Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

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)

* 5 0 5 7 1 3 1 4 9 5 *

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.

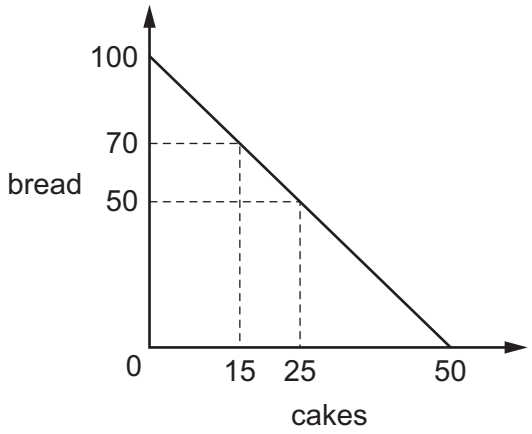
Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **12** printed pages.

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CAMBRIDGE International Examinations

1 The diagram shows different production possibilities for a bakery.



They wish to increase production of cakes from 15 units to 25 units.

What is the opportunity cost?

A 10 units of cake

B 15 units of cake

C 20 units of bread

D 50 units of bread

2 Which statement is the most valid reason for government intervention in a free market economy?

A Consumers are well informed, making it difficult for producers to make profits.

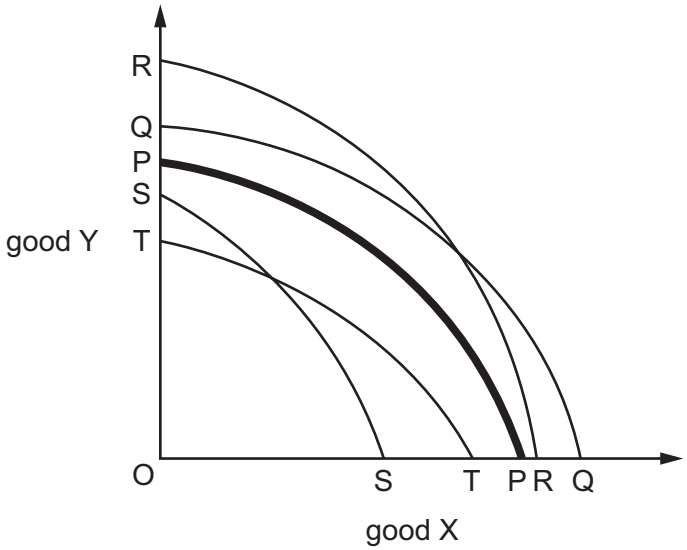
B Health and education are not available in sufficient quantities.

C Producers are motivated by profit maximisation.

D There are many competitive firms and not enough sole suppliers.

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3 The curve PP in the diagram is the production possibility curve for a country producing goods X and Y. The production of X is more labour-intensive than the production of Y.



The working hours of the labour force are reduced by law.

Which curve could be the country's new production possibility curve?

A TT **B** SS **C** QQ **D** RR

4 The provision of which service by governments could be explained by the concept of public goods?

A education

B health services

C law enforcement

D public libraries

5 Which change does **not** have an immediate effect on the position of the demand curve for a product?

A a fall in the price of a complementary product

B a range of new products entering the market

C a rise in the labour costs of its production

D an increase in the price of a substitute product

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6 What is correct about market supply?

A Market supply can increase only when all individual firms increase their output.

B Market supply is effective when consumers have sufficient income to buy the good.

C Market supply is the result of aggregating the supply of all individual firms.

D Market supply of an inferior good falls as price increases.

7 In which circumstances must the total expenditure by consumers on a good increase when its price increases?

A if demand for the good is income-elastic

B if demand for the good is price-inelastic

C if the price of a complementary good also increases

D if the price of substitute goods also increases

8 The price elasticity of demand for good X is 1. At a price of $12, quantity demanded is 4000 units.

What will be the price when the quantity demanded is 20 000 units?

A $2.00 **B** $2.40 **C** $12.00 **D** $20.00

9 The cross-elasticity of demand of good S with respect to the price of good P is +1.5.

The cross-elasticity of demand of good S with respect to the price of good R is –1.5.

The cross-elasticity of demand of good P with respect to the price of good R is –1.5.

What can be concluded about goods P, R and S?

A S and P are complements; P and R are substitutes.

B S and P are complements; R is an inferior good.

C S and P are substitutes; P and R are complements.

D S and P are substitutes; R is an inferior good.

10 A manufacturer's ability to increase supply in the short run will be greater

A if labour is immobile.

B if spare capacity exists.

C if the product is perishable.

D if unemployment is low.

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11 In the market for a good the quantity supplied (Q_S) and the quantity demanded (Q_D) are given by $Q_S = P - 30$ and $Q_D = 240 - 2P$ where P = price in dollars.

A change in the tax on the good makes $Q_S = P - 36$.

How will the change affect equilibrium price?

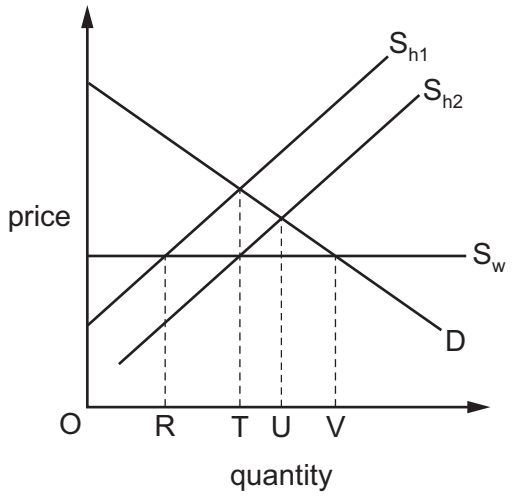
A It will fall by $2.

B It will fall by $6.

C It will rise by $2.

D It will rise by $6.

12 The diagram shows a market for a good which is supplied partly from domestic production and partly from imports. S_{h1} shows domestic supply and S_w shows world supply. Domestic supply then shifts to S_{h2}.



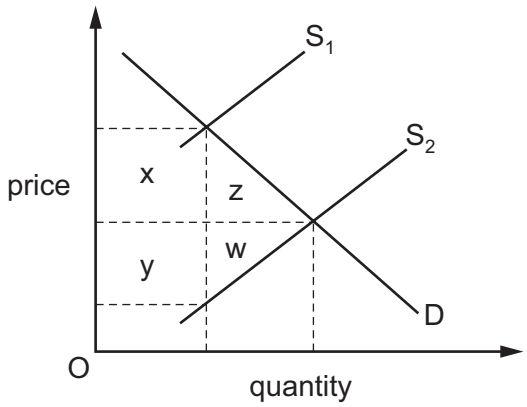
What will be the level of consumption and the associated volume of imports after the supply shift?

	consumption	volume of imports
A	OU	TU
B	OU	UV
C	OV	TV
D	OV	UV

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[Turn over

13 In the diagram, D is the demand curve for Indian tea exports and S_1 is the initial supply curve.



The Indian government removes the tax on tea exports, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting loss in tax revenue to the Indian government and the resulting gain in consumer surplus?

	loss in tax revenue	gain in consumer surplus
A	x	w + y
B	x	y
C	x + y	z
D	x + y	z + x

14 In a country, the standard rate of sales tax is 10%, but food is not taxed and luxury goods are taxed at 20%. The table shows the patterns of expenditure of three family types.

commodity group	family type by income		
	low	medium	high
food	50%	40%	30%
standard-rated goods	40%	30%	20%
luxury goods	10%	30%	50%

Which combination correctly describes the sales taxes in this country?

	tax on standard-rated goods	tax on luxury goods	tax on all goods
A	progressive	regressive	progressive
B	progressive	regressive	regressive
C	regressive	progressive	regressive
D	regressive	progressive	progressive

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15 In 2009 the Chinese government faced decreased demand in export markets and wished to increase the sales of electrical goods made in China.

Which policy would have achieved this aim?

A increasing income tax

B increasing the restrictions on the manufacture of electrical goods

C removing a tariff on imported products

D subsidising the sales of electrical goods in China's poorer rural areas

16 Which is a transfer payment?

A dividend payments to shareholders

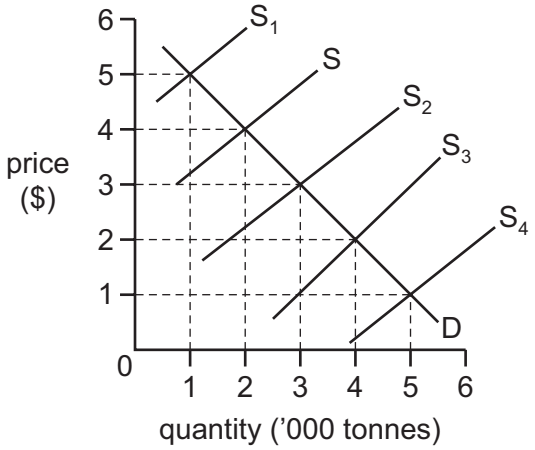
B payments of rent

C unemployment benefit

D wages of government employees

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

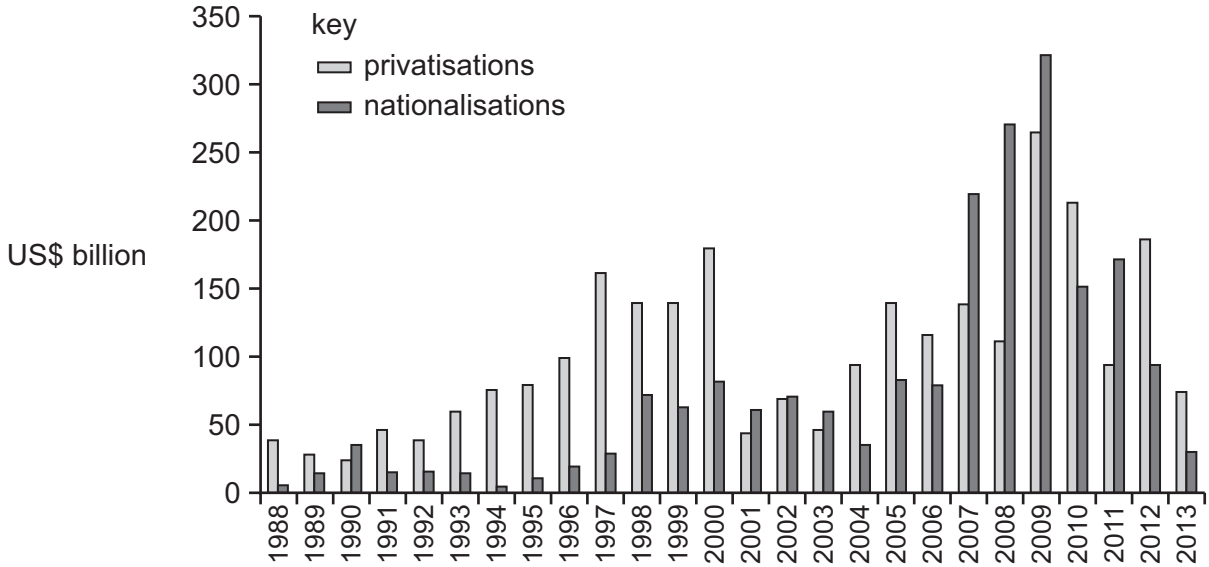
The government promises to maintain farmers' incomes at least at their initial level. The harvests in four subsequent years are shown by supply curves S_1 – S_4.



In which years will the government **not** need to provide extra income to farmers?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

18 Governments reduce their stock of assets by privatisation. They increase their stock of assets by nationalisations. The diagram shows global sales of state-owned assets and global state purchases of private stock between 1988 and 2013 in US$ billion.



What can be concluded from the diagram?

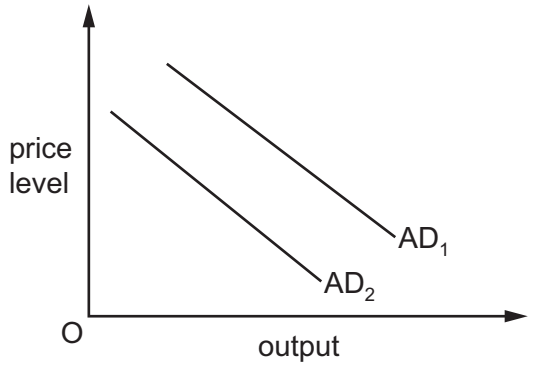
A By the end of the period the private sector owned more assets than the state sector.

B Over the period governments raised more revenue from privatisations than they spent on nationalisations.

C The first year in which nationalisations exceeded privatisations was 2007.

D The greatest annual increase in government ownership of assets was in 2009.

19 In the diagram AD_1 and AD_2 are aggregate demand curves for an economy.



What could cause an economy's aggregate demand to shift from AD_1 to AD_2?

A Consumers spend more.

B Interest rates rise.

C More output is sent abroad as exports.

D The government switches expenditure from roads to hospitals.

20 What must be true if an economy is experiencing inflation?

A Aggregate demand is increasing.

B Aggregate supply is decreasing.

C The interest rate is increasing.

D The real value of money is decreasing.

21 Suppose the average consumer's expenditure is divided between bread, meat, milk and vegetables in the ratio 4 : 3 : 2 : 1.

During the course of a year, the price of bread falls by 10%, the price of meat increases by 20% and the prices of both milk and vegetables increase by 10%.

What is the increase in the average price level during the year?

A 5% **B** 7.3% **C** 10% **D** 12.5%

22 In August 2013, a Dutch insurer announced it wished to sell its South Korean Life Insurance group to a South Korean company for $1.65 billion.

How would such a sale be recorded on the Dutch balance of payments?

A a negative entry in the direct investment section of the financial account

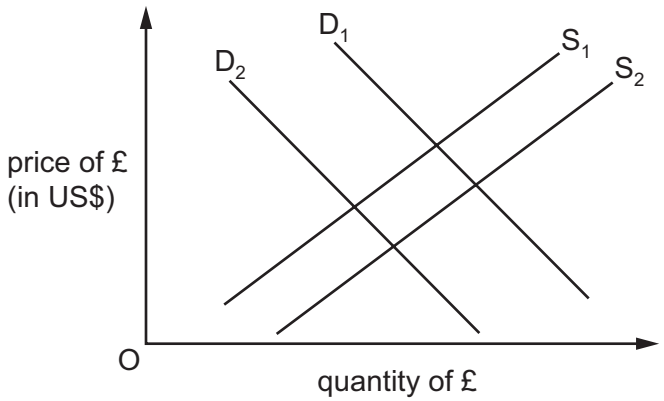
B a negative entry in the investment income section of the current account

C a positive entry in the direct investment section of the financial account

D a positive entry in the investment income section of the current account

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23 In the diagram D_1 and S_1 are the initial demand and supply curves of the UK pound (£) on the foreign exchange markets.



What will cause the demand curve to shift to D_2 and the supply curve to S_2?

A an appreciation of the pound

B an increase in incomes in the US

C an increase in the price level in the US

D a decrease in UK interest rates

24 There was an increase in the value of the US dollar against the Australian dollar.

What might be a result of this?

A an increase in the volume of exports from the US to Australia

B an increase in the volume of imports to the US from Australia

C fewer people from the US take holidays in Australia

D more people from Australia take holidays in the US

25 Which combination of changes in export prices and import prices would result in an improvement in a country's terms of trade?

	average export prices	average import prices
A	decrease by 5%	decrease by 10%
B	decrease by 10%	decrease by 5%
C	decrease by 10%	increase by 5%
D	increase by 5%	increase by 10%

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26 Countries X and Y produce the world supply of computers and wheat. Each country divides its resources equally between the two products and produces the following.

	computers units	wheat units
X	2000	1400
Y	1000	200

How would total output be altered if each country specialised completely in the product in which it has a comparative advantage?

	computers units	wheat units
A	–1000	+1200
B	–1000	+1600
C	+1000	+400
D	+1000	+1600

27 Why might a government decide to increase the quota set on imports?

A to cut a deficit on the trade balance in goods and services

B to encourage diversification in home industry

C to lower domestic unemployment

D to raise the level of international trade

28 What can be considered an expansionary supply-side policy?

A an increase in government expenditure on training

B an increase in sales tax

C an increase in the rate of interest

D an increase (revaluation) of the exchange rate

29 In an attempt to correct a balance of trade deficit, the government of Indonesia has decided to employ expenditure-dampening methods.

Which policy would best fit this description?

A introducing quotas on imported goods

B raising income tax rates

C subsidising home-produced goods

D taxing imported goods

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30 Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

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