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 2015**

1 hour

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

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Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
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1 Which combination of events must increase the level of scarcity in an economy?

A discovery of new oil reserves and higher saving ratios

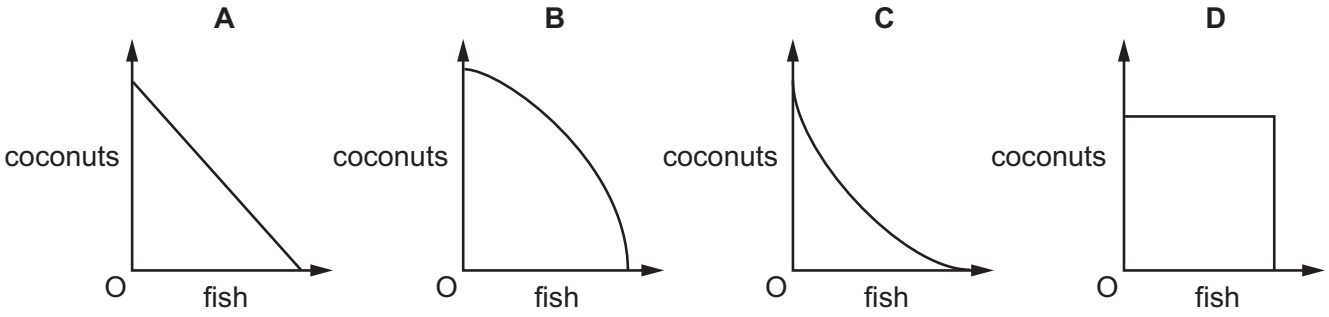
B improved application of technology and new invention

C less certain weather patterns and a fashion for greater consumption

D more efficient power generation and a reduced birth rate

2 Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

Which diagram represents the production possibility curve of this community?



3 Which characteristic of money is most essential if it is to serve effectively as a store of value?

A divisibility

B liquidity

C portability

D scarcity

4 A worker can make 10 hats or 5 pairs of shoes in a day. In the market, three hats can be sold at the same price as two pairs of shoes.

The worker should make

A hats only.

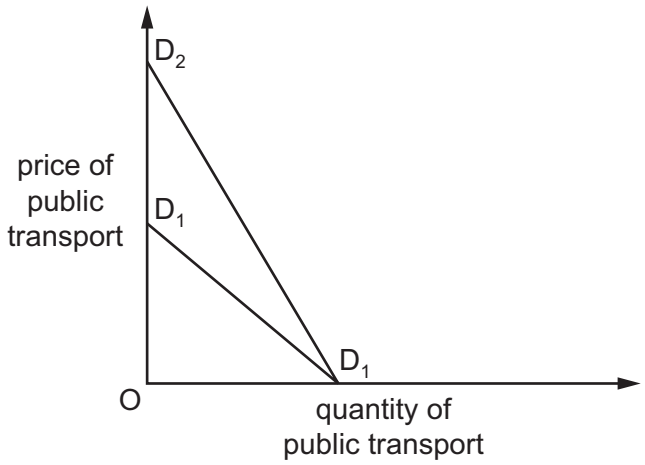
B shoes only.

C 4 hats and 3 pairs of shoes daily.

D 6 hats and 2 pairs of shoes daily.

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5 In the diagram, D_1D_1 shows an individual's initial demand curve for public transport.



What could cause the demand curve to shift to D_2D_1?

A The costs of running the individual's car fall.

B The individual is no longer able to drive.

C The price of public transport falls.

D The public transport services are reduced.

6 The table shows the price elasticity of demand for four goods and services.

	price elasticity
motorcycles	–1.6
telephone calls	–1.0
football tickets	–0.3
light bulbs	0.0

If the price of each item increased by 1%, for which items would the total expenditure increase?

A football tickets and light bulbs

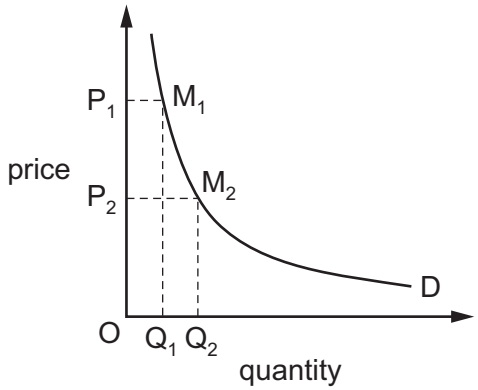
B football tickets only

C motorcycles and telephone calls

D motorcycles only

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7 In the diagram, area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$.



What is the value of the price elasticity of demand if the price is halved from P_1 to P_2?

A zero

B –0.5

C –1

D infinity

8 Four firms supply the market. The market supply is 50 units at $20 and 100 units at $40. The table shows the market share of each firm at the two prices.

Which firm does **not** have a normal upward-sloping supply curve?

	market share (%) at $20	market share (%) at $40
A	10%	10%
B	20%	50%
C	30%	20%
D	40%	20%

9 The price of a good doubles but firms are able to increase production by only 10%.

This is an example of

A excess supply.

B inelastic supply.

C market disequilibrium.

D market failure.

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10 In a market there is a surplus of a good.

Which change would cause the market to come to an equilibrium?

A a decrease in demand

B a fall in price

C a government minimum price

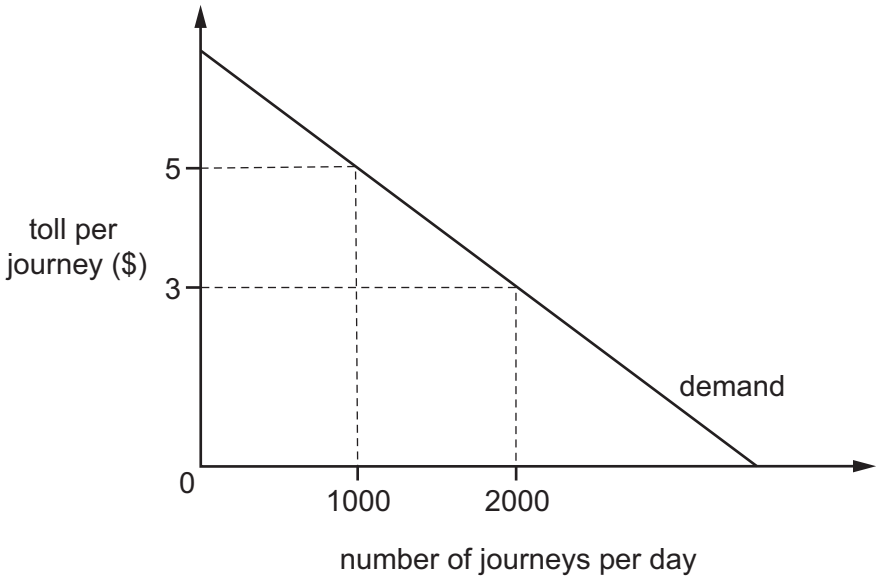
D an increase in supply

11 The market for sugar is in equilibrium. A disease affects the sugar crop and newspapers report harmful health effects of consuming sugar.

Which combination of changes in demand and supply matches these events?

	demand	supply
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

12 The diagram shows a demand curve for journeys on a toll road.



If there is a reduction in the toll from $5 to $3, what is the resulting increase in the daily consumer surplus?

A $1000 **B** $2000 **C** $3000 **D** $4000

13 What is an economic reason why hospitals are often built and funded by the government?

A Hospitals are a public good.

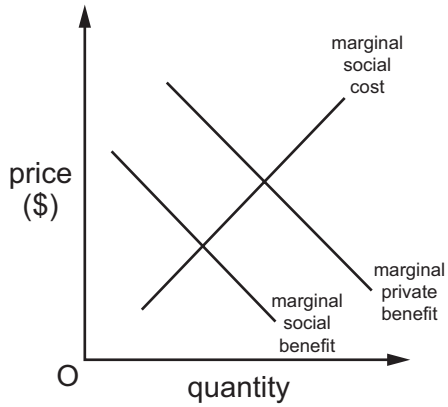
B Hospitals are very expensive to build and run.

C Hospitals cannot use price to allocate demand.

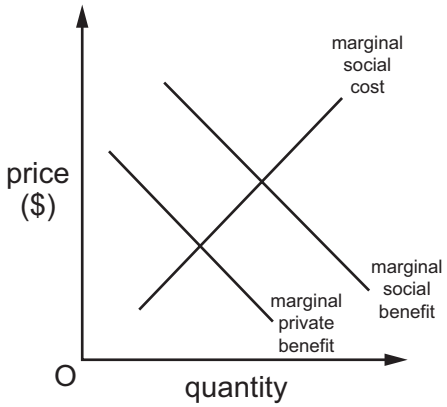
D Hospital treatments may benefit many apart from those who use them.

14 The diagrams show the costs and benefits in four markets.

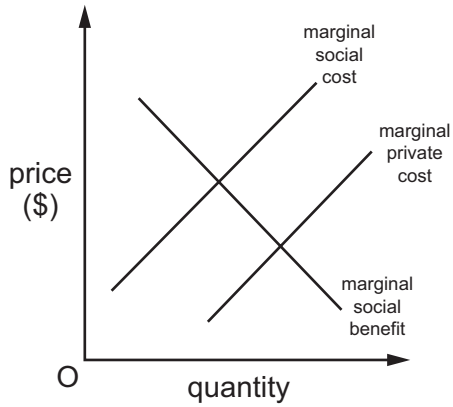
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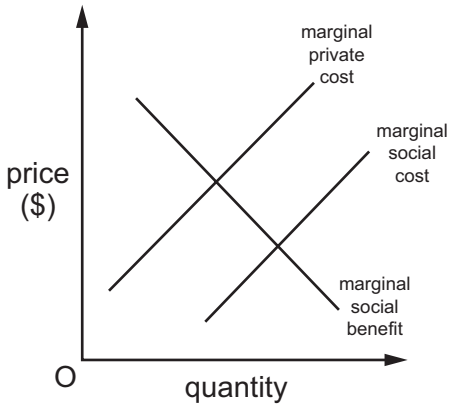
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3



4



Which pair of diagrams show the existence of a positive consumption externality and a negative production externality?

	positive consumption externality	negative production externality
A	1	2
B	2	3
C	3	4
D	4	1

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15 Which statement about costs is correct?

A External cost only affects consumers.

B Opportunity cost affects all transactions.

C Private cost only affects producers.

D Social cost affects all members of society equally.

16 A government is considering building a high-speed rail link.

Why would it **not** proceed with the project?

A The external benefit is greater than the external cost.

B The private cost is greater than the private benefit.

C The social benefit is greater than the social cost.

D The social cost is greater than the social benefit.

17 The production of a product generates a negative externality that increases as output rises.

Which form of government intervention in the market is most suitable to tackle this externality?

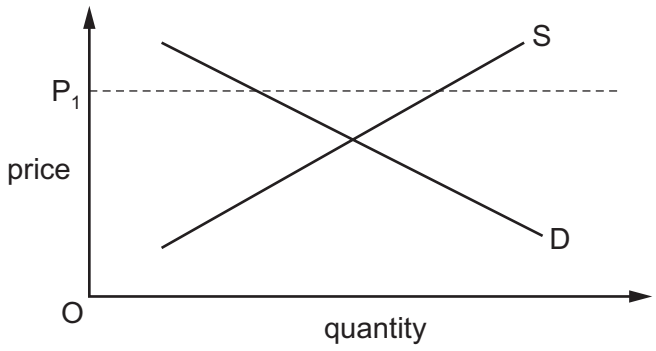
A a direct income tax

B a specific indirect tax

C a subsidy

D an ad valorem indirect tax

18 The government places a maximum price P_1 on an agricultural product. The supply and demand conditions for this product are shown in the diagram.



What will be the outcome in the market for this product?

A There will be an equilibrium price and output.

B There will be a surplus of the product.

C There will be higher than expected profits.

D There will be shortages of the product.

19 Country M specialises in the production of cars while country N specialises in the production of televisions. They then trade with each other.

What is most likely to reduce the level of specialisation and trade?

A There is rising productivity in the production of cars in M and televisions in N.

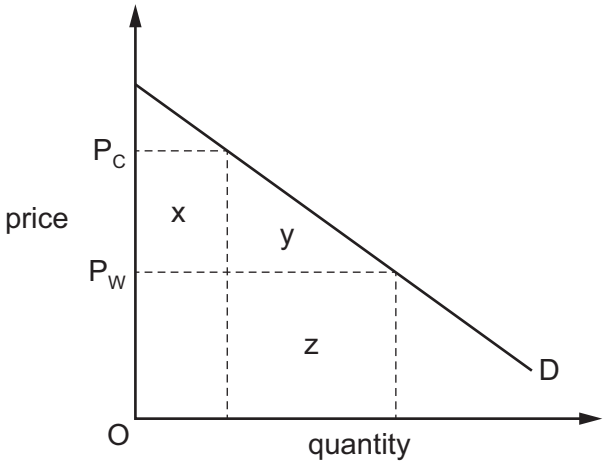
B There is a change from fixed to floating exchange rates between M and N.

C There is a decrease in the costs of transporting cars and televisions between M and N.

D There is an increase in the mobility of factors of production within M and within N.

20 In the diagram, D is a country's demand curve for an imported good.

The country's government imposes an import tariff equal to P_WP_C on the good.



Which areas measure the resulting loss in consumer surplus and the resulting gain in government revenue?

	loss in consumer surplus	gain in government revenue
A	x + y	x
B	x + y	z
C	y	x
D	y	z

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21 In the base year, which combination of export and import price changes will have the greatest effect on the country's terms of trade?

	export prices	import prices
A	decrease by 1%	increase by 1%
B	decrease by 2%	no change
C	increase by 1%	decrease by 1%
D	no change	increase by 2%

22 The table shows selected balances from a country's balance of payments accounts in 2012.

	$ billion
trade in goods	–20
trade in services	+5
net income	+8
net foreign transfers	–4
net foreign loans	–3

What was the country's current account balance in 2012?

A –$15 billion **B** –$14 billion **C** –$11 billion **D** –$7 billion

23 The table shows the changing structure of employment (%) in four countries between 1980 and 2012.

Which country did **not** follow the same trends as the other three countries between 1980 and 2012?

		1980				2012			
		agriculture (%)	industry (%)	services (%)	not employed (%)	agriculture (%)	industry (%)	services (%)	not employed (%)
A	Australia	3.8	16.7	37.8	41.7	1.8	12.2	48.7	37.3
B	Canada	3.0	16.5	40.8	39.7	1.4	12.0	49.1	37.5
C	Japan	6.2	21.5	33.6	38.7	2.1	13.9	40.2	43.8
D	Republic of Korea	19.0	16.0	20.9	44.1	3.7	14.2	41.5	40.6

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24 Aggregate demand in an economy may decrease as a result of an increase in

A consumption expenditure.

B government expenditure.

C import expenditure.

D investment expenditure.

25 The table shows the CPI rate of inflation (%) in the US from 2006 to 2013.

2006	2007	2008	2009	2010	2011	2012	2013
2.5%	4.1%	0.1%	2.7%	1.5%	3.0%	1.7%	2.0%

What can be concluded from the figures about the period 2006 to 2013?

A There was one year of constant prices.

B There were three years of deflation.

C There were only four years of inflation.

D There were eight years of rising living costs.

26 How might an increase in the general price level lead to a rise in real household expenditure?

A by increasing the expectations of further price increases

B by increasing the level of real household debts

C by increasing the level of real wages

D by increasing the spending on exports

27 Between 2011 and 2013, high street retailers reported that expenditure on home-produced and imported goods was reduced. Consumers did not take out loans as the economy was in a recession.

What is the likely result of this?

A a decline in the deficit in the trade account

B a decline in the level of savings

C a decline in the terms of trade

D a decline in unemployment

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28 What does **not** directly increase the supply of £ sterling on the world currency market?

A lower interest rates in the United Kingdom

B higher interest rates in the United States

C an increase in investment opportunities for foreign capital in Latin America

D an increase in sales of United Kingdom exports to the United States

29 There is a depreciation in a country's exchange rate.

If wage costs remain unchanged, what would be the most likely consequence?

A a fall in the rate of inflation

B an increase in profits of manufacturing exporters

C an increase in unemployment

D an outflow of foreign direct investment

30 The currency of a small island economy floats against the US$. The island's Government introduces foreign exchange control restrictions on its citizens.

What is the likely effect on the international value of the island currency and of the US$?

	island currency value	US$ value
A	falls	rises
B	rises	no effect
C	rises	rises
D	uncertain	falls

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ECONOMICS **9708/12**

Paper 1 Multiple Choice (Core) **May/June 2015**

1 hour

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1 In 2013, there was much criticism of a government project to build a new high-speed rail link between two cities.

What is the most likely reason for abandoning such a project?

A The construction cost is greater than the running cost.

B The external cost is greater than the external benefit.

C The future costs are difficult to calculate.

D The opportunity cost is too high.

2 The transition of the former Soviet Union from a planned economy towards a market economy was accompanied by a reduction in the proportion of incomes that households saved.

What could explain this?

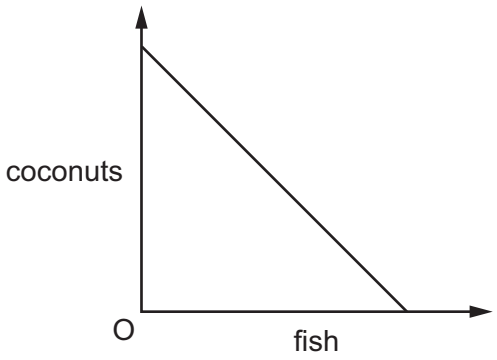
A an increase in income inequality

B an increase in job insecurity

C increased availability of consumer goods

D the introduction of charges for hospital treatment

3 The diagram shows the production possibility curve of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.



What explains the shape of the production possibility curve?

A Coconuts and fish are in joint demand.

B Coconuts and fish are perfect substitutes when consumed.

C Fishing and coconut growing are equally efficient.

D The opportunity cost of fish falls as more time is devoted to fishing.

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

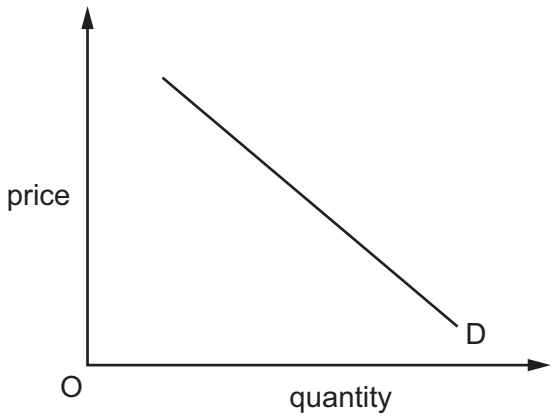
	plates	bowls	mugs
Jane	100	50	50
Sarah	50	100	50
Seema	50	50	100
total	200	200	200

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

What is the rise in total output?

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

5 The diagram shows a demand curve for a good.



Which statement describes the nature of this demand curve?

A A greater or smaller quantity is demanded as price changes.

B A lower price is the result of a fall in demand.

C As demand increases so does price.

D Quantity changes in proportion to the change in price.

6 Assume that Tiger Woods, a famous golfer, announces that his final golf appearance will be at the next US Open Tournament.

How might this affect the demand for tickets for the tournament?

A It will cause a movement downward along the demand curve.

B It will cause a movement upward along the demand curve.

C It will cause a shift to the left in the position of the demand curve.

D It will cause a shift to the right in the position of the demand curve.

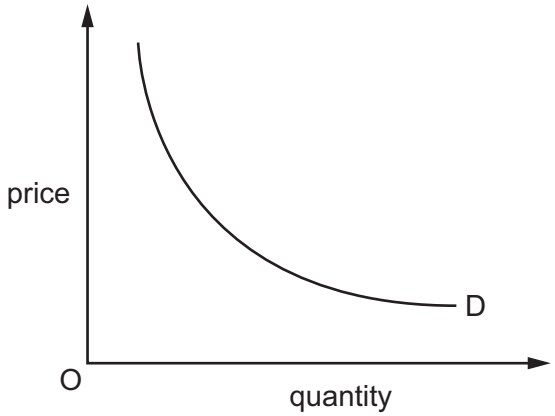
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7 A survey into the market for good X found that it is an inferior good and a close substitute to good Y.

Which values for the income elasticity of demand for good X and its cross elasticity of demand with respect to the price of good Y would support this?

	income elasticity of demand for good X	cross elasticity of demand for good X with respect to the price of good Y
A	–1.2	–0.9
B	–1.2	+0.9
C	+1.2	–0.9
D	+1.2	+0.9

8 The diagram shows the demand curve for a product with unitary price elasticity.



What will happen with such a curve?

A A fall in price will bring about an increase in total expenditure on the product.

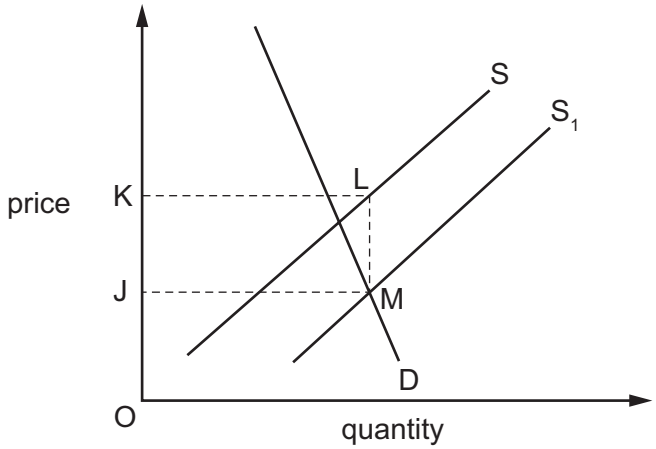
B A fall in price will bring about an increase in sales but a fall in total expenditure on the product.

C As the price rises, total expenditure on the product stays the same.

D As the price rises, total expenditure on the product rises and then falls.

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9 The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the cost to the government of a subsidy to rice growers

B the extra saving to importers of the removal of a tariff on rice

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

10 The price of a firm's product rises by 12%.

After one week the firm is only able to produce the same quantity but after one month it can increase the quantity by 6%.

How would the price elasticity of supply be described after one week and after one month?

	after one week	after one month
A	infinite	elastic
B	infinite	inelastic
C	zero	elastic
D	zero	inelastic

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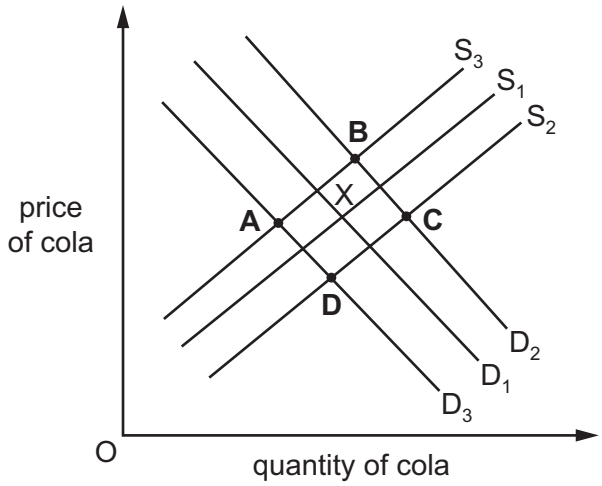
11 Many people used to smoke in restaurants. Restaurant owners have found that the decline in smoking caused by a tax on cigarettes has decreased their sales of meals.

How would this be shown on demand and supply diagrams for cigarettes and for meals?

	cigarettes	meals
A	a movement along the demand curve	a shift inwards of the demand curve
B	a movement along the supply curve	a movement along the demand curve
C	a shift outwards of the demand curve	a shift outwards of the supply curve
D	a shift outwards of the supply curve	a movement along the supply curve

12 S_1 and D_1 show the original supply and demand curves for cola. Point X is the initial equilibrium.

What will be the new equilibrium position following a rise in production costs and a fall in the price of lemonade?



13 Producer surplus is the difference between

A the consumer surplus from the good and the producers' total cost in supplying the good.

B the highest price that the consumer would be willing to pay for the good and the price the producer actually sold it for.

C the lowest price that the producer would accept for the good and the price the producer actually sold it for.

D the quantity that the producers manufacture in a week and the amount sold to consumers in that week.

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14 What is an example of an externality?

A Production of good X directly affects the cost of producing good Y.

B The entry of a new firm reduces the profits of existing firms producing good X.

C The introduction of bus-only lanes reduces the travel times of bus passengers.

D The opening of a new underground railway reduces the revenue of bus operators.

15 The table gives the estimated costs and benefits of a proposed new leisure complex.

	$000s
private benefits	120
external benefits	80
private costs	140
external costs	20

What is the estimated value of the social benefits of the project?

A $40 000 **B** $60 000 **C** $80 000 **D** $200 000

16 The production of what is **most** likely to require a government cost-benefit analysis?

A houses

B medicines

C roads

D schools

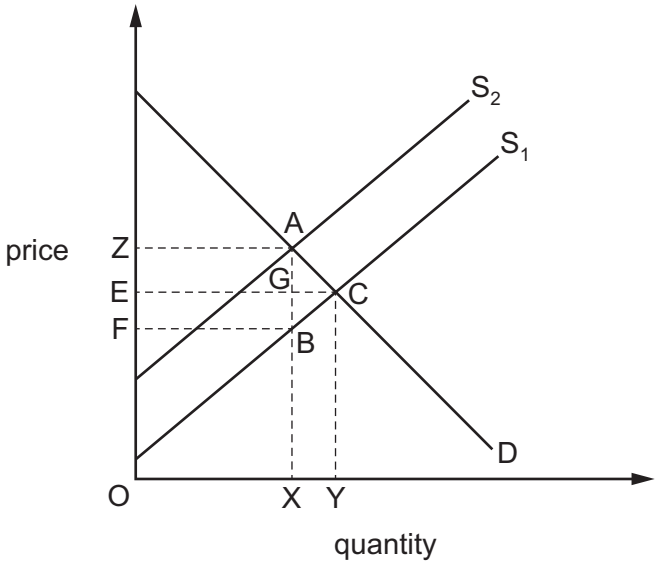
17 A national museum charges an entry fee for admission.

Which combination of rival and excludable qualities would apply to visits to the national museum on a day when there are very few visitors?

	rival	excludable
A	no	no
B	no	yes
C	yes	no
D	yes	yes

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18 The diagram shows the effects of placing a unit tax equal to AB on a good.



Which area represents the burden of tax paid by the producer?

A ECBF **B** EGBF **C** ZABF **D** ZAGE

19 Below are production possibilities for two countries showing their daily production of food and drink, each using the same quantity of resources.

	food (units)	drink (units)
country X	50	100
country Y	40	60

What can be concluded from the figures?

A Country X has absolute advantage in food and comparative advantage in drink.

B Country X has comparative advantage in both goods.

C Country Y has absolute advantage in drink and comparative advantage in food.

D Country Y has neither absolute nor comparative advantage.

20 How might trade protection reduce a country's ability to compete in export markets?

A by increasing firms' profit margins on goods supplied to the domestic market

B by increasing the cost to the country's manufacturers of imported components

C by increasing the real disposable income of the country's consumers

D by making the country more attractive to inward investors

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21 What is found in an economic union but **not** in a customs union?

A a common external tariff on trade with non-member countries

B an absence of quotas on trade between member countries

C an absence of tariffs on trade between member countries

D free movement of labour and capital between member countries

22 The table shows the balance in $million for four items in a country's current account for two years.

	goods	services	income	transfers
Year 1	–72	84	–3	–24
Year 2	–87	96	12	–44

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

A Income has moved from a net inflow to a net outflow.

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

C The value of exported goods has fallen.

D Transfers into the country have increased.

23 Company X reduces its workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.

Company Y increases its workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	falls	rises
B	rises	falls
C	rises	rises
D	falls	falls

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24 In 2012, a survey of household expenditure identified X and Y as the contents of a basket of goods for a price index. The value of the index in 2012 was 100. In 2013, the index was valued at 116. During 2013, the prices of X and Y increased by 10% and 20%, respectively.

In percentage terms, which weights were attached to X and Y in calculating the index?

	good X (%)	good Y (%)
A	25	75
B	40	60
C	50	50
D	70	30

25 In an economy with an interest rate of 4% per annum, the rate of inflation falls from 5% to 3% per annum.

What will be a benefit of this fall?

A Menu costs will fall to zero.

B People on fixed incomes will be better off in real terms.

C Savers will gain in real terms.

D The purchasing power of the currency will rise.

26 When is a deficit on the current account of the balance of payments likely to worsen?

A when a government adopts a deflationary macroeconomic policy

B when a government devalues the currency

C when prices of essential imported raw materials increase significantly

D when tariffs are placed on imported products with a wide range of domestic substitutes

27 What is the real exchange rate?

A the exchange rate at which foreign currency traders can buy a country's currency

B the exchange rate between a country's currency and the US Dollar

C the exchange rate with international differences in price inflation removed

D the weighted average of a country's exchange rates with its major trading partners

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28 An appreciation of country X's currency leads to an increase in its foreign currency earnings from tourism.

What can be concluded from this about the demand by foreigners for holidays in country X?

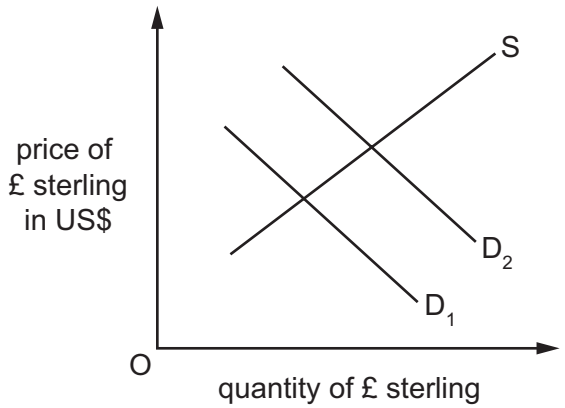
A It is income elastic.

B It is price elastic.

C It is income inelastic.

D It is price inelastic.

29 In the diagram, curves D_1 and S relate to the demand for and supply of £ sterling in the foreign exchange market.



What may cause the demand curve to shift from D_1 to D_2?

A a decrease in UK interest rates

B a decrease in the price of US goods sold in the UK

C the removal of UK tariffs against US goods

D the development of UK substitutes for US goods

30 A government uses monetary policy to manage its economy.

Which sequence correctly describes the most likely consequence of an increase in the country's inflation rate?

	expectations about future interest rates	→	capital inflows	→	exchange rates
A	fall		decrease		depreciate
B	fall		increase		appreciate
C	rise		decrease		depreciate
D	rise		increase		appreciate

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ECONOMICS **9708/13**

Paper 1 Multiple Choice (Core) **May/June 2015**

1 hour

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

* 6 1 8 3 8 8 8 9 4 *

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 What is the fundamental assumption of the economic problem?

A Factors of production are finite.

B Individuals are the best judges of their own wellbeing.

C Individuals can be relied upon to behave rationally.

D The principal aim of private firms is profit maximisation.

2 To improve their economic performance, Eastern European countries have switched from planned economies to mixed economies.

What is likely to be the most common outcome of such a change?

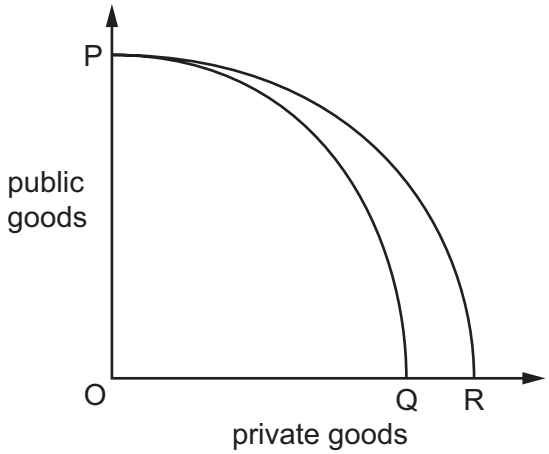
A short-term and long-term success in improving economic performance

B short-term and long-term failure in improving economic performance

C short-term failure and long-term success in improving economic performance

D short-term success and long-term failure in improving economic performance

3 The diagram shows the change in a country's production possibility curve from PQ to PR.



What increases as a result of the change from PQ to PR?

A the price of private goods

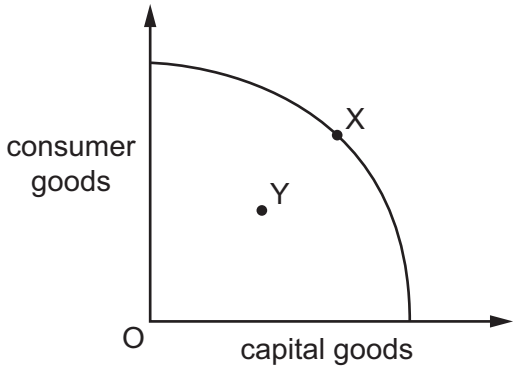
B the price of public goods

C the opportunity cost of private goods

D the opportunity cost of public goods

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4 The diagram shows a production possibility curve for an economy.



Assuming that the production possibility curve remains unchanged, what is the most likely reason for the movement from point X to point Y?

A a civil war causing a widespread loss of resources

B a permanent fall in productivity in both capital and consumer goods

C the exhaustion of a natural resource

D the rise in unemployment due to a recession

5 Buses currently run every two hours between X and Y.

The bus company which operates the service decides to introduce an hourly service.

How will this most likely affect the number of passengers carried per day and the number of passengers carried per journey?

	number of passengers per day	number of passengers per journey
A	increase	decrease
B	increase	uncertain
C	unchanged	decrease
D	unchanged	uncertain

6 The table refers to exports of sugar from Jamaica in 1999 and 2000.

	exports of sugar (tonnes)	export earnings from sugar (US$ millions)
1999	177 522	95.79
2000	180 481	83.8

What can be concluded from the data?

A The demand for sugar was price elastic.

B The income elasticity of demand for sugar was negative.

C The price of sugar in US$ fell between 1999 and 2000.

D The supply of sugar was price elastic.

7 The price elasticity of demand for grapes is –2.0. When the price is $15, quantity demanded is 5000 units.

How much will be demanded when the price falls to $12?

A 3000 units

B 5500 units

C 7000 units

D 7500 units

8 The Toyota Motor Corporation makes cars in response to customer orders rather than attempting to sell cars it has already built.

If the company received a large increase in orders for its Prius model, what will be expected of its current supply curve on a demand and supply diagram?

A It will be unchanged.

B It will become flatter.

C It will shift to the left.

D It will shift to the right.

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

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

What was the amount of the tax?

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

10 What is the likely nature of the price elasticity of supply of a crop such as rice?

A highly elastic in both the short and the long run as rice is an essential product

B highly elastic in the short run and more inelastic in the long run as production methods improve

C highly inelastic in both the short and the long run as the land area of a country is fixed

D highly inelastic in the short run and more elastic in the long run as it takes time to plant rice

11 During a certain period, 10 000 units of a normal good are sold at a price of US$20. During a later period, 12 000 units are sold at a price of US$22.

What could explain this change?

A an increase in indirect taxation

B an increase in the cost of raw materials

C an increase in the price of a substitute commodity

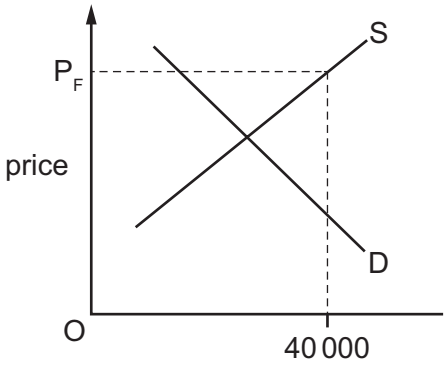
D an increase in the productivity of factors of production

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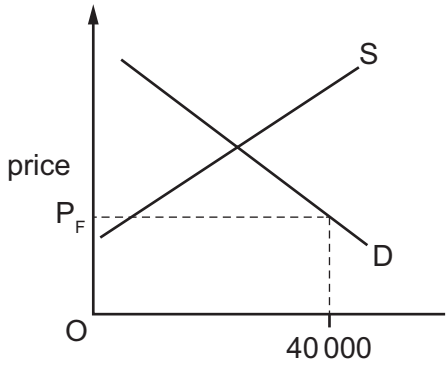
12 The final of a major sports event is held in a stadium which has a fixed capacity of 40 000 people. The price for a seat is set at P_F but when the tickets go on sale all tickets are sold very quickly with many disappointed people unable to buy a ticket.

Which diagram best represents this?

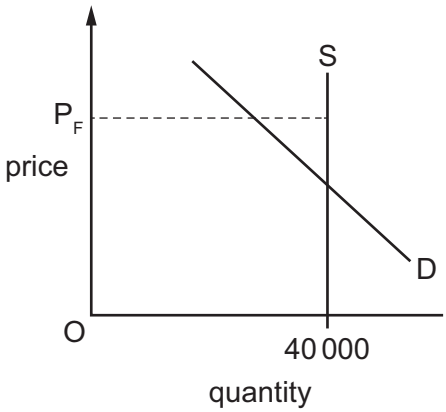
A



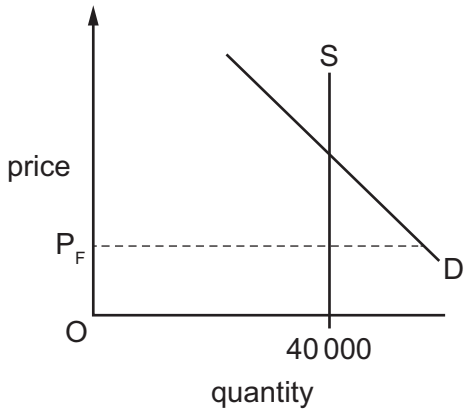
B



C



D



13 In recent years, downloading music to computers and other electronic devices has become more popular replacing other ways of buying music, e.g. compact discs (CDs).

What is likely to happen to the price and the amount of resources allocated to each of these markets?

	downloaded music market		CD market	
	price	resources allocated	price	resources allocated
A	decrease	decrease	increase	decrease
B	decrease	increase	increase	increase
C	increase	decrease	decrease	increase
D	increase	increase	decrease	decrease

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14 James grows fruit trees in his garden. They attract butterflies and bees.

What is **not** an externality of this situation?

A Neighbours may be stung by the bees that pollinate the trees.

B Neighbours may buy fruit more cheaply from James than from the local supermarket.

C Neighbours may enjoy better air quality as the trees naturally improve the atmosphere.

D Neighbours may like to watch the activity of the wildlife at no cost.

15 Jaguar-Land Rover launched a car in 2013 that could run on electricity as well as gas (petrol). This would reduce harmful emissions by about 14% compared with the next most efficient car. However, it was more expensive to buy.

What can be concluded if these cars are bought rather than the existing models?

A Private benefits and external costs would rise.

B Private costs would rise and external costs would fall.

C Private costs and external costs would fall.

D Social costs would rise.

16 A government conducts a cost-benefit analysis into the construction of a new high-speed railway network. The analysis reveals the following information.

	US$ billion
private benefits	120
external benefits	40
private costs	100

If it is to build the railway network, the government requires that the net social benefit is more than US$20 billion.

What must the external costs be to satisfy the government?

A under US$40 billion

B over US$40 billion but below US$60 billion

C over US$60 billion but below US$160 billion

D over US$160 billion

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17 Prisoners are able to buy an upgrade on the type of prison cell they are allocated in some state-run prisons in California.

What does this indicate?

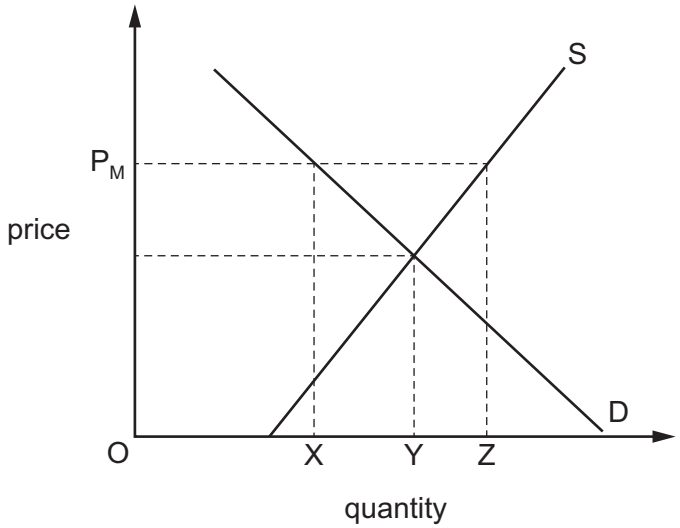
A Public goods can be made excludable.

B Public goods use price as an allocative mechanism.

C The market system is not only used for private enterprise.

D The market system misallocates resources.

18 The diagram shows the demand and supply curves of a good.



If the government sets a maximum price of OP_M, what will be the quantity bought by consumers and the quantity supplied by producers?

	quantity bought by consumers	quantity supplied by producers
A	OX	OX
B	OX	OZ
C	OY	OY
D	OY	OZ

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19 A trading country can produce two goods, X and Y. It specialises completely in the production of good Y.

What will be the opportunity cost to the country of consuming additional imports of good X?

A the additional imports of good X

B the increase in the resources required to produce good X

C the reduction in the domestic consumption of good Y

D the reduction in the resources available to produce good Y

20 What will rise as a consequence of removing a tariff?

A domestic consumer surplus

B domestic price

C domestic producer surplus

D government revenue

21 The table shows how much rice and wheat two countries, X and Y, can grow when each country divides its resources equally between growing rice and wheat.

	country X	country Y
rice (units)	900 million	100 million
wheat (units)	300 million	50 million

Assume that each country now specialises according to comparative advantage and trades with the other country.

Which terms of trade would benefit both countries?

A 1 wheat = 5 rice

B 1 wheat = 3 rice

C 1 wheat = 2.5 rice

D 1 wheat = 2 rice

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22 The table gives details of the balance of trade in the US in 2011 and 2012.

	2011	2012
value of goods exported (US$ millions)	1 496 000	1 561 000
value of goods imported (US$ millions)	2 240 000	2 303 000
balance of trade in goods (US$ millions)	–744 000	–742 000
balance of trade in goods and services (US$ millions)	–557 000	–535 000

What can be concluded about the US in 2012?

A The balance of trade in goods worsened.

B The balance of trade in services improved.

C The prices of goods imported and exported increased.

D The volumes of goods imported and exported increased.

23 A country increases its labour productivity in the manufacturing industry.

What is **least** likely to result from this?

A higher economic growth

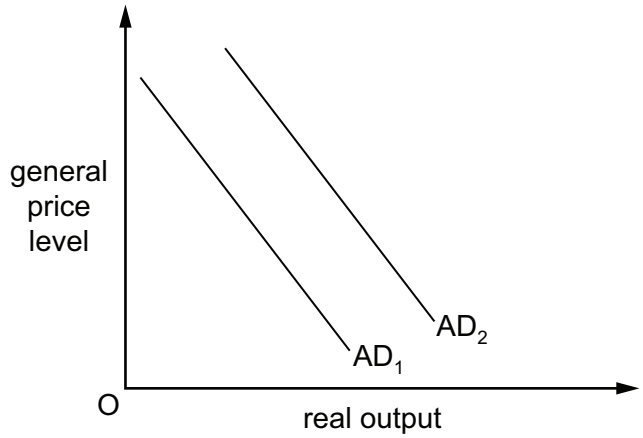
B higher levels of exports of manufacturing

C lower inflation

D lower wage rates in manufacturing

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24 The diagram shows a shift in an economy's aggregate demand curve from AD_1 to AD_2.



What could **not** be a cause of the shift?

A a decrease in income tax

B a decrease in the price of goods

C an increase in money wage rates

D an increase in the money supply

25 What will be the impact on demand-pull inflation and on cost-push inflation of an increase in indirect taxes?

	demand-pull inflation	cost-push inflation
A	lower	lower
B	lower	raise
C	raise	lower
D	raise	raise

26 At the start of 2009, a worker earned US$ 100 a week. In 2009, the Retail Price Index (RPI) rose by 4% and his average wage rose by 7%. In 2010, the RPI fell by 3% and his wage fell by 2%.

What happened to his real wage between the start of 2009 and the end of 2010?

A It fell by less than 5%.

B It fell by more than 5%.

C It rose by less than 5%.

D It rose by more than 5%.

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27 A government has low reserves of foreign currency. When would it be most likely to consider a deficit on current account to be a serious problem?

A when the country is experiencing a period of high, sustained growth

B when the deficit alternates regularly with a surplus

C when the deficit exceeds the sum of errors and omissions in the balance of payments account

D when the level of international confidence in the country is low

28 The table shows indicators of a country's economic performance over a two-year period.

year	exchange rate index	volume of exports index	volume of imports index	balance of trade in goods and services ($)
1	100	100	100	zero
2	100	90	100	+500 million

What is consistent with the above information?

A There has been a fall in the price of exports.

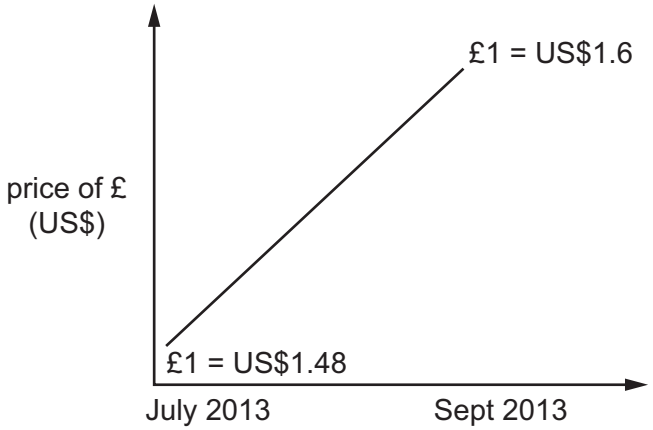
B There has been an improvement in the terms of trade.

C There has been an increase in the level of real income per head.

D There has been an increase in the price of imports.

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29 The graph shows the movement of the £ sterling against the US$ over a three-month period in 2013.



What could explain this change?

A an increase in confidence about the UK economy

B an increase in productivity in the US

C an increase in UK Government debt

D an increase in US interest rates

30 China had US$155 billion current account surplus in 2012.

Which combination of policies might the Chinese Government use to restore equilibrium?

A Decrease income tax and raise the value of the Chinese currency, the Yuan.

B Increase income tax and lower the value of the Chinese currency, the Yuan.

C Increase subsidies to Chinese firms and reduce income tax.

D Increase tariffs on imports and increase income tax.

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