

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

ECONOMICS
PAPER 1 Multiple Choice (Core)

9708/1

MAY/JUNE SESSION 2002

1 hour

Additional materials:
Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **thirty** questions in 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 very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

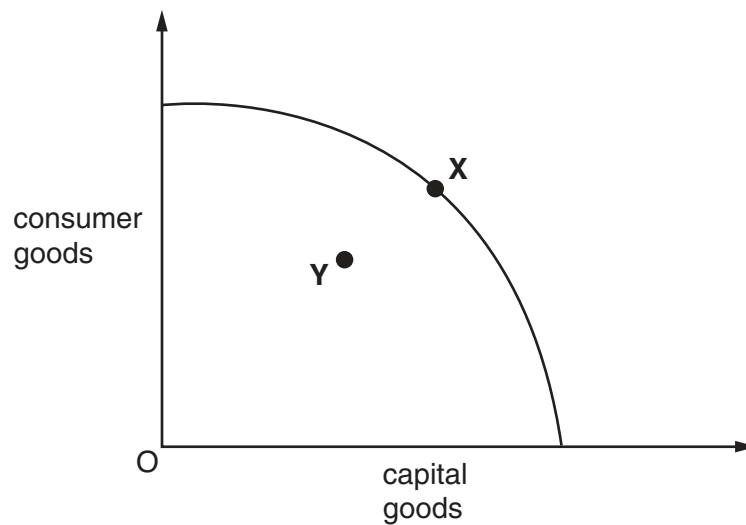
Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This question paper consists of 12 printed pages.



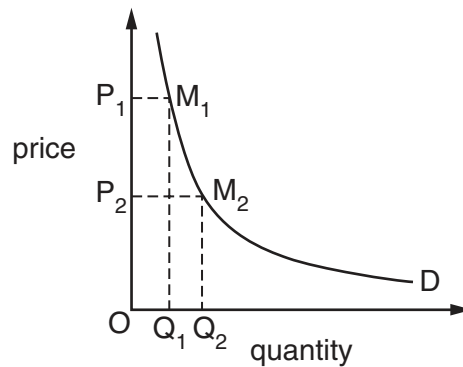
- 1 The diagram shows an economy's production possibility curve.



What will cause a movement from point **X** on the production possibility curve to point **Y** within the curve?

- A an increase in unemployment
 - B a fall in the size of the labour force
 - C a reduction in the availability of land for industrial production
 - D an improvement in technology in consumer good production
- 2 What is the opportunity cost to society of employing workers who would otherwise have no alternative employment?
- A the wages they are paid
 - B the social security payments they would otherwise receive
 - C the value of the goods and services they produce
 - D zero
- 3 Which of the following is a normative statement?
- A Inflation can be reduced only by increasing the level of unemployment.
 - B An increase in the rate of inflation will lead inevitably to an increase in unemployment.
 - C Unemployment is more harmful than inflation.
 - D If unemployment is reduced below a certain level, this will lead to higher inflation.

- 4 In principle, which of the following is an advantage of a planned economy?
- A Decisions are taken on the basis of social costs and social benefits.
 - B The government always balances the budget.
 - C The pattern of production reflects the preferences of consumers.
 - D There is perfect substitutability between capital and labour.
- 5 Which characteristic of money is essential, if it is to be used as a medium of exchange?
- A It must be durable.
 - B It must be legal tender.
 - C It must be limited in supply.
 - D It must have intrinsic value.
- 6 In the diagram area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$.



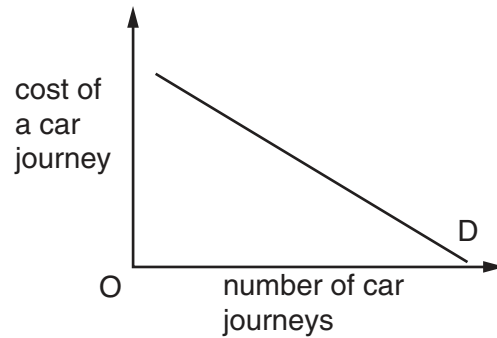
What is the value of the price elasticity of demand if the price is halved from P_1 to P_2 ?

- A zero
 - B 0.5
 - C 1
 - D infinity
- 7 It was estimated in 1998 that milk has an income elasticity of demand of -0.6 .

What can be concluded about milk from this information?

- A It accounts for only a small proportion of household expenditure.
- B It has very few substitutes.
- C Household expenditure on milk will increase if the price of milk increases.
- D It is an inferior good.

- 8 The demand curve in the diagram shows the relationship between the number of car journeys and the cost of a car journey.



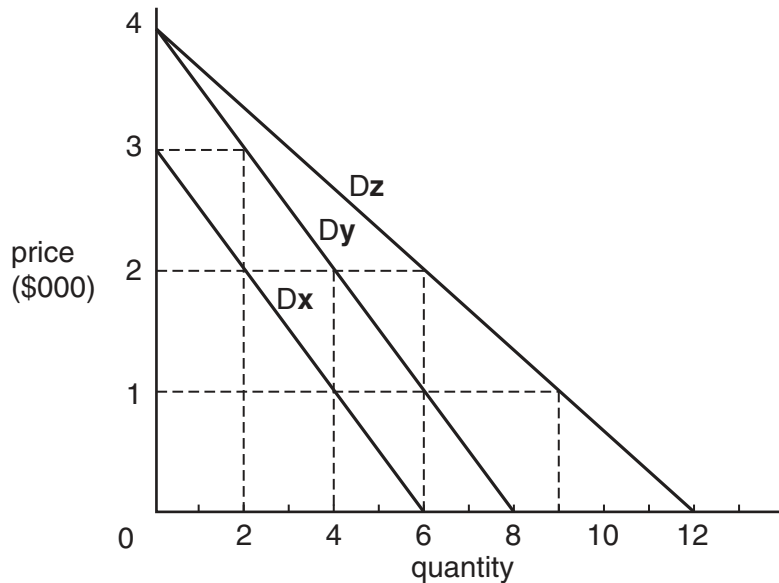
Which of the following would cause the demand curve to shift to the left?

- A a reduction in car tax
 - B a reduction in petrol prices
 - C a reduction in public transport prices
 - D the introduction of tolls on motorways
- 9 A fall in the price of cameras causes the demand for film to rise by 20%. The cross-elasticity of demand between cameras and films is -2 .

Which change in camera prices has brought this about?

	from	to
A	\$60	\$50
B	\$55	\$45
C	\$50	\$45
D	\$50	\$40

- 10 An eighteenth century Swiss clockmaker made a total of 12 identical carriage clocks. There are currently just three collectors of these clocks, X, Y and Z. The diagram shows their respective demand schedules.



X, Y and Z initially possess 4 clocks each. They come together to trade between themselves.

At the market clearing price (or equilibrium price), which of the following is correct?

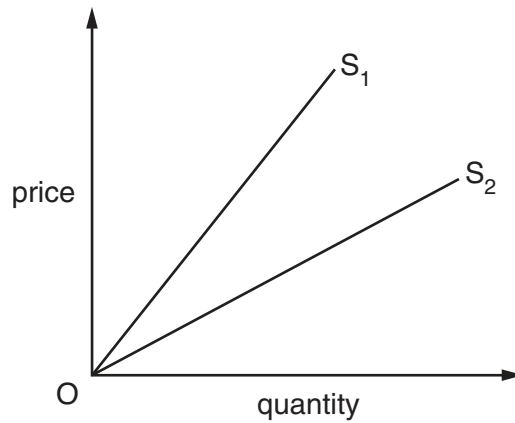
	buyer(s)	seller(s)
A	X	Y and Z
B	Y and Z	X
C	X	Z
D	Z	X

- 11 The output of Firm X depends not only on the quantities of factors of production employed by Firm X. It also depends directly on the level of output of Firm Y.

What does this illustrate?

- A** complementary goods
- B** cross-elasticity of demand
- C** an externality
- D** joint production

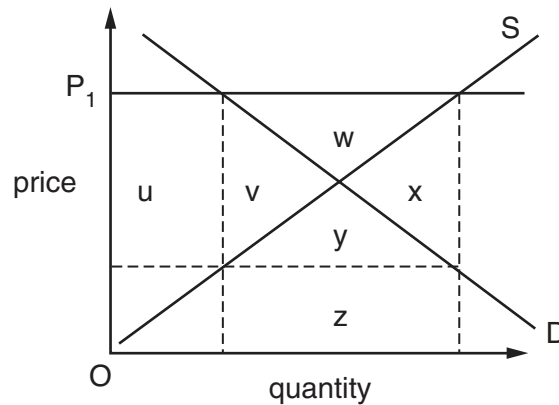
12 In the diagram OS_1 and OS_2 are two straight-line supply curves.



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 both OS_1 and OS_2 .

13 The diagram shows the demand and supply curves for an agricultural commodity.

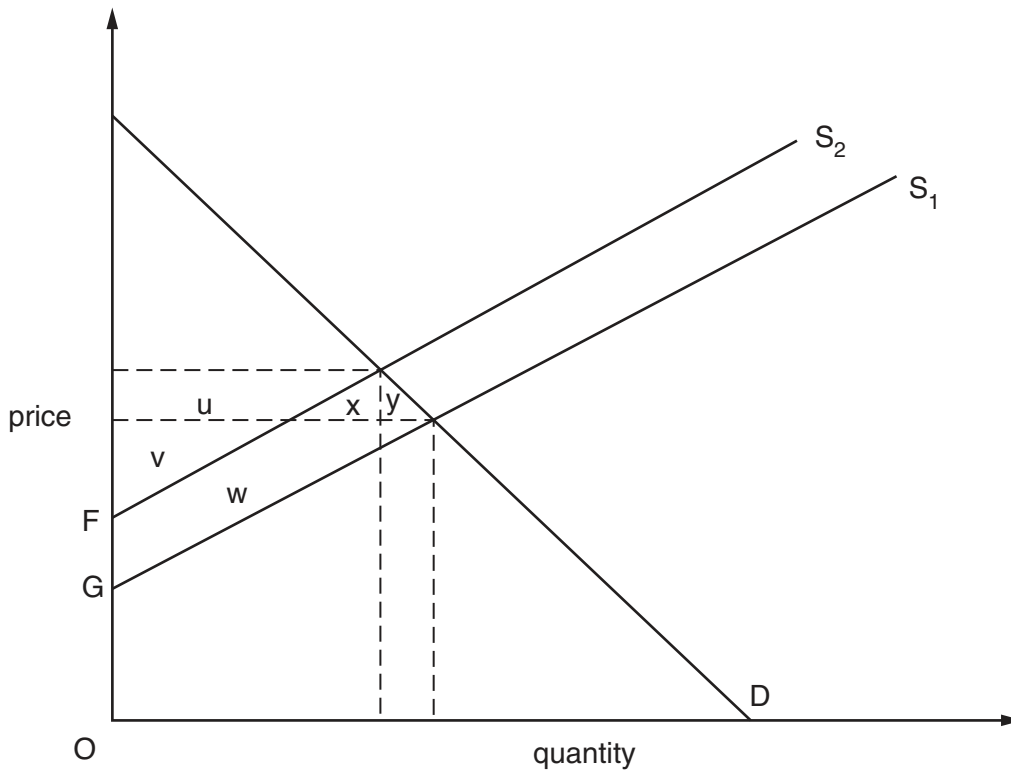


The government sets a minimum guaranteed price equal to OP_1 and pays producers the difference between the guaranteed price and the market clearing price.

Which area measures the cost of this scheme to the government?

- A $u + v + w$
- B $u + v + w + x + y$
- C $v + w + x + y$
- D $v + w + x + y + z$

14 The diagram shows the effect of the imposition of a tax equal to FG on a commodity.



Which area represents the reduction in consumer surplus?

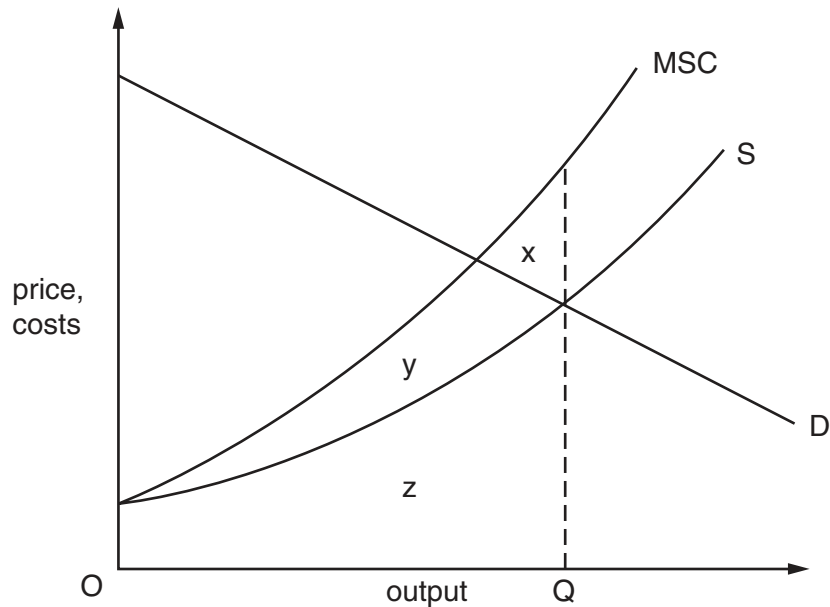
- A $u + v$
- B $u + x$
- C $u + x + y$
- D $x + w$

15 In which circumstance will the incidence of an indirect tax fall entirely upon the producers of a commodity?

- A when the demand curve is perfectly inelastic
- B when the elasticity of demand is unity at all points on the demand curve
- C when the elasticity of supply is unity at all points on the supply curve
- D when the supply curve is perfectly inelastic

16 The diagram shows the supply curve and the demand curve for a good.

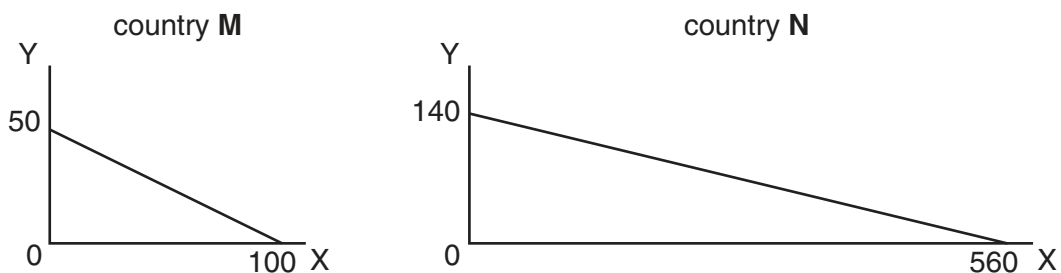
The curve labelled MSC shows the marginal social cost of producing the good.



Which area measures the social cost of producing output OQ?

- A x
 - B y
 - C z
 - D $x + y + z$
- 17 Which of the following goods is excludable but non-rival?
- A air defence
 - B public libraries
 - C street lighting
 - D television broadcasts
- 18 What is a merit good?
- A a good where any benefit obtained by one consumer is extended to all consumers
 - B a good that is made available to consumers according to merit
 - C a good that the government believes consumers will buy too little of if it is provided by private enterprise at market prices
 - D a good where the private benefits of consuming the good exceed its social benefits

- 19 Which of the following items is **not** included in the current account of a country's balance of payments?
- A interest on foreign loans
 - B invisible exports
 - C profits from foreign investments
 - D the purchase of foreign assets
- 20 Which of the following 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 the abolition of all tariffs between member countries
 - D fixed exchange rates between member countries
- 21 The graphs show the production possibilities for commodities X and Y in two countries **M** and **N**.



Who will gain or lose from an agreement between **M** and **N** to exchange the commodities at a rate of 1Y for 3X?

- A Both countries will gain because their consumption possibilities will increase.
 - B Consumers in country **M** will lose, because a unit of Y will now cost 3X instead of 2X.
 - C Only country **N** will gain, because **N** can produce more of both commodities than **M**.
 - D Neither country will gain because they both have a comparative advantage in the production of the same commodity X.
- 22 The 'terms of trade' of a country refers to
- A the system of tariff rates levied by the government of the country.
 - B the relationship between average import prices and average export prices.
 - C the rate at which domestic currency can be sold in foreign exchange markets.
 - D the difference between the value of exports and the value of imports.

- 23 A country experiences an increase in productivity as measured by output per labour hour.

At the same time, output per worker decreases.

What could explain this?

- A an increase in unemployment
 - B an increase in part-time employment
 - C an increase in hourly wage rates
 - D an increase in capital investment
- 24 Suppose the average consumer's expenditure is divided between bread, meat, milk and vegetables in the ratio 4:3:2:1.

During the course of a year, the price of bread falls by 10%, the price of meat increases by 20% and the prices of both milk and vegetables increase by 10%.

What is the increase in the average price level during the year?

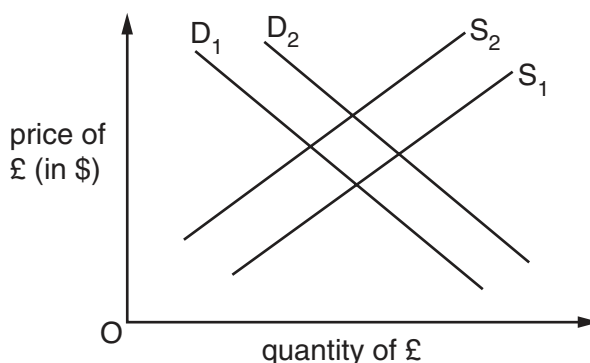
- A 5%
 - B 7.3%
 - C 10%
 - D 12.5%
- 25 The table shows a country's consumer price index for March and April 2000.

March 2000	148.6
April 2000	151.3

Which statement correctly describes what happened between these two months?

- A There was an increase in the annual rate of inflation.
- B There was an increase in the standard of living.
- C There was a decrease in real interest rates.
- D There was a decrease in the purchasing power of money.

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



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

- A a depreciation of the pound sterling
 - B a decrease in UK interest rates
 - C an increase in the price levels of other countries
 - D an increase in the level of UK import tariffs
- 27 Which of the following combinations indicates that a country has a freely floating exchange rate?

	nominal exchange rate	foreign currency reserves
A	depreciates by 20%	decrease by \$1 billion
B	depreciates by 20%	unchanged
C	unchanged	decrease by \$1 billion
D	unchanged	unchanged

- 28 In the United States a representative basket of goods costs \$4000.

At the current actual exchange rate between the US\$ and the £ sterling the same basket of goods in the UK would cost \$5000.

What can be deduced from this?

- A The £ sterling is 25% over-valued against the US\$.
- B The £ sterling is 20% under-valued against the US\$.
- C The purchasing power parity exchange rate of the £ sterling is \$1.25 to the £.
- D The purchasing power parity exchange rate of the £ sterling is \$0.80 to the £.

- 29 Assuming the demand for oil is price-inelastic, what will be the effect on demand-pull inflation and on cost-push inflation in an oil importing country of an increase in the world price of oil?

	<i>effect on demand-pull inflation</i>	<i>effect on cost-push inflation</i>
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

- 30 What is likely to be the effect of a depreciation of a country's currency?

- A** an improvement in its terms of trade
- B** an increase in unemployment
- C** a decrease in the profit margins of exporters
- D** an increase in the rate of inflation