Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/12**

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**

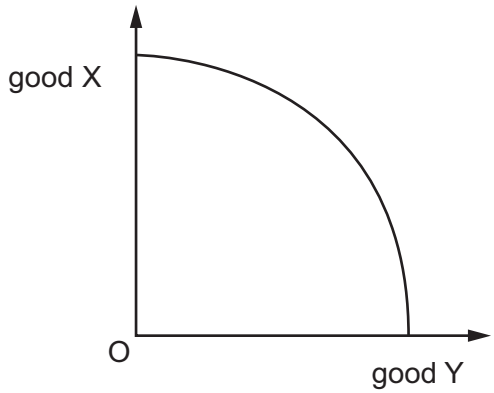
- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.



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**[Turn over**

**1** The diagram shows a production possibility curve.




What can be deduced from the shape of this curve?

**A** decreasing marginal returns to consumption

**B** decreasing opportunity costs of consumption

**C** increasing opportunity costs of production

**D** increasing returns to scale

**2** Which statement is correct?

**A** Private goods are both non-rival and non-excludable.

**B** Private goods are only provided by the private sector.

**C** Public goods are both non-rival and non-excludable.

**D** Public goods do not incur opportunity costs.

**3** Below are two statements.

1 A rise in the price of rice is the best way to give farmers in South-East Asia higher living standards.

2 A rise in the price of rice will lead to a fall in demand.

Which row correctly describes these two statements?

| | 1 | 2 |
|---|---|---|
| **A** | normative | normative |
| **B** | normative | positive |
| **C** | positive | normative |
| **D** | positive | positive |

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**4** What is a characteristic of money but **not** a function of money?

**A** medium of exchange

**B** portability

**C** standard of deferred payment

**D** store of value

**5** In the UK, attempts to encourage people to change from road to rail travel by the introduction of a system of road pricing were forecast to have little effect because 'people like using their cars too much'.

How would this forecast be explained?

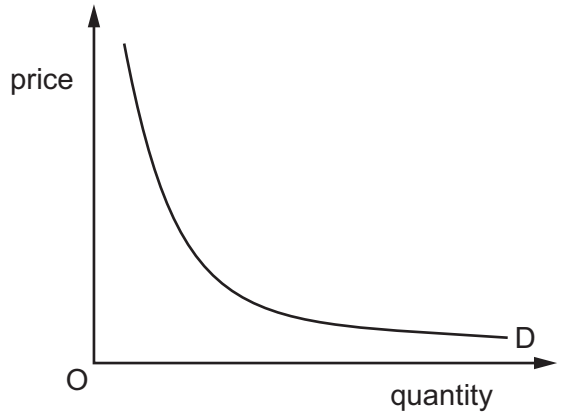
**A** The price elasticity of demand for cars is high.

**B** The price elasticity of demand for petrol is high.

**C** The price elasticity of demand for rail travel is low.

**D** The price elasticity of demand for car travel is low.

**6** The diagram shows the demand curve for a product with unitary price elasticity.




What will happen with such a curve?

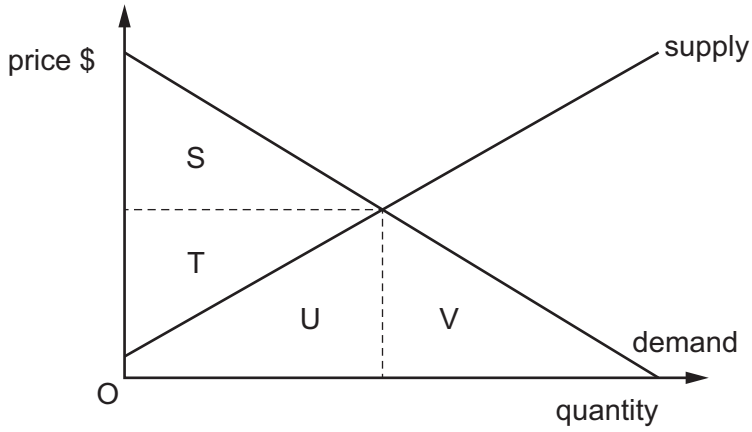
**A** A fall in price will bring about an increase in total expenditure on the product.

**B** A fall in price will bring about an increase in sales but a fall in total expenditure on the product.

**C** As the price rises, total expenditure on the product will stay the same.

**D** As the price rises, total expenditure on the product will rise and then fall.

**7** The diagram shows the market supply and demand for a good.

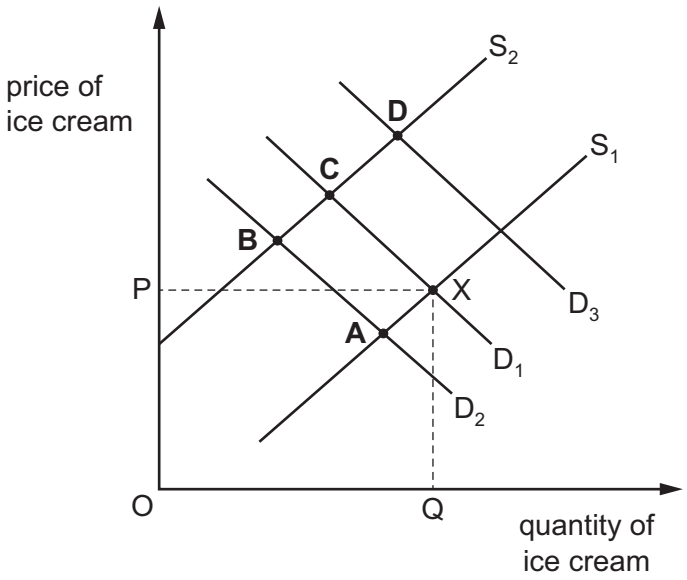



Which area represents producer surplus?

**A** S + T **B** T **C** U **D** U + V

**8** Vanilla is an important ingredient in the production of ice cream. Between 2011 and 2018 the price of vanilla increased from about US$100 per kg to nearly US$600 per kg. The diagram shows the market demand for and supply of ice cream. The original equilibrium is X.

Which point illustrates the effect of this price rise on the market for ice cream?



**9** A government reduces income tax but at the same time raises the rate of sales tax (VAT).

What are the likely effects on the demand and supply of a normal good?

| | demand | supply |
|---|---|---|
| **A** | decreases | decreases |
| **B** | decreases | increases |
| **C** | increases | decreases |
| **D** | increases | increases |

**10** An increase in the popularity of air conditioning units has resulted in their price increasing by 20%. In response to this the quantity supplied increased by 30%.

What can be concluded from this?

**A** price elasticity of supply = 0

**B** price elasticity of supply < 1

**C** price elasticity of supply = 1

**D** price elasticity of supply > 1

**11** Which change does **not** have an immediate effect on the position of the demand curve for a product?

**A** a fall in the price of a complementary product

**B** a range of new products entering the market

**C** a rise in the labour costs of its production

**D** an increase in the price of a substitute product

**12** When demand for a good falls, its price falls.

What is the function of the price fall?

**A** to eliminate shortages

**B** to reduce consumer surplus

**C** to send a signal to producers

**D** to stimulate a further fall in demand

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**[Turn over**

**13** A firm estimates that the price elasticity of supply of its product is 0.4.

Should the firm be concerned by this figure?

**A** No, as it implies that the firm will be able to raise revenue by raising price.

**B** No, as it suggests there are few substitutes for the product.

**C** Yes, as it means that demand for its product is increasing at a slow rate.

**D** Yes, as it shows that the firm is not able to adjust supply easily when demand changes.

**14** A government decides to privatise a state-owned company.

What should the government do to try to ensure that this will result in an improvement in efficiency?

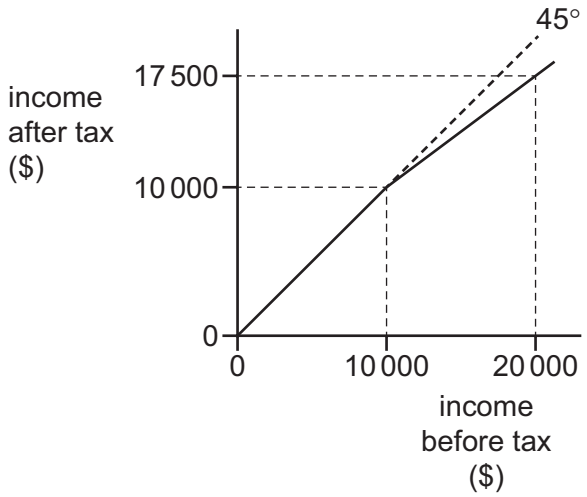
**A** allocate vouchers to all citizens entitling them to a share in the ownership of the company

**B** encourage competition

**C** impose a maximum profit margin

**D** increase business tax rates

**15** The graph shows an individual's income before and after the deduction of income tax.

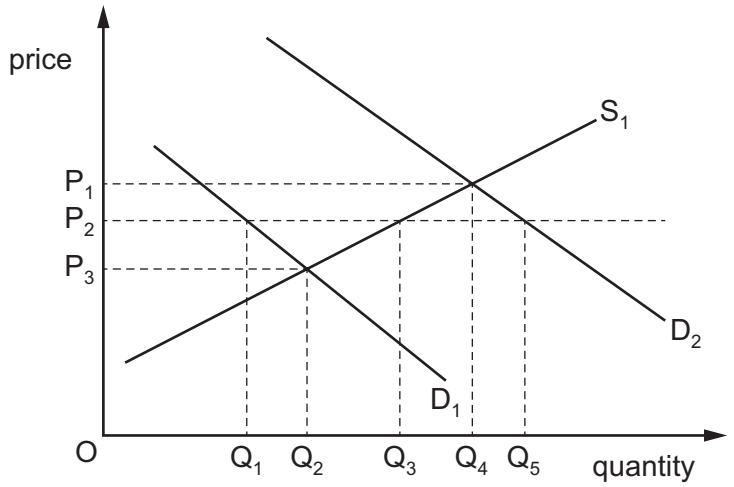



What is the marginal percentage rate of tax between $0 and $10 000, and between $10 000 and $20 000?

| | $0–$10 000 | $10 000–$20 000 |
|---|---|---|
| **A** | 0% | 12.5% |
| **B** | 0% | 25.0% |
| **C** | 1% | 12.5% |
| **D** | 1% | 25.0% |

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**16** In year 1, in the market for a good represented in the diagram, the initial demand and supply conditions are shown by $D_1$ and $S_1$, and the government has set a maximum price of $OP_2$.




In year 2, demand increases to $D_2$, but there are no other changes to the conditions of supply or to the maximum price.

Which row accurately shows the price and quantity in the market in each year?

| | year 1 | | year 2 | |
|---|---|---|---|---|
| | price | quantity | price | quantity |
| **A** | $OP_2$ | $OQ_1$ | $OP_1$ | $OQ_4$ |
| **B** | $OP_2$ | $OQ_3$ | $OP_2$ | $OQ_5$ |
| **C** | $OP_3$ | $OQ_2$ | $OP_1$ | $OQ_4$ |
| **D** | $OP_3$ | $OQ_2$ | $OP_2$ | $OQ_3$ |

**17** What is necessary for an action to be classed as a transfer payment?

**A** It must include a cash payment.

**B** It must involve a banking transaction.

**C** It must originate from government activity.

**D** It must relate to a non-productive activity.

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**18** The market for good X is in equilibrium. The government introduces a subsidy to the producers of good X.

Under which conditions will the total expenditure by the government on the subsidy be the greatest?

| | price elasticity of demand for good X | price elasticity of supply for good X |
|---|---|---|
| **A** | <1 | <1 |
| **B** | <1 | >1 |
| **C** | >1 | <1 |
| **D** | >1 | >1 |

**19** Under which combination of circumstances will a policy of increasing the money supply be **most** effective at moving an economy out of recession?

| | circumstance one | circumstance two |
|---|---|---|
| **A** | depreciating exchange rate | global financial crisis |
| **B** | high nominal interest rates | appreciating exchange rate |
| **C** | low aggregate demand | inflation rate above the target level |
| **D** | low nominal interest rates | no spare capacity available |

**20** In which economic context is the term 'protectionism' usually applied?

**A** the protection of consumers against excessive prices

**B** the protection of employees against exploitation by multinational companies

**C** the protection of local producers against foreign competitors

**D** the protection of the foreign exchange rate against currency speculators

**21** What is most likely to cause a rise in a country's exchange rate?

**A** a fall in its direct taxes

**B** a fall in its export orders

**C** a rise in its interest rates

**D** a rise in its imports

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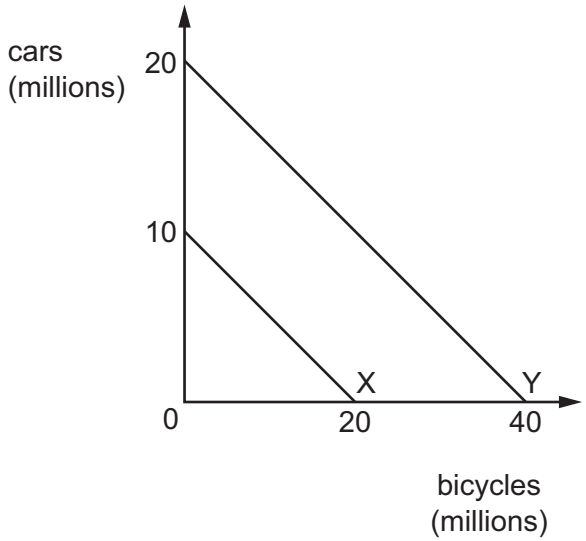
**22** The table shows an approximate summary of the current account of the balance of payments for Thailand.

| Bank of Thailand current account (millions of US dollars) | | |
|---|---|---|
| | | April 2018 |
| 1 | exports | 18 990 |
| 2 | imports | 18 715 |
| 3 | trade balance | 275 |
| 4 | net services, primary income and secondary income | 1130 |

What is the current account balance, in millions of US dollars?

**A** –855 **B** 1405 **C** 1680 **D** 39 110

**23** The diagram shows the production possibility curves for two economies using all resources. Country X can produce 10 million cars or 20 million bicycles and country Y can produce 20 million cars or 40 million bicycles.




Which statement is correct about country X and country Y according to the theory of comparative advantage?

**A** Country X and country Y would not gain from free trade.

**B** Country X has a lower opportunity cost ratio in producing cars and bicycles than country Y.

**C** Country X has an absolute advantage over country Y in the production of both goods.

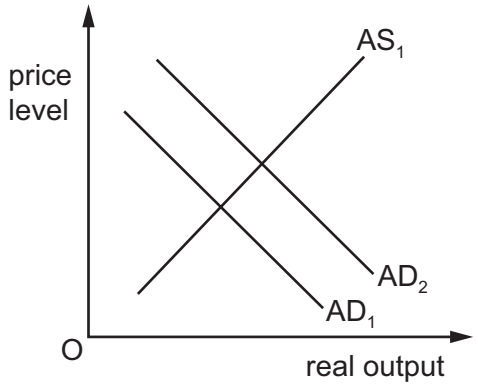
**D** Country Y will have a faster rate of economic growth than country X.

**24** A country has a balance of payments deficit. It devalues its currency.

Which combination leads to a reduction in its balance of payments deficit in the long run?

| | price elasticity of demand for exports | price elasticity of demand for imports |
|---|---|---|
| **A** | less than 0.5 | less than 0.5 |
| **B** | less than 1 | zero (0) |
| **C** | more than 0.5 | more than 0.5 |
| **D** | zero (0) | less than 1 |

**25** The diagram shows aggregate demand curves $AD_1$ and $AD_2$ and an aggregate supply curve $AS_1$.




What could cause the shift in the aggregate demand curve from $AD_1$ to $AD_2$?

**A** a rise in the interest rates

**B** a rise in output per worker

**C** a rise in the budget deficit

**D** a rise in the value of the exchange rate

**26** The government of an open economy with an overvalued currency decides to abandon its fixed exchange rate in favour of a floating exchange rate.

Which macroeconomic policy aim is **least** likely to be met because of this change?

**A** a low inflation rate

**B** a low level of unemployment

**C** a reduced balance of payments deficit

**D** a sustainable rate of economic growth

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**27** Devaluation always has the effect of

**A** decreasing the price of imports.

**B** decreasing the value of imports.

**C** worsening the balance of payments.

**D** worsening the terms of trade.

**28** A government uses monetary policy and fiscal policy to solve a problem of deflation.

Which policy combination is likely to be the **most** successful?

| | monetary policy | fiscal policy |
|---|---|---|
| **A** | increasing interest rates | contractionary |
| **B** | increasing interest rates | expansionary |
| **C** | reducing interest rates | contractionary |
| **D** | reducing interest rates | expansionary |

**29** A government reduces its expenditure on workplace training, increases the level of indirect taxes, and reduces the rate of interest it pays on government debt.

How would these government macroeconomic policies be categorised?

| | supply-side | fiscal | monetary |
|---|---|---|---|
| **A** | con | con | exp |
| **B** | exp | con | con |
| **C** | con | exp | exp |
| **D** | exp | exp | con |

key

con = contractionary

exp = expansionary

**30** What represents the total of aggregate demand in a closed economy?

**A** C + I + G

**B** C + I + G + X

**C** C + I + G + (X – M)

**D** C – (S + T)

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