Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice (Core) **October/November 2014**

1 hour

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

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This document consists of **13** printed pages and **3** blank pages.

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1 What are involved in the allocation of resources in a market economy?

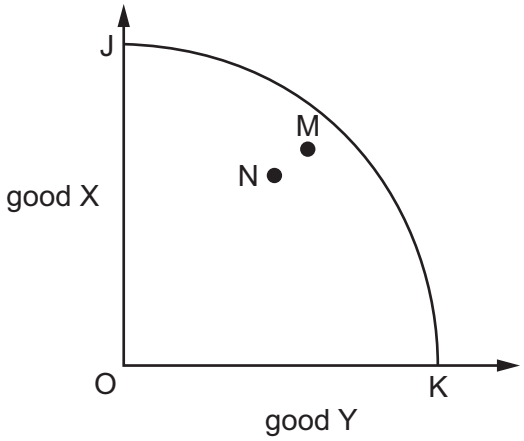
A factors of production and subsidies for essential goods

B prices and choices

C production possibilities and trade restrictions

D unlimited wants and public goods

2 The curve JK in the diagram is an economy's production possibility curve.



What could cause the economy to move from point M to point N?

A a decrease in the dependency ratio

B a decrease in the population of working age

C an increase in the participation rate

D an increase in the unemployment rate

3 In the twentieth century the nature of a typical car assembly plant changed. The industry had fewer firms, they operated on larger sites and they had more automated machinery.

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

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

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4 What is meant by 'the value of money'?

A the amount of goods that can be purchased with a given sum of money

B the amount of wealth stored in the form of money

C the cost of production of money

D the opportunity cost of holding wealth in the form of money

5 What might shift an individual's demand curve for petrol to the right?

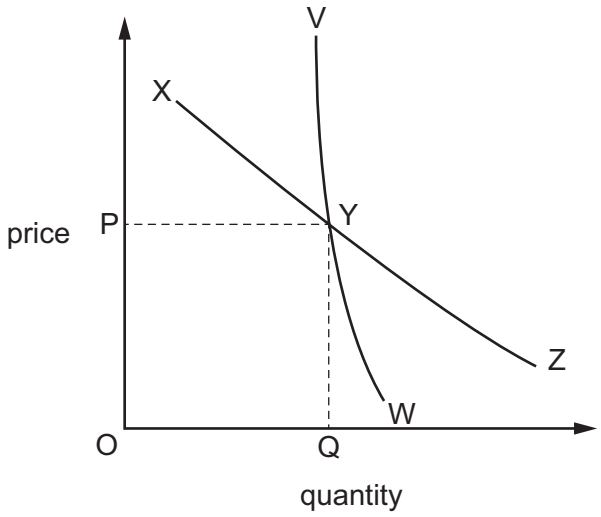
A a fall in the price of cars

B a fall in the price of public transport

C a rise in the price of parking

D a rise in the price of petrol

6 The diagram shows a consumer's short-run and long-run demand curves for coconuts. Initially, the consumer purchases quantity Q at price P.

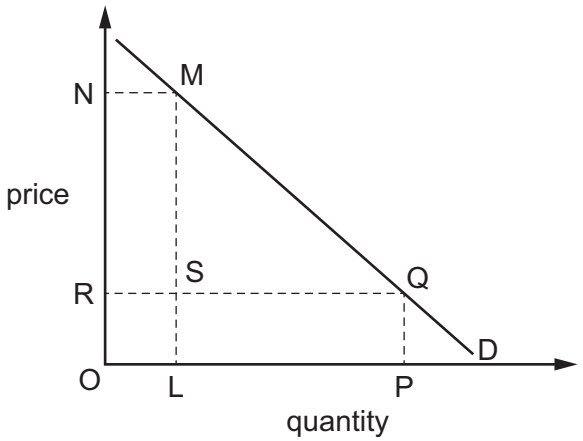


If the price of coconuts increases from P, the consumer's short-run response is greater than his long-run response. If the price decreases from P his short-run response is smaller than his long-run response.

What is the consumer's short-run demand curve?

A VYW **B** VYZ **C** XYW **D** XYZ

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.

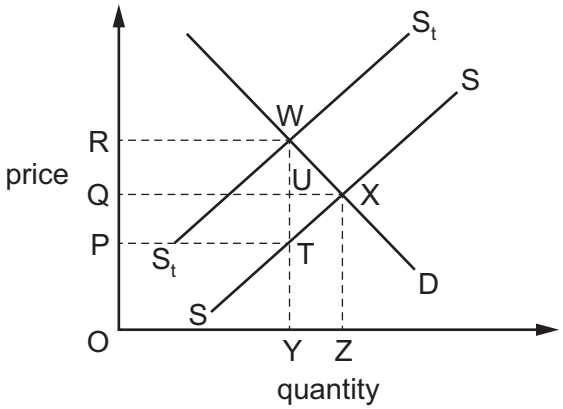
D Total revenue falls by MSQ if the price rises from OR to ON.

8 Which elasticity values indicate that cars are normal goods and that petrol is a complement to car use?

	income elasticity of demand (YED) for cars	cross elasticity demand of (XED) for petrol relative to changes in car prices
A	YED is negative	XED is negative
B	YED is negative	XED is positive
C	YED is positive	XED is negative
D	YED is positive	XED is positive

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9 A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax and S_tS_t is the supply curve after tax.



Which area represents the revenue received by the government from the tax?

A ORWY **B** PQUT **C** PRWT **D** QRWU

10 When demand for a good increases, equilibrium price stays the same.

What is the good's elasticity of supply?

A –1

B zero

C +1

D infinite

11 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** 150%

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12 Consumer X is the largest of five consumers and buys 50% of sales.

The table shows the quantity of the good demanded by consumer X and the market supply of the good.

price $	demand from consumer X	market supply
4	20	28
6	16	32
8	12	40
10	10	45

What would be the market equilibrium price?

A $4 **B** $6 **C** $8 **D** $10

13 The difference between what consumers pay for a product and what they are prepared to pay is known as

A a shortage.

B consumer surplus.

C excess demand.

D opportunity cost.

14 What types of externalities arise from

1 a firm creating an extra supply of trained labour and,

2 the excessive noise made by a householder cutting his lawn?

	1	2
A	negative production externality	negative consumption externality
B	negative production externality	positive consumption externality
C	positive production externality	negative consumption externality
D	positive production externality	positive consumption externality

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15 The table shows the total amount consumers are willing to pay for different quantities of good X and the total external benefits that arise from the consumption of X.

quantity of good X (000 units)	consumers' willingness to pay ($000)	total external benefits ($000)
1	100	20
2	180	38
3	240	54
4	280	68
5	300	80

What is the value of the marginal social benefit when 5000 units are consumed?

A $12 000 **B** $32 000 **C** $80 000 **D** $380 000

16 A company applied to build a supermarket on the edge of a town near a river. Permission to do this involved an expensive planning process with the local government. In order to gain approval the company agreed to build a bridge across the river near the supermarket.

What would be included in a social cost-benefit study of this application which would **not** be included in a private calculation?

A the value of the extra customers the supermarket gets by people using the new bridge

B the value of the land used which could have been used for housing

C the value of the time of the local government's officials in the planning process

D the value of the time saved by people using the new bridge to get to work in the town

17 A good is most suitable to be provided by the market if it is

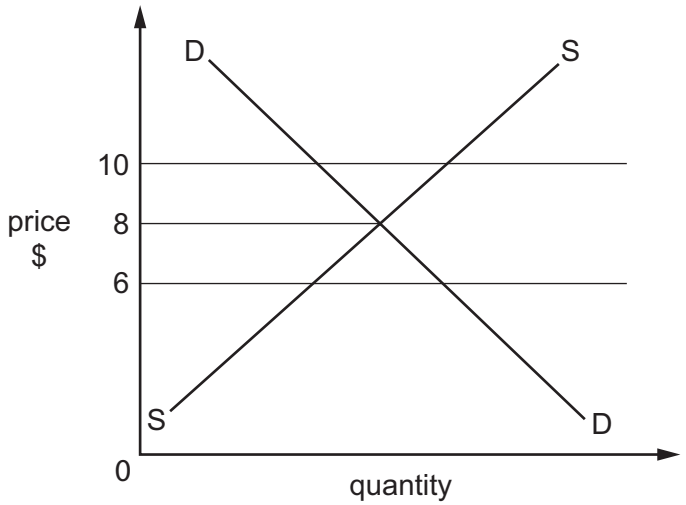
A excludable and non-rival.

B excludable and rival.

C non-excludable and non-rival.

D non-excludable and rival.

18 In moving towards a market economy government price controls were removed. In the diagram below, the government initially set an effective maximum price.

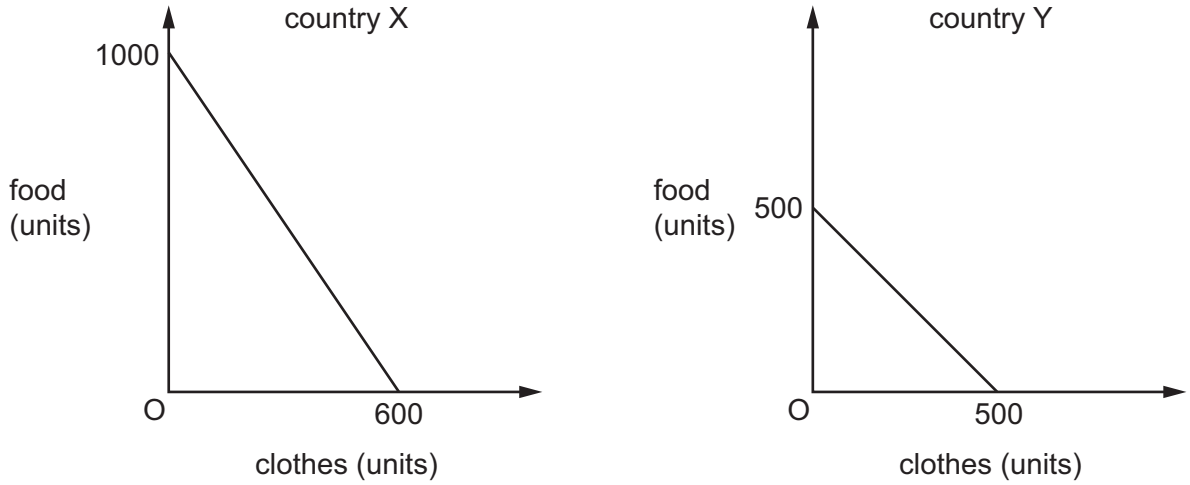


What effect was there on price and quantity when the government removed the maximum price?

	price	quantity
A	falls from $10 to $8	removes shortage
B	falls from $10 to $8	removes surplus
C	rises from $6 to $8	removes shortage
D	rises from $6 to $8	removes surplus

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19 The diagrams show the production possibility curves of two countries, X and Y, both of which can produce food and clothes.



Which statement about production in the two countries is correct?

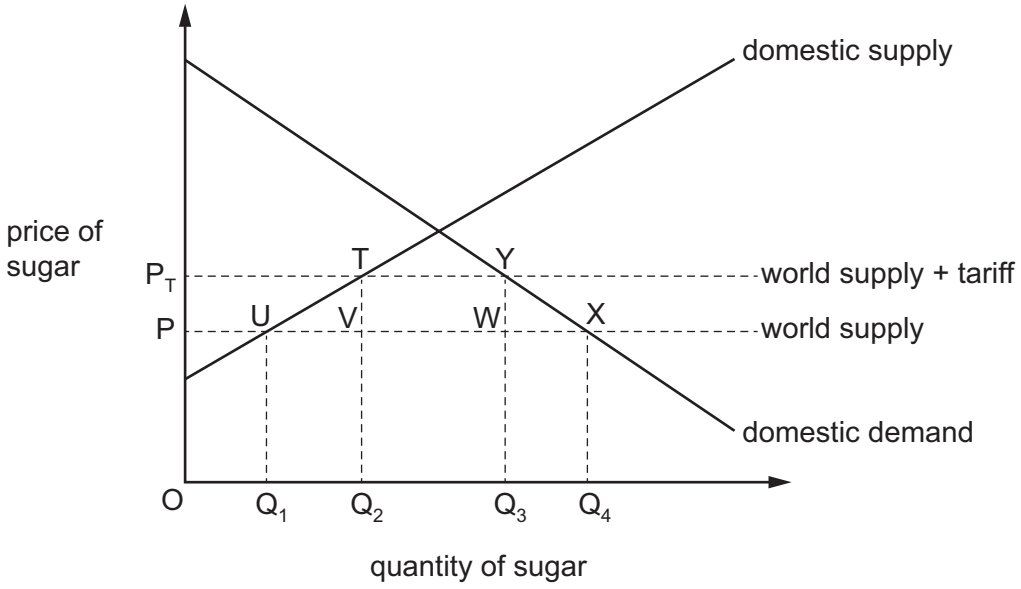
A X has absolute advantage in clothes and Y has absolute advantage in food.

B X has absolute advantage in clothes and Y has comparative advantage in food.

C X has absolute advantage in food and Y has absolute advantage in clothes.

D X has absolute advantage in food and Y has comparative advantage in clothes.

20 The diagram shows the effect of removing a tariff on imports of sugar into a country.



Which area represents the loss of producer surplus for domestic producers of sugar in the country?

A P_TTUP **B** P_TTVP **C** P_TYXP **D** TYWV

21 What must be the result for a country of a rise in its export prices relative to its import prices?

A a deficit in its trade in goods

B an improvement in its terms of trade

C an increase in its inflation rate

D a rise in its exchange rate

22 A country imports components which it uses in the production of electrical goods for the domestic market. The country is experiencing a rise in incomes.

What is likely to happen to the price of electrical goods and the country's balance of trade?

	price of electrical goods	balance of trade
A	fall	improve
B	fall	worsen
C	rise	improve
D	rise	worsen

23 The table gives figures for household spending in the UK economy between 2008 and 2010.

	nominal household consumption spending (£ million)	real household consumption spending (£ million)
2008	878 024	878 024
2009	858 242	846 961
2010	900 204	855 302

What can be concluded from the figures?

A All households bought more goods and services in 2010 than in 2008.

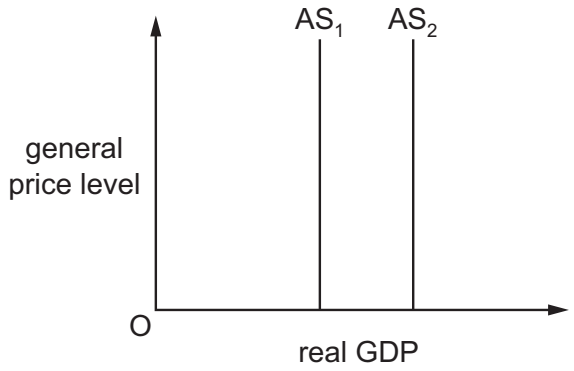
B Households saved more in 2008 than in 2010.

C Inflation was higher in 2010 than in 2009.

D Living standards were lower in 2009 than 2010.

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24 In the diagram AS_1 is an economy's long-run aggregate supply curve.



What will cause the aggregate supply curve to shift from AS_1 to AS_2?

A an increase in consumer spending

B an increase in inflation

C an increase in net exports

D an increase in productivity

25 The table shows an index of consumer prices (2005 = 100) for a number of countries for 2009, 2010 and 2011.

Which country experienced the lowest rate of **fall** in the real value of money between 2009 and 2011?

		2009	2010	2011
A	Canada	107.8	108.9	112.0
B	Japan	100.3	99.6	99.3
C	Portugal	107.4	108.9	112.9
D	Switzerland	104.3	104.5	104.7

26 National inflation rates vary widely but they have declined for most countries in recent years.

Which combination might best explain this decline in inflation rates?

A increased consumer expenditure and tighter control on international trade

B increasing international competition and reduced world incomes

C low interest rates and expectations of future price increases

D protectionist trade measures and a rise in raw material prices

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27 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

A Domestic money supply will increase.

B Rival economies may react with trade protection measures.

C The economy's foreign exchange reserves may decrease.

D The economy's short-run standard of living will be reduced.

28 What is most likely to cause Australia's exchange rate to depreciate?

A an increase in Australia's demand for imports

B an increase in Australia's interest rate

C an increase in demand for Australia's exports

D an increase in tourist visits to Australia

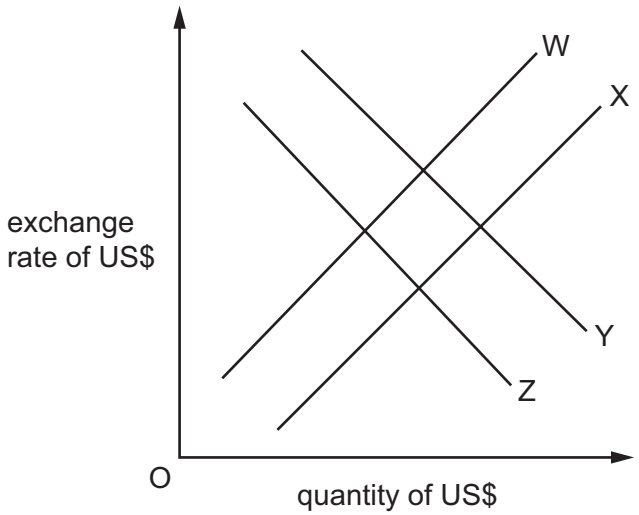
29 With an exchange rate of 4 Egyptian pounds (EGP) = 1 US$, an American product sells in Egypt for EGP120.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound depreciates to EGP5 = 1 US$?

A EGP90 **B** EGP96 **C** EGP144 **D** EGP150

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30 The US Central Bank lowers its interest rate to raise aggregate demand. This has an effect on the exchange rate of the US$. The diagram shows the resulting changes in the demand for and supply of US$ in the foreign exchange market.



Assume a change is shown by a move from a curve numbered 1 to a curve numbered 2.

What should curves W, X, Y and Z be labelled to show the effect of the interest rate rise on the exchange rate?

	W	X	Y	Z
A	S_1	S_2	D_1	D_2
B	S_1	S_2	D_2	D_1
C	S_2	S_1	D_1	D_2
D	S_2	S_1	D_2	D_1

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Copyright Acknowledgements:

Question 25 Based on data from OECD; Index of Consumer Prices; http://stats.oecd.org

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ECONOMICS **9708/12**

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* 9 4 8 2 6 4 9 5 9 3 *

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1 Which statement about the problem of scarcity is correct?

A Continually rising productivity will increase output and solve scarcity.

B Future inventions will introduce new products that remove scarcity.

C Government printing of money will raise incomes and eliminate scarcity.

D Human nature will make the solution of scarcity impossible.

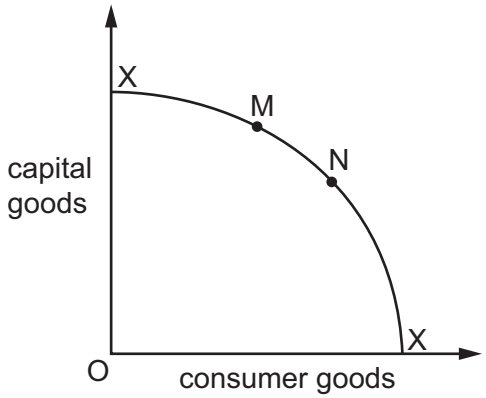
2 A firm is considering whether to buy a piece of capital equipment which will cost $2000. It estimates that the equipment will last for two years. The alternative is to lend the money to a finance company at a compound rate of interest of 5%.

What is the minimum increase in revenue the firm must expect to make it worthwhile buying the equipment?

A $101 **B** $206 **C** $2001 **D** $2206

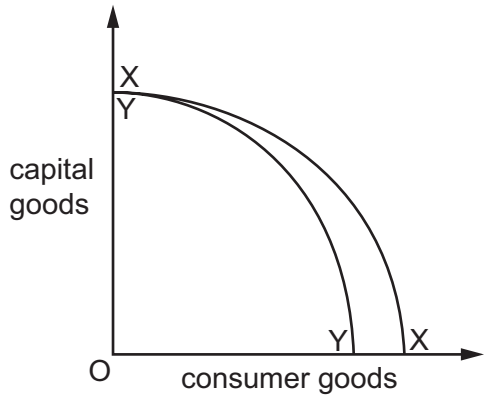
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3 The diagram shows the production possibility curve XX of an economy that produces both consumer goods and capital goods.

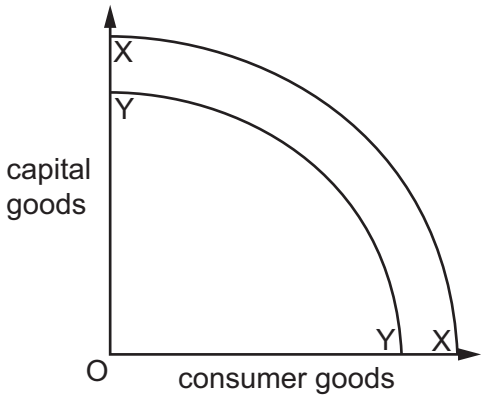


If the economy moves from point M to point N, which diagram represents the most likely position of the production possibility curve YY in the future?

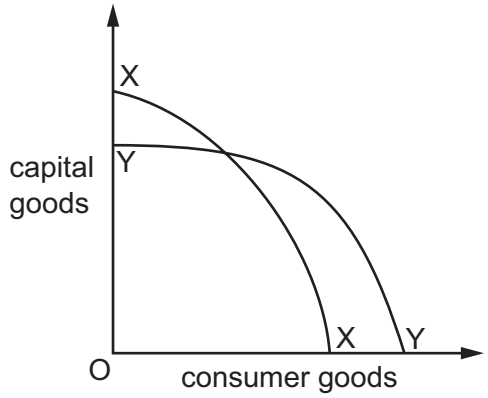
A



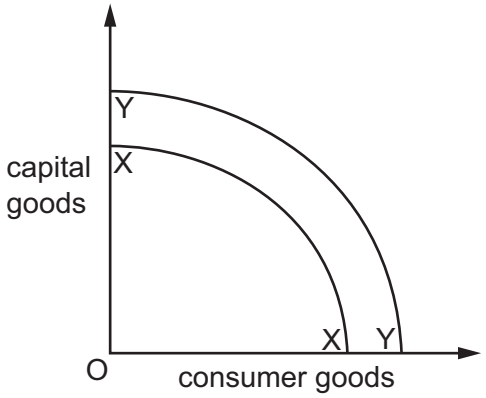
B



C



D



4 Arfan and his brother Ben own and run a fishing business together. They have one boat and on the days when they fish they employ Cephas and Dipak. They sell the fish to the owner of a local shop.

Which row correctly identifies the factors of production involved?

	land	labour	capital	enterprise
A	shop	Arfan and Ben	money paid for the fish	shop owner
B	shop	Cephas and Dipak	boat	Arfan
C	the fish	Ben	money paid for the fish	shop owner
D	the fish	Cephas and Dipak	boat	Arfan and Ben

5 The market price of a product rose from $8 to $10 and as a result the market demand fell from 20 000 to 8000 a week.

Consumer X's demand declined from 30 to 24 and consumer Y's demand fell from 100 to 60 a week.

What can be concluded from this information?

A Consumer X's demand for the product was more elastic than the market demand.

B Consumer X's percentage share of the market increased.

C Producer's total profit fell.

D Producer's total revenue rose.

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

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

A price elasticity of demand is elastic

B price elasticity of demand is inelastic

C price elasticity of demand is perfectly inelastic

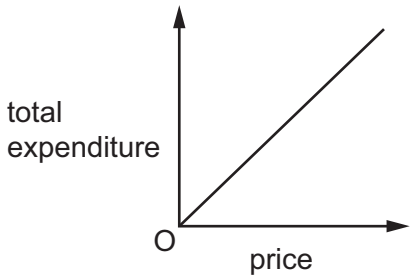
D price elasticity of demand is unitary

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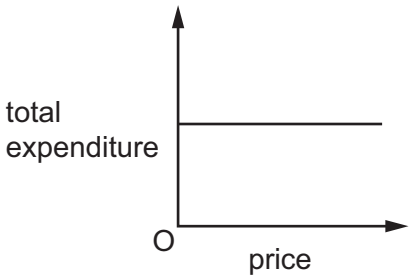
7 The demand for a commodity has unitary price elasticity.

Which diagram shows the relationship between total expenditure on the commodity and its price?

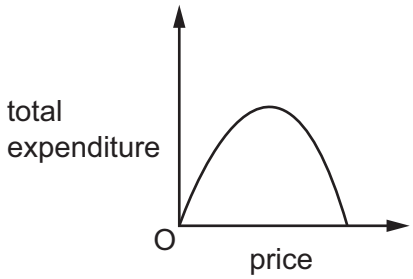
A



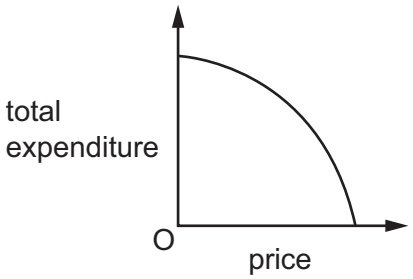
B



C



D



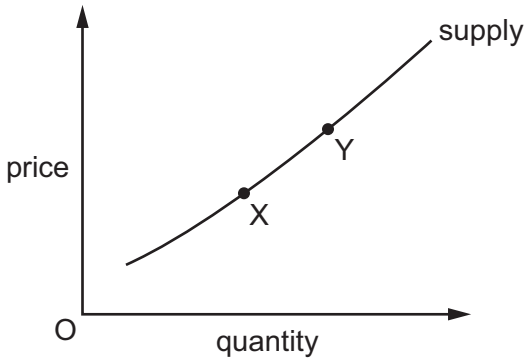
8 The price of good X rises by 10%. As a result, the demand for a substitute good Y rises by 20%.

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

A +2 **B** +0.5 **C** –0.5 **D** –2

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9 The diagram shows the supply curve of coffee in an economy.



The market equilibrium is initially at point X, but a change moves it to point Y.

What might explain this?

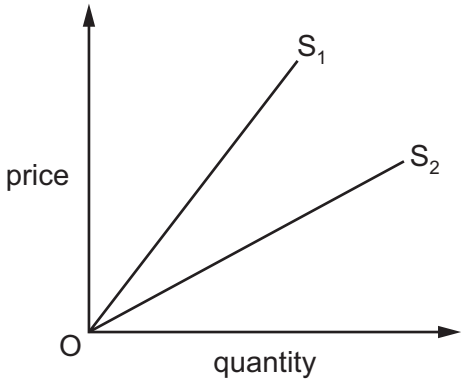
A an increase in wages paid by producers of coffee

B a switch in consumer tastes from coffee to tea

C an increase in the price of tea

D a tax imposed on coffee producers

10 In the diagram OS_1 and OS_2 are two straight-line supply curves.



As price increases, the elasticity of supply

A decreases along both OS_1 and OS_2.

B increases less rapidly along OS_1 than along OS_2.

C increases more rapidly along OS_1 than along OS_2.

D is constant along OS_1 and along OS_2.

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11 In which case will a given increase in the supply of a good cause the greatest fall in the price of the good?

A when the demand for the good is perfectly inelastic

B when the demand for the good is infinite

C when the good is an inferior good

D when the good's price elasticity of demand is positive

12 The table shows the maximum price a consumer would be willing to pay for successive cans of fruit juice.

cans	first	second	third	fourth	fifth
price ($)	14	10	6	4	3

The price of a can of fruit juice is $4 and, having bought three cans, the consumer decides to buy a fourth.

How does buying the fourth can affect his consumer surplus?

A It leaves it unchanged.

B It lowers it by $2.

C It raises it by $4.

D It raises it by $34.

13 Which combination of changes would enable the price mechanism to allocate resources more efficiently in a monopoly market?

	consumer sovereignty	producer sovereignty
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

14 A firm wishes to build a factory extension.

Permission is required from the government because the extension may increase

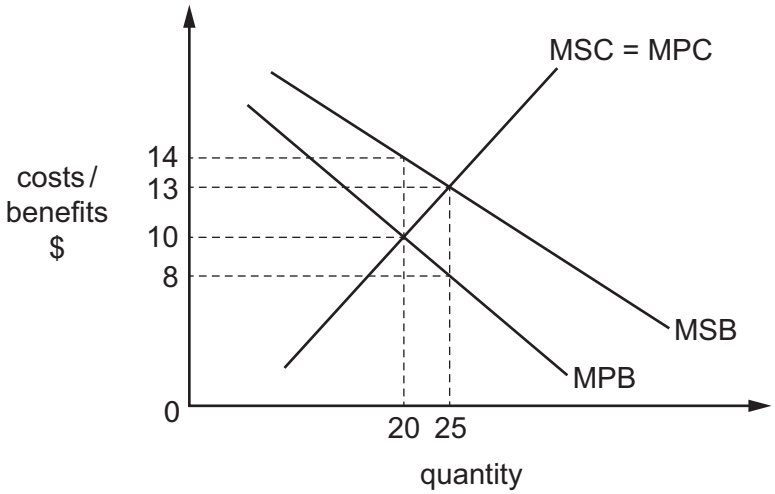
A comparative costs.

B external costs.

C opportunity costs.

D private costs.

15 The diagram shows the private and social costs and benefits that arise from the consumption and production of a good.



If there is no government intervention, what is the value of the marginal external benefit?

A $2 **B** $3 **C** $4 **D** $6

16 What can be provided only as a public good?

A road use

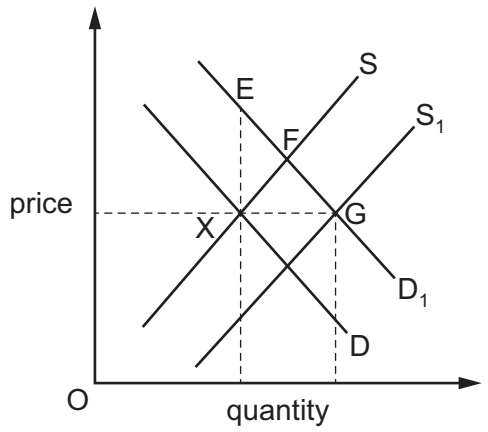
B security services

C street lighting

D TV broadcasting

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17 The diagram shows the demand for and supply of a foreign-made mobile (cell) phone. The initial position in the domestic market is X.



Importers increased the supply of the phone and there was an increase in demand for the phone. The government considered whether to protect domestic manufacturers with a limit on imports which would keep the supply at the initial quantity.

How would the price change between the new equilibrium without a limit on imports and the equilibrium with a limit on imports?

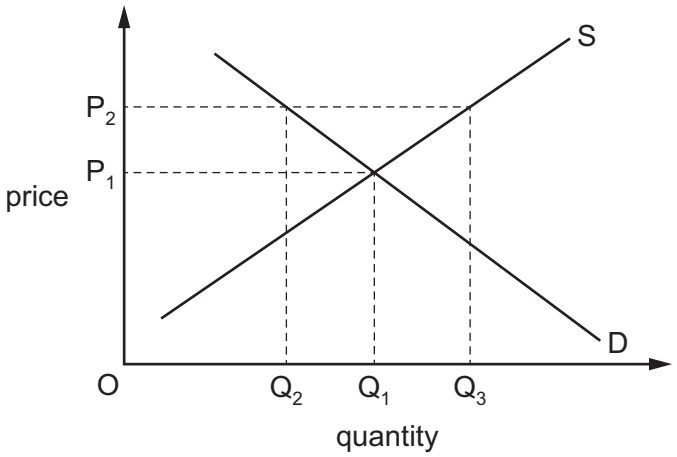
A a movement from E to F

B a movement from F to G

C a movement from G to E

D a movement from G to F

18 The government imposes a maximum price of P_2 on a product.



What will be the position after this action?

A an equilibrium with price P_1 and quantity Q_1

B an equilibrium with price P_2 and a quantity between Q_2 and Q_3

C an oversupply in the market by Q_2Q_3

D a shortage in the market of Q_2Q_3

19 What is an effect on a country of free trade?

A greater diversification of locally produced goods

B greater efficiency in the resource use

C greater independence in production

D greater security for local industries

20 What is meant by dumping in international trade?

A selling products in a foreign market at a price below cost

B selling products in a foreign market at a price below that of other firms

C selling products in a foreign market that are of a lower quality than those of domestic firms

D selling products in a foreign market that are of a lower quality than those of other foreign firms

21 As a result of a trade agreement, toys produced in Africa can be supplied to European markets. These toys are much cheaper than similar toys produced in Europe but are not of such good quality.

What will happen in Europe to expenditure on toys, employment in European toy companies and imports from Africa?

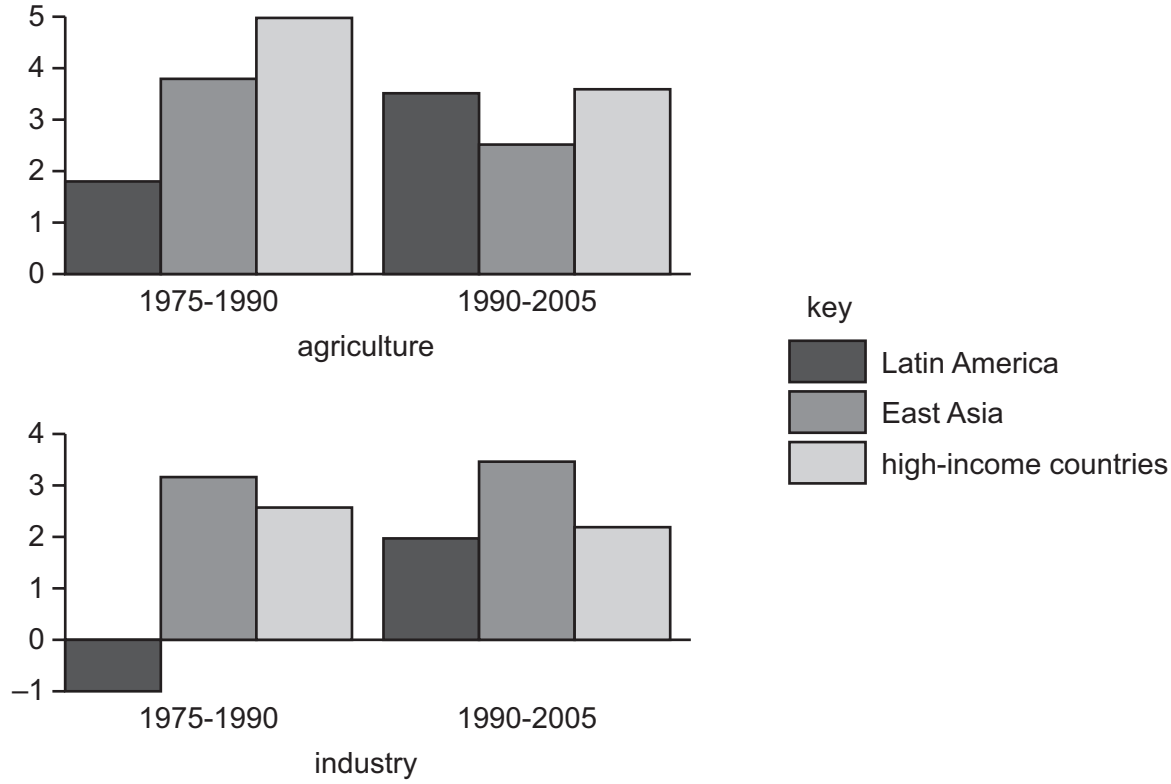
	expenditure	employment	imports
A	decrease	decrease	decrease
B	increase	decrease	uncertain
C	increase	uncertain	increase
D	uncertain	uncertain	increase

22 Which international transaction is correctly matched to the part of the balance of payments account in which it is recorded?

	transaction	part of account
A	the outflow of funds from national reserves to foreign residents	balancing item
B	the provision of banking services to foreign companies	financial section
C	the purchase of shares in foreign banks	capital section
D	the receipt of interest on loans to foreign companies	income section

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23 The diagram shows annual average labour productivity growth for three groups of countries during two time periods.



Which activity in which country group achieved the greatest improvement in its labour productivity growth rate between 1975-1990 and 1990-2005?

A agriculture in high-income countries

B agriculture in Latin America

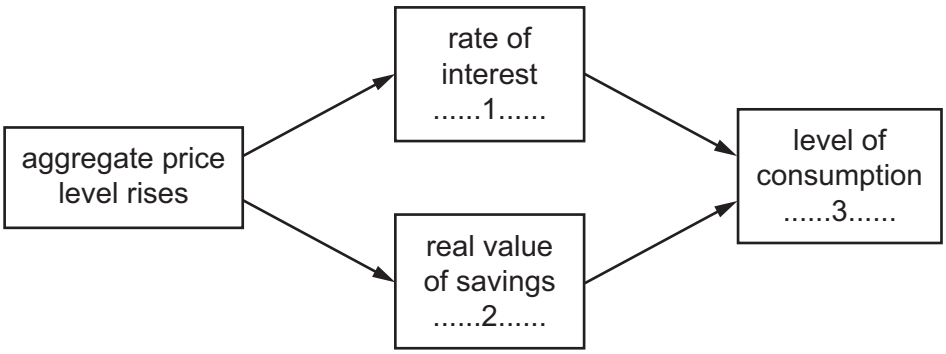
C industry in East Asia

D industry in Latin America

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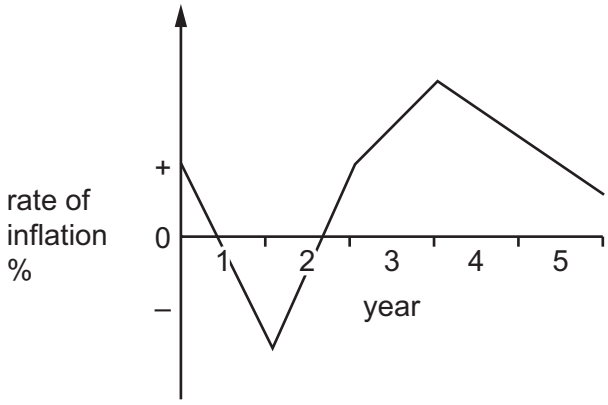
24 The diagram, which shows part of the process that causes the aggregate demand curve to slope downwards to the right, is incomplete.



Which words correctly complete gaps 1, 2 and 3?

	1	2	3
A	falls	falls	falls
B	falls	rises	rises
C	rises	falls	falls
D	rises	rises	falls

25 The graph shows the rate of inflation in a country in a 5 year period.



What can be concluded from the graph?

A The price level fell during two years.

B The price level was highest during year 4.

C The value of money fell for 5 years.

D The value of money rose in 1 year.

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26 What might explain an increase in the volume of a country's imports?

A an appreciation of the country's exchange rate

B an increase in the country's tariffs

C a recession in the country

D a rise in the country's rate of income tax

27 What is the most likely consequence of an increase in a country's balance of payments deficit?

A an increase in the foreign value of the currency of the country

B an increase in the level of income within the country

C a reduction in the quantity of money within the country

D a reduction in unemployment within the country

28 Which economic change might contribute to both cost-push and demand-pull inflation?

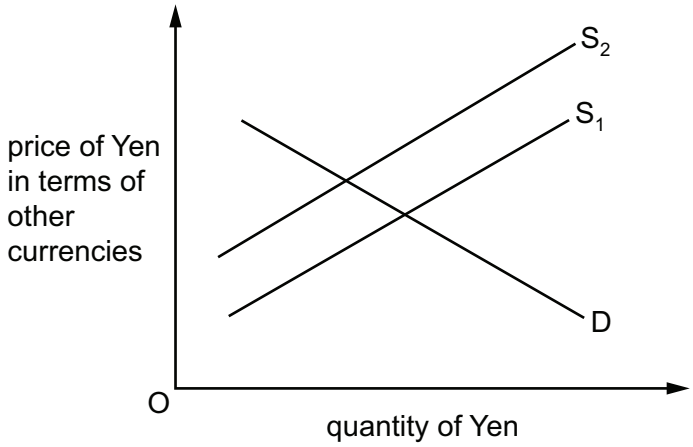
A a fall in the exchange rate

B a fall in the interest rate

C a rise in the productivity of industrial workers

D an improvement in the terms of trade

29 The diagram shows the market for Japanese Yen.



What could have caused the change in the supply of Yen from S_1 to S_2?

A a reduction in the level of international investment into Japan

B a reduction in the level of Japanese tariffs

C a reduction in the value of foreign goods imported into Japan

D a reduction in the value of Japanese goods exported

30 To reduce a deficit on the current account of the balance of payments, a government imposes a limit on the foreign exchange its people and firms can purchase.

Why may this increase the country's inflation rate?

A Firms may have to purchase more expensive, domestically-produced raw materials.

B Firms may have to sell more of their output on the domestic market.

C The change in demand for foreign currency on the foreign exchange market may lead to an appreciation in the exchange rate.

D The change in supply of the domestic currency on the foreign exchange market may reduce the money supply in the domestic economy.

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ECONOMICS **9708/13**

Paper 1 Multiple Choice (Core) **October/November 2014**

1 hour

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

3087722454

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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.
DO **NOT** WRITE IN ANY BARCODES.

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 Under normal circumstances, taking a breath of fresh air involves no opportunity cost.

This shows that fresh air is

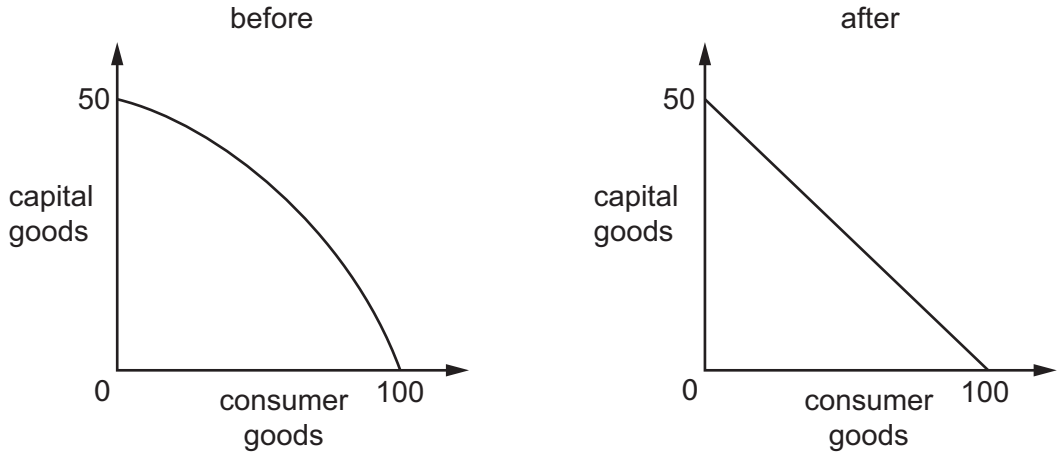
A a free good.

B a merit good.

C a public good.

D an economic good.

2 The diagrams show an economy's production possibility curve before and after a change has occurred.



What would this change indicate about opportunity cost and the production possibility curve?

	opportunity cost	production possibility curve
A	switched from constant to increasing	involved some increase
B	switched from decreasing to constant	involved some decrease
C	switched from decreasing to increasing	involved some increase
D	switched from increasing to constant	involved some decrease

3 Which statement about factors of production is correct?

A All economic output requires the use of four factors of production.

B Capital may take the form of shares in a manufacturing company.

C Enterprise can only be found in owner-run organisations.

D Land includes both renewable and non-renewable resources.

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4 A farmer can produce both wheat and barley at constant costs of production. The opportunity cost of a kilo of wheat is 1.5 kilos of barley. The price of a kilo of wheat is twice that of barley.

What should the farmer do to maximise revenue?

A Concentrate on barley production.

B Concentrate on wheat production.

C Produce wheat and barley in the ratio 2 : 1.

D Produce wheat and barley in the ratio 3 : 2.

5 The table shows the price and quantity demanded of a successful film DVD in the first four weeks after its release.

week	price of DVD ($)	quantity demanded per week
1	16	3000
2	14	5000
3	12	6500
4	10	7800

What can be concluded from the table?

A Sales do not reflect price changes.

B Sales increase less than proportionally to changes in price.

C Sales increase more than proportionally to changes in price.

D Sales reflect proportionately the changes in price.

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

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

A –2 **B** –0.5 **C** +0.5 **D** +2

7 The price elasticity of demand for a product is inelastic.

How will a decrease in supply affect producer revenue and consumer surplus?

	producer revenue	consumer surplus
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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8 Two goods, X and Y, are complementary goods. Column 1 of the table below shows the original market situation at time period 1 and column 2 shows the situation following an increase in the price of good Y.

	1	2
price of good X	10	10
quantity demanded	50	40
price of good Y	20	30
quantity demanded	80	60

The value of cross elasticity of demand for good X with respect to the price of good Y lies between

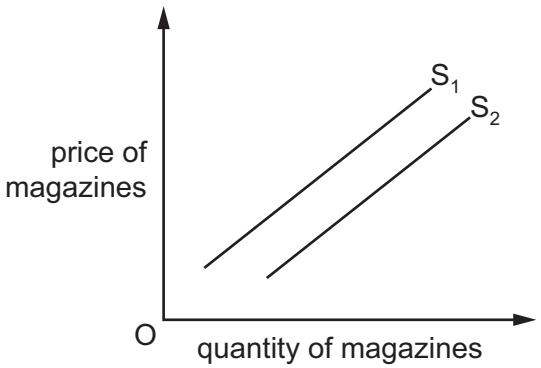
A –1.7 and –2.6.

B –0.8 and –1.3.

C –0.3 and –0.8.

D +0.3 and +0.6.

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



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

A a fall in the subsidies paid to magazine publishers

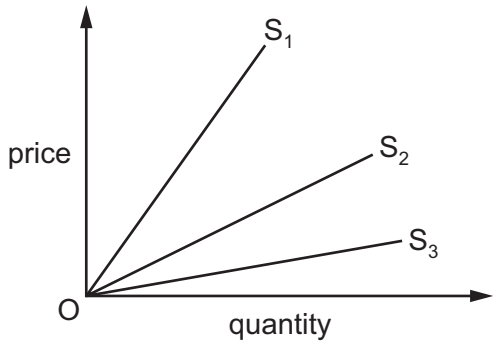
B a fall in the price of paper

C a rise in the real income of customers

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

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10 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 each curve is constant.

11 Demand for shoes increases which pushes up their price. Firm Y increases its supply more quickly than firm Z.

What would explain this difference in the speed of their responses?

A Firm Y has limited stocks of unsold shoes whereas firm Z has plentiful stocks of unsold shoes.

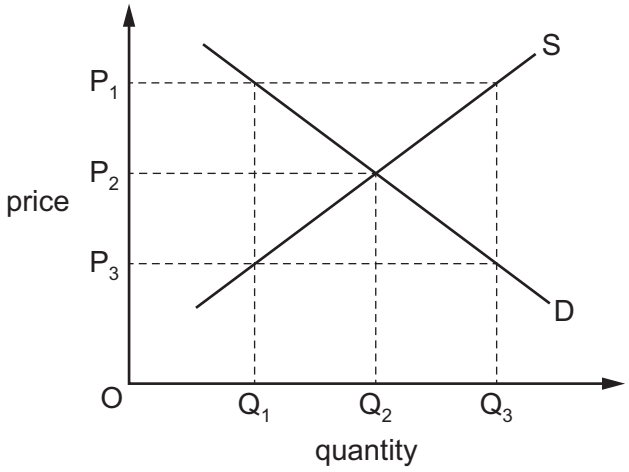
B Firm Y has spare capacity in its factories whereas firm Z's factories are working at full capacity.

C Firm Y's shoes are handmade whereas firm Z's shoes are made by machine.

D Firm Y's shoes need raw materials which are in short supply whereas firm Z's shoes need raw materials which are in plentiful supply.

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12 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

13 In which set of circumstances will prices **not** be able to perform their function as an allocative mechanism, but may still have a role as a rationing device?

A The government sets maximum prices for all goods above their market clearing price.

B The government sets minimum wages for all workers below the market rates of pay.

C The quantities of all goods available to consumers are in fixed supply.

D The total income consumers have available to spend is fixed.

14 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

15 Which statement about the provision of goods is correct?

A Governments and private producers supply merit goods.

B Governments and private producers supply public goods.

C Governments are unable to supply private goods.

D Governments subsidise the production of demerit goods.

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16 A country exports olives. The government is involved in their production because it wishes to ensure that private producers of olives have the confidence to plan investment despite changes in the harvest of olives.

Which economic term would describe this situation?

A a command economy

B a constant income elasticity

C an export quota

D a price stabilisation policy

17 The table shows demand and supply schedules for a product. The government then subsidises the product because it provides external benefits.

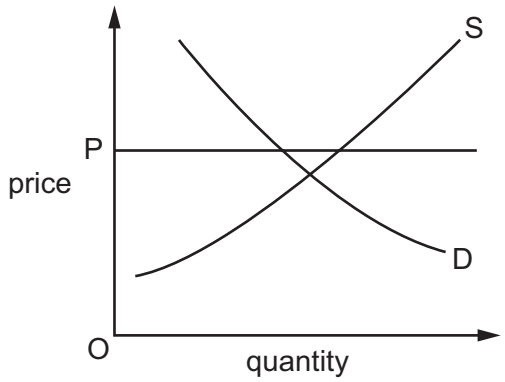
price ($)	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
10	160	80	120
11	140	100	140
12	120	120	160
13	100	140	180
14	80	160	200

By how much does the subsidy increase consumption of the product?

A 20 units **B** 40 units **C** 120 units **D** 140 units

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18 The diagram illustrates a market for wheat. The government sets a maximum price of OP.



What could cause the maximum price to have an impact on the market?

A a fall in the price of rice

B an advertising campaign for bread

C an increased wheat harvest

D an increase in subsidies to wheat farmers

19 Country X exports agricultural commodities to country Y and country Y exports industrial goods to country X.

Given that the pattern of trade between X and Y can be explained by the theory of comparative advantage, what can be concluded from this?

A Both countries derive an equal benefit from engaging in trade.

B Country X has more fertile agricultural land than country Y.

C Neither country has an absolute advantage in the production of both sets of goods.

D The opportunity cost of producing agricultural commodities is greater in Y than in X.

20 What is **not** usually a motive for a country to use protection in international trade?

A to increase global economic welfare

B to prevent the dumping of products by another country

C to prevent unemployment within the country

D to shelter an infant industry within the country

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21 A government decides to increase a quota on an imported good.

What is likely to happen?

A The demand for the good will fall.

B The good will become more expensive.

C The government's revenue will decline.

D There will be more of the good imported.

22 A Japanese car manufacturer sets up a factory to produce car parts in Malaysia.

How is this likely to affect Malaysia's trade balance and its income balance in the current account of the balance of payments?

	trade balance	income balance
A	improve	improve
B	improve	worsen
C	worsen	improve
D	worsen	worsen

23 The weighting given to food in the construction of the United Kingdom's Retail Price Index fell from 16.7% in 1987 to 11.8% in 2011.

What would help to explain this?

A The average price of food decreased by 4.9% points between 1987 and 2011.

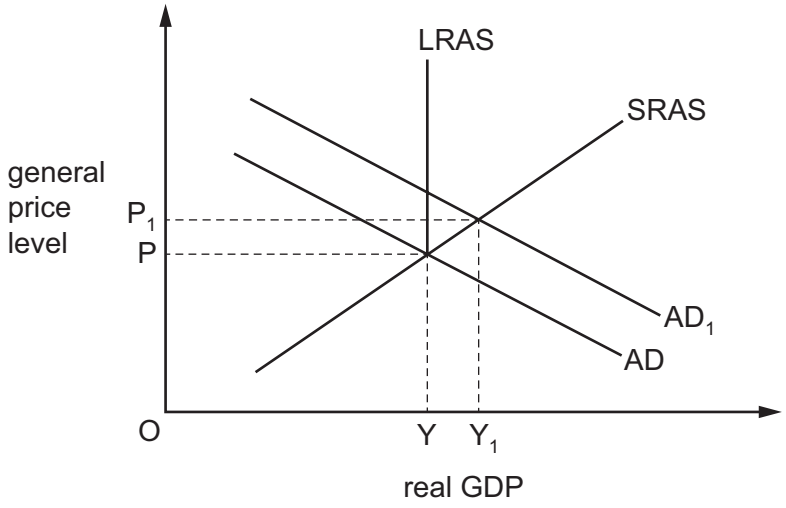
B The demand for food is price inelastic.

C The income elasticity of the demand for food is less than one.

D There was an increase in the relative price of food over the period.

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24 People in an economy become more optimistic about the future. This results in an increase in consumer expenditure which shifts the aggregate demand curve to the right, as shown.



What could cause the economy's output to return to Y?

A a decrease in indirect taxes

B a decrease in tariffs on imports

C an increase in investment

D an increase in wage rates

25 Which statement about inflation is correct?

A Cost-push inflation is likely to occur when the government increases its expenditure.

B Demand-pull inflation is likely to occur when the country's exchange rate appreciates.

C The Quantity Theory of Money predicts that changes in money supply can cause inflation.

D When inflation is unanticipated real values remain unchanged.

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

Which statement is correct for the three-year period?

A The price level rose by 12%.

B The price level rose by more than 12%.

C The real value of money rose by 12%.

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

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27 Why might an increase in a current account surplus cause inflation?

A It will decrease aggregate supply.

B It will decrease the money supply.

C It will increase aggregate demand.

D It will increase the exchange rate.

28 Demand for imports is often price inelastic in the short term. Over time, demand tends to become more price elastic.

What does this help to explain?

A why a fall in the exchange rate causes a deficit on the current account of the balance of payments to increase before decreasing

B why a fall in the exchange rate causes inflation to rise before falling

C why a rise in the exchange rate causes a surplus on the current account of the balance of payments to decrease before increasing

D why a rise in the exchange rate causes the terms of trade to worsen before improving

29 The table shows the number of Jamaican dollars which exchanged for one unit of other currencies in time period 1 and time period 2.

	Jamaican $ time period 1	Jamaican $ time period 2
Barbados $	23.19	23.12
Guyana $	0.25	0.25
US$	45.78	45.77
UK£	63.86	64.37

What might be concluded from the table?

A There was a decreased demand for Barbados $ by Jamaicans.

B There was a decreased supply of Guyana $ to Jamaicans.

C There was an increased demand for US$ by Jamaicans.

D There was an increased supply of UK£ to Jamaicans.

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30 An economy has a high rate of inflation and a balance of payments deficit.

Which policy change would help to reduce the balance of payments deficit without making inflation worse?

A a devaluation of the currency

B a reduction in government spending

C the imposition of import quotas

D the removal of import tariffs

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