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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 2012**

1 hour

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

* 1 8 3 1 4 2 2 5 8 0 *

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Write in soft pencil.
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1 Which type of firm is able to exploit division of labour to the greatest extent?

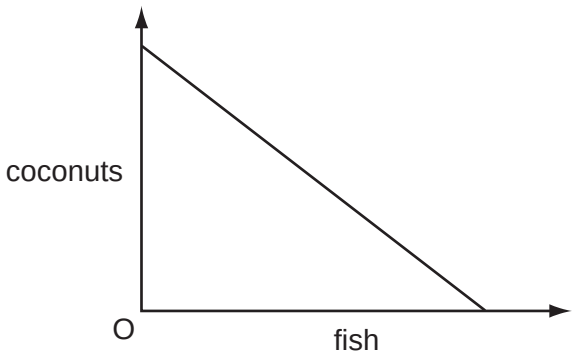
A a bakery employing two workers making a range of bread and cakes

B a motorcycle assembler employing two hundred workers making a standardised model

C a tailor employing ten workers making men's suits to order

D a well established furniture maker employing three hundred workers making high quality individual items

2 The diagram shows the production possibility frontier of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.



What explains the shape of the production possibility frontier?

A Coconuts and fish are perfect complements.

B Coconuts and fish are perfect substitutes.

C Fishing and coconut growing are equally efficient.

D The opportunity cost of fish increases as more time is devoted to fishing.

3 India is failing to reach its full economic potential because of poor rail, road and electricity infrastructure. Its problem is not lack of government spending but a lack of skilled civil engineers.

Which factors of production need to be increased?

A capital and land

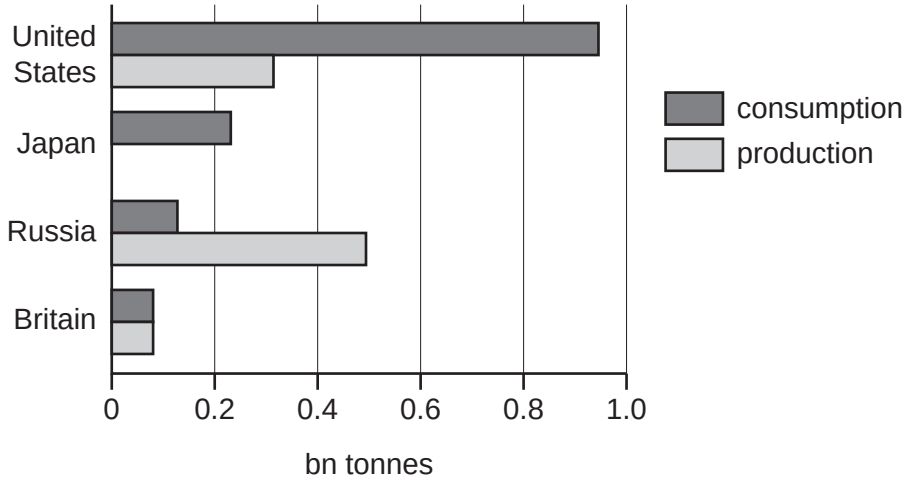
B enterprise and labour

C labour and capital

D land and enterprise

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4 There is a worldwide shortage of oil. The diagram shows the consumption and production of oil (billion tonnes) in 2007 for selected countries.



What can be concluded from the diagram?

A In Britain, oil has zero opportunity cost.

B In Japan, there is self sufficiency in oil.

C In Russia, the problem of oil shortage has been solved.

D In the United States, rationing will be the only solution to oil shortage.

5 What will happen to an industry's supply curve if new firms enter the industry?

A It will shift to the left at any given price.

B It will shift to the right at any given price.

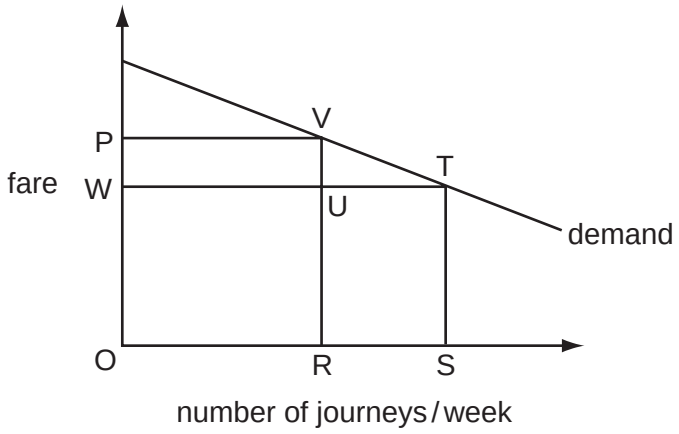
C There will be a downward movement along the supply curve.

D There will be an upward movement along the supply curve.

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[Turn over

6 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.

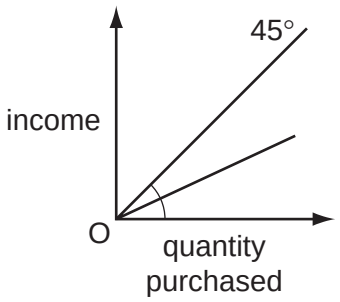
Which area measures the amount spent on the extra journeys resulting from the lower fare?

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

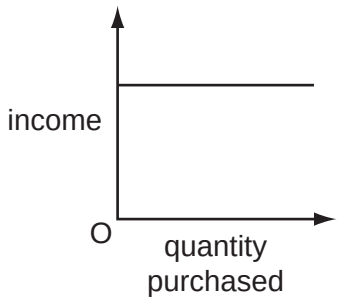
7 The diagrams show possible relationships between income and the quantity of a good purchased.

Which diagram shows an inferior good?

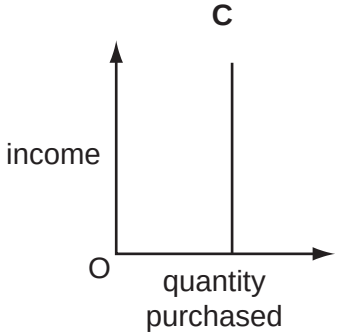
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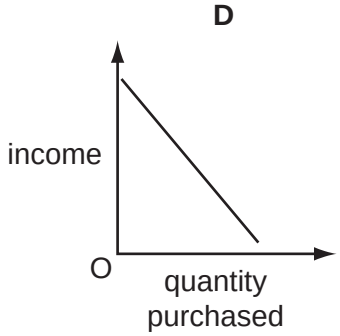
B



C



D



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8 The price elasticity of demand for good X is 1. At a price of $12, quantity demanded is 4000 units.

What will be the price when the quantity demanded is 20 000 units?

A $2.00 **B** $2.40 **C** $12.00 **D** $20.00

9 Consumer spending decreased in the recession of 2009-10. A firm tried to keep revenue high by giving discounts to encourage demand. It measured the price elasticity of demand (PED) for its own product and the cross elasticity of demand (XED) with its competitors' products.

When might such promotions achieve the result the company hoped?

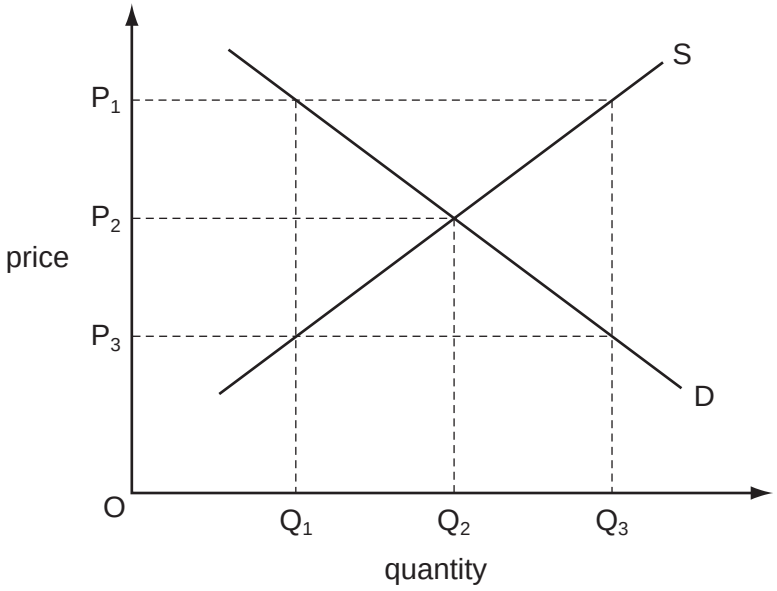
A when PED is greater than one and XED is positive

B when PED is less than one and XED is negative

C when PED is less than one and XED is positive

D when PED is unity and XED is negative

10 Which combination of price and quantity will lead to a rise in price and a contraction in quantity to reach equilibrium?



A P_1Q_1 **B** P_1Q_3 **C** P_3Q_1 **D** P_3Q_3

11 In a market economy, demand for a product rises and price increases but output remains unchanged.

What could explain this?

A a lack of financial incentives for entrepreneurs

B a perfectly inelastic supply of factors of production

C consumer influence exceeding producer influence

D social benefits equalling private benefits

12 What must be the effect on consumer surplus if the supply of a product, that has a normal demand curve, halves?

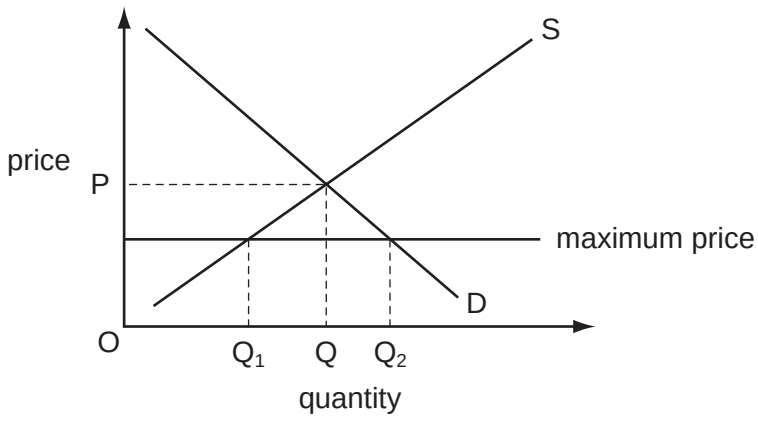
A Consumer surplus will fall.

B Consumer surplus will fall by 50 %.

C Consumer surplus will rise.

D Consumer surplus will rise by 100 %.

13 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.

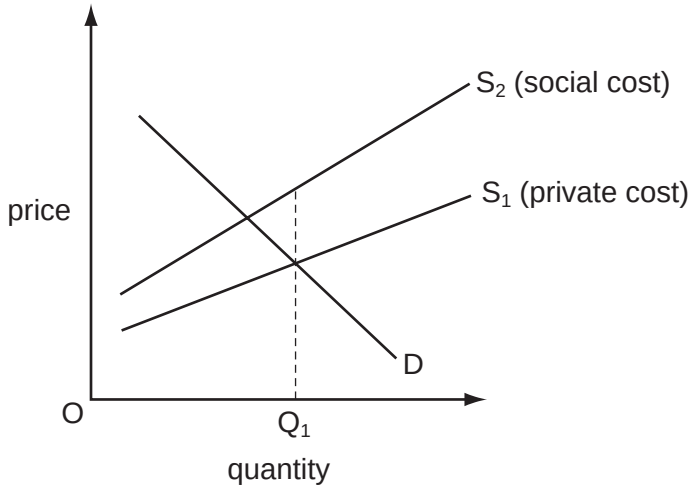
B There will be allocation by government rationing.

C There will be allocation by seller's preference.

D There will be allocation by the price system.

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14 In the diagram, Q_1 is the quantity produced of a good as the result of market forces.



What concept is present at output Q_1?

A a government subsidy

B a negative externality

C a positive externality

D price instability

15 A government carries out a cost-benefit analysis to determine whether to build a new airport.

In which circumstance will it proceed with the project?

A when external benefit exceeds external cost

B when private benefit exceeds private cost

C when there is a net private benefit

D when there is a net social benefit

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16 An international oil company announced that it would stop exploring for oil off the coast of Namibia. This was because there was only enough oil to support a local power station for Namibia and not enough to allow exports of oil.

What might be a possible advantage and disadvantage to Namibia of this decision?

	advantage	disadvantage
A	a reduction in potential external costs of pollution	the loss of cheaper oil
B	a reduction in taxes paid by the oil company to the Namibian government	the conservation of a natural resource
C	a saving in costly research paid for by the oil company	a loss of employment opportunities
D	the exhaustion of a natural resource	the loss of potential exports

17 A government wishes to encourage the consumption of a merit good and reduce the consumption of a demerit good.

Which policy should it adopt towards each good?

	merit good	demerit good
A	confine access to certain age groups	tax output
B	increase advertising on the benefits of the good	set a minimum level of output
C	subsidise the good	put legal controls on output
D	tax the good	produce only in the public sector

18 A government aims to stabilise the incomes received by farmers. To achieve this it uses a policy of buying and selling farm products on the free market.

When will it **not** need to respond to changes in the supply of farm products?

A when elasticity of supply of farm products is zero

B when farmers produce record harvests

C when price elasticity of demand for farm products is unitary

D when weather conditions can be accurately predicted

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19 The table shows the levels of output which three countries can produce.

country X	25 tonnes of maize or 5 tractors
country Y	75 tonnes of maize or 15 tractors
country Z	225 tonnes of maize or 45 tractors

What would be the most likely outcome?

A Country X will specialise in maize and country Y in tractors.

B Country Y will specialise in maize and country Z in tractors.

C Country Z will specialise in both maize and tractors.

D There will be no gains from trade between the countries.

20 An economy with a long history of extensive barriers to trade decides to switch to totally free trade.

What is most likely to increase in the short term?

A consumer surplus

B government revenue

C inflationary pressure

D profits of all domestic companies

21 Russia is a significant exporter of wheat. In 2010 there was a poor harvest and the Russian government stopped all exports of wheat to ensure enough supplies for domestic use.

Which statement about Russia's policy is correct?

A It is an embargo and will worsen Russia's balance of trade.

B It is a market approach to resource allocation to prevent price rises in Russia.

C It is a quota and will improve the importing country's balance of payments.

D It is a tariff and will increase the price of wheat.

22 Which is the only combination of price changes that must result in a deterioration 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

23 The table shows the number of workers and the annual output of an industry.

	year 1	year 2	year 3
workers in 000s	120	130	100
output in $m	12.00	14.30	13.00

Which statement is correct?

A Labour productivity increases in year 2 and in year 3.

B Labour productivity increases in year 2 and then declines in year 3.

C Labour productivity is at its highest in year 1.

D Labour productivity is at its lowest in year 3.

24 Which statement about a rise in the general price level in a country is correct?

A It is likely to create economic winners and losers in the country.

B It is unacceptable to modern governments.

C It means that no goods have fallen in price.

D It must make the average citizen poorer.

25 The table shows detail of the nominal interest rate and the inflation rate for selected countries in July 2010.

country	nominal interest rate	inflation rate
China	2.5	2.9
India	5.7	13.9
Indonesia	7.0	5.0
Japan	0.2	–1.1
Pakistan	12.3	12.7

What can be concluded from this information?

A The cost of living was higher in India than in China.

B The money rate of interest was higher in Indonesia than in Pakistan.

C The real rate of interest was positive in Japan but negative in Pakistan.

D The standard of living was higher in Indonesia than in India.

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26 Two industries in a country are fishing and tourism. The international exchange rate of the country's currency fell in 2010.

If there were no other changes, how was the country affected?

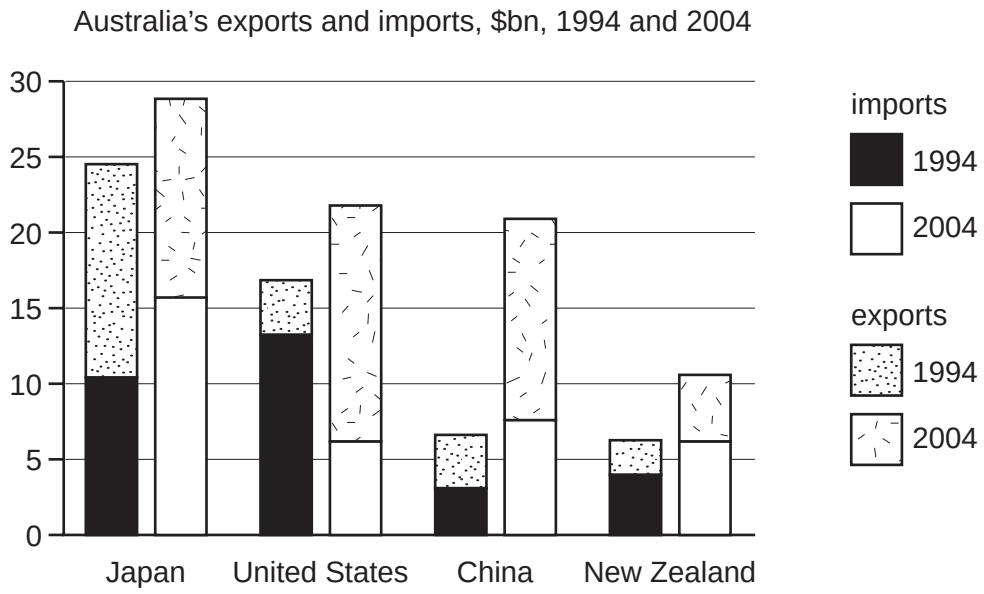
A Local people bought more imported goods because they were cheaper.

B The price of fish sold in foreign markets became cheaper.

C The volume of exports decreased.

D Tourists to the country were discouraged by higher prices.

27 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

28 Country X trades with only two countries, Nigeria and Malaysia.

80 % of the country's trade is with Nigeria and 20 % is with Malaysia.

The original value of the trade-weighted exchange rate index is 100.

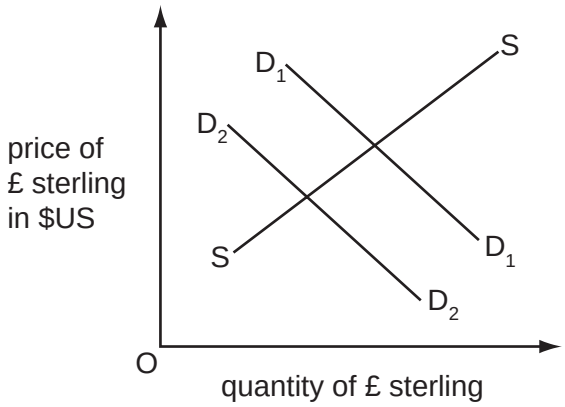
The value of the country X's currency against the Nigerian Naira rises by 10 %. The value of the country X's currency against the Malaysian Ringgit rises by 50 %.

What will be the value of country X's new trade-weighted exchange rate index?

A 115 **B** 118 **C** 130 **D** 160

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29 In the diagram, curves D_1D_1 and SS relate to the demand for and supply of £ sterling in the foreign exchange market.



What may cause the demand curve to shift from D_1D_1 to D_2D_2?

A an increase in UK interest rates

B an increase in the price of US goods sold in the UK

C the removal of UK tariffs against US goods

D the development of US substitutes for UK goods

30 What is an example of an expenditure-dampening policy?

A an increase in income tax rates

B an increase in the level of import tariffs

C an upward revaluation of the exchange rate

D the introduction of import quotas

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ECONOMICS **9708/12**

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1 What is the defining characteristic of a mixed economy?

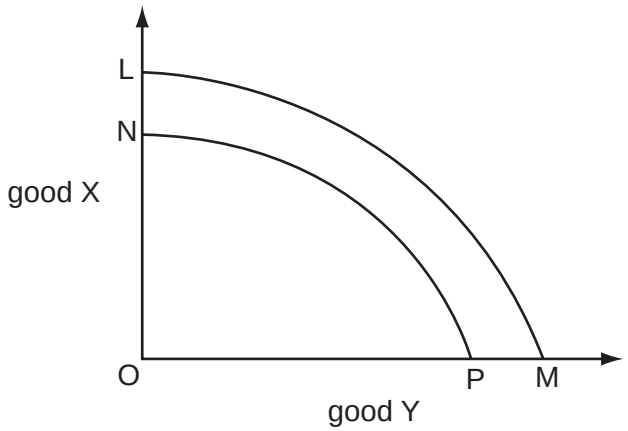
A one in which the allocation of resources is determined partly by the state and partly by individual producers and consumers

B one in which there are both monopolies and purely competitive industries

C one in which there are features of both more economically developed and less economically developed economies

D one which produces a mixture of agriculture and industrial products

2 In the diagram the original production possibility curve is LM.



What might cause the curve to shift to NP?

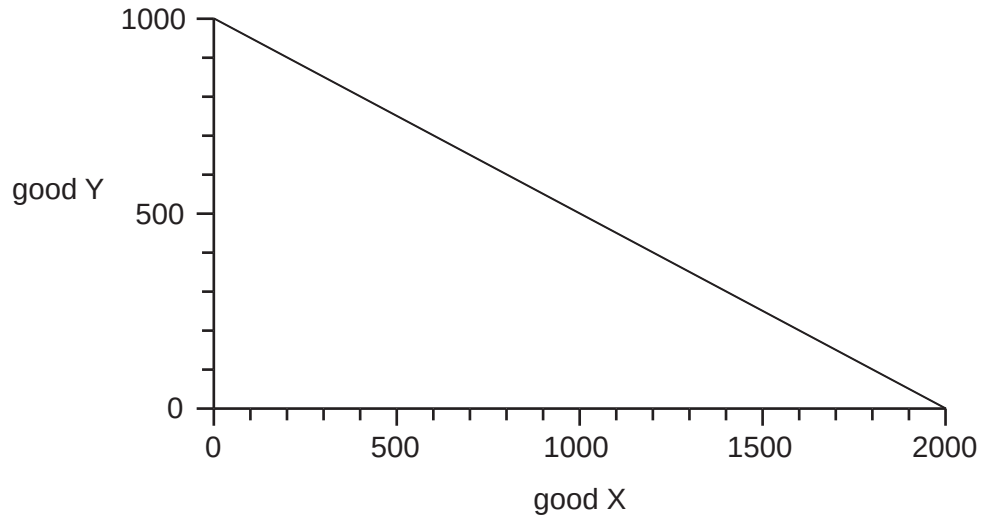
A a higher retirement age

B a reallocation of resources

C the depletion of natural resources

D the underemployment of resources

3 The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



The economy produces 1200 of good X and produces on its production possibility curve.

Which quantity of good Y is given up?

A 400 **B** 600 **C** 800 **D** 1000

4 What might cause a country's currency notes to cease to act as money?

A the notes are issued in smaller denominations

B the notes become harder to counterfeit

C the notes become more long lasting

D the notes become unlimited in supply

5 What does **not** cause the demand curve for a good to shift its position?

A advertising expenditure

B consumer tastes

C the price of substitute goods

D the price of the good

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6 What can be concluded about a product which has an income elasticity of demand (YED) of +1.5 and a cross elasticity of demand (XED) of +1.2?

	YED figure	XED figure
A	the product is an inferior good	the product has a close complement
B	the product is an inferior good	the product has a close substitute
C	the product is a normal good	the product has a close complement
D	the product is a normal good	the product has a close substitute

7 A manufacturer increases the price of his product in an attempt to increase total revenue.

The table shows the outcome of the policy.

price ($)	total revenue 000's ($)
4	400
5	500
6	600

What is the price elasticity of demand for the product?

A perfectly elastic

B perfectly inelastic

C relatively elastic

D relatively inelastic

8 A free market is in disequilibrium with a shortage of a product.

As the market moves towards equilibrium, what will happen to the price, the quantity demanded and the quantity supplied?

	price	quantity demanded	quantity supplied
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

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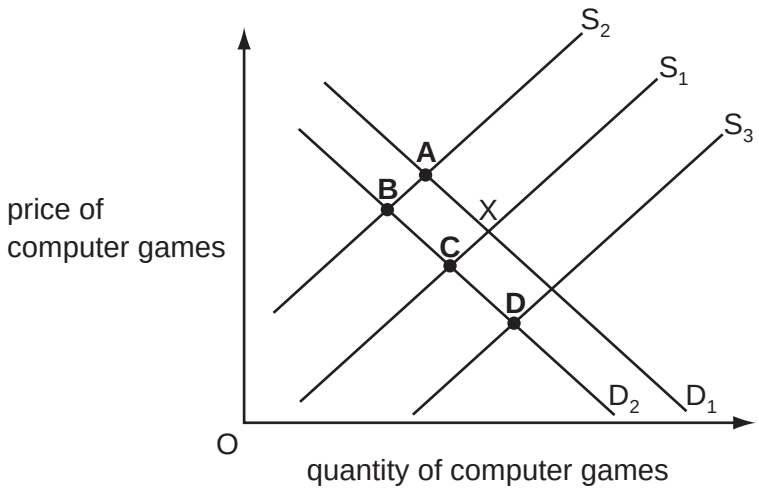
9 The market demand equation for a good is given by $Q_d = 310 - 20p$ and the supply equation by $Q_s = 10 + 10p$ where p denotes the price of the good.

What is the equilibrium price?

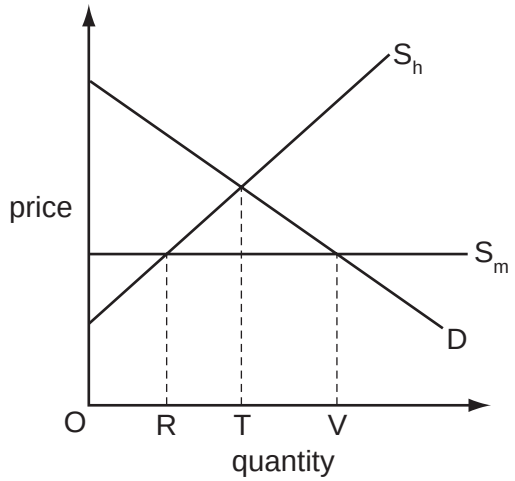
A 5 **B** 10 **C** 15 **D** 20

10 The diagram shows the market for computer games. The market starts in equilibrium at X.

What will be the new equilibrium if the tax on computer games is increased and incomes fall?



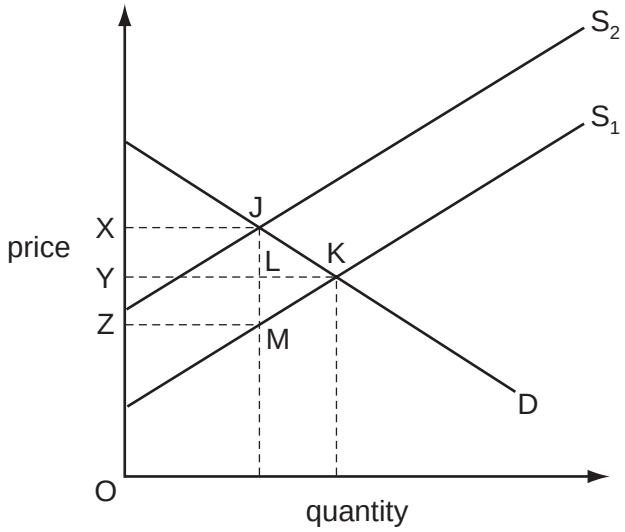
11 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_h represents domestic supply and S_m represents imports.



What will be the level of consumption and the associated quantity of imports?

	consumption	quantity of imports
A	OT	RT
B	OT	OT
C	OV	RT
D	OV	RV

12 The diagram illustrates the effects of placing a specific tax equal to JM on a good.



Which area represents total tax receipts?

A JKM **B** XJKY **C** XJLY **D** XJMZ

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

A Producers of the good receive a subsidy.

B The government imposes a specific tax on the good.

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

D The quantity of the good available is fixed.

14 Which policy adopted by an airline is the result of an externality?

A price cutting against rival airlines

B the prohibition of smoking on aircraft

C the provision of different classes of seating accommodation

D the use of internet booking facilities

15 What will be the result, from society's view, if the market price for a product does not reflect the negative externalities in its production?

A too little consumption and too little production

B too little consumption and too much production

C too much consumption and too little production

D too much consumption and too much production

16 The table shows some of the costs and benefits, in $ millions, associated with a road building project. Both a government department and a profit-maximising private firm are considering building the road.

private costs	external costs	external benefits	social benefits
450	75	50	550

Who would be willing to build the road?

A Both would be willing to build it.

B Neither would be willing to build it.

C Only the government department would be willing to build it.

D Only the private firm would be willing to build it.

17 A government wishes to raise the incomes of farmers without raising the price of food to consumers.

Which policy should it use?

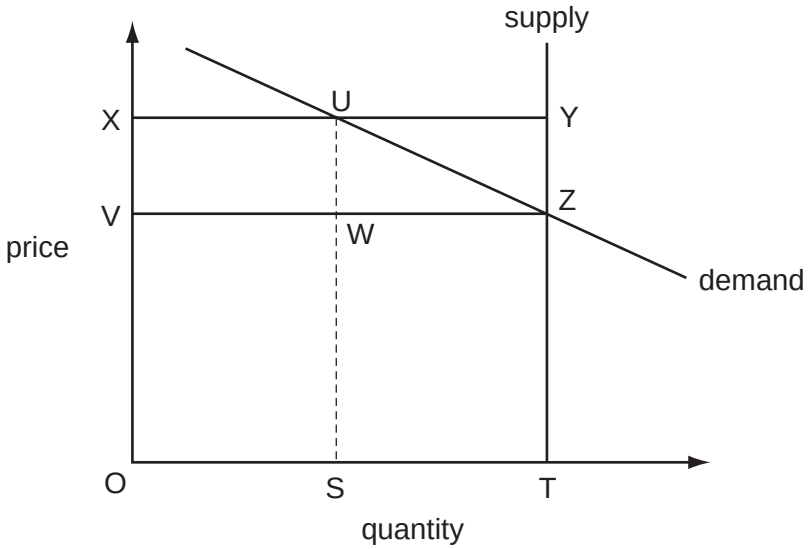
A a maximum price below the market price for food

B a minimum price below the market price for food

C a payment of a subsidy to farmers to produce food

D a release of government food stocks onto the market

18 The diagram shows the market supply and demand curves for an agricultural product. The government guarantees producers a minimum price of OX for their output, but allows the market price to be freely determined by demand and supply.



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

A UYTS **B** UYZW **C** XUWV **D** XYZV

19 Why might a government decide to reduce tariffs on agricultural imports?

A to develop greater specialisation

B to increase government revenue

C to promote job creation in rural areas

D to protect small businesses

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20 A government believes that it can reduce its trade deficit by the introduction of a tax on its main export.

When is this likely to be most effective?

A when demand for the export is price elastic

B when the exporting country is a member of a customs union

C when the exporting country is the major world supplier of the product

D when the terms of trade of the exporting country are favourable

21 A country's terms of trade increased from a base year value of 100 to 120 in the following year.

If export prices had increased by 50 %, what was the change in the price of the country's imports?

A –30 % **B** –25 % **C** +25 % **D** +30 %

22 The table shows in millions of US$ the balance for four items in a country's current account for two years.

	goods	services	income	transfers
year 1	–72	84	12	–24
year 2	–87	46	–3	–44

What can be concluded about the changes between year 1 and year 2?

A Income has moved from a net inflow to a net outflow.

B The value of exported goods has fallen.

C The value of imported services has increased.

D Transfers into the country have increased.

23 The table gives some information on inflation rates, unemployment rates, and changes in wages for a number of countries in 2006.

country	inflation rate %	unemployment rate %	annual change in wages %
Britain	+1.9	+5.0	+3.5
Germany	+2.1	+11.3	+0.8
Italy	+2.1	+7.5	+2.3
Japan	+0.5	+4.5	–0.6
Spain	+4.0	+8.4	+2.5

What can be concluded from the table about 2006?

A Britain had an increase in real incomes.

B High wage rises caused high rates of inflation.

C The price of an identical product was the same in Germany and Italy.

D There were more people unemployed in Spain than in Japan.

24 What is **not** one of the criteria used by the International Labour Office to determine whether a person should be classified as being unemployed when a labour force survey is carried out?

A She is actively seeking employment.

B She is available to take up employment.

C She is eligible to claim unemployment benefits.

D She is currently not in paid employment.

25 The data given below refers to money supply and prices in the years 2006 and 2010 in four countries.

Between 2006 and 2010, in which country was the rate of inflation the highest?

Country	2006		2010	
	money supply ($ million)	price index (2005 = 100)	money supply ($ million)	price index (2005 = 100)
A	69	104	78	153
B	65	112	120	247
C	70	101	213	157
D	172	105	360	210

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26 A sudden rise in the price of imported oil caused the annual rate of inflation in a given period to be higher than expected.

What might be a likely result of this?

A Borrowers would gain.

B Real wages would rise.

C The balance of trade would improve.

D Unemployment would fall.

27 The table shows the Canadian current account of the balance of payments in 2005 and 2006.

	2005 ($m)	2006 ($m)
goods	62 372	–4 568
services	12 055	–22 663
investment income	–22 917	–14 145
transfers	–1 498	–2 148
total	25 902	–43 523

The change in which item contributed the least and the change in which item contributed the most to the move from surplus to deficit in the Canadian current account balance between 2005 and 2006?

	item contributing the least	item contributing the most
A	investment income	goods
B	investment income	services
C	transfers	goods
D	transfers	services

28 What is most likely to result from a rising deficit in a country's balance of payments from increased imports of consumer goods?

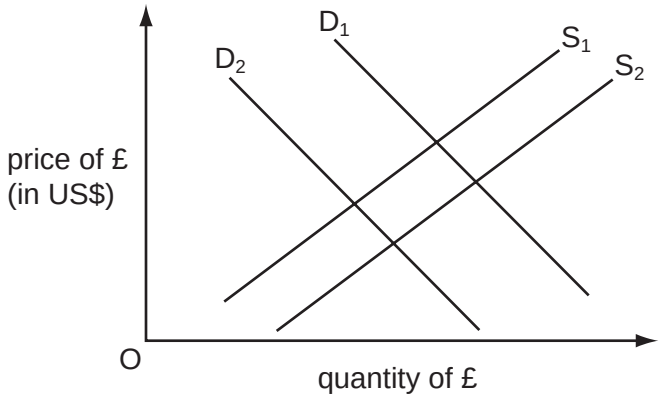
A a rise in aggregate monetary demand in the country

B a rise in the country's aggregate supply

C a rise in the country's unemployment

D a rise in the international value of the country's currency

29 In the diagram D_1 and S_1 are the initial demand and supply curves of the UK pound (£) on the foreign exchange markets.



What will cause the demand curve to shift to D_2 and the supply curve to S_2?

A an appreciation of the pound

B an increase in incomes in the US

C an increase in the price level in the US

D a decrease in UK interest rates

30 When is the imposition of a tariff on a good most likely to reduce a trade deficit?

A when the country has a potential comparative advantage in producing that good

B when the country is a member of an economic union

C when the elasticity of supply of the good domestically is zero

D when the price elasticity of demand for the good is zero

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Question 27 © *Canada's Balance of International Payments Extracts;* www40.statcan.gc.ca/cst01/ECON01A-eng.htm; 20 July 2010.

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ECONOMICS **9708/13**

Paper 1 Multiple Choice (Core) **October/November 2012**

1 hour

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

* 9 4 7 0 3 6 9 4 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 **12** printed pages.

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1 Why can division of labour benefit an economy?

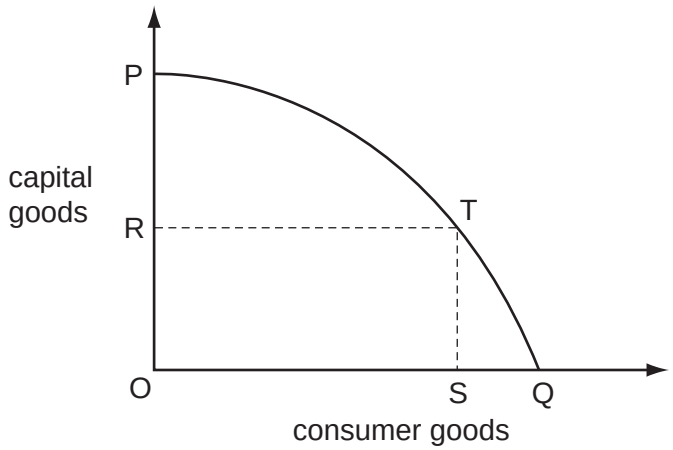
A Costs of trading are reduced.

B Individual workers learn a wider range of skills.

C Less money is required as a medium of exchange.

D The total supply of goods and services rises.

2 The production possibility curve for an economy producing capital goods 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 How is labour allocated in a market economy and in a planned economy?

	market economy	planned economy
A	according to changes in wage levels	according to the profit motive
B	according to demand and supply in product markets	according to input-output analysis
C	according to government decisions	according to the price mechanism
D	according to government microeconomic and macroeconomic policies	according to consumer surplus

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4 A person who has bought a DVD player using a credit card does not have to settle the account until 56 days after making the purchase.

What function of money is illustrated by this delay in settlement?

A medium of exchange

B standard of deferred payment

C store of value

D unit of account

5 When will the demand curve for motorcycles shift to the left?

A when the price of cars falls

B when the price of motorcycles falls

C when the tax on motorcycles rises

D when the price of public transport rises

6 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
70	60	60	30
80	65	70	65
90	75	80	95
100	80	90	130

Which price change is required for market supply to halve?

A $90 to $70 **B** $90 to $80 **C** $100 to $70 **D** $100 to $90

7 A government wishes to impose a tax on a good so that the producer and not the consumer pays most of the tax.

Which type of elasticity would it be best for the good to have to achieve this aim?

A high price elasticity of demand

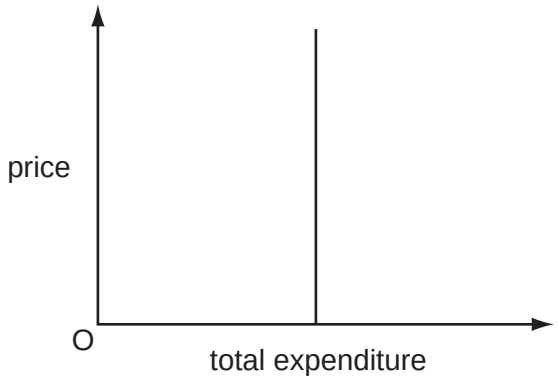
B low price elasticity of demand

C totally inelastic price elasticity of demand

D unitary price elasticity of demand

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8 The diagram shows the relationship between the price and the total expenditure on a good.



Which statement is correct?

A The income elasticity of demand for the commodity is unity.

B The income elasticity of demand for the commodity is zero.

C The price elasticity of demand for the commodity is unity.

D The price elasticity of demand for the commodity is zero.

9 The table gives an individual's demand for four goods at two income levels.

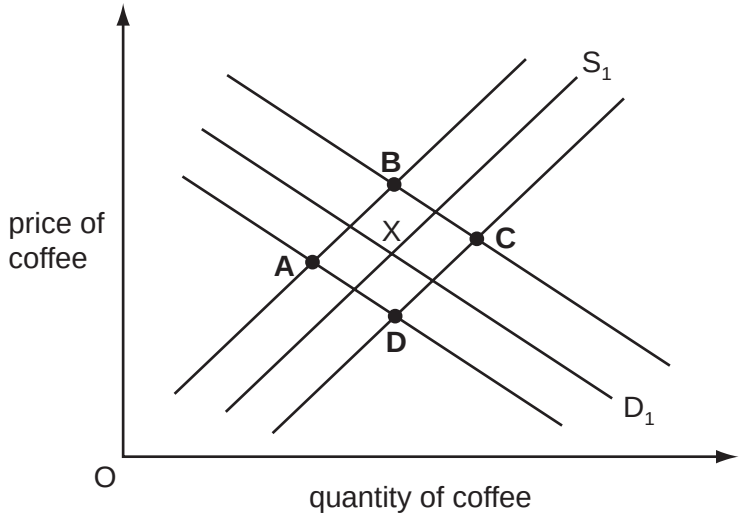
Over this range of income, for which good does the individual have an income elasticity of demand = 1?

good	income level	
	$1000	$1100
A	50	50
B	50	55
C	50	60
D	50	100

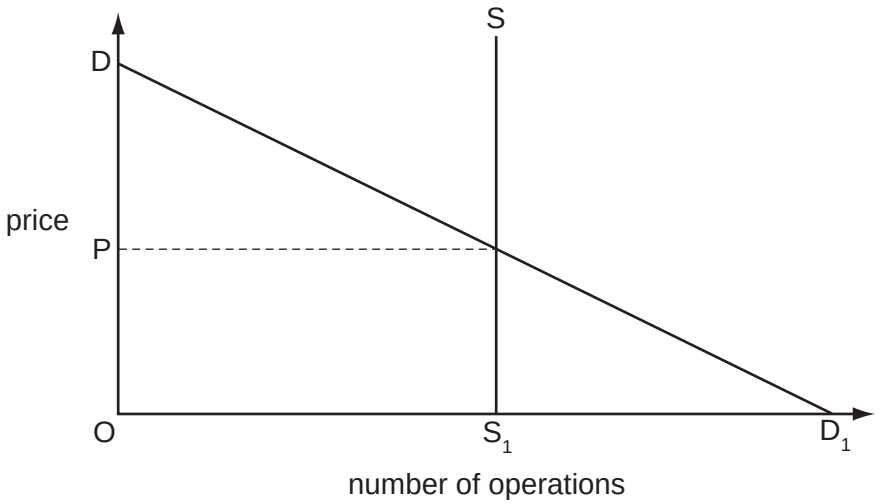
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10 The diagram shows the market for coffee. The initial equilibrium position is X. The price of tea, a substitute, falls and an indirect tax is imposed on coffee.

What will be the new equilibrium position?



11 The diagram shows the demand curve, DD_1, and the supply curve, SS_1, for eye operations.



The operations are provided free to the consumer.

Which statement is correct?

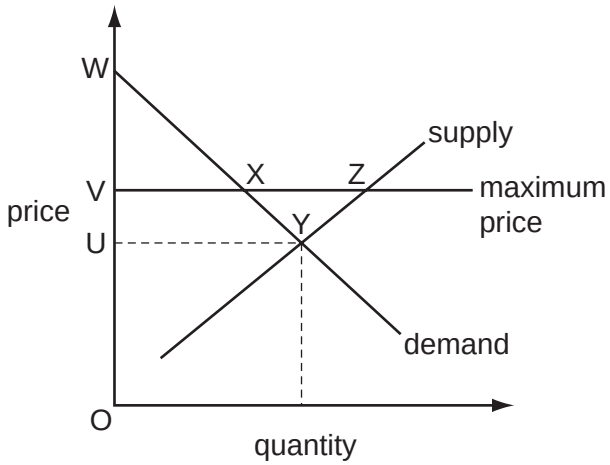
A Consumer surplus from the operations is ODD_1.

B The equilibrium price is P.

C The equilibrium price is indeterminate, because the supply curve is vertical.

D The equilibrium price is zero.

12 The diagram represents a market for a good, in which the equilibrium price is OU.



A maximum price of OV is imposed by the government.

What effect does this have on consumer surplus?

A It decreases by area VXYU.

B It increases by area WXV.

C It increases by area XYZ.

D It is not affected.

13 Which government policy might limit the rationing function of the price mechanism?

A the imposition of tariffs on imported consumer goods

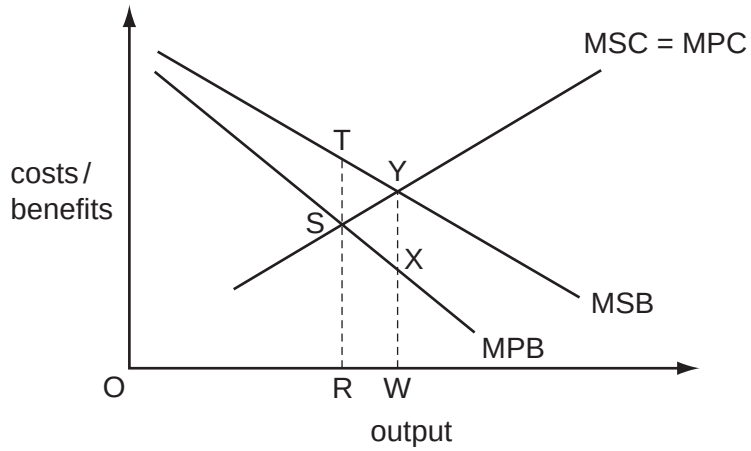
B the levy of indirect taxes at varying rates on different goods

C the payment of subsidies to food producers

D the setting of maximum prices for rented housing

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14 A government is planning to intervene in a market to fix output at the socially desirable level by giving a subsidy.



To achieve its objective, what should be the subsidy per unit?

A ST **B** SX **C** TY **D** XY

15 Which statement is correct?

A External benefit minus private benefit equals social benefit.

B Private benefit minus external benefit equals social benefit.

C Social benefit minus external benefit equals private benefit.

D Social benefit plus private benefit equals external benefit.

16 A government carries out a cost-benefit analysis on the building of a new airport.

It calculates that the cost of constructing and running the airport will be less than the revenue the airport will generate. It also estimates that benefits to third parties will be greater than the cost to third parties.

Which reason might the government give for **not** building this airport?

A The external costs exceed the external benefits.

B The net private benefit is greater on another project.

C The net social benefit is greater on another project.

D The social costs exceed the social benefits.

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17 What is a defining characteristic of a public good?

A An increase in consumption by one individual leaves the quantity available to others unchanged.

B Consumption of the good by one individual confers benefits on other individuals.

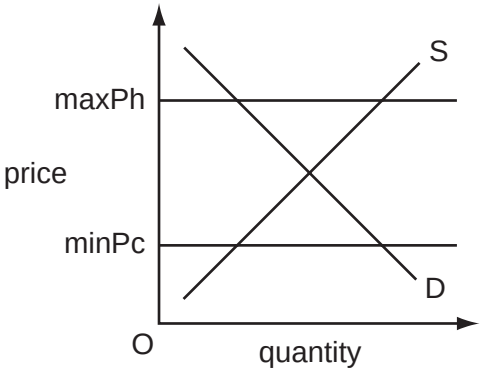
C The benefits obtained by those who consume the good are greater than they themselves realise.

D The good is consumed jointly by all members of society.

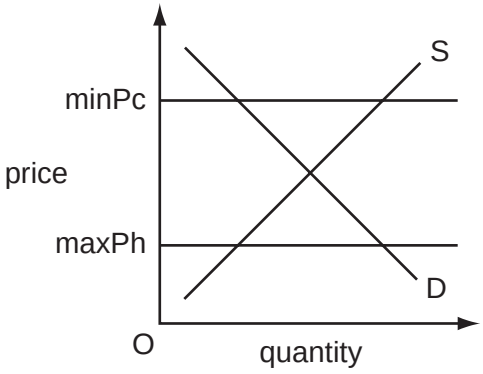
18 A government introduces a maximum price for house rentals (maxPh) and a minimum price for cleaning services (minPc). Both markets have identical demand and supply curves.

Which diagram shows that the maximum price will be effective and the minimum price will be ineffective in the respective markets?

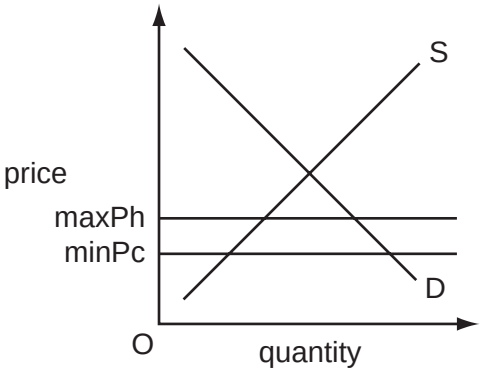
A



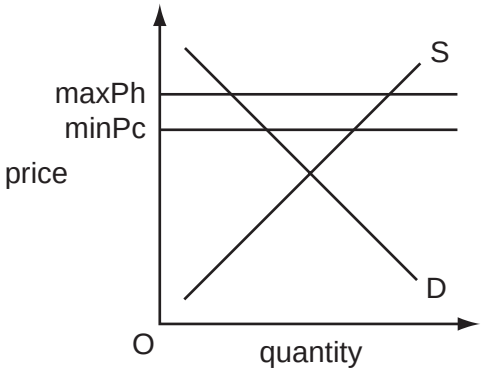
B



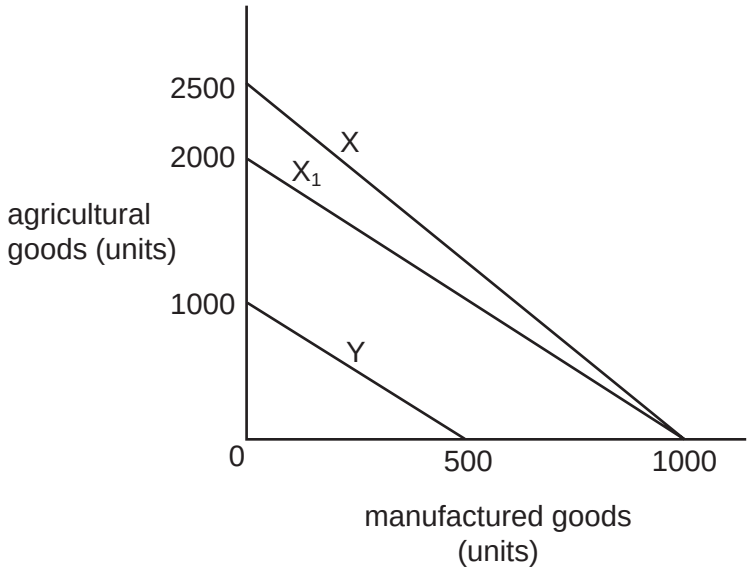
C



D



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 is an assumption behind the basic theory of comparative advantage?

A Each country sets its own tariff barriers.

B Factors of production are mobile between countries.

C Producers benefit from economies of scale.

D There are no significant transport costs.

21 Which statement about the impact of a quota and a tariff is correct?

A A quota benefits the seller of the imports while a tariff raises government revenue.

B A quota decreases the quantity of imports while a tariff leaves the quantity of imports unchanged.

C A quota leaves import prices unchanged while a tariff raises the price of imports.

D A quota shifts the demand curve for imports while a tariff shifts the supply curve of imports.

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22 Between 2005 and 2010, a country's import prices rose by 25 % and its terms of trade rose to 120 (2005 = 100).

Which change has there been in the country's export prices?

A –5 % **B** 12.5 % **C** 45 % **D** 50 %

23 A firm initially employs 50 workers, each working 40 hours a week, and produces a total output of 18 000 units. It then employs an additional 10 workers, again each working 40 hours, and total output rises to 19 200 units.

What effect does this rise in employment have on labour productivity?

A decreases it by 1 unit

B decreases it by 40 units

C increases it by 120 units

D increases it by 1200 units

24 The table shows some of the elements of aggregate demand in selected countries in US$ in 2009.

country	aggregate demand (US$ bn)	consumer expenditure + investment + government spending (US$ bn)	exports (US$ bn)
Argentina	262	251	64
Brazil	1313	1291	180
Kenya	24	27	6
South Africa	283	292	89

What can be concluded from this information?

A Argentina had a trade surplus of US$53 bn.

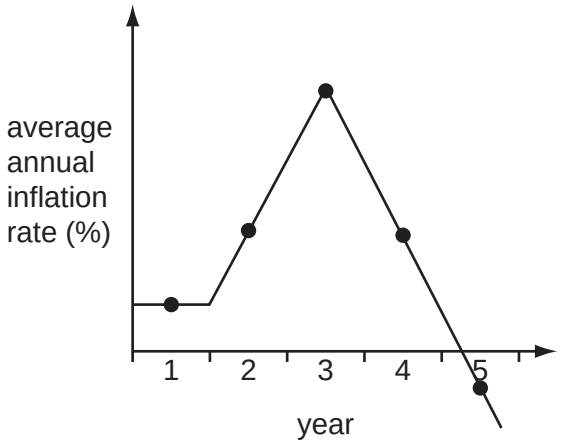
B Brazil had a trade surplus of US$158 bn.

C Kenya had a trade deficit of US$3 bn.

D South Africa had a trade deficit of US$98 bn.

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25 The graph shows a country's average annual inflation rate over a five year period.



What can be concluded about the general price level during the five years?

A It fell in only one year.

B It fell in only two years.

C It rose in only two years.

D It was constant in only one year.

26 A country has a balance of payments disequilibrium with a long-run deficit on its current account.

Which outcome of the disequilibrium will cause inflationary pressure?

A the depreciation of the country's exchange rate

B the fall in the country's reserves of international currencies

C the increase in the demand for imports of goods and services

D the introduction of expenditure-dampening policies by the government

27 If interest rates are reduced, what is most likely to decrease?

A borrowing by firms

B consumer spending

C import prices

D short-term capital inflows

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28 The table gives information about the trade between Singapore and New Zealand during 2001, the first year after they signed a free trade agreement. The values are given both in Singapore dollars (S$) and New Zealand dollars (NZ$).

	S$ m	NZ$ m	percentage change from 2000
Singapore exports to New Zealand	508	618	+20 %
Singapore imports from New Zealand	331	403	–17 %

What can be concluded from the table?

A New Zealand gained more than Singapore from the trade agreement.

B New Zealand's trade position with Singapore improved in 2001.

C Singapore had a trade surplus with New Zealand in 2001.

D The exchange rate in 2001 was approximately NZ$ 1 = S$ 1.2.

29 At present, one unit of a country's currency exchanges for US$1.2. The country aims to set its exchange rate at US$1.4.

Which combination of government actions in the foreign exchange market must achieve this aim?

A buying US currency and buying its own currency

B buying US currency and selling its own currency

C selling US currency and buying its own currency

D selling US currency and selling its own currency

30 The government wishes to encourage a rise in the external exchange rate of a currency in order to dampen inflationary expectations.

What should it do?

A discourage inward foreign direct investment

B raise interest rates

C raise the level of aggregate demand in the economy

D remove quotas on imported products

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