

Cambridge
International
AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS

9708/01

Paper 1 Multiple Choice

For Examination from 2016

SPECIMEN PAPER

1 hour

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



READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on the Answer Sheet in the spaces provided unless this has been done for you.

Write in soft pencil.

Do not use staples, paper clips, glue or correction fluid.

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.

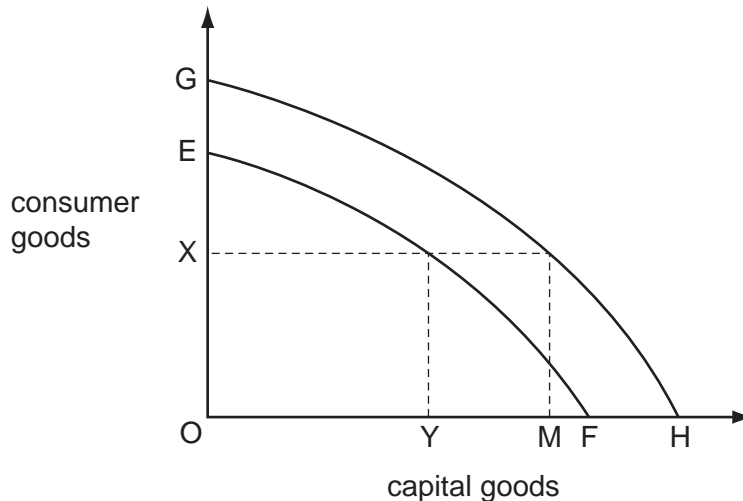
This document consists of **13** printed pages and **1** blank page.

2

- 1 What is most likely to be a result from the division of labour?
- A** a decrease in job satisfaction
B a decrease in productivity
C an increase in the cost of living
D an increase in unit labour costs
- 2 The table shows indicators for four countries undergoing a transition to a market economy. Which country has achieved the most indicators of a successful transition?

	prices	exchange rate system	stock exchange	inward investment
A	administered	managed	yes	allowed
B	administered	floating	no	controlled
C	liberalised	floating	no	allowed
D	liberalised	managed	yes	controlled

- 3 The diagram shows two production possibility curves (EF and GH), before and after technological progress has taken place.



After technological progress has taken place, what is the opportunity cost in capital goods of producing OX consumer goods?

- A** MH **B** OH **C** OM **D** YF

- 4 The table identifies the functions of money and the principal benefit that each function produces.

Which function of money is correctly matched with its principal benefit?

	function	benefit
A	medium of exchange	permits a system of credit to operate
B	standard of deferred payment	encourages the accumulation of funds for future use
C	store of wealth	overcomes the drawbacks of the barter system
D	unit of account	allows the relative value of goods to be compared

- 5 A good is more likely to be supplied by the government rather than a private company if it is

- A** excludable and non-rival.
- B** excludable and rival.
- C** non-excludable and non-rival.
- D** non-excludable and rival.

- 6 What will cause a shift in the demand curve for a computer?

- A** a change in the cost of production of the computer
- B** a change in the price of the computer
- C** a change in the performance of the computer
- D** the imposition of a specific tax on the computer

- 7 There are three firms (X, Y and Z) supplying a market. The table shows their supply at four different prices.

price (\$)	firm X's supply	firm Y's supply	firm Z's supply
10	50	40	10
20	60	60	20
30	85	80	35
40	115	100	55

Which price change is required for market supply to halve?

- A** \$20 to \$10
- B** \$30 to \$10
- C** \$30 to \$20
- D** \$40 to \$20

- 8 The price elasticity of demand for a product is unitary for all price ranges.

What will be the effect of an increase in its price?

- A an equal proportionate decrease in the amount demanded
 - B an equal proportionate decrease in expenditure on the product
 - C an increase in the product's percentage of total consumer expenditure
 - D no change in the amount of the product demanded
- 9 A fall in the price of cars causes the demand for petrol to rise by 20%. The cross-elasticity of demand between cars and petrol is -2 .

Which change in car prices has brought this about?

	from	to
A	\$6000	\$5000
B	\$5500	\$4500
C	\$5000	\$4500
D	\$5000	\$4000

- 10 The supply function of good X is given by the equation

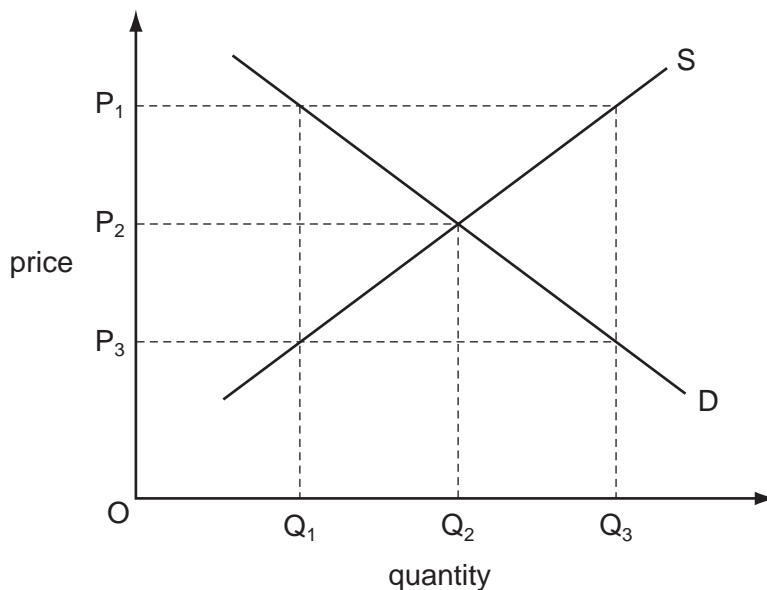
$$Q_s = 10P_x$$

where P_x is the price of the good and Q_s is the quantity supplied.

What can be deduced from the equation about the elasticity of supply of good X?

- A It is equal to 0.0.
- B It is equal to 0.1.
- C It is equal to 1.0.
- D It is equal to 10.0.

11 The diagram shows the market for a product.



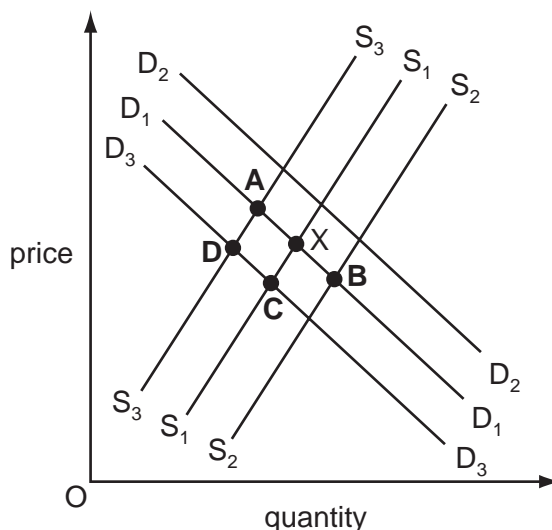
Which combination of price and quantity will lead to a fall in price and a contraction in quantity produced to reach equilibrium?

- A P_1Q_1 B P_1Q_3 C P_3Q_1 D P_3Q_3

12 In the diagram, D_1 and S_1 represent the demand and supply curves of a Malaysian industry in its home market. Equilibrium is at X.

The industry has to pay a large wage increase and at the same time faces increased competition from imported substitutes.

Which point on the diagram could represent the new equilibrium?

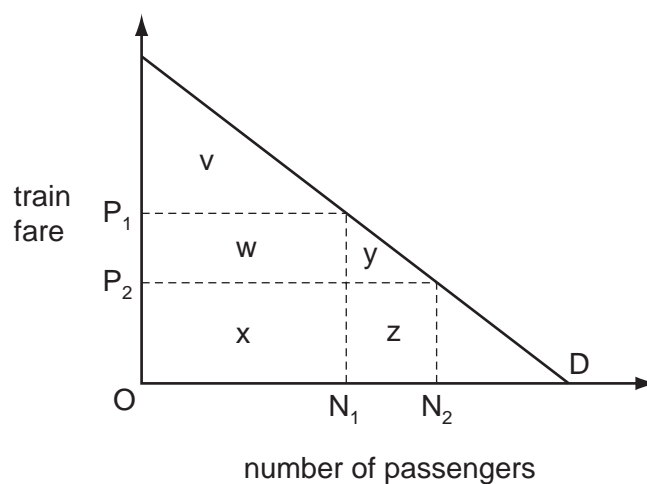


- 13 Goose meat and chicken meat are substitutes.
Goose meat and goose feathers for pillows are in joint supply.

Other things being equal, what will be the effects of a fall in the price of chicken meat?

	price of goose meat	price of goose feathers
A	fall	fall
B	rise	fall
C	fall	rise
D	rise	rise

- 14 The diagram shows the demand curve for train journeys.



The train company reduces the fare for a train journey from OP_1 to OP_2 .

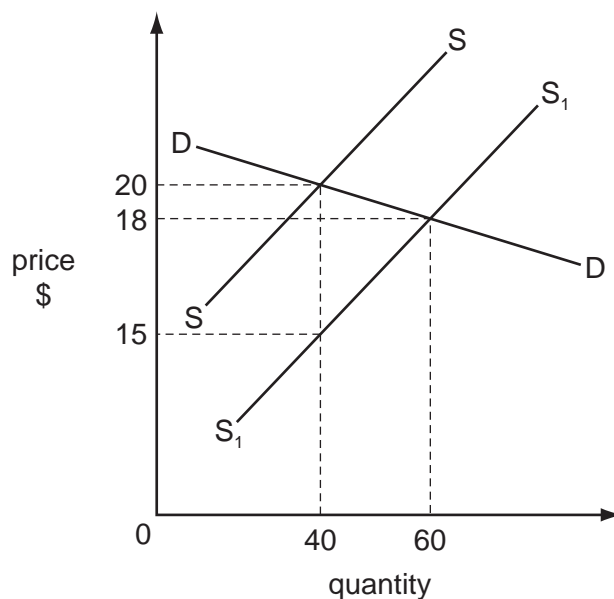
Which areas measure the consumer surplus at the new fare for the original passengers and for the additional passengers?

	original passengers	additional passengers
A	v	y
B	v + w	y
C	v + w + x	y + z
D	x	z

15 Which type of government intervention runs the risk of causing shortages?

- A maximum price controls
- B specific indirect taxes
- C subsidies paid to some producers
- D taxes on company profits

16 A tax on a product is removed causing supply to increase from S to S_1 as shown in the diagram.



What effect does the move have on government tax revenue and consumer expenditure?

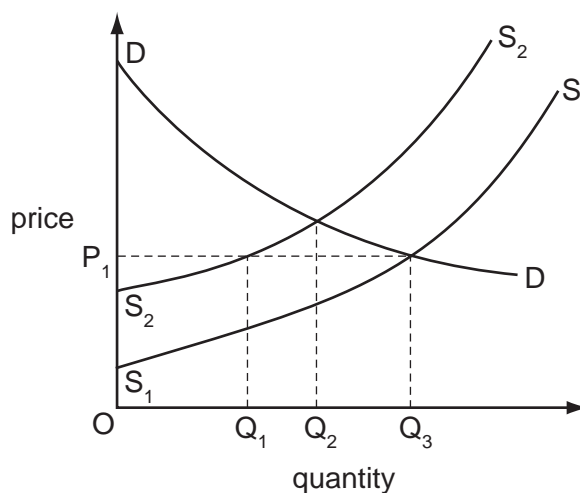
	tax revenue	consumer expenditure
A	reduce by \$80	increase by \$280
B	reduce by \$80	increase by \$480
C	reduce by \$200	increase by \$280
D	reduce by \$200	increase by \$480

17 The table shows the marginal tax rates paid by a country's taxpayers at different levels of income.

income	tax rate
first \$4000	zero
\$4001 - \$20 000	20 %
above \$20 000	40 %

What correctly describes this tax?

- A It is regressive over the entire range of income.
 - B It is proportional over the income range \$4001 - \$20 000.
 - C It is proportional over the range of income above \$20 000.
 - D It is progressive over the range of income above \$4000.
- 18 In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.

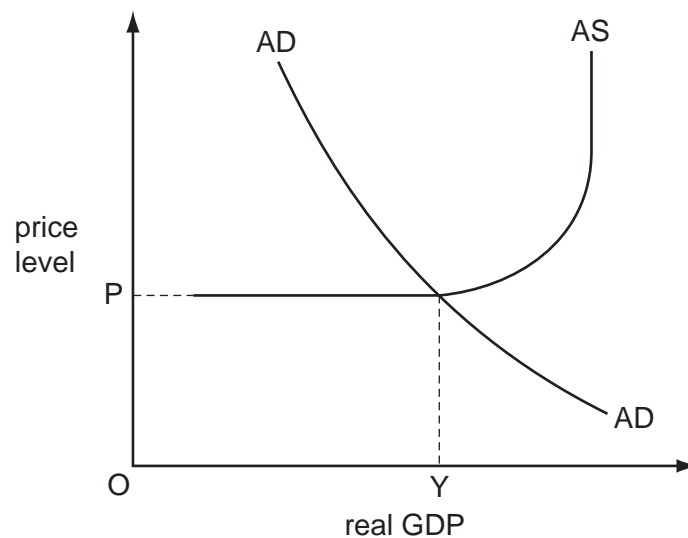


Bad weather then reduces supply to S_2S_2 . The government has announced that it will maintain the price at OP_1 .

How much of the product will the government have to supply from stocks if it wishes to keep the price at OP_1 ?

- A OQ_3
- B Q_1Q_3
- C Q_1Q_2
- D Q_2Q_3

19 The diagram shows the output of an economy.



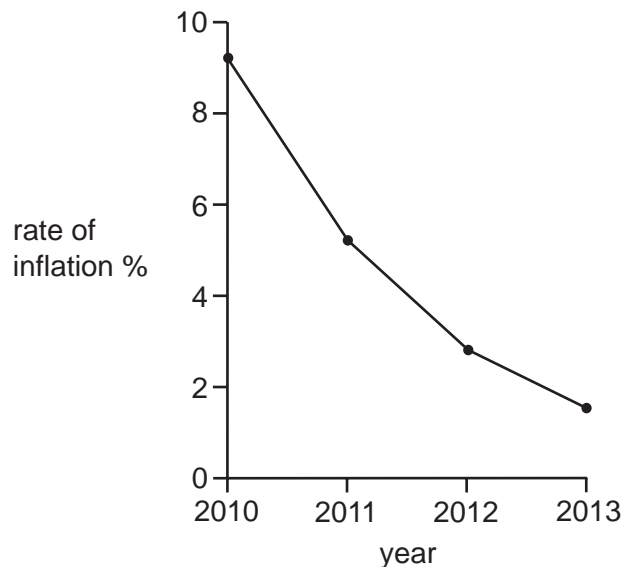
What would be the effect of a decrease in net exports?

	aggregate supply	price level	real GDP
A	shift	decrease	unchanged
B	shift	unchanged	decrease
C	unchanged	increase	unchanged
D	unchanged	unchanged	decrease

20 What will be the probable effect of an increase in indirect taxes on demand-pull inflation and on cost-push inflation?

	demand-pull inflation	cost-push inflation
A	increase	increase
B	increase	decrease
C	decrease	decrease
D	decrease	increase

21 The diagram shows the annual rate of inflation in a country between 2010 and 2013.



Which statement about the period 2010 to 2013 is correct?

- A The cost of living fell.
- B The price level rose.
- C The Retail Prices Index fell.
- D The value of money rose.

22 The table shows the balances for four items in a country's current account on the balance of payments for two years.

	goods US\$ m	services US\$ m	income US\$ m	current transfers US\$ m
year 1	-72	84	12	-24
year 2	-87	46	-3	-4

What can be concluded about the changes between year 1 and year 2?

- A The current account balance has moved into deficit.
- B The difference between the value of exported and imported services has increased.
- C The earnings from ownership of foreign assets have increased.
- D The value of exported goods has fallen.

23 When is a balance of trade deficit likely to be considered a particularly difficult problem for a country?

- A** when the imported goods are identical to domestic products
- B** when the imported goods are items of capital equipment
- C** when the imported goods are the raw material for exports
- D** when the imported goods are to cover a temporary shortage

24 In spring 2011 the US\$ exchanged for 81.6 Japanese yen.

In spring 2012 the US\$ exchanged for 76.1 Japanese yen.

What would be expected to rise for the United States (US) as a result of this change?

- A** the level of unemployment
- B** the price of US exports sold in Japan
- C** the rate of imported inflation
- D** the volume of imports

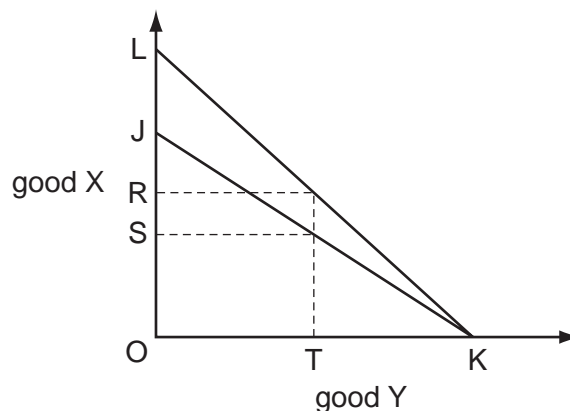
25 A country's terms of trade increased from the base year value of 100 to 120 in the following year.

What changes in export prices and import prices would have caused this?

	export prices	import prices
A	decreased 10%	increased 10%
B	increased 10%	decreased 10%
C	increased 20%	unchanged
D	unchanged	decreased 20%

26 In the diagram, JK is a country's production possibility curve.

LK is its trading possibility curve which shows possible combinations of good X and good Y after specialising in the product in which it has comparative advantage, and then trading this product.



The country consumes OR of good X and OT of good Y.

Which quantities of goods X and Y does it produce?

	good X	good Y
A	JS	OT
B	OS	OT
C	RS	TK
D	zero	OK

27 What is the most likely aim of a government that increases the level of tariffs on imported manufactured goods?

- A** a fall in interest rates
- B** a fall in the exchange rate
- C** a rise in domestic employment
- D** a rise in the general price level

28 Legal reforms to reduce the power of trade unions have reduced inflationary pressures in many countries.

Of which policy is this an example?

- A** monetary policy
- B** demand side policy
- C** fiscal policy
- D** supply side policy

29 What is an example of expenditure-switching policy?

- A decreasing income tax
- B decreasing the money supply
- C devaluing the currency
- D increasing government spending

30 In 2010 it was reported that there were concerns when a government kept interest rates very low despite a threat of inflation.

Why might the government's policy have caused concern at this time?

- A Low interest rates encourage increased consumer spending.
- B Low interest rates lead to increased spending on capital equipment.
- C Low interest rates mean exports will increase.
- D Low interest rates will cause an increase in the exchange rate.

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