Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/14**

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 What will result from a government's decision to allow health care to be provided entirely by market forces?

A There will be a reduction in the provision of a public good.

B All consumers will receive better health care.

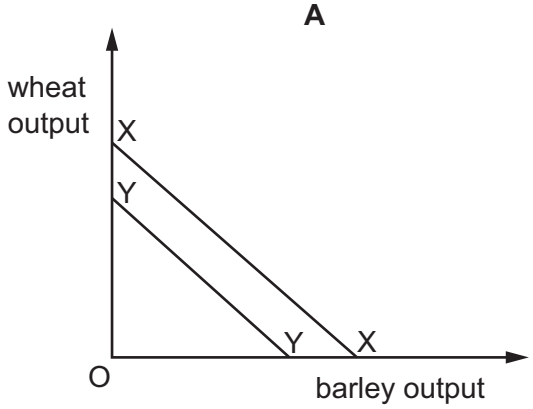
C Market failure will be eliminated in the health care market.

D The health care market will reach an equilibrium.

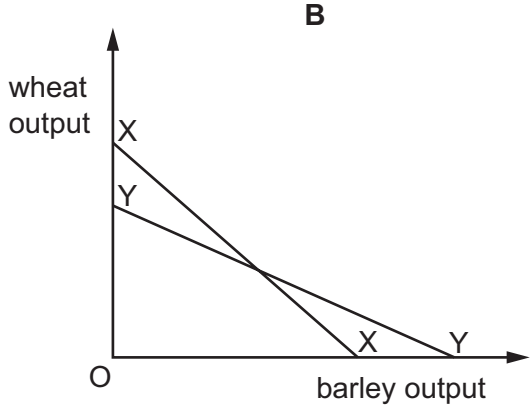
2 A farmer with a fixed area of land grows two crops, wheat and barley. Some land used for barley is flooded and cannot be used. The farmer then starts to plant genetically modified (GM) wheat that produces wheat more efficiently on the land that is not flooded.

Which diagram shows the **most** likely effect of these changes on the farmer's production possibility curve (PPC) as it moves from XX to YY?

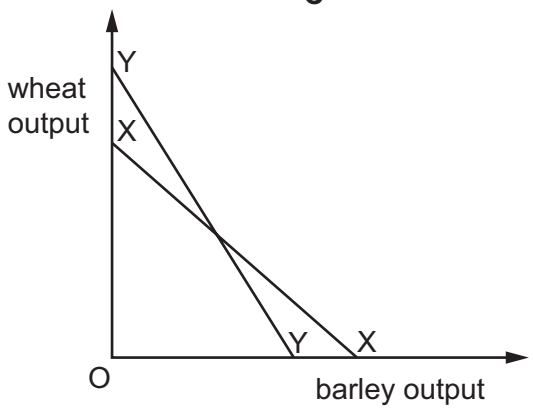
A



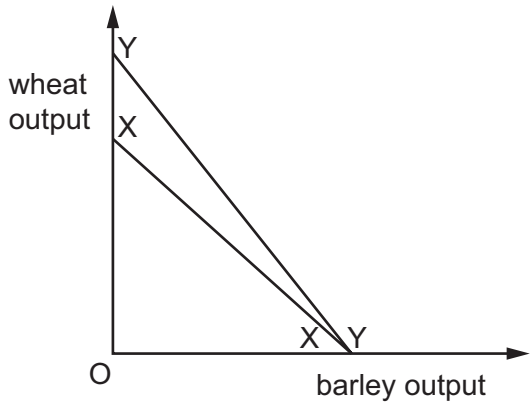
B



C



D



3 What would make online payment methods less acceptable as a medium of exchange?

A a fee charged for use of the online payment service

B both high and low priced goods can be paid for using the online service

C payments can be made at any time of day and night

D the online payment service can be accessed through a smartphone

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4 Professional gardeners now use power tools instead of hand tools to maintain their customers' gardens.

What can be concluded from this information?

A Capital has replaced all labour for maintaining gardens.

B Gardening has become more labour-intensive.

C Land has become more productive.

D New technology has been introduced.

5 Goods X and Y are complements and have upward-sloping supply curves.

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

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

6 A change in which factor will be **least** likely to alter a consumer's ability to pay for a product?

A a consumer's income

B a consumer's tastes

C a change in the price of the product

D a fall in the tax on goods and services

7 What is likely to decrease the price elasticity of supply (PES) of a product?

A an increase in advertising the product

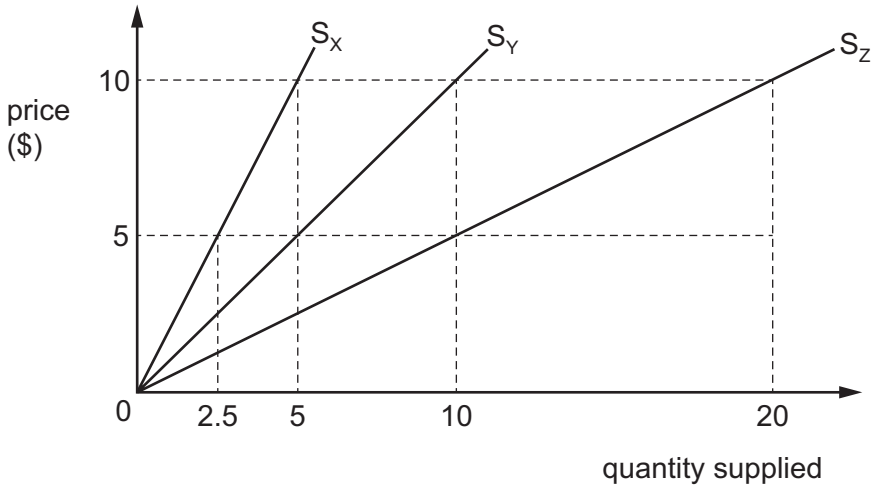
B an increase in the firm's ability to substitute capital for labour

C an increase in the time during which the product can be stored

D an increase in the time required to produce the product

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8 S_X, S_Y and S_Z are the supply curves of goods X, Y and Z.



If the price of all three goods rises from $5 to $10, what are their price elasticity of supply values?

	good X	good Y	good Z
A	equal to 1	equal to 1	equal to 1
B	equal to 1	greater than 1	greater than 1
C	less than 1	equal to 1	greater than 1
D	less than 1	greater than 1	greater than 1

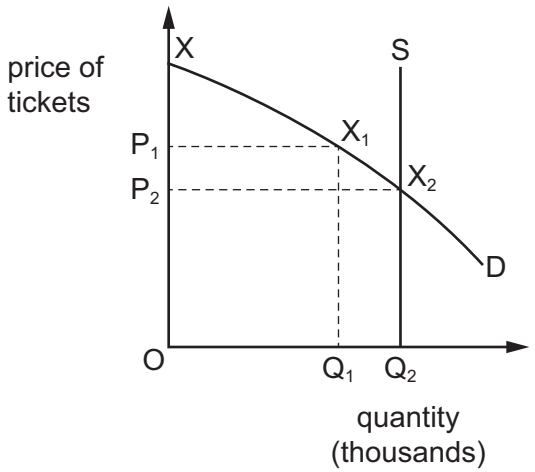
9 Each day there are hundreds of airline flights.

Which combination would make the demand for flights most price-inelastic?

	distance of flight	purpose of flight	income of traveller
A	long	business	high
B	long	leisure	low
C	short	business	low
D	short	leisure	high

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10 The diagram shows the demand for and supply of tickets for a music festival.



If tickets are priced at P_1, it is anticipated that demand will be Q_1. There is a discount for those that buy tickets in the first hour, who will pay P_2. All tickets are sold in the first hour.

Which area on the diagram shows how much consumer surplus was increased by buying the tickets in the first hour?

A $P_2X_2Q_2O$ **B** $P_1X_1Q_1O$ **C** $P_1X_1X_2P_2$ **D** XX_1Q_1O

11 The price elasticity of demand for a high-quality smartphone is elastic. The price of the smartphone decreases.

Which combination describes the impact of a fall in the smartphone's price on the quantity demanded and total revenue?

	quantity demanded	total revenue
A	rises by a greater percentage than the price fall	falls
B	rises by a greater percentage than the price fall	rises
C	rises by a smaller percentage than the price fall	falls
D	rises by a smaller percentage than the price fall	rises

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12 When the price of good X rises, total spending on good X rises, but the demand for good Y falls.

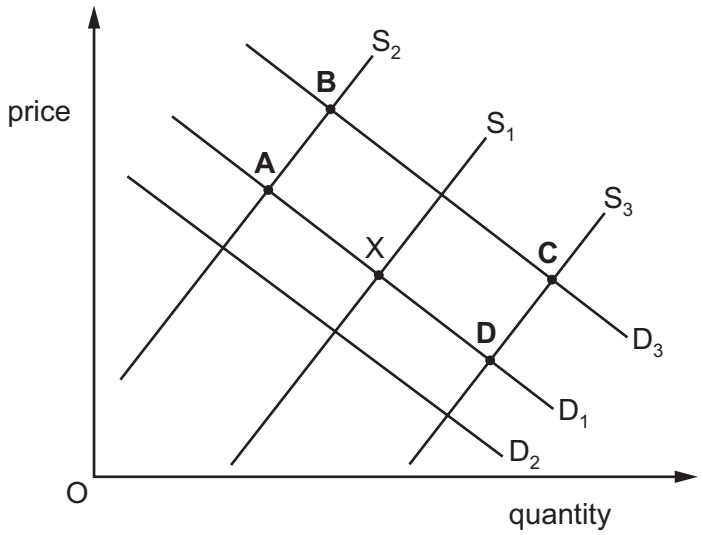
What can be concluded about good X and good Y?

	price elasticity of demand for good X	cross-elasticity of demand for good Y with respect to the price of good X
A	> 1	> 0
B	> 1	< 0
C	< 1	> 0
D	< 1	< 0

13 In the diagram, D_1 and S_1 represent the demand for and supply of luxury watches. Equilibrium is initially at point X.

The cost of raw materials for manufacturing watches rises. At the same time, the incomes of the rich increase.

Which point on the diagram is **most** likely to represent the new equilibrium?



14 Money is paid by the government to an unemployed worker in the form of a benefit.

Why is this called a transfer payment?

A The payment comes from taxes paid by employed workers.

B The payment comes from government savings, not current income.

C The payment is made without the production of goods and services taking place.

D The payment must be spent as directed by the government.

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15 What would be a valid objection to the government provision of goods and services?

A There will be an increase in consumer sovereignty.

B Only the private sector can provide merit goods.

C Tax rates and tax income are likely to fall.

D Investment in the private sector might be reduced.

16 What will be the result of a subsidy that is given to the producers of a good with an inelastic demand curve?

A The equilibrium price of the good will fall by a larger percentage than the fall in equilibrium quantity.

B The equilibrium price of the good will fall by a larger percentage than the rise in equilibrium quantity.

C The equilibrium price of the good will fall by a smaller percentage than the fall in equilibrium quantity.

D The equilibrium price of the good will fall by a smaller percentage than the rise in equilibrium quantity.

17 The market for good X is in equilibrium. A government then introduces an effective minimum price on good X.

What will decrease as a result of this minimum price?

A the excess supply of the product

B the market price of the product

C the quantity of the product supplied

D the size of the consumer surplus

18 A government introduces taxes on company profits. A 5% tax rate is levied on all profits up to the first $10 000 and a 10% rate is levied on all profits above $10 000.

How would these taxes be described?

	up to $10 000	above $10 000
A	progressive	progressive
B	progressive	proportional
C	proportional	progressive
D	proportional	proportional

19 Which change will **not** affect the balance of payments current account?

A a rise in export and import prices

B a rise in foreign aid flows

C a rise in international exchange rates

D a rise in foreign direct investment

20 Which statement correctly describes how an import quota works?

A It is a ban on the import of demerit goods.

B It imposes strict product regulations on imports.

C It is a unit tax that raises the price of imported goods.

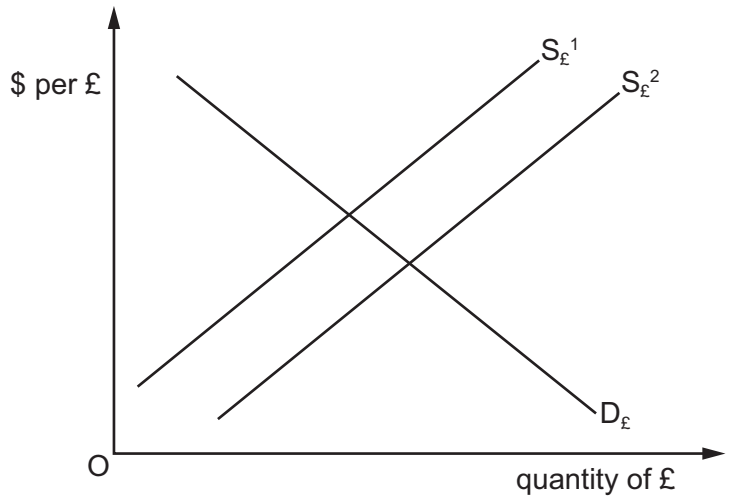
D It limits the quantity of certain imported goods.

21 Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade-weighted exchange rate index of country X is 100.

What will be its new trade-weighted exchange rate index value if its currency falls in value by 20% against the currency of country Y and rises by 10% against the currency of country Z?

A 84 **B** 90 **C** 92 **D** 116

22 The diagram shows a freely floating foreign exchange market in the United Kingdom (UK) for the demand and supply of pounds sterling (£) in exchange for United States (US) dollars ($).



What could cause the downward shift shown?

A UK interest rate falls below US interest rate.

B The demand for UK exports is price-elastic and prices increase.

C The demand for US exports is price-elastic and prices decrease.

D People believe that sterling will appreciate.

23 What is a likely consequence of inflation?

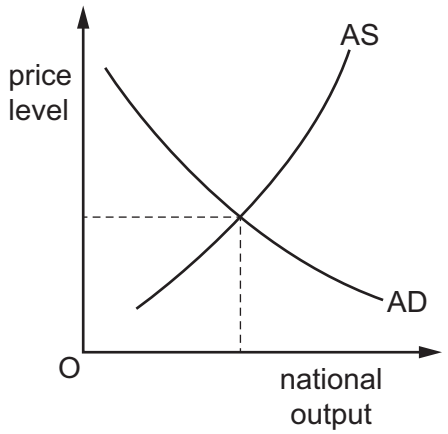
A Fixed-income earners gain more than those whose income is gained from the ownership of property.

B Real wages rise more than money wages.

C The assets of creditors decrease in value at the expense of those of debtors.

D The domestic purchasing power of money increases.

24 The diagram shows an aggregate demand (AD) and an aggregate supply (AS) curve.



There is a sustained rise in the prices of imported raw materials on which the economy depends.

Assuming AD remains independent of AS, what are the most likely effects on the economy?

	AS	price level
A	decreases	falls
B	increases	falls
C	decreases	rises
D	increases	rises

25 The currency of country X has a floating exchange rate against other currencies.

Under which circumstances will the value of country X's currency fluctuate the most against other currencies on the foreign exchange market?

	price elasticity of demand for the currency of country X	price elasticity of supply for the currency of country X
A	elastic	elastic
B	inelastic	elastic
C	elastic	inelastic
D	inelastic	inelastic

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26 A country has a floating exchange rate.

An increase in which variable in the country will cause its currency to appreciate?

A the budget deficit

B the general price level

C the interest rate

D the trade deficit

27 What is an accurate statement about possible causes and/or consequences of a worsening in a country's terms of trade?

A It will result from a fall in the demand for its exports.

B It will result from an increase in consumers' incomes in its major trading partners.

C It will result in a decrease in interest rates by its major trading partners.

D It will result in an improvement in its balance of trade.

28 An economy has a balance of payments surplus, which it wishes to eliminate.

In order to achieve this objective, which combination of policies would be **most** appropriate?

A a depreciation of the currency and an increase in government spending

B an appreciation of the currency and a cut in interest rates

C an increase in the money supply and a pay freeze

D increases in both direct and indirect taxation

29 What would be increased by an expansionary fiscal policy?

A budget deficit

B exchange rate

C money supply

D rate of direct taxation

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30 A government decides to borrow from the general public in order to finance its extra spending on apprenticeship training schemes.

Which types of macroeconomic policy are being used?

	fiscal	monetary	supply side
A	✓	✗	✓
B	✓	✗	✗
C	✗	✓	✓
D	✗	✓	✗

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