Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/12**

Paper 1 AS Level Multiple Choice **February/March 2025**

**1 hour**

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

**INSTRUCTIONS**

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

**INFORMATION**

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **12** pages.


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**[Turn over**

**1** Which statement about a market economy is **not** correct?

**A** Competition is promoted among firms which can increase productive efficiency.

**B** Immobility of the factors of production can lead to allocative inefficiency.

**C** Price always reflects all the costs and all the benefits associated with production.

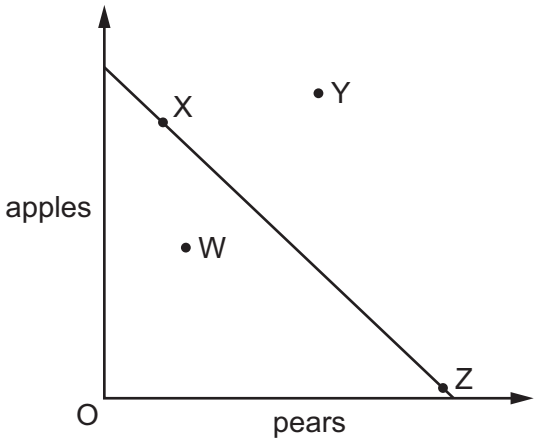
**D** The entrepreneur is encouraged to innovate and take risks, motivated by profit.

**2** To increase production, a firm in industry X needs to install capital equipment, while a firm in industry Y needs to research and introduce a new technology.

What time periods are illustrated by these cases?

| | industry X | industry Y |
|---|---|---|
| **A** | short run | long run |
| **B** | long run | long run |
| **C** | long run | very long run |
| **D** | very long run | very long run |

**3** The production possibility curve shows the maximum potential output of apples and pears for an economy using current resources.




Which pair of positions identifies an efficient and an inefficient outcome?

**A** W and Y **B** W and X **C** X and Z **D** Y and Z

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**4** The price of a good rises by 5% and the quantity of it demanded rises by 3%. At the same time, the incomes of consumers of the good rise by 4%.

The law of demand appears not to be working in this case.

What is the most likely explanation?

**A** Other things did not remain equal.

**B** The demand for the good was price inelastic.

**C** The real price of the good fell.

**D** The time period was the very short run.

**5** When is division of labour likely to be most effective?

**A** in a large market with stable demand

**B** in a market where consumers prefer a handmade product over a product made using machines

**C** in a market where consumers require a variety of goods

**D** in a small market where consumers require a custom-made product

**6** What will influence the value of the price elasticity of supply of a good?

**A** the level of producer surplus

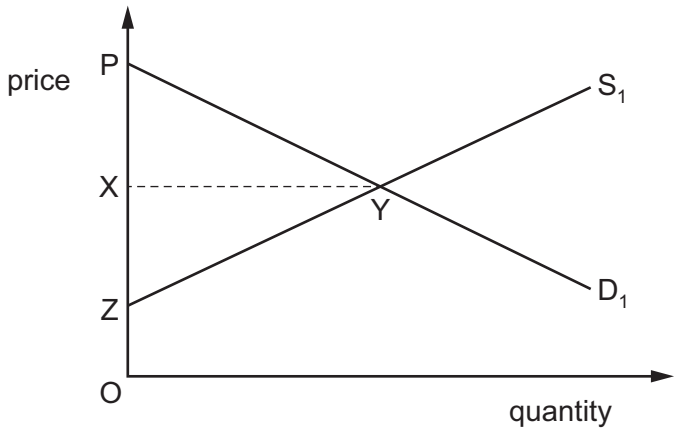
**B** the time period under consideration

**C** the total income spent on the good

**D** whether the good is a necessity

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**7** The diagram represents the market for a good.




Which statement is correct?

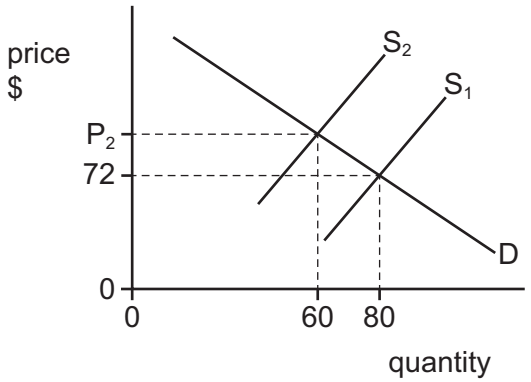
**A** OX represents the price above which no producer wishes to stay in the market.

**B** OZ represents the minimum price consumers are prepared to pay.

**C** PYZ represents the total consumer surplus.

**D** XYZ represents the total producer surplus.

**8** The diagram shows the impact on equilibrium due to an increase in the costs of production. The original price is $72. The price elasticity of demand is –2.0.




What is the new equilibrium price, $P_2$?

**A** $81.00 **B** $84.00 **C** $92.00 **D** $108.00

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**9** What is likely to have a greater effect on an individual demand curve than on a market demand curve?

**A** changing weather patterns

**B** government policy to promote consumption

**C** growth in population

**D** more expensive substitutes

**10** The quantity demanded of a product is given by $Q_D = 400 – 10P$, when P is the price in dollars. Supply of the product is fixed at 100 units.

If the price is $20, what will be the position in the market?

**A** It will be in disequilibrium with excess demand of 100 units.

**B** It will be in disequilibrium with excess supply of 100 units.

**C** It will be in equilibrium with 100 units traded.

**D** It will be in equilibrium with 200 units traded.

**11** A decrease in the quantity demanded of a product results in a proportionate decrease in sales revenues.

What is true about its price elasticity of demand?

**A** It is between zero and one.

**B** It is infinite.

**C** It is unitary.

**D** It is zero.

**12** A government may use a range of methods to intervene in a market to affect both demand and supply.

What is a method which will shift the demand curve for a good?

**A** an indirect tax

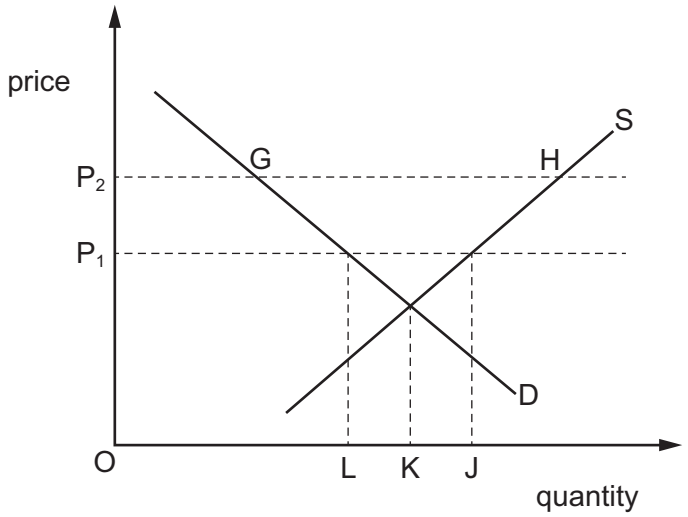
**B** a subsidy

**C** direct provision

**D** provision of information

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**13** To help achieve price stability, the government in country F operates a buffer stock scheme, with a minimum price of $P_1$ and a maximum price of $P_2$. The current demand and supply in the market is shown.




What should the government do to ensure the scheme is effective?

**A** buy an amount equal to GH

**B** buy an amount equal to KJ

**C** buy an amount equal to LJ

**D** do nothing as the equilibrium price is below $P_1$

**14** Why is it more difficult to quantify the wealth of an individual rather than their income?

**A** A skilled artist may keep a painting in stock whose value increases after their death.

**B** Individuals can choose to spend all available income, leaving wealth unchanged.

**C** Not every form of individual wealth can be traded for money in a market.

**D** Wealth is a stock which cannot be broken down into an individual's different assets.

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**15** The table shows the Gini coefficient for income in three countries.

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Costa Rica | 0.479 | 0.478 | 0.497 |
| New Zealand | 0.330 | 0.326 | 0.320 |
| Sweden | 0.275 | 0.280 | 0.278 |

What can be concluded from this data?

**A** All three countries have seen an overall improvement in income equality.

**B** Costa Rica has the highest level of consumer income of all three countries.

**C** New Zealand's income inequality worsened between 2018 and 2020.

**D** Sweden's economy has the highest income equality of all three countries.

**16** Governments may have price stability as a macroeconomic objective.

What is meant by price stability?

**A** All equilibrium prices are maintained in the long run.

**B** Demand-pull inflation cancels out any cost-push inflation.

**C** Only disinflation is present in the economy in the long run.

**D** Prolonged periods of inflation and deflation are avoided.

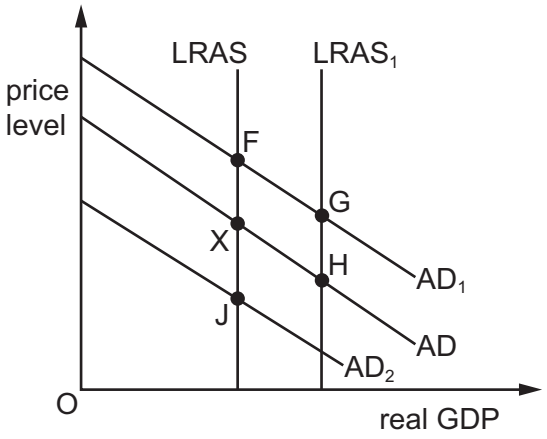
**17** In country S, frictional unemployment has decreased, but in country T, structural unemployment has increased.

What would be possible explanations for these changes?

| | country S | country T |
|---|---|---|
| **A** | a reduction in job search times | real wage rates are flexible |
| **B** | more job vacancy websites | the closure of several large mining firms |
| **C** | unemployment benefits have decreased | a fall in economic growth |
| **D** | unemployment benefits have increased | workers' skills do not match available jobs |

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**18** The diagram shows aggregate demand (AD) and long-run aggregate supply (LRAS) with X as the initial equilibrium.




Which combination of policy and new final equilibrium point is correct?

| | policy | new final equilibrium point |
|---|---|---|
| **A** | increased direct taxation | F |
| **B** | increased government spending on infrastructure | G |
| **C** | appreciation of the exchange rates | H |
| **D** | decreased interest rates | J |

**19** The money income of a country rises by 10% whereas its population falls by 10% during a year.

What is likely to happen to the national income per head?

**A** It will remain unchanged.

**B** It will rise by exactly 20%.

**C** It will rise by less than 20%.

**D** It will rise by more than 20%.

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**20** High economic growth is often accompanied by a worsening of the current account of the balance of payments.

Which reason for this trend is **not** valid?

**A** Economic growth raises domestic consumption, leaving very little to sell to overseas consumers.

**B** Economic growth raises domestic output, leading to lower prices and more price-competitive goods both at home and abroad.

**C** Economic growth raises incomes and leads to rising demand for foreign goods.

**D** Economic growth results in rising requirements of inputs from other countries.

**21** A government cuts income tax.

Why might this be seen as an example of a supply-side policy?

**A** Real incomes are increased.

**B** The costs of businesses are reduced.

**C** The opportunity cost of unemployment has increased.

**D** The standard of living has improved.

**22** Which combination of fiscal policy measures will reduce both the inflation rate and income inequality?

| | direct taxes | indirect taxes | subsidies on food and public transport |
|---|---|---|---|
| **A** | decrease | decrease | increase |
| **B** | decrease | increase | increase |
| **C** | increase | decrease | increase |
| **D** | increase | increase | decrease |

**23** A country's central bank decides to reduce the level of credit regulation.

What is this an example of?

**A** contractionary fiscal policy

**B** contractionary monetary policy

**C** expansionary fiscal policy

**D** expansionary monetary policy

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**24** A government decides to use supply-side policy to increase long-run aggregate supply (LRAS).

What is the most likely reason why this policy tool will **not** lead to a fall in the price level?

**A** Aggregate demand will also increase.

**B** Labour productivity levels will increase.

**C** Workers will save any extra wages they earn.

**D** Workers will spend any extra wages on imports.

**25** What defines a progressive tax?

**A** All taxpayers pay the same proportion of income in taxes.

**B** Low-income earners pay a lower proportion of income in taxes than high-income earners.

**C** Low-income earners pay less in taxes than high-income earners.

**D** Low-income earners pay more in taxes than high-income earners.

**26** Country X trades with country Y.

What are the terms of trade for country X?

**A** average price of country X's exports divided by the average price of country Y's exports

**B** the ratio of an index of country X's export prices to an index of its import prices

**C** value of country X's exports divided by the value of country Y's exports

**D** value of country X's imports divided by the value of country Y's imports

**27** When is a country's exchange rate most likely to fall?

**A** When its current account surplus exceeds that of its trading partners.

**B** When its inflation rate exceeds that of its trading partners.

**C** When its interest rate exceeds that of its trading partners.

**D** When its unemployment rate exceeds that of its trading partners.

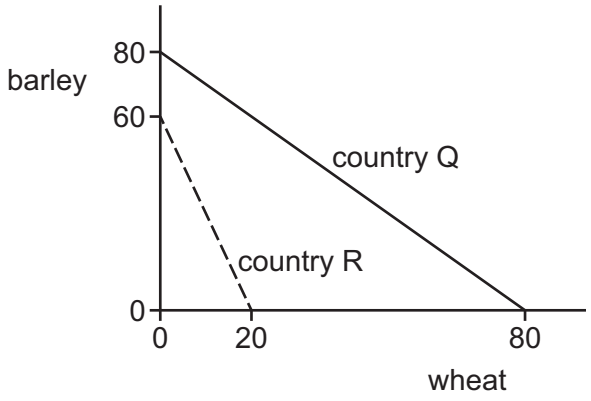
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**28** A country experiences a rising trade deficit and a current account surplus at the same time.

Which combination of events might explain this?

| | Event 1 | Event 2 |
|---|---|---|
| **A** | a global recession resulting in decreased prices of commodities | Gross National Income (GNI) rises faster than Gross Domestic Product (GDP) |
| **B** | increased subsidies for exporters | increased donations received from abroad to combat a humanitarian crisis |
| **C** | removal of restrictions on imports | removal of restrictions on the remittance of profits of foreign-owned producers |
| **D** | rising imports of machinery to help raise exports in the future | increased secondary income from workers' remittances from abroad |

**29** The diagram shows the production possibilities for barley and wheat in countries Q and R.




What can be concluded?

**A** Country Q has a comparative advantage in the production of barley.

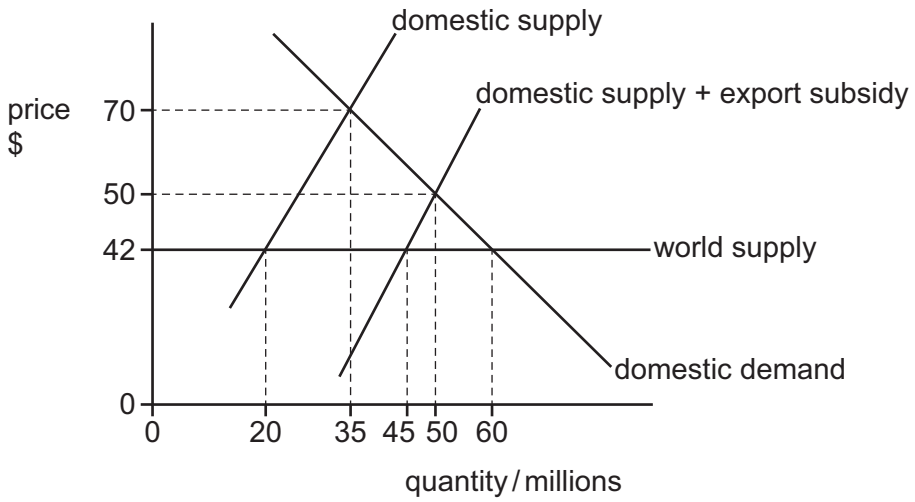
**B** Country Q has an absolute advantage in producing both goods.

**C** Country R has an absolute advantage in the production of barley.

**D** There is no comparative advantage.

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**30** The diagram shows the impact of a government introducing an export subsidy for its domestic producers of oil.




What will be the effect of this export subsidy on the operation of the domestic market?

**A** domestic output of oil will increase by 15 million units

**B** imports of oil will decrease by 25 million units

**C** the domestic price of oil will decrease by $28

**D** the domestic price of oil will increase by $8

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