Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2021**

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.
- Any rough working should be done on this question paper.

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1 In 2015, the Chinese economy grew at 6.9%, the Indian economy at 7.6% and the US economy at 2.4%.

Which comment contains **two** positive statements?

A Chinese economic growth exceeded US economic growth by 4.5% in 2015 but was 0.7% less than that in India.

B Chinese economic growth was more than double that in the US in 2015 but was disappointing compared to that in India.

C Economic growth in India was better than that of the US.

D Economic growth in the US was too low in 2015 and economic growth in India was too high.

2 What is the payment received for the use of capital?

A interest

B profit

C rent

D wage

3 Which type of good would be over-consumed because of information failure?

A demerit

B inferior

C merit

D public

4 What does the phrase ‘ceteris paribus’ mean?

A All the resources used are of equal quality.

B Everything else remains unchanged.

C The price mechanism rations scarce goods.

D The variable under consideration is held constant.

5 What could explain a shift of an upward-sloping supply curve to the right?

A an increase in firms’ unit labour costs

B an increase in the number of firms in the industry

C an increase in the price of the good

D an indirect tax imposed on the good

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6 When will it **not** be possible to use price as a rationing mechanism?

A when a good has a number of close substitutes

B when a good is an inferior good

C when the demand for a good is perfectly inelastic

D when the quantity of a good is in fixed supply

7 What is necessary for demand for a good to be effective?

A The consumer must have the ability to buy the product.

B The consumer must receive consumer surplus.

C The good must be sold in the private sector of the economy.

D There must be a successful advertising campaign.

8 Why is the price elasticity of demand for a particular brand of coffee likely to be higher than the price elasticity of demand for coffee in general?

A Coffee in general takes up a higher proportion of consumers' income.

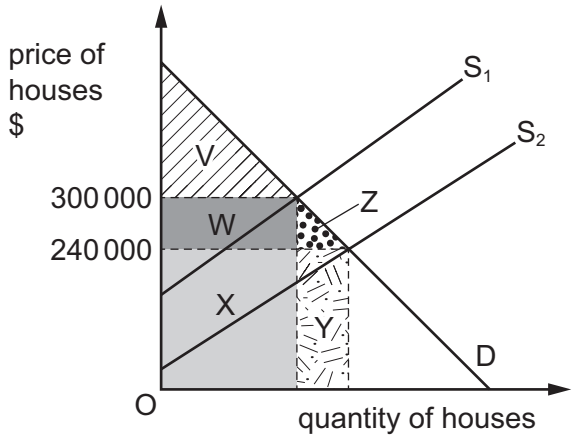
B Consumers may be very loyal to a particular brand of coffee.

C There are more substitutes for a particular brand of coffee than for coffee in general.

D Total demand for coffee is higher than for any one brand.

9 A government wishes to encourage young adults to buy their first home, by providing a subsidy to the builder.

Which area on the diagram represents the size of the consumer surplus to those who buy a house with such a subsidy?



A V + W + X **B** V + W + Z **C** W + X + Y **D** X + Y + Z

10 A government introduces a subsidy for product X and the market price of X falls by 5%. The cross elasticity demand for product Y, with respect to the price of product X, is +0.4.

What will happen to the demand for product Y?

A It will decrease by 2%.

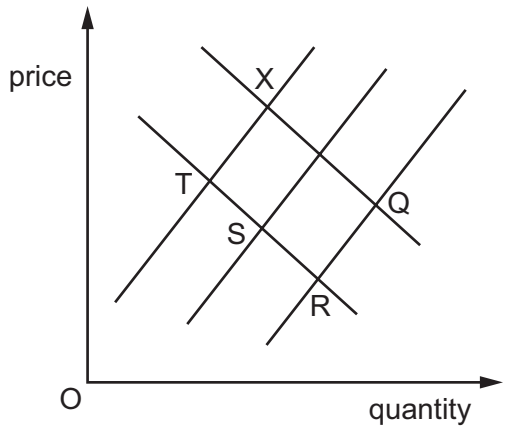
B It will decrease by 12.5%.

C It will increase by 2%.

D It will increase by 12.5%.

11 Prices of gold, silver and copper fell considerably in 2011 and again in 2015. The fall in prices in 2011 was said to be because miners increased production. The fall in prices in 2015 was because demand, especially from China, decreased.

Assuming that the equilibrium before 2011 was X, how would these movements in 2011 and subsequently in 2015 be shown on the demand and supply diagram?



	initial equilibrium	2011 equilibrium	2015 equilibrium
A	X	Q	R
B	X	R	Q
C	X	S	R
D	X	T	S

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12 The price elasticity of supply of a good is elastic.

Assuming all production is sold, which combination correctly describes the link between the impact of a rise in price on the quantity supplied and the total revenue received by the firm?

	quantity supplied rises by	total revenue
A	greater percentage than price	falls
B	greater percentage than price	rises
C	smaller percentage than price	falls
D	smaller percentage than price	rises

13 A local government is deciding whether to increase car parking charges and provide more lanes for bus use only.

One official said that the increase in car parking charges should cause more bus travel.

A second official said that an increase in the frequency of bus services will cause demand for bus travel to fall.

Are these official statements correct or incorrect?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

14 What is nationalisation?

A immigrant workers being granted permission to work in a country

B protecting domestic industries from foreign competition

C the government determining which goods should be produced

D transfer of a company from private ownership to government control

15 What would be classified by economists as an increase in transfer payments?

A a reallocation of spending from defence to education

B additional funding for government pensions

C extra spending on public sector infrastructure

D increased salaries paid to the police

16 A government provided additional free hospital care to its citizens.

What happened as a result?

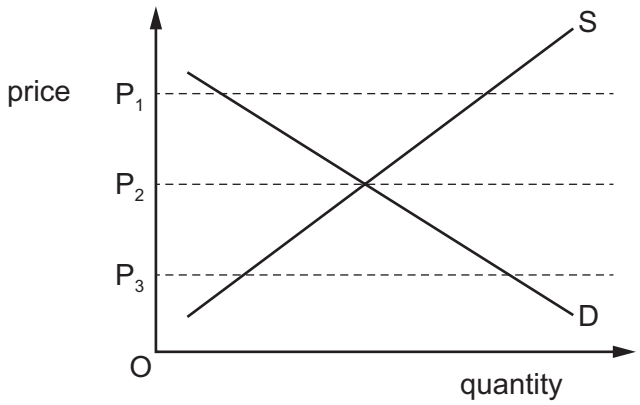
A The supply of merit goods reduced.

B The supply of merit goods increased.

C The supply of private goods reduced.

D The supply of public goods increased.

17 The diagram shows a market that is currently in equilibrium.



A government is considering the possible consequences of introducing a price control into this market.

Which statement is **not** correct?

A All consumers and some producers will lose if OP_1 becomes the minimum price.

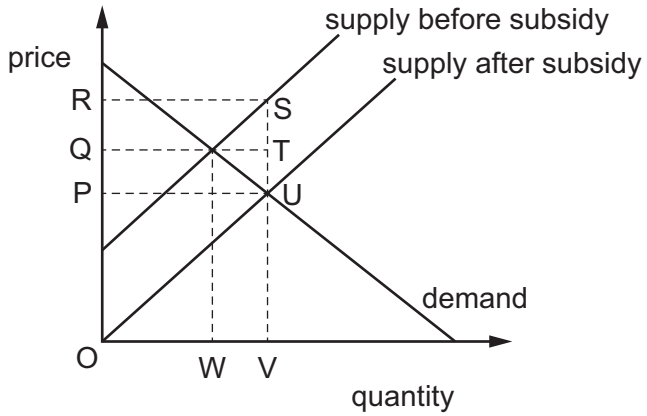
B All consumers will be unaffected if OP_1 becomes the maximum price.

C No producers will gain if OP_2 becomes the maximum price.

D All producers will gain if OP_3 becomes the maximum price.

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18 A government introduces a subsidy to encourage the purchase of electric cars.



Which area on the diagram represents the cost to the government?

A OPUV **B** PQTU **C** PRSU **D** QRST

19 What would be recorded in the financial account of India's balance of payments?

A An Indian steel manufacturer buys insurance for its factories from a firm in Europe.

B An Indian steel manufacturer employs foreign workers in its Indian factories.

C An Indian steel manufacturer receives profits from its factories in Europe.

D An Indian steel manufacturer supplies investment for a new factory in Europe.

20 Why might an unfavourable movement in a country's terms of trade benefit its economy?

A It would force inefficient firms out of business.

B It would increase the quantity of goods available for domestic consumption.

C It would make domestically-produced goods more expensive than imports.

D It would make the country's exports relative to imports more competitive internationally.

21 Two industries in a country are fishing and tourism. The foreign exchange rate of the country's currency fell in 2010.

If there were no other changes, how was the country affected?

A Local people bought more imported goods because they were cheaper.

B The price of fish sold in foreign markets became cheaper.

C The volume of exports decreased.

D Tourists to the country were discouraged by higher prices.

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22 Why might a government wish to increase the value of its foreign exchange rate when the sum of the price elasticity of demand for imports and exports is greater than 1?

A to attract more tourists into the country

B to improve the current account of the balance of payments in the long run

C to increase inflation if the country is in recession

D to make imported raw materials cheaper

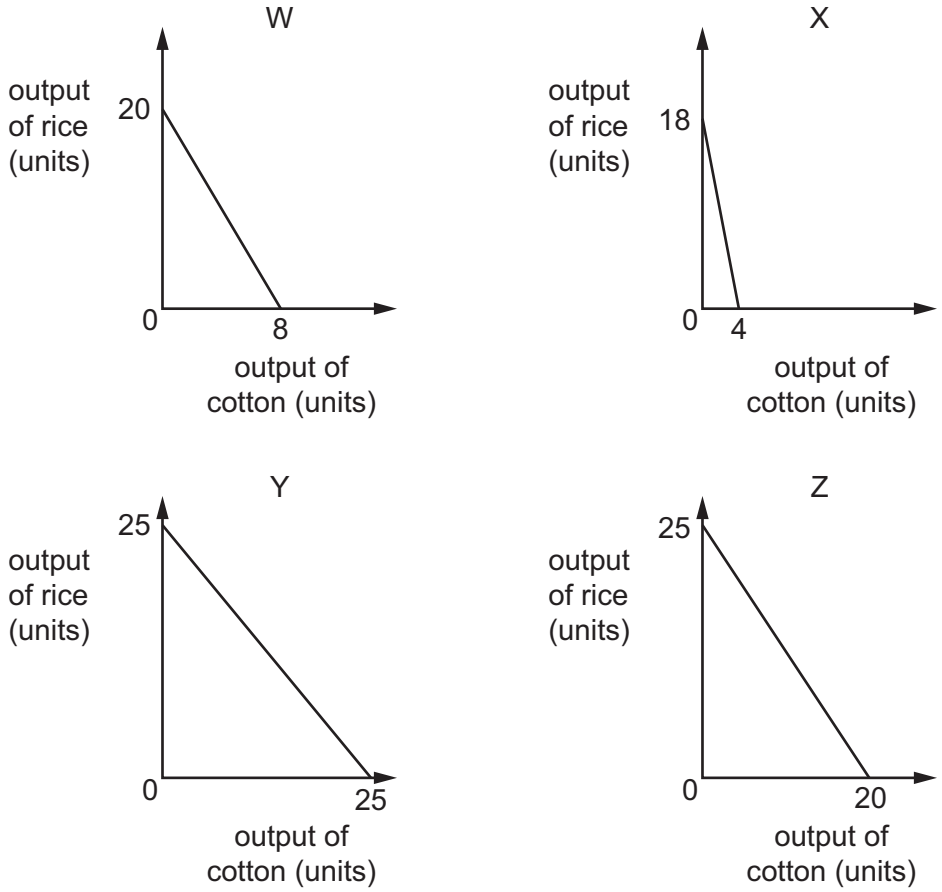
23 The table shows the levels of a country's consumer prices index (CPI) between 2015 and 2019.

	CPI
2015	100
2016	99
2017	98
2018	101
2019	102

Compared with the previous year, in which year was there disinflation but **not** deflation?

A 2016 **B** 2017 **C** 2018 **D** 2019

24 The diagrams show the production possibility curves of four countries W, X, Y and Z. They all produce rice and cotton using the same resources.



When comparing these four countries, what can be concluded from the diagrams?

A Country W has a comparative advantage in producing cotton.

B Country X has a comparative advantage in producing rice.

C Country Y has a comparative advantage in producing rice.

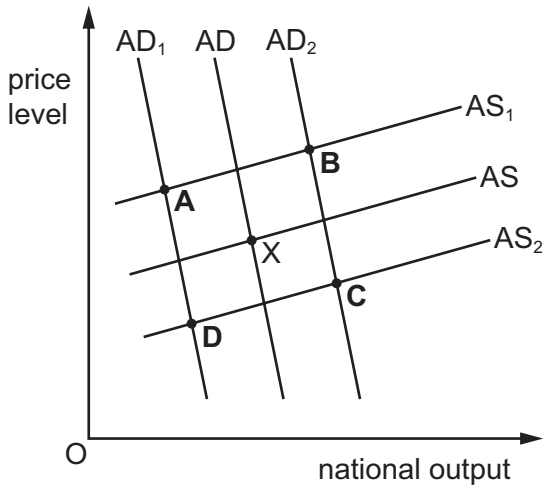
D Country Z has an absolute advantage in producing cotton.

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25 The diagram shows that aggregate demand (AD) and aggregate supply (AS) are in equilibrium at point X.

There is an increase in welfare payments and the government improves industrial training.

What will be the new equilibrium?



26 A small country imports tractors. The government of this country decides to impose a quota on imported tractors.

What is likely to be the effect on the price of imported tractors and domestic output of tractors?

	price of imported tractors	domestic output of tractors
A	fall	fall
B	increase	no change
C	no change	fall
D	no change	increase

27 What would be likely to increase inflation in an economy?

A an increase in consumer saving

B an increase in interest rates

C an increase in labour productivity

D an increase in taxes on imports

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28 Japan is suffering from deflation.

Which government policy would **not** help to overcome this problem?

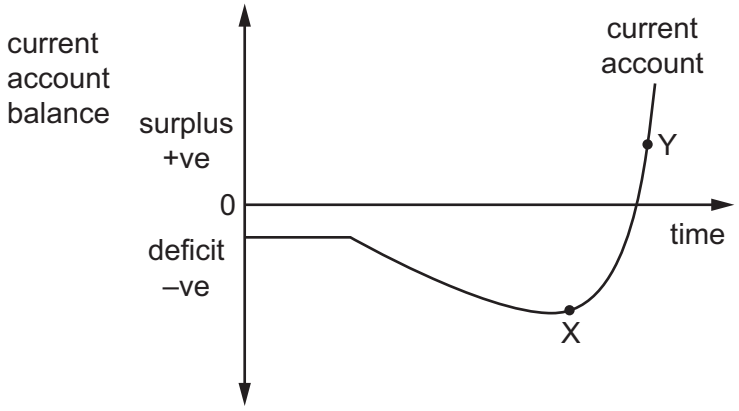
A encouraging domestic savings rather than consumption

B increasing incentives for business start-ups by lowering profits tax

C lowering interest rates and increasing the money supply

D promoting more innovation in technical industries

29 A country depreciates its currency to improve the current account of its balance of payments. The effect of the policy is shown.



What is the most likely cause of the movement from X to Y?

A The combined income elasticity of demand for exports and imports is +2.0.

B The combined income elasticity of demand for exports and imports is +0.2.

C The combined price elasticity of demand for exports and imports is –2.0.

D The combined price elasticity of demand for exports and imports is –0.2.

30 A country has adopted a fixed exchange rate system but is currently experiencing high unemployment and a deficit in the current account of its balance of payments.

Which combination of policies would be **most** likely to improve both the level of unemployment and the current account of the balance of payments?

A additional net spending by the government and a devaluation of the currency

B additional net spending by the government and revaluation of the currency

C a reduction in net spending by the government and a devaluation of the currency

D a reduction in net spending by the government and a revaluation of the currency

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