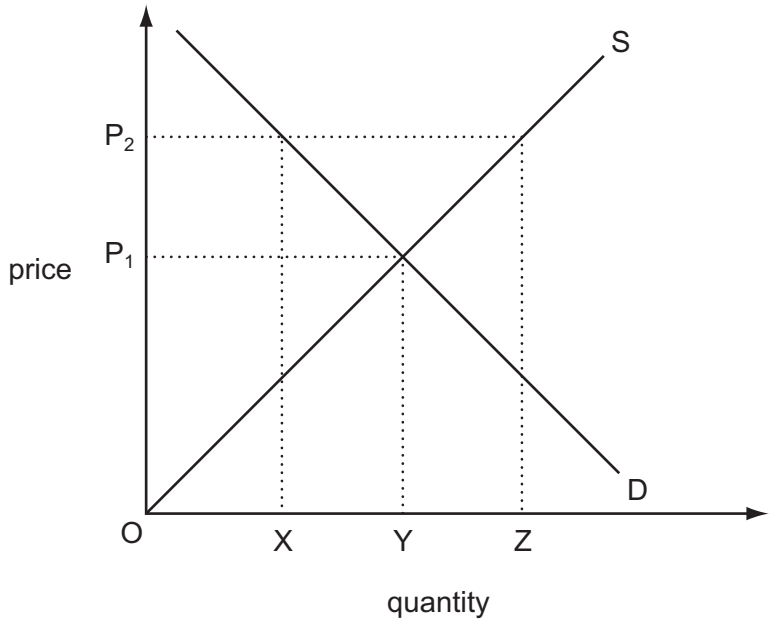
A non-rivalness and excludability

B non-rivalness and non-excludability

C rivalness and excludability

D rivalness and non-excludability

17 The diagram shows the market for wheat.

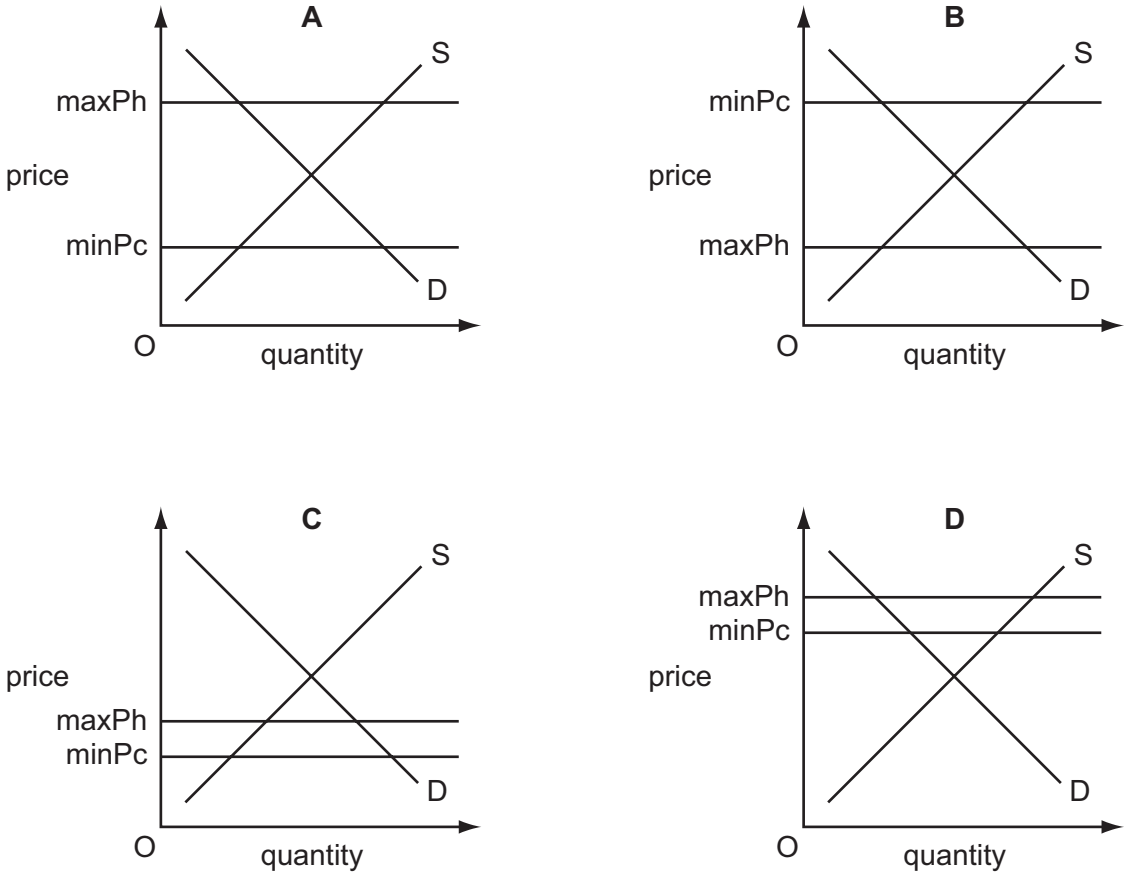


What quantity of wheat must the government buy if it wishes to raise the market price from P_1 to P_2?

A OZ **B** XY **C** XZ **D** YZ

18 A government introduces a maximum price for house rentals (maxPh) and a minimum price for cleaning services (minPc).

Which diagram shows that the maximum price will be effective and the minimum price will be ineffective in the respective markets?



19 The world consists of two countries, Sealand and Fantasia, both of which produce just two goods, X and Y.

The production of X is land-intensive and the production of Y is labour-intensive.

Sealand has plentiful supplies of both land and labour. Fantasia has a relative scarcity of labour.

What can be deduced from this?

A Fantasia is likely to have a comparative advantage in X.

B It is unlikely that Fantasia can compete with Sealand in the production of either X or Y.

C It is unlikely there would be any benefit to Sealand from trading with Fantasia.

D Sealand is likely to have an absolute advantage in both X and Y.

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20 Why would a government introduce tariffs and quotas?

A to increase the level of international competition

B to increase the demand for home-produced goods

C to reduce the price of home-produced goods

D to reduce the price of imports

21 In some parts of the world economic unions have been established. These have introduced a common currency.

What could be an economic disadvantage of introducing such a common currency?

A Absolute and comparative cost advantages would disappear as a basis for trade.

B Devaluation of a member's currency would no longer be possible.

C Prices of goods and services would be the same over the whole union.

D Trade creation would take place.

22 The 'terms of trade' of a country refers to

A the system of tariff rates levied by the government of the country.

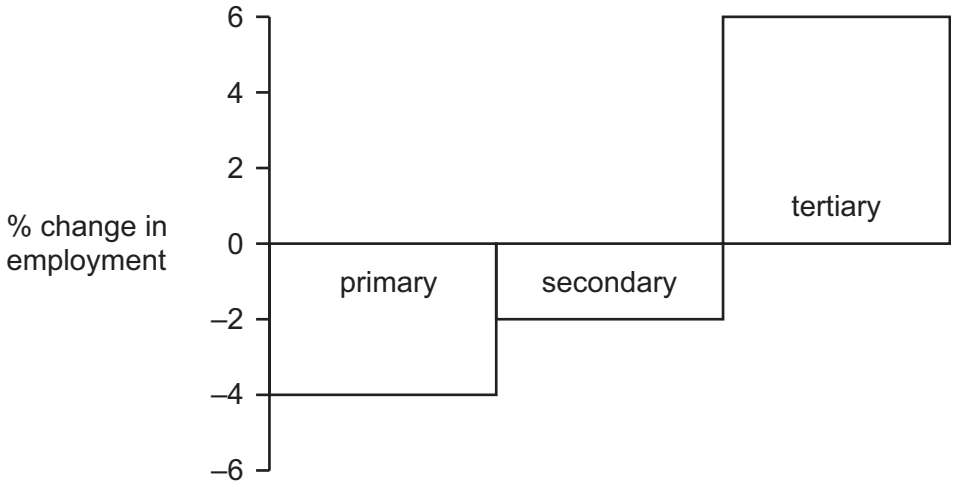
B the relationship between average import prices and average export prices.

C the rate at which domestic currency can be sold in foreign exchange markets.

D the difference between the value of exports and the value of imports.

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23 The chart shows changes in employment by sector for a country between 1998 and 2003.



Which statement about the period 1998 to 2003 must be true for this country?

A The primary sector lost more workers than the secondary sector.

B Unemployment stayed constant.

C Employment in service industries increased.

D There was no change in the total working population.

24 The table shows the share of a worker's income spent on three classes of good and the percentage change in the prices of the goods over a year.

	share of income spent on goods	change in prices of goods
clothing	$\frac{1}{4}$	+25 %
food	$\frac{1}{2}$	+50 %
fuel	$\frac{1}{4}$	-25 %

Over the same period the worker's money income rises by 25 %.

What happens to the worker's real income?

A It falls by 25 %.

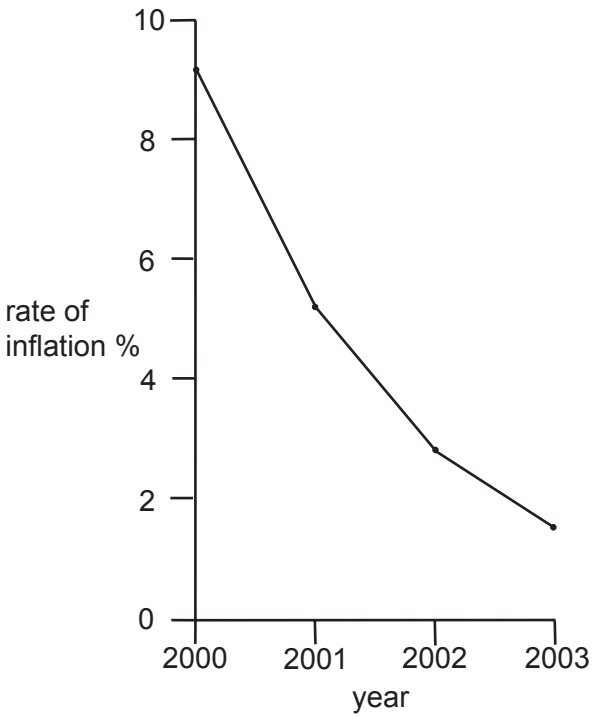
B It falls by 50 %.

C It rises by 25 %.

D It is unchanged.

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25 The diagram shows the annual rate of inflation in a country between 2000 and 2003.



Which statement is true of the period 2000 to 2003?

A The cost of living fell.

B The price level rose.

C The retail price index fell.

D The value of money rose.

26 Which combination of events is most likely to cause inflation?

	exchange rate	direct taxes	money supply
A	falling	falling	falling
B	falling	falling	rising
C	rising	rising	rising
D	rising	rising	falling

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27 What combination is most likely to cause a surplus in a country's trade in goods and services?

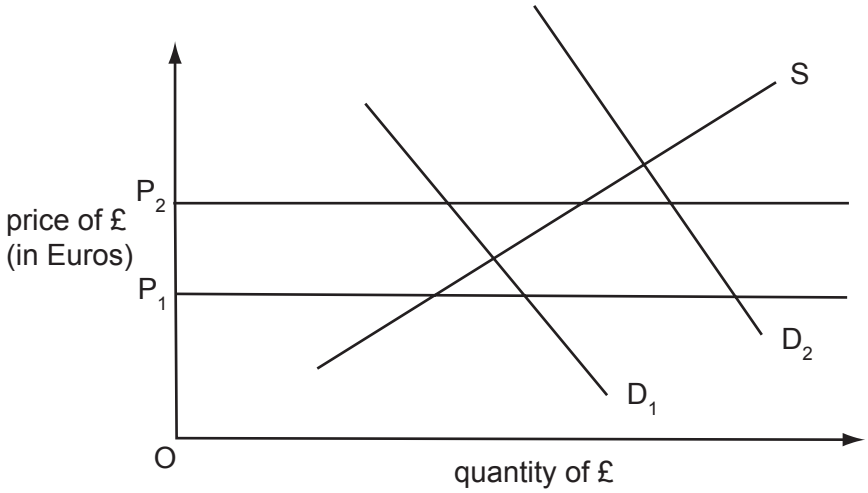
	inflation	currency
A	high	strong
B	high	weak
C	low	strong
D	low	weak

28 The demand for US imports in Japan is price-inelastic.

Assuming there is no change in their dollar price, what would be the effect of a depreciation in the yen on the total value of US goods imported into Japan?

	value measured in yen	value measured in $
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

29 The British monetary authorities are committed to maintaining the exchange rate of the UK £ against the Euro between P_1 and P_2 on the diagram.



What might they do if demand changes from D_1 to D_2?

A impose controls on UK investment overseas

B increase interest rates

C sell Euros out of foreign exchange reserves

D sell £ on the foreign exchange markets

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30 Why might a 10 % devaluation of a country's currency fail to improve its balance of trade deficit?

A Other countries devalue their currencies by 15 %.

B Other countries revalue their currencies by 15 %.

C The demand for the country's imports is elastic.

D The supply of the country's exports is elastic.

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