www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice (Core) **May/June 2012**

1 hour

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

8903782144

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 **13** printed pages and **3** blank pages.

© UCLES 2012

1 The term ‘transition economy’ is used to describe a country that is

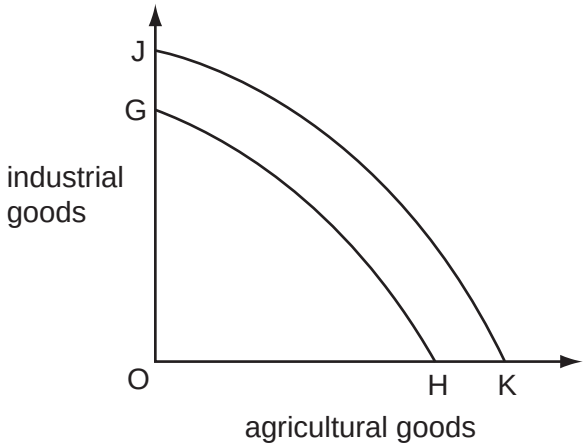
A adopting capital-intensive methods in place of labour-intensive methods.

B moving from central planning towards the market system.

C replacing a trade deficit with a trade surplus.

D substituting manufacturing output for agricultural output.

2 In the diagram, JK is an economy’s production possibility curve.



What could cause the curve to shift to GH?

A a decrease in innovation

B an increase in the retirement age

C an increase in the price of energy

D an increase in the unemployment rate

3 What is the opportunity cost to a fully employed economy of increasing capital investment?

A a fall in consumption

B a fall in income

C a rise in saving

D a rise in the rate of interest

© UCLES 2012

4 Skilled actors deserve to receive a high income because they bring pleasure to people who attend the theatre.

What can be concluded about this statement?

A It is a normative statement because both services and goods are economic outputs.

B It is a normative statement because it expresses an opinion.

C It is a positive statement because actors do bring pleasure to people.

D It is a positive statement because greater skill results in higher pay.

5 What is a market demand curve?

A the demand for all of a country's products

B the total sum of individual demand curves for a product

C the output of all the firms in an industry

D the stocks of a particular good available for sale

6 A good has a unitary price elasticity of demand and at a price of $20 a firm sells 40 000 units.

How many will the firm sell if it charges a price of $5?

A 10 000 **B** 100 000 **C** 160 000 **D** 200 000

7 The cross elasticity of demand between two products, X and Y, is negative.

What would be the immediate effect of a rise in the price of product Y?

A Quantity demanded of product X will fall.

B Supply of product X will rise.

C The cross elasticity of demand will rise.

D The price of product X would rise.

© UCLES 2012

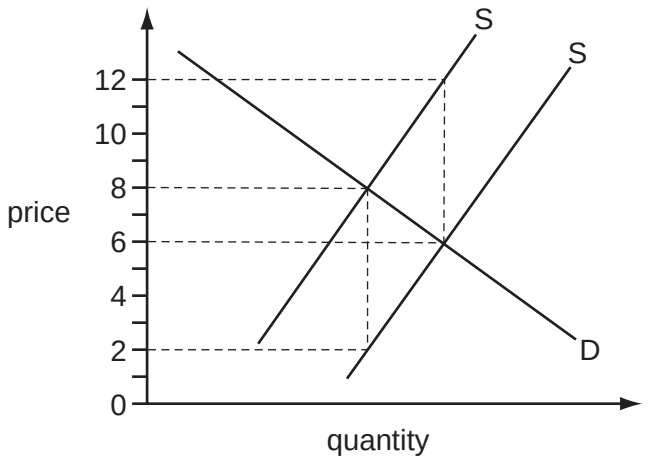
8 The table gives the short-run supply schedules of three firms X, Y and Z, which comprise an industry.

price	quantity supplied (units)		
($)	firm X	firm Y	firm Z
1	200	–	–
2	300	100	–
3	400	160	140
4	500	300	200

Which is a point on the short-run supply schedule of the industry?

	price ($)	quantity supplied (units)
A	1	600
B	3	650
C	3	700
D	4	900

9 The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.



What is the tax per unit of output and what is the price after the removal of the tax?

	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

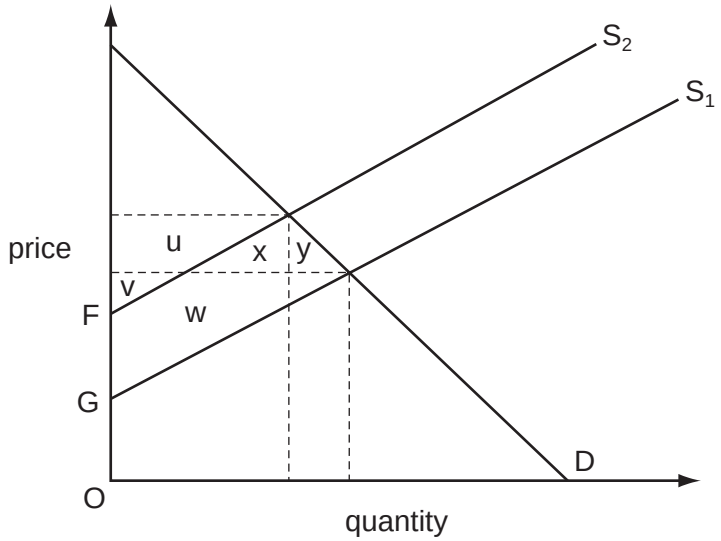
© UCLES 2012

10 The demand for a good falls at the same time as its costs of production decrease.

What will be the combined effect of these changes on the price and on the quantity supplied of the good?

	price	quantity supplied
A	decrease	decrease
B	decrease	uncertain
C	uncertain	decrease
D	uncertain	uncertain

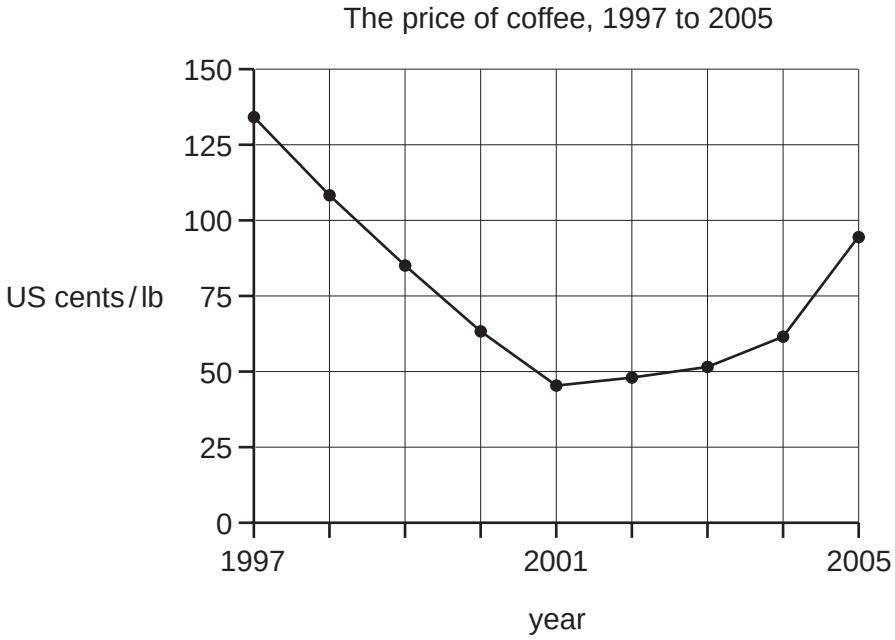
11 The diagram shows the effect of the imposition of a tax equal to FG on a commodity.



Which area represents the reduction in consumer surplus?

A u + v **B** u + x **C** u + x + y **D** x + w

12 The diagram shows the average world price of coffee in US cents per pound weight (lb) between 1997 and 2005.



Which event is consistent with the price behaviour shown in the specified time period?

A a continuous rise in the price of tea between 1997 and 2001

B the entry to the market of new producers of coffee between 1997 and 2001

C a series of good coffee harvests between 2001 and 2005

D increasing health worries about drinking coffee between 2001 and 2005

13 What is **not** a function of the price mechanism?

A to ensure that firms make profits

B to permit consumers to express their preferences

C to ration scarce resources

D to signal where resources are required

14 Which statement is correct?

A External cost equals social cost minus private cost.

B Private cost equals external cost minus social cost.

C Social cost equals external cost minus private cost.

D Social cost equals private cost minus external cost.

© UCLES 2012

15 In deciding whether to invest in a new project, what would be taken into account in government cost-benefit analysis but not by a private company?

A consultancy fees

B consumer surplus

C interest charges

D tax payments

16 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.

17 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.

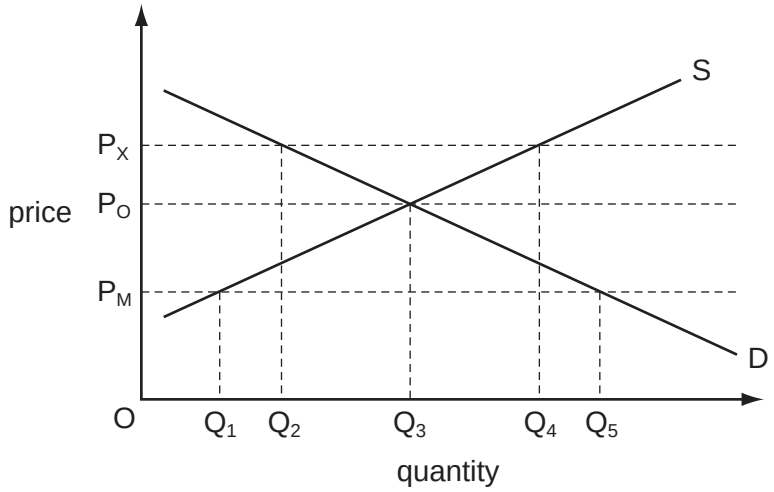
Which site would be chosen?

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

© UCLES 2012

[Turn over

18 The diagram shows the market for spectacles. Initially the market equilibrium price is P_O and quantity Q_3 is bought and sold.



The government then sets both a maximum price of P_X and a minimum price of P_M.

What effect will these measures have on the market for spectacles?

A create a shortage of spectacles equal to Q_1Q_5

B create a surplus of spectacles equal to Q_2Q_4

C create a surplus of spectacles equal to Q_3Q_4

D leave the quantity bought and sold unchanged

19 Thailand produces rubber at a lower opportunity cost than China. It does, however, import some rubber from China.

What could explain Thailand importing rubber from China?

A China imposes lower tariffs on rubber imports than Thailand.

B China is consuming increasing quantities of rubber in industry.

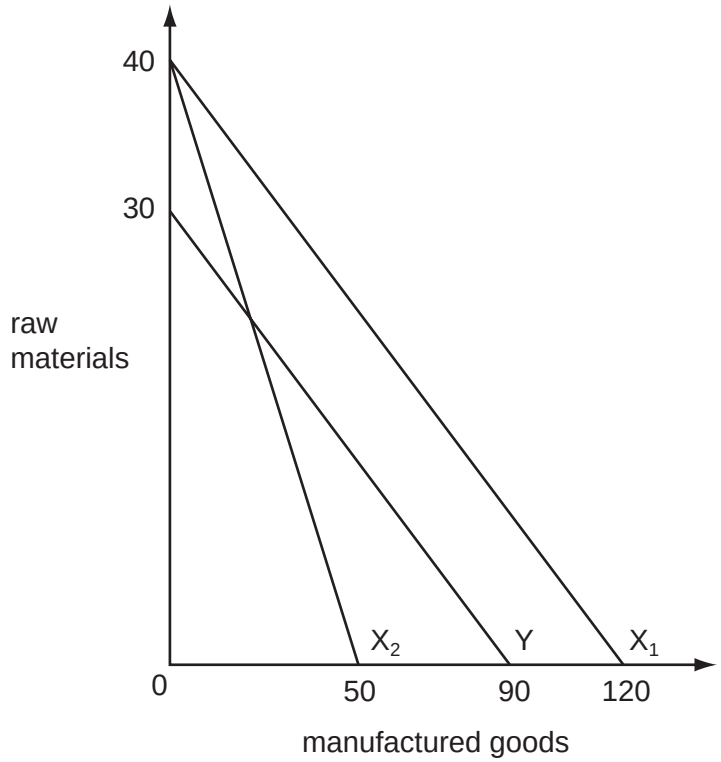
C Thailand has the absolute but not the comparative advantage in rubber production.

D Thailand wants to avoid the risks involved in overspecialising in rubber production.

© UCLES 2012

20 The diagram shows the production possibility curves for two countries, X and Y.

A decrease in productivity moves country X's production possibility curve from X_1 to X_2.



Which statement is correct?

A After the change X would export raw materials and import manufactured goods.

B After the change there is no economic basis for trade.

C Before the change Y had an absolute advantage in the production of raw materials.

D Before the change X had a comparative advantage in both products.

© UCLES 2012

21 The diagram shows that the imposition of a tariff raises price from $10 to $14.



What is the value of tax revenue raised?

A $80 million

B $160 million

C $320 million

D $400 million

22 A firm borrows money from a bank based abroad in order to pay a lower rate of interest than that available from banks in its own country.

Which two parts of the balance of payments accounts will be affected by this transaction?

A capital account and currency reserves

B capital account and trade in services

C financial account and net income flows

D financial account and net current transfers

© UCLES 2012

23 The table gives unemployment rates (%) for four countries in 1993 and 2002.

	UK	Japan	France	Italy
1993	10.5	2.5	11.4	10.1
2002	5.0	5.4	8.8	8.5

What can be deduced from the table?

A France had the lowest rate of employment in both years.

B Italy had the most employed people in 2002.

C Japan more than doubled its labour productivity between 1993 and 2002.

D The UK created the most jobs between 1993 and 2002.

24 In which year did the real value of money rise?

	year	Price Index (base year 2001)
A	2002	100
B	2003	104
C	2004	104
D	2005	103

25 A country experienced a significant fall in unemployment but its inflation rate remained low.

What could explain this?

A Global competition prevented firms passing on higher costs.

B Increased spending on imports had lowered the exchange rate.

C There was a low level of spare capacity in the economy.

D Wage rates had increased by more than labour productivity.

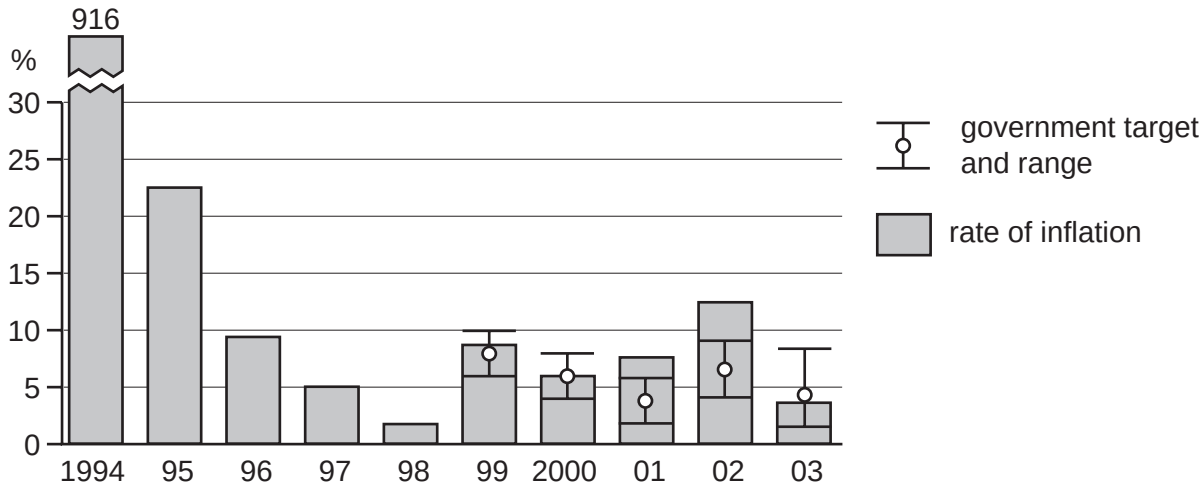
© UCLES 2012

[Turn over

26 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.

27 A government decides to reduce the quota on imported cars from 2000 to 1000 per year.

What is likely to happen?

A The balance of trade may improve.

B The demand for the good will increase.

C The good will become cheaper.

D The government's revenue will decline.

28 A representative basket of goods costs $2500 in the United States. The same basket of goods costs £2000 in the UK.

What can be deduced from this?

A The £ sterling is 25 % overvalued.

B The £ sterling is 20 % undervalued.

C The purchasing power parity exchange rate of the £ sterling is $0.80 to the £.

D The purchasing power parity exchange rate of the £ sterling is $1.25 to the £.

© UCLES 2012

29 The price of a good traded internationally increases.

Who would be disadvantaged the most?

A high income countries that pursue a policy of self sufficiency

B high income countries with a balance of payments surplus that export the good

C low income countries dependent on importing the good

D low income countries with alternative suppliers of the good

30 A country has a deficit on the current account of its balance of payments.

What might help the country to reduce its deficit?

A a decrease in its rate of income tax

B a decrease in its tariffs

C an increase in its level of employment

D an increase in its subsidies to exporters

© UCLES 2012

BLANK PAGE

© UCLES 2012

BLANK PAGE

BLANK PAGE

Copyright Acknowledgements:

Question 12 © *Coffee Price Volatility;* International Coffee Organization; www.ico.org/documents/icc-94-5e; 13 September 2005.
Question 23 © www.hm-treasury.gov.uk.
Question 26 © The Economist; 22 February 2003.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice (Core) **May/June 2012**

1 hour

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

* 8 7 8 9 5 3 4 1 4 2 *

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 **13** printed pages and **3** blank pages.

© UCLES 2012

1 What is a characteristic of a planned economy?

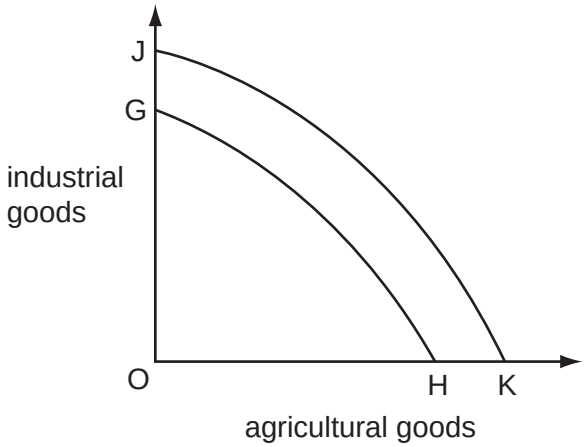
A All property is owned privately.

B All resources are allocated centrally.

C Supply and demand always determine prices.

D There is competition in most markets.

2 In the diagram, JK is an economy's production possibility curve.



What could cause the curve to shift to GH?

A a decrease in innovation

B an increase in the retirement age

C an increase in the price of energy

D an increase in the unemployment rate

3 The growing domestic, agricultural and industrial demand for water is leading to a world shortage of water.

Which change would reduce this problem of water scarcity?

A an increase in demand for food

B an increase in population growth

C climate change which leads to lower rainfall

D more efficient water management

© UCLES 2012

4 What is considered as money if money is defined as anything which is always acceptable when paying for goods and services?

	credit cards	cheques	cash
A	yes	yes	no
B	yes	no	yes
C	no	no	yes
D	no	yes	no

5 What is a market demand curve?

A the demand for all of a country's products

B the total sum of individual demand curves for a product

C the output of all the firms in an industry

D the stocks of a particular good available for sale

6 The table gives the short-run supply schedules of three firms X, Y and Z, which comprise an industry.

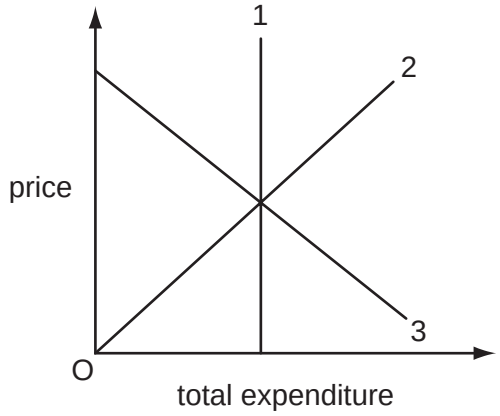
price ($)	quantity supplied (units)		
	firm X	firm Y	firm Z
1	100	–	–
2	150	50	–
3	200	80	70
4	250	150	100

Which is a point on the short-run supply schedule of the industry?

	price ($)	quantity supplied (units)
A	2	300
B	3	350
C	3	450
D	4	1150

© UCLES 2012

7 The diagram shows the relationship between total expenditure and price for three products, 1, 2 and 3.



Which curves represent the products with price elastic and unitary price elasticity of demand?

	elastic	unitary
A	1	2
B	2	3
C	3	1
D	3	2

8 The table shows the quantities demanded (Q) of goods X and Y corresponding to different prices (P) of the two goods.

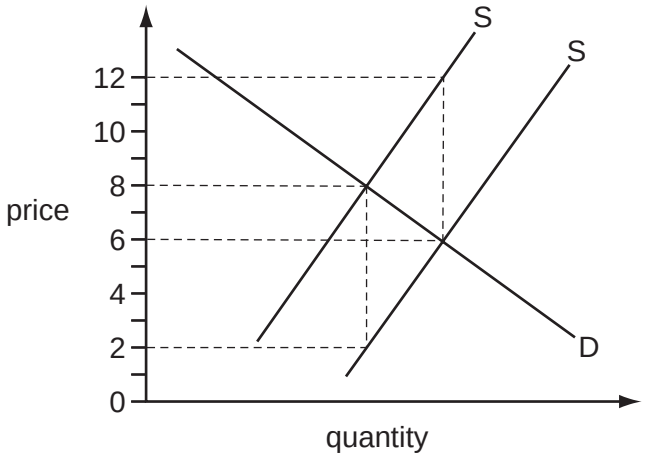
	P_X = \$8	P_X = \$10
P_Y = \$3	Q_X = 16 Q_Y = 20	Q_X = 12 Q_Y = 30
P_Y = \$4	Q_X = 20 Q_Y = 16	Q_X = 16 Q_Y = 24

Within which range is the value of the cross elasticity of demand for good Y with respect to the price of good X?

A 0.75 to 1.5 **B** 1.50 to 2.4 **C** 1.66 to 2.0 **D** 1.75 to 2.5

© UCLES 2012

9 The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.



What is the tax per unit of output and what is the price after the removal of the tax?

	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

10 The demand for a good falls at the same time as its costs of production decrease.

What will be the combined effect of these changes on the price and on the quantity supplied of the good?

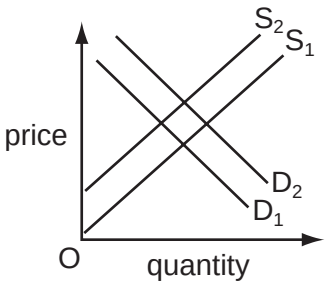
	price	quantity supplied
A	decrease	decrease
B	decrease	uncertain
C	uncertain	decrease
D	uncertain	uncertain

© UCLES 2012

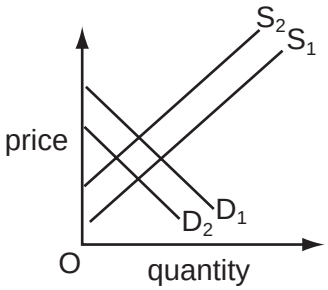
11 The diagrams show a change in demand from D_1 to D_2 and a change in supply from S_1 to S_2 for four different goods.

Which diagram illustrates the good for which additional new uses have been found and which receives an increase in government subsidy?

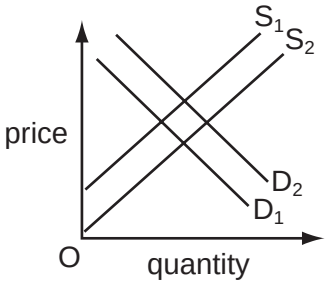
A



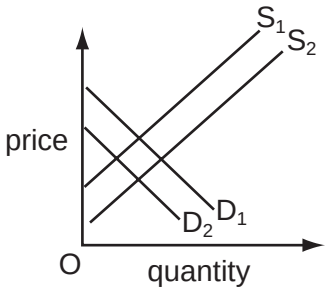
B



C



D



12 The table shows the maximum amount three students would each be willing to pay for a taxi to take them home from a night club.

	$
Jane	10.00
Sara	8.00
Yasmin	6.00

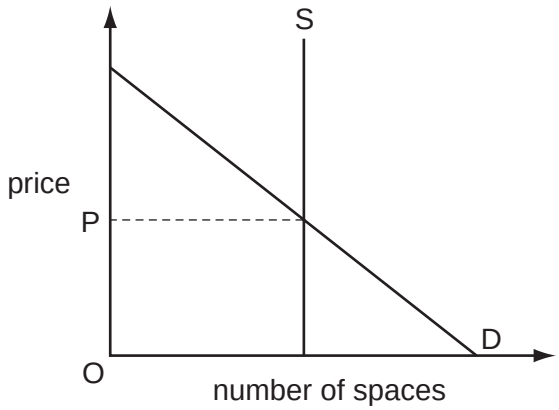
Assume they share the taxi fare as shown in the table below.

Which shows how much they each should pay so that they each obtain the same consumer surplus?

	Jane $	Sara $	Yasmin $
A	2.00	4.00	6.00
B	4.00	4.00	4.00
C	5.00	4.00	3.00
D	6.00	4.00	2.00

© UCLES 2012

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.

What is required 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 Which statement is correct?

A External cost equals social cost minus private cost.

B Private cost equals external cost minus social cost.

C Social cost equals external cost minus private cost.

D Social cost equals private cost minus external cost.

15 In deciding whether to invest in a new project, what would be taken into account in government cost-benefit analysis but not by a private company?

A consultancy fees

B consumer surplus

C interest charges

D tax payments

© UCLES 2012

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

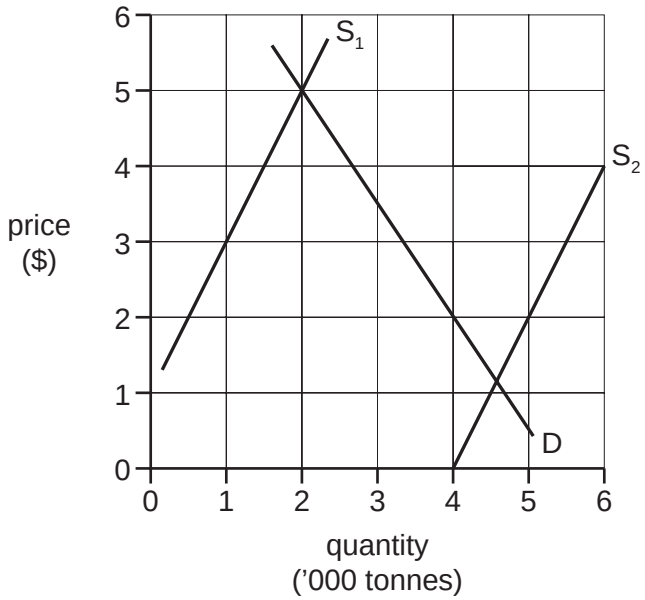
A One person's consumption of a public good means it is not available for anyone else.

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.

17 In the diagram, D is the demand curve for an agricultural commodity and S_1 is the initial supply curve.



A good harvest causes the supply curve to shift to S_2.

By how much will the demand curve have to shift to leave farm incomes unchanged?

A 500 tonnes

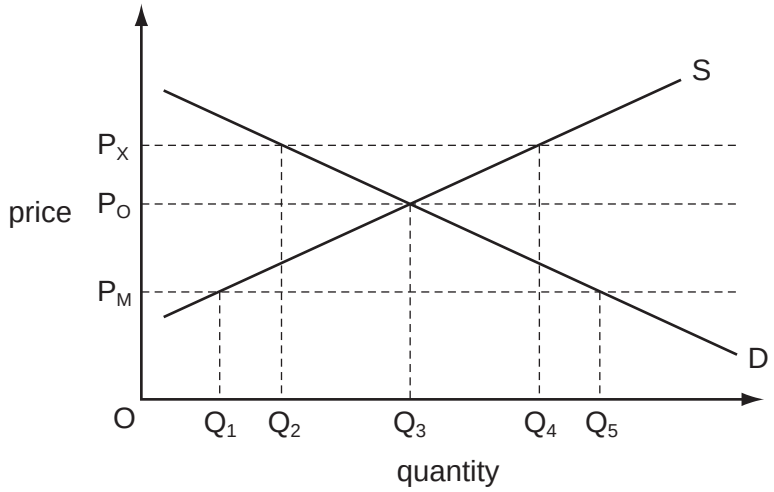
B 1000 tonnes

C 2000 tonnes

D 4000 tonnes

© UCLES 2012

18 The diagram shows the market for spectacles. Initially the market equilibrium price is P_O and quantity Q_3 is bought and sold.



The government then sets both a maximum price of P_X and a minimum price of P_M.

What effect will these measures have on the market for spectacles?

A create a shortage of spectacles equal to Q_1Q_5

B create a surplus of spectacles equal to Q_2Q_4

C create a surplus of spectacles equal to Q_3Q_4

D leave the quantity bought and sold unchanged

19 A country has a comparative advantage in producing spices.

Why may it choose **not** to specialise in spices?

A The country experiences a lower opportunity cost in producing spices than other countries.

B There are high tariffs imposed by other countries on the import of spices.

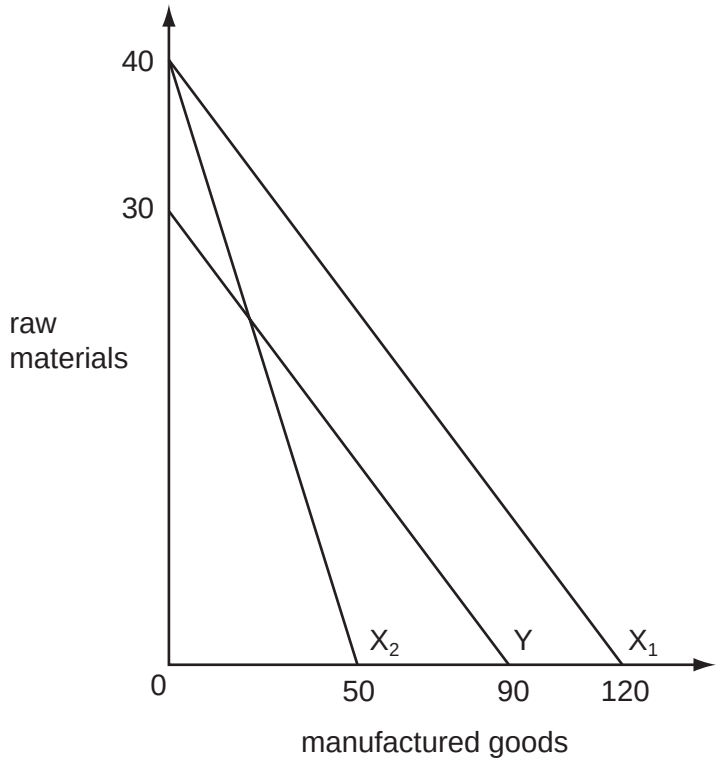
C There is a low cost of transporting spices to other countries.

D There is high world income elasticity of demand for spices.

© UCLES 2012

20 The diagram shows the production possibility curves for two countries, X and Y.

A decrease in productivity moves country X's production possibility curve from X_1 to X_2.



Which statement is correct?

A After the change X would export raw materials and import manufactured goods.

B After the change there is no economic basis for trade.

C Before the change Y had an absolute advantage in the production of raw materials.

D Before the change X had a comparative advantage in both products.

21 Which statement about the impact of a tariff and a quota is correct?

A A tariff leaves the quantity of imports unchanged while a quota decreases the quantity of imports.

B A tariff raises government revenue while a quota benefits the seller of the imports.

C A tariff raises the price of imports while a quota leaves import prices unchanged.

D A tariff shifts the supply curve of imports while a quota shifts the demand curve for imports.

© UCLES 2012

22 A firm borrows money from a bank based abroad in order to pay a lower rate of interest than that available from banks in its own country.

Which two parts of the balance of payments accounts will be affected by this transaction?

A capital account and currency reserves

B capital account and trade in services

C financial account and net income flows

D financial account and net current transfers

23 Which change would directly reduce the size of a country's labour force?

A Some employees are made redundant.

B Some employees change to self-employment.

C Some employees retire early.

D Some employees switch from full-time to part-time employment.

24 The figures show the Consumer Price Index (CPI) of a country. (1990 = 100)

	CPI
2007	200
2008	204
2009	206
2010	209

What can be deduced from the data?

A There was hyperinflation between 1990 and 2007.

B The rate of inflation rose in 2009.

C The rate of inflation in 2008 was 4 %.

D The country experienced inflation in each year from 2008 to 2010.

25 A country experienced a significant fall in unemployment but its inflation rate remained low.

What could explain this?

A Global competition prevented firms passing on higher costs.

B Increased spending on imports had lowered the exchange rate.

C There was a low level of spare capacity in the economy.

D Wage rates had increased by more than labour productivity.

© UCLES 2012

26 A country has a fixed exchange rate.

What is likely to result in an improvement in its balance of payments?

A a decrease in interest rates in foreign countries

B a decrease in the country's interest rates

C a decrease in the income of foreign countries

D an increase in the country's national income

27 A government decides to reduce the quota on imported cars from 2000 to 1000 per year.

What is likely to happen?

A The balance of trade may improve.

B The demand for the good will increase.

C The good will become cheaper.

D The government's revenue will decline.

28 A representative basket of goods costs $2500 in the United States. The same basket of goods costs £2000 in the UK.

What can be deduced from this?

A The £ sterling is 25 % overvalued.

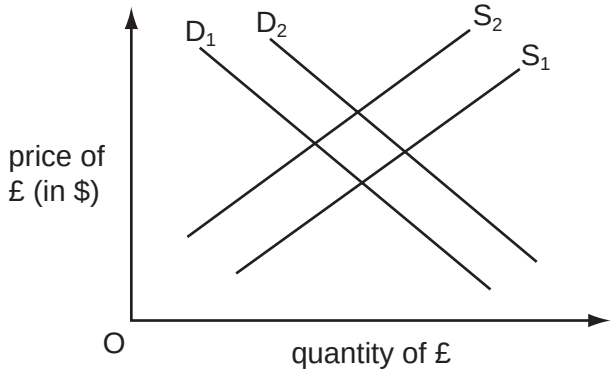
B The £ sterling is 20 % undervalued.

C The purchasing power parity exchange rate of the £ sterling is $0.80 to the £.

D The purchasing power parity exchange rate of the £ sterling is $1.25 to the £.

© UCLES 2012

29 In the diagram D_1 and S_1 are the initial supply and demand curves of the pound sterling (£) on the foreign exchange markets.



What will cause the demand curve to shift to D_2 and the supply curve to S_2?

A a depreciation of the pound sterling

B a decrease in UK interest rates

C an increase in the price levels of other countries

D an increase in the level of UK import tariffs

30 The currency of a country is fixed by the Central Bank at a certain value in terms of US dollars.

If currency devaluation is not possible, which policy might be used to reduce a current account deficit on the balance of payments?

A a decrease in interest rates

B a decrease in tax rates

C a decrease in tariffs on imports

D a decrease in public expenditure

© UCLES 2012

BLANK PAGE

© UCLES 2012

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2012

www.XtremePapers.com

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/13**

Paper 1 Multiple Choice (Core) **May/June 2012**

1 hour

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

1417870437

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 **13** printed pages and **3** blank pages.

© UCLES 2012

1 The term 'transition economy' is used to describe a country that is

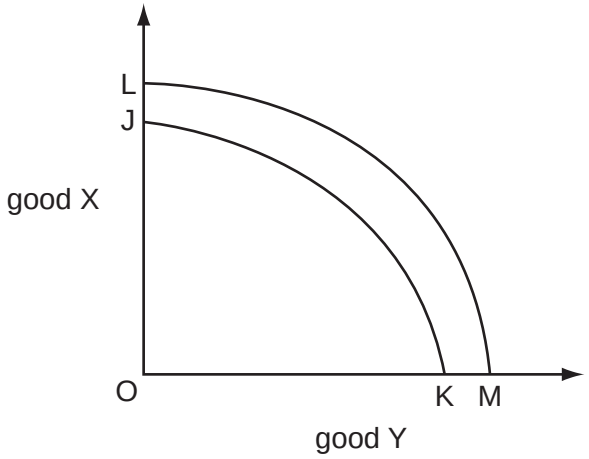
A adopting capital-intensive methods in place of labour-intensive methods.

B moving from central planning towards the market system.

C replacing a trade deficit with a trade surplus.

D substituting manufacturing output for agricultural output.

2 In the diagram, the curve JK is a country's production possibility curve.



What could cause the curve to shift to LM?

A a decrease in the participation rate

B a decrease in the unemployment rate

C an increase in the dependency ratio

D an increase in the population of working age

3 What is the opportunity cost to a fully employed economy of increasing capital investment?

A a fall in consumption

B a fall in income

C a rise in saving

D a rise in the rate of interest

© UCLES 2012

4 Skilled actors deserve to receive a high income because they bring pleasure to people who attend the theatre.

What can be concluded about this statement?

A It is a normative statement because both services and goods are economic outputs.

B It is a normative statement because it expresses an opinion.

C It is a positive statement because actors do bring pleasure to people.

D It is a positive statement because greater skill results in higher pay.

5 What is the definition of a normal good?

A one where the demand for the good is both price and income elastic

B one where the income elasticity of demand for the good is greater than zero

C one where the proportion of income a consumer spends on the good increases with a rise in income

D one where the quantity demanded increases when the price of the good falls

6 A good has a unitary price elasticity of demand and at a price of $20 a firm sells 40 000 units.

How many will the firm sell if it charges a price of $5?

A 10 000 **B** 100 000 **C** 160 000 **D** 200 000

7 The cross elasticity of demand between two products, X and Y, is negative.

What would be the immediate effect of a rise in the price of product Y?

A Quantity demanded of product X will fall.

B Supply of product X will rise.

C The cross elasticity of demand will rise.

D The price of product X would rise.

© UCLES 2012

8 The table gives the short-run supply schedules of three firms X, Y and Z, which comprise an industry.

price	quantity supplied (units)		
($)	firm X	firm Y	firm Z
1	200	–	–
2	300	100	–
3	400	160	140
4	500	300	200

Which is a point on the short-run supply schedule of the industry?

	price ($)	quantity supplied (units)
A	1	600
B	3	650
C	3	700
D	4	900

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

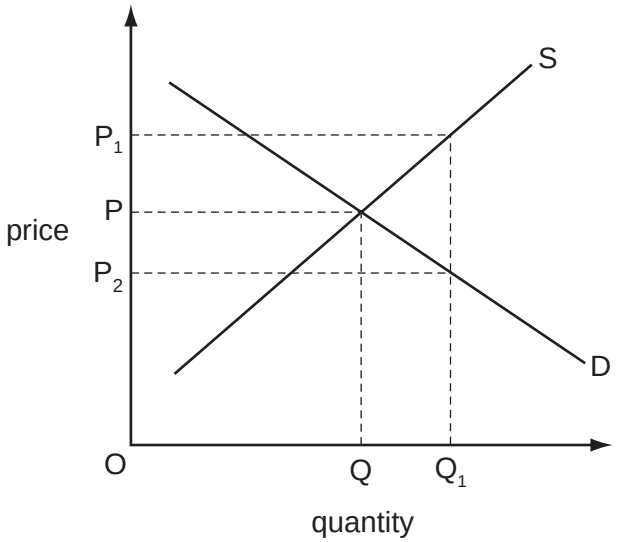
A 10 % increase in the price of tractors leads to an increase in output from firm X of 10 % and from firm Y of 20 %.

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

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

© UCLES 2012

10 The diagram shows the equilibrium price (OP) and quantity (OQ) in the market for maize.



The government wants to achieve a target price of OP_1.

What will be the outcome if the government enters the market and increases the demand by $Q\text{-}Q_1$?

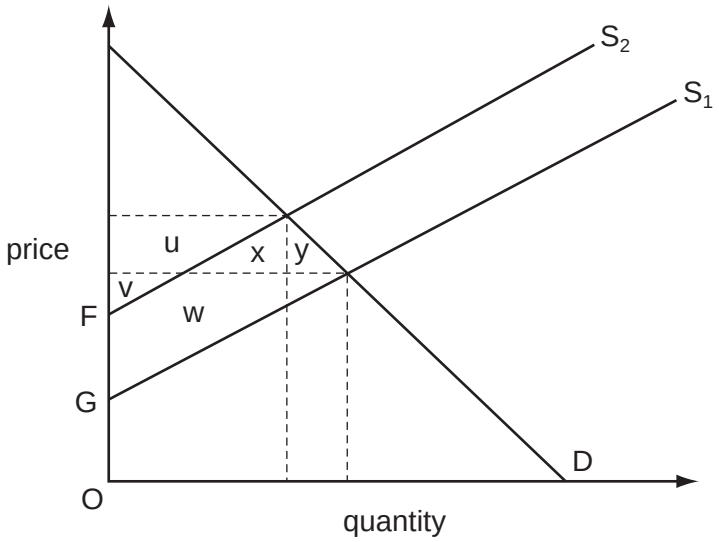
A The original equilibrium price will continue to operate.

B The equilibrium price will be at the target price.

C The equilibrium price will be OP_2.

D The equilibrium price will be between the target price and the original equilibrium price.

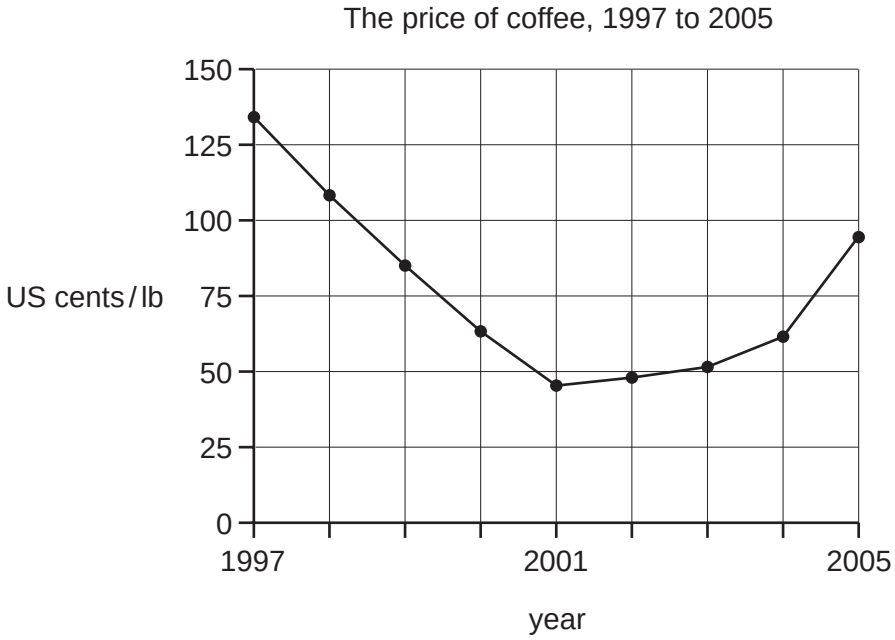
11 The diagram shows the effect of the imposition of a tax equal to FG on a commodity.



Which area represents the reduction in consumer surplus?

A u + v **B** u + x **C** u + x + y **D** x + w

12 The diagram shows the average world price of coffee in US cents per pound weight (lb) between 1997 and 2005.



Which event is consistent with the price behaviour shown in the specified time period?

A a continuous rise in the price of tea between 1997 and 2001

B the entry to the market of new producers of coffee between 1997 and 2001

C a series of good coffee harvests between 2001 and 2005

D increasing health worries about drinking coffee between 2001 and 2005

13 What is **not** a function of the price mechanism?

A to ensure that firms make profits

B to permit consumers to express their preferences

C to ration scarce resources

D to signal where resources are required

14 In Europe it was decided that farm subsidies would be paid to farmers who protect the environment as well as producing food.

What would this mean for farmers who receive the subsidy?

A They must not increase the price of food.

B They must not make excessive profits.

C They must take into account external costs as well as private costs.

D They should produce additional food only if externalities are zero.

© UCLES 2012

15 UK supermarkets can buy some vegetables at a lower price from Kenyan farmers than from UK farmers.

When the environmental damage caused by transporting the vegetables is taken into account, the social costs of UK supermarkets buying Kenyan vegetables is higher than the social costs of buying UK grown ones.

What can be concluded from this information about the buying by UK supermarkets?

A The external benefit of buying vegetables from Kenya is higher than buying them from the UK.

B The external cost of buying vegetables from Kenya is higher than buying them from the UK.

C The private cost of buying vegetables from Kenya is higher than buying them from the UK.

D The social cost of buying vegetables from Kenya is lower than buying them from the UK.

16 What can be calculated as part of a government cost-benefit analysis that would **not** be calculated by a firm seeking only to maximise profits?

A long-run cost

B monetary cost

C net social cost

D opportunity cost

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

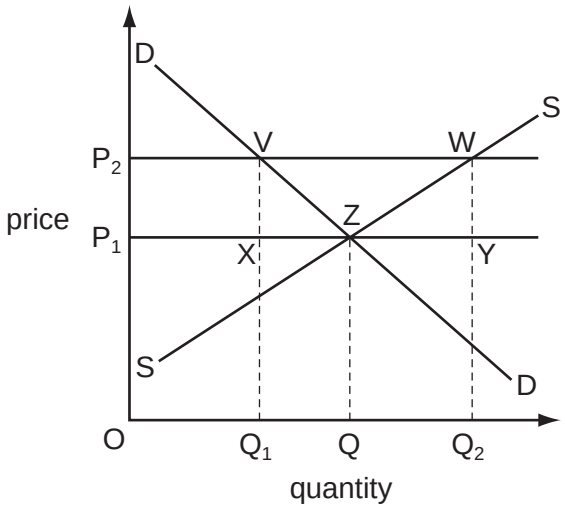
The benefits and costs of each site are shown in $m in the table.

Which site would be chosen?

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

© UCLES 2012

18 The diagram shows the market for apples. A government maintains a minimum price P_2 by buying apples.



Which area shows the amount of money the government has to spend to maintain the price P_2?

A P_2WYP_1 **B** P_2VQ_1O **C** P_2WQ_2O **D** VWQ_2Q_1

19 Thailand produces rubber at a lower opportunity cost than China. It does, however, import some rubber from China.

What could explain Thailand importing rubber from China?

A China imposes lower tariffs on rubber imports than Thailand.

B China is consuming increasing quantities of rubber in industry.

C Thailand has the absolute but not the comparative advantage in rubber production.

D Thailand wants to avoid the risks involved in overspecialising in rubber production.

20 Which argument supports trade protection?

A It might decrease domestic prices.

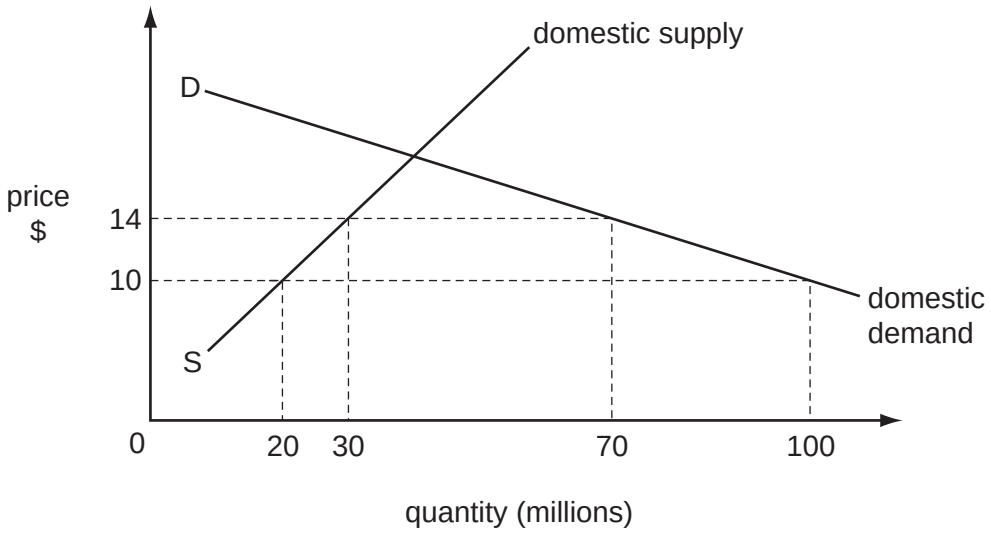
B It might help new industries.

C It might increase competition.

D It might increase specialisation.

© UCLES 2012

21 The diagram shows that the imposition of a tariff raises price from $10 to $14.



What is the value of tax revenue raised?

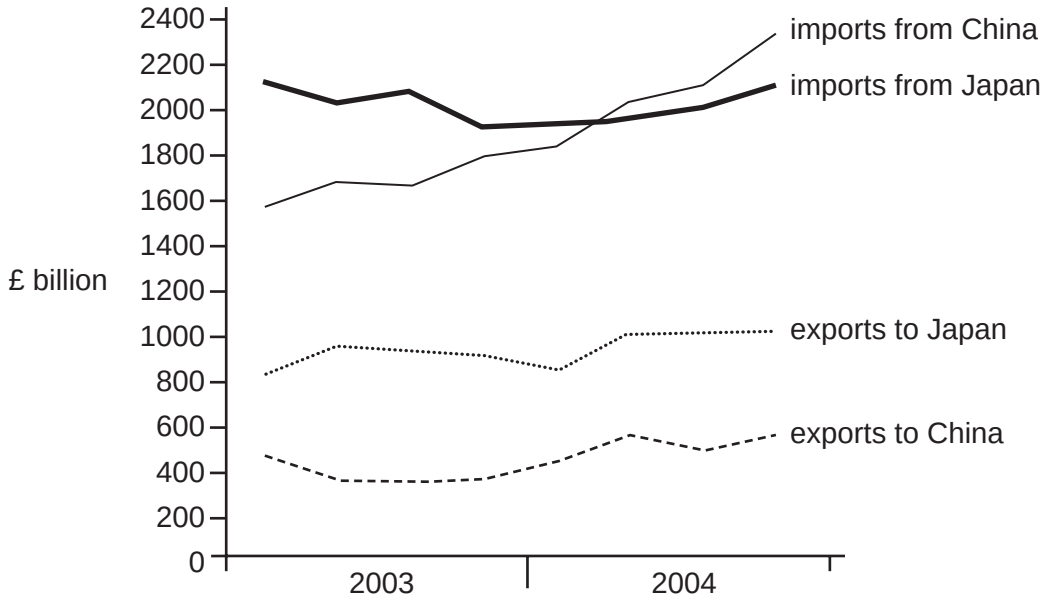
A $80 million

B $160 million

C $320 million

D $400 million

22 The diagram shows the UK trade balance with China and Japan in 2003 and 2004.



How did the trade balance of the UK change between the start of 2003 and the end of 2004?

A There was a fall in the trade surplus with China.

B There was a fall in the trade surplus with Japan.

C There was a rise in the trade deficit with China.

D There was a rise in the trade deficit with Japan.

23 The table gives unemployment rates (%) for four countries in 1993 and 2002.

	UK	Japan	France	Italy
1993	10.5	2.5	11.4	10.1
2002	5.0	5.4	8.8	8.5

What can be deduced from the table?

A France had the lowest rate of employment in both years.

B Italy had the most employed people in 2002.

C Japan more than doubled its labour productivity between 1993 and 2002.

D The UK created the most jobs between 1993 and 2002.

© UCLES 2012

24 In which year did the real value of money rise?

	year	Price Index (base year 2001)
A	2002	100
B	2003	104
C	2004	104
D	2005	103

25 The table shows the price indices and weights for the three commodity groups that make up the calculation of a country's consumer price index.

commodity group	index	weight
X	400	5
Y	120	3
Z	80	2

By how much has the cost of living increased since the base year?

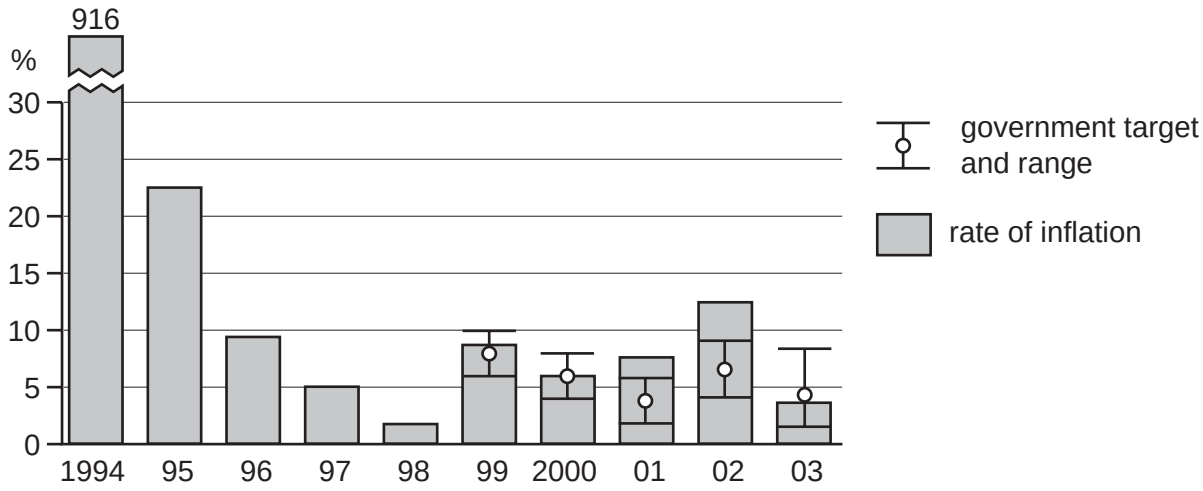
A 52 % **B** 60 % **C** 152 % **D** 520 %

© UCLES 2012

26 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.

27 The UK experienced a growing deficit in its trade in goods during 2003 to 2007 but it also had a stable exchange rate.

What could have explained why the trade deficit failed to cause the exchange rate to change?

A Investment income earned by foreigners in the UK was greater than that earned by UK residents on assets held abroad.

B Speculators anticipated that the trade deficit would result in a fall in the value of the pound.

C The UK's trade in goods deficit was larger than its trade in services surplus.

D The UK attracted a net inflow of foreign direct and portfolio investment.

© UCLES 2012

28 Assuming that the supply of exports and imports are perfectly elastic, at which combination of elasticities of demand for imports and exports would a 10 % fall in the value of a currency lead to a worsening of the trade account of a country's balance of payments?

	elasticity of demand for exports	elasticity of demand for imports
A	0.5	0.25
B	0.5	0.5
C	1.0	0.75
D	1.0	1.0

29 The price of a good traded internationally increases.

Who would be disadvantaged the most?

A high income countries that pursue a policy of self sufficiency

B high income countries with a balance of payments surplus that export the good

C low income countries dependent on importing the good

D low income countries with alternative suppliers of the good

30 A country has a deficit on the current account of its balance of payments.

What might help the country to reduce its deficit?

A a decrease in its rate of income tax

B a decrease in its tariffs

C an increase in its level of employment

D an increase in its subsidies to exporters

© UCLES 2012

BLANK PAGE

BLANK PAGE

BLANK PAGE

Copyright Acknowledgements:

Question 12 © *Coffee Price Volatility;* International Coffee Organization; www.ico.org/documents/icc-94-5e; 13 September 2005.
Question 22 © M Morris; *British Economy Survey;* Vol. 33; Spring 2004.
Question 23 © www.hm-treasury.gov.uk.
Question 26 © The Economist; 22 February 2003.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.