Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/13**

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.

© UCLES 2020

1 An economist knows the current point at which an economy is operating within its production possibility curve.

What can the economist judge from this knowledge about the economy?

A its degree of self-sufficiency

B its international competitiveness

C its level of output of two goods

D its rate of economic growth

2 Abdul earns $50 000 a year working as a teacher. He owns a house valued at $250 000 and has shares worth $20 000. He has a current bank account with a balance of $1500 and $200 in his wallet. In his house there is a jar containing $100, which he has saved to spend on his forthcoming holiday.

What is the value of Abdul's liquid assets?

A $200 **B** $300 **C** $1800 **D** $21 500

3 Which type of good is healthcare?

A demerit

B free

C merit

D public

4 Which is a normative statement?

A If interest rates fall consumption is likely to increase.

B If interest rates fall consumption will definitely increase.

C Interest rates and consumption are usually inversely related.

D The rate of interest should be reduced.

5 In a free market there is a surplus of a good.

Which change would cause the market to come to an equilibrium?

A a decrease in demand

B a fall in price

C a government minimum price

D an increase in supply

© UCLES 2020

6 What is **most** likely to increase the quantity of houses supplied?

A a policy to help house buyers on modest incomes

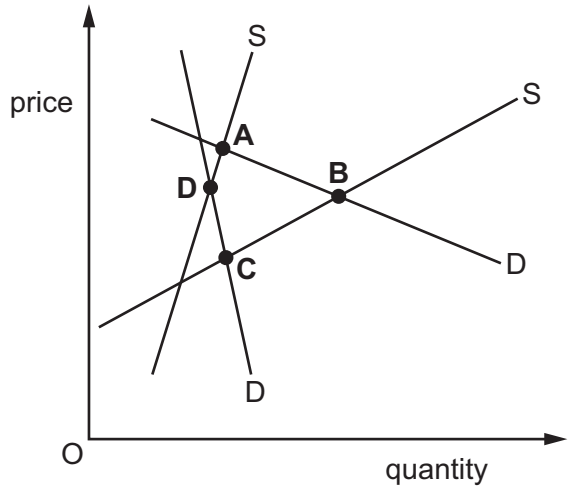
B a restriction on the level of rent that can be charged

C a rise in the tax on materials used for building houses

D the removal of a subsidy to house builders

7 The diagram shows two demand curves and two supply curves for a product.

Which equilibrium point is most likely to represent the long-run equilibrium in the market?



8 The equilibrium price of a product is $10. The government introduces an effective minimum price of $12 for the product.

Under which condition will the value of the producer surplus increase the most?

	price elasticity of demand
A	0
B	between 0 and 1
C	1
D	greater than 1

9 Diesel engines are a major cause of air pollution in cities. A city authority placed a charge on diesel taxis entering the city.

What would be the **most** likely effects on the demand and supply of taxi journeys into the city?

	demand for taxi journeys	supply of taxi journeys
A	fall	fall
B	fall	remain unchanged
C	remain unchanged	fall
D	rise	fall

10 Which combination of the classification of a good and market change will cause the demand curve for the good to shift right?

	classification of good	market change
A	inferior good	income decrease
B	inferior good	price decrease
C	normal good	income decrease
D	normal good	price decrease

11 The supply (S) of a product is determined by the equation S = 10 + 10P when P is the price of the product in $.

What is the product's price elasticity of supply when its price rises from $1 to $2?

A 0.5 **B** 1.0 **C** 2.0 **D** 5.0

12 The table gives estimates of the price elasticities and cross elasticities of demand for bus and rail travel.

service	elasticity with respect to the price of	
	bus travel	rail travel
bus travel	–0.37	+0.13
rail travel	+0.16	–0.43

What would be the change in the volume of rail travel resulting from a 1% increase in bus fares?

A a decrease of 0.13%

B a decrease of 0.37%

C an increase of 0.16%

D an increase of 0.43%

© UCLES 2020

13 Which combination is most likely to result in the demand for a product being highly price-elastic?

	number of close substitutes	% of income spent on product
A	large	large
B	large	small
C	small	large
D	small	small

14 What is **most** likely to occur when the government privatises public sector organisations?

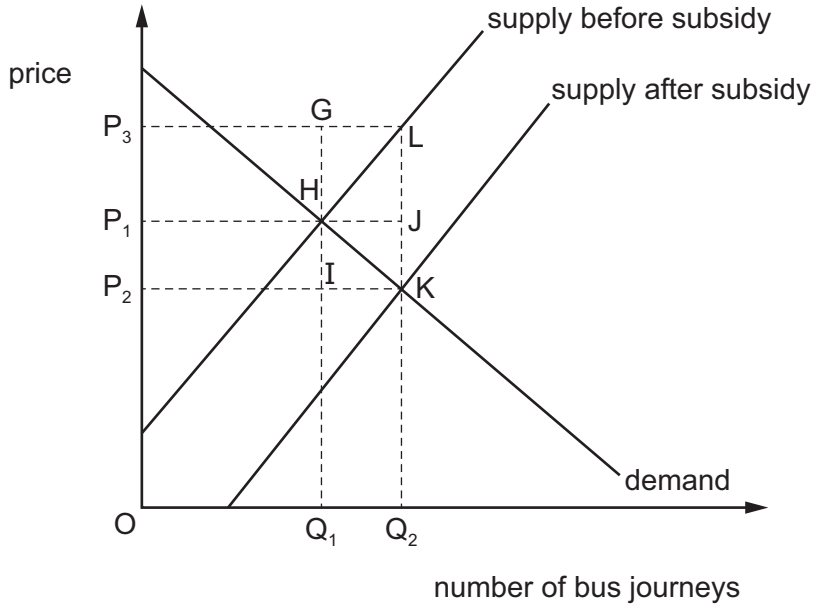
A Consumer choice will increase.

B Employment will increase in the short run.

C Innovation will be discouraged.

D The production of public goods will increase.

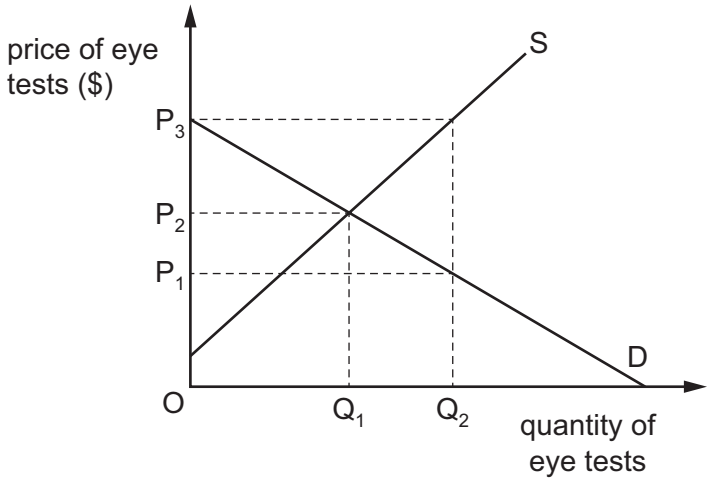
15 The diagram shows the market for bus services before and after a government subsidy.



Which area on the diagram shows the incidence of the subsidy for the consumer?

A P_1HIP_2 **B** P_1JKP_2 **C** P_2IGP_3 **D** P_2KLP_3

16 The diagram shows the market for eye tests.



Which policy would enable the government to increase the number of eye tests from OQ_1 to OQ_2?

A a maximum price of OP_3 per test

B a minimum price of OP_2 per test

C a subsidy paid to opticians of P_3–P_2 per test

D a subsidy paid to opticians of P_3–P_1 per test

17 In November 2017, the Scottish government introduced a minimum price for alcohol because of the detrimental health effects of alcohol consumption.

Which combination of actions is most likely to lead to a failure with respect to reducing the detrimental effects of the consumption of alcohol?

	action 1	action 2
A	minimum price is set too high	effective information provision regarding the health effects of consuming alcohol
B	minimum price is set too high	effective subsidisation of non-alcoholic beverages
C	minimum price is set too low	health benefits of reduced alcohol consumption have been overestimated
D	minimum price is set too low	stricter enforcement of the regulations relating to the sale of alcohol

18 What is an example of direct provision by a government?

A The government introduces a subsidy on renewable fuels to help the environment.

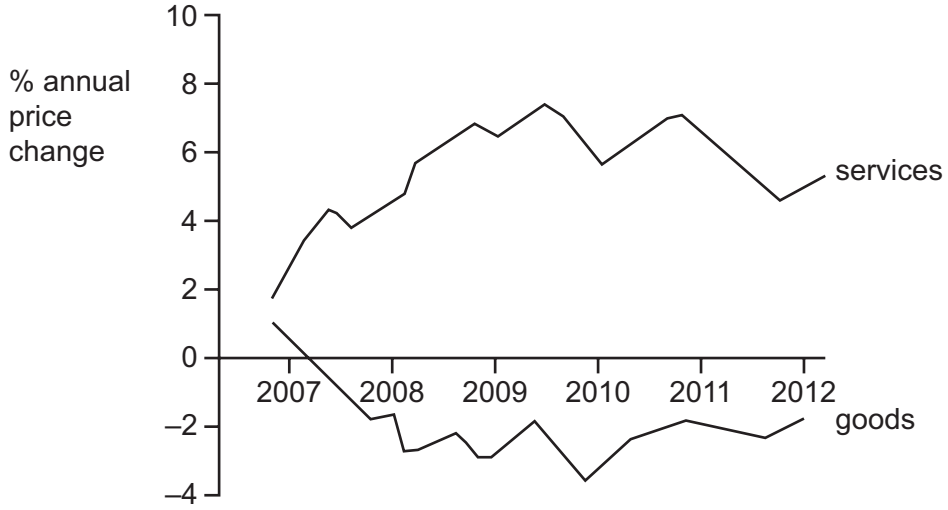
B The government introduces a unit tax on cigarettes to discourage consumption.

C The government sets a maximum rent on housing to protect tenants.

D The government takes over a private library to improve local services.

© UCLES 2020

19 The graph shows the annual percentage change in the prices of services and in the prices of goods between 2007 and 2012.



What can be deduced from the graph?

A On average the price of services was higher than the price of goods throughout the period.

B The average price of goods was higher in 2012 than in 2010.

C The average price of services was higher in 2012 than in 2010.

D There was a fall in the general price level between 2008 and 2010.

20 A government decides to devalue the country's currency to remove the deficit on its current account of the balance of payments.

What is the most likely reason why this would **not** work?

A The country gains a competitive advantage from the devaluation.

B The country has a surplus on its capital and financial accounts.

C The price elasticities of demand for the country's exports and imports are greater than one.

D There are high trade barriers with the country's main trading partners.

21 What will increase if aggregate demand rises when aggregate supply is perfectly elastic?

A labour shortages

B real output

C the price level

D wage rates

22 A country operates a floating exchange rate.

What will cause the demand curve for the country's currency to shift left in the foreign exchange market?

A a decrease in the country's interest rate

B a decrease in the country's money supply

C an increase in the country's export sales

D an increase in the country's import purchases

23 The table shows the relative price of exports compared with imports expressed as an index number for an economy (2013 = 100).

date	index
2013	100
2014	97
2015	95

Which statement about the period 2013–2015 is correct?

A Export prices have increased each year.

B The general level of prices has fallen.

C The terms of trade have deteriorated.

D The volume of imports increasingly exceeds the volume of exports.

24 The table shows an extract from a country's balance of payments.

	exports $ billion	imports $ billion
trade in goods	150	200
trade in services	70	50
primary (investment) income	120	100
secondary (transfer) income	15	20

What is the current account balance?

A –$10 bn **B** –$15 bn **C** –$30 bn **D** –$50 bn

25 The real national income of a country fell by 3%.

What could have caused this?

A Money national income fell by 3% when the rate of inflation was 6%.

B Money national income fell by 6% when the rate of inflation was 3%.

C Money national income rose by 3% when the rate of inflation was 6%.

D Money national income rose by 6% when the rate of inflation was 3%.

26 An economy with a long history of extensive barriers to trade decides to switch to totally free trade.

What is most likely to increase in the short term?

A consumer surplus

B government revenue

C inflationary pressure

D profits of all domestic companies

27 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

A Domestic money supply will increase.

B Rival economies may react with trade protection measures.

C The economy's foreign exchange reserves may decrease.

D The economy's short-run standard of living will be reduced.

28 What would be a positive effect on the growth of an economy in the short run, if the government reduced a direct tax on individual earnings?

A food prices would increase due to shortages

B imports of luxury cars would increase to satisfy a change in demand

C savings would increase due to additional disposable income

D the consumption of domestically produced goods would increase

© UCLES 2020

29 Which combination of fiscal and monetary policies is most likely to be effective in the short run for tackling deflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget deficit	decreasing the interest rate
B	decreasing the budget deficit	decreasing the money supply
C	increasing the budget deficit	decreasing the interest rate
D	increasing the budget deficit	decreasing the money supply

30 Which policy measure is an expenditure-switching measure designed to reduce a current account surplus?

A a cut in income tax rates

B a depreciation of the exchange rate

C the removal of limits on bank lending

D the removal of subsidies to exporters

© UCLES 2020

BLANK PAGE

BLANK PAGE

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 2020