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

ECONOMICS **9708/01**

Paper 1 Multiple Choice (Core)

October/November 2004

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 International Examinations

1 In a market economy, what is the basis for determining the allocation of factors of production?

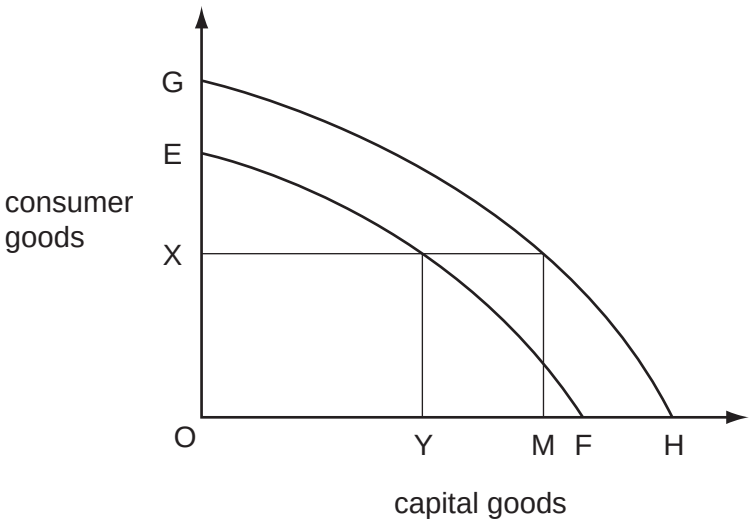
A the market share of companies

B the needs of the country

C the pattern of consumers' spending

D the wealth of entrepreneurs

2 The diagram shows two production possibility curves (EF and GH), before and after technological progress has taken place.



After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

A MH **B** OH **C** OM **D** YF

3 What is meant by 'ceteris paribus' in economic analysis?

A A normative approach is being adopted.

B The effect of a change of one variable is being considered in isolation.

C One good has to be sacrificed to obtain more of another.

D One factor of production is fixed.

4 Doctors should be paid highly because they have to undertake a long period of training.

What can be concluded about this statement?

A It is a normative statement because high pay does not always result from lengthy training.

B It is a normative statement because it expresses an opinion.

C It is a positive statement because doctors do have to train for a long period.

D It is a positive statement because greater skill results in higher pay.

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5 What ensures that demand for a product is effective?

A The consumer must be in the private sector of the economy.

B The consumer must have sufficient income to buy the product.

C The consumer must receive consumer surplus.

D The consumer must want to buy the product.

6 What would cause the demand for holiday accommodation in Mauritius to shift to the left?

A a fall in the exchange value of the Mauritian rupee

B poor holiday weather in Mauritius

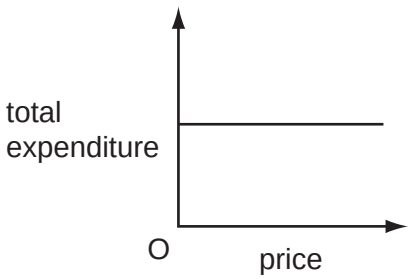
C relaxation in planning controls on hotel construction in Mauritius

D removal of sales tax on hotel accommodation in Mauritius

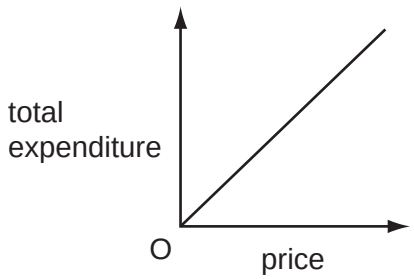
7 The demand for a commodity has unitary price elasticity.

Which diagram shows the relationship between total expenditure on the commodity and its price?

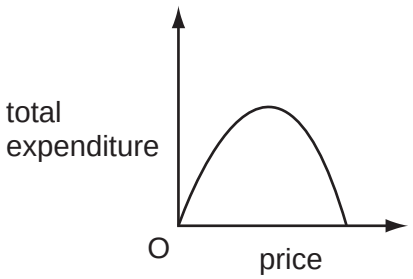
A



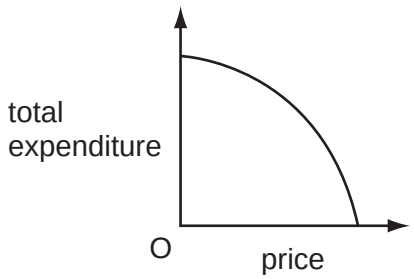
B



C



D



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

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

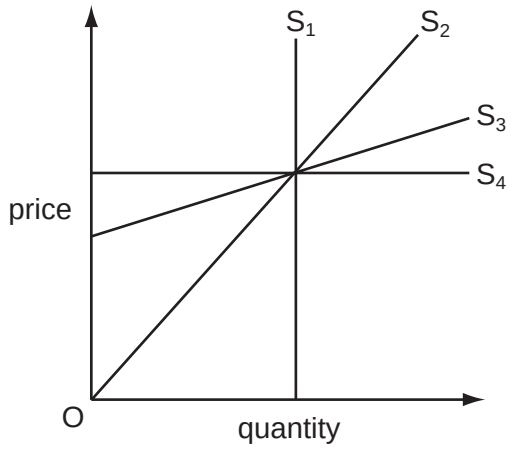
B the greater the income elasticities of demand for the two goods.

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

D the more they are regarded as similar by consumers.

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9 The diagram shows four different straight line supply curves.



What can be concluded from the diagram?

A S_1 has unitary elasticity.

B S_2 has zero elasticity.

C S_3 has a constant elasticity.

D S_4 has infinite elasticity.

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

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

What can be deduced from the data?

A The demand for sugar is price-elastic.

B The income elasticity of demand for sugar is negative.

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

D The supply of sugar is price-elastic.

11 Assume that rice is a substitute for potatoes.

If there is a decrease in the supply of potatoes, what is likely to happen to the market for rice in the short run?

A Demand will decrease and the price will decrease.

B Demand will increase and the price will increase.

C Supply will decrease and the price will increase.

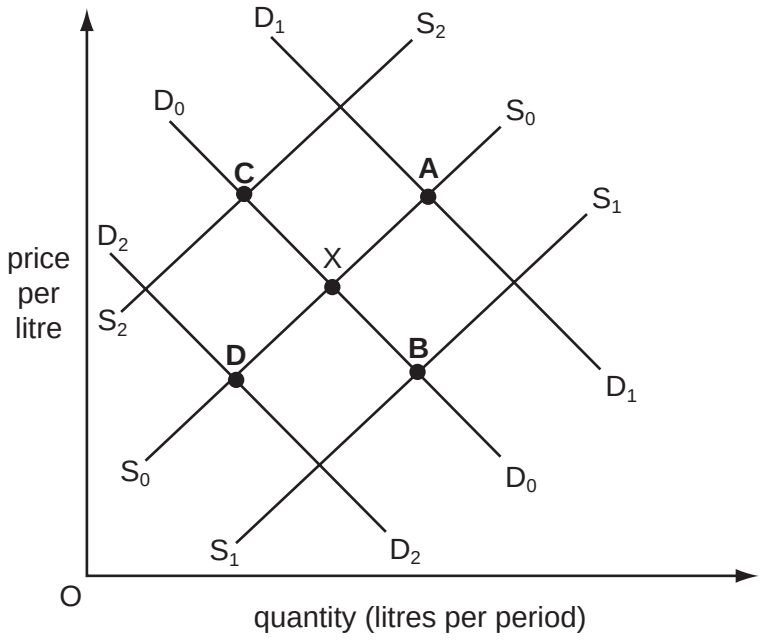
D Supply will increase and the price will decrease.

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12 In the diagram, point X shows the equilibrium price and quantity for a fruit drink.

The government announces that the ingredients used in the drink can be harmful.

Which point, **A**, **B**, **C** or **D**, is most likely to represent the new equilibrium after consumers hear this announcement?



13 The table shows observations of a competitive market in equilibrium in two periods.

period	market price	quantity traded
1	50 cents	10 000 units
2	60 cents	12 000 units

What could explain the change from period 1 to period 2?

A an increase in the price of a complement

B an increase in the price of a substitute

C the imposition of an indirect tax on suppliers

D the imposition of a minimum price of 60 cents by a government

14 Which combination shows examples of the private and external costs of the particular activity?

	activity	private cost	external cost
A	car journeys	traffic police costs	labour mobility
B	foreign holidays	crowded beaches	airport taxes
C	jet flights	night flight disturbance	landing fees
D	pop concerts	admission charges	noise intrusion

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15 The government has to choose the best one of four possible sites to locate a port.

The costs and benefits of each site are shown in $m in the table.

Which site would be chosen?

site	private costs	external costs	private benefits	external benefits
A	10	50	900	600
B	20	5	1 000	800
C	80	40	800	1 100
D	100	200	1 000	900

16 Why do governments often subsidise the cost of entrance to museums?

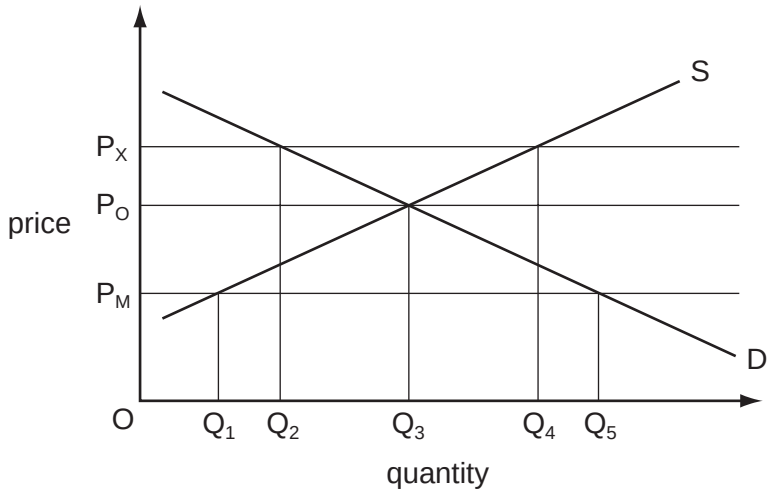
A Museums are a pure public good.

B Social benefits are less than social costs.

C Social benefits exceed private benefits.

D Social costs exceed private costs.

17 The diagram shows the market for spectacles. Initially the market equilibrium price is P_O and quantity Q_3 is bought and sold.



The government then sets both a maximum spectacle price of P_X and a minimum price of P_M.

What effect will these measures have on the market for spectacles?

A create a shortage of spectacles equal to Q_1Q_5

B create a surplus of spectacles equal to Q_2Q_4

C create a surplus of spectacles equal to Q_3Q_4

D leave the quantity bought and sold unchanged

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18 In which situation will it be necessary to use an alternative to the price mechanism to allocate a good between consumers?

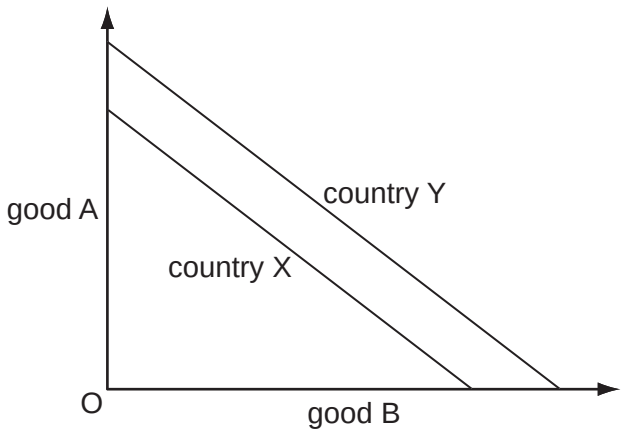
A The quantity of the good available is fixed.

B Producers of the good receive a subsidy.

C The government imposes a specific tax on the good.

D The government sets a maximum price below the equilibrium price.

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



What can be deduced from the diagram?

A Both countries can benefit by specialisation.

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

C Country Y has a comparative advantage in both goods.

D Trade between X and Y will not take place.

20 An argument against trade protection is that it will increase

A competition for domestic industries.

B domestic price levels.

C the current account deficit.

D opportunities for domestic infant industries.

21 What is present in a customs union but not in a free trade area?

A a common monetary system

B a common external tariff with the rest of the world

C a common system of taxation

D the free movement of all goods, services and factors of production

22 In which situation must the terms of trade be moving in a country's favour?

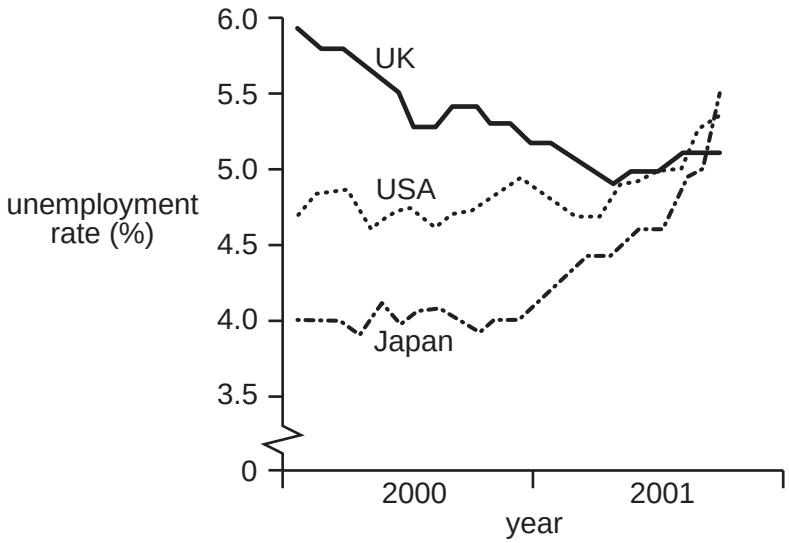
A Its import prices are rising at a slower rate than its export prices.

B There is a fall in both its import and its export prices.

C There is an increase in its official reserves.

D The volume of its exports is increasing more than the volume of its imports.

23 The graph shows the unemployment rates for the UK, USA and Japan for 2000 and 2001.



What can be concluded from the graph?

A Each economy experienced a rising trend of unemployment.

B Japan went from the lowest to the highest number of unemployed.

C There was a trend towards more similar unemployment rates.

D The UK had a higher number of unemployed than the USA.

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

commodity group	index	weight
X	400	5
Y	120	3
Z	80	2

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

A 52 % **B** 60 % **C** 152 % **D** 520 %

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25 The figures show the consumer price index (CPI) of a country. (1971 = 100)

	CPI
1998	200
1999	204
2000	206
2001	209

What can be deduced from the data?

A There was hyperinflation between 1971 and 1998.

B The rate of inflation rose in 2000.

C The rate of inflation in 1999 was 4 %.

D The country experienced inflation in the three years down to the end of 2001.

26 What is the most likely consequence of an increase in a country's balance of payments deficit?

A an increase in the foreign value of the currency of the country

B an increase in the level of income within the country

C a reduction in the quantity of money within the country

D a reduction in unemployment within the country

27 Which factor determines the purchasing power parity of a currency?

A relative costs of living

B relative rates of interest

C the volume of trade creation

D the visible balance of payments

28 Which is **most** likely to cause country X's exchange rate to depreciate?

A an increase in country X's demand for imports

B an increase in country X's interest rate

C an increase in foreign demand for country X's exports

D an increase in tourist visits to country X

29 A depreciation of the exchange rate of the pound sterling against the US dollar from £1 : $1.50 to £1 : $1.00 must mean that

A the pound will be undervalued.

B US imports from the UK will become more expensive.

C UK imports from the US will become cheaper.

D dollars will become more expensive in terms of pounds.

30 Which policy would reduce a balance of payments deficit on the current account in the short run?

A a reduction in government subsidies to exporters

B a reduction in the rate of interest

C a rise in direct taxation

D incentives to attract foreign capital

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