



Cambridge International AS & A Level

ECONOMICS

9708/13

Paper 1 Multiple Choice

October/November 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 economy is operating at a point inside its production possibility curve.

Why is this described as inefficient?

- A Individuals are enjoying too much leisure.
- B More of one good can be produced without decreasing production of another.
- C The combination of labour and capital is wrong.
- D There are shortages of some goods and an excess supply of others.

- 2 What is characterised as a free good?

- A one that has zero opportunity cost
- B one that is non-excludable and non-rivalrous
- C one that is supplied by the government with no charge
- D one that receives a 100% government subsidy

- 3 A country is moving from a planned economy to a market economy. The government previously provided transport services but has now sold these to private firms.

What is a consequence of this?

- A Government ownership of resources has increased.
- B Services provided by the public sector have increased.
- C There has been an increase in central planning.
- D There has been an increase in consumer sovereignty.

- 4 A government wants to prevent the spread of an infectious disease by vaccinating all children.

Why might vaccination be classified as a merit good?

- A The benefit to society is equal to the benefit received by the individual.
- B The good is excludable.
- C The good is not vital.
- D The good would otherwise be under-consumed.

- 5 A product has a downward-sloping demand curve and an upward-sloping supply curve.

What would explain a rise in the price of the product and a fall in the quantity of the product sold?

- A The decrease in demand is double the decrease in supply.
- B The decrease in supply is double the decrease in demand.
- C The increase in demand is double the increase in supply.
- D The increase in supply is double the increase in demand.

- 6 Public transport in an economy has an income elasticity of demand of -0.36 .

What does this mean about public transport?

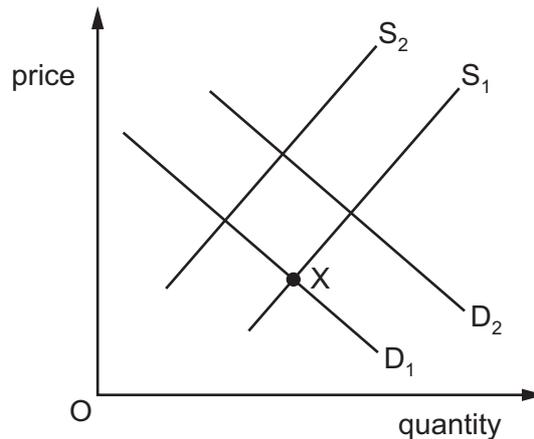
- A It has close substitutes.
- B It is a necessity.
- C It is a normal good.
- D It is an inferior good.

- 7 The quantity demanded of a product is given by $Q_D = 400 - 10P$, when P is the price in dollars. Supply of the product is fixed at 100 units.

If the price is \$20, what will be the position in the market?

- A It will be in disequilibrium with excess demand of 100 units.
- B It will be in disequilibrium with excess supply of 100 units.
- C It will be in equilibrium with 100 units traded.
- D It will be in equilibrium with 200 units traded.

- 8 D_1 and S_1 are the initial demand and supply curves in the market for new cars with an equilibrium at X.



What will cause the demand curve to shift to D_2 and the supply curve to shift to S_2 ?

- A** a decrease in real incomes and a rise in the costs of new car production
B a decrease in the price of petrol and a subsidy on new car production
C an increase in the availability of loans for new car purchases and a specific tax on new cars
D an increase in the price of train travel and an increase in the number of car producers
- 9 A good has a unitary price elasticity of demand and at a price of \$20 a firm sells 40 000 units.
 How many units will the firm sell if it charges a price of \$5?
- A** 10 000 **B** 100 000 **C** 160 000 **D** 200 000
- 10 A bus journey is considered an inferior good in a relatively rich country such as Singapore but a normal good in a relatively poor country such as Tanzania.

In which direction would an increase in incomes in both countries cause the demand curve for bus journeys in Singapore and Tanzania to shift?

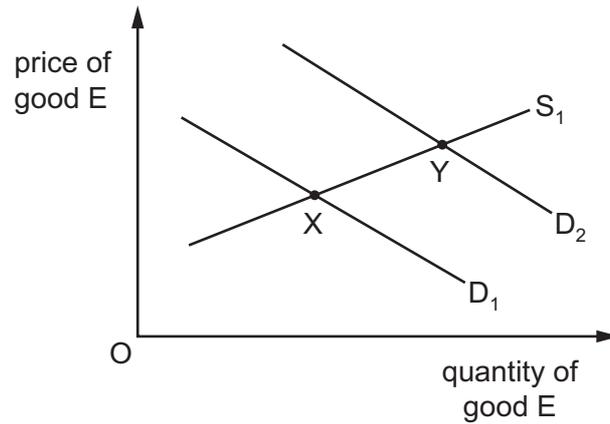
| | Singapore | Tanzania |
|----------|-----------|----------|
| A | left | left |
| B | left | right |
| C | right | left |
| D | right | right |

- 11 The quantity of a good supplied by a firm is Q . Each of these goods sells for a price of P . The area under the supply curve for Q goods is equal to C .

What is the producer surplus of the firm?

- A** $P - C$ **B** $P \times Q$ **C** $(P \times Q) - C$ **D** $(P - C) \times Q$

12 The diagram shows the market demand for and supply of good E.

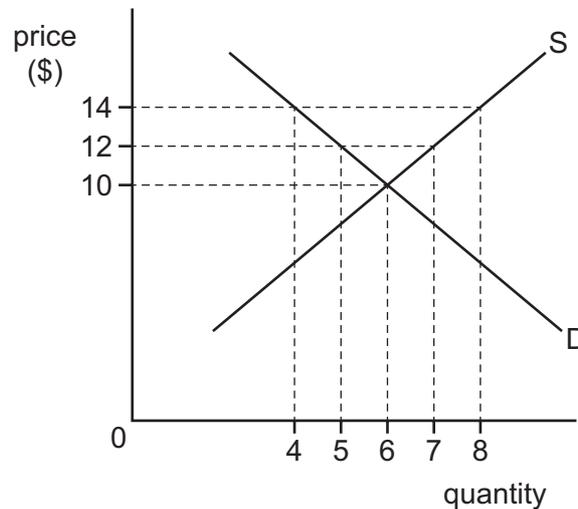


The equilibrium has changed from X to Y.

Which statement is **not** correct?

- A Incomes of consumers may have increased and good E is a normal good.
- B The quantity supplied has risen because price has increased.
- C The quantity supplied has risen because the production of good E has been subsidised.
- D The price of good F, which is a substitute for good E, may have risen.

13 The diagram shows the market for CDs.



A government raises the minimum price of CDs from \$12 to \$14.

What will be the outcome?

- A Excess demand increases by 2 units.
- B Excess demand increases by 4 units.
- C Excess supply decreases by 2 units.
- D Excess supply increases by 2 units.

- 14** A government regards alcoholic drinks as a demerit good and introduces a minimum price above the equilibrium in an attempt to protect consumers. Demand for alcoholic drinks is price inelastic.

What is the most likely outcome?

- A** a fall in the revenue of alcoholic drink producers
- B** a fall in the quantity of alcoholic drink sales
- C** a long-run shortage of alcoholic drinks
- D** an increase in specific tax revenue from the sale of alcoholic drinks

- 15** A government subsidy of \$50 per unit is paid to manufacturers of solar panels.

What will be the impact of this?

- A** It will guarantee equilibrium in the solar panel market.
- B** It will maintain high market prices.
- C** It will reduce total production costs.
- D** It will stabilise levels of output.

- 16** Why might a government privatise the railway industry in a country?

- A** Economists classify railway journeys as a public good.
- B** Privatisation would provide funds for investment from a wider range of sources.
- C** Privatised railways would be run to maximise producer surplus.
- D** Railway fares can be taxed to raise money for the government only if railways are privatised.

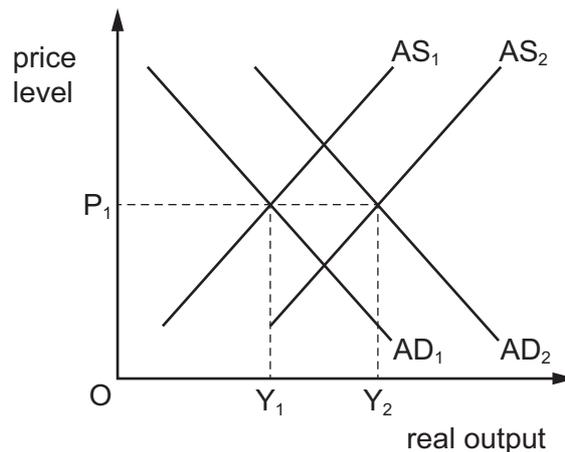
- 17** Which tax is levied on a stock of wealth rather than a flow of income?

- A** company profits tax
- B** goods and services (expenditure) tax
- C** individual direct tax
- D** personal asset tax

- 18** What is classified as a transfer payment?

- A** money paid as a gift to a charity
- B** money paid as a tip to a waiter
- C** money paid as commission to a salesperson
- D** money paid for an imported good

- 19 Under which circumstance would the rate of inflation be **most** likely to fall?
- A Government spending increases and society's marginal propensity to save falls.
- B Reduced interest rates result in consumers increasing their spending.
- C The government increases direct taxes and the level of investment falls.
- D The prices of imported raw materials rise, whilst demand for exports falls.
- 20 In which circumstances will country X have a comparative advantage in the production of rice over country Y?
- A when X has lower opportunity costs in producing rice than Y
- B when X is in a customs union and Y is outside that union
- C when X uses dollars for trading and Y uses a different currency
- D when X uses more units of labour than Y to produce rice
- 21 The diagram shows an economy with an initial equilibrium real output of Y_1 at a price level of P_1 .



Which combination of events is likely to cause the equilibrium real output to rise to Y_2 ?

- A an increased budget deficit and a fall in energy costs
- B an increased budget surplus and a rise in energy costs
- C an increased trade deficit and a fall in indirect tax
- D an increased trade surplus and a rise in indirect tax

- 22 The table gives figures from the current account of the balance of payments for New Zealand in 2018.

There are two blank spaces, X and Y, in the account.

| | NZ\$(millions) |
|------------------------------|----------------|
| exports of goods | 54 700 |
| imports of goods | 57 400 |
| balance of trade in goods | X |
| balance of trade in services | Y |
| primary income balance | -10 600 |
| secondary income balance | -400 |
| current account balance | -8 500 |

Four students were asked to fill in the spaces.

Which student was correct?

| | X | Y |
|----------|-------|-------|
| A | +2700 | +5200 |
| B | +2700 | -5200 |
| C | -2700 | +5200 |
| D | -2700 | -5200 |

- 23 What is indicated by an economy's terms of trade?

- A** the degree of its dependence on imports
- B** the international competitiveness of its exports
- C** the purchasing power of its exports relative to its imports
- D** the relative strength of its currency in the foreign exchange market

- 24 A country operates a floating exchange rate.

Why might a government change to a fixed exchange rate?

- A** to increase the stock of foreign currency reserves
- B** to make the terms of trade more favourable
- C** to raise the level of certainty for businesses
- D** to use the exchange rate to reduce domestic prices

25 What term relates to a fall in the domestic real value of a currency?

- A deflation
- B depreciation
- C devaluation
- D inflation

26 A country has a persistent balance of payments deficit.

What is most likely to improve the situation in the long run?

- A a lowering of the level of import duties
- B a reduction in the level of income tax
- C the introduction of expansionary monetary policy
- D the use of grants to encourage new investment by firms

27 To counter deflation a central bank uses expansionary monetary policy.

What is likely to result?

- A a higher cost of borrowing
- B a higher rate of inflation
- C an appreciation of the exchange rate
- D an increase in government debt

28 A government reduces the benefits that it pays to unemployed workers to increase the incentive to work.

Which types of macroeconomic policies are being used?

| | fiscal policy | monetary policy | supply-side policy |
|----------|---------------|-----------------|--------------------|
| A | ✓ | x | x |
| B | ✓ | ✓ | x |
| C | ✓ | x | ✓ |
| D | x | x | ✓ |

- 29** Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

- A** a long-run supply-side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions
 - B** a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments
 - C** a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target
 - D** a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level
- 30** Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in solving deflation?

| | fiscal policy | monetary policy |
|----------|----------------------|-----------------|
| A | lower direct taxes | devaluation |
| B | lower direct taxes | revaluation |
| C | lower indirect taxes | devaluation |
| D | lower indirect taxes | revaluation |

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