Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

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)

4323488513

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 **11** printed pages and **1** blank page.

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1 Scarcity means that goods need to be rationed between competing consumers.

Which basis for rationing is the most likely to result in the most equal distribution of goods?

A consumer preference

B market price

C political decision

D seller preference

2 In which aspect is the planned economy likely to offer more than the market economy?

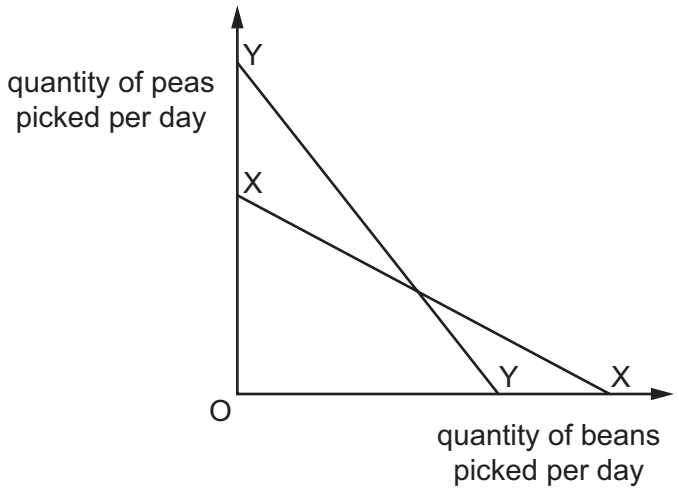
A competition

B incentive

C innovation

D security

3 Line XX is the production possibility curve (PPC) of a worker picking peas and beans in a 10 hour working day.



What would cause the worker's PPC to shift to the line YY?

A a machine that increases the worker's pea picking productivity only

B a new work schedule where the worker spends 6 hours per day picking peas and only 4 hours picking beans

C a reduction in working hours to 8 per day and a machine that increases the worker's pea picking productivity

D a reduction in working hours to 8 per day only

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4 Four students are given the following list of assets.

- a three bedroom house
- banknotes and coins in a purse
- money in a bank savings account
- shares in a public limited company

The students are asked to order the assets from the most liquid to the least liquid and the table shows their choices.

Which student is correct?

	most liquid			least liquid
A	notes and coins	savings account	shares	house
B	notes and coins	savings account	house	shares
C	notes and coins	shares	savings account	house
D	savings account	notes and coins	shares	house

5 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

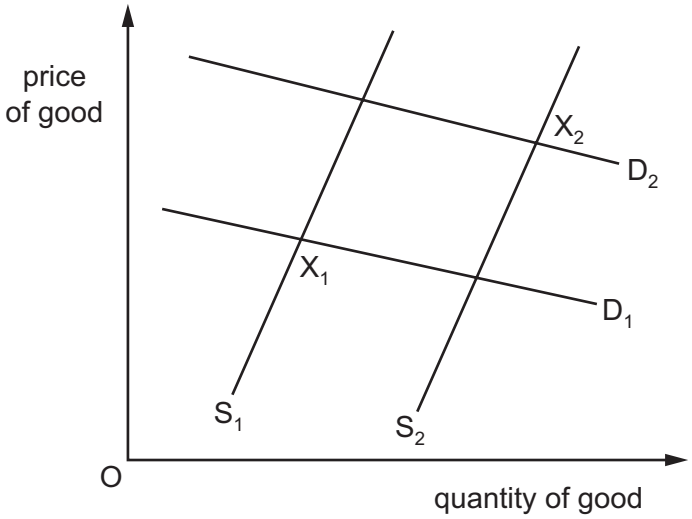
B by combining individual demand curves horizontally

C by combining the price elasticity of individual demands

D by multiplying price by quantity demanded

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6 D_1 and S_1 are the initial demand and supply curves for a normal product. They then change to D_2 and S_2.



Which pair of changes would result in the market equilibrium for the product changing from X_1 to X_2?

A a fall in the price of a raw material used in the manufacturing and a decrease in the price of a complementary good

B an increase in average consumer incomes and an increase in the level of an indirect tax imposed

C an increase in the price elasticity of demand for the product and a fall in its price elasticity of supply

D a rise in the population and an increase in the price of labour used in manufacturing

7 The table gives a set of price and cross-price elasticities for four commodities, W, X, Y and Z.

with respect to price of	elasticity of demand for commodity			
	W	X	Y	Z
W	–0.3	–0.5	+0.7	–1.3
X	–0.7	–1.2	+0.8	+1.6
Y	+1.3	+1.7	–3.6	+0.8
Z	–2.7	+2.6	+1.7	–0.7

Which pairs of commodities are complements?

A W and X; W and Z

B W and Y; X and Y

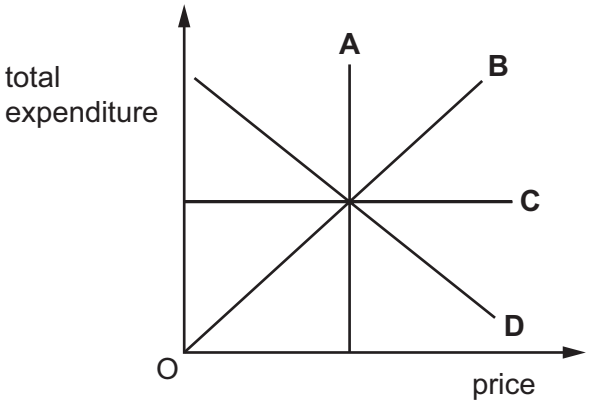
C W and Z; X and Z

D X and Y; X and Z

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8 The price elasticity of demand for a product is constant and equal to unity.

Which curve in the diagram shows the relationship between total expenditure on the product and its price?



9 A bottle making business announced it had introduced a new production system. As a result the quantity produced per week could be increased or reduced much more easily when the price of bottles changed.

What term describes this change?

A a less elastic demand

B a less elastic supply

C a more elastic demand

D a more elastic supply

10 The supply function for a good can be written as Q = 2P + 10, where Q is the quantity supplied in kilos and P is the price per kilo in dollars.

The price falls from $15 to $10 per kilo.

The value of price elasticity of supply for this price change lies in a range from

A $\frac{1}{6}$ to $\frac{1}{4}$. **B** $\frac{3}{8}$ to $\frac{1}{2}$. **C** $\frac{2}{3}$ to $\frac{3}{4}$. **D** $1\frac{1}{4}$ to $1\frac{1}{2}$.

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11 A local government is deciding whether to increase parking charges and provide more lanes for bus use only.

One official said that the increase in parking charges should cause more bus travel.

A second official said that an increase in the frequency of bus services will not cause demand for bus travel to rise.

Are these official statements correct or incorrect?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

12 What would prevent the operation of the market mechanism's rationing function?

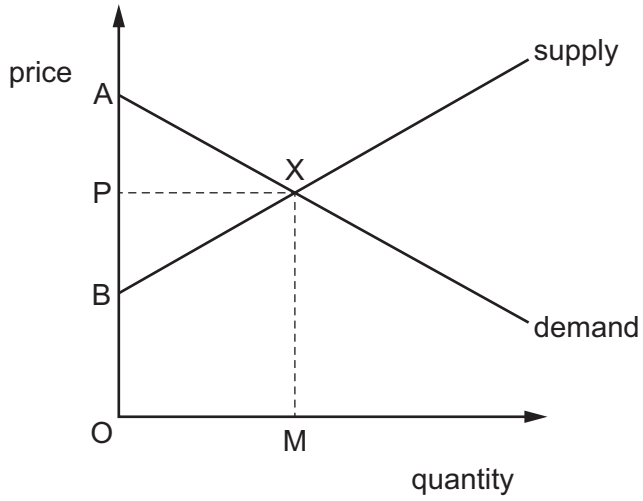
A falling prices

B price controls

C rising profits

D self interest

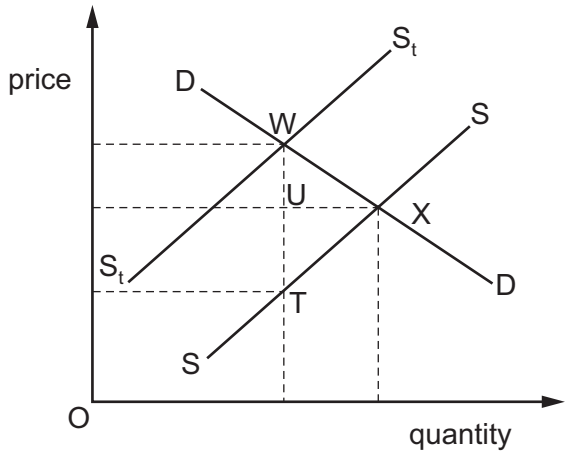
13 The diagram shows the demand and supply curves for a good during a certain period. The market price is shown by P and the quantity traded by point M.



Which area indicates producer surplus?

A AXB **B** AXMO **C** AXP **D** PXB

14 A specific tax is placed on the sale of bottles of lemonade. In the diagram, SS is the supply curve before imposition of the tax and S_tS_t is the supply curve after tax.

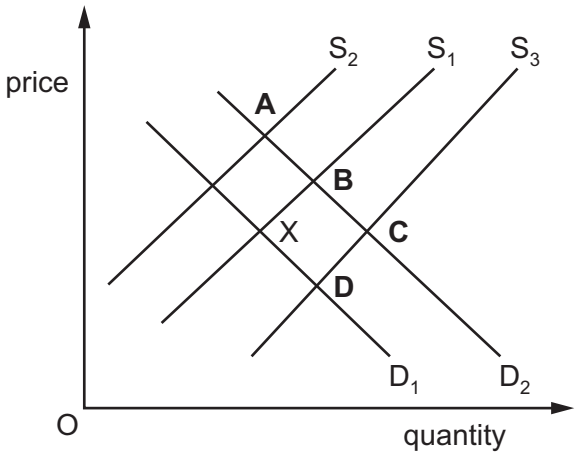


Which distance represents the specific tax on each bottle?

A UT **B** WT **C** WU **D** WX

15 A market is in equilibrium at point X. The government then subsidises both consumers and producers by direct payments.

What will be the new equilibrium position?



16 Which is a transfer payment?

A an annual allowance paid by an individual to a grandchild

B a one-off bonus paid to an employee for a special contribution to a firm's profits

C a payment made by a parent to a regular child-minder

D the monthly salary of an employee of a local authority

17 What is an example of direct public provision of goods and services?

A a charity hospital funded by public donations that offers free treatment to the rural poor

B a mobile government library that travels to rural villages offering access to books

C a pharmacy in a local shopping centre that provides treatment direct to the public

D a private school that offers free places to children of low income families

18 What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

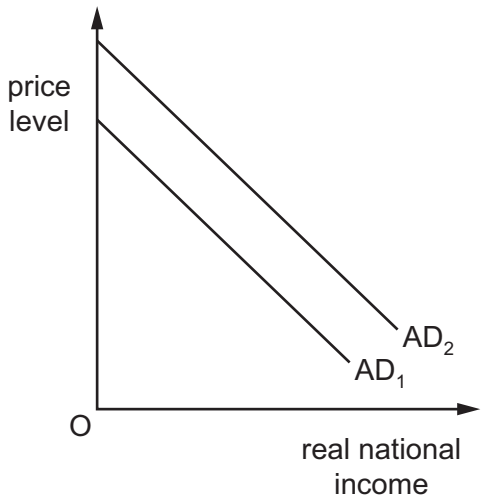
A fewer destinations served by trains and buses

B lower fares

C more frequent services to all destinations

D more people employed in public transport services

19 The diagram shows a shift in the aggregate demand curve of an economy from AD_1 to AD_2.



What could have caused this shift?

A an increase in expenditure on imports

B an increase in government tax rates

C an increase in the international trade deficit

D an increase in the money supply

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20 Which statement about changing price levels is correct?

A Anyone on a fixed income has rising real income during deflation.

B Government revenue from indirect taxes falls during inflation.

C Producers prefer deflation to inflation.

D Savers prefer index-linked savings when there is deflation rather than inflation.

21 Which combination of events is most likely to cause inflation?

	exchange rate	direct taxes	money supply
A	falling	falling	falling
B	falling	falling	rising
C	rising	rising	rising
D	rising	rising	falling

22 The table gives information about the trade between Singapore and New Zealand during 2001, the first year after they signed a free trade agreement. The values are given both in Singapore dollars (S$) and New Zealand dollars (NZ$).

	S$ m	NZ$ m	percentage change from 2000
Singapore exports to New Zealand	508	618	+20%
Singapore imports from New Zealand	331	403	–17%

What can be concluded from the table?

A New Zealand gained more than Singapore from the trade agreement.

B New Zealand's trade position with Singapore improved in 2001.

C Singapore had a trade surplus with New Zealand in 2001.

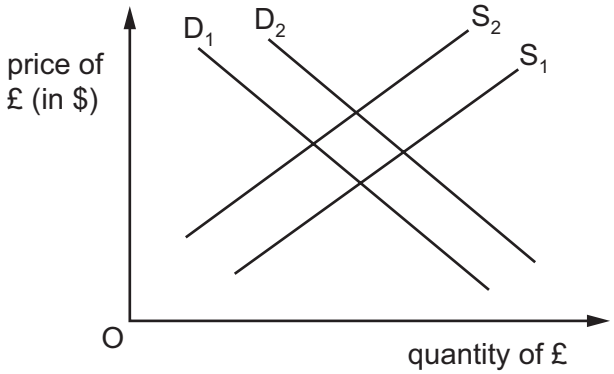
D The exchange rate in 2001 was approximately NZ$ 1 = S$ 1.2.

23 Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade weighted exchange rate index of country X is 100.

What will be its new trade weighted exchange rate index value if its currency rises in value by 20% against the currency of Y and falls by 10% against the currency of Z?

A 84 **B** 92 **C** 108 **D** 116

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



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

A a depreciation of the pound sterling

B a decrease in UK interest rates

C an increase in the price levels of other countries

D an increase in the level of UK import tariffs

25 A country's terms of trade currently stands at 150 (base year 2000 = 100).

Since 2000 the average price the country has received for its exports has increased by 20%.

What has been the change in the average price it has paid for its imports?

A –25% **B** –20% **C** +20% **D** +25%

26 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1800	2800
country Q	1500	2000

Which statement is correct?

A P has an absolute advantage in Y and Q has an absolute advantage in Z.

B P has an absolute advantage in Z and Q has a comparative advantage in Y.

C P has a comparative advantage in Y and Q has a comparative advantage in Z.

D P has a comparative advantage in Z and Q has an absolute advantage in Y.

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27 Which government policy could be considered as a protectionist policy?

A an imposition of controls on capital outflows from the economy

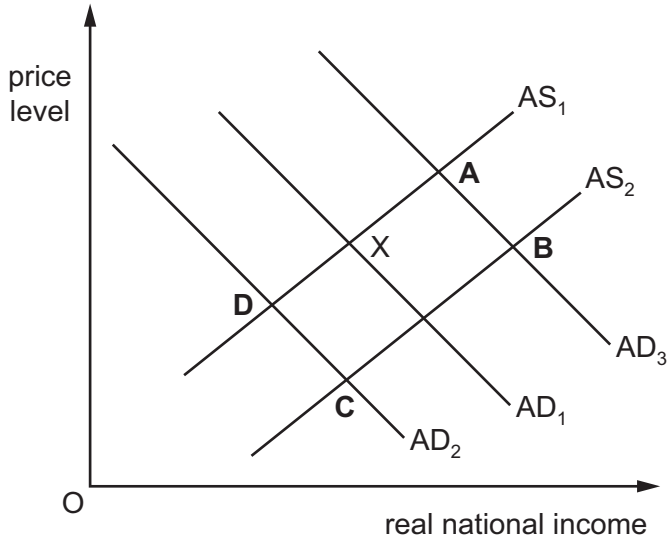
B foreign exchange intervention to prevent a devaluation of the country's currency

C pollution charges imposed on domestic producers

D subsidies paid to domestic producers of a tradeable good

28 The government of a country plans to raise income tax rates. The initial equilibrium for the country is represented by point X on the diagram.

Which new equilibrium point would an economist predict as the result?



29 What is an example of an expenditure-dampening policy?

A an increase in income tax rates

B an increase in the level of import tariffs

C an upward revaluation of the exchange rate

D the introduction of import quotas

30 An economy is currently operating close to its full employment level of national income.

Which combination of macro-economic policies would be most likely to have net deflationary effects?

A a 10% cut in the standard rate of income tax and a 5% devaluation of the currency

B a 10% cut in the standard rate of income tax and a 5% revaluation of the currency

C a 10% rise in the standard rate of income tax and a 5% devaluation of the currency

D a 10% rise in the standard rate of income tax and a 5% revaluation of the currency

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