Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **October/November 2017**

1 hour

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

0628630549

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.

This document consists of **12** printed pages.

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1 To overcome the problem of scarcity, countries with few natural resources need to concentrate on the quality of human resources.

Which set of policies would be most appropriate?

	natural resources policy	human resources policy
A	develop renewable energy supplies	improve education and training
B	plan the allocation of resources	discourage automation
C	protect land resources	protect jobs in manufacturing
D	restrict imports of raw materials	restrict influx of skilled migrants

2 A government decides to subsidise farms producing milk in its country.

Which question about this decision is a normative question rather than a positive question?

A How much will milk production increase?

B How should essential products, such as milk, be produced?

C How will employment in the milk industry change?

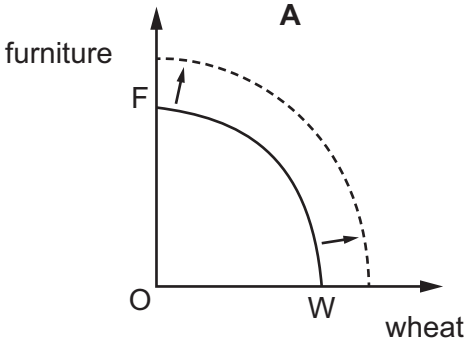
D How will milk prices change?

3 Economy X uses its resources in the labour-intensive production of wheat and wooden furniture as shown by the production possibility curve FW.

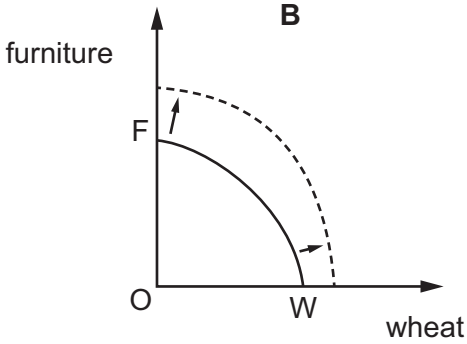
With the help of new strains of wheat seeds, X increased yields and shifted to a new production possibility curve.

Which diagram depicts this change?

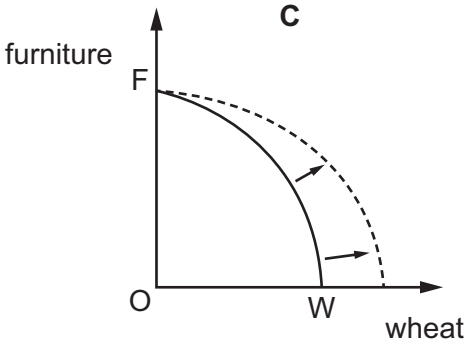
A



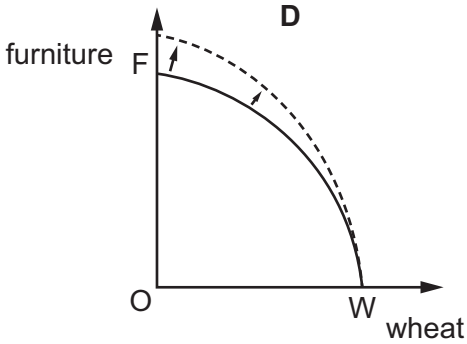
B



C



D



4 What is most likely to severely affect the ability of money to act as a medium of exchange?

A a devaluation of a country's rate of exchange for foreign currency

B an increase in the money supply

C a very high rate of inflation

D a very high rate of interest

5 What would **not** affect the position of the demand curve for wigs?

A an increase in incomes

B a reduction in the price of hairdressing

C an increase in wigs worn by television celebrities

D a reduction in the price of wigs

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

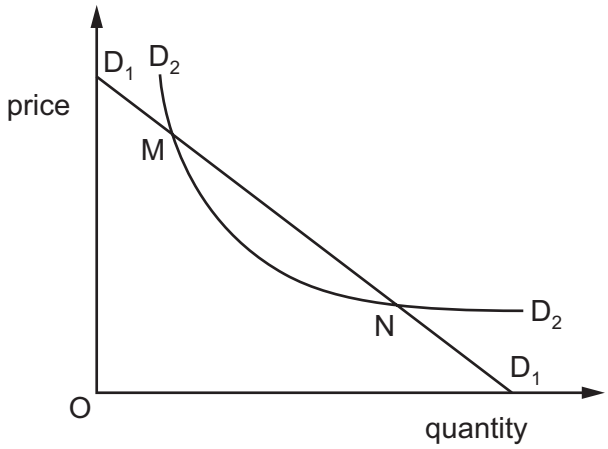
A The quantity demanded responds to a change in price.

B An increase in price brings about a decrease in the quantity demanded.

C An increase in price induces consumers to spend more on the product.

D A decrease in price brings about an increase in revenue.

7 In the diagram D_1D_1 is a straight line demand curve and D_2D_2 is a rectangular hyperbola curve.



Which statement is correct?

A D_2D_2 is more elastic than D_1D_1 at point M.

B D_2D_2 is more elastic than D_1D_1 at point N.

C The elasticity of demand increases on moving down both curves.

D The elasticity of demand is inelastic at point M on both curves.

8 Over a four year period, as the price of new houses increases, the price elasticity of supply for new houses falls, as shown. All new houses were sold.

	supply of new houses	price of new houses ($)	price elasticity of supply
year 1	10 000	100 000	–
year 2	10 250	110 000	0.25
year 3	10 450	125 000	0.13
year 4	10 600	140 000	0.12

What shows price elasticity of supply became more inelastic from year to year?

A Dollar revenues to house builders declined each year.

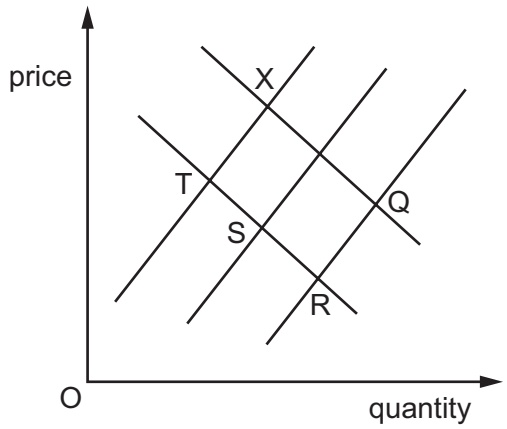
B Each year, the government released more land for house building.

C The proportionate price change was greater than the proportionate supply change.

D The proportionate price change was the same as the proportionate supply change.

9 Prices of gold, silver and copper fell considerably in 2011 and again in 2015. The fall in 2011 was said to be because miners increased production. The fall in 2015 was because demand, especially from China, decreased.

Assuming that the equilibrium before 2011 was X, how would these movements in 2011 and subsequently in 2015 be shown on the demand and supply diagram?



	initial equilibrium	2011 equilibrium	2015 equilibrium
A	X	Q	R
B	X	R	Q
C	X	S	R
D	X	T	S

10 Consumer X is the largest of five consumers and buys 50% of sales.

The table shows the quantity of the good demanded by consumer X and the market supply of the good.

price $	demand from consumer X	market supply
4	20	28
6	16	32
8	12	40
10	10	45

What would be the market equilibrium price?

A $4 **B** $6 **C** $8 **D** $10

11 What does **not** happen when price acts as a means to allocate resources?

A Price determines the supply of public goods.

B Price operates in the markets for both goods and factors of production.

C Price recognises consumers' ability to pay rather than consumers' needs.

D Price signals to producers which goods are most profitable.

12 What is meant by consumer surplus?

A the amount of money that remains after consumers have made their purchases

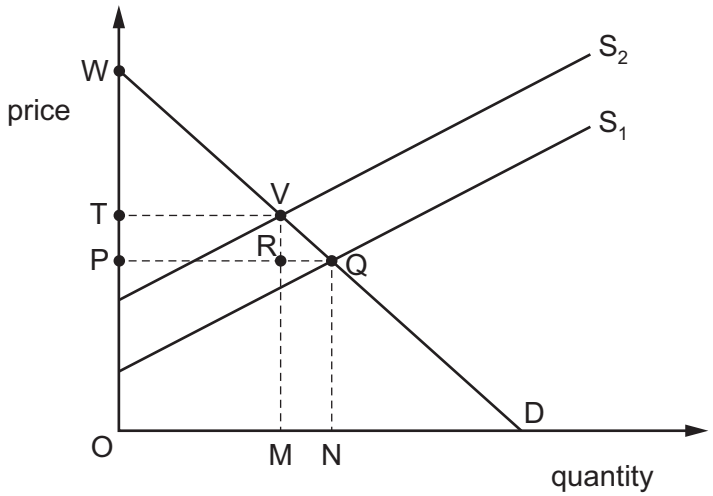
B the difference between how much a consumer is willing to pay for a good and the amount paid

C the difference between the amount of a good that's bought by a consumer and the amount consumed

D the difference between the price paid for a good and the cost of producing it

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13 In the diagram, S_1 is the original supply curve and D is the original demand curve.



If supply shifts to S_2, which area represents the change in consumer surplus?

A PQVT **B** PQW **C** PRVT **D** TVW

14 After a series of poor harvests, a government imposes an effective maximum price on cereals.

What would be a consequence of this policy?

A Both rich and poor people would satisfy their demands equally.

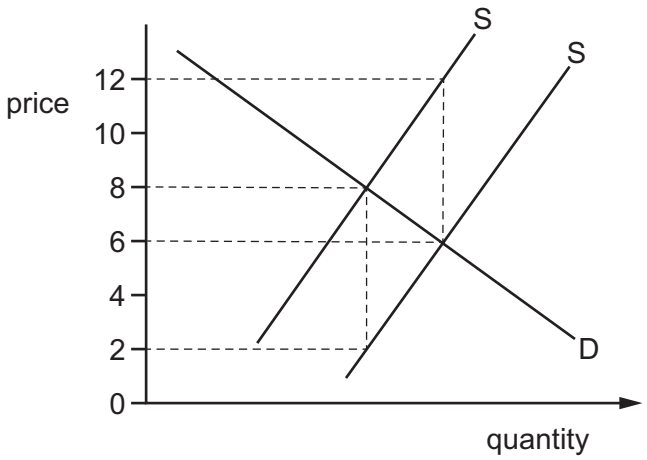
B Illegal buying and selling through a black market would be prevented.

C Rationing would be necessary to ensure a fair distribution of cereals.

D The market would fail to clear leaving a surplus of cereals.

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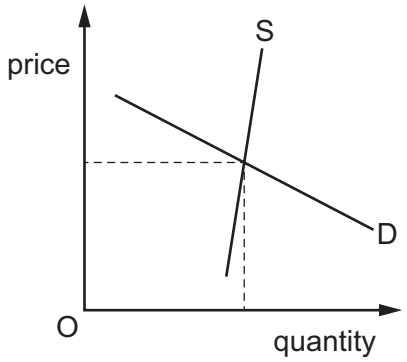
15 The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.



What is the tax per unit of output and what is the price after the removal of the tax?

	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

16 The diagram shows the market for heating oil.



If the government introduces a production subsidy, how will the financial benefit be shared between consumers and producers?

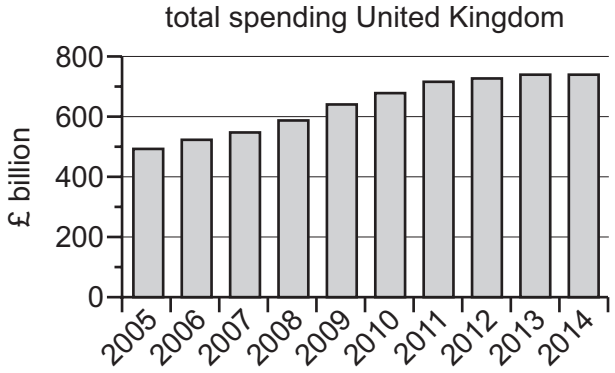
A It will be shared equally between producer and consumer.

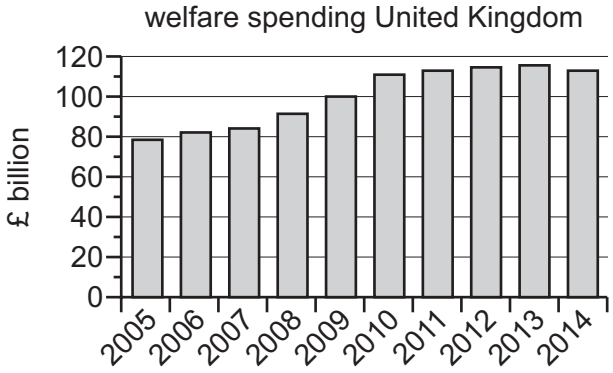
B It will go entirely to the producer.

C The majority will go to the consumer.

D The majority will go to the producer.

17 The diagrams show UK Government total spending and welfare spending in £ billions between 2005 and 2014.





What can be concluded from the diagrams about UK Government spending during the period 2005 to 2014?

A Both forms of spending were cut in 2014.

B Both total and welfare spending have risen continuously.

C In 2005 welfare spending made up a quarter of total spending.

D Non-welfare spending has always exceeded welfare spending.

18 Health services in an economy are provided by private clinics that charge high fees. The government decides health services should be provided for everyone, not based on ability to pay.

Which direct action should it take?

A Build government clinics to compete in the market.

B Close private clinics where provision by the market is inadequate.

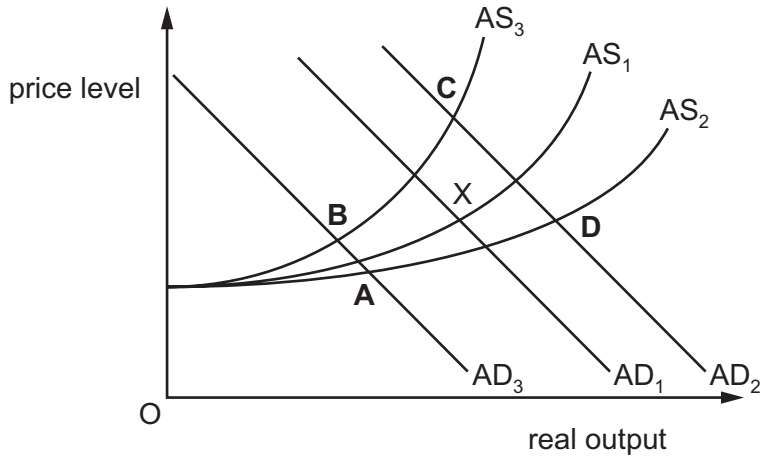
C Increase the taxes on profits made by private clinics.

D Nationalise private clinics and remove charging.

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19 In its recent budget a government reduced total expenditure while increasing the amount spent on training to increase the productivity of the workforce. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these changes?



20 The table shows the retail prices index for four countries for years 2 and 3. (Year 1 index = 100 for all countries.)

Which country had a higher rate of inflation in year 2 than year 3?

country	year 2 index	year 3 index
A	100	115
B	110	132
C	120	144
D	130	150

21 What does the current account of the balance of payments include?

A government reserves and foreign aid

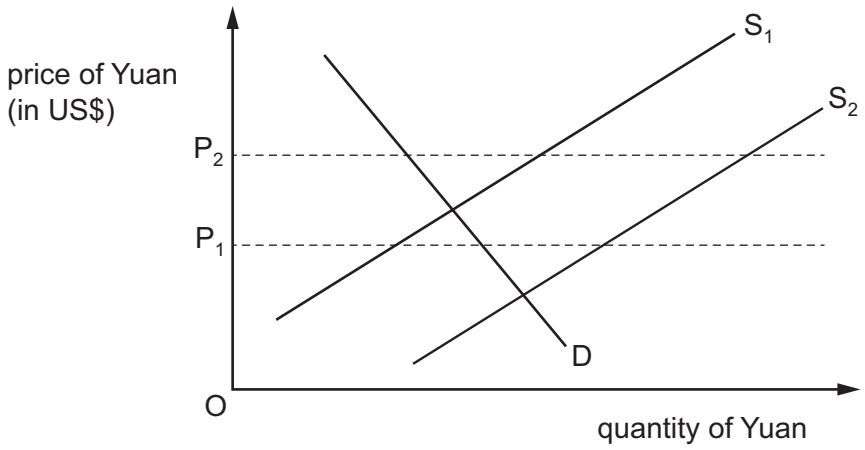
B government revenue and government spending

C imports and exports of goods and services

D inflows and outflows of trade and capital

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22 Assume the Chinese monetary authorities are committed to maintaining the exchange rate of China's currency, the Yuan, against the US$ between P_1 and P_2 on the diagram.



What might they do if supply changed from S_1 to S_2?

A introduce controls on Chinese investment overseas

B lower interest rates

C remove tariffs on imports from USA

D sell Yuan on the foreign exchange markets

23 In the UK in July 2014, £1 = US $1.71.

By the end of August 2014, £1 = US $1.65.

What is most likely to explain this?

A an increase in UK exports

B an increase in UK interest rates

C increasing profitability of UK companies

D increasing size of UK national debt

24 Which formula is used to calculate a country's terms of trade?

A index of export prices – index of import prices

B index of import prices – index of export prices

C $\frac{\text{index of export prices}}{\text{index of import prices}} \times 100$

D $\frac{\text{index of import prices}}{\text{index of export prices}} \times 100$

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25 Country X forms a customs union with country Y.

X then ceases to produce its own cars and instead imports cars from Y. Country Y diverts some of its car exports to X from country Z.

How is this likely to affect car prices in X and Z?

	country X	country Z
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

26 The table shows the ability of two countries to produce two commodities when they use all of their resources for that product.

country	maximum output of rice	maximum output of wheat
X	2000	2000
Y	4000	2000

Which statement is correct?

A Country X has an absolute advantage in wheat.

B Country Y has an absolute advantage in wheat.

C Country X has a comparative advantage in wheat.

D Country Y has a comparative advantage in wheat.

27 In 2014, Poland was the world's largest exporter of apples. 55% of the crop went to Russia. Then Russia banned the imports.

What would **not** have prevented the revenue of the Polish apple farmers falling dramatically?

A The apple farmers found new markets in other countries.

B The apple farmers were able to store the harvest for sale later.

C The Polish Government placed a ban on imports of food from Russia.

D The Polish Government established a scheme to buy apples and supply them to charities.

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28 Monetary policy can be used to increase the level of business activity.

Which action illustrates this?

A curbing consumption through controls on credit

B lowering reserve requirements of banks to increase lending

C reducing government spending to achieve a budget surplus

D stimulating company investments by increasing interest rates

29 When will a country's balance of payments current account deficit be reduced?

A when it lowers tariffs on its imports

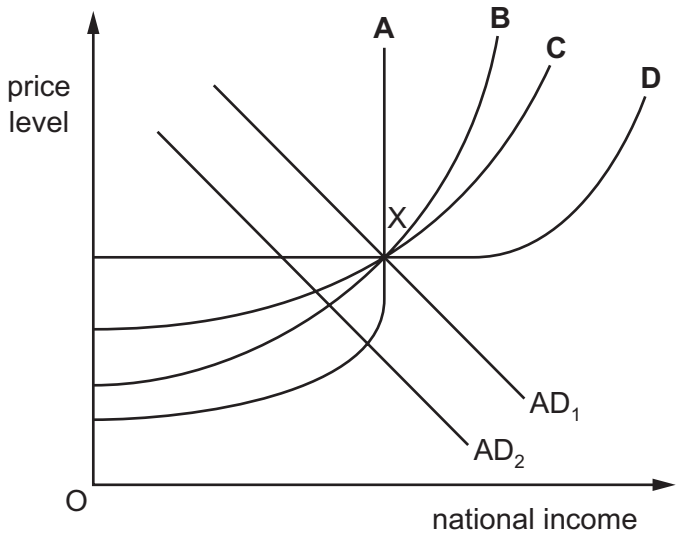
B when it raises its rate of income tax

C when it removes export subsidies

D when it revalues its currency

30 The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2.

With which AS curve would this policy be most effective?



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