Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 AS Level Multiple Choice **February/March 2023**

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 A good is most suitable to be provided by the market if it is

A excludable and non-rival.

B excludable and rival.

C non-excludable and non-rival.

D non-excludable and rival.

2 What is the definition of *long run*?

A the time period when all factors of production are specialised

B the time period when all factors of production are variable

C the time period when all key inputs into production are variable

D the time period when at least one factor of production is fixed

3 The table states the consequences of two macroeconomic policies.

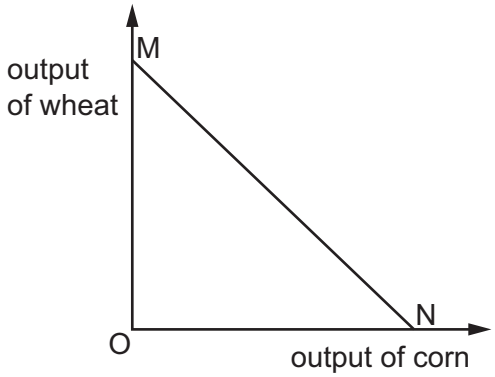
What correctly identifies whether the statements are normative or positive?

	a depreciation of an exchange rate will cause the balance of payments to improve	a rise in the minimum wage rate will cause unemployment to rise
A	normative	normative
B	normative	positive
C	positive	normative
D	positive	positive

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4 The diagram shows the production possibility curve for wheat and corn.



What can be deduced from the diagram?

A As the price of corn falls, more of it is demanded.

B Resources used in producing corn are more efficient than in producing wheat.

C The opportunity cost of producing corn falls when moving from M to N.

D The opportunity cost of producing corn is constant when moving from M to N.

5 A supply curve is represented by the equation

$$\text{quantity supplied} = 10 + 5P$$

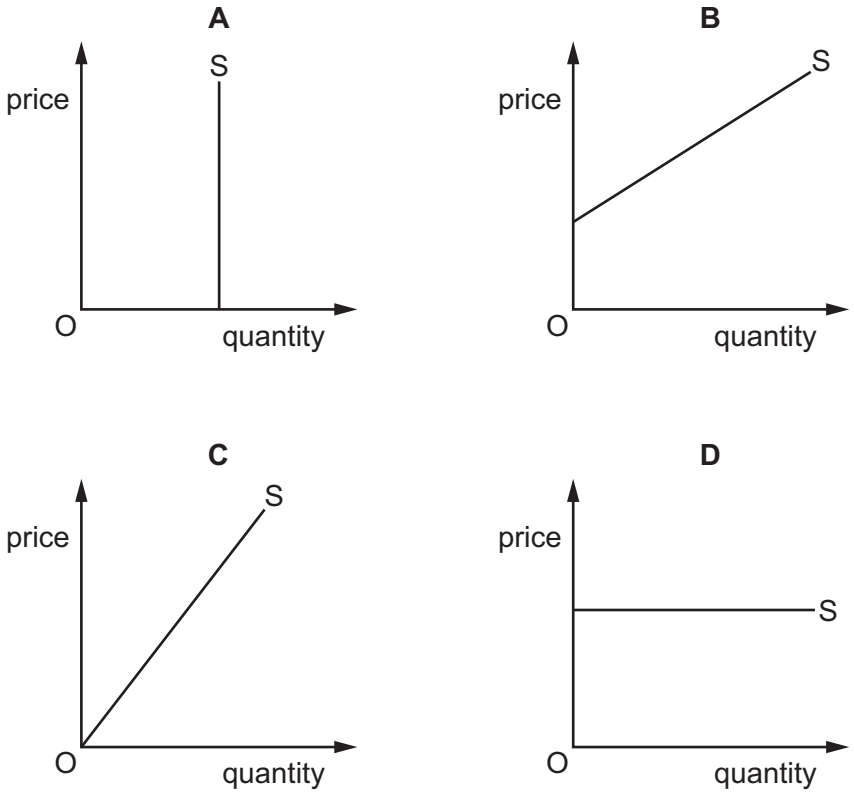
where P = the price of the product.

Which price rise would cause the quantity supplied to double?

A $1 to $2 **B** $1 to $3 **C** $1 to $4 **D** $1 to $5

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6 Which diagram illustrates unitary elasticity of supply?



7 In which case is the price system **not** a possible method of allocating resources?

A in the distribution of foodstuff among the population

B in the hiring of workers by employers

C in the ownership of land for agricultural use

D in the provision of public goods by the government

8 A sports stadium has two prices of seats. The cheaper seats are $10 and the more expensive seats are $20. When the prices of all seats are increased by 10%, the effects on demand are a fall of 5% for the cheaper seats and a fall of 12% for the more expensive seats.

What describes the responsiveness of demand to the change in price?

	cheaper seats	more expensive seats
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	unitary elasticity

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9 Which statement correctly describes the shape of the demand curve for a normal good?

A It shows an inverse relationship between income and quantity demanded.

B It shows an inverse relationship between the price of the good and quantity demanded.

C It shows a positive relationship between the price of the good and quantity demanded.

D It shows a positive relationship between income and quantity demanded.

10 Why does the basic economic problem of scarcity apply to both the rich and the poor?

A The choices people make are not dependent on income inequalities.

B Consumers pay the same prices for goods and services to satisfy their wants.

C Human wants exceed what can be produced from available resources.

D Natural resources are unevenly distributed amongst nations.

11 Butter and buttermilk are goods in joint supply. Supply curves in both markets slope upwards to the right. Health concerns cause people to reduce their consumption of butter.

What are the initial consequences of this for supply in the markets for butter and buttermilk?

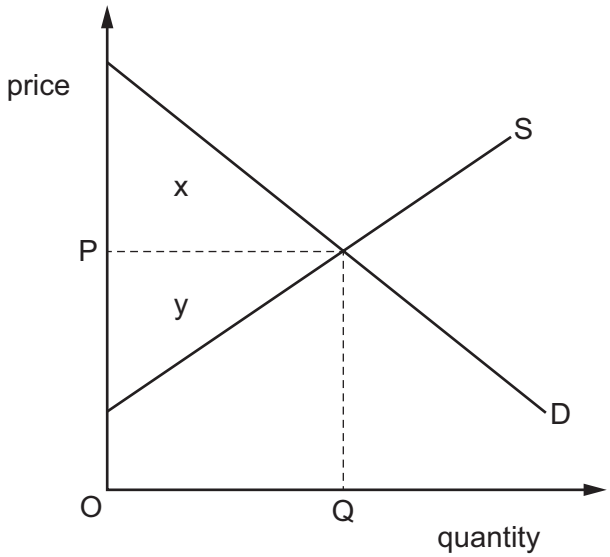
	supply of butter	supply of buttermilk
A	move left along supply curve	move left along supply curve
B	move left along supply curve	shift left of the supply curve
C	shift left of the supply curve	move left along supply curve
D	shift left of the supply curve	shift left of the supply curve

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12 The diagram shows the demand and supply of a good.



When the market is in equilibrium, which area measures the difference between what consumers are willing and able to pay and what producers receive at that output?

A x **B** y **C** x + y **D** x – y

13 Why do some local governments subsidise the provision of bicycles to encourage their use?

A Consumers are afraid of having car accidents.

B Consumers are unable to afford bicycles.

C Consumers are not aware of the external benefits of using bicycles.

D Consumers ignore the external costs of using bicycles.

14 The table shows Gini coefficients for both income and wealth in two countries.

	country P	country Q
income	0.6	0.5
wealth	0.4	0.7

Which statement is correct?

A Gini coefficients are not comparable between income and wealth because one is a flow concept and the other is a stock concept.

B Income inequality is greater in country P than in country Q.

C Wealth inequality is greater in country P than in country Q.

D Wealth inequality is greater than income inequality in both countries.

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15 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

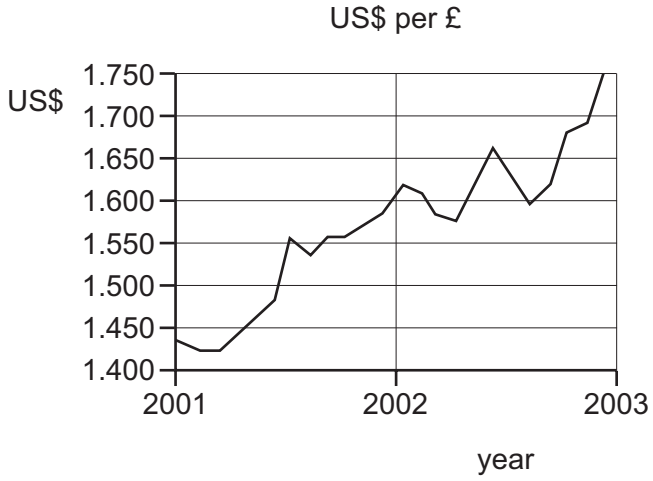
16 The table shows selected information from a country's national accounts.

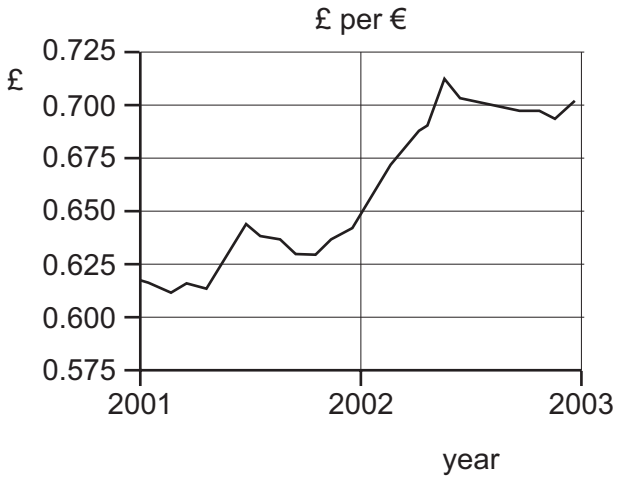
	$ billion
GDP	28
net property income from abroad	–3
capital consumption	6
national debt	2

What is the country's net national income?

A $19 billion **B** $25 billion **C** $31 billion **D** $33 billion

17 The graphs show the changes in the exchange rates of the pound sterling (£) against the US dollar (US$) and the euro (€) between the years 2001 and 2003.





What happened to the value of the £ between the years 2001 and 2003?

A The £ appreciated against the US$ and depreciated against the €.

B The £ appreciated against the US$ and the €.

C The £ depreciated against the US$ and appreciated against the €.

D The £ depreciated against the US$ and the €.

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18 Which statement about the circular flow of income is correct?

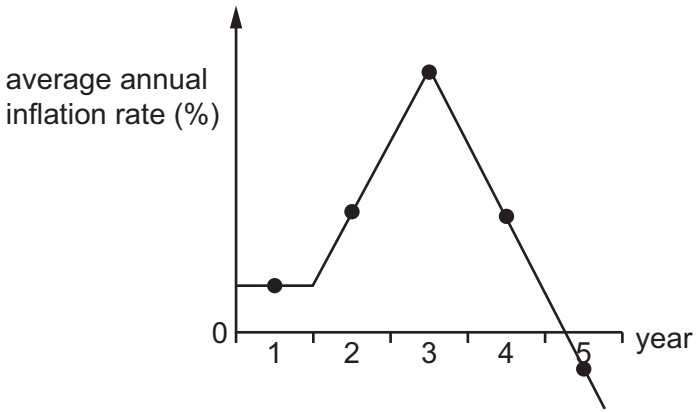
A Exports and imports do not affect the equilibrium level of national income because they always cancel each other out.

B The greater the level of saving, the greater the level of injections in the form of investment must be.

C When consumers use past savings to increase their spending, there will be a rise in national income.

D When a government increases withdrawals by increasing the rate of income tax, there must be an equivalent increase in injections to compensate.

19 The graph shows a country's average annual inflation rate over a five-year period.



What can be concluded about the general price level during the five years?

A It fell in only one year.

B It fell in only two years.

C It rose in only two years.

D It was constant in only one year.

20 In an economy, wages and prices are both rising but wages are rising faster.

Which features are likely to exist in this economy?

	cost-push inflation	rise in real incomes
A	no	no
B	no	yes
C	yes	no
D	yes	yes

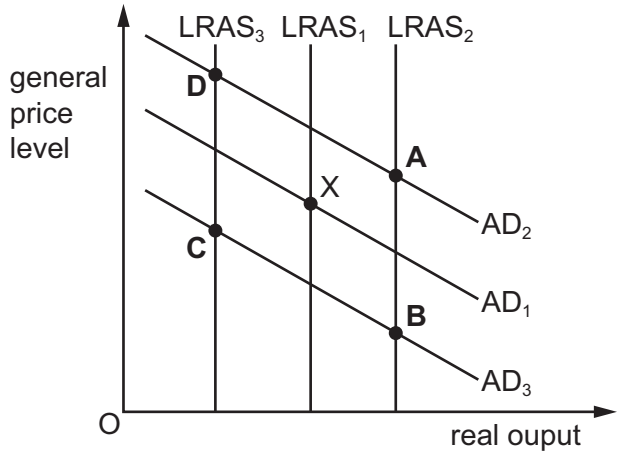
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21 The diagram shows the aggregate demand (AD) and long-run aggregate supply (LRAS) curves for a country. X is the original equilibrium position.

In one year, over one million foreign workers left the country and at the same time the country's currency appreciated against the currencies of its major trading partners.

What will be the most likely new equilibrium position for this country?



22 What is most likely to cause a rise in a country's exchange rate?

A a fall in its direct taxes

B a fall in its export orders

C a rise in its interest rates

D a rise in its imports

23 Which change affecting the foreign exchange market for the US$ would be most likely to result in a shift to the right of the demand curve and a movement along the supply curve?

A The US government reduces subsidies on exports to the EU.

B Foreign currency speculators in Switzerland believe that the US$ is undervalued and act accordingly.

C The US government intervenes in the foreign exchange market so as to bring about a drop in the value of the US$.

D US pharmaceutical companies experience a fall in demand for their products from the rest of the world.

24 What can be best understood from a knowledge of a country's terms of trade?

A its balance of payments performance

B the purchasing power of its exports

C the standard of living within the country

D the value of its real exchange rate

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25 A company produces goods for export only.

Which change could cause a rise in the price of its goods while the quantity sold is unchanged?

	domestic workers' wages	foreign consumers' wages
A	unchanged	fall
B	fall	unchanged
C	fall	fall
D	rise	rise

26 Under which current conditions will supply-side policy measures be most likely to achieve a country's key macroeconomic goals?

	unemployment level	price level
A	high	stable
B	high	rising
C	low	stable
D	low	rising

27 Why might a government prefer to use floating exchange rates?

A It allows the government more independence in policy making.

B It encourages the government to build up its foreign exchange reserves.

C It eliminates the instability of free markets.

D It gives firms more confidence in future costs and prices.

28 What is **least** likely to rise as a result of the use of expansionary fiscal policy?

A aggregate demand

B budget surplus

C nominal income

D inflation

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29 The table shows GDP indices for a country over a three-year period.

	year 1	year 2	year 3
real GDP	100	105	106
money GDP	100	107	115

Inflation and economic growth are two macroeconomic policy objectives.

Which row gives a correct assessment of the country's achievement of these two objectives over the period?

	rate of inflation	rate of economic growth
A	cannot tell	positive
B	declining	cannot tell
C	positive	declining
D	rising	negative

30 A government raises interest rates to improve the current account of the balance of payments.

What might reduce the effectiveness of this policy?

A a fall in domestic growth

B consumer pessimism

C increased domestic saving

D price-elastic demand for exports

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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	B	The market can charge for goods that are excludable (non-payers kept out) and rival (one person's use reduces what is left).
2	B	The long run is the period in which all factors of production can be varied.
3	D	Both statements are cause and effect claims that can be tested against evidence, so both are positive.
4	D	MN is a straight line, so the wheat given up for each extra unit of corn (opportunity cost) is constant.
5	C	At \$1, $Q_S = 10 + 5(1) = 15$. Double is 30, so $30 = 10 + 5P \Rightarrow P = \$4$.
6	C	Any straight-line supply curve through the origin has PES = 1 (unitary elasticity).
7	D	Public goods are non-excludable, so free riders cannot be charged and the price system cannot provide them.
8	C	Cheaper seats: PED = $-5\% \div 10\% = -0.5$ (inelastic). Dearer seats: PED = $-12\% \div 10\% = -1.2$ (elastic).
9	B	A demand curve slopes down: as the price of the good rises, quantity demanded falls (inverse relationship).
10	C	Everyone faces scarcity because human wants are unlimited and exceed what finite resources can produce.
11	B	Lower butter demand cuts butter price, so a movement left along its supply curve; less butter made means less buttermilk at every price, so its supply curve shifts left.
12	A	Consumer surplus is area x: what consumers are willing and able to pay above the price P actually paid.

Question number		
13	C	Cycling has positive externalities (less congestion and pollution) that consumers ignore, so it is under-consumed; a subsidy raises use.
14	B	A higher Gini coefficient means more inequality: income Gini P = 0.6 > Q = 0.5, so income inequality is greater in P.
15	A	More competition lowers costs and prices on the supply side, cutting inflation without reducing output, unlike demand-side measures.
16	A	NNI = GDP + net property income from abroad − capital consumption = 28 − 3 − 6 = $19 billion (national debt is irrelevant).
17	A	US$ per £ rose (1.45 to 1.65), so the £ appreciated against the US$; £ per € rose (0.6 to 0.7), so the £ depreciated against the €.
18	C	Spending past savings (dissaving) raises consumption, an increase in spending in the circular flow, so national income rises.
19	A	Inflation was negative in only one year (deflation); in the other years inflation was positive so prices still rose.
20	D	Wages rising faster than prices push up firms' costs (cost-push inflation) and raise real incomes.
21	C	Workers leaving cut the labour force, so LRAS shifts left; appreciation cuts net exports, so AD shifts left: new equilibrium C.
22	C	Higher interest rates attract hot money inflows, raising demand for the currency, so the exchange rate rises.
23	B	Speculators buying the "undervalued" US$ shift demand for US$ right, causing a movement along the given supply curve.
24	B	Terms of trade = index of export prices ÷ index of import prices × 100, so it shows the purchasing power of exports over imports.
25	D	Higher domestic wages raise costs (supply left) while higher foreign wages raise demand (demand right), so price rises and quantity can stay the same.
26	B	Supply-side policy raises LRAS, so output and jobs rise and price pressure eases: best when unemployment is high and prices rising.

Question number		
27	A	With a floating rate the exchange rate corrects imbalances itself, so interest rates and fiscal policy are free for domestic aims.
28	B	Higher spending or lower taxes reduce the budget surplus, while AD, nominal income and inflation tend to rise.
29	C	Inflation: money ÷ real GDP rises (107/105 to 115/106), so positive. Growth: 5% then about 1%, so declining.
30	D	Higher rates attract inflows and appreciate the currency; with price-elastic export demand, export revenue falls sharply, worsening the current account.