Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 AS Level Multiple Choice **May/June 2023**

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 is ‘a produced means of further production’?

A capital

B enterprise

C labour

D land

2 A hospital management board decides to reallocate $800 000 from its $1.2m new buildings budget to spend on cancer care.

What is the opportunity cost of this decision?

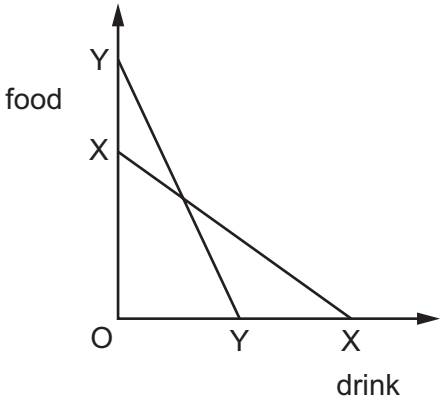
A a cost of $400 000

B a cost of $800 000

C the cost of healthcare for cancer patients

D the loss of some new buildings

3 The diagram shows the change in a country’s production possibility curve from XX to YY.



What would explain this change?

A Consumers chose to consume more food and less drink.

B Government taxed food production and subsidised drink production.

C Productivity rose in food production and fell in drink production.

D There were more imports of food and more exports of drink.

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4 A factory manufactures chairs. The manufacturing process is divided into a number of tasks.

What is a likely **disadvantage** of this division of labour?

A decrease in motivation

B decrease in output

C decrease in productivity

D decrease in quality of the final product

5 Which row correctly describes the relationship between two goods implied by the value of the cross elasticity of demand?

	value of the cross elasticity of demand	description
A	–2.0	weak complements
B	–0.5	weak substitutes
C	+0.5	weak substitutes
D	+2.0	strong complements

6 What does consumer surplus measure?

A the excess profit earned by the producer of a good

B the opportunity cost to the consumer of not buying a good

C the price the marginal consumer is willing to pay for a good

D the consumer's gain from purchasing a good at a price below what they are willing to pay

7 When the price of good X is $2.00, the quantity supplied is 100 000. The price elasticity of supply of good X is 0.8 in the short run and 1.4 in the long run. The price of good X increases to $2.20.

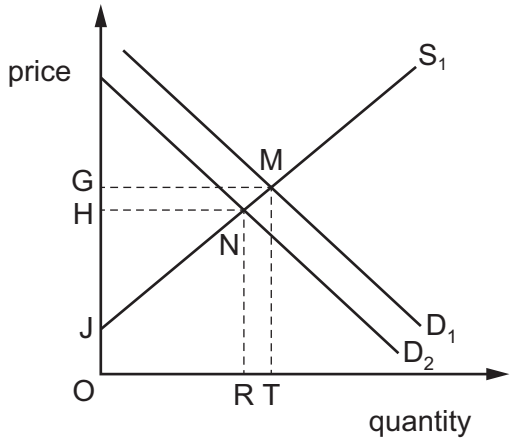
What is the increase in the quantity supplied of good X between the short run and the long run?

A 6000 **B** 60 000 **C** 114 000 **D** 140 000

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8 The diagram shows the European market for diesel fuel and the original equilibrium is at M.



Europeans want low-emission cars and therefore the demand for diesel fuel has decreased from D_1 to D_2.

Which area represents the new producer surplus for companies supplying diesel fuel?

A GMNH **B** JGM **C** JHN **D** JNR

9 In which situation is the demand for a product said to be price elastic?

A The quantity demanded responds to a change in price.

B An increase in price brings about a decrease in the quantity demanded.

C An increase in price induces consumers to spend more on the product.

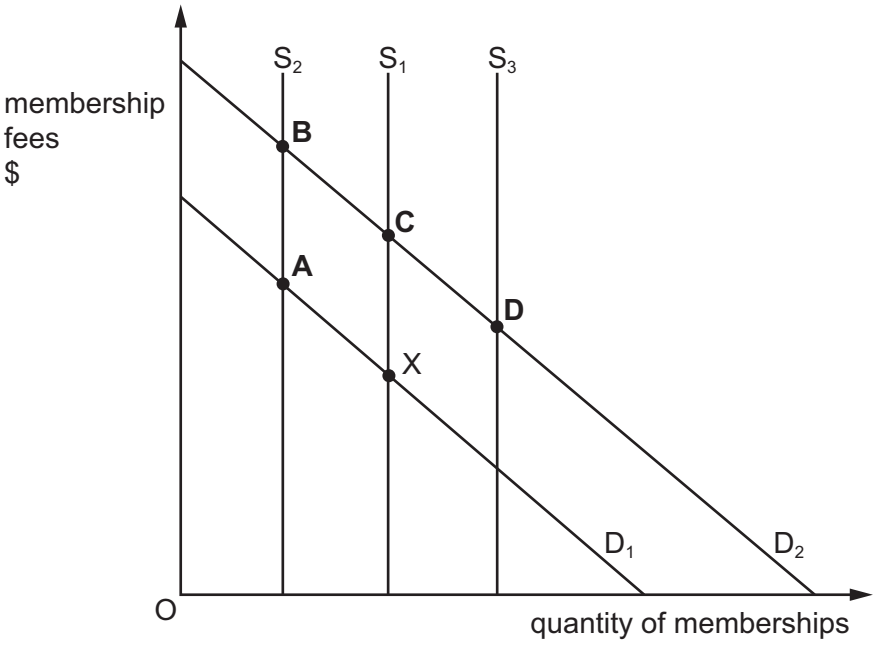
D A decrease in price brings about an increase in revenue.

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10 Golf club membership fees in Singapore have risen as a result of restrictions on travel to cheaper golf courses in neighbouring countries and the closure of some local courses. The supply of golf club memberships is determined by the current number of courses.

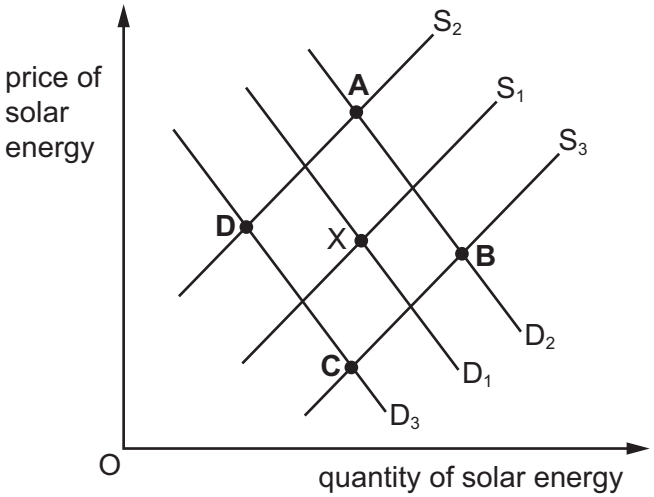
If the original equilibrium was at X, which point shows the result of these changes?



11 The diagram shows the demand and supply curves for solar energy in India. The initial equilibrium point is at X.

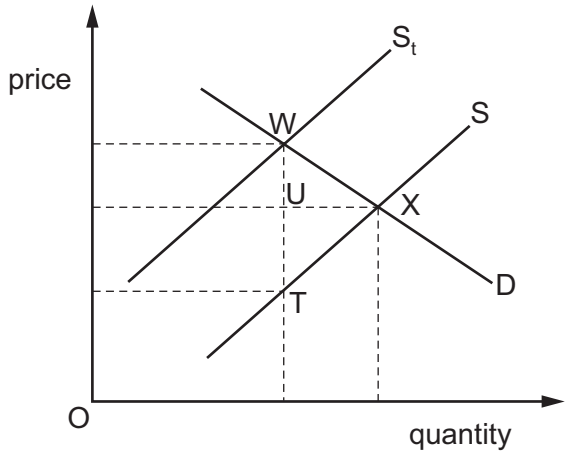
The Indian government increases the subsidy to solar energy producers. At the same time, there is a rise in the price of alternative sources of energy.

What is the new equilibrium position?



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12 A specific tax is placed on the sale of bottles of lemonade. In the diagram, S is the supply curve before imposition of the tax and S_t is the supply curve after tax.



Which distance represents the specific tax on each bottle?

A UT **B** WT **C** WU **D** WX

13 Demand for medical face masks exceeds supply during a disease outbreak.

What is the most likely cause of this excess demand?

A Some consumers do not have effective demand.

B The demand for medical face masks is price inelastic in the short run.

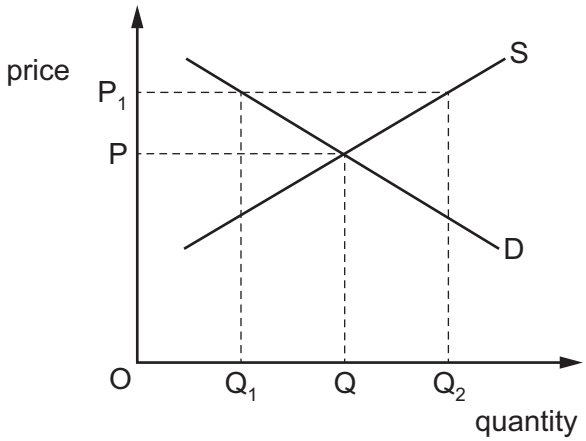
C The price of medical face masks is fixed below the equilibrium price.

D The supply of medical face masks is inelastic in the short run.

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14 The diagram shows the demand and supply curves for a good.



The government fixes a maximum price of OP_1.

What would happen?

A Consumers would have to be rationed to quantity OQ_1.

B The government would have to introduce a subsidy of PP_1.

C The market equilibrium quantity OQ would be demanded and supplied.

D The supply of quantity OQ_2 would be guaranteed.

15 Which statement correctly describes absolute advantage?

A It is when a country has a higher opportunity cost in producing a good than another country.

B It is when a country has a lower wage cost in producing a good than another country.

C It is when the relative prices of exports of a country are greater than the relative prices of its imports.

D It is when a country's output of a good is greater per unit of resource than another country.

16 The table shows the income and wealth of Yasmin.

items	$
children's welfare benefits	1 000
dividends from shares	1 000
property owned	40 000
savings in bank	1 000
shares	2 000
wages	10 000

What is the value of Yasmin's wealth?

A $41 000 **B** $43 000 **C** $44 000 **D** $45 000

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17 Which group is most likely to suffer during high inflation?

A borrowers

B importers

C producers

D fixed wage earners

18 Which statement explains why the aggregate demand curve is downward sloping?

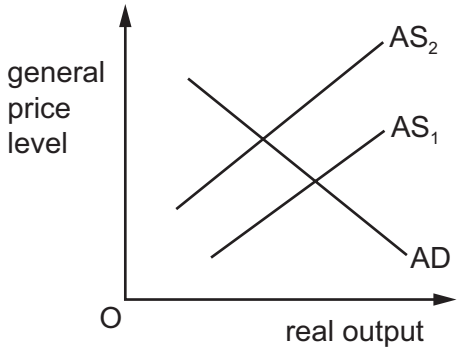
A As prices fall, the demand for exports becomes more elastic.

B As prices fall, fewer goods are imported.

C As prices fall, the rate of interest will rise.

D As prices fall, real wealth rises and so spending increases.

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



Which changes in subsidies and indirect taxes would have caused the change from AS_1 to AS_2?

A higher subsidies and higher indirect taxes

B higher subsidies and lower indirect taxes

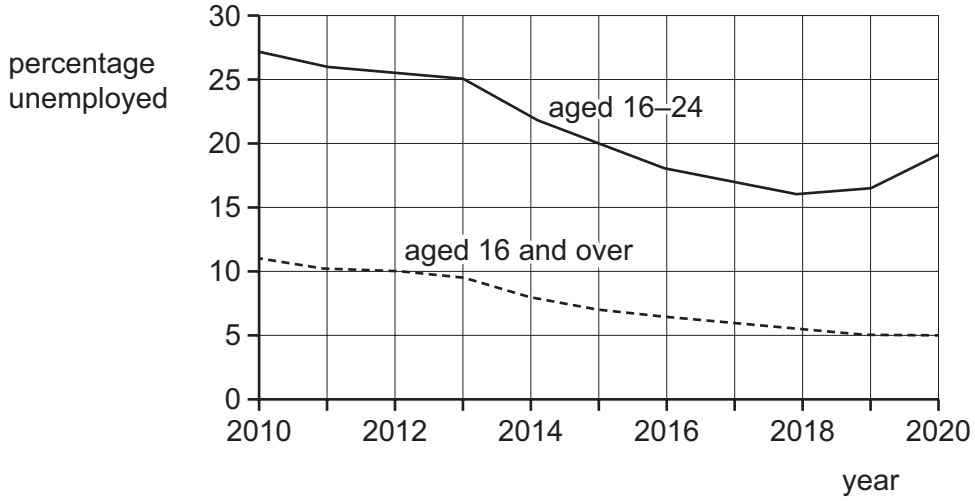
C lower subsidies and higher indirect taxes

D lower subsidies and lower indirect taxes

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20 The graph gives the percentage unemployed for all people aged 16 and over, and for young people aged 16–24.



What is the consequence for consumer expenditure on products consumed by the 16–24 age group over the period 2010–2020?

A a fall in consumer expenditure across the whole period

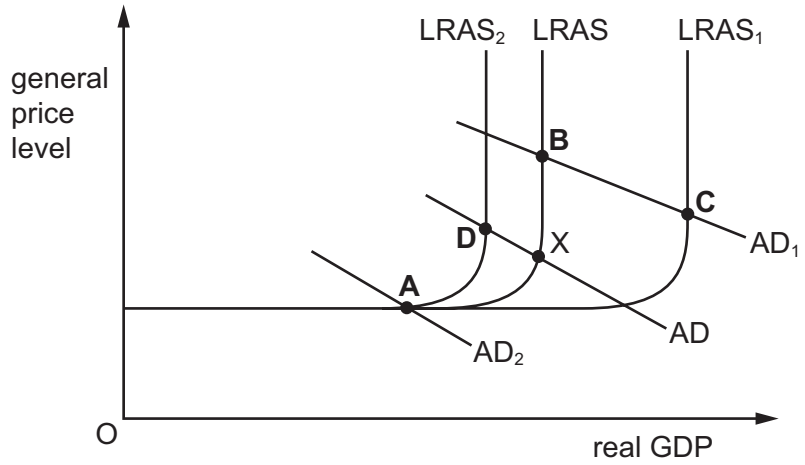
B an initial fall in consumer expenditure followed by a rise

C an initial rise in consumer expenditure followed by a fall

D a rise in consumer expenditure across the whole period

21 In the diagram, the intersection of AD and LRAS at point X represents the current macroeconomic equilibrium.

Which point could represent the new equilibrium after the introduction of an increase in the retirement age?



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22 The table shows data on the Japanese balance of trade in goods.

year	exchange rate yen / dollar	exports $bn	imports $bn
2016	109	635	585
2017	111	689	645

What can be concluded from this data?

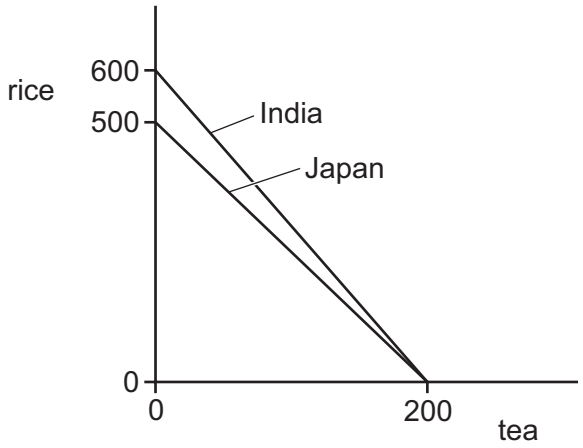
A The demand for Japanese exports was price inelastic.

B The Japanese current account was in surplus.

C The majority of Japanese imports were essential goods.

D The Marshall–Lerner condition for Japan is greater than 1.

23 The diagram shows production possibility curves for two countries, India and Japan.



Which combination of outputs would be achieved if each country specialised in the product in which it has a comparative advantage?

	rice	tea
A	600	200
B	600	500
C	1200	200
D	1200	1000

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24 A country's currency has depreciated against all the currencies of its main trading partners.

How will the depreciation affect its terms of trade?

A The terms of trade will improve.

B The terms of trade will not change.

C The terms of trade will worsen.

D The terms of trade will worsen only if the depreciation causes inflation.

25 A country with a floating exchange rate experiences a large surplus on the current account of its balance of payments.

What is likely to decrease as a consequence?

A the exports of capital from the country

B the level of employment in the country

C the prices of imports into the country

D the value of the country's currency

26 Which measure is aimed directly at promoting international trade?

A decreasing existing quotas

B increasing interest rates

C subsidies paid to export industries

D wage subsidy schemes during recessions

27 What would be classified as a supply-side policy measure?

A a law to reduce the power of trade unions

B a reduction in the government's fiscal deficit

C an open market sale of securities

D the imposition of a tariff on imported goods

28 What is the equivalent of a country's national debt?

A the accumulated borrowing of the government

B the difference between government spending and taxation

C the interest paid by the government on all the money it owes

D the total money owed by all households in the country

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29 A country experiences a fall in the value of exports and an increase in the value of imports of goods and services.

What are the effects of these changes?

	aggregate demand	balance of payments on goods and services
A	fall	improve
B	fall	worsen
C	rise	improve
D	rise	worsen

30 A government orders its central bank to buy its domestic currency on the foreign exchange markets in the belief that this will improve the balance of payments.

What does this suggest?

A Demand for the country's exports is price inelastic.

B The country's Marshall–Lerner condition is greater than 1.

C The government has a budget deficit.

D The overall balance of payments is in surplus.

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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	Capital is a man-made good used to produce other goods and services.
2	D	The next best alternative given up is the new buildings the $800 000 would have paid for.
3	C	The curve moves out on the food axis and in on the drink axis, so food productivity rose and drink productivity fell.
4	A	Repeating one narrow task is monotonous, so workers become bored and less motivated.
5	C	Positive XED means substitutes; a value below 1 (+0.5) means weak substitutes.
6	D	Consumer surplus = what consumers are willing to pay – the price they actually pay.
7	A	Price +10%. Short run: 0.8 × 10% = 8% = 8000. Long run: 1.4 × 10% = 14% = 14 000. Difference = 6000.
8	C	New equilibrium at N (price H). Producer surplus is the area above S1 and below price H: JHN.
9	D	If PED > 1, a price cut raises quantity by a larger %, so total revenue rises.
10	B	Fewer courses shift supply left (S1 to S2); travel limits raise local demand (D1 to D2): point B.
11	B	Higher subsidy shifts S right (S3); dearer substitutes shift D right (D2): new equilibrium B.
12	B	The tax is the vertical gap between St and S at the new quantity: WT.
13	C	A price fixed below equilibrium makes quantity demanded exceed quantity supplied.

Question number		
14	C	OP1 is above the equilibrium price OP, so the maximum price does not bind: OQ is still traded.
15	D	Absolute advantage: producing more output per unit of resource than another country.
16	B	Wealth is a stock: property 40 000 + savings 1000 + shares 2000 = $43 000 (wages, dividends, benefits are income).
17	D	Fixed money wages do not rise with prices, so their real income falls.
18	D	Lower prices raise the real value of wealth and savings (wealth effect), so spending rises.
19	C	AS shifts left (AS1 to AS2): costs rose, so lower subsidies and higher indirect taxes.
20	C	Youth unemployment falls to 2018 then rises, so their spending first rises then falls.
21	C	A later retirement age raises the labour force (LRAS to LRAS1) and the extra income raises AD (AD1): point C.
22	Question removed from the paper by Cambridge, so no answer is credited.	
23	A	India gives up 3 rice per tea, Japan 2.5: India specialises in rice (600), Japan in tea (200).
24	C	Depreciation lowers export prices relative to import prices, so the terms of trade worsen.
25	C	The surplus raises demand for the currency, so it appreciates and import prices fall.
26	C	Export subsidies directly lower export prices and so directly promote international trade.
27	A	Weaker trade unions make the labour market more flexible, raising productive capacity.
28	A	National debt is the total accumulated borrowing of the government.
29	B	Lower X and higher M reduce net exports, so AD falls and the goods and

Question number	
	services balance worsens.
30	Question removed from the paper by Cambridge, so no answer is credited.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 AS Level Multiple Choice **May/June 2023**

1 hour

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1 Which factor of production is needed first in order to set up a new business?

A capital

B enterprise

C labour

D land

2 Assuming nothing else changes, which change in an economy's labour market will cause the production possibility curve to shift to the left?

A an increase in worker immigration

B an increase in the retirement age

C an increase in labour productivity

D an increase in the school leaving age

3 What is **not** a characteristic of a mixed economy?

A The government has no role in setting prices.

B The government manages taxation rights.

C The government prevents firms from earning excessive profits.

D The government provides services not provided by the private sector.

4 What is **not** likely to result from the use of division of labour?

A a decrease in average costs

B an increase in motivation

C an increase in productivity

D an improvement in quality of the final product

5 Price plays a number of functions in the allocation of resources.

Which statement best illustrates the function that relies upon consumer choice (sometimes known as the incentivising function)?

A A price fall can show consumers that a good is becoming less popular.

B A price fall tends to persuade some producers not to stay in the market for the good.

C A price rise means consumers cannot afford to buy so much of a good.

D A price rise tends to reduce competitiveness in the market for a good.

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6 Which pair of products are substitutes both in consumption and production?

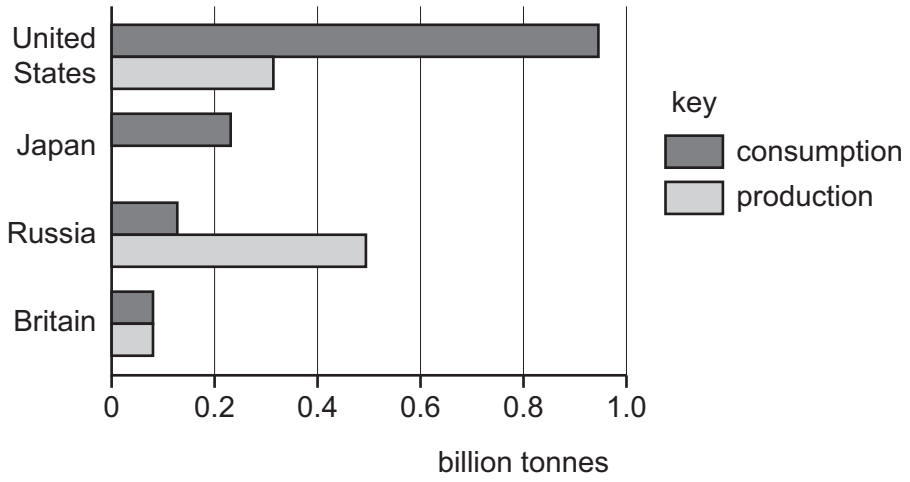
A barley and cotton

B gold and silver

C soap and toothpaste

D spinach and cabbage

7 There is a worldwide shortage of oil. The diagram shows the consumption and production of oil (billion tonnes) for selected countries.



What can be concluded from the diagram?

A In Britain, oil has zero opportunity cost.

B In Japan, there is self-sufficiency in oil.

C In Russia, there is no shortage of oil.

D In the United States, rationing is the only solution to oil shortage.

8 The cross elasticity of demand between bus travel and rail travel is +2. A rise in the price of bus fares caused the demand for rail travel to rise by 10%.

Which change in bus fares would have caused this?

	from (cents)	to (cents)
A	20	21
B	30	33
C	40	45
D	50	60

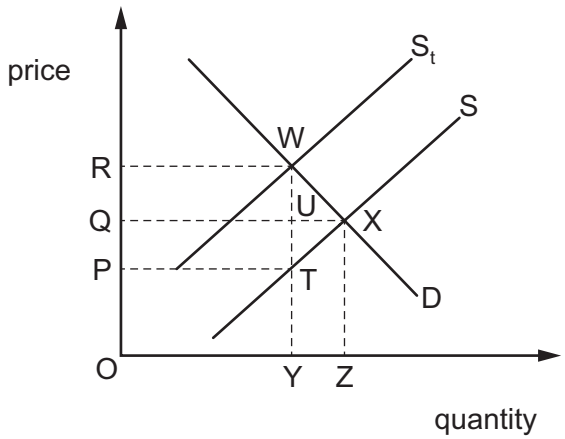
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9 A change in the price of a good causes an increase in the quantity of the good demanded.

What would be the nature of the good and the direction of price change for this to be certain to happen?

	nature of good	price change
A	inferior	fall
B	inferior	rise
C	normal	fall
D	normal	rise

10 A specific tax is placed upon each bottle of perfume sold. In the diagram, S is the supply curve before tax, S_t is the supply curve after tax.



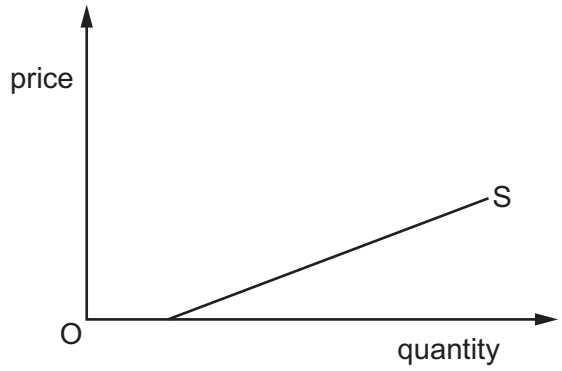
Which area represents that part of the tax revenue paid by producers?

A ORWY **B** PQUT **C** PRWT **D** QRWU

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11 The diagram shows the supply curve of a firm.



Which statement about the price elasticity of supply (PES) along this curve is correct?

A PES is greater than unity at all points along the supply curve.

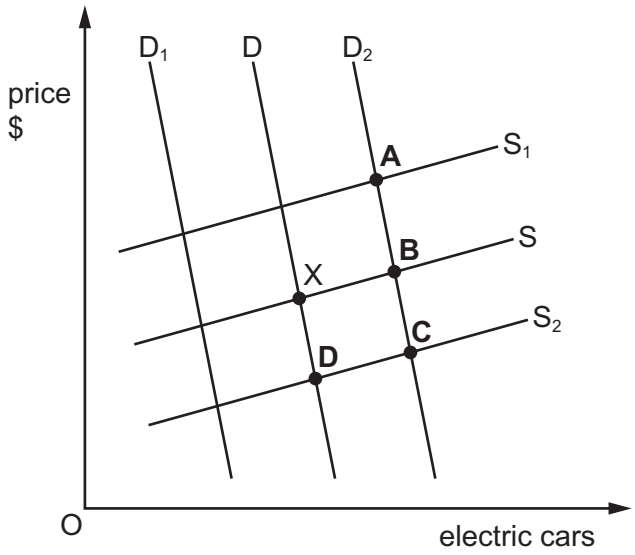
B PES is the same at all points along the supply curve.

C PES is elastic when the price is low and becomes more inelastic when the price rises.

D PES rises when the supply rises.

12 The diagram shows the market for electric cars with X as the initial equilibrium.

What will be the new equilibrium when the price of electric car batteries falls and consumers become more environmentally aware?



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13 What would cause a market disequilibrium?

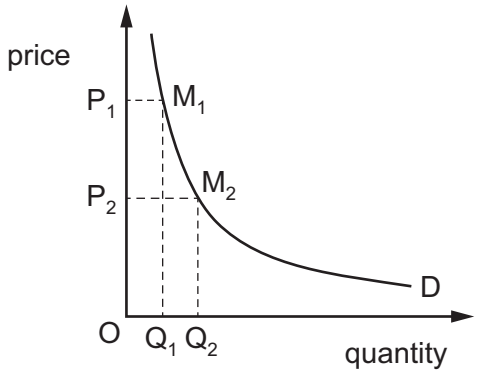
A when a decrease in the demand for a product leads to a price fall that results in some producers leaving the market

B when a decrease in the demand for a product leads to some producers being unable to sell products at the current price

C when a decrease in the supply of a product leads to a price rise that results in the market for the product clearing

D when a decrease in the supply of a product leads to a price rise that makes it too expensive for some poorer households

14 In the diagram, area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$.



What is the value of the price elasticity of demand if the price is halved from P_1 to P_2?

A –1

B –0.5

C zero

D infinity

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

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

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

A W, Y and Z

B W and Z only

C W only

D Z only

16 Which combination of government measures is most likely to increase the consumption of a merit good?

A setting an effective maximum price on the product and paying producers a subsidy

B setting an effective maximum price on the product and imposing an indirect tax on producers

C setting an effective minimum price on the product and paying producers a subsidy

D setting an effective minimum price on the product and imposing an indirect tax on producers

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17 The table contains some figures from the balance of payments account of the United States (US) for a given year.

	US$ million
exports of goods	1 632 639
balance of trade in goods	–741 462
imports of services	477 428
balance of trade in services	233 138

What **cannot** be concluded about US trade from the table?

A Exported services were valued at over US$477 428.

B Imported goods were valued at over US$1 632 639.

C The value of exported services was less than the value of exported goods.

D There was an overall current account deficit.

18 Which change is shown directly by the use of aggregate demand and aggregate supply analysis?

A the nominal income level

B the price level

C the unemployment level

D the wage level

19 Why might aggregate demand increase when a country's price level falls?

A Domestic interest rates will tend to fall.

B Imports become more price competitive.

C Real incomes fall.

D The purchasing power of savings falls.

20 What is used to convert nominal GDP to real GDP?

A exchange rates

B changes in the price level

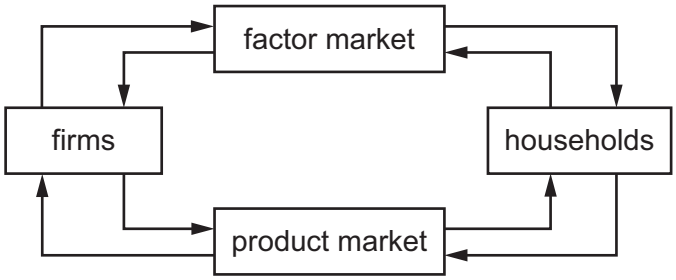
C interest rates

D taxation

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21 The diagram shows a basic two-sector circular flow of income.



What can be concluded about the direction of flows?

A Consumer expenditure flows anticlockwise.

B Goods and services flow clockwise.

C Incomes flow anticlockwise.

D Resources flow anticlockwise.

22 The table shows the types of unemployment and their possible solutions.

Which combination is **not** correct?

	type of unemployment	possible solution
A	technological	introduce minimum wage legislation
B	cyclical	raise government spending
C	frictional	increase advertising of job vacancies
D	structural	retrain workers

23 Which combination of policies would be most effective in reducing a balance of payments current account surplus?

	a decrease in tariffs on imports	a devaluation of the exchange rate	an expansionary monetary policy
A	no	yes	no
B	no	no	yes
C	yes	no	yes
D	yes	yes	no

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24 If a country is experiencing a period of high inflation, which groups will benefit the most from this?

	companies that export the majority of their output	fixed income earners	those with high debts
A	yes	yes	no
B	no	yes	yes
C	yes	no	no
D	no	no	yes

25 What will definitely change a country's terms of trade?

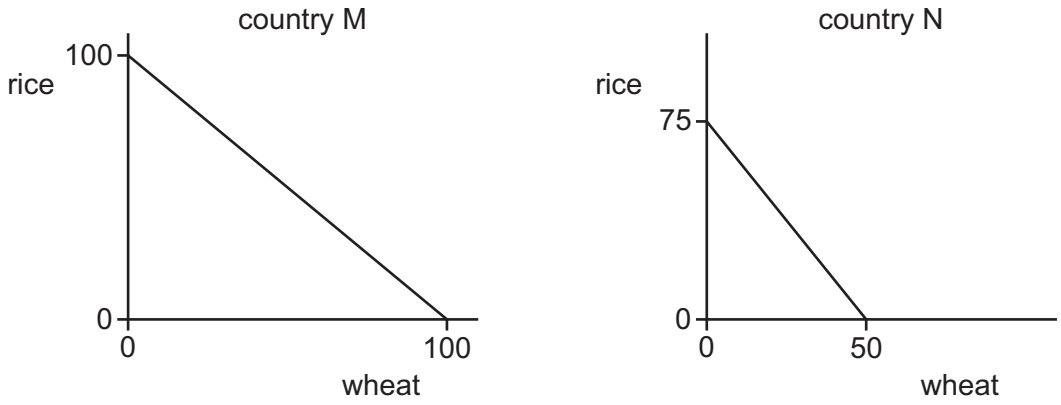
1 when the price of imported raw materials increases

2 a change in inflation rates

3 an appreciation of the exchange rate

A 1, 2 and 3 **B** 1 and 2 only **C** 1 and 3 only **D** 2 and 3 only

26 The world consists of two countries, M and N. The graphs show their production possibilities for wheat and rice.



Countries M and N operate on their production possibility curves and, before specialisation, country M produces 60 units of wheat and country N produces 30 units of wheat.

What will be the change in the world output of **rice** if both countries decide to specialise according to comparative advantage?

A It will fall by 5 units.

B It will fall by 30 units.

C It will rise by 5 units.

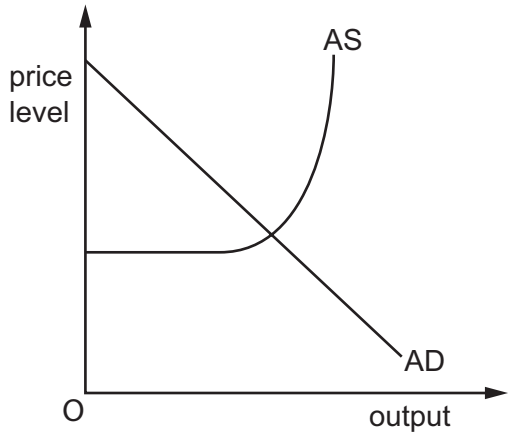
D It will rise by 30 units.

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27 The diagram shows the current equilibrium of an economy.

The government introduces a contractionary monetary policy.



What is the most likely outcome?

A a fall in investment and a fall in inflation

B a fall in investment and a rise in inflation

C a rise in investment and a fall in inflation

D a rise in investment and a rise in inflation

28 A government wishes to reduce the deficit on the secondary income section of its current account.

Which policy would be most effective?

A an increase in subsidies to exporters

B an increase in the tariffs on imports

C a reduction in the number of migrant workers allowed into the country

D a reduction in overseas aid donations

29 Supply-side policies can be used to correct cost-push inflation.

Which policy would best achieve this aim in the long run?

A allowing trade unions to maintain work practices irrespective of productivity

B encouraging workers to work extra hours for extra pay

C increasing total labour supply by employing more unskilled workers

D supporting the replacement of labour-manned machines by the use of robots

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30 Economic growth leads to increased levels of income and consumption per capita for the adult population.

Which circumstances are needed for this to happen in an economy?

A a change in technology that maintains the same level of output

B an increase in economic efficiency through higher productivity of factor inputs

C a policy of progressive taxation to reduce inequalities

D a rise in the size of the working population due to immigration

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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	B	Enterprise is needed first: the entrepreneur organises the other factors and takes the risk.
2	D	A higher school leaving age removes young workers from the labour force, so the PPC shifts left.
3	A	In a mixed economy the government does play a role in setting some prices.
4	B	Division of labour makes work repetitive, so an increase in motivation is unlikely.
5	B	A falling price gives producers an incentive to leave and move resources elsewhere.
6	D	Spinach and cabbage are alternative vegetables for consumers and are grown on the same land.
7	C	Russia produces more oil than it consumes (about 0.5 v 0.13 bn tonnes), so it has no shortage.
8	A	XED = 10% ÷ %Δ bus fare = 2, so fares rose 5%: 20 to 21 cents.
9	C	For a normal good both the substitution and income effects of a price fall raise quantity demanded.
10	B	Price was Q before tax; producers now keep P per unit, so their share of the tax is PQUT.
11	D	The line cuts the quantity axis, so PES < 1 but rises towards 1 as quantity supplied rises.
12	C	Cheaper batteries shift supply right (S2); greener tastes shift demand right (D2): point C.
13	B	Products unsold at the current price mean supply exceeds demand: the

Question number		
		market has not cleared.
14	A	Total spending is unchanged when price changes, so demand is unitary elastic: −1.
15	D	Income +20%. Z: 248 − 200 = +24%, YED = 24 ÷ 20 = 1.2. Y gives 0.6, X 0, W negative.
16	A	A maximum price keeps the good cheap and a subsidy raises supply, so consumption rises.
17	D	The table has no primary or secondary income figures, so the current account cannot be found.
18	B	AD and AS analysis determines the general price level (and real output).
19	A	Lower prices reduce the demand for money, so interest rates fall and borrowing and spending rise.
20	B	Real GDP = nominal GDP adjusted for changes in the price level (a price index or deflator).
21	D	Households supply resources (factor services) to firms through the factor market: anticlockwise.
22	A	A minimum wage does not cure technological unemployment; retraining would.
23	C	Lower tariffs and lower interest rates both raise spending on imports, reducing the surplus.
24	D	Inflation reduces the real value of debts, so heavy borrowers gain; fixed income earners lose.
25	C	Dearer imported materials and an appreciation both definitely change export v import prices.
26	C	Before: rice = M 40 + N 30 = 70. N has comparative advantage in rice (75), M in wheat: rice rises by 5.
27	A	Higher interest rates reduce investment, so AD falls and inflation falls.
28	D	Overseas aid is a current transfer abroad, so cutting it reduces the secondary income deficit.

Question number		
29	D	Robots raise productivity and lower unit costs, shifting AS right and easing cost-push inflation.
30	B	Higher productivity of factor inputs raises output per head, so income and consumption per head rise.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/13**

Paper 1 AS Level Multiple Choice **May/June 2023**

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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[Turn over

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1 People plant flowers in a local park.

Which statement is correct?

A Flowers in parks are a public good because people can enjoy them at no charge.

B Flowers in parks are a public good because they are owned by local people and are not for profit.

C Flowers in parks are not a public good if local people can limit the number of visitors to the parks.

D Flowers in parks are not a public good if they are individual, not identical, in nature.

2 A government decides that all non-essential businesses must close for three months due to a disease pandemic.

What is an opportunity cost of this policy?

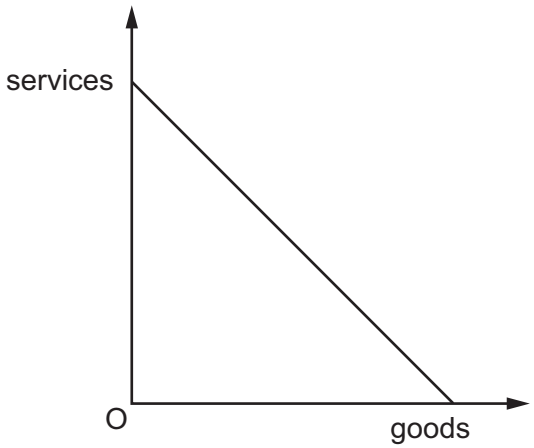
A increased leisure time for employees

B lives that are saved due to reduced disease levels

C the production of goods by essential businesses

D the loss of goods from the closed businesses

3 The diagram shows an economy's production possibility curve. The economy produces combinations of goods and services using all available resources.



What does the production possibility curve indicate for goods and services?

A constant returns to scale in the production of both goods and services

B diminishing returns to scale in the production of both goods and services

C increasing returns to scale in the production of both goods and services

D infinite returns to scale in the production of both goods and services

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4 Which economic conditions are likely to encourage an increase in enterprise?

	interest rates	profit tax	consumer confidence	unemployment
A	high	high	high	high
B	high	low	low	high
C	low	low	high	low
D	low	low	low	low

5 When is the price elasticity of demand for a product most likely to be price elastic?

A A large percentage of income is spent on the product.

B It is measured in the short run.

C It is a necessity product.

D There are few substitutes available.

6 What is most likely to cause a shift in the supply curve for rice?

A a change in the price of the rice

B a change in the price of meat

C a change in the size of the rice industry

D a change in tastes and preferences for rice

7 A free market is in disequilibrium with a shortage of a product.

As the market moves towards equilibrium, what will happen to the price, the quantity demanded and the quantity supplied?

	price	quantity demanded	quantity supplied
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

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8 What would **not** cause a shift in the demand curve for a good?

A a change in the price of a complement

B a change in the price of a substitute

C a change in the price of the good itself

D a change in consumers' incomes

9 What does joint supply mean?

A A firm can choose between producing a range of different goods.

B A good has multiple uses.

C A good is a by-product of the production process of another good.

D Consumers consider two goods as complements.

10 When the price of a firm's product falls by 5%, its total revenue also falls by 5%.

What describes the product's price elasticity of demand?

A elastic

B infinite

C unitary

D zero

11 The table shows how an individual's weekly consumption of biscuits and coffee varies with income.

income ($)	biscuits (packs)	coffee (cups)
100	0	5
150	5	10

Which statement about the income elasticity of demand over the range of income shown is correct?

A For biscuits it is greater than 1.

B For biscuits it is zero.

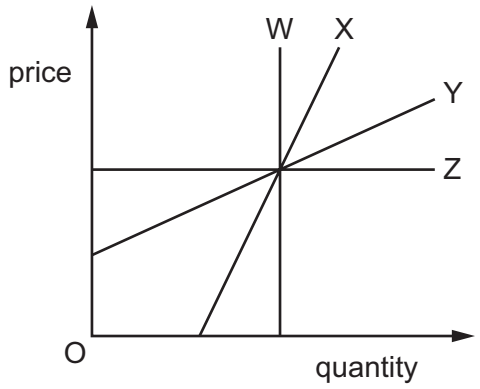
C For coffee it is less than 1.

D For coffee it is unitary.

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12 The diagram shows four supply curves.



Which statement about the price elasticity of these supply curves is correct?

A W has elasticity of 0 that will rise as price rises.

B X has elasticity greater than 1 that will be constant as price rises.

C Y has elasticity greater than 1 that will fall as price rises.

D Z has elasticity of 0 that is constant as quantity rises.

13 Product X has a price elasticity of supply (PES) of +2, whilst product Y has a PES of +0.2.

Which statement about products X and Y is correct?

A X has more substitutes than Y.

B A 20% price fall would lead to a greater decrease in production of Y than of X.

C After a price rise, it is more difficult to increase Y's output than X's.

D After a price fall of 10%, more people would buy X than would buy Y.

14 There are 10 000 tickets available to watch a sports final at a national stadium. The initial market equilibrium ticket price is $20. The government decides to fix an effective minimum price for the tickets.

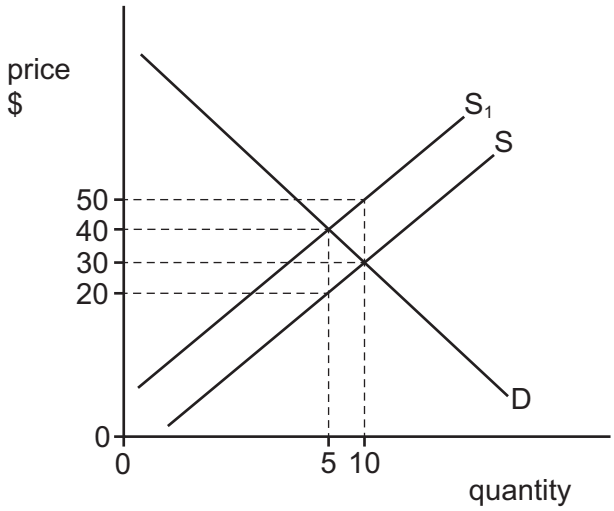
Under which conditions will the consumer surplus for the tickets decrease the most as a result of the minimum price?

	minimum price level $	price elasticity of demand for tickets
A	18	–0.5
B	18	–1.5
C	22	–0.5
D	22	–1.5

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15 The diagram shows the impact of a government imposing a unit tax on a demerit good. S is the supply curve before the tax and S_1 is the supply curve after the tax.



What is the after-tax revenue of the firm producing the demerit good?

A $100 **B** $200 **C** $300 **D** $500

16 A government has a policy aim of reducing income inequality. It considers three policies.

Which combination of policies would be most effective?

	an increase in the marginal rate of tax from 40% to 50%	an increase in the minimum wage	a subsidy on battery-powered cars which cost over $40 000
A	yes	no	no
B	yes	yes	no
C	yes	no	yes
D	no	yes	no

17 A Bangladeshi citizen is employed as a construction worker in Qatar. He sends some of his wages to his family in Bangladesh.

How will this be recorded on Qatar's balance of payments?

A as part of the balance of trade in services

B as part of net primary income

C as part of net secondary income

D as part of the financial account

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18 The table gives data for an economy.

	2010	2011	2012	2013	2014
Gross Domestic Product (GDP) at current prices ($ billion)	200	220	240	300	320
GDP deflator (price index)	100	109	125	149	154

In which year did real GDP decline compared with the previous year?

A 2011 **B** 2012 **C** 2013 **D** 2014

19 Which policy is most likely to help to correct an adverse balance on the current account of the balance of payments?

A abolishing tariffs

B depreciating the currency

C reducing direct taxes

D reducing indirect taxes

20 In year 1, a country's real GDP was $500 billion. In year 2, nominal GDP rose to $577.5 billion and the prices increased by 5%.

What is the real GDP in year 2?

A $4.76 billion **B** $5 billion **C** $476 billion **D** $550 billion

21 The table gives details of national income statistics for an economy.

	US$bn
consumption	2000
investment	500
government expenditure	600
net exports	–100
net foreign factor income	–200
depreciation	100

What is the net national income for this economy?

A US$2700bn **B** US$2800bn **C** US$2900bn **D** US$3000bn

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

date	index
2013	100
2014	97
2015	95

Which statement about the period 2013–2015 is correct?

A Export prices have increased each year.

B The general level of prices has fallen.

C The terms of trade have deteriorated.

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

23 Country X and country Y each allocate half of their resources towards the manufacturing of shoes, and the other half towards the manufacturing of t-shirts. Resources can be used equally effectively in the production of both products in both countries.

The table shows the output of shoes and t-shirts produced by both countries using half their resources in each case, before specialisation.

country	shoes	t-shirts
X	4 000	12 000
Y	2 000	8 000
total	6 000	20 000

What can be concluded from the data?

A The opportunity cost of country Y producing two shoes is four t-shirts.

B The opportunity cost of country X producing one t-shirt is four shoes.

C The total output of shoes and t-shirts after specialisation would be 24 000.

D The total output of shoes and t-shirts after specialisation would be 28 000.

24 Which government action is **least** likely to prevent a fall in economic growth?

A additional controls on commercial banks' lending

B relaxation of rules for immigration of adult population

C removal of trade barriers on import of raw materials

D training and education of workforce

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25 What is the most likely cause of an outward shift of a country's aggregate demand curve?

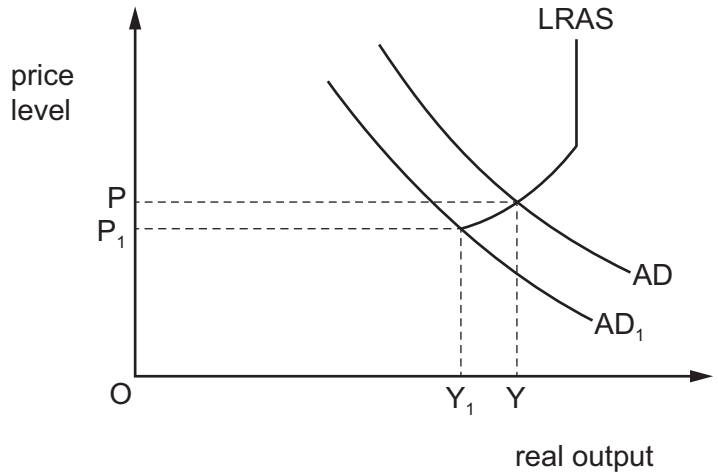
A a decrease in the competitiveness of domestically produced products

B a decrease in the general price level

C a decrease in the money supply

D a depreciation of the country's exchange rate

26 The diagram shows the macroeconomic equilibrium output and price level changing from Y and P to Y_1 and P_1.



What could have caused this change?

A a decrease in exports

B a decrease in labour productivity

C an increase in the government's spending

D an increase in the money supply

27 A country had a current account surplus of $141bn.

Which policy may its government implement to reduce this surplus in the short run?

A a decrease in direct taxes

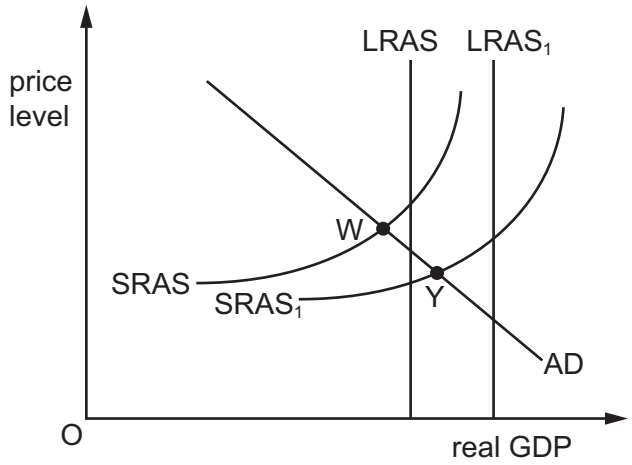
B a decrease in regulations to encourage more foreign firms to locate in this country

C an increase of import duties

D an increase in interest rates

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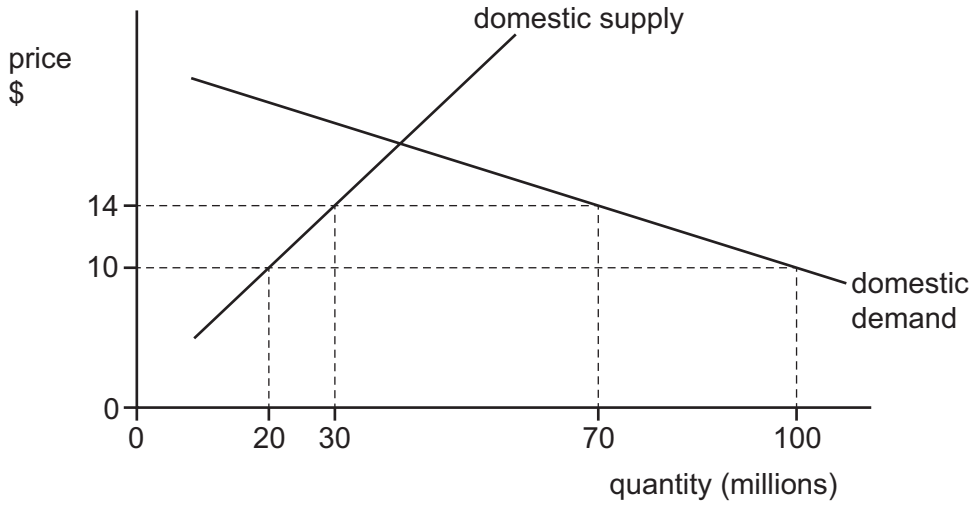
28 The diagram shows aggregate demand (AD) and aggregate supply in the short run (SRAS) and the long run (LRAS).



Which row is correct in causing a shift in the short run aggregate supply from SRAS to $SRAS_1$ and the long run aggregate supply from LRAS to $LRAS_1$?

	shift from SRAS to $SRAS_1$	shift from LRAS to $LRAS_1$
A	change in AD from W to Y	increase in population
B	decrease in raw material costs	improvements in the education of workers
C	decrease in wage rates	decrease in immigration
D	increase in availability of labour	increase in labour productivity

29 The diagram shows that the imposition of a tariff raises a product's world price from \$10 to \$14.



By how much did domestic producers' income increase as a result of the tariff?

A \$120 million **B** \$160 million **C** \$220 million **D** \$280 million

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30 Which approach would a government be most likely to use to eliminate deflation?

A an increase in direct taxes

B an increase in interest rates

C a reduction in indirect taxes

D a reduction in its budget surplus

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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	If visitors can be limited, the good is excludable, so it is not a public good.
2	D	The next best alternative forgone is the output of the closed businesses.
3	A	A straight-line PPC shows constant opportunity cost, so constant returns in both goods.
4	C	Low interest rates and profit tax with high confidence reward risk taking; low unemployment means strong demand.
5	A	If the product takes a large share of income, a price change has a big effect, so demand is elastic.
6	C	More or fewer firms in the industry change supply at every price, shifting the curve.
7	C	With a shortage, price rises: quantity demanded falls and quantity supplied rises.
8	C	A change in the good's own price causes a movement along the demand curve, not a shift.
9	C	Joint supply: producing one good automatically produces a by-product (eg beef and leather).
10	D	Revenue falls by the same 5% as price, so quantity is unchanged: PED = 0.
11	A	Income +50%. Biscuits rise from 0, an infinite % rise, so YED > 1. Coffee: 100% ÷ 50% = 2.
12	C	Y would cut the price axis, so PES > 1, but it falls towards 1 as price rises.
13	C	PES of 0.2 means Y's output responds very little to a price rise compared with X (PES 2).
14	C	A higher minimum price ($22) and inelastic demand (−0.5) means buyers

Question number		
		keep paying more: biggest CS loss.
15	A	Quantity 5, consumers pay $40 but the tax is $20, so the firm keeps $20 × 5 = $100.
16	B	A higher top tax rate and a higher minimum wage both narrow incomes; the car subsidy helps the rich.
17	B	Wages paid to a foreign worker are compensation of employees, recorded in net primary income.
18	B	Real GDP = nominal ÷ deflator × 100: 2011 201.8, 2012 192.0, so real GDP fell in 2012.
19	B	Depreciation makes exports cheaper and imports dearer, improving the current account.
20	D	Real GDP = 577.5 ÷ 1.05 = $550 billion.
21	A	GDP = 2000 + 500 + 600 − 100 = 3000; GNI = 3000 − 200 = 2800; NNI = 2800 − 100 = $2700bn.
22	C	The terms of trade index fell from 100 to 95, so they deteriorated.
23	C	Shoe costs 3 t-shirts in X, 4 in Y. X makes 8000 shoes, Y 16 000 t-shirts: total 24 000.
24	A	Tighter controls on bank lending reduce investment and spending, so growth is not supported.
25	D	Depreciation makes exports cheaper abroad and imports dearer, so (X − M) and AD rise.
26	A	Fewer exports reduce AD (AD to AD1), so real output and the price level fall.
27	A	Lower direct taxes raise disposable income, so spending on imports rises and the surplus falls.
28	B	Cheaper raw materials shift SRAS right; better educated workers raise capacity, shifting LRAS right.
29	C	Domestic supply: 20m at $10 = $200m; 30m at $14 = $420m. Income rises by $220 million.

Question number

30

D Reducing the budget surplus raises AD, putting upward pressure on prices.