Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **February/March 2020**

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. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

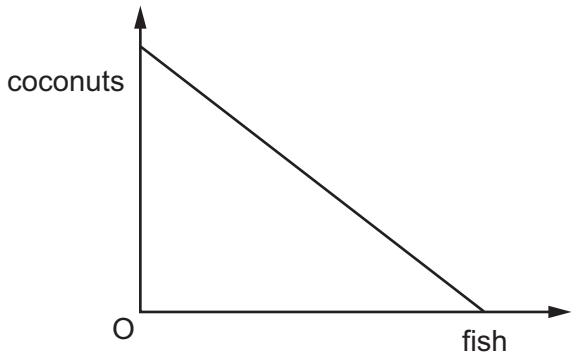
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1 The diagram shows the production possibility curve of a desert island economy where the inhabitants produce just two commodities, coconuts and fish.



What explains the shape of the production possibility curve?

A Coconuts and fish are perfect complements.

B Coconuts and fish are perfect substitutes.

C The inhabitants consume more fish than coconuts.

D The opportunity cost of increasing fish production is constant.

2 A worker earns $40 per hour. Rather than work, she decides to visit a museum for three hours. The visit costs a total of $40.

What is the opportunity cost of visiting the museum?

A $40 **B** $80 **C** $120 **D** $160

3 A newspaper article contains the following comments.

1 The burden of tax should be shifted more to the highest earners.

2 It is in the public interest that key services are nationalised.

Which type of economic statement is illustrated by each comment?

	1	2
A	normative	normative
B	normative	positive
C	positive	normative
D	positive	positive

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4 Which change in the way resources are allocated in an economy is consistent with moving from a planned economy to a market economy?

A A minimum price guarantee for apple producers is removed.

B A new government authority is established to monitor inefficiencies in apple production.

C The production of apples is subsidised to increase output.

D The sale of apples has a maximum price imposed.

5 In which circumstance will the total expenditure by consumers on a good increase when its price increases?

A Demand for the good is income elastic.

B Demand for the good is price inelastic.

C The price of a complementary good also increases.

D The price of substitute goods also increases.

6 When will a manufacturer's ability to increase the quantity supplied in the short run be greater?

A when labour is immobile

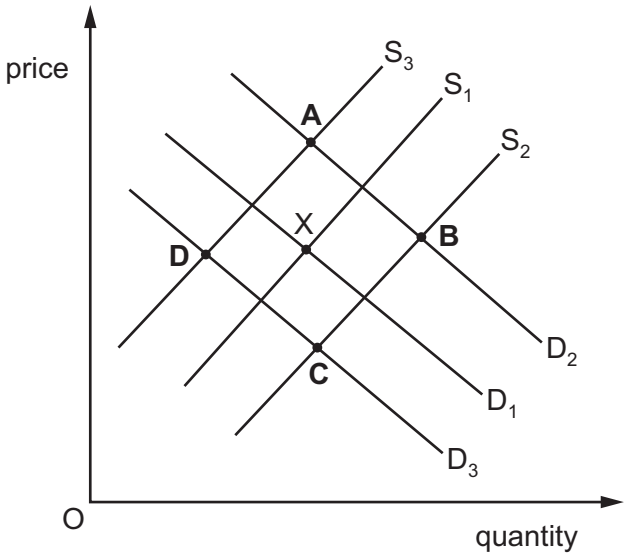
B when spare capacity exists

C when the product is perishable

D when unemployment is low

7 The diagram shows the market for strawberries. The original equilibrium position is X.

What will be the new position following the failure of strawberries to ripen and a fall in the price of cream (a complement to strawberries)?



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8 Good X is related to good Y. Incomes increase and the price of good Y falls.

Which combination would give the greatest increase in demand for good X?

	nature of good X	relationship between good X and good Y
A	inferior good	complements
B	inferior good	substitutes
C	normal good	complements
D	normal good	substitutes

9 What must be correct when the free market for a good is in disequilibrium?

A Consumers can buy all of the good that they demand at the market price.

B Producers can sell all of the good that they supply at the market price.

C The market price of the good will not change.

D The quantity of the good demanded differs from the quantity supplied.

10 A power station burns waste to produce electricity. This also produces a by-product of fertiliser for farmers.

What is the effect in the fertiliser market of an increase in the demand for electricity?

A The price of fertiliser falls and the quantity demanded rises.

B The price of fertiliser falls and the quantity supplied falls.

C The price of fertiliser rises and the quantity demanded falls.

D The price of fertiliser rises and the quantity supplied rises.

11 The table shows the supply and demand for avocados in Mexico City.

price per kilogram ($)	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.

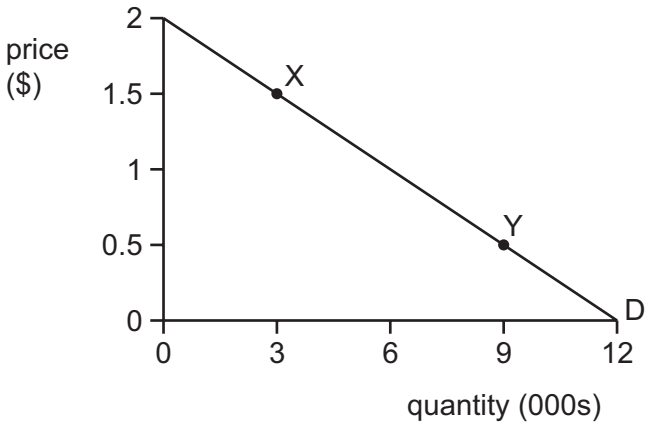
What is the new equilibrium price?

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

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12 The diagram shows a demand curve for pineapples.



What happens to the value of price elasticity of demand (PED) when there is a movement from point X to point Y and what describes the value at point Y?

	effect on value of PED	value of PED at Y
A	fall	elastic
B	fall	inelastic
C	rise	elastic
D	unchanged	unitary

13 Four firms produce furniture. The table shows the price elasticity of supply (PES) for each firm.

If the price of furniture rises by 5% which firm would experience an increase in quantity supplied of 2.5%?

firm	PES for furniture
A	2.5
B	2.0
C	0.6
D	0.5

14 Which argument has often been used to justify the privatisation of state enterprises?

A Private firms can produce the same outputs using fewer inputs.

B Private firms try to earn large profits.

C State enterprises are always monopolies which exploit consumers.

D State enterprises cannot operate without government subsidies.

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15 A government imposes a maximum rent in order to make rented housing more affordable.

What is likely to be a long-run consequence if the maximum is set below the current free market level?

A a shortage of applicants for rented housing

B a shortage of rented housing

C an increase in supply to satisfy the increased demand for rented housing

D an increase in the number of houses being rented

16 What would be categorised as direct government provision of goods and services?

A a government grant to a firm to provide healthcare services

B a government regulation on the amount of sugar in soft drinks

C a government subsidy to a firm that operates a regional train service

D a government takeover of a local bus service

17 Which type of tax is the 15% sales tax levied in South Africa?

A ad valorem direct

B ad valorem indirect

C specific direct

D specific indirect

18 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 the payment of student grants by the government

19 What will lead to an immediate improvement in the balance of payments deficit on current account?

A a fall in interest rates

B a reduction in dividend payments to foreign investors

C a reduction in the standard rate of income tax

D an increase in the level of government current expenditure

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20 An appreciation of the South African rand in the foreign exchange markets is **most** likely to assist the South African government achieve which policy objective?

A a redistribution of income

B a reduction in the rate of inflation

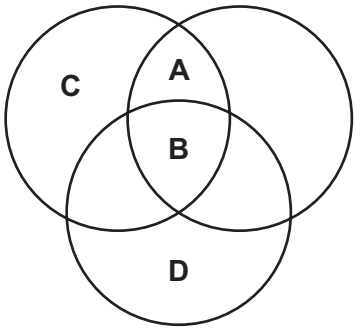
C a reduction in the volume of imports

D an increase in the level of employment

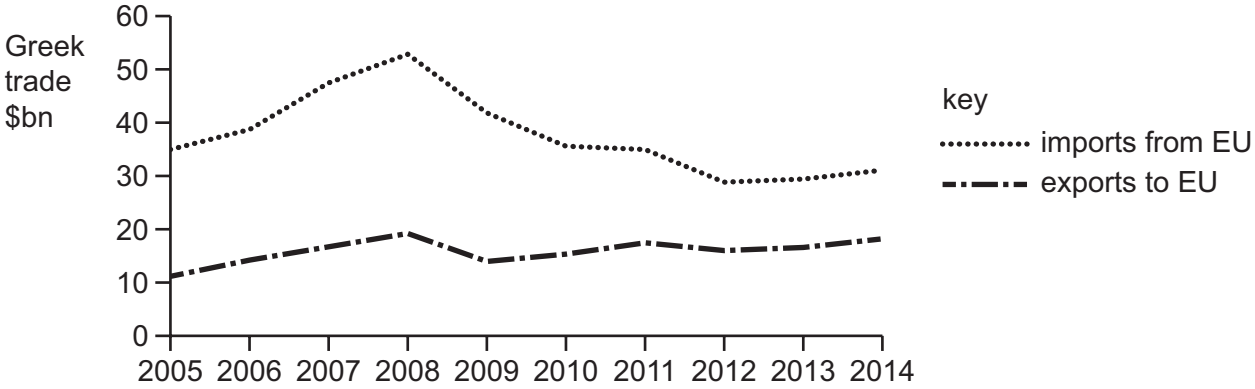
21 Four countries, **A**, **B**, **C** and **D**, trade internationally.

Each circle in the diagram represents a free trade area between the countries within the circle. A country can belong to more than one free trade area. Countries outside of a circle face trade barriers.

Which country has the greatest opportunity to benefit from free international trade?



22 The diagram shows Greece's trade position with the EU between 2005 and 2014.



How does the Greek trade balance with the EU differ in 2014 compared to 2005?

A an increased deficit

B an increased surplus

C a reduced deficit

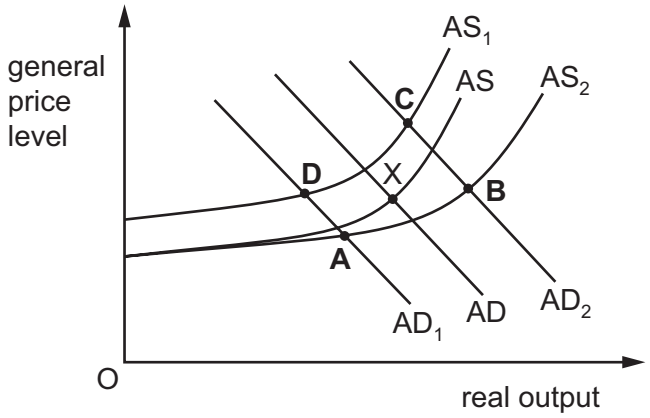
D a reduced surplus

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

The initial equilibrium point is shown by X on the aggregate demand, AD, and aggregate supply, AS, diagram.

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



24 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 exports of capital from the country

B the level of employment in the county

C the prices of imports into the country

D the value of the country's currency

25 In 2018 an investor in the United States (US) purchased shares in a German bank. In December 2018 the US investor was paid a dividend on these shares.

How were these activities recorded in the US balance of payments for 2018?

	share purchase	dividend payment
A	capital account credit	current account credit
B	capital account credit	current account debit
C	capital account debit	current account credit
D	capital account debit	current account debit

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26 Which statement describes disinflation?

A a fall in the price level

B a fall in the rate of inflation

C a rise in the value of money

D inflation below zero

27 In a closed economy a rise in aggregate demand is needed to increase output in the country.

What is necessary to achieve this increase in output in the economy?

A enough capacity to produce the extra goods and services demanded

B free trade to allow imports to make up any shortages in supply

C government spending to be less than tax revenue

D reduced credit to lower inflation

28 A country with a fixed exchange rate and a deficit in the current account of its balance of payments enters a recession. It devalues its currency in an effort to correct its balance of payments.

Under which conditions is the deficit most likely to improve?

	price elasticity of demand for imports	price elasticity of demand for exports	income elasticity of demand for imports
A	0.3	0.5	0.8
B	0.4	0.8	0.8
C	0.3	0.5	1.2
D	0.4	0.8	1.2

29 What is an example of fiscal policy aimed at increasing aggregate demand in an economy?

A increasing expenditure by firms on skills training programmes for unskilled workers

B increasing the commercial banks' lending ability

C reducing the rate of income tax for all income earners

D reducing the rate of interest on loans to manufacturing companies

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30 A country with a fixed exchange rate experiences a balance of payments surplus.

Which policy measure will enable it to maintain its exchange rate?

A decreasing government borrowing

B decreasing government spending

C decreasing the interest rate

D decreasing the money supply

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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 (February/March 2020): multiple choice answers

1 D The PPC is a straight line, so each extra unit of fish always costs the same amount of coconuts.

2 C Opportunity cost is the next best alternative forgone: 3 hours of work at $40 = $120 of earnings.

3 A Both are value judgements ("should be", "public interest") that cannot be tested: normative.

4 A Removing a minimum price guarantee lets the price mechanism, not the state, allocate resources.

5 B With inelastic demand, % fall in quantity < % rise in price, so total expenditure rises.

6 B Spare capacity lets output rise quickly without new capital, so supply is more price elastic.

7 A Unripe crop cuts supply (S1 to S3); cheaper cream raises demand (D1 to D2): S3 meets D2 at A.

8 C Higher income raises demand for a normal good, and a cheaper complement Y raises demand for X too.

9 D Disequilibrium means quantity demanded ≠ quantity supplied, so there is a surplus or shortage.

10 A Joint supply: more electricity means more fertiliser supplied, so its price falls and Qd extends.

11 C New Qs = 290, 250, 210, 170 kg; at $35, Qd = 210 = new Qs = 150 + 60, so price is $35.

Question number		
12	B	PED at X = (6000 × 1.5) ÷ 3000 = 3 (elastic); at Y = (6000 × 0.5) ÷ 9000 = 0.33: falls, inelastic.
13	D	PES = % change in Qs ÷ % change in P = 2.5% ÷ 5% = 0.5, so firm D.
14	A	Profit motive and competition push private firms to cut costs: productive efficiency.
15	B	Below-equilibrium rent cuts landlords' returns, so supply falls in the long run: a shortage.
16	D	Direct provision means the government itself supplies the service, eg by taking over the buses.
17	B	A sales tax is a percentage of price (ad valorem) levied on spending, not income (indirect).
18	D	A transfer payment is income received with no good or service produced in return.
19	B	Dividends paid abroad are primary income debits, so paying fewer improves the current account at once.
20	B	A stronger rand lowers import prices (incl. raw materials), reducing cost-push inflation.
21	B	B lies inside all three circles, so it trades freely with A, C and D: the widest market.
22	C	2005: imports ≈ $35bn − exports ≈ $11bn = $24bn deficit; 2014: ≈ $31bn − $18bn = $13bn, smaller.
23	C	Dearer raw materials shift AS left (AS to AS1); more G shifts AD right (AD to AD2): point C.
24	C	High demand for exports appreciates the currency, so import prices in domestic currency fall.
25	C	Buying foreign shares is an outflow (debit); dividend received is primary income (current credit).

Question number		
26	B	Disinflation is a fall in the rate of inflation: prices still rise, but more slowly.
27	A	Output can only rise with AD if there is spare capacity to produce the extra goods and services.
28	D	PEDx + PEDm = 0.8 + 0.4 = 1.2 > 1 (Marshall-Lerner), and YED for imports of 1.2 cuts imports in recession.
29	C	Fiscal policy uses tax and G: lower income tax raises disposable income, consumption and AD.
30	C	A surplus pushes the currency up; a lower interest rate cuts hot money inflows and demand for it.