Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

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)

3014152241

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.

IB19 06_9708_13/2RP
© UCLES 2019

1 What is the opportunity cost to a person of spending $20 on a new pair of sports shoes?

A all the other things the person could have bought

B the cost of getting to the sports shop

C the current value of his old pair of shoes

D the next best thing that could have been bought with the $20

2 Which statement is correct?

A In the short run all factors of production are fixed; in the long run all factors are varied.

B In the short run at least one factor is fixed; in the long run all factors can be varied.

C In the short run at least one factor is varied; in the long run all factors are fixed.

D In the short run at least one factor is varied; in the long run at least one factor is fixed.

3 What is correct at any point along an economy's production possibility curve?

	existing resources are fully employed	existing technology is fully used
A	correct	correct
B	correct	false
C	false	correct
D	false	false

4 'The local government of Tokyo should use a policy of taxation to reduce traffic congestion in the city centre.'

What can be concluded about this statement and the type of economic policy?

	statement	type of policy
A	normative	macro
B	normative	micro
C	positive	macro
D	positive	micro

© UCLES 2019

5 Which statement about market disequilibrium is correct?

A Price is likely to change.

B Supply is equal to demand.

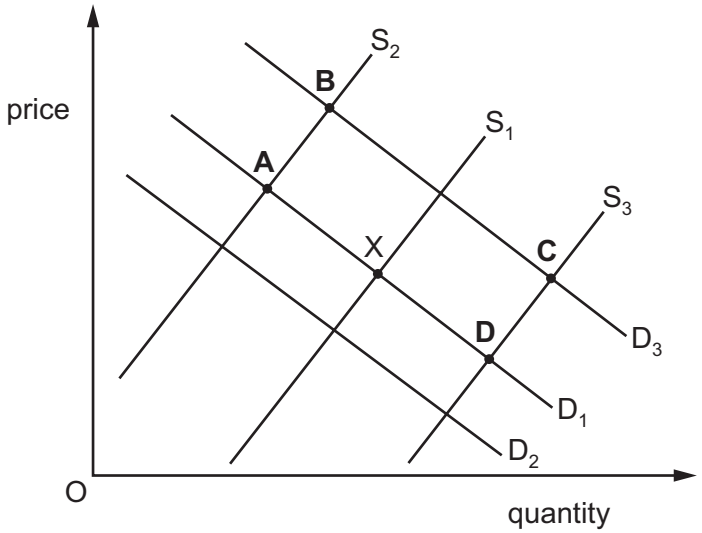
C The government must intervene.

D There must be shortages.

6 In the diagram, D_1 and S_1 represent the demand for and supply of luxury watches. Equilibrium is initially at point X.

The cost of raw materials for manufacturing watches rises. At the same time the incomes of the rich increase.

Which point on the diagram is **most** likely to represent the new equilibrium?



7 The equation for the quantity demanded (QD) of a product is QD = 400 – 20P where P = price in dollars. The quantity supplied (QS) is given by QS = 100 + 40P.

What can be concluded about the market when price is $5?

A Consumers will face a shortage.

B Government will intervene in the market.

C Producers will have a surplus of the product.

D The market will be in equilibrium.

8 When is the supply curve for a car manufacturing firm **most** likely to be price elastic?

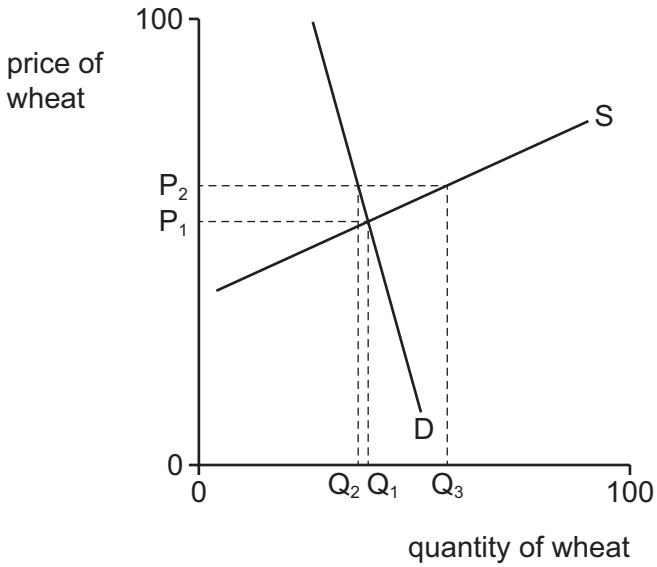
A when the firm finds it difficult to recruit new labour

B when the firm has a large quantity of stock

C when the firm is operating in the short run

D when the firm is operating near to full capacity

9 The diagram shows a market for wheat.



What is the response of demand for and supply of wheat when the price of wheat falls from P_2 to P_1?

	demand	supply
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	inelastic

© UCLES 2019

10 The table shows the demand schedule for avocados in a market on a particular day.

The supply of avocados was fixed on that day.

$ per avocado	quantity demanded
2.60	500
2.40	640
2.20	740
2.00	820
1.80	900

Which statement is correct?

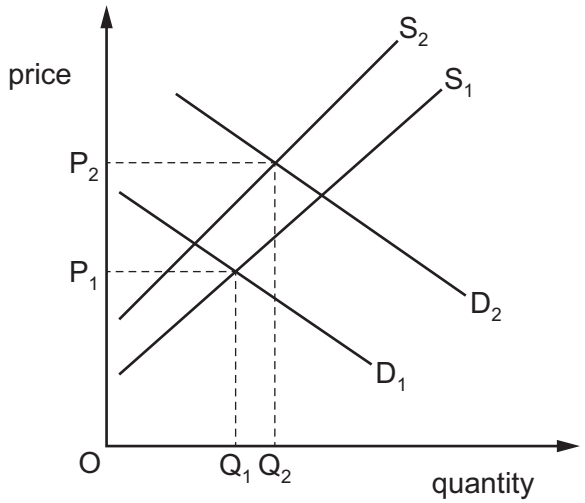
A If the supply was 490, at a price of $2.60 there was an excess demand of 10 avocados.

B If the supply was 650, at a price of $2.40 there was an excess demand of 10 avocados.

C If the supply was 810, at a price of $2.00 there was an excess supply of 10 avocados.

D If the supply was 890, at a price of $1.80 there was an excess supply of 10 avocados.

11 The diagram shows the demand and supply curves of a normal good (X). Q_1P_1 is the initial equilibrium.



Other things being equal, what may cause the change in the market equilibrium to Q_2P_2?

A a fall in household incomes and an increase in interest rates

B a rise in workers' real wages in all sectors of the economy

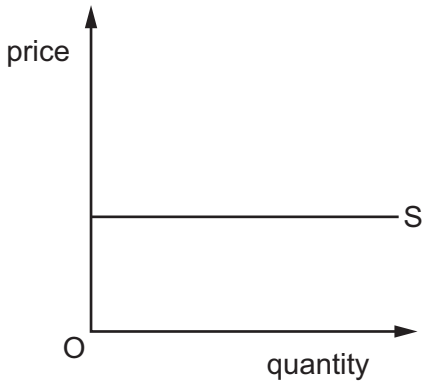
C an increase in income tax and a rise in the specific tax levied on X

D an increase in the price of a substitute product for X and a fall in the costs of producing X

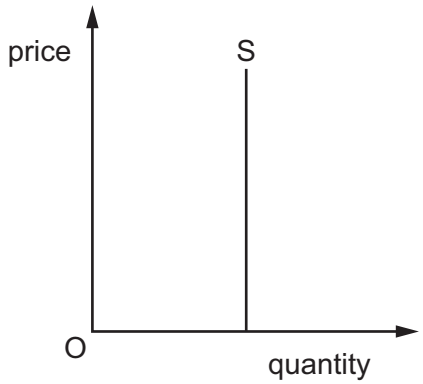
12 The diagrams show the supply curves in four different markets.

In which market is the price elasticity of supply always equal to one?

A



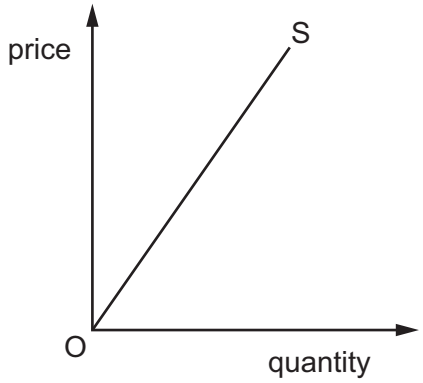
B



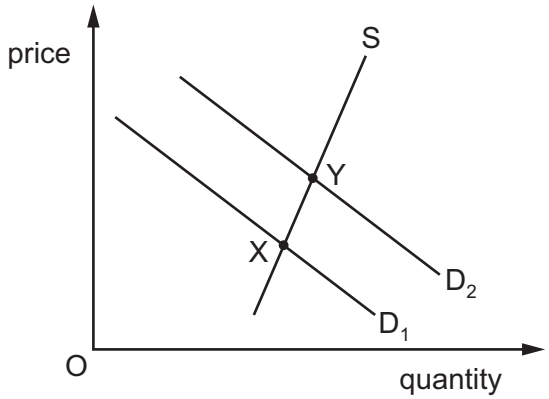
C



D



13 The diagram represents the market for electric cookers.



What is **most** likely to explain the change in the equilibrium from point X to point Y?

A a fall in the price of electric cookers

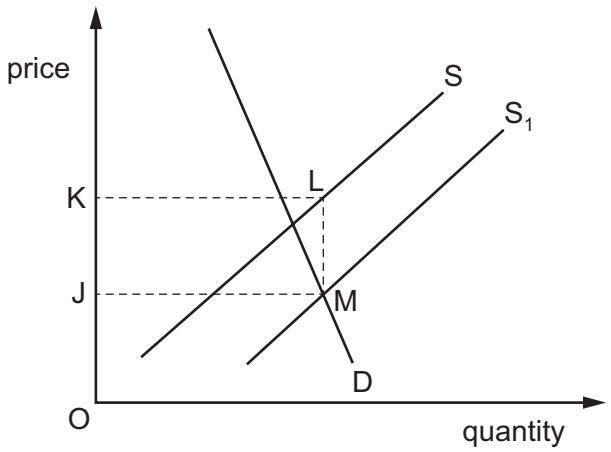
B an increase in a specific tax on electric cookers

C an increase in the number of households

D an increase in the price of electricity

© UCLES 2019

14 The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the cost to the government of a subsidy to rice growers

B the extra saving to importers of the removal of a tariff on rice

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

15 Which statement is **not** an argument in support of the process of privatisation?

A Private companies are motivated to make the best use of their resources.

B Privatisation allows more firms to enter an industry, increasing competition in the market.

C Privatisation can create companies that exploit the consumer.

D Selling state-owned assets to the private sector raises significant revenue for the government.

16 Governments are trying to reduce the burden of transfer payments in economies with an ageing population.

Which policy would help to achieve this aim?

A introducing financial support for university students

B linking pension increases to the consumer price index during inflation

C raising the retirement age

D reducing state pensions to finance an equal rise in unemployment benefit

© UCLES 2019

17 Doctors are concerned about the negative health effects of sugary drinks.

When would a tax on sugary drinks be **least** effective in improving health?

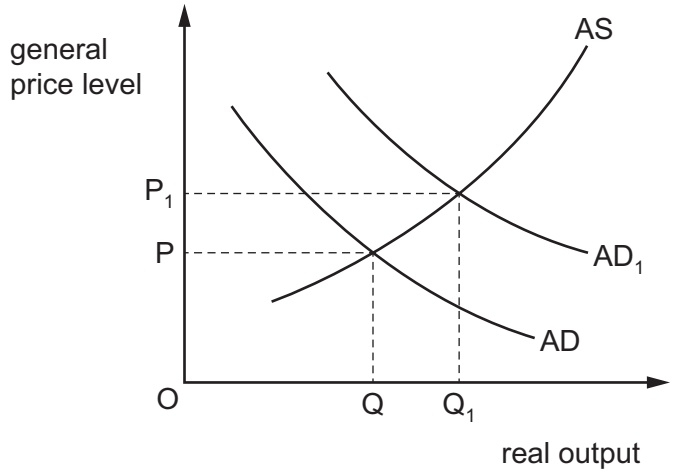
A when the demand for sugary drinks is income elastic

B when the demand for sugary drinks is income inelastic

C when the demand for sugary drinks is price elastic

D when the demand for sugary drinks is price inelastic

18 The diagram illustrates what happens to aggregate demand (AD) and aggregate supply (AS) in an economy during a year.



What explains the rise in the general price level?

A boom in consumer spending

B higher taxes on company profits

C reduction in government-financed projects

D rising costs of raw materials

19 How is a rate of inflation that is lower than that expected likely to affect lenders and borrowers in an economy?

	effect on lenders	effect on borrowers
A	beneficial	beneficial
B	beneficial	harmful
C	harmful	beneficial
D	harmful	harmful

© UCLES 2019

20 A country devalues its currency in the expectation that a deficit on the current account of the balance of payments will be reduced.

What is necessary to make this happen?

A any tariff on imports must be matched by a subsidy on goods to be exported

B the elasticity of demand for imports and the elasticity of demand for exports must both be greater than 1

C the rate of domestic inflation is equal to the rate of inflation in the foreign market

D the sum of the elasticities of demand for domestic imports and the foreign demand for exports is greater than 1

21 The current account of the balance of payments for Nigeria changed from US$899 m in 2014 to US$ –15 763 m in 2015.

Assuming that nothing else changes, what is likely to be the impact in 2015 on GDP and the exchange rate in Nigeria?

	GDP	exchange rate
A	falls	appreciates
B	falls	depreciates
C	rises	appreciates
D	rises	depreciates

22 Australia's aggregate demand decreased over the last year.

What might have been the cause of this?

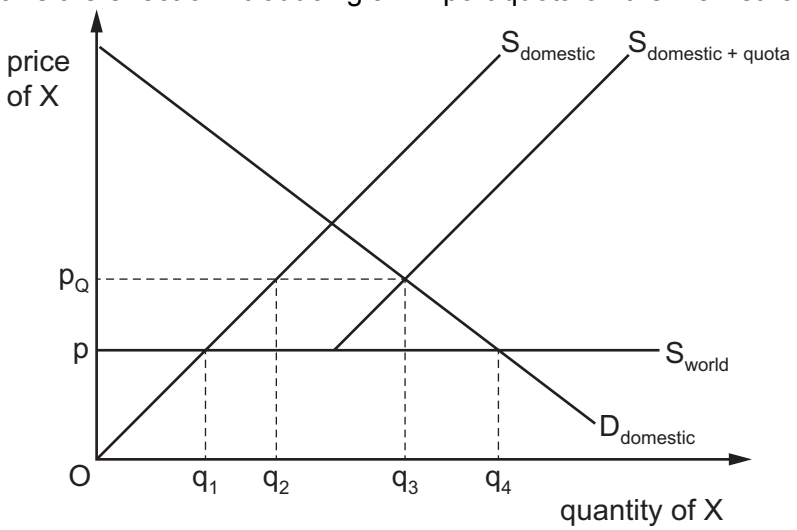
A a reduction in consumer saving

B a reduction in direct taxes

C a reduction in imports

D a reduction in investment

23 The diagram shows the effect of introducing an import quota on the market for good X.



What is the change in domestic supply and the size of the import quota?

	change in domestic supply	size of import quota
A	q_1q_2	q_2q_3
B	q_1q_3	q_1q_4
C	q_1q_4	q_1q_2
D	q_2q_3	q_3q_4

24 Country X joins a customs union with country Y and will remove the tariff on its imports of good M from country Y.

Under which conditions will trade creation in country X be the smallest?

	existing size of country X's tariff on imports of good M	price elasticity of demand for good M in country X
A	large	–0.8
B	large	–1.4
C	small	–0.8
D	small	–1.4

© UCLES 2019

25 An Australian family purchases a holiday to New Zealand and an Australian mining company sells coal to China.

Four students, A, B, C and D, are asked where these transactions appear in the current account of Australia's balance of payments.

Which student is correct?

	holiday to New Zealand	coal to China
A	service export	good export
B	service export	good import
C	service import	good export
D	service import	good import

26 What is likely to be the **least** effective store of value during a period of rapid inflation?

A antique furniture

B fixed interest government securities

C houses

D shares of industrial companies

27 An increase in what will shift the aggregate demand curve in an economy to the right?

A budget deficit

B consumer savings

C general price level

D interest rate

28 A country's balance of payments current account is in deficit.

How can this be restored to equilibrium, assuming the Marshall-Lerner condition holds?

A increase the exchange rate

B reduce income tax

C reduce primary income

D subsidise domestic producers

© UCLES 2019

29 Monetary policy does not usually work immediately.

Which time lag is likely to be the **least** concern to a government whose priority is a rapid domestic impact?

A the time it takes for policymakers to recognise the cause of a problem

B the time it takes for the economy to respond to the introduction of the policy

C the time it takes for the foreign exchange rate to respond to the effect of the policy

D the time it takes to put the chosen policy measure into place

30 What is the best example of an expansionary supply-side policy?

A the Argentinian central bank's decision to cut the interest rate in 2018

B the US president's plan to cut income tax rates in 2017

C the UK government's plan to build 500 new schools by 2020

D the Chinese government's decision to devalue their currency by almost 7% in 2016

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 Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

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

© UCLES 2019