

**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.

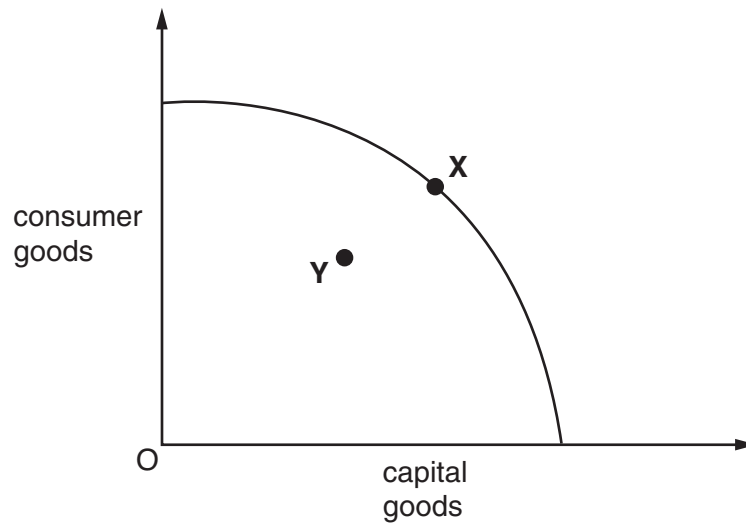
Any rough working should be done in this booklet.

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**This question paper consists of 12 printed pages.**



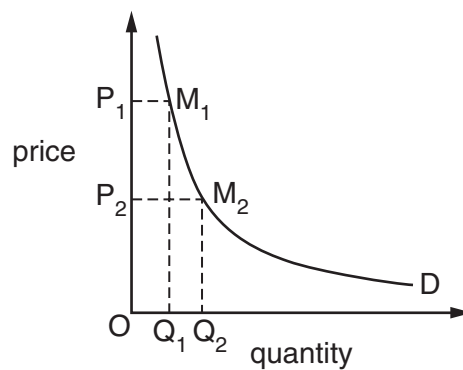
- 1 The diagram shows an economy's production possibility curve.



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  $P_2$ ?

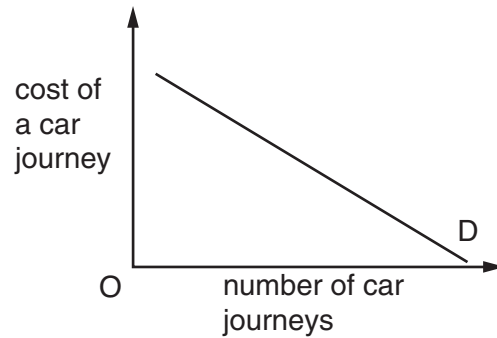
- A zero
- B 0.5
- C 1
- D infinity

- 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.



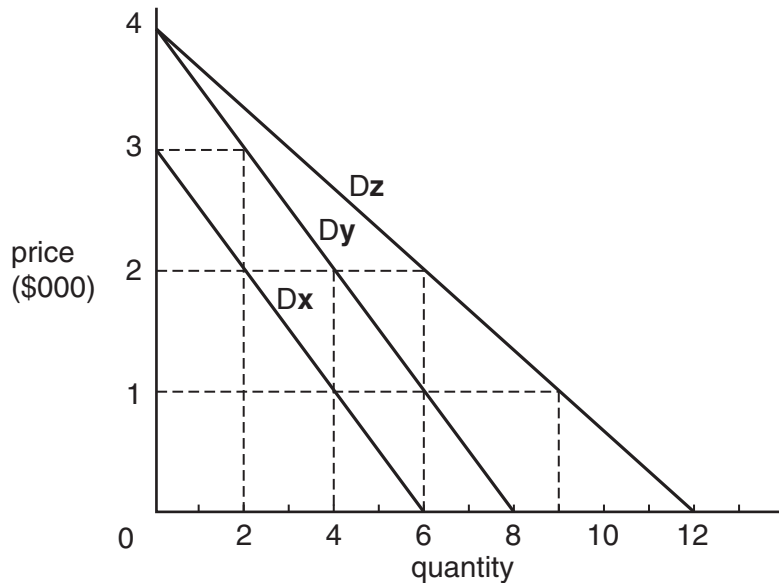
Which of the following would cause the demand curve to shift to the left?

- 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
<b>A</b>	\$60	\$50
<b>B</b>	\$55	\$45
<b>C</b>	\$50	\$45
<b>D</b>	\$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?

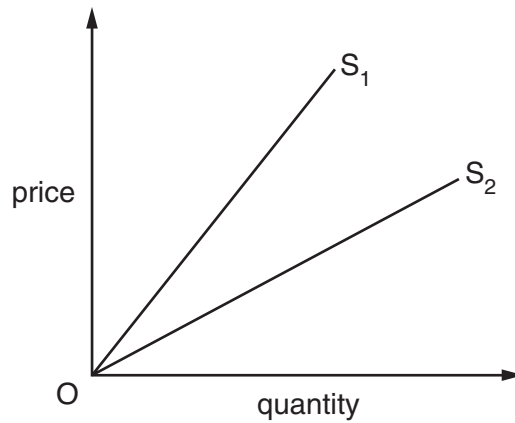
	buyer(s)	seller(s)
<b>A</b>	X	Y and Z
<b>B</b>	Y and Z	X
<b>C</b>	X	Z
<b>D</b>	Z	X

- 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

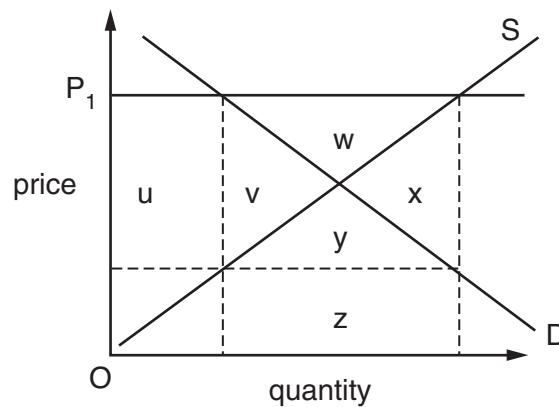
12 In the diagram  $OS_1$  and  $OS_2$  are two straight-line supply curves.



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.

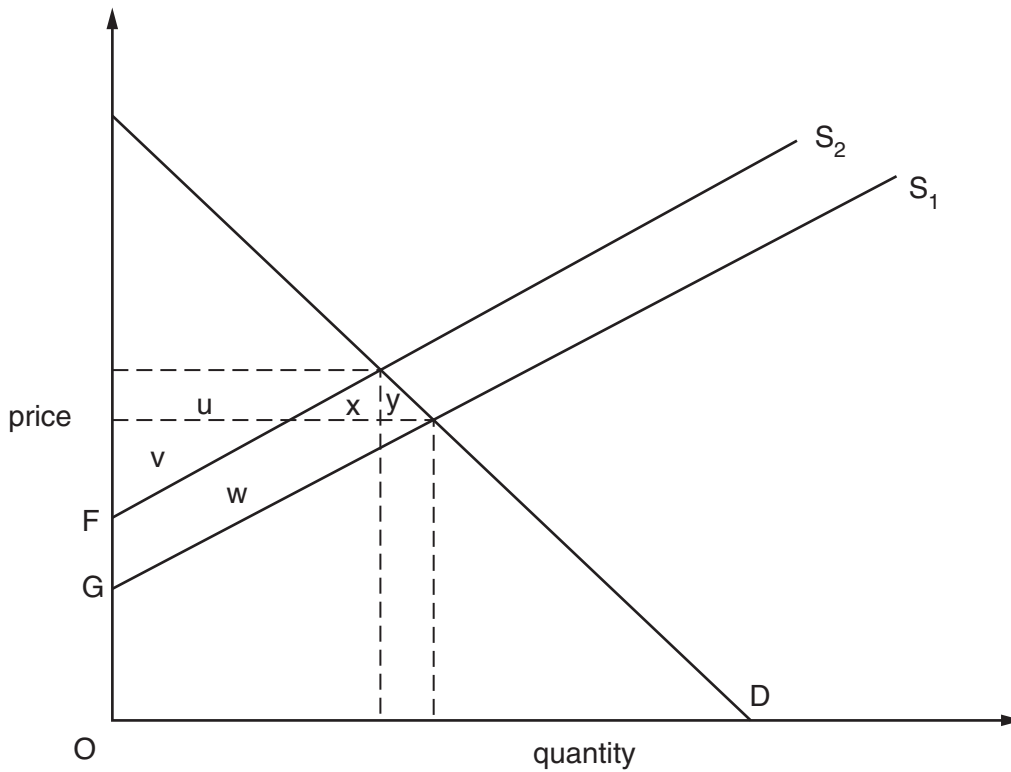


The government sets a minimum guaranteed price equal to  $OP_1$  and pays producers the difference between the guaranteed price and the market clearing price.

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?

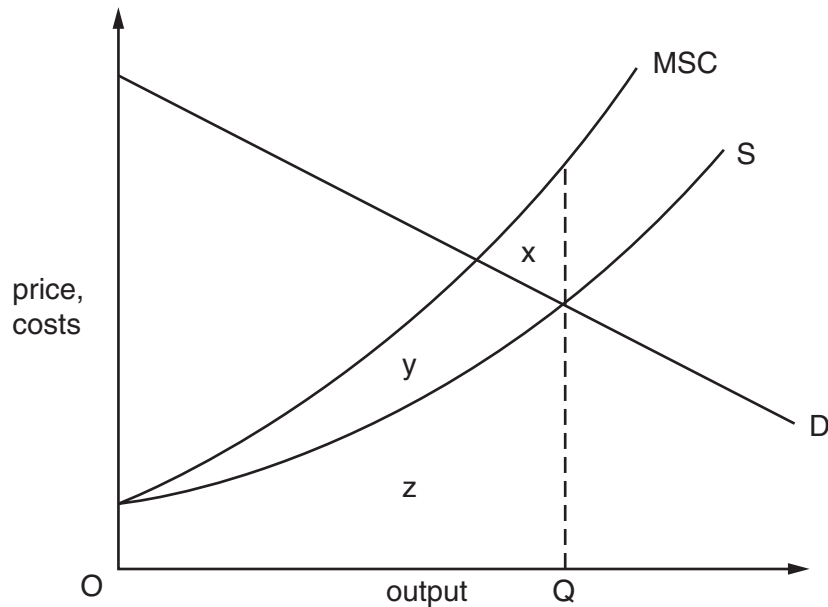
- A  $u + v$
- B  $u + x$
- C  $u + x + y$
- D  $x + w$

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.

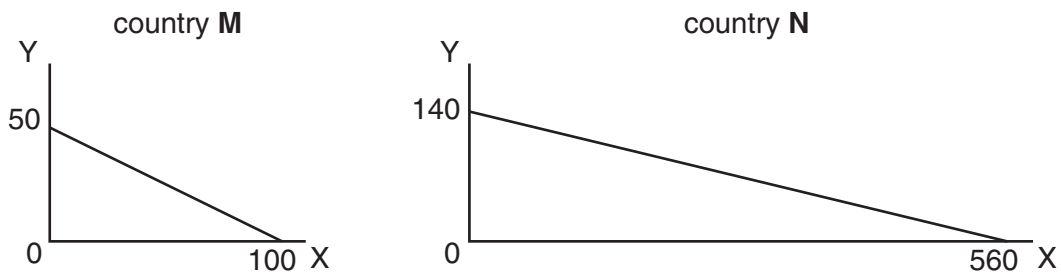


Which area measures the social cost of producing output OQ?

- 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?

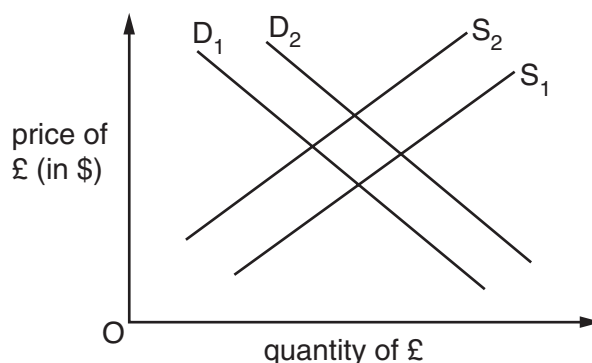
- A** 5%
  - B** 7.3%
  - C** 10%
  - D** 12.5%
- 25** The table shows a country's consumer price index for March and April 2000.

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>
<b>A</b>	increase	increase
<b>B</b>	increase	reduce
<b>C</b>	reduce	increase
<b>D</b>	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