Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2022**

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.
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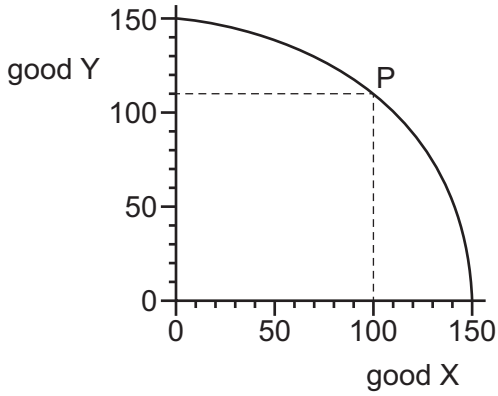
INFORMATION

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- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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1 The diagram shows a production possibility curve for an economy that is producing at point P.



Which quantity of X is given up to produce the quantity of Y shown?

A 40 **B** 50 **C** 100 **D** 110

2 The Indian government operates a pension scheme.

Which statement about this scheme would be classed as normative?

A To be eligible, individuals must be above the age of 60 and live below the poverty line.

B In January 2020, eligible individuals aged over 70 received 500 rupees per month.

C In 2018, the Supreme Court said the government must review pension payments because they are unrealistic.

D In January 2020, the Indian government announced that it might increase the payment to 1000 rupees per month.

3 Economics students have to fill in the gaps in the following passage.

'The three basic questions arising from the economic problem of scarcity are .....1..... to produce, ...2..... to produce, and .....3..... to produce.'

Which combination is correct?

	1	2	3
A	how	when	where
B	how	where	for whom
C	what	how	for whom
D	what	when	where

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4 What is **not** a function of money?

A It is a medium of exchange.

B It is a store of value.

C It is a unit of account.

D It is a measure of satisfaction.

5 The producer of a good with a price-elastic demand observes that a rise in its price is accompanied by a rise in total revenue.

What might explain this?

A The good is an inferior good.

B The rise in price was due to an increase in demand for the good.

C The supply of the good was inadequate to meet the demand.

D The supply of the good was price-inelastic.

6 What will increase the producer surplus of farmers that grow carrots?

A a decrease in the demand for carrots

B a decrease in the price of carrot seed

C a decrease in the price of cabbage

D a decrease in the subsidy on carrots

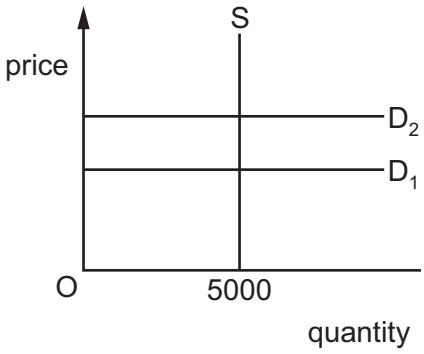
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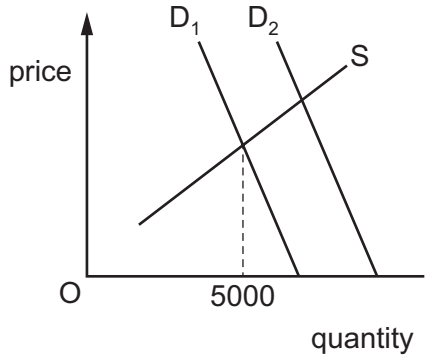
7 A popular band is due to perform at a music concert in a venue that has a 5000-seat capacity. Recent appearances and the release of a new album have made the band even more popular. D_1 and S represent the original demand and supply curves for concert tickets and D_2 the new demand curve.

Which diagram best represents the likely outcome on the market for concert tickets?

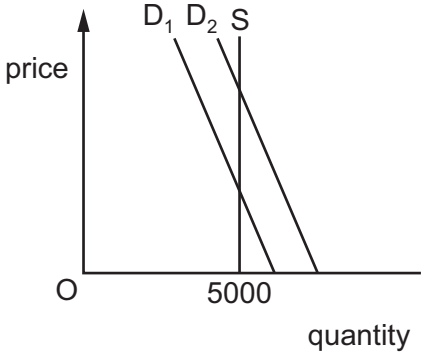
A



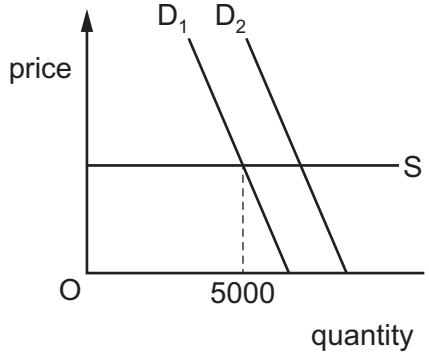
B



C



D



8 Why does an individual's demand curve generally slope downwards to the right?

A The additional satisfaction an individual gets from consuming most goods decreases as consumption increases.

B The additional satisfaction an individual gets from consumption decreases as income rises.

C The individual has finite income which is used to attempt to satisfy many wants.

D For most goods the price charged by producers falls as the quantity purchased increases.

9 What is price elasticity of supply?

A the change in the quantity supplied when a price changes

B the change in the quantity supplied when demand changes

C the comparison of the proportionate change in supply to the proportionate change in demand

D the comparison of the proportionate change in supply to the proportionate change in price

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10 What is necessary for consumer surplus to be zero?

A Demand is perfectly elastic.

B Demand is perfectly inelastic.

C Supply is perfectly elastic.

D Supply is perfectly inelastic.

11 When will the price mechanism **not** function as a system for allocating goods?

A when the government bans advertising

B when the government maintains an effective maximum price

C when there is a limited supply of the good

D when there is a powerful company able to set the market price

12 The price of a product is above the market equilibrium price.

Which combination of changes is certain to result as the market adjusts towards equilibrium?

	quantity demanded	quantity supplied
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

13 What can be concluded about a good with a positive cross-price elasticity of demand?

A Its price will be sensitive to changes in prices of close substitutes.

B Its price will be sensitive to changes in quantity demanded of close substitutes.

C The quantity demanded for this good will be sensitive to changes in prices of close substitutes.

D The quantity demanded for this good will be sensitive to changes in quantity demanded of close substitutes.

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14 Which row shows the effect of the maximum and minimum prices described in the headings of the table?

	maximum price above equilibrium price	maximum price below equilibrium price	minimum price above equilibrium price
A	excess demand	no effect	no effect
B	excess supply	no effect	no effect
C	no effect	excess demand	excess supply
D	no effect	excess supply	excess demand

15 A government decides to introduce tolls (charges) to drive on all major roads.

What is **most** likely to happen to the number of journeys made on major roads and on minor roads?

	journeys on major roads	journeys on minor roads
A	reduce	increase
B	reduce	no change
C	no change	increase
D	no change	no change

16 The table shows data from a bus company that was privatised in 2013.

year	revenue $000	passenger journeys percentage change from previous year (%)
2012	470	+5
2013	495	+2
2014	430	–2
2015	440	–1

What is the most likely conclusion that can be made from the data?

A Average prices were higher in 2012 than 2015.

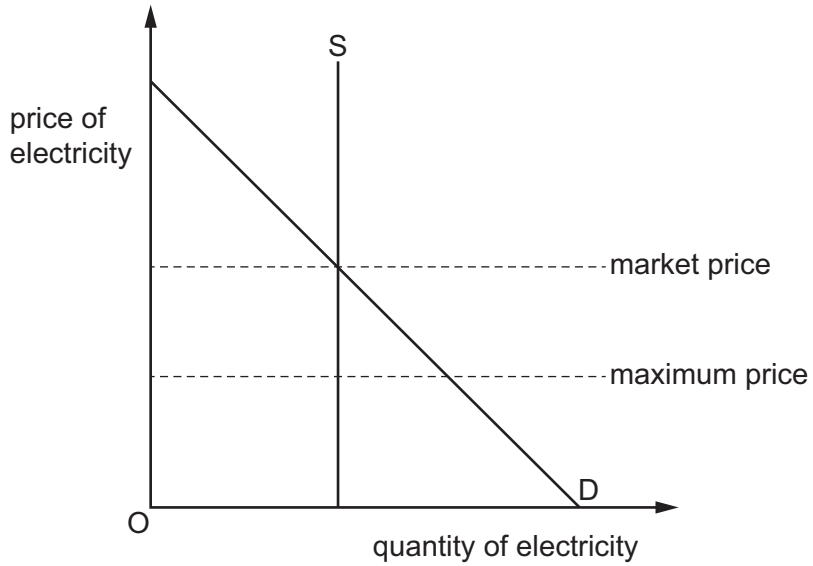
B Average prices were higher in 2015 than 2014.

C The number of passenger journeys remained the same since privatisation.

D Profits have increased since privatisation.

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17 The diagram shows the market for electricity in a country that has a fixed supply of electricity and introduces a maximum price to make it affordable for poorer households.



What will be the effect of this?

A It will encourage producers to build more power stations in the future.

B It will encourage the development of renewable sources of electricity.

C It will increase producer surplus.

D It will increase the probability of power cuts.

18 What is an example of a transfer payment?

A government spending on hospitals

B government spending on motorways

C minimum wage

D welfare benefits

19 Turkey can produce a good but also imports some of the good from Egypt. The Turkish currency depreciates against the Egyptian currency.

How is this most likely to affect production of this good in Egypt and in Turkey?

	production in Egypt	production in Turkey
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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[Turn over

20 The table shows a country's total output and its average price in each of three years.

year	output (millions)	price ($)
1	10	20
2	12	24
3	13	26

What can be concluded about output?

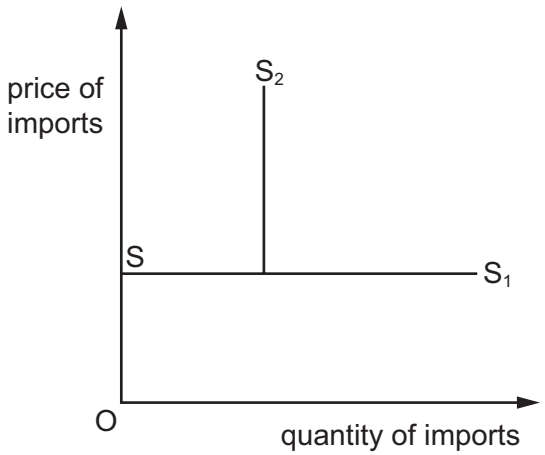
A Nominal output and real output increased at the same rate.

B Nominal output rose at a faster rate than real output.

C Nominal output rose at an increasing rate.

D Real output rose at a constant rate.

21 The diagram shows the change in the supply curve of imports, $S–S_1$ to curve $S–S_2$, after the introduction by the government of a trade protection measure.



What is the form of protection?

A an *ad valorem* tariff

B an embargo

C a quota

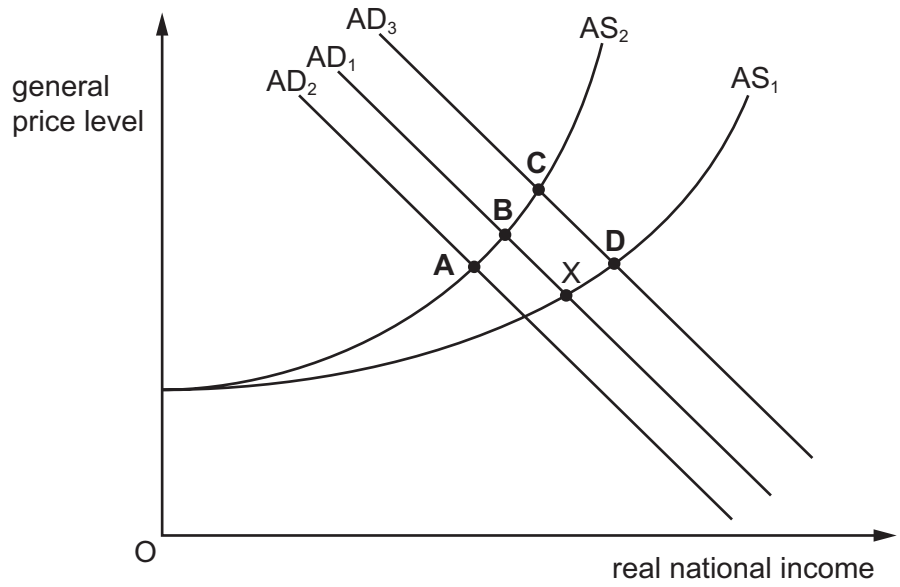
D a specific tariff

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22 The aggregate demand (AD) and aggregate supply (AS) diagram shows an economy in equilibrium at X.

In this economy, a severe shortage of raw materials causes a large rise in their price.

The effect of this change is shown by a move to which point?



23 Why might a country's government impose a tax on fuel exports?

A to encourage domestic refineries to increase production

B to improve the country's trade balance

C to reduce fuel prices for domestic consumers

D to reduce the government's budget surplus

24 What leads to a fall in a country's terms of trade?

A a fall in the price of exports relative to the price of imports

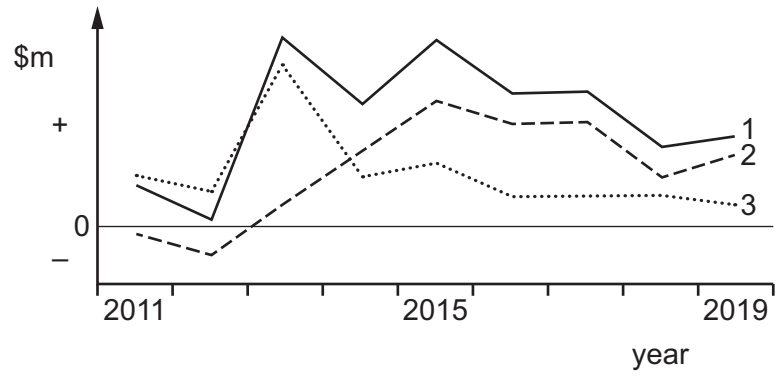
B a fall in the price of imports relative to the price of exports

C a fall in the quantity of exports relative to the quantity of imports

D a fall in the quantity of imports relative to the quantity of exports

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25 The diagram has three lines that show the values of an economy's exports, imports and trade balance between 2011 and 2019.



How should the lines be labelled?

	line 1	line 2	line 3
A	exports	imports	trade balance
B	exports	trade balance	imports
C	imports	exports	trade balance
D	imports	trade balance	exports

26 What would be the best policy to increase the value of a currency?

A Impose tariffs on imported goods with price-inelastic demand.

B Increase interest rates.

C Reduce income tax.

D Sell the currency on the foreign exchange markets.

27 The central bank of an economy decides to raise interest rates in order to attract capital inflows and improve the financial account of the balance of payments.

When is the central bank's decision **least** likely to be effective?

A when the currency of the economy is expected to lose its value

B when the economy is politically and economically stable

C when the interest rate of the economy is higher than that of other countries

D when the reserves of foreign currencies held by the central bank are high and rising

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28 What could be described as an expansionary fiscal policy?

A a decrease in the budget deficit

B a decrease in the budget surplus

C a decrease in the exchange rate

D a decrease in the money supply

29 Why will a contractionary monetary policy reduce inflation?

A Banks will lend more.

B Consumers will have higher disposable income.

C Consumers will pay more tax.

D Consumers will save more.

30 The government of a country is worried about a large deficit on the current account of its balance of payments and an increasing rate of inflation. The country has a fixed exchange rate for its currency.

Which policy measure is **most** likely to help the government to reduce the current account deficit and lower the rate of inflation?

A devaluation of the currency

B increasing government spending

C decreasing the direct taxes

D increasing the interest rate

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ECONOMICS **9708/12**

Paper 1 Multiple Choice **May/June 2022**

1 hour

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1 Which list has the most words that are more likely to relate to a positive statement than to a normative statement?

A describe, better, should, value, emotion

B bias, objective, ought, opinion, tastes

C contestable, is, motive, subjective, moral

D actual, ethics, fact, was, testable

2 What is the main characteristic of a planned economy?

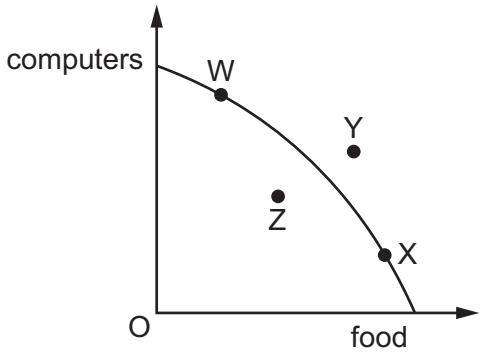
A All goods and services are produced by privately-owned firms.

B All goods and services are produced by state-owned firms.

C Privately-owned firms produce private goods and state-owned firms produce public goods.

D The price mechanism allocates scarce resources through the actions of buyers and sellers.

3 An economy produces combinations of computers and food as shown on the diagram of a production possibility curve (PPC).



If all available resources were used, which two points on the PPC diagram show the maximum combinations of computers and food that the economy can produce?

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

4 Four students have to complete a table showing the functions of money.

Which student is correct?

	medium of exchange	store of value	unit of account
A	✓	✓	✓
B	✓	✓	✗
C	✗	✓	✓
D	✓	✗	✓

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5 In which situation is the price elasticity of supply for a product most likely to be relatively low?

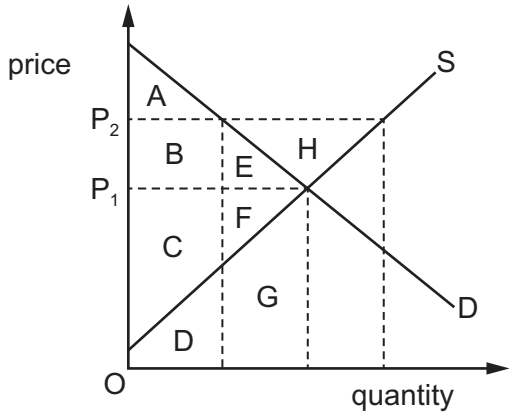
A Demand for the product comes from a wide range of customers.

B Producers in closely related industries can easily switch to making the product.

C Manufacture of the product requires highly skilled labour.

D The main raw material used in the production of the product is in abundant supply.

6 The diagram shows supply and demand for a good.



If price increases from P_1 to P_2, what will happen to consumer surplus?

A It falls from ABE to A.

B It falls from CDFG to BCD.

C It increases from CF to BCEF.

D It increases from CF to BCEFH.

7 What can be concluded about the roles of demand and supply in a free market?

A They allocate resources to the greatest needs.

B They ensure that goods and services are distributed equally.

C They are both significant in setting the market price.

D They ensure that everyone can benefit from the good or service provided.

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8 A firm has a successful advertising campaign for a good.

Which combination shows the impact on demand or supply and the associated reason?

A a leftward shift in the good's demand curve, as increased advertising cost raises the price of the product and reduces its demand

B a rightward shift in the good's supply curve, as the advertising cost of the firm increases

C a rightward shift in the good's demand curve, as successful advertising increases demand

D a leftward shift in the good's supply curve, as successful advertising enables firms to sell more

9 What would be the most likely reason for a firm's decision to calculate the price elasticity of demand for its product?

A to provide retail statistics for the government

B to predict the change in its total revenue after it raises prices

C to calculate the firm's competitive position

D to enable the firm to complete consumer satisfaction surveys

10 The cross-elasticity of demand of good S with respect to the price of good P is +1.5.
The cross-elasticity of demand of good S with respect to the price of good R is –1.5.
The cross-elasticity of demand of good P with respect to the price of good R is –1.5.

What can be concluded about goods P, R and S?

A S and P are complements; P and R are substitutes.

B S and P are complements; R is an inferior good.

C S and P are substitutes; P and R are complements.

D S and P are substitutes; R is an inferior good.

11 Which combination of events is **most** likely to leave the demand curve for a normal good in the same position?

A a decrease in consumer incomes and an increase in the price of a substitute good

B a decrease in consumer incomes and an increase in the price of the good

C an increase in consumer incomes and an increase in the price of a substitute good

D an increase in consumer incomes and an increase in the price of the good

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12 What does **not** happen when price acts as a means to allocate resources?

A Price determines the supply of public goods.

B Price operates in the markets for both goods and factors of production.

C Price recognises consumers' ability to pay rather than consumers' needs.

D Price signals to producers which goods are most profitable.

13 Which statement about market disequilibrium is correct?

A Price is likely to change.

B Supply is equal to demand.

C The government must intervene.

D There must be shortages.

14 Which combination of tax changes is **most** likely to be regressive in a developed economy?

A increasing the rate of wealth tax and raising the rate of sales tax (VAT) on luxury products

B introducing a tax on owning property based on its sales value and increasing the rate of income tax

C reducing the basic rate of income tax and increasing the duty on fuel

D removing the tax-free allowance for income tax and extending sales tax (VAT) to include all food

15 The demand and supply functions for a product are quantity demanded = 1500 + 50P and quantity supplied = 300P – 2000 where P = price. With government regulation, the current price in the market is $15.

What can be concluded about the form of price regulation and the balance of demand and supply in the market?

	form of price regulation	balance of demand and supply
A	effective maximum price	excess demand
B	effective maximum price	excess supply
C	effective minimum price	excess demand
D	effective minimum price	excess supply

16 To improve the air quality for its citizens, a government introduces a subsidy for the producers of cars powered by batteries charged from the electricity supply.

What are the likely effects of this subsidy on the price and sales of electricity?

	price of electricity	sales of electricity
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

17 What is definitely **not** involved when a transfer payment is made?

A bank deposits

B cash

C government

D production

18 What is **unlikely** to occur with an increase in the provision of public goods?

A consumer non-excludability

B improved use of resources

C opportunity cost

D reduction in tax

19 In 2020, shops reported a fall in sales as domestic demand in an economy fell. However, the impact on the overall economy was not as unfavourable as was first feared.

What might have lessened the impact on the economy?

A Exports increased.

B Imports increased.

C Savings increased.

D Taxes increased.

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20 What does a trade-weighted exchange rate attempt to take account of?

A a country's terms of trade

B international trade as a proportion of a country's national income

C the relative value of international trade done with a country's trading partners

D the size of a country's current account surplus or deficit

21 What will lead to an improvement in the terms of trade?

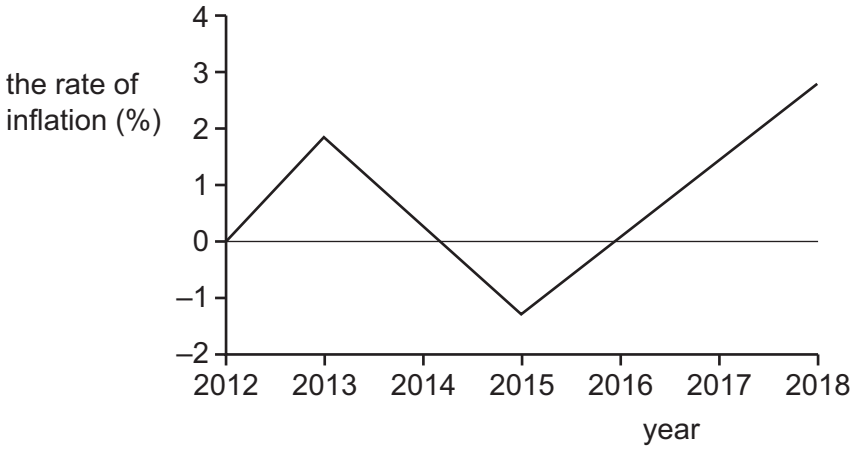
A Export prices fall by 10% and import prices fall by 5%.

B Export prices fall by 10% and import prices rise by 5%.

C Export prices rise by 5% and import prices rise by 10%.

D Export prices rise by 10% and import prices rise by 5%.

22 The diagram shows the annual inflation rate in an economy.



What can be deduced from the graph?

A The price of goods and services fell between 2013 and 2014.

B Disinflation took place between 2014 and 2015.

C The purchasing power of money increased between 2014 and 2015.

D The cost of living fell from 2016 onwards.

23 A country operates a fixed exchange rate system.

What will put pressure on the country to devalue its currency?

A a decrease in the country's inflation rate relative to the inflation rates of other countries

B a decrease in the tariffs on its products imposed by other countries

C an increase in its current account balance of payments deficit with other countries

D an increase in the country's interest rate relative to the interest rates of other countries

24 The table gives different combinations of possible values for a country's price elasticity of demand for exports and price elasticity of demand for its imports.

Following the devaluation of the country's currency, under which combination of elasticities would the country's balance of payments on the current account worsen?

	price elasticity of demand for exports	price elasticity of demand for imports
A	0.3	0.3
B	0.2	0.9
C	0.6	0.5
D	1.2	1.2

25 A small country imposes no tariffs and has a perfectly elastic supply of smartphones from the rest of the world.

Which statement is correct after the imposition of a tariff?

A The domestic demand for smartphones will rise.

B The domestic price of smartphones will rise.

C The government will lose tax revenue.

D The supply of imports will increase.

26 In a recent year, Japanese car manufacturers agreed to limit exports of cars to the USA.

Which form of protectionism is this?

A an embargo

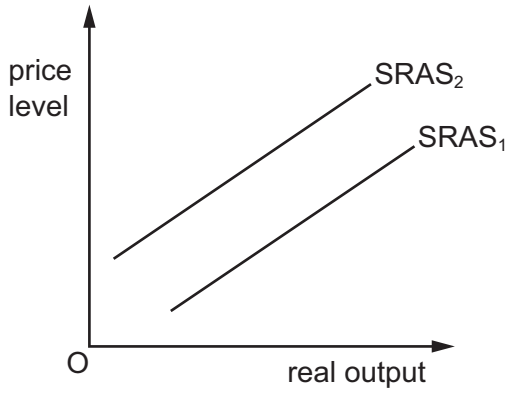
B an export subsidy

C a quota

D voluntary export restraint

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27 The diagram shows a shift in a country's short-run aggregate supply curve from $SRAS_1$ to $SRAS_2$. The country imports oil.



Why might an increase in the world price of oil have caused this shift?

A A rise in inflation is expected.

B Consumers face a fall in their disposable income.

C Domestic firms' costs have increased.

D The government reduces tax on oil and petroleum products.

28 What, if decreased, will help to reduce the rate of inflation?

A budget deficit

B direct taxes

C exchange rate

D interest rate

29 What is an example of contractionary fiscal policy?

A an increase in the budget deficit

B an increase in the budget surplus

C an increase in the interest rate

D an increase in the money supply

30 A country with low unemployment and a managed floating exchange rate has a persistent current account deficit on its balance of payments.

Which policy to reduce this deficit is **most** likely to keep unemployment low, but cause inflation?

A depreciating its currency

B higher direct taxation

C higher import tariffs

D higher interest rates

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1 Which statement about money is correct?

A Deflation reduces the internal purchasing power of money.

B Most financial assets are more liquid than physical assets.

C When money acts as a medium of exchange, it requires a double coincidence of wants.

D When money acts as a store of value, it must be unlimited in supply.

2 The table shows the amount of direct taxes that different households in the UK paid in 2017–2018.

	bottom 20% of households	second 20% of households	middle 20% of households	fourth 20% of households	top 20% of households
average income (£)	15 300	25 000	34 600	47 600	90 600
direct tax paid (£)	2 000	3 500	6 000	9 500	21 200

Which positive economic statement can be made from the table?

A Direct tax is unfair on the richer households in the UK.

B Direct tax in the UK is a proportional tax.

C Poorer households do not pay enough direct tax in the UK.

D Rich households pay more direct tax than poor households in the UK.

3 What does opportunity cost measure?

A the benefits of a good compared with the next choice

B the benefits given up by not consuming the next best alternative

C the costs of any good not chosen

D the financial costs of consuming a good

4 Which term assumes the existence of ‘qualities, knowledge and skills’ that allow an individual to be more productive?

A enterprise investment

B human capital

C mechanisation

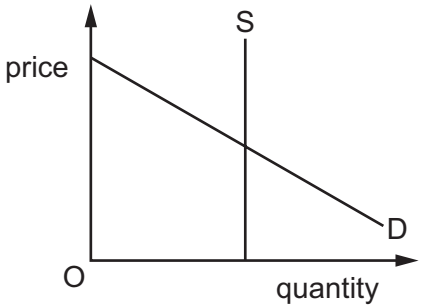
D specialisation

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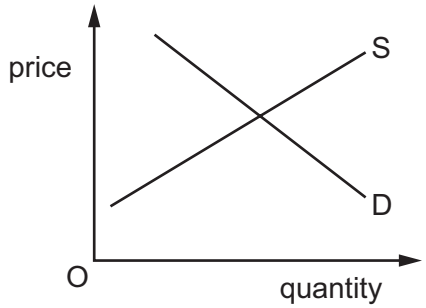
5 The diagrams relate to the markets for four different products.

In which market would a 10% decrease in demand and simultaneously a 10% increase in supply definitely result in both a fall in equilibrium price and a rise in equilibrium quantity?

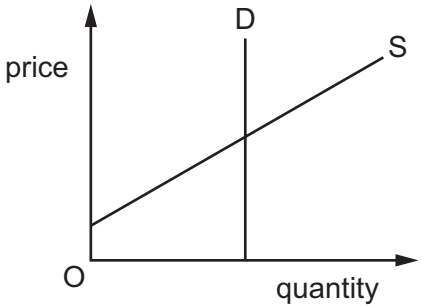
A



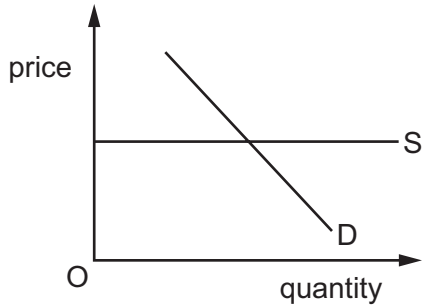
B



C



D



6 The supply of a new drug to relieve muscle pain is very inelastic over a short period of time. The supply of printed newspapers is much more elastic over the same time period.

What could explain the difference in elasticity of supply of the drug and printed newspapers in this time period?

	new drug	printed newspapers
A	cost per unit is low	cost per unit is high
B	discovery is by chance	takes longer to produce
C	research and development essential	excess capacity in printing
D	similar products available	similar products unavailable

7 Which change would cause the supply curve of sugar-sweetened drinks to shift to the right?

A a fall in the price of sugar

B a removal of a subsidy on sugar

C an increase in consumer income

D an increase of a specific tax on sugar

8 The demand for tablets increases, while the cost of producing them decreases.

What will be the effect on the price of tablets and on the quantity supplied?

	price	quantity
A	fall	uncertain
B	rise	increase
C	uncertain	increase
D	uncertain	uncertain

9 What is necessary to achieve the best allocation of resources using the price mechanism?

A Producers can maximise their collective interest.

B Consumers and producers must have perfect knowledge.

C The government must be able to apply maximum and minimum prices.

D The value of the price elasticity of supply must be greater than one.

10 Goods X, Y and Z all have downward-sloping demand curves and upward-sloping supply curves. Good X is in joint supply with good Y and in joint demand with good Z.

There is an increase in the demand for good X.

What will happen to the prices and sales of goods Y and Z?

	good Y		good Z	
	price	sales	price	sales
A	fall	fall	rise	rise
B	fall	rise	rise	rise
C	rise	fall	fall	rise
D	rise	rise	fall	fall

11 What is meant by *consumer surplus*?

A It is the amount by which the price consumers are willing to pay exceeds the market price.

B It is the difference between the price consumers are willing to pay and the price producers are willing to supply.

C It is the discount firms offer to the consumers for buying goods in bulk.

D It is the excess of quantity demanded of a product over its quantity supplied at a given price.

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12 What does the assumption '*ceteris paribus*' mean when economists analyse the way in which the quantity demanded of a good changes?

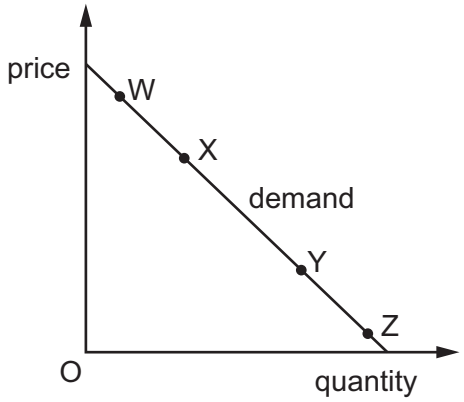
A Changes in quantity demanded can cause changes in any of the other variables.

B Consumer preferences are always assumed to remain unchanged.

C Only one variable is assumed to change while the others remain the same.

D Several variables change simultaneously.

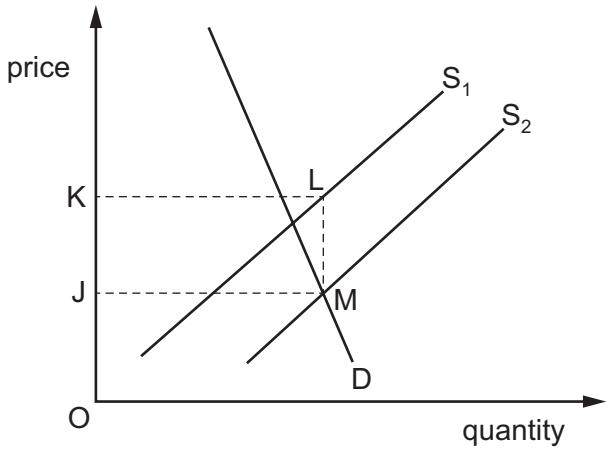
13 The diagram shows the demand curve for a normal product.



Which two points indicate a move from a price inelastic point to a less price inelastic point?

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

14 The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S_1 to S_2.



What does the area JKLM represent?

A the cost to the government of a subsidy to rice growers

B the extra saving to importers of the removal of a tariff on rice

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

15 The table shows four categories of government expenditure over two time periods.

category	period 1 ($000)	period 2 ($000)
building of new roads	200	350
welfare benefits	600	450
pay of armed forces	500	550
state pensions	1100	1350

By how much had transfer payments changed between periods 1 and 2?

A 0 **B** +100 **C** +150 **D** +300

16 Which type of tax used in different countries is a direct tax?

A corporation tax in India that is imposed on the profits of companies

B import duties in Brazil that are imposed on imported goods

C specific tax in South Africa imposed on the purchase of cigarettes

D stamp duty in Malaysia that is the tax on the purchase of a residential property

17 A government imposes a maximum price on medical face masks, below the market equilibrium.

What is the most likely effect of this?

A Some consumers will be unable to buy face masks at the maximum price.

B Firms will produce more masks to meet the excess demand at the maximum price.

C Poorer consumers will be able to obtain all the masks they need at the maximum price.

D The market will clear at the maximum price.

18 What is **not** a producer subsidy?

A a grant given to cover losses in an essential industry, such as the rail industry

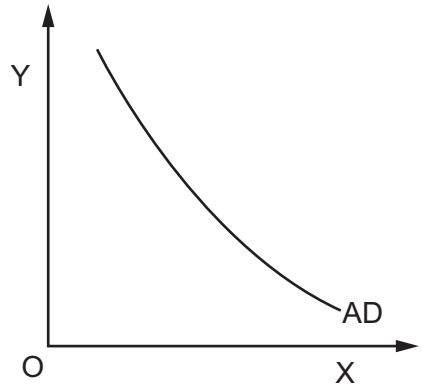
B a guaranteed minimum price paid to farmers to ensure the long run supply of food

C financial assistance given to a pharmaceutical company to develop a new vaccine

D a payment made to the unemployed to allow them to buy essential goods and services

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19 The diagram shows an aggregate demand (AD) curve.



What is measured on the horizontal (X) axis and the vertical (Y) axis?

	horizontal axis X	vertical axis Y
A	money national output	real disposable income
B	price level	real GDP
C	real GDP	price level
D	real disposable income	money national output

20 What could explain an improvement in the terms of trade for a country?

A an increase in tariffs on imports

B a decrease in the volume of imports sold

C an increase in the prices of exports

D a decrease in the volume of exports sold

21 What is a correct description of an aggregate demand (AD) curve?

A It is a curve obtained by adding the market demand curves of all consumer goods traded in an economy.

B It is a curve determined by the horizontal summation of all individual consumer demand curves for a product.

C It is a curve that shows the total amount of goods and services firms are willing to buy at a given price in an economy.

D It is a curve that shows the total demand of all goods and services produced at all price levels in an economy.

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22 The data in the table is extracted from the Singapore Balance of Payments for 2019.

	$m
goods balance	+134 000
services balance	+8 000
capital and financial account (net)	+95 000
balancing item	–3 000

What was the value ($m) of the trade balance on the current account in 2019?

A 126 000 **B** 142 000 **C** 234 000 **D** 237 000

23 A household's income increased by 3%. Over the same period, the rate of inflation was also 3%.

Which statement is correct?

A Both the nominal income of the household and the real income of the household increased by 3%.

B The nominal income of the household remained unchanged while the real income of the household increased by 3%.

C The nominal income of the household increased by 3% while the real income of the household remained unchanged.

D The nominal income of the household increased by 3% while the real income of the household increased by 6%.

24 A country operates a fixed exchange rate.

There is a major fall of international confidence in its government's economic policies.

What is likely to be the result?

A a fall in its foreign exchange rate

B a fall in its foreign exchange reserves

C a rise in its capital inflows

D a rise in its terms of trade

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25 In 2018, the inflation rate in Argentina was over 100%.

Which combination correctly identifies the winners and losers during this period?

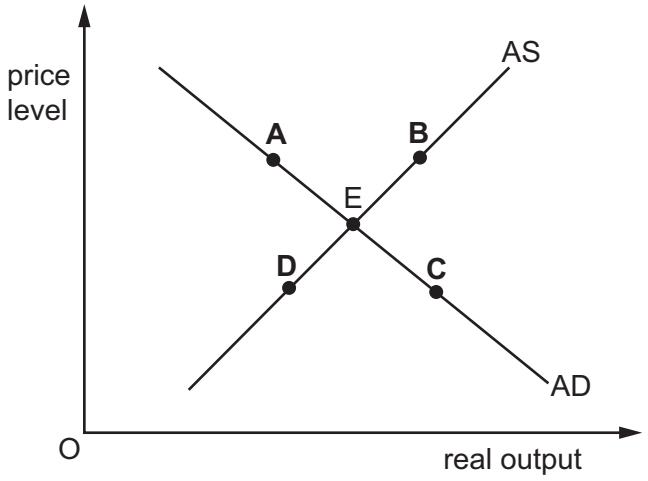
	winners	losers
A	firms selling goods abroad	households paying back loans
B	firms unable to decrease real wages	firms paying back loans on fixed monthly repayments
C	individuals with a high amount of debt at a fixed rate of interest	households that hold most of their assets in cash
D	workers on fixed wage contracts	the retired on fixed incomes

26 The diagram shows the aggregate demand (AD) and aggregate supply (AS) for a country. The initial equilibrium is at point E.

The sum of the price elasticities of demand for imports and exports for this country exceeds one.

A devaluation of the country's exchange rate will cause aggregate demand to change.

What will be the new equilibrium?



27 In 2000, Japan was Asia's largest exporter of electrical components, but by 2018 it was ranked 8th.

What might explain this change?

A Japan has a lower opportunity cost in electrical component production than its Asian competitors.

B Japan has experienced greater deflation than its Asian competitors.

C Japan has imposed tariffs on the import of electrical components from its Asian competitors.

D The Japanese Yen has appreciated against the currencies of its Asian competitors.

28 Which measure to correct a balance of payments current account deficit would be classified as an expenditure-reducing policy?

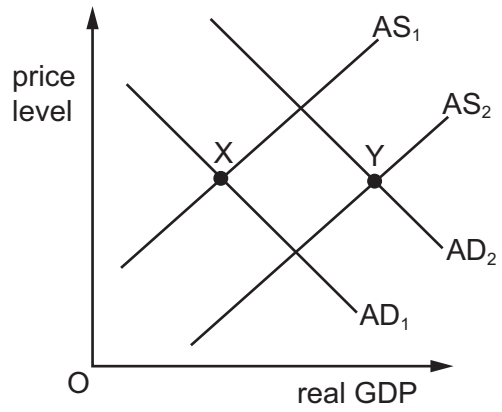
A a reduction in interest rates

B a revaluation of the currency

C an increase in direct taxes

D an introduction of foreign exchange controls

29 The diagram shows the AD / AS curves for an economy.



Which government action is most likely to cause the equilibrium position to move from X to Y?

A an increase in the exchange rate that makes locally produced goods less price-competitive, both at home and abroad

B an increase in government spending on infrastructure that increases the production potential of the economy

C an increase in interest rates that increases the cost of borrowing

D an increase in real wages of labour

30 A country is suffering from severe deflation.

What is most likely to prevent the deflation from worsening?

A increasing income tax to help reduce the government's budget deficit

B increasing interest rates to encourage more saving

C increasing transfer payments to reduce inequality of income

D revaluing the currency to bring in more revenue from exports

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ECONOMICS **9708/14**

Paper 1 Multiple Choice **May/June 2022**

1 hour

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

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1 What will result from a government's decision to allow health care to be provided entirely by market forces?

A There will be a reduction in the provision of a public good.

B All consumers will receive better health care.

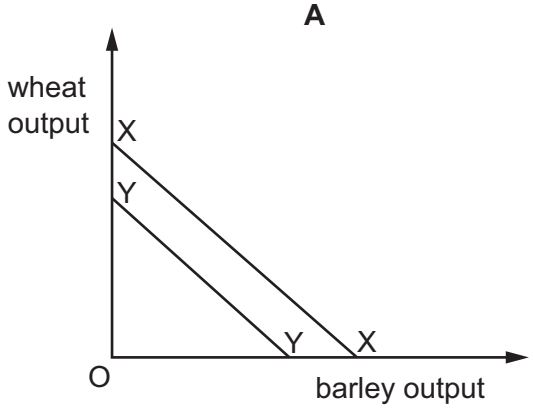
C Market failure will be eliminated in the health care market.

D The health care market will reach an equilibrium.

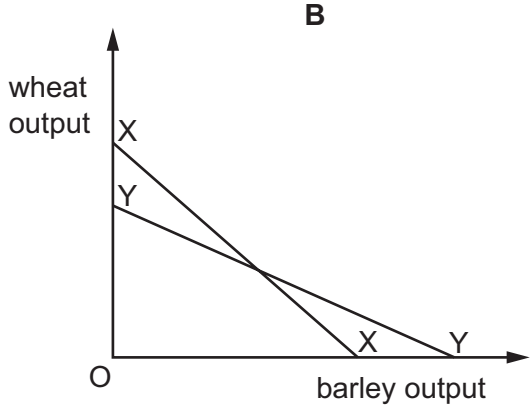
2 A farmer with a fixed area of land grows two crops, wheat and barley. Some land used for barley is flooded and cannot be used. The farmer then starts to plant genetically modified (GM) wheat that produces wheat more efficiently on the land that is not flooded.

Which diagram shows the **most** likely effect of these changes on the farmer's production possibility curve (PPC) as it moves from XX to YY?

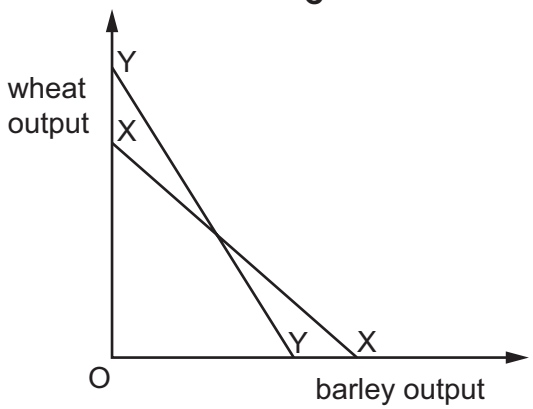
A



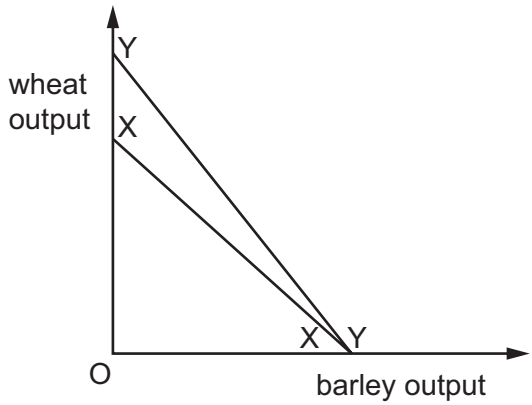
B



C



D



3 What would make online payment methods less acceptable as a medium of exchange?

A a fee charged for use of the online payment service

B both high and low priced goods can be paid for using the online service

C payments can be made at any time of day and night

D the online payment service can be accessed through a smartphone

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4 Professional gardeners now use power tools instead of hand tools to maintain their customers' gardens.

What can be concluded from this information?

A Capital has replaced all labour for maintaining gardens.

B Gardening has become more labour-intensive.

C Land has become more productive.

D New technology has been introduced.

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

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

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

6 A change in which factor will be **least** likely to alter a consumer's ability to pay for a product?

A a consumer's income

B a consumer's tastes

C a change in the price of the product

D a fall in the tax on goods and services

7 What is likely to decrease the price elasticity of supply (PES) of a product?

A an increase in advertising the product

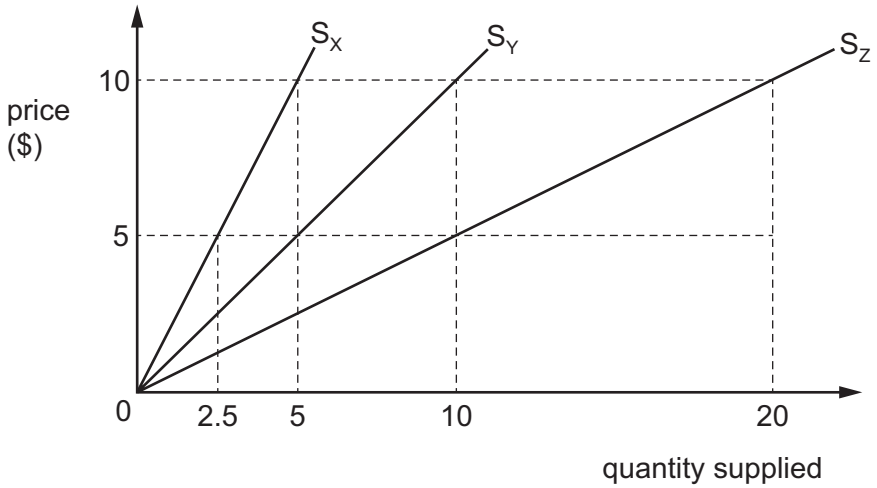
B an increase in the firm's ability to substitute capital for labour

C an increase in the time during which the product can be stored

D an increase in the time required to produce the product

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8 S_X, S_Y and S_Z are the supply curves of goods X, Y and Z.



If the price of all three goods rises from $5 to $10, what are their price elasticity of supply values?

	good X	good Y	good Z
A	equal to 1	equal to 1	equal to 1
B	equal to 1	greater than 1	greater than 1
C	less than 1	equal to 1	greater than 1
D	less than 1	greater than 1	greater than 1

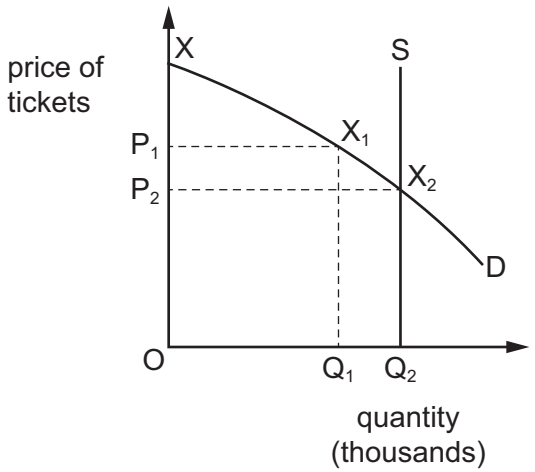
9 Each day there are hundreds of airline flights.

Which combination would make the demand for flights most price-inelastic?

	distance of flight	purpose of flight	income of traveller
A	long	business	high
B	long	leisure	low
C	short	business	low
D	short	leisure	high

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10 The diagram shows the demand for and supply of tickets for a music festival.



If tickets are priced at P_1, it is anticipated that demand will be Q_1. There is a discount for those that buy tickets in the first hour, who will pay P_2. All tickets are sold in the first hour.

Which area on the diagram shows how much consumer surplus was increased by buying the tickets in the first hour?

A $P_2X_2Q_2O$ **B** $P_1X_1Q_1O$ **C** $P_1X_1X_2P_2$ **D** XX_1Q_1O

11 The price elasticity of demand for a high-quality smartphone is elastic. The price of the smartphone decreases.

Which combination describes the impact of a fall in the smartphone's price on the quantity demanded and total revenue?

	quantity demanded	total revenue
A	rises by a greater percentage than the price fall	falls
B	rises by a greater percentage than the price fall	rises
C	rises by a smaller percentage than the price fall	falls
D	rises by a smaller percentage than the price fall	rises

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12 When the price of good X rises, total spending on good X rises, but the demand for good Y falls.

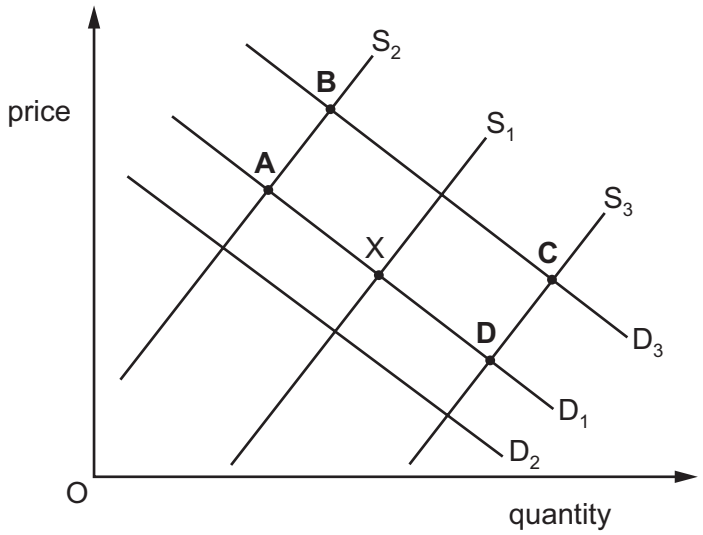
What can be concluded about good X and good Y?

	price elasticity of demand for good X	cross-elasticity of demand for good Y with respect to the price of good X
A	> 1	> 0
B	> 1	< 0
C	< 1	> 0
D	< 1	< 0

13 In the diagram, D_1 and S_1 represent the demand for and supply of luxury watches. Equilibrium is initially at point X.

The cost of raw materials for manufacturing watches rises. At the same time, the incomes of the rich increase.

Which point on the diagram is **most** likely to represent the new equilibrium?



14 Money is paid by the government to an unemployed worker in the form of a benefit.

Why is this called a transfer payment?

A The payment comes from taxes paid by employed workers.

B The payment comes from government savings, not current income.

C The payment is made without the production of goods and services taking place.

D The payment must be spent as directed by the government.

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15 What would be a valid objection to the government provision of goods and services?

A There will be an increase in consumer sovereignty.

B Only the private sector can provide merit goods.

C Tax rates and tax income are likely to fall.

D Investment in the private sector might be reduced.

16 What will be the result of a subsidy that is given to the producers of a good with an inelastic demand curve?

A The equilibrium price of the good will fall by a larger percentage than the fall in equilibrium quantity.

B The equilibrium price of the good will fall by a larger percentage than the rise in equilibrium quantity.

C The equilibrium price of the good will fall by a smaller percentage than the fall in equilibrium quantity.

D The equilibrium price of the good will fall by a smaller percentage than the rise in equilibrium quantity.

17 The market for good X is in equilibrium. A government then introduces an effective minimum price on good X.

What will decrease as a result of this minimum price?

A the excess supply of the product

B the market price of the product

C the quantity of the product supplied

D the size of the consumer surplus

18 A government introduces taxes on company profits. A 5% tax rate is levied on all profits up to the first $10 000 and a 10% rate is levied on all profits above $10 000.

How would these taxes be described?

	up to $10 000	above $10 000
A	progressive	progressive
B	progressive	proportional
C	proportional	progressive
D	proportional	proportional

19 Which change will **not** affect the balance of payments current account?

A a rise in export and import prices

B a rise in foreign aid flows

C a rise in international exchange rates

D a rise in foreign direct investment

20 Which statement correctly describes how an import quota works?

A It is a ban on the import of demerit goods.

B It imposes strict product regulations on imports.

C It is a unit tax that raises the price of imported goods.

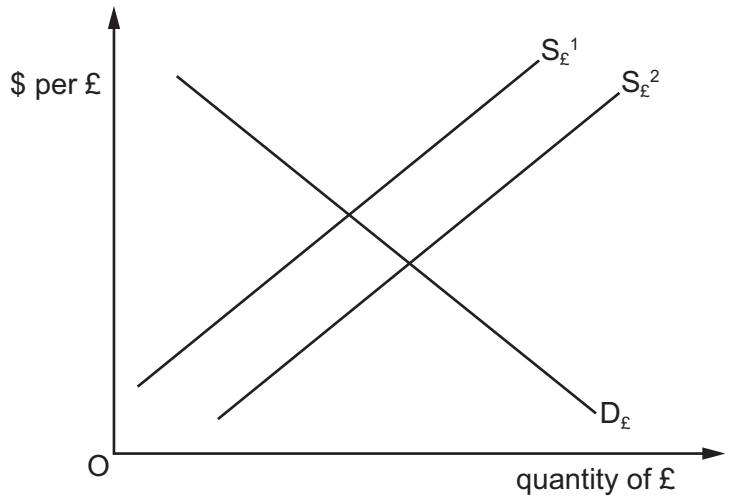
D It limits the quantity of certain imported goods.

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

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

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

22 The diagram shows a freely floating foreign exchange market in the United Kingdom (UK) for the demand and supply of pounds sterling (£) in exchange for United States (US) dollars ($).



What could cause the downward shift shown?

A UK interest rate falls below US interest rate.

B The demand for UK exports is price-elastic and prices increase.

C The demand for US exports is price-elastic and prices decrease.

D People believe that sterling will appreciate.

23 What is a likely consequence of inflation?

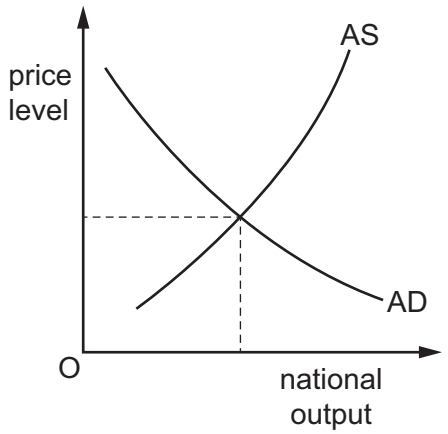
A Fixed-income earners gain more than those whose income is gained from the ownership of property.

B Real wages rise more than money wages.

C The assets of creditors decrease in value at the expense of those of debtors.

D The domestic purchasing power of money increases.

24 The diagram shows an aggregate demand (AD) and an aggregate supply (AS) curve.



There is a sustained rise in the prices of imported raw materials on which the economy depends.

Assuming AD remains independent of AS, what are the most likely effects on the economy?

	AS	price level
A	decreases	falls
B	increases	falls
C	decreases	rises
D	increases	rises

25 The currency of country X has a floating exchange rate against other currencies.

Under which circumstances will the value of country X's currency fluctuate the most against other currencies on the foreign exchange market?

	price elasticity of demand for the currency of country X	price elasticity of supply for the currency of country X
A	elastic	elastic
B	inelastic	elastic
C	elastic	inelastic
D	inelastic	inelastic

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26 A country has a floating exchange rate.

An increase in which variable in the country will cause its currency to appreciate?

A the budget deficit

B the general price level

C the interest rate

D the trade deficit

27 What is an accurate statement about possible causes and/or consequences of a worsening in a country's terms of trade?

A It will result from a fall in the demand for its exports.

B It will result from an increase in consumers' incomes in its major trading partners.

C It will result in a decrease in interest rates by its major trading partners.

D It will result in an improvement in its balance of trade.

28 An economy has a balance of payments surplus, which it wishes to eliminate.

In order to achieve this objective, which combination of policies would be **most** appropriate?

A a depreciation of the currency and an increase in government spending

B an appreciation of the currency and a cut in interest rates

C an increase in the money supply and a pay freeze

D increases in both direct and indirect taxation

29 What would be increased by an expansionary fiscal policy?

A budget deficit

B exchange rate

C money supply

D rate of direct taxation

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30 A government decides to borrow from the general public in order to finance its extra spending on apprenticeship training schemes.

Which types of macroeconomic policy are being used?

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

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