Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 AS Level Multiple Choice **May/June 2025**

1 hour

You must answer on the multiple choice answer sheet.

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

INSTRUCTIONS

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

INFORMATION

- 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 Which statement about a free vaccination programme is normative?

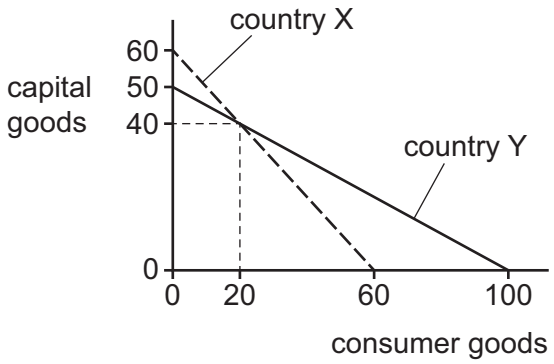
A It will help raise life expectancy.

B It is likely to improve the welfare of society.

C It will result in lower spending on other medical services.

D Tax revenues generated through improved economic activity will exceed the spending on vaccination.

2 The diagram shows the production possibility curves of two countries, X and Y.



What can be concluded from the diagram?

A Both countries have decreasing opportunity cost in the production of consumer goods.

B Both countries should produce 40 units of capital goods and 20 units of consumer goods.

C Country Y has constant opportunity cost in the production of consumer goods.

D Country Y is producing more consumer goods than country X.

3 Which goods are **least** likely to be allocated by market forces in a mixed economy?

A hospitals

B railways

C street lighting

D television programmes

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4 In 2020, there was a worldwide pandemic. High-income countries quickly developed a vaccine. Low-income countries built high-tech factories to manufacture large quantities of the vaccine for export.

What explains this international division of labour?

	high-income countries	low-income countries
A	availability of specialists in research and development	lower costs of production
B	scarce human resources	over-supply of unskilled labour
C	many people tended to avoid the disease	many people tended to catch the disease
D	no government control over resource allocation	strict government control over resource allocation

5 How can a public good become a private good?

A Consumers are dissatisfied with the performance of state-run services.

B New technological developments make the good excludable.

C The government privatises the industry producing the good.

D The price of the good increases so it becomes more profitable.

6 What is **not** a function of the price mechanism?

A to act as a signal to firms when allocating resources

B to maximise consumer surplus

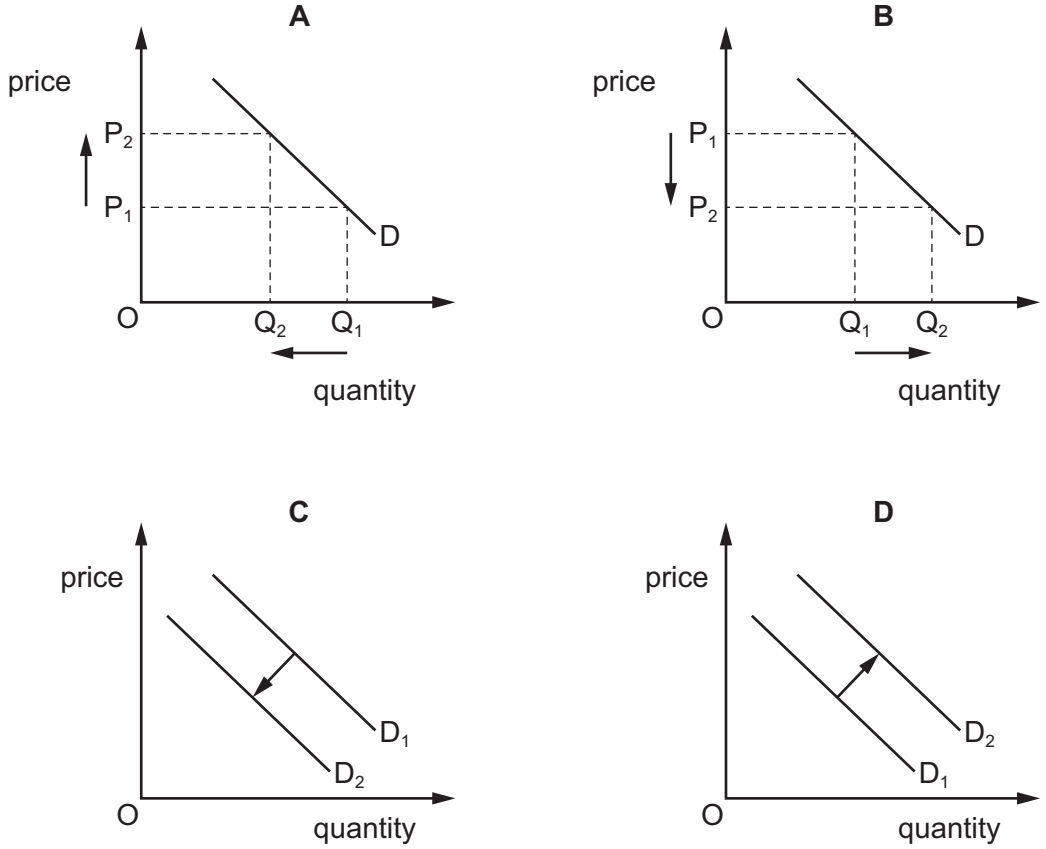
C to provide an incentive to firms to produce goods

D to ration scarce resources

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7 Cars and petrol (gasoline) are in joint demand.

What is the effect of an increase in the price of cars on the demand for petrol?



8 What would best explain why the price elasticity of supply (PES) is likely to be lower for fresh vegetables grown within a country compared to the PES of goods manufactured in that country?

A Alternative supplies can be flown in from foreign producers.

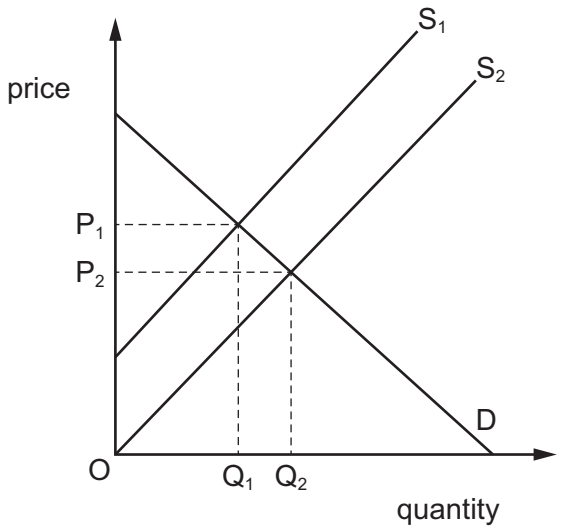
B A positive price change encourages a positive output change along the supply curve.

C Fresh vegetables has a horizontal supply curve.

D There is a seasonal time lag involved in planting and harvesting more fresh vegetables.

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9 The diagram shows the demand for and supply of a product.



What could cause supply to shift from S_1 to S_2?

A a fall in the price of the product

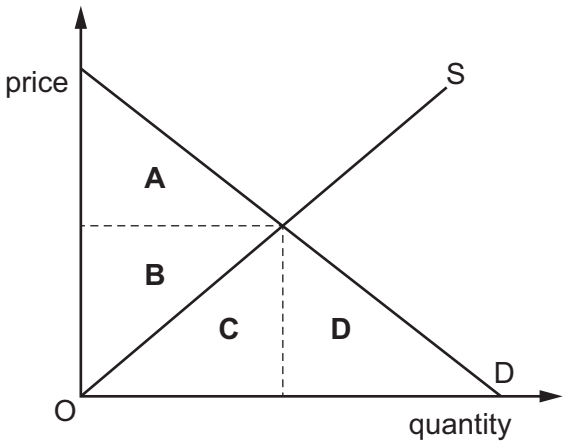
B a fall in labour costs

C a rise in the price of the product

D a rise in labour costs

10 The diagram shows the demand for and supply of a product.

Which area shows producer surplus?



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[Turn over

11 What is an example of wealth?

A interest received

B profits

C property

D incomes

12 Too much sugar causes an increase in a consumer's weight. A government has introduced a 'sugar tax' on the consumption of soft drinks that have a high sugar content.

How might this policy help to reduce the number of overweight people?

A Consumers switch to cheaper brands of soft drink with a high sugar content.

B Consumers switch to other high-sugar substitute goods, such as alcohol or sweets.

C The price elasticity of demand for soft drinks is inelastic.

D The tax revenue is spent on education about the dangers of soft drink consumption.

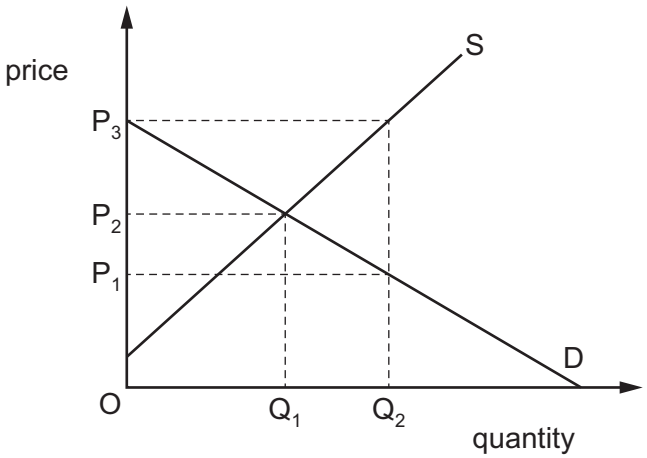
13 A ……1…… price set below the market equilibrium will cause a ……2…… of the product, and a ……3…… price set above the market equilibrium will cause a ……4…… of the product.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	maximum	shortage	minimum	surplus
B	maximum	surplus	minimum	shortage
C	minimum	shortage	maximum	surplus
D	minimum	surplus	maximum	shortage

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14 The diagram shows the demand for and supply of eye tests provided by opticians.



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

A a maximum price of OP_3 per test

B a minimum price of OP_2 per test

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

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

15 What is an example of a transfer payment?

A a household moving savings from one bank account to another

B a monthly repayment on a loan used to buy a new cooker

C the amount paid to transport goods from one city to another

D grants paid to students by the government

16 Which statement correctly describes an increase in real GDP?

A Nominal GDP rising faster than nominal income.

B Nominal GDP rising faster than the rate of inflation.

C The rate of inflation rising faster than aggregate demand.

D The rate of inflation rising faster than nominal income.

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17 An open economy with a government sector is in equilibrium. Households in this economy save $100 million and firms spend $150 million on investment.

Which combination of the budget balance and the current account balance would lead to an equilibrium position on the circular flow of income?

	budget balance	current account balance
A	$100m deficit	$50m deficit
B	$100m deficit	$50m surplus
C	$100m surplus	$50m deficit
D	$100m surplus	$50m surplus

18 An economy's manufacturing share of real GDP fell from 30% in 1990 to 12% in 2023.

Which type of unemployment would have resulted from this?

A cyclical

B frictional

C structural

D voluntary

19 Which statement is **not** correct?

A The long-run aggregate supply curve can be downward sloping.

B The long-run aggregate supply curve can be horizontal.

C The long-run aggregate supply curve can be upward sloping.

D The long-run aggregate supply curve can be vertical.

20 The price of a pack of six eggs rises from $1.00 to $1.32 over a year. Consumer prices, as measured by the consumer price index, rise by 10% over the same period.

What is the real price of a pack of six eggs at the end of the year?

A $1.00 **B** $1.10 **C** $1.20 **D** $1.32

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21 What is **not** an example of monetary policy?

A a rise in import tariffs on manufactured goods

B a rise in interest rates by the central bank

C a rise in credit regulations

D a rise in the money supply

22 A government decides to raise most of its revenues from indirect taxes.

What would increase the effectiveness of this policy?

A an increasing trend towards bartering of goods

B increasing interest rates on household savings

C increasing occurrence of informal markets in the economy

D placing taxes on goods and services which have a price-inelastic demand

23 A government uses expansionary monetary policy over a three-year period.

Which combination identifies the likely impact of such a policy?

	real GDP	price level	unemployment
A	falling	rising	falling
B	rising	rising	rising
C	rising	rising	falling
D	rising	falling	rising

24 What is **not** an example of an expansionary supply-side policy?

A a reduction in government spending on training

B an increase in support for technological improvement

C a reduction in payments to the unemployed

D an increase in privatisation of industry

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25 The table shows the amount of tax paid on three different levels of income.

Which combination shows a proportional income tax system?

	tax paid on annual income of $10 000	tax paid on annual income of $20 000	tax paid on annual income of $40 000
A	1000	1000	1000
B	1000	1500	2000
C	1000	2000	4000
D	1000	2500	8000

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

A It cannot be calculated accurately enough.

B It includes more than one currency.

C It is a ratio of two index numbers.

D It measures change over time.

27 Which statement correctly describes a tariff?

A It is a complete ban on imports.

B It is a minimum price for domestic producers.

C It is a payment to exporters.

D It is a tax imposed on imports.

28 A country has a persistent deficit on the current account of its balance of payments.

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

A a lowering of the level of import duties

B a reduction in the level of income tax

C the introduction of expansionary monetary policy

D the use of grants to encourage new investment by firms

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29 Primary income and secondary income are components of the current account of the balance of payments.

Which option correctly identifies an example of primary income and secondary income?

	primary income	secondary income
A	government transfers	income from profits earned abroad
B	income from profits earned abroad	dividends earned on foreign shares
C	income from profits earned abroad	government transfers
D	workers' remittances	income from profits earned abroad

30 The table shows the change in the value of UK sterling over a three-month period.

June	Sept
£1 = $1.38	£1 = $1.32

What is likely to be the short-term impact of the change in the value of UK sterling on the UK economy?

A increased disinflation

B increase in cost-push inflation

C more purchasing power of money

D reduced demand-pull inflation

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* 1 4 3 6 8 8 2 6 7 7 *

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1 What is the best definition of a positive economic statement?

A A statement that is based on fact and can be tested.

B A statement that attempts to influence economic decisions.

C A statement that is subjective and cannot be confirmed.

D An encouraging economic update in the opinion of the central bank.

2 The diagram is from a chapter on 'The Fundamental Economic Problem' in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the fundamental economic problem.



What is the correct order for the terms to appear in the diagram?

A choice → opportunity cost → scarcity

B choice → scarcity → opportunity cost

C scarcity → choice → opportunity cost

D scarcity → opportunity cost → choice

3 What is a statement of the non-rivalrous nature of public goods?

A It is not possible to stop a non-payer from using the product.

B One person consuming the product does not reduce the amount of it available to others.

C People consume too little of the product because they are unaware of its true benefits.

D There is an unlimited supply of the product.

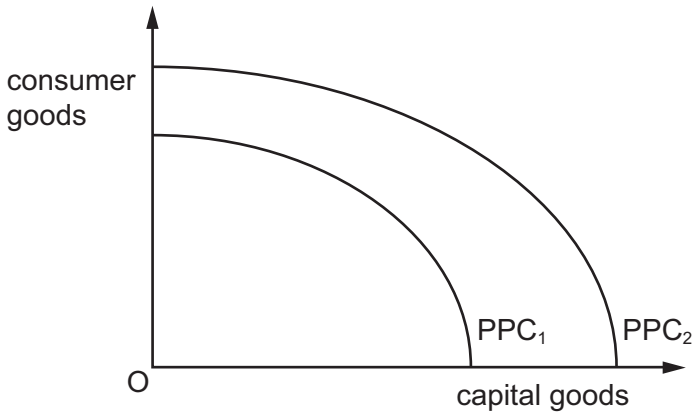
4 A country increases its spending on education and training. It pays for this by reducing unemployment benefit payments and increasing taxes on imports of machinery.

What is the likely effect of these changes?

	human capital	physical capital
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

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5 The diagram shows an outward shift of the production possibility curve from PPC_1 to PPC_2.



What could have caused this shift?

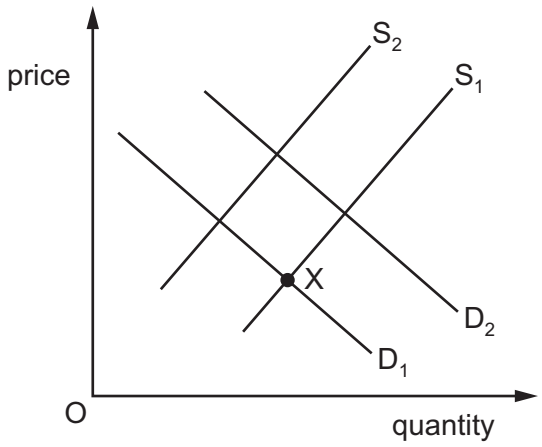
A a decrease in mineral resources

B a decrease in prices of consumer goods

C an increase in employment

D an increase in technology

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



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

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

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

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

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

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7 When can a product be said to have a negative income elasticity of demand?

A When it is a luxury good.

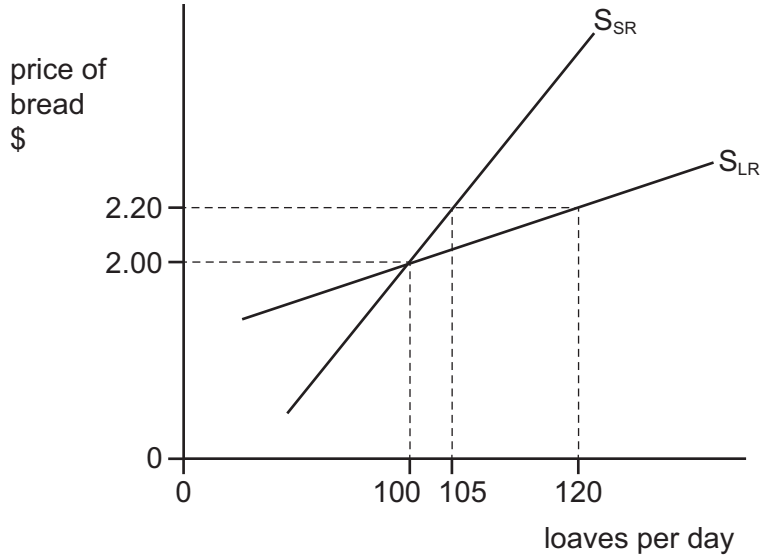
B When it is a necessity good.

C When it is a normal good.

D When it is an inferior good.

8 The diagram shows the short-run supply curve (S_{SR}) and long-run supply curve (S_{LR}) for a bakery.

The price of a loaf of bread increases from \$2.00 to \$2.20.



What is the bakery's price elasticity of supply (PES) in the short run and in the long run when the price of a loaf of bread increases?

	short run	long run
A	0.5	2.0
B	0.5	1.4
C	2.0	0.7
D	2.0	0.5

9 An increase in which variable will **always** lead to an increase in the consumer surplus?

A cost of production

B maximum price

C minimum price

D subsidy

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10 Farmers want to extract wild honey from beehives. They find the beehives by following birds known as honeyguide birds who want the beeswax that is also found in the beehives.

What does this suggest?

A Farmers and honeyguide birds are rival consumers.

B Wild honey and beeswax are free goods.

C Wild honey and beeswax are in joint supply.

D Wild honey is the opportunity cost of beeswax.

11 An indirect tax is imposed on good X.

Which situation is most likely to result in producers bearing a higher burden of the tax?

A price elasticity of demand is elastic

B price elasticity of demand is inelastic

C price elasticity of supply is elastic

D price elasticity of supply is inelastic

12 What would **not** be included in the calculation of an individual's wealth?

A the house owned by the individual

B the savings in the individual's bank account

C the stocks and shares owned by the individual

D the wages earned by the individual

13 Why might governments provide free education for children aged 4 to 16 years old?

A Consumers are not fully aware of the benefits of education.

B Education in a free market system would be over consumed.

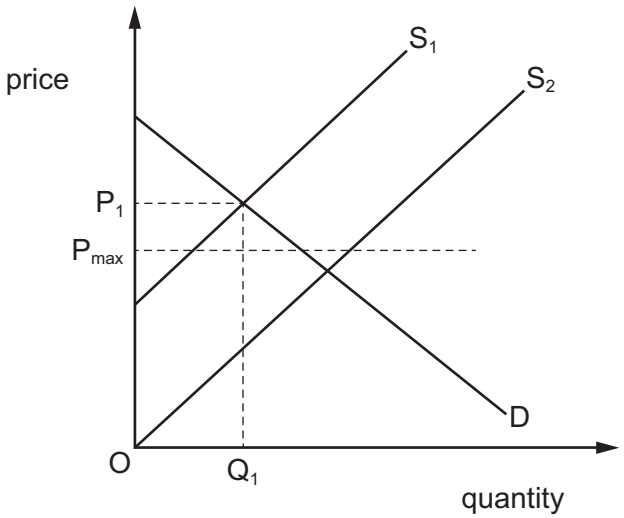
C Education is a public good and there would be many free riders.

D The private costs of education exceed the private benefits in a free market.

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14 The diagram shows the demand and supply for rice.

The market for rice is initially in equilibrium at a price of P_1. The government introduces a maximum price of P_{max}. At the same time the supply of rice increases.



What is the impact of these changes on the market for rice?

A A new market equilibrium will be established.

B An illegal market for rice will develop.

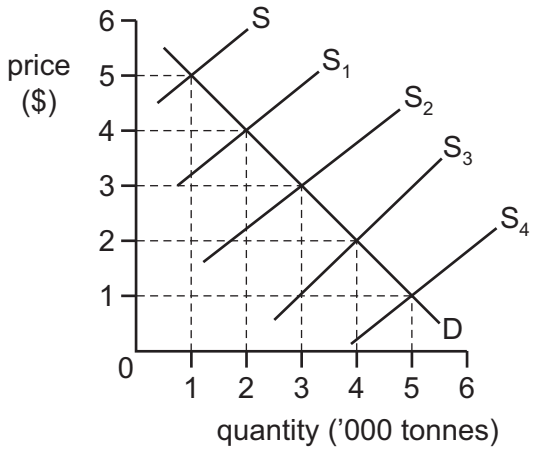
C There will be a shortage of rice.

D There will be a surplus of rice.

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15 In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves S_1–S_4.



How much in total will the government need to pay to support farmers over the four subsequent years?

A $0 **B** $3000 **C** $6000 **D** $10 000

16 Price stability can be said to occur if the measured value of the consumer prices index (CPI) is unchanged during the year.

Which statement is correct?

A For price stability to occur, there must be no changes in prices of any products.

B For price stability to occur, the number of products whose prices rise must exactly match the number whose prices fall.

C If some prices rise and others fall, there cannot be price stability.

D Different weightings of items used in the calculation of CPI mean that price stability can occur in many ways.

17 Based on the circular flow of income, which condition is necessary for an open economy to be in equilibrium?

A Government investment is equal to private investment.

B Planned injections are equal to planned withdrawals.

C Spending by households is equal to taxes collected by government.

D Value of export earnings is equal to expenditure on imports.

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18 The aggregate demand curve is typically downward sloping.

What is one possible explanation for this?

A A fall in the price level will lead to a rise in demand for imports.

B As the price level falls, improved productivity will reduce unit costs.

C If the price level is high, any interest rate changes will encourage consumption.

D The real value of assets increases as the price level falls.

19 What is most likely to cause an unemployed worker to be classified as frictionally unemployed?

A lack of relevant skills for vacant jobs

B lack of up-to-date job vacancy information

C greater use of technology in the production process

D an increase in regional pay inequality

20 The table shows figures estimated at the end of a train drivers' strike.

	$ (000s)
loss of ticket revenue for train companies	600
value placed on extra leisure time by strikers	20
loss of government tax revenue	40
overtime payments to police	30

What was the reduction in the recorded level of national income resulting from the strike?

A $570 000 **B** $610 000 **C** $640 000 **D** $690 000

21 What is likely to be an expansionary monetary policy?

A a decrease in the availability of credit

B a decrease in the exchange rate

C an increase in government spending

D an increase in subsidies for training

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22 A government increases direct taxation to reduce its budget deficit.

How is this likely to affect the government's ability to achieve its macroeconomic objectives?

	economic growth	low inflation	low unemployment
A	less likely	less likely	less likely
B	more likely	less likely	more likely
C	less likely	more likely	less likely
D	more likely	more likely	less likely

23 An income tax has a tax-free allowance of $10 000 and a single rate of 25%.

What type of tax is this?

A indirect

B progressive

C proportional

D regressive

24 Which supply-side policy will encourage new entrepreneurs?

A an increase in government subsidy to small firms

B an increase in the national minimum wage

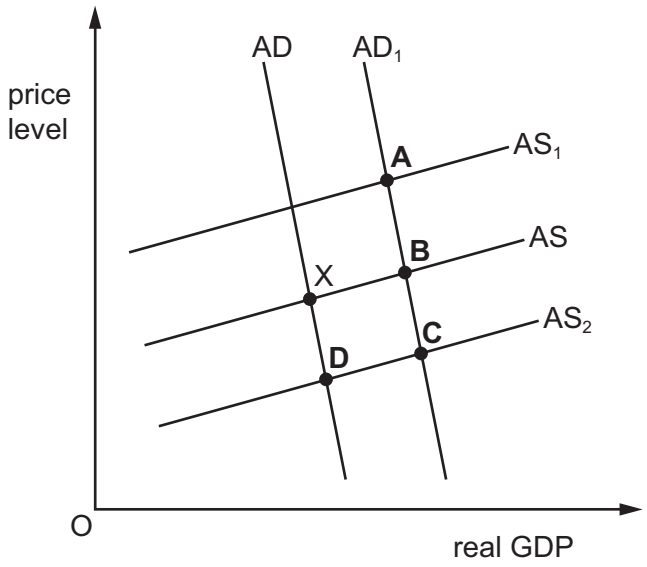
C an increase in the power of trade unions

D an increase in the tax on business profits

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25 The diagram shows aggregate demand (AD) and aggregate supply (AS) curves. The initial equilibrium is at X. A government decides to invest in an increase in infrastructure.

What will be the short-term effect of this policy on the equilibrium?



26 Which statement is **not** a valid reason why a country may impose protectionist measures?

A to allow a newly developed domestic industry to grow to a viable size

B to enable a country to retain control of an industry it regards as being of strategic importance

C to give consumers a wider choice of goods and services

D to give time for workers in a declining domestic industry to find alternative employment

27 What is most likely to lead to a persistent surplus in a country's current account of its balance of payments?

A a low domestic savings rate

B an undervalued exchange rate

C highly protectionist policies by other countries

D low investment income from abroad

28 Which formula is used to calculate the terms of trade?

A the average price of exports divided by the average price of imports

B the average price of imports divided by the average price of exports

C the value of exports divided by the value of imports

D the value of imports divided by the value of exports

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29 A country is experiencing a deficit on the current account of its balance of payments.

Which policy decision could reduce the deficit?

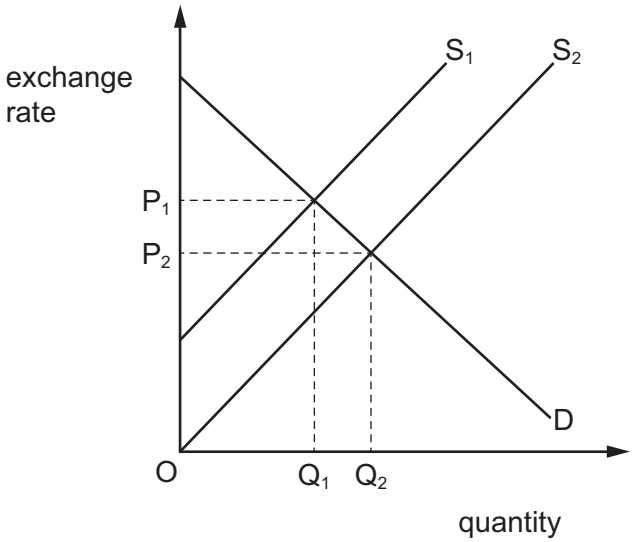
A decrease in income tax rates

B increase in exchange rates

C increase in government spending

D increase in import tariffs

30 The Euro (€) is the main currency of the European Union. The diagram shows the exchange rate between the Euro and the US dollar.



What is likely to have caused this change in the value of the Euro?

A a decrease in European Union inflation

B a decrease in US interest rates

C an increase in European Union imports

D an increase in European Union unemployment

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[Turn over

1 A tourist visits a government-owned tropical beach. She pays $10 to enter but finds it overcrowded.

Which type of good is the beach?

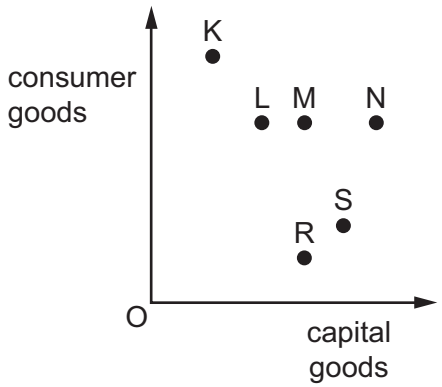
A a free good

B an inferior good

C a public good

D a private good

2 The diagram shows a country's production possibilities. Points K, L, M, N, R and S represent different combinations of capital goods and consumer goods. Point K cannot be achieved unless there is economic growth. Point M lies on the country's production possibility curve.



Which two points **must** be on opposite sides of the country's production possibility curve?

A K and N **B** L and R **C** N and R **D** R and S

3 A firm produces 100 units of good Y and 200 units of good X with a fixed amount of resources. This firm wants to increase production of good Y to 120 units and as a result it can now only produce 170 units of good X.

What is the opportunity cost of producing the extra 20 units of good Y?

A 20 units of good X

B 30 units of good X

C 120 units of good X

D 170 units of good X

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4 What is the most likely benefit of specialisation to a firm?

A increase in motivation of employees

B increase in imports from other countries

C increase in the number of employees

D increase in the level of output

5 Which row correctly identifies goods that would be expected to be produced in a mixed economy?

	goods that are excludable and rival in consumption	goods that are non-excludable and non-rival in consumption	goods that have private and external benefits
A	✓	✓	✓
B	✓	✓	✗
C	✓	✗	✓
D	✗	✗	✓

6 A theatre has a fixed number of tickets to sell for each performance.

What is the price elasticity of supply?

A perfectly elastic

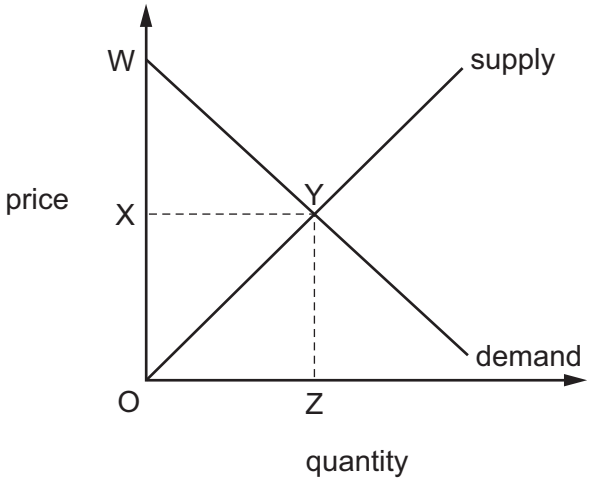
B perfectly inelastic

C unit elastic and negative

D unit elastic and positive

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7 The diagram shows the market for computers in a country.



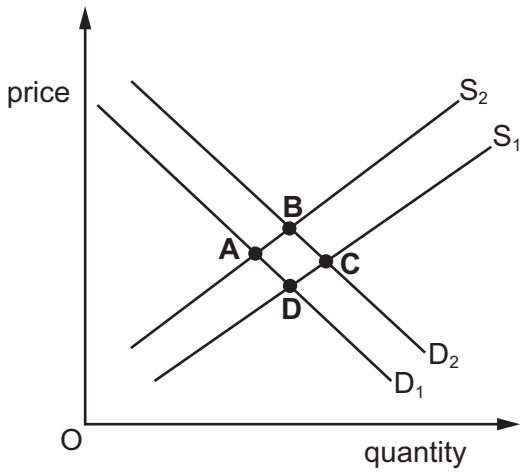
Which area represents consumer surplus?

A WYX **B** XYO **C** WYO **D** OYZ

8 The diagram shows the market demand for and supply of foodstuffs for an economy.

This economy has faced a decrease in the supply of foodstuffs and, at the same time, an increase in demand for foodstuffs by consumers.

Which point represents the market equilibrium following these changes?



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9 What is true for income elasticity of demand but **not** for price elasticity of demand?

A It helps firms differentiate between goods with elastic and inelastic demand.

B It helps firms differentiate between normal and inferior goods.

C It helps firms predict the changes in the quantity demanded.

D It helps firms predict the changes in sales revenues.

10 The table shows the supply and demand for avocados in kilograms (kg).

price per kg ($)	quantity demanded per day (kg)	quantity supplied per day (kg)
45	170	230
40	190	190
35	210	150
30	230	110

As a result of lower transport costs, supply rises by 60 kg at all prices.

What is the new equilibrium price?

A $45 **B** $40 **C** $35 **D** $30

11 A construction firm estimates that the price elasticity of supply in building a nuclear power plant is +0.1.

What might explain this?

A The firm can easily find new land as required.

B The firm is competing with many other construction firms.

C The firm needs time to hire the highly skilled labour required.

D There is a lack of close substitutes for nuclear power.

12 Which statement about maximum and minimum prices is correct?

A With an effective maximum price for a product, a shortage will develop.

B With an effective maximum price for a product, the market price will rise.

C With an effective minimum price for a product, rationing will be necessary.

D With an effective minimum price for a product, the market price will fall.

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[Turn over

13 A flood-control dam is an example of a good provided directly by a government.

Which statement relating to the direct provision of a flood-control dam is **not** correct?

A It allows the government to tackle the failure to provide public goods.

B It forces the government to incur an opportunity cost.

C It involves the supply of a merit good.

D It is an example of government allocation of resources.

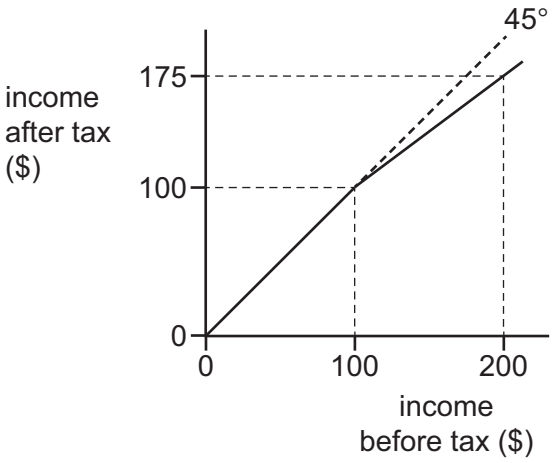
14 A country depends heavily on the production of an agricultural product, good X. It decides to introduce a buffer stock scheme for good X. The government allocates a fixed amount of money for setting up and running the scheme.

In which situation is the scheme **least** likely to run out of money?

	ability of new farmers to start growing good X	cost of storing good X	global demand for good X
A	easy	high	constant
B	easy	low	rising
C	difficult	high	constant
D	difficult	low	rising

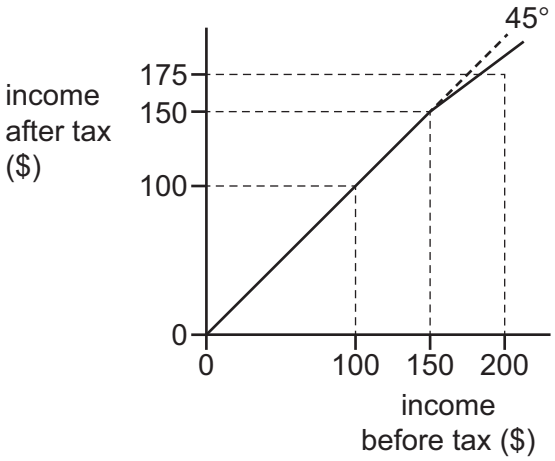
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15 The graph shows an individual's income before and after the deduction of income tax.

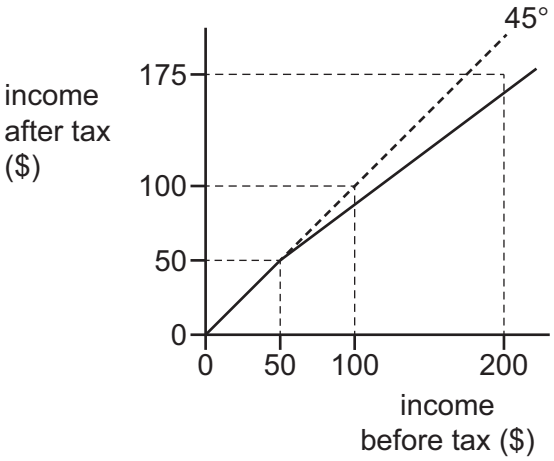


Which change to this income tax system is most progressive?

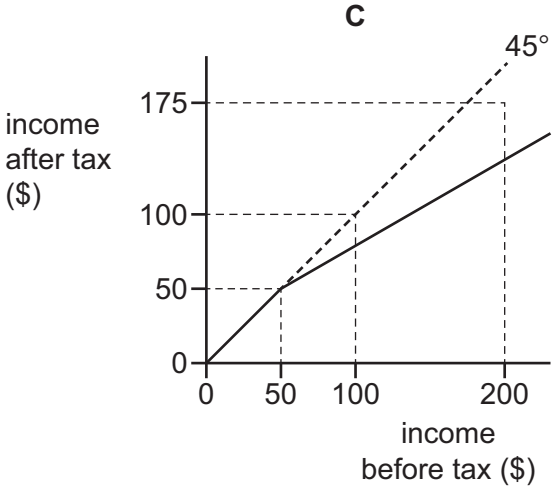
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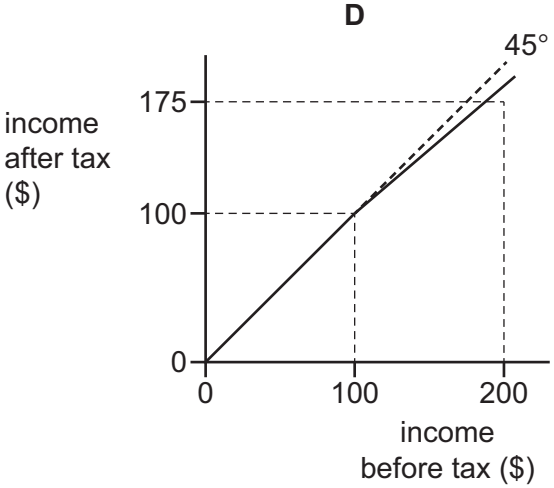
B



C



D



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[Turn over

16 Which source of income is **not** included in measuring real GDP?

A pension paid to retired people

B profits made by firms

C rent paid to landlords

D wages paid to nurses

17 The table shows some labour market statistics.

	million
number of people of working age	45
number of people unemployed	2
number of people in the labour force	40
number of people in the population	80

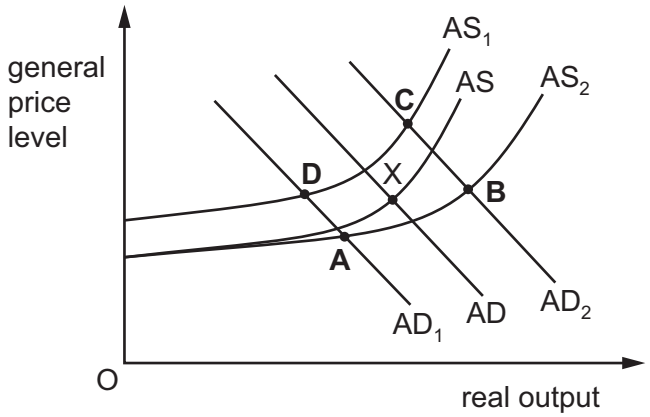
What is the unemployment rate?

A 2.5% **B** 5% **C** 6.25% **D** 12.5%

18 The diagram shows aggregate demand (AD) and aggregate supply (AS) where the initial equilibrium is at point X.

The central bank forecasts a rise in raw material costs. The government plans to increase spending on health.

What would be the new equilibrium in the short run if the forecasts prove to be accurate and the government plans are implemented?



19 An economy is experiencing a period of deflation.

What must be happening?

A The average price level is falling.

B The output of the economy is falling.

C The rate of inflation is falling.

D The real value of money is falling.

20 What is the most likely consequence of economic growth?

A a fall in the price of raw materials

B a rise in youth unemployment

C a worsening current account balance

D reduced demand-pull inflationary pressures

21 A government wants to operate a tighter monetary policy.

What would it increase?

A budget surplus

B interest rate

C money supply

D rates of taxation

22 Which action is classified as a fiscal policy measure?

A fixing a currency to another country's currency

B tightening credit regulations on banks

C providing guidance to industry and the public

D managing changes in the level of government debt

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23 The table shows government spending and revenue over a three-year period.

year	government spending ($bn)	government revenue ($bn)
1	90	100
2	110	110
3	130	115

What can be concluded from the data?

A A budget surplus becomes a budget deficit in year 3.

B National debt is likely to be falling by the end of year 3.

C The current account balance is in equilibrium in year 2.

D The economy is at full employment equilibrium in year 2.

24 Which statement about supply-side policies is correct?

A They solve the problem of demand deficient unemployment.

B They do not involve an opportunity cost.

C They reduce unemployment but do not affect the price level.

D They may reduce regional unemployment.

25 A government has a target to reduce the rate of inflation.

Why might it **not** want to raise interest rates to achieve this target?

A aggregate demand may fall

B aggregate supply may fall

C saving may fall

D the exchange rate may fall

26 Which argument in favour of protectionism is **not** generally regarded as economically valid?

A Once the protected industry becomes established, it will produce efficiently.

B It prevents heavily subsidised imports from competing unfairly against domestic goods.

C It provides time for the protected industry's workers to be retrained for other work.

D It increases the standard of living of the population in general.

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27 A country has a deficit on the current account of the balance of payments.

What would be expected to increase the deficit?

A an appreciation of the exchange rate

B an increase in domestic productivity

C an introduction of import quotas

D a rise in subsidies to domestic firms

28 A government increases the import quota of cars.

What is the likely effect of this?

A jobs will be created in the domestic car industry

B prices of cars will fall for domestic consumers

C specialisation is reduced

D trading partners will retaliate

29 The table gives the terms of trade index for a country over three years.

	year 1	year 2	year 3
terms of trade	100	105	112

What is the most likely impact of this change?

A there will be a decrease in cost-push inflation

B there will be a decrease in living standards

C there will be an increase in the budget surplus

D there will be an increase in the volume of exports

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30 Country X and country Y use the same amount of resources to produce mobile phones and televisions. The table shows how much of each product can be produced if all resources are used to produce that product.

	mobile phones	televisions
country X	500	400
country Y	100	200

What can be deduced about absolute advantage and comparative advantage?

A Country X has an absolute advantage in producing mobile phones and a comparative advantage in producing televisions.

B Country X has an absolute advantage in producing televisions and a comparative advantage in producing mobile phones.

C Country Y has an absolute advantage in producing mobile phones and a comparative advantage in producing televisions.

D Country Y has an absolute advantage in producing televisions and a comparative advantage in producing mobile phones.

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Cambridge International AS & A Level

ECONOMICS **9708/14**

Paper 1 AS Level Multiple Choice **May/June 2025**

1 hour

* 5 8 2 8 7 4 7 7 4 2 *

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

1 What is a common criticism of economics?

A It fails to establish theories of economic behaviour.

B It is unable to construct models of how an economy might work.

C It lacks the ability to use and apply mathematics.

D It is very difficult to undertake laboratory experiments in economics.

2 What is an essential requirement for a market economy to be able to allocate its resources?

A freedom of entry and exit

B private ownership of property

C many buyers and sellers

D perfect product knowledge

3 Under which conditions are free market forces most likely to allocate resources efficiently in an economy?

	the number of certain types of good needed by consumers in the economy		
	demerit goods	merit goods	public goods
A	a few	a few	a few
B	many	many	a few
C	none	many	none
D	none	none	none

4 What does a production possibility curve show?

A the actual demand in an economy given its existing resources

B the maximum output an economy can achieve using existing resources

C the maximum output an economy can ever achieve

D the minimum combinations of output an economy can achieve

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5 A city built a new stadium to host the World Athletics championships. The city authorities also ensured clean air by closing factories and making their workers unemployed during the championships.

Which part of this is an example of non-rival consumption?

A The improved air quality also benefited those who did not have to pay for it.

B The private costs and external costs were borne by the city authorities.

C The stadium could be used after the championships.

D The unemployed factory workers were entitled to free tickets to the stadium.

6 Along which axis can the market demand curve be aggregated from individual demand curves?

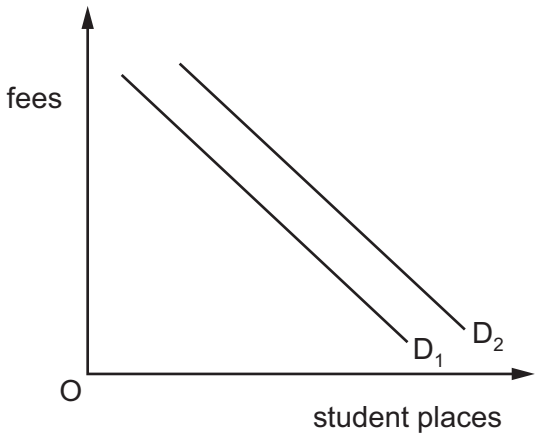
A both the horizontal and the vertical axis

B the horizontal axis only

C the horizontal or the vertical axis but not both

D the vertical axis only

7 In the diagram, D_1 is the initial demand curve for student places at universities.



What could cause the demand curve to shift to D_2?

A a decrease in student fees for universities

B a decrease in the level of youth unemployment

C an increase in graduate earnings compared with non-graduate earnings

D higher A Level grades demanded for university entrance

8 A survey into the market for good X found that it is an inferior good and a close substitute for good Y.

Which values for the income elasticity of demand for good X and its cross elasticity of demand with respect to the price of good Y would support this?

	income elasticity of demand for good X	cross elasticity of demand for good X with respect to the price of good Y
A	–1.2	–0.9
B	–1.2	+0.9
C	+1.2	–0.9
D	+1.2	+0.9

9 What is the likely nature of the price elasticity of supply of a crop such as rice?

A highly elastic in both the short and the long run as rice is an essential product

B highly elastic in the short run and more inelastic in the long run as production methods improve

C highly inelastic in both the short and the long run as the land area of a country is fixed

D highly inelastic in the short run and more elastic in the long run as it takes time to plant rice

10 The price of laptop computers falls.

The price of which product is likely to rise as a result?

A desktop computers

B carrying cases for laptop computers

C monitors for desktop computers

D workstation tables for desktop computers

11 Assuming normal demand and supply for a product, what will definitely increase consumer surplus?

A a shift in the demand curve to the left

B a shift in the demand curve to the right

C a shift in the supply curve to the left

D a shift in the supply curve to the right

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12 A government in a market economy decides to subsidise the provision of the internet in remote parts of a country.

What is the most likely reason for doing this?

A to decrease provision of a demerit good

B to increase provision of a merit good

C to provide a public good

D to reduce negative externalities

13 Who is intended to benefit from an agricultural buffer stock scheme during periods of plentiful harvests?

A consumers of food

B growers of food

C processors of food

D taxpayers

14 A government decides to increase indirect taxes, abolish the agricultural subsidy and lower the income level at which tax becomes payable.

What would be the most likely consequence of these changes?

A a decrease in cost-push inflation

B an increase in income inequality

C an increase in the balance of payments deficit

D an increase in the budget deficit

15 What can be calculated using the formula $\frac{\text{nominal GDP} \times \text{price index in base year}}{\text{price index in current year}}$?

A gross national income

B real gross domestic product

C net domestic income

D net domestic product

16 What is always regarded as a cause, rather than a consequence, of a change in the circular flow of income?

A a decrease in government tax revenue

B an increase in consumption spending

C an increase in savings

D an increase in the value of exports

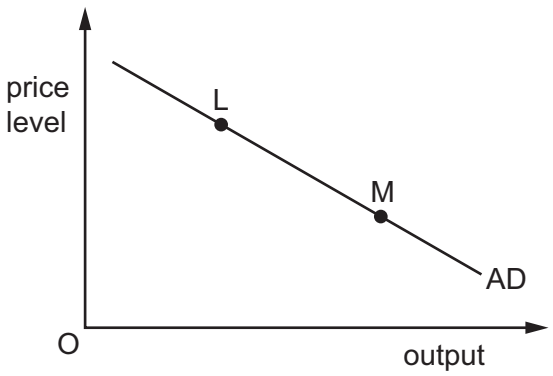
17 The table shows some data for an economy.

investment ($ million)	exports ($ million)	government expenditure ($ million)	savings ($ million)	imports ($ million)	taxation ($ million)	national income ($ million)
200	100	50	125	62.5	62.5	600
200	100	50	150	75	75	700
200	100	50	175	87.5	87.5	800
200	100	50	200	100	100	900

What is the equilibrium level of national income?

A $600 million **B** $700 million **C** $800 million **D** $900 million

18 The diagram shows an economy's aggregate demand curve.



What explains the downward movement from L to M along the AD curve?

A an increase in tariffs leading to decreased imports

B a decrease in taxes on firms, causing an increase in short-run aggregate supply

C an increase in consumer confidence, prompting higher spending on local goods as well as imports

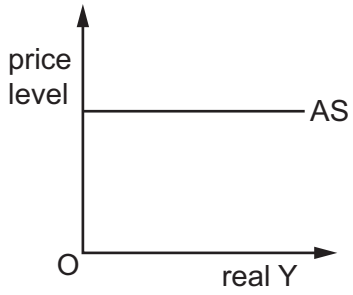
D a slow-down in economic activity, resulting in decreased investment spending

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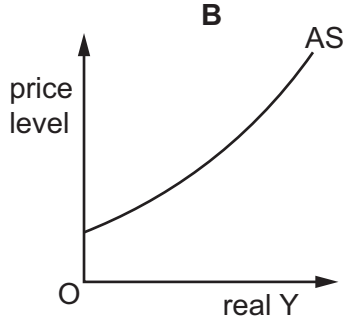
19 Long-run aggregate supply (AS) in an economy can be represented diagrammatically in different ways.

For which AS curve would a long-term fall in aggregate demand always be likely to result in the level of employment remaining unchanged?

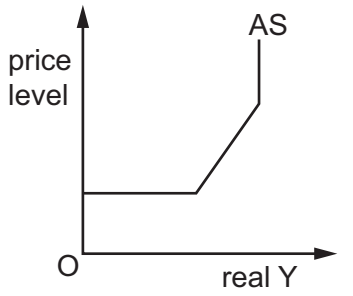
A



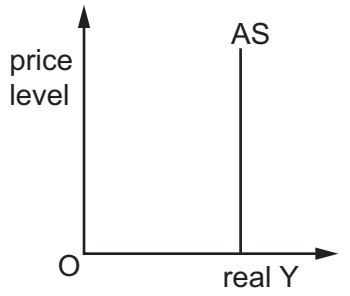
B



C



D



20 If a country is suffering from deflation, what would be the best policy to reflate the economy?

A increase corporation tax

B increase income tax

C reduce interest rates

D reduce spending on education

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

A Food prices would increase because of shortages.

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

C Savings would increase because of additional disposable income.

D The consumption of domestically produced goods would increase.

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22 What is **not** a monetary policy measure?

A credit regulations for banks

B interest rate changes

C increased government subsidies

D money supply changes

23 The government has a macroeconomic objective of low unemployment. It has recently decreased interest rates.

What may limit the effectiveness of this tool in achieving the objective of low unemployment?

A a lack of productive capacity

B excess demand in the economy

C increased government spending on infrastructure

D low levels of welfare benefits

24 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1000	1600
country Q	1500	2000

Which statement is correct?

A P has an absolute advantage in Z and Q has a comparative advantage in Y.

B P has an absolute advantage in Z and Q has an absolute advantage in Y.

C P has a comparative advantage in Y and Q has an absolute advantage in Z.

D P has a comparative advantage in Z and Q has an absolute advantage in Y.

25 A trading country can produce two goods, X and Y. It specialises completely in the production of good Y.

What will be the opportunity cost to the country of consuming additional imports of good X?

A the additional imports of good X

B the increase in the resources required to produce good X

C the reduction in the domestic consumption of good Y

D the reduction in the resources available to produce good Y

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26 What are the terms of trade?

A the difference in value between a country's exports and imports

B the rate at which one currency can be exchanged for another

C the rate at which tariffs can legally be applied to exports and imports

D the ratio of average export prices to average import prices

27 An Australian family purchases a holiday to New Zealand and an Australian mining company sells coal to China.

Four students, **A**, **B**, **C** and **D**, are asked where these transactions appear in the current account of Australia's balance of payments.

Which student is correct?

	holiday to New Zealand	coal to China
A	service export	good export
B	service export	good import
C	service import	good export
D	service import	good import

28 A government believes its current account deficit will be beneficial in the long run.

What is the most likely reason for this?

A Immigration has increased.

B It imports capital goods.

C It exports raw materials.

D It reduces unemployment.

29 A country has a freely floating exchange rate.

In which circumstance is it most likely to appreciate?

A A competitor trading country experiences a fall in the value of its currency.

B Increased administrative burdens are placed on companies within this country wishing to buy imports.

C There is a fall in demand for its exports.

D There is a fall in the level of its rate of interest.

30 A country has a current account deficit.

What would be classified as a protectionist measure to restore the current account to equilibrium?

A allow the exchange rate to appreciate

B increase income tax

C increase import tariffs

D increase the rate of interest

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