



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

**ECONOMICS**

**9708/01**

Paper 1 Multiple Choice (Core)

**October/November 2007**

**1 hour**

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



**READ THESE INSTRUCTIONS FIRST**

Write in soft pencil.

Do not use staples, paper clips, highlighters, 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.

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.

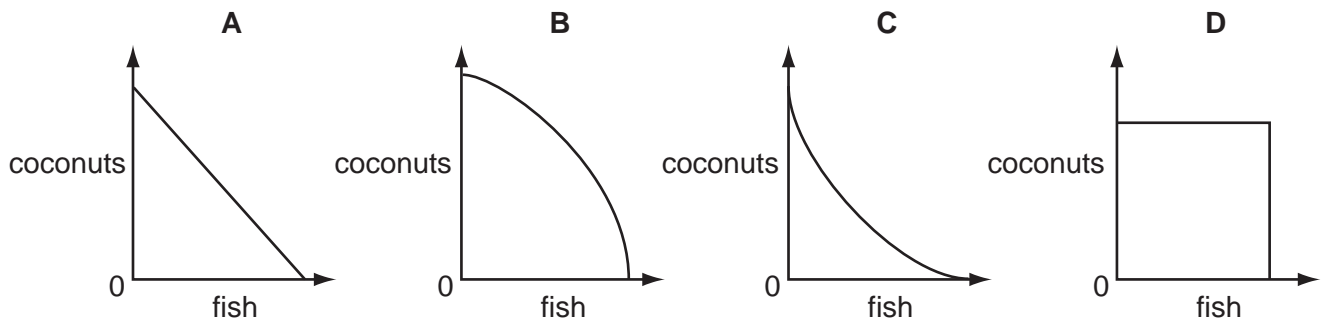
Any rough working should be done in this booklet.

This document consists of **11** printed pages and **1** blank page.



- 1 Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

Which diagram represents the production possibility curve of this community?



- 2 Which 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.
- 3 In which situation would an economist assume *ceteris paribus*?
- A when calculating the retail prices index
  - B when deciding what to include in a cost benefit analysis
  - C when making normative statements to advise the government
  - D when studying the effect of a price rise on demand
- 4 In the 20<sup>th</sup> century the nature of a typical car assembly plant changed. Company mergers meant there were fewer firms, they operated on larger sites and they had more automated machinery and robots.

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

	increased relative use	decreased relative use
<b>A</b>	capital and enterprise	labour and land
<b>B</b>	enterprise and labour	land and capital
<b>C</b>	land and capital	enterprise and labour
<b>D</b>	labour and land	capital and enterprise

- 5 The following might influence the demand for a good.

Which would **not** cause a shift in the demand curve for the good?

- A a change in the price of a complement
- B a change in the price of a substitute
- C a change in the price of the good itself
- D a change in consumers' incomes

- 6 A fall in the price of cars causes the demand for petrol to rise by 20 %. The cross-elasticity of demand between cars and petrol is  $-2$ .

Which change in car prices has brought this about?

	from	to
<b>A</b>	\$6000	\$5000
<b>B</b>	\$5500	\$4500
<b>C</b>	\$5000	\$4500
<b>D</b>	\$5000	\$4000

- 7 What is correct about market supply?

- A Market supply can increase only when all individual firms increase their output.
- B Market supply is effective when consumers have sufficient income to buy the good.
- C Market supply is the result of aggregating the supply of all individual firms.
- D Market supply of an inferior good falls as price increases.

- 8 The price of a firm's product rises by 12 %.

After one week the firm is only able to produce the same quantity but after one month it can increase the quantity by 6 %.

How would price elasticity of supply be described after one week and after one month?

	after one week	after one month
<b>A</b>	infinite	elastic
<b>B</b>	infinite	inelastic
<b>C</b>	zero	elastic
<b>D</b>	zero	inelastic

- 9 The government imposes a sales tax to reduce consumption of good X.

With which combination of price elasticity of demand and price elasticity of supply will this have the greatest effect?

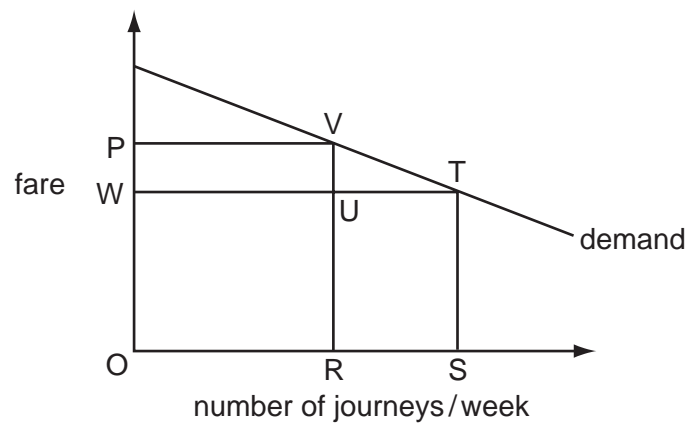
- A elastic demand and elastic supply
- B elastic demand and inelastic supply
- C inelastic demand and elastic supply
- D inelastic demand and inelastic supply

- 10 Jam and honey are substitutes and honey and beeswax are in joint supply.

Other things being equal, what will be the result of an increase in the price of jam?

	price of honey	price of beeswax
<b>A</b>	fall	fall
<b>B</b>	fall	rise
<b>C</b>	rise	fall
<b>D</b>	rise	rise

- 11 The number of passenger journeys per week by train on a certain route is shown by the demand curve in the diagram.



Initially the fare is OP, but it is then reduced by PW.

Which area measures the amount spent on the extra journeys resulting from the lower fare?

- A VUT
- B PWTW
- C VRST
- D URST

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