Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/12**

Paper 1 AS Level Multiple Choice **February/March 2025**

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)

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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 Which statement about a market economy is **not** correct?

A Competition is promoted among firms which can increase productive efficiency.

B Immobility of the factors of production can lead to allocative inefficiency.

C Price always reflects all the costs and all the benefits associated with production.

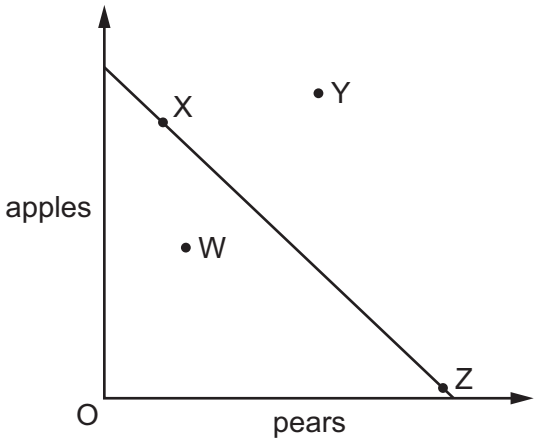
D The entrepreneur is encouraged to innovate and take risks, motivated by profit.

2 To increase production, a firm in industry X needs to install capital equipment, while a firm in industry Y needs to research and introduce a new technology.

What time periods are illustrated by these cases?

	industry X	industry Y
A	short run	long run
B	long run	long run
C	long run	very long run
D	very long run	very long run

3 The production possibility curve shows the maximum potential output of apples and pears for an economy using current resources.



Which pair of positions identifies an efficient and an inefficient outcome?

A W and Y **B** W and X **C** X and Z **D** Y and Z

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4 The price of a good rises by 5% and the quantity of it demanded rises by 3%. At the same time, the incomes of consumers of the good rise by 4%.

The law of demand appears not to be working in this case.

What is the most likely explanation?

A Other things did not remain equal.

B The demand for the good was price inelastic.

C The real price of the good fell.

D The time period was the very short run.

5 When is division of labour likely to be most effective?

A in a large market with stable demand

B in a market where consumers prefer a handmade product over a product made using machines

C in a market where consumers require a variety of goods

D in a small market where consumers require a custom-made product

6 What will influence the value of the price elasticity of supply of a good?

A the level of producer surplus

B the time period under consideration

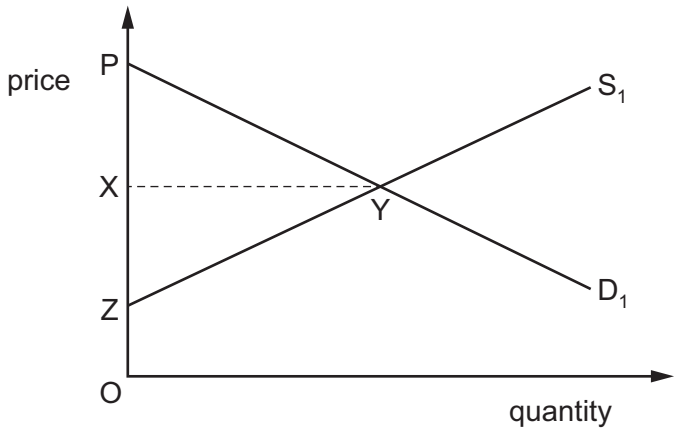
C the total income spent on the good

D whether the good is a necessity

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7 The diagram represents the market for a good.



Which statement is correct?

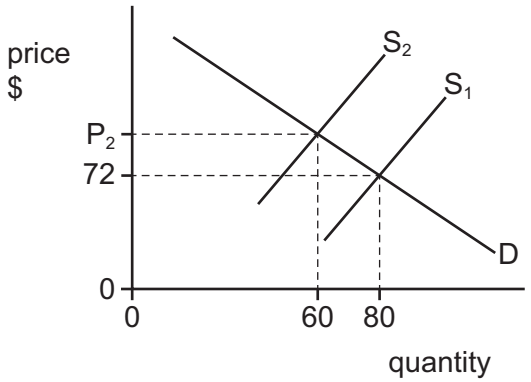
A OX represents the price above which no producer wishes to stay in the market.

B OZ represents the minimum price consumers are prepared to pay.

C PYZ represents the total consumer surplus.

D XYZ represents the total producer surplus.

8 The diagram shows the impact on equilibrium due to an increase in the costs of production. The original price is $72. The price elasticity of demand is –2.0.



What is the new equilibrium price, P_2?

A $81.00 **B** $84.00 **C** $92.00 **D** $108.00

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9 What is likely to have a greater effect on an individual demand curve than on a market demand curve?

A changing weather patterns

B government policy to promote consumption

C growth in population

D more expensive substitutes

10 The quantity demanded of a product is given by $Q_D = 400 – 10P$, when P is the price in dollars. Supply of the product is fixed at 100 units.

If the price is $20, what will be the position in the market?

A It will be in disequilibrium with excess demand of 100 units.

B It will be in disequilibrium with excess supply of 100 units.

C It will be in equilibrium with 100 units traded.

D It will be in equilibrium with 200 units traded.

11 A decrease in the quantity demanded of a product results in a proportionate decrease in sales revenues.

What is true about its price elasticity of demand?

A It is between zero and one.

B It is infinite.

C It is unitary.

D It is zero.

12 A government may use a range of methods to intervene in a market to affect both demand and supply.

What is a method which will shift the demand curve for a good?

A an indirect tax

B a subsidy

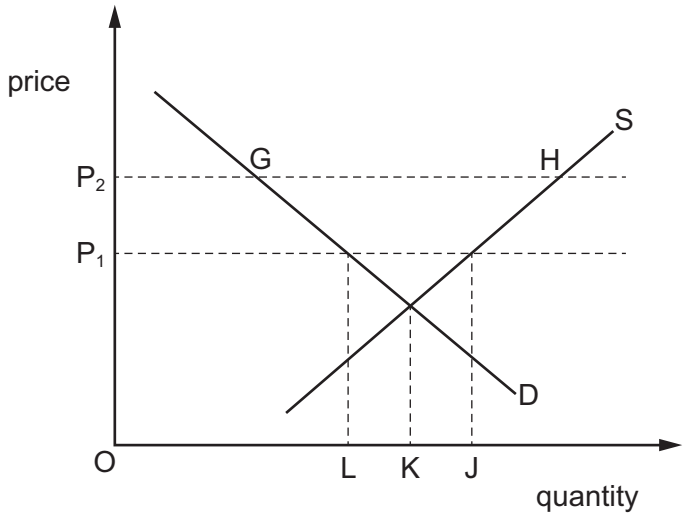
C direct provision

D provision of information

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13 To help achieve price stability, the government in country F operates a buffer stock scheme, with a minimum price of P_1 and a maximum price of P_2. The current demand and supply in the market is shown.



What should the government do to ensure the scheme is effective?

A buy an amount equal to GH

B buy an amount equal to KJ

C buy an amount equal to LJ

D do nothing as the equilibrium price is below P_1

14 Why is it more difficult to quantify the wealth of an individual rather than their income?

A A skilled artist may keep a painting in stock whose value increases after their death.

B Individuals can choose to spend all available income, leaving wealth unchanged.

C Not every form of individual wealth can be traded for money in a market.

D Wealth is a stock which cannot be broken down into an individual's different assets.

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15 The table shows the Gini coefficient for income in three countries.

	2018	2019	2020
Costa Rica	0.479	0.478	0.497
New Zealand	0.330	0.326	0.320
Sweden	0.275	0.280	0.278

What can be concluded from this data?

A All three countries have seen an overall improvement in income equality.

B Costa Rica has the highest level of consumer income of all three countries.

C New Zealand's income inequality worsened between 2018 and 2020.

D Sweden's economy has the highest income equality of all three countries.

16 Governments may have price stability as a macroeconomic objective.

What is meant by price stability?

A All equilibrium prices are maintained in the long run.

B Demand-pull inflation cancels out any cost-push inflation.

C Only disinflation is present in the economy in the long run.

D Prolonged periods of inflation and deflation are avoided.

17 In country S, frictional unemployment has decreased, but in country T, structural unemployment has increased.

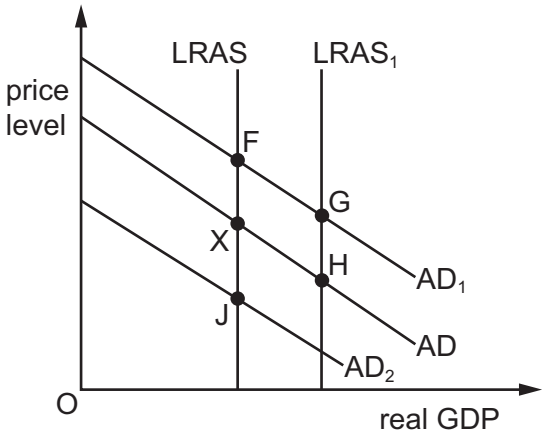
What would be possible explanations for these changes?

	country S	country T
A	a reduction in job search times	real wage rates are flexible
B	more job vacancy websites	the closure of several large mining firms
C	unemployment benefits have decreased	a fall in economic growth
D	unemployment benefits have increased	workers' skills do not match available jobs

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18 The diagram shows aggregate demand (AD) and long-run aggregate supply (LRAS) with X as the initial equilibrium.



Which combination of policy and new final equilibrium point is correct?

	policy	new final equilibrium point
A	increased direct taxation	F
B	increased government spending on infrastructure	G
C	appreciation of the exchange rates	H
D	decreased interest rates	J

19 The money income of a country rises by 10% whereas its population falls by 10% during a year.

What is likely to happen to the national income per head?

A It will remain unchanged.

B It will rise by exactly 20%.

C It will rise by less than 20%.

D It will rise by more than 20%.

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20 High economic growth is often accompanied by a worsening of the current account of the balance of payments.

Which reason for this trend is **not** valid?

A Economic growth raises domestic consumption, leaving very little to sell to overseas consumers.

B Economic growth raises domestic output, leading to lower prices and more price-competitive goods both at home and abroad.

C Economic growth raises incomes and leads to rising demand for foreign goods.

D Economic growth results in rising requirements of inputs from other countries.

21 A government cuts income tax.

Why might this be seen as an example of a supply-side policy?

A Real incomes are increased.

B The costs of businesses are reduced.

C The opportunity cost of unemployment has increased.

D The standard of living has improved.

22 Which combination of fiscal policy measures will reduce both the inflation rate and income inequality?

	direct taxes	indirect taxes	subsidies on food and public transport
A	decrease	decrease	increase
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

23 A country's central bank decides to reduce the level of credit regulation.

What is this an example of?

A contractionary fiscal policy

B contractionary monetary policy

C expansionary fiscal policy

D expansionary monetary policy

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24 A government decides to use supply-side policy to increase long-run aggregate supply (LRAS).

What is the most likely reason why this policy tool will **not** lead to a fall in the price level?

A Aggregate demand will also increase.

B Labour productivity levels will increase.

C Workers will save any extra wages they earn.

D Workers will spend any extra wages on imports.

25 What defines a progressive tax?

A All taxpayers pay the same proportion of income in taxes.

B Low-income earners pay a lower proportion of income in taxes than high-income earners.

C Low-income earners pay less in taxes than high-income earners.

D Low-income earners pay more in taxes than high-income earners.

26 Country X trades with country Y.

What are the terms of trade for country X?

A average price of country X's exports divided by the average price of country Y's exports

B the ratio of an index of country X's export prices to an index of its import prices

C value of country X's exports divided by the value of country Y's exports

D value of country X's imports divided by the value of country Y's imports

27 When is a country's exchange rate most likely to fall?

A When its current account surplus exceeds that of its trading partners.

B When its inflation rate exceeds that of its trading partners.

C When its interest rate exceeds that of its trading partners.

D When its unemployment rate exceeds that of its trading partners.

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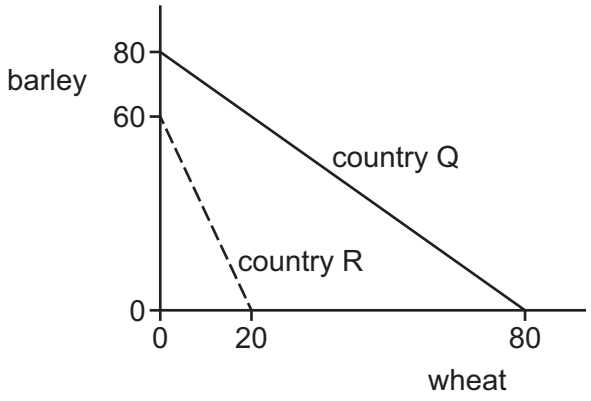
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28 A country experiences a rising trade deficit and a current account surplus at the same time.

Which combination of events might explain this?

	Event 1	Event 2
A	a global recession resulting in decreased prices of commodities	Gross National Income (GNI) rises faster than Gross Domestic Product (GDP)
B	increased subsidies for exporters	increased donations received from abroad to combat a humanitarian crisis
C	removal of restrictions on imports	removal of restrictions on the remittance of profits of foreign-owned producers
D	rising imports of machinery to help raise exports in the future	increased secondary income from workers' remittances from abroad

29 The diagram shows the production possibilities for barley and wheat in countries Q and R.



What can be concluded?

A Country Q has a comparative advantage in the production of barley.

B Country Q has an absolute advantage in producing both goods.

C Country R has an absolute advantage in the production of barley.

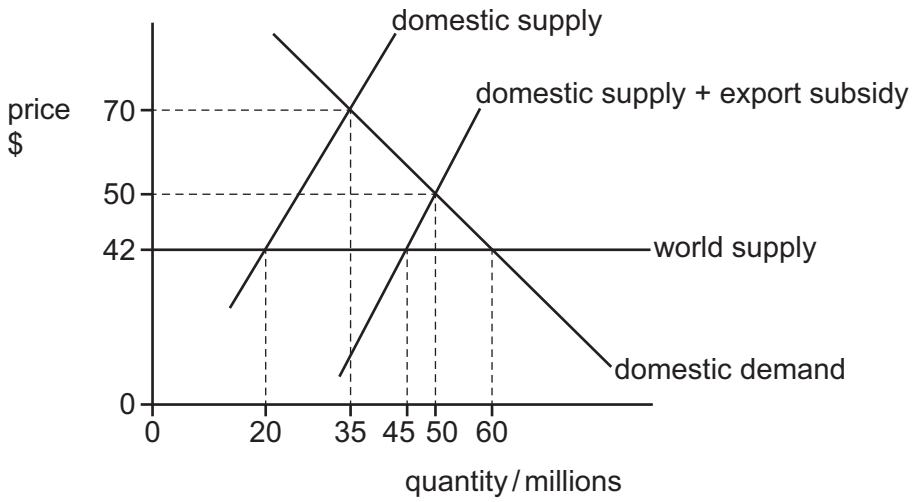
D There is no comparative advantage.

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30 The diagram shows the impact of a government introducing an export subsidy for its domestic producers of oil.



What will be the effect of this export subsidy on the operation of the domestic market?

A domestic output of oil will increase by 15 million units

B imports of oil will decrease by 25 million units

C the domestic price of oil will decrease by $28

D the domestic price of oil will increase by $8

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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	Prices only reflect private costs and benefits; externalities are ignored, so price does not always reflect all costs and benefits.
2	C	Installing capital means all factors are variable (long run); researching new technology changes the state of technology itself (very long run).
3	B	W lies inside the curve, so resources are unemployed (inefficient); X lies on the curve, so output is maximised (efficient).
4	A	Incomes rose by 4% at the same time, shifting demand right, so the ceteris paribus assumption did not hold.
5	A	Specialisation needs large-scale, standardised output, so a large market with stable demand lets workers specialise in repetitive tasks.
6	B	Supply becomes more elastic as time passes because firms can adjust factor inputs and capacity, so the time period matters.
7	D	Producer surplus is the area above the supply curve and below the price received: XYZ.
8	A	$\%\Delta Qd = (60 - 80) \div 80 = -25\%$; $-25\% \div -2.0 = +12.5\%$, so P2 = \$72 × 1.125 = \$81.00.
9	D	A change in the price of a substitute affects individuals; weather, policy and population mainly shift market demand by adding or removing consumers.
10	A	At P = \$20, $Qd = 400 - 10(20) = 200$; supply = 100, so excess demand = 200 − 100 = 100 units.
11	B	Revenue falls in proportion to quantity, so price has not changed at all: demand is perfectly elastic (PED infinite).
12	D	Information changes consumers' tastes and perceptions, so it shifts the

Question number		
		demand curve; taxes, subsidies and direct provision affect supply.
13	C	Equilibrium (K) is below the minimum price P1; at P1 demand is L and supply is J, so the agency must buy the surplus LJ.
14	C	Some assets (eg personal possessions, human capital) are not traded, so they have no observable market price to value them.
15	D	Sweden has the lowest Gini coefficient (0.275 to 0.280), so it has the most equal income distribution of the three.
16	D	Price stability means a low, stable rate of inflation, avoiding prolonged periods of inflation and deflation.
17	B	Job vacancy websites cut search time (less frictional); mine closures leave workers whose skills do not fit new jobs (more structural).
18	B	Infrastructure spending raises AD to AD1 and also raises productive capacity, shifting LRAS to LRAS1, so the new equilibrium is G.
19	D	Income per head = 1.10 ÷ 0.90 = 1.222, so it rises by about 22.2%, more than 20%.
20	B	More price-competitive goods would raise exports and cut imports, improving the current account, so this reason is not valid.
21	C	Lower income tax raises take-home pay relative to benefits, so the opportunity cost of unemployment rises and the incentive to work increases.
22	C	Higher direct (progressive) taxes cut AD and redistribute income; lower indirect taxes and more subsidies cut prices and help the poor most.
23	D	Easing credit regulation is a monetary measure that increases lending and the money supply, so it is expansionary monetary policy.
24	A	Higher incomes from the policy also raise spending, so AD shifts right as well and offsets the downward pressure on prices.
25	B	A progressive tax takes a rising proportion of income as income rises, so low earners pay a lower proportion than high earners.
26	B	Terms of trade = (index of export prices ÷ index of import prices) × 100.

Question number		
27	B	Higher inflation makes exports less competitive and imports more attractive, so demand for the currency falls and supply rises.
28	D	Machinery imports widen the trade deficit, while larger secondary income inflows from remittances keep the current account in surplus.
29	B	Q can produce more barley (80 > 60) and more wheat (80 > 20) than R, so Q has an absolute advantage in both goods.
30	B	At the world price $42, imports were 60 − 20 = 40m; the subsidy raises domestic supply to 45m, so imports = 60 − 45 = 15m, a fall of 25m.