Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **May/June 2022**

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 Which list has the most words that are more likely to relate to a positive statement than to a normative statement?

A describe, better, should, value, emotion

B bias, objective, ought, opinion, tastes

C contestable, is, motive, subjective, moral

D actual, ethics, fact, was, testable

2 What is the main characteristic of a planned economy?

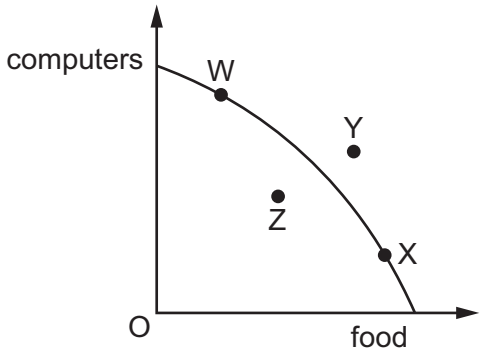
A All goods and services are produced by privately-owned firms.

B All goods and services are produced by state-owned firms.

C Privately-owned firms produce private goods and state-owned firms produce public goods.

D The price mechanism allocates scarce resources through the actions of buyers and sellers.

3 An economy produces combinations of computers and food as shown on the diagram of a production possibility curve (PPC).



If all available resources were used, which two points on the PPC diagram show the maximum combinations of computers and food that the economy can produce?

A W and X **B** X and Y **C** Y and Z **D** Z and W

4 Four students have to complete a table showing the functions of money.

Which student is correct?

	medium of exchange	store of value	unit of account
A	✓	✓	✓
B	✓	✓	✗
C	✗	✓	✓
D	✓	✗	✓

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5 In which situation is the price elasticity of supply for a product most likely to be relatively low?

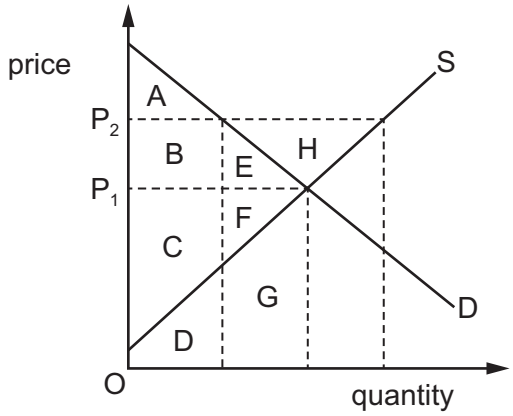
A Demand for the product comes from a wide range of customers.

B Producers in closely related industries can easily switch to making the product.

C Manufacture of the product requires highly skilled labour.

D The main raw material used in the production of the product is in abundant supply.

6 The diagram shows supply and demand for a good.



If price increases from P_1 to P_2, what will happen to consumer surplus?

A It falls from ABE to A.

B It falls from CDFG to BCD.

C It increases from CF to BCEF.

D It increases from CF to BCEFH.

7 What can be concluded about the roles of demand and supply in a free market?

A They allocate resources to the greatest needs.

B They ensure that goods and services are distributed equally.

C They are both significant in setting the market price.

D They ensure that everyone can benefit from the good or service provided.

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8 A firm has a successful advertising campaign for a good.

Which combination shows the impact on demand or supply and the associated reason?

A a leftward shift in the good's demand curve, as increased advertising cost raises the price of the product and reduces its demand

B a rightward shift in the good's supply curve, as the advertising cost of the firm increases

C a rightward shift in the good's demand curve, as successful advertising increases demand

D a leftward shift in the good's supply curve, as successful advertising enables firms to sell more

9 What would be the most likely reason for a firm's decision to calculate the price elasticity of demand for its product?

A to provide retail statistics for the government

B to predict the change in its total revenue after it raises prices

C to calculate the firm's competitive position

D to enable the firm to complete consumer satisfaction surveys

10 The cross-elasticity of demand of good S with respect to the price of good P is +1.5.
The cross-elasticity of demand of good S with respect to the price of good R is –1.5.
The cross-elasticity of demand of good P with respect to the price of good R is –1.5.

What can be concluded about goods P, R and S?

A S and P are complements; P and R are substitutes.

B S and P are complements; R is an inferior good.

C S and P are substitutes; P and R are complements.

D S and P are substitutes; R is an inferior good.

11 Which combination of events is **most** likely to leave the demand curve for a normal good in the same position?

A a decrease in consumer incomes and an increase in the price of a substitute good

B a decrease in consumer incomes and an increase in the price of the good

C an increase in consumer incomes and an increase in the price of a substitute good

D an increase in consumer incomes and an increase in the price of the good

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12 What does **not** happen when price acts as a means to allocate resources?

A Price determines the supply of public goods.

B Price operates in the markets for both goods and factors of production.

C Price recognises consumers' ability to pay rather than consumers' needs.

D Price signals to producers which goods are most profitable.

13 Which statement about market disequilibrium is correct?

A Price is likely to change.

B Supply is equal to demand.

C The government must intervene.

D There must be shortages.

14 Which combination of tax changes is **most** likely to be regressive in a developed economy?

A increasing the rate of wealth tax and raising the rate of sales tax (VAT) on luxury products

B introducing a tax on owning property based on its sales value and increasing the rate of income tax

C reducing the basic rate of income tax and increasing the duty on fuel

D removing the tax-free allowance for income tax and extending sales tax (VAT) to include all food

15 The demand and supply functions for a product are quantity demanded = 1500 + 50P and quantity supplied = 300P – 2000 where P = price. With government regulation, the current price in the market is $15.

What can be concluded about the form of price regulation and the balance of demand and supply in the market?

	form of price regulation	balance of demand and supply
A	effective maximum price	excess demand
B	effective maximum price	excess supply
C	effective minimum price	excess demand
D	effective minimum price	excess supply

16 To improve the air quality for its citizens, a government introduces a subsidy for the producers of cars powered by batteries charged from the electricity supply.

What are the likely effects of this subsidy on the price and sales of electricity?

	price of electricity	sales of electricity
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

17 What is definitely **not** involved when a transfer payment is made?

A bank deposits

B cash

C government

D production

18 What is **unlikely** to occur with an increase in the provision of public goods?

A consumer non-excludability

B improved use of resources

C opportunity cost

D reduction in tax

19 In 2020, shops reported a fall in sales as domestic demand in an economy fell. However, the impact on the overall economy was not as unfavourable as was first feared.

What might have lessened the impact on the economy?

A Exports increased.

B Imports increased.

C Savings increased.

D Taxes increased.

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20 What does a trade-weighted exchange rate attempt to take account of?

A a country's terms of trade

B international trade as a proportion of a country's national income

C the relative value of international trade done with a country's trading partners

D the size of a country's current account surplus or deficit

21 What will lead to an improvement in the terms of trade?

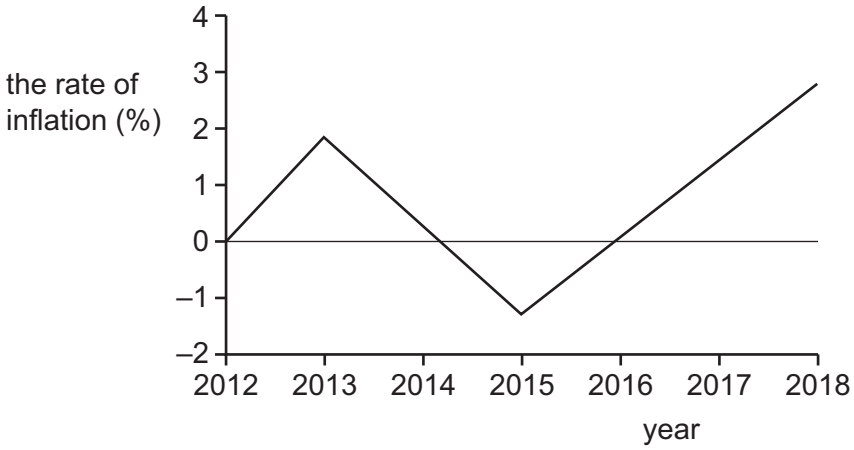
A Export prices fall by 10% and import prices fall by 5%.

B Export prices fall by 10% and import prices rise by 5%.

C Export prices rise by 5% and import prices rise by 10%.

D Export prices rise by 10% and import prices rise by 5%.

22 The diagram shows the annual inflation rate in an economy.



What can be deduced from the graph?

A The price of goods and services fell between 2013 and 2014.

B Disinflation took place between 2014 and 2015.

C The purchasing power of money increased between 2014 and 2015.

D The cost of living fell from 2016 onwards.

23 A country operates a fixed exchange rate system.

What will put pressure on the country to devalue its currency?

A a decrease in the country's inflation rate relative to the inflation rates of other countries

B a decrease in the tariffs on its products imposed by other countries

C an increase in its current account balance of payments deficit with other countries

D an increase in the country's interest rate relative to the interest rates of other countries

24 The table gives different combinations of possible values for a country's price elasticity of demand for exports and price elasticity of demand for its imports.

Following the devaluation of the country's currency, under which combination of elasticities would the country's balance of payments on the current account worsen?

	price elasticity of demand for exports	price elasticity of demand for imports
A	0.3	0.3
B	0.2	0.9
C	0.6	0.5
D	1.2	1.2

25 A small country imposes no tariffs and has a perfectly elastic supply of smartphones from the rest of the world.

Which statement is correct after the imposition of a tariff?

A The domestic demand for smartphones will rise.

B The domestic price of smartphones will rise.

C The government will lose tax revenue.

D The supply of imports will increase.

26 In a recent year, Japanese car manufacturers agreed to limit exports of cars to the USA.

Which form of protectionism is this?

A an embargo

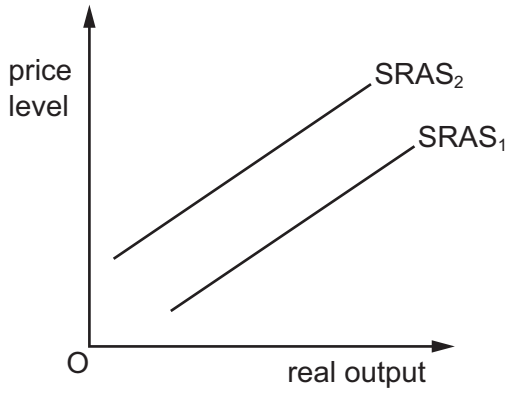
B an export subsidy

C a quota

D voluntary export restraint

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27 The diagram shows a shift in a country's short-run aggregate supply curve from $SRAS_1$ to $SRAS_2$. The country imports oil.



Why might an increase in the world price of oil have caused this shift?

A A rise in inflation is expected.

B Consumers face a fall in their disposable income.

C Domestic firms' costs have increased.

D The government reduces tax on oil and petroleum products.

28 What, if decreased, will help to reduce the rate of inflation?

A budget deficit

B direct taxes

C exchange rate

D interest rate

29 What is an example of contractionary fiscal policy?

A an increase in the budget deficit

B an increase in the budget surplus

C an increase in the interest rate

D an increase in the money supply

30 A country with low unemployment and a managed floating exchange rate has a persistent current account deficit on its balance of payments.

Which policy to reduce this deficit is **most** likely to keep unemployment low, but cause inflation?

A depreciating its currency

B higher direct taxation

C higher import tariffs

D higher interest rates

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