Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice (Core) **May/June 2014**

1 hour

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

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This document consists of **12** printed pages.

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1 What is likely to occur as a result of a permanent rise in unemployment resulting in loss of skills?

A a reduction in the economy's long-run production possibility

B a reduction in the scarcity of resources

C an increase in the cost of allocating resources

D an increase in the number of adults experiencing the economic problem

2 What is likely to be the short-run consequence of replacing central planning with a market-based system?

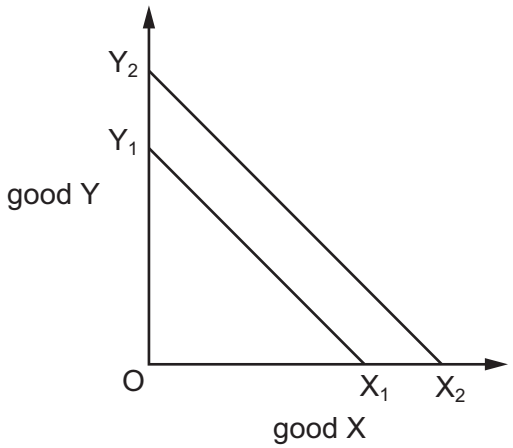
A a decrease in the rate of inflation

B a lower rate of return on capital investment

C a more equal distribution of income and wealth

D an increase in the level of unemployment

3 The diagram illustrates the production possibility curve of an economy in Year 1 (X_1 Y_1) and in Year 2 (X_2 Y_2).



What can be concluded from the diagram?

A The cost of production was higher in Year 2 than in Year 1.

B The full employment level of output was higher in Year 2 than in Year 1.

C The opportunity cost of production was higher in Year 2 than in Year 1.

D Unemployment was higher in Year 2 than in Year 1.

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4 An American bought an English football team in 2013. The money to purchase the club came from loans, which meant future interest payments of more than US $95 million.

Which function of money is best illustrated by this transaction?

A double coincidence of wants

B general acceptability

C standard of deferred payments

D store of value

5 The market demand for a product is made up of the demand from three firms, X, Y and Z.

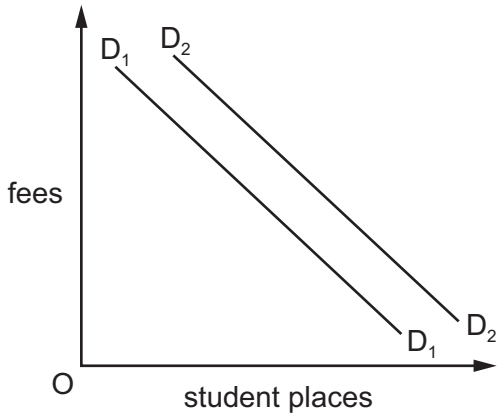
The table shows the demand from each firm and the market supply.

price $	demand from X	demand from Y	demand from Z	market supply
7	3300	3300	3300	3 300
8	3100	2900	3100	6 200
9	2800	2500	2900	8 200
10	2500	2100	2700	10 000

What is the equilibrium price in the market?

A $7 **B** $8 **C** $9 **D** $10

6 In the diagram, D_1 is the initial demand curve for student places at universities.



What could cause the demand curve to shift to D_2?

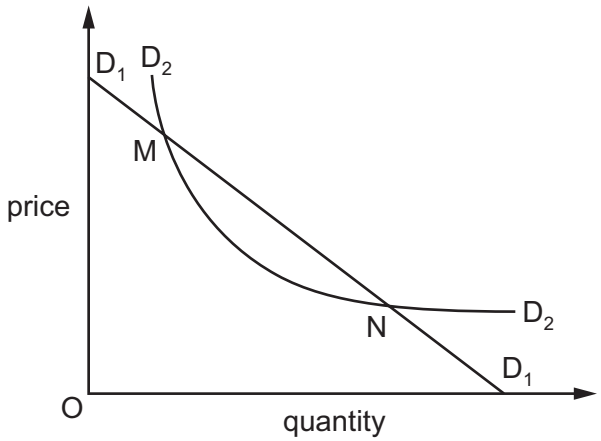
A a decrease in student fees for universities

B a decrease in the level of youth unemployment

C an increase in graduate earnings compared with non-graduate earnings

D higher A Level grades demanded for university entrance

7 In the diagram D_1D_1 is a straight line demand curve and D_2D_2 is a rectangular hyperbola curve.



Which statement is correct?

A D_2D_2 is more elastic than D_1D_1 at point M.

B D_2D_2 is more elastic than D_1D_1 at point N.

C The elasticity of demand increases on moving down both curves.

D The elasticity of demand is inelastic at point M on both curves.

8 The table shows changes in a consumer's expenditure on various goods when her 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, Y and Z

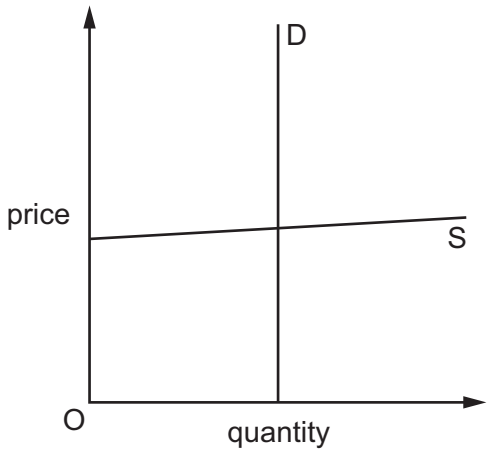
B W and Z only

C W only

D Z only

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9 The diagram shows the demand for and supply of a product.



What can be deduced about the product?

A It has infinite price elasticity of demand.

B It has no substitutes.

C It is an inferior good.

D It takes a large proportion of consumer income.

10 In 2010, poor harvests reduced fruit crops, and furniture producers gave big discounts on furniture products.

How might these changes have affected the position of the supply curve for the products?

	fruit	furniture producers
A	no change	shift to the left
B	shift to the left	no change
C	shift to the left	shift to the left
D	shift to the right	no change

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11 The diagram shows a supply curve.



Which statement describes the price elasticity of supply along this curve?

A It diminishes as quantity increases.

B It is constant and greater than unity at all quantities.

C It is constant and less than unity at all quantities.

D It increases as quantity increases.

12 The table shows a competitive market in equilibrium in two periods.

period	market price	quantity traded
1	50 cents	10 000 units
2	60 cents	12 000 units

What could explain the change from period 1 to period 2?

A an increase in the price of a complement

B an increase in the price of a substitute

C the imposition of a minimum price of 60 cents by a government

D the imposition of an indirect tax on suppliers

13 A country experiences a very wet and cold summer.

How might this affect the price of umbrellas and the price of ice creams?

	price of umbrellas	price of ice creams
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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14 What is an externality created by an individual consuming take-away food?

A the cost to the individual of purchasing the take-away food

B the litter created by the individual's take-away food packaging being discarded

C the pleasure derived by the individual from eating the take-away food

D the time saved by the individual purchasing the take-away food

15 A project has a social cost of $100 million, a private cost of $40 million and an external benefit of $20 million. Its net social value is zero.

What can be concluded about the project?

A External cost is greater than external benefit.

B Private cost is greater than external cost.

C Private cost is greater than private benefit.

D Social cost is greater than social benefit.

16 What is least likely to be included in a cost-benefit analysis of a proposed new university?

A the costs of building the new university

B the extra income earned by the new university's graduates

C the future staffing costs of other universities

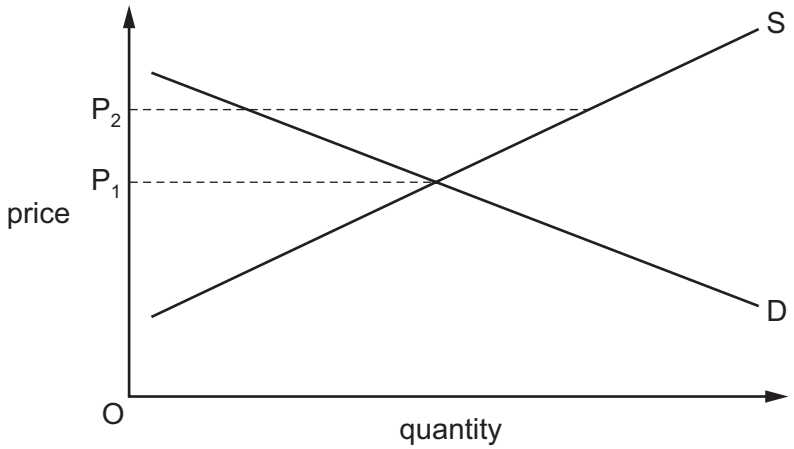
D the staffing costs of the new university five years into the future

17 A local government decided to organise a craft show in its exhibition centre. Admission was $3. It promoted the show by paying for advertisements on advertising sites around the area.

How may the craft show and the advertisements be classified from the viewpoint of local residents?

	craft show	advertisements
A	private good	private good
B	private good	public good
C	public good	private good
D	public good	public good

18 The diagram shows the original market clearing price is P_1. The government then imposes a maximum price of P_2 on the industry.



What will result from this?

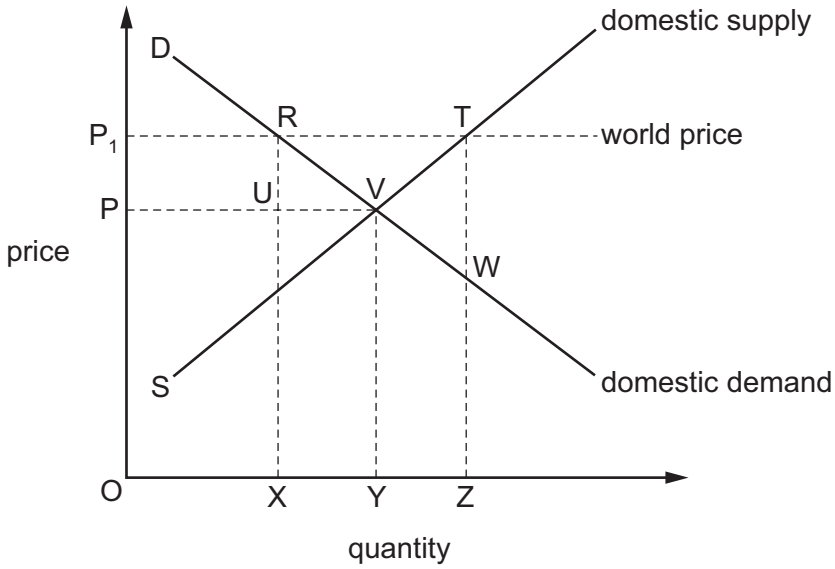
A a higher price and output

B a shortage

C a surplus

D an unchanged price and output

19 The diagram shows that a country can make a product at less than the world price.



What will happen if it engages in international trade?

A Domestic consumers will experience a fall in consumer surplus of RVT.

B Domestic output of OY will be exported.

C Domestic producers will gain an increase in revenue of PP_1TV.

D Revenue from exports will be XRTZ from the product.

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20 Which argument is an importer most likely to use to gain the support of consumers for free trade?

A More imports allow the government to raise revenue from tariffs.

B More imports improve the country's terms of trade.

C More imports increase competition in the domestic economy.

D More imports raise total employment in the domestic economy.

21 A country is a major producer of cotton. Its government imposes a tax on exports of its cotton.

What effect will this have on the price of cotton in the domestic and world markets?

	domestic price	world price
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

22 A US company receives a US$20 million dividend from shares that it owns in a Brazilian company.

How would this dividend be shown in the balance of payments of the United States?

A a credit in the capital account

B a credit in the current account

C a debit in the capital account

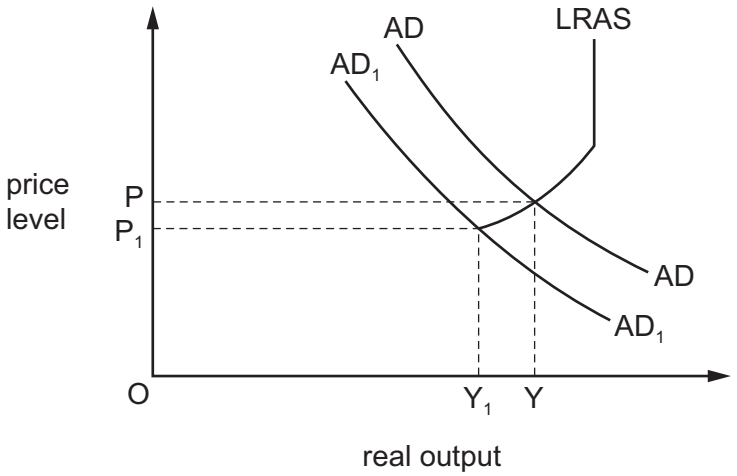
D a debit in the current account

23 In 2007 Turkey had a population of 73 m. Its labour force was 36 m, of which 12 m were trained for the primary sector and 24 m were trained for the secondary and tertiary sectors. The unemployment rate was 10%.

What was the number of people unemployed?

A 1.2 m **B** 2.4 m **C** 3.6 m **D** 7.3 m

24 The diagram shows the macroeconomic equilibrium output and price level changing from Y and P to Y_1 and P_1.



What could have caused this change?

A a decrease in exports

B a decrease in labour productivity

C an increase in the government's spending

D an increase in the money supply

25 The table shows an index of consumer prices (2005 = 100) for a number of countries for 2009, 2010 and 2011.

	2009	2010	2011
Canada	107.8	108.9	112.0
Greece	111.9	117.2	121.1
India	135.2	151.4	164.8
Japan	100.3	99.6	99.3
Portugal	107.4	108.9	112.9
Switzerland	104.3	104.5	104.7

Which statement about the period 2009 to 2011 is **not** correct?

A Prices fell in Japan.

B Prices increased in Switzerland.

C Prices rose more in Greece than in India.

D Prices rose more in Portugal than in Canada.

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26 In what circumstances will money lose its value?

A The economy experiences a period of deflation.

B The general level of prices is falling.

C The growth of money supply falls below the growth of output.

D The rate of inflation is positive.

27 What would most help a country to achieve a surplus on the current account of the balance of payments?

A a depreciating exchange rate combined with a high rate of inflation and falling productivity

B a depreciating exchange rate combined with a low rate of inflation and rising productivity

C an appreciating exchange rate combined with a high rate of inflation and falling productivity

D an appreciating exchange rate combined with a low rate of inflation and rising productivity

28 At the start of the year, the exchange rate of Country X's dollar (X$) to Country Y's pound (Y£) is X$4.80 : Y£1

During the year prices increase by 10% in Country X and by 20% in Country Y.

According to Purchasing Power Parity theory, what will be the exchange rate at the end of the year?

A X$4.40 : Y£1

B X$4.90 : Y£1

C X$5.00 : Y£1

D X$5.20 : Y£1

29 Devaluation always has the effect of

A decreasing the price of imports.

B decreasing the value of imports.

C worsening the balance of payments.

D worsening the terms of trade.

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30 Policies to correct a balance of payments deficit fall into two categories: expenditure-dampening policies and expenditure-switching policies.

Which pair of policies in the table are classified correctly?

	expenditure-dampening policy	expenditure-switching policy
A	an increase in the rate of income tax	the imposition of import quotas
B	an increase in the rate of value added tax	an increase in the rate of income tax
C	devaluation of the currency	an increase in the rate of value added tax
D	the imposition of import quotas	devaluation of the currency

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ECONOMICS **9708/12**

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1 hour

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1 By 2030, as the human population grows, the world will need at least 50% more food, 45% more energy and 30% more water from the same resources.

What does this statement directly indicate?

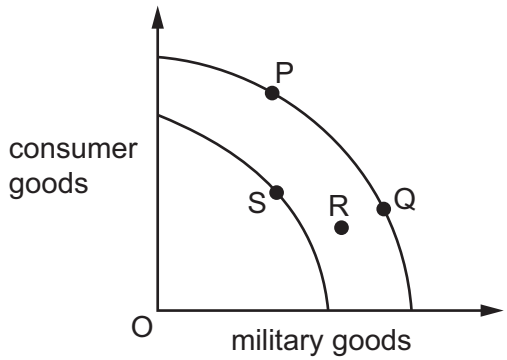
A comparative advantage

B merit goods

C negative externalities

D the economic problem

2 A country was at point P on its production possibility curve. Following the threat of invasion it prepared for war. The war then reduced the country's infrastructure.



What are the most likely changes on the production possibility curve diagram that are consistent with these events?

A P to Q followed by Q to R

B P to Q followed by Q to S

C P to R followed by R to Q

D P to R followed by R to S

3 Which is a normative statement?

A A reduction in unemployment below a certain level will lead to higher inflation.

B An increase in the rate of inflation will lead inevitably to an increase in unemployment.

C Inflation can be reduced only by increasing the level of unemployment.

D Unemployment is more harmful to economic welfare than inflation.

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4 Meera has just finished a course at art college and has decided to set up a business on her own producing clay figures of famous people.

Which factors of production is she likely to have to purchase from other businesses?

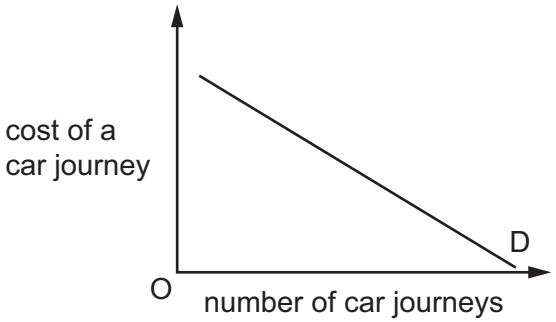
	land	labour	capital	enterprise
A	✓	✓	✓	✗
B	✓	✗	✓	✓
C	✓	✗	✓	✗
D	✗	✓	✗	✓

key

✓ = purchased

✗ = not purchased

5 The demand curve in the diagram shows the relationship between the number of car journeys and the cost of a car journey.



What would cause the demand curve to shift to the left?

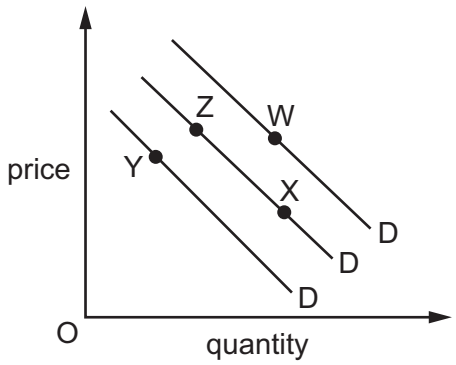
A a reduction in car tax

B a reduction in petrol prices

C a reduction in public transport prices

D the introduction of tolls on motorways

6 The diagram shows the market for milk. Two conditions change. The cost of cattle feed rises sharply and this is followed by the government raising the tax on cheese which uses milk in its production.



Which changes in position on the diagram of demand curves for milk are consistent with these events?

A from W to X, followed by X to Z

B from W to Z, followed by Z to X

C from X to Z, followed by Z to Y

D from Z to X, followed by X to Y

7 If the elasticity of demand for a commodity is unity, an increase in its price will

A decrease the quantity purchased.

B have no effect on consumer surplus.

C increase total expenditure on the commodity.

D leave the quantity purchased unchanged.

8 The table shows a consumer's expenditure on a range of goods at different levels of income.

For which good does the consumer have an income elasticity of demand greater than zero, but less than one?

	consumer's income ($)		
	40	50	100
good	consumer's expenditure ($)		
A	10	18	40
B	10	11	20
C	10	10	10
D	10	8	6

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9 What might cause a market supply curve to shift to the right?

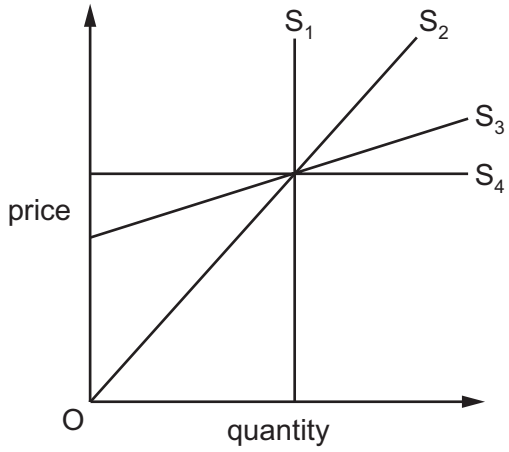
A increased government subsidies

B increased labour costs

C increased product advertising

D lower income tax rates

10 The diagram shows four different straight line supply curves.



What can be concluded from the diagram?

A S_1 has unitary elasticity.

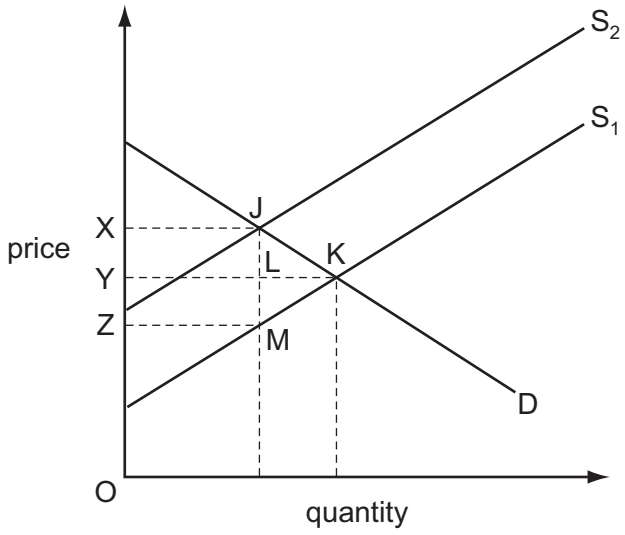
B S_2 has zero elasticity.

C S_3 has a constant elasticity.

D S_4 has infinite elasticity.

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



Which area represents total tax receipts?

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

12 What is consumer surplus?

A the difference between the cost of producing a good and what consumers would be willing to pay for it

B the difference between what consumers actually pay for a good and its cost of production

C the difference between what consumers actually pay for a good and the maximum amount they would be willing to pay for it

D the difference between what consumers are willing to pay for a good and the amount required by producers to supply the good

13 In a market for a good both demand and supply change at the same time.

Which combination of changes would enable an economist to predict with confidence that more resources will be needed in its production but **not** the direction of the associated price change?

	demand	supply
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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14 The existence of a positive externality is possible when

A consumers are not the best judges of the future benefits from consuming a product.

B groups of consumers act together to negotiate a discount on the sale of a product.

C producers use a government scheme to clear waste from their offices at no cost to themselves.

D social costs of production exceed private costs of production.

15 A firm opens a new factory on derelict ground on the outskirts of a town.

What will be included among the externalities arising from the opening of the new factory?

	an increase in air pollution	an increase in the rents of neighbouring factory sites	the change in the appearance of the neighbourhood
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

16 A firm owns a bridge and charges all vehicle users who cross it.

How might the charge be classified?

A a private benefit and a private cost

B a private benefit and an external cost

C an external benefit and a private cost

D an external benefit and an external cost

17 The table shows the results of a cost-benefit analysis into the building of a new runway at an airport.

	costs US$m	benefits US$m
private	100	125
external	25	20

Which statement about the new runway is correct?

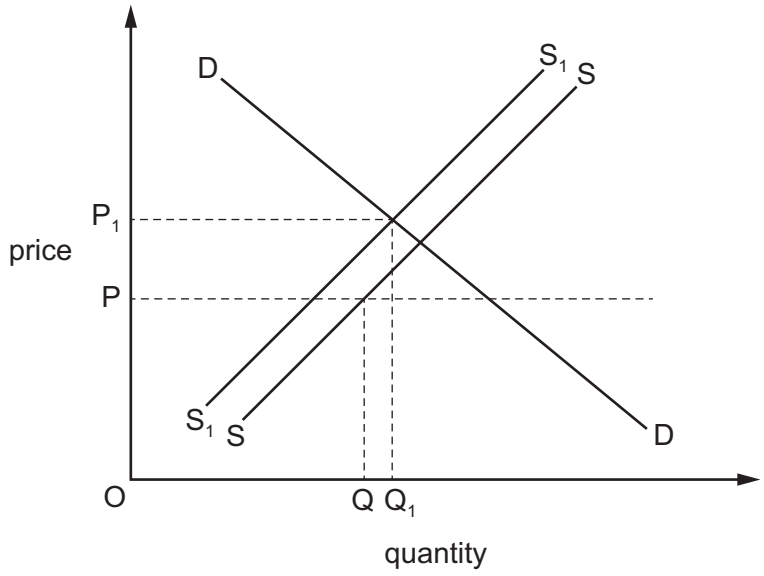
A The net external benefit is US$5 million.

B The net private benefit is US$25 million.

C The net social benefit is US$105 million.

D The net social benefit is US$145 million.

18 In the diagram, the initial quantity traded was Q and the price was P.



The price then rose to P_1 and the quantity traded rose to Q_1.

Which combination of government policy measures could explain this change?

A the removal of a maximum price and the imposition of an income tax on consumers

B the removal of a maximum price and the removal of a subsidy to producers

C the removal of a minimum price and the granting of a subsidy to producers

D the removal of a minimum price and the imposition of an indirect tax on the product

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19 The table shows the output of cars and televisions per worker per week before trade and specialisation.

	country X	country Y
cars	2	8
televisions	6	48

Each country specialises in the product where it has a comparative advantage and trades on the basis of an exchange rate which lies between their opportunity cost ratios.

Which change would stop the countries specialising and trading?

A The exchange rate moves to one car for five televisions.

B The exchange rate moves to one car for eight televisions.

C The productivity of workers in country X rises to three cars per week.

D The productivity of workers in country Y rises to fifty six televisions per week.

20 A country produces washing machines. The government lowered both the tax on washing machines produced in its country and the quota on imports of foreign washing machines.

What is the likely result?

A Government revenue increased.

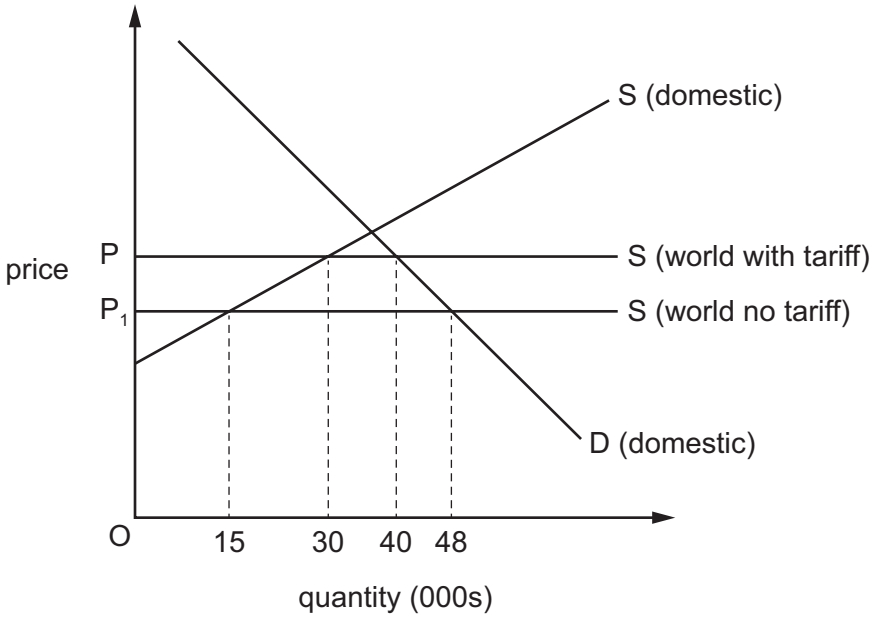
B Home production decreased.

C Prices of foreign washing machines fell.

D The balance of trade in goods improved.

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21 The diagram shows the effect on the quantity of an import to the domestic market of the removal of a tariff that reduces the import's price to P_1.



By how much will the quantity of imports increase?

A 8000 tonnes

B 10 000 tonnes

C 23 000 tonnes

D 33 000 tonnes

22 A group of countries join together to form a single market with a single common currency.

Which term best describes the resulting organisation?

A customs union

B economic union

C free trade area

D trade union

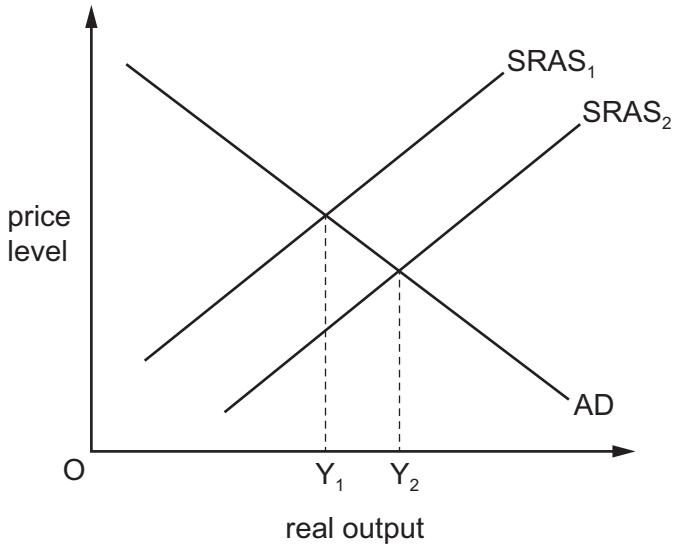
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23 The table shows the unemployment rate and the size of the labour force in four countries in 2012.

Which country had the highest number of people in employment in 2012?

	country	unemployment rate (%)	size of the labour force (millions)
A	Egypt	12.6	27.7
B	Iran	15.3	26.4
C	Italy	9.3	25.1
D	Turkey	8.0	27.4

24 The diagram shows an economy's aggregate demand curve and two short-run aggregate supply curves.



What could cause the change in real output from Y_1 to Y_2?

A a decrease in bank lending

B a decrease in world oil prices

C an increase in indirect taxation

D an increase in wage rates

25 The table shows a country's rate of inflation for four years.

year	rate of inflation %
2009	4.0
2010	3.0
2011	2.5
2012	2.0

What fell between 2009 and 2012?

A average prices

B the cost of living

C the exchange rate

D the value of money

26 What is **not** a possible cause of cost-push inflation?

A an increase in firms' profit margins

B an increase in raw material prices

C an increase in the supply of money

D an increase in trade union power

27 What would lead a country to move from a surplus to a deficit on the current account of the balance of payments?

A a depreciating exchange rate combined with a high rate of inflation and falling productivity

B a depreciating exchange rate combined with a low rate of inflation and rising productivity

C an appreciating exchange rate combined with a high rate of inflation and falling productivity

D an appreciating exchange rate combined with a low rate of inflation and rising productivity

28 What determines the purchasing power parity of a currency?

A relative costs of living

B relative rates of interest

C the balance of payments current account

D the volume of trade creation

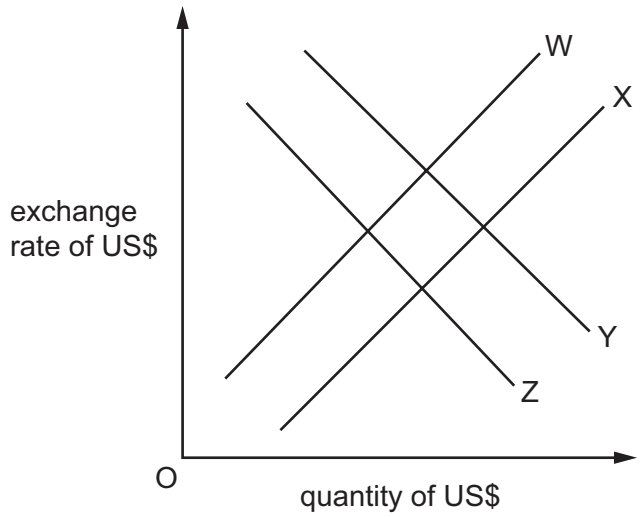
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29 With an exchange rate of 5 Egyptian pounds (EGP) = 1 US dollar ($), an American product sells in Egypt for EGP 100.

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 The US Central Bank raises its interest rate to improve its balance of payments position. The diagram shows the resulting changes in the demand for and supply of US$ in the foreign exchange market.



What should curves W, X, Y and Z be labelled to show the effect of the interest rate rise on the exchange rate? (Assume a change is shown by a move from a curve numbered 1 to a curve numbered 2.)

	W	X	Y	Z
A	S_1	S_2	D_1	D_2
B	S_1	S_2	D_2	D_1
C	S_2	S_1	D_1	D_2
D	S_2	S_1	D_2	D_1

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ECONOMICS **9708/13**

Paper 1 Multiple Choice (Core) **May/June 2014**

1 hour

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

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READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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 One of the central themes of economics is that resources are scarce.

What is certain from this?

A Difficult choices are unavoidable for economic agents.

B Food shortages will become more severe over time.

C Resource allocation cannot be left solely to the price mechanism.

D There will be a continuing upward trend in commodity prices.

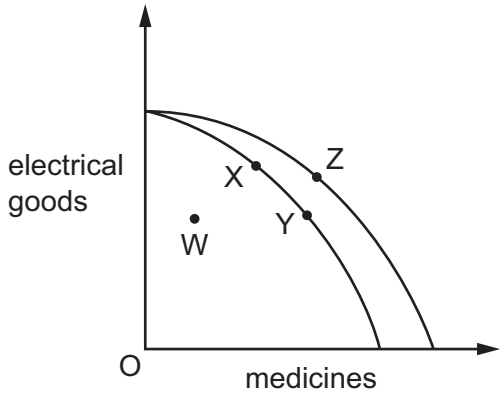
2 In their transition to market economies some former command economies have adopted a gradual approach. This has meant continuing with some of the features of their command system.

What is **not** a valid, short-run reason for continuing with the feature shown?

	feature	reason for continuation
A	inconvertible currency	to attract foreign direct investment
B	price controls on foodstuffs	to protect the real value of workers' incomes
C	state ownership of banks	to avoid large-scale bankruptcies
D	tariffs on imported manufactures	to allow comparative advantage to develop

3 A country is producing electrical goods and medicines at full capacity. An innovation is developed that enables the country to produce a new medicine which becomes in great demand.

How would this be represented by its production possibility curves?



A as a movement from W to X

B as a movement from X to Y

C as a movement from X to Z

D as a movement from Y to X

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4 What would encourage the growth of the international division of labour?

A an improvement in transport systems

B instability in international exchange rates

C restrictions on the movement of resources

D the widespread introduction of tariffs

5 What would **not** cause the demand curve for foreign holidays to shift to the left?

A a fall in consumers' disposable income

B a fall in the price of domestic holidays

C a rise in advertising of domestic holidays

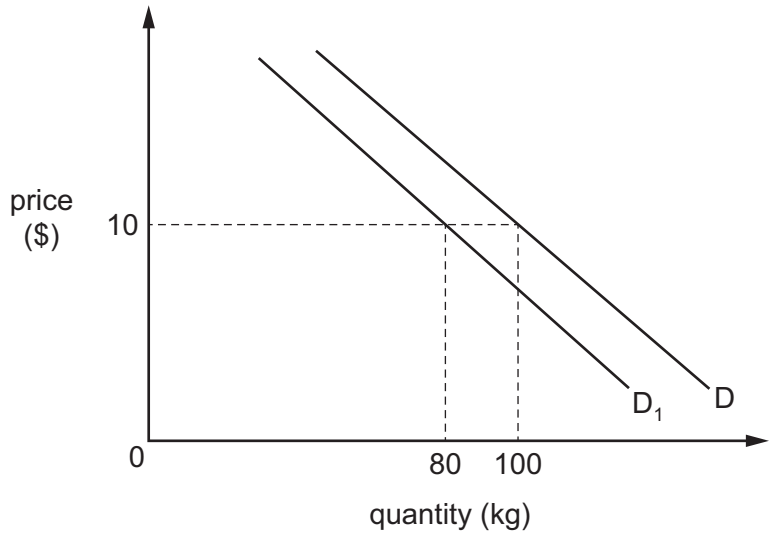
D a rise in the price of foreign holidays

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

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

A $24 **B** $20 **C** $16 **D** $12

7 The diagram shows how a 10% increase in consumer incomes shifts the demand for good X from D to D_1.



Which statement about good X is correct?

A It is a normal good with income elastic demand.

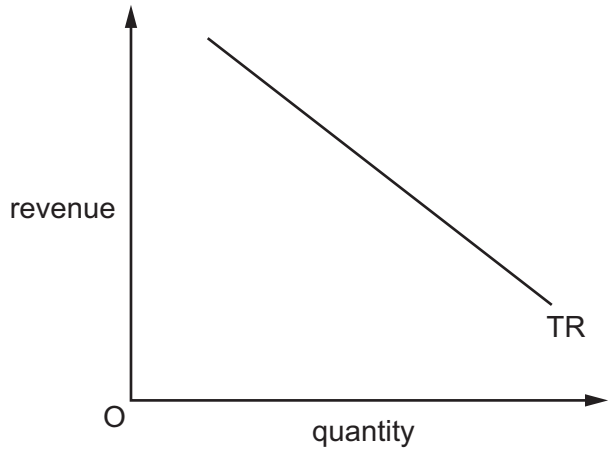
B It is a normal good with income inelastic demand.

C It is an inferior good with income elastic demand.

D It is an inferior good with income inelastic demand.

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8 The diagram shows the relationship between a firm's total revenue and the quantity of goods sold.



What is the price elasticity of demand for the good?

A zero

B between zero and one

C one

D between one and infinity

9 A movement along a supply curve for a product is likely to occur if there is a rise in

A the demand for a complementary product.

B the distribution costs of the product.

C the subsidy a producer receives for producing the product.

D the wages of the employees who produce the product.

10 A firm makes televisions.

What does the elasticity of supply for the firm represent?

A the need to increase production because of a successful advertising campaign

B the possibility of switching production from other goods the firm makes to televisions

C the speed at which additional fixed factors used to produce televisions can be obtained

D the way the firm's production changes as a result of a change in price of televisions

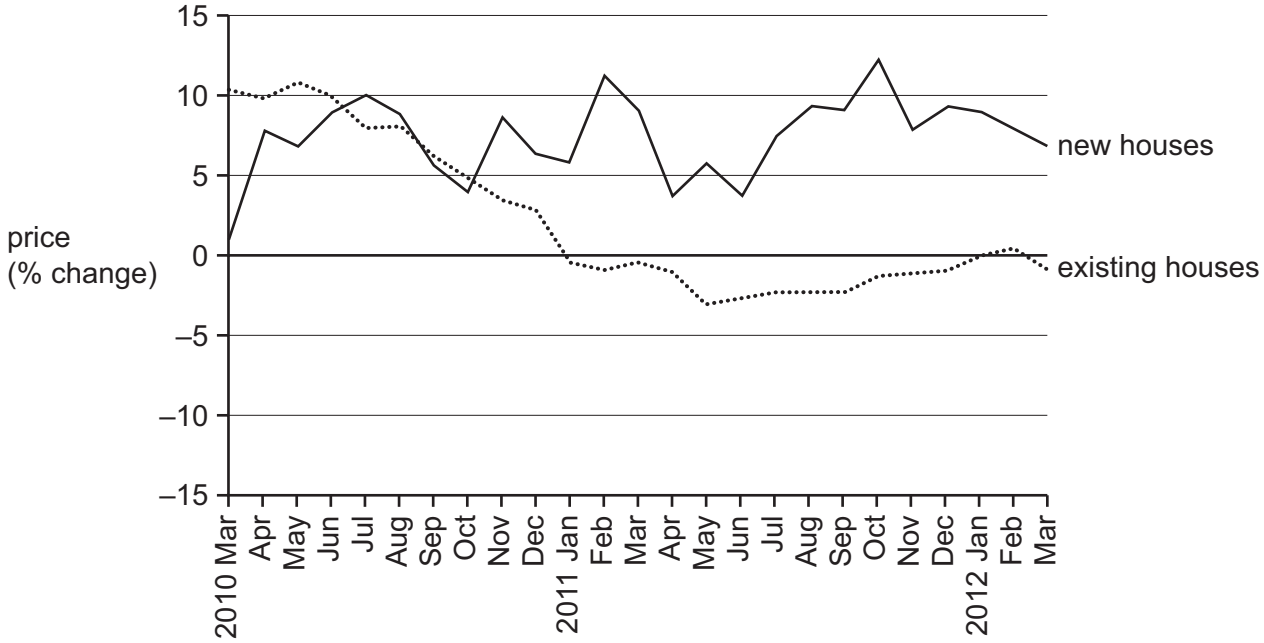
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11 Demand and supply in a competitive market both decrease by 10% at all prices.

What will be the effect on the equilibrium price and quantity sold?

	price	quantity sold
A	10% decrease	10% decrease
B	10% decrease	no change
C	5% decrease	5% decrease
D	no change	10% decrease

12 The graph shows the annual % changes in the prices of new houses and existing houses in the United Kingdom between 2010 and 2012.



What can be concluded about the graph?

A In the period after October 2010, new houses were more expensive than existing houses.

B In the period up until January 2011, there was a steady fall in the prices of existing houses.

C The average price of existing houses was lower in March 2012 than two years earlier.

D The prices of new houses continued to rise throughout the period.

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[Turn over

13 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.

14 A firm opens a new factory on the outskirts of a town.

What will be included among the externalities arising from the opening of the new factory?

	an increase in traffic congestion	an increase in the wages paid to workers in a neighbouring factory	an increase in the sales revenue of local shopkeepers
A	no	no	yes
B	no	yes	yes
C	yes	no	no
D	yes	yes	no

15 The table shows some of the costs when a firm produces a good.

output	total cost to society $	external cost $
23	316	16
24	322	18

What is the additional cost to a firm of producing the 24th unit?

A $2 **B** $4 **C** $6 **D** $8

16 What impact would internalising negative externalities have on the output and price of a product?

	output	price
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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17 A local council runs a museum. It used to charge an admission fee. It decided to give free entry in the hope of encouraging more people to use the museum and find out about the history of its area which the council regards as being important.

What can be said about the museum?

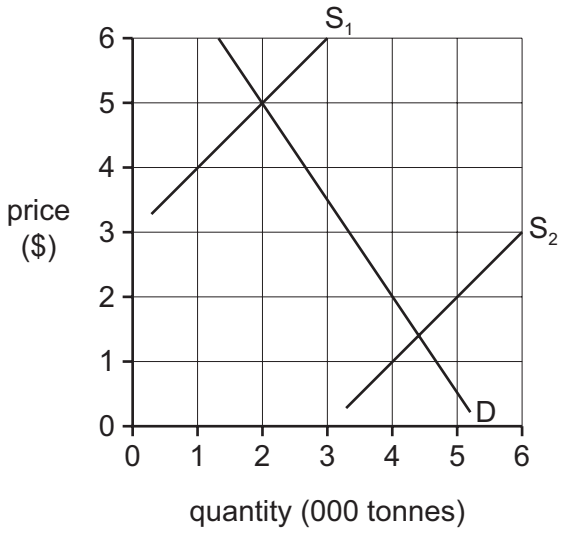
A It is a merit good because it is believed to be worth greater attendance.

B It is a merit good because it is run by the local council.

C It is a public good because anyone can use the museum.

D It is a public good because people do not now have to pay for admission

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



The government introduces a buffer scheme to maintain farm incomes at their initial level.

What quantity would the government need to buy from the farmers to add to the buffer stock if a bumper harvest causes the supply curve to move to S_2?

A 1000 tonnes

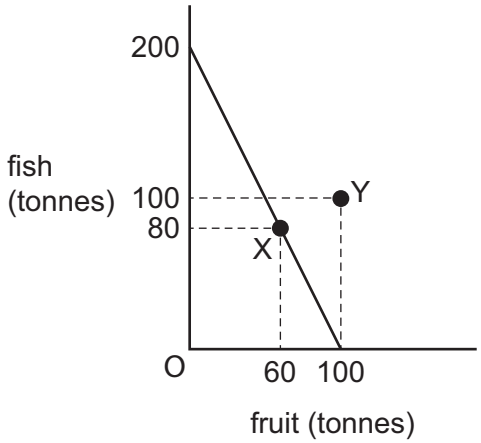
B 2000 tonnes

C 3000 tonnes

D 4000 tonnes

19 The production possibility curve shows island J's ability to produce fish and fruit. It specialises entirely in fish in which it has a comparative advantage and trades fish for fruit from island K.

As a result, island J increases its consumption from 80 tonnes of fish and 60 tonnes of fruit, point X, to 100 tonnes of fish and 100 tonnes of fruit, point Y.



What was island J's exchange rate of fish for fruit?

A 1 tonne of fish for $\frac{1}{2}$ tonne of fruit

B 1 tonne of fish for $\frac{3}{4}$ tonne of fruit

C 1 tonne of fish for 1 tonne of fruit

D 1 tonne of fish for 2 tonnes of fruit

20 The table shows details on the Gross Domestic Product (GDP) and the balance of payments of four countries.

Which country had the largest net errors and omissions figure in terms of US$?

	GDP (US$)	current account balance as a % of GDP	total of capital and financial accounts (US$)
A	50bn	–8.0	4bn
B	50bn	–2.0	3bn
C	100bn	–3.0	3bn
D	100bn	+4.0	–4bn

21 What would **not** be a reason for a government to impose a quota on imports?

A to prevent dumping

B to raise tax revenue

C to reduce a balance of trade deficit

D to support an important industry

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22 The European Union imposes a quota on the volume of garments imported from China.

What is likely to be the effect on the prices received by Chinese garment producers and on the prices paid by the consumers of Chinese garments in Europe and the United States (US)?

	prices received by Chinese producers	prices paid by European consumers	prices paid by US consumers
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

23 The table shows a country's employment statistics.

	million
population of working age	100
number in employment	60
number unemployed	4

What is the participation rate and the unemployment rate?

	participation rate %	unemployment rate %
A	60	4.0
B	60	6.25
C	64	4.0
D	64	6.25

24 The table shows the changes in the general price level of four countries over three years expressed as index numbers.

Which country experienced a constant rate of fall in the real value of money?

	year 1	year 2	year 3
A	100	80	60
B	100	90	81
C	100	108	116
D	100	120	144

25 In Year 1 the price of a barrel of oil increased from $60 to $110.

In Year 2 there was a further increase to $115 a barrel.

Assume that oil price changes have an immediate impact on the general level of prices and that their Consumer Price Index weightings remains unchanged.

What will be the effect of the changes in the oil price on a country's Consumer Price Index and on its inflation rate in Year 2 compared with Year 1?

	effect on the Consumer Price Index	effect on the rate of inflation
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

26 Why is a deficit on the current account of the balance of payments in economies with freely floating exchange rates often thought to be an economic problem?

A It implies a net outflow of capital from the economy.

B It involves borrowing from abroad.

C It leads to increases in unemployment.

D It results in a loss of foreign exchange reserves.

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

A Export costs rise more than import costs.

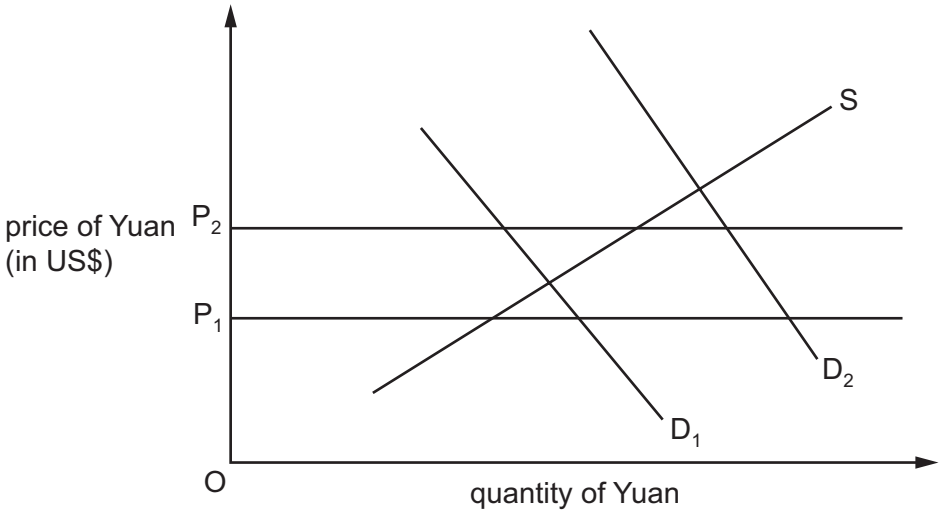
B Export prices rise more than import prices.

C Export revenues rise more than import revenues.

D Export volumes rise more than import volumes.

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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 demand changed from D_1 to D_2?

A impose controls on Chinese investment overseas

B increase interest rates

C sell US$ from foreign exchange reserves

D sell Yuan on the foreign exchange markets

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

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

Which concept does the data in the table illustrate?

A exchange rate appreciation

B purchasing power parity

C the J-curve effect

D trade-weighted exchange rates

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30 A country experiences a significant appreciation in its foreign exchange rate.

Which statement correctly describes the most likely combination of effects?

A Aggregate demand rises and international competitiveness falls.

B Exporters' profits rise and the terms of trade worsen.

C Inflation falls and unemployment rises.

D The current account deficit falls and production costs rise.

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