Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2018**

1 hour

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

5030201780

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Write in soft pencil.
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Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
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There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
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Any rough working should be done in this booklet.

This document consists of **14** printed pages and **2** blank pages.

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1 The demand for a product is inversely related to its price, ceteris paribus.

What does *ceteris paribus* mean in this context?

A Factors affecting demand other than price are held constant.

B Factors affecting price other than demand are held constant.

C Price changes result from changes in demand.

D Price falls result in increased quantity demanded.

2 What is **not** an example of the role of the factor enterprise in a modern economy?

A deciding on new export markets for the company's goods and services

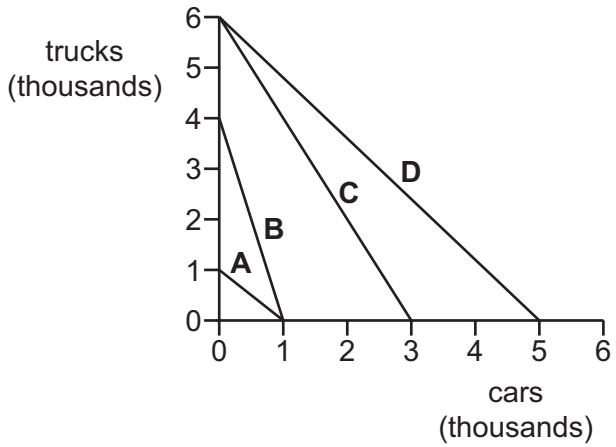
B making payments to suppliers for raw materials and capital goods

C reducing costs through the introduction of a new shift system for employees

D transforming the production process with the introduction of robots

3 The production possibility curves show the abilities of four economies to produce trucks and cars.

In which economy is the opportunity cost of producing cars lowest?



4 John sells cakes for $10. Aisha offers online tutoring for $20 per hour. One hour of Aisha's tutoring is worth two of John's cakes.

Which function of money is being illustrated?

A medium of exchange

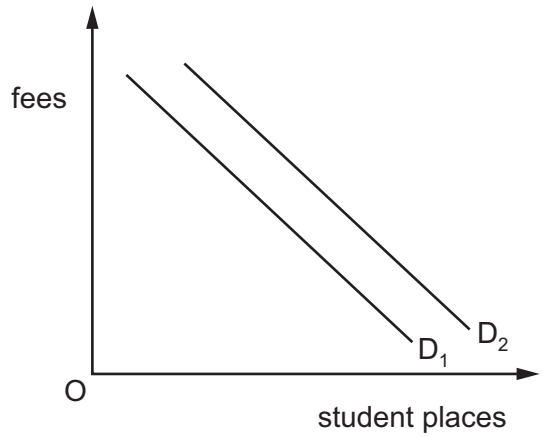
B standard of deferred payment

C store of value

D unit of account

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5 In the diagram, D_1 is the initial demand curve for student places at universities.



What could cause the demand curve to shift to D_2?

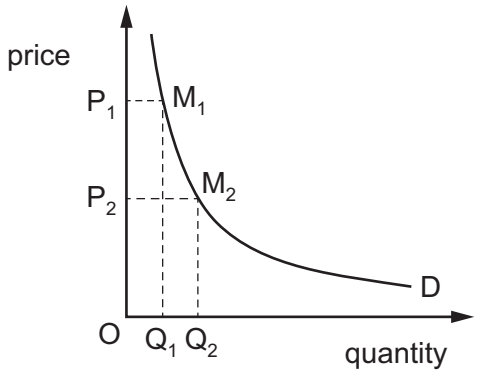
A a decrease in student fees for universities

B a decrease in the level of youth unemployment

C an increase in graduate earnings compared with non-graduate earnings

D higher A Level grades demanded for university entrance

6 In the diagram, area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$.



What is the value of the price elasticity of demand if the price is halved from P_1 to P_2?

A –1

B –0.5

C zero

D infinity

7 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 of demand (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

8 What is it necessary to know in order to calculate the price elasticity of supply of a product when its price changes?

A the amount of the price change; the quantity demanded at the original price; the quantity supplied at the new price

B the equilibrium market price; the quantity demanded at equilibrium; the quantity supplied at equilibrium

C the original and new market price; the quantity supplied at the original price; the quantity supplied at the new price

D the quantity demanded at the new price; the price change; the quantity supplied at the new price

9 The government fixes a minimum price for a product above the current equilibrium price.

Which value for the product's price elasticity of supply will result in the smallest excess supply in its market?

A between zero and one

B greater than one

C one

D zero

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10 The demand for a good falls at the same time as its costs of production decrease.

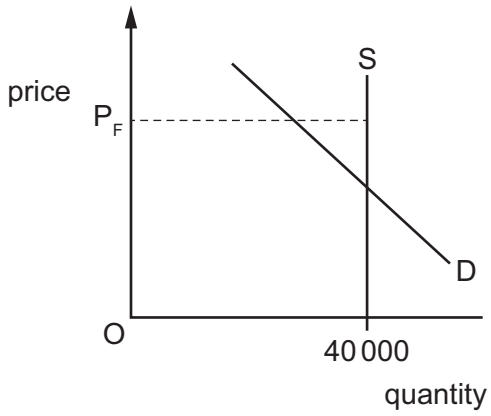
What will be the combined effect of these changes on the price and on the quantity supplied of the good?

	price	quantity supplied
A	decrease	decrease
B	decrease	uncertain
C	uncertain	decrease
D	uncertain	uncertain

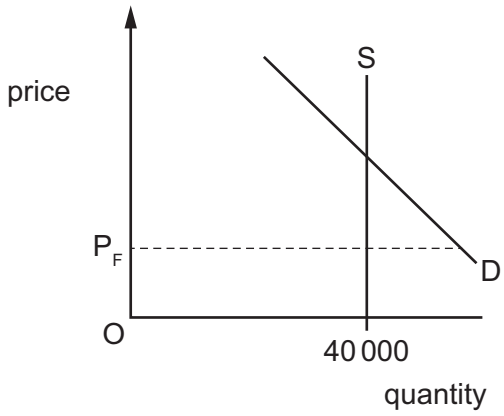
11 The final of a major sports event is held in a stadium which has a fixed capacity of 40 000 people. The price for a seat is set at P_F, but when the tickets go on sale all tickets are sold very quickly with many disappointed people unable to buy a ticket.

Which diagram best represents this?

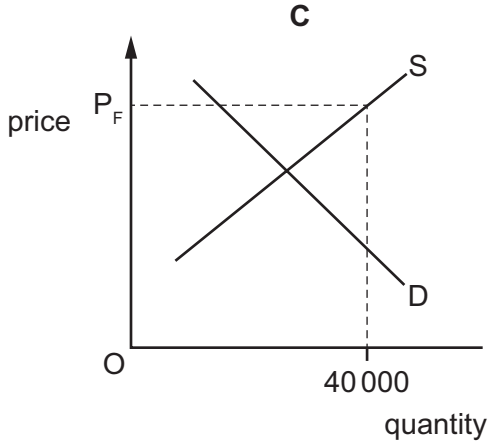
A



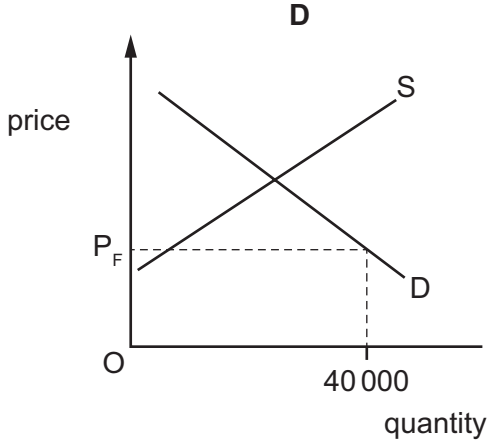
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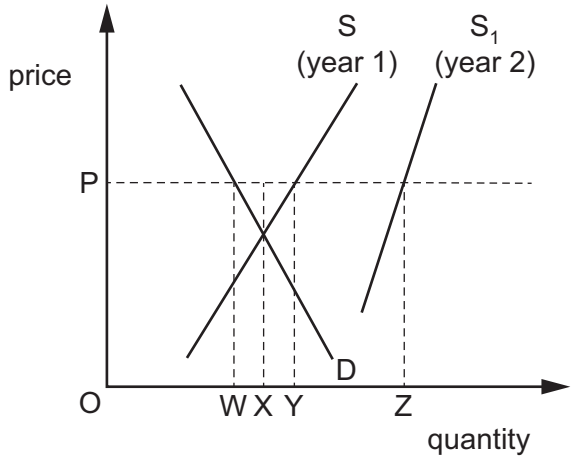


D



12 In the diagram S and S_1 are the supply curves for an agricultural product in years 1 and 2 respectively. D is the demand curve in years 1 and 2.

In year 1 the government purchased an amount necessary to ensure that the price was OP.



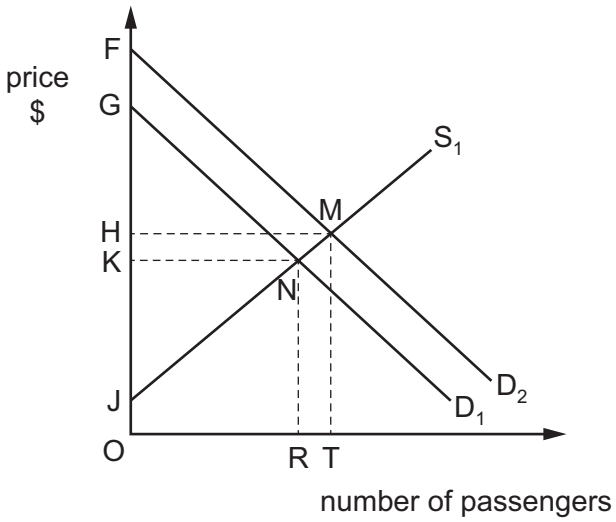
The price is held at OP in year 2.

How much more must the government buy in year 2 than it bought in year 1?

A WZ **B** XY **C** XZ **D** YZ

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13 The diagram shows the European airline market. The original demand curve is D_1 and the original supply curve is S_1. There is then an increase in the demand for air travel.



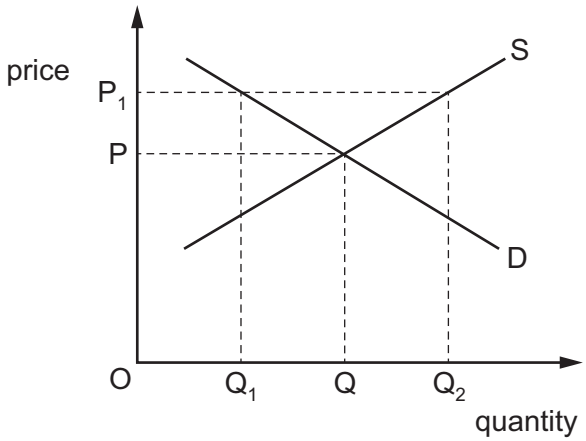
Which areas show the consumer surplus and producer surplus at the new equilibrium?

	consumer surplus	producer surplus
A	FMH	HMJ
B	FMH	JMTO
C	GNK	KNJ
D	GNK	KNRO

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[Turn over

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



The government fixes a maximum price of OP_1.

What would happen?

A Consumers would have to be rationed to quantity OQ_1.

B The government would have to introduce a subsidy of PP_1.

C The market equilibrium quantity OQ would be demanded and supplied.

D The supply of quantity OQ_2 would be guaranteed.

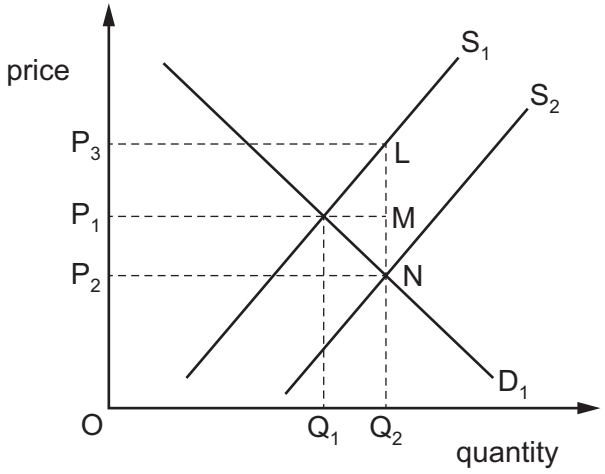
15 A government decreases the tax rate on goods and services and increases the tax rate on incomes.

What is the likely outcome on the distribution of income and the incentive to work?

	distribution of income	incentive to work
A	less equal	decreased
B	less equal	increased
C	more equal	decreased
D	more equal	increased

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16 The diagram shows the equilibrium price, P_1, and quantity bought and sold, Q_1, in a market before a subsidy is granted.



What represents the producer incidence (benefit) after the subsidy is granted and what is government expenditure on the subsidy?

	producer incidence (benefit)	government expenditure
A	P_1P_2NM	P_1P_2NM
B	P_1P_2NM	P_3P_2NL
C	P_1P_3LM	P_1P_3LM
D	P_1P_3LM	P_3P_2NL

17 When is a transfer payment most likely to be an individual's main source of income?

A when employed

B when investing

C when saving

D when unemployed

18 Which argument is used to justify a policy of nationalisation?

A A firm exposed to market forces is more likely to be efficient.

B It avoids the wasteful duplication of resources.

C The stock market can exert effective discipline on the industry.

D There are benefits from wider share ownership.

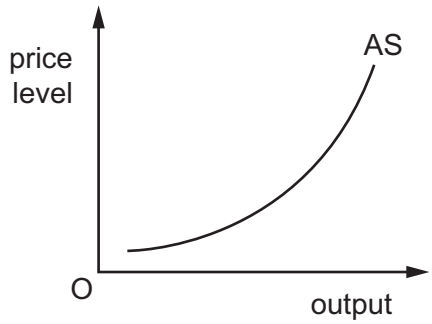
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19 The table illustrates macroeconomic data for an economy. All figures are in $ billions.

What is the equilibrium real output?

	consumption expenditure	investment	government expenditure	exports	imports	real output
A	110	100	50	10	20	100
B	120	100	60	20	30	200
C	140	100	70	30	40	300
D	160	100	80	40	50	430

20 The diagram shows an economy's aggregate supply curve.



What is likely to cause the curve to shift to the left?

A an increase in investment due to a reduction in interest rates

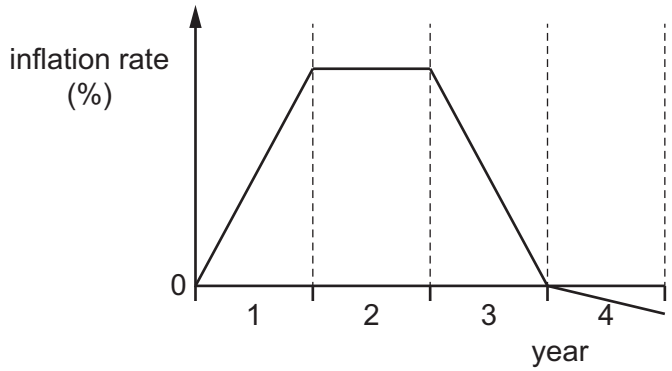
B an increase in the marginal rate of income tax

C improvements in technology

D schemes to increase the geographical mobility of labour

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21 The diagram shows the change in an economy's rate of inflation over 4 years.



What happened to the general price level over the 4 years?

	year 1	year 2	year 3	year 4
A	constant	constant	fell	constant
B	rose	constant	fell	fell
C	rose	rose	rose	constant
D	rose	rose	rose	fell

22 The table shows selected items of the balance of payments of a country in 2015.

	$ billions
net portfolio investment	+40
trade in goods	–100
trade in services	+50
interest, profit and dividends (primary income)	+10
current transfers (secondary income)	+10
transactions in financial assets	–10

What was the country's current account balance in 2015?

A –$40 billion **B** –$30 billion **C** –$20 billion **D** –$10 billion

23 What is likely to explain an increase in the deficit on a country's current account of the balance of payments?

A an increase in government foreign aid to countries abroad

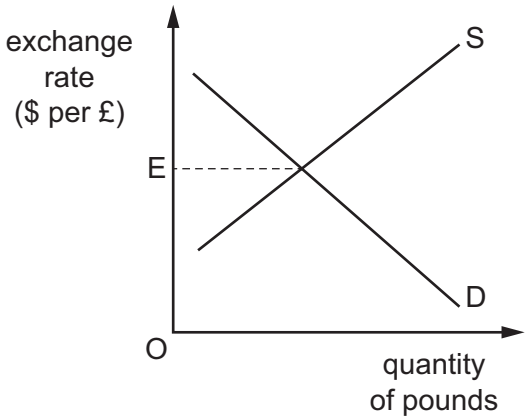
B an increase in government tax rates

C an increase in other countries' exchange rates

D an increase in the proportion of income saved by the country's residents

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24 The diagram shows the determination of the floating exchange rate between the US$ and the UK£. D is the demand curve for pounds and S is the supply curve for pounds. The initial equilibrium exchange rate is E.



Which change might cause an increase in the UK exchange rate?

A a switch by US consumers from chocolate produced in the UK to chocolate produced in the US

B a switch in the destination of UK tourists from Africa to the US

C a wheat crop failure in the UK leading to increased wheat imports from the US

D increased investment by US residents in financial and real assets in the UK

25 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1000	1600
country Q	1500	2000

Which statement is correct?

A P has an absolute advantage in Z and Q has a comparative advantage in Y.

B P has an absolute advantage in Z and Q has an absolute advantage in Y.

C P has a comparative advantage in Y and Q has an absolute advantage in Z.

D P has a comparative advantage in Z and Q has an absolute advantage in Y.

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26 Which action increases and which action decreases the level of protectionism?

	increases protectionism	decreases protectionism
A	imposing an embargo	reducing subsidies to domestic producers
B	imposing exchange controls	lowering quota levels
C	introducing voluntary export agreements	increasing subsidies to domestic producers
D	removing quotas	introducing embargos

27 Country M imposes a tariff on imports of steel.

Which price elasticity values will result in the smallest reduction in steel imports into M?

	price elasticity of supply of domestic steel producers in country M	price elasticity of demand for steel in country M
A	0.2	0.4
B	1.0	0.8
C	1.5	1.0
D	2.0	1.2

28 In 2012, the Indian Government stated that it aimed to reduce its budget deficit to 5.1% of GDP.

Which policy is most likely to help this aim?

A a decrease in import tariffs

B a decrease in the rate of interest

C an increase in the sale of state-owned assets

D an increase in government pension payments

29 Which policy is most likely to help to correct an adverse balance on the current account of the balance of payments?

A abolishing tariffs

B devaluing the currency

C reducing direct taxes

D reducing indirect taxes

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30 A government reduced the tax on company profits from 28% to 20%.

Which statement best describes this policy?

A It is both a contractionary fiscal policy and a supply-side policy.

B It is both an expansionary fiscal policy and a supply-side policy.

C It is both an expansionary fiscal policy and an expansionary monetary policy.

D It is both an expansionary monetary policy and a supply-side policy.

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1 Which statement by a company is normative?

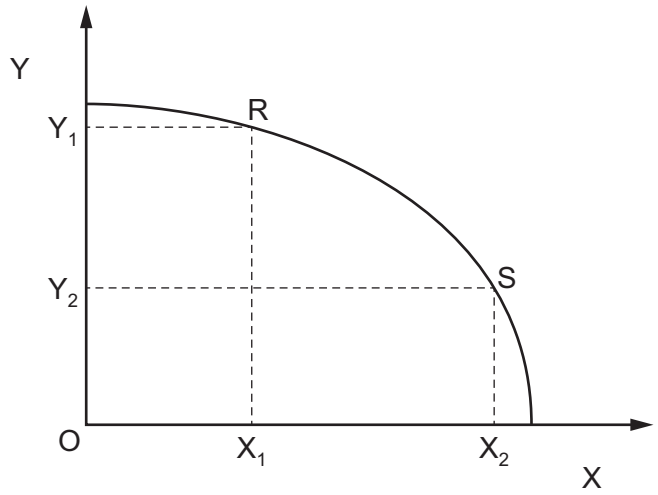
A In the past three years we have carried out the biggest merger acquisition in the group's history.

B The business has fallen behind competitors and needs to improve its ethical standards.

C The growth of the business has been in retail and financial services.

D The structure of the business has been simplified.

2 The diagram shows an economy's production possibility curve for goods X and Y.



What is the opportunity cost of moving from point R to point S on the production possibility curve?

A OX_1 **B** OY_2 **C** X_1X_2 **D** Y_1Y_2

3 From 1995 to 2000 each of the countries listed below moved towards a market economy through privatisation programmes.

Which country made the slowest rate of transition?

	private sector share of GDP (ratio of private enterprise earnings to GDP)		
		1995	2000
A	Czechia	70	80
B	Hungary	60	70
C	Romania	45	60
D	Slovakia	60	80

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4 A businesswoman sets up a charity to provide toys for young children of low income families.

Which term most accurately describes these toys?

A free goods

B merit goods

C private goods

D public goods

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

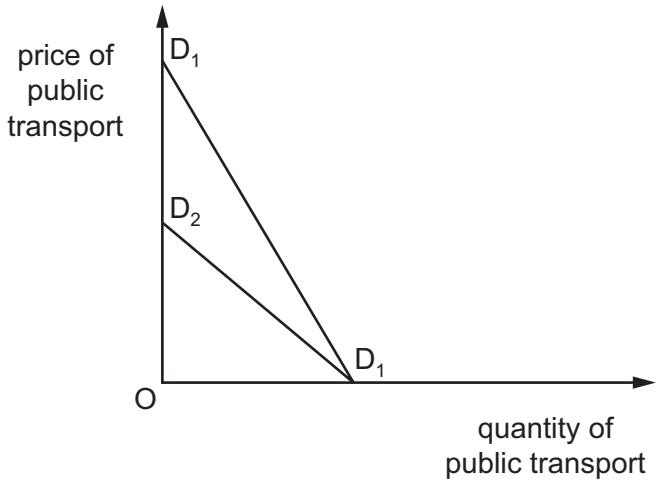
A It will shift to the left at any given price.

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.

6 D_1D_1 shows an individual's initial demand curve for public transport.



What would cause the demand curve to shift to D_2D_1?

A The cost of running the individual's car rises.

B The individual is banned from driving.

C The price of public transport rises.

D The quality of public transport declines.

7 Two goods X and Y have a positive cross-elasticity of demand and upward-sloping supply curves.

What will be the effect of a reduction in the price of good Y?

A The demand for good X will increase.

B The demand for good Y will decrease.

C The price of good X will decrease.

D The quantity of good X supplied will increase.

8 Which statement best describes the meaning of price elasticity of supply?

A how much price changes when there has been a change in supply

B how much supply changes when there is a change in demand

C how much supply changes when there is a change in price

D how much supply changes when there is a change in the price of a substitute

9 The table shows changes in a consumer's expenditure on various goods when her income increases from $20 000 to $24 000.

good	income $20 000: amount spent on good ($)	income $24 000: amount spent on good ($)
W	100	96
X	100	100
Y	200	224
Z	200	248

Assuming all else remains unchanged, for which goods is the consumer's income elasticity of demand greater than 1.0?

A W, Y and Z

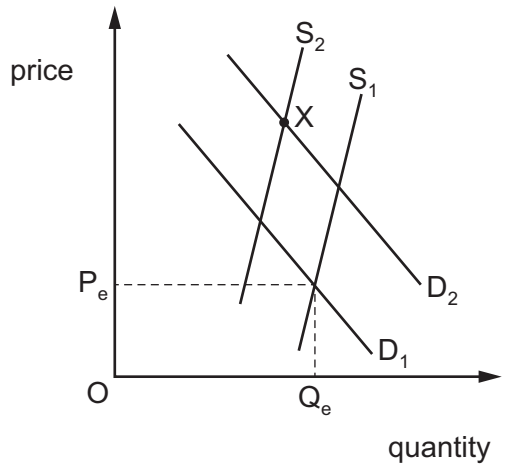
B W and Z only

C W only

D Z only

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10 The diagram shows the market for cocoa, which is a normal good. Initially the market is in equilibrium with price P_e and quantity Q_e bought and sold.



Which sequence of events (event 1 followed by event 2) must have occurred in order to move to the new equilibrium at point X?

	event 1	event 2
A	a decline in popularity of cocoa	the removal of a subsidy previously paid to cocoa producers
B	a decrease in disposable income	a decrease in costs of producing cocoa
C	an increase in disposable income	an increase in the number of cocoa producers
D	a successful advertising campaign by cocoa producers	an increase in the taxation of cocoa

11 Goods X and Y are complements and have upward-sloping supply curves.

What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

	quantity of X	price of X
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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12 What is generally considered to be one of the advantages of using the price mechanism as a rationing device?

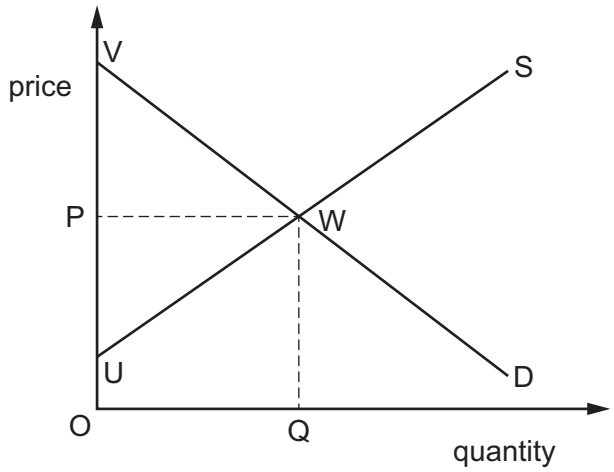
A It ensures that goods are allocated in accordance with the wants of consumers.

B It ensures that suppliers cannot make excessive profits.

C No one can be prevented from consuming a good if they are willing and able to pay the market price.

D The allocation of goods is determined by consumers' wealth.

13 The diagram shows a competitive market in equilibrium with price P and quantity Q sold.



Which area represents the producer surplus?

A OPWQ minus OUWQ

B OPWQ minus UPW

C OVWQ minus OPWQ

D OVWQ minus PVW

14 The government fixes a maximum price for wheat flour below the market equilibrium price.

After the maximum price is imposed, which statement is **not** correct?

A Producers' revenue is increased.

B Some consumers may encourage illegal sales.

C The quantity supplied of flour will decrease.

D There will be an excess demand for flour.

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15 The income tax structure of a country has two elements.

1 The first $20 000 of earned income is not taxed.

2 Any income earned above $20 000 is taxed at 20%.

What would be a correct description of this tax structure?

A a progressive tax on incomes of more than $20 000

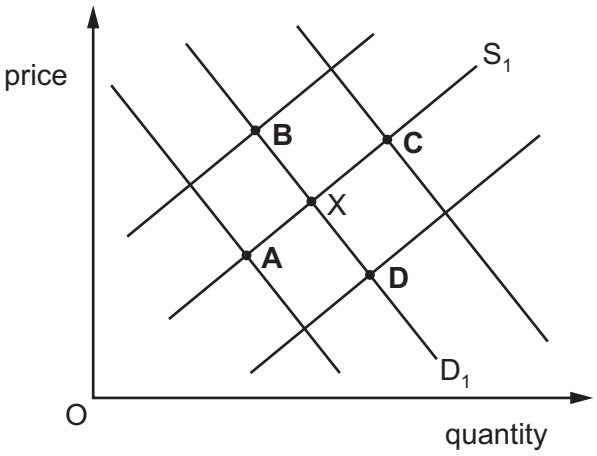
B a progressive tax throughout the whole income range

C a proportional tax on incomes of more than $20 000

D a regressive tax throughout the whole income range

16 In 2014 Egypt reduced subsidies on fossil fuels such as gasoline and diesel. The diagram shows the initial equilibrium at point X.

What will be the new equilibrium after the reduction of subsidies?



17 What is an aim of a transfer payment?

A It allows the government to alter the final distribution of income.

B It provides a ceiling for levels of income across the economy.

C It removes the need for state subsidies.

D It rewards the activity of a factor of production.

18 There have been recent calls for the UK government to nationalise its railways.

What would **not** be a reason for nationalising the railways?

A Private rail companies often charge high ticket prices.

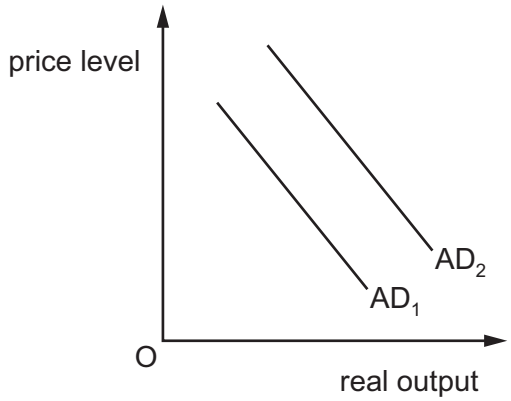
B Private rail companies may exploit monopoly power.

C Railways are an essential part of national infrastructure.

D Railways should be treated as a public good.

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19 The diagram shows a shift in the aggregate demand curve, from AD_1 to AD_2.



What might have caused this shift?

A a fall in the budget surplus

B a fall in the trade surplus

C a rise in imports

D a rise in the interest rate

20 The table shows the consumer price index (CPI) and national output at current prices in 2014 and 2015 for an economy.

year	CPI	national output at current prices
2014	100	100
2015	120	110

What can be concluded when 2015 is compared with 2014?

A Money national output decreased by 10%.

B Money national output increased by 20%.

C Real national output fell.

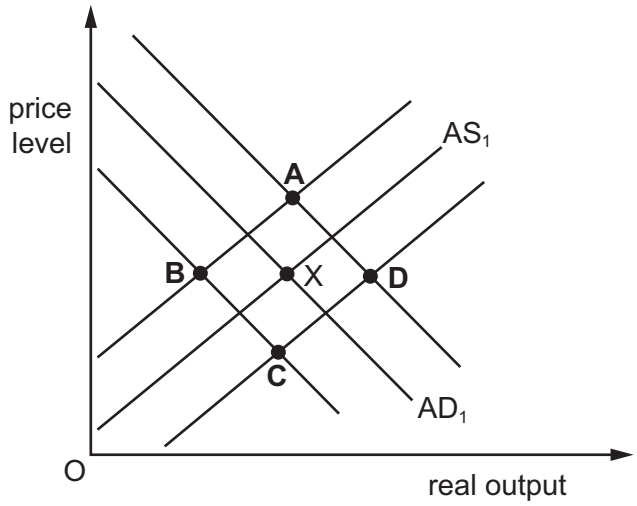
D Real national output increased.

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21 Between June and the end of July 2016 the UK pound sterling depreciated by 11% against a basket of currencies of the UK's major trading partners.

The diagram shows the original aggregate demand curve AD_1 and the original aggregate supply curve AS_1 for the UK economy before June 2016. The equilibrium is at X.

What will be the new equilibrium for the UK economy as a result of the depreciation of the pound sterling?



22 Which item is **not** included in the current account of a country's balance of payments?

A exports of services

B interest on foreign loans

C profits from foreign investments

D the purchase of foreign assets

23 A government wishes to raise the value of the external exchange rate of its currency.

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

24 Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade-weighted exchange rate index of country X is 100.

What will be its new trade-weighted exchange rate index value if its currency falls in value by 20% against the currency of country Y and rises by 10% against the currency of country Z?

A 84 **B** 90 **C** 92 **D** 116

25 The index for a country's terms of trade changed from 100 in year 2015, to 104 in year 2016.

What could have caused this change?

A a fall in export prices with import prices unchanged

B a fall in revenue from the export of services

C an appreciation of the country's currency

D a rise in the value of imports

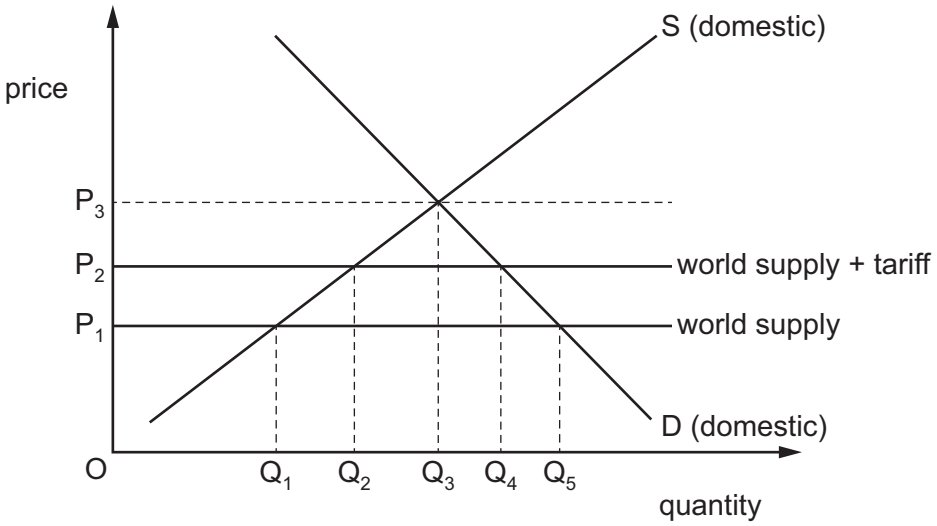
26 The table shows the production possibilities of cloth and food in four countries using all of their resources.

country	cloth (million units)		food (million units)
V	40	or	8
X	28	or	4
Y	8	or	2
Z	5	or	5

If the world exchange rate is 1 unit of food for 6 units of cloth, with whom is V likely to trade?

A X and Y **B** X only **C** Y and Z **D** Z only

27 The diagram shows the domestic and world demand and supply for a good.



The government imposes a tariff on imports of the good.

What will happen to the quantity imported?

A It will fall from Q_1Q_3 to Q_2Q_3.

B It will fall from Q_1Q_5 to Q_2Q_4.

C It will fall from Q_2Q_5 to Q_3Q_4.

D It will fall from OQ_5 to OQ_4.

28 What is an example of a supply-side policy?

A an import quota to restrict the supply of goods

B a rise in interest rates to encourage the supply of savings

C a specific tax on the supply of goods to raise revenue

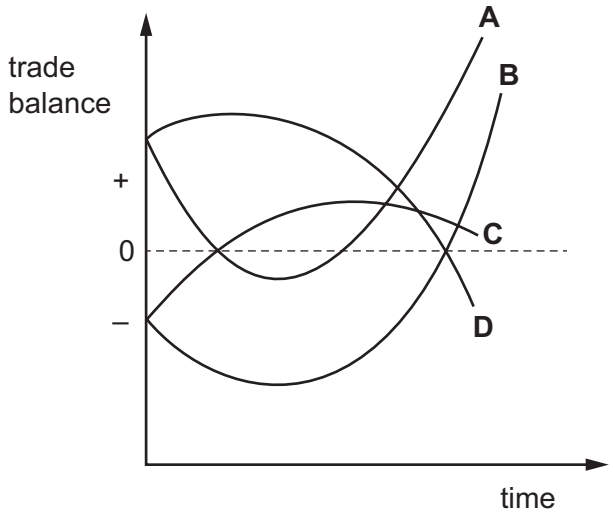
D a subsidy to businesses to promote the supply of training courses

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29 In a country the Marshall-Lerner condition for an improvement in the trade balance is satisfied in the long run, but quantities of imports and exports are slow to respond to price changes.

The government devalues its currency to reduce its trade deficit.

Which curve indicates the probable behaviour of the trade balance?



30 Which policy mix is most likely to be effective in the short run for reducing inflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget surplus	increasing the interest rate
B	decreasing the budget surplus	increasing the money supply
C	increasing the budget surplus	increasing the interest rate
D	increasing the budget surplus	increasing the money supply

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ECONOMICS **9708/13**

Paper 1 Multiple Choice **October/November 2018**

1 hour

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

* 0 4 4 2 8 2 9 5 2 0 *

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 **13** printed pages and **3** blank pages.

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CAMBRIDGE International Examinations

1 The statements are from a report by a water company that supplies water to homes and businesses.

Which statement is normative?

A It is important that we continue to invest in our infrastructure.

B Our investment will have wider benefits, attracting visitors to the region.

C We are investing more than ever in the region.

D We use local suppliers on construction projects which boosts the local economy.

2 The combinations of output of goods X and Y shown in the table could all be produced using the existing resources in a country to their maximum capacity.

	1	2	3	4	5
X	220	200	180	140	90
Y	10	25	40	70	100

Which statement about the opportunity cost of good Y in terms of good X is correct?

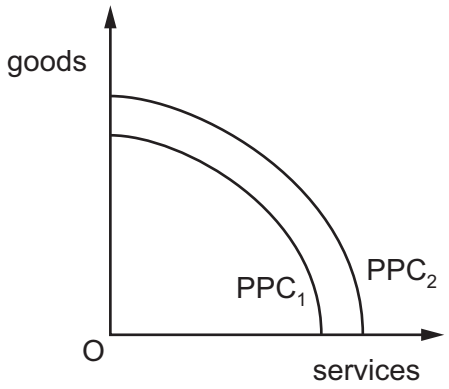
A It decreases as the output of Y increases.

B It is always below 1Y = 1X.

C It is constant throughout the range of output shown.

D It is never above 1Y = 2X.

3 The diagram shows two production possibility curves for goods and services in an economy.



What would **not** cause the economy's production possibility curve to shift from PPC_1 to PPC_2?

A an increase in the level of employment

B an increase in the retirement age

C an increase in the skills level of employees

D an increase in the use of capital by firms

4 What is a statement of the non-rivalrous nature of public goods?

A It is not possible to stop a non-payer from using the product.

B One person consuming the product does not reduce the amount of it available to others.

C People consume too little of the product because they are unaware of its true benefits.

D There is an unlimited supply of the product.

5 What is **not** held constant when aggregating individual firms' supply curves to give the short-run market supply curve?

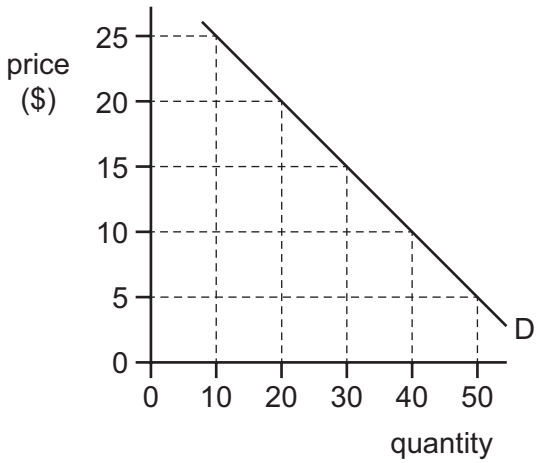
A the number of firms in the industry

B the price of the product

C the prices of factors of production

D the state of technology

6 The diagram shows the demand for a product for which there are only three buyers, Freeman, Hardy and Willis.



The table shows the demand from two of the three buyers.

price ($)	Freeman's demand	Hardy's demand
10	24	6
15	15	5
20	6	4

Which statement about the demand for the product from Willis is correct?

A It has unitary price elasticity of demand.

B It is a downward-sloping straight-line demand curve.

C It is a perfectly elastic demand curve.

D It is a perfectly inelastic demand curve.

7 Which statement about price elasticity of supply is correct?

A It cannot change in the short run.

B It increases as the time period lengthens.

C It is infinite in the momentary time period.

D It is zero in the long run.

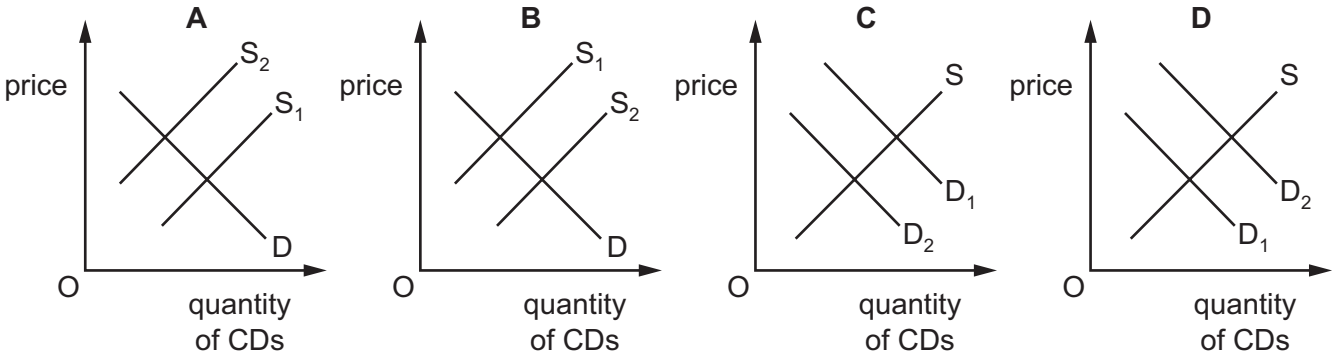
8 At a price of $4 a manufacturer supplies 20 units of a good per week. The value of the price elasticity of supply is 2 over the range of price.

How many goods will be supplied at $5?

A 10 **B** 25 **C** 30 **D** 40

9 Consumers wishing to listen to music at home can now access it online. This has resulted in the closure of shops selling music CDs.

How can this be represented on a demand and supply diagram for music CDs?



10 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 cut in taxes paid by the oil company to the Namibian government	the conservation of a natural resource
B	a reduction in potential costs of pollution	the loss of cheaper oil
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

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11 The table shows a competitive market in equilibrium in two periods.

period	market price (cents)	quantity traded
1	50	10 000
2	60	12 000

What could explain the change from period 1 to period 2?

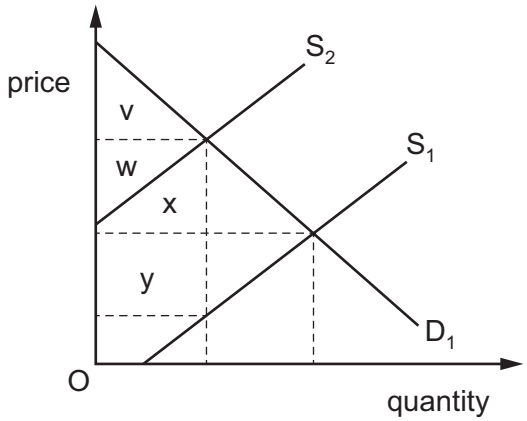
A an increase in the price of a complement

B an increase in the price of a substitute

C the imposition of a minimum price of 60 cents by a government

D the imposition of an indirect tax on suppliers

12 In the diagram D_1 is the demand curve for Indian tea and S_1 is the initial supply curve.

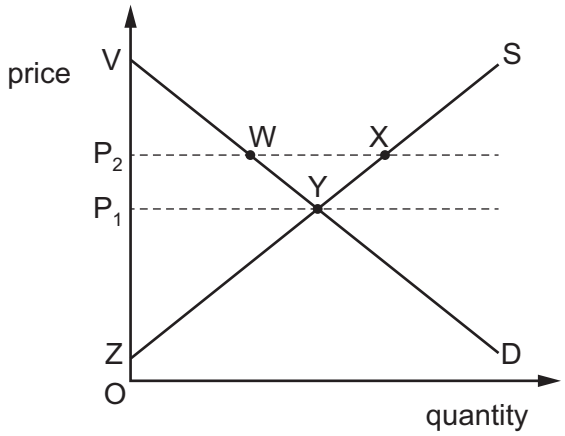


The Indian government imposes a tax on tea, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting tax revenue to the Indian government and the new producer surplus?

	tax revenue	new producer surplus
A	w + x	v
B	w + x	w
C	w + x + y	v
D	w + x + y	w

13 The diagram shows the supply and demand curve for bananas.



What happens to consumer surplus when the price increases from P_1 to P_2?

A It decreases by P_2VW.

B It decreases from P_1VY to P_2VW.

C It increases by WXY.

D It increases from P_1YZ to P_2WYZ.

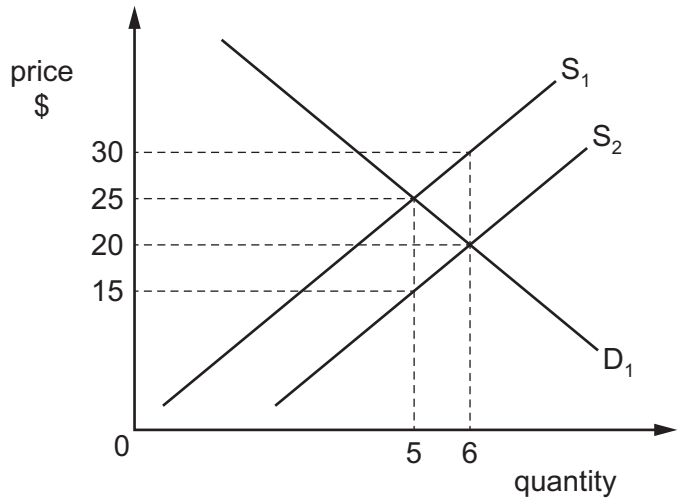
14 A ……1…… price set below the market equilibrium will cause a ……2…… of the product, and a ……3…… price set above the market equilibrium will cause a ……4…… of the product.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	maximum	shortage	minimum	surplus
B	maximum	surplus	minimum	shortage
C	minimum	shortage	maximum	surplus
D	minimum	surplus	maximum	shortage

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15 The diagram shows the original demand curve D_1 and original supply curve S_1 for a good.



The government introduces a subsidy.

What will be the total consumer spending after the introduction of the subsidy?

A $75 **B** $120 **C** $125 **D** $180

16 Which is a transfer payment?

A dividends paid to private shareholders

B income paid to civil servants

C pensions paid to retired people

D rent paid to landlords

17 A flood-control dam is an example of a good provided directly by a government.

Which statement relating to the direct provision of a flood-control dam is **not** correct?

A Direct provision of a flood-control dam allows the government to tackle the failure to provide public goods.

B Direct provision of a flood-control dam forces the government to incur an opportunity cost.

C Direct provision of a flood-control dam involves the supply of a merit good.

D Direct provision of a flood-control dam is an example of government allocation of resources.

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18 There has been a worldwide move towards market economies and away from state controlled nationalised industries.

Which policy would limit this transition?

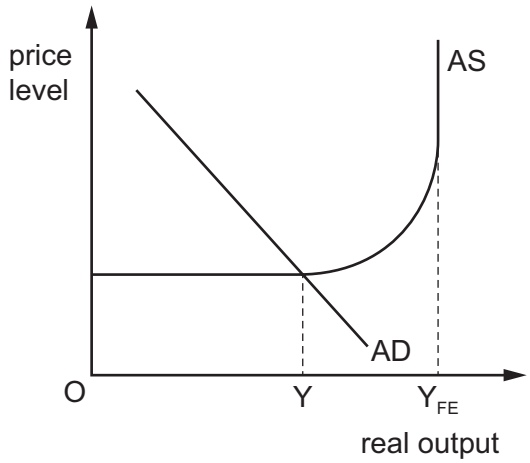
A development of well-functioning capital markets

B establishment of a stable, convertible currency

C national and international liberalisation of markets and trade

D regulation of prices of former nationalised industries' products

19 An economy has an equilibrium level of real output Y, but wishes to move towards its full employment level of real output Y_{FE}.



Which combination of policy measures is most likely to achieve this wish without high inflation?

A decreasing interest rates and raising investment in new technology

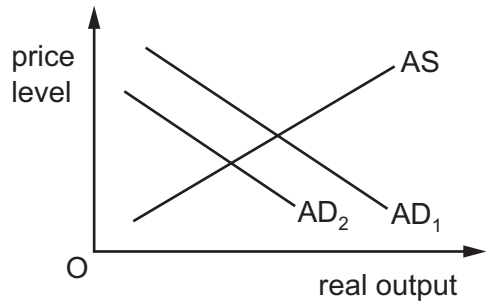
B decreasing the money supply and raising corporation tax rates

C increasing interest rates and raising income tax thresholds

D increasing the money supply and raising welfare benefit payments

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20 In the diagram, AD_1 and AS are an economy's original aggregate demand and aggregate supply curves.



What will cause the aggregate demand curve to shift to AD_2?

A an appreciation of the currency

B an increase in the money supply

C an increase in the price level

D an increase in the real wage

21 A country experiences a fall in the consumer price index.

What must be associated with such a fall?

A a decrease in average wage rates

B a decrease in borrowing

C a decrease in consumers' expenditure

D a decrease in the cost of living

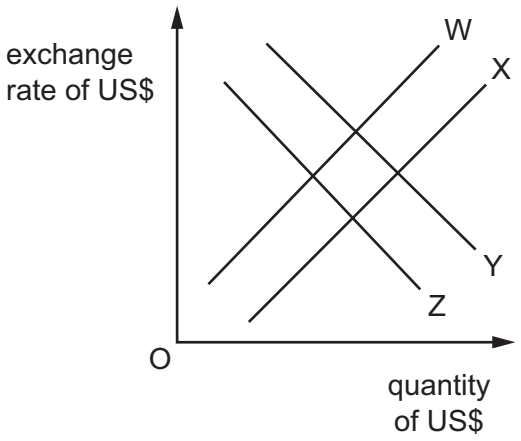
22 The balance of payments accounts are arranged in the following way.

Which total is the current account balance?

balance of trade in goods	
+ balance of trade in services	= total **A**
+ net income (primary income)	= total **B**
+ net transfers (secondary income)	= total **C**
+ capital balance	= total **D**
financial balance	
errors and omissions	

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23 The US central bank lowers its interest rate. 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.



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 fall 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

24 The table refers to a particular country.

year	index of import prices (2010 = 100)	index of export prices (2010 = 100)
2005	48.1	57.0
2015	122.4	120.8

Which statement about the period 2005 to 2015 is correct?

A The balance of payments worsened.

B The current account balance improved.

C The exchange rate appreciated.

D The terms of trade fell.

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25 Two countries, Northland and Southland, produce two goods, food and drink. The table shows how many hours each has to use to produce one unit of each product. After specialising according to comparative advantage, they decide to trade.

	food	drink
Northland	10 hours	4 hours
Southland	20 hours	12 hours

Which exchange rate will allow both countries to benefit from trade?

A 1 unit of food to $\frac{1}{2}$ unit of drink

B 1 unit of food to 1 unit of drink

C 1 unit of food to 2 units of drink

D 1 unit of food to 3 units of drink

26 What is a characteristic of a customs union but **not** of a free trade area?

A a common external tariff

B a common tariff between member countries

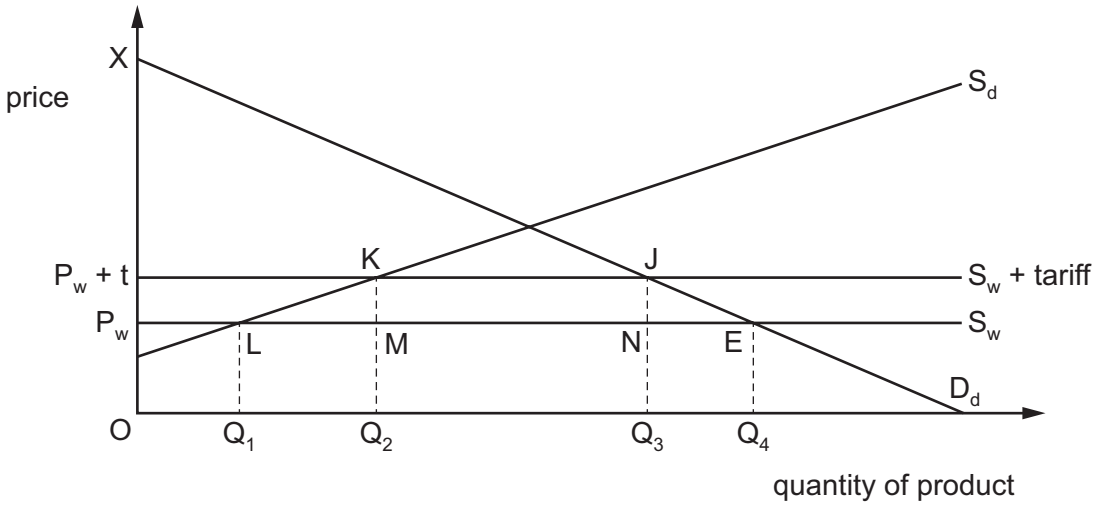
C fixed exchange rates between member countries

D the abolition of all tariffs between member countries

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27 In the diagram, D_d and S_d represent the domestic demand and supply curves for a product. S_w represents world supply of the product when there is free trade, at a world price of P_w. The initial domestic market equilibrium level of consumption of the product is at E.

If a tariff of t were to be imposed, world supply would now be represented by S_w + tariff, at a price of P_w + t.



What would be the level of domestic production and the total of government revenue from tariffs after the tariff of t were imposed?

	level of domestic production	total level of revenue from tariffs
A	OQ_2	JKMN
B	OQ_2	OQ_2MP_w
C	Q_1Q_2	EJKL
D	Q_2Q_3	KLM + JNE

28 Which government policy is most likely to focus on an increase in the quantity of skilled labour?

A exchange rate policy

B fiscal policy

C monetary policy

D supply-side policy

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29 A country has a long-running current account deficit on the balance of payments.

Its government was using an expenditure-switching policy but decides to change to an expenditure-reducing policy.

What could have been the old policy and its new policy?

	old policy	new policy
A	export subsidies	quotas
B	income tax	interest rate
C	quotas	exchange rate control
D	tariffs	income tax

30 The government increases interest rates in order to reduce the rate of inflation.

What will also result from this action?

A a depreciation of the country's currency

B a fall in the level of savings

C a reduction in economic growth

D a reduction in unemployment

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