Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

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)

4208619108

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.

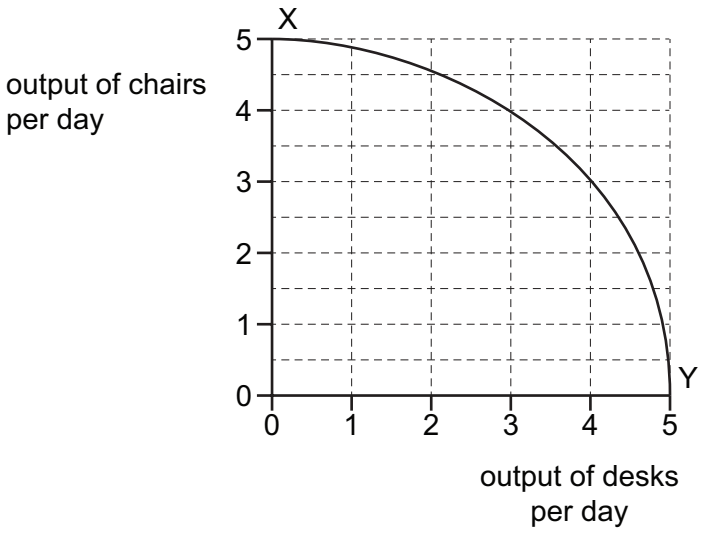
Read the instructions on the Answer Sheet very carefully.

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 **14** printed pages and **2** blank pages.

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1 XY is the production possibility curve (PPC) of a firm that produces desks and chairs.



What are the opportunity costs of the 4th and 5th desks produced by the firm?

	opportunity cost of 4th desk	opportunity cost of 5th desk
A	1 chair	3 chairs
B	2 chairs	5 chairs
C	3 chairs	0 chairs
D	4 chairs	5 chairs

2 A government proposes to introduce a road congestion charge which would require private motorists to pay a toll for road use.

Which statement relating to the proposal is normative?

A Bus passengers will benefit at the expense of motorists.

B Motorists with higher incomes will be prepared to pay the charge in return for reduced journey times.

C Motorists with lower incomes will not be able to afford to use the roads.

D The proposal will be unfair to motorists who have no alternative means of transport.

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3 A firm changes the type of product it produces.

What might limit the firm's ability to use division of labour?

A The new production method is more capital intensive.

B The new production method is very expensive.

C The new product is made to specific customer requirements.

D The new product requires specialised labour.

4 A group of tourists become stranded on a desert island. They decide to use their own system of money.

Which statement about their choice of money is correct?

A Coins in their possession would be suitable if there are enough of them.

B Fruit fallen from trees would be suitable because it has intrinsic value as a food.

C Pebbles from the seashore would be suitable because they are both durable and plentiful.

D Seaweed would be suitable as it is in unlimited supply around the coast.

5 What is likely to affect the position of the demand curve for tickets to pop concerts but **not** the position of the supply curve?

A a change in incomes of potential customers

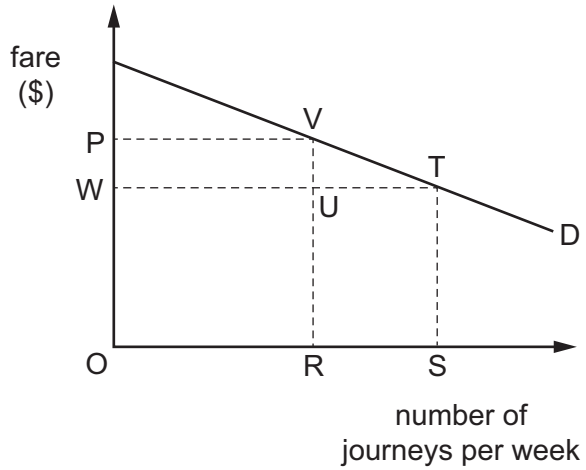
B a change in price of tickets to the concerts

C a change in rents charged by venue owners

D a change in seating capacity of concert venues

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6 The number of passenger journeys per week by train on a route is shown by the demand curve in the diagram.

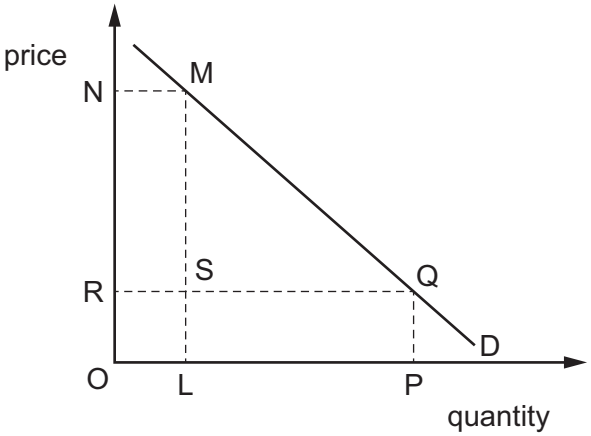


Initially the fare is OP, but it is then reduced by PW.

Which area measures the amount spent on the extra journeys resulting from the lower fare?

A VUT **B** PWTV **C** VRST **D** URST

7 The diagram shows the demand curve for a product.



If the rectangle OLMN is equal in area to the rectangle OPQR, which statement is correct?

A A rise in price from OR to ON results in the same proportionate fall in quantity demanded.

B Consumer surplus falls by RSMN if the price rises from OR to ON.

C The price elasticity of demand is unitary for all changes in price.

D Total revenue falls by MSQ if the price rises from OR to ON.

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8 When the supply of a good decreases, equilibrium price stays the same.

What is the price elasticity of demand of the good?

A –1

B zero

C +1

D infinite

9 The curve in the diagram shows a relationship between the price and the quantity of a product. It has not been given a label.



What is an accurate description of the curve?

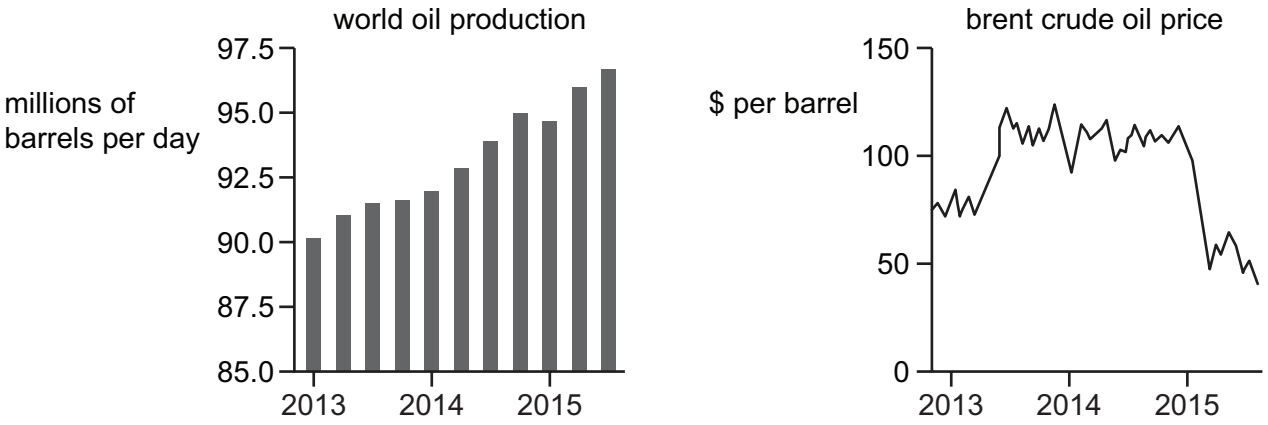
A a perfectly elastic demand curve

B a perfectly inelastic supply curve

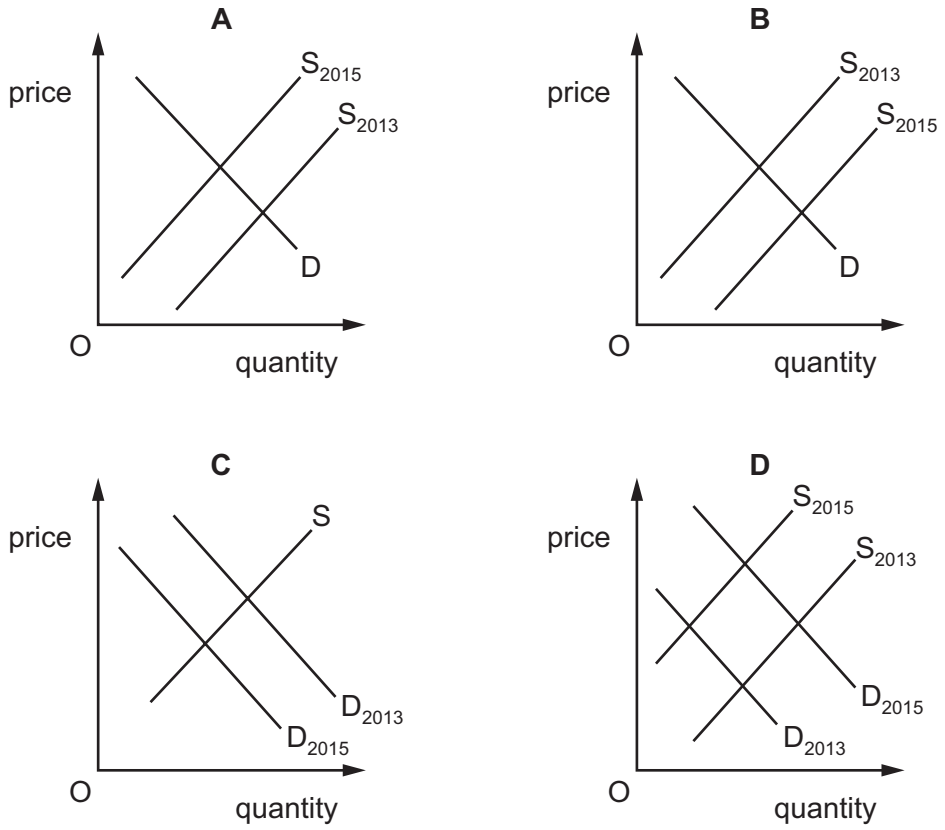
C a relatively elastic supply curve

D a unitary elastic demand curve

10 The diagrams show some information about oil.



Which diagram represents the change in the oil market between 2013 and 2015?



11 In which set of circumstances will prices play no part in determining how resources are allocated between alternative uses but may still have a role as a rationing mechanism?

A The government sets maximum prices for all goods above their market clearing price.

B The government sets minimum wages for all workers below the market rates of pay.

C The quantities of consumer goods produced are determined by the government.

D The total income consumers have available to spend is fixed by the government.

12 What is necessary for consumer surplus to be zero?

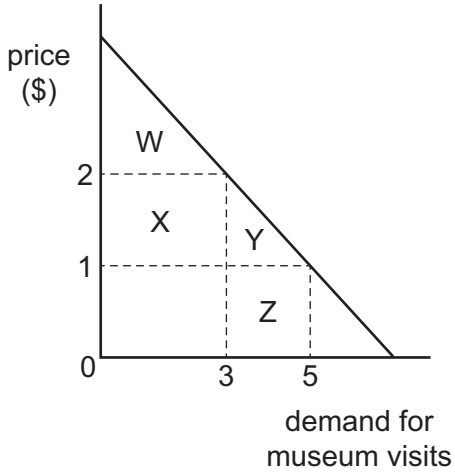
A Demand is perfectly elastic.

B Demand is perfectly inelastic.

C Supply is perfectly elastic.

D Supply is perfectly inelastic.

13 A local government decides to issue a card for residents that gives a 50% reduction on entry prices for visits to local museums. The diagram shows the demand curve for a resident who currently makes 3 museum visits.



What would be the change in the resident's consumer surplus when the card is issued?

A W **B** X + Y **C** Y **D** Y + Z

14 The demand and supply functions for a product are quantity demanded = 1500 + 50P and quantity supplied = 300P – 2000 where P = price. With government regulation, the current price in the market is $15.

What can be concluded about the form of price regulation and the balance of demand and supply in the market?

	form of price regulation	balance of demand and supply
A	effective maximum price	excess demand
B	effective maximum price	excess supply
C	effective minimum price	excess demand
D	effective minimum price	excess supply

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15 Which element of a tax and benefits system is regressive?

A rent subsidies to tenants of publicly owned housing

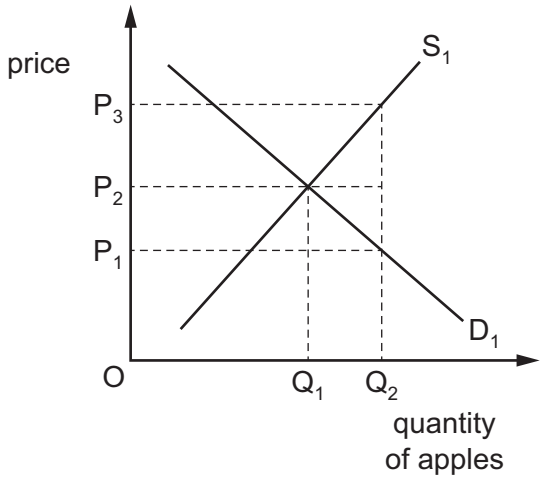
B specific taxes on beer and tobacco

C the payment of child benefits to families

D the taxation of capital gains

16 A government decides to encourage apple consumption as a report states that eating apples is good for health. It subsidises apple growers.

The diagram shows the market for apples.



What would the subsidy need to be to change the market equilibrium quantity from Q_1 to Q_2?

A OP_1 **B** P_1P_2 **C** P_1P_3 **D** P_2P_3

17 What is **not** a transfer payment?

A benefit payments by governments to families who have children

B disability benefits paid to soldiers who were injured while on military service

C loans made by a government to students who are studying at university

D payments by a firm to compensate employees for undertaking dangerous work

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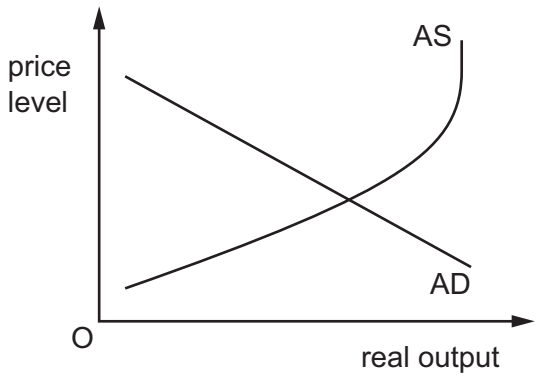
18 A government allows one firm to go out of business, takes over a second firm, and encourages a foreign government to invest heavily in a third firm.

Which government action has occurred?

	nationalisation	privatisation
A	✓	✓
B	✓	✗
C	✗	✓
D	✗	✗

key
✓ = occurred
✗ = not occurred

19 What is both a valid statement and consistent with the features of the diagram?



A AS cannot be increased beyond some level of real output.

B Consumption is a component of AD and is lower when the general level of prices is lower.

C Investment is a component of AS and is independent of the general level of prices.

D The greater the demand for a country's exports, the lower will be AD.

20 The average consumer divides his expenditure between food, clothing, accommodation and transport in the ratio 2 : 1 : 4 : 3.

During the course of a year, the price of food falls by 2%, the price of clothing increases by 4%, the price of accommodation increases by 10% and the price of transport remains constant.

Assuming that the weights of a price index reflect the expenditure of the average consumer, what is the increase in the index over the year?

A 2.5% **B** 4% **C** 10% **D** 12%

21 The table shows an extract from a country's current account of its balance of payments accounts.

credits	$ million
export of goods	G
export of services	204 465
total exports of goods and services	511 275

debits	$ million
import of goods	417 006
import of services	126 369
total imports of goods and services	543 375

balance	$ million
trade in goods	–110 196
trade in services	H
total trade in goods and services	–32 100

What is the value of export of goods, G, and what is the value of the balance of trade in services, H?

	export of goods, G $ million	trade in services, H $ million
A	306 810	78 096
B	306 810	142 296
C	715 740	78 096
D	715 740	142 296

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22 In June 2016 the UK voted to leave the European Union. The table shows what happened to the value of the pound sterling before and after the vote.

June	Sept
£1 = $1.48	£1 = $1.32

The UK is a major trading nation.

What is likely to be the short-term impact of the changes in the value of the pound sterling on the UK economy?

A increased disinflation

B increase in cost-push inflation

C more purchasing power of money

D reduced demand-pull inflation

23 To what does the J curve effect directly relate?

A balance of payment effects caused by exchange rate changes

B exchange rate effects caused by balance of payment changes

C import expenditure effects caused by tariff changes

D trade creation effects caused by comparative advantage changes

24 The terms of trade for the major oil exporting country of Saudi Arabia fell from 223 in 2013 to 205 in 2014.

What could be a likely cause of this fall?

A a fall in the amount of oil exported by Saudi Arabia

B a fall in the amount of oil produced by Saudi Arabia

C a fall in the price of Saudi Arabian oil exports

D an appreciation of the Saudi Arabian currency

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[Turn over

25 A particular good in the Barbados market could be supplied by domestic producers, or producers in Trinidad and Tobago, or producers in the United States (US), at the prices shown in US dollars.

origin of production	price
Barbados	$1.00
Trinidad and Tobago	$0.85
US	$0.75

Originally, Barbados had a 20% ad valorem duty on imports from Trinidad and Tobago and the US.

Barbados then formed a customs union with Trinidad and Tobago, with a common external tariff, also of 20%.

From which countries would Barbados import the good, before the formation of the customs union and after the formation of the customs union?

	before	after
A	neither	Trinidad and Tobago
B	neither	US
C	US	Trinidad and Tobago
D	US	US

26 What would reduce an economy's protection against the import of cars?

A a higher quota of imported cars

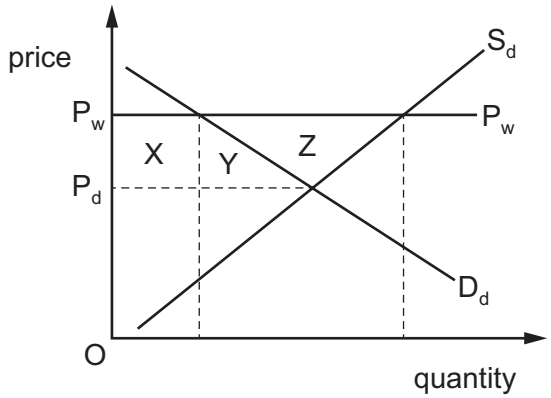
B a higher subsidy for domestic car producers

C a higher tariff on imported cars

D a lower exchange rate

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27 A country takes no part in international trade and its domestic market price is P_d. The country decides to engage in free trade and the market price rises to the world price (P_w).



What happens to consumer surplus and producer surplus when the economy engages in free trade?

A Domestic consumers gain Z only.

B Domestic consumers lose X + Y.

C Domestic producers gain Z only.

D Domestic producers lose X + Y + Z.

28 A government increases the basic rate of income tax to finance additional spending on apprenticeships and training.

Which types of macroeconomic policy are being used?

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

key
✓ = used
✗ = not used

29 If an economy experiences a persistent balance of trade deficit, it may choose to place tariffs on imports of manufactured goods.

When might the use of tariffs solve a balance of trade deficit in the long term?

A when an economy imports a sustainable amount of raw materials

B when an economy is experiencing a high rate of inflation

C when the demand for imports is inelastic

D when the supply of domestically produced goods is elastic

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30 Bulgaria's Consumer Price Index changed at an annual rate of –2.2% in April 2016. In May the annual rate of change was –1.4%.

What fiscal policy and monetary policy would be most appropriate in the short run to restore price stability?

	fiscal policy	monetary policy
A	decrease government spending	decrease interest rates
B	decrease taxes	increase rate of interest
C	increase government spending	decrease interest rates
D	increase taxes	increase rate of interest

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