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## **PREFACE**

This topical past papers book is designed and Solved according to new Cambridge Syllabus of Economics 2023, 2024 and 2025 for Paper 1 (Variant 11, 12 and 13). A Level Economics books and teacher guides published or recommended by Cambridge are not sufficient for getting A\* in CAIE exams but detailed practice of topical solved past paper questions from different variants is also essentials. These questions are categorized in chapters and sub-topics. I hope this book will be helpful for students and teachers.

**Saeed Afzal**

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# Chapter 1

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## Basic Economics Idea

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### A Level Economics 9708 Paper-1 Topical Solved

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In this chapter

You will practice the following topics:

- 1.1 Basic Economic Problem, Division of Labour, Factors of Production
- 1.2 PPC, Opportunity Cost, Marginal Concepts
- 1.3 Economic Systems
- 1.4 Normative and Positive Statement

## 1.1 Basic Economic Problem, Division of Labour, Factors of Production

9708/13/M/J/21/Q10

1. A UK based food company wishes to diversify its product range. To finance this, it has obtained a \$10m loan from a bank to buy land, build and equip a bakery.

What would **not** be classified by an economist as a factor of production?

- A the \$10m loan used to finance the project      B the land on which the bakery will be built  
C the ovens required to bake the bread      D the soya used in the making of the bread

9708/13/M/J/21/Q3

2. What do economists regard as the reward for taking risks and organising production?

- A enterprise      B interest      C wages      D profit

9708/12/F/M/21/Q1

3. An American family is choosing between four holiday destinations in Europe, each at the same price. The table shows the family's order of preference for these holiday destinations.

holiday destination	order of preference
Barcelona	1st
London	= 3rd
Paris	2nd
Venice	= 3rd

If the family goes to Barcelona, what is the opportunity cost of this choice?

- A Barcelona      B London and Venice  
C Paris      D London, Paris and Venice

9708/12/M/J/20/Q3

4. A factory introduces an automated production line to take advantage of division of labour.

What is most likely to increase?

- A average cost of production      B job satisfaction of workers  
C range of skills of each worker      D worker productivity

5. What is correct about scarcity?

9708/12/O/N/19/Q1

- 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.

9708/11/M/J/19/Q2

6. The fundamental economic question is how to meet unlimited wants with limited resources.

What is an example of limited resources?

- A insufficient consumer goods in the local shops      B insufficient jobs to allow full employment  
C insufficient machinery to produce electrical goods      D insufficient tax revenue to finance building a school

9708/11/M/J/19/Q1

7. India is failing to reach its full economic potential because of poor rail, road and electricity infrastructure, and a lack of skilled civil engineers.

Which factors of production need to be increased?

- A capital and land      B enterprise and capital  
C labour and capital      D land and enterprise

8. Which outcome depends upon the division of labour?

9708/12/F/M/19/Q1

- A a decrease in boredom at work      B a decrease in comparative advantage  
C a decrease in efficiency      D a decrease in opportunity cost

9. What is not an example of the role of the factor enterprise in a modern economy?

9708/11/O/N/18/Q2

- A deciding on new export markets for the company's goods and services  
B making payments to suppliers for raw materials and capital goods  
C reducing costs through the introduction of a new shift system for employees  
D transforming the production process with the introduction of robots



19. **An individual has an appointment with his bank manager.** 9708/12/F/M/16/Q1

He has a choice between travelling to the appointment by car, or leaving the car at home and travelling by bus and then by train. The costs of the journey are given below.

	\$
bus fare	2
train fare	3
car parking charge	4
petrol	2
car wear and tear costs	1

Given this information, what is the opportunity cost to the individual of travelling by car rather than by bus and train?

- A \$2                      B \$4                      C \$7                      D \$12

9708/12/O/N/15/Q4

20. **What term is used by economists for the income received by the factor of production enterprise?**

- A capital                      B interest                      C profit                      D revenue

21. **Which question does not directly refer to the basic economic problem?**

9708/12/O/N/15/Q1

- A What goods and services should a firm produce?  
 B What price should a firm charge?  
 C What production methods should a firm use?  
 D Who should receive the goods and services that a firm produces?

22. **What is the fundamental assumption of the economic problem?**

9708/13/M/J/15/Q1

- A Factors of production are finite.  
 B Individuals are the best judges of their own wellbeing.  
 C Individuals can be relied upon to behave rationally.  
 D The principal aim of private firms is profit maximisation.

23. **Which statement about factors of production is correct?**

9708/13/O/N/14/Q3

- A All economic output requires the use of four factors of production.  
 B Capital may take the form of shares in a manufacturing company.  
 C Enterprise can only be found in owner-run organisations.  
 D Land includes both renewable and non-renewable resources.

9708/12/O/N/14/Q4

24. **Arfan and his brother Ben own and run a fishing business together. They have one boat and on the days when they fish they employ Cephas and Dipak. They sell the fish to the owner of a local shop.**

Which row correctly identifies the factors of production involved?

	Land	Labour	capital	Enterprise
A	Shop	Arfan and Ben	money paid for the fish boat	shop owner
B	Shop	Cephas and Dipak	money paid for the fish boat	Arfan
C	The Fish	Ben	money paid for the fish boat	shop owner
D	The fish	Cephas and Dipak	money paid for the fish boat	Arfan and Ben

25. **What would encourage the growth of the international division of labour?**

9708/13/M/J/14/Q4

- A an improvement in transport systems                      B instability in international exchange rates  
 C restrictions on the movement of resources                      D the widespread introduction of tariffs



9708/12/M/J/14/Q4

26. Meera has just finished a course at art college and has decided to set up a business on her own producing clay figures of famous people.

Which factors of production is she likely to have to purchase from other businesses?

	land	labour	capital	enterprise
A	✓	✓	✓	X
B	✓	X	✓	✓
C	✓	X	✓	X
D	X	✓	X	✓

key  
 ✓ = purchased  
 X = not purchased

9708/12/M/J/14/Q1

27. By 2030, as the human population grows, the world will need at least 50% more food, 45% more energy and 30% more water from the same resources.

What does this statement directly indicate?

- A comparative advantage
- B merit goods
- C negative externalities
- D the economic problem

9708/13/O/N/13/Q1

28. What is not a factor of production?

- A fish stocks
- B money
- C oil reserves
- D roads

29. What is the correct order of these economic concepts?

9708/12/O/N/13/Q2

A	B	C	D
inevitability of choices	opportunity costs	opportunity costs	scarce resources
↓	↓	↓	↓
Opportunity costs	inevitability of choices	scarce resources	inevitability of choices
↓	↓	↓	↓
scarce resources	scarce resources	inevitability of choices	Opportunity costs

Key ↓ = leads to

9708/12/O/N/13/Q1

30. 'From the age of twelve I made a living by buying towels, needles, shampoo and soap and re-selling them as a street vendor. Now, I run three hotels in Hanoi' - Duong Than Binh.

Which factors of production are likely to be involved in the above events?

- A land only
- B land and labour only
- C land, labour and capital only
- D land, labour, capital, enterprise

31. Which statement about factors of production is correct?

9708/11/O/N/13/Q3

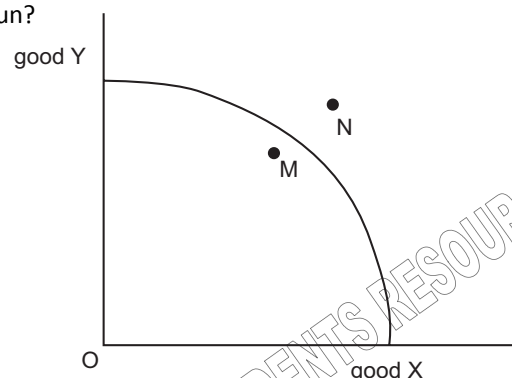
- A All factors of production can earn income for their owner.
- B The factor capital includes human capital, money capital and physical capital.
- C The factor labour involves only physical effort.
- D The natural resources classed as land are in unlimited supply.

32. The diagram shows a country's production possibility curve.

9708/11/O/N/13/Q2

What could allow the economy to move from M to N in the long run?

- A an increase in consumer spending
- B an increase in demand for exports
- C an increase in government spending on pensions
- D an increase in investment



33. **What will encourage a higher degree of division of labour?** 9708/11/O/N/13/Q1  
 A firms wishing for a greater level of self-sufficiency  
 B firms wishing to increase their flexibility in production  
 C firms wishing to raise their level of productivity  
 D firms wishing to reduce their level of risk

9708/11/M/J/13/Q4

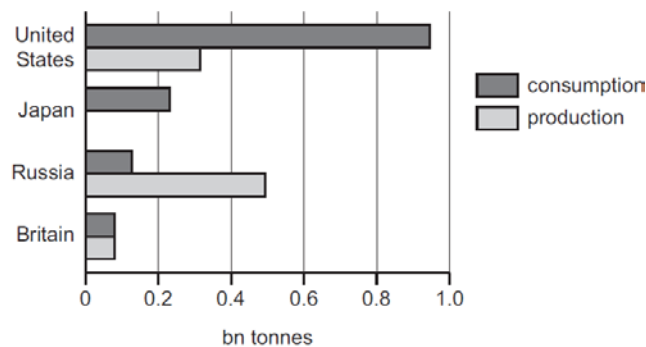
34. **A kitchen manufacturer wanted to become more efficient. It decided to move to an industrial estate and to increase the division of labour in the manufacture of its products.**  
 Which statement about the division of labour is correct?  
 A It occurs only in manufacturing industry.  
 B It occurs only in market economies.  
 C It occurs only when similar firms are located in the same area.  
 D It occurs only when workers become more specialised.

35. **What is most likely to be a result from the division of labour?** 9708/11/M/J/13/Q3  
 A a decrease in job satisfaction  
 B a decrease in productivity  
 C an increase in the cost of living  
 D an increase in unit labour costs

36. **Why can division of labour benefit an economy?** 9708/13/O/N/12/Q1  
 A Costs of trading are reduced.  
 B Individual workers learn a wider range of skills.  
 C Less money is required as a medium of exchange.  
 D The total supply of goods and services rises.

9708/11/O/N/12/Q4

37. **There is a worldwide shortage of oil. The diagram shows the consumption and production of oil (billion tonnes) in 2007 for selected countries.**



What can be concluded from the diagram?

- A In Britain, oil has zero opportunity cost.  
 B In Japan, there is self sufficiency in oil.  
 C In Russia, the problem of oil shortage has been solved.  
 D In the United States, rationing will be the only solution to oil shortage.
- 9708/11/O/N/12/Q3
38. **India is failing to reach its full economic potential because of poor rail, road and electricity infrastructure. Its problem is not lack of government spending but a lack of skilled civil engineers.**  
 Which factors of production need to be increased?  
 A capital and land  
 B enterprise and labour  
 C labour and capital  
 D land and enterprise

39. **Which type of firm is able to exploit division of labour to the greatest extent?** 9708/11/O/N/12/Q1  
 A a bakery employing two workers making a range of bread and cakes  
 B a motorcycle assembler employing two hundred workers making a standardised model  
 C a tailor employing ten workers making men's suits to order  
 D a well established furniture maker employing three hundred workers making high quality individual items

9708/12/M/J/12/Q3

40. The growing domestic, agricultural and industrial demand for water is leading to a world shortage of water.

Which change would reduce this problem of water scarcity?

- A an increase in demand for food
- B an increase in population growth
- C climate change which leads to lower rainfall
- D more efficient water management

41. Which factor of production and example are correctly linked?

9708/12/O/N/11/Q4

	factor of production	Example
A	Capital	\$10 000 in a savings account
B	Enterprise	a company accountant
C	Labour	a robot
D	Land	the flow of a river

42. An individual has an appointment with his bank manager.

9708/12/O/N/11/Q1

He has a choice between travelling to the appointment by car, or leaving the car at home and travelling by bus and then by train. The costs of the journey are given below.

	\$
bus fare	2
train fare	3
car parking charge	4
petrol	2
car wear and tear costs	1

Given this information, what is the opportunity cost to the individual of travelling by car rather than by bus and train?

- A \$2
- B \$4
- C \$7
- D \$12

9708/11/O/N/11/Q3

43. What is the opportunity cost to an unemployed worker who becomes employed?

- A the leisure they would otherwise have had
- B the value of the goods and services they produce
- C the wages they are paid
- D zero

44. What is an example of the factor of production capital?

9708/11/O/N/11/Q2

- A a bank account held by a small firm to be used for future purchases
- B a forest of hardwood trees ideal for furniture making
- C the market value of a company's shares
- D word processing software used by a writer to complete her new book

45. What distinguishes capital from other factors of production?

9708/12/M/J/11/Q1

- A Capital exists only in capitalist market economies.
- B Capital results from the operation of the other factors.
- C The rewards earned by the owners of capital are uncertain.
- D Unlike labour or land, capital must be owned rather than hired or rented.

46. What distinguishes capital from other factors of production?

9708/11/M/J/11/Q2

- A Capital exists only in capitalist market economies.
- B Capital results from the operation of the other factors.
- C The rewards earned by the owners of capital are uncertain.
- D Unlike labour or land, capital must be owned rather than hired or rented.

47. The diagram shows the production possibility curves of two economies, X and Y.

Which statement about the two economies is correct?

- A Both economies always have the identical opportunity costs.
- B Both economies have the same future growth prospects.
- C The opportunity costs are constant in both economies.
- D The two economies can never produce the same combination of products.



48. What is the central problem for an economy?

- A to achieve maximum growth in production
- B to allocate resources between alternative uses
- C to ensure all resources are fully exploited
- D to overcome inequalities in income distribution

9708/11/O/N/10/Q1

49. A country experiences an increase in productivity as measured by output per labour hour. At the same time, output per worker decreases.

What could explain this?

- A an increase in unemployment
- B an increase in part-time employment
- C an increase in hourly wage rates
- D an increase in capital investment

9708/01/M/J/02/Q23

50. What would prevent a firm gaining the maximum benefit from the division of labour?

- A a high interest rate
- B a small market
- C high production costs
- D low productivity

9708/01/M/J/03/Q3

51. Which of the following is a measure of labour productivity?

- A  $\frac{\text{total output}}{\text{quantity of labour employed}}$
- B  $\frac{\text{total cost}}{\text{quantity of labour employed}}$
- C  $\frac{\text{total wage cost}}{\text{quantity of labour employed}}$
- D  $\frac{\text{total profit}}{\text{quantity of labour employed}}$

9708/01/M/J/03/Q23

52. What is the outcome for consumers and workers as a result of increased division of labour?

	consumers	Workers
A	less choice of goods	wider range of skills
B	fewer mass-produced goods	wider variety of tasks
C	lower prices of goods	increased productivity
D	lower quality of goods	increased independence

9708/01/O/N/03/Q4

53. What will cause an immediate rise in the size of a country's labour force?

- A an increase in the birth rate
- B an increase in the age of retirement
- C an increase in the school leaving age
- D an increase in the number of redundancies

9708/01/O/N/03/Q23

54. Tom has set up his own business, which is based in premises owned by Fanda. All machinery is hired from an equipment company. Both Tom and Fanda are employed in the business.

What describes the earnings of Tom and Fanda?

	Tom	Fanda
A	rent and profit	interest and profit
B	wages and profit	wages and rent
C	interest and rent	rent and profit
D	wages and interest	wages and interest

9708/11/O/N/09/Q1

55. What could lead to an increase in the size of a country's labour force?

- A a decrease in unemployment
- B a decrease in the retirement age
- C an increase in the participation rate
- D an increase in the school-leaving age

9708/11/O/N/09/Q23

56. What will cause an immediate rise in the size of a country's labour force? 9708/01/M/J/09/Q23

- A an increase in the birth rate                      B an increase in the age of retirement  
C an increase in the school-leaving age            D an increase in the number of redundancies

9708/01/M/J/09/Q1

57. Three women work in a pottery workshop, each dividing their time equally between three products. The table shows how many units of each product are made.

	Plates	Bowls	Mugs
Jane	100	50	50
Sarah	50	100	50
Seema	50	50	100
total	200	200	200

Later, division of labour is introduced and each woman makes only the product in which she has absolute advantage. What is the rise in total output?

- A 150 units            B 300 units            C 600 units            D 900 units

9708/01/O/N/08/Q4

58. Which action by an individual would not be considered an action of the factor of production labour?

- A leaving college to work on the land  
B moving from a labour-intensive industry to work in a capital-intensive industry  
C setting up a new business in information technology  
D undertaking a training course in computer skills

59. Why is scarcity the central feature of the economic problem?

9708/01/O/N/08/Q1

- A People's needs are limited.                      B Resources have alternative uses.  
C Economic resources are finite.                      D Consumers have limited choices.

60. When is labour productivity in a firm most likely to increase?

9708/01/O/N/07/Q24

- A when a firm employs more people  
B when a firm employs more capital  
C when a firm doubles all factors of production  
D when a firm replaces payment by results with hourly wage rates

9708/01/O/N/07/Q4

61. In the 20<sup>th</sup> century the nature of a typical car assembly plant changed. Company mergers Meant there were fewer firms, they operated on larger sites and they had more automated Machinery and robots.

How is this change most likely to have affected the relative employment of factors of production in the industry?

	increased relative use	decreased relative use
A	capital and enterprise	labour and land
B	enterprise and labour	land and capital
C	land and capital	enterprise and labour
D	labour and land	capital and enterprise

9708/01/M/J/07/Q23

62. Company X reduces its workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.

Company Y increases its workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day. What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	Fall	Rises
B	Rises	Fall
C	Rises	Rises
D	fall	fall

63. What is necessarily a function of enterprise rather than management?

9708/01/M/J/07/Q3

- A accepting the risks involved in production                      B deciding how much labour should be employed  
C organising the other factors of production                      D promoting the sale of the product

64. What will cause an immediate rise in the size of a country's labour force?

9708/01/M/J/06/Q23

- A an increase in the birth rate                      B an increase in the age of retirement  
C an increase in the school leaving age                      D an increase in the number of redundancies

65. **What would encourage the growth of the international division of labour?** **9708/01/M/J/06/Q4**  
**A** an improvement in transport systems **B** instability in international exchange rates  
**C** restrictions on the movement of resources **D** the widespread introduction of tariffs

66. **The table shows the number of workers and the annual output of an industry.** **9708/01/O/N/05/Q23**

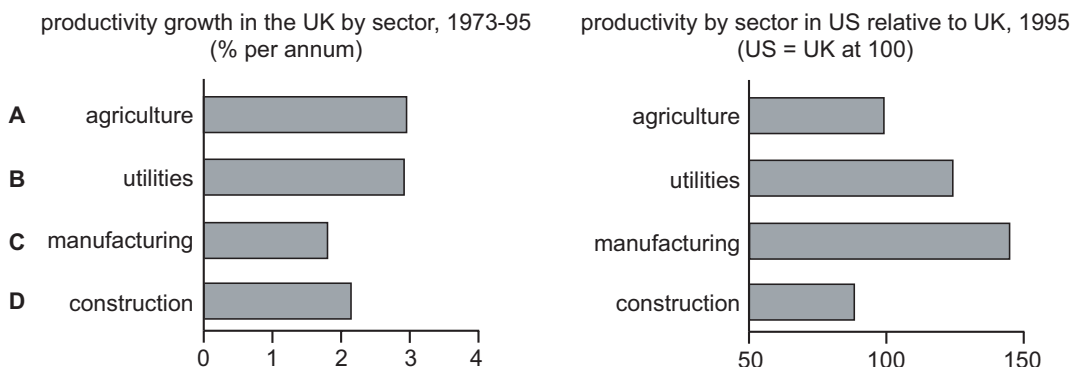
	year 1	year 2	year 3
Workers in 000s	120	130	100
Output in \$m	12.00	14.00	13.00

Which statement is correct?

- A** Labour productivity increases in year 2 and in year 3.  
**B** Labour productivity increases in year 2 and then declines in year 3.  
**C** Labour productivity is at its highest in year 1.  
**D** Labour productivity is at its lowest in year 3.
67. **What is an example of the factor of production capital?** **9708/01/O/N/05/Q3**  
**A** a bank account held by a small firm to be used for future purchases  
**B** a forest of hardwood trees ideal for furniture making  
**C** the market value of a company's shares  
**D** word processing software used by a writer to complete her new book
68. **What is the main economic problem facing all societies?** **9708/01/M/J/05/Q1**  
**A** how to reduce unemployment **B** how to reduce poverty  
**C** how to allocate scarce resources **D** how to control inflation

69. **The diagram gives details of different aspects of productivity in the US and UK.** **9708/01/M/J/04/Q24**

Which sector in the UK best fits the description 'a sector with a relatively fast growth rate in productivity but which is less productive than its US equivalent'?



70. **Which group may be disadvantaged by the introduction of division of labour?** **9708/01/M/J/04/Q3**  
**A** consumers who prefer standardised goods  
**B** companies where the production process has many sub-divisions  
**C** the government, if the product is taxed  
**D** workers who prefer a variety of tasks

71. **The table shows the average annual percentage change in labour productivity.** **9708/01/O/N/03/Q24**

	whole economy	manufacturing
1960s	2.4	3.0
1970s	1.8	2.2
1980s	2.3	4.9
1990s	1.9	2.2

What can be deduced from the data?

- A** Manufacturing output increased faster than that in the rest of the economy over the entire period.  
**B** Productivity growth was at its highest in the 1980s.  
**C** Output per worker increased faster in manufacturing than in the rest of the economy.  
**D** Economic growth was at its lowest in the 1970s.

## 1.1 Basic Economic Problem, Division of Labour, Factors of Production

- 1 **Answer A** **9708/13/M/J/21/Q10**  
 Money is not a factor of production because it is not directly involved in producing a good or service. But money facilitates the production proven by enabling entrepreneur and company to pay wages. So option A is correct answer option B, C and D are incorrect because these choice are factors of production.
- 2 **Answer D** **9708/13/M/J/21/Q3**  
 Reward of taking risks and organizing production is profit. So option D is correct.
- 3 **Answer C** **9708/12/F/M/21/Q1**  
 4 **Answer D** **9708/12/M/J/20/Q3**  
 When division of labour is adopted by a factory than average cost of production falls, monotony in workers and each worker do a very specific work, but, productivity of workers increase.  
 So option D is correct and other options are incorrect.
- 5 **Answer B** **9708/12/O/N/19/Q1**  
 We have unlimited wants and limited resource that is called basic economic problem during scarcity, individual have to make choice. Some most important wants are satisfied and least important wants are postponed, that is called opportunity cost. So option B is correct answer.
- 6 **Answer C** **9708/11/M/J/19/Q2**  
 Insufficient machinery to produce electrical good is an example of limited resource so option C is correct.  
 Government can borrow from interned and external source or print new currency note to finance building a school, Demand of the good is unknown. Same people are unemployed but whether they want to get jobs. So choice in the option A, B and D are unclear. Hence these option are incorrect.
- 7 **Answer C** **9708/11/M/J/19/Q1**  
 Civil engines: are labours. Rail, roads and electricity infrastructure are the examples of capital. So option C is correct.
- 8 **Answer D** **9708/12/F/M/19/Q1**  
 After opting division of labour, productivity labour increase so whatever they did before division of labour was low outfit so their opportunity cost decreases. Option D is the correct answer.
- 9 **Answer B** **9708/11/O/N/18/Q2**  
 10 **Answer D** **9708/12/F/M/18/Q1**  
 Option A, B and C statements are true above economics. So these options are incorrect answer, option D is correct answer, because this statement above economics is incorrect.
- 11 **Answer A** **9708/13/O/N/17/Q2**  
 When automation and division of labour is increased in production process then per unit costs falls, productivity of labour increases, profits increase expansion of firm and increase in the workers employed. So option A is correct answer.
- 12 **Answer A** **9708/12/O/N/17/Q1**  
 13 **Answer C** **9708/12/M/J/17/Q1**  
 When shortage of goods takes place than government wants to satisfy to most of the people of the country, which is a political decision. So rationing scheme is introduced where each family can buy a certain quantity of goods. Therefore option C is correct answer.
- 14 **Answer A** **9708/11/M/J/17/Q1**  
 When scarcity exists than consumers cannot satisfy all wants so they have to make a choice, where most important wants are satisfied but least important wants are postponed. So option A is the correct answer.
- 15 **Answer A** **9708/12/M/J/17/Q1**  
 Money helps the people to be specialised because money make the transaction and exchange of goods and labour easily. So option A is correct option B, C and D are irrelevant.

- 16 Answer C** **9708/12/F/M/17/Q1**  
During scarcity people are unable to satisfy all wants so they make a choice which creates opportunity cost. So option C is correct.
- 17 Answer C** **9708/13/O/N/16/Q1**  
  - Resource are limited
  - Resources can be used alternatively
  - Wants are unlimited
  - Wants differ in importance
 Therefore choice is solution to economic problem.  
Option C is correct and other option irrelevant.
- 18 Answer C** **9708/12/M/J/16/Q1**  
Diagram shows that only in Russia production of oil is greater than consumption so there is no shortage of oil. Option C is the correct answer.
- 19 Answer A (Repeat MCQ #42)** **9708/12/F/M/16/Q1**  
Total fare of bus and train = \$5  
Total expense on car travel = \$7  
So \$2 is the opportunity cost to the individual of traveling by car rather than by bus and train.
- 20 Answer C** **9708/12/O/N/15/Q4**  
Reward of factor of production, enterprise is profit, so option C is correct answer.
- 21 Answer B** **9708/12/O/N/15/Q1**  
When an economy face basic economic problem then economy has to take three decisions. What to produce, how to produce and for whom to produce. But price is not included in basic economic problem. So option B is the correct answer.
- 22 Answer A** **9708/13/M/J/15/Q1**  
Factors of production are limited (Finite) is the fundamental assumption of the economic problem. So option A is Correct.
- 23 Answer D** **9708/13/O/N/14/Q3**  
Land means in economics all the natural resource, both renewable and non renewable resource. So option D is correct. Other options are incorrect, because they are not considered as land.
- 24 Answer D** **9708/12/O/N/14/Q4**
- 25 Answer A** **9708/13/M/J/14/Q4**  
Option B, C and D will discourage international trade so these options are incorrect. Improvement in transport system like motorways, airport, port and railways will encourage import and export, which lead towards specialization, option A is correct.
- 26 Answer C** **9708/12/M/J/14/Q4**
- 27 Answer D** **9708/12/M/J/14/Q1**  
Statement shows that there is scarcity of resources which create the economic problem. So option D is correct other options are irrelevant.
- 28 Answer B** **9708/13/O/N/13/Q1**  
Money is not a factor of production because it is not directly involved in producing a good or service. So option B is correct answer.
- 29 Answer D** **9708/12/O/N/13/Q2**
- 30 Answer D** **9708/12/O/N/13/Q1**
- 31 Answer A** **9708/11/O/N/13/Q3**  
Money is not capital, labour does not mean only physical effort and land is not unlimited. So options B, C and D are incorrect.  
Land = rent, labour = wages,  
Capital = interest, enterprise = profit, so all factors of production can earn income for their owner. Option A is the correct answer.



- 32 Answer D** **9708/11/O/N/13/Q2**  
An economy can only move from M to N in the long run when there is increase in investment can increase productive but cannot shift ppc.
- 33 Answer C** **9708/11/O/N/13/Q1**  
When division of labour is adopted than productivity of labour increase so option C is correct answer.
- 34 Answer C** **9708/11/M/J/13/Q4**  
When goods are produced at large scale and large number of similar firms are located in the same area then division of labour occurs option C is correct.
- 35 Answer A** **9708/11/M/J/13/Q3**  
By doing the same task again and again workers feel bored and monetary, this leads toward dissatisfaction of jobs. So option A is Correct.
- 36 Answer D** **9708/13/O/N/12/Q1**  
When division of labour is adopted then productivity of labour increases so total supply of goods and receives risen. Option D is correct. Option A, B and C are not the benefits of division of labour so these options are incorrect.
- 37 Answer C** **9708/11/ON/12/Q4**  
Diagram shows that only in Russia, production of oil is greater than consumption so there is no shortage of oil. Option C is correct.
- 38 Answer C** **9708/11/O/N/12/Q3**  
**39 Answer B** **9708/11/O/N/12/Q1**  
Division of labour is successful policy when standardised production are made at large scale so whole work in broken up and each worker perform a small part of the whole task. Repetition increase productivity and overall output of the firm. So option B is correct. Business where variety of goods are made, division of labour is not suitable policy so options A, C and D are incorrect.
- 40 Answer D** **9708/12/M/J/12/Q3**  
Options A, B and D will increase shortage of water so these options are incorrect. But more efficient management for the use of water can reduce the problem of water scarcity. So option D is correct answer.
- 41 Answer D** **9708/12/O/N/11/Q4**  
Land means in economics all the natural resource which are given by nature free of cost and these are not manmade. So option D is correct answer.
- 42 Answer A** **9708/12/O/N/11/Q1**  
Total fare of bus and train = \$5  
Total expense on car travel = \$7  
So \$2 is the opportunity cost to the individual of traveling by car rather than by bus and train.
- 43 Answer A** **9708/11/O/N/11/Q3**
- 44 Answer D** **9708/11/O/N/11/Q2**  
Machines, tools, buildings and computers are the examples of capital. Word processing software used by a writer to complete her new book is a example of capital. Capital goods help in production and produce more goods. So option D is the correct answer.
- 45 Answer B** **9708/12/M/J/11/Q1**  
Capital results from the operation of the other parts so option B is correct. Options A, C and D are irrelevant.
- 46 Answer B** **9708/11/M/J/11/Q2**  
**47 Answer C** **9708/11/M/J/11/Q1**  
Straight line shape of PPC shows constant opportunity cost to produce one good in terms of other good. So option C is correct other options are irrelevant.

48 **Answer B** 9708/11/O/N/10/Q1

Option A, B and C shows the objectives of an economy so these options are incorrect answers.

Resources are scarce so the central problem for an economy is to allocate resources between alternative uses. So option B is the correct answer.

49 **Answer B** 9708/01/M/J/02/Q23

50 **Answer B** 9708/01/M/J/03/Q3

Division of labour is adopted when standardized products are made but the market is small, so the maximum benefit from division of labour is not achieved. So option B is correct.

51 **Answer A** 9708/01/M/J/03/Q23

$$\text{Labour productivity} = \frac{\text{Total Output}}{\text{Number of workers employed}}$$

52 **Answer C** 9708/01/O/N/03/Q4

53 **Answer B** 9708/01/O/N/03/Q23

An increase in retirement age means immediate experienced workforce increase in a country so option B is correct. Labour force = employed + unemployed.

54 **Answer B** 9708/11/O/N/09/Q1

55 **Answer C** 9708/11/O/N/09/Q23

Labour force = employed + unemployed so increase in participation rate means that new workers are entered in labour market who want to work. They may be employed or unemployed but labour force will increase so option B is the correct answer.

56 **Answer B** 9708/01/M/J/09/Q23

57 **Answer B** 9708/01/M/J/09/Q1

58 **Answer C** 9708/01/O/N/08/Q4

Options A, B and D belong to workers so these options are incorrect.

Entrepreneur set up a new business in information technology so option C is correct.

60 **Answer B** 9708/01/O/N/07/Q24

61 **Answer C** 9708/01/O/N/07/Q4

62 **Answer B** 9708/01/M/J/07/Q23

$$\text{Labour productivity} = \frac{\text{Total output}}{\text{Workers employed}}$$

Company	Worker	Output	Productivity
X	250	5000	20
X	200	4800	24
Y	800	2000	2.5
Y	1000	2200	2.2

Labour productivity of workers increase in company X and decrease in company Y. So option B is correct answer.

63 **Answer A** 9708/01/M/J/07/Q3

64 **Answer B** 9708/01/M/J/06/Q23

65 **Answer A** 9708/01/M/J/06/Q4

66 **Answer A** 9708/01/O/N/05/Q23

$$\text{Labour productivity} = \frac{\text{Total output}}{\text{Total workers employed}}$$

Years	Worker	Output	Productivity
1	120	12	0.10
2	130	14	0.12
3	100	13	0.13

Labour productivity increase in year 2 and year 3.

So option A IS CORRECT answer.

67 **Answer D** 9708/01/O/N/05/Q3

68 **Answer C** 9708/01/M/J/05/Q1

69 **Answer B** 9708/01/M/J/04/Q24

70 **Answer D** 9708/01/M/J/04/Q3

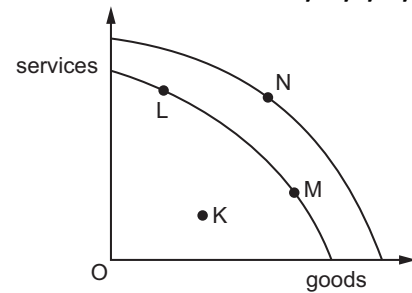
71 **Answer C** 9708/01/O/N/03/Q24

**1.2 PPC, Opportunity Cost, Marginal Concepts**

1. The diagram shows two production possibility curves for an economy.

9708/12/F/M/21/Q2

	short-run economic growth	long-run economic growth	no economic growth
A	K to L	L to M	M to N
B	K to L	M to N	L to M
C	M to N	K to L	L to M
D	M to N	L to M	K to L



2. An economy is operating at a point inside its production possibility curve.

9708/13/O/N/20/Q1

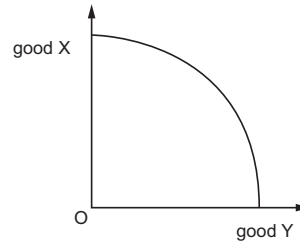
Why is this described as inefficient?

- A Individuals are enjoying too much leisure.
- B More of one good can be produced without decreasing production of another.
- C The combination of labour and capital is wrong.
- D There are shortages of some goods and an excess supply of others.

3. The diagram shows a production possibility curve.

9708/12/O/N/20/Q1

What can be deduced from the shape of this curve?



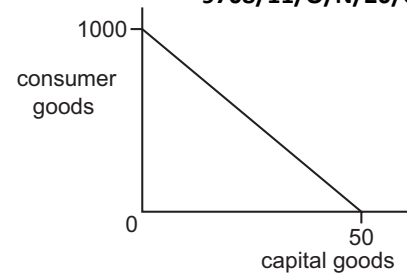
- A decreasing marginal returns to consumption
- B decreasing opportunity costs of consumption
- C increasing opportunity costs of production
- D increasing returns to scale

4. The diagram shows an economy's production possibility curve.

9708/11/O/N/20/Q1

It has been employing its resources in the ratio of 80% consumer goods production and 20% capital goods production.

What will be the result if it decides to double its output of capital Goods?



- A a gain of 20 capital goods
- B a gain of 40 capital goods
- C a loss of 200 consumer goods
- D a loss of 600 consumer goods

9708/13/M/J/20/Q1

5. An economist knows the current point at which an economy is operating within its production possibility curve.

What can the economist judge from this knowledge about the economy?

- A its degree of self-sufficiency
- B its international competitiveness
- C its level of output of two goods
- D its rate of economic growth

9708/11/M/J/20/Q1

6. The transition of centrally planned economies to market economies was accompanied by a significant change in the composition of output.

What was an immediate consequence of this transition?

- A a build-up of unsold stocks of goods
- B an increase in exports of goods
- C an increase in unemployment
- D decreasing prices of goods and services

9708/12/F/M/20/Q2

7. A worker earns \$40 per hour. Rather than work, she decides to visit a museum for three hours.

The visit costs a total of \$40. What is the opportunity cost of visiting the museum?

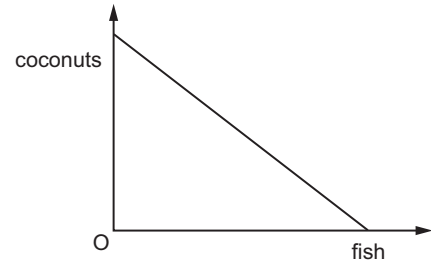
- A \$40
- B \$80
- C \$120
- D \$160

9708/12/F/M/20/Q1

8. The diagram shows the production possibility curve of a desert island economy where the inhabitants produce just two commodities, coconuts and fish.

What explains the shape of the production possibility curve?

- A Coconuts and fish are perfect complements.
- B Coconuts and fish are perfect substitutes.
- C The inhabitants consume more fish than coconuts.
- D The opportunity cost of increasing fish production is constant.

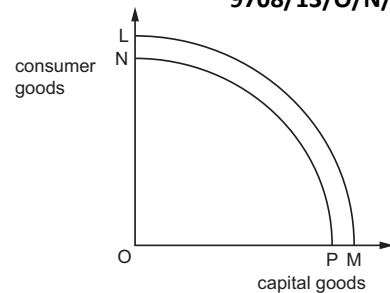


9708/13/O/N/19/Q4

9. In the diagram the original production possibility curve is LM.

What could cause the curve to shift to NP?

- A a fall in the working population
- B a reallocation of resources from consumer goods to capital goods
- C an increase in output per worker
- D an increase in unemployment



10. An individual has an appointment with his dentist.

He has a choice between travelling to the appointment by car, or leaving the car at home and travelling by bus and then by train. The costs of the journey are given below.

	\$
bus fare	2
train fare	3
car parking charge	4
petrol	2
car wear and tear costs	1

Given this information, what is the opportunity cost to the individual of travelling by car rather than by bus and train?

- A \$2
- B \$4
- C \$7
- D \$12

9708/13/O/N/19/Q3

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

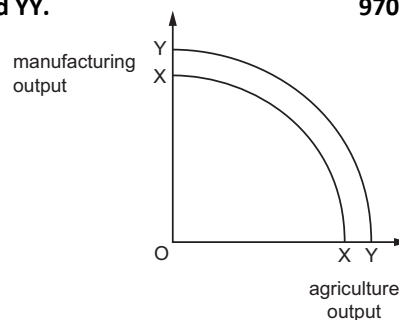
	Y (vertical) axis	X (horizontal) axis
A	capital input	labour input
B	cost of production	quantity produced
C	output of rice	labour input
D	output of rice	output of sugar

9708/12/O/N/19/Q2

12. The diagram shows two production possibility curves, XX and YY.

What would cause a movement from XX to YY?

- A a decrease in scarce resources
- B a decrease in the cost of resources
- C an increase in the cost of labour
- D an increase in the labour force



9708/11/O/N/19/Q4

13. What is correct at any point along an economy's production possibility curve?

	existing resources are fully employed	existing technology is fully used
A	Correct	Correct
B	Correct	False
C	False	Correct
D	false	False

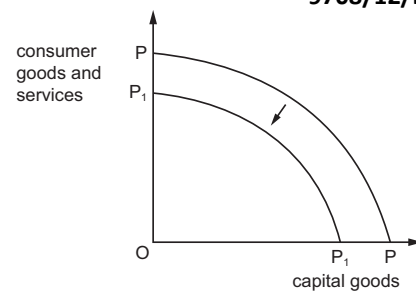
9708/13/M/J/19/Q3

14. **What does a production possibility curve show?** 9708/11/O/N/19/Q2
- A the maximum output that can be produced by a firm in a year
  - B the maximum output that can be produced per worker per year in the economy
  - C the maximum output that could be exported from a country
  - D the maximum output of two or more goods in an economy from a given amount of inputs
15. **What is the opportunity cost to a person of spending \$20 on a new pair of sports shoes?** 9708/13/M/J/19/Q1
- A all the other things the person could have bought
  - B the cost of getting to the sports shop
  - C the current value of his old pair of shoes
  - D the next best thing that could have been bought with the \$20
16. **What would be a determinant of a country's production possibility curve boundary?** 9708/12/M/J/19/Q3
- 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

17. **A production possibility curve for a country is shown.** 9708/12/M/J/19/Q1

What would cause the shift from PP to P1P1?

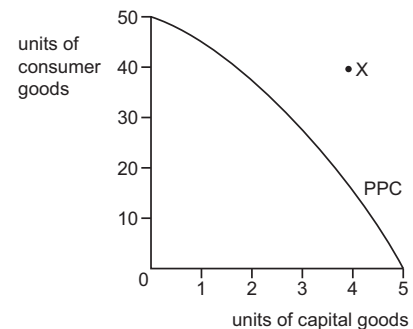
- A application of more machinery used in manufacturing
- B productivity decreases
- C scientific methods applied to farming
- D switch from production of consumer goods to capital goods



18. **The diagram shows a production possibility curve (PPC). It indicates the combinations of consumer goods and capital goods produced by an economy using all its available resources.** 9708/11/M/J/19/Q4

What does position X indicate?

- A a lower ratio of capital to consumer goods is necessary to achieve economic growth
- B increasing levels of unemployment
- C insufficient factors of production are available
- D too many consumer goods are causing a fall in economic growth

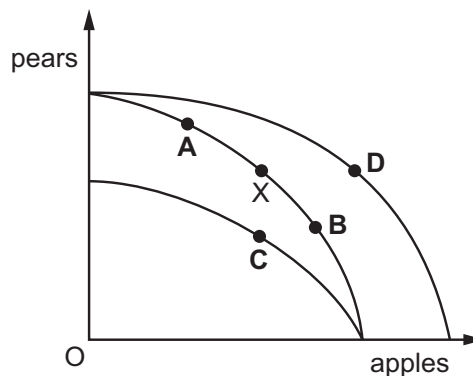


19. **A student buys a flute for \$80 but then is unable to learn to play it. It has a resale value of \$50, while the shop retail price of the same type of flute has risen to \$95.** 9708/12/F/M/19/Q4

What is the present opportunity cost to the student of keeping the flute?

- A \$30
- B \$50
- C \$80
- D \$95

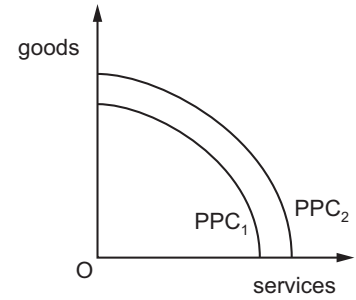
20. **The diagram shows a production possibility curve for a farmer. The original position is X.** 9708/12/F/M/19/Q3  
 If the farmer switches some of his land from producing pears to producing apples, which point represents his new position?



21. The diagram shows two production possibility curves for goods and services in an economy. 9708/13/O/N/18/Q3

What would **not** cause the economy's production possibility curve to shift from  $PPC_1$  to  $PPC_2$ ?

- A an increase in the level of employment
- B an increase in the retirement age
- C an increase in the skills level of employees
- D an increase in the use of capital by firms



9708/13/O/N/18/Q2

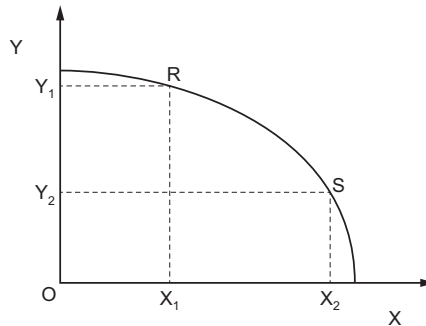
22. The combinations of output of goods X and Y shown in the table could all be produced using the existing resources in a country to their maximum capacity.

	1	2	3	4	5
X	220	200	180	140	90
Y	10	25	40	70	100

Which statement about the opportunity cost of good Y in terms of good X is correct?

- A It decreases as the output of Y increases.
- B It is always below  $1Y = 1X$ .
- C It is constant throughout the range of output shown.
- D It is never above  $1Y = 2X$ .

23. The diagram shows an economy's production possibility curve for goods X and Y. 9708/12/O/N/18/Q2



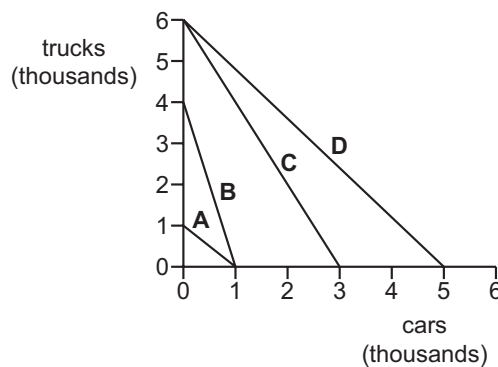
What is the opportunity cost of moving from point R to point S on the production possibility curve?

- A  $OX_1$
- B  $OY_2$
- C  $X_1X_2$
- D  $Y_1Y_2$

9708/11/O/N/18/Q3

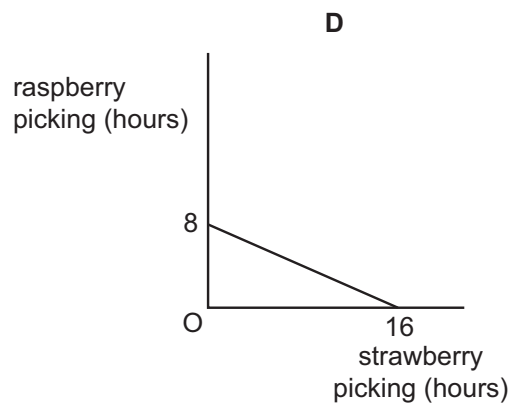
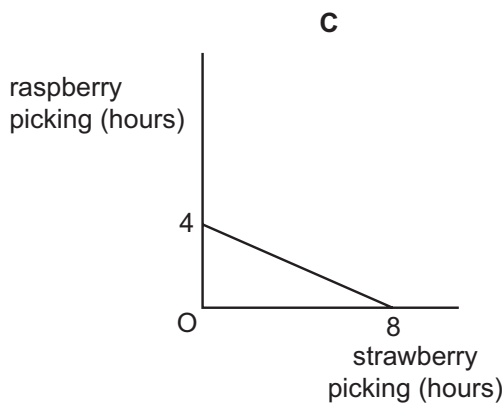
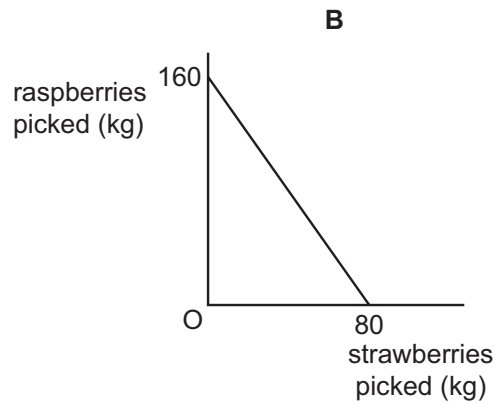
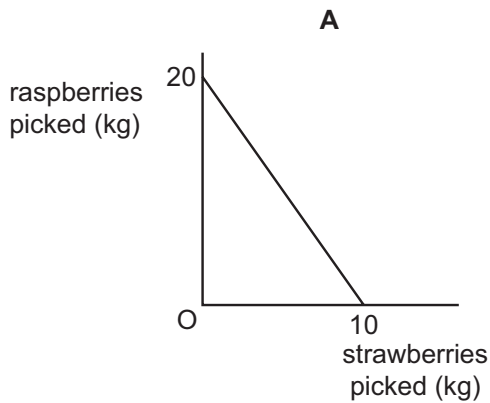
24. The production possibility curves show the abilities of four economies to produce trucks and cars.

In which economy is the opportunity cost of producing cars lowest?

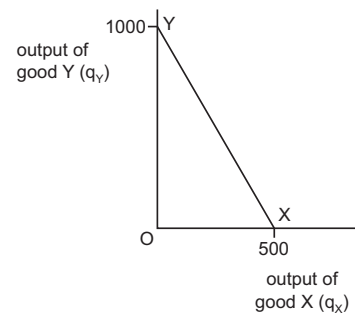


9708/12/M/J/18/Q3

25. A farmer picks 10 kg of strawberries in each hour. The farmer is twice as productive at picking raspberries. Which diagram shows the farmer’s daily production possibility curve when working 8 hours a day?



26. YX is an economy’s production possibility curve (PPC). The equation of the curve is  $q_Y = 1000 - 2q_X$ . What is the opportunity cost of producing one extra unit of good X?
- A 2/1 unit of good Y
  - B 2 units of good Y
  - C 500 units of good Y
  - D 1000 units of good Y

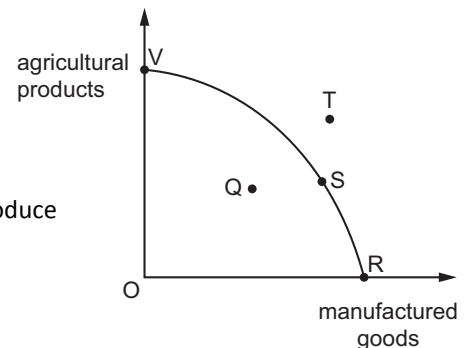


9708/11/M/J/18/Q4

27. A country can produce manufactured goods and agricultural products as shown in the diagram.

Given this information, which statement is definitely correct?

- A If the country produces at Q it has unused or inefficiently used resources.
- B The country should produce at T instead of at Q.
- C The country would be better off producing at R than S.
- D The monetary costs are the same to produce at V as they are to produce at R



28. What would be an opportunity cost of growth in an economy?
- A the faster growth of services than of manufacturing
  - B the need for an increased level of imported raw materials
  - C the need for greater government intervention
  - D the reduction of consumption if growth requires investment

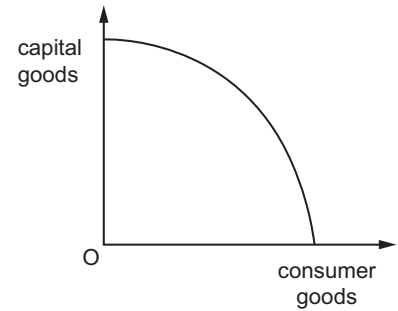
9708/11/M/J/18/Q1

9708/12/F/M/18/Q3

29. 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.



9708/12/F/M/18/Q2

30. 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?

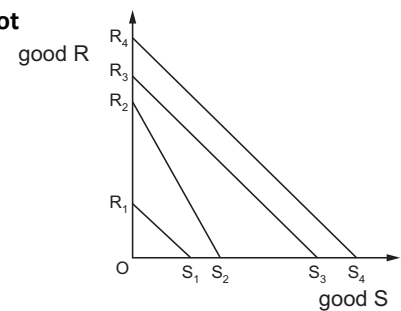
- A 1.33 units of Y
- B 1.5 units of Y
- C 0.5 units of Z
- D 2.0 units of Z

9708/13/O/N/17/Q3

31.  $R_1S_1$ ,  $R_2S_2$ ,  $R_3S_3$  and  $R_4S_4$  are production possibility curves (PPC) for four different countries 1, 2, 3 and 4.

Which statement about the opportunity cost of good R in terms of good S is not correct?

- A It is greater at all points on  $R_4S_4$  than on  $R_3S_3$ .
- B It is greater in country 3 than country 2.
- C It is lower in country 2 than country 1.
- D It is the same at each point on  $R_3S_3$ .

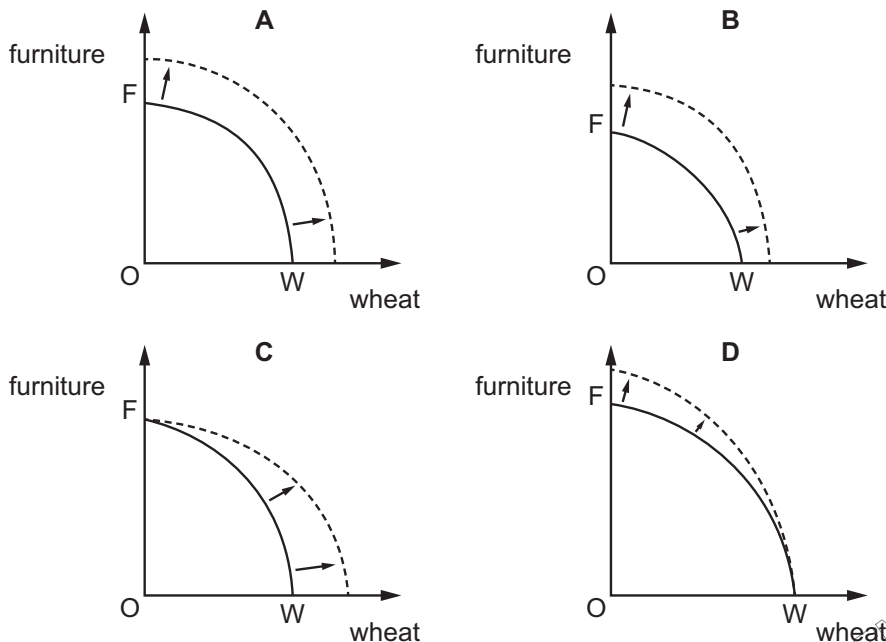


9708/12/O/N/17/Q3

32. 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?



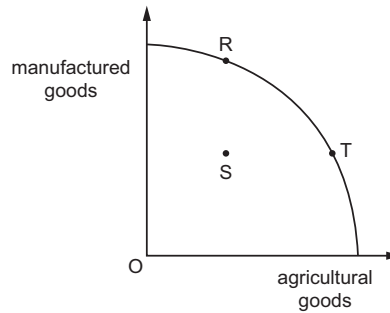


9708/11/O/N/17/Q3

33. Farmers using traditional methods lack access to finance and often employ family members on a part-time basis.

If working practices in agriculture could be improved, how would this be likely to be shown on the production possibility curve?

- A by a movement from R to T
- B by a movement from S to R
- C by a movement from S to T
- D by a movement from T to R

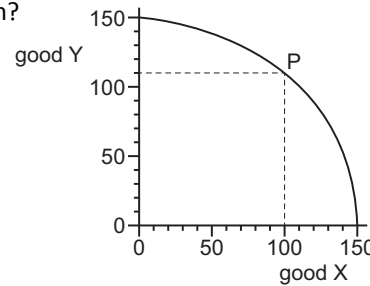


9708/13/M/J/17/Q3

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

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

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

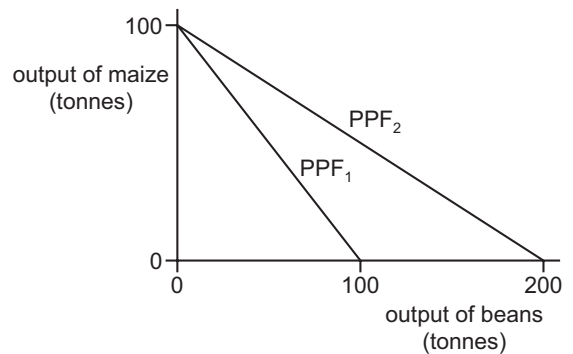


9708/11/M/J/17/Q3

35. The diagram shows that the production possibility frontier of maize and beans has changed from PPF<sub>1</sub> to PPF<sub>2</sub>.

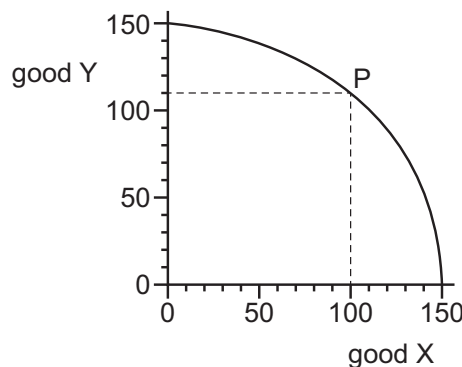
What has happened to the opportunity cost of maize and the returns to factors producing beans?

	price elasticity of demand for exports	returns to factors producing beans
A	Fallen	Fallen
B	Fallen	Risen
C	Risen	Fallen
D	Risen	Risen



9708/12/F/M/17/Q3

36. 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

9708/13/O/N/16/Q26

37. The table shows different possible outputs of apples and bananas for Country X and Country Y assuming only two goods are produced and all resources are used to their maximum.

	Apples	or	Bananas
Country X	100	or	80
Country Y	50	or	25

Country Y decides to specialise in the production of the good in which it has a comparative advantage.

Country X decides to use 75% of its resources to produce the good in which it has a comparative advantage and 25% of its resources to produce the other good.

What will be the total output?

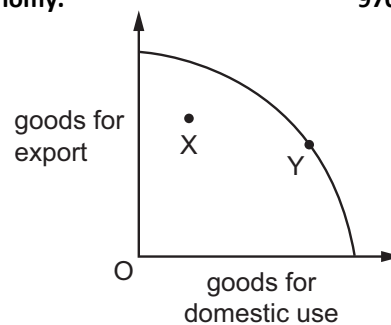
	Apples	Bananas
<b>A</b>	50	80
<b>B</b>	75	45
<b>C</b>	75	60
<b>D</b>	150	120

38. The diagram shows a production possibility curve for an economy.

9708/13/O/N/16/Q3

What might cause the movement from X to Y?

- A** a more efficient use of resources  
**B** an increased emphasis on international trade  
**C** growth in the productive capacity of the economy  
**D** new innovations and technology



9708/12/O/N/16/Q4

39. An economy can produce only two goods at any one time. These are good X and one other good from A, B, C or D. The table shows the outputs of goods A, B, C and D with each output of good X when the economy's resources are fully employed.

Which good must be produced with good X to show a production possibility curve with increasing costs?

	Units				
X	0	100	200	300	400
<b>A</b>	0	20	40	60	80
<b>B</b>	110	70	40	20	0
<b>C</b>	120	90	60	30	0
<b>D</b>	140	120	90	50	0

9708/12/O/N/16/Q2

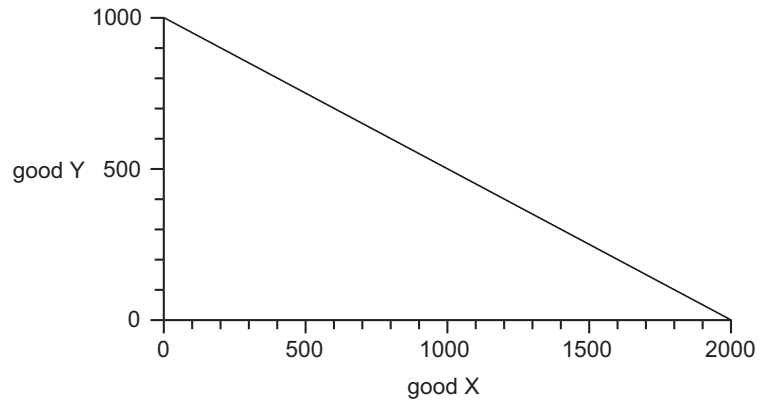
40. In 2014, the Hong Kong Housing Authority said the waiting time for public sector housing had increased and it would only complete 8900 flats of the 15 000 planned for the year. The reasons were the shortage of workers because they were needed in other public sector projects, the difficulty of finding land, and government regulations.

Which economic concepts are illustrated in this information?

- A** a market economy and a lack of resources  
**B** economic planning and the price mechanism  
**C** opportunity cost of labour and excess demand  
**D** production possibility and budget deficit

9708/12/O/N/16/Q1

41. The diagram shows a production possibility curve for an economy that produces only two goods, X and Y. The economy produces 1200 of good X and operates on its production possibility curve.



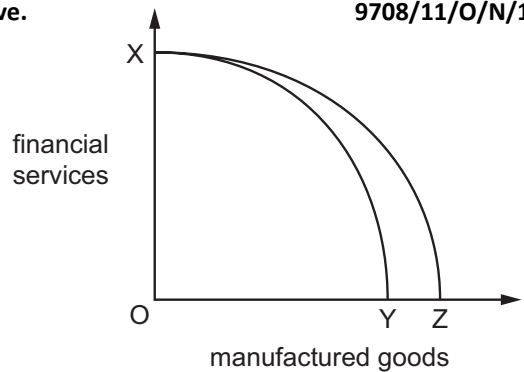
- Which quantity of good Y is given up?
- A 400
  - B 600
  - C 800
  - D 1000

42. In the diagram XY is an economy's production possibility curve.

9708/11/O/N/16/Q3

What could cause the curve to shift to XZ?

- A a fall in productivity in manufacturing
- B a fall in the price of manufactured goods
- C a higher demand for manufactured goods
- D an improvement in manufacturing technology

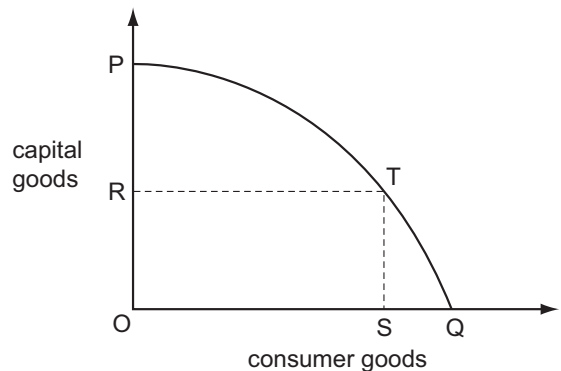


9708/11/O/N/16/Q2

43. The production possibility curve for an economy producing capital goods and consumer goods is represented by the line PQ.

What is the opportunity cost of producing OS of consumer goods?

- A OR of capital goods
- B PR of capital goods
- C SQ of consumer goods
- D SQ of consumer goods + PR of capital goods

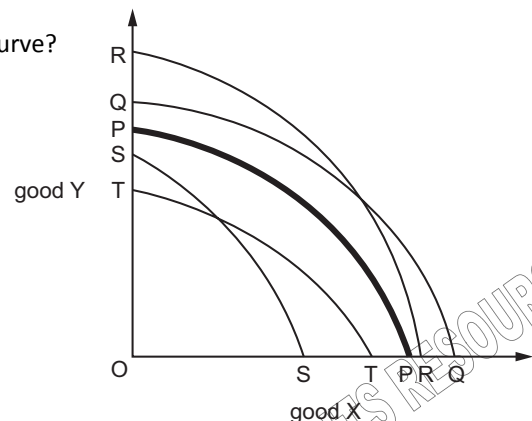


9708/13/M/J/16/Q3

44. The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour-intensive than the production of Y.

The working hours of the labour force are reduced by law. Which curve could be the country's new production possibility curve?

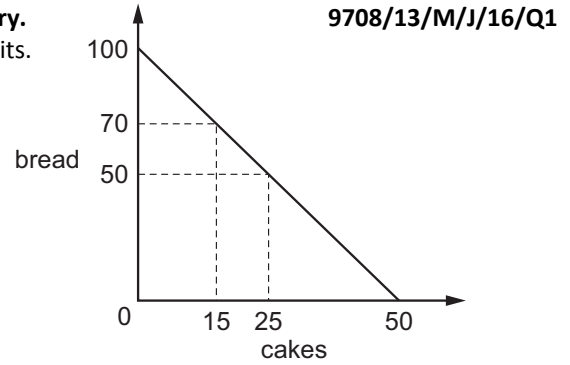
- A TT
- B SS
- C QQ
- D RR



45. The diagram shows different production possibilities for a bakery.

They wish to increase production of cakes from 15 units to 25 units.  
What is the opportunity cost?

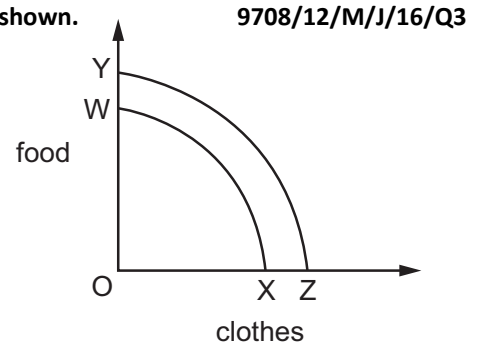
- A 10 units of cake      B 15 units of cake  
C 20 units of bread      D 50 units of bread



46. The change from WX to YZ in a country's production possibility curve is shown.

What could have caused this shift?

- A an increase in employment among the existing labour force  
B an increase in the rate of interest  
C the closing of an inefficient factory  
D the discovery of a new resource



47. What is necessary for effective specialisation?

- A a barter system      B a medium of exchange  
C a production possibility curve      D a system of trade protection

9708/12/M/J/16/Q2

48. There are two main types of coffee grown, arabica and robusta. The table gives details of the four largest coffee producers for 2013-2014. Production is measured in thousand 60 kilogram bags.

coffee producer	arabica coffee	robusta coffee	total output
Brazil	39 400	14 400	53 800
Vietnam	1 175	27 800	28 975
Indonesia	1 650	7 850	9 500
Colombia	11 000	0	11 000

What can be concluded from the table about production in the four countries?

- A Brazil has the highest level of specialisation.  
B Brazil produces more coffee than the other three named producers together.  
C Robusta coffee production is greater than arabica coffee production.  
D Vietnam has a comparative advantage in robusta and Colombia in arabica.

9708/11/M/J/16/Q4

49. A production possibility curve shows labour-intensive farming output and capital-intensive manufacturing output.

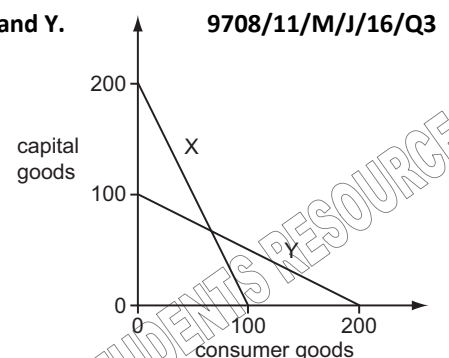
What would not cause a shift in this curve?

- A a reduction in sales tax on manufactured products  
B better training of workers in the manufacturing sector of the economy  
C improvements in the productivity of agricultural machinery  
D the reclamation of land to be used for both agriculture and manufacturing

50. The diagram shows the production possibility curves of two economies, X and Y.

Which statement about the two economies is correct?

- A Both economies always have identical opportunity costs.  
B Both economies have the same future growth prospects.  
C The opportunity costs are constant in each economy.  
D The terms of trade for both countries will be one capital good for one consumer good.



9708/11/M/J/16/Q1

51. A driver makes the following estimates in considering the purchase of a car which she intends to use only when she would otherwise have used public transport.

	\$
purchase price of car	6000
value of car after one year	4500
car operating and repair costs, insurance and taxation for one year	1800
cost of using public transport for one year instead of travelling by car	800
potential earnings after tax on \$6000 invested for one year	500

What will be the opportunity cost in monetary terms to the driver over the year of travelling by car rather than by public transport?

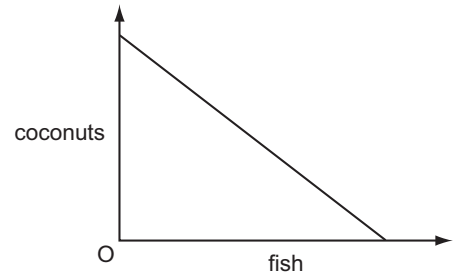
- A \$1500      B \$3000      C \$3700      D \$7800

9708/12/F/M/16/Q3

52. The diagram shows the production possibility frontier of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.

What explains the shape of the production possibility frontier?

- A Coconuts and fish are perfect complements.  
 B Coconuts and fish are perfect substitutes.  
 C The inhabitants consume more fish than coconuts.  
 D The opportunity cost of fish is constant as more time is devoted to fishing.



9708/12/F/M/16/Q2

53. What confirms that scarcity exists?

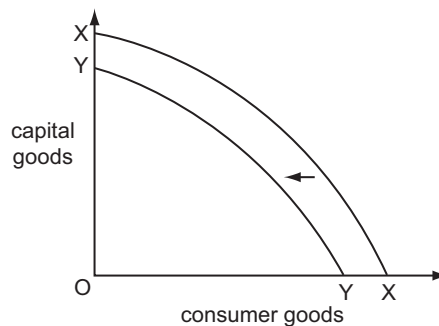
- A A product has an opportunity cost.  
 B The demand for a product has risen.  
 C The government has set a minimum price for a product.  
 D The supply of a product has fallen.

54. A country's production possibility curve moves from XX to YY as shown in the diagram.

9708/13/O/N/15/Q1

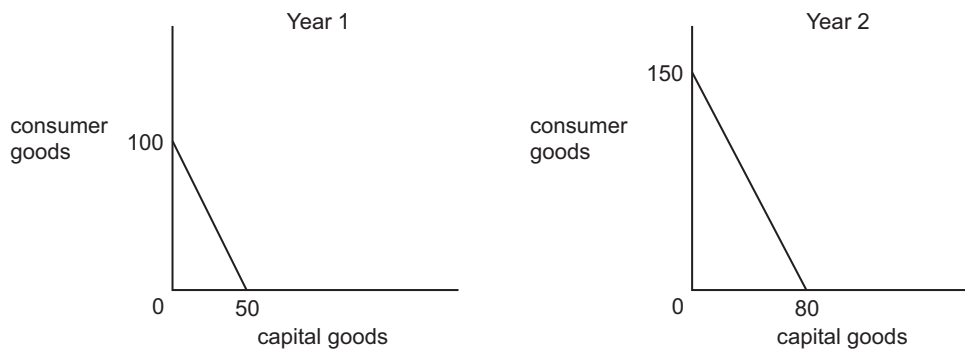
What could have caused this movement?

- A a rise in technological progress  
 B a rise in the retirement age  
 C an increase in investment  
 D an increase in net emigration



9708/12/O/N/15/Q3

55. The diagrams show the change in a country's production possibility curve between Year 1 and Year 2.

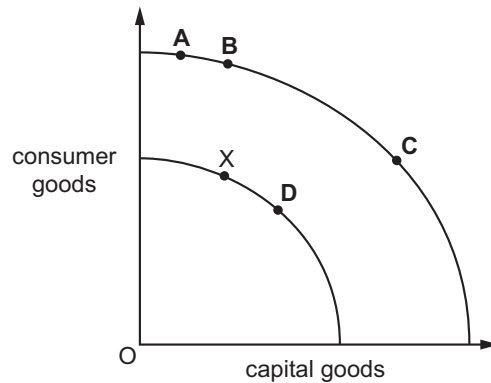


What can be concluded from the diagrams?

- A Future growth prospects have been harmed.  
 B The level of unemployment has fallen.  
 C The opportunity cost of consumer goods has risen.  
 D The proportionate growth in production is greater in consumer goods.

9708/12/O/N/15/Q3

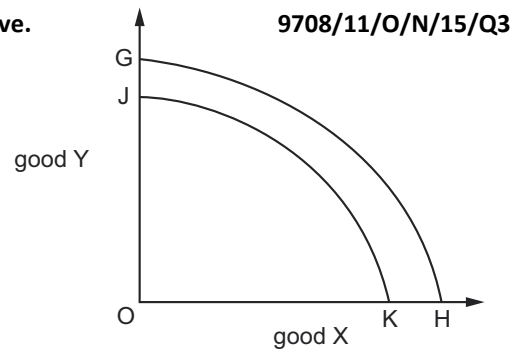
56. The diagram shows the change in an economy's production possibility curve as it grows in the long run. Which movement from point X is most likely to show the highest potential for growth?



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

What could cause the curve to shift to JK?

- A a decrease in net exports
- B an increase in the average price level
- C an increase in the unemployment rate
- D net outward migration



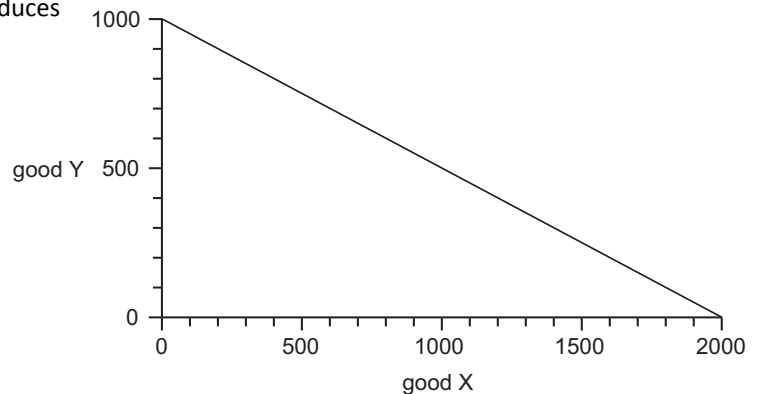
9708/11/O/N/15/Q3

58. The diagram shows a production possibility curve for an economy that produces only two goods, X and Y

The economy produces 800 of good Y and produces on its production possibility curve.

Which quantity of good X is given up?

- A 200
- B 400
- C 800
- D 1600

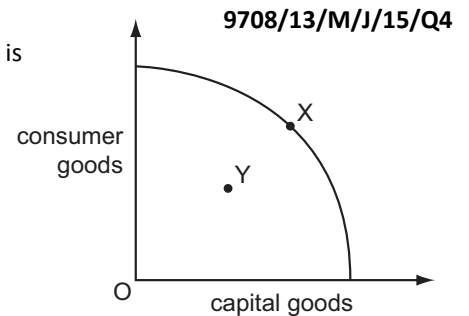


9708/11/O/N/15/Q2

59. The diagram shows a production possibility curve for an economy

Assuming that the production possibility curve remains unchanged, what is the most likely reason for the movement from point X to point Y?

- A a civil war causing a widespread loss of resources
- B a permanent fall in productivity in both capital and consumer goods
- C the exhaustion of a natural resource
- D the rise in unemployment due to a recession

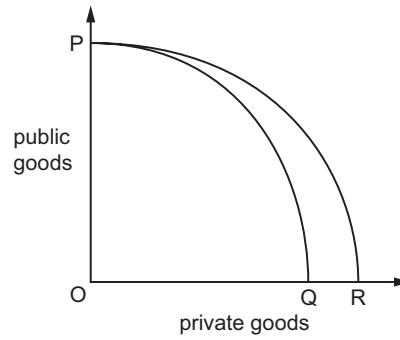


9708/13/M/J/15/Q4

60. The diagram shows the change in a country's production possibility curve from PQ to PR. 9708/13/M/J/15/Q3

What increases as a result of the change from PQ to PR?

- A the price of private goods
- B the price of public goods
- C the opportunity cost of private goods
- D the opportunity cost of public goods



9708/12/M/J/15/Q4

61. Three women work in a pottery workshop, each dividing their time equally between three products. The table shows how many units of each product are made.

	plates	bowls	mugs
Jane	100	50	50
Sarah	50	100	50
Seema	50	50	100
total	<u>200</u>	<u>200</u>	<u>200</u>

Later, division of labour is introduced and each woman makes only the product in which she has absolute advantage.

What is the rise in total output?

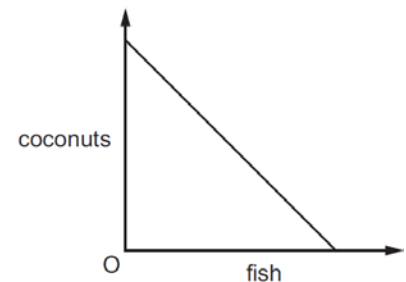
- A 150 units
- B 300 units
- C 600 units
- D 900 units

9708/12/M/J/15/Q3

62. The diagram shows the production possibility curve of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.

What explains the shape of the production possibility curve?

- A Coconuts and fish are in joint demand.
- B Coconuts and fish are perfect substitutes when consumed.
- C Fishing and coconut growing are equally efficient.
- D The opportunity cost of fish falls as more time is devoted to fishing.



9708/13/O/N/14/Q4

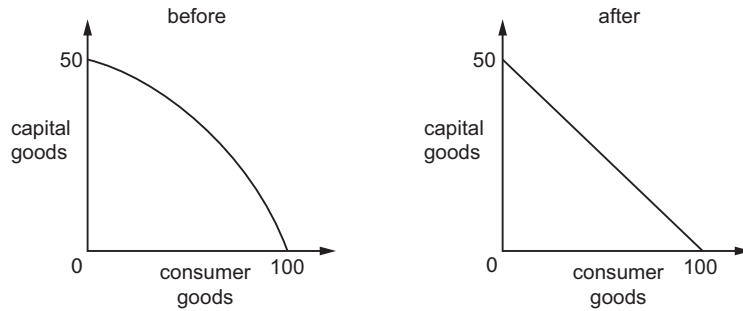
63. A farmer can produce both wheat and barley at constant costs of production. The opportunity cost of a kilo of wheat is 1.5 kilos of barley. The price of a kilo of wheat is twice that of barley.

What should the farmer do to maximise revenue?

- A Concentrate on barley production.
- B Concentrate on wheat production.
- C Produce wheat and barley in the ratio 2 : 1.
- D Produce wheat and barley in the ratio 3 : 2.

9708/13/O/N/14/Q2

64. The diagrams show an economy's production possibility curve before and after a change has occurred.

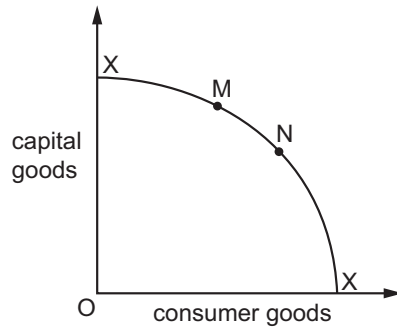


What would this change indicate about opportunity cost and the production possibility curve?

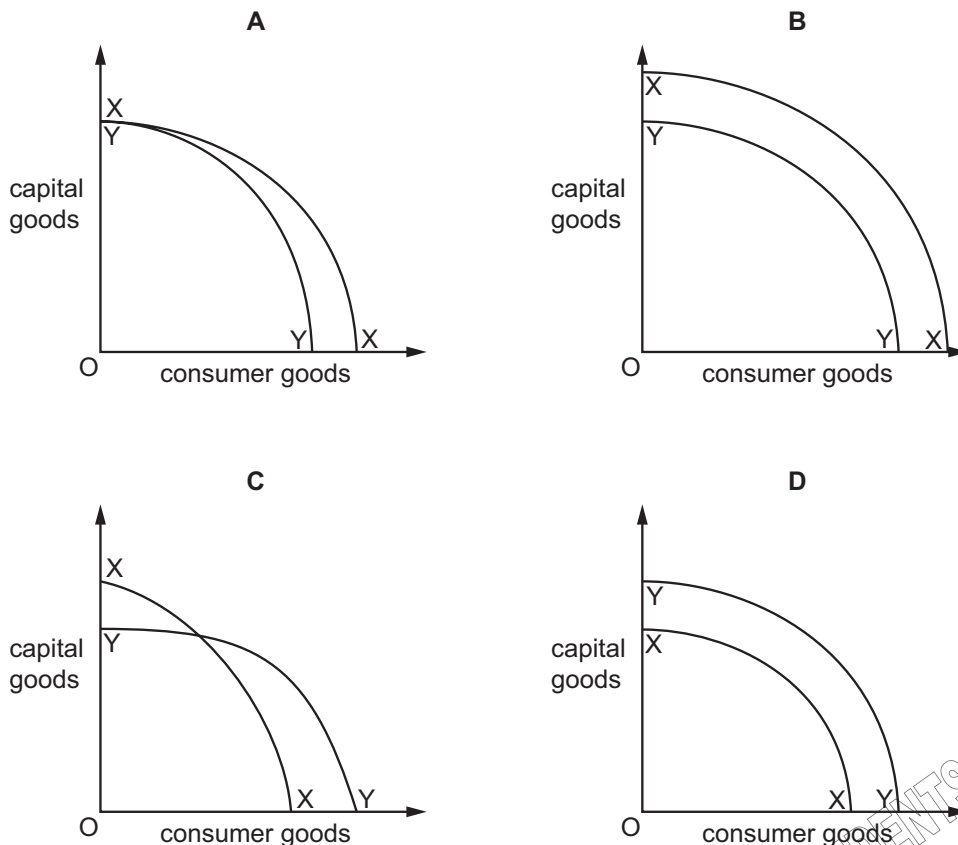
	opportunity cost	production possibility curve
<b>A</b>	switched from constant to increasing	involved some increase
<b>B</b>	switched from decreasing to constant	involved some decrease
<b>C</b>	switched from decreasing to increasing	involved some increase
<b>D</b>	switched from increasing to constant	involved some decrease

9708/12/O/N/14/Q3

65. The diagram shows the production possibility curve XX of an economy that produces both consumer goods and capital goods.



If the economy moves from point M to point N, which diagram represents the most likely position of the production possibility curve YY in the future?

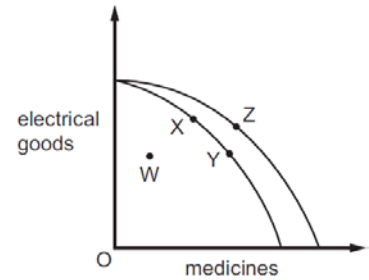




9708/13/M/J/14/Q3

66. A country is producing electrical goods and medicines at full capacity. An innovation is developed that enables the country to produce a new medicine which becomes in great demand. How would this be represented by its production possibility curves?

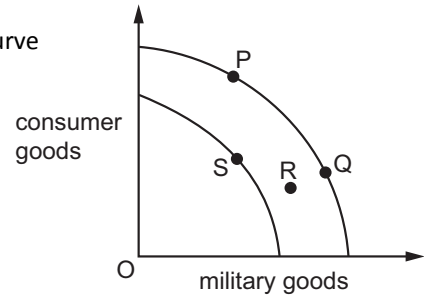
- A as a movement from W to X
- B as a movement from X to Y
- C as a movement from X to Z
- D as a movement from Y to X



9708/12/M/J/14/Q2

67. A country was at point P on its production possibility curve. Following the threat of invasion it prepared for war. The war then reduced the country's infrastructure. What are the most likely changes on the production possibility curve diagram that are consistent with these events?

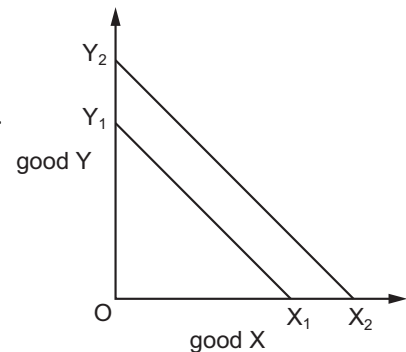
- A P to Q followed by Q to R
- B P to Q followed by Q to S
- C P to R followed by R to Q
- D P to R followed by R to S



9708/11/M/J/14/Q3

68. The diagram illustrates the production possibility curve of an economy in Year 1 ( $X_1 Y_1$ ) and in Year 2 ( $X_2 Y_2$ ).

- What can be concluded from the diagram?
- A The cost of production was higher in Year 2 than in Year 1.
  - B The full employment level of output was higher in Year 2 than in Year 1.
  - C The opportunity cost of production was higher in Year 2 than in Year 1.
  - D Unemployment was higher in Year 2 than in Year 1.



9708/12/O/N/13/Q3

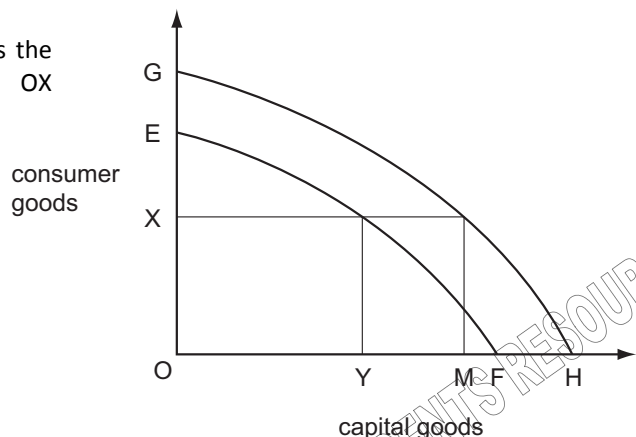
69. A farmer can produce both beef and lamb. The opportunity cost of a kilo of beef is three kilos of lamb. The price of a kilo of beef is twice that of lamb. What should he do if his aim is to maximise his revenue?

- A concentrate on beef production
- B concentrate on lamb production
- C produce beef and lamb in the ratio 3:2
- D produce twice as much beef as lamb

9708/11/M/J/13/Q2

70. The diagram shows two production possibility curves (EF and GH), before and after Technological progress has taken place. After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

- A MH
- B OH
- C OM
- D YF

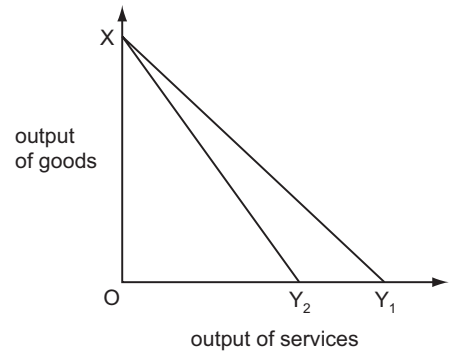


9708/11/M/J/13/Q1

71. The diagram shows the production possibility curve (PPC) of an economy that produces goods and services.

What might cause the shift of the PPC from  $XY_1$  to  $XY_2$ ?

- A a decrease in the demand for services
- B a decrease in the efficiency in the production of services
- C a decrease in the opportunity cost of producing services
- D a decrease in the resources employed in services

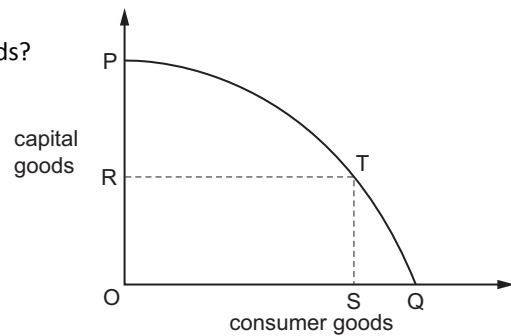


9708/13/O/N/12/Q2

72. The production possibility curve for an economy producing capital goods and consumer goods is represented by the line PQ.

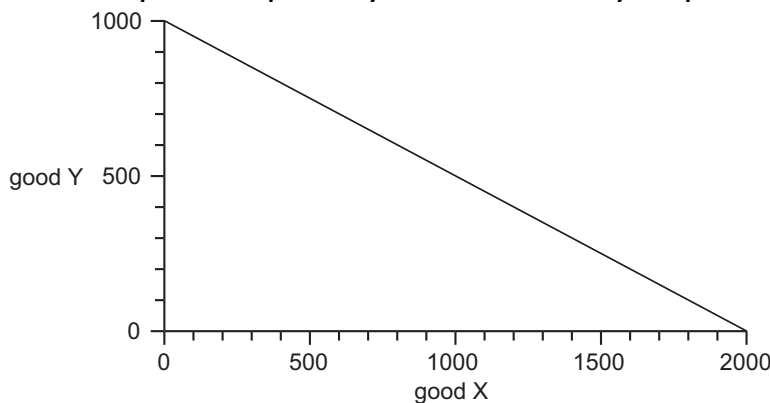
What is the opportunity cost of producing OS of consumer goods?

- A OR of capital goods
- B PR of capital goods
- C SQ of consumer goods
- D SQ of consumer goods + PR of capital goods



9708/12/O/N/12/Q3

73. The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



The economy produces 1200 of good X and produces on its production possibility curve.

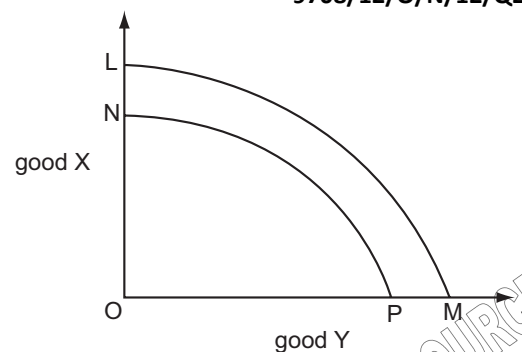
Which quantity of good Y is given up?

- A 400
- B 600
- C 800
- D 1000

74. In the diagram the original production possibility curve is LM.

What might cause the curve to shift to NP?

- A a higher retirement age
- B a reallocation of resources
- C the depletion of natural resources
- D the underemployment of resources



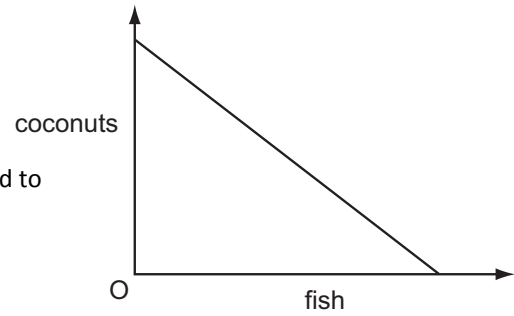
9708/12/O/N/12/Q2

9708/11/O/N/12/Q2

75. The diagram shows the production possibility frontier of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.

What explains the shape of the production possibility frontier?

- A Coconuts and fish are perfect complements.
- B Coconuts and fish are perfect substitutes.
- C Fishing and coconut growing are equally efficient.
- D The opportunity cost of fish increases as more time is devoted to fishing.

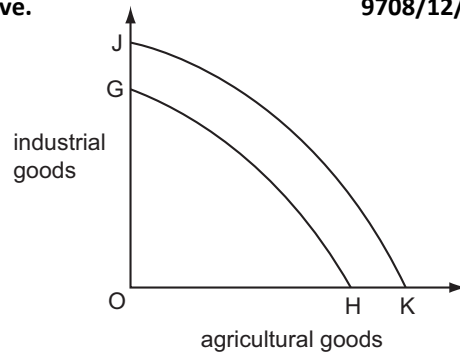


9708/12/M/J/12/Q2

76. In the diagram, JK is an economy's production possibility curve.

What could cause the curve to shift to GH?

- A a decrease in innovation
- B an increase in the retirement age
- C an increase in the price of energy
- D an increase in the unemployment rate



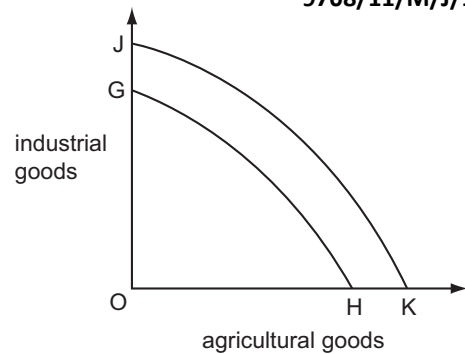
77. What is the opportunity cost to a fully employed economy of increasing capital investment? 9708/11/M/J/12/Q3

- A a fall in consumption
- B a fall in income
- C a rise in saving
- D a rise in the rate of interest

78. In the diagram, JK is an economy's production possibility curve.

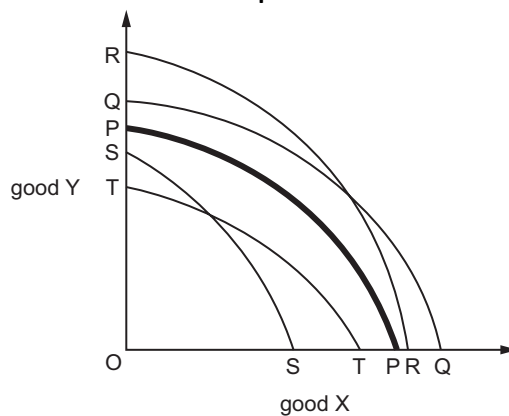
What could cause the curve to shift to GH?

- A a decrease in innovation
- B an increase in the retirement age
- C an increase in the price of energy
- D an increase in the unemployment rate



9708/12/O/N/11/Q2

79. The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour intensive than the production of Y.



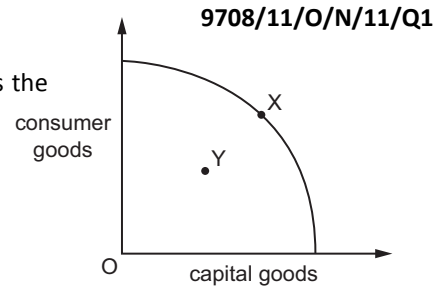
The working hours of the labour force are reduced by law. Which curve could be the country's new production possibility curve?

- A TT
- B SS
- C QQ
- D RR

80. The diagram shows a production possibility curve for an economy.

Assuming that the production possibility curve remains unchanged, what is the most likely reason for the movement from point X to point Y?

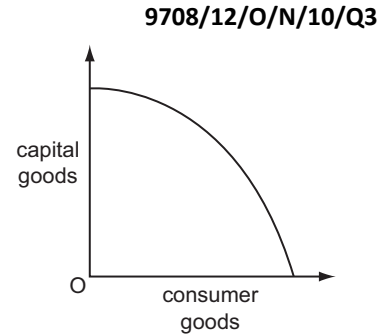
- A a civil war causing a widespread loss of resources
- B a permanent fall in productivity in both capital and consumer goods
- C a rise in unemployment due to a recession
- D the exhaustion of a natural resource



81. The diagram shows the production possibility curve of an economy.

Which statement explains the shape of this curve?

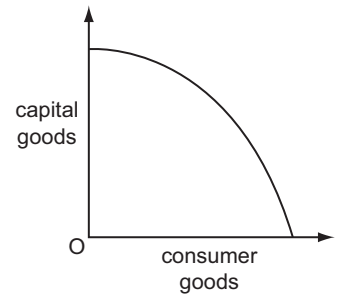
- A More efficient workers are drawn away from the production of consumer goods.
- B Resources cannot be switched between producing capital and consumer goods.
- C The economy is more efficient at producing capital than consumer goods.
- D The opportunity cost of producing capital goods increases the more capital goods are made.



82. The diagram shows the production possibility curve of an economy.

Which statement explains the shape of this curve?

- A More efficient workers are drawn away from the production of consumer goods.
- B Resources cannot be switched between producing capital and consumer goods.
- C The economy is more efficient at producing capital than consumer goods.
- D The opportunity cost of producing capital goods increases the more capital goods are made.



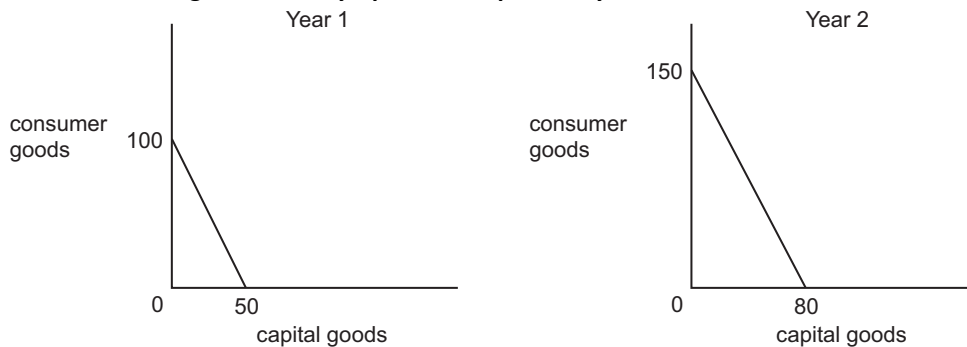
83. A worker can make 10 hats or 5 pairs of shoes in a day. In the market three hats can be sold at the same price as two pairs of shoes.

The worker should make

- A 4 hats and 3 pairs of shoes daily.
- B 6 hats and 2 pairs of shoes daily.
- C hats only.
- D shoes only.

9708/11/M/J/10/Q1

84. The diagrams show the change in a country's production possibility curve between Year 1 and Year 2.



What can be deduced from the diagrams?

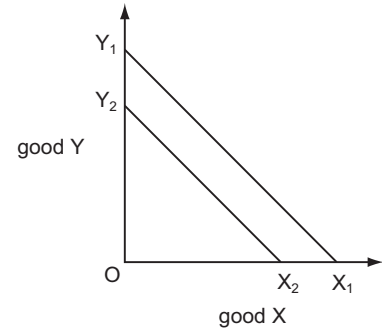
- A Future growth prospects have been harmed.
- B The level of unemployment has fallen.
- C The opportunity cost of consumer goods has risen.
- D The proportionate growth in production is greater in consumer goods.

9708/11/O/N/09/Q2

85. The diagram illustrates the production possibility curves for an economy in Year 1 ( $X_1 Y_1$ ) and Year 2 ( $X_2 Y_2$ ).

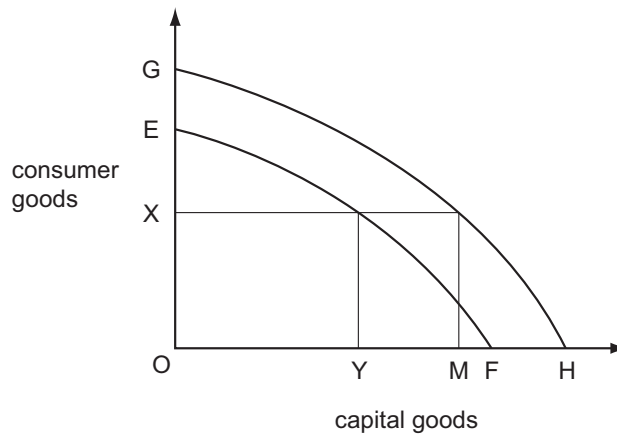
What can be concluded from the diagram?

- A The cost of production was lower in Year 2 than in Year 1.
- B The full employment level of output was lower in Year 2 than in Year 1.
- C The opportunity cost of production was lower in Year 2 than in Year 1.
- D Unemployment rose between Year 1 and Year 2.



9708/01/M/J/09/Q2

86. The diagram shows two production possibility curves (EF and GH), before and after technological progress has taken place.



After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

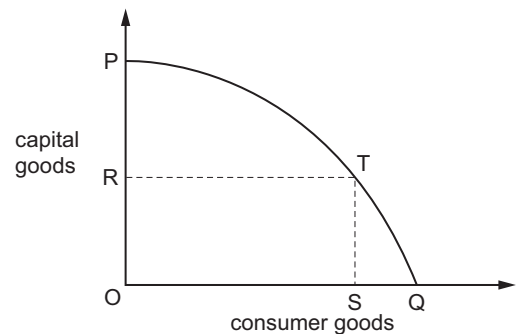
- A MH
- B OH
- C OM
- D YF

9708/01/O/N/08/Q2

87. The production possibility curve for an economy producing capital and consumer goods is represented by the line PQ.

What is the opportunity cost of producing OS of consumer goods?

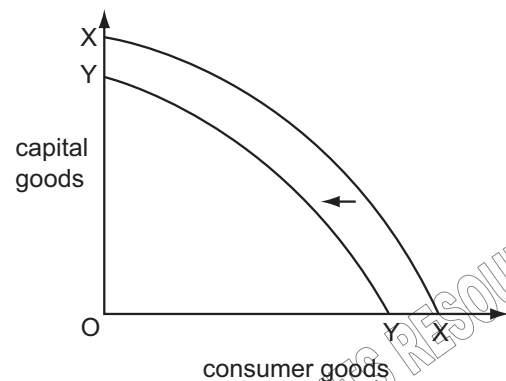
- A OR of capital goods
- B PR of capital goods
- C SQ of consumer goods
- D SQ of consumer goods + PR of capital goods



88. A country's production possibility curve moves from XX to YY as shown in the diagram. 9708/01/M/J/07/Q1

What could have caused this movement?

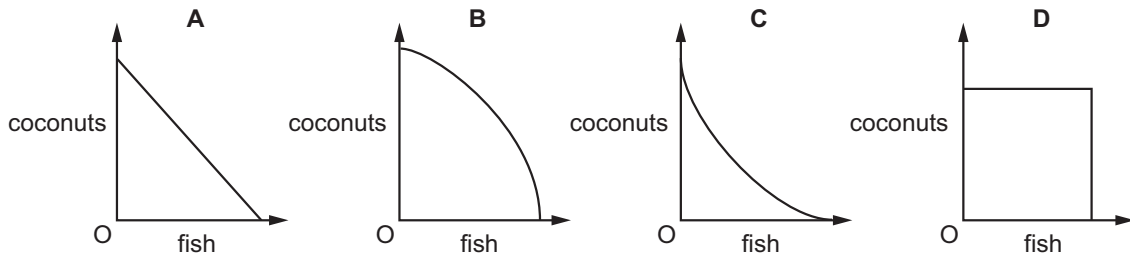
- A a rise in the retirement age
- B an increase in investment
- C an increase in net emigration
- D a rise in technological progress



9708/01/O/N/07/Q1

89. Some people are shipwrecked on a tropical island and allocate their time between gathering coconuts and fishing. Each individual is equally productive in collecting coconuts or catching fish.

Which diagram represents the production possibility curve of this community?



9708/01/M/J/07/Q4

90. A farmer can produce both beef and lamb. The opportunity cost of a kilo of beef is three kilos of lamb. The price of a kilo of beef is twice that of lamb.

What should he do if his aim is to maximise his revenue?

- A concentrate on beef production
- B concentrate on lamb production
- C produce beef and lamb in the ratio 3:2
- D produce twice as much beef as lamb

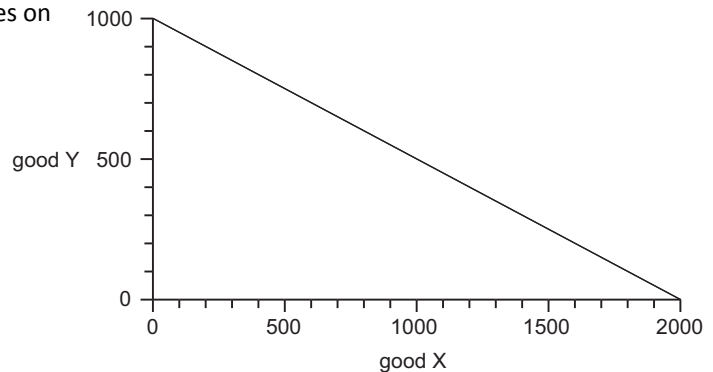
9708/01/M/J/07/Q1

91. The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.

The economy produces 400 of good Y and produces on its production possibility curve.

Which quantity of good X is given up?

- A 600
- B 800
- C 1200
- D 1600

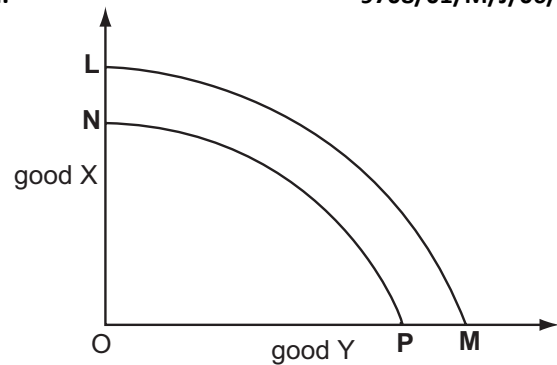


92. In the diagram the original production possibility curve is LM.

What might cause the curve to shift to NP?

- A technological progress
- B unemployment of resources
- C the depletion of natural resources
- D a reallocation of resources

9708/01/M/J/06/Q2



93. A consumer allocates his expenditure over time.

What would cause an increase in the opportunity cost of current consumption to the consumer?

- A a decrease in his current income
- B a decrease in interest rates
- C an increase in his current income
- D an increase in interest rates

9708/01/M/J/06/Q1

9708/01/O/N/05/Q4

94. The workers in a factory currently earn \$240 for a 40-hour week. The management offers them a choice between either a 10 per cent wage increase or an increase in the weekly wage to \$260 along with a reduction from 40 to 39 hours.

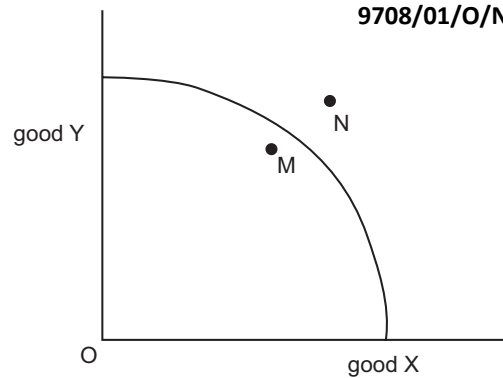
Disregarding the value of leisure time, what is the opportunity cost to each worker of opting for the 39-hour week?

- A \$4
- B \$6
- C \$20
- D \$24

95. The diagram shows a country's production possibility curve.

What could allow the economy to move from M to N?

- A an increase in consumer spending
- B an increase in demand for exports
- C an increase in government spending on pensions
- D an increase in investment

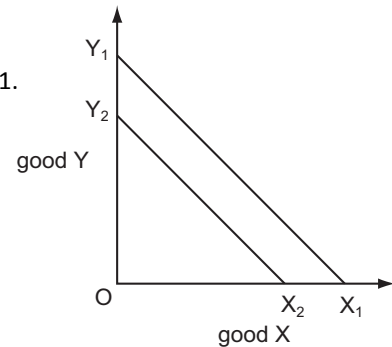


9708/01/O/N/05/Q2

96. The diagram illustrates the production possibility curves for an economy in Year 1 ( $X_1, Y_1$ ) and Year 2 ( $X_2, Y_2$ )

What can be deduced from the diagram?

- A The cost of production was lower in Year 2 than in Year 1.
- B The full employment level of output was lower in Year 2 than in Year 1.
- C The opportunity cost was lower in Year 2 than in Year 1.
- D Unemployment rose between Year 1 and Year 2.



9708/01/M/J/05/Q3

97. What is the opportunity cost to an unemployed worker who becomes employed?

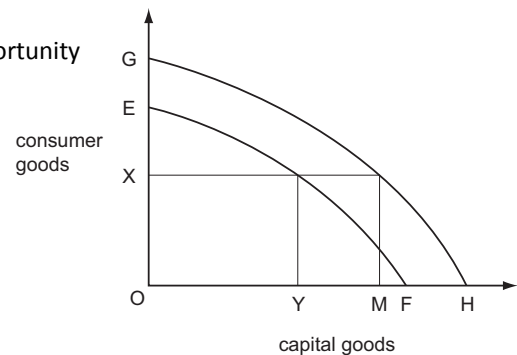
- A the leisure they would otherwise have had
- B the value of the goods and services they produce
- C the wages they are paid
- D zero

9708/01/M/J/05/Q2

98. The diagram shows two production possibility curves (EF and GH), before and after Technological progress has taken place.

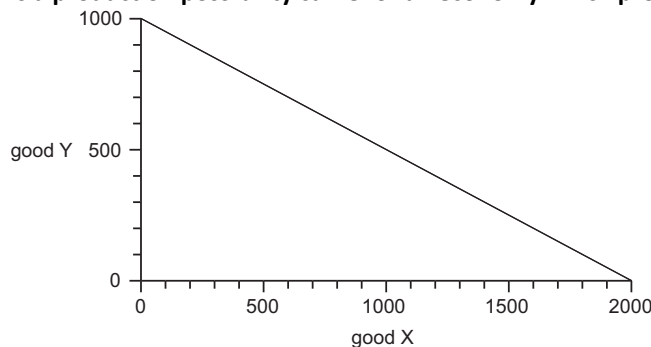
After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

- A MH
- B OH
- C OM
- D YF



9708/01/O/N/04/Q2

99. The diagram shows a production possibility curve for an economy which produces only two goods, X and Y.



The economy produces 400 of good Y and produces on its production possibility curve. Which quantity of good X is given up?

- A 600
- B 800
- C 1200
- D 1600

9708/01/M/J/04/Q2

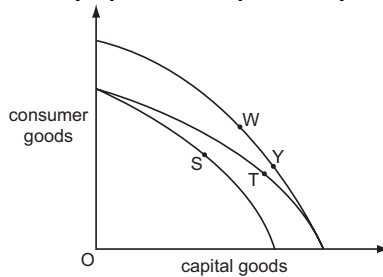
9708/01/M/J/04/Q1

100. What is the opportunity cost to a fully employed economy of increasing capital investment?

- A a fall in consumption                      B a fall in income  
C a rise in saving                              D a rise in the rate of interest

101. The diagram shows shifts in an economy's production possibility curve.

9708/01/O/N/03/Q2



Which change could have come about as a result of an improvement in technology?

- A S to Y                      B T to S                      C W to T                      D W to Y

9708/01/O/N/03/Q1

102. The steel required for the construction of a new car-assembly plant in a fully employed Economy is obtained by increasing the output of the domestic steel industry.

What is the opportunity cost of producing the steel?

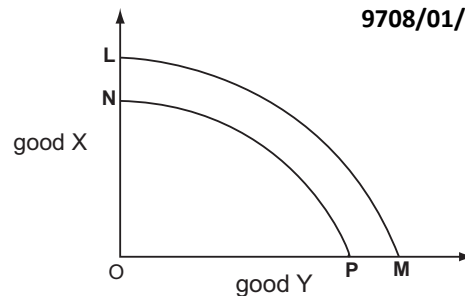
- A the alternative benefits forgone by diverting additional resources to steel manufacture  
B the alternative benefits forgone by increasing the capacity of the car industry  
C the alternative benefits that would have been obtained by putting the steel to other uses  
D zero, since there is no reduction in the steel supplied to other steel users

103. The diagram shows a production possibility curve LM.

9708/01/M/J/03/Q2

What might cause the curve to shift to NP?

- A technological progress  
B unemployment of resources  
C the depletion of natural resources  
D a reallocation of resources



104. A student decides to stay in her room to do some work rather than going to the cinema.

9708/01/M/J/03/Q1

What is the opportunity cost of her decision?

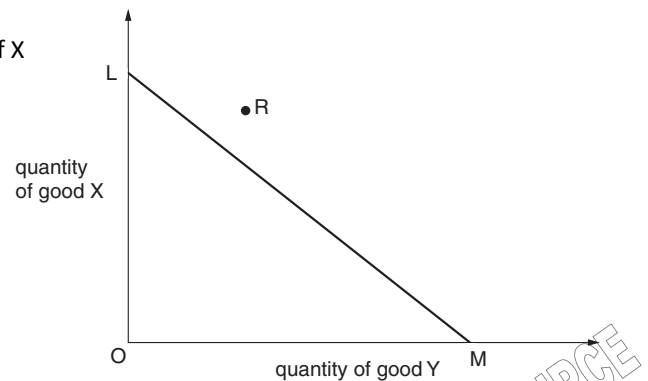
- A the enjoyment she would have derived from a visit to the cinema  
B the improvement in the mark she obtains for her assignment  
C the cost of the extra electricity she uses  
D the money she would have spent in the cinema

9708/01/O/N/02/Q4

105. In the diagram LM is the production possibility curve of a country that has a comparative advantage in the production of good Y.

What might enable the country to consume the quantities of X and Y indicated by point R?

- A increased specialisation in the production of good X  
B international trade  
C a reduction in unemployment  
D increased specialisation in the production of good Y



9708/01/O/N/02/Q3

106. Given a rate of interest of 10% per year, what is the opportunity cost to an individual of saving an additional \$100 in year 1?

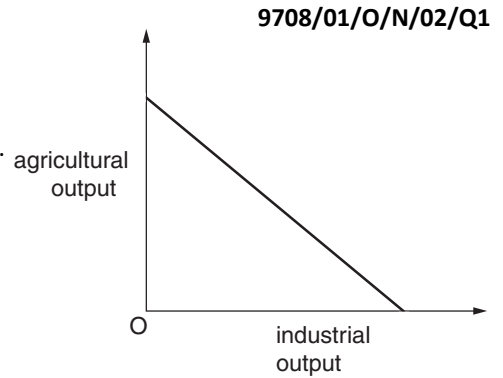
- A an increase in consumption of \$110 in year 2                      B an increase in consumption of \$10 in year 2  
C consumption of \$100 in year 1    D consumption of \$110 in year 1



**107. The diagram shows an economy's production possibility curve.**

Why does the curve slope downwards?

- A Agriculture and industry are subject to decreasing returns to scale.
- B Agriculture and industry are subject to increasing returns to scale.
- C Resources are shared equally between industrial and agricultural production.
- D Total resources available to the economy are limited.

**108. What is the opportunity cost to society of employing workers who would otherwise have no alternative employment?**

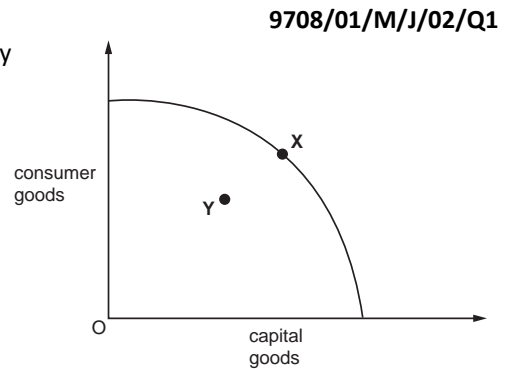
- A the wages they are paid
- B the social security payments they would otherwise receive
- C the value of the goods and services they produce
- D zero

9708/01/M/J/02/Q2

**109. The diagram shows an economy's production possibility curve.**

What will cause a movement from point X on the production possibility curve to point Y within the curve?

- A an increase in unemployment
- B a fall in the size of the labour force
- C a reduction in the availability of land for industrial production
- D an improvement in technology in consumer good production



## 1.2 PPC, Opportunity Cost, Marginal concepts

- 1 **Answer B** **9708/12/F/M/21/Q2**  
In short run movement take place from within a PPC (K) to on the PPC (L), so unemployed resources are fully employed. But in long run economic growth PPC shift from M to N point. Hence option B is correct answer.
- 2 **Answer B** **9708/13/O/N/20/Q1**  
A point inside the PPC shows that some resources of the economy are unemployed, that means inefficiency in production. Therefore more of one good can be produced without decreasing production of another. So option B is the correct answer.
- 3 **Answer C** **9708/12/O/N/20/Q1**  
Concave shape of PPC shows increasing opportunity cost of production that means to produce one unit of a good, than more units of other goods are sacrificed, so option C is the correct answer. Options A, B and D are irrelevant.
- 4 **Answer C** **9708/11/O/N/20/Q1**  
An economy has been employing its resources in the ratio of 80% consumer goods production and 20% capital goods production. So if economy decides to double its output of capital goods then there would be loss of 200 consumer goods.
- 5 **Answer C** **9708/13/M/J/20/Q1**  
A point which an economy is operating within PPC shows the level of output of two goods. So option C is the correct answer. Options A, B and D are irrelevant.
- 6 **Answer C** **9708/11/M/J/20/Q1**  
Mostly unprofitable and inefficient industries are run by public sector, but private sector make efficient use of resources to get profit. So due to the transaction of centrally planned to market economics, unemployment will increase.
- 7 **Answer C** **9708/12/F/M/20/Q2**  
She spent three hours to visit a museum. Wage rate per hour was \$40. So she lost \$120, that is opportunity cost of the visit to a museum.
- 8 **Answer D** **9708/12/F/M/20/Q1**  
Straight line PPC shows constant opportunity cost. So opportunity cost of increasing fish production is constant. Hence D is the correct answer.  
PPC diagram does not explains about substitute, complement and choices so options A, B and C are incorrect.
- 9 **Answer A** **9708/13/O/N/19/Q4**  
A fall in working population means that less workers are available in the country now to produce more goods so PPC shift inward from LM to NP. Option A is correct answer. A reallocation of resources from consumer goods to capital good shows movement on PPC from one point to another point. An increase in output per worker can shift PPC outward. An increase in unemployment means movement from PPC to inside on a point, but not shift in PPC. So options B, C and D are incorrect.
- 10 **Answer A** **9708/13/O/N/19/Q3**  
Total fare of bus and train = \$5  
Total expense on car travel = \$7  
So \$2 is the opportunity cost to the individual of traveling by car rather than by bus and train.
- 11 **Answer D** **9708/12/O/N/19/Q2**  
Output is shown on the both axis of PPC. Therefore output of rice on Y. axis and output of sugar on X. axis hence D is correct answer.  
Option A, B and C are incorrect answer.

- 12 Answer D** **9708/11/O/N/19/Q4**  
 Increase in labour force means that more number of workers are available in a country so production capacity and potential output will increase, that shift PPC outward from XX to YY. Hence option D is the correct answer.  
 Decrease in scarce resource can shift PPC inward. A decrease in cost of resource, decrease price and increase supply of good but PPC will not shift. An increase in cost of labour labour decrease production. So option A, B and C are incorrect.
- 13 Answer A** **9708/13/M/J/19/Q3**
- 14 Answer D** **9708/11/O/N/19/Q2**  
 Option D describe the definition of PPC.
- 15 Answer D** **9708/13/M/J/19/Q1**
- 16 Answer A** **9708/12/M/J/19/Q3**  
 Capital investment in infrastructure like roads airport, ports, energy, health education and security shows the production capacity, productivity shows the production capacity, potential output of a country which further determine the boundary of PPC of a country. Option A is correct answer. Other option B, C and D are invalid.
- 17 Answer B** **9708/12/M/J/19/Q1**  
 Shift in PPC inward from PP to  $P_1P_1$  shows that productivity, production capacity and potential output is decrease in a country. So option B is correct answer. Option A, C and will shift PPC outward so these option, are incorrect.
- 18 Answer C** **9708/11/M/J/19/Q4**  
 Point X is unattainable because of insufficient factors of production available in an economy. Option C is the correct answer. Option A, B and D are irrelevant.
- 19 Answer B** **9708/12/F/M/19/Q4**  
 Price of new flute is now \$95 but he owns used flute so price of second hand flute is \$50. Therefore opportunity cost to the student of keeping the flute is \$50.
- 20 Answer B** **9708/12/F/M/19/Q3**  
 Total land area of farmers is same so PPC will not shift, but movement on PPC from A to B point when farmer switches some of his land from producing pears to producing apples.
- 21 Answer A** **9708/13/O/N/18/Q3**  
 An increase in employment means that already unemployed workers are used so there are no new resources, than PPC move from within PPC towards on the PPC. Hence option A is Correct.  
 Option B, C and D will shift PPC shift PPC outward so these options are incorrect, but statements are right.
- 22 Answer D** **9708/13/O/N/18/Q2**
- | Combination | Y   | X   | Opportunity Cost |
|-------------|-----|-----|------------------|
| 1           | 10  | 220 | –                |
| 2           | 25  | 200 | 1.3              |
| 3           | 40  | 180 | 1.3              |
| 4           | 70  | 140 | 1.3              |
| 5           | 100 | 90  | 1.7              |
- 23 Answer C** **9708/12/O/N/18/Q2**  
 Movement on the PPC from R to S shows that to produce  $X_1X_2$  of good X,  $Y_1Y_2$  of good Y are sacrificed.
- 24 Answer A** **9708/11/O/N/18/Q3**
- | Country | Cars | Trucks | Opportunity costs |
|---------|------|--------|-------------------|
| A       | 1    | 1      | 1 : 1             |
| B       | 1    | 4      | 1 : 4             |
| C       | 3    | 6      | 1 : 2             |
| D       | 5    | 6      | 1 : 1.2           |
- Economy-A face lowest opportunity cost for producing cars than other three economies.
- 25 Answer B** **9708/12/M/J/18/Q3**
- |           | Strawberries | : | Raspberries |
|-----------|--------------|---|-------------|
| One hours | 10 kg        | : | 20 kg       |
| 8 hours   | 80 kg        | : | 160 kg      |
- So option B is the correct answer

**26 Answer B**

$$Q_y = 1000 - 2Q_x$$

$$Q_y = 1000 - 2(0) = 1000$$

$$Q_y = 1000 - 2(1) = 998$$

$$Q_y = 1000 - 2(2) = 996$$

So opportunity cost of producing one extra unit of good X is 2 units of good Y.

**27 Answer A****9708/11/M/J/18/Q4**

Point Q shows unused, unemployed and inefficient use of resources. So option A is correct answer.

Product at point T is not possible. R point shows only production of manufactured goods and point V shows only production of agriculture good. This is not possible because country use both good. So option B, C and D are incorrect.

**28 Answer D****9708/11/M/J/18/Q1**

If growth requires investment than current consumption will be sacrificed for future. Because amount collected from the reduction of current consumption will be used for investment of production units. So option D is the correct answer. Option A, B and C are invalid.

**29 Answer D****9708/12/F/M/18/Q3**

Concave shape of PPC shows increasing opportunity costs, that means to produce the one unit of a good, more and more unit of other good are sacrificed. So concave shape of PPC means some resources are more efficient in production of some good then other option D is the correct answer.

PPC shape does not explain about profits. This is also not mentioned that which good is more labour intensive. So option A, B and C are incorrect.

**30 Answer C****9708/12/F/M/18/Q2**

$X = 40 \text{ and } Y = 30$ $S_o \quad 1x = 0.75 Y$	$X = 40 \text{ and } Z = 20$ $S_o \quad 1x = 0.5 Z$
--	---

Option C is correct answer. Option A, B and D are incorrect

**31 Answer A****9708/13/O/N/17/Q3**

PPC  $R_3S_3$  and  $R_4S_4$  are parallel that shows same opportunity cost in country 3 and 4. So option A is incorrect answers because this is true statement.

Straight line shows constant opportunity cost, so option is incorrect. Option B and C are incorrect answer but true statement.

Straight line shows constant opportunity cost so option is incorrect. Option, B and C are incorrect but true statement.

**32 Answer C****9708/12/O/N/17/Q3**

Use of new strains of wheat seeds, production of wheat increase in economy X, but no change in the production of furniture, so pivotal shift of PPC outward from FW. Option C is the correct answer.

**33 Answer C****9708/11/O/N/17/Q3**

Any point on PPC shows that resources are efficiently and fully employed. But in diagram point S shows unemployment and inefficient use of resource. When working practices improved in agriculture then productivity increased in agriculture therefore production of only agriculture good increased and point S move to point T. production of manufactured was not changed. Option C is the correct answer.

Above explanation shows that option A, B and D are incorrect.

**34 Answer A****9708/13/M/J/17/Q3**

PPC diagram shows that to produce 100 units of good X, an economy has to give up 40 units of good Y at point P. Because when an economy produce 150 unit of good Y then zero unit of good X are Produced.

**35 Answer D****9708/11/M/J/17/Q3**

Pivotal shift of PPC shows increase in the production of beans but same production of maize so opportunity cost of maize production will increase when same number of factors produces more beans that shows rise in returns to factors producing beans.

**36 Answer B** **9708/12/F/M/17/Q3**

An economy can produce maximum of good Y = 150 with good X = 0, while an economy produce maximum of good X = 150 with good Y= 0,

At point P, if an economy produces 110 units of good Y then economy has to given up 50 units of good X.

**37 Answer C** **9708/13/O/N/16/Q26**

	Apples or Bananas	Opportunity cost analysis
Country X	100 or 80	1 : 0.8
Country Y	50 or 25	1 : 0.5

Country Y has comparative advantage in Apples so 50 apples are produced. Country X will specialize in bananas, so 75% resource are used in production of good X, so  $80 \times 75\% = 60$  bananas 25% resource are used for producing apples, so  $100 \times 25\% = 25$  apples. Total output of apples is 25 and total output of bananas is 60.

**38 Answer A** **9708/13/O/N/16/Q3**

Any point below PPC shows unemployment and inefficient use of resource. So movement from X to Y shows a more efficient use of resources. Option B, C and D are incorrect because these choices will shift PPC.

**39 Answer D** **9708/12/O/N/16/Q4**

X	$\Delta X$	A	$\Delta A$	B	$\Delta B$	C	$\Delta C$	D	$\Delta D$
0	-	0	-	110	-	120	-	140	-
100	100	20	20	70	-40	90	-30	120	-20
200	100	40	20	40	-30	60	-30	90	-30
300	100	60	20	20	-20	30	-30	50	-40
400	100	80	20	0	-20	0	-30	0	-50

**40 Answer C** **9708/12/O/N/16/Q2**

There was problem of shortage of labour so public sector housing target were not achieved because labour needed in other public sector projects, therefore that shows opportunity cost of labour and exam demand. So option C is correct.

**41 Answer B** **9708/12/O/N/16/Q1**

If an economy produce 1200 of good X than that economy sacrifice (opportunity cost) 600 unit of good Y.

**42 Answer D** **9708/11/O/N/16/Q3**

An improvement in manufacturing technology will increase the potential production of manufacturing goods so PPC will shift pivotal for manufactured goods from XY to XZ.

Option B and C can change the production of manufactured goods but cannot shift PPC, so theses choice are incorrect.

Option A will shift PPC inward so this choice is incorrect.

**43 Answer B** **9708/11/O/N/16/Q2**

When a country producers OS of consumer goods than PR capital good is the opportunity cost.

**44 Answer B** **9708/13/M/J/16/Q3**

When the working hours of the labour force are reduced by law, then overall production capacity will reduce so PPC shift inward. But production of X is more affected because it is more labour intensive. Production of Y is less affected because it is less labour intensive.

**45 Answer C** **9708/13/M/J/16/Q1**

If a bakery wants to increase production of cakes from 15 units to 25 units than they will sacrifice (opportunity cost) of 20 unit of bread.

**46 Answer D** **9708/12/M/J/16/Q3**

Discovery of new resource will increase the potential production capacity of the economy so PPC shift outward.

Options A, B and C are incorrect because these choices do not shift PPC.

**47 Answer B** **9708/12/M/J/16/Q2**  
Medium of exchange money make the transaction easier and encourage the people to be specialized. Therefore goods are produced at large scale and are exchanged with other goods easily with the help of money. Option A and D are incorrect, because these choices will restrict the specialization, option C is invalid.

**48 Answer B** **9708/11/M/J/16/Q6**  
Brazil produces more coffee than the other three named producers together. So option B is the correct answer. Options A, C and D are incorrect.

**49 Answer A** **9708/11/M/J/16/Q4**  
Option B, C and D will shift PPC, so these choices are incorrect. A reduction in sales tax on manufacturing products will increase industrial production but will not shift PPC. So option A is correct answer.

**50 Answer C** **9708/11/M/J/16/Q3**  
Straight line PPC shows constant opportunity cost, but opportunity costs are different with different slopes. Capital goods are produced more in economy X than economy Y, so future growth will be higher in economy X. therefore option A and B are incorrect. Option D is invalid.

**51 Answer B** **9708/11/M/J/16/Q1**

	Opportunity Cos (\$)
Value of car decrease after one year	+ 1500
Car operating and repair costs insurance and taxation for one year	+ 1800
Potential earning (opportunity cost of buying car)	+ 500
Cost of using public transport rather than car.	- 800
<b>Total</b>	<b>- \$ 3000</b>

**52 Answer D** **9708/12/F/M/16/Q3**  
Straight line PPC shows constant opportunity cost. Diagram does not explain about complementary and substitute good. PPC shows production and not about consumption. So options A, B and C are incorrect.

**53 Answer A** **9708/12/F/M/16/Q2**  
When to produce more quantity of a product, the quantity of other good is decreased that shows opportunity cost, which exist because of scarcity of resource so option A is the correct answer.  
Option B and C are incorrect because these choices do not create scarcity. Supply of a good can fall due to many reasons like fall in demand and price so it does not show scarcity. Hence option D is incorrect.

**54 Answer D** **9708/13/O/N/15/Q1**  
Option A, B and C can shift PPC outward so these choices are incorrect. An increase in emigration means that workers are going abroad and shortage of workers take place in the country. This will decrease the national output of the country so PPC shift inward from XX to YY. Hence option D is correct answer.

**55 Answer C** **9708/12/O/N/15/Q3**

Years	Consumer good	Service	Opportunity cost
Year. 1	100	50	1:0.50
Year. 2	150	80	1:0.53

The opportunity cost of consumer goods has risen from year 1 to year 2.

**56 Answer C** **9708/12/O/N/15/Q2**

Shift in PPC shows potential growth.

- Movement from X to D does not show potential growth so option D is incorrect.
- Shift from X to A shows potential growth but less of capital good and more of consumer good, so potential growth would not be highest.
- Shift from X to B shows more of consumer good but same output of capital goods so potential growth will not be highest therefore option A and B are incorrect.
- Shift from X to C shows more of consumer and capital goods are produced, that shows highest potential growth. Hence C is correct answer.

- 57 Answer D 9708/11/O/N/15/Q3**  
Net outward migration means that workers are going abroad and shortage of labour can take place in the country. This will decrease the national output of the country so PPC shift inward from GH to JK. So option D is the correct answer.
- 58 Answer D 9708/11/O/N/15/Q2**  
When an economy produces 2000 units of good X then zero units of good Y are produced. But when that economy produces 800 units of good Y then 400 units of good X are produced so 1600 units of good X are given up. Therefore option D is the correct answer.
- 59 Answer D 9708/13/M/J/15/Q4**  
When there is a rise in unemployment due to a recession that means aggregate supply of goods falls so less of consumer and capital goods are produced. So movement from X to Y takes place. Hence D is the correct answer. Options A, B and C are incorrect because these changes will shift PPC inward.
- 60 Answer D 9708/13/M/J/15/Q3**  
PPC does not mention about price of two goods so option A and B are incorrect. Production of public good is same but production of private good increases, that means to produce some quantity of public good, more of private good will be sacrificed so opportunity cost of public goods increases. Option D is the correct answer.
- 61 Answer B 9708/120/M/J/15/Q4**  
Jane will specialize in plates, Sarah in bowls and Seema in mugs. So after specialization Jane made 300 plates, Sarah made 300 bowls and Seema made 300 mugs. So total rise in output is 300 units, because before specialization each was making 200 units.
- 62 Answer C 9708/12/M/J/15/Q3**  
Straight line PPC shows constant opportunity cost. So fishing and coconut growing are equally efficient. Option C is the correct answer. Diagram does not explain about complementary and perfect substitutes. The opportunity cost of fish with respect to coconut is constant. Therefore options A, B and D are incorrect.
- 63 Answer B 9708/13/O/N/14/Q4**  
The price of a kilo of wheat is twice that of barley so farmer should concentrate on wheat production to maximize total revenue. So option B is the correct answer and option A is incorrect. Wheat and barley production ratio is 1 : 1.15
- 64 Answer D 9708/13/O/N/14/Q2**  
Before opportunity cost was increasing but after opportunity cost is constant. Conversion from concave PPC to straight line PPC will decrease some production. So Option D is correct answer.
- 65 Answer B 9708/12/O/N/14/Q3**  
If an economy moves from point M to point N on PPC diagram that shows more production of consumer goods and less production of capital goods. As a result in future PPC shifts inward from XX to YY.
- 66 Answer C 9708/13/M/J/14/Q3**  
Movement from point X to Z shows an increase in production of medicines due to an innovation but no change in the production of electrical goods.
- 67 Answer B 9708/12/M/J/14/Q2**  
Business confidence decreased due to threat of invasion so some businesses were closed and resources remained unemployed. Then movement from point P to point Q takes place. Country's infrastructure was reduced due to war, so PPC shifts downward and then movement from Q to S takes place.
- 68 Answer B 9708/11/M/J/14/Q3**  
Straight line PPC shows constant opportunity cost. PPC does not explain about cost of production. So option A and C are incorrect. PPC shows full employment of resources. Therefore full employment level of output was higher in year 2 than in year 1. So option B is correct answer but option D is incorrect.

- 69 **Answer B** 9708/12/O/N/13/Q3
- 70 **Answer A** 9708/12/M/J/13/Q2
- 71 **Answer B** 9708/11/M/J/13/Q1
- 72 **Answer B** 9708/13/O/N/12/Q2  
When OP of capital goods were produced than consumer goods where zero, but when OS of consumer goods were produced than OR of capital goods were produced, and capital goods reduced by PR (opportunity cost). So option B is the correct answer.
- 73 **Answer B** 9708/12/O/N/12/Q3  
When 1000 units of good Y are produce then zero unit of good X are produced. But when 1200 unit of good X are produced than 400 units of good Y are produced. So an economy has to given up 600 unit of good Y to produce 1200 unit of good X.
- 74 **Answer C** 9708/12/O/N/12/Q2  
The depletion of natural resource means that less resource are available in an economy so potential output will fall, and PPC shift inward from LM to NP. Option C is the correct answer.  
Unemployment of resources means that resources are available but not used so movement from a point on PPC to inside the point will take place. Unemployment of resource will not shift PPC.
- 75 **Answer C** 9708/11/O/N/12/Q2  
Straight line PPC shows constant opportunity cost. So fishing and coconut growing are equally efficient. Option C is the correct answer. Diagram does not explain about complementary and perfect substitutes. The opportunity cost of fish with respect to coconut is constant. Therefore options A, B and D are incorrect.
- 76 **Answer C** 9708/12/M/J/12/Q2
- 77 **Answer A** 9708/11/M/J/12/Q3  
Income = consumption + investment  
Increase in capital investment means that consumption on goods and services is decreased.  
So people sacrifice current consumption for future growth.
- 78 **Answer C** 9708/11/M/J/12/Q2  
An increase in energy price like electricity, natural gas and petrol increase the cost of production of all the sector of the economy so overall production capacity falls and PPC shift inward from JK to GH. So option C is correct.  
A decrease in innovation will slow down the GDP potential growth but PPC shift outward. An increase in unemployment will cause the economy to produce inside the PPC. So option A and D are incorrect.
- 79 **Answer B** 9708/12/O/N/11/Q2  
When the working hours of the labour force are reduced by law, then overall production capacity will reduce so PPC shift inward. But production of X is more affected because it is more labour intensive. Production of Y is less affected because it is less labour intensive.
- 80 **Answer C** 9708/11/O/N/11/Q1  
When there is rise in unemployment due to a recession that would cause the economy to produce inside the PPC. So there is a movement from a point on PPC to inside the PPC. Unemployment will not shift PPC. Option C is the correct answer. Options A, B and D are incorrect, because these choice will shift PPC inward.
- 81 **Answer D** 9708/12/O/N/10/Q3  
Concave shape of PPC shows increasing opportunity cost, that means to produce one more unit of consumer good then more and more units of capital goods are given up. Option D is the correct answer. Other options are irrelevant.
- 82 **Answer D** 9708/11/O/N/10/Q3  
Concave shape of PPC shows increasing opportunity cost, that means to produce one more unit of consumer good then more and more units of capital good are given up. Option D is the correct answer. Other options are irrelevant.
- 83 **Answer C** 9708/11/M/J/10/Q4



84 **Answer C**

9708/11/M/J/10/Q2

Years	Consumer good	Service	Opportunity cost
Year. 1	50	100	1:0
Year. 2	80	150	1:1.9

The opportunity cost of consumer goods has risen from year 1 to year 2.

85 **Answer B**

9708/11/O/N/09/Q2

Straight line PPC shows constant opportunity cost. PPC does not explain about cost of production. So option A and C are incorrect. PPC shows full employment of resource. Therefore full employment level of output was higher in year 2 than in year 1.

So option B is correct answer but option D is incorrect.

86 **Answer A**

9708/01/M/J/09/Q2

87 **Answer B**

9708/01/O/N/08/Q2

When OP of capital goods were produced than consumer goods where zero, but when so of consumer goods were produced than OR of capital good ever produced, and capital goods reduced by PR (opportunity cost). So option B is the correct answer.

88 **Answer C**

9708/01/M/J/08/Q1

An increase in net emigration means that more people are going abroad so decrease in labour force in the country which further decreases the production potential of an economy so PPC shift inward from XX to YY.

Option A, B and D are incorrect, because these choice will shift PPC outward.

89 **Answer A**

9708/01/O/N/07/Q1

When each individual is equally productive in collecting coconuts or catching fish that means constant opportunity cost to produce one good in terms of another good so the PPC will be straight line. Option A is correct answer. Other options are irrelevant.

90 **Answer B**

9708/01/M/J/07/Q4

91 **Answer B**

9708/01/M/J/07/Q1

92 **Answer C**

9708/01/M/J/06/Q2

The depletion of natural resource means that less resource are available in an economy so potential output will fall, and PPC shift inward from LM to NP. Option C is the correct answer.

Unemployment of resources means that resources are available but not used so movement from a point on PPC to inside the point will take place. Unemployment of resource will not shift PPC.

93 **Answer D**

9708/01/M/J/06/Q1

Income = consumption + savings

Saved amount can be deposited in bank so interest is received. So more consumption means less saving and as a result interest is given up. Therefore when interest rate is increased than opportunity cost of consumption is increased.

94 **Answer A**

9708/01/O/N/05/Q4

Offer. 1 = 10% of \$ 240 (40 hours per week)  
= \$ 24 increase  
= \$ 264

Offer. 2 = \$ 260 weekly wage (40 to 39 hours)

If a worker is opting for the 39 hours week than \$ 4 is the opportunity cost

95 **Answer D**

9708/01/O/N/05/Q2

An increase in investment will increase the production potential in an economy so PPC shift outward. Option D is correct answer. Option A, B and C will not shift PPC.

96 **Answer B**

9708/01/M/J/05/Q3

Straight line PPC shows constant opportunity cost. PPC does not explain about cost of production. So option A and C are incorrect. PPC shows full employment of resource. Therefore full employment level of output was higher in year 2 than in year 1.

So option B is correct answer but option D is incorrect.

97 **Answer A**

9708/01/M/J/05/Q2

- 98 **Answer A** 9708/01/O/N/04/Q2
- 99 **Answer B** 9708/01/M/J/04/Q2
- 100 **Answer A** 9708/01/M/J/04/Q1
- Income = consumption + investment  
so when investment increase than consumption falls.
- 101 **Answer A** 9708/01/O/N/03/Q2
- 102 **Answer A** 9708/01/O/N/03/Q1
- 103 **Answer C** 9708/01/M/J/03/Q2
- Depletion of resource means decrease in the production capacity of the country so less availability of resource will shift PPC inward from LM to NP. Technological progress will shift PPC outward. Unemployment of resources decrease production but does not shift PPC. So options A and B are incorrect. A reallocation of resource will make the result uncertain because whether movement is toward consumer good or capital good.
- 104 **Answer A** 9708/01/M/J/03/Q1
- 105 **Answer B** 9708/01/O/N/02/Q4
- 106 **Answer C** 9708/01/O/N/02/Q3
- Income = consumption + saving  
So opportunity cost to an individual of saving an additional \$ 100 in a year 1 is reduction in consumption of \$ 100 in year 1. Because when savings increases then consumption decreases.
- 107 **Answer D** 9708/01/O/N/02/Q1
- 108 **Answer D** 9708/01/M/J/02/Q2
- 109 **Answer A** 9708/01/M/J/02/Q1