Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **February/March 2017**

1 hour

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

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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.

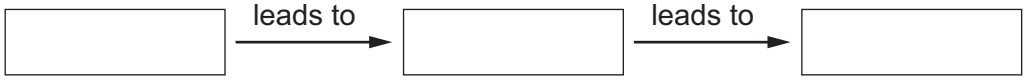
Read the instructions on the Answer Sheet very carefully.

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 **13** printed pages and **3** blank pages.

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1 The diagram is from a chapter on 'The Economic Problem' in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the economic problem.



What is the correct order for the terms to appear in the diagram?

A choice → opportunity cost → scarcity

B choice → scarcity → opportunity cost

C scarcity → choice → opportunity cost

D scarcity → opportunity cost → choice

2 What is most important for the effective operation of the division of labour in a modern economy?

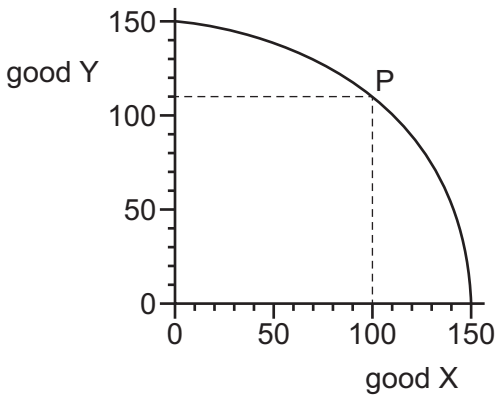
A a supply of money

B finance from the government

C highly qualified entrepreneurs

D integrated transport systems

3 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

4 Despite much opposition, the local government in a popular tourist resort built a leisure centre and swimming pool which is open to everyone. Many tourists visit the centre. Local residents are charged a lower entry fee than the fee charged to the tourists.

How would economists classify this service?

A It is a demerit good because some people objected to the development.

B It is a merit good because the entry fee is reduced for local residents.

C It is a private good because there is an entry fee for all users.

D It is a public good because it is open to everyone and provided by the local government.

5 On a demand and supply diagram, other things remaining the same, a fall in the price of a commodity will normally shift

A the demand curve for a substitute to the right.

B the demand curve for the commodity to the right.

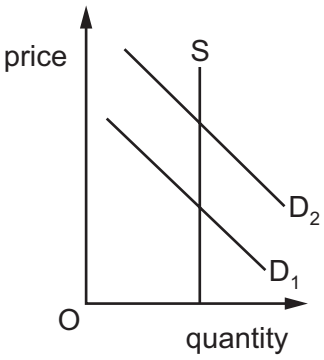
C the supply curve for a jointly produced commodity to the left.

D the supply curve for the commodity to the left.

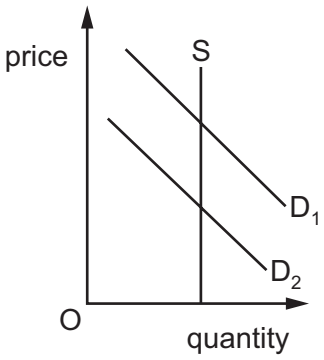
6 In 2014, in an attempt to find new uses for seven sites previously used to bury rubbish, the Hong Kong government announced it would allow private companies to bid to redevelop the sites.

Which diagram shows the change in the market for these sites?

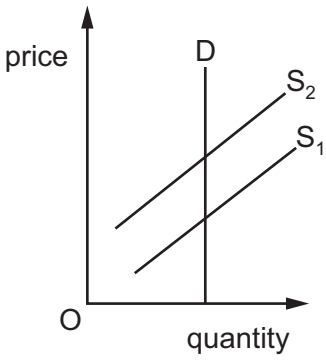
A



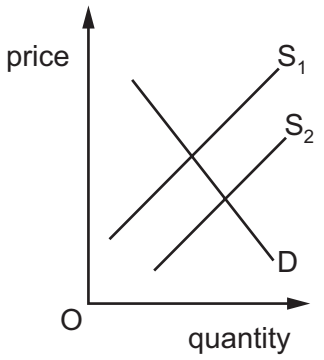
B



C



D



7 The price elasticity of demand for a firm's product is equal to one for all price changes.

What would be the result of this?

A A percentage increase in price will cause demand to fall by a larger percentage.

B A percentage increase in price will cause demand to increase by the same percentage.

C Quantity demanded will always be the same whatever the price.

D The firm's revenue will always be the same whatever the price.

8 Which change will lower the price elasticity of supply of a product?

A It becomes easier to store the product.

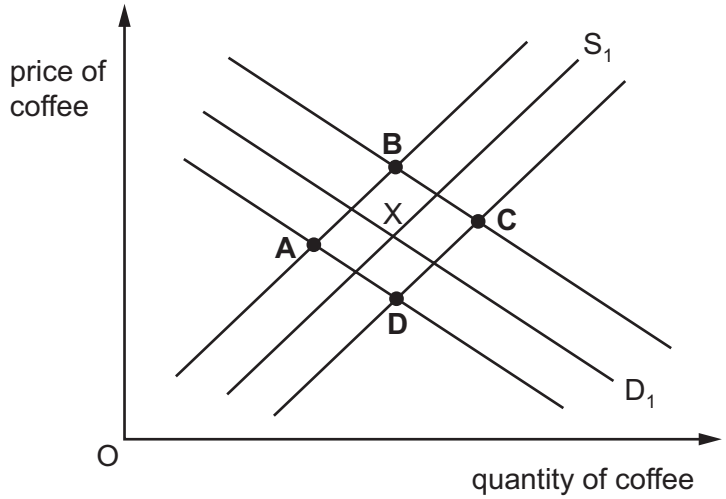
B Output of the product nears full capacity.

C The production process becomes less complex.

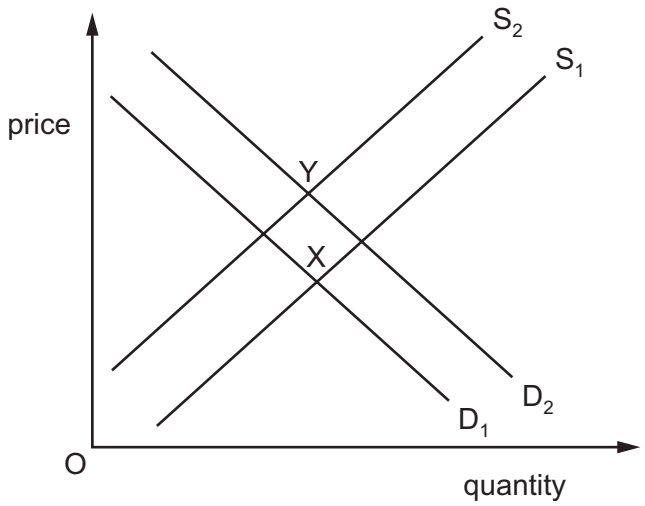
D Workers become more mobile.

9 The diagram shows the market for coffee. The initial equilibrium position is X. The price of tea, a substitute, falls and an indirect tax is imposed on coffee.

What will be the new equilibrium position?



10 The diagram shows the market for new houses.



What would cause the change in the market equilibrium position from X to Y?

A a fall in income tax and a rise in building costs

B a fall in interest rates and increased efficiency in house-building

C a fall in population and a rise in the price of building land

D a rise in building subsidies and a fall in incomes

11 Jam and honey are substitutes. Honey and beeswax are in joint supply.

Other things being equal, what will be the result of an increase in the price of jam?

	price of honey	price of beeswax
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

12 For price to act as a rationing mechanism for a final product, the effect of a rising price must be to

A attract new firms into the market.

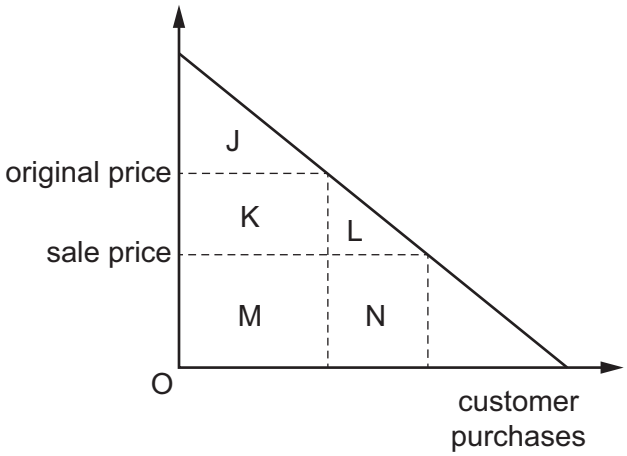
B generate additional profits for producers.

C reduce the quantity demanded by some individuals.

D signal the need for redeployment of labour.

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13 A well-known clothes retailer decides to have a summer sale in its shops. As a result the number of people who use the shops increases.



Which areas measure the change in consumer surplus for the customers who would have bought the clothes anyway and the surplus for the new customers?

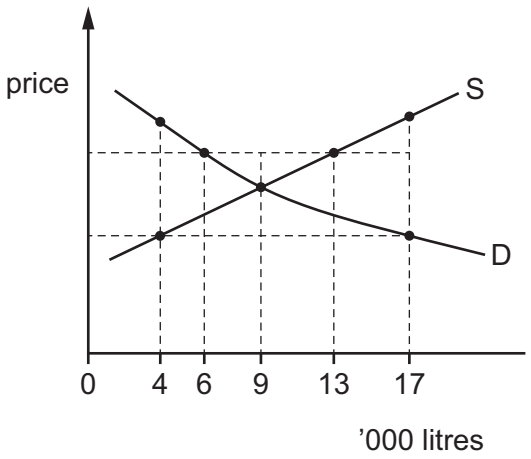
	existing customers	new customers
A	J + K	L
B	J + K + M	L + N
C	K	L
D	M	N

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14 In 2014 some supermarkets reduced the price they were willing to pay farmers for milk to below what was then the market equilibrium price. They passed the lower price onto the consumers in order to try and encourage them into the store.

The government then fixed an effective minimum price which the supermarkets had to pay the farmers.

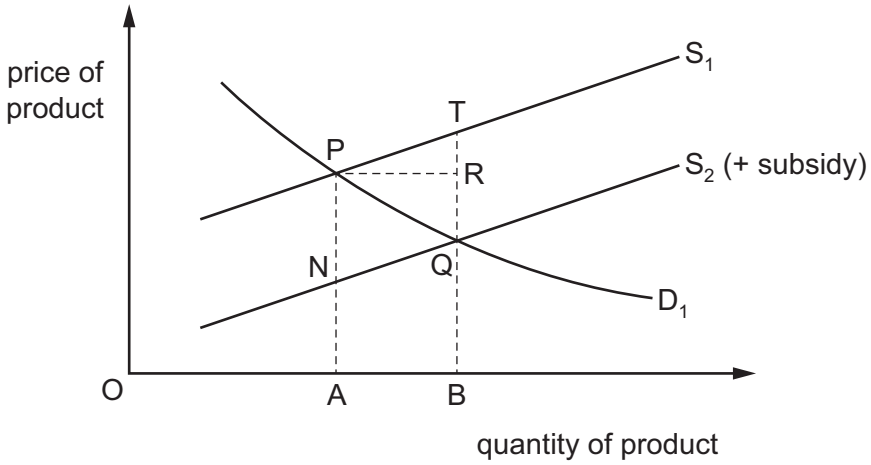
These two actions are shown in the diagram.



What would be the outcome after the supermarket action and then the government action?

	after supermarket action	after government action
A	a shortage of 5000 litres	a surplus of 4000 litres
B	a shortage of 5000 litres	a surplus of 7000 litres
C	a shortage of 13 000 litres	a surplus of 4000 litres
D	a shortage of 13 000 litres	a surplus of 7000 litres

15 The initial market for a product is represented by the demand and supply curves D_1 and S_1 respectively. A subsidy is then introduced, represented by the shift of S_1 to S_2 (+ subsidy).



What is the incidence of the subsidy for the consumer and producer?

	consumer	producer
A	PN	NA
B	QR	TR
C	QT	QB
D	TR	QR

16 What is the most likely purpose of a government making transfer payments, such as social security benefits, to unemployed workers?

A to encourage a change in income distribution

B to increase the government's revenue

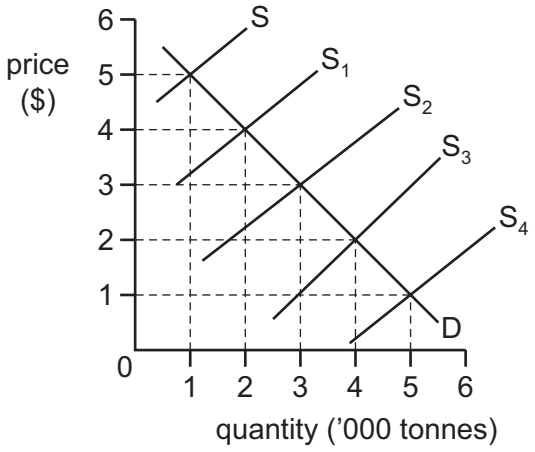
C to keep the principles of a free market economy

D to let all citizens enjoy identical living standards

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17 In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves S_1–S_4.



How much in total will the government need to pay to support farmers over the four subsequent years?

A $0 **B** $3000 **C** $6000 **D** $10 000

18 Which circumstance is **not** likely to represent a strong case for an industry to be nationalised?

A In the private sector, the industry would cause significant inequalities of supply between different areas of the country.

B The industry would allow firms outside of the industry to enter easily.

C The industry would be unprofitable as a private enterprise but generates large benefits for the rest of society.

D The industry would experience such economies of scale that it can support only one firm.

19 How does a rise in the price of factors of production affect the aggregate supply (AS) curve?

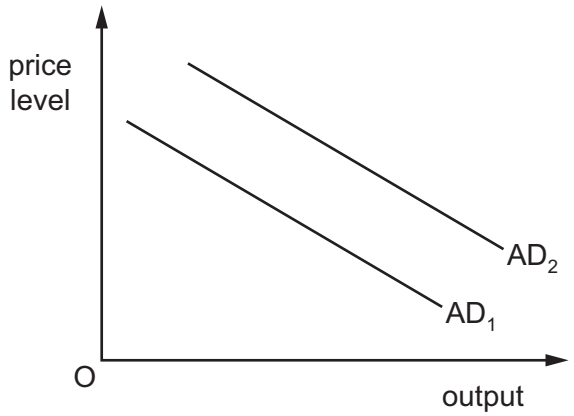
A a move left along the AS curve

B a move right along the AS curve

C a shift to the left of the AS curve

D a shift to the right of the AS curve

20 In the diagram, AD_1 is an economy's initial aggregate demand curve.



What could cause the curve to shift to AD_2?

A a decrease in real wages

B an appreciation of the currency

C an increase in the money supply

D an increase in the price level

21 Relative weights are used in calculating the index of retail prices to reflect the different

A amounts of money spent by consumers on each good.

B levels of prices for each good.

C numbers of people buying each good.

D rates of change in price of each good over time.

22 The table contains some figures from the 2014 balance of payments account of the United States (US).

	US$ million
exports of goods	1 632 639
balance of trade in goods	–741 462
imports of services	477 428
balance of trade in services	233 138

What **cannot** be concluded about US trade in 2014 from the table?

A Exported services were valued at over US$477 428.

B Imported goods were valued at over US$1 632 639.

C The value of exported services was less than the value of exported goods.

D There was an overall current account deficit.

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23 A country has a fixed exchange rate.

What is likely to result in a deterioration in its balance of payments?

A a decrease in interest rates in foreign countries

B a decrease in the country's interest rates

C a decrease in the country's National Income

D an increase in the income of foreign countries

24 At present, one unit of a country's currency exchanges for US$1.2. The country aims to set its exchange rate equal to US$1.0.

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

25 The table gives the Terms of Trade Index in 2010 and 2013 for Japan and Venezuela.

Terms of Trade (2000=100)

	2010	2013
Venezuela	215.9	254.6
Japan	67.7	59.0

Which combination of statements is a correct interpretation of the changes between 2010 and 2013?

	can buy more imports per unit of exports	import prices have risen faster than export prices
A	Japan	Japan
B	Japan	Venezuela
C	Venezuela	Japan
D	Venezuela	Venezuela

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[Turn over

26 The US President signed a trade agreement which allowed more duty-free access to the US market for Latin American and Caribbean countries.

Who might benefit in the short run from this agreement?

A Caribbean countries, because they may export to Latin America.

B Latin American businesses, because they may be able to sell more in the US.

C Latin American governments, because they will not have to pay so much duty.

D The US, because it may export more to Latin America.

27 Which statement is **not** a valid reason why a country may impose protectionist measures?

A to allow a newly developed domestic industry to grow to a viable size

B to enable a country to retain control of an industry it regards as being of strategic importance

C to give consumers a wider choice of goods and services

D to give time for workers in a declining domestic industry to find alternative employment

28 A government wants to operate a tighter monetary policy.

What would it increase?

A budget surplus

B interest rate

C money supply

D rates of taxation

29 A country has a large current account deficit. Its government decides to devalue its currency.

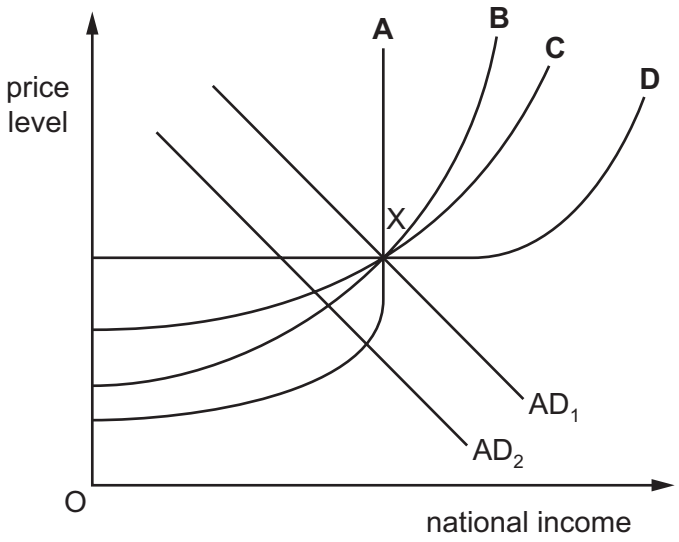
In which circumstance would such a measure reduce the deficit?

	price elasticity of demand for exports	price elasticity of demand for imports
A	0.0	0.0
B	0.0	0.5
C	0.5	0.5
D	0.5	1.0

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30 The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2.

With which AS curve would this policy be least effective?



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