

ECONOMICS (PRINCIPAL)

9772/01

Paper 1 Multiple Choice, Short Answers and Data Response

May/June 2018

2 hours 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

DO NOT WRITE IN ANY BARCODES.

For Section A: Multiple Choice mark your choice of answer clearly on your Multiple Choice Answer Sheet (inserted).

Write your Centre number, candidate number and name on the Multiple Choice Answer Sheet.

You may use an HB pencil for any diagrams or graphs.

Do not use staples, paper clips, glue or correction fluid.

Answer **all** questions.

You are advised to spend **60 minutes** on **Section A**, **35 minutes** on **Section B**, and **55 minutes** on **Section C**.

At the end of the examination, fasten all your work securely together ensuring that you also attach your answers for Section A which are on the Multiple Choice Answer Sheet.

The number of marks is given in brackets [] at the end of each question or part question.

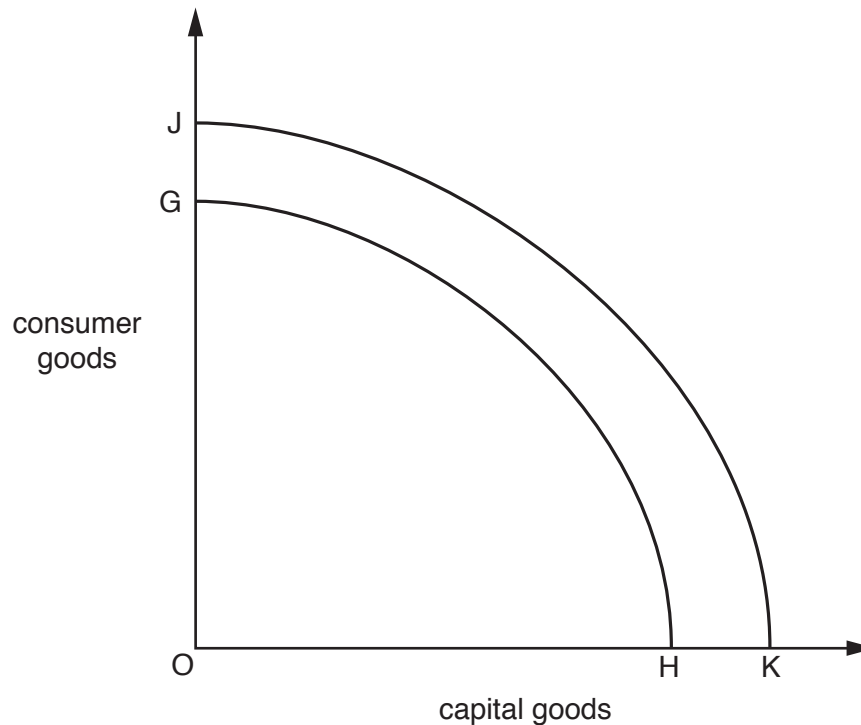
This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

This document consists of **17** printed pages, **3** blank pages and **1** Insert.

Section A: Multiple Choice

There are **30** questions in this Section. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**. Choose the **one** you consider correct and record your choice of answer clearly on the **Multiple Choice Answer Sheet** (inserted). Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

- 1 In the diagram, GH is an economy's initial production possibility curve.



What could cause the curve to shift to JK?

- A an increase in the employment rate
 - B an increase in the money supply
 - C an increase in net exports
 - D net inward migration
- 2 A student decides to stay in her room to do some work instead of driving down to the pub.
- What was the opportunity cost of her decision?
- A the amount she saved in petrol costs
 - B the consumer surplus she would have derived by visiting the pub
 - C the improvement in the grade she obtained for her next assignment
 - D the money she would have spent in the pub

- 3 Soil liming material is a by-product of sugar production. Therefore sugar and soil liming material are considered to be in joint supply.

What would be the most likely effect of a decrease in the demand for sugar on the equilibrium price and quantity of soil liming material?

	price of soil liming material	quantity of soil liming material
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 4 A firm estimates that, all else remaining unchanged, an increase in its output would leave its sales revenue unchanged.

What can be deduced from this about the price elasticity of demand for the firm's product?

- A** It is -1 .
- B** It is $+1$.
- C** It is perfectly elastic.
- D** It is perfectly inelastic.
- 5 Given substantial fluctuations in demand, what makes it more likely that a firm's total profits would be volatile?
- A** It produces a diversified range of products.
- B** It sells its product in foreign markets as well as the home market.
- C** Total fixed costs are a high percentage of total costs.
- D** Total variable costs are a high percentage of total costs.

- 6 A government embarks on an anti-smoking campaign.

In a social cost-benefit study, what would be taken into account in an assessment of the net social benefit of the campaign?

- A** higher government expenditure on pensions due to increased longevity
- B** the decline in profits of tobacco manufacturers
- C** the financial cost of the campaign to the government
- D** the loss in government tax revenue from tobacco duty

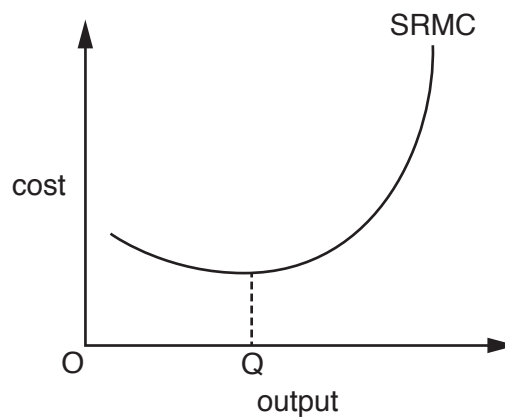
- 7 An industry consists of two firms, X and Y.

The profit-payoff matrix shows how the profits of X and Y vary depending on the prices charged by the two firms.

		price charged by X	
		$P_X = \text{£}20$	$P_X = \text{£}10$
price charged by Y	$P_Y = \text{£}20$	$\text{£}5m_X$ $\text{£}5m_Y$	$\text{£}9m_X$ $-\text{£}2m_Y$
	$P_Y = \text{£}10$	$-\text{£}2m_X$ $\text{£}9m_Y$	zero_X zero_Y

In the absence of collusion, what will be X's profits?

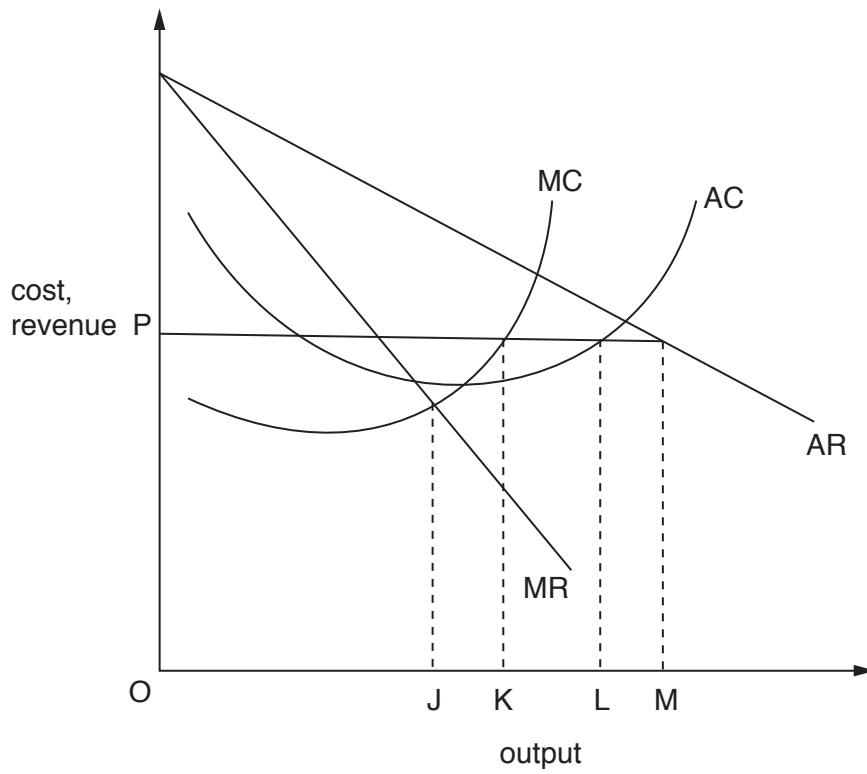
- A** $-\text{£}2$ million **B** zero **C** $\text{£}5$ million **D** $\text{£}9$ million
- 8 The diagram shows a firm's short-run marginal cost curve (SRMC).



What explains why the curve is upward sloping at output levels above OQ?

- A** barriers to entry
B diseconomies of scale
C inelasticity of supply
D the law of diminishing returns

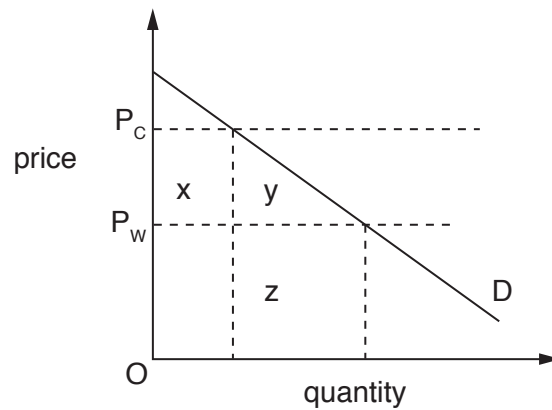
- 9 In the diagram, MC and AC are a profit-maximising monopolist's marginal and average cost curves, and MR and AR are its initial marginal and average revenue curves.



Which output will the firm produce if the government sets a maximum price of OP?

- A OJ
- B OK
- C OL
- D OM

- 10 In the diagram, D is a country's demand curve for an imported good. P_w is the price at which the good can be imported from world markets.



Which area measures the deadweight welfare loss to the country of imposing an import tariff equal to $P_w P_c$ on the good?

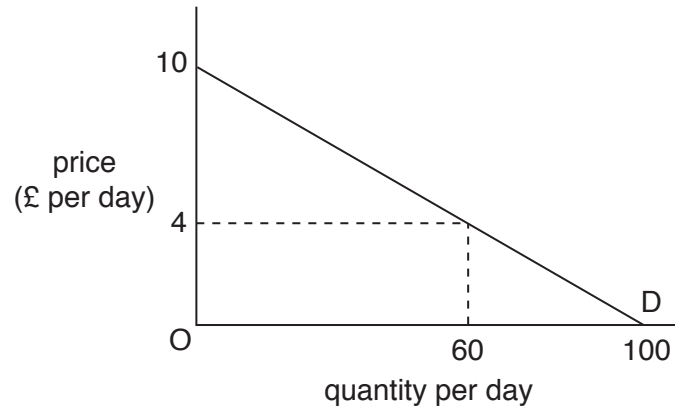
- A $x + y$
 B x
 C y
 D $y + z$
- 11 A government reduces the rate of income tax paid by female workers.

What is the most likely effect on an individual female worker's number of hours worked and after-tax earnings?

	number of hours worked	after-tax earnings
A	decrease	uncertain
B	increase	increase
C	uncertain	increase
D	uncertain	uncertain

- 12 What would **not** be classified as an externality?
- A The building of a new housing estate increases traffic congestion.
 B The entry of a new firm into an industry reduces the profits of existing firms.
 C The renovation of older houses increases the attractiveness of neighbouring houses.
 D A rise in smoking increases the number of working days lost due to smoking-related illnesses.

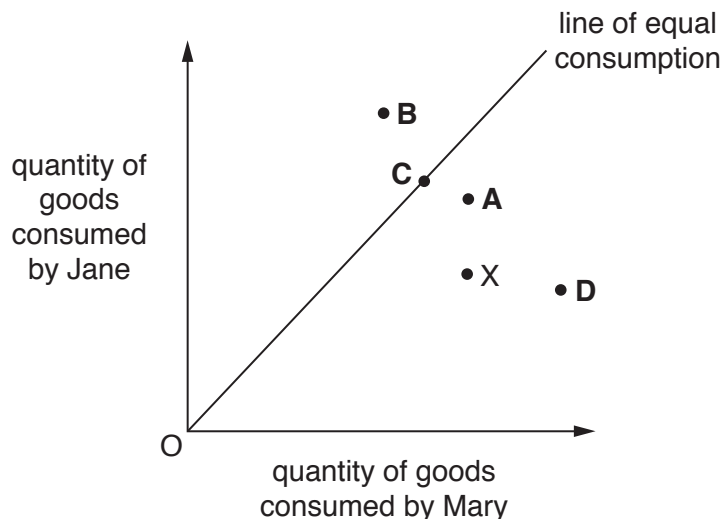
- 13 The introduction, six months ago, of a £4 daily charge for parking in a town's only car park led to 40 out of the 100 shop workers who previously used the car park every day switching to travelling to work by bus. This is represented by the demand curve below.



Calculate the total daily benefit to the workers who continue to use the car park.

- A £180
 B £240
 C £420
 D £500
- 14 Jane and Mary both spend the whole of their incomes.

Point X in the diagram indicates the maximum quantities of goods Jane and Mary are currently able to afford.



Which point in the diagram represents a definite improvement in economic welfare?

- 15 A profit-maximising monopoly is broken up and ends up as a perfectly competitive industry.

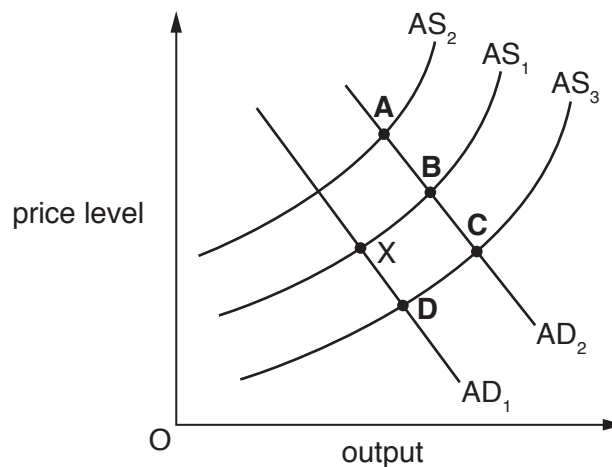
Assuming costs remain unchanged, how will output and price be affected?

	output	price
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 16 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. All other areas of government expenditure are unchanged.

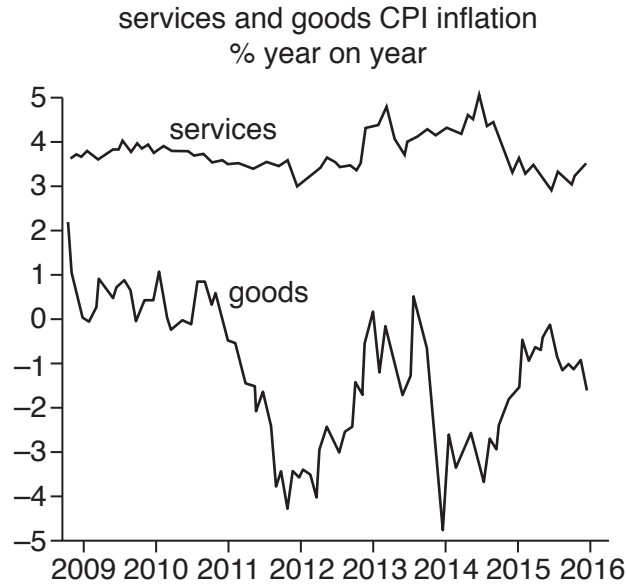
Which point shows the new equilibrium in the economy?



- 17 Which pattern of labour market data is likely to indicate a decrease in cyclical unemployment?

	compulsory redundancies	voluntary resignations
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 18 The diagram shows rates of inflation in a country as measured by the Consumer Price Index (CPI) between 2009 and 2016.



Which conclusion can be drawn from this data?

- A The prices of goods rose between 2012 and 2013.
 B The prices of goods were lower in 2016 than in 2011.
 C The prices of services fell between 2014 and 2016.
 D Between 2009 and 2016, services cost more than goods.
- 19 Country X's price elasticity of demand for imports is -0.6 and the price elasticity of demand for exports is -0.6 .

What will be the most likely impact of a devaluation of country X's currency on the volume of its exports and imports and on its overall trade deficit?

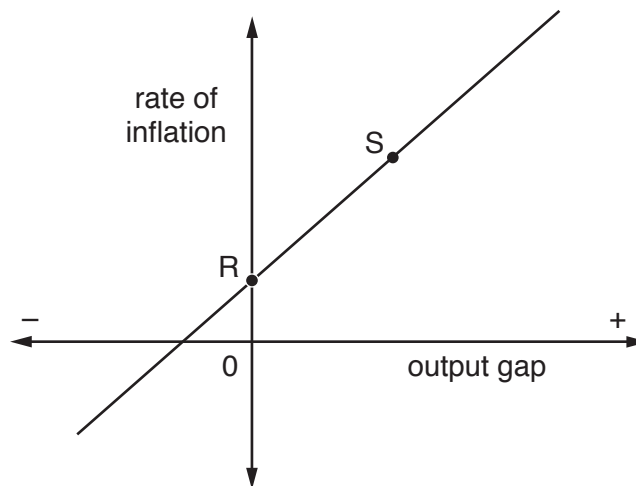
	volume of exports	volume of imports	overall trade deficit
A	decrease	increase	falls
B	decrease	increase	rises
C	increase	decrease	falls
D	increase	decrease	rises

20 A country has a surplus on its balance of trade in goods and services.

What are the likely effects of an increase in the country's interest rate, assuming a fixed exchange rate?

	balance of trade in goods and services surplus	hot money inflows
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

21 The diagram shows the relationship between a country's output gap and the rate of inflation.



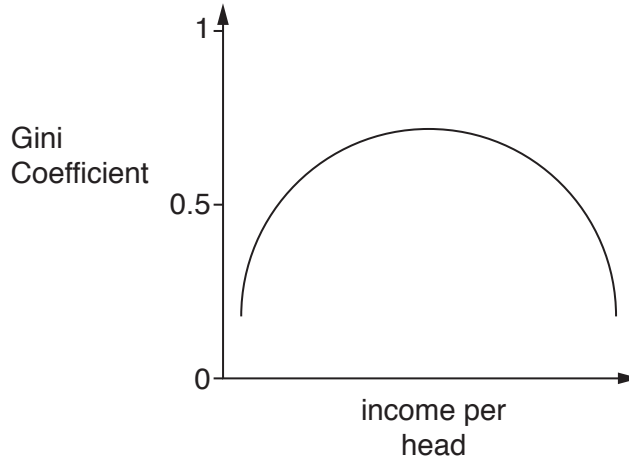
Which combination of policies would move the economy from R to S in the short run?

- A** a devaluation of the exchange rate and reducing tariffs
- B** a devaluation of the exchange rate and increasing current government spending
- C** increasing income tax and reducing the rate of interest
- D** reducing indirect taxes and increasing the rate of interest

22 What would be most likely to lead to a permanent increase in a country's inflation rate?

- A** an appreciation in the country's exchange rate
- B** an increase in the standard rate of Value Added Tax
- C** an increase in the rate of growth of the money supply
- D** an increase in the price of crude oil

23 The diagram shows the relationship between different countries' Gini Coefficients and their income per head.

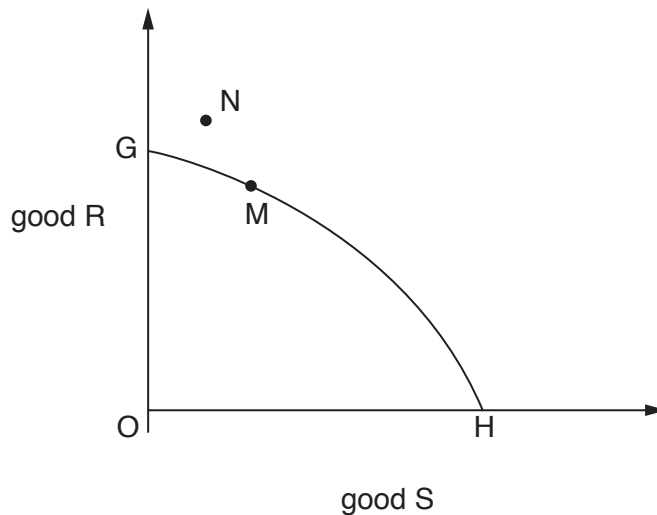


What is implied by the curve?

- A Economic growth is accompanied by increasing equality in the early stages and by increasing inequality in the later stages of economic development.
- B Economic growth is accompanied by increasing inequality in the early stages and by increasing equality in the later stages of economic development.
- C Income distribution is more equal in rich countries than in poor countries.
- D Income distribution is more unequal in rich countries than in poor countries.

24 A country produces just two goods, R and S.

In the diagram, it initially consumes at point M on its production possibility curve, GH. It then embarks upon international trade and moves to point N.

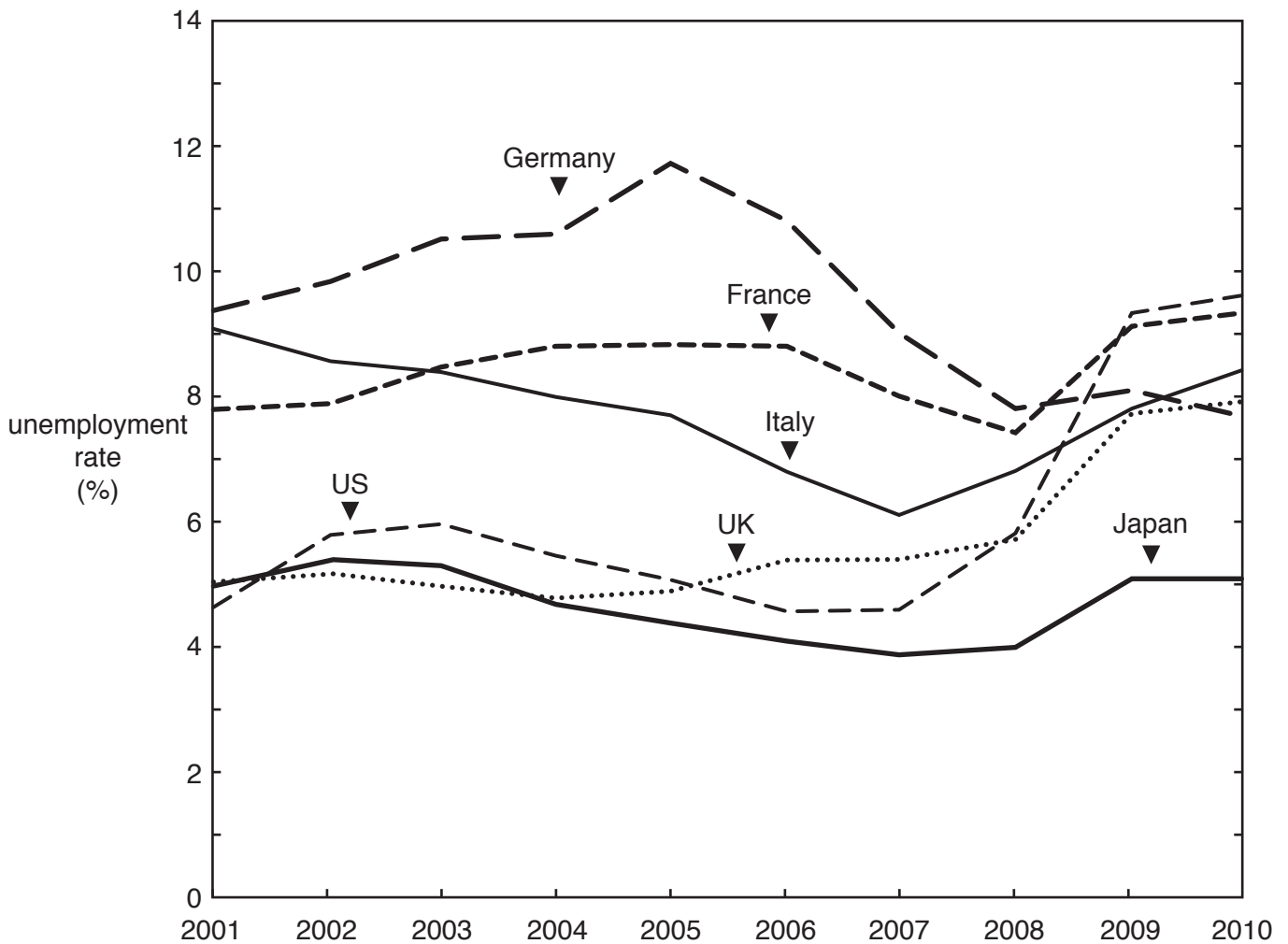


What can be deduced from the diagram?

- A The country has an absolute advantage in the production of good R.
- B The country has an absolute advantage in the production of good S.
- C The country has a comparative advantage in the production of good R.
- D The country has a comparative advantage in the production of good S.

25 The graph shows countries' unemployment rates between 2001 and 2010.

Unemployment rates by country 2001 – 2010



What can be concluded from the graph about unemployment over this period?

- A The country with the highest number of unemployed up until 2008 was Germany.
 - B France recorded a bigger percentage increase in unemployment than the United Kingdom.
 - C The country most affected by unemployment in the aftermath of the 2007–8 banking crisis was the United States.
 - D Over the course of the decade there was a significant divergence in countries' unemployment rates.
- 26 Which of the following should in principle be included in a comprehensive measure of national income?
- A interest payments on government debt
 - B tax deductible donations paid to charitable organisations
 - C the private sale of a used car
 - D tips paid to staff in a restaurant

- 27 A government adopts a policy of fiscal contraction combined with monetary expansion.

What will be the expected impact of this policy mix on the country's exchange rate and the yield on government bonds?

	impact on exchange rate	impact on bond yields
A	appreciation	decrease
B	appreciation	uncertain
C	depreciation	decrease
D	depreciation	uncertain

- 28 Which policy is likely to promote economic development in a developing economy but may lead to a decline in the rate of economic growth?

- A** increase female participation in the labour market
- B** increase immunisation rates
- C** promote exports
- D** reverse environmental degradation

- 29 On what grounds could it be argued that policies to promote a country's economic growth should not necessarily be based upon exploiting its current comparative advantage?

- A** Learning by doing enables the country to improve its productivity in other areas.
- B** The country has high factor mobility.
- C** The country is not competitive in the sectors in which it has a comparative advantage.
- D** What is important for economic growth is absolute rather than comparative advantage.

- 30 Countries W, X and Y are currently members of a customs union; country Z is not a member. Country Y decides to leave the customs union but sets an import tariff at the same level as the customs union's external tariff.

What is the likely impact of country Y's departure from the customs union?

	volume of trade between countries W and X	volume of trade between countries Y and Z
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

Section B: Short Answers

Answer **all** questions.

1 Look at the Table below:

Units	Price the consumer is willing to pay for the good	Price the producer is willing to sell the good at
1	£2.00	£0.40
2	£1.50	£0.60
3	£1.25	£0.80
4	£1.10	£0.90
5	£1.00	£1.00
6	£0.90	£1.50

- (a) Calculate the consumer and producer surplus that occurs at the market clearing price. Show your working. [3]
- (b) Draw a demand and supply diagram to show the effect on the quantity consumed of the introduction of a minimum price of £1.25 per unit in this market. [2]
- 2 (a) With the use of an example, explain how the widespread use of social media generates positive externalities. [3]
- (b) Give **two** reasons why social media firms often provide the basic version of their software (apps) to consumers at zero price. [2]
- 3 Two multinational beer producers are to merge into one company.
- (a) This is an example of which type of integration? Explain your answer. [2]
- (b) Identify **three** issues that regulators are likely to consider before approving such a merger. [3]
- 4 Research published in 2016 revealed that, on average, women in paid work receive about 18% less per hour than men.
- (a) Give **three** reasons why, on average, women earn less than men. [3]
- (b) In 2017, the UK government introduced legislation forcing firms with more than 250 employees to publish details of how much they pay women and men.
- Explain **one** way in which this legislation may reduce gender pay differentials. [2]

[Total: 20]

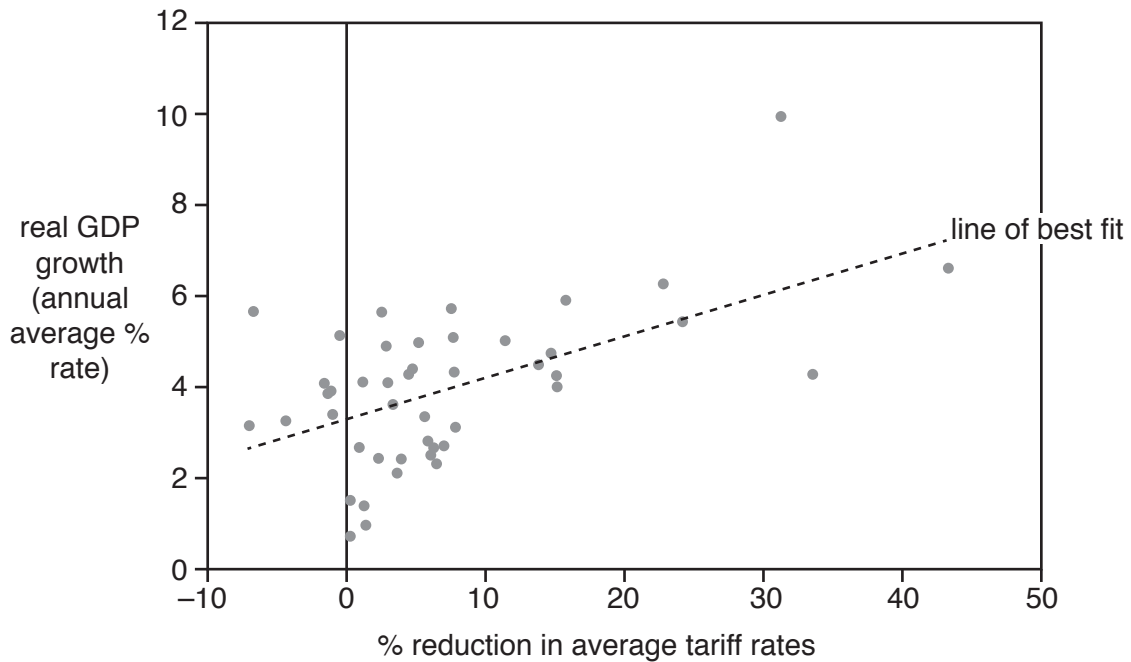
Section C: Data Response

Answer this question.

Question 5: Debate over the benefits of globalisation

Figure 1 – Changes in average tariff and annual GDP growth (1990–2015)

The points in Figure 1 below show the relationship between the reduction in average tariff rates and real GDP growth rates for a number of economies over the period 1990–2015.



Source: IMF Paper, “Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment”, April 2017

Extract 1 – The distributional effects of free trade

Following US President Donald Trump’s consistently anti-globalisation comments, the International Monetary Fund (IMF) and the World Bank have offered a strong defence of trade. However, whilst they stressed that trade was good for growth, there was an acceptance of the need to support those individuals and communities “left behind”.

While Trump’s position appeals to manufacturing workers in the US, many economists attribute job losses in the sector to technology rather than trade. However, the IMF accepts “that the gains from growth often have not been broadly shared [and this] has strengthened a backlash against economic integration and bolstered support for inward-looking policies”. The IMF also highlights the need for active supply-side policies, going beyond labour market reform to include education and training, housing and regional policy to support those who lose out from trade in the short term.

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In the longer term, flexible labour markets and appropriate social safety nets are able to cushion the effects of structural unemployment in developed economies. However, this is less true of developing economies, which have more rigid labour markets and are unable to fund adequate transfer payments.

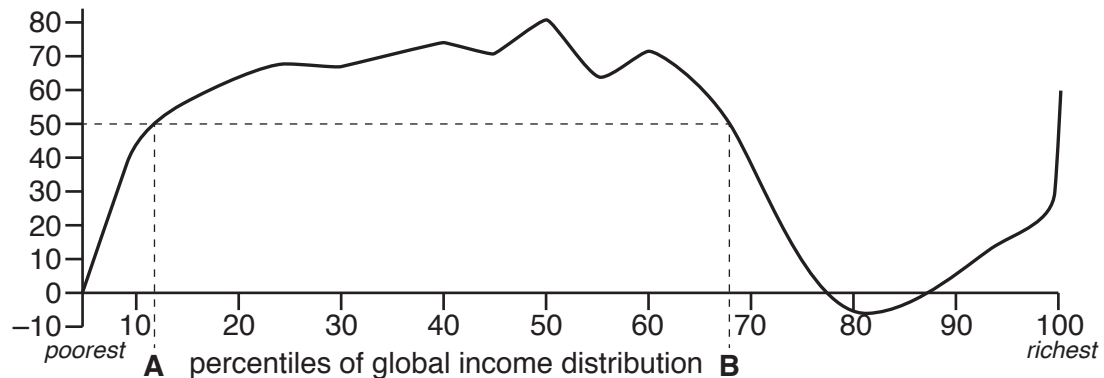
15

Table 1 – The theoretical case for globalisation

Case For Globalisation	Case Against Globalisation
Better use of scarce resources, allowing for the exploitation of comparative advantage	Encourages over-specialisation making economies vulnerable to exogenous shocks
Increased competition for domestic producers and increased consumer choice	Gives multinational corporations too much power over economic affairs
Dynamic efficiency gains in the form of economies of scale and innovation	Encourages a 'race to the bottom' where economies are discouraged from imposing regulations

Figure 2 – Percentage increase in real income by income group (1988–2008, purchasing power parity)

change in real income, at purchasing power parity, between 1988 and 2008 (%)



Source: Adapted from Branko Milanovic, "Global Inequality – A New Approach for the Age of Globalization", April 2016

Extract 2 – Increased difficulties in negotiating trade deals

The recent past has been characterised by difficulties in concluding trade deals. The proposed EU-US Transatlantic Trade and Investment Partnership (TTIP) has faltered in light of concerns about the power that it might grant to multinational companies relative to governments.

However, many people in developed economies see opposition to trade deals as reflecting their distributional impact. Former World Bank economist Branko Milanovic published the 'Elephant curve' shown in Figure 2. It shows, for example, that typical individuals at points A and B of the global income distribution would have seen an increase in real income of 50% from 1988 to 2008 as trade activity increased over that period.

Environmentalists have also expressed concerns about the impact of TTIP on food standards, particularly regarding imports into the EU of hormone-injected US meat. There are other environmental concerns about the impact of increased transportation and over-exploitation of natural resources.

Others, notably the Trump administration, see trade deals as a way of advancing narrowly defined economic interests, protecting domestic employment and opposing the 'unfair' trading practices of nations like China.

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- (a) Define the term 'globalisation'. [2]
- (b) Explain how the shape of the curve in Figure 2 supports the view that the effects of trade have not been equally distributed. [3]
- (c) Using a diagram, explain why the imposition of tariffs might protect domestic workers at the expense of other economic agents. [5]
- (d) Using the information provided, and your own economic knowledge, evaluate the case for reversing the process of globalisation. [10]
- (e) With reference to the Extracts, and your own economic knowledge, evaluate the extent to which supply-side policies alone can generate sustainable growth that delivers more fairly distributed economic benefits. [10]

[Total: 30]

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