



## Cambridge Pre-U

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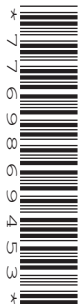
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### ECONOMICS

9772/01

Paper 1 Multiple Choice, Short Answers and Data Response

October/November 2020

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

This document has **28** pages. 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** An A Level student has chosen to work for several days during the summer holidays at the local branch of a well-known coffee shop chain. She is offered the option of being paid £80 in cash or receiving vouchers which allow her to buy £110 worth of food and drink from the shop.

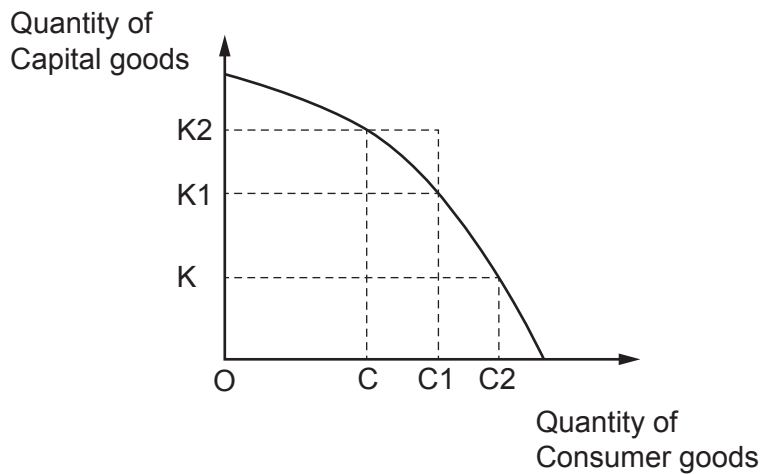
What is the opportunity cost to the student of choosing the vouchers?

- A** £30
- B** £80
- C** £110
- D** the alternative ways she could have spent her time [1]

- 2** What happens if a country makes the transition from a planned economy to a market economy?

- A** Government decision-making replaces the price mechanism.
- B** In all resource allocation decisions, the profit motive is replaced by the objective of maximising social benefit.
- C** Non-price rationing will become more commonplace.
- D** State ownership of the means of production is replaced by private ownership. [1]

- 3 The diagram shows the current production possibility frontier of an economy. Capital is consumed in the current time period at a rate equal to  $OK_1$ .

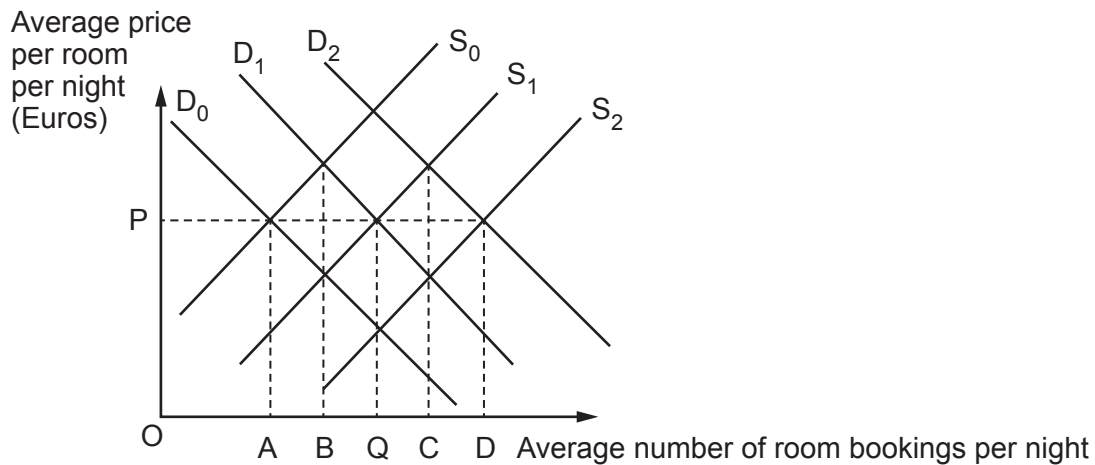


Which currently attainable combination of consumer goods and capital goods will result in an increase in the productive capacity of this economy in the next time period?

- A CK2
- B C1K2
- C C1K1
- D C2K

[1]

- 4 The diagram below shows the relevant supply and demand curves, under different market conditions, for hotel rooms located in the centre of a major German city. Currently the average price per room per night is  $P$  and the number of bookings is  $Q$ . Although city centre space is at a premium, many of these hotels offer parking to guests for a daily charge.



What is likely to happen to the number of bookings if these hotels reduce daily car parking charges for guests by 20%?

- 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]

- 5 Under which of these conditions is demand considered to be relatively price-elastic?

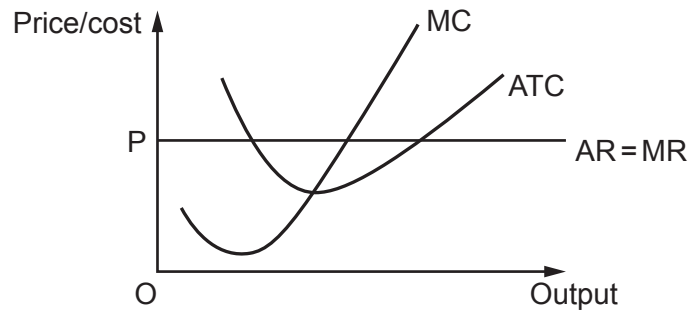
- A A 5% decrease in demand reduces price by 10%.
- B An increase in price results in greater expenditure on the product.
- C Quantity demanded increases when price falls.
- D Total expenditure on the product increases when price falls. [1]

- 6 A firm has total fixed costs of £3000 and can produce two units per hour. Its total variable costs are £2000 for one unit and £3000 for two units.

Which cost will fall by the **least** when the second unit is produced?

- A average fixed cost
- B average total cost
- C average variable cost
- D marginal cost [1]

- 7 The diagram shows the cost and revenue curves of a profit-maximising firm operating in a perfectly competitive market.



What is the correct short-run and long-run analysis of this situation?

	number of firms in the industry in the long run	profits in the short run
<b>A</b>	decrease	normal
<b>B</b>	decrease	supernormal
<b>C</b>	increase	normal
<b>D</b>	increase	supernormal

[1]

- 8 A profit-maximising firm operating in a monopolistically competitive industry sells a product that generates positive externalities in consumption.

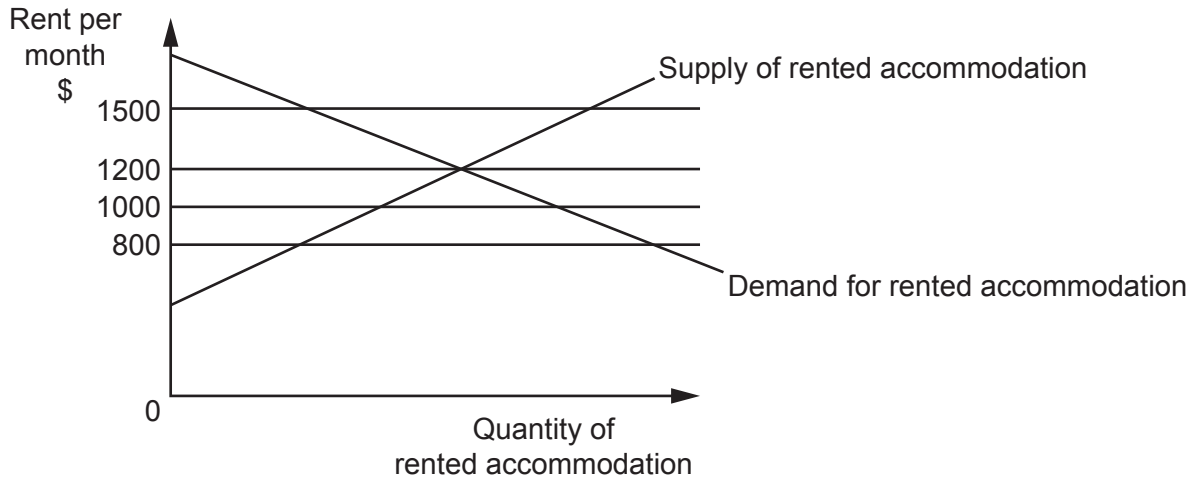
Which statement is correct?

- A** Consumers are paying too little for this product.
- B** Output is below the social optimum.
- C** Private costs are below the social cost of production.
- D** The firm producing this product is making a loss.

[1]

- 9 In January 2018 a fierce debate in California raged over controversial reforms to housing rent controls. At that time maximum price restrictions applied, in some form, to fifteen major population centres including San Francisco and Los Angeles.

The diagram below shows a representative market for rented accommodation.



What will be the likely consequences if a government introduces a maximum rent control of \$1500 per month?

- A** The government will incur additional financial and opportunity costs to enforce the rent control policy.
- B** The market will be in equilibrium.
- C** There will be excess demand in the market.
- D** There will be excess supply in the market. [1]

- 10 Under which conditions will an indirect tax on a product affect consumers more than producers?

		price elasticity of demand	price elasticity of supply
	<b>A</b>	-2	+0.1
	<b>B</b>	-2	+2
	<b>C</b>	-0.5	+0.1
	<b>D</b>	-0.5	+2

[1]

- 11 An economic consultancy produced a forecast of labour conditions which concluded that for the next 6 months, it was highly likely that labour productivity would 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 Company profits will fall.
- B Real wages will decrease.
- C Unemployment will rise.
- D Unit labour costs will fall. [1]

- 12 A company is currently operating below capacity and employs 200 workers. To meet expected growth in sales, it is cautiously recruiting new workers. The marginal cost of employing a new worker is estimated to be £5020 per week. The company's total wage costs currently are £200 000 per week.

By how much will the weekly wage per worker need to be increased in order to recruit this additional worker?

- A £15
- B £20
- C £25
- D £30 [1]

- 13 Given a homogeneous workforce, which statement best explains why, in the short run, increasing employment results in falling output per worker?

- A As employment increases, the capital : labour ratio eventually rises.
- B As total output increases, diseconomies of scale set in.
- C Employing additional workers results in lower total output.
- D Eventually the marginal productivity of labour is lower than the average productivity of labour. [1]

- 14 Economic data shows real GDP per capita is 20% lower in country X than in country Y.

Why might this data overstate the difference in living standards between the two countries?

- A Country Y has a larger population than country X.
- B Country Y has a higher rate of inflation than country X.
- C The proportion of legal but non-marketed activity is higher in country X.
- D The primary income from abroad is higher in country Y. [1]

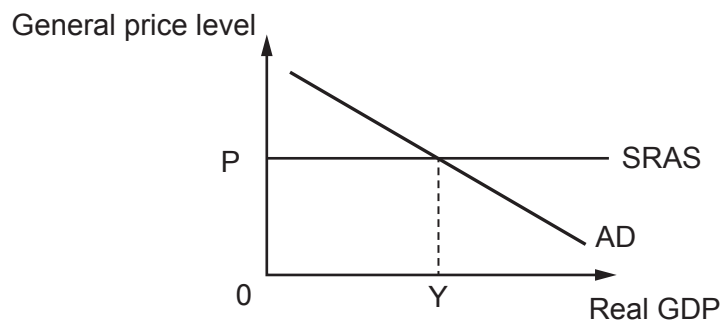
15 What is **most** likely to raise the trend rate of economic growth?

- A increased investment in human capital
- B increased levels of consumer debt
- C increased levels of public sector debt
- D increased spending on welfare payments

[1]

16 In March 2018, the Office for National Statistics published data which showed that the savings ratio in the UK in 2017, at 4.9%, was the lowest since records began in 1963.

The diagram below shows the aggregate demand and short-run aggregate supply curves of a hypothetical economy.



What will be the most likely short-run effect on the general price level and on real GDP of a fall in this economy's savings ratio?

	general price level	real GDP
<b>A</b>	increase	increase
<b>B</b>	increase	unchanged
<b>C</b>	unchanged	decrease
<b>D</b>	unchanged	increase

[1]

17 Which policy is specifically designed to reduce the proportion of the labour force which is economically inactive?

- A a decrease in the level of welfare benefits
- B a reduction in income tax allowances
- C a reduction in the national living wage
- D legislation to limit housebuilding

[1]



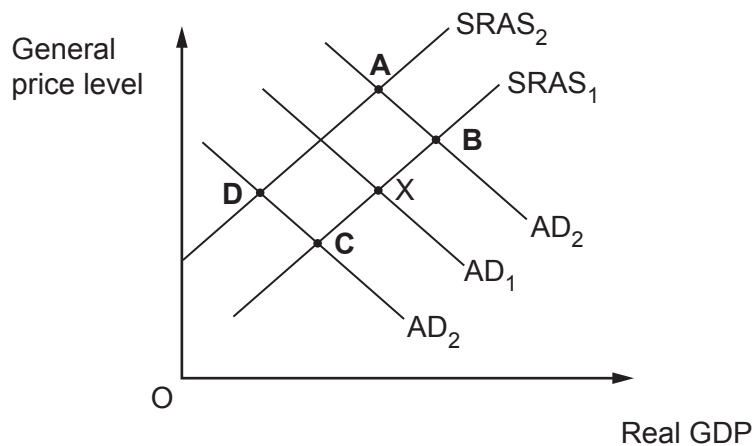
18 What is **most** commonly associated with a prolonged period of deflation?

- A a fall in the real value of private sector debt
- B a fall in the real value of household savings
- C an increase in the rate of fixed capital investment
- D an increase in the real value of public sector debt [1]

19 What are the most likely effects of an appreciation of the Japanese yen against the Malaysian ringgit?

- A fewer Japanese tourists visit Malaysia and an increase in the volume of manufactured exports from Japan into Malaysia
- B more Japanese tourists visit Malaysia and an increase in the volume of manufactured exports from Japan into Malaysia
- C fewer Japanese tourists visit Malaysia and an increase in the volume of manufactured imports into Japan from Malaysia
- D more Japanese tourists visit Malaysia and an increase in the volume of manufactured imports into Japan from Malaysia [1]

20 The government of a country plans to reduce the rate of corporation tax. The initial macroeconomic equilibrium is represented by point X on the diagram.



What is the most likely equilibrium point after this policy change?

- A
- B
- C
- D [1]

- 21 A government decides to pursue a more expansionary fiscal policy whilst the central bank of that country decides to pursue a tighter monetary policy.

Which combination of policy changes is consistent with this decision?

	spending on public services	income tax rates	assets purchased by the central bank	bank rate
<b>A</b>	increased	increased	decreased	increased
<b>B</b>	no change	decreased	decreased	no change
<b>C</b>	increased	increased	increased	increased
<b>D</b>	no change	decreased	increased	no change

[1]

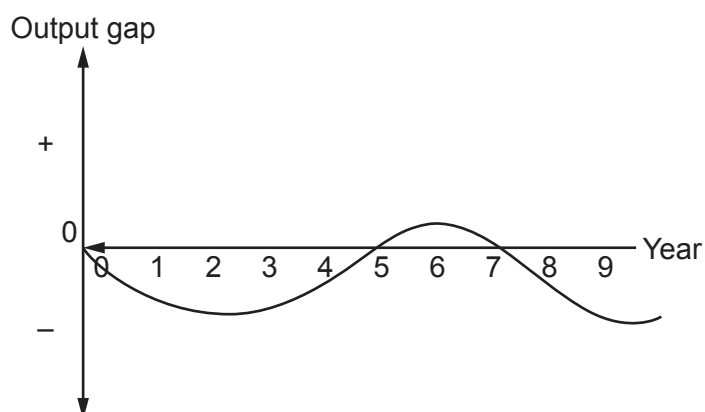
- 22 A central bank has an annual inflation target of 2% and does not intervene in the foreign exchange market. The government decides to change the target rate to 3%.

What is likely to happen to the exchange rate and short-term interest rates?

	exchange rate	short-term interest rates
<b>A</b>	depreciates	fall
<b>B</b>	depreciates	rise
<b>C</b>	appreciates	fall
<b>D</b>	appreciates	rise

[1]

23 This graph shows the estimate of an economy's output gap over a ten-year period.



From this data, it can be concluded that for most of the period covered:

- A** The economy had a deficit in the balance of trade in goods and services.
- B** The economy was operating below the level of activity consistent with stable inflation in the long term.
- C** The government's actual fiscal deficit was less than the structural fiscal deficit.
- D** The government was able to reduce the ratio of public sector debt to GDP. [1]

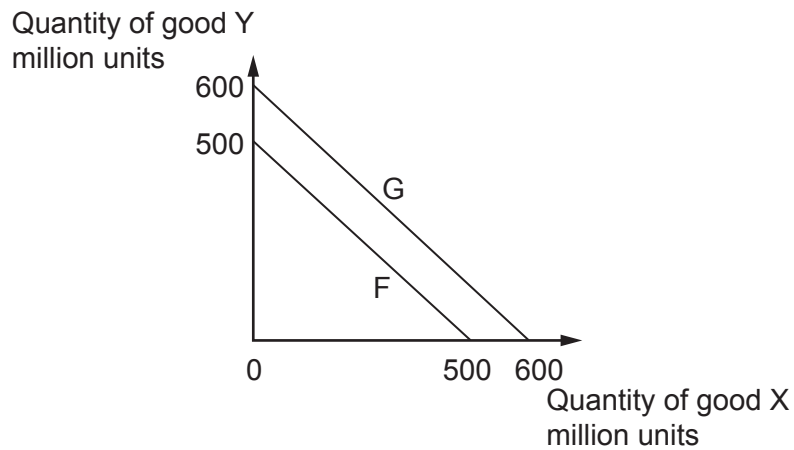
24 As part of its asset purchase programme, a central bank bought private sector securities and public sector securities.

What was the intended effect on long-term interest rates and liquidity of that country's banking system?

		long-term interest rates	liquidity
	<b>A</b>	decrease	decrease
	<b>B</b>	decrease	increase
	<b>C</b>	increase	decrease
	<b>D</b>	increase	increase

[1]

25 The diagram below shows the production possibility frontiers for two countries, F and G.



What conclusion can you draw from the diagram?

- A** Countries F and G will not gain from trade based on comparative advantage.
- B** Country F has a lower opportunity cost in the production of both goods.
- C** Country G can gain from trade by specialising in either product.
- D** Country G has an absolute advantage and comparative advantage in producing both goods. [1]

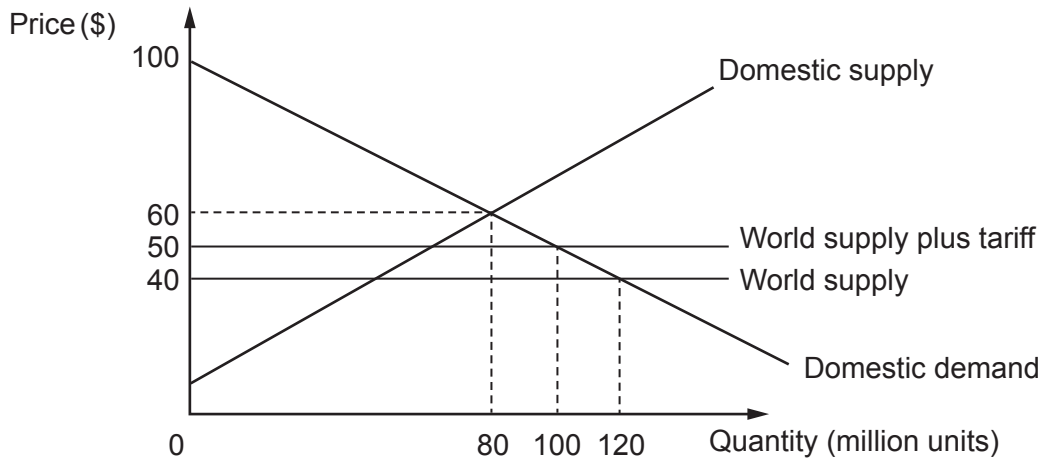
26 Under what circumstances would there be the greatest annual increase in exports from country X to country Y?

	country Y's income elasticity of demand for exports from country X	country Y's real annual economic growth rate
<b>A</b>	+0.8	2.0%
<b>B</b>	+0.8	2.5%
<b>C</b>	+1.5	2.0%
<b>D</b>	+1.5	2.5%

[1]

- 27 In early 2018, the US president announced that he was imposing trade restrictions on certain imports from China. Steel imports, for example, would face a 25% tariff.

The diagram shows the effects on a hypothetical market of a tariff on imports.



Which combination of values is correct?

	consumer surplus under free trade (\$m)	change in consumer surplus after the imposition of the tariff (\$m)
<b>A</b>	4800	1200
<b>B</b>	4800	1100
<b>C</b>	3600	1200
<b>D</b>	3600	1100

[1]

- 28 In November 2016, the Egyptian government changed the fixed value of the Egyptian pound from E£8.8 per US dollar to E£13 per US dollar.

Under what circumstances would such a change in the exchange rate most likely cause inflation in the short run in Egypt?

	price elasticity of demand for Egyptian exports	price elasticity of demand for imports into Egypt
<b>A</b>	elastic	elastic
<b>B</b>	elastic	inelastic
<b>C</b>	inelastic	elastic
<b>D</b>	inelastic	inelastic

[1]

29 What is the **most** likely motive for a government to take action to reduce a surplus in the current account of the balance of payments?

**A** to lower the inflation rate

**B** to lower the level of unemployment

**C** to increase the external value of the currency

**D** to increase the trend rate of economic growth

[1]

30 How is a free trade area different from a customs union?

**A** Only a customs union requires member countries to adopt a common currency.

**B** Only a customs union requires member countries to adopt a fixed exchange rate.

**C** Only a free trade area allows member countries to adopt an independent trading policy with non-members.

**D** Only a free trade area eliminates tariffs between member countries.

[1]

[Total: 30]

**Section B: Short Answers**

Answer **all** questions.

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

**31 (a)** The table below shows the changes in the long-run total costs of a firm as output increases.

The firm is currently operating at its minimum efficient scale (MES).

output (units)	long-run total cost of production (£)
200	400
300	450
400	480
500	500
600	600
700	750

As the result of a series of external changes the total cost of production increases by 12% at all output levels.

Calculate the increase in the firm's total costs if it continues to operate at its MES.

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**(b)** There are many producers and consumers in the market for takeaway pizza.

Other than this, state **two** further characteristics that identify this market as being monopolistically competitive.

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..... [2]

- 32 (a) The cross-price elasticity of demand for bottled water with respect to the price of sugary drinks is +0.9.

An indirect tax is imposed on sugary drinks which increases their price.

Using a demand and supply diagram, explain why there is likely to be an increase in the price of bottled water following the imposition of the tax on sugary drinks.

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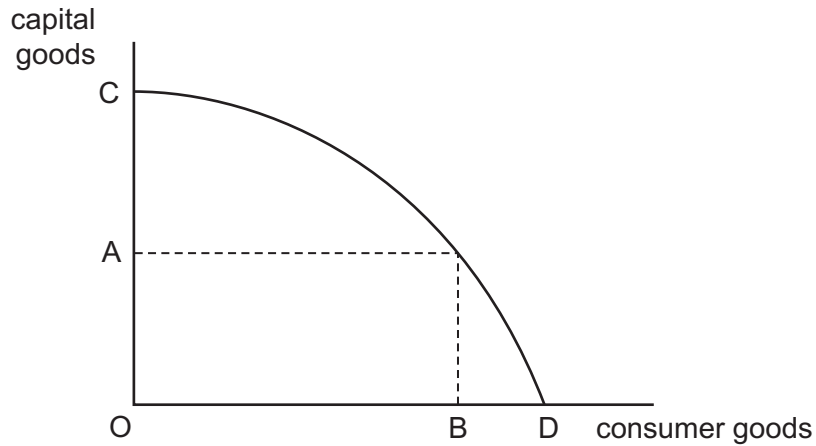
- (b) State how the income effect of a decrease in price can be used to explain the subsequent change in the quantity demanded of a normal good.

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..... [2]





- 34 (a) The following diagram shows the production possibility curve for capital goods and consumer goods in an economy.



The economy originally produced OC capital goods. The economy now produces OB consumer goods whilst still using all its resources.

With reference to the diagram, explain the short-run opportunity cost of this change in resource allocation.

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..... [2]

- (b) According to research in 2018, the use of parks and green spaces in the UK led to savings for the National Health Service (NHS) of more than £111 million.

Explain **one** way in which people using parks and green spaces generates external benefits.

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..... [3]

[Total: 20]

**Section C: Data Response**

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

**You are advised to spend 55 minutes on this section.**

**35 (a)** Define the term 'productivity'.

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..... [2]

**(b)** Explain, using Table 35.1, how the way the HDI is measured accounts for the difference between the GNI per capita rank and the HDI rank for Ivory Coast.

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..... [3]

- (c) Use a Lorenz curve diagram to analyse the effect of the increase in the import of milk from the EU on the domestic distribution of income in Senegal.

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..... [5]

















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