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Economics Paper 1

Topical & Yearly MCQ's

Article No. 151

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Preface

This book provides a thorough exercise of paper 1 for students taking G.C.E. AS & A-Level Economics. MCQs from past examinations are sorted into relevant chapters which will enable students to practice their understanding systematically. A key to questions is added at the end of each chapter.

To practice complete papers, yearly papers are also being added to the end of book with their key in third edition.

I am deeply indebted to all of them for their help, suggestions and appreciation.

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Unit-1

Basic Economic Ideas

1. 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.

June 2002/Q4, June 1993, 1985

2. In a centrally planned economy, which of the following would be most likely to explain the failure of particular industries to achieve their output targets'?

- A a change in consumer taste.
- B an increase in the saving ratio.
- C a deficiency in aggregate effective demand.
- D miscalculation of the interdependence between industries.

June 1990

3. Which of the following statement must be true if the use of resources involves an opportunity cost?

- A Not all wants can be satisfied.
- B Firms are below optimum size.
- C Opportunity cost ratios are constant.
- D Marginal costs fall as production increases.
- E The economy is operating below its production possibility frontier.

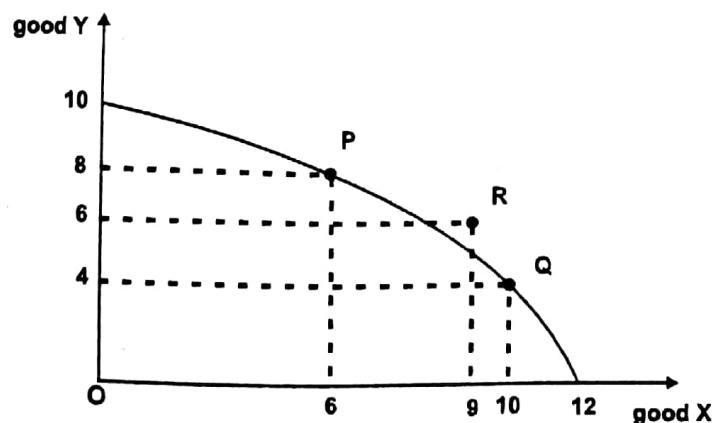
Nov 1990

4. Which of the following is the distinguishing feature of a mixed economy?

- A There is a well-balance industrial structure.
- B Immigrant labour is employed in some industries.
- C There are primarily, secondary and tertiary sectors.
- D Part of the economy is state-owned and controlled.

Nov 1990

5. The diagram shows the production possibility curve for an economy producing goods X and Y.



Given this production possibility curve, one way in which consumption at point R could be attained would be to produce.

- A at point P, export 2Y and import 3X.
- B at point P, export 3X and import 2Y.
- C at point Q, export 2Y and import 1X.
- D at point Q, export 2X and import 2Y.

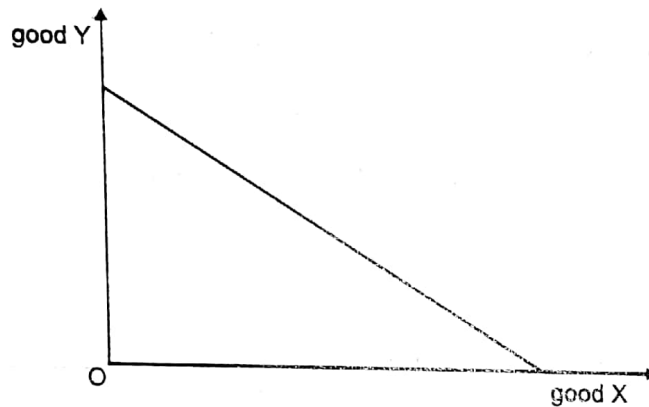
6. Which of the following is a normative statement?

Nov 1990

- A Increased government spending cannot reduce unemployment.
- B The imposition of import tariffs will reduce unemployment.
- C A policy of controlling inflation which results in increased unemployment is undesirable.
- D The level of social security benefits is the primary factor influencing the level of unemployment.

7. The diagram shows a production possibility frontier.

June 1990



Which of the following is implied when a production possibility frontier has this shape?

- A There must be full employment.
- B Factors of production are imperfect substitutes.
- C There are no benefits from specialization and trade..
- D The marginal opportunity cost of one good in terms of the other is constant.

June 1991

8. The central problem of all economic societies is how to.

- A achieve an equitable distribution of income and wealth.
- B ensure that resources are fully utilized.
- C allocate resources between competing uses.
- D resolve the conflict between equity and efficiency.

Nov 1991

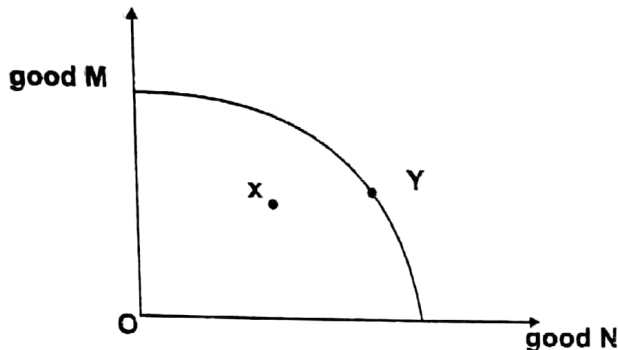
9. The only available information in relation to a particular country which can produce two commodities, X a consumer good and Y a capital good, is its production possibility curve. Which of the following can be deduced from this information?

- A the growth rate of the economy
- B the amounts of X and Y it will produce
- C the extent to which resources are being fully utilized
- D the opportunity cost of X in terms of Y at any given level of output

Nov 1991

10. The existence of scarcity implies that.
- A there are no free goods.
 - B there is no net saving.
 - C the supplies of factors of production cannot be increased.
 - D households, firms and governments must make choices.
- June 1992
11. In a market economy, the problem of scarcity would have been overcome if
- A all prices were zero.
 - B all resources were fully employed.
 - C the rate of interest is zero.
 - D there were a permanent surplus on the balance of payments.
- June 1993
12. A country produces two goods X and Y. Its production possibility frontier is given by the equation.
- $$Y = 100 - 20x$$
- What is the opportunity cost of producing one more unit of 'X'?
- A 20X
 - B $\frac{1}{20}X$
 - C 20Y
 - D $\frac{1}{20}Y$
- Nov 1993
13. What is opportunity cost of constructing a rail tunnel between Britain and France?
- A the benefits obtained by building a road link to the tunnel.
 - B the loss of business on ferries linking Britain and France.
 - C the social costs imposed on residents in areas adjacent to the tunnel.
 - D the value of goods and services produced had the tunnel not been constructed.
- June 1994
14. In an economy which is initially at full employment, what is the opportunity cost of an increase in investment?
- A the emergence of technological unemployment.
 - B the inflation arising from the operation of the multiplier.
 - C the interest charges on the funds to finance the investment.
 - D the present consumption forgone.
- June 1982, Nov 1994
15. An economy produces two goods X and Y. What name is given to the curve which shows for each level of output of 'X' the maximum amount of 'Y' that can be produced?
- A a budget line
 - B an indifference curve
 - C an isoquant
 - D a production possibility boundary
- Nov 1994

16. The diagram shows the production possibility frontier for an economy capable of producing only two goods, M and N.

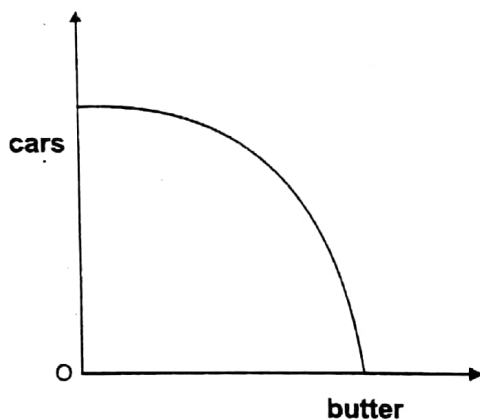


What would explain a change in production from combination X to combination Y?

- A a fall in the opportunity cost of good N.
- B an advance in technology.
- C an increased desire for good N.
- D employment of previously unemployed resources.

Nov 1994

17. An economy produces two goods, cars and butter. The diagram shows the economy's production possibility frontier.



Why is the frontier curved outwards?

- A Some resources are better suited to the production of cars and others to butter.
- B There are economies of scale in the production of both goods.
- C The resources available to the economy are in fixed supply.
- D Any increase in the resources devoted to car production requires a reduction in the resources devoted to butter.

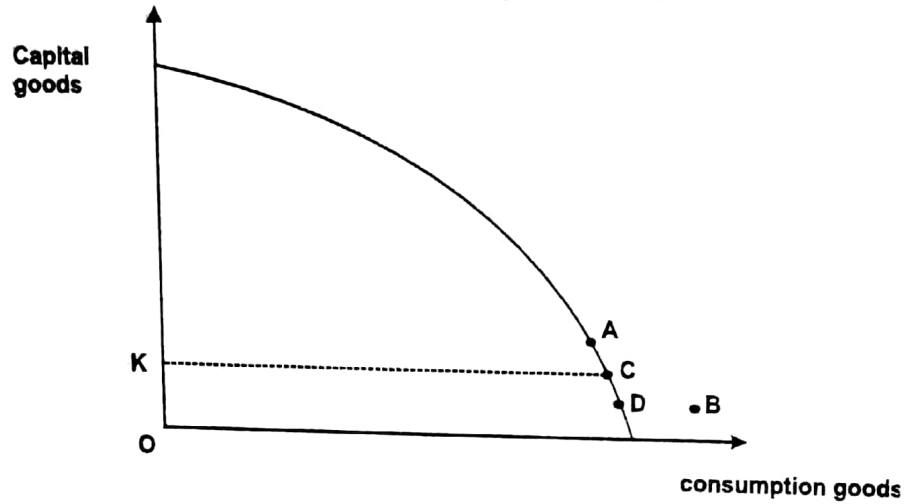
June 1999

18. A student works for a book shop for several days during the holidays. She is offered the alternative of being paid £50 in cash or choosing £80 of books from the shelves. What is the opportunity cost to the student of choosing the books?

- A £30
- B £50
- C £80
- D the alternative use to which her time could have been put.

June 1996

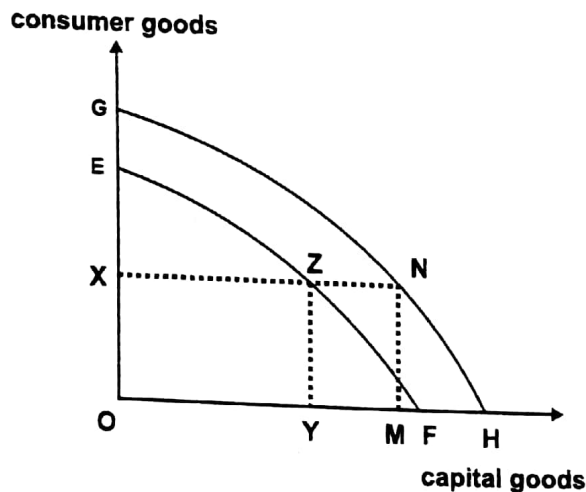
19. The diagram shows a country's production possibility curve. Capital consumption amounts to OK. Which point represents a combination of goods which is currently attainable but would be likely to result in an inward shift in the production possibility curve in the future?



Nov 1996

20. The diagram shows two production possibility curves (EF and GH), before and after technological progress has taken place.

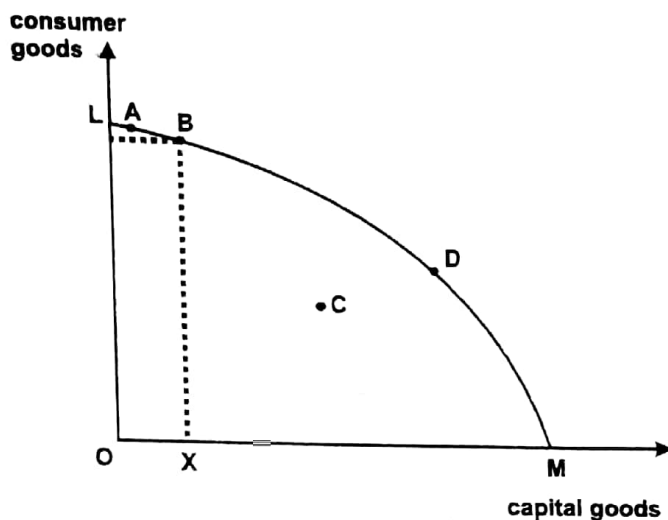
After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?



- A MH
- B OH
- C OM
- D YF

Jun 2009/Q2, June 2008/Q2, Nov 2004/Q2, June 1997

21. The curve LM is an economy's production possibility curve. If capital consumption amounts OX, which combination of goods is likely to lead to a reduction in the production possibilities open to the economy in the future.



Nov 1997

22. A student decides to stay in her room to do some work rather than going to the cinema. What is the opportunity cost of her decision?

- A the enjoyment she would have derived from a visit to the cinema.
- B the improvement in the mark she obtains for her assignment.
- C the increase in her electricity bill.
- D the money she would have spent in the cinema.

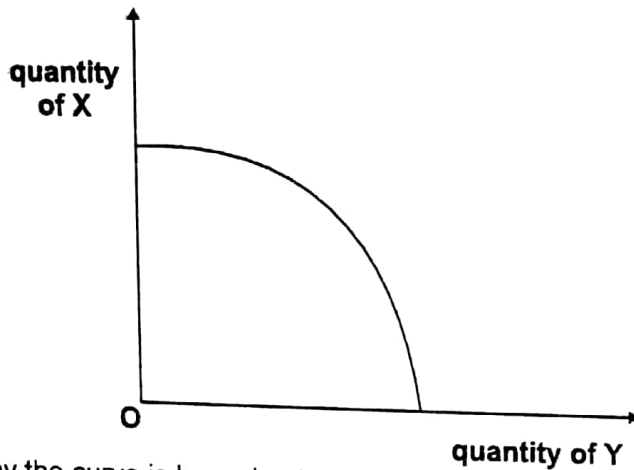
Nov 1997

23. Which condition defines economic efficiency in production?

- A All factors of production are fully employed.
- B All firms are producing at their profit maximizing levels of output.
- C Output of any one good cannot be increased without reducing the output of some other good.
- D There are no further opportunities for substituting capital for labour.

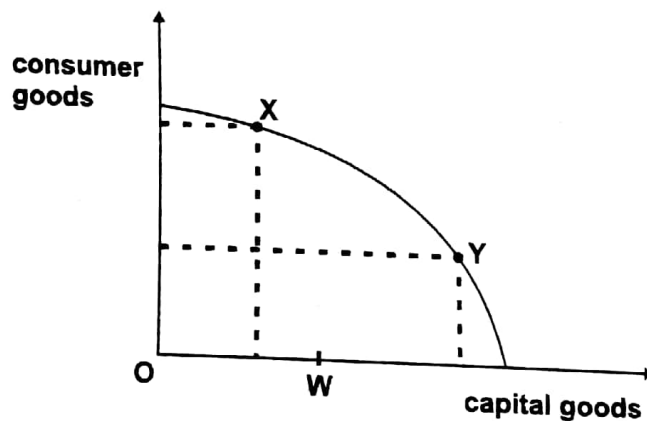
Nov 1998

24. The diagram shows the production possibility curve of an economy which uses two factor inputs, capital and labour, to produce two goods, X and Y. The amount of capital allocated to both X and Y are fixed.



What explains why the curve is bowed outwards?

- A decreasing opportunity costs.
 - B diminishing returns.
 - C diseconomies of scale.
 - D economies of scale.
- Nov 1998
25. The diagram shows the production possibilities of an economy that has a rate of capital consumption of OW.



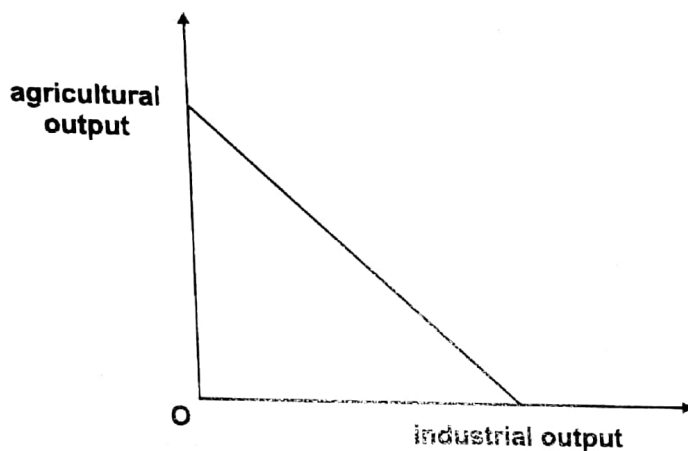
What will be the effect on current and future living standards of a movement from X to Y on the curve?

	Current living standards	Future living standards
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

26. The winner of the TV quiz show is offered a choice of either £1000 or the contents of one or other of two sealed boxes. She is told that one box contains £2500 and that the other box is empty. What is the opportunity cost to the individual of opting for the £1000 prize?

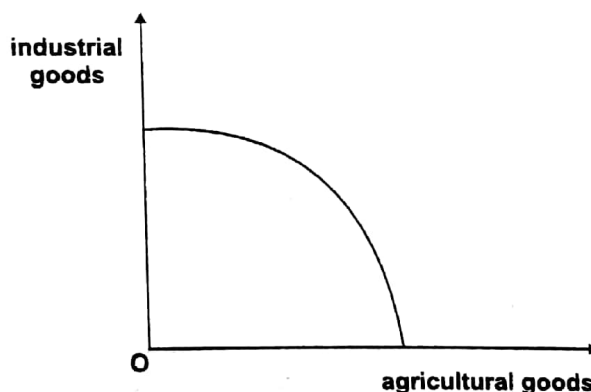
- A a 50% chance of winning £2500
- B a 50% chance of winning £1500
- C a 50% chance of losing £1500
- D a 50% chance of losing £1000

27. The diagram shows an economy's production possibility curve. Why does the curve slope downwards? June 1999



- A Agriculture and industry are subject to diminishing returns to scale.
- B Agriculture and industry are subject to increasing returns to scale.
- C consumers are indifferent between industrial and agricultural output.
- D Resources available are limited.

28. The diagram shows an economy's production possibility frontier. What does the slope of the curve measure? Nov 1999



- A the amount of industrial goods that society would be willing to give up to obtain a additional agricultural goods.
- B the maximum attainable combination of agricultural and industrial goods.
- C the maximum quantity of industrial goods that that can be produced for any given level of agricultural output.
- D the opportunity cost in terms of industrial goods of producing an additional unit of agricultural goods.

June 2000

29. What can be deduced from a production possibility curve for a country that can produce two goods X, a consumer good and Y, a capital good X?

- A the amount of X it will produce.
- B the extent to which resources are being fully utilized.
- C the opportunity cost of X in terms of Y.
- D the country's preference for present as compared to future consumption.

Nov 2000

30. Why do production possibility curves slope downwards from left to right?

- A because of the existence of diminishing returns.
- B because of the existence of increasing returns to scale.
- C because resources are finite.
- D because resources are not homogenous.

Nov 2000

31. Which statement about the consequences of a more equal distribution of income is normative?

- A It would increase the rate of economic growth.
- B It would raise the average propensity to consume.
- C It would be inflationary.
- D It would improve national welfare.

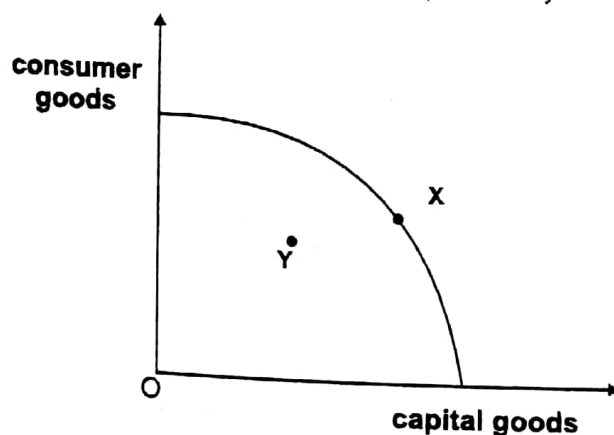
Nov 1980, Nov 1995, June 2001

32. 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.

33. The diagram shows an economy's production possibility curve.

June 2002/Q2

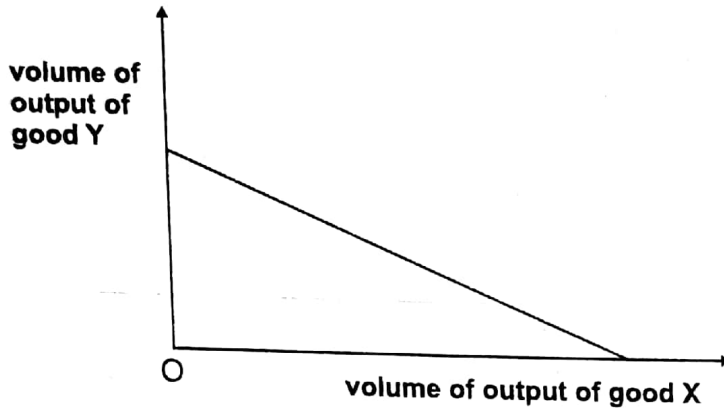


What will cause a movement from point X on the production possibility curve to point Y within the curve?

- 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 goods production.

June 2002/Q1

34. The diagram below shows the production possibility curve for an economy.



From the information provided in the graph, which one of the following statement about the production of goods X and Y must be true?

- A The capital to labour ratios are different.
B The marginal cost of good X in terms of good Y is constant.
C Utility is maximized by specializing completely in the production of good Y.
D The factors of production are more efficiently employed in the production of good X than in the production of good Y.
35. A student decides to stay in her room to do some work rather than going to the cinema. What is the opportunity cost of her decision?
- A the enjoyment she would have derived from a visit to the cinema.
B the improvement in the mark she obtains for her assignment.
C the increase in her electricity bill.
D the money she would have spent in the cinema.
36. The steel required for the construction of a new car-assembly plant in a fully employed economy is obtained by increasing the output of the domestic steel industry. What is the opportunity cost of producing the steel? Nov 1997
- A the alternative benefits forgone by diverting additional resources to steel manufacture.
B the alternative benefits forgone by increasing the capacity of the car industry.
C the alternative benefits that would have been obtained by putting the steel to other uses.
D zero, since there is no reduction in the steel supplied to other steel users.
37. What is the opportunity cost to a fully employed economy of increasing capital investment? Nov 2003/Q1
- A a fall in present consumption.
B a fall in present income.
C a rise in the saving.
D a rise in the rate of interest.
38. In a market economy, what is the bases for determining the allocation of factors of production? Nov 1992, Nov 1999
- A the market share of companies.
B the needs of the country.
C the pattern of consumers' spending.
D the wealth of entrepreneurs.

Nov 2004/Q1

39. What is the main economic problem facing all societies?

- A how to reduce unemployment.
- B how to reduce poverty.
- C how to allocate scarce resources.
- D how to control inflation.

40. What is an essential feature of a pure market economy?

- A Buyers and sellers have perfect knowledge.
- B External costs are taxed.
- C Prices respond to the demands of consumers.
- D The government provides public goods.

Jun 2005/Q1, Dec 1986, Dec 1982

41. A consumer allocates his expenditure over time.

What would cause an increase in the opportunity cost of current consumption to the consumer?

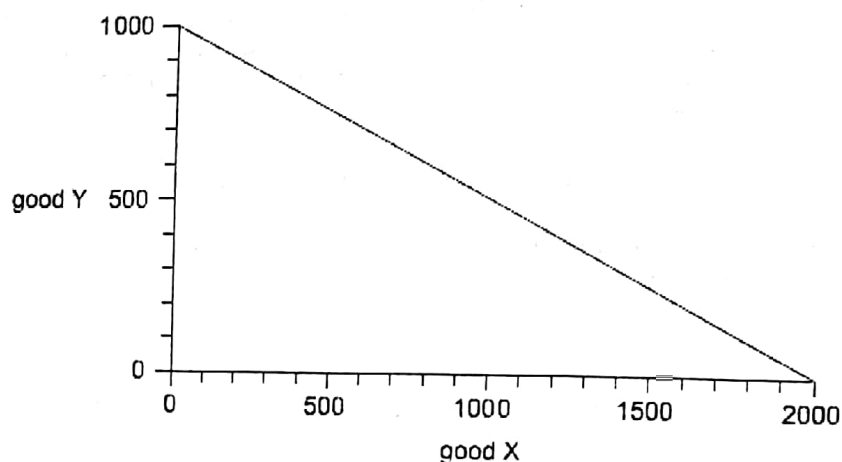
- A a decrease in his current income.
- B a decrease in interest rate.
- C an increase in his current income.
- D an increase in interest rate.

Nov 1996, June 2006/Q1

42. Why are there no markets for free goods?

- A Consumers' valuation of free goods is the same at all levels of demand.
- B Free goods are non-excludable.
- C The demand for free goods is infinite.
- D The supply of free goods is sufficient to satisfy all demand at zero price.

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

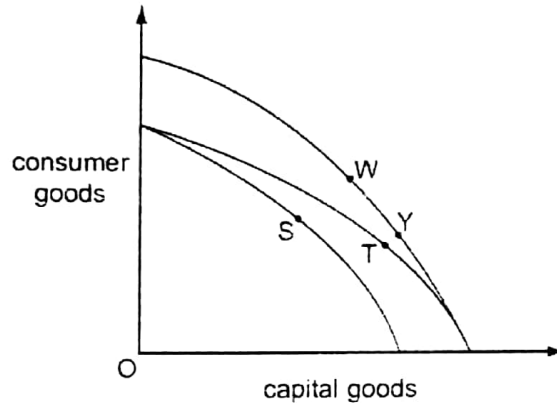


The economy produces 400 of good Y and produces on its production possibility curve. Which quantity of good X is given up?

- A 600
- B 800
- C 1200
- D 1600

June 2004/Q2

44. The diagram shows shifts in an economy's production possibility curve.



Which change could have come about as a result of an improvement in technology?

- A S to Y
- B T to S
- C W to T
- D W to Y

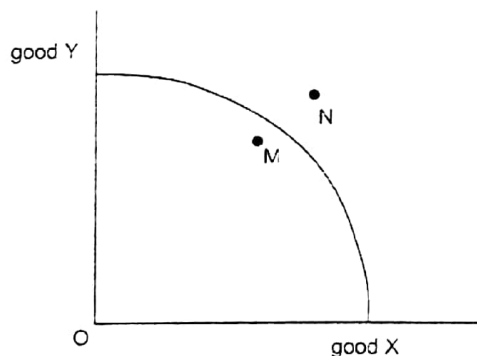
Nov 2003/Q2

45. What is the opportunity cost to unemployed workers who become employed?

- A the leisure they would otherwise have had.
- B the value of the goods and services they produce.
- C the wage they are paid.
- D zero.

June 2005/Q2, Nov 2011/P11/Q3

46. The diagram shows a country's production possibility curve.

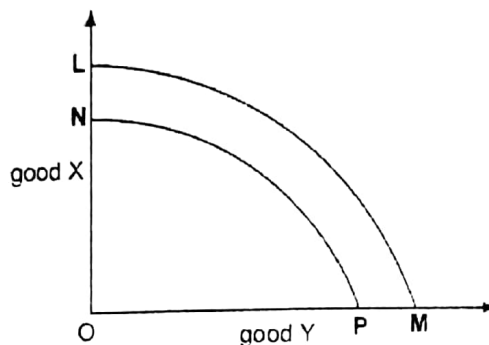


What could allow the economy to move from M to N?

- A an increase in consumer spending
- B an increase in demand for exports
- C an increase in government spending on pensions
- D an increase in investment

Nov 2005/Q2

47. In the diagram the original production possibility curve is LM.



What might cause the curve to shift to NP?

- A technological progress
- B unemployment of resources
- C the depletion of natural resources
- D a reallocation of resources

June 2003/Q2, June 2006/Q2

48. What is present in a mixed economy but not in a planned economy?

- A capital goods
- B consumer surplus
- C government borrowing
- D private production

Nov 2006/Q2

49. Planned economies had a history of failing to produce enough consumer goods. Which method of allocating these goods in short supply involved a market system approach?

- A equal rationing to people according to their family size
- B official sale to people according to their ability to queue
- C selective distribution to people according to their occupation
- D unofficial sale to people according to their willingness to pay

June 2007/Q2

50. What would prevent a firm gaining the maximum benefit from the division of labour?

- A a high interest rate
- B a small market
- C high production costs
- D low productivity

June 2003/Q3

51. What is meant by the ceteris paribus assumption?

- A an assumption that is not supported by the facts
- B an assumption that consumers act rationally
- C an assumption that two factors are in equilibrium
- D an assumption that other factors are held constant

Nov 2003/Q3

52. Which group may be disadvantaged by the introduction of division of labour?
- A consumers who prefer standardised goods
 - B companies where the production process has many sub-divisions
 - C the government, if the product is taxed
 - D workers who prefer a variety of tasks

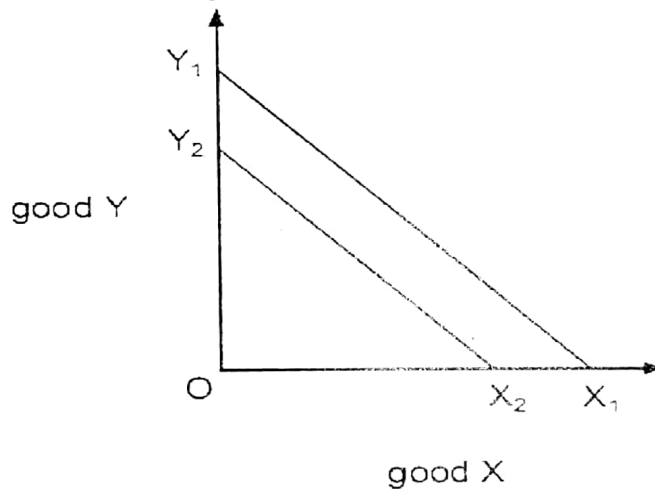
June 2004/Q3

53. What is meant by 'ceteris paribus' in economic analysis?
- A A normative approach is being adopted.
 - B The effect of a change of one variable is being considered in isolation.
 - C One good has to be sacrificed to obtain more of another.
 - D One factor of production is fixed.

Nov 2004/Q3

54. 3 The diagram illustrates the production possibility curves for an economy in Year 1 (X_1, Y_1) and Year 2 (X_2, Y_2).

What can be deduced from the diagram?



- A The cost of production was lower in Year 2 than in Year 1.
- B The full employment level of output was lower in Year 2 than in Year 1.
- C The opportunity cost was lower in Year 2 than in Year 1.
- D Unemployment rose between Year 1 and Year 2.

June 2005/Q3, Nov 2009/12/Q1

55. A government proposes to introduce a road congestion charge which would require private motorists to pay a toll for road use.

Which statement relating to the proposal is normative?

- A Bus passengers will benefit at the expense of motorists.
- B Motorists with higher incomes will be prepared to pay the charge in return for reduced journey times.
- C Motorists with lower incomes will not be able to afford to use the roads.
- D The proposal will be unfair to motorists who have no alternative means of transport.

June 2006/Q3

56. What is an example of the factor of production capital?

- A a bank account held by a small firm to be used for future purchases.
- B a forest of hardwood trees ideal for furniture making.
- C the market value of a company's shares.
- D word processing software used by a writer to complete her new book.

Nov 2005/Q3

57. What is necessarily a function of enterprise rather than management?

- A accepting the risks involved in production
- B deciding how much labour should be employed
- C organising the other factors of production
- D promoting the sale of the product

June 2007/Q3

58. What is the outcome for consumers and workers as a result of increased division of labour?

	consumers	workers
A	less choice of goods	wider range of skills
B	fewer mass-produced goods	wider variety of tasks
C	lower prices of goods	increased productivity
D	lower quality of goods	increased independence

Nov 2003/Q4

59. What is an advantage of using the market mechanism to allocate resources between alternative uses?

- A It ensures that resources will be allocated efficiently.
- B It ensures that resources are allocated in accordance with need.
- C It minimises the time required to make decisions.
- D It gives all consumers an equal voice in deciding how resources should be allocated.

June 2004/Q4

60. Doctors should be paid highly because they have to undertake a long period of training.

What can be concluded about this statement?

- A It is a normative statement because high pay does not always result from lengthy training.
- B It is a normative statement because it expresses an opinion.
- C It is a positive statement because doctors do have to train for a long period.
- D It is a positive statement because greater skill results in higher pay.

Nov 2004/Q4

61. Which is a normative economic statement?

- A Money is the least liquid form of wealth.
- B Some firms are subsidised by the government.
- C Some workers earn more than others.
- D Taxes are the best way to discourage smoking.

June 2005/Q4

62. The workers in a factory currently earn \$240 for a 40 hour week. The management offers them a choice between either a straight 10 percent wage increase or an increase in the weekly wage of \$260 coupled with a reduction in hours from 40 to 39 hours. What is the opportunity cost of each worker of opting for the 39 hours week?

- A \$4 B \$6 C \$20 D \$24
 Nov 2005/Q4

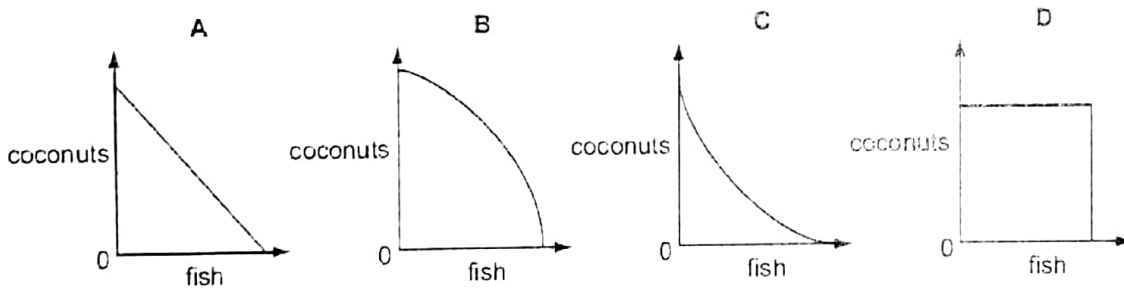
63. A farmer can produce both beef and lamb. The opportunity cost of a kilo of beef is three kilos of lamb. The price of a kilo of beef is twice that of lamb. What should he do if his aim is to maximise his revenue?

- A concentrate on beef production
 B concentrate on lamb production
 C produce beef and lamb in the ratio 3:2
 D produce twice as much beef as lamb

June 2007/Q4

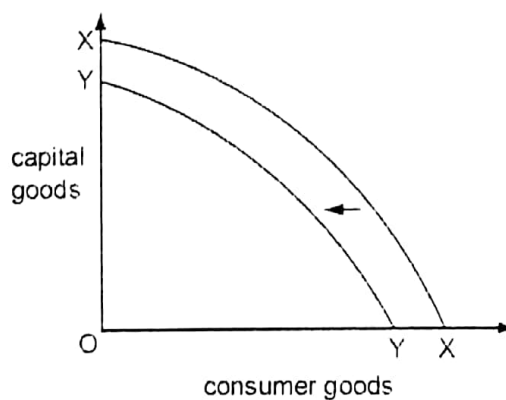
64. Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

Which diagram represents the production possibility curve of this community?



Nov 2007/Q1

65. A country's production possibility curve moves from XX to YY as shown in the diagram.



What could have caused this movement?

- A a rise in the retirement age
 B an increase in investment
 C an increase in net emigration
 D a rise in technological progress

June 2008/Q1

66. Why is scarcity the central feature of the economic problem?

- A People's needs are limited.
- B Resources have alternative uses.
- C Economic resources are finite.
- D Consumers have limited choices.

Nov 2008/Q1

67. Tom has set up his own business, which is based in premises owned by Fanda. All machinery is hired from an equipment company. Both Tom and Fanda are employed in the business.

What describes the earnings of Tom and Fanda?

	Tom	Fanda
A	rent and profit	interest and profit
B	wages and profit	wages and rent
C	interest and rent	rent and profit
D	wages and interest	wages and interest

Nov 2009/P12/Q30

68. 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.

June 2002/Q3, Nov 2007/Q2, June 2011/P12/Q3

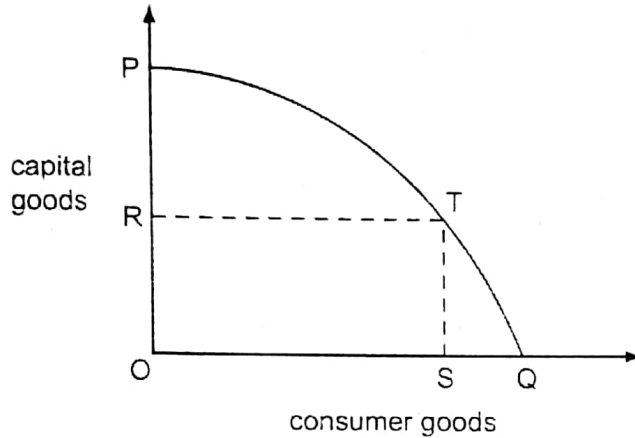
69. A Southern African government was concerned about the market influence of a large producer and was keen to take control of the company.

What might be the possible result of this?

- A an increase in the role of the market
- B an increase in public ownership
- C an increase in the role of the consumer
- D an increase in the amount of competition

June 2008/Q2

70. The production possibility curve for an economy producing capital 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
- Nov 2008/Q2
71. 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
- Nov 2007/Q3
72. Which of the following is a normative statement?
- A If firms spend more on advertising, sales volume may not rise.
 - B If firms raise prices, profits will rise.
 - C The government should reduce taxes on spending so that economic welfare will rise.
 - D Export volumes will rise if the government lowers the exchange rate.
- June 2008/Q3
73. In which types of economy might a government control prices?
- A market and mixed only
 - B market and planned only
 - C market, mixed and planned
 - D mixed and planned only
- Nov 2008/Q3
74. What must be true of a positive statement?
- A It is one that can be shown to be correct or incorrect.
 - B It is one that deals with positive changes in economic well being.
 - C It is one that is true by definition.
 - D It is one with which everyone is in agreement.
- June 2009/P1/Q3

75. What does the concept of ceteris paribus allow economists to do?

- A calculate the monetary value of consumer surplus
- B distinguish between economic and free goods
- C distinguish between normative and positive statements
- D isolate the effect of one variable on another variable

Nov 2009/P12/Q2

76. In the 20th 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
A	capital and enterprise	labour and land
B	enterprise and labour	land and capital
C	land and capital	enterprise and labour
D	labour and land	capital and enterprise

Nov 2007/Q4

77. Which action by an individual would not be considered an action of the factor of production labour?

- A leaving college to work on the land
- B moving from a labour-intensive industry to work in a capital-intensive industry
- C setting up a new business in information technology
- D undertaking a training course in computer skills

Nov 2008/Q4

78. In a command economy, what is the basis for determining the allocation of factors of production?

- A the pattern of consumers' spending
- B the perceived needs of the country
- C the revenue from taxes
- D the size of public sector companies

June 2010/P12/Q30

79. Which statement about trade unions is normative?

- A Since trade unions exist to safeguard the interests of their members, they deserve the legal protection of the state.
- B In countries where trade unions are strong, income distribution is more equal.
- C Uneven trade union membership has resulted in a widening of the wage gap between different industries.
- D In industries where trade unions are powerful, technical progress tends to be much slower.

June 2010/P12/Q2

80. A worker can make 10 hats or 5 pairs of shoes in a day. In the market three hats can be sold at the same price as two pairs of shoes.
The worker should make

- A 4 hats and 3 pairs of shoes daily.
- B 6 hats and 2 pairs of shoes daily.
- C hats only.
- D shoes only.

June 2010/P12/Q3

81. What is the central problem for an economy?

- A to achieve maximum growth in production
- B to allocate resources between alternative uses
- C to ensure all resources are fully exploited
- D to overcome inequalities in income distribution

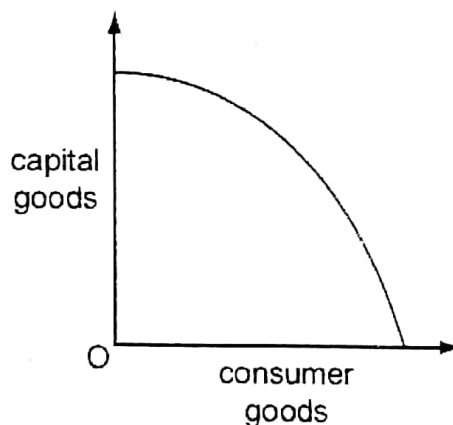
Nov 2010/P12/Q1

82. What are most likely to be disadvantages found in a market economy?

- A economic growth and state-owned companies
- B merit goods and free competition
- C public goods and economic specialization
- D unemployment and external costs

Nov 2010/P12/Q2

83. The diagram shows the production possibility curve of an economy.



Which statement explains the shape of this curve?

- A More efficient workers are drawn away from the production of consumer goods.
- B Resources cannot be switched between producing capital and consumer goods.
- C The economy is more efficient at producing capital than consumer goods.
- D The opportunity cost of producing capital goods increases the more capital goods are made.

Nov 2010/P12/Q3

84. What distinguishes capital from other factors of production?

- A Capital exists only in capitalist market economies.
- B Capital results from the operation of the other factors.
- C The rewards earned by the owners of capital are uncertain.
- D Unlike labour or land, capital must be owned rather than hired or rented.

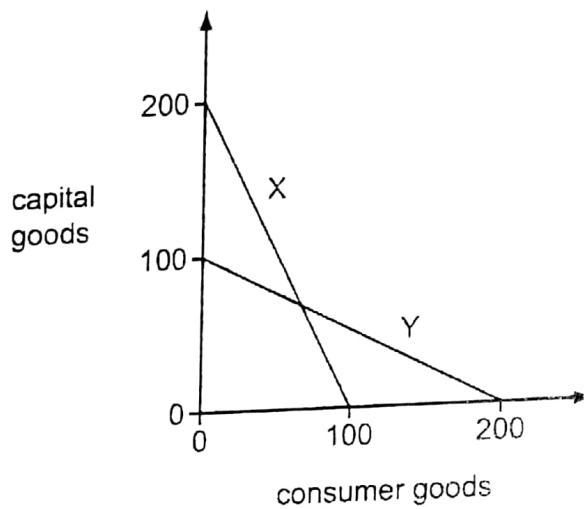
June 2011/P12/Q1

85. What is likely to be greater in a planned economy than a market economy?

- A efficiency
- B flexibility
- C innovation
- D stability

June 2011/P12/Q2

86. The diagram shows the production possibility curves of two economies, X and Y.
 Which statement about the two economies is correct?



- A Both economies always have the identical opportunity costs.
- B Both economies have the same future growth prospects.
- C The opportunity costs are constant in both economies.
- D The two economies can never produce the same combination of products.

June 2011/P12/Q30

87. An individual has an appointment with his bank manager.
 He has a choice between travelling to the appointment by car, or leaving the car at home and travelling by bus and then by train. The costs of the journey are given below.

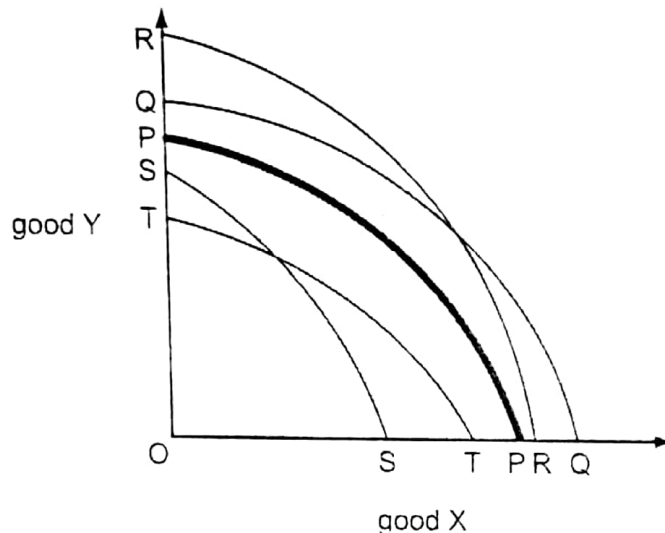
	\$
bus fare	2
train fare	3
car parking charge	4
petrol	2
car wear and tear costs	1

Given this information, what is the opportunity cost to the individual of travelling by car rather than by bus and train?

- A \$2
- B \$4
- C \$7
- D \$12

Nov 2011/P12/Q1

88. The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour intensive than the production of Y.



The working hours of the labour force are reduced by law. Which curve could be the country's new production possibility curve?

- A TT B SS C QQ D RR
 Nov 2011/P12/Q2

89. In Economics, decisions are usually taken 'at the margin'.

What does this mean?

- A They are concerned with actions that occur in free market not planned economies.
 B They are concerned with issues on the boundary between macroeconomics and microeconomics.
 C They are concerned with the choice between normative and positive actions.
 D They are concerned with the effect of adding a further action to the current level of activity.
 Nov 2011/P12/Q3

90. Which factor of production and example are correctly linked?

	factor of production	example
A	capital	\$10 000 in a savings account
B	enterprise	a company accountant
C	labour	a robot
D	land	the flow of a river

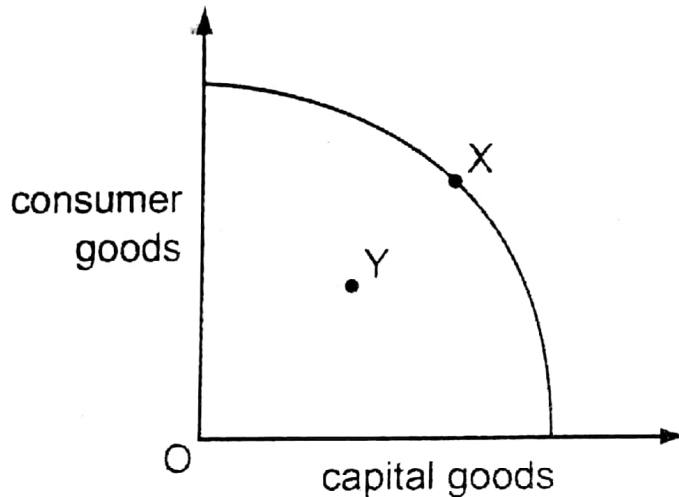
Nov 2011/P12/Q4

91. What is an example of the factor of production capital?

- A a bank account held by a small firm to be used for future purchases
 B a forest of hardwood trees ideal for furniture making
 C the market value of a company's shares
 D word processing software used by a writer to complete her new book

Nov 2011/P11/Q2

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



Assuming that the production possibility curve remains unchanged, what is the most likely reason for the movement from point X to point Y?

- A a civil war causing a widespread loss of resources
- B a permanent fall in productivity in both capital and consumer goods
- C a rise in unemployment due to a recession
- D the exhaustion of a natural resource

Nov 2011/P11/Q1

93. Which statement is normative?

- A As a general rule, people are happier in more equal societies.
- B Despite a large increase in income per head, people are no happier today than they were 50 years ago.
- C Happiness depends not on the absolute level of a person's income but on his relative income.
- D The promotion of happiness is a more important goal than the maximisation of production.

Nov 2011/P11/Q4

Key Unit 1 Basic Economic Ideas

Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q.	Ans.
1	A	20	A	39	C	58	C	77	C
2	D	21	A	40	C	59	C	78	B
3	A	22	A	41	D	60	B	79	A
4	D	23	C	42	D	61	D	80	C
5	A	24	B	43	B	62	A	81	B
6	C	25	B	44	A	63	B	82	D
7	D	26	A	45	A	64	A	83	D
8	C	27	D	46	D	65	C	84	B
9	D	28	D	47	C	66	C	85	D
10	D	29	C	48	D	67	B	86	C
11	A	30	C	49	D	68	C	87	A
12	C	31	D	50	B	69	B	88	B
13	D	32	D	51	D	70	B	89	D
14	D	33	A	52	D	71	D	90	D
15	D	34	B	53	B	72	C	91	D
16	D	35	A	54	B	73	D	92	C
17	A	36	A	55	D	74	A	93	D
18	B	37	A	56	D	75	D		
19	D	38	C	57	A	76	C		

Unit-2

Demand, Supply & Equilibrium

1. Which one of the following is not held to be constant when a demand schedule is drawn up?
- A consumer's tastes
 - B consumer's money incomes
 - C the price of the good itself
 - D the price of the complementary goods

June 1980, June 1985

2. Which of the following might explain a simultaneous increase in both price and quantity traded in the market for a normal good?

- A the removal of an effective maximum price on the good.
- B technological progress in the production of the good.
- C the imposition of a tax on the good.
- D the granting of a subsidy to producers of the good.

June 1984 , June 2003/Q14, Nov 2008/Q10

3. Which one of the following could not cause a shift in Smith's demand curve for commodity Z?

- A a change in the price of Z.
- B a change in the price of substitute commodity.
- C a change in Smith's income.
- D a change in Smith's tastes.

Dec 1984 , June 2005/Q5

4. The demand curve for a product will tend to shift to the right if there is

- A an increase in the demand for a complementary good.
- B an increase in the demand for a substitute good.
- C a fall in the price of the product on world markets.
- D a reduction in the tax imposed by the government on the product.

Nov 2001, June 1989, Dec 1985

5. In diagrammatic terms, other things remaining the same, a fall in the price of a commodity will normally shift

- A the demand curve for the commodity to the right.
- B the demand curve for a substitute to the left.
- C the demand curve for a complement to the left.
- D the supply curve for the commodity to the right.

June 1986, June 2001

6. The market demand equation for a good is given by $Q_d = 310 - 20p$ and the supply equation by $Q_s = 10 + 10p$. Where p denotes the price of the good.

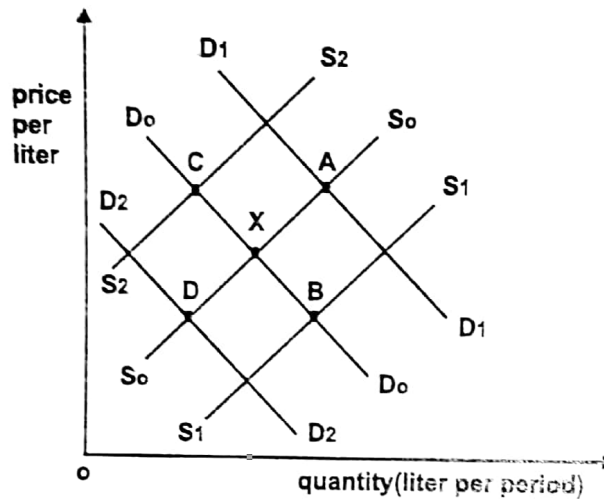
What is the equilibrium price?

- A 5
- B 10
- C 15
- D 20

Dec 1986, June 2005/Q12

7. In deriving the demand curve for a good, which of the following is allowed to vary?
- A income
 - B the price of the good being considered.
 - C the price of all other goods.
 - D population
- Nov 1981, Nov 1988 , Nov 1991
8. In calculating the short-run supply schedule for a firm , What is assumed to remain unchanged?
- A the number of consumers
 - B the price of the goods
 - C the quantity of all factors
 - D the state of technology
- June 1989 , Nov 2003/Q8
9. Which of the following will **not** cause a shift in the market supply curve of a commodity?
- A a rise in the price of commodity
 - B a rise in the price of factor input.
 - C a change in technology.
 - D the introduction of a specific tax on the commodity.
- June 1990 , Nov 2005/Q9
10. Which of the following will cause the demand curve for domestically produced cars to shift to the left?
- A an increase in the costs of production of domestically produced cars.
 - B a reductions in the tariff on imported cars.
 - C a reduction in the tax on petrol.
 - D a reduction in taxes on the purchase of cars.
- Nov 1990, Nov 2000, June 2011/P12/Q5
11. During a certain period, 10 000 units of a normal good are sold at a price of 20 c. During a later period, 12 000 units are sold at a price of 22 c. What could explain this change?
- A a reduction in consumers' incomes
 - B an increase in the cost of raw materials
 - C an increase in the price of a substitute commodity
 - D an increase in the productivity of factors of production
- June 1985, Nov 1990 , June 2004/Q7
12. Which of the following would cause the supply curve wool for suits to shift to the right?
- A a reduction in a tariff on imported wool used in suit manufacture.
 - B a successful advertising campaign by an association of suite manufacturers.
 - C an increase in the prices of jeans and shirts.
 - D an increase in the selling price of suites.
- Dec 1983, June 1991

13. In the diagram, points X shows the equilibrium price and quantity for a fruit drink. The government announces that the ingredients used in the drink can be harmful. Which point, A, B, C or D, is most likely to represent the new equilibrium after consumers hear this announcement?

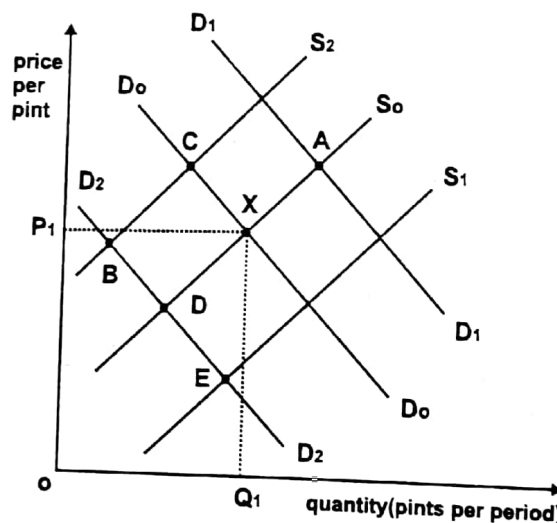


Nov 1983, June 1991

14. The demand for illegal addictive drugs remains constant for some time in a country. Which of the following would an economist regard as the best indicator of the success of a campaign to restrict the supply of addictive drugs?
- A an increase in the quantity of drugs seized by the customs and excise service.
 - B an increase in medical expenditure on rehabilitating addicts.
 - C an increase in expenditure on the enforcement campaign.
 - D a sharp rise in the street price of addictive drugs.

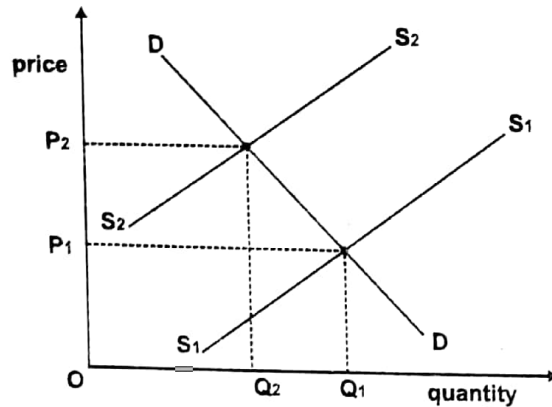
15. In the diagram, point X shows the equilibrium price and quantity for a fruit drink. The government announces that the sweeteners used in the drinks have been found to cause cancer in rats. Which labeled point is most likely to represent the new equilibrium position after consumers hear this announcement?

June 1991



Nov 1991

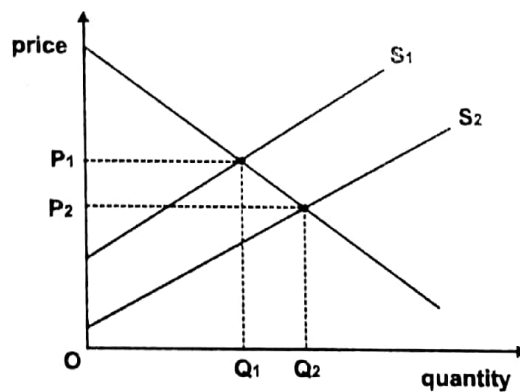
16. The diagram represent the market for coal.



Which of the following could have caused an increase in the price from P_1 to P_2 ?

- A the opening up of new, highly productive opencast mines
- B a fall in the price of gas central heating
- C an increased government subsidy to coal producers
- D a rise in the wages of coal miners

17. In the diagram, D is the demand curve for a commodity, S_1 and S_2 are the supply curves before and after intervention by the government. Nov 1991



What action has the government taken?

- A It has given producers a subsidy to encourage greater output.
- B It has given a subsidy to consumers.
- C It has raised the price to consumers to ration the quantity available.
- D It has imposed a tax equal to $P_2 - P_1$ to discourage production.

18. Demand for a good is said to be effective only when it is associated with Nov 1991

- A knowledge of the characteristics of the good.
- B the existence of an adequate supply of the good.
- C the satisfaction of a want.
- D willingness and ability to pay for the good.

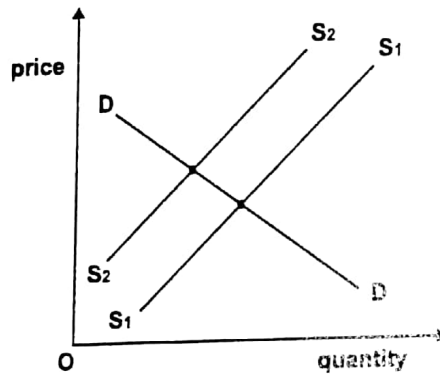
June 1992, June 1998, Nov 2000

19. New technology makes it possible to produce more of a good at every given price. What effect will this have on equilibrium price and output in a competitive industry?

	Price	Output
A	Decrease	Decrease
B	Decrease	Increase
C	no change	Increase
D	Increase	Decrease
E	Increase	Increase

June 1992

20. The diagram shows the market conditions for good X. Which of the following changes could cause a shift in the supply curve from S_1S_1 to S_2S_2 ?



- A an improvement in the method of producing good X.
 B an increase in the demand for goods which are produced in joint supply with good X.
 C a reduction in the rate of value added tax applied to good X.
 D the removal of a subsidy paid to the producers of good X.

Nov 1981, Nov 1992

21. An eighteenth century Swiss clock maker made a total of 15 identical carriage clocks. There are currently just three collectors of these clock. X, Y and Z. The table shows their demand schedules.

Price (£000)	Quantity demanded (units)		
	X	Y	Z
5	0	0	3
4	1	0	4
3	2	3	5
2	3	6	6
1	4	9	7

X, Y and Z initially possess 5 clocks each. They then come together to trade between themselves at the market clearing price (or equilibrium price) which of the following is correct?

- A X is a buyer; Y and Z are sellers.
 B X and Y are buyers; Z is seller.
 C X and Z are buyers; Y is a seller.
 D Y and Z are buyers; X is a seller.

Nov 1980, June 1994

22. Which schedule shows the maximum price at which a firm would be able to sell any given level of output?

- A demand schedule
- B marginal revenue schedule
- C production schedule
- D supply schedule

23. Goods X and Y are substitutes. Nov 1998, June 1995

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

	Price of X	Quantity of X
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

June 1996

24. What would cause the demand curve for holiday accommodation in Mauritius to shift to the right?

- A a fall in the foreign exchange value of the Mauritius rupee.
- B poor holiday weather in Mauritius.
- C relaxation in planning controls on hotel construction in Mauritius.
- D removal of sale taxes on hotel accommodation in Mauritius.

Nov 1996 , Nov 2004/Q6

25. The demand for video recorders increase, while the cost of producing them decreases. What will be the effect on the price of video recorders and on the quantity supplied?

	Price	Quantity
A	fall	Uncertain
B	rise	Increase
C	uncertain	Increase
D	uncertain	Uncertain

June 1997

26. Which of the following is a characteristic of goods that are perfect complement?

- A joint demand
- B joint supply
- C Indivisibility in production
- D Positive cross-elasticity of demand

June 1990, Nov 1997

27. A rise in the price of a good is accompanied by an increase in the quantity demanded. What could explain this?

- A Consumers spend a high proportion of disposable income on the good.
- B The good is inferior and has several close substitutes.
- C The good's substitutes are all very much more expensive.
- D The price of the good is taken as an indication of quality.

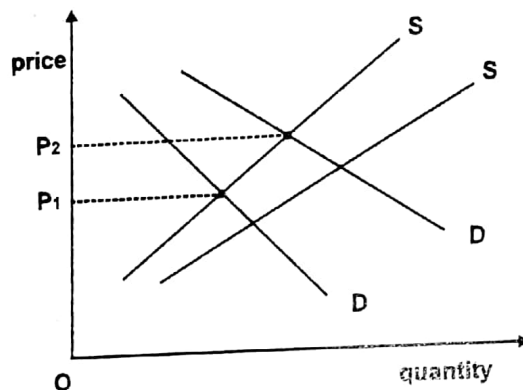
June 1998

28. What would be likely to cause an increased demand by private motorists for petrol?

- A an increase in the road toll charges.
- B an increase in the price of second-hand cars.
- C a reduction in bus fares.
- D a reduction in the price of steel.

June 1999 , June 2003/Q7

29. The diagram shows different demand and supply curves within a country for home-produced coal. What could explain the fall in the price of coal in the diagram from OP_2 to OP_1 ?



- A a fall in the cost of oil-fired central heating
- B an increase in the duty on imported petroleum
- C an increase in the industrial demand for coal
- D a subsidy for the coal industry

June 1989, June 1999

30. Which of the following will cause the demand curve for holiday accommodation in the UK to shift to the right?

- A poor holiday weather in the UK.
- B reduced employment in the UK tourist industry.
- C a fall in the foreign exchange value of sterling.
- D relaxation in UK planning controls on hotel.

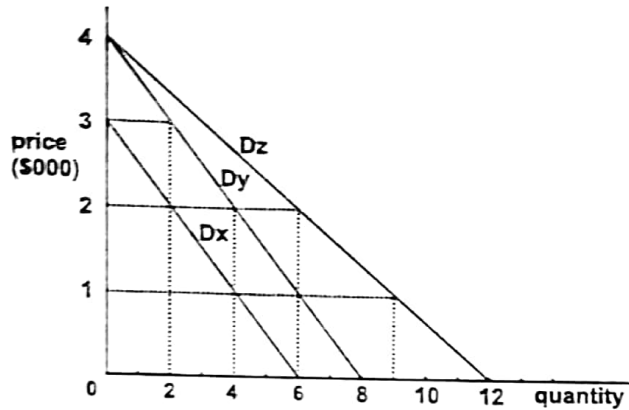
Nov 1999

31. What is most likely to cause an increase in waiting lists for public sector rented accommodation?

- A an increase in house building.
- B an increase in the rents of public sector housing.
- C an increase in interest rates on loans for house purchase.
- D government subsidies for people buying their first home.

June 2000

32. 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.

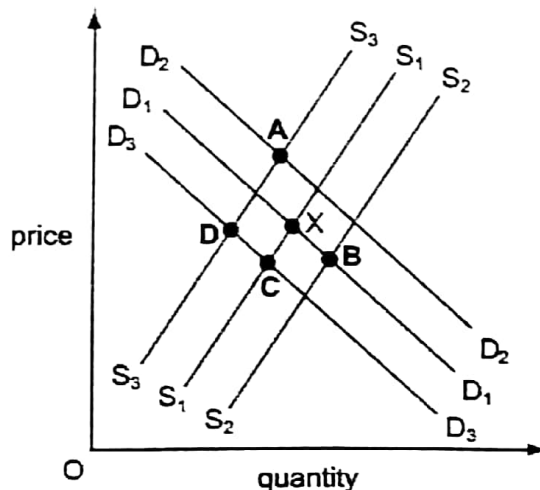
At the market clearing price (or equilibrium price), which of the following is correct?

	Buyer (s)	Sellers(s)
A	X	Y and Z
B	Y and Z	X
C	X	Z
D	Z	X

June 2002/Q10

33. In the diagram below D_1 and S_1 represent the demand and supply curves of a Malaysian industry in its home market. Equilibrium is at X. The industry has to pay a large wage increase and at the same time faces increased competition from imported substitutes.

Which point, A, B, C, or D, on the diagram could represent the new equilibrium?



Dec 1987, June 2004/Q8, June 2008/Q11

34. The table shows observations of a competitive market in equilibrium in two periods.

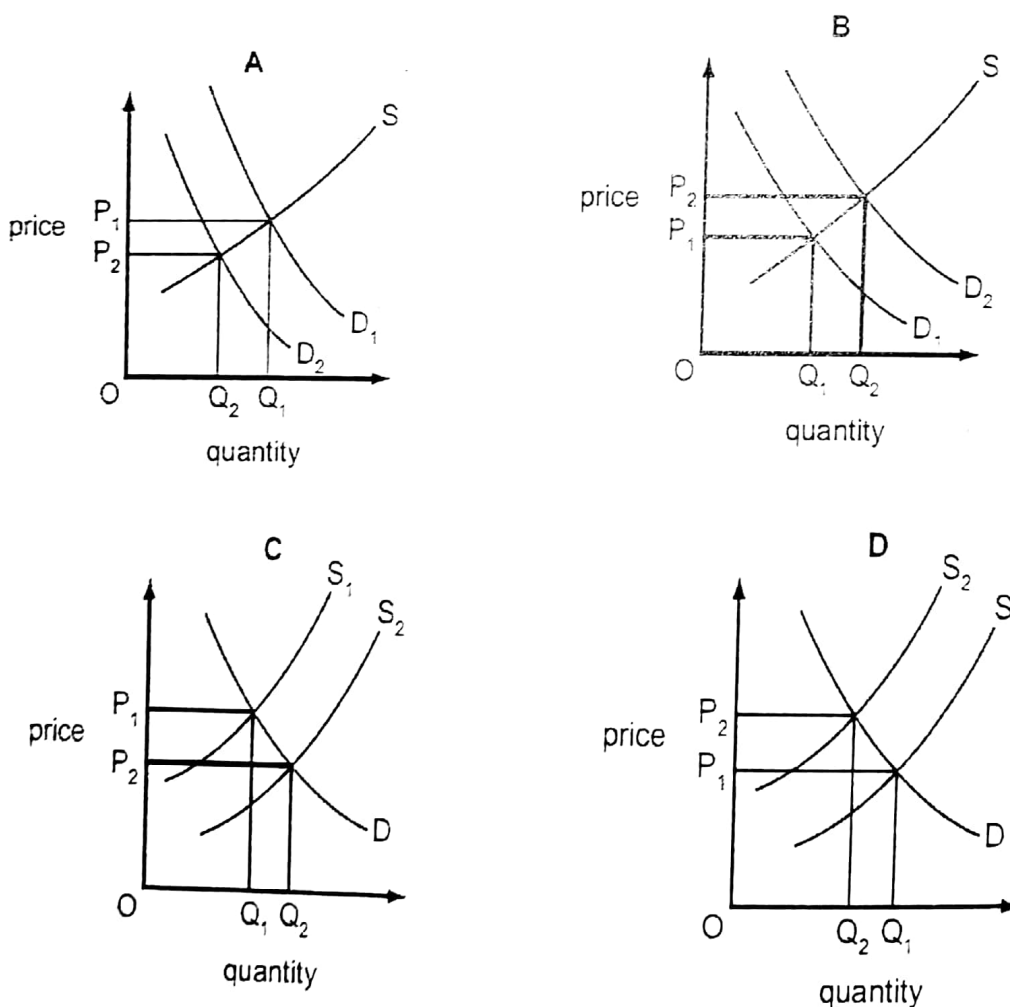
Period	market price	quantity traded
1	50 cents	10 000 units
2	60 cents	12 000 units

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 an indirect tax on suppliers.
- D the imposition of a minimum price of 60 cents by a government.

June 1992, Nov 1995, Nov 2004/Q13

35. In the last ten years e-mail has increasingly been used in preference to postal services. Which graph shows the changes in the market for postal services?



June 2004/Q5

36. What ensures that demand for a product is effective?
- A The consumer must be in the private sector of the economy.
 - B The consumer must have sufficient income to buy the product.
 - C The consumer must receive consumer surplus.
 - D The consumer must want to buy the product.

37. The table shows the levels of demand for silver in millions of ounces for different uses between 1999 and 2001. Nov 2004/Q5 , June 2007/Q5

	1999	2000	2001
Industrial use	340.6	377.1	338.5
Photography	225.9	219.5	210.2
Jewellery and silverware	273.3	281.4	287.6
Coins and medals	27.6	29.8	27.2

What can be concluded about the different demands for silver between 1999 and 2001?

- A All types of demand followed the same trend
- B Industrial use had the greatest fall in demand.
- C Jewellery and silverware had a continuous increase in demand.
- D Total demand increased.

Nov 2005/Q5

38. Which piece of information would enable you to construct the market demand curve for a product?
- A the equilibrium price of the product
 - B the number of consumers who would purchase the product at each price
 - C the number of firms in the industry
 - D the quantity that each consumer would be willing and able to buy at each price

June 2006/Q5

39. The market demand for a product is made up of the demand from three firms, X, Y and Z. The table shows the demand from each firm and the market supply.

price \$	demand from X	demand from Y	demand from Z	market supply
7	3300	3300	3300	3300
8	3100	2900	3100	6200
9	2800	2500	2900	8200
10	2500	2100	2700	10 000

What is the equilibrium price in the market?

- A \$7
- B \$8
- C \$9
- D \$10

Nov 2006/Q5

40. 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

Nov 2007/Q5

41. The demand for a product is affected by a number of influences.
What will cause a movement along its demand curve?

- A a rise in consumers' income
- B a rise in the popularity of the product
- C a rise in the population
- D a rise in the price of the product

June 2008/Q5

42. A change in the price of a good causes an increase in the quantity of the good demanded.
What would be the nature of the good and the direction of price change for this to be certain to happen?

	nature of good	price change
A	inferior	fall
B	inferior	rise
C	normal	fall
D	normal	rise

Nov 2008/Q5

43. What is not held constant when aggregating individual firms' supply curves to give the 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

June 2009/Q5

44. A change in market conditions causes a reduction in supply. This results in a higher price for the product, which has a downward-sloping demand curve.

What must be the outcome of this higher price?

- A an increase in the factors employed in the industry
- B an increase in producer's revenue
- C a reduction in the quantity demanded
- D a reduction in the demand for substitutes

Nov 2009/P12/Q4

45. The table gives the short-run supply schedules of three firms X, Y and Z, which comprise an industry.

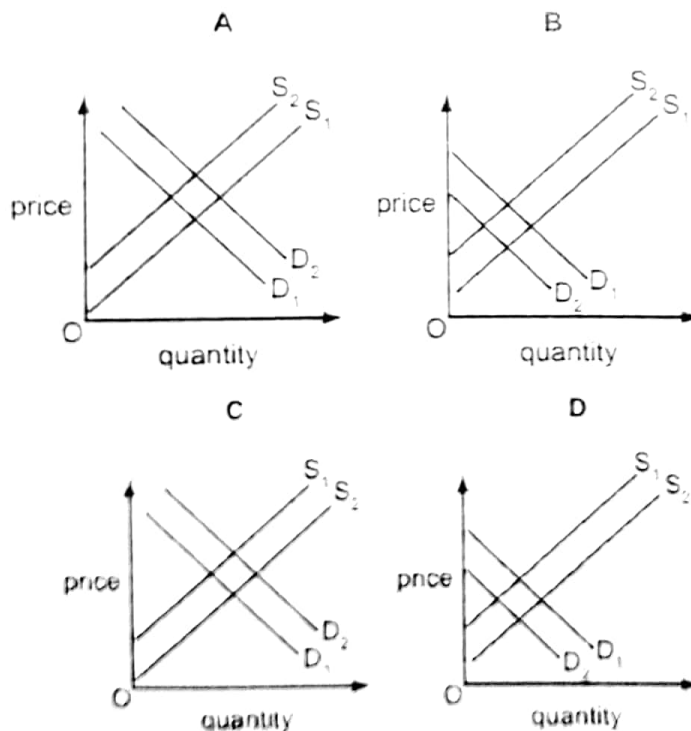
price (\$)	quantity supplied (units)		
	firm X	firm Y	firm Z
1	100	-	-
2	150	50	-
3	200	80	70
4	250	150	100

Which is a point on the short-run supply schedule of the industry?

	price (\$)	units
A	2	300
B	3	350
C	3	450
D	4	1150

June 2003/Q11

46. The diagrams show a change in demand from D_1 to D_2 and a change in supply from S_1 to S_2 for four different goods. Which diagram illustrates the good for which new uses have been found and which receives an increase in government subsidy?



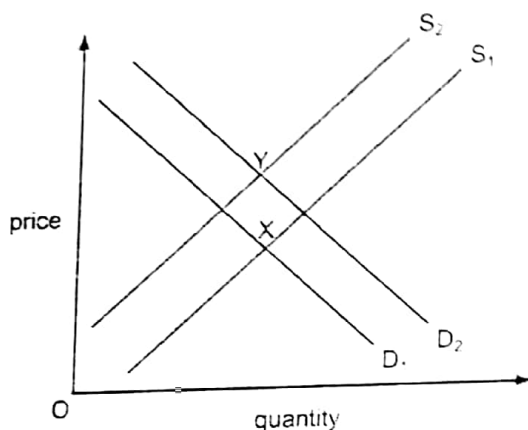
Nov 2003/Q11

47. Assume that rice is a substitute for potatoes. If there is a decrease in the supply of potatoes, what is likely to happen to the market for rice in the short run?

- A Demand will decrease and the price will decrease.
- B Demand will increase and the price will increase.
- C Supply will decrease and the price will increase.
- D Supply will increase and the price will decrease.

Nov 2004/Q1

48. The diagram shows the market for new houses.

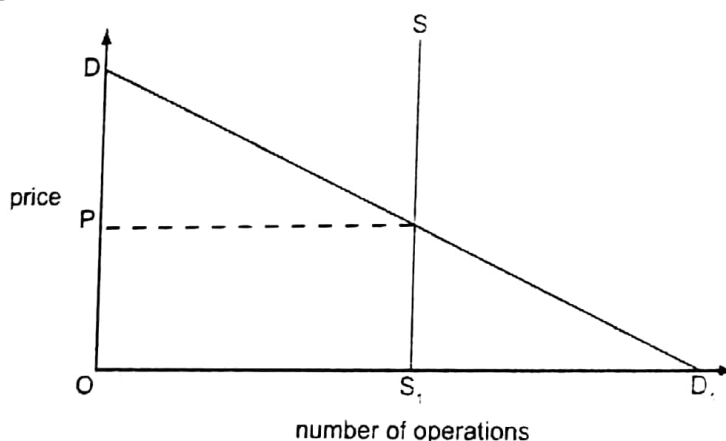


What would cause the change in the market equilibrium position from X to Y?

- A a fall in income tax and a rise in building costs
- B a fall in interest rates and an increased efficiency in house-building
- C a fall in population and a rise in taxes on building materials
- D a rise in building subsidies and a fall in incomes

June 2005/Q1

49. The diagram shows the demand curve, DD_1 , and the supply curve, SS_1 , for eye operations

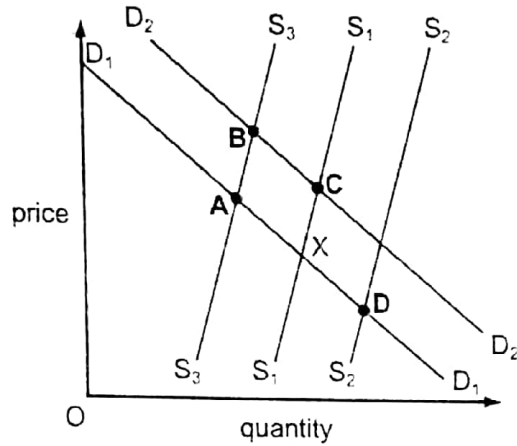


The operations are provided free. Which statement is true?

- A The equilibrium price is zero.
- B The equilibrium price is P.
- C The equilibrium price is indeterminate, because the supply curve is vertical.
- D Consumer surplus from the operations is ODD_1 .

Nov 2005/Q1

50. In the diagram, S_1 and D_1 are the initial supply and demand curves for tea and X is the original equilibrium. There is then a failure in the coffee harvest of a major coffee producer. Which point would represent the equilibrium position in the tea market as a result of this failure?



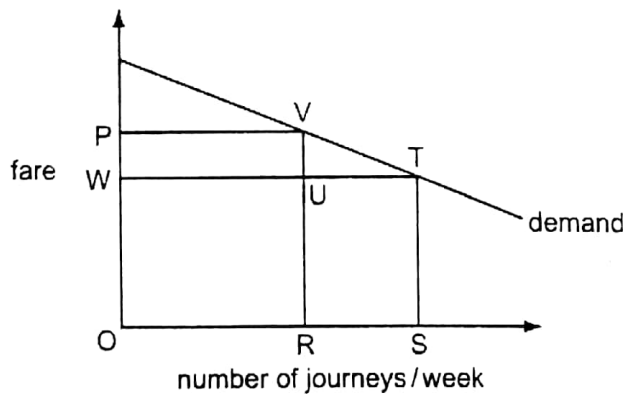
51. Goods X and Y are complements. What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

Nov 2006/Q11

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

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

June 2007/Q11, Nov 2000

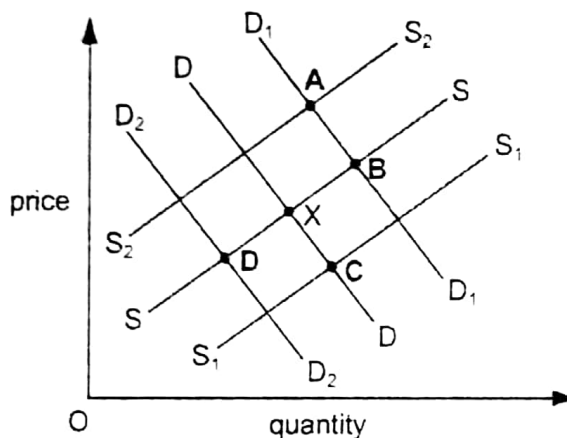


Initially the fare is OP, but it is then reduced by PW. Which area measures the amount spent on the extra journeys resulting from the lower fare?

- A VUT B PWTV C VRST D URST

Nov 2007/Q11

53. The diagram shows demand and supply curves for petrol. The present equilibrium is at X. What could be the new equilibrium if there were a large fall in the price of cars?

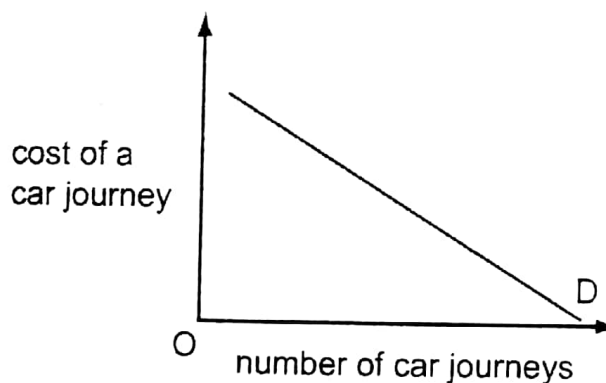


June 2001, Nov 2008/Q11

54. 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 needs 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.

Nov 2009/12/Q10

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

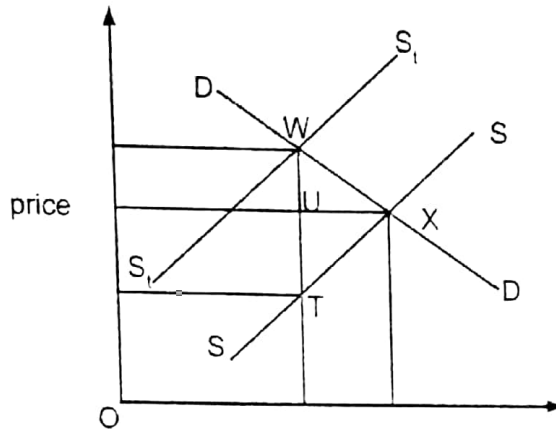


What would cause the demand curve to shift to the left?

- 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

Nov 2009/P12/Q11

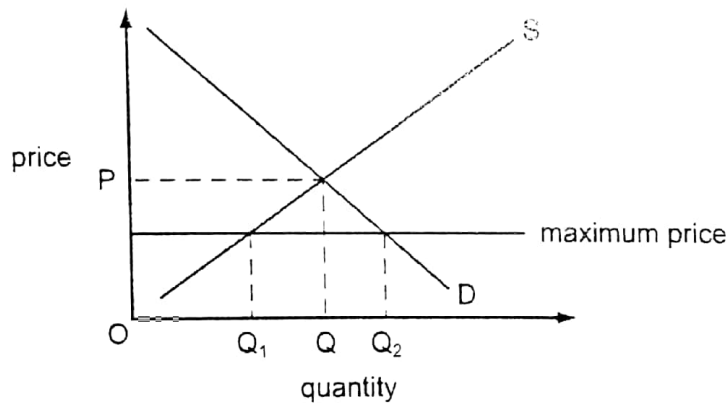
56. A specific tax is placed on the sale of bottles of lemonade. In the diagram, SS is the supply curve before imposition of the tax and S_tS_t is the supply curve after tax.



Which distance represents the specific tax on each bottle?

- A UT B WT C WU D WX
 June 2003/Q12

57. The diagram shows a market subject to a maximum price.

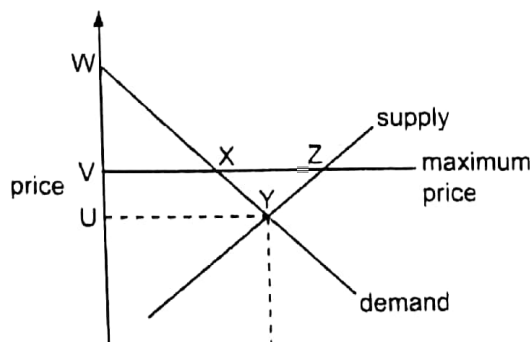


What will happen if the maximum price is removed?

- A There will be allocation by a queuing system.
 B There will be allocation by government rationing.
 C There will be allocation by seller's preference.
 D There will be allocation by the price system.

Nov 2006/Q12

58. The diagram represents a market for a good, in which the equilibrium price is OU.



A maximum price of OV is imposed by law.

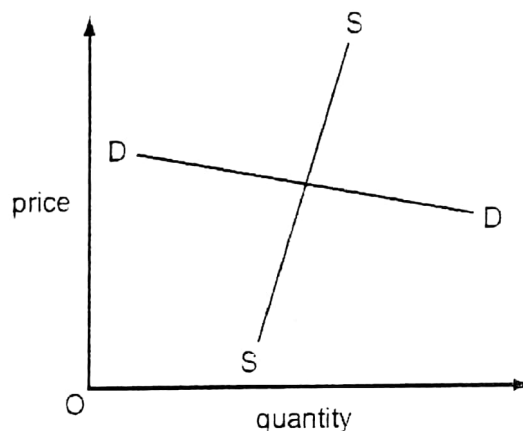
What effect does this have on consumer surplus?

- A It decreases by area VXYU.
- B It increases by area WXV.
- C It increases by area XYZ.
- D It is not affected.

Nov 2003/Q13, June 2007/Q13

59.

The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax. What will be the result of this tax?



- A Most of the incidence of the tax will fall on the producer.
- B The new demand curve will be parallel to DD.
- C The price will rise by the full amount of the tax.
- D The quantity bought will fall proportionately to the tax rate.

June 2008/Q12

60.

Between 2006 and 2007, the price of skimmed milk powder on the world market rose from \$1000 per tonne to \$2400 per tonne.

Assuming that the market is a free market, what will result from the price change?

- A Consumers will buy more complements to skimmed milk powder.
- B Farmers will increase the size of their dairy herds to supply more milk.
- C Firms processing milk into skimmed milk will switch to producing substitutes.
- D Governments will introduce a system of rationing.

June 2009/Q12

61.

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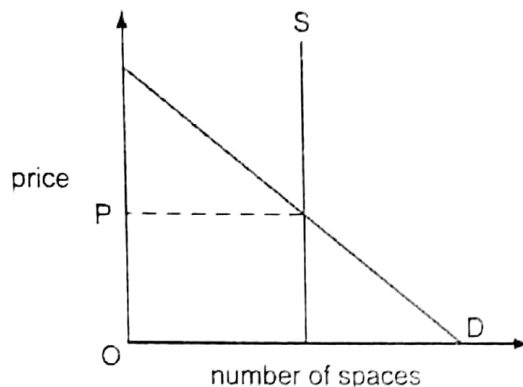
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- C Firms processing milk into skimmed milk will switch to producing substitutes.
- D Governments will introduce a system of rationing.

June 2009/Q12

62. For price to act as a rationing mechanism, the effect of a rising price must be to
- A attract new firms into the market.
 - B generate additional profits for producers.
 - C reduce the quantity demanded by some individuals.
 - D signal the need for a reallocation of resources.

June 2003/Q13

63. The managers decide to rely on the price mechanism to allocate parking spaces at the hospital most effectively.



What is required in order for this to work?

- A Alternative means of transport must be provided for those unable to afford price OP .
- B A survey will be needed to find out the amount users are willing to pay.
- C The capacity of the car park will need to be expanded.
- D The price charged for parking spaces must be OP .

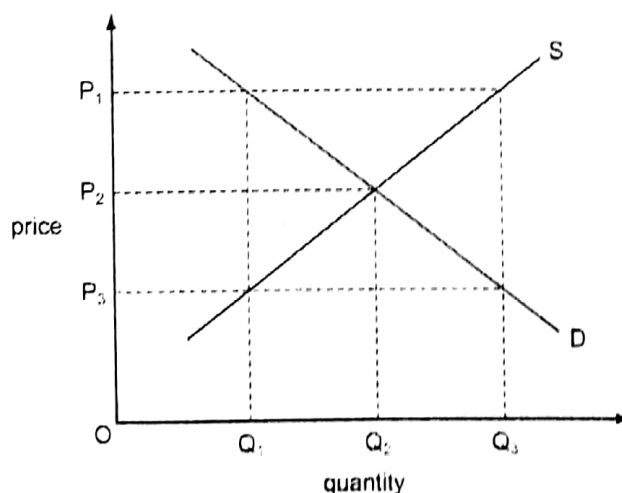
June 2006/Q13

64. What is not correct when price acts as a means to allocate resources?

- A Price determines the supply of public goods.
- B Price operates in the markets for both goods and factors of production.
- C Price recognises consumers' ability to pay rather than consumers' needs.
- D Price signals to producers which goods are most profitable.

Nov 2006/Q13

65. In a free market in disequilibrium, which combination of price and quantity will lead to a fall in price and a contraction in output to reach equilibrium?



- A P_1Q_1 B P_1Q_3 C P_3Q_1 D P_3Q_3

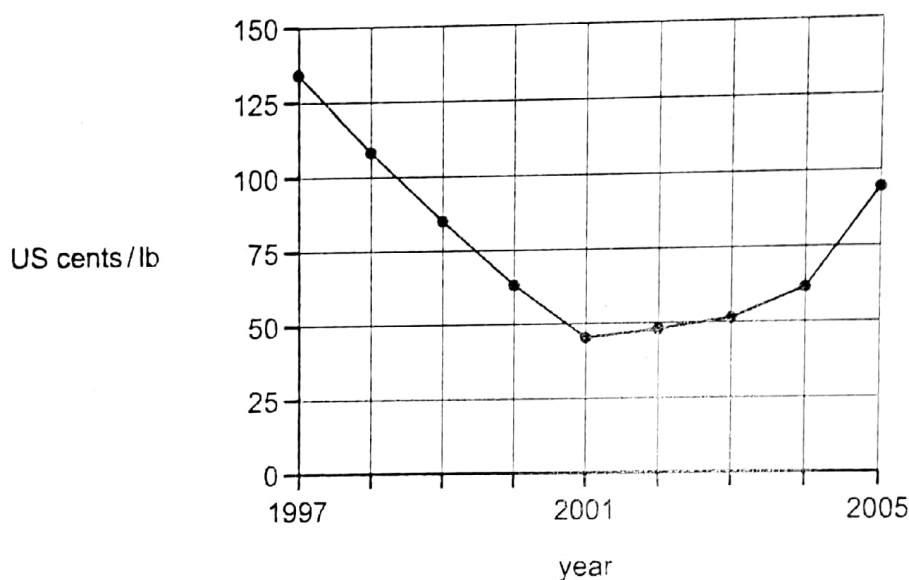
66. Which government policy might limit the rationing function of the price mechanism?

- A the imposition of tariffs on imported consumer goods
- B the levy of indirect taxes at varying rates on different goods
- C the payment of subsidies to food producers
- D the setting of maximum prices for rented housing

June 2008/Q13

67. The diagram shows the average world price of coffee in US cents per pound weight (lb) between 1997 and 2005.

The price of coffee, 1997 to 2005



Which event is consistent with the price behaviour shown in the specified time period?

- A a continuous rise in the price of tea between 1997 and 2001
- B the entry to the market of new producers of coffee between 1997 and 2001
- C a series of good coffee harvests between 2001 and 2005
- D increasing health worries about drinking coffee between 2001 and 2005

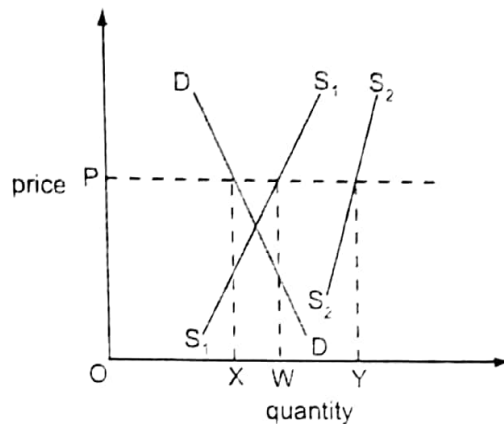
Nov 2008/Q13

68. 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.

Nov 2007/Q7

69. In the diagram S_1S_1 and S_2S_2 are the supply curves for an agricultural product in years 1 and 2 respectively. DD is the demand curve in years 1 and 2. In year 1 the government purchases an amount necessary to ensure that the price is at the level OP .



If the price is to be held at OP in year 2, how much must the government buy?

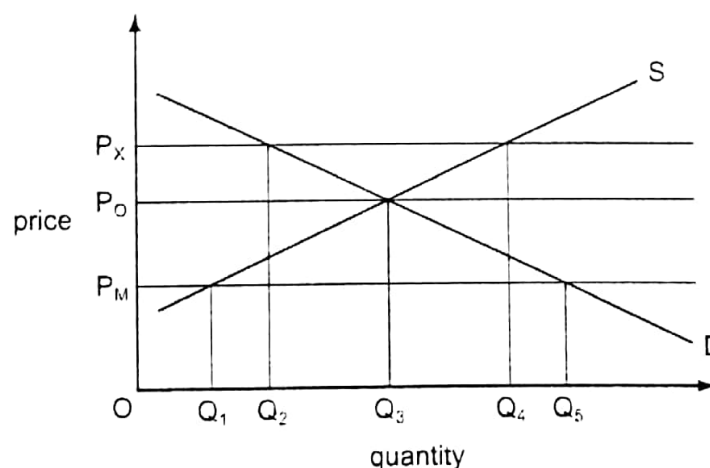
- A OY B XW C WY D XY
 Nov 2003/Q17

70. Brazil and Colombia attempt to control the supply of coffee in the world market to help stabilize their incomes. What condition is essential for this to stabilise their incomes effectively?

- A There must be large firms in the industry.
 B It must be possible to store the coffee and release stocks when necessary.
 C Other countries must supply a significant percentage of the total market.
 D The demand for the product must be elastic.

June 2004/Q17

71. The diagram shows the market for spectacles. Initially the market equilibrium price is P_0 and quantity Q_3 is bought and sold.

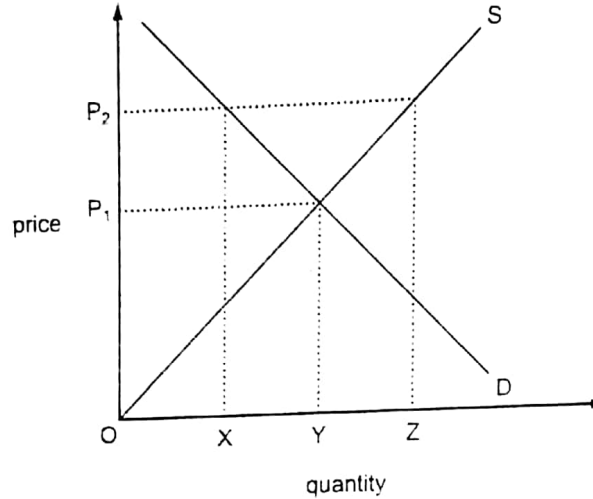


The government then sets both a maximum spectacle price of P_x and a minimum price of P_m . What effect will these measures have on the market for spectacles?

- A create a shortage of spectacles equal to Q_1Q_5
 B create a surplus of spectacles equal to Q_2Q_4
 C create a surplus of spectacles equal to Q_3Q_4
 D leave the quantity bought and sold unchanged

Nov 2004/Q17

72. The diagram shows the market for wheat.

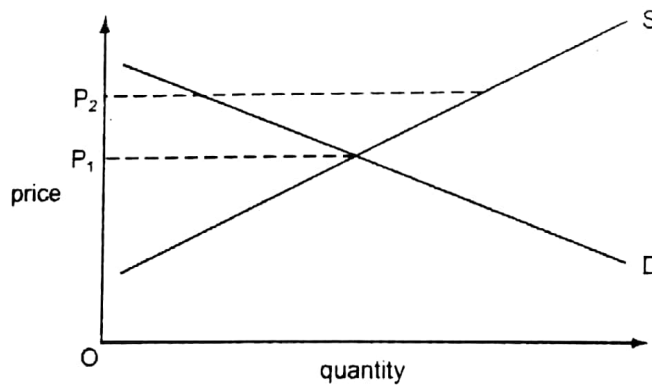


What quantity of wheat must the government buy if it wishes to raise the market price from P_1 to P_2 ?

- A OZ B XY C XZ D YZ

June 2005/Q17, Nov 2009/P12/Q16

73. The diagram shows the original market clearing price is P_1 . The government then imposes a maximum price of P_2 on the industry.

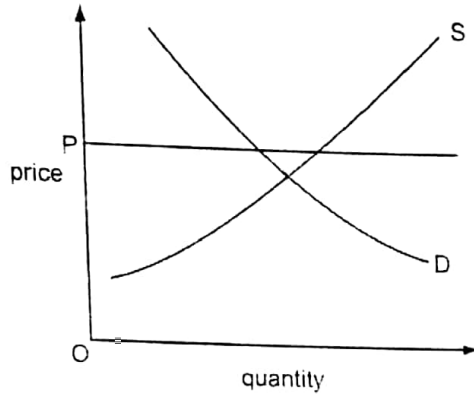


What will result from this?

- A a higher price and output
 B a shortage
 C a surplus
 D an unchanged price and output

Nov 2005/Q17

74. The diagram illustrates a market for wheat. The government sets a maximum price of OP.

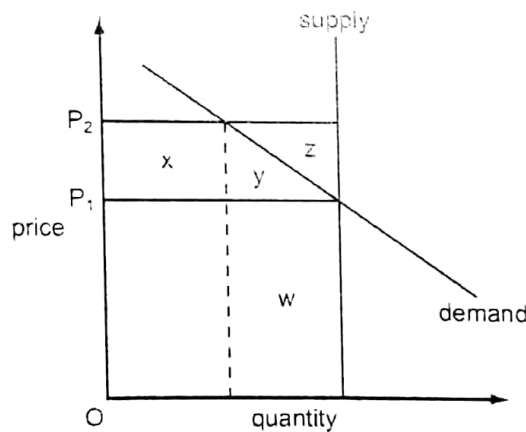


What could cause the maximum price to have an impact on the market?

- A an increased wheat harvest
- B a fall in the price of rice
- C an advertising campaign for bread
- D an increase in subsidies to wheat farmers

June 2006/Q17, Nov 1998

75. The diagram shows the market demand and supply curves for an agricultural product. The government allows the price paid by consumers to be determined by the market, but guarantees producers a price of OP_2 .

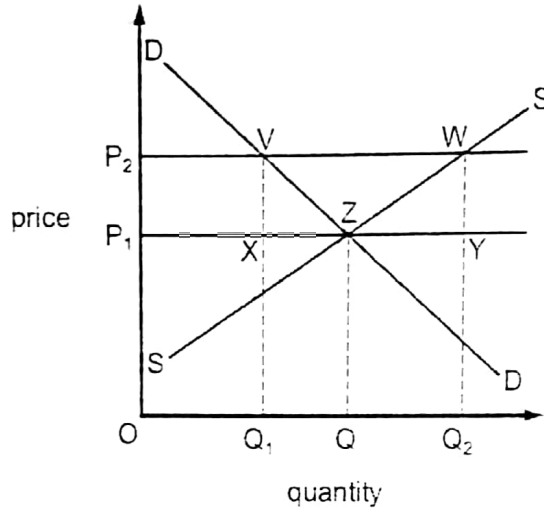


Which area in the diagram represents the total subsidy payments made by the government to producers?

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

Nov 2006/Q17

76. The diagram shows the market for apples. A government maintains a minimum price P_2 by buying apples.

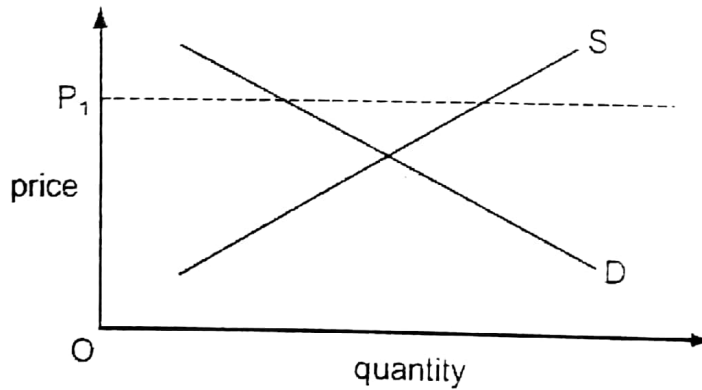


Which area shows the amount of money the government has to spend to maintain the price P_2 ?

- A P_2WYP_1 B P_2VQ_1O C P_2WQ_2O D VWQ_2Q_1

Nov 2008/Q17

77. The government places a maximum price P_1 on an agricultural product. The supply and demand conditions for this product are shown.

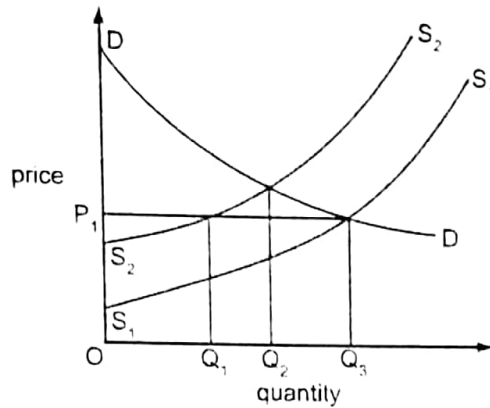


What will be the outcome in the market for this product?

- A There will be an equilibrium price and output.
 B There will be a surplus of the product.
 C There will be higher than expected profits.
 D There will be shortages of this product.

Nov 2009/P12/Q17

78. In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product. Bad weather then reduces supply to S_2S_2 . The government does not allow the price to rise above OP_1 .

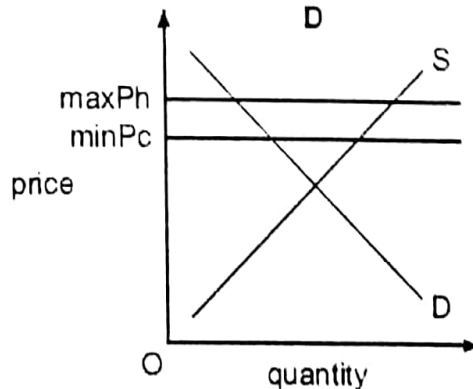
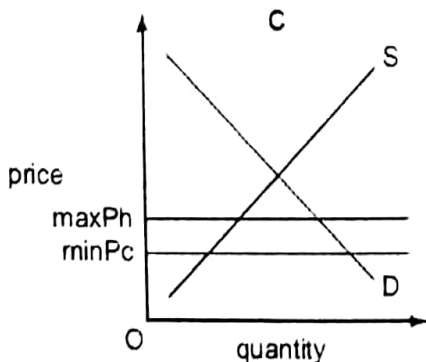
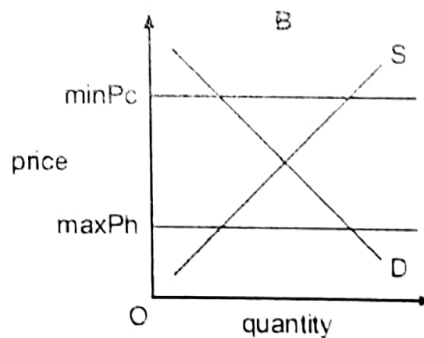
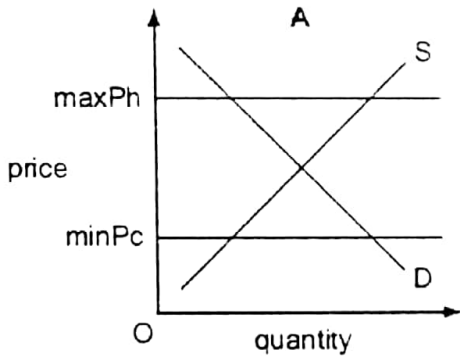


How much of the product will the government have to supply from a buffer stock if demand is to be met?

- A OQ_1 B Q_1Q_3 C Q_1Q_2 D Q_2Q_3

June 1996, June 2003/Q18, Nov 2010/P12/Q18

79. A government introduces a maximum price for house rentals ($maxPh$) and a minimum price for cleaning services ($minPc$). Which diagram shows that the maximum price will be effective and the minimum price will be ineffective in the respective markets?



June 2005/Q18

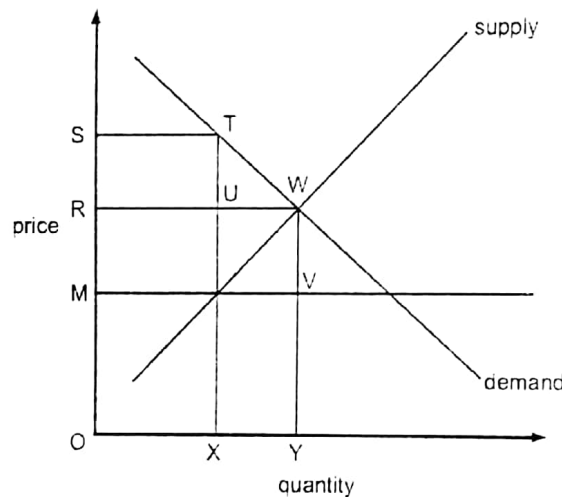
80. A government intends to introduce a minimum price for rice, a maximum price for heating oil and a tax on chewing gum.

Who, in each market, is meant to benefit from these policies?

	market for rice	market for heating oil	market for chewing gum
A	consumers	government	producers
B	government	producers	government
C	producers	producers	consumers
D	producers	consumers	government

Nov 2006/Q18

81. The diagram shows the imposition of a maximum price (OM) on a product. An organisation buys up the total supply at the maximum price and then resells it illegally to gain maximum revenue.



What is the organisation's revenue?

- A OMVY B ORUX C ORWY D OSTX

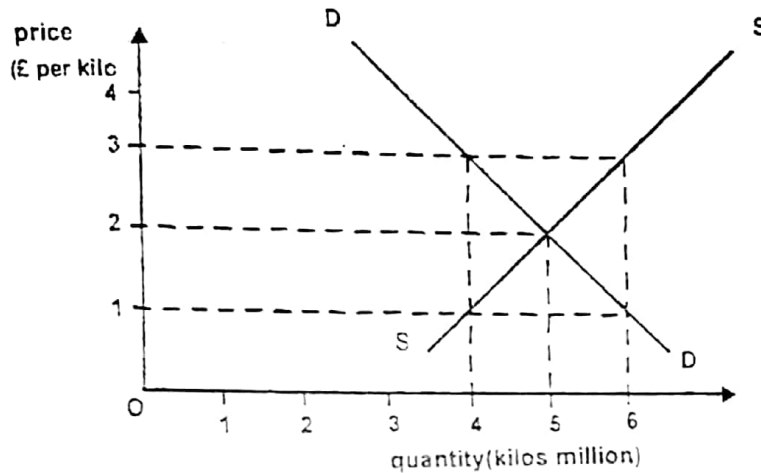
June 2008/Q18

82. The market price of an agricultural commodity was so low that the government fixed a minimum price for it above the market equilibrium price. However, the government did not buy any of the commodity itself. What would happen as a result?

- A There would be an equilibrium in the market but the change in farmers' incomes would be uncertain.
- B There would be a shortage on the market and farmers' incomes would rise.
- C There would be a surplus on the market and farmers' incomes would fall.
- D There would be a surplus on the market but the change in farmers' incomes would be uncertain.

June 2009/P1/Q18

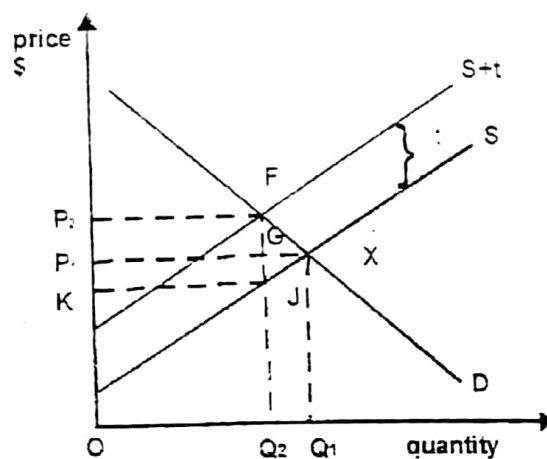
83. The diagram shows the demand and supply curves for an agricultural commodity. A government decides to set a minimum price in the market of £3 per kilo to be maintained by intervention purchases. What would be the government's financial outlay on such intervention?



- A £6 million
- B £10 million
- C £12 million
- D £18 million

June 1988, June 1991

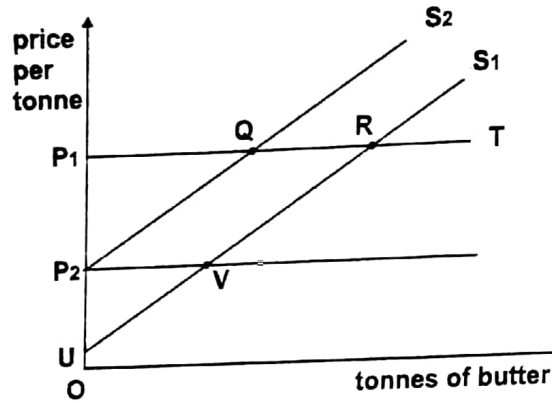
84. In the diagram the initial equilibrium in a market for a good is given by the point X. A government imposes a specific tax of S_1 per unit, and a new equilibrium is established at point F. Which area measure the tax revenue obtained by the government?



- A P_1P_2FX
- B P_1P_2FG
- C P_1KJG
- D P_2FJK

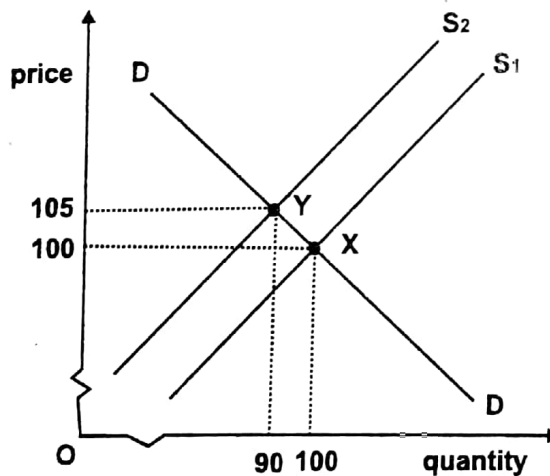
Nov 1991

85. A government decides to prevent the price of butter from rising above OP_1 per tone, by drawing from its stockpile and to prevent the price from falling below OP_2 per tone by adding to its stockpile, as shown in the diagram.
 If the original supply curve was US_1 , what will be the new market supply curve?



- A UP_2S_2 B UP_2OT C P_2QRS D P_2VRT
 June 1986, Nov 1991

86. Point X on the diagram shows the initial equilibrium point in which the government has imposed a specific tax 10 cents per unit.
 The tax is then double to 20 cents per unit, shifting the equilibrium point from X to Y.
 Government tax receipts change from.



Government tax receipts change from

- A zero to \$4.50.
 B zero to \$5.
 C \$5 to \$10.
 D \$10 to \$18.

Nov 1993

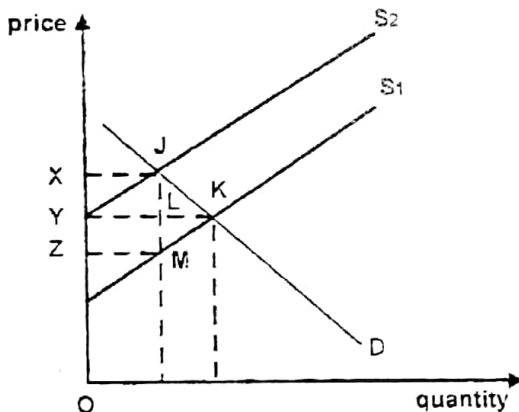
87. The table shows the demand and supply schedule for a good before and after the imposition of a tax.

Price \$	Quantity Demanded	Quantity supplied Before tax	Quantity supplied After tax
20	80	600	320
19	120	440	240
18	170	400	170
17	200	320	130
16	240	240	90
15	400	170	50
14	600	130	20

What was the amount of tax imposed?

- A \$1 B \$2 C \$3 D \$4
Nov 1991

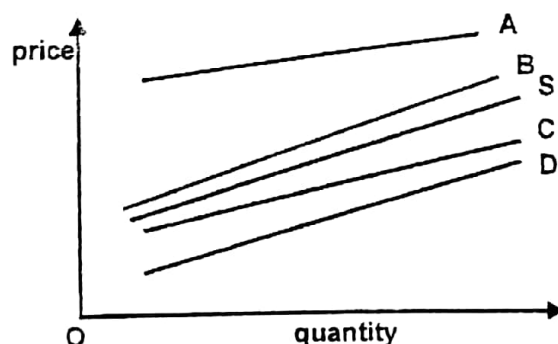
88. The diagram illustrates the effects of placing a specific tax to JM on good. Which area represents total tax receipts?



- A XJKY B XJLY C XJMZ D JKM
Nov 1994

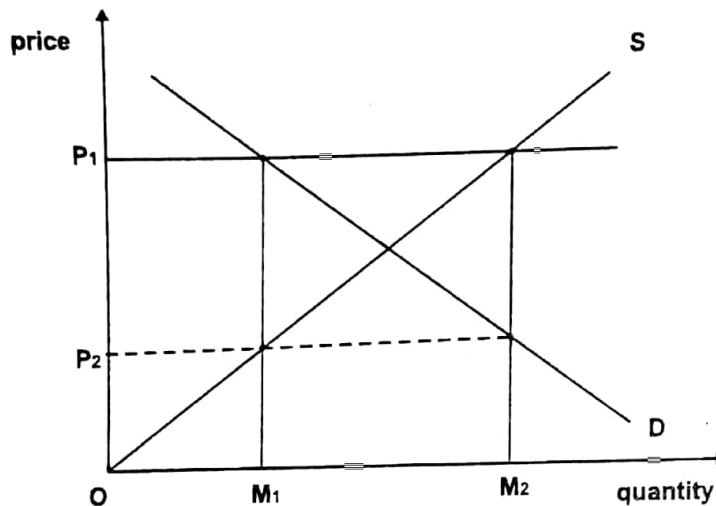
89. In the diagram S is the original supply curve for books in Europe. On joining at trading community, Europe is compelled to impose an ad valorem tax on books.

Which curve represents the new market supply curve for books?



90. 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 the market clearing price.

What will be the quantity supplied and the market clearing price?



	Quantity	Price
A	OM_1	OP_1
B	OM_1	OP_2
C	OM_2	OP_1
D	OM_2	OP_2

June 2000

91. The table demand and supply schedules forced peppers. The equilibrium price is initially 15 cents per kg.

Price per kg cents	Amount demanded kg (thousands)	Amount supplied kg (thousands)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
5	20	11

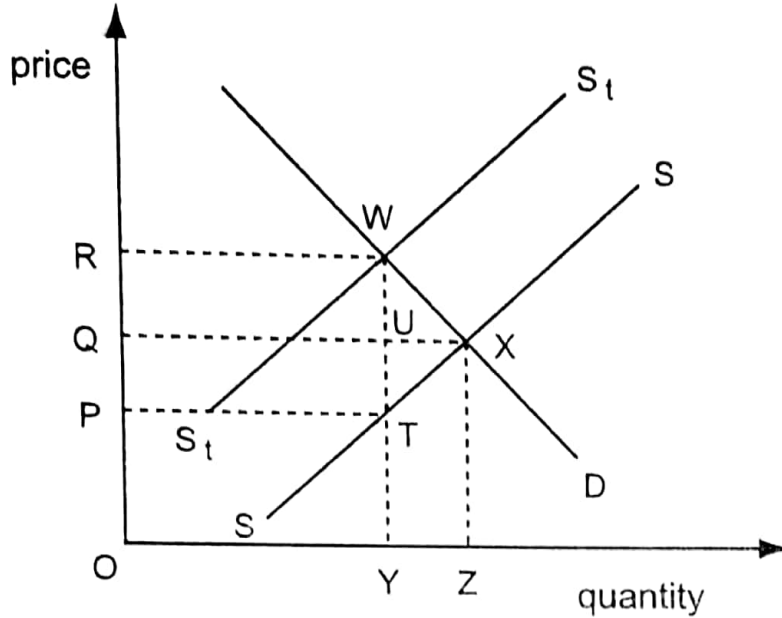
The government pays a subsidy of 10 cents per kg to producers.

What will be the new equilibrium price charged to consumers?

- A 20 cents B 15 cents C 10 cents

D 5 cents
Dec 1984, Nov 2000

92. A specific tax is placed upon each bottle of perfume sold, In the diagram, SS is the supply curve before tax, $S_t S_t$ the supply curve after tax.



Which area represents the revenue received by the government form the tax?

- A ORWY
- B PQUT
- C PRWT
- D QRWU

Nov 2009/P12/Q8

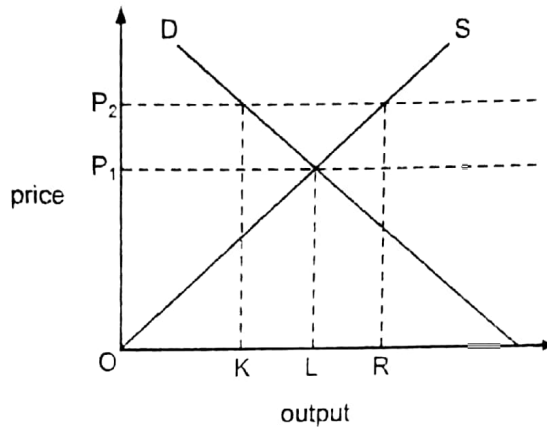
93. The table shows the demand and supply schedules for a good before and after the imposition of a tax.
 What was the amount of the tax?

price (\$)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

- A \$1
- B \$2
- C \$3
- D \$4

Nov 2003/Q9

94. The diagram shows the market supply and demand curves for corn.

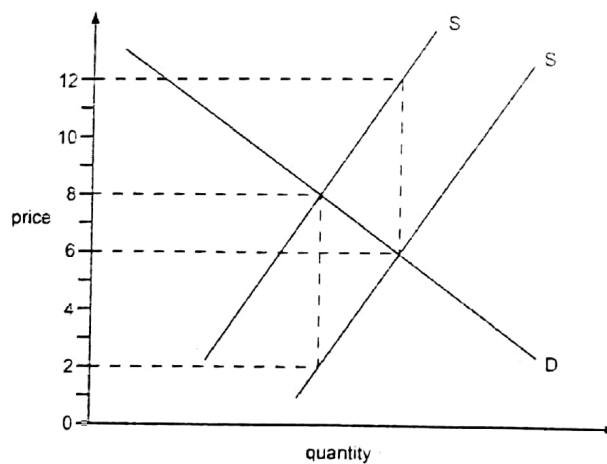


What should a government do if it is to maintain a minimum price OP_2 ?

- A buy quantity KR
- B buy quantity LR
- C sell quantity KL
- D sell quantity OL

June 2004/P3/Q15

95. The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.



What is the tax per unit of output and what is the price after the removal of the tax?

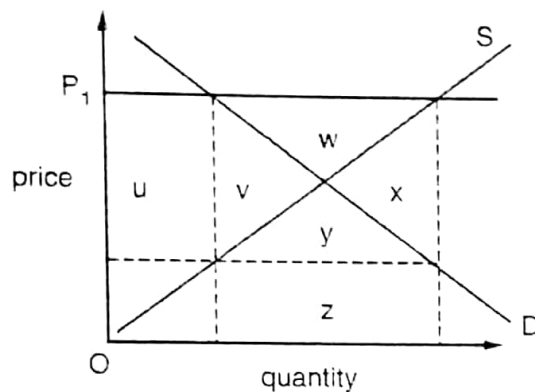
	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

Nov 1997, Nov 2005/Q13

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

The government sets a minimum guaranteed price equal 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 $v+w+x+y+z$

June 2002/Q13

97. The table shows the market supply for a raw material and the individual demand of the three firms, X, Y and Z, which are its only buyers.

price \$ (per kilo)	market supply (000s)	demand by X (000s)	demand by Y (000s)	demand by Z (000s)
7	30	13	27	20
8	40	12	25	18
9	50	11	23	16
10	60	10	20	15

What is the equilibrium market price of the raw material?

- A \$7 B \$8 C \$9 D \$10

June 2010/P12/Q4

98. In 2008 the demand curve for new cars in the European Union shifted to the left.

Which change could have caused such a shift?

- A an increase in real disposable income
 B an increase in the cost of borrowing
 C an increase in the price of new cars
 D an increase in the price of train travel

June 2010/P12/Q5

99. Worldwide, the film industry has increased its expenditure to over \$1 billion each year on successful anti-piracy measures which it finances by charges on DVD products. How would this be shown in a demand and supply diagram of the market for legally produced DVDs?

	demand curve	supply curve
A	shifts left	shifts left
B	shifts left	shifts right
C	shifts right	shifts left
D	shifts right	shifts right

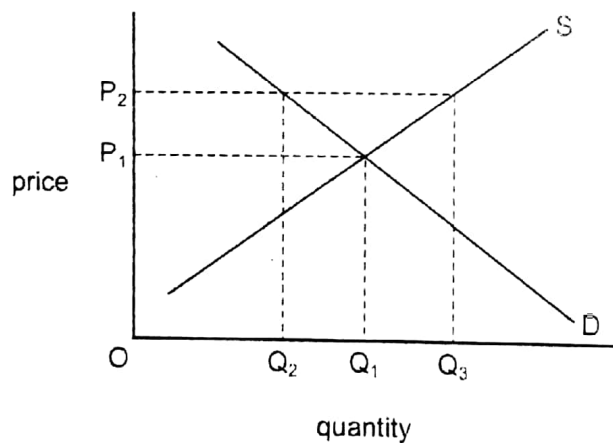
June 2010/P12/Q6

100. In 2008 a disease killed a significant number of sheep used to produce wool. How would the short-run effect be shown on a demand and supply diagram for wool?

- A a movement down the existing supply curve
- B a movement up the existing supply curve
- C a shift to the left of the supply curve
- D a shift to the right of the supply curve

June 2010/P12/Q9

101. The government imposes a maximum price of P_2 on a product.

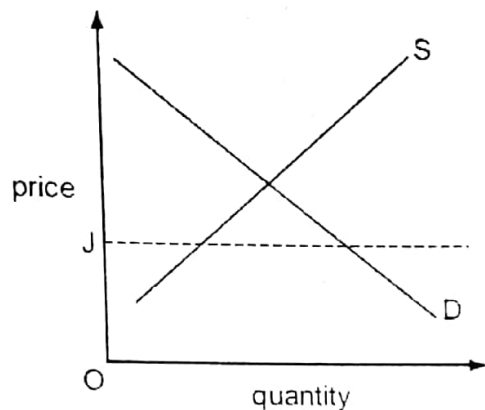


What will be the position after this action?

- A an equilibrium with price P_1 and quantity Q_1
- B an equilibrium with price P_2 and a quantity between Q_2 and Q_3
- C an oversupply in the market by Q_2Q_3
- D a shortage in the market of Q_2Q_3

June 2010/P12/Q10

102. 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.

June 2010/P12/Q17

103. What might shift an individual's demand curve for petrol to the left?

- A a fall in the price of parking
- B a fall in the price of petrol
- C a rise in the price of cars
- D a rise in the price of public transport

Nov 2010/P12/Q5

104. The table shows the market demand for a product and the individual supply of the three firms X, Y and Z in the industry.

price \$	market demand (000)	supply by X (000)	supply by Y (000)	supply by Z (000)
40	60	50	10	20
30	70	41	11	18
20	80	34	10	16
10	90	30	9	11

What is the equilibrium market price?

- A \$40
- B \$30
- C \$20
- D \$10

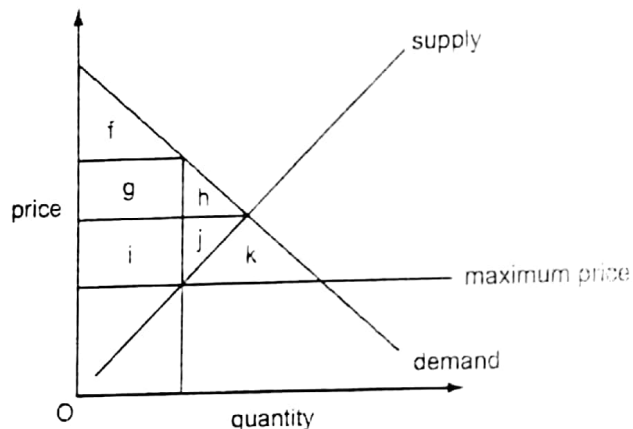
Nov 2010/P12/Q9

105. Domino Pizza, the largest US pizza chain, said that its profits had been reduced by price inflation on ingredients and by a reduction in consumers' disposable income. How would these changes affect the demand and supply curve for its products?

	demand	supply
A	move to the left	move to the left
B	move to the left	move to the right
C	move to the right	move to the left
D	move to the right	move to the right

Nov 2010/P12/Q1

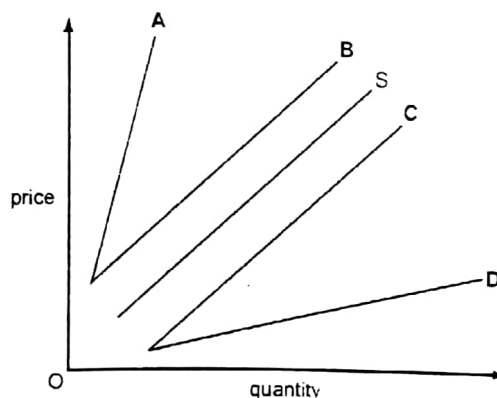
106. Which area in the diagram represents the amount of consumer surplus that would occur in a market if a government enforced an effective maximum price?



- A** f only
B f + g + h only
C f + g + i only
D f + g + h + i + j + k

Nov 2010/P12/Q11

107. The supply of an imported good is shown by curve S. What will be the new supply curve if an ad valorem (percentage) tariff is imposed on the good?



Nov 2010/P12/Q20

108. Rising demand for oil from China and other countries is leading to concerns that there may be a world shortage of oil.

How should a change in the price of oil prevent such a shortage developing?

- A Price should fall to reduce demand and encourage a search for more oil.
- B Price should fall to reduce supply and encourage a reduction in fuel use.
- C Price should rise to reduce demand and encourage a search for alternative fuels.
- D Price should rise to reduce supply and encourage a switch to alternative fuels.

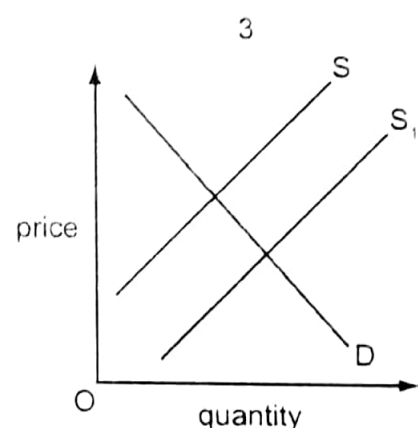
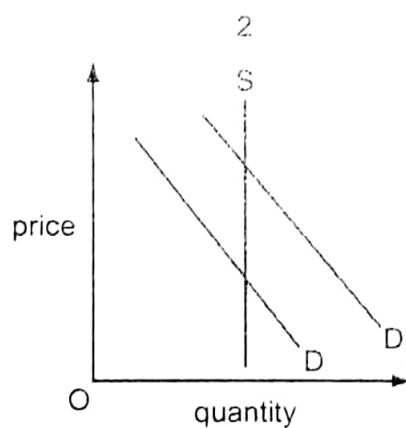
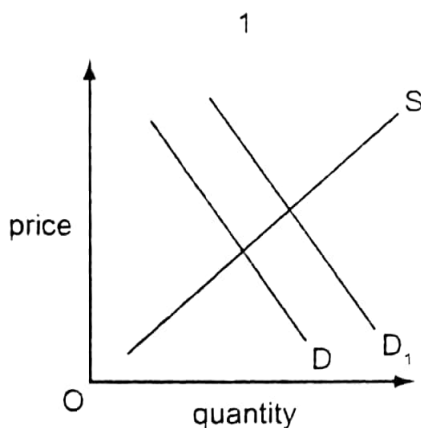
Nov 2010/P12/Q12

109. What is consistent with an individual demand curve that slopes down from left to right?

- A As price falls, a person switches away from rival products towards the product.
- B As price falls, a person's willingness and ability to buy the product will decline.
- C As price rises, a person becomes less sensitive to price changes.
- D As price rises, a person's opportunity cost of purchasing the product falls.

June 2011/P12/Q4

110. The diagrams show changes in the market for a good.

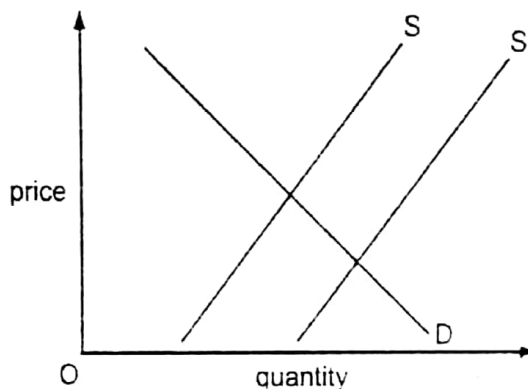


Which diagrams represent 'a change in the quantity demanded'?

- A 1 and 2
- B 1 and 3
- C 1 only
- D 3 only

June 2011/P12/Q6

111. In the diagram D and S are the demand and supply curves of a good.

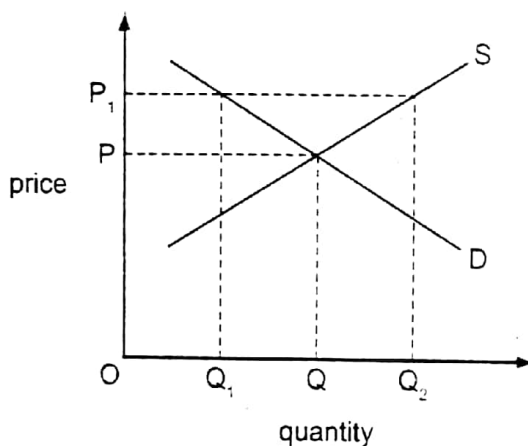


What could cause the supply curve to shift in the short run to S_1 ?

- A a change in consumer preferences
- B a decrease in the price of a complementary good
- C a fall in the cost of raw materials
- D a government warning that consumption of the good can damage health

June 2011/P12/Q8

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



The government fixed a maximum price of OP_1 .
What would this have achieved?

- A the guarantee of supplies of OQ_2
- B the market equilibrium of quantity OQ
- C the need for a government subsidy of PP_1
- D the rationing of the product for consumers to OQ_1

June 2011/P12/Q11

113. Global stocks of cod are currently under threat due to over-fishing whilst there are plentiful supplies of the less popular Alaskan pollock.

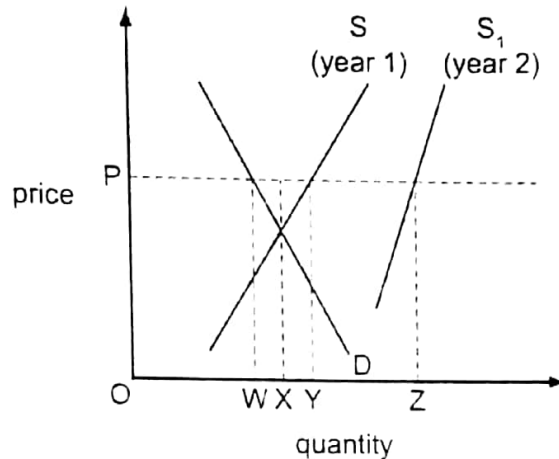
How might the price mechanism operate to limit the depletion of fish stocks?

- A The price of both cod and Alaskan pollock will fall.
- B The price of both cod and Alaskan pollock will rise.
- C The price of cod will fall whilst the price of Alaskan pollock will rise.
- D The price of cod will rise whilst the price of Alaskan pollock will fall.

June 2011/P12/Q12

114. In the diagram S and S₁ 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 WX
- B XY
- C XZ
- D YZ

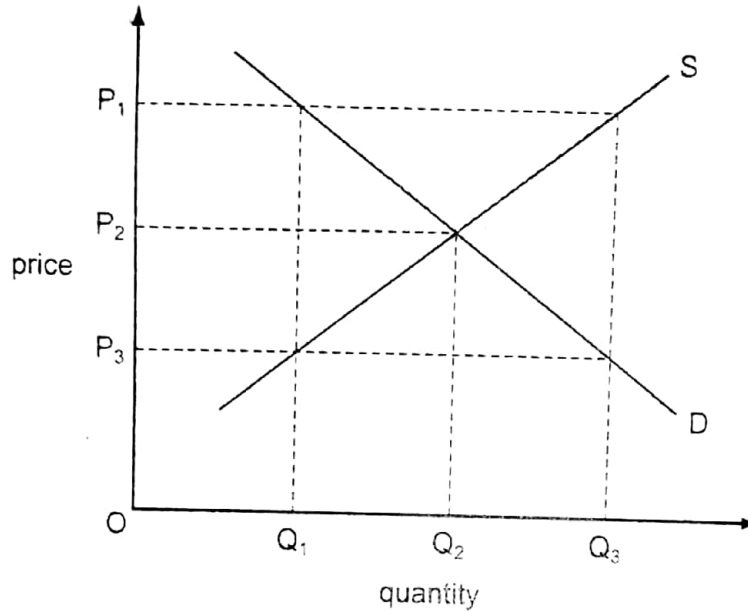
June 2011/P12/Q17

115. During a period of falling incomes in Germany in 2009, demand for jewellery declined. There was, however, a rise in demand for frozen foods. How would the effect on the demand for the two products be illustrated?

	jewellery	frozen food
A	a movement downwards along the demand curve	a movement upwards along the demand curve
B	a movement upwards along the demand curve	a shift to the right of the demand curve
C	a shift to the left of the demand curve	a shift to the right of the demand curve
D	a shift to the right of the demand curve	a movement upwards along the demand curve

Nov 2011/P12/Q5

116. In a free market in disequilibrium, which combination of price and quantity will lead to a fall in price and a contraction in output to reach equilibrium?



- A P_1Q_1 B P_1Q_3 C P_3Q_1 D P_3Q_3

117. The table shows demand and supply schedules for red peppers. The equilibrium price is initially 15 cents per kg. Nov 2011/P12/Q7

price per kg cents	amount demanded kg (thousands)	amount supplied kg (thousands)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
5	20	11

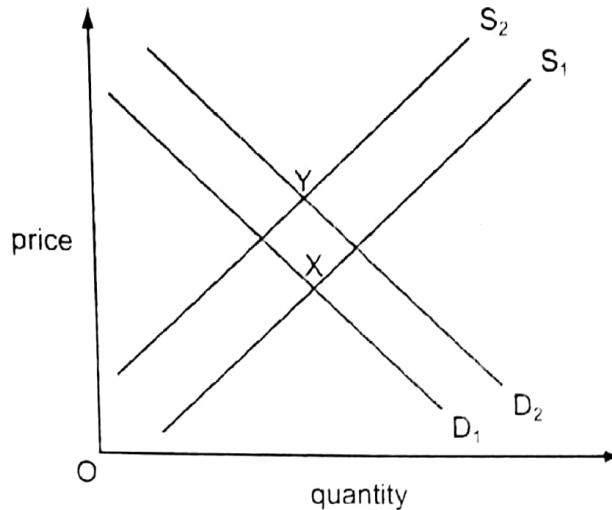
The government pays a subsidy of 10 cents per kg to producers.

What will be the new equilibrium price charged to consumers?

- A 5 cents
 B 10 cents
 C 15 cents
 D 20 cents

Nov 2011/P12/Q9

118. The diagram shows the market for new houses.



What would cause the change in the market equilibrium position from X to Y?

- A a fall in income tax and a rise in building costs
- B a fall in interest rates and increased efficiency in house-building
- C a fall in population and a rise in taxes on building materials
- D a rise in building subsidies and a fall in incomes

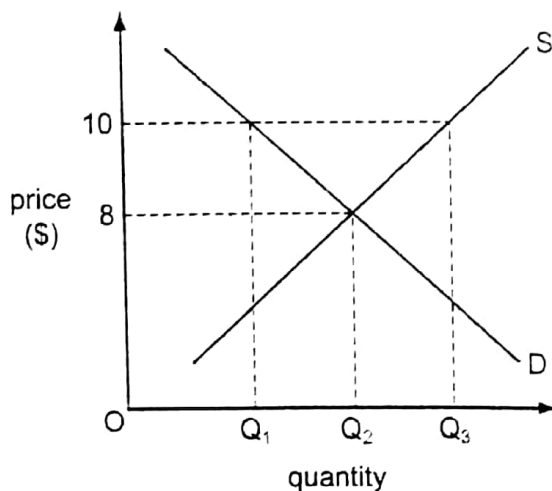
Nov 2011/P12/Q10

119. 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

Nov 2011/P12/Q12

120. The diagram shows the market demand and supply curves for rice.

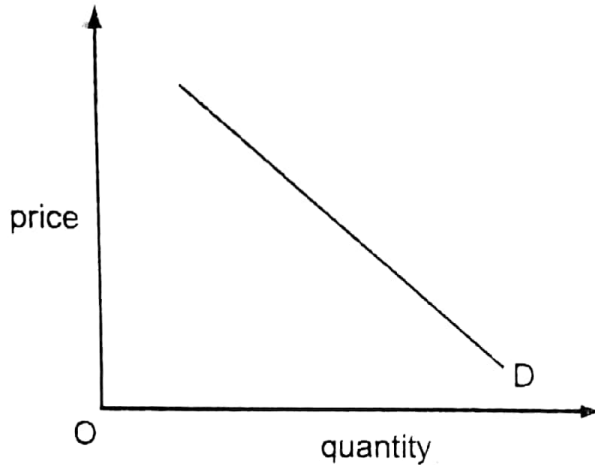


What would happen if a government imposed a maximum price of \$10?

- 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 .

Nov 2011/P12/Q18

121. The diagram shows a demand curve for a good.



Which statement describes the nature of this demand curve?

- A A fall in price is the result of a fall in demand.
- B A greater or smaller quantity is demanded as price changes.
- C As demand increases so does price.
- D quantity changes in proportion to the change in price.

Nov 2011/P11/Q5

122. How would an economist establish the market demand curve for a private good?

- A by adding consumer surplus to total expenditure
- B by combining individual demand curves horizontally
- C by combining the price elasticity of individual demands
- D by multiplying price by quantity demanded

Nov 2011/P11/Q6

123. What could cause a shift in the supply curve of good X and a movement along its supply curve?

	shift in the curve	movement along the curve
A	a change in consumer preferences	an increase in the price of a substitute good
B	a decrease in factor productivity	the imposition of a tax on good X
C	an increase in the price of a complementary good	an increase in factor productivity
D	an increase in the wage rates in the industry	a change in consumer preferences

Nov 2011/P11/Q7

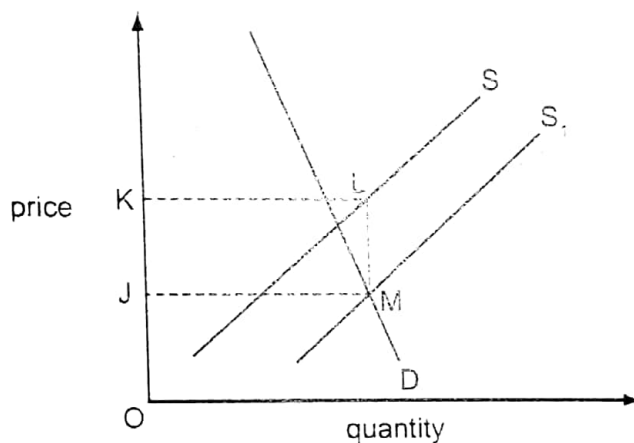
124. An industry is comprised of three firms, R, S and T which produce product X.

price of X \$	output of X		
	firm R	firm S	firm T
36	80	59	85
29	73	48	76
22	52	0	68

By how much is a rise in the price of product X from \$22 to \$36 likely to increase the market supply of X?

- A 27 B 77 C 104 D 224
 Nov 2011/P11/Q9

125. The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S₁.



What does the area JKLM represent?

- A the additional saving to importers of the removal of a tariff on rice
 B the cost to the government of a subsidy to rice growers
 C the increase in consumer surplus from the introduction of a maximum price for rice
 D the loss in government revenue from the reduction in a lump sum tax on rice

Nov 2011/P11/Q12

126. What must a government do to stabilise the price of an agricultural commodity?

	when demand exceeds supply	when supply exceeds demand
A	add the excess demand to a buffer stock	release an amount equal to the excess supply from a buffer stock
B	meet excess demand by running down a buffer stock	purchase the excess supply and add it to a buffer stock
C	subsidise production	impose a tax on consumers
D	tax consumers of the commodity	subsidise production

Nov 2011/P11/Q18

Key Unit 2 Demand, Supply & Equilibrium

Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.
1	C	20	D	39	C	58	D	77	A	96	B	115	C
2	A	21	D	40	C	59	A	78	B	97	C	116	B
3	A	22	A	41	D	60	B	79	C	98	B	117	B
4	A	23	D	42	C	61	B	80	D	99	C	118	A
5	B	24	A	43	B	62	C	81	D	100	C	119	C
6	B	25	C	44	C	63	D	82	D	101	A	120	C
7	B	26	A	45	B	64	A	83	A	102	D	121	B
8	D	27	D	46	C	65	B	84	D	103	C	122	B
9	A	28	D	47	B	66	D	85	D	104	B	123	D
10	B	29	A	48	A	67	B	86	D	105	A	124	C
11	C	30	C	49	B	68	C	87	C	106	C	125	B
12	A	31	C	50	C	69	D	88	C	107	A	126	B
13	D	32	D	51	D	70	B	89	B	108	C		
14	D	33	D	52	D	71	D	90	D	109	A		
15	D	34	B	53	B	72	C	91	C	110	D		
16	D	35	A	54	C	73	D	92	C	111	C		
17	A	36	B	55	C	74	C	93	C	112	B		
18	D	37	C	56	B	75	D	94	A	113	D		
19	B	38	D	57	D	76	D	95	A	114	D		

Unit-3

Elasticity

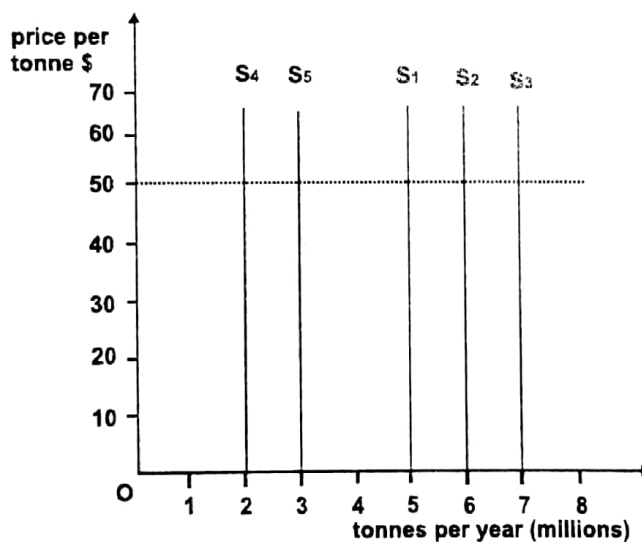
1. If the price elasticity of demand for a commodity is unity, an increase in its price will
- A increase marginal revenue.
 - B increase total expenditure on the commodity.
 - C leave the quantity purchased unchanged.
 - D decrease the quantity purchased.

Nov 1990

2. A specific tax of 30c per unit on a commodity produced in a perfectly competitive industry causes, the price paid by consumers to rise by 30c. If it is known that the demand curve is downward sloping, then this industry is characterized by
- A decreasing costs.
 - B increasing costs.
 - C a perfectly inelastic supply curve.
 - D a perfectly elastic supply curve.

Nov 1990

3. The diagram shows the demand for an agricultural crop together with the crop yields in five successive years. In year 1, the government introduced a buffer stock scheme to maintain constant price of \$50 per tone. What was the maximum size of its buffer stock?



- A 1 million tones B 2 million tones C 3 million tones D 5 million tonnes

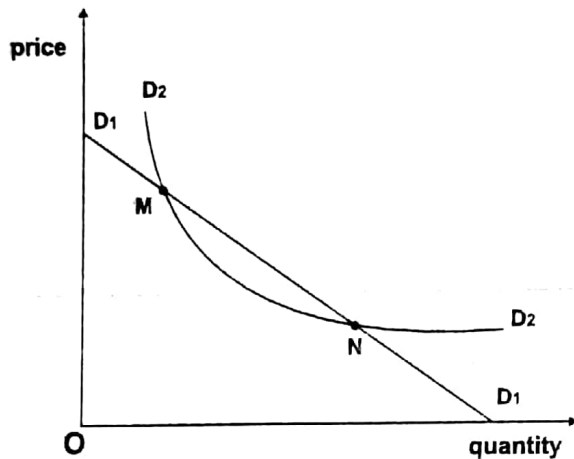
Nov 1990

4. If the cross-elasticity of demand for coffee resulting from changes in the price of tea is $\frac{3}{4}$, what will be the percentage change in demand for coffee if the price of tea rises from 20c to 22c per kilo?

- A 6.6% B 7.5% C 10.0% D 12.5%

Nov-1990

5. In the diagram, D_1D_1 and D_2D_2 are two demanded curves



Which of the following statements is correct?

- A D_2D_2 is more elastic than D_1D_1 at point M.
- B D_2D_2 is more elastic than D_1D_1 at point N.
- C The elasticity of demand is the same on both curves at point N.
- D The elasticity of demand increases on moving down both curves.

June 1991

6. An excise duty imposed on a single commodity falls entirely upon the consumer if the

- A supply curve is perfectly elastic.
- B demand curve is perfectly elastic.
- C demand curve is of unitary elasticity.
- D supply curve is of unitary elasticity.

Nov 1987, Nov 1982, Nov 1996, June 1991

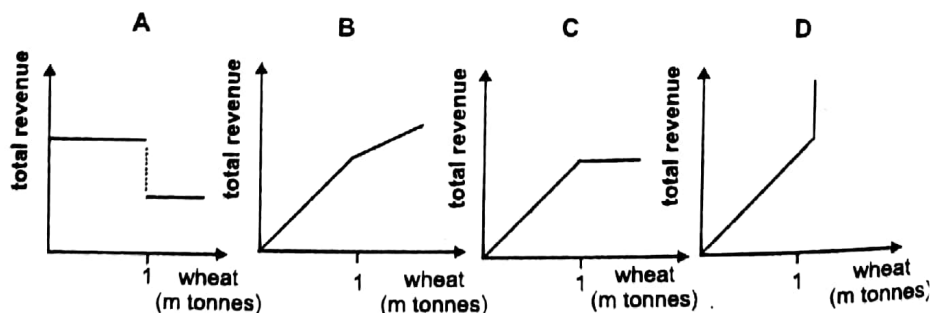
7. The supply function for a good can be written as $Q=2p+10$, where Q is the quantity supplied in kilos and P is the price per kilo in pounds.

The price rises from £10 to £15 per kilo. The value of price elasticity of supply for this price increase lies in a range from

- A $\frac{1}{6}$ to $\frac{1}{4}$
- B $\frac{3}{8}$ to $\frac{1}{2}$
- C $\frac{2}{3}$ to $\frac{3}{4}$
- D $\frac{7}{8}$ to 1

June 1991

8. A government purchasing agency buys the first 1 million of wheat farmers at a guaranteed price per tones and quantities above this at 50% of the guaranteed price. Which diagram represents the total revenue of farmers in this situation?



June 1991

9. What is the formula for the cross-elasticity of demand of good Y with respect to good X?

- A $\frac{\% \text{ change in price of good X}}{\% \text{ change in price of good Y}}$
- B $\frac{\% \text{ change in price of good X}}{\% \text{ change in quantity demanded of good Y}}$
- C $\frac{\% \text{ change in quantity demanded for good X}}{\% \text{ change in quantity demanded of good Y}}$
- D $\frac{\% \text{ change in quantity demanded of good Y}}{\% \text{ change in price of good X}}$

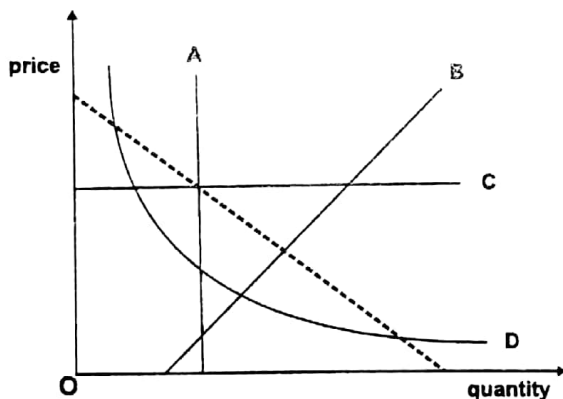
Nov-1991

10. An increase in the supply of wool would not lead to a change in the price of wool if the demand for

- A lamb were perfectly price elastic.
- B lamb were perfectly price inelastic.
- C wool were perfectly price elastic.
- D wool were perfectly price inelastic.

June 1992

11. Which curve on the diagram represents the constant unitary elasticity of demand?



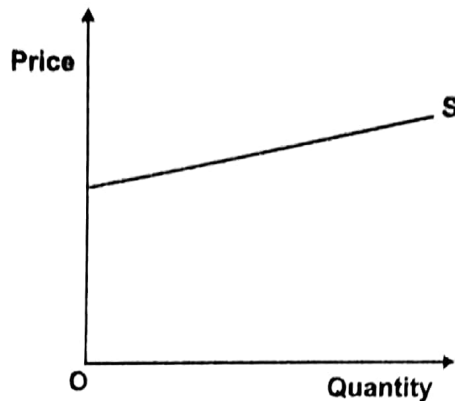
June 1992

12. The price elasticity of demand for a product unity for all price changes. What would be the effect of an increase in price?

- A an equal proportionate decrease in the amount demanded
- B an equal proportionate decrease in the price of substitute products
- C a decrease in the percentage of total income spent on the product
- D no change in the amount of the product demanded

Nov 1992

13. The diagram shows a supply curve.
Which statement describes the price elasticity of supply along this curve?



- A It is constant and greater than unity at all quantities.
- B It is constant and less than unity at all quantities.
- C It is equal to unity at all quantities.
- D It diminishes as quantity increases.

June 1985, June 1993

14. The price elasticity of demand for a commodity is 0.5. The price of the commodity is initially \$5 and the initial quantity sold is 100.
By how much would the price have to be reduced to increase sales by 20 units?

- A \$0.50
 - B \$1.00
 - C \$2.00
 - D \$2.50
- Nov 1993

15. The supply of a particular product will be more inelastic

- A the longer it takes to produce the good.
- B the longer the good can be stored.
- C the greater the number of firms in the industry.
- D the greater the amount of spare capacity in the industry.

Nov 1993

16. Which of the following groups would be expected to have the highest price elasticity of demand for rail travel?

- A air travellers using a rail link from a city centre to an international airport
- B business executives
- C commuters working in central business districts of major cities
- D students returning home for the weekend

June 1994

17. The table shows the income and cross-elasticities of demand for two commodities, X and Y.

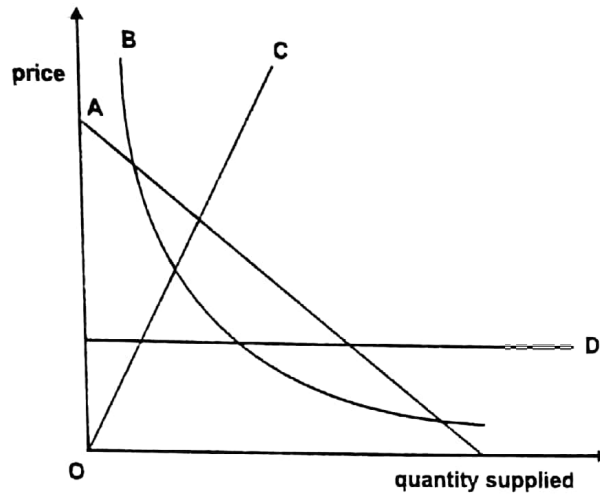
	income elasticity	cross-elasticity in relation to each other
Commodity X	+0.5	+0.5
Commodity y	0	+0.5

Income rises by 10% and the price of Y falls by 10%.
If the price of X remains unchanged, what will happen to the quantity of X demanded?

- A It will fall by 10%.
- B It will remain the same.
- C It will rise by 10%.
- D It will rise by 20%.

June 1994

18. The diagram shows a supply curve for four products.
 Which product has unitary elasticity of supply?



Nov 1994

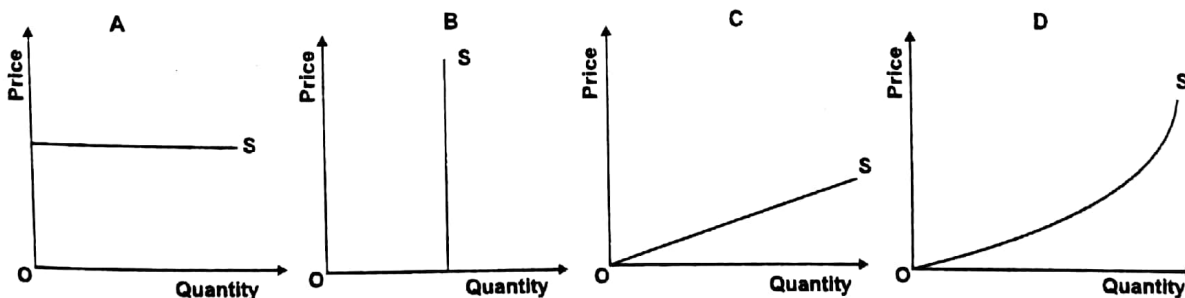
19. The price elasticity of demand for a good is unity. What will increase as a result of a reduction in the price of the good?
- A expenditure on the good
 - B expenditure on substitutes
 - C marginal revenue
 - D quantity demanded

June 1995

20. In which circumstances will 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.

June 1995, Nov 1999, June 2002/Q15

21. Which diagram shows a supply schedule with an elasticity of supply equal to unity?



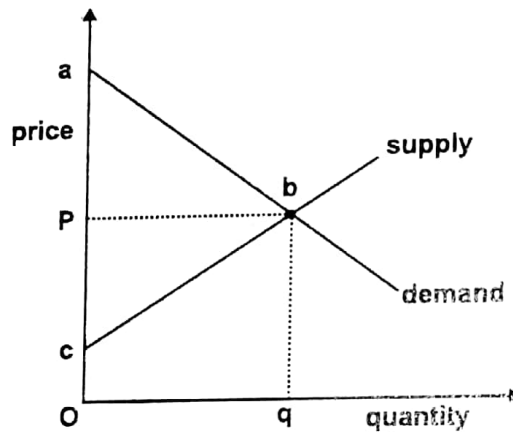
June 1980, Nov 1992, June 1995

22. The demand curve for a commodity is a downward-sloping straight line along which a change in price of 1 penny is accompanied by a change in quantity of 200 units. At the point on the demand curve where the price elasticity of demand is equal to -1, what are price and quantity?

	Price (pence)	Quantity (units)
A	15	7000
B	20	6000
C	25	5000
D	30	4000

June 1983, June 1991, June 1996

23. The diagram shows the demand and supply curves for cars.



Which area represents the producer surplus?

- A cbqo B abp C pbc D abc

Nov 1996

24. For which pair of commodities are the cross price elasticities of demand most likely to be negative?
- A cinema tickets and videos.
 B first and second class rail tickets.
 C petrol and cars.
 D salt and sugar.

Nov 1996

25. In 1992 it was estimated that bread had an income elasticity of -0.04. What can be concluded about bread from this information?

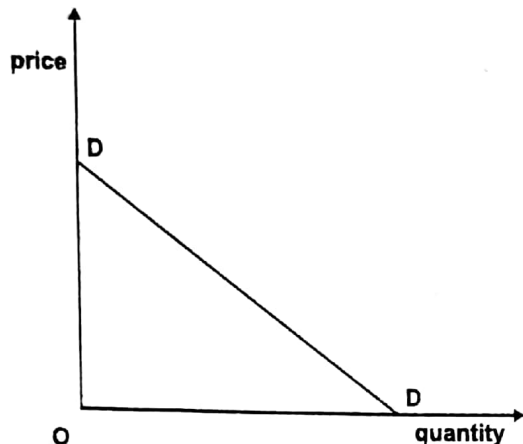
- A It is a Giffen good.
 B It is an inferior good.
 C It has many complements.
 D It has many substitutes.

Nov 1996

26. When is the price elasticity of demand for a good likely to be high?
- A When expenditure on the good is a small part of total expenditure
 B When the good has few uses
 C When the good is habit-forming
 D When there are many substitutes for the good

Dec 1985, June 1997

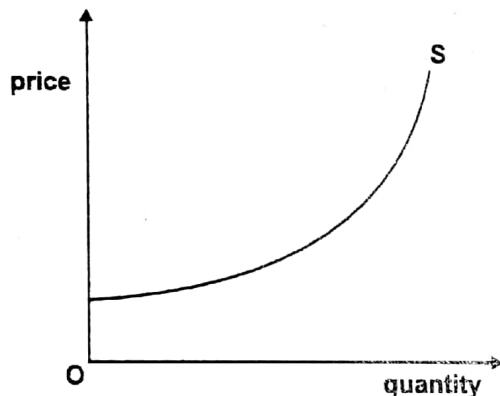
27. The diagram shows a firm's demand curve. What can be deduced from the demand curve about the firm's total revenue as it increases its output?



- A It will rise continuously.
- B It will fall continuously.
- C It will rise initially then fall.
- D It will fall initially then rise.

Dec 1981, June 1997

28. The diagram shows an industry's supply curve. What can be deduced about the elasticity of supply as output increases?



- A It is elastic throughout.
- B It is inelastic throughout.
- C It is elastic initially, then becomes inelastic.
- D It is inelastic initially, then becomes elastic.

Nov 1997

29. Initial sales of two newspapers, *The Daily Informer* and *The Moon*, are 300000 and 250000 respectively. *The Daily Informer* raises its price from 25 pence to 30 pence with *The Moon's* price unchanged at 26 pence. As a result, sales of *The Moon* rise to 280 000. In which range does the cross-elasticity of demand between the two papers lie?

- A 0.0 – 0.29
- B 0.3 – 0.49
- C 0.5 – 0.69
- D 0.7 – 0.89

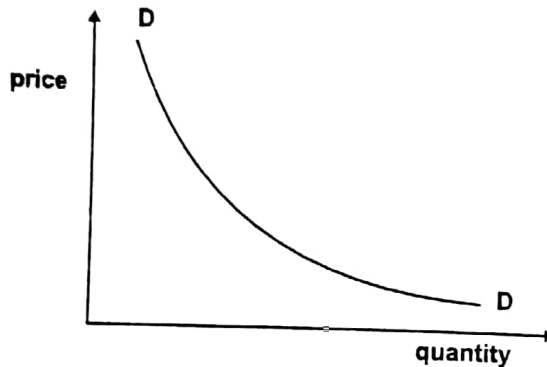
Nov 1997

30. 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.

June 2002/Q7, Nov 1997

31. In the diagram the rectangular hyperbola DD, represents the demand curve for a commodity.

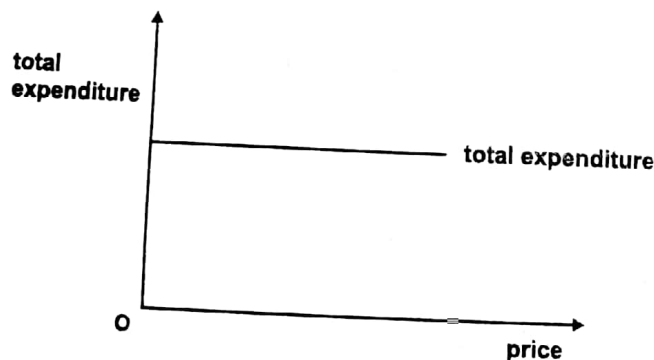


What can be deduced from the diagram?

- A An increase in the quantity supplied causes a fall in total revenue.
- B Marginal revenue is equal to zero.
- C The price elasticity of demand decreases as we move down the demand curve.
- D Total expenditure on the commodity decreases as the price falls.

June 1998

32. The diagram shows the relationship between total expenditure on a commodity and its price. Which statement is correct?



- A The income elasticity of demand for the commodity is unity.
- B The income elasticity of demand for the commodity is zero.
- C The price elasticity of demand for the commodity is unity.
- D The price elasticity of demand for the commodity is zero.

Nov 1998

33. 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

June-2002/Q9, Nov-1998

34. The information in the table relates to an individual's demand for good X.

price of X (cents)	Individual's money Income (\$)	Individual's expenditure On X (\$)
50	100	5.00
60	105	4.20

Given that the individual's demand for X is price inelastic, what can be deduced from the table about good X?

- A It is a Giffen good.
 B It is an inferior good.
 C It is a normal good.
 D it is a superior good.
35. A manufacturer progressively reduces the price of his product in an attempt to increase total revenue. The table shows the outcome of this policy. What is the price elasticity of demand for the product?

Nov 1998

Price (\$)	Total revenue 000's (\$)
10	750
9	750
8	750

- A perfectly inelastic
 B relatively inelastic
 C perfectly elastic
 D unitary elastic

Nov 1998

36. Total expenditure on good X rises if its price falls, but decreases if income falls. What can be concluded from this information?

	price elasticity of demand for good X	income elasticity of demand for good X
A	Elastic	Negative
B	Elastic	Positive
C	Inelastic	Negative
D	Inelastic	Positive

June 1999

Unit 3

81

Elast

37. A product is an inferior good with no close substitutes. It is also a complement to product S. Which product matches the description of this product?

Product	price elasticity of demand	income elasticity of demand	cross elasticity of demand
A	-2	+2	+1
B	-2	$\frac{+1}{2}$	-1
C	$-\frac{1}{4}$	-2	+1
D	$-\frac{1}{4}$	$-\frac{1}{2}$	-1

Nov 1995

38. The demand for a commodity is perfectly elastic. A firm producing this commodity currently sells 100 units at \$5 each.

What will be the revenue obtained by the firm, if it increase its price to \$ 6?

- A zero B \$ 400 C \$ 500 D \$ 600
 December 1980, Nov 2000

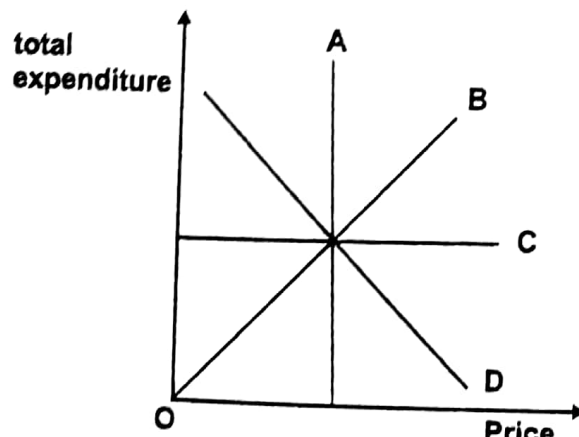
39. The table shows change in a consumer's expenditure on various goods when his income increases from \$20 000 to \$24 000.

Good	Income \$ 20,000	Income \$ 24, 000
	Amount spent On good (\$)	Amount spent On good (\$)
W	100	96
X	100	100
Y	200	224
Z	200	248

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

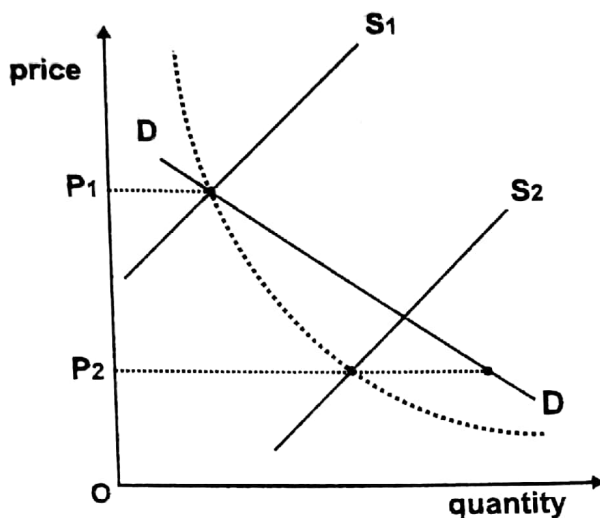
- A W only. B Z only.
 C W and Z only. D W, Y and Z only
 Nov 2000

40. The price elasticity of demand for a product is constant and equal to unity. Which curve in the diagram shows the relationship between total expenditure on the product and its price?



41. In the diagram DD is the demand curve for an agricultural commodity, S_1 is the supply curve in period 1 and S_2 is the supply curve in period 2. The broken curve is a rectangular hyperbola.

The government operates a buffer stock scheme fixing the price at OP_1 in period 1 and OP_2 in period 2. How do output and farm revenue in period 2 compare with period 1?



	Output	Farm revenue
A	higher	same
B	higher	higher
C	lower	higher
D	lower	same

Nov 1992, June 2001

42. A theatre increase the price of its tickets from \$5 to \$10. As a result, its total receipts increase from \$2500 to \$ 4000.
Within what range does the price elasticity of demand for theatre tickets lie?

- A 0.2 to 0.5 B 0.6 to 0.75
C 0.8 to 1.0 D 1.2 to 2.5

Nov 2001

43. In which of the following situations is the demand for a product said to be price elastic?

- A The quantity demanded responds to a change in price.
B An increase in price brings about a decrease in the quantity demanded.
C An increase in price induces consumers to spend more on the product.
D A decrease in price brings about an increase in revenue.

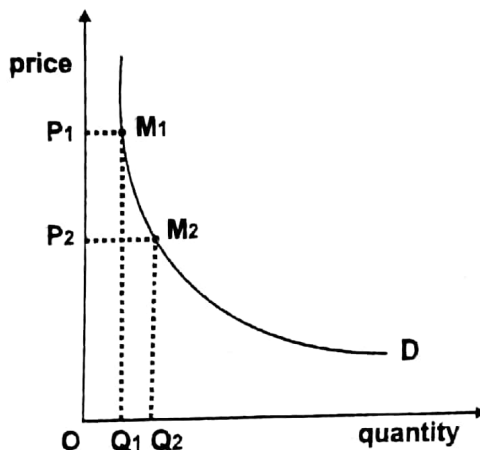
June 1982, Nov 1995, Nov 2001

44. A firm's elasticity of supply is 0.5. At the original market price of \$10 the quantity supplied by the firm is 500 units.
The market price then rises to \$11.
What will be the firm's revenue after the rise in the price?

- A \$5000 B \$5250 C \$5500 D \$5775
June 1994, Nov 2001

45. In the diagram area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$

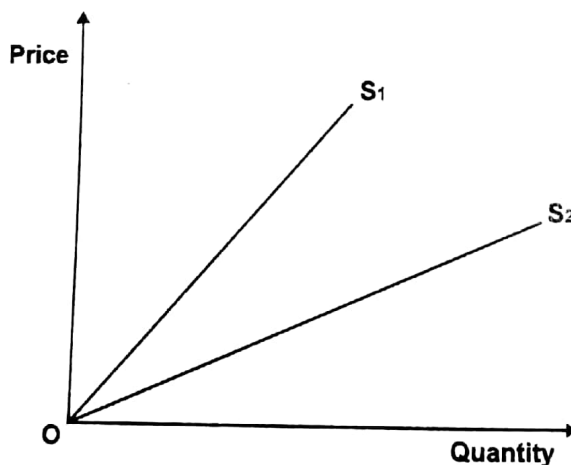
What is the value of the price elasticity of demand if the price is halved from P_1 to P_2 ?



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

June 2002/Q6

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

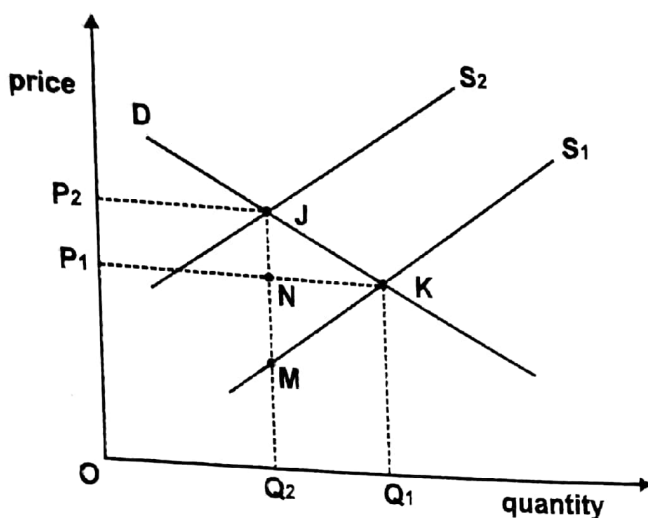


As price increase the elasticity of supply

- A decreases along both OS_1 and OS_2 .
- B increases less rapidly along OS_1 than along OS_2 .
- C increase more rapidly along OS_1 than along OS_2 .
- D is constant along both OS_1 and OS_2 .

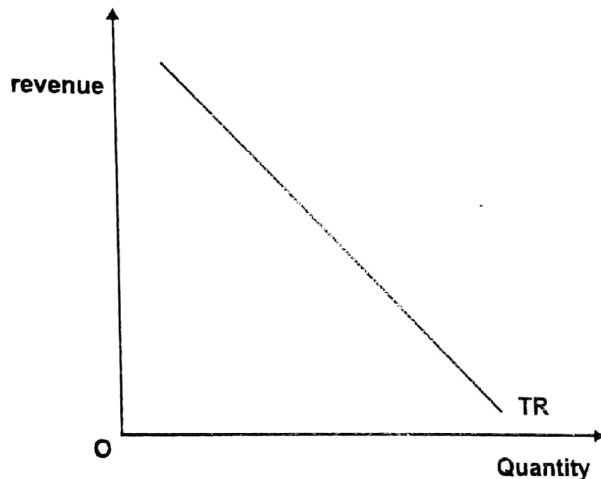
Nov 1999, June 2002/Q12, Nov 2010/P12/Q13

47. In the diagram the imposition of a tax on a commodity causes its supply curve to shift from S_1 to S_2 .



Which area measures the resulting deadweight loss?

- A P_1P_2JK B JKQ_1Q_2 C JKM D JKN
48. The diagram shows the relationship between a firm's total revenue and the quantity of goods sold. June 2003/P3/Q15



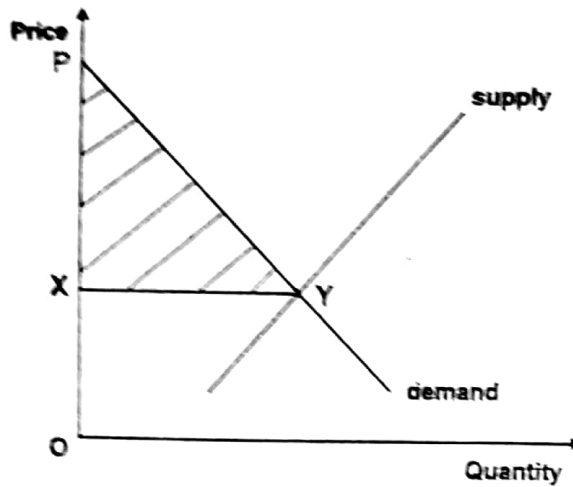
What is the price elasticity of demand for the good?

- A Zero B between zero and one
C one D between one and infinity
- Dec 1980, Nov 1995, Nov 2003/P3/Q13

49. A silversmith sells 100 sets of carryings per week at a price of \$5. As a direct result of a price increase to \$6, the total revenue from sales rises by 8%? Within which range does price elasticity of demand lie?

- A under 0.4
B greater than 0.4 and less than 0.8
C greater than 0.8 and less than 1.2
D over 1.2

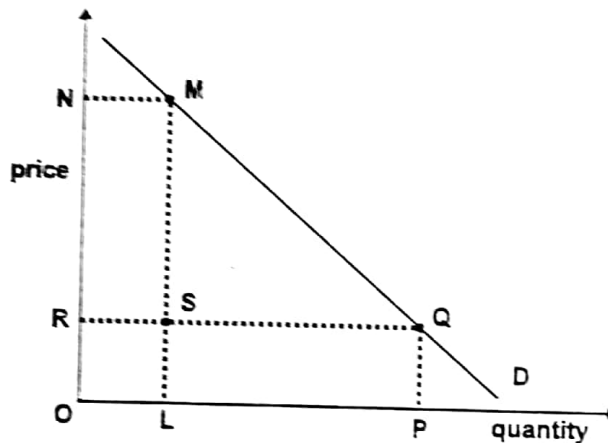
50. The diagram below shows the demand and supply curve for a commodity.



Given that the market is in equilibrium, the shaded area PXY represents.

- A consumer's surplus.
- B producer's surplus.
- C economic rent.
- D quasi-rent.

51. The diagram shows the demand curve for a product.
 If the rectangle OLMN is equal to area to the rectangle OPQR, which statement is correct?



- A Total revenue falls by MSQ if the price rises from OR to ON.
- B Consumer surplus fall by RSMN if the price rises from OR to ON.
- C The price elasticity of demand is unitary for all changes in price.
- D A rise in price from OR to ON results in the same proportionate fall in quantity demanded.

June 1990, June 2004/Q6, Nov 2008/Q7

52. What is most likely to make the demand for Good X inelastic?

- A Good X is a luxury good.
- B Good X is habit-forming.
- C The proportion of income spent on Good X is very high.
- D There are a large number of substitutes for Good X.

June 2005/Q6

53. 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
A	\$6000	\$5000
B	\$5500	\$4500
C	\$5000	\$4500
D	\$5000	\$4000

Nov 2007/Q6

54. The table shows the demand for tickets for a concert.

price of tickets \$	quantity demanded
20	6000
30	5000
40	4000
50	3000

The capacity of the concert hall is 6000.

What price should be charged to maximise total revenue?

- A \$20 B \$30 C \$40 D \$50
 June 2009/P1/Q6

55. The table gives estimates of own-price and cross-price elasticities of demand for tea and instant coffee.

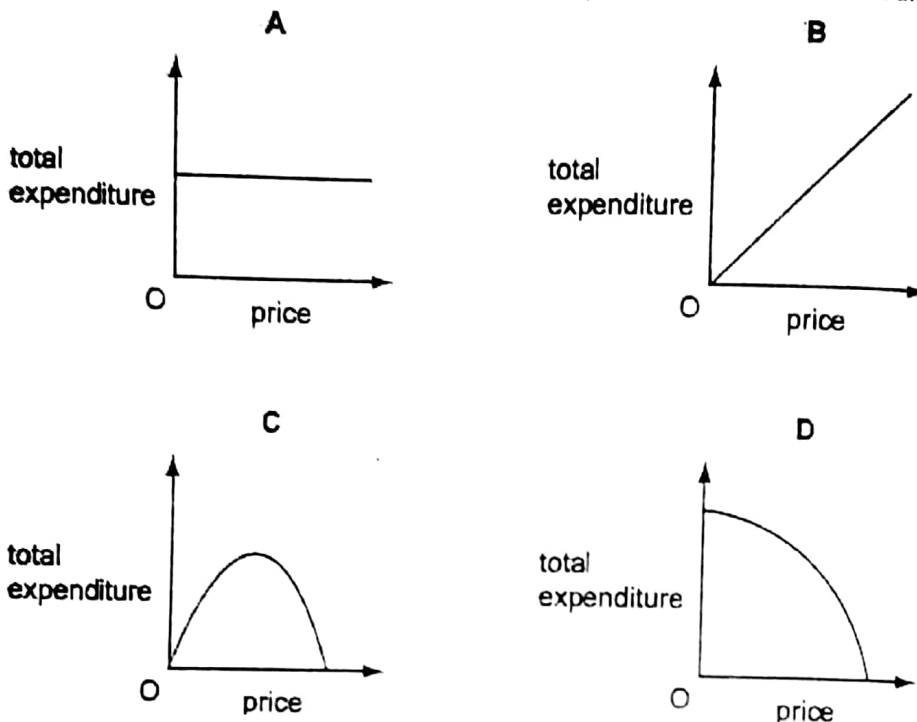
Other things being equal, what would be the change in the quantity of instant coffee demanded as a result of a 1% decrease in the price of tea?

	elasticity with respect to the price of	
commodity	tea	instant coffee
tea	-0.48	$+0.11$
instant coffee	$+0.13$	-0.67

- A -0.13% B -0.11% C $+0.11\%$ D $+0.13\%$
 June 1987

56. The demand for a commodity has unitary price elasticity.

Which diagram shows the relationship between total expenditure on the commodity and its price?



June 2010/P12/Q7, Nov 2004/Q7

57. The market for tractors is supplied by two firms, X and Y, each initially having 50% of the market.

A 10% increase in the price of tractors leads to an increase in output from firm X of 10% and from firm Y of 20%.

What is the price elasticity of supply of tractors in this market?

- A 1 B 1.5 C 2 D 3
- June 2005/Q7

58. Over the last ten years the price elasticity of demand for tea in many countries has risen.

What is the most likely cause of this change in price elasticity?

- A a decrease in the incomes of consumers
 B a decrease in the number of complements to tea
 C an increase in the number of substitutes for tea
 D an increase in the supply of tea
- Nov-2005/Q7

59. The price elasticity of demand for good X is 1. At a price of \$12, quantity demanded is 4000 units.

What will be the price when the quantity demanded is 20 000 units?

- A \$2.00 B \$2.40 C \$2.66 D \$20.00

June 1987, Dec 1989, June 2000, June 2006/Q7

60. From the table below, in which price range is demand for product X inelastic?

product X	
price \$	quantity demanded
12	250
11	450
10	500
9	600
8	650

- A \$12-11 B \$11-10 C \$10-9 D \$9-8

Nov 2006/Q7

61. A businessman had intended to borrow \$5000 at 8 % per year for house purchase. When the interest rate rose to 10 % he decided to borrow only \$4000.

Within what range is his interest elasticity of demand for loans?

- A 0.0 to -0.3
 B -0.4 to -0.7
 C -0.8 to -1.2
 D -1.3 to -1.7

June 2007/Q7

62. A good has unitary price elasticity of demand and at a price of \$25 it sells 100 000 units.

Which price must the firm charge if it wants to sell 125 000 units of the good?

- A \$22 B \$20 C \$18 D \$15

June 2008/Q7

63. The table gives estimates of own-price and cross-price elasticities of demand for tea and instant coffee.

Other things being equal, what would be the change in the quantity of instant coffee demanded as a result of a 1% increase in the price of tea?

	elasticity with respect to the price of	
commodity	tea	instant coffee
tea	-0.48	+0.11
instant coffee	+0.13	-0.67

- A -0.13%
 B -0.11%
 C +0.11%
 D +0.13%

Nov 2003/Q7

64. The table shows the price elasticity of demand for four goods and services. If the price of each item increased by 1%, for which of these items would the total expenditure increase?

	Price elasticity
motor cycles	1.6
telephone calls	1.0
football tickets	0.3
light bulbs	0.0

- A football tickets only
 B motor cycles only
 C football tickets and light bulbs
 D motor cycles and telephone calls

Nov 2009/12/Q6

65. Two goods, X and Y, are complementary goods. Column T1 of the table shows the market situation at time period i and column T2 shows the situation following an increase in the price of good Y.

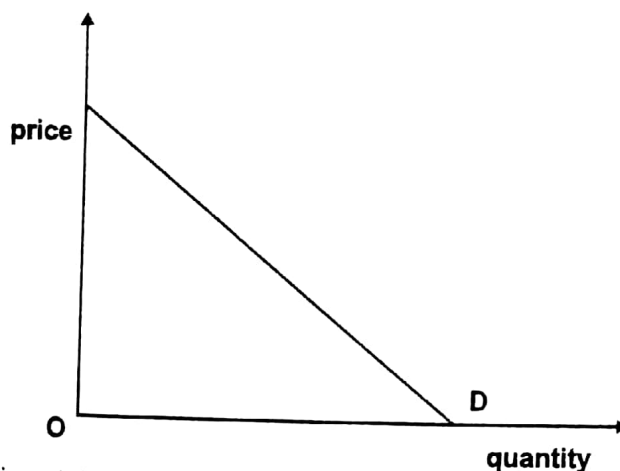
	T1	T2
price of good X	10	10
quantity demanded	50	40
price of good Y	20	30
quantity demanded	80	60

The value of the cross elasticity of demand for good X lies between

- A -1.7 and -2.6
 B -0.8 and -1.3
 C -0.3 and -0.8
 D +0.3 and +0.6

Nov 2009/P-12/Q.7

66. The diagram shows the demand curve for commodity X.



Which of the following statements is correct?

- A Demand is less elastic at higher prices than at lower prices.
 B Consumer expenditure on the commodity always rises whenever price falls.
 C Price elasticity of demand is different at every price.
 D Price elasticity of demand equals one at every price.

Unit 3

67. In 2002 it was proposed that car owners should pay a charge travel into the centre of London. Fares on public transport would also be reduced. It was hoped that more use would be made of public transport and that congestion would decrease.

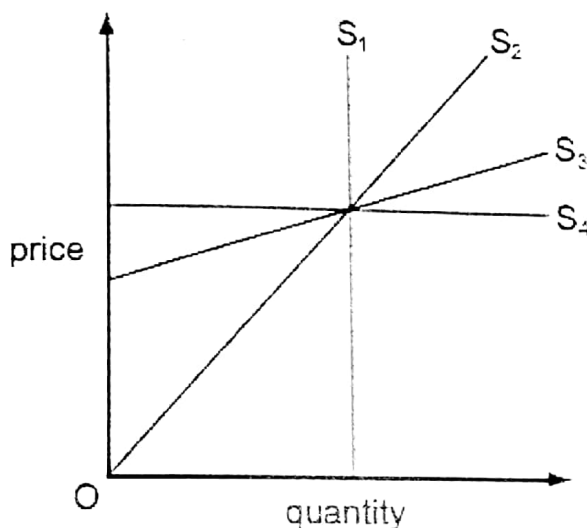
What price elasticities of demand would be necessary for this policy to succeed?

	Price elasticity of demand for travel by car	Price elasticity of demand for travel by public transport
A	elastic	Elastic
B	elastic	Inelastic
C	inelastic	Elastic
D	inelastic	Inelastic

June 2004/Q9

68. The diagram shows four different straight line supply curves.

What can be concluded from the diagram?



- A S_1 has unitary elasticity.
- B S_2 has zero elasticity.
- C S_3 has a constant elasticity.
- D S_4 has infinite elasticity.

Nov 2004/Q9

69. When demand for a good increases, equilibrium price stays the same.

What is its elasticity of supply?

- A -1
- B zero
- C +1
- D infinite

June 2006/Q9

Unit 3

70. The table gives information about the market for two models of car.

model	number of cars sold per week	cross elasticity of demand with respect to the price of petrol
1200 cc	10 000	-0.25
2000 cc	5 000	-0.50

If the prices of the cars remain unchanged, but the price of petrol increases by 100 %, what will be the effect on the number of cars sold per week?

- A increase by 5000
- B no change
- C decrease by 5000
- D decrease by 15 000

June 2007/Q9

71. 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

Nov 2007/Q9

72. 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

June 2008/Q9

73. In the UK, attempts to encourage people to change from road to rail travel by the introduction of a system of road pricing were forecast to fail because 'people like using their cars too much'.

How would this forecast be explained?

- A The price elasticity of demand for cars is high.
- B The price elasticity of demand for petrol is high.
- C The price elasticity of demand for rail travel is low.
- D The price elasticity of demand for car travel is low.

June 2009//Q9

74. The table gives estimates of the price elasticities and cross-elasticities of demand for bus and rail travel.

service	elasticity with respect to price of:	
	bus travel	rail travel
bus travel	-0.37	+0.13
rail travel	+0.16	-0.43

What would be the change in the volume of rail travel resulting from a 1% increase in bus fares?

- A an increase of 0.16 % B an increase of 0.43 %
 C a reduction of 0.13 % D a reduction of 0.37 %

June 2004/Q10, June 2011/P12/Q10

75. The table refers to exports of sugar from Jamaica in 1999 and 2000.

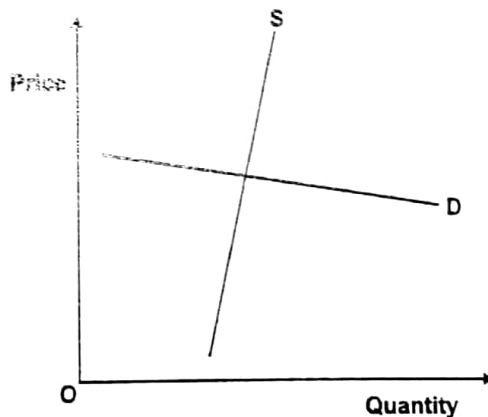
	Exports of sugar (tonnes)	Exports earnings from sugar (US\$ millions)
1999	177522	95.79
2000	180481	83.8

What can be deduced from the data?

- A The demand for sugar is price-elastic.
 B The income elasticity of demand for sugar is negative.
 C The price of sugar in US\$ fell between 1999 and 2000.
 D The supply of sugar is price-elastic.

Nov 2004/Q10

76. The diagram shows the supply and demand curves for a product.



The government imposes an indirect tax on the product.

What will be the outcome of this for the producers' revenue and the incidence of the tax burden?

	effect on revenue	main incidence of tax
A	fall	consumer
B	fall	producer
C	rise	consumer
D	rise	producer

June 2005/Q10

77. The table shows changes in a consumer's expenditure on various goods when his 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?

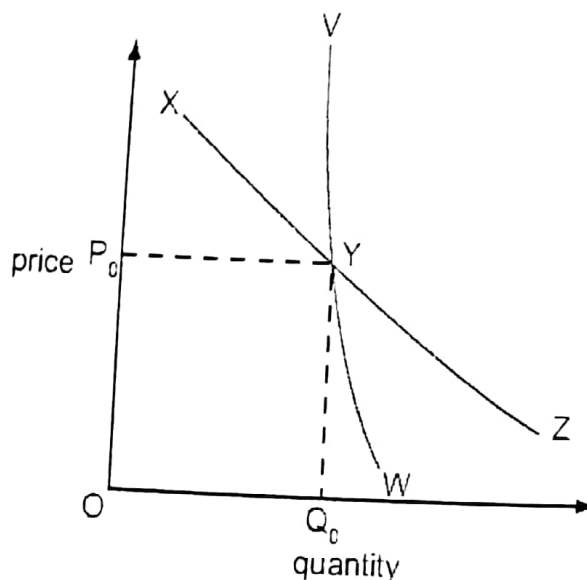
- A W only B Z only C W and Z only D W, Y and Z
78. The table shows the maximum price a consumer would be willing to pay for successive cans of fruit juice.

cans	first	second	third	fourth	fifth
price (\$)	14	10	6	4	3

The price of a can of fruit juice is \$4 and, having bought three cans, the consumer decides to buy a fourth.

How does buying the fourth can affect his consumer surplus?

- A It leaves it unchanged. B It lowers it by \$2.
 C It raises it by \$4. D It raises it by \$34.
79. The diagram shows a consumer's short-run and long-run demand curves for coconuts. Initially, the consumer purchases quantity Q_0 at price P_0 . Nov 2009/12/Q9



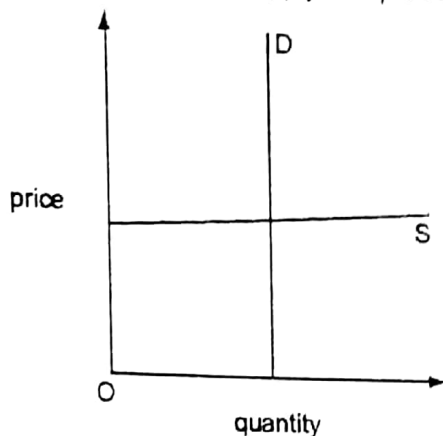
If the price of coconuts increases from P_0 , the consumer's short-run response is greater than his long-run response. If the price decreases from P_0 his short-run response is smaller than his long run response.

What is the consumer's short-run demand curve?

- A VYW B VYZ C XYZ D XYW

80. The diagram shows the demand for and supply of a product.

June 2003/Q5, Nov 2010/Q6



What can be deduced about the product?

- A It has infinite price elasticity of demand.
 B It has no substitutes.
 C It is an inferior good.
 D It takes a large proportion of consumer income.

Nov 2003/Q5, Nov 2010/P12/Q6

81. A government wishes to impose a tax on a good so that the consumer and not the producer pays most of the tax increase.

Which type of elasticity would best achieve this aim?

- A high price elasticity of supply
 B low price elasticity of supply
 C unitary price elasticity of supply
 D perfectly inelastic price elasticity of supply

Nov 2009/12/Q5

82. The table shows a consumer's expenditure on a range of goods at different levels of income. For which good does the consumer have an income elasticity of demand greater than zero, but less than one?

	consumer's income (\$)		
	40	50	100
good	consumer's expenditure (\$)		
A	10	18	40
B	10	11	20
C	10	10	10
D	10	8	6

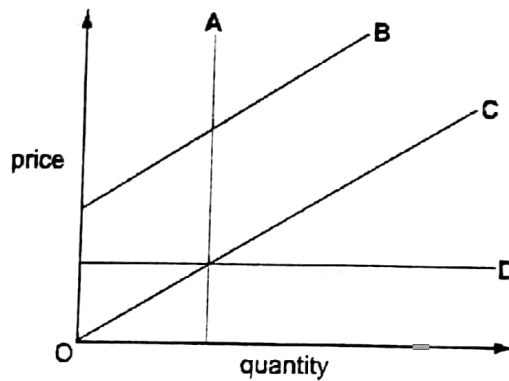
Nov 2009/Q11, Nov 2004/Q11

83. Assume the price elasticity of demand for best-quality French wine is zero. What would be the effect in New Zealand if the New Zealand government imposed a tariff on such wine?

- A The price of the wine would rise by an amount less than the tariff.
- B Demand for the wine would fall.
- C Expenditure on the wine would rise.
- D Sales of the wine would cease.

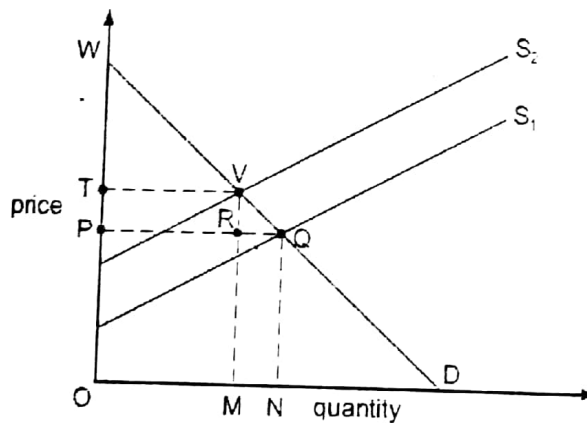
June 2006/Q11, Nov 2010/P12/Q7

84. Which of the supply curves shown in the diagram has unitary price elasticity?



85. In the diagram, S_1 is the original supply curve and D is the original demand curve.

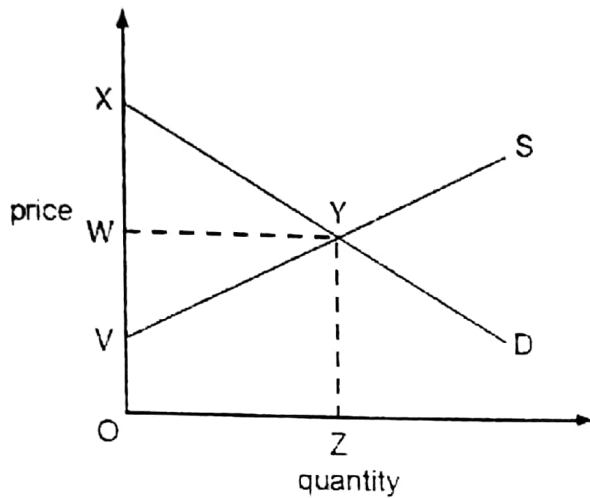
June 2004/Q12



If supply shifts to S_2 , which area represents the change in consumer surplus?

- A PQVT
 - B PQW
 - C PRVT
 - D TVW
- June 2006/Q12

86. The diagram shows the demand and supply curves for a product.



Which area measures the total amount consumers would be willing to pay for the equilibrium level of output?

- A OWYZ B OXYZ C OVYZ D XYV
 June 2004/Q13

87. What is necessary for consumer surplus to be zero?

- A Demand is perfectly inelastic.
 B Demand is perfectly elastic.
 C Supply is perfectly inelastic.
 D Supply is perfectly elastic.

June 2005/Q13, Nov 2011/P11/Q13

88. In 2003, some tobacco companies in the US wanted to raise prices but a spokesman said the tobacco industry was no longer in a position where it could increase revenue by raising prices. What might be concluded from this statement?

- A The price elasticity of demand for tobacco is lower than it used to be.
 B The price elasticity of demand for tobacco is likely to be greater than unity.
 C The price of tobacco is too low.
 D The profit of tobacco growers does not depend on the price system.

June 2007/Q13

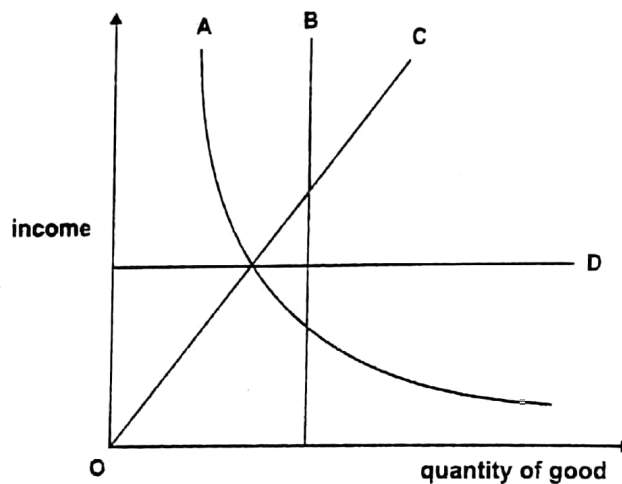
89. The table gives an individual's demand for four goods at two income levels. Over this range of income, for which good does the individual have an income elasticity of demand = 1?

income level	units of goods demanded			
	A	B	C	D
\$1000	50	50	50	50
\$1100	50	55	60	100

June 2003/Q8

90. The cross-elasticity of demand between two goods will be higher
- A the greater the difference in price between the two goods.
 - B the greater the income elasticities of demand for the two goods.
 - C the greater the price elasticities of demand for the two goods.
 - D the more they are regarded as similar by consumers.

91. The diagram shows how the quantity demanded of four goods changes as income changes. Which good has an income elasticity of demand which is always +1? Nov 2004/Q8



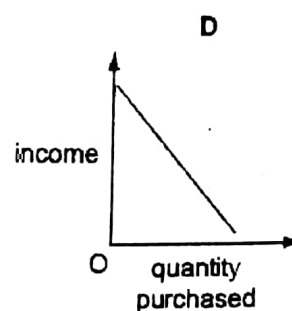
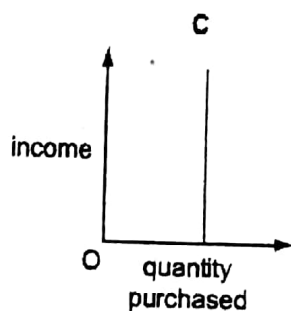
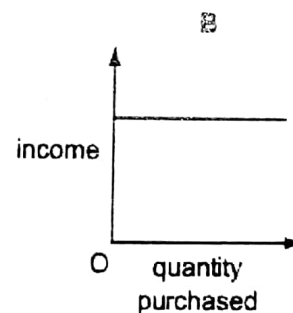
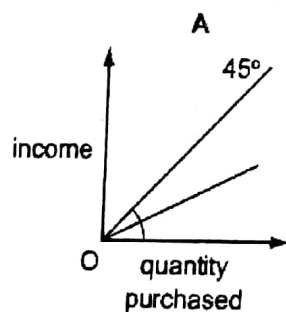
June 2005/Q8

92. The price of Good X rises by 20%. As a result, the demand for a substitute Good Y rises by 10%. What is the cross-elasticity of demand for Good Y with respect to Good X?

- A +2 B +0.5 C -0.5 D -2

Nov 2005/Q8

93. The diagrams show possible relationships between income and the quantity of a good purchased. Which diagram shows an inferior good?



June 2006/Q8

Q12 3

94.

Product R is an inferior good with no close substitutes. It is also a complement to product S.

Which describes product R?

	income elasticity of demand	cross elasticity of demand with respect to product S
A	negative	positive
B	positive	negative
C	negative	negative
D	positive	positive

June 2003/Q10, Nov 2006/Q8

95.

A manufacturer's ability to increase supply in the short run will be greater

- A if labour is immobile.
- B if the product is perishable.
- C if there is spare capacity.
- D if unemployment is low.

June 2007/Q8

96.

The table shows how an individual's consumption of cola and nuts varies with income.

income (\$)	cola (cans)	nuts (packets)
50	2	0
100	4	1

Which statement about income elasticity of demand over the range of income shown is true?

- A For cola it is less than 1.
- B For cola it is greater than 1.
- C For nuts it is greater than 1.
- D For nuts it is zero.

June 2008/Q8

97.

The price of good X rises by 10%. As a result, the demand for a substitute good Y rises by 20%.

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

- A +2
- B +0.5
- C -0.5
- D -2

Nov 2008/Q8

Unit 3

98. Two goods, X and Y, are complementary goods. Column 1 of the table below shows the original market situation at time period 1 and column 2 shows the situation following an increase in the price of good Y.

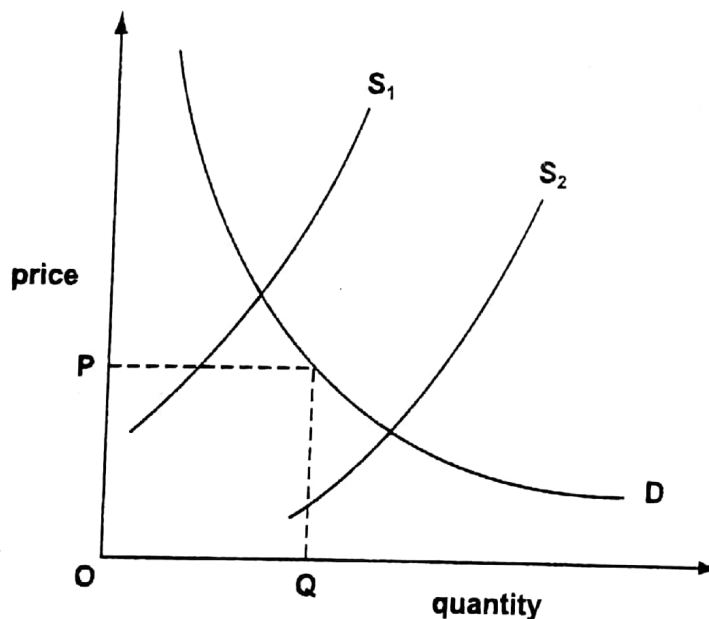
	1	2
price of good X	10	10
quantity demanded	50	40
price of good Y	20	30
quantity demanded	80	60

The value of cross elasticity of demand for good X with respect to the price of good Y lies between

- A -1.7 and -2.6.
- B -0.8 and -1.3.
- C -0.3 and -0.8.
- D +0.3 and +0.6.

Nov 2009/P12/Q

99. The diagram shows the demand curve for an agricultural commodity that has unitary elasticity. S_1 is the supply curve if there is a bad harvest and S_2 is the supply curve if there is a good harvest.



What should the government do in order to stabilise the incomes of farmers?

- A allow the price of the commodity to be determined by the market
- B fix the price paid to farmers at price OP
- C introduce a quota on production equal to OQ
- D subsidise farmers in bad years and impose a tax on farmers in good years

Nov 2005/Q18

100.

The table gives information about the market for two models of car.

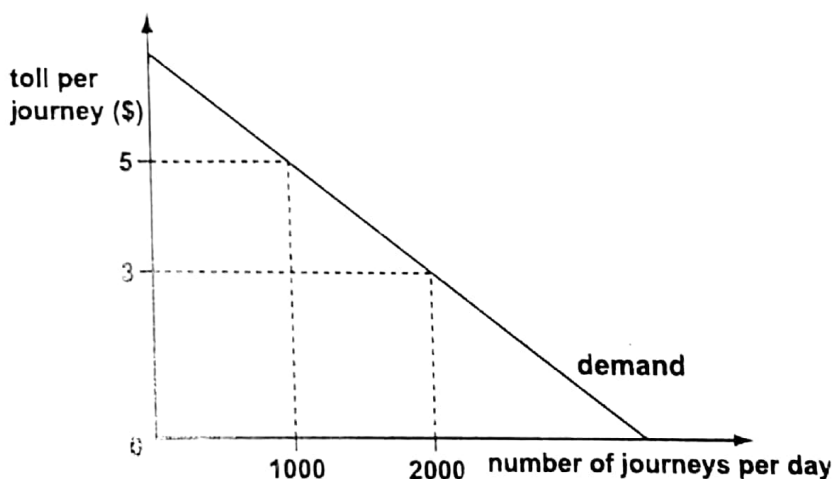
model	number of cars sold per week	cross elasticity of demand with respect to the price of petrol
1200 cc	10 000	-0.25
2000 cc	5 000	-0.50

If the prices of the cars remain unchanged, but the price of petrol increases by 100 %, what will be the effect on the number of cars sold per week?

- A increase by 5000
- B no change
- C decrease by 5000
- D decrease by 15 000

June 2010/P12/Q8 (Repeated Q # 70)

101. The diagram shows a demand curve for journeys on a toll road.



If there is a reduction in the toll from \$5 to \$3, what is the resulting increase in the daily consumer surplus?

- A \$1000
- B \$2000
- C \$3000
- D \$4000

June 2010/P12/Q11

102. The diagram shows the demand curve for a product with unitary price elasticity.



What will happen with such a curve?

- A A fall in price will bring about an increase in expenditure on the product.
- B A fall in price will bring about an increase in sales but a fall in expenditure on the product.
- C As the price rises, expenditure on the product stays the same.
- D As the price rises, expenditure on the product rises and then falls.

June 2011/P12/Q7

103. A refinery which processes oil into petrol (gas) is faced with the following conditions.

- 1 It is working at full capacity.
- 2 Its petrol storage tanks are full.
- 3 It has received delivery of a new fleet of petrol tankers to transport its petrol.
- 4 It requires six months to train new workers to qualify in safety procedures.

Which of the conditions will tend to make the supply of petrol relatively price inelastic?

- A 1 and 2 B 1 and 4 C 2 and 3 D 3 and 4

June 2011/P12/Q9

104. It was estimated in 2010 that milk had 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 decrease if the price of milk increases.
- D It is an inferior good.

Nov 2011/P12/Q6

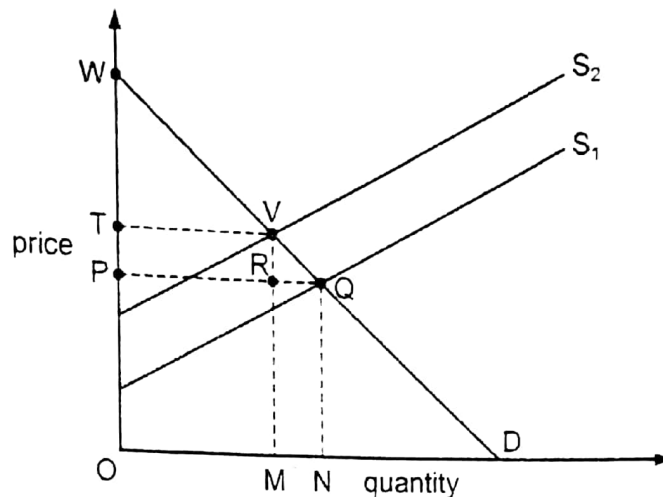
105. A manufacturer has estimated that the price elasticity of supply of ice cream is $+1.5$.
If the demand for ice cream rises and price increases by 10 %, how much more will the manufacturer supply to the market?

- A 0.15 %
- B 1.5 %
- C 15 %
- D 50 %

2011/P12/Q8

106.

In the diagram, S_1 is the original supply curve and D is the original demand curve.



If supply shifts to S_2 , which area represents the change in consumer surplus?

- A PQVT B PQW C PRVT D TWV
 Nov 2011/P12/Q11

107. When is a rise in the price of a product likely to cause more resources to be allocated to its production?

- A if demand increases when the supply curve is perfectly inelastic
 B if the demand curve shifts to the right when the supply curve is inelastic
 C if supply increases when the demand curve is perfectly inelastic
 D if the supply curve shifts to the left when the demand curve is elastic

Nov 2011/P12/Q13

108. The price of good X rises by 10%. As a result, the demand for a complementary good Y changes by 20%.

What is the cross elasticity of demand for good Y with respect to good X?

- A +2
 B +0.5
 C -0.5
 D -2

Nov 2011/P11/Q8

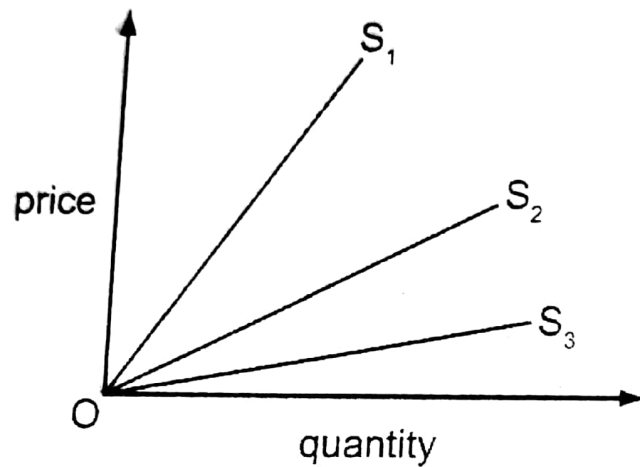
109. A firm estimates that the price elasticity of supply of its product is 0.4.

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 indicates that the firm is not able to adjust supply easily when demand changes.
 D Yes, as it means that demand for its product is increasing at a slow rate.

Nov 2011/P11/Q10

110. The diagram shows three supply curves.



What can be concluded about the price elasticity of supply of the curves?

- A As price rises, the price elasticity of supply of S_2 will increase.
- B At any price, the price elasticity of supply of S_1 will be less than that of S_3 .
- C At any price, the price elasticity of supply of S_2 will be higher than that of S_3 .
- D The price elasticity of supply of all three curves will be the same.

Nov 2011/P11/Q11

Key

Unit 3

Elasticity

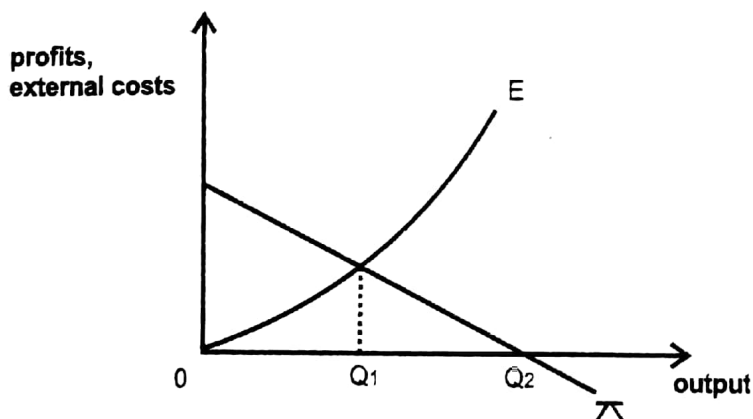
Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q.	Ans.	Q.	Ans.
1	D	20	D	39	B	58	C	77	B	96	C
2	D	21	C	40	C	59	B	78	A	97	A
3	C	22	C	41	A	60	D	79	D	98	C
4	B	23	C	42	A	61	C	80	B	99	A
5	B	24	C	43	D	62	B	81	A	100	C
6	A	25	B	44	D	63	D	82	B	101	C
7	C	26	D	45	C	64	C	83	C	102	C
8	B	27	C	46	D	65	C	84	C	103	B
9	D	28	C	47	C	66	C	85	A	104	D
10	C	29	C	48	B	67	A	86	B	105	C
11	D	30	D	49	B	68	D	87	B	106	A
12	A	31	B	50	A	69	D	88	B	107	B
13	D	32	C	51	D	70	C	89	B	108	D
14	C	33	C	52	B	71	A	90	D	109	C
15	A	34	B	53	C	72	B	91	C	110	D
16	D	35	D	54	C	73	D	92	B		
17	B	36	B	55	A	74	A	93	D		
18	C	37	D	56	A	75	C	94	C		
19	D	38	A	57	B	76	B	95	C		

Unit-4

Market Failure

- Which condition must be satisfied if a good is to be supplied through the market?
 - Consumers have perfect knowledge of the characteristic of the good.
 - There are a large number of buyers and sellers.
 - There are not external benefits from the consumption of the good.
 - Those unwilling to pay for the good can be excluded from the benefits.
- A socially efficient tax on urban road use is one which would
 - maximize road use.
 - maximize government revenue.
 - leave demand for road use unaltered.
 - reduce congestion to an optimal level.
- Which of the following statements is true for a good which gives rise to external benefits and which is produced under conditions of imperfect competition?
 - social costs of production exceed private costs.
 - output of the good is below the socially optimum level.
 - The factors used in the industry are overpaid.
 - The consumers of the good are paying too little.
- In the diagram, π is the marginal profit derived by a firm from successive units output. E Indicates the external cost in the form of pollution on inflicted the rest of society by successive units of output, In the absence of negotiations between the affected parties, which outputs will be produced in the circumstances indicated in the table?

June 1990



	Firm has a legal Right to pollute	Public has a legal Right to prevent Pollution
A	OQ ₁	OQ ₁
B	OQ ₁	OQ ₂
C	OQ ₂	Zero
D	OQ ₂	OQ ₁

5. An airline acknowledges an externality when it provides

- A first-class and economy class areas.
- B smoking and non-smoking areas.
- C flights with or without meals.
- D special rates to large groups of travelers.

June 1991

6. A government taxes a good X with the aim of discouraging consumption of the good. At the same time, the government itself supplies another good Y, which would otherwise not be supplied because it is impracticable to charge it.

In to which categories of goods do X and Y fall?

	X	Y
A	demerit	merit
B	demerit	public
C	merit	demerit
D	merit	public

7. Which of the following statement is correct when a competitive firm's production involves an external cost?

- A The firm fails to maximize profits.
- B The firm's output of the good is too large from society's viewpoint.
- C The market price of the good is too high from society's viewpoint.
- D The optimal output of such a good from society's viewpoint is zero.

Nov 1993

8. A government replaces cash grants paid to students in full-time higher education with a scheme of loans to be repaid by the students from their future income earned with the country.

- A a decrease in the opportunity cost of higher education to the student.
- B a decreases in the private rate of return on investment in higher education.
- C reduced emigration on the part of graduates.
- D a switch in demand by students away from job-related courses.

June 1999, June 1994

9. In a country, the socially optimum level of pollution is greater than zero.

Assuming pollution is at its socially optimum level, what does this imply?

- A It is technically impossible to reduce pollution to zero.
- B The marginal social cost of pollution is greater than the marginal social benefit of pollution reduction?
- C The cost of reducing pollution exceeds the revenue firms would receive from increased sales.
- D The social benefit from reducing pollution would be exceeded by the opportunity cost of diverting resources to pollution reduction.

Nov 1994

10. What is a merit good?

- A a good where any benefit obtained by the consumer is extended to all consumers.
- B a good that the government believes consumers according to merit.
- C a good that the government believes consumers will buy too little of if it provided by private enterprise at market prices.
- D a good where the private benefits of consuming the good exceed its social benefits.

June 2002Q/18, Nov 1994

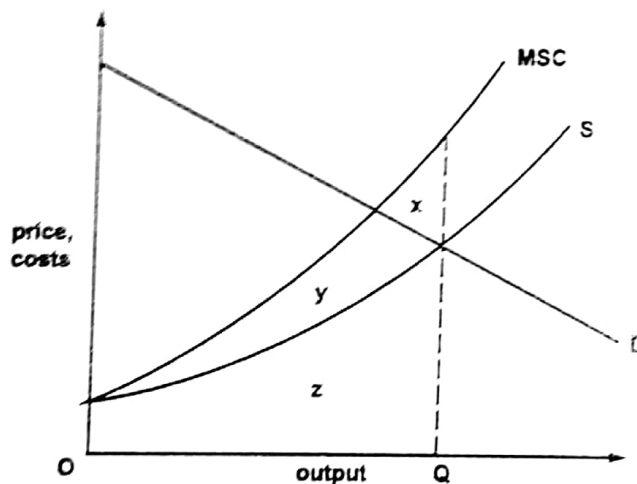
11. Which of the following is an externality arising out of professional football matches?

- A revenue earned by operators running extra trains
- B bonuses paid to players on the winning side
- C payments made by football clubs to meet the cost of policing
- D damage caused by supporters to shops near football grounds

Nov 1995

12. 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 QQ?



- A x
- B y
- C z
- D $x + y + z$

June 2002/P1/Q16

13. Students have shown that the private rate of return to students from higher education in the UK is above the social rate of return to the community as a whole.

What helps to explain why this is the case:

- A Access to higher education is restricted.
- B Graduates pay a higher proportion of their income in tax than non-graduates.
- C Student fees are paid by the state.
- D The differential between graduate and non-graduate earnings is only partly attributable to higher education.

June 1996

14. What is the socially optimal level of emissions from a factory chimney?
- A Where the difference between marginal social benefit and marginal social costs is maximized.
 - B Where the net benefit to the community from a further unit reduction in emissions is zero.
 - C Where the total cost of reducing emissions is equal to the total benefit to the community.
 - D zero

June 1996

15. When is a good defined as a public good?
- A when consumption of the good by one individual prevents consumption by another individual.
 - B when it confers benefits on consumers which are greater than they themselves perceive.
 - C when it is supplied by the government and financed out of taxation.
 - D when the benefits it confers on consumers can be extended to other at zero cost.

Nov 1996

16. A government reduces the speed limit on major road from 100 kilometers per hour to 70 kilometer per hour.
Which costs should be excluded from a social cost-benefit evaluation of the new regulation?
- A the increase in the average journey times for private motorists.
 - B the increase in congestion on minor road resulting from a diversion of traffic form the major roads.
 - C the increase in polled manpower require to enforce the new speed limit.
 - D the loss to the government resulting from a reduction in revenue from petrol duty.

Nov 1996

17. Which of the following is likely to result from an increase in subsidies for public transport in cities?
- A an increase in local taxes.
 - B an increase in traffic congestion.
 - C a reduction in distances travelled to work.
 - D lower occupancy rate on buses.

June 1993, June 1998

18. Which of the following is provided by the government entirely because of marker failure?
- A agricultural supply
 - B free health services
 - C retirement benefits
 - D street lighting.

19. Which item of expenditure should be disregarded by the government when deciding whether to close or continue railway services on particular line?
- A fuel for locomotive operation.
 - B interest on debt incurred to finance past railway station improvements.
 - C maintenance of track and signaling equipment.
 - D wages of locomotive drives.

Nov 1998

Unit 4

20. Which of the following would be a valid economic argument for subsidizing the provision of higher education?

- A The cost of providing higher education is rising in real terms.
- B The return to society exceeds that the individual
- C The opportunity cost of higher education increases in times of high unemployment among young people.
- D The market is incapable of providing higher education.

June 2000, Nov 1998, Nov 1991

21. The introduction of charges on motorists entering a city result in a significant reduction in traffic congestion. Which group definitely suffers a net loss in welfare?

- A car users who abandon their journeys altogether.
- B car users who continue to enter the city center.
- C car users who switch to public transport.
- D existing bus passengers

Nov 2000

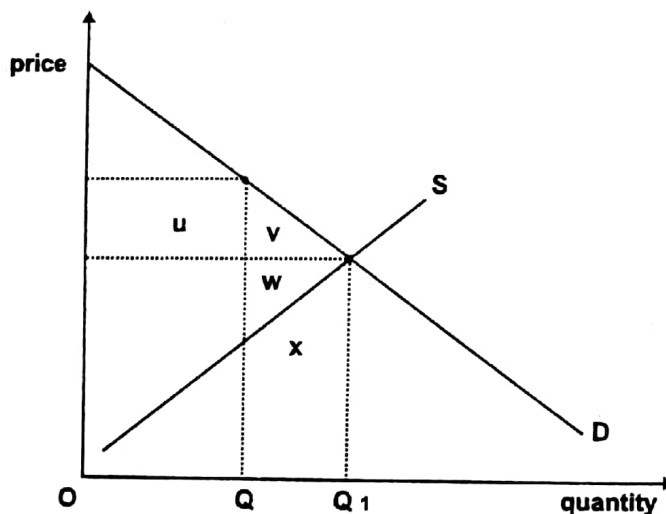
22. Which of the following measures is specifically designed to reduce divergences between private and social costs?

- A equal pay legislation
- B minimum wage legislation
- C the abolition of tuition fees paid by university students
- D the introduction of 'bus only' lanes in city centre

June 1987, Nov 2001

23. The diagram shows an industry's supply and demand curves. The government initially restricts the level of output to OQ .

In the absence of externalities, which area in the diagram measures the net gain in economic welfare if this restriction were removed?



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

June 1995, Nov 2001

Which of the following goods is excludible but non-rival?

- A air defense.
- B public libraries.
- C street lighting.
- D television broadcasts

June 2002/Q17

In what circumstances will the entry of additional fishing boats into the fishing industry result in a net loss in welfare?

- A This entry of the new boats reduces fish caught by other boats.
- B The entry of the new boats reduces the profits of other boat owners.
- C The value of the increase in the fish caught is less than the loss in value of output elsewhere in the economy.
- D The entry of the new boats reduces the over all fish stock.

June 2003/Q16

Which combination shows examples of the private and external costs of the particular activity?

	Activity	Private cost	External cost
A	Car journeys	Traffic police costs	Labour mobility
B	Foreign holidays	Crowded beaches	Airport taxes
C	Jet flights	Night flight disturbance	Landing
D	Pop concerts	Admission	Noise intrusion

Nov 2004/Q14

What is implied by the existence of a negative externality?

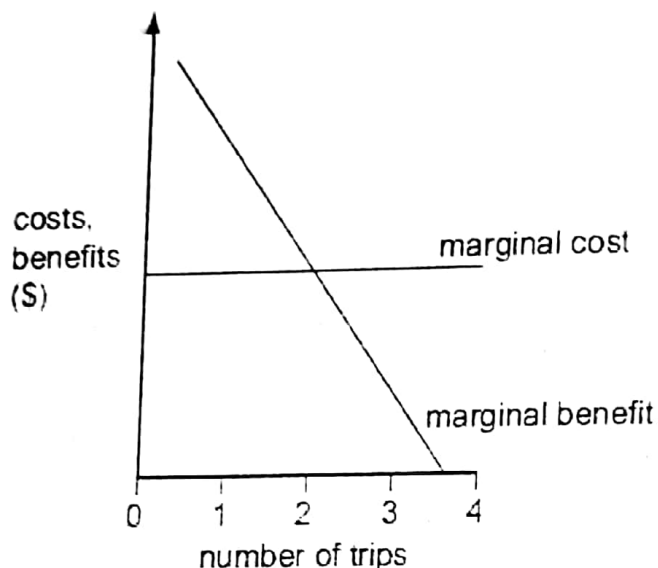
- A Individuals are not the best judges of their own well-being.
- B Output is below its optimum level.
- C Producers are not profit maximisers.
- D There is a divergence between private and social costs.

What will happen if a firm is subsidized by an equivalent to the external benefits that it confers on the rest of society?

- A Resource allocation will be improved.
- B The firm will produce less.
- C There will be a misallocation of resources.
- D There will be no effect upon production

Nov 2005/P3/Q1

29. The diagram shows a person's marginal costs and marginal benefits of making trips to the cinema. How many trips will the person make?



- A None, as each extra trip reduces marginal benefit.
- B One, as this maximises the excess of marginal benefit over marginal cost.
- C Two, as this maximises the net benefit of making trips.
- D Three, as all trips have a positive marginal benefit.

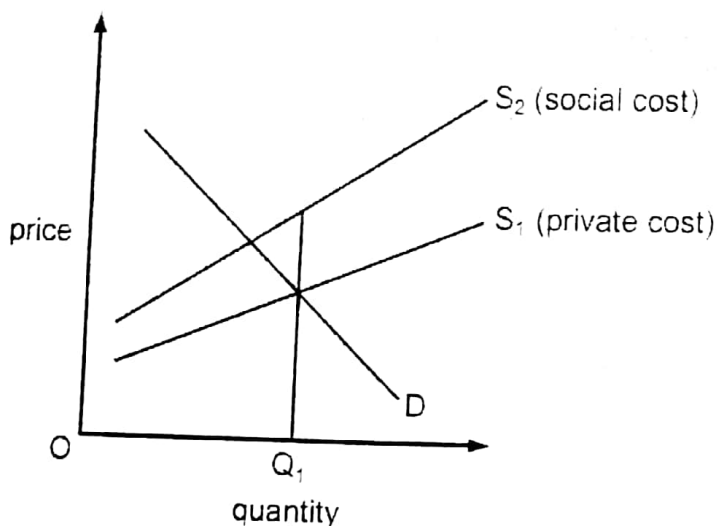
Nov 2009/P12/Q3

30. What explains why the social cost of developing tourism on a remote island is greater than the private cost?

- A the costs of building extra hotels on the island
- B the extra costs of providing the tourists with food
- C the travel costs paid by tourists who visit the island
- D the harm to the environment caused by the tourists

Nov 2003/Q14

31. In the diagram, Q_1 is the quantity produced of a good as the result of market forces.



Unit 4
What concept is present at output Q_1 ?

- A a government subsidy
- B a negative externality
- C excess supply
- D price instability

June 2004/Q14

32. The growing of flowers in a private garden results in a positive externality.

What can be concluded from this?

- A External benefits exceed private costs.
- B External costs exceed private costs.
- C Private costs exceed social benefits.
- D Social benefits exceed private benefits.

June 2005/Q14

33. In some countries in the last twenty years the amount of freight traffic carried by roads has increased and the amount carried by railways has decreased. Recently, there has been an attempt to reverse this trend.

What could be the most likely reason for this attempt?

- A The external benefits of road transport are higher than the external benefits of rail transport.
- B The private benefits of road transport are high.
- C The private costs of road transport are low.
- D The social costs of road transport are higher than the social costs of rail transport.

Nov 2005/Q14

34. In which situation are there definitely positive externalities?

- A Private benefits exceed private costs.
- B Private benefits exceed social benefits.
- C Social benefits exceed private benefits.
- D Social benefits exceed private costs.

June 2006/Q14

35. What is an external cost of building new houses in a city centre?

- A the cost of compensating residents for mud on local roads
- B the cost of city centre traffic congestion resulting from the building
- C the cost of obtaining planning permission
- D the cost of painting the outside of the new houses

Nov 2006/Q14

36. A financial investigation by a private firm finds that a new railway line would not be profitable. A cost-benefit analysis finds that the line is worth constructing.

What could explain this difference?

- A There are external costs not included in the financial investigation.
- B There are external benefits not included in the financial investigation.
- C A higher rate of interest is used in cost-benefit analysis.
- D Cost-benefit analysis uses a higher estimate for wage costs.

June 2003/Q15

37. What would not be included in a cost-benefit analysis of a proposed new university?

- A the costs of building the new university
- B the extra income earned by the new university's graduates
- C the future staffing costs of other universities
- D the future staffing costs of the new university five years into the future

Nov 2003/Q15

38. The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits \$m	external benefits \$m	private costs \$m	external costs \$m
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

June 2004/Q15

39. Prior to an election, the government proposes to build a new urban motorway.

In a cost-benefit analysis, what would not be included among the prospective benefits?

- A the lower operating costs of public transport
- B the lower running costs incurred by private motorists
- C the value of time saved by commuters
- D the improved chance of the re-election of the government

June 2005/Q15

40. When is cost-benefit analysis most likely to be used?

- A by a firm when deciding whether to relocate
- B by a firm when deciding to purchase new machinery
- C by a government when choosing between two road schemes
- D by a local authority when deciding its tax rate

Nov 2005/Q15

41. Correct use of cost-benefit analysis should produce an outcome where

- A social costs are minimised and social benefits are maximised.
- B social benefits are in excess of social costs.
- C marginal private benefits equal marginal social benefits.
- D marginal social benefits equal marginal social costs.

June 2006/Q15

42. Which consequence of building an underground railway line would be classified as an externality?

- A a reduction in road accidents
- B the gain in profit for the train operators
- C the revenue from foreign visitors travelling on the line
- D the saving in travel time by passengers who travel on the line

June 2007/Q15

43. What is an advantage of using cost-benefit analysis in decision-making rather than using only private costs and private benefits?

- A It does not require detailed calculations.
- B It is easier to calculate social costs than private costs.
- C It speeds up the decision-making process.
- D It takes into account a wider range of effects.

Nov 2006/Q15

44. Which of the following statements is correct?

- A Education is a public good because the government subsidises schools.
- B Healthcare is a public good when provided free of charge.
- C Law and order is a public good because it is provided by the government.
- D Street lighting is a public good because no one can be prevented from enjoying the benefits.

June 2003/Q16

45. Which of the following is the best example of a public good?

- A education
- B medical care
- C postal services
- D radio broadcasts

Nov 2003/Q16

46. What is always a characteristic of a public good?

- A Consumption of the good by one individual prevents consumption by any other individual.
- B It confers benefits on consumers that are greater than they themselves realise.
- C It is supplied by a voluntary organisation.
- D The benefits it confers on consumers can be extended to others at zero cost.

June 2004/Q16

47. Why do governments often subsidise the cost of entrance to museums?

- A Museums are a pure public good.
- B Social benefits are less than social costs.
- C Social benefits exceed private benefits.
- D Social costs exceed private costs.

Nov 2004/Q16

48. What are the characteristics of a private good?

- A non-rivalness and excludability
- B non-rivalness and non-excludability
- C rivalness and excludability
- D rivalness and non-excludability

June 2005/Q16

49. Which of the following is a public good?

- A defence
- B education
- C electricity supply
- D health services

June 1983, June 1998, Nov 2005/Q16

50. A lighthouse is considered to be a public good.

Which characteristic contributes to this?

- A It gives external benefit.
- B It causes external cost.
- C It is non-excludable.
- D There is rivalry in its use.

June 2006/Q16

51. What is an essential characteristic of a private good?

- A Consumption of the good by one user diminishes the quantity available to others.
- B Consumption of the good by the user has no external effects on the consumption of others.
- C It is produced by the private sector.
- D The user has to pay for it.

Nov 2000, June 1991, Nov 2006/Q16

52. The costs and benefits of building a bridge have been calculated as follows.

	\$ million
building costs	100
disturbance to people nearby	10
time saved by using the bridge	90
less congestion on other routes	30

Which of the following is true?

- A The external cost exceeds the private costs.
- B The private benefit exceeds the private costs.
- C The social benefit exceeds the social costs.
- D The external cost exceeds the external benefits.

June 2007/Q16

53. A government decided to approve a private airport-building scheme because it was socially beneficial. In making its decision it calculated private costs at \$700 m, private benefits at \$800 m and external costs at \$200 m.

What does this suggest must have been true about the external benefits of the scheme?

- A External benefits equalled private benefits.
- B External benefits exceeded \$100 m.
- C External benefits exceeded external costs.
- D There were no external benefits.

Nov 2007/Q14

54. What will be the result, from society's view, if the market price for a product does not reflect the negative externalities in its production?

- A too much consumption and too much production
- B too much consumption and too little production
- C too little consumption and too little production
- D too little consumption and too much production

June 2008/Q14

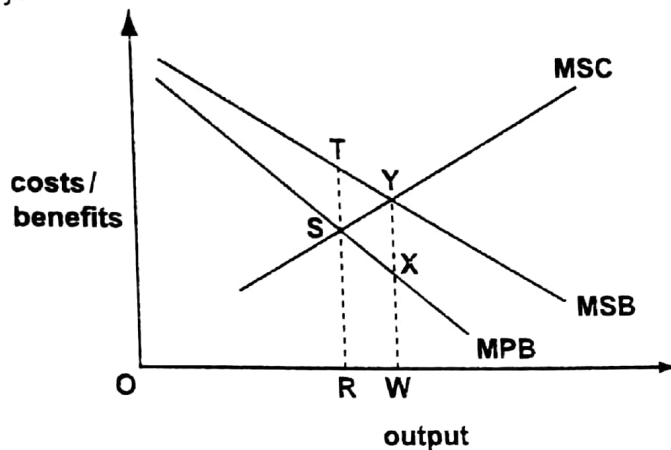
55. A firm owns a bridge and charges all vehicle users who cross it.

How might the charge be classified?

- A an external benefit and an external cost
- B an external benefit and a private cost
- C a private benefit and an external cost
- D a private benefit and a private cost

Nov 2008/Q14

56. A government is planning to intervene in a market to fix output at the economically desirable level by giving a subsidy.



To achieve its objective, what should be the subsidy per unit?

- A ST
- B SX
- C TY
- D XY

June 2009/Q14

57. The government is considering building flood defences along a river. It has calculated the costs and benefits as follows.

	Costs \$m	Benefits \$m
private	450	260
external	60	190

According to cost-benefit analysis, which decision and reasoning about flood defences is correct?

	decision	reasoning
A	Build.	External benefits are greater than external costs.
B	Build.	Social benefits are greater than private benefits.
C	Do not build.	Private costs are greater than external benefits.
D	Do not build.	Social costs are greater than social benefits.

Nov 2009/P12/Q13

58. In cost-benefit analysis the term net social benefit refers to

- A private benefit plus social benefit.
- B social benefit minus private benefit.
- C social benefit minus private cost.
- D social benefit minus social cost.

59. An increase in tuition fees paid by students has no effect on the number of students entering higher education. Nov 2007/Q1

What will be the effect on the private rate of return obtained by students from higher education and on the social rate of return to society as a whole?

	private rate of return	social rate of return
A	decrease	increase
B	decrease	uncertain
C	increase	increase
D	increase	uncertain

60. A town council estimated the costs and benefits of operating a bus service in 2006 and 2007. These are shown in the table. June 2008/Q15

	2006 \$000	2007 \$000
private costs	2000	2200
external costs	500	900
private benefits	1500	2300
external benefits	1000	800

What can be concluded from the table?

- A Between 2006 and 2007, social costs fell and social benefits rose.
- B Between 2006 and 2007, social costs rose and social benefits fell.
- C In both years, positive externalities exceeded negative externalities.
- D In both years, social costs equalled social benefits.

June 2009/P1/Q15

61. Despite much opposition, the local government in a popular tourist resort built a leisure centre and swimming pool which is open to everyone. Many tourists visit the centre. Local residents are charged a reduced entry fee.

How would economists classify this service?

- A It is a demerit good because some people objected to the development.
- B It is a merit good because the entry fee is reduced for local residents.
- C It is a private good because there is an entry fee for all users.
- D It is a public good because it is open to everyone and provided by the local government.

Nov 2009/P12/Q14

62. Advances in technology are turning a number of goods which are usually thought of as public goods (for example, television broadcasting and road use) into private goods.

Why might this be so?

- A Consumer surplus is being increased.
- B The costs of production are being reduced.
- C It is becoming easier to exclude non-payers.
- D The technology is increasing the number of people consuming the goods.

Nov 2007/Q16

63. The government has to choose the best one of four possible sites to locate a port.

The benefits and costs of each site are shown in \$m in the table.
Which site would be chosen?

	private benefits	external benefits	private costs	external costs
A	900	600	10	50
B	700	1100	20	5
C	800	1100	80	40
D	1000	900	100	200

June 2008/Q16, Nov 2004/Q15

64. The table shows, for two different quantities of good X, the total amount consumers are willing to pay and the total external benefits that are generated.

quantity of good X (units)	consumers' willingness to pay (\$)	total external benefits (\$)
3	240	54
4	280	68

What is the additional social benefit when 4 units rather than 3 units are produced?

- A \$14
- B \$40
- C \$54
- D \$348

Nov 2008/Q16, Nov 2011/P11/Q15

65. When would cost-benefit analysis definitely indicate that a government project should be approved?

- A if it eliminated all external costs
- B if it gave a higher rate of return than a private sector project
- C if it maximised net social benefit
- D if it minimised total social cost

June 2009/Q16

66. What can be provided only as a public good?

- A road use
- B security services
- C street lighting
- D TV broadcasting

Nov 2009/P12/Q15

67. What does not happen when price acts as a means to allocate resources?

- A Price determines the supply of public goods.
- B Price operates in the markets for both goods and factors of production.
- C Price recognises consumers' ability to pay rather than consumers' needs.
- D Price signals to producers which goods are most profitable

June 2010/P12/Q12

68. James grows fruit trees in his garden. They attract butterflies and bees.

What is not an externality of this?

- A Neighbours may be stung by the bees that pollinate the trees.
- B Neighbours may buy fruit more cheaply from James than the local supermarket.
- C Neighbours may enjoy better air quality as the trees naturally improve the atmosphere.
- D Neighbours may like to watch the activity of the wildlife at no cost.

June 2010/P12/Q13

69. The table shows some of the costs when a firm produces a good.

output	total cost to society \$	external cost \$
23	316	16
24	322	18

What is the additional cost to a firm of producing the 24th unit?

- A \$2
- B \$4
- C \$6
- D \$8

June 2010/P12/Q14

70. What makes it particularly difficult to take decisions using cost-benefit analysis?

- A External costs are difficult to estimate accurately.
- B Governments have no method of valuing time savings.
- C Market forces have no influence on the outcome.
- D Private costs can vary from one day to the next.

June 2010/P12/Q15

71. Which good is excludable but non-rival?

- A air defence
- B public libraries
- C street lighting
- D television broadcasts

June 2010/P12/Q16

Unit 4

72. What is the most likely reason economists will give to explain why large hospital projects are often funded by governments?

- A Governments usually control the construction industry.
- B Hospitals benefit many people who do not use them.
- C Hospitals are non-excludable.
- D Hospitals are an essential service.

Nov 2010/P12/Q14

73. How would net external benefit be calculated?

- A external benefit minus external cost
- B external benefit plus private benefit
- C private benefit plus social benefit
- D social benefit minus private cost

Nov 2010/P12/Q15

74. What will make it more likely that road tolls will reduce traffic congestion?

- A Cross-elasticity of demand between private and public transport is zero.
- B Demand for car use is income-elastic.
- C Demand for car use is price-elastic.
- D Supply of public transport is price-inelastic.

Nov 2010/P12/Q17

75. The table shows some of the costs and benefits at a given level of production of a good.

costs	\$m	benefits	\$m
private	80	private	90
social	200	external	100

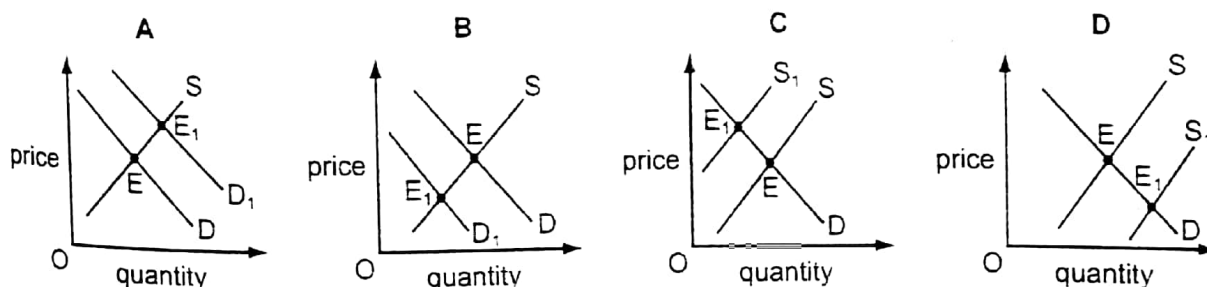
What is correct at this level of production?

- A External benefits exceed external costs.
- B Private benefits exceed external costs.
- C Private costs exceed social benefits.
- D Social costs exceed social benefits.

June 2011/P12/Q13

76. The consumption of a good generates external benefits. Its market equilibrium is E.

Which diagram shows the change in the equilibrium (E to E₁) necessary to reflect the correct value of the good to society?



June 2011/P12/Q14

77. What is an advantage, rather than a disadvantage, of cost-benefit analysis in deciding on a government investment project?

- A Economic agents place different values on external costs and external benefits.
- B Estimates of external costs and external benefits are included.
- C Forecasts of future costs and benefits vary over time.
- D Miscalculations of the costs are financed by the taxpayer.

June 2011/P12/Q15

78. What is a distinguishing feature of a public good that is not found with private goods?

- A Consumption depends on the ability to pay.
- B It creates negative externalities.
- C Its consumption by one consumer can have an effect on other consumers.
- D Its consumption by one consumer does not restrict consumption by other consumers.

June 2011/P12/Q16

79. A congestion charge of £10 per day has been imposed on motorists taking their cars into Central London.

What is it about driving into Central London that provides the economic justification for this charge?

- A The external benefits are greater than the external costs.
- B The private costs are greater than the external costs.
- C The social benefits are greater than the private benefits.
- D The social costs are greater than the private costs.

Nov 2011/P12/Q14

80. A cost-benefit analysis of a proposed underground railway produced the following statistics.

annual costs and benefits	\$ million
annual capital cost	10
operating and maintenance costs	3
fare revenue	6
savings to private travellers	5
savings to business	10
other economic benefits	7

What can be concluded from the statistics?

- A If undertaken by the private sector there would be a loss of \$13m.
- B If undertaken by the private sector there would be a profit of \$3m.
- C If undertaken by the public sector there would be a net social benefit of \$15m.
- D If undertaken by the public sector there would be a net social cost of \$1m.

Nov 2011/P12/Q15

Unit 4

81. A government admits that building a new bridge would produce a positive net benefit to society.

Owing to a lack of public funds, the bridge would have to be built and operated by a private company, that would charge the public to use the bridge.

Private companies insist that building the bridge would not be profitable.

What could explain the companies' unwillingness to build the bridge?

- A A private company will be unable to obtain the consumer surplus of the users.
- B Building the bridge will give rise to negative externalities.
- C The demand for bridge crossings is price-inelastic.
- D The potential benefits are non-excludable.

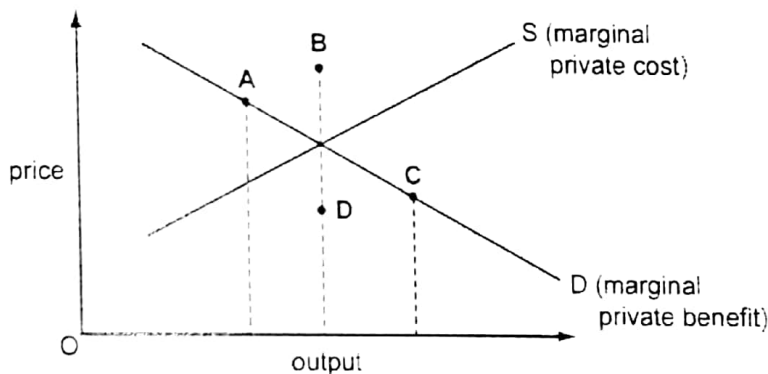
Nov 2011/P12/Q16

82. What is a merit good?

- A a good or service which has higher social costs than private costs
- B a good or service which has no opportunity cost
- C a good or service which is both non-excludable and non-rival
- D a good or service which has a greater value than individuals recognise

Nov 2011/P12/Q17

83. In a free market in equilibrium, the production of the good illustrated below imposes an external cost upon society.



Which letter could represent the total cost of producing the free market equilibrium output?

Nov 2011/P11/Q14

84. What is a merit good?

- A a good that is made available to consumers according to merit
- B a good that the government believes consumers will buy too little of if it is provided by private enterprise at market prices
- C a good where any benefit obtained by one consumer is extended to all consumers
- D a good where the private benefits of consuming the good exceed its social benefits

Nov 2011/P11/Q16

85. Which good or service is excludable but non-rival in consumption?

- A fish stocks
- B national defence
- C street lighting
- D TV broadcasting

Key

Unit 4

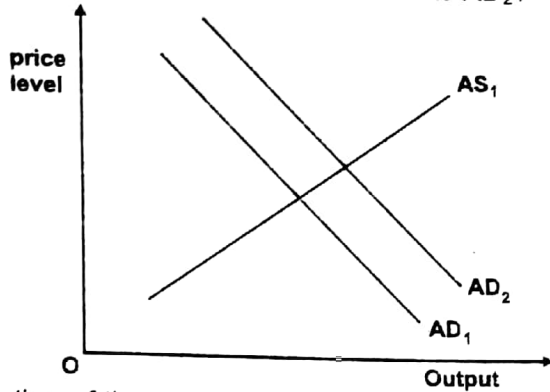
Market Failure

Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.
1	D	20	B	39	D	58	D	77	B
2	D	21	B	40	C	59	B	78	D
3	B	22	D	41	D	60	D	79	D
4	C	23	C	42	A	61	C	80	C
5	B	24	D	43	D	62	C	81	A
6	B	25	C	44	D	63	C	82	D
7	B	26	D	45	D	64	C	83	B
8	B	27	D	46	D	65	C	84	B
9	C	28	A	47	C	66	C	85	D
10	C	29	C	48	C	67	A		
11	D	30	D	49	A	68	B		
12	D	31	B	50	C	69	B		
13	C	32	D	51	A	70	A		
14	B	33	D	52	C	71	D		
15	D	34	C	53	B	72	B		
16	D	35	B	54	A	73	A		
17	A	36	B	55	D	74	C		
18	D	37	C	56	D	75	D		
19	B	38	A	57	D	76	A		

Unit-5

AD & AS

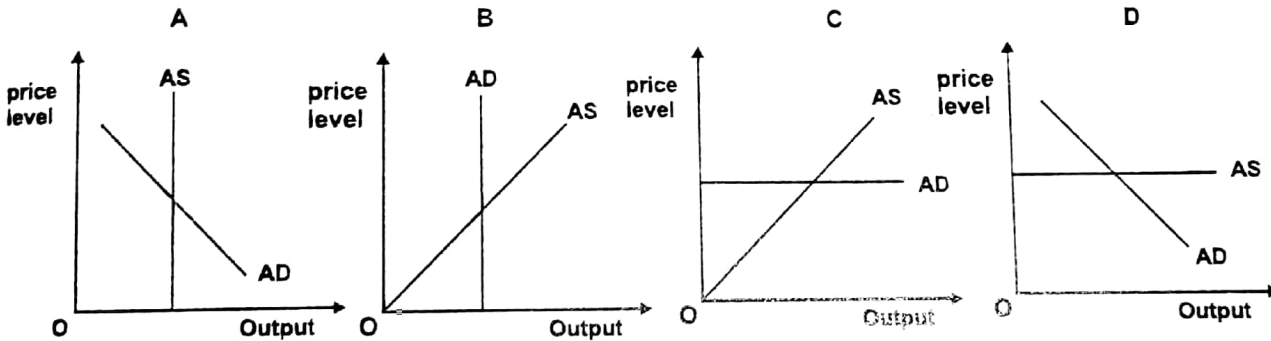
1. In the diagram, AD_1 and AS_1 are an economy's initial aggregate demand and supply curves. What will cause the aggregate demand curve to shift to AD_2 ?



- A an appreciation of the currency B an increase in government spending
 C an increase in interest rates D an increase in the price level

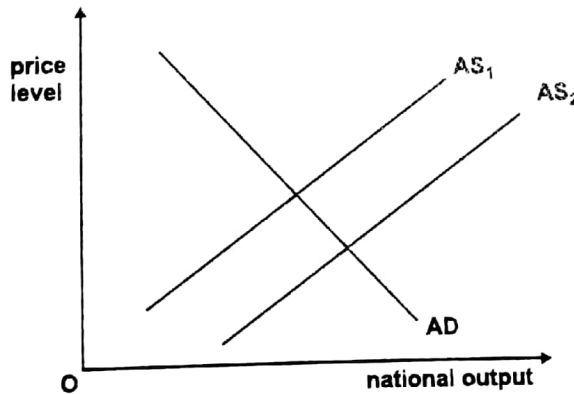
June 1999

2. The diagrams shows aggregate demand and aggregate supply curves in four economies. In which economy will an increase in government expenditure leave the level of national output unchanged?



Nov 1999

3. The diagram shows an economy's short-run aggregate demand and aggregate supply curves. What could cause the aggregate supply curve to shift from AS_1 to AS_2 ?

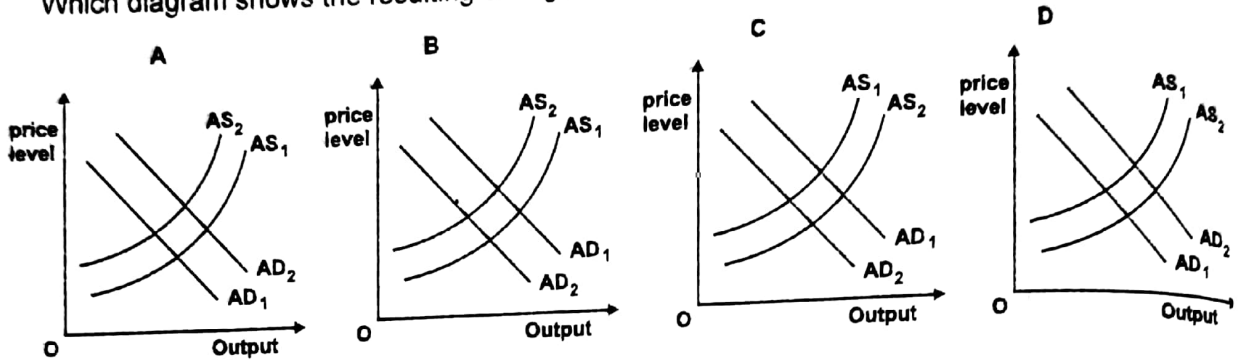


- A an increase in the money supply
 B an increase in trade union bargaining power
 C an reduction in the price level
 D an increase in the number of women available for work

Nov 2000

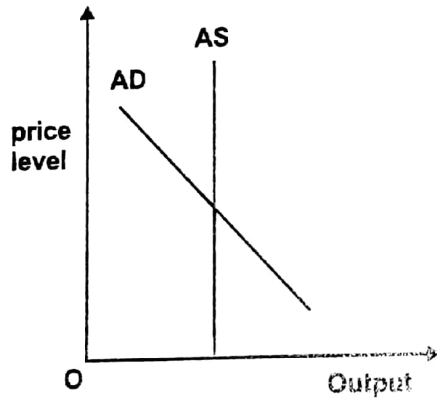
4. In the diagrams, AD_1 and AS_1 are a country's initial aggregate demand and aggregate supply curves. The country experience in the cost of its imported raw materials and an increase in the money supply.

Which diagram shows the resulting changes in aggregate demand and aggregate supply?



June 2000

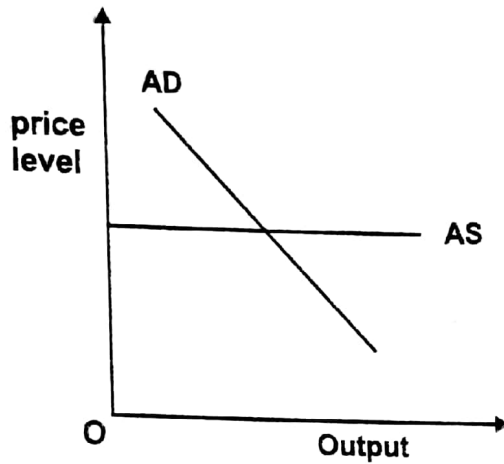
5. The diagram shows an economy's aggregate demand and aggregate supply curves. What will be the effect on the price level and the level of output of an increase in the money supply?



	Price level	Output
A	Increase	Increase
B	Increase	Unchanged
C	Unchanged	Increase
D	Unchanged	Unchanged

Nov 2000

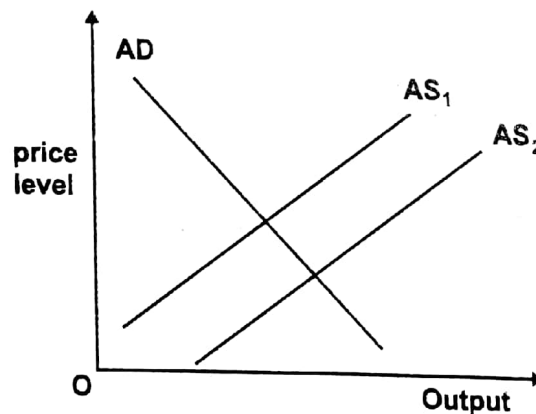
The diagram shows an economy's aggregate demand and aggregate supply curves. What will be the effect on the price level and on the level of output of an increase in the level of government spending?



	Price level	Output
A	Increase	Increase
B	Increase	Unchanged
C	Unchanged	Increase
D	Unchanged	Unchanged

June 2001

7. The diagram shows an aggregate demand and aggregate supply curves for an economy. What could cause the aggregate supply to shift from AS_1 to AS_2 ?

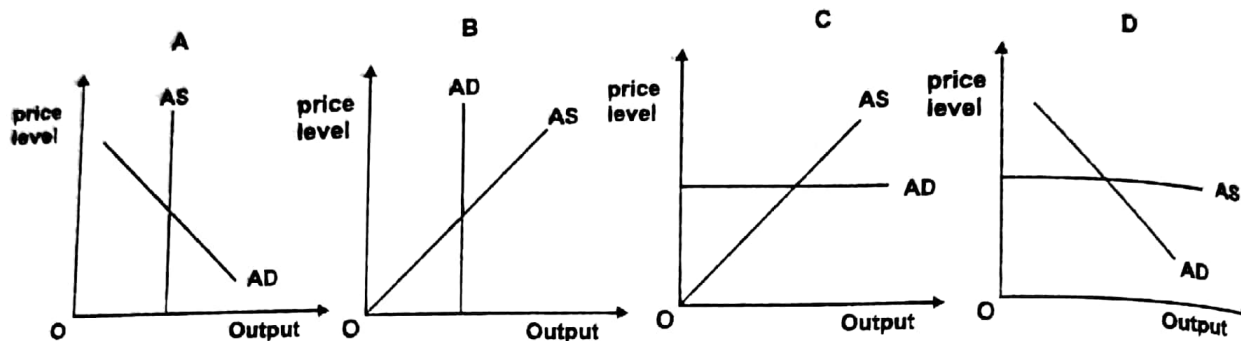


- A an increase in consumption
- B an increase in interest rates
- C an increase in raw material prices
- D an increase in labour mobility

June 2001

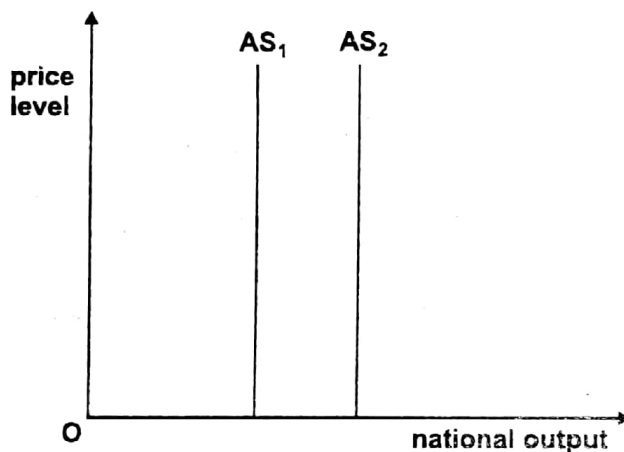
Unit 5

8. In which diagram would an increase in government expenditure leave the price level unchanged?



9. In the diagram AS₁ to shift to AS₂?

June 2000

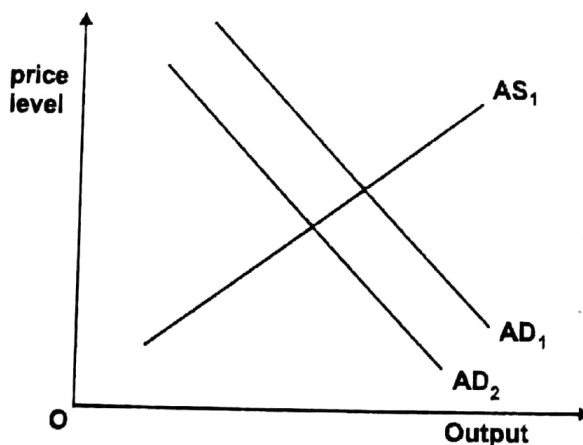


What will cause AS₁ to shift to AS₂?

- A an increase in consumer spending
- B an increase in inflation
- C an increase in productivity
- D an increase in net exports.

Nov 2001

10. In the diagram AD₁ and AS₁ are an economy's initial aggregate demand and aggregate supply curves.



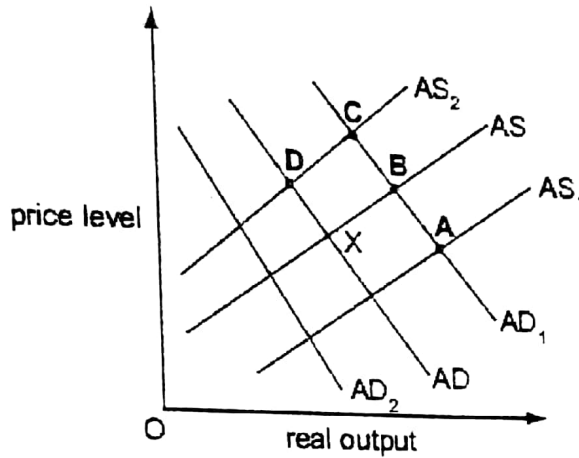
Unit 5

What will cause the aggregate demand curve to shift to AD₂?

- A a depreciation of the currency
- B an increase in the price level
- C an increase in the real wage
- D a reduction in the money supply

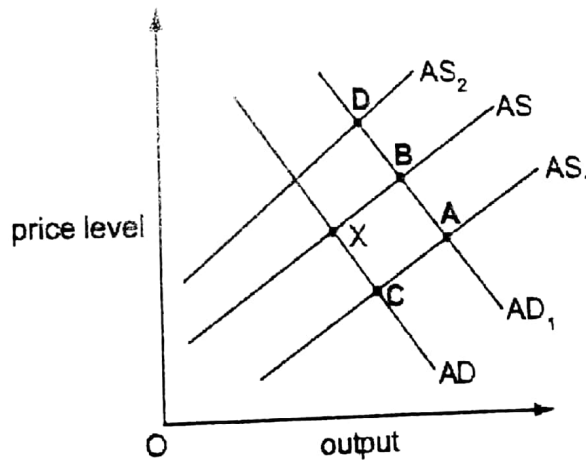
Nov 2002/P3/Q17

11. In the diagram an economy is initially in equilibrium at point X. The government increases spending on education. This coincides with an increase in wage rate inflation.



June 2003/P3/Q23

12. An economy is currently in equilibrium at point X. Government expenditure is increased on retraining programmes for those out of work. This raises the productivity of the trainees. Which point shows the new equilibrium in the economy?



Nov 2003/P3/Q23, June 2007/P3/Q23

Unit 5

13. What is likely to cause a decrease in aggregate supply?

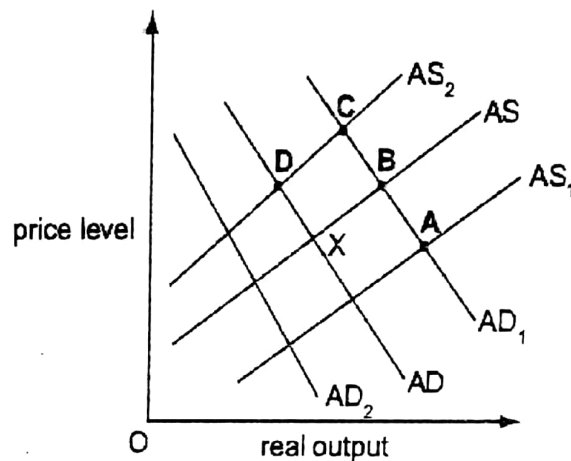
- A a decrease in consumption expenditure
- B an increase in labour productivity
- C a decrease in rates of unemployment benefit
- D an increase in wage costs per unit of output

June 2004/P3/Q23, Nov 2007/P3/Q22

14. In the diagram an economy is initially in equilibrium at point X.

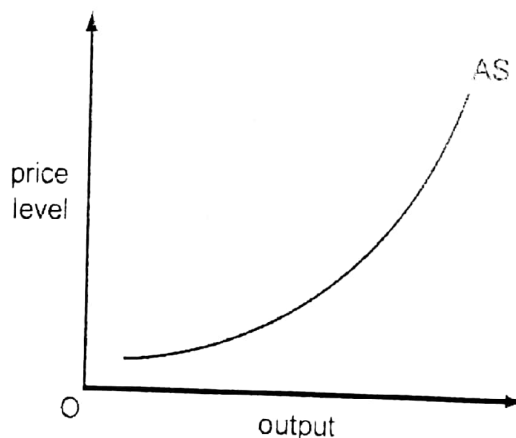
The government increases spending on education. At the same time there is a decrease in money wage rates.

Which point shows the most likely new equilibrium of the economy?



Nov 2008/P3/Q17

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



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

- A improvements in technology
- B schemes to increase the geographical mobility of labour
- C an increase in investment due to a reduction in interest rates
- D an increase in the marginal rate of income tax

Nov 2009/P32/Q21

Key

Unit 5

AD & AS

Q	Ans	Q	Ans
1	B	20	
2	A	21	
3	D	22	
4	A	23	
5	B	24	
6	C	25	
7	D	26	
8	D	27	
9	C	28	
10	D	29	
11	C	30	
12	A	31	
13	D	32	
14	A	33	
15	D	34	
16		35	
17		36	
18		37	
19		38	

Unit-6 Money, Inflation, Labour & Unemployment

1. Other things being equal, what can be concluded if the index of retail prices falls from 200 to 190 over the period of one year?

- A Production has fallen.
- B The standard of living has fallen.
- C All goods and services have become cheaper.
- D The purchasing power of money has risen.

June 1986, Nov 1990

2. The table shows annual inflation rates and interest rates for five countries.

	Country	Rate of inflation		Interest rate	
		1988	1989	1988	1989
A	USA	4.1	4.8	7.7	9.1
B	Germany	1.2	2.8	4.3	7.0
C	Japan	0.7	2.3	3.7	4.9
D	UK	4.9	7.8	10.3	13.9

Which country experienced a fall in its real rate of interest between 1988 and 1989?

3. The data in the table represents year-on-year percentage changes in the UK index of retail prices.

Nov 1993

1982	June	9.2
	December	5.4
1983	June	3.7
	December	5.3
1984	June	5.1
	December	4.6
1985	June	7.0
	December	5.7

What does this data show?

- A Living standards rose throughout the period.
- B Prices were at their highest level in June 1982.
- C Real wages fell throughout the period.
- D The inflation rate was lowest in the year ending June 1983.

June 1994

4. The average consumer divides his expenditure between food, clothing, accommodation and transport in the ratio 2 : 1 : 4 : 3. During the course of a year, the price of food falls by 2%, the price of clothing increases by 4%, the price of accommodation increases by 10% and the price of transport remains constant.

Assuming that the weights of a price index reflects the expenditure of the average consumer, what is the increase in the index over the year?

- A 2.5%
- B 4%
- C 10%
- D 12%

June 1995, Nov 2011/P12/Q24

The figures below are extracted from the UK average industrial earnings index (1988 = 100).

	Mechanical engineering	agriculture and forestry	Coal
January 1989	104.9	96.4	106.7
June 1989	110.6	103.2	110.6
January 1990	114.4	104.3	124.7

Which conclusion is correct?

- A Average earnings were highest in coal.
- B In June 1989 average earnings were the same in mechanical engineering and coal.
- C In January 1990 average earnings in mechanical engineering were 10.1% higher than in agriculture and forestry.
- D The increase in average earnings over the period was most rapid in coal.

June 1996

Over a period of a year, the annual rate of inflation falls from 10% to 6%. Which statement is correct.

- A The cost of living has increased.
- B The purchasing power of money has increased.
- C There has been a reduction in the Retail Price Index.
- D The standard of living has increased.

June 1997, June 2011/P12/Q24

In calculating a retail price index, all goods and services are placed in one of the three categories in the table below.

item	Weight	current prices (base year = 100)
food	5	110
clothing	3	120
all other goods	2	130

What has been the percentage increase in the price index since the base year?

- A 17%
- B 20%
- C 117%
- D 120%

June 1988, Nov 1998

The table shows the index of retail prices for a country on January 1st in successive years.

year (Jan 1st)	Retail price index
1994	60
1995	80
1996	100
1997	125
1998	160

During the course of which year was the rate of inflation at its highest?

- A 1994
- B 1995
- C 1996
- D 1997

June 1999

Unit 6

9. 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 increases by 10%, the price of meat falls by 10% and the prices of both milk and vegetables increase by 20%.

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

- A 6% B 7% C 12.5% D 15%

June 1999

10. Which of the following would result directly in an increase in the Consumer Price Index?

- A an appreciation of the foreign exchange rate.
 B an increase in the standard rate of income tax.
 C a reduction in unemployment benefits.
 D a reduction in income tax accompanied by increase in value added tax.

Nov 1999

11. The table shows index numbers of output for selected manufacturing industries. (1990 = 100)

Industry	1990	1991	1992	1993	1994	1995
textiles	100	91.8	89.6	91.6	93.7	98.3
motor vehicles	100	82.9	80.1	84.0	81.1	86.3
chemicals	100	100	100.6	108.3	114.9	120.1
metals	100	100	103.2	104.7	108.2	113.2

What does this data show?

- A Chemicals produced the highest output of these industries.
 B In textiles output in 1995 was less than in 1990.
 C Productivity improved in metals over this period.
 D The greatest fall in employment was in motor vehicles.

Nov 1999

12. A school shop sells only two drinks, tea and coffee. The prices and total expenditure on tea and coffee in month 1 are shown.

drinks	price per cup (cents)	total expenditure (cents)
tea	8	4000
coffee	16	4000

In month 2, the price of a cup of tea increases to 12 cents and the price of a cup of coffee falls to 14 cents.

What happened to the general price of drinks between months 1 and 2?

- A It fell by less than 5%.
 B It stayed the same.
 C It rose by between 10% and 20%.
 D It rose by less than 10%.

Dec 1988, Nov 2000

13. Money can be easily acquired and disposed of without high costs and with relative certainty as to its value.
Which characteristic of money does this describe?

- A acceptability.
- B durability.
- C liquidity.
- D Purchasing power.

June 2001

14. Relative weights are used in calculating the index of retail prices to reflect the different

- A amounts of money spent, by consumers on each good.
- B levels of prices for each good.
- C numbers of people buying each good.
- D rates of change in price of each good over time.

June 1990, Nov 1996, Nov 2001

15. In what circumstances will the real rate of return on non-interest-earning money holdings be positive?

- A Interest rates are falling.
- B The money supply is falling.
- C The price level is falling.
- D The rate of inflation is falling.

June 1982, Dec 1986, Nov 2001

16. Average post-tax incomes rise by 20% in a year when the index of retail prices rises by 15%.
What does this imply?

- A The cost of living has fallen.
- B Average post-tax real earnings have fallen.
- C The standard of living has fallen.
- D Average real disposable income has increased

Dec 1982, Dec 2001

17. 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?

	effect on demand-pull inflation	effect on cost-push inflation
A	Increase	Increase
B	Increase	Reduce
C	Reduce	Increase
D	Reduce	Reduce

June 2002/Q29

18. 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.

June 2002/Q25

19. 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 vegetable 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%
- June 1981, Dec 1987, Nov 1992, June 2002/Q24

20. The table shows information about a country whose consumers spend their income on three commodities, P, Q and R.

commodity	index of prices in year 1	index of prices in year 2	consumers' expenditure in year 1
P	100	160	\$100 million
Q	100	80	\$300 million
R	100	100	\$100 million

Between year 1 and year 2 how has the general level of prices changed?

- A It has risen by 40%.
 B It has risen by 10%.
 C It has remained the same.
 D It has fallen by 5%.

June 1982, Nov 1990, Nov 2002/Q24

21. In an economy real national income increases more rapidly than the increase in employment. What could account for this?

- A a decrease in the general price level.
 B an improvement in the country's terms of trade.
 C an increase in the size of the labour force.
 D an increase in labour productivity.

Nov 2002/Q23

22. What is the most abundant form of money (measured by value) in a developed economy?

- A bank deposits.
 B cash.
 C cheques.
 D credit cards.

Dec 1980, June 1994, June 2003/Q4

23. In what circumstances will money lose its value?

- A The economy experiences a period of deflation.
 B The general level of prices is falling.
 C The rate of inflation is positive.
 D The growth of money supply falls below the growth of output.

June 2003/Q26

24. Which factor will cause cost-push inflation?

- A a higher level of consumption.
- B an increase in trade union power.
- C an increase in labour productivity.
- D an appreciation of the exchange rate.

June 2003/Q25

25. The average consumer divides his expenditure between food, accommodation and clothing in the ratio 5:3:2.

During the course of a year, the price of food rises by 10%, the price of accommodation remains constant and the price of clothing falls by 5%.

Assuming that the weights of a price index reflects the expenditure of the average consumer, what is the increase in the index over the year?

- A 2.5%
- B 4%
- C 5%
- D 6%

June 2003/Q24

26. Which of the following is a measure of labour productivity?

- A $\frac{\text{total output}}{\text{quantity of labour employed}}$
- B $\frac{\text{total cost}}{\text{quantity of labour employed}}$
- C $\frac{\text{total wage cost}}{\text{quantity of labour employed}}$
- D $\frac{\text{total profit}}{\text{quantity of labour employed}}$

June 2003/Q23

27. The table shows the average annual percentage change in labour productivity.

	Whole economy	Manufacturing
1960s	2.5	3.5
1970s	1.8	2.2
1980s	2.3	4.9
1990s	1.9	2.2

What can be deduced from the data?

- A Manufacturing output increased faster than that in the rest of the economy over the entire period.
- B productivity growth was at its highest in the 1980s.
- C Output per worker increased faster in manufacturing in the rest of the economy.
- D Economic growth was at its lowest in the 1970s.

Nov 2003/Q24

28. The table shows the price indices and weights for three commodity groups that are included in the calculation of a country's cost of living index.

commodity group	index	weight
X	300	4
Y	140	3
Z	80	3

By how much has the cost of living increased since the base year?

- A 52% B 86% C 186% D 198%

Nov 2004/Q24, Nov 2003/Q25

29. What will cause an immediate rise in the size of a country's labour force?

- A an increase in the birth rate.
 B an increase in the age of retirement.
 C an increase in the school leaving age
 D an increase in the number of redundancies.

Nov 2003/Q23

30. When will a reduction in unemployment result in an increase in inflation?

- A when a high percentage of the increase in income is saved.
 B when the economy reaches its production possibility curve.
 C when the jobs created are unskilled.
 D when the newly employed buy mainly imported goods.

June 2004/Q26

31. In an economy, both employment and unemployment rose over a ten year period.

What must have risen?

- A birth rate.
 B life expectancy.
 C unemployment benefits.
 D working population.

June 2004/Q23

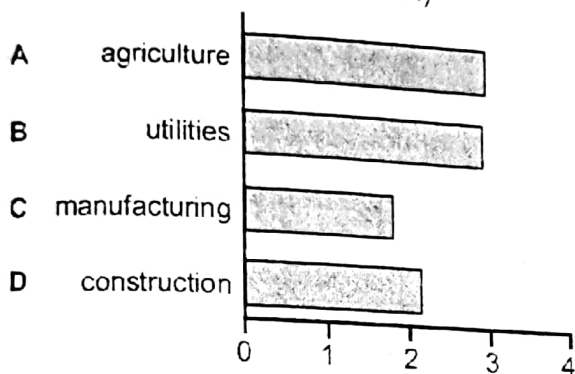
32. A non-interest bearing asset is index-linked.
 During a period of inflation, how will its money value and its real value change?

	money value	real value
A	Rises	rises
B	Rises	stays constant
C	stays constant	falls
D	stays constant	stays constant

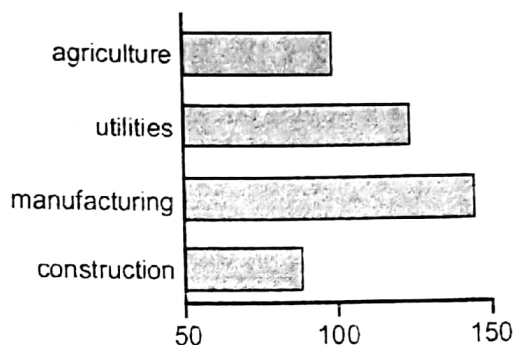
Nov 1994, June 2004/Q25

33. The diagram gives details of difference aspects of productivity in the US and UK. Which sector in the UK best fits the description 'a sector with a relatively fast growth rate in productivity but which is less productivity than its US equivalent'?

productivity growth in the UK by sector, 1973-95
(% per annum)



productivity by sector in US relative to UK, 1995
(US = UK at 100)



June 2004/Q24

34. The figures show the consumer price index (CPI) of a country (1971 = 100)

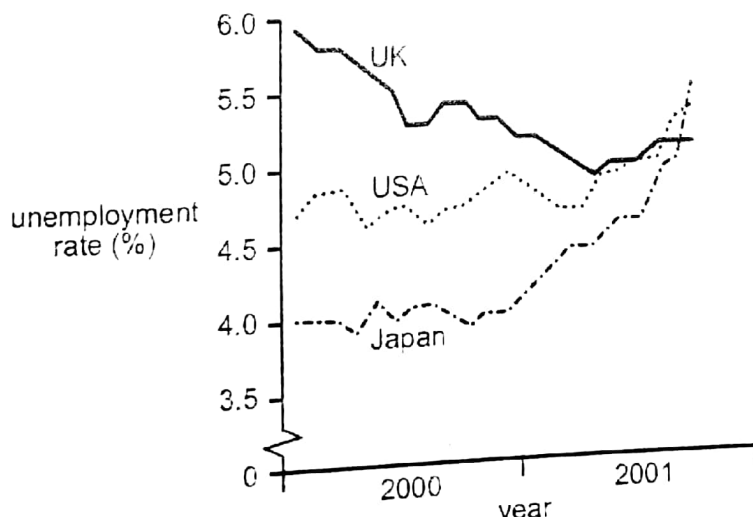
Year	CPI
1998	200
1999	204
2000	206
2001	209

What can be deduced from the data?

- A There was hyperinflation between 1971 and 1998.
- B The rate of inflation rose in 2000.
- C The rate of inflation in 1999 was 4%.
- D The country experienced inflation in the three years down to the end of 2001.

Nov 2004/Q25

35. The graph shows the unemployment rates for the UK, USA and Japan for 2000 and 2001.



What can be concluded from the graph?

- A Each economy experienced a rising trend of unemployment.
- B Japan went from the lowest to the highest number of unemployed.
- C There was a trend towards more similar unemployment rates.
- D The UK had a higher number of unemployed than the USA.

36. 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.

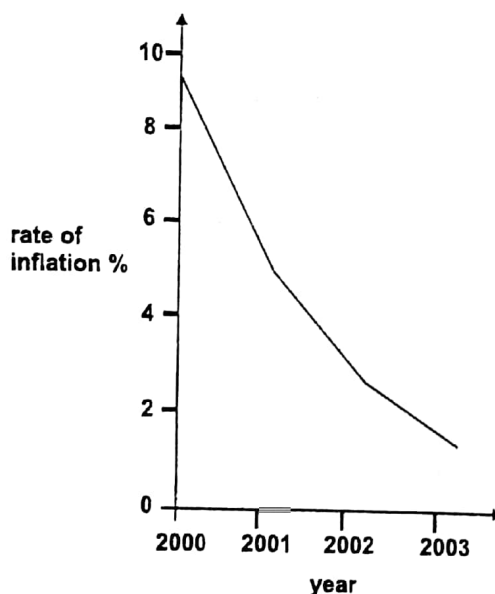
	share of income spent on goods	change in prices of goods
clothing	$\frac{1}{4}$	+25%
food	$\frac{1}{2}$	+50%
fuel	$\frac{1}{4}$	-25%

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 rise by 25%.
- D It is unchanged.

June 1998, June 2005/Q24

37. The diagram shows the annual rate of inflation in a country between 2000 and 2003.



Which statement is true of the period 2000 to 2003?

- A The cost of living fell.
- B The price level rose.
- C The retail price index fell.
- D The value of money rose.

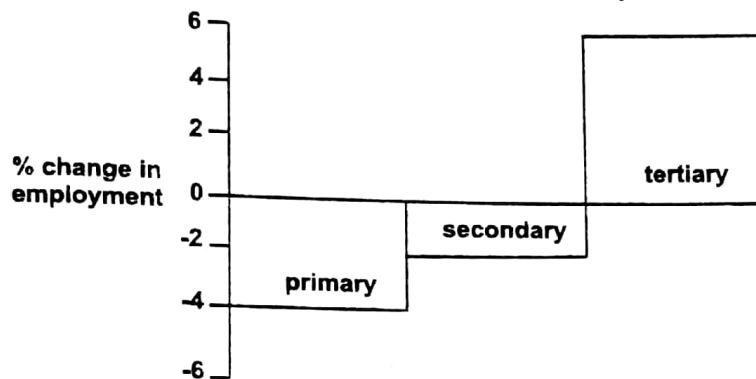
June 2009/Q25

38. Which combination of events is most likely to cause inflation?

	exchange rate	direct taxes	money supply
A	falling	Falling	falling
B	falling	Falling	rising
C	rising	Rising	rising
D	rising	Rising	falling

June 2005/Q26

39. The chart shows changes in employment by sector for a country between 1998 and 2003.



Which statement about the period 1998 to 2003 must be true for this country?

- A The primary sector lost more workers than the secondary sector.
- B Unemployment stayed constant.
- C Employment in service industries increased.
- D There was no change in the total working population.

June 2005/Q23

40. A government announces that it has achieved its target of 2.5% inflation per annum and that it expects to maintain it.
How might such an announcement reduce inflationary pressure?

- A by encouraging the government to reduce its spending.
- B by putting downward pressure on the country's exchange rate.
- C by putting pressure on the central bank to reduce interest rates.
- D by reducing worker's' expectations of future inflation.

Nov 2005/Q26

41. The data given below refers to money supply and prices in the year 2001 and 2004 in four countries A, B, C and D.
Between 2001 and 2004, in which country was the rate of inflation the highest?

	2001		2004	
	Money supply (\$ million)	Price index (2000=100)	Money (\$ million)	Price index (2000=100)
A	60	104	78	153
B	65	112	12-	248
C	70	101	213	157
D	172	105	360	210

June 1982, June 1985, Nov 2005/Q25

Unit 6

Unit

45

42. The table shows the number of workers and the annual output of an industry.

	year 1	year 2	year 3
Workers in 000s	120	130	100
Output in \$m	12.00	14.30	13.00

Which statement is correct?

- A Labour productivity increases in year 2 and in year 3.
- B Labour productivity increases in year 2 and then declines in year 3.
- C Labour productivity is at its highest in year 1.
- D Labour productivity is at its lowest in year 3.

Nov 2005/Q23

43. The table shows the weights used over three years in the UK consumer price index.

	2001	2002	2003
Food	116	114	109
motoring expenditure	140	141	146
housing	205	199	203
leisure goods	49	48	48

What can be deduced from the table?

- A Housing was a bigger proportion of the average UK household's spending in 2003 than in 2002.
- B The average UK household ate less in 2003 than in 2001.
- C The average UK household spent more on motoring in 2003 than in 2001.
- D The price of leisure goods remained unchanged between 2002 and 2003.

Nov 2005/Q24

44. What will cause an immediate rise in the size of a country's labour force?

- A an increase in the birth rate.
- B an increase in the age of retirement.
- C an increase in the school leaving age.
- D an increase in the number of redundancies.

June 2006/Q23, June 2009/Q23, Nov 2003/Q23

45. The table shows the year on year percentage changes for a country's Retail Price Index from 1999 to 2005.

year	% change
1999	18.0
2000	11.7
2001	8.6
2002	4.6
2003	4.9
2004	6.1
2005	4.5

Which statement about the price level is correct?

- A It fell over the first half of the period.
- B It was at its highest at the start of the period.
- C It was at its lowest at the end of the period.
- D It was at its lowest at the start of period.

June 2006/Q24

46. What is most likely to cause demand-pull inflation?

- A an increase in indirect taxes.
- B an increase in interest rates.
- C a reduction in direct taxes.
- D a reduction in the money supply.

June-2006/Q25

47. 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.

Dec 1988, Nov 1998, June 2002/Q5, Nov 2006/Q4

48. The table shows a country's rate of inflation for four years.

Year	rate of inflation %
2000	4.0
2001	3.0
2001	2.5
2003	2.0

What fell between 2000 and 2003?

- A average prices.
- B the cost of living.
- C the exchange rate.
- D the value of money.

2006/Q25

49. The data in the table taken from a country's labour market statistics.

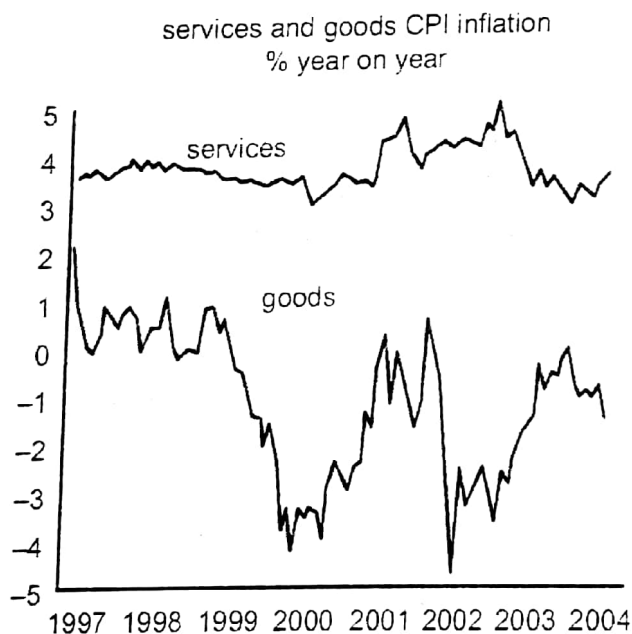
	Millions
adult population	100
number of persons in employment	45
number of persons unemployed	5

What is the unemployment rate and the participation rate?

	unemployment rate %	participation rate %
A	5	45
B	10	50
C	10	45
D	5	50

Nov 2006/Q23

50. The diagram shows rates of inflation as measured by the Consumer Price Index (CPI) between 1997 and 2004.

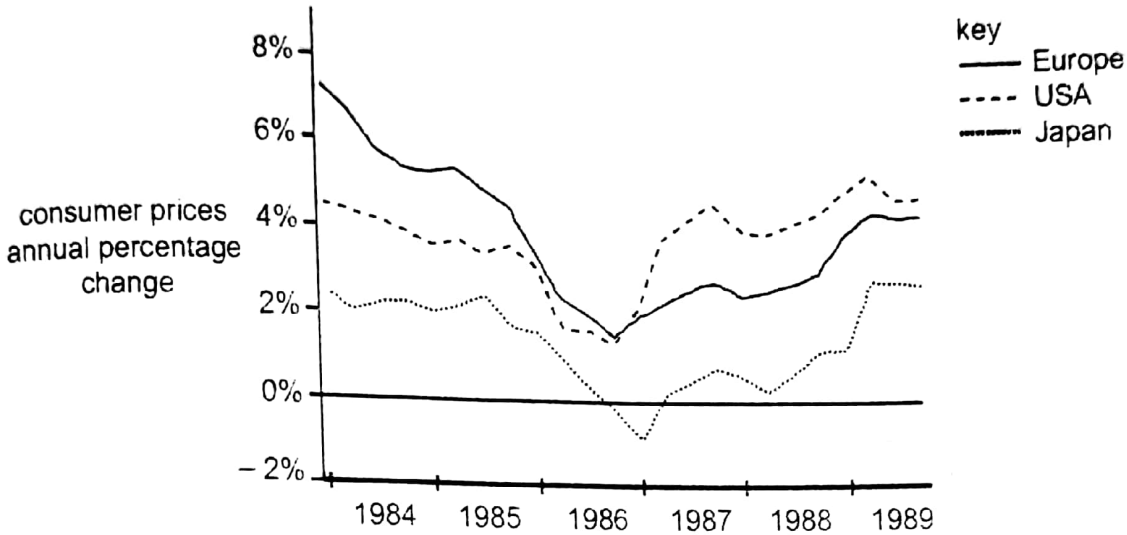


Which conclusion can be drawn from this data?

- A The prices of goods fell in 1999.
- B The prices of goods rose between 2000 and 2001.
- C The prices of services fell between 2002 and 2004.
- D Between 1997 and 2004, services cost more than goods.

Nov 2006/Q24

51. The diagram shows the annual percentage changes in consumer prices for Europe, Japan and the USA between 1984 and 1989.



Which of the following statements is correct?

- A In 1986 consumer prices were falling in Japan, the USA and Europe.
- B In the period 1984-1987 consumer prices fell more quickly in Europe than in the USA.
- C In the period 1987-1989 the USA had the highest consumer prices.
- D In the period 1984-1989 Japan had the lowest consumer price inflation.

Nov 2003/Q26

52. What is not a possible cause of cost-push inflation?

- A an increase in firm's profit margins.
- B an increase in the supply of money.
- C an increase in the trade union power.
- D an increase in world oil prices.

Nov 2006/Q26

53. Which combination is likely to result from demand-pull inflation?

	balance of trade	profits
A	Worsening	rising
B	Improving	rising
C	Worsening	falling
D	Improving	falling

June 2007/Q25, Nov 2011/P11/Q25

54. What would be likely to increase inflation in an economy?

- A an increase in consumer saving.
- B an increase in interest rates.
- C an increase in labour productivity.
- D an increase in taxes on imports.

June 2007/Q26

55. The table shows the retail prices index for four countries for years 2 and 3. (Year 1 index = 100 for all countries.) Which country had a higher rate of inflation in year 2 than year 3?

Country	Year 2 index	Year 3 index
A	100	115
B	110	132
C	120	144
D	130	150

56. Company X reduces its workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day. Company Y increases its workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

June 2007/Q24

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	Falls	Rises
B	Rises	Falls
C	Rises	Rises
D	Falls	Falls

June 2007/Q23

57. Which one of the following is likely to be the worst store of value during a period of rapid inflation?
- A antiques.
 - B fixed interest government debt.
 - C houses.
 - D land.

58. What would be likely to increase inflation in an economy?

- A an increase in consumer saving.
- B an increase in interest rates.
- C an increase in labour productivity.
- D an increase in taxes on imports.

June 2007/Q26 (Repeated Q # 54)

59. A country experienced an annual inflation rate of 4 % for three successive years.

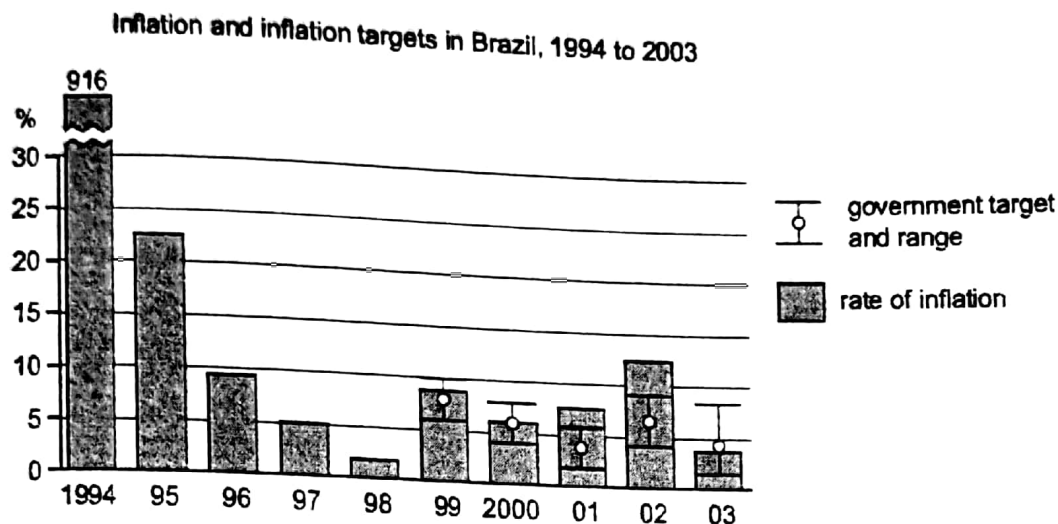
Which statement is correct for the three-year period?

- A The price level rose by 12 %.
- B The price level rose by more than 12 %.
- C The real value of money rose by 12 %.
- D The real value of money rose by more than 12 %.

Nov 2007/Q25

60. Before 1999 the Brazilian government did not have a desired target rate of inflation. From 1999 it set target rates within an upper and lower boundary.

The diagram shows the rate of inflation between 1994 and 2003 and the target rate between 1999 and 2003.



What can be concluded from the diagram?

- A The Brazilian government achieved its target in each year from 1999 to 2003.
- B The inflation target was continuously reduced.
- C The lowest level of inflation was achieved when an inflation target was used.
- D The inflation rate was more stable after inflation targets were introduced.

June 2008/Q25

61. When is labor productivity in a firm most likely to increase?

- A when a firm employs more people
- B when a firm employs more capital
- C when a firm doubles all factors of production
- D when a firm replaces payment by results with hourly wage rates

Nov 2007/Q24

62. A country's Consumer Price Index increased from 100 to 200 over a five-year period. What can be deduced from this?

- A The economy experienced creeping inflation.
- B The standard of living halved.
- C The cost of living fell by 50 %.
- D The purchasing power of money halved.

June 2008/Q24

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

country	2006	2007
X	100	120
Y	140	150
Z	90	99

Between 2006 and 2007, 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.

Nov 2008/Q24

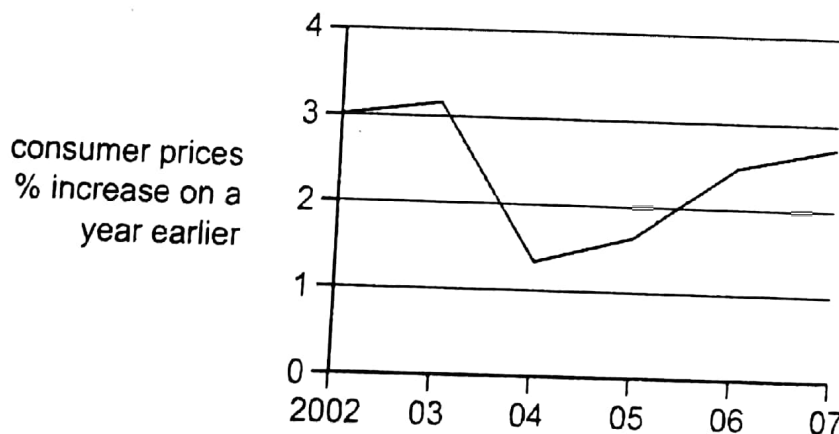
64. What is the average weighted price change illustrated by the table below?

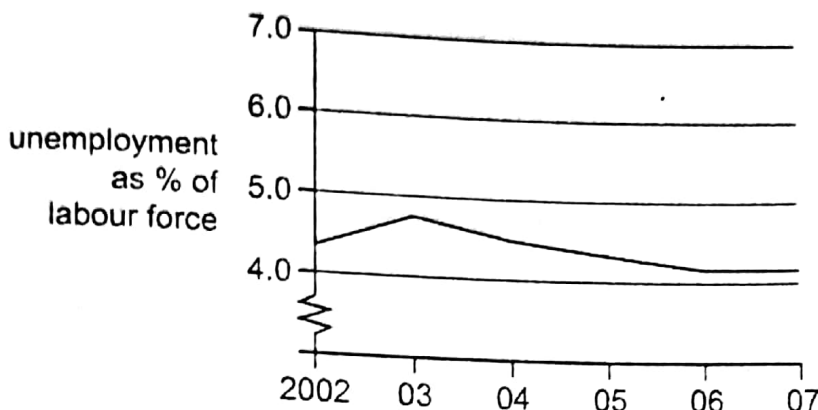
product	percentage of income spent on product	price change %
P	10	+8
Q	15	+6
R	25	+4
S	50	-9

- A 9.0 %
- B 7.2 %
- C 4.5 %
- D -1.8 %

June 2009/P1/Q24

65. The graphs show consumer prices and employment for Ireland.





What can be concluded from the graphs?

- A Between 2003 and 2004, unemployment and prices moved in the same direction.
- B Prices were at their lowest in 2004.
- C Prices rose continuously over the period.
- D The number of unemployed workers fell over the period.

Nov 2009/P12/Q24

66. What is correct about the causes of inflation?

- A Cost-push inflation can be caused by a rising exchange rate.
- B Cost-push inflation can be caused by lower indirect taxes.
- C Demand-pull inflation can be caused by a rising exchange rate.
- D Demand-pull inflation can be caused by lower direct taxes.

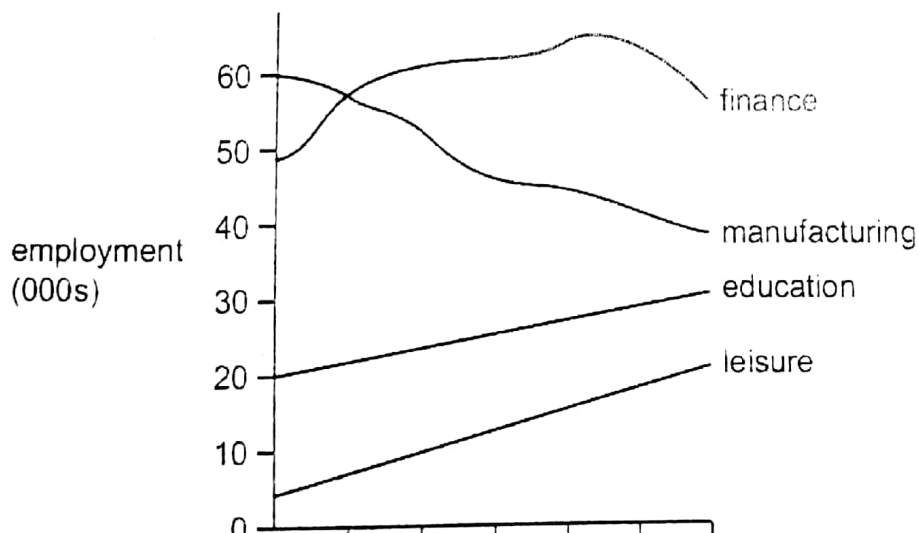
Nov 2008/Q25

67. What may cause cost-push inflation?

- A an appreciation of the exchange rate
- B a higher level of consumption
- C an increase in labour productivity
- D an increase in trade union power

Nov 2009/P12/Q23

68. The diagram shows changes in the numbers employed in four different industries in a city between 2002 and 2007.



Unit 6

What can be concluded from the diagram?

- A Finance was always the largest employer.
- B Leisure had the fastest growth rate in employment.
- C Manufacturing was the only industry to show signs of decline.
- D Total employment in the four industries decreased over the period.

June 2010/P12/Q22

69. The average consumer divides his expenditure between food, accommodation and clothing in the ratio 5 : 3 : 2.

During the course of a year, the price of food rises by 10 %, the price of accommodation remains constant and the price of clothing falls by 5 %.

What is the increase in the Consumer Price Index over the year?

- A 2.5 %
- B 4 %
- C 5 %
- D 6 %

June 2010/P12/Q23

70. Which statement about inflation is correct?

- A Cost-push inflation is likely to occur when the government increases its expenditure.
- B Demand-pull inflation is likely to occur when the country's exchange rate appreciates.
- C The Quantity Theory of Money predicts that changes in money supply can cause inflation.
- D When inflation is unanticipated real values remain unchanged.

June 2010/P12/Q24

71. The table shows a country's rate of inflation for four years.

year	rate of inflation %
2005	4.0
2006	3.0
2007	2.5
2008	2.0

What fell between 2005 and 2008?

- A average prices
- B the cost of living
- C the exchange rate
- D the value of money

June 2010/P12/Q25

72. What is a correct statement about money?

- A Its functions mean the characteristics that it possesses.
- B Its liquidity means its use as legal tender.
- C Its supply means the total value of banknotes in circulation.
- D Its value means its purchasing power.

June 2010/P12/Q4

73. What must fall when the rate of unemployment rises?

- A the effectiveness of the use of resources
- B the level of labour productivity
- C the number of workers in employment
- D the size of the labour force

Nov 2010/P12/Q23

74. The table shows the percentage price changes in some items in the UK Consumer Price Index (CPI) in the year to 1 June 2006.

item	% change in price
rents, electricity and gas	9.0
education	4.7
transport	4.0
restaurants and hotels	3.2
health services	2.9

The increase in the overall CPI over the same period was 2.5 %.

What can be concluded from the data above?

- A The CPI is not an accurate measure of inflation.
- B Some prices must have fallen.
- C The average price increase of other items was less than 2.5 %.
- D The real value of money rose by more than 2.5 %.

Nov 2010/P12/Q24

75. In Year 1 the price of a barrel of oil increased from \$60 to \$110.

In Year 2 there was a further increase to \$115 a barrel.

Assume that oil price changes have an immediate impact on the general level of prices.

What will be the effect of the changes in the oil price on a country's Consumer Price Index and on its inflation rate in Year 2 compared with Year 1?

	effect on the Consumer Price Index	effect on the rate of inflation
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

Nov 2010/P12/Q25

76. The table shows inflation rates, unemployment rates and changes in money wage rates between 2008 and 2009 for a number of countries.

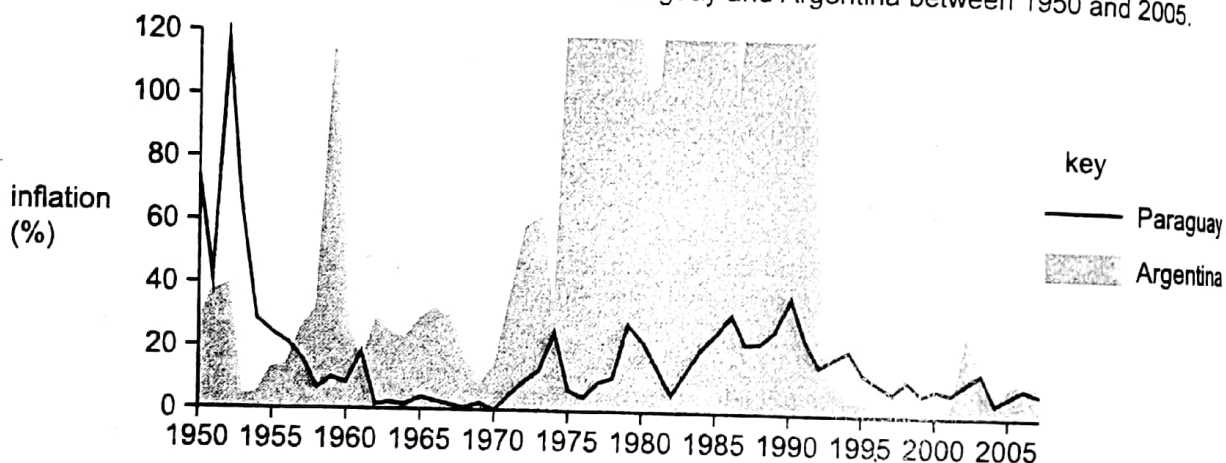
country	inflation %	unemployment %	money wages %
France	+0.2	9.4	+3.0
Germany	+0.2	8.3	+2.7
UK	+1.8	7.8	+2.5
US	-0.3	9.4	+2.5

What can be concluded from the table?

- A On average, those in employment in the UK had an increase in real incomes.
- B The same number of people were unemployed in the US and France.
- C The same product would have the same price in France and Germany.
- D Unemployment was highest where inflation was highest.

June 2011/P12/Q22

77. The diagram compares the inflation rates of Paraguay and Argentina between 1950 and 2005.



What can be concluded about inflation rates in the two countries in the period 1950 to 2005?

- A Argentina's prices fell rapidly between 1992 and 1995.
- B Argentina stabilised its price level between 1973 and 1992.
- C Paraguay was always more successful than Argentina at controlling its inflation rate.
- D Paraguay was most successful at controlling its inflation rate between 1962 and 1970.

June 2011/P12/Q23

78. At the start of 2009, a worker earned \$100 a week. In 2009, the Retail Price Index (RPI) rose 4 % and his average wage rose 7 %. In 2010, the RPI fell 3 % and his wage fell 2 %.

What happened to his real wage between the start of 2009 and the end of 2010?

- A It fell by less than 5 %.
- B It fell by more than 5 %.
- C It rose by less than 5 %.
- D It rose by more than 5 %.

Nov 2011/P12/Q25

79.

The table shows the rate of unemployment and population for selected countries in 2009.

country	unemployment rate (%)	population (millions)
Brazil	8.1	196
India	6.8	1 120
Indonesia	8.1	237
Malaysia	4.0	26
Thailand	2.4	65

What can be concluded from this information?

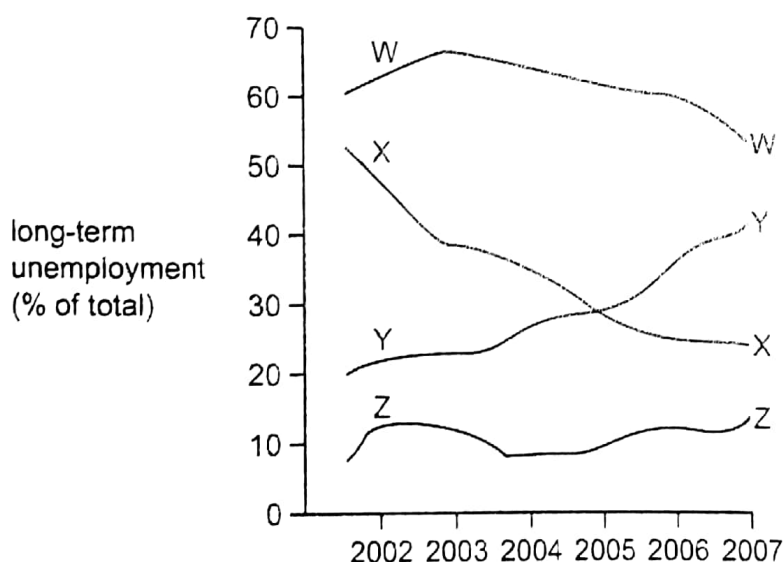
- A A higher proportion of those willing and able to work are in employment in Malaysia than in India.
- B The labour force of Thailand is smaller than that of Malaysia.
- C The same number of workers were unemployed in Brazil and Indonesia.
- D There are more people employed in Thailand than in India.

Nov 2011/P12/Q23

80.

Unemployment is usually divided into two categories: long-term (more than 12 months) and short-term (less than 12 months).

The diagram shows the long-term unemployment rate as a percentage of total unemployment for four countries between 2002 and 2007.



What is correct about unemployment from the diagram?

- A Country W had the lowest percentage of short-term unemployment.
- B Country X was least successful in reducing the percentage of long-term unemployment.
- C Country Y was least successful in reducing the percentage of short-term unemployment.
- D Country Z had the highest percentage of long-term unemployment.

Nov 2011/P11/Q23

81. The table shows the annual percentage change in an index of prices.

country	2008	2009
China	6.3	-1.2
Pakistan	24.3	11.2
Saudi Arabia	10.9	10.7
United States	5.6	-1.4

What can be concluded from the table?

- A Prices were lowest in the United States in both 2008 and 2009.
- B Prices were most stable in Saudi Arabia.
- C The fall in inflation between 2008 and 2009 was greater in China than Saudi Arabia.
- D The price of all products sold by Chinese firms fell in 2009.

Nov 2011/P11/Q24

Key Unit 6

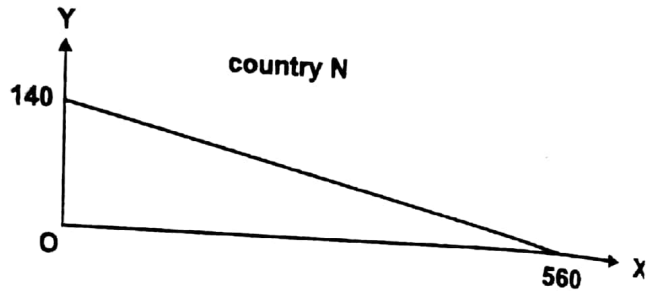
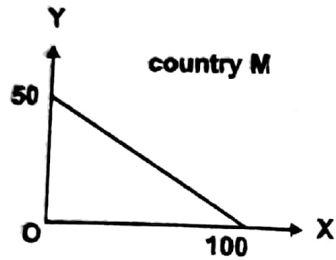
Money, Inflation, Labour & Unemployment

Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q.	Ans.
1	D	20	C	39	C	58	D	77	D
2	C	21	D	40	D	59	B	78	C
3	D	22	A	41	B	60	D	79	A
4	B	23	C	42	A	61	B	80	A
5	D	24	B	43	A	62	D	81	C
6	A	25	B	44	B	63	D	82	
7	A	26	A	45	D	64	D	83	
8	A	27	C	46	C	65	C	84	
9	B	28	B	47	C	66	D	85	
10	D	29	B	48	D	67	D	86	
11	B	30	B	49	B	68	B	87	
12	C	31	D	50	A	69	B	88	
13	C	32	B	51	D	70	C	89	
14	A	33	B	52	B	71	D	90	
15	C	34	D	53	A	72	D		
16	D	35	C	54	D	73	A		
17	C	36	D	55	D	74	C		
18	D	37	B	56	B	75	C		
19	A	38	B	57	B	76	A		

Unit-7

International Trade

1. The graphs show the production possibilities for commodities X and Y in two countries M and N.



What will be the effect of 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.

June 199, Nov 1995, June 2002/21 June 2006/Q19

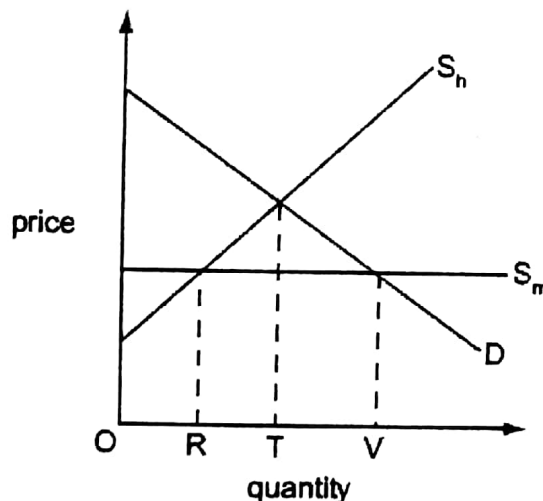
2. Which of the following could be expected to result in an immediate improvement in a country's living standards, even though the volume of goods and services produced within the country remains unchanged?

- A an improvement in its term of trade.
- B An improvement in its balance of trade.
- C An increase in public expenditure.
- D An increase in investment.

Nov 1990

3. (Repeated Q # 2)

4. The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_h represents domestic supply and S_m represents imports.



What will be the level of consumption and the associated volume of imports?

	consumption	Volume of imports
A	OT	RT
B	OT	OT
C	OV	RT
D	OV	RV

Nov 1990, Nov 2003/Q12

5. If the terms of trade of a country have deteriorated, then its

- A currency has appreciated.
- B balance of payments has improved.
- C gold and foreign currency reserves have fallen.
- D exports have become cheaper in relation to its imports.

June 1991

6. The table shows the production possibilities for two economies, Urbania and Ruralia, which produce two goods, machinery and wheat.

Urbania	Ruralia
100 machines or 20 tonnes of wheat	800 machines or 400 tonnes of wheat

Assuming constant production costs and zero transport costs and that each country specialises in the production of the good in which it has comparative advantage, which of the following exchange rates will make trade mutually beneficial?

- A 1 machine = $\frac{1}{10}$ of a tonne of wheat.
- B 1 machine = $\frac{1}{4}$ of a tonne of wheat.
- C 1 machine = $\frac{1}{2}$ of a tonne of wheat.
- D 1 machine = 1 tonne of wheat.

Nov 1991

7. Other things being equal, which of the following would improve the British terms of trade?

- A devaluation of the pound sterling.
- B revaluation of the German mark.
- C a fall in the size of the balancing item.
- D a rise in the average price of British exports.

Nov 1991

8. According to the law of comparative advantage, under which of the following initial conditions would it be impossible for a country to gain from international trade?

- A The country has a deficit on its balance of payments.
- B The country has an absolute superiority in the production of all goods.
- C Foreign prices are distorted by monopolies and taxation.
- D Price ratios in the country are identical to those in the rest of the world.

June 1992

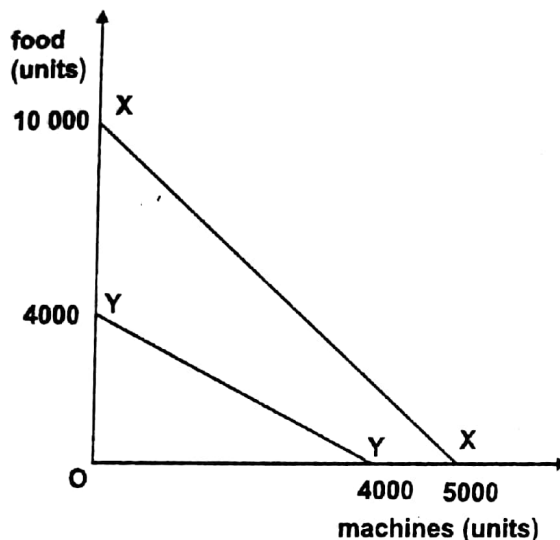
Unit 7

9. In which of the following situations must the terms of trade be moving in a country's favor?

- A There is an increase in its official reserves.
- B There is a surplus in its visible balance of payments figures.
- C There is a fall in both its import and export prices.
- D Its import prices are rising at a slower rate than its export prices.

10. The diagram illustrates the production possibility curves of two economies X and Y. Given the nature of these curves, which of the following statements is correct?

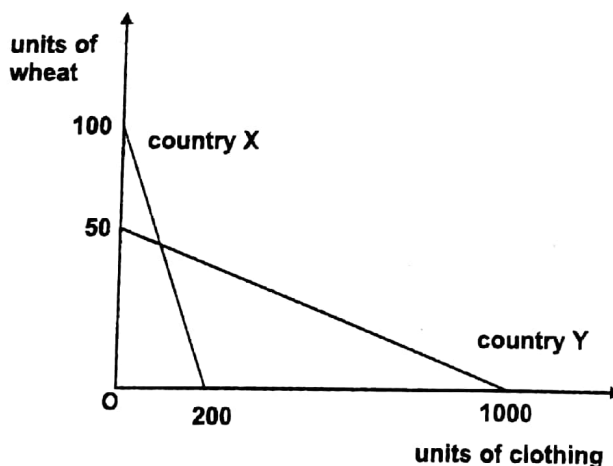
June 1992



- A Country X will export machines to country Y.
- B Country X will be a less efficient producer than country Y.
- C Country X will specialize in food production.
- D Country Y has an absolute advantage in both goods.

June 1981, Dec 1985, Nov 1992

11. The diagram shows the amounts of wheat and clothing that can be produced in countries X and Y with a given quantity of resources.



What does the diagram indicate about the production of these two commodities?

- A Both countries have an absolute advantage in the production of clothing.
- B Both countries have a comparative advantage in the production of clothing.
- C Country X has a comparative advantage in wheat and an absolute advantage in clothing.
- D Country Y has both an absolute and a comparative advantage in clothing.

June 2007/Q19, June 2001, June 1997, June 1993

Unit 7

12.

The table shows the amount of goods X and Y per unit of resources than can be produced by two countries.

country	good X	good Y
P	10	4
Q	9	2

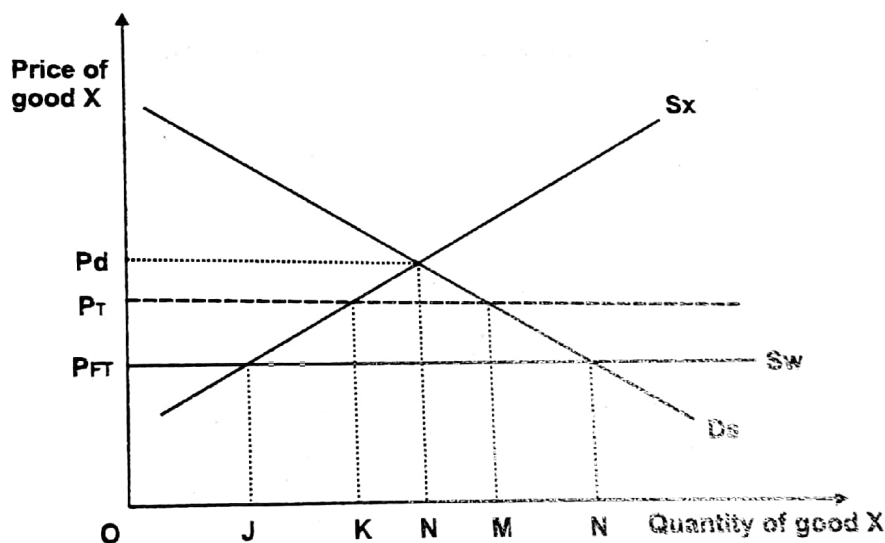
If specialization and trade between the two were possible, which of the following situations might hold?

	country P specialization	country Q specialization	possible terms of trade
A	good x	good y	3y for 12x
B	good x	good y	3y for 10x
C	good y	good x	3y for 14x
D	good y	good x	3y for 10x

June 1987, Nov 1993

13.

On the diagram, the per-trade domestic price of good X is P_d , the domestic demand curve is D_x and the domestic supply curve is S_x .



With free trade, the price of good X is P_{FT} and the world supply curve is S_w with trade and a tariff on good X, the price of good X is P_T .

By how much does the tariff increase domestic production of good X, compared to the free trade situation?

- A JK
- B KL
- C LM
- D MN

June 1982, June 1986, Nov 1993

Unit 7

14. The table shows the ability of two countries to produce two commodities.

	production of commodity Y per person	production of commodity 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 Z and Q has an absolute advantage in Y.
 D P has a comparative advantage in Y and Q has an absolute advantage in Z.

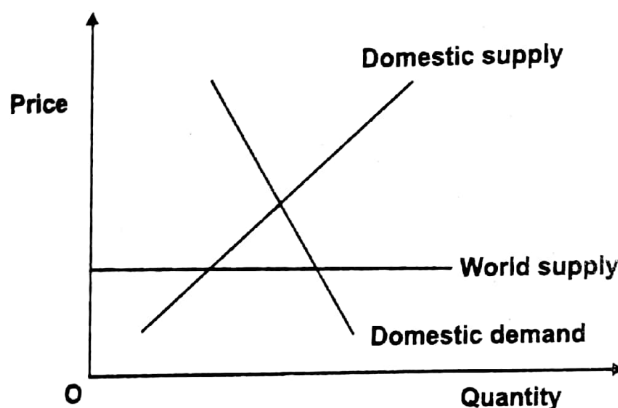
June 1981, Nov 1990, June 1994

15. In a world economy there are two goods, guns and butter, and two countries, X and Y. Country X can produce both guns and butter with fewer resources per unit than country Y, but country X has a higher opportunity cost in the production of guns than country Y. Which statement is correct?

- A X has an absolute advantage in butter but not in guns.
 B X has an absolute advantage in guns but not in butter.
 C X has a comparative advantage in butter.
 D X has a comparative advantage in guns.

Nov 1994, Nov 2003/Q18

16. The diagram depicts the market for a particular good in one country. What is implied by the diagram?



- A At the world price, domestic production of the good exceeds quantity demanded.
 B Domestic producers cannot affect the world price by altering their own output.
 C The government has imposed a tariff on the import of the good.
 D The price of the good in the home market is above the world price.

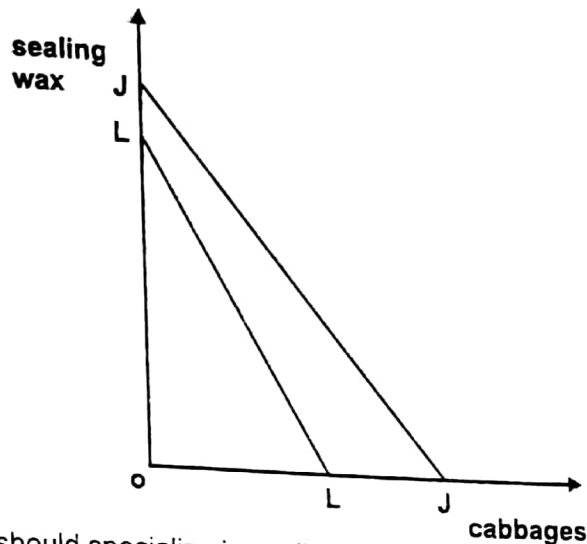
Nov 1994

17. What is the different between a customs union and a free trade area?

- A Only the customs union has a common external tariff with the rest of the world.
 B Only the customs union requires fixed exchange rates between member countries.
 C Only the free trade area needs to eliminate tariff between member countries.
 D Only the free trade area requires freedom of movement for labour and capital between member countries.

1981, Nov 1994

18. In the diagram, JJ represents the production possibility curve for one country, Juridicia, and LL, represent the production possibility curve of another country, Lilliput. According to the theory of international trade.



- A Juridicia should specialize in sealing wax.
- B Lilliput has an absolute advantage in both goods.
- C Lilliput should import cabbages.
- D Lilliput should import sealing wax.

Dec 1987, June 1995

19. In a simple model of international trade there are two countries X and Y and two commodities, tea and cotton.

Which each country divides its resources equally between the products they produce as follows.

	tea(units)	cotton(units)
country X	300	200
country y	400	400

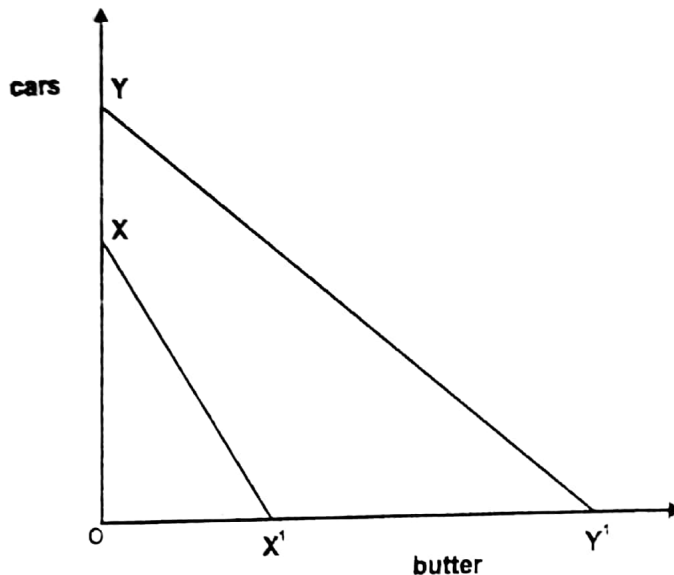
Assuming constant returns to scale, if each country were to specialize in the production of the commodity in which it has a comparative advantage, what would be the change in total output of the two commodities?

	change in output of tea (units)	change in output of cotton (units)
A	Zero	+100
B	+100	+100
C	-100	+200
D	-200	+100

Nov 1996

Unit 7

20. The diagram shows the production possibility curves XX^1 and YY^1 between cars and butter for two countries X and Y.



Which of the following statement is correct?

- A Country X has an absolute advantage in producing both goods.
- B Country X has comparative advantage in producing cars.
- C There are increasing returns in the production of butter in country Y.
- D The two countries have identical factor endowments and technological conditions.

Dec 1984, Nov 1997

21. A third world country produces one major staple export commodity. The country's real standard of living increases, even though the volume of goods and services it produces remains unchanged.

What could explain this?

- A a depreciation of its currency.
- B a rise in its inflation rate.
- C an improvement in its terms of trade.
- D an increase in the price of its imports.

June 1998

22. The table shows indicators of a country's economic performance over a two year period.

Year	exchange rate index	volume of exports index	volume of imports index	balance of trade (\$)
1	100	100	100	zero
2	100	90	100	+500 million

Which of the following is consistent with the above information?

- A There has been a fall in the price of exports.
- B There has an improvement in the terms of trade.
- C There has been an increase in the price of imports.
- D There has been no change in the level of real income per head.

June 1998

26. A car manufacturer faces a quota on its exports to a large foreign market. Which strategy would help to increase sales to this market?
- A establishing and subsidising a dealer network in the foreign market.
 - B improving the quality of the cars it produces.
 - C reducing the price of exports to that market.
 - D setting up a manufacturing plant in the foreign country.

Nov 1998

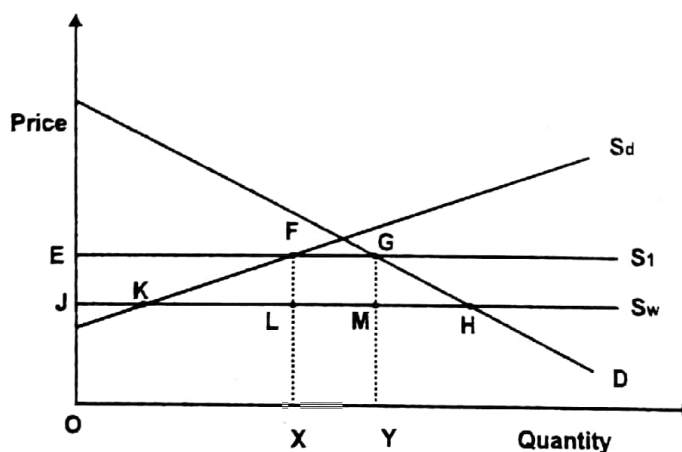
27. The table shows a country's trade and inflation figures for 1995, expressed in index number form (1990 = 100).

volume of exports	102.3
volume of imports	101.7
unit value of exports	126.6
unit value of imports	129.4
index of retail prices	127.1

What were the country's terms of trade in 1995?

- A 97.8
 - B 99.4
 - C 127.1
 - D 128.0
28. The diagram shows the domestic supply curve for a product S_d and the world supply curve S_w . The domestic demand curve is shown by the line D .

June 1999



The government imposes a tariff on the product which shifts the world supply curve to S_1 . Which area measures the government revenue raised by the imposition of the tariff?

- A FGYX
- B OEGY
- C FGNK
- D FGML

Nov 1999

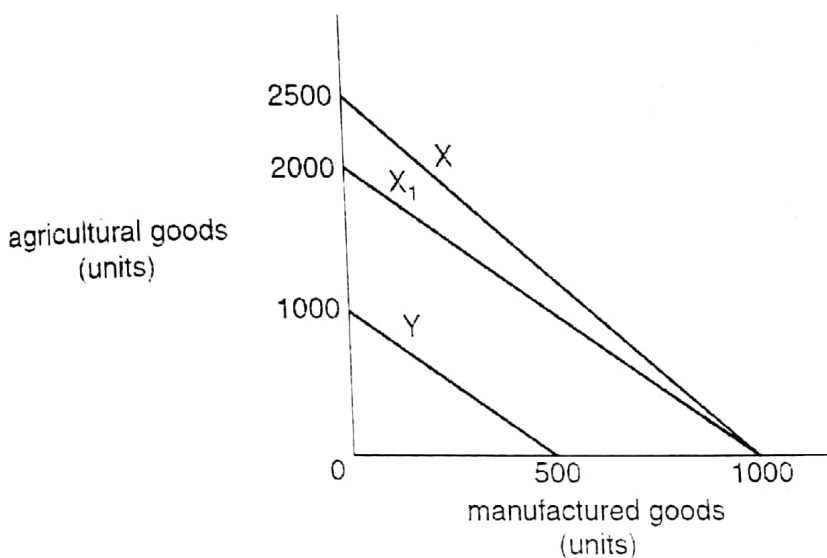
Unit 7

23. A quota is imposed which reduces the imports of a good. What is likely to be the effect on domestic output and the price of the good?

	Domestic output	Price of imported good
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

June 1998

24. The diagram represents the production possibility curves of two economies X and Y.



As a result of soil erosion in economy X, the production possibility curve shifts from X to X₁. According to the law of comparative advantage, what should country Y do following this change?

- A cease to trade with country X.
- B export agricultural goods to country X.
- C export manufactured goods to country X.
- D import both agricultural and manufactured goods from country X.

Nov 1998, Nov 2002, Nov 2005/19, Nov 2008/Q19

25. The table below shows the indices of export prices and import prices for a certain country.

	year 1	year 2	year 3
index of exports prices	100	105	110
index of imports prices	100	100	120

Which one of the following statements about the terms of trade during the period correct?

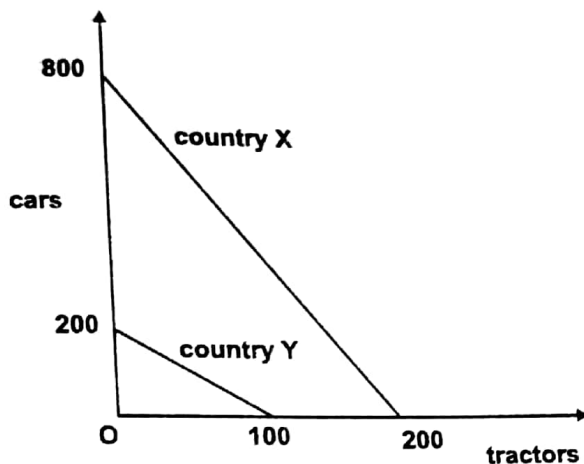
- A Year 2 had the least favourable terms of trade.
- B Year 3 had the most favourable terms of trade.
- C From year 1 to year 2 there was a favorable movement in the terms of trade.
- D From year 1 to year 3 there was a favorable movements in the terms of trade.

Nov 1998

Unit 7

29.

The diagram shows the outputs of tractors and cars that can be produced in countries X and Y with a given quantity of resources.



What would be a mutually beneficial exchange rate?

- A one car for one tractor.
- B two cars for one tractor.
- C three cars for one tractor.
- D four cars for one tractor.

June 1997, Nov 2000

30.

The table shows the price index numbers for a country's exports and imports.

	Year 1	Year 2
exports	100	88
imports	100	92

What were the country's terms of trade for year 2?

- A 0.04
- B 4.0
- C 95.6
- D 104.5

Nov 2000

31.

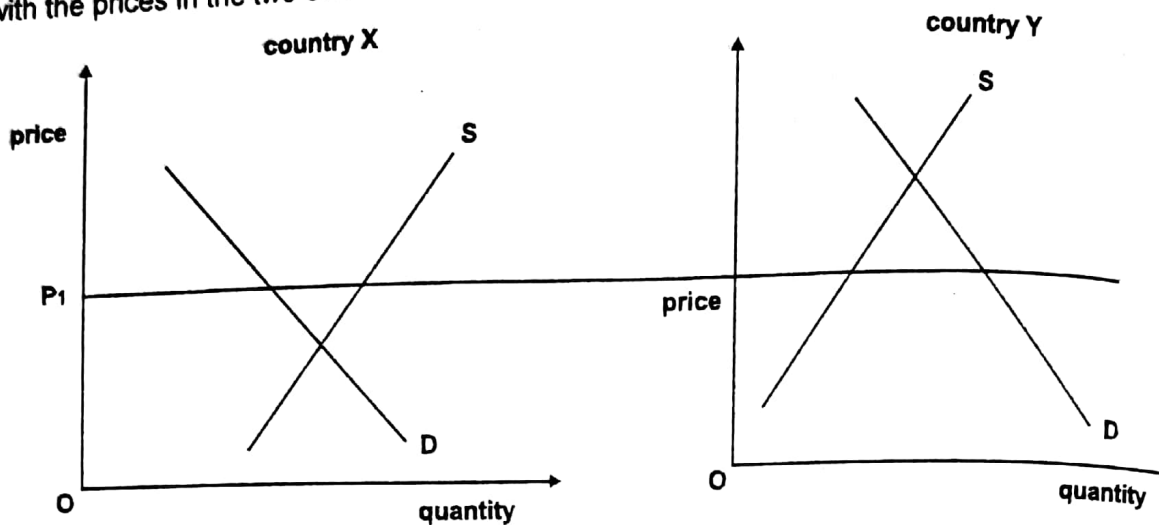
Which of the following would not be a reason for a government to impose a quota on imports?

- A to prevent dumping.
- B to raise tax revenue
- C to retaliate against other countries.
- D to support a strategic industry.

June 1993, June 2001

Unit 7

32. The diagram shows the demand and supply curves for computer chips in country X and country Y, with the prices in the two countries measure in a common currency.



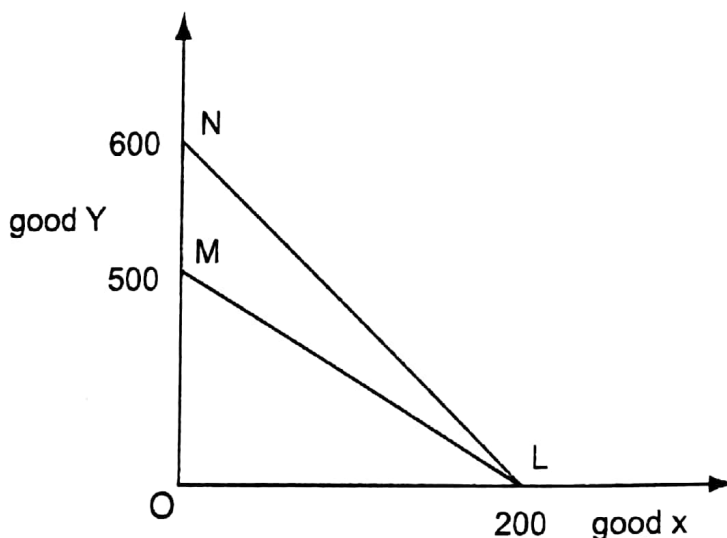
Initially, there is ban on trade in computer chips. When the ban is lifted trade in chips between X and Y commences at price OP_1 . There are no transport costs and the exchange rate is fixed.

What is the result of international trade?

- A Country X exports chips and its producers receive a higher price.
- B Country X imports chips and its consumers pay a lower price.
- C Country Y exports chips and its producers receive a lower price.
- D Country Y imports chips and its consumers pay a higher price.

June 2001

33. The diagram shows a country's pre-trade (LM) and post-trade (LN) consumption possibilities of goods Y and X.



- A The country's consumers prefer Y to X.
- B The country's consumers prefer X to Y.
- C The country enjoy a comparative advantage over its trading partner in the production of Y.
- D The country enjoys a comparative advantage over its trading partner in the production of X.

June 1988, Nov 2001

34. Which reason for an import control allows a country to develop a potential comparative cost advantage in a particular good?

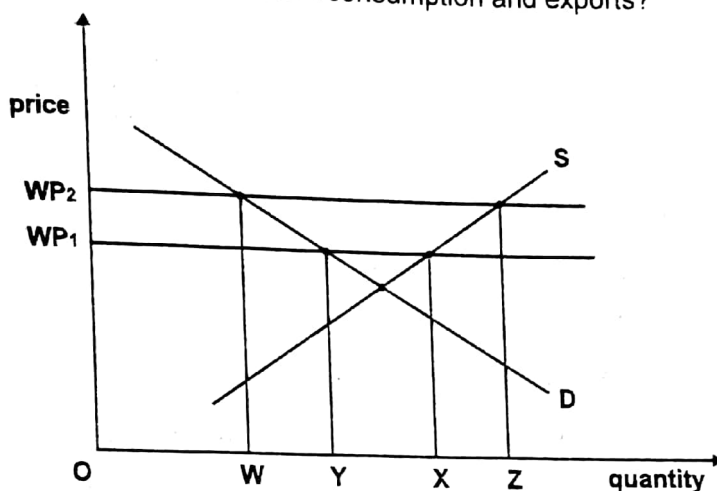
- A a quota that protects jobs in a depressed region.
- B a short – term tariff that protects an infant industry.
- C a tariff that improves an industry's terms of trade.
- D a embargo on goods with negative externalities.

Nov 2001

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

The world price changes from WP_1 to WP_2 .

What are the resulting changes in domestic consumption and 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 WZ
D	OY to OW	YX to OZ

Nov 1996, Nov 2001

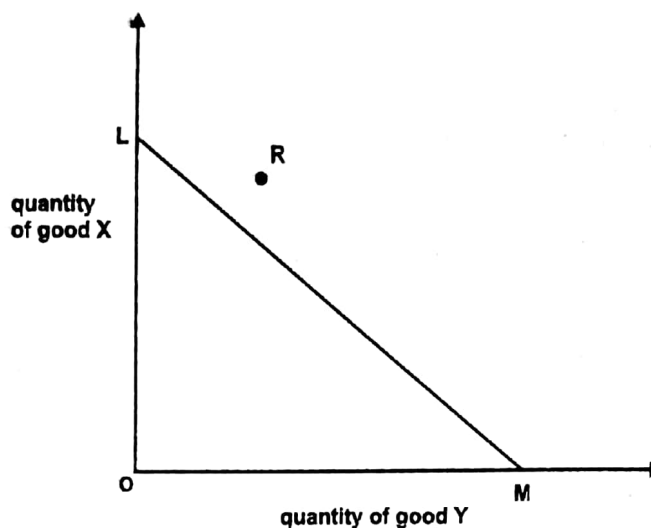
36. A developing country imposes a tariff to protect a new domestic industry.

Which arguments would provide an acceptable economic case for this?

- A It is believed that the industry will always need government assistance to compete internationally.
- B It is believed that the industry will compete effectively when it achieves economics of scale.
- C The country wishes to reduce the rate of inflation.
- D The country wishes to lower its terms of trade.

Nov 2002/Q20

37. In the diagram LM is the production possibility curve of a country that has a comparative advantage in the production of good Y.



What might enable the country to consume the quantity of X and Y indicated by point R?

- A increased specialization in the production of good X.
 - B international trade.
 - C a reduction in unemployment.
 - D increased specialization in unemployment in the production of good Y.
- Nov 2002/Q4, June 2009/Q19

38. The table shows the levels of output which three countries can produce.

country X	25 tonnes of maize or 5 tractors
country Y	75 tonnes of maize or 15 tractors
country Z	225 tonnes of maize or 45 tractors

Which of the following would be the most likely outcome?

- A Country X will specialise in maize and country Y in tractors.
 - B Country Y will specialise in maize and country Z in tractors.
 - C Country Z will specialise in both maize and tractors.
 - D There will be no gains from trade between the countries.
- June 2003/Q20
39. Country X joins an existing customs union, comprising Y and W, which has a common external tariff equal to X's initial tariff. After joining the customs union, X imports cars from Y which it previously imported from country V. How will this affect the price of cars in country X and the cost of producing the cars imported into country X?

	price	cost of production
A	lower	lower
B	lower	higher
C	no effect	lower
D	no effect	higher

June 2003/Q19

40. The index for a country's terms of trade changed from 100 in year 2001, to 104 in year 2002. What could have caused this change?

- A a fall in export prices with import prices unchanged.
- B a fall in invisible earnings.
- C an appreciation of the country's currency.
- D a rise in the value of imports.

June 2003/Q22

41. A particular goods in the Barbados market could be supplied by domestic producers, or producers in Trinidad & Tobago, or producers in the USA, at the following prices in US dollars.

Original Barbados had a 20% ad valorem duty on imports from Trinidad & Tobago and USA. Barbados then formed a custom union with Trinidad & Tobago, with a common external tariff, also of 20%.

From which countries would Barbados import the good, before the formation of the customs union and after formation of the customs union?

origin of production	price
Barbados	\$1.00
Trinidad & Tobago	\$0.85
USA	\$0.75

	before	after
A	USA	USA
B	USA	Trinidad & Tobago
C	neither	USA
D	neither	Trinidad & Tobago

Dec 1981, June 1996, June 2003/Q21

42. Country X has a comparative advantage in production wheat and country y in producing cars. However, the countries choose not to specialize and trade. What is a valid reason for this behaviour?

- A The exchange rate lies within the countries opportunity cost ratios.
- B There is immobility of factors of production between the countries.
- C Trade is based on absolute rather than comparative advantage.
- D Transport costs are high relative to the opportunity cost difference between the countries.

June 1998, Nov 2003/Q22, Nov 2007/Q19

43. When is an economy likely to experience a deterioration in its terms of trade?

- A When demand for its exports increases.
- B When the trade weighted value of its currency depreciates.
- C When the interest rate is increased.
- D When there is a fall in the average price of its imports.

Nov 2003/Q21

44. What will be the immediate effect of the removal of tariffs on imported consumer goods?

- A a decrease in the cost of living
- B a decrease in free trade
- C an increase in customs revenues received by the government
- D an increase in the level of domestic employment

Nov 2008/Q20

45. A group of countries introduce a single common currency to replace their national currencies. What will result from this policy?

- A easier price comparisons between countries
- B higher transaction costs
- C increased interest rate differentials
- D identical prices in all countries

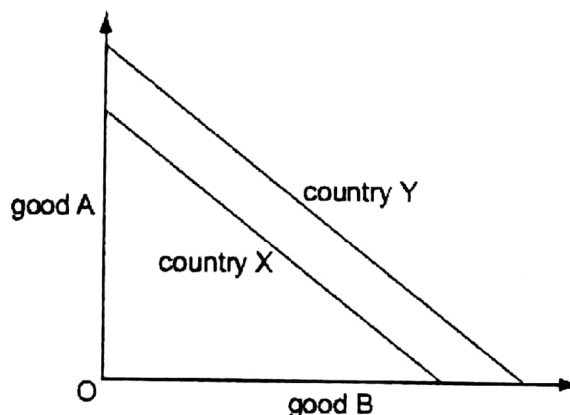
Nov 2003/Q20

46. The World Cup in 2002 caused a rise in demand by Japanese fans for football shirts made in Brazil, and increased travel to Japan by Brazilian fans using Japanese airlines. What would be the effect on Brazil's balance of payments?

	exports of goods	imports of services
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

47. The diagram shows production possibility curves for two countries, X and Y.

June 2004/Q21



What can be deduced from the diagram?

- A Both countries can benefit by specialization.
- B Country X has a higher opportunity cost than Y in producing good B.
- C Country Y has a comparative advantage in both goods.
- D Trade between X and Y will not take place.

Nov 2004/Q19

48. An argument against trade protection is that it will increase

- A competition for domestic industries.
- B domestic price levels.
- C the current account deficit.
- D opportunities for domestic infant industries.

In which situation must the terms of trade be moving in a country's favour? Nov 2004/Q20 , June 2011/P12/Q19

- A Its import prices are rising at a slower rate than its export prices.
- B There is a fall in both its import and its export prices.
- C There is an increase in its official reserves.
- D The volume of its exports is increasing more than the volume of its imports.

What is present in a customs union but not in a free trade area? June 1995, Nov 2004/Q22

- A a common monetary system
- B a common external tariff with the rest of the world
- C a common system of taxation
- D the free movement of all goods, services and factors of production

June 1998, June 2002/ Nov 2004/Q21

51. The table shows the numbers of goods X and Y which two countries produce. Each country uses half of its resources to make each good.

	country 1	country 2
good X	100	300
good Y	200	400

Later, each country specialises in the product in which it has a comparative advantage. Which rate of exchange would be suitable so each country gains from trade?

- A $1X = 1Y$ B $1X = 1.5Y$ C $1X = 2Y$ D $1X = 3Y$
June 1980, June 2004/Q22

52. In which of the following situations will a country's terms of trade worsen?

- A The prices of its imports rise by more than the prices of its exports.
- B The total value of external payments rises by more than the total value of external receipts.
- C The value of its imports rises by more than the value of its exports.
- D The volume of its imports rises by more than the volume of its exports.

June 1984, June 1993, June 2004/Q20

53. Why would a government introduce tariffs and quotas?

- A to increase the level of international competition
- B to increase the demand for home-produced goods
- C to reduce the price of home-produced goods
- D to reduce the price of imports

June 2005/Q20

54. In August 2002, the US President signed a trade agreement which allowed more duty-free access to the US market for Latin American and Caribbean countries.

Who might benefit in the short run from this agreement?

- A Caribbean countries, because they may export to Latin America
- B Latin American businesses, because they may be able to sell more in the US
- C Latin American governments, because they will not have to pay so much duty
- D the US, because it may export more to Latin America

June 2004/Q30

55. Which method of protection raises revenue for the government?

- A domestic subsidies
- B embargo
- C quota
- D tariff

June 2004/Q19

56. The world consists of two countries, Sealand and Fantasia, both of which produce just two goods, X and Y.

The production of X is land-intensive and the production of Y is labour-intensive.

Sealand has plentiful supplies of both land and labour. Fantasia has a relative scarcity of labour.

What can be deduced from this?

- A Fantasia is likely to have a comparative advantage in X.
- B It is unlikely that Fantasia can compete with Sealand in the production of either X or Y.
- C It is unlikely there would be any benefit to Sealand from trading with Fantasia.
- D Sealand is likely to have an absolute advantage in both X and Y.

June 2005/Q19, Nov 2011/P11/Q19

57. 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.

June 2005/Q22

58. In some parts of the world economic unions have been established. These have introduced a common currency.

What could be an economic disadvantage of introducing such a common currency?

- A Absolute and comparative cost advantages would disappear as a basis for trade.
- B Devaluation of a member's currency would no longer be possible.
- C Prices of goods and services would be the same over the whole union.
- D Trade creation would take place.

June 2005/Q21

Unit 7

59. What is an export of services in Jamaica's current account?

- A an inflow of funds to Jamaica to buy shares
- B earnings from US tourists visiting Jamaica
- C earnings of Haitian workers in Jamaica sent to Haiti
- D the export of Jamaican coffee

Nov 2005/Q22

60. Which of the following will increase a country's protection against imports?

- A an appreciation of its exchange rate
- B an increase in its inflation rate
- C a reduction in the size of existing import quotas
- D a reduction in subsidies to domestic producers

Nov 2005/Q20

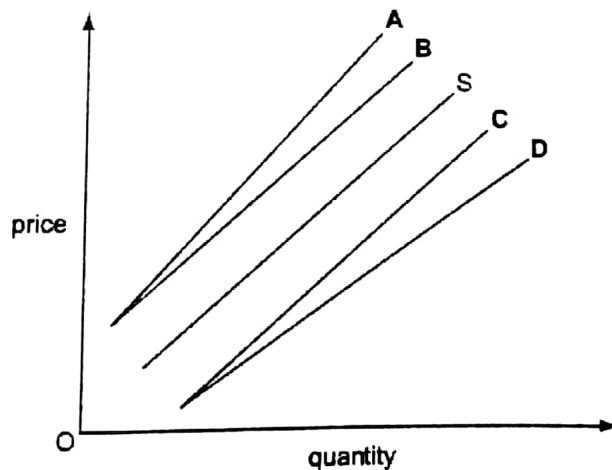
61. When will there be a favourable movement in a country's terms of trade?

- A when the prices of its exports fall by more than the prices of its imports
- B when the prices of its imports rise by less than the prices of its exports
- C when the volume of its exports increases by more than the volume of its imports
- D when the volume of its imports increases by more than the volume of its exports

June-1990, Nov 2005/Q21

62. The supply of an imported good is shown by curve S.

What will be the new supply curve if an ad valorem (percentage) tariff is imposed on the good?



June 2006/Q20

What would encourage the growth of the international division of labour?

- A an improvement in transport systems
- B instability in international exchange rates
- C restrictions on the movement of resources
- D the widespread introduction of tariffs

June 2006/Q4

Unit 7

64. The table refers to a particular country.

year	index of import prices (2000 = 100)	index of export prices (2000 = 100)
1995	48.1	57.0
2005	122.4	120.8

Which statement about the period 1995 to 2005 is correct?

- A The balance of trade improved.
- B The balance of payments worsened.
- C The terms of trade worsened.
- D The exchange rate appreciated.

Dec 1982, Nov 2002, June 2006/Q21

65. A country's terms of trade index currently stands at 120 (base year 2000).

Since 2000, the average price of its imports has increased by 25 %.

What has been the change in the average price the country has received for its exports over this period?

- A -10 %
- B +5 %
- C +45 %
- D +50 %

Nov 2006/Q21

66. What would reduce an economy's protection against the import of cars?

- A a lower exchange rate
- B a higher quota of imported cars
- C a higher tariff on imported cars
- D a higher subsidy for domestic car producers

Nov 2006/Q20

67. The table shows the output per unit of input of two goods, X and Y, in two countries, 1 and 2.

	output of X per unit of input	output of Y per unit of input
Country 1	70	30
Country 2	50	25

Which statement about the data in the table is correct?

- A Country 1 has absolute advantage in the production of X and comparative advantage in the production of Y.
- B Country 1 has absolute advantage in the production of Y and comparative advantage in the production of X.
- C Country 2 has no absolute or comparative advantage.
- D Country 2 has comparative advantage in the production of X and no absolute advantage.

Nov 2006/Q19

74. A government has been protecting its domestic car industry with a quota on imported cars. It then removes the quota and replaces it with a subsidy to domestic car producers. How will this change affect the price of cars and the level of consumer choice?

	price of cars	level of choice
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

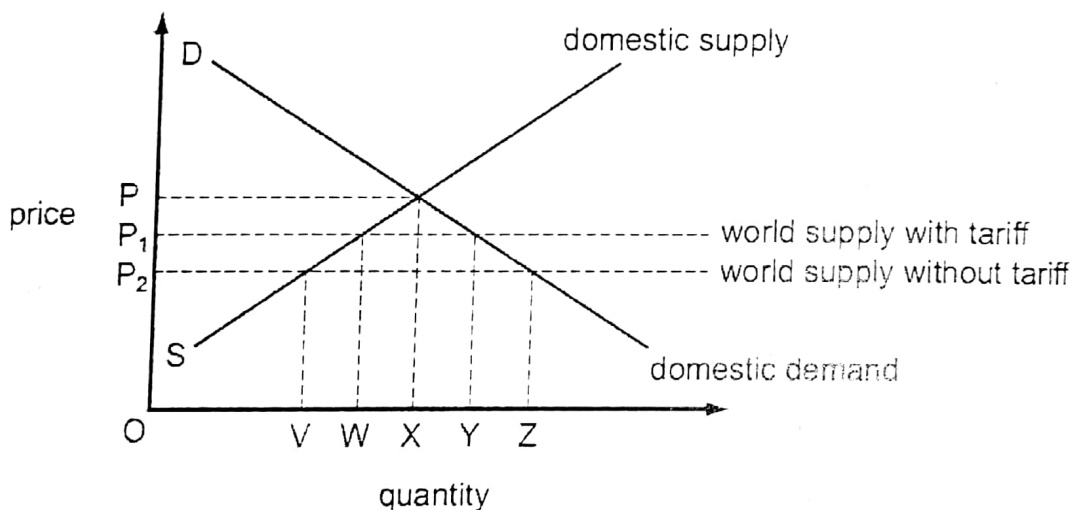
75. When would the sale of cheap exports definitely be classed as dumping?

Nov 2009/P12/Q19

- A** if the exports were produced profitably at a low price in the exporting country
- B** if the exports were the result of a surplus caused by favourable weather conditions
- C** if the exports were the result of improved technology that led to capital-intensive production
- D** if the exports were the result of government subsidies to producers that made loss-making sales profitable

76. A government removes the tariff on a product.

June 2008/Q20



What will be the change in domestic production?

- A** a reduction of WV
- B** a reduction of XV
- C** a reduction of XW
- D** a reduction of ZY

June 2008/Q21, Nov 2011/P12/Q19

77. In which situation must the terms of trade be moving in a country's favour?

- A** Its import prices are rising at a slower rate than its export prices.
- B** There is a fall in both its import and its export prices.
- C** There is an increase in its official reserves.
- D** The volume of its exports is increasing more than the volume of its imports.

Nov 2008/Q22

Which feature is found in both a customs union and a free trade area?

- A a common currency
- B a common external tariff
- C freedom from internal trade barriers
- D uniform tax rates

Nov 2008/Q21

Which statement about economic integration is correct?

- A A customs union has a common currency.
- B A customs union has a common external tariff.
- C A free trade area has internal trade barriers.
- D A free trade area has no external trade barriers.

June 2009/Q21

Since 2000 a country's export prices have increased on average by 50 % and its import prices by 25 %.

What is the current figure for the country's terms of trade (2000 = 100)?

- A 75
- B 83
- C 120
- D 125

June 2009/Q22

1. Japan introduces import quotas on consumer durables imported from Malaysia. These goods have a high price elasticity of demand.

What effect is this likely to have on the prices paid for these goods by Japanese consumers and on the revenues received by Malaysian producers?

	change in prices paid by Japanese consumers	change in revenues received by Malaysian producers
A	decrease	uncertain
B	decrease	increase
C	increase	decrease
D	increase	uncertain

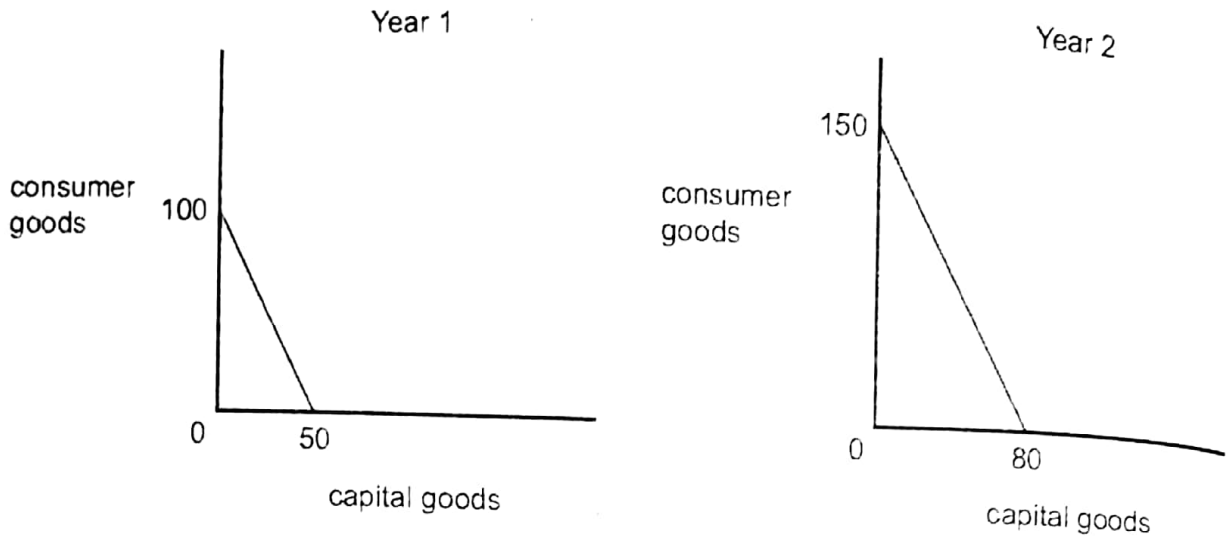
June 2009/Q20

82. What will cause an improvement in a country's terms of trade?

- A a fall in incomes abroad
- B a fall in its exchange rate
- C a rise in its inflation rate
- D a rise in the price of its imports

Nov 2009/12/Q20

83. The diagrams show the change in a country's production possibility curve between Year 1 and Year 2

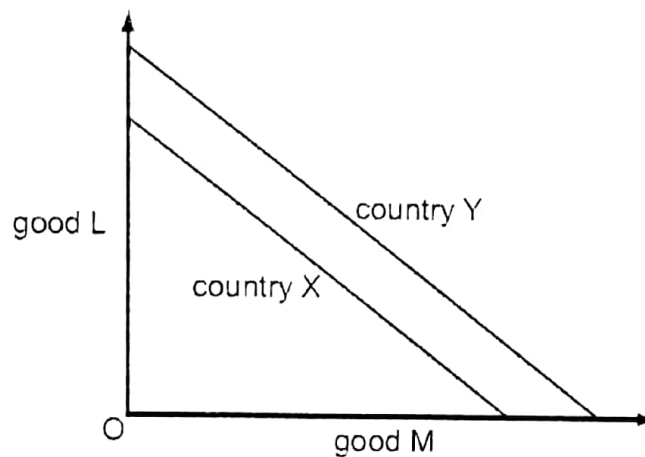


What can be deduced from the diagrams?

- A Future growth prospects have been harmed.
- B The level of unemployment has fallen.
- C The opportunity cost of consumer goods has risen.
- D The proportionate growth in production is greater in consumer goods.

June 2010/P12/Q1

84. The diagram shows production possibility curves for two countries, X and Y.



What can be deduced from the diagram?

- A Both countries can benefit from specialisation.
- B Country X has a higher opportunity cost than Y in producing good M.
- C Country Y has a comparative advantage in both goods.
- D Trade between X and Y will not take place.

June 2010/P12/Q18

85. The statements that follow relate to possible gains from an increase in free trade. Which gain is least certain to result?

- A Increased specialisation leads to improvements in productivity.
- B Trade extends the choice of goods available to consumers.
- C Trade leads to an increase in the number of jobs.
- D Trade leads to a reduction in costs of production.

June 2010/P12/Q19

86. A group of countries decides to change from being a customs union to being an economic union. What additional feature will this give the group?

- A a common external quota on imports from non-members
- B a common external tariff on imports from non-members
- C the removal of restrictions on the movement of capital and labour between members
- D the removal of tariffs and quotas on products exchanged between members

June 2010/P12/Q20

87. Steel is produced in a number of countries, including China, Japan and the US. It is used in the manufacture of cars. The US protects its domestic steel industry by imposing high tariffs on foreign steel imports.

Which two groups would benefit from the removal of the US tariffs?

- A Chinese steel producers and Japanese car manufacturers
- B Japanese steel producers and US car manufacturers
- C US steel producers and Chinese steel workers
- D the US government and Japanese steel workers

Nov 2010/P12/Q19

88. What is found in a customs union but not a free trade area?

- A a common currency
- B a common external tariff
- C fixed exchange rates
- D free movement of labour

Nov 2010/P12/Q21

89. The table shows how much rice and wheat two countries, X and Y, can grow when each country divides its resources equally between growing rice and wheat.

	country X	country Y
rice (units)	900 m	100 m
wheat (units)	300 m	50 m

Assume that each country now specialises according to comparative advantage and trades with the other country.

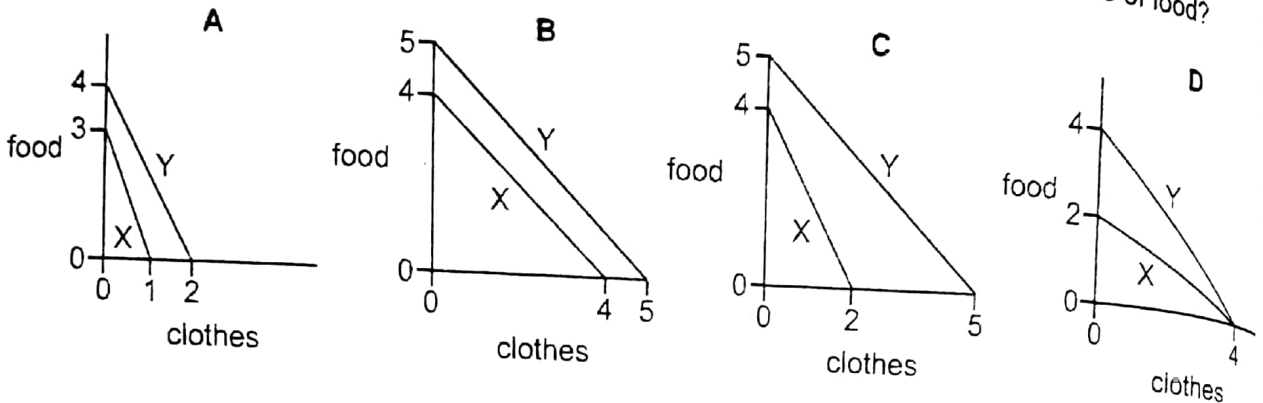
Which terms of trade would benefit both countries?

- A 1 wheat = 5 rice
- B 1 wheat = 3 rice
- C 1 wheat = 2.5 rice
- D 1 wheat = 2 rice

Nov 2010/P12/Q22

90. Each diagram shows the production possibility curves of two economies, X and Y, which produce food and clothes.

In which diagram would both economies benefit by specialising in the good in which they have comparative advantage and trading at an exchange rate of 1 unit of clothes to 1.5 units of food?



June 2011 Q18

91. A country's terms of trade currently stands at 150 (base year 2000 = 100). Since 2000 the average price the country has received for its exports has increased by 20%. What has been the change in the average price it has paid for its imports?

- A -25% B -20% C +20% D +25%

92. Country X joins an existing customs union comprising countries Y and Z. Country W remains outside the customs union. Both X's initial tariff and W's tariff are at the same level as the customs union's common external tariff.

June 2011/P12/Q20

What is likely to be the effect on trade flows when X joins the customs union?

	trade between X and W	trade between Y and Z
A	unchanged	decrease
B	decrease	decrease
C	unchanged	increase
D	decrease	increase

93. The table shows four combinations of price changes which may affect a country's terms of trade. Which combination of price changes must cause an improvement in the country's terms of trade?

Nov 2011/P12/Q20

	average price of exports	average price of imports
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

Nov 2011/P12/Q21

94. Which measure would encourage domestic production?

A reduction in

- A the safety standards for imports.
- B the size of import quotas.
- C the subsidies on home produced goods.
- D the time taken to process import paperwork.

Nov 2011/P11/Q20

95. Which combination of export and import prices will cause the greatest change in a country's terms of trade?

	export prices	import prices
A	decrease by 1 %	increase by 1 %
B	decrease by 2 %	no change
C	increase by 1 %	decrease by 1 %
D	no change	increase by 2 %

Nov 2011/P11/Q21

Key

Unit 7

International Trade

Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.	Q.	Ans.
1	A	20	B	39	B	58	B	77	A
2	A	21	C	40	C	59	B	78	C
3	A	22	B	41	B	60	C	79	B
4	D	23	D	42	D	61	B	80	C
5	D	24	A	43	B	62	A	81	C
6	B	25	C	44	A	63	A	82	C
7	D	26	D	45	A	64	C	83	C
8	D	27	A	46	D	65	D	84	D
9	D	28	D	47	D	66	B	85	C
10	C	29	C	48	B	67	B	86	C
11	D	30	C	49	A	68	C	87	B
12	D	31	B	50	B	69	C	88	B
13	A	32	A	51	B	70	D	89	C
14	C	33	D	52	A	71	D	90	C
15	C	34	B	53	B	72	C	91	B
16	B	35	C	54	B	73	C	92	B
17	A	36	B	55	D	74	B	93	C
18	C	37	B	56	A	75	D	94	B
19	C	38	D	57	B	76	A	95	C

Unit-8

Exchange Rate

1. Other things being equal, what will happen if a British company raises the sterling (£) price of goods it sells in the USA by the full extent of a depreciation of sterling against the US dollar?

- A The demand for the company's goods will rise in the USA.
- B The demand for the company's goods will fall in the USA.
- C The company's earnings in the USA will remain constant in pounds sterling.
- D The company's earnings in the USA will remain constant in US dollars.

June 1990

2. Which of the following does not directly increase the supply of pounds sterling on the world currency market?

- A Lower interest rates in the United Kingdom.
- B Higher interest rates in the United States.
- C An increase in investment opportunities for foreign capital in Latin America.
- D An increased demand for United Kingdom exports in the United States.

Nov 1990

3. The US devalues by 10% but US firms keep the dollar price of their exports unchanged. The elasticity of demand for US exports is 0.5. What will happen to US export earnings measured in dollars?

- A They will rise by about 20%.
- B They will rise by about 5%.
- C They will stay the same.
- D They will fall by about 5%.

Nov 1991

4. In the absence of off-setting changes, what would be the effect of an appreciation in a country's exchange rate?

- A An increase in the cost of imported raw materials.
- B An increase in the level of unemployment.
- C An increase in the rate of domestic inflation.
- D An increase in the volume of manufacturing exports.

Nov 1994

5. The table shows the price elasticities of demand for the exports and imports of three countries.

	Exports	Imports
Country 1	0.6	0.8
Country 2	0.6	1.2
Country 3	1.2	1.4

Assuming there are no supply bottlenecks, in which of these countries would a depreciation of the currency result in an improvement in the balance to trade?

- A Country 1 only
- B Countries 2 and 3 only
- C Country 3 only
- D All three countries

Nov 1996

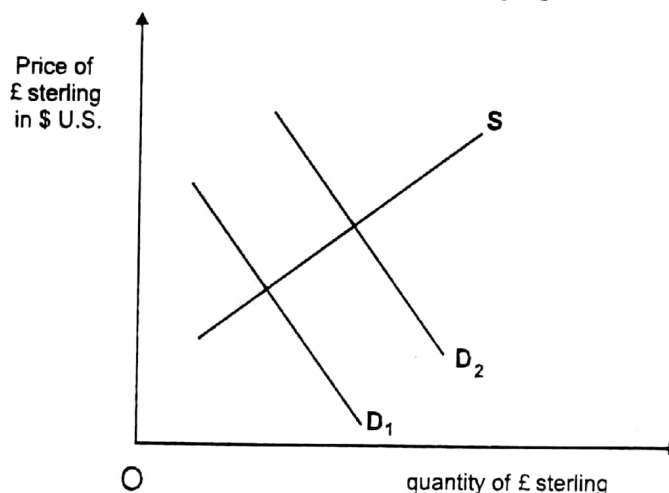
6. Following a 10% depreciation in the \$ value of the £ sterling a UK manufacturer leaves the \$ price of the goods he sells in the US market unchanged. Other things being equal, what will be the effect on the revenue measured in sterling obtained by the manufacturer from his sales in the US?

- A It will increase.
- B It will decrease.
- C It will be unchanged.
- D It will depend on the elasticity of demand for the manufacturer's goods in the US.

7. Who would benefit from an appreciation of the £ sterling against the US \$?

- A A British pop, group paid in US \$s for a North American concert tour.
- B A UK unit trust investor with large holdings of North American equities.
- C British holidaymakers visiting Florida.
- D US students studying in the UK.

8. The diagram shows demand and supply curves of the £ sterling against the US dollar.



What is likely to cause a shift in the demand curve from D_1 to D_2 ?

- A An adverse balance of payments in the UK.
- B An increased demand for UK goods in the USA.
- C An increase in UK tourists visiting the USA.
- D An increase in US interest rates.

9. An appreciation of X's currency leads to an increase in its foreign currency earnings from tourism.

- A It is income elastic.
- B It is price elastic.
- C It is income inelastic.
- D It is price inelastic.

10. What would result from a devaluation of a country's exchange rate?

- A An increase in the foreign currency price of imports.
- B A reduction in the domestic currency price of imports.
- C A reduction in the domestic currency price of exports.
- D A reduction in the foreign currency price of exports.

11. What would result from a devaluation of a country's exchange rate?

- A An increase in the foreign currency price of imports.
- B A reduction in the domestic currency price of imports.
- C A reduction in the domestic currency price of exports.
- D A reduction in the foreign currency price of exports.

June 2001

12. Who would benefit from a depreciation of the sterling against the Malaysian ringgit?

- A Malaysian students studying in the UK.
- B British holidaymakers visiting Malaysia.
- C A Malaysian manufacturer exporting to the UK.
- D A Malaysian property company owning properties in central London.

Nov 2001

13. 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.

Jun 2002/Q30

14. 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.

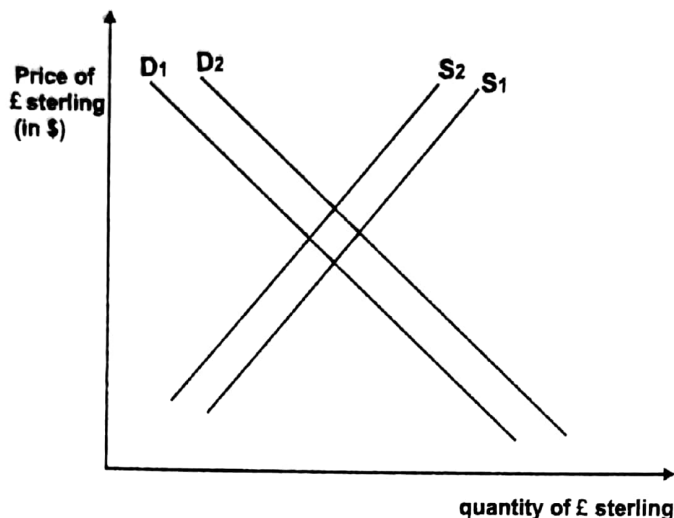
- A The £ sterling is 25% over-valued against the US\$.
- B The £ sterling is 20% under-valued against the US\$.
- C The purchasing power parity exchange rate of the £ sterling is \$1.25 to the £.
- D The purchasing power parity exchange rate of the £ sterling is \$.80 to the £.

June 2002/Q28

15. 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

16. 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.

June 2002/Q26

17. Which of the following combination of changes indicates that a country is operating a managed float?

	Nominal exchange rate	Foreign Currency reserves
A	Depreciates by 20%	Decreases by \$ 1 billion
B	Depreciates by 20%	Unchanged
C	Unchanged	Unchanged
D	Unchanged	Decreases by \$ 1 billion

18. What do weights used to calculate a country's trade-weighted exchange rate reflect?

- A The relative importance of different goods in a country's balance of trade.
- B the relative size of a country's trade with different countries.
- C the relative importance of trade as a percentage of a country's GDP
- D the relative size of a country's trade as a percentage of world trade.

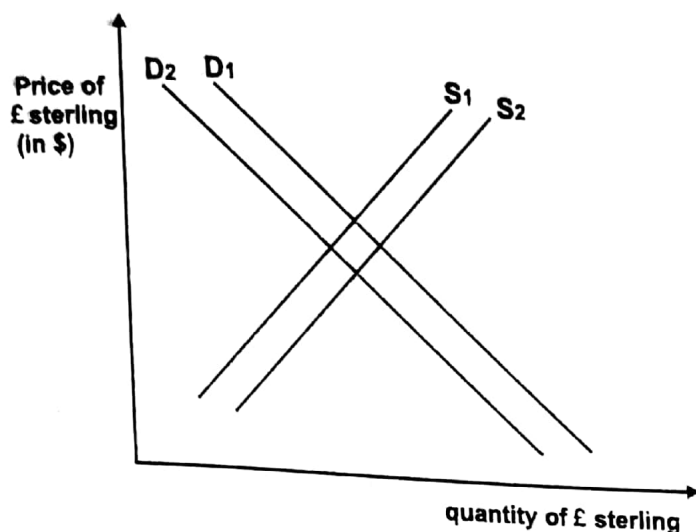
Nov 2002/Q29

19. A representative basket of goods costs \$ 2500 in the United States. The same basket of goods costs £ 2000 in the UK. What can be deduced from this?

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

Nov 2002/Q26

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

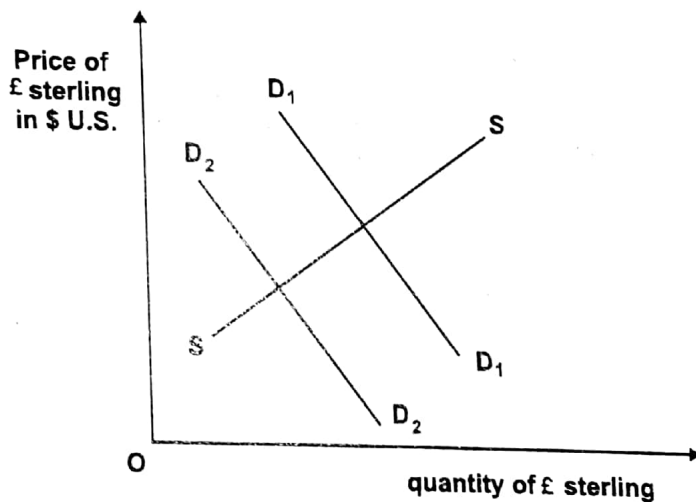


What will cause the demand curve to D_2 and the supply curve to S_2 ?

- A an appreciation of the pound
- B an increase in the price level in the US
- C an increase in incomes in the US
- D a decrease in UK interest rates

Nov 2002/Q25

21. In the diagram, curves D_1D_1 and SS relate to the demand for and supply of £ sterling in the foreign exchange market.

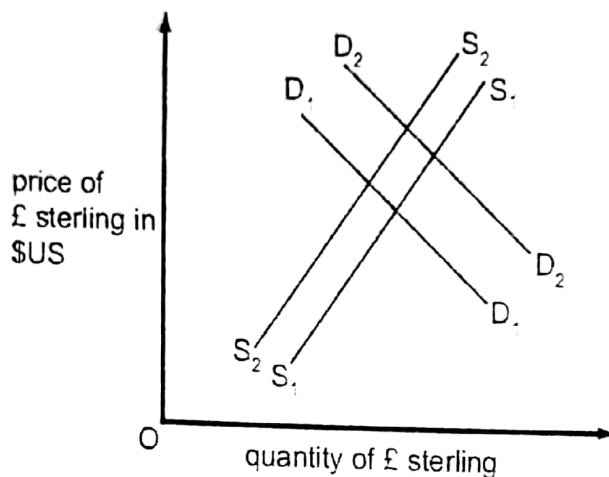


What may cause the demand curve to shift from D_1D_1 to D_2D_2 ?

- A an appreciation of the pound
- B an increase in the price level in the US
- C an increase in incomes in the US
- D a decrease in UK interest rates.

June 1991, June 2003/Q29

22. In the diagram, D_1D_1 and S_1S_1 are the initial demand and supply curves of the pound sterling (£) on the foreign exchange market.



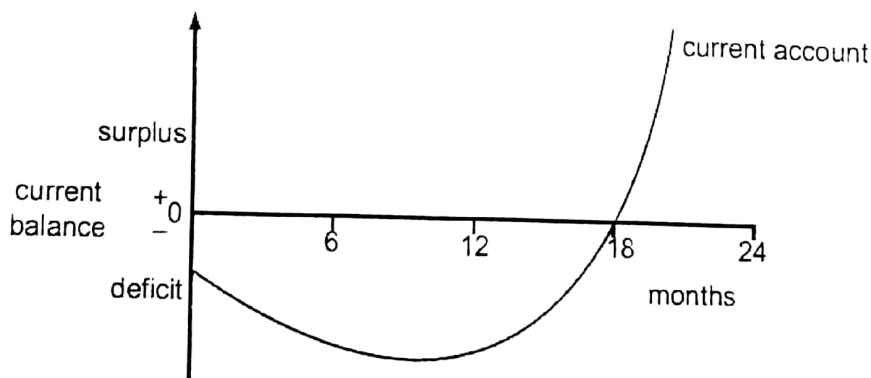
What will cause the demand curve to shift to D_2D_2 and the supply curve to S_2S_2 ?

- A an appreciation of the pound
 - B an increase in UK interest rates
 - C a reduction in the level of UK import tariffs
 - D a reduction in the quality of UK goods
23. The table shows alternative price elasticities of demand for exports and imports of country X. There is a depreciation of the currency of country X. Nov 2003/Q28

combination	exports	imports
A	0.5	0.5
B	0.8	1.2
C	1.5	1.5
D	2.0	0.5

Assuming there are no supply bottlenecks, which combination of price elasticities offers the best prospect for an improvement in the balance of trade?

24. A country at the beginning of a given period seeks to improve the current account of its balance of payments by devaluing its currency. The effect of this policy in the following two years is shown in the diagram. June 1993, Nov 2003/Q29
- Which of the following statements is likely to explain this performance?



- A The elasticity of demand for imports diminished after 12 months.
B The domestic inflation rate fell after 12 months before having the desired result.
C In the short run, the price elasticity of demand for exports and imports was very low.
D The policy was ineffective and other factors must have led to an improvement in the current account.

Dec 1986, Nov 1992, June 2003/Q30, Nov 2011/P11/Q30

In an open economy with a flexible exchange rate, the rate of interest is increased.

Other things being equal, what will be the effect of this increase?

- A There will be a capital outflow.
B The exchange rate will appreciate.
C Inflation will rise.
D Imports will become more expensive.

Nov 2003/Q30

26. The value of the Swiss franc changes against the US dollar (\$) from \$0.60 to \$0.80. Which statement is consistent with this information?

- A Swiss visitors to the US will now be worse off.
B The cost to the US of maintaining its embassy in Switzerland will decrease.
C The dollar has depreciated against the Swiss franc.
D US exports to Switzerland will now be more expensive.

Nov 2004/Q29

27. A depreciation of the exchange rate of the pound sterling against the US dollar from £1 : \$1.50 to £1 : \$1.00 must mean that

- A the pound will be undervalued.
B US imports from the UK will become more expensive.
C UK imports from the US will become cheaper.
D dollars will become more expensive in terms of pounds.

Nov 2004/Q29

28. Which is most likely to cause country X's exchange rate to depreciate?

- A an increase in country X's demand for imports
B an increase in country X's interest rate
C an increase in foreign demand for country X's exports
D an increase in tourist visits to country X

Nov 2004/Q28

29. Which factor determines the purchasing power parity of a currency?

- A relative costs of living
B relative rates of interest
C the volume of trade creation
D the visible balance of payments

Nov 2004/Q27

30. What combination is most likely to cause a surplus in a country's trade in goods and services?

	inflation	currency
A	high	strong
B	high	weak
C	low	strong
D	low	weak

June 2005/Q27

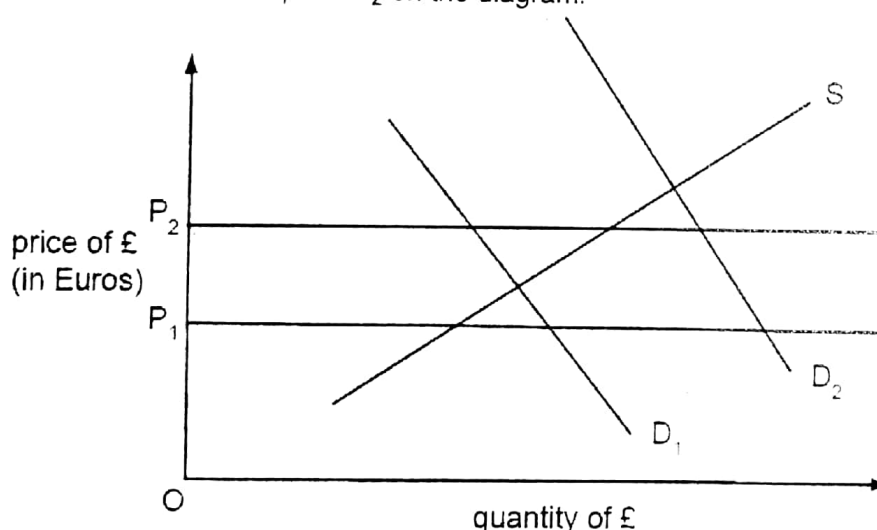
31. The demand for US imports in Japan is price-inelastic.

Assuming there is no change in their dollar price, what would be the effect of a depreciation in the yen on the total value of US goods imported into Japan?

	Value measured in yen	Value measured in \$
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

June 1996, June-2005/Q28

32. The British monetary authorities are committed to maintaining the exchange rate of the UK £ against the Euro between P_1 and P_2 on the diagram.



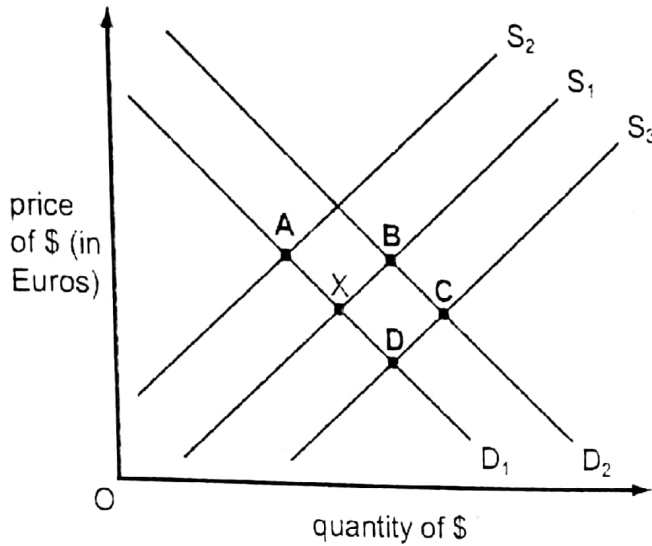
What might they do if demand changes from D_1 to D_2 ?

- A** impose controls on UK investment overseas
- B** increase interest rates
- C** sell Euros out of foreign exchange reserves
- D** sell £ on the foreign exchange markets

Nov 2002/Q27, June 2005/Q29

In the diagram the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after an increase in demand from US residents for holidays in Europe?



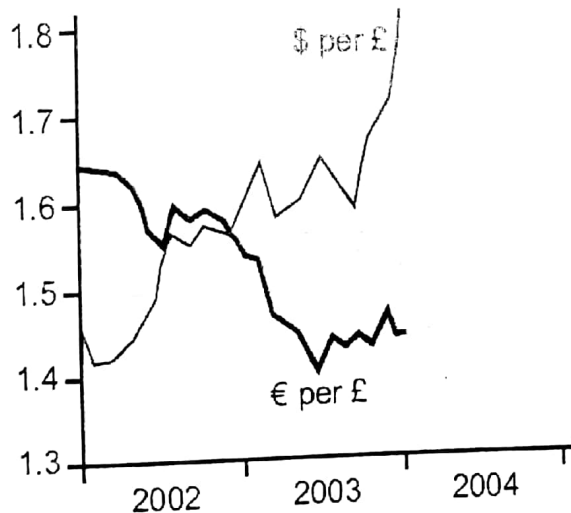
Nov 2005/Q29, Nov 2011/P11/Q28

34. Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

- A Domestic money supply will increase.
- B Rival producers may react with trade protection measures.
- C The economy's foreign exchange reserves may run down.
- D The economy's short-run standard of living will be reduced.

Nov 2005/Q28

35. The diagram shows the number of US dollars (\$) and Euros (€) which exchanged for one pound sterling (£) between 2002 and 2004.



What happened to the exchange rate of the \$ against the £ and € during this period?

	\$ exchange rate against £	\$ exchange rate against €
A	appreciated	appreciated
B	appreciated	depreciated
C	depreciated	appreciated
D	depreciated	depreciated

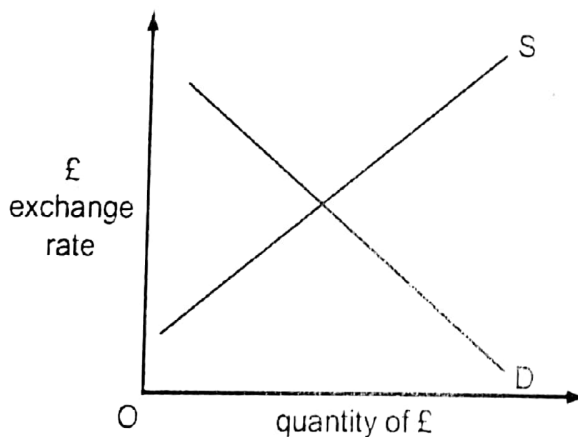
June 2006/Q28, Nov 2010/P12/Q27

36. Increased international competition leads to a worsening in a country's current account balance. In the absence of any offsetting factors, how is this likely to affect domestic inflation and the exchange rate?

	inflation	exchange rate
A	increase	appreciate
B	increase	depreciate
C	decrease	appreciate
D	decrease	depreciate

37. The diagram shows the demand for sterling and the supply of sterling in the foreign exchange markets.

June 2006/Q27

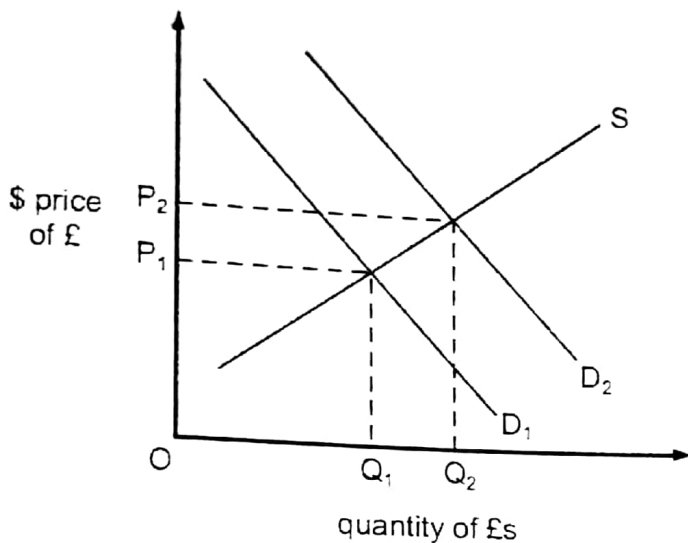


Other things being equal, if UK interest rates increase, what is likely to happen to the demand and supply curves in the diagram?

	demand curve	supply curve
A	shifts to left	shifts to left
B	shifts to right	shifts to right
C	shifts to left	shifts to right
D	shifts to right	shifts to left

June 2006/Q29

38. The diagram shows the supply and demand for pounds sterling (£) in the foreign exchange market with the initial US dollar (\$) price of the £ being OP_1 .



What will increase the \$ price of the to OP_2 ?

- A A large capital inflow into the UK.
- B A large deficit on the UK current account.
- C A reduction in interest rates in the UK
- D A speculative sales of £s in the foreign exchange market.

June 1997, Nov 2006/Q29

39. In which of the following circumstances will devaluation of the external value of a country's currency have the greatest beneficial effects on its balance of trade?

- A There is full employment in the country.
- B The government has implemented expansionary fiscal policies.
- C The demand for its imports is price-inelastic.
- D There is a high price elasticity of demand for its exports.

Nov 2006/Q30

40. Turkey can produce a good but also imports some of the good from Egypt. The Turkish currency depreciates against the Egyptian currency.

How might this affect production of this good in Egypt and in Turkey?

	production in Egypt	production in Turkey
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

Nov 2006/Q28

Exchange Rate

41. According to the Purchasing Power Parity theory, what determines the rate of exchange between two countries?
- A relative price levels in the two countries
 - B the bargaining power of the respective governments
 - C the comparative advantage of the two countries
 - D the size of their foreign currency reserves

June 2007/Q28

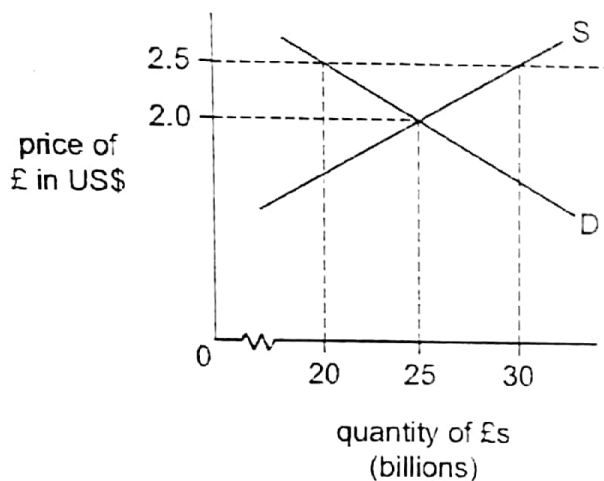
42. In the UK in the summer of 2002 the Euro was worth £0.62. In the summer of 2003 the Euro was worth £0.72.

How was this change likely to have affected the UK?

- A higher demand for imports
- B higher imported inflation
- C higher priced exports
- D higher unemployment

June 2007/Q29

43. 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 sterling
- B buy £20 billion sterling
- C sell £10 billion sterling
- D sell £20 billion sterling

Nov 2007/Q30

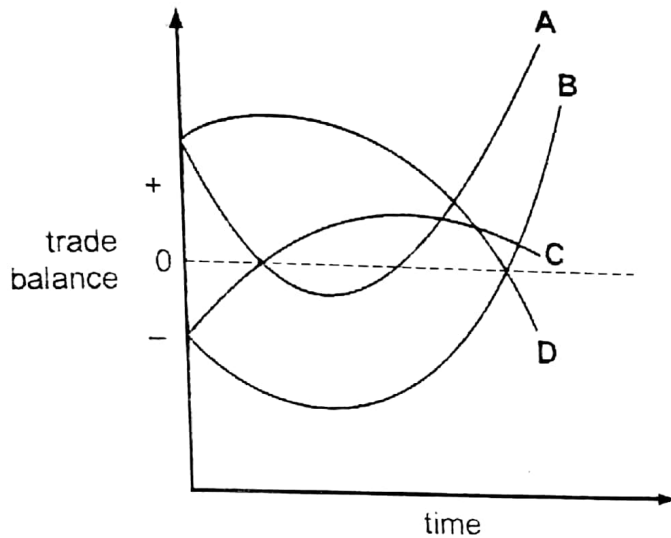
44. There is a rise in the exchange rate of the US\$. Which would cause the greatest increase in the US current account deficit?

- A a high level of domestic unemployment
- B a high price elasticity of demand for imports
- C a low price elasticity of demand for exports
- D a low rate of domestic inflation

Nov 2007/Q29

45. 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?



Nov 2007/Q28, Nov 2010/P12/Q28

46. The table shows observations of the exchange rate of an economy and its current account balance over six years.

year	exchange rate (US dollars per unit of domestic currency)	current account balance (billions of US dollars)
1	2.0	-3
2	1.5	-5
3	1.5	-4
4	1.5	-3
5	1.5	0
6	1.5	+3

Which concept does the data in the table illustrate?

- A exchange rate appreciation
- B purchasing power parity
- C the J-curve effect
- D trade-weighted exchange rates

June 2008/Q29, June 2011/P12/Q28

47. What is the likely effect on the volume of exports and imports if a country with a fixed exchange rate experiences a higher rate of inflation than its trading partners?

	exports	imports
A	increase	decrease
B	decrease	increase
C	increase	increase
D	decrease	decrease

June 2008/Q26

48. Under a system of flexible exchange rates, what determines the foreign exchange value of a currency?

- A the overall supply of and demand for a currency
- B the purchasing power of the currency relative to the purchasing power of foreign currencies
- C the surplus or deficit on the balance of payments on current account
- D the differential between domestic and foreign interest rates

Nov 2008/Q28

49. What is most likely to cause Australia's exchange rate to depreciate?

- A an increase in Australia's demand for imports
- B an increase in Australia's interest rate
- C an increase in demand for Australia's exports
- D an increase in tourist visits to Australia

June 2008/Q28

50. A country has a large current account deficit. Its government decides to devalue its currency. In which circumstance would such a measure reduce the deficit?

	price elasticity of demand for exports	price elasticity of demand for imports
A	0.0	0.0
B	0.0	0.5
C	0.5	0.5
D	0.5	1.0

June 2009/P1/Q.30

51. With an exchange rate of 5 Egyptian pounds (EGP) = 1 US dollar (\$), an American product sells in Egypt for EGP100.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound appreciates to EGP4 = 1 US\$?

- A EGP 75
- B EGP 80
- C EGP 120
- D EGP 125

Nov 2008/Q29, June 2009/Q2

52. A government with a floating exchange rate wishes to encourage a rise in the international value of its currency. What should it do?

- A Lower the level of domestic interest rates.
- B Reduce the amount of foreign currency available to its citizens.
- C Reduce subsidies to its exporters.
- D Remove trade barriers on imports.

Nov 2009/P12/Q29

53. Country X trades with only two countries, the USA and Japan. 90 % of the country's trade is with the USA and 10 % is with Japan. The original value of the trade-weighted exchange rate index is 100. The value of country X's currency against the US\$ rises by 10%. The value of country X's currency against the Japanese yen rises by 50 %.

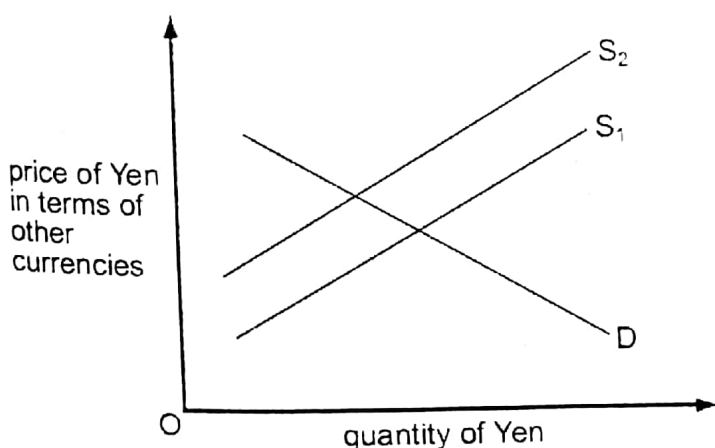
What will be the value of country X's new trade-weighted exchange rate index?

- A 114
 - B 115
 - C 130
 - D 160
- June 2003/Q28, Nov 2009/P12/Q28

54. What is the likely effect on the volume exports and imports if a country on a fixed exchange rate experiences a higher rate of inflation than its trading partners?

	Exports	Imports
A	Increase	Decrease
B	Decrease	Increase
C	Increase	Increase
D	Decrease	Decrease

55. The diagram shows the market for Japanese Yen.



What could have caused the change in the supply of Yen from S_1 to S_2 ?

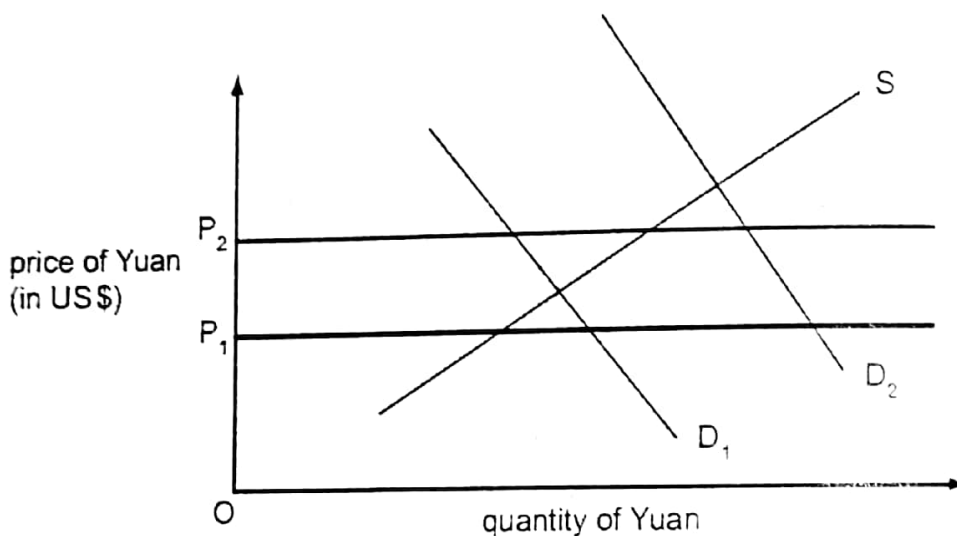
- A a reduction in the level of international investment into Japan
- B a reduction in the level of Japanese tariffs
- C a reduction in the value of foreign goods imported into Japan
- D a reduction in the value of Japanese goods exported

June 2004/Q28 , Nov 2009/12/Q27

Unit 5

56. A government has low reserves of foreign currency. When would it be likely to consider a deficit on current account to be a serious problem?
- A when the country is experiencing a period of high, sustained growth
 - B when the deficit alternates regularly with a surplus
 - C when the deficit exceeds the sum of errors and omissions in the balance of payments account
 - D When the level of international confidence in the country is low
57. Assume the Chinese monetary authorities are committed to maintaining the exchange rate of China's currency the Yuan against the US\$ between P_1 and P_2 on the diagram.

Nov 2010/P12/Q26



What might they do if demand changed from D_1 to D_2 ?

- A Impose controls on Chinese investment overseas.
 - B Increase interest rates.
 - C Sell US\$ out of foreign exchange reserves.
 - D Sell Yuan on the foreign exchange markets.
58. A country experiences changes in the value of its exports and imports of goods and services and its inflow of incomes and transfers. These are shown in the table.

Nov 2010/P12/Q29

Which set of changes is most likely to cause a depreciation in its floating exchange rate?

	export value	import value	net inflow of incomes and transfers
A	fall	fall	fall
B	fall	rise	fall
C	rise	fall	rise
D	rise	rise	rise

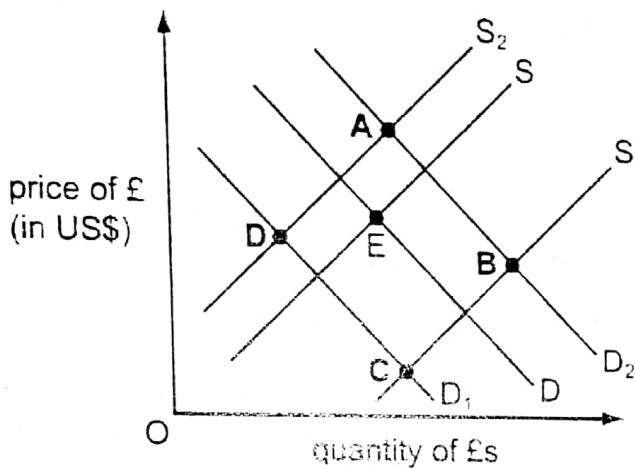
59. What is likely to happen if there is a rise in the international value of a country's currency?

- A a fall in the foreign currency price of its exports
- B a fall in the volume of its exports
- C a rise in the domestic currency price of its imports
- D a rise in the domestic price level

June 2011/P12/Q27

60. The diagram shows the exchange rate for the UK£ in terms of the US\$. The original equilibrium exchange rate is at E.

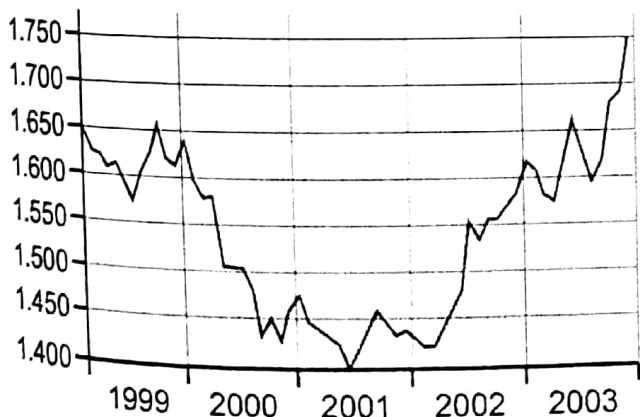
What will be the new exchange rate equilibrium of the UK£ following a reduction in UK interest rates and a rise in US interest rates?



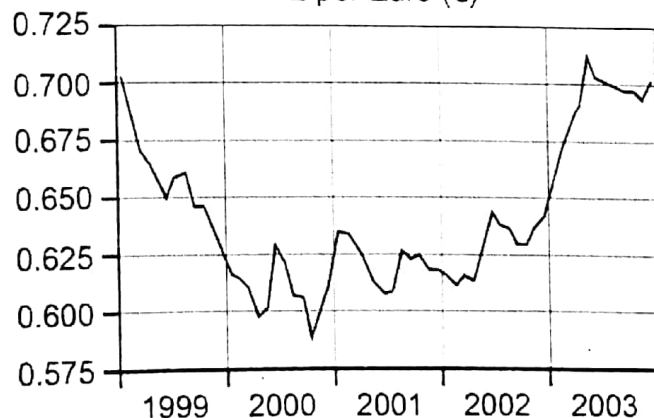
June 2011/P12/Q29

61. The graphs show the changes in the exchange rates of the £ sterling between 1998 and 2003.

US\$ per £



£ per Euro (€)



What happened to the value of the £ sterling between 2001 and 2003?

- A The £ appreciated against the \$ and the €.
- B The £ appreciated against the \$ and depreciated against the €.
- C The £ depreciated against the \$ and the €.
- D The £ depreciated against the \$ and appreciated against the €.

Nov 2011/P12/Q28

Unit 8

62. Other things being equal, what will happen if a British company raises the sterling (£) price of goods it sells to Pakistan by the full extent of a depreciation of sterling against the Pakistan rupee?
- A The demand for the company's goods will fall in Pakistan.
 - B The company's earnings in Pakistan will remain constant in pounds sterling.
 - C The company's earnings in Pakistan will remain constant in Pakistan rupees.
 - D The profit margin on sales to Pakistan will decline.
- Nov 2011/P12/Q29

63. A country's floating exchange rate falls and its export revenue declines.
- What could explain this?
- A Demand for its exports is inelastic.
 - B Supply of its exports is elastic.
 - C The exchange rate is in disequilibrium.
 - D The price of exports, in terms of foreign currency, rises.
- Nov 2011/P11/Q27

64. In 2004, when international demand for oil was high, Bolivia encouraged investment by foreign firms in order to exploit its oil and gas resources.
- What impact would this have on the balance of payments of Bolivia?
- A definitely favourable, as Bolivia could increase its exports of gas and oil
 - B definitely unfavourable, as the foreign companies would transfer profits out of the country
 - C uncertain, as there would be inflows and outflows of currency
 - D zero, as Bolivia itself would use the gas and oil produced
- Nov 2011/P11/Q29

Unit 8

Exchange Rate

Q	Ans.	Q	Ans.	Q	Ans.	Q	Ans.
1	D	20	D	39	D	58	B
2	D	21	D	40	B	59	B
3	B	22	B	41	A	60	C
4	B	23	C	42	B	61	B
5	D	24	C	43	A	62	C
6	A	25	B	44	B	63	A
7	C	26	C	45	B	64	C
8	B	27	D	46	C	65	
9	D	28	A	47	B	66	
10	D	29	A	48	A	67	
11	D	30	D	49	A	68	
12	A	31	C	50	D	69	
13	D	32	D	51	B	70	
14	A	33	D	52	B	71	
15	B	34	C	53	A	72	
16	C	35	D	54	B	73	
17	A	36	D	55	C	74	
18	B	37	D	56	D	75	
19	D	38	A	57	D	76	

Balance Of Payments

Unit-9

1. The principal items in the UK balance of payments are

- X Current balance.
- Y Net transactions in UK external assets and liabilities
- Z Balance item.

What is the relationship between these items?

- A $X + Y + Z = \text{zero}$
- B $X + Y = Z$
- C $X + Z = Y$
- D $X - Y = Z$

June 1992

2. The following data relates to the UK balance of payments in 1988.

	£ billion
Deficit visible trade	20.8
Surplus on trade in services	4.2
Net transfers to overseas	3.2
Net receipts of interest, profit and dividends from overseas	5.6
Direct investment overseas by UK residents	15.2

What was the UK current account deficit in 1988?

- A £ 7.4 billion
- B £ 13.0 billion
- C £ 14.2 billion
- D £ 16.6 billion

June 1993

3. Which of the following items would not appear in the current account of a country's balance of payments?

- A The export of cars.
- B The import of machinery.
- C The payment of dividends by a foreign company.
- D The setting up of a subsidiary by a foreign company.

Nov 1993

4. A Government may seek to improve the current account balance of payments by introducing either expenditure reducing or expenditure – switching policies. Which of the following is an expenditure-reducing policy?

- A Government subsidy on home produced products.
- B Rise in income tax.
- C Devaluation of the currency
- D The imports

June 1994

5. Which of the following is an invisible export of the UK?

- A Expenditure by Arab visitors in a London restaurant
- B Expenditure by UK soldiers on duty in Germany
- C Payment of profits by a Japanese electronics plant in South Wales to its company in Tokyo.
- D Repayment of an IMF loan by the UK Treasury.

June 1995

6. All else remaining unchanged, which of the following would result in an outflow of capital funds from the UK?

- A Fall in the UK rate of inflation.
- B An expected appreciation of the £ exchange rate.
- C An increase in foreign interest rates.
- D An increase in foreign prices.

Dec 1996

7. Which one of the following would appear as a debit item on the invisible trade account of the U.K. Balance of payments?

- A The sale of foreigners of shares in U.K. oil companies.
- B The payment of dividends to foreigners on shares they already hold in U.K. oil companies.
- C The purchase of oil rigs from foreigners by U.K. oil companies.
- D The payment of dividends by foreigners to U.K. citizens on shares hold abroad.

Dec 1996

8. Which of the following represents an invisible export in the UK balance of payments?

- A Payment of dividends to Japanese share holders of Nissan (UK).
- B Spending by Japanese tourists in London on hotel accommodation.
- C The purchase of an overseas company by british film.
- D UK government foreign aid to developing countries.

June 1997

9. Why might a reduction in domestic interest have an adverse effect on a country's balance of payment on current account?

- A It will cause a rise in the exchange rate.
- B It will make the country's industry less competitive.
- C The resulting higher-level of economic activity is likely to increase imports.
- D There will be an outflow of capital the country.

June 1998

10. An economy is experiencing a balance of payments deficit and high inflation.

What would be appropriate government policy response?

- A Increase interest rates
- B increase the money supply
- C Reduce direct taxes
- D Remove import tariffs

Nov 1999

11. A Japanese company builds a factory in the UK with the intention of increasing its sales in the European market. What is likely to be the long-run impact on the UK's visible trade balance and on its current balance?

	Visible trade balance	Invisible trade balance
A	Worsen	Worsen
B	Worsen	Improve
C	Improve	Worsen
D	Improve	Improve

12. Country X and country Y are trading partners. The rate of inflation in country X is greater than the rate of inflation in country Y. June 2003/Q27

What can be deduced about the effect this will have on country X?

- A A rise in its balance of payments current account surplus.
- B A fall in its purchasing power parity exchange rate.
- C A fall in its terms trade.
- D A rise in its net export.

June 2000

13. Which policy measure would tend to reduce both the rate of inflation and a balance of payments deficit?

- A An appreciation of the country's currency.
- B An increase in import tariffs
- C A reduction in government spending.
- D A reducing in the level of interest rates.

14. A UK resident buys shares in a Spanish company. What will be the immediate and subsequent effects on the UK's balance of payments? Nov 2000

	Immediate effect On capital account	Subsequent effect On current account
A	Credit	Credit
B	Credit	Debit
C	Debit	Credit
D	Debit	Debit

Nov 2007/Q27

15. 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.

June 2002/Q19

16. What is likely to improve the visible trade balance of Mauritius but to worsen its invisible balance?

- A Mauritian company sets up subsidiary company in France.
- B A US company builds a factory in the Mauritius to serve the African market.
- C The Mauritian government removes import controls on semi manufactured goods.
- D The Mauritian government increases interest rates with a view to strengthening the exchange rate of the Mauritian rupee.

Nov 2002/Q22

17. The table gives information about the trade between Singapore and New Zealand during 2001, the first year after they signed a free trade agreement. The values are given both in Singapore dollars (S\$) and New Zealand dollars (NZ\$).

	S\$m	NZ\$m	Percentage change from 2000
Singapore exports to New Zealand	508	618	+20%
Singapore imports from New Zealand	331	403	-17%

What can be concluded from the table?

- A New Zealand gained more than Singapore from the trade agreement.
- B New Zealand's trade position with Singapore improved in 2001.
- C Singapore had a trade surplus with New Zealand in 2001.
- D The exchange rate in 2001 was approximately NZ\$1 = S\$1.2.

June 2004/Q27

18. The World Cup in 2002 caused a rise in demand by Japanese fans for football shirts made in Brazil, and increased travel to Japan by Brazilian fans using Japanese airlines.

What would be the effect on Brazil's balance of payments?

	Exports of goods	Imports of Services
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

June 2004/Q21

19. What is most likely consequence of an increase in a country's balance of payment deficit?

- A An increase in the foreign value of the currency of the country.
- B An increase in the level of income within the country.
- C A reduction in the quantity of money within the country.
- D A reduction in unemployment within the country.

Nov 1990, Nov 2004/Q26

20. Which policy would reduce a balance of payments deficit on the current account in the short run?

- A A reduction in government subsidies to exports.
- B A reduction in the rate of interest.
- C A rise direct taxation.
- D Incentives to attract foreign capital.

Nov 2004/Q30

21. What combination is most likely to cause a surplus in a country's trade in goods and services?

	Inflation	Currency
A	High	Strong
B	High	Weak
C	Low	Strong
D	Low	Weak

22. Why might a 10% devaluation of a country's currency fails to improve its balance of trade deficit? June 2005/Q27

- A Other countries devalue their currencies 15%.
- B Other countries revalue their currencies by 15%.
- C The demand for the country's imports is elastic.
- D The supply of the country's exports is elastic.

23. Which policy would be most likely to reduce a balance of payments current account deficit? June 2005/Q30

- A Reducing income tax rates.
- B Reducing subsidies to domestic industries.
- C Reducing the external value of the currency.
- D Reducing the level of tariffs.

24. What is an export of services in Jamaica's current account? Nov 2005/Q30

- A an inflow of funds to Jamaica to buy shares
- B earnings from US tourists visiting Jamaica
- C earnings of Haitian workers in Jamaica sent to Haiti
- D the export of Jamaican coffee

25. A Japanese company builds a factory in the UK to supply both the UK market and the market in the rest of Europe.
What is likely to be the long-run impact on the UK's balance of trade in goods and on its current balance? Nov 2005/Q22

	balance of trade in goods	current balance
A	worsen	uncertain
B	worsen	improve
C	improve	uncertain
D	improve	improve

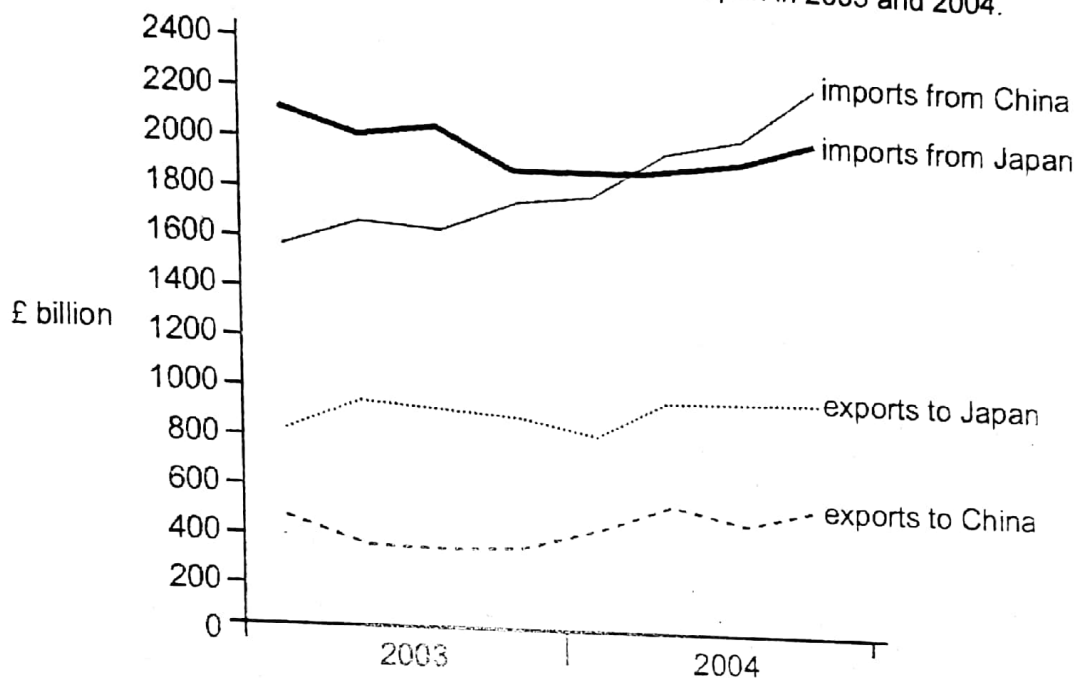
26. Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate? Nov 2005/Q27, June 2011/P12/Q25

- A Domestic money supply will increase.
- B Rival producers may react with trade protection measures.
- C The economy's foreign exchange reserves may run down.
- D The economy's short-run standard of living will be reduced.

27. Which of the following is not included in a country's balance of payment accounts?

- A Customs duties
- B Export earnings of nationalized industries
- C Interest received from property owned abroad
- D Payments to international banks

28. The diagram shows the UK trade balance with China and Japan in 2003 and 2004.



How did the trade balance of the UK change between the start of 2003 and the end of 2004?

- A There was a fall in the trade surplus with China.
- B There was a fall in the trade surplus with Japan.
- C There was a rise in the trade deficit with China.
- D There was a rise in the trade deficit with Japan.

Nov 2006/Q22

29. What will improve Cuba's current account balance immediately?

- A a Cuban buying sports equipment produced in the US
- B a US resident investing in property in Cuba
- C a US multi-national company building a new factory in Cuba
- D Cubans working in the US sending money to their relatives in Cuba

June 2006/Q22

30. What might explain an increase in the volume of a country's imports?

- A an appreciation of the country's exchange rate
- B an increase in the country's tariffs
- C a recession in the country
- D a rise in the country's rate of income tax

June 2006/Q26

31. Increased international competition leads to a worsening in a country's current account balance. In the absence of any offsetting factors, how is this likely to affect domestic inflation and the exchange rate?

	inflation	Exchange rate
A	increase	appreciate
B	increase	depreciate
C	decrease	appreciate
D	decrease	depreciate

June 2006/Q27

32. In an attempt to correct a balance of trade deficit the government of Indonesia has decided to employ expenditure-dampening methods.

Which policy would best fit this description?

- A introducing quotas on imported goods
- B raising income tax rates
- C subsidising home-produced goods
- D taxing imported goods

June 2006/Q30

33. The table shows items from the balance of payments for countries A, B, C and D. Official Financing is excluded from the Financial Account. Which country has the greatest disequilibrium on its balance of payments?

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

Nov 2006/Q27

34. The table shows the balance for four items in a country's current account for two years.

	visible	invisible	income	transfers
year 1	-72	84	12	-24
year 2	-87	46	-3	-44

What can be concluded about the changes between year 1 and year 2?

- A Income has moved from a net inflow to a net outflow.
- B The difference between the value of exported and imported services has increased.
- C The value of exported goods has fallen.
- D Transfers into the country have increased.

June 2007/Q22

35. Which of the following would be classified in the UK balance of payments accounts as a change in UK net external assets?

- A Imports of machinery by UK firms.
- B Expenditure by foreign tourists in the UK.
- C A purchase of a bond by US resident from a UK resident.
- D A payment of a dividend by a British

36. In which situation must a country's balance of trade in goods and services improve?

- A Export orders rise more than import orders.
- B Export prices rise more than import prices.
- C Export revenues rise more than import revenues.
- D Export volumes rise more than import volumes.

June 2007/Q27

37. A country with a freely floating exchange rate has a persistent deficit on the current account of its balance of payments.

Which policy can be used to correct this disequilibrium?

- A devalue the currency
- B increase government spending
- C increase tax rates
- D reduce tariffs on imports

June 2007/Q30

38. 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 an increase in direct taxes
- C an introduction of foreign exchange controls
- D an upward revaluation of the currency

Nov 2008/Q30

39. A developed country has a price-inelastic demand for oil, all of which it imports. The oil-producing countries decide to provide more oil to the market.

What is likely to happen as a result in the developed country to inflation, its balance of trade and the quantity of oil demanded?

	inflation	balance of trade	Quantity of oil demanded
A	less likely	improves	rises
B	less likely	worsens	rises
C	more likely	improves	falls
D	more likely	worsens	falls

June 2009/P1/Q.26

40. Why is it that a country's balance of payments must always balance?

- A Exchange rate changes will correct any deficit or surplus.
- B One country's deficit is matched by another's surplus.
- C The current account is balanced by the capital and financial accounts.
- D The government must act to correct any disequilibrium.

June 2009/P1/Q27

41. The table gives details of some parts of a country's balance of payments.

In which year did the country have its largest visible trade deficit?

	value of exports of goods(\$m)	value of imports of goods(\$m)	value of net incomes and transfers(\$m)
A	3914	3005	+110
B	3950	4073	+80
C	4774	4781	-65
D	5226	5102	-101

Nov 2009/12/Q25

42. The table shows the balance in \$ million for four items in a country's current account for two years.

	visibles	invisibles	income	transfers
Year 1	-72	84	-3	-24
Year 2	-87	96	12	-44

What can be concluded about the changes between Year 1 and Year 2?

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- C The value of exported goods has fallen.
- D Transfers into the country have increased.

June 2010/P12/Q21

43. When is a deficit on the current account of the balance of payments likely to worsen?

- A when the government adopts a deflationary macroeconomic policy.
- B when the government devalues the currency
- C when the prices of imported products that are demand-inelastic increase significantly
- D when tariffs are placed on imported products that are demand-elastic

June 2010/P12/Q26

44. What would identify a country with a balance of payments disequilibrium?

- A alternate annual deficits and surpluses in the current account
- B a continually growing balancing item
- C a large short-term outflow of foreign direct investment
- D a persistent rise in foreign currency reserves

June 2010/P12/Q27

In 2008 the Chinese government was under pressure from other countries to reduce its current account surplus on its balance of payments.

Which combination of Chinese measures would help to reduce China's current account surplus?

	Chinese rate of tariffs	Chinese subsidies to the country's exporters
A	increase	decrease
B	increase	increase
C	decrease	decrease
D	decrease	increase

Nov 2010/P12/Q30

A government wishes to present its final balance of payments account. It has calculated the current account balance, the capital account balance and the financial account balance. What additional information is required to complete the task?

- A change in foreign currency reserves
- B foreign aid
- C net errors and omissions
- D speculative currency flows

June 2011/P12/Q21

The table shows all of the items on the current account of a country's balance of payments.

	\$ million
exports of goods	143
imports of goods	156
exports of services	75
imports of services	72
net transfers	+ 5

What is the value of the current account balance?

- A \$13 m deficit
- B \$10 m deficit
- C \$5 m deficit
- D \$3 m surplus

Nov 2011/P12/Q22

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 \$m	Capital Account \$m	Financial Account \$m
A	-41	13	28
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C	-32	-5	-37
D	-15	-17	4

Nov 2011/P12/Q26

Unit 9

49. What must be the necessary result of a surplus in the current account of a country's balance of payments?

- A a depreciation of the currency
- B an improvement in the terms of trade
- C an increase in foreign exchange reserves
- D an increase in net holdings of foreign assets

Nov 2011/P12/Q27

50. When will a country's balance of payments current account deficit be reduced?

- A when it raises its rate of income tax
- B when it reduces tariffs on its imports
- C when it revalues its currency
- D when it removes export subsidies

Nov 2011/P12/Q30

51. An Indian multinational company receives profits from its factories based in the UK. It then buys a US-owned firm based in the UK.

How will these transactions appear in India's balance of payments?

	the remittance of profit	the purchase of the US-owned firm
A	a credit item in the current account	a debit item in the financial account
B	a credit item in the financial account	a debit item in the current account
C	a debit item in the current account	a credit item in the financial account
D	a debit item in the financial account	a credit item in the current account

Nov 2011/P11/Q22

52. In 2008-9 American households reduced their consumption of domestic and imported goods and used part of the money to pay back some of their debts.

Which outcome could be consistent with this change?

- A a decline in the US trade deficit
- B a decrease in savings
- C a decrease in the US terms of trade
- D a decrease in unemployment

Nov 2011/P11/Q26

Unit 9

Balance Of Payments

Q	Ans.	Q	Ans.	Q	Ans.
1	A	20	C	39	A
2	C	21	D	40	C
3	D	22	A	41	B
4	B	23	C	42	B
5	A	24	B	43	C
6	C	25	C	44	D
7	B	26	C	45	A
8	B	27	A	46	C
9	C	28	C	47	C
10	A	29	D	48	B
11	C	30	A	49	D
12	B	31	D	50	A
13	C	32	B	51	A
14	C	33	B	52	A
15	D	34	A		
16	B	35	C		
17	C	36	C		
18	D	37	C		
19	C	38	B		

- 1 India is failing to reach its full economic potential because of poor rail, road and electricity infrastructure, and a lack of skilled civil engineers.

Which factors of production need to be increased?

- A capital and land
- B enterprise and capital
- C labour and capital
- D land and enterprise

- 2 The fundamental economic question is how to meet unlimited wants with limited resources.

What is an example of limited resources?

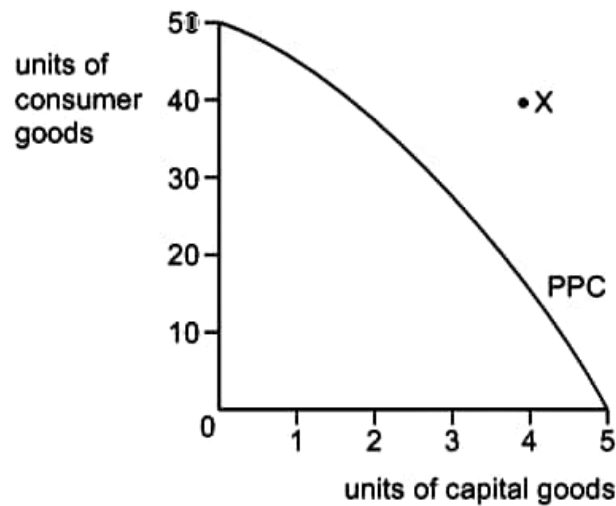
- A insufficient consumer goods in the local shops
- B insufficient jobs to allow full employment
- C insufficient machinery to produce electrical goods
- D insufficient tax revenue to finance building a school

- 3 Which statement is **not** a positive economic statement?

- A An increase in the rate of income tax decreases the wish to save.
- B An increase in the rate of income tax has a greater impact the greater the level of income.
- C An increase in the rate of income tax causes more hours of work to be supplied.
- D An increase in the rate of income tax is the fairest way to finance the national health service.

M/J19 11

- 4 The diagram shows a production possibility curve (PPC). It indicates the combinations of consumer goods and capital goods produced by an economy using all its available resources.



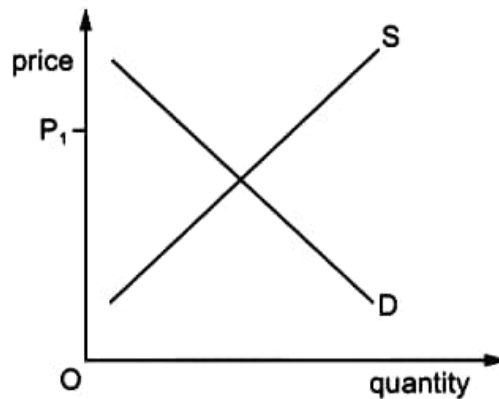
What does position X indicate?

- A a lower ratio of capital to consumer goods is necessary to achieve economic growth
 - B increasing levels of unemployment
 - C insufficient factors of production are available
 - D too many consumer goods are causing a fall in economic growth
- 5 The tariff on Indian goods entering the US falls from 10% to 5%.

What will be the most likely effect on the producer and consumer surplus in the US?

	US producer surplus	US consumer surplus
A	decrease	increase
B	decrease	no change
C	increase	increase
D	increase	no change

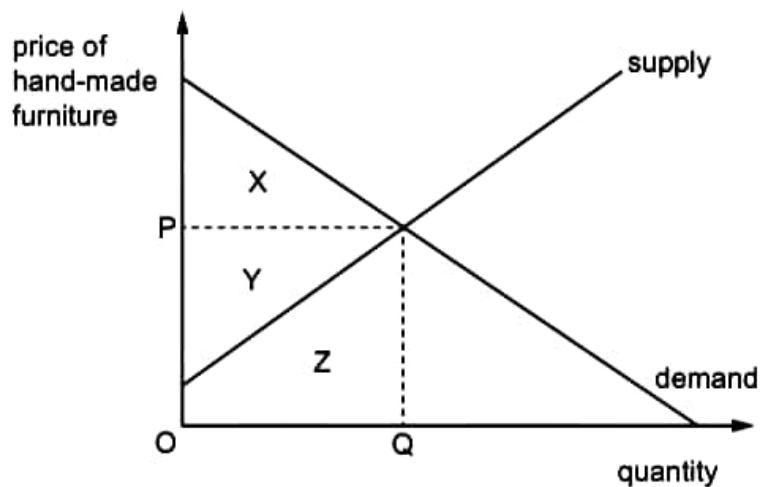
6 The diagram shows the demand for, and supply of, carrots.



What is true at price P_1 ?

- A There will be a shortage of carrots.
- B There will be a surplus of carrots.
- C There will be an increase in the sale of carrots.
- D There will be market clearing of carrots.

7 The diagram shows the market for hand-made furniture.



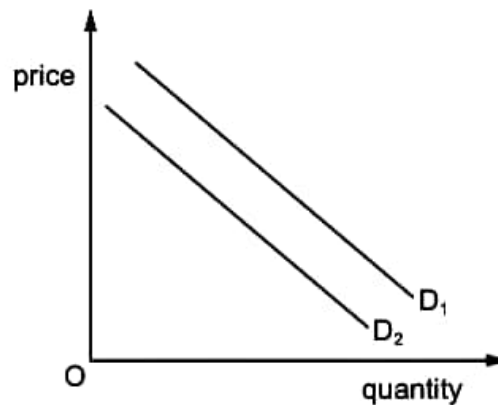
Which area of the diagram represents the producer surplus?

- A area X
- B area X + Y
- C area Y
- D area Y + Z

8 How is the market supply of a product in a competitive market obtained?

- A by aggregating the supply of all firms producing the product
- B by averaging the supply of all firms producing the product
- C by calculating the supply of the typical firm producing the product
- D by estimating the supply of the largest firm producing the product

9 The diagram shows the demand curve for luxury cars.



The shift in the demand curve D_1 to D_2 can be explained by

- A a decrease in air travel.
- B an increase in advertising by luxury car manufacturers.
- C an increase in income.
- D an increase in the price of petrol.

10 What is cross elasticity of demand?

- A the responsiveness of price of good X due to a change in demand of good Y
- B the responsiveness of quantity demanded of a good due to a change in its price
- C the responsiveness of quantity demanded of good X due to a change in quantity of good Y
- D the responsiveness of quantity demanded of good X due to a change in the price of good Y

11 Consumers receive an increase in their incomes.

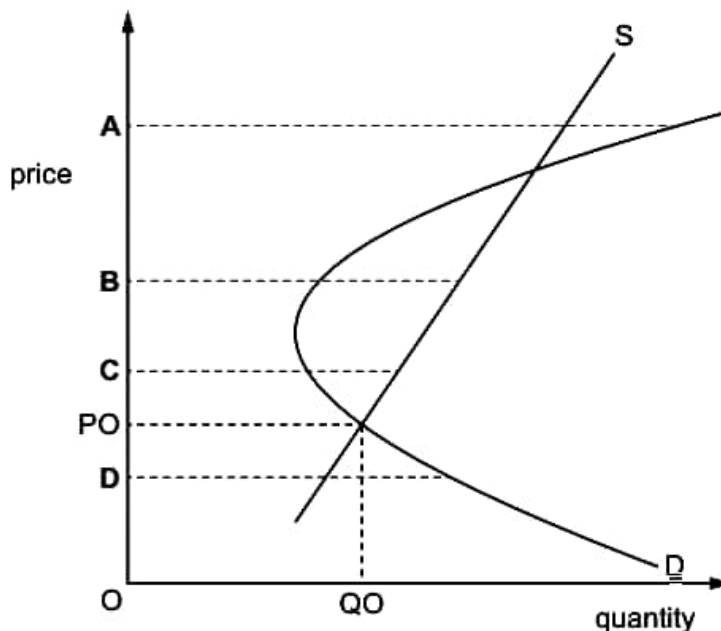
Which circumstances will cause the quantity of the product sold to increase the most?

	nature of the product	price elasticity of supply of the product
A	inferior good	price elastic
B	inferior good	price inelastic
C	normal good	price elastic
D	normal good	price inelastic

12 An unstable disequilibrium is when a market does not return to an original equilibrium point from a disequilibrium position. The diagram shows a market with two equilibrium points.

PO/QO is the original market equilibrium.

At which price is the market in an unstable disequilibrium?



- 13 The table shows the quantity of a product supplied at two different prices by four firms, A, B, C and D.

Which firm has a price elasticity of supply equal to 1 when the price falls from \$10 to \$8?

	price of product (\$)	
	10	8
A	500	300
B	500	350
C	500	400
D	500	450

- 14 To improve its financial position a government decided to reduce expenditure on investment in the public sector. Despite this, there was **not** a fall in economic growth.

What was the **most** likely effect of the government's action?

- A An original budget deficit was reduced.
 - B An original budget surplus was reduced.
 - C Consumer expenditure decreased.
 - D Public sector productivity decreased.
- 15 An economy has a 20% housing shortage. The government builds 10% more houses for poorer families and fixes the rent below the equilibrium for the market.

Which effect will this direct provision have on the market?

- A A greater imbalance in the market in private housing will develop.
 - B Housing waiting lists for poorer families will be cleared.
 - C The supply of government housing will fall short of demand.
 - D The supply of private housing for rent will fall by 10%.
- 16 Which statement about nationalised and privatised industries is correct?
- A A privatised industry is usually less competitive than a nationalised industry.
 - B A profitable private company cannot be nationalised.
 - C Privatisation is a form of monetary policy.
 - D Privatisation is a way of raising money for the government.

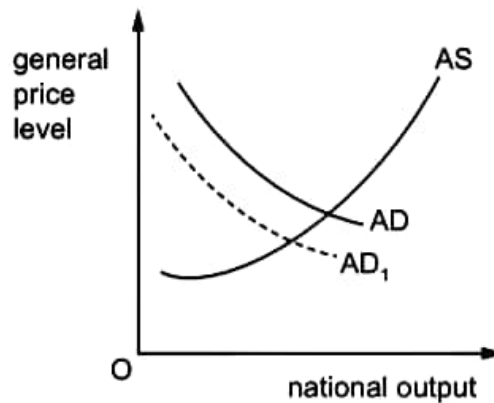
17 What is **not** true about subsidies?

- A They are paid to firms.
- B They have to be paid back.
- C They reduce the cost of production.
- D They shift the supply curve to the right.

18 What is **unlikely** to occur with an increase in the provision of public goods?

- A consumer non-excludability
- B improved use of resources
- C opportunity cost
- D reduction in tax

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



What would cause a change in the aggregate demand from AD to AD₁?

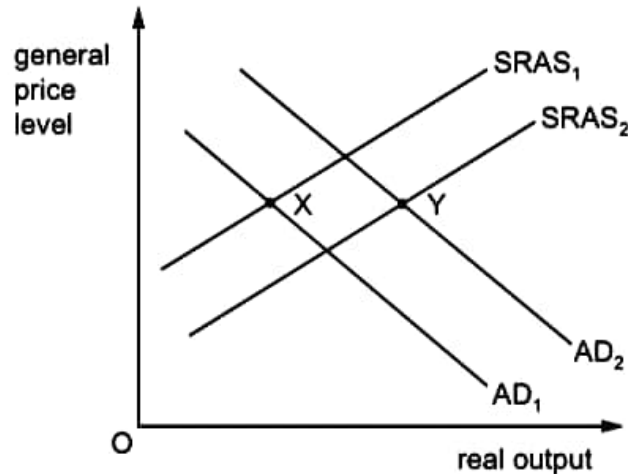
- A a decrease in the budget surplus
- B consumption of domestic instead of foreign goods
- C government campaigns to encourage household savings
- D investment in knowledge-based enterprises

20 What would cause a shift in the short-run aggregate supply curve but **not** the long-run aggregate supply curve?

- A advances in technology
- B a change in the money wage rate
- C emigration of people of working age
- D gross investment exceeding depreciation

- 21 Which effect of inflation is described as redistributive?
- A the improvement in the terms of trade
 - B the increased reluctance of people to hold money
 - C the inconvenience of frequently changing prices
 - D the loss of purchasing power of people on fixed incomes
- 22 In which situation will a country's terms of trade worsen?
- A The prices of its imports rise by more than the prices of its exports.
 - B The total value of external payments rises by more than the total value of external receipts.
 - C The value of its imports rises by more than the value of its exports.
 - D The volume of its imports rises by more than the volume of its exports.
- 23 Industrialised countries X and Y trade with each other. Country X imposes a general tariff of 20% on imports from country Y.
- In which circumstances would the imposition of the tariff be **unfavourable** to country X?
- A if country X is seeking to protect its infant industries
 - B if country X lacks the capacity to produce import substitutes
 - C if imports from country Y have been dumped in country X
 - D if imports of manufactured goods from country Y are price elastic

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



What would cause a movement from X to Y?

- A a decrease in income tax and in the cost of production
- B a decrease in interest rates and increase in the cost of production
- C an increase in income tax and in the cost of production
- D an increase in interest rates and decrease in the cost of production

25 The table shows changes in the population, price level and Gross Domestic Product (GDP) of a country.

	year 1	year 2
population (millions)	50	55
Consumer Price Index	100	120
nominal GDP (\$ billions)	400	480

What happened to real GDP and real GDP per head between year 1 and year 2?

	real GDP	real GDP per head
A	no change	fell
B	no change	rose
C	rose	fell
D	rose	rose

26 The table shows selected balances from a country's balance of payments account in 2016.

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	billions
trade in goods	-30
trade in services	+10
primary income balance	+10
secondary income balance	-8
capital & financial flow	+15

What was the country's current account balance in 2016?

- A** -\$3 billion **B** -\$10 billion **C** -\$18 billion **D** -\$20 billion
- 27 What does the Marshall-Lerner condition state must be present for a depreciation of a currency to cause an improvement in the current account balance?
- A** The price elasticity of demand for exports and the price elasticity of demand for imports are both greater than one.
- B** The price elasticity of demand for exports and the price elasticity of demand for imports are both less than one.
- C** The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is greater than one.
- D** The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is less than one.
- 28 What is most likely to be increased by a policy of increased direct taxes and lower government spending?
- A** the balance of payments deficit
- B** the budget deficit
- C** the rate of inflation
- D** the level of unemployment

12

29 To encourage people to work, a government increases the minimum income level at which people start to pay income tax.

Which types of macroeconomic policy are being followed here?

	fiscal policy	monetary policy	supply side policy
A	✓	x	✓
B	x	✓	✓
C	✓	✓	✓
D	✓	✓	x

30 A country with low unemployment and a managed floating exchange rate has a persistent current account deficit on its balance of payments.

Which policy to reduce this deficit is **most** likely to keep unemployment low, but cause inflation?

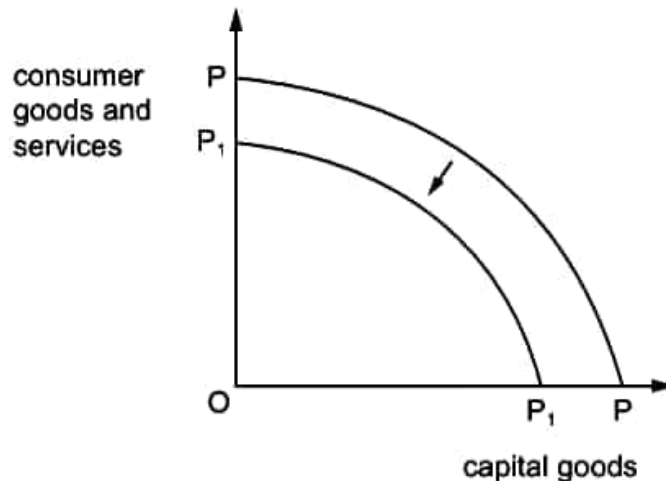
- A** depreciating its currency
- B** higher direct taxation
- C** higher import tariffs
- D** higher interest rates

Question	Answer	Marks
1	C	1
2	C	1
3	D	1
4	C	1
5	A	1
6	B	1
7	C	1
8	A	1
9	D	1
10	D	1
11	C	1
12	A	1
13	C	1
14	A	1
15	C	1
16	D	1
17	B	1
18	D	1
19	C	1
20	B	1
21	D	1
22	A	1
23	B	1
24	A	1
25	A	1
26	C	1
27	C	1
28	D	1

Question	Answer	Marks
29	A	1
30	A	1

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- 1 A production possibility curve for a country is shown.



What would cause the shift from PP to P₁P₁?

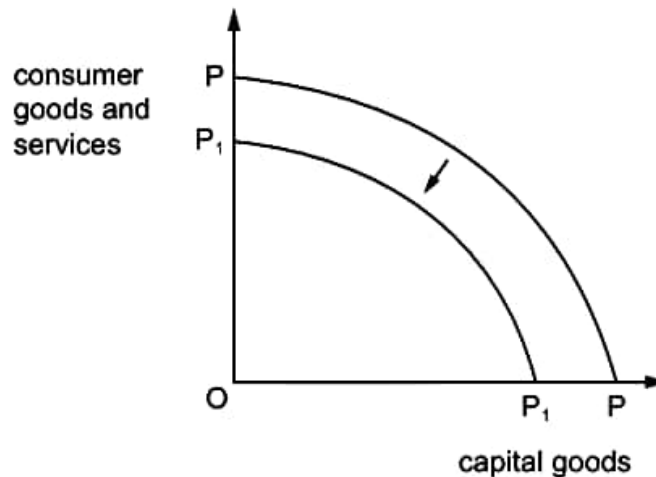
- A application of more machinery used in manufacturing
 - B productivity decreases
 - C scientific methods applied to farming
 - D switch from production of consumer goods to capital goods
- 2 A government wants to move its economy away from central planning towards a market economy.

Which policy would be consistent with this aim?

- A introduce tariffs on imported goods
 - B privatise the ownership of electricity generation
 - C provide free education for primary school pupils
 - D reduce prices of foods such as wheat and rice
- 3 What would be a determinant of a country's production possibility curve boundary?
- A the capital invested in infrastructure
 - B the level of price and wage inflation
 - C the level of unemployed labour
 - D the volume of imports and exports

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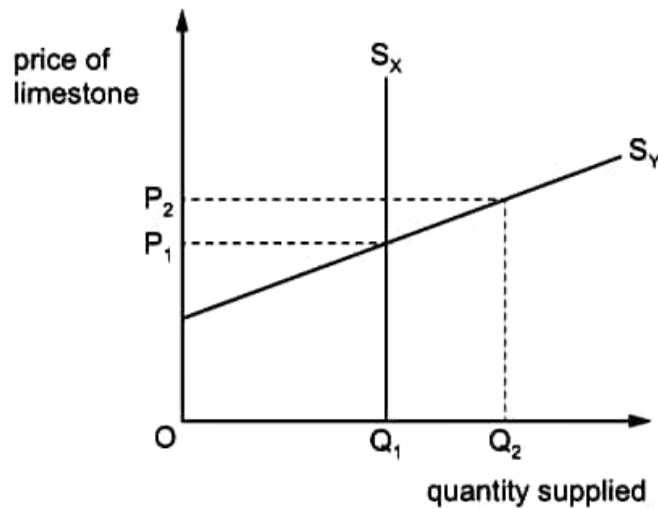
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- A the capital invested in infrastructure
 - B the level of price and wage inflation
 - C the level of unemployed labour
 - D the volume of imports and exports

- 4 What justifies government intervention in the provision of a merit good such as education?
- A People who pay for education value it more than those who cannot pay.
 - B Private schools have more merit than state schools.
 - C Social costs of providing education outweigh social benefits of education.
 - D Some consumers do not fully recognise the value of education.
- 5 The diagram shows the supply of limestone from quarry X and quarry Y at two prices.



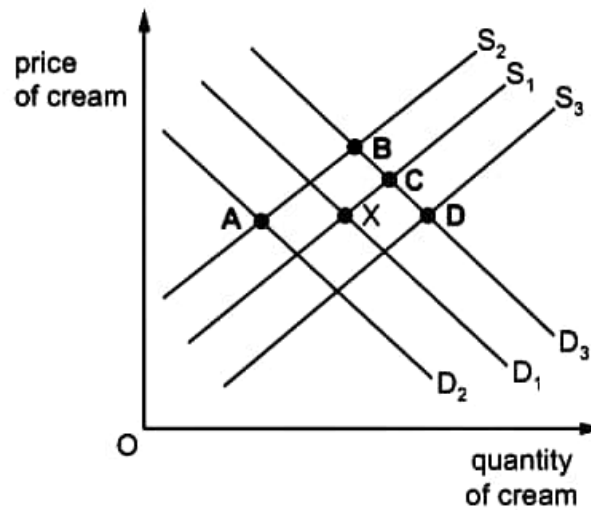
What is the measure of the responsiveness of supply as the price increases from P_1 to P_2 ?

	S_x	S_y
A	0	>1
B	<1	1
C	1	<1
D	>1	0

- 6 What is a perfectly contestable market?
- A a market in which the costs of entry and exit are zero
 - B a market in which there are high barriers to entry
 - C a market that has high sunk costs
 - D a market that uses price discrimination

- 7 The diagram shows the demand for and supply of cream. The original equilibrium is point X. Strawberries and cream are complementary goods.

If the price of strawberries falls and the cost of producing cream increases which point represents the new equilibrium?

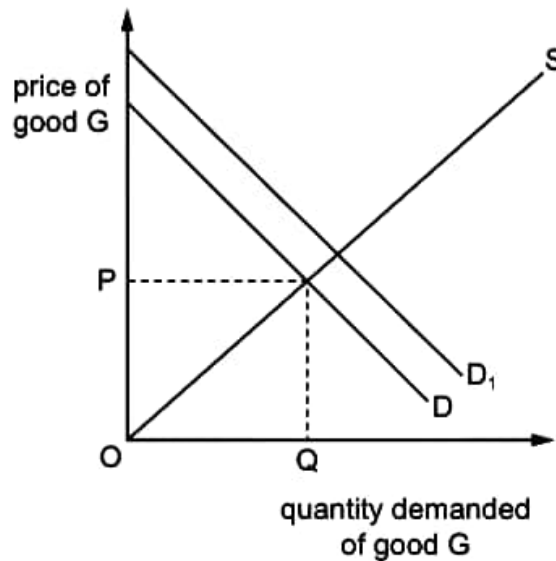


- 8 Hunters in Mozambique want to extract wild honey from beehives. They find the beehives by following birds known as honeyguide birds who want the beeswax that is also found in the beehives.

What does this suggest?

- A Hunters and honeyguide birds are rival consumers.
 - B Wild honey and beeswax are free goods.
 - C Wild honey and beeswax are in joint supply.
 - D Wild honey is the opportunity cost of beeswax.
- 9 What follows if the income elasticity of demand for a good has a value of -0.2 ?
- A When income rises less of the good is bought.
 - B When income rises more of the good is bought.
 - C When price falls more of the good is bought.
 - D When price rises less of the good is bought.

10 The diagram shows the relationship between price (P) and demand (D) for a normal good G.



What would cause a shift to D_1 ?

- A a decrease in the price of a substitute good
 - B a fall in the level of advertising for the good G
 - C a rise in the price of good G
 - D an increase in the incomes of consumers
- 11 What is **most** likely to cause an increase in the consumer surplus in the market for a normal good?
- A an increase in consumer incomes
 - B an increase in the number of substitute goods
 - C an increase in the price of a complementary good
 - D an increase in the price of the good
- 12 The cross elasticity of demand between two products, X and Y, is negative.
- What would be the immediate effect of a rise in the price of product Y?
- A Quantity demanded of product X will fall.
 - B Supply of product X will rise.
 - C The cross elasticity of demand will rise.
 - D The price of product X will rise.

13 Which combination of events is **most** likely to leave the demand curve for a normal good in the same position?

- A a decrease in consumer incomes and an increase in the price of a substitute good
- B a decrease in consumer incomes and an increase in the price of the good
- C an increase in consumer incomes and an increase in the price of a substitute good
- D an increase in consumer incomes and an increase in the price of the good

14 Which of the following is a transfer payment?

- A the advertising expenditure of a firm
- B the allowance given by a parent to their child while at school
- C the rent paid to a land owner by a tenant farmer
- D the wage paid to a worker in the government service

15 Too much sugar causes an increase in a consumer's weight. A government has introduced a 'sugar tax' on the consumption of soft drinks that have a high sugar content.

How might this policy help to reduce the number of overweight people?

- A Consumers switch to cheaper brands of soft drink with a high sugar content.
- B Consumers switch to other high-sugar substitute goods, such as alcohol or sweets.
- C The price elasticity of demand for soft drinks is inelastic.
- D The tax revenue is spent on education about the dangers of soft drink consumption.

16 A government intends to introduce a minimum price for rice, a maximum price for heating oil and a tax on chewing gum.

Who, in each market, is meant to benefit from these policies?

	market for rice	market for heating oil	market for chewing gum
A	consumers	government	producers
B	government	producers	government
C	producers	producers	consumers
D	producers	consumers	government

- 17 A Southern African government was concerned about the market influence of a large producer and was keen to take control of the company.

What might be the possible result of this?

- A an increase in the role of the market
- B an increase in public ownership
- C an increase in the role of the consumer
- D an increase in the amount of competition

- 18 What describes a regressive tax?

- A All taxpayers pay the same proportion of income in taxes.
- B High-income earners pay a lower proportion of income in taxes than low-income earners.
- C High-income earners pay less in taxes than low-income earners.
- D High-income earners pay more in taxes than low-income earners.

- 19 A country has a fixed exchange rate.

Which combination of problems would be most likely to cause the country's government to reduce taxation and lower interest rates?

- A demand inflation and a balance of payments current account deficit
- B demand inflation and a low level of investments
- C high unemployment and a balance of payments current account deficit
- D high unemployment and a low level of investment

- 20 How can a change in consumption that increases unemployment be illustrated on an aggregate demand and aggregate supply diagram?

	effect on the aggregate demand curve	effect on the aggregate supply curve
A	movement down the demand curve	shift outwards
B	movement up the demand curve	shift inwards
C	shift inwards	movement down the supply curve
D	shift inwards	movement up the supply curve

21 What is **not** an item in a country's current account of its balance of payments?

- A** exports of primary commodities
- B** money received from banking services
- C** overseas investment
- D** profits sent back by companies overseas

22 A country decides to remove all its tariffs and engage in free international trade.

What will be the final decision the country has to make before free trade takes place?

- A** deciding which resources to allocate to the production of goods and services for international trade
- B** deciding which goods and services should be provided for international trade
- C** identifying the opportunity costs of production of goods and services which might be used for international trade
- D** setting an appropriate exchange rate for the international trade of goods and services

23 What is assumed to be constant when drawing an aggregate demand curve?

- A** government tax revenue
- B** interest rates
- C** the level of unemployment
- D** the money supply

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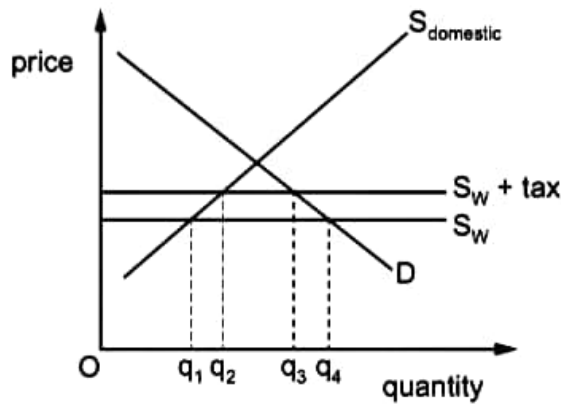
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- B** interest rates
- C** the level of unemployment
- D** the money supply

24 The diagram shows the imposition of an import tariff.

S_W is world supply.

$S_W + \text{tax}$ is world supply after the tariff is imposed.



Which statement is **not** correct?

- A Domestic demand will fall from q_4 to q_3 .
- B Imports will change from q_1q_4 to q_2q_3 .
- C Imports will fall from q_4 to q_3 .
- D Supply of domestic goods will increase from q_1 to q_2 .

25 An economy is experiencing a period of deflation.

What must be happening?

- A The average price level is falling.
- B The output of the economy is falling.
- C The rate of inflation is falling.
- D The real value of money is falling.

26 A British citizen buys a house in the US which he rents to American citizens in order to receive an income for himself.

Where will the initial purchase and then the rent be recorded on the UK balance of payments?

	initial purchase	rent
A	capital account export	current account import
B	capital account import	current account export
C	current account export	capital account import
D	current account import	capital account export

27 Under a system of floating exchange rates, what determines the foreign exchange value of a currency?

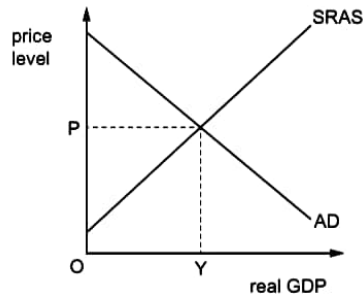
- www.youtube.com/megalecture
www.megalecture.com
- A the overall supply of and demand for a currency on currency markets
 - B the purchasing power of the currency relative to the purchasing power of foreign currencies
 - C the surplus or deficit on the balance of payments on current account
 - D the differential between domestic and foreign interest rates

28 A country with a balance of trade deficit raises interest rates.

How may this help to reduce the deficit in the short run?

- A by increasing the inflow of foreign direct investment
- B by lowering the foreign exchange rate
- C by raising the level of domestic capital investment
- D by reducing the level of domestic aggregate demand

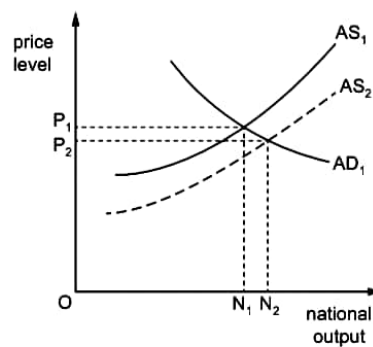
29 An economy is currently in the position PY shown on the diagram.



Which short-run effects is government spending on education likely to have on unemployment and inflation?

	unemployment	inflation
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

30 The diagram shows the AD/AS curves for an economy.



Which policy would reduce the price level from P_1 to P_2 as shown?

- A depreciating the currency to make imports more expensive
- B imposing tariffs on imports to encourage expenditure switching
- C increasing labour productivity through training
- D raising sales taxes on goods to discourage consumption

Question	Answer	Marks
1	B	1
2	B	1
3	A	1
4	D	1
5	A	1
6	Question discounted	0
7	B	1
8	C	1
9	A	1
10	D	1
11	A	1
12	A	1
13	A	1
14	B	1
15	D	1
16	D	1
17	B	1
18	B	1
19	D	1
20	C	1
21	C	1
22	D	1
23	D	1
24	C	1
25	A	1
26	B	1
27	A	1
28	D	1

Question	Answer	Marks
29	B	1
30	C	1

1 What is the opportunity cost to a person of spending \$20 on a new pair of sports shoes?

- A all the other things the person could have bought
- B the cost of getting to the sports shop
- C the current value of his old pair of shoes
- D the next best thing that could have been bought with the \$20

2 Which statement is correct?

- A In the short run all factors of production are fixed; in the long run all factors are varied.
- B In the short run at least one factor is fixed; in the long run all factors can be varied.
- C In the short run at least one factor is varied; in the long run all factors are fixed.
- D In the short run at least one factor is varied; in the long run at least one factor is fixed.

3 What is correct at any point along an economy's production possibility curve?

	existing resources are fully employed	existing technology is fully used
A	correct	correct
B	correct	false
C	false	correct
D	false	false

4 'The local government of Tokyo should use a policy of taxation to reduce traffic congestion in the city centre.'

What can be concluded about this statement and the type of economic policy?

	statement	type of policy
A	normative	macro
B	normative	micro
C	positive	macro
D	positive	micro

M/J19 13

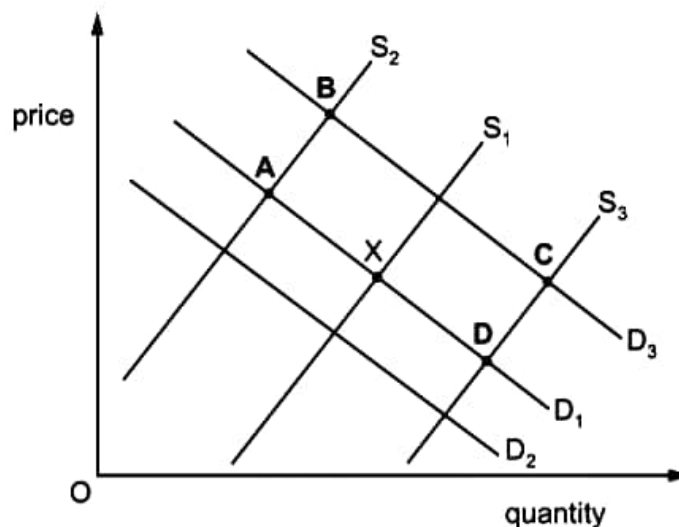
5 Which statement about market disequilibrium is correct?

- A Price is likely to change.
- B Supply is equal to demand.
- C The government must intervene.
- D There must be shortages.

6 In the diagram, D_1 and S_1 represent the demand for and supply of luxury watches. Equilibrium is initially at point X.

The cost of raw materials for manufacturing watches rises. At the same time the incomes of the rich increase.

Which point on the diagram is **most** likely to represent the new equilibrium?



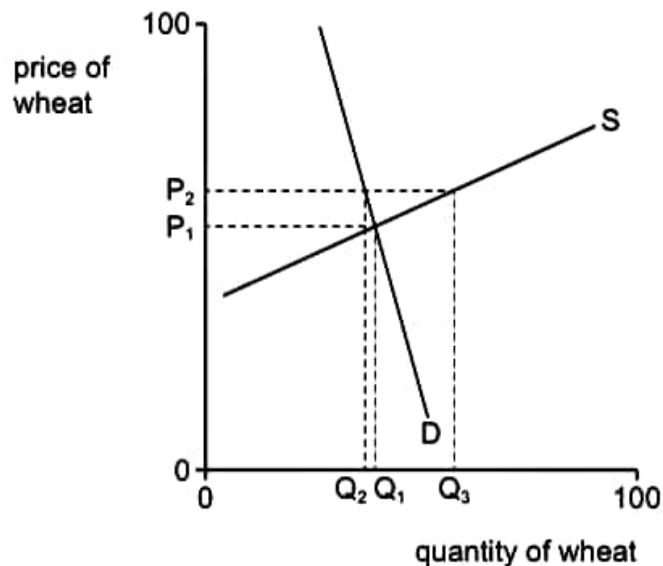
7 The equation for the quantity demanded (QD) of a product is $QD = 400 - 20P$ where P = price in dollars. The quantity supplied (QS) is given by $QS = 100 + 40P$.

What can be concluded about the market when price is \$5?

- A Consumers will face a shortage.
- B Government will intervene in the market.
- C Producers will have a surplus of the product.
- D The market will be in equilibrium.

- 8 When is the supply curve for a car manufacturing firm most likely to be price elastic?
- A when the firm finds it difficult to recruit new labour
 - B when the firm has a large quantity of stock
 - C when the firm is operating in the short run
 - D when the firm is operating near to full capacity

9 The diagram shows a market for wheat.



What is the response of demand for and supply of wheat when the price of wheat falls from P_2 to P_1 ?

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

10 The table shows the demand schedule for avocados in a market on a particular day.

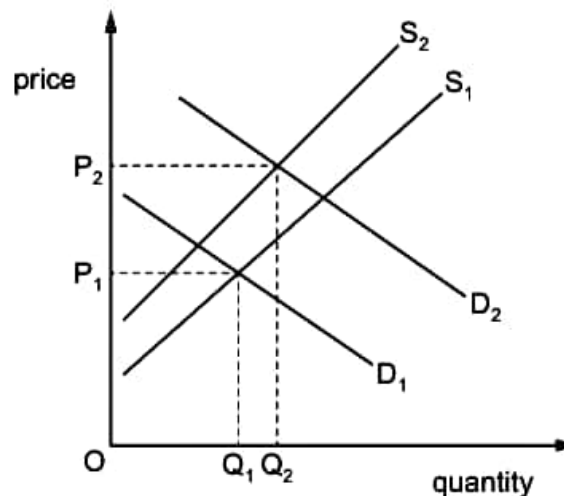
The supply of avocados was fixed on that day.

\$ per avocado	quantity demanded
2.60	500
2.40	640
2.20	740
2.00	820
1.80	900

Which statement is correct?

- A If the supply was 490, at a price of \$2.60 there was an excess demand of 10 avocados.
- B If the supply was 650, at a price of \$2.40 there was an excess demand of 10 avocados.
- C If the supply was 810, at a price of \$2.00 there was an excess supply of 10 avocados.
- D If the supply was 890, at a price of \$1.80 there was an excess supply of 10 avocados.

11 The diagram shows the demand and supply curves of a normal good (X). Q_1P_1 is the initial equilibrium.

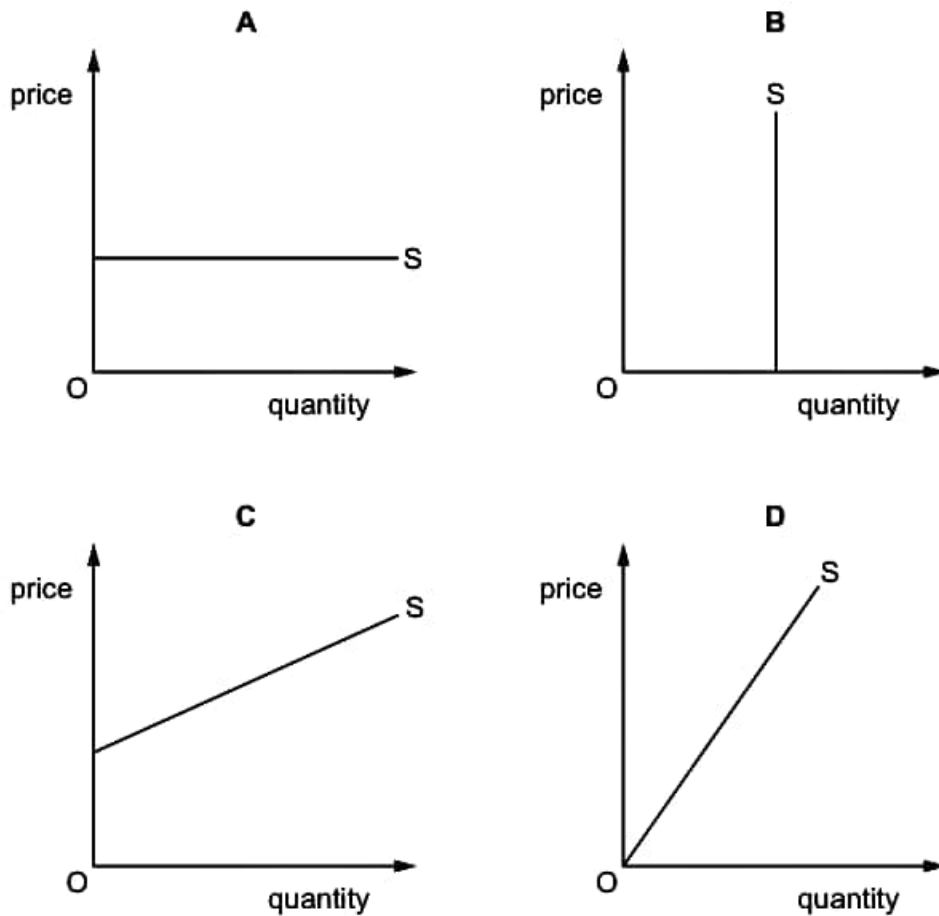


Other things being equal, what may cause the change in the market equilibrium to Q_2P_2 ?

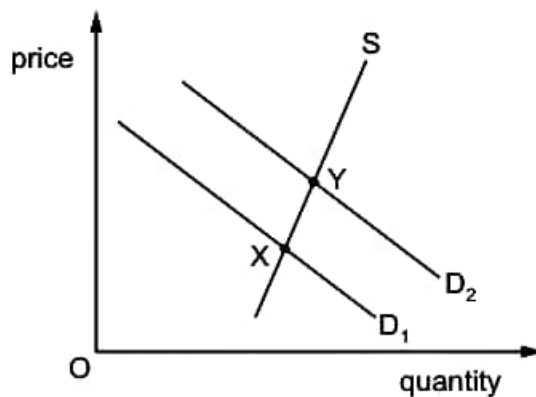
- A a fall in household incomes and an increase in interest rates
- B a rise in workers' real wages in all sectors of the economy
- C an increase in income tax and a rise in the specific tax levied on X
- D an increase in the price of a substitute product for X and a fall in the costs of producing X

12 The diagrams show the supply curves in four different markets.

In which market is the price elasticity of supply always equal to one?



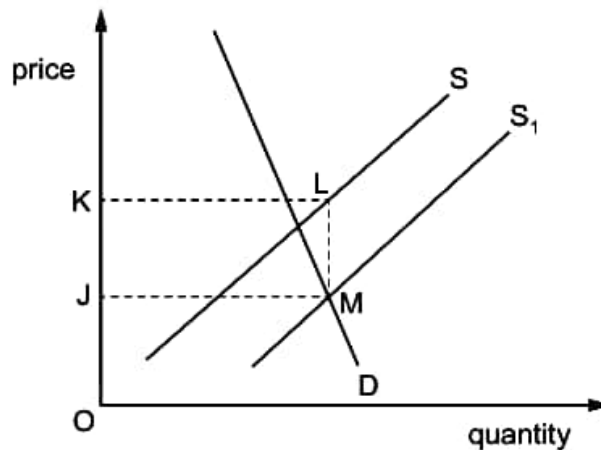
13 The diagram represents the market for electric cookers.



What is **most** likely to explain the change in the equilibrium from point X to point Y?

- A a fall in the price of electric cookers
- B an increase in a specific tax on electric cookers
- C an increase in the number of households
- D an increase in the price of electricity

- 14 The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1 .



What does the area JKLM represent?

- A the cost to the government of a subsidy to rice growers
 - B the extra saving to importers of the removal of a tariff on rice
 - C the increase in consumer surplus from the introduction of a maximum price for rice
 - D the loss in government revenue from the reduction in a lump sum tax on rice
- 15 Which statement is **not** an argument in support of the process of privatisation?
- A Private companies are motivated to make the best use of their resources.
 - B Privatisation allows more firms to enter an industry, increasing competition in the market.
 - C Privatisation can create companies that exploit the consumer.
 - D Selling state-owned assets to the private sector raises significant revenue for the government.
- 16 Governments are trying to reduce the burden of transfer payments in economies with an ageing population.

Which policy would help to achieve this aim?

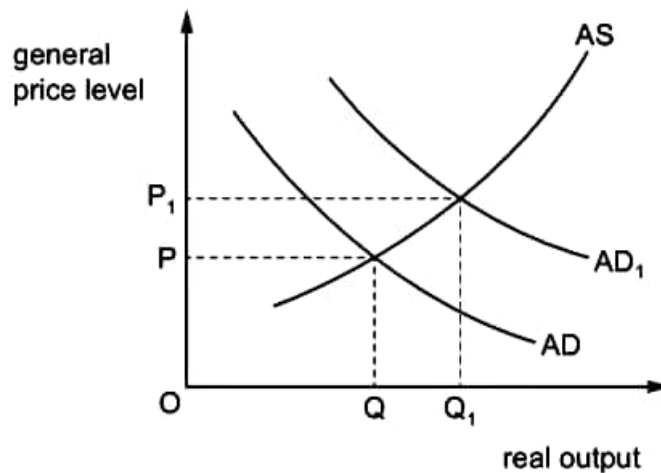
- A introducing financial support for university students
- B linking pension increases to the consumer price index during inflation
- C raising the retirement age
- D reducing state pensions to finance an equal rise in unemployment benefit

17 Doctors are concerned about the negative health effects of sugary drinks.

When would a tax on sugary drinks be **least** effective in improving health?

- A when the demand for sugary drinks is income elastic
- B when the demand for sugary drinks is income inelastic
- C when the demand for sugary drinks is price elastic
- D when the demand for sugary drinks is price inelastic

18 The diagram illustrates what happens to aggregate demand (AD) and aggregate supply (AS) in an economy during a year.



What explains the rise in the general price level?

- A boom in consumer spending
- B higher taxes on company profits
- C reduction in government-financed projects
- D rising costs of raw materials

19 How is a rate of inflation that is lower than that expected likely to affect lenders and borrowers in an economy?

	effect on lenders	effect on borrowers
A	beneficial	beneficial
B	beneficial	harmful
C	harmful	beneficial
D	harmful	harmful

- 20 A country devalues its currency in the expectation that a deficit on the current account of the balance of payments will be reduced.

What is necessary to make this happen?

- A any tariff on imports must be matched by a subsidy on goods to be exported
 - B the elasticity of demand for imports and the elasticity of demand for exports must both be greater than 1
 - C the rate of domestic inflation is equal to the rate of inflation in the foreign market
 - D the sum of the elasticities of demand for domestic imports and the foreign demand for exports is greater than 1
- 21 The current account of the balance of payments for Nigeria changed from US\$899m in 2014 to US\$ -15 763m in 2015.

Assuming that nothing else changes, what is likely to be the impact in 2015 on GDP and the exchange rate in Nigeria?

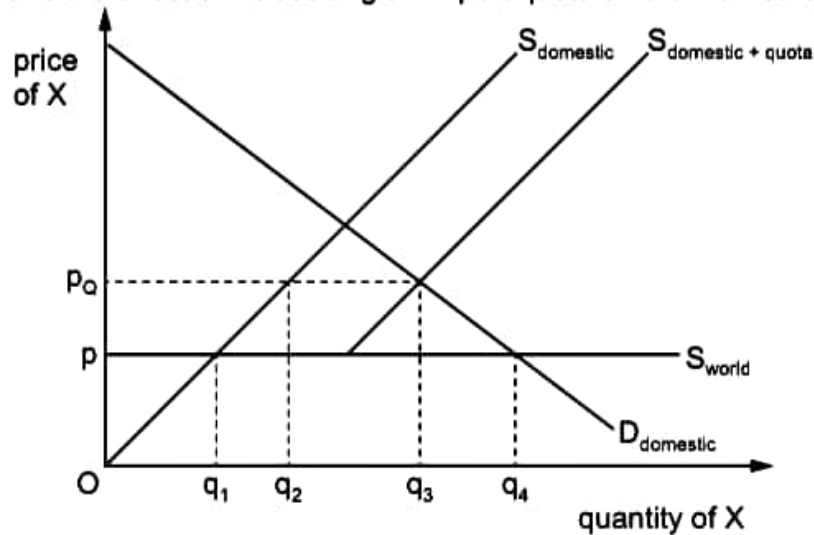
	GDP	exchange rate
A	falls	appreciates
B	falls	depreciates
C	rises	appreciates
D	rises	depreciates

- 22 Australia's aggregate demand decreased over the last year.

What might have been the cause of this?

- A a reduction in consumer saving
- B a reduction in direct taxes
- C a reduction in imports
- D a reduction in investment

23 The diagram shows the effect of introducing an import quota on the market for good X.



What is the change in domestic supply and the size of the import quota?

	change in domestic supply	size of import quota
A	q_1q_2	q_2q_3
B	q_1q_3	q_1q_4
C	q_1q_4	q_1q_2
D	q_2q_3	q_3q_4

24 Country X joins a customs union with country Y and will remove the tariff on its imports of good M from country Y.

Under which conditions will trade creation in country X be the smallest?

	existing size of country X's tariff on imports of good M	price elasticity of demand for good M in country X
A	large	-0.8
B	large	-1.4
C	small	-0.8
D	small	-1.4

- 25 An Australian family purchases a holiday to New Zealand and an Australian mining company sells coal to China.

Four students, A, B, C and D, are asked where these transactions appear in the current account of Australia's balance of payments.

Which student is correct?

	holiday to New Zealand	coal to China
A	service export	good export
B	service export	good import
C	service import	good export
D	service import	good import

- 26 What is likely to be the **least** effective store of value during a period of rapid inflation?

- A antique furniture
- B fixed interest government securities
- C houses
- D shares of industrial companies

- 27 An increase in what will shift the aggregate demand curve in an economy to the right?

- A budget deficit
- B consumer savings
- C general price level
- D interest rate

- 28 A country's balance of payments current account is in deficit.

How can this be restored to equilibrium, assuming the Marshall-Lerner condition holds?

- A increase the exchange rate
- B reduce income tax
- C reduce primary income
- D subsidise domestic producers

- 29 Monetary policy does not usually work immediately.

Which time lag is likely to be the **least** concern to a government whose priority is a rapid domestic impact?

- A the time it takes for policymakers to recognise the cause of a problem
- B the time it takes for the economy to respond to the introduction of the policy
- C the time it takes for the foreign exchange rate to respond to the effect of the policy
- D the time it takes to put the chosen policy measure into place

- 30 What is the best example of an expansionary supply-side policy?

- A the Argentinian central bank's decision to cut the interest rate in 2018
- B the US president's plan to cut income tax rates in 2017
- C the UK government's plan to build 500 new schools by 2020
- D the Chinese government's decision to double its currency by about 7% in 2016

Question	Answer	Marks
1	D	1
2	B	1
3	A	1
4	B	1
5	A	1
6	B	1
7	D	1
8	B	1
9	C	1
10	A	1
11	B	1
12	D	1
13	C	1
14	A	1
15	C	1
16	C	1
17	D	1
18	A	1
19	B	1
20	D	1
21	B	1
22	D	1
23	A	1
24	C	1
25	C	1
26	B	1
27	A	1
28	D	1

Question	Answer	Marks
29	C	1
30	C	1

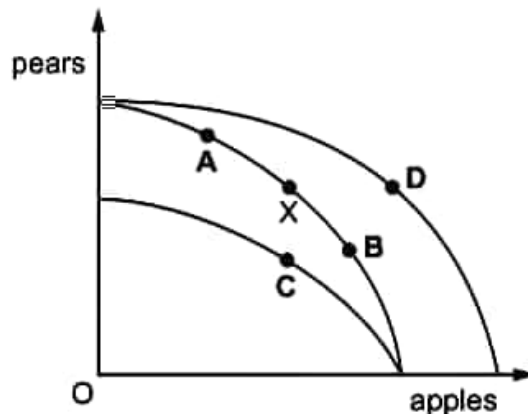
- 1 Which outcome depends upon the division of labour?
- A a decrease in boredom at work
 - B a decrease in comparative advantage
 - C a decrease in efficiency
 - D a decrease in opportunity cost
- 2 'An increase in consumption by one person leaves the benefits available to others undiminished'.

Which good does this statement define?

- A a demerit good
- B a merit good
- C a private good
- D a public good

- 3 The diagram shows a production possibility curve for a farmer. The original position is X.

If the farmer switches some of his land from producing pears to producing apples, which point represents his new position?



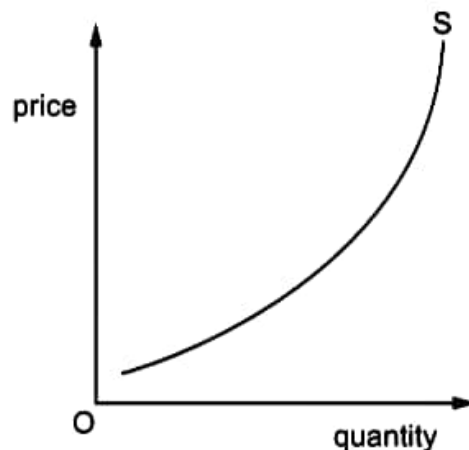
- 4 A student buys a flute for \$80 but then is unable to learn to play it. It has a resale value of \$50, while the shop retail price of the same type of flute has risen to \$95.

What is the present opportunity cost to the student of keeping the flute?

- A \$30
- B \$50
- C \$80
- D \$95

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- 5 The diagram shows a supply curve for beef.



What explains why the supply curve for beef slopes upwards?

- A An increase in the demand for beef will bring about an increase in supply.
 - B Farmers' productivity rises as the price rises.
 - C Increased production leads to a reduction in costs.
 - D The cost of additional beef production rises as output increases.
- 6 A theatre increases the price of its tickets from \$10 to \$15. As a result, its total receipts decrease from \$10 000 to \$6000.

Within what range does the price elasticity of demand for theatre tickets lie?

- A 0.2 to 0.5
 - B 0.6 to 1.0
 - C 1.1 to 1.4
 - D 1.5 to 2.0
- 7 A taxi firm raises fares at its busiest times by as much as five times the normal fare. Taxi drivers and customers are notified of the changes by mobile (cell) phone.

What will result from this policy?

- A It will be less likely that there is a market equilibrium.
- B Potential customers will have less perfect information.
- C The market surplus will become a shortage.
- D The supply of taxi rides will become more price elastic.

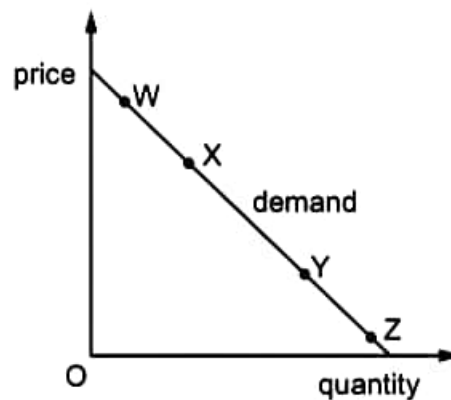
- 8 The table shows Shanaz's and Sunil's price elasticity of demand for restaurant meals and theatre tickets.

	Shanaz	Sunil
restaurant meals	-0.8	-1.2
theatre tickets	-1.3	-0.7

There is a rise in the price of restaurant meals and a fall in the price of theatre tickets.

What can be concluded after these price changes?

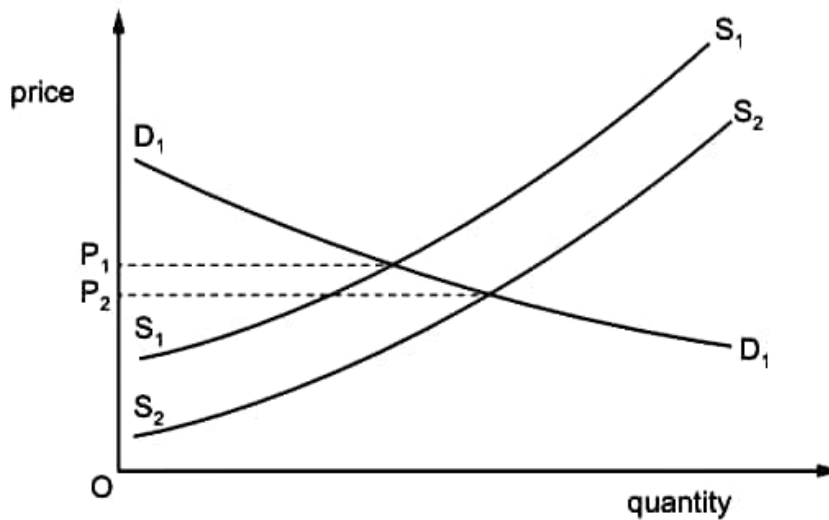
- A Restaurant owners will receive more income.
 - B Shanaz will spend more money on both theatre tickets and restaurant meals.
 - C Sunil will spend more money on both theatre tickets and restaurant meals.
 - D Theatre owners will receive less income.
- 9 The diagram shows the demand curve for a normal product.



Which two points indicates a move from a price inelastic point to a less inelastic point?

- A W to X
- B X to W
- C Y to Z
- D Z to Y

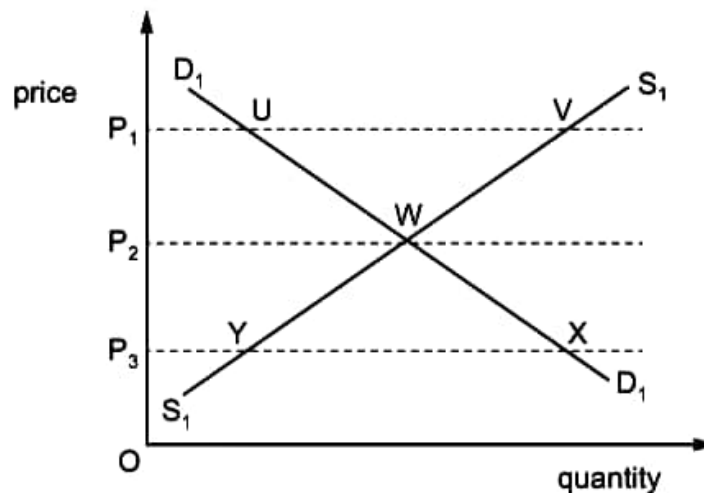
10 In the diagram, the supply of a product increases while the demand curve does not shift.



Which row correctly identifies the resulting impact on consumer and producer surplus?

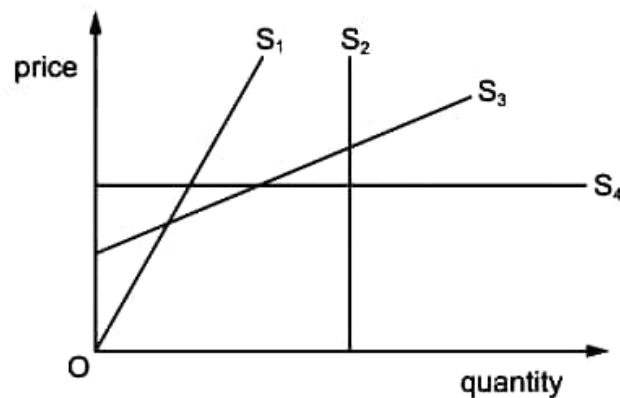
	consumer surplus	producer surplus
A	has fallen	has fallen
B	has fallen	has risen
C	has risen	has fallen
D	has risen	has risen

11 The diagram shows the market demand and supply for a good. Which statement is **not** valid?



- A** At price OP_1 , UV represents the market surplus.
- B** At price OP_3 , P_3X represents the quantity that consumers would like to buy.
- C** If price were to fall from OP_1 to OP_3 , the extra quantity demanded would be equal to the extra quantity supplied.
- D** Price OP_2 is the market equilibrium price.

- 12 For which supply curve is the value of price elasticity of supply **not** the same at all points on the curve?



- A S₁ B S₂ C S₃ D S₄

- 13 Producer surplus is the difference between

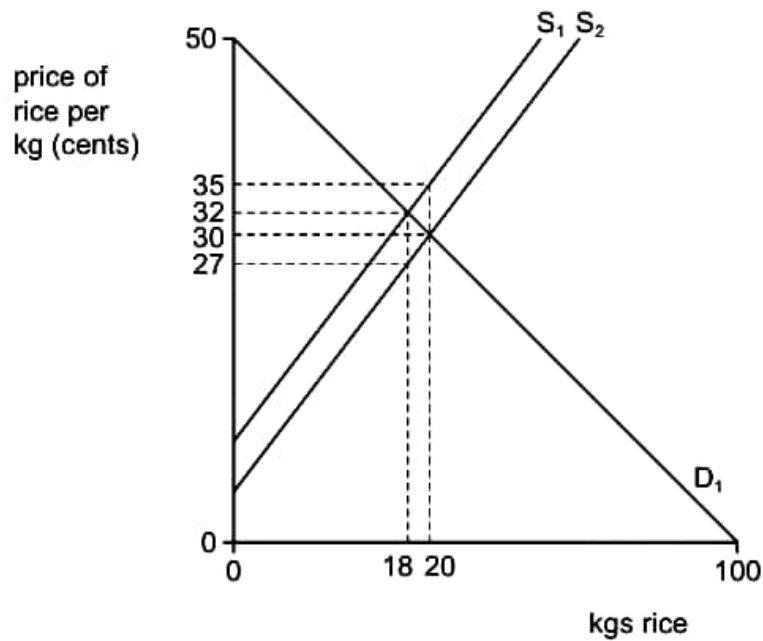
- A the consumer surplus from the good and the producers' total cost of supplying the good.
- B the highest price that the consumer would be willing to pay for the good and the price the producer actually sold it for.
- C the lowest price that the producer would accept for the good and the price the producer actually sold it for.
- D the quantity that the producers manufacture in a week and the amount sold to consumers in that week.

- 14 A government wishes to raise the incomes of farmers without raising the price of food to consumers.

Which policy should it use?

- A a maximum price below the market price for food
- B a minimum price below the market price for food
- C a payment of a subsidy to farmers to produce food
- D a release of government food stocks onto the market

- 15 The diagram shows the demand and supply of rice. Supply increases from S_1 to S_2 .



What is the change in sales revenue received by the rice farmer?

- A 24 cents
 - B 60 cents
 - C 600 cents
 - D 700 cents
- 16 Money is paid by the government to an unemployed worker in the form of a benefit. Why is this called a transfer payment?
- A The payment is from taxes paid by employed workers.
 - B The payment is made from government savings not current income.
 - C The payment is made without the production of goods and services taking place.
 - D The payment must be spent as directed by the government.
- 17 What describes a regressive tax?
- A low income earners pay a higher proportion of their income in tax than high income earners
 - B marginal tax rates exceed average tax rates
 - C the cost of collecting the tax exceeds the revenue raised
 - D the marginal rate of tax is higher for high income earners than for low income earners

18 A government is concerned that foreign-owned companies are responsible for a high proportion of the economy's output. Therefore it nationalises timber extraction, which is controlled by a foreign-owned company.

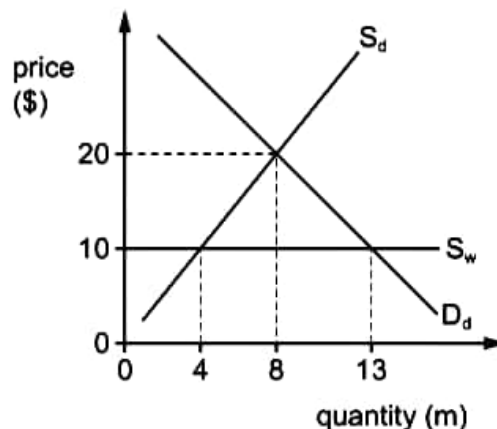
What benefit will the economy gain from the change in ownership?

- A forestry workers will become the new owners
- B profits will no longer be sent abroad to foreign shareholders
- C social costs arising from forestry will be eliminated
- D the market for timber will become more competitive

19 What will definitely lead to an improvement in the terms of trade?

- A Export prices fall whilst import prices rise.
- B Export prices rise by the same amount as import prices.
- C Export prices rise slower than import prices.
- D Export prices rise whilst import prices stay the same.

20 In the diagram S_d is the domestic supply of a product, S_w is the world supply and D_d is the domestic demand for the product.

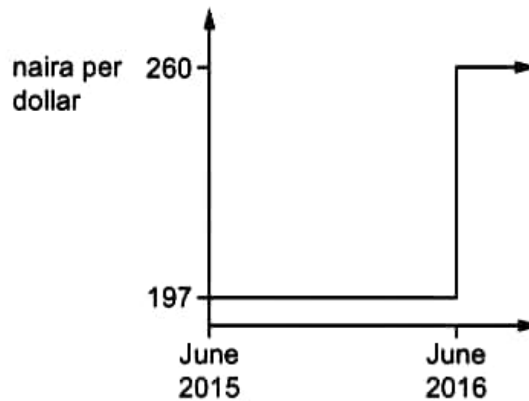


After operating a free trade system the country bans all imports.

What will be the effect on the revenue of domestic producers and world producers of the ban?

	domestic producers \$m	world producers \$m
A	gain 120	lose 50
B	gain 120	lose 90
C	gain 160	lose 50
D	gain 160	lose 90

- 21 The diagram shows the value of the Nigerian naira against the US dollar between June 2015 and June 2016.



Which term is used for the change in the value of the naira in June 2016?

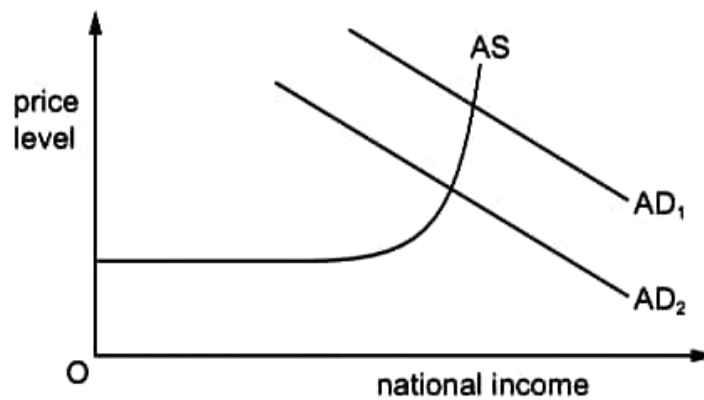
- A appreciation
 - B depreciation
 - C devaluation
 - D revaluation
- 22 Countries M and N produce the world supply of machines and textiles. The table shows what each country produces when it divides its resources equally between the two products.

	machines	textiles
country M	1000	500
country N	900	300
total	1900	800

What should happen according to the principle of comparative advantage?

- A Country M should produce both machines and textiles.
- B Country M should specialise in the production of machines, country N should specialise in production of textiles.
- C Country M should specialise in the production of textiles, country N should specialise in production of machines.
- D Country N should produce both machines and textiles.

23 The diagram shows an aggregate supply curve and aggregate demand curves.



What would cause a decrease in aggregate demand from AD₁ to AD₂?

- A an increase in income tax
- B an increase in the price of electricity
- C an increase in the tax on goods
- D an increase in wage rates

24 Two countries trade with one another without any forms of protection. They also impose a common external tariff on the imports from all other countries.

What have these two countries formed?

- A a customs union
- B a free trade area
- C a monetary union
- D an economic union

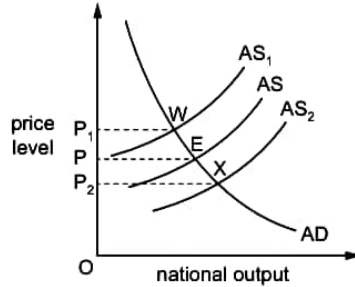
25 The terms of trade of a developing country fell from 90 in 2010 to 80 in 2015.

Assuming the index of its import prices remained constant at 110 between these two years, what happened to its index of export prices?

- A fell by 10
- B fell by 11
- C increased by 10
- D increased by 30

- 26 Which type of import control allows a country to develop a potential comparative advantage in a particular good?
www.youtube.com/megalecture
www.megalecture.com
- A a quota that protects jobs in a depressed region
 - B a short-term tariff that protects an infant industry
 - C a tariff that improves an industry's terms of trade
 - D an embargo on goods with negative externalities

- 27 The diagram shows aggregate demand (AD) and aggregate supply (AS) in an economy. The initial equilibrium is at point E.



What causes shifts in the aggregate supply curve from AS to AS₁ and from AS to AS₂?

	shift from AS to AS ₁	shift from AS to AS ₂
A	change in AD from E to W	change in AD from E to X
B	increase in price level from P to P ₁	decrease in price level from P to P ₂
C	increase in productivity of capital	fall in the returns to capital
D	shortages of skilled labour	improvements in training of workforce

- 28 Which action might be part of an expansionary economic policy?
- A reducing the budget deficit
 - B reducing the level of government spending
 - C reducing the money supply
 - D reducing the rate of interest

- 29 A government is faced with rising inflation. It wishes to reduce inflationary pressure while avoiding a fall in output.
 Which action is **most** likely to meet its needs?
- A an increase in laws to promote competition
 - B an increase in taxation
 - C an increase in the budget surplus
 - D an increase in the exchange rate
- 30 Why may a government seek to reduce a current account surplus on the balance of payments?
- A to lower inflation
 - B to lower unemployment
 - C to raise the economic growth rate

Question	Answer	Marks
1	D	1
2	D	1
3	B	1
4	B	1
5	D	1
6	C	1
7	D	1
8	B	1
9	D	1
10	D	1
11	C	1
12	C	1
13	C	1
14	C	1
15	A	1
16	C	1
17	A	1
18	B	1
19	D	1
20	B	1
21	C	1
22	C	1
23	A	1
24	A	1
25	B	1
26	B	1
27	D	1
28	D	1

Question	Answer	Marks
29	A	1
30	A	1