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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 2007**

1 hour

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

* 0 9 4 8 9 6 2 5 6 0 *

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.

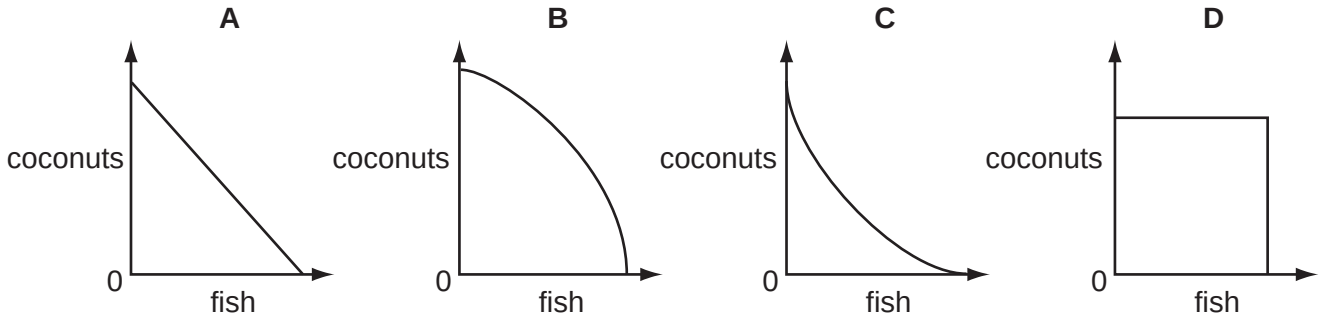
Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

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

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1 Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

Which diagram represents the production possibility curve of this community?



2 Which is a normative statement?

A Inflation can be reduced only by increasing the level of unemployment.

B An increase in the rate of inflation will lead inevitably to an increase in unemployment.

C Unemployment is more harmful than inflation.

D If unemployment is reduced below a certain level, this will lead to higher inflation.

3 In which situation would an economist assume ceteris paribus?

A when calculating the retail prices index

B when deciding what to include in a cost benefit analysis

C when making normative statements to advise the government

D when studying the effect of a price rise on demand

4 In the 20th century the nature of a typical car assembly plant changed. Company mergers meant there were fewer firms, they operated on larger sites and they had more automated machinery and robots.

How is this change most likely to have affected the relative employment of factors of production in the industry?

	increased relative use	decreased relative use
A	capital and enterprise	labour and land
B	enterprise and labour	land and capital
C	land and capital	enterprise and labour
D	labour and land	capital and enterprise

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5 The following might influence the demand for a good.

Which would **not** cause a shift in the demand curve for the good?

A a change in the price of a complement

B a change in the price of a substitute

C a change in the price of the good itself

D a change in consumers' incomes

6 A fall in the price of cars causes the demand for petrol to rise by 20 %. The cross-elasticity of demand between cars and petrol is –2.

Which change in car prices has brought this about?

	from	to
A	$6000	$5000
B	$5500	$4500
C	$5000	$4500
D	$5000	$4000

7 What is correct about market supply?

A Market supply can increase only when all individual firms increase their output.

B Market supply is effective when consumers have sufficient income to buy the good.

C Market supply is the result of aggregating the supply of all individual firms.

D Market supply of an inferior good falls as price increases.

8 The price of a firm's product rises by 12 %.

After one week the firm is only able to produce the same quantity but after one month it can increase the quantity by 6 %.

How would price elasticity of supply be described after one week and after one month?

	after one week	after one month
A	infinite	elastic
B	infinite	inelastic
C	zero	elastic
D	zero	inelastic

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9 The government imposes a sales tax to reduce consumption of good X.

With which combination of price elasticity of demand and price elasticity of supply will this have the greatest effect?

A elastic demand and elastic supply

B elastic demand and inelastic supply

C inelastic demand and elastic supply

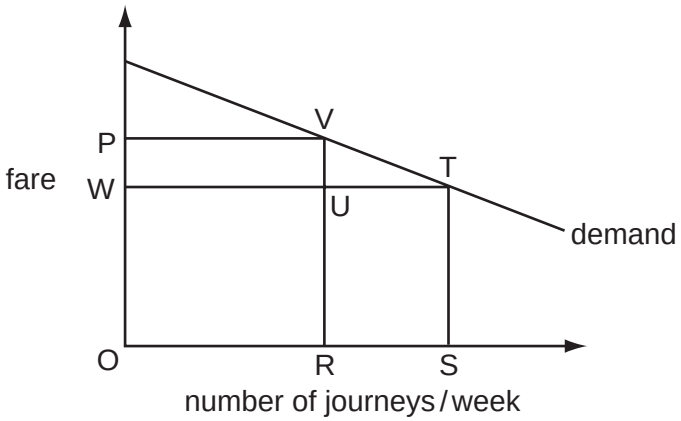
D inelastic demand and inelastic supply

10 Jam and honey are substitutes and honey and beeswax are in joint supply.

Other things being equal, what will be the result of an increase in the price of jam?

	price of honey	price of beeswax
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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



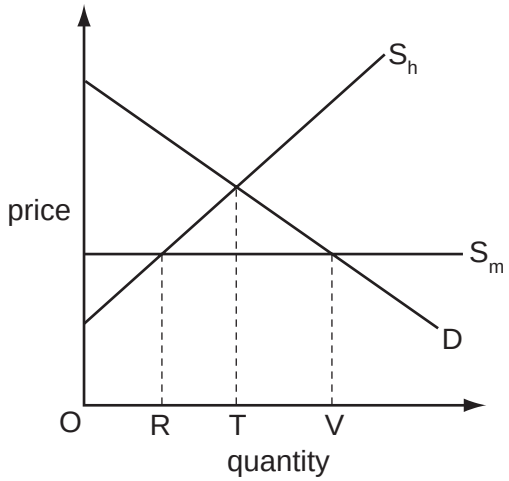
Initially the fare is OP, but it is then reduced by PW.

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

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

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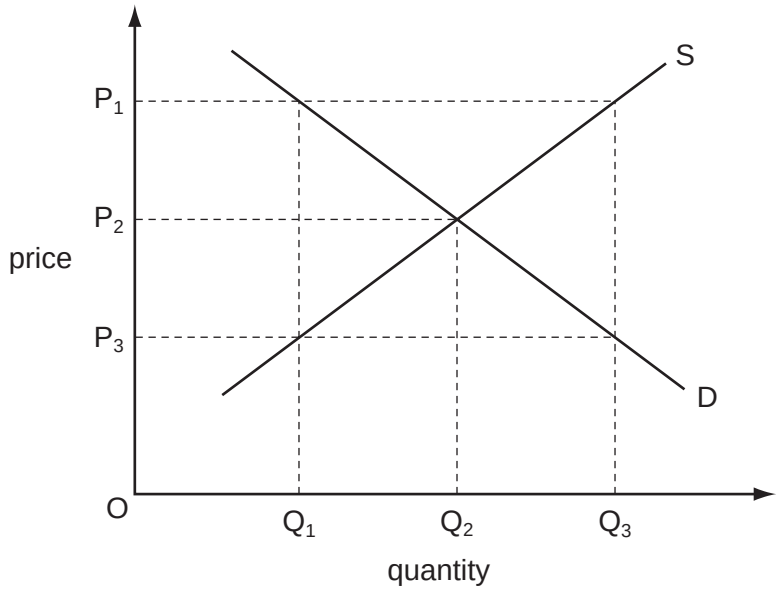
12 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_h represents domestic supply and S_m represents imports.



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 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

14 A government decided to approve a private airport-building scheme because it was socially beneficial. In making its decision it calculated private costs at $700 m, private benefits at $800 m and external costs at $200 m.

What does this suggest must have been true about the external benefits of the scheme?

A External benefits equalled private benefits.

B External benefits exceeded $100 m.

C External benefits exceeded external costs.

D There were no external benefits.

15 In cost-benefit analysis the term net social benefit refers to

A private benefit plus social benefit.

B social benefit minus private benefit.

C social benefit minus private cost.

D social benefit minus social cost.

16 Advances in technology are turning a number of goods which are usually thought of as public goods (for example, television broadcasting and road use) into private goods.

Why might this be so?

A Consumer surplus is being increased.

B The costs of production are being reduced.

C It is becoming easier to exclude non-payers.

D The technology is increasing the number of people consuming the goods.

17 What is true of merit goods?

A Consumers underestimate the benefit they provide.

B The free rider problem restricts their supply.

C Their social cost is greater than their private cost.

D The market system over-provides them.

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18 Brazil and Colombia attempt to control the supply of coffee in the world market to help stabilise their incomes.

What condition is essential for this to stabilise their incomes effectively?

A There must be large firms in the industry.

B It must be possible to store the coffee and release stocks when necessary.

C Other countries must supply a significant percentage of the total market.

D The demand for the product must be elastic.

19 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.

20 What would be an economic benefit to a country of imposing a tariff on imported goods?

A It would increase global productivity.

B It would make the country's exports more competitive.

C It would put pressure on foreign suppliers to reduce their prices.

D It would reduce the prices paid by consumers for imported goods.

21 When must the terms of trade of a country change?

A when the volume of exports falls and the volume of imports rises

B when the total value of exports falls and the total value of imports rises

C when the balance of trade moves from deficit to surplus

D when the average price of exports rises and the average price of imports falls

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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 $13 m deficit

B $10 m deficit

C $5 m deficit

D $3 m surplus

23 The table gives the % rates of youth unemployment and total unemployment in France and the UK in 2001 and 2005.

	France		UK	
	youth unemployment (%)	total unemployment (%)	youth unemployment (%)	total unemployment (%)
2001	19.2	8.7	12	5.2
2005	22.1	10.1	12.5	4.8

What can be concluded from the table?

A France and the UK experienced the same trends in unemployment.

B France had a higher number of unemployed people than the UK.

C The UK used a different definition of unemployment from France.

D The UK was more successful than France in controlling unemployment.

24 When is labour productivity in a firm most likely to increase?

A when a firm employs more people

B when a firm employs more capital

C when a firm doubles all factors of production

D when a firm replaces payment by results with hourly wage rates

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25 A country experienced an annual inflation rate of 4 % for three successive years.

Which statement is correct for the three-year period?

A The price level rose by 12 %.

B The price level rose by more than 12 %.

C The real value of money rose by 12 %.

D The real value of money rose by more than 12 %.

26 What would be likely to decrease inflation in an economy?

A an increase in consumer spending

B an increase in employment

C an increase in labour productivity

D an increase in taxes on imports

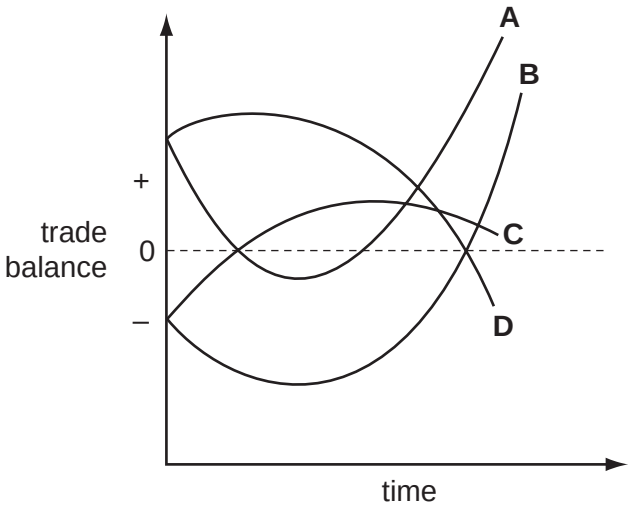
27 A UK resident buys shares in a Spanish company.

What will be the immediate and subsequent effects on the UK's balance of payments?

	immediate effect on financial account	subsequent effect on current account
A	credit	credit
B	credit	debit
C	debit	credit
D	debit	debit

28 In a country the Marshall-Lerner condition for an improvement in the trade balance is satisfied in the long run, but quantities of imports and exports are slow to respond to price changes. The government devalues its currency to reduce its trade deficit.

Which curve indicates the probable behaviour of the trade balance?



29 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

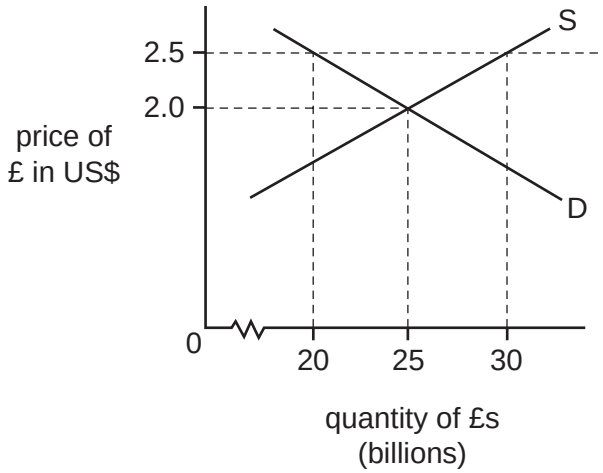
B a high price elasticity of demand for imports

C a low price elasticity of demand for exports

D a low rate of domestic inflation

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30 The diagram shows the market for £ sterling which is in equilibrium.



What must the UK government do to achieve an exchange rate of £1 = US$2.50?

A buy £10 billion sterling

B buy £20 billion sterling

C sell £10 billion sterling

D sell £20 billion sterling

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