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 2013**

1 hour

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

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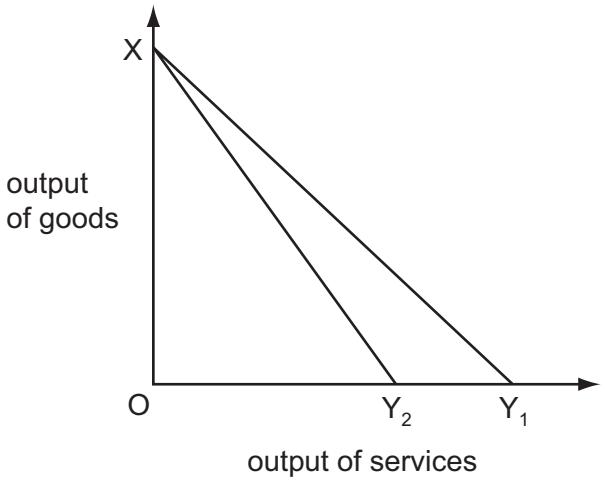
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1 The diagram shows the production possibility curve (PPC) of an economy that produces goods and services.



What might cause the shift of the PPC from XY_1 to XY_2?

A a decrease in the demand for services

B a decrease in the efficiency in the production of services

C a decrease in the opportunity cost of producing services

D a decrease in the resources employed in services

2 An economy has changed from a command economy to a market economy.

What might increase after this change?

A the amount of centralised decision making

B the extent of externalities

C the level of government economic intervention

D the production of merit goods

3 What is most likely to be a result from the division of labour?

A a decrease in job satisfaction

B a decrease in productivity

C an increase in the cost of living

D an increase in unit labour costs

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4 After hyperinflation, the Zimbabwe dollar was no longer used and instead the country used US dollars. A coin collector in Europe bought an old Zimbabwe 100 trillion dollar note at an auction in the hope that it would later become rare and increase in value.

If that happened, which function of money would the Zimbabwe dollar note fulfil?

A a generally accepted means of payment

B a medium of exchange

C a store of value

D a unit of account

5 In 2009, demand for second-hand used cars in Venezuela increased.

What could have explained this?

A a decrease in the number of Venezuelans passing their driving test

B a decrease in the price of public transport

C an increase in restrictions on new cars imported into Venezuela

D an increase in the domestic production of cars

6 The price elasticity of demand for a product is unitary for all price ranges.

What will be the effect of an increase in its price?

A an equal proportionate decrease in the amount demanded

B an equal proportionate decrease in expenditure on the product

C an increase in the product's percentage of total consumer expenditure

D no change in the amount of the product demanded

7 A fall in the price of cars causes the demand for petrol to rise by 20%. The cross-elasticity of demand between cars and petrol is –2.

Which change in car prices has brought this about?

	from	to
A	$6000	$5000
B	$5500	$4500
C	$5000	$4500
D	$5000	$4000

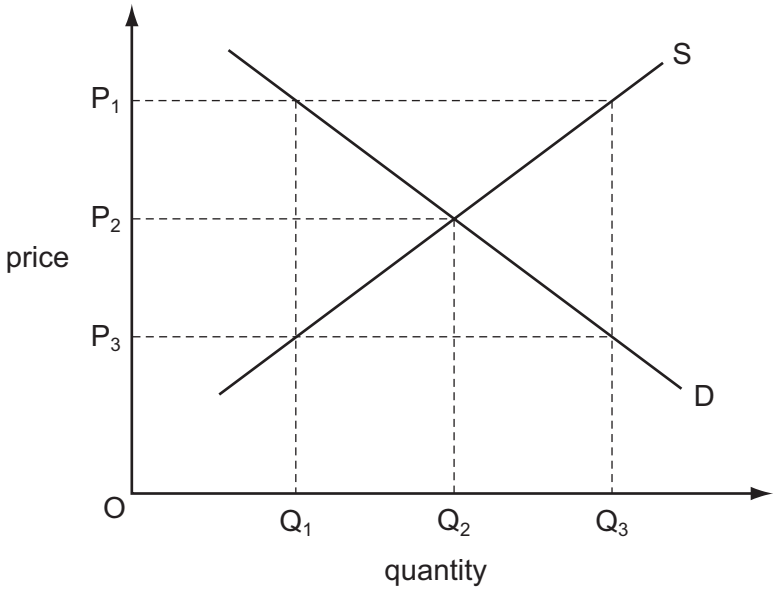
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8 In 2008, Ansell, makers of surgical products and rubber gloves, increased profits by 2.6 %, partly because of increased safety and health concerns in Brazil, Mexico, China and Russia.

What would happen to the demand and supply curves on a diagram for Ansell's products?

	demand curve	supply curve
A	a shift to the left	a shift to the left
B	a shift to the left	a shift to the right
C	a shift to the right	no change
D	no change	a shift to the left

9 Which combination of price and quantity will lead to a fall in price and a contraction in quantity produced to reach equilibrium?

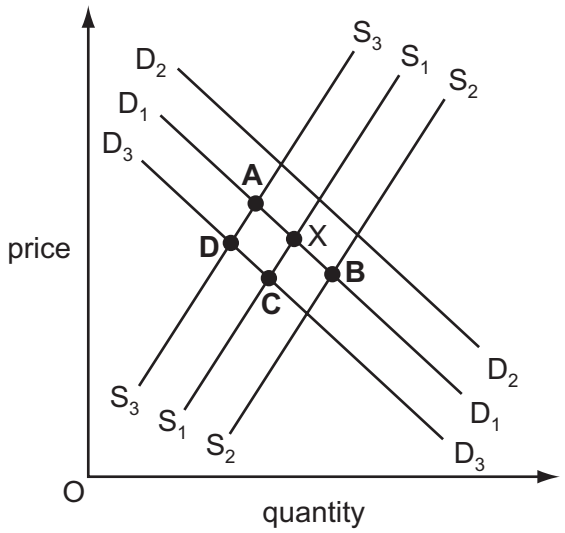


A P_1Q_1 **B** P_1Q_3 **C** P_3Q_1 **D** P_3Q_3

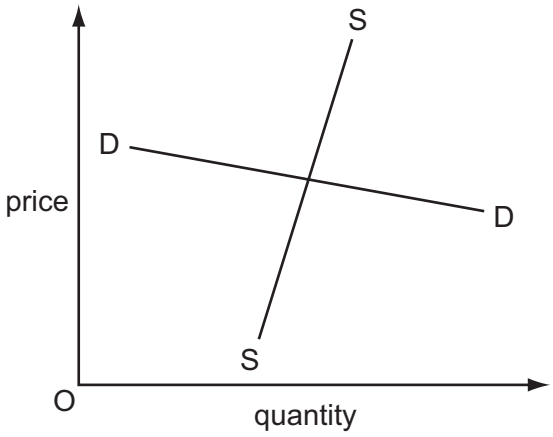
10 In the diagram below, D_1 and S_1 represent the demand and supply curves of a Malaysian industry in its home market. Equilibrium is at X.

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?



11 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?

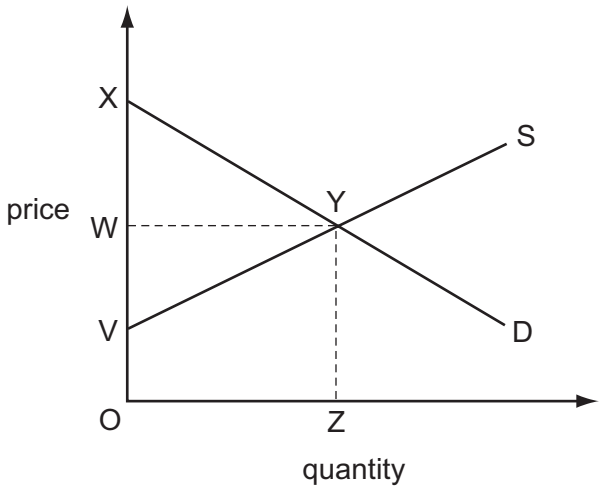
A Most of the incidence of the tax will fall on the producer.

B There will be a new demand curve 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.

12 The diagram shows the demand and supply curves for a product.



Which area measures the total amount consumers would be willing to pay for the equilibrium level of output?

A OWYZ **B** OXYZ **C** OVYZ **D** XYV

13 In which case is the price system **not** a possible method of allocating resources?

A in the distribution of foodstuff among the population

B in the hiring of workers by employers

C in the ownership of land for agricultural use

D in the provision of public goods by the government

14 A town council estimated the costs and benefits of operating a bus service in 2010 and 2011. These are shown in the table.

	2010 $000	2011 $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 2010 and 2011, social costs fell and social benefits rose.

B Between 2010 and 2011, 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.

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15 A cost-benefit analysis concludes that a nuclear power station project might be socially worthwhile, although it will take 10 years to bring into operation.

Why might a government decide **not** to undertake the project?

A Cost-benefit analysis has no method for valuing the long-term impact of a project.

B Cost-benefit analysis is only suitable for private sector projects.

C The government believes that the project has too high an opportunity cost.

D The government's policy is to restrict the extent of the market system.

16 A good is more likely to be supplied by the government rather than a private company if it is

A excludable and non-rival.

B excludable and rival.

C non-excludable and non-rival

D non-excludable and rival

17 A government fixes a maximum price for a product in order to increase its consumption.

What would be the likely outcome of such a policy?

A Consumption will fall if the maximum price is above the current equilibrium price.

B Consumption will rise if the maximum price is below the current equilibrium price.

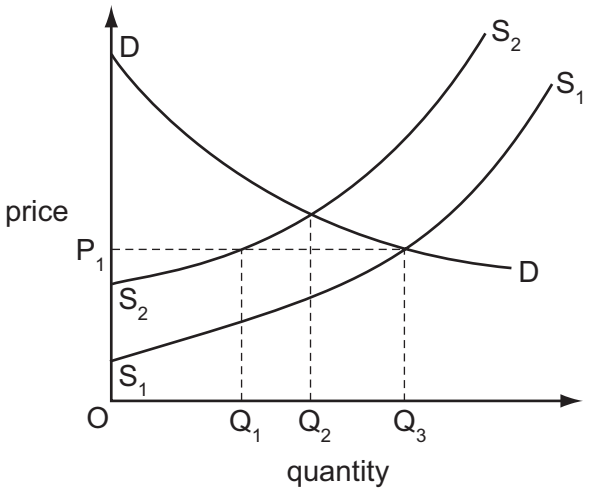
C Production will fall if the maximum price is above the current equilibrium price.

D Production will fall if the maximum price is below the current equilibrium price.

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[Turn over

18 In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.



Bad weather then reduces supply to S_2S_2.

How much of the product will the government have to supply from stocks if it wishes to keep the price at OP_1?

A OQ_3 **B** Q_1Q_3 **C** Q_1Q_2 **D** Q_2Q_3

19 What would cause a country to lose its comparative advantage in producing rice?

A Another country becomes able to produce rice at a lower opportunity cost.

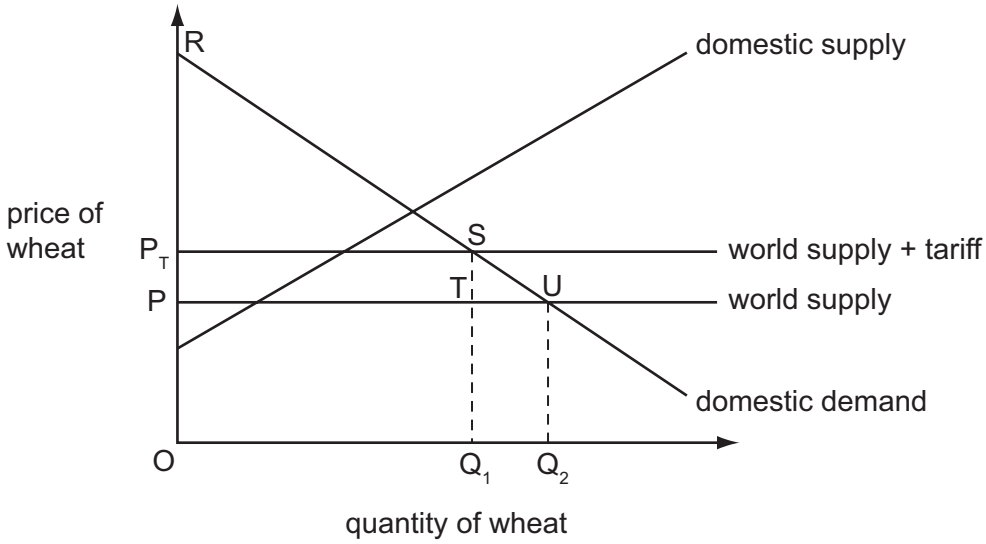
B There is a global fall in demand for rice.

C There is a fall in tariffs imposed by rice importers.

D Transport costs to and from another country producing rice decrease.

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20 The diagram shows the effects of introducing an import tariff on wheat in a country.



Which area represents the loss of consumer surplus from the tariff?

A P_TSR **B** P_TSUP **C** STU **D** SUQ_2Q_1

21 What is a feature of a customs union?

A the fixing of quotas for its members

B the introduction of a common currency

C the joint setting of prices

D the removal of tariff barriers between its members

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

	goods US$ m	services US$ m	income US$ m	current transfers US$ m
year 1	–72	84	12	–24
year 2	–87	46	–3	–4

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

A The current account balance has moved into deficit.

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

C The earnings from ownership of foreign assets have increased.

D The value of exported goods has fallen.

23 The table shows a country's employment statistics.

	million
population of working age	100
number in employment	75
number unemployed	5

What are the participation rate and the unemployment rate?

	participation rate %	unemployment rate %
A	75	5.0
B	75	6.25
C	80	5.0
D	80	6.25

24 The table shows the annual rate of inflation in the UK between 2005 and 2010 measured by the retail price index (RPI) and the consumer price index (CPI).

year	RPI (%)	CPI (%)
2005	2.8	2.1
2006	3.2	2.3
2007	4.3	2.3
2008	4.0	3.6
2009	–0.5	2.2
2010	4.6	3.6

What is a correct conclusion from the table?

A The RPI and the CPI both record a fall at some time in the general price level in the UK.

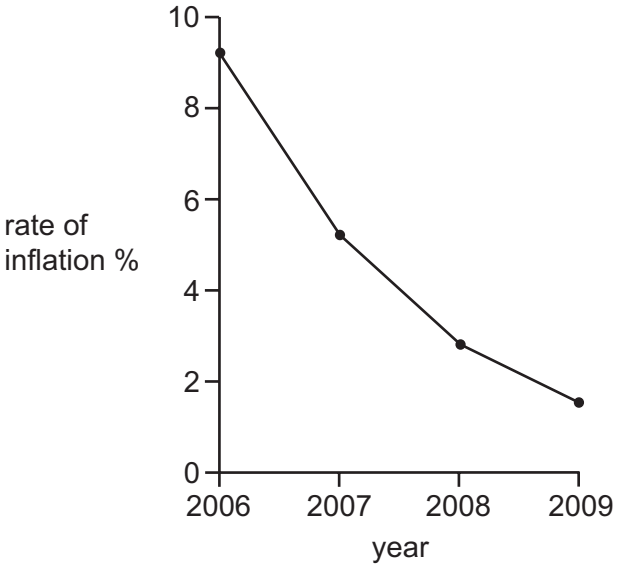
B The RPI and the CPI both show the same direction of change in inflation in each year.

C The RPI records a lower rate of total inflation for the whole period than the CPI.

D The RPI records a more unstable rate of inflation than the CPI.

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25 The diagram shows the annual rate of inflation in a country between 2006 and 2009.



Which statement about the period 2006 to 2009 is correct?

A The cost of living fell.

B The price level rose.

C The Retail Prices Index fell.

D The value of money rose.

26 If a country succeeds in attracting foreign direct investment in a single year, what is the result on its balance of payments in the short run and long run?

	short run	long run
A	a credit in the current account	a debit in the financial account
B	a debit in the current account	a credit in the financial account
C	a credit in the financial account	uncertain in the current account
D	uncertain in the financial account	a credit in the current account

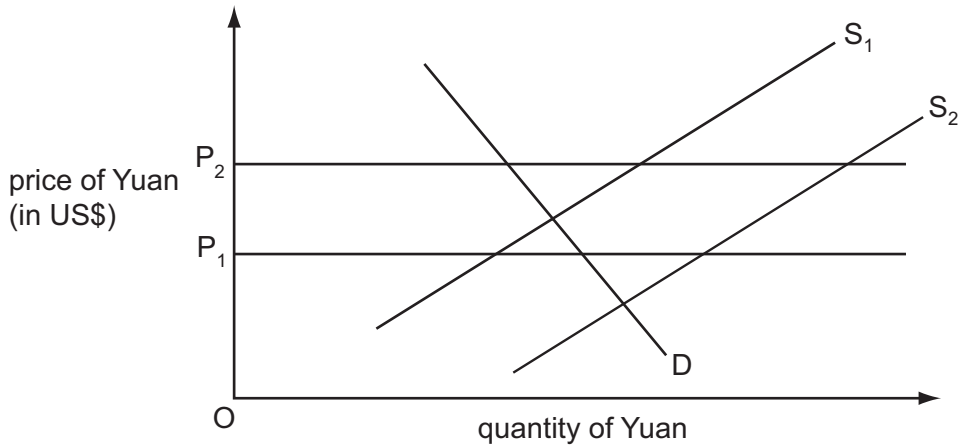
27 Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade weighted exchange rate index of country X is 100.

What will be its new trade weighted exchange rate index value if its currency falls in value by 20% against the currency of Y and rises by 10% against the currency of Z?

A 84 **B** 90 **C** 92 **D** 116

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28 Assume the Chinese monetary authorities are committed to maintaining the exchange rate of China's currency, the Yuan, against the US$ between P_1 and P_2 on the diagram.



What might they do if supply changed from S_1 to S_2?

A introduce controls on Chinese investment overseas

B lower interest rates

C remove tariffs on imports from USA

D sell Yuan on the foreign exchange markets

29 A revaluation (appreciation) of the exchange rate of a currency always has the effect of

A improving the current account of the balance of payments.

B improving the terms of trade.

C increasing the price of imports.

D increasing the value of imports.

30 What is an expenditure-switching policy measure?

A decreasing income tax

B decreasing the money supply

C devaluing the currency

D increasing government spending

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ECONOMICS **9708/12**

Paper 1 Multiple Choice (Core) **May/June 2013**

1 hour

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1 A government minister states that the main economic benefit of locating a new factory in a coastal region is the 500 jobs it will create.

What does this statement imply about the coastal region?

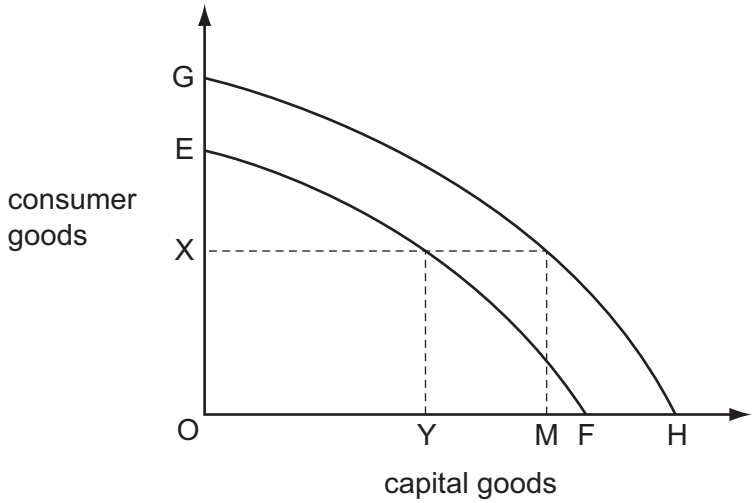
A Alternative employment opportunities are scarce.

B Job seekers have a wide range of choices open to them.

C Labour is a scarce resource.

D Unemployment is at a low level.

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 The table shows indicators for four countries undergoing a transition to a market economy.

Which country has achieved the most indicators of a successful transition?

	prices	exchange rate system	stock exchange	inward investment
A	administered	managed	yes	allowed
B	administered	floating	no	controlled
C	liberalised	floating	no	allowed
D	liberalised	managed	yes	controlled

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4 A kitchen manufacturer wanted to become more efficient. It decided to move to an industrial estate and to increase the division of labour in the manufacture of its products.

Which statement about the division of labour is correct?

A It occurs only in manufacturing industry.

B It occurs only in market economies.

C It occurs only when similar firms are located in the same area.

D It occurs only when workers become more specialised.

5 What will cause a shift in the demand curve for a computer?

A a change in the cost of production of the computer

B a change in the price of the computer

C a change in the performance of the computer

D the imposition of a specific tax on the computer

6 If the price of maize rises, the quantity of maize demanded should fall.

If the demand for maize decreases, the price of maize should rise.

What can be said about these two statements?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

7 When the supply of a good decreases, equilibrium price stays the same.

What is the price elasticity of demand of the good?

A –1

B zero

C +1

D infinite

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8 A product is an inferior good with no close substitutes. It is also a complement to good X.

Which product matches the above description?

product	price elasticity of demand	income elasticity of demand	cross elasticity of demand with respect to the price of X
A	–2	+2	+1
B	–2	+2	–1
C	–0.5	–2	+1
D	–0.5	–2	–1

9 A supply curve is represented by the equation, quantity supplied = 10 + 5P, where P = the price of the product.

Which price rise would cause the quantity supplied to double?

A $1 to $2 **B** $1 to $3 **C** $1 to $4 **D** $1 to $5

10 Firm Z is one of a number of firms producing televisions.

What would cause firm Z's supply curve to shift to the left whilst the market supply curve for televisions shifts to the right?

A Firm Z benefits more from advances in technology than the other firms in the industry.

B Firm Z experiences a strike whilst more firms enter the industry.

C Firm Z passes on more of a tax to its customers than the other firms in the industry.

D Firm Z reduces its costs of raw materials whilst other firms in the industry lower their wage costs.

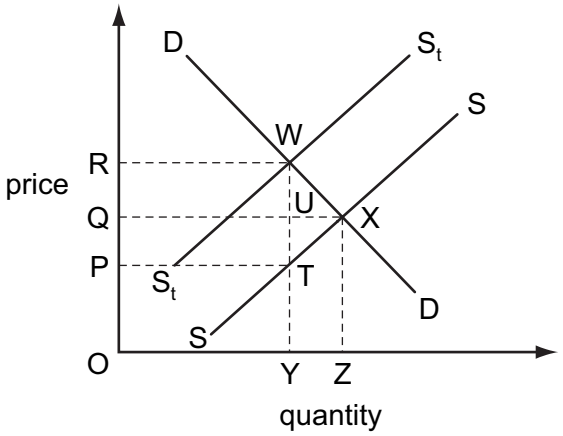
11 A country's government announces that the penalties imposed on those found guilty of supplying an illegal drug to others are to be increased but that possession of small quantities of the drug for an individual's own use will no longer be illegal.

What effect are these changes likely to have on the illegal market price of that drug and on the quantity consumed?

	illegal market price	quantity consumed
A	increase	decrease
B	increase	uncertain
C	uncertain	decrease
D	uncertain	uncertain

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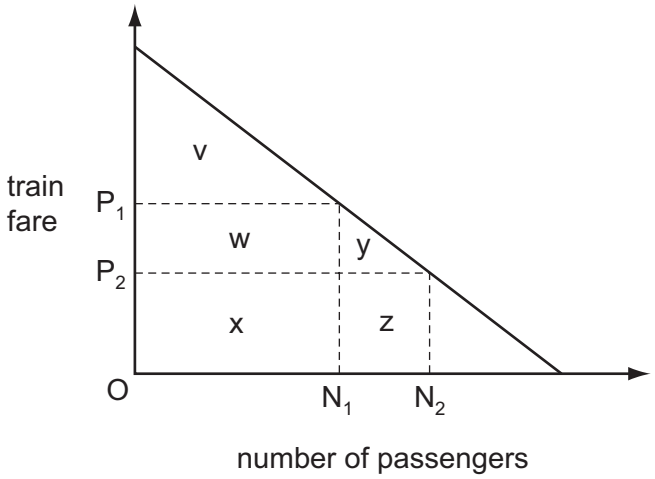
12 A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax, S_tS_t is the supply curve after tax.



Which area represents that part of the tax revenue paid by consumers?

A ORWY **B** PQUT **C** PRWT **D** QRWU

13 The diagram shows the change in the number of passengers when a company reduces the fare for a train journey from OP_1 to OP_2.



Which areas measure the consumer surplus at the new fare for the original passengers and for the additional passengers?

	original passengers	additional passengers
A	v	y
B	v + w	y
C	v + w + x	y + z
D	x	z

14 Which is **not** an example of an externality?

A The establishment of a new firm in an area increases the general level of wage rates in the area.

B The flowers planted by a householder in his garden give pleasure to his neighbours.

C The immunisation of children against smallpox reduces the danger of the risk of infection to others.

D The installation of security cameras in a city centre results in an increase in thefts elsewhere.

15 A government decided to approve a private airport-building scheme because it was socially beneficial. In making its decision it calculated private costs at $700 m, private benefits at $800 m and external costs at $200 m.

What must have been true about the external benefits of the scheme?

A External benefits equalled private benefits.

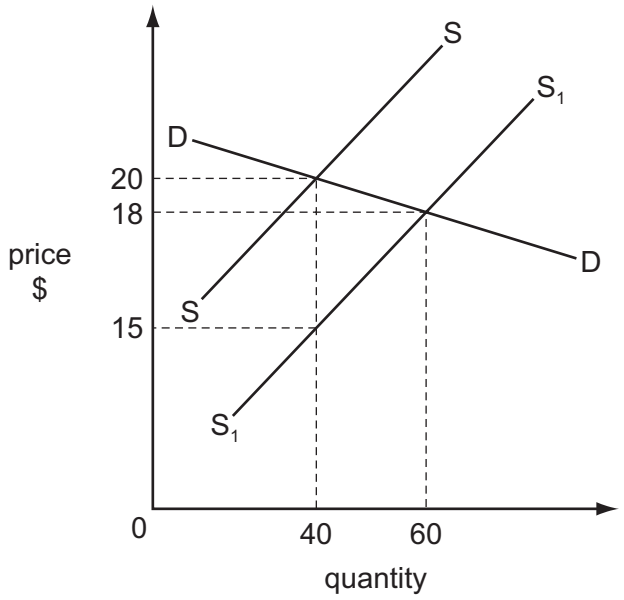
B External benefits exceeded external costs.

C External benefits exceeded $100 m.

D There were no external benefits.

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16 A tax on a product is removed causing supply to increase from SS to S_1S_1 as shown in the diagram.



What effect does the move have on government tax revenue and consumer expenditure?

	tax revenue	consumer expenditure
A	reduce by $80	increase by $280
B	reduce by $80	increase by $480
C	reduce by $200	increase by $280
D	reduce by $200	increase by $480

17 Which type of government intervention runs the risk of causing shortages?

A maximum price controls

B specific indirect taxes

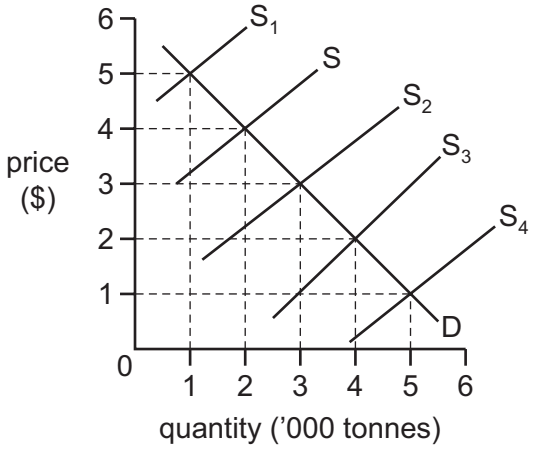
C subsidies paid to some producers

D taxes on company profits

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18 In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves $S_1 – S_4$.



In which years will the government need to provide extra income to farmers?

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

19 The table shows the costs of producing a unit of food and a unit of clothing in countries X and Y, expressed in the currency of each country.

country	food	clothing
X	$2	$4
Y	£1	£1

The exchange rate is fixed at £1 = $3.

What level of transport cost per unit of each commodity would exactly eliminate the benefits of trade?

A £0.33 **B** £0.50 **C** £1.00 **D** £1.50

20 What is the most likely aim of a government that increases the level of tariffs on imported manufactured goods?

A a fall in interest rates

B a fall in the exchange rate

C a rise in domestic employment

D a rise in the general price level

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21 What is a characteristic of a customs union but is **not** of a free trade area?

A abolition of import quotas

B abolition of tariffs between member countries

C a common currency

D a common external tariff

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 The table gives details of the unemployment rates and expenditure on unemployment benefits for the United Kingdom in 2007 and 2009.

	unemployment rate (%)	expenditure on unemployment benefits as % of GDP
2007	2.7	1.6
2009	4.7	3.4

What can definitely be concluded from the table?

A More of the workforce was unemployed in 2009 than in 2007.

B The number of workers in employment was higher in 2007 than in 2009.

C Unemployment benefits were more generous in 2009 than in 2007.

D Unemployment increased faster than expenditure on unemployment benefits.

24 The exchange rate of the Mexican peso against the US$ changed from 10 pesos = 1 US$ to 9 pesos = 1 US$. During the same period, the general price level in Mexico fell by 10% while the US price level remained unchanged.

What happened to the nominal and real exchange rate of the peso against the US$?

	nominal peso exchange rate	real peso exchange rate
A	appreciated	appreciated
B	appreciated	unchanged
C	depreciated	depreciated
D	depreciated	unchanged

25 The table shows an index number of prices between 2009 and 2012.

In the base year of 2008, inflation was 2% per annum.

What was the first year in which the rate of inflation fell?

	year	price index
A	2009	103
B	2010	104
C	2011	104
D	2012	101

26 What will be the probable effect of an increase in indirect taxes on demand-pull inflation and on cost-push inflation?

	demand-pull inflation	cost-push inflation
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

27 When is a balance of trade deficit likely to be considered a particularly difficult problem for a country?

A when the imported goods are identical to domestic products

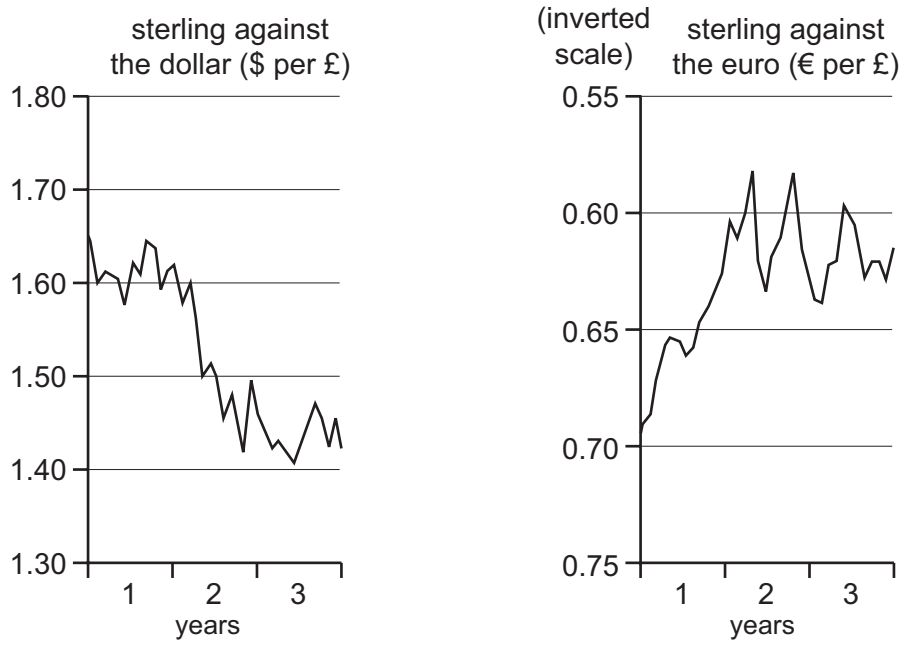
B when the imported goods are items of capital equipment

C when the imported goods are the raw material for exports

D when the imported goods are to cover a temporary shortage

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28 The graphs show the changes in the exchange rates of the £ sterling against the US$ and against the euro. The exchange rate of sterling against the euro is shown by an inverted scale.



Which statement about the period year 1 to year 3 is correct?

A the £ appreciated against the $ and the €

B the £ appreciated against the $ and depreciated against the €

C the £ depreciated against the $ and the €

D the £ depreciated against the $ and appreciated against the €

29 In spring 2011 the US$ exchanged for 81.6 yen.

In spring 2012 the US$ exchanged for 76.1 yen.

What would be expected to rise for the United States as a result of this change?

A the level of unemployment

B the price of exports sold in Japan

C the rate of imported inflation

D the volume of imports

30 A country with a fixed exchange rate experiences a balance of payments surplus.

Which policy measure will enable it to maintain its exchange rate at its target level?

A decreasing government borrowing

B decreasing government spending

C decreasing the interest rate

D decreasing the money supply

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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 2013**

1 hour

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

* 2 7 0 9 7 3 5 5 7 4 *

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.
DO **NOT** WRITE IN ANY BARCODES.

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 What is likely to occur when an economy moves from state planning to a market system?

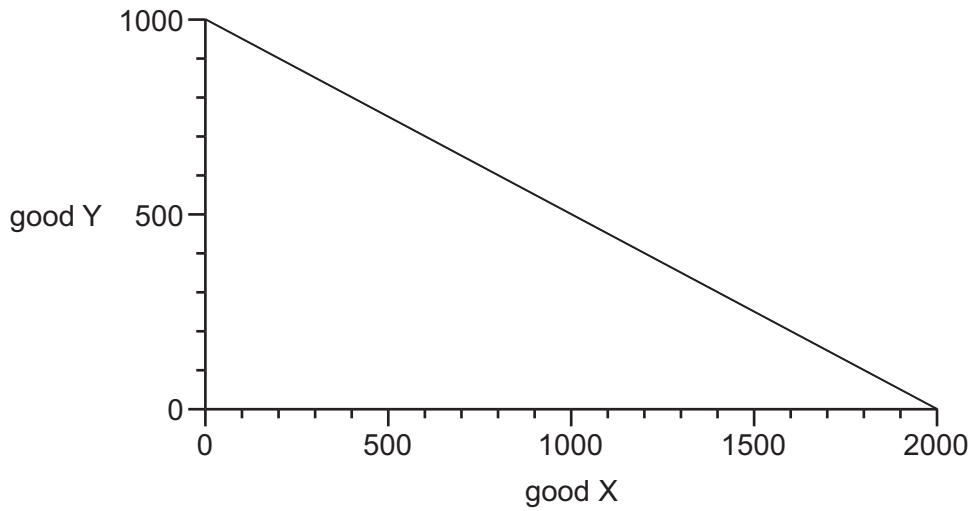
A Consumer choice is reduced.

B Enterprise is discouraged.

C The amount of innovation declines.

D The output of merit goods is reduced.

2 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

3 In the recession of 2011 some governments decided to reduce expenditure and decrease the numbers working in the public sector. Trades unions organised a mass demonstration in protest.

Which question relating to the government decision is a normative question rather than a positive question?

A How should public sector industries be run?

B What goods and services are produced by the public sector?

C When the government reduced its expenditure what happened to the level of unemployment?

D Why was there a trade union protest?

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4 The table identifies the functions of money and the principal benefit that each function produces.

Which function of money is correctly matched with its principal benefit?

	function	benefit
A	medium of exchange	permits a system of credit to operate
B	standard of deferred payment	encourages the accumulation of funds for future use
C	store of wealth	overcomes the drawbacks of the barter system
D	unit of account	allows the relative value of goods to be compared

5 Which change does **not** have an immediate effect on the position of the demand curve for a product?

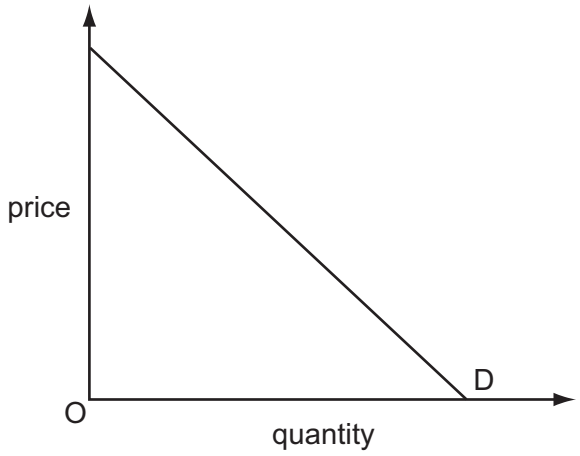
A a fall in the price of a complementary product

B an increase in the labour costs of its production

C a range of new products entering the market

D a rise in the price of a substitute product

6 The diagram shows the demand curve for a product.



Which statement is correct?

A Demand is less elastic at higher prices than at lower prices.

B Consumer expenditure on the product always rises when price falls.

C Price elasticity of demand is different at every price.

D Price elasticity of demand equals one at every price.

7 Why might a product have a high negative income elasticity of demand and a high price elasticity of demand?

A It is an inferior good with close substitutes.

B It is an inferior good with weak complements.

C It is a normal good with close substitutes.

D It is a normal good with weak complements.

8 The supply function of good X is given by the equation

$$Q_S = 10P_X$$

where P_X is the price of the good and Q_S is the quantity supplied.

What can be deduced from the equation about the elasticity of supply of good X?

A It is equal to 0.0.

B It is equal to 0.1.

C It is equal to 1.0.

D It is equal to 10.0.

9 There are three firms (X, Y and Z) supplying a market. The table shows their supply at four different prices.

price ($)	firm X's supply	firm Y's supply	firm Z's supply
10	50	40	10
20	60	60	20
30	85	80	35
40	115	100	55

Which price change is required for market supply to halve?

A $20 to $10 **B** $30 to $10 **C** $30 to $20 **D** $40 to $20

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10 Palm oil and sunflower oil are substitutes.
Palm oil and palm kernel cake for animal feed are in joint supply.

Other things being equal, what will be the effects of a fall in the price of sunflower oil?

	price of palm oil	price of palm kernel cake
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

11 A rise in the price of a good is accompanied by an increase in the quantity demanded.

What could explain this?

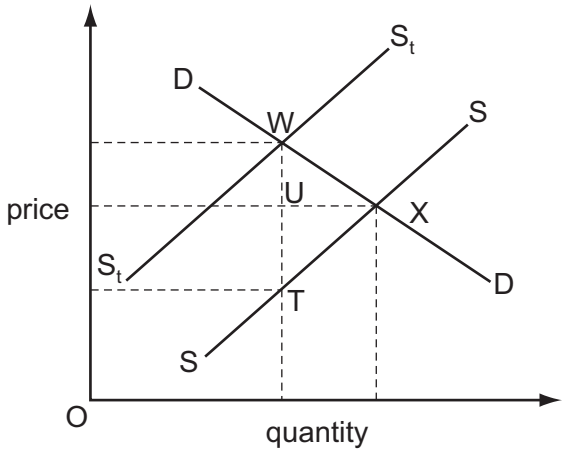
A Consumers spend a high proportion of disposable income on the good.

B The price of a complementary good has also increased.

C The substitute goods are all very much more expensive.

D The price of the good is taken to be an indication of the level of quality.

12 A specific tax is placed on the sale of bottles of lemonade. In the diagram, SS is the supply curve before imposition of the tax and S_tS_t is the supply curve after tax.



Which distance represents the specific tax on each bottle?

A UT **B** WT **C** WU **D** WX

13 The diagram shows a consumer's demand curve for a product.



How does consumer surplus change as the price of the product falls by $5 increments between $20 and $5?

A It increases at a constant rate (%) with each $5 fall.

B It increases by a constant amount with each $5 fall.

C It increases by a decreasing amount with each $5 fall.

D It increases by an increasing amount with each $5 fall.

14 The table below shows the results of a government survey into the economic effects of the use of chewing gum in a country.

	US $ million
private cost	300
social cost	400
private benefit	350
social benefit	450

What is the net external benefit of chewing gum to the economy?

A US $0 million

B US $50 million

C US $100 million

D US $800 million

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15 Which statement about a product with external costs must be correct?

A The consumption of the product has positive effects on third parties.

B The private costs of its production exceed the social costs of its production.

C The production of the product has negative effects on third parties.

D The social costs of its production exceed the social benefits of its production.

16 The government buys more speed cameras from the manufacturer. What would be included among the external benefits of increasing the number of speed cameras on a country's roads?

	additional jobs in camera production	additional government revenue from fines on motorists	a reduction in road accidents	a reduction in fuel consumption
A	no	no	yes	yes
B	no	yes	yes	no
C	yes	no	no	yes
D	yes	yes	no	no

17 Advances in technology are turning a number of goods which are usually thought of as public goods, for example, television broadcasting, into private goods.

Why might this be so?

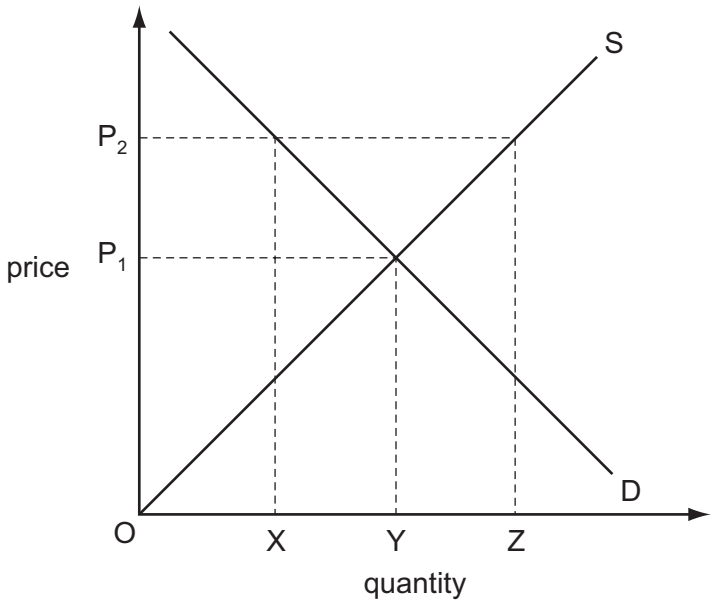
A Consumer surplus is being increased.

B The costs of production are being reduced.

C It is becoming easier to exclude non-payers.

D The technology is increasing the number of people consuming the goods.

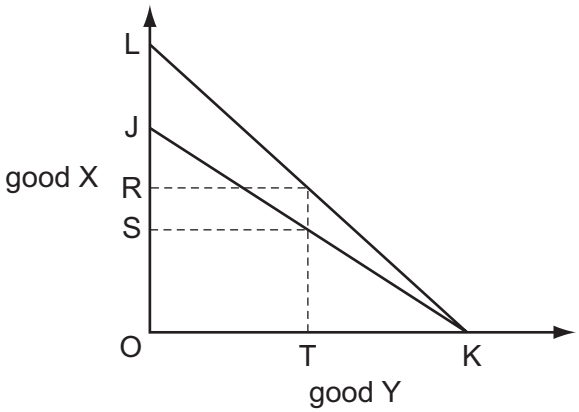
18 The diagram shows the market for wheat.



If the government wishes to fix the price at OP_2 what quantity of wheat must the government buy?

A OZ **B** XY **C** XZ **D** YZ

19 In the diagram, JK is a country's production possibility curve. LK is its trading possibility curve which shows possible combinations of good X and good Y after specialising in the product in which it has comparative advantage, and then trading it.



The country consumes OR of good X and OT of good Y.

Which quantities of goods X and Y does it produce?

	good X	good Y
A	JS	OT
B	OS	OT
C	RS	TK
D	zero	OK

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20 What would be least likely to restrict international trade?

A increasing shipping charges

B more complex customs procedures

C rising levels of global income

D rising unemployment in developed countries

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

What changes in 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%

22 The balance of payments accounts are arranged in the following way.

Which total is the current account balance?

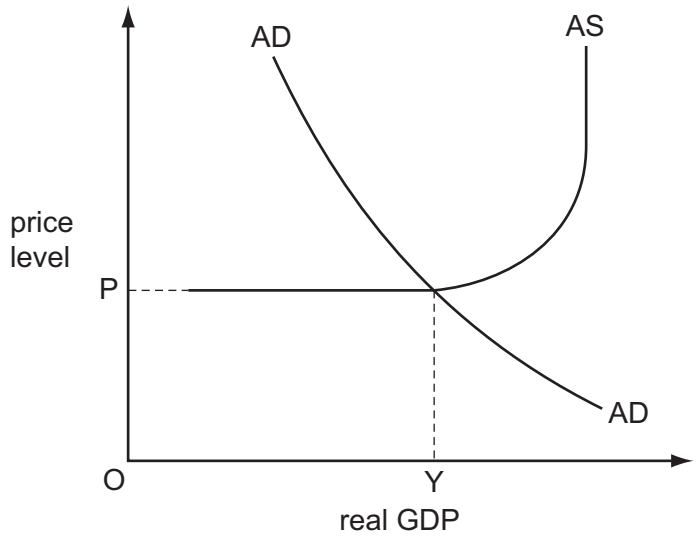
balance of trade in goods
+ balance of trade in services
=total **A**
+ net income
= total **B**
+ net transfers
= total **C**
+ capital balance
= total **D**
financial balance
errors and omissions

23 A country has a population of 100 million. 60 million are of working age and 50 million are in the labour force. The country's unemployment rate is 10%.

How many people are employed?

A 40 million **B** 45 million **C** 50 million **D** 54 million

24 The diagram shows the output of an economy.



What would be the effect of a decrease in net exports?

	aggregate supply	price level	real GDP
A	shift	decrease	unchanged
B	shift	unchanged	decrease
C	unchanged	increase	unchanged
D	unchanged	unchanged	decrease

25 A country experienced an annual inflation rate of 2% for four successive years.

Which statement is correct for the four-year period?

A The price level rose by 8%.

B The price level rose by more than 8%.

C The real value of money rose by 8%.

D The real value of money rose by more than 8%.

26 In 2010 it was reported that there were concerns when a government kept interest rates very low despite a threat of inflation.

Why might the government's policy have caused concern at this time?

A Low interest rates encourage increased consumer spending.

B Low interest rates lead to increased spending on capital equipment.

C Low interest rates mean imports will increase.

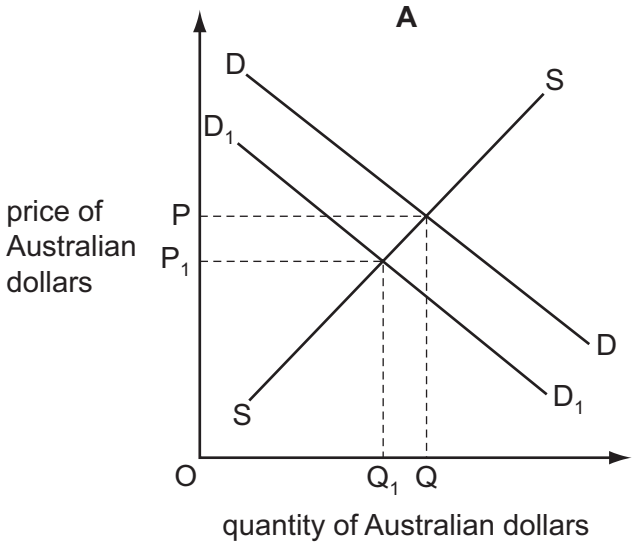
D Low interest rates will cause an increase in the exchange rate.

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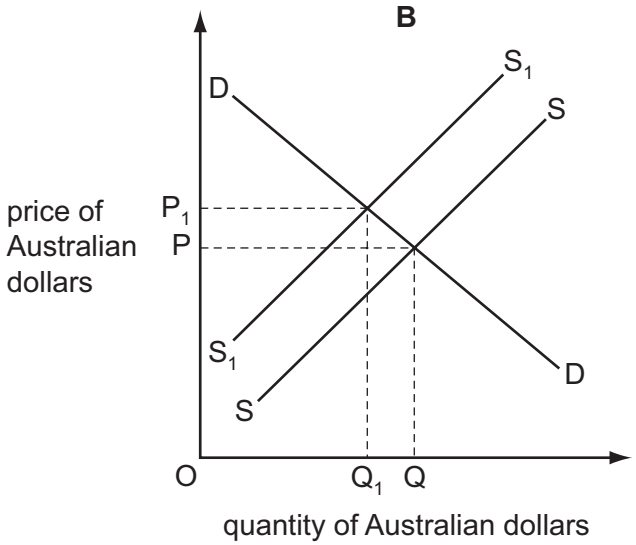
27 Australia's spending on imports falls and, at the same time, investment abroad by Australian firms declines.

Which diagram shows the immediate effect of these changes on the market for the Australian dollar?

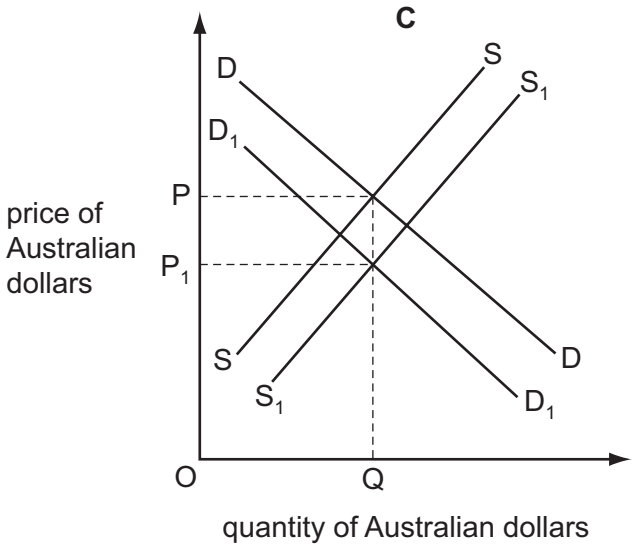
A



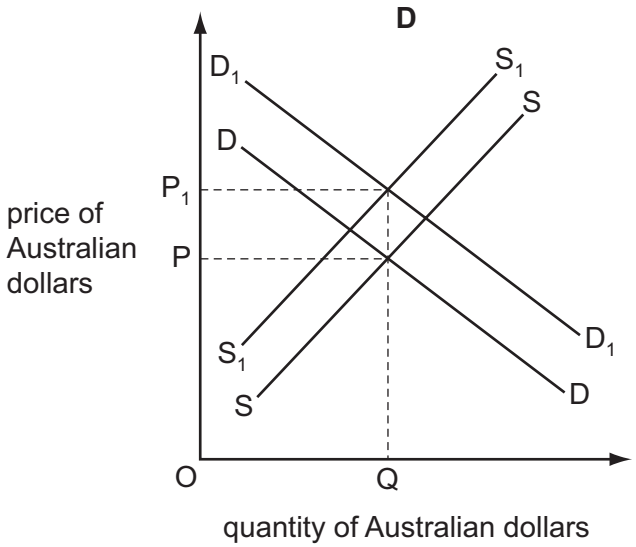
B



C



D



28 Which policy, adopted by a government with the intention of reducing the rate of inflation, might cause a greater deficit on the balance of payments?

A higher foreign exchange rates for its currency

B higher interest rates for domestic customers

C higher subsidies to domestic producers

D higher tax rates on consumer incomes

29 What is likely to result in an increase in a country's balance of payments deficit (disequilibrium) in the short run but may reduce it in the long run?

A an appreciation of the country's currency

B substantial foreign investment by the country's residents

C the introduction of controls on capital outflows

D the introduction of import quotas

30 A depreciation of the exchange rate of the pound sterling against the US dollar from £1 : $1.50 to £1 : $1.00 must mean that

A dollars will become more expensive in terms of pounds.

B the pound will be undervalued.

C UK imports from the US will become cheaper.

D US imports from the UK will become more expensive.

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