Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2020**

1 hour

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.

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1 The transition of centrally planned economies to market economies was accompanied by a significant change in the composition of output.

What was an immediate consequence of this transition?

A a build-up of unsold stocks of goods

B an increase in exports of goods

C an increase in unemployment

D decreasing prices of goods and services

2 Which statement is correct?

A Normative economics concerns the description of economic models.

B Normative economics is objective and factual.

C Positive economics can be tested by data and evidence.

D Positive economics is subjective and offers a value judgement.

3 Consumers do not use enough of a product to maximise their private benefit because they have imperfect information about the product.

How would an economist classify this product?

A demerit good

B free good

C merit good

D public good

4 What is meant by the division of labour?

A Each worker specialises in a different task in production.

B Some workers work part-time and others work full-time.

C The same amount of output per hour is produced by each worker.

D Workers divide their time between different jobs.

5 What describes a market supply curve?

A It is downward sloping.

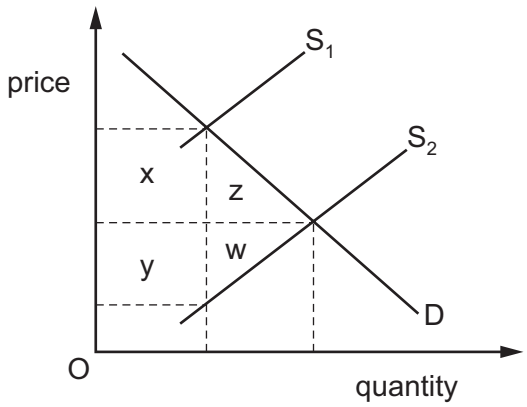
B It is the same as the aggregate supply curve.

C It is the sum of all firms' supply curves for a product.

D It is the supply of all products within an economy.

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6 In the diagram, D is the demand curve for Indian tea exports and S_1 is the supply curve when there is a tax on tea exports.



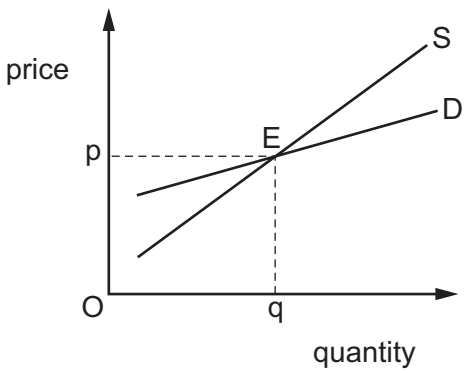
The Indian government removes the tax, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting loss in tax revenue to the Indian government and the resulting gain in consumer surplus?

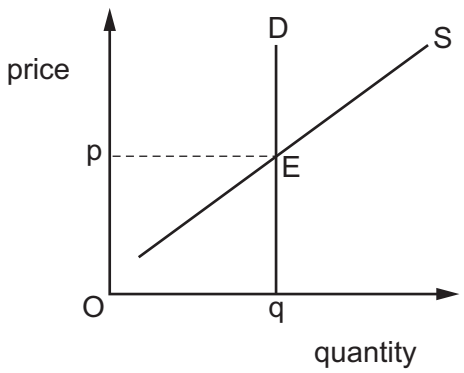
	loss in tax revenue	gain in consumer surplus
A	x	w + y
B	x	x + z
C	x + y	z
D	x + y	x + z

7 In which market would equilibrium **not** be achieved at point E if price were above Op?

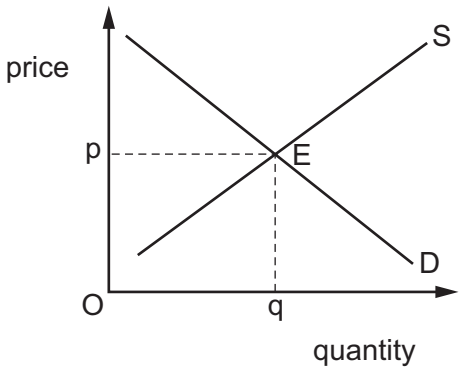
A



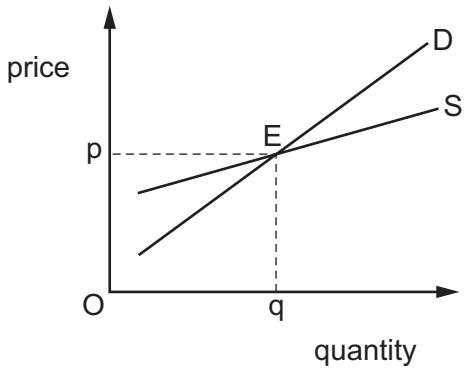
B



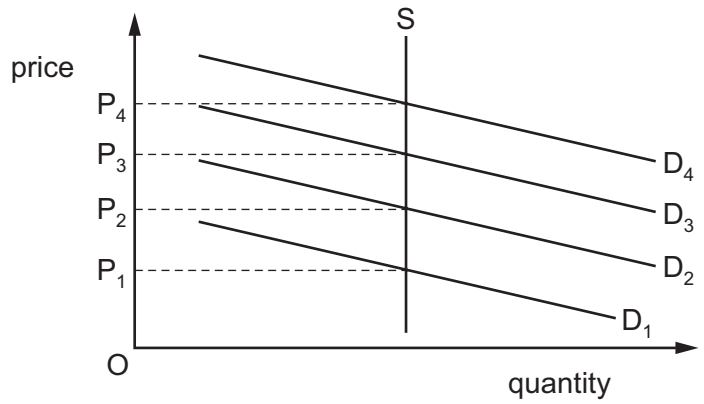
C



D



8 In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days (D_1, D_2, D_3 and D_4).



The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

A set a fixed price at P_1

B set a fixed price at P_4

C vary prices between P_2 and P_3

D vary prices between P_1 and P_4

9 An indirect tax is imposed on a product in a competitive market.

Under which circumstances would the value of the consumer surplus be most likely to remain unchanged?

A New substitutes are developed for the product and production costs rise.

B Some producers merge so there is less competition in the market.

C The product is an inferior good, consumer incomes increase and production costs rise.

D The product is a normal good, consumer incomes increase and production costs fall.

10 How might a firm raise the value of the price elasticity of supply for its product?

A decrease the amount of labour that it employs

B employ new technology to increase its productive capacity

C increase advertising expenditure to generate more revenue

D reduce the level of stocks in order to cut costs

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11 Shoe manufacturers often use leather to make their most expensive shoes. Due to a world shortage of leather, the price of leather has risen.

What will be the effect of this price change?

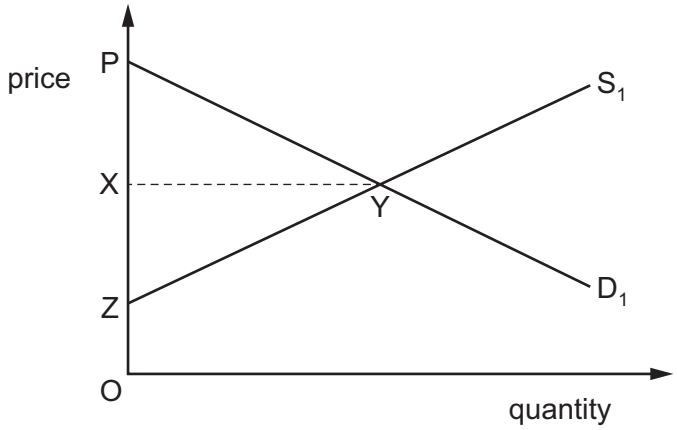
A The demand curve for leather shoes will shift to the left.

B The demand curve for a substitute for leather shoes will shift to the right.

C The supply curve for leather shoes will shift to the right.

D The supply curve for a substitute for leather to make expensive shoes will shift to the right.

12 The diagram represents the market for a good.



Which statement is correct?

A OX represents the price above which no producer wishes to stay in the market.

B OZ represents the minimum price consumers are prepared to pay.

C PYZ represents the total consumer surplus.

D XYZ represents the total producer surplus.

13 The economics department of a university calculates that the price elasticity of demand for the products of a local firm is between –1.1 and –1.3.

Which decision could be justified by the research?

A Increase prices to increase profit.

B Invest in more capital to increase output.

C Reduce advertising to reduce costs.

D Reduce prices to increase revenue.

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14 A specific tax is imposed on a product for which the elasticity of supply is zero.

Which statement is correct?

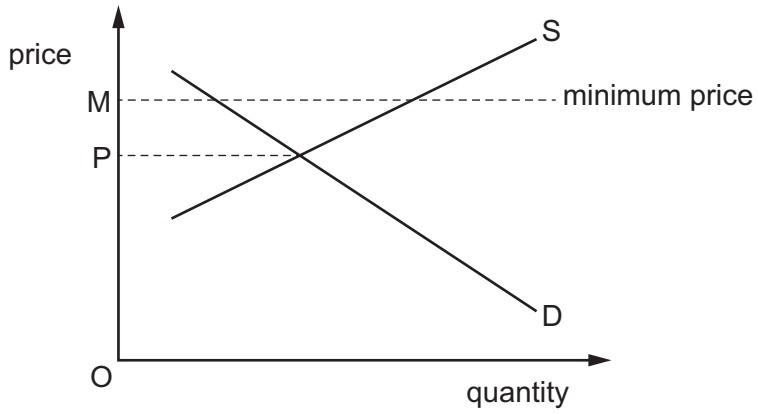
A The burden of this tax will fall entirely on consumers.

B The burden of this tax will fall entirely on suppliers.

C The burden of this tax will fall mainly on consumers.

D The burden of this tax will fall mainly on suppliers.

15 The diagram shows a market where a government has set a minimum price of OM.



What can be concluded from the diagram?

A At prices above OM, there would be a surplus of the good.

B At the minimum price OM, there would be a shortage of the good.

C Price will fall automatically from OM to OP.

D The minimum price will be ineffective.

16 What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

A fewer destinations served by trains and buses

B lower fares

C more frequent services to all destinations

D more people employed in public transport services

17 A teenager received a cheque for $50 as a birthday gift from her parents. The teenager paid the cheque into her savings account at the bank.

Why is this gift a transfer payment?

A It did not involve a cash payment.

B It transfers money between bank accounts.

C The parents did not spend their money.

D The teenager did not produce any output.

18 What is a necessary characteristic of a public good?

A It has a fixed maximum price.

B It has an opportunity cost of production of zero.

C It is non-excludable.

D It is an essential good.

19 What is **least** likely to change an advanced industrialised economy's terms of trade?

A its level of labour productivity

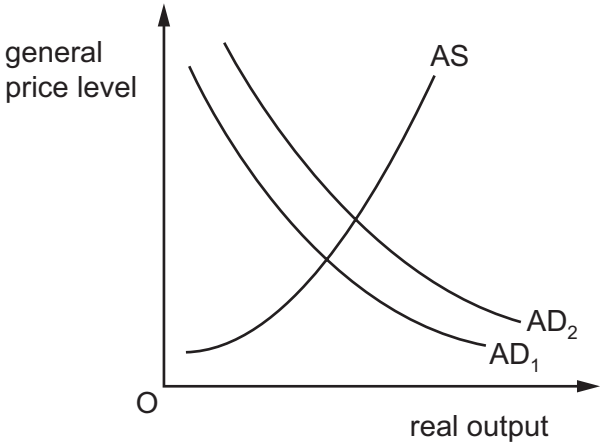
B its rate of inflation

C the maintenance of a stable foreign exchange rate

D the occurrence of random supply shocks

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20 The diagram shows the aggregate demand (AD) and aggregate supply (AS) curves for an economy.



Which situation would **not** cause a shift from AD_1 to AD_2?

A a fall in the general price level as government spending is reduced

B an easing of credit by commercial banks for household purchases of consumer goods

C an increase in earnings from exports of high-tech products

D an increase in investment by firms in computer systems

21 Which combination of changes is **most** likely to lead to an increase in the aggregate price level and the level of real output?

	income tax rate	net exports
A	fall	decrease
B	fall	increase
C	rise	decrease
D	rise	increase

22 Country W conducts 50% of its trade with country X, 30% of its trade with country Y and 20% of its trade with country Z. The initial value of the trade-weighted exchange rate of country W is 100.

Country W's currency appreciates 10% against the currency of country X, depreciates 10% against the currency of country Y and is unchanged against the currency of country Z.

What will be the new trade-weighted exchange rate?

A 100 **B** 102 **C** 102.5 **D** 200

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23 The table shows the goods balance and services balance for a country in selected years.

year	goods balance ($ billion)	services balance ($ billion)
2015	+120	–30
2016	+110	–30
2017	+50	–10
2018	+130	–60
2019	+140	–50

Between which years did the overall goods and services balance change the most?

A 2015 to 2016

B 2016 to 2017

C 2017 to 2018

D 2018 to 2019

24 What is **not** an example of protectionism?

A export subsidies

B import subsidies

C quotas

D tariffs

25 What is an expenditure-switching policy to reduce a country's balance of payments deficit?

A an increase in budget surplus

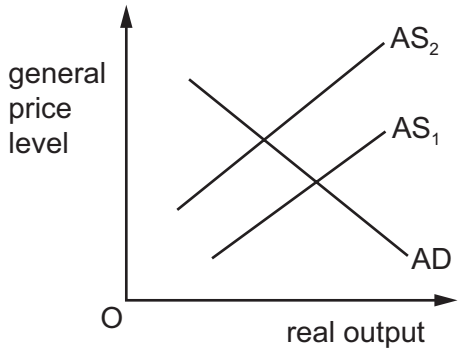
B an increase in direct taxes

C an increase in import tariffs

D an increase in interest rates

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26 The diagram shows the aggregate demand (AD) and aggregate supply (AS) for an economy.



Which changes in subsidies and indirect taxes would have caused the change in AS shown?

A higher subsidies and higher indirect taxes

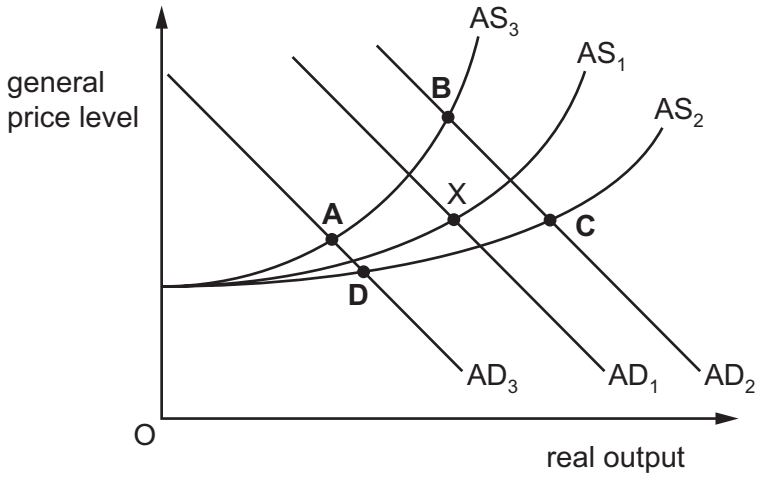
B higher subsidies and lower indirect taxes

C lower subsidies and higher indirect taxes

D lower subsidies and lower indirect taxes

27 In its recent budget a government increased defence expenditure and also the amount spent on training that increased the productivity of the workforce. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these changes?



28 An increase or decrease in exchange rates can take place in both a floating and a fixed exchange rate system but different terminology is used for each system.

What is the correct terminology?

	decrease in floating	increase in fixed
A	depreciation	appreciation
B	depreciation	revaluation
C	devaluation	appreciation
D	devaluation	revaluation

29 In 2018 the United States (US) government reduced direct taxes on consumers and businesses.

What are likely to be the effects of these changes on consumption, investment and national output?

	consumption	investment	national output
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	decrease
D	increase	increase	increase

30 A country experienced a significant fall in unemployment but its inflation rate remained low.

What could explain this?

A Global competition prevented firms passing on higher costs.

B Increased spending on imports had lowered the exchange rate.

C There was a low level of spare capacity in the economy.

D Wage rates had increased by more than labour productivity.

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