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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 2007**

1 hour

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

8166750372

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.

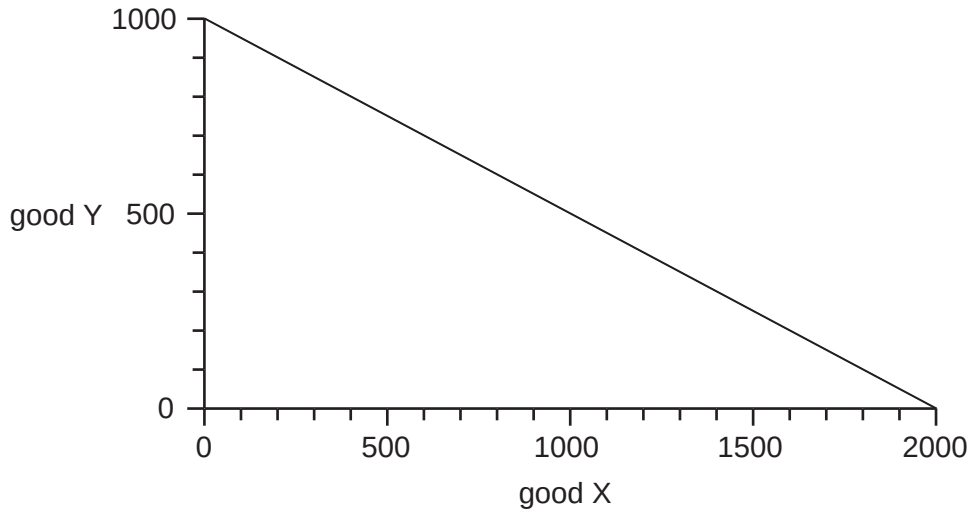
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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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1 The diagram shows a production possibility curve for an economy that 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

2 Planned economies had a history of failing to produce enough consumer goods.

Which method of allocating these goods in short supply involved a market system approach?

A equal rationing to people according to their family size

B official sale to people according to their ability to queue

C selective distribution to people according to their occupation

D unofficial sale to people according to their willingness to pay

3 What is necessarily a function of enterprise rather than management?

A accepting the risks involved in production

B deciding how much labour should be employed

C organising the other factors of production

D promoting the sale of the product

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4 A farmer can produce both beef and lamb. The opportunity cost of a kilo of beef is three kilos of lamb. The price of a kilo of beef is twice that of lamb.

What should he do if his aim is to maximise his revenue?

A concentrate on beef production

B concentrate on lamb production

C produce beef and lamb in the ratio 3:2

D produce twice as much beef as lamb

5 What ensures that demand for a product is effective?

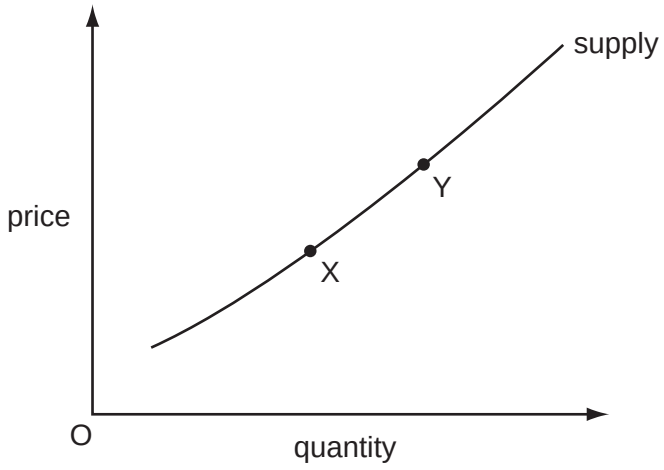
A The consumer must be in the private sector of the economy.

B The consumer must have sufficient income to buy the product.

C The consumer must receive consumer surplus.

D The consumer must want to buy the product.

6 The diagram shows the supply curve of coffee in an economy.



The market equilibrium is initially at point X, but a change moves it to point Y.

What might explain this?

A an increase in wages paid by producers of coffee

B a switch in consumer tastes from coffee to tea

C an increase in the price of tea

D a tax imposed on coffee producers

7 A businessman had intended to borrow $5000 at 8 % per year for house purchase. When the interest rate rose to 10 % he decided to borrow only $4000.

Within what range is his interest elasticity of demand for loans?

A 0.0 to –0.3

B –0.4 to –0.7

C –0.8 to –1.2

D –1.3 to –1.7

8 A manufacturer's ability to increase supply in the short run will be greater

A if labour is immobile.

B if the product is perishable.

C if there is spare capacity.

D if unemployment is low.

9 The table gives information about the market for two models of car.

model	number of cars sold per week	cross elasticity of demand with respect to the price of petrol
1200 cc	10 000	–0.25
2000 cc	5 000	–0.50

If the prices of the cars remain unchanged, but the price of petrol increases by 100 %, what will be the effect on the number of cars sold per week?

A increase by 5000

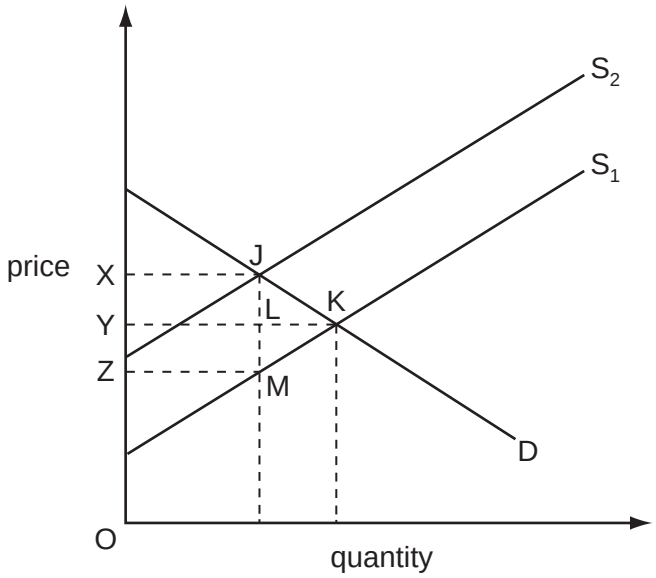
B no change

C decrease by 5000

D decrease by 15 000

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10 The diagram illustrates the effects of placing a specific tax equal to JM on a good.



Which area represents total tax receipts?

A JKM **B** XJKY **C** XJLY **D** XJMZ

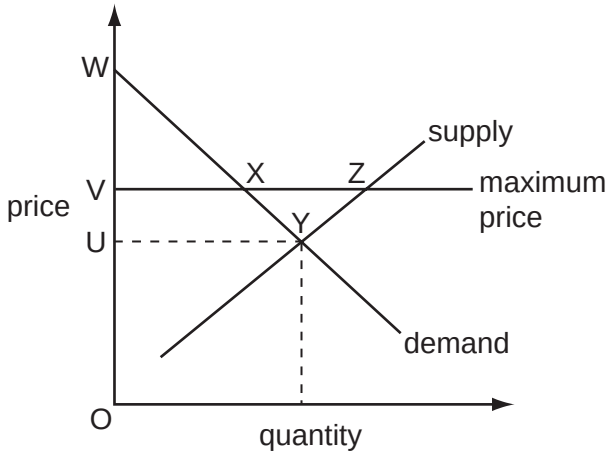
11 Goods X and Y are complements.

What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

	equilibrium price of X	equilibrium quantity of X
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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12 The diagram represents a market for a good, in which the equilibrium price is OU.



A maximum price of OV is imposed by law.

What effect does this have on consumer surplus?

A It decreases by area VXYU.

B It increases by area WXV.

C It increases by area XYZ.

D It is not affected.

13 In 2003, some tobacco companies in the US wanted to raise prices but a spokesman said the tobacco industry was no longer in a position where it could increase revenue by raising prices.

What might be concluded from this statement?

A The price elasticity of demand for tobacco is lower than it used to be.

B The price elasticity of demand for tobacco is likely to be greater than unity.

C The price of tobacco is too low.

D The profit of tobacco growers does not depend on the price system.

14 A given production process uses both labour and capital.

What will be the effect on the quantities of labour and capital employed if the government introduces a subsidy on capital investment?

	quantity of labour	quantity of capital
A	decrease	uncertain
B	uncertain	uncertain
C	decrease	increase
D	uncertain	increase

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15 Which consequence of building an underground railway line would be classified as an externality?

A a reduction in road accidents

B the gain in profit for the train operators

C the revenue from foreign visitors travelling on the line

D the saving in travel time by passengers who travel on the line

16 The costs and benefits of building a bridge have been calculated as follows.

	$ million
building costs	100
disturbance to people nearby	10
time saved by using the bridge	90
less congestion on other routes	30

Which of the following is true?

A The external cost exceeds the private costs.

B The private benefit exceeds the private costs.

C The social benefit exceeds the social costs.

D The external cost exceeds the external benefits.

17 Vandalism and crime have increased in an area of a city following the opening of a night club. As a result, additional police have been sent to patrol the area.

What does this statement illustrate?

A a negative externality and a merit good

B a negative externality and a public good

C a positive externality and a merit good

D a positive externality and a public good

18 For which one of the following reasons might education be considered a merit good?

A It benefits both the recipient and society as a whole.

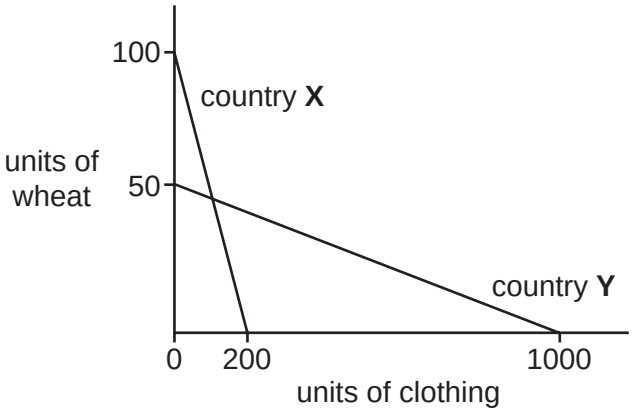
B Left to market forces, it would be over-provided.

C It does not have a social cost.

D Its consumption by one person does not reduce the amount available to others.

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19 The diagram shows the amounts of wheat and clothing that can be produced in countries **X** and **Y** with a given quantity of resources.



What does the diagram indicate about the production of these two commodities?

A Both countries have an absolute advantage in the production of clothing.

B Both countries have a comparative advantage in the production of clothing.

C Country **X** has a comparative advantage in wheat and an absolute advantage in clothing.

D Country **Y** has both an absolute and a comparative advantage in clothing.

20 Which method of protection would a government be most likely to use to increase the country's exports?

A exchange control

B quotas

C subsidies

D tariffs

21 A country's terms of trade increased from the base year value of 100 to 120 in the following year.

Which behaviour of export prices and import prices would have caused this?

	export prices	import prices
A	decreased 10 %	increased 10 %
B	increased 10 %	decreased 10 %
C	increased 20 %	unchanged
D	unchanged	decreased 20 %

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22 The table shows the balance for four items in a country's current account for two years.

	visibles	invisibles	income	transfers
year 1	–72	84	12	–24
year 2	–87	46	–3	–44

What can be concluded about the changes between year 1 and year 2?

A Income has moved from a net inflow to a net outflow.

B The difference between the value of exported and imported services has increased.

C The value of exported goods has fallen.

D Transfers into the country have increased.

23 Company X reduces its workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.

Company Y increases its workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	falls	rises
B	rises	falls
C	rises	rises
D	falls	falls

24 The table shows the retail prices index for four countries for years 2 and 3.
(Year 1 index = 100 for all countries.)

Which country had a higher rate of inflation in year 2 than year 3?

country	year 2 index	year 3 index
A	100	115
B	110	132
C	120	144
D	130	150

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25 Which combination is likely to result from demand-pull inflation?

	balance of trade	profits
A	worsening	rising
B	improving	rising
C	worsening	falling
D	improving	falling

26 What would be likely to increase inflation in an economy?

A an increase in consumer saving

B an increase in interest rates

C an increase in labour productivity

D an increase in taxes on imports

27 In which situation **must** a country's balance of trade in goods and services improve?

A Export orders rise more than import orders.

B Export prices rise more than import prices.

C Export revenues rise more than import revenues.

D Export volumes rise more than import volumes.

28 According to the Purchasing Power Parity theory, what determines the rate of exchange between two countries?

A relative price levels in the two countries

B the bargaining power of the respective governments

C the comparative advantage of the two countries

D the size of their foreign currency reserves

29 In the UK in the summer of 2002 the Euro was worth £0.62. In the summer of 2003 the Euro was worth £0.72.

How was this change likely to have affected the UK?

A higher demand for imports

B higher imported inflation

C higher priced exports

D higher unemployment

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30 A country with a freely floating exchange rate has a persistent deficit on the current account of its balance of payments.

Which policy can be used to correct this disequilibrium?

A devalue the currency

B increase government spending

C increase tax rates

D reduce tariffs on imports

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