Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **February/March 2016**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

* 0 4 1 9 3 7 9 7 0 3 *

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **11** printed pages and **1** blank page.

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1 An individual has an appointment with his bank manager.

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

2 What confirms that scarcity exists?

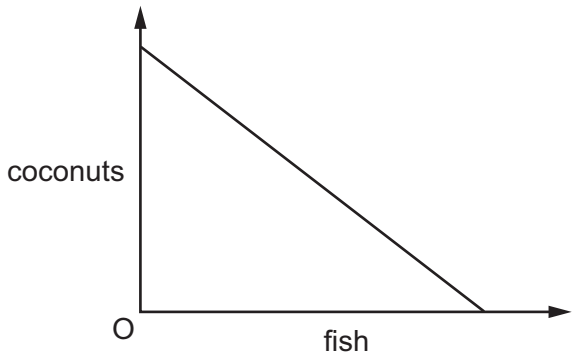
A A product has an opportunity cost.

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.

3 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.

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4 In 2014, there was an outbreak of ebola, a deadly disease, in West Africa. People obtained information from hospitals, radio broadcasts and notices posted by the roadside on how to prevent the disease from spreading.

How can these sources of information be classified?

	hospitals	radio broadcasts	notices
A	private good	private good	public good
B	private good	public good	public good
C	public good	private good	private good
D	public good	public good	private good

5 A rise in the price of a good is accompanied by an increase in the quantity demanded.

What could explain this?

A Consumers spend a high proportion of disposable income on the good.

B The price of a complementary good has also increased.

C The price of the good is taken to be an indication of the level of quality.

D The substitute goods are all very much more expensive.

6 What causes the demand curve for an inferior good to shift to the right?

A a decrease in consumer incomes

B a decrease in income tax

C a decrease in the price of a substitute good

D a decrease in the price of the good

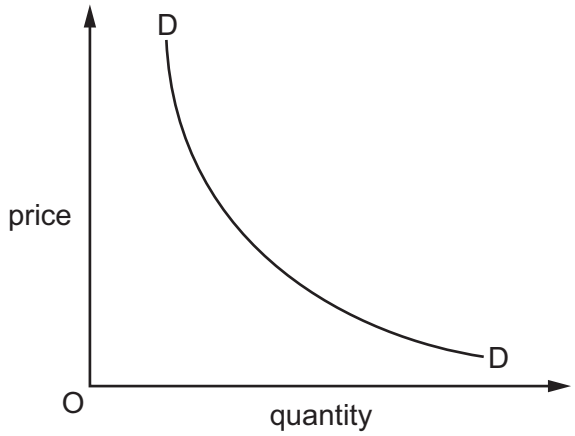
7 In a town, bus fares fall by 50% and this leads to an increase in bus use by 30%. The effect on car use is very low with only a 1% reduction.

What is the value of the cross-elasticity of demand between car travel and bus travel?

A –0.60 **B** –0.02 **C** +0.02 **D** +0.60

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8 In the diagram the rectangular hyperbola, DD, represents a firm's demand curve.



What can be deduced from the diagram?

A An increase in the quantity supplied causes a fall in total revenue.

B The price elasticity of demand decreases as we move down the demand curve.

C The sale of an extra unit gains no extra revenue.

D Total expenditure on the commodity decreases as the price falls.

9 What is price elasticity of supply?

A the change in the quantity supplied when a price changes

B the change in the quantity supplied when demand changes

C the comparison of the proportionate change in supply to the proportionate change in demand

D the comparison of the proportionate change in supply to the proportionate change in price

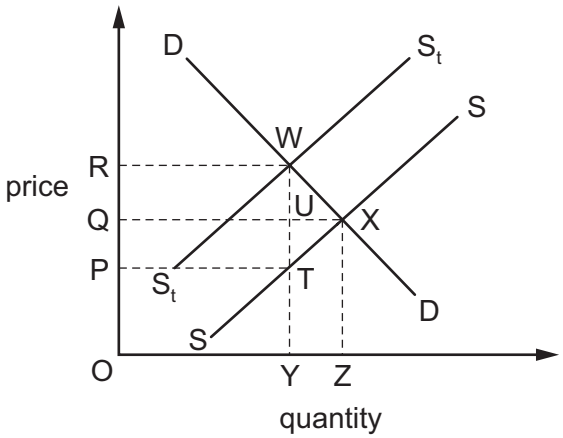
10 The demand for tablets increases, while the cost of producing them decreases.

What will be the effect on the price of tablets and on the quantity supplied?

	price	quantity
A	fall	uncertain
B	rise	increase
C	uncertain	increase
D	uncertain	uncertain

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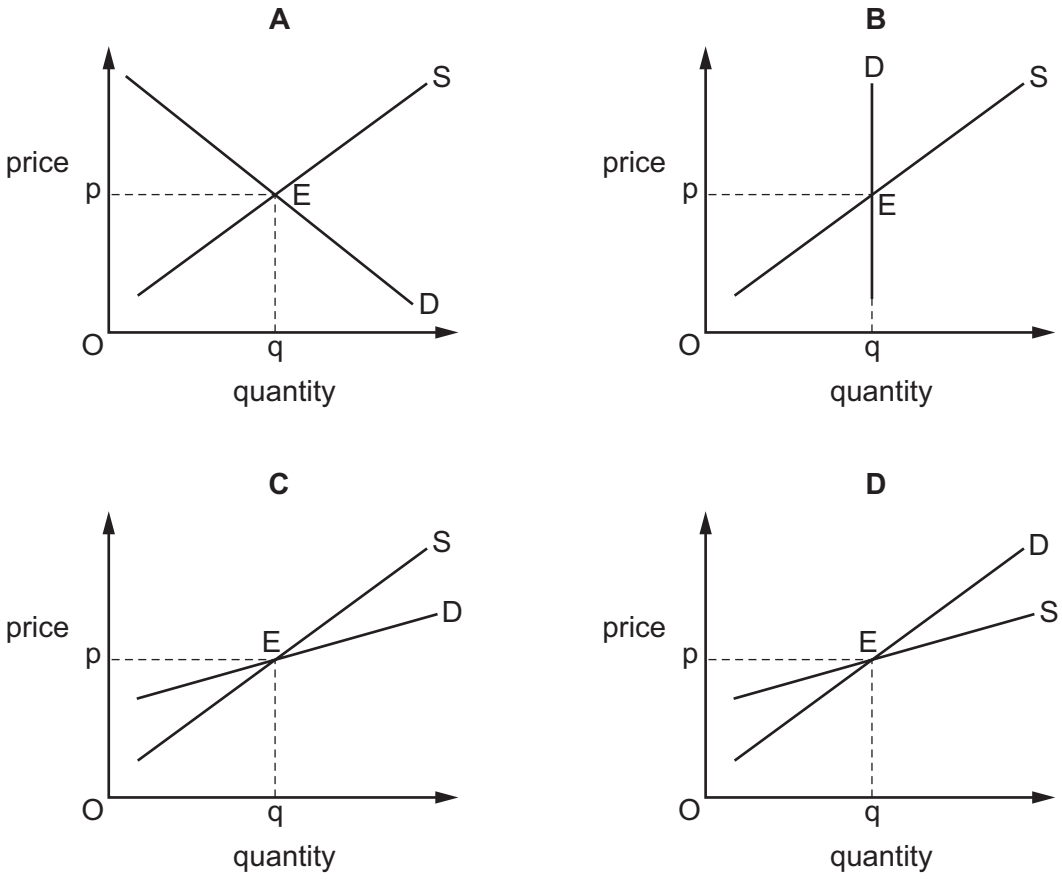
11 A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax, S_tS_t is the supply curve after tax.



Which area represents that part of the tax revenue paid by producers?

A ORWY **B** PQUT **C** PRWT **D** QRWU

12 In which market would equilibrium **not** be achieved at point E if price were above Op?



13 A company opened a garden to the public and charged for entry. The government then provided a grant to improve the garden on the condition that entry became free.

What would result from the government's action?

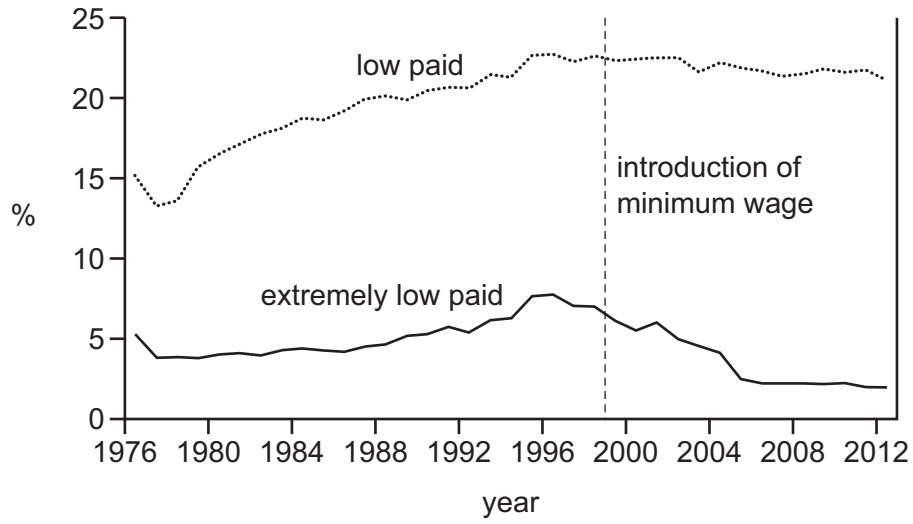
A The consumer surplus would increase.

B The demand curve would shift to the left.

C The supply curve would be infinitely elastic.

D There would be no equilibrium position as the garden is free.

14 The diagram shows the percentages of those on low pay and those on extremely low pay in the UK from 1976 to 2012. A national minimum wage was introduced in 1999.



What conclusion is consistent with the diagram?

A The minimum wage helped the low paid more than the extremely low paid.

B The minimum wage reduced the numbers of both low paid and extremely low paid.

C The minimum wage reversed the trend in low pay of the previous 20 years.

D The minimum wage was responsible for the largest reduction of low pay in the period.

15 A 10% tax is placed on a good.

What type of product would be most likely to face the biggest impact on its equilibrium price as a result?

A one with elastic demand

B one with inelastic demand

C one with infinite elasticity of demand

D one with unitary elasticity of demand

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16 In 2009 the Australian government made a payment of $900 to those who earned less than $100 000 per year.

How would the effect of this transfer payment be described?

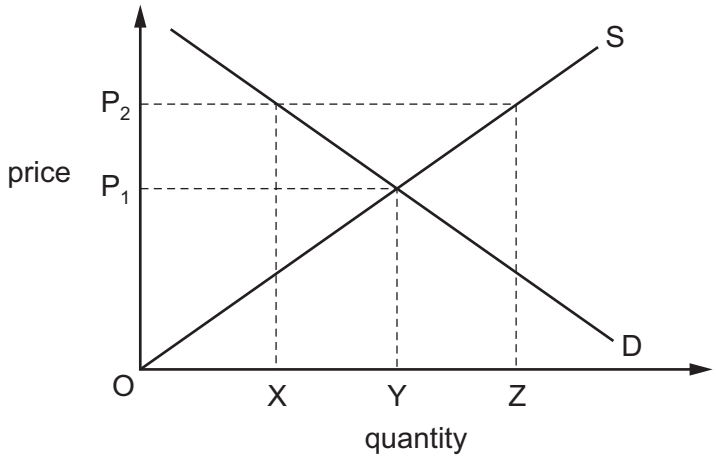
A neutral

B progressive

C proportional

D regressive

17 The diagram shows the market for wheat.



If the government wishes to fix the price at OP_2 what quantity of wheat must the government buy?

A OZ **B** XY **C** XZ **D** YZ

18 As part of a privatisation policy, a government deregulates bus services and sells off its public sector bus services to the private sector.

What is **least** likely to occur following these changes?

A Bus fares are increased.

B Bus service companies invest in new buses.

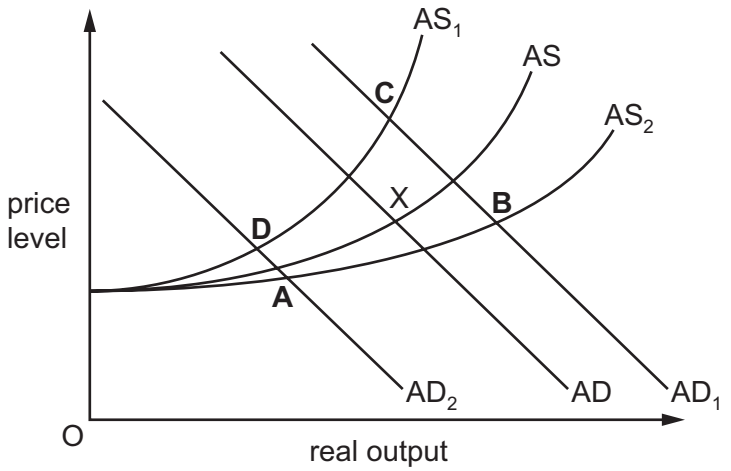
C Extra bus service companies enter the market.

D Loss-making bus services are retained.

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19 A government decided to reduce income tax and increase sales tax. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these tax changes?



20 The table gives data for an economy.

	2010	2011	2012	2013	2014
Gross Domestic Product (GDP) at current prices ($ billion)	200	220	240	300	320
GDP deflator (price index)	100	109	125	149	154

In which year did real GDP decline compared with the previous year?

A 2011 **B** 2012 **C** 2013 **D** 2014

21 What always happens when there is an increase in the Consumer Price Index?

A an increase in consumer expenditure

B an increase in the cost of living

C a reduction in living standards

D a reduction in real disposable income

22 What would identify a country with a fundamental balance of payments disequilibrium?

A alternate annual deficits and surpluses in the current account

B a continually growing balancing item

C a large short-term outflow of foreign direct investment

D a persistent rise in foreign currency reserves

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23 At present, one unit of a country's currency exchanges for US$1.20. The country aims to set its exchange rate at US$1.00.

Which combination of government actions in the foreign exchange market must achieve this aim?

A buying US currency and buying its own currency

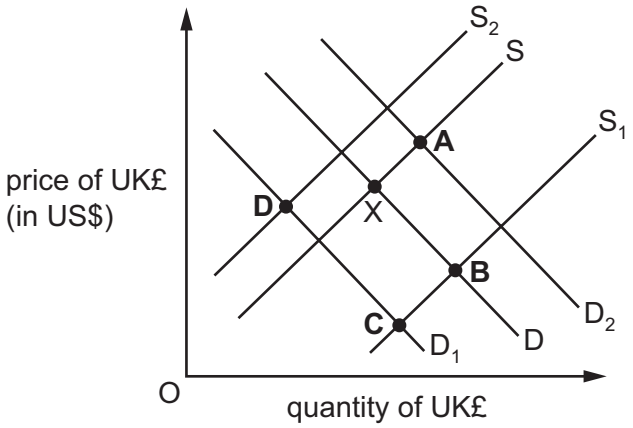
B buying US currency and selling its own currency

C selling US currency and buying its own currency

D selling US currency and selling its own currency

24 The diagram shows the exchange rate for the UK£ in terms of the US$. The original equilibrium exchange rate is at X.

What will be the new exchange rate equilibrium of the UK£ following a rise in UK interest rates?



25 A country's terms of trade increased from a base year value of 100 to 120 in the following year.

If export prices had increased by 50%, what was the change in the price of the country's imports?

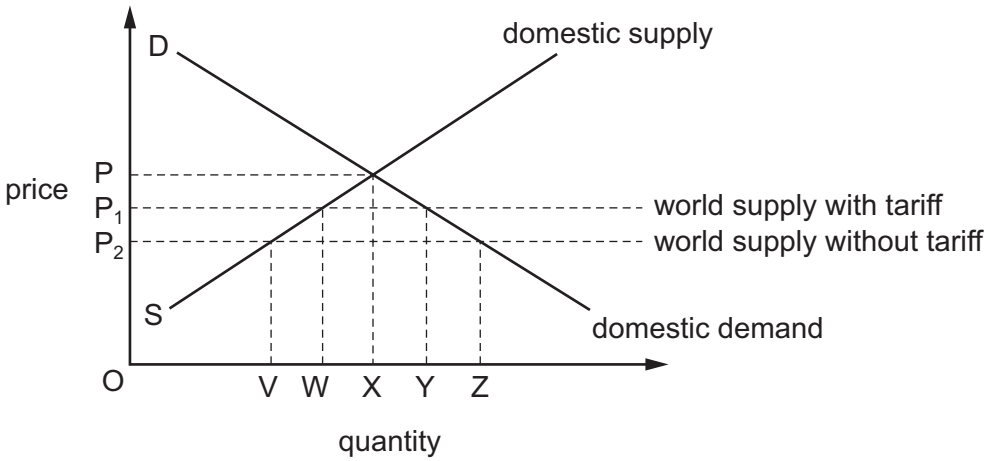
A –30% **B** –25% **C** +25% **D** +30%

26 In each country, P and Q, one person can either produce the quantity of X or the quantity of Y shown.

In which case does country P have absolute advantage in the production of Y and country Q have comparative advantage in the production of X?

	country	product X	product Y
A	P	6	7
	Q	6	9
B	P	10	8
	Q	7	9
C	P	12	6
	Q	8	4
D	P	16	15
	Q	14	8

27 A government removes the tariff on a product as shown in the diagram.



What will be the change in domestic production?

A a reduction of WV

B a reduction of XV

C a reduction of XW

D a reduction of ZY

28 What would be increased by an expansionary fiscal policy?

A budget deficit

B exchange rate

C money supply

D rate of direct taxation

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29 Possible policies a government might use to reduce a deficit on the current account of the balance of payments include devaluation, government spending cuts, interest rate rises and tariffs on imports.

Which two policies would be classified as expenditure-switching?

A devaluation and government spending cuts

B government spending cuts and interest rate rises

C interest rate rises and tariffs on imports

D tariffs on imports and devaluation

30 In March 2014, Sweden had a change in its Consumer Price Index of –0.6%.

Which combination of policies might the government use to restore price stability?

A increase interest rates and increase indirect taxes

B increase interest rates and reduce government expenditure

C reduce government spending and increase income tax

D reduce interest rates and increase government expenditure

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