Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

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)

7640381348

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 **13** printed pages and **3** blank pages.

© UCLES 2018

CAMBRIDGE International Examinations

1 The statements refer to the proposal to build another runway at London's Heathrow airport.

Which statement is normative?

A Heathrow is the UK's busiest airport and has more flights than any other European airport.

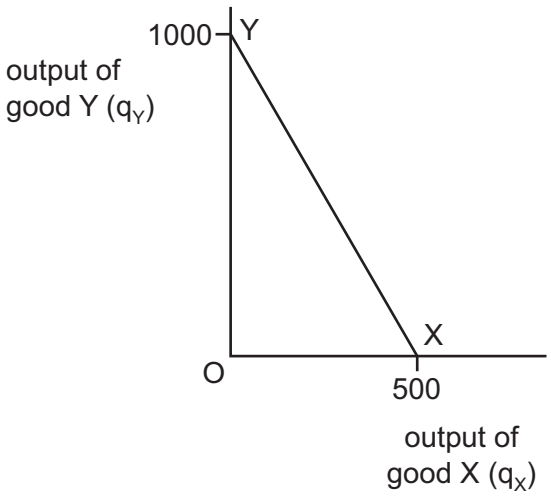
B The airport is highly competitive but there is spare capacity.

C The potential net benefit of expansion is around £5 billion over 70 years.

D We should concentrate on improving the use of existing capacity not build another runway.

2 YX is an economy's production possibility curve (PPC).

The equation of the curve is $q_Y = 1000 - 2q_X$.



What is the opportunity cost of producing one extra unit of good X?

A $\frac{1}{2}$ unit of good Y

B 2 units of good Y

C 500 units of good Y

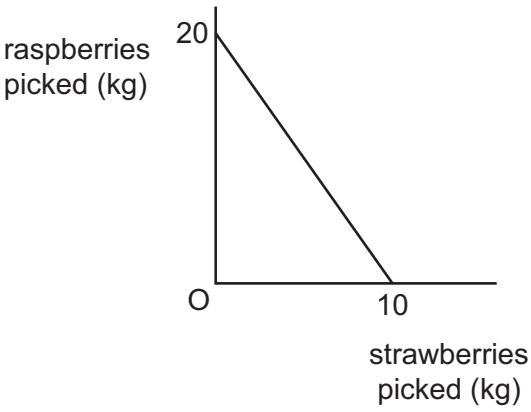
D 1000 units of good Y

© UCLES 2018

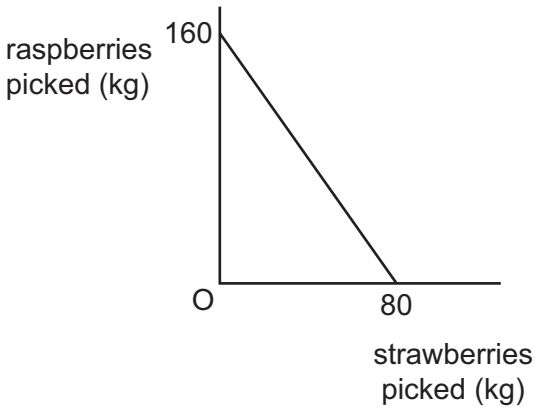
3 A farmer picks 10 kg of strawberries in each hour. The farmer is twice as productive at picking raspberries.

Which diagram shows the farmer's daily production possibility curve when working 8 hours a day?

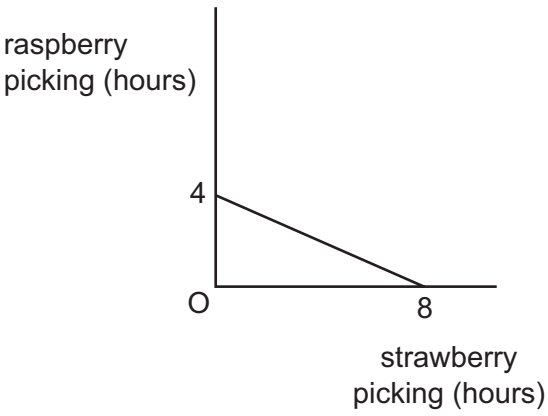
A



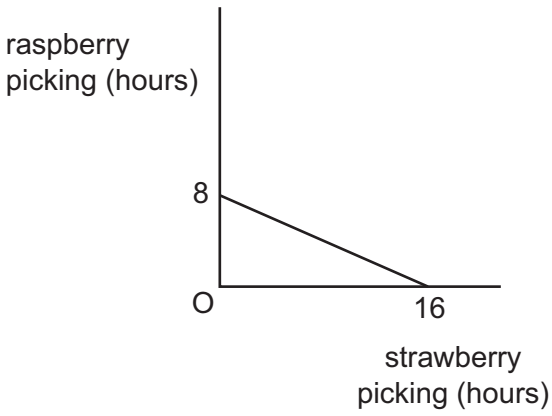
B



C



D



4 Governments provide public goods.

What is an example of a public good?

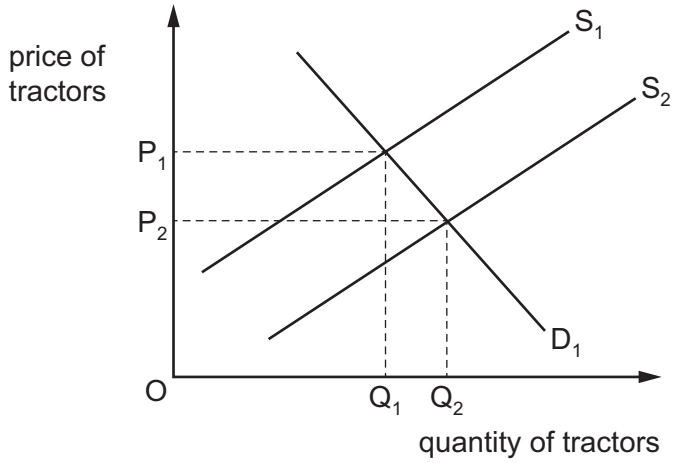
A the services provided by a defence force

B the services provided by a hospital

C the services provided by a leisure centre

D the services provided by a toll road

5 India is one of the largest producers of tractors in the world. S_1 and D_1 are the original supply and demand curves for Indian tractors.



What would cause the supply curve to move to S_2?

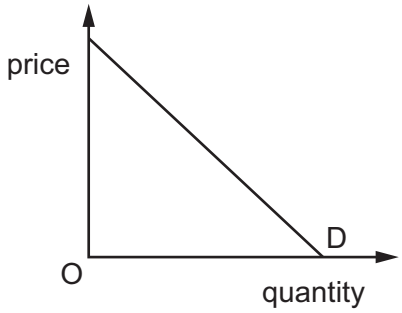
A a rise in the incomes of Indian farmers

B a rise in the price of electricity paid by Indian tractor manufacturers

C a rise in the price of tractors produced in the US

D a rise in the productivity of workers in Indian tractor factories

6 The diagram shows the demand curve for a product.



Which statement is correct?

A Consumer expenditure on the product always rises when price falls.

B Demand is less elastic at higher prices than at lower prices.

C Price elasticity of demand differs at every price.

D Price elasticity of demand equals one at every price.

© UCLES 2018

7 The cross-elasticity of demand between two goods will be higher

A the greater the difference in price between the two goods.

B the greater the income elasticities of demand for the two goods.

C the greater the price elasticities of demand for the two goods.

D the more they are regarded as similar by consumers.

8 The price elasticity of supply of a good is +2. The quantity supplied originally was 200 units.

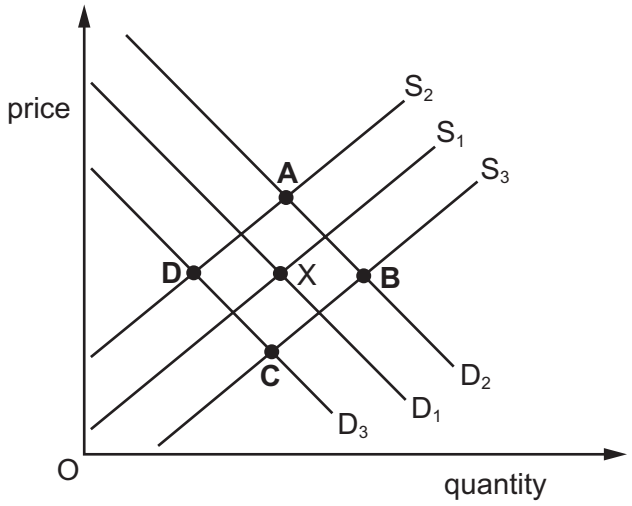
The price increases by 30%.

What will the quantity supplied be after the price increase?

A 80 units **B** 140 units **C** 260 units **D** 320 units

9 The diagram shows S_1 and D_1, the original supply and demand curves for fast food in an economy. Point X is the original equilibrium. Fast food is an inferior good.

What would be the new equilibrium position following a tax imposed on fast food and a fall in real income?



10 When will the price mechanism **not** function as a system for allocating goods?

A when the government bans advertising

B when the government maintains an effective maximum price

C when there is a limited supply of the good

D when there is a powerful company able to set the market price

11 During a certain period, 10 000 units of a normal good are sold at a price of US$20. During a later period, 12 000 units are sold at a price of US$22.

What could explain this change?

A an increase in indirect taxation

B an increase in the cost of raw materials

C an increase in the price of a substitute commodity

D an increase in the productivity of factors of production

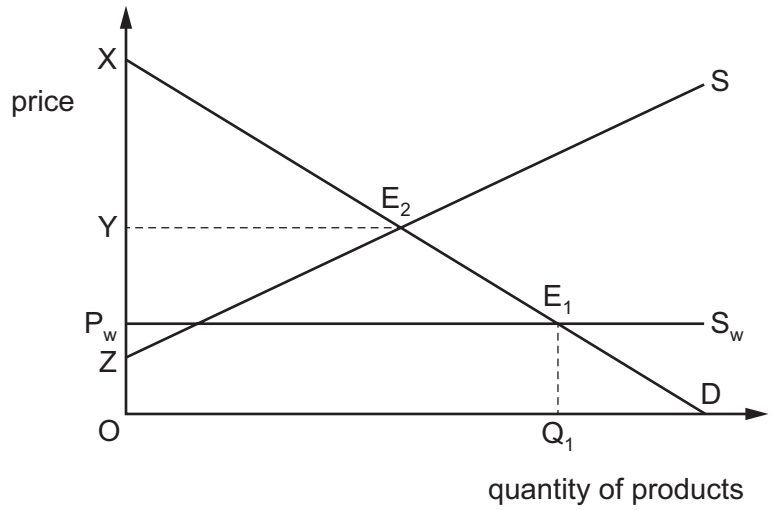
12 A free market is in disequilibrium with a shortage of a product.

As the market moves towards equilibrium, what will happen to the price, the quantity demanded and the quantity supplied?

	price	quantity demanded	quantity supplied
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

13 In the diagram, D and S represent the domestic demand and supply curves for a product. S_w represents world supply of the product at a world price of P_w. The initial domestic market equilibrium of the product is at E_1.

If foreign trade were to be banned completely, the domestic market equilibrium would be at E_2.



What would be the loss of consumer surplus if all foreign trade were banned?

A P_wXE_1 **B** $P_wYE_2E_1$ **C** YXE_2 **D** ZYE_2

© UCLES 2018

14 A government wishes to impose a tax on a good so that the producer and not the consumer pays most of the tax.

Which type of elasticity would it be best for the good to have to achieve this aim?

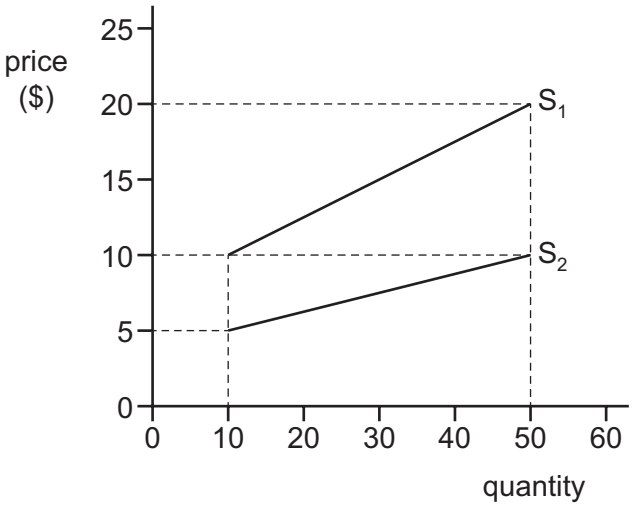
A high price elasticity of demand

B low price elasticity of demand

C totally inelastic price elasticity of demand

D unitary price elasticity of demand

15 The diagram shows the effect on the supply curve of a product when the government provides a subsidy.



What can be concluded about the nature of the subsidy as the quantity supplied increases?

A It is a falling percentage (%) of the price of each unit.

B It is a fixed percentage (%) of the price of each unit.

C It is a fixed sum on each unit.

D It is a rising percentage (%) of the price of each unit.

16 What is **not** an example of a transfer payment?

A pocket money from parents

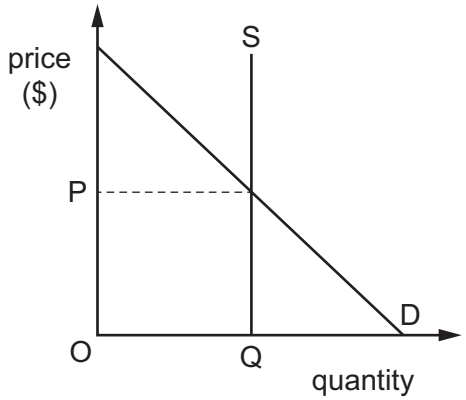
B private donations to charities

C salary paid to a teacher in a government school

D unemployment benefit

© UCLES 2018

17 In 2016–2017 a government spent $135 billion on the health service. The diagram shows the provision of healthcare in that country.



What can we deduce about healthcare provision in the country if it were provided at zero price?

A At price P the benefits to society are maximised.

B It is non-rival in consumption.

C It is unlimited in supply due to government funding.

D It will need rationing as it will be overconsumed.

18 A government privatises the telecommunications industry.

What is least likely to increase?

A choice of telecommunications services for consumers

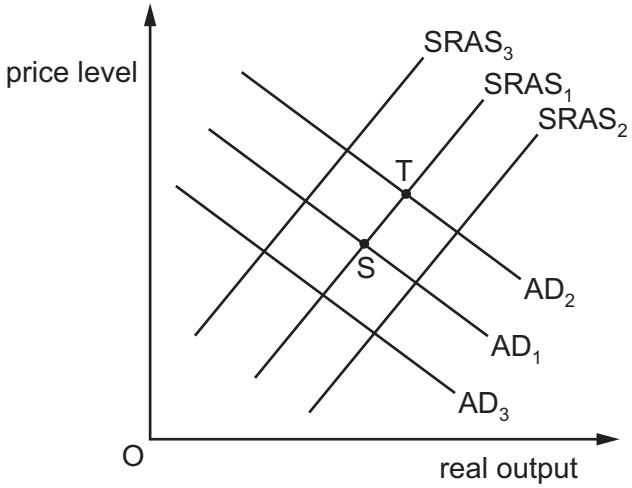
B development of new telecommunications products

C employment in the telecommunications industry

D productivity in the supply of telecommunications

© UCLES 2018

19 The diagram shows short-run aggregate supply and demand in an economy, where the initial equilibrium is at S.



What is most likely to cause a movement from S to T?

A an increase in consumer expenditure and an increase in productivity

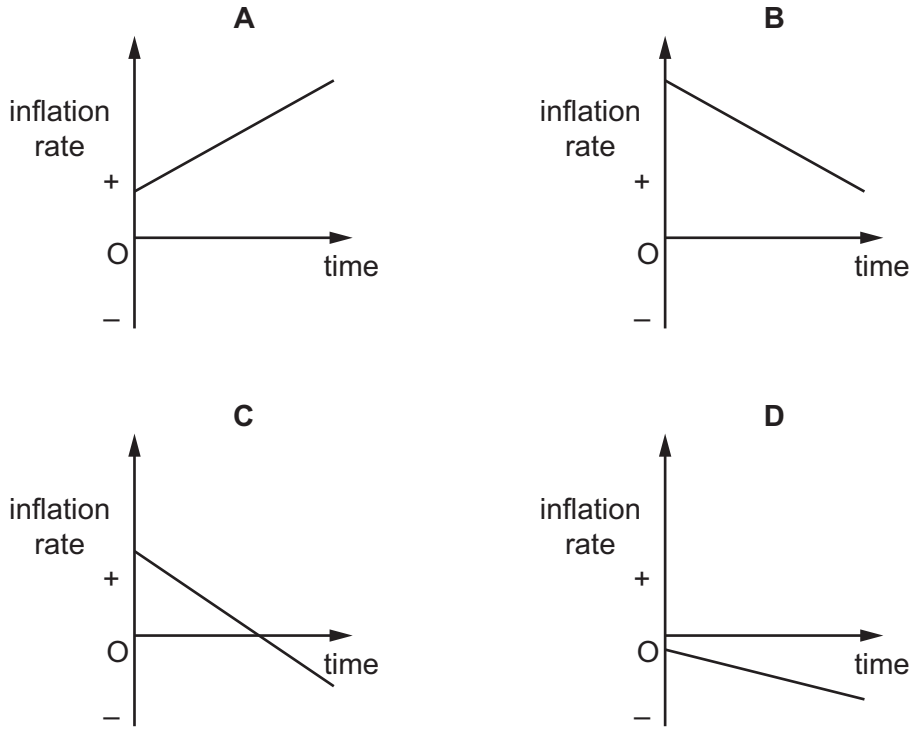
B an increase in consumer expenditure and a reduction in imports

C an increase in education and training and an increase in income tax

D an increase in the exchange rate and a reduction in corporation tax

20 The diagrams show the inflation rate over time in four countries.

Which country experiences a falling cost of living throughout the period?



21 A government statistical office measured changes in income from employment, pensions and benefits, then subtracted income tax and welfare contributions and adjusted for inflation.

What did the final figure represent?

A changes in nominal income

B changes in nominal net earnings

C changes in real disposable income

D changes in real gross earnings

22 The table shows all of the items on the current account of a country's balance of payments.

	$ million
exports of goods	143
imports of goods	156
exports of services	75
imports of services	72
net transfers	+5

What is the value of the current account balance?

A $5 m deficit

B $10 m deficit

C $13 m deficit

D $3 m surplus

23 Following a long period of depreciation of the US$, both the US and UK monetary authorities raised their domestic interest rate.

What will happen to the value of the exchange rate of the US$ in terms of UK£?

A It will fall.

B It will remain unchanged.

C It will rise.

D The outcome is uncertain.

© UCLES 2018

24 Country P exports goods and imports goods.

Export prices and import prices are set to an index of 100 in year 1. The table shows corresponding prices indices for years 2 and 3.

	year 2	year 3
export price index	120	132
import price index	110	121

Which statement is correct?

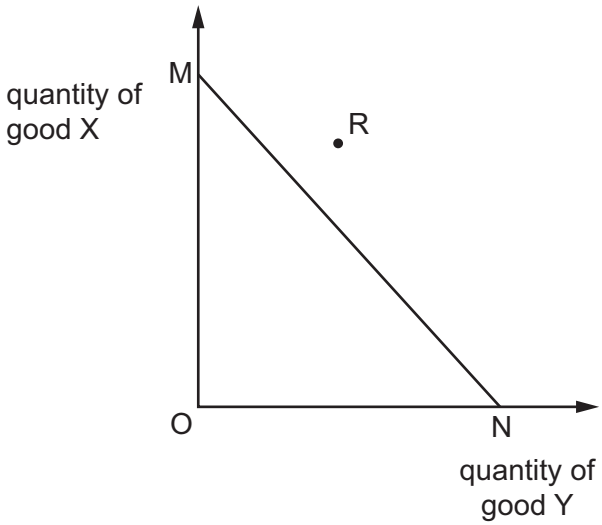
A It is not possible to say how the terms of trade changed without further information.

B The terms of trade improved between years 1 and 2, and improved again between years 2 and 3.

C The terms of trade improved between years 1 and 2, and then remained unchanged between years 2 and 3.

D The terms of trade worsened throughout the whole period.

25 In the diagram, MN is the production possibility curve of a country that has a comparative advantage in the production of good Y.



What might enable the country to consume the quantities of X and Y indicated by point R?

A a reduction in unemployment

B increased specialisation in the production of good X

C increased specialisation in the production of good Y

D more participation in international trade

26 What is the difference between a customs union and a free trade area?

A Only the customs union has a common external tariff with the rest of the world.

B Only the customs union requires fixed exchange rates between member countries.

C Only the free trade area needs to eliminate tariffs between member countries.

D Only the free trade area requires freedom of movement for labour and capital between member countries.

27 Which statement about trade protection is correct?

A A tariff will result in a greater decrease in demand for an import the lower its price elasticity of demand is.

B Embargoes are only an effective trade barrier against imports in price-elastic demand.

C Export subsidies to domestic firms will prevent the dumping of foreign products in the domestic market.

D Quotas are less effective than tariffs for raising government revenue.

28 What is an example of expansionary monetary policy?

A the central bank buying government bonds in the money market

B the central bank causing an appreciation of the country's foreign exchange rate

C the central bank increasing controls on credit lending

D the central bank increasing the minimum lending rate of interest

29 China had a US$155 billion current account surplus in 2012.

Which combination of policies might the Chinese Government use to reduce the surplus?

A decrease income tax and raise the value of the Chinese currency, the Yuan

B increase income tax and lower the value of the Chinese currency, the Yuan

C increase subsidies to Chinese firms and reduce income tax

D increase tariffs on imports and increase income tax

© UCLES 2018

30 In an economy, prices are rising. The government wishes to limit further increases in prices.

Which policies would it be likely to use?

A decrease goods and services (sales) tax and put a quota on cheap imports

B decrease income tax and decrease interest rates

C increase interest rates and decrease government spending

D withdraw industry subsidies and impose a minimum wage

© UCLES 2018

BLANK PAGE

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.