Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/11**

Paper 1 AS Level Multiple Choice **October/November 2023**

**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.
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- 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** What will help solve the basic economic problem?

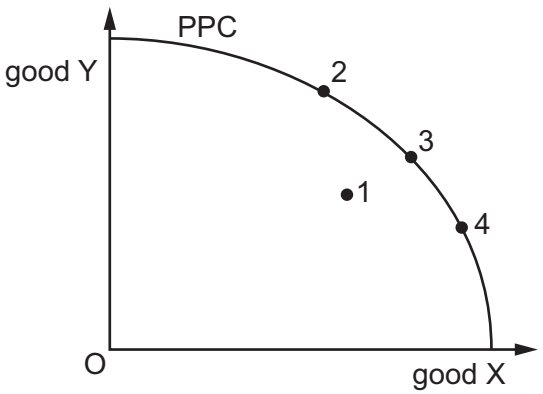
**A** the control of the market system

**B** the efficient allocation of scarce resources

**C** the preservation of a healthy environment

**D** the elimination of hunger

**2** Country Z operates with a production possibility curve (PPC). Currently, output is at combination 1.




Which movement has zero opportunity cost in terms of the goods produced?

**A** 1 to 2 **B** 1 to 3 **C** 2 to 3 **D** 3 to 4

**3** A country's health care is funded by taxation but can be used free of charge by patients.

Which type of good is health care in this country?

**A** demerit good

**B** free good

**C** private good

**D** public good

**4** What is **least** likely to increase as a result of a transition from a planned economy to a free market economy?

**A** prices of goods and services

**B** privately owned resources

**C** provision of merit goods

**D** structural unemployment

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**5** Which statement correctly describes the area of producer surplus on a demand and supply diagram?

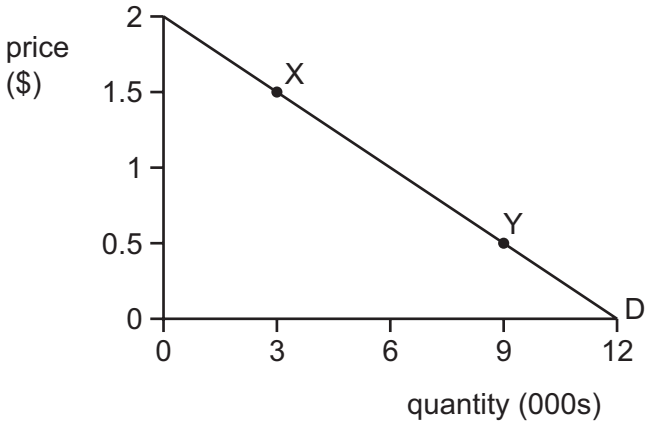
**A** It is above the supply curve and below the equilibrium price line.

**B** It is above the supply curve and below the demand curve.

**C** It is below the demand curve and above the equilibrium price line.

**D** It is below the supply curve and above the horizontal axis.

**6** The diagram shows a demand curve for pineapples.




What happens to the value of price elasticity of demand (PED) when there is a movement from point X to point Y and what describes the value of PED at point Y?

| | effect on value of PED | value of PED at Y |
|---|---|---|
| **A** | fall | elastic |
| **B** | fall | inelastic |
| **C** | rise | elastic |
| **D** | unchanged | unitary |

**7** In a free market, there is a surplus of a good.

Which change would cause the market to come to an equilibrium?

**A** a decrease in demand

**B** a fall in price

**C** a government minimum price

**D** an increase in supply

**8** The cross-elasticity of demand between good P and good Q is –0.4.

The cross-elasticity of demand between good P and good R is +0.6.

Which combination of goods is most likely to be represented by this information?

| | good P | good Q | good R |
|---|---|---|---|
| **A** | cream | yoghurt | raspberry |
| **B** | yoghurt | strawberry | raspberry |
| **C** | strawberry | cream | raspberry |
| **D** | strawberry | raspberry | cream |

**9** The supply, S, of a product is determined by the equation

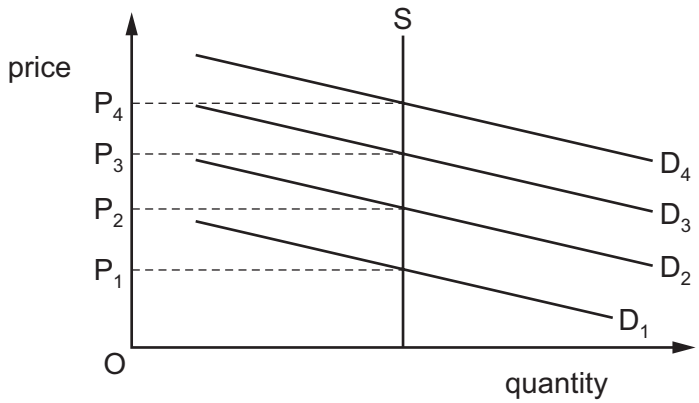
$$S = 10 + 10P$$

where P is the price of the product in $.

What is the product's price elasticity of supply when its price rises from $1 to $2?

**A** 0.5 **B** 1.0 **C** 2.0 **D** 5.0

**10** In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days, $D_1$, $D_2$, $D_3$ and $D_4$.




The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism.

Which pricing policy should the owner use?

**A** set a fixed price at $P_1$

**B** set a fixed price at $P_4$

**C** vary prices between $P_2$ and $P_3$

**D** vary prices between $P_1$ and $P_4$

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**11** The table shows the demand schedule for textbooks.

| price $ | quantity demanded |
|---|---|
| 50 | 0 |
| 40 | 100 |
| 30 | 200 |
| 20 | 300 |
| 10 | 400 |
| 0 | 500 |

What can be concluded from this information?

**A** Profit would be maximised at a price of $30.

**B** Profit would not change if the price rose from $20 to $30.

**C** Revenue would increase if the price was decreased from $40 to $30.

**D** Revenue would be maximised at a price of $40.

**12** Which event is most likely to enable firms to respond to an increase in demand by increasing supply rather than by raising price?

**A** Firms reduce their expenditure on the training of workers.

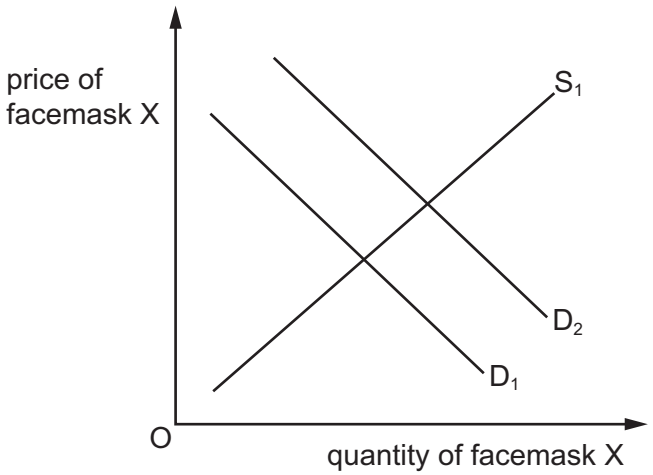
**B** Import duties are increased on machines that increase the speed of production.

**C** The government introduces buffer stock schemes for the goods produced by the firm.

**D** Trade unions become strong, leading to poor labour productivity.

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**13** In the diagram, $S_1$ is the supply curve and $D_1$ is the initial demand for facemask X. A rival firm produces facemask Y, which is a close substitute.




What would cause the demand curve to shift to $D_2$?

**A** a decrease in the costs of the materials to make facemask X

**B** a decrease in the costs of the materials to make facemask Y

**C** an increase in the price of facemask X

**D** an increase in the price of facemask Y

**14** A government introduces charges for vehicles using the roads in its capital city.

Which characteristic must the roads have for this to be successful in reducing congestion?

**A** The roads must be excludable.

**B** The roads must be merit goods.

**C** The roads must be non-rivalrous.

**D** The roads must be public goods.

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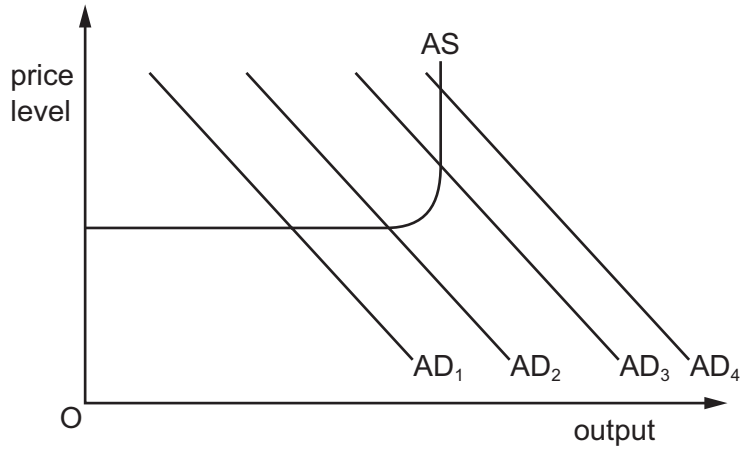
**15** The table shows the tax an individual would pay at different levels of income.

| annual income ($) | tax paid ($) |
|---|---|
| 20 000 | 1 000 |
| 30 000 | 3 000 |
| 40 000 | 6 000 |
| 50 000 | 8 000 |
| 60 000 | 12 000 |

What is the average rate of taxation and the marginal rate of taxation for an individual with an annual income of $50 000?

| | average rate of taxation % | marginal rate of taxation % |
|---|---|---|
| **A** | 15 | 16 |
| **B** | 16 | 20 |
| **C** | 16 | 28 |
| **D** | 20 | 20 |

**16** A government has increased output with no effect on the price level.




What must have been the initial level of aggregate demand (AD)?

**A** $AD_1$ **B** $AD_2$ **C** $AD_3$ **D** $AD_4$

**17** What is **not** included in the measurement of national income?

**A** benefits paid to the unemployed

**B** dividends paid to shareholders

**C** profits retained by companies

**D** rent paid to landlords

**18** Four students have to fill in the gaps in the sentence shown.

'A person is defined as unemployed if they are .....1..... to work at .....2..... wage rate, but cannot find a job despite an active search for work.'

Which student fills gaps 1 and 2 correctly?

| | 1 | 2 |
|---|---|---|
| **A** | able | below the current |
| **B** | able | the current |
| **C** | able, available and willing | above the current |
| **D** | able, available and willing | the current |

**19** Which statement best describes the consumer prices index (CPI)?

**A** It is a measure of changes in the spending patterns of the average household.

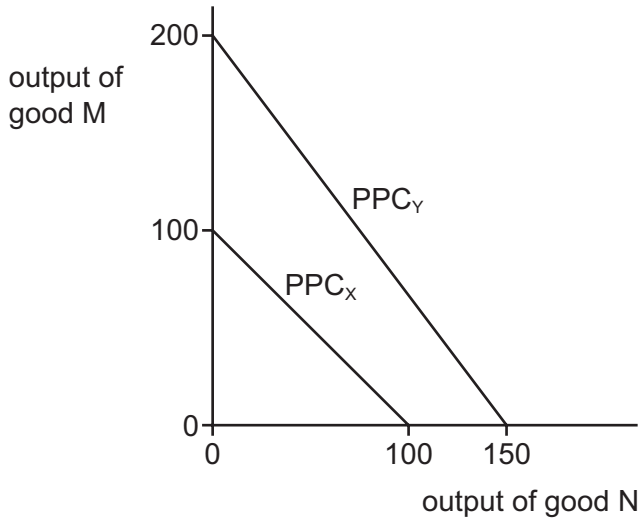
**B** It is a measure of changes in the standard of living of the average household.

**C** It is a measure of the average change in prices of a basket of goods and services over time.

**D** It is a measure of the level of prices of all goods and services.

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**20** The diagram shows the production possibility curves (PPCs) for country X and country Y, the only two countries in the world. Both countries produce just two goods, M and N.




Under which terms of trade will **both** country X and country Y benefit from trading with each other?

**A** 1M for 0.75N

**B** 1M for 0.8N

**C** 1M for 1N

**D** 1M for 2N

**21** Why is increased government provision of education most likely to shift the aggregate demand curve to the right?

**A** It will increase aggregate supply.

**B** More schools will be built.

**C** The government will have to raise taxes.

**D** Workers will be more highly skilled.

**22** Which item is **not** included in the current account of a country's balance of payments?

**A** exports of services

**B** interest on foreign loans

**C** profits from foreign investments

**D** the purchase of foreign assets

**23** Under which conditions will nominal GDP and real GDP increase at the same rate in an economy?

| | rate of change of national output (% per annum) | rate of change of general price level (% per annum) |
|---|---|---|
| **A** | 0 | –2 |
| **B** | 0 | +2 |
| **C** | +2 | 0 |
| **D** | +2 | +2 |

**24** General equilibrium in the macroeconomy is achieved when total injections are equal to total leakages.

What is most likely to cause disequilibrium in the macroeconomy in the short run?

**A** an increase in government spending of $10bn and a decrease in exports of $10bn

**B** an increase in investment of $30bn and a decrease in household savings of $30bn

**C** an increase in spending on imports of $40bn and an increase in government spending of $40bn

**D** an increase in taxation of $40bn and a decrease in spending on imports of $40bn

**25** What would be the most likely reason for a decrease in frictional unemployment?

**A** more capital-intensive manufacturing

**B** more demand for public sector workers

**C** more government spending on education

**D** more information on labour market vacancies

**26** A Kenyan banker who lives and works in India sends 15% of their wage back to Kenya every month.

What would be the change in the current account components for either country?

**A** a fall in secondary income for India

**B** an increase in the balance of trade in services for Kenya

**C** an increase in the current account surplus for India

**D** an increase in primary income for Kenya

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**27** Over a period of a year, the annual rate of inflation becomes negative.

Which statement must be correct?

**A** The cost of living has fallen.

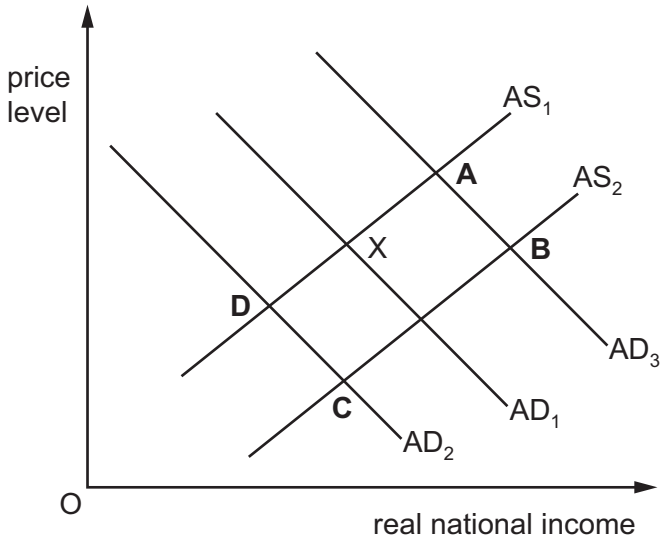
**B** The purchasing power of money has fallen.

**C** The standard of living has increased.

**D** There has been an increase in the Consumer Price Index.

**28** The government of a country plans to raise income tax rates. The initial equilibrium for the country is represented by point X on the diagram.

Which new equilibrium point would an economist predict as the result?




**29** Which combination would represent the most expansionary set of monetary policies?

| | credit availability | interest rates | money supply |
|---|---|---|---|
| **A** | increased | up | reduced |
| **B** | increased | down | increased |
| **C** | reduced | up | increased |
| **D** | reduced | down | reduced |

**30** An economy is experiencing accelerating cost-push inflation.

Which group is likely to be **least** concerned by this?

**A** borrowers

**B** consumers

**C** creditors

**D** exporters

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**ECONOMICS** **9708/12**

Paper 1 AS Level Multiple Choice **October/November 2023**

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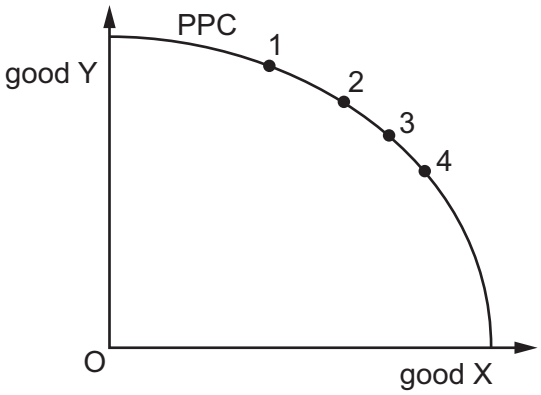
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**[Turn over**

**1** PPC is the production possibility curve in country T.




Which changes take place in country T's opportunity costs of producing X as it increases production of X?

**A** Opportunity costs are constant between points 1 and 2, and between points 3 and 4.

**B** Opportunity costs decrease between points 1 and 2, and increase between points 3 and 4.

**C** Opportunity costs decrease between points 1 and 2, and between points 3 and 4.

**D** Opportunity costs increase between points 1 and 2, and between points 3 and 4.

**2** What is considered the essential requirement for all entrepreneurs?

**A** attracting customers

**B** buying stock

**C** managing staff

**D** taking risks

**3** A new section of a road is provided toll-free by the government.

What best describes this good?

**A** a demerit good

**B** a free good

**C** a private good

**D** a public good

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**4** Eastern European nations have changed from planned to market economies.

Which policy was **least** likely to have been adopted?

**A** allowing prices to fluctuate

**B** keeping established economic organisations

**C** privatising essential industries

**D** permitting changes in the money supply

**5** Rice and pasta are both basic foods in a country.

How would a health scare concerning rice affect the market for pasta?

**A** There will be a shift of demand and a contraction of supply.

**B** There will be a shift of demand and an extension of supply.

**C** There will be a shift of supply and a contraction of demand.

**D** There will be a shift of supply and an extension of demand.

**6** Some goods are over-consumed in a market economy.

What is likely to be the cause of this?

**A** Consumer surplus exceeds producer surplus.

**B** Consumers undervalue the benefits of consuming the goods.

**C** There is excess supply in the market for the goods.

**D** There is imperfect information in the market.

**7** A family is willing to pay a maximum of $600, $500 and $400 for air tickets for the mother, father and daughter to attend a wedding in another city. The airline announces a promotional air fare of $450 per ticket, provided at least three tickets are purchased.

What will be the consumer surplus gained by the family if they use the promotional offer?

**A** $100 **B** $150 **C** $200 **D** $250

**8** After a 10% decrease in a consumer's income, the consumer's demand for a good rises from 100 to 105.

What is the value of the consumer's income elasticity of demand for this good?

**A** –2.0 **B** –0.5 **C** +0.5 **D** +2.0

**9** In 2010, poor harvests reduced fruit crops and furniture producers gave big discounts on furniture products.

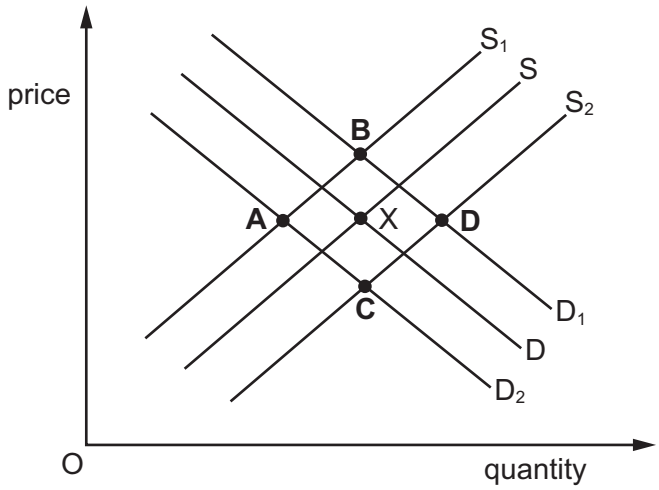
How might these changes have affected the position of the supply curve for the products?

| | fruit | furniture producers |
|---|---|---|
| **A** | no change | shift to the left |
| **B** | shift to the left | no change |
| **C** | shift to the left | shift to the left |
| **D** | shift to the right | no change |

**10** In the diagram, D and S represent the demand for and supply of smartphones. Many components used in the production of smartphones are imported. The initial equilibrium is at point X.

The exchange rate has depreciated at the same time as the price of a complementary good decreased.

Which point in the diagram could represent the new equilibrium?

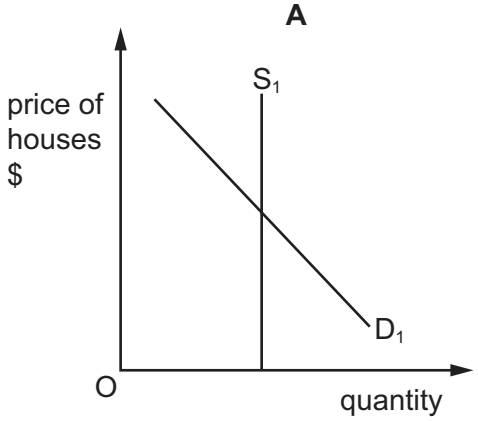


**11** The diagrams show the demand for and the supply of houses.

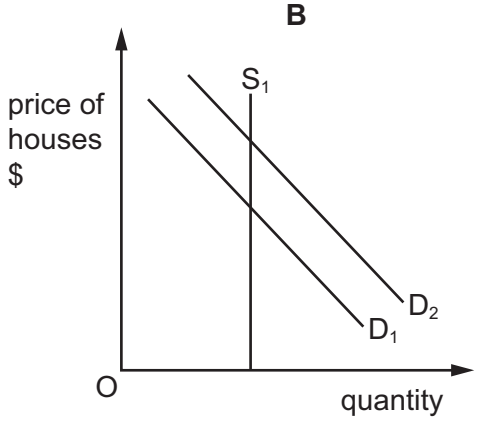
In the short run, the stock of houses for sale, $S_1$, is fixed. A government decides to allow some agricultural land to be used for building houses and subsidises lower-income buyers of the new houses.

Which diagram shows the long-run situation?

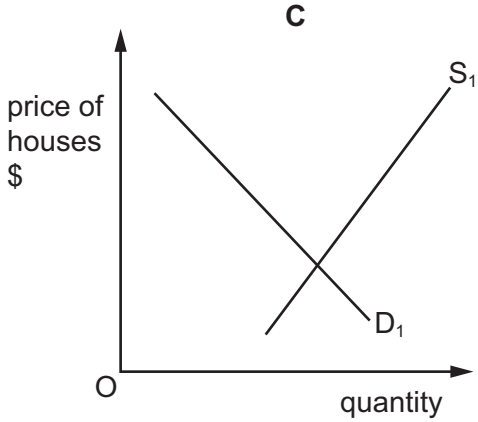
**A**



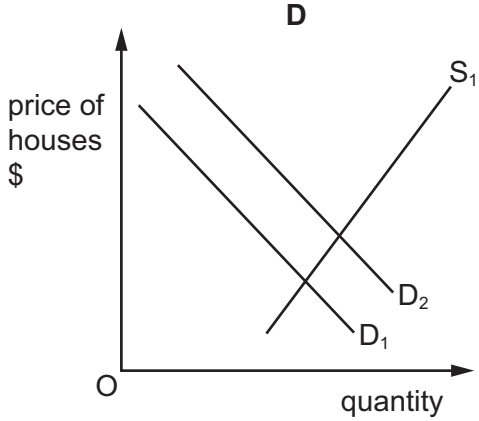

**B**




**C**




**D**




**12** The equation for the quantity demanded, $Q_D$, for a product is

$$Q_D = 400 - 20P$$

where P = price in $. The quantity supplied, $Q_S$, is given by $Q_S = 100 + 40P$.

Which 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.

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**13** What is the most likely cause of the continuous increase in prices of famous paintings by now dead artists?

**A** the increasing technological ability to copy famous paintings perfectly

**B** the popular view that famous paintings are an appreciating asset

**C** the totally inelastic supply of famous paintings by dead artists

**D** the wish of governments to treat art galleries as merit goods

**14** What is most likely to be regressive?

**A** corporate profit taxes

**B** state pension benefits

**C** specific tax on cigarettes

**D** unemployment benefits

**15** 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.

**16** The government imposes a specific indirect tax of $1 on each unit of a good sold.

How does the imposition of the tax shift the demand or supply curve of the good?

**A** The demand curve of the good will shift vertically downwards by $1.

**B** The demand curve of the good will shift vertically upwards by $1.

**C** The supply curve of the good will shift vertically downwards by $1.

**D** The supply curve of the good will shift vertically upwards by $1.

**17** Which term relates to a fall in the domestic real value of a currency?

**A** deflation

**B** depreciation

**C** appreciation

**D** inflation

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**18** What must be the result for a country of a rise in its export prices relative to its import prices?

**A** a deficit in its trade in goods

**B** an improvement in its terms of trade

**C** an increase in its inflation rate

**D** a rise in its exchange rate

**19** Country X can produce a product at a lower opportunity cost than country Y.

Which term best describes this statement?

**A** absolute advantage

**B** comparative advantage

**C** specialisation

**D** terms of trade

**20** For a given year, economy X publishes the following.

| | $bn |
|---|---|
| Gross Domestic Product (GDP) | 100 |
| factor income earned by residents of economy X working in foreign countries | 10 |
| factor income earned in economy X by non-residents | 25 |

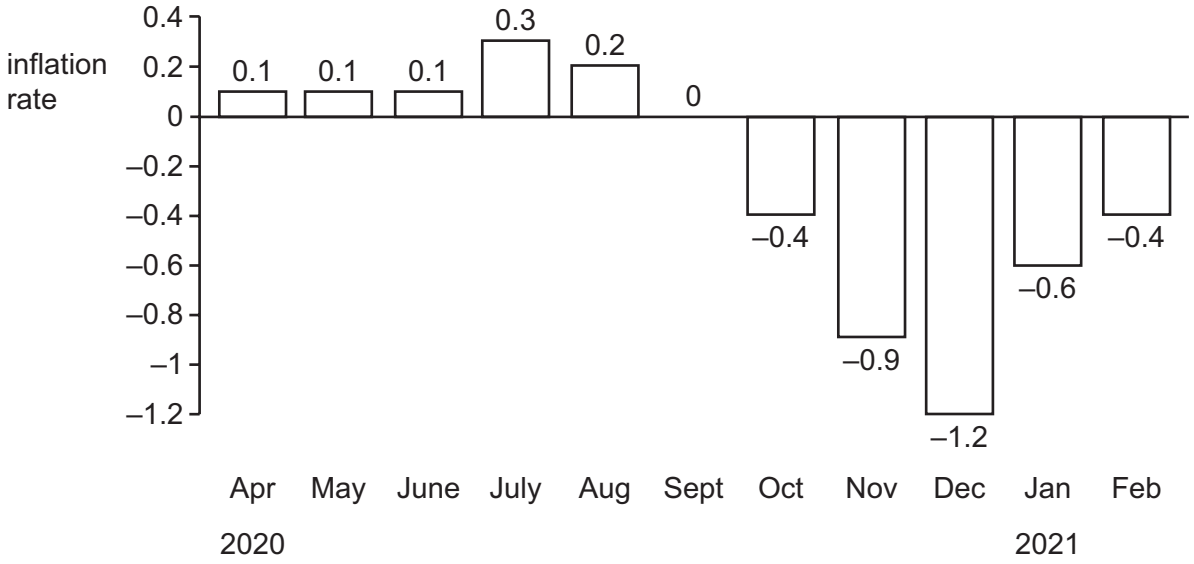
What is the size of the Gross National Income (GNI) for country X?

**A** $75bn **B** $85bn **C** $110bn **D** $115bn

**21** Which combination is possible for an economy experiencing zero inflation?

| | average nominal wages | average real wages |
|---|---|---|
| **A** | falling | falling |
| **B** | falling | rising |
| **C** | rising | falling |
| **D** | unchanging | rising |

**22** The graph shows the rate of inflation in Japan from April 2020 to February 2021.




Over which period did disinflation occur in Japan?

**A** July 2020 to February 2021

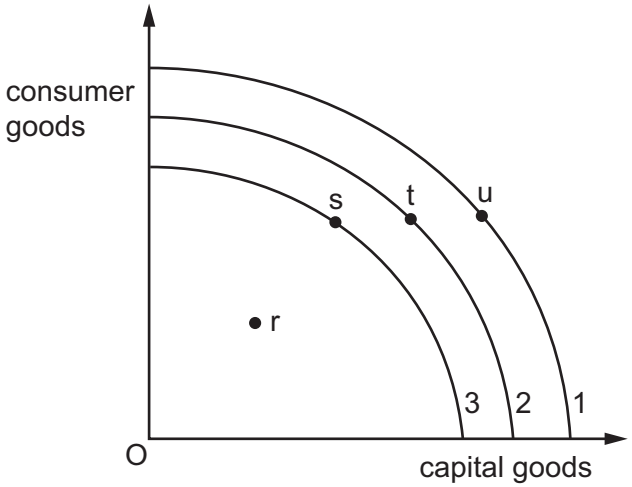
**B** July 2020 to September 2020

**C** October 2020 to December 2020

**D** October 2020 to February 2021

**23** The diagram shows three production possibility curves (PPC) for a country, labelled 3, 2 and 1. The original PPC for the country is 2.

This country experiences a fall in its working population and then this is followed by a long period of recession.




If an increase in GDP then takes place, what is the increase in production?

**A** r to s **B** r to u **C** s to t **D** t to u

**24** A government increases the rate of income tax.

What is the effect, in the short run, on the aggregate demand curve or the aggregate supply curve?

**A** The aggregate demand curve shifts left.

**B** The aggregate demand curve shifts right.

**C** The aggregate supply curve shifts left.

**D** The aggregate supply curve shifts right.

**25** A country's current account deficit is larger this year than last.

What is the most likely reason for this increase?

**A** Demand for domestically produced goods has risen.

**B** Domestic inflation has risen faster than the inflation of its major trading partners.

**C** Domestic unemployment has risen.

**D** The exchange rate has depreciated.

**26** Which supply-side measure is most likely to produce short-run growth in a country's aggregate supply?

**A** easing of controls on immigration of workers

**B** expenditure on primary education

**C** expenditure on research and development

**D** privatisation of public utilities

**27** Which tax may a government use to reduce inequality?

**A** progressive income tax

**B** proportionate income tax

**C** proportionate indirect tax

**D** specific indirect tax

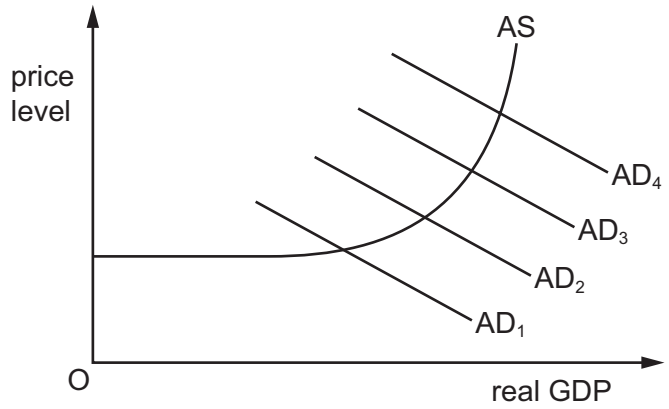
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**28** A foreign government pays a UK university to educate its students.

How would this be recorded on the balance of payments current account of the UK?

| | current account component | money flows |
|---|---|---|
| **A** | secondary income | inflow |
| **B** | secondary income | outflow |
| **C** | trade in services | inflow |
| **D** | trade in services | outflow |

**29** A government wants to reduce inflation. It has decided to cut government spending by $1bn. The diagram shows different starting positions for the country's aggregate demand (AD) curve.




Which starting position for the aggregate demand curve would make this policy **least** effective?

**A** $AD_1$ **B** $AD_2$ **C** $AD_3$ **D** $AD_4$

**30** A government reduces the rate of tax firms are charged on their land and buildings.

How is this likely to affect the economy's price level and real output?

| | price level | real output |
|---|---|---|
| **A** | fall | fall |
| **B** | fall | rise |
| **C** | rise | fall |
| **D** | rise | rise |

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Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/13**

Paper 1 AS Level Multiple Choice **October/November 2023**

**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. Any blank pages are indicated.


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**1** A factory introduces an automated production line to take advantage of division of labour.

What is most likely to increase?

**A** average cost of production

**B** job satisfaction of workers

**C** range of skills of each worker

**D** worker productivity

**2** Consumers do not use enough of a product to maximise their private benefit because they have imperfect information about the product.

How would an economist classify this product?

**A** demerit good

**B** free good

**C** merit good

**D** public good

**3** The table shows different combinations of rings and bracelets that can be produced by Luke and Zoe in the same time period.

| Luke | | Zoe | |
|---|---|---|---|
| rings | bracelets | rings | bracelets |
| 18 | 0 | 20 | 0 |
| 12 | 6 | 16 | 8 |
| 6 | 12 | 12 | 16 |
| 0 | 18 | 8 | 24 |

Which statement is **not** correct?

**A** Luke has a larger opportunity cost than Zoe for making bracelets.

**B** The opportunity cost of producing rings is constant for both Luke and Zoe.

**C** Zoe should specialise in making rings.

**D** Zoe's opportunity cost for each bracelet is 2 rings.

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**4** What is an example of a free good?

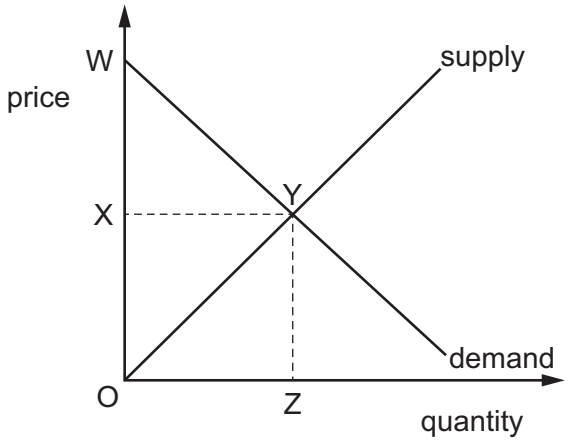
**A** a government sponsoring a free vaccination programme for its citizens

**B** a hospital providing free treatment to the poor

**C** a school providing free education to outstanding students

**D** anything that provides free utility but is not scarce

**5** The diagram shows the market for computers in Pakistan.




Which areas represent consumer surplus and consumer expenditure?

| | consumer surplus | consumer expenditure |
|---|---|---|
| **A** | WXY | OXY |
| **B** | WXY | OXYZ |
| **C** | WYO | OXYZ |
| **D** | WYO | OYZ |

**6** The supply curve for a firm is a horizontal straight line.

What can be concluded from this statement?

**A** Quantity supplied is infinite at the given price.

**B** Quantity supplied is infinite below the given price.

**C** Quantity supplied remains constant at all prices.

**D** Quantity supplied is perfectly inelastic.

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**7** When the incomes of consumers of good X fall by 5%, under which conditions will the demand curve shift furthest to the right?

| | nature of good X | income elasticity of demand for good X |
|---|---|---|
| **A** | inferior good | –0.8 |
| **B** | inferior good | –1.2 |
| **C** | normal good | +0.9 |
| **D** | normal good | +1.5 |

**8** Good P and good Q are substitutes. There is a decrease in supply of good P because of a shortage of materials.

Which row describes what will happen to demand?

| | good P | good Q |
|---|---|---|
| **A** | contraction | extension |
| **B** | contraction | shift to right |
| **C** | shift to left | shift to left |
| **D** | shift to left | shift to right |

**9** The pressure to reduce the use of fossil fuels has led to oil companies reducing the level of investment in the exploration of new reserves.

What will be the long-run effect of such a policy on the market for oil?

| | market change | price change |
|---|---|---|
| **A** | upward movement along the demand curve | price decreases |
| **B** | downward movement along the demand curve | price increases |
| **C** | supply shifts to the left | price increases |
| **D** | supply shifts to the left | price decreases |

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**10** The price elasticity of demand for a product is –0.6.

The supplier wants to clear all surplus stock of a product and reduces the price of a good by 50%.

What is the effect of this price change on the quantity purchased and the expenditure on the good?

| | quantity demanded | expenditure |
|---|---|---|
| **A** | rises by 30% | falls |
| **B** | rises by 30% | rises |
| **C** | rises by 60% | falls |
| **D** | rises by 60% | rises |

**11** A firm is producing 100 units at a price of $10. The price elasticity of supply is 0.5 and the price is raised to $12.

What is the new level of output?

**A** 75 **B** 110 **C** 125 **D** 150

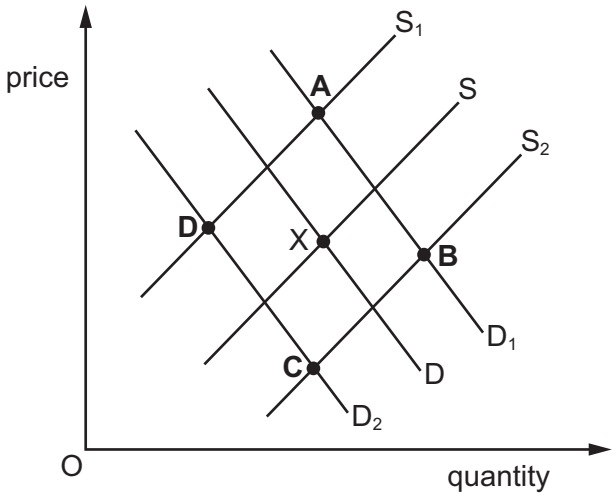
**12** In a town, bus fares fall by 50% and this leads to an increase in bus use by 30%. The effect on car use is very low with only a 1% reduction.

What is the value of the cross-elasticity of demand between car travel and bus travel?

**A** –0.60 **B** –0.02 **C** +0.02 **D** +0.60

**13** In the diagram, the demand and supply curves for wheat in Australia are shown. Initial equilibrium is at X. The government imposes a sales tax on wheat at the same time as increasing the rate of income tax.

Which point could represent the new equilibrium?



**14** A free market is currently experiencing excess supply at a price of $P_1$.

What will be the effect on the current market situation if a maximum price is set above $P_1$?

**A** The excess supply will increase.

**B** The market will move into an equilibrium position.

**C** There will be no effect.

**D** There will be excess demand.

**15** What is a likely **disadvantage** of a government's provision of transfer payments to the unemployed?

**A** decrease in the standard of living

**B** disincentive to accept paid work

**C** increase in inequality

**D** increase in poverty

**16** Which combination of policies would increase the inequality of the distribution of income and wealth?

| | progressive taxes | minimum wage | transfer payments |
|---|---|---|---|
| **A** | decrease | increase | reduce |
| **B** | decrease | reduce | reduce |
| **C** | increase | increase | increase |
| **D** | increase | reduce | increase |

**17** Which changes will increase the circular flow of income?

| | higher imports | higher investment | higher taxation |
|---|---|---|---|
| **A** | yes | no | no |
| **B** | yes | yes | no |
| **C** | no | yes | yes |
| **D** | no | yes | no |

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**18** An economy in equilibrium has a trade deficit of $20bn and a budget surplus of $20bn. Investment spending is $50bn.

What is the total saving?

**A** $5bn **B** $10bn **C** $15bn **D** $20bn

**19** A finance company incurs heavy losses and makes an accountant redundant.

The accountant seeks a new job through an employment agency which specialises in jobs in accounting.

What describes the type of unemployment of the accountant who is seeking a new job?

**A** frictional

**B** seasonal

**C** structural

**D** technological

**20** An aggregate demand curve slopes downwards from left to right.

One reason for this is that a reduction in the average price level will lead to

**A** a decline in the country's international competitiveness.

**B** an increase in interest rates.

**C** an increase in the real value of money balances.

**D** the expectation of further price falls.

**21** Which components are included as primary income in the current account of the balance of payments?

| | trade in goods | current transfers | employment income from abroad |
|---|---|---|---|
| **A** | ✓ | ✓ | ✓ |
| **B** | ✓ | ✗ | ✗ |
| **C** | ✗ | ✓ | ✗ |
| **D** | ✗ | ✗ | ✓ |

key

✓ = included

✗ = not included

**22** What is **not** included in the measurement of national income?

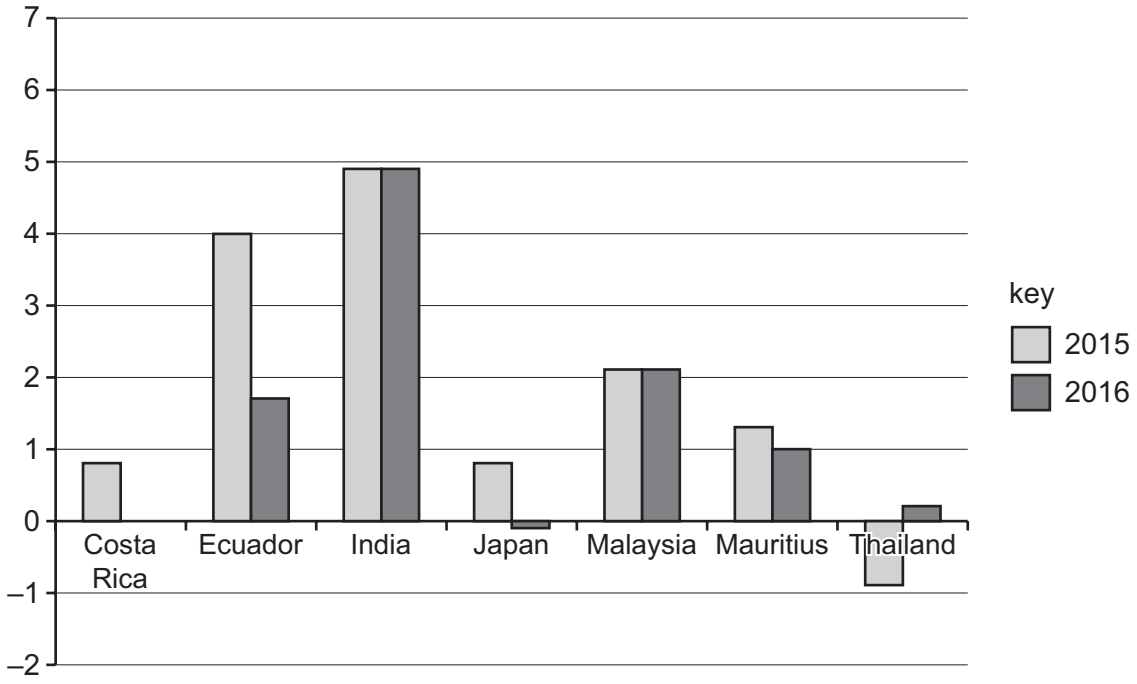
**A** dividends paid to shareholders

**B** overtime payments

**C** rents from government-owned houses

**D** welfare benefit payments

**23** The graph shows the rate of inflation for seven countries for 2015 and 2016.




What can be concluded from this graph?

**A** Prices in Costa Rica rose in 2015 but remained constant in 2016.

**B** Prices in Ecuador and Mauritius were lower in 2016 than in 2015.

**C** Prices in India and Malaysia remained constant in 2016 and 2015.

**D** Prices in Thailand and Japan were lower in 2016 than in 2015.

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**24** Country R and country S are going to trade 1 unit of product X for $\frac{1}{2}$ unit of product Y.

With a given amount of resources:

- country R can produce either 30 units of product X or 50 units of product Y
- country S can produce either 20 units of product X or 25 units of product Y.

Which statement is correct, according to the theory of comparative advantage?

**A** Free trade will benefit both R and S.

**B** Free trade will benefit neither R nor S.

**C** Free trade will benefit R but not S.

**D** Free trade will benefit S but not R.

**25** What is the most likely cause of a current account deficit on the balance of payments?

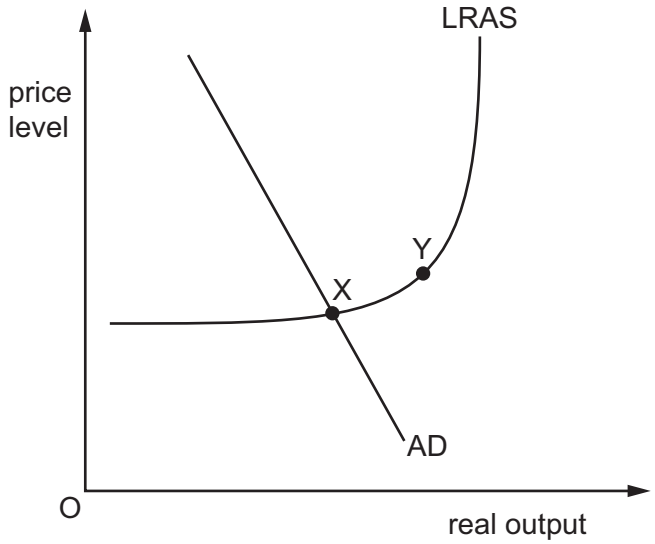
**A** an undervalued exchange rate

**B** a relatively low rate of inflation

**C** a shrinking domestic economy

**D** a general fall in national productivity

**26** The diagram shows the long-run aggregate supply (LRAS) and aggregate demand (AD) curves for an economy.




The initial equilibrium is at point X.

Which combination of monetary policies will shift the equilibrium position to point Y?

| | money supply | rate of interest |
|---|---|---|
| **A** | increase | increase |
| **B** | decrease | increase |
| **C** | increase | decrease |
| **D** | decrease | decrease |

**27** The government undertakes a policy of financing training and retraining for unemployed workers.

Which terms are most likely be used to classify this policy?

| | demand-side | supply-side | fiscal | monetary |
|---|---|---|---|---|
| **A** | yes | no | yes | no |
| **B** | yes | no | no | yes |
| **C** | no | yes | no | yes |
| **D** | no | yes | yes | no |

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**28** Which combination of initial equilibrium and supply-side policy is likely to be **least** effective when attempting to increase the real output of an economy?

| | initial equilibrium real output | supply-side policy measure |
|---|---|---|
| **A** | below full employment | abolition of national minimum wage |
| **B** | below full employment | extra spending on training |
| **C** | full employment | extra investment in infrastructure |
| **D** | full employment | reduction in the rate of income tax |

**29** A government aims to reduce unemployment through expansionary fiscal policy and borrows more from the commercial banks, increasing its borrowing requirement.

What will be the result?

**A** a decrease in the budget deficit

**B** a decrease in the national debt

**C** an increase in the balance of payments deficit on the current account

**D** an increase in the interest rates

**30** A government wants to use an expansionary monetary policy.

What should the government increase?

**A** credit regulations

**B** the exchange rate

**C** the interest rate

**D** the money supply

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