Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **May/June 2016**

1 hour

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

* 4 8 6 9 1 2 2 7 1 4 *

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.

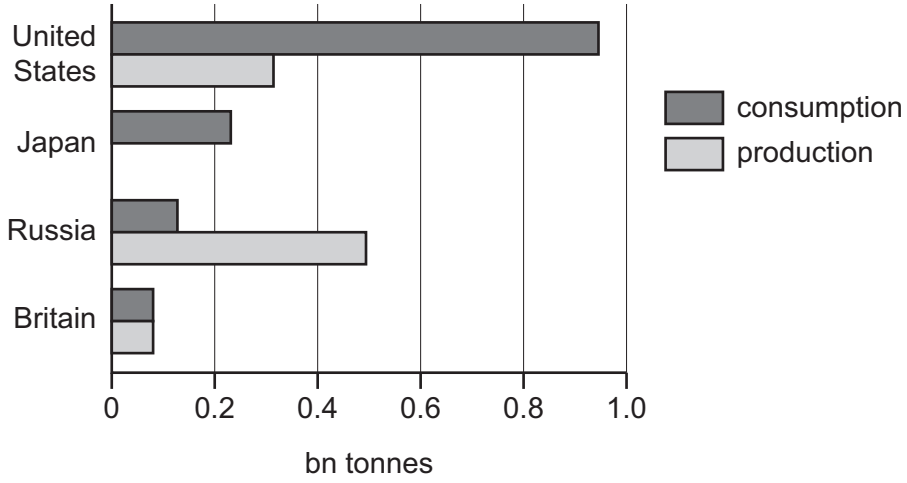
Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **13** printed pages and **3** blank pages.

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1 In 2007 there was 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 had zero opportunity cost.

B In Japan, there was self-sufficiency in oil.

C In Russia, there was no shortage of oil.

D In the United States, rationing was the only solution to oil shortage.

2 What is necessary for effective specialisation?

A a barter system

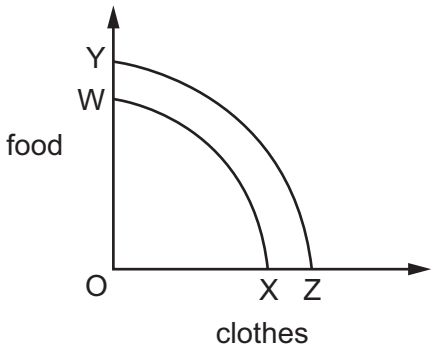
B a medium of exchange

C a production possibility curve

D a system of trade protection

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3 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

4 Recently, thousands of ancient Roman coins were discovered buried in a field in the UK.

Funds were raised by a museum to buy them.

What function of money did the coins retain?

A a medium of exchange

B a standard for deferred payments

C a store of value

D a unit of account

5 What describes a market supply curve?

A It is downward sloping.

B It is the same as the aggregate supply curve.

C It is the sum of all firms' supply curves for a product.

D It is the supply of all products within an economy.

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[Turn over

6 The demand curve for new cars in a country shifted to the left.

Which change could have caused such a shift?

A an increase in real disposable income

B an increase in the cost of borrowing

C an increase in the price of new cars

D an increase in the price of train travel

7 The table gives estimates of the price elasticities and cross elasticities of demand for bus and rail travel.

service	elasticity with respect to the price of	
	bus travel	rail travel
bus travel	–0.37	+0.13
rail travel	+0.16	–0.43

What would be the change in the volume of rail travel resulting from a 1% increase in bus fares?

A an increase of 0.16%

B an increase of 0.43%

C a reduction of 0.13%

D a reduction of 0.37%

8 It has been estimated that bread has an income elasticity of –0.04.

What can be concluded about bread from this information?

A It is a normal good.

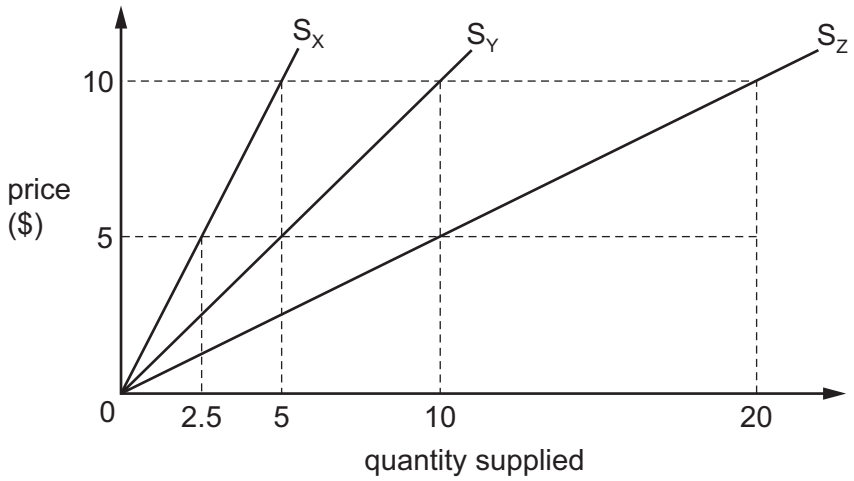
B It is an inferior good.

C It has many complements.

D It has many substitutes.

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9 S_X, S_Y and S_Z are the supply curves of goods X, Y and Z.



If the price of all three goods rises from $5 to $10, what are their price elasticity of supply values?

	good X	good Y	good Z
A	equal to 1	equal to 1	equal to 1
B	equal to 1	greater than 1	greater than 1
C	less than 1	equal to 1	greater than 1
D	less than 1	greater than 1	greater than 1

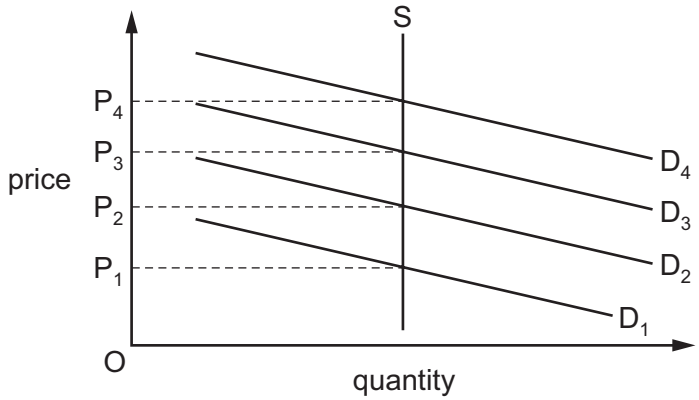
10 A US study, published in July 2014, warned teenagers to reduce the amount of fizzy drink they consume. One can of fizzy drink contains an adult's entire daily sugar allowance.

If the advice were accepted, how might the effect be illustrated on demand and supply diagrams for fizzy drinks and for sugar?

	diagram for fizzy drinks	diagram for sugar
A	demand curve moves to the left	movement up the supply curve
B	demand curve moves to the left	movement down the supply curve
C	movement up the demand curve	supply curve moves to the right
D	movement up the demand curve	supply curve moves to the left

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11 In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days (D_1, D_2, D_3 and D_4).



The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

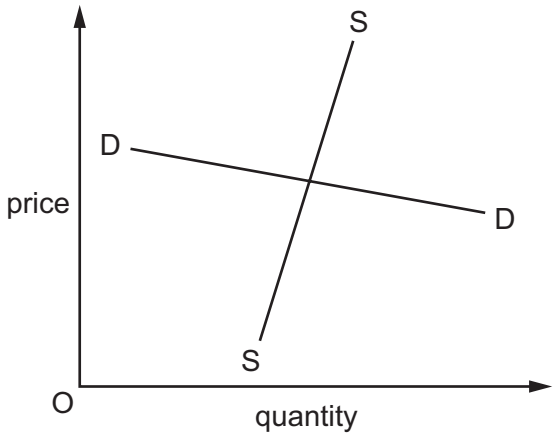
A set a fixed price at P_1

B set a fixed price at P_4

C vary prices between P_2 and P_3

D vary prices between P_1 and P_4

12 The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax.



What will be the result of this tax?

A Most of the incidence of the tax will fall on the producer.

B There will be a new demand curve parallel to DD.

C The price will rise by the full amount of the tax.

D The quantity bought will fall proportionately to the tax rate.

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13 The diagram shows a consumer's demand curve for a product.



How does consumer surplus change as the price of the product rises in $5 steps between $5 and $20?

A It falls at a constant rate (%) with each $5 rise.

B It falls by a constant amount with each $5 rise.

C It falls by a decreasing amount with each $5 rise.

D It falls by an increasing amount with each $5 rise.

14 A government imposes a maximum rent in order to make rented housing more affordable.

What is likely to be a long-run consequence if the maximum is set below the current free market level?

A a shortage of applicants for rented housing

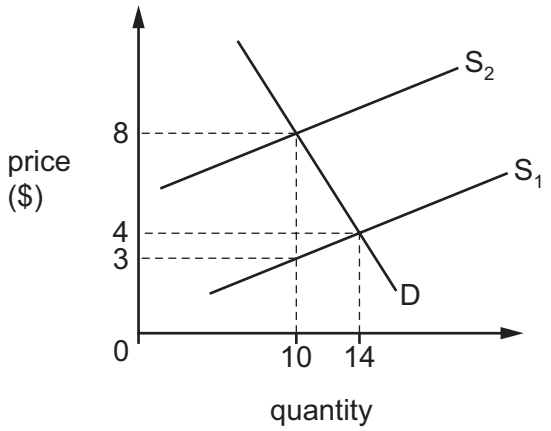
B a shortage of rented housing

C an increase in supply to satisfy the increased demand for rented housing

D an increase in the number of occupants of rented housing

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15 The diagram shows demand and supply curves for a good. S_1 is the original supply curve, S_2 is supply after a tax is added.



How much tax revenue is earned by the government?

A $10 **B** $40 **C** $50 **D** $80

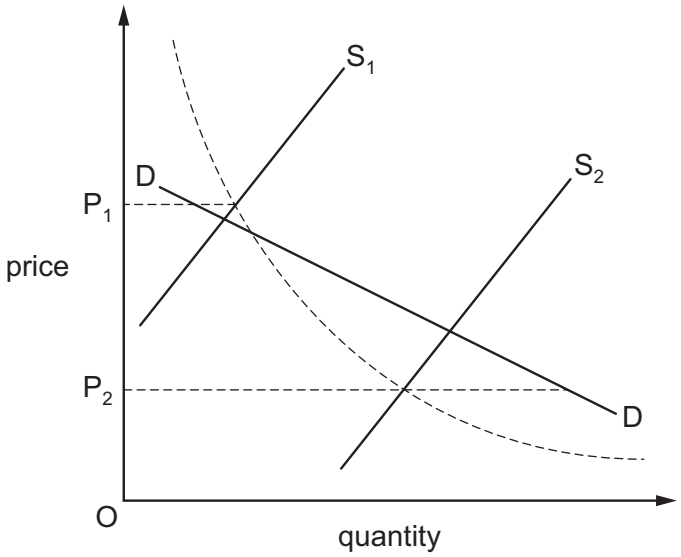
16 A country uses an income tax under which the first $10 000 of income is tax-free, the next $20 000 is taxed at 20% and any income over $30 000 is taxed at a top rate of 40%. It also levies a sales tax of 10% on most products, although some essential goods are exempt.

Which combination of tax changes is most likely to create a more equal distribution of income in the country?

	income tax	sales tax
A	a higher tax-free allowance	a higher rate of tax
B	a higher top rate of tax	a lower rate of tax
C	a lower tax-free allowance	a higher number of exempt goods
D	a lower top rate of tax	a lower number of exempt goods

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17 In the diagram, DD is the demand curve for an agricultural commodity, S_1 is the supply curve in period 1 and S_2 is the supply curve in period 2. The broken curve is a rectangular hyperbola.



The government operates a buffer stock scheme fixing the price at OP_1 in period 1 and OP_2 in period 2.

How do output and farm revenue in period 2 compare with period 1?

	output	farm revenue
A	higher	same
B	higher	higher
C	lower	higher
D	lower	same

18 A government decides to privatise a nationalised company by transferring ownership directly to its managers and workers.

What is its most likely motive for this decision?

A to increase the amount of innovation

B to increase the level of competition

C to increase the level of incentive

D to increase the scale of production

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19 In 2012, high street shops reported a fall in sales as domestic demand in an economy fell. However, the impact on the overall economy was not as unfavourable as was first feared.

What might have lessened the impact on the economy?

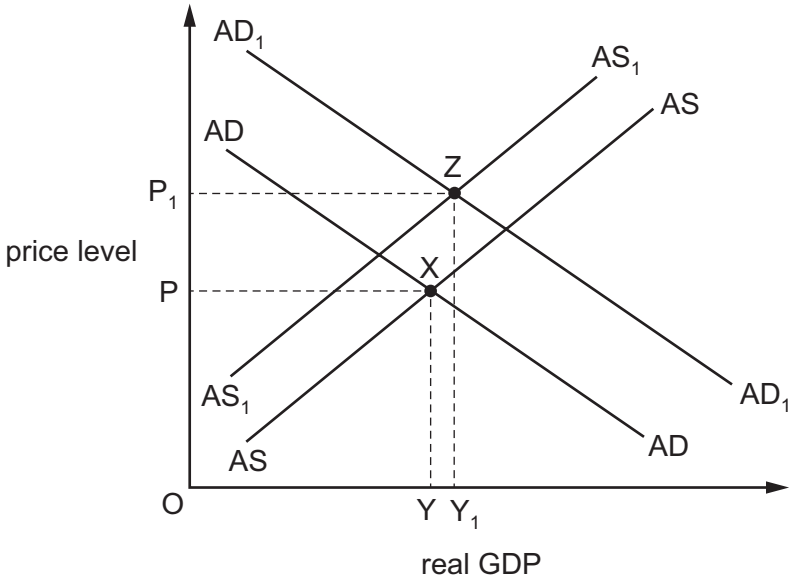
A Exports increased.

B Imports increased.

C Savings increased.

D Taxes increased.

20 An economy is initially in equilibrium at point X in the diagram.



The government then introduces a supply-side policy measure which causes the economy to move to point Z.

Which supply-side policy and reaction could explain this change?

A a cut in income tax to increase the incentive to work but which results in workers increasing their leisure time

B a cut in unemployment benefit which results in more applications for training courses

C a rise in government spending on education which increases labour productivity

D privatisation of key industries which results in an increase in economic efficiency

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21 A country experienced an annual deflation rate of 2% for four successive years.

Which statement is correct for the four-year period?

A The price level fell by 8%.

B The price level fell by less than 8%.

C The real value of money fell by 8%.

D The real value of money fell by less than 8%.

22 In July 2013, orders for durable US manufactured goods from computers to aircraft fell 7.3%, the biggest fall for a year.

What might explain this change in trade and how would it have affected the US balance of payments?

	reason for change	effect on balance of payments
A	an expansion in domestic production	increased outflow in the current account
B	an expansion in foreign markets	reduced inflow in the financial account
C	a recession in domestic production	increased outflow in the financial account
D	a recession in foreign markets	reduced inflow in the current account

23 The following exchange rates were recorded in the foreign exchange market.

£1 = €1.208

$1 = €0.727

€1 = $1.375

Within which range of values should £1 exchange for $?

A £1=less than $0.50

B £1=between $0.50 and $1

C £1=between $1 and $1.50

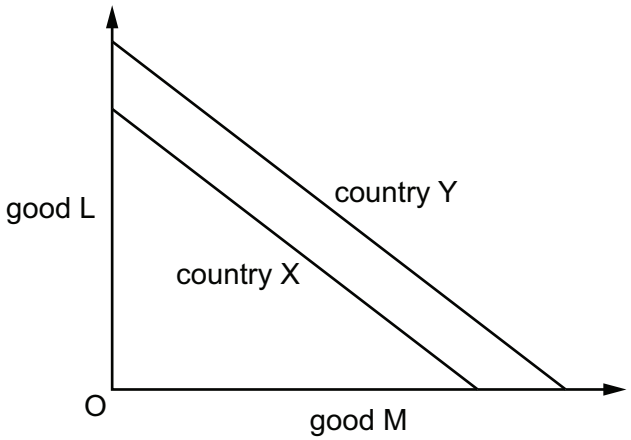
D £1=more than $1.50

24 Between 2005 and 2010, a country's import prices rose by 25% and its terms of trade rose to 120 (2005 = 100).

Which change has there been in the country's export prices?

A –5% **B** 12.5% **C** 45% **D** 50%

25 The diagram shows production possibility curves for two countries, X and Y.



What can be deduced from the diagram?

A Both countries can benefit from specialisation.

B Country X has a higher opportunity cost than Y in producing good M.

C Country Y has a comparative advantage in both goods.

D Trade between X and Y will not take place.

26 What is **not** associated with greater economic integration between countries?

A increased financial flows

B increased quotas

C increased trade creation

D increased trade diversion

27 Which statement is **not** a valid justification for an import tariff?

A A tariff will prevent imported inflation.

B A tariff will prevent unfair foreign competition.

C A tariff will protect a developing industry.

D A tariff will protect an industry in decline.

28 An increase in interest rates is an example of which type of policy?

A contractionary fiscal policy

B contractionary monetary policy

C expansionary monetary policy

D restrictive supply-side policy

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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.

Which two policies would be classified as expenditure-reducing?

A devaluation and government spending cuts

B government spending cuts and interest rate rises

C interest rate rises and tariffs

D tariffs and devaluation

30 Which policy, adopted by a government with the intention of reducing the rate of inflation, might cause a greater deficit on the balance of payments?

A higher foreign exchange rates for its currency

B higher interest rates for domestic customers

C higher subsidies to domestic producers

D higher tax rates on consumer incomes

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