Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 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.
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- 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 In 2015, the Chinese economy grew at 6.9%, the Indian economy at 7.6% and the US economy at 2.4%.

Which comment contains **two** positive statements?

A Chinese economic growth exceeded US economic growth by 4.5% in 2015 but was 0.7% less than that in India.

B Chinese economic growth was more than double that in the US in 2015 but was disappointing compared to that in India.

C Economic growth in India was better than that of the US.

D Economic growth in the US was too low in 2015 and economic growth in India was too high.

2 What is the payment received for the use of capital?

A interest

B profit

C rent

D wage

3 Which type of good would be over-consumed because of information failure?

A demerit

B inferior

C merit

D public

4 What does the phrase ‘ceteris paribus’ mean?

A All the resources used are of equal quality.

B Everything else remains unchanged.

C The price mechanism rations scarce goods.

D The variable under consideration is held constant.

5 What could explain a shift of an upward-sloping supply curve to the right?

A an increase in firms’ unit labour costs

B an increase in the number of firms in the industry

C an increase in the price of the good

D an indirect tax imposed on the good

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6 When will it **not** be possible to use price as a rationing mechanism?

A when a good has a number of close substitutes

B when a good is an inferior good

C when the demand for a good is perfectly inelastic

D when the quantity of a good is in fixed supply

7 What is necessary for demand for a good to be effective?

A The consumer must have the ability to buy the product.

B The consumer must receive consumer surplus.

C The good must be sold in the private sector of the economy.

D There must be a successful advertising campaign.

8 Why is the price elasticity of demand for a particular brand of coffee likely to be higher than the price elasticity of demand for coffee in general?

A Coffee in general takes up a higher proportion of consumers' income.

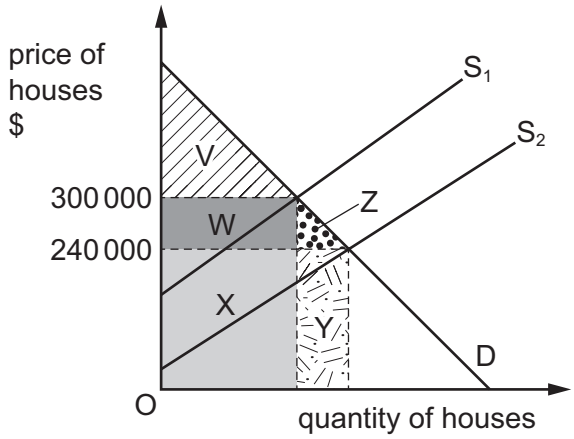
B Consumers may be very loyal to a particular brand of coffee.

C There are more substitutes for a particular brand of coffee than for coffee in general.

D Total demand for coffee is higher than for any one brand.

9 A government wishes to encourage young adults to buy their first home, by providing a subsidy to the builder.

Which area on the diagram represents the size of the consumer surplus to those who buy a house with such a subsidy?



A V + W + X **B** V + W + Z **C** W + X + Y **D** X + Y + Z

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10 A government introduces a subsidy for product X and the market price of X falls by 5%. The cross elasticity demand for product Y, with respect to the price of product X, is +0.4.

What will happen to the demand for product Y?

A It will decrease by 2%.

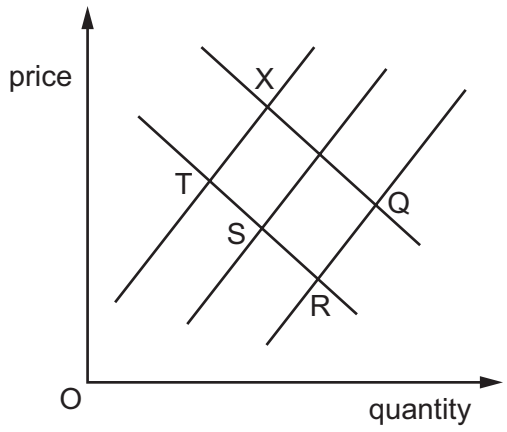
B It will decrease by 12.5%.

C It will increase by 2%.

D It will increase by 12.5%.

11 Prices of gold, silver and copper fell considerably in 2011 and again in 2015. The fall in prices in 2011 was said to be because miners increased production. The fall in prices in 2015 was because demand, especially from China, decreased.

Assuming that the equilibrium before 2011 was X, how would these movements in 2011 and subsequently in 2015 be shown on the demand and supply diagram?



	initial equilibrium	2011 equilibrium	2015 equilibrium
A	X	Q	R
B	X	R	Q
C	X	S	R
D	X	T	S

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12 The price elasticity of supply of a good is elastic.

Assuming all production is sold, which combination correctly describes the link between the impact of a rise in price on the quantity supplied and the total revenue received by the firm?

	quantity supplied rises by	total revenue
A	greater percentage than price	falls
B	greater percentage than price	rises
C	smaller percentage than price	falls
D	smaller percentage than price	rises

13 A local government is deciding whether to increase car parking charges and provide more lanes for bus use only.

One official said that the increase in car parking charges should cause more bus travel.

A second official said that an increase in the frequency of bus services will cause demand for bus travel to fall.

Are these official statements correct or incorrect?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

14 What is nationalisation?

A immigrant workers being granted permission to work in a country

B protecting domestic industries from foreign competition

C the government determining which goods should be produced

D transfer of a company from private ownership to government control

15 What would be classified by economists as an increase in transfer payments?

A a reallocation of spending from defence to education

B additional funding for government pensions

C extra spending on public sector infrastructure

D increased salaries paid to the police

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16 A government provided additional free hospital care to its citizens.

What happened as a result?

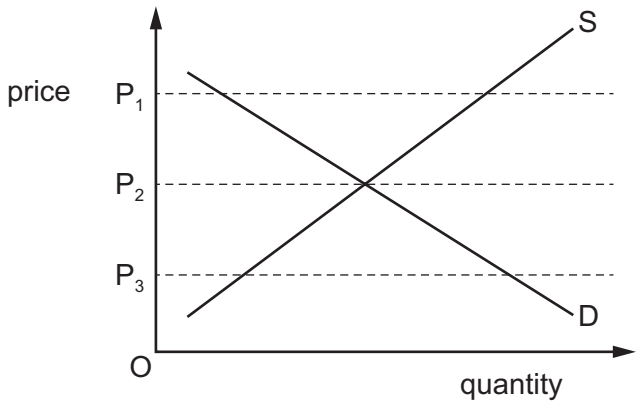
A The supply of merit goods reduced.

B The supply of merit goods increased.

C The supply of private goods reduced.

D The supply of public goods increased.

17 The diagram shows a market that is currently in equilibrium.



A government is considering the possible consequences of introducing a price control into this market.

Which statement is **not** correct?

A All consumers and some producers will lose if OP_1 becomes the minimum price.

B All consumers will be unaffected if OP_1 becomes the maximum price.

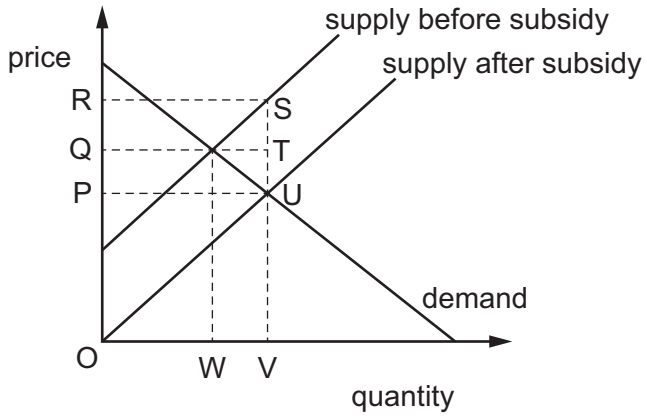
C No producers will gain if OP_2 becomes the maximum price.

D All producers will gain if OP_3 becomes the maximum price.

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18 A government introduces a subsidy to encourage the purchase of electric cars.



Which area on the diagram represents the cost to the government?

A OPUV **B** PQTU **C** PRSU **D** QRST

19 What would be recorded in the financial account of India's balance of payments?

A An Indian steel manufacturer buys insurance for its factories from a firm in Europe.

B An Indian steel manufacturer employs foreign workers in its Indian factories.

C An Indian steel manufacturer receives profits from its factories in Europe.

D An Indian steel manufacturer supplies investment for a new factory in Europe.

20 Why might an unfavourable movement in a country's terms of trade benefit its economy?

A It would force inefficient firms out of business.

B It would increase the quantity of goods available for domestic consumption.

C It would make domestically-produced goods more expensive than imports.

D It would make the country's exports relative to imports more competitive internationally.

21 Two industries in a country are fishing and tourism. The foreign exchange rate of the country's currency fell in 2010.

If there were no other changes, how was the country affected?

A Local people bought more imported goods because they were cheaper.

B The price of fish sold in foreign markets became cheaper.

C The volume of exports decreased.

D Tourists to the country were discouraged by higher prices.

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22 Why might a government wish to increase the value of its foreign exchange rate when the sum of the price elasticity of demand for imports and exports is greater than 1?

A to attract more tourists into the country

B to improve the current account of the balance of payments in the long run

C to increase inflation if the country is in recession

D to make imported raw materials cheaper

23 The table shows the levels of a country's consumer prices index (CPI) between 2015 and 2019.

	CPI
2015	100
2016	99
2017	98
2018	101
2019	102

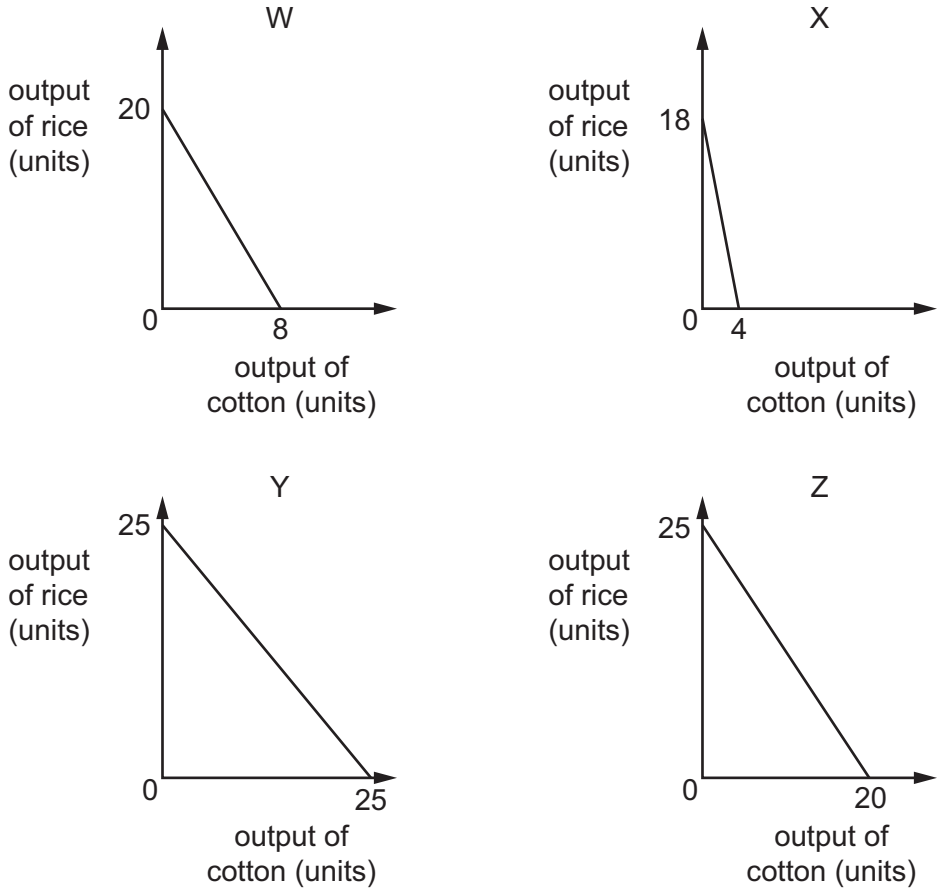
Compared with the previous year, in which year was there disinflation but **not** deflation?

A 2016 **B** 2017 **C** 2018 **D** 2019

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24 The diagrams show the production possibility curves of four countries W, X, Y and Z. They all produce rice and cotton using the same resources.



When comparing these four countries, what can be concluded from the diagrams?

A Country W has a comparative advantage in producing cotton.

B Country X has a comparative advantage in producing rice.

C Country Y has a comparative advantage in producing rice.

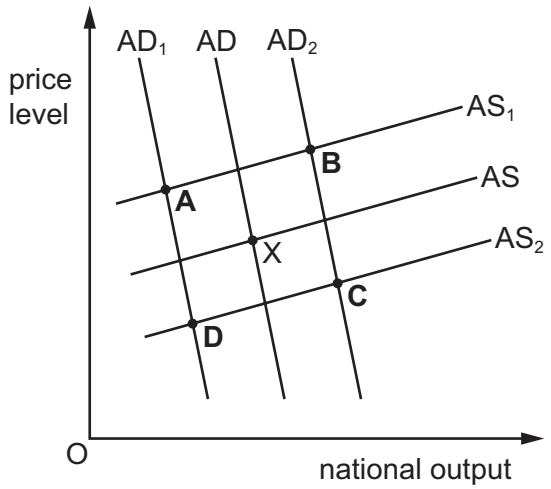
D Country Z has an absolute advantage in producing cotton.

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25 The diagram shows that aggregate demand (AD) and aggregate supply (AS) are in equilibrium at point X.

There is an increase in welfare payments and the government improves industrial training.

What will be the new equilibrium?



26 A small country imports tractors. The government of this country decides to impose a quota on imported tractors.

What is likely to be the effect on the price of imported tractors and domestic output of tractors?

	price of imported tractors	domestic output of tractors
A	fall	fall
B	increase	no change
C	no change	fall
D	no change	increase

27 What would be likely to increase inflation in an economy?

A an increase in consumer saving

B an increase in interest rates

C an increase in labour productivity

D an increase in taxes on imports

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28 Japan is suffering from deflation.

Which government policy would **not** help to overcome this problem?

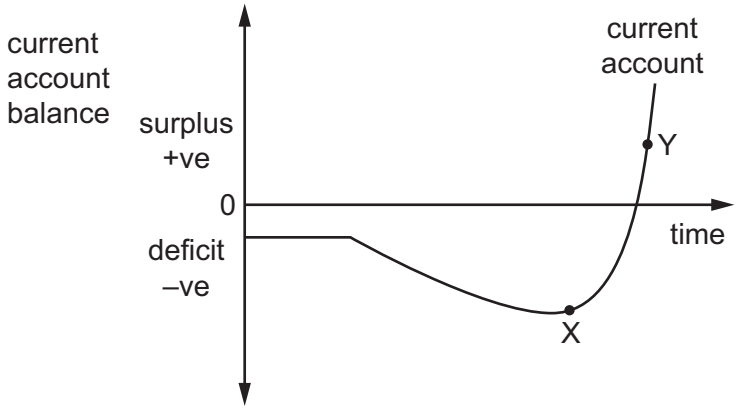
A encouraging domestic savings rather than consumption

B increasing incentives for business start-ups by lowering profits tax

C lowering interest rates and increasing the money supply

D promoting more innovation in technical industries

29 A country depreciates its currency to improve the current account of its balance of payments. The effect of the policy is shown.



What is the most likely cause of the movement from X to Y?

A The combined income elasticity of demand for exports and imports is +2.0.

B The combined income elasticity of demand for exports and imports is +0.2.

C The combined price elasticity of demand for exports and imports is –2.0.

D The combined price elasticity of demand for exports and imports is –0.2.

30 A country has adopted a fixed exchange rate system but is currently experiencing high unemployment and a deficit in the current account of its balance of payments.

Which combination of policies would be **most** likely to improve both the level of unemployment and the current account of the balance of payments?

A additional net spending by the government and a devaluation of the currency

B additional net spending by the government and revaluation of the currency

C a reduction in net spending by the government and a devaluation of the currency

D a reduction in net spending by the government and a revaluation of the currency

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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: Multiple choice answers

1	A	Both parts are facts that can be checked against the data: 6.9 − 2.4 = 4.5 and 7.6 − 6.9 = 0.7.
2	A	Interest is the reward to capital; rent goes to land, wages to labour and profit to enterprise.
3	A	Consumers underestimate the harm from demerit goods, so they buy more than the socially optimal amount.
4	B	Ceteris paribus means all other things are held constant while one variable changes.
5	B	More firms in the industry raise the quantity supplied at every price, so supply shifts right.
6	C	With perfectly inelastic demand a higher price does not reduce quantity demanded, so price cannot ration.
7	A	Effective demand is a want backed by the ability (and willingness) to pay.
8	C	A single brand has many close substitutes (other brands), so demand for it is more price elastic.
9	B	With the subsidy price falls to $240 000; consumer surplus is the area under D above that price: V + W + Z.
10	A	XED = %ΔQd of Y ÷ %ΔP of X, so %ΔQd = +0.4 × (−5%) = −2%: demand for Y falls by 2%.
11	A	2011: supply rises, so equilibrium moves down D from X to Q; 2015: demand falls, so it moves down the new S to R.
12	B	PES > 1: quantity supplied rises by a bigger % than price, and both P and Q rise, so revenue rises.

Question number		
13	B	Dearer parking raises demand for bus travel (a substitute); more frequent buses would raise, not lower, bus demand.
14	D	Nationalisation is the transfer of a firm or industry from private ownership into state ownership.
15	B	Pensions transfer income with no output produced in return, so they are a transfer payment.
16	B	Hospital care is a merit good, so free state provision increases its supply.
17	D	P3 is below equilibrium, so a maximum price there forces producers to accept a lower price: they lose.
18	C	Subsidy per unit = R − P (producer price minus consumer price) × quantity OV = area PRSU.
19	D	Investment in a new factory abroad is foreign direct investment, recorded in the financial account.
20	D	Export prices fall relative to import prices, so exports become more price competitive abroad.
21	B	A lower exchange rate cuts the foreign currency price of exports, so fish sold abroad becomes cheaper.
22	D	A stronger currency lowers the domestic price of imports, so imported raw materials become cheaper.
23	D	2019: CPI 101 → 102, inflation about 1%, down from about 3% in 2018 (98 → 101): disinflation, prices still rising.
24	B	Opportunity cost of 1 rice: X 4 ÷ 18 = 0.22 cotton, lower than W 0.4, Z 0.8, Y 1, so X has the advantage in rice.
25	C	Welfare payments raise AD (AD → AD2); better training raises productive capacity (AS → AS2): point C.
26	D	A small country cannot change the world price of tractors, and fewer imports leave more of the market to domestic firms.
27	D	A tariff on imports raises their prices and costs to firms, so the price level

Question number		
		rises (cost-push).
28	A	More saving and less consumption lowers AD, which would make deflation worse.
29	C	The J-curve: the account worsens then improves once PED(X) + PED(M) exceeds 1 in size, here 2.0 (Marshall-Lerner).
30	A	Extra net spending raises AD and jobs; devaluation makes exports cheaper and imports dearer, helping the current account.

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ECONOMICS **9708/12**

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1 hour

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1 A tourist visits the coast for a holiday.

On her first day, she visits the local tourist office for information, goes for a swim in the sea, spends the evening enjoying the view of the coastline and rents a campsite for an overnight stay.

Which activities involve economic goods and which involve free goods?

	economic goods	free goods
A	camping and information	swimming and sightseeing
B	information and swimming	sightseeing and camping
C	sightseeing and camping	information and swimming
D	swimming and sightseeing	camping and information

2 Which aspect of a planned economy might be viewed unfavourably by a consumer but favourably by a producer?

A a bureaucratic system of decision-making

B a long response time to changing economic events

C an absence of incentives to work and to produce

D an emphasis on the production of capital goods

3 If the rate of inflation rises from 2% to 20%, which function of money is likely to be most affected?

A medium of exchange

B standard for deferred payment

C store of value

D unit of account

4 Which statement would be classified by an economist as a positive statement?

A Balancing the budget cannot be more important than reducing inflation.

B Maintaining the real income of pensioners needs to be a priority.

C The government should increase indirect taxation.

D The government will not increase direct taxation.

5 Which statement about price elasticity of supply is correct?

A It cannot change in the short run.

B It increases as the time period lengthens.

C It is infinite in the momentary time period.

D It is zero in the long run.

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6 The price elasticity of demand for a firm's product is equal to one for all price changes.

What would be the result of this?

A A percentage increase in price will cause demand to fall by a larger percentage.

B A percentage increase in price will cause demand to increase by the same percentage.

C Quantity demanded will always be the same whatever the price.

D The firm's revenue will always be the same whatever the price.

7 What leads to a downward shift of a normal supply curve?

A a rise in the cost of transporting goods

B a rise in the productivity of the labour force

C a rise in the rate of sales tax on the good

D a rise in the wage rate paid to workers

8 A market is in equilibrium with 100 units of the product sold at a price of US$10 each. The price elasticity of supply for the product is +2.0 and the price elasticity of demand is –1.0.

What will be the state of the market if a minimum price of US$11 is imposed?

A an excess demand of 10 units

B an excess demand of 30 units

C an excess supply of 20 units

D an excess supply of 30 units

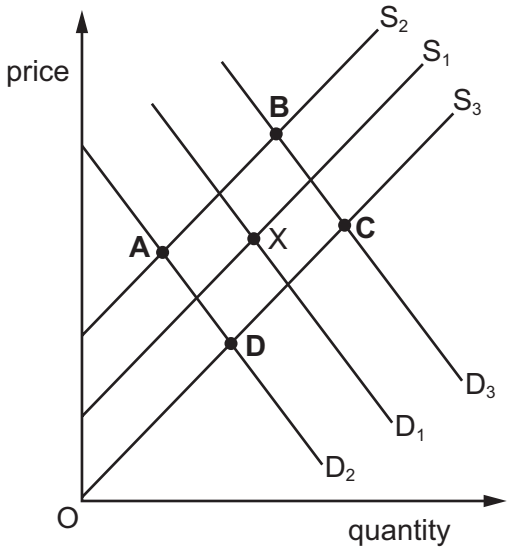
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9 The diagram shows the market for meat in equilibrium at X.

The cost of producing meat rises and there is a trend for consumers to change from meat to a vegan (non-animal) diet.

What is the new market equilibrium?



10 Goods X and Y are complements.

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

	equilibrium price of X	equilibrium quantity of X
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

11 A private company achieves a producer surplus at the market equilibrium price.

What might reduce the size of the private company's producer surplus?

A Private companies choose to prioritise profits over customer needs.

B Private companies start to pay dividends out of profits.

C The government fixes the price of electricity below the market price.

D The private company supply curve becomes more elastic.

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12 How would an economist establish the market demand curve for a private good?

A by adding consumer surplus to total expenditure

B by combining individual demand curves horizontally

C by combining the price elasticity of individual demands

D by multiplying price by quantity demanded

13 Knowledge of which combination of demand elasticities would be relevant to a firm trying to increase its revenue?

	price elasticity of demand	cross elasticity of demand	income elasticity of demand
A	✓	✓	✓
B	✓	✓	✗
C	✓	✗	✓
D	✗	✓	✓

14 What will definitely stop, following the nationalisation of an industry?

A dividend payments to the industry's shareholders

B job losses among the industry's workforce

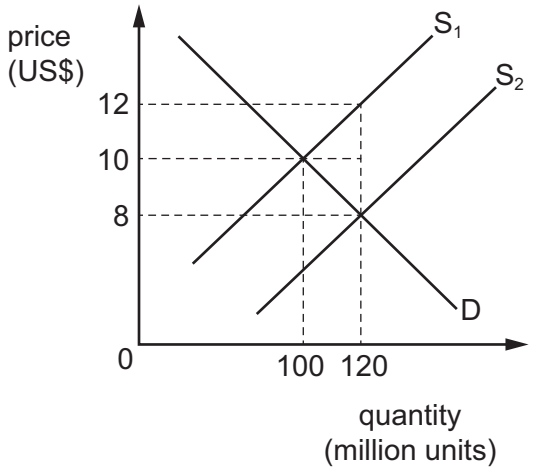
C price increases for the industry's product

D the closure of unprofitable factories in the industry

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15 The diagram shows the effect of the government introducing a subsidy on a product.

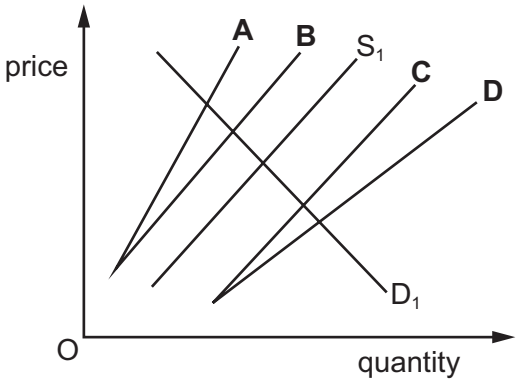


What are the effects of the subsidy on government spending and consumer spending?

	government spending	consumer spending
A	increases by US$240 million	decreases by US$40 million
B	increases by US$240 million	decreases by US$200 million
C	increases by US$480 million	decreases by US$40 million
D	increases by US$480 million	decreases by US$200 million

16 In the diagram, S_1 and D_1 are the initial supply and demand curves of a product.

What would be the new supply curve following the removal of an ad valorem tax on the product?



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17 The table shows sources of government revenue in a fiscal year for an economy.

source of revenue	$ billions
sale of government assets	100
tax on self employed	1000
carbon tax on goods produced	100
corporate taxes	500
capital gains tax	100
goods and services tax	1000
air passenger tax	100

What is the total amount, in $ billions, of tax revenue raised by indirect taxes?

A 1200 **B** 1300 **C** 1400 **D** 1600

18 Education from 4 to 16 years of age in most developed economies is provided at zero price, financed from taxation.

Why should the government do this?

A In a free market, consumers have imperfect information so do not realise the full personal benefit of education.

B In a free market, education is not considered to be a private good.

C In a free market, consumers will be unwilling to pay for education.

D In a free market, education is non-rival and non-excludable in consumption so zero output would be produced.

19 What will cause a movement along an aggregate supply curve?

A a rise in the demand for exports

B a rise in the price of raw materials

C a rise in the productivity of labour

D a rise in the rate of sales tax

20 A government devalues its fixed exchange rate.

What is most likely to be its aim?

A to improve the terms of trade

B to increase the level of aggregate demand

C to reduce a current account surplus

D to reduce demand-pull inflation

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21 As part of its trade policy, a government subsidises the cost of machinery used to manufacture goods for export.

How will this affect the balance of payments?

A decrease the deficit on the capital account

B decrease the deficit on the current account

C increase the deficit on the capital account

D increase the deficit on the current account

22 What is correct about the causes of inflation?

A Cost-push inflation can be caused by a rising exchange rate.

B Cost-push inflation can be caused by lower indirect taxes.

C Demand-pull inflation can be caused by a rising exchange rate.

D Demand-pull inflation can be caused by lower direct taxes.

23 The figures shown are from New Zealand's balance of payments for 2017 according to data published by Stats NZ in September 2018.

	NZ$m
capital account balance	1300
current account balance	–7000
financial account balance	7600
goods balance	–3000
services balance	5000

What was the value of the balancing item (net errors and omissions) in NZ$m?

A –3900 **B** –2000 **C** –1900 **D** 5700

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24 Two statements are shown.

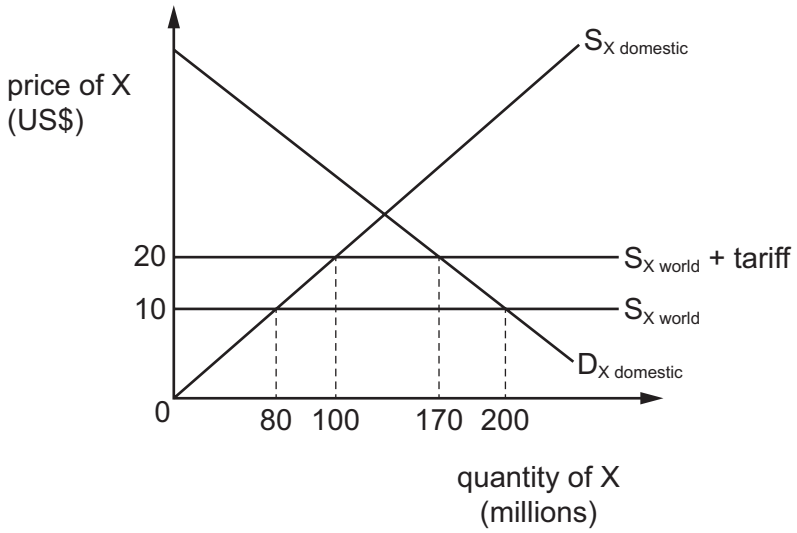
1 A country can produce a good at a lower opportunity cost than another country.

2 A country can produce a greater quantity of a good for the same quantity of inputs than another country.

What do these two statements describe?

	1	2
A	absolute advantage	comparative advantage
B	absolute advantage	the terms of trade
C	comparative advantage	absolute advantage
D	the terms of trade	comparative advantage

25 The diagram shows the effect of the introduction of a tariff on good X by country Y.



What is the revenue, in US$ million, received by producers of good X in country Y after the tariff is introduced?

A 400 **B** 800 **C** 1000 **D** 2000

26 Between 2011 and 2013, retailers reported that expenditure on domestically-produced and imported goods had reduced. This was because consumers did not take out loans as the economy was in a recession.

What is the likely result of this?

A a decline in the deficit in the trade account

B a decline in the level of savings

C a decline in the terms of trade

D a decline in unemployment

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27 Increased international competition leads to a worsening in a country's current account balance.

In the absence of any offsetting factors, how is this likely to affect the exchange rate and domestic cost-push inflation?

	exchange rate	cost-push inflation
A	appreciate	decrease
B	appreciate	increase
C	depreciate	decrease
D	depreciate	increase

28 Why are higher interest rates together with increased taxation on expenditure likely to cause domestic deflation?

A because the contractionary monetary policy will over-ride the expansionary fiscal policy

B because the monetary and fiscal policies involved will reinforce each other

C because the expansionary monetary policy will over-ride the contractionary fiscal policy

D because the monetary and fiscal policies involved will cancel each other out

29 Which policy aimed at correcting a balance of trade deficit is an expenditure-reducing policy?

A depreciation of the currency

B increased direct taxation

C tax incentives for exporters

D the imposition of protectionist tariffs

30 Which policy will **not** cause a reduction in the rate of inflation?

A increasing income tax

B reducing government spending

C reducing interest rates

D removing subsidies

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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 9708/12: Multiple choice answers

1	A	Information and campsites use scarce resources and have a price; sea swimming and the view do not.
2	D	Consumers lose consumer goods now, but producers gain the machinery and equipment (capital goods).
3	C	At 20% inflation money loses purchasing power quickly, so it is a poor store of value.
4	D	A statement about what will happen can be tested against the facts; the others are value judgements.
5	B	Over a longer period firms can change all factors and adjust output more easily, so PES rises.
6	D	Unitary elasticity: % change in Qd equals % change in price, so P × Q (revenue) never changes.
7	B	Higher labour productivity lowers unit costs, so the supply curve shifts down (to the right).
8	D	P rises 10%: Qs = 100 + 20% = 120, Qd = 100 − 10% = 90, excess supply = 120 − 90 = 30 units.
9	A	Higher costs shift supply left (S2) and the vegan trend shifts demand left (D2): new equilibrium A.
10	D	Y becomes cheaper, so demand for its complement X rises: price and quantity of X both increase.
11	D	A more elastic (flatter) supply curve through the same equilibrium leaves a smaller area above S and below price.
12	B	Market demand is the horizontal sum of individual demands: add quantities at

Question number		
		each price.
13	A	Revenue depends on its own price (PED), rivals' and complements' prices (XED) and income (YED).
14	A	Once the state owns the industry there are no private shareholders, so dividend payments stop.
15	C	Subsidy = (12 − 8) × 120m = $480m. Spending before 10 × 100 = $1000m, after 8 × 120 = $960m: falls by $40m.
16	D	An ad valorem tax is a % of price, so removing it shifts S down by a gap that widens as price rises: curve D.
17	A	Indirect taxes are on spending: carbon tax 100 + GST 1000 + air passenger tax 100 = 1200.
18	A	Education is a merit good: with imperfect information consumers underestimate its benefit and under-consume.
19	A	Higher export demand raises AD, so the economy moves along the existing AS curve.
20	B	Exports become cheaper and imports dearer, so net exports and aggregate demand rise.
21	B	Cheaper machinery cuts exporters' costs and prices, so exports rise and the current account deficit falls.
22	D	Lower direct taxes raise disposable income and consumption, so AD rises: demand-pull inflation.
23	C	Current + capital + financial + errors = 0: −7000 + 1300 + 7600 = 1900, so the balancing item = −1900.
24	C	Lower opportunity cost is comparative advantage; more output from the same inputs is absolute advantage.
25	D	After the tariff price = $20 and domestic supply = 100m units, so revenue = 20 × 100m = $2000m.
26	A	Lower spending on imports reduces import payments, so the trade deficit

Question number		
		declines.
27	D	A weaker current account lowers the currency; dearer imported inputs then raise cost-push inflation.
28	B	Higher interest rates and higher spending taxes are both contractionary, so they reinforce each other.
29	B	Higher direct tax cuts disposable income, so total spending, including on imports, falls.
30	C	Lower interest rates raise borrowing and spending, so AD and inflation rise rather than fall.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/13**

Paper 1 Multiple Choice **May/June 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.

This document has **12** pages. Any blank pages are indicated.

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1 A government department provides milk at no charge to very low income families.

Which term best describes the milk?

A free good

B inferior good

C private good

D public good

2 Which statement is a normative statement?

A China has never had a balance of payments surplus.

B Higher interest rates might reduce investment.

C Perfect competition is allocatively efficient.

D Welfare payments should be increased.

3 What do economists regard as the reward for taking risks and organising production?

A enterprise

B interest

C wages

D profit

4 The British pound is the national currency of the UK. In Brixton in south London it is possible to get a distinctively marked currency called the Brixton pound from special cash machines. This can be spent with 150 local shopkeepers. Similar schemes are found in towns in the US, Italy and France.

Should Brixton pounds be considered money?

A no, because it is not possible to have two currencies in a country

B no, because they are not generally acceptable outside of Brixton

C yes, because some shopkeepers are willing to accept them

D yes, because they fulfil all the functions of money

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5 When stating the law of demand for a good, economists use the phrase 'all other things being equal'.

What is **not** one of these 'all other things'?

A the income of the consumer

B the price of other goods

C the price of the good

D the tastes of the consumer

6 What will **not** cause a shift in the market supply curve of a commodity?

A a change in technology

B a rise in the price of a factor input

C a rise in the price of the commodity

D the introduction of a specific tax on the commodity

7 A product has a low price elasticity of supply.

What might explain this?

A The product has a low opportunity cost.

B The product is highly perishable.

C The product is classed as an inferior good.

D The product is considered to be a necessity.

8 A car manufacturer estimates that the price elasticity of supply of its cars is +2.5.

What will be the impact of a 10% increase in price?

A a 2.5% fall in total revenue

B a 25% rise in total revenue

C a 2.5% fall in quantity supplied

D a 25% rise in quantity supplied

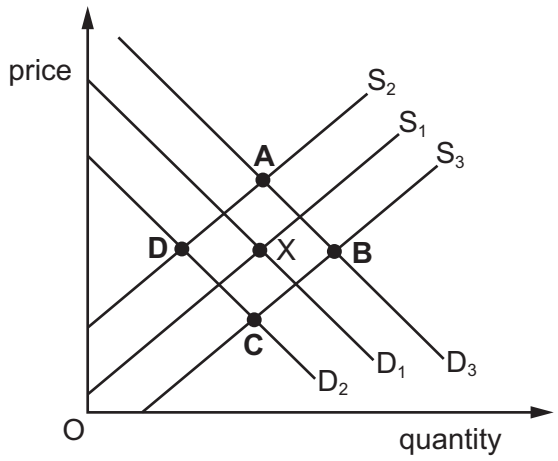
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9 The diagram shows the original demand curve D_1 and supply curve S_1 for diesel cars in Europe. Point X is the initial equilibrium.

There is a successful advertising campaign by electric car producers and a new unit tax on diesel cars.

What will be the new equilibrium?



10 A UK based food company wishes to diversify its product range. To finance this, it has obtained a $10m loan from a bank to buy land, build and equip a bakery.

What would **not** be classified by an economist as a factor of production?

A the $10m loan used to finance the project

B the land on which the bakery will be built

C the ovens required to bake the bread

D the soya used in the making of the bread

11 A country's central bank has commissioned a report on the demand for and price of houses.

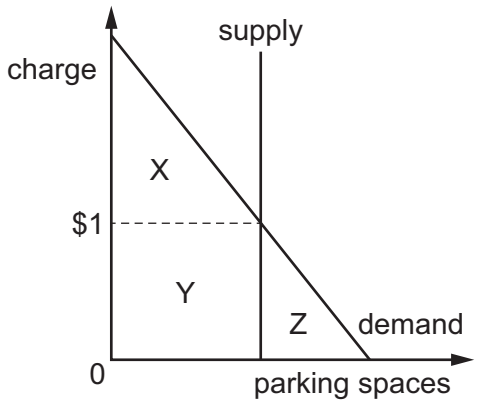
What might be the **most** likely combination of reasons for an increase in the price and quantity demanded of houses?

	incomes	interest rates	wages of bricklayers
A	down	unchanged	up
B	down	up	unchanged
C	unchanged	up	down
D	up	down	unchanged

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12 The diagram shows the outcome when a landowner, who had allowed motorists to park on his field at no cost, introduces a parking charge of $1.



What happens as a result of the change?

A The landowner gains a surplus of Y + Z.

B The motorist gains a surplus of X + Y.

C The ownership of surplus Y changes.

D There is a total surplus of X + Y + Z.

13 The table gives information about the market for two models of car.

model	number of cars sold per week	cross elasticity of demand with respect to the price of petrol
1200 cc	10 000	–0.25
2000 cc	5 000	–0.50

If the prices of the cars remain unchanged, but the price of petrol increases by 100%, what will be the effect on the number of cars sold per week?

A increase by 5000

B no change

C decrease by 5000

D decrease by 15 000

14 In many countries there are goods that must be provided directly by the government.

What would be the most convincing argument for such provision?

A The consumption of these products may be beneficial.

B The production of these products may be harmful.

C The production of these products have high opportunity costs.

D These products are non-rival in consumption and non-excludable.

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15 The provision of rail services is switched from the private sector to the public sector.

What is necessarily correct?

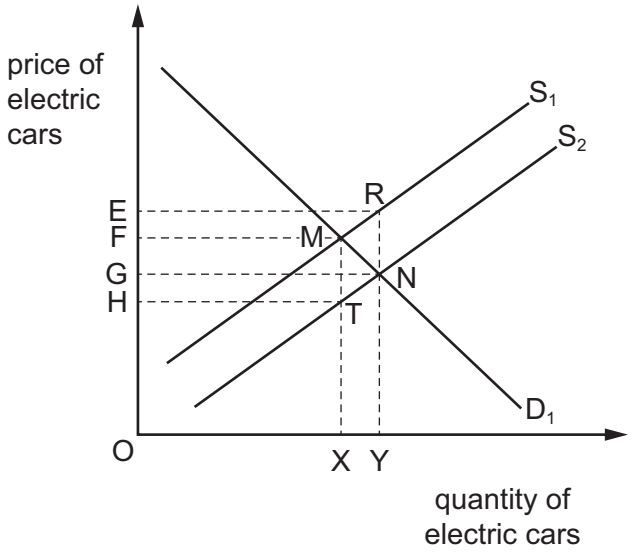
A The average fare charged for the service will fall.

B The profitability of the service will fall.

C The rail service's management will be responsible to different owners.

D There will be an increase in the number of workers employed.

16 The diagram represents the original demand curve D_1 and the original supply curve S_1 for electric cars. The government decides to provide a subsidy to electric car manufacturers.



Which area represents the total revenue of the car manufacturer after receiving the subsidy from the government?

A OERY **B** OFMX **C** OGNY **D** OHTX

17 A government decides to build additional public sector housing to be rented to people receiving low incomes.

What is most likely to fall as a result of this increase in public sector housing?

A employment in the construction industry

B land prices in towns and cities

C rents of houses in the private sector

D total government spending

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18 Government spending for a year includes these items.

	$m
pensions for elderly people	200
welfare payments to sick people	200
spending on hospitals	150
payment to unemployed workers	100
defence spending	100
teachers' salaries	50

What is the total of transfer payments by this government in $m?

A 50 **B** 500 **C** 750 **D** 800

19 What would be certain to cause a fall in a country's cost of living?

A a fall in real incomes

B a fall in the inflation rate

C a negative inflation rate

D a reduction in direct tax rates

20 What is **not** an aim of protectionism?

A to improve balance of trade

B to increase price of exports

C to protect infant industries

D to reduce the volume of imports

21 A country with a fixed exchange rate experiences a higher rate of inflation than its trading partners.

What is the likely effect on the country's volume of exports and imports?

	exports	imports
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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22 A sudden rise in the price of imported oil caused the annual rate of inflation in a given period to be higher than expected.

What might be a likely result of this?

A Borrowers would gain.

B Real wages would rise.

C The balance of trade would improve.

D Unemployment would fall.

23 What may increase the benefits a country gains from international trade?

A a reduction in transportation costs because of a fall in world oil prices

B domestic wage rates increase at a faster rate than output per worker

C the domestic labour force becomes more occupationally immobile

D trading partners increase tariffs on imported goods

24 The world trade price of cars in country Y is US$10 000. At this price domestic car producers supply 100 000 cars to the market and domestic consumers purchase 200 000 cars. The government of country Y imposes a 10% tariff on imported cars.

Under which conditions will this tariff raise the most revenue for the government?

	price elasticity of supply of car producers in country Y	price elasticity of demand for cars in country Y
A	+0.5	–0.5
B	+0.5	–1.5
C	+1.5	–0.5
D	+1.5	–1.5

25 A country has a balance of trade deficit.

When will this be **least** likely to be improved as a result of a depreciation of its currency?

A if it is currently operating with a significant amount of unused resources

B if the sum of the price elasticities of demand for exports and imports is less than 1

C if in the long term, the price elasticity of demand for exports should increase

D if the country uses a relatively small proportion of imports in their production process

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26 Which statement about trade protection is correct?

A A tariff results in a greater decrease in demand for an import the lower is its price elasticity of demand.

B Embargoes are only an effective trade barrier when the demand for imports is price-elastic.

C Export subsidies to domestic firms will prevent the dumping of foreign products in the domestic market.

D Quotas are less effective than tariffs for raising government revenue.

27 Which type of policy would have the most immediate effect in dealing with a deflationary economic downturn?

A increasing the government's budget surplus

B increasing borrowing by assisting banks to lend more

C investing in long-term projects to improve transport networks

D switching the burden of taxation from earning to spending

28 Which combination identifies a main aim of supply-side policy and a measure used to achieve this target?

	main aim	policy measure
A	economic growth	deregulation
B	full employment	increasing the money supply
C	income equality	more progressive taxation
D	stable prices	decreasing interest rates

29 Deflation is associated with persistent falling price levels.

Which government policy would be most effective to prevent deflation?

A imposing maximum price levels on basic foodstuffs

B improving consumer confidence by reducing sales taxes

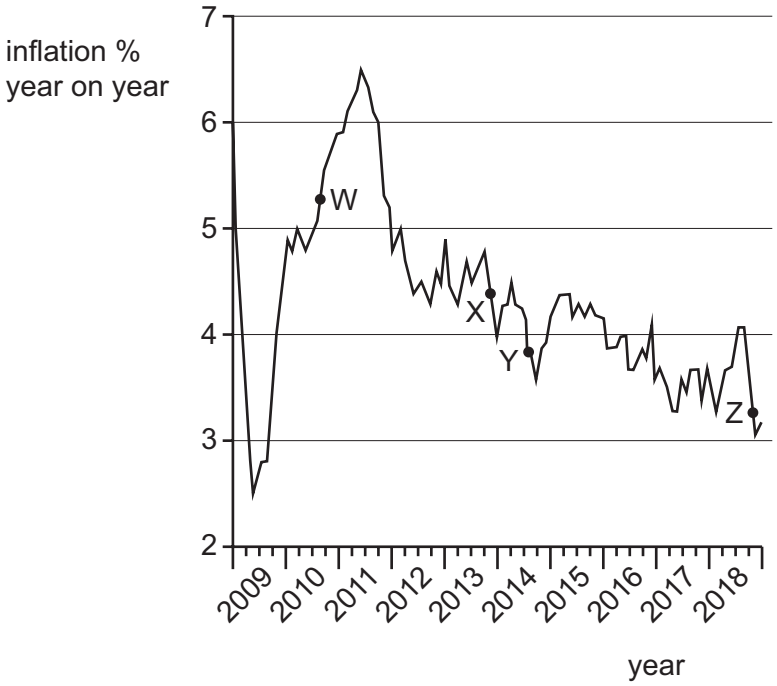
C increasing income tax rates and increasing government borrowing

D removing economic uncertainty and encouraging business investment

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30 The graph shows inflation rates over 10 years for selected emerging economies.



Government central banks set target minimum inflation rates before readjusting interest rates to stabilise the economy.

If the minimum inflation rate target set by central banks was 4% per year, at which points would they allow interest rates to fall?

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

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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: Multiple choice answers

1	C	Milk is rival and excludable; it is a private good even if the state gives it away free.
2	D	"Should" shows a value judgement, so it is normative.
3	D	Profit is the reward to enterprise for organising production and bearing risk.
4	D	Within Brixton they act as a medium of exchange, unit of account, store of value and deferred payment.
5	C	The law of demand links quantity to the good's own price, so own price cannot be held constant.
6	C	A change in the commodity's own price causes a movement along the supply curve, not a shift.
7	B	Perishable goods cannot be stored, so stocks cannot be used to raise supply quickly: PES is low.
8	D	$\%\Delta Q_s = PES \times \%\Delta P = 2.5 \times 10\% = 25\%$ rise in quantity supplied.
9	D	The electric car campaign shifts diesel demand left (D2) and the unit tax shifts supply left (S2): point D.
10	A	Money is not a factor of production; land, ovens (capital) and soya (land/raw material) are.
11	D	Higher incomes and lower interest rates both raise demand for houses, so price and quantity rise.
12	C	Surplus Y was the motorists' consumer surplus; after the $1 charge it goes to the landowner as revenue.
13	C	1200cc: $-0.25 \times 100\% = -25\%$ of 10 000 = −2500; 2000cc: $-0.5 \times 100\% = -50\%$ of 5000 = −2500; total −5000.

Question number		
14	D	Public goods are non-rival and non-excludable, so free riders mean the market would not provide them.
15	C	Ownership moves from private shareholders to the state, so managers answer to the government.
16	A	At output OY firms receive price OE (consumer price plus subsidy), so revenue = OE × OY = OERY.
17	C	More public housing increases the supply of rented homes, so private sector rents fall.
18	B	Transfer payments: pensions 200 + sick welfare 200 + unemployment pay 100 = 500.
19	C	A negative inflation rate means the average price level falls, so the cost of living falls.
20	B	Protection aims to cut imports and help domestic firms, not to make exports more expensive.
21	B	Higher relative inflation makes exports dearer and imports relatively cheaper: exports fall, imports rise.
22	A	Unexpected inflation cuts the real value of debts, so borrowers gain.
23	A	Lower transport costs cut the cost of trading, so more trade and bigger gains are possible.
24	A	Inelastic supply and demand mean domestic output and purchases change little, so imports stay high and tariff revenue is greatest.
25	B	If PED(X) + PED(M) < 1 (Marshall-Lerner fails) a depreciation worsens the trade balance.
26	D	Quotas raise no revenue for the government (unless licences are sold), while tariffs do.
27	B	Helping banks lend more quickly raises borrowing and spending, so AD rises soonest.
28	A	Deregulation is a supply-side measure that raises productive capacity, so it

Question number		
		aims at economic growth.
29	D	Less uncertainty and more investment raise AD and confidence, which stops prices falling persistently.
30	C	Interest rates are allowed to fall only when inflation is below 4%: Y and Z are both below 4%.