Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **October/November 2019**

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 What is correct about scarcity?

A Scarcity affects low income earners only.

B Scarcity forces individuals to make choices.

C Scarcity is removed by periods of falling prices.

D Scarcity will be abolished by advances in technology.

2 Which labels might be used on a production possibility curve diagram?

	Y (vertical) axis	X (horizontal) axis
A	capital input	labour input
B	cost of production	quantity produced
C	output of rice	labour input
D	output of rice	output of sugar

3 A good's defining quality is that its consumption by one person prevents its consumption by someone else.

How is this good classified?

A a free good

B a non-excludable good

C a non-rival good

D a private good

4 Which is a normative economic statement?

A Money is the least liquid form of wealth.

B Some firms are subsidised by the government.

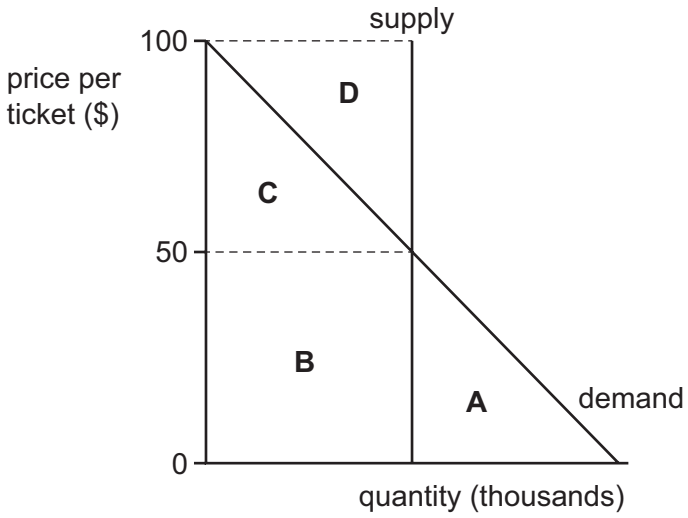
C Some workers earn more than others.

D Taxes are the best way to discourage smoking.

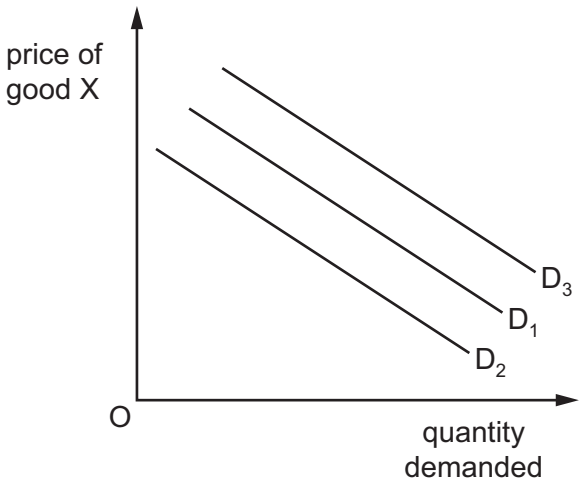
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5 The price of a ticket for an international athletics tournament was $50. All tickets were sold.

Which area on the diagram represents consumer surplus?



6 Market demand curves normally slope downwards. They may also shift from D_1 to either D_2 or D_3.



What would cause a movement along D_1 for good X and **not** a shift to either D_2 or D_3?

A advertising of good X increases sales

B consumer incomes rise

C price of good X falls

D price of other goods falls

7 What is **not** a function of the price mechanism?

A to act as a signal to firms when allocating resources

B to maximise consumer surplus

C to provide an incentive to firms to produce goods

D to ration scarce resources

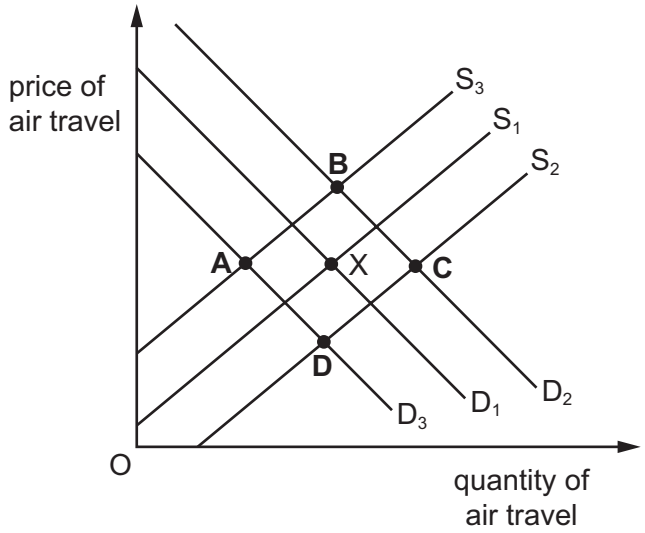
8 A government introduces a maximum price above the market price.

What will be the effect on consumer and producer surplus?

	consumer surplus	producer surplus
A	fall	rise
B	rise	fall
C	rise	unchanged
D	unchanged	unchanged

9 The diagram shows the market for air travel in Asia. The initial market equilibrium is at X.

What will be the new equilibrium if the price of aviation fuel rises and incomes are falling in Asia?



10 A government increased a specific tax on shoes. The resulting increase in the price of shoes was paid mainly by the consumer and not by the producer.

What must be true for this to happen?

A The price elasticity of demand was less than the price elasticity of supply.

B The price elasticity of demand was unitary.

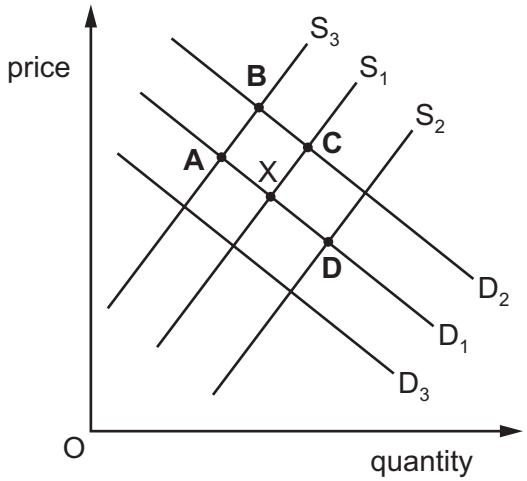
C The price elasticity of supply was less than one.

D The price elasticity of supply was inelastic while the price elasticity of demand was elastic.

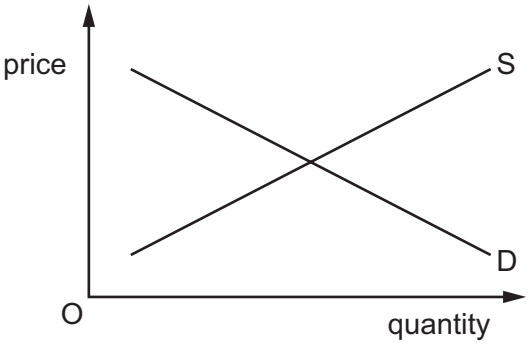
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11 The diagram shows supply and demand for a good. The original equilibrium is X.

What will be the new equilibrium if subsidies are given to firms for new machinery?



12 The diagram shows the market for a normal good.



What is likely to cause both demand and supply curves to shift to the right?

A a fall in the price of the good and a fall in the rate of indirect tax on the good

B a rise in the price of a complementary good and an increase in the number of firms in the industry

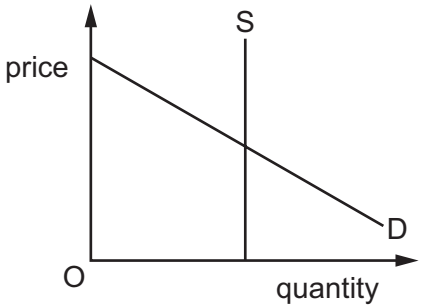
C a rise in the price of a substitute good and a fall in the price of a raw material used in the production of the good

D an improvement in production techniques and a fall in the incomes of consumers

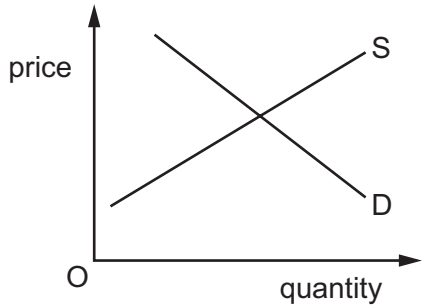
13 The diagrams relate to the markets for four different products.

In which market would a 10% decrease in demand and simultaneously a 10% increase in supply definitely result in both a fall in equilibrium price and a rise in equilibrium quantity?

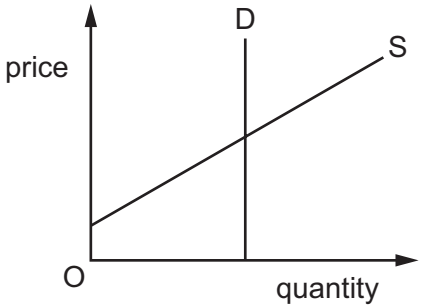
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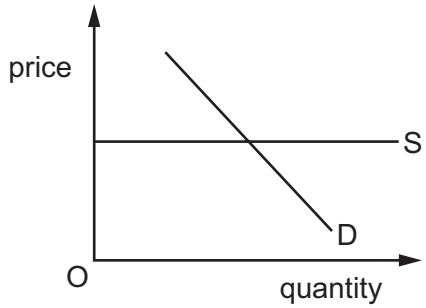
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14 Why might governments provide free education for children aged 4 to 16 years old?

A Consumers are not fully aware of the benefits of education.

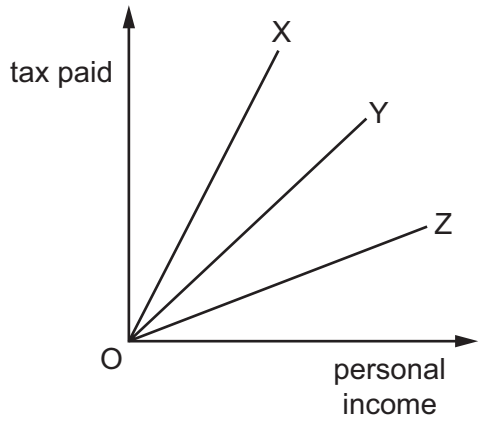
B Education in a free market system would be over consumed.

C Education is a public good and there would be many free riders.

D The private costs of education exceed the private benefits in a free market.

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15 The diagram shows three possible tax schemes.



What can be concluded about these tax schemes?

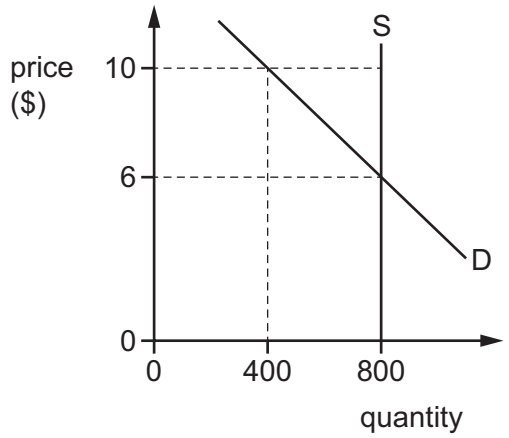
A X is more progressive than Z.

B X, Y and Z are all proportional.

C Y is the only proportional tax.

D Z is more regressive than Y.

16 The diagram shows an initial market equilibrium for an agricultural product of $6 and 800 units.



How much will the government have to spend to increase the market price to $10?

A $1600 **B** $2400 **C** $3200 **D** $4000

17 The table identifies items of government annual spending.

	$ million
army pay	35
civil servants' salaries	125
farming subsidies	15
pension payments	75
welfare benefits	50

What is the total government expenditure on transfer payments?

A $50 m **B** $125 m **C** $175 m **D** $300 m

18 A subsidy is given to the producers of a good with perfectly elastic demand.

What will be the outcome?

A Consumer and producer receive equal amounts of subsidy.

B There will be no change in price; the incidence of the subsidy will fall on the producer.

C There will be a large increase in quantity consumed; the incidence of the subsidy will fall on the consumer.

D There will be no change in the quantity consumed; the incidence of the subsidy will fall on the consumer.

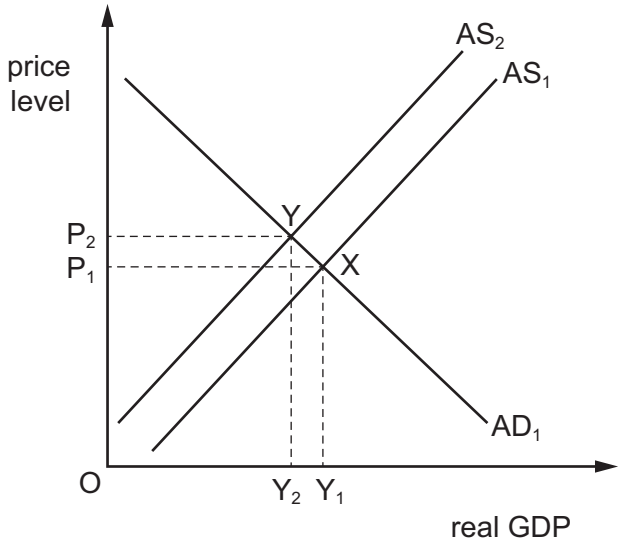
19 'Primary income' and 'secondary income' are components of the current account of the balance of payments.

What do these represent?

	primary income	secondary income
A	capital flows	financial flows
B	goods balance	services balance
C	income flows	current transfers
D	private flows	government flows

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20 The diagram shows the original aggregate demand curve, AD_1, and original aggregate supply curve, AS_1. The original equilibrium is at X.



What would cause the new equilibrium to be at Y?

A an increase in export prices

B an increase in government spending on education

C an increase in import prices

D an increase in the money supply

21 What is **not** an example of protectionism?

A the European Union (EU) requiring goods imported into member states to meet safety standards

B the Pakistan government increasing the rate of goods and services tax, GST, on some exported goods from 2% to 5%

C the Nigeria government banning the import of packaged sugar

D the US imposing a 35% tariff on tyres imported from China

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22 The table shows the annual percentage increases in a country's consumer prices index (CPI).

year	% change
2015	8.3
2016	6.0
2017	6.0
2018	1.0

Which statement is correct?

A Consumer prices, on average, fell throughout the period.

B Consumer prices, on average, remained the same in 2016 and 2017.

C The general level of consumer prices was at its highest in 2015.

D The general level of consumer prices was at its highest in 2018.

23 The table indicates the factor inputs required to produce wheat and cars in countries X and Y.

	units of factor inputs to produce one tonne of wheat	units of factor inputs to produce one car
country X	4	2
country Y	8	6

What makes it possible for both countries to benefit from trade?

A Country X has an absolute advantage in wheat and car production.

B Country Y has an absolute advantage in wheat and car production.

C Country Y has a comparative advantage in wheat production.

D Opportunity cost of wheat and car production is the same between countries.

24 In February 2016 the Organisation for Economic Cooperation and Development (OECD) urged major economies such as the US and Japan to increase government spending.

How would this affect the aggregate demand (AD) curve in these countries?

A a move left along the AD curve

B a move right along the AD curve

C a move to the left of the AD curve

D a move to the right of the AD curve

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25 A foreign government pays a UK university to educate its students.

How would this be recorded on the balance of payments current account of the UK?

	current account component	money flows
A	secondary income	inflow
B	secondary income	outflow
C	trade in services	inflow
D	trade in services	outflow

26 The tables show changes over a period in the average prices of a country's exports and imports. They are expressed as index numbers, with year 0 as 100.

index of export prices		
year 0	year 1	year 2
100	115	125

index of import prices		
year 0	year 1	year 2
100	120	125

What is the change in the country's terms of trade index between years 1 and 2?

A It improves by about 10%.

B It improves between 4% and 5%.

C It stays the same.

D It worsens between 4% and 5%.

27 Which aim would be consistent with a government's decision to buy its own currency in foreign exchange markets?

A an appreciation under a freely floating exchange rate system

B an appreciation under a managed float exchange rate system

C a depreciation under a fixed exchange rate system

D a devaluation under a managed float exchange rate system

28 Which policy would assist in reducing a deficit within the balance of payments?

A increasing interest rates

B increasing the money supply

C reducing subsidies to exporting industries

D reducing the level of direct taxation

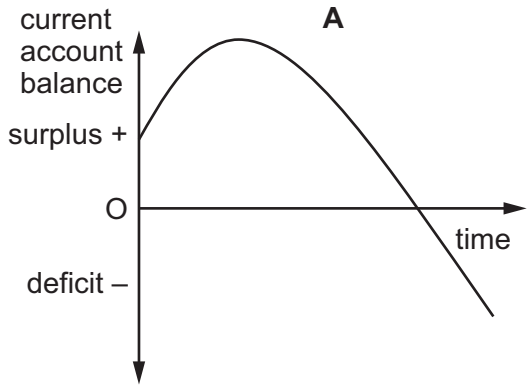
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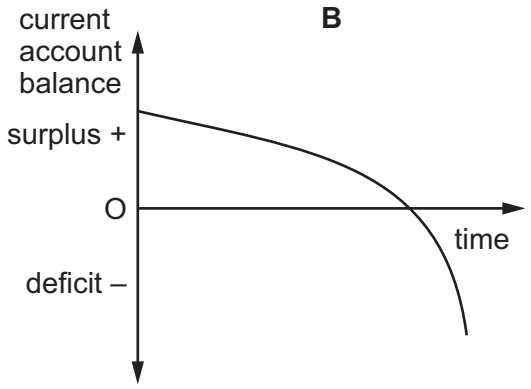
29 An economy's current account on the balance of payments is in surplus. The exchange rate is revalued by the government. Assume the Marshall-Lerner condition holds.

Which diagram shows the impact on the current account balance?

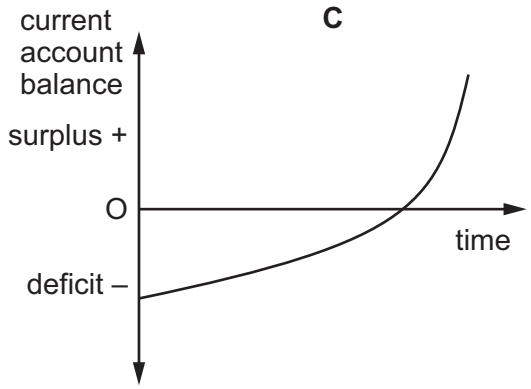
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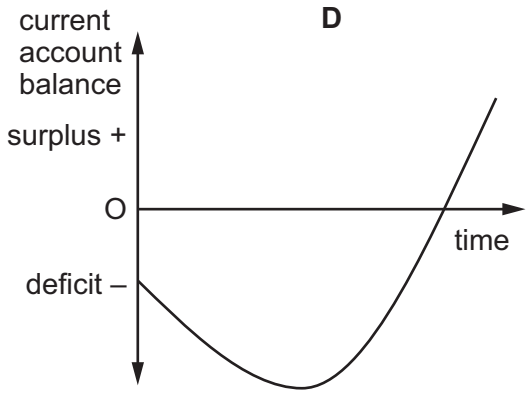
B



C



D



30 What would be increased by an expansionary fiscal policy?

A budget deficit

B exchange rate

C money supply

D rate of direct taxation

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