Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2016**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

* 5 2 2 6 0 1 8 4 2 3 *

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

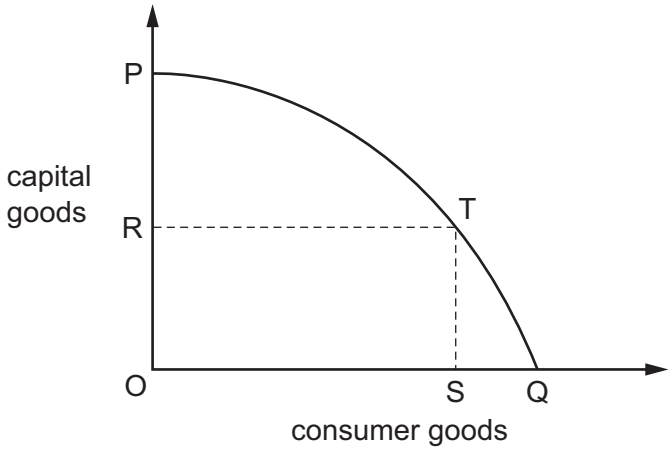
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1 To increase production a firm in industry X needs to install capital equipment, while a firm in industry Y needs to research and introduce a new technology.

What time periods are illustrated by these cases?

	industry X	industry Y
A	short run	long run
B	long run	long run
C	long run	very long run
D	very long run	very long run

2 The production possibility curve for an economy producing capital goods and consumer goods is represented by the line PQ.



What is the opportunity cost of producing OS of consumer goods?

A OR of capital goods

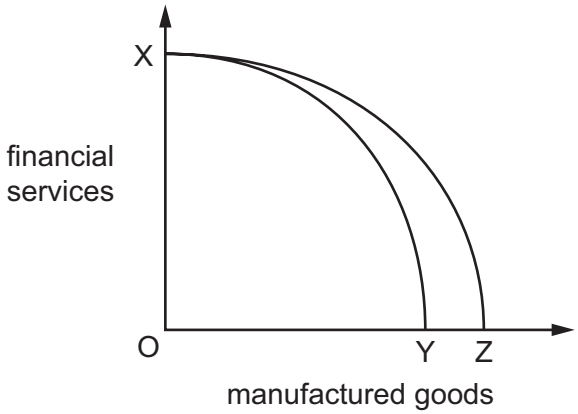
B PR of capital goods

C SQ of consumer goods

D SQ of consumer goods + PR of capital goods

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3 In the diagram XY is an economy's production possibility curve.



What could cause the curve to shift to XZ?

A a fall in productivity in manufacturing

B a fall in the price of manufactured goods

C a higher demand for manufactured goods

D an improvement in manufacturing technology

4 Very heavy rain often causes houses to flood. The government protects the area with flood defence schemes while households buy sandbags to protect their houses.

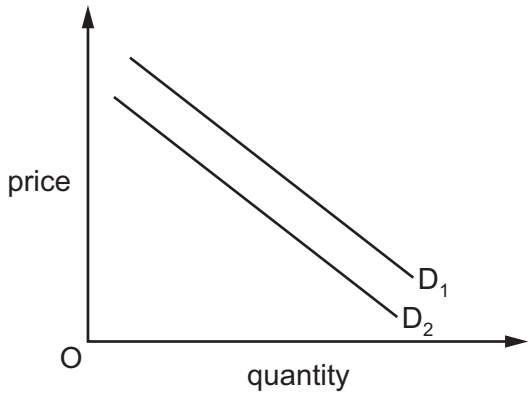
How would an economist classify these items?

	flood defence schemes	sandbags
A	merit goods	private goods
B	merit goods	public goods
C	public goods	private goods
D	public goods	public goods

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[Turn over

5 The diagram shows the demand for air travel in Asia.



If air travel is a normal good, what could have caused the shift in the demand curve from D_1 to D_2?

A a fall in employment in Asia

B a fall in the price of aviation fuel

C an increase in road congestion

D an increase in the price of train travel

6 What will **not** cause a shift in the market supply curve of a commodity?

A a change in technology

B a rise in the price of a factor input

C a rise in the price of the commodity

D the introduction of a specific tax on the commodity

7 A government imposes a tax on a good. The equilibrium price rises by the same amount as the tax.

What can be concluded about the price elasticity of demand for the good?

A It is perfectly elastic.

B It is perfectly inelastic.

C It is unitary.

D Nothing can be determined about price elasticity of demand.

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8 What can be concluded about a product which has an income elasticity of demand (YED) of –1.5 and a cross-elasticity of demand (XED) of +1.2 with another product?

	YED figure	XED figure
A	The product is an inferior good.	The other product is a complement.
B	The product is an inferior good.	The other product is a substitute.
C	The product is a normal good.	The other product is a complement.
D	The product is a normal good.	The other product is a substitute.

9 A product has a low price elasticity of supply.

What might explain this?

A The product has a low opportunity cost.

B The product has a perishable nature.

C The product is classed as an inferior good.

D The product is considered to be a necessity.

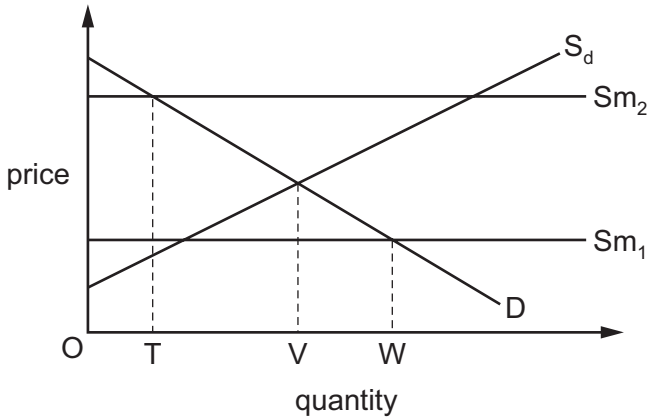
10 A firm is producing 100 units at price $10. The price elasticity of supply is 0.5, and price is raised to $12.

What is the new level of output?

A 75 **B** 110 **C** 125 **D** 150

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11 The diagram shows the market for coffee in a small coffee-producing country. The domestic supply of coffee is represented by S_d. The supply curve of imports was initially Sm_1. A bad harvest that affects only other coffee-producing countries shifts the supply curve of imports to Sm_2.



How will consumption and imports be affected by the supply change?

A Consumption falls by VW and imports fall to OT.

B Consumption falls by VW and imports fall to zero.

C Consumption is unchanged and imports fall to OT.

D Consumption is unchanged and imports fall to zero.

12 When demand for a good falls, its price falls.

What is the function of the price fall?

A to eliminate shortages

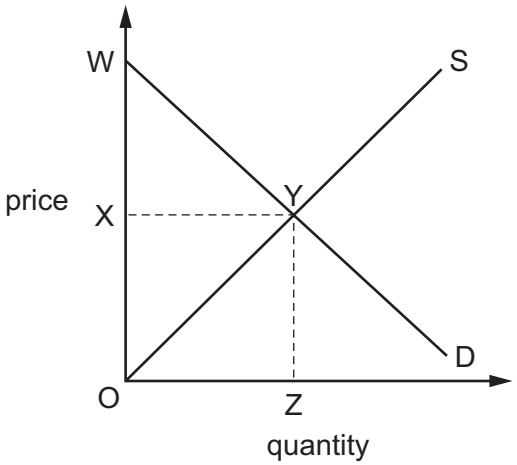
B to reduce consumer surplus

C to send a signal to producers

D to stimulate a further fall in demand

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13 The diagram shows the market for computers in Pakistan.



What can be concluded about the value of consumer surplus?

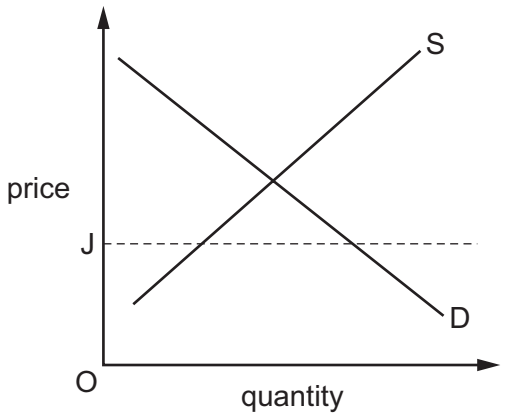
A It is less than producer revenue.

B It is less than producer surplus.

C It is more than producer revenue.

D It is more than producer surplus.

14 The diagram shows the demand and supply curves of a good.



The government sets a maximum price of OJ for the good.

How will this affect the consumers and producers of the good?

	effect on consumers	effect on producers
A	All consumers will gain.	Producers will lose.
B	All consumers will gain.	Producers will gain.
C	Some consumers will gain and some will lose.	Producers will gain.
D	Some consumers will gain and some will lose.	Producers will lose.

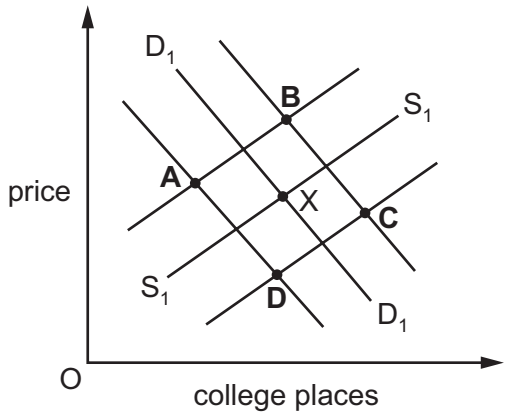
15 A simple income tax system would be one in which income under $10 000 is not taxed. Above $10 000 an income tax rate of 30% is applied to all additional income.

What is correct for people earning more than $10 000?

	average rate of tax	marginal rate of tax
A	increases as incomes increase	increases as incomes increase
B	increases as incomes increase	remains constant as incomes increase
C	remains constant as incomes increase	increases as incomes increase
D	remains constant as incomes increase	remains constant as incomes increase

16 The diagram shows possible demand and supply curves for places in colleges in a country. The initial equilibrium position is X. To increase the number of students in colleges, a government subsidises the colleges and also gives a grant of money to the students.

What would be the new equilibrium position?



17 Which term is given to an income received by an individual for which there is no corresponding contribution to output?

A profit

B revenue

C salary

D transfer payment

18 A government's budget deficit was reduced.

What might have caused this?

A a decrease in the revenue from vehicle tax

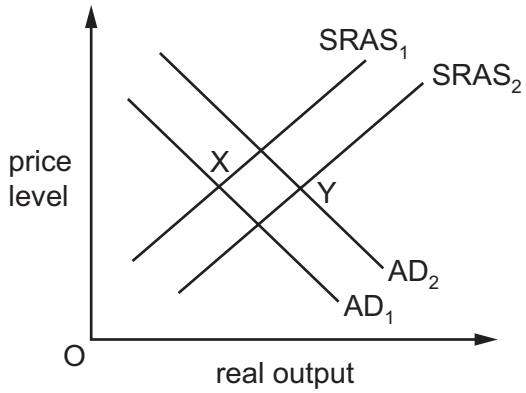
B an increase in the rate of subsidy given to libraries

C a purchase of two warships for the national defence

D a sale of a publicly owned energy company to the private sector

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19 The diagram shows aggregate supply curves and aggregate demand curves for an economy.



What is most likely to cause the equilibrium position to move from X to Y?

A a decrease in corporation tax and a decrease in labour productivity

B a decrease in interest rates and a decrease in electricity prices

C an increase in interest rates and an increase in raw material costs

D an increase in marginal tax rates and a decrease in labour productivity

20 The table shows the share of a worker's income spent on three classes of good and the percentage change in the prices of the goods over a year.

	share of income spent on goods	change in prices of goods
clothing	25%	+25%
food	50%	+50%
fuel	25%	–25%

Over the same period the worker's money income rises by 25%.

What happens to the worker's real income?

A It falls by 25%.

B It falls by 50%.

C It rises by 25%.

D It is unchanged.

21 Over a period of a year, the annual rate of inflation becomes negative.

Which statement must be correct?

A The cost of living has fallen.

B The purchasing power of money has fallen.

C The standard of living has increased.

D There has been an increase in the Consumer Price Index.

22 What would cause an immediate increase in the deficit in a country's balance of payments on the current account?

A a rise in government expenditure on education

B a rise in the cost of imported raw materials used in domestic production

C a rise in the foreign ownership of domestic companies

D a rise in the total wages earned by nationals working abroad

23 The table shows the Canadian current account of the balance of payments in 2005 and 2006.

The change in which item contributed the most to the move from surplus to deficit in the Canadian current account balance between 2005 and 2006?

		2005 ($m)	2006 ($m)
A	balance of trade in goods	62 372	–4 568
B	balance of trade in services	12 055	–22 663
C	investment income balance	–22 917	–14 145
D	transfers balance	–1 498	–2 148
	total	25 902	–43 523

24 A depreciation of the exchange rate of the UK pound (£) against the US dollar ($) from £1 : $1.50 to £1 : $1.00 must mean that

A dollars will become more expensive in terms of pounds.

B the pound will be undervalued.

C UK imports from the US will become cheaper.

D US imports from the UK will become more expensive.

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25 A country has no controls on transactions in foreign exchange and allows its exchange rate to float freely.

What will always be zero?

A net inward investment

B the country's foreign exchange reserves

C the current account balance of payments position

D the overall balance of payments position

26 The table gives the terms of trade index for Brunei Darussalam for the period 2009 to 2012.

	2009	2010	2011	2012
terms of trade index	100.0	107.2	124.9	134.5

What can be concluded from the table?

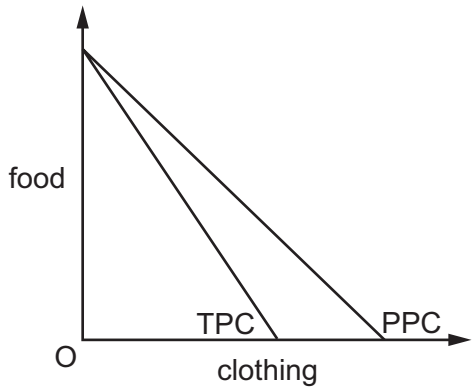
A Export prices were 34.5% higher in 2012 than in 2009.

B Import prices were 34.5% lower in 2012 than in 2009.

C The ratio of export to import prices was 34.5% higher in 2012 than in 2009.

D The terms of trade increased by 34.5% during 2012.

27 The diagram shows an economy's production possibility curve, PPC, and trading possibility curve, TPC.



Why is the diagram **not** able to demonstrate the benefits of international trade?

A It assumes there are no transport costs and no barriers to trade.

B It deals with only two products.

C The curves are drawn as straight lines.

D The position of the curves does not support the existence of benefits.

28 Which government policy will increase aggregate demand?

A raising indirect taxation

B reducing the budget surplus

C removing domestic subsidies

D removing import quotas

29 What would be the best policy for a country to reduce a balance of payments deficit?

A an increase in interest rates

B an increase in the exchange rate

C a reduction in direct taxes

D a reduction in subsidies to domestic industry

30 Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in reversing a deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation

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