Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/11**

Paper 1 Multiple Choice **May/June 2019**

1 hour

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

MODIFIED LANGUAGE

8820633309

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 Assessment International Education

1 India is failing to reach its full economic potential because of poor rail, road and electricity infrastructure, and a lack of skilled civil engineers.

Which factors of production need to be increased?

A capital and land

B enterprise and capital

C labour and capital

D land and enterprise

2 The fundamental economic question is how to meet unlimited wants with limited resources.

What is an example of limited resources?

A insufficient consumer goods in the local shops

B insufficient jobs to allow full employment

C insufficient machinery to produce electrical goods

D insufficient tax revenue to finance building a school

3 Which statement is **not** a positive economic statement?

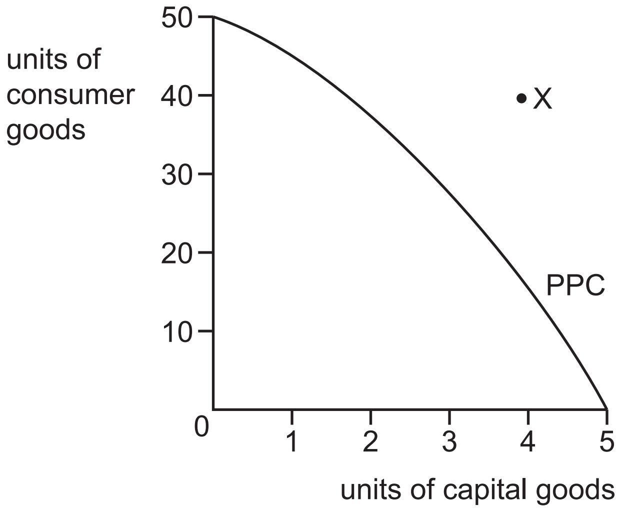
A An increase in the rate of income tax decreases the wish to save.

B An increase in the rate of income tax has a greater impact the greater the level of income.

C An increase in the rate of income tax causes more hours of work to be supplied.

D An increase in the rate of income tax is the fairest way to finance the national health service.

4 The diagram shows a production possibility curve (PPC). It indicates the combinations of consumer goods and capital goods produced by an economy using all its available resources.



What does position X indicate?

A a lower ratio of capital to consumer goods is necessary to achieve economic growth

B increasing levels of unemployment

C insufficient factors of production are available

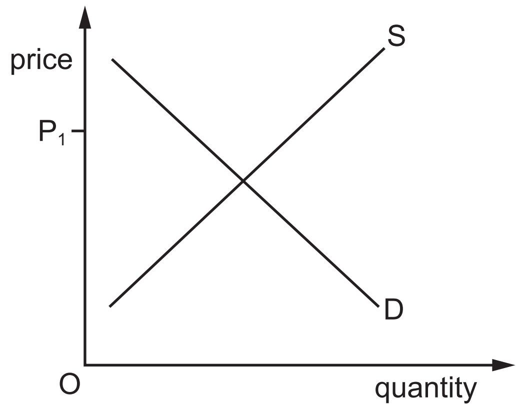
D too many consumer goods are causing a fall in economic growth

5 The tariff on Indian goods entering the US falls from 10% to 5%.

What will be the most likely effect on the producer and consumer surplus in the US?

	US producer surplus	US consumer surplus
A	decrease	increase
B	decrease	no change
C	increase	increase
D	increase	no change

6 The diagram shows the demand for, and supply of, carrots.



What is true at price P_1?

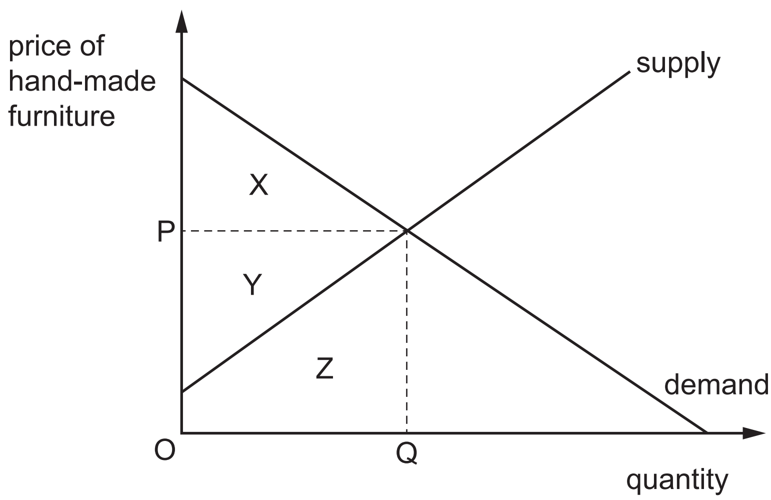
A There will be a shortage of carrots.

B There will be a surplus of carrots.

C There will be an increase in the sale of carrots.

D There will be market clearing of carrots.

7 The diagram shows the market for hand-made furniture.



Which area of the diagram represents the producer surplus?

A area X

B area X + Y

C area Y

D area Y + Z

8 How is the market supply of a product in a competitive market obtained?

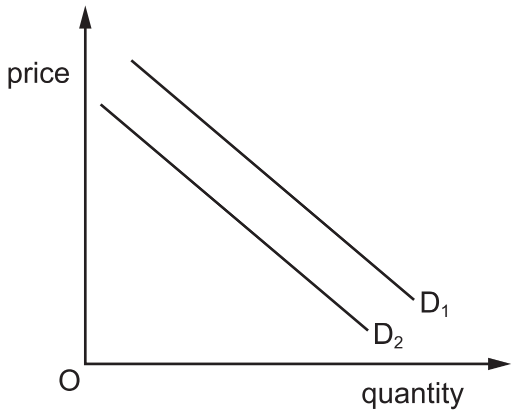
A by aggregating the supply of all firms producing the product

B by averaging the supply of all firms producing the product

C by calculating the supply of the typical firm producing the product

D by estimating the supply of the largest firm producing the product

9 The diagram shows the demand curve for luxury cars.



The shift in the demand curve D_1 to D_2 can be explained by

A a decrease in air travel.

B an increase in advertising by luxury car manufacturers.

C an increase in income.

D an increase in the price of petrol.

10 What is cross elasticity of demand?

A the responsiveness of price of good X due to a change in demand of good Y

B the responsiveness of quantity demanded of a good due to a change in its price

C the responsiveness of quantity demanded of good X due to a change in quantity of good Y

D the responsiveness of quantity demanded of good X due to a change in the price of good Y

11 Consumers receive an increase in their incomes.

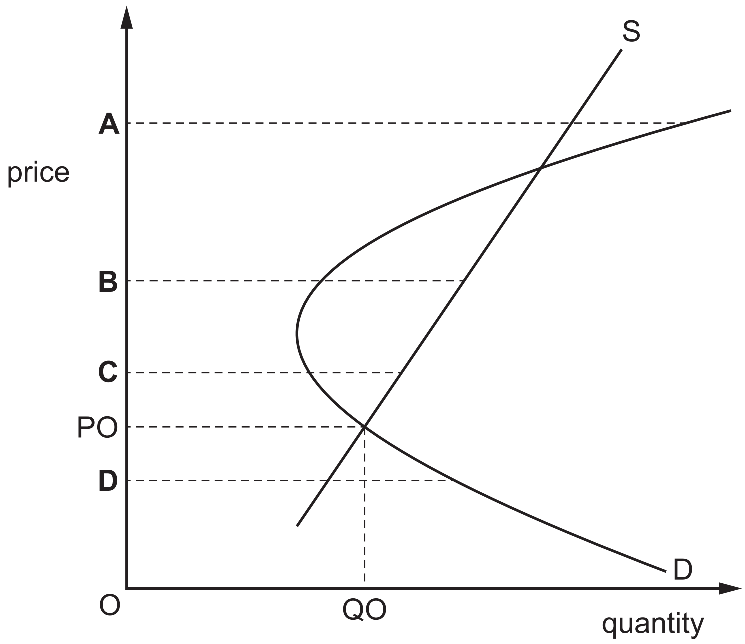
Which circumstances will cause the quantity of the product sold to increase the most?

	nature of the product	price elasticity of supply of the product
A	inferior good	price elastic
B	inferior good	price inelastic
C	normal good	price elastic
D	normal good	price inelastic

12 An unstable disequilibrium is when a market does not return to an original equilibrium point from a disequilibrium position. The diagram shows a market with two equilibrium points.

PO/QO is the original market equilibrium.

At which price is the market in an unstable disequilibrium?



13 The table shows the quantity of a product supplied at two different prices by four firms, A, B, C and D.

Which firm has a price elasticity of supply equal to 1 when the price falls from \$10 to \$8?

	price of product (\$)	
	10	8
A	500	300
B	500	350
C	500	400
D	500	450

14 To improve its financial position a government decided to reduce expenditure on investment in the public sector. Despite this, there was **not** a fall in economic growth.

What was the **most** likely effect of the government's action?

A An original budget deficit was reduced.

B An original budget surplus was reduced.

C Consumer expenditure decreased.

D Public sector productivity decreased.

15 An economy has a 20% housing shortage. The government builds 10% more houses for poorer families and fixes the rent below the equilibrium for the market.

Which effect will this direct provision have on the market?

A A greater imbalance in the market in private housing will develop.

B Housing waiting lists for poorer families will be cleared.

C The supply of government housing will fall short of demand.

D The supply of private housing for rent will fall by 10%.

16 Which statement about nationalised and privatised industries is correct?

A A privatised industry is usually less competitive than a nationalised industry.

B A profitable private company cannot be nationalised.

C Privatisation is a form of monetary policy.

D Privatisation is a way of raising money for the government.

17 What is **not** true about subsidies?

A They are paid to firms.

B They have to be paid back.

C They reduce the cost of production.

D They shift the supply curve to the right.

18 What is **unlikely** to occur with an increase in the provision of public goods?

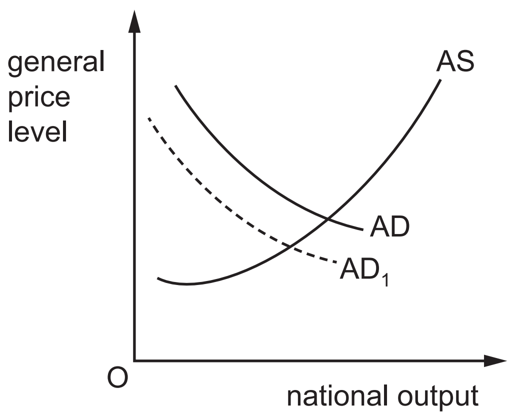
A consumer non-excludability

B improved use of resources

C opportunity cost

D reduction in tax

19 The diagram shows aggregate demand and aggregate supply curves for an economy.



What would cause a change in the aggregate demand from AD to AD_1?

A a decrease in the budget surplus

B consumption of domestic instead of foreign goods

C government campaigns to encourage household savings

D investment in knowledge-based enterprises

20 What would cause a shift in the short-run aggregate supply curve but **not** the long-run aggregate supply curve?

A advances in technology

B a change in the money wage rate

C emigration of people of working age

D gross investment exceeding depreciation

21 Which effect of inflation is described as redistributive?

A the improvement in the terms of trade

B the increased reluctance of people to hold money

C the inconvenience of frequently changing prices

D the loss of purchasing power of people on fixed incomes

22 In which situation will a country's terms of trade worsen?

A The prices of its imports rise by more than the prices of its exports.

B The total value of external payments rises by more than the total value of external receipts.

C The value of its imports rises by more than the value of its exports.

D The volume of its imports rises by more than the volume of its exports.

23 Industrialised countries X and Y trade with each other. Country X imposes a general tariff of 20% on imports from country Y.

In which circumstances would the imposition of the tariff be **unfavourable** to country X?

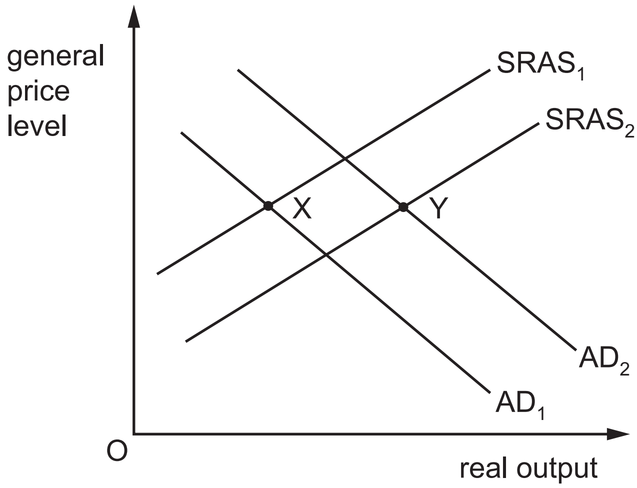
A if country X is seeking to protect its infant industries

B if country X lacks the capacity to produce import substitutes

C if imports from country Y have been dumped in country X

D if imports of manufactured goods from country Y are price elastic

24 The diagram shows aggregate supply and aggregate demand curves for an economy.



What would cause a movement from X to Y?

A a decrease in income tax and in the cost of production

B a decrease in interest rates and increase in the cost of production

C an increase in income tax and in the cost of production

D an increase in interest rates and decrease in the cost of production

25 The table shows changes in the population, price level and Gross Domestic Product (GDP) of a country.

	year 1	year 2
population (millions)	50	55
Consumer Price Index	100	120
nominal GDP ($ billions)	400	480

What happened to real GDP and real GDP per head between year 1 and year 2?

	real GDP	real GDP per head
A	no change	fell
B	no change	rose
C	rose	fell
D	rose	rose

26 The table shows selected balances from a country's balance of payments account in 2016.

	$US billions
trade in goods	–30
trade in services	+10
primary income balance	+10
secondary income balance	–8
capital & financial flow	+15

What was the country's current account balance in 2016?

A –$3 billion **B** –$10 billion **C** –$18 billion **D** –$20 billion

27 What does the Marshall-Lerner condition state must be present for a depreciation of a currency to cause an improvement in the current account balance?

A The price elasticity of demand for exports and the price elasticity of demand for imports are both greater than one.

B The price elasticity of demand for exports and the price elasticity of demand for imports are both less than one.

C The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is greater than one.

D The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is less than one.

28 What is most likely to be increased by a policy of increased direct taxes and lower government spending?

A the balance of payments deficit

B the budget deficit

C the rate of inflation

D the level of unemployment

29 To encourage people to work, a government increases the minimum income level at which people start to pay income tax.

Which types of macroeconomic policy are being followed here?

	fiscal policy	monetary policy	supply side policy
A	✓	✗	✓
B	✗	✓	✓
C	✓	✓	✓
D	✓	✓	✗

30 A country with low unemployment and a managed floating exchange rate has a persistent current account deficit on its balance of payments.

Which policy to reduce this deficit is **most** likely to keep unemployment low, but cause inflation?

A depreciating its currency

B higher direct taxation

C higher import tariffs

D higher interest rates