Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

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.

This document has **12** pages. Any blank pages are indicated.

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1 A tourist visits the coast for a holiday.

On her first day, she visits the local tourist office for information, goes for a swim in the sea, spends the evening enjoying the view of the coastline and rents a campsite for an overnight stay.

Which activities involve economic goods and which involve free goods?

	economic goods	free goods
A	camping and information	swimming and sightseeing
B	information and swimming	sightseeing and camping
C	sightseeing and camping	information and swimming
D	swimming and sightseeing	camping and information

2 Which aspect of a planned economy might be viewed unfavourably by a consumer but favourably by a producer?

A a bureaucratic system of decision-making

B a long response time to changing economic events

C an absence of incentives to work and to produce

D an emphasis on the production of capital goods

3 If the rate of inflation rises from 2% to 20%, which function of money is likely to be most affected?

A medium of exchange

B standard for deferred payment

C store of value

D unit of account

4 Which statement would be classified by an economist as a positive statement?

A Balancing the budget cannot be more important than reducing inflation.

B Maintaining the real income of pensioners needs to be a priority.

C The government should increase indirect taxation.

D The government will not increase direct taxation.

5 Which statement about price elasticity of supply is correct?

A It cannot change in the short run.

B It increases as the time period lengthens.

C It is infinite in the momentary time period.

D It is zero in the long run.

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6 The price elasticity of demand for a firm's product is equal to one for all price changes.

What would be the result of this?

A A percentage increase in price will cause demand to fall by a larger percentage.

B A percentage increase in price will cause demand to increase by the same percentage.

C Quantity demanded will always be the same whatever the price.

D The firm's revenue will always be the same whatever the price.

7 What leads to a downward shift of a normal supply curve?

A a rise in the cost of transporting goods

B a rise in the productivity of the labour force

C a rise in the rate of sales tax on the good

D a rise in the wage rate paid to workers

8 A market is in equilibrium with 100 units of the product sold at a price of US$10 each. The price elasticity of supply for the product is +2.0 and the price elasticity of demand is –1.0.

What will be the state of the market if a minimum price of US$11 is imposed?

A an excess demand of 10 units

B an excess demand of 30 units

C an excess supply of 20 units

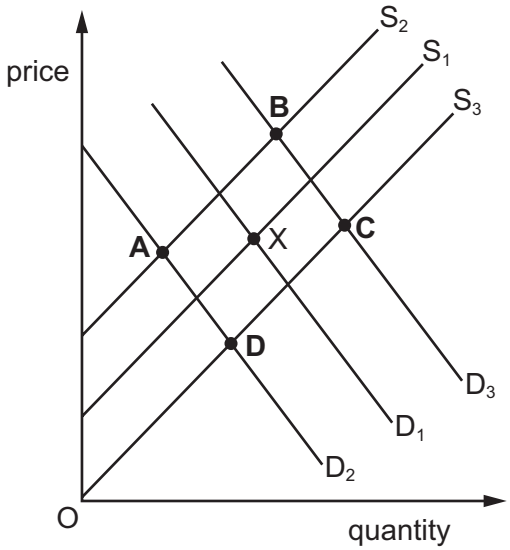
D an excess supply of 30 units

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9 The diagram shows the market for meat in equilibrium at X.

The cost of producing meat rises and there is a trend for consumers to change from meat to a vegan (non-animal) diet.

What is the new market equilibrium?



10 Goods X and Y are complements.

What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

	equilibrium price of X	equilibrium quantity of X
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

11 A private company achieves a producer surplus at the market equilibrium price.

What might reduce the size of the private company's producer surplus?

A Private companies choose to prioritise profits over customer needs.

B Private companies start to pay dividends out of profits.

C The government fixes the price of electricity below the market price.

D The private company supply curve becomes more elastic.

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12 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

B by combining individual demand curves horizontally

C by combining the price elasticity of individual demands

D by multiplying price by quantity demanded

13 Knowledge of which combination of demand elasticities would be relevant to a firm trying to increase its revenue?

	price elasticity of demand	cross elasticity of demand	income elasticity of demand
A	✓	✓	✓
B	✓	✓	✗
C	✓	✗	✓
D	✗	✓	✓

14 What will definitely stop, following the nationalisation of an industry?

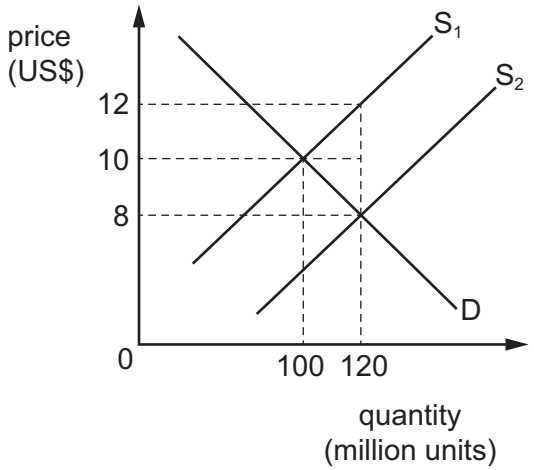
A dividend payments to the industry's shareholders

B job losses among the industry's workforce

C price increases for the industry's product

D the closure of unprofitable factories in the industry

15 The diagram shows the effect of the government introducing a subsidy on a product.

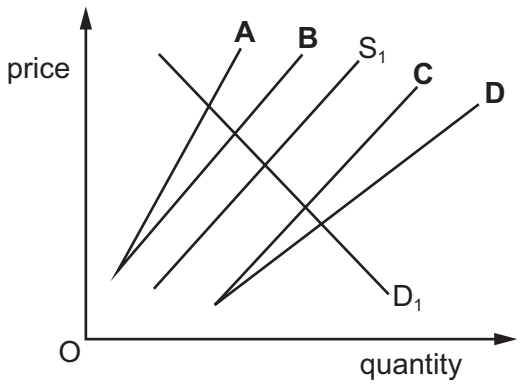


What are the effects of the subsidy on government spending and consumer spending?

	government spending	consumer spending
A	increases by US$240 million	decreases by US$40 million
B	increases by US$240 million	decreases by US$200 million
C	increases by US$480 million	decreases by US$40 million
D	increases by US$480 million	decreases by US$200 million

16 In the diagram, S_1 and D_1 are the initial supply and demand curves of a product.

What would be the new supply curve following the removal of an ad valorem tax on the product?



17 The table shows sources of government revenue in a fiscal year for an economy.

source of revenue	$ billions
sale of government assets	100
tax on self employed	1000
carbon tax on goods produced	100
corporate taxes	500
capital gains tax	100
goods and services tax	1000
air passenger tax	100

What is the total amount, in $ billions, of tax revenue raised by indirect taxes?

A 1200 **B** 1300 **C** 1400 **D** 1600

18 Education from 4 to 16 years of age in most developed economies is provided at zero price, financed from taxation.

Why should the government do this?

A In a free market, consumers have imperfect information so do not realise the full personal benefit of education.

B In a free market, education is not considered to be a private good.

C In a free market, consumers will be unwilling to pay for education.

D In a free market, education is non-rival and non-excludable in consumption so zero output would be produced.

19 What will cause a movement along an aggregate supply curve?

A a rise in the demand for exports

B a rise in the price of raw materials

C a rise in the productivity of labour

D a rise in the rate of sales tax

20 A government devalues its fixed exchange rate.

What is most likely to be its aim?

A to improve the terms of trade

B to increase the level of aggregate demand

C to reduce a current account surplus

D to reduce demand-pull inflation

21 As part of its trade policy, a government subsidises the cost of machinery used to manufacture goods for export.

How will this affect the balance of payments?

A decrease the deficit on the capital account

B decrease the deficit on the current account

C increase the deficit on the capital account

D increase the deficit on the current account

22 What is correct about the causes of inflation?

A Cost-push inflation can be caused by a rising exchange rate.

B Cost-push inflation can be caused by lower indirect taxes.

C Demand-pull inflation can be caused by a rising exchange rate.

D Demand-pull inflation can be caused by lower direct taxes.

23 The figures shown are from New Zealand's balance of payments for 2017 according to data published by Stats NZ in September 2018.

	NZ$m
capital account balance	1300
current account balance	–7000
financial account balance	7600
goods balance	–3000
services balance	5000

What was the value of the balancing item (net errors and omissions) in NZ$m?

A –3900 **B** –2000 **C** –1900 **D** 5700

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24 Two statements are shown.

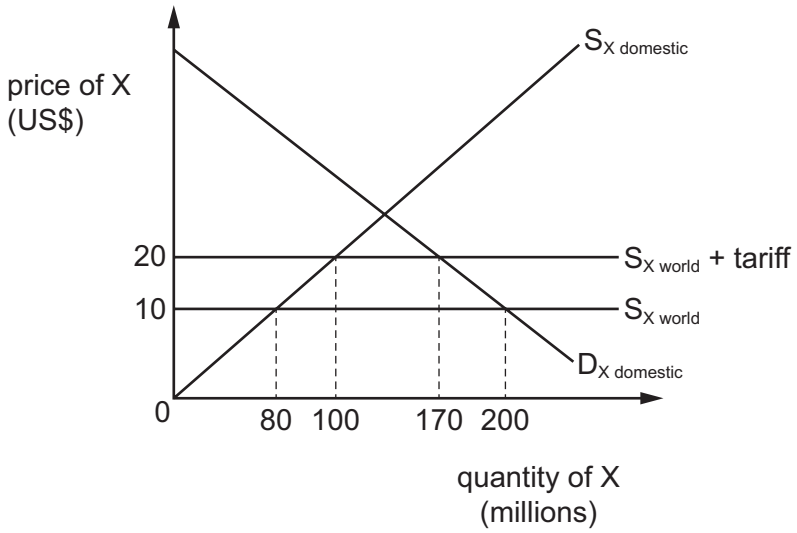
1 A country can produce a good at a lower opportunity cost than another country.

2 A country can produce a greater quantity of a good for the same quantity of inputs than another country.

What do these two statements describe?

	1	2
A	absolute advantage	comparative advantage
B	absolute advantage	the terms of trade
C	comparative advantage	absolute advantage
D	the terms of trade	comparative advantage

25 The diagram shows the effect of the introduction of a tariff on good X by country Y.



What is the revenue, in US$ million, received by producers of good X in country Y after the tariff is introduced?

A 400 **B** 800 **C** 1000 **D** 2000

26 Between 2011 and 2013, retailers reported that expenditure on domestically-produced and imported goods had reduced. This was because consumers did not take out loans as the economy was in a recession.

What is the likely result of this?

A a decline in the deficit in the trade account

B a decline in the level of savings

C a decline in the terms of trade

D a decline in unemployment

27 Increased international competition leads to a worsening in a country's current account balance.

In the absence of any offsetting factors, how is this likely to affect the exchange rate and domestic cost-push inflation?

	exchange rate	cost-push inflation
A	appreciate	decrease
B	appreciate	increase
C	depreciate	decrease
D	depreciate	increase

28 Why are higher interest rates together with increased taxation on expenditure likely to cause domestic deflation?

A because the contractionary monetary policy will over-ride the expansionary fiscal policy

B because the monetary and fiscal policies involved will reinforce each other

C because the expansionary monetary policy will over-ride the contractionary fiscal policy

D because the monetary and fiscal policies involved will cancel each other out

29 Which policy aimed at correcting a balance of trade deficit is an expenditure-reducing policy?

A depreciation of the currency

B increased direct taxation

C tax incentives for exporters

D the imposition of protectionist tariffs

30 Which policy will **not** cause a reduction in the rate of inflation?

A increasing income tax

B reducing government spending

C reducing interest rates

D removing subsidies

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