Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

5030201780

ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2018**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This document consists of **14** printed pages and **2** blank pages.

CAMBRIDGE
International Examinations

1 The demand for a product is inversely related to its price, ceteris paribus.

What does *ceteris paribus* mean in this context?

A Factors affecting demand other than price are held constant.

B Factors affecting price other than demand are held constant.

C Price changes result from changes in demand.

D Price falls result in increased quantity demanded.

2 What is **not** an example of the role of the factor enterprise in a modern economy?

A deciding on new export markets for the company's goods and services

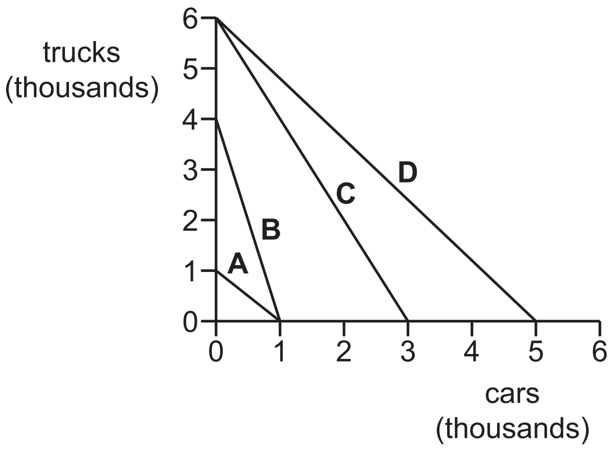
B making payments to suppliers for raw materials and capital goods

C reducing costs through the introduction of a new shift system for employees

D transforming the production process with the introduction of robots

3 The production possibility curves show the abilities of four economies to produce trucks and cars.

In which economy is the opportunity cost of producing cars lowest?



4 John sells cakes for $10. Aisha offers online tutoring for $20 per hour. One hour of Aisha's tutoring is worth two of John's cakes.

Which function of money is being illustrated?

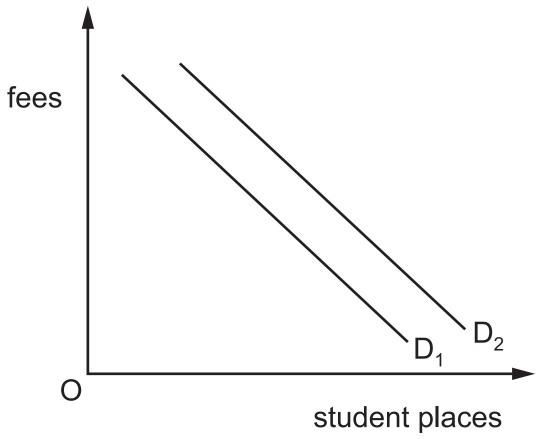
A medium of exchange

B standard of deferred payment

C store of value

D unit of account

5 In the diagram, D_1 is the initial demand curve for student places at universities.



What could cause the demand curve to shift to D_2?

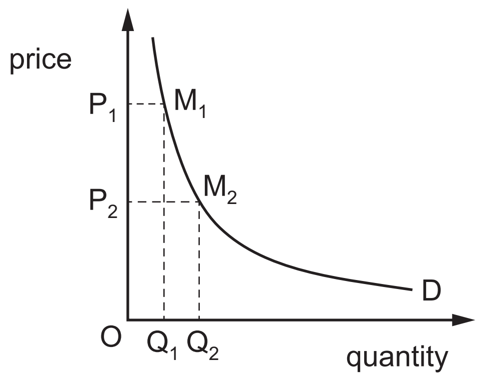
A a decrease in student fees for universities

B a decrease in the level of youth unemployment

C an increase in graduate earnings compared with non-graduate earnings

D higher A Level grades demanded for university entrance

6 In the diagram, area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$.



What is the value of the price elasticity of demand if the price is halved from P_1 to P_2?

A –1

B –0.5

C zero

D infinity

7 Which elasticity values indicate that cars are normal goods and that petrol is a complement to car use?

	income elasticity of demand (YED) for cars	cross elasticity of demand (XED) for petrol relative to changes in car prices
A	YED is negative	XED is negative
B	YED is negative	XED is positive
C	YED is positive	XED is negative
D	YED is positive	XED is positive

8 What is it necessary to know in order to calculate the price elasticity of supply of a product when its price changes?

A the amount of the price change; the quantity demanded at the original price; the quantity supplied at the new price

B the equilibrium market price; the quantity demanded at equilibrium; the quantity supplied at equilibrium

C the original and new market price; the quantity supplied at the original price; the quantity supplied at the new price

D the quantity demanded at the new price; the price change; the quantity supplied at the new price

9 The government fixes a minimum price for a product above the current equilibrium price.

Which value for the product's price elasticity of supply will result in the smallest excess supply in its market?

A between zero and one

B greater than one

C one

D zero

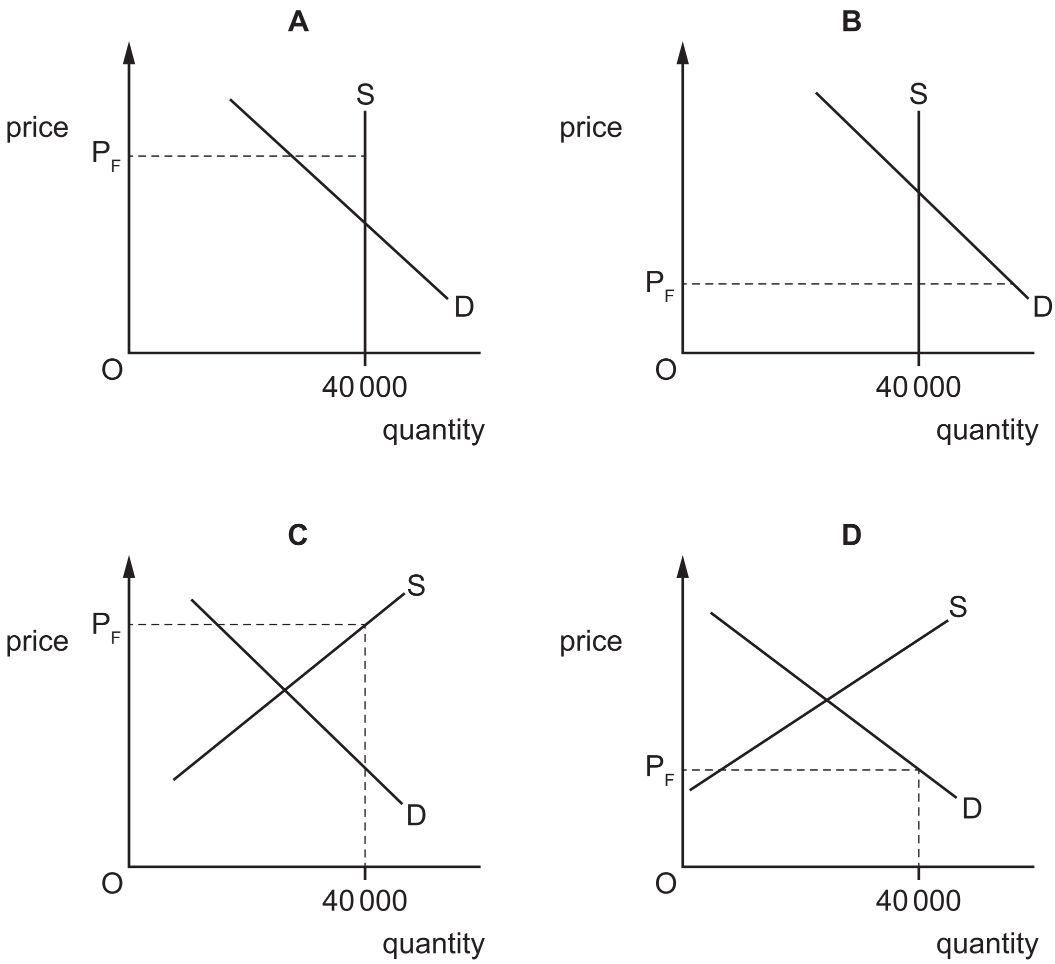
10 The demand for a good falls at the same time as its costs of production decrease.

What will be the combined effect of these changes on the price and on the quantity supplied of the good?

	price	quantity supplied
A	decrease	decrease
B	decrease	uncertain
C	uncertain	decrease
D	uncertain	uncertain

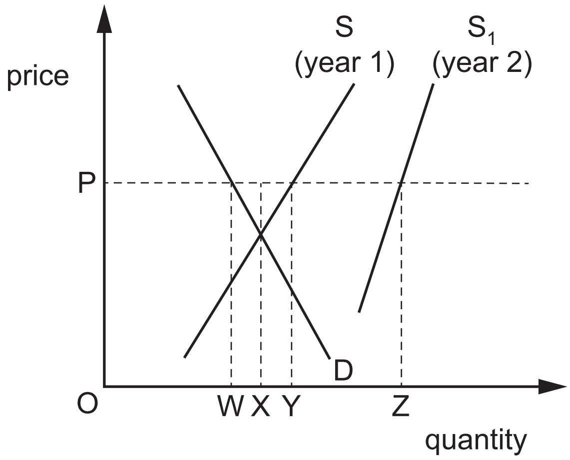
11 The final of a major sports event is held in a stadium which has a fixed capacity of 40 000 people. The price for a seat is set at P_F, but when the tickets go on sale all tickets are sold very quickly with many disappointed people unable to buy a ticket.

Which diagram best represents this?



12 In the diagram S and S_1 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.

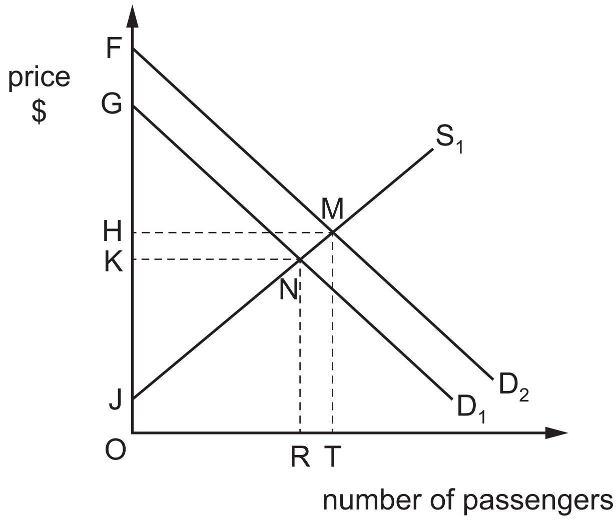


The price is held at OP in year 2.

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

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

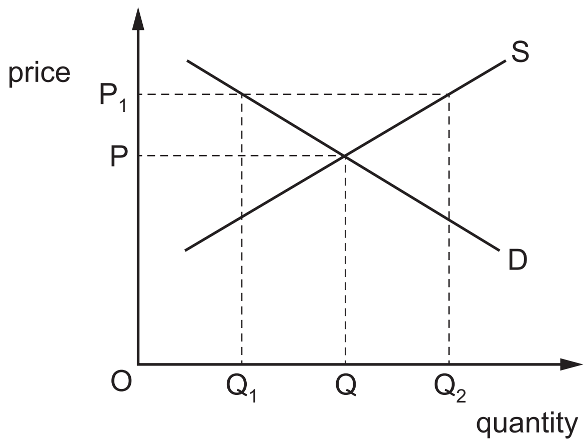
13 The diagram shows the European airline market. The original demand curve is D_1 and the original supply curve is S_1. There is then an increase in the demand for air travel.



Which areas show the consumer surplus and producer surplus at the new equilibrium?

	consumer surplus	producer surplus
A	FMH	HMJ
B	FMH	JMTO
C	GNK	KNJ
D	GNK	KNRO

14 The diagram shows the demand and supply curves for a good.



The government fixes a maximum price of OP_1.

What would happen?

A Consumers would have to be rationed to quantity OQ_1.

B The government would have to introduce a subsidy of PP_1.

C The market equilibrium quantity OQ would be demanded and supplied.

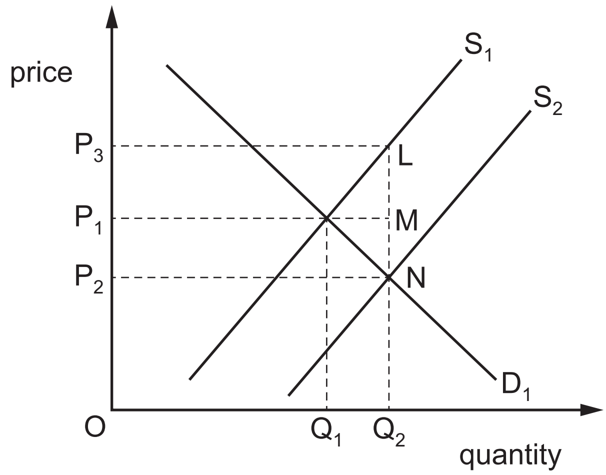
D The supply of quantity OQ_2 would be guaranteed.

15 A government decreases the tax rate on goods and services and increases the tax rate on incomes.

What is the likely outcome on the distribution of income and the incentive to work?

	distribution of income	incentive to work
A	less equal	decreased
B	less equal	increased
C	more equal	decreased
D	more equal	increased

16 The diagram shows the equilibrium price, P_1, and quantity bought and sold, Q_1, in a market before a subsidy is granted.



What represents the producer incidence (benefit) after the subsidy is granted and what is government expenditure on the subsidy?

	producer incidence (benefit)	government expenditure
A	P_1P_2NM	P_1P_2NM
B	P_1P_2NM	P_3P_2NL
C	P_1P_3LM	P_1P_3LM
D	P_1P_3LM	P_3P_2NL

17 When is a transfer payment most likely to be an individual's main source of income?

A when employed

B when investing

C when saving

D when unemployed

18 Which argument is used to justify a policy of nationalisation?

A A firm exposed to market forces is more likely to be efficient.

B It avoids the wasteful duplication of resources.

C The stock market can exert effective discipline on the industry.

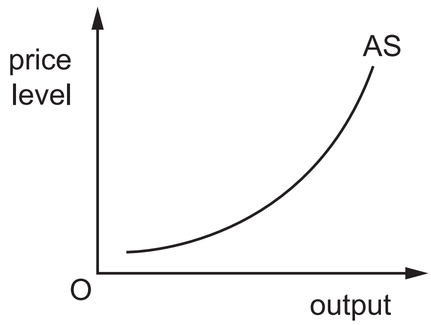
D There are benefits from wider share ownership.

19 The table illustrates macroeconomic data for an economy. All figures are in $ billions.

What is the equilibrium real output?

	consumption expenditure	investment	government expenditure	exports	imports	real output
A	110	100	50	10	20	100
B	120	100	60	20	30	200
C	140	100	70	30	40	300
D	160	100	80	40	50	430

20 The diagram shows an economy's aggregate supply curve.



What is likely to cause the curve to shift to the left?

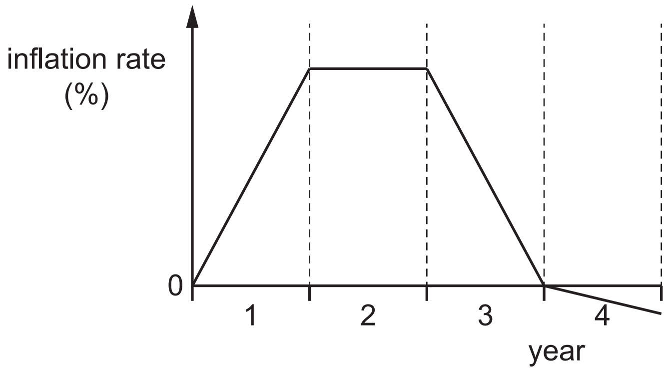
A an increase in investment due to a reduction in interest rates

B an increase in the marginal rate of income tax

C improvements in technology

D schemes to increase the geographical mobility of labour

21 The diagram shows the change in an economy's rate of inflation over 4 years.



What happened to the general price level over the 4 years?

	year 1	year 2	year 3	year 4
A	constant	constant	fell	constant
B	rose	constant	fell	fell
C	rose	rose	rose	constant
D	rose	rose	rose	fell

22 The table shows selected items of the balance of payments of a country in 2015.

	$ billions
net portfolio investment	+40
trade in goods	–100
trade in services	+50
interest, profit and dividends (primary income)	+10
current transfers (secondary income)	+10
transactions in financial assets	–10

What was the country's current account balance in 2015?

A –$40 billion **B** –$30 billion **C** –$20 billion **D** –$10 billion

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

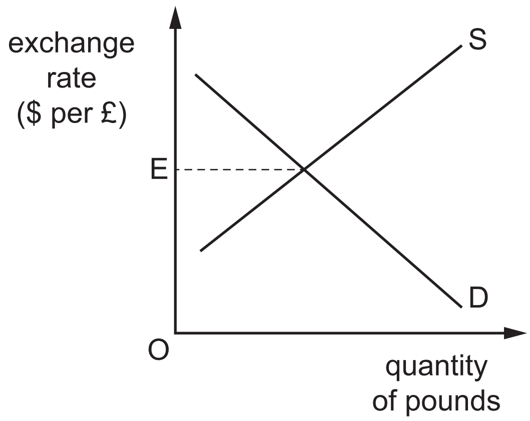
A an increase in government foreign aid to countries abroad

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

24 The diagram shows the determination of the floating exchange rate between the US$ and the UK£. D is the demand curve for pounds and S is the supply curve for pounds. The initial equilibrium exchange rate is E.



Which change might cause an increase in the UK exchange rate?

A a switch by US consumers from chocolate produced in the UK to chocolate produced in the US

B a switch in the destination of UK tourists from Africa to the US

C a wheat crop failure in the UK leading to increased wheat imports from the US

D increased investment by US residents in financial and real assets in the UK

25 The table shows the ability of two countries, P and Q, to produce two goods, Y and Z.

	production of good Y per person	production of good Z per person
country P	1000	1600
country Q	1500	2000

Which statement is correct?

A P has an absolute advantage in Z and Q has a comparative advantage in Y.

B P has an absolute advantage in Z and Q has an absolute advantage in Y.

C P has a comparative advantage in Y and Q has an absolute advantage in Z.

D P has a comparative advantage in Z and Q has an absolute advantage in Y.

26 Which action increases and which action decreases the level of protectionism?

	increases protectionism	decreases protectionism
A	imposing an embargo	reducing subsidies to domestic producers
B	imposing exchange controls	lowering quota levels
C	introducing voluntary export agreements	increasing subsidies to domestic producers
D	removing quotas	introducing embargos

27 Country M imposes a tariff on imports of steel.

Which price elasticity values will result in the smallest reduction in steel imports into M?

	price elasticity of supply of domestic steel producers in country M	price elasticity of demand for steel in country M
A	0.2	0.4
B	1.0	0.8
C	1.5	1.0
D	2.0	1.2

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

Which policy is most likely to help this aim?

A a decrease in import tariffs

B a decrease in the rate of interest

C an increase in the sale of state-owned assets

D an increase in government pension payments

29 Which policy is most likely to help to correct an adverse balance on the current account of the balance of payments?

A abolishing tariffs

B devaluing the currency

C reducing direct taxes

D reducing indirect taxes

30 A government reduced the tax on company profits from 28% to 20%.

Which statement best describes this policy?

A It is both a contractionary fiscal policy and a supply-side policy.

B It is both an expansionary fiscal policy and a supply-side policy.

C It is both an expansionary fiscal policy and an expansionary monetary policy.

D It is both an expansionary monetary policy and a supply-side policy.

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