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Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/13**

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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1 An economy is operating at a point inside its production possibility curve.

Why is this described as inefficient?

A Individuals are enjoying too much leisure.

B More of one good can be produced without decreasing production of another.

C The combination of labour and capital is wrong.

D There are shortages of some goods and an excess supply of others.

2 What is characterised as a free good?

A one that has zero opportunity cost

B one that is non-excludable and non-rivalrous

C one that is supplied by the government with no charge

D one that receives a 100% government subsidy

3 A country is moving from a planned economy to a market economy. The government previously provided transport services but has now sold these to private firms.

What is a consequence of this?

A Government ownership of resources has increased.

B Services provided by the public sector have increased.

C There has been an increase in central planning.

D There has been an increase in consumer sovereignty.

4 A government wants to prevent the spread of an infectious disease by vaccinating all children.

Why might vaccination be classified as a merit good?

A The benefit to society is equal to the benefit received by the individual.

B The good is excludable.

C The good is not vital.

D The good would otherwise be under-consumed.

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5 A product has a downward-sloping demand curve and an upward-sloping supply curve.

What would explain a rise in the price of the product and a fall in the quantity of the product sold?

A The decrease in demand is double the decrease in supply.

B The decrease in supply is double the decrease in demand.

C The increase in demand is double the increase in supply.

D The increase in supply is double the increase in demand.

6 Public transport in an economy has an income elasticity of demand of –0.36.

What does this mean about public transport?

A It has close substitutes.

B It is a necessity.

C It is a normal good.

D It is an inferior good.

7 The quantity demanded of a product is given by $Q_D = 400 – 10P$, when P is the price in dollars. Supply of the product is fixed at 100 units.

If the price is $20, what will be the position in the market?

A It will be in disequilibrium with excess demand of 100 units.

B It will be in disequilibrium with excess supply of 100 units.

C It will be in equilibrium with 100 units traded.

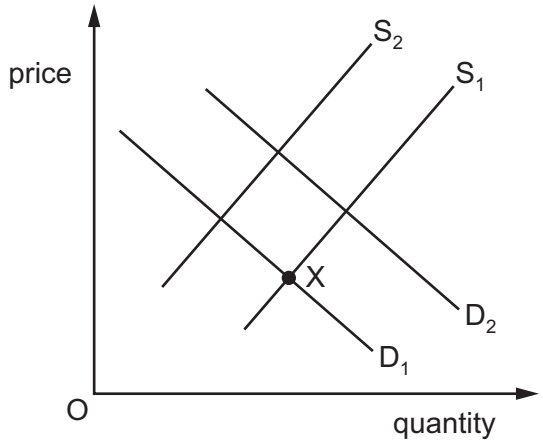
D It will be in equilibrium with 200 units traded.

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8 D_1 and S_1 are the initial demand and supply curves in the market for new cars with an equilibrium at X.



What will cause the demand curve to shift to D_2 and the supply curve to shift to S_2?

A a decrease in real incomes and a rise in the costs of new car production

B a decrease in the price of petrol and a subsidy on new car production

C an increase in the availability of loans for new car purchases and a specific tax on new cars

D an increase in the price of train travel and an increase in the number of car producers

9 A good has a unitary price elasticity of demand and at a price of $20 a firm sells 40 000 units.

How many units will the firm sell if it charges a price of $5?

A 10 000 **B** 100 000 **C** 160 000 **D** 200 000

10 A bus journey is considered an inferior good in a relatively rich country such as Singapore but a normal good in a relatively poor country such as Tanzania.

In which direction would an increase in incomes in both countries cause the demand curve for bus journeys in Singapore and Tanzania to shift?

	Singapore	Tanzania
A	left	left
B	left	right
C	right	left
D	right	right

11 The quantity of a good supplied by a firm is Q. Each of these goods sells for a price of P. The area under the supply curve for Q goods is equal to C.

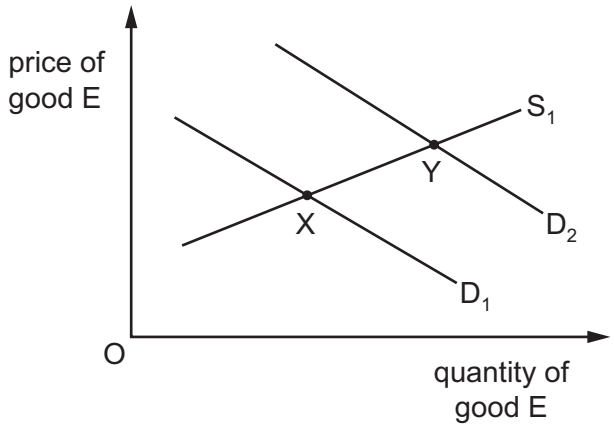
What is the producer surplus of the firm?

A P – C **B** P × Q **C** (P × Q) – C **D** (P – C) × Q

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12 The diagram shows the market demand for and supply of good E.



The equilibrium has changed from X to Y.

Which statement is **not** correct?

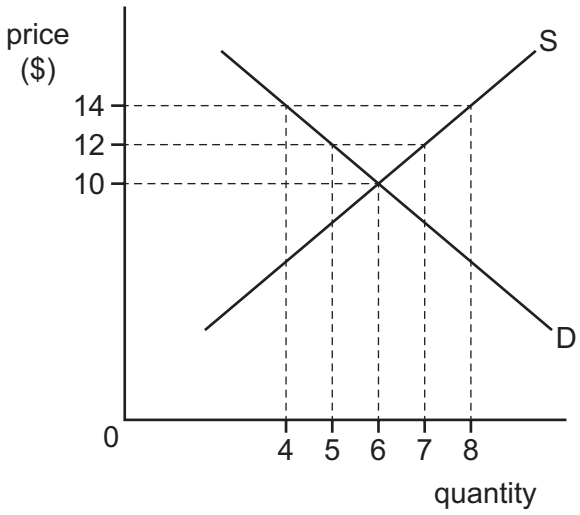
A Incomes of consumers may have increased and good E is a normal good.

B The quantity supplied has risen because price has increased.

C The quantity supplied has risen because the production of good E has been subsidised.

D The price of good F, which is a substitute for good E, may have risen.

13 The diagram shows the market for CDs.



A government raises the minimum price of CDs from $12 to $14.

What will be the outcome?

A Excess demand increases by 2 units.

B Excess demand increases by 4 units.

C Excess supply decreases by 2 units.

D Excess supply increases by 2 units.

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14 A government regards alcoholic drinks as a demerit good and introduces a minimum price above the equilibrium in an attempt to protect consumers. Demand for alcoholic drinks is price inelastic.

What is the most likely outcome?

A a fall in the revenue of alcoholic drink producers

B a fall in the quantity of alcoholic drink sales

C a long-run shortage of alcoholic drinks

D an increase in specific tax revenue from the sale of alcoholic drinks

15 A government subsidy of $50 per unit is paid to manufacturers of solar panels.

What will be the impact of this?

A It will guarantee equilibrium in the solar panel market.

B It will maintain high market prices.

C It will reduce total production costs.

D It will stabilise levels of output.

16 Why might a government privatise the railway industry in a country?

A Economists classify railway journeys as a public good.

B Privatisation would provide funds for investment from a wider range of sources.

C Privatised railways would be run to maximise producer surplus.

D Railway fares can be taxed to raise money for the government only if railways are privatised.

17 Which tax is levied on a stock of wealth rather than a flow of income?

A company profits tax

B goods and services (expenditure) tax

C individual direct tax

D personal asset tax

18 What is classified as a transfer payment?

A money paid as a gift to a charity

B money paid as a tip to a waiter

C money paid as commission to a salesperson

D money paid for an imported good

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19 Under which circumstance would the rate of inflation be **most** likely to fall?

A Government spending increases and society's marginal propensity to save falls.

B Reduced interest rates result in consumers increasing their spending.

C The government increases direct taxes and the level of investment falls.

D The prices of imported raw materials rise, whilst demand for exports falls.

20 In which circumstances will country X have a comparative advantage in the production of rice over country Y?

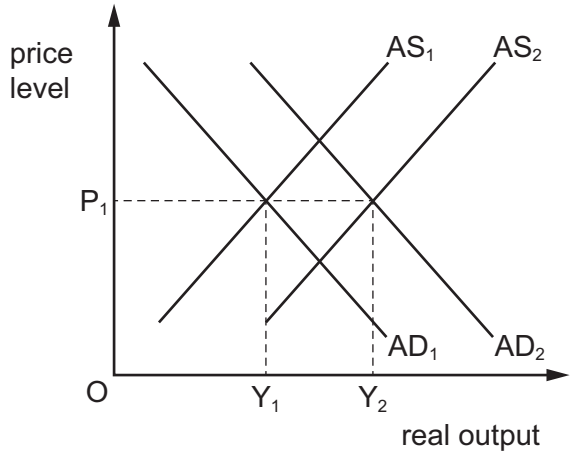
A when X has lower opportunity costs in producing rice than Y

B when X is in a customs union and Y is outside that union

C when X uses dollars for trading and Y uses a different currency

D when X uses more units of labour than Y to produce rice

21 The diagram shows an economy with an initial equilibrium real output of Y_1 at a price level of P_1.



Which combination of events is likely to cause the equilibrium real output to rise to Y_2?

A an increased budget deficit and a fall in energy costs

B an increased budget surplus and a rise in energy costs

C an increased trade deficit and a fall in indirect tax

D an increased trade surplus and a rise in indirect tax

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22 The table gives figures from the current account of the balance of payments for New Zealand in 2018.

There are two blank spaces, X and Y, in the account.

	NZ$(millions)
exports of goods	54 700
imports of goods	57 400
balance of trade in goods	X
balance of trade in services	Y
primary income balance	–10 600
secondary income balance	–400
current account balance	–8 500

Four students were asked to fill in the spaces.

Which student was correct?

	X	Y
A	+2700	+5200
B	+2700	–5200
C	–2700	+5200
D	–2700	–5200

23 What is indicated by an economy's terms of trade?

A the degree of its dependence on imports

B the international competitiveness of its exports

C the purchasing power of its exports relative to its imports

D the relative strength of its currency in the foreign exchange market

24 A country operates a floating exchange rate.

Why might a government change to a fixed exchange rate?

A to increase the stock of foreign currency reserves

B to make the terms of trade more favourable

C to raise the level of certainty for businesses

D to use the exchange rate to reduce domestic prices

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25 What term relates to a fall in the domestic real value of a currency?

A deflation

B depreciation

C devaluation

D inflation

26 A country has a persistent balance of payments deficit.

What is most likely to improve the situation in the long run?

A a lowering of the level of import duties

B a reduction in the level of income tax

C the introduction of expansionary monetary policy

D the use of grants to encourage new investment by firms

27 To counter deflation a central bank uses expansionary monetary policy.

What is likely to result?

A a higher cost of borrowing

B a higher rate of inflation

C an appreciation of the exchange rate

D an increase in government debt

28 A government reduces the benefits that it pays to unemployed workers to increase the incentive to work.

Which types of macroeconomic policies are being used?

	fiscal policy	monetary policy	supply-side policy
A	✓	✗	✗
B	✓	✓	✗
C	✓	✗	✓
D	✗	✗	✓

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29 Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

A a long-run supply-side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions

B a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments

C a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target

D a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

30 Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in solving deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation

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