
ECONOMICS (PRINCIPAL)

9772/01

Paper 1 Multiple Choice, Short Answers and Data Response

May/June 2019

2 hours 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

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

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

Write in dark blue or black pen.

DO NOT WRITE IN ANY BARCODES.

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

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

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

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

Answer **all** questions.

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

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

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

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

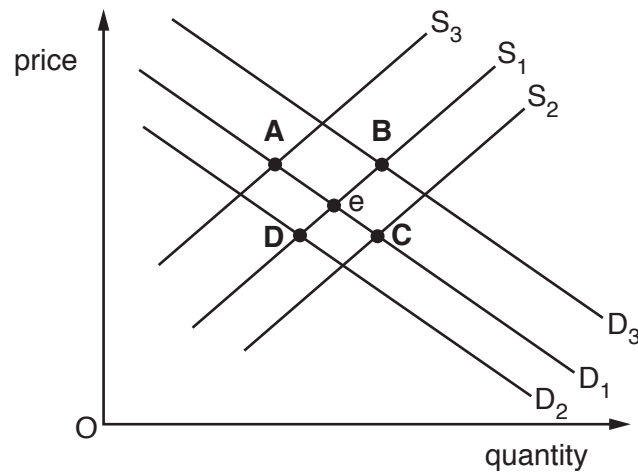
This document consists of **17** printed pages, **3** blank pages and **1** Insert.

Section A: Multiple Choice

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

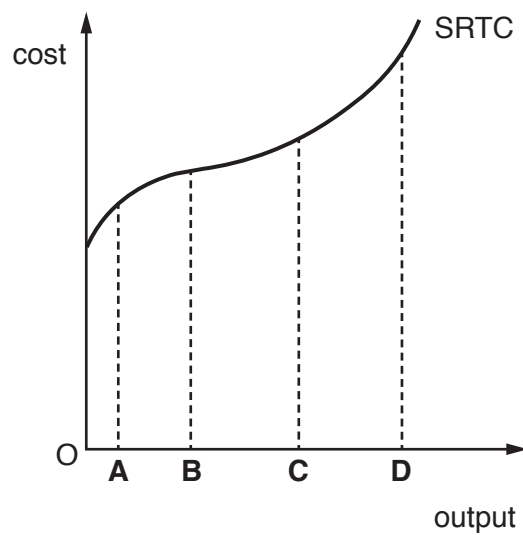
- 1 What is likely to be a consequence of specialisation and the division of labour?
- A an increase in productivity
 - B an increase in the cost of living
 - C an increase in unemployment
 - D an increase in unit labour costs
- 2 What is an essential feature of a market economy?
- A a large number of buyers and sellers
 - B freedom of entry and exit
 - C perfect knowledge on the part of decision makers
 - D the existence of property rights
- 3 An individual responds to a 5% increase in the price of good X by reducing the proportion of her income she spends on good X by 3%.
- In the absence of any other changes, what can be deduced from this about the individual's demand for good X?
- A It is income elastic.
 - B It is income inelastic.
 - C It is price elastic.
 - D It is price inelastic.

- 4 The market for good Y is initially in equilibrium at point e in the diagram.



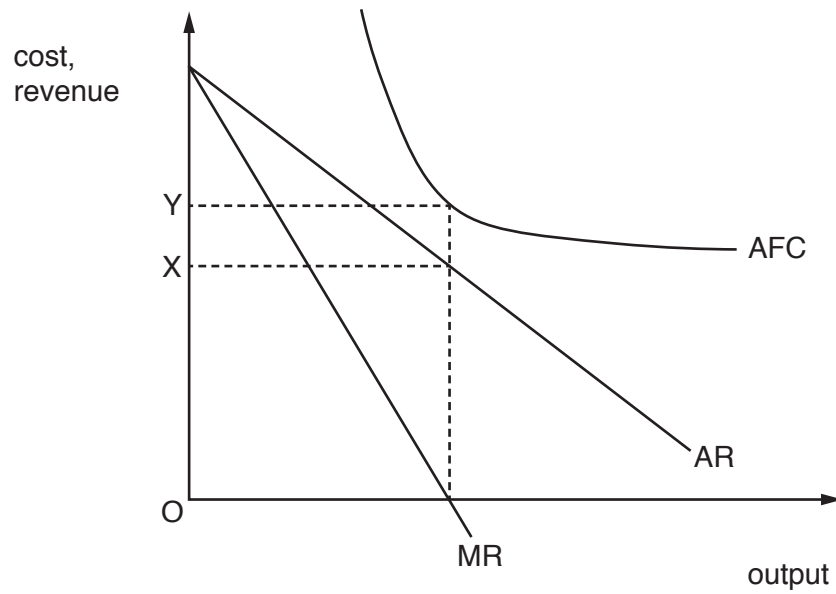
Which point could be the new equilibrium following an increase in the supply of a substitute good?

- 5 SRTC is a firm's short-run total cost curve.



At which level of output does marginal cost equal average variable cost?

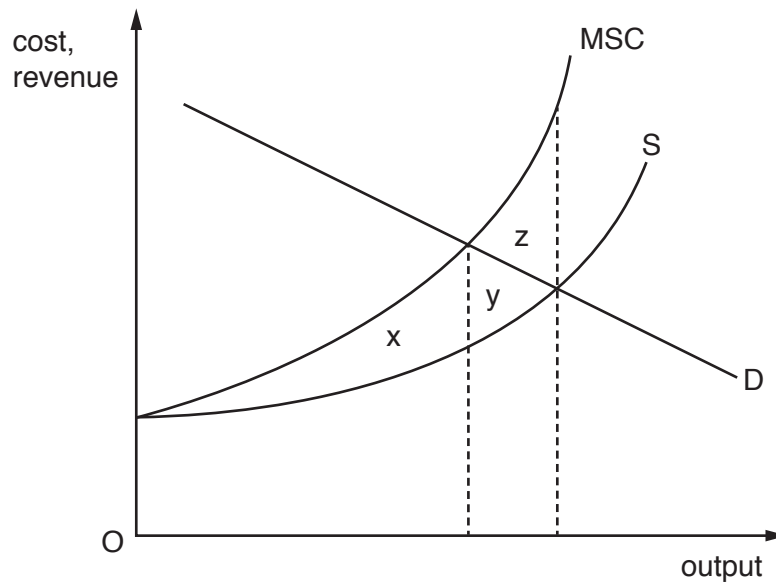
- 6 The diagram shows the cost and revenue curves of a monopoly producer whose only cost of production is a fixed cost.



What will such a monopolist do?

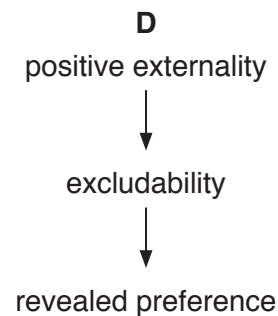
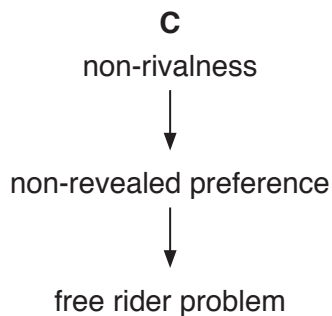
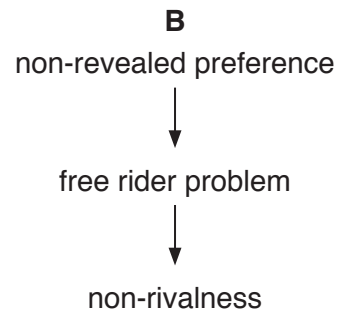
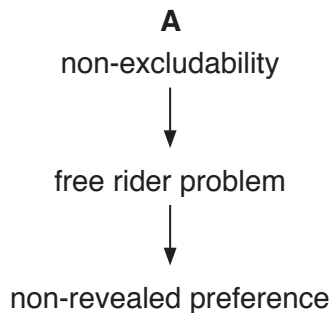
- A set a price of OX in the short run and in the long run
- B set a price of OX in the short run, but discontinue production in the long run
- C set a price of OY in the short run and in the long run
- D set a price of OY in the short run, but discontinue production in the long run

- 7 The diagram shows an industry's demand curve, its supply curve and its marginal social cost curve.

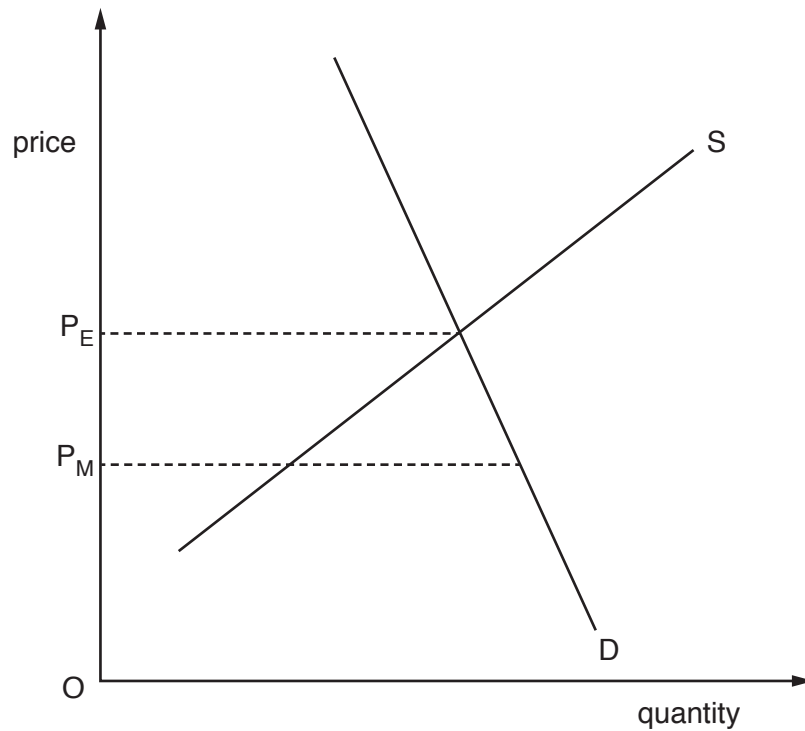


Which area measures the value placed on negative externalities in free market equilibrium?

- A x
 B $x + y + z$
 C y
 D $y + z$
- 8 Which sequence correctly describes the direction of the causal relationship between different properties of public goods?



- 9 What will reduce the net social benefit of investing in a new high-speed railway line?
- A an increase in congestion on the road network
 - B an increase in the cost of high-speed railway track
 - C an increase in the taxation on private car use
 - D a reduction in capacity of the existing rail network
- 10 The diagram shows the supply and demand curves of a good which is bought and sold in a perfectly competitive market.



What will be the net effect on the economic welfare of an individual consumer and a supplier of the good if the government imposes a maximum price, OP_M , below the equilibrium price, OP_E ?

	net effect on a consumer	net effect on a supplier
A	gain	lose
B	gain	uncertain
C	uncertain	uncertain
D	uncertain	lose

- 11 In which situation is a trade union most likely to be able to negotiate a wage increase for its members employed in a local firm, without a resulting loss of jobs?
- A There is large-scale local unemployment.
 - B The firm's labour costs are a high proportion of its total costs.
 - C The firm has a monopsony position within the local labour market.
 - D The demand for the firm's product is price-elastic.

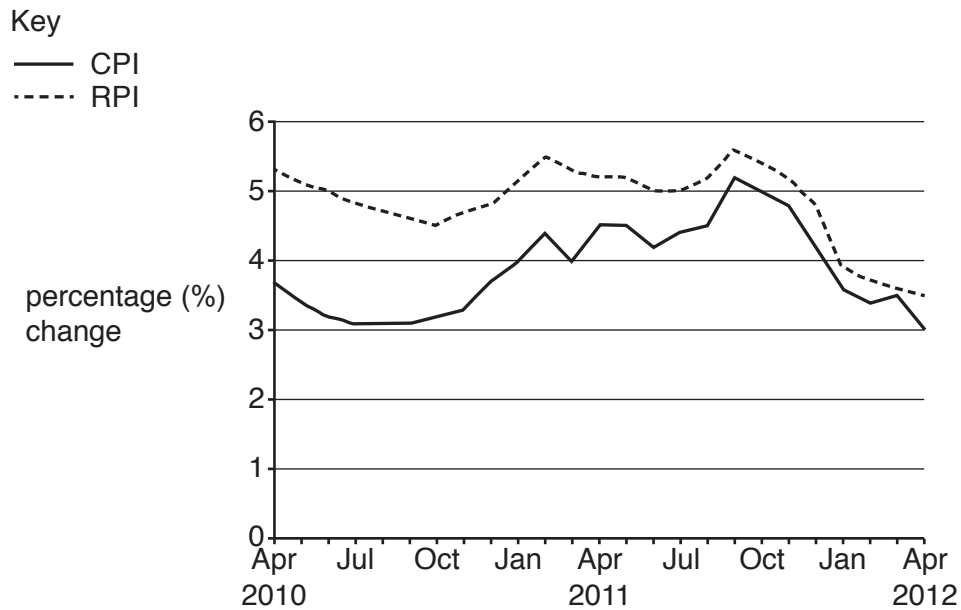
- 12 A firm produces and sells widgets in a perfectly competitive market at a price of £2 per widget. The table shows the quantity of widgets the firm produces when different numbers of workers are employed.

number of workers employed	1	2	3	4	5	6
quantity of widgets produced per hour	7	13	19	24	29	33

What is the maximum number of workers the firm would employ at a wage rate of £10 per hour?

- A 3
 - B 4
 - C 5
 - D 6
- 13 Why might GDP per capita of different countries, measured in US dollars in a given year, be a poor indicator of their comparative standards of living?
- A Their exchange rates are different from purchasing power parities.
 - B Their population growth rates are different.
 - C Their rates of inflation are different.
 - D Their ratios of imports to national income are different.
- 14 A fall in a country's actual output results in a decline in its potential output. What is the most likely explanation for this?
- A The fall in output leads to a reduction in interest rates.
 - B The fall in output leads to a reduction in the government's tax revenue.
 - C The resulting decline in profits reduces the funds available for investment.
 - D The resulting decline in wages reduces the volume of retail sales.

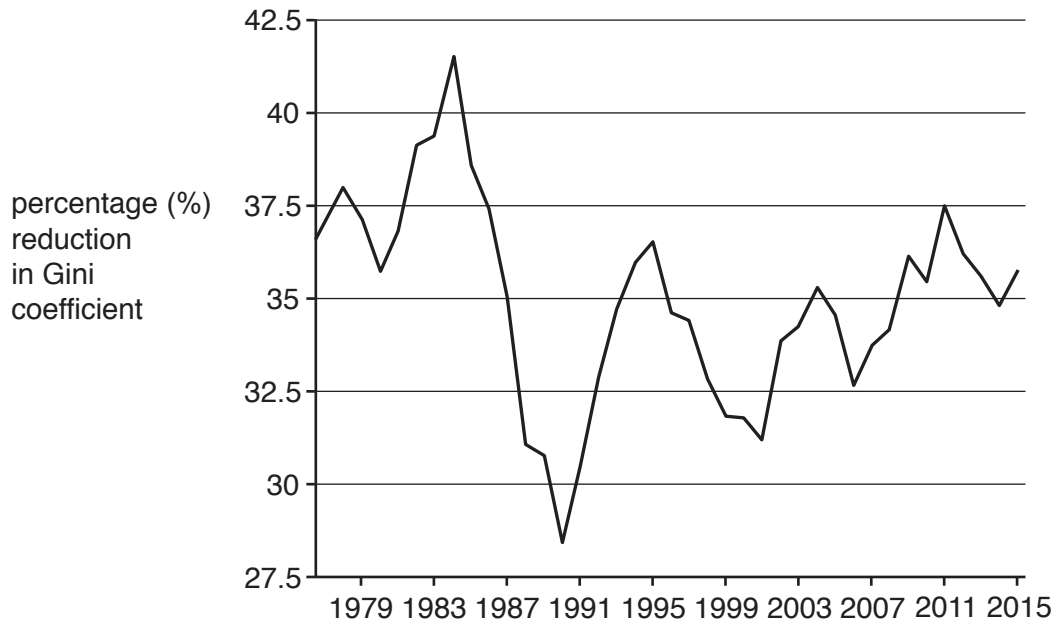
- 15 If unemployment in an economy is judged to be mainly frictional, what would be the most effective policy for reducing unemployment?
- A a depreciation or devaluation of the currency
 - B an increase in government expenditure on training
 - C an increase in information on labour market vacancies
 - D a reduction in the interest rate on government bonds
- 16 The graph shows the annual percentage changes in the UK's Retail Price Index (RPI) and in its Consumer Price Index (CPI) between 2010 and 2012.



What can be concluded from the graph?

- A The average level of consumer prices peaked in the autumn of 2011.
- B The CPI consistently underestimates the UK's inflation rate.
- C The gap between the CPI and RPI measures of inflation narrowed over the period.
- D The price level as measured by the RPI fell by almost 2 percentage points over the period.

- 17 The graph shows the effect of the tax and benefits system in reducing the UK's Gini coefficient, from 1977 to 2015.



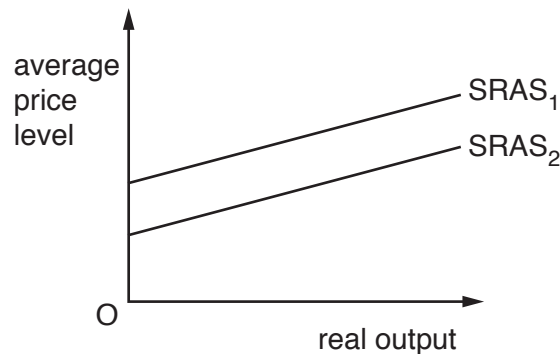
Which inference can be made from the graph?

- A** Indirect taxes have little effect on the distribution of disposable household income.
- B** Over the period shown, taxes and benefits have always reduced income inequality.
- C** The gap in disposable household income between rich households and poor households shrunk from 1985 to 1990.
- D** The Gini coefficient in the UK has generally increased since the financial crisis in 2008.
- 18 All else remaining unchanged, what will result in an increase in the UK's current account deficit?
- A** fewer temporary foreign workers filling seasonal jobs in the UK
- B** higher earnings on foreign direct investment in the UK
- C** increased investment by UK residents in US equities
- D** more overseas students studying in UK universities

- 19 In a country, between 2016 and 2017, output per worker increased by 2.5%, output per job by 3.5% and output per hour by 3.8%.

What can be concluded from these figures?

- A There was a decrease in the average number of hours worked.
 - B There was a decrease in the working population.
 - C There was an increase in the number of people in employment.
 - D There was an increase in the number of workers with more than one job.
- 20 A country's short-run aggregate supply (SRAS) curve shifts.



What is most likely to have caused the shift from SRAS₁ to SRAS₂ for this country?

- A a decrease in the total world supply of oil
 - B an appreciation of its currency's foreign exchange rate
 - C an improved level of technology in production
 - D an increase in direct taxation on firm's profits
- 21 What is most likely to increase both demand-pull and cost-push inflation?
- A an appreciation of a country's currency
 - B an increase in the price of oil
 - C an increase in the cost of borrowing
 - D an imposition of import quotas

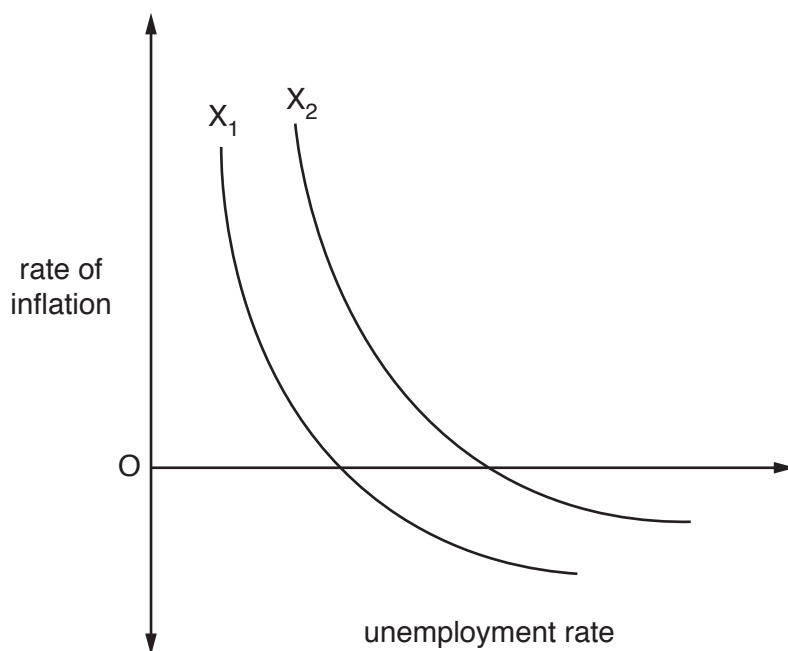
22 The table shows a government's expenditure and its tax revenues over the period 2014–2018.

	2014	2015	2016	2017	2018
government expenditure (\$ billion)	350	360	380	380	380
government tax revenue (\$ billion)	360	360	370	375	380

What impact did the changes in the government's fiscal balance have on the national debt and on aggregate expenditure over this period?

	year	impact on national debt	impact on aggregate expenditure
A	2015	no change	no change
B	2016	increase	increase
C	2017	decrease	decrease
D	2018	increase	increase

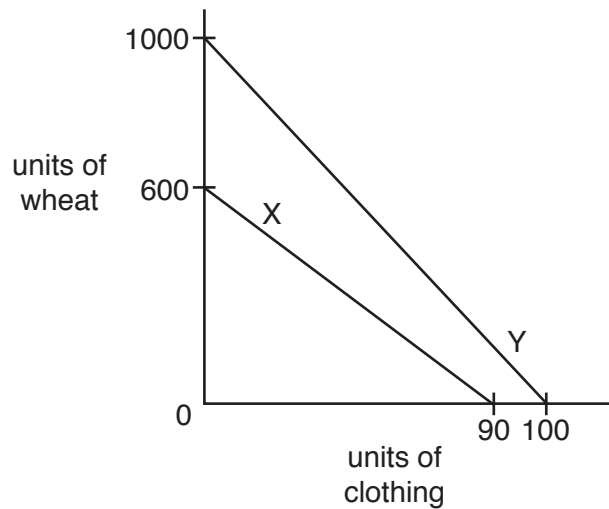
23 In the diagram, the curve X_1 shows an economy's initial trade-off between inflation and unemployment.



What could cause the curve to shift to X_2 ?

- A** a decrease in the money supply
- B** a decrease in the natural rate of unemployment
- C** an increase in labour productivity
- D** an increase in the central bank's inflation target

- 24 The diagram shows the amounts of wheat and clothing that can be produced in countries X and Y with a given quantity of resources.

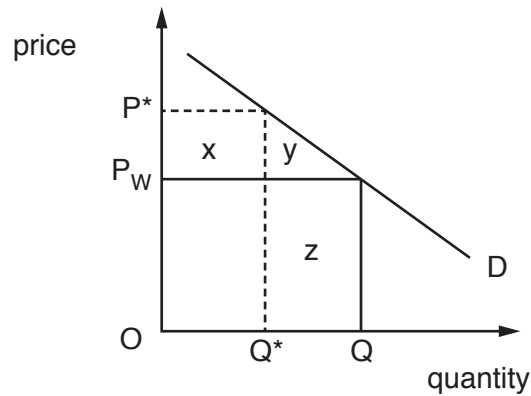


What can be inferred from the diagram?

- A** Country X has an absolute advantage in the production of wheat.
B Country X has a comparative advantage in the production of clothing.
C Country Y has a comparative advantage in the production of both goods.
D There are no gains to be made from trade in these circumstances.
- 25 Which three trading partners were the sources of the largest value of imports of goods and services into the UK in 2016?

	largest	second largest	third largest
A	European Union	United States	China
B	European Union	United States	Switzerland
C	United States	European Union	China
D	United States	European Union	Switzerland

- 26 The diagram shows a country's demand curve for an imported commodity.



The price charged by the producers of the commodity is initially P_W . There are no domestic producers of the commodity.

What will be the net loss to consumers in the country if the government introduces a quota restricting the quantity imported to OQ^* ?

- A area $x + \text{area } y$
 B area $x - \text{area } y$
 C area y
 D area $y + \text{area } z$
- 27 What will be the impact of a depreciation in the pound sterling on the UK's balance of trade and on its terms of trade?

	impact on balance of trade	impact on terms of trade
A	improve	worsen
B	improve	uncertain
C	uncertain	uncertain
D	uncertain	worsen

- 28 What could be a reason why a developing economy's rate of economic growth slows as it becomes richer?
- A A greater proportion of GDP is allocated to capital investment.
 B Exports and imports make up a greater share of GDP.
 C Low productivity service activities account for an increasing share of GDP.
 D Subsistence agriculture accounts for a decreasing share of GDP.

- 29** A Fair Trade scheme encourages consumers in developed economies to buy food items produced by farming cooperatives in low income countries at a higher price than that charged by commercial firms.

On what grounds could it be argued that this scheme may be harmful to developing economies?

- A** It will cause a worsening in the balance of trade of developing economies.
 - B** It will increase income inequality in developing economies.
 - C** It will slow the process of economic diversification in developing economies.
 - D** It will reduce the prices subsistence farmers in developing economies receive for their produce.
- 30** Why may bilateral trade agreements be considered to be poor substitutes for multilateral trade agreements?
- A** Any gains from trade made by the parties in bilateral agreements will be cancelled out by the losses incurred by third parties.
 - B** Bilateral agreements risk displacing beneficial trade with third parties.
 - C** In the case of bilateral agreements, losses from trade diversion will always outweigh the benefits from trade creation.
 - D** The principle of comparative advantage does not apply in the case of bilateral trade.

Section B: Short Answers

Answer **all** questions.

- 1 (a) In a closed economy with no government, investment increases by £100 million.
If the marginal propensity to consume is 0.8, calculate the value of the multiplier **and** the overall increase in national income. [3]
- (b) State **two** reasons why the level of investment in an economy might increase. [2]
- 2 (a) Define what is meant by the term 'deflation'. [2]
- (b) Explain why deflation may be harmful to an economy. [3]
- 3 (a) State **two** reasons, other than redistributing income, why governments levy taxes. [2]
- (b) Explain the likely impact on income distribution of reducing the level of direct taxation and increasing indirect taxation. [3]
- 4 (a) Define what is meant by a 'customs union'. [2]
- (b) A unit tariff is imposed on imported solar panels. Using a diagram, show the effect of the tariff on the level of imports and the level of domestic production of solar panels. [3]

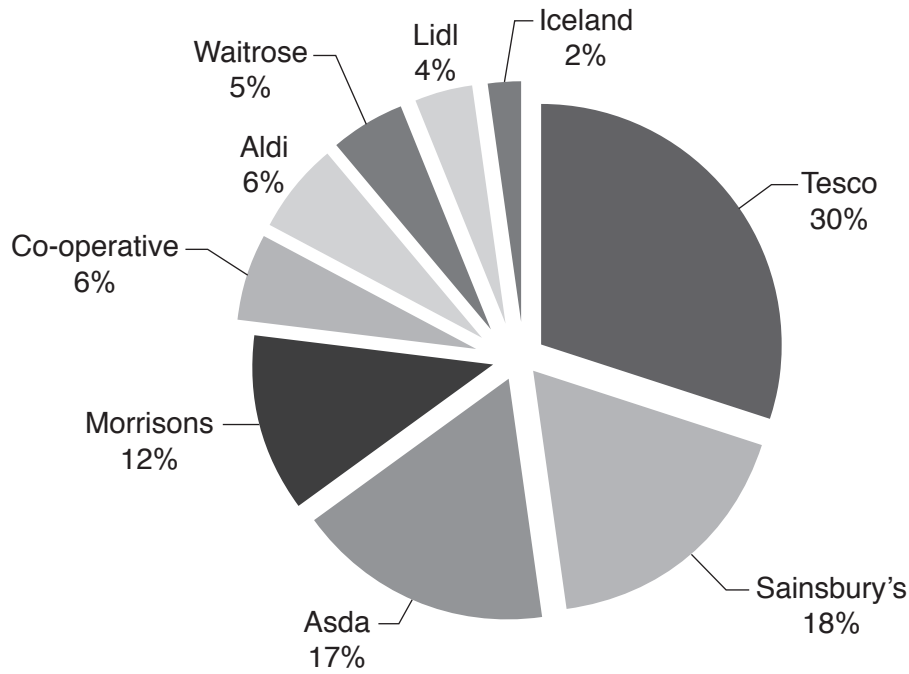
[Total: 20]

Section C: Data Response

Answer all questions.

Question 5

Figure 1 – Market shares in UK grocery retailing (12 weeks to 3 January, 2016)



Extract 1: The supermarket industry

There are testing times ahead for the UK supermarket industry and almost all sectors of the market are getting squeezed. For example, Morrisons saw annual profits fall from £345 million to £242 million in the year to January 2016. Tesco remains dominant in terms of market share, but there's close rivalry between Sainsbury's and Asda in second place. Furthermore, there's evidence that the market has polarised, with Waitrose at the premium end of the market, and Aldi and Lidl at the budget end of the market gaining more customers from 2014 onwards.

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Analysts believe that this is because these supermarkets have succeeded in altering consumer perceptions. Waitrose has been successful in convincing people that it is not as expensive as they might think, while the budget supermarkets have added more fresh food to their product lines. As a consequence, the middle ground in this market is increasingly congested.

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However, a marked feature of this change is that studies suggest that the average spend at Lidl is less than £20, implying that consumers use Lidl to buy only a few items at a time. Furthermore, the survival of small independent grocery stores and emergence of online grocery retailers means that certain specialists continue to enter the market and thrive.

There have been two major inquiries into the UK supermarket industry. The Competition Commission reported in October 2000 and April 2008, concluding that, in many respects, retailers were "delivering a good deal for consumers". Nevertheless, in June 2013, the UK Government introduced a Grocery Code Adjudicator who has taken an increasingly active role in the market, notably disciplining Morrisons over the nature of their relationship with their suppliers in June 2016.

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Table 1 – The Role of the Grocery Code Adjudicator

Adjudicator Expectations of Supermarkets	Action the Adjudicator Can Take
<ul style="list-style-type: none"> • That supermarkets deal with their suppliers fairly. • Supermarkets must not alter the terms of trade agreements without negotiating first. • Supermarkets must pay their suppliers within a reasonable timeframe. 	<ul style="list-style-type: none"> • Investigate suppliers' complaints. • Intervene in disputes between supermarkets and suppliers. • Publicising instances where supermarkets break the Grocery Code. • Impose fines on supermarkets in some instances.

Source: www.gov.uk

Extract 2: Tesco-Sainsbury's price matching argument

'Price matching' has been marketed by supermarkets in recent years to attract customers. Each supermarket compensates customers if their price is higher than their rival's price.

In 2013, Sainsbury's scheme only sought to price match on branded goods. Sainsbury's complained over Tesco's scheme, which price matched on a basket of both own-brand and branded goods at Sainsbury's, Asda and Morrisons. Sainsbury's, unlike Tesco, sourced some of their own-brand products exclusively from the UK. They argued that own-brand price comparisons were inappropriate because Tesco's scheme did not compare like-with-like. However, the Advertising Standards Authority ruled against Sainsbury's.

5

Supermarkets compete in a variety of ways. Sometimes they price discriminate, which economists usually define as selling the same product for different prices in different markets for reasons independent of cost. Branding is also important: Tesco wants to be the leading retailer using a variety of channels; Sainsbury's wants to be associated with certain values; Asda has pledged to keep key grocery prices 10% below its rivals; Morrisons wants to compete on fresh produce. However, competition within the sector is also sensitive to a variety of factors, not least the number of supermarkets in a given location. Others argue that the fiercest competition occurs where the rival supermarkets compete to gain access to the lowest cost suppliers.

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- (a) Define what is meant by the term 'three-firm concentration ratio' and, with reference to Figure 1, calculate the three-firm concentration ratio in the UK grocery retailing market. [2]
- (b) With reference to the information provided, explain **one** reason why UK grocery retailing has elements of a monopolistically competitive market structure. [3]
- (c) Using a diagram, analyse the effect on a supermarket's profits of the Grocery Code Adjudicator publicising incidents where a supermarket breaks the Code. [5]
- (d) Using the Extracts, evaluate the extent to which 'price matching' is evidence of a high level of competition in this particular market. [10]
- (e) With reference to the information provided, evaluate the extent to which competition between supermarkets will always benefit **both** consumers **and** firms in the supermarkets' supply chain. [10]

[Total: 30]

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