Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 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.
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- 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

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1 The transition of centrally planned economies to market economies was accompanied by a significant change in the composition of output.

What was an immediate consequence of this transition?

A a build-up of unsold stocks of goods

B an increase in exports of goods

C an increase in unemployment

D decreasing prices of goods and services

2 Which statement is correct?

A Normative economics concerns the description of economic models.

B Normative economics is objective and factual.

C Positive economics can be tested by data and evidence.

D Positive economics is subjective and offers a value judgement.

3 Consumers do not use enough of a product to maximise their private benefit because they have imperfect information about the product.

How would an economist classify this product?

A demerit good

B free good

C merit good

D public good

4 What is meant by the division of labour?

A Each worker specialises in a different task in production.

B Some workers work part-time and others work full-time.

C The same amount of output per hour is produced by each worker.

D Workers divide their time between different jobs.

5 What describes a market supply curve?

A It is downward sloping.

B It is the same as the aggregate supply curve.

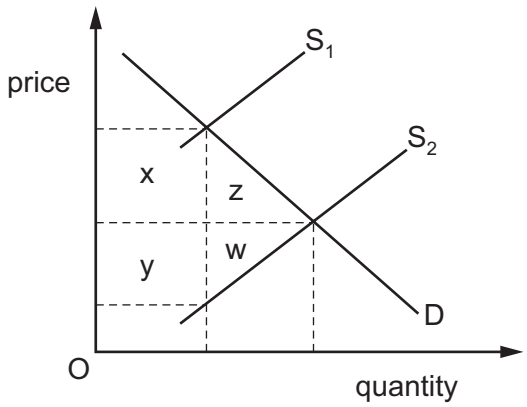
C It is the sum of all firms' supply curves for a product.

D It is the supply of all products within an economy.

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6 In the diagram, D is the demand curve for Indian tea exports and S_1 is the supply curve when there is a tax on tea exports.



The Indian government removes the tax, which causes the supply curve to shift to S_2.

Which areas in the diagram measure the resulting loss in tax revenue to the Indian government and the resulting gain in consumer surplus?

	loss in tax revenue	gain in consumer surplus
A	x	w + y
B	x	x + z
C	x + y	z
D	x + y	x + z

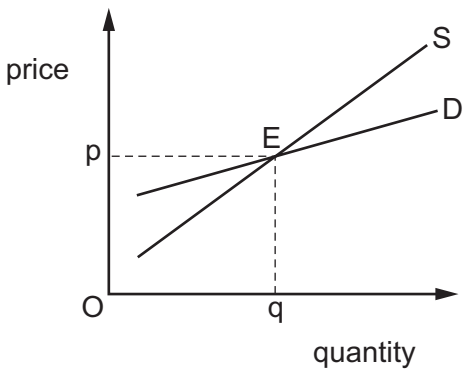
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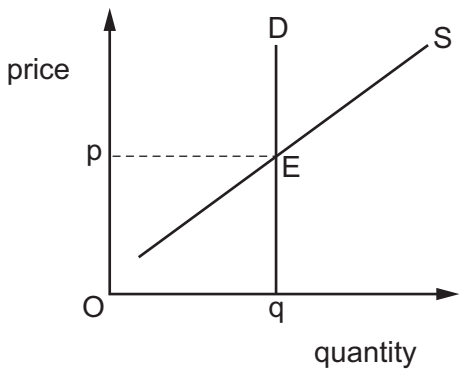
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7 In which market would equilibrium **not** be achieved at point E if price were above Op?

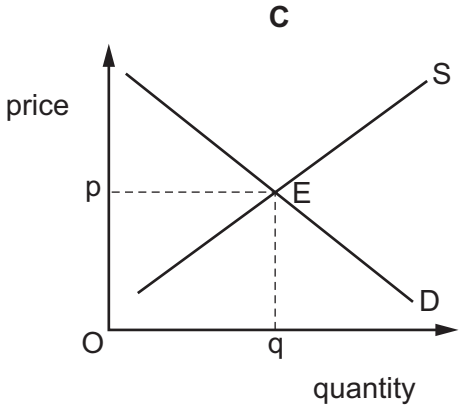
A



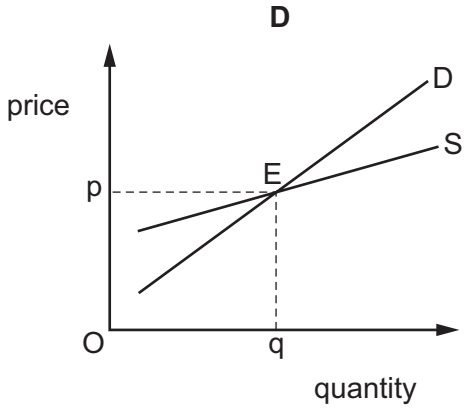
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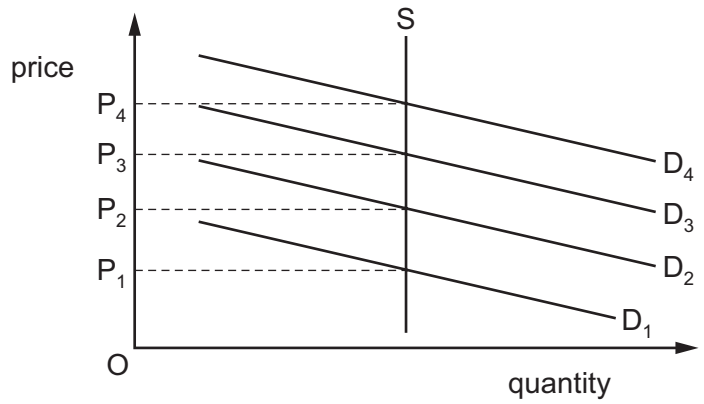
D



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8 In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days (D_1, D_2, D_3 and D_4).



The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

A set a fixed price at P_1

B set a fixed price at P_4

C vary prices between P_2 and P_3

D vary prices between P_1 and P_4

9 An indirect tax is imposed on a product in a competitive market.

Under which circumstances would the value of the consumer surplus be most likely to remain unchanged?

A New substitutes are developed for the product and production costs rise.

B Some producers merge so there is less competition in the market.

C The product is an inferior good, consumer incomes increase and production costs rise.

D The product is a normal good, consumer incomes increase and production costs fall.

10 How might a firm raise the value of the price elasticity of supply for its product?

A decrease the amount of labour that it employs

B employ new technology to increase its productive capacity

C increase advertising expenditure to generate more revenue

D reduce the level of stocks in order to cut costs

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11 Shoe manufacturers often use leather to make their most expensive shoes. Due to a world shortage of leather, the price of leather has risen.

What will be the effect of this price change?

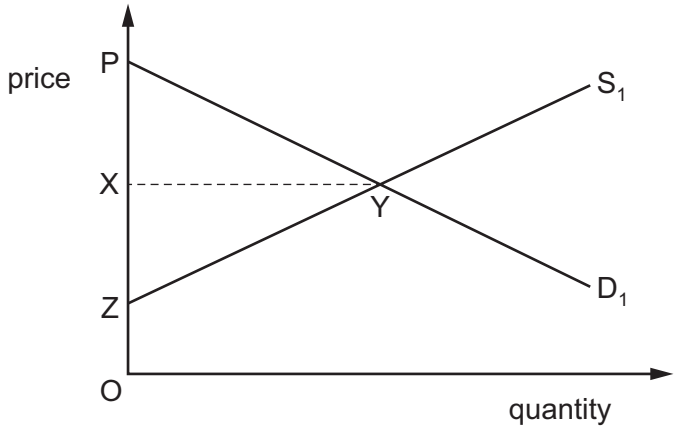
A The demand curve for leather shoes will shift to the left.

B The demand curve for a substitute for leather shoes will shift to the right.

C The supply curve for leather shoes will shift to the right.

D The supply curve for a substitute for leather to make expensive shoes will shift to the right.

12 The diagram represents the market for a good.



Which statement is correct?

A OX represents the price above which no producer wishes to stay in the market.

B OZ represents the minimum price consumers are prepared to pay.

C PYZ represents the total consumer surplus.

D XYZ represents the total producer surplus.

13 The economics department of a university calculates that the price elasticity of demand for the products of a local firm is between –1.1 and –1.3.

Which decision could be justified by the research?

A Increase prices to increase profit.

B Invest in more capital to increase output.

C Reduce advertising to reduce costs.

D Reduce prices to increase revenue.

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14 A specific tax is imposed on a product for which the elasticity of supply is zero.

Which statement is correct?

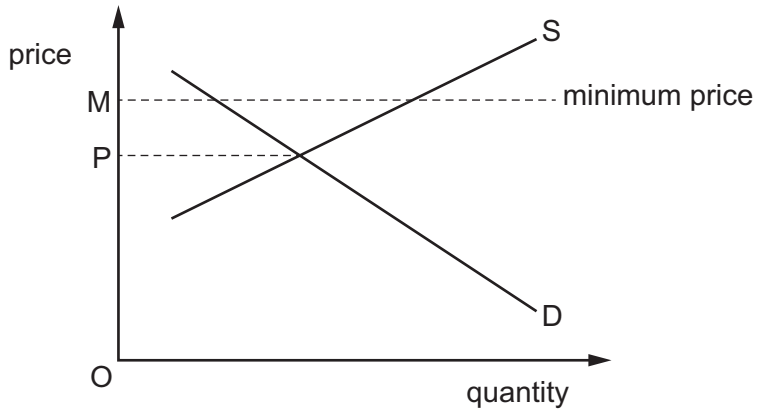
A The burden of this tax will fall entirely on consumers.

B The burden of this tax will fall entirely on suppliers.

C The burden of this tax will fall mainly on consumers.

D The burden of this tax will fall mainly on suppliers.

15 The diagram shows a market where a government has set a minimum price of OM.



What can be concluded from the diagram?

A At prices above OM, there would be a surplus of the good.

B At the minimum price OM, there would be a shortage of the good.

C Price will fall automatically from OM to OP.

D The minimum price will be ineffective.

16 What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

A fewer destinations served by trains and buses

B lower fares

C more frequent services to all destinations

D more people employed in public transport services

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17 A teenager received a cheque for $50 as a birthday gift from her parents. The teenager paid the cheque into her savings account at the bank.

Why is this gift a transfer payment?

A It did not involve a cash payment.

B It transfers money between bank accounts.

C The parents did not spend their money.

D The teenager did not produce any output.

18 What is a necessary characteristic of a public good?

A It has a fixed maximum price.

B It has an opportunity cost of production of zero.

C It is non-excludable.

D It is an essential good.

19 What is **least** likely to change an advanced industrialised economy's terms of trade?

A its level of labour productivity

B its rate of inflation

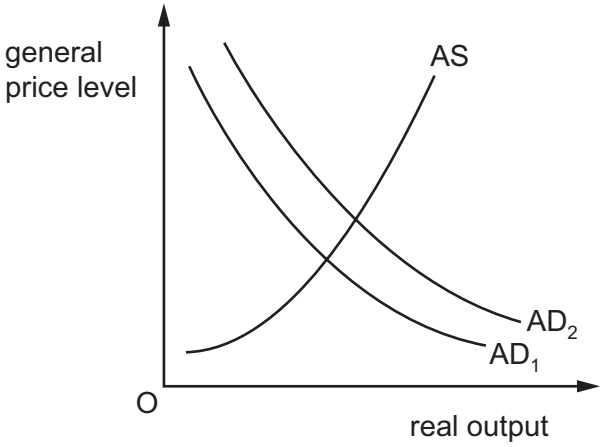
C the maintenance of a stable foreign exchange rate

D the occurrence of random supply shocks

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20 The diagram shows the aggregate demand (AD) and aggregate supply (AS) curves for an economy.



Which situation would **not** cause a shift from AD_1 to AD_2?

A a fall in the general price level as government spending is reduced

B an easing of credit by commercial banks for household purchases of consumer goods

C an increase in earnings from exports of high-tech products

D an increase in investment by firms in computer systems

21 Which combination of changes is **most** likely to lead to an increase in the aggregate price level and the level of real output?

	income tax rate	net exports
A	fall	decrease
B	fall	increase
C	rise	decrease
D	rise	increase

22 Country W conducts 50% of its trade with country X, 30% of its trade with country Y and 20% of its trade with country Z. The initial value of the trade-weighted exchange rate of country W is 100.

Country W's currency appreciates 10% against the currency of country X, depreciates 10% against the currency of country Y and is unchanged against the currency of country Z.

What will be the new trade-weighted exchange rate?

A 100 **B** 102 **C** 102.5 **D** 200

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23 The table shows the goods balance and services balance for a country in selected years.

year	goods balance ($ billion)	services balance ($ billion)
2015	+120	–30
2016	+110	–30
2017	+50	–10
2018	+130	–60
2019	+140	–50

Between which years did the overall goods and services balance change the most?

A 2015 to 2016

B 2016 to 2017

C 2017 to 2018

D 2018 to 2019

24 What is **not** an example of protectionism?

A export subsidies

B import subsidies

C quotas

D tariffs

25 What is an expenditure-switching policy to reduce a country's balance of payments deficit?

A an increase in budget surplus

B an increase in direct taxes

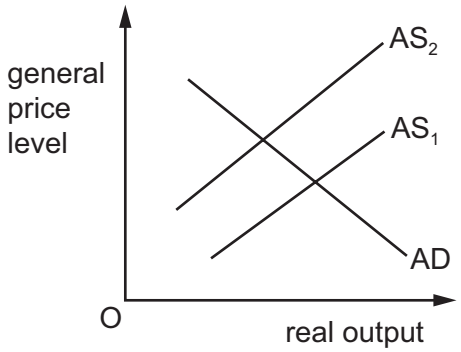
C an increase in import tariffs

D an increase in interest rates

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26 The diagram shows the aggregate demand (AD) and aggregate supply (AS) for an economy.



Which changes in subsidies and indirect taxes would have caused the change in AS shown?

A higher subsidies and higher indirect taxes

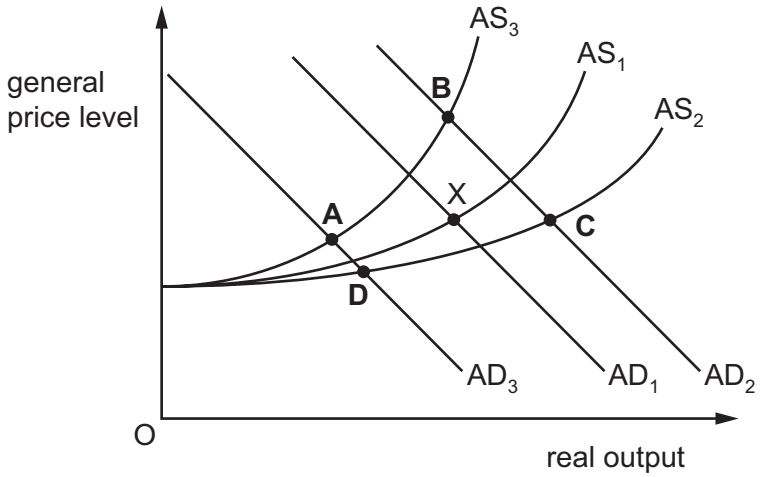
B higher subsidies and lower indirect taxes

C lower subsidies and higher indirect taxes

D lower subsidies and lower indirect taxes

27 In its recent budget a government increased defence expenditure and also the amount spent on training that increased the productivity of the workforce. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these changes?



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28 An increase or decrease in exchange rates can take place in both a floating and a fixed exchange rate system but different terminology is used for each system.

What is the correct terminology?

	decrease in floating	increase in fixed
A	depreciation	appreciation
B	depreciation	revaluation
C	devaluation	appreciation
D	devaluation	revaluation

29 In 2018 the United States (US) government reduced direct taxes on consumers and businesses.

What are likely to be the effects of these changes on consumption, investment and national output?

	consumption	investment	national output
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	decrease
D	increase	increase	increase

30 A country experienced a significant fall in unemployment but its inflation rate remained low.

What could explain this?

A Global competition prevented firms passing on higher costs.

B Increased spending on imports had lowered the exchange rate.

C There was a low level of spare capacity in the economy.

D Wage rates had increased by more than labour productivity.

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/11 (May/June 2020): multiple choice answers

1 C Resources had to move from old state industries to new ones, so many workers lost jobs at first.

2 C Positive statements are factual and can be tested against data and evidence.

3 C Under-consumed because of imperfect information about its benefits: a merit good.

4 A Division of labour means each worker specialises in a different task in production.

5 C Market supply is the horizontal sum of all firms' supply curves for one product.

6 D Tax revenue was the tax per unit × quantity = x + y; consumers gain x (lower price on old units) + z (extra units).

7 A In A, D is flatter than S, so above Op demand exceeds supply and price is pushed further up, away from E.

8 D Demand shifts between D1 and D4 on different days, so price must vary from P1 to P4 to clear the market.

9 D Higher income raises demand while lower costs raise supply, offsetting the tax so consumer surplus can stay the same.

10 B Extra productive capacity lets the firm raise output quickly when price rises, so supply becomes more elastic.

11 B Higher leather costs cut supply and raise the price of leather shoes, so demand for substitutes rises.

Question number		
12	D	Producer surplus is the area above supply (Z) and below the price (X) up to output at Y: XYZ.
13	D	PED between −1.1 and −1.3 is elastic, so a price cut raises quantity proportionately more and revenue rises.
14	B	With PES = 0, supply is vertical: price to consumers cannot rise, so suppliers pay the whole tax.
15	A	OM is above equilibrium OP, so at OM and any higher price quantity supplied exceeds quantity demanded: a surplus.
16	A	Private firms would close unprofitable routes, so fewer destinations would be served.
17	D	A transfer payment is income received without any output being produced in return.
18	C	A public good must be non-excludable (and non-rival): non-payers cannot be stopped from using it.
19	C	Terms of trade = index of export prices ÷ import prices × 100; a stable exchange rate does not change it.
20	A	A change in the price level is a movement along AD, not a shift, and lower G would shift AD left.
21	B	A lower income tax raises consumption and higher net exports raise AD, so the price level and real output rise.
22	B	New index = 100 + (0.5 × 10) − (0.3 × 10) + (0.2 × 0) = 100 + 5 − 3 = 102.
23	B	Overall balance: 90, 80, 40, 70, 90 ($bn); the largest change is 80 to 40, a fall of $40bn (2016 to 2017).
24	B	Import subsidies make imports cheaper, which helps foreign producers, so it is not protectionism.
25	C	Tariffs raise import prices, switching domestic spending from imports to home-produced goods.

Question number		
26	C	AS shifted left (AS1 to AS2): lower subsidies and higher indirect taxes both raise firms' costs.
27	C	Defence spending shifts AD1 to AD2 and training raises productivity, shifting AS1 to AS2: point C.
28	B	A fall in a floating rate is a depreciation; a rise in a fixed rate is a revaluation.
29	D	Lower direct taxes raise disposable income and post-tax profits, so C, I and national output all increase.
30	A	Strong global competition stopped firms raising prices, so inflation stayed low as employment rose.

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ECONOMICS **9708/12**

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1 Which statement is the most valid reason for government intervention in a free market economy?

A Consumers are well informed, making it difficult for producers to make profits.

B Health and education are not available in sufficient quantities.

C Producers are motivated only by profit.

D There are many competitive firms and not enough sole suppliers.

2 What would **not** be considered a barter transaction?

A a car repairer undertaking the annual service on a plumber's van in return for the plumber fitting a new sink in the car repairer's kitchen

B a consumer negotiating with a shopkeeper and buying a pair of trousers at US$10 rather than the asking price of US$30

C a graduate student exchanging a set of textbooks for a radio with a student about to start the course

D a train company allowing a phone company to advertise on its trains in return for the right to advertise on the phone company's website

3 A factory introduces an automated production line to take advantage of division of labour.

What is most likely to increase?

A average cost of production

B job satisfaction of workers

C range of skills of each worker

D worker productivity

4 Which statement is normative?

A A minimum wage is the correct government policy to increase the incomes of the lowest paid workers.

B A minimum wage is the lowest amount that employers can legally pay their workers.

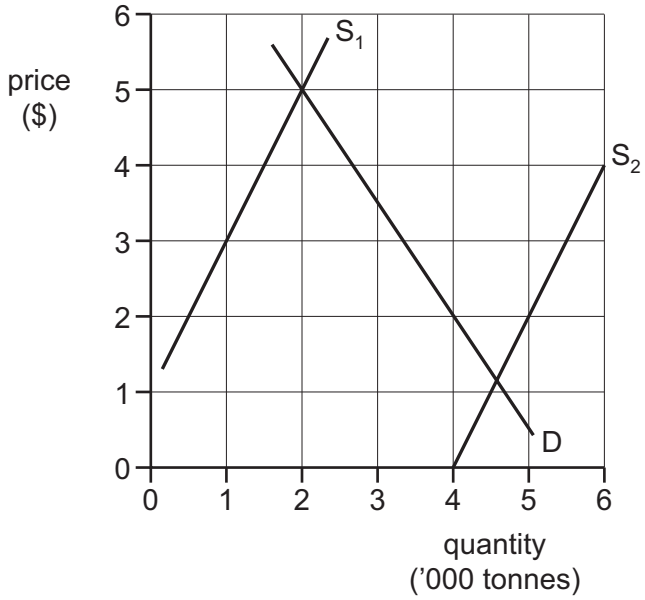
C In Pakistan, a minimum wage of 15 000 Pakistani Rupees per month was set on 1 June 2016.

D Setting the minimum wage rate above the equilibrium will result in an excess supply of workers.

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5 In the diagram, D is the demand curve for an agricultural commodity and S_1 is the initial supply curve. A good harvest causes the supply curve to shift to S_2.



By how much will the demand curve have to shift to leave farm incomes unchanged?

A 500 tonnes at all prices

B 1000 tonnes at all prices

C 2000 tonnes at all prices

D 4000 tonnes at all prices

6 A manufacturer progressively reduces the price of his product.

The table shows the outcome of this policy.

price ($)	total revenue 000s ($)
10	750
9	750
8	750

What is the price elasticity of demand for the product?

A perfectly inelastic

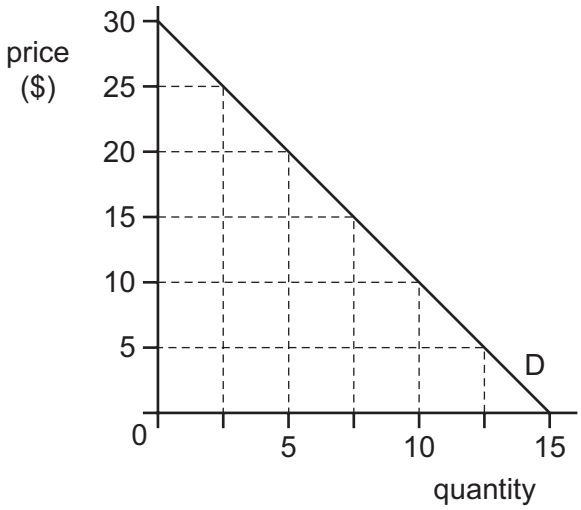
B relatively inelastic

C perfectly elastic

D unitary

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7 The diagram shows a consumer's demand curve for a product.



How does consumer surplus change as the price of the product rises?

A It falls at a constant rate (%) with each $5 rise.

B It falls by a constant amount with each $5 rise.

C It falls by a decreasing amount with each $5 rise.

D It falls by an increasing amount with each $5 rise.

8 Following the introduction of a 10% increase in charges for car parking in a city centre, the demand for bus journeys per day into the city rose from 800 to 1000.

What was the cross elasticity of demand for bus journeys with respect to car parking charges?

A –0.4 **B** +0.4 **C** +2.0 **D** +2.5

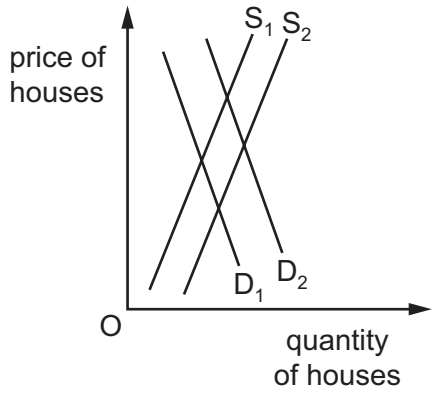
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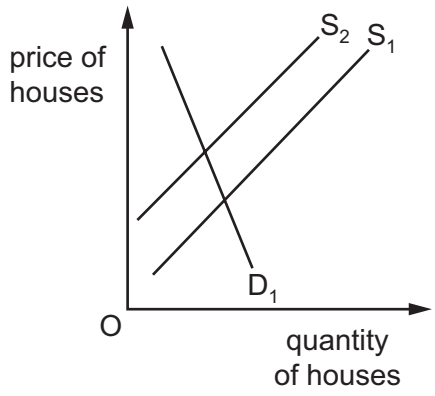
9 An economy is suffering from a housing shortage. The demand for housing continues to rise as real incomes increase and more construction firms enter the market to build more houses.

Which diagram represents this situation?

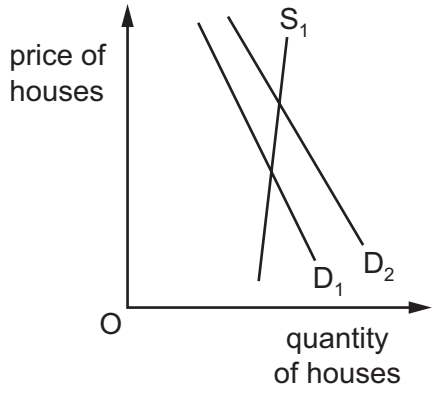
A



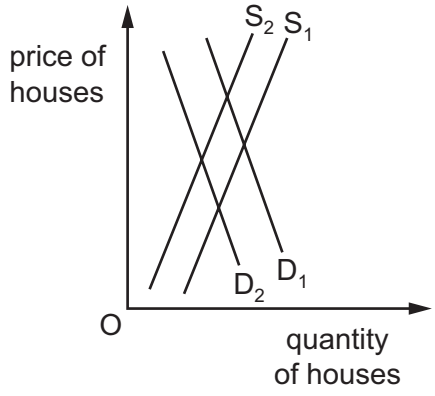
B



C



D



10 A good has a price elasticity of supply of 2.0. The current quantity supplied is 300 units per week at a market price of $20 per unit. The firm raises the price to $25 per unit.

What will the new quantity supplied be per week?

A 150 units

B 375 units

C 400 units

D 450 units

11 What is a major function of the price mechanism?

A providing incentive for government intervention to reduce income inequality

B removing shortages by creating incentives for market prices to fall

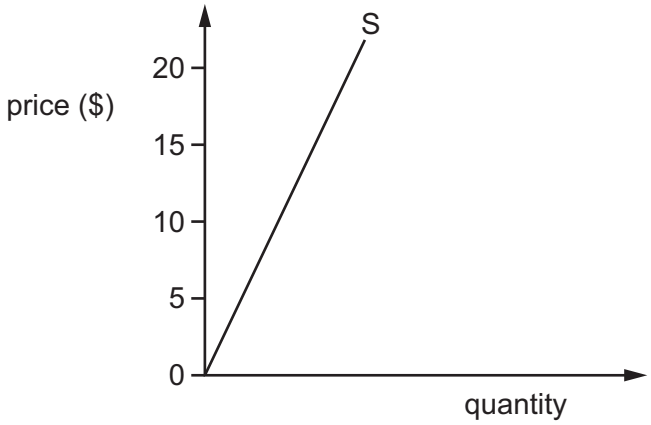
C removing surpluses by creating incentives for market prices to rise

D signalling changes in market conditions to producers and consumers

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12 The diagram shows the supply curve of a product.



The government imposes a specific indirect tax of $5 on the product.

How will the price elasticity of supply of the product change?

A from elastic (>1) to inelastic (<1)

B from inelastic (<1) to elastic (>1)

C from inelastic (<1) to unitary (=1)

D from unitary (=1) to elastic (>1)

13 In the market for a good the quantity supplied (Q_S) and the quantity demanded (Q_D) are given by $Q_S = P – 30$ and $Q_D = 240 – 2P$ where P = price in dollars.

A change in the tax on the good makes $Q_S = P – 36$.

How will the change affect equilibrium price?

A It will fall by $2.

B It will fall by $6.

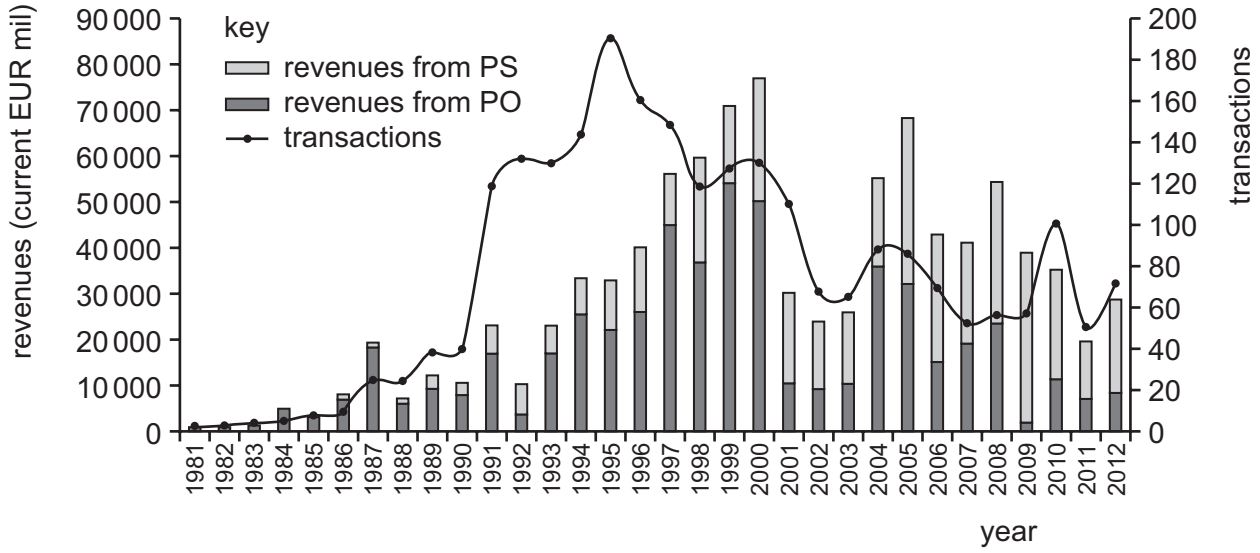
C It will rise by $2.

D It will rise by $6.

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14 Privatisation can be achieved by the sale of shares to the general public (public offers, PO) or by the direct sale to a private company (private sales, PS). The diagram shows privatisation transactions and revenue for the European Union between 1981 and 2012.



What can be concluded from the diagram?

A Any increase in the number of privatisations resulted in an increase in privatisation revenue.

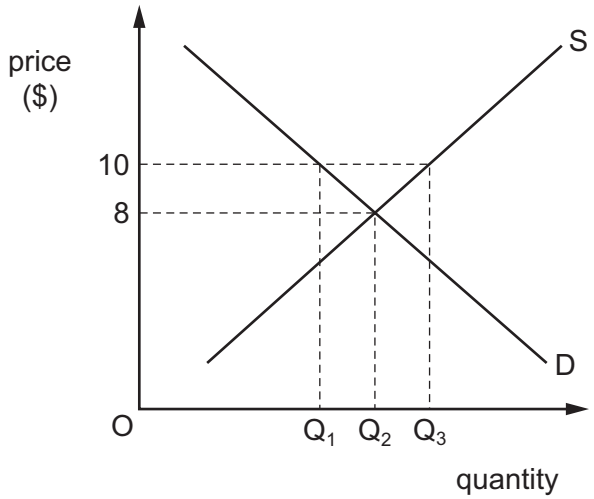
B The average revenue per privatisation was highest in 2000.

C The main revenue from privatisation changed from public offers to private sales.

D The number of privatisations and revenue raised peaked in the same year.

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15 The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

A The government would need to supply Q_1 to Q_3.

B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

16 A government decides to replace a private company with its own company to collect household waste.

Why could such action be justified?

A Because waste collection is a public good.

B Costs of waste collection are bound to be lower if paid out of local taxes.

C Private companies are always less efficient than government companies.

D Private companies might put profits before customer needs.

17 Which measure would **not** be part of a government subsidy to protect domestic producers from competition?

A import quotas

B interest-free loans provided by the government

C reductions in profits (business) taxes

D transfer payments

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18 A country's railways are currently run by private firms. It has been suggested that the government should nationalise the railways.

What might be a reason for this?

A to control prices of railway services

B to encourage competition in railway services

C to increase the profit incentive

D to provide jobs for local people

19 What is likely to cause a decrease in aggregate demand?

A an appreciation in the exchange rate

B an improvement in consumer confidence

C an increase in government expenditure

D an increase in the money supply

20 A country maintains its foreign exchange rate against the United States dollar, within a narrow but changing band.

What is this type of exchange rate?

A fixed

B floating

C managed float

D trade-weighted

21 Which components are included in the financial account of the balance of payments?

	the balancing item	foreign direct investment	interest, profits and dividends
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

key

✓ = included

✗ = not included

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22 Which argument is an importer **most** likely to use to gain the support of consumers for free trade?

A More imports allow the government to raise revenue from tariffs.

B More imports improve the country's terms of trade.

C More imports increase competition in the domestic economy.

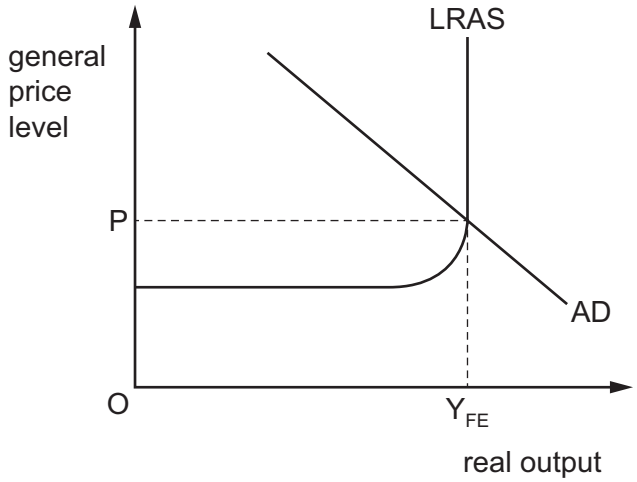
D More imports raise total employment in the domestic economy.

23 According to US Consumer Prices Index (CPI) statistics, an identical good that cost $100 in 1913 would cost $2359.60 in 2013.

What was the approximate cumulative rate of inflation over the period?

A 23% **B** 230% **C** 2300% **D** 23 000%

24 The diagram shows an economy at full employment equilibrium.



Which short-run measures should the government take to maintain the economy's current equilibrium if there is an unexpected balance of trade surplus?

A higher government spending on education financed by an equal rise in direct taxation

B higher direct taxation with government spending unchanged to create a budget surplus

C higher spending on infrastructure financed by a budget deficit

D lower interest rates to promote investment spending in the private sector

25 Why does the value of a country's terms of trade have no monetary units?

A It cannot be calculated accurately enough.

B It includes more than one currency.

C It is a ratio of two index numbers.

D It measures change over time.

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26 The statements that follow relate to possible gains from an increase in free trade.

Which gain is **least** certain to result in the short run?

A a reduction in costs of production

B a rise in the number of jobs

C a wider choice of goods available to consumers

D an increase in the level of competition

27 In an economy with an interest rate of 4% per annum, the rate of inflation falls from 5% to 3% per annum.

What will be a benefit of this fall?

A Menu costs will fall to zero.

B People on fixed incomes will be better off in real terms.

C Savers will gain in real terms.

D The purchasing power of the currency will rise.

28 Which combination correctly classifies an expansionary fiscal measure and its impact on a budget deficit?

	fiscal policy	budget deficit
A	increased quantitative easing	unchanged
B	increased welfare spending	increased
C	lower income tax	reduced
D	lower interest rates	unchanged

29 In 2018 the United States (US) government introduced tariffs on a wide range of imports from China.

Which type of policy was the US government adopting?

A expenditure-reducing

B expenditure-switching

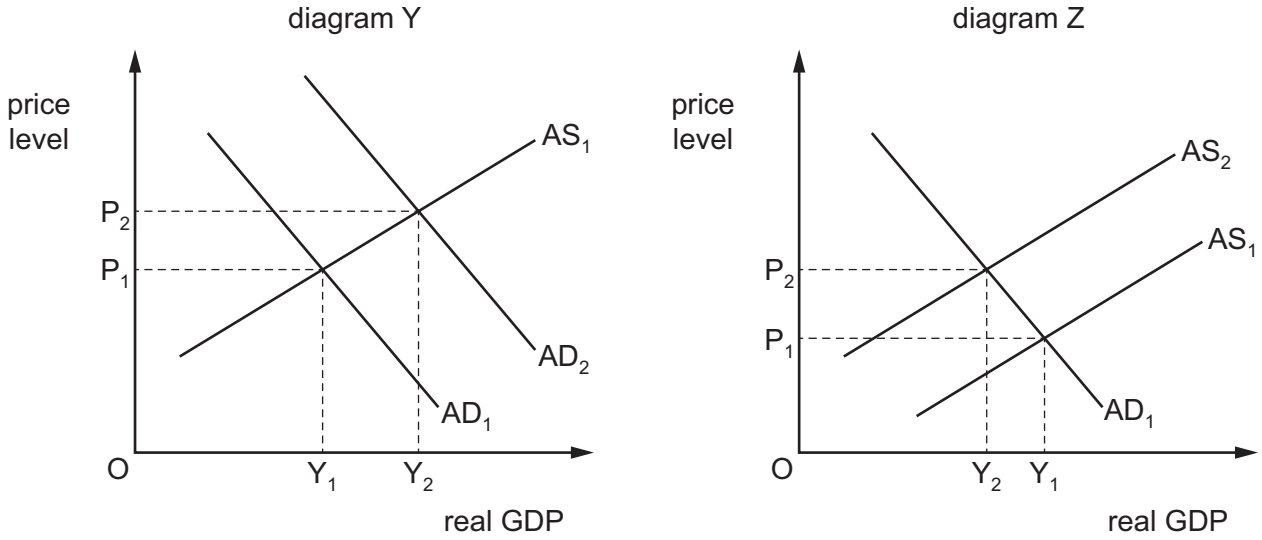
C monetary

D supply-side

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30 During the Great Depression the US government believed that deflation was caused by a collapse in the prices of stock and other assets, reducing the levels of wealth and confidence. The diagrams show two approaches to counter deflation.



Given this belief, which policy should the US government have used, in an attempt to remove the deflation and which diagram represents the intended outcome of the policy?

	policy	intended outcome
A	decrease interest rates	diagram Y
B	reduce corporation tax	diagram Z
C	increase interest rates	diagram Z
D	reduce corporation tax	diagram Y

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Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/12 (May/June 2020): multiple choice answers

1 B Merit goods such as health and education are under-provided by the free market, so the government should intervene.

2 B Paying US$10 for trousers uses money, so it is not barter (a direct exchange of goods/services).

3 D Specialisation with automated lines raises output per worker, so worker productivity increases.

4 A "Correct policy" is a value judgement that cannot be tested, so it is normative.

5 B Before: P = $5, Q = 2000, income $10 000. D must move right by 1000 t so the new equilibrium is $2 × 5000 = $10 000.

6 D Total revenue stays at $750 000 as price falls, so % change in Qd = % change in P: PED = 1 (unitary).

7 C CS = ½ × Q × (30 − P): 225, 156.25, 100, 56.25, 25, 6.25, so falls are 68.75, 56.25, 43.75 … (decreasing).

8 D XED = % change in Qd of buses ÷ % change in parking price = (200 ÷ 800 × 100 = 25%) ÷ 10% = +2.5.

9 A Demand rises (D1 to D2) and supply rises (S1 to S2), with supply shifting less, so a shortage remains.

10 D % change in P = 5 ÷ 20 = 25%, so % change in Qs = 2 × 25% = 50%: 300 × 1.5 = 450 units.

11 D Prices act as signals, telling producers and consumers about changes in market conditions.

Question number		
12	D	S starts at the origin, so PES = 1; a $5 tax gives S a positive price intercept, so PES > 1 (elastic).
13	C	Before: P − 30 = 240 − 2P so P = 90. After: P − 36 = 240 − 2P so 3P = 276, P = 92: up $2.
14	C	Early revenue came mostly from public offers; later years (eg 2005 to 2012) were dominated by private sales.
15	C	A maximum price of $10 is above the $8 equilibrium so it has no effect: quantity sold stays at Q2.
16	D	A private firm might put profit before customer needs, eg cutting collections to save costs.
17	A	Import quotas limit foreign goods; they are not a subsidy (payment or benefit) to domestic firms.
18	A	A nationalised industry can set prices itself, eg keeping fares low instead of profit-maximising.
19	A	An appreciation makes exports dearer and imports cheaper, so (X − M) and AD fall.
20	C	A rate kept within a narrow band that the authorities adjust is a managed float.
21	A	FDI and the balancing item are recorded with the financial account; interest, profits and dividends are current account.
22	C	More imports mean more competition, giving consumers lower prices and more choice.
23	C	Inflation = (2359.60 − 100) ÷ 100 × 100 = 2259.6% ≈ 2300%.
24	B	The trade surplus raises AD above YFE; a budget surplus from higher direct tax cuts AD back to the same level.
25	C	Terms of trade = export price index ÷ import price index × 100, a ratio of two indices, so no units.

Question number		
26	B	More jobs is least certain: cheaper imports may cause job losses in domestic import-competing industries.
27	C	Real interest rate rises from 4 − 5 = −1% to 4 − 3 = +1%, so savers gain in real terms.
28	B	Higher welfare spending is expansionary fiscal policy and increases the budget deficit.
29	B	Tariffs make Chinese imports dearer, switching US spending to domestic goods: expenditure-switching.
30	A	Lower interest rates restore wealth (asset prices) and confidence, shifting AD1 to AD2 and raising prices (diagram Y).

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/13**

Paper 1 Multiple Choice **May/June 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.

This document has **12** pages. Blank pages are indicated.

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1 An economist knows the current point at which an economy is operating within its production possibility curve.

What can the economist judge from this knowledge about the economy?

A its degree of self-sufficiency

B its international competitiveness

C its level of output of two goods

D its rate of economic growth

2 Abdul earns $50 000 a year working as a teacher. He owns a house valued at $250 000 and has shares worth $20 000. He has a current bank account with a balance of $1500 and $200 in his wallet. In his house there is a jar containing $100, which he has saved to spend on his forthcoming holiday.

What is the value of Abdul's liquid assets?

A $200 **B** $300 **C** $1800 **D** $21 500

3 Which type of good is healthcare?

A demerit

B free

C merit

D public

4 Which is a normative statement?

A If interest rates fall consumption is likely to increase.

B If interest rates fall consumption will definitely increase.

C Interest rates and consumption are usually inversely related.

D The rate of interest should be reduced.

5 In a free market there is a surplus of a good.

Which change would cause the market to come to an equilibrium?

A a decrease in demand

B a fall in price

C a government minimum price

D an increase in supply

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6 What is **most** likely to increase the quantity of houses supplied?

A a policy to help house buyers on modest incomes

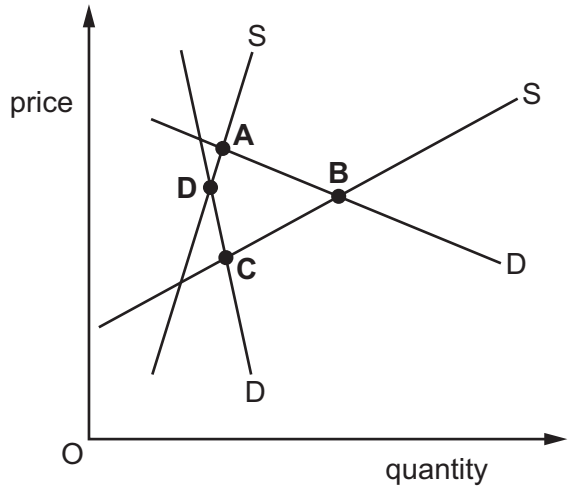
B a restriction on the level of rent that can be charged

C a rise in the tax on materials used for building houses

D the removal of a subsidy to house builders

7 The diagram shows two demand curves and two supply curves for a product.

Which equilibrium point is most likely to represent the long-run equilibrium in the market?



8 The equilibrium price of a product is $10. The government introduces an effective minimum price of $12 for the product.

Under which condition will the value of the producer surplus increase the most?

	price elasticity of demand
A	0
B	between 0 and 1
C	1
D	greater than 1

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9 Diesel engines are a major cause of air pollution in cities. A city authority placed a charge on diesel taxis entering the city.

What would be the **most** likely effects on the demand and supply of taxi journeys into the city?

	demand for taxi journeys	supply of taxi journeys
A	fall	fall
B	fall	remain unchanged
C	remain unchanged	fall
D	rise	fall

10 Which combination of the classification of a good and market change will cause the demand curve for the good to shift right?

	classification of good	market change
A	inferior good	income decrease
B	inferior good	price decrease
C	normal good	income decrease
D	normal good	price decrease

11 The supply (S) of a product is determined by the equation S = 10 + 10P when P is the price of the product in $.

What is the product's price elasticity of supply when its price rises from $1 to $2?

A 0.5 **B** 1.0 **C** 2.0 **D** 5.0

12 The table gives estimates of the price elasticities and cross elasticities of demand for bus and rail travel.

service	elasticity with respect to the price of	
	bus travel	rail travel
bus travel	–0.37	+0.13
rail travel	+0.16	–0.43

What would be the change in the volume of rail travel resulting from a 1% increase in bus fares?

A a decrease of 0.13%

B a decrease of 0.37%

C an increase of 0.16%

D an increase of 0.43%

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13 Which combination is most likely to result in the demand for a product being highly price-elastic?

	number of close substitutes	% of income spent on product
A	large	large
B	large	small
C	small	large
D	small	small

14 What is **most** likely to occur when the government privatises public sector organisations?

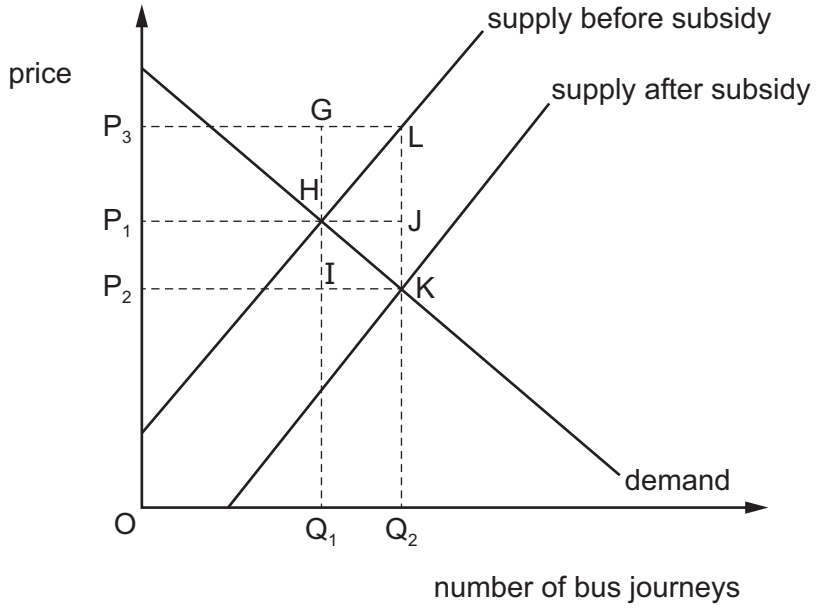
A Consumer choice will increase.

B Employment will increase in the short run.

C Innovation will be discouraged.

D The production of public goods will increase.

15 The diagram shows the market for bus services before and after a government subsidy.

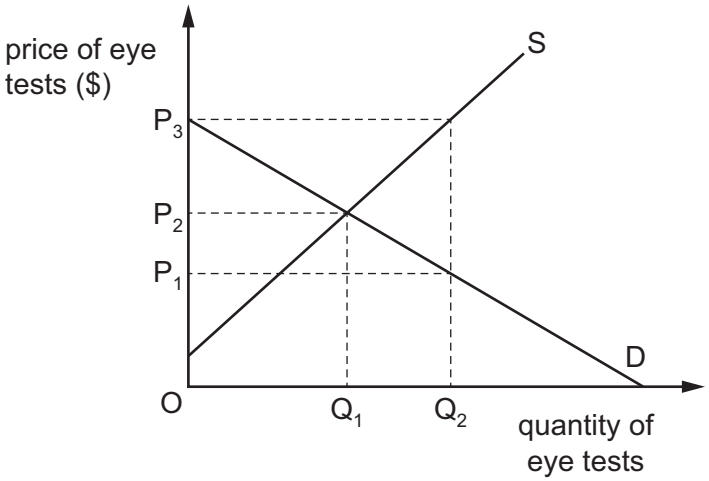


Which area on the diagram shows the incidence of the subsidy for the consumer?

A P_1HIP_2 **B** P_1JKP_2 **C** P_2IGP_3 **D** P_2KLP_3

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16 The diagram shows the market for eye tests.



Which policy would enable the government to increase the number of eye tests from OQ_1 to OQ_2?

A a maximum price of OP_3 per test

B a minimum price of OP_2 per test

C a subsidy paid to opticians of P_3–P_2 per test

D a subsidy paid to opticians of P_3–P_1 per test

17 In November 2017, the Scottish government introduced a minimum price for alcohol because of the detrimental health effects of alcohol consumption.

Which combination of actions is most likely to lead to a failure with respect to reducing the detrimental effects of the consumption of alcohol?

	action 1	action 2
A	minimum price is set too high	effective information provision regarding the health effects of consuming alcohol
B	minimum price is set too high	effective subsidisation of non-alcoholic beverages
C	minimum price is set too low	health benefits of reduced alcohol consumption have been overestimated
D	minimum price is set too low	stricter enforcement of the regulations relating to the sale of alcohol

18 What is an example of direct provision by a government?

A The government introduces a subsidy on renewable fuels to help the environment.

B The government introduces a unit tax on cigarettes to discourage consumption.

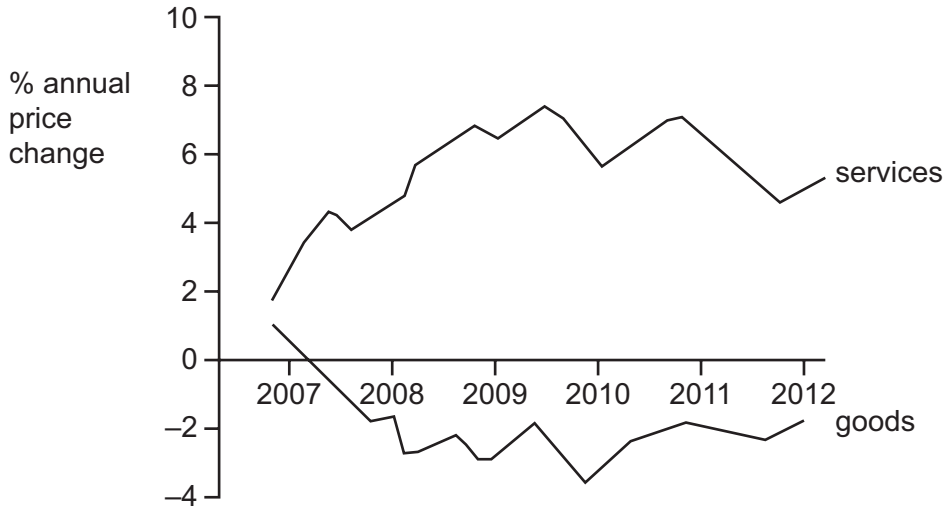
C The government sets a maximum rent on housing to protect tenants.

D The government takes over a private library to improve local services.

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19 The graph shows the annual percentage change in the prices of services and in the prices of goods between 2007 and 2012.



What can be deduced from the graph?

A On average the price of services was higher than the price of goods throughout the period.

B The average price of goods was higher in 2012 than in 2010.

C The average price of services was higher in 2012 than in 2010.

D There was a fall in the general price level between 2008 and 2010.

20 A government decides to devalue the country's currency to remove the deficit on its current account of the balance of payments.

What is the most likely reason why this would **not** work?

A The country gains a competitive advantage from the devaluation.

B The country has a surplus on its capital and financial accounts.

C The price elasticities of demand for the country's exports and imports are greater than one.

D There are high trade barriers with the country's main trading partners.

21 What will increase if aggregate demand rises when aggregate supply is perfectly elastic?

A labour shortages

B real output

C the price level

D wage rates

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22 A country operates a floating exchange rate.

What will cause the demand curve for the country's currency to shift left in the foreign exchange market?

A a decrease in the country's interest rate

B a decrease in the country's money supply

C an increase in the country's export sales

D an increase in the country's import purchases

23 The table shows the relative price of exports compared with imports expressed as an index number for an economy (2013 = 100).

date	index
2013	100
2014	97
2015	95

Which statement about the period 2013–2015 is correct?

A Export prices have increased each year.

B The general level of prices has fallen.

C The terms of trade have deteriorated.

D The volume of imports increasingly exceeds the volume of exports.

24 The table shows an extract from a country's balance of payments.

	exports $ billion	imports $ billion
trade in goods	150	200
trade in services	70	50
primary (investment) income	120	100
secondary (transfer) income	15	20

What is the current account balance?

A –$10 bn **B** –$15 bn **C** –$30 bn **D** –$50 bn

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25 The real national income of a country fell by 3%.

What could have caused this?

A Money national income fell by 3% when the rate of inflation was 6%.

B Money national income fell by 6% when the rate of inflation was 3%.

C Money national income rose by 3% when the rate of inflation was 6%.

D Money national income rose by 6% when the rate of inflation was 3%.

26 An economy with a long history of extensive barriers to trade decides to switch to totally free trade.

What is most likely to increase in the short term?

A consumer surplus

B government revenue

C inflationary pressure

D profits of all domestic companies

27 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

A Domestic money supply will increase.

B Rival economies may react with trade protection measures.

C The economy's foreign exchange reserves may decrease.

D The economy's short-run standard of living will be reduced.

28 What would be a positive effect on the growth of an economy in the short run, if the government reduced a direct tax on individual earnings?

A food prices would increase due to shortages

B imports of luxury cars would increase to satisfy a change in demand

C savings would increase due to additional disposable income

D the consumption of domestically produced goods would increase

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29 Which combination of fiscal and monetary policies is most likely to be effective in the short run for tackling deflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget deficit	decreasing the interest rate
B	decreasing the budget deficit	decreasing the money supply
C	increasing the budget deficit	decreasing the interest rate
D	increasing the budget deficit	decreasing the money supply

30 Which policy measure is an expenditure-switching measure designed to reduce a current account surplus?

A a cut in income tax rates

B a depreciation of the exchange rate

C the removal of limits on bank lending

D the removal of subsidies to exporters

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/13 (May/June 2020): multiple choice answers

1 C A point on (or inside) a PPC shows the quantities of the two goods being produced.

2 C Liquid assets are money: $1500 + $200 + $100 = $1800.

3 C Healthcare is under-consumed because people underestimate its benefits: a merit good.

4 D "Should be reduced" is a value judgement, so it is normative.

5 B In a surplus, competition among sellers lowers price until quantity demanded = quantity supplied.

6 A Helping buyers raises demand and price, so builders extend quantity supplied along the supply curve.

7 B In the long run both demand and supply are more elastic, so the flatter D and S meet at B.

8 A With PED = 0, quantity sold is unchanged at $12, so producer surplus rises by the full $2 on every unit.

9 A The charge raises taxi costs so supply falls, and fewer passengers choose diesel taxis, so demand falls too.

10 A Demand for an inferior good rises when income falls, so the demand curve shifts right.

11 A S rises from 20 to 30 (+50%) while P rises from $1 to $2 (+100%): PES = 50 ÷ 100 = 0.5.

12 C The cross elasticity of rail travel with respect to bus fares is +0.16, so a 1% fare rise raises rail travel by 0.16%.

Question number		
13	A	Many close substitutes and a large share of income make consumers very responsive to price changes.
14	A	Privatisation brings competition and new suppliers, so consumer choice increases.
15	B	Consumers now pay P2 instead of P1 on Q2 journeys, so their share of the subsidy is P1JKP2.
16	D	A subsidy of P3 − P1 shifts S down so that it cuts D at price P1 and quantity OQ2.
17	C	A price set too low barely cuts drinking, and if the health benefits were overestimated the policy fails.
18	D	Direct provision means the government itself supplies the service, eg running the library.
19	C	Services prices rose every year (positive % change), so they were higher in 2012 than in 2010.
20	D	High trade barriers stop export volumes rising after the devaluation, so the deficit does not close.
21	B	With perfectly elastic (horizontal) AS, higher AD raises real output with no rise in the price level.
22	A	A lower interest rate means less hot money flowing in, so demand for the currency shifts left.
23	C	The index (export prices ÷ import prices) fell from 100 to 95, so the terms of trade deteriorated.
24	B	Goods −50, services +20, primary income +20, secondary income −5: −50 + 20 + 20 − 5 = −$15bn.
25	C	Real change ≈ money change − inflation = 3% − 6% = −3%.
26	A	Removing barriers lowers prices and widens choice, so consumer surplus increases.

Question number	
27	C The deficit must be financed by selling foreign currency to hold the rate, so reserves fall.
28	D Higher disposable income spent on domestic goods raises AD and output in the short run.
29	C Deflation needs higher AD: a larger budget deficit (expansionary fiscal) and lower interest rates.
30	D Removing export subsidies raises export prices, switching foreign spending away and reducing the surplus.