Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

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)

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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.

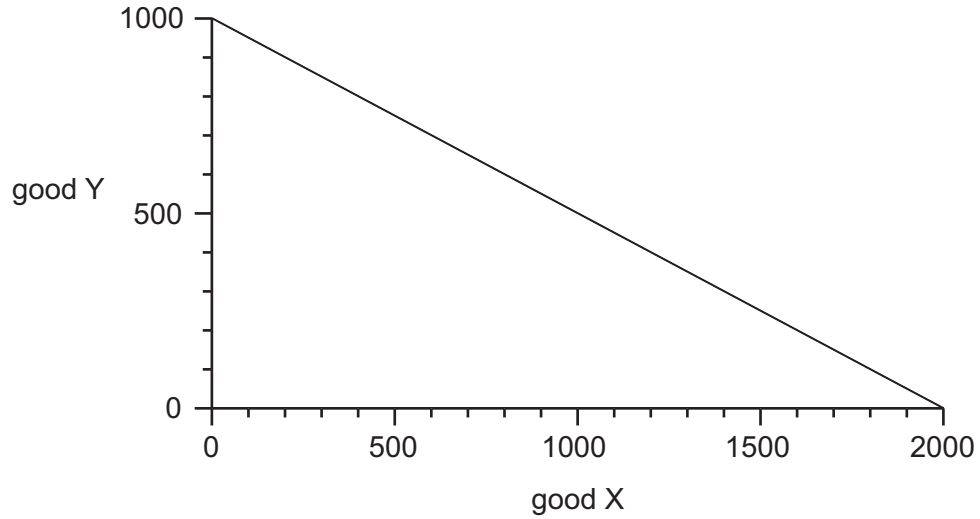
There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

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 The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



The economy produces 1200 of good X and operates on its production possibility curve.

Which quantity of good Y is given up?

A 400 **B** 600 **C** 800 **D** 1000

2 In 2014, the Hong Kong Housing Authority said the waiting time for public sector housing had increased and it would only complete 8900 flats of the 15 000 planned for the year. The reasons were the shortage of workers because they were needed in other public sector projects, the difficulty of finding land, and government regulations.

Which economic concepts are illustrated in this information?

A a market economy and a lack of resources

B economic planning and the price mechanism

C opportunity cost of labour and excess demand

D production possibility and budget deficit

3 What is most likely to be a distinguishing feature of the healthcare system of a mixed economy?

A a mixture of foreign and domestically owned hospitals

B a mixture of foreign and domestic medical staff

C a mixture of government-owned and privately owned hospitals

D a mixture of specialist and general hospitals

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4 An economy can produce only two goods at any one time. These are good X and one other good from **A**, **B**, **C** or **D**. The table shows the outputs of goods **A**, **B**, **C** and **D** with each output of good X when the economy's resources are fully employed.

Which good must be produced with good X to show a production possibility curve with increasing costs?

	units				
X	0	100	200	300	400
A	0	20	40	60	80
B	110	70	40	20	0
C	120	90	60	30	0
D	140	120	90	50	0

5 What could **not** cause a shift in an individual's demand curve for good Z?

A a change in advertising expenditure on Z

B a change in the individual's income

C a change in the individual's tastes

D a change in the price of Z

6 What is most likely to increase the quantity of houses supplied?

A a policy to help house buyers on modest incomes

B a restriction on the level of rent that can be charged

C a rise in the tax on materials used for building houses

D the removal of a subsidy to house builders

7 In which situation is the demand for a product said to be price elastic?

A A fall in price increases expenditure on the product.

B A fall in price increases quantity demanded.

C A rise in price increases expenditure on the product.

D A rise in price reduces quantity demanded.

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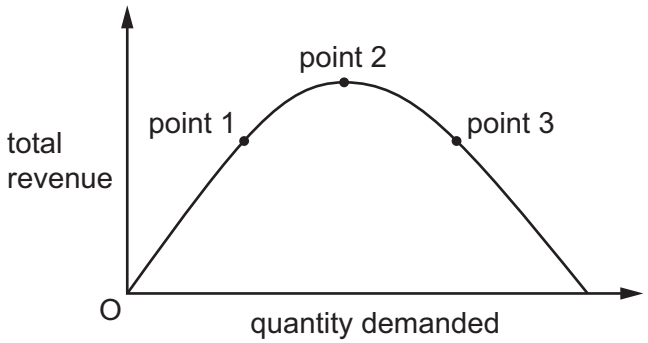
8 Goods X and Y are complements with a cross-elasticity of demand of –0.8.

When the price of good X was $10, the quantity of good Y demanded was 2000 units per week. After a change in the price of good X, the demand for good Y increases to 2800 units per week.

What is the new price of good X?

A $5.00 **B** $6.80 **C** $13.20 **D** $15.00

9 The diagram shows an industry's total revenue when different quantities are demanded.



Which values should be inserted at points 1, 2 and 3 to identify the price elasticity of demand (PED) at that position?

	point 1	point 2	point 3
A	PED>1	PED=0	PED<1
B	PED>1	PED=1	PED<1
C	PED<1	PED=0	PED>1
D	PED<1	PED=1	PED>1

10 What would increase the price elasticity of supply of a firm's products?

A a decrease in the period of time that stocks can be kept

B a decrease in the time that it takes to produce the products

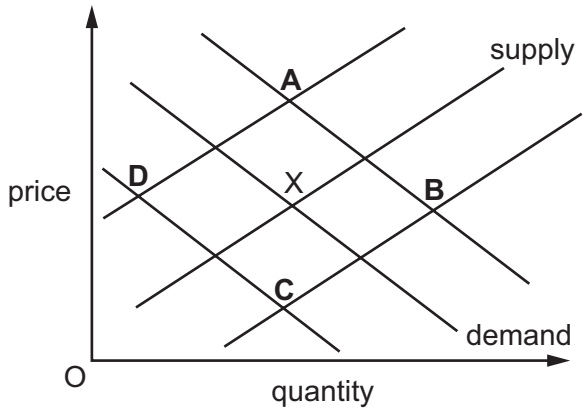
C an increase in the cost of capital goods employed by the firm

D an increase in the level of employment in the area

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11 The diagram shows the market for a luxury brand of smartphones. The initial equilibrium is at point X.

What will be the new equilibrium following a rise in the price of batteries used by the manufacturer of smartphones and a rise in consumer incomes?



12 When will it **not** be possible to use price as a rationing mechanism?

A when a good has a number of close substitutes

B when a good is an inferior good

C when the demand for a good is infinitely inelastic

D when the quantity of a good is in fixed supply

13 A government imposes an indirect tax on a product with normal demand and supply curves. The tax raises $100 million.

What effect will the tax have on the value of the combined consumer surplus and producer surplus?

A It will be unaffected.

B It will fall by less than $100 million.

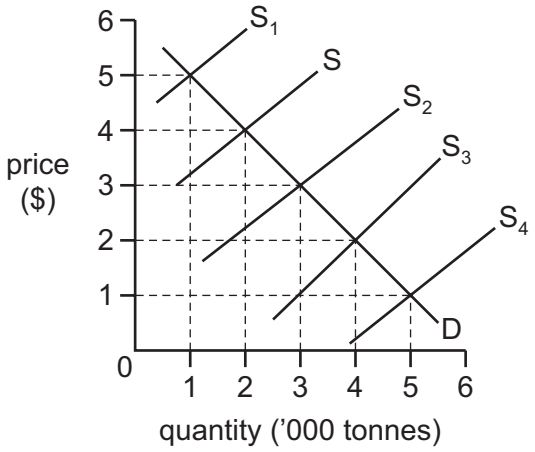
C It will fall by exactly $100 million.

D It will fall by more than $100 million.

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14 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.



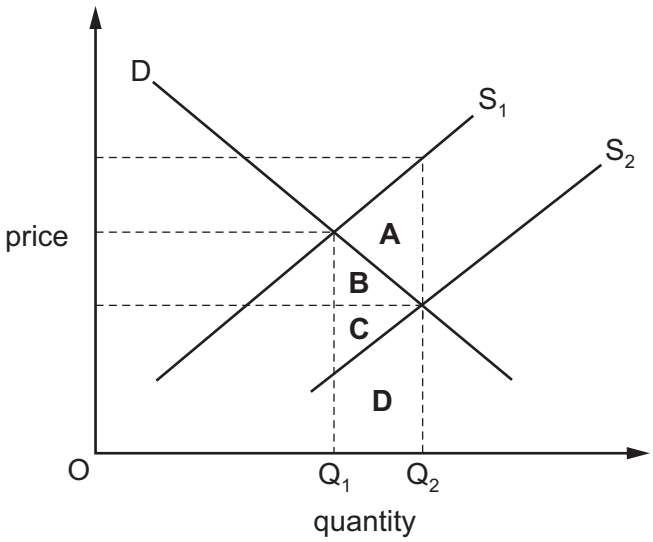
How much in total will the government pay to support farmers over the four subsequent years?

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

15 The diagram shows the supply and demand curves of a commodity.

A government subsidy causes the supply curve to shift from S_1 to S_2.

Which area measures the difference between the cost to the economy of producing the resulting increase in output (Q_1–Q_2) and the value consumers place on this increase in output?



16 Total public spending in the UK, excluding interest payments, is planned to be £679 billion for the fiscal year 2015–2016. The table shows this by category.

	£ billion
pensions	150
healthcare	133
education	90
defence	46
social security welfare payments	110
other spending on goods and services	150

What was the total amount spent on transfer payments?

A £110 billion **B** £150 billion **C** £260 billion **D** £393 billion

17 Which government policy might limit the rationing function of the price mechanism?

A the abolition of tariffs on imported consumer goods

B the levy of indirect taxes at varying rates on different goods

C the payment of subsidies to exporters

D the setting of minimum prices for milk

18 Which argument has often been used to justify the privatisation of state enterprises?

A Private firms always aim at maximum profits.

B Private firms can produce the same outputs at lower unit costs.

C State enterprises are always monopolies which exploit consumers.

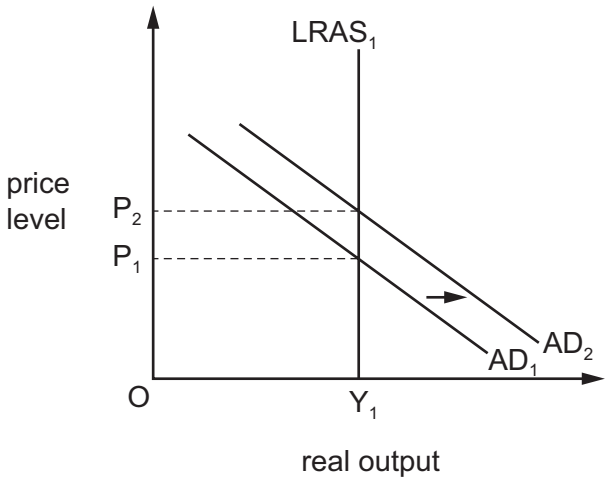
D State enterprises cannot operate without government subsidies.

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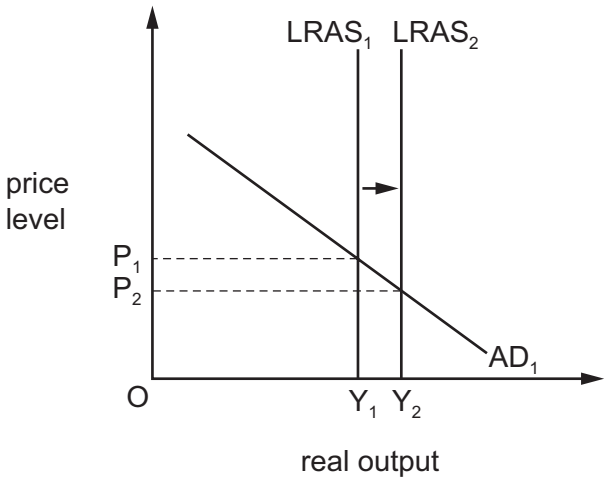
19 A government plans to increase spending on education and training every year.

Which diagram shows the likely effect of this increase on the economy's long-run output and price level?

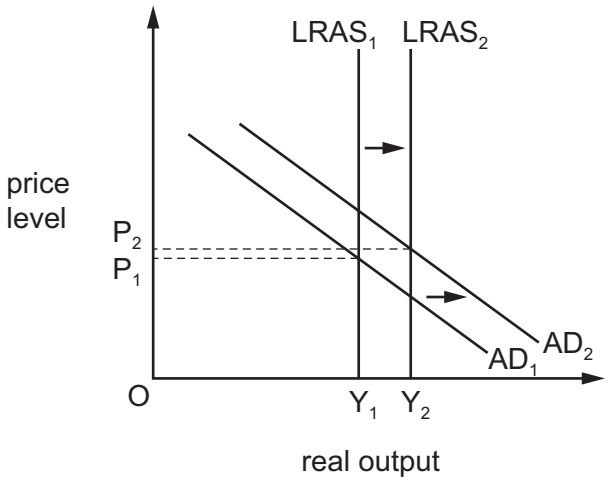
A



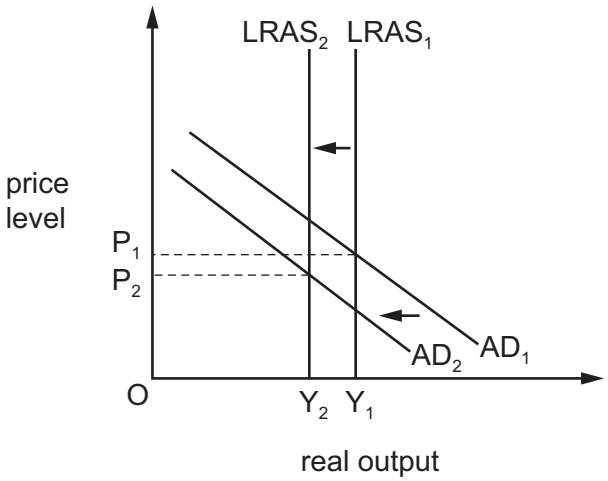
B



C



D



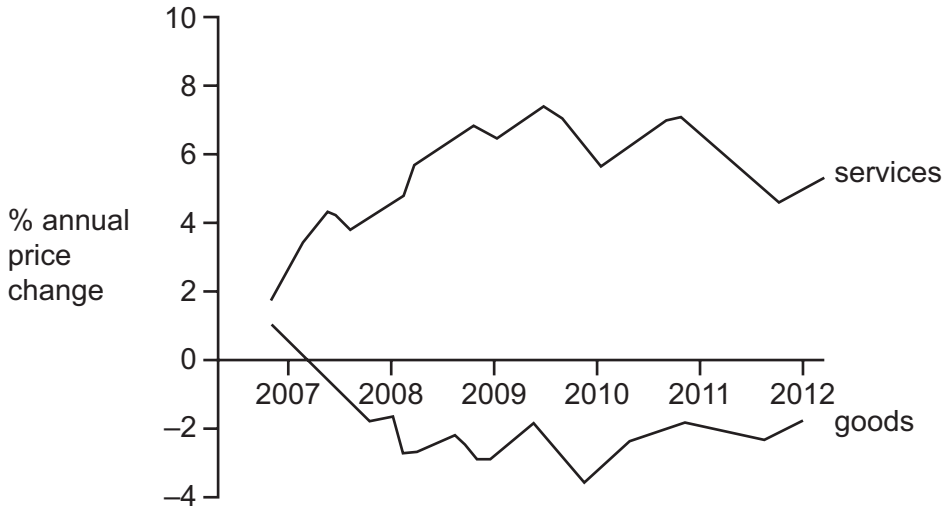
20 In 2012, the rate of inflation in Botswana was 7.5%. Person X kept all of their savings in the form of cash while Person Y put their savings into a bank account on which they earned 5.0% interest.

What was the effect on the real value of their savings by the end of the year?

	Person X	Person Y
A	decrease	decrease
B	decrease	increase
C	no change	decrease
D	no change	increase

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21 The graph shows the annual percentage change in the prices of services and in the prices of goods between 2007 and 2012.



What can be deduced from the graph?

A On average the price of services was higher than the price of goods throughout the period.

B The average price of goods was higher in 2012 than in 2010.

C The average price of services was higher in 2012 than in 2010.

D There was a fall in the general price level between 2008 and 2010.

22 The table shows items from the balance of payments for countries **A**, **B**, **C** and **D**.

Official financing including changes in reserves is excluded from the financial account.

Which country has the greatest disequilibrium on its balance of payments?

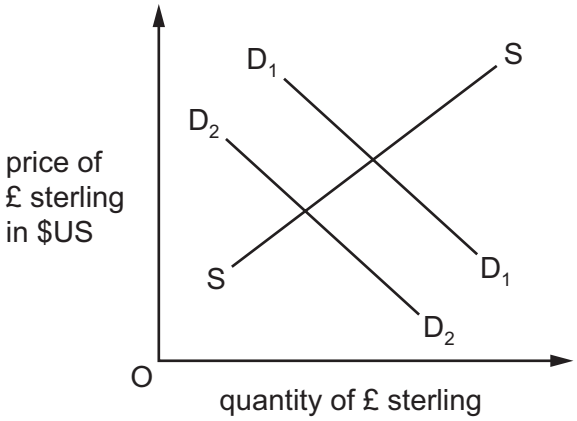
	Current Account $ million	Capital Account $ million	Financial Account $ million
A	–41	13	28
B	–32	–5	–37
C	–15	–17	4
D	44	12	25

23 An increase or decrease in exchange rates can take place in both a floating and a fixed exchange rate system but different terminology is used for each system.

What is the correct terminology?

	decrease in floating	increase in fixed
A	depreciation	appreciation
B	depreciation	revaluation
C	devaluation	appreciation
D	devaluation	revaluation

24 In the diagram, curves D_1D_1 and SS relate to the demand for and supply of £ sterling in the foreign exchange market.



What may cause the demand curve to shift from D_1D_1 to D_2D_2?

A an increase in the price of US goods sold in the UK

B an increase in UK interest rates

C the development of US substitutes for UK goods

D the removal of UK tariffs against US goods

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25 The table shows the indices of import prices and export prices of four countries between July 2013 and July 2014.

	index of import prices		index of export prices	
	July 2013	July 2014	July 2013	July 2014
Brazil	137	139	164	162
China	98	101	99	99
Italy	113	111	113	114
Spain	110	106	111	109

In which countries did the terms of trade improve between July 2013 and July 2014?

A Brazil and China

B China only

C Italy and Spain

D Italy only

26 Country X can produce apples and plums at lower cost than country Y.

Country X can also produce strawberries but it costs more to do so than in country Y.

In fact, country X produces only apples and trades them for plums and strawberries from country Y.

What economic analysis could explain this pattern of trade?

	plums	strawberries
A	absolute advantage country X	absolute advantage country X
B	absolute advantage country Y	comparative advantage country Y
C	comparative advantage country Y	absolute advantage country Y
D	comparative advantage country Y	comparative advantage country X

27 A government wants to use trade protection both to improve its trade performance and to raise government revenue.

Which policy will help it to achieve this?

A raising quotas on imported goods

B raising subsidies on exported goods

C raising tariffs on exported goods

D raising tariffs on imported goods

28 A newly-built public sector engineering training college received poor inspection reports. The government ceased to pay the college the money that it had usually received as its annual grant.

Which types of government policy does this statement imply?

A fiscal and monetary policies only

B fiscal and supply-side policies only

C fiscal, monetary and supply-side policies

D monetary and supply-side policies only

29 Which measure to correct a balance of payments current account deficit would be classified as an expenditure-dampening 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

30 A government is faced with rising inflation. It wishes to reduce inflationary pressure while avoiding a rise in unemployment.

Which action is most likely to meet its needs?

A an increase in employment taxes

B an increase in laws to promote competition

C an increase in the budget surplus

D an increase in the exchange rate

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