Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2017**

1 hour

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

* 0 4 9 6 0 7 4 3 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.

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1 What must follow when scarcity exists?

A Consumers have to make choices.

B Governments are unable to supply public goods.

C Producers must be misallocating resources.

D Workers must be earning low wages.

2 What is likely to be introduced in the market for bus travel if an economy moved from a mixed economy to a market economy?

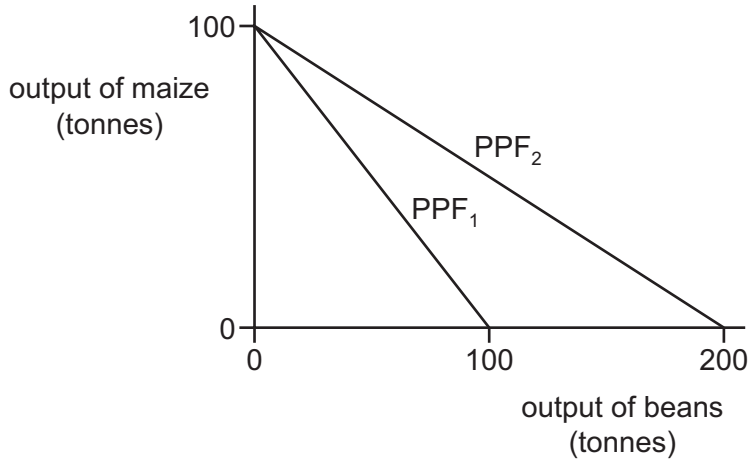
A allowing companies to bid for bus routes

B free bus travel for school children

C maximum prices for bus travel

D subsidies to bus operators

3 The diagram shows that the production possibility frontier of maize and beans has changed from PPF_1 to PPF_2.



What has happened to the opportunity cost of maize and the returns to factors producing beans?

	opportunity cost of maize	returns to factors producing beans
A	fallen	fallen
B	fallen	risen
C	risen	fallen
D	risen	risen

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4 An individual buys a ticket to visit a government-owned art gallery.

How would this visit be classified by an economist?

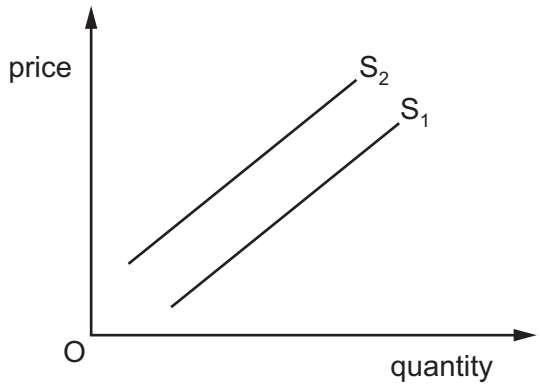
A private and demerit good

B private and merit good

C public and demerit good

D public and merit good

5 The diagram shows a shift in a firm's supply curve from S_1 to S_2.



What may have caused the shift from S_1 to S_2?

A a decrease in the costs of production of the firm

B a decrease in the popularity of the firm's product

C a decrease in the subsidy on the good

D a decrease in the tax on the good

6 A change in the price of a good causes an increase in the quantity of the good demanded.

What would be the nature of the good and the direction of price change for this to be certain to happen?

	nature of good	price change
A	inferior	fall
B	inferior	rise
C	normal	fall
D	normal	rise

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7 Which combination is most likely to result in the demand for a product being highly price elastic?

	number of close substitutes	% of income spent on product
A	large	large
B	large	small
C	small	large
D	small	small

8 A manufacturer increases the price of his product from $4 in an attempt to increase total revenue.

The table shows the outcome of the policy.

price ($)	total revenue 000's ($)
4	400
5	500
6	600

What is the price elasticity of demand for the product?

A perfectly elastic

B perfectly inelastic

C relatively elastic

D relatively inelastic

9 A firm establishes that the price elasticity of supply of its product has a value of 0.3.

What is likely to be true about the firm?

A It has unused productive capacity.

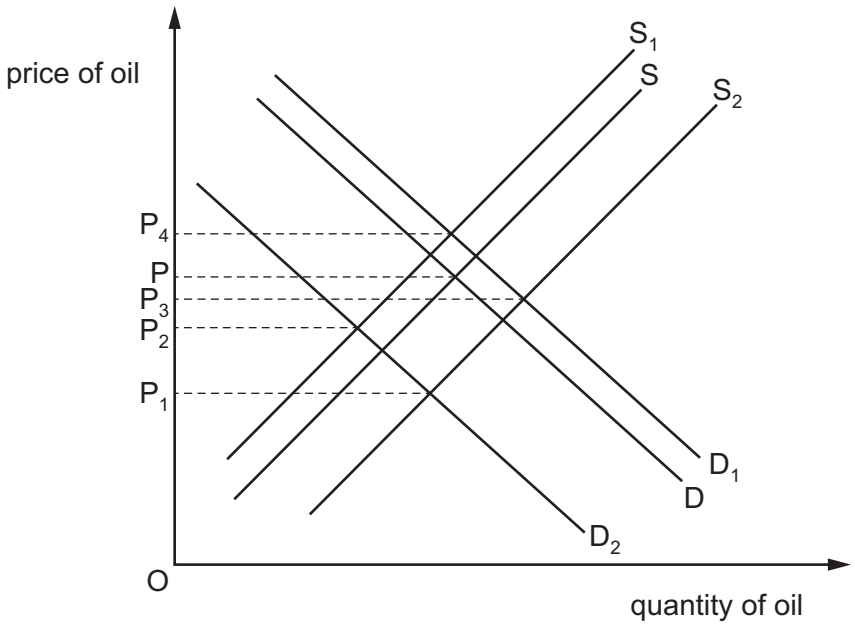
B It has unsold stock of its product.

C It uses a high proportion of perishable raw materials.

D It uses factors of production that are easily substituted.

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10 There is a reduction in world oil supplies due to war in some supplying countries at a time when the winter in some importing countries was much colder than usual. The diagram shows the original equilibrium price, P.



What will be the equilibrium price of oil in these circumstances?

A P_1 **B** P_2 **C** P_3 **D** P_4

11 Good X is a substitute for good Y and a complement to good Z.

What would happen after a fall in the price of good X?

A Only the demand for X will rise.

B Demand for X, Y and Z will rise.

C Demand for Y will fall and for Z will rise.

D Demand for Y will rise and for Z will fall.

12 A government imposes a specific indirect tax on a product.

When will the tax cause the greatest reduction in consumer surplus for the buyers of the product?

A The product has price elastic demand and price elastic supply.

B The product has price elastic demand and price inelastic supply.

C The product has price inelastic demand and price elastic supply.

D The product has price inelastic demand and price inelastic supply.

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13 The table shows the maximum amount three students would each be willing to pay for a taxi to take them home from a nightclub.

	$
Jane	10.00
Sara	8.00
Yasmin	6.00

Assume they share the taxi fare as shown in the table below.

Which shows how much they each should pay so that they each obtain the same consumer surplus?

	Jane $	Sara $	Yasmin $
A	2.00	4.00	6.00
B	4.00	4.00	4.00
C	5.00	4.00	3.00
D	6.00	4.00	2.00

14 A government fixes a minimum price for a service.

What will be the outcome of such a policy?

A Demand will fall if the minimum price is below the equilibrium price.

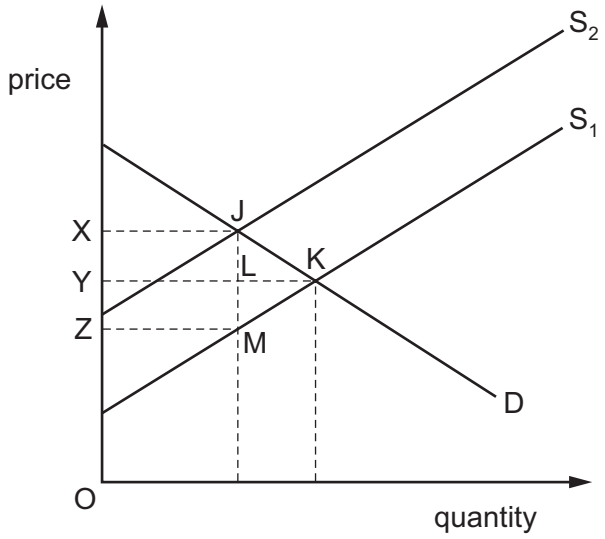
B Demand will rise if the minimum price is above the equilibrium price.

C Production will fall if the minimum price is above the equilibrium price.

D Production will stay the same if the minimum price is below the equilibrium price.

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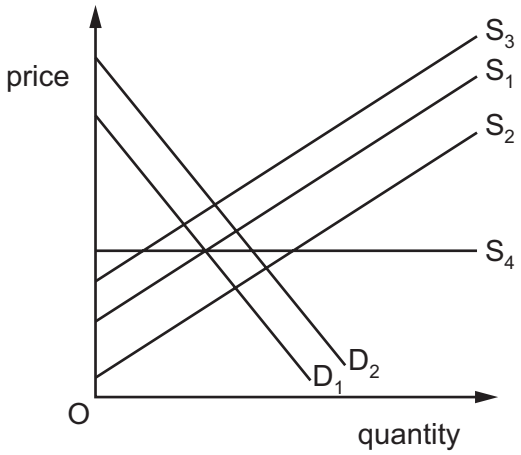
15 The diagram illustrates the effects of placing a specific tax equal to JM on a good.



Which area represents total tax receipts?

A JKM **B** XJKY **C** XJLY **D** XJMZ

16 The diagram shows the demand curve, D_1, and the supply curve, S_1, for a good.



The government decides to pay producers a specific subsidy for each unit supplied to the market.

Which curve shows the new effective demand or supply curve?

A D_2 **B** S_2 **C** S_3 **D** S_4

17 Planned government expenditure for the UK in the fiscal year 2016 is estimated at £760 billion. The top five areas of expenditure are given in the table.

	£ billion
pensions	153
healthcare	138
welfare	111
education	89
defence	45
total top five	536

What is the total amount spent on transfer payments shown in the table?

A £89 billion **B** £111 billion **C** £264 billion **D** £536 billion

18 What is likely to occur when the government privatises public sector monopolies?

A Consumer choice will increase.

B Employment will increase in the short run.

C Innovation will be discouraged.

D The production of public goods will increase.

19 In a closed economy a rise in aggregate demand is needed to increase output in the country.

What is necessary to achieve this increase in output in the economy?

A enough capacity to produce the extra goods and services demanded

B free trade to allow imports to make up any shortages in supply

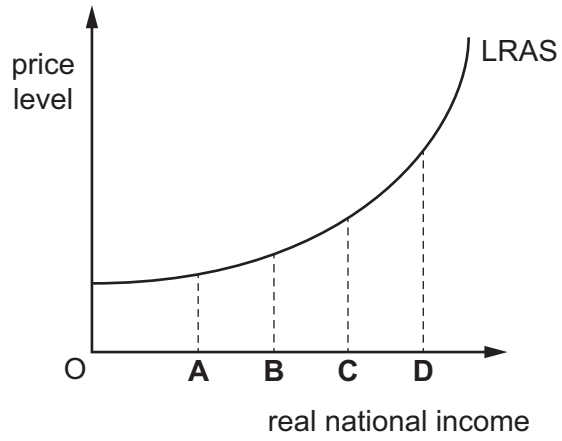
C government spending to be less than tax revenue

D reduced credit to lower inflation

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20 The diagram shows the long-run aggregate supply (LRAS) curve of an economy.

At which equilibrium level of national income is a balance of trade surplus likely to cause the greatest inflationary increase for the economy?



21 A government succeeds in changing a current account deficit into a current account surplus.

Why might this current account surplus increase the country's inflation rate?

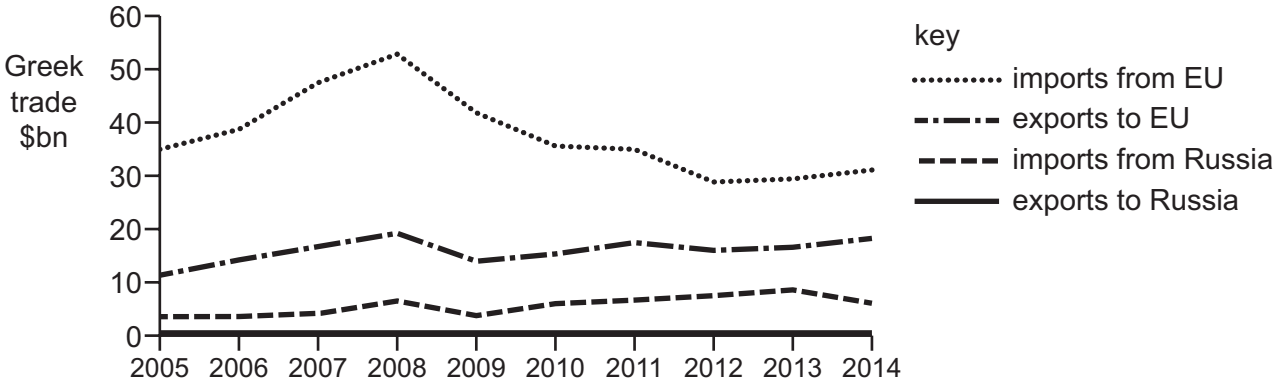
A It raises aggregate demand.

B It raises production costs.

C It reduces the exchange rate.

D It reduces the money supply.

22 The diagram shows Greece's trade position with the EU and Russia between 2005 and 2014.



What can be concluded about the period 2005 to 2014?

A Greece's annual trade deficit with the EU rose continuously.

B Greece's annual trade deficit with the EU was lower in 2014 than in 2005.

C Greece's annual trade deficit with the EU fell continuously.

D Greece's annual trade deficit with the EU was smaller than its deficit with Russia.

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23 There is a rise in the exchange rate of the US$.

Which would cause the greatest increase in the US current account deficit?

A a high level of domestic unemployment

B a high price elasticity of demand for imports

C a low price elasticity of demand for exports

D a low rate of domestic inflation

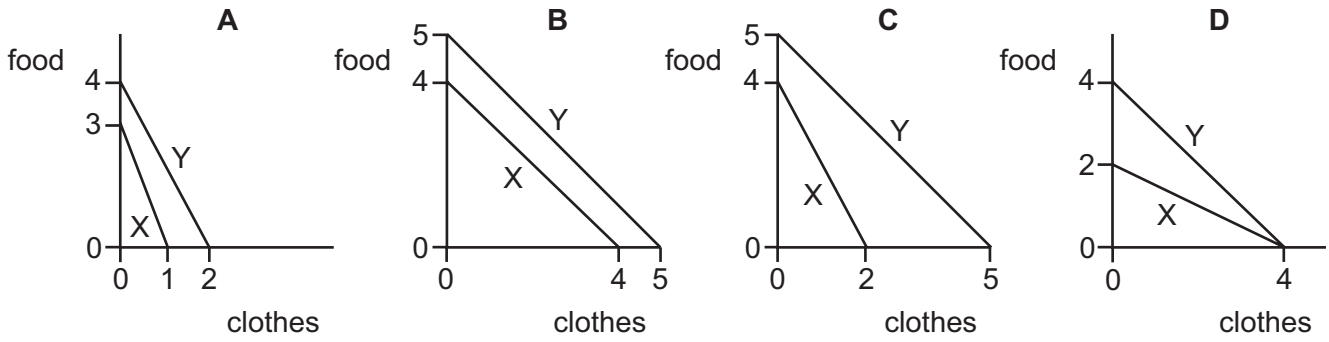
24 Since 2000 a country's export prices have increased on average by 50% and its import prices by 25%.

What is the current figure for the country's terms of trade (2000 = 100)?

A 75 **B** 83 **C** 120 **D** 125

25 Each diagram shows the production possibility curves of two economies, X and Y, which produce food and clothes.

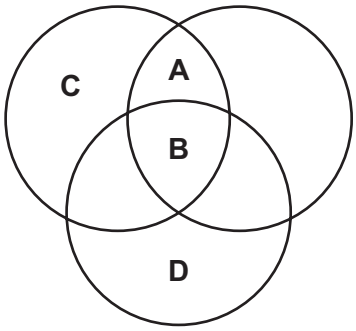
In which diagram would both economies benefit by specialising in the good in which they have comparative advantage and trading at an exchange rate of 1 unit of clothes to 1.5 units of food?



26 Four countries, **A**, **B**, **C** and **D**, trade internationally.

Each circle in the diagram represents a free trade area between the countries within the circle. A country can belong to more than one free trade area. Countries outside of a circle face trade barriers.

Which country has the greatest opportunity to benefit from free international trade?



27 A small trading country decides on a policy of import substitution by producing for itself.

What is the most likely reason for this policy?

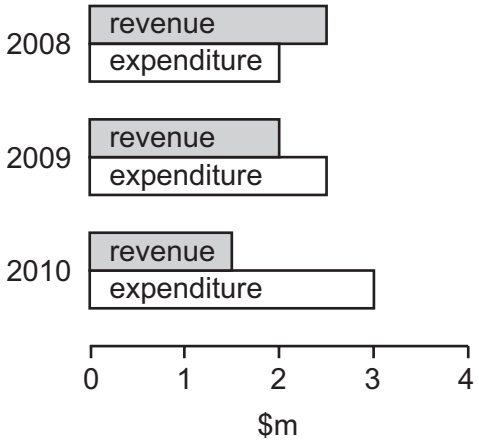
A to follow the principle of absolute advantage

B to influence world prices in international markets

C to protect local industries from foreign competition

D to substitute imported machines for local labour

28 The diagram shows a government's revenue and expenditure for three years.



What can be concluded from the diagram?

A A budget deficit was replaced by a budget surplus.

B A government borrowing requirement emerged.

C The economy moved from a recession into a boom period.

D The yield from taxation continuously increased.

29 A country with a fixed exchange rate has a current account surplus on its balance of payments.

What is most likely to reduce this surplus?

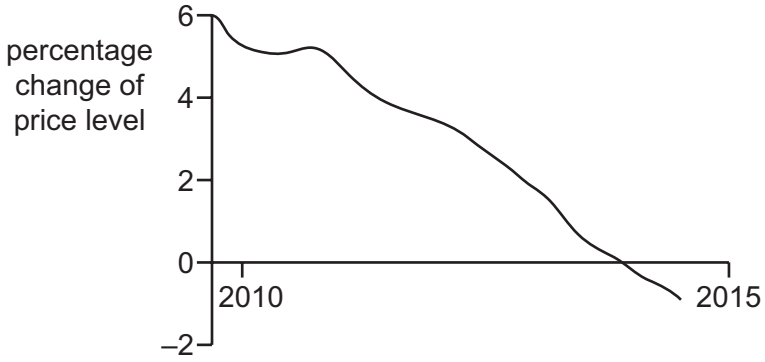
A higher interest rates

B higher investment spending

C higher tariffs

D higher taxes

30 In recent years an economy has experienced changes in its price level as shown.



Which government policy is most effective in reversing the trend shown in the price level?

A encourage firms to expand production through tax incentives

B introduce an incomes policy to directly control wage increases

C promote household savings by issuing savings bonds

D reduce interest rates and increase money supply

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