Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/12**

Paper 1 AS Level Multiple Choice **May/June 2025**

**1 hour**

You must answer on the multiple choice answer sheet.

* 1 4 3 6 8 8 2 6 7 7 *

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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**[Turn over**

**1** What is the best definition of a positive economic statement?

**A** A statement that is based on fact and can be tested.

**B** A statement that attempts to influence economic decisions.

**C** A statement that is subjective and cannot be confirmed.

**D** An encouraging economic update in the opinion of the central bank.

**2** The diagram is from a chapter on 'The Fundamental Economic Problem' in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the fundamental economic problem.




What is the correct order for the terms to appear in the diagram?

**A** choice → opportunity cost → scarcity

**B** choice → scarcity → opportunity cost

**C** scarcity → choice → opportunity cost

**D** scarcity → opportunity cost → choice

**3** What is a statement of the non-rivalrous nature of public goods?

**A** It is not possible to stop a non-payer from using the product.

**B** One person consuming the product does not reduce the amount of it available to others.

**C** People consume too little of the product because they are unaware of its true benefits.

**D** There is an unlimited supply of the product.

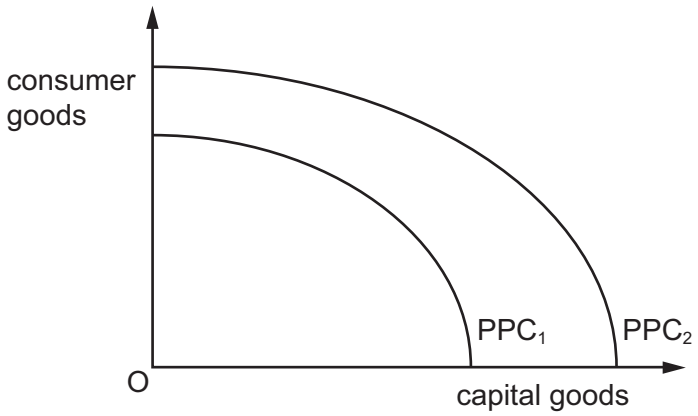
**4** A country increases its spending on education and training. It pays for this by reducing unemployment benefit payments and increasing taxes on imports of machinery.

What is the likely effect of these changes?

| | human capital | physical capital |
|---|---|---|
| **A** | decreases | decreases |
| **B** | decreases | increases |
| **C** | increases | decreases |
| **D** | increases | increases |

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**5** The diagram shows an outward shift of the production possibility curve from $PPC_1$ to $PPC_2$.




What could have caused this shift?

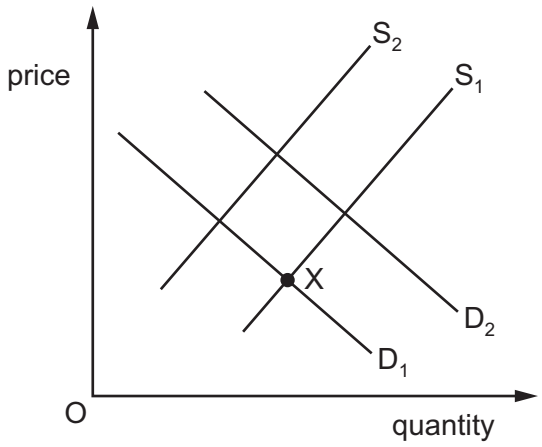
**A** a decrease in mineral resources

**B** a decrease in prices of consumer goods

**C** an increase in employment

**D** an increase in technology

**6** $D_1$ and $S_1$ are the initial demand and supply curves in the market for new cars with an equilibrium at X.




What will cause the demand curve to shift to $D_2$ and the supply curve to shift to $S_2$?

**A** a decrease in real incomes and a rise in the costs of new car production

**B** a decrease in the price of petrol and a subsidy on new car production

**C** an increase in the availability of loans for new car purchases and a specific tax on new cars

**D** an increase in the price of train travel and an increase in the number of car producers

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**7** When can a product be said to have a negative income elasticity of demand?

**A** When it is a luxury good.

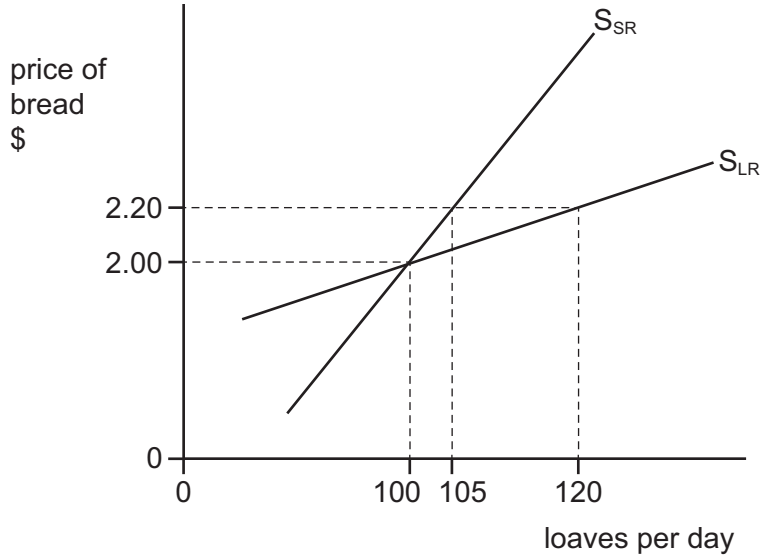
**B** When it is a necessity good.

**C** When it is a normal good.

**D** When it is an inferior good.

**8** The diagram shows the short-run supply curve ($S_{SR}$) and long-run supply curve ($S_{LR}$) for a bakery.

The price of a loaf of bread increases from \$2.00 to \$2.20.




What is the bakery's price elasticity of supply (PES) in the short run and in the long run when the price of a loaf of bread increases?

| | short run | long run |
|---|---|---|
| **A** | 0.5 | 2.0 |
| **B** | 0.5 | 1.4 |
| **C** | 2.0 | 0.7 |
| **D** | 2.0 | 0.5 |

**9** An increase in which variable will **always** lead to an increase in the consumer surplus?

**A** cost of production

**B** maximum price

**C** minimum price

**D** subsidy

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**10** Farmers want to extract wild honey from beehives. They find the beehives by following birds known as honeyguide birds who want the beeswax that is also found in the beehives.

What does this suggest?

**A** Farmers and honeyguide birds are rival consumers.

**B** Wild honey and beeswax are free goods.

**C** Wild honey and beeswax are in joint supply.

**D** Wild honey is the opportunity cost of beeswax.

**11** An indirect tax is imposed on good X.

Which situation is most likely to result in producers bearing a higher burden of the tax?

**A** price elasticity of demand is elastic

**B** price elasticity of demand is inelastic

**C** price elasticity of supply is elastic

**D** price elasticity of supply is inelastic

**12** What would **not** be included in the calculation of an individual's wealth?

**A** the house owned by the individual

**B** the savings in the individual's bank account

**C** the stocks and shares owned by the individual

**D** the wages earned by the individual

**13** Why might governments provide free education for children aged 4 to 16 years old?

**A** Consumers are not fully aware of the benefits of education.

**B** Education in a free market system would be over consumed.

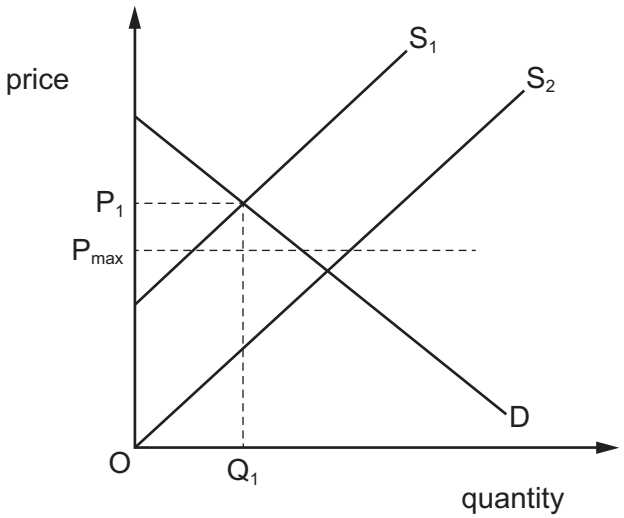
**C** Education is a public good and there would be many free riders.

**D** The private costs of education exceed the private benefits in a free market.

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**14** The diagram shows the demand and supply for rice.

The market for rice is initially in equilibrium at a price of $P_1$. The government introduces a maximum price of $P_{max}$. At the same time the supply of rice increases.




What is the impact of these changes on the market for rice?

**A** A new market equilibrium will be established.

**B** An illegal market for rice will develop.

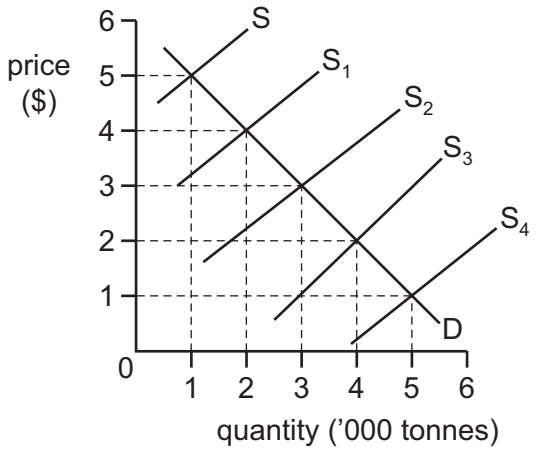
**C** There will be a shortage of rice.

**D** There will be a surplus of rice.

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**15** In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves $S_1$–$S_4$.




How much in total will the government need to pay to support farmers over the four subsequent years?

**A** $0 **B** $3000 **C** $6000 **D** $10 000

**16** Price stability can be said to occur if the measured value of the consumer prices index (CPI) is unchanged during the year.

Which statement is correct?

**A** For price stability to occur, there must be no changes in prices of any products.

**B** For price stability to occur, the number of products whose prices rise must exactly match the number whose prices fall.

**C** If some prices rise and others fall, there cannot be price stability.

**D** Different weightings of items used in the calculation of CPI mean that price stability can occur in many ways.

**17** Based on the circular flow of income, which condition is necessary for an open economy to be in equilibrium?

**A** Government investment is equal to private investment.

**B** Planned injections are equal to planned withdrawals.

**C** Spending by households is equal to taxes collected by government.

**D** Value of export earnings is equal to expenditure on imports.

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**18** The aggregate demand curve is typically downward sloping.

What is one possible explanation for this?

**A** A fall in the price level will lead to a rise in demand for imports.

**B** As the price level falls, improved productivity will reduce unit costs.

**C** If the price level is high, any interest rate changes will encourage consumption.

**D** The real value of assets increases as the price level falls.

**19** What is most likely to cause an unemployed worker to be classified as frictionally unemployed?

**A** lack of relevant skills for vacant jobs

**B** lack of up-to-date job vacancy information

**C** greater use of technology in the production process

**D** an increase in regional pay inequality

**20** The table shows figures estimated at the end of a train drivers' strike.

| | $ (000s) |
|---|---|
| loss of ticket revenue for train companies | 600 |
| value placed on extra leisure time by strikers | 20 |
| loss of government tax revenue | 40 |
| overtime payments to police | 30 |

What was the reduction in the recorded level of national income resulting from the strike?

**A** $570 000 **B** $610 000 **C** $640 000 **D** $690 000

**21** What is likely to be an expansionary monetary policy?

**A** a decrease in the availability of credit

**B** a decrease in the exchange rate

**C** an increase in government spending

**D** an increase in subsidies for training

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**22** A government increases direct taxation to reduce its budget deficit.

How is this likely to affect the government's ability to achieve its macroeconomic objectives?

| | economic growth | low inflation | low unemployment |
|---|---|---|---|
| **A** | less likely | less likely | less likely |
| **B** | more likely | less likely | more likely |
| **C** | less likely | more likely | less likely |
| **D** | more likely | more likely | less likely |

**23** An income tax has a tax-free allowance of $10 000 and a single rate of 25%.

What type of tax is this?

**A** indirect

**B** progressive

**C** proportional

**D** regressive

**24** Which supply-side policy will encourage new entrepreneurs?

**A** an increase in government subsidy to small firms

**B** an increase in the national minimum wage

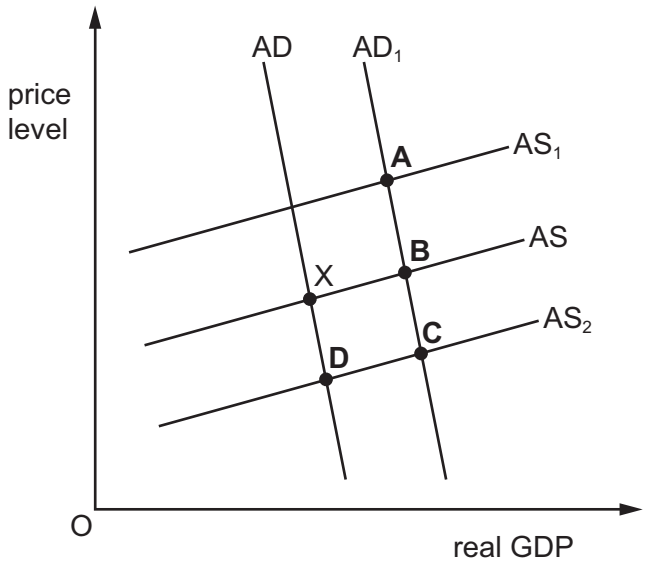
**C** an increase in the power of trade unions

**D** an increase in the tax on business profits

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**25** The diagram shows aggregate demand (AD) and aggregate supply (AS) curves. The initial equilibrium is at X. A government decides to invest in an increase in infrastructure.

What will be the short-term effect of this policy on the equilibrium?




**26** Which statement is **not** a valid reason why a country may impose protectionist measures?

**A** to allow a newly developed domestic industry to grow to a viable size

**B** to enable a country to retain control of an industry it regards as being of strategic importance

**C** to give consumers a wider choice of goods and services

**D** to give time for workers in a declining domestic industry to find alternative employment

**27** What is most likely to lead to a persistent surplus in a country's current account of its balance of payments?

**A** a low domestic savings rate

**B** an undervalued exchange rate

**C** highly protectionist policies by other countries

**D** low investment income from abroad

**28** Which formula is used to calculate the terms of trade?

**A** the average price of exports divided by the average price of imports

**B** the average price of imports divided by the average price of exports

**C** the value of exports divided by the value of imports

**D** the value of imports divided by the value of exports

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**29** A country is experiencing a deficit on the current account of its balance of payments.

Which policy decision could reduce the deficit?

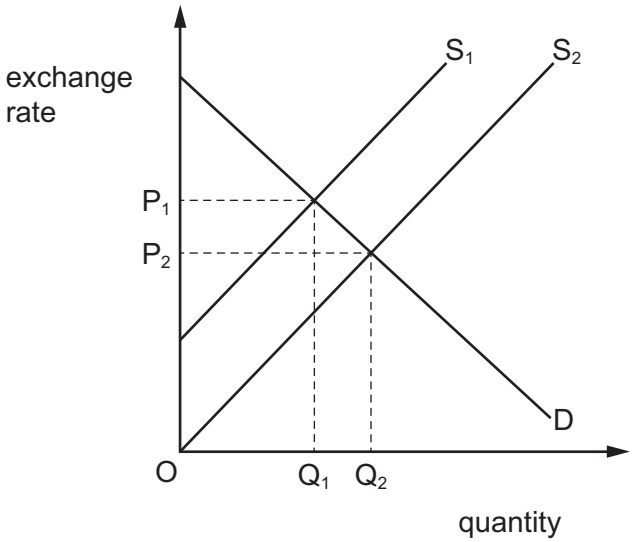
**A** decrease in income tax rates

**B** increase in exchange rates

**C** increase in government spending

**D** increase in import tariffs

**30** The Euro (€) is the main currency of the European Union. The diagram shows the exchange rate between the Euro and the US dollar.




What is likely to have caused this change in the value of the Euro?

**A** a decrease in European Union inflation

**B** a decrease in US interest rates

**C** an increase in European Union imports

**D** an increase in European Union unemployment

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