



Cambridge International AS & A Level

ECONOMICS

9708/13

Paper 1 Multiple Choice

May/June 2020

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. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.



- 1 An economist knows the current point at which an economy is operating within its production possibility curve.

What can the economist judge from this knowledge about the economy?

- A its degree of self-sufficiency
- B its international competitiveness
- C its level of output of two goods
- D its rate of economic growth

- 2 Abdul earns \$50 000 a year working as a teacher. He owns a house valued at \$250 000 and has shares worth \$20 000. He has a current bank account with a balance of \$1500 and \$200 in his wallet. In his house there is a jar containing \$100, which he has saved to spend on his forthcoming holiday.

What is the value of Abdul's liquid assets?

- A \$200 B \$300 C \$1800 D \$21 500

- 3 Which type of good is healthcare?

- A demerit
- B free
- C merit
- D public

- 4 Which is a normative statement?

- A If interest rates fall consumption is likely to increase.
- B If interest rates fall consumption will definitely increase.
- C Interest rates and consumption are usually inversely related.
- D The rate of interest should be reduced.

- 5 In a free market there is a surplus of a good.

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

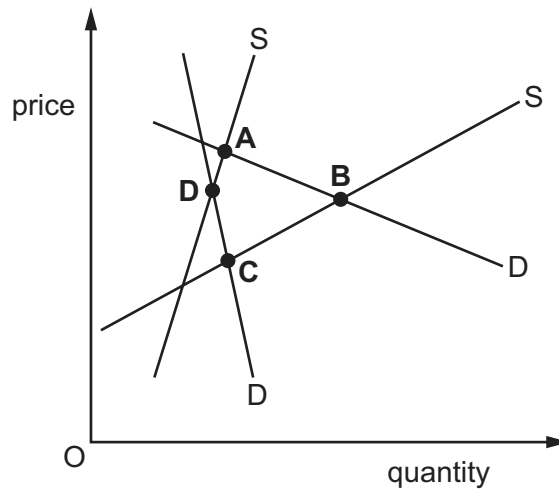
- A a decrease in demand
- B a fall in price
- C a government minimum price
- D an increase in supply

6 What is **most** likely to increase the quantity of houses supplied?

- A a policy to help house buyers on modest incomes
- B a restriction on the level of rent that can be charged
- C a rise in the tax on materials used for building houses
- D the removal of a subsidy to house builders

7 The diagram shows two demand curves and two supply curves for a product.

Which equilibrium point is most likely to represent the long-run equilibrium in the market?



8 The equilibrium price of a product is \$10. The government introduces an effective minimum price of \$12 for the product.

Under which condition will the value of the producer surplus increase the most?

| | price elasticity of demand |
|----------|----------------------------|
| A | 0 |
| B | between 0 and 1 |
| C | 1 |
| D | greater than 1 |

- 9 Diesel engines are a major cause of air pollution in cities. A city authority placed a charge on diesel taxis entering the city.

What would be the **most** likely effects on the demand and supply of taxi journeys into the city?

| | demand for taxi journeys | supply of taxi journeys |
|----------|--------------------------|-------------------------|
| A | fall | fall |
| B | fall | remain unchanged |
| C | remain unchanged | fall |
| D | rise | fall |

- 10 Which combination of the classification of a good and market change will cause the demand curve for the good to shift 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 |

- 11 The supply (S) of a product is determined by the equation $S = 10 + 10P$ when 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

- 12 The table gives estimates of the price elasticities and cross elasticities of demand for bus and rail travel.

| service | elasticity with respect to the price of | |
|-------------|---|-------------|
| | bus travel | rail travel |
| bus travel | -0.37 | +0.13 |
| rail travel | +0.16 | -0.43 |

What would be the change in the volume of rail travel resulting from a 1% increase in bus fares?

- A** a decrease of 0.13%
B a decrease of 0.37%
C an increase of 0.16%
D an increase of 0.43%

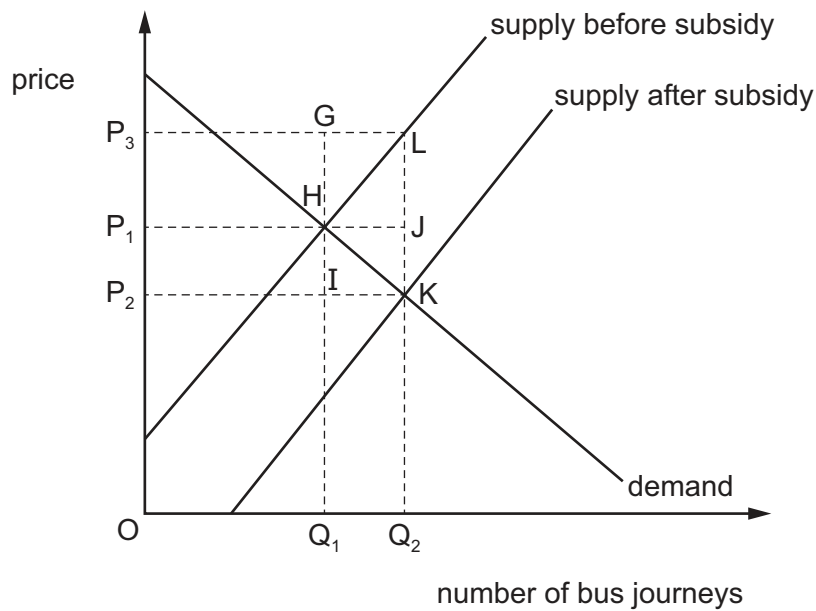
13 Which combination is most likely to result in the demand for a product being highly price-elastic?

| | number of close substitutes | % of income spent on product |
|----------|-----------------------------|------------------------------|
| A | large | large |
| B | large | small |
| C | small | large |
| D | small | small |

14 What is **most** likely to occur when the government privatises public sector organisations?

- A** Consumer choice will increase.
- B** Employment will increase in the short run.
- C** Innovation will be discouraged.
- D** The production of public goods will increase.

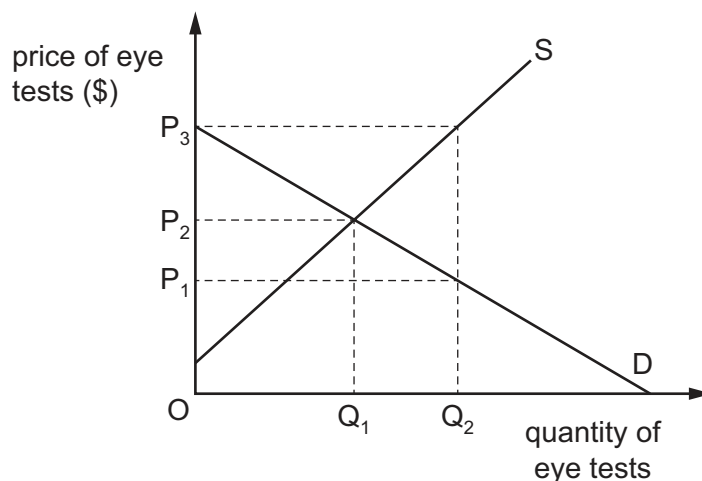
15 The diagram shows the market for bus services before and after a government subsidy.



Which area on the diagram shows the incidence of the subsidy for the consumer?

- A** P_1HIP_2
- B** P_1JKP_2
- C** P_2IGP_3
- D** P_2KLP_3

16 The diagram shows the market for eye tests.



Which policy would enable the government to increase the number of eye tests from OQ_1 to OQ_2 ?

- A a maximum price of OP_3 per test
- B a minimum price of OP_2 per test
- C a subsidy paid to opticians of $P_3 - P_2$ per test
- D a subsidy paid to opticians of $P_3 - P_1$ per test

17 In November 2017, the Scottish government introduced a minimum price for alcohol because of the detrimental health effects of alcohol consumption.

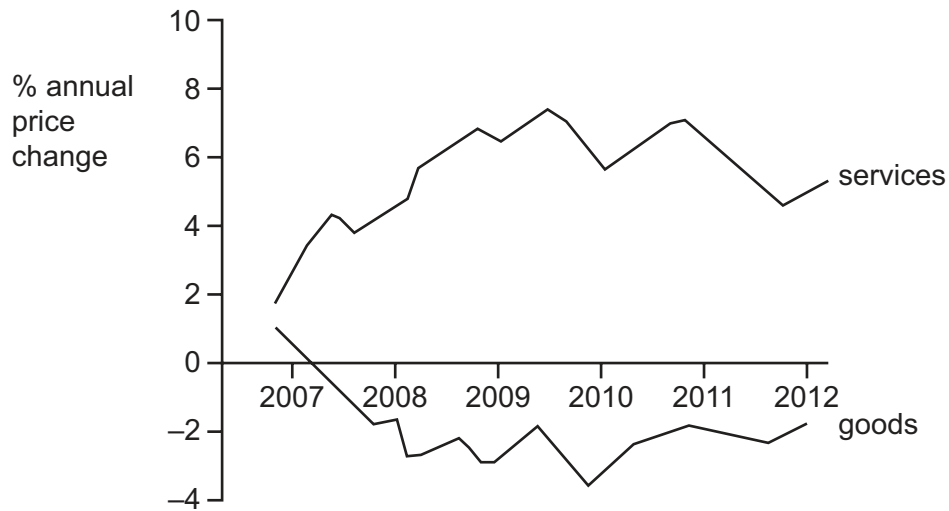
Which combination of actions is most likely to lead to a failure with respect to reducing the detrimental effects of the consumption of alcohol?

| | action 1 | action 2 |
|----------|-------------------------------|---|
| A | minimum price is set too high | effective information provision regarding the health effects of consuming alcohol |
| B | minimum price is set too high | effective subsidisation of non-alcoholic beverages |
| C | minimum price is set too low | health benefits of reduced alcohol consumption have been overestimated |
| D | minimum price is set too low | stricter enforcement of the regulations relating to the sale of alcohol |

18 What is an example of direct provision by a government?

- A The government introduces a subsidy on renewable fuels to help the environment.
- B The government introduces a unit tax on cigarettes to discourage consumption.
- C The government sets a maximum rent on housing to protect tenants.
- D The government takes over a private library to improve local services.

- 19 The graph shows the annual percentage change in the prices of services and in the prices of goods between 2007 and 2012.



What can be deduced from the graph?

- A On average the price of services was higher than the price of goods throughout the period.
 - B The average price of goods was higher in 2012 than in 2010.
 - C The average price of services was higher in 2012 than in 2010.
 - D There was a fall in the general price level between 2008 and 2010.
- 20 A government decides to devalue the country's currency to remove the deficit on its current account of the balance of payments.

What is the most likely reason why this would **not** work?

- A The country gains a competitive advantage from the devaluation.
 - B The country has a surplus on its capital and financial accounts.
 - C The price elasticities of demand for the country's exports and imports are greater than one.
 - D There are high trade barriers with the country's main trading partners.
- 21 What will increase if aggregate demand rises when aggregate supply is perfectly elastic?

- A labour shortages
- B real output
- C the price level
- D wage rates

22 A country operates a floating exchange rate.

What will cause the demand curve for the country's currency to shift left in the foreign exchange market?

- A a decrease in the country's interest rate
- B a decrease in the country's money supply
- C an increase in the country's export sales
- D an increase in the country's import purchases

23 The table shows the relative price of exports compared with imports expressed as an index number for an economy (2013 = 100).

| date | index |
|------|-------|
| 2013 | 100 |
| 2014 | 97 |
| 2015 | 95 |

Which statement about the period 2013–2015 is correct?

- A Export prices have increased each year.
- B The general level of prices has fallen.
- C The terms of trade have deteriorated.
- D The volume of imports increasingly exceeds the volume of exports.

24 The table shows an extract from a country's balance of payments.

| | exports \$ billion | imports \$ billion |
|-----------------------------|-----------------------|-----------------------|
| trade in goods | 150 | 200 |
| trade in services | 70 | 50 |
| primary (investment) income | 120 | 100 |
| secondary (transfer) income | 15 | 20 |

What is the current account balance?

- A -\$10 bn
- B -\$15 bn
- C -\$30 bn
- D -\$50 bn

25 The real national income of a country fell by 3%.

What could have caused this?

- A Money national income fell by 3% when the rate of inflation was 6%.
- B Money national income fell by 6% when the rate of inflation was 3%.
- C Money national income rose by 3% when the rate of inflation was 6%.
- D Money national income rose by 6% when the rate of inflation was 3%.

26 An economy with a long history of extensive barriers to trade decides to switch to totally free trade.

What is most likely to increase in the short term?

- A consumer surplus
- B government revenue
- C inflationary pressure
- D profits of all domestic companies

27 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

- A Domestic money supply will increase.
- B Rival economies may react with trade protection measures.
- C The economy's foreign exchange reserves may decrease.
- D The economy's short-run standard of living will be reduced.

28 What would be a positive effect on the growth of an economy in the short run, if the government reduced a direct tax on individual earnings?

- A food prices would increase due to shortages
- B imports of luxury cars would increase to satisfy a change in demand
- C savings would increase due to additional disposable income
- D the consumption of domestically produced goods would increase

- 29 Which combination of fiscal and monetary policies is most likely to be effective in the short run for tackling deflation in a closed economy?

| | fiscal policy | monetary policy |
|----------|-------------------------------|------------------------------|
| A | decreasing the budget deficit | decreasing the interest rate |
| B | decreasing the budget deficit | decreasing the money supply |
| C | increasing the budget deficit | decreasing the interest rate |
| D | increasing the budget deficit | decreasing the money supply |

- 30 Which policy measure is an expenditure-switching measure designed to reduce a current account surplus?

- A** a cut in income tax rates
- B** a depreciation of the exchange rate
- C** the removal of limits on bank lending
- D** the removal of subsidies to exporters

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