Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 AS Level Multiple Choice **February/March 2024**

1 hour

You must answer on the multiple choice answer sheet.

0085346597

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.

© UCLES 2024

[Turn over

stemup.co.uk

1 Why does a production possibility curve exist for every economy?

A Resources are unlimited.

B Resources have alternative uses.

C Some resources can be imported.

D Some resources may be unemployed.

2 Which statement is a normative statement?

A Aggregate demand will increase following a decrease in interest rates.

B A rise in unemployment will decrease inflationary pressures.

C The incentive to work will rise if benefit payments are reduced.

D Unsustainable economic growth is more harmful to the economy than hyperinflation.

3 Which combination best describes the basic economic problem?

	resources	wants
A	limited	limited
B	limited	unlimited
C	unlimited	limited
D	unlimited	unlimited

4 What is the **main** reason an economy is unlikely to rely completely on market forces to allocate resources?

A Demerit goods will be over supplied.

B Merit goods will be under supplied.

C Private goods will not be supplied.

D Public goods will not be supplied.

5 What is the opportunity cost to a person of spending $20 on a new pair of sports shoes?

A all the other things the person could have bought

B the cost of getting to the sports shop

C the current value of the person's old pair of shoes

D the next best thing that could have been bought with the $20

© UCLES 2024

stemup.co.uk

6 What is the definition of effective demand?

A demand that is speculative

B demand that is supported by the ability to pay

C the relationship between price and quantity demanded

D the total amount demanded by consumers

7 The price elasticity of demand for good X is –2.4, its income elasticity of demand is –0.4 and the cross elasticity of demand for good X with respect to good Y is +0.8.

What is the correct description of good X?

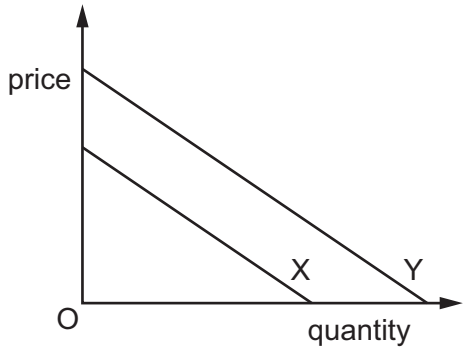
A inferior good, price-elastic demand and substitute for good Y

B inferior good, price-inelastic demand and complement to good Y

C normal good, price-elastic demand and complement to good Y

D normal good, price-inelastic demand and substitute for good Y

8 The diagram shows two straight line demand curves, X and Y.



What is correct about curves X and Y?

A Both X and Y are unit price elastic over their whole length.

B Both X and Y have the same elasticity at every price.

C X has a higher price elasticity than Y at every price.

D Y is more likely to have substitutes than X.

9 The price elasticity of the supply of yoghurt is estimated to be +1.5.

If the demand for yoghurt rises and price rises by 20%, how much more will be supplied to the market?

A 0.3% **B** 3.0% **C** 13.3% **D** 30%

© UCLES 2024

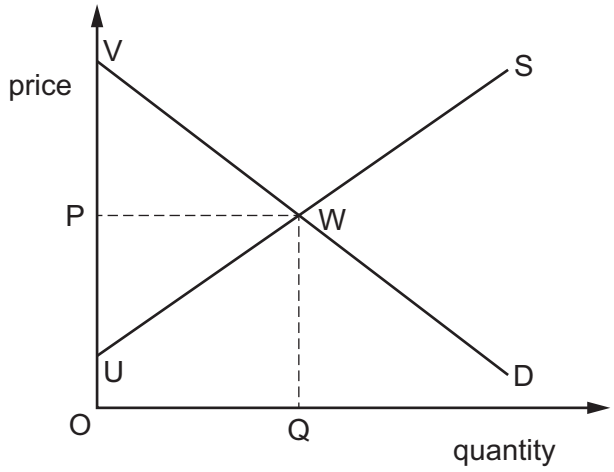
stemup.co.uk

10 Butter is a normal good. It is in joint demand with bread and in joint supply with buttermilk. The demand for butter increases because of a rise in consumer incomes.

What are the effects of this increase on the prices of bread and buttermilk?

	price of bread	price of buttermilk
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

11 The diagram shows a competitive market in equilibrium with price P and quantity Q sold.



Which area represents the producer surplus?

A PWU **B** PVW **C** OUWQ **D** OPWQ

12 A policy that aims to reduce the degree of inequality of income will also reduce the level of employment in a country.

What is most likely to be such a policy?

A The effective minimum wage is increased by 25%.

B The rate of income tax paid by the lowest band of earners is reduced.

C The government increases the level of subsidies given to producers of some merit goods.

D The government provides more goods that are regarded as essential.

© UCLES 2024

stemup.co.uk

13 What explains the underconsumption of merit goods?

A Their value is not fully understood by consumers.

B They are unproductive goods and services.

C They can only be provided by the government.

D They are only provided by private sector businesses.

14 A country uses an income tax under which the first $10 000 of income is tax-free, the next $20 000 is taxed at 20% and any income over $30 000 is taxed at a top rate of 40%. It also levies a sales tax of 10% on most products.

Which combination of tax changes is most likely to create a more equal distribution of income in the country?

	income tax	sales tax
A	a higher tax-free allowance	a higher rate of tax
B	a higher top rate of tax	a lower rate of tax
C	a lower tax-free allowance	a higher number of exempt goods
D	a lower top rate of tax	a lower number of exempt goods

15 The table shows real GDP expressed as an index number in each quarter of 2021.

2021	index of GDP in real terms (2020 = 100)
Q1	99.4
Q2	99.3
Q3	100.1
Q4	100.4

What can be concluded from the table?

A Inflation reduced the real value of GDP in the first six months of 2021.

B Real GDP was lower at the end of 2021 than 2020.

C The economy was in recession at the end of the first six months of 2021.

D The standard of living was higher at the end of 2021 than in 2020.

© UCLES 2024

stemup.co.uk

16 What is **least** likely to cause a simultaneous increase in demand-pull and cost-push inflation?

A depreciation of currency

B increased import tariffs

C decreased spending on infrastructure

D increased wages

17 According to the circular flow of income, what would be the immediate result of an increase in the value of a country's exports?

A imports would increase

B national income would increase

C savings would increase

D taxes would increase

18 To calculate the unemployment rate, the number unemployed is related to

A the total adult population aged 18–65.

B the number of unemployed who are seeking work.

C the total number in full-time employment.

D the total population in the labour force.

19 Aggregate demand in an economy may decrease as a result of an increase in

A consumption expenditure.

B government expenditure.

C import expenditure.

D investment expenditure.

20 A government has a balanced budget. It decides to increase its spending by 10%.

Which increase in government revenue would produce a budget surplus?

A –10% **B** 0% **C** +10% **D** +20%

© UCLES 2024

stemup.co.uk

21 An economy has an unemployment rate of 8%, an increase of 2% from the previous year. At the same time, the current account deficit rose from 3% of GDP to 4% of GDP.

What would be most likely to reduce both unemployment and the current account deficit?

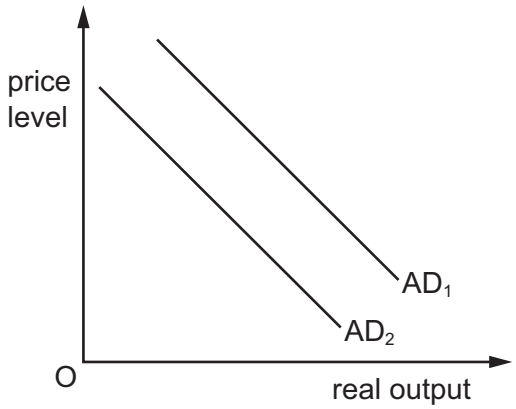
A decrease government spending

B depreciation of the currency

C increase indirect taxation

D increase interest rates

22 The diagram shows aggregate demand (AD) curves for an economy.



Which combination is most likely to have caused the shift from AD_1 to AD_2?

	income tax	sales tax
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

23 What can be considered an expansionary supply-side policy?

A an increase in government expenditure on training

B an increase in sales tax

C an increase in the rate of interest

D an increase of the exchange rate

© UCLES 2024

24 The table indicates the factor inputs required to produce wheat and cars in countries X and Y.

	units of factor inputs to produce one tonne of wheat	units of factor inputs to produce one car
country X	4	2
country Y	8	6

What makes it possible for both countries to benefit from trade?

A Country X has an absolute advantage in wheat and car production.

B Country Y has an absolute advantage in wheat and car production.

C Country Y has a comparative advantage in wheat production.

D Opportunity cost of wheat and car production is the same between countries.

25 A government decides to allow the country's currency to depreciate to remove the deficit on its current account of the balance of payments.

What is the most likely reason why this would **not** work?

A The country gains a competitive advantage from the depreciation.

B The country has a surplus on its capital and financial accounts.

C The price elasticities of demand for the country's exports and imports are greater than one.

D There are high trade barriers with the country's main trading partners.

26 When must the terms of trade of a country change?

A when the volume of exports falls and the volume of imports rises

B when the total value of exports falls and the total value of imports rises

C when the balance of trade in goods moves from deficit to surplus

D when the average price of exports rises and the average price of imports falls

© UCLES 2024

stemup.co.uk

27 The table shows an extract from a country's balance of payments.

	exports $ billion	imports $ billion
trade in goods	150	200
trade in services	70	50
primary (investment) income	120	100
secondary (transfer) income	15	20

What is the current account balance?

A –$10bn **B** –$15bn **C** –$30bn **D** –$50bn

28 The table shows the goods balance and services balance for a country in selected years.

year	goods balance $ billion	services balance $ billion
2015	+120	–30
2016	+110	–30
2017	+50	–10
2018	+130	–60
2019	+140	–50

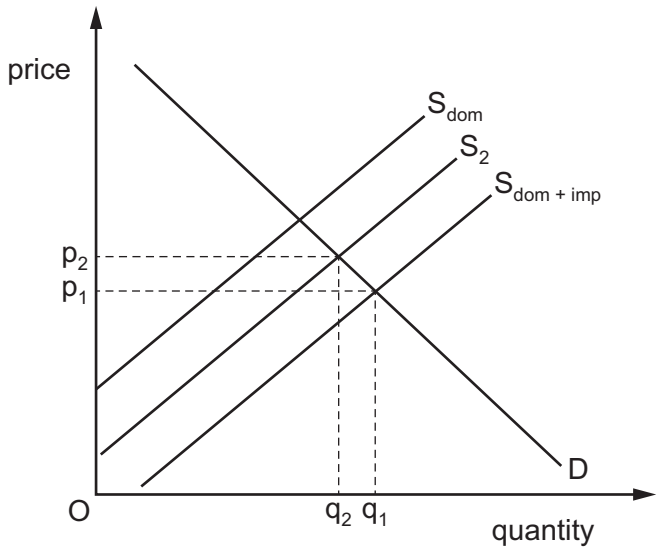
Between which years did the overall goods and services balance change the most?

A 2015–2016 **B** 2016–2017 **C** 2017–2018 **D** 2018–2019

© UCLES 2024

stemup.co.uk

29 The diagram shows the market for both domestic and imported computers for an economy. The world price is p_1.



Which government policy would lead to a price of p_2?

A an embargo on imports

B an exchange rate appreciation

C a subsidy to domestic producers

D a tariff on imports

30 What is **not** a likely cause of a deficit in the current account of the balance of payments?

A Consumer spending is low.

B Primary incomes in the form of investment income are low.

C The rate of exchange is high.

D Wage costs of production are high.

© UCLES 2024

stemup.co.uk

BLANK PAGE

© UCLES 2024

stemup.co.uk

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of Cambridge Assessment. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which is a department of the University of Cambridge.

© UCLES 2024

stemup.co.uk

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	Resources are scarce and have alternative uses, so producing more of one good means giving up some of another.
2	D	Saying one outcome is "more harmful" is a value judgement that cannot be tested, so it is normative.
3	B	The basic economic problem is limited (scarce) resources and unlimited wants, so choices must be made.
4	D	Public goods are non-excludable and non-rival, so the free rider problem means the market will not supply them.
5	D	Opportunity cost is the next best alternative forgone, ie the next best thing the $20 could have bought.
6	B	Effective demand is the desire for a good backed by the ability (and willingness) to pay.
7	A	YED −0.4 < 0 so inferior; |PED| = 2.4 > 1 so price-elastic; XED +0.8 > 0 so a substitute for Y.
8	C	At any price X is flatter than Y, so P/Q is the same but a given price change gives a bigger % change in quantity on X.
9	D	$\%\Delta Q_S = PES \times \%\Delta P = 1.5 \times 20\% = 30\%$.
10	C	More butter is bought so more bread (joint demand) is demanded, so its price rises; more buttermilk is supplied, so its price falls.
11	A	Producer surplus is the area above the supply curve and below the price, up to Q: triangle PWU.
12	A	A 25% rise in the minimum wage raises low incomes, so inequality falls, but higher labour costs cut employment.

Question number		
13	A	Consumers underestimate the private benefits of merit goods (imperfect information), so they consume too little.
14	B	A higher top rate takes more from the rich (more progressive) and a lower sales tax (regressive) helps the poor.
15	C	Real GDP fell in Q1 and again in Q2 (99.4 to 99.3): two consecutive quarters of negative growth, a recession.
16	C	Cutting infrastructure spending lowers AD, so it reduces demand-pull pressure; the others raise demand and/or costs.
17	B	Exports are an injection into the circular flow, so national income rises (through the multiplier).
18	D	Unemployment rate = number unemployed ÷ labour force (employed + unemployed) × 100.
19	C	AD = C + I + G + (X − M), so higher import spending is a withdrawal that lowers AD.
20	D	Revenue must rise by more than spending: +20% > +10%, so revenue exceeds spending and there is a surplus.
21	B	A depreciation makes exports cheaper and imports dearer, so net exports rise: more jobs and a smaller deficit.
22	D	AD shifts left: higher income tax cuts disposable income and higher sales tax raises prices, so consumption falls.
23	A	Spending on training raises the skills and productivity of labour, so LRAS shifts right.
24	C	Opportunity cost of 1 tonne of wheat: X = 4 ÷ 2 = 2 cars, Y = 8 ÷ 6 = 1.33 cars, so Y has the comparative advantage.
25	D	High trade barriers abroad stop export volumes rising even though exports become cheaper, so the deficit stays.
26	D	Terms of trade = index of export prices ÷ index of import prices × 100, so it must rise when export prices rise and import prices fall.

Question number		
27	B	Current account = (150 − 200) + (70 − 50) + (120 − 100) + (15 − 20) = −50 + 20 + 20 − 5 = −$15bn.
28	B	Overall balances: 90, 80, 40, 70, 90. Changes: −10, −40, +30, +20, so the biggest change is 2016 to 2017.
29	D	A tariff raises the price of imports from p1 to p2, shifting the domestic plus imports supply curve up to S2.
30	A	Low consumer spending means fewer imports are bought, so it tends to reduce, not cause, a current account deficit.