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Cambridge Pre-U

CANDIDATE NAME	

CENTRE NUMBER			CANDIDATE NUMBER	

ECONOMICS **9772/01**

Paper 1 Multiple Choice, Short Answers and Data Response **May/June 2023**

2 hours 30 minutes

You must answer on the question paper.

You will need: Insert (enclosed)

INSTRUCTIONS

- Answer **all** questions.
- Use a black or dark blue pen. You may use an HB pencil for any diagrams or graphs.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.

INFORMATION

- The total mark for this paper is 80.
- The number of marks for each question or part question is shown in brackets [ ].
- The insert contains the case study.

This document has **28** pages. Any blank pages are indicated.

Section A: Multiple Choice

Answer **all** questions in this section.

For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and fill in the box (X) to show your answer.

You are advised to spend 60 minutes on the 30 questions in this section.

1 In the diagram, an economy produces the combination of goods X and Y indicated by point G on its production possibility curve.
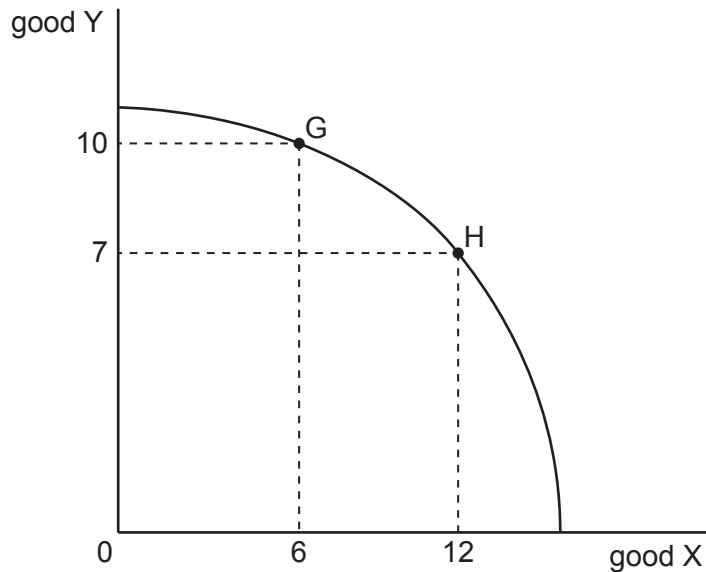
What will definitely occur when the economy moves from point G to point H on its production possibility curve?

	A	allocative efficiency	
	B	economies of scale	
	C	opportunity cost	
	D	unemployment	[1]

2 What is an essential feature of a market economy?

	A	a large number of buyers and sellers	
	B	freedom of entry and exit	
	C	perfect knowledge on the part of decision makers	
	D	private ownership	[1]

3 A grocery retailer has obtained data indicating the income elasticity of demand for rice is –1.24.

What can be inferred about rice from this information?

☐ **A** demand is income-elastic, and it is a normal good

☐ **B** demand is income-elastic, and it is an inferior good

☐ **C** demand is income-inelastic, and it is a normal good

☐ **D** demand is price-elastic, and it is a necessity [1]

4 The table below shows how the costs of a firm change as output changes.

output (units)	total fixed cost (£)	average variable cost (£)
0	70	0
1	70	40
2	70	37.50
3	70	31.67
4	70	27.50
5	70	25.00

What is total cost when the firm produces 2 units?

☐ **A** £75.00

☐ **B** £107.50

☐ **C** £145.00

☐ **D** £215.00 [1]

5 The table contains information relating to the operation of a firm when it produces and sells 23 750 units.

average total cost	£12.50
average variable cost	£10.50
price	£15.00

What is the total supernormal profit of the firm?

- [ ] **A** £47 500
- [ ] **B** £59 375
- [ ] **C** £106 875
- [ ] **D** £365 250 [1]

6 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

[1]

7 What would be taken into account in a social cost-benefit assessment of a proposal to raise the maximum speed on motorways from 70 mph to 80 mph?

	an increase in carbon emissions	an increase in fuel consumption	a reduction in time spent travelling to work
A	yes	no	no
B	yes	yes	yes
C	yes	yes	no
D	no	no	yes

[1]

8 The diagram shows a market where there is over-consumption of a good that produces a negative consumption externality. MPC and MSC represent marginal private cost and marginal social cost and MPB and MSB represent marginal private benefit and marginal social benefit.
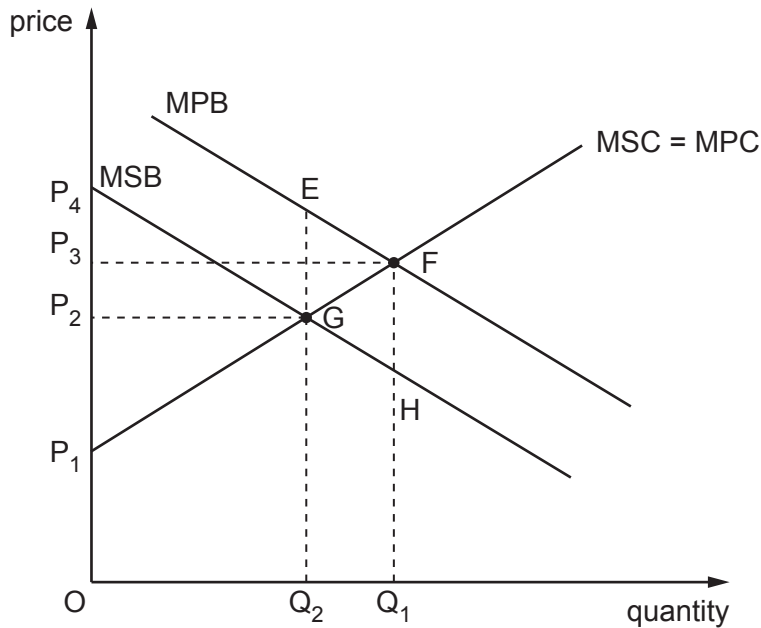
Which area represents the deadweight welfare loss in this market?

A F G H

B F G P_2 P_3

C G P_1 P_2

D G P_2 P_4 [1]

9 Which statement identifies a difference between private goods and public goods?

A A firm producing a private good can charge the consumer for it.

B A private good is consumed by individuals.

C Scarce resources are used in the production of a private good.

D There is an opportunity cost when producing a private good. [1]

10 What is **most** likely to reduce government failure?

    A decreased government regulation of natural monopoly power

    B decreased government welfare payments

    C increased information held by government

    D increased government subsidy payments   [1]

11 What will cause a profit maximising firm to increase its demand for labour?

    A an increase in the price of a complementary good

    B an increase in the price of a substitute good

    C an increase in the productivity of capital

    D an increase in the wage rate   [1]

12 The diagram shows the supply and demand for hotel rooms located in a city centre. The equilibrium average price per room per night is P and the number of bookings is Q. Many of the hotels offer parking to guests for a daily charge.
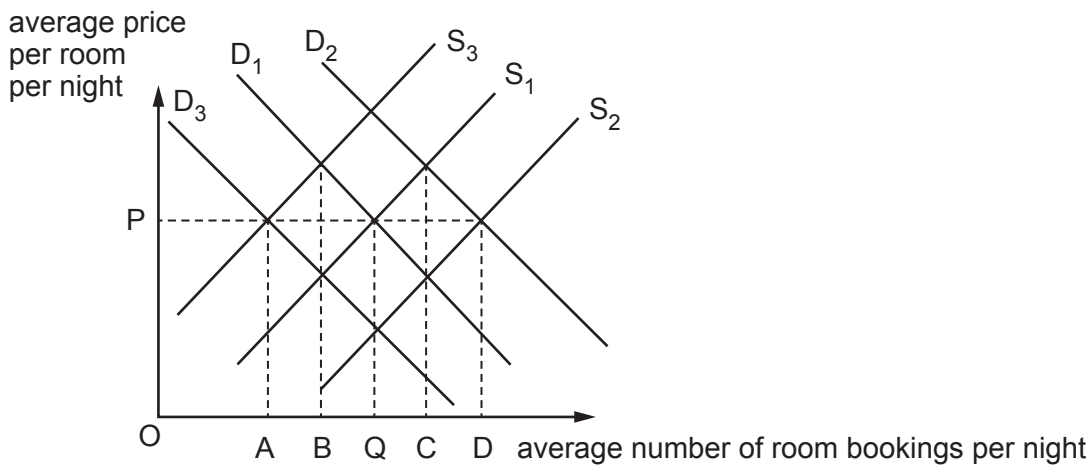
What will happen to the average number of room bookings per night if hotel owners significantly reduce their parking charges?

    A Room bookings will fall to quantity A.

    B Room bookings will fall to quantity B.

    C Room bookings will rise to quantity C.

    D Room bookings will rise to quantity D.   [1]

13 The diagram below shows the average product and marginal product of a firm operating in the short run.
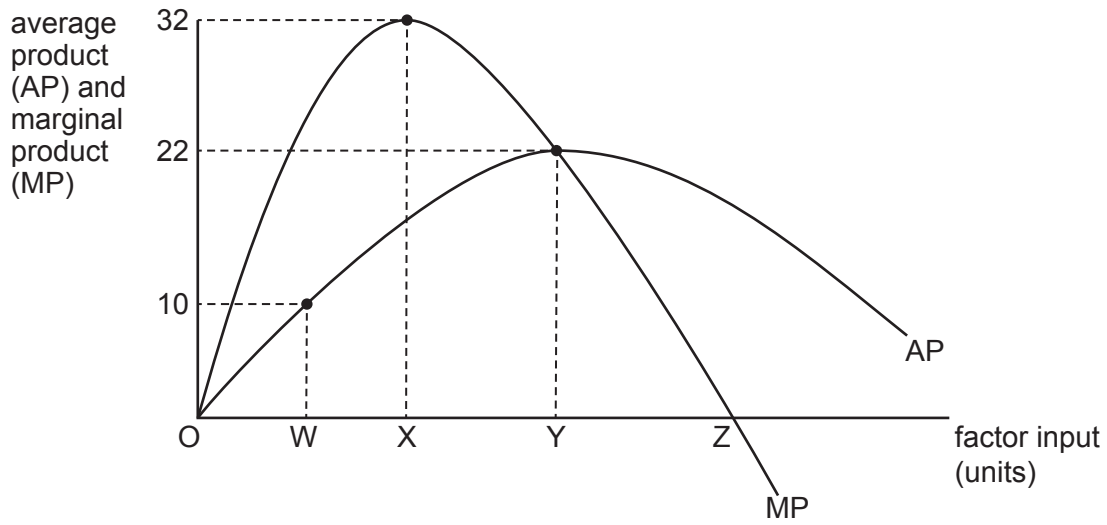
At which level of factor input will diminishing marginal returns set in?

A OW

B OX

C OY

D OZ

[1]

14 In the diagram, MC, AVC and ATC are a profit-maximising firm's marginal, average variable and average total cost curves, and MR and AR, its marginal and average revenue curves.
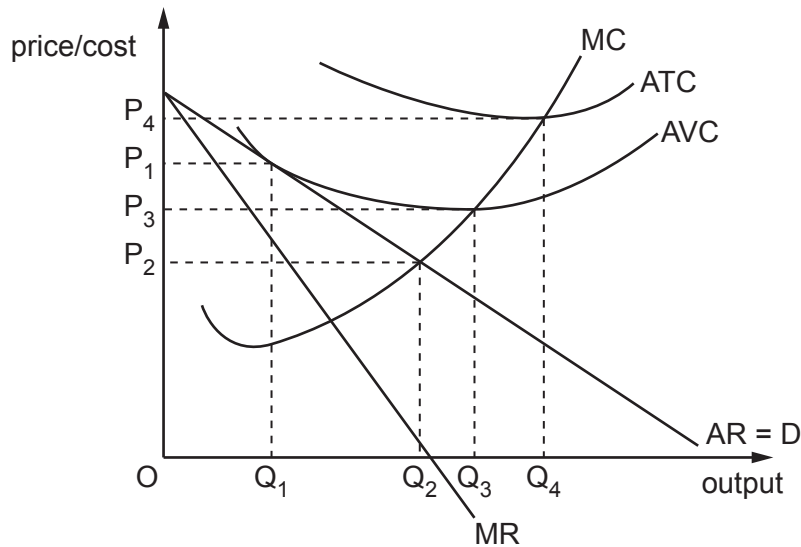
Which output represents the firm's short-run shut-down point?

- **A** OQ_1
- **B** OQ_2
- **C** OQ_3
- **D** OQ_4 [1]

15 Which relationship was historically suggested by the short-run Phillips curve?

- **A** a positive relationship between employment and inflation
- **B** a positive relationship between unemployment and inflation
- **C** an inverse relationship between employment and inflation
- **D** an inverse relationship between unemployment and inflation   [1]

16 The diagram shows the time path of actual output and of long-term potential output of an economy.
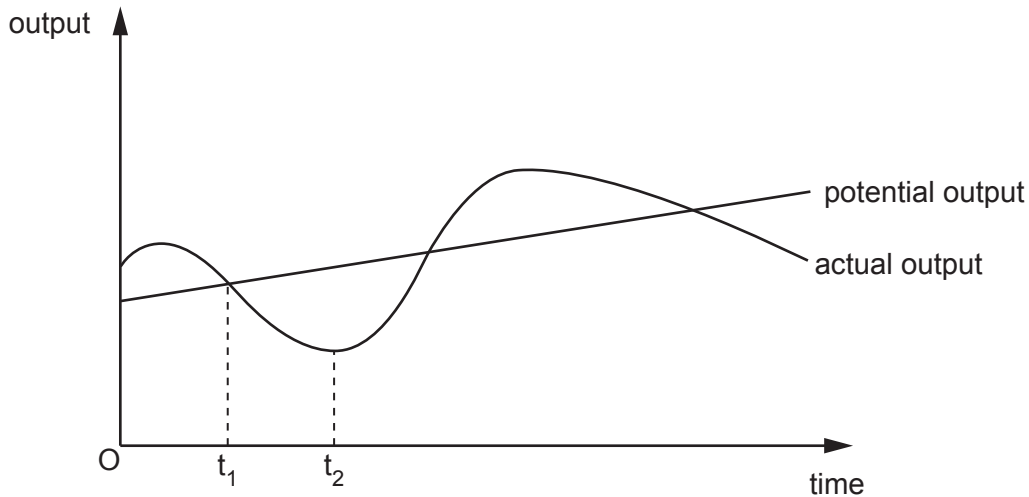
What is **most** likely to take place between t_1 and t_2?

<p>A A decrease in a balance of trade deficit.</p>

<p>B A decrease in a government's budget deficit.</p>

<p>C An increase in a balance of trade deficit.</p>

<p>D An increase in a government's budget deficit.</p> [1]

17 What is a reason why unemployment is a key indicator of economic performance?

<p>A Unemployment is associated with a balance of payments surplus.</p>

<p>B Unemployment is concentrated in areas associated with manufacturing.</p>

<p>C Unemployment leads to inflationary pressure.</p>

<p>D Unemployment represents economic inefficiency.</p> [1]

18 A country's money supply increases by 5% and its real GDP increases by 2%.

Given the velocity of circulation of money remains constant, what will be the approximate change in the average price level?

<p>A −7%</p>

<p>B −3%</p>

<p>C +3%</p>

<p>D +7%</p> [1]

19 A government wishes to see greater equality in the distribution of income in its economy.

What is **most** likely to achieve this?

- **A** A move to more regressive taxation.
- **B** A reduction in government subsidies.
- **C** A reduction in transfer payments.
- **D** A move to more progressive taxation. [1]

20 The diagram shows the inflation rate in Italy between September 2020 and August 2021.
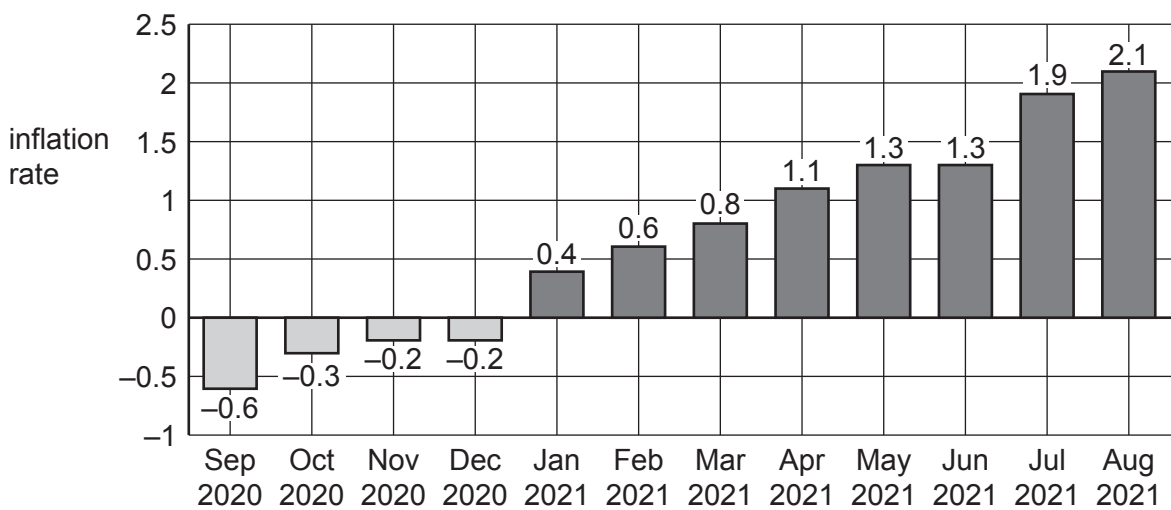
At the end of which month was the price level in Italy at its highest, and in which month was the price level at its lowest?

	highest	lowest
A	September 2020	August 2021
B	July 2021	November 2021
C	August 2021	September 2020
D	August 2021	December 2020

[1]

21 All else remaining unchanged, what will result in an increase in the UK's current account deficit?

- **A** fewer temporary foreign workers filling seasonal jobs in the UK
- **B** higher earnings on foreign direct investment in the UK
- **C** increased investment by UK residents in US equities
- **D** more overseas students studying in UK universities [1]

22 Average labour productivity is forecast to rise more quickly than the nominal value of average earnings.

In the short term, if this forecast is correct, what is the **most** likely consequence?

☐ **A** Real wages will decrease.

☐ **B** The profit of firms will fall.

☐ **C** Unemployment will rise.

☐ **D** Unit labour costs will fall. [1]

23 An increase in saving in a closed economy with no government leads to a multiplied fall in national income.

What is the value of the multiplier if the marginal propensity to save (MPS) in this economy is 0.3?

☐ **A** −3.33

☐ **B** −1.43

☐ **C** 1.43

☐ **D** 3.33 [1]

24 In the diagram, a country's short-run aggregate supply (SRAS) curve shifts from $SRAS_1$ to $SRAS_2$.
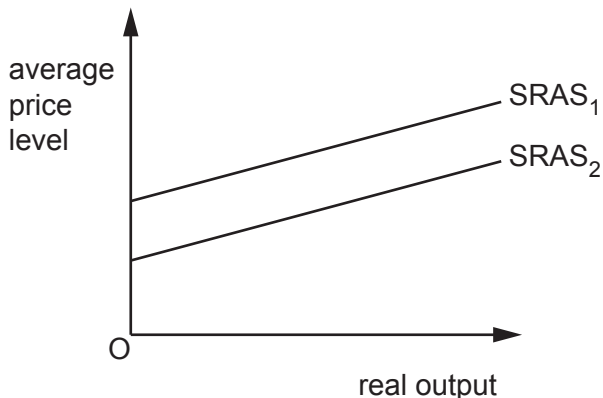
What is **most** likely to have caused this shift?

☐ **A** a decrease in the total world supply of oil

☐ **B** an appreciation of its currency's foreign exchange rate

☐ **C** an increase in the government budget for research and development

☐ **D** an increase in direct taxation on domestic firms' profits [1]

25 A government decides to pursue an expansionary fiscal policy and a deflationary exchange rate policy.

Which combination of policy changes is consistent with this decision assuming the Marshall-Lerner condition holds?

	government spending	exchange rate
A	decrease	appreciate
B	decrease	depreciate
C	increase	depreciate
D	increase	appreciate

[1]

26 Which combination is **most** likely to be found in a low-income country?

	low	high
A	capital-output ratio	employment rate
B	marginal propensity to consume	primary sector importance
C	primary school enrolment rate	Human Development Index value
D	saving ratio	population growth rate

[1]

27 The demand for a country's exports is price-elastic. What will be the effect of introducing export subsidies on its balance of trade and on its terms of trade?

	balance of trade	terms of trade
A	improve	improve
B	improve	worsen
C	worsen	improve
D	worsen	worsen

[1]

28 The diagram shows the amounts of wheat and clothing that can be produced in countries X and Y with a given quantity of resources.
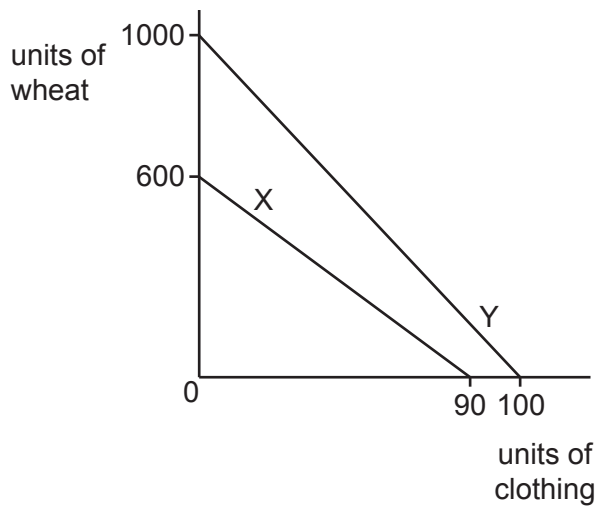
What does the diagram indicate about the production of these commodities?

	A	Country X has an absolute advantage in the production of clothing.
	B	Country X has a comparative advantage in the production of wheat.
	C	Country Y has an absolute advantage in the production of clothing.
	D	There are no gains to be made from trade in these circumstances. [1]

29 The diagram shows the effects on a market of a tariff on imports where T is the value of the tariff.
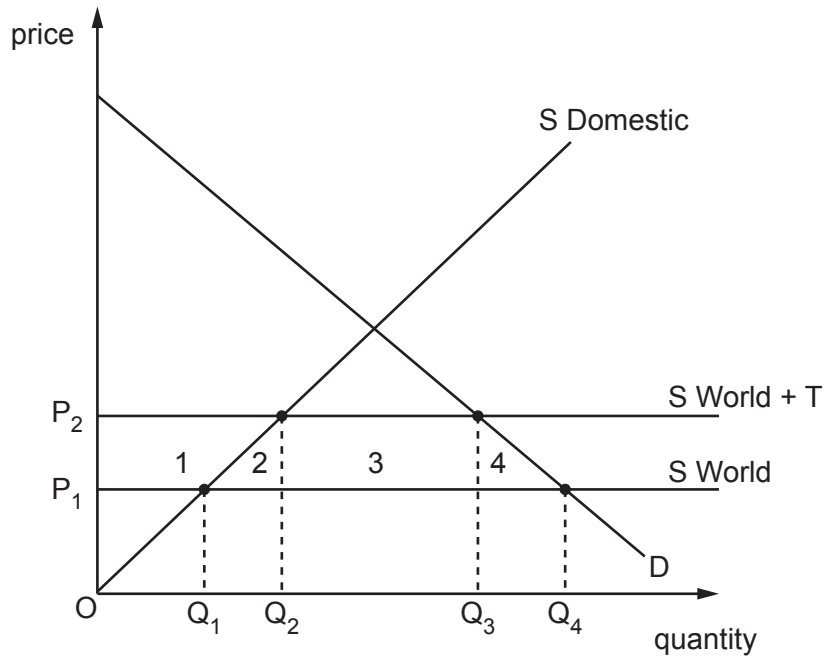
Which numbered area in the diagram represents the loss in consumer surplus as a result of the tariff?

A 1 only

B 1+2 only

C 1+2+3+4

D 2+4 only [1]

30 What is **most** likely to explain a low Human Development Index (HDI) value?

A a high level of pollution

B a low Gini coefficient

C a low per capita gross national income

D a small population [1]

[Total: 30]

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Section B: Short Answers

Answer **all** questions.

You are advised to spend 35 minutes on the four questions in this section.

31 (a) In 2021, the Gini coefficient for income distribution in the UK was 0.35. In Canada in the same year, it was 0.33.

State what this data indicates about differences in income distribution in the two countries.

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(b) In the UK tax year up to 5 April 2022, the amount of personal income tax payable at different total income levels is shown in Table 31.1:

Table 31.1: UK personal income tax payable at different total income levels

Total income (£)	Personal income tax payable (£)
12 000	0
35 000	4486
55 000	9431

Explain what evidence there is in Table 31.1 to support the view that personal income taxation in the UK is progressive. Use calculations in your answer.

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32 Throughout 2020, the government of Taiwan intervened in the foreign currency market to prevent the appreciation of its currency, the New Taiwan dollar (NTD), against the US dollar.

(a) Explain **one** reason why the government of Taiwan might want to prevent the appreciation of the NTD against the US dollar.

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(b) Explain how the government of Taiwan might have intervened to prevent the appreciation of the NTD.

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33 The following table shows a selection of UK economic statistics for 2020.

Table 33.1 Selected UK economic statistics 2020

	Billion (£)
government spending	1 093
tax revenue	793
national debt	1 877
export of goods and services	574
import of goods and services	586
net primary income	- 37.3

(a) With reference to Table 33.1, calculate the UK balance of trade in 2020.

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(b) With reference to Table 33.1, calculate the UK government's fiscal balance for 2020 and state whether this will increase or decrease the UK national debt.

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34 (a) State the effect on the price level and real GDP, in the short run, of an increase in aggregate demand if firms are operating at full capacity.

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(b) Explain **one** advantage of a reduction in the rate of inflation.

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[Total: 20]

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Section C: Data Response

Read the case study in the insert and answer **all** the questions.

You are advised to spend 55 minutes on this section.

35 (a) Using the information in Fig. 35.1, compare the trend in job vacancies in accommodation and food service activities (AFSA) with the trend in all vacancies between Q1 2020 and Q1 2021.

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(b) Assuming that the price of each food item in Table 35.1 were to increase by 5%, explain which item would experience the smallest proportionate change in total revenue.

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(c) With the aid of a diagram, explain the link between an increase in the number of meals that a restaurant serves and its average fixed costs.

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(d) The overconsumption of unhealthy food generates market failures. With reference to the information provided and your own economic knowledge, evaluate the view that information provision is a more effective government policy than indirect taxation to tackle this issue. [10]

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(e) With reference to the information provided and your own economic knowledge, evaluate **one** price and **one** non-price strategy a firm in the hospitality sector could use to increase profits.

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