Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

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)

6318180204

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 **13** printed pages and **3** blank pages.

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1 What distinguishes the very long run from the long run?

A the ability to change resource allocation

B the ability to change the state of technology

C the absence of government market intervention

D the existence of variable factors of production

2 What is least likely to happen if a firm decides to increase automation and division of labour in its production process?

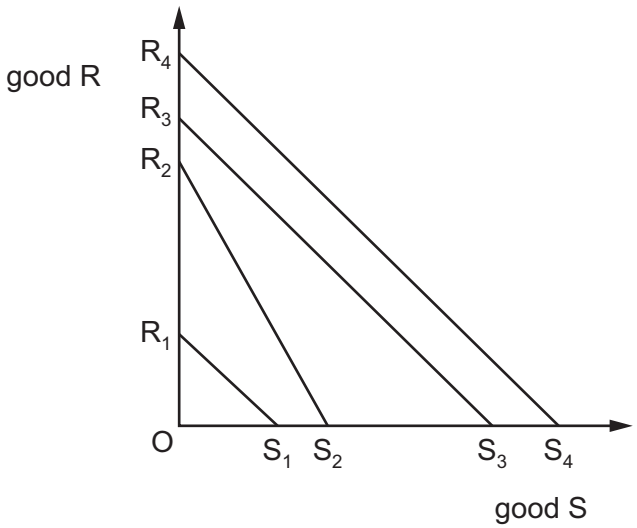
A an increase in cost per unit

B an increase in productivity

C an increase in the firm's profits

D an increase in the number of workers employed

3 R_1S_1, R_2S_2, R_3S_3 and R_4S_4 are production possibility curves (PPC) for four different countries 1, 2, 3 and 4.



Which statement about the opportunity cost of good R in terms of good S is **not** correct?

A It is greater at all points on R_4S_4 than on R_3S_3.

B It is greater in country 3 than country 2.

C It is lower in country 2 than country 1.

D It is the same at each point on R_3S_3.

4 Many governments are concerned that the high sugar content in fizzy drinks might lead to health problems such as obesity. These governments are also concerned about the lack of public awareness of the dangers.

What can be concluded from this?

A Consumers of fizzy drinks have information failures.

B Consumers under-consume fizzy drinks.

C Fizzy drinks are merit goods.

D Fizzy drinks are non-excludable.

5 There is a fall in the world price of tea traded on wholesale international markets.

How will this most likely affect the supply curve of a major tea retailer?

A It will cause a contraction along the supply curve.

B It will cause an extension along the supply curve.

C It will cause the supply curve to shift to the left.

D It will cause the supply curve to shift to the right.

6 It was estimated in 2015 that milk had an income elasticity of demand of –0.6.

What can be concluded about milk from this information?

A It accounts for only a small proportion of household expenditure.

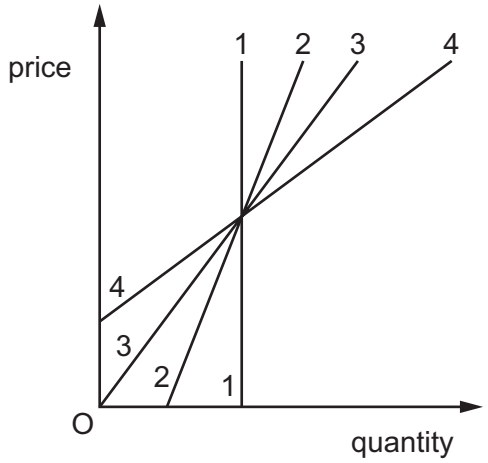
B It has very few substitutes.

C Household expenditure on milk will decrease if the price of milk increases.

D It is an inferior good.

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7 The diagram shows four supply curves.



Which statement about the price elasticities of the curves is correct?

A Curve 1 has constant infinite elasticity.

B Curve 2 has elasticity greater than curve 4 over its whole length.

C Curve 3 has increasing elasticity as price rises.

D Curve 4 has decreasing elasticity as price rises.

8 The data shows both short-term and long-term changes in the quantities of a product that are supplied to a market in response to an increase in its price from $20 to $25 per unit.

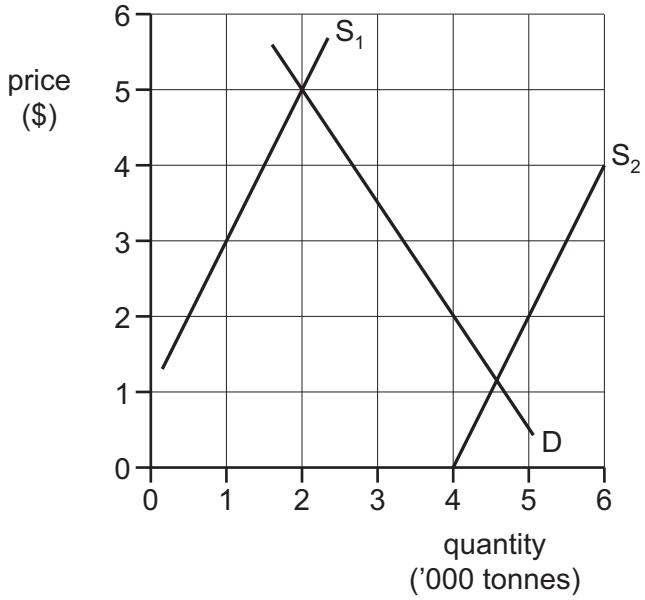
quantity supplied at a price of $20 per unit	400 per week
quantity supplied after short-term adjustments when price rises to $25 per unit	440 per week
quantity supplied after long-term adjustments when price rises to $25 per unit	560 per week

What are the short-term and long-term price elasticities of supply for the product?

	short-term	long-term
A	0.4	1.6
B	2	8
C	2.5	0.625
D	8	32

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9 In the diagram, D is the demand curve for an agricultural commodity and S_1 is the initial supply curve. A good harvest causes the supply curve to shift to S_2.



By how much will the demand curve have to shift to leave farm incomes unchanged?

A 500 tonnes at all prices

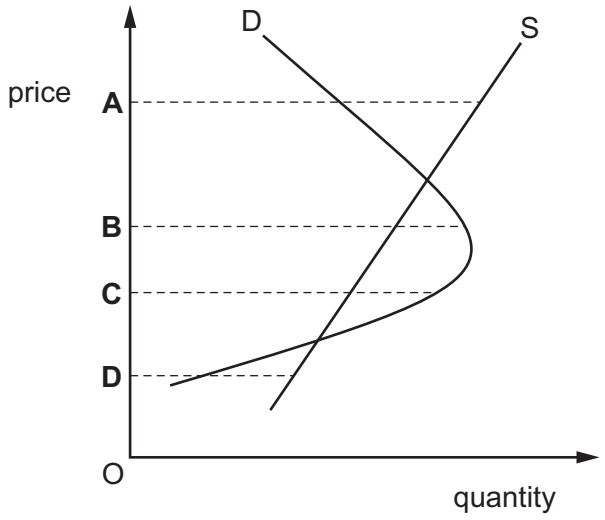
B 1000 tonnes at all prices

C 2000 tonnes at all prices

D 4000 tonnes at all prices

10 A market is in an unstable disequilibrium when it does not return to its equilibrium point from a disequilibrium position. The diagram shows a market with two equilibrium points.

At which price is the market in an unstable disequilibrium?



11 In which situation will it be necessary to use an alternative to the price mechanism to allocate a good between consumers?

A Supply exceeds the quantity demanded at the initial market price.

B The government sets a price ceiling below the equilibrium price.

C The product is excludable and rival.

D There is a single monopoly producer.

12 The table shows the price Rashid is willing to pay for successive bottles of water.

bottles of water	1st	2nd	3rd	4th
price willing to pay	$0.90	$0.80	$0.65	$0.50

If the price is $0.50 and Rashid buys four bottles, what is the monetary value of Rashid's consumer surplus?

A $0.15 **B** $0.85 **C** $0.90 **D** $1.35

13 A market is in equilibrium at price $5. Market supply changes from being inelastic at each price to become elastic at each price. The market equilibrium price does not change.

What is the effect on consumer surplus and producer surplus?

	consumer surplus	producer surplus
A	rises	falls
B	rises	unchanged
C	unchanged	falls
D	unchanged	unchanged

14 A government has introduced an effective maximum price on rice.

Which combination of changes must cause an existing shortage of rice to increase the most?

A a fall in the maximum price and a less price-elastic supply

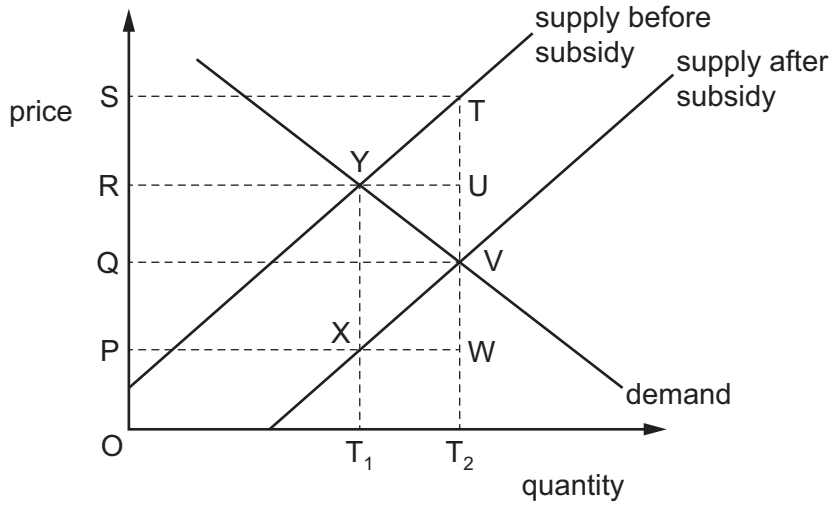
B a fall in the maximum price and a more price-elastic supply

C a rise in the maximum price and a less price-elastic supply

D a rise in the maximum price and more price-elastic supply

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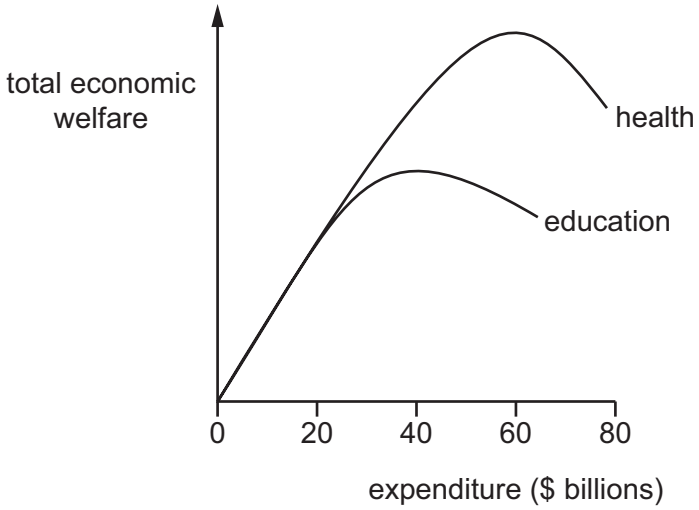
15 The diagram shows the market for a product before and after the introduction of a subsidy.



Which area represents the total amount paid in subsidies?

A PRYX **B** QRUV **C** QSTV **D** RSTU

16 The graph shows the total economic welfare derived by citizens from a government's expenditure on health and education services.



If the government has $60 billion of its budget to allocate between health and education services, which allocation will give its citizens the highest level of welfare?

	health spending ($ billions)	education spending ($ billions)
A	0	60
B	20	40
C	40	20
D	60	0

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17 The table shows the demand and supply schedules for a good before and after the imposition of a tax.

price ($)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

What was the tax and the price change?

	tax ($)	price change ($)
A	3	2
B	3	3
C	4	3
D	4	4

18 Which action by a government would **not** be regarded as a form of privatisation?

A the contracting out of the provision of public sector services to private sector firms

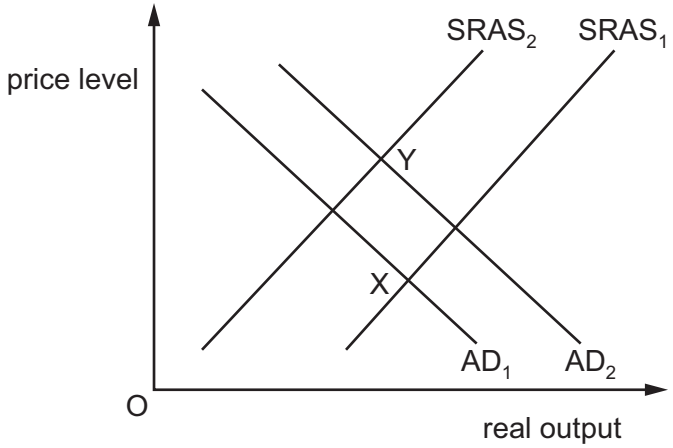
B the deregulation of public sector industries to allow the entry of private sector firms

C the payment of subsidies from the public sector to private sector firms

D the sale of shares in a public sector corporation to the private sector

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19 The diagram shows changes in aggregate demand and aggregate supply that have resulted in a move from equilibrium point X to equilibrium point Y.



Which combination of events could have caused this change?

A higher interest rates and the discovery of new natural resources

B increased consumer confidence and reduced raw material prices

C less business confidence and higher indirect taxes

D lower exchange rate and net outward migration

20 What would be likely to decrease inflation in an economy?

A a decrease in consumer saving

B a decrease in unemployment

C an increase in labour productivity

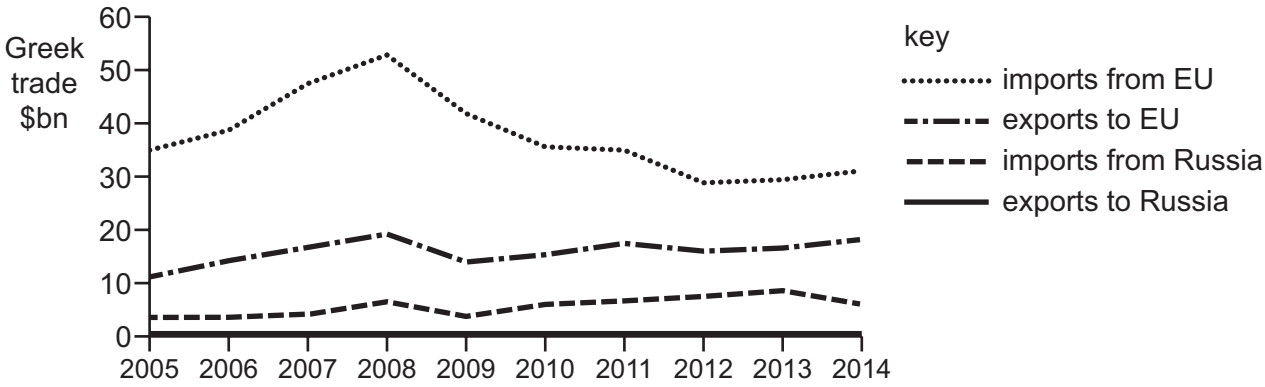
D an increase in taxes on imports

21 What is the average weighted price change illustrated by the table below?

product	percentage of income spent on product	price change %
P	10	+8
Q	15	+6
R	25	+4
S	50	–9

A –1.8% **B** 4.5% **C** 7.2% **D** 9.0%

22 The diagram shows Greece's trade position with the EU and Russia between 2005 and 2014.

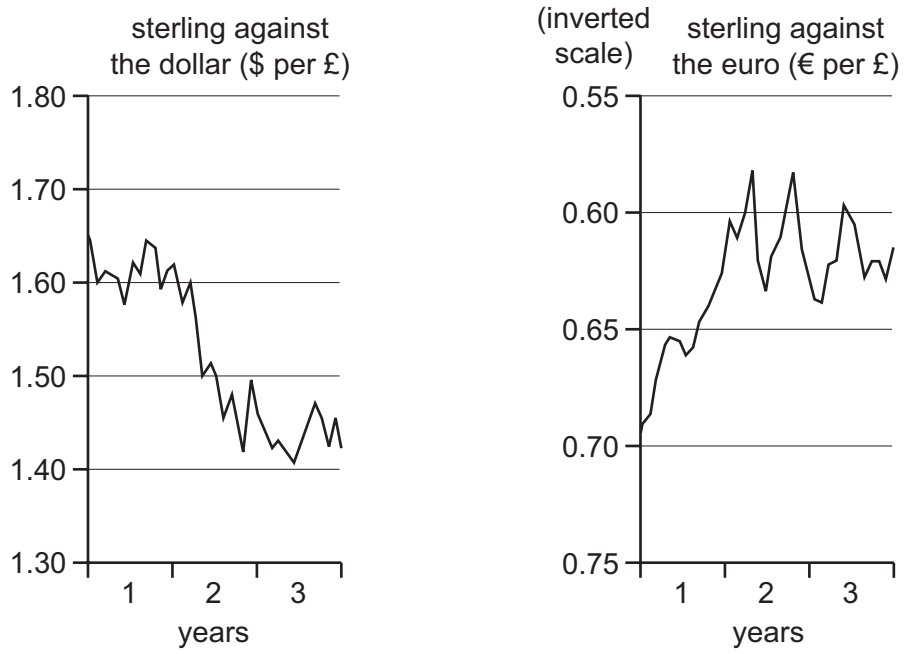


What happened to Greek trade balances over this period?

	balance with the EU	balance with Russia
A	an increased deficit	an increased surplus
B	an increased surplus	a reduced surplus
C	a reduced deficit	an increased deficit
D	a reduced surplus	a reduced deficit

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23 The graphs show the changes in the exchange rates of the £ sterling against the US$ and against the euro. The exchange rate of sterling against the euro is shown by an inverted scale.



Which statement about the period year 1 to year 3 is correct?

A The £ appreciated against the $ and the €.

B The £ appreciated against the $ and depreciated against the €.

C The £ depreciated against the $ and the €.

D The £ depreciated against the $ and appreciated against the €.

24 What has happened when a country's terms of trade are said to have moved in a favourable direction?

A Each unit of imports costs more exports.

B More foreign currency enters the country to pay for exports.

C The monetary value of exports and imports is equalised.

D The ratio of the index of export prices to the index of import prices increases.

25 What is the least likely outcome for participating countries of a move towards freer trade?

A a greater product choice

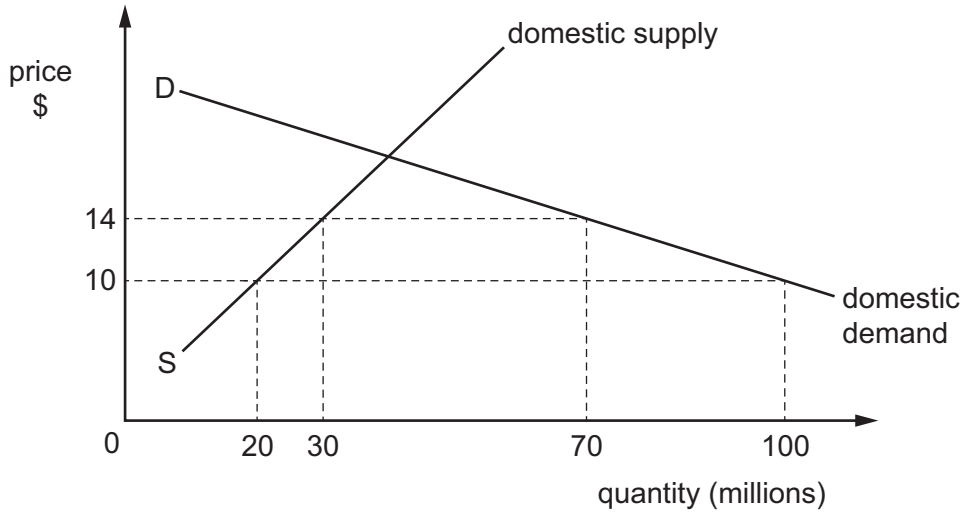
B a more equal distribution of income

C greater international specialisation

D higher standards of living

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26 The diagram shows that the imposition of a tariff raises a product's world price from $10 to $14.



What was the change in domestic producers' income as a result of the tariff?

A It rose by $120 million.

B It rose by $160 million.

C It rose by $220 million.

D It rose by $280 million.

27 What is a disadvantage when a quota replaces a tariff to reduce imports?

A It is harder to anticipate its impact.

B It is less effective at raising revenue for the government.

C It is less effective when imports are necessities.

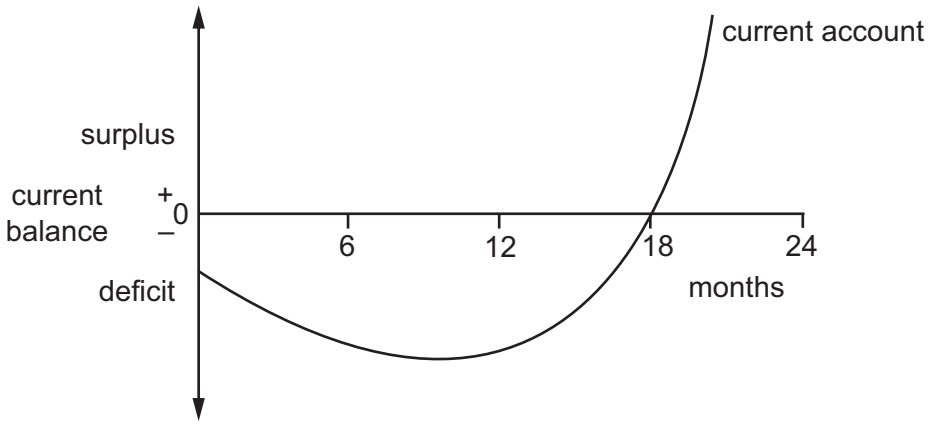
D It prevents any involvement of market forces.

28 All other things being equal, what will be the likely effects on the US budget deficit and the supply of US government bonds if the US government increases its expenditure?

	US budget deficit	supply of US government bonds
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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29 A country at the beginning of a given period seeks to improve the current account of its balance of payments by devaluing its currency. The effect of this policy in the following two years is shown in the diagram.



Which statement is likely to explain this performance?

A In the short run, the price elasticity of demand for exports and imports was very low.

B The domestic inflation rate fell after 12 months before having the desired result.

C The elasticity of demand for imports diminished after 12 months.

D The policy was ineffective and other factors must have led to an improvement in the current account.

30 Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

A a long-run supply side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions

B a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments

C a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target

D a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

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