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

ECONOMICS **9708/11**

Paper 1 Multiple Choice (Core) **October/November 2011**

1 hour

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

* 2 2 5 1 0 3 6 8 2 6 *

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.

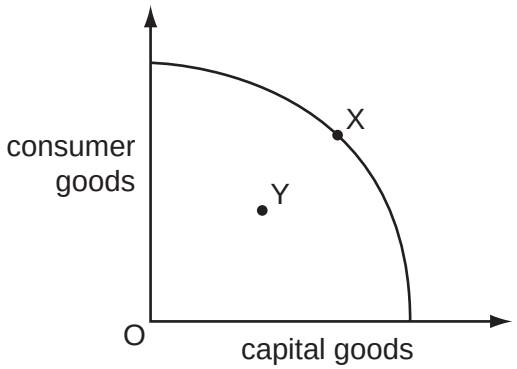
Read the instructions on the Answer Sheet very carefully.

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 The diagram shows a production possibility curve for an economy.



Assuming that the production possibility curve remains unchanged, what is the most likely reason for the movement from point X to point Y?

A a civil war causing a widespread loss of resources

B a permanent fall in productivity in both capital and consumer goods

C a rise in unemployment due to a recession

D the exhaustion of a natural resource

2 What is an example of the factor of production capital?

A a bank account held by a small firm to be used for future purchases

B a forest of hardwood trees ideal for furniture making

C the market value of a company's shares

D word processing software used by a writer to complete her new book

3 What is the opportunity cost to an unemployed worker who becomes employed?

A the leisure they would otherwise have had

B the value of the goods and services they produce

C the wages they are paid

D zero

4 Which statement is normative?

A As a general rule, people are happier in more equal societies.

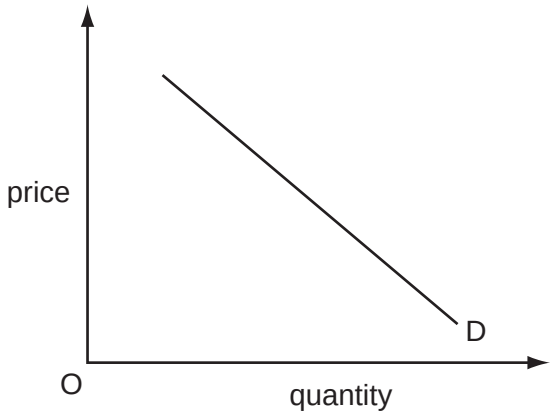
B Despite a large increase in income per head, people are no happier today than they were 50 years ago.

C Happiness depends not on the absolute level of a person's income but on his relative income.

D The promotion of happiness is a more important goal than the maximisation of production.

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5 The diagram shows a demand curve for a good.



Which statement describes the nature of this demand curve?

A A fall in price is the result of a fall in demand.

B A greater or smaller quantity is demanded as price changes.

C As demand increases so does price.

D Quantity changes in proportion to the change in price.

6 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

B by combining individual demand curves horizontally

C by combining the price elasticity of individual demands

D by multiplying price by quantity demanded

7 What could cause a shift in the supply curve of good X and a movement along its supply curve?

	shift in the curve	movement along the curve
A	a change in consumer preferences	an increase in the price of a substitute good
B	a decrease in factor productivity	the imposition of a tax on good X
C	an increase in the price of a complementary good	an increase in factor productivity
D	an increase in the wage rates in the industry	a change in consumer preferences

8 The price of good X rises by 10 %. As a result, the demand for a complementary good Y changes 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 An industry is comprised of three firms, R, S and T which produce product X.

price of X $	output of X		
	firm R	firm S	firm T
36	80	59	85
29	73	48	76
22	52	0	68

By how much is a rise in the price of product X from $22 to $36 likely to increase the market supply of X?

A 27 **B** 77 **C** 104 **D** 224

10 A firm estimates that the price elasticity of supply of its product is 0.4.

Should the firm be concerned by this figure?

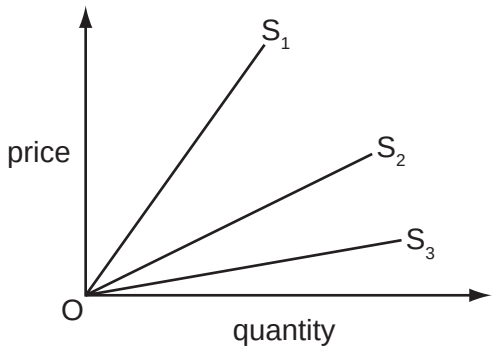
A No, as it implies that the firm will be able to raise revenue by raising price.

B No, as it suggests there are few substitutes for the product.

C Yes, as it indicates that the firm is not able to adjust supply easily when demand changes.

D Yes, as it means that demand for its product is increasing at a slow rate.

11 The diagram shows three supply curves.



What can be concluded about the price elasticity of supply of the curves?

A As price rises, the price elasticity of supply of S_2 will increase.

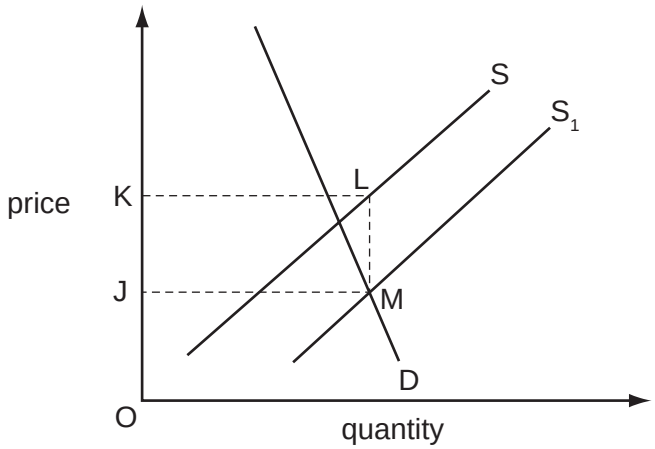
B At any price, the price elasticity of supply of S_1 will be less than that of S_3.

C At any price, the price elasticity of supply of S_2 will be higher than that of S_3.

D The price elasticity of supply of all three curves will be the same.

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12 The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the additional saving to importers of the removal of a tariff on rice

B the cost to the government of a subsidy to rice growers

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

13 What is necessary for consumer surplus to be zero?

A Demand is perfectly elastic.

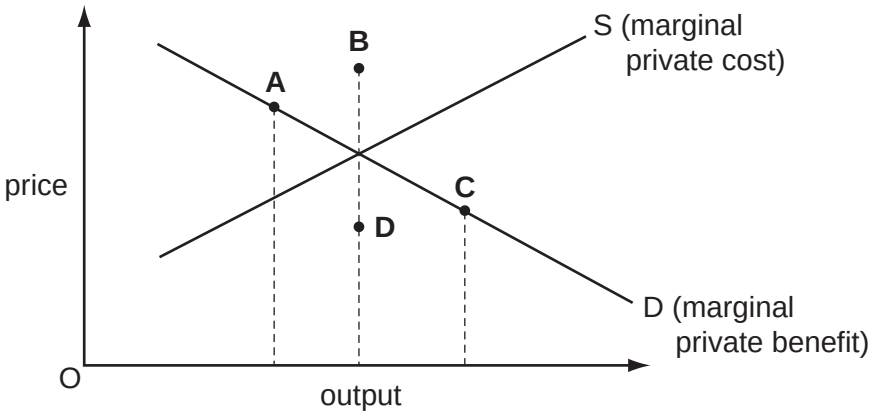
B Demand is perfectly inelastic.

C Supply is perfectly elastic.

D Supply is perfectly inelastic.

14 In a free market in equilibrium, the production of the good illustrated below imposes an external cost upon society.

Which letter could represent the total cost of producing the free market equilibrium output?



15 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

16 What is a merit good?

A a good that is made available to consumers according to merit

B a good that the government believes consumers will buy too little of if it is provided by private enterprise at market prices

C a good where any benefit obtained by one consumer is extended to all consumers

D a good where the private benefits of consuming the good exceed its social benefits

17 Which good or service is excludable but non-rival in consumption?

A fish stocks

B national defence

C street lighting

D TV broadcasting

18 What must a government do to stabilise the price of an agricultural commodity?

	when demand exceeds supply	when supply exceeds demand
A	add the excess demand to a buffer stock	release an amount equal to the excess supply from a buffer stock
B	meet excess demand by running down a buffer stock	purchase the excess supply and add it to a buffer stock
C	subsidise production	impose a tax on consumers
D	tax consumers of the commodity	subsidise production

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19 The world consists of Sealand and Fantasia. Each produces two goods, X and Y.

Good X needs much land but little labour. Good Y needs much labour but little land.

Sealand has plentiful land and labour. Fantasia has more labour than Sealand.

What can be deduced from the above about Sealand?

A It is unlikely to gain from trade with Fantasia.

B It will have an absolute advantage in the production of both X and Y.

C It will have a comparative advantage in the production of X.

D It will have a comparative advantage in the production of Y.

20 Which measure would encourage domestic production?

A reduction in

A the safety standards for imports.

B the size of import quotas.

C the subsidies on home produced goods.

D the time taken to process import paperwork.

21 Which combination of export and import prices will cause the greatest change in a country's terms of trade?

	export prices	import prices
A	decrease by 1 %	increase by 1 %
B	decrease by 2 %	no change
C	increase by 1 %	decrease by 1 %
D	no change	increase by 2 %

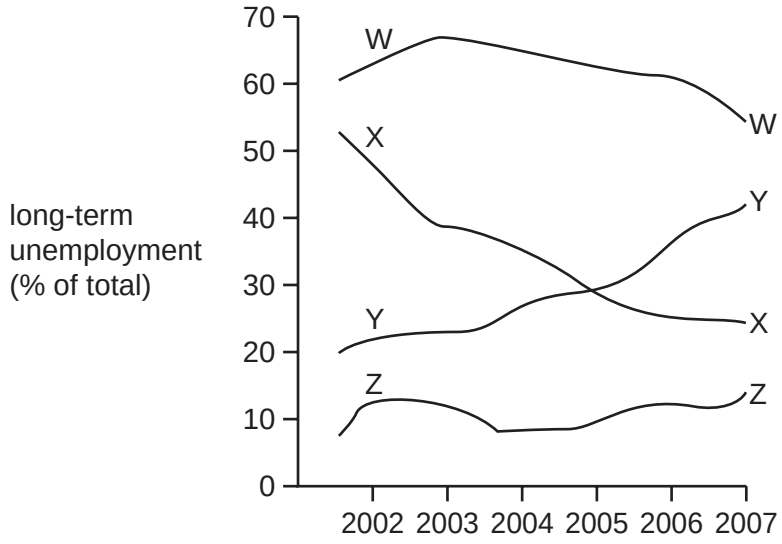
22 An Indian multinational company receives profits from its factories based in the UK. It then buys a US-owned firm based in the UK.

How will these transactions appear in India's balance of payments?

	the remittance of profit	the purchase of the US-owned firm
A	a credit item in the current account	a debit item in the financial account
B	a credit item in the financial account	a debit item in the current account
C	a debit item in the current account	a credit item in the financial account
D	a debit item in the financial account	a credit item in the current account

23 Unemployment is usually divided into two categories: long-term (more than 12 months) and short-term (less than 12 months).

The diagram shows the long-term unemployment rate as a percentage of total unemployment for four countries between 2002 and 2007.



What is correct about unemployment from the diagram?

A Country W had the lowest percentage of short-term unemployment.

B Country X was least successful in reducing the percentage of long-term unemployment.

C Country Y was least successful in reducing the percentage of short-term unemployment.

D Country Z had the highest percentage of long-term unemployment.

24 The table shows the annual percentage change in an index of prices.

country	2008	2009
China	6.3	–1.2
Pakistan	24.3	11.2
Saudi Arabia	10.9	10.7
United States	5.6	–1.4

What can be concluded from the table?

A Prices were lowest in the United States in both 2008 and 2009.

B Prices were most stable in Saudi Arabia.

C The fall in inflation between 2008 and 2009 was greater in China than Saudi Arabia.

D The price of all products sold by Chinese firms fell in 2009.

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25 Which combination is likely to result from demand-pull inflation?

	balance of trade	profits
A	improving	falling
B	improving	rising
C	worsening	falling
D	worsening	rising

26 In 2008-9 American households reduced their consumption of domestic and imported goods and used part of the money to pay back some of their debts.

Which outcome could be consistent with this change?

A a decline in the US trade deficit

B a decrease in savings

C a decrease in the US terms of trade

D a decrease in unemployment

27 A country's floating exchange rate falls and its export revenue declines.

What could explain this?

A Demand for its exports is inelastic.

B Supply of its exports is elastic.

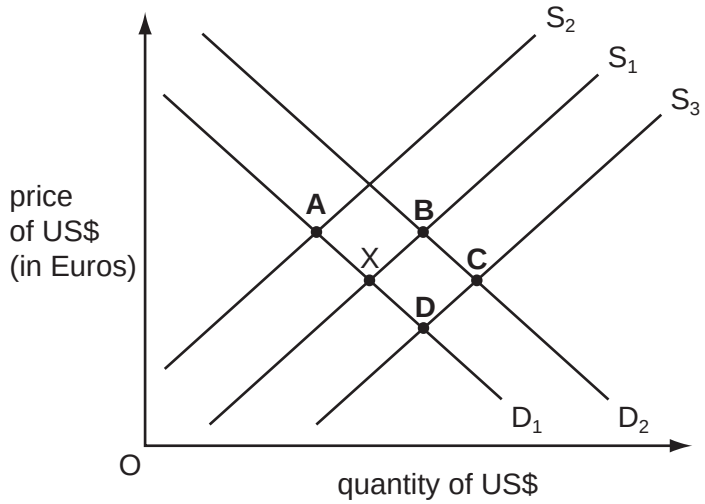
C The exchange rate is in disequilibrium.

D The price of exports, in terms of foreign currency, rises.

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28 In the diagram the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after an increase in demand from US residents for holidays in Europe?



29 In 2004, when international demand for oil was high, Bolivia encouraged investment by foreign firms in order to exploit its oil and gas resources.

What impact would this have on the balance of payments of Bolivia?

A definitely favourable, as Bolivia could increase its exports of gas and oil

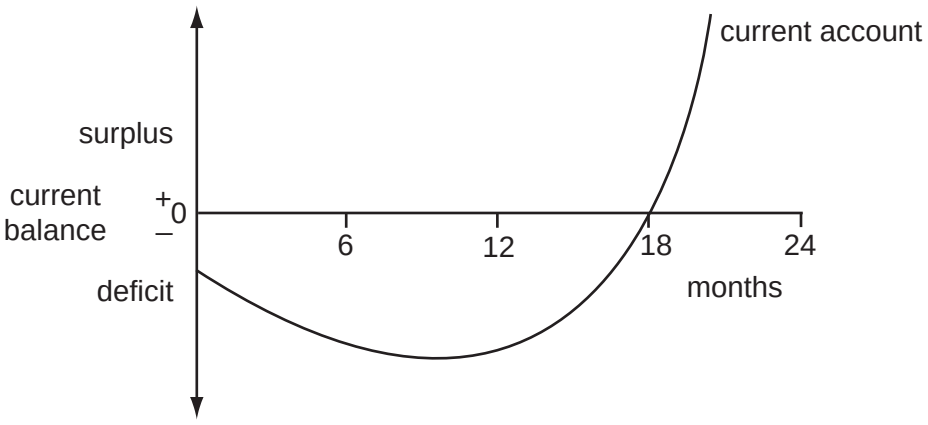
B definitely unfavourable, as the foreign companies would transfer profits out of the country

C uncertain, as there would be inflows and outflows of currency

D zero, as Bolivia itself would use the gas and oil produced

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30 A country at the beginning of a given period seeks to improve the current account of its balance of payments by devaluing its currency. The effect of this policy in the following two years is shown in the diagram.



Which statement is likely to explain this performance?

A In the short run, the price elasticity of demand for exports and imports was very low.

B The domestic inflation rate fell after 12 months before having the desired result.

C The elasticity of demand for imports diminished after 12 months.

D The policy was ineffective and other factors must have led to an improvement in the current account.

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ECONOMICS **9708/12**

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1 An individual has an appointment with his bank manager.

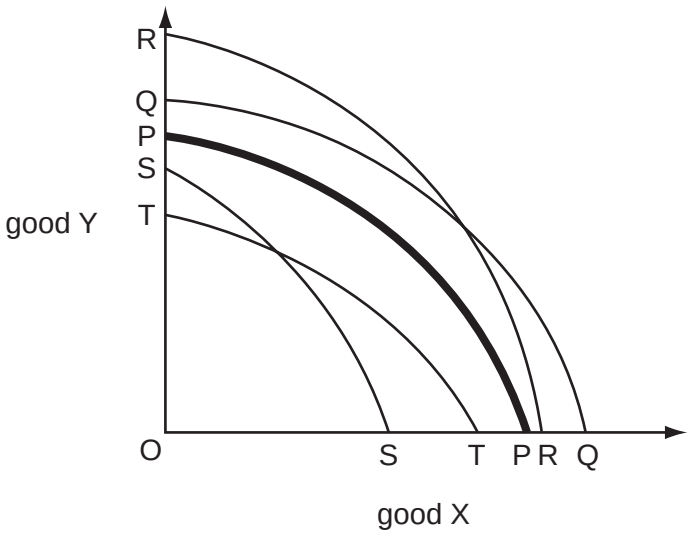
He has a choice between travelling to the appointment by car, or leaving the car at home and travelling by bus and then by train. The costs of the journey are given below.

	$
bus fare	2
train fare	3
car parking charge	4
petrol	2
car wear and tear costs	1

Given this information, what is the opportunity cost to the individual of travelling by car rather than by bus and train?

A $2 **B** $4 **C** $7 **D** $12

2 The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour intensive than the production of Y.



The working hours of the labour force are reduced by law.

Which curve could be the country's new production possibility curve?

A TT **B** SS **C** QQ **D** RR

3 In Economics, decisions are usually taken 'at the margin'.

What does this mean?

A They are concerned with actions that occur in free market not planned economies.

B They are concerned with issues on the boundary between macroeconomics and microeconomics.

C They are concerned with the choice between normative and positive actions.

D They are concerned with the effect of adding a further action to the current level of activity.

4 Which factor of production and example are correctly linked?

	factor of production	example
A	capital	$10 000 in a savings account
B	enterprise	a company accountant
C	labour	a robot
D	land	the flow of a river

5 During a period of falling incomes in Germany in 2009, demand for jewellery declined. There was, however, a rise in demand for frozen foods.

How would the effect on the demand for the two products be illustrated?

	jewellery	frozen food
A	a movement downwards along the demand curve	a movement upwards along the demand curve
B	a movement upwards along the demand curve	a shift to the right of the demand curve
C	a shift to the left of the demand curve	a shift to the right of the demand curve
D	a shift to the right of the demand curve	a movement upwards along the demand curve

6 It was estimated in 2010 that milk had an income elasticity of demand of –0.6.

What can be concluded about milk from this information?

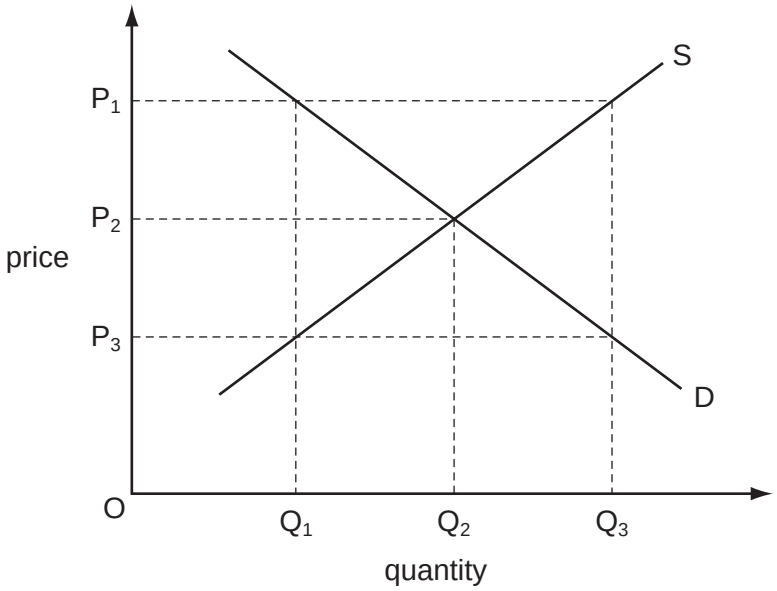
A It accounts for only a small proportion of household expenditure.

B It has very few substitutes.

C Household expenditure on milk will decrease if the price of milk increases.

D It is an inferior good.

7 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

8 A manufacturer has estimated that the price elasticity of supply of ice cream is +1.5.

If the demand for ice cream rises and price increases by 10 %, how much more will the manufacturer supply to the market?

A 0.15 % **B** 1.5 % **C** 15 % **D** 50 %

9 The table shows demand and supply schedules for red peppers. The equilibrium price is initially 15 cents per kg.

price per kg cents	amount demanded kg (thousands)	amount supplied kg (thousands)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
5	20	11

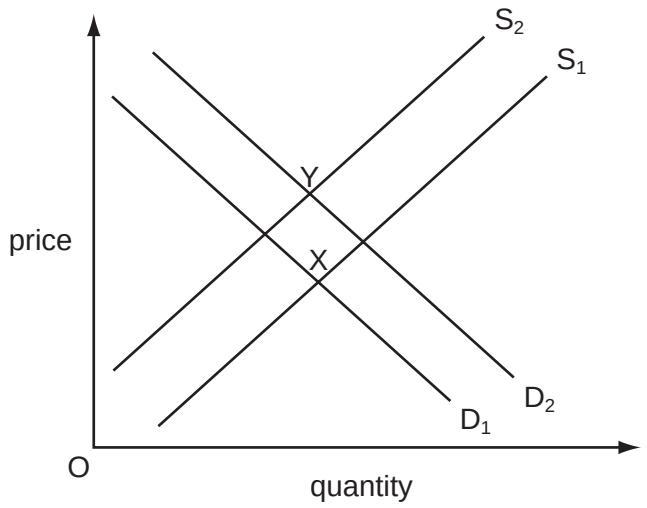
The government pays a subsidy of 10 cents per kg to producers.

What will be the new equilibrium price charged to consumers?

A 5 cents **B** 10 cents **C** 15 cents **D** 20 cents

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10 The diagram shows the market for new houses.



What would cause the change in the market equilibrium position from X to Y?

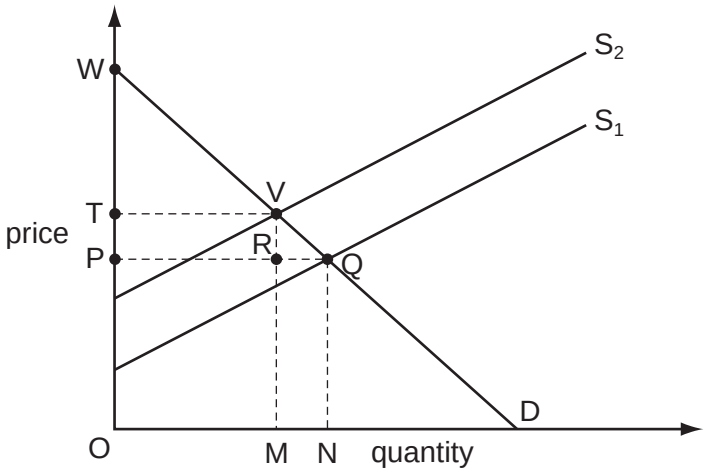
A a fall in income tax and a rise in building costs

B a fall in interest rates and increased efficiency in house-building

C a fall in population and a rise in taxes on building materials

D a rise in building subsidies and a fall in incomes

11 In the diagram, S_1 is the original supply curve and D is the original demand curve.



If supply shifts to S_2, which area represents the change in consumer surplus?

A PQVT **B** PQW **C** PRVT **D** TVW

12 When demand for a good falls, its price falls.

What is the function of the price fall?

A to eliminate shortages

B to reduce consumer surplus

C to send a signal to producers

D to stimulate a further fall in demand

13 When is a rise in the price of a product likely to cause more resources to be allocated to its production?

A if demand increases when the supply curve is perfectly inelastic

B if the demand curve shifts to the right when the supply curve is inelastic

C if supply increases when the demand curve is perfectly inelastic

D if the supply curve shifts to the left when the demand curve is elastic

14 A congestion charge of £10 per day has been imposed on motorists taking their cars into Central London.

What is it about driving into Central London that provides the economic justification for this charge?

A The external benefits are greater than the external costs.

B The private costs are greater than the external costs.

C The social benefits are greater than the private benefits.

D The social costs are greater than the private costs.

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15 A cost-benefit analysis of a proposed underground railway produced the following statistics.

annual costs and benefits	$ million
annual capital cost	10
operating and maintenance costs	3
fare revenue	6
savings to private travellers	5
savings to business	10
other economic benefits	7

What can be concluded from the statistics?

A If undertaken by the private sector there would be a loss of $13m.

B If undertaken by the private sector there would be a profit of $3m.

C If undertaken by the public sector there would be a net social benefit of $15m.

D If undertaken by the public sector there would be a net social cost of $1m.

16 A government admits that building a new bridge would produce a positive net benefit to society.

Owing to a lack of public funds, the bridge would have to be built and operated by a private company, that would charge the public to use the bridge.

Private companies insist that building the bridge would not be profitable.

What could explain the companies' unwillingness to build the bridge?

A A private company will be unable to obtain the consumer surplus of the users.

B Building the bridge will give rise to negative externalities.

C The demand for bridge crossings is price-inelastic.

D The potential benefits are non-excludable.

17 What is a merit good?

A a good or service which has higher social costs than private costs

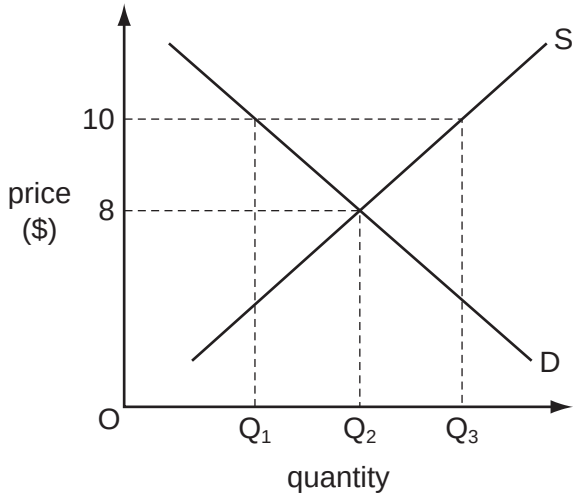
B a good or service which has no opportunity cost

C a good or service which is both non-excludable and non-rival

D a good or service which has a greater value than individuals recognise

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18 The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

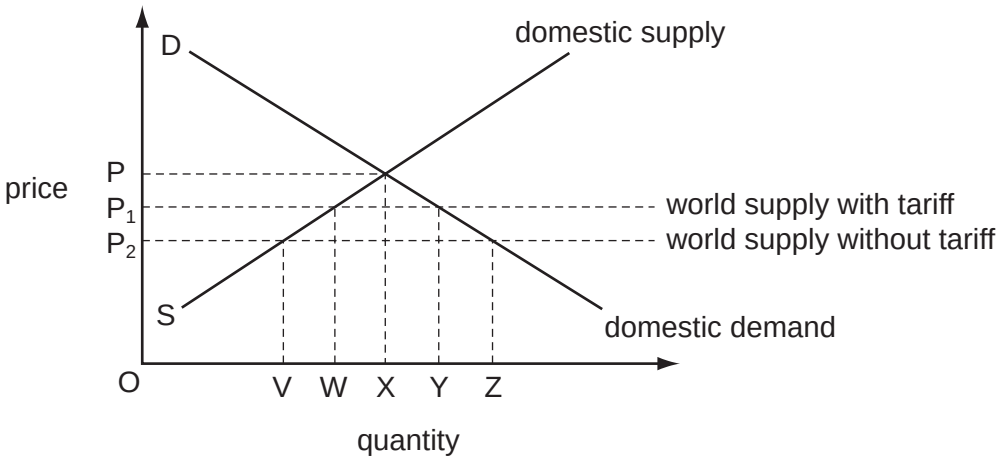
A The government would need to supply Q_1 to Q_3.

B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

19 A government removes the tariff on a product as shown in the diagram.



What will be the change in domestic production?

A a reduction of WV

B a reduction of XV

C a reduction of XW

D a reduction of ZY

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20 Country X joins an existing customs union comprising countries Y and Z. Country W remains outside the customs union.

Both X's initial tariff and W's tariff are at the same level as the customs union's common external tariff.

What is likely to be the effect on trade flows when X joins the customs union?

	trade between X and W	trade between Y and Z
A	unchanged	decrease
B	decrease	decrease
C	unchanged	increase
D	decrease	increase

21 The table shows four combinations of price changes which may affect a country's terms of trade.

Which combination of price changes must cause an improvement in the country's terms of trade?

	average price of exports	average price of imports
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

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 shows the rate of unemployment and population for selected countries in 2009.

country	unemployment rate (%)	population (millions)
Brazil	8.1	196
India	6.8	1 120
Indonesia	8.1	237
Malaysia	4.0	26
Thailand	2.4	65

What can be concluded from this information?

A A higher proportion of those willing and able to work are in employment in Malaysia than in India.

B The labour force of Thailand is smaller than that of Malaysia.

C The same number of workers were unemployed in Brazil and Indonesia.

D There are more people employed in Thailand than in India.

24 The average consumer divides his expenditure between food, clothing, accommodation and transport in the ratio 2 : 1 : 4 : 3.

During the course of a year, the price of food falls by 2 %, the price of clothing increases by 4 %, the price of accommodation increases by 10 % and the price of transport remains constant.

Assuming that the weights of a price index reflect the expenditure of the average consumer, what is the increase in the index over the year?

A 2.5 % **B** 4 % **C** 10 % **D** 12 %

25 At the start of 2009, a worker earned $100 a week. In 2009, the Retail Price Index (RPI) rose 4 % and his average wage rose 7 %. In 2010, the RPI fell 3 % and his wage fell 2 %.

What happened to his real wage between the start of 2009 and the end of 2010?

A It fell by less than 5 %.

B It fell by more than 5 %.

C It rose by less than 5 %.

D It rose by more than 5 %.

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26 The table shows items from the balance of payments for countries **A**, **B**, **C** and **D**.

Official Financing including changes in reserves 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

27 What must be the necessary result of a surplus in the current account of a country's balance of payments?

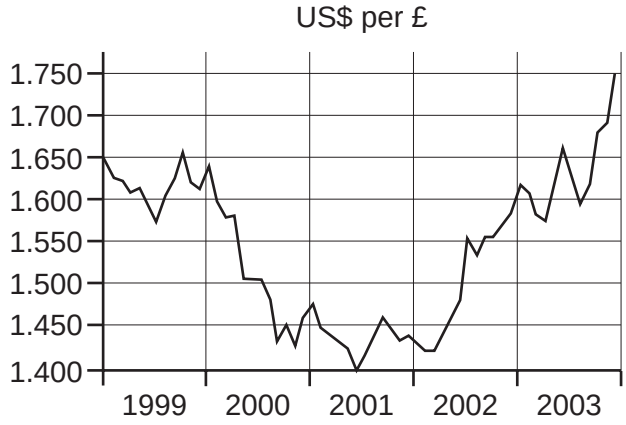
A a depreciation of the currency

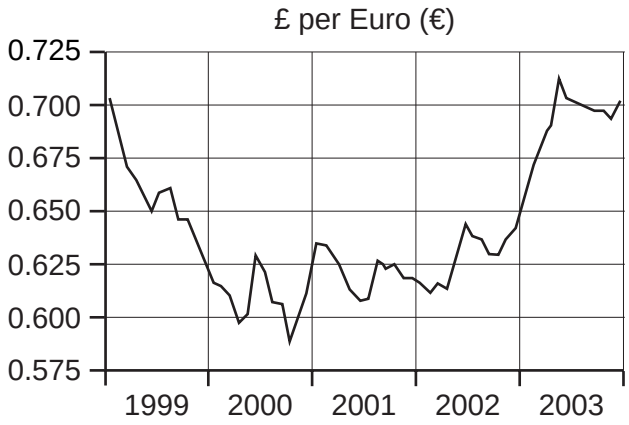
B an improvement in the terms of trade

C an increase in foreign exchange reserves

D an increase in net holdings of foreign assets

28 The graphs show the changes in the exchange rates of the £ sterling between 1998 and 2003.





What happened to the value of the £ sterling between 2001 and 2003?

A The £ appreciated against the $ and the €.

B The £ appreciated against the $ and depreciated against the €.

C The £ depreciated against the $ and the €.

D The £ depreciated against the $ and appreciated against the €.

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29 Other things being equal, what will happen if a British company raises the sterling (£) price of goods it sells to Pakistan by the full extent of a depreciation of sterling against the Pakistan rupee?

A The demand for the company's goods will fall in Pakistan.

B The company's earnings in Pakistan will remain constant in pounds sterling.

C The company's earnings in Pakistan will remain constant in Pakistan rupees.

D The profit margin on sales to Pakistan will decline.

30 When will a country's balance of payments current account deficit be reduced?

A when it raises its rate of income tax

B when it reduces tariffs on its imports

C when it revalues its currency

D when it removes export subsidies

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ECONOMICS **9708/13**

Paper 1 Multiple Choice (Core) **October/November 2011**

1 hour

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

* 2 6 9 2 8 8 9 4 1 *

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 **12** printed pages.

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1 What is the opportunity cost to an unemployed worker who becomes employed?

A the leisure they would otherwise have had

B the value of the goods and services they produce

C the wages they are paid

D zero

2 Which statement is normative?

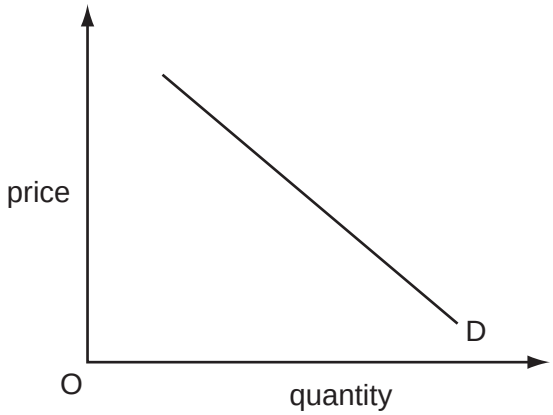
A As a general rule, people are happier in more equal societies.

B Despite a large increase in income per head, people are no happier today than they were 50 years ago.

C Happiness depends not on the absolute level of a person's income but on his relative income.

D The promotion of happiness is a more important goal than the maximisation of production.

3 The diagram shows a demand curve for a good.



Which statement describes the nature of this demand curve?

A A fall in price is the result of a fall in demand.

B A greater or smaller quantity is demanded as price changes.

C As demand increases so does price.

D Quantity changes in proportion to the change in price.

4 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

B by combining individual demand curves horizontally

C by combining the price elasticity of individual demands

D by multiplying price by quantity demanded

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5 What could cause a shift in the supply curve of good X and a movement along its supply curve?

	shift in the curve	movement along the curve
A	a change in consumer preferences	an increase in the price of a substitute good
B	a decrease in factor productivity	the imposition of a tax on good X
C	an increase in the price of a complementary good	an increase in factor productivity
D	an increase in the wage rates in the industry	a change in consumer preferences

6 The price of good X rises by 10 %. As a result, the demand for a complementary good Y changes 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

7 An industry is comprised of three firms, R, S and T which produce product X.

price of X $	output of X		
	firm R	firm S	firm T
36	80	59	85
29	73	48	76
22	52	0	68

By how much is a rise in the price of product X from $22 to $36 likely to increase the market supply of X?

A 27 **B** 77 **C** 104 **D** 224

8 A firm estimates that the price elasticity of supply of its product is 0.4.

Should the firm be concerned by this figure?

A No, as it implies that the firm will be able to raise revenue by raising price.

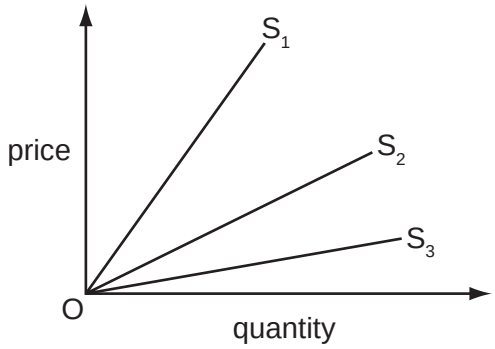
B No, as it suggests there are few substitutes for the product.

C Yes, as it indicates that the firm is not able to adjust supply easily when demand changes.

D Yes, as it means that demand for its product is increasing at a slow rate.

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9 The diagram shows three supply curves.



What can be concluded about the price elasticity of supply of the curves?

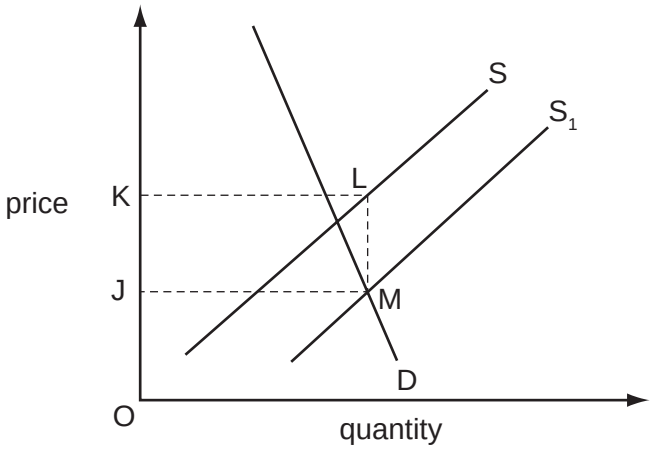
A As price rises, the price elasticity of supply of S_2 will increase.

B At any price, the price elasticity of supply of S_1 will be less than that of S_3.

C At any price, the price elasticity of supply of S_2 will be higher than that of S_3.

D The price elasticity of supply of all three curves will be the same.

10 The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the additional saving to importers of the removal of a tariff on rice

B the cost to the government of a subsidy to rice growers

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

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11 What is necessary for consumer surplus to be zero?

A Demand is perfectly elastic.

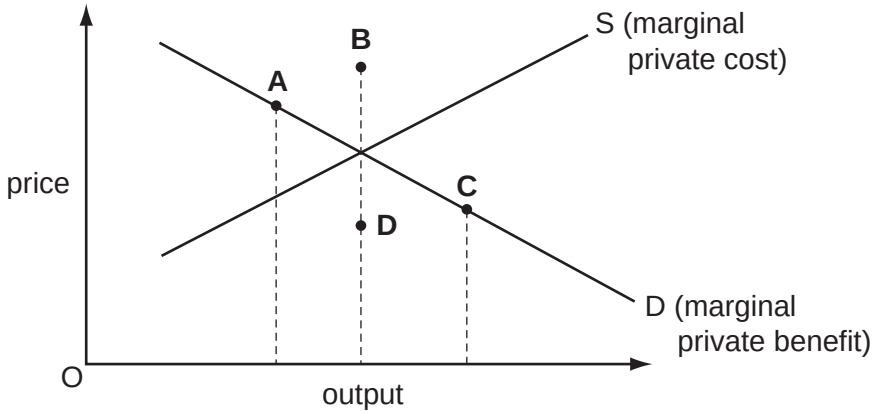
B Demand is perfectly inelastic.

C Supply is perfectly elastic.

D Supply is perfectly inelastic.

12 In a free market in equilibrium, the production of the good illustrated below imposes an external cost upon society.

Which letter could represent the total cost of producing the free market equilibrium output?



13 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

14 What is a merit good?

A a good that is made available to consumers according to merit

B a good that the government believes consumers will buy too little of if it is provided by private enterprise at market prices

C a good where any benefit obtained by one consumer is extended to all consumers

D a good where the private benefits of consuming the good exceed its social benefits

15 Which good or service is excludable but non-rival in consumption?

A fish stocks

B national defence

C street lighting

D TV broadcasting

16 What must a government do to stabilise the price of an agricultural commodity?

	when demand exceeds supply	when supply exceeds demand
A	add the excess demand to a buffer stock	release an amount equal to the excess supply from a buffer stock
B	meet excess demand by running down a buffer stock	purchase the excess supply and add it to a buffer stock
C	subsidise production	impose a tax on consumers
D	tax consumers of the commodity	subsidise production

17 The world consists of Sealand and Fantasia. Each produces two goods, X and Y.

Good X needs much land but little labour. Good Y needs much labour but little land.

Sealand has plentiful land and labour. Fantasia has more labour than Sealand.

What can be deduced from the above about Sealand?

A It is unlikely to gain from trade with Fantasia.

B It will have an absolute advantage in the production of both X and Y.

C It will have a comparative advantage in the production of X.

D It will have a comparative advantage in the production of Y.

18 Which measure would encourage domestic production?

A reduction in

A the safety standards for imports.

B the size of import quotas.

C the subsidies on home produced goods.

D the time taken to process import paperwork.

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19 Which combination of export and import prices will cause the greatest change in a country's terms of trade?

	export prices	import prices
A	decrease by 1 %	increase by 1 %
B	decrease by 2 %	no change
C	increase by 1 %	decrease by 1 %
D	no change	increase by 2 %

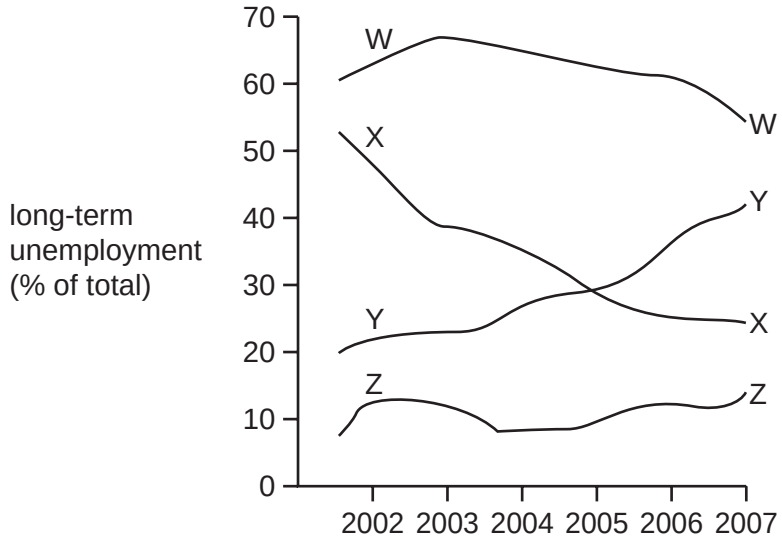
20 An Indian multinational company receives profits from its factories based in the UK. It then buys a US-owned firm based in the UK.

How will these transactions appear in India's balance of payments?

	the remittance of profit	the purchase of the US-owned firm
A	a credit item in the current account	a debit item in the financial account
B	a credit item in the financial account	a debit item in the current account
C	a debit item in the current account	a credit item in the financial account
D	a debit item in the financial account	a credit item in the current account

21 Unemployment is usually divided into two categories: long-term (more than 12 months) and short-term (less than 12 months).

The diagram shows the long-term unemployment rate as a percentage of total unemployment for four countries between 2002 and 2007.



What is correct about unemployment from the diagram?

A Country W had the lowest percentage of short-term unemployment.

B Country X was least successful in reducing the percentage of long-term unemployment.

C Country Y was least successful in reducing the percentage of short-term unemployment.

D Country Z had the highest percentage of long-term unemployment.

22 The table shows the annual percentage change in an index of prices.

country	2008	2009
China	6.3	–1.2
Pakistan	24.3	11.2
Saudi Arabia	10.9	10.7
United States	5.6	–1.4

What can be concluded from the table?

A Prices were lowest in the United States in both 2008 and 2009.

B Prices were most stable in Saudi Arabia.

C The fall in inflation between 2008 and 2009 was greater in China than Saudi Arabia.

D The price of all products sold by Chinese firms fell in 2009.

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23 Which combination is likely to result from demand-pull inflation?

	balance of trade	profits
A	improving	falling
B	improving	rising
C	worsening	falling
D	worsening	rising

24 In 2008-9 American households reduced their consumption of domestic and imported goods and used part of the money to pay back some of their debts.

Which outcome could be consistent with this change?

A a decline in the US trade deficit

B a decrease in savings

C a decrease in the US terms of trade

D a decrease in unemployment

25 A country's floating exchange rate falls and its export revenue declines.

What could explain this?

A Demand for its exports is inelastic.

B Supply of its exports is elastic.

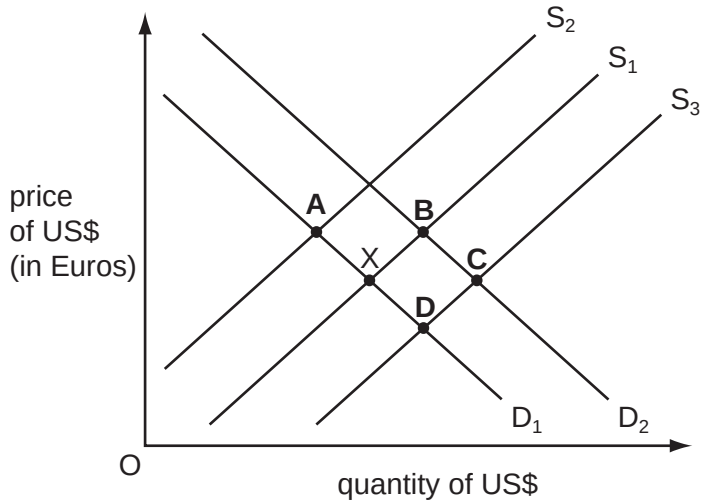
C The exchange rate is in disequilibrium.

D The price of exports, in terms of foreign currency, rises.

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26 In the diagram the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after an increase in demand from US residents for holidays in Europe?



27 In 2004, when international demand for oil was high, Bolivia encouraged investment by foreign firms in order to exploit its oil and gas resources.

What impact would this have on the balance of payments of Bolivia?

A definitely favourable, as Bolivia could increase its exports of gas and oil

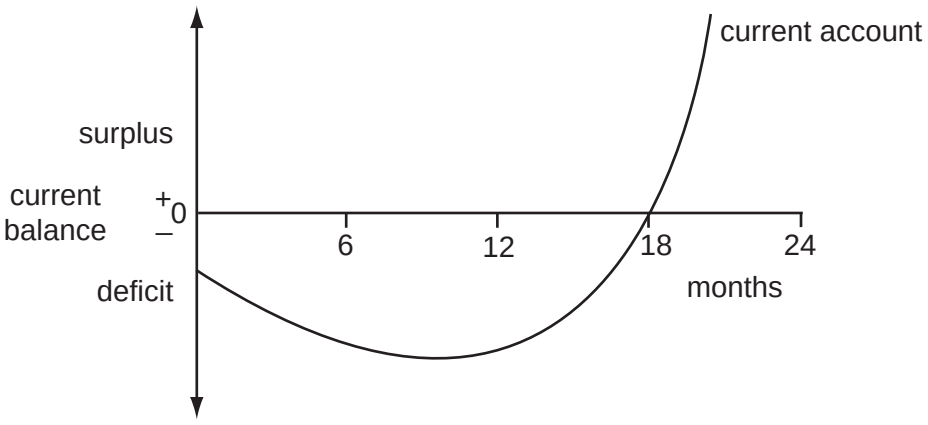
B definitely unfavourable, as the foreign companies would transfer profits out of the country

C uncertain, as there would be inflows and outflows of currency

D zero, as Bolivia itself would use the gas and oil produced

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28 A country at the beginning of a given period seeks to improve the current account of its balance of payments by devaluing its currency. The effect of this policy in the following two years is shown in the diagram.



Which statement is likely to explain this performance?

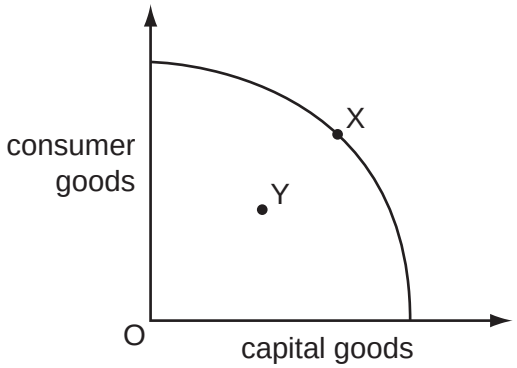
A In the short run, the price elasticity of demand for exports and imports was very low.

B The domestic inflation rate fell after 12 months before having the desired result.

C The elasticity of demand for imports diminished after 12 months.

D The policy was ineffective and other factors must have led to an improvement in the current account.

29 The diagram shows a production possibility curve for an economy.



Assuming that the production possibility curve remains unchanged, what is the most likely reason for the movement from point X to point Y?

A a civil war causing a widespread loss of resources

B a permanent fall in productivity in both capital and consumer goods

C a rise in unemployment due to a recession

D the exhaustion of a natural resource

30 What is an example of the factor of production capital?

A a bank account held by a small firm to be used for future purchases

B a forest of hardwood trees ideal for furniture making

C the market value of a company's shares

D word processing software used by a writer to complete her new book

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