Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2021**

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.

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[Turn over

1 A European airline opens a new route to Dubai. It purchases additional aeroplanes, rents additional landing slots, hires pilots and buys back some of its shares to raise the value of the firm on the stock market.

What is an example of the factor of production capital?

A aeroplanes

B landing slots

C pilots

D shares

2 Which statement about the behaviour of firms in a planned economy is correct?

A Firms are sent signals to produce through the price mechanism.

B Firms will operate in competitive markets.

C Firms will attempt to make profits for the benefit of shareholders.

D Firms are more likely to consider the private and external costs of production.

3 The table provides information on entrepreneurship among males in three countries in 2013.

	percentage of males with access to training on how to start a business (%)	percentage of males with access to finance to start a business (%)
Italy	19.1	10.3
Japan	31.3	34.0
Sweden	61.6	49.7

What can be concluded from the table?

A In Sweden, it is easier for male entrepreneurs to get training than finance.

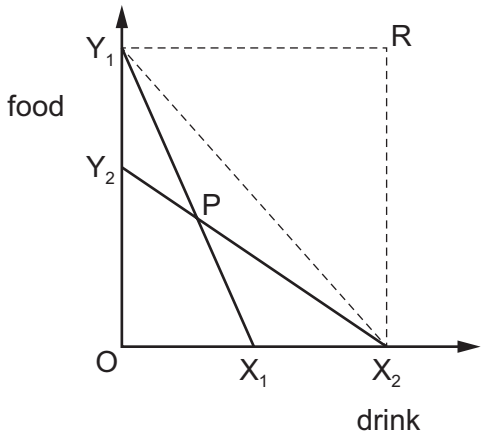
B It is always more difficult for male entrepreneurs to get finance than training.

C Italy provides less money for male entrepreneurs than Japan or Sweden.

D Sweden has more male entrepreneurs than Italy or Japan.

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4 The diagram shows the production possibility curves of two economies, Northland (Y_1–X_1) and Southland (Y_2–X_2).



Both economies specialise based on the theory of comparative advantage and trade with one another.

What can be concluded from the diagram?

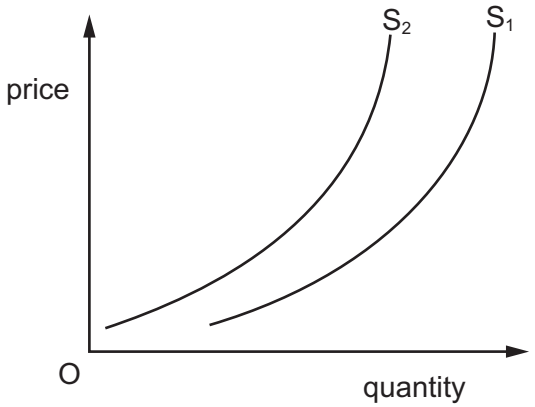
A Both economies face increasing opportunity costs.

B Point P represents the final equilibrium outcome.

C Point R shows the total possible combined production of food and drink.

D All points on Y_1–X_2 are only attainable through trade.

5 The supply curve for fresh fish shifts from S_1 to S_2 as shown.



What is a possible reason for this change in the supply of fresh fish?

A Demand for fresh fish increases due to promotion of the health benefits.

B Favourable weather increases the quantity of fish being caught.

C Price of fresh fish falls due to a new substitute product becoming popular.

D Regulations limit the number of fish being caught to prevent over-fishing.

6 When the supply of a good decreases, equilibrium price stays the same.

What is the price elasticity of demand of the good?

A –1

B zero

C +1

D infinite

7 What can be measured by cross-elasticity of demand?

A a change in real income as a result of a change in the price of consumer goods

B a change in the demand for a good in response to a change in the price of a complement

C a change in the price of a good in response to a change in the demand for a substitute

D a change in the price of a good when the demand for it changes

8 The table shows the maximum price a consumer would be willing to pay for successive cans of fruit juice.

cans	first	second	third	fourth	fifth
price ($)	14	10	6	4	3

The price of a can of fruit juice is $4 and, having bought three cans, the consumer decides to buy a fourth.

How does buying the fourth can affect his consumer surplus?

A It leaves it unchanged.

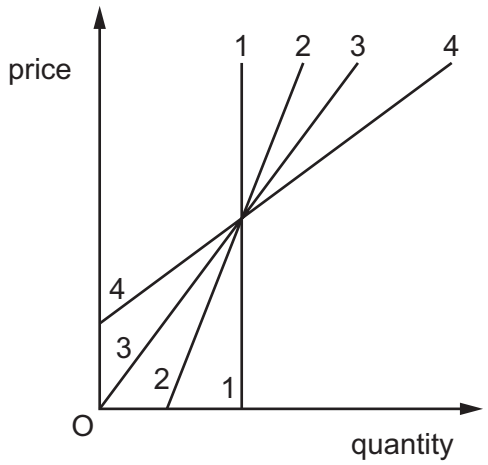
B It lowers it by $2.

C It raises it by $4.

D It raises it by $34.

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9 The diagram shows four supply curves.



Which statement about the price elasticities of the curves is correct?

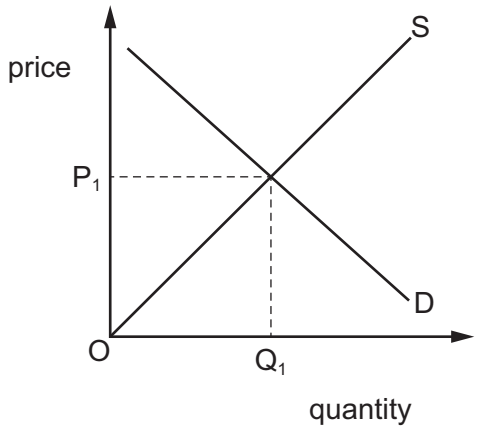
A Curve 1 has constant infinite elasticity.

B Curve 2 has elasticity greater than curve 4 over its whole length.

C Curve 3 has increasing elasticity as price rises.

D Curve 4 has decreasing elasticity as price rises.

10 The diagram shows the demand and supply curves for a good in a free market.



What can definitely be deduced from the diagram?

A All the costs and benefits of consumption are reflected in OP_1.

B At OP_1 consumer expenditure is greater than the firm's revenue.

C At OP_1 the price elasticity of supply is equal to one.

D The market will not clear at a price of OP_1.

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11 The demand for a good increases.

Under which circumstances will the quantity supplied of the good rise the most?

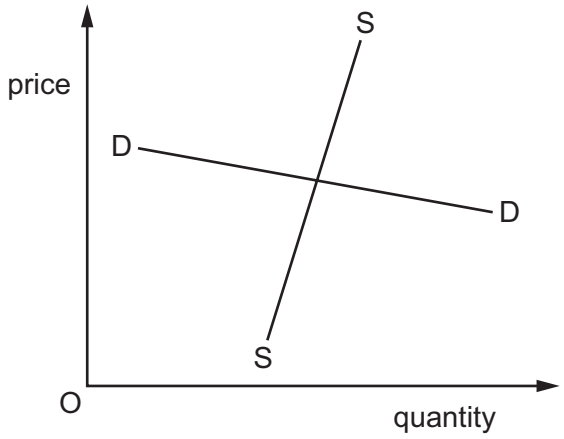
A It is an agricultural good that has an annual growing cycle and requires a cool climate.

B It is an agricultural good that is perishable and very expensive to store.

C It is a manufactured good that uses unskilled labour and there is unemployment in the economy.

D It is a manufactured good that uses capital-intensive production and it is currently at full capacity.

12 The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax.



What will be the result of this tax?

A Most of the incidence of the tax will fall on the producer.

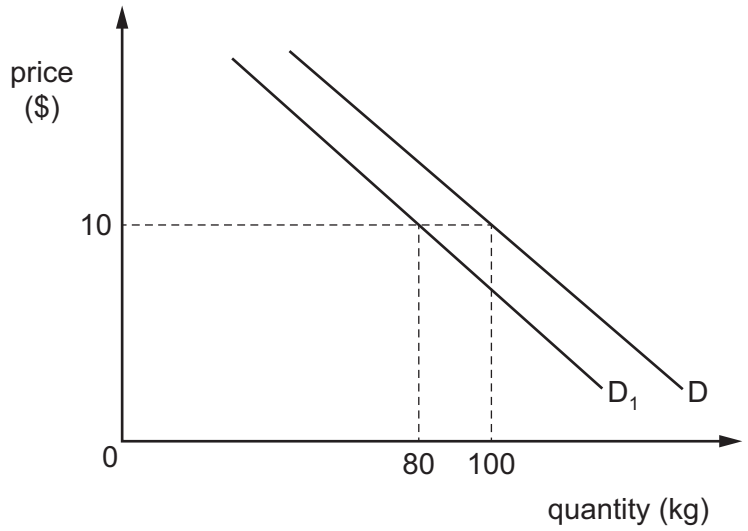
B There will be a new demand curve parallel to DD.

C The price will rise by the full amount of the tax.

D The quantity bought will fall proportionately to the tax rate.

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13 The diagram shows how a 10% increase in consumer incomes shifts the demand for good X from D to D_1.



Which statement about good X is correct?

A It is a normal good with income elastic demand.

B It is a normal good with income inelastic demand.

C It is an inferior good with income elastic demand.

D It is an inferior good with income inelastic demand.

14 What is an example of privatisation?

A the sale on the market of a French state-owned power-generation company

B the sale of a privately-owned water company to a German firm

C the takeover of a French car manufacturer by the French government

D the purchase of a Swedish pharmaceutical producer by a larger American pharmaceutical producer

15 What did Adam Smith mean by 'economy' when describing his canons of taxation?

A The cost of collecting the tax should be low.

B The tax should be easy to pay.

C The tax should have a neutral effect on the use of resources.

D The tax should have a positive effect on aggregate supply.

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16 A government decides to remove fees for higher education provided by the public sector and the private sector.

What is the consequence of this policy?

A Higher education is less likely to be provided by the private sector.

B Resources in higher education will be allocated through the price mechanism.

C The demand for higher education will be perfectly elastic when the price is zero.

D The opportunity cost of higher education to students will be zero.

17 What would be the main effect of imposing an effective maximum price on foodstuffs?

A Inflation would rise.

B The price of foodstuffs would rise.

C There would be a decrease in the import of foodstuffs.

D There would be a shortage of foodstuffs.

18 An effective minimum price is applied to alcohol in an attempt to reduce consumption.

Why would a government **not** buy up any surplus created?

A Buying the surplus would be costly to the government.

B Buying the surplus would decrease the incomes of producers.

C Buying the surplus would lead to a shortage.

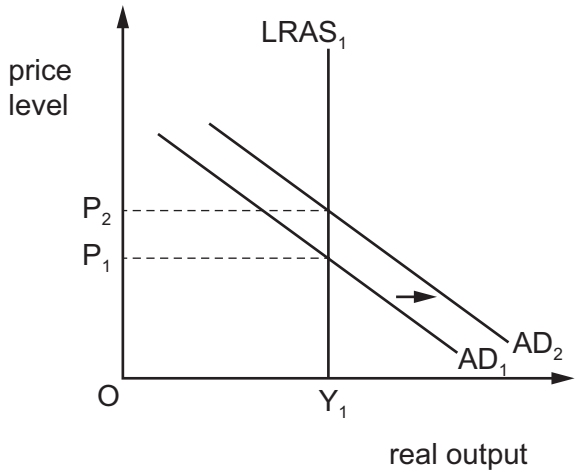
D Buying the surplus would lead to unemployment.

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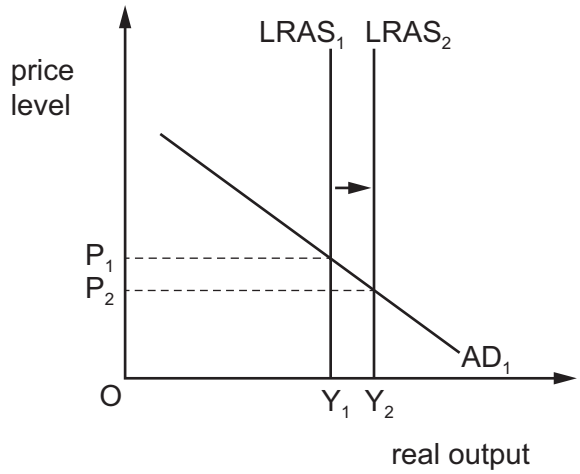
19 A government plans to increase spending on education and training every year.

Which diagram shows the likely effect of this increase on the economy's long-run output and price level?

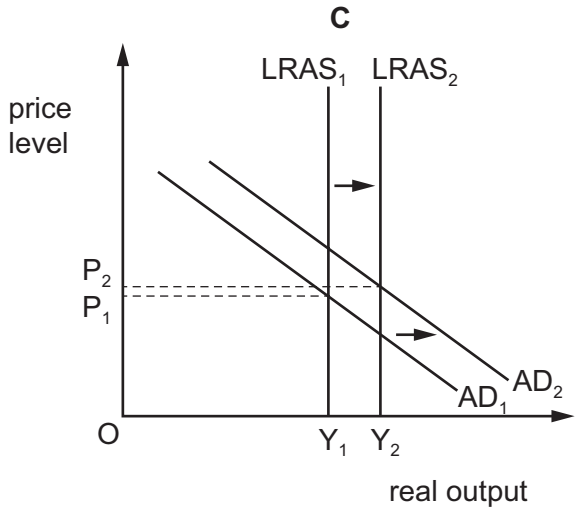
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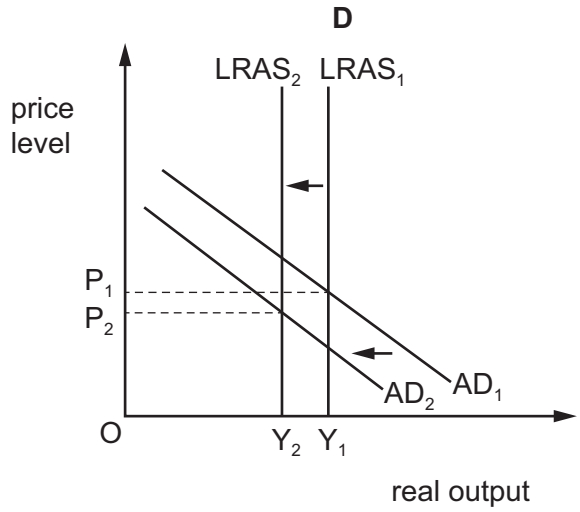
B



C



D



20 What is disinflation?

A a fall in output

B a fall in the price level

C a fall in the rate of increase of the price level

D a fall in the value of national income

21 What best describes a country's terms of trade?

A the difference between the volume of its exports and its imports

B the average price of its exports divided by the average price of its imports

C the total value of its exports divided by the total value of its imports

D the volume of its exports divided by the volume of its imports

22 A developed country has a price-inelastic demand for oil, all of which it imports. The oil-producing countries increase the supply of oil.

What is likely to happen to the developed country's rate of inflation and its balance of trade?

	rate of inflation	balance of trade
A	decreases	improves
B	decreases	worsens
C	increases	improves
D	increases	worsens

23 Country X and country Y both produce rice and tables. Half of their resources are used to produce rice and the other half to produce tables. The resulting output of each product is given in the table shown.

country	rice	tables
X	150	100
Y	100	50

What can be concluded from the table?

A Country X has a comparative advantage in the production of both goods.

B Country X has a comparative advantage in the production of rice.

C Country Y has a comparative advantage in the production of both goods.

D Country Y has a comparative advantage in the production of rice.

24 An economy experiences a deficit on the current account of its balance of payments.

What could the economy do to finance this deficit?

A adopt a fixed exchange rate

B attract more foreign direct investment

C decrease income tax rates

D lower the rate of interest

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25 A resident of country X buys shares in a firm in country Y. The shares then pay the resident a dividend.

Where are these two flows recorded in country X's balance of payments?

	purchase	dividend
A	capital account	primary income (income)
B	capital account	secondary income (current transfers)
C	financial account	primary income (income)
D	financial account	secondary income (current transfers)

26 What is the most likely cause of cost-push inflation in an economy?

A an increase in the exchange rate

B an increase in the money supply

C an increase in the prices of imports

D an increase in the rate of income tax

27 Which changes are most likely to reduce the accuracy of the consumer prices index (CPI) as a measurement of inflation?

A A larger sample is used in the household spending survey.

B Technology makes it easier for retailers to submit accurate monthly price data.

C Households change their spending habits.

D The weightings attached to the basket of goods are reviewed more often.

28 A government reduces the rate of direct income tax and devalues its currency.

Which row describes the policy effects of these decisions?

	fiscal policy	monetary policy	supply-side policy
A	contractionary	expansionary	contractionary
B	expansionary	contractionary	expansionary
C	expansionary	expansionary	contractionary
D	expansionary	expansionary	expansionary

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[Turn over

29 The balance of payments on the current account for Guatemala in 2011 was –US$1.6 bn and in 2016 was +US$1.0 bn.

What is most likely to have been a contributory factor to this change in the balance of payments on the current account over this five-year period?

A an appreciation of Guatemala's currency

B a growth of household incomes in Guatemala

C a lowering of tariffs on goods imported into Guatemala

D productivity improvements in Guatemala's export sector

30 The government wishes to increase aggregate demand.

Which actions would be most likely to succeed?

A a reduction in income tax and an increase in interest rates

B a reduction in income tax and an increase in production subsidies

C an increase in corporate tax and an increase in government spending

D an increase in value added tax (sales tax) and a reduction in government spending

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ECONOMICS **9708/12**

Paper 1 Multiple Choice **October/November 2021**

1 hour

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You will need: Multiple choice answer sheet
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Soft pencil (type B or HB is recommended)

INSTRUCTIONS

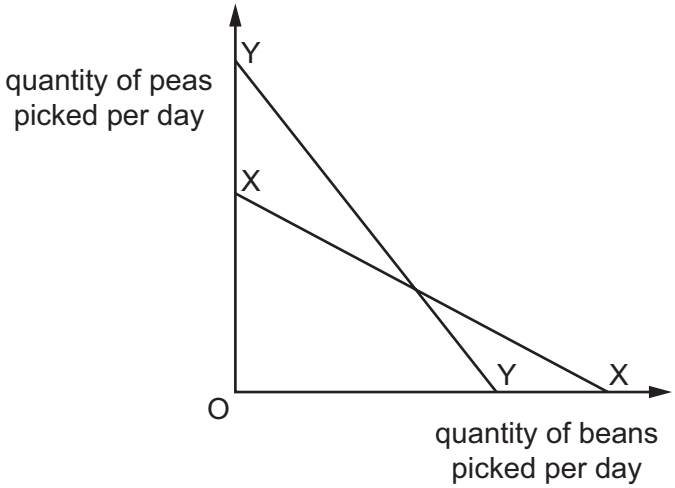
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INFORMATION

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1 Line XX is the production possibility curve (PPC) of a worker picking peas and beans in a 10 hour working day.



What could cause the worker's PPC to shift to the line YY?

A a decrease in working hours to 8 per day and a machine that increases the worker's pea picking productivity

B a machine that increases the worker's pea picking productivity only

C a new work schedule where the worker spends 6 hours per day picking peas and only 4 hours picking beans

D a reduction in working hours to 8 per day only

2 What is a function of money?

A divisibility

B durability

C portability

D medium of exchange

3 What is classified as a public good by economists?

A flood defences

B government-funded hospitals

C government-run national parks

D the internet

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4 Which statement about the factors of production is correct?

A The factor capital includes shares and deposit accounts at banks.

B The factor labour includes human-made resources.

C The factor land includes forests and undiscovered copper.

D The factor enterprise takes risks and is rewarded with interest.

5 Which supply curve shows that the price elasticity of supply of the good is always equal to 1?

A a straight line that intersects the horizontal axis

B a straight line that intersects the vertical axis

C a straight line that passes through the origin

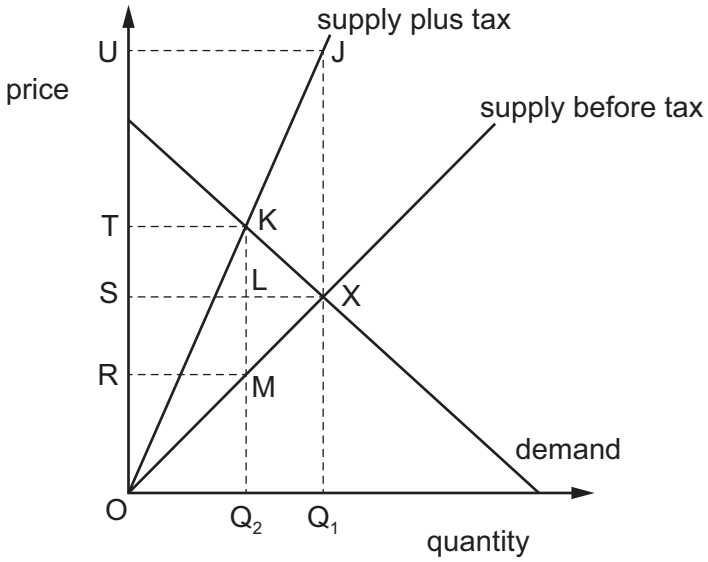
D a straight line that is vertical to the horizontal axis

6 What could cause a shift in the supply curve of good X and a movement along its supply curve?

	shift in the supply curve	movement along the supply curve
A	a change in demand for good X	an increase in the price of a substitute good
B	a decrease in factor productivity	the imposition of a tax on good X
C	an increase in the price of a complementary good	an increase in factor productivity
D	an increase in the wage rates in the industry	a change in demand for good X

7 The market for mobile phones is initially in equilibrium at X. The government then imposes a sales tax.

What is the government's total tax revenue from this tax?



A JKX **B** TKLS **C** TKMR **D** UJXS

8 What is an example of the rationing function of the price mechanism?

A When the price of a product is falling, firms will allocate less resources to its production.

B When the price of a product is falling, the government can set an effective minimum price.

C When the price of a product is rising, firms will expand production of the product to make profits.

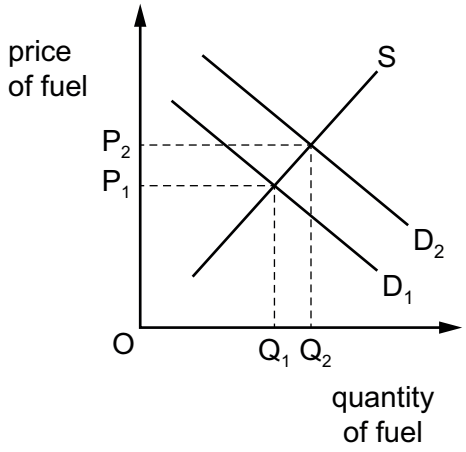
D When the price of a product is rising, some consumers will no longer be able to buy it.

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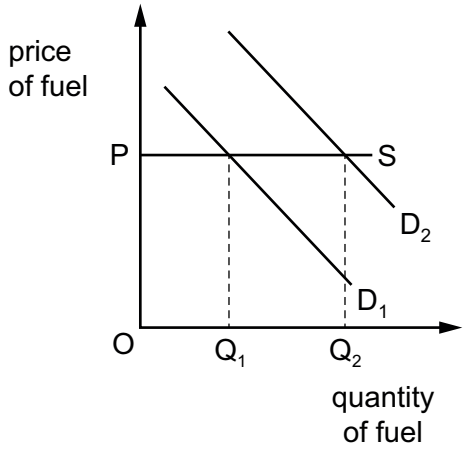
9 In 2016 car drivers bought more fuel because the price of oil from which it was made had fallen.

Which diagram represents this change in the market for fuel?

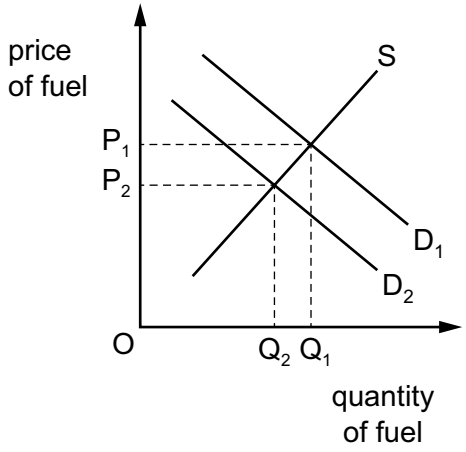
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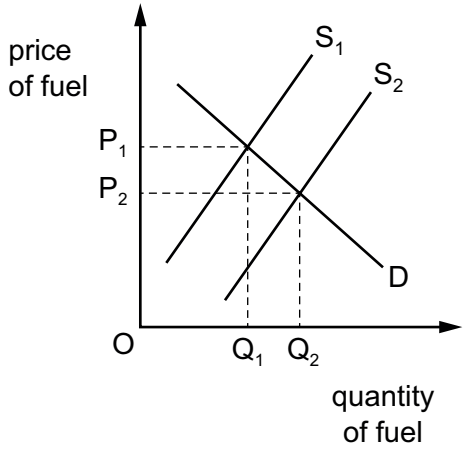
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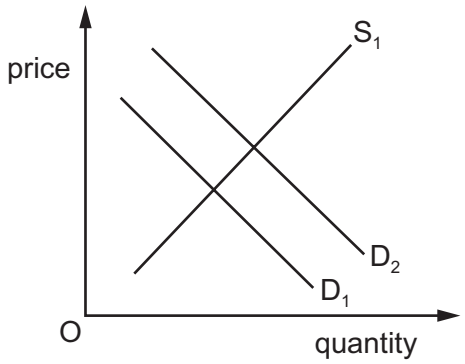
C



D



10 The diagram shows the demand and supply curves for bread in a developed economy. Bread is a substitute for pasta and rice.



What would cause the demand curve for bread to shift from D_1 to D_2 in a developed economy?

A a rise in the price of pasta and rice

B a decrease in the real income of consumers

C a recession and rising unemployment

D a subsidy given to producers of pasta and rice

11 The table shows the quantity demanded of three goods when the price of good X changes.

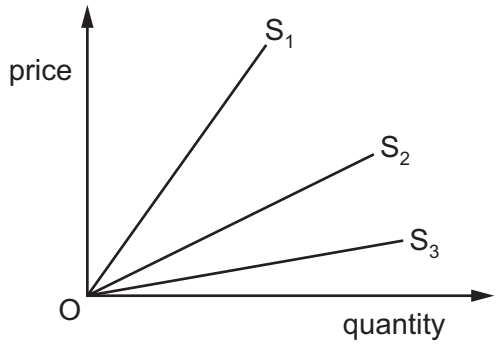
price of X ($)	quantity of X demanded	quantity of Y demanded	quantity of Z demanded
5	100	60	20
4	110	50	22
3	140	30	28
2	200	15	40
1	300	4	60

Which relationships between X, Y and Z can be deduced from the table?

	Y is	Z is
A	a complement for X	a complement for X
B	a complement for X	a substitute for X
C	a substitute for X	a complement for X
D	a substitute for X	a substitute for X

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12 The diagram shows three supply curves.



What can be concluded about the price elasticity of supply of the curves?

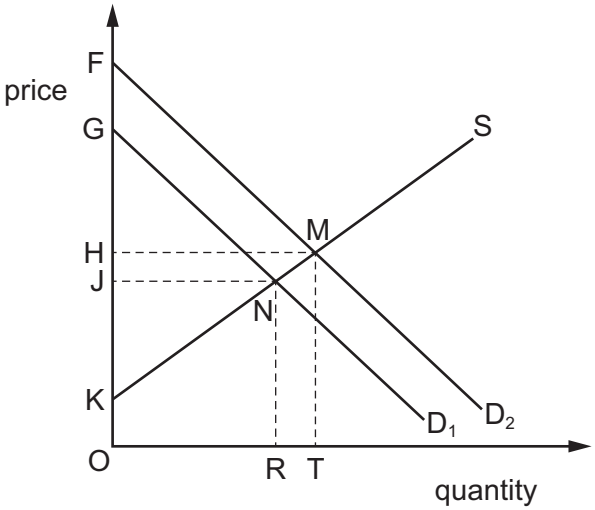
A As price rises, the price elasticity of supply of S_2 will increase.

B At any price, the price elasticity of supply of S_1 will be less than that of S_3.

C At any price, the price elasticity of supply of S_2 will be higher than that of S_3.

D The price elasticity of supply of each curve is constant.

13 The diagram shows the market for smartphones in India.



Rising incomes in India have seen a demand for this normal good shift from D_1 to D_2.

Which area now represents consumer surplus and which area now represents producer surplus?

	consumer surplus	producer surplus
A	FMH	HMK
B	FMH	OKMT
C	GNJ	HMNJ
D	GNJ	JNK

14 A nationalised industry is privatised.

Assuming there is no change in the output of the industry in the short run, what are the direct effects of the change?

	size of public sector	proportion of industry output entering the market
A	decreases	increases
B	decreases	no change
C	no change	increases
D	no change	no change

15 What is a distinguishing feature of a progressive income tax?

A High earners pay a higher proportion of their income in tax than low earners.

B High earners pay a lower proportion of their income in tax than low earners.

C High earners pay the same proportion of their income in tax as low earners.

D Low earners pay more tax than high earners.

16 Why might a government nationalise a private firm?

A to gain greater efficiency due to more competition

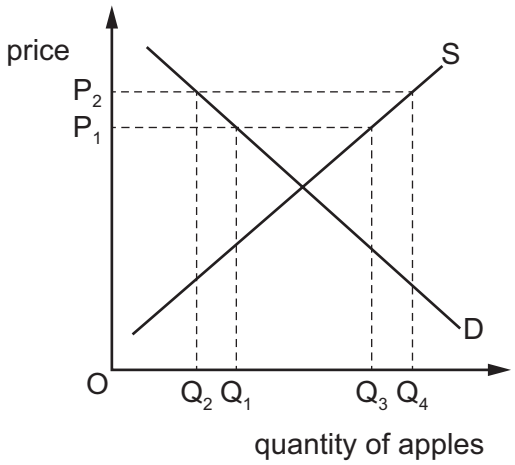
B to increase merit good provision

C to increase choice for the consumer

D to raise more tax revenue

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17 The diagram shows a firm's supply of and demand for apples.



If a minimum price is increased from P_1 to P_2 what will happen to the amount of apples sold?

A It will decrease from Q_1 to Q_2.

B It will decrease from Q_4Q_1 to Q_2Q_3.

C It will increase from Q_3 to Q_4.

D It will increase from Q_3Q_2 to Q_4Q_1.

18 In an attempt to reduce crime, a government introduces a subsidy on the production of burglar alarms, but sales rise very little.

Which possible characteristics of the good would lead to this outcome?

	price elasticity of demand	price elasticity of supply
A	high	high
B	high	low
C	low	high
D	low	low

19 Compared with Pakistan, Germany has a higher output of pharmaceuticals per unit of resources used.

What could explain this?

A the existence of floating exchange rates

B the law of absolute advantage

C the Marshall–Lerner condition

D the terms of trade

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20 Which statement about inflation is correct?

A Inflation will lead to a rise in exports.

B Inflation will lead to a rise in real incomes.

C Inflation will lead to a rise in the cost of living.

D Inflation will lead to a rise in the purchasing power of money.

21 Why is it that a country's balance of payments must always balance?

A Exchange rate changes will correct any deficit or surplus.

B One country's deficit is balanced by another country's surplus.

C The current account is balanced by the capital and financial accounts.

D The government must act to correct any disequilibrium.

22 Which argument for protection would be most relevant if the government of country X decided to exercise voluntary export restraint in its trade with country Y?

A Voluntary export restraint would achieve an immediate correction for X's balance of trade deficit.

B Voluntary export restraint would cause the level of GDP to increase in country X.

C Voluntary export restraint would help to negotiate improved trading conditions between X and Y.

D Voluntary export restraint would help to reduce the level of unemployment in country X.

23 The average price of a country's exports increased by 5% and the average price of its imports increased by 10%.

What can definitely be concluded from this information?

A Its balance of trade will improve.

B Its balance of trade will worsen.

C Its terms of trade have improved.

D Its terms of trade have worsened.

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24 There is an increase in indirect taxes.

What will be the impact on demand-pull inflation and on cost-push inflation?

	demand-pull inflation	cost-push inflation
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

25 The table shows the number of biscuits and cakes that can be produced by four workers in an hour.

	Laura	Mo	Nathan	Omar
biscuits	6	10	13	8
cakes	3	10	12	16

Who has the greatest comparative advantage in producing biscuits?

A Laura

B Mo

C Nathan

D Omar

26 Which condition is necessary for a country's balance of payments on its current account to improve if it reduced its exchange rate?

A Both the price elasticities of supply for its imports and its exports must be elastic.

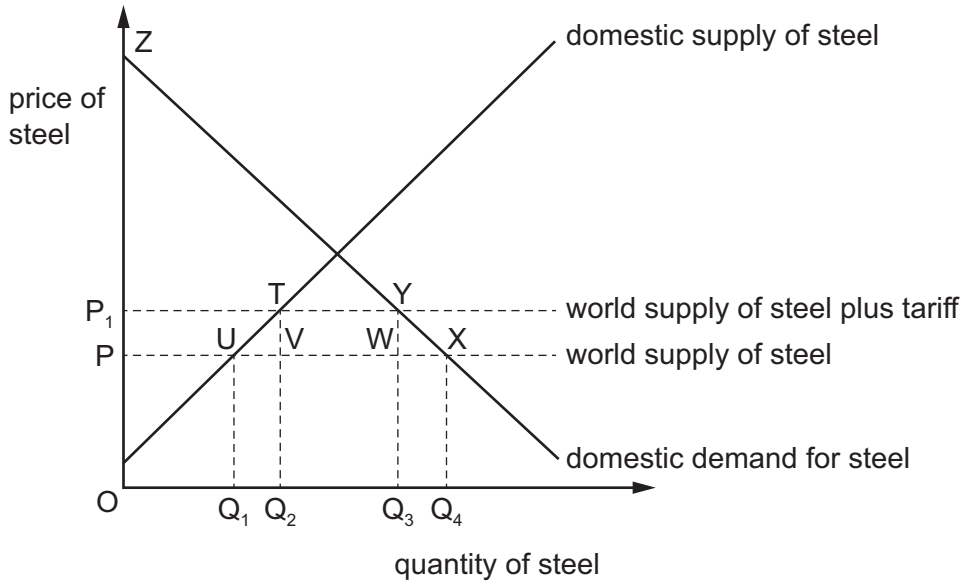
B The importing country will buy all the excess supplies of its trading partner to clear the market.

C The sum of the price elasticities of domestic demand for imports and the foreign demand for exports must be greater than one.

D The trading partners need to agree on the maximum prices to be charged for imports and exports.

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27 The diagram shows the effect of the United States (US) imposing a tariff on the import of steel in 2018.



Which statement about the impact of the tariff is correct?

A Consumer surplus falls from P_1TO to PUO.

B Domestic output increases from OQ_1 to OQ_3.

C Imports fall from Q_1Q_4 to Q_2Q_3.

D The tax revenue raised on imports is P_1YWP.

28 In 2012, the Indian Government stated that it aimed to reduce its budget deficit to 5.1% of GDP.

Which policy is most likely to help this aim in the short run?

A a decrease in import tariffs

B a decrease in the rate of interest

C an increase in the sale of state-owned assets

D an increase in government pension payments

29 What would make a policy of raising interest rates **less** likely to be effective in reducing inflation?

A Aggregate supply is increasing faster than aggregate demand.

B Consumers expect prices to rise even faster in the future.

C Consumers' spending is largely paid for on credit.

D Interest rates are still higher abroad.

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30 Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

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ECONOMICS **9708/13**

Paper 1 Multiple Choice **October/November 2021**

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

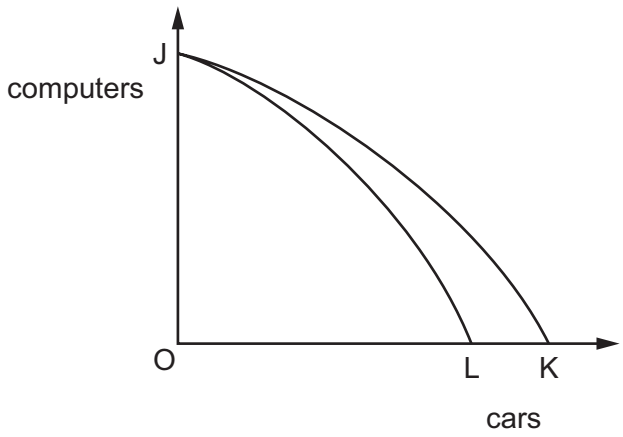
- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on 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.

IB21 11_9708_13/2RP
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1 In the diagram JK is the initial production possibility curve for an economy producing computers and cars.



What could cause the curve to shift to JL?

A a fall in output per worker in the car industry

B a fall in the level of competition in the car industry

C a rise in the potential workforce of the economy

D a rise in the price of cars

2 Consumers in country X buy some goods and services from private sector firms. Other goods and services are provided by the state.

What is this type of economy?

A free market economy

B joint economy

C mixed economy

D planned economy

3 In 2017 the Bank of England introduced a new version of the £1 coin as there were concerns that large quantities of illegal £1 coins had been put into circulation.

Which characteristic of money did the illegal £1 coins threaten?

A acceptability

B divisibility

C durability

D portability

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4 Which statement is a positive statement?

A Low inflation is preferable to low unemployment as a government aim.

B Low inflation will provide a more stable macro economy.

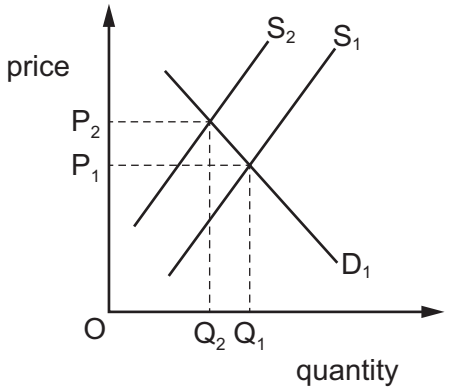
C The government must intervene in all markets to improve resource allocation.

D The government should cut income tax so living standards can improve.

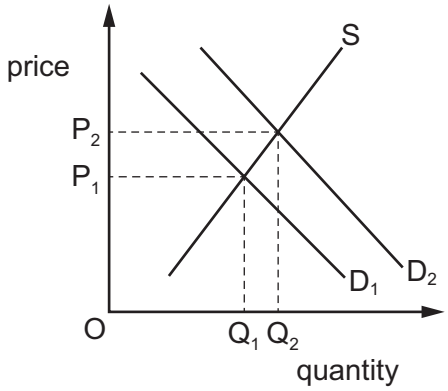
5 What could cause an increase in consumer surplus in the market for a good?

	an increase in demand for the good	an increase in supply of the good
A	no	no
B	no	yes
C	yes	no
D	yes	yes

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



change in the market for good X



effect on the market for good Y

What can be concluded from the diagrams?

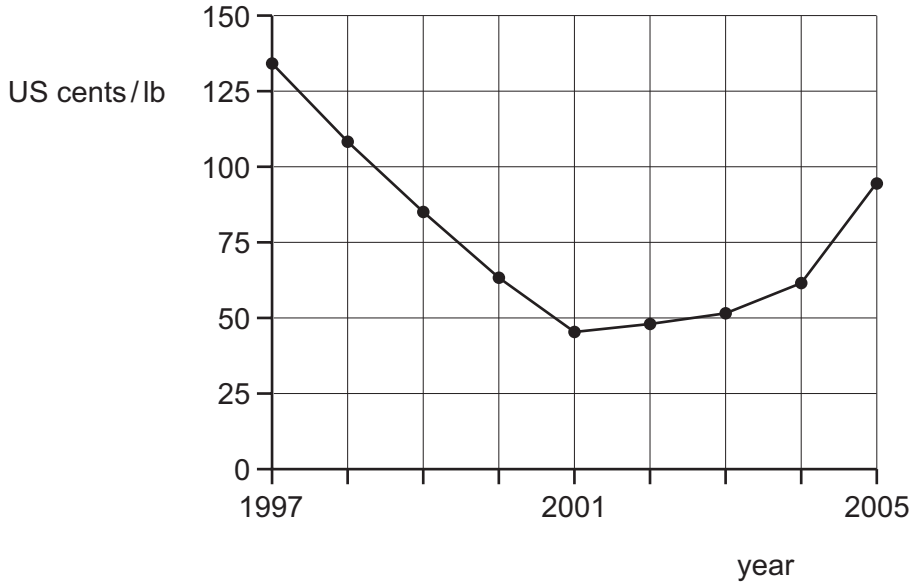
A X and Y are complements.

B X and Y are in joint supply.

C X and Y are substitutes.

D Y is a derived demand from X.

7 The diagram shows the average world price of coffee in US cents per pound weight (lb) between 1997 and 2005.



Which event is consistent with the price behaviour shown in the specified time period?

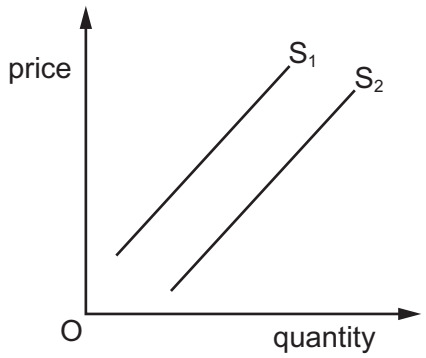
A a continuous rise in the price of tea between 1997 and 2001

B the entry to the market of new producers of coffee between 1997 and 2001

C a series of good coffee harvests between 2001 and 2005

D increasing health worries about drinking coffee between 2001 and 2005

8 The diagram shows a shift in the supply curve for a product from S_1 to S_2.



What could cause this shift in the supply curve?

A an increase in the cost of producing the product

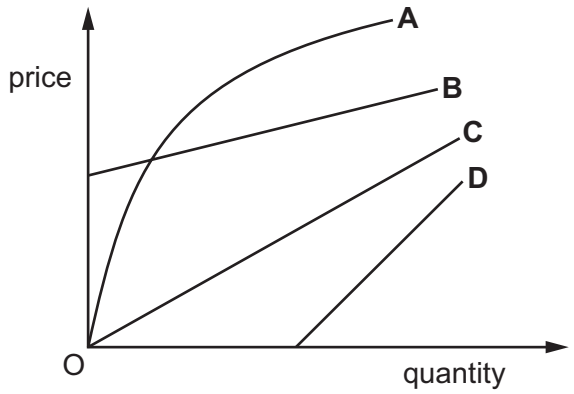
B an increase in the income of consumers of the product

C an increase in the demand for a product that is jointly supplied

D an increase in the price of the product

9 The diagram shows four supply curves.

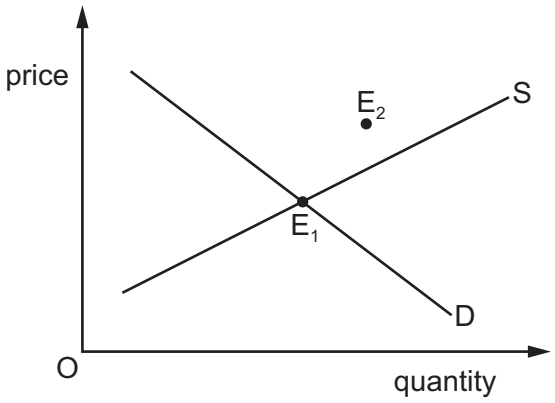
For which curve is the price elasticity of supply constant?



10 What would be the price elasticity of demand for smartphones if their price fell from US$100 to US$90 and the quantity demanded rose from 200 to 250?

A 0.2 **B** 0.4 **C** 2.5 **D** 5.0

11 The diagram shows the demand for and supply of a normal good. E_1 is the initial equilibrium position.



Which changes could result in a new equilibrium E_2?

A a decrease in both the demand for and the supply of the good

B an increase in both the demand for and the supply of the good

C an increase in consumer incomes, and a decrease in the supply of the good

D an increase in the price of a complement to the good, and an increase in the supply of the good

12 The table shows the market demand and market supply for kiwifruit over a year.

At a market price of $3 per kg there is disequilibrium in the market.

price of kiwifruit ($ per kg)	total market demand (thousand tonnes)	total market supply (thousand tonnes)
1	220	120
2	190	130
3	160	140
4	130	150
5	100	160

Which action would the government have to take to achieve market equilibrium at a price of $3 per kg?

A impose an indirect tax of $2 per kg on kiwifruit

B purchase the entire supply at $3 per kg and sell at $2 per kg

C set a maximum price of $3 per kg

D subsidise kiwifruit production by $2 per kg

13 The cross-elasticity of demand of good S with respect to the price of good P is +1.5.
The cross-elasticity of demand of good S with respect to the price of good R is –1.5.
The cross-elasticity of demand of good P with respect to the price of good R is –1.5.

What can be concluded about goods P, R and S?

A S and P are complements; P and R are substitutes.

B S and P are complements; R is an inferior good.

C S and P are substitutes; P and R are complements.

D S and P are substitutes; R is an inferior good.

14 A government wishes to impose a tax on a good so that the consumer pays most of the tax increase.

Which type of elasticity would best achieve this aim?

A high price elasticity of supply

B low price elasticity of supply

C unitary price elasticity of supply

D perfectly inelastic price elasticity of supply

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15 Why does the production of public goods have to be financed by the government?

A One person's consumption of a public good means it is not available for anyone else.

B People are able to consume public goods without paying for them.

C Private sector firms will charge a price significantly above cost for public goods.

D The cost of producing public goods is higher in the private sector.

16 Which payment is a transfer payment?

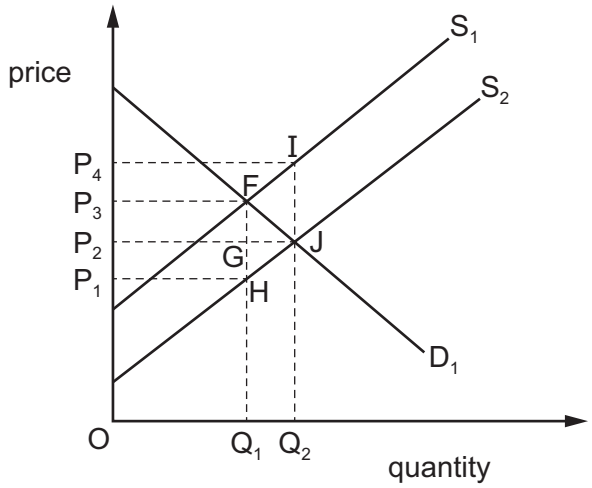
A households' payments of indirect taxes

B government pension payments

C payments between firms for the supply of raw materials

D payment of salaries

17 The diagram shows the effects of a subsidy in the market for wheat.



Which area shows the total government spending on the subsidy?

A OP_2JQ_2 **B** OP_3FQ_1 **C** P_3FJP_2 **D** P_2P_4IJ

18 A government wishes to reduce the consumption of alcohol.

Which policy will it use to achieve this aim by fixing the price of alcohol?

A fix maximum price above market price

B fix maximum price below market price

C fix minimum price above market price

D fix minimum price below market price

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19 According to the theory of comparative advantage, what makes trade beneficial between two countries?

A Each country has different goods to sell and different tastes.

B Each country has different opportunity costs of production.

C One country has the absolute advantage in producing both goods.

D The prices of goods are different between each country.

20 The demand for a country's exports is price-elastic. Its government introduces export subsidies.

What will be the effect on its balance of trade and on its terms of trade?

	balance of trade	terms of trade
A	increase	increase
B	increase	decrease
C	decrease	increase
D	decrease	decrease

21 The table shows the average changes in the prices and volumes of exports and imports.

Which combination of changes would result in an increase in the terms of trade?

	export prices	export volumes	import prices	import volumes
A	–10%	+15%	–15%	+10%
B	–3%	+6%	–2%	+1%
C	+5%	–5%	+6%	–1%
D	+10%	–5%	+12%	–6%

22 A government decides to increase a quota on an imported good.

What is likely to happen?

A The demand for the good will fall.

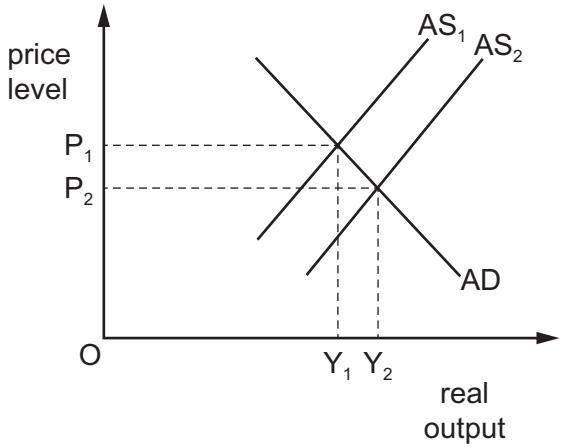
B The good will become more expensive.

C The government's revenue will decline.

D There will be more of the good imported.

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23 The diagram shows aggregate demand (AD) and aggregate supply (AS) for an economy.



What is most likely to cause the shift from AS_1 to AS_2?

A a decrease in the exchange rate

B a decrease in the price level

C a fall in immigration

D a fall in the average level of wages

24 Country X places a tariff of 20% on steel products imported from country Y. Country Y retaliates with a 20% tariff on computers imported from country X.

What is a certain economic consequence of these actions?

A The balance of payments of country X and country Y will remain unchanged.

B The exchange rate value on which trade between the two countries is based will be maintained.

C The profits and employment of domestic firms in both countries will be preserved.

D The volume of bilateral trade between country X and country Y will be reduced.

25 A country has a floating exchange rate.

An increase in which variable within that country can cause its exchange rate to appreciate?

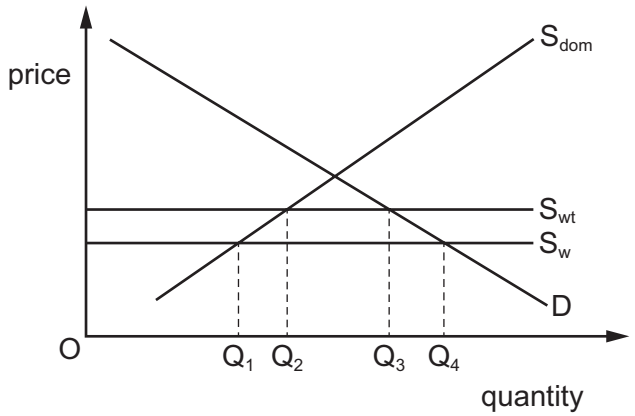
A employment levels

B income levels

C interest rates

D price levels

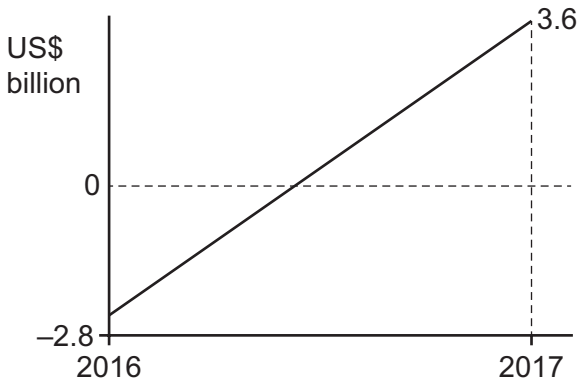
26 The diagram shows the effects of the imposition of a tariff on an internationally-traded good. S_{dom} is the supply and D the demand in country R. S_w is the world supply curve of the product and S_{wt} is the world supply curve after the imposition of a tariff by country R.



Which combination describes the effect on domestic supply of and demand for the good in country R after the imposition of the tariff?

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

27 The graph shows the change in the current account of Belgium's balance of payments from 2016 to 2017.



What will be the **most** likely impact of the change shown by the graph on Belgium's domestic economy?

A a fall in the rate of economic growth

B a fall in the foreign currency reserves

C a fall in the number of unemployed

D a fall in the rate of inflation

28 What is an example of the use of monetary policy?

A a cut in the rate of corporation tax

B a reduction in interest rates

C a switch from direct to indirect taxation

D the introduction of maximum price controls to reduce inflation

29 Which policy would be likely to increase inflation?

A an increase in income tax

B an increase in interest rates

C limiting the amount banks can lend

D raising the level of import tariffs

30 What are the components of aggregate demand?

A consumption + investment + government spending + (exports – imports)

B consumption + investment + taxation – (exports – imports)

C consumption + saving + taxation – (exports – imports)

D consumption + saving + taxation + (exports – imports)

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