Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2018**

1 hour

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

5340058405

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 What would be an opportunity cost of growth in an economy?

A the faster growth of services than of manufacturing

B the need for an increased level of imported raw materials

C the need for greater government intervention

D the reduction of consumption if growth requires investment

2 A ……1…… economic statement is an objective statement that ……2…… be tested using factual evidence, whereas a ……3…… economic statement is a subjective statement that ……4…… be tested using factual evidence.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	normative	can	positive	cannot
B	normative	cannot	positive	can
C	positive	can	normative	cannot
D	positive	cannot	normative	can

3 What would most likely be considered an advantage by producers and a disadvantage by consumers of the operation of a planned economy?

A a bureaucratic system of decision-making

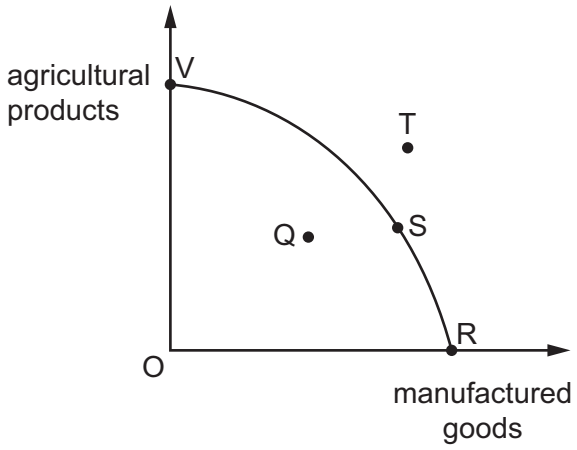
B a government emphasis on the production of capital goods

C a long response time to changing economic events

D an absence of financial incentives to work and to produce

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4 A country can produce manufactured goods and agricultural products as shown in the diagram.



Given this information, which statement is definitely correct?

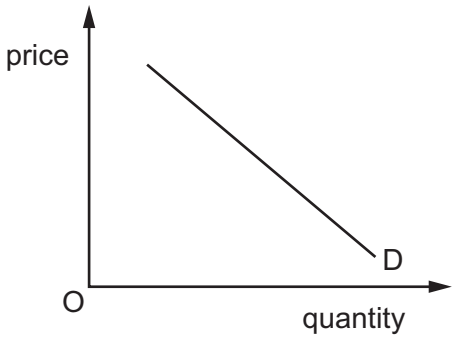
A If the country produces at Q it has unused or inefficiently used resources.

B The country should produce at T instead of at Q.

C The country would be better off producing at R than S.

D The monetary costs are the same to produce at V as they are to produce at R.

5 The diagram shows a demand curve for a good.



Which statement describes the nature of this demand curve?

A A greater or smaller quantity is demanded as price changes.

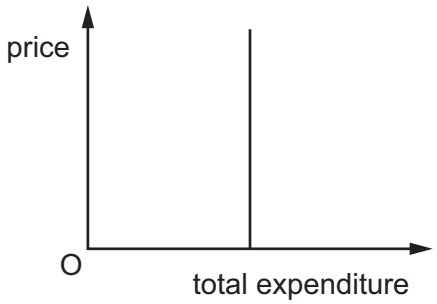
B A lower price is the result of a fall in demand.

C As demand increases so does price.

D Quantity changes in proportion to the change in price.

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6 The diagram shows the relationship between the price and the total expenditure on a good.



Which statement is correct?

A The income elasticity of demand for the commodity is unity.

B The income elasticity of demand for the commodity is zero.

C The price elasticity of demand for the commodity is unity.

D The price elasticity of demand for the commodity is zero.

7 Over the last ten years the price elasticity of demand for tea in many countries has risen.

What is the most likely cause of this change in price elasticity?

A a decrease in the incomes of consumers

B a decrease in the number of complements to tea

C an increase in the amount of tea supplied

D an increase in the number of substitutes for tea

8 What would be the price elasticity of supply of cell (mobile) phones if their price rose from US$100 to US$110 and the quantity supplied rose from 200 to 250?

A 0.2 **B** 0.4 **C** 2.5 **D** 5.0

9 A product has a high price elasticity of supply.

What might explain this?

A The product has a high opportunity cost.

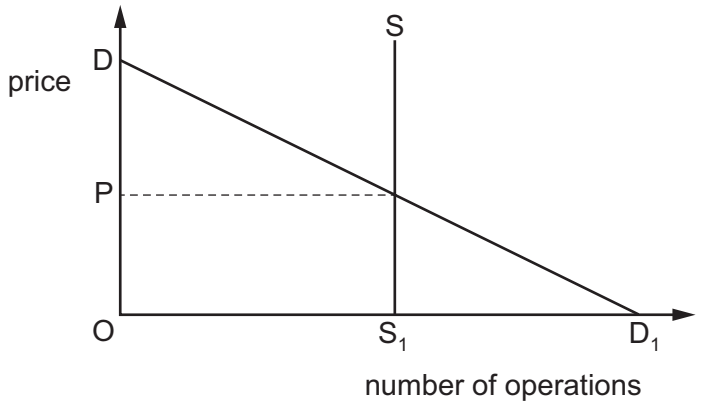
B The product has a non-perishable nature.

C The product is classed as an inferior good.

D The product is considered to be a luxury.

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10 The diagram shows the demand curve, DD_1, and the supply curve, SS_1, for eye operations.



The operations are provided free to the consumer.

Which statement is correct?

A Consumer surplus from the operations is ODD_1.

B The equilibrium price is indeterminate, because the supply curve is vertical.

C The equilibrium price is P.

D The equilibrium price is zero.

11 The demand for houses in London has caused house prices to rise considerably in the last five years. Many people cannot now afford to buy a house.

What can be concluded from this?

A On a demand and supply diagram for houses there has been a movement up the demand curve.

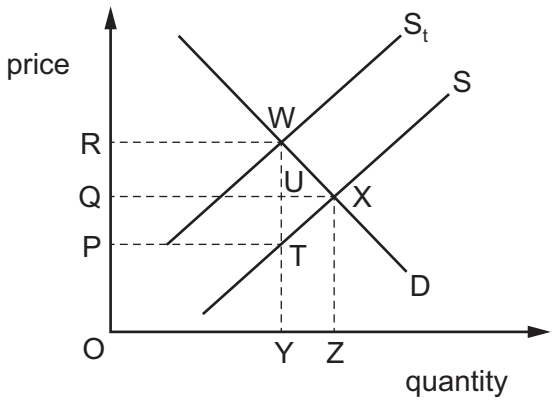
B On a demand and supply diagram for houses there has been a movement up the supply curve.

C The price elasticity of demand for houses is greater than one.

D The price elasticity of supply of houses is zero.

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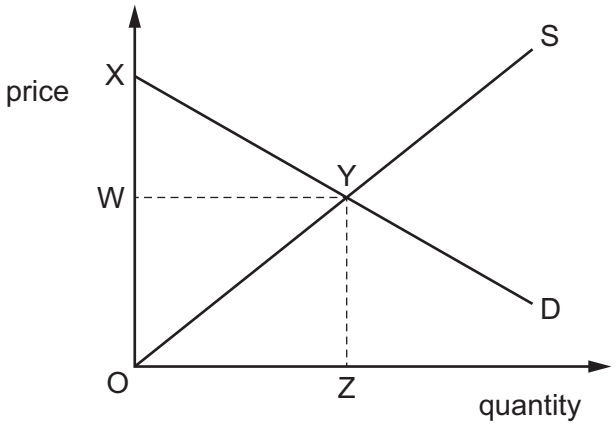
12 A specific tax is placed upon each bottle of perfume sold. In the diagram, S is the supply curve before tax and S_t is the supply curve after tax.



Which area represents the revenue received by the government from the tax?

A ORWY **B** PQUT **C** PRWT **D** QRWU

13 The diagram shows the demand curve and supply curve for a product.



Which area represents producer surplus?

A OWYZ minus OWY

B OWYZ minus OYZ

C OXYZ minus OYZ

D OXYZ minus WXY

14 Which statement about maximum and minimum prices is correct?

A With an effective maximum price for a product, a shortage will develop.

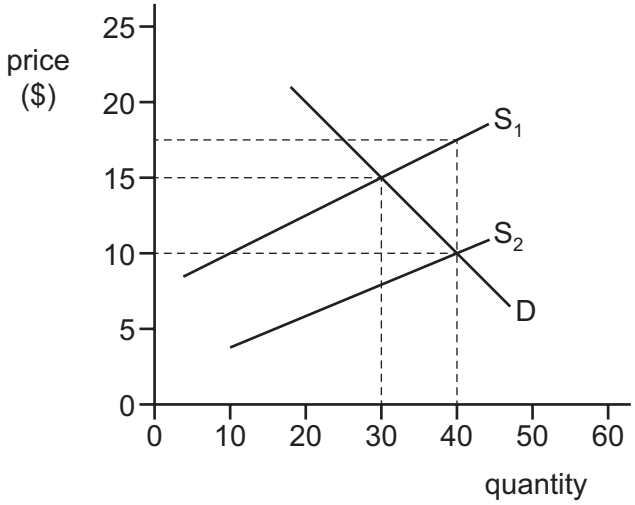
B With an effective maximum price for a product, the market price will rise.

C With an effective minimum price for a product, rationing will be necessary.

D With an effective minimum price for a product, the market price will fall.

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15 The diagram shows the effect on the market for a product of the introduction of a government subsidy.



What is the result of the payment of the subsidy?

A Consumer surplus increases.

B The price to the consumer halves.

C The subsidy provides over half of producer income.

D Total consumer expenditure on the product increases.

16 Why are the pensions paid to retired citizens an example of a transfer payment?

A Retired citizens pay no tax on their pensions.

B Retired citizens produce no output for their pensions.

C Retired citizens save some of their pensions.

D Retired citizens spend all of their pensions.

17 What is definitely a feature of a nationalised industry?

A Consumers are not charged a price for its product.

B No profit is made from supplying its product.

C The government owns the industry's capital.

D There is no competition in the market for its product.

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18 Which government action would be identified as the direct provision of goods and services?

A increasing road maintenance because of poor weather conditions

B making payments to low-income families with elderly dependants

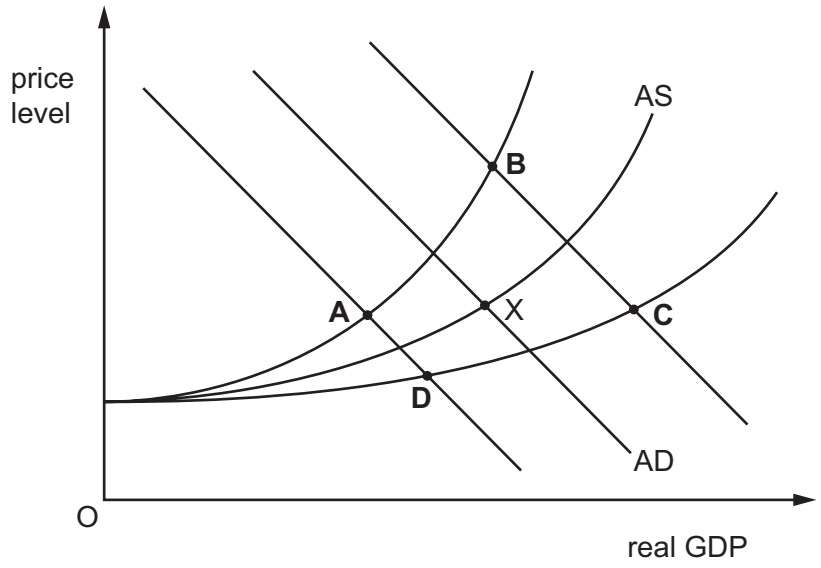
C subsidising firms in order to encourage them to increase their output

D taxing firms because they have been emitting damaging fumes

19 In its 2016 budget statement, the South African government proposed stimulating business activity by the removal of regulations. It also announced that government expenditure was expected to grow by 7.1%.

The diagram shows aggregate demand (AD) and aggregate supply (AS) for the South African economy. X is the original equilibrium point.

Which new equilibrium would result from the changes?



20 What would be certain to cause a fall in a country's cost of living?

A a fall in real incomes

B a fall in the inflation rate

C a negative inflation rate

D a reduction in direct tax rates

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21 The table gives figures for household spending in the UK economy between 2008 and 2010.

	nominal household consumption spending (£ million)	real household consumption spending (£ million)
2008	878 024	878 024
2009	858 242	846 961
2010	900 204	855 302

What can be concluded from the figures?

A All households bought more goods and services in 2010 than in 2008.

B Households saved more in 2008 than in 2010.

C Living standards were lower in 2009 than 2010.

D The rate of inflation was higher in 2010 than in 2009.

22 The table shows trade in goods and services for a selection of countries in 2005 and 2014.

	trade in goods and services (US$ millions)			
	2005		2014	
	exports	imports	exports	imports
Argentina	46 892	34 797	82 026	79 194
Brazil	133 055	96 611	264 063	318 799
Ecuador	11 480	11 851	28 935	30 215
Mexico	230 369	245 100	418 952	433 977

What can be concluded about the balances of trade in goods and services from the table?

A Argentina had a larger surplus in 2014 than in 2005.

B Brazil had a surplus in 2005 and a deficit in 2014.

C Ecuador had a deficit in 2005 and a surplus in 2014.

D Mexico had a larger deficit in 2005 than in 2014.

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23 A newspaper headline stated that the Australian car industry has been affected by the strength of the Australian dollar.

What would **not** be an effect caused by a strong rising Australian dollar?

A Reduced foreign demand for Australian cars caused increased unemployment.

B The price of exports of Australian cars became more expensive.

C The price of foreign competitive cars became less expensive.

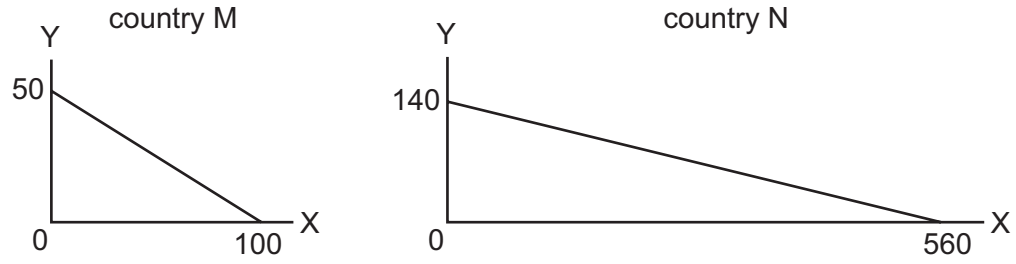
D The price of imports of car parts became more expensive.

24 The terms of trade for a country have improved.

Which combination of price behaviour would have caused this?

	average price of exports	average price of imports
A	decrease 4%	decrease 6%
B	decrease 4%	unchanged
C	increase 4%	increase 6%
D	unchanged	increase 2%

25 The graphs show the production possibilities for commodities X and Y in two countries M and N.



What will be the effect of an agreement between M and N to exchange the commodities at a rate of 1Y for 3X?

A Both countries will gain, because their consumption possibilities will increase.

B Consumers in country M will lose, because a unit of Y will now cost 3X instead of 2X.

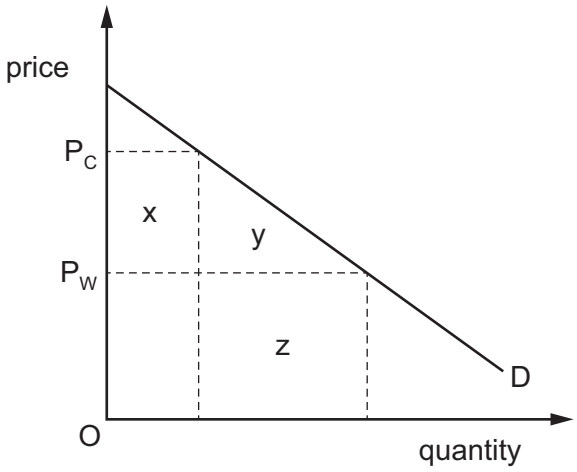
C Neither country will gain, because they both have a comparative advantage in the production of the same commodity, X.

D Only country N will gain, because N can produce more of both commodities than M.

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26 In the diagram, D is a country's demand curve for an imported good.

The country's government imposes an import tariff equal to P_WP_C on the good.



Which areas measure the resulting loss in consumer surplus and the resulting gain in government revenue?

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

27 The demand for a country's exports is price-elastic.

What will be the effect of introducing export subsidies on its balance of trade and on its terms of trade?

	balance of trade	terms of trade
A	improve	improve
B	improve	worsen
C	worsen	improve
D	worsen	worsen

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28 A government decides to borrow from the general public in order to finance its extra spending on apprenticeship training schemes.

Which types of macroeconomic policy are being used?

	fiscal	monetary	supply side
A	✓	✗	✓
B	✓	✗	✗
C	✗	✓	✓
D	✗	✓	✗

key
✓ = used
✗ = not used

29 Which policy is **not** likely to help reduce a balance of payments deficit?

A an increase in expenditure promoting locally produced goods

B an increase in the quota on cheap imports

C an increase in the restrictions on foreign exchange

D an increase in the subsidies to exporting industries

30 A country has a target rate of inflation of 2.5% and has recently experienced the actual rate rising to 6%, with unemployment falling to very low levels.

Which policy option is most likely to be implemented?

A an increase in government expenditure on training

B an increase in indirect taxes on demerit goods

C an increase in import tariffs

D an increase in interest rates

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