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Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

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

Paper 1 Multiple Choice **October/November 2018**

**1 hour**

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

*8520925501*

**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.

This document consists of **12** printed pages.


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**1** Which statement by a company is normative?

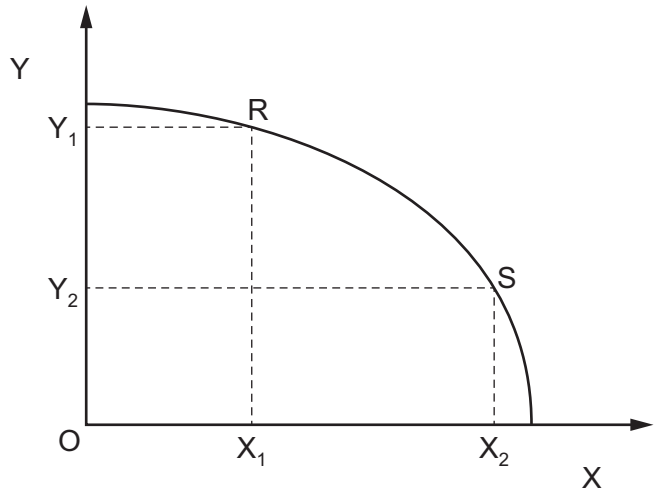
**A** In the past three years we have carried out the biggest merger acquisition in the group's history.

**B** The business has fallen behind competitors and needs to improve its ethical standards.

**C** The growth of the business has been in retail and financial services.

**D** The structure of the business has been simplified.

**2** The diagram shows an economy's production possibility curve for goods X and Y.




What is the opportunity cost of moving from point R to point S on the production possibility curve?

**A** $OX_1$ **B** $OY_2$ **C** $X_1X_2$ **D** $Y_1Y_2$

**3** From 1995 to 2000 each of the countries listed below moved towards a market economy through privatisation programmes.

Which country made the slowest rate of transition?

| | private sector share of GDP (ratio of private enterprise earnings to GDP) | | |
|---|---|---|---|
| | | 1995 | 2000 |
| **A** | Czechia | 70 | 80 |
| **B** | Hungary | 60 | 70 |
| **C** | Romania | 45 | 60 |
| **D** | Slovakia | 60 | 80 |

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**4** A businesswoman sets up a charity to provide toys for young children of low income families.

Which term most accurately describes these toys?

**A** free goods

**B** merit goods

**C** private goods

**D** public goods

**5** What will happen to an industry's supply curve if new firms enter the industry?

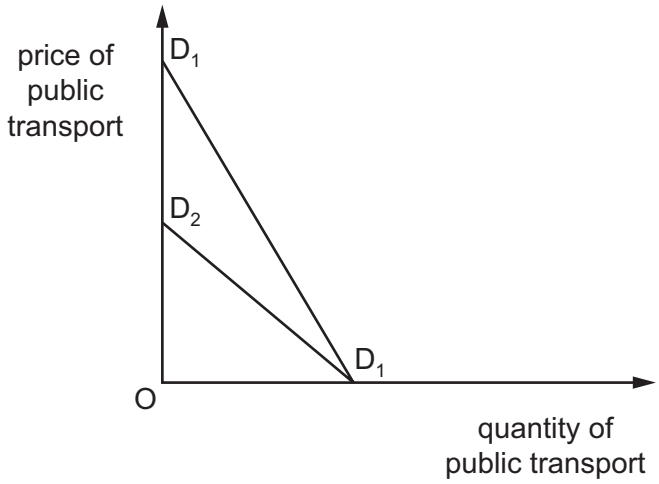
**A** It will shift to the left at any given price.

**B** It will shift to the right at any given price.

**C** There will be a downward movement along the supply curve.

**D** There will be an upward movement along the supply curve.

**6** $D_1D_1$ shows an individual's initial demand curve for public transport.




What would cause the demand curve to shift to $D_2D_1$?

**A** The cost of running the individual's car rises.

**B** The individual is banned from driving.

**C** The price of public transport rises.

**D** The quality of public transport declines.

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**7** Two goods X and Y have a positive cross-elasticity of demand and upward-sloping supply curves.

What will be the effect of a reduction in the price of good Y?

**A** The demand for good X will increase.

**B** The demand for good Y will decrease.

**C** The price of good X will decrease.

**D** The quantity of good X supplied will increase.

**8** Which statement best describes the meaning of price elasticity of supply?

**A** how much price changes when there has been a change in supply

**B** how much supply changes when there is a change in demand

**C** how much supply changes when there is a change in price

**D** how much supply changes when there is a change in the price of a substitute

**9** The table shows changes in a consumer's expenditure on various goods when her income increases from $20 000 to $24 000.

| good | income $20 000: amount spent on good ($) | income $24 000: amount spent on good ($) |
|---|---|---|
| W | 100 | 96 |
| X | 100 | 100 |
| Y | 200 | 224 |
| Z | 200 | 248 |

Assuming all else remains unchanged, for which goods is the consumer's income elasticity of demand greater than 1.0?

**A** W, Y and Z

**B** W and Z only

**C** W only

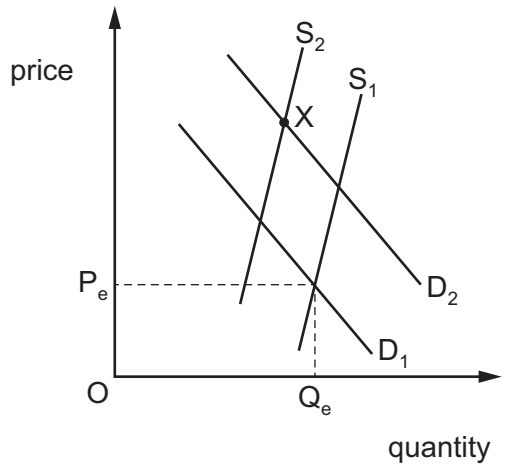
**D** Z only

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**10** The diagram shows the market for cocoa, which is a normal good. Initially the market is in equilibrium with price $P_e$ and quantity $Q_e$ bought and sold.




Which sequence of events (event 1 followed by event 2) must have occurred in order to move to the new equilibrium at point X?

| | event 1 | event 2 |
|---|---|---|
| **A** | a decline in popularity of cocoa | the removal of a subsidy previously paid to cocoa producers |
| **B** | a decrease in disposable income | a decrease in costs of producing cocoa |
| **C** | an increase in disposable income | an increase in the number of cocoa producers |
| **D** | a successful advertising campaign by cocoa producers | an increase in the taxation of cocoa |

**11** Goods X and Y are complements and have upward-sloping supply curves.

What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

| | quantity of X | price of X |
|---|---|---|
| **A** | decrease | decrease |
| **B** | decrease | increase |
| **C** | increase | decrease |
| **D** | increase | increase |

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**12** What is generally considered to be one of the advantages of using the price mechanism as a rationing device?

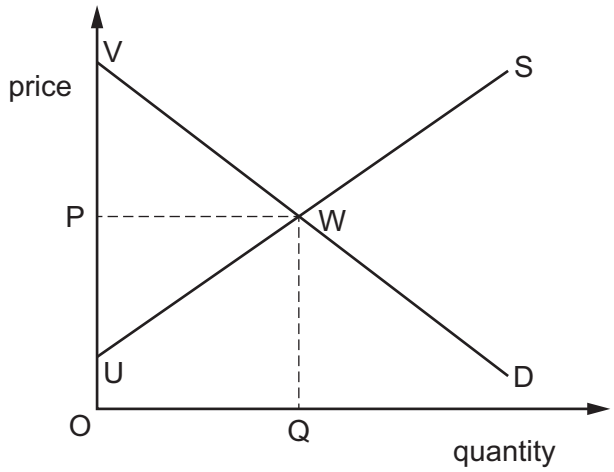
**A** It ensures that goods are allocated in accordance with the wants of consumers.

**B** It ensures that suppliers cannot make excessive profits.

**C** No one can be prevented from consuming a good if they are willing and able to pay the market price.

**D** The allocation of goods is determined by consumers' wealth.

**13** The diagram shows a competitive market in equilibrium with price P and quantity Q sold.




Which area represents the producer surplus?

**A** OPWQ minus OUWQ

**B** OPWQ minus UPW

**C** OVWQ minus OPWQ

**D** OVWQ minus PVW

**14** The government fixes a maximum price for wheat flour below the market equilibrium price.

After the maximum price is imposed, which statement is **not** correct?

**A** Producers' revenue is increased.

**B** Some consumers may encourage illegal sales.

**C** The quantity supplied of flour will decrease.

**D** There will be an excess demand for flour.

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**15** The income tax structure of a country has two elements.

1 The first $20 000 of earned income is not taxed.

2 Any income earned above $20 000 is taxed at 20%.

What would be a correct description of this tax structure?

**A** a progressive tax on incomes of more than $20 000

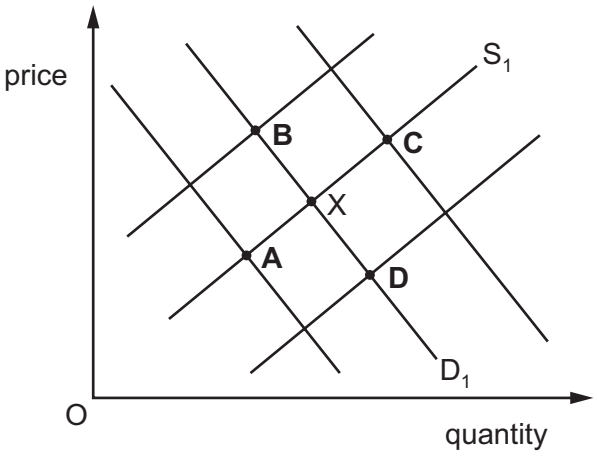
**B** a progressive tax throughout the whole income range

**C** a proportional tax on incomes of more than $20 000

**D** a regressive tax throughout the whole income range

**16** In 2014 Egypt reduced subsidies on fossil fuels such as gasoline and diesel. The diagram shows the initial equilibrium at point X.

What will be the new equilibrium after the reduction of subsidies?




**17** What is an aim of a transfer payment?

**A** It allows the government to alter the final distribution of income.

**B** It provides a ceiling for levels of income across the economy.

**C** It removes the need for state subsidies.

**D** It rewards the activity of a factor of production.

**18** There have been recent calls for the UK government to nationalise its railways.

What would **not** be a reason for nationalising the railways?

**A** Private rail companies often charge high ticket prices.

**B** Private rail companies may exploit monopoly power.

**C** Railways are an essential part of national infrastructure.

**D** Railways should be treated as a public good.

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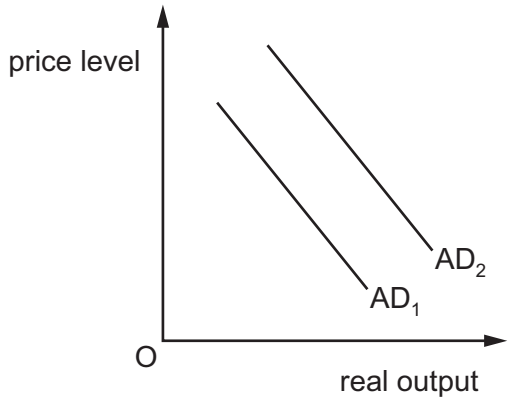


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**19** The diagram shows a shift in the aggregate demand curve, from $AD_1$ to $AD_2$.




What might have caused this shift?

**A** a fall in the budget surplus

**B** a fall in the trade surplus

**C** a rise in imports

**D** a rise in the interest rate

**20** The table shows the consumer price index (CPI) and national output at current prices in 2014 and 2015 for an economy.

| year | CPI | national output at current prices |
|---|---|---|
| 2014 | 100 | 100 |
| 2015 | 120 | 110 |

What can be concluded when 2015 is compared with 2014?

**A** Money national output decreased by 10%.

**B** Money national output increased by 20%.

**C** Real national output fell.

**D** Real national output increased.

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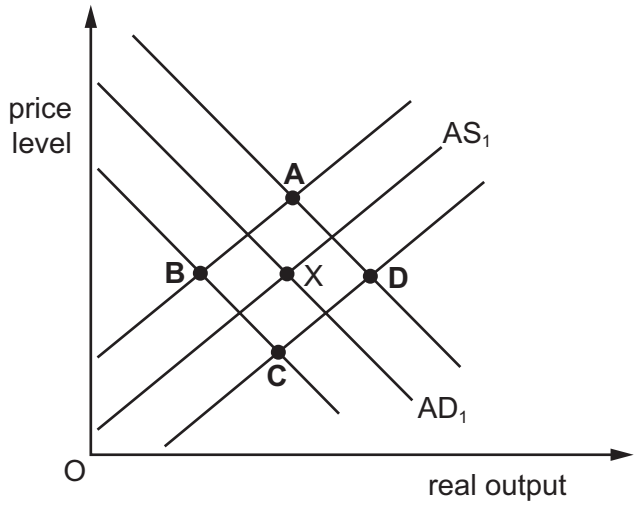
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**21** Between June and the end of July 2016 the UK pound sterling depreciated by 11% against a basket of currencies of the UK's major trading partners.

The diagram shows the original aggregate demand curve $AD_1$ and the original aggregate supply curve $AS_1$ for the UK economy before June 2016. The equilibrium is at X.

What will be the new equilibrium for the UK economy as a result of the depreciation of the pound sterling?




**22** Which item is **not** included in the current account of a country's balance of payments?

**A** exports of services

**B** interest on foreign loans

**C** profits from foreign investments

**D** the purchase of foreign assets

**23** A government wishes to raise the value of the external exchange rate of its currency.

What should it do?

**A** discourage inward foreign direct investment

**B** raise interest rates

**C** raise the level of aggregate demand in the economy

**D** remove quotas on imported products

**24** Country X conducts 60% of its trade with country Y and 40% of its trade with country Z. The initial value of the trade-weighted exchange rate index of country X is 100.

What will be its new trade-weighted exchange rate index value if its currency falls in value by 20% against the currency of country Y and rises by 10% against the currency of country Z?

**A** 84 **B** 90 **C** 92 **D** 116

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**25** The index for a country's terms of trade changed from 100 in year 2015, to 104 in year 2016.

What could have caused this change?

**A** a fall in export prices with import prices unchanged

**B** a fall in revenue from the export of services

**C** an appreciation of the country's currency

**D** a rise in the value of imports

**26** The table shows the production possibilities of cloth and food in four countries using all of their resources.

| country | cloth (million units) | | food (million units) |
|---|---|---|---|
| V | 40 | or | 8 |
| X | 28 | or | 4 |
| Y | 8 | or | 2 |
| Z | 5 | or | 5 |

If the world exchange rate is 1 unit of food for 6 units of cloth, with whom is V likely to trade?

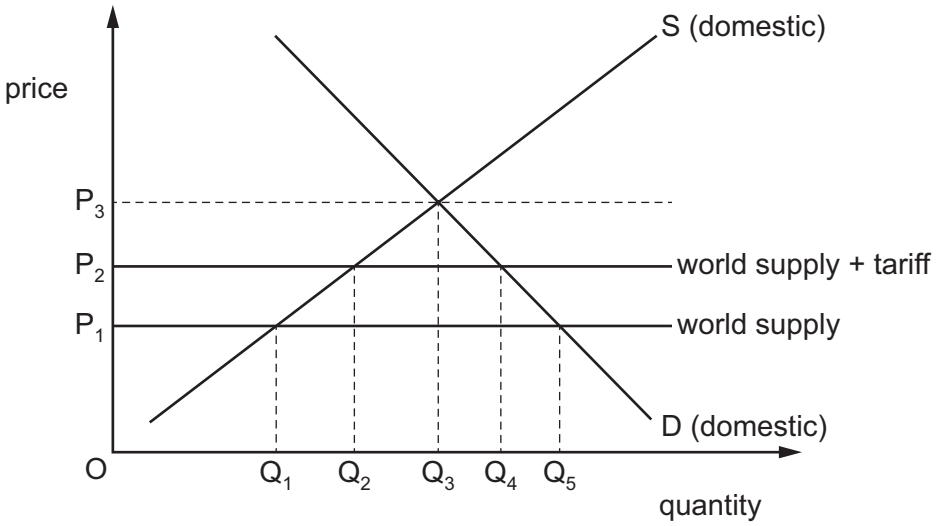
**A** X and Y **B** X only **C** Y and Z **D** Z only

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**27** The diagram shows the domestic and world demand and supply for a good.




The government imposes a tariff on imports of the good.

What will happen to the quantity imported?

**A** It will fall from $Q_1Q_3$ to $Q_2Q_3$.

**B** It will fall from $Q_1Q_5$ to $Q_2Q_4$.

**C** It will fall from $Q_2Q_5$ to $Q_3Q_4$.

**D** It will fall from $OQ_5$ to $OQ_4$.

**28** What is an example of a supply-side policy?

**A** an import quota to restrict the supply of goods

**B** a rise in interest rates to encourage the supply of savings

**C** a specific tax on the supply of goods to raise revenue

**D** a subsidy to businesses to promote the supply of training courses

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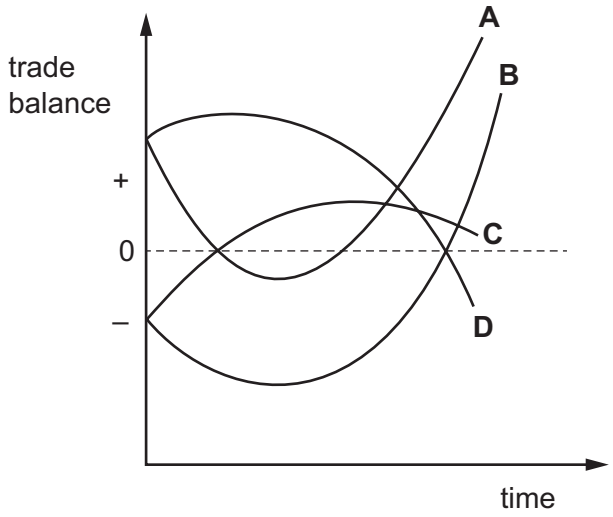
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**29** In a country the Marshall-Lerner condition for an improvement in the trade balance is satisfied in the long run, but quantities of imports and exports are slow to respond to price changes.

The government devalues its currency to reduce its trade deficit.

Which curve indicates the probable behaviour of the trade balance?




**30** Which policy mix is most likely to be effective in the short run for reducing inflation in a closed economy?

| | fiscal policy | monetary policy |
|---|---|---|
| **A** | decreasing the budget surplus | increasing the interest rate |
| **B** | decreasing the budget surplus | increasing the money supply |
| **C** | increasing the budget surplus | increasing the interest rate |
| **D** | increasing the budget surplus | increasing the money supply |

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