Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **February/March 2018**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

3274969774

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **12** printed pages.

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1 Which statement about economics is **not** correct?

A Economic actions can produce unexpected side effects.

B Economic thinking is usually based on logical reasoning at the margin.

C The use of scarce resources to produce a good always has a cost.

D The value of a good or service involves a purely objective judgement.

2 A farmer is able to grow three crops, X, Y and Z, on his land.
The farmer decides to grow at most two crops in any year.
The table shows six possible combinations of units of output of the three crops.

	output					
X	0	0	80	40	40	0
Y	0	60	0	30	0	30
Z	40	0	0	0	20	20

What is the opportunity cost of 1 unit of X?

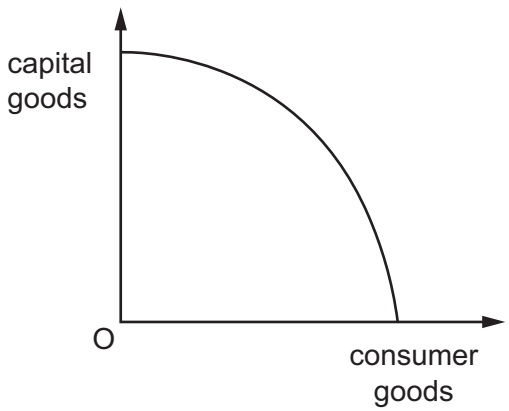
A 1.33 units of Y

B 1.5 units of Y

C 0.5 units of Z

D 2.0 units of Z

3 The diagram shows a production possibility curve for an economy that produces capital goods and consumer goods.



Why is the production possibility curve drawn concave to the origin?

A Capital goods are a more labour intensive output than consumer goods.

B Consumers always seek to maximise their satisfaction from consumption.

C Profit maximisation for firms always ensures efficiency in production.

D Some resources are more efficient in production of some goods than others.

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4 The Bureau of Alcohol, Tobacco, Firearms and Explosives is a branch of the United States Government which regulates markets.

What does its name imply is most likely to be its main responsibility?

A to prevent harm from demerit goods

B to provide subsidies for essential goods

C to raise revenue from goods in elastic demand

D to safeguard employment in manufacturing industry

5 What is treated as a variable in constructing a market demand curve?

A consumers' tastes

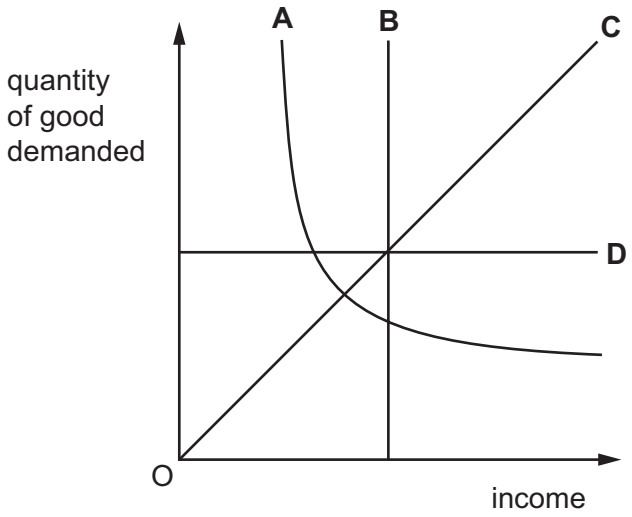
B the distribution of income

C the price of related goods

D the price of the good

6 The diagram shows how the quantity demanded of four goods changes as income changes.

Which good has an income elasticity of demand which is always +1?



7 The table shows three different prices and quantities supplied per week of two products, X and Y.

price of X ($)	quantity supplied of X	price of Y ($)	quantity supplied of Y
10	80	30	60
15	100	40	64
20	110	50	80

Which statement about price elasticity of supply (PES) is correct?

A The PES of X is elastic for a fall in its price from $15 to $10.

B The PES of X is unitary for a rise in its price from $15 to $20.

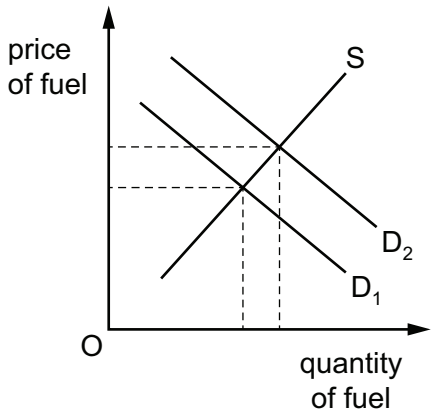
C The PES of Y is elastic for a fall in its price from $40 to $30.

D The PES of Y is unitary for a rise in its price from $40 to $50.

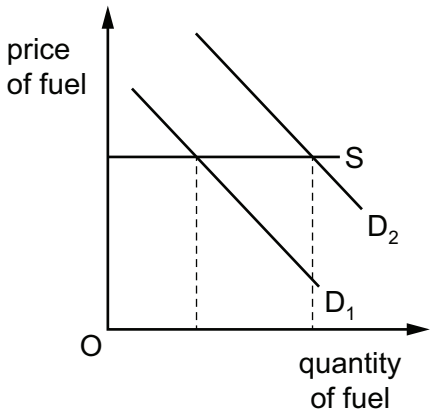
8 In 2016 car drivers bought more fuel (gas) because the price of oil from which it was made had fallen.

Which diagram represents this change in the market for fuel?

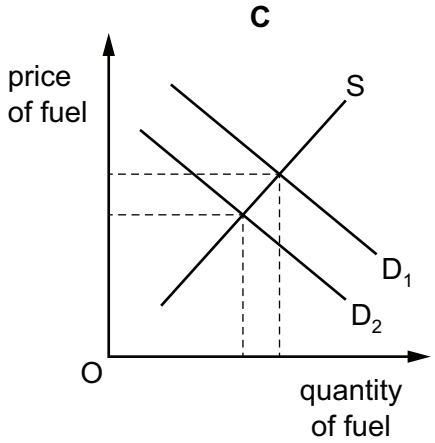
A



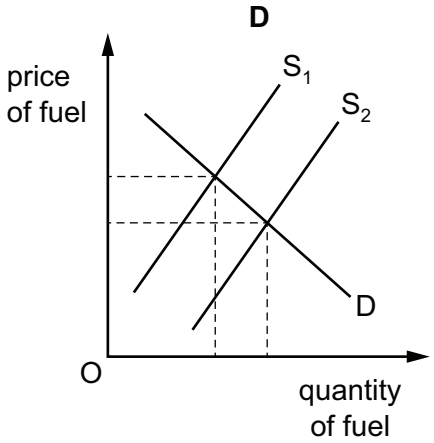
B



C



D



9 The market demand for a product is made up of the demand from three firms, X, Y and Z.

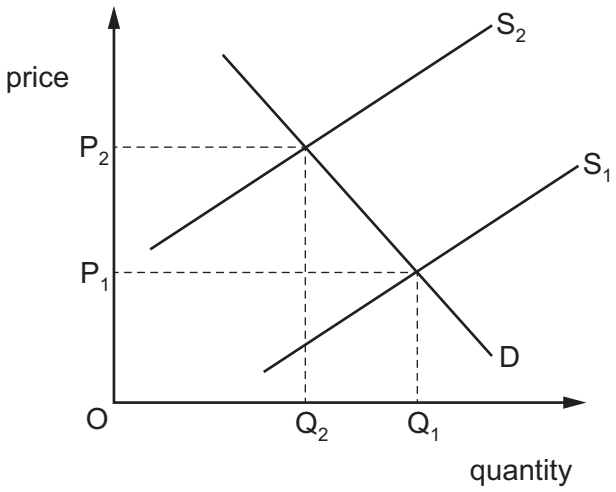
The table shows the demand from each firm and the market supply.

price $	demand from X	demand from Y	demand from Z	market supply
7	3300	3300	3300	3 300
8	3100	2900	3100	6 200
9	2800	2500	2900	8 200
10	2500	2100	2700	10 000

What is the equilibrium price in the market?

A $7 **B** $8 **C** $9 **D** $10

10 The diagram represents the market for diamonds.



What could have caused price to change from P_1 to P_2?

A a fall in the price of substitute gems

B a fall in the tax on diamonds

C a rise in the productivity of diamond miners

D a rise in the wages of diamond miners

11 Good X has a substitute, good Y, and a complement, good Z. The price of good Y decreases and the price of good Z increases.

Why might the equilibrium price of good X remain unchanged?

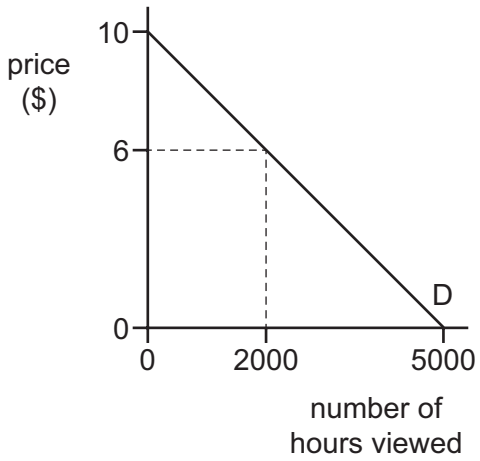
A Producers of good X adopt new technology.

B Producers of good X receive a subsidy.

C Some firms stop production of good X.

D The tax on the production of good X is cut.

12 At first, a television service is available at no charge. The television company then charges viewers $6 per hour to watch its programmes. The demand curve is D.

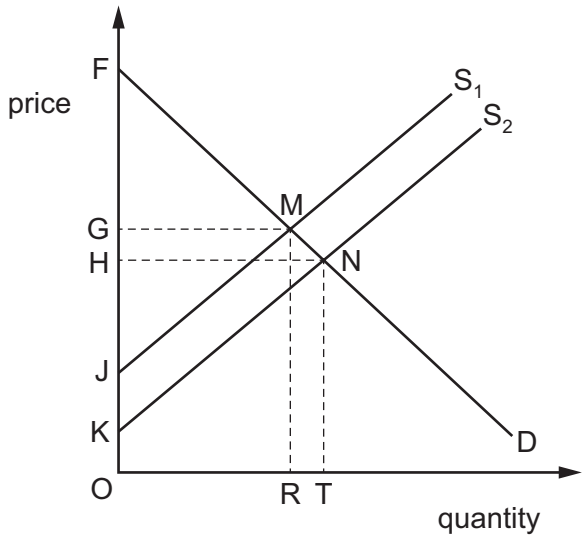


What is the value of the loss in consumer surplus and what value of consumer surplus remains after the introduction of the hourly charge?

	lost consumer surplus ($)	remaining consumer surplus ($)
A	9 000	4 000
B	9 000	16 000
C	21 000	4 000
D	21 000	16 000

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13 The diagram shows the European airline market.



New entrants have come into the market, shifting supply from S_1 to S_2.

Which area represents the new producer surplus?

A GMJ **B** HNF **C** HNK **D** KNTO

14 Which benefit is most likely to result from a rise in the minimum price of labour (wage rate)?

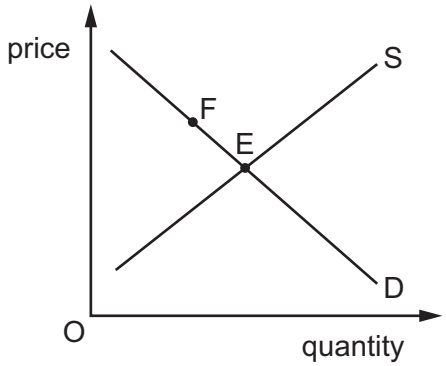
A a reduction in costs of production

B a reduction in income inequality

C a reduction in the level of unemployment

D a reduction in the rate of inflation

15 The diagram shows the equilibrium price and quantity of good X.



The initial market equilibrium is shown by point E.

What might cause the market equilibrium to move to point F?

A a decrease in the costs of producing good X

B a decrease in the demand for good X

C an increase in the price of a substitute good

D the imposition of a specific sales tax on producers of good X

16 The table shows the demand and supply schedules for a product before and after the government pays a subsidy of $4 per unit to the producers.

price $	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	250	50	150
8	200	100	200
10	150	150	250
12	100	200	300
14	50	250	350

Assuming that any extra sales are to new consumers, how much do the original consumers of the product save as a result of the subsidy?

A $300 **B** $600 **C** $900 **D** $1500

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17 Which statement about transfer payments is correct?

A Transfer payments are intended to reward productive economic activity.

B Transfer payments are only financed by government.

C Transfer payments may result in a disincentive to work.

D Transfer payments will include the sales of new cars.

18 What is the major problem associated with a government directly providing the correct amount of a public good?

A competition from private producers

B estimation of demand

C increased trade diversion

D rivalry in consumption

19 An aggregate demand curve slopes downwards from left to right.

One reason for this is that a reduction in the average price level will lead to

A a decline in the country's international competitiveness.

B an increase in interest rates.

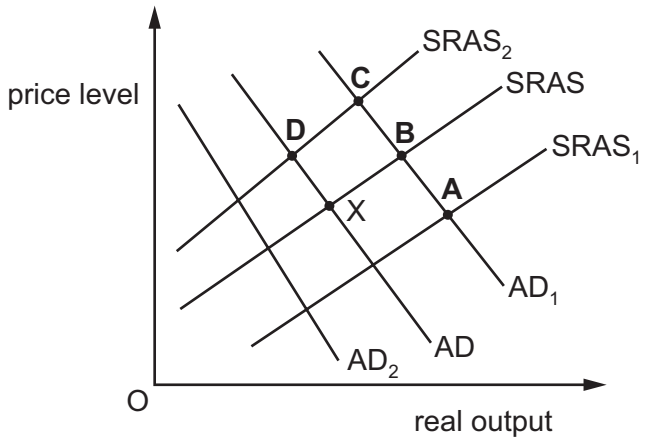
C an increase in the real value of money balances.

D the expectation of further price falls.

20 In the diagram an economy is initially in equilibrium at point X.

The government increases spending on education. This coincides with an increase in wage rate inflation.

Which point shows the most likely short-run equilibrium of the economy?



21 During one year the national output of a country valued in terms of money prices increased by 8% while the index of the prices of all goods and services produced in the country increased by 3%.

By how much did the real national output increase?

A 3% **B** 5% **C** 8% **D** 11%

22 The table shows the CPI rate of inflation (%) in the United States from 2006 to 2013.

2006	2007	2008	2009	2010	2011	2012	2013
2.5%	4.1%	0.1%	2.7%	1.5%	3.0%	1.7%	2.0%

What can be concluded from the figures about the period 2006 to 2013?

A There was one year of constant prices.

B There were three years of deflation.

C There were only four years of inflation.

D There were eight years of rising living costs.

23 In 2014 Australia and China negotiated a trade agreement. This removed Chinese tariffs on 95% of Australian exports in exchange for greater access to the Australian economy for Chinese investors.

How would the agreement be expected to affect the Australian balance of payments in the short run?

	current account	financial account
A	greater inflow	greater inflow
B	greater inflow	greater outflow
C	greater outflow	greater inflow
D	greater outflow	greater outflow

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

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

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

25 The table shows the terms of trade for Saudi Arabia.

date	terms of trade
2000	100
2010	105
2015	137

What can be concluded from the table for Saudi Arabia?

A Export prices rose relative to import prices.

B The balance of trade surplus increased.

C The volume of exports exceeded the volume of imports.

D The volume of exports rose faster than the volume of imports.

26 What is present in a customs union but **not** in a free trade area?

A a common external tariff with the rest of the world

B a common monetary system

C a common system of taxation

D the free movement of all goods, services and factors of production

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

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

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

28 Which action is classified as a fiscal policy measure?

A fixing a currency to another country's currency

B managing changes in the level of government debt

C providing guidance to industry and the public

D tightening reserve asset requirements for financial institutions

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

Which policy 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

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

A increasing the government's budget surplus

B increasing liquidity by assisting banks to lend more

C investing in projects to improve transport networks

D switching the burden of taxation from earning to spending

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