

Basic economic ideas and resource allocation (AS level)

Multiple choice questions by topic [with answers](#)

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Scarcity choice and opportunity cost

A farmer is able to grow three crops, X, Y and Z, on his land.
The farmer decides to grow at most two crops in any year.
The table shows six possible combinations of units of output of the three crops.

	output					
X	0	0	80	40	40	0
Y	0	60	0	30	0	30
Z	40	0	0	0	20	20

What is the opportunity cost of 1 unit of X?

- A 1.33 units of Y
- B 1.5 units of Y
- C 0.5 units of Z
- D 2.0 units of Z

Answer c

The diagram is from a chapter on 'The Economic Problem' in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the economic problem.



What is the correct order for the terms to appear in the diagram?

- A choice -> opportunity cost -> scarcity
- B choice —> scarcity —> opportunity cost
- C scarcity -> choice -> opportunity cost
- D scarcity -> opportunity cost -> choice

Answer C

1 What is correct about scarcity?

- A Scarcity affects low income earners only.
- B Scarcity forces individuals to make choices.
- C Scarcity is removed by periods of falling prices.
- D Scarcity will be abolished by advances in technology.

Answer B

3 From 1995 to 2000 each of the countries listed below moved towards a market economy through privatisation programmes.

Which country made the slowest rate of transition?

		private sector share of GDP (ratio of private enterprise earnings to GDP)	
		1995	2000
A	Czechia	70	80
B	Hungary	60	70
C	Romania	45	60
D	Slovakia	60	80

Answer A

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 wants 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.

Answer C

What is not a function of the price mechanism?

- A to act as a signal to firms when allocating resources
- B to maximise consumer surplus
- C to provide an incentive to firms to produce goods
- D to ration scarce resources

Answer B

- 1 To overcome the problem of scarcity, countries with few natural resources need to concentrate on the quality of human resources.

Which set of policies would be most appropriate?

	natural resources policy	human resources policy
A	develop renewable energy supplies	improve education and training
B	plan the allocation of resources	discourage automation
C	protect land resources	protect jobs in manufacturing
D	restrict imports of raw materials	restrict influx of skilled migrants

Answer A

Scarcity means that goods need to be rationed between competing consumers.

Which basis for rationing is the most likely to result in the most equal distribution of goods?

- A consumer preference
- B market price
- C political decision
- D seller preference

Answer C

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

Answer B

Economic systems

In which aspect is the planned economy likely to offer more than the market economy?

- A competition
- B incentive
- C innovation
- D security

Answer D

What is likely to be introduced in the market for bus travel if an economy moved from a mixed economy to a market economy?

- A allowing companies to bid for bus routes
- B free bus travel for school children
- C maximum prices for bus travel
- D subsidies to bus operators

Answer A

From 1990 to 2000 each of the countries listed below changed towards a market economy through privatisation programmes.

private sector share (% of GDP) (ratio of private enterprise earnings to GDP)			
	1990	1995	2000
Czechia	10	70	80
Hungary	20	60	80
Romania	15	45	60
Slovakia	10	60	80

What can be concluded about the rates of privatisation?

- A Czechia initially made the fastest change.
- B Hungary made the least overall change.
- C Romania made the greatest overall change.
- D Slovakia made the steadiest change.

Answer A

Normative and positive statement

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.

ANSWER D

Which statement by a company is normative?

- A In the past three years we have carried out the biggest merger acquisition in the group's history.
- B The business has fallen behind competitors and needs to improve its ethical standards.
- C The growth of the business has been in retail and financial services.
- D The structure of the business has been simplified

ANSWER B

What is always true of a positive statement?

- A It is based on statistical data.
- B It is possible to test its validity.
- C It is the only basis for economic policy.
- D It overrides any normative statement.

Answer B

A teacher asks four students to fill in the gaps in the following sentence.

'A positive economic statement is1 statement that 2 be tested using factual evidence, whereas a normative economic statement is3.....statement that4 be tested using factual evidence.'

The students' answers are shown in the table.

Which student is correct?

	1	2	3	4
A	an objective	can	a subjective	cannot
B	an objective	cannot	a subjective	can
C	a subjective	can	an objective	cannot
D	a subjective	cannot	an objective	can

Answer A

What is correct for a normative statement?

- A It is objective and based on fact.
- B It is objective and can be proved correct.
- C It is subjective and based on opinion.
- D It is subjective and can be reliably tested.

ANSWER C

Factors of production

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

Answer D

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

Answer B

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

Answer A

What is most important for the effective operation of the division of labour in a modern economy?

- A. a supply of money
- B. finance from the government
- C. highly qualified entrepreneurs
- D. integrated transport systems

Answer A

Money

What is most likely to severely affect the ability of money to act as a medium of exchange?

- A a devaluation of a country's rate of exchange for foreign currency
- B an increase in the money supply
- C a very high rate of inflation
- D a very high rate of interest

Answer C

Four students are given the following list of assets.

- a three bedroom house
- banknotes and coins in a purse
- money in a bank savings account
- shares in a public limited company

The students are asked to order the assets from the most liquid to the least liquid and the table shows their choices.

Which student is correct?

	most liquid ----- ► least liquid			
A	notes and coins	savings account	shares	house
B	notes and coins	savings account	house	shares
C	notes and coins	shares	savings account	house
D	savings account	notes and coins	shares	house

Answer A

In Zimbabwe there was hyperinflation.

Which two functions of money might the Zimbabwe dollar be most likely to have still performed during this hyperinflation?

- A medium of exchange and store of value
- B standard for deferred payments and unit of account
- C store of value and standard for deferred payments
- D unit of account and medium of exchange

Answer D

Classification of goods and services

PPC curve

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.

Answer D

'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

Answer D

The Bureau of Alcohol, Tobacco, Firearms and Explosives is a branch of the United States Government which regulates markets. What does its name imply is most likely to be its main responsibility?

- A to prevent harm from demerit goods
- B to provide subsidies for essential goods
- C to raise revenue from goods in elastic demand
- D to safeguard employment in manufacturing industry

Answer A

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 lower entry fee than the fee charged to the tourists. 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.

Answer C

A good's defining quality is that its consumption by one person prevents its consumption by someone else. How is this good classified?

- A a free good
- B a non-excludable good
- C a non-rival good
- D a private good

Answer D

A businesswoman sets up a charity to provide toys for young children of low income families. Which term most accurately describes these toys?

- A free goods
- B merit goods
- C private goods
- D public goods

ANSWER C

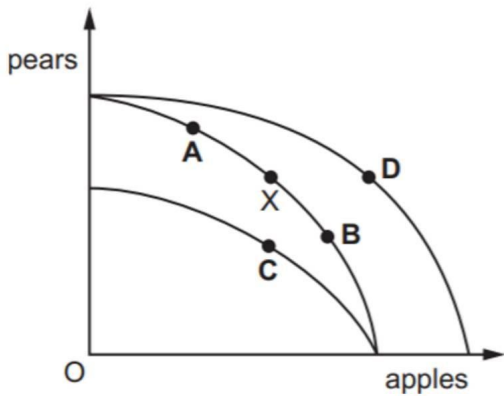
Why might governments provide free education for children aged 4 to 16 years old?

- A Consumers are not fully aware of the benefits of education.
- B Education in a free market system would be over consumed.
- C Education is a public good and there would be many free riders.
- D The private costs of education exceed the private benefits in a free market.

Answer A

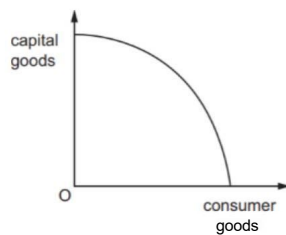
PPC curve

The diagram shows a production possibility curve for a farmer. The original position is at point A. The farmer switches some of his land from producing pears to producing apples, which represents his new position?



Answer B

The diagram shows a production possibility curve for an economy that produces capital goods and consumer goods.

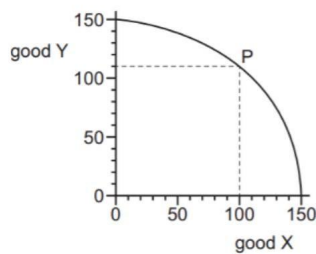


Why is the production possibility curve drawn concave to the origin?

- A Capital goods are a more labour intensive output than consumer goods.
- B Consumers always seek to maximise their satisfaction from consumption.
- C Profit maximisation for firms always ensures efficiency in production.
- D Some resources are more efficient in production of some goods than others.

Answer D

The diagram shows a production possibility curve for an economy that is producing at point P.



Which quantity of X is given up to produce the quantity of Y shown?

- A 40
- B 50
- C 100
- D 110

Answer B

Which labels might be used on a production possibility curve diagram?

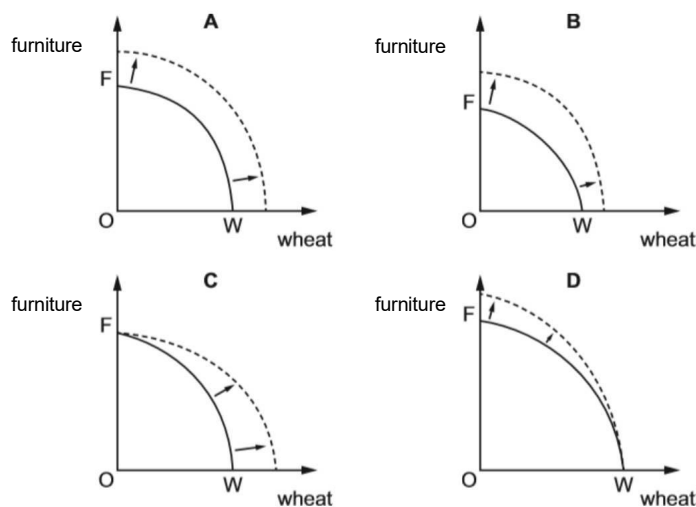
	Y (vertical) axis	X (horizontal) axis
A	capital input	labour input
B	cost of production	quantity produced
C	output of rice	labour input
D	output of rice	output of sugar

ANSWER D

Economy X uses its resources in the labour-intensive production of wheat and wooden furniture as shown by the production possibility curve FW.

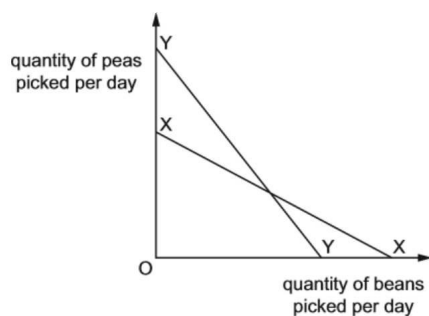
With the help of new strains of wheat seeds, X increased yields and shifted to a new production possibility curve.

Which diagram depicts this change?



ANSWER C

Line XX is the production possibility curve (PPC) of a worker picking peas and beans in a 10 hour working day.



What would cause the worker's PPC to shift to the line YY?

- A a machine that increases the worker's pea picking productivity only
- B a new work schedule where the worker spends 6 hours per day picking peas and only 4 hours picking beans
- C a reduction in working hours to 8 per day and a machine that increases the worker's pea picking productivity
- D a reduction in working hours to 8 per day only

ANSWER C

Government microeconomic intervention (AS level)

Multiple choice questions by topic [with answers](#)

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- maximum and minimum prices
- maximum and minimum prices
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- Taxes and subsidies
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Maximum and minimum prices

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

Answer D

Which benefit is most likely to result from a rise in the minimum price of labour (wage rate)?

- A a reduction in costs of production
- B a reduction in income inequality
- C a reduction in the level of unemployment
- D a reduction in the rate of inflation

Answer B

The government fixes a maximum price for wheat flour below the market equilibrium price. After the maximum price is imposed, which statement is not correct?

- A Producers' revenue is increased.
- B Some consumers may encourage illegal sales.
- C The quantity supplied of flour will decrease.
- D There will be an excess demand for flour.

ANSWER A

A government introduces a maximum price above the market price. What will be the effect on consumer and producer surplus?

	consumer surplus	producer surplus
A	fall	rise
B	rise	fall
C	rise	unchanged
D	unchanged	unchanged

ANSWER D

After a series of poor harvests, a government imposes an effective maximum price on cereals.

What would be a consequence of this policy?

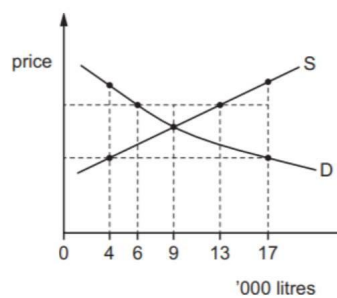
- A Both rich and poor people would satisfy their demands equally.
- B Illegal buying and selling through a black market would be prevented.
- C Rationing would be necessary to ensure a fair distribution of cereals.
- D The market would fail to clear leaving a surplus of cereals.

ANSWER C

In 2014 some supermarkets reduced the price they were willing to pay farmers for milk to below what was then the market equilibrium price. They passed the lower price onto the consumers in order to try and encourage them into the store.

The government then fixed an effective minimum price which the supermarkets had to pay the farmers.

These two actions are shown in the diagram.



What would be the outcome after the supermarket action and then the government action?

	after supermarket action	after government action
A	a shortage of 5000 litres	a surplus of 4000 litres
B	a shortage of 5000 litres	a surplus of 7000 litres
C	a shortage of 13000 litres	a surplus of 4000 litres
D	a shortage of 13000 litres	a surplus of 7000 litres

Answer D

Government intervention

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.

Answer D

What is the major problem associated with a government directly providing the correct amount of a public good?

- A competition from private producers
- B estimation of demand
- C increased trade diversion
- D rivalry in consumption

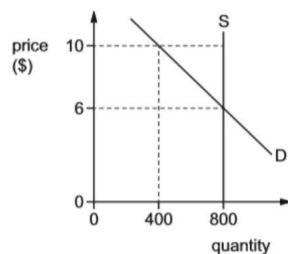
Answer B

There have been recent calls for the UK government to nationalise its railways. What would not be a reason for nationalising the railways?

- A Private rail companies often charge high ticket prices.
- B Private rail companies may exploit monopoly power.
- C Railways are an essential part of national infrastructure.
- D Railways should be treated as a public good.

Answer D

The diagram shows an initial market equilibrium for an agricultural product of \$6 and 800 units.



How much will the government have to spend to increase the market price to \$10?

- A \$1600
- B \$2400
- C \$3200
- D \$4000

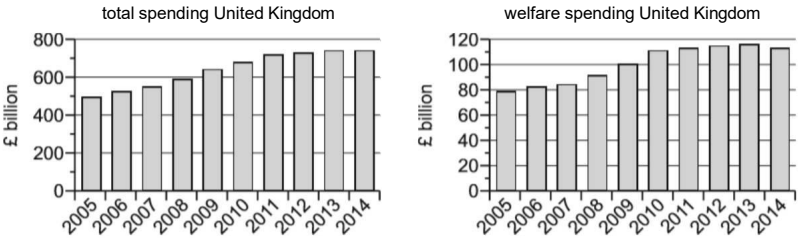
Answer D

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.

Answer A

The diagrams show UK Government total spending and welfare spending in £ billions between 2005 and 2014.



What can be concluded from the diagrams about UK Government spending during the period 2005 to 2014?

- A Both forms of spending were cut in 2014.
- B Both total and welfare spending have risen continuously.
- C In 2005 welfare spending made up a quarter of total spending.
- D Non-welfare spending has always exceeded welfare spending.

Answer D

Health services in an economy are provided by private clinics that charge high fees. The government decides health services should be provided for everyone, not based on ability to pay.

Which direct action should it take?

- A Build government clinics to compete in the market.
- B Close private clinics where provision by the market is inadequate.
- C Increase the taxes on profits made by private clinics.
- D Nationalise private clinics and remove charging.

Answer D

A local government is deciding whether to increase parking charges and provide more lanes for bus use only.

One official said that the increase in parking charges should cause more bus travel.

A second official said that an increase in the frequency of bus services will not cause demand for bus travel to rise.

Are these official statements correct or incorrect?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

Answer B

What is an example of direct public provision of goods and services?

- A a charity hospital funded by public donations that offers free treatment to the rural poor
- B a mobile government library that travels to rural villages offering access to books
- C a pharmacy in a local shopping centre that provides treatment direct to the public
- D a private school that offers free places to children of low income families

Answer B

What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

- A fewer destinations served by trains and buses
- B lower fares

What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

- A fewer destinations served by trains and buses
- B lower fares
- C more frequent services to all destinations
- D more people employed in public transport services

Answer A

Taxes and subsidies

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.

Answer B

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

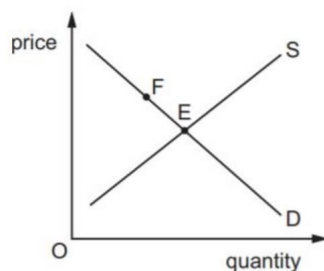
Answer C

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

Answer A

The diagram shows the equilibrium price and quantity of good X.



The initial market equilibrium is shown by point E.

What might cause the market equilibrium to move to point F?

- A a decrease in the costs of producing good X
- B a decrease in the demand for good X
- C an increase in the price of a substitute good
- D the imposition of a specific sales tax on producers of good X

Answer D

The table shows the demand and supply schedules for a product before and after the government pays a subsidy of \$4 per unit to the producers.

price \$	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	250	50	150
8	200	100	200
10	150	150	250
12	100	200	300
14	50	250	350

Assuming that any extra sales are to new consumers, how much do the original consumers of the product save as a result of the subsidy?

- A \$300 B \$600 C \$900 D \$1500

Answer A

The income tax structure of a country has two elements.

- 1 The first \$20 000 of earned income is not taxed.
- 2 Any income earned above \$20 000 is taxed at 20%.

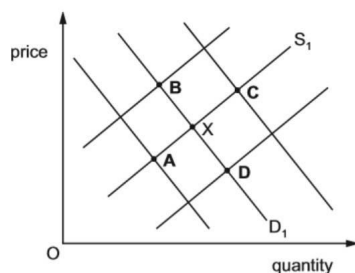
What would be a correct description of this tax structure?

- A a progressive tax on incomes of more than \$20 000
 B a progressive tax throughout the whole income range
 C a proportional tax on incomes of more than \$20 000
 D a regressive tax throughout the whole income range

Answer A

In 2014 Egypt reduced subsidies on fossil fuels such as gasoline and diesel. The diagram shows the initial equilibrium at point X.

What will be the new equilibrium after the reduction of subsidies?



Answer B

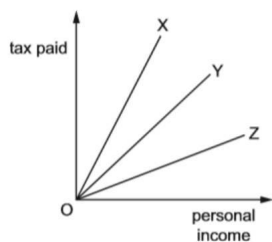
A government increased a specific tax on shoes. The resulting increase in the price of shoes was paid mainly by the consumer and not by the producer.

What must be true for this to happen?

- A The price elasticity of demand was less than the price elasticity of supply.
 B The price elasticity of demand was unitary.
 C The price elasticity of supply was less than one.
 D The price elasticity of supply was inelastic while the price elasticity of demand was elastic.

ANSA

The diagram shows three possible tax schemes.



What can be concluded about these tax schemes?

- A** X is more progressive than Z.
- B** X, Y and Z are all proportional.
- C** Y is the only proportional tax
- D** Z is more regressive than Y.

Answer B

A subsidy is given to the producers of a good with perfectly elastic demand.
What will be the outcome?

- A** Consumer and producer receive equal amounts of subsidy.
- B** There will be no change in price; the incidence of the subsidy will fall on the producer.
- C** There will be a large increase in quantity consumed; the incidence of the subsidy will fall on the consumer.
- D** There will be no change in the quantity consumed; the incidence of the subsidy will fall on the consumer.

ANSWER B

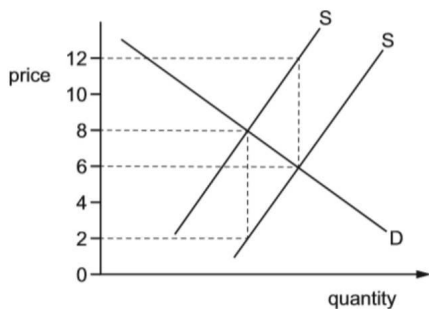
A government decides to subsidise farms producing milk in its country.

Which question about this decision is a normative question rather than a positive question?

- A** How much will milk production increase?
- B** How should essential products, such as milk, be produced?
- C** How will employment in the milk industry change?
- D** How will milk prices change?

Answer B

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

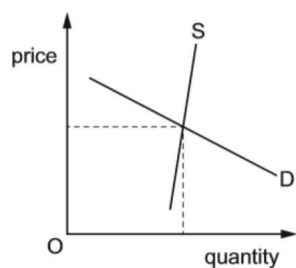


What is the tax per unit of output and what is the price after the removal of the tax?

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

Answer A

The diagram shows the market for heating oil.

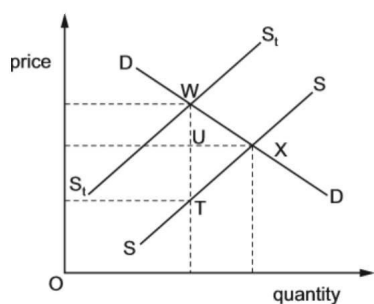


If the government introduces a production subsidy, how will the financial benefit be shared between consumers and producers?

- A It will be shared equally between producer and consumer.
- B It will go entirely to the producer.
- C The majority will go to the consumer.
- D The majority will go to the producer.

Answer D

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_t is the supply curve after tax.



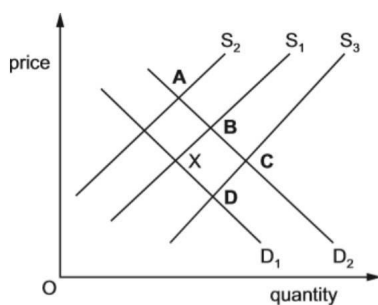
Which distance represents the specific tax on each bottle?

- A UT
- B WT
- C WU
- D WX

Answer B

A market is in equilibrium at point X. The government then subsidises both consumers and producers by direct payments.

What will be the new equilibrium position?



Answer C

Which is a transfer payment?

- A an annual allowance paid by an individual to a grandchild
- B a one-off bonus paid to an employee for a special contribution to a firm's profits
- C a payment made by a parent to a regular child-minder
- D the monthly salary of an employee of a local authority

Answer A

Transfer payments

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

Answer B

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.

Answer C

Which statement about transfer payments is correct?

- A Transfer payments are intended to reward productive economic activity.
- B Transfer payments are only financed by government.
- C Transfer payments may result in a disincentive to work.
- D Transfer payments will include the sales of new cars.

Answer C

What is an aim of a transfer payment?

- A It allows the government to alter the final distribution of income.
- B It provides a ceiling for levels of income across the economy.
- C It removes the need for state subsidies.
- D It rewards the activity of a factor of production.

Answer A

The table identifies items of government annual spending.

	\$ million
army pay	35
civil servants' salaries	125
farming subsidies	15
pension payments	75
welfare benefits	50

What is the total government expenditure on transfer payments?

- A \$50m
- B \$125m
- C \$175m
- D \$300m

Answer B

Macroeconomic policy (AS level)

Multiple choice questions by topic [with answers](#)

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- Types of policies , fiscal policy , monetary policy and supply side policy
- Policies to correct balance of payment disequilibrium
- Policies to correct inflation and deflation

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

Answer D

Which action is classified as a fiscal policy measure?

- A fixing a currency to another country's currency
- B managing changes in the level of government debt
- C providing guidance to industry and the public
- D tightening reserve asset requirements for financial institutions

Answer B

Which type of policy would have the most immediate effect in dealing with a deflationary economic downturn?

- A increasing the government's budget surplus
- B increasing liquidity by assisting banks to lend more
- C investing in projects to improve transport networks
- D switching the burden of taxation from earning to spending

Answer B

What is an example of a supply-side policy?

- A an import quota to restrict the supply of goods
- B a rise in interest rates to encourage the supply of savings
- C a specific tax on the supply of goods to raise revenue
- D a subsidy to businesses to promote the supply of training courses

ANSWER D

Which policy would assist in reducing a deficit within the balance of payments?

- A increasing interest rates
- B increasing the money supply
- C reducing subsidies to exporting industries
- D reducing the level of direct taxation

Answer A

What would be increased by an expansionary fiscal policy?

- A budget deficit
- B exchange rate
- C money supply
- D rate of direct taxation

Answer A

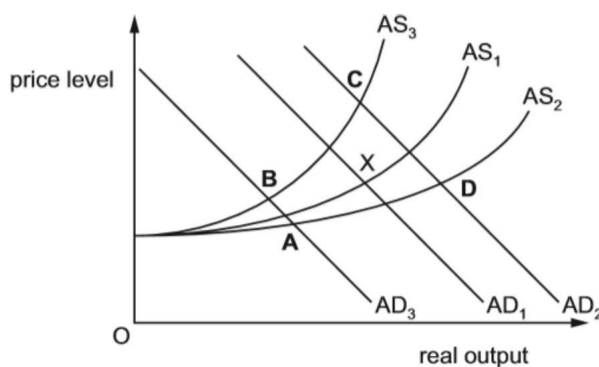
Which policy mix is most likely to be effective in the short run for reducing inflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget surplus	increasing the interest rate
B	decreasing the budget surplus	increasing the money supply
C	increasing the budget surplus	increasing the interest rate
D	increasing the budget surplus	increasing the money supply

Answer C

In its recent budget a government reduced total expenditure while increasing the amount spent on training to increase the productivity of the workforce. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these changes?



ANSWER A

Monetary policy can be used to increase the level of business activity.

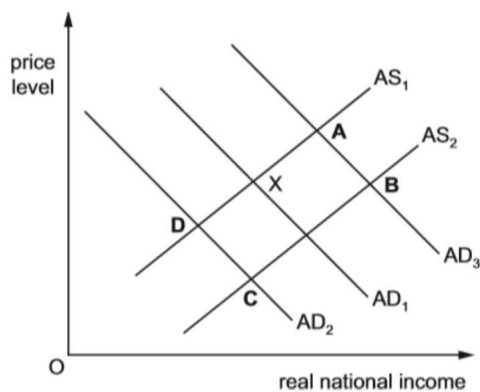
Which action illustrates this?

- A curbing consumption through controls on credit
- B lowering reserve requirements of banks to increase lending
- C reducing government spending to achieve a budget surplus
- D stimulating company investments by increasing interest rates

Answer B

The government of a country plans to raise income tax rates. The initial equilibrium for the country is represented by point X on the diagram.

Which new equilibrium point would an economist predict as the result?



Answer D

The macroeconomy (AS level)

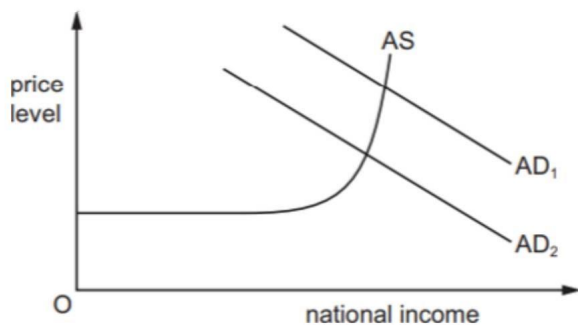
Multiple choice questions by topic with answers

Table of contents

- Aggregate demand and aggregate supply
- Inflation, economic growth and employment
- Balance of payments
- Absolute and comparative advantage
- Protectionism
- Exchange rates
- Terms of trade

Aggregate demand and aggregate supply

The diagram shows an aggregate supply curve, and aggregate demand curves.

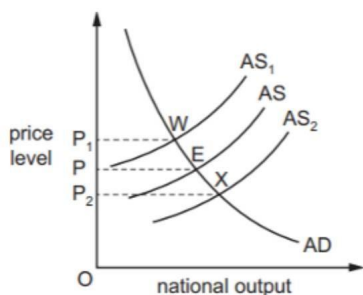


What would cause a decrease in aggregate demand from AD_1 to AD_2 ?

- 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

Answer A

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 AS_1 and from AS to AS_2 ?

	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

Answer D

An aggregate demand curve slopes downwards from left to right. One reason for this is that reduction in the average price level will lead to

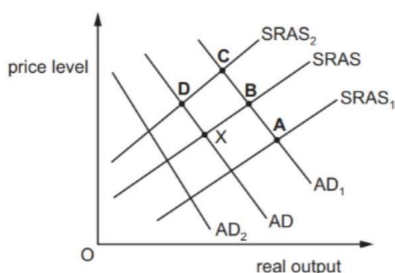
- A a decline in the country's international competitiveness.
- B an increase in interest rates.
- C an increase in the real value of money balances.
- D the expectation of further price falls

Answer C

In the diagram an economy is initially in equilibrium at point X.

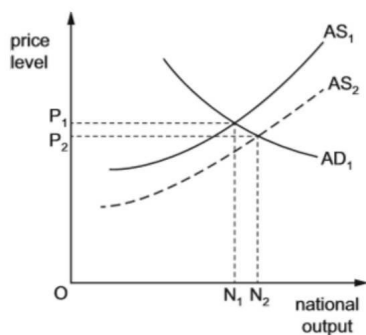
The government increases spending on education. This coincides with an increase in wage rate inflation.

Which point shows the most likely short-run equilibrium of the economy?



Answer C

The diagram shows the AD/AS curves for an economy

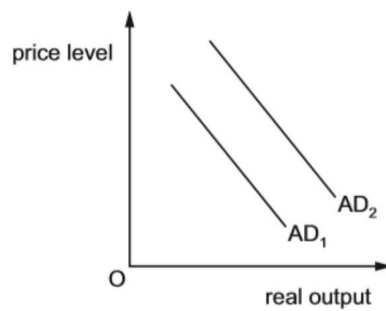


Which policy would reduce the price level from P_1 to P_2 as shown?

- 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

Answer C

The diagram shows a shift in the aggregate demand curve, from AD_1 to AD_2 .

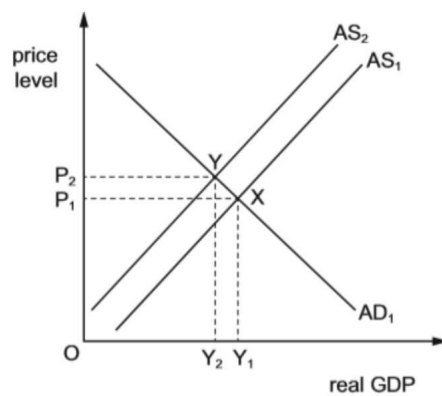


What might have caused this shift?

- A** a fall in the budget surplus
- B** a fall in the trade surplus
- C** a rise in imports
- D** a rise in the interest rate

Answer A

The diagram shows the original aggregate demand curve, AD_1 , and original aggregate supply curve, AS_1 . The original equilibrium is at X.



What would cause the new equilibrium to be at Y?

- A** an increase in export prices
- B** an increase in government spending on education
- C** an increase in import prices
- D** an increase in the money supply

Answer C

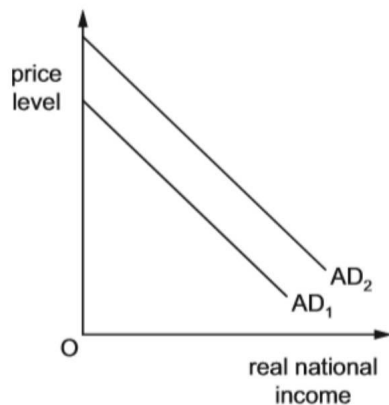
In February 2016 the Organisation for Economic Cooperation and Development (OECD) urged major economies such as the US and Japan to increase government spending

How would this affect the aggregate demand (AD) curve in these countries?

- A a move left along the AD curve
- B a move right along the AD curve
- C a move to the left of the AD curve
- D a move to the right of the AD curve

Answer D

The diagram shows a shift in the aggregate demand curve of an economy from AD_1 to AD_2 .



What could have caused this shift?

- A an increase in expenditure on imports
- B an increase in government tax rates
- C an increase in the international trade deficit
- D an increase in the money supply

Answer D

Inflation, economic growth and employment

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

Answer C

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.

Answer B

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

Answer A

During one year the national output of a country valued in terms of money prices increased by 8% while the index of the prices of all goods and services produced in the country increased by 3%. By how much did the real national output increase?

- A 3%
- B 5%
- C 8%
- D 11%

Answer B

The table shows the CPI rate of inflation (%) in the United States from 2006 to 2013.

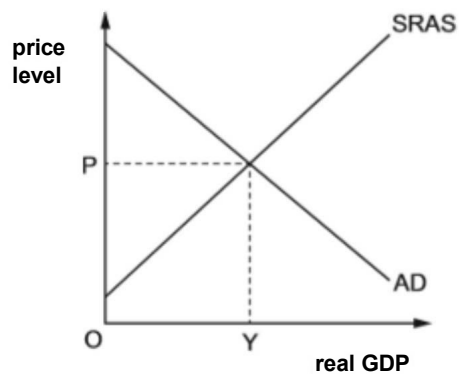
2006	2007	2008	2009	2010	2011	2012	2013
2.5%	4.1%	0.1%	2.7%	1.5%	3.0%	1.7%	2.0%

What can be concluded from the figures about the period 2006 to 2013?

- A There was one year of constant prices.
- B There were three years of deflation.
- C There were only four years of inflation.
- D There were eight years of rising living costs.

Answer D

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

answerB

The table shows the consumer price index (CPI) and national output at current prices in 2014 and 2015 for an economy.

year	CPI	national output at current prices
2014	100	100
2015	120	110

What can be concluded when 2015 is compared with 2014?

- A** Money national output decreased by 10%.
- B** Money national output increased by 20%.
- C** Real national output fell.
- D** Real national output increased.

; ANSC

The table shows the annual percentage increases in a country's consumer prices index (CPI).

year	% change
2015	8.3
2016	6.0
2017	6.0
2018	1.0

Which statement is correct?

- A** Consumer prices, on average, fell throughout the period
- B** Consumer prices, on average, remained the same in 2016 and 2017.
- C** The general level of consumer prices was at its highest in 2015.
- D** The general level of consumer prices was at its highest in 2018.

Answer D

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

Which statement about changing price levels is correct?

- A Anyone on a fixed income has rising real income during deflation.
- B Government revenue from indirect taxes falls during inflation.
- C Producers prefer deflation to inflation.
- D Savers prefer index-linked savings when there is deflation rather than inflation.

Answer A

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

Answer B

An economy is currently operating close to its full employment level of national income.

Which combination of macro-economic policies would be most likely to have net deflationary effects?

- A a 10% cut in the standard rate of income tax and a 5% devaluation of the currency
- B a 10% cut in the standard rate of income tax and a 5% revaluation of the currency
- C a 10% rise in the standard rate of income tax and a 5% devaluation of the currency
- D a 10% rise in the standard rate of income tax and a 5% revaluation of the currency

Answer D

Balance of payments

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

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

Answer c

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
- D to raise the exchange rate

Answer A

In 2014 Australia and China negotiated a trade agreement. This removed Chinese tariffs on 95% of Australian exports in exchange for greater access to the Australian economy for Chinese investors.

How would the agreement be expected to affect the Australian balance of payments in the short run?

	current account	financial account
A	greater inflow	greater inflow
B	greater inflow	greater outflow
C	greater outflow	greater inflow
D	greater outflow	greater outflow

Answer A

A country has a deficit on the current account of the balance of payments. Which policy would be expected to increase the deficit?

- A an appreciation of the exchange rate
- B an increase in domestic productivity
- C an introduction of import quotas
- D a rise in subsidies to domestic firms

Answer A

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

Answer D

Which item is not included in the current account of a country's balance of payments?

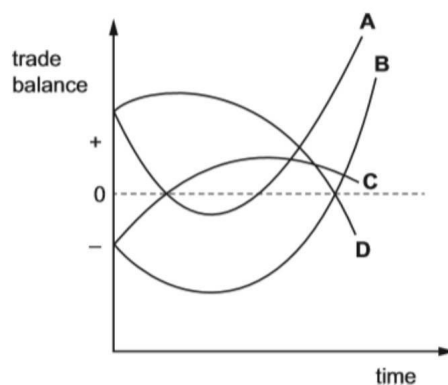
- A exports of services
- B interest on foreign loans
- C profits from foreign investments
- D the purchase of foreign assets

Answer D

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?



ANSWER B

'Primary income' and 'secondary income' are components of the current account of the balance of payments.

What do these represent?

	primary income	secondary income
A	capital flows	financial flows
B	goods balance	services balance
C	income flows	current transfers
D	private flows	government flows

Answer C

A foreign government pays a UK university to educate its students.

How would this be recorded on the balance of payments current account of the UK?

	current account component	money flows
A	secondary income	inflow
B	secondary income	outflow
C	trade in services	inflow
D	trade in services	outflow

Answer C

What does the current account of the balance of payments include?

- A government reserves and foreign aid
- B government revenue and government spending
- C imports and exports of goods and services
- D inflows and outflows of trade and capital

Answer C

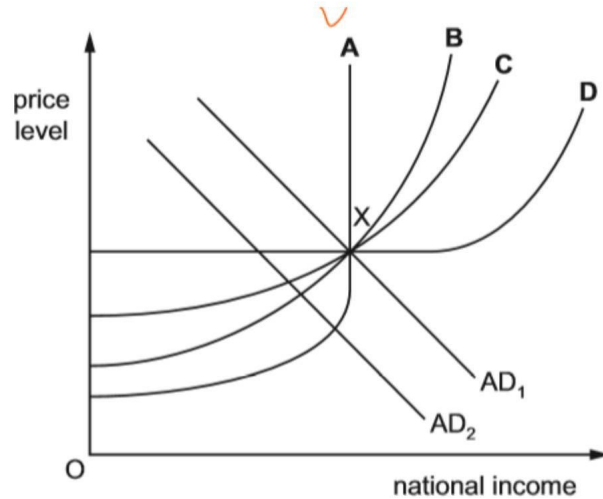
When will a country's balance of payments current account deficit be reduced?

- A when it lowers tariffs on its imports
- B when it raises its rate of income tax
- C when it removes export subsidies
- D when it revalues its currency

Answer B

The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2 .

With which AS curve would this policy be most effective?



Answer A

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.

Answer C

Absolute and comparative advantage

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.

Answer C

Which type of import control allows a country to develop a potential comparative advantage in a particular good?

- 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

Answer B

The table shows the production possibilities of cloth and food in four countries using all of their resources.

country	cloth (million units)		food (million units)
V	40	or	8
X	28	or	4
Y	8	or	2
Z	5	or	5

If the world exchange rate is 1 unit of food for 6 units of cloth, with whom is V likely to trade?

- A X and Y
- B X only
- C Y and Z
- D Z only

Answer B

Country X forms a customs union with country Y.

X then ceases to produce its own cars and instead imports cars from Y. Country Y diverts some of its car exports to X from country Z.

How is this likely to affect car prices in X and Z?

	country X	country Z
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

Answer B

The table shows the ability of two countries to produce two commodities when they use all of their resources for that product.

country	maximum output of rice	maximum output of wheat
X	2000	2000
Y	4000	2000

Which statement is correct?

- A** Country X has an absolute advantage in wheat.
- B** Country Y has an absolute advantage in wheat.
- C** Country X has a comparative advantage in wheat.
- D** Country Y has a comparative advantage in wheat.

Answer C

The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1800	2800
country Q	1500	2000

Which statement is correct?

- A** P has an absolute advantage in Y and Q has an absolute advantage in Z.
- B** P has an absolute advantage in Z and Q has a comparative advantage in Y.
- C** P has a comparative advantage in Y and Q has a comparative advantage in Z.
- D** P has a comparative advantage in Z and Q has an absolute advantage in Y.

Answer B

Protectionism

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

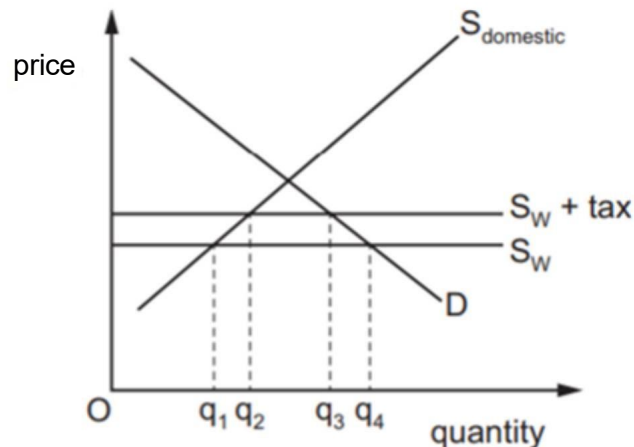
D setting an appropriate exchange rate for the international trade of goods and services

Answer D

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 $q_4 - q_1$ to $q_3 - q_2$.

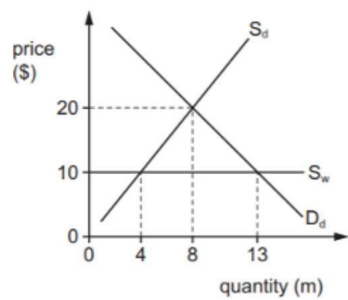
C Imports will fall from q_4 to q_3 .

D Supply of domestic goods will increase from q_1 to q_2 .

Answer C

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.

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

Answer B

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

Answer A

What is present in a customs union but not in a free trade area?

- A a common external tariff with the rest of the world
- B a common monetary system
- C a common system of taxation
- D the free movement of all goods, services and factors of production

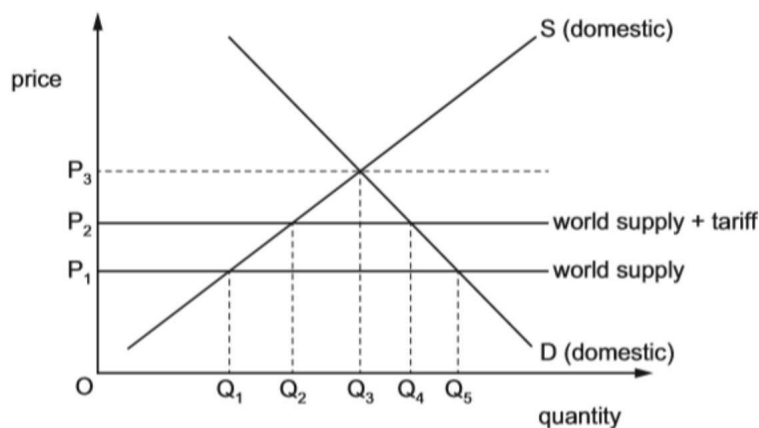
Answer A

Which argument in favour of protectionism is not generally regarded as economically valid?

- A It increases the standard of living of the population in general.
- B It prevents heavily-subsidised imports from competing unfairly against domestic goods.
- C It provides time for the protected industry's workers to be retrained for other work.
- D Once the protected industry becomes established, it will produce efficiently.

Answer A

The diagram shows the domestic and world demand and supply for a good.



The government imposes a tariff on imports of the good.

What will happen to the quantity imported?

- A It will fall from Q_1Q_3 to Q_2Q_3 .
- B It will fall from Q_1Q_5 to Q_2Q_4 .
- C It will fall from Q_2Q_5 to Q_3Q_4 .
- D It will fall from OQ_5 to OQ_4 .

ANSWER B

What is not an example of protectionism?

- A the European Union (EU) requiring goods imported into member states to meet safety standards
- B the Pakistan government increasing the rate of goods and services tax, GST, on some exported goods from 2% to 5%
- C the Nigeria government banning the import of packaged sugar
- D the US imposing a 35% tariff on tyres imported from China

ANSWER B

In 2014, Poland was the world's largest exporter of apples. 55% of the crop went to Russia. Then Russia banned the imports.

What would not have prevented the revenue of the Polish apple farmers falling dramatically?

- A** The apple farmers found new markets in other countries.
- B** The apple farmers were able to store the harvest for sale later.
- C** The Polish Government placed a ban on imports of food from Russia.
- D** The Polish Government established a scheme to buy apples and supply them to charities.

ANSWER C

Which government policy could be considered as a protectionist policy?

- A an imposition of controls on capital outflows from the economy
- B foreign exchange intervention to prevent a devaluation of the country's currency
- C pollution charges imposed on domestic producers
- D subsidies paid to domestic producers of a tradeable good

ANSWER D

What is an example of an expenditure-dampening policy?

- A an increase in income tax rates
- B an increase in the level of import tariffs
- C an upward revaluation of the exchange rate
- D the introduction of import quotas

ANSWER A

Exchange rates

Turkey can produce a good but also imports some of the good from Egypt. The Turkish currency depreciates against the Egyptian currency.

How is this most likely to 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

Answer B

Under a system of floating exchange rates, what determines the foreign exchange value of a currency?

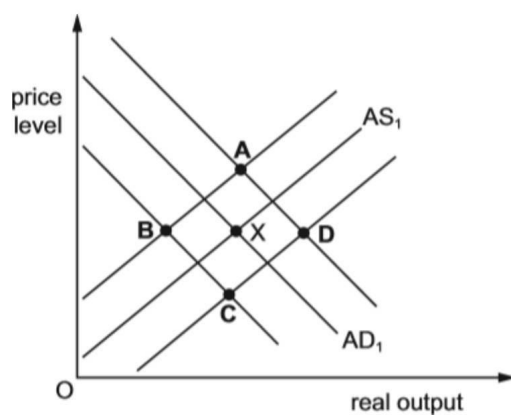
- A the overall supply of and demand for a currency on currency markets
- B the purchasing power of the currency relative to the purchasing power of foreign currencies
- C the surplus or deficit on the balance of payments on current account
- D the differential between domestic and foreign interest rates

answer A

I Between June and the end of July 2016 the UK pound sterling depreciated by 11% against a basket of currencies of the UK’s major trading partners.

The diagram shows the original aggregate demand curve AD, and the original aggregate supply curve AS, for the UK economy before June 2016. The equilibrium is at X.

What will be the new equilibrium for the UK economy as a result of the depreciation of the pound sterling?



Answer A

A government wishes to raise the value of the external exchange rate of its currency.

What should it do?

- A discourage inward foreign direct investment
- B raise interest rates
- C raise the level of aggregate demand in the economy
- D remove quotas on imported products

Answer A

Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade-weighted exchange rate index of country X is 100.

What will be its new trade-weighted exchange rate index value if its currency falls in value by 20% against the currency of country Y and rises by 10% against the currency of country Z?

- A 84
- B 90
- C 92
- D 116

Answer C

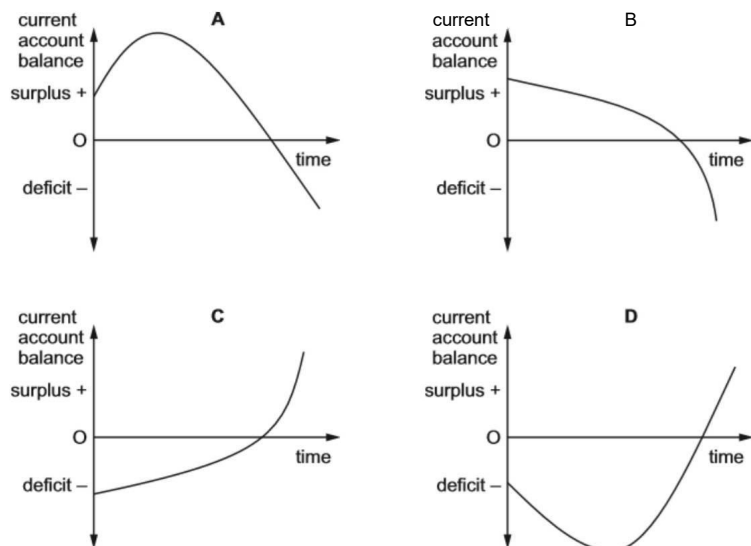
Which aim would be consistent with a government's decision to buy its own currency in foreign exchange markets?

- A an appreciation under a freely floating exchange rate system
- B an appreciation under a managed float exchange rate system
- C a depreciation under a fixed exchange rate system
- D a devaluation under a managed float exchange rate system

Answer B

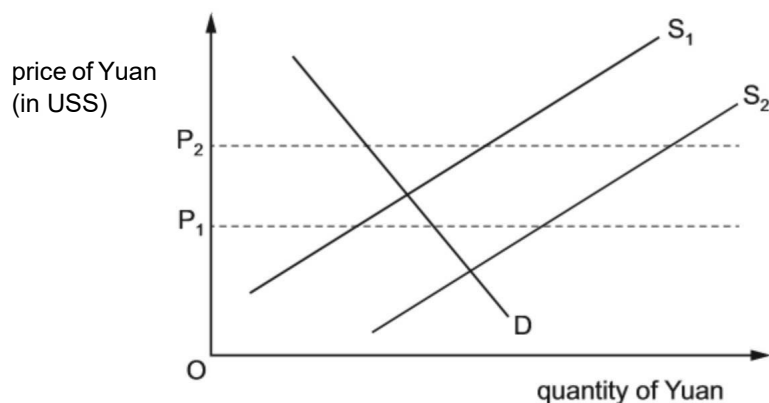
An economy's current account on the balance of payments is in surplus. The exchange rate is revalued by the government. Assume the Marshall-Lerner condition holds.

Which diagram shows the impact on the current account balance?



Answer A

Assume the Chinese monetary authorities are committed to maintaining the exchange rate China's currency, the Yuan, against the US\$ between P_1 and P_2 on the diagram.



What might they do if supply changed from S_1 to S_2 ?

- A** introduce controls on Chinese investment overseas
- B** lower interest rates
- C** remove tariffs on imports from USA
- D** sell Yuan on the foreign exchange markets

Answer A

In the UK in July 2014, £1 = US \$1.71.

By the end of August 2014, £1 = US \$1.65.

What is most likely to explain this?

- A** an increase in UK exports
- B** an increase in UK interest rates
- C** increasing profitability of UK companies
- D** increasing size of UK national debt

Answer D

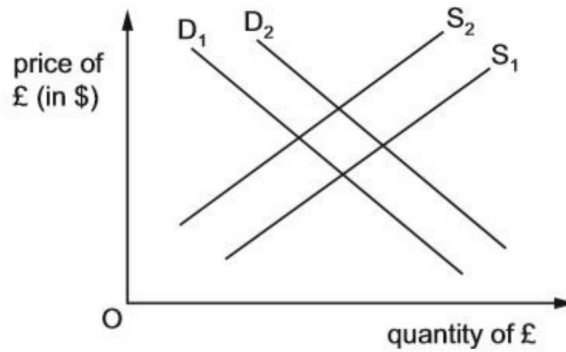
Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade weighted exchange rate index of country X is 100.

What will be its new trade weighted exchange rate index value if its currency rises in value by 20% against the currency of Y and falls by 10% against the currency of Z?

- A 84
- B 92
- C 108
- D 116

Answer C

In the diagram D_1 and S_1 are the initial supply and demand curves of the pound sterling (£) on the foreign exchange markets.



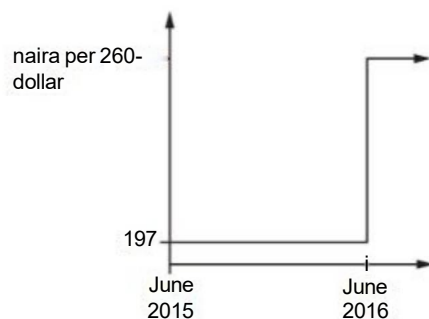
What will cause the demand curve to shift to D_2 and the supply curve to S_2 ?

- 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

MJ 17

Answer C

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

Answer C

Terms of trade

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.

Answer D

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

Answer B

The table shows the terms of trade for Saudi Arabia.

date	terms of trade
2000	100
2010	105
2015	137

What can be concluded from the table for Saudi Arabia?

- A Export prices rose relative to import prices.
- B The balance of trade surplus increased.
- C The volume of exports exceeded the volume of imports.
- D The volume of exports rose faster than the volume of imports.

Answer A

The index for a country's terms of trade changed from 100 in year 2015, to 104 in year 2016.

What could have caused this change?

- A a fall in export prices with import prices unchanged
- B a fall in revenue from the export of services
- C an appreciation of the country's currency
- D a rise in the value of imports

ANSWER C

The tables show changes over a period in the average prices of a country's exports and imports. They are expressed as index numbers, with year 0 as 100.

index of export prices			index of import prices		
year 0	year 1	year 2	year 0	year 1	year 2
100	115	125	100	120	125

What is the change in the country's terms of trade index between years 1 and 2?

- A It improves by about 10%.
- B It improves between 4% and 5%.
- C It stays the same.
- D It worsens between 4% and 5%.

ANSWER B

Which formula is used to calculate a country's terms of trade?

- A index of export prices - index of import prices
- B index of import prices - index of export prices
- C $\frac{\text{index of export prices}}{\text{index of import prices}} \times 100$
- D $\frac{\text{index of import prices}}{\text{index of export prices}} \times 100$

ANSWER C

25 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%

ANSWER B

The price system and the microeconomy (AS level)

Multiple choice questions by topic [with answers](#)

Table of contents

- Elasticity of demand
- Demand and supply curves
- Price elasticity of supply
- Market equilibrium
- Consumer and producer surplus

Elasticity of demand

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.

Answer A

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

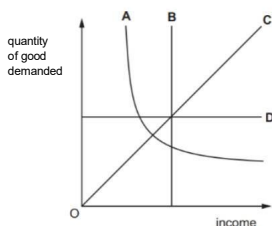
There is a rise in the price of restaurant meals and a fall in the price of theatre tickets. What can be concluded after these price changes?

- 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.

Answer B

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?



Answer C

Good X has a substitute, good Y, and a complement, good Z. The price of good Y decreases and the price of good Z increases.

Why might the equilibrium price of good X remain unchanged?

- A Producers of good X adopt new technology.
- B Producers of good X receive a subsidy.
- C Some firms stop production of good X.
- D The tax on the production of good X is cut.

Answer c

Two goods X and Y have a positive cross-elasticity of demand and upward-sloping supply curves.

What will be the effect of a reduction in the price of good Y?

- A The demand for good X will increase.
- B The demand for good Y will decrease.
- C The price of good X will decrease.
- D The quantity of good X supplied will increase.

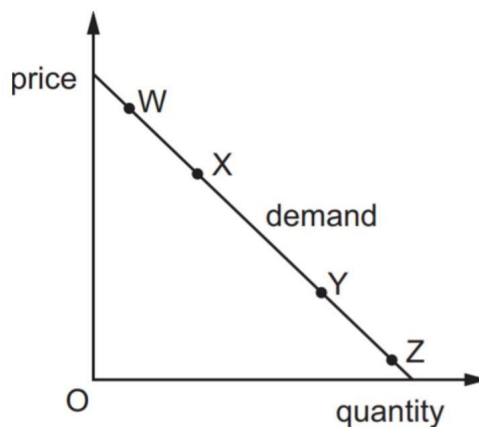
ANSWER C

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

Answer C

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 DB X to W C Y to Z D Z to Y

Answer D

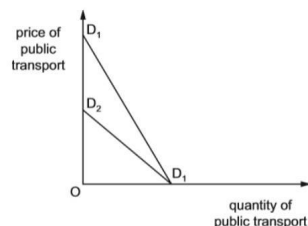
The price elasticity of demand for a firm's product is equal to one for all price changes. What would be the result of this?

- A A percentage increase in price will cause demand to fall by a larger percentage.
- B A percentage increase in price will cause demand to increase by the same percentage.
- C Quantity demanded will always be the same whatever the price.
- D The firm's revenue will always be the same whatever the price.

March 2017 a7 ans D

Answer D I

D,D, shows an individual's initial demand curve for public transport.



What would cause the demand curve to shift to D2D1?

- A The cost of running the individual's car rises.
- B The individual is banned from driving.
- C The price of public transport rises.
- D The quality of public transport declines.

ANSWER D

The table shows changes in a consumer's expenditure on various goods when her income increases from \$20000 to \$24000.

good	income \$20000: amount spent on good (\$)	income \$24000: 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, Y and Z
- B W and Z only
- C W only
- D Z only

Answer D

Goods X and Y are complements and have upward-sloping supply curves.

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

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

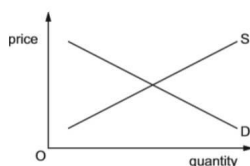
ANSWER D

In which situation 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.

Answer D

The diagram shows the market for a normal good.

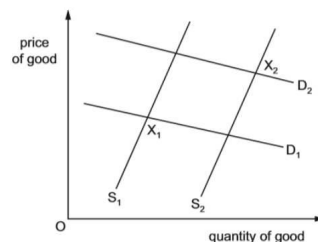


What is likely to cause both demand and supply curves to shift to the right?

- A a fall in the price of the good and a fall in the rate of indirect tax on the good
- B a rise in the price of a complementary good and an increase in the number of firms in the industry
- C a rise in the price of a substitute good and a fall in the price of a raw material used in the production of the good
- D an improvement in production techniques and a fall in the incomes of consumers

Answer C

D_1 and S_1 are the initial demand and supply curves for a normal product. They then change to D_2 and S_2 .



Which pair of changes would result in the market equilibrium for the product changing from X_1 to X_2 ?

- A a fall in the price of a raw material used in the manufacturing and a decrease in the price of a complementary good
- B an increase in average consumer incomes and an increase in the level of an indirect tax imposed
- C an increase in the price elasticity of demand for the product and a fall in its price elasticity of supply
- D a rise in the population and an increase in the price of labour used in manufacturing

Answer A

The table gives a set of price and cross-price elasticities for four commodities, W, X, Y and Z.

with respect to price of	elasticity of demand for commodity			
	W	X	Y	Z
W	-0.3	-0.5	+0.7	-1.3
X	-0.7	-1.2	+0.8	+1.6
Y	+1.3	+1.7	-3.6	+0.8
Z	-2.7	+2.6	+1.7	-0.7

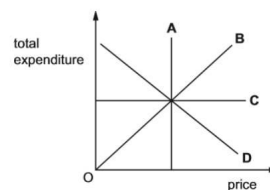
Which pairs of commodities are complements?

- A W and X; W and Z
- B W and Y; X and Y
- C W and Z; X and Z
- D X and Y; X and Z

Answer A

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?



9 A bottle making business announced it had introduced a new production system. As a result the quantity produced per week could be increased or reduced much more easily when the price of bottles changed.

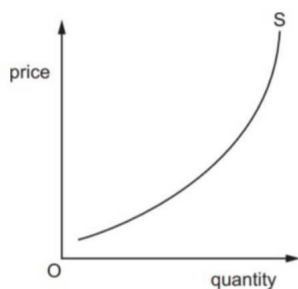
What term describes this change?

- A a less elastic demand
- B a less elastic supply
- C a more elastic demand
- D a more elastic supply

Answer D

Demand and supply

The diagram shows a supply curve for beef.

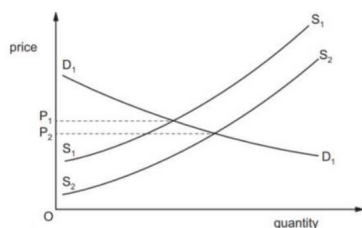


What explains why the supply curve for beef slopes upwards?

- 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.

Answer D

In the diagram, the supply of a product increases while the demand curve does not shift.

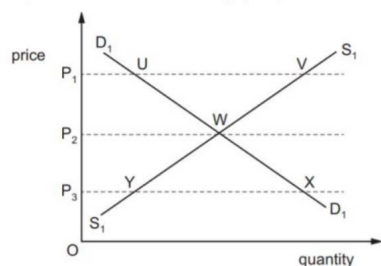


Which row correctly identifies the resulting impact on consumer and producer surplus?

	consumer surplus	producer surplus
A	has fallen	has fallen
B	has fallen	has risen
C	has risen	has fallen
D	has risen	has risen

Answer D

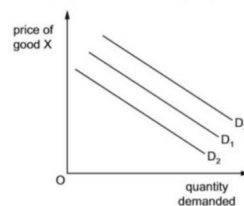
The diagram shows the market demand and supply for a good. Which statement is not valid?



- 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.

Answer C

6 Market demand curves normally slope downwards. They may also shift from D_1 to either D_2 or D_3 .



What would cause a movement along D_1 for good X and not a shift to either D_2 or D_3 ?

- A advertising of good X increases sales
- B consumer incomes rise
- C price of good X falls
- D price of other goods falls

ANSWER C

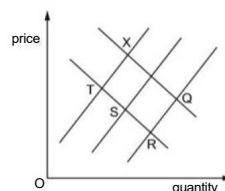
What would not affect the position of the demand curve for wigs?

- A an increase in incomes
- B a reduction in the price of hairdressing
- C an increase in wigs worn by television celebrities
- D a reduction in the price of wigs

ANSWER D

Prices of gold, silver and copper fell considerably in 2011 and again in 2015. The fall in 2011 was said to be because miners increased production. The fall in 2015 was because demand, especially from China, decreased.

Assuming that the equilibrium before 2011 was X, how would these movements in 2011 and subsequently in 2015 be shown on the demand and supply diagram?



	initial equilibrium	2011 equilibrium	2015 equilibrium
A	X	Q	R
B	X	R	Q
C	X	S	R
D	X	T	S

ANSWER A

Consumer X is the largest of five consumers and buys 50% of sales.

The table shows the quantity of the good demanded by consumer X and the market supply of the good.

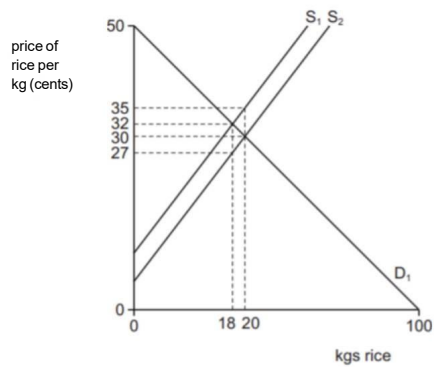
price \$	demand from consumer X	market supply
4	20	28
6	16	32
8	12	40
10	10	45

What would be the market equilibrium price?

- A \$4
- B \$6
- C \$8
- D \$10

ANSWER B

The diagram shows the demand and supply of rice. Supply increases from S_1 to S_2

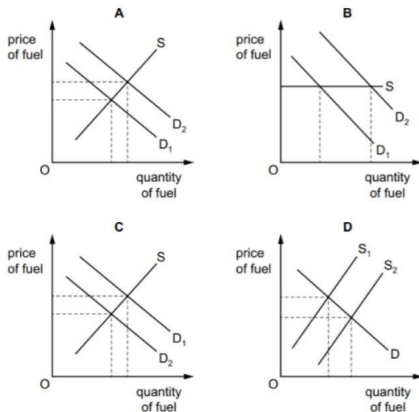


What is the change in sales revenue received by the rice farmer?

- A 24 cents
- B 60 cents
- C 600 cents
- D 700 cents

Answer A

In 2016 car drivers bought more fuel (gas) because the price of oil from which it was made had fallen. Which diagram represents this change in the market for fuel?



Answer D

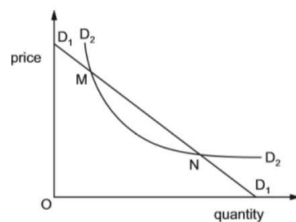
On a demand and supply diagram, other things remaining the same, a fall in the price of a commodity will normally shift

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

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Answer C

In the diagram D1D1 is a straight line demand curve and D2D2 is a rectangular hyperbola curve.



Which statement 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 increases on moving down both curves.
- D The elasticity of demand is inelastic at point M on both curves.

ANSWER B

A bottle making business announced it had introduced a new production system. As a result the quantity produced per week could be increased or reduced much more easily when the price of bottles changed.

What term describes this change?

- A a less elastic demand
- B a less elastic supply
- C a more elastic demand
- D a more elastic supply

ANSWER D

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 dollars.

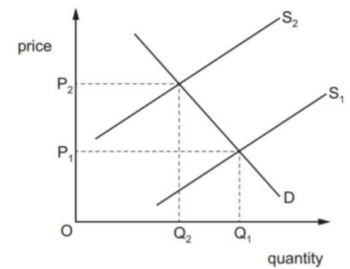
The price falls from \$15 to \$10 per kilo.

The value of price elasticity of supply for this price change lies in a range from

- A 1 to 1.
- B 1 to 1.
- C 1 to 1.
- D 1 to 1.

ANSWER C

The diagram represents the market for diamonds.



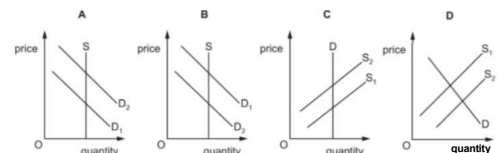
What could have caused price to change from P_1 to P_2 ?

- A a fall in the price of substitute gems
- B a fall in the tax on diamonds
- C a rise in the productivity of diamond miners
- D a rise in the wages of diamond miners

Answer D

In 2014, in an attempt to find new uses for seven sites previously used to bury rubbish, the Hong Kong government announced it would allow private companies to bid to redevelop the sites.

Which diagram shows the change in the market for these sites?



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Answer C

What will happen to an industry's supply curve if new firms enter the industry?

- A It will shift to the left at any given price.
- B It will shift to the right at any given price.
- C There will be a downward movement along the supply curve.
- D There will be an upward movement along the supply curve.

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ANSWER B

Price elasticity of supply

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.

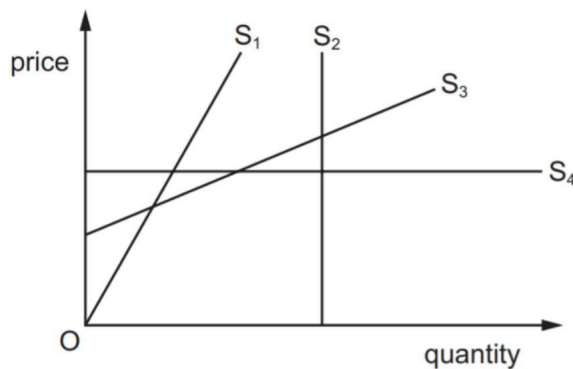
Answer A

3 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

Answer A

For which supply curve is the value of price elasticity of supply not the same at all points on the curve?



- A S_1 B S_2 C S_3 D S_4

Answer C

The table shows three different prices and quantities supplied per week of two products, X and Y.

price of X (\$)	quantity supplied of X	price of Y (\$)	quantity supplied of Y
10	80	30	60
15	100	40	64
20	110	50	80

Which statement about price elasticity of supply (PES) is correct?

- A The PES of X is elastic for a fall in its price from \$15 to \$10.
- B The PES of X is unitary for a rise in its price from \$15 to \$20.
- C The PES of Y is elastic for a fall in its price from \$40 to \$30.
- D The PES of Y is unitary for a rise in its price from \$40 to \$50.

Answer D

Which change will lower the price elasticity of supply of a product?

- A It becomes easier to store the product.
- B Output of the product nears full capacity.
- C The production process becomes less complex.
- D Workers become more mobile.

ANSWER C

Over a four year period, as the price of new houses increases, the price elasticity of supply for new houses falls, as shown. All new houses were sold.

	supply of new houses	price of new houses (\$)	price elasticity of supply
year 1	10000	100000	-
year 2	10250	110000	0.25
year 3	10450	125000	0.13
year 4	10600	140000	0.12

What shows price elasticity of supply became more inelastic from year to year?

- A Dollar revenues to house builders declined each year.
- B Each year, the government released more land for house building.
- C The proportionate price change was greater than the proportionate supply change.
- D The proportionate price change was the same as the proportionate supply change.

ANSWER C

Market equilibrium

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	10000

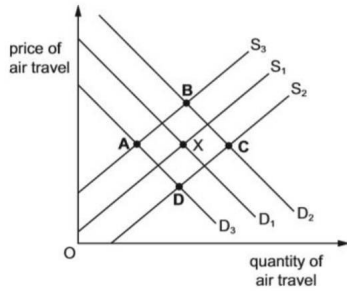
What is the equilibrium price in the market?

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

Answer c

The diagram shows the market for air travel in Asia. The initial market equilibrium is at X.

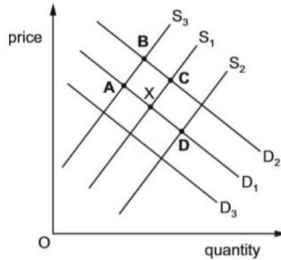
What will be the new equilibrium if the price of aviation fuel rises and incomes are falling in Asia?



ANSWER A

The diagram shows supply and demand for a good. The original equilibrium is X.

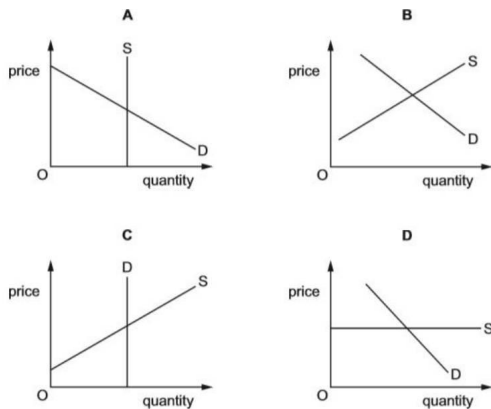
What will be the new equilibrium if subsidies are given to firms for new machinery?



ANSWER D

The diagrams relate to the markets for four different products.

In which market would a 10% decrease in demand and simultaneously a 10% increase in supply definitely result in both a fall in equilibrium price and a rise in equilibrium quantity?



ANSWER A

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

Answer A

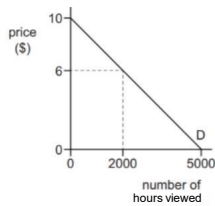
; Consumer and producer surplus

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.

Answer C

At first, a television service is available at no charge. The television company then charges viewers \$6 per hour to watch its programmes. The demand curve is D.

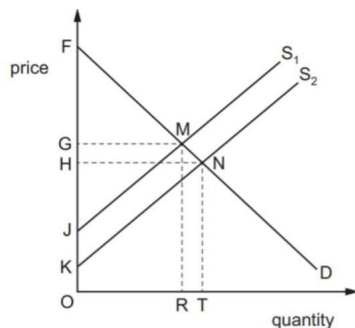


What is the value of the loss in consumer surplus and what value of consumer surplus remains after the introduction of the hourly charge?

	lost consumer surplus (\$)	remaining consumer surplus (\$)
A	9000	4000
B	9000	16000
c	21000	4000
D	21000	16000

answer C

The diagram shows the European airline market.



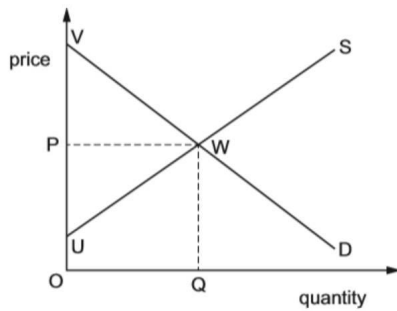
New entrants have come into the market, shifting supply from S_1 to S_2 .

Which area represents the new producer surplus?

- A GMJ
- B HNF
- C HNK
- D KNTO

Answer C

The diagram shows a competitive market in equilibrium with price P and quantity Q sold.



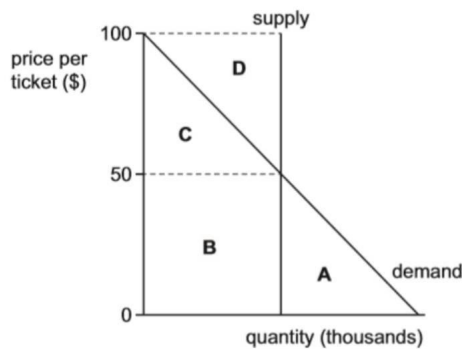
Which area represents the producer surplus?

- A** $OPWQ$ minus $OUWQ$
- B** $OPWQ$ minus UPW
- C** $OVWQ$ minus $OPWQ$
- D** $OVWQ$ minus PVW

Answer A

The price of a ticket for an international athletics tournament was \$50. All tickets were sold.

Which area on the diagram represents consumer surplus?



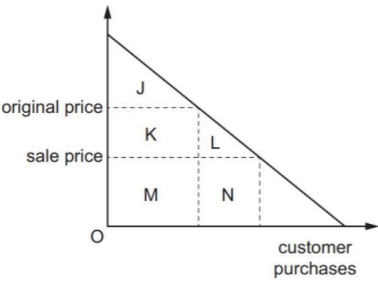
Answer C

What is meant by consumer surplus?

- A** the amount of money that remains after consumers have made their purchases
- B** the difference between how much a consumer is willing to pay for a good and the amount paid
- C** the difference between the amount of a good that's bought by a consumer and the amount consumed
- D** the difference between the price paid for a good and the cost of producing it

Answer B

13 A well-known clothes retailer decides to have a summer sale in its shops. As a result the number of people who use the shops increases.

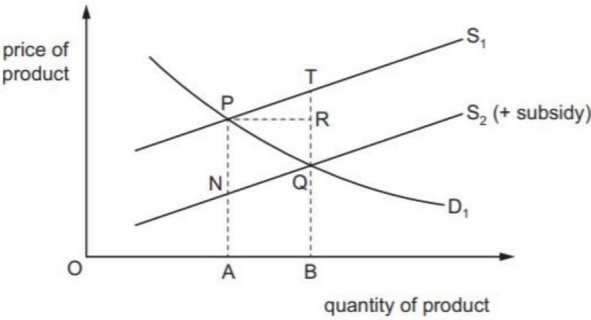


Which areas measure the change in consumer surplus for the customers who would have bought the clothes anyway and the surplus for the new customers?

	existing customers	new customers
A	J + K	L
B	J + K + M	L + N
C	K	L
D	M	N

Answer C

15 The initial market for a product is represented by the demand and supply curves D_1 and S_1 respectively. A subsidy is then introduced, represented by the shift of S_1 to S_2 (+ subsidy).

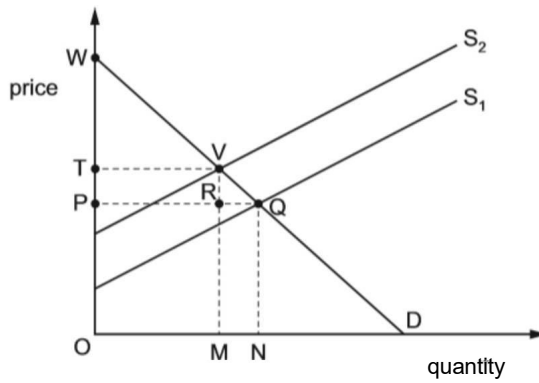


What is the incidence of the subsidy for the consumer and producer?

	consumer	producer
A	PN	NA
B	QR	TR
C	QT	QB
D	TR	QR

Answer B

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

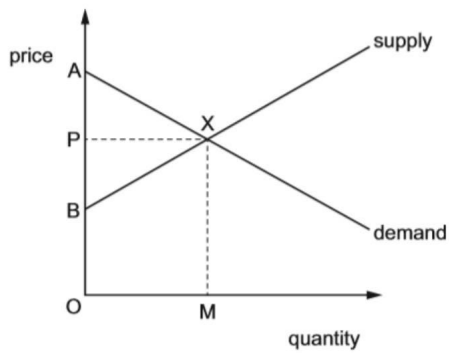


If supply shifts to S_2 , which area represents the change in consumer surplus?

- A PQVT B PQW C PRVT D TVW

Answer A

The diagram shows the demand and supply curves for a good during a certain period. The market price is shown by P and the quantity traded by point M .



Which area indicates producer surplus?

- A AXB B AXMO C AXP D PXB

Answer D