Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **May/June 2019**

1 hour

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

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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.

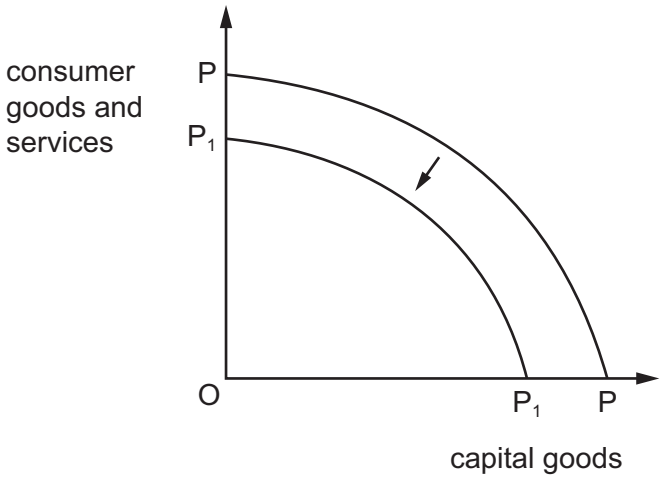
Read the instructions on the Answer Sheet very carefully.

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 A production possibility curve for a country is shown.



What would cause the shift from PP to P_1P_1?

A application of more machinery used in manufacturing

B productivity decreases

C scientific methods applied to farming

D switch from production of consumer goods to capital goods

2 A government wants to move its economy away from central planning towards a market economy.

Which policy would be consistent with this aim?

A introduce tariffs on imported goods

B privatise the ownership of electricity generation

C provide free education for primary school pupils

D reduce prices of foods such as wheat and rice

3 What would be a determinant of a country's production possibility curve boundary?

A the capital invested in infrastructure

B the level of price and wage inflation

C the level of unemployed labour

D the volume of imports and exports

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4 What justifies government intervention in the provision of a merit good such as education?

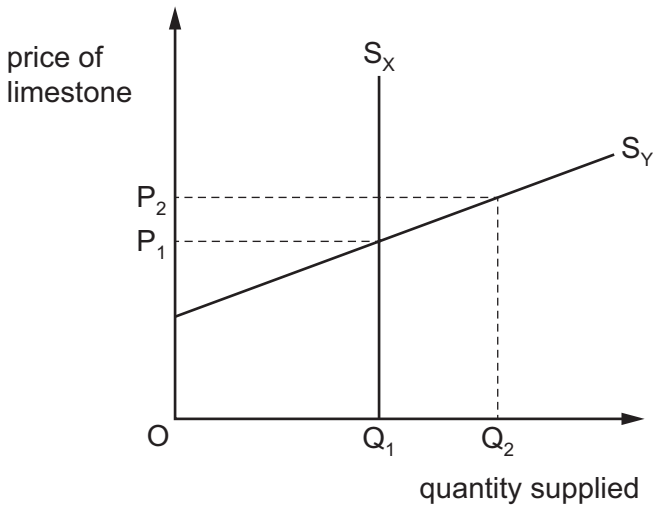
A People who pay for education value it more than those who cannot pay.

B Private schools have more merit than state schools.

C Social costs of providing education outweigh social benefits of education.

D Some consumers do not fully recognise the value of education.

5 The diagram shows the supply of limestone from quarry X and quarry Y at two prices.



What is the measure of the responsiveness of supply as the price increases from P_1 to P_2?

	S_X	S_Y
A	0	>1
B	<1	1
C	1	<1
D	>1	0

6 What is a perfectly contestable market?

A a market in which the costs of entry and exit are zero

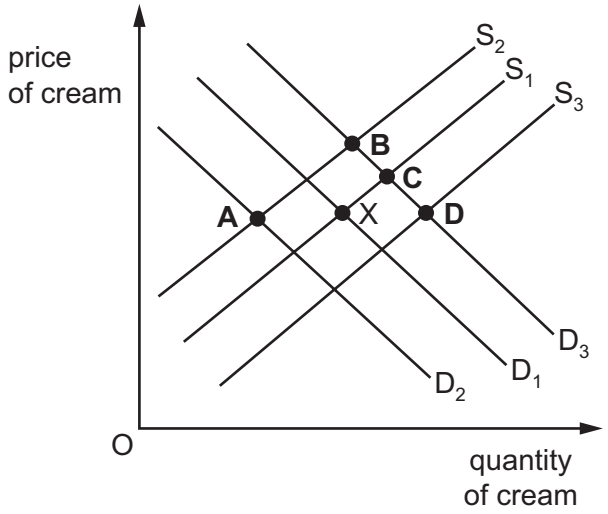
B a market in which there are high barriers to entry

C a market that has high sunk costs

D a market that uses price discrimination

7 The diagram shows the demand for and supply of cream. The original equilibrium is point X. Strawberries and cream are complementary goods.

If the price of strawberries falls and the cost of producing cream increases which point represents the new equilibrium?



8 Hunters in Mozambique want to extract wild honey from beehives. They find the beehives by following birds known as honeyguide birds who want the beeswax that is also found in the beehives.

What does this suggest?

A Hunters and honeyguide birds are rival consumers.

B Wild honey and beeswax are free goods.

C Wild honey and beeswax are in joint supply.

D Wild honey is the opportunity cost of beeswax.

9 What follows if the income elasticity of demand for a good has a value of –0.2?

A When income rises less of the good is bought.

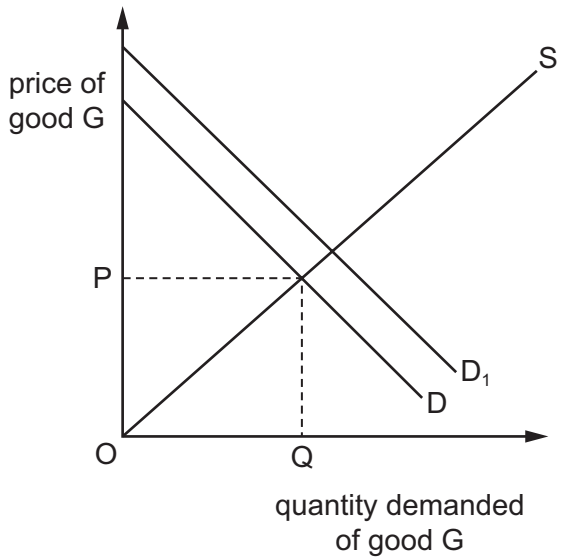
B When income rises more of the good is bought.

C When price falls more of the good is bought.

D When price rises less of the good is bought.

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10 The diagram shows the relationship between price (P) and demand (D) for a normal good G.



What would cause a shift to D_1?

A a decrease in the price of a substitute good

B a fall in the level of advertising for the good G

C a rise in the price of good G

D an increase in the incomes of consumers

11 What is **most** likely to cause an increase in the consumer surplus in the market for a normal good?

A an increase in consumer incomes

B an increase in the number of substitute goods

C an increase in the price of a complementary good

D an increase in the price of the good

12 The cross elasticity of demand between two products, X and Y, is negative.

What would be the immediate effect of a rise in the price of product Y?

A Quantity demanded of product X will fall.

B Supply of product X will rise.

C The cross elasticity of demand will rise.

D The price of product X will rise.

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13 Which combination of events is **most** likely to leave the demand curve for a normal good in the same position?

A a decrease in consumer incomes and an increase in the price of a substitute good

B a decrease in consumer incomes and an increase in the price of the good

C an increase in consumer incomes and an increase in the price of a substitute good

D an increase in consumer incomes and an increase in the price of the good

14 Which of the following is a transfer payment?

A the advertising expenditure of a firm

B the allowance given by a parent to their child while at school

C the rent paid to a land owner by a tenant farmer

D the wage paid to a worker in the government service

15 Too much sugar causes an increase in a consumer's weight. A government has introduced a 'sugar tax' on the consumption of soft drinks that have a high sugar content.

How might this policy help to reduce the number of overweight people?

A Consumers switch to cheaper brands of soft drink with a high sugar content.

B Consumers switch to other high-sugar substitute goods, such as alcohol or sweets.

C The price elasticity of demand for soft drinks is inelastic.

D The tax revenue is spent on education about the dangers of soft drink consumption.

16 A government intends to introduce a minimum price for rice, a maximum price for heating oil and a tax on chewing gum.

Who, in each market, is meant to benefit from these policies?

	market for rice	market for heating oil	market for chewing gum
A	consumers	government	producers
B	government	producers	government
C	producers	producers	consumers
D	producers	consumers	government

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17 A Southern African government was concerned about the market influence of a large producer and was keen to take control of the company.

What might be the possible result of this?

A an increase in the role of the market

B an increase in public ownership

C an increase in the role of the consumer

D an increase in the amount of competition

18 What describes a regressive tax?

A All taxpayers pay the same proportion of income in taxes.

B High-income earners pay a lower proportion of income in taxes than low-income earners.

C High-income earners pay less in taxes than low-income earners.

D High-income earners pay more in taxes than low-income earners.

19 A country has a fixed exchange rate.

Which combination of problems would be most likely to cause the country's government to reduce taxation and lower interest rates?

A demand inflation and a balance of payments current account deficit

B demand inflation and a low level of investments

C high unemployment and a balance of payments current account deficit

D high unemployment and a low level of investment

20 How can a change in consumption that increases unemployment be illustrated on an aggregate demand and aggregate supply diagram?

	effect on the aggregate demand curve	effect on the aggregate supply curve
A	movement down the demand curve	shift outwards
B	movement up the demand curve	shift inwards
C	shift inwards	movement down the supply curve
D	shift inwards	movement up the supply curve

21 What is **not** an item in a country's current account of its balance of payments?

A exports of primary commodities

B money received from banking services

C overseas investment

D profits sent back by companies overseas

22 A country decides to remove all its tariffs and engage in free international trade.

What will be the final decision the country has to make before free trade takes place?

A deciding which resources to allocate to the production of goods and services for international trade

B deciding which goods and services should be provided for international trade

C identifying the opportunity costs of production of goods and services which might be used for international trade

D setting an appropriate exchange rate for the international trade of goods and services

23 What is assumed to be constant when drawing an aggregate demand curve?

A government tax revenue

B interest rates

C the level of unemployment

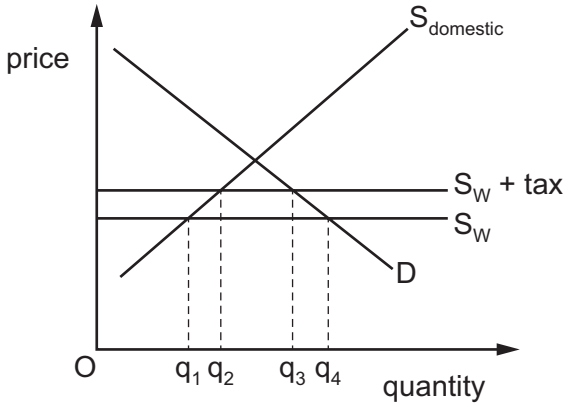
D the money supply

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24 The diagram shows the imposition of an import tariff.

S_W is world supply.

S_W + tax is world supply after the tariff is imposed.



Which statement is **not** correct?

A Domestic demand will fall from q_4 to q_3.

B Imports will change from q_1q_4 to q_2q_3.

C Imports will fall from q_4 to q_3.

D Supply of domestic goods will increase from q_1 to q_2.

25 An economy is experiencing a period of deflation.

What must be happening?

A The average price level is falling.

B The output of the economy is falling.

C The rate of inflation is falling.

D The real value of money is falling.

26 A British citizen buys a house in the US which he rents to American citizens in order to receive an income for himself.

Where will the initial purchase and then the rent be recorded on the UK balance of payments?

	initial purchase	rent
A	capital account export	current account import
B	capital account import	current account export
C	current account export	capital account import
D	current account import	capital account export

27 Under a system of floating exchange rates, what determines the foreign exchange value of a currency?

A the overall supply of and demand for a currency on currency markets

B the purchasing power of the currency relative to the purchasing power of foreign currencies

C the surplus or deficit on the balance of payments on current account

D the differential between domestic and foreign interest rates

28 A country with a balance of trade deficit raises interest rates.

How may this help to reduce the deficit in the short run?

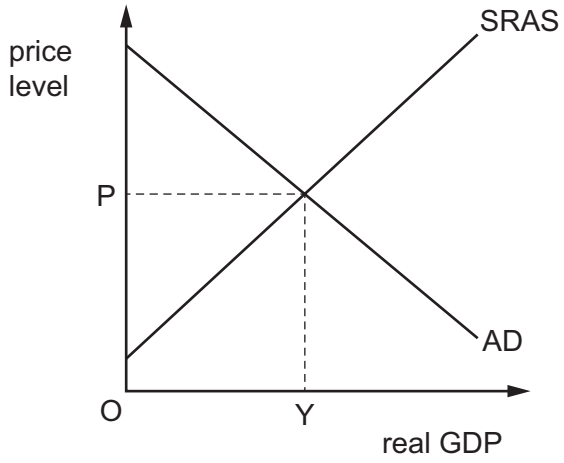
A by increasing the inflow of foreign direct investment

B by lowering the foreign exchange rate

C by raising the level of domestic capital investment

D by reducing the level of domestic aggregate demand

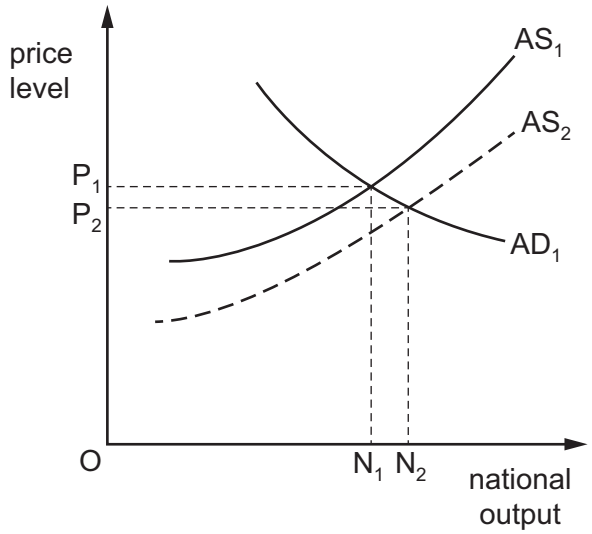
29 An economy is currently in the position PY shown on the diagram.



Which short-run effects is government spending on education likely to have on unemployment and inflation?

	unemployment	inflation
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

30 The diagram shows the AD / AS curves for an economy.



Which policy would reduce the price level from P_1 to P_2 as shown?

A depreciating the currency to make imports more expensive

B imposing tariffs on imports to encourage expenditure switching

C increasing labour productivity through training

D raising sales taxes on goods to discourage consumption

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