Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **February/March 2021**

1 hour

You must answer on the multiple choice answer sheet.

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

INSTRUCTIONS

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

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.

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1 An American family is choosing between four holiday destinations in Europe, each at the same price. The table shows the family's order of preference for these holiday destinations.

holiday destination	order of preference
Barcelona	1st
London	= 3rd
Paris	2nd
Venice	= 3rd

If the family goes to Barcelona, what is the opportunity cost of this choice?

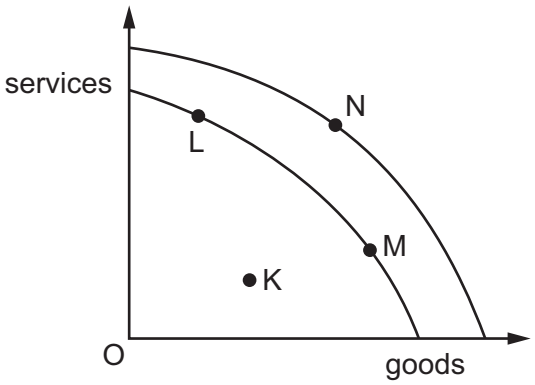
A Barcelona

B London and Venice

C Paris

D London, Paris and Venice

2 The diagram shows two production possibility curves for an economy.



Which combination of movements correctly illustrates these changes in production?

	short-run economic growth	long-run economic growth	no economic growth
A	K to L	L to M	M to N
B	K to L	M to N	L to M
C	M to N	K to L	L to M
D	M to N	L to M	K to L

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3 What distinguishes the very long run from the long run?

A the ability to change resource allocation

B the ability to change the state of technology

C the absence of government market intervention

D the existence of variable factors of production

4 Which statement is a positive statement?

A The distribution of income and wealth in most western European countries is unequal.

B The government ought to increase income tax on high earners.

C There should be more legal rights given to workers to protect their status in the workplace.

D Wages of those on low incomes should be increased.

5 What could **not** cause a shift in an individual's demand curve for good Z?

A a change in advertising expenditure on Z

B a change in the individual's income

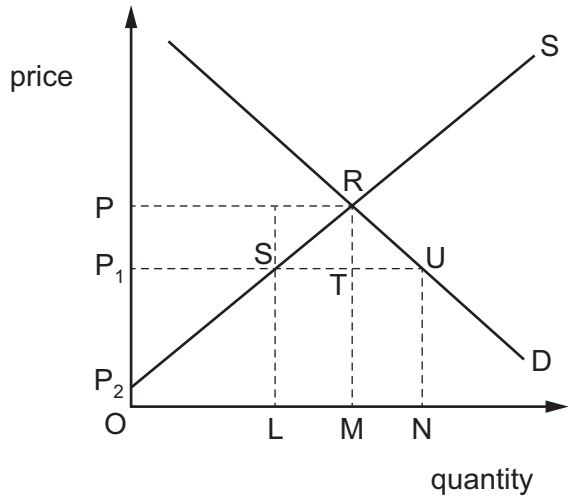
C a change in the individual's tastes

D a change in the price of Z

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6 The diagram shows the market for sugar which is initially in equilibrium at a price of OP.



A government then fixes a maximum price of OP_1.

What will happen as a result?

A a reduction in farmers' revenue equal to $PRSP_1$

B expenditure on sugar will be equal to PRMO

C farmers' revenue would be P_1UNO

D producer surplus will be P_1SP_2

7 The table shows a competitive market in equilibrium in two periods.

period	market price (cents)	quantity traded
1	50	10 000
2	60	12 000

What could explain the change from period 1 to period 2?

A an increase in the price of a complement

B an increase in the price of a substitute

C the imposition of a minimum price of 60 cents by a government

D the imposition of an indirect tax on suppliers

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8 Which example of consumer behaviour would create consumer surplus?

A when a consumer does not spend all of her income each month

B when a consumer pays less than they are willing to pay for a good

C when a consumer throws away vegetables because they bought too much

D when a good is purchased in order to resell it at a higher price

9 A manufacturer reduces the price of its goods after developing a more efficient manufacturing process. It makes leather belts that compete against belts made of artificial material.

What are the likely outcomes of the change in the manufacturing process?

	supply of leather belts	price of artificial belts
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

10 What is the likely price elasticity of supply of highly perishable goods and goods that have low stocks?

	highly perishable goods	goods that have low stocks
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	inelastic

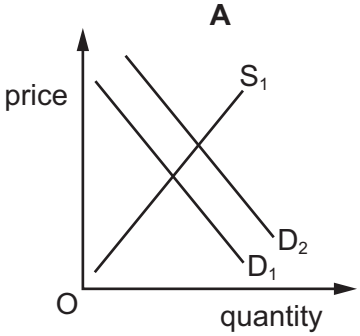
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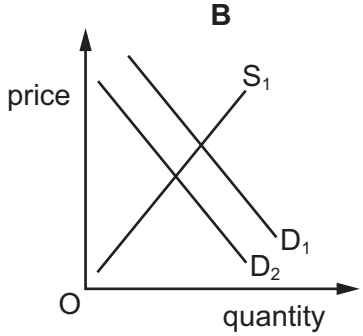
11 The diagrams show the initial demand curve D_1 and supply curve S_1 for steel in the European Union (EU). In 2018 European steel firms experienced rising energy prices.

Which diagram shows the likely impact of this?

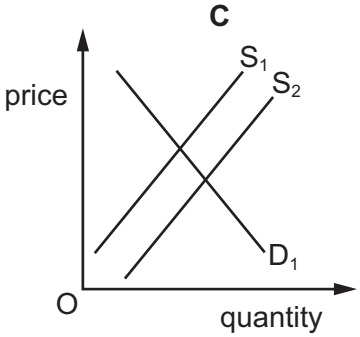
A



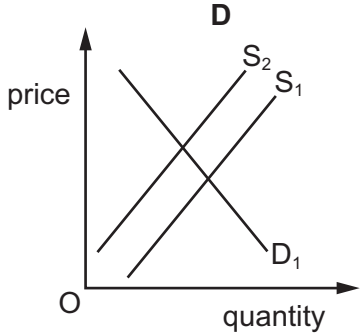
B



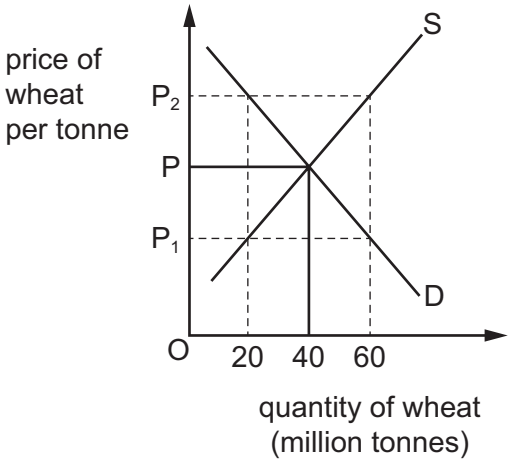
C



D



12 The market for wheat is in equilibrium at price P with supply at 40 million tonnes. Due to a drought in the growing season, supply falls to 20 million tonnes.



Which immediate action should be taken to maintain the equilibrium price of P?

A grant a subsidy to farmers equivalent to PP_1

B impose an indirect tax equivalent to PP_2

C plant more wheat to increase supplies to 40 million tonnes

D use existing stocks of wheat to increase supplies by 20 million tonnes

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13 What is used to calculate the price elasticity of demand?

A $\dfrac{\text{change in price}}{\text{change in quantity demanded}}$

B $\dfrac{\text{change in quantity demanded}}{\text{change in price}}$

C $\dfrac{\text{percentage change in price}}{\text{percentage change in quantity demanded}}$

D $\dfrac{\text{percentage change in quantity demanded}}{\text{percentage change in price}}$

14 After a series of poor harvests, a government imposes an effective maximum price on cereals.

What would be a consequence of this policy?

A Both rich and poor people would satisfy their demands equally.

B Illegal buying and selling through a black market would be prevented.

C Rationing would be necessary to ensure a fair distribution of cereals.

D The market would fail to clear leaving a surplus of cereals.

15 What would be a transfer payment?

A the payment made by a company to its shareholders out of its profits

B the payment made for a legal document to transfer ownership of a house

C the payment made to a retired person in the form of a pension

D the payment made to a professional sports team for the transfer of a player

16 The government redistributes income by raising the top rate of income tax and using the money raised to finance additional benefits to students and the unemployed.

Under which conditions will total spending in the economy increase the most?

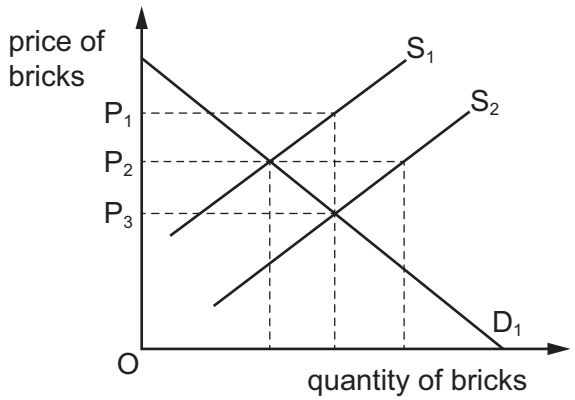
	income elasticity of demand of top rate income taxpayers	income elasticity of demand of students and the unemployed
A	> 1	> 1
B	> 1	< 1
C	< 1	> 1
D	< 1	< 1

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17 A government wishes to increase the supply of houses. It pays a subsidy to brick manufacturers to increase supplies of bricks to S_2.

The diagram shows the supply of and demand for bricks.



Which size of subsidy per unit is required to increase supply to S_2?

A OP_3 **B** P_1P_2 **C** P_1P_3 **D** P_2P_3

18 Why is national defence provided by the government?

A In a free market it is excludable and rival in consumption.

B In a free market it is non-excludable and non-rival in consumption.

C The government has perfect information, so it can set the correct quantity required.

D The private sector firm would charge a high price for its use as it is a necessity.

19 Which statement about a rise in the general price level in a country is correct?

A It is likely to create economic winners and losers in the country.

B It is never acceptable to modern governments.

C It means that no goods have fallen in price.

D It must make the average citizen poorer.

20 A country's terms of trade changed from 100 to 95.

What is **most** likely to have caused this change?

A a depreciation of the country's currency

B a reduction in import tariffs

C a rise in the price of exported goods

D an improvement in the balance of trade

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21 A country replaces a floating exchange rate system with a managed floating exchange rate system.

Which statement is correct?

A Its central bank would have to intervene more frequently in the foreign exchange market.

B Its central bank would need to hold fewer foreign currency reserves.

C The value of its currency would be determined by its major trading partners.

D The value of its currency would be determined by the value of the US dollar.

22 What will be the immediate effect of a devaluation of an economy's foreign exchange rate?

A The price of imported goods in the domestic currency will fall.

B The price of imported goods in the domestic currency will rise.

C The price of imported goods in the foreign currency will fall.

D The price of imported goods in the foreign currency will rise.

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

What might help the country to reduce its deficit?

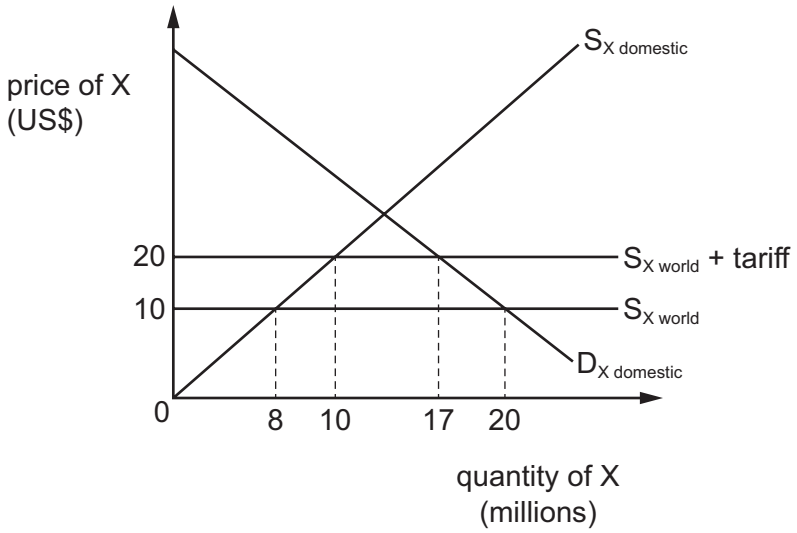
A a decrease in its rate of income tax

B a decrease in its tariffs

C an increase in its level of employment

D an increase in its subsidies to exporters

24 The diagram shows the effect of removing a tariff on imports of good X into country Y.



What is the volume, in million units, of the **extra** international trade created by removing the tariff?

A 3 **B** 5 **C** 10 **D** 12

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25 Which item should be recorded in the financial account of a country's balance of payments?

A foreign aid by China to assist in infrastructure projects in African countries

B investments by Middle Eastern oil producing countries through the purchase of land and property assets in Europe

C payments by the USA to other countries which house American military bases

D profits and dividends paid by multinational companies based in Indonesia to shareholders in Asia

26 The table shows a country's consumer prices index (CPI) for March and April 2018.

	CPI
March 2018	151.3
April 2018	148.6

Which statement correctly describes what happened between these two months?

A There was a decrease in the annual rate of inflation.

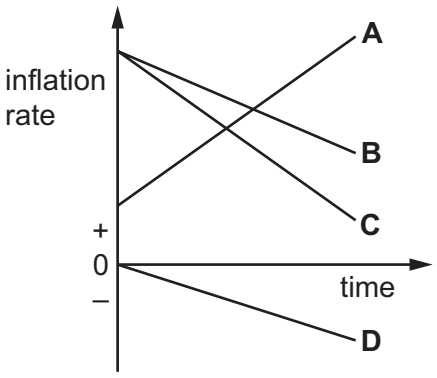
B There was a decrease in real interest rates.

C There was an increase in the purchasing power of money.

D There was an increase in the standard of living.

27 The diagram shows the rate of inflation over time in four countries.

Which country has a rising real value of money over time?



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28 The table shows the consumer prices index (CPI) for an economy expressed as an index number.

year	CPI
2016	100
2017	103
2018	101
2019	97

Which action is the government most likely to take to achieve price stability?

A appreciate the exchange rate

B decrease the budget deficit

C increase the money supply

D increase the rate of interest

29 Other things being equal, what is most likely to be reduced by falling labour productivity?

A the balance of trade deficit

B the internal value of money

C the level of unemployment

D the rate of domestic inflation

30 A government spends money building more schools.

How might this be classified?

	fiscal policy	supply-side policy	monetary policy
A	✓	✓	✗
B	✓	✓	✓
C	✓	✗	✗
D	✗	✓	✗

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/12: Multiple choice answers

1	C	Opportunity cost is the next best alternative forgone: Paris, the 2nd choice.
2	B	K to L uses idle resources (short run); M to N needs the PPC to shift out (long run); L to M is a move along the curve.
3	B	In the very long run the state of technology can change; in the long run only all factor inputs can vary.
4	A	It can be tested against data on income and wealth; the others contain value judgements ("ought", "should").
5	D	A change in the good's own price causes a movement along the demand curve, not a shift.
6	D	At P1 output falls to L (point S); producers receive P1 for units supplied above S, so producer surplus = P1SP2.
7	B	Price and quantity both rise, so demand increased: a dearer substitute shifts demand for this good right.
8	B	Consumer surplus is the difference between what a consumer is willing to pay and the price actually paid.
9	C	Lower costs raise the supply of leather belts; demand for artificial (substitute) belts falls, so their price falls.
10	D	Perishable goods cannot be stored and low stocks cannot be drawn on, so supply cannot respond quickly: both inelastic.
11	D	Higher energy prices raise production costs, so supply shifts left from S1 to S2 with demand D1 unchanged.
12	D	Releasing 20m tonnes from stocks restores supply to 40m tonnes, so price stays at P. Planting takes too long.

Question number		
13	D	PED = % change in quantity demanded ÷ % change in price.
14	C	A maximum price below equilibrium creates excess demand (a shortage), so rationing is needed for fair allocation.
15	C	A state pension is paid with no output produced in return, so it is a transfer payment.
16	C	Taxed top earners (YED < 1) cut spending only a little; students and unemployed (YED > 1) raise spending a lot.
17	C	S2 lies below S1 by the subsidy per unit: at the new output price falls from P1 (on S1) to P3 (on S2), so P1P3.
18	B	Defence is a public good: non-excludable and non-rival, so free riders mean the market would not provide it.
19	A	Inflation redistributes: borrowers and those with index-linked incomes gain, savers and fixed-income earners lose.
20	A	Terms of trade = export price index ÷ import price index × 100; depreciation cuts export prices, so it falls.
21	A	In a managed float the central bank buys and sells its currency to influence its value; in a free float it does not.
22	B	Each unit of foreign currency now costs more domestic currency, so imports become dearer in domestic currency.
23	D	Export subsidies make exports cheaper and more competitive, so export revenue rises and the deficit falls.
24	B	With the tariff (price 20) imports = 17 − 10 = 7m; without it (price 10) imports = 20 − 8 = 12m. Extra trade = 12 − 7 = 5m.
25	B	Buying land and property abroad is foreign investment in assets, recorded in the financial account.
26	C	CPI fell from 151.3 to 148.6, so the price level fell and each unit of money buys more.
27	D	D has negative inflation (deflation), so the price level falls and the real value

Question number		
		of money rises.
28	C	CPI fell from 101 to 97 in 2019 (deflation), so an expansionary policy such as more money supply is needed.
29	B	Lower productivity raises unit labour costs, causing cost-push inflation, so the internal value of money falls.
30	A	Government spending is fiscal policy; more schools raise education and productive capacity, so supply-side too.