Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2016**

1 hour

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

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1 A driver makes the following estimates in considering the purchase of a car which she intends to use only when she would otherwise have used public transport.

	$
purchase price of car	6000
value of car after one year	4500
car operating and repair costs, insurance and taxation for one year	1800
cost of using public transport for one year instead of travelling by car	800
potential earnings after tax on $6000 invested for one year	500

What will be the opportunity cost in monetary terms to the driver over the year of travelling by car rather than by public transport?

A $1500 **B** $3000 **C** $3700 **D** $7800

2 The transition of centrally planned economies to market economies was accompanied by a significant change in the composition of output.

What was an immediate consequence of this transition?

A a build-up of unsold stocks of goods

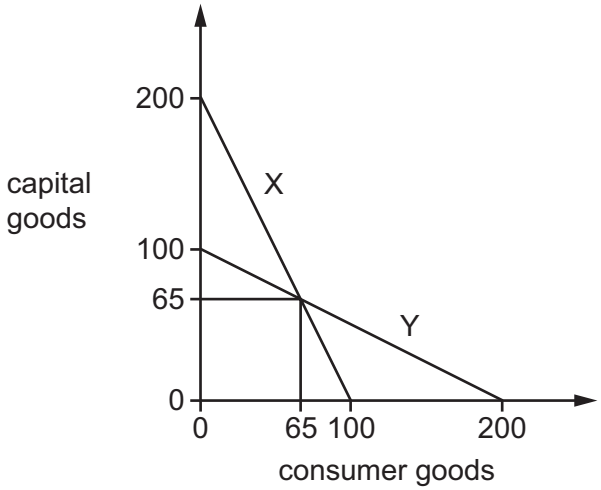
B an increase in exports of goods

C an increase in structural unemployment

D decreasing prices of goods and services

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3 The diagram shows the production possibility curves of two economies, X and Y.



Which statement about the two economies is correct?

A Both economies always have identical opportunity costs.

B Both economies have the same future growth prospects.

C The opportunity costs are constant in each economy.

D The terms of trade for both countries will be one capital good for one consumer good.

4 A production possibility curve shows labour-intensive farming output and capital-intensive manufacturing output.

What would **not** cause a shift in this curve?

A a reduction in sales tax on manufactured products

B better training of workers in the manufacturing sector of the economy

C improvements in the productivity of agricultural machinery

D the reclamation of land to be used for both agriculture and manufacturing

5 In calculating the short-run supply schedule for a firm, what is assumed to remain unchanged?

A the number of consumers

B the price of the good

C the quantities of all factors

D the state of technology

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6 There are two main types of coffee grown, arabica and robusta. The table gives details of the four largest coffee producers for 2013-2014. Production is measured in thousand 60 kilogram bags.

coffee producer	arabica coffee	robusta coffee	total output
Brazil	39 400	14 400	53 800
Vietnam	1 175	27 800	28 975
Indonesia	1 650	7 850	9 500
Colombia	11 000	0	11 000

What can be concluded from the table about production in the four countries?

A Brazil has the highest level of specialisation.

B Brazil produces more coffee than the other three named producers together.

C Robusta coffee production is greater than arabica coffee production.

D Vietnam has a comparative advantage in robusta and Colombia in arabica.

7 A manufacturer progressively reduces the price of his product in an attempt to increase total revenue.

The table shows the outcome of this policy.

price ($)	total revenue 000s ($)
10	750
9	750
8	750

What is the price elasticity of demand for the product?

A perfectly inelastic

B relatively inelastic

C perfectly elastic

D unitary

8 Public transport has an income elasticity of demand of –0.36.

What does this mean about public transport?

A It has close substitutes.

B It is a necessity.

C It is a normal good.

D It is an inferior good.

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9 The price elasticity of supply of an 'App' for a phone is perfectly elastic. The current selling price for the 'App' is $10 and 200 'Apps' are sold per day. The 'App' becomes more popular and, as a result, demand increases by 50% at every price.

What will be the outcome of the change in demand?

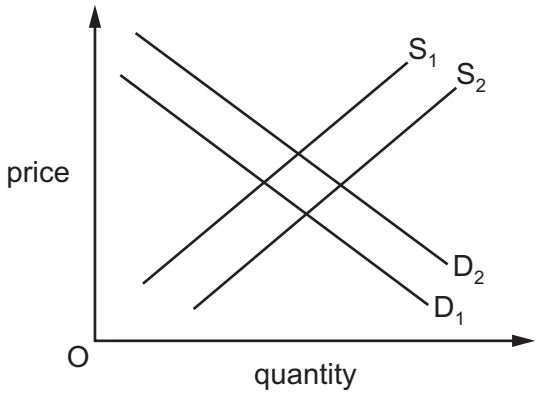
A The price increases by 50% and the firm's revenue increases by 50%.

B The price increases by less than 50% and the firm's revenue increases by less than 50%.

C The price stays the same and the firm's revenue increases by 50%.

D The price stays the same and the firm's revenue increases by an infinite amount.

10 In the diagram shown, D_1 and S_1 are the initial demand and supply curves for the US car market.



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

A a fall in real income and an increase in a unit tax on cars

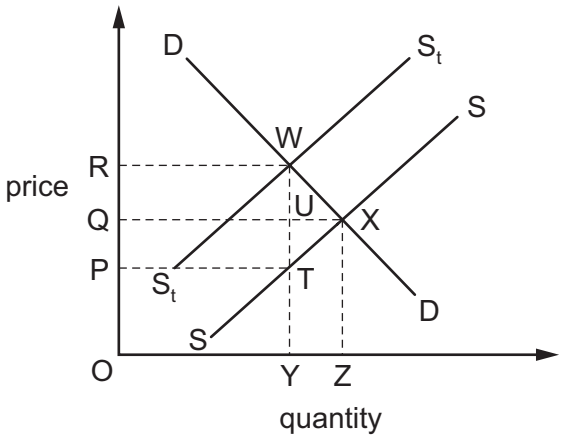
B a fall in unemployment and the removal of subsidies from the car industry

C a rise in the price of bus fares and a fall in the cost of production of the car industry

D a rise in the price of petrol and a fall in the number of firms in the car market

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11 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

12 Goods X and Y are complements.

What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

	equilibrium price of X	equilibrium quantity of X
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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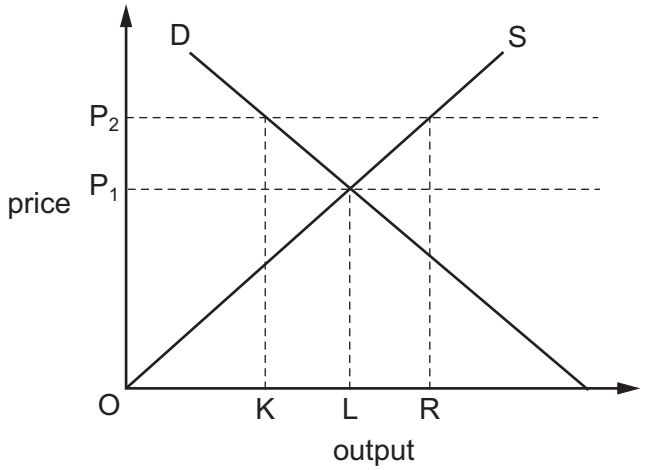
13 The table shows the price Rashid is willing to pay for successive cakes and their production cost.

cakes	1st	2nd	3rd	4th
price willing to pay	$0.90	$0.80	$0.65	$0.50
production cost	$0.20	$0.30	$0.40	$0.50

If the price is $0.50 and Rashid buys four cakes, what is the monetary value of the consumer surplus and the producer surplus?

	consumer surplus ($)	producer surplus ($)
A	0	0
B	0.15	0.10
C	0.85	0.60
D	2.85	1.40

14 The diagram shows the market supply and demand curves for wheat.



What should a government do to maintain a minimum price of OP_2?

A buy quantity KL

B buy quantity KR

C sell quantity LR

D sell quantity KR

15 A product with infinite elasticity of supply has sales of 1000 units a week at a price of $1 per unit. Price elasticity of demand is 1.5 over the relevant range.

The government imposes a tax of 10%.

What will be the government's weekly tax revenue?

A $15 **B** $85 **C** $100 **D** $150

16 A government pays a subsidy to a country's onion producers.

With which price elasticity of demand (PED) will this action be most effective in reducing the price of onions?

A PED equals 0.

B PED is greater than 0 but less than 1.

C PED equals 1.

D PED is greater than 1 but less than infinity.

17 Which statement best describes a transfer payment?

A It is a loan from the government to help firms.

B It is a payment to individuals not linked to economic activity.

C It is the redistribution of income from government to individuals for work done.

D It is the redistribution of income from households to firms for goods purchased.

18 On 1 May 2012 President Morales of Bolivia announced the nationalisation of Transportadora de Electricidad (TDE), a subsidiary of a Spanish company that owned and ran approximately three-quarters of Bolivia's power grid.

What can be concluded from this?

A Bolivian employees of TDE will own 100% of its shares.

B Only Bolivian nationals will be allowed to work at TDE.

C TDE company shares will be sold to a Bolivian company.

D The Bolivian government will take over ownership of TDE.

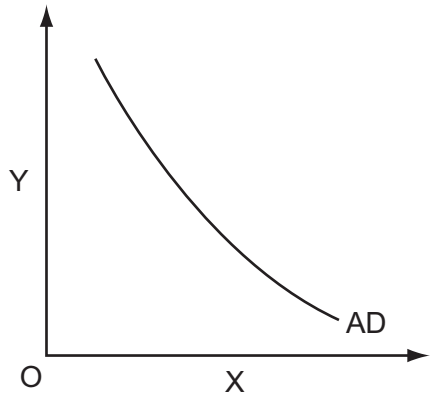
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19 An economy faces rising raw material costs and a fall in business confidence.

How will the economy's real GDP and the price level be affected?

	real GDP	price level
A	it may rise or fall	it will rise
B	it will fall	it may rise or fall
C	it will fall	it will fall
D	it will rise	it may rise or fall

20 The diagram shows an aggregate demand curve (AD).



What is measured on the horizontal (X) axis and the vertical (Y) axis?

	horizontal axis X	vertical axis Y
A	money national output	real disposable income
B	price level	real GDP
C	real GDP	price level
D	real disposable income	money national output

21 The table shows information about a country whose consumers spend their income on three commodities, P, Q and R.

commodity	index of prices in year 1	index of prices in year 2	consumers' expenditure in year 1
P	100	160	$100 million
Q	100	80	$300 million
R	100	100	$100 million

Between year 1 and year 2 how has the general level of prices changed?

A It has risen by 40%.

B It has risen by 10%.

C It has remained the same.

D It has fallen by 5%.

22 The UK inflation rate as measured by the Consumer Price Index was 5.2% in September 2011. In June 2014 the UK inflation rate as measured by the Consumer Price Index was 1.6%.

What can definitely be concluded about the period September 2011 to June 2014?

A Fixed income earners had increased purchasing power.

B Prices were falling.

C The rate of price increases was slowing.

D The real rate of interest became positive.

23 If a country has a surplus in its balance of payments then its money supply is likely to

A fall because more of its goods were purchased by foreign consumers than by consumers at home.

B increase because the foreign currency received for exports will be exchanged for domestic currency.

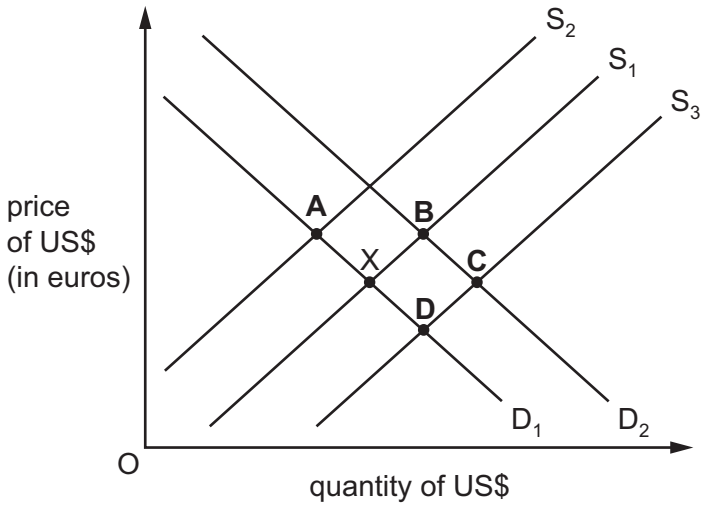
C remain constant because the surplus is automatically offset by a loan for the deficit countries.

D remain unchanged because its exports are bought with foreign currency.

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24 In the diagram the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after an increase in demand from US residents for holidays in Europe?



25 Which combination of changes in import prices and export prices would result in a fall in the value of a country's terms of trade?

	average import prices	average export prices
A	decrease by 5%	decrease by 10%
B	decrease by 10%	decrease by 5%
C	decrease by 10%	increase by 5%
D	increase by 5%	increase by 10%

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[Turn over

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

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



Which statement is correct?

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

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

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

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

27 What is the main argument a government of a small country might use in times of a worsening worldwide recession to justify an increase in import tariffs and other trade protectionist policies?

A to protect the country from a rise in domestic unemployment

B to protect the country's terms of trade

C to protect the domestic economy from increasing prices

D to protect the domestic economy from the import of poor quality goods

28 What would be classified as a supply-side policy measure?

A a law to alter the power of trade unions

B a reduction in the government's fiscal deficit

C an open market sale of securities

D the imposition of a tariff on imported goods

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29 Which policy measure is an expenditure-switching measure designed to reduce a current account surplus?

A a cut in income tax rates

B a depreciation of the exchange rate

C the removal of government subsidies to producers

D the removal of limits on bank lending

30 A country faces twin problems of deflation and a current account deficit on the balance of payments. It decides to run a budget deficit and to lower interest rates.

Which effects are these measures likely to have on its twin problems?

	deflation	current account deficit
A	improves	uncertain
B	improves	worsens
C	worsens	uncertain
D	worsens	worsens

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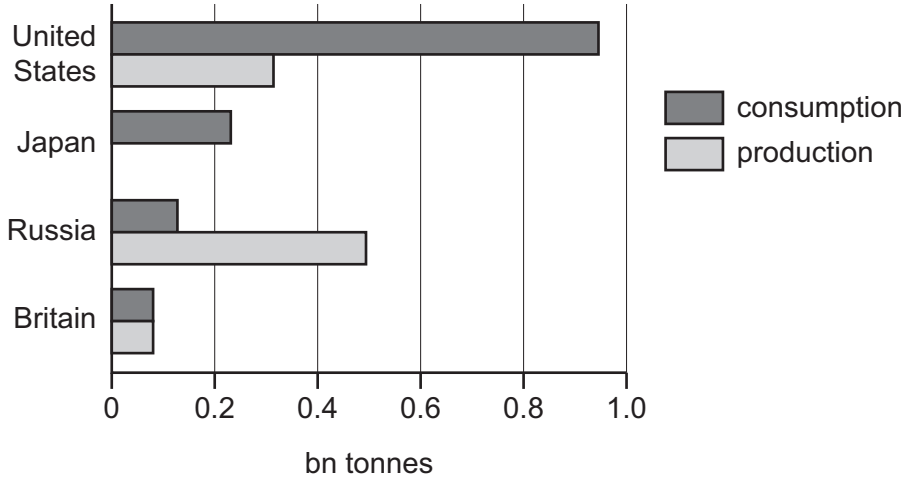
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1 In 2007 there was a worldwide shortage of oil. The diagram shows the consumption and production of oil (billion tonnes) in 2007 for selected countries.



What can be concluded from the diagram?

A In Britain, oil had zero opportunity cost.

B In Japan, there was self-sufficiency in oil.

C In Russia, there was no shortage of oil.

D In the United States, rationing was the only solution to oil shortage.

2 What is necessary for effective specialisation?

A a barter system

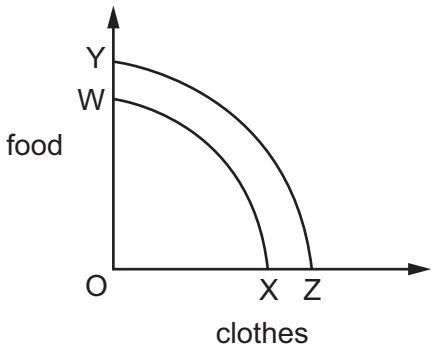
B a medium of exchange

C a production possibility curve

D a system of trade protection

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3 The change from WX to YZ in a country's production possibility curve is shown.



What could have caused this shift?

A an increase in employment among the existing labour force

B an increase in the rate of interest

C the closing of an inefficient factory

D the discovery of a new resource

4 Recently, thousands of ancient Roman coins were discovered buried in a field in the UK.

Funds were raised by a museum to buy them.

What function of money did the coins retain?

A a medium of exchange

B a standard for deferred payments

C a store of value

D a unit of account

5 What describes a market supply curve?

A It is downward sloping.

B It is the same as the aggregate supply curve.

C It is the sum of all firms' supply curves for a product.

D It is the supply of all products within an economy.

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[Turn over

6 The demand curve for new cars in a country shifted to the left.

Which change could have caused such a shift?

A an increase in real disposable income

B an increase in the cost of borrowing

C an increase in the price of new cars

D an increase in the price of train travel

7 The table gives estimates of the price elasticities and cross elasticities of demand for bus and rail travel.

service	elasticity with respect to the price of	
	bus travel	rail travel
bus travel	–0.37	+0.13
rail travel	+0.16	–0.43

What would be the change in the volume of rail travel resulting from a 1% increase in bus fares?

A an increase of 0.16%

B an increase of 0.43%

C a reduction of 0.13%

D a reduction of 0.37%

8 It has been estimated that bread has an income elasticity of –0.04.

What can be concluded about bread from this information?

A It is a normal good.

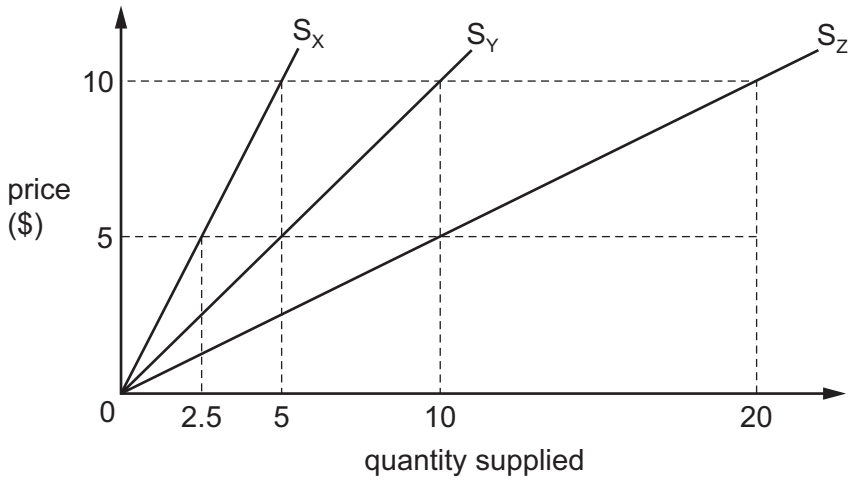
B It is an inferior good.

C It has many complements.

D It has many substitutes.

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9 S_X, S_Y and S_Z are the supply curves of goods X, Y and Z.



If the price of all three goods rises from $5 to $10, what are their price elasticity of supply values?

	good X	good Y	good Z
A	equal to 1	equal to 1	equal to 1
B	equal to 1	greater than 1	greater than 1
C	less than 1	equal to 1	greater than 1
D	less than 1	greater than 1	greater than 1

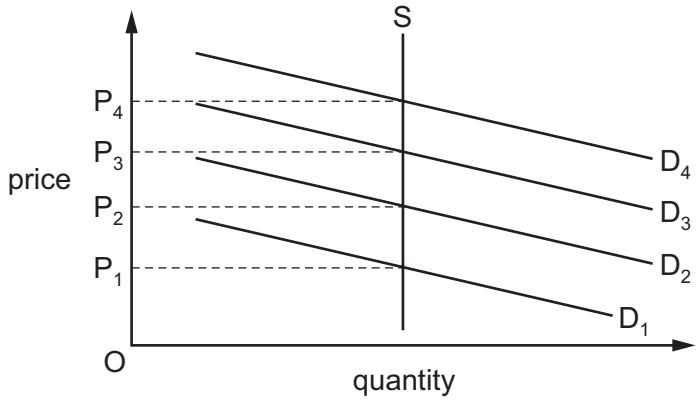
10 A US study, published in July 2014, warned teenagers to reduce the amount of fizzy drink they consume. One can of fizzy drink contains an adult's entire daily sugar allowance.

If the advice were accepted, how might the effect be illustrated on demand and supply diagrams for fizzy drinks and for sugar?

	diagram for fizzy drinks	diagram for sugar
A	demand curve moves to the left	movement up the supply curve
B	demand curve moves to the left	movement down the supply curve
C	movement up the demand curve	supply curve moves to the right
D	movement up the demand curve	supply curve moves to the left

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11 In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days (D_1, D_2, D_3 and D_4).



The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

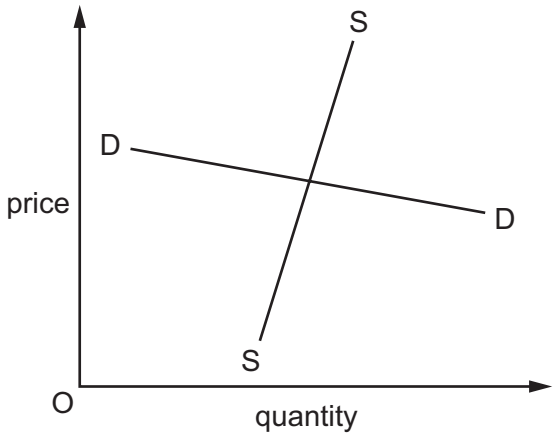
A set a fixed price at P_1

B set a fixed price at P_4

C vary prices between P_2 and P_3

D vary prices between P_1 and P_4

12 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.

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



How does consumer surplus change as the price of the product rises in $5 steps between $5 and $20?

A It falls at a constant rate (%) with each $5 rise.

B It falls by a constant amount with each $5 rise.

C It falls by a decreasing amount with each $5 rise.

D It falls by an increasing amount with each $5 rise.

14 A government imposes a maximum rent in order to make rented housing more affordable.

What is likely to be a long-run consequence if the maximum is set below the current free market level?

A a shortage of applicants for rented housing

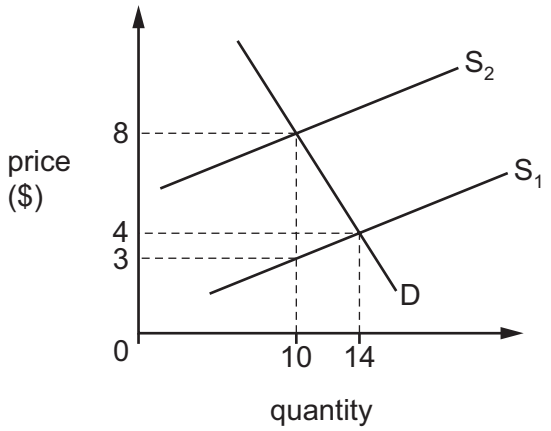
B a shortage of rented housing

C an increase in supply to satisfy the increased demand for rented housing

D an increase in the number of occupants of rented housing

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15 The diagram shows demand and supply curves for a good. S_1 is the original supply curve, S_2 is supply after a tax is added.



How much tax revenue is earned by the government?

A $10 **B** $40 **C** $50 **D** $80

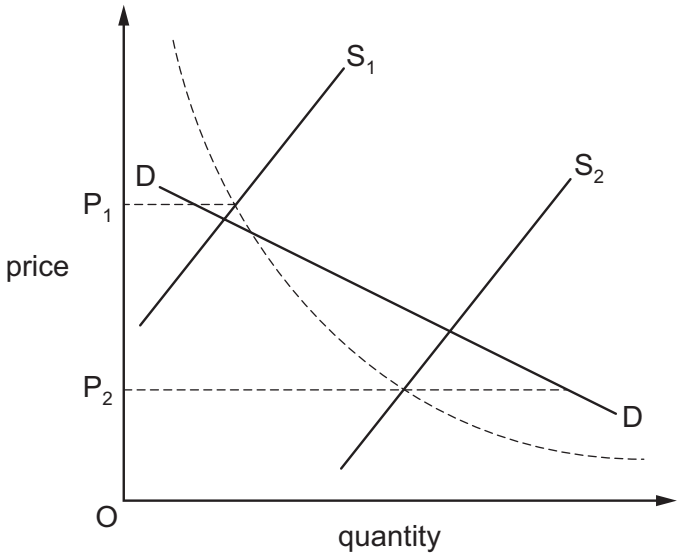
16 A country uses an income tax under which the first $10 000 of income is tax-free, the next $20 000 is taxed at 20% and any income over $30 000 is taxed at a top rate of 40%. It also levies a sales tax of 10% on most products, although some essential goods are exempt.

Which combination of tax changes is most likely to create a more equal distribution of income in the country?

	income tax	sales tax
A	a higher tax-free allowance	a higher rate of tax
B	a higher top rate of tax	a lower rate of tax
C	a lower tax-free allowance	a higher number of exempt goods
D	a lower top rate of tax	a lower number of exempt goods

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17 In the diagram, DD is the demand curve for an agricultural commodity, S_1 is the supply curve in period 1 and S_2 is the supply curve in period 2. The broken curve is a rectangular hyperbola.



The government operates a buffer stock scheme fixing the price at OP_1 in period 1 and OP_2 in period 2.

How do output and farm revenue in period 2 compare with period 1?

	output	farm revenue
A	higher	same
B	higher	higher
C	lower	higher
D	lower	same

18 A government decides to privatise a nationalised company by transferring ownership directly to its managers and workers.

What is its most likely motive for this decision?

A to increase the amount of innovation

B to increase the level of competition

C to increase the level of incentive

D to increase the scale of production

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19 In 2012, high street shops reported a fall in sales as domestic demand in an economy fell. However, the impact on the overall economy was not as unfavourable as was first feared.

What might have lessened the impact on the economy?

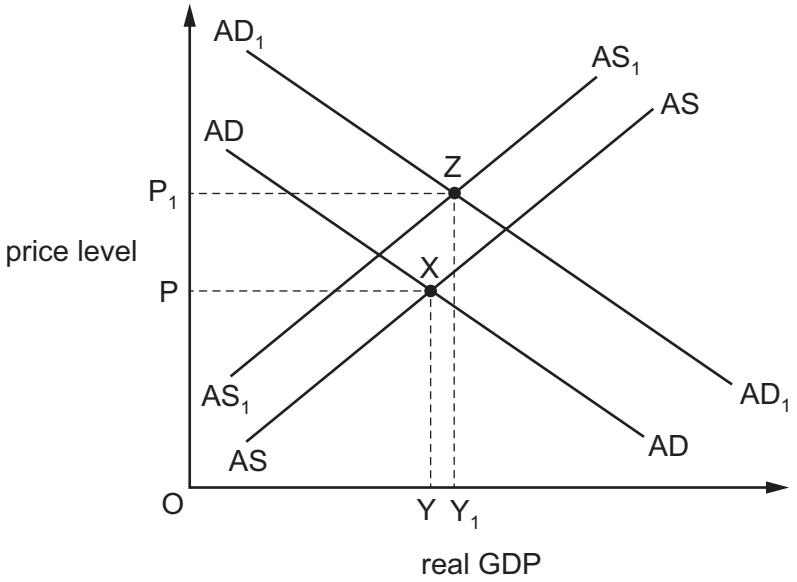
A Exports increased.

B Imports increased.

C Savings increased.

D Taxes increased.

20 An economy is initially in equilibrium at point X in the diagram.



The government then introduces a supply-side policy measure which causes the economy to move to point Z.

Which supply-side policy and reaction could explain this change?

A a cut in income tax to increase the incentive to work but which results in workers increasing their leisure time

B a cut in unemployment benefit which results in more applications for training courses

C a rise in government spending on education which increases labour productivity

D privatisation of key industries which results in an increase in economic efficiency

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21 A country experienced an annual deflation rate of 2% for four successive years.

Which statement is correct for the four-year period?

A The price level fell by 8%.

B The price level fell by less than 8%.

C The real value of money fell by 8%.

D The real value of money fell by less than 8%.

22 In July 2013, orders for durable US manufactured goods from computers to aircraft fell 7.3%, the biggest fall for a year.

What might explain this change in trade and how would it have affected the US balance of payments?

	reason for change	effect on balance of payments
A	an expansion in domestic production	increased outflow in the current account
B	an expansion in foreign markets	reduced inflow in the financial account
C	a recession in domestic production	increased outflow in the financial account
D	a recession in foreign markets	reduced inflow in the current account

23 The following exchange rates were recorded in the foreign exchange market.

£1 = €1.208

$1 = €0.727

€1 = $1.375

Within which range of values should £1 exchange for $?

A £1=less than $0.50

B £1=between $0.50 and $1

C £1=between $1 and $1.50

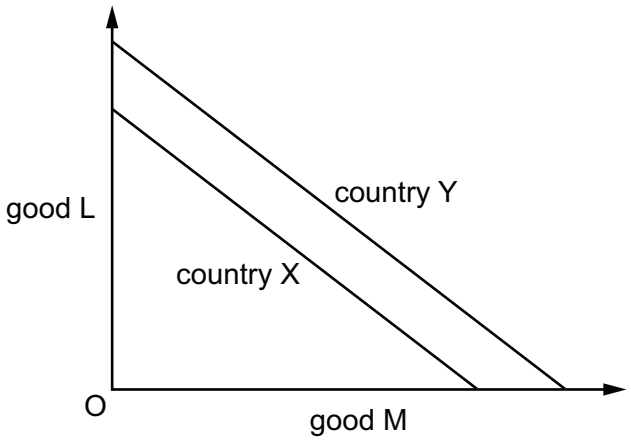
D £1=more than $1.50

24 Between 2005 and 2010, a country's import prices rose by 25% and its terms of trade rose to 120 (2005 = 100).

Which change has there been in the country's export prices?

A –5% **B** 12.5% **C** 45% **D** 50%

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



What can be deduced from the diagram?

A Both countries can benefit from specialisation.

B Country X has a higher opportunity cost than Y in producing good M.

C Country Y has a comparative advantage in both goods.

D Trade between X and Y will not take place.

26 What is **not** associated with greater economic integration between countries?

A increased financial flows

B increased quotas

C increased trade creation

D increased trade diversion

27 Which statement is **not** a valid justification for an import tariff?

A A tariff will prevent imported inflation.

B A tariff will prevent unfair foreign competition.

C A tariff will protect a developing industry.

D A tariff will protect an industry in decline.

28 An increase in interest rates is an example of which type of policy?

A contractionary fiscal policy

B contractionary monetary policy

C expansionary monetary policy

D restrictive supply-side policy

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29 Possible policies a government might use to reduce a deficit on the current account of the balance of payments include devaluation, government spending cuts, interest rate rises and tariffs.

Which two policies would be classified as expenditure-reducing?

A devaluation and government spending cuts

B government spending cuts and interest rate rises

C interest rate rises and tariffs

D tariffs and devaluation

30 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

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ECONOMICS **9708/13**

Paper 1 Multiple Choice **May/June 2016**

1 hour

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

* 5 0 5 7 1 3 1 4 9 5 *

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.

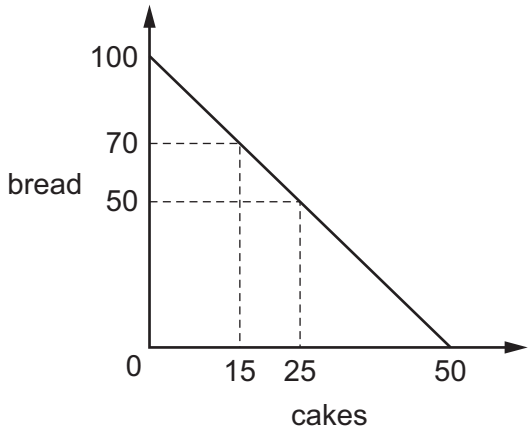
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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.

IB16 06_9708_13/2RP
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1 The diagram shows different production possibilities for a bakery.



They wish to increase production of cakes from 15 units to 25 units.

What is the opportunity cost?

A 10 units of cake

B 15 units of cake

C 20 units of bread

D 50 units of bread

2 Which statement is the most valid reason for government intervention in a free market economy?

A Consumers are well informed, making it difficult for producers to make profits.

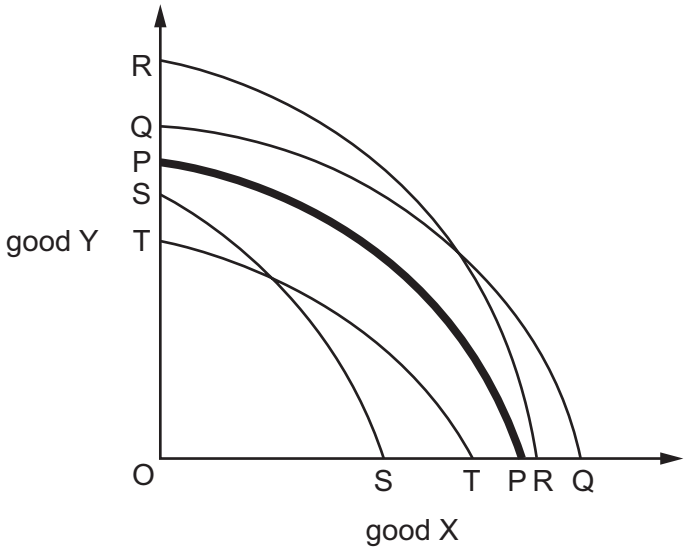
B Health and education are not available in sufficient quantities.

C Producers are motivated by profit maximisation.

D There are many competitive firms and not enough sole suppliers.

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3 The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour-intensive than the production of Y.



The working hours of the labour force are reduced by law.

Which curve could be the country's new production possibility curve?

A TT **B** SS **C** QQ **D** RR

4 The provision of which service by governments could be explained by the concept of public goods?

A education

B health services

C law enforcement

D public libraries

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 a range of new products entering the market

C a rise in the labour costs of its production

D an increase in the price of a substitute product

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6 What is correct about market supply?

A Market supply can increase only when all individual firms increase their output.

B Market supply is effective when consumers have sufficient income to buy the good.

C Market supply is the result of aggregating the supply of all individual firms.

D Market supply of an inferior good falls as price increases.

7 In which circumstances must the total expenditure by consumers on a good increase when its price increases?

A if demand for the good is income-elastic

B if demand for the good is price-inelastic

C if the price of a complementary good also increases

D if the price of substitute goods also increases

8 The price elasticity of demand for good X is 1. At a price of $12, quantity demanded is 4000 units.

What will be the price when the quantity demanded is 20 000 units?

A $2.00 **B** $2.40 **C** $12.00 **D** $20.00

9 The cross-elasticity of demand of good S with respect to the price of good P is +1.5.

The cross-elasticity of demand of good S with respect to the price of good R is –1.5.

The cross-elasticity of demand of good P with respect to the price of good R is –1.5.

What can be concluded about goods P, R and S?

A S and P are complements; P and R are substitutes.

B S and P are complements; R is an inferior good.

C S and P are substitutes; P and R are complements.

D S and P are substitutes; R is an inferior good.

10 A manufacturer's ability to increase supply in the short run will be greater

A if labour is immobile.

B if spare capacity exists.

C if the product is perishable.

D if unemployment is low.

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11 In the market for a good the quantity supplied (Q_S) and the quantity demanded (Q_D) are given by $Q_S = P - 30$ and $Q_D = 240 - 2P$ where P = price in dollars.

A change in the tax on the good makes $Q_S = P - 36$.

How will the change affect equilibrium price?

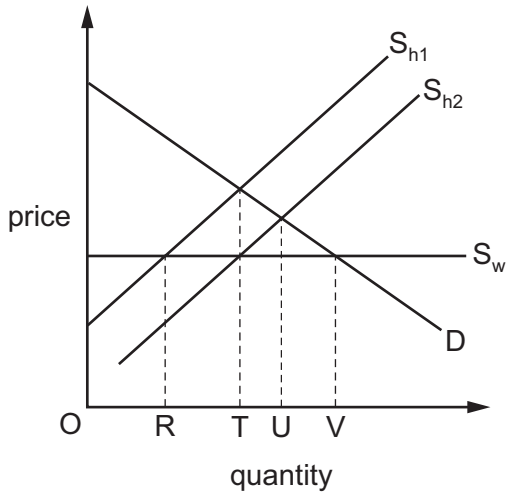
A It will fall by $2.

B It will fall by $6.

C It will rise by $2.

D It will rise by $6.

12 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_{h1} shows domestic supply and S_w shows world supply. Domestic supply then shifts to S_{h2}.



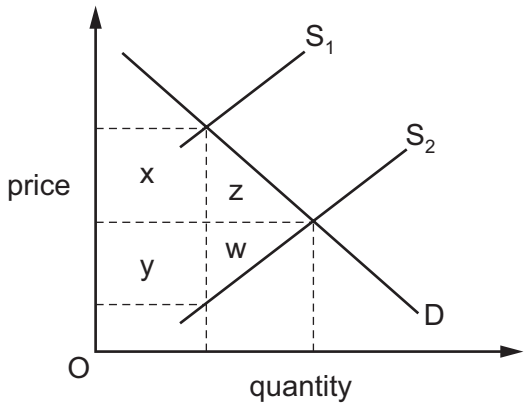
What will be the level of consumption and the associated volume of imports after the supply shift?

	consumption	volume of imports
A	OU	TU
B	OU	UV
C	OV	TV
D	OV	UV

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[Turn over

13 In the diagram, D is the demand curve for Indian tea exports and S_1 is the initial supply curve.



The Indian government removes the tax on tea exports, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting loss in tax revenue to the Indian government and the resulting gain in consumer surplus?

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

14 In a country, the standard rate of sales tax is 10%, but food is not taxed and luxury goods are taxed at 20%. The table shows the patterns of expenditure of three family types.

commodity group	family type by income		
	low	medium	high
food	50%	40%	30%
standard-rated goods	40%	30%	20%
luxury goods	10%	30%	50%

Which combination correctly describes the sales taxes in this country?

	tax on standard-rated goods	tax on luxury goods	tax on all goods
A	progressive	regressive	progressive
B	progressive	regressive	regressive
C	regressive	progressive	regressive
D	regressive	progressive	progressive

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15 In 2009 the Chinese government faced decreased demand in export markets and wished to increase the sales of electrical goods made in China.

Which policy would have achieved this aim?

A increasing income tax

B increasing the restrictions on the manufacture of electrical goods

C removing a tariff on imported products

D subsidising the sales of electrical goods in China's poorer rural areas

16 Which is a transfer payment?

A dividend payments to shareholders

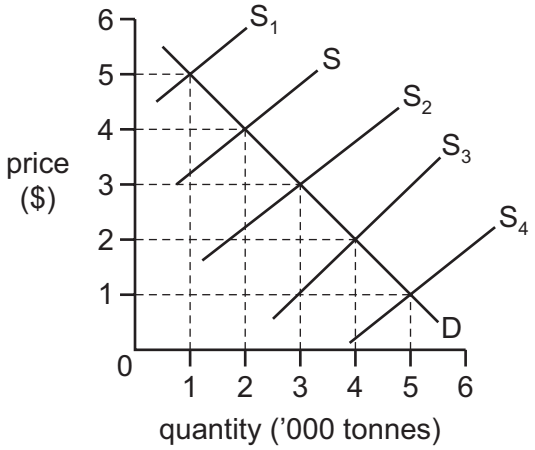
B payments of rent

C unemployment benefit

D wages of government employees

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

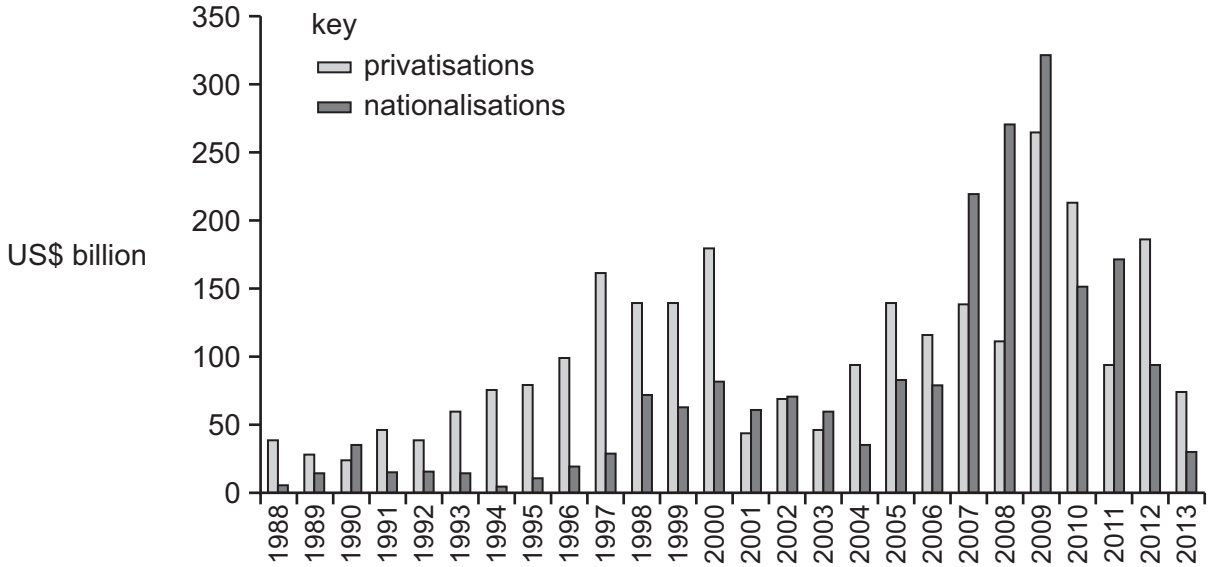
The government promises to maintain farmers' incomes at least at their initial level. The harvests in four subsequent years are shown by supply curves S_1 – S_4.



In which years will the government **not** need to provide extra income to farmers?

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

18 Governments reduce their stock of assets by privatisation. They increase their stock of assets by nationalisations. The diagram shows global sales of state-owned assets and global state purchases of private stock between 1988 and 2013 in US$ billion.



What can be concluded from the diagram?

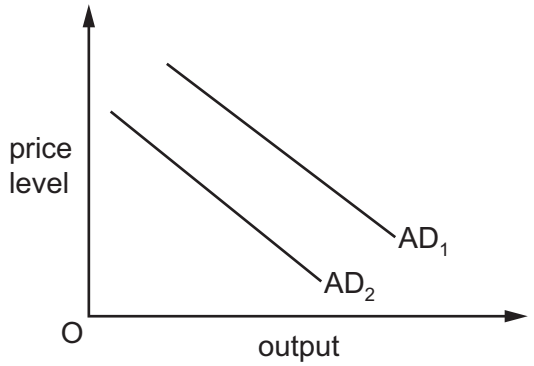
A By the end of the period the private sector owned more assets than the state sector.

B Over the period governments raised more revenue from privatisations than they spent on nationalisations.

C The first year in which nationalisations exceeded privatisations was 2007.

D The greatest annual increase in government ownership of assets was in 2009.

19 In the diagram AD_1 and AD_2 are aggregate demand curves for an economy.



What could cause an economy's aggregate demand to shift from AD_1 to AD_2?

A Consumers spend more.

B Interest rates rise.

C More output is sent abroad as exports.

D The government switches expenditure from roads to hospitals.

20 What must be true if an economy is experiencing inflation?

A Aggregate demand is increasing.

B Aggregate supply is decreasing.

C The interest rate is increasing.

D The real value of money is decreasing.

21 Suppose the average consumer's expenditure is divided between bread, meat, milk and vegetables in the ratio 4 : 3 : 2 : 1.

During the course of a year, the price of bread falls by 10%, the price of meat increases by 20% and the prices of both milk and vegetables increase by 10%.

What is the increase in the average price level during the year?

A 5% **B** 7.3% **C** 10% **D** 12.5%

22 In August 2013, a Dutch insurer announced it wished to sell its South Korean Life Insurance group to a South Korean company for $1.65 billion.

How would such a sale be recorded on the Dutch balance of payments?

A a negative entry in the direct investment section of the financial account

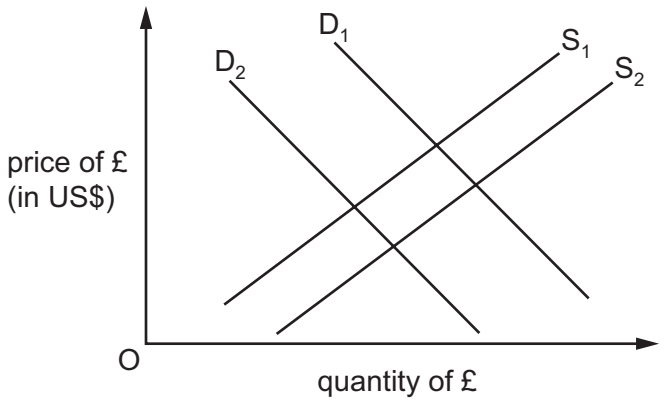
B a negative entry in the investment income section of the current account

C a positive entry in the direct investment section of the financial account

D a positive entry in the investment income section of the current account

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



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

A an appreciation of the pound

B an increase in incomes in the US

C an increase in the price level in the US

D a decrease in UK interest rates

24 There was an increase in the value of the US dollar against the Australian dollar.

What might be a result of this?

A an increase in the volume of exports from the US to Australia

B an increase in the volume of imports to the US from Australia

C fewer people from the US take holidays in Australia

D more people from Australia take holidays in the US

25 Which combination of changes in export prices and import prices would result in an improvement in a country's terms of trade?

	average export prices	average import prices
A	decrease by 5%	decrease by 10%
B	decrease by 10%	decrease by 5%
C	decrease by 10%	increase by 5%
D	increase by 5%	increase by 10%

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26 Countries X and Y produce the world supply of computers and wheat. Each country divides its resources equally between the two products and produces the following.

	computers units	wheat units
X	2000	1400
Y	1000	200

How would total output be altered if each country specialised completely in the product in which it has a comparative advantage?

	computers units	wheat units
A	–1000	+1200
B	–1000	+1600
C	+1000	+400
D	+1000	+1600

27 Why might a government decide to increase the quota set on imports?

A to cut a deficit on the trade balance in goods and services

B to encourage diversification in home industry

C to lower domestic unemployment

D to raise the level of international trade

28 What can be considered an expansionary supply-side policy?

A an increase in government expenditure on training

B an increase in sales tax

C an increase in the rate of interest

D an increase (revaluation) of the exchange rate

29 In an attempt to correct a balance of trade deficit, the government of Indonesia has decided to employ expenditure-dampening methods.

Which policy would best fit this description?

A introducing quotas on imported goods

B raising income tax rates

C subsidising home-produced goods

D taxing imported goods

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30 Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

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