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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 2008**

1 hour

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

6146105155

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.

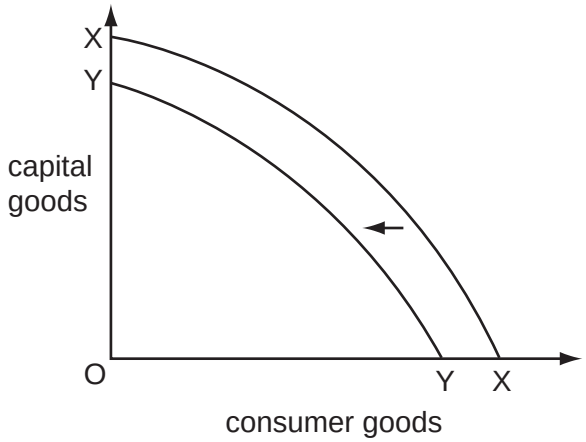
Read the instructions on the Answer Sheet very carefully.

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 country's production possibility curve moves from XX to YY as shown in the diagram.



What could have caused this movement?

A a rise in the retirement age

B an increase in investment

C an increase in net emigration

D a rise in technological progress

2 A Southern African government was concerned about the market influence of a large producer and was keen to take control of the company.

What might be the possible result of this?

A an increase in the role of the market

B an increase in public ownership

C an increase in the role of the consumer

D an increase in the amount of competition

3 Which of the following is a normative statement?

A If firms spend more on advertising, sales volume may not rise.

B If firms raise prices, profits will rise.

C The government should reduce taxes on spending so that economic welfare will rise.

D Export volumes will rise if the government lowers the exchange rate.

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4 What is **not** an essential characteristic of money?

A It must have intrinsic value.

B It must be generally acceptable as a means of settling debts.

C It must serve as a unit of account.

D It must be limited in supply.

5 The demand for a product is affected by a number of influences.

What will cause a movement along its demand curve?

A a rise in consumers' income

B a rise in the popularity of the product

C a rise in the population

D a rise in the price of the product

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

What would happen after 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.

7 A good has unitary price elasticity of demand and at a price of $25 it sells 100 000 units.

Which price must the firm charge if it wants to sell 125 000 units of the good?

A $22 **B** $20 **C** $18 **D** $15

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8 The table shows how an individual's consumption of cola and nuts varies with income.

income ($)	cola (cans)	nuts (packets)
50	2	0
100	4	1

Which statement about income elasticity of demand over the range of income shown is true?

A For cola it is less than 1.

B For cola it is greater than 1.

C For nuts it is greater than 1.

D For nuts it is zero.

9 What would increase the price elasticity of supply of a firm's products?

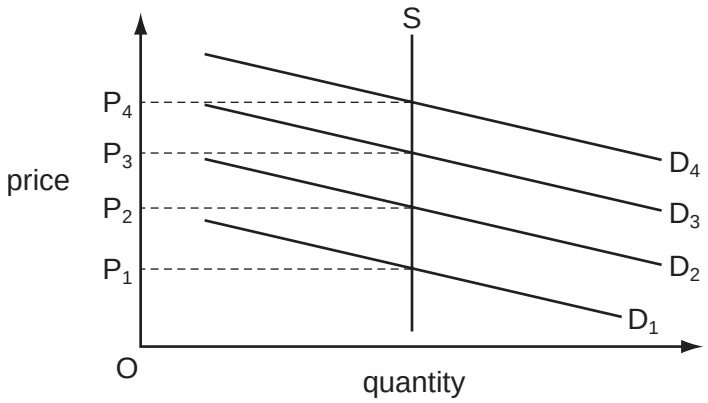
A a decrease in the period of time that stocks can be kept

B a decrease in the time that it takes to produce the products

C an increase in the cost of capital goods employed by the firm

D an increase in the level of employment in the area

10 In the diagram, the supply curve shows the number of spaces in a car park and the demand curve shows the demand for spaces on four different days.



The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

A set a fixed price at P_1

B set a fixed price at P_4

C vary prices between P_2 and P_3

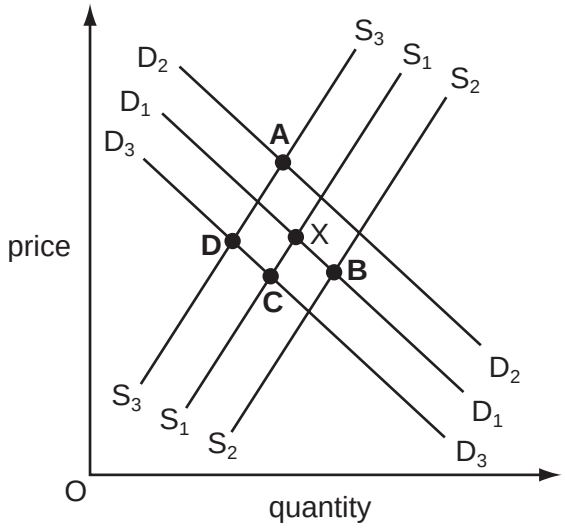
D vary prices between P_1 and P_4

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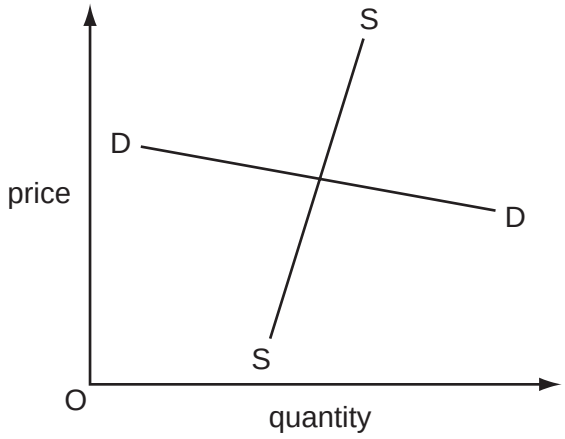
11 In the diagram below, D_1 and S_1 represent the demand and supply curves of a Malaysian industry in its home market. Equilibrium is at X.

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

Which point on the diagram could represent the new equilibrium?



12 The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax.



What will be the result of this tax?

A Most of the incidence of the tax will fall on the producer.

B The new demand curve will be parallel to DD.

C The price will rise by the full amount of the tax.

D The quantity bought will fall proportionately to the tax rate.

13 Which government policy might limit the rationing function of the price mechanism?

A the imposition of tariffs on imported consumer goods

B the levy of indirect taxes at varying rates on different goods

C the payment of subsidies to food producers

D the setting of maximum prices for rented housing

14 What will be the result, from society's view, if the market price for a product does not reflect the negative externalities in its production?

A too much consumption and too much production

B too much consumption and too little production

C too little consumption and too little production

D too little consumption and too much production

15 An increase in tuition fees paid by students has no effect on the number of students entering higher education.

What will be the effect on the private rate of return obtained by students from higher education and on the social rate of return to society as a whole?

	private rate of return	social rate of return
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

16 The government has to choose the best one of four possible sites to locate a port.

The benefits and costs of each site are shown in $m in the table.

Which site would be chosen?

	private benefits	external benefits	private costs	external costs
A	900	600	10	50
B	700	1100	20	5
C	800	1100	80	40
D	1000	900	100	200

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17 A good is most suitable to be provided by the market if it is

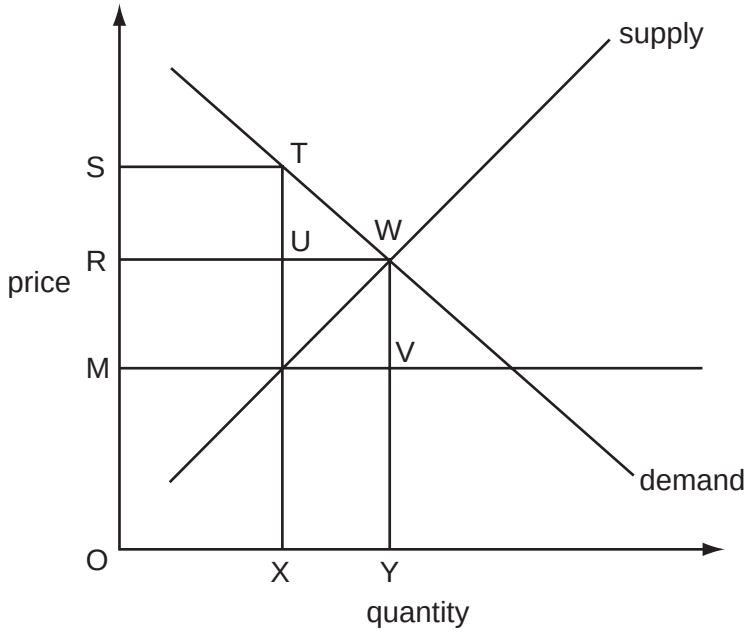
A excludable and non-rival.

B excludable and rival.

C non-excludable and non-rival.

D non-excludable and rival.

18 The diagram shows the imposition of a maximum price (OM) on a product.



An organisation buys up the total supply at the maximum price and then resells it illegally to gain maximum revenue.

What is the organisation's revenue?

A OMVY **B** ORUX **C** ORWY **D** OSTX

19 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1000	1600
country Q	1500	2000

Which statement is correct?

A P has an absolute advantage in Z and Q has a comparative advantage in Y.

B P has an absolute advantage in Z and Q has an absolute advantage in Y.

C P has a comparative advantage in Z and Q has an absolute advantage in Y.

D P has a comparative advantage in Y and Q has an absolute advantage in Z.

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20 When would the sale of cheap exports definitely be classed as dumping?

A if the exports were produced profitably at a low price in the exporting country

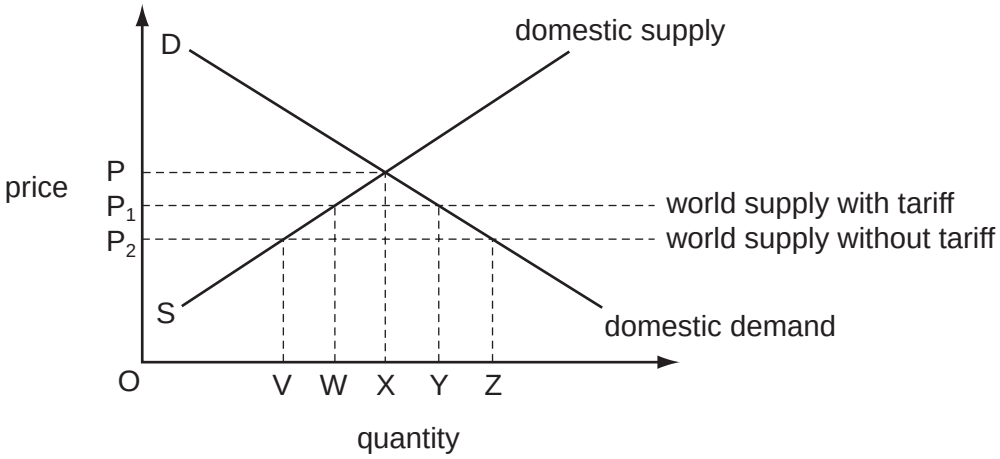
B if the exports were the result of a surplus caused by favourable weather conditions

C if the exports were the result of improved technology that led to capital-intensive production

D if the exports were the result of government subsidies to producers that made loss-making sales profitable

21 A government removes the tariff on a product.

What will be the change in domestic production?



A a reduction of WV

B a reduction of XV

C a reduction of XW

D a reduction of ZY

22 Which item is recorded in the financial account of a country's balance of payments?

A a receipt of a gift of cash from abroad

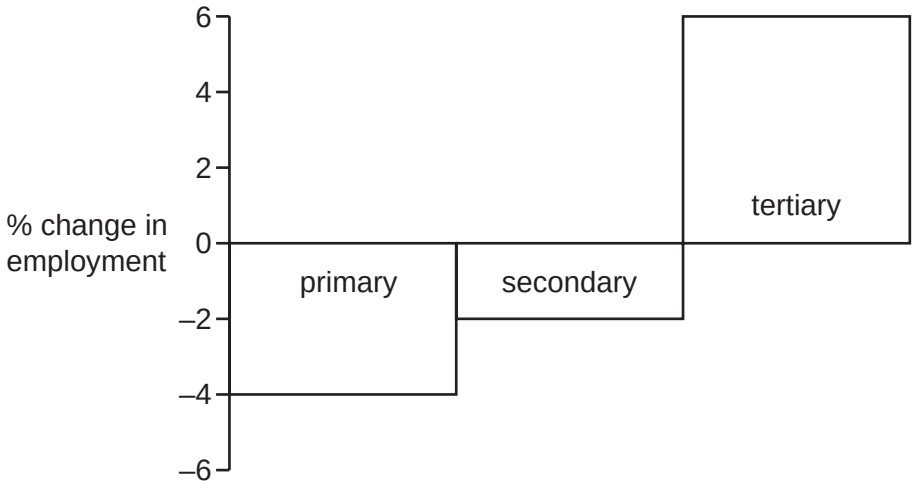
B a receipt of a subsidy from abroad

C a receipt of interest from abroad

D a receipt of funds for long-term investment from abroad

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23 The chart shows changes in employment by sector for a country between 2000 and 2006.



Which statement about the period 2000 to 2006 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 A country's Consumer Price Index increased from 100 to 200 over a five-year period.

What can be deduced from this?

A The economy experienced creeping inflation.

B The standard of living halved.

C The cost of living fell by 50 %.

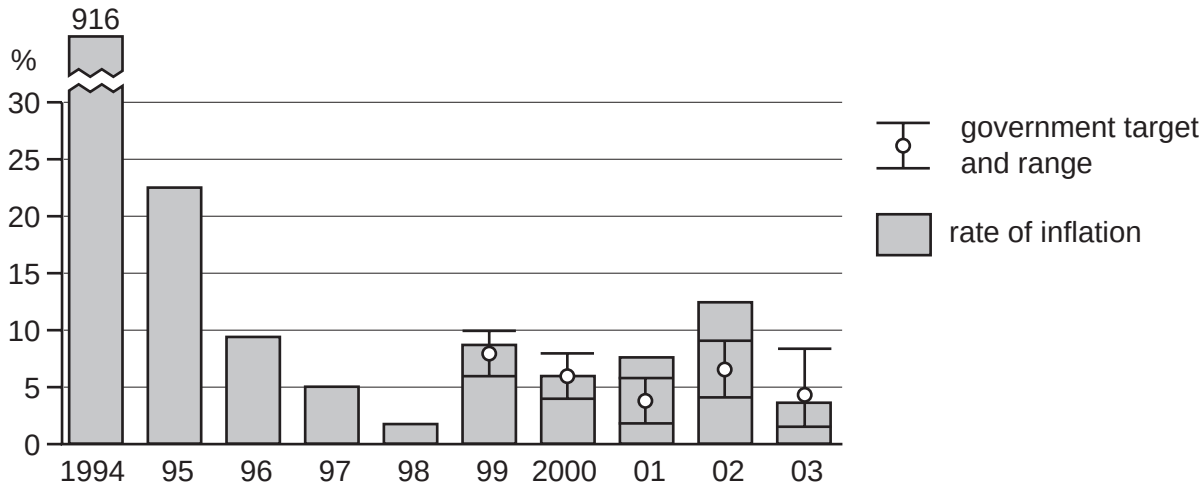
D The purchasing power of money halved.

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25 Before 1999 the Brazilian government did not have a desired target rate of inflation. From 1999 it set target rates within an upper and lower boundary.

The diagram shows the rate of inflation between 1994 and 2003 and the target rate between 1999 and 2003.

Inflation and inflation targets in Brazil, 1994 to 2003



What can be concluded from the diagram?

A The Brazilian government achieved its target in each year from 1999 to 2003.

B The inflation target was continuously reduced.

C The lowest level of inflation was achieved when an inflation target was used.

D The inflation rate was more stable after inflation targets were introduced.

26 What is the likely effect on the volume of exports and imports if a country with a fixed exchange rate experiences a higher rate of inflation than its trading partners?

	exports	imports
A	increase	decrease
B	decrease	increase
C	increase	increase
D	decrease	decrease

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27 In 2004, when international demand for oil was high, Bolivia encouraged investment by foreign firms in order to exploit its oil and gas resources, mainly to improve its balance of payments position.

What impact would this have on the balance of payments of Bolivia?

A definitely favourable, as Bolivia could increase its exports of gas and oil

B definitely unfavourable, as the foreign companies would transfer profits out of the country

C uncertain, as there would be inflows and outflows of currency

D zero, as Bolivia itself would use the gas and oil produced

28 What is **most** likely to cause Australia's exchange rate to depreciate?

A an increase in Australia's demand for imports

B an increase in Australia's interest rate

C an increase in demand for Australia's exports

D an increase in tourist visits to Australia

29 The table shows observations of the exchange rate of an economy and its current account balance over six years.

year	exchange rate (US dollars per unit of domestic currency)	current account balance (billions of US dollars)
1	2.0	–3
2	1.5	–5
3	1.5	–4
4	1.5	–3
5	1.5	0
6	1.5	+3

Which concept does the data in the table illustrate?

A exchange rate appreciation

B purchasing power parity

C the J-curve effect

D trade-weighted exchange rates

30 A country has a current account deficit.

Which component of its current account balance will be made less favourable as a direct result of a decision by the central bank to increase interest rates?

A net investment income

B net current transfers

C the balance of trade in goods

D the balance of trade in services

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