Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/13**

Paper 1 Multiple Choice **October/November 2016**

1 hour

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

* 3 6 6 7 4 1 8 7 3 4 *

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 **12** printed pages.

CAMBRIDGE
International Examinations

1 Why is choice central to the economic problem?

A Different governments have different objectives.

B Firms have access to unlimited resources.

C Most resources have alternative uses.

D People's wants are limited.

2 Which change in economic system is likely to result in the greatest rise in unemployment combined with the greatest fall in economic regulation?

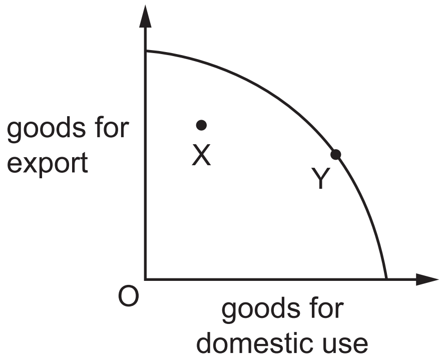
A market to mixed

B mixed to planned

C planned to market

D planned to mixed

3 The diagram shows a production possibility curve for an economy.



What might cause the movement from X to Y?

A a more efficient use of resources

B an increased emphasis on international trade

C growth in the productive capacity of the economy

D new innovations and technology

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

Which function of money explains this fall?

A a measure of value

B a medium of exchange

C a standard for deferred payment

D a store of value

5 What ensures that demand for a product is effective?

A The consumer must have the ability to buy the product.

B The consumer must purchase in the private sector of the economy.

C The consumer must receive consumer surplus.

D The consumer must want to buy the product.

6 What will happen to an industry's supply curve if firms leave the industry?

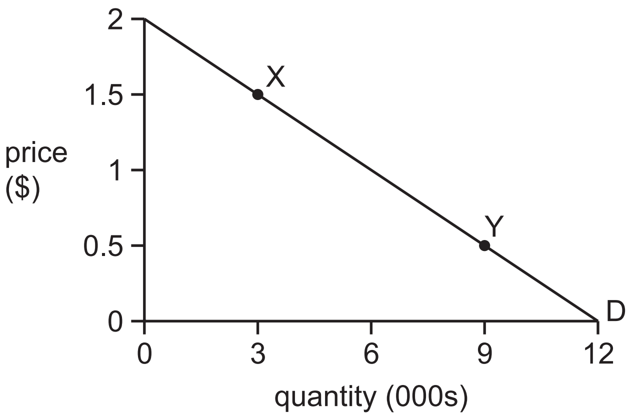
A It will shift to the left at any given price.

B It will shift to the right at any given price.

C There will be a downward movement along the supply curve.

D There will be an upward movement along the supply curve.

7 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 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

8 A product is an inferior good with no close substitutes. It is also a complement to good X.

Which product matches the above description?

	price elasticity of demand	income elasticity of demand	cross-elasticity of demand with respect to the price of X
A	–2	+2	+1
B	–2	+2	–1
C	–0.5	–2	+1
D	–0.5	–2	–1

9 The table shows the quantities demanded (Q) of goods X and Y corresponding to different prices (P) of the two goods.

	$P_X = \$8$	$P_X = \$10$
$P_Y = \$3$	$Q_X = 16$ / $Q_Y = 20$	$Q_X = 12$ / $Q_Y = 30$
$P_Y = \$4$	$Q_X = 20$ / $Q_Y = 16$	$Q_X = 16$ / $Q_Y = 24$

What is the range of the value of the cross-elasticity of demand for good Y with respect to the price of good X?

A 0.75 to 1.5 **B** 1.50 to 2.4 **C** 1.66 to 2.0 **D** 1.75 to 2.5

10 A firm estimates that the price elasticity of supply of its product is 0.4.

Should the firm be concerned by this figure?

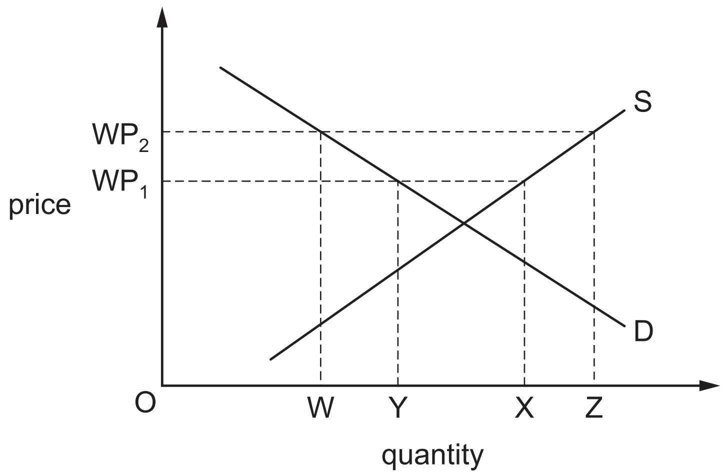
A No, as it implies that the firm will be able to raise revenue by raising price.

B No, as it suggests there are few substitutes for the product.

C Yes, as it means that demand for its product is increasing at a slow rate.

D Yes, as it shows that the firm is not able to adjust supply easily when demand changes.

11 The diagram shows a country's domestic supply of, and demand for, a commodity that it both consumes and exports.



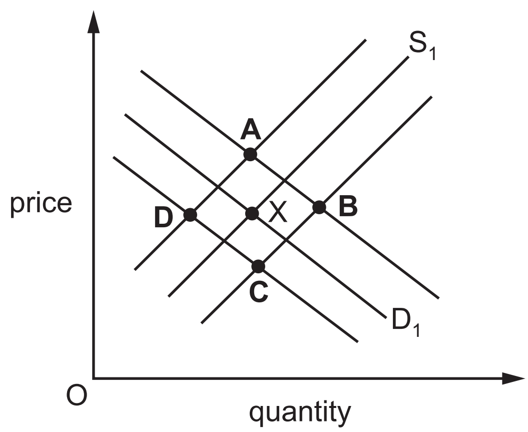
The world price changes from WP_1 to WP_2.

What are the resulting changes in domestic consumption and quantity of exports?

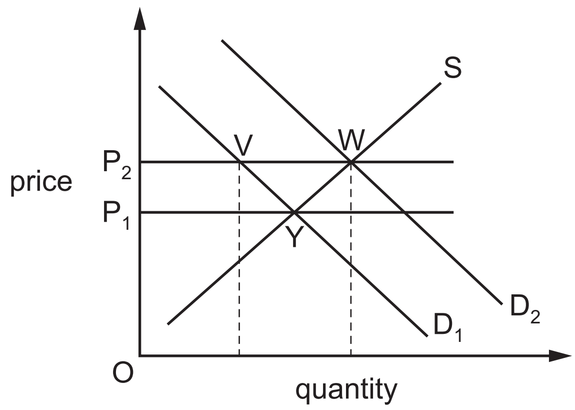
	domestic consumption	quantity of exports
A	OX to OZ	OY to OX
B	OX to OZ	OY to OZ
C	OY to OW	YX to OZ
D	OY to OW	YX to WZ

12 The diagram shows demand and supply for bread made from wheat and X is the original equilibrium point.

What will the new equilibrium position be following removal of subsidies to the wheat industry and successful advertising about the benefits of a wheat-free diet?



13 The diagram shows an increase in the demand for a good from D_1 to D_2.



What effect does the change in demand have on producer surplus?

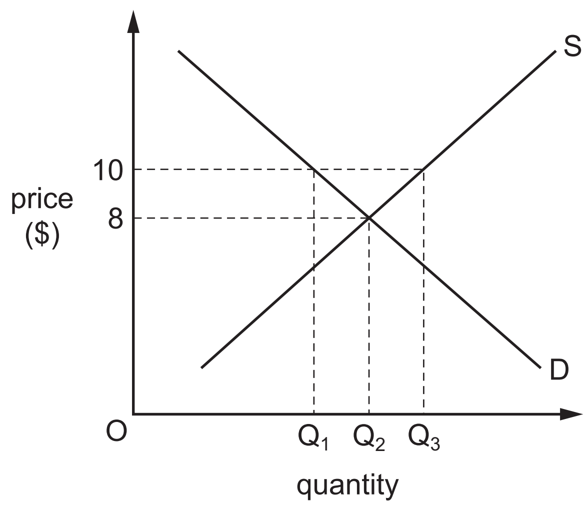
A decrease by P_1YWP_2

B decrease by P_2VYP_1

C increase by P_1YWP_2

D increase by P_2VYP_1

14 The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

A The government would need to supply Q_1 to Q_3.

B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

15 A government decides to reform the tax system with a view to achieving greater equity.

Which change will it make?

A a reduction in direct taxes

B a reduction in indirect taxes

C a reduction in profit taxes

D a reduction in property taxes

16 What will cause the payment of a subsidy to firms to result in the greatest increase in sales?

A a shift in the demand curve to the right

B a shift in the supply curve to the left

C an elastic price elasticity of demand for the product

D an inelastic price elasticity of supply for the product

17 Which goods will be provided only by the government?

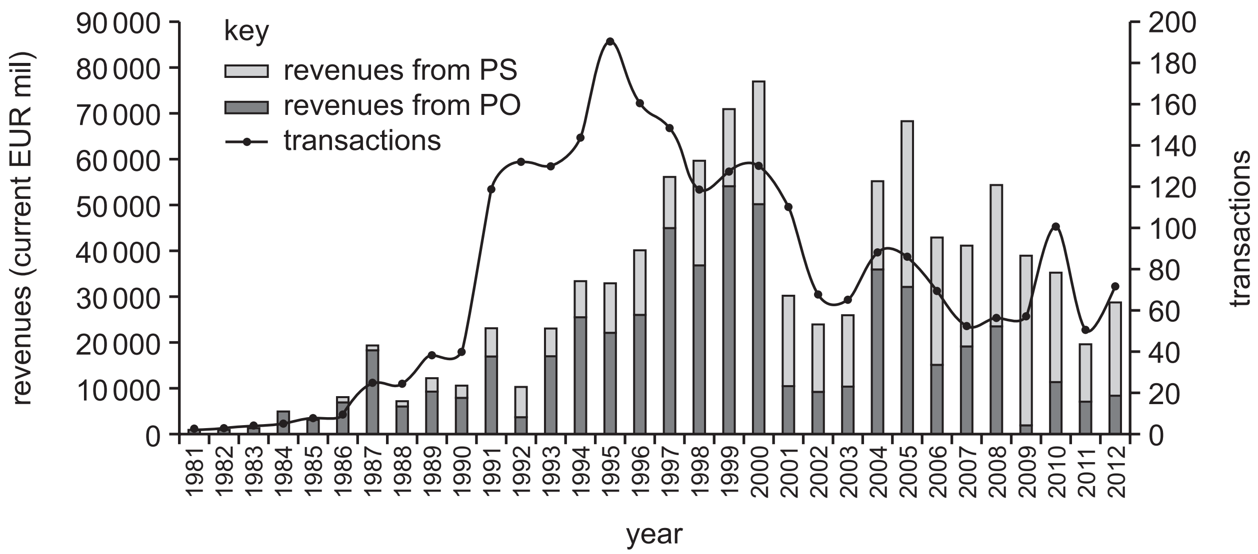
A capital goods

B inferior goods

C merit goods

D public goods

18 Privatisation can be achieved by the sale of shares to the general public (public offers, PO) or by the direct sale to a private company (private sales, PS). The diagram shows privatisation transactions and revenue for the European Union between 1981 and 2012.



What can be concluded from the diagram?

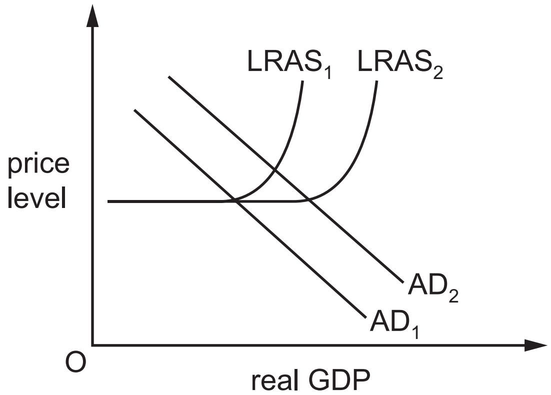
A Any increase in the number of privatisations resulted in an increase in privatisation revenue.

B The average revenue per privatisation was highest in 2000.

C The main method of privatisation changed from public offers to private sales.

D The number of privatisations and revenue raised peaked in the same year.

19 The diagram shows the original aggregate demand AD_1 and aggregate supply $LRAS_1$ for an economy.



What could explain the shifts in aggregate demand to AD_2 and aggregate supply to $LRAS_2$?

A an increase in government expenditure on health and education

B an increase in government expenditure on pensions

C an increase in income tax

D an increase in interest rates

20 An increase in a country's consumer price index implies an increase in

A the cost of living.

B the rate of inflation.

C the standard of living.

D the value of money.

21 The figures in the table were taken from the consumer price indices of retail prices for three countries.

Country	2014	2015
X	100	120
Y	140	150
Z	90	99

Between 2014 and 2015, what is correct?

A Country X has the highest growth in the purchasing power of money.

B Country Y has the highest growth in the purchasing power of money.

C Country Z has the lowest rate of inflation.

D Country Y has the lowest rate of inflation.

22 What might increase a surplus on the current account of New Zealand's balance of payments?

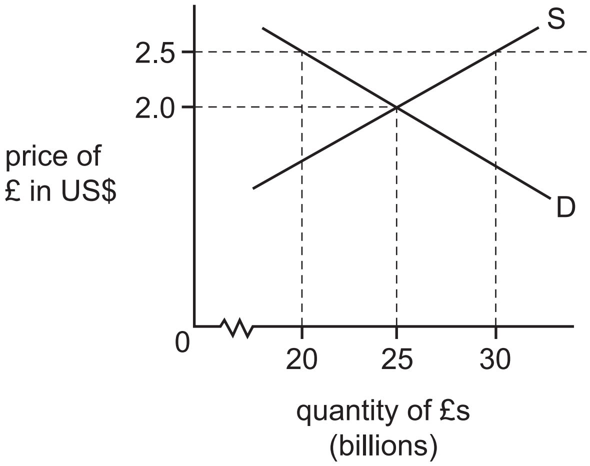
A increased earnings of Australians working in New Zealand

B increased earnings of New Zealanders working abroad

C increased spending by New Zealanders on holidays in Australia

D increased transport of New Zealand goods using Chinese ships

23 The diagram shows the market for £ sterling, which is in equilibrium.



What must the UK government do to achieve an exchange rate of £1 = US$2.50?

A buy £10 billion

B buy £20 billion

C sell £10 billion

D sell £20 billion

24 Country X trades with only two countries, Nigeria and Malaysia.

80% of Country X's trade is with Nigeria and 20% is with Malaysia.

The original value of the trade-weighted exchange rate index is 100.

The value of Country X's currency against the Nigerian Naira rises by 10%. The value of Country X's currency against the Malaysian Ringgit rises by 50%.

What will be the value of Country X's new trade-weighted exchange rate index?

A 115 **B** 118 **C** 130 **D** 160

25 How is the terms of trade index calculated?

A $\dfrac{\text{export price index}}{\text{import price index}} \times 100$

B $\dfrac{\text{export price index}}{\text{quantity of exports traded}} \times 100$

C $\dfrac{\text{import price index}}{\text{export price index}} \times 100$

D $\dfrac{\text{quantity of imports traded}}{\text{quantity of exports traded}} \times 100$

26 The table shows different possible outputs of apples and bananas for Country X and Country Y assuming only two goods are produced and all resources are used to their maximum.

	apples		bananas
Country X	100	or	80
Country Y	50	or	25

Country Y decides to specialise in the production of the good in which it has a comparative advantage.

Country X decides to use 75% of its resources to produce the good in which it has a comparative advantage and 25% of its resources to produce the other good.

What will be the total output?

	apples	bananas
A	50	80
B	75	45
C	75	60
D	150	120

27 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

28 Which action might be part of an expansionary economic policy?

A a lower budget deficit

B a lower level of government spending

C a lower money supply

D a lower rate of interest

29 What is the most effective policy to correct a deficit on the current account of the balance of payments?

A appreciation of the currency

B increased foreign exchange controls

C reduced export subsidies

D reduced subsidies in the home market

30 Which combination of policies is most likely to reduce inflation when an economy is close to full employment?

A increasing government spending on food subsidies and reducing import duty

B increasing government spending on road building and increasing import duty

C reducing government spending on training and increasing indirect taxes

D reducing government spending on training and reducing the rate of interest