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CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Subsidiary Level
and Advanced Level

ECONOMICS **9708/01**

Paper 1 Multiple Choice (Core)

October/November 2003

1 hour

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

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, 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.

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

Read the instructions on the answer sheet very carefully.

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

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University of Cambridge Local Examinations Syndicate

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1 The steel required for the construction of a new car-assembly plant in a fully employed economy is obtained by increasing the output of the domestic steel industry.

What is the opportunity cost of producing the steel?

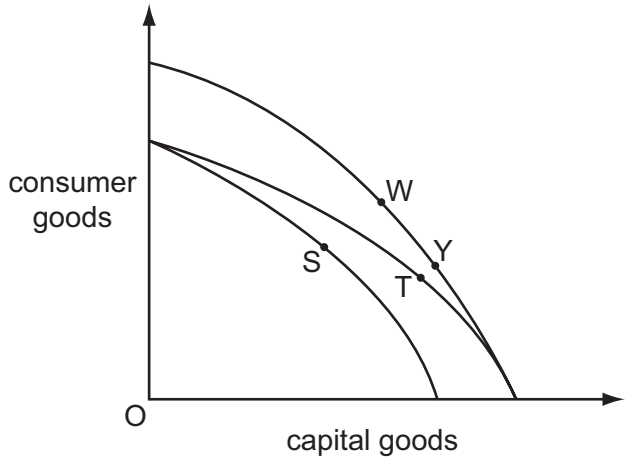
A the alternative benefits forgone by diverting additional resources to steel manufacture

B the alternative benefits forgone by increasing the capacity of the car industry

C the alternative benefits that would have been obtained by putting the steel to other uses

D zero, since there is no reduction in the steel supplied to other steel users

2 The diagram shows shifts in an economy's production possibility curve.



Which change could have come about as a result of an improvement in technology?

A S to Y **B** T to S **C** W to T **D** W to Y

3 What is meant by the ceteris paribus assumption?

A an assumption that is not supported by the facts

B an assumption that consumers act rationally

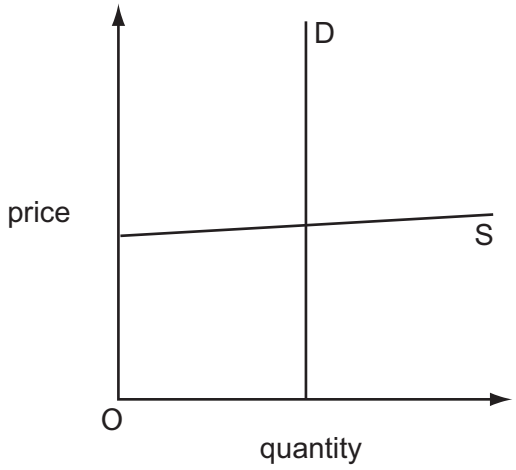
C an assumption that two factors are in equilibrium

D an assumption that other factors are held constant

4 What is the outcome for consumers and workers as a result of increased division of labour?

	consumers	workers
A	less choice of goods	wider range of skills
B	fewer mass-produced goods	wider variety of tasks
C	lower prices of goods	increased productivity
D	lower quality of goods	increased independence

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



What can be deduced about the product?

A It has infinite price elasticity of demand.

B It has no substitutes.

C It is an inferior good.

D It takes a large proportion of consumer income.

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

	price elasticity
motor cycles	1.6
telephone calls	1.0
football tickets	0.3
light bulbs	0.0

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

A football tickets only

B motor cycles only

C football tickets and light bulbs

D motor cycles and telephone calls

7 The table gives estimates of own-price and cross-price elasticities of demand for tea and instant coffee.

	elasticity with respect to the price of	
commodity	tea	instant coffee
tea	–0.48	+0.11
instant coffee	+0.13	–0.67

Other things being equal, what will be the change in the quantity of instant coffee demanded as a result of a 1 % increase in the price of tea?

A +0.11 % **B** +0.13 % **C** –0.11 % **D** –0.13 %

8 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

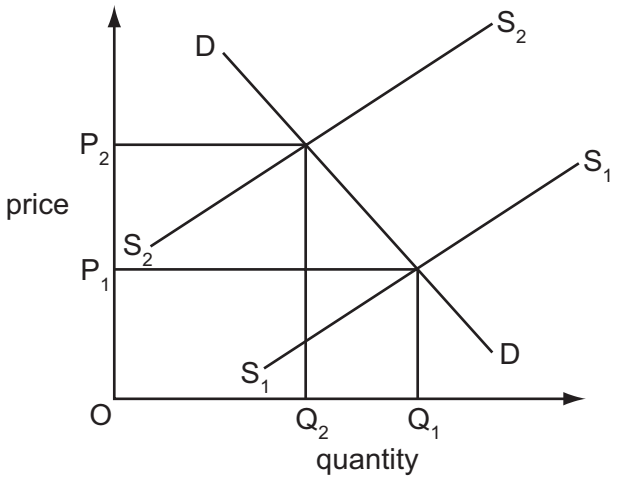
9 The table shows the demand and supply schedules for a good before and after the imposition of a tax.

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

What was the amount of the tax?

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

10 The diagram represents the market for diamonds.



Which of the following could have caused an increase in price from P_1 to P_2?

A a fall in the price of substitute gems

B a fall in the tax on diamonds

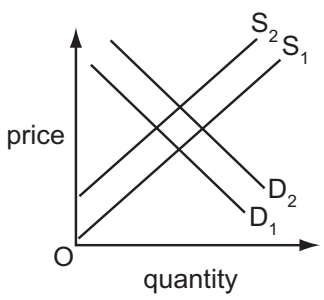
C a rise in the productivity of diamond miners

D a rise in the wages of diamond miners

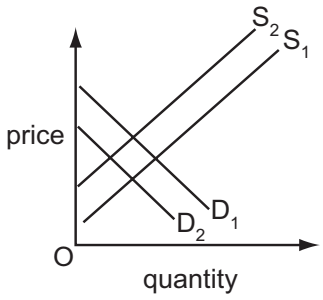
11 The diagrams show a change in demand from D_1 to D_2 and a change in supply from S_1 to S_2 for four different goods.

Which diagram illustrates the good for which new uses have been found and which receives an increase in government subsidy?

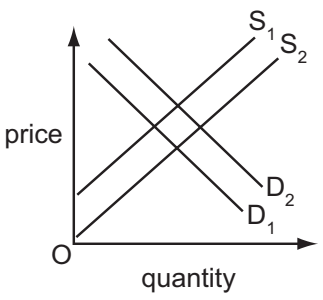
A



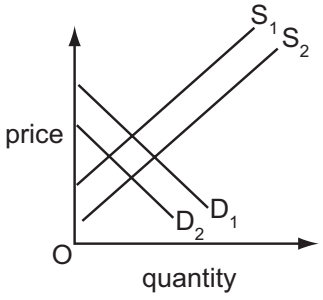
B



C

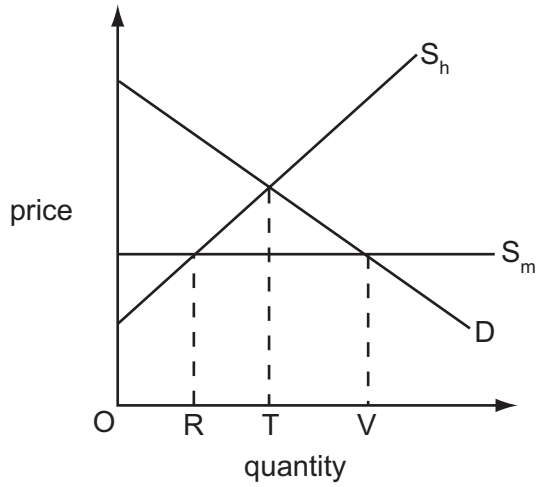


D



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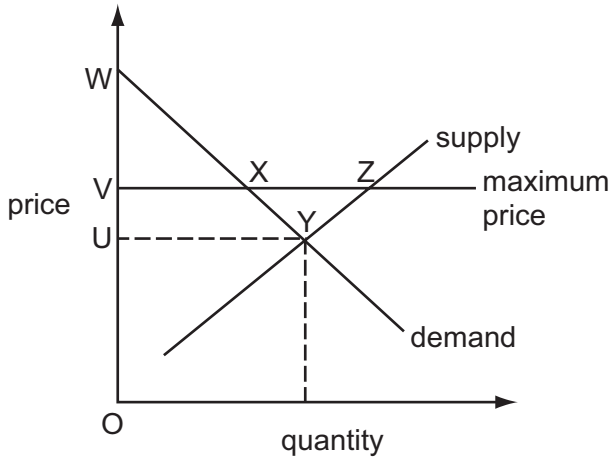
12 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_h represents domestic supply and S_m represents imports.



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

	consumption	volume of imports
A	OT	RT
B	OT	OT
C	OV	RT
D	OV	RV

13 The diagram represents a market for a good, in which the equilibrium price is OU.



A maximum price of OV is imposed by law.

What effect does this have on consumer surplus?

A It decreases by area VXYU.

B It increases by area WXV.

C It increases by area XYZ.

D It is not affected.

14 What explains why the social cost of developing tourism on a remote island is greater than the private cost?

A the costs of building extra hotels on the island

B the extra costs of providing the tourists with food

C the travel costs paid by tourists who visit the island

D the harm to the environment caused by the tourists

15 What would **not** be included in a cost-benefit analysis of a proposed new university?

A the costs of building the new university

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

C the future staffing costs of other universities

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

16 Which of the following is the best example of a public good?

A education

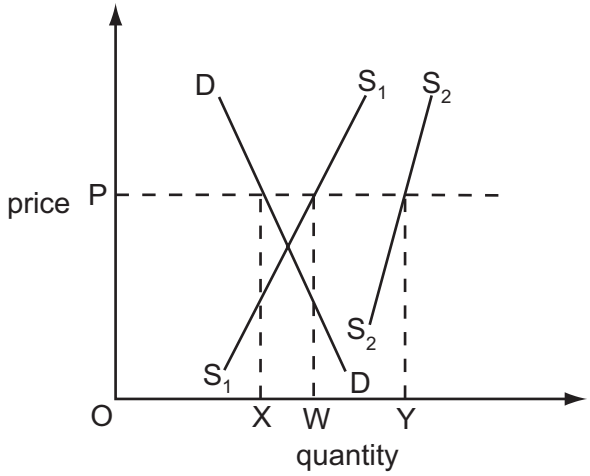
B medical care

C postal services

D radio broadcasts

17 In the diagram S_1S_1 and S_2S_2 are the supply curves for an agricultural product in years 1 and 2 respectively. DD is the demand curve in years 1 and 2.

In year 1 the government purchases an amount necessary to ensure that the price is at the level OP.



If the price is to be held at OP in year 2, how much must the government buy?

A OY **B** XW **C** WY **D** XY

18 In a world economy there are two goods, guns and butter, and two countries, X and Y. Country X can produce both guns and butter with fewer resources per unit than country Y, but country X has a higher opportunity cost in the production of guns than country Y.

Which statement is correct?

A X has an absolute advantage in butter but **not** in guns.

B X has an absolute advantage in guns but **not** in butter.

C X has a comparative advantage in butter.

D X has a comparative advantage in guns.

19 What will be the immediate effect of the removal of tariffs on imported consumer goods?

A a decrease in the cost of living

B a decrease in free trade

C an increase in customs revenues received by the government

D an increase in the level of domestic employment

20 A group of countries introduce a single common currency to replace their national currencies.

What will result from this policy?

A easier price comparisons between countries

B higher transaction costs

C increased interest rate differentials

D identical prices in all countries

21 When is an economy likely to experience a deterioration in its terms of trade?

A when demand for its exports increases

B when the trade weighted value of its currency depreciates

C when the interest rate is increased

D when there is a fall in the average price of its imports

22 Country X has a comparative advantage in producing wheat and country Y in producing cars. However, the countries choose not to specialise and trade.

What is a valid reason for this behaviour?

A The exchange rate lies within the countries' opportunity cost ratios.

B There is immobility of factors of production between the countries.

C Trade is based on absolute rather than comparative advantage.

D Transport costs are high relative to the opportunity cost differences between the countries.

23 What will cause an immediate rise in the size of a country's labour force?

A an increase in the birth rate

B an increase in the age of retirement

C an increase in the school leaving age

D an increase in the number of redundancies

24 The table shows the average annual percentage change in labour productivity.

	whole economy	manufacturing
1960s	2.4	3.0
1970s	1.8	2.2
1980s	2.3	4.9
1990s	1.9	2.2

What can be deduced from the data?

A Manufacturing output increased faster than that in the rest of the economy over the entire period.

B Productivity growth was at its highest in the 1980s.

C Output per worker increased faster in manufacturing than in the rest of the economy.

D Economic growth was at its lowest in the 1970s.

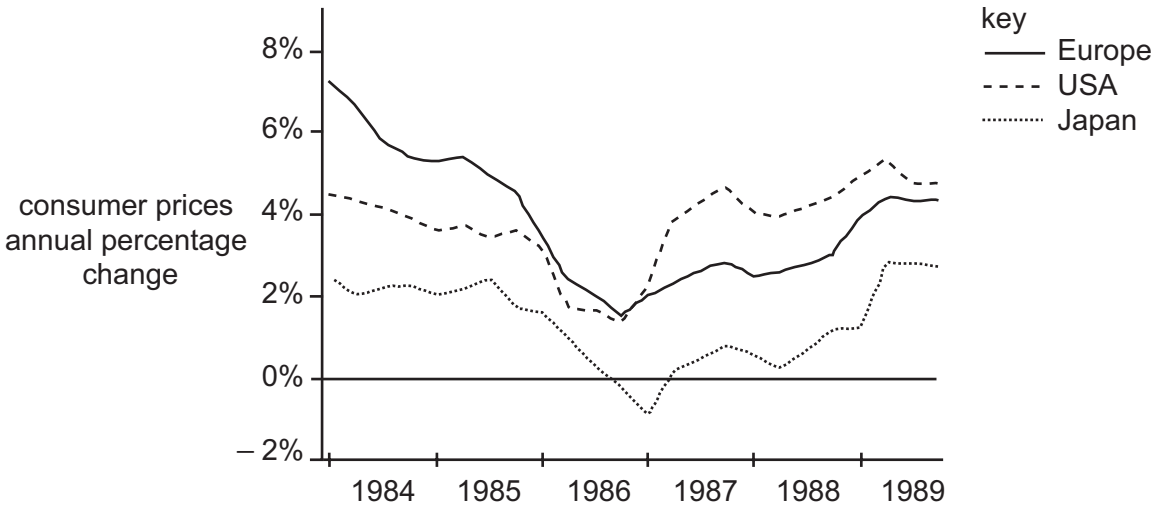
25 The table shows the price indices and weights for three commodity groups that are included in the calculation of a country's cost of living index.

commodity group	index	weight
X	300	4
Y	140	3
Z	80	3

By how much has the cost of living increased since the base year?

A 52 % **B** 86 % **C** 186 % **D** 198 %

26 The diagram shows the annual percentage changes in consumer prices for Europe, Japan and the USA between 1984 and 1989.



Which of the following statements is correct?

A In 1986 consumer prices were falling in Japan, the USA and Europe.

B In the period 1984-1987 consumer prices fell more quickly in Europe than in the USA.

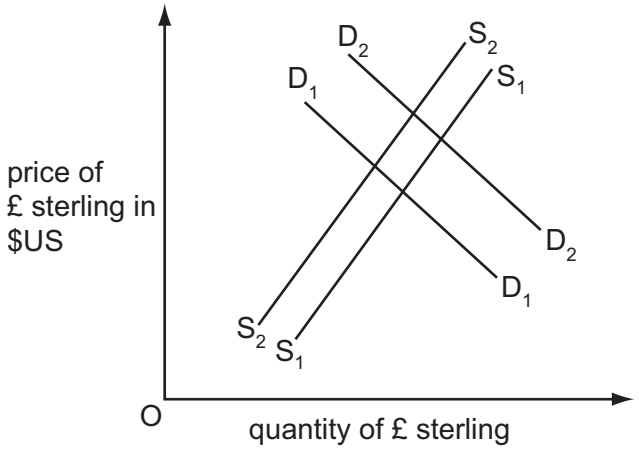
C In the period 1987-1989 the USA had the highest consumer prices.

D In the period 1984-1989 Japan had the lowest consumer price inflation.

27 What is the likely effect on the volume of exports and imports if a country on a fixed exchange rate experiences a higher rate of inflation than its trading partners?

	exports	imports
A	increase	decrease
B	decrease	increase
C	increase	increase
D	decrease	decrease

28 In the diagram, D_1D_1 and S_1S_1 are the initial demand and supply curves of the pound sterling (£) on the foreign exchange market.



What will cause the demand curve to shift to D_2D_2 and the supply curve to S_2S_2?

A an appreciation of the pound

B an increase in UK interest rates

C a reduction in the level of UK import tariffs

D a reduction in the quality of UK goods

29 The table shows alternative price elasticities of demand for exports and imports of country X.

There is a depreciation of the currency of country X.

Assuming there are no supply bottlenecks, which combination of price elasticities offers the best prospect for an improvement in the balance of trade?

combination	exports	imports
A	0.5	0.5
B	0.8	1.2
C	1.5	1.5
D	2.0	0.5

30 In an open economy with a flexible exchange rate, the rate of interest is increased.

Other things being equal, what will be the effect of this increase?

A There will be a capital outflow.

B The exchange rate will appreciate.

C Inflation will rise.

D Imports will become more expensive.