www.XtremePapers.com

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 2008**

1 hour

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

6030213562

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.

© UCLES 2008

1 Why is scarcity the central feature of the economic problem?

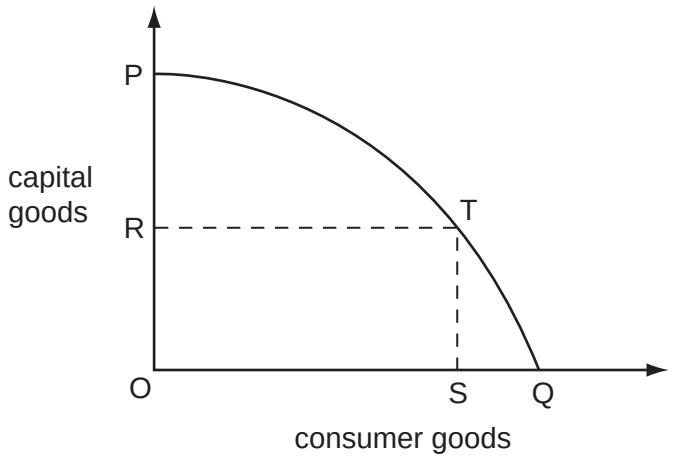
A People's needs are limited.

B Resources have alternative uses.

C Economic resources are finite.

D Consumers have limited choices.

2 The production possibility curve for an economy producing capital and consumer goods is represented by the line PQ.



What is the opportunity cost of producing OS of consumer goods?

A OR of capital goods

B PR of capital goods

C SQ of consumer goods

D SQ of consumer goods + PR of capital goods

3 In which types of economy might a government control prices?

A market and mixed only

B market and planned only

C market, mixed and planned

D mixed and planned only

4 Which action by an individual would **not** be considered an action of the factor of production labour?

A leaving college to work on the land

B moving from a labour-intensive industry to work in a capital-intensive industry

C setting up a new business in information technology

D undertaking a training course in computer skills

© UCLES 2008

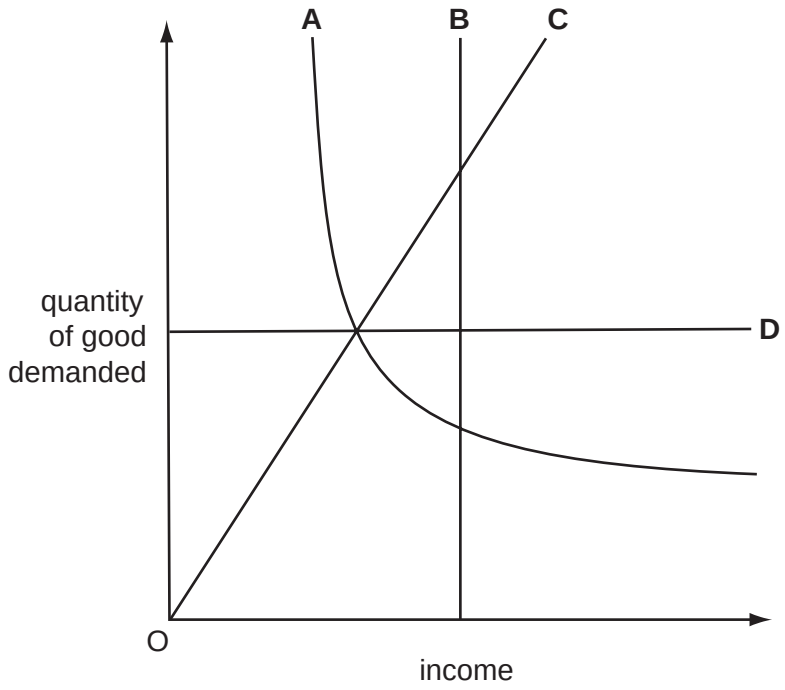
5 A change in the price of a good causes an increase in the quantity of the good demanded.

What would be the nature of the good and the direction of price change for this to be certain to happen?

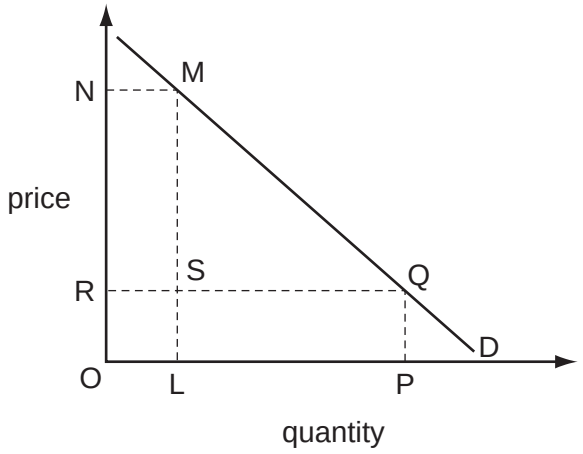
	nature of good	price change
A	inferior	fall
B	inferior	rise
C	normal	fall
D	normal	rise

6 The diagram shows how the quantity demanded of four goods changes as income changes.

Which good has an income elasticity of demand which is always +1?



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.

8 The price of good X rises by 10 %. As a result, the demand for a substitute good Y rises by 20 %.

What is the cross-elasticity of demand for good Y with respect to good X?

A +2 **B** +0.5 **C** –0.5 **D** –2

9 There are three firms (X, Y and Z) supplying a market. The table shows their supply at four different prices.

price ($)	firm X's supply	firm Y's supply	firm Z's supply
10	50	40	10
20	60	60	20
30	85	80	35
40	120	100	55

Which price change is required for market supply to double?

A $10 to $20 **B** $10 to $30 **C** $20 to $30 **D** $20 to $40

© UCLES 2008

10 What might explain a simultaneous increase in both price and quantity traded in the market for a normal good?

A the removal of an effective maximum price on the good

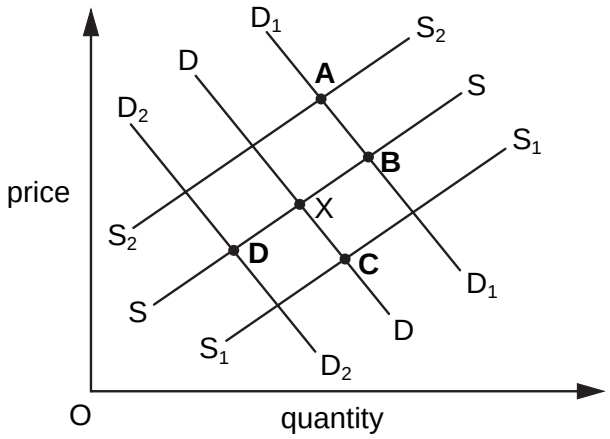
B technological progress in the production of the good

C the imposition of a tax on the good

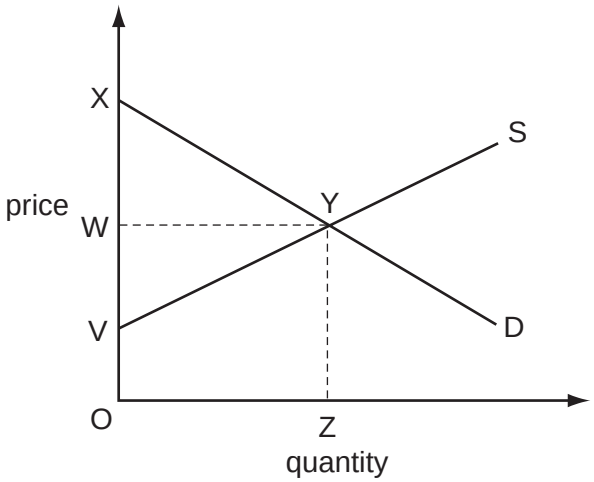
D the granting of a subsidy to producers of the good

11 The diagram shows demand and supply curves for petrol. The present equilibrium is at X.

What could be the new equilibrium if there were a large fall in the price of cars?



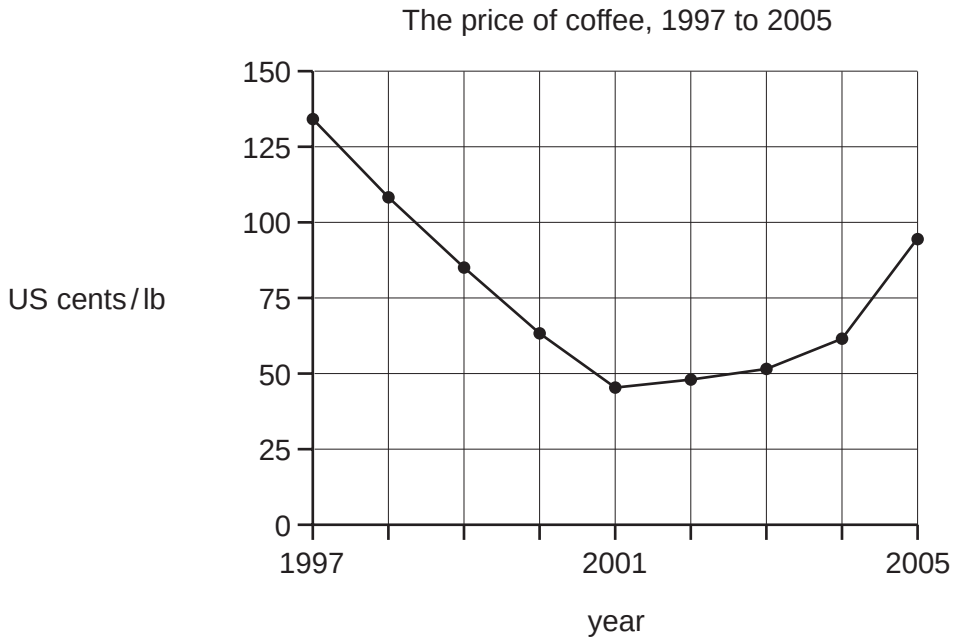
12 The diagram shows the demand and supply curves for a product.



Which area measures the total amount consumers would be willing to pay for the equilibrium level of output?

A OWYZ **B** OXYZ **C** OVYZ **D** XYV

13 The diagram shows the average world price of coffee in US cents per pound weight (lb) between 1997 and 2005.



Which event is consistent with the price behaviour shown in the specified time period?

A a continuous rise in the price of tea between 1997 and 2001

B the entry to the market of new producers of coffee between 1997 and 2001

C a series of good coffee harvests between 2001 and 2005

D increasing health worries about drinking coffee between 2001 and 2005

14 A firm owns a bridge and charges all vehicle users who cross it.

How might the charge be classified?

A an external benefit and an external cost

B an external benefit and a private cost

C a private benefit and an external cost

D a private benefit and a private cost

15 Which statement about externalities is correct?

A Externalities are easier to value than private costs and benefits.

B Externalities are only associated with industrial production.

C Externalities can be both beneficial and harmful.

D Externalities cannot exceed private costs and benefits.

© UCLES 2008

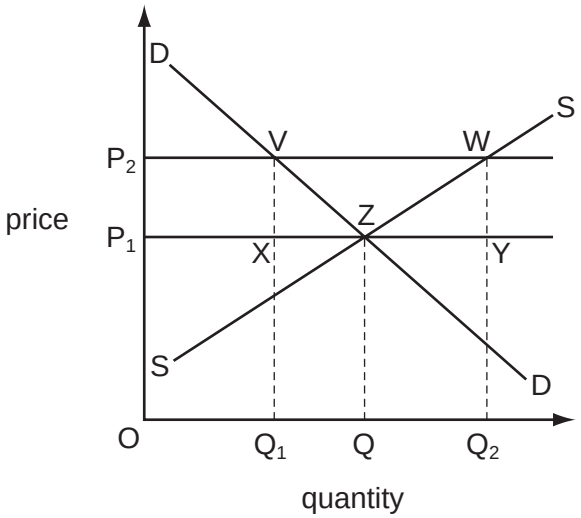
16 The table shows, for two different quantities of good X, the total amount consumers are willing to pay and the total external benefits that are generated.

quantity of good X (units)	consumers' willingness to pay ($)	total external benefits ($)
3	240	54
4	280	68

What is the additional social benefit when 4 units rather than 3 units are produced?

A $14 **B** $40 **C** $54 **D** $348

17 The diagram shows the market for apples. A government maintains a minimum price P_2 by buying apples.



Which area shows the amount of money the government has to spend to maintain the price P_2?

A P_2WYP_1 **B** P_2VQ_1O **C** P_2WQ_2O **D** VWQ_2Q_1

18 What is a defining characteristic of a private good?

A It is purchased by individual customers.

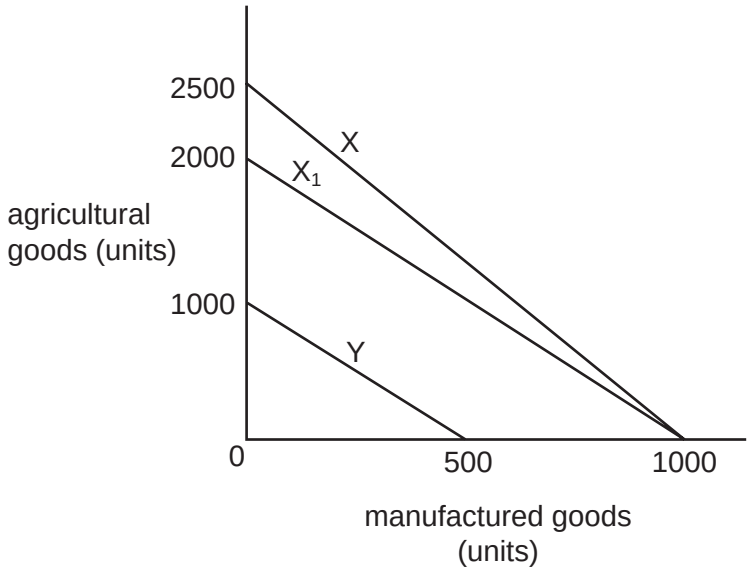
B It is supplied exclusively through the market.

C It is produced only by private sector firms.

D When consumed by one individual, it is not available to others.

© UCLES 2008

19 The diagram represents the production possibility curves of two economies X and Y.



As a result of soil erosion in economy X, the production possibility curve shifts from X to X_1.

According to the law of comparative advantage, what should country Y do following this change?

A cease to trade with country X

B export agricultural goods to country X

C export manufactured goods to country X

D import both agricultural and manufactured goods from country X

20 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

21 Which feature is found in both a customs union and a free trade area?

A a common currency

B a common external tariff

C freedom from internal trade barriers

D uniform tax rates

© UCLES 2008

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 table shows a country's employment statistics.

	million
population of working age	100
number in employment	60
number unemployed	4

What are the participation rate and the unemployment rate?

	participation rate (%)	unemployment rate (%)
A	60	4.0
B	64	6.25
C	60	6.25
D	64	4.0

24 The figures were taken from the consumer price indices of retail prices for three countries.

country	2006	2007
X	100	120
Y	140	150
Z	90	99

Between 2006 and 2007, what is correct?

A Country X has the highest growth in the purchasing power of money.

B Country Y has the highest growth in the purchasing power of money.

C Country Z has the lowest rate of inflation.

D Country Y has the lowest rate of inflation.

© UCLES 2008

25 What is correct about the causes of inflation?

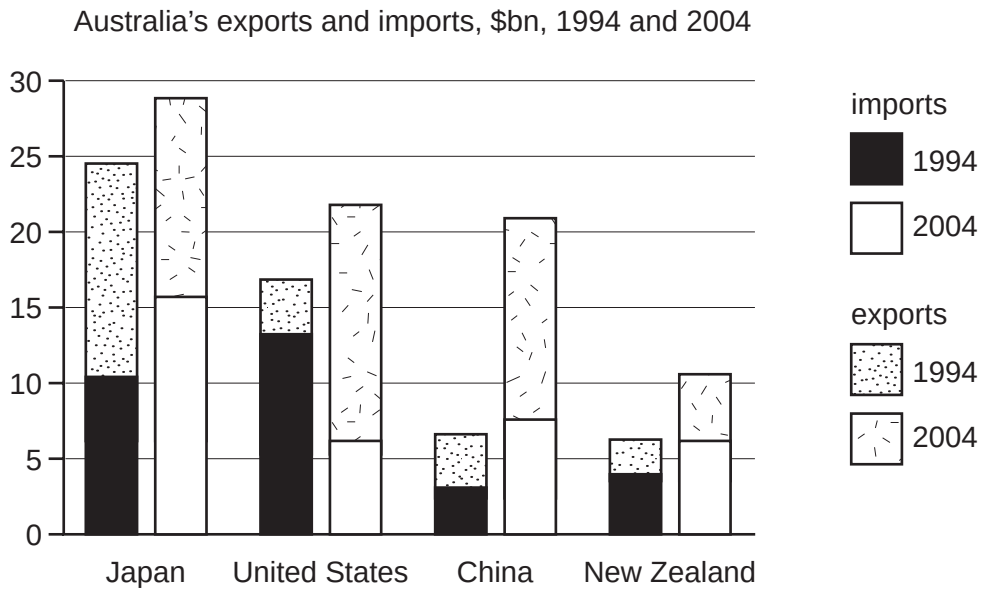
A Cost-push inflation can be caused by a rising exchange rate.

B Cost-push inflation can be caused by lower indirect taxes.

C Demand-pull inflation can be caused by a rising exchange rate.

D Demand-pull inflation can be caused by lower direct taxes.

26 The diagram shows Australia's exports to and imports from four trade partners in $billion in 1994 and 2004.



With which country did Australia have a trade deficit in 1994 and a trade surplus in 2004?

A Japan

B United States

C China

D New Zealand

27 A country succeeds in attracting foreign direct investment.

How is its effect recorded in its balance of payments in the short run and long run?

	short run	long run
A	a credit item in the current account	a debit item in the financial account
B	a debit item in the current account	a credit item in the financial account
C	a credit item in the financial account	a debit item in the current account
D	a debit item in the financial account	a credit item in the current account

28 Under a system of flexible exchange rates, what determines the foreign exchange value of a currency?

A the overall supply of and demand for a currency

B the purchasing power of the currency relative to the purchasing power of foreign currencies

C the surplus or deficit on the balance of payments on current account

D the differential between domestic and foreign interest rates

29 With an exchange rate of 5 Egyptian pounds (EGP) = 1 US dollar ($), an American product sells in Egypt for EGP100.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound appreciates to EGP4 = 1 US$?

A EGP75 **B** EGP80 **C** EGP120 **D** EGP125

30 Which measure to correct a balance of payments current account deficit would be classified as an expenditure-dampening policy?

A a reduction in interest rates

B an increase in direct taxes

C an introduction of foreign exchange controls

D an upward revaluation of the currency

© UCLES 2008

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.