Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2020**

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.
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- Do **not** write on any bar codes.
- You may use a calculator.

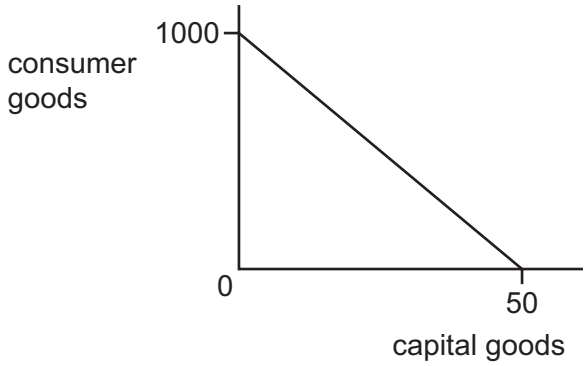
INFORMATION

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[Turn over

1 The diagram shows an economy's production possibility curve.



It has been employing its resources in the ratio of 80% consumer goods production and 20% capital goods production.

What will be the result if it decides to double its output of capital goods?

A a gain of 20 capital goods

B a gain of 40 capital goods

C a loss of 200 consumer goods

D a loss of 600 consumer goods

2 Which comment relating to the introduction of charges for previously free medical treatment is normative?

A Fewer people will be able to afford treatment.

B It will be unfair on lower income groups.

C Richer citizens will pay the higher charges.

D Workers' health and productivity will fall.

3 Which characteristic of money is the **most** important if it is to function as a medium of exchange?

A acceptable

B divisible

C durable

D portable

4 What is **not** a characteristic of a planned economy?

A Consumers have limited influence on what is produced.

B Profit is the motive for increasing output.

C Resources are owned by the government.

D There is limited competition in the market.

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5 Good X is a substitute for good Y and a complement to good Z.

What would happen after a fall in the price of good X?

A Only the demand for X will rise.

B Demand for X, Y and Z will rise.

C Demand for Y will fall and for Z will rise.

D Demand for Y will rise and for Z will fall.

6 The table shows how an individual's weekly consumption of biscuits and coffee varies with income.

income ($)	biscuits (packs)	coffee (cups)
100	0	5
150	5	10

Which statement about the income elasticity of demand over the range of income shown is true?

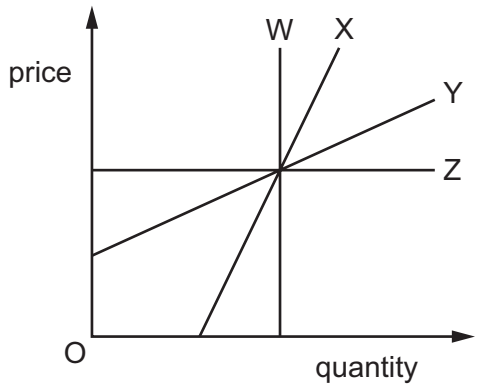
A For biscuits it is greater than 1.

B For biscuits it is zero.

C For coffee it is less than 1.

D For coffee it is unitary.

7 The diagram shows four supply curves.



Which statement about the price elasticity of these supply curves is correct?

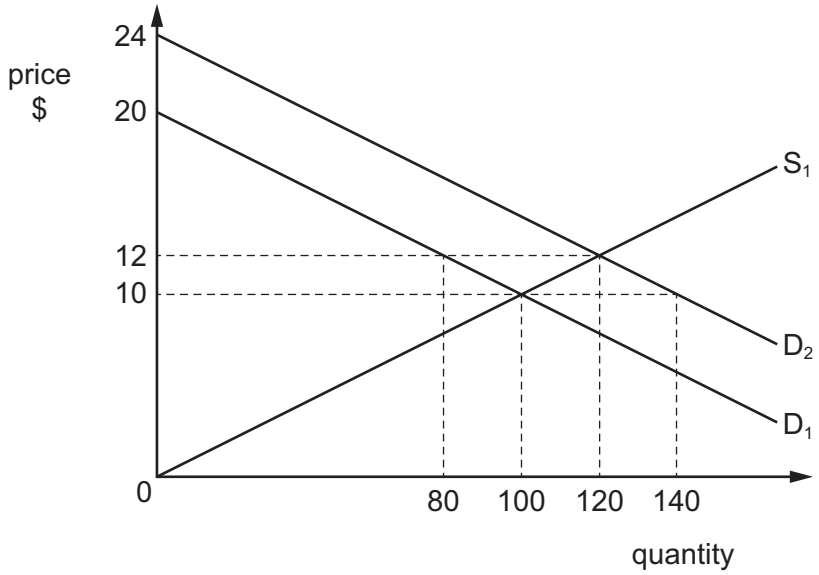
A W has elasticity of 0 that will rise as price rises.

B X has elasticity greater than 1 that will be constant as price rises.

C Y has elasticity greater than 1 that will fall as price rises.

D Z has elasticity of 0 that is constant as quantity rises.

8 The diagram shows the market for a good with an initial equilibrium price of $10. The demand for the good increases by 40 units at every price causing the equilibrium price to rise to $12.



What is the value of the producer surplus after the price increase?

A $500 **B** $720 **C** $1000 **D** $1440

9 The equation for the quantity demanded (Q_D) for a product is $Q_D = 400 – 20P$ where P = price in dollars. The quantity supplied (Q_S) is given by $Q_S = 100 + 40P$.

What change will occur if the price rises from $5 to $6?

A the market will move from equilibrium to shortage

B the market will move from equilibrium to surplus

C the market will move from shortage to surplus

D the market will move from surplus to shortage

10 A farmer divides his land between growing two crops – wheat and oats. To increase production of one he must reduce production of the other.

What would cause the farmer to increase his supply of wheat?

A A subsidy is given for the production of oats.

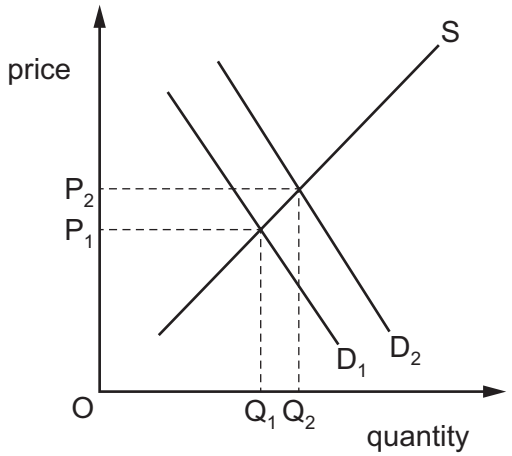
B A unit tax is imposed on the production of wheat.

C There is an increase in wages for all farm workers.

D There is improved efficiency in the harvesting of wheat.

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11 What would cause the demand curve for vegetables to shift from D_1 to D_2 as shown?



A a change in supply from Q_1 to Q_2

B a poor harvest due to unfavourable weather

C a price change from P_1 to P_2

D an increase in real incomes

12 The demand curve for new cars in a country shifted to the left.

Which change could have caused such a shift?

A an increase in real disposable income

B an increase in the cost of borrowing

C an increase in the price of new cars

D an increase in the price of train travel

13 What is correct about market supply?

A Market supply can increase only when all individual firms increase their output.

B Market supply is effective when consumers have sufficient income to buy the good.

C Market supply is the result of aggregating the supply of all individual firms.

D Market supply of an inferior good falls as price increases.

14 Which statement best describes a transfer payment?

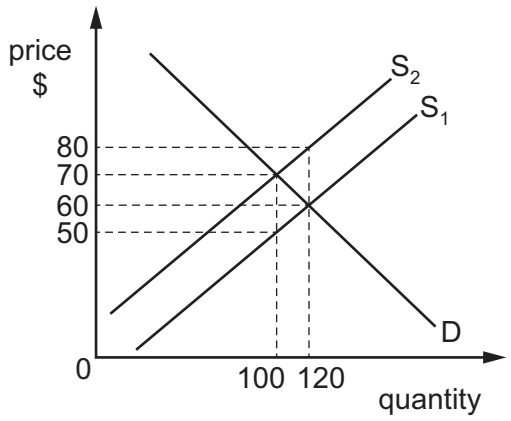
A It is a loan from the government to help firms.

B It is a payment to individuals not linked to economic activity.

C It is the redistribution of income from government to individuals for work done.

D It is the redistribution of income from households to firms for goods purchased.

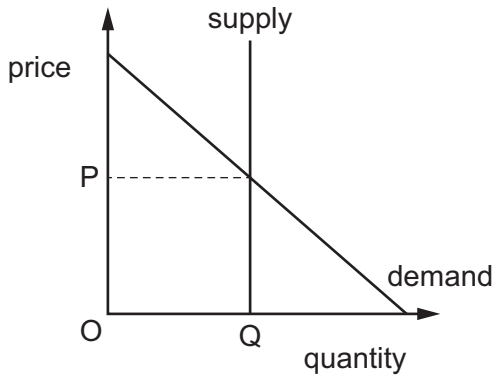
15 The diagram shows the impact of a unit tax imposed by a government on a good. The original supply curve is S_1 and the supply curve after the unit tax is S_2.



What would be the amount of tax paid by the consumer?

A $500 **B** $1000 **C** $1500 **D** $2400

16 The diagram shows the demand and supply curves for healthcare in a private market.



What would happen if the government provides the same amount of healthcare free of charge?

A Healthcare will become a public good.

B Healthcare will no longer have external benefits.

C There will be over-consumption of healthcare.

D There will need to be rationing.

17 A good is provided by the government. Consumption by one person does not affect the amount of the good available for others.

Which type of good must this be?

A complementary good

B merit good

C private good

D public good

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18 A government imposes an income tax on individuals. The first $100 000 of earned income is taxed at a rate of 20%, and all further earned income above $100 000 is taxed at a marginal rate of 50%.

Which statement is **not** valid?

A The average income tax rate is 20% at an income of $80 000 and 35% at an income of $200 000.

B The tax is a direct tax for incomes above $100 000.

C The tax is a proportional tax for incomes between $20 000 and $40 000.

D The tax is regressive when incomes change from below to above $100 000.

19 Agricultural economies have faced a deterioration in their terms of trade.

What might have contributed to this?

A falling exchange rates of agricultural economies

B falling productivity in agricultural production

C increasing productivity in manufacturing economies

D the high income elasticity of demand for foodstuffs

20 The table shows the output of rice and cotton for countries X and Y.

	units of output of rice per year	units of output of cotton per year
country X	5000	5000
country Y	4000	2000

Each country divides its resources equally between the production of rice and cotton.

Based upon the law of comparative advantage, which statement is correct?

A Country X has the higher opportunity cost in producing cotton.

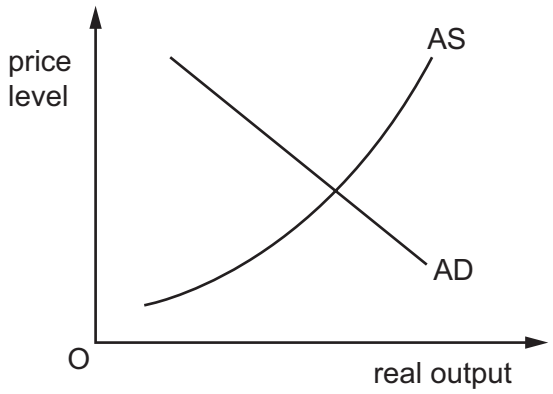
B Country Y has the lower opportunity cost in producing rice.

C Country X should produce both goods as the opportunity cost is the same.

D Country Y should produce both goods as it has an absolute advantage in both.

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21 An economy is represented by the AD / AS diagram, which is initially in macroeconomic equilibrium.



Which change will definitely result in a rise in real output?

A a fall in personal taxation and a fall in government expenditure

B a rise in consumption and a rise in the cost of raw materials

C a rise in export revenues and a fall in import expenditure

D a rise in government expenditure and a fall in investment

22 The data shows the consumer prices index (CPI) and an index of money wages in an economy during four years.

year	1	2	3	4
CPI	100	102	105	110
index of money wages	100	102	107	110

Which statement is **not** correct?

A Inflation was at its greatest between years 3 and 4.

B Real wages remained constant between years 1 and 2.

C Real wages rose between years 3 and 4.

D The rate of inflation increased over the whole period.

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23 A country has a deficit of $300 million on the current account of its balance of payments. It devalues its currency in an attempt to reduce the deficit.

Which row is consistent with the idea that the J-curve operates in the short run but the Marshall-Lerner condition is satisfied in the long run?

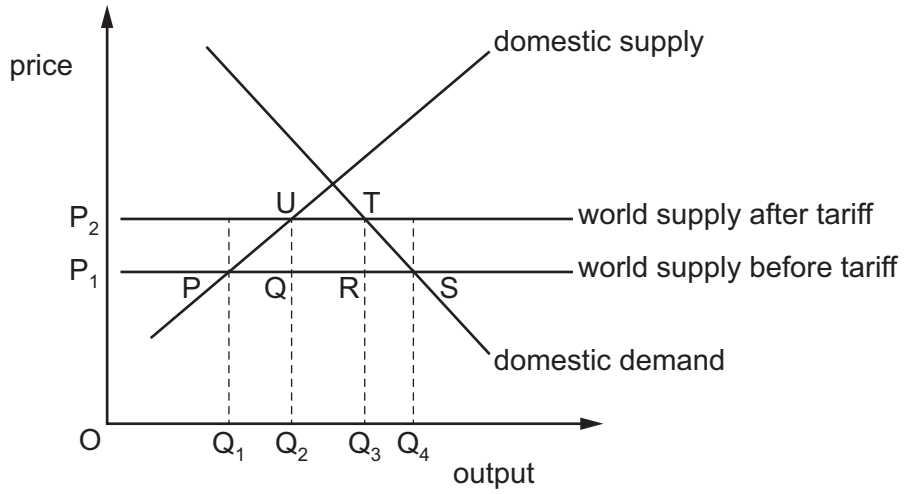
	short-run deficit ($ million)	long-run deficit ($ million)
A	200	100
B	200	400
C	600	100
D	600	400

24 A family takes a holiday abroad. Four students are asked to show where the cost of the accommodation would be recorded in the current account of the balance of payments of the country visited.

Which student is correct?

	trade in goods	trade in services	export / credit	import / debit
A	✓	✗	✓	✗
B	✓	✗	✗	✓
C	✗	✓	✓	✗
D	✗	✓	✗	✓

25 The diagram shows the imposition of a tariff on imports.



Which set of values is correct?

	imports before tariff	imports after tariff	tax revenue
A	OQ_4	OQ_3	PUTS
B	OQ_4	OQ_3	QUTR
C	Q_1Q_4	Q_2Q_3	PUTS
D	Q_1Q_4	Q_2Q_3	QUTR

26 When is a deficit on the current account of the balance of payments likely to worsen?

A when a government adopts a deflationary macroeconomic policy

B when a government subsidises exports

C when prices of essential imported raw materials increase significantly

D when tariffs are placed on imported products with a wide range of domestic substitutes

27 A government with a floating exchange rate wishes to encourage a rise in the international value of its currency.

What should it do?

A lower the level of domestic interest rates

B reduce the amount of foreign currency available to its citizens

C reduce subsidies to its exporters

D remove trade barriers on imports

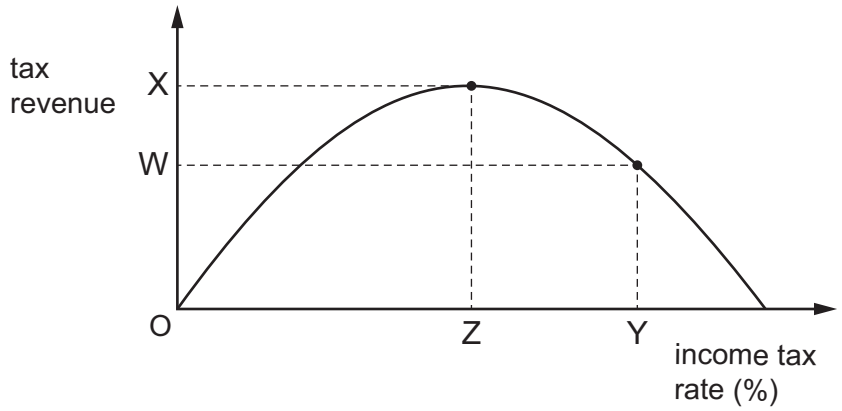
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28 Greece had an unemployment rate of over 20% in 2016.

Which combination of policies would be best for the Greek government to try to reduce unemployment?

	monetary policy	government expenditure	profit tax
A	decrease interest rates	increase	decrease
B	decrease interest rates	decrease	increase
C	increase interest rates	increase	increase
D	increase interest rates	decrease	decrease

29 The diagram shows the relationship between the income tax rate and tax revenue.



Which statement is correct?

A A tax rate cut from Y to Z will cause tax revenue to decrease.

B At tax rates below Z a tax rate cut will cause tax revenue to increase.

C The greater the rate of tax increases beyond Z, the smaller will be the tax revenue generated.

D Tax revenue will always increase as the rate of income tax increases.

30 What would be classified as a supply-side policy measure?

A a law to reduce the power of trade unions

B a reduction in the government's fiscal deficit

C an open market sale of securities

D the imposition of a tariff on imported goods

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ECONOMICS **9708/12**

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1 hour

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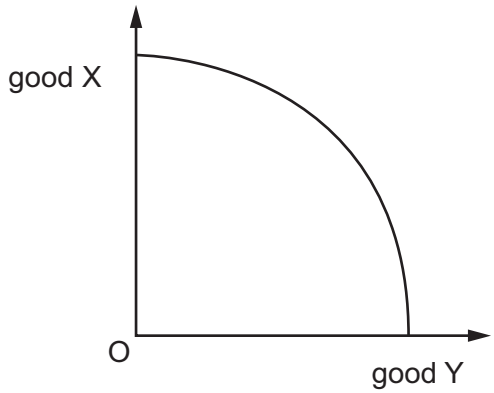
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[Turn over

1 The diagram shows a production possibility curve.



What can be deduced from the shape of this curve?

A decreasing marginal returns to consumption

B decreasing opportunity costs of consumption

C increasing opportunity costs of production

D increasing returns to scale

2 Which statement is correct?

A Private goods are both non-rival and non-excludable.

B Private goods are only provided by the private sector.

C Public goods are both non-rival and non-excludable.

D Public goods do not incur opportunity costs.

3 Below are two statements.

1 A rise in the price of rice is the best way to give farmers in South-East Asia higher living standards.

2 A rise in the price of rice will lead to a fall in demand.

Which row correctly describes these two statements?

	1	2
A	normative	normative
B	normative	positive
C	positive	normative
D	positive	positive

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4 What is a characteristic of money but **not** a function of money?

A medium of exchange

B portability

C standard of deferred payment

D store of value

5 In the UK, attempts to encourage people to change from road to rail travel by the introduction of a system of road pricing were forecast to have little effect because 'people like using their cars too much'.

How would this forecast be explained?

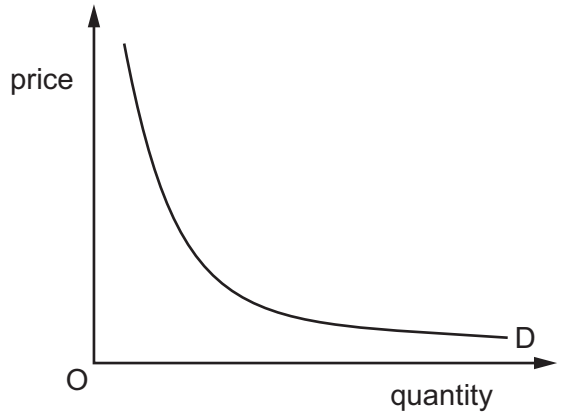
A The price elasticity of demand for cars is high.

B The price elasticity of demand for petrol is high.

C The price elasticity of demand for rail travel is low.

D The price elasticity of demand for car travel is low.

6 The diagram shows the demand curve for a product with unitary price elasticity.



What will happen with such a curve?

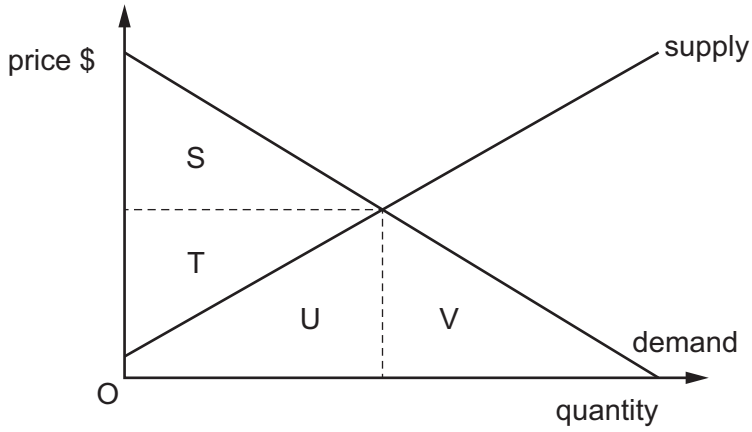
A A fall in price will bring about an increase in total expenditure on the product.

B A fall in price will bring about an increase in sales but a fall in total expenditure on the product.

C As the price rises, total expenditure on the product will stay the same.

D As the price rises, total expenditure on the product will rise and then fall.

7 The diagram shows the market supply and demand for a good.

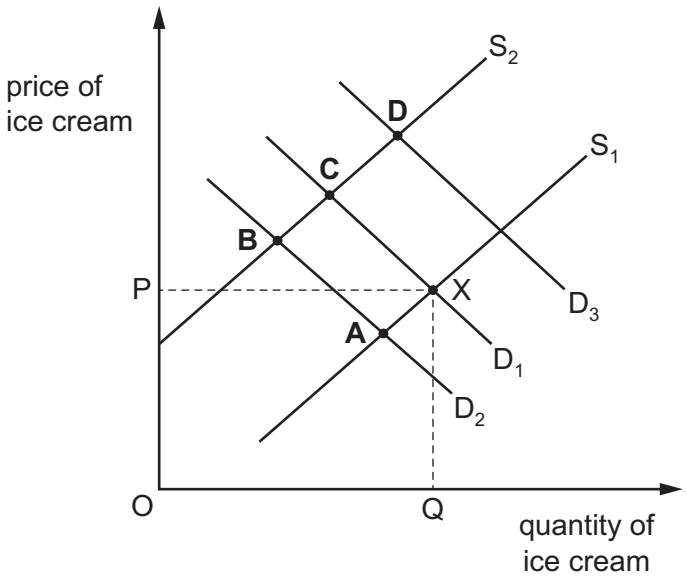


Which area represents producer surplus?

A S + T **B** T **C** U **D** U + V

8 Vanilla is an important ingredient in the production of ice cream. Between 2011 and 2018 the price of vanilla increased from about US$100 per kg to nearly US$600 per kg. The diagram shows the market demand for and supply of ice cream. The original equilibrium is X.

Which point illustrates the effect of this price rise on the market for ice cream?



9 A government reduces income tax but at the same time raises the rate of sales tax (VAT).

What are the likely effects on the demand and supply of a normal good?

	demand	supply
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

10 An increase in the popularity of air conditioning units has resulted in their price increasing by 20%. In response to this the quantity supplied increased by 30%.

What can be concluded from this?

A price elasticity of supply = 0

B price elasticity of supply < 1

C price elasticity of supply = 1

D price elasticity of supply > 1

11 Which change does **not** have an immediate effect on the position of the demand curve for a product?

A a fall in the price of a complementary product

B a range of new products entering the market

C a rise in the labour costs of its production

D an increase in the price of a substitute product

12 When demand for a good falls, its price falls.

What is the function of the price fall?

A to eliminate shortages

B to reduce consumer surplus

C to send a signal to producers

D to stimulate a further fall in demand

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[Turn over

13 A firm estimates that the price elasticity of supply of its product is 0.4.

Should the firm be concerned by this figure?

A No, as it implies that the firm will be able to raise revenue by raising price.

B No, as it suggests there are few substitutes for the product.

C Yes, as it means that demand for its product is increasing at a slow rate.

D Yes, as it shows that the firm is not able to adjust supply easily when demand changes.

14 A government decides to privatise a state-owned company.

What should the government do to try to ensure that this will result in an improvement in efficiency?

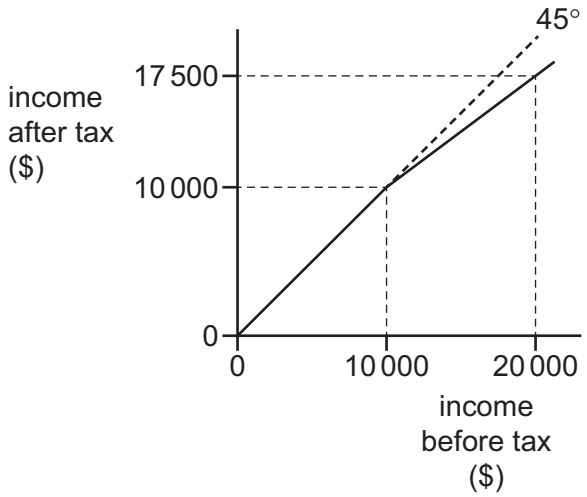
A allocate vouchers to all citizens entitling them to a share in the ownership of the company

B encourage competition

C impose a maximum profit margin

D increase business tax rates

15 The graph shows an individual's income before and after the deduction of income tax.

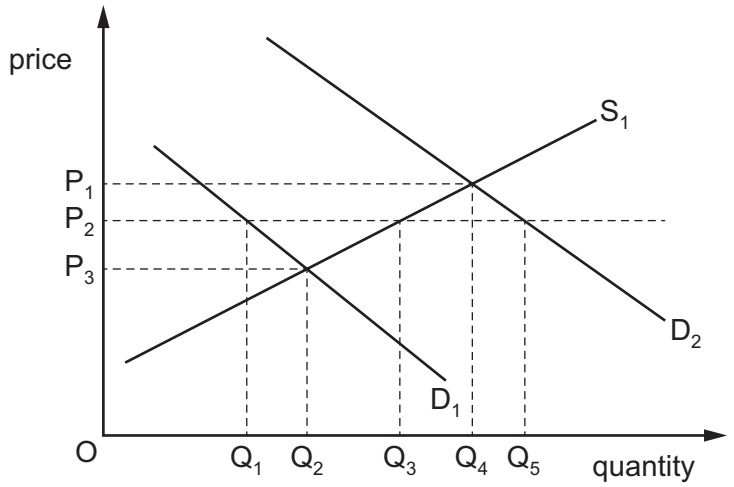


What is the marginal percentage rate of tax between $0 and $10 000, and between $10 000 and $20 000?

	$0–$10 000	$10 000–$20 000
A	0%	12.5%
B	0%	25.0%
C	1%	12.5%
D	1%	25.0%

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16 In year 1, in the market for a good represented in the diagram, the initial demand and supply conditions are shown by D_1 and S_1, and the government has set a maximum price of OP_2.



In year 2, demand increases to D_2, but there are no other changes to the conditions of supply or to the maximum price.

Which row accurately shows the price and quantity in the market in each year?

	year 1		year 2	
	price	quantity	price	quantity
A	OP_2	OQ_1	OP_1	OQ_4
B	OP_2	OQ_3	OP_2	OQ_5
C	OP_3	OQ_2	OP_1	OQ_4
D	OP_3	OQ_2	OP_2	OQ_3

17 What is necessary for an action to be classed as a transfer payment?

A It must include a cash payment.

B It must involve a banking transaction.

C It must originate from government activity.

D It must relate to a non-productive activity.

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18 The market for good X is in equilibrium. The government introduces a subsidy to the producers of good X.

Under which conditions will the total expenditure by the government on the subsidy be the greatest?

	price elasticity of demand for good X	price elasticity of supply for good X
A	<1	<1
B	<1	>1
C	>1	<1
D	>1	>1

19 Under which combination of circumstances will a policy of increasing the money supply be **most** effective at moving an economy out of recession?

	circumstance one	circumstance two
A	depreciating exchange rate	global financial crisis
B	high nominal interest rates	appreciating exchange rate
C	low aggregate demand	inflation rate above the target level
D	low nominal interest rates	no spare capacity available

20 In which economic context is the term 'protectionism' usually applied?

A the protection of consumers against excessive prices

B the protection of employees against exploitation by multinational companies

C the protection of local producers against foreign competitors

D the protection of the foreign exchange rate against currency speculators

21 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

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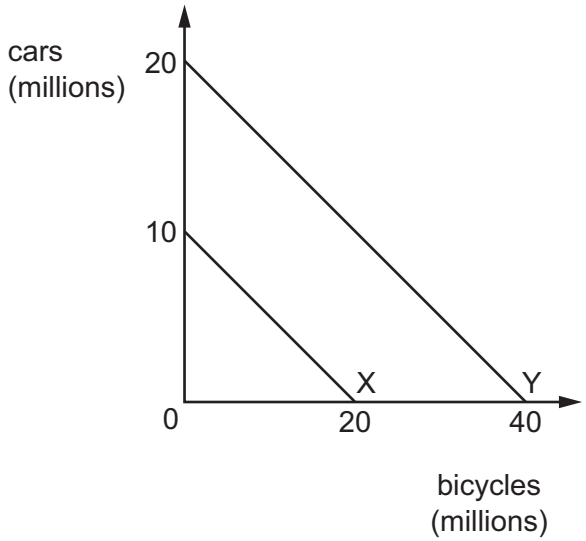
22 The table shows an approximate summary of the current account of the balance of payments for Thailand.

Bank of Thailand current account (millions of US dollars)		
		April 2018
1	exports	18 990
2	imports	18 715
3	trade balance	275
4	net services, primary income and secondary income	1130

What is the current account balance, in millions of US dollars?

A –855 **B** 1405 **C** 1680 **D** 39 110

23 The diagram shows the production possibility curves for two economies using all resources. Country X can produce 10 million cars or 20 million bicycles and country Y can produce 20 million cars or 40 million bicycles.



Which statement is correct about country X and country Y according to the theory of comparative advantage?

A Country X and country Y would not gain from free trade.

B Country X has a lower opportunity cost ratio in producing cars and bicycles than country Y.

C Country X has an absolute advantage over country Y in the production of both goods.

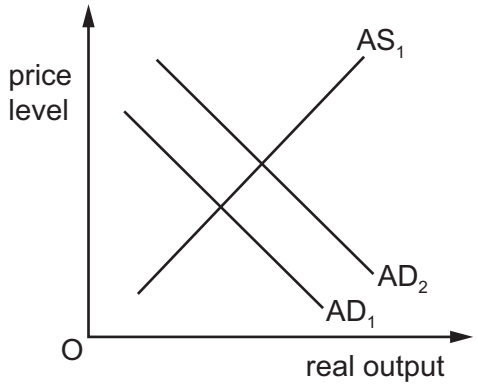
D Country Y will have a faster rate of economic growth than country X.

24 A country has a balance of payments deficit. It devalues its currency.

Which combination leads to a reduction in its balance of payments deficit in the long run?

	price elasticity of demand for exports	price elasticity of demand for imports
A	less than 0.5	less than 0.5
B	less than 1	zero (0)
C	more than 0.5	more than 0.5
D	zero (0)	less than 1

25 The diagram shows aggregate demand curves AD_1 and AD_2 and an aggregate supply curve AS_1.



What could cause the shift in the aggregate demand curve from AD_1 to AD_2?

A a rise in the interest rates

B a rise in output per worker

C a rise in the budget deficit

D a rise in the value of the exchange rate

26 The government of an open economy with an overvalued currency decides to abandon its fixed exchange rate in favour of a floating exchange rate.

Which macroeconomic policy aim is **least** likely to be met because of this change?

A a low inflation rate

B a low level of unemployment

C a reduced balance of payments deficit

D a sustainable rate of economic growth

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27 Devaluation always has the effect of

A decreasing the price of imports.

B decreasing the value of imports.

C worsening the balance of payments.

D worsening the terms of trade.

28 A government uses monetary policy and fiscal policy to solve a problem of deflation.

Which policy combination is likely to be the **most** successful?

	monetary policy	fiscal policy
A	increasing interest rates	contractionary
B	increasing interest rates	expansionary
C	reducing interest rates	contractionary
D	reducing interest rates	expansionary

29 A government reduces its expenditure on workplace training, increases the level of indirect taxes, and reduces the rate of interest it pays on government debt.

How would these government macroeconomic policies be categorised?

	supply-side	fiscal	monetary
A	con	con	exp
B	exp	con	con
C	con	exp	exp
D	exp	exp	con

key

con = contractionary

exp = expansionary

30 What represents the total of aggregate demand in a closed economy?

A C + I + G

B C + I + G + X

C C + I + G + (X – M)

D C – (S + T)

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ECONOMICS **9708/13**

Paper 1 Multiple Choice **October/November 2020**

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. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.

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1 An economy is operating at a point inside its production possibility curve.

Why is this described as inefficient?

A Individuals are enjoying too much leisure.

B More of one good can be produced without decreasing production of another.

C The combination of labour and capital is wrong.

D There are shortages of some goods and an excess supply of others.

2 What is characterised as a free good?

A one that has zero opportunity cost

B one that is non-excludable and non-rivalrous

C one that is supplied by the government with no charge

D one that receives a 100% government subsidy

3 A country is moving from a planned economy to a market economy. The government previously provided transport services but has now sold these to private firms.

What is a consequence of this?

A Government ownership of resources has increased.

B Services provided by the public sector have increased.

C There has been an increase in central planning.

D There has been an increase in consumer sovereignty.

4 A government wants to prevent the spread of an infectious disease by vaccinating all children.

Why might vaccination be classified as a merit good?

A The benefit to society is equal to the benefit received by the individual.

B The good is excludable.

C The good is not vital.

D The good would otherwise be under-consumed.

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5 A product has a downward-sloping demand curve and an upward-sloping supply curve.

What would explain a rise in the price of the product and a fall in the quantity of the product sold?

A The decrease in demand is double the decrease in supply.

B The decrease in supply is double the decrease in demand.

C The increase in demand is double the increase in supply.

D The increase in supply is double the increase in demand.

6 Public transport in an economy has an income elasticity of demand of –0.36.

What does this mean about public transport?

A It has close substitutes.

B It is a necessity.

C It is a normal good.

D It is an inferior good.

7 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.

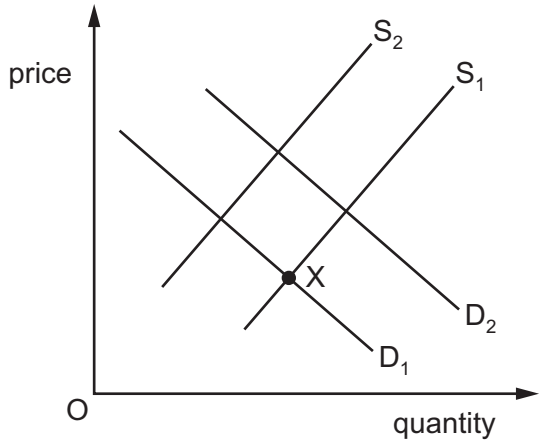
B It will be in disequilibrium with excess supply of 100 units.

C It will be in equilibrium with 100 units traded.

D It will be in equilibrium with 200 units traded.

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8 D_1 and S_1 are the initial demand and supply curves in the market for new cars with an equilibrium at X.



What will cause the demand curve to shift to D_2 and the supply curve to shift to S_2?

A a decrease in real incomes and a rise in the costs of new car production

B a decrease in the price of petrol and a subsidy on new car production

C an increase in the availability of loans for new car purchases and a specific tax on new cars

D an increase in the price of train travel and an increase in the number of car producers

9 A good has a unitary price elasticity of demand and at a price of $20 a firm sells 40 000 units.

How many units will the firm sell if it charges a price of $5?

A 10 000 **B** 100 000 **C** 160 000 **D** 200 000

10 A bus journey is considered an inferior good in a relatively rich country such as Singapore but a normal good in a relatively poor country such as Tanzania.

In which direction would an increase in incomes in both countries cause the demand curve for bus journeys in Singapore and Tanzania to shift?

	Singapore	Tanzania
A	left	left
B	left	right
C	right	left
D	right	right

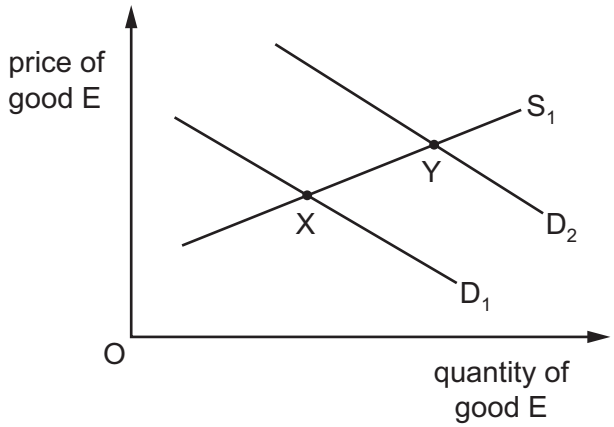
11 The quantity of a good supplied by a firm is Q. Each of these goods sells for a price of P. The area under the supply curve for Q goods is equal to C.

What is the producer surplus of the firm?

A P – C **B** P × Q **C** (P × Q) – C **D** (P – C) × Q

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12 The diagram shows the market demand for and supply of good E.



The equilibrium has changed from X to Y.

Which statement is **not** correct?

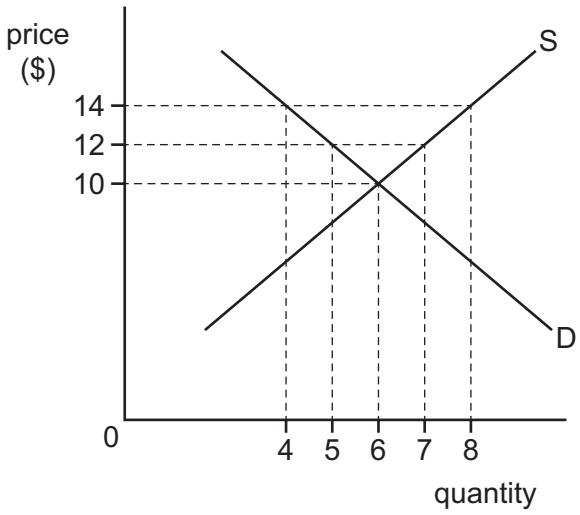
A Incomes of consumers may have increased and good E is a normal good.

B The quantity supplied has risen because price has increased.

C The quantity supplied has risen because the production of good E has been subsidised.

D The price of good F, which is a substitute for good E, may have risen.

13 The diagram shows the market for CDs.



A government raises the minimum price of CDs from $12 to $14.

What will be the outcome?

A Excess demand increases by 2 units.

B Excess demand increases by 4 units.

C Excess supply decreases by 2 units.

D Excess supply increases by 2 units.

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14 A government regards alcoholic drinks as a demerit good and introduces a minimum price above the equilibrium in an attempt to protect consumers. Demand for alcoholic drinks is price inelastic.

What is the most likely outcome?

A a fall in the revenue of alcoholic drink producers

B a fall in the quantity of alcoholic drink sales

C a long-run shortage of alcoholic drinks

D an increase in specific tax revenue from the sale of alcoholic drinks

15 A government subsidy of $50 per unit is paid to manufacturers of solar panels.

What will be the impact of this?

A It will guarantee equilibrium in the solar panel market.

B It will maintain high market prices.

C It will reduce total production costs.

D It will stabilise levels of output.

16 Why might a government privatise the railway industry in a country?

A Economists classify railway journeys as a public good.

B Privatisation would provide funds for investment from a wider range of sources.

C Privatised railways would be run to maximise producer surplus.

D Railway fares can be taxed to raise money for the government only if railways are privatised.

17 Which tax is levied on a stock of wealth rather than a flow of income?

A company profits tax

B goods and services (expenditure) tax

C individual direct tax

D personal asset tax

18 What is classified as a transfer payment?

A money paid as a gift to a charity

B money paid as a tip to a waiter

C money paid as commission to a salesperson

D money paid for an imported good

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19 Under which circumstance would the rate of inflation be **most** likely to fall?

A Government spending increases and society's marginal propensity to save falls.

B Reduced interest rates result in consumers increasing their spending.

C The government increases direct taxes and the level of investment falls.

D The prices of imported raw materials rise, whilst demand for exports falls.

20 In which circumstances will country X have a comparative advantage in the production of rice over country Y?

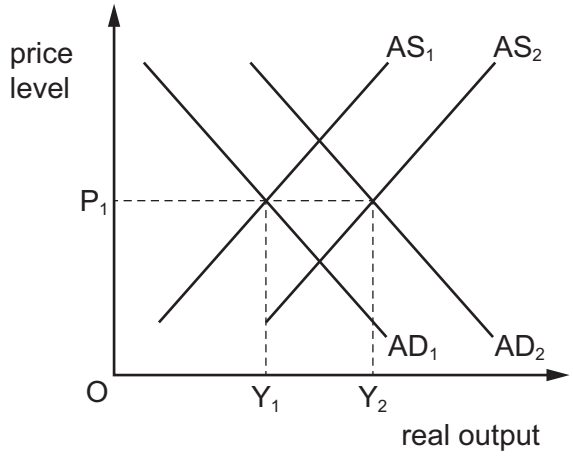
A when X has lower opportunity costs in producing rice than Y

B when X is in a customs union and Y is outside that union

C when X uses dollars for trading and Y uses a different currency

D when X uses more units of labour than Y to produce rice

21 The diagram shows an economy with an initial equilibrium real output of Y_1 at a price level of P_1.



Which combination of events is likely to cause the equilibrium real output to rise to Y_2?

A an increased budget deficit and a fall in energy costs

B an increased budget surplus and a rise in energy costs

C an increased trade deficit and a fall in indirect tax

D an increased trade surplus and a rise in indirect tax

22 The table gives figures from the current account of the balance of payments for New Zealand in 2018.

There are two blank spaces, X and Y, in the account.

	NZ$(millions)
exports of goods	54 700
imports of goods	57 400
balance of trade in goods	X
balance of trade in services	Y
primary income balance	–10 600
secondary income balance	–400
current account balance	–8 500

Four students were asked to fill in the spaces.

Which student was correct?

	X	Y
A	+2700	+5200
B	+2700	–5200
C	–2700	+5200
D	–2700	–5200

23 What is indicated by an economy's terms of trade?

A the degree of its dependence on imports

B the international competitiveness of its exports

C the purchasing power of its exports relative to its imports

D the relative strength of its currency in the foreign exchange market

24 A country operates a floating exchange rate.

Why might a government change to a fixed exchange rate?

A to increase the stock of foreign currency reserves

B to make the terms of trade more favourable

C to raise the level of certainty for businesses

D to use the exchange rate to reduce domestic prices

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25 What term relates to a fall in the domestic real value of a currency?

A deflation

B depreciation

C devaluation

D inflation

26 A country has a persistent balance of payments deficit.

What is most likely to improve the situation in the long run?

A a lowering of the level of import duties

B a reduction in the level of income tax

C the introduction of expansionary monetary policy

D the use of grants to encourage new investment by firms

27 To counter deflation a central bank uses expansionary monetary policy.

What is likely to result?

A a higher cost of borrowing

B a higher rate of inflation

C an appreciation of the exchange rate

D an increase in government debt

28 A government reduces the benefits that it pays to unemployed workers to increase the incentive to work.

Which types of macroeconomic policies are being used?

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

29 Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

A a long-run supply-side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions

B a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments

C a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target

D a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

30 Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in solving deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation

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