Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice **February/March 2022**

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.

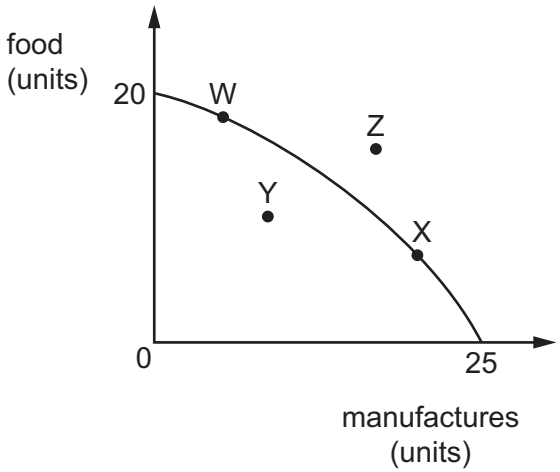
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1 A production possibility curve shows the combinations of outputs an economy can produce using all available resources.

At which points on the diagram are all available resources used?



A W and X only

B W, X and Z only

C W, X, Y and Z

D Z and Y only

2 What is a normative economic action based on?

A fact

B market forces

C opinion

D price changes

3 Which function of money overcomes the double coincidence of wants problem that exists in a barter system?

A medium of exchange

B standard of deferred payment

C store of value

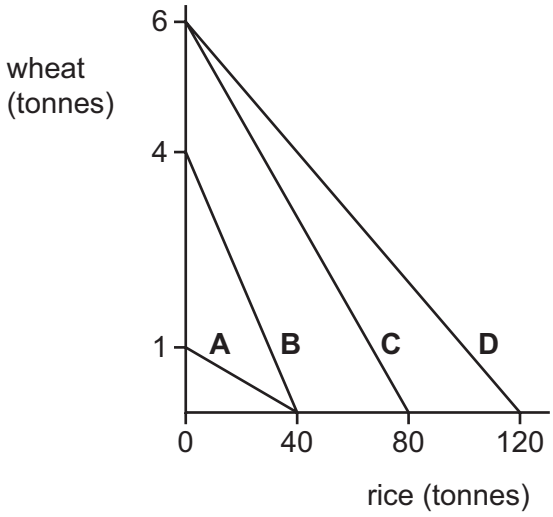
D unit of account

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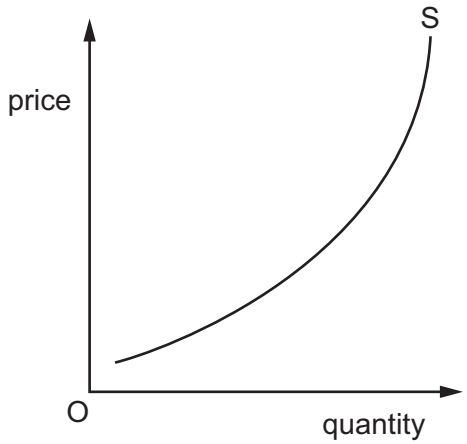
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4 The production possibility curves (PPCs) show the abilities of four economies to produce wheat and rice.

Which PPC has the lowest opportunity cost for producing wheat?



5 The diagram shows a supply curve for chicken.



What explains why the supply curve for chicken slopes upwards?

A An increase in the demand for chicken will bring about a rise in supply.

B Farmers' productivity rises as the price rises.

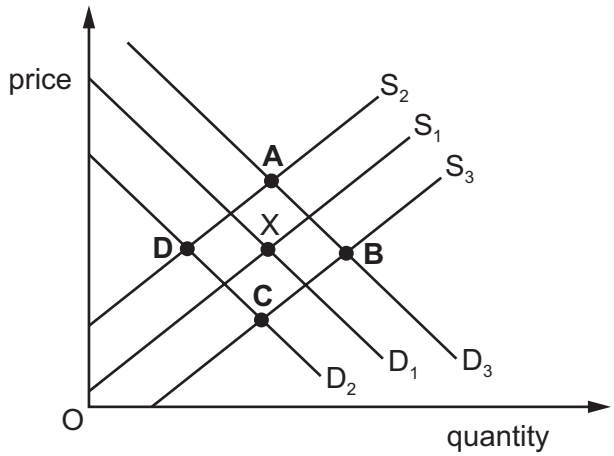
C Increased production leads to a reduction in costs.

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

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6 The diagram shows the demand and supply curves for cars in India. The initial equilibrium is at X.

What will be the new equilibrium if there is a subsidy given to Indian car manufacturers and there is also an increase in the price of train and bus journeys in India?



7 Demand curves are drawn ceteris paribus.

Which 'other things' are **not** required to remain the same when an individual's demand curve for ice cream is constructed?

A the consumer's income

B the consumer's tastes and preferences

C the price of fresh fruit

D the price of ice cream

8 What is the measure of cross-elasticity of demand for good X in terms of good Y?

A the change in the demand for X divided by the change in the price of Y

B the change in the price of X divided by the change in the demand for Y

C the percentage change in the demand for X divided by the percentage change in the price of Y

D the percentage change in the demand for Y divided by the percentage change in the price of X

9 When will the price mechanism be **least** likely to reallocate resources to meet a change in consumer preferences?

A when the government removes all price controls

B when the new preferences are for more public goods

C when the supply of factors of production is limited

D when there is a redistribution of income

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10 A firm estimates that the price elasticity of supply of its product is +1.5.

What does this indicate?

A The firm has available stock.

B The firm has no excess capacity.

C The firm operates in a competitive market.

D The firm raises its price by 10% and its total revenue increases by 15%.

11 A rise in the price of a good is accompanied by an increase in the quantity demanded.

What could explain this?

A Consumers spend a high proportion of disposable income on the good.

B The price of a complementary good has also increased.

C The price of the good is taken to be an indication of the level of quality.

D The substitute goods are all very much more expensive.

12 What causes the demand curve for an inferior good to shift to the right?

A a decrease in consumer incomes

B a decrease in income tax

C a decrease in the price of a substitute good

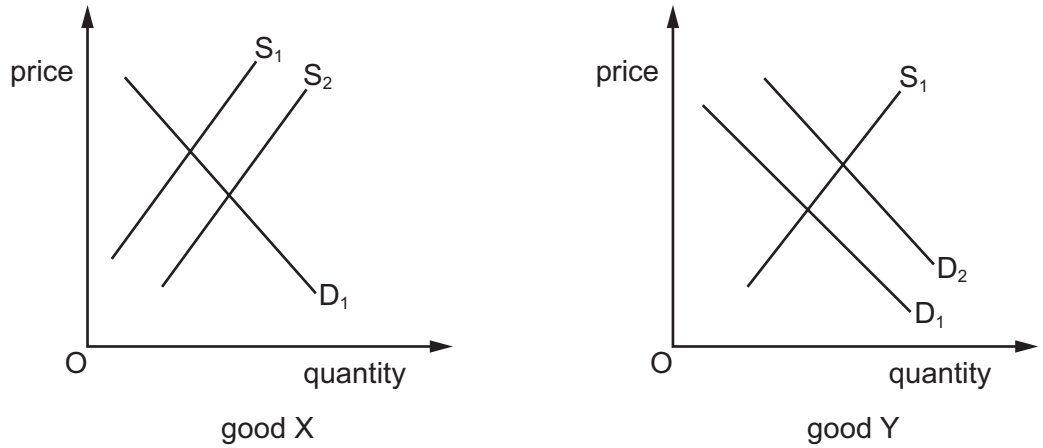
D a decrease in the price of the good

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13 The diagrams show the effect of a change in the market for good X on the market for good Y.



What is the **most** likely relationship between the two goods?

A X and Y are complements.

B X and Y are demerit goods.

C X and Y are in joint supply.

D X and Y are substitutes.

14 To improve its financial position, a government decided to reduce expenditure on investment in the public sector. There was not a fall in economic growth.

What was the **most** likely effect of the government's action?

A An original budget deficit was reduced.

B An original budget surplus was reduced.

C Consumer expenditure decreased.

D Public sector productivity decreased.

15 What are the effects of a government imposing a maximum price below the equilibrium price?

	demand	supply
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

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16 The National Library Board of Singapore is a public sector organisation that finances and manages the state libraries.

What is the **most** likely reason for this?

A Libraries are public goods.

B Libraries are merit goods.

C The cost of providing library services would be greater in the private sector.

D The opportunity cost to the public sector of providing library services is zero.

17 Three types of tax are listed.

- a sales tax (VAT) on fuel
- a specific tax of 10% on cigarettes
- the percentage of income tax on individual earnings increases as taxable income increases

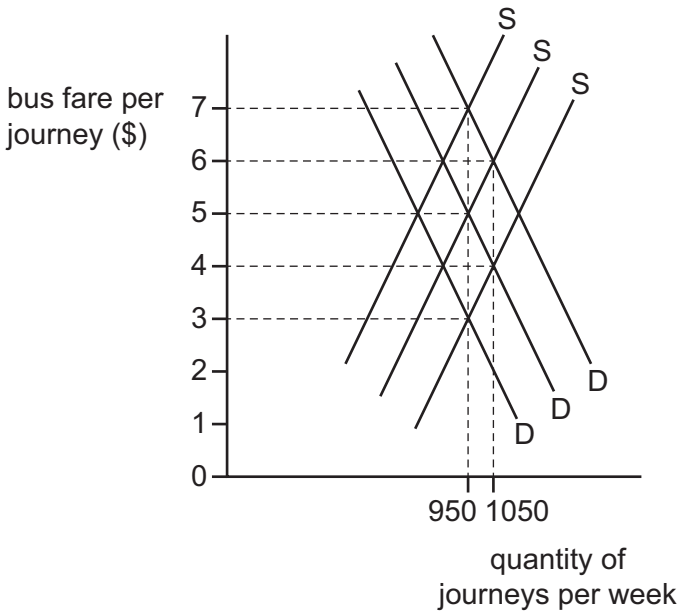
Which combination describes the effect of each of these types of tax?

	VAT	specific tax	income tax
A	progressive	progressive	regressive
B	progressive	regressive	progressive
C	regressive	progressive	regressive
D	regressive	regressive	progressive

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18 The bus fare in a rural area is $5 per journey. The government decides to improve local transport by giving bus firms a subsidy of $2 per journey. The diagram shows the possible changes in demand and supply.



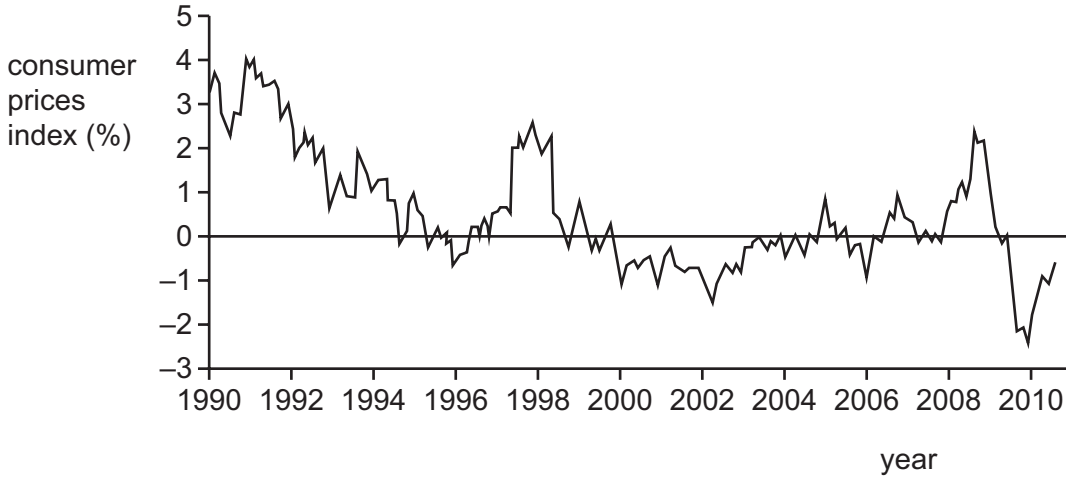
What is the new quantity of journeys and the bus fare for a journey?

	quantity of journeys	bus fare ($)
A	950	3
B	950	7
C	1050	4
D	1050	6

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19 The diagram shows the annual consumer prices index for Japan over the years 1990–2010 inclusive.



In which period did Japan experience both inflation at a rate of approximately 2% and deflation at a rate of approximately 2.5%?

A 1992–1994 **B** 1996–1998 **C** 2006–2008 **D** 2008–2010

20 A government removes its quota on imported laptops.

Assuming a normal demand curve and upward-sloping supply curve for laptops, what are the likely effects on domestic laptop manufacturers?

	change in price received by domestic manufacturers	change in income received by domestic manufacturers
A	decrease	decrease
B	increase	increase
C	decrease	uncertain
D	increase	uncertain

21 The terms of trade index for Mauritius fell from 111.2 in the first quarter of 2018 to 106.1 in the second quarter.

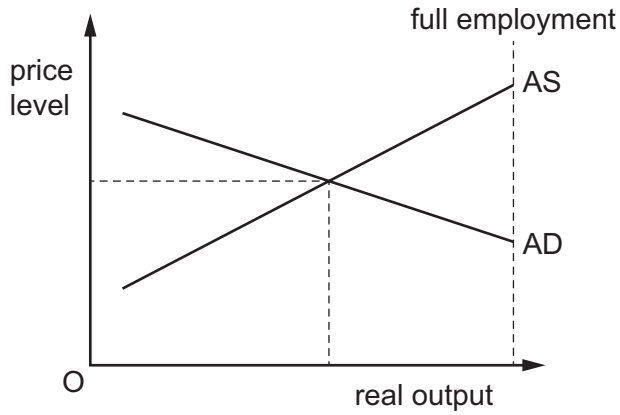
Which combination could have produced this outcome?

	export prices	import prices
A	rose	fell
B	rose	rose
C	rose	unchanged
D	unchanged	fell

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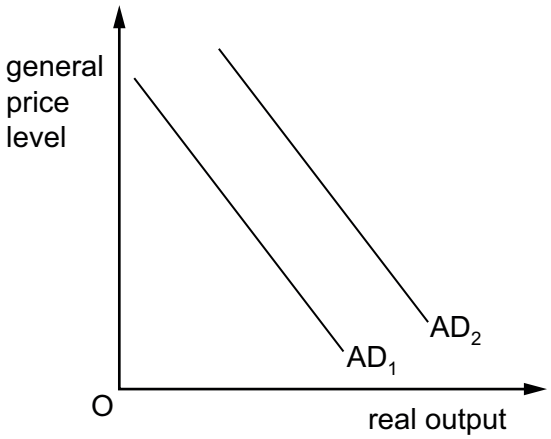
22 From the initial position of equilibrium shown, there is an increase in government expenditure on goods and services and simultaneously an increase in the costs of production of goods and services.



What best describes the likely impact on the economy?

	equilibrium level of national income	equilibrium level of prices
A	falls	uncertain
B	no change	no change
C	rises	rises
D	uncertain	rises

23 The diagram shows a shift in an economy's aggregate demand curve from AD_1 to AD_2.



What could **not** be a cause of the shift?

A a decrease in income tax

B a decrease in the price of goods

C an increase in money wage rates

D an increase in the money supply

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24 Which item is **not** included in the current account on the balance of payments statement?

A the balancing item

B the export of services

C the import of goods

D the interest received from investment overseas

25 The prices of a country's exports rise by 5% while the prices of its imports fall by 5%.

What will definitely improve in the country as a result of these changes?

A balance of trade

B current account balance

C exchange rate

D terms of trade

26 What is **not** a form of protectionism?

A embargoes

B increase in sales tax (VAT)

C subsidies on goods for export

D voluntary export restraints

27 Two countries, X and Y, produce food and drink. The table shows how many hours it takes them to produce one unit of each.

	food	drink
X	10	2
Y	20	12

What will be the result if country Y doubles its productivity in the output of drink and both countries produce only one good according to comparative advantage?

A X will continue to produce drink.

B Y will produce drink instead of food.

C World drink production will rise.

D World food production will fall.

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28 ‘Reducing the exchange rate helps to decrease a country’s balance of payments deficit because it makes imports more expensive and exports cheaper.’

What does this statement describe?

A a deflationary policy

B a policy of direct controls

C an expenditure-reducing policy

D an expenditure-switching policy

29 An increase in which variable is a contractionary monetary policy?

A the budget deficit

B the budget surplus

C the interest rate

D the money supply

30 What are government monetary policies that would be the most effective in a global recession?

A allowing the rate of interest to fluctuate and increasing business taxation

B increasing the budget surplus and raising tariffs on imports

C keeping the rate of interest very low and increasing the money supply

D raising the rate of interest and restricting 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: Multiple choice answers

1	A	All resources are used only at points on the PPC itself, which are W and X. Y is inside (unused resources) and Z is unattainable.
2	C	Normative statements are value judgements, so they are based on opinion rather than testable fact.
3	A	As a medium of exchange, money is accepted by everyone, so traders no longer need a double coincidence of wants.
4	B	Opportunity cost of 1 tonne of wheat = rice given up ÷ wheat. A: 40 ÷ 1 = 40, B: 40 ÷ 4 = 10, C: 80 ÷ 6 = 13.3, D: 120 ÷ 6 = 20, so B is lowest.
5	D	Marginal cost rises as output increases, so farmers need a higher price to make it worth supplying more chicken.
6	B	The subsidy shifts supply right (S1 to S3) and dearer buses and trains (substitutes) shift demand right (D1 to D3), giving B.
7	D	The good's own price is on the axis, so it varies along the curve; only the other determinants are held constant.
8	C	XED = % change in quantity demanded of X ÷ % change in price of Y.
9	B	Public goods are non-excludable, so free riders will not pay and no price signal is sent: the market is missing.
10	A	PES of +1.5 is elastic, so output can respond more than proportionately to price; available stock allows this quickly.
11	C	If price is seen as a sign of quality (a Veblen/ostentatious good), a higher price can raise the quantity demanded.
12	A	For an inferior good demand rises when income falls, so a decrease in consumer incomes shifts demand to the right.

Question number		
13	A	Supply of X rises (S1 to S2), so the price of X falls and more X is bought; demand for Y then rises, so they are complements.
14	A	Lower government spending with no fall in growth (so no fall in tax revenue) improves the budget, reducing a deficit.
15	C	A maximum price below equilibrium raises quantity demanded and lowers quantity supplied, creating a shortage.
16	B	Libraries are merit goods: they would be underconsumed in a free market, so the state provides them.
17	D	VAT and the cigarette tax take a larger share of income from the poor (regressive); a rising income tax rate is progressive.
18	C	The $2 subsidy shifts S down by $2 to cross the original D at a fare of $4 (below the old $5), with 1050 journeys.
19	D	In 2008 the index peaks at about +2% and by 2009 to 2010 it falls to about −2.5%, so 2008 to 2010.
20	A	Removing the quota raises supply of imports, so the price falls and domestic firms sell fewer at a lower price: income falls.
21	B	ToT = export price index ÷ import price index × 100. It fell, so import prices rose faster than export prices: both rose.
22	D	Higher G shifts AD right and higher costs shift AS left: the price level rises but the change in national income is uncertain.
23	B	A change in the price of goods causes a movement along AD, not a shift of the curve.
24	A	The balancing item corrects errors and omissions in the whole account, so it is not part of the current account.
25	D	Terms of trade = export prices ÷ import prices, so they definitely improve; trade balances depend on elasticities.
26	B	A rise in VAT applies to domestic and imported goods alike, so it does not protect domestic producers.

Question number		
27	A	Y's drink falls to 6 hours. Opportunity cost of drink in food: X = 2 ÷ 10 = 0.2, Y = 6 ÷ 20 = 0.3, so X still produces drink.
28	D	A lower exchange rate switches spending from imports to domestic goods, so it is an expenditure-switching policy.
29	C	A higher interest rate reduces borrowing and spending, so it is contractionary monetary policy.
30	C	In a recession low interest rates and a rising money supply boost borrowing, consumption and investment, raising AD.