Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

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)

3606692335

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 is an example of the use of *ceteris paribus*?

A The rate of increase in wage rates equals the rate of increase in price levels.

B There is a constant rise in both wage rates and price levels.

C Wage rates and the price level remain constant at their original levels.

D Wage rates rise when the only change is a rise in prices.

2 What is always true of a positive statement?

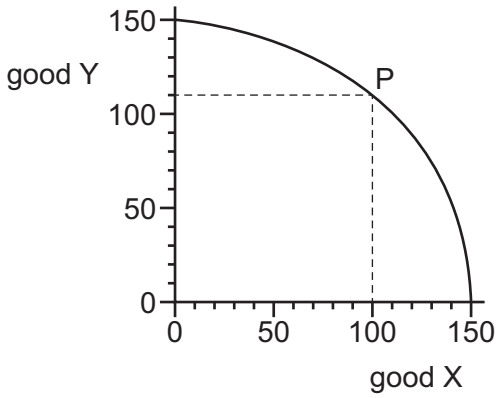
A It is based on statistical data.

B It is possible to test its validity.

C It is the only basis for economic policy.

D It overrides any normative statement.

3 The diagram shows a production possibility curve for an economy that is producing at point P.



Which quantity of Y is given up to produce the quantity of X shown?

A 40 **B** 50 **C** 100 **D** 110

4 What is an accurate statement about different types of goods?

A Free goods are offered for sale at a loss-making price.

B Merit goods generate more consumer surplus than producer surplus.

C Private goods can be consumed with no opportunity cost.

D Public goods can be used by additional consumers with no extra production cost.

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5 Why does an individual's demand curve generally slope downwards to the right?

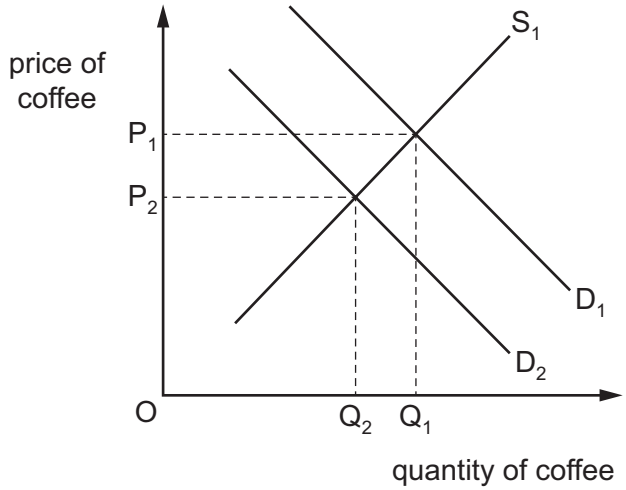
A The additional satisfaction an individual gets from consuming most goods decreases as consumption increases.

B The additional satisfaction an individual gets from consumption decreases as income rises.

C The individual has finite income which is used to attempt to satisfy many wants.

D For most goods the price charged by producers falls as the quantity purchased increases.

6 Ethiopia is Africa's largest producer of coffee. S_1 and D_1 are the original supply and demand curves for Ethiopian coffee. D_2 is a new demand curve.



What would have caused the change shown in the diagram?

A a fall in incomes worldwide

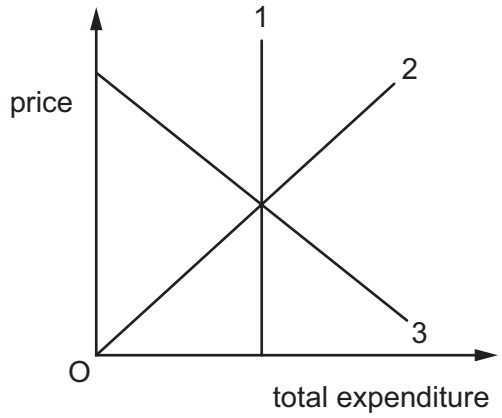
B a fall in the cost of producing Ethiopian coffee

C a rise in output from Ethiopian coffee harvests

D a rise in the price of coffee produced in Kenya

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7 The diagram shows the relationship between total expenditure and price for three products, 1, 2 and 3.



Which curves represent the products with price elastic and unitary price elastic demand?

	elastic	unitary
A	1	2
B	2	3
C	3	1
D	3	2

8 A firm has a perfectly elastic supply curve at the market price of $10.

Which statement about the firm is correct?

A At any price above $10 quantity supplied is zero.

B At any price below $10 quantity supplied is infinite.

C At price $10 the firm will supply any quantity.

D At price $10 the firm will break even.

9 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.

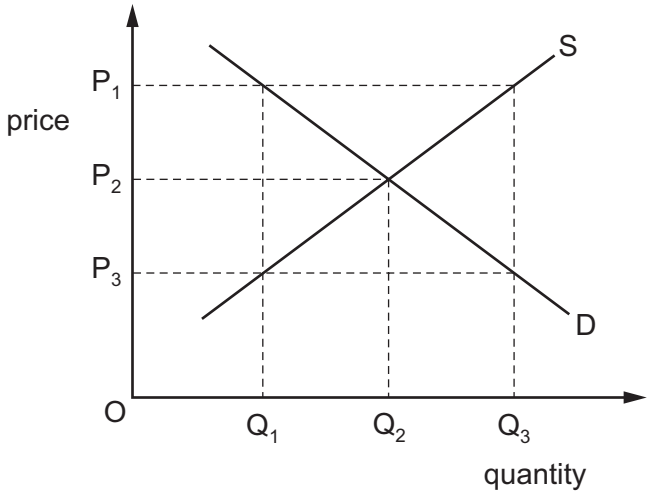
The price rises from $10 to $15 per kilo.

The value of price elasticity of supply for this price increase 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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10 In a free market in disequilibrium, which combination of price and quantity will lead to a fall in price and a contraction in output to reach equilibrium?



A P_1Q_1 **B** P_1Q_3 **C** P_3Q_1 **D** P_3Q_3

11 A change in market conditions causes a reduction in supply. This results in a higher price for the product, which has a downward-sloping demand curve.

What must be the outcome of this higher price?

A a decrease in the demand for substitutes

B a decrease in the quantity demanded

C an increase in the factors employed in the industry

D an increase in producer's revenue

12 The soap industry consists of several firms. Firm X produces a small percentage of total output.

What is likely to cause the supply curve for firm X to shift to the right while the market supply curve shifts to the left?

A Firm X has improved technology while other firms have higher input costs.

B Firm X has to pay a large fine for polluting a river while other firms have a tax reduction.

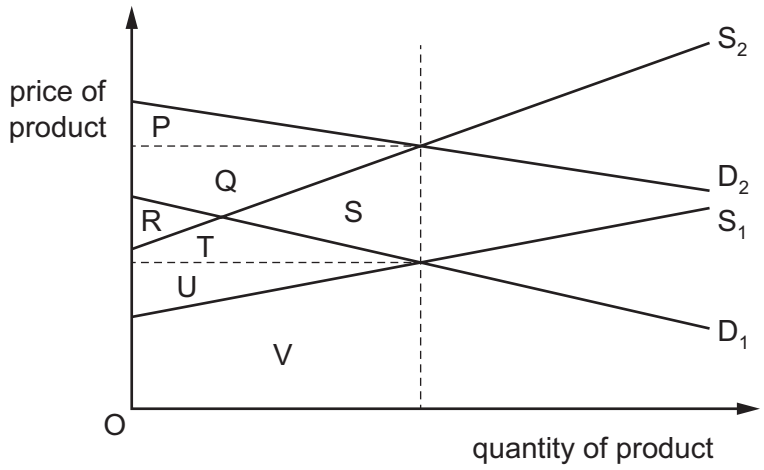
C Firm X is involved in a strike while other firms enter the industry.

D Firm X's rent and interest charges increase while other firms receive a government subsidy.

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13 D_1 and S_1 represent the initial demand and supply curves for a product.

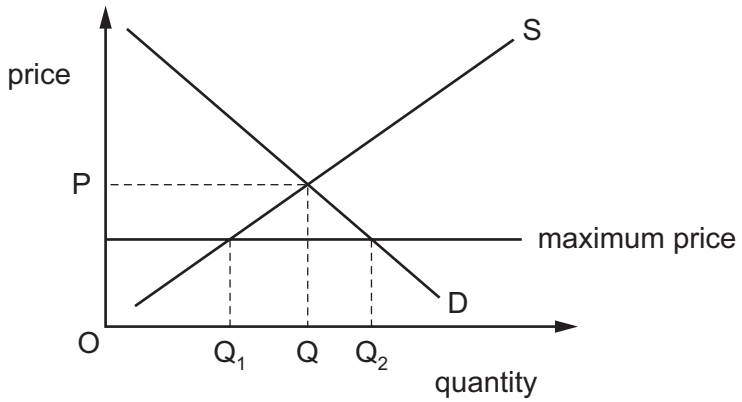
D_2 and S_2 are the equivalent curves after changes in market conditions.



What are resulting changes in consumer and producer surplus?

	change in consumer surplus	change in producer surplus
A	from R to P	from U to Q
B	from R + T to P	from U to Q + R
C	from R + T to P	from V to Q
D	from R to P + S	from V to Q + R

14 The diagram shows a market subject to a maximum price.



What will happen if the maximum price is removed?

A There will be allocation by a queuing system.

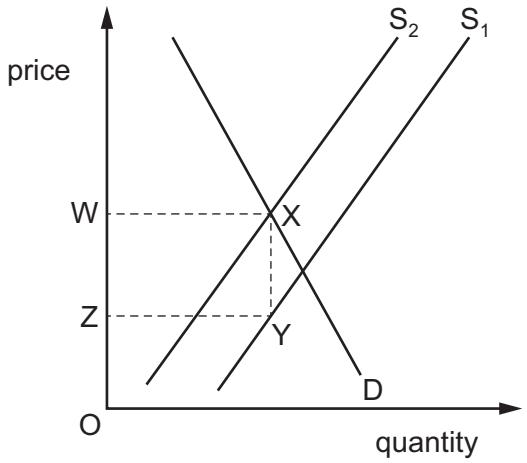
B There will be allocation by government rationing.

C There will be allocation by seller's preference.

D There will be allocation by the price system.

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15 The diagram illustrates the effect of a government action that shifts S_1 to S_2.



What does the area of the rectangle WXYZ represent?

A the consumer tax burden

B the government tax revenue

C the government subsidy payment

D the producer subsidy income

16 The table shows the demand and supply schedules for a product before and after the government pays a subsidy of $4 per unit to the producers.

price ($)	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	140	60	100
8	120	80	120
10	100	100	140
12	80	120	160
14	60	140	180

What is the total government spending on the subsidy?

A $240 **B** $400 **C** $480 **D** $960

17 Which government transaction is a transfer payment?

A a fee paid for a service supplied by government

B a payment to a private firm for goods supplied to the government

C a pension paid to a former government employee

D a salary payment to a government tax official

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18 Following deregulation, state-owned enterprises in an economy are to be privatised.

What is least likely to result?

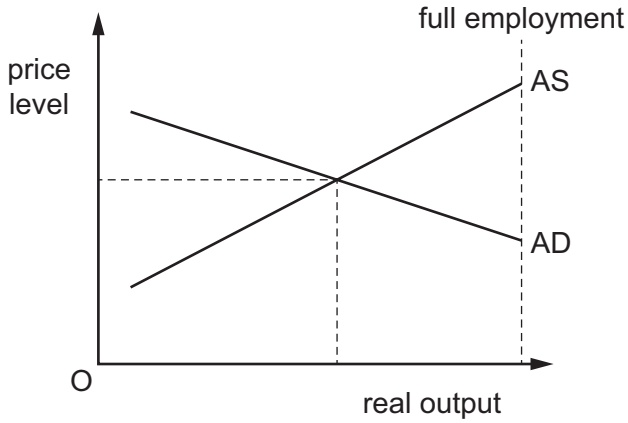
A Private companies will put customer needs before profits.

B Private companies will raise their own share capital.

C The level of incentive for the enterprises will rise.

D The number of companies will increase.

19 From the initial position of equilibrium shown, there is an increase in government expenditure on goods and services and simultaneously a reduction in the overall efficiency in the production of goods and services.



What best describes the likely impact on the economy?

	equilibrium level of national income	equilibrium level of prices
A	falls	uncertain
B	no change	no change
C	rises	rises
D	uncertain	rises

20 What does an aggregate demand curve show?

A the level of aggregate demand corresponding to different levels of aggregate supply

B the aggregate output demanded corresponding to different average price levels

C the equilibrium price level corresponding to different levels of aggregate expenditure

D the equilibrium level of income corresponding to different levels of aggregate expenditure

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21 The table shows the year-on-year percentage changes for a country's consumer price index from 2009 to 2015.

year	% change
2009	18.0
2010	11.7
2011	8.6
2012	4.6
2013	4.9
2014	6.1
2015	4.5

Which statement about the price level is correct?

A It fell over the first half of the period.

B It was at its highest at the start of the period.

C It was at its lowest at the end of the period.

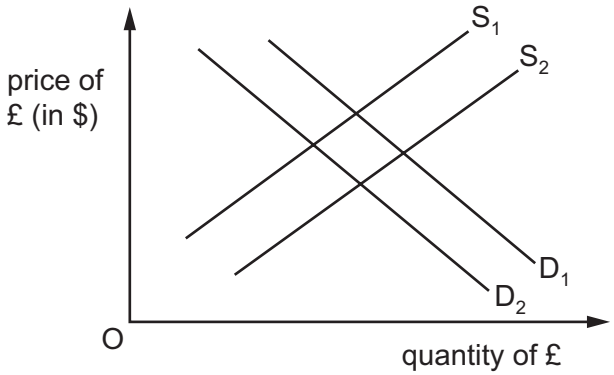
D It was at its lowest at the start of the period.

22 An Indian multinational company receives profits from its factories based in the UK. It then buys a US-owned firm based in the UK.

How will these transactions appear in India's balance of payments?

	the remittance of profit	the purchase of the US-owned firm
A	a credit item in the current account	a debit item in the financial account
B	a credit item in the financial account	a debit item in the current account
C	a debit item in the current account	a credit item in the financial account
D	a debit item in the financial account	a credit item in the current account

23 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 decrease in the price levels of other countries

B a depreciation of the pound sterling

C a reduction in the level of UK import tariffs

D an increase in UK interest rates

24 An economy's terms of trade fell from the base year of 100 to 90.

Which changes in the export price index and the import price index would have caused this?

	export price index change	import price index change
A	0	–10
B	0	+10
C	–10	0
D	–10	+10

25 Kenya produces some of the finest teas much of which it exports. Its climate is not so suited to producing olives but the olives can be sold for a higher price per sack.

What would definitely happen if a Kenyan company used some of the land where tea is grown to plant olive trees?

A The company would have a comparative advantage in trade.

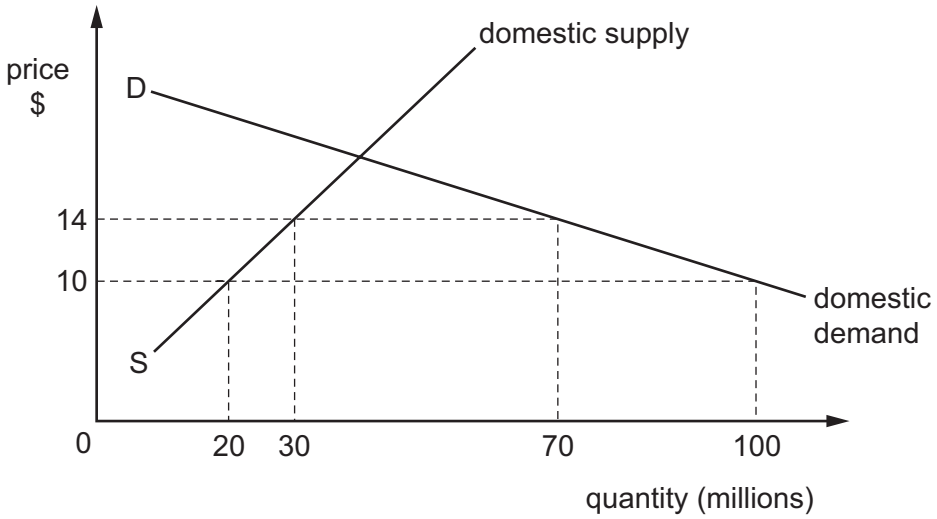
B The company's revenue would increase.

C There would be a decrease in the credit side of the trade in goods and services.

D There would be an opportunity cost from lost tea production.

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26 The diagram shows that the imposition of a tariff raises a good's world price from $10 to $14.



What was the effect on total expenditure on the good?

A It fell by $20 million

B It fell by $160 million

C It rose by $220 million

D It rose by $560 million

27 Which government measure would reduce protectionism?

A an increase in product safety standards

B an increase in subsidies to domestic firms

C an increase in the level of import quotas

D an increase in the rate of import duties

28 What is a deflationary fiscal measure?

A reducing interest rates

B reducing the money supply

C increasing taxes

D increasing government expenditure

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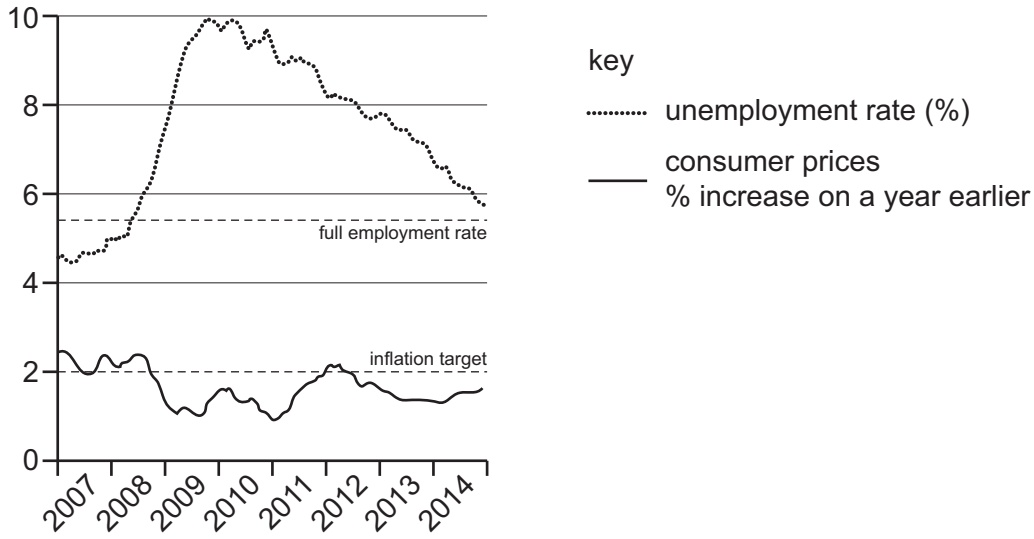
29 Policies to correct a balance of payments deficit fall into two categories: expenditure-dampening policies and expenditure-switching policies.

Which pair of policies are classified correctly?

	expenditure-dampening policy	expenditure-switching policy
A	an increase in the rate of income tax	devaluation of the currency
B	an increase in the rate of value added tax	the imposition of import quotas
C	devaluation of the currency	an increase in the rate of value added tax
D	the imposition of import quotas	an increase in the rate of income tax

30 The US Federal Reserve has a stable price (2% inflation) target and a full employment (5 to 5.2% unemployment) target.

The diagram shows the inflation rate and unemployment rate that existed between 2007 and 2014.



What can be concluded about the performance of Federal Reserve economic policy, 2007 to 2014?

A The continuing deflation meant failure in the inflation target.

B The inflation target was achieved less frequently than the employment target.

C The least successful period for economic policy was experienced in 2007.

D The nearest to complete policy success was achieved in 2008.

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