Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2017**

1 hour

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

* 0 4 9 6 0 7 4 3 1 4 *

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1 What must follow when scarcity exists?

A Consumers have to make choices.

B Governments are unable to supply public goods.

C Producers must be misallocating resources.

D Workers must be earning low wages.

2 What is likely to be introduced in the market for bus travel if an economy moved from a mixed economy to a market economy?

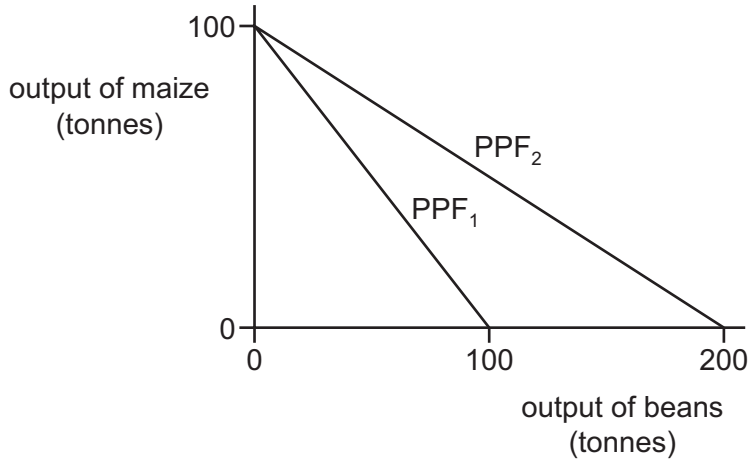
A allowing companies to bid for bus routes

B free bus travel for school children

C maximum prices for bus travel

D subsidies to bus operators

3 The diagram shows that the production possibility frontier of maize and beans has changed from PPF_1 to PPF_2.



What has happened to the opportunity cost of maize and the returns to factors producing beans?

	opportunity cost of maize	returns to factors producing beans
A	fallen	fallen
B	fallen	risen
C	risen	fallen
D	risen	risen

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4 An individual buys a ticket to visit a government-owned art gallery.

How would this visit be classified by an economist?

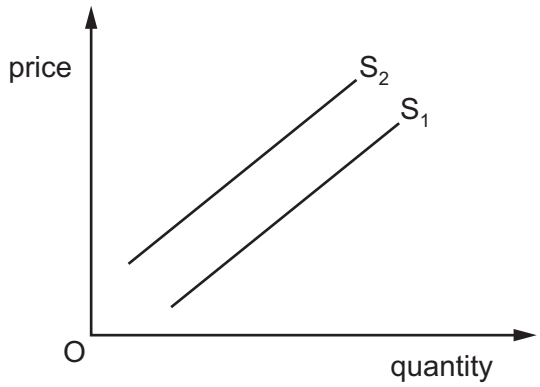
A private and demerit good

B private and merit good

C public and demerit good

D public and merit good

5 The diagram shows a shift in a firm's supply curve from S_1 to S_2.



What may have caused the shift from S_1 to S_2?

A a decrease in the costs of production of the firm

B a decrease in the popularity of the firm's product

C a decrease in the subsidy on the good

D a decrease in the tax on the good

6 A change in the price of a good causes an increase in the quantity of the good demanded.

What would be the nature of the good and the direction of price change for this to be certain to happen?

	nature of good	price change
A	inferior	fall
B	inferior	rise
C	normal	fall
D	normal	rise

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7 Which combination is most likely to result in the demand for a product being highly price elastic?

	number of close substitutes	% of income spent on product
A	large	large
B	large	small
C	small	large
D	small	small

8 A manufacturer increases the price of his product from $4 in an attempt to increase total revenue.

The table shows the outcome of the policy.

price ($)	total revenue 000's ($)
4	400
5	500
6	600

What is the price elasticity of demand for the product?

A perfectly elastic

B perfectly inelastic

C relatively elastic

D relatively inelastic

9 A firm establishes that the price elasticity of supply of its product has a value of 0.3.

What is likely to be true about the firm?

A It has unused productive capacity.

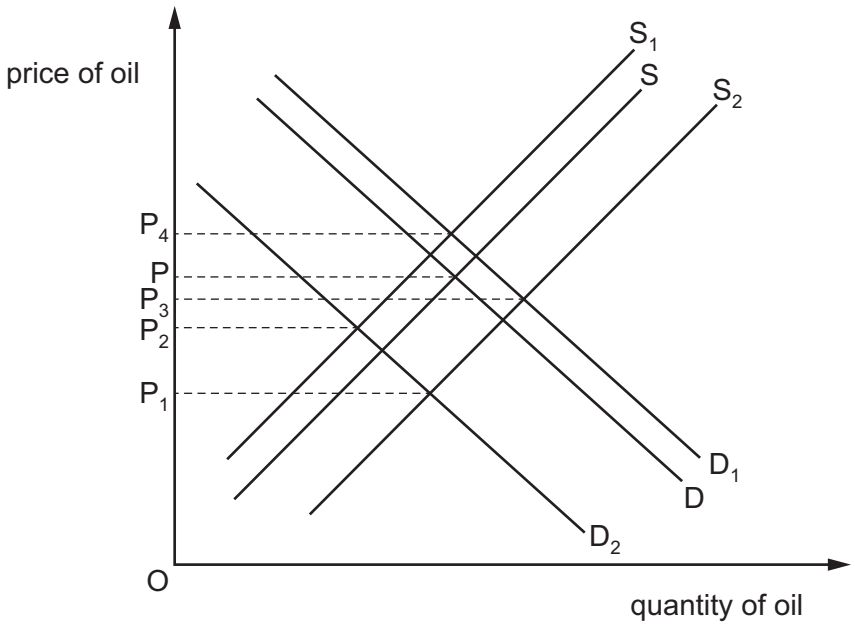
B It has unsold stock of its product.

C It uses a high proportion of perishable raw materials.

D It uses factors of production that are easily substituted.

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10 There is a reduction in world oil supplies due to war in some supplying countries at a time when the winter in some importing countries was much colder than usual. The diagram shows the original equilibrium price, P.



What will be the equilibrium price of oil in these circumstances?

A P_1 **B** P_2 **C** P_3 **D** P_4

11 Good X is a substitute for good Y and a complement to good Z.

What would happen after a fall in the price of good X?

A Only the demand for X will rise.

B Demand for X, Y and Z will rise.

C Demand for Y will fall and for Z will rise.

D Demand for Y will rise and for Z will fall.

12 A government imposes a specific indirect tax on a product.

When will the tax cause the greatest reduction in consumer surplus for the buyers of the product?

A The product has price elastic demand and price elastic supply.

B The product has price elastic demand and price inelastic supply.

C The product has price inelastic demand and price elastic supply.

D The product has price inelastic demand and price inelastic supply.

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

	$
Jane	10.00
Sara	8.00
Yasmin	6.00

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

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

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

14 A government fixes a minimum price for a service.

What will be the outcome of such a policy?

A Demand will fall if the minimum price is below the equilibrium price.

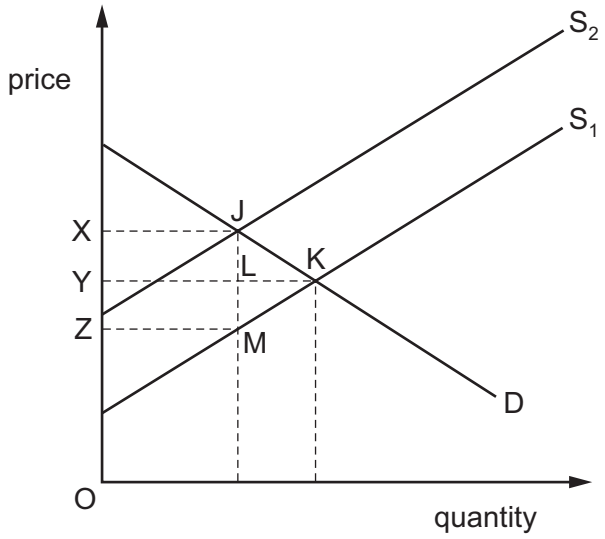
B Demand will rise if the minimum price is above the equilibrium price.

C Production will fall if the minimum price is above the equilibrium price.

D Production will stay the same if the minimum price is below the equilibrium price.

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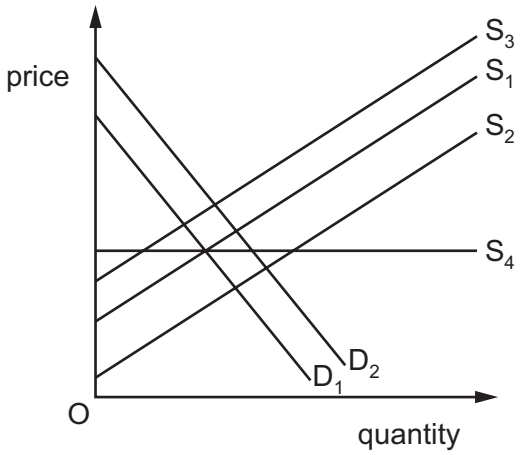
15 The diagram illustrates the effects of placing a specific tax equal to JM on a good.



Which area represents total tax receipts?

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

16 The diagram shows the demand curve, D_1, and the supply curve, S_1, for a good.



The government decides to pay producers a specific subsidy for each unit supplied to the market.

Which curve shows the new effective demand or supply curve?

A D_2 **B** S_2 **C** S_3 **D** S_4

17 Planned government expenditure for the UK in the fiscal year 2016 is estimated at £760 billion. The top five areas of expenditure are given in the table.

	£ billion
pensions	153
healthcare	138
welfare	111
education	89
defence	45
total top five	536

What is the total amount spent on transfer payments shown in the table?

A £89 billion **B** £111 billion **C** £264 billion **D** £536 billion

18 What is likely to occur when the government privatises public sector monopolies?

A Consumer choice will increase.

B Employment will increase in the short run.

C Innovation will be discouraged.

D The production of public goods will increase.

19 In a closed economy a rise in aggregate demand is needed to increase output in the country.

What is necessary to achieve this increase in output in the economy?

A enough capacity to produce the extra goods and services demanded

B free trade to allow imports to make up any shortages in supply

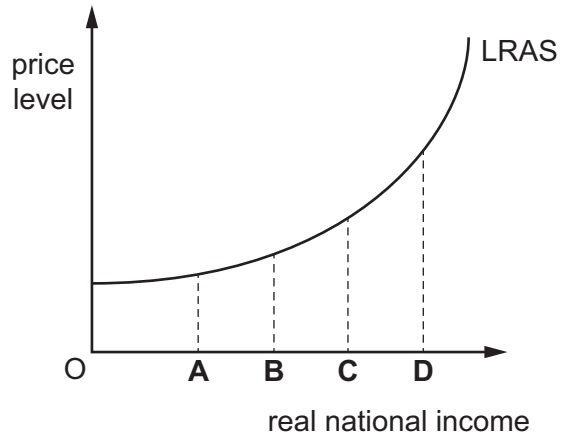
C government spending to be less than tax revenue

D reduced credit to lower inflation

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20 The diagram shows the long-run aggregate supply (LRAS) curve of an economy.

At which equilibrium level of national income is a balance of trade surplus likely to cause the greatest inflationary increase for the economy?



21 A government succeeds in changing a current account deficit into a current account surplus.

Why might this current account surplus increase the country's inflation rate?

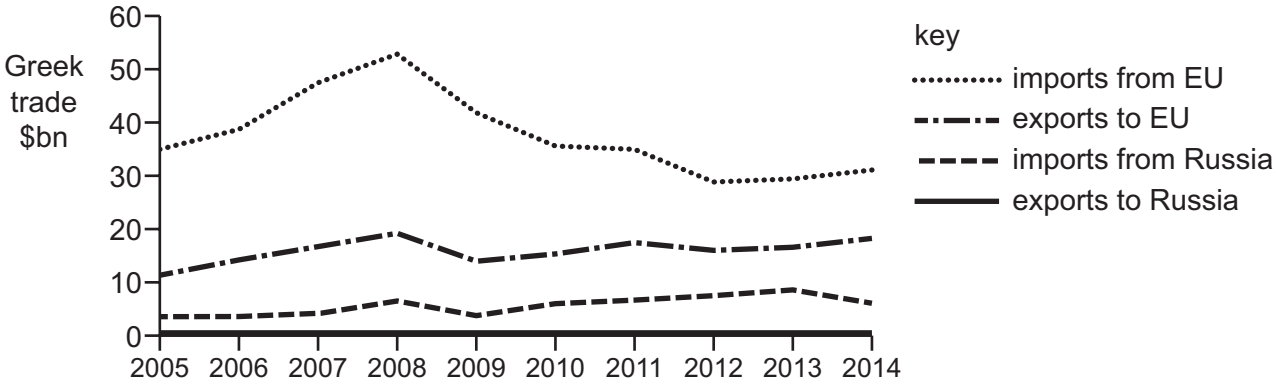
A It raises aggregate demand.

B It raises production costs.

C It reduces the exchange rate.

D It reduces the money supply.

22 The diagram shows Greece's trade position with the EU and Russia between 2005 and 2014.



What can be concluded about the period 2005 to 2014?

A Greece's annual trade deficit with the EU rose continuously.

B Greece's annual trade deficit with the EU was lower in 2014 than in 2005.

C Greece's annual trade deficit with the EU fell continuously.

D Greece's annual trade deficit with the EU was smaller than its deficit with Russia.

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23 There is a rise in the exchange rate of the US$.

Which would cause the greatest increase in the US current account deficit?

A a high level of domestic unemployment

B a high price elasticity of demand for imports

C a low price elasticity of demand for exports

D a low rate of domestic inflation

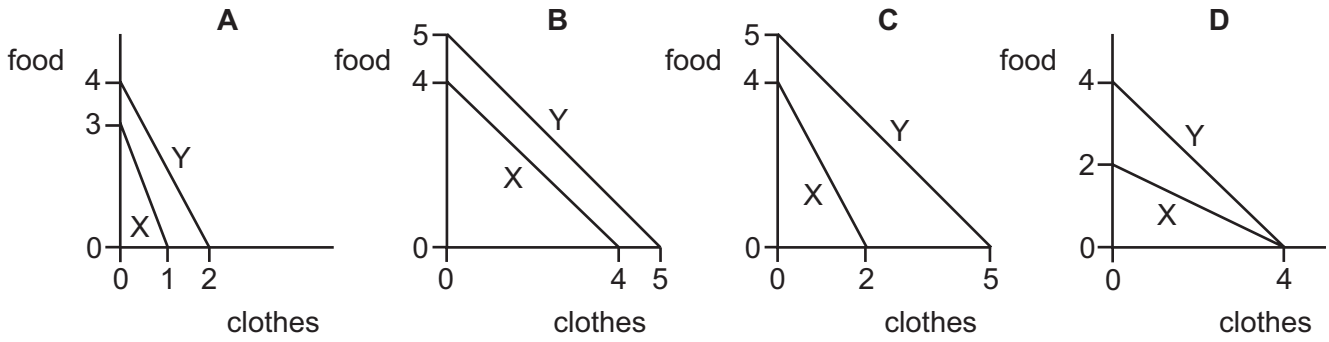
24 Since 2000 a country's export prices have increased on average by 50% and its import prices by 25%.

What is the current figure for the country's terms of trade (2000 = 100)?

A 75 **B** 83 **C** 120 **D** 125

25 Each diagram shows the production possibility curves of two economies, X and Y, which produce food and clothes.

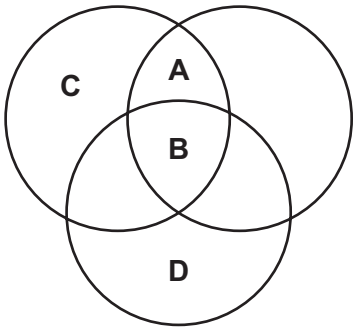
In which diagram would both economies benefit by specialising in the good in which they have comparative advantage and trading at an exchange rate of 1 unit of clothes to 1.5 units of food?



26 Four countries, **A**, **B**, **C** and **D**, trade internationally.

Each circle in the diagram represents a free trade area between the countries within the circle. A country can belong to more than one free trade area. Countries outside of a circle face trade barriers.

Which country has the greatest opportunity to benefit from free international trade?



27 A small trading country decides on a policy of import substitution by producing for itself.

What is the most likely reason for this policy?

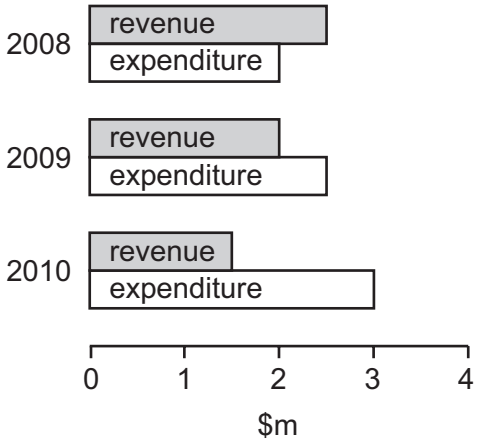
A to follow the principle of absolute advantage

B to influence world prices in international markets

C to protect local industries from foreign competition

D to substitute imported machines for local labour

28 The diagram shows a government's revenue and expenditure for three years.



What can be concluded from the diagram?

A A budget deficit was replaced by a budget surplus.

B A government borrowing requirement emerged.

C The economy moved from a recession into a boom period.

D The yield from taxation continuously increased.

29 A country with a fixed exchange rate has a current account surplus on its balance of payments.

What is most likely to reduce this surplus?

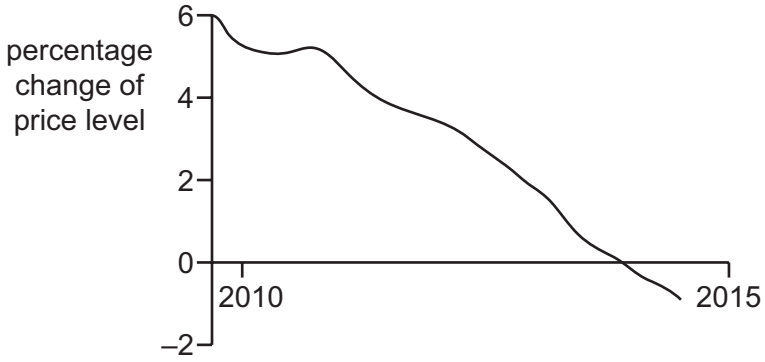
A higher interest rates

B higher investment spending

C higher tariffs

D higher taxes

30 In recent years an economy has experienced changes in its price level as shown.



Which government policy is most effective in reversing the trend shown in the price level?

A encourage firms to expand production through tax incentives

B introduce an incomes policy to directly control wage increases

C promote household savings by issuing savings bonds

D reduce interest rates and increase money supply

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ECONOMICS **9708/12**

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This document consists of **11** printed pages and **1** blank page.

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1 Scarcity means that goods need to be rationed between competing consumers.

Which basis for rationing is the most likely to result in the most equal distribution of goods?

A consumer preference

B market price

C political decision

D seller preference

2 In which aspect is the planned economy likely to offer more than the market economy?

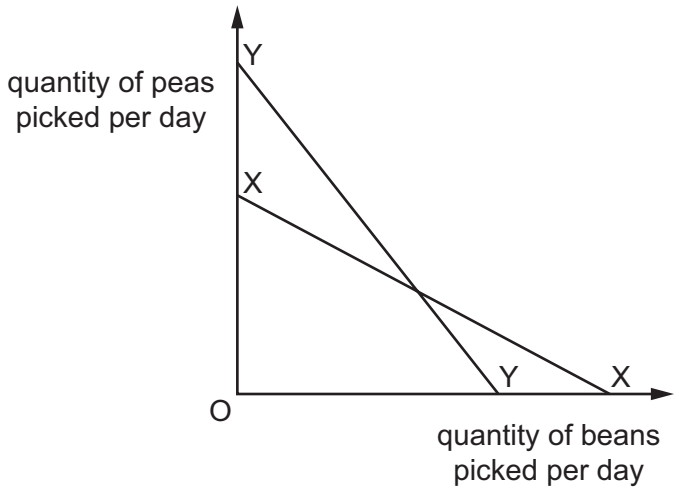
A competition

B incentive

C innovation

D security

3 Line XX is the production possibility curve (PPC) of a worker picking peas and beans in a 10 hour working day.



What would cause the worker's PPC to shift to the line YY?

A a machine that increases the worker's pea picking productivity only

B a new work schedule where the worker spends 6 hours per day picking peas and only 4 hours picking beans

C a reduction in working hours to 8 per day and a machine that increases the worker's pea picking productivity

D a reduction in working hours to 8 per day only

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4 Four students are given the following list of assets.

- a three bedroom house
- banknotes and coins in a purse
- money in a bank savings account
- shares in a public limited company

The students are asked to order the assets from the most liquid to the least liquid and the table shows their choices.

Which student is correct?

	most liquid			least liquid
A	notes and coins	savings account	shares	house
B	notes and coins	savings account	house	shares
C	notes and coins	shares	savings account	house
D	savings account	notes and coins	shares	house

5 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

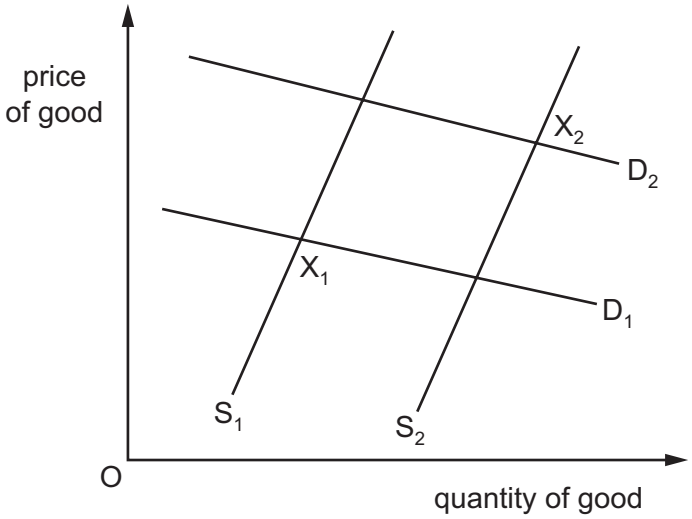
B by combining individual demand curves horizontally

C by combining the price elasticity of individual demands

D by multiplying price by quantity demanded

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6 D_1 and S_1 are the initial demand and supply curves for a normal product. They then change to D_2 and S_2.



Which pair of changes would result in the market equilibrium for the product changing from X_1 to X_2?

A a fall in the price of a raw material used in the manufacturing and a decrease in the price of a complementary good

B an increase in average consumer incomes and an increase in the level of an indirect tax imposed

C an increase in the price elasticity of demand for the product and a fall in its price elasticity of supply

D a rise in the population and an increase in the price of labour used in manufacturing

7 The table gives a set of price and cross-price elasticities for four commodities, W, X, Y and Z.

with respect to price of	elasticity of demand for commodity			
	W	X	Y	Z
W	–0.3	–0.5	+0.7	–1.3
X	–0.7	–1.2	+0.8	+1.6
Y	+1.3	+1.7	–3.6	+0.8
Z	–2.7	+2.6	+1.7	–0.7

Which pairs of commodities are complements?

A W and X; W and Z

B W and Y; X and Y

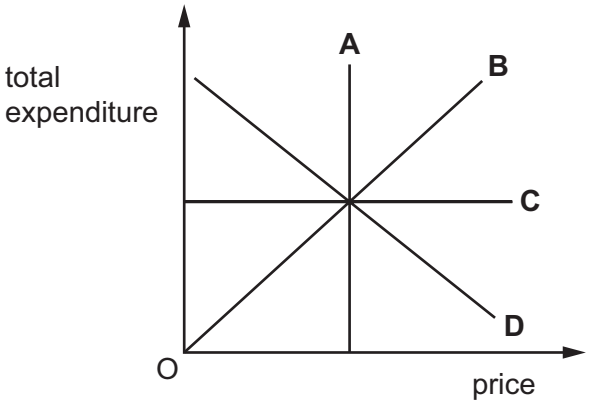
C W and Z; X and Z

D X and Y; X and Z

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8 The price elasticity of demand for a product is constant and equal to unity.

Which curve in the diagram shows the relationship between total expenditure on the product and its price?



9 A bottle making business announced it had introduced a new production system. As a result the quantity produced per week could be increased or reduced much more easily when the price of bottles changed.

What term describes this change?

A a less elastic demand

B a less elastic supply

C a more elastic demand

D a more elastic supply

10 The supply function for a good can be written as Q = 2P + 10, where Q is the quantity supplied in kilos and P is the price per kilo in dollars.

The price falls from $15 to $10 per kilo.

The value of price elasticity of supply for this price change lies in a range from

A $\frac{1}{6}$ to $\frac{1}{4}$. **B** $\frac{3}{8}$ to $\frac{1}{2}$. **C** $\frac{2}{3}$ to $\frac{3}{4}$. **D** $1\frac{1}{4}$ to $1\frac{1}{2}$.

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11 A local government is deciding whether to increase parking charges and provide more lanes for bus use only.

One official said that the increase in parking charges should cause more bus travel.

A second official said that an increase in the frequency of bus services will not cause demand for bus travel to rise.

Are these official statements correct or incorrect?

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

12 What would prevent the operation of the market mechanism's rationing function?

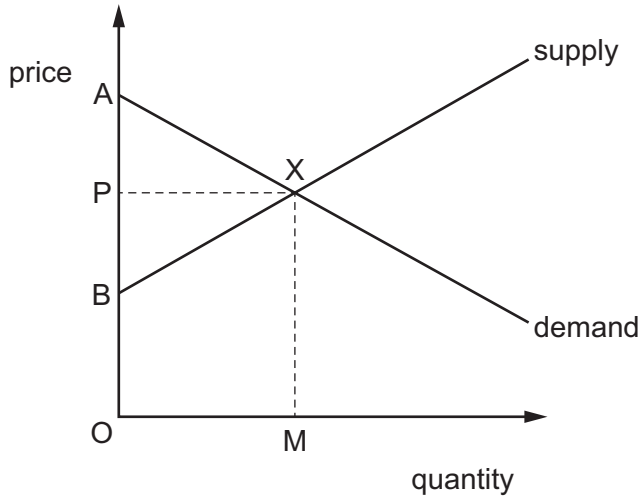
A falling prices

B price controls

C rising profits

D self interest

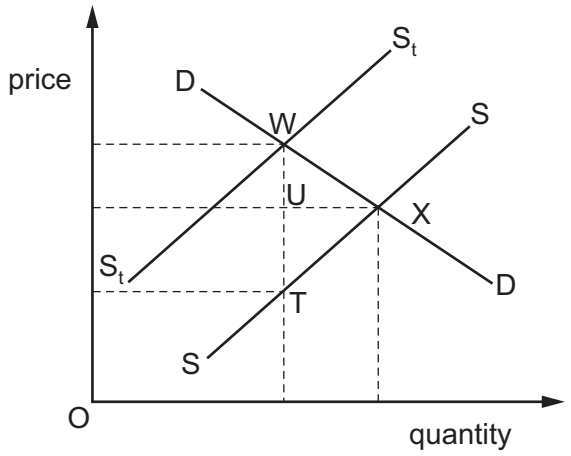
13 The diagram shows the demand and supply curves for a good during a certain period. The market price is shown by P and the quantity traded by point M.



Which area indicates producer surplus?

A AXB **B** AXMO **C** AXP **D** PXB

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

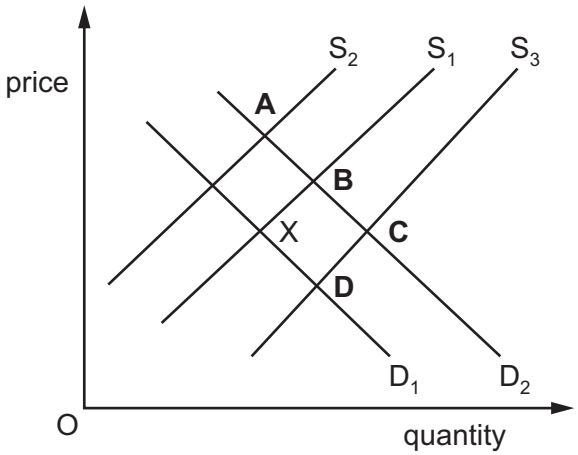


Which distance represents the specific tax on each bottle?

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

15 A market is in equilibrium at point X. The government then subsidises both consumers and producers by direct payments.

What will be the new equilibrium position?



16 Which is a transfer payment?

A an annual allowance paid by an individual to a grandchild

B a one-off bonus paid to an employee for a special contribution to a firm's profits

C a payment made by a parent to a regular child-minder

D the monthly salary of an employee of a local authority

17 What is an example of direct public provision of goods and services?

A a charity hospital funded by public donations that offers free treatment to the rural poor

B a mobile government library that travels to rural villages offering access to books

C a pharmacy in a local shopping centre that provides treatment direct to the public

D a private school that offers free places to children of low income families

18 What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

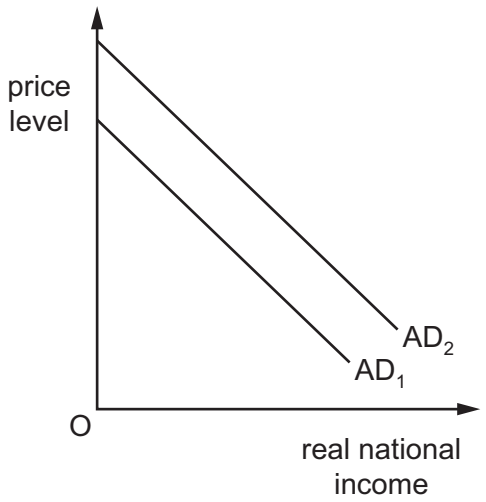
A fewer destinations served by trains and buses

B lower fares

C more frequent services to all destinations

D more people employed in public transport services

19 The diagram shows a shift in the aggregate demand curve of an economy from AD_1 to AD_2.



What could have caused this shift?

A an increase in expenditure on imports

B an increase in government tax rates

C an increase in the international trade deficit

D an increase in the money supply

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20 Which statement about changing price levels is correct?

A Anyone on a fixed income has rising real income during deflation.

B Government revenue from indirect taxes falls during inflation.

C Producers prefer deflation to inflation.

D Savers prefer index-linked savings when there is deflation rather than inflation.

21 Which combination of events is most likely to cause inflation?

	exchange rate	direct taxes	money supply
A	falling	falling	falling
B	falling	falling	rising
C	rising	rising	rising
D	rising	rising	falling

22 The table gives information about the trade between Singapore and New Zealand during 2001, the first year after they signed a free trade agreement. The values are given both in Singapore dollars (S$) and New Zealand dollars (NZ$).

	S$ m	NZ$ m	percentage change from 2000
Singapore exports to New Zealand	508	618	+20%
Singapore imports from New Zealand	331	403	–17%

What can be concluded from the table?

A New Zealand gained more than Singapore from the trade agreement.

B New Zealand's trade position with Singapore improved in 2001.

C Singapore had a trade surplus with New Zealand in 2001.

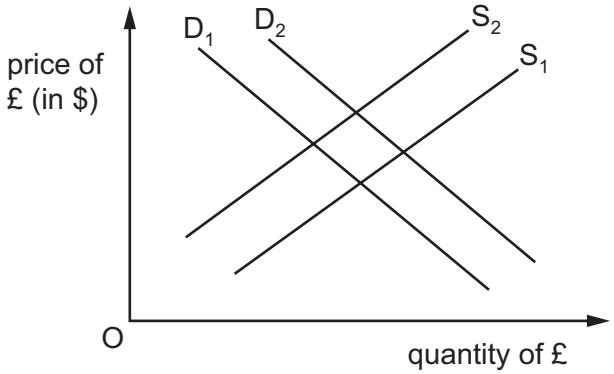
D The exchange rate in 2001 was approximately NZ$ 1 = S$ 1.2.

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

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

A 84 **B** 92 **C** 108 **D** 116

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



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

A a depreciation of the pound sterling

B a decrease in UK interest rates

C an increase in the price levels of other countries

D an increase in the level of UK import tariffs

25 A country's terms of trade currently stands at 150 (base year 2000 = 100).

Since 2000 the average price the country has received for its exports has increased by 20%.

What has been the change in the average price it has paid for its imports?

A –25% **B** –20% **C** +20% **D** +25%

26 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1800	2800
country Q	1500	2000

Which statement is correct?

A P has an absolute advantage in Y and Q has an absolute advantage in Z.

B P has an absolute advantage in Z and Q has a comparative advantage in Y.

C P has a comparative advantage in Y and Q has a comparative advantage in Z.

D P has a comparative advantage in Z and Q has an absolute advantage in Y.

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27 Which government policy could be considered as a protectionist policy?

A an imposition of controls on capital outflows from the economy

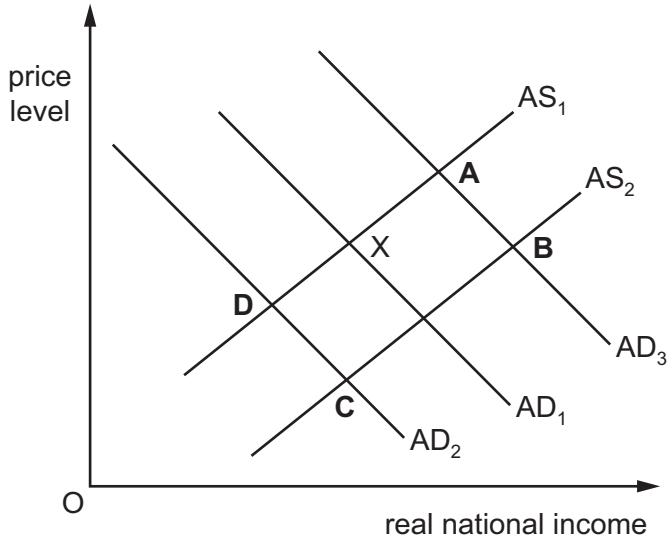
B foreign exchange intervention to prevent a devaluation of the country's currency

C pollution charges imposed on domestic producers

D subsidies paid to domestic producers of a tradeable good

28 The government of a country plans to raise income tax rates. The initial equilibrium for the country is represented by point X on the diagram.

Which new equilibrium point would an economist predict as the result?



29 What is an example of an expenditure-dampening policy?

A an increase in income tax rates

B an increase in the level of import tariffs

C an upward revaluation of the exchange rate

D the introduction of import quotas

30 An economy is currently operating close to its full employment level of national income.

Which combination of macro-economic policies would be most likely to have net deflationary effects?

A a 10% cut in the standard rate of income tax and a 5% devaluation of the currency

B a 10% cut in the standard rate of income tax and a 5% revaluation of the currency

C a 10% rise in the standard rate of income tax and a 5% devaluation of the currency

D a 10% rise in the standard rate of income tax and a 5% revaluation of the currency

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ECONOMICS **9708/13**

Paper 1 Multiple Choice **May/June 2017**

1 hour

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

3606692335

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.

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

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1 What is an example of the use of *ceteris paribus*?

A The rate of increase in wage rates equals the rate of increase in price levels.

B There is a constant rise in both wage rates and price levels.

C Wage rates and the price level remain constant at their original levels.

D Wage rates rise when the only change is a rise in prices.

2 What is always true of a positive statement?

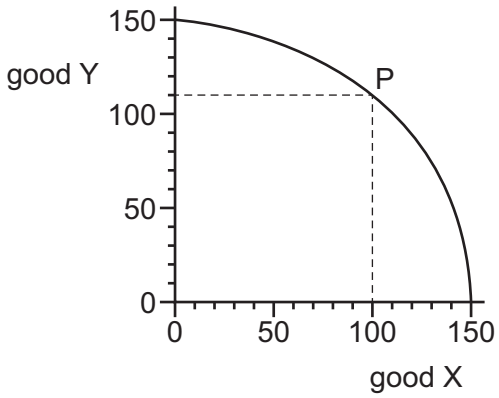
A It is based on statistical data.

B It is possible to test its validity.

C It is the only basis for economic policy.

D It overrides any normative statement.

3 The diagram shows a production possibility curve for an economy that is producing at point P.



Which quantity of Y is given up to produce the quantity of X shown?

A 40 **B** 50 **C** 100 **D** 110

4 What is an accurate statement about different types of goods?

A Free goods are offered for sale at a loss-making price.

B Merit goods generate more consumer surplus than producer surplus.

C Private goods can be consumed with no opportunity cost.

D Public goods can be used by additional consumers with no extra production cost.

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5 Why does an individual's demand curve generally slope downwards to the right?

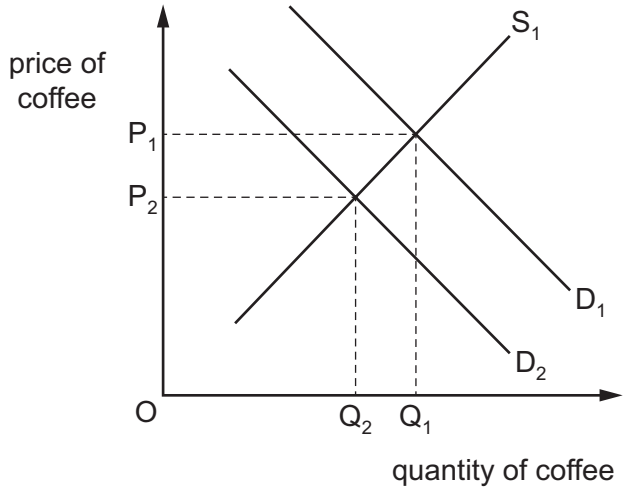
A The additional satisfaction an individual gets from consuming most goods decreases as consumption increases.

B The additional satisfaction an individual gets from consumption decreases as income rises.

C The individual has finite income which is used to attempt to satisfy many wants.

D For most goods the price charged by producers falls as the quantity purchased increases.

6 Ethiopia is Africa's largest producer of coffee. S_1 and D_1 are the original supply and demand curves for Ethiopian coffee. D_2 is a new demand curve.



What would have caused the change shown in the diagram?

A a fall in incomes worldwide

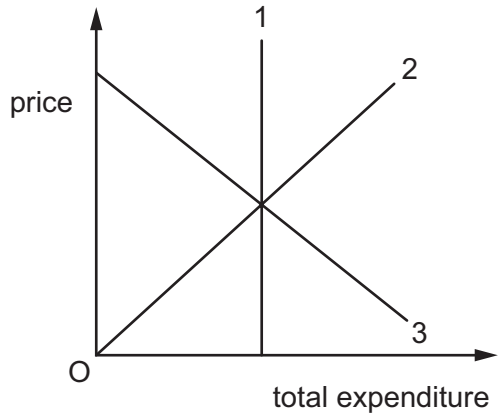
B a fall in the cost of producing Ethiopian coffee

C a rise in output from Ethiopian coffee harvests

D a rise in the price of coffee produced in Kenya

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



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

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

8 A firm has a perfectly elastic supply curve at the market price of $10.

Which statement about the firm is correct?

A At any price above $10 quantity supplied is zero.

B At any price below $10 quantity supplied is infinite.

C At price $10 the firm will supply any quantity.

D At price $10 the firm will break even.

9 The supply function for a good can be written as Q = 2P + 10, where Q is the quantity supplied in kilos and P is the price per kilo in dollars.

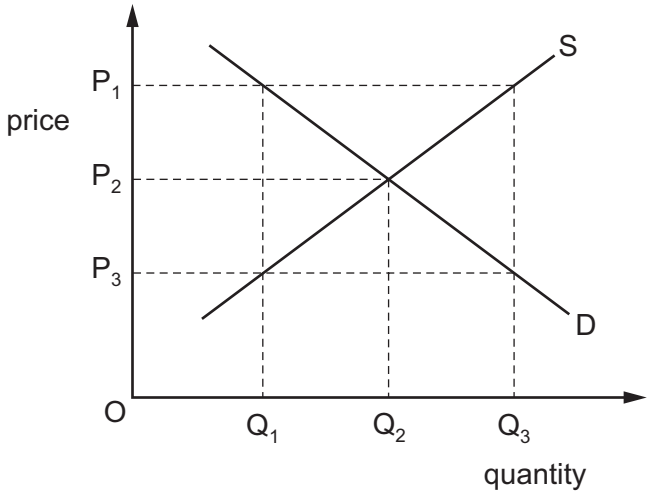
The price rises from $10 to $15 per kilo.

The value of price elasticity of supply for this price increase lies in a range from

A $\frac{1}{6}$ to $\frac{1}{4}$. **B** $\frac{3}{8}$ to $\frac{1}{2}$. **C** $\frac{2}{3}$ to $\frac{3}{4}$. **D** $1\frac{1}{4}$ to $1\frac{1}{2}$.

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10 In a free market in disequilibrium, which combination of price and quantity will lead to a fall in price and a contraction in output to reach equilibrium?



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

11 A change in market conditions causes a reduction in supply. This results in a higher price for the product, which has a downward-sloping demand curve.

What must be the outcome of this higher price?

A a decrease in the demand for substitutes

B a decrease in the quantity demanded

C an increase in the factors employed in the industry

D an increase in producer's revenue

12 The soap industry consists of several firms. Firm X produces a small percentage of total output.

What is likely to cause the supply curve for firm X to shift to the right while the market supply curve shifts to the left?

A Firm X has improved technology while other firms have higher input costs.

B Firm X has to pay a large fine for polluting a river while other firms have a tax reduction.

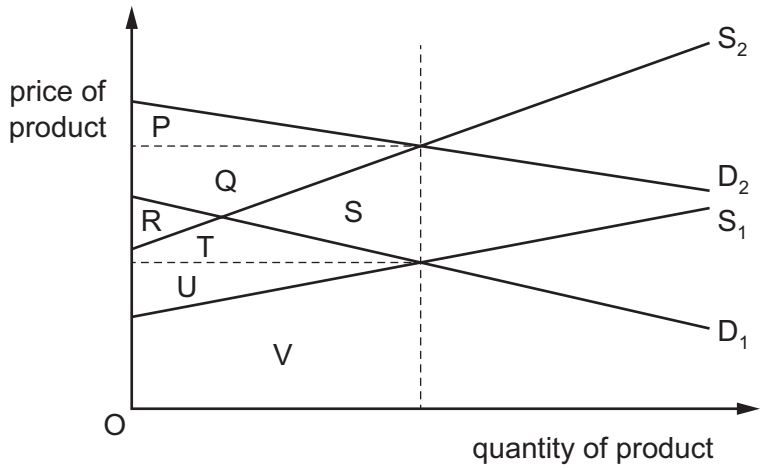
C Firm X is involved in a strike while other firms enter the industry.

D Firm X's rent and interest charges increase while other firms receive a government subsidy.

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13 D_1 and S_1 represent the initial demand and supply curves for a product.

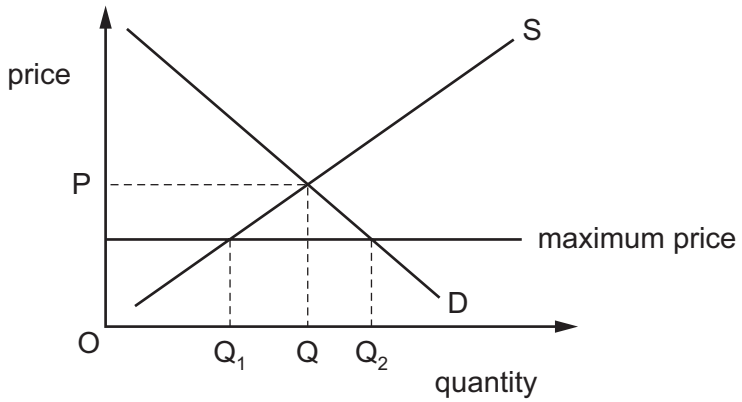
D_2 and S_2 are the equivalent curves after changes in market conditions.



What are resulting changes in consumer and producer surplus?

	change in consumer surplus	change in producer surplus
A	from R to P	from U to Q
B	from R + T to P	from U to Q + R
C	from R + T to P	from V to Q
D	from R to P + S	from V to Q + R

14 The diagram shows a market subject to a maximum price.



What will happen if the maximum price is removed?

A There will be allocation by a queuing system.

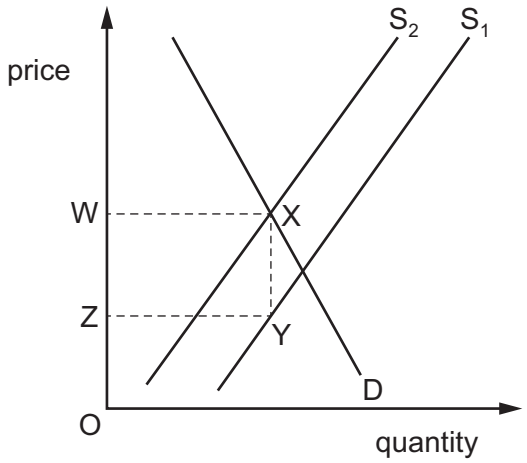
B There will be allocation by government rationing.

C There will be allocation by seller's preference.

D There will be allocation by the price system.

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15 The diagram illustrates the effect of a government action that shifts S_1 to S_2.



What does the area of the rectangle WXYZ represent?

A the consumer tax burden

B the government tax revenue

C the government subsidy payment

D the producer subsidy income

16 The table shows the demand and supply schedules for a product before and after the government pays a subsidy of $4 per unit to the producers.

price ($)	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	140	60	100
8	120	80	120
10	100	100	140
12	80	120	160
14	60	140	180

What is the total government spending on the subsidy?

A $240 **B** $400 **C** $480 **D** $960

17 Which government transaction is a transfer payment?

A a fee paid for a service supplied by government

B a payment to a private firm for goods supplied to the government

C a pension paid to a former government employee

D a salary payment to a government tax official

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18 Following deregulation, state-owned enterprises in an economy are to be privatised.

What is least likely to result?

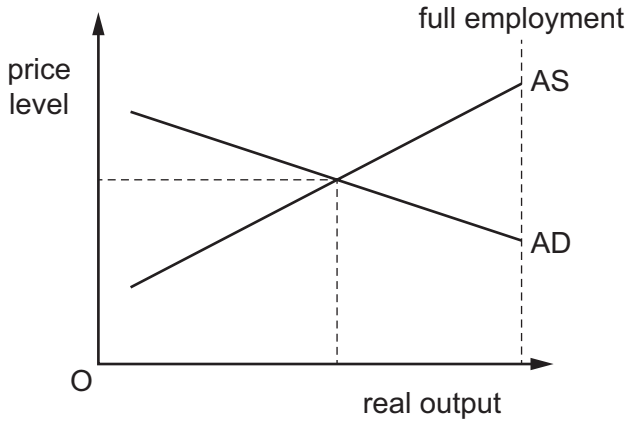
A Private companies will put customer needs before profits.

B Private companies will raise their own share capital.

C The level of incentive for the enterprises will rise.

D The number of companies will increase.

19 From the initial position of equilibrium shown, there is an increase in government expenditure on goods and services and simultaneously a reduction in the overall efficiency in the production of goods and services.



What best describes the likely impact on the economy?

	equilibrium level of national income	equilibrium level of prices
A	falls	uncertain
B	no change	no change
C	rises	rises
D	uncertain	rises

20 What does an aggregate demand curve show?

A the level of aggregate demand corresponding to different levels of aggregate supply

B the aggregate output demanded corresponding to different average price levels

C the equilibrium price level corresponding to different levels of aggregate expenditure

D the equilibrium level of income corresponding to different levels of aggregate expenditure

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21 The table shows the year-on-year percentage changes for a country's consumer price index from 2009 to 2015.

year	% change
2009	18.0
2010	11.7
2011	8.6
2012	4.6
2013	4.9
2014	6.1
2015	4.5

Which statement about the price level is correct?

A It fell over the first half of the period.

B It was at its highest at the start of the period.

C It was at its lowest at the end of the period.

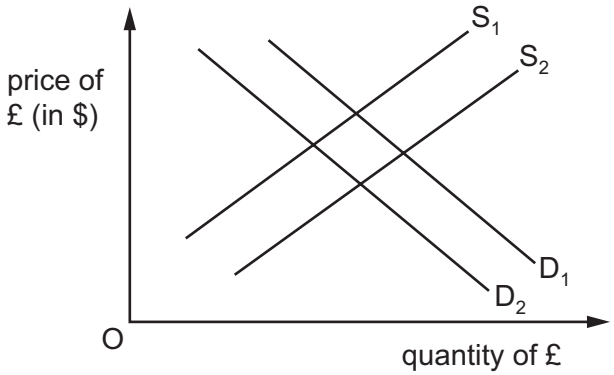
D It was at its lowest at the start of the period.

22 An Indian multinational company receives profits from its factories based in the UK. It then buys a US-owned firm based in the UK.

How will these transactions appear in India's balance of payments?

	the remittance of profit	the purchase of the US-owned firm
A	a credit item in the current account	a debit item in the financial account
B	a credit item in the financial account	a debit item in the current account
C	a debit item in the current account	a credit item in the financial account
D	a debit item in the financial account	a credit item in the current account

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



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

A a decrease in the price levels of other countries

B a depreciation of the pound sterling

C a reduction in the level of UK import tariffs

D an increase in UK interest rates

24 An economy's terms of trade fell from the base year of 100 to 90.

Which changes in the export price index and the import price index would have caused this?

	export price index change	import price index change
A	0	–10
B	0	+10
C	–10	0
D	–10	+10

25 Kenya produces some of the finest teas much of which it exports. Its climate is not so suited to producing olives but the olives can be sold for a higher price per sack.

What would definitely happen if a Kenyan company used some of the land where tea is grown to plant olive trees?

A The company would have a comparative advantage in trade.

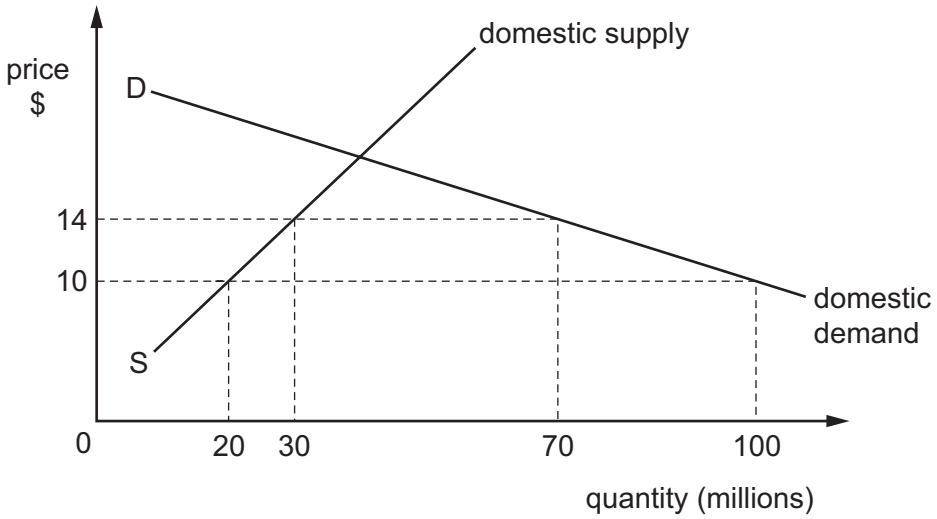
B The company's revenue would increase.

C There would be a decrease in the credit side of the trade in goods and services.

D There would be an opportunity cost from lost tea production.

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26 The diagram shows that the imposition of a tariff raises a good's world price from $10 to $14.



What was the effect on total expenditure on the good?

A It fell by $20 million

B It fell by $160 million

C It rose by $220 million

D It rose by $560 million

27 Which government measure would reduce protectionism?

A an increase in product safety standards

B an increase in subsidies to domestic firms

C an increase in the level of import quotas

D an increase in the rate of import duties

28 What is a deflationary fiscal measure?

A reducing interest rates

B reducing the money supply

C increasing taxes

D increasing government expenditure

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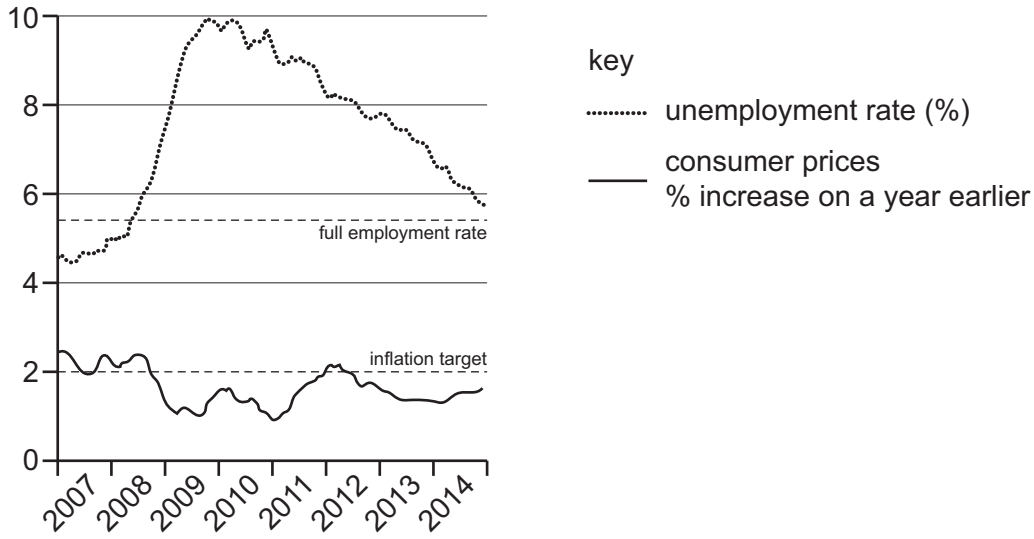
29 Policies to correct a balance of payments deficit fall into two categories: expenditure-dampening policies and expenditure-switching policies.

Which pair of policies are classified correctly?

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

30 The US Federal Reserve has a stable price (2% inflation) target and a full employment (5 to 5.2% unemployment) target.

The diagram shows the inflation rate and unemployment rate that existed between 2007 and 2014.



What can be concluded about the performance of Federal Reserve economic policy, 2007 to 2014?

A The continuing deflation meant failure in the inflation target.

B The inflation target was achieved less frequently than the employment target.

C The least successful period for economic policy was experienced in 2007.

D The nearest to complete policy success was achieved in 2008.

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