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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 2006

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 A consumer allocates his expenditure over time.

What would cause an increase in the opportunity cost of current consumption to the consumer?

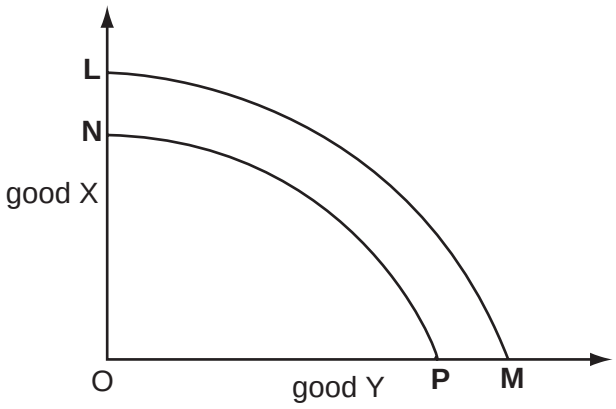
A a decrease in his current income

B a decrease in interest rates

C an increase in his current income

D an increase in interest rates

2 In the diagram the original production possibility curve is **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 A government proposes to introduce a road congestion charge which would require private motorists to pay a toll for road use.

Which statement relating to the proposal is normative?

A Bus passengers will benefit at the expense of motorists.

B Motorists with higher incomes will be prepared to pay the charge in return for reduced journey times.

C Motorists with lower incomes will not be able to afford to use the roads.

D The proposal will be unfair to motorists who have no alternative means of transport.

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4 What would encourage the growth of the international division of labour?

A an improvement in transport systems

B instability in international exchange rates

C restrictions on the movement of resources

D the widespread introduction of tariffs

5 Which piece of information would enable you to construct the market demand curve for a product?

A the equilibrium price of the product

B the number of consumers who would purchase the product at each price

C the number of firms in the industry

D the quantity that each consumer would be willing and able to buy at each price

6 What is most likely to increase the demand for compact disc players?

A a fall in disposable incomes

B a fall in the price of cinema tickets

C a fall in the price of compact discs

D a fall in the price of video recorders

7 The price elasticity of demand for good **X** is 1. At a price of $12, quantity demanded is 4000 units.

What will be the price when the quantity demanded is 20 000 units?

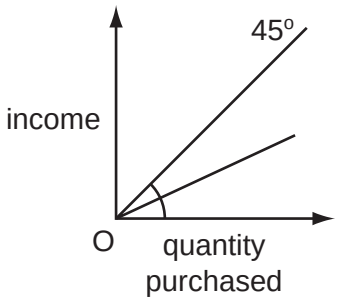
A $2.00 **B** $2.40 **C** $2.66 **D** $20.00

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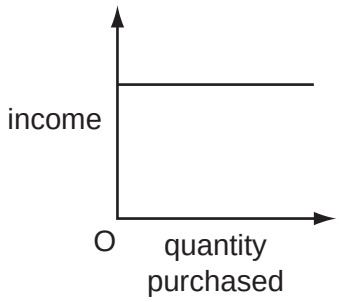
8 The diagrams show possible relationships between income and the quantity of a good purchased.

Which diagram shows an inferior good?

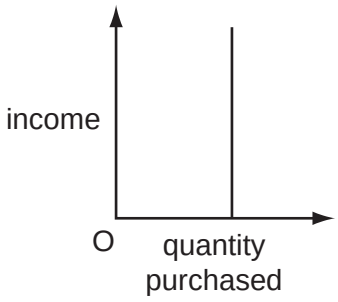
A



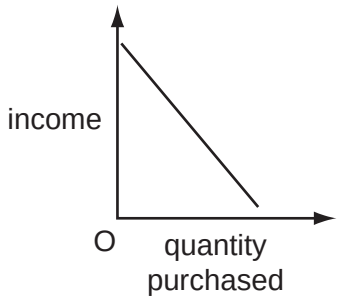
B



C



D



9 When demand for a good increases, equilibrium price stays the same.

What is its elasticity of supply?

A –1

B zero

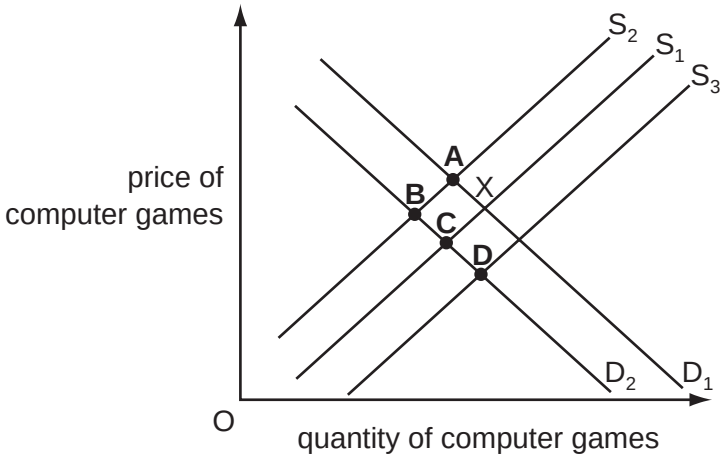
C +1

D infinite

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10 The diagram shows the market for computer games. The market starts in equilibrium at X.

What will be the new equilibrium if the tax on computer games is increased and incomes fall?



11 Assume the price elasticity of demand for best-quality French wine is zero.

What would be the effect in New Zealand if the New Zealand government imposed a tariff on such wine?

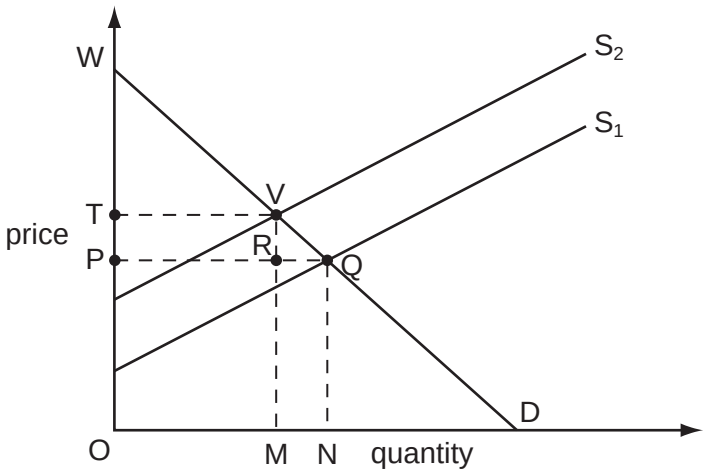
A The price of the wine would rise by an amount less than the tariff.

B Demand for the wine would fall.

C Expenditure on the wine would rise.

D Sales of the wine would cease.

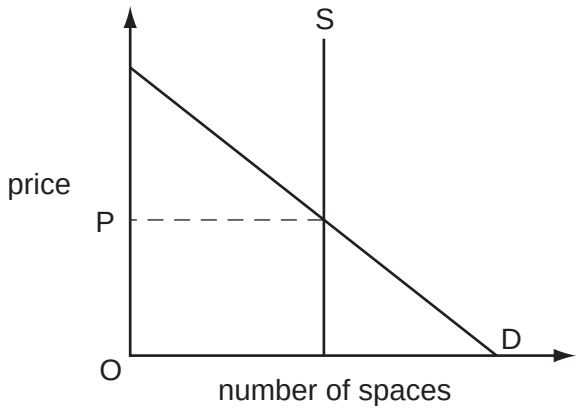
12 In the diagram, S_1 is the original supply curve and D is the original demand curve.



If supply shifts to S_2, which area represents the change in consumer surplus?

A PQVT **B** PQW **C** PRVT **D** TVW

13 The diagram shows the demand and supply curves for parking spaces in a hospital car park.



The managers decide to rely on the price mechanism to allocate parking spaces at the hospital most effectively.

What is required in order for this to work?

A Alternative means of transport must be provided for those unable to afford price OP.

B A survey will be needed to find out the amount users are willing to pay.

C The capacity of the car park will need to be expanded.

D The price charged for parking spaces must be OP.

14 In which situation are there definitely positive externalities?

A Private benefits exceed private costs.

B Private benefits exceed social benefits.

C Social benefits exceed private benefits.

D Social benefits exceed private costs.

15 Correct use of cost-benefit analysis should produce an outcome where

A social costs are minimised and social benefits are maximised.

B social benefits are in excess of social costs.

C marginal private benefits equal marginal social benefits.

D marginal social benefits equal marginal social costs.

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16 A lighthouse is considered to be a public good.

Which characteristic contributes to this?

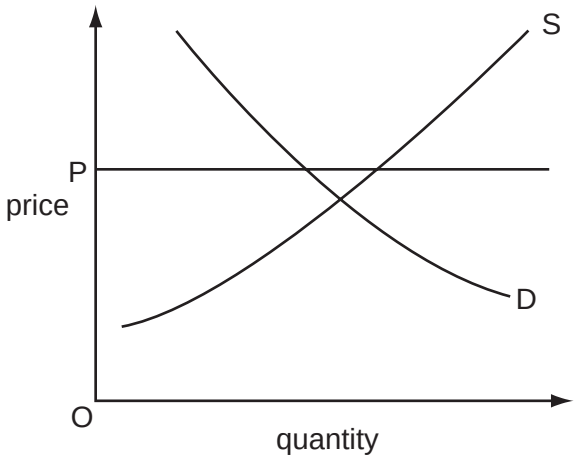
A It gives external benefit.

B It causes external cost.

C It is non-excludable.

D There is rivalry in its use.

17 The diagram illustrates a market for wheat. The government sets a maximum price of OP.



What could cause the maximum price to have an impact on the market?

A an increased wheat harvest

B a fall in the price of rice

C an advertising campaign for bread

D an increase in subsidies to wheat farmers

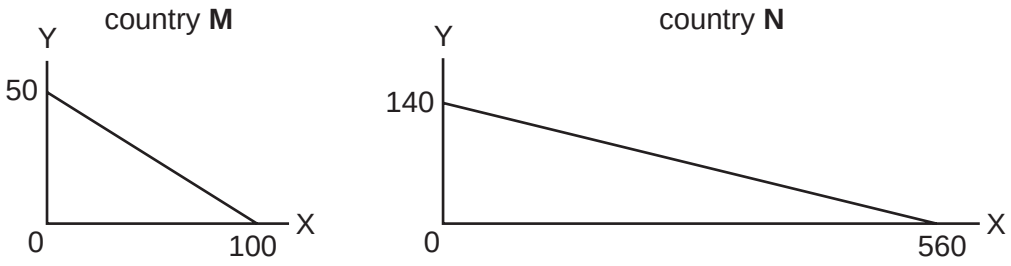
18 A government wishes to encourage the consumption of a merit good and reduce the consumption of a demerit good.

Which policy should it adopt towards each good?

	merit good	demerit good
A	impose a minimum price	produce only in the public sector
B	increase advertising on the benefits of the good	put legal controls on output
C	confine access to certain age groups	tax output
D	subsidise the good	set a minimum level of output

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19 The graphs show the production possibilities for commodities X and Y in two countries **M** and **N**.



What will be the effect of an agreement between **M** and **N** to exchange the commodities at a rate of 1Y for 3X?

A Both countries will gain, because their consumption possibilities will increase.

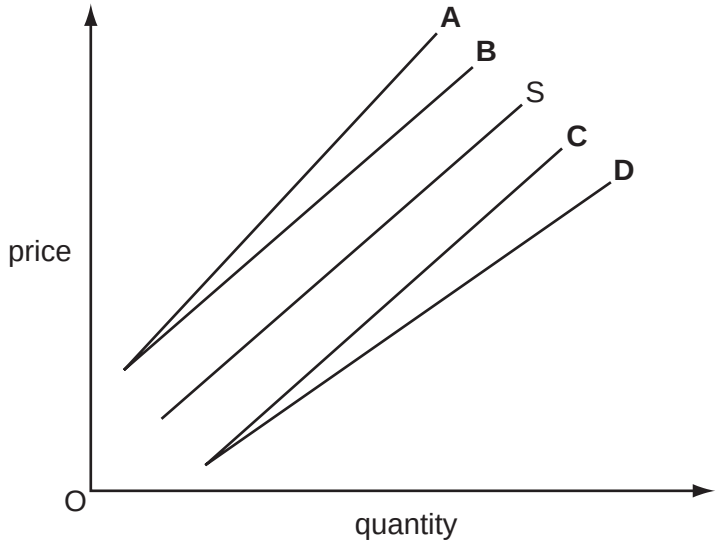
B Consumers in country **M** will lose, because a unit of Y will now cost 3X instead of 2X.

C Only country **N** will gain, because **N** can produce more of both commodities than **M**.

D Neither country will gain, because they both have a comparative advantage in the production of the same commodity, X.

20 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?



21 The table refers to a particular country.

year	index of import prices (2000 = 100)	index of export prices (2000 = 100)
1995	48.1	57.0
2005	122.4	120.8

Which statement about the period 1995 to 2005 is correct?

A The balance of trade improved.

B The balance of payments worsened.

C The terms of trade worsened.

D The exchange rate appreciated.

22 What will improve Cuba's current account balance immediately?

A a Cuban buying sports equipment produced in the US

B a US resident investing in property in Cuba

C a US multi-national company building a new factory in Cuba

D Cubans working in the US sending money to their relatives in Cuba

23 What will cause an immediate rise in the size of a country's labour force?

A an increase in the birth rate

B an increase in the age of retirement

C an increase in the school leaving age

D an increase in the number of redundancies

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24 The table shows the year-on-year percentage changes for a country's consumer price index from 1999 to 2005.

year	% change
1999	18.0
2000	11.7
2001	8.6
2002	4.6
2003	4.9
2004	6.1
2005	4.5

Which statement about the price level is correct?

A It fell over the first half of the period.

B It was at its highest at the start of the period.

C It was at its lowest at the end of the period.

D It was at its lowest at the start of the period.

25 What is most likely to cause demand-pull inflation?

A an increase in indirect taxes

B an increase in interest rates

C a reduction in direct taxes

D a reduction in the money supply

26 What might explain an increase in the volume of a country’s imports?

A an appreciation of the country’s exchange rate

B an increase in the country’s tariffs

C a recession in the country

D a rise in the country’s rate of income tax

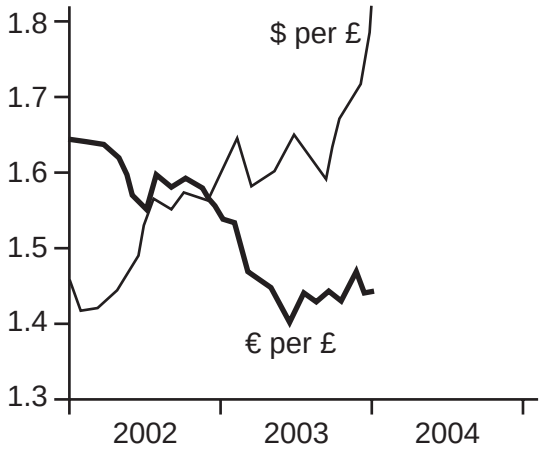
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27 Increased international competition leads to a worsening in a country's current account balance.

In the absence of any offsetting factors, how is this likely to affect domestic inflation and the exchange rate?

	inflation	exchange rate
A	increase	appreciate
B	increase	depreciate
C	decrease	appreciate
D	decrease	depreciate

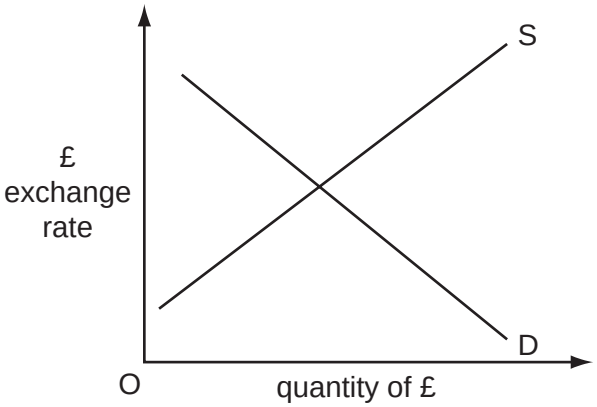
28 The diagram shows the number of US dollars ($) and Euros (€) which exchanged for one pound sterling (£) between 2002 and 2004.



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

29 The diagram shows the demand for sterling and the supply of sterling in the foreign exchange markets.



Other things being equal, if UK interest rates increase, what is likely to happen to the demand and supply curves in the diagram?

	demand curve	supply curve
A	shifts to left	shifts to left
B	shifts to right	shifts to right
C	shifts to left	shifts to right
D	shifts to right	shifts to left

30 In an attempt to correct a balance of trade deficit the government of Indonesia has decided to employ expenditure-dampening methods.

Which policy would best fit this description?

A introducing quotas on imported goods

B raising income tax rates

C subsidising home-produced goods

D taxing imported goods

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