Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/11**

Paper 1 AS Level Multiple Choice **October/November 2024**

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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- 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 Which statement is a normative statement?

A The annual rate of inflation in Malaysia increased from 2.8% in May 2022 to 3.4%.

B The annual rate of inflation was 3.4% in Malaysia, lower than the 7.7% annual rate of inflation for Thailand.

C The Malaysian Central Bank raised interest rates from 2.0% to 2.25% on 6 July 2022.

D The rise in interest rates in Malaysia in July 2022 is expected to only have a small impact on the rate of inflation.

2 A firm operating in country S moved its existing capital equipment to a larger factory in country T. It also installed more of the same equipment and increased the size of its workforce.

From the evidence provided, what must be true?

A The firm is operating in the long run.

B The firm is operating in the very long run.

C The firm's division of labour has increased.

D The firm's supply curve has shifted to the left.

3 Which statement is **not** correct?

A Addictive drugs are regarded as demerit goods because users are unaware of the full damage they do.

B Air is regarded as a free good because its use has no opportunity cost.

C National defence is regarded as a public good because one citizen 'consuming' it reduces the amount of it available to others.

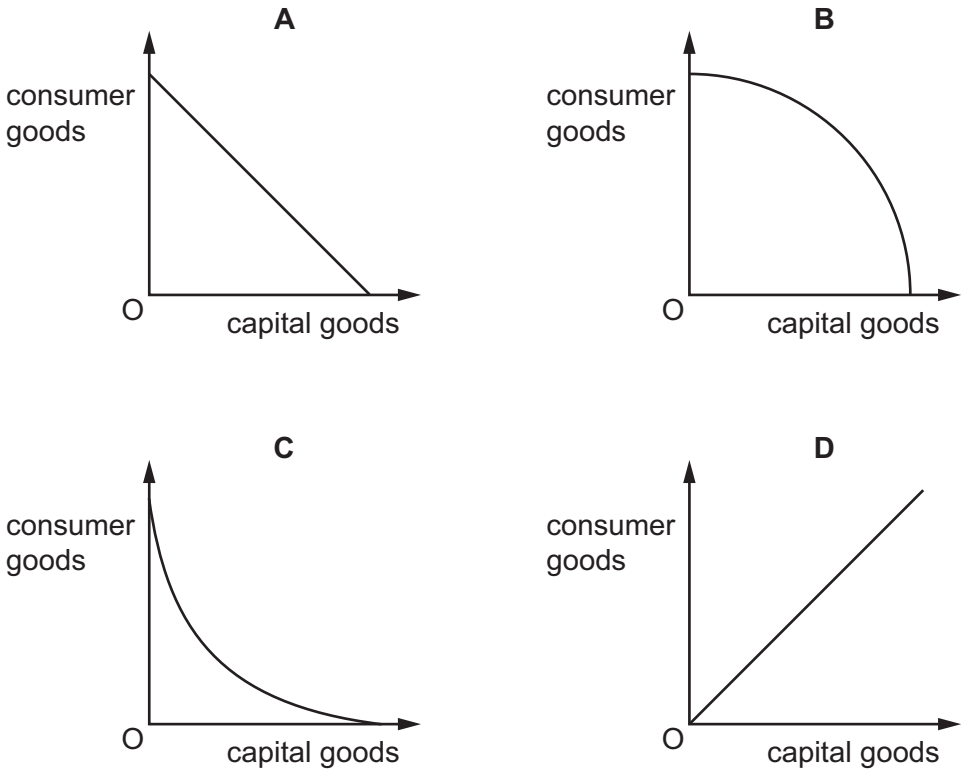
D Visits to a doctor are regarded as private goods partly because they are rival.

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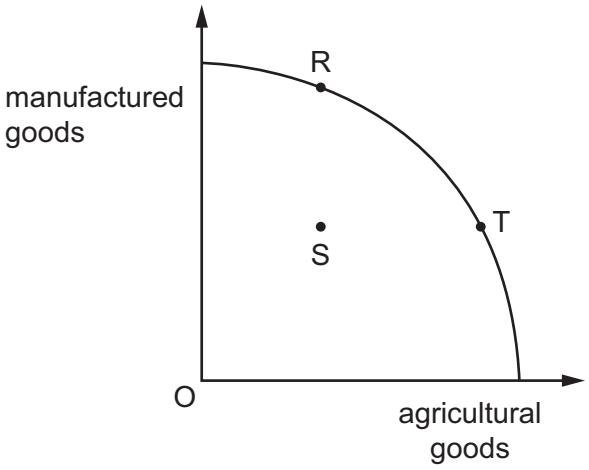
4 The diagrams show production possibility curves.

Which diagram shows constant opportunity costs?



5 Farmers using traditional methods lack access to finance and often employ family members on a part-time basis.

If working practices in agriculture could be improved, how would this be likely to be shown on the production possibility curve?



A by a movement from R to T

B by a movement from S to R

C by a movement from S to T

D by a movement from T to R

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6 In a particular year, 12 000 units of a good are sold at $1 per unit. In a later year, 14 000 units are sold at $1.20 per unit.

If consumer tastes have remained constant, what could account for the change between the two years?

A a decrease in the price of raw materials used by producers

B an increase in the price of a substitute good

C an increase in the rate of tax imposed on producers

D the formation of a monopoly in the production of the good

7 What is most likely to cause an increase in the consumer surplus in the market for a normal good?

A an increase in consumer incomes

B an increase in the number of substitute goods

C an increase in the price of a complementary good

D an increase in the price of the good

8 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	–1.3

There is a rise in the price of restaurant meals and a fall in the price of cinema tickets.

What can be concluded after these price changes?

A Restaurant owners will receive more income.

B Lee will spend more money on both cinema tickets and restaurant meals.

C Yim will spend more money on both cinema tickets and restaurant meals.

D Cinema owners will receive less income.

9 What is **not** held constant when aggregating individual firms' supply curves to give the short-run market supply curve?

A the number of firms in the industry

B the price of the product

C the prices of factors of production

D the state of technology

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10 Which elasticity would a shortage of skilled workers affect?

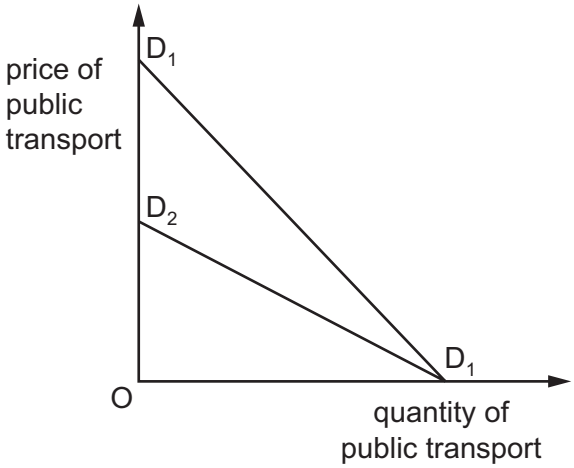
A cross elasticity of demand

B income elasticity of demand

C price elasticity of demand

D price elasticity of supply

11 D_1D_1 shows an individual's initial demand curve for public transport.



What would cause the demand curve to shift to D_2D_1?

A The cost of running the individual's car rises.

B The individual is banned from driving.

C The price of public transport rises.

D The quality of public transport declines.

12 Which government action would be identified as the direct provision of goods and services?

A increasing road maintenance because of poor weather conditions

B making payments to low-income families with elderly dependents

C subsidising firms in order to encourage them to increase their output

D taxing firms because they have been emitting damaging fumes

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13 A specific tax is imposed on a product for which the elasticity of supply is zero.

Which statement is correct?

A The burden of this tax will fall entirely on consumers.

B The burden of this tax will fall entirely on suppliers.

C The burden of this tax will fall mainly on consumers.

D The burden of this tax will fall mainly on suppliers.

14 A government wishes to intervene in a free market to allocate healthcare at the socially optimal level.

Which combination correctly identifies the reason for government intervention in the healthcare market?

	healthcare consumption in a free market	healthcare production in a free market	provision of information in a free market
A	overconsumption	overproduction	too little
B	overconsumption	underproduction	too much
C	underconsumption	underproduction	too little
D	underconsumption	overproduction	too much

15 The table shows the Consumer Prices Index (CPI) for a country.

year	CPI
2008	100
2009	104
2010	102
2011	105
2012	108
2013	111

Which statement about the period 2008 to 2013 is correct?

A Prices increased each year.

B Prices increased fastest in 2011.

C The rate of inflation was 2% in 2010.

D The smallest rise in prices was in 2013.

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16 What is most likely to cause the price level to rise?

An increase in

A productivity of labour.

B raw material prices.

C income taxes.

D subsidies paid to producers.

17 What is most likely to increase a country's circular flow of income?

A Its budget deficit increases.

B Its imports increase.

C Its interest rates increase.

D Its exchange rate increases.

18 A country with a constant population experiences a 5% increase in its nominal GDP during a year.

In which situation will average living standards be most likely to have increased during the year?

A if government takes action to ensure there is no increase in unemployment

B if inflation during the year is 3%

C if there is no increase in real national income

D if there is no redistribution of income

19 Which combination correctly identifies the necessary information to construct an accurately labelled graph of a normal short-run aggregate supply curve (SRAS)?

	gradient of the SRAS curve	horizontal *x*-axis	vertical *y*-axis
A	negative	quantity	price level
B	positive	real output	price level
C	positive	real output	price
D	positive	price level	real output

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20 A government makes two changes to income tax.

1 The individual tax-free income allowance is increased.

2 The marginal rate of income tax is decreased.

How will these changes affect aggregate demand and aggregate supply in the economy?

	aggregate demand	aggregate supply
A	decrease	increase
B	decrease	unchanged
C	increase	increase
D	increase	unchanged

21 Which supply-side policy is most likely to decrease a government's budget deficit?

A cutting tax rates on company profits

B cutting unemployment benefits

C raising spending on education and training

D raising tax-free income tax allowances

22 Which combination of fiscal and monetary policies would certainly be expansionary?

	government spending	taxes	money supply
A	decrease	decrease	decrease
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	increase

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23 The central bank of a country raises interest rates to reduce the general price level.

When is this policy likely to have the biggest impact?

	position of the economy on its production possibility curve (PPC) diagram	responsiveness of aggregate demand to interest rate changes
A	below the PPC	high
B	below the PPC	low
C	on the PPC	high
D	on the PPC	low

24 The table shows the trade in goods and services for an economy between 2019 and 2021.

year	trade in goods and services ($ millions)
2019	–1000
2020	–3000
2021	–4000

What would have most likely caused the change from 2019 to 2021?

A increasing domestic unemployment

B increasing domestic rate of income tax

C increasing domestic inflation

D increasing import tariffs

25 A government subsidises training to improve the skills of workers in the industrial sector of an economy.

What is the most likely effect on the current account of the balance of payments?

A exports fall

B exports rise

C imports fall

D imports rise

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26 Using all their resources efficiently, country X can produce 6 million tonnes of wheat or 2 million tonnes of steel whilst country Y can produce 4 million tonnes of wheat or 1 million tonnes of steel.

Based on this information, what does the theory of comparative advantage suggest?

A Country X should produce only steel.

B Country X will not gain from international trade.

C Country Y has no comparative advantage.

D Country Y will not gain from international trade.

27 Countries X and Y are trade partners.

An increase in which economic indicator in country Y is most likely to cause a fall in the exchange rate of country X?

A economic growth

B inflation rate

C money supply

D trade barriers

28 Which transaction is **not** recorded in the current account?

A aid received from the government of another country

B exports of raw materials

C investments by a foreign company

D payments of dividends to an overseas investor

29 A government decides to place a tariff on imports of raw materials.

Which statement about the impact of the tariff is correct?

A It will increase costs of production for domestic firms.

B It will increase consumer surplus for domestic consumers.

C It will reduce government revenue.

D There will be a fall in the price of imports and a rise in the demand.

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

A Its imports rise in value less than its exports.

B Its imports rise in volume less than its exports.

C The price of its imports rises 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.

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

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1 D "Expected to have only a small impact" is a judgement that cannot be checked against data now.

2 A Capital (equipment) has been increased, so all factors are variable: the long run.

3 C A public good is non-rival: one citizen consuming defence does not reduce it for others.

4 A A straight-line PPC has a constant slope, so each unit of one good always costs the same.

5 C S is inside the PPC (inefficient use of labour); better practices move output to T on the curve.

6 B Both price ($1 to $1.20) and quantity (12 000 to 14 000) rose, so demand increased: dearer substitute.

7 A Higher incomes shift demand for a normal good right, raising the area under D above price.

8 C Yim: meals PED −0.8 (inelastic, price up ⇒ spend more); cinema −1.3 (elastic, price down ⇒ spend more).

9 B A supply curve shows quantity at each price, so the product price varies; the others are held constant.

10 D Scarce skilled labour makes it hard to raise output when price rises, so PES falls.

11 D Lower quality reduces willingness to pay at each quantity, so demand pivots down to D2D1.

Question number		
12	A	Road maintenance is a service produced and supplied by the state itself: direct provision.
13	B	With PES = 0 supply is vertical, so price to consumers cannot rise: producers bear all the tax.
14	C	Healthcare is a merit good with positive externalities and too little information: under-consumed.
15	D	2013: (111 – 108) ÷ 108 = 2.8%, the smallest rise (2009 4%, 2011 2.9%, 2012 2.9%; 2010 fell).
16	B	Dearer raw materials raise firms' costs, so SRAS shifts left and the price level rises (cost-push).
17	A	A larger budget deficit means injections (G) rise relative to withdrawals (T), so the flow grows.
18	B	Real GDP ≈ 5% – 3% = 2% higher with a constant population, so real income per head rises.
19	B	SRAS slopes upwards (positive), with real output on the x-axis and the price level on the y-axis.
20	C	Lower income tax raises disposable income (C and AD rise) and incentives to work (AS rises).
21	B	Cutting benefits lowers government spending and raises the incentive to work: deficit falls.
22	C	Higher G, lower taxes and a larger money supply all raise AD: certainly expansionary.
23	C	On the PPC (full capacity) excess AD causes inflation; if AD is interest-sensitive, AD falls most.
24	C	Higher domestic inflation makes exports less and imports more price competitive: deficit widens.
25	B	Better skills raise productivity and lower unit costs, so exports become more competitive and rise.

Question number	
26	A Steel costs 3 wheat in X but 4 wheat in Y: X has the lower OC in steel, so X specialises in steel.
27	D Trade barriers in Y cut Y's imports from X, so demand for X's currency falls and its rate falls.
28	C Investment by a foreign company (FDI) is recorded in the financial account, not the current account.
29	A Imported raw materials become dearer, so domestic firms' costs of production rise.
30	C ToT = export price index ÷ import price index × 100, so export prices rising faster improves ToT.

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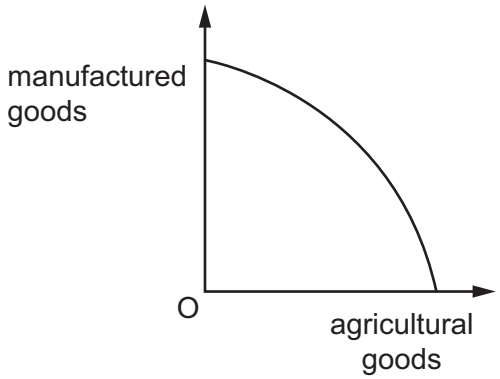
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1 The production possibility curve for a country is shown.



What can be determined from the diagram?

A the consumers' preferred combination of output

B the level of economic growth

C the opportunity cost of manufactured goods in terms of agricultural products

D the preference for present consumption rather than future consumption

2 In a clothing business, after specialisation, real output per worker increased in the first six months but then output per worker began to fall.

What might be the most likely reason for the reduction in productivity?

A An increase in output per worker in the long run depends on an increase in pay.

B An increase in output per worker requires more capital.

C Specialisation means workers lose skills.

D Workers get bored if they are repeating the same work.

3 A wine producer and bottler wanted to expand its production significantly. To finance the expansion it offered investors discounts on restaurant meals if they bought 2000 shares in the company.

Which factors of production are most likely to be involved in this expansion?

A labour, land, capital and enterprise

B labour, land and capital only

C enterprise and land only

D enterprise only

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4 Which statement is positive?

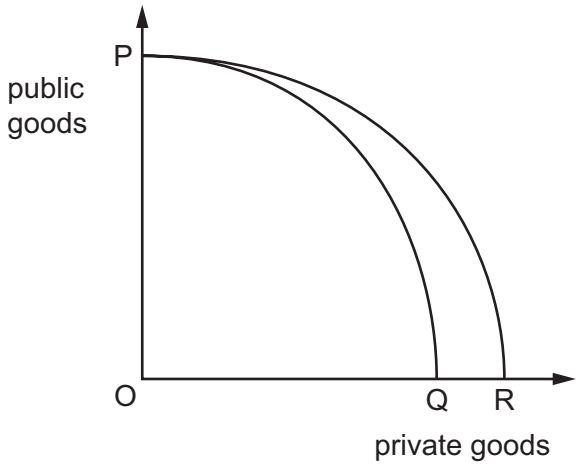
A All taxes should be proportional to income.

B A progressive tax is a fair tax.

C Greater equality of income is desirable.

D Income inequality is decreasing.

5 The diagram shows the change in a country's production possibility curve from PQ to PR.



What increases as a result of the change from PQ to PR?

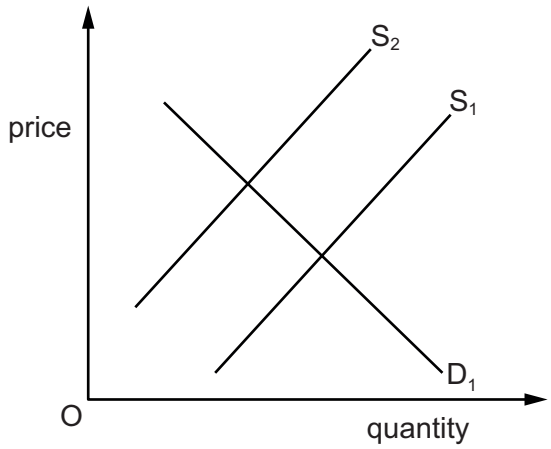
A the price of private goods

B the price of public goods

C the opportunity cost of private goods

D the opportunity cost of public goods

6 The graph shows the demand and supply curves for an industry.



What would cause a shift in the supply curve from S_1 to S_2?

A an increase in the number of firms in the industry

B an increase in the number of workers employed

C an increase in the productivity of the workforce

D an increase in the wage rates paid to workers

7 A firm produces a good using a very labour-intensive process. There is an increase in the price of the good.

Under which conditions will the supply of the firm's good be most price elastic?

	nature of the labour employed by the firm	level of unemployment in the economy
A	skilled	high
B	skilled	low
C	unskilled	high
D	unskilled	low

8 What is most likely to cause the demand curve of an inferior good to shift to the right?

A a rise in consumers' incomes

B a rise in income tax

C a rise in sales tax

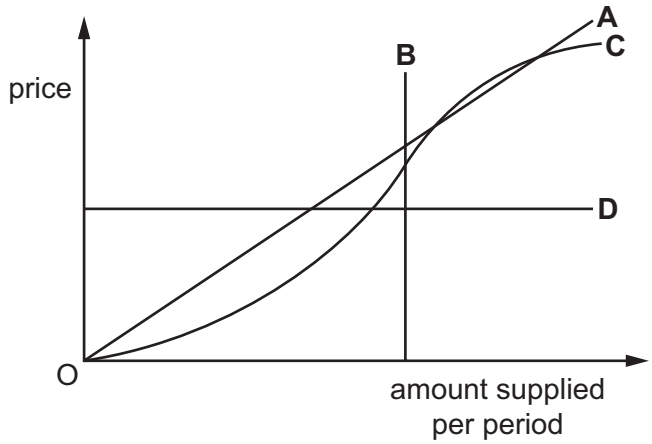
D a rise in the price of a complement

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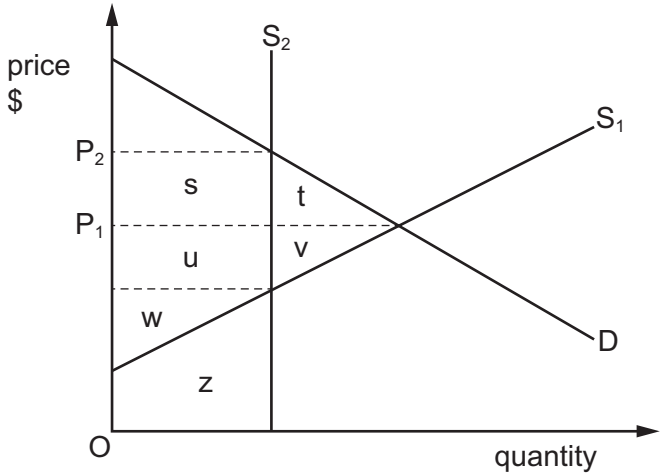
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9 The diagram shows four supply curves.

Which curve has a price elasticity of supply of 1 for all levels of quantity supplied?



10 The diagram shows a shift of the supply curve in a market from S_1 to S_2.



How will the consumer surplus and producer surplus change?

	consumer surplus	producer surplus
A	decreases by s	increases by s + u – t
B	decreases by s	increases by u + v – w
C	decreases by s + t	increases by s + t – v
D	decreases by s + t	increases by s + z – v

11 Good X has a substitute, good Y, and a complement, good Z. The price of good Y decreases and the price of good Z increases.

Why might the equilibrium price of good X remain unchanged?

A Producers of good X adopt new technology.

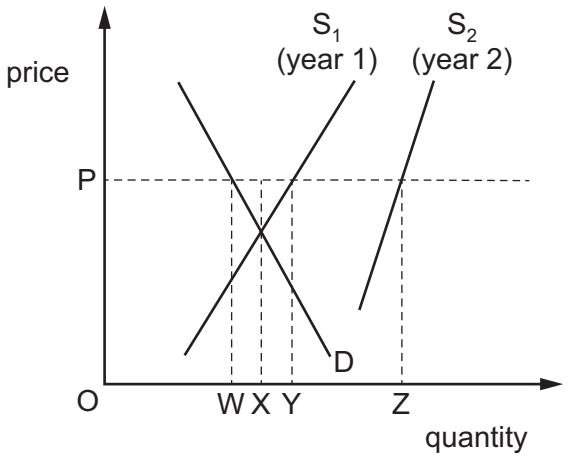
B Producers of good X receive a subsidy.

C Some firms stop production of good X.

D The tax on the production of good X is cut.

12 In the diagram, S_1 and S_2 are the supply curves for an agricultural product in years 1 and 2 respectively. D is the demand curve in years 1 and 2.

In year 1, the government purchased an amount necessary to ensure that the price was OP.



The price is held at OP in year 2.

How much more must the government buy in year 2 than it bought in year 1?

A WZ **B** XY **C** XZ **D** YZ

13 Inequality in an economy can be categorised as either income inequality or wealth inequality.

What is most likely to cause greater wealth inequality than income inequality?

A an increase in indirect taxation

B an increase in the value of property

C a reduction in the minimum wage

D a reduction in the rate of interest paid on savings

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14 A product with infinite elasticity of supply has sales of 1000 units a week at a price of $1 per unit. Price elasticity of demand is 1.5 over the relevant range.

The government imposes a tax of 10%.

What will be the government's weekly tax revenue from this product?

A $15 **B** $85 **C** $100 **D** $150

15 The table shows the values of Consumer Prices Index (CPI) and a worker's salary in 2022 and 2023.

CPI 2022	100
CPI 2023	110
worker's salary 2022	$20 000
worker's salary 2023	$25 000

What is the real value of the worker's salary in 2023 compared with 2022?

A $18 182 **B** $22 727 **C** $25 000 **D** $27 500

16 An economy experiences rising unemployment due to incomes falling as a result of a virus pandemic.

How would this unemployment be classified?

A cyclical

B frictional

C seasonal

D structural

17 What is likely to move an economy's aggregate demand curve to the right?

A a fall in income equality

B a fall in incomes abroad

C a fall in the exchange rate

D a fall in the government budget deficit

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18 Which items have to be added to and subtracted from Gross Domestic Product at market prices to calculate the value of Gross Domestic Product at basic prices?

A capital consumption and net property income from abroad

B expenditure taxes and capital consumption

C net property income from abroad and subsidies

D subsidies and expenditure taxes

19 In an economy with an interest rate of 4% per annum, the rate of inflation falls from 5% to 3% per annum.

What will be a benefit of this fall?

A Menu costs will fall to zero.

B People on fixed incomes will be better off in real terms.

C Savers will gain in real terms.

D The purchasing power of the currency will rise.

20 What is an example of a macroeconomic policy?

A encourage the consumption of merit goods

B reduce pollution in the steel industry

C maintain general price stability

D reduce unemployment in the service sector

21 Which supply-side policy is likely to lower real output before raising it?

A increased spending on early years education

B increased spending on infrastructure

C reduced import barriers

D subsidies to exporters

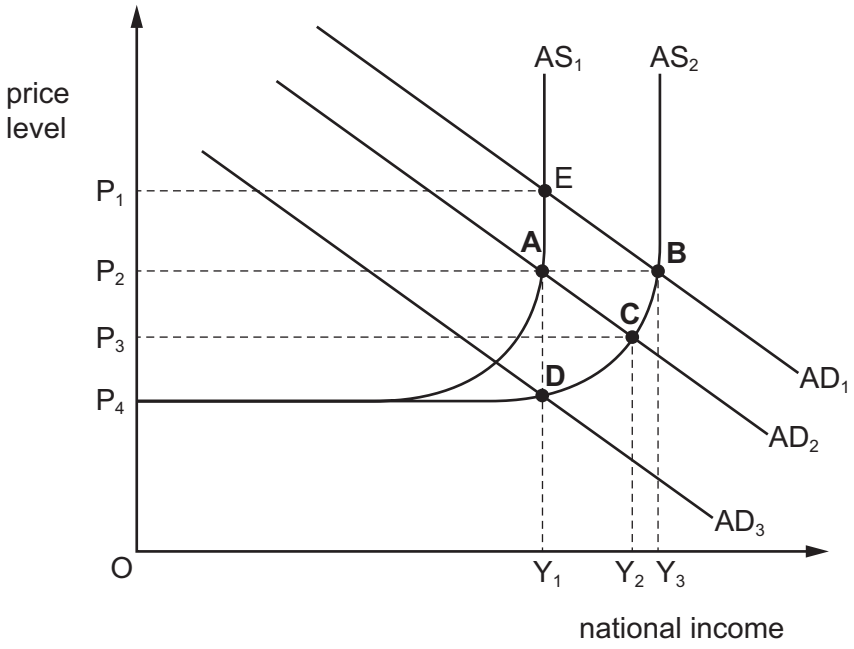
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22 An economy is in equilibrium at point E on the diagram.

The government reduces its expenditure on defence.

Which point on the diagram shows the new equilibrium?



23 The number of people employed in a country and the level of unemployment both decrease.

What could explain this?

A net inward immigration

B an increase in the level of unemployment benefits

C an increase in the age at which state pensions are payable

D an increase in the number of university students

24 Which circumstances would most help a firm to gain from a depreciation of the exchange rate?

A It sells mainly abroad and relies on domestic suppliers for inputs.

B It sells mainly abroad and relies on foreign suppliers for inputs.

C It sells mainly in its home market and relies on domestic suppliers for inputs.

D It sells mainly in its home market and relies on foreign suppliers for inputs.

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25 A country has a floating exchange rate. Its current account on the balance of payments moves from a surplus to a deficit.

Which rate is likely to increase in the short run as a consequence of this worsening of its current account?

A economic growth rate

B exchange rate

C interest rate

D unemployment rate

26 Which policy is most likely to reduce a balance of payments deficit without causing inflation?

A decreased import quotas

B depreciation of currency

C higher interest rates

D decreased import tariffs

27 The table shows the average price of exports and imports.

Which combination of changes in export prices and import prices could result in a country's terms of trade increasing from 100 to 110?

	the average price of exports	the average price of imports
A	falls by 5%	rises by 5%
B	remains unchanged	rises by 10%
C	rises by 5%	falls by 5%
D	rises by 10%	remains unchanged

28 What is **not** an example of protectionism?

A the European Union (EU) requiring goods imported into member states to meet safety standards

B the Pakistan government increasing the rate of goods and services tax (GST) on some exported goods from 2% to 5%

C the Nigeria government banning the import of packaged sugar

D the US imposing a 35% tariff on tyres imported from China

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29 Turkey imported $220 million worth of goods and services. Turkey exported $12 million worth of goods and services during the same period. Its net income was –$15 million.

What is Turkey's current account balance?

A –$223 million

B –$217 million

C +$208 million

D +$247 million

30 The table shows the exchange rate for national currencies per US dollar.

Which currency has the smallest percentage appreciation against the US dollar between 2019 and 2020?

	2019	2020
A	6.91	6.90
B	70.4	74.1
C	14.4	16.5
D	0.99	0.94

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/12 (October/November 2024): multiple choice answers

1 C The slope of the PPC shows how much agricultural output is given up for more manufactured goods.

2 D Repeating the same task causes boredom, so motivation and output per worker fall.

3 A Expansion needs workers, premises (land), equipment (capital) and risk-taking finance (enterprise).

4 D "Inequality is decreasing" can be tested against data (eg Gini coefficient), so it is positive.

5 D Maximum private goods rise (Q to R), so each unit of public goods now costs more private goods.

6 D Higher wages raise costs at every output, so supply shifts left from S1 to S2.

7 C Unskilled labour is easy to train and high unemployment means it is readily available: PES high.

8 B Higher income tax cuts disposable income, so demand for an inferior good rises (shifts right).

9 A A is a straight line through the origin, so % change in Qs = % change in P at every point: PES = 1.

10 D Price rises P1 to P2: consumers lose s + t. Producers gain s and z (vertical S2) but lose v.

11 C Cheaper substitute Y and dearer complement Z cut demand for X; fewer firms cut supply equally.

Question number		
12	D	At OP the surplus bought is W to Y in year 1 and W to Z in year 2, so the extra purchase is YZ.
13	B	Higher property values raise the wealth of owners (mainly the rich) without changing incomes.
14	B	PES infinite: price rises 10% to $1.10; QD falls 1.5 × 10% = 15% to 850; tax = 850 × $0.10 = $85.
15	B	Real salary = $25 000 × 100 ÷ 110 = $22 727 in 2022 prices.
16	A	Unemployment caused by falling incomes and demand (a downturn) is cyclical (demand-deficient).
17	C	A lower exchange rate makes exports cheaper and imports dearer, so (X − M) and AD rise.
18	D	GDP at basic prices = GDP at market prices − expenditure taxes + subsidies.
19	C	Real interest rate rises from 4% − 5% = −1% to 4% − 3% = +1%, so savers gain in real terms.
20	C	General price stability concerns the whole economy; the others target single markets or sectors.
21	C	Cutting import barriers first closes uncompetitive domestic firms (output falls) before efficiency gains.
22	A	Lower G shifts AD1 left to AD2 while AS1 is unchanged, so the new equilibrium is A.
23	D	Students leave both employment and the labour force, so employment and unemployment both fall.
24	A	Depreciation makes its exports cheaper abroad while domestic inputs do not become dearer.
25	D	Lower net exports reduce AD, output and the demand for labour, so unemployment rises.

Question number		
26	C	Higher interest rates cut spending on imports and lower AD, so they reduce inflationary pressure.
27	D	ToT = 110 ÷ 100 × 100 = 110 exactly (C gives 105 ÷ 95 × 100 = 110.5).
28	B	Raising tax on exported goods does not protect domestic producers from foreign competition.
29	A	Current account = $12m − $220m − $15m = −$223 million.
30	A	Appreciation = fewer units per $: A 6.91 to 6.90 is 0.14%, less than D (5%); B and C depreciate.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/13**

Paper 1 AS Level Multiple Choice **October/November 2024**

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.

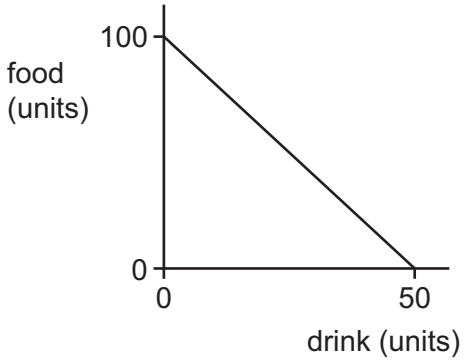
This document has **12** pages. Any blank pages are indicated.

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1 The diagram shows a country's production possibility curve.



What can be concluded from the diagram?

A Food and drink are normal goods.

B The country is self-sufficient in the production of food and drink.

C The opportunity cost of food falls as more drink is produced.

D There is a constant opportunity cost between food and drink.

2 Which type of good does **not** consume scarce resources?

A economic good

B free good

C merit good

D public good

3 The factors of production earn different rewards.

What identifies the correct economic term for these rewards?

A capital – surpluses

B enterprise – dividends

C labour – interest

D land – rents

4 What is most likely to be an advantage of the division of labour?

A an increase in labour force creativity

B an increase in labour productivity

C an increase in workforce flexibility

D an increase in worker satisfaction

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5 A government wishes to encourage the consumption of a merit good and reduce the consumption of a demerit good.

Which policy should it adopt towards each good?

	merit good	demerit good
A	impose a minimum price	produce only in the public sector
B	increase advertising on the benefits of the good	put legal controls on output
C	confine access to certain age groups	tax output
D	subsidise the good	set a minimum level of output

6 Shoe manufacturers often use leather to make their most expensive shoes. Due to a world shortage of leather, the price of leather has risen.

What will be the effect of this price change?

A The demand curve for leather shoes will shift to the left.

B The demand curve for a substitute for leather shoes will shift to the right.

C The supply curve for leather shoes will shift to the right.

D The supply curve for a substitute for leather to make expensive shoes will shift to the right.

7 The Chinese government relaxed controls on private house ownership. Private house ownership rose sharply, replacing demand for apartments rented from the state.

What would have been most likely to happen to private house prices and the rents of apartments?

	private house prices	apartment rents
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

8 The supply, S, of a product is determined by the equation S = 10 + 10P, when P is the price of the product.

What is the price elasticity of supply when the price changes from $1 to $2?

A 0 **B** 0.5 **C** 1.0 **D** 2.0

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9 A good has the following elasticity values.

cross elasticity of demand	+1.4
income elasticity of demand	–0.8

Which statement is correct?

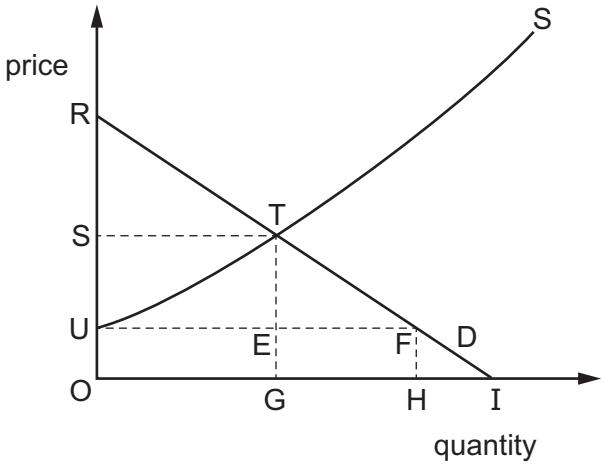
A The good is a complement and inferior.

B The good is a complement and normal.

C The good is a substitute and inferior.

D The good is a substitute and normal.

10 Different areas on the diagram represent different aspects of a market.



Which row correctly identifies the three variables shown?

	consumer surplus	producer surplus	total consumer expenditure
A	RST	TUOG	STEU
B	RST	UST	STGO
C	RTU	UTE	STGO
D	RTEU	TEF	RFU

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11 Which combination of the classification of a good and market change will cause the demand curve for the good to shift to the right?

	classification of good	market change
A	inferior good	income decrease
B	inferior good	price decrease
C	normal good	income decrease
D	normal good	price decrease

12 Which policy is most likely to solve the free rider problem caused by public goods?

A an advertising campaign

B a direct provision by the government

C a minimum price

D a tax on a substitute good

13 Very low interest rates in an economy encourage economic growth and cause a large increase in house prices.

Which group of people is most likely to experience a fall in income and an increase in wealth as a result of these changes?

A retired people living in rented houses

B retired people who own their houses

C young people buying their own houses

D young people living with their parents

14 A large-scale farming enterprise uses inputs of labour and capital equipment that are substitutes.

If the government introduces a policy to subsidise capital equipment, how would this affect the factor inputs?

	quantity of labour	quantity of capital equipment
A	decreases	increases
B	decreases	decreases
C	increases	decreases
D	increases	increases

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15 A country experienced an annual deflation rate of 2% for four successive years.

Which statement is correct for the four-year period?

A The price level fell by 8%.

B The price level fell by less than 8%.

C The real value of money fell by 8%.

D The real value of money fell by less than 8%.

16 In the circular flow of income model of an economy, Y, C, I, G, X, S, T and M represent total income, consumption, investment, government expenditure, exports, saving, taxation and imports respectively.

Which statement is correct?

A At equilibrium, the levels of Y and C are always the same.

B Governments always adjust G so that the economy is in equilibrium.

C If I is not equal to S, it is still possible for the national income to be in equilibrium.

D If the national income is in equilibrium, X must be equal to M.

17 What leads to a rise in frictional unemployment?

A an economy moving into a period of recession

B replacement of workers with computers in the service sector

C a change from an agriculturally based economy to an industrial economy

D a rise in the number of workers leaving one job to look for another job

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18 The information shows data from a country's national income accounts.

	$ million
gross domestic product at market prices	200 000
gross value added at basic prices	180 000
subsidies	5 000
capital consumption	30 000

What can be concluded from the income accounts?

	net domestic product at market prices $ million	indirect tax revenue $ million
A	170 000	15 000
B	170 000	25 000
C	150 000	15 000
D	150 000	25 000

19 A government is considering building a large hospital. The impact on the country's price level will depend partly on the amount of expensive raw materials the country imports for the hospital and the level of unemployment in the country.

Which combination of imports of materials for the hospital and the level of unemployment is most likely to lead to the largest rise in the price level?

	imports of materials	unemployment
A	high	high
B	high	low
C	low	high
D	low	low

20 If interest rates are reduced, what is most likely to decrease?

A borrowing by firms

B consumer spending

C import prices

D export prices

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21 Supply-side policy often has fiscal consequences.

Which statement is **not** correct?

A Increased government spending supporting technical progress has beneficial long-term supply-side effects but may have short-term inflationary consequences.

B Increased government expenditure on training increases a country's long-run aggregate supply (LRAS) and also has an expansionary effect on aggregate demand (AD).

C Reduced government infrastructure spending reduces an economy's LRAS and has a short-term expansionary effect on AD.

D Reduced rates of tax on higher incomes increases an economy's LRAS and has an expansionary effect on AD.

22 Changes in fiscal policy can affect the distribution of income and wealth.

Which combination of fiscal policy would most likely be regressive?

A a fall in the lowest level of income when income tax has to be paid and a fall in the rate of inheritance tax

B a fall in the charge made for visits to a doctor and a rise in the level of unemployment benefit

C a rise in the rate of income tax charged at higher levels of income and a rise in the standard rate of corporation tax

D a rise in the standard rate of income tax and a fall in the standard rate of goods and services tax

23 What does it mean when a government has a budget surplus?

A Government revenue exceeds expenditure.

B Imports exceed exports.

C The government has an expansionary fiscal policy.

D The national debt is increasing.

24 A country subsidises domestic production of manufactured goods.

What is the most likely outcome?

A a rise in economic growth

B a rise in imports of manufactured goods

C a rise in the rate of inflation

D a rise in unemployment

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25 What is **not** a valid explanation of why a government might allow a deficit on the balance of payments current account to continue?

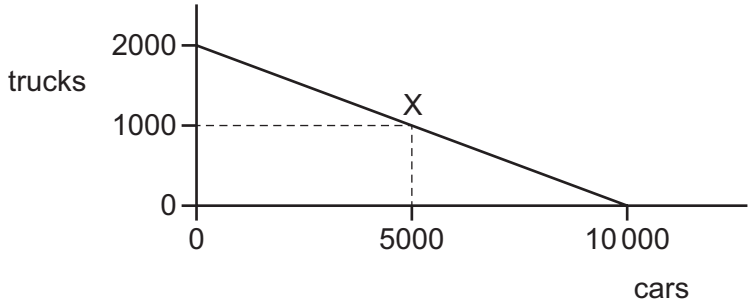
A The balance of payments account must always balance.

B Foreign direct investment might help to finance the deficit.

C The country may have a larger surplus on the other parts of its balance of payments account.

D The standard of living is increased if the level of cheap food imports is significant.

26 A country currently producing at point X on its production possibility curve decides to specialise in the manufacture of cars and import trucks. It finds it can import one truck in exchange for four cars.



What is the result in the domestic market if it exports all the extra cars?

A 250 extra trucks

B 1000 extra trucks

C 1250 extra trucks

D 2000 extra trucks

27 What is most likely to cause a current account deficit?

A a recession in the domestic economy

B a relatively high rate of inflation

C an undervalued exchange rate

D high labour productivity

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28 Two statements describing forms of protectionism a government can use are listed.

1 There is a total ban on imports.

2 All imported goods have to be of a specified standard.

Which combination correctly describes these two statements?

	statement 1	statement 2
A	administrative barrier	import quota
B	administrative barrier	embargo
C	embargo	administrative barrier
D	embargo	import quota

29 When is there an improvement in a country's terms of trade?

A when the price of exports falls more than the price of imports

B when there is no change in the price of exports but a fall in the price of imports

C when the value of exports increases relative to the total value of imports

D when the volume of exports increases relative to the total volume of imports

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

A a fall in the foreign currency price of its exports

B a fall in the volume of its exports

C a rise in the domestic currency price of its imports

D a rise in the domestic price level

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/13 (October/November 2024): multiple choice answers

1	D	The PPC is a straight line: 1 unit of drink always costs 0.5 units of food.
2	B	A free good is not scarce, so it uses no scarce resources and has zero opportunity cost.
3	D	Land earns rent, labour wages, capital interest and enterprise profit.
4	B	Specialising in one task increases skill and speed, so output per worker rises.
5	B	Advertising benefits raises demand for the merit good; legal output limits cut the demerit good.
6	B	Dearer leather raises the price of leather shoes, so demand for substitute shoes shifts right.
7	C	Demand for private houses rises (price up) and demand for rented apartments falls (rent down).
8	B	S rises from 20 to 30 (+50%) as P rises from $1 to $2 (+100%): PES = 50% ÷ 100% = 0.5.
9	C	Positive XED (+1.4) means a substitute; negative YED (−0.8) means an inferior good.
10	B	CS = RST (above price, below D); PS = UST (below price, above S); spending = P × Q = STGO.
11	A	Demand for an inferior good rises when income decreases, so the curve shifts right.
12	B	Free riders will not pay, so the market fails to provide; the state provides from taxation.

Question number		
13	B	Retired owners get lower interest income on savings but their house values rise.
14	A	Cheaper capital is substituted for labour: more capital, less labour employed.
15	B	0.98 × 0.98 × 0.98 × 0.98 = 0.922, so prices fall by 7.8%, compounding on a falling base.
16	C	Equilibrium needs total injections (I + G + X) = total withdrawals (S + T + M), not I = S.
17	D	Frictional unemployment is the time workers spend between jobs searching for a new one.
18	B	NDP = 200 000 − 30 000 = 170 000; taxes − subsidies = 20 000, so taxes = 25 000.
19	B	Low imports leak little, but low unemployment means extra AD pulls up prices most.
20	D	Lower rates cause hot money outflows, so the currency depreciates and export prices fall abroad.
21	C	Cutting infrastructure spending lowers G, so it is contractionary for AD, not expansionary.
22	A	A lower tax threshold taxes the poor; cutting inheritance tax helps the wealthy: regressive.
23	A	A budget surplus means government revenue is greater than government expenditure.
24	A	Lower costs raise domestic output and competitiveness, so real GDP rises.
25	A	The whole BoP always balances, but this does not justify a current account deficit.
26	A	10 000 cars: export 5000 extra cars for 5000 ÷ 4 = 1250 trucks, minus 1000 lost: +250.

Question number	
27	B Relatively high inflation makes exports dearer and imports cheaper, so (X – M) falls.
28	C A total import ban is an embargo; a required product standard is an administrative barrier.
29	B Import prices fall with export prices unchanged, so the ToT index rises.
30	B Exports become dearer in foreign currency, so the volume of exports demanded falls.