Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/13**

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.

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


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**1** Which statement about money is correct?

**A** Deflation reduces the internal purchasing power of money.

**B** Most financial assets are more liquid than physical assets.

**C** When money acts as a medium of exchange, it requires a double coincidence of wants.

**D** When money acts as a store of value, it must be unlimited in supply.

**2** The table shows the amount of direct taxes that different households in the UK paid in 2017–2018.

| | bottom 20% of households | second 20% of households | middle 20% of households | fourth 20% of households | top 20% of households |
|---|---|---|---|---|---|
| average income (£) | 15 300 | 25 000 | 34 600 | 47 600 | 90 600 |
| direct tax paid (£) | 2 000 | 3 500 | 6 000 | 9 500 | 21 200 |

Which positive economic statement can be made from the table?

**A** Direct tax is unfair on the richer households in the UK.

**B** Direct tax in the UK is a proportional tax.

**C** Poorer households do not pay enough direct tax in the UK.

**D** Rich households pay more direct tax than poor households in the UK.

**3** What does opportunity cost measure?

**A** the benefits of a good compared with the next choice

**B** the benefits given up by not consuming the next best alternative

**C** the costs of any good not chosen

**D** the financial costs of consuming a good

**4** Which term assumes the existence of ‘qualities, knowledge and skills’ that allow an individual to be more productive?

**A** enterprise investment

**B** human capital

**C** mechanisation

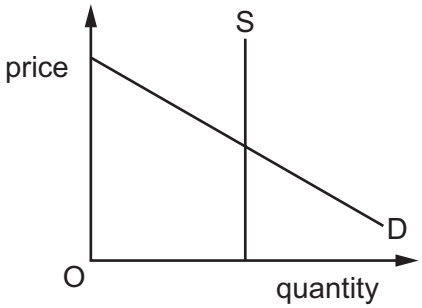
**D** specialisation

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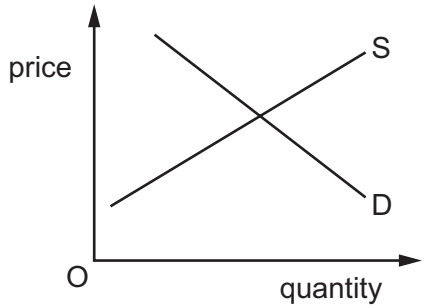
**5** The diagrams relate to the markets for four different products.

In which market would a 10% decrease in demand and simultaneously a 10% increase in supply definitely result in both a fall in equilibrium price and a rise in equilibrium quantity?

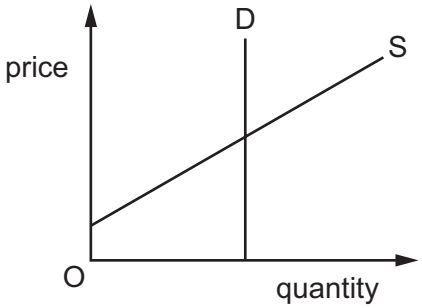
**A**



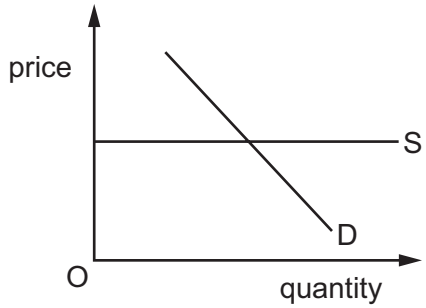

**B**




**C**




**D**




**6** The supply of a new drug to relieve muscle pain is very inelastic over a short period of time. The supply of printed newspapers is much more elastic over the same time period.

What could explain the difference in elasticity of supply of the drug and printed newspapers in this time period?

| | new drug | printed newspapers |
|---|---|---|
| **A** | cost per unit is low | cost per unit is high |
| **B** | discovery is by chance | takes longer to produce |
| **C** | research and development essential | excess capacity in printing |
| **D** | similar products available | similar products unavailable |

**7** Which change would cause the supply curve of sugar-sweetened drinks to shift to the right?

**A** a fall in the price of sugar

**B** a removal of a subsidy on sugar

**C** an increase in consumer income

**D** an increase of a specific tax on sugar

**8** The demand for tablets increases, while the cost of producing them decreases.

What will be the effect on the price of tablets and on the quantity supplied?

| | price | quantity |
|---|---|---|
| **A** | fall | uncertain |
| **B** | rise | increase |
| **C** | uncertain | increase |
| **D** | uncertain | uncertain |

**9** What is necessary to achieve the best allocation of resources using the price mechanism?

**A** Producers can maximise their collective interest.

**B** Consumers and producers must have perfect knowledge.

**C** The government must be able to apply maximum and minimum prices.

**D** The value of the price elasticity of supply must be greater than one.

**10** Goods X, Y and Z all have downward-sloping demand curves and upward-sloping supply curves. Good X is in joint supply with good Y and in joint demand with good Z.

There is an increase in the demand for good X.

What will happen to the prices and sales of goods Y and Z?

| | good Y | | good Z | |
|---|---|---|---|---|
| | price | sales | price | sales |
| **A** | fall | fall | rise | rise |
| **B** | fall | rise | rise | rise |
| **C** | rise | fall | fall | rise |
| **D** | rise | rise | fall | fall |

**11** What is meant by *consumer surplus*?

**A** It is the amount by which the price consumers are willing to pay exceeds the market price.

**B** It is the difference between the price consumers are willing to pay and the price producers are willing to supply.

**C** It is the discount firms offer to the consumers for buying goods in bulk.

**D** It is the excess of quantity demanded of a product over its quantity supplied at a given price.

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**12** What does the assumption '*ceteris paribus*' mean when economists analyse the way in which the quantity demanded of a good changes?

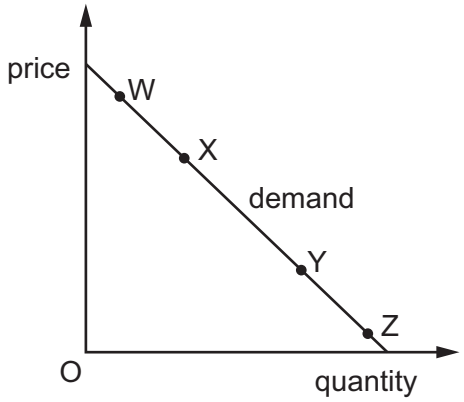
**A** Changes in quantity demanded can cause changes in any of the other variables.

**B** Consumer preferences are always assumed to remain unchanged.

**C** Only one variable is assumed to change while the others remain the same.

**D** Several variables change simultaneously.

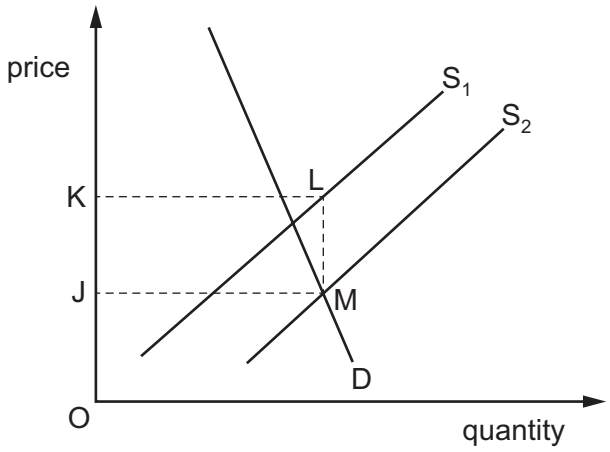
**13** The diagram shows the demand curve for a normal product.




Which two points indicate a move from a price inelastic point to a less price inelastic point?

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

**14** The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from $S_1$ to $S_2$.




What does the area JKLM represent?

**A** the cost to the government of a subsidy to rice growers

**B** the extra saving to importers of the removal of a tariff on rice

**C** the increase in consumer surplus from the introduction of a maximum price for rice

**D** the loss in government revenue from the reduction in a lump sum tax on rice

**15** The table shows four categories of government expenditure over two time periods.

| category | period 1 ($000) | period 2 ($000) |
|---|---|---|
| building of new roads | 200 | 350 |
| welfare benefits | 600 | 450 |
| pay of armed forces | 500 | 550 |
| state pensions | 1100 | 1350 |

By how much had transfer payments changed between periods 1 and 2?

**A** 0 **B** +100 **C** +150 **D** +300

**16** Which type of tax used in different countries is a direct tax?

**A** corporation tax in India that is imposed on the profits of companies

**B** import duties in Brazil that are imposed on imported goods

**C** specific tax in South Africa imposed on the purchase of cigarettes

**D** stamp duty in Malaysia that is the tax on the purchase of a residential property

**17** A government imposes a maximum price on medical face masks, below the market equilibrium.

What is the most likely effect of this?

**A** Some consumers will be unable to buy face masks at the maximum price.

**B** Firms will produce more masks to meet the excess demand at the maximum price.

**C** Poorer consumers will be able to obtain all the masks they need at the maximum price.

**D** The market will clear at the maximum price.

**18** What is **not** a producer subsidy?

**A** a grant given to cover losses in an essential industry, such as the rail industry

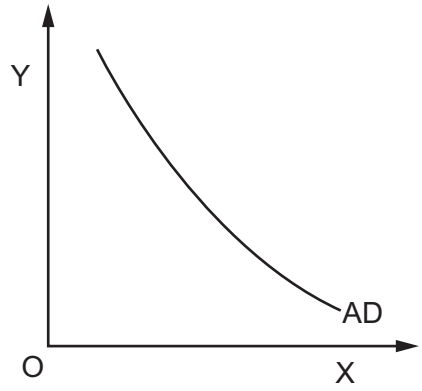
**B** a guaranteed minimum price paid to farmers to ensure the long run supply of food

**C** financial assistance given to a pharmaceutical company to develop a new vaccine

**D** a payment made to the unemployed to allow them to buy essential goods and services

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**19** The diagram shows an aggregate demand (AD) curve.




What is measured on the horizontal (X) axis and the vertical (Y) axis?

| | horizontal axis X | vertical axis Y |
|---|---|---|
| **A** | money national output | real disposable income |
| **B** | price level | real GDP |
| **C** | real GDP | price level |
| **D** | real disposable income | money national output |

**20** What could explain an improvement in the terms of trade for a country?

**A** an increase in tariffs on imports

**B** a decrease in the volume of imports sold

**C** an increase in the prices of exports

**D** a decrease in the volume of exports sold

**21** What is a correct description of an aggregate demand (AD) curve?

**A** It is a curve obtained by adding the market demand curves of all consumer goods traded in an economy.

**B** It is a curve determined by the horizontal summation of all individual consumer demand curves for a product.

**C** It is a curve that shows the total amount of goods and services firms are willing to buy at a given price in an economy.

**D** It is a curve that shows the total demand of all goods and services produced at all price levels in an economy.

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**22** The data in the table is extracted from the Singapore Balance of Payments for 2019.

| | $m |
|---|---|
| goods balance | +134 000 |
| services balance | +8 000 |
| capital and financial account (net) | +95 000 |
| balancing item | –3 000 |

What was the value ($m) of the trade balance on the current account in 2019?

**A** 126 000 **B** 142 000 **C** 234 000 **D** 237 000

**23** A household's income increased by 3%. Over the same period, the rate of inflation was also 3%.

Which statement is correct?

**A** Both the nominal income of the household and the real income of the household increased by 3%.

**B** The nominal income of the household remained unchanged while the real income of the household increased by 3%.

**C** The nominal income of the household increased by 3% while the real income of the household remained unchanged.

**D** The nominal income of the household increased by 3% while the real income of the household increased by 6%.

**24** A country operates a fixed exchange rate.

There is a major fall of international confidence in its government's economic policies.

What is likely to be the result?

**A** a fall in its foreign exchange rate

**B** a fall in its foreign exchange reserves

**C** a rise in its capital inflows

**D** a rise in its terms of trade

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**25** In 2018, the inflation rate in Argentina was over 100%.

Which combination correctly identifies the winners and losers during this period?

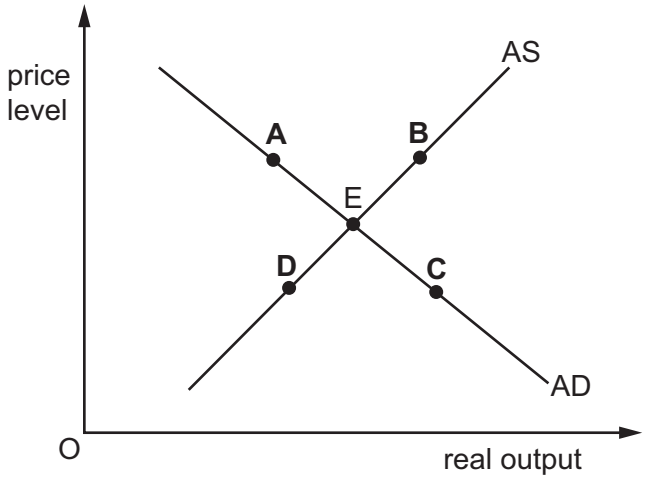
| | winners | losers |
|---|---|---|
| **A** | firms selling goods abroad | households paying back loans |
| **B** | firms unable to decrease real wages | firms paying back loans on fixed monthly repayments |
| **C** | individuals with a high amount of debt at a fixed rate of interest | households that hold most of their assets in cash |
| **D** | workers on fixed wage contracts | the retired on fixed incomes |

**26** The diagram shows the aggregate demand (AD) and aggregate supply (AS) for a country. The initial equilibrium is at point E.

The sum of the price elasticities of demand for imports and exports for this country exceeds one.

A devaluation of the country's exchange rate will cause aggregate demand to change.

What will be the new equilibrium?




**27** In 2000, Japan was Asia's largest exporter of electrical components, but by 2018 it was ranked 8th.

What might explain this change?

**A** Japan has a lower opportunity cost in electrical component production than its Asian competitors.

**B** Japan has experienced greater deflation than its Asian competitors.

**C** Japan has imposed tariffs on the import of electrical components from its Asian competitors.

**D** The Japanese Yen has appreciated against the currencies of its Asian competitors.

**28** Which measure to correct a balance of payments current account deficit would be classified as an expenditure-reducing policy?

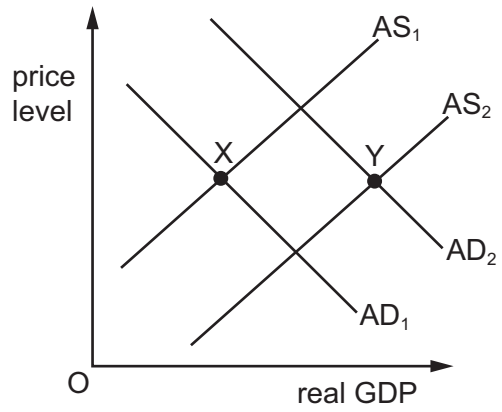
**A** a reduction in interest rates

**B** a revaluation of the currency

**C** an increase in direct taxes

**D** an introduction of foreign exchange controls

**29** The diagram shows the AD / AS curves for an economy.




Which government action is most likely to cause the equilibrium position to move from X to Y?

**A** an increase in the exchange rate that makes locally produced goods less price-competitive, both at home and abroad

**B** an increase in government spending on infrastructure that increases the production potential of the economy

**C** an increase in interest rates that increases the cost of borrowing

**D** an increase in real wages of labour

**30** A country is suffering from severe deflation.

What is most likely to prevent the deflation from worsening?

**A** increasing income tax to help reduce the government's budget deficit

**B** increasing interest rates to encourage more saving

**C** increasing transfer payments to reduce inequality of income

**D** revaluing the currency to bring in more revenue from exports

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