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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 2006

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.

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

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1 Why are there no markets for free goods?

A Consumers' valuation of free goods is the same at all levels of demand.

B Free goods are non-excludable.

C The demand for free goods is infinite.

D The supply of free goods is sufficient to satisfy all demand at zero price.

2 What is present in a mixed economy but **not** in a planned economy?

A capital goods

B consumer surplus

C government borrowing

D private production

3 In economics a statement is positive if

A it assumes current economic conditions remain unchanged.

B it concerns the factual outcomes of an economic action.

C it examines the desirability of government economic policy.

D it is based upon the opinion of an economic adviser.

4 Which characteristic of money is essential, if it is to be used as a medium of exchange?

A It must be durable.

B It must be legal tender.

C It must be limited in supply.

D It must have intrinsic value.

5 The market demand for a product is made up of the demand from three firms, X, Y and Z.

The table shows the demand from each firm and the market supply.

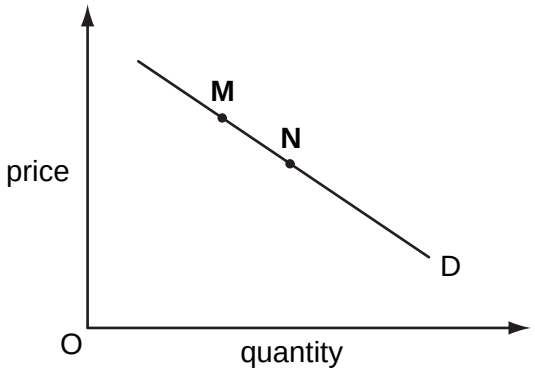
price $	demand from X	demand from Y	demand from Z	market supply
7	3300	3300	3300	3300
8	3100	2900	3100	6200
9	2800	2500	2900	8200
10	2500	2100	2700	10 000

What is the equilibrium price in the market?

A $7 **B** $8 **C** $9 **D** $10

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6 The diagram shows the demand curve for good X.



What could cause a movement along the curve from **M** to **N**?

A a change in consumer tastes in favour of X

B a decrease in labour costs of producing X

C a decrease in the demand for X

D an increase in the price of a substitute good

7 From the table below, in which price range is demand for product X inelastic?

product X	
price $	quantity demanded
12	250
11	450
10	500
9	600
8	650

A $12-11 **B** $11-10 **C** $10-9 **D** $9-8

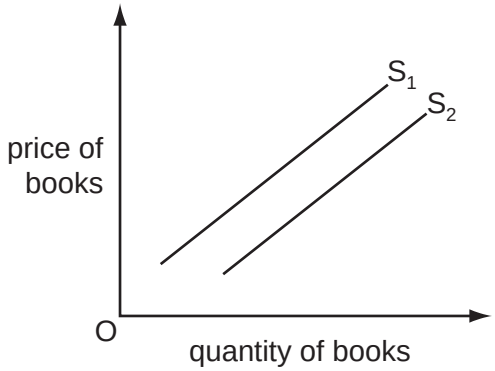
8 Product R is an inferior good with no close substitutes. It is also a complement to product S.

Which describes product R?

	income elasticity of demand	cross elasticity of demand with respect to product S
A	negative	positive
B	positive	negative
C	negative	negative
D	positive	positive

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9 A firm publishes and sells books. The diagram shows a shift in the firm's supply curve from S_1 to S_2.



What would have caused this shift in the firm's supply curve?

A a fall in the subsidies paid to book publishers

B a fall in the price of paper

C a rise in the real income of customers

D a rise in the wages of the firm's workers

10 A product has a low price elasticity of supply.

What might explain this?

A The product has a low opportunity cost.

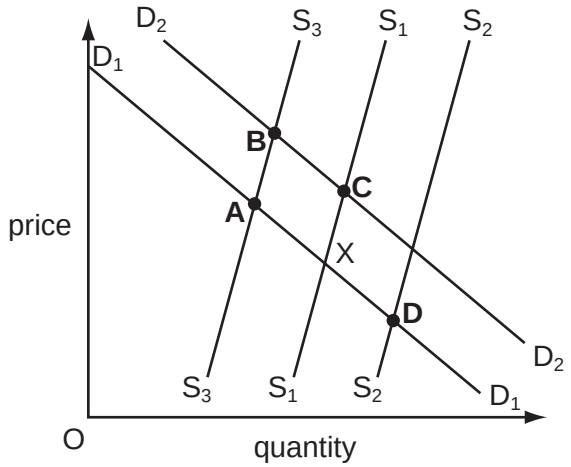
B The product has a perishable nature.

C The product is classed as an inferior good.

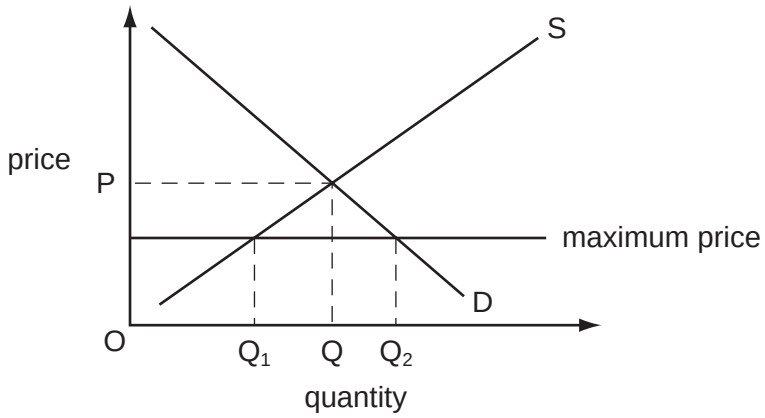
D The product is considered to be a necessity.

11 In the diagram, S_1 and D_1 are the initial supply and demand curves for tea and X is the original equilibrium. There is then a failure in the coffee harvest of a major coffee producer.

Which point would represent the equilibrium position in the tea market as a result of this failure?



12 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.

13 What is **not** correct when price acts as a means to allocate resources?

A Price determines the supply of public goods.

B Price operates in the markets for both goods and factors of production.

C Price recognises consumers' ability to pay rather than consumers' needs.

D Price signals to producers which goods are most profitable.

14 What is an external cost of building new houses in a city centre?

A the cost of compensating residents for mud on local roads

B the cost of city centre traffic congestion resulting from the building

C the cost of obtaining planning permission

D the cost of painting the outside of the new houses

15 What is an advantage of using cost-benefit analysis in decision-making rather than using only private costs and private benefits?

A It does not require detailed calculations.

B It is easier to calculate social costs than private costs.

C It speeds up the decision-making process.

D It takes into account a wider range of effects.

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16 What is an essential characteristic of a private good?

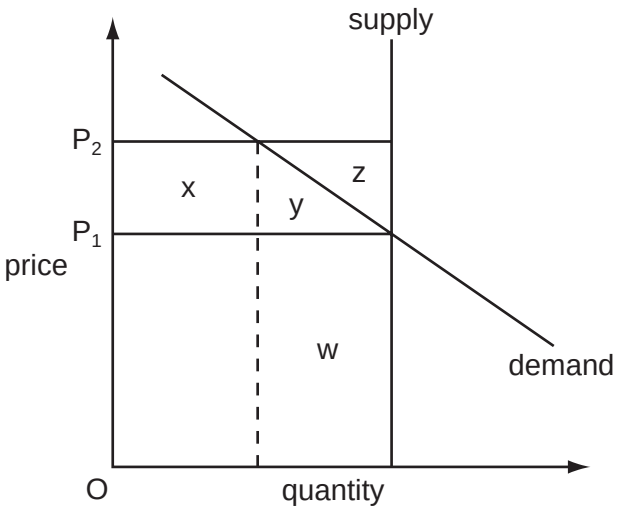
A Consumption of the good by one user diminishes the quantity available to others.

B Consumption of the good by the user has no external effects on the consumption of others.

C It is produced by the private sector.

D The user has to pay for it.

17 The diagram shows the market demand and supply curves for an agricultural product. The government allows the price paid by consumers to be determined by the market, but guarantees producers a price of OP_2.



Which area in the diagram represents the total subsidy payments made by the government to producers?

A w + y + z **B** y + z **C** x **D** x + y + z

18 A government intends to introduce a minimum price for rice, a maximum price for heating oil and a tax on chewing gum.

Who, in each market, is meant to benefit from these policies?

	market for rice	market for heating oil	market for chewing gum
A	consumers	government	producers
B	government	producers	government
C	producers	producers	consumers
D	producers	consumers	government

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19 The table shows the output per unit of input of two goods, X and Y, in two countries, 1 and 2.

	output of X per unit of input	output of Y per unit of input
Country 1	70	30
Country 2	50	25

Which statement about the data in the table is correct?

A Country 1 has absolute advantage in the production of X and comparative advantage in the production of Y.

B Country 1 has absolute advantage in the production of Y and comparative advantage in the production of X.

C Country 2 has no absolute or comparative advantage.

D Country 2 has comparative advantage in the production of X and no absolute advantage.

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

A a lower exchange rate

B a higher quota of imported cars

C a higher tariff on imported cars

D a higher subsidy for domestic car producers

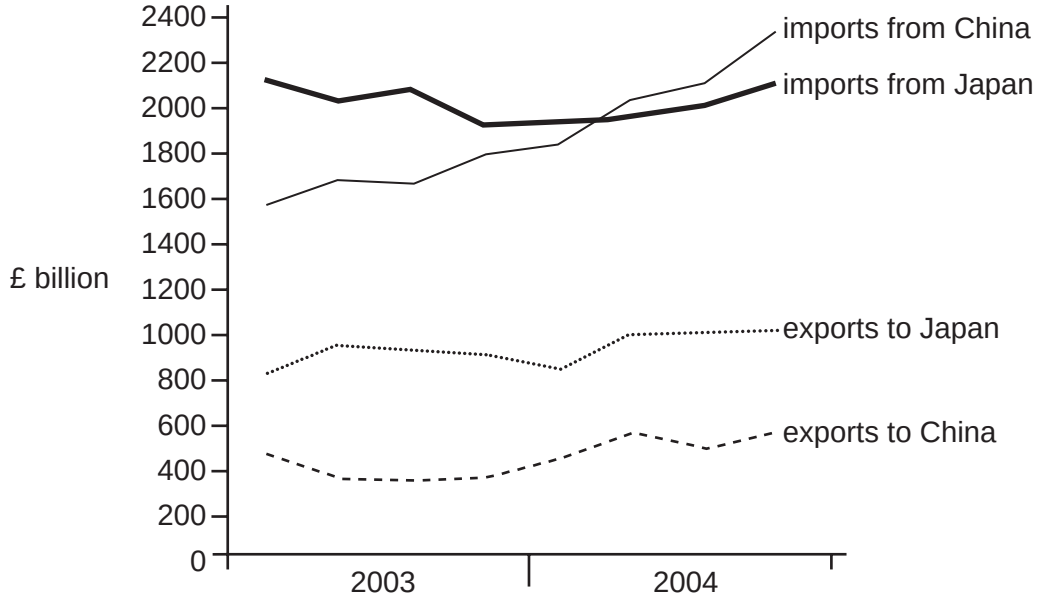
21 A country's terms of trade index currently stands at 120 (base year 2000).

Since 2000, the average price of its imports has increased by 25%.

What has been the change in the average price the country has received for its exports over this period?

A –10% **B** +5% **C** +45% **D** +50%

22 The diagram shows the UK trade balance with China and Japan in 2003 and 2004.



How did the trade balance of the UK change between the start of 2003 and the end of 2004?

A There was a fall in the trade surplus with China.

B There was a fall in the trade surplus with Japan.

C There was a rise in the trade deficit with China.

D There was a rise in the trade deficit with Japan.

23 The data in the table are taken from a country's labour market statistics.

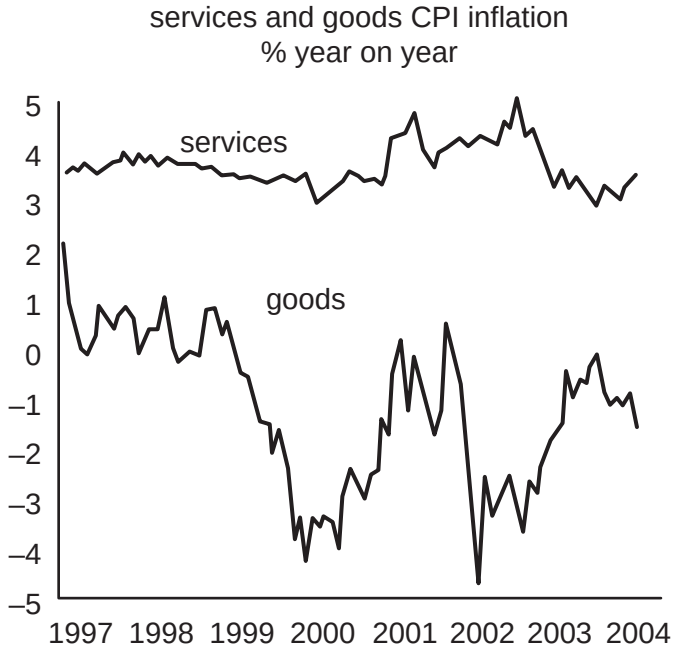
	millions
adult population	100
number of persons in employment	45
number of persons unemployed	5

What is the unemployment rate and the participation rate?

	unemployment rate %	participation rate %
A	5	45
B	10	50
C	10	45
D	5	50

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24 The diagram shows rates of inflation as measured by the Consumer Price Index (CPI) between 1997 and 2004.



Which conclusion can be drawn from this data?

A The prices of goods fell in 1999.

B The prices of goods rose between 2000 and 2001.

C The prices of services fell between 2002 and 2004.

D Between 1997 and 2004, services cost more than goods.

25 The table shows a country's rate of inflation for four years.

year	rate of inflation %
2000	4.0
2001	3.0
2002	2.5
2003	2.0

What fell between 2000 and 2003?

A average prices

B the cost of living

C the exchange rate

D the value of money

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26 What is **not** a possible cause of cost-push inflation?

A an increase in firms' profit margins

B an increase in the supply of money

C an increase in trade union power

D an increase in world oil prices

27 The table shows items from the balance of payments for countries **A**, **B**, **C** and **D**. Official Financing is excluded from the Financial Account.

Which country has the greatest disequilibrium on its balance of payments?

	Current Account $m	Capital Account $m	Financial Account $m
A	–41	13	28
B	44	12	25
C	–32	–5	–37
D	–15	–17	4

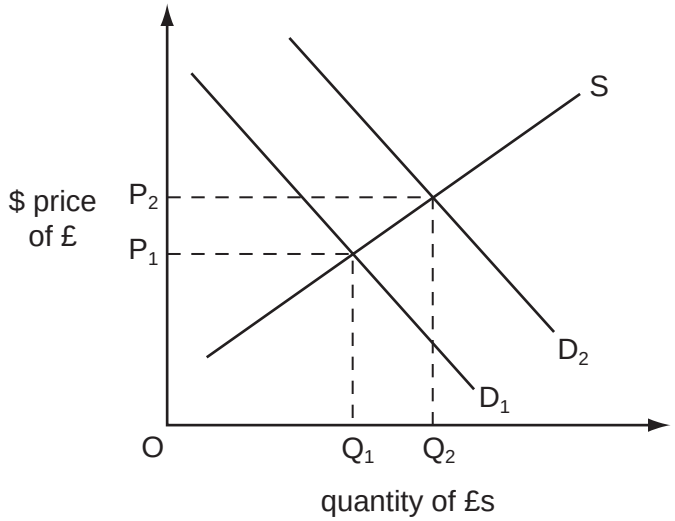
28 Turkey can produce a good but also imports some of the good from Egypt. The Turkish currency depreciates against the Egyptian currency.

How might this affect production of this good in Egypt and in Turkey?

	production in Egypt	production in Turkey
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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29 The diagram shows the supply and demand for pounds sterling (£) in the foreign exchange market with the initial US dollar ($) price of the £ being OP_1.



What will increase the $ price of the £ to OP_2?

A a large capital inflow into the UK

B a large deficit on the UK current account

C a reduction in interest rates in the UK

D a speculative sale of £s in the foreign exchange market

30 In which of the following circumstances will devaluation of the external value of a country's currency have the greatest beneficial effects on its balance of trade?

A There is full employment in the country.

B The government has implemented expansionary fiscal policies.

C The demand for its imports is price-inelastic.

D There is a high price elasticity of demand for its exports.

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