Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2020**

1 hour

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

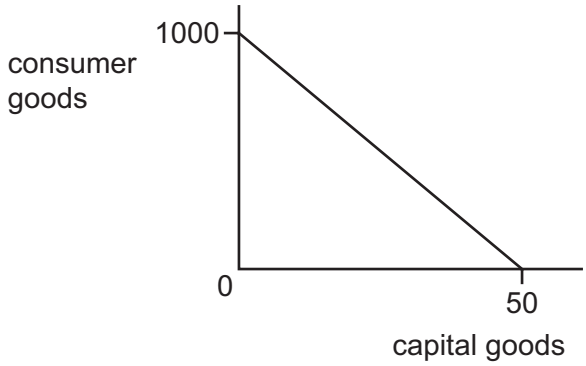
INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

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[Turn over

1 The diagram shows an economy's production possibility curve.



It has been employing its resources in the ratio of 80% consumer goods production and 20% capital goods production.

What will be the result if it decides to double its output of capital goods?

A a gain of 20 capital goods

B a gain of 40 capital goods

C a loss of 200 consumer goods

D a loss of 600 consumer goods

2 Which comment relating to the introduction of charges for previously free medical treatment is normative?

A Fewer people will be able to afford treatment.

B It will be unfair on lower income groups.

C Richer citizens will pay the higher charges.

D Workers' health and productivity will fall.

3 Which characteristic of money is the **most** important if it is to function as a medium of exchange?

A acceptable

B divisible

C durable

D portable

4 What is **not** a characteristic of a planned economy?

A Consumers have limited influence on what is produced.

B Profit is the motive for increasing output.

C Resources are owned by the government.

D There is limited competition in the market.

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5 Good X is a substitute for good Y and a complement to good Z.

What would happen after a fall in the price of good X?

A Only the demand for X will rise.

B Demand for X, Y and Z will rise.

C Demand for Y will fall and for Z will rise.

D Demand for Y will rise and for Z will fall.

6 The table shows how an individual's weekly consumption of biscuits and coffee varies with income.

income ($)	biscuits (packs)	coffee (cups)
100	0	5
150	5	10

Which statement about the income elasticity of demand over the range of income shown is true?

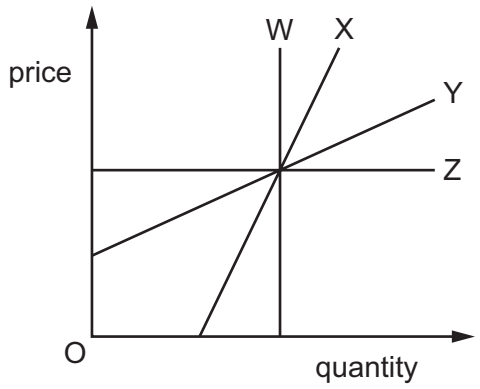
A For biscuits it is greater than 1.

B For biscuits it is zero.

C For coffee it is less than 1.

D For coffee it is unitary.

7 The diagram shows four supply curves.



Which statement about the price elasticity of these supply curves is correct?

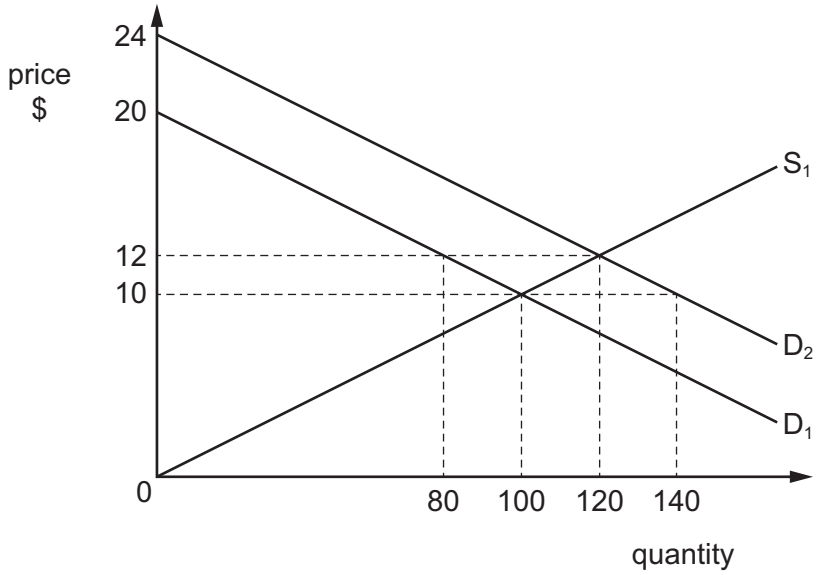
A W has elasticity of 0 that will rise as price rises.

B X has elasticity greater than 1 that will be constant as price rises.

C Y has elasticity greater than 1 that will fall as price rises.

D Z has elasticity of 0 that is constant as quantity rises.

8 The diagram shows the market for a good with an initial equilibrium price of $10. The demand for the good increases by 40 units at every price causing the equilibrium price to rise to $12.



What is the value of the producer surplus after the price increase?

A $500 **B** $720 **C** $1000 **D** $1440

9 The equation for the quantity demanded (Q_D) for a product is $Q_D = 400 – 20P$ where P = price in dollars. The quantity supplied (Q_S) is given by $Q_S = 100 + 40P$.

What change will occur if the price rises from $5 to $6?

A the market will move from equilibrium to shortage

B the market will move from equilibrium to surplus

C the market will move from shortage to surplus

D the market will move from surplus to shortage

10 A farmer divides his land between growing two crops – wheat and oats. To increase production of one he must reduce production of the other.

What would cause the farmer to increase his supply of wheat?

A A subsidy is given for the production of oats.

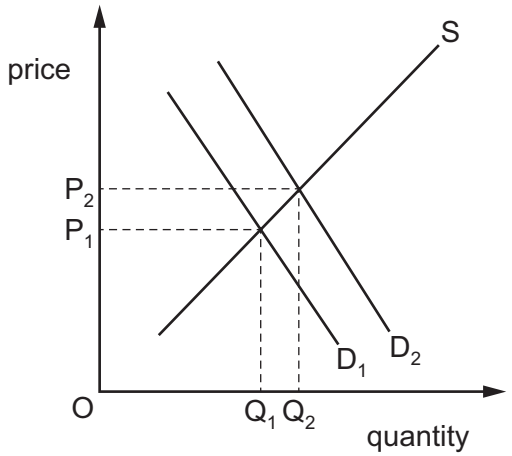
B A unit tax is imposed on the production of wheat.

C There is an increase in wages for all farm workers.

D There is improved efficiency in the harvesting of wheat.

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11 What would cause the demand curve for vegetables to shift from D_1 to D_2 as shown?



A a change in supply from Q_1 to Q_2

B a poor harvest due to unfavourable weather

C a price change from P_1 to P_2

D an increase in real incomes

12 The demand curve for new cars in a country shifted to the left.

Which change could have caused such a shift?

A an increase in real disposable income

B an increase in the cost of borrowing

C an increase in the price of new cars

D an increase in the price of train travel

13 What is correct about market supply?

A Market supply can increase only when all individual firms increase their output.

B Market supply is effective when consumers have sufficient income to buy the good.

C Market supply is the result of aggregating the supply of all individual firms.

D Market supply of an inferior good falls as price increases.

14 Which statement best describes a transfer payment?

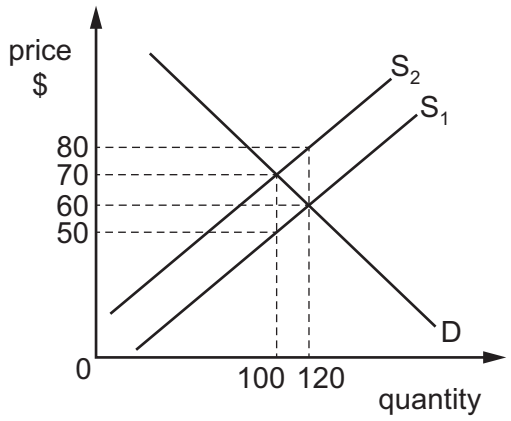
A It is a loan from the government to help firms.

B It is a payment to individuals not linked to economic activity.

C It is the redistribution of income from government to individuals for work done.

D It is the redistribution of income from households to firms for goods purchased.

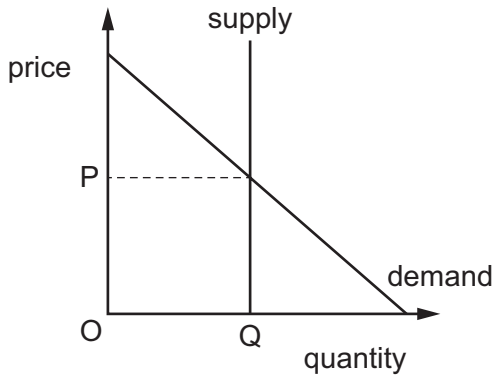
15 The diagram shows the impact of a unit tax imposed by a government on a good. The original supply curve is S_1 and the supply curve after the unit tax is S_2.



What would be the amount of tax paid by the consumer?

A $500 **B** $1000 **C** $1500 **D** $2400

16 The diagram shows the demand and supply curves for healthcare in a private market.



What would happen if the government provides the same amount of healthcare free of charge?

A Healthcare will become a public good.

B Healthcare will no longer have external benefits.

C There will be over-consumption of healthcare.

D There will need to be rationing.

17 A good is provided by the government. Consumption by one person does not affect the amount of the good available for others.

Which type of good must this be?

A complementary good

B merit good

C private good

D public good

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18 A government imposes an income tax on individuals. The first $100 000 of earned income is taxed at a rate of 20%, and all further earned income above $100 000 is taxed at a marginal rate of 50%.

Which statement is **not** valid?

A The average income tax rate is 20% at an income of $80 000 and 35% at an income of $200 000.

B The tax is a direct tax for incomes above $100 000.

C The tax is a proportional tax for incomes between $20 000 and $40 000.

D The tax is regressive when incomes change from below to above $100 000.

19 Agricultural economies have faced a deterioration in their terms of trade.

What might have contributed to this?

A falling exchange rates of agricultural economies

B falling productivity in agricultural production

C increasing productivity in manufacturing economies

D the high income elasticity of demand for foodstuffs

20 The table shows the output of rice and cotton for countries X and Y.

	units of output of rice per year	units of output of cotton per year
country X	5000	5000
country Y	4000	2000

Each country divides its resources equally between the production of rice and cotton.

Based upon the law of comparative advantage, which statement is correct?

A Country X has the higher opportunity cost in producing cotton.

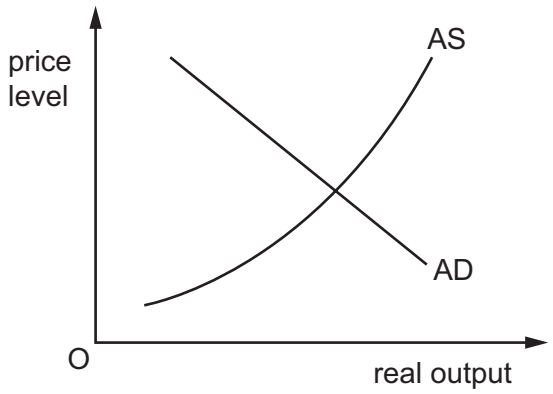
B Country Y has the lower opportunity cost in producing rice.

C Country X should produce both goods as the opportunity cost is the same.

D Country Y should produce both goods as it has an absolute advantage in both.

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21 An economy is represented by the AD / AS diagram, which is initially in macroeconomic equilibrium.



Which change will definitely result in a rise in real output?

A a fall in personal taxation and a fall in government expenditure

B a rise in consumption and a rise in the cost of raw materials

C a rise in export revenues and a fall in import expenditure

D a rise in government expenditure and a fall in investment

22 The data shows the consumer prices index (CPI) and an index of money wages in an economy during four years.

year	1	2	3	4
CPI	100	102	105	110
index of money wages	100	102	107	110

Which statement is **not** correct?

A Inflation was at its greatest between years 3 and 4.

B Real wages remained constant between years 1 and 2.

C Real wages rose between years 3 and 4.

D The rate of inflation increased over the whole period.

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23 A country has a deficit of $300 million on the current account of its balance of payments. It devalues its currency in an attempt to reduce the deficit.

Which row is consistent with the idea that the J-curve operates in the short run but the Marshall-Lerner condition is satisfied in the long run?

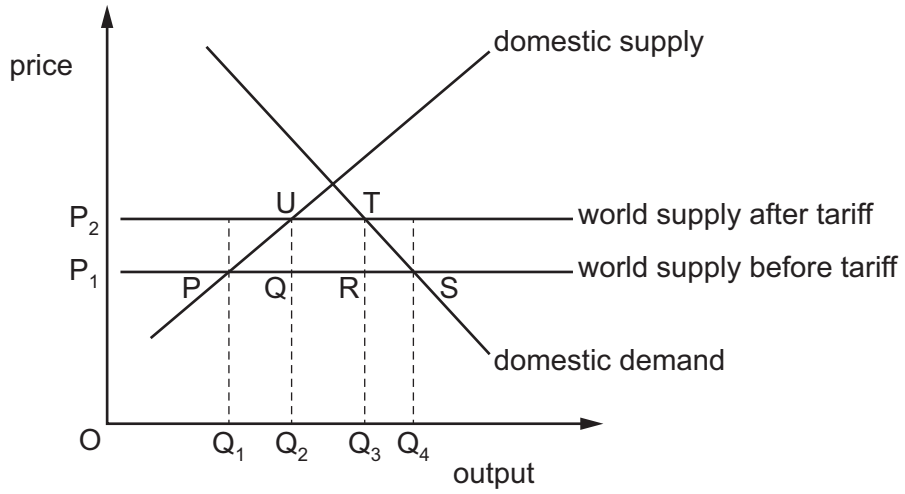
	short-run deficit ($ million)	long-run deficit ($ million)
A	200	100
B	200	400
C	600	100
D	600	400

24 A family takes a holiday abroad. Four students are asked to show where the cost of the accommodation would be recorded in the current account of the balance of payments of the country visited.

Which student is correct?

	trade in goods	trade in services	export / credit	import / debit
A	✓	✗	✓	✗
B	✓	✗	✗	✓
C	✗	✓	✓	✗
D	✗	✓	✗	✓

25 The diagram shows the imposition of a tariff on imports.



Which set of values is correct?

	imports before tariff	imports after tariff	tax revenue
A	OQ_4	OQ_3	PUTS
B	OQ_4	OQ_3	QUTR
C	Q_1Q_4	Q_2Q_3	PUTS
D	Q_1Q_4	Q_2Q_3	QUTR

26 When is a deficit on the current account of the balance of payments likely to worsen?

A when a government adopts a deflationary macroeconomic policy

B when a government subsidises exports

C when prices of essential imported raw materials increase significantly

D when tariffs are placed on imported products with a wide range of domestic substitutes

27 A government with a floating exchange rate wishes to encourage a rise in the international value of its currency.

What should it do?

A lower the level of domestic interest rates

B reduce the amount of foreign currency available to its citizens

C reduce subsidies to its exporters

D remove trade barriers on imports

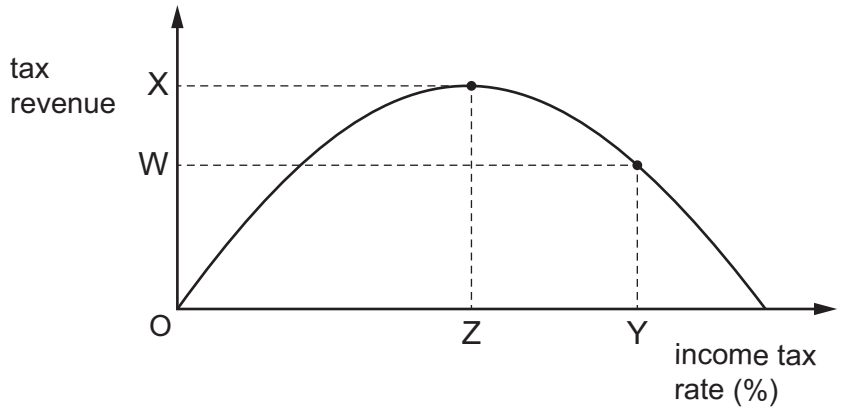
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28 Greece had an unemployment rate of over 20% in 2016.

Which combination of policies would be best for the Greek government to try to reduce unemployment?

	monetary policy	government expenditure	profit tax
A	decrease interest rates	increase	decrease
B	decrease interest rates	decrease	increase
C	increase interest rates	increase	increase
D	increase interest rates	decrease	decrease

29 The diagram shows the relationship between the income tax rate and tax revenue.



Which statement is correct?

A A tax rate cut from Y to Z will cause tax revenue to decrease.

B At tax rates below Z a tax rate cut will cause tax revenue to increase.

C The greater the rate of tax increases beyond Z, the smaller will be the tax revenue generated.

D Tax revenue will always increase as the rate of income tax increases.

30 What would be classified as a supply-side policy measure?

A a law to reduce the power of trade unions

B a reduction in the government's fiscal deficit

C an open market sale of securities

D the imposition of a tariff on imported goods

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