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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 2009**

1 hour

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

* 5 5 7 4 1 6 3 9 0 *

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 Three women work in a pottery workshop, each dividing their time equally between three products. The table shows how many units of each product are made.

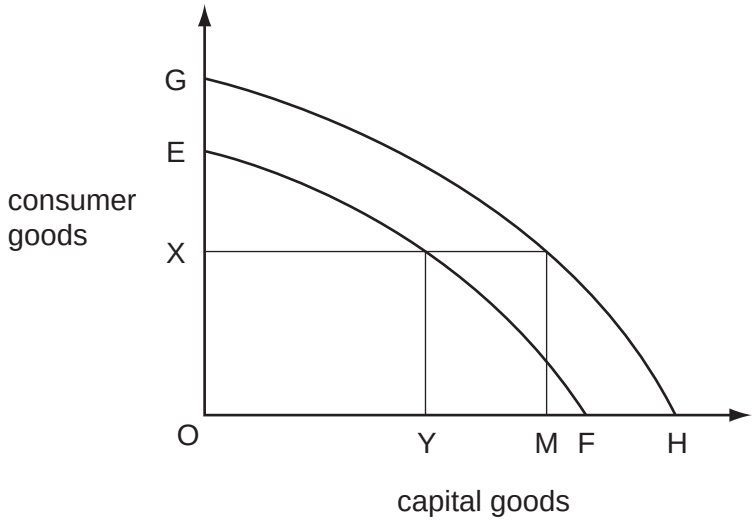
	plates	bowls	mugs
Jane	100	50	50
Sarah	50	100	50
Seema	50	50	100
total	200	200	200

Later, division of labour is introduced and each woman makes only the product in which she has absolute advantage.

What is the rise in total output?

A 150 units **B** 300 units **C** 600 units **D** 900 units

2 The diagram shows two production possibility curves (EF and GH), before and after technological progress has taken place.



After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

A MH **B** OH **C** OM **D** YF

3 What must be true of a positive statement?

A It is one that can be shown to be correct or incorrect.

B It is one that deals with positive changes in economic well being.

C It is one that is true by definition.

D It is one with which everyone is in agreement.

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4 In 2001, the Argentinian economy was in serious economic difficulties. At this time, Argentinians made everyday purchases using the country's currency, the peso, but saved money in US dollars.

Which functions were the two currencies carrying out in Argentina in this case?

	peso	US dollar
A	medium of exchange	standard for deferred payments
B	medium of exchange	store of value
C	unit of account	standard for deferred payments
D	unit of account	store of value

5 What is **not** held constant when aggregating individual firms' supply curves to give the market supply curve?

A the number of firms in the industry

B the price of the product

C the prices of factors of production

D the state of technology

6 The table shows the demand for tickets for a concert.

price of tickets $	quantity demanded
20	6000
30	5000
40	4000
50	3000

The capacity of the concert hall is 6000.

What price should be charged to maximise total revenue?

A $20 **B** $30 **C** $40 **D** $50

7 The table shows the demand and supply schedules for a good before and after the imposition of a tax.

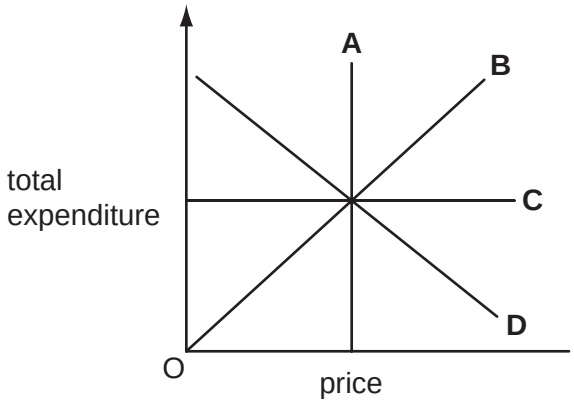
price ($)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

What was the amount of the tax?

A $1 **B** $2 **C** $3 **D** $4

8 The price elasticity of demand for a product is constant and equal to unity.

Which curve in the diagram shows the relationship between total expenditure on the product and its price?



9 In the UK, attempts to encourage people to change from road to rail travel by the introduction of a system of road pricing were forecast to fail because 'people like using their cars too much'.

How would this forecast be explained?

A The price elasticity of demand for cars is high.

B The price elasticity of demand for petrol is high.

C The price elasticity of demand for rail travel is low.

D The price elasticity of demand for car travel is low.

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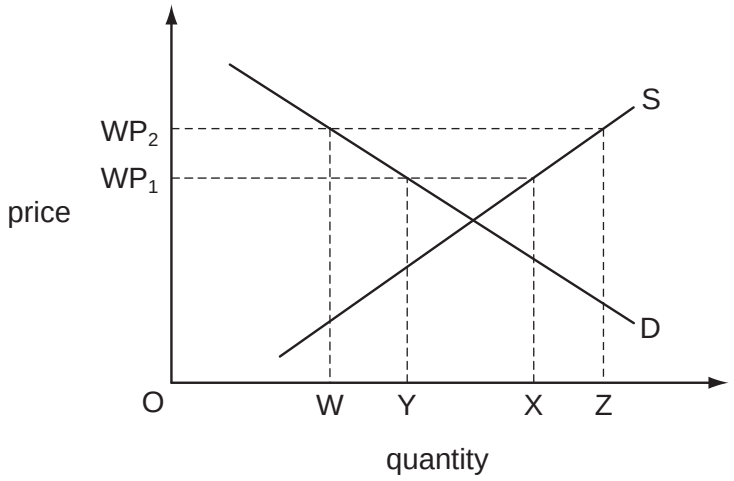
10 The table shows changes in a consumer's expenditure on various goods when his income increases from $20 000 to $24 000.

good	income $20 000: amount spent on good ($)	income $24 000: amount spent on good ($)
W	100	96
X	100	100
Y	200	224
Z	200	248

Assuming all else remains unchanged, for which goods is the consumer's income elasticity of demand greater than 1.0?

A W only **B** Z only **C** W and Z only **D** W, Y and Z

11 The diagram shows a country's domestic supply of, and demand for, a commodity that it both consumes and exports.



The world price changes from WP_1 to WP_2.

What are the resulting changes in domestic consumption and exports?

	domestic consumption	quantity of exports
A	OX to OZ	OY to OX
B	OX to OZ	OY to OZ
C	OY to OW	YX to WZ
D	OY to OW	YX to OZ

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12 Between 2006 and 2007, the price of skimmed milk powder on the world market rose from $1000 per tonne to $2400 per tonne.

Assuming that the market is a free market, what will result from the price change?

A Consumers will buy more complements to skimmed milk powder.

B Farmers will increase the size of their dairy herds to supply more milk.

C Firms processing milk into skimmed milk will switch to producing substitutes.

D Governments will introduce a system of rationing.

13 Which statement indicates that the price mechanism is allocating resources successfully?

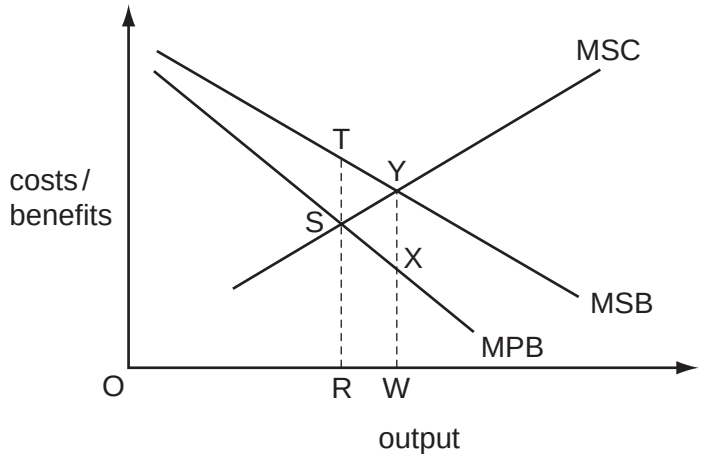
A Belgian chocolate companies increase supplies to China because of higher than expected sales.

B Train operators in India lower fares because of overcrowding on trains.

C US supermarkets throw away large amounts of food because of misjudging demand.

D World fish stocks decline because of over-fishing.

14 A government is planning to intervene in a market to fix output at the economically desirable level by giving a subsidy.



To achieve its objective, what should be the subsidy per unit?

A ST **B** SX **C** TY **D** XY

15 A town council estimated the costs and benefits of operating a bus service in 2006 and 2007. These are shown in the table.

	2006 $000	2007 $000
private costs	2000	2200
external costs	500	900
private benefits	1500	2300
external benefits	1000	800

What can be concluded from the table?

A Between 2006 and 2007, social costs fell and social benefits rose.

B Between 2006 and 2007, social costs rose and social benefits fell.

C In both years, positive externalities exceeded negative externalities.

D In both years, social costs equalled social benefits.

16 When would cost-benefit analysis definitely indicate that a government project should be approved?

A if it eliminated all external costs

B if it gave a higher rate of return than a private sector project

C if it maximised net social benefit

D if it minimised total social cost

17 Why does the production of public goods have to be financed by the government?

A One person's consumption of a public good means it is not available for anyone else.

B People are able to consume public goods without paying for them.

C Private sector firms will charge a price significantly above cost for public goods.

D The cost of producing public goods is higher in the private sector.

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18 The market price of an agricultural commodity was so low that the government fixed a minimum price for it above the market equilibrium price. However, the government did not buy any of the commodity itself.

What would happen as a result?

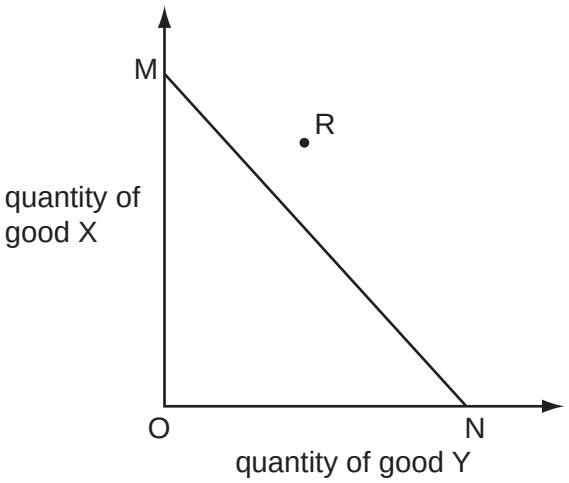
A There would be an equilibrium in the market but the change in farmers' incomes would be uncertain.

B There would be a shortage on the market and farmers' incomes would rise.

C There would be a surplus on the market and farmers' incomes would fall.

D There would be a surplus on the market but the change in farmers' incomes would be uncertain.

19 In the diagram, MN is the production possibility curve of a country that has a comparative advantage in the production of good Y.



What might enable the country to consume the quantities of X and Y indicated by point R?

A increased specialisation in the production of good X

B international trade

C a reduction in unemployment

D increased specialisation in the production of good Y

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20 Japan introduces import quotas on consumer durables imported from Malaysia. These goods have a high price elasticity of demand.

What effect is this likely to have on the prices paid for these goods by Japanese consumers and on the revenues received by Malaysian producers?

	change in prices paid by Japanese consumers	change in revenues received by Malaysian producers
A	decrease	uncertain
B	decrease	increase
C	increase	decrease
D	increase	uncertain

21 Which statement about economic integration is correct?

A A customs union has a common currency.

B A customs union has a common external tariff.

C A free trade area has internal trade barriers.

D A free trade area has no external trade barriers.

22 Since 2000 a country's export prices have increased on average by 50 % and its import prices by 25 %.

What is the current figure for the country's terms of trade (2000 = 100)?

A 75 **B** 83 **C** 120 **D** 125

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

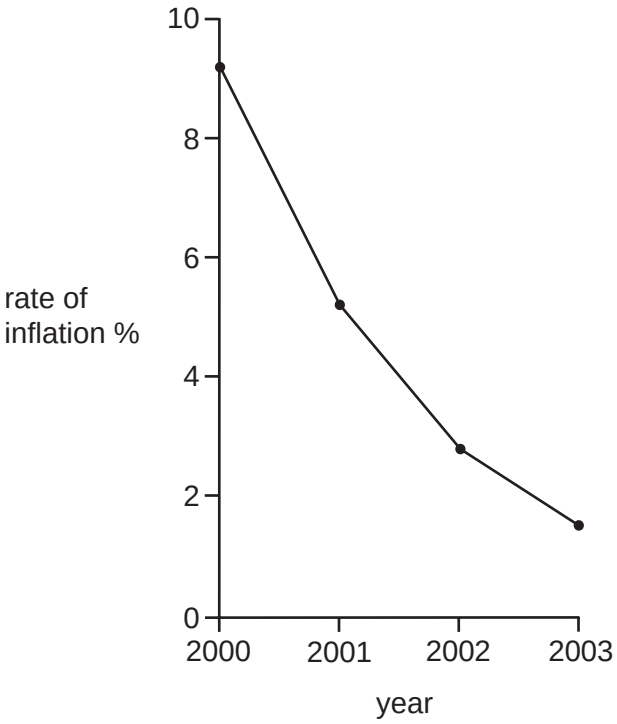
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24 What is the average weighted price change illustrated by the table below?

product	percentage of income spent on product	price change %
P	10	+8
Q	15	+6
R	25	+4
S	50	–9

A 9.0 % **B** 7.2 % **C** 4.5 % **D** –1.8 %

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 Prices Index fell.

D The value of money rose.

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26 A developed country has a price-inelastic demand for oil, all of which it imports. The oil-producing countries decide to provide more oil to the market.

What is likely to happen as a result in the developed country to inflation, its balance of trade and the quantity of oil demanded?

	inflation	balance of trade	quantity of oil demanded
A	less likely	improves	rises
B	less likely	worsens	rises
C	more likely	improves	falls
D	more likely	worsens	falls

27 Why is it that a country's balance of payments must always balance?

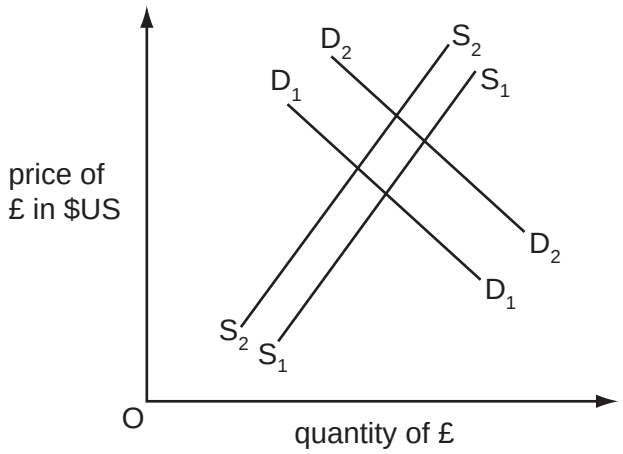
A Exchange rate changes will correct any deficit or surplus.

B One country's deficit is matched by another's surplus.

C The current account is balanced by the capital and financial accounts.

D The government must act to correct any disequilibrium.

28 In the diagram, D_1D_1 and S_1S_1 are the initial demand and supply curves of the pound sterling (£) on the foreign exchange market.



What will cause the demand curve to shift to D_2D_2 and the supply curve to S_2S_2?

A an appreciation of the pound

B an increase in UK interest rates

C a reduction in the level of UK import tariffs

D a reduction in the quality of UK goods

29 With an exchange rate of 5 Egyptian pounds (EGP) = 1 US dollar ($), an American product sells in Egypt for EGP 100.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound appreciates to 4 EGP = 1 US$?

A EGP 75 **B** EGP 80 **C** EGP 120 **D** EGP 125

30 A country has a large current account deficit. Its government decides to devalue its currency.

In which circumstance would such a measure reduce the deficit?

	price elasticity of demand for exports	price elasticity of demand for imports
A	0.0	0.0
B	0.0	0.5
C	0.5	0.5
D	0.5	1.0

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