Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

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 Which statement is the most valid reason for government intervention in a free market economy?

A Consumers are well informed, making it difficult for producers to make profits.

B Health and education are not available in sufficient quantities.

C Producers are motivated only by profit.

D There are many competitive firms and not enough sole suppliers.

2 What would **not** be considered a barter transaction?

A a car repairer undertaking the annual service on a plumber's van in return for the plumber fitting a new sink in the car repairer's kitchen

B a consumer negotiating with a shopkeeper and buying a pair of trousers at US$10 rather than the asking price of US$30

C a graduate student exchanging a set of textbooks for a radio with a student about to start the course

D a train company allowing a phone company to advertise on its trains in return for the right to advertise on the phone company's website

3 A factory introduces an automated production line to take advantage of division of labour.

What is most likely to increase?

A average cost of production

B job satisfaction of workers

C range of skills of each worker

D worker productivity

4 Which statement is normative?

A A minimum wage is the correct government policy to increase the incomes of the lowest paid workers.

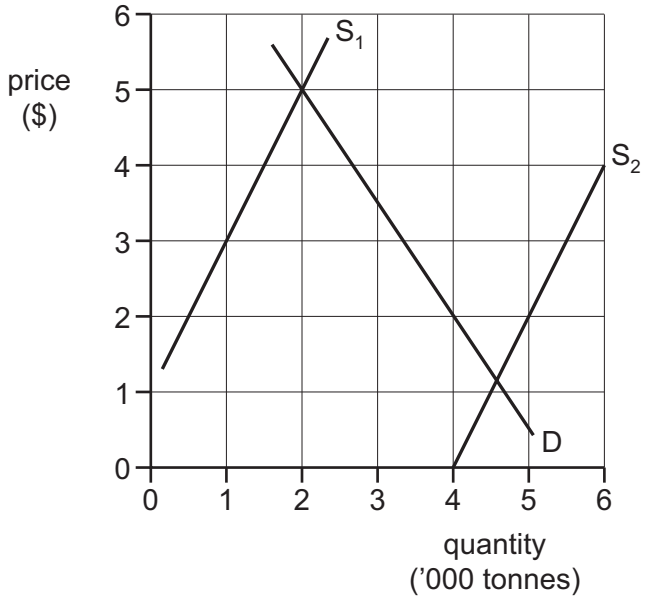
B A minimum wage is the lowest amount that employers can legally pay their workers.

C In Pakistan, a minimum wage of 15 000 Pakistani Rupees per month was set on 1 June 2016.

D Setting the minimum wage rate above the equilibrium will result in an excess supply of workers.

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5 In the diagram, D is the demand curve for an agricultural commodity and S_1 is the initial supply curve. A good harvest causes the supply curve to shift to S_2.



By how much will the demand curve have to shift to leave farm incomes unchanged?

A 500 tonnes at all prices

B 1000 tonnes at all prices

C 2000 tonnes at all prices

D 4000 tonnes at all prices

6 A manufacturer progressively reduces the price of his product.

The table shows the outcome of this policy.

price ($)	total revenue 000s ($)
10	750
9	750
8	750

What is the price elasticity of demand for the product?

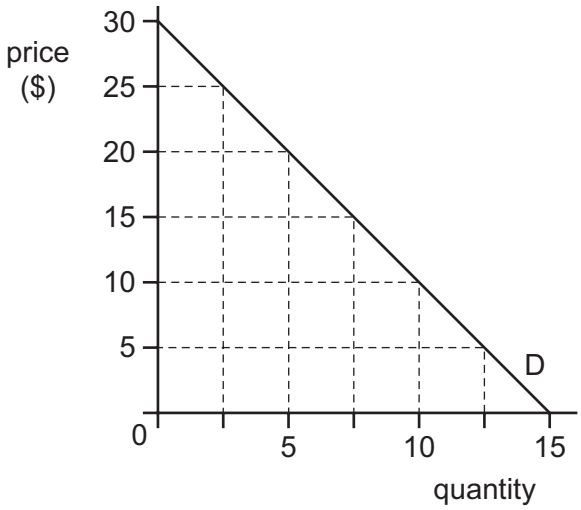
A perfectly inelastic

B relatively inelastic

C perfectly elastic

D unitary

7 The diagram shows a consumer's demand curve for a product.



How does consumer surplus change as the price of the product rises?

A It falls at a constant rate (%) with each $5 rise.

B It falls by a constant amount with each $5 rise.

C It falls by a decreasing amount with each $5 rise.

D It falls by an increasing amount with each $5 rise.

8 Following the introduction of a 10% increase in charges for car parking in a city centre, the demand for bus journeys per day into the city rose from 800 to 1000.

What was the cross elasticity of demand for bus journeys with respect to car parking charges?

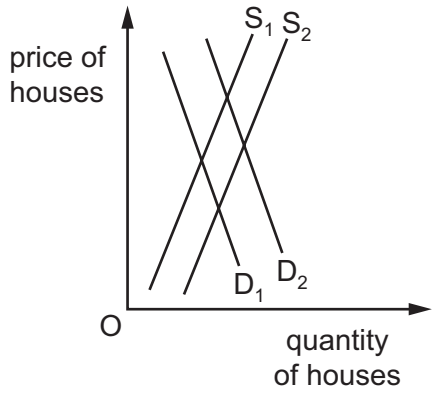
A –0.4 **B** +0.4 **C** +2.0 **D** +2.5

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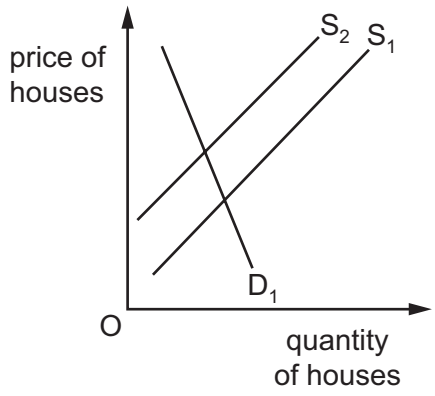
9 An economy is suffering from a housing shortage. The demand for housing continues to rise as real incomes increase and more construction firms enter the market to build more houses.

Which diagram represents this situation?

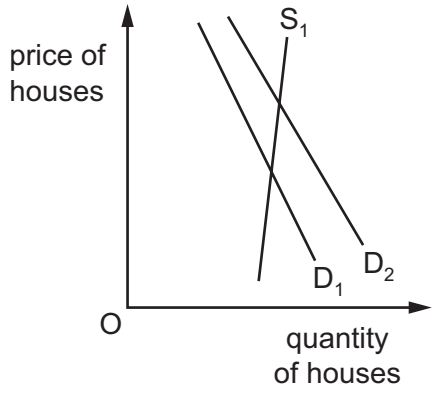
A



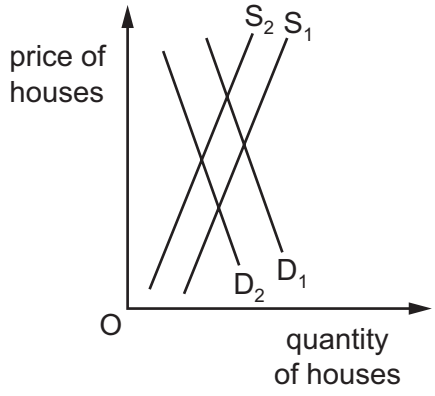
B



C



D



10 A good has a price elasticity of supply of 2.0. The current quantity supplied is 300 units per week at a market price of $20 per unit. The firm raises the price to $25 per unit.

What will the new quantity supplied be per week?

A 150 units

B 375 units

C 400 units

D 450 units

11 What is a major function of the price mechanism?

A providing incentive for government intervention to reduce income inequality

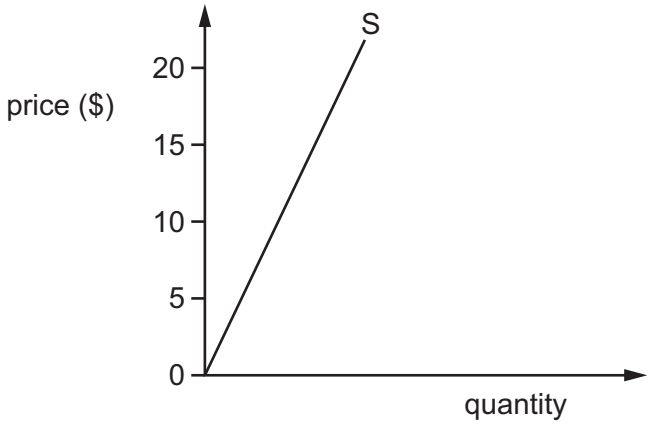
B removing shortages by creating incentives for market prices to fall

C removing surpluses by creating incentives for market prices to rise

D signalling changes in market conditions to producers and consumers

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12 The diagram shows the supply curve of a product.



The government imposes a specific indirect tax of $5 on the product.

How will the price elasticity of supply of the product change?

A from elastic (>1) to inelastic (<1)

B from inelastic (<1) to elastic (>1)

C from inelastic (<1) to unitary (=1)

D from unitary (=1) to elastic (>1)

13 In the market for a good the quantity supplied (Q_S) and the quantity demanded (Q_D) are given by $Q_S = P – 30$ and $Q_D = 240 – 2P$ where P = price in dollars.

A change in the tax on the good makes $Q_S = P – 36$.

How will the change affect equilibrium price?

A It will fall by $2.

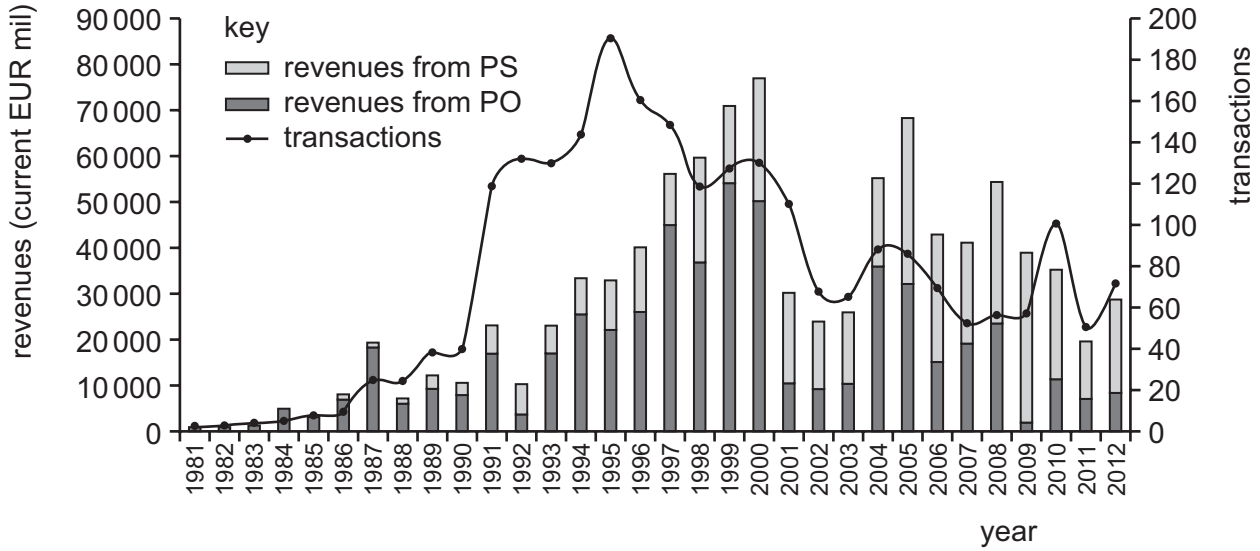
B It will fall by $6.

C It will rise by $2.

D It will rise by $6.

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14 Privatisation can be achieved by the sale of shares to the general public (public offers, PO) or by the direct sale to a private company (private sales, PS). The diagram shows privatisation transactions and revenue for the European Union between 1981 and 2012.



What can be concluded from the diagram?

A Any increase in the number of privatisations resulted in an increase in privatisation revenue.

B The average revenue per privatisation was highest in 2000.

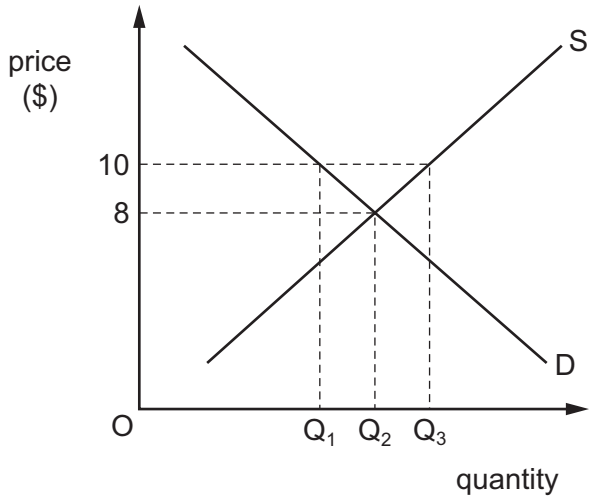
C The main revenue from privatisation changed from public offers to private sales.

D The number of privatisations and revenue raised peaked in the same year.

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[Turn over

15 The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

A The government would need to supply Q_1 to Q_3.

B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

16 A government decides to replace a private company with its own company to collect household waste.

Why could such action be justified?

A Because waste collection is a public good.

B Costs of waste collection are bound to be lower if paid out of local taxes.

C Private companies are always less efficient than government companies.

D Private companies might put profits before customer needs.

17 Which measure would **not** be part of a government subsidy to protect domestic producers from competition?

A import quotas

B interest-free loans provided by the government

C reductions in profits (business) taxes

D transfer payments

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18 A country's railways are currently run by private firms. It has been suggested that the government should nationalise the railways.

What might be a reason for this?

A to control prices of railway services

B to encourage competition in railway services

C to increase the profit incentive

D to provide jobs for local people

19 What is likely to cause a decrease in aggregate demand?

A an appreciation in the exchange rate

B an improvement in consumer confidence

C an increase in government expenditure

D an increase in the money supply

20 A country maintains its foreign exchange rate against the United States dollar, within a narrow but changing band.

What is this type of exchange rate?

A fixed

B floating

C managed float

D trade-weighted

21 Which components are included in the financial account of the balance of payments?

	the balancing item	foreign direct investment	interest, profits and dividends
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

key

✓ = included

✗ = not included

22 Which argument is an importer **most** likely to use to gain the support of consumers for free trade?

A More imports allow the government to raise revenue from tariffs.

B More imports improve the country's terms of trade.

C More imports increase competition in the domestic economy.

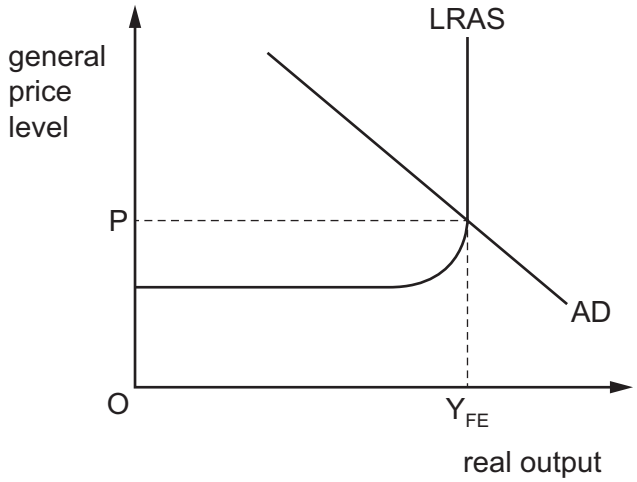
D More imports raise total employment in the domestic economy.

23 According to US Consumer Prices Index (CPI) statistics, an identical good that cost $100 in 1913 would cost $2359.60 in 2013.

What was the approximate cumulative rate of inflation over the period?

A 23% **B** 230% **C** 2300% **D** 23 000%

24 The diagram shows an economy at full employment equilibrium.



Which short-run measures should the government take to maintain the economy's current equilibrium if there is an unexpected balance of trade surplus?

A higher government spending on education financed by an equal rise in direct taxation

B higher direct taxation with government spending unchanged to create a budget surplus

C higher spending on infrastructure financed by a budget deficit

D lower interest rates to promote investment spending in the private sector

25 Why does the value of a country's terms of trade have no monetary units?

A It cannot be calculated accurately enough.

B It includes more than one currency.

C It is a ratio of two index numbers.

D It measures change over time.

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26 The statements that follow relate to possible gains from an increase in free trade.

Which gain is **least** certain to result in the short run?

A a reduction in costs of production

B a rise in the number of jobs

C a wider choice of goods available to consumers

D an increase in the level of competition

27 In an economy with an interest rate of 4% per annum, the rate of inflation falls from 5% to 3% per annum.

What will be a benefit of this fall?

A Menu costs will fall to zero.

B People on fixed incomes will be better off in real terms.

C Savers will gain in real terms.

D The purchasing power of the currency will rise.

28 Which combination correctly classifies an expansionary fiscal measure and its impact on a budget deficit?

	fiscal policy	budget deficit
A	increased quantitative easing	unchanged
B	increased welfare spending	increased
C	lower income tax	reduced
D	lower interest rates	unchanged

29 In 2018 the United States (US) government introduced tariffs on a wide range of imports from China.

Which type of policy was the US government adopting?

A expenditure-reducing

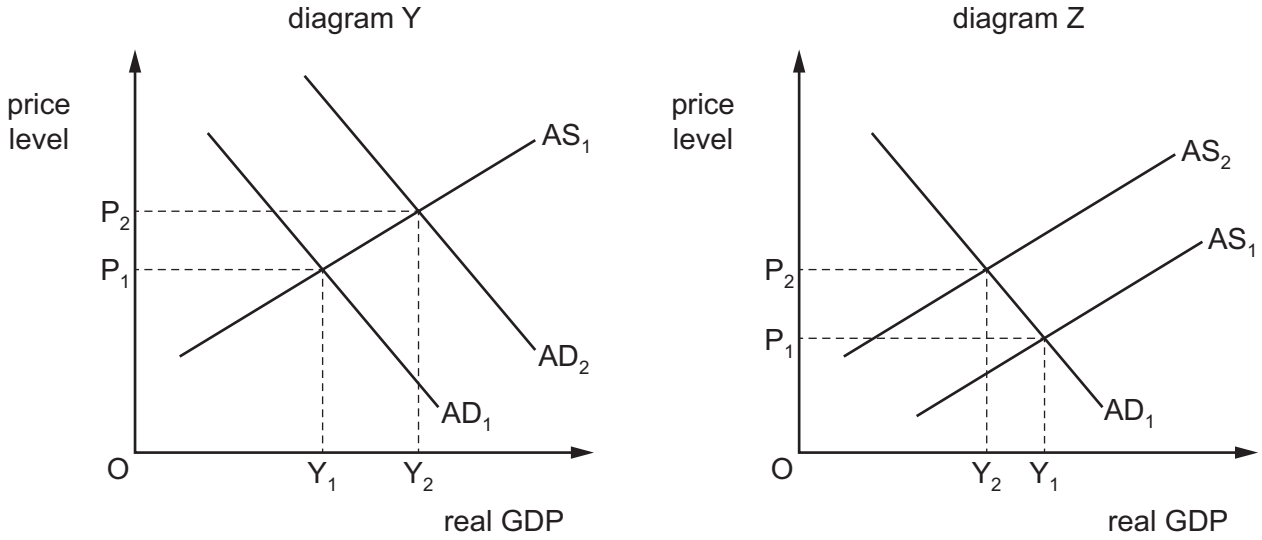
B expenditure-switching

C monetary

D supply-side

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30 During the Great Depression the US government believed that deflation was caused by a collapse in the prices of stock and other assets, reducing the levels of wealth and confidence. The diagrams show two approaches to counter deflation.



Given this belief, which policy should the US government have used, in an attempt to remove the deflation and which diagram represents the intended outcome of the policy?

	policy	intended outcome
A	decrease interest rates	diagram Y
B	reduce corporation tax	diagram Z
C	increase interest rates	diagram Z
D	reduce corporation tax	diagram Y

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