Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2018**

1 hour

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

5340058405

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.
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1 What would be an opportunity cost of growth in an economy?

A the faster growth of services than of manufacturing

B the need for an increased level of imported raw materials

C the need for greater government intervention

D the reduction of consumption if growth requires investment

2 A ……1…… economic statement is an objective statement that ……2…… be tested using factual evidence, whereas a ……3…… economic statement is a subjective statement that ……4…… be tested using factual evidence.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	normative	can	positive	cannot
B	normative	cannot	positive	can
C	positive	can	normative	cannot
D	positive	cannot	normative	can

3 What would most likely be considered an advantage by producers and a disadvantage by consumers of the operation of a planned economy?

A a bureaucratic system of decision-making

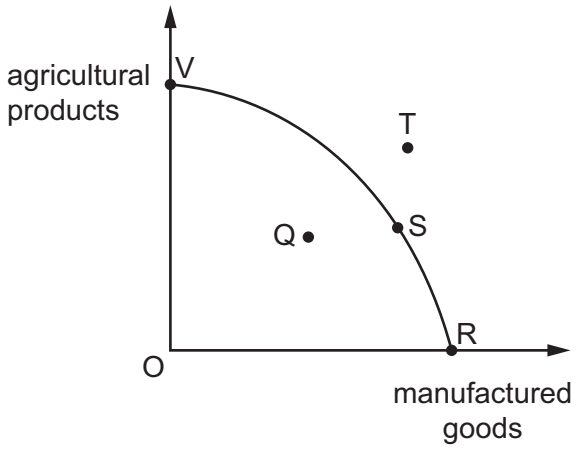
B a government emphasis on the production of capital goods

C a long response time to changing economic events

D an absence of financial incentives to work and to produce

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4 A country can produce manufactured goods and agricultural products as shown in the diagram.



Given this information, which statement is definitely correct?

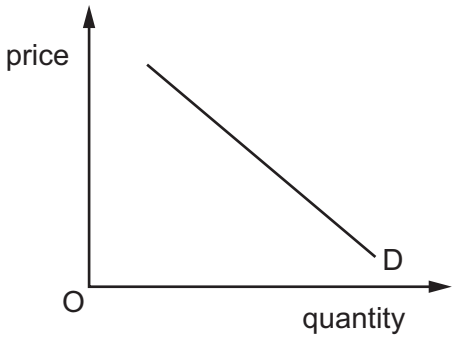
A If the country produces at Q it has unused or inefficiently used resources.

B The country should produce at T instead of at Q.

C The country would be better off producing at R than S.

D The monetary costs are the same to produce at V as they are to produce at R.

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.

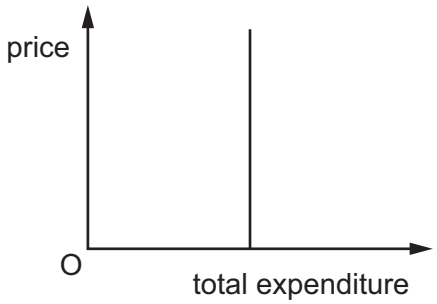
B A lower price is the result of a fall in demand.

C As demand increases so does price.

D Quantity changes in proportion to the change in price.

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6 The diagram shows the relationship between the price and the total expenditure on a good.



Which statement is correct?

A The income elasticity of demand for the commodity is unity.

B The income elasticity of demand for the commodity is zero.

C The price elasticity of demand for the commodity is unity.

D The price elasticity of demand for the commodity is zero.

7 Over the last ten years the price elasticity of demand for tea in many countries has risen.

What is the most likely cause of this change in price elasticity?

A a decrease in the incomes of consumers

B a decrease in the number of complements to tea

C an increase in the amount of tea supplied

D an increase in the number of substitutes for tea

8 What would be the price elasticity of supply of cell (mobile) phones if their price rose from US$100 to US$110 and the quantity supplied rose from 200 to 250?

A 0.2 **B** 0.4 **C** 2.5 **D** 5.0

9 A product has a high price elasticity of supply.

What might explain this?

A The product has a high opportunity cost.

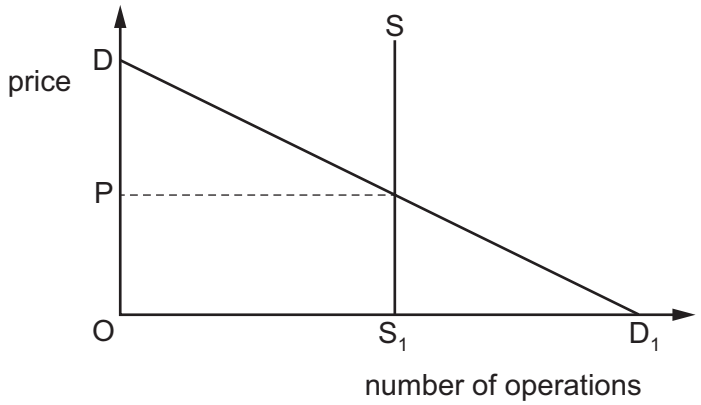
B The product has a non-perishable nature.

C The product is classed as an inferior good.

D The product is considered to be a luxury.

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10 The diagram shows the demand curve, DD_1, and the supply curve, SS_1, for eye operations.



The operations are provided free to the consumer.

Which statement is correct?

A Consumer surplus from the operations is ODD_1.

B The equilibrium price is indeterminate, because the supply curve is vertical.

C The equilibrium price is P.

D The equilibrium price is zero.

11 The demand for houses in London has caused house prices to rise considerably in the last five years. Many people cannot now afford to buy a house.

What can be concluded from this?

A On a demand and supply diagram for houses there has been a movement up the demand curve.

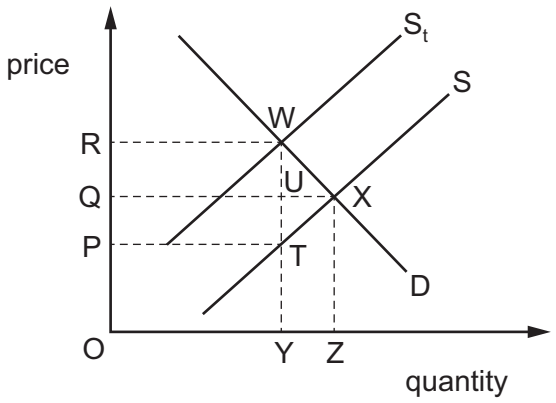
B On a demand and supply diagram for houses there has been a movement up the supply curve.

C The price elasticity of demand for houses is greater than one.

D The price elasticity of supply of houses is zero.

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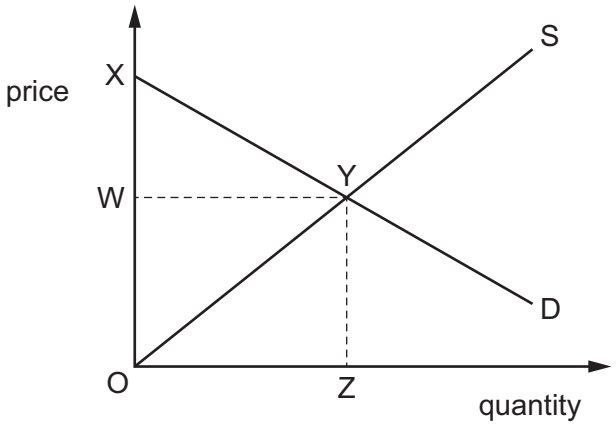
12 A specific tax is placed upon each bottle of perfume sold. In the diagram, S is the supply curve before tax and S_t is the supply curve after tax.



Which area represents the revenue received by the government from the tax?

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

13 The diagram shows the demand curve and supply curve for a product.



Which area represents producer surplus?

A OWYZ minus OWY

B OWYZ minus OYZ

C OXYZ minus OYZ

D OXYZ minus WXY

14 Which statement about maximum and minimum prices is correct?

A With an effective maximum price for a product, a shortage will develop.

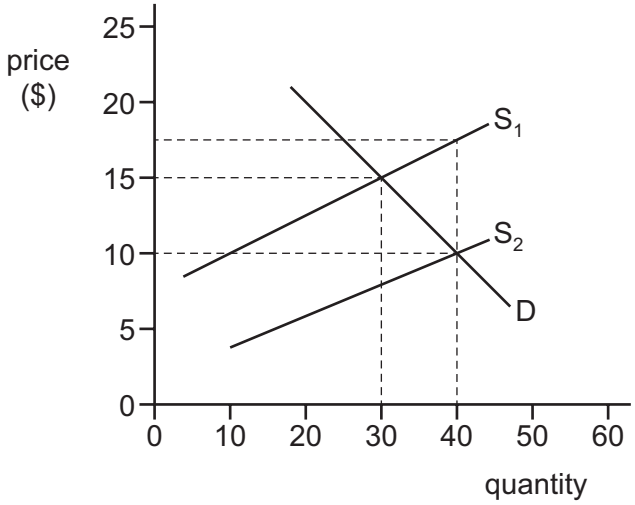
B With an effective maximum price for a product, the market price will rise.

C With an effective minimum price for a product, rationing will be necessary.

D With an effective minimum price for a product, the market price will fall.

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15 The diagram shows the effect on the market for a product of the introduction of a government subsidy.



What is the result of the payment of the subsidy?

A Consumer surplus increases.

B The price to the consumer halves.

C The subsidy provides over half of producer income.

D Total consumer expenditure on the product increases.

16 Why are the pensions paid to retired citizens an example of a transfer payment?

A Retired citizens pay no tax on their pensions.

B Retired citizens produce no output for their pensions.

C Retired citizens save some of their pensions.

D Retired citizens spend all of their pensions.

17 What is definitely a feature of a nationalised industry?

A Consumers are not charged a price for its product.

B No profit is made from supplying its product.

C The government owns the industry's capital.

D There is no competition in the market for its product.

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18 Which government action would be identified as the direct provision of goods and services?

A increasing road maintenance because of poor weather conditions

B making payments to low-income families with elderly dependants

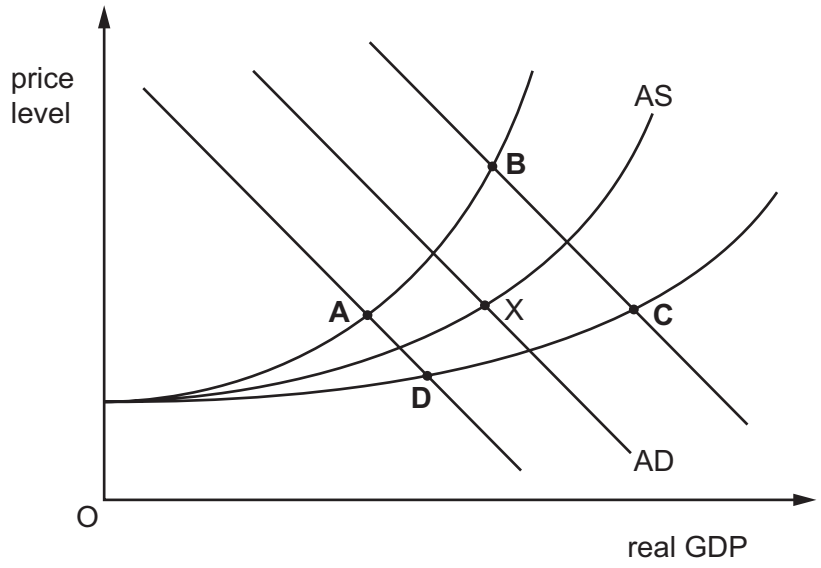
C subsidising firms in order to encourage them to increase their output

D taxing firms because they have been emitting damaging fumes

19 In its 2016 budget statement, the South African government proposed stimulating business activity by the removal of regulations. It also announced that government expenditure was expected to grow by 7.1%.

The diagram shows aggregate demand (AD) and aggregate supply (AS) for the South African economy. X is the original equilibrium point.

Which new equilibrium would result from the changes?



20 What would be certain to cause a fall in a country's cost of living?

A a fall in real incomes

B a fall in the inflation rate

C a negative inflation rate

D a reduction in direct tax rates

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21 The table gives figures for household spending in the UK economy between 2008 and 2010.

	nominal household consumption spending (£ million)	real household consumption spending (£ million)
2008	878 024	878 024
2009	858 242	846 961
2010	900 204	855 302

What can be concluded from the figures?

A All households bought more goods and services in 2010 than in 2008.

B Households saved more in 2008 than in 2010.

C Living standards were lower in 2009 than 2010.

D The rate of inflation was higher in 2010 than in 2009.

22 The table shows trade in goods and services for a selection of countries in 2005 and 2014.

	trade in goods and services (US$ millions)			
	2005		2014	
	exports	imports	exports	imports
Argentina	46 892	34 797	82 026	79 194
Brazil	133 055	96 611	264 063	318 799
Ecuador	11 480	11 851	28 935	30 215
Mexico	230 369	245 100	418 952	433 977

What can be concluded about the balances of trade in goods and services from the table?

A Argentina had a larger surplus in 2014 than in 2005.

B Brazil had a surplus in 2005 and a deficit in 2014.

C Ecuador had a deficit in 2005 and a surplus in 2014.

D Mexico had a larger deficit in 2005 than in 2014.

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23 A newspaper headline stated that the Australian car industry has been affected by the strength of the Australian dollar.

What would **not** be an effect caused by a strong rising Australian dollar?

A Reduced foreign demand for Australian cars caused increased unemployment.

B The price of exports of Australian cars became more expensive.

C The price of foreign competitive cars became less expensive.

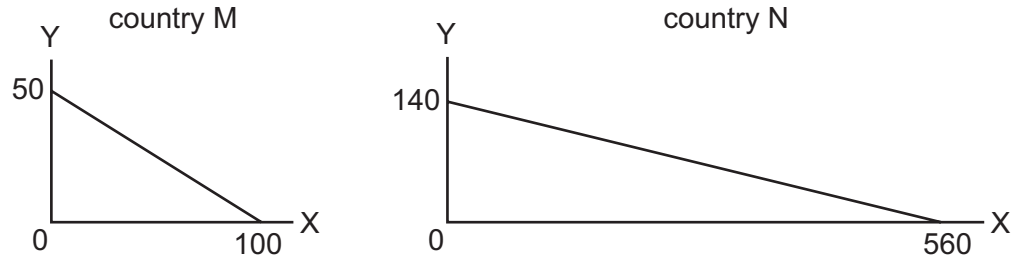
D The price of imports of car parts became more expensive.

24 The terms of trade for a country have improved.

Which combination of price behaviour would have caused this?

	average price of exports	average price of imports
A	decrease 4%	decrease 6%
B	decrease 4%	unchanged
C	increase 4%	increase 6%
D	unchanged	increase 2%

25 The graphs show the production possibilities for commodities X and Y in two countries M and N.



What will be the effect of an agreement between M and N to exchange the commodities at a rate of 1Y for 3X?

A Both countries will gain, because their consumption possibilities will increase.

B Consumers in country M will lose, because a unit of Y will now cost 3X instead of 2X.

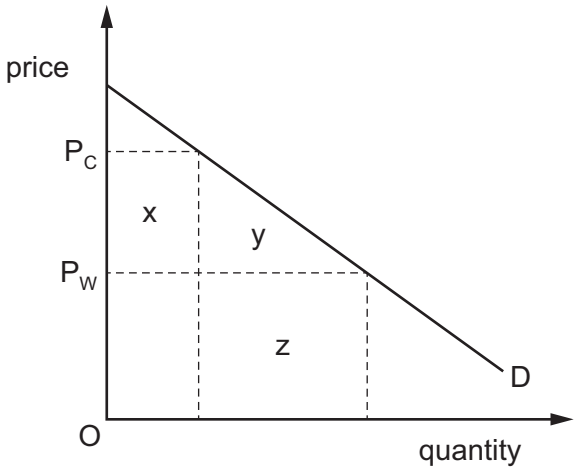
C Neither country will gain, because they both have a comparative advantage in the production of the same commodity, X.

D Only country N will gain, because N can produce more of both commodities than M.

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26 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

27 The demand for a country's exports is price-elastic.

What will be the effect of introducing export subsidies on its balance of trade and on its terms of trade?

	balance of trade	terms of trade
A	improve	improve
B	improve	worsen
C	worsen	improve
D	worsen	worsen

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28 A government decides to borrow from the general public in order to finance its extra spending on apprenticeship training schemes.

Which types of macroeconomic policy are being used?

	fiscal	monetary	supply side
A	✓	✗	✓
B	✓	✗	✗
C	✗	✓	✓
D	✗	✓	✗

key
✓ = used
✗ = not used

29 Which policy is **not** likely to help reduce a balance of payments deficit?

A an increase in expenditure promoting locally produced goods

B an increase in the quota on cheap imports

C an increase in the restrictions on foreign exchange

D an increase in the subsidies to exporting industries

30 A country has a target rate of inflation of 2.5% and has recently experienced the actual rate rising to 6%, with unemployment falling to very low levels.

Which policy option is most likely to be implemented?

A an increase in government expenditure on training

B an increase in indirect taxes on demerit goods

C an increase in import tariffs

D an increase in interest rates

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1 The statements refer to the proposal to build another runway at London's Heathrow airport.

Which statement is normative?

A Heathrow is the UK's busiest airport and has more flights than any other European airport.

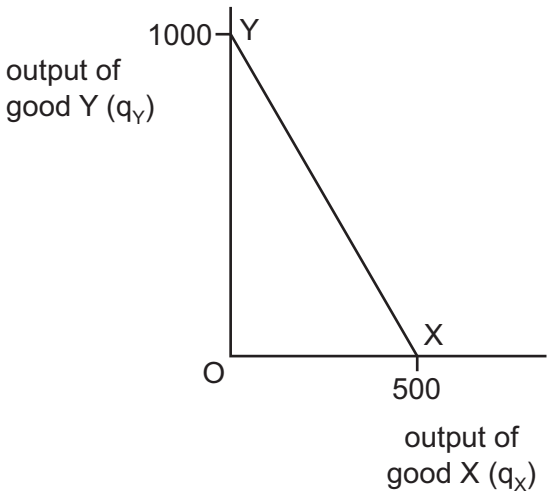
B The airport is highly competitive but there is spare capacity.

C The potential net benefit of expansion is around £5 billion over 70 years.

D We should concentrate on improving the use of existing capacity not build another runway.

2 YX is an economy's production possibility curve (PPC).

The equation of the curve is $q_Y = 1000 - 2q_X$.



What is the opportunity cost of producing one extra unit of good X?

A $\frac{1}{2}$ unit of good Y

B 2 units of good Y

C 500 units of good Y

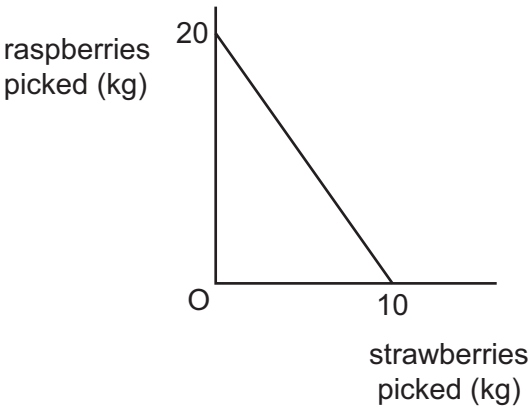
D 1000 units of good Y

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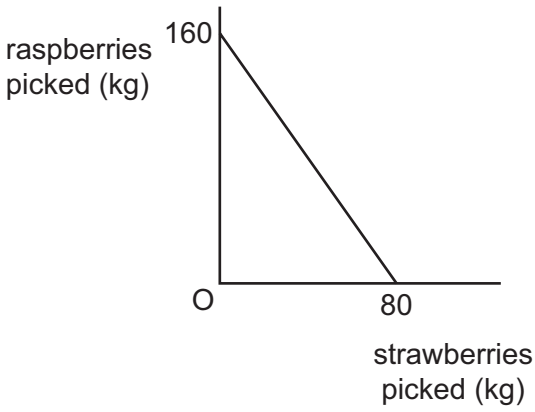
3 A farmer picks 10 kg of strawberries in each hour. The farmer is twice as productive at picking raspberries.

Which diagram shows the farmer's daily production possibility curve when working 8 hours a day?

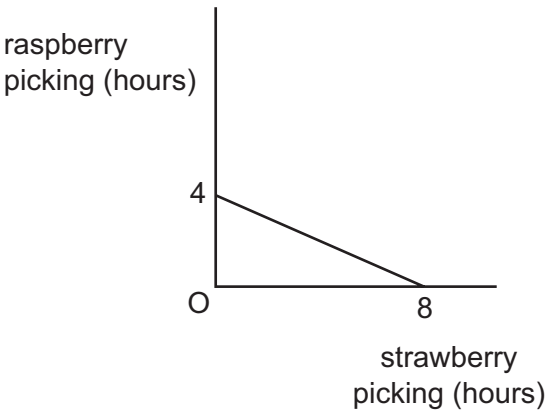
A



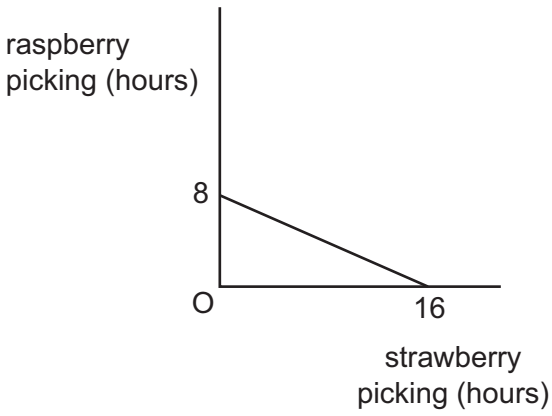
B



C



D



4 Governments provide public goods.

What is an example of a public good?

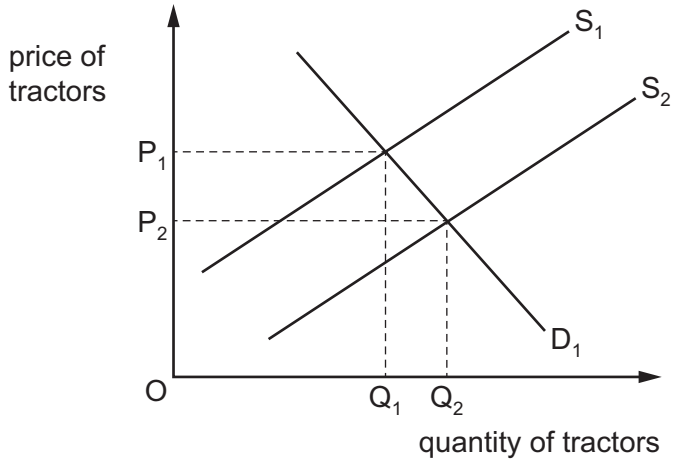
A the services provided by a defence force

B the services provided by a hospital

C the services provided by a leisure centre

D the services provided by a toll road

5 India is one of the largest producers of tractors in the world. S_1 and D_1 are the original supply and demand curves for Indian tractors.



What would cause the supply curve to move to S_2?

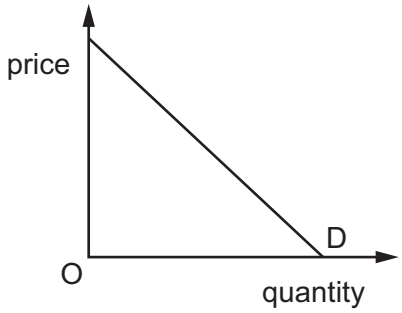
A a rise in the incomes of Indian farmers

B a rise in the price of electricity paid by Indian tractor manufacturers

C a rise in the price of tractors produced in the US

D a rise in the productivity of workers in Indian tractor factories

6 The diagram shows the demand curve for a product.



Which statement is correct?

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

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

C Price elasticity of demand differs at every price.

D Price elasticity of demand equals one at every price.

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7 The cross-elasticity of demand between two goods will be higher

A the greater the difference in price between the two goods.

B the greater the income elasticities of demand for the two goods.

C the greater the price elasticities of demand for the two goods.

D the more they are regarded as similar by consumers.

8 The price elasticity of supply of a good is +2. The quantity supplied originally was 200 units.

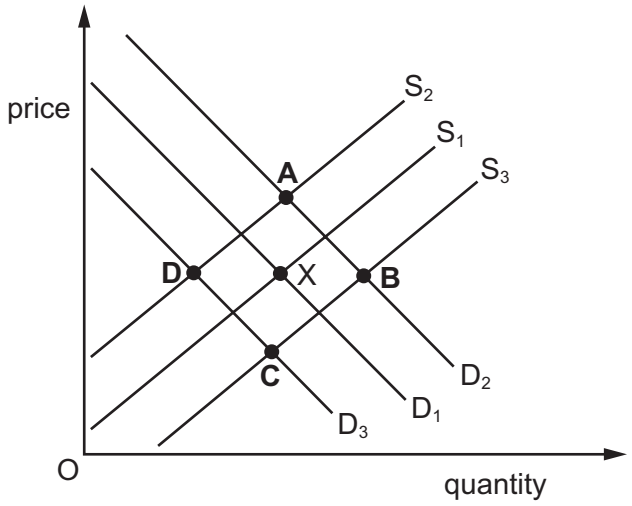
The price increases by 30%.

What will the quantity supplied be after the price increase?

A 80 units **B** 140 units **C** 260 units **D** 320 units

9 The diagram shows S_1 and D_1, the original supply and demand curves for fast food in an economy. Point X is the original equilibrium. Fast food is an inferior good.

What would be the new equilibrium position following a tax imposed on fast food and a fall in real income?



10 When will the price mechanism **not** function as a system for allocating goods?

A when the government bans advertising

B when the government maintains an effective maximum price

C when there is a limited supply of the good

D when there is a powerful company able to set the market price

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

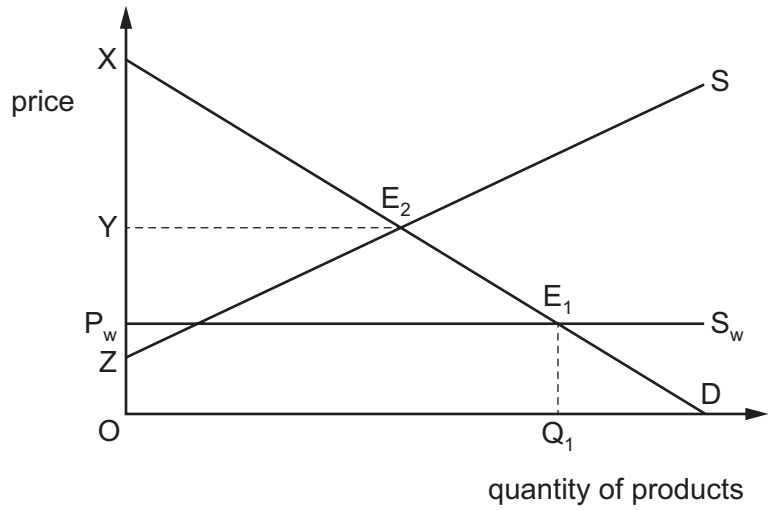
12 A free market is in disequilibrium with a shortage of a product.

As the market moves towards equilibrium, what will happen to the price, the quantity demanded and the quantity supplied?

	price	quantity demanded	quantity supplied
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

13 In the diagram, D and S represent the domestic demand and supply curves for a product. S_w represents world supply of the product at a world price of P_w. The initial domestic market equilibrium of the product is at E_1.

If foreign trade were to be banned completely, the domestic market equilibrium would be at E_2.



What would be the loss of consumer surplus if all foreign trade were banned?

A P_wXE_1 **B** $P_wYE_2E_1$ **C** YXE_2 **D** ZYE_2

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14 A government wishes to impose a tax on a good so that the producer and not the consumer pays most of the tax.

Which type of elasticity would it be best for the good to have to achieve this aim?

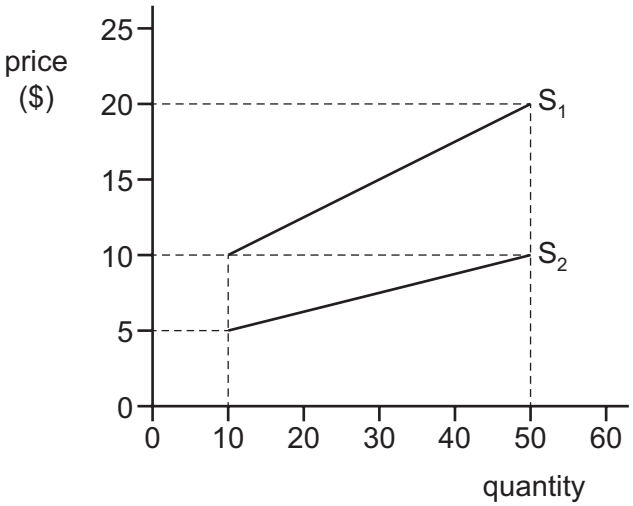
A high price elasticity of demand

B low price elasticity of demand

C totally inelastic price elasticity of demand

D unitary price elasticity of demand

15 The diagram shows the effect on the supply curve of a product when the government provides a subsidy.



What can be concluded about the nature of the subsidy as the quantity supplied increases?

A It is a falling percentage (%) of the price of each unit.

B It is a fixed percentage (%) of the price of each unit.

C It is a fixed sum on each unit.

D It is a rising percentage (%) of the price of each unit.

16 What is **not** an example of a transfer payment?

A pocket money from parents

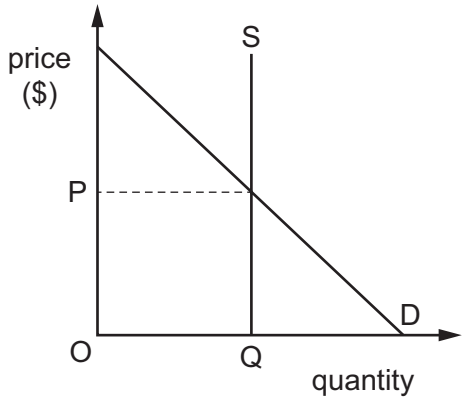
B private donations to charities

C salary paid to a teacher in a government school

D unemployment benefit

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17 In 2016–2017 a government spent $135 billion on the health service. The diagram shows the provision of healthcare in that country.



What can we deduce about healthcare provision in the country if it were provided at zero price?

A At price P the benefits to society are maximised.

B It is non-rival in consumption.

C It is unlimited in supply due to government funding.

D It will need rationing as it will be overconsumed.

18 A government privatises the telecommunications industry.

What is least likely to increase?

A choice of telecommunications services for consumers

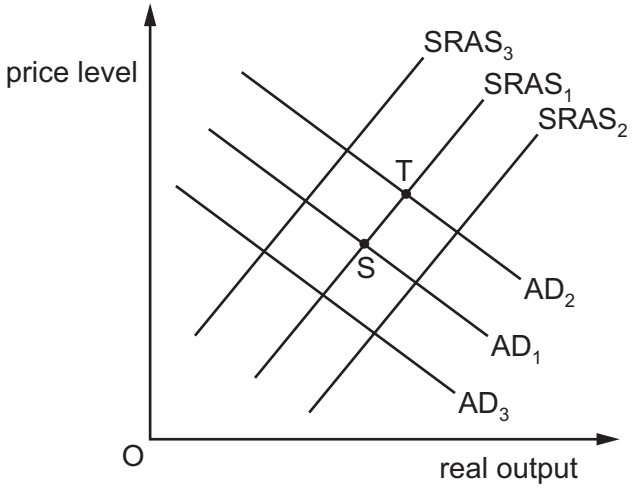
B development of new telecommunications products

C employment in the telecommunications industry

D productivity in the supply of telecommunications

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19 The diagram shows short-run aggregate supply and demand in an economy, where the initial equilibrium is at S.



What is most likely to cause a movement from S to T?

A an increase in consumer expenditure and an increase in productivity

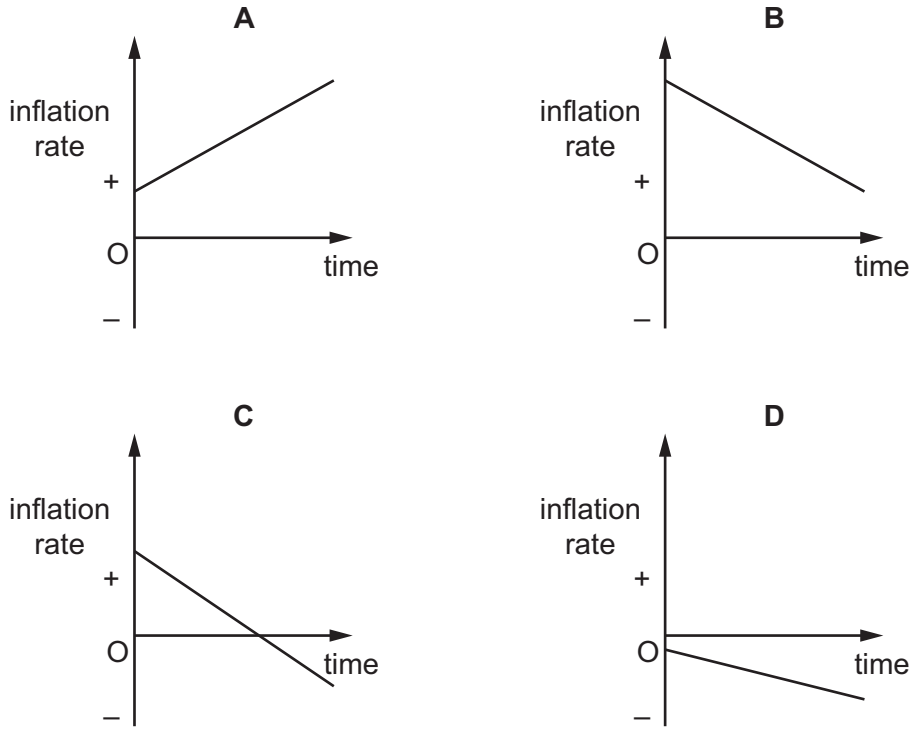
B an increase in consumer expenditure and a reduction in imports

C an increase in education and training and an increase in income tax

D an increase in the exchange rate and a reduction in corporation tax

20 The diagrams show the inflation rate over time in four countries.

Which country experiences a falling cost of living throughout the period?



21 A government statistical office measured changes in income from employment, pensions and benefits, then subtracted income tax and welfare contributions and adjusted for inflation.

What did the final figure represent?

A changes in nominal income

B changes in nominal net earnings

C changes in real disposable income

D changes in real gross earnings

22 The table shows all of the items on the current account of a country's balance of payments.

	$ million
exports of goods	143
imports of goods	156
exports of services	75
imports of services	72
net transfers	+5

What is the value of the current account balance?

A $5 m deficit

B $10 m deficit

C $13 m deficit

D $3 m surplus

23 Following a long period of depreciation of the US$, both the US and UK monetary authorities raised their domestic interest rate.

What will happen to the value of the exchange rate of the US$ in terms of UK£?

A It will fall.

B It will remain unchanged.

C It will rise.

D The outcome is uncertain.

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24 Country P exports goods and imports goods.

Export prices and import prices are set to an index of 100 in year 1. The table shows corresponding prices indices for years 2 and 3.

	year 2	year 3
export price index	120	132
import price index	110	121

Which statement is correct?

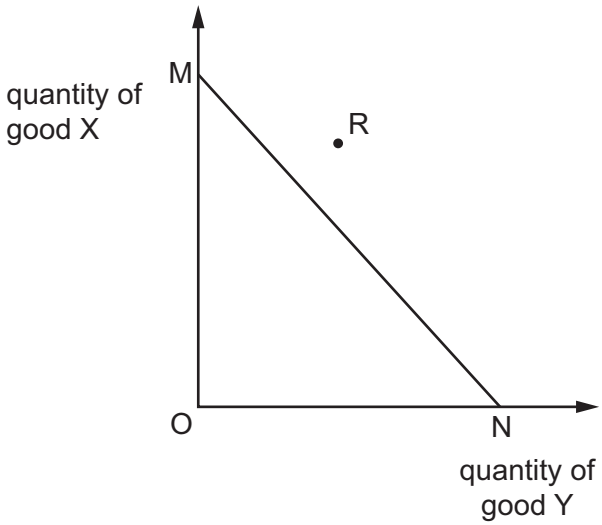
A It is not possible to say how the terms of trade changed without further information.

B The terms of trade improved between years 1 and 2, and improved again between years 2 and 3.

C The terms of trade improved between years 1 and 2, and then remained unchanged between years 2 and 3.

D The terms of trade worsened throughout the whole period.

25 In the diagram, MN is the production possibility curve of a country that has a comparative advantage in the production of good Y.



What might enable the country to consume the quantities of X and Y indicated by point R?

A a reduction in unemployment

B increased specialisation in the production of good X

C increased specialisation in the production of good Y

D more participation in international trade

26 What is the difference between a customs union and a free trade area?

A Only the customs union has a common external tariff with the rest of the world.

B Only the customs union requires fixed exchange rates between member countries.

C Only the free trade area needs to eliminate tariffs between member countries.

D Only the free trade area requires freedom of movement for labour and capital between member countries.

27 Which statement about trade protection is correct?

A A tariff will result in a greater decrease in demand for an import the lower its price elasticity of demand is.

B Embargoes are only an effective trade barrier against imports in price-elastic demand.

C Export subsidies to domestic firms will prevent the dumping of foreign products in the domestic market.

D Quotas are less effective than tariffs for raising government revenue.

28 What is an example of expansionary monetary policy?

A the central bank buying government bonds in the money market

B the central bank causing an appreciation of the country's foreign exchange rate

C the central bank increasing controls on credit lending

D the central bank increasing the minimum lending rate of interest

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

Which combination of policies might the Chinese Government use to reduce the surplus?

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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30 In an economy, prices are rising. The government wishes to limit further increases in prices.

Which policies would it be likely to use?

A decrease goods and services (sales) tax and put a quota on cheap imports

B decrease income tax and decrease interest rates

C increase interest rates and decrease government spending

D withdraw industry subsidies and impose a minimum wage

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ECONOMICS **9708/13**

Paper 1 Multiple Choice **May/June 2018**

1 hour

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

4208619108

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.

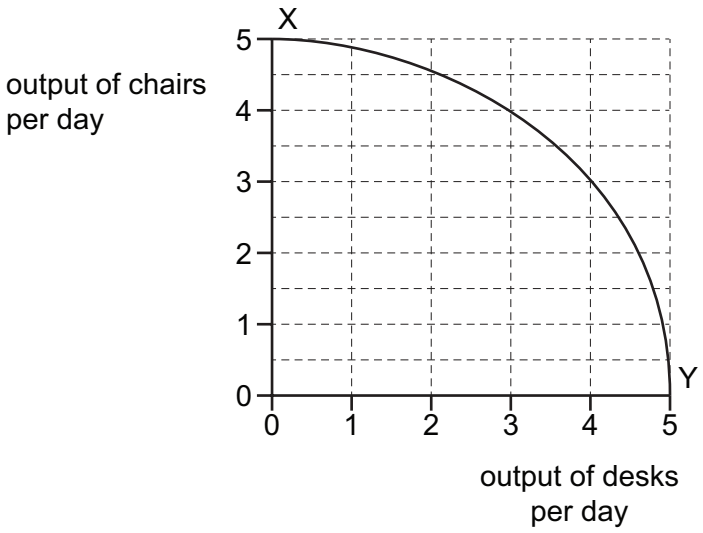
Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **14** printed pages and **2** blank pages.

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CAMBRIDGE International Examinations

1 XY is the production possibility curve (PPC) of a firm that produces desks and chairs.



What are the opportunity costs of the 4th and 5th desks produced by the firm?

	opportunity cost of 4th desk	opportunity cost of 5th desk
A	1 chair	3 chairs
B	2 chairs	5 chairs
C	3 chairs	0 chairs
D	4 chairs	5 chairs

2 A government proposes to introduce a road congestion charge which would require private motorists to pay a toll for road use.

Which statement relating to the proposal is normative?

A Bus passengers will benefit at the expense of motorists.

B Motorists with higher incomes will be prepared to pay the charge in return for reduced journey times.

C Motorists with lower incomes will not be able to afford to use the roads.

D The proposal will be unfair to motorists who have no alternative means of transport.

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3 A firm changes the type of product it produces.

What might limit the firm's ability to use division of labour?

A The new production method is more capital intensive.

B The new production method is very expensive.

C The new product is made to specific customer requirements.

D The new product requires specialised labour.

4 A group of tourists become stranded on a desert island. They decide to use their own system of money.

Which statement about their choice of money is correct?

A Coins in their possession would be suitable if there are enough of them.

B Fruit fallen from trees would be suitable because it has intrinsic value as a food.

C Pebbles from the seashore would be suitable because they are both durable and plentiful.

D Seaweed would be suitable as it is in unlimited supply around the coast.

5 What is likely to affect the position of the demand curve for tickets to pop concerts but **not** the position of the supply curve?

A a change in incomes of potential customers

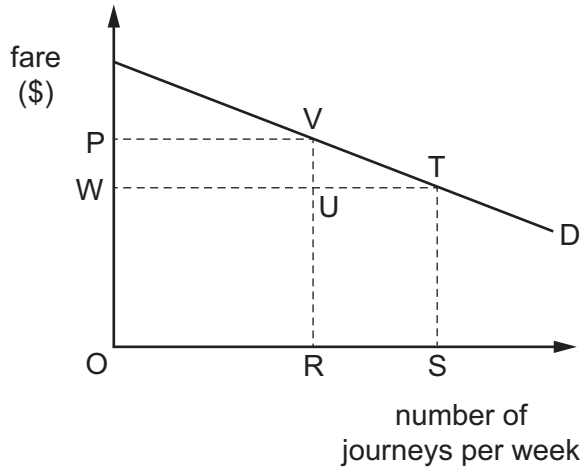
B a change in price of tickets to the concerts

C a change in rents charged by venue owners

D a change in seating capacity of concert venues

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6 The number of passenger journeys per week by train on a route is shown by the demand curve in the diagram.

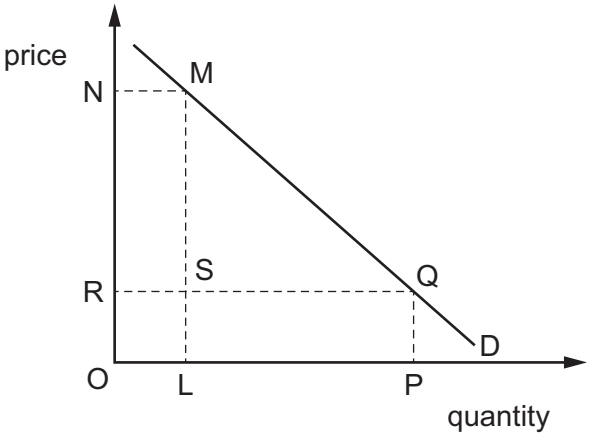


Initially the fare is OP, but it is then reduced by PW.

Which area measures the amount spent on the extra journeys resulting from the lower fare?

A VUT **B** PWTV **C** VRST **D** URST

7 The diagram shows the demand curve for a product.



If the rectangle OLMN is equal in area to the rectangle OPQR, which statement is correct?

A A rise in price from OR to ON results in the same proportionate fall in quantity demanded.

B Consumer surplus falls by RSMN if the price rises from OR to ON.

C The price elasticity of demand is unitary for all changes in price.

D Total revenue falls by MSQ if the price rises from OR to ON.

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

What is the price elasticity of demand of the good?

A –1

B zero

C +1

D infinite

9 The curve in the diagram shows a relationship between the price and the quantity of a product. It has not been given a label.



What is an accurate description of the curve?

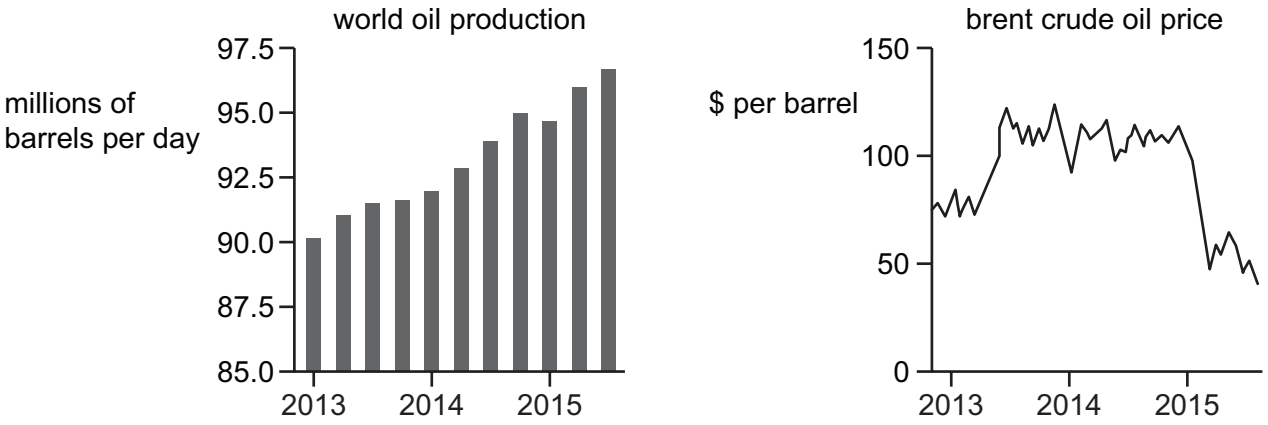
A a perfectly elastic demand curve

B a perfectly inelastic supply curve

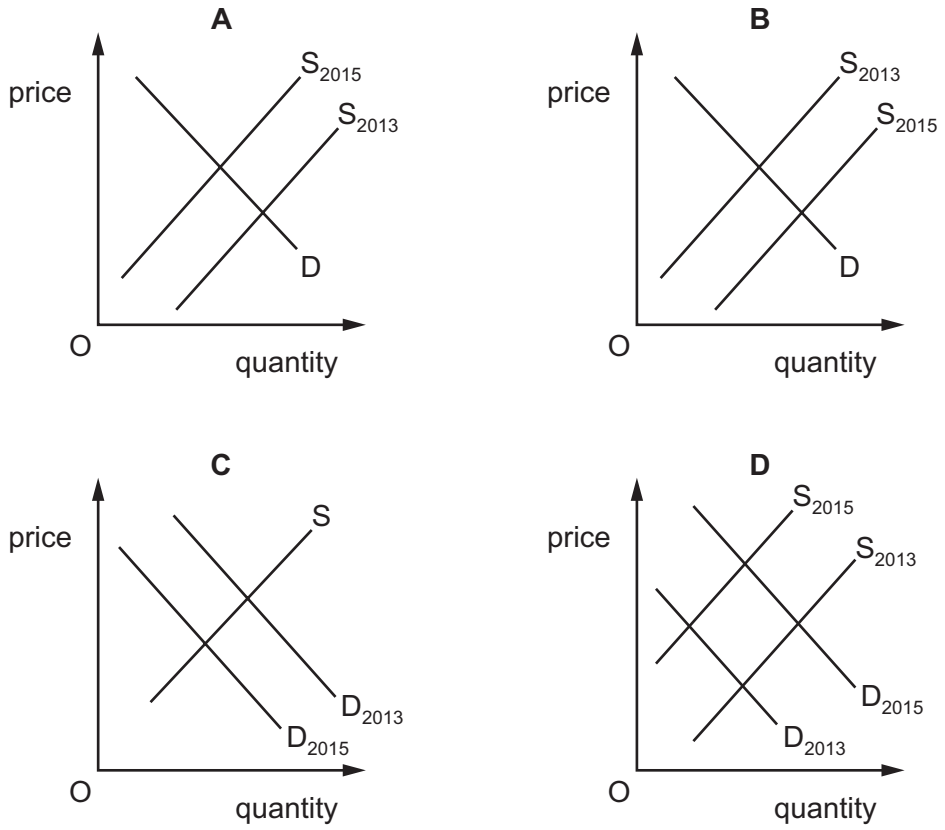
C a relatively elastic supply curve

D a unitary elastic demand curve

10 The diagrams show some information about oil.



Which diagram represents the change in the oil market between 2013 and 2015?



11 In which set of circumstances will prices play no part in determining how resources are allocated between alternative uses but may still have a role as a rationing mechanism?

A The government sets maximum prices for all goods above their market clearing price.

B The government sets minimum wages for all workers below the market rates of pay.

C The quantities of consumer goods produced are determined by the government.

D The total income consumers have available to spend is fixed by the government.

12 What is necessary for consumer surplus to be zero?

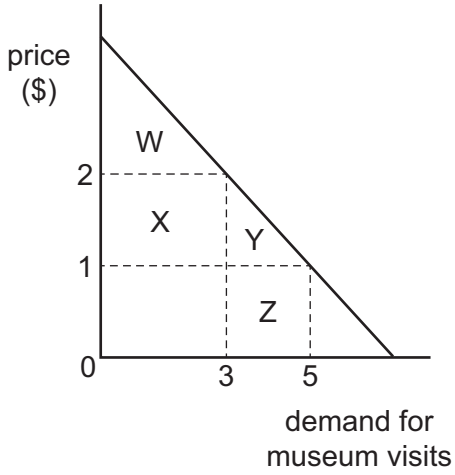
A Demand is perfectly elastic.

B Demand is perfectly inelastic.

C Supply is perfectly elastic.

D Supply is perfectly inelastic.

13 A local government decides to issue a card for residents that gives a 50% reduction on entry prices for visits to local museums. The diagram shows the demand curve for a resident who currently makes 3 museum visits.



What would be the change in the resident's consumer surplus when the card is issued?

A W **B** X + Y **C** Y **D** Y + Z

14 The demand and supply functions for a product are quantity demanded = 1500 + 50P and quantity supplied = 300P – 2000 where P = price. With government regulation, the current price in the market is $15.

What can be concluded about the form of price regulation and the balance of demand and supply in the market?

	form of price regulation	balance of demand and supply
A	effective maximum price	excess demand
B	effective maximum price	excess supply
C	effective minimum price	excess demand
D	effective minimum price	excess supply

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15 Which element of a tax and benefits system is regressive?

A rent subsidies to tenants of publicly owned housing

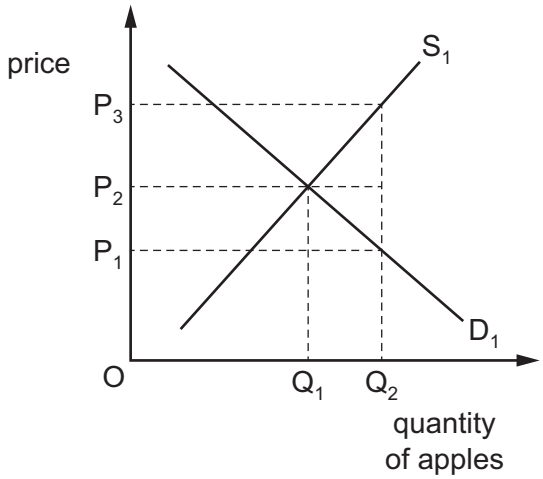
B specific taxes on beer and tobacco

C the payment of child benefits to families

D the taxation of capital gains

16 A government decides to encourage apple consumption as a report states that eating apples is good for health. It subsidises apple growers.

The diagram shows the market for apples.



What would the subsidy need to be to change the market equilibrium quantity from Q_1 to Q_2?

A OP_1 **B** P_1P_2 **C** P_1P_3 **D** P_2P_3

17 What is **not** a transfer payment?

A benefit payments by governments to families who have children

B disability benefits paid to soldiers who were injured while on military service

C loans made by a government to students who are studying at university

D payments by a firm to compensate employees for undertaking dangerous work

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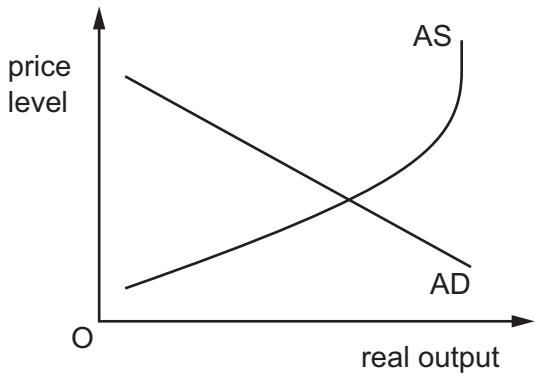
18 A government allows one firm to go out of business, takes over a second firm, and encourages a foreign government to invest heavily in a third firm.

Which government action has occurred?

	nationalisation	privatisation
A	✓	✓
B	✓	✗
C	✗	✓
D	✗	✗

key
✓ = occurred
✗ = not occurred

19 What is both a valid statement and consistent with the features of the diagram?



A AS cannot be increased beyond some level of real output.

B Consumption is a component of AD and is lower when the general level of prices is lower.

C Investment is a component of AS and is independent of the general level of prices.

D The greater the demand for a country's exports, the lower will be AD.

20 The average consumer divides his expenditure between food, clothing, accommodation and transport in the ratio 2 : 1 : 4 : 3.

During the course of a year, the price of food falls by 2%, the price of clothing increases by 4%, the price of accommodation increases by 10% and the price of transport remains constant.

Assuming that the weights of a price index reflect the expenditure of the average consumer, what is the increase in the index over the year?

A 2.5% **B** 4% **C** 10% **D** 12%

21 The table shows an extract from a country's current account of its balance of payments accounts.

credits	$ million
export of goods	G
export of services	204 465
total exports of goods and services	511 275

debits	$ million
import of goods	417 006
import of services	126 369
total imports of goods and services	543 375

balance	$ million
trade in goods	–110 196
trade in services	H
total trade in goods and services	–32 100

What is the value of export of goods, G, and what is the value of the balance of trade in services, H?

	export of goods, G $ million	trade in services, H $ million
A	306 810	78 096
B	306 810	142 296
C	715 740	78 096
D	715 740	142 296

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22 In June 2016 the UK voted to leave the European Union. The table shows what happened to the value of the pound sterling before and after the vote.

June	Sept
£1 = $1.48	£1 = $1.32

The UK is a major trading nation.

What is likely to be the short-term impact of the changes in the value of the pound sterling on the UK economy?

A increased disinflation

B increase in cost-push inflation

C more purchasing power of money

D reduced demand-pull inflation

23 To what does the J curve effect directly relate?

A balance of payment effects caused by exchange rate changes

B exchange rate effects caused by balance of payment changes

C import expenditure effects caused by tariff changes

D trade creation effects caused by comparative advantage changes

24 The terms of trade for the major oil exporting country of Saudi Arabia fell from 223 in 2013 to 205 in 2014.

What could be a likely cause of this fall?

A a fall in the amount of oil exported by Saudi Arabia

B a fall in the amount of oil produced by Saudi Arabia

C a fall in the price of Saudi Arabian oil exports

D an appreciation of the Saudi Arabian currency

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[Turn over

25 A particular good in the Barbados market could be supplied by domestic producers, or producers in Trinidad and Tobago, or producers in the United States (US), at the prices shown in US dollars.

origin of production	price
Barbados	$1.00
Trinidad and Tobago	$0.85
US	$0.75

Originally, Barbados had a 20% ad valorem duty on imports from Trinidad and Tobago and the US.

Barbados then formed a customs union with Trinidad and Tobago, with a common external tariff, also of 20%.

From which countries would Barbados import the good, before the formation of the customs union and after the formation of the customs union?

	before	after
A	neither	Trinidad and Tobago
B	neither	US
C	US	Trinidad and Tobago
D	US	US

26 What would reduce an economy's protection against the import of cars?

A a higher quota of imported cars

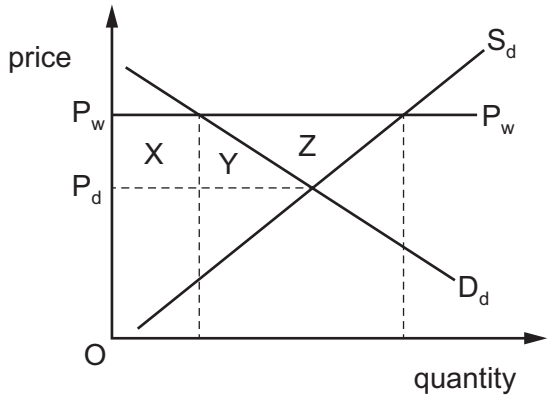
B a higher subsidy for domestic car producers

C a higher tariff on imported cars

D a lower exchange rate

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27 A country takes no part in international trade and its domestic market price is P_d. The country decides to engage in free trade and the market price rises to the world price (P_w).



What happens to consumer surplus and producer surplus when the economy engages in free trade?

A Domestic consumers gain Z only.

B Domestic consumers lose X + Y.

C Domestic producers gain Z only.

D Domestic producers lose X + Y + Z.

28 A government increases the basic rate of income tax to finance additional spending on apprenticeships and training.

Which types of macroeconomic policy are being used?

	fiscal policy	monetary policy	supply side policy
A	✓	✓	✓
B	✓	✓	✗
C	✓	✗	✓
D	✗	✓	✓

key
✓ = used
✗ = not used

29 If an economy experiences a persistent balance of trade deficit, it may choose to place tariffs on imports of manufactured goods.

When might the use of tariffs solve a balance of trade deficit in the long term?

A when an economy imports a sustainable amount of raw materials

B when an economy is experiencing a high rate of inflation

C when the demand for imports is inelastic

D when the supply of domestically produced goods is elastic

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30 Bulgaria's Consumer Price Index changed at an annual rate of –2.2% in April 2016. In May the annual rate of change was –1.4%.

What fiscal policy and monetary policy would be most appropriate in the short run to restore price stability?

	fiscal policy	monetary policy
A	decrease government spending	decrease interest rates
B	decrease taxes	increase rate of interest
C	increase government spending	decrease interest rates
D	increase taxes	increase rate of interest

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