Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

Paper 1 Multiple Choice **October/November 2018**

1 hour

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

* 0 4 4 2 8 2 9 5 2 0 *

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 The statements are from a report by a water company that supplies water to homes and businesses.

Which statement is normative?

A It is important that we continue to invest in our infrastructure.

B Our investment will have wider benefits, attracting visitors to the region.

C We are investing more than ever in the region.

D We use local suppliers on construction projects which boosts the local economy.

2 The combinations of output of goods X and Y shown in the table could all be produced using the existing resources in a country to their maximum capacity.

	1	2	3	4	5
X	220	200	180	140	90
Y	10	25	40	70	100

Which statement about the opportunity cost of good Y in terms of good X is correct?

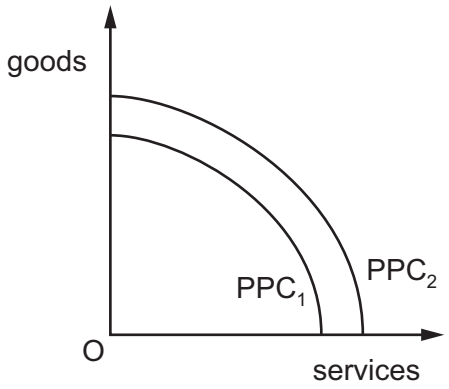
A It decreases as the output of Y increases.

B It is always below 1Y = 1X.

C It is constant throughout the range of output shown.

D It is never above 1Y = 2X.

3 The diagram shows two production possibility curves for goods and services in an economy.



What would **not** cause the economy's production possibility curve to shift from PPC_1 to PPC_2?

A an increase in the level of employment

B an increase in the retirement age

C an increase in the skills level of employees

D an increase in the use of capital by firms

4 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.

5 What is **not** held constant when aggregating individual firms' supply curves to give the short-run market supply curve?

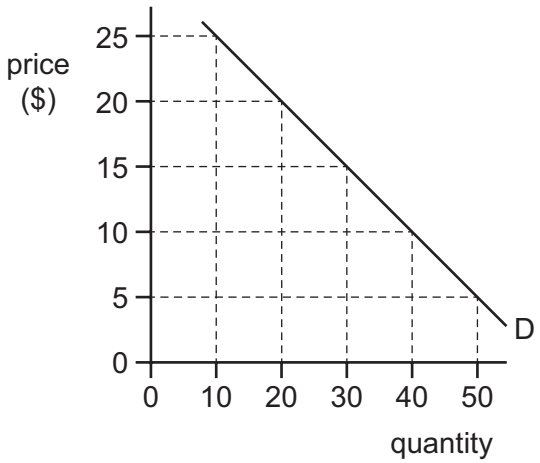
A the number of firms in the industry

B the price of the product

C the prices of factors of production

D the state of technology

6 The diagram shows the demand for a product for which there are only three buyers, Freeman, Hardy and Willis.



The table shows the demand from two of the three buyers.

price ($)	Freeman's demand	Hardy's demand
10	24	6
15	15	5
20	6	4

Which statement about the demand for the product from Willis is correct?

A It has unitary price elasticity of demand.

B It is a downward-sloping straight-line demand curve.

C It is a perfectly elastic demand curve.

D It is a perfectly inelastic demand curve.

7 Which statement about price elasticity of supply is correct?

A It cannot change in the short run.

B It increases as the time period lengthens.

C It is infinite in the momentary time period.

D It is zero in the long run.

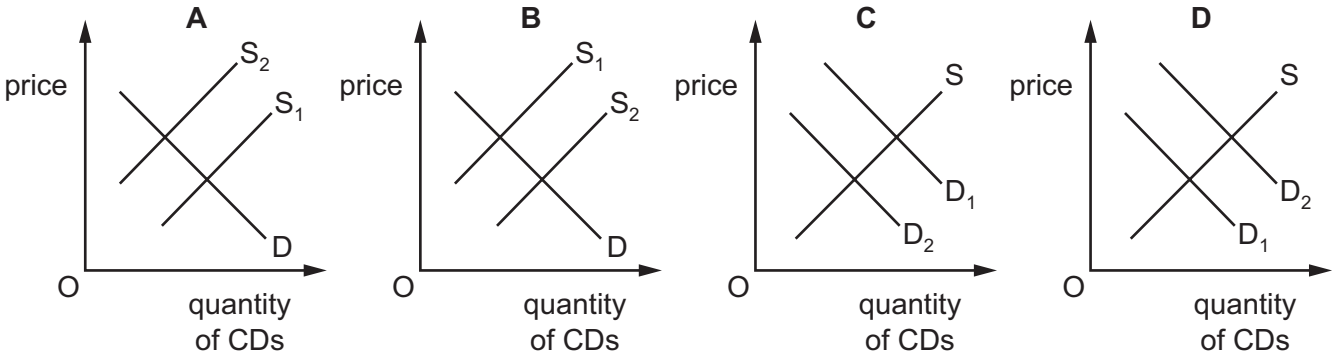
8 At a price of $4 a manufacturer supplies 20 units of a good per week. The value of the price elasticity of supply is 2 over the range of price.

How many goods will be supplied at $5?

A 10 **B** 25 **C** 30 **D** 40

9 Consumers wishing to listen to music at home can now access it online. This has resulted in the closure of shops selling music CDs.

How can this be represented on a demand and supply diagram for music CDs?



10 An international oil company announced that it would stop exploring for oil off the coast of Namibia. This was because there was only enough oil to support a local power station for Namibia and not enough to allow exports of oil.

What might be a possible advantage and disadvantage to Namibia of this decision?

	advantage	disadvantage
A	a cut in taxes paid by the oil company to the Namibian government	the conservation of a natural resource
B	a reduction in potential costs of pollution	the loss of cheaper oil
C	a saving in costly research paid for by the oil company	a loss of employment opportunities
D	the exhaustion of a natural resource	the loss of potential exports

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11 The table shows a competitive market in equilibrium in two periods.

period	market price (cents)	quantity traded
1	50	10 000
2	60	12 000

What could explain the change from period 1 to period 2?

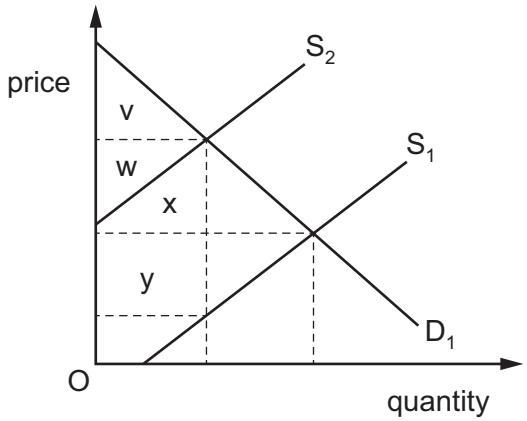
A an increase in the price of a complement

B an increase in the price of a substitute

C the imposition of a minimum price of 60 cents by a government

D the imposition of an indirect tax on suppliers

12 In the diagram D_1 is the demand curve for Indian tea and S_1 is the initial supply curve.

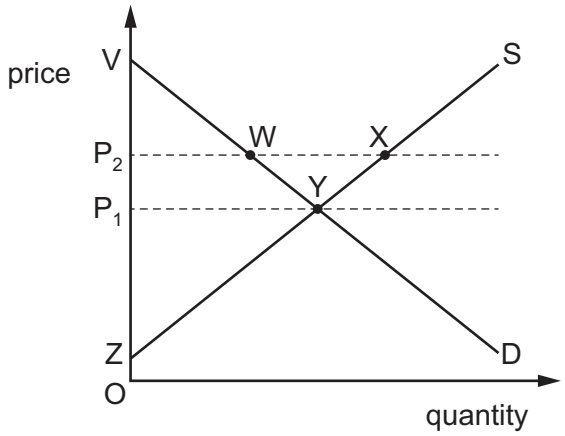


The Indian government imposes a tax on tea, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting tax revenue to the Indian government and the new producer surplus?

	tax revenue	new producer surplus
A	w + x	v
B	w + x	w
C	w + x + y	v
D	w + x + y	w

13 The diagram shows the supply and demand curve for bananas.



What happens to consumer surplus when the price increases from P_1 to P_2?

A It decreases by P_2VW.

B It decreases from P_1VY to P_2VW.

C It increases by WXY.

D It increases from P_1YZ to P_2WYZ.

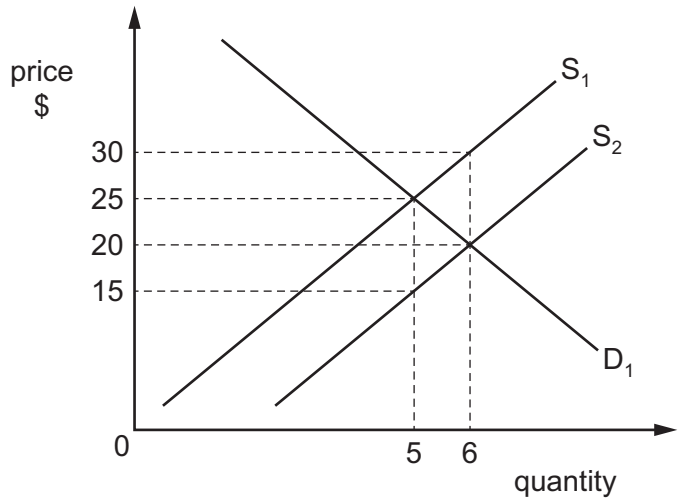
14 A ……1…… price set below the market equilibrium will cause a ……2…… of the product, and a ……3…… price set above the market equilibrium will cause a ……4…… of the product.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	maximum	shortage	minimum	surplus
B	maximum	surplus	minimum	shortage
C	minimum	shortage	maximum	surplus
D	minimum	surplus	maximum	shortage

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15 The diagram shows the original demand curve D_1 and original supply curve S_1 for a good.



The government introduces a subsidy.

What will be the total consumer spending after the introduction of the subsidy?

A $75 **B** $120 **C** $125 **D** $180

16 Which is a transfer payment?

A dividends paid to private shareholders

B income paid to civil servants

C pensions paid to retired people

D rent paid to landlords

17 A flood-control dam is an example of a good provided directly by a government.

Which statement relating to the direct provision of a flood-control dam is **not** correct?

A Direct provision of a flood-control dam allows the government to tackle the failure to provide public goods.

B Direct provision of a flood-control dam forces the government to incur an opportunity cost.

C Direct provision of a flood-control dam involves the supply of a merit good.

D Direct provision of a flood-control dam is an example of government allocation of resources.

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18 There has been a worldwide move towards market economies and away from state controlled nationalised industries.

Which policy would limit this transition?

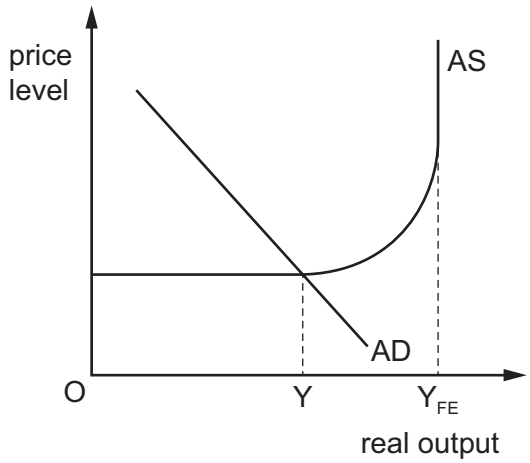
A development of well-functioning capital markets

B establishment of a stable, convertible currency

C national and international liberalisation of markets and trade

D regulation of prices of former nationalised industries' products

19 An economy has an equilibrium level of real output Y, but wishes to move towards its full employment level of real output Y_{FE}.



Which combination of policy measures is most likely to achieve this wish without high inflation?

A decreasing interest rates and raising investment in new technology

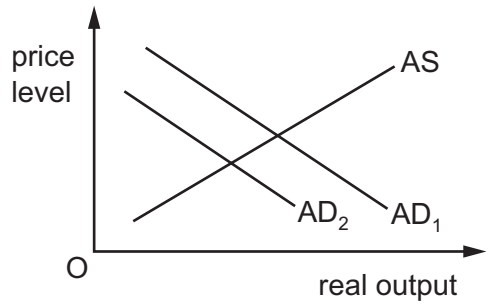
B decreasing the money supply and raising corporation tax rates

C increasing interest rates and raising income tax thresholds

D increasing the money supply and raising welfare benefit payments

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20 In the diagram, AD_1 and AS are an economy's original aggregate demand and aggregate supply curves.



What will cause the aggregate demand curve to shift to AD_2?

A an appreciation of the currency

B an increase in the money supply

C an increase in the price level

D an increase in the real wage

21 A country experiences a fall in the consumer price index.

What must be associated with such a fall?

A a decrease in average wage rates

B a decrease in borrowing

C a decrease in consumers' expenditure

D a decrease in the cost of living

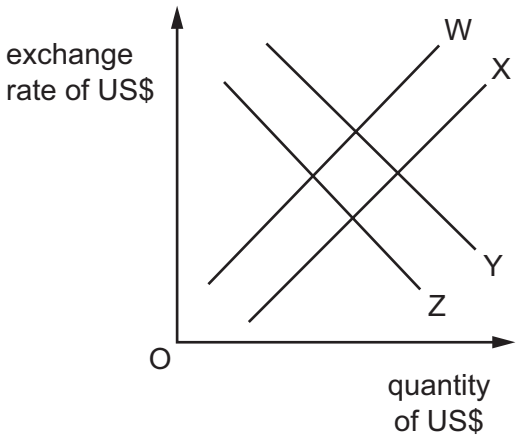
22 The balance of payments accounts are arranged in the following way.

Which total is the current account balance?

balance of trade in goods	
+ balance of trade in services	= total **A**
+ net income (primary income)	= total **B**
+ net transfers (secondary income)	= total **C**
+ capital balance	= total **D**
financial balance	
errors and omissions	

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23 The US central bank lowers its interest rate. This has an effect on the exchange rate of the US$. The diagram shows the resulting changes in the demand for and supply of US$ in the foreign exchange market.



A change is shown by a move from a curve numbered 1 to a curve numbered 2.

What should curves W, X, Y and Z be labelled to show the effect of the interest rate fall on the exchange rate?

	W	X	Y	Z
A	S_1	S_2	D_1	D_2
B	S_1	S_2	D_2	D_1
C	S_2	S_1	D_1	D_2
D	S_2	S_1	D_2	D_1

24 The table refers to a particular country.

year	index of import prices (2010 = 100)	index of export prices (2010 = 100)
2005	48.1	57.0
2015	122.4	120.8

Which statement about the period 2005 to 2015 is correct?

A The balance of payments worsened.

B The current account balance improved.

C The exchange rate appreciated.

D The terms of trade fell.

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25 Two countries, Northland and Southland, produce two goods, food and drink. The table shows how many hours each has to use to produce one unit of each product. After specialising according to comparative advantage, they decide to trade.

	food	drink
Northland	10 hours	4 hours
Southland	20 hours	12 hours

Which exchange rate will allow both countries to benefit from trade?

A 1 unit of food to $\frac{1}{2}$ unit of drink

B 1 unit of food to 1 unit of drink

C 1 unit of food to 2 units of drink

D 1 unit of food to 3 units of drink

26 What is a characteristic of a customs union but **not** of a free trade area?

A a common external tariff

B a common tariff between member countries

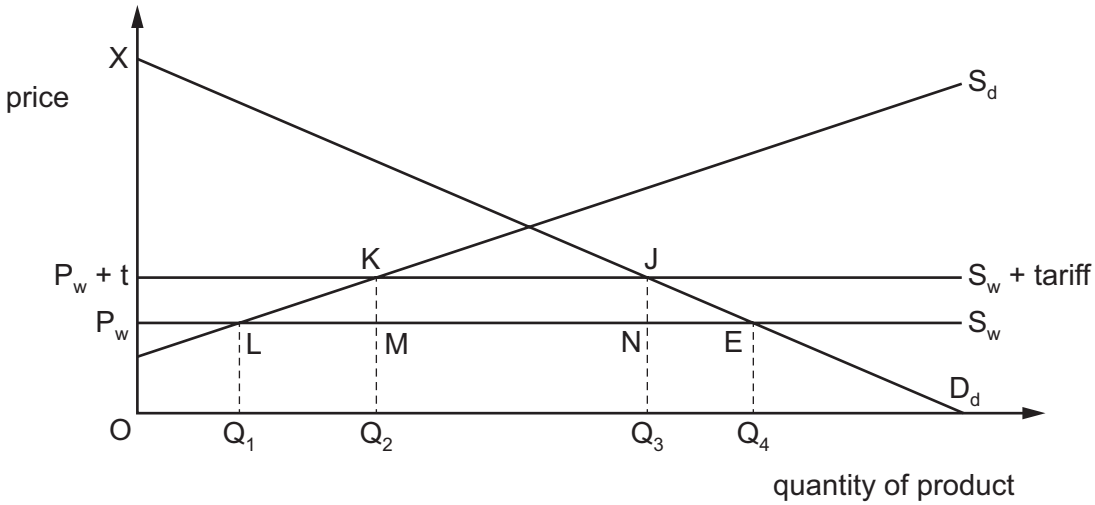
C fixed exchange rates between member countries

D the abolition of all tariffs between member countries

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27 In the diagram, D_d and S_d represent the domestic demand and supply curves for a product. S_w represents world supply of the product when there is free trade, at a world price of P_w. The initial domestic market equilibrium level of consumption of the product is at E.

If a tariff of t were to be imposed, world supply would now be represented by S_w + tariff, at a price of P_w + t.



What would be the level of domestic production and the total of government revenue from tariffs after the tariff of t were imposed?

	level of domestic production	total level of revenue from tariffs
A	OQ_2	JKMN
B	OQ_2	OQ_2MP_w
C	Q_1Q_2	EJKL
D	Q_2Q_3	KLM + JNE

28 Which government policy is most likely to focus on an increase in the quantity of skilled labour?

A exchange rate policy

B fiscal policy

C monetary policy

D supply-side policy

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29 A country has a long-running current account deficit on the balance of payments.

Its government was using an expenditure-switching policy but decides to change to an expenditure-reducing policy.

What could have been the old policy and its new policy?

	old policy	new policy
A	export subsidies	quotas
B	income tax	interest rate
C	quotas	exchange rate control
D	tariffs	income tax

30 The government increases interest rates in order to reduce the rate of inflation.

What will also result from this action?

A a depreciation of the country's currency

B a fall in the level of savings

C a reduction in economic growth

D a reduction in unemployment

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