Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2021**

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.
- Any rough working should be done on this question paper.

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1 A European airline opens a new route to Dubai. It purchases additional aeroplanes, rents additional landing slots, hires pilots and buys back some of its shares to raise the value of the firm on the stock market.

What is an example of the factor of production capital?

A aeroplanes

B landing slots

C pilots

D shares

2 Which statement about the behaviour of firms in a planned economy is correct?

A Firms are sent signals to produce through the price mechanism.

B Firms will operate in competitive markets.

C Firms will attempt to make profits for the benefit of shareholders.

D Firms are more likely to consider the private and external costs of production.

3 The table provides information on entrepreneurship among males in three countries in 2013.

	percentage of males with access to training on how to start a business (%)	percentage of males with access to finance to start a business (%)
Italy	19.1	10.3
Japan	31.3	34.0
Sweden	61.6	49.7

What can be concluded from the table?

A In Sweden, it is easier for male entrepreneurs to get training than finance.

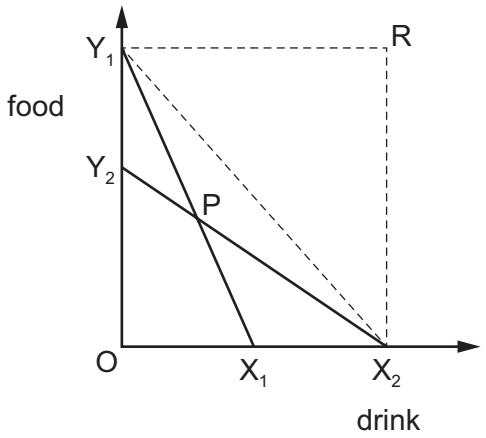
B It is always more difficult for male entrepreneurs to get finance than training.

C Italy provides less money for male entrepreneurs than Japan or Sweden.

D Sweden has more male entrepreneurs than Italy or Japan.

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4 The diagram shows the production possibility curves of two economies, Northland (Y_1–X_1) and Southland (Y_2–X_2).



Both economies specialise based on the theory of comparative advantage and trade with one another.

What can be concluded from the diagram?

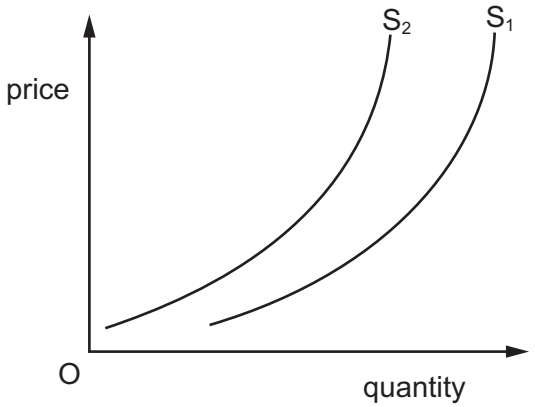
A Both economies face increasing opportunity costs.

B Point P represents the final equilibrium outcome.

C Point R shows the total possible combined production of food and drink.

D All points on Y_1–X_2 are only attainable through trade.

5 The supply curve for fresh fish shifts from S_1 to S_2 as shown.



What is a possible reason for this change in the supply of fresh fish?

A Demand for fresh fish increases due to promotion of the health benefits.

B Favourable weather increases the quantity of fish being caught.

C Price of fresh fish falls due to a new substitute product becoming popular.

D Regulations limit the number of fish being caught to prevent over-fishing.

6 When the supply of a good decreases, equilibrium price stays the same.

What is the price elasticity of demand of the good?

A –1

B zero

C +1

D infinite

7 What can be measured by cross-elasticity of demand?

A a change in real income as a result of a change in the price of consumer goods

B a change in the demand for a good in response to a change in the price of a complement

C a change in the price of a good in response to a change in the demand for a substitute

D a change in the price of a good when the demand for it changes

8 The table shows the maximum price a consumer would be willing to pay for successive cans of fruit juice.

cans	first	second	third	fourth	fifth
price ($)	14	10	6	4	3

The price of a can of fruit juice is $4 and, having bought three cans, the consumer decides to buy a fourth.

How does buying the fourth can affect his consumer surplus?

A It leaves it unchanged.

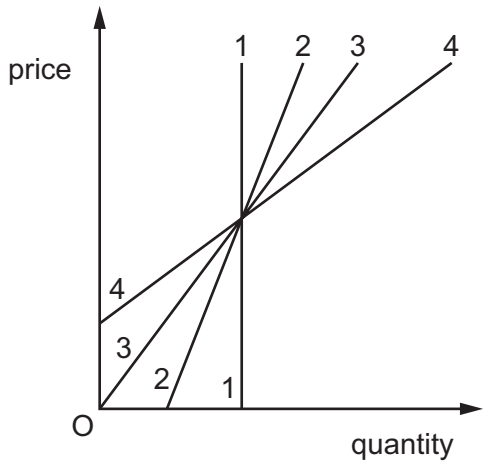
B It lowers it by $2.

C It raises it by $4.

D It raises it by $34.

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9 The diagram shows four supply curves.



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

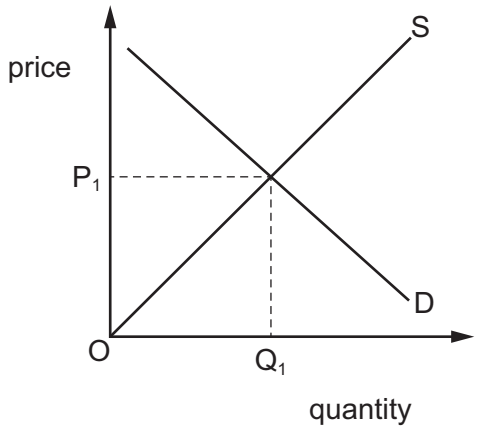
A Curve 1 has constant infinite elasticity.

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.

10 The diagram shows the demand and supply curves for a good in a free market.



What can definitely be deduced from the diagram?

A All the costs and benefits of consumption are reflected in OP_1.

B At OP_1 consumer expenditure is greater than the firm's revenue.

C At OP_1 the price elasticity of supply is equal to one.

D The market will not clear at a price of OP_1.

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11 The demand for a good increases.

Under which circumstances will the quantity supplied of the good rise the most?

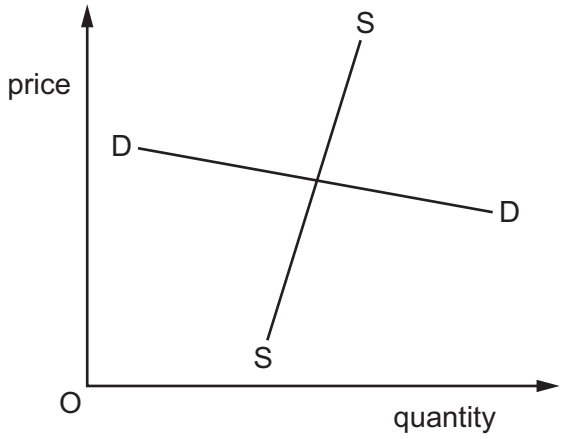
A It is an agricultural good that has an annual growing cycle and requires a cool climate.

B It is an agricultural good that is perishable and very expensive to store.

C It is a manufactured good that uses unskilled labour and there is unemployment in the economy.

D It is a manufactured good that uses capital-intensive production and it is currently at full capacity.

12 The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax.



What will be the result of this tax?

A Most of the incidence of the tax will fall on the producer.

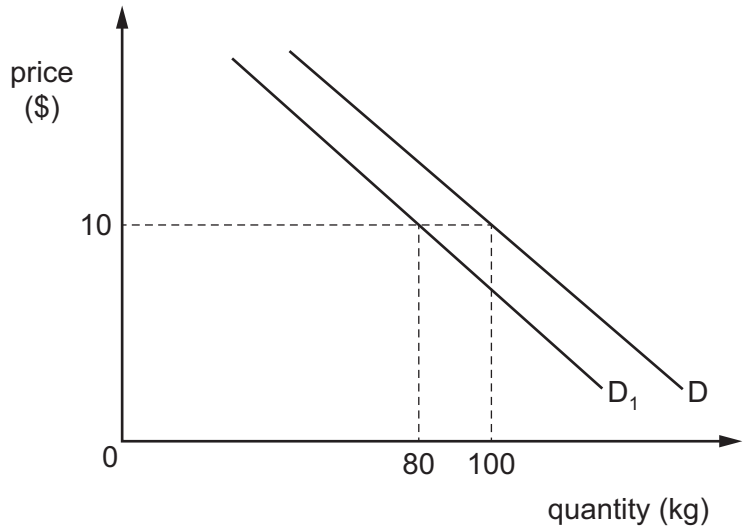
B There will be a new demand curve parallel to DD.

C The price will rise by the full amount of the tax.

D The quantity bought will fall proportionately to the tax rate.

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13 The diagram shows how a 10% increase in consumer incomes shifts the demand for good X from D to D_1.



Which statement about good X is correct?

A It is a normal good with income elastic demand.

B It is a normal good with income inelastic demand.

C It is an inferior good with income elastic demand.

D It is an inferior good with income inelastic demand.

14 What is an example of privatisation?

A the sale on the market of a French state-owned power-generation company

B the sale of a privately-owned water company to a German firm

C the takeover of a French car manufacturer by the French government

D the purchase of a Swedish pharmaceutical producer by a larger American pharmaceutical producer

15 What did Adam Smith mean by 'economy' when describing his canons of taxation?

A The cost of collecting the tax should be low.

B The tax should be easy to pay.

C The tax should have a neutral effect on the use of resources.

D The tax should have a positive effect on aggregate supply.

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16 A government decides to remove fees for higher education provided by the public sector and the private sector.

What is the consequence of this policy?

A Higher education is less likely to be provided by the private sector.

B Resources in higher education will be allocated through the price mechanism.

C The demand for higher education will be perfectly elastic when the price is zero.

D The opportunity cost of higher education to students will be zero.

17 What would be the main effect of imposing an effective maximum price on foodstuffs?

A Inflation would rise.

B The price of foodstuffs would rise.

C There would be a decrease in the import of foodstuffs.

D There would be a shortage of foodstuffs.

18 An effective minimum price is applied to alcohol in an attempt to reduce consumption.

Why would a government **not** buy up any surplus created?

A Buying the surplus would be costly to the government.

B Buying the surplus would decrease the incomes of producers.

C Buying the surplus would lead to a shortage.

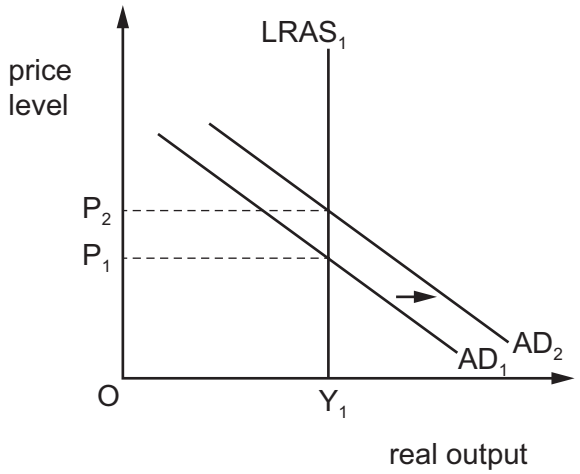
D Buying the surplus would lead to unemployment.

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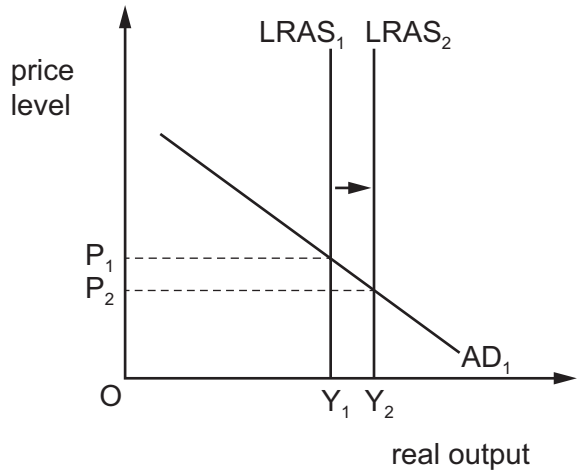
19 A government plans to increase spending on education and training every year.

Which diagram shows the likely effect of this increase on the economy's long-run output and price level?

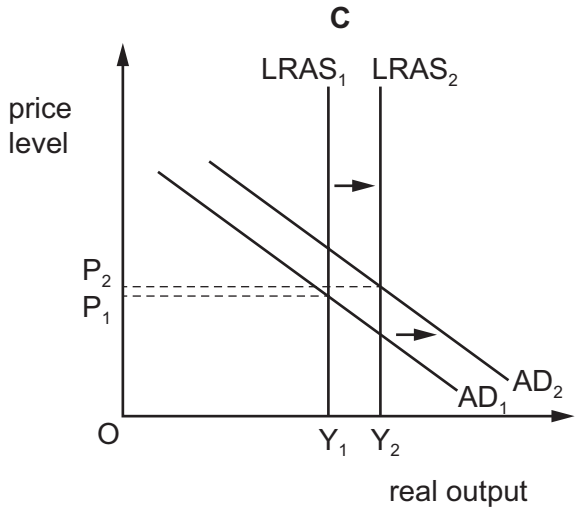
A



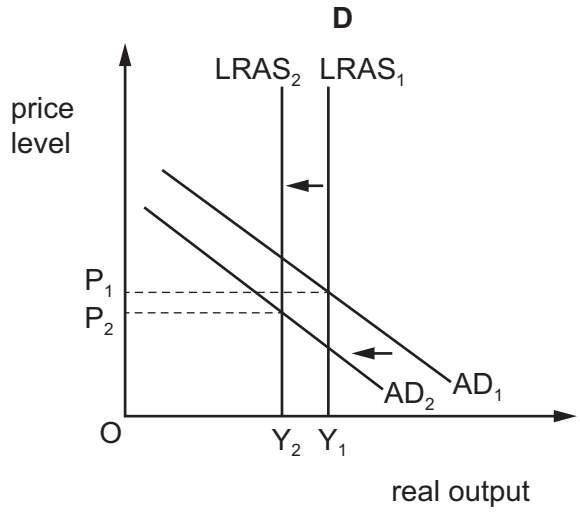
B



C



D



20 What is disinflation?

A a fall in output

B a fall in the price level

C a fall in the rate of increase of the price level

D a fall in the value of national income

21 What best describes a country's terms of trade?

A the difference between the volume of its exports and its imports

B the average price of its exports divided by the average price of its imports

C the total value of its exports divided by the total value of its imports

D the volume of its exports divided by the volume of its imports

22 A developed country has a price-inelastic demand for oil, all of which it imports. The oil-producing countries increase the supply of oil.

What is likely to happen to the developed country's rate of inflation and its balance of trade?

	rate of inflation	balance of trade
A	decreases	improves
B	decreases	worsens
C	increases	improves
D	increases	worsens

23 Country X and country Y both produce rice and tables. Half of their resources are used to produce rice and the other half to produce tables. The resulting output of each product is given in the table shown.

country	rice	tables
X	150	100
Y	100	50

What can be concluded from the table?

A Country X has a comparative advantage in the production of both goods.

B Country X has a comparative advantage in the production of rice.

C Country Y has a comparative advantage in the production of both goods.

D Country Y has a comparative advantage in the production of rice.

24 An economy experiences a deficit on the current account of its balance of payments.

What could the economy do to finance this deficit?

A adopt a fixed exchange rate

B attract more foreign direct investment

C decrease income tax rates

D lower the rate of interest

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25 A resident of country X buys shares in a firm in country Y. The shares then pay the resident a dividend.

Where are these two flows recorded in country X's balance of payments?

	purchase	dividend
A	capital account	primary income (income)
B	capital account	secondary income (current transfers)
C	financial account	primary income (income)
D	financial account	secondary income (current transfers)

26 What is the most likely cause of cost-push inflation in an economy?

A an increase in the exchange rate

B an increase in the money supply

C an increase in the prices of imports

D an increase in the rate of income tax

27 Which changes are most likely to reduce the accuracy of the consumer prices index (CPI) as a measurement of inflation?

A A larger sample is used in the household spending survey.

B Technology makes it easier for retailers to submit accurate monthly price data.

C Households change their spending habits.

D The weightings attached to the basket of goods are reviewed more often.

28 A government reduces the rate of direct income tax and devalues its currency.

Which row describes the policy effects of these decisions?

	fiscal policy	monetary policy	supply-side policy
A	contractionary	expansionary	contractionary
B	expansionary	contractionary	expansionary
C	expansionary	expansionary	contractionary
D	expansionary	expansionary	expansionary

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29 The balance of payments on the current account for Guatemala in 2011 was –US$1.6 bn and in 2016 was +US$1.0 bn.

What is most likely to have been a contributory factor to this change in the balance of payments on the current account over this five-year period?

A an appreciation of Guatemala's currency

B a growth of household incomes in Guatemala

C a lowering of tariffs on goods imported into Guatemala

D productivity improvements in Guatemala's export sector

30 The government wishes to increase aggregate demand.

Which actions would be most likely to succeed?

A a reduction in income tax and an increase in interest rates

B a reduction in income tax and an increase in production subsidies

C an increase in corporate tax and an increase in government spending

D an increase in value added tax (sales tax) and a reduction in government spending

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