Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2022**

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

INFORMATION

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- Each correct answer will score one mark.
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This document has **16** pages. Any blank pages are indicated.

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1 An economy is changing from a planned economy to a market economy.

Which action would be expected during this change?

A the replacement of fiscal policy by monetary policy

B the replacement of multinational companies by national companies

C the replacement of nationalisation by privatisation

D the replacement of private property rights by common ownership

2 A local council provides a tap for drinking water in a town.

Would this make drinking water a free good?

A No, because it is possible to exclude some people from using the tap.

B No, because it requires the use of scarce resources.

C Yes, because it is available to all passers-by.

D Yes, because it is impossible to charge for it.

3 Food prices in a country increased by 20% in three months due to an infectious virus.

Which statement about the cause of this rise in food prices is normative?

A Consumers were scared of running out of food.

B Farm workers demanded higher wages to cover extra hours worked.

C Supply of foreign food was reduced because of closed borders.

D Transport costs increased by 10%.

4 A doctor has very long working hours and a high level of stress. She can become a teacher instead of continuing as a doctor.

What is the opportunity cost of choosing to continue as a doctor?

A the risk of mistakes caused by tiredness

B the possible costs of illness caused by high stress levels

C the potential salary as a teacher

D the retraining costs of becoming a teacher

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5 When will the demand curve for motorcycles shift to the left?

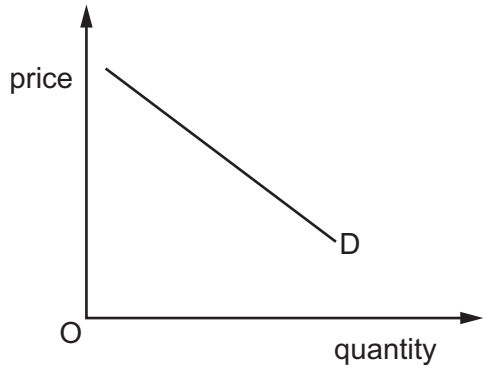
A when the price of cars falls

B when the price of motorcycles falls

C when the tax on motorcycles rises

D when the price of public transport rises

6 The diagram shows the demand curve for housing.



What is **not** assumed to remain constant when drawing this curve?

A consumer incomes

B expectations about future house prices

C the price of houses

D the rate of interest charged on loans for house purchase

7 Which statement defines the price elasticity of supply?

A It is a measure of how the price of a good responds to a change in the quantity supplied.

B It is a measure of how the quantity supplied of a good responds to a change in its price.

C It is a measure of how the supply of a good responds to a change in its cost of production.

D It is a measure of how the supply of good X responds to a change in the price of good Y.

8 Which products are likely to have a positive cross-elasticity of demand with tea?

A biscuits and cakes

B coffee and hot chocolate

C cups and saucers

D sugar and milk

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9 What does **not** cause a shift in the supply curve of cars?

A a change in the car producers' costs of production

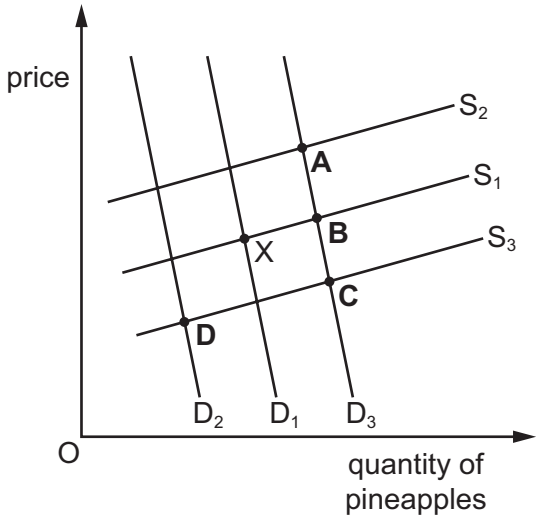
B a change in the price of fuel used by car owners

C a change in the rate of sales tax on cars

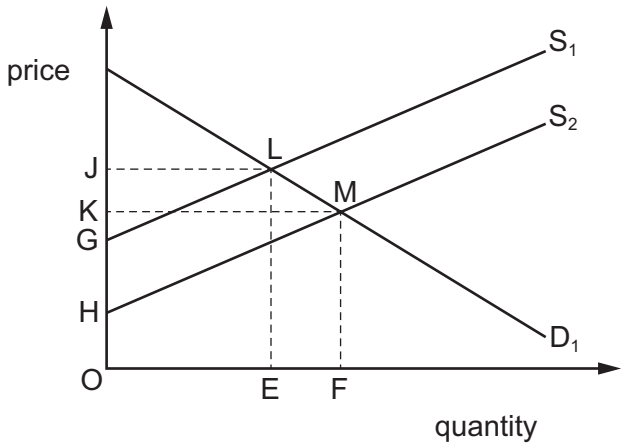
D a change in the wage rate of workers in the car industry

10 The diagram shows the market for pineapples. X is the original equilibrium point. Pineapple producers benefit from improved technology. At the same time, a new diet book suggests that eating pineapples helps weight loss.

Which point is the new equilibrium?



11 The diagram shows the impact of a fall in the price of oil that will lead to a fall in energy costs for many manufacturers.



What will be the impact of this change on consumer and producer surplus?

	consumer surplus	producer surplus
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

12 When is the supply curve for a car manufacturing firm **most** likely to be price elastic?

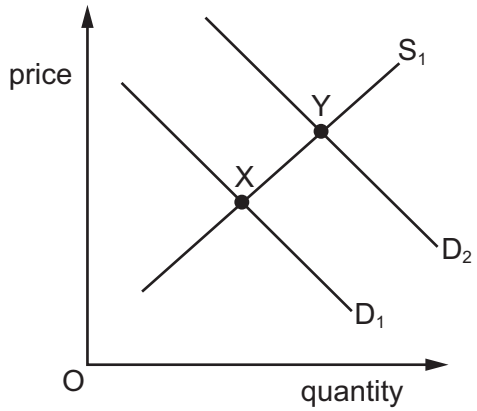
A when the firm finds it difficult to recruit new labour

B when the firm has a large quantity of stock

C when the firm is operating in the short run

D when the firm is operating near to full capacity

13 The diagram shows the market for electric steel-plated switches used in new houses.



What could **not** have caused the market equilibrium position to have changed from X to Y?

A increasing the availability of loans for buying houses

B granting a subsidy for producers of bricks

C removing sales tax on electric switches

D removing tariffs on imports of wood

14 In mixed economies, what explains why the provision of certain goods and services will remain under government control?

A The market system fails to provide public goods.

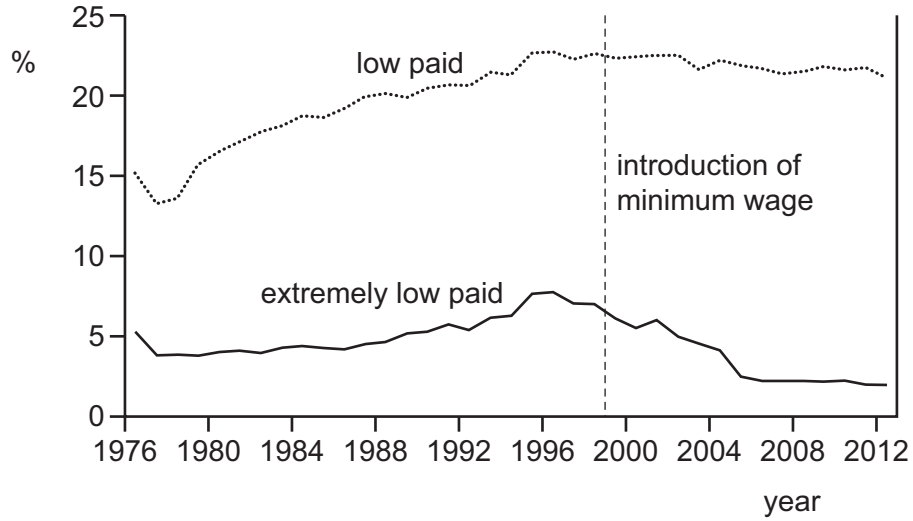
B Management ideas are hampered by excessive bureaucracy.

C Ownership of companies depends on the ease of buying shares.

D The profit motive tends to improve efficiency in organisations.

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15 The diagram shows the percentages of those on low pay and those on extremely low pay in a country from 1976 to 2012. A national minimum wage was introduced in 1999.



Which conclusion is consistent with the diagram?

A The minimum wage helped the low paid more than the extremely low paid.

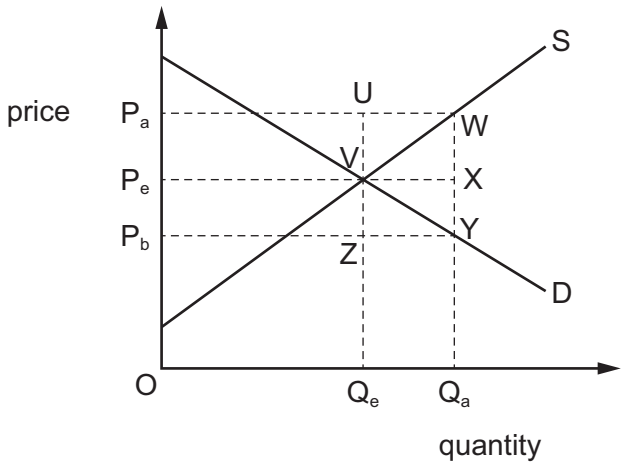
B The minimum wage reduced the numbers of both low paid and extremely low paid.

C The minimum wage reversed the trend in low pay of the previous 20 years.

D The minimum wage was responsible for the largest reduction of low pay in the period.

16 The government has decided to guarantee manufacturers a price OP_a for a product and to provide a subsidy to ensure that the market clears.

In the diagram, Q_eP_e was the original equilibrium before the policy changes.



Which area represents the total cost to the government of this subsidy?

A P_aUZP_b **B** P_aWYP_b **C** P_eXYP_b **D** VWYZ

17 A concert arena has a fixed capacity that allows it to sell 10 000 tickets for a concert. The current equilibrium price for a ticket is $10. The owners of the arena decide to set a minimum price for a ticket.

Under which conditions will there be the most unsold tickets?

	minimum ticket price ($)	price elasticity of demand for tickets
A	11	inelastic
B	11	elastic
C	12	inelastic
D	12	elastic

18 A government announces its intention to reduce the level of transfer payments in the economy.

Which statement made by the government is consistent with this intention?

A There need to be more incentives for unemployed workers to seek jobs.

B State pensions need to be increased.

C The level of income tax needs to be raised.

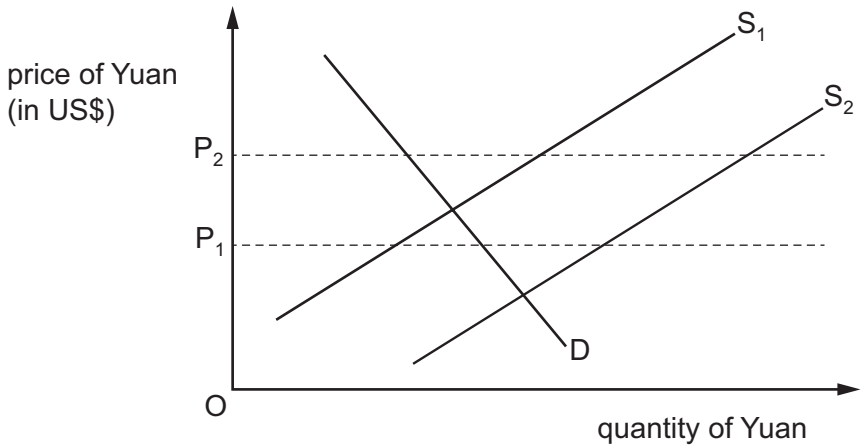
D The level of government expenditure needs to be increased.

19 Assuming the demand for oil is price-inelastic, what will be the effect on demand-pull inflation and on cost-push inflation in an oil-importing country of an increase in the world price of oil?

	effect on demand-pull inflation	effect on cost-push inflation
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

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20 Assume the Chinese monetary authorities are committed to maintaining the exchange rate of China's currency, the Yuan, against the US$ between P_1 and P_2 on the diagram.



What might they do if supply changed from S_1 to S_2?

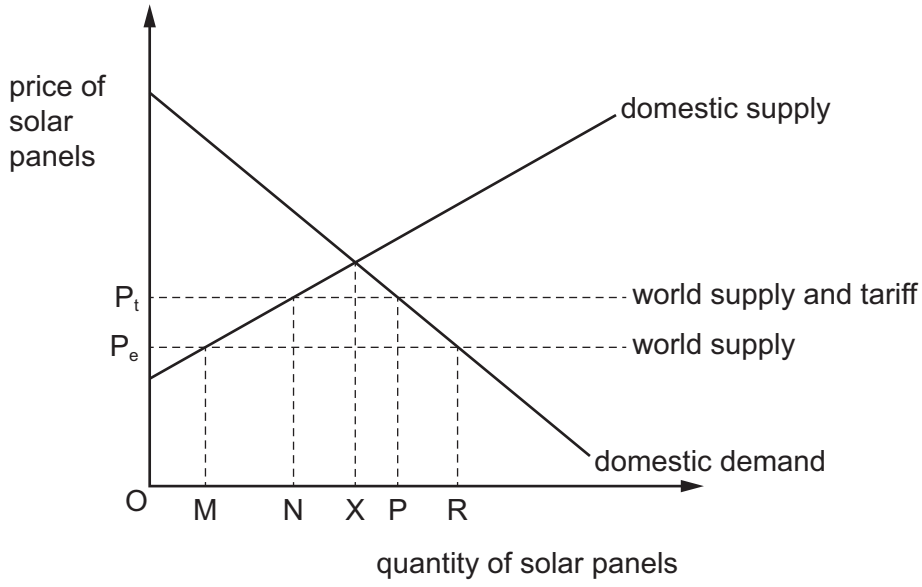
A introduce controls on Chinese investment overseas

B lower interest rates

C remove tariffs on imports from USA

D sell Yuan on the foreign exchange markets

21 The diagram shows the demand and supply curves for solar panels in the US. In 2018, the US put a tariff on imported solar panels.



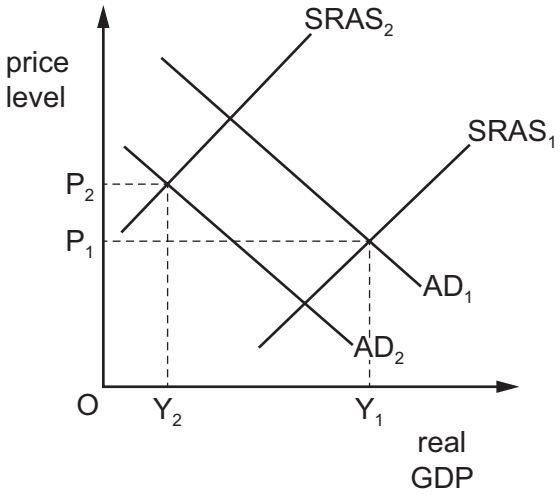
What is the quantity of imported solar panels after the imposition of the tariff?

A MN **B** MX **C** NP **D** XP

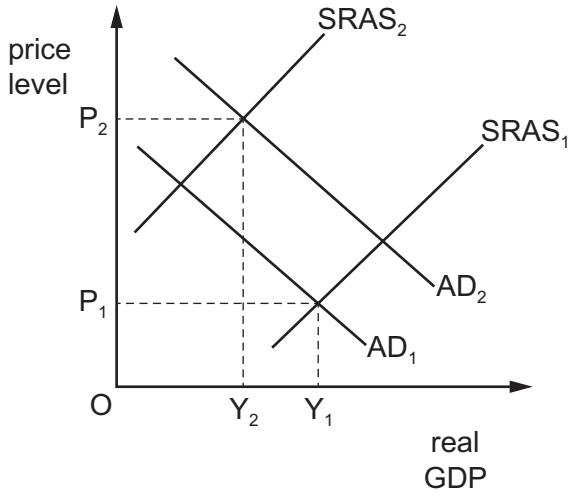
22 The diagrams show initial equilibrium positions at Y_1P_1.

Which diagram reflects the impact on an economy of higher unit wage costs and an improvement in the balance of trade?

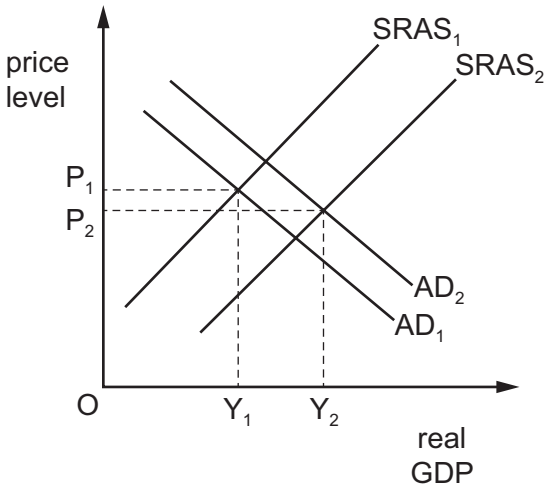
A



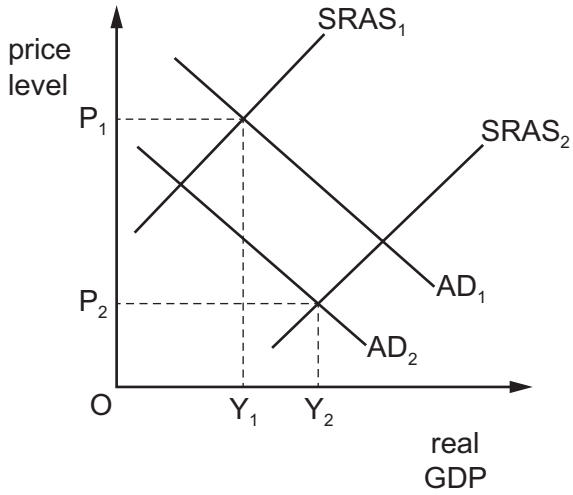
B



C



D



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23 The table shows information from the current account of the balance of payments for Canada and Singapore in 2019.

	Canada (US$ million)	Singapore (US$ million)
exports of goods	448 360	440 800
imports of goods	462 105	342 805
exports of services	100 350	204 810
imports of services	115 270	119 050
primary income balance	–3 475	–34 340
secondary income balance	–2 060	–6 280

What can be concluded from the table?

A Canada exported more goods than Singapore.

B Canada and Singapore had current account deficits.

C Singapore had a surplus on its trade in goods and services.

D Singapore imported cheaper goods than Canada.

24 What is a measure of a country's terms of trade index?

A $\frac{\text{price index of exports}}{\text{price index of imports}} \times 100$

B $\frac{\text{price index of imports}}{\text{price index of exports}} \times 100$

C $\frac{\text{total value of exports}}{\text{total value of imports}} \times 100$

D total value of exports – total value of imports

25 What is likely to cause an increase in the exchange rate of an economy?

A an increase in demand-pull inflation

B an increase in national income

C a decision of the central bank to raise money supply

D a discovery of a natural resource that replaces imports

26 What is likely to explain an increase in the deficit on a country's current account of the balance of payments?

A an increase in government foreign aid to countries abroad

B an increase in government tax rates

C an increase in other countries' exchange rates

D an increase in the proportion of income saved by the country's residents

27 What does the Marshall–Lerner condition state must be present for a depreciation of a currency to cause an improvement in the current account balance?

A The price elasticity of demand for exports and the price elasticity of demand for imports are both greater than one.

B The price elasticity of demand for exports and the price elasticity of demand for imports are both less than one.

C The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is greater than one.

D The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is less than one.

28 To encourage people to work, a government increases the minimum income level at which people start to pay income tax.

Which types of macroeconomic policy are being followed?

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

29 Raising interest rates is proposed to reduce a balance of payments deficit.

Which justification for this action is **not** valid?

A It will attract more foreign currency inflows.

B It will encourage exporters to find new foreign markets.

C It will lower the level of imported consumer goods.

D It will put downward pressure on the exchange rate.

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30 Which combination of changes is **most** likely to result in a fall in a country's inflation rate?

	exchange rate	interest rate	money supply
A	lower	higher	higher
B	higher	higher	lower
C	higher	lower	lower
D	lower	lower	higher

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ECONOMICS **9708/12**

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1 What is a function of money?

A to act as a medium of exchange

B to be divisible into small units

C to enable bartering to take place

D to maintain its value when inflation is high

2 In a planned economy, what will determine the allocation of scarce resources?

A a mixture of private and central decision making

B the decisions of central government

C the forces of demand and supply

D the revenue generated from direct and indirect taxes

3 A key concept in classifying goods is whether a good is rival or non-rival.

Which good is rival in consumption?

A an ice cream

B street lighting

C a radio broadcast

D the internet

4 What is a normative statement?

A A firm receiving a government subsidy will increase the supply of a good.

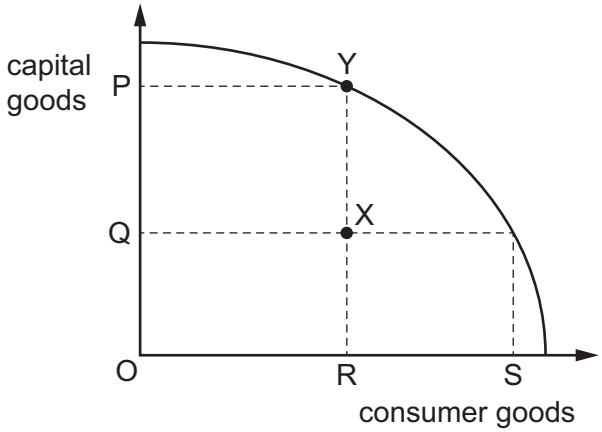
B Negative externalities are the most serious market failure.

C A rise in incomes will lead to a rise in demand for normal goods.

D A rise in the additional rate of income tax will decrease the incentive to work.

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5 The diagram shows an economy's production possibility curve (PPC). The economy has moved from X to Y.



What can be deduced from the diagram?

A Current living standards have fallen.

B The economy has become more efficient.

C There has been a rise in unemployment.

D There has been an opportunity cost of OR consumer goods.

6 An indirect tax is imposed on a product, causing total expenditure by consumers to increase.

Which row identifies this situation?

	price	price elasticity
A	decreases	elastic
B	decreases	inelastic
C	increases	elastic
D	increases	inelastic

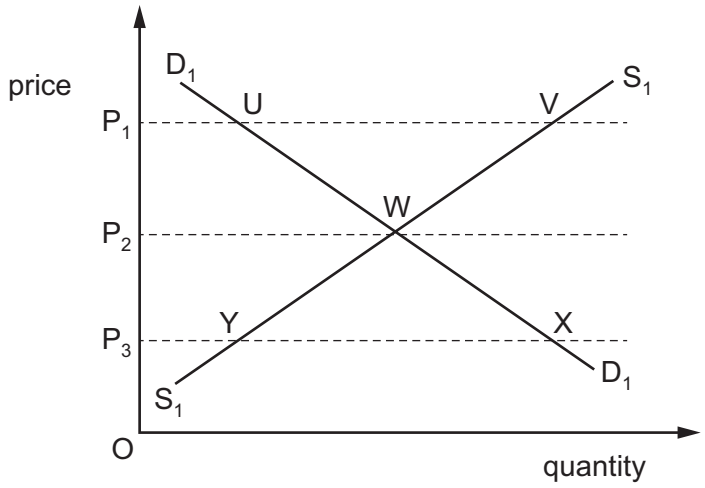
7 The price elasticity of the supply of yoghurt is +1.5.

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

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

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



Which statement is **not** valid?

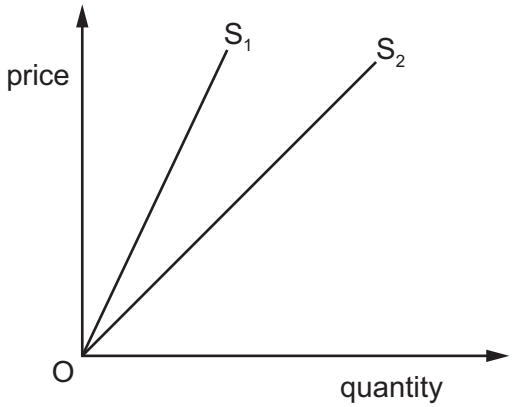
A At price OP_1, UV represents the market surplus.

B At price OP_3, P_3X represents the quantity that consumers are able and willing to buy.

C If price were to fall from OP_1 to OP_3, the extra quantity demanded would be equal to the extra quantity supplied.

D Price OP_2 is the market equilibrium price.

9 The diagram shows two linear supply curves labelled S_1 and S_2, where S_2 is a 45° line.



Which statement about the price elasticity of supply is correct?

A The price elasticity of supply is different at every point along both S_1 and S_2.

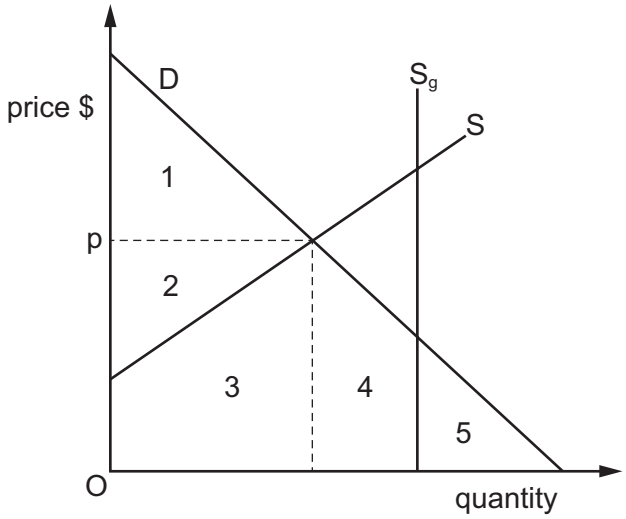
B The price elasticity of supply of S_1 is elastic and S_2 is unit elastic.

C The price elasticity of supply of S_1 is inelastic and S_2 is unit elastic.

D The price elasticity of supply is unit elastic at every point along both S_1 and S_2.

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10 A country has health care provided by the free market. This is replaced by the government provision of S_g free health care.



What is the change in consumer surplus?

A from 1 to (1 + 2)

B from 1 to (1 + 2 + 3 + 4)

C from (1 + 2) to (1 + 2 + 3)

D from (1 + 2) to (2 + 3 + 4 + 5)

11 What is an example of a product in joint demand with a smartphone?

A an alternative brand of smartphone

B a personal computer (PC)

C headphones that can be used with a smartphone

D the metals used in the manufacture of a smartphone

12 A product has a high price elasticity of supply.

What might explain this?

A It has a high opportunity cost.

B It has a non-perishable nature.

C It is classed as an inferior good.

D It is classed as a luxury good.

13 What is likely to affect the position of the demand curve for tickets to pop concerts but **not** the position of the supply curve?

A a change in incomes of potential customers

B a change in price of tickets to the concerts

C a change in rents charged by venue owners

D a change in seating capacity of concert venues

14 The table shows Lee's and Yim's price elasticity of demand for restaurant meals and cinema tickets.

	Lee	Yim
restaurant meals	–1.2	–0.8
cinema tickets	–0.7	–0.3

There is a rise in the price of both products.

What can definitely be concluded after these price changes?

A Restaurant owners will receive more income.

B Lee will spend more money on both products.

C Yim will spend more money on both products.

D Cinema owners will receive less income.

15 A government fixes a maximum price for a product in order to increase its consumption.

What would be the likely outcome of such a policy?

A Consumption will fall if the maximum price is above the current equilibrium price.

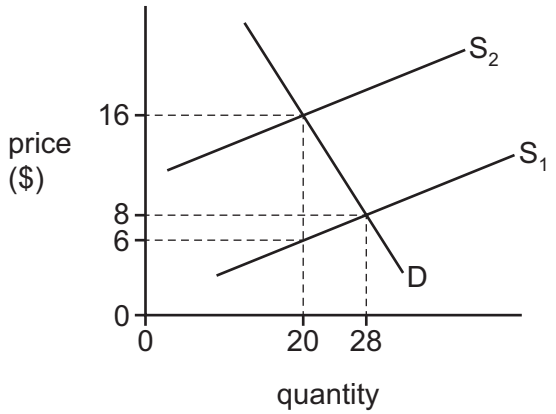
B Consumption will rise if the maximum price is below the current equilibrium price.

C Production will fall if the maximum price is above the current equilibrium price.

D Production will fall if the maximum price is below the current equilibrium price.

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16 The diagram shows demand and supply curves for a good. S_1 is the original supply curve, S_2 is supply after a tax is added.



How much tax revenue is earned by the government?

A $40 **B** $160 **C** $200 **D** $320

17 What is a transfer payment?

A the advertising expenditure of a firm

B the allowance given by a parent to their child while at school

C the rent paid to a land owner by a tenant farmer

D the wage paid to a worker in the government service

18 What best illustrates the process of privatisation?

A a single private shareholder acquires complete control of an organisation

B the purchase of government bonds by private sector commercial organisations

C the purchase of shares in a private company

D the transfer of public sector assets to the private sector

19 What defines a progressive tax?

A Low-income earners pay the same proportion of income in taxes as high-income earners.

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.

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20 An increase in what will shift the aggregate demand curve in an economy to the right?

A budget deficit

B consumer savings

C general price level

D interest rate

21 Which effect of inflation is described as redistributive?

A the improvement in the terms of trade

B the deterioration in the balance of trade

C the inconvenience of frequently changing prices

D the loss of purchasing power for people on fixed incomes

22 In which situation will a country's terms of trade improve?

A Its total value of imports rises less than its total value of exports.

B Its volume of imports rises less than its volume of exports.

C The prices of its imports rise by less than the prices of its exports.

D The value of its external payments rises by less than the value of its external receipts.

23 Country X joins a customs union with country Y and will remove the tariff on its imports of good M from country Y.

Under which conditions will trade creation in country X be the largest?

	existing size of country X's tariff on imports of good M	price elasticity of demand for good M in country X
A	large	–0.8
B	large	–1.4
C	small	–0.8
D	small	–1.4

24 What is likely to happen if there is a fall in the international value of a country's currency?

A a rise in the foreign currency price of its exports

B a rise in the volume of its exports

C a fall in the domestic currency price of its imports

D a fall in the domestic price level

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25 From the same quantity of factors of production, country X and country Y each produce the following units of output.

country	sugar	textiles
X	30	20
Y	40	10

Which statement is correct?

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

B Country X has comparative advantage in the production of sugar.

C Country Y has absolute advantage in the production of textiles.

D Country Y has comparative advantage in the production of sugar.

26 Following a 10% depreciation in the $ value of the £ sterling, a UK exporter leaves the $ price of the goods it sells in the US market unchanged.

Other things being equal, what will be the effect on the revenue measured in sterling obtained by the manufacturer from its sales in the US?

A It will increase.

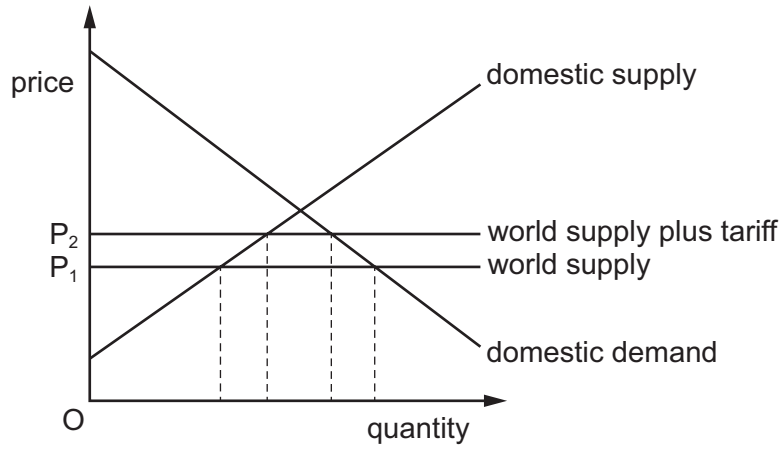
B It will decrease.

C It will be unchanged.

D It will depend on the elasticity of demand for the manufacturer's good in the US.

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27 The diagram shows the effect of introducing a tariff on a product.



What determines the producer surplus that the tariff generates for domestic producers?

A the price elasticities of domestic supply and demand

B the tariff rate and the price elasticities of both domestic demand and supply

C the tariff rate and the price elasticity of domestic demand

D the tariff rate and the price elasticity of domestic supply

28 Which government policy is most likely to cause expenditure switching that will benefit a country's current account?

A increasing import quotas

B increasing income tax allowances

C increasing spending on unemployment benefits

D increasing subsidies to domestic firms

29 Which type of economic policy is likely to be considered the most effective by a government that has greater income equality as its primary aim?

A fiscal policy

B international trade policy

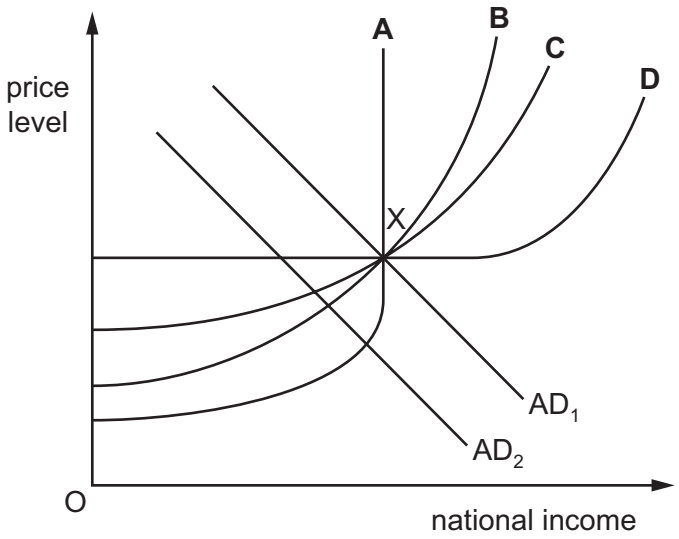
C monetary policy

D supply side policy

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30 The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2.

With which AS curve would this policy be most effective?



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ECONOMICS **9708/13**

Paper 1 Multiple Choice **October/November 2022**

1 hour

You must answer on the multiple choice answer sheet.

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

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **12** pages.

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1 Which action would **not** raise the quality of the particular factor of production?

A capital – operating a machine continuously at full capacity

B enterprise – providing risk management advice

C land – increasing the use of fertilisers

D labour – making apprenticeships and training compulsory

2 During a period of deflation an economy's aggregate monetary demand falls.

Which function of money explains this fall?

A a measure of value

B a medium of exchange

C a standard for deferred payment

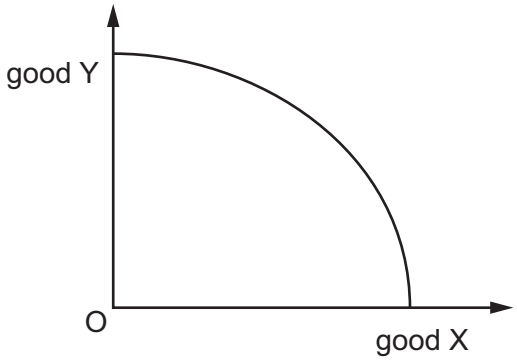
D a store of value

3 What will usually result if production is divided into separate processes that are assigned to different people?

	lower output per worker	more repetitive tasks	lower costs
A	no	no	no
B	no	yes	yes
C	yes	no	no
D	yes	yes	yes

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4 The diagram shows a production possibility curve.



Which combination is correct?

	opportunity cost of producing more of good Y	opportunity cost of producing more of good X
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

5 A government wishes to ensure adequate flood defences are provided in its coastal areas.

Which action is most likely to be undertaken **only** by the government?

A building the defences

B designing the defences

C financing the defences

D maintaining the defences

6 Consumer surplus exists in the market for rice.

What does this mean?

A Consumers benefit from rice production more than producers.

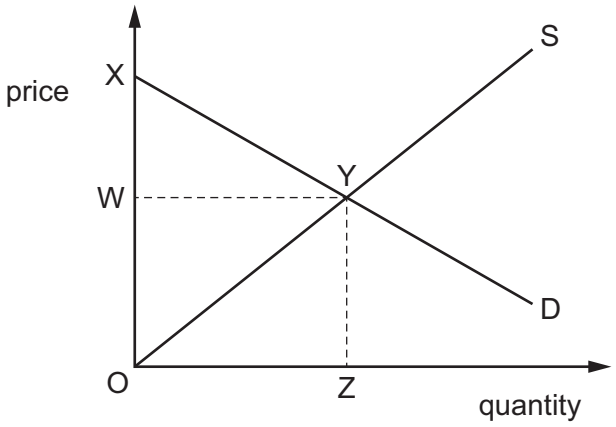
B Consumer demand for rice exceeds supply.

C Some consumers would be willing to pay more than the market price for rice.

D The production of rice exceeds the supply.

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7 The diagram shows the demand curve and supply curve for a product.



Which area represents producer surplus?

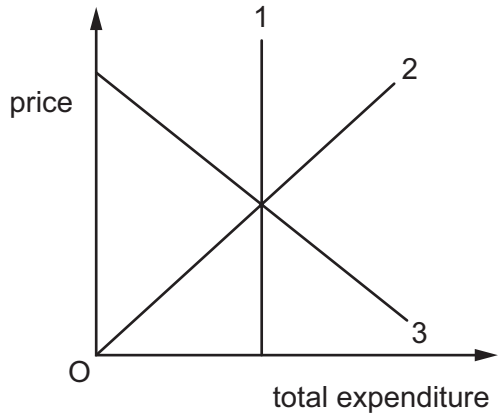
A OWYZ minus OWY

B OWYZ minus OYZ

C OXYZ minus OYZ

D OXYZ minus WXY

8 The diagram shows the relationship between total expenditure and price for three products, 1, 2 and 3.



Which curves represent the products with price-elastic and unitary price-elastic demand?

	elastic	unitary
A	1	2
B	2	3
C	3	1
D	3	2

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9 What causes an inelastic market supply curve for an agricultural crop such as wheat?

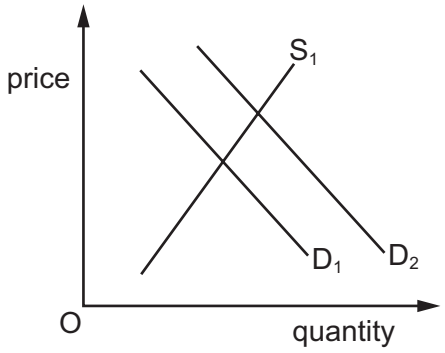
A a government decision to import crops at times of shortage

B an efficient use of fertilisers causing crop production to rise

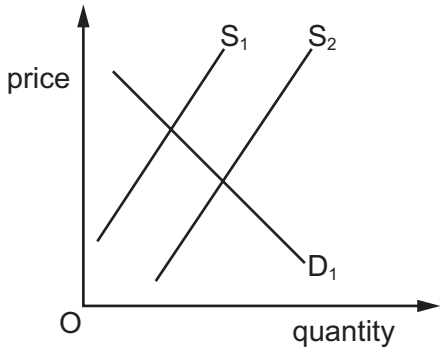
C the storage of excess production for future sale

D the very long time required to produce additional output

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



good X



good Y

What can be concluded about the goods?

A X and Y are complements.

B X and Y are in joint supply.

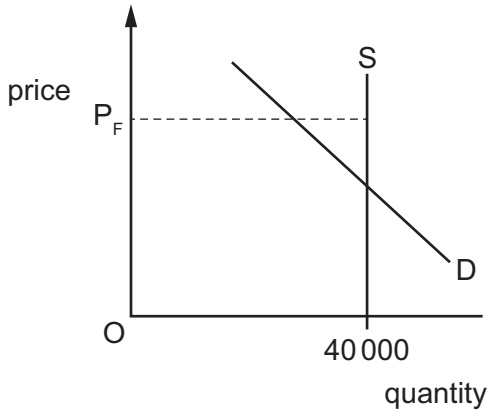
C X and Y are substitutes.

D Y is a derived demand from X.

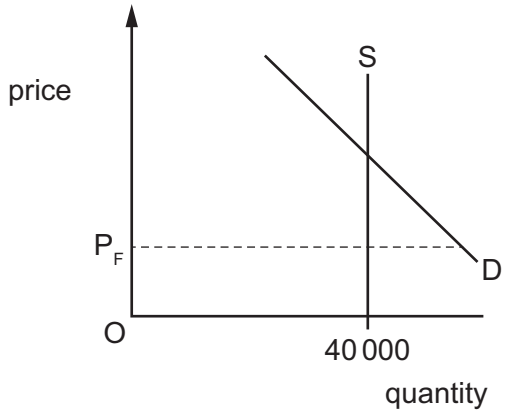
11 The final of a major sports event is held in a stadium which has a fixed capacity of 40 000 people. The price for a seat is set at P_F, but when the tickets go on sale all tickets are sold very quickly with many disappointed people unable to buy a ticket.

Which diagram best represents this?

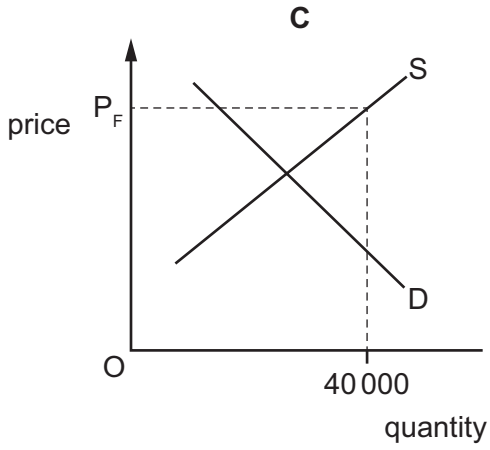
A



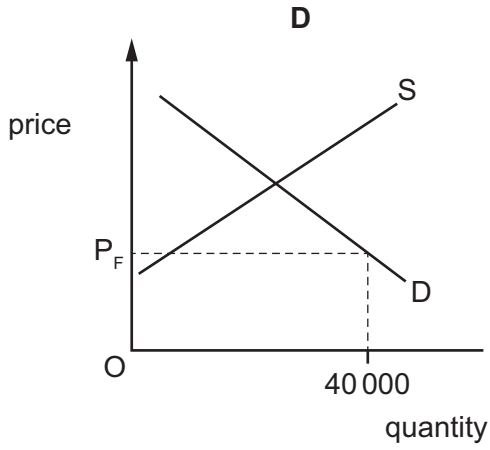
B



C



D



12 Which product has the lowest price elasticity of demand?

	price rises by (%)	quantity demanded falls by (%)
A	0	10
B	5	5
C	10	5
D	10	0

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13 The market for a product is initially in equilibrium.

Which combination of changes will cause the price of the product to rise and the quantity sold to fall?

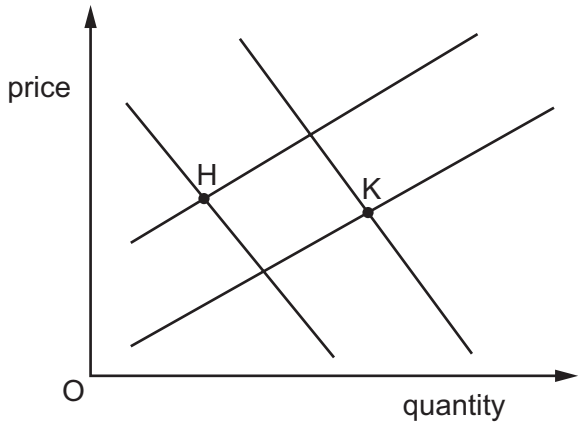
A a decrease in demand that is larger than a decrease in supply

B a decrease in demand that is smaller than a decrease in supply

C an increase in demand that is larger than an increase in supply

D an increase in demand that is smaller than an increase in supply

14 The diagram shows two demand curves and two supply curves. The initial equilibrium is at H.



Which combinations of shifts in the demand and supply curves would result in a change in the equilibrium position from H to K?

A an increase in demand and an increase in supply

B an increase in demand and a decrease in supply

C a decrease in demand and an increase in supply

D a decrease in demand and a decrease in supply

15 In 2009, the Australian Government made a payment of $900 to those who earned less than $100 000 per year.

How would this payment best be described?

A neutral

B progressive

C proportional

D regressive

16 The market for good Z is in equilibrium with 1000 units sold at a price of $10. The government pays a subsidy of $2 per unit to producers of good Z.

Under which conditions will the total spending by the government on the subsidy be **smallest**?

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

17 If an industry is currently state-owned and state-run, what does **not** represent a reason for it being privatised?

A Decisions will no longer be taken with political considerations in mind.

B The benefits of merit goods will be taken into account in decision-making.

C Its owners would have more incentive to make it operate profitably.

D There will be greater incentives for managers to introduce modern technology.

18 What does the incidence of an indirect tax on a product refer to?

A the proportion of the tax paid by the consumer relative to the producer

B the reduction in output as a result of the imposition of the tax

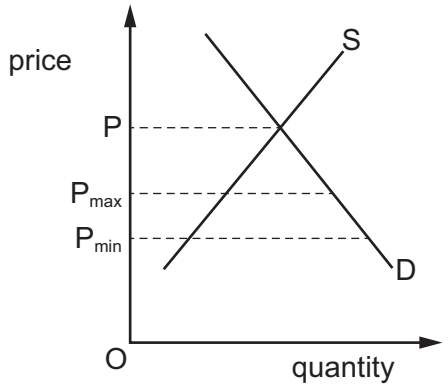
C the revenue the tax generates for the government

D the increase in the hidden economy as a result of tax evasion after the tax is imposed

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19 A government wishes to influence the price of a good. It introduces a maximum price, P_{max}, and a minimum price, P_{min}.

The diagram shows these prices relative to the current market price P.



What can be concluded from the diagram?

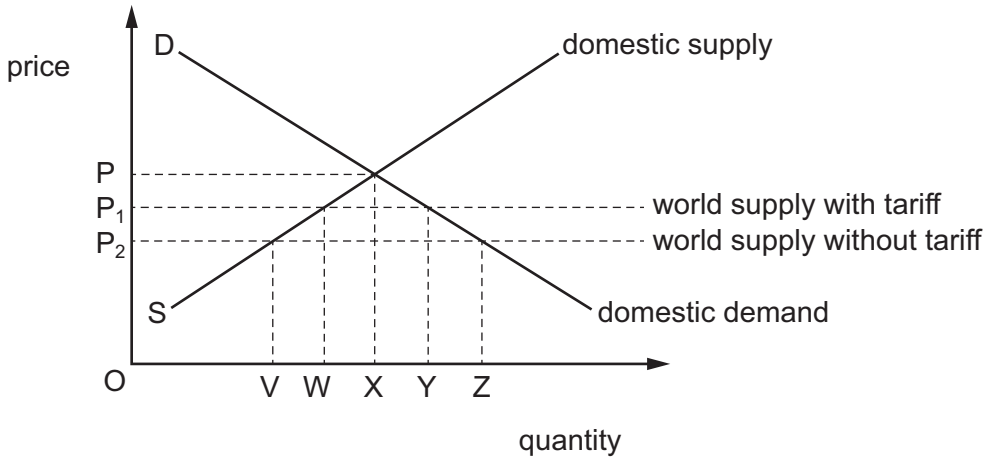
A Both the maximum and the minimum price will be effective.

B Only the maximum price will be effective.

C Only the minimum price will be effective.

D The market price will continue to operate.

20 A government removes the tariff on a product, as shown.



What will be the change in domestic production?

A a reduction of WV

B a reduction of XV

C a reduction of XW

D a reduction of ZY

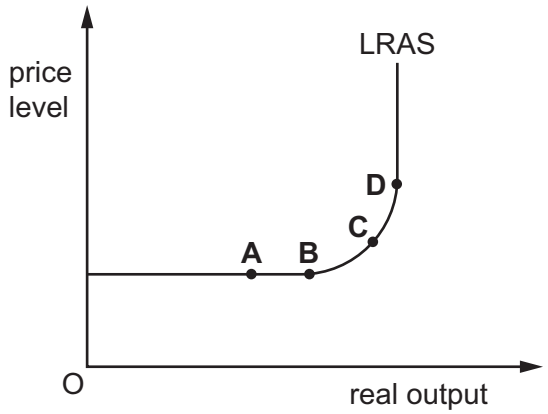
21 An economy is initially in equilibrium.

Which combination of events will **definitely** cause an increase in the general price level of the economy and a decrease in its real output?

	aggregate demand	short-run aggregate supply
A	decreases	decreases
B	decreases	unchanged
C	increases	decreases
D	unchanged	decreases

22 The government of a country changes from a balanced budget to a budget deficit.

From which point along the country's long-run aggregate supply curve (LRAS) will this change cause the largest increase in employment without creating inflationary pressure?



23 The price and volume indexes of a country's imports and exports are shown in the table, for year 2 [year 1 = 100].

year 2 price index		year 2 volume index	
imports	exports	imports	exports
110	121	90	80

What is the country's terms of trade index for year 2?

A 90.9 **B** 97.8 **C** 110.0 **D** 111.0

24 What is a certain outcome on an aggregate demand and aggregate supply diagram of an increase in factor productivity?

A downward shift of the aggregate demand curve

B downward shift of the aggregate supply curve

C an upward shift of the aggregate demand curve

D an upward shift of the aggregate supply curve

25 Trade in services is a component of the current account of the balance of payments.

What is an example of a trade in services?

A development aid for foreign countries

B export revenue from primary commodities

C income from foreign tourists

D income from overseas investments

26 Which statement about changing price levels is correct?

A Anyone on a fixed income has rising real income during deflation.

B Government revenue from indirect taxes falls during inflation.

C Producers prefer deflation to inflation.

D Savers prefer index-linked savings when there is deflation rather than inflation.

27 What would be likely to decrease inflation in an economy?

A a decrease in consumer saving

B a decrease in unemployment

C an increase in labour productivity

D an increase in taxes on imports

28 Which change in economic circumstances is **most** likely to lead to a reduction in the rate of domestic inflation in an economy?

A a depreciation in the currency

B a reduction in the productivity of labour

C a worldwide recession

D an increase in direct taxes to finance increased welfare payments

29 A country is currently experiencing deflation. It has a large national debt that is greater than its annual real income.

Which combination of policies is most likely to increase the general price level without adding to the national debt?

	fiscal policy	monetary policy
A	decrease the budget deficit	decrease the money supply
B	decrease the budget deficit	increase the money supply
C	increase the budget deficit	decrease the money supply
D	increase the budget deficit	increase the money supply

30 Which government action will conflict with the named economic target?

	target	action
A	lower price inflation	lower exchange rate
B	more consumer spending	lower interest rates
C	more equal incomes	lower indirect tax rate
D	reduced import levels	smaller trade quotas

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