



CANDIDATE
NAME

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CENTRE
NUMBER

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9772/01

May/June 2022

2 hours 30 minutes

You must answer on the question paper.

You will need: Insert (enclosed)

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

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

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

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

Section A: Multiple Choice

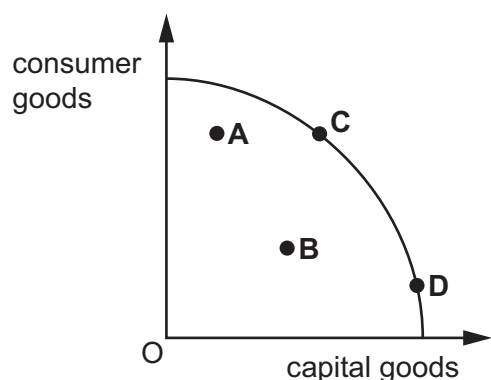
Answer **all** questions in this section.

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

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

- 1 The diagram shows a production possibility curve.

Which point describes the combination of capital goods and consumer goods that is most likely to lead to the greatest increase in the future productive capacity of this economy?


☐
☐
☐
☐

A
B
C
D

[1]

- 2 What describes a normative statement?

☐
☐
☐
☐

A It answers the question: 'what actually happened?'
B It is testable but incorrect.
C It predicts the consequences of alternative actions.
D It provides an answer to the question: 'what should be done?'

[1]

- 3 A firm has only two factor inputs, capital (K) and labour.

The diagram shows how the firm's output (Q) changes in response to changes in the number of workers it employs and the number of units of capital it hires.



Initially, the firm hires 20 units of capital and employs 200 workers.

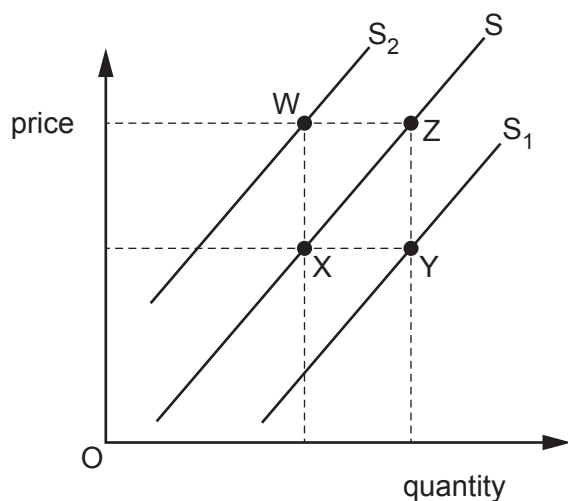
Which best describes this situation if the firm were to increase its scale of operation?

- ☐ A constant returns to scale
- ☐ B decreasing returns to scale
- ☐ C decreasing then increasing returns to scale
- ☐ D increasing returns to scale

[1]

- 4 The diagram below represents three different market supply curves for a manufacturer that buys the energy needed to make its products. The initial market equilibrium is at point X.

What change would result from a significant increase in energy prices?



- ☐ A from X to W
- ☐ B from X to Z
- ☐ C from X to Y
- ☐ D no change from X

[1]

- 5 A pharmaceutical company produces a vaccine for a highly infectious virus. The price elasticity of supply of the vaccine is 0.5. Previously the firm supplied 5000 units of the vaccine at a price of £100 per unit. As a result of increased demand globally the market price of the vaccine has risen to £110 per unit.

What will be the total revenue of the firm after the price increase?

- ☐ A £500 000
- ☐ B £525 000
- ☐ C £550 000
- ☐ D £577 500

[1]

- 6 Which of the following is **not** a characteristic of a monopolistically competitive market?

- ☐ A Firms have some control over price.
- ☐ B Firms hold the sole legal right to supply to the market.
- ☐ C The products that firms sell are slightly different.
- ☐ D There is free entry to the market.

[1]

- 7 What is the most likely market structure of an industry where economies of scale are present, and there is a high degree of interdependence between a small number of firms?

☐

A monopolistic competition

☐

B monopoly

☐

C oligopoly

☐

D perfect competition

[1]

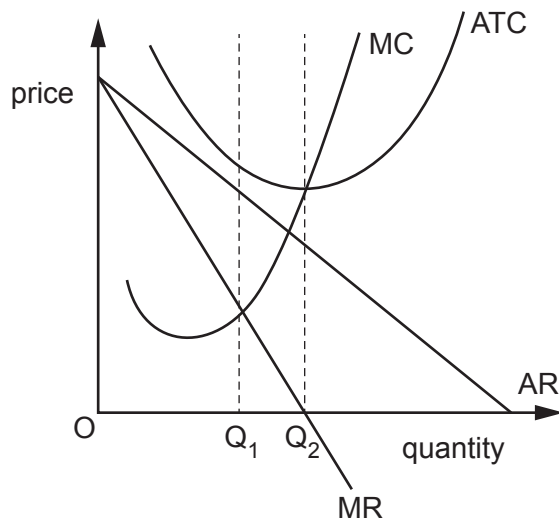
- 8 Farida has signed a year-long contract with a local gym, agreeing to pay a £40 per month membership fee. She has also spent £300 on gym clothes. This morning at 08:00, Farida was trying to decide whether to go to the gym.

Which of the following options identify the factor(s) that were relevant (✓) to Farida's decision?

		This month's £40 gym membership fee paid by Farida	The £300 Farida spent on gym clothes	The Economics exam that Farida has at 11:30 today
<input type="checkbox"/>	A	✓	x	x
<input type="checkbox"/>	B	x	✓	x
<input type="checkbox"/>	C	x	x	✓
<input type="checkbox"/>	D	✓	✓	✓

[1]

- 9 The diagram shows that a firm increases output from Q_1 to Q_2 .



What will be the impact on this firm?

		total loss	total revenue
<input type="checkbox"/>	A	decreased	decreased
<input type="checkbox"/>	B	decreased	increased
<input type="checkbox"/>	C	increased	decreased
<input type="checkbox"/>	D	increased	increased

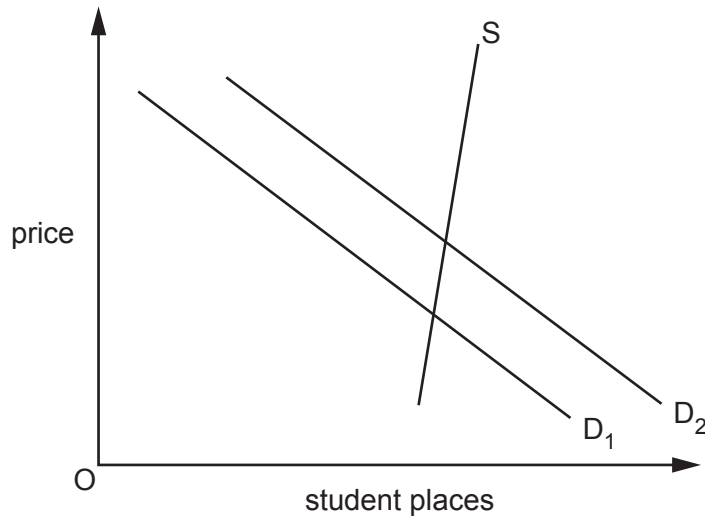
[1]

- 10 What would **not** be classified as an externality?

- ☐ **A** the increased value of neighbouring houses resulting from extensive property renovation in the same street
- ☐ **B** the increased traffic congestion resulting from more tourists visiting a beach resort
- ☐ **C** the reduction in the spread of disease through the wearing of protective face-masks
- ☐ **D** the reduction in the profits of existing firms resulting from increased prices of factors of production

[1]

- 11 In the diagram, S is the supply curve and D_1 is the initial demand curve for student places at university.



What could cause the demand curve to shift to D_2 ?

- ☐ A a decrease in the level of youth unemployment
- ☐ B a reduction in the price of attending university
- ☐ C higher entry grades demanded by universities
- ☐ D an increase in the graduate/non-graduate pay ratio

[1]

- 12 Under what circumstances is a product most likely to be supplied only by the government rather than the private sector?

- ☐ A The product is excludable and non-rival.
- ☐ B The product is excludable and rival.
- ☐ C The product is non-excludable and non-rival.
- ☐ D The product is non-excludable and rival.

[1]

13 What constitutes a deadweight loss?

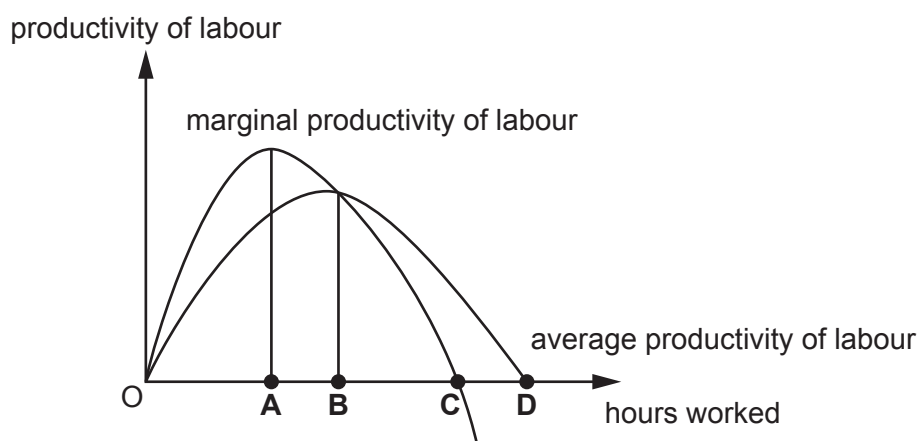
- ☐ A the loss to consumers when a specific tax is imposed on a commodity
- ☐ B the net loss in welfare resulting from a failure to impose an optimal tax on road users
- ☐ C the loss to workers when they are paid a wage below the value of their marginal product
- ☐ D the supernormal profit earned by monopoly suppliers [1]

14 What will be the **most** likely consequence of quantitative easing?

- ☐ A a decrease in the cost of borrowing
- ☐ B a decrease in the trade deficit
- ☐ C an appreciation of a floating exchange rate
- ☐ D an increase in the national debt [1]

15 A firm is operating in the short run with a fixed amount of capital. The diagram below illustrates the short-run effect on output of that firm's decision to vary the numbers of hours worked by its employees.

How many hours will need to be worked if the firm wishes to maximise its output?



- ☐ A
- ☐ B
- ☐ C
- ☐ D

[1]

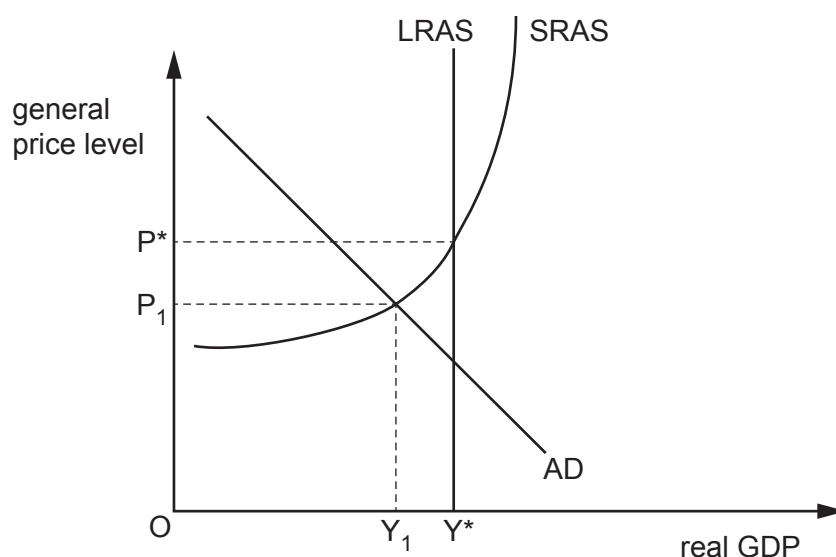
16 The table shows data on the economies of four countries.

Based on this information alone, which country is likely to have experienced the greatest improvement in average material living standards?

country		nominal GDP growth rate (%)	population growth rate (%)	inflation rate (%)
<input type="checkbox"/>	A	6	1	3
<input type="checkbox"/>	B	8	2	4
<input type="checkbox"/>	C	10	3	4
<input type="checkbox"/>	D	15	4	10

[1]

17 The diagram below shows the aggregate demand (AD), the short-run aggregate supply (SRAS) and the long-run aggregate supply (LRAS) curves for an economy.



What is true when this economy is in short-run equilibrium?

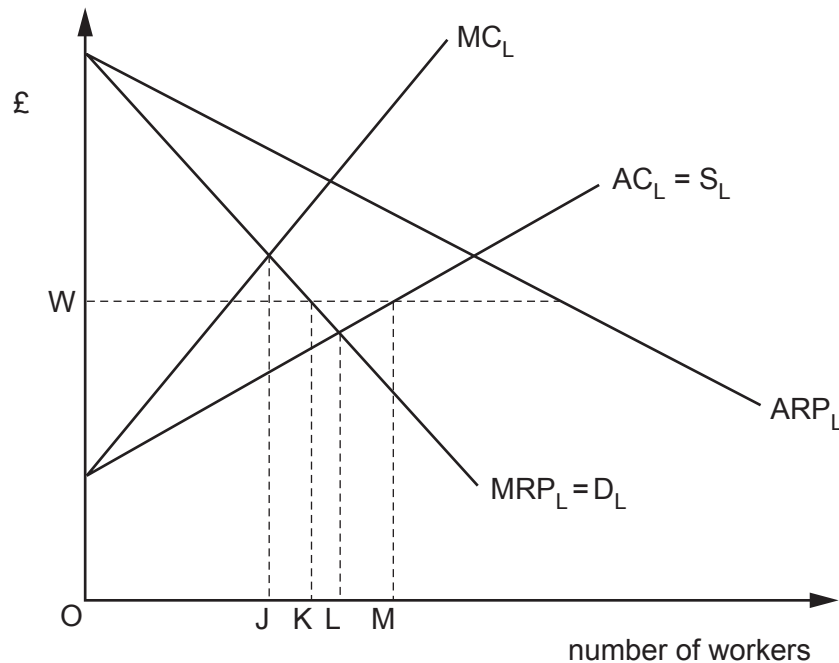
- ☐ **A** The economy has no output gap.
- ☐ **B** The economy must be experiencing a low rate of economic growth.
- ☐ **C** The economy must be experiencing cost-push inflation.
- ☐ **D** The economy must be experiencing unemployed labour.

[1]

- 18 In the diagram, the ARP_L curve is the average revenue product of labour curve of a profit-maximising monopsonist and the MRP_L curve is its marginal revenue product of labour curve.

The firm pays its workers the minimum wage, OW , set by the country's government.

The curves AC_L and MC_L show what the firm's average and marginal labour cost curves would be in the absence of government intervention.



What will happen to the number of workers employed by the firm if the minimum wage is abolished?

- ☐ A it will increase by JK
- ☐ B it will increase by JL
- ☐ C it will decrease by JK
- ☐ D it will decrease by KM

[1]

- 19 What would be most likely to lead to a permanent increase in a country's inflation rate?

- ☐ A an increase in the rate of growth of the money supply
- ☐ B an increase in the price of crude oil
- ☐ C an appreciation in the country's exchange rate
- ☐ D an increase in the standard rate of Value Added Tax

[1]

20 Which of the following is most likely to reduce income inequality in the short run?

☐

A a decrease in unemployment benefits

☐

B a reduction in government funding for education and training

☐

C decentralisation of the wage determination system

☐

D an increase in the minimum wage

[1]

21 The table shows hypothetical data for an economy (£).

investment expenditure	government expenditure	import expenditure	tax revenue	export revenue	savings
358bn	406bn	352bn	299bn	254bn	195bn

What conclusions can be drawn from this data?

☐

A

the level of national income is likely to

decrease

the balance of trade in goods and services is in

deficit

☐

B

decrease

surplus

☐

C

increase

deficit

☐

D

increase

surplus

[1]

22 In which of the following situations will a country's terms of trade worsen?

☐

A Foreign expenditure on exports rises by less than domestic expenditure on imports.

☐

B Foreign expenditure on exports rises by more than domestic expenditure on imports.

☐

C The index of import prices fall by less than the index of export prices.

☐

D The index of import prices fall by more than the index of export prices.

[1]

- 23** On average, labour productivity in an economy grows by 2.5% per annum and the labour force grows by 0.5% per annum. What annual rate of growth will be needed to bring about a reduction in unemployment?

☐

A actual output of 2%

☐

B actual output of more than 3%

☐

C potential output of 2%

☐

D potential output of more than 3%

[1]

- 24** The following are features of a hypothetical economy.

- negative rates of economic growth
- rising unemployment
- a target rate of inflation of 2% per annum
- an actual rate of inflation of <0.5% per annum

All other things being equal, which one of the following actions is the central bank most likely to take in order to meet the target for inflation?

☐

A an increase in its base/bank rate of interest to stimulate saving

☐

B greater asset purchase intervention to lower yields in the bond markets

☐

C purchasing more of its currency in the foreign exchange markets

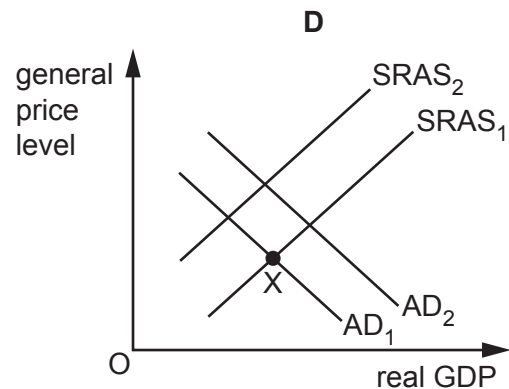
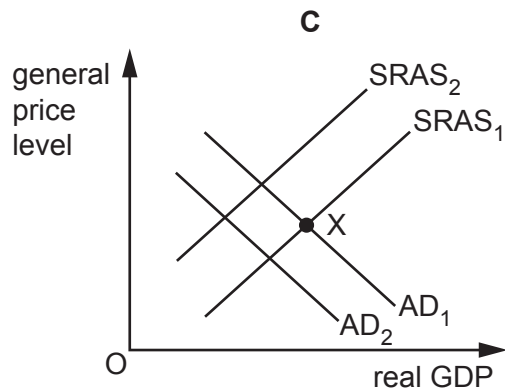
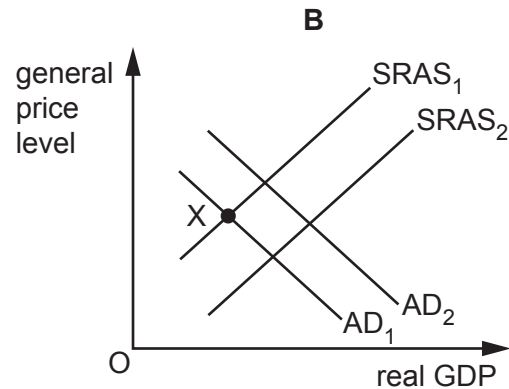
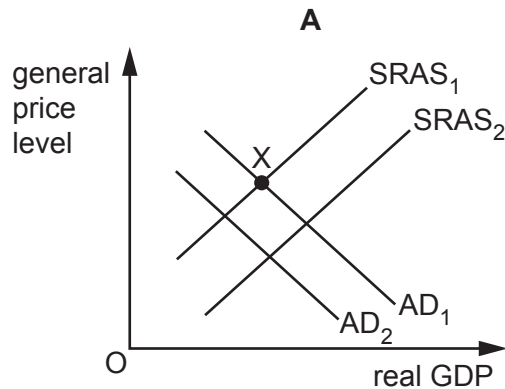
☐

D selling some of its stock of government bonds to UK and international financial institutions

[1]

- 25** A country imports a large proportion of its primary-sector products and exports a large proportion of its secondary-sector production. Both imports and exports have price-elastic demand. Initially the economy is in equilibrium at point X.

Ceteris paribus, which diagram best illustrates the likely impact of an appreciation of the exchange rate?


☐
☐
☐
☐

A
B
C
D

[1]

- 26** When has a government balanced its budget?

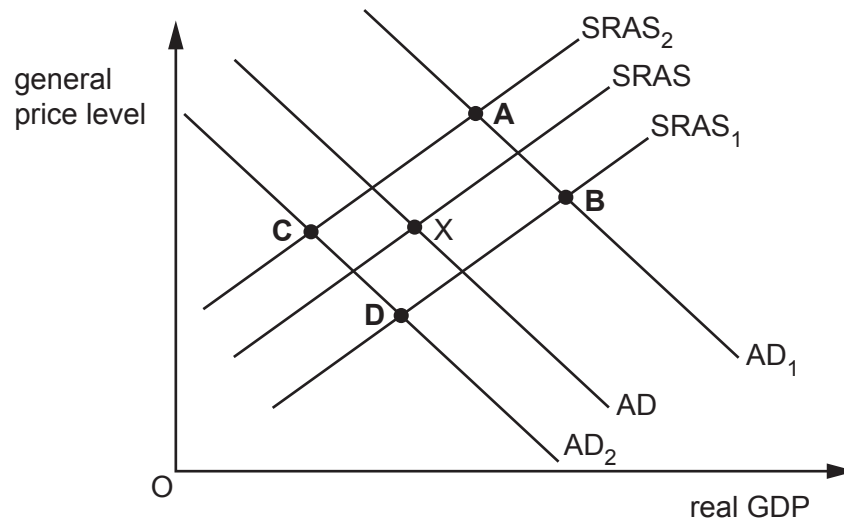
☐
☐
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☐

A when government debt as a proportion of GDP is constant
B when planned injections equal planned leakages
C when the government's total income equals its total expenditure
D when total exports equal total imports

[1]

- 27 A rise in domestic unit labour costs was forecast at the same time as an announcement of increased government spending on transport infrastructure.

The economy is initially in equilibrium at point X. What would be the new equilibrium point in the short run if the forecasts prove to be accurate and the government plans are implemented?



- ☐ A
- ☐ B
- ☐ C
- ☐ D

[1]

- 28 The table below shows the maximum productivity of fruit farmers in economy X and economy Y.

	apples	oranges
economy X	1000	500
economy Y	400	1200

Which of the following statements is correct?

- ☐ A Economy X has a comparative advantage in producing apples.
- ☐ B Economy X has an absolute advantage in producing oranges.
- ☐ C Economy Y has a comparative advantage in producing apples.
- ☐ D Economy Y has an absolute advantage in producing apples.

[1]

- 29** Country W joins a customs union that currently comprises two countries with much larger economies, X and Y. The existing customs union has a common external tariff which is the same as that initially charged by country W, before it joined the customs union.

After joining the customs union, country W imports bicycles from country X. Previously, country W had imported bicycles from a fourth country, Z.

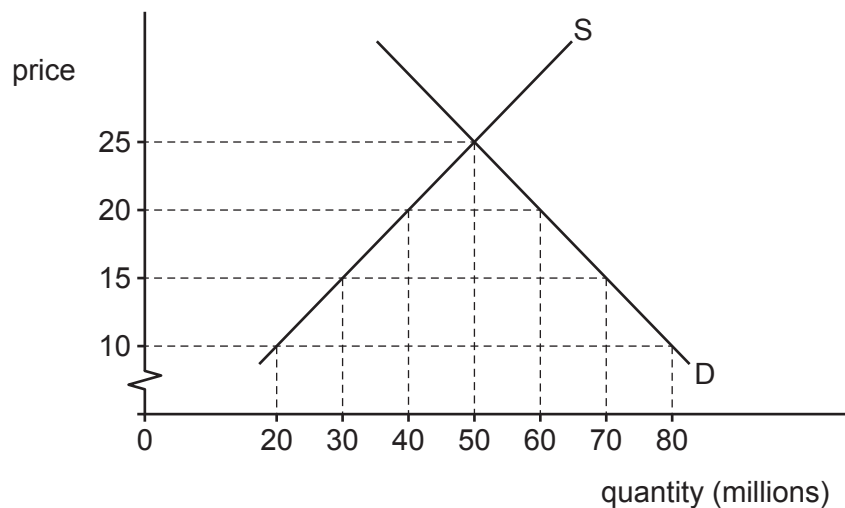
How is membership of the customs union most likely to affect the price of bicycles and economies of scale in country W?

		price of bicycles in country W	economies of scale in country W
<input type="checkbox"/>	A	decrease	decrease
<input type="checkbox"/>	B	decrease	increase
<input type="checkbox"/>	C	increase	decrease
<input type="checkbox"/>	D	increase	increase

[1]

- 30** The diagram illustrates the current domestic supply and demand conditions for a product within a customs union which has imposed a 150% tariff on a product that has a world price of \$10.

If the tariff were reduced from 150% to 100%, what will be the change in tariff revenue?



- ☐ **A** \$100m
- ☐ **B** \$200m
- ☐ **C** \$400m
- ☐ **D** \$600m

[1]

[Total: 30]

Section B: Short Answers

Answer **all** questions.

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

- 31 (a)** State the difference between a change in the quantity demanded of a good and a change in demand for a good.

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..... [2]

- (b)** Explain how opportunity cost is different for free goods and economic goods.

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..... [3]

- 32 (a)** At a price of £2.50, the demand for a particular good is 200 units. The price elasticity of demand for the good is 0.6.

Calculate the change in total expenditure on the good if the price is reduced to £2.00.

..... [2]

- (b)** Good Y is a substitute for good X.
With the help of a demand and supply diagram, show the possible change in the equilibrium price and quantity of good X resulting from a simultaneous decrease in the supply of good X and an increase in the price of good Y.

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..... [3]

- 33 (a) Explain why the problem of non-revealed preference can lead to market failure in the provision of public goods.

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..... [2]

- (b) Government provision can create rather than remove market distortions.

With the use of an example, explain **one** way in which this might occur.

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..... [3]

- 34 (a) With reference to price, distinguish between a perfectly competitive market and a contestable market.

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..... [2]

- (b) Table 34.1 shows how the total physical product of a firm changes as additional workers are employed by the firm.

Table 34.1

quantity of workers	quantity of capital	total physical product
0	100	0
1	100	2
2	100	6
3	100	12
4	100	20
5	100	30
6	100	38
7	100	44

Explain how Table 34.1 illustrates the law of diminishing returns.

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..... [3]

[Total: 20]

Section C: Data Response

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

You are advised to spend 55 minutes on this section.

- 35 (a)** Distinguish between income and wealth. (Extract 35.2 lines 1–26)

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..... [2]

- (b)** With reference to Table 35.1, briefly explain how index numbers are used to show changes in the rate of inflation.

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..... [3]

- (c) Based on the evidence provided and using a Lorenz diagram to illustrate, explain the likely different values of the Gini coefficients for income and wealth within the UK.

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..... [5]

- (d)** Using the evidence provided, evaluate the statement that ‘reshoring and reduced exports associated with deglobalisation, as well as the UK’s biggest ever fiscal stimulus package, make stagflation inevitable.’ (Extract 35.1 lines 21–23) [10]

[illegible]

- (e) 'Stagflation will lead to significant policy conflicts for a government seeking to achieve the objectives of an increase in economic growth, the control of inflation and a reduction in income inequality.' (Extract 35.1 lines 26–28)

In the light of the issues raised in the extracts, discuss the view that the best option to achieve all three objectives is to use supply-side policy. [10]

[illegible]

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