Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

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

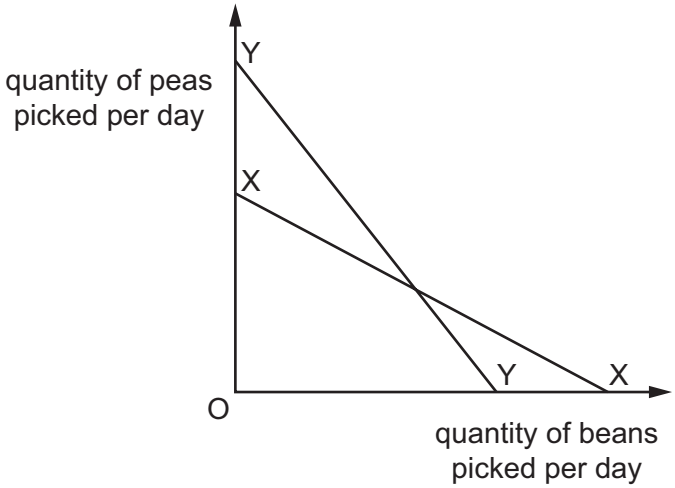
- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on 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 Line XX is the production possibility curve (PPC) of a worker picking peas and beans in a 10 hour working day.



What could cause the worker's PPC to shift to the line YY?

A a decrease in working hours to 8 per day and a machine that increases the worker's pea picking productivity

B a machine that increases the worker's pea picking productivity only

C a new work schedule where the worker spends 6 hours per day picking peas and only 4 hours picking beans

D a reduction in working hours to 8 per day only

2 What is a function of money?

A divisibility

B durability

C portability

D medium of exchange

3 What is classified as a public good by economists?

A flood defences

B government-funded hospitals

C government-run national parks

D the internet

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4 Which statement about the factors of production is correct?

A The factor capital includes shares and deposit accounts at banks.

B The factor labour includes human-made resources.

C The factor land includes forests and undiscovered copper.

D The factor enterprise takes risks and is rewarded with interest.

5 Which supply curve shows that the price elasticity of supply of the good is always equal to 1?

A a straight line that intersects the horizontal axis

B a straight line that intersects the vertical axis

C a straight line that passes through the origin

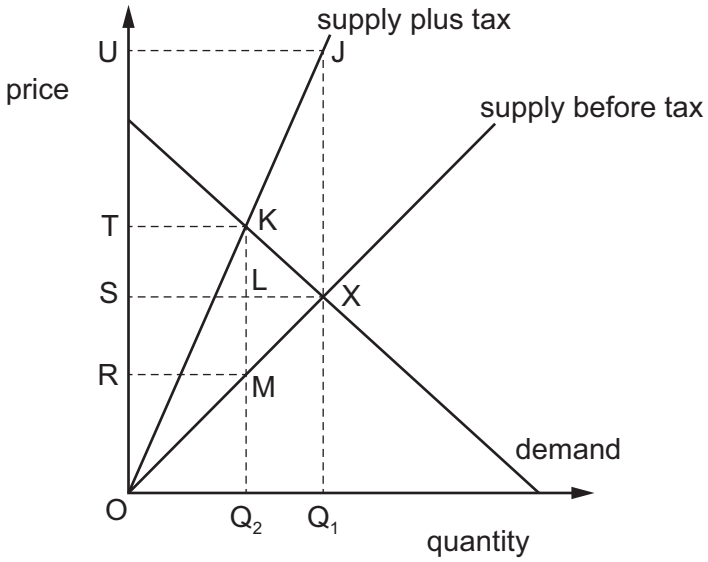
D a straight line that is vertical to the horizontal axis

6 What could cause a shift in the supply curve of good X and a movement along its supply curve?

	shift in the supply curve	movement along the supply curve
A	a change in demand for good X	an increase in the price of a substitute good
B	a decrease in factor productivity	the imposition of a tax on good X
C	an increase in the price of a complementary good	an increase in factor productivity
D	an increase in the wage rates in the industry	a change in demand for good X

7 The market for mobile phones is initially in equilibrium at X. The government then imposes a sales tax.

What is the government's total tax revenue from this tax?



A JKX **B** TKLS **C** TKMR **D** UJXS

8 What is an example of the rationing function of the price mechanism?

A When the price of a product is falling, firms will allocate less resources to its production.

B When the price of a product is falling, the government can set an effective minimum price.

C When the price of a product is rising, firms will expand production of the product to make profits.

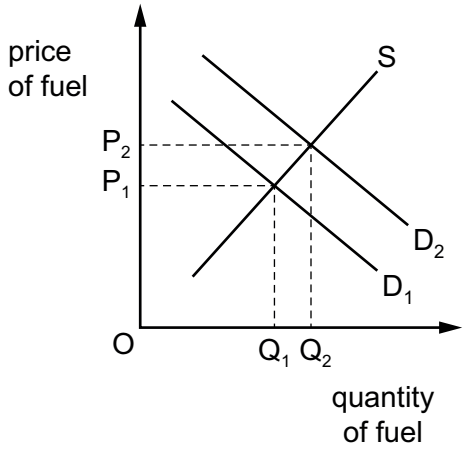
D When the price of a product is rising, some consumers will no longer be able to buy it.

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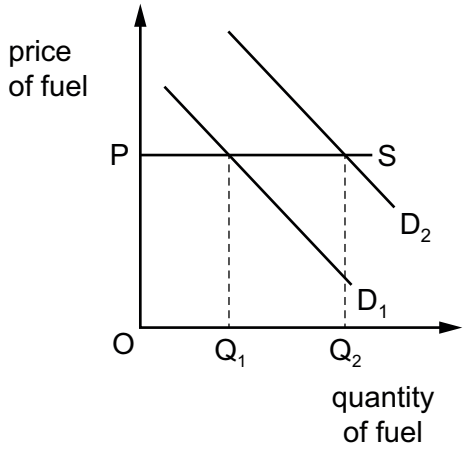
9 In 2016 car drivers bought more fuel because the price of oil from which it was made had fallen.

Which diagram represents this change in the market for fuel?

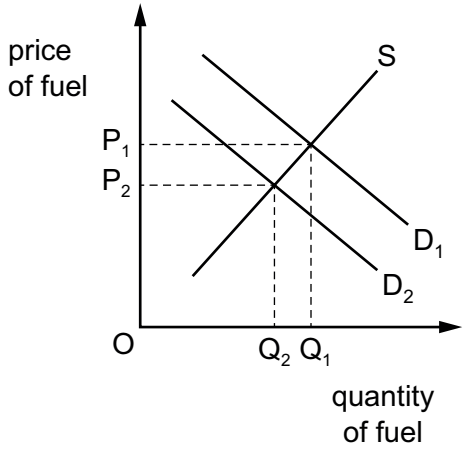
A



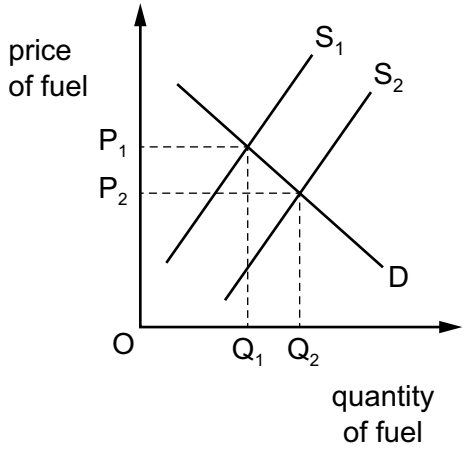
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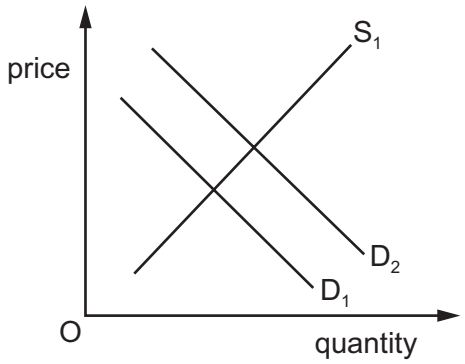
C



D



10 The diagram shows the demand and supply curves for bread in a developed economy. Bread is a substitute for pasta and rice.



What would cause the demand curve for bread to shift from D_1 to D_2 in a developed economy?

A a rise in the price of pasta and rice

B a decrease in the real income of consumers

C a recession and rising unemployment

D a subsidy given to producers of pasta and rice

11 The table shows the quantity demanded of three goods when the price of good X changes.

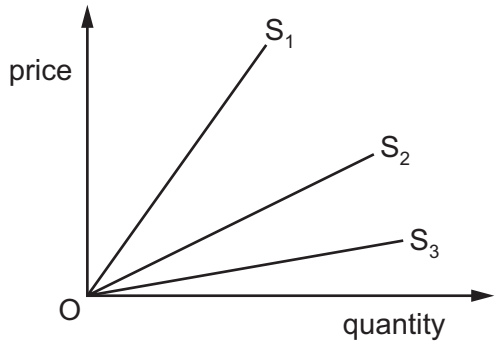
price of X ($)	quantity of X demanded	quantity of Y demanded	quantity of Z demanded
5	100	60	20
4	110	50	22
3	140	30	28
2	200	15	40
1	300	4	60

Which relationships between X, Y and Z can be deduced from the table?

	Y is	Z is
A	a complement for X	a complement for X
B	a complement for X	a substitute for X
C	a substitute for X	a complement for X
D	a substitute for X	a substitute for X

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12 The diagram shows three supply curves.



What can be concluded about the price elasticity of supply of the curves?

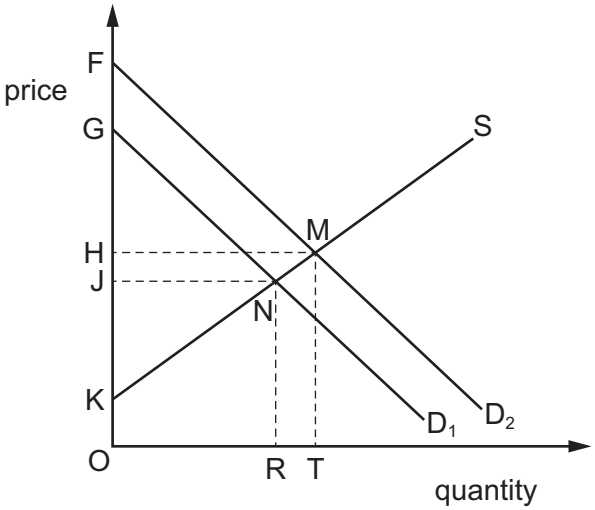
A As price rises, the price elasticity of supply of S_2 will increase.

B At any price, the price elasticity of supply of S_1 will be less than that of S_3.

C At any price, the price elasticity of supply of S_2 will be higher than that of S_3.

D The price elasticity of supply of each curve is constant.

13 The diagram shows the market for smartphones in India.



Rising incomes in India have seen a demand for this normal good shift from D_1 to D_2.

Which area now represents consumer surplus and which area now represents producer surplus?

	consumer surplus	producer surplus
A	FMH	HMK
B	FMH	OKMT
C	GNJ	HMNJ
D	GNJ	JNK

14 A nationalised industry is privatised.

Assuming there is no change in the output of the industry in the short run, what are the direct effects of the change?

	size of public sector	proportion of industry output entering the market
A	decreases	increases
B	decreases	no change
C	no change	increases
D	no change	no change

15 What is a distinguishing feature of a progressive income tax?

A High earners pay a higher proportion of their income in tax than low earners.

B High earners pay a lower proportion of their income in tax than low earners.

C High earners pay the same proportion of their income in tax as low earners.

D Low earners pay more tax than high earners.

16 Why might a government nationalise a private firm?

A to gain greater efficiency due to more competition

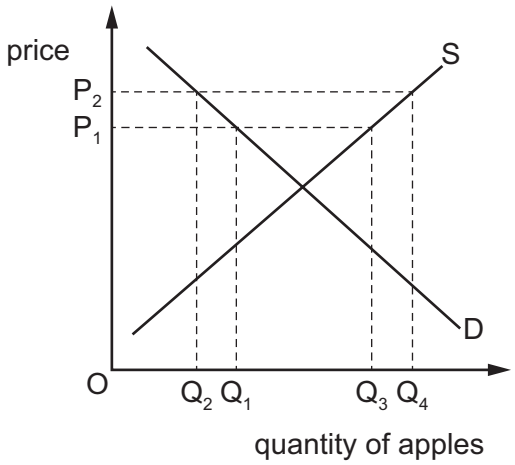
B to increase merit good provision

C to increase choice for the consumer

D to raise more tax revenue

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17 The diagram shows a firm's supply of and demand for apples.



If a minimum price is increased from P_1 to P_2 what will happen to the amount of apples sold?

A It will decrease from Q_1 to Q_2.

B It will decrease from Q_4Q_1 to Q_2Q_3.

C It will increase from Q_3 to Q_4.

D It will increase from Q_3Q_2 to Q_4Q_1.

18 In an attempt to reduce crime, a government introduces a subsidy on the production of burglar alarms, but sales rise very little.

Which possible characteristics of the good would lead to this outcome?

	price elasticity of demand	price elasticity of supply
A	high	high
B	high	low
C	low	high
D	low	low

19 Compared with Pakistan, Germany has a higher output of pharmaceuticals per unit of resources used.

What could explain this?

A the existence of floating exchange rates

B the law of absolute advantage

C the Marshall–Lerner condition

D the terms of trade

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20 Which statement about inflation is correct?

A Inflation will lead to a rise in exports.

B Inflation will lead to a rise in real incomes.

C Inflation will lead to a rise in the cost of living.

D Inflation will lead to a rise in the purchasing power of money.

21 Why is it that a country's balance of payments must always balance?

A Exchange rate changes will correct any deficit or surplus.

B One country's deficit is balanced by another country's surplus.

C The current account is balanced by the capital and financial accounts.

D The government must act to correct any disequilibrium.

22 Which argument for protection would be most relevant if the government of country X decided to exercise voluntary export restraint in its trade with country Y?

A Voluntary export restraint would achieve an immediate correction for X's balance of trade deficit.

B Voluntary export restraint would cause the level of GDP to increase in country X.

C Voluntary export restraint would help to negotiate improved trading conditions between X and Y.

D Voluntary export restraint would help to reduce the level of unemployment in country X.

23 The average price of a country's exports increased by 5% and the average price of its imports increased by 10%.

What can definitely be concluded from this information?

A Its balance of trade will improve.

B Its balance of trade will worsen.

C Its terms of trade have improved.

D Its terms of trade have worsened.

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24 There is an increase in indirect taxes.

What will be the impact on demand-pull inflation and on cost-push inflation?

	demand-pull inflation	cost-push inflation
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

25 The table shows the number of biscuits and cakes that can be produced by four workers in an hour.

	Laura	Mo	Nathan	Omar
biscuits	6	10	13	8
cakes	3	10	12	16

Who has the greatest comparative advantage in producing biscuits?

A Laura

B Mo

C Nathan

D Omar

26 Which condition is necessary for a country's balance of payments on its current account to improve if it reduced its exchange rate?

A Both the price elasticities of supply for its imports and its exports must be elastic.

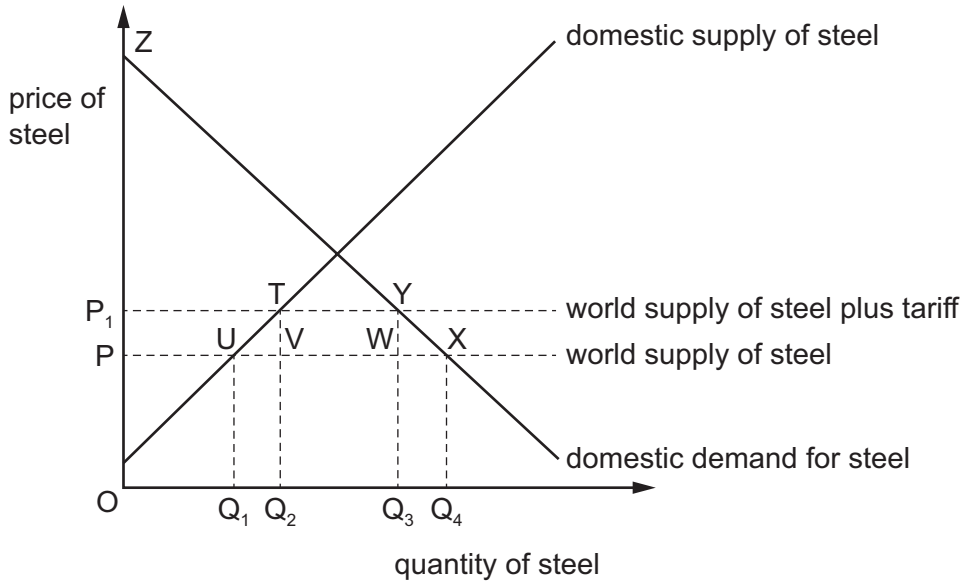
B The importing country will buy all the excess supplies of its trading partner to clear the market.

C The sum of the price elasticities of domestic demand for imports and the foreign demand for exports must be greater than one.

D The trading partners need to agree on the maximum prices to be charged for imports and exports.

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27 The diagram shows the effect of the United States (US) imposing a tariff on the import of steel in 2018.



Which statement about the impact of the tariff is correct?

A Consumer surplus falls from P_1TO to PUO.

B Domestic output increases from OQ_1 to OQ_3.

C Imports fall from Q_1Q_4 to Q_2Q_3.

D The tax revenue raised on imports is P_1YWP.

28 In 2012, the Indian Government stated that it aimed to reduce its budget deficit to 5.1% of GDP.

Which policy is most likely to help this aim in the short run?

A a decrease in import tariffs

B a decrease in the rate of interest

C an increase in the sale of state-owned assets

D an increase in government pension payments

29 What would make a policy of raising interest rates **less** likely to be effective in reducing inflation?

A Aggregate supply is increasing faster than aggregate demand.

B Consumers expect prices to rise even faster in the future.

C Consumers' spending is largely paid for on credit.

D Interest rates are still higher abroad.

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30 Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

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