Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2016**

1 hour

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

* 5 2 2 6 0 1 8 4 2 3 *

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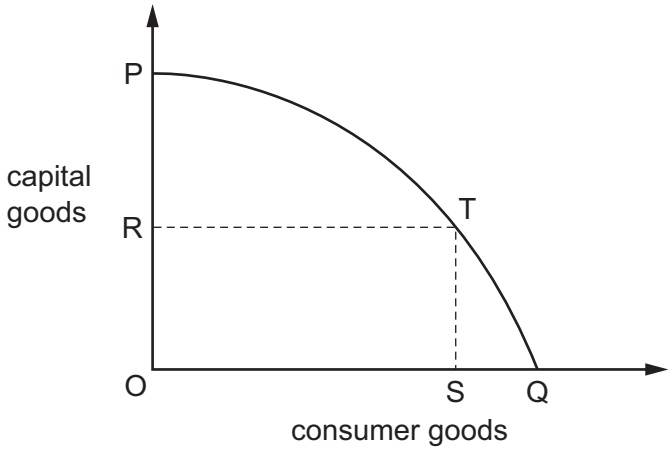
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1 To increase production a firm in industry X needs to install capital equipment, while a firm in industry Y needs to research and introduce a new technology.

What time periods are illustrated by these cases?

	industry X	industry Y
A	short run	long run
B	long run	long run
C	long run	very long run
D	very long run	very long run

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

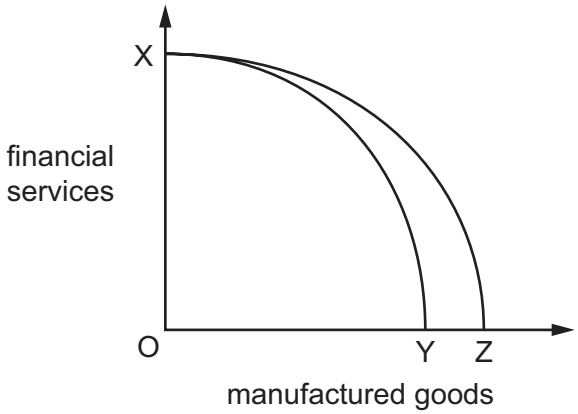
B PR of capital goods

C SQ of consumer goods

D SQ of consumer goods + PR of capital goods

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3 In the diagram XY is an economy's production possibility curve.



What could cause the curve to shift to XZ?

A a fall in productivity in manufacturing

B a fall in the price of manufactured goods

C a higher demand for manufactured goods

D an improvement in manufacturing technology

4 Very heavy rain often causes houses to flood. The government protects the area with flood defence schemes while households buy sandbags to protect their houses.

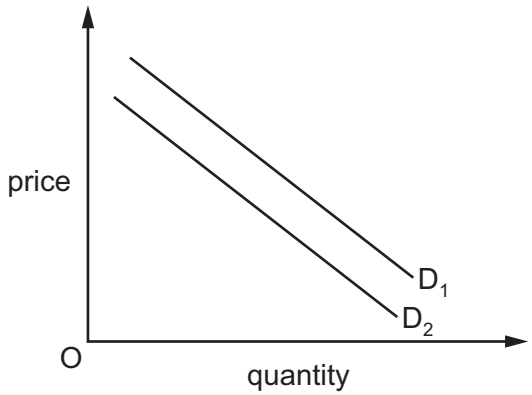
How would an economist classify these items?

	flood defence schemes	sandbags
A	merit goods	private goods
B	merit goods	public goods
C	public goods	private goods
D	public goods	public goods

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[Turn over

5 The diagram shows the demand for air travel in Asia.



If air travel is a normal good, what could have caused the shift in the demand curve from D_1 to D_2?

A a fall in employment in Asia

B a fall in the price of aviation fuel

C an increase in road congestion

D an increase in the price of train travel

6 What will **not** cause a shift in the market supply curve of a commodity?

A a change in technology

B a rise in the price of a factor input

C a rise in the price of the commodity

D the introduction of a specific tax on the commodity

7 A government imposes a tax on a good. The equilibrium price rises by the same amount as the tax.

What can be concluded about the price elasticity of demand for the good?

A It is perfectly elastic.

B It is perfectly inelastic.

C It is unitary.

D Nothing can be determined about price elasticity of demand.

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8 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 with another product?

	YED figure	XED figure
A	The product is an inferior good.	The other product is a complement.
B	The product is an inferior good.	The other product is a substitute.
C	The product is a normal good.	The other product is a complement.
D	The product is a normal good.	The other product is a substitute.

9 A product has a low price elasticity of supply.

What might explain this?

A The product has a low opportunity cost.

B The product has a perishable nature.

C The product is classed as an inferior good.

D The product is considered to be a necessity.

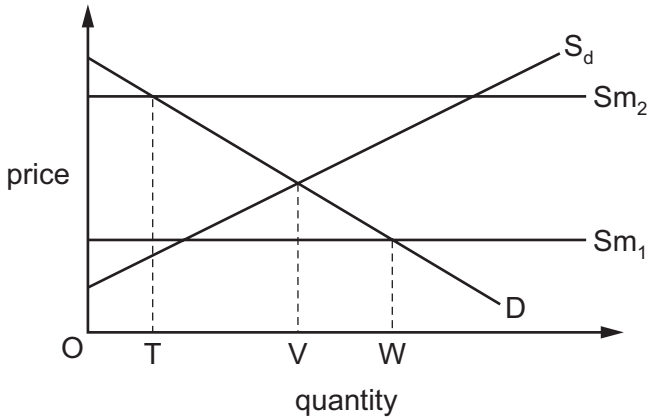
10 A firm is producing 100 units at price $10. The price elasticity of supply is 0.5, and price is raised to $12.

What is the new level of output?

A 75 **B** 110 **C** 125 **D** 150

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11 The diagram shows the market for coffee in a small coffee-producing country. The domestic supply of coffee is represented by S_d. The supply curve of imports was initially Sm_1. A bad harvest that affects only other coffee-producing countries shifts the supply curve of imports to Sm_2.



How will consumption and imports be affected by the supply change?

A Consumption falls by VW and imports fall to OT.

B Consumption falls by VW and imports fall to zero.

C Consumption is unchanged and imports fall to OT.

D Consumption is unchanged and imports fall to zero.

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

What is the function of the price fall?

A to eliminate shortages

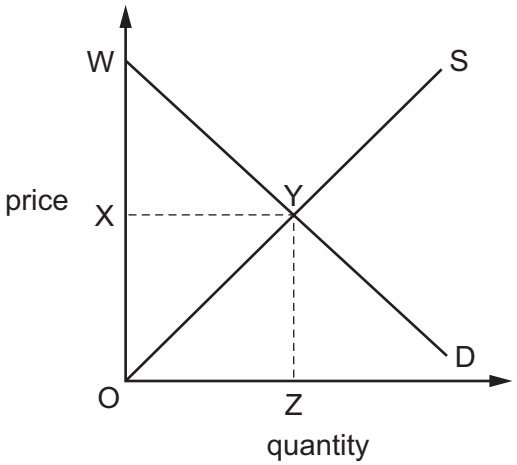
B to reduce consumer surplus

C to send a signal to producers

D to stimulate a further fall in demand

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13 The diagram shows the market for computers in Pakistan.



What can be concluded about the value of consumer surplus?

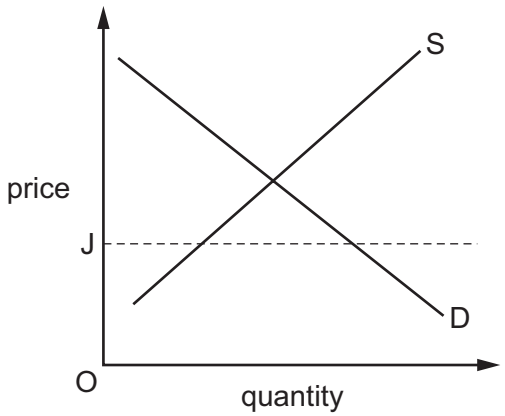
A It is less than producer revenue.

B It is less than producer surplus.

C It is more than producer revenue.

D It is more than producer surplus.

14 The diagram shows the demand and supply curves of a good.



The government sets a maximum price of OJ for the good.

How will this affect the consumers and producers of the good?

	effect on consumers	effect on producers
A	All consumers will gain.	Producers will lose.
B	All consumers will gain.	Producers will gain.
C	Some consumers will gain and some will lose.	Producers will gain.
D	Some consumers will gain and some will lose.	Producers will lose.

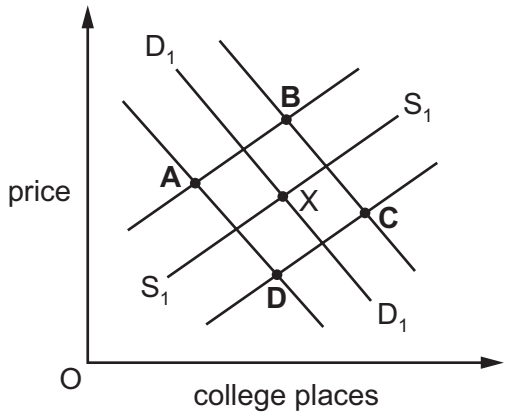
15 A simple income tax system would be one in which income under $10 000 is not taxed. Above $10 000 an income tax rate of 30% is applied to all additional income.

What is correct for people earning more than $10 000?

	average rate of tax	marginal rate of tax
A	increases as incomes increase	increases as incomes increase
B	increases as incomes increase	remains constant as incomes increase
C	remains constant as incomes increase	increases as incomes increase
D	remains constant as incomes increase	remains constant as incomes increase

16 The diagram shows possible demand and supply curves for places in colleges in a country. The initial equilibrium position is X. To increase the number of students in colleges, a government subsidises the colleges and also gives a grant of money to the students.

What would be the new equilibrium position?



17 Which term is given to an income received by an individual for which there is no corresponding contribution to output?

A profit

B revenue

C salary

D transfer payment

18 A government's budget deficit was reduced.

What might have caused this?

A a decrease in the revenue from vehicle tax

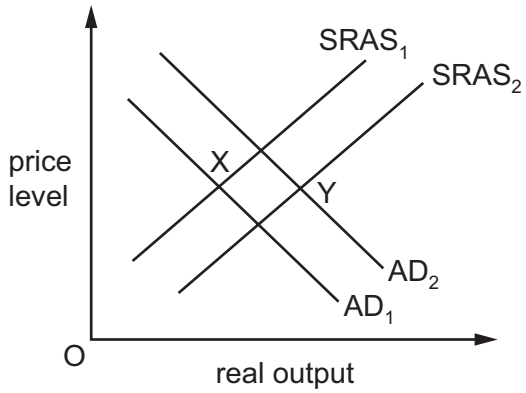
B an increase in the rate of subsidy given to libraries

C a purchase of two warships for the national defence

D a sale of a publicly owned energy company to the private sector

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19 The diagram shows aggregate supply curves and aggregate demand curves for an economy.



What is most likely to cause the equilibrium position to move from X to Y?

A a decrease in corporation tax and a decrease in labour productivity

B a decrease in interest rates and a decrease in electricity prices

C an increase in interest rates and an increase in raw material costs

D an increase in marginal tax rates and a decrease in labour productivity

20 The table shows the share of a worker's income spent on three classes of good and the percentage change in the prices of the goods over a year.

	share of income spent on goods	change in prices of goods
clothing	25%	+25%
food	50%	+50%
fuel	25%	–25%

Over the same period the worker's money income rises by 25%.

What happens to the worker's real income?

A It falls by 25%.

B It falls by 50%.

C It rises by 25%.

D It is unchanged.

21 Over a period of a year, the annual rate of inflation becomes negative.

Which statement must be correct?

A The cost of living has fallen.

B The purchasing power of money has fallen.

C The standard of living has increased.

D There has been an increase in the Consumer Price Index.

22 What would cause an immediate increase in the deficit in a country's balance of payments on the current account?

A a rise in government expenditure on education

B a rise in the cost of imported raw materials used in domestic production

C a rise in the foreign ownership of domestic companies

D a rise in the total wages earned by nationals working abroad

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

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?

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

24 A depreciation of the exchange rate of the UK pound (£) against the US dollar ($) from £1 : $1.50 to £1 : $1.00 must mean that

A dollars will become more expensive in terms of pounds.

B the pound will be undervalued.

C UK imports from the US will become cheaper.

D US imports from the UK will become more expensive.

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25 A country has no controls on transactions in foreign exchange and allows its exchange rate to float freely.

What will always be zero?

A net inward investment

B the country's foreign exchange reserves

C the current account balance of payments position

D the overall balance of payments position

26 The table gives the terms of trade index for Brunei Darussalam for the period 2009 to 2012.

	2009	2010	2011	2012
terms of trade index	100.0	107.2	124.9	134.5

What can be concluded from the table?

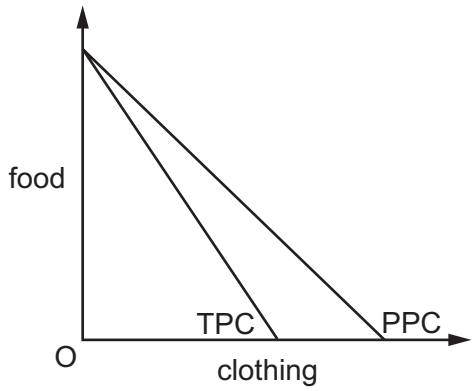
A Export prices were 34.5% higher in 2012 than in 2009.

B Import prices were 34.5% lower in 2012 than in 2009.

C The ratio of export to import prices was 34.5% higher in 2012 than in 2009.

D The terms of trade increased by 34.5% during 2012.

27 The diagram shows an economy's production possibility curve, PPC, and trading possibility curve, TPC.



Why is the diagram **not** able to demonstrate the benefits of international trade?

A It assumes there are no transport costs and no barriers to trade.

B It deals with only two products.

C The curves are drawn as straight lines.

D The position of the curves does not support the existence of benefits.

28 Which government policy will increase aggregate demand?

A raising indirect taxation

B reducing the budget surplus

C removing domestic subsidies

D removing import quotas

29 What would be the best policy for a country to reduce a balance of payments deficit?

A an increase in interest rates

B an increase in the exchange rate

C a reduction in direct taxes

D a reduction in subsidies to domestic industry

30 Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in reversing a deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation

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ECONOMICS **9708/12**

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1 hour

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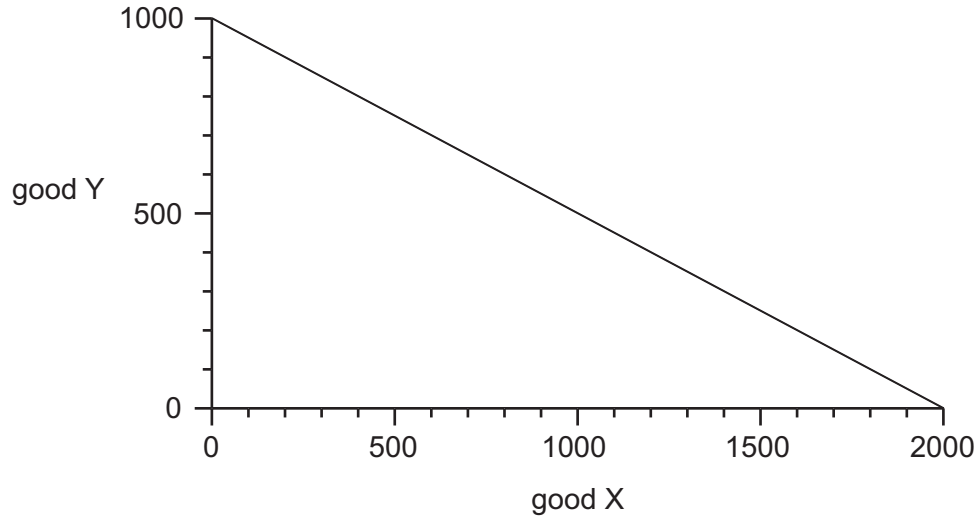
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1 The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



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

Which quantity of good Y is given up?

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

2 In 2014, the Hong Kong Housing Authority said the waiting time for public sector housing had increased and it would only complete 8900 flats of the 15 000 planned for the year. The reasons were the shortage of workers because they were needed in other public sector projects, the difficulty of finding land, and government regulations.

Which economic concepts are illustrated in this information?

A a market economy and a lack of resources

B economic planning and the price mechanism

C opportunity cost of labour and excess demand

D production possibility and budget deficit

3 What is most likely to be a distinguishing feature of the healthcare system of a mixed economy?

A a mixture of foreign and domestically owned hospitals

B a mixture of foreign and domestic medical staff

C a mixture of government-owned and privately owned hospitals

D a mixture of specialist and general hospitals

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4 An economy can produce only two goods at any one time. These are good X and one other good from **A**, **B**, **C** or **D**. The table shows the outputs of goods **A**, **B**, **C** and **D** with each output of good X when the economy's resources are fully employed.

Which good must be produced with good X to show a production possibility curve with increasing costs?

	units				
X	0	100	200	300	400
A	0	20	40	60	80
B	110	70	40	20	0
C	120	90	60	30	0
D	140	120	90	50	0

5 What could **not** cause a shift in an individual's demand curve for good Z?

A a change in advertising expenditure on Z

B a change in the individual's income

C a change in the individual's tastes

D a change in the price of Z

6 What is most likely to increase the quantity of houses supplied?

A a policy to help house buyers on modest incomes

B a restriction on the level of rent that can be charged

C a rise in the tax on materials used for building houses

D the removal of a subsidy to house builders

7 In which situation is the demand for a product said to be price elastic?

A A fall in price increases expenditure on the product.

B A fall in price increases quantity demanded.

C A rise in price increases expenditure on the product.

D A rise in price reduces quantity demanded.

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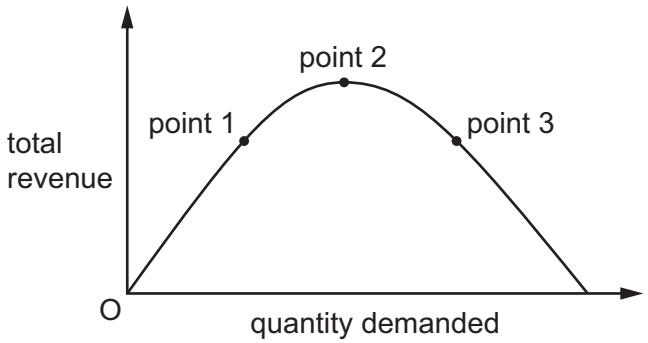
8 Goods X and Y are complements with a cross-elasticity of demand of –0.8.

When the price of good X was $10, the quantity of good Y demanded was 2000 units per week. After a change in the price of good X, the demand for good Y increases to 2800 units per week.

What is the new price of good X?

A $5.00 **B** $6.80 **C** $13.20 **D** $15.00

9 The diagram shows an industry's total revenue when different quantities are demanded.



Which values should be inserted at points 1, 2 and 3 to identify the price elasticity of demand (PED) at that position?

	point 1	point 2	point 3
A	PED>1	PED=0	PED<1
B	PED>1	PED=1	PED<1
C	PED<1	PED=0	PED>1
D	PED<1	PED=1	PED>1

10 What would increase the price elasticity of supply of a firm's products?

A a decrease in the period of time that stocks can be kept

B a decrease in the time that it takes to produce the products

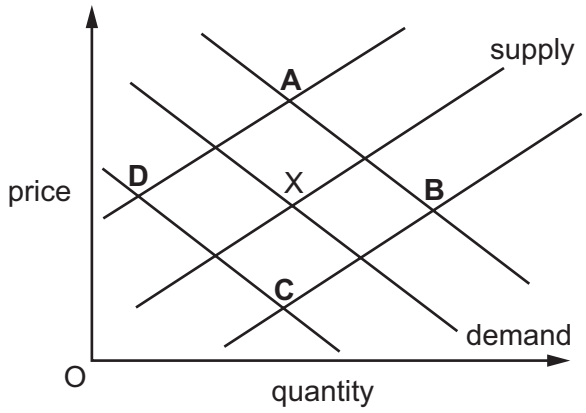
C an increase in the cost of capital goods employed by the firm

D an increase in the level of employment in the area

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11 The diagram shows the market for a luxury brand of smartphones. The initial equilibrium is at point X.

What will be the new equilibrium following a rise in the price of batteries used by the manufacturer of smartphones and a rise in consumer incomes?



12 When will it **not** be possible to use price as a rationing mechanism?

A when a good has a number of close substitutes

B when a good is an inferior good

C when the demand for a good is infinitely inelastic

D when the quantity of a good is in fixed supply

13 A government imposes an indirect tax on a product with normal demand and supply curves. The tax raises $100 million.

What effect will the tax have on the value of the combined consumer surplus and producer surplus?

A It will be unaffected.

B It will fall by less than $100 million.

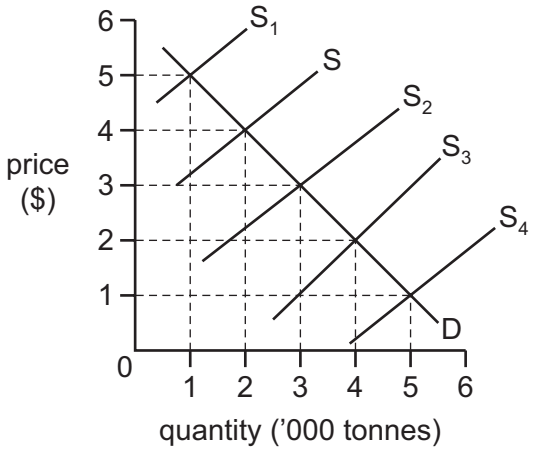
C It will fall by exactly $100 million.

D It will fall by more than $100 million.

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14 In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves S_1–S_4.



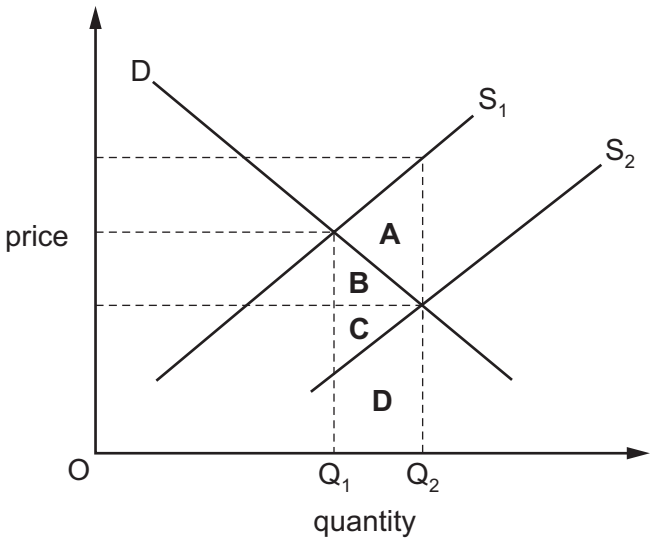
How much in total will the government pay to support farmers over the four subsequent years?

A $0 **B** $3000 **C** $6000 **D** $10 000

15 The diagram shows the supply and demand curves of a commodity.

A government subsidy causes the supply curve to shift from S_1 to S_2.

Which area measures the difference between the cost to the economy of producing the resulting increase in output (Q_1–Q_2) and the value consumers place on this increase in output?



16 Total public spending in the UK, excluding interest payments, is planned to be £679 billion for the fiscal year 2015–2016. The table shows this by category.

	£ billion
pensions	150
healthcare	133
education	90
defence	46
social security welfare payments	110
other spending on goods and services	150

What was the total amount spent on transfer payments?

A £110 billion **B** £150 billion **C** £260 billion **D** £393 billion

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

A the abolition of tariffs on imported consumer goods

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

C the payment of subsidies to exporters

D the setting of minimum prices for milk

18 Which argument has often been used to justify the privatisation of state enterprises?

A Private firms always aim at maximum profits.

B Private firms can produce the same outputs at lower unit costs.

C State enterprises are always monopolies which exploit consumers.

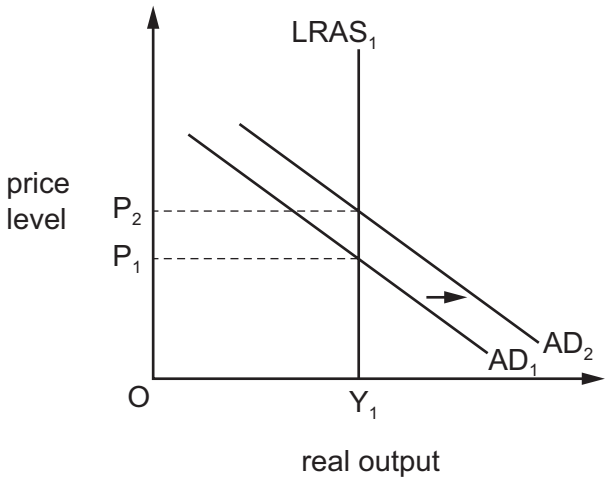
D State enterprises cannot operate without government subsidies.

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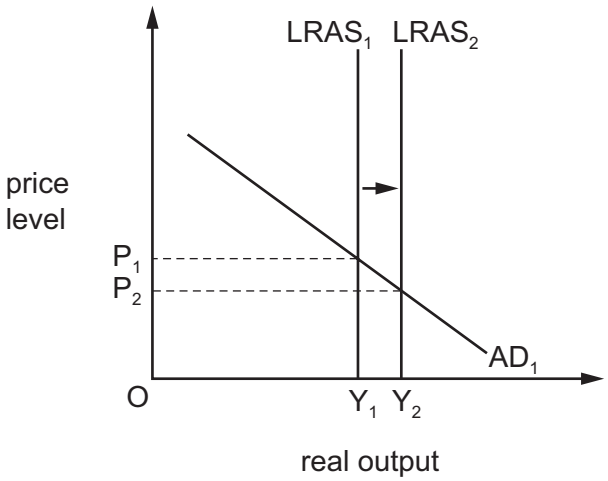
19 A government plans to increase spending on education and training every year.

Which diagram shows the likely effect of this increase on the economy's long-run output and price level?

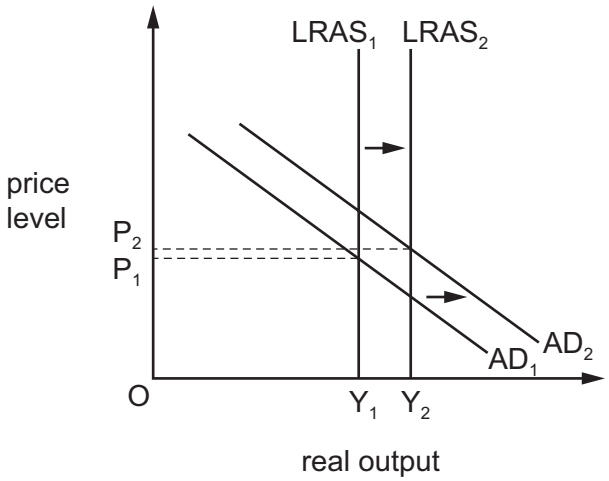
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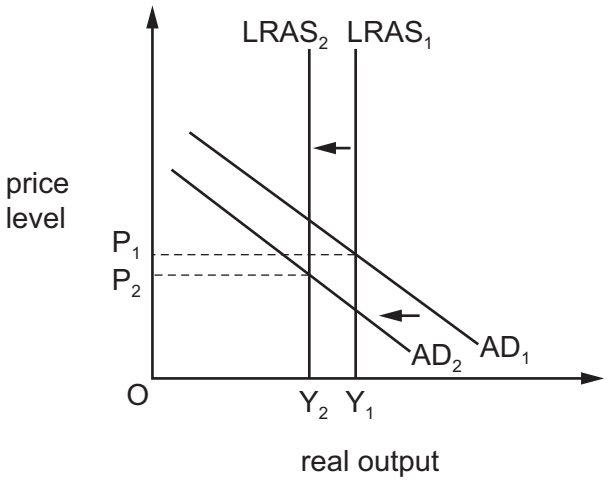
B



C



D



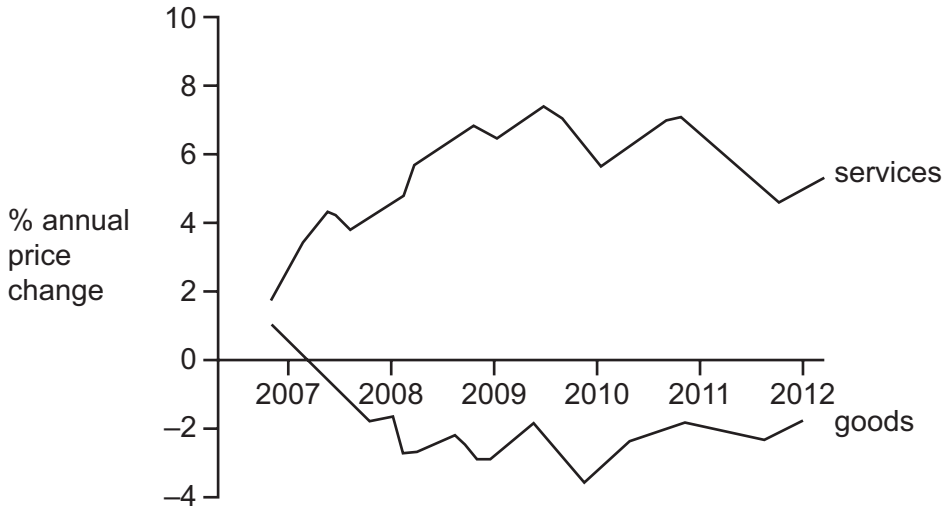
20 In 2012, the rate of inflation in Botswana was 7.5%. Person X kept all of their savings in the form of cash while Person Y put their savings into a bank account on which they earned 5.0% interest.

What was the effect on the real value of their savings by the end of the year?

	Person X	Person Y
A	decrease	decrease
B	decrease	increase
C	no change	decrease
D	no change	increase

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21 The graph shows the annual percentage change in the prices of services and in the prices of goods between 2007 and 2012.



What can be deduced from the graph?

A On average the price of services was higher than the price of goods throughout the period.

B The average price of goods was higher in 2012 than in 2010.

C The average price of services was higher in 2012 than in 2010.

D There was a fall in the general price level between 2008 and 2010.

22 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?

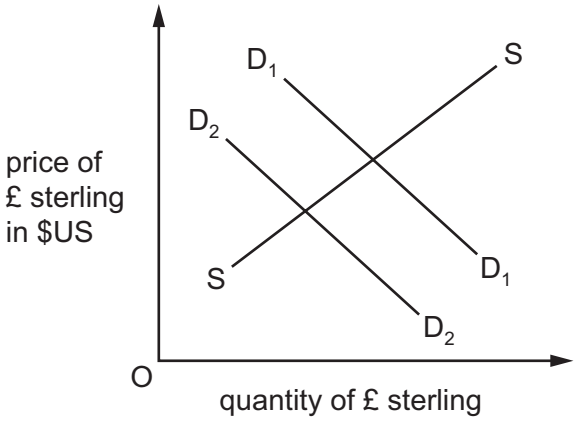
	Current Account $ million	Capital Account $ million	Financial Account $ million
A	–41	13	28
B	–32	–5	–37
C	–15	–17	4
D	44	12	25

23 An increase or decrease in exchange rates can take place in both a floating and a fixed exchange rate system but different terminology is used for each system.

What is the correct terminology?

	decrease in floating	increase in fixed
A	depreciation	appreciation
B	depreciation	revaluation
C	devaluation	appreciation
D	devaluation	revaluation

24 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 the price of US goods sold in the UK

B an increase in UK interest rates

C the development of US substitutes for UK goods

D the removal of UK tariffs against US goods

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25 The table shows the indices of import prices and export prices of four countries between July 2013 and July 2014.

	index of import prices		index of export prices	
	July 2013	July 2014	July 2013	July 2014
Brazil	137	139	164	162
China	98	101	99	99
Italy	113	111	113	114
Spain	110	106	111	109

In which countries did the terms of trade improve between July 2013 and July 2014?

A Brazil and China

B China only

C Italy and Spain

D Italy only

26 Country X can produce apples and plums at lower cost than country Y.

Country X can also produce strawberries but it costs more to do so than in country Y.

In fact, country X produces only apples and trades them for plums and strawberries from country Y.

What economic analysis could explain this pattern of trade?

	plums	strawberries
A	absolute advantage country X	absolute advantage country X
B	absolute advantage country Y	comparative advantage country Y
C	comparative advantage country Y	absolute advantage country Y
D	comparative advantage country Y	comparative advantage country X

27 A government wants to use trade protection both to improve its trade performance and to raise government revenue.

Which policy will help it to achieve this?

A raising quotas on imported goods

B raising subsidies on exported goods

C raising tariffs on exported goods

D raising tariffs on imported goods

28 A newly-built public sector engineering training college received poor inspection reports. The government ceased to pay the college the money that it had usually received as its annual grant.

Which types of government policy does this statement imply?

A fiscal and monetary policies only

B fiscal and supply-side policies only

C fiscal, monetary and supply-side policies

D monetary and supply-side policies only

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

A a reduction in interest rates

B a revaluation of the currency

C an increase in direct taxes

D an introduction of foreign exchange controls

30 A government is faced with rising inflation. It wishes to reduce inflationary pressure while avoiding a rise in unemployment.

Which action is most likely to meet its needs?

A an increase in employment taxes

B an increase in laws to promote competition

C an increase in the budget surplus

D an increase in the exchange rate

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ECONOMICS **9708/13**

Paper 1 Multiple Choice **October/November 2016**

1 hour

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

3667418734

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.

IB16 11_9708_13/4RP
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1 Why is choice central to the economic problem?

A Different governments have different objectives.

B Firms have access to unlimited resources.

C Most resources have alternative uses.

D People's wants are limited.

2 Which change in economic system is likely to result in the greatest rise in unemployment combined with the greatest fall in economic regulation?

A market to mixed

B mixed to planned

C planned to market

D planned to mixed

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



What might cause the movement from X to Y?

A a more efficient use of resources

B an increased emphasis on international trade

C growth in the productive capacity of the economy

D new innovations and technology

4 During a period of deflation an economy's aggregate monetary demand falls.

Which function of money explains this fall?

A a measure of value

B a medium of exchange

C a standard for deferred payment

D a store of value

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5 What ensures that demand for a product is effective?

A The consumer must have the ability to buy the product.

B The consumer must purchase in the private sector of the economy.

C The consumer must receive consumer surplus.

D The consumer must want to buy the product.

6 What will happen to an industry's supply curve if firms leave the industry?

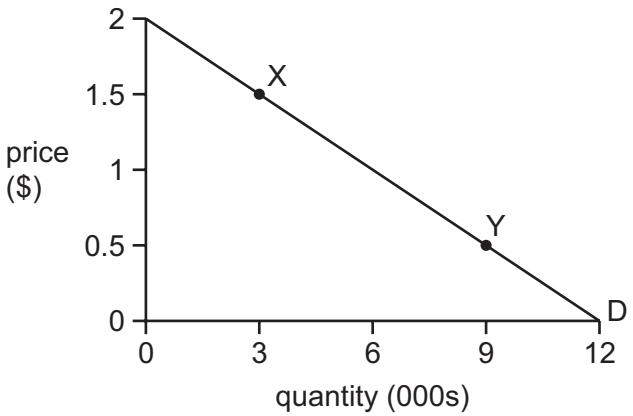
A It will shift to the left at any given price.

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.

7 The diagram shows a demand curve for pineapples.



What happens to the value of price elasticity of demand (PED) when there is a movement from point X to point Y and what describes the value at point Y?

	effect on value of PED	value of PED at Y
A	fall	elastic
B	fall	inelastic
C	rise	elastic
D	unchanged	unitary

8 A product is an inferior good with no close substitutes. It is also a complement to good X.

Which product matches the above description?

	price elasticity of demand	income elasticity of demand	cross-elasticity of demand with respect to the price of X
A	–2	+2	+1
B	–2	+2	–1
C	–0.5	–2	+1
D	–0.5	–2	–1

9 The table shows the quantities demanded (Q) of goods X and Y corresponding to different prices (P) of the two goods.

	P_X = \$8	P_X = \$10
P_Y = \$3	Q_X = 16 Q_Y = 20	Q_X = 12 Q_Y = 30
P_Y = \$4	Q_X = 20 Q_Y = 16	Q_X = 16 Q_Y = 24

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

A 0.75 to 1.5 **B** 1.50 to 2.4 **C** 1.66 to 2.0 **D** 1.75 to 2.5

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.

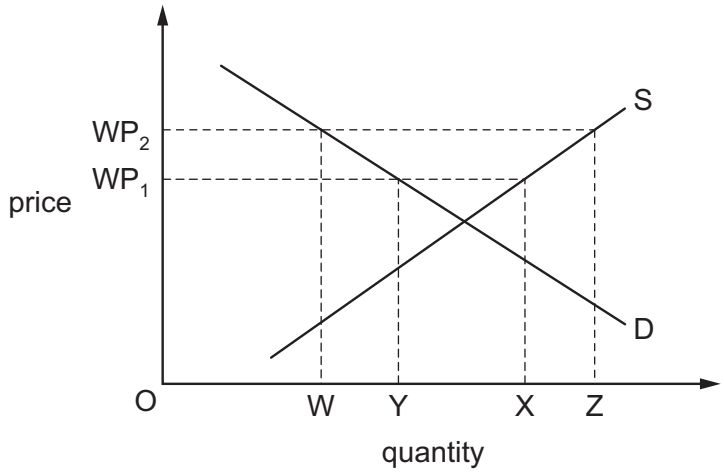
B No, as it suggests there are few substitutes for the product.

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

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

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11 The diagram shows a country's domestic supply of, and demand for, a commodity that it both consumes and exports.



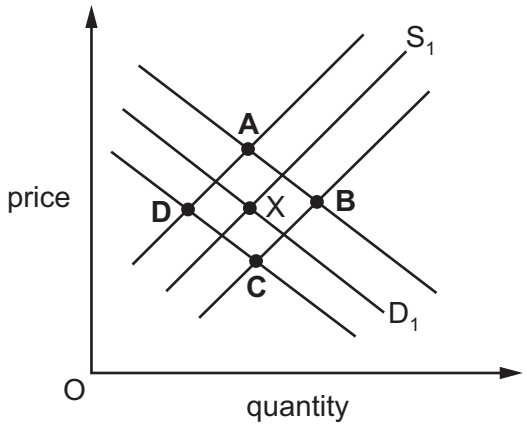
The world price changes from WP_1 to WP_2.

What are the resulting changes in domestic consumption and quantity of exports?

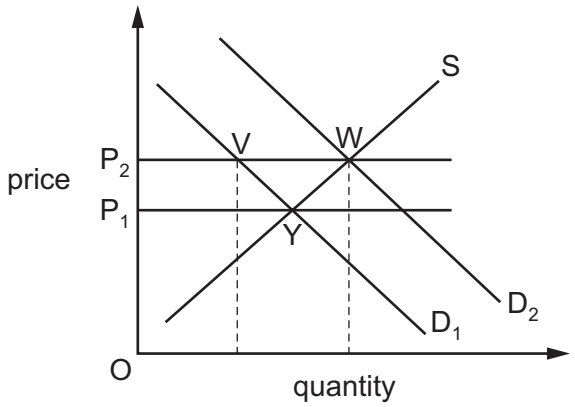
	domestic consumption	quantity of exports
A	OX to OZ	OY to OX
B	OX to OZ	OY to OZ
C	OY to OW	YX to OZ
D	OY to OW	YX to WZ

12 The diagram shows demand and supply for bread made from wheat and X is the original equilibrium point.

What will the new equilibrium position be following removal of subsidies to the wheat industry and successful advertising about the benefits of a wheat-free diet?



13 The diagram shows an increase in the demand for a good from D_1 to D_2.



What effect does the change in demand have on producer surplus?

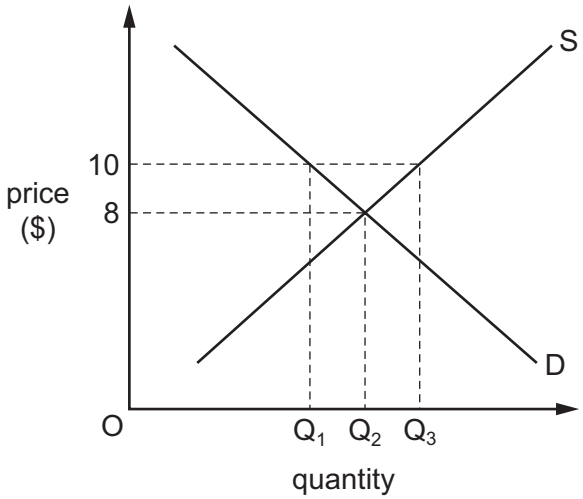
A decrease by P_1YWP_2

B decrease by P_2VYP_1

C increase by P_1YWP_2

D increase by P_2VYP_1

14 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.

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15 A government decides to reform the tax system with a view to achieving greater equity.

Which change will it make?

A a reduction in direct taxes

B a reduction in indirect taxes

C a reduction in profit taxes

D a reduction in property taxes

16 What will cause the payment of a subsidy to firms to result in the greatest increase in sales?

A a shift in the demand curve to the right

B a shift in the supply curve to the left

C an elastic price elasticity of demand for the product

D an inelastic price elasticity of supply for the product

17 Which goods will be provided only by the government?

A capital goods

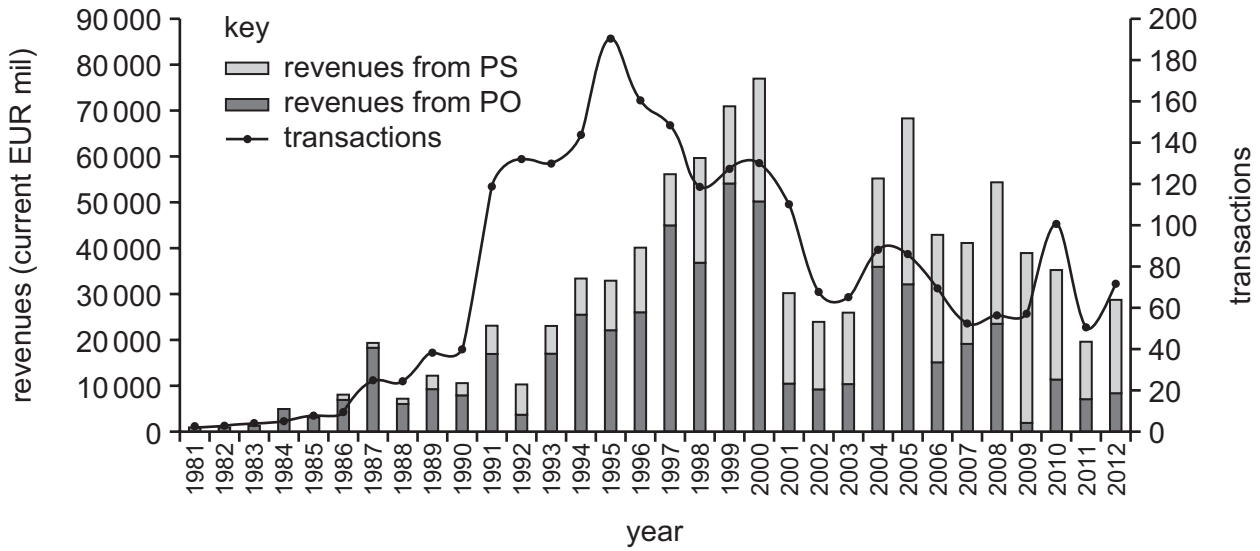
B inferior goods

C merit goods

D public goods

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18 Privatisation can be achieved by the sale of shares to the general public (public offers, PO) or by the direct sale to a private company (private sales, PS). The diagram shows privatisation transactions and revenue for the European Union between 1981 and 2012.



What can be concluded from the diagram?

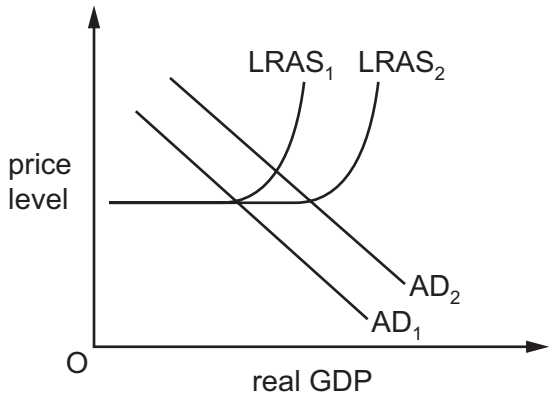
A Any increase in the number of privatisations resulted in an increase in privatisation revenue.

B The average revenue per privatisation was highest in 2000.

C The main method of privatisation changed from public offers to private sales.

D The number of privatisations and revenue raised peaked in the same year.

19 The diagram shows the original aggregate demand AD_1 and aggregate supply $LRAS_1$ for an economy.



What could explain the shifts in aggregate demand to AD_2 and aggregate supply to $LRAS_2$?

A an increase in government expenditure on health and education

B an increase in government expenditure on pensions

C an increase in income tax

D an increase in interest rates

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20 An increase in a country's consumer price index implies an increase in

A the cost of living.

B the rate of inflation.

C the standard of living.

D the value of money.

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

Country	2014	2015
X	100	120
Y	140	150
Z	90	99

Between 2014 and 2015, what is correct?

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

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

C Country Z has the lowest rate of inflation.

D Country Y has the lowest rate of inflation.

22 What might increase a surplus on the current account of New Zealand's balance of payments?

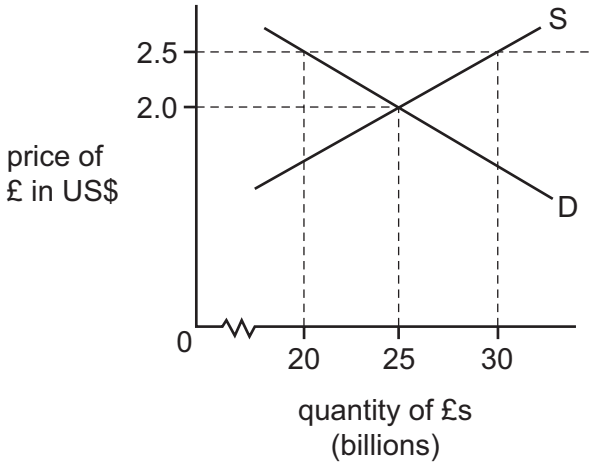
A increased earnings of Australians working in New Zealand

B increased earnings of New Zealanders working abroad

C increased spending by New Zealanders on holidays in Australia

D increased transport of New Zealand goods using Chinese ships

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



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

A buy £10 billion

B buy £20 billion

C sell £10 billion

D sell £20 billion

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

80% of Country X'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 Country X's currency against the Nigerian Naira rises by 10%. The value of 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

25 How is the terms of trade index calculated?

A $\frac{\text{export price index}}{\text{import price index}} \times 100$

B $\frac{\text{export price index}}{\text{quantity of exports traded}} \times 100$

C $\frac{\text{import price index}}{\text{export price index}} \times 100$

D $\frac{\text{quantity of imports traded}}{\text{quantity of exports traded}} \times 100$

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26 The table shows different possible outputs of apples and bananas for Country X and Country Y assuming only two goods are produced and all resources are used to their maximum.

	apples		bananas
Country X	100	or	80
Country Y	50	or	25

Country Y decides to specialise in the production of the good in which it has a comparative advantage.

Country X decides to use 75% of its resources to produce the good in which it has a comparative advantage and 25% of its resources to produce the other good.

What will be the total output?

	apples	bananas
A	50	80
B	75	45
C	75	60
D	150	120

27 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

28 Which action might be part of an expansionary economic policy?

A a lower budget deficit

B a lower level of government spending

C a lower money supply

D a lower rate of interest

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29 What is the most effective policy to correct a deficit on the current account of the balance of payments?

A appreciation of the currency

B increased foreign exchange controls

C reduced export subsidies

D reduced subsidies in the home market

30 Which combination of policies is most likely to reduce inflation when an economy is close to full employment?

A increasing government spending on food subsidies and reducing import duty

B increasing government spending on road building and increasing import duty

C reducing government spending on training and increasing indirect taxes

D reducing government spending on training and reducing the rate of interest

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