Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **February/March 2019**

1 hour

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

1579907748

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.

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1 Which outcome depends upon the division of labour?

A a decrease in boredom at work

B a decrease in comparative advantage

C a decrease in efficiency

D a decrease in opportunity cost

2 'An increase in consumption by one person leaves the benefits available to others undiminished'.

Which good does this statement define?

A a demerit good

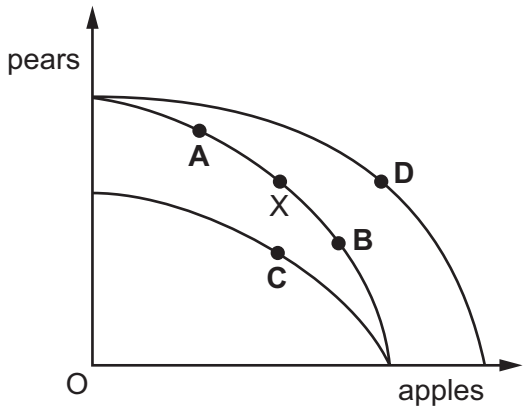
B a merit good

C a private good

D a public good

3 The diagram shows a production possibility curve for a farmer. The original position is X.

If the farmer switches some of his land from producing pears to producing apples, which point represents his new position?



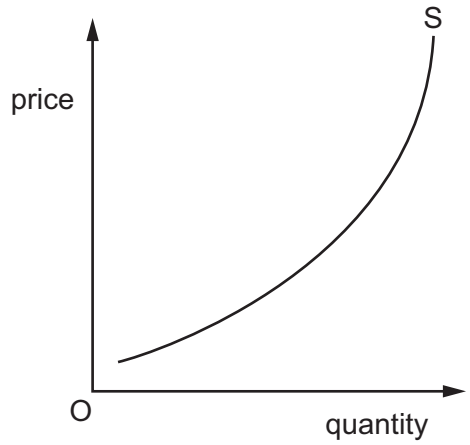
4 A student buys a flute for $80 but then is unable to learn to play it. It has a resale value of $50, while the shop retail price of the same type of flute has risen to $95.

What is the present opportunity cost to the student of keeping the flute?

A $30 **B** $50 **C** $80 **D** $95

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5 The diagram shows a supply curve for beef.



What explains why the supply curve for beef slopes upwards?

A An increase in the demand for beef will bring about an increase in supply.

B Farmers' productivity rises as the price rises.

C Increased production leads to a reduction in costs.

D The cost of additional beef production rises as output increases.

6 A theatre increases the price of its tickets from $10 to $15. As a result, its total receipts decrease from $10 000 to $6000.

Within what range does the price elasticity of demand for theatre tickets lie?

A 0.2 to 0.5

B 0.6 to 1.0

C 1.1 to 1.4

D 1.5 to 2.0

7 A taxi firm raises fares at its busiest times by as much as five times the normal fare. Taxi drivers and customers are notified of the changes by mobile (cell) phone.

What will result from this policy?

A It will be less likely that there is a market equilibrium.

B Potential customers will have less perfect information.

C The market surplus will become a shortage.

D The supply of taxi rides will become more price elastic.

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8 The table shows Shanaz's and Sunil's price elasticity of demand for restaurant meals and theatre tickets.

	Shanaz	Sunil
restaurant meals	–0.8	–1.2
theatre tickets	–1.3	–0.7

There is a rise in the price of restaurant meals and a fall in the price of theatre tickets.

What can be concluded after these price changes?

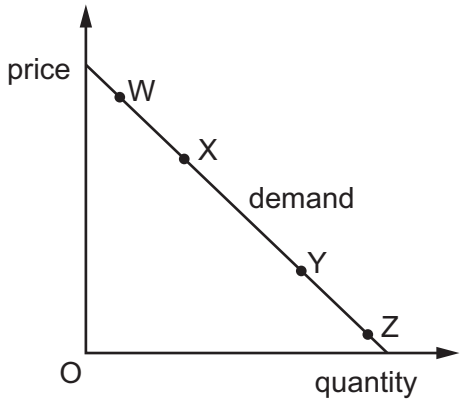
A Restaurant owners will receive more income.

B Shanaz will spend more money on both theatre tickets and restaurant meals.

C Sunil will spend more money on both theatre tickets and restaurant meals.

D Theatre owners will receive less income.

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

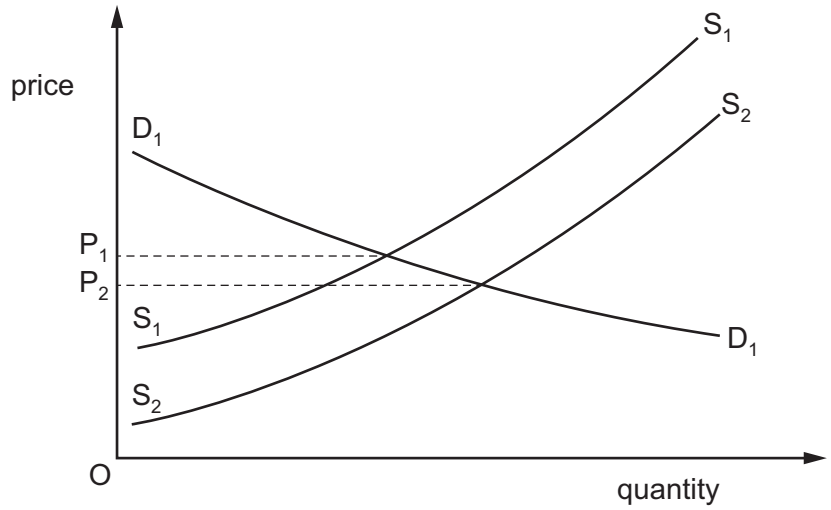


Which two points indicates a move from a price inelastic point to a less inelastic point?

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

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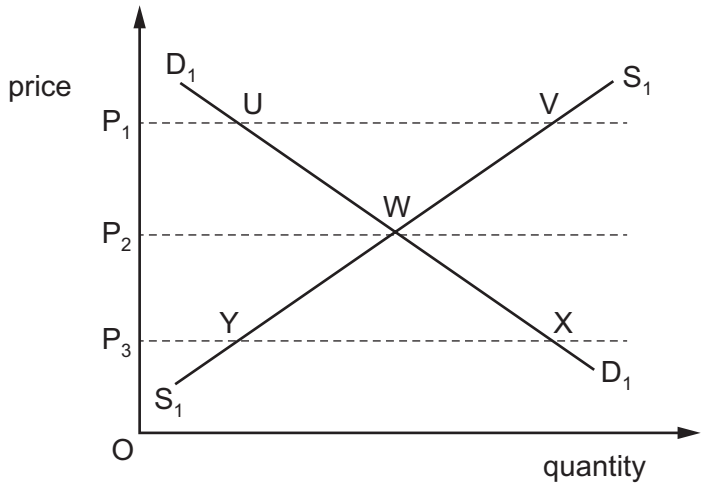
10 In the diagram, the supply of a product increases while the demand curve does not shift.



Which row correctly identifies the resulting impact on consumer and producer surplus?

	consumer surplus	producer surplus
A	has fallen	has fallen
B	has fallen	has risen
C	has risen	has fallen
D	has risen	has risen

11 The diagram shows the market demand and supply for a good. Which statement is **not** valid?



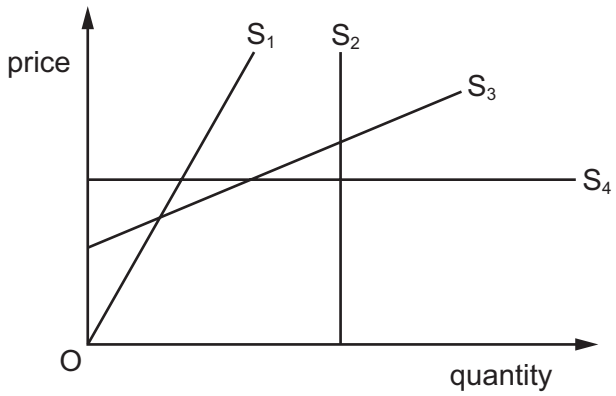
A At price OP_1, UV represents the market surplus.

B At price OP_3, P_3X represents the quantity that consumers would like to buy.

C If price were to fall from OP_1 to OP_3, the extra quantity demanded would be equal to the extra quantity supplied.

D Price OP_2 is the market equilibrium price.

12 For which supply curve is the value of price elasticity of supply **not** the same at all points on the curve?



A S_1 **B** S_2 **C** S_3 **D** S_4

13 Producer surplus is the difference between

A the consumer surplus from the good and the producers' total cost of supplying the good.

B the highest price that the consumer would be willing to pay for the good and the price the producer actually sold it for.

C the lowest price that the producer would accept for the good and the price the producer actually sold it for.

D the quantity that the producers manufacture in a week and the amount sold to consumers in that week.

14 A government wishes to raise the incomes of farmers without raising the price of food to consumers.

Which policy should it use?

A a maximum price below the market price for food

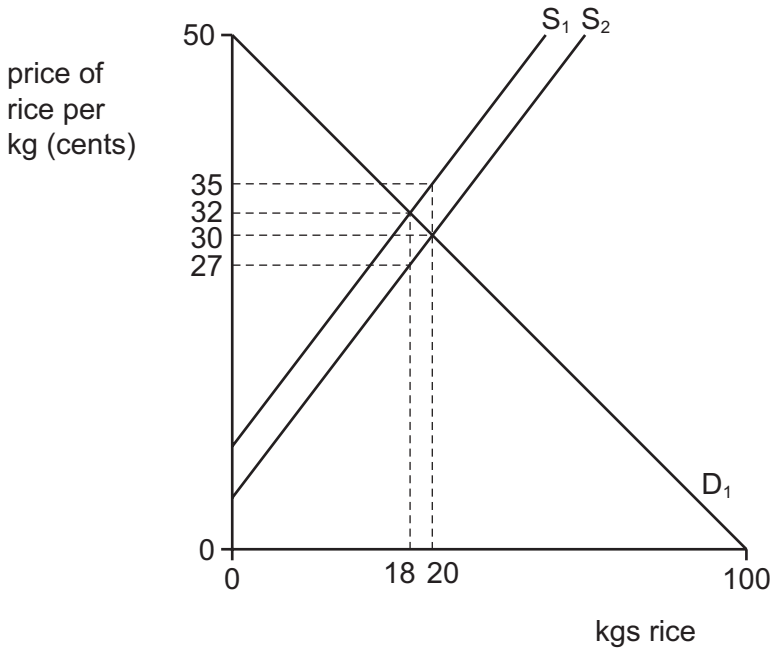
B a minimum price below the market price for food

C a payment of a subsidy to farmers to produce food

D a release of government food stocks onto the market

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15 The diagram shows the demand and supply of rice. Supply increases from S_1 to S_2.



What is the change in sales revenue received by the rice farmer?

A 24 cents

B 60 cents

C 600 cents

D 700 cents

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

Why is this called a transfer payment?

A The payment is from taxes paid by employed workers.

B The payment is made from government savings not current income.

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

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

17 What describes a regressive tax?

A low income earners pay a higher proportion of their income in tax than high income earners

B marginal tax rates exceed average tax rates

C the cost of collecting the tax exceeds the revenue raised

D the marginal rate of tax is higher for high income earners than for low income earners

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18 A government is concerned that foreign-owned companies are responsible for a high proportion of the economy's output. Therefore it nationalises timber extraction, which is controlled by a foreign-owned company.

What benefit will the economy gain from the change in ownership?

A forestry workers will become the new owners

B profits will no longer be sent abroad to foreign shareholders

C social costs arising from forestry will be eliminated

D the market for timber will become more competitive

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

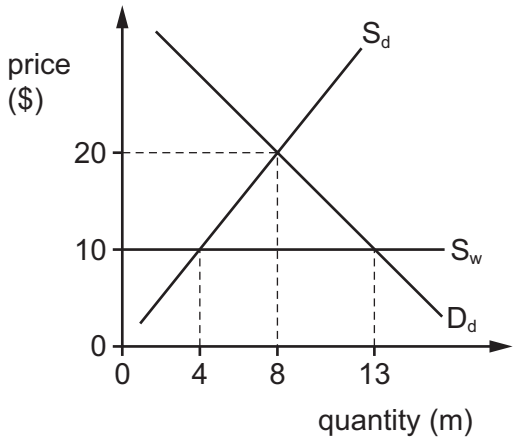
A Export prices fall whilst import prices rise.

B Export prices rise by the same amount as import prices.

C Export prices rise slower than import prices.

D Export prices rise whilst import prices stay the same.

20 In the diagram S_d is the domestic supply of a product, S_w is the world supply and D_d is the domestic demand for the product.



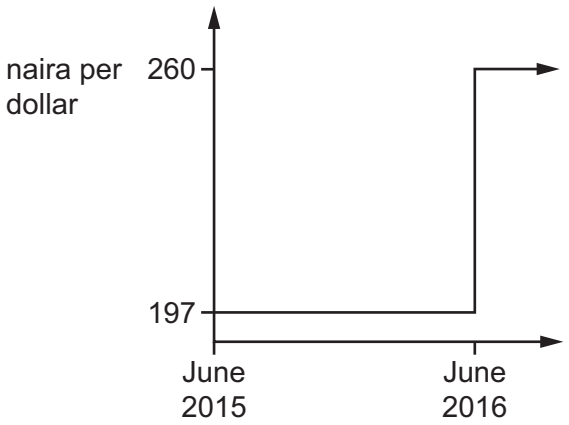
After operating a free trade system the country bans all imports.

What will be the effect on the revenue of domestic producers and world producers of the ban?

	domestic producers $m	world producers $m
A	gain 120	lose 50
B	gain 120	lose 90
C	gain 160	lose 50
D	gain 160	lose 90

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21 The diagram shows the value of the Nigerian naira against the US dollar between June 2015 and June 2016.



Which term is used for the change in the value of the naira in June 2016?

A appreciation

B depreciation

C devaluation

D revaluation

22 Countries M and N produce the world supply of machines and textiles. The table shows what each country produces when it divides its resources equally between the two products.

	machines	textiles
country M	1000	500
country N	900	300
total	1900	800

What should happen according to the principle of comparative advantage?

A Country M should produce both machines and textiles.

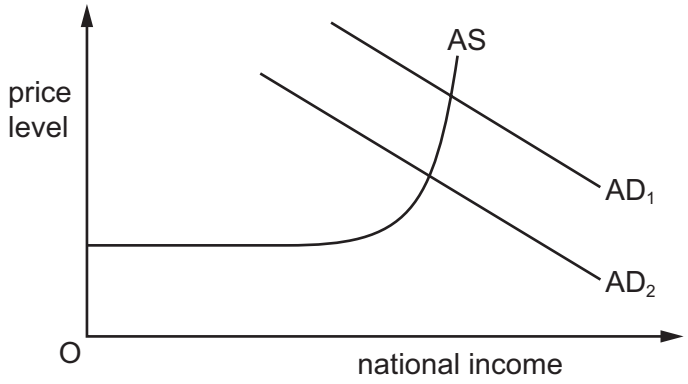
B Country M should specialise in the production of machines, country N should specialise in production of textiles.

C Country M should specialise in the production of textiles, country N should specialise in production of machines.

D Country N should produce both machines and textiles.

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23 The diagram shows an aggregate supply curve, and aggregate demand curves.



What would cause a decrease in aggregate demand from AD_1 to AD_2?

A an increase in income tax

B an increase in the price of electricity

C an increase in the tax on goods

D an increase in wage rates

24 Two countries trade with one another without any forms of protection. They also impose a common external tariff on the imports from all other countries.

What have these two countries formed?

A a customs union

B a free trade area

C a monetary union

D an economic union

25 The terms of trade of a developing country fell from 90 in 2010 to 80 in 2015.

Assuming the index of its import prices remained constant at 110 between these two years, what happened to its index of export prices?

A fell by 10

B fell by 11

C increased by 10

D increased by 30

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26 Which type of import control allows a country to develop a potential comparative advantage in a particular good?

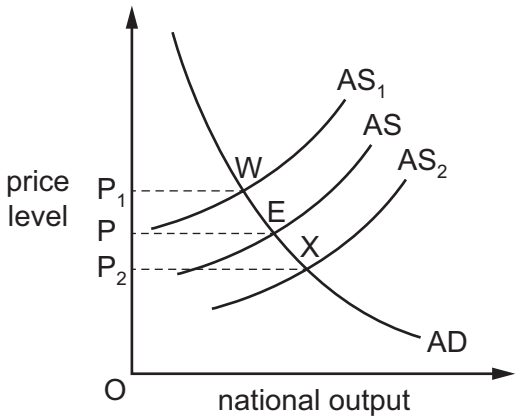
A a quota that protects jobs in a depressed region

B a short-term tariff that protects an infant industry

C a tariff that improves an industry's terms of trade

D an embargo on goods with negative externalities

27 The diagram shows aggregate demand (AD) and aggregate supply (AS) in an economy. The initial equilibrium is at point E.



What causes shifts in the aggregate supply curve from AS to AS_1 and from AS to AS_2?

	shift from AS to AS_1	shift from AS to AS_2
A	change in AD from E to W	change in AD from E to X
B	increase in price level from P to P_1	decrease in price level from P to P_2
C	increase in productivity of capital	fall in the returns to capital
D	shortages of skilled labour	improvements in training of workforce

28 Which action might be part of an expansionary economic policy?

A reducing the budget deficit

B reducing the level of government spending

C reducing the money supply

D reducing the rate of interest

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29 A government is faced with rising inflation. It wishes to reduce inflationary pressure while avoiding a fall in output.

Which action is **most** likely to meet its needs?

A an increase in laws to promote competition

B an increase in taxation

C an increase in the budget surplus

D an increase in the exchange rate

30 Why may a government seek to reduce a current account surplus on the balance of payments?

A to lower inflation

B to lower unemployment

C to raise the economic growth rate

D to raise the exchange rate

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