Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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ECONOMICS **9708/11**

Paper 1 Multiple Choice **October/November 2019**

1 hour

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

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.

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1 What is correct for a normative statement?

A It is objective and based on fact.

B It is objective and can be proved correct.

C It is subjective and based on opinion.

D It is subjective and can be reliably tested.

2 What does a production possibility curve show?

A the maximum output that can be produced by a firm in a year

B the maximum output that can be produced per worker per year in the economy

C the maximum output that could be exported from a country

D the maximum output of two or more goods in an economy from a given amount of inputs

3 In Zimbabwe there was hyperinflation.

Which two functions of money might the Zimbabwe dollar be **most** likely to have still performed during this hyperinflation?

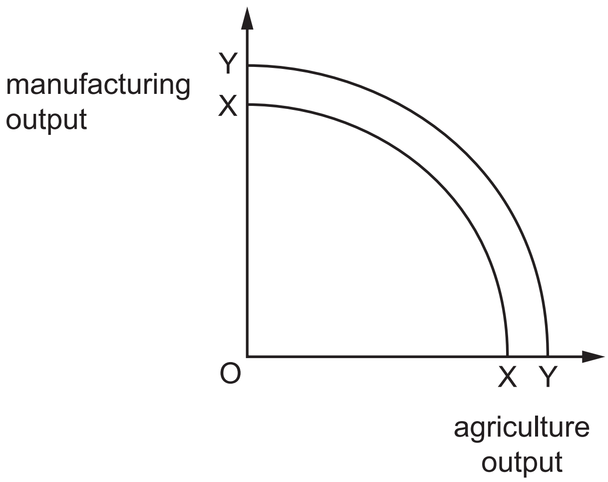
A medium of exchange and store of value

B standard for deferred payments and unit of account

C store of value and standard for deferred payments

D unit of account and medium of exchange

4 The diagram shows two production possibility curves, XX and YY.



What would cause a movement from XX to YY?

A a decrease in scarce resources

B a decrease in the cost of resources

C an increase in the cost of labour

D an increase in the labour force

5 The table shows the market demand and supply for bananas over a year. At a market price of 8 cents per kg there is disequilibrium in the market.

price of bananas (cents per kg)	total market demand (million tonnes)	total market supply (million tonnes)
4	1000	150
6	800	300
8	600	450
10	400	600
12	200	750

What action would the government have to take to achieve market equilibrium at a price of 8 cents per kg?

A grant a subsidy of 2 cents per kg to producers

B impose a tax of 4 cents per kg on consumers

C purchase the entire supply at 8 cents and sell at 4 cents

D ration consumers to 75 kg each per year

6 In calculating the short-run supply schedule for a firm, what is assumed to remain unchanged?

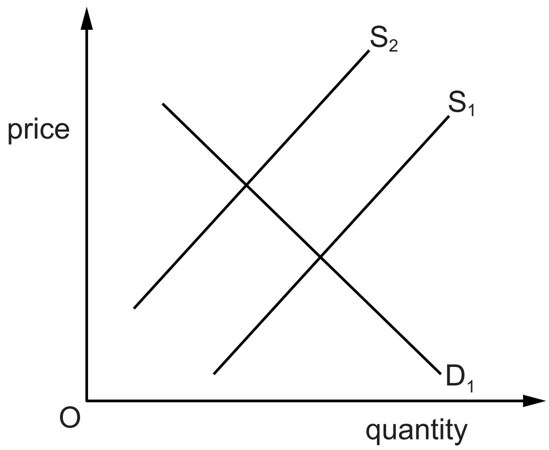
A the number of consumers

B the price of the good

C the quantity of raw material inputs

D the state of technology

7 The graph shows the demand and supply curves for an industry.



What would cause a shift in the supply curve from S_1 to S_2?

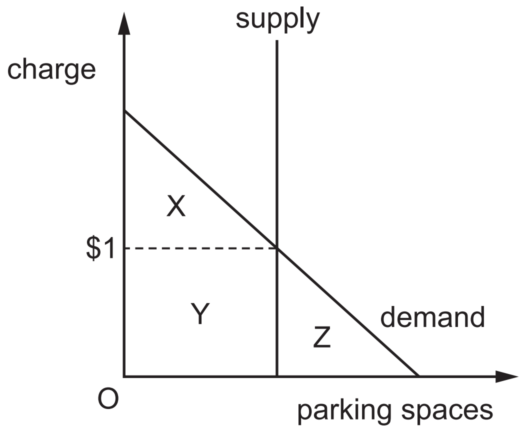
A an increase in the number of firms in the industry

B an increase in the number of workers employed

C an increase in the productivity of the workforce

D an increase in the wage rates paid to workers

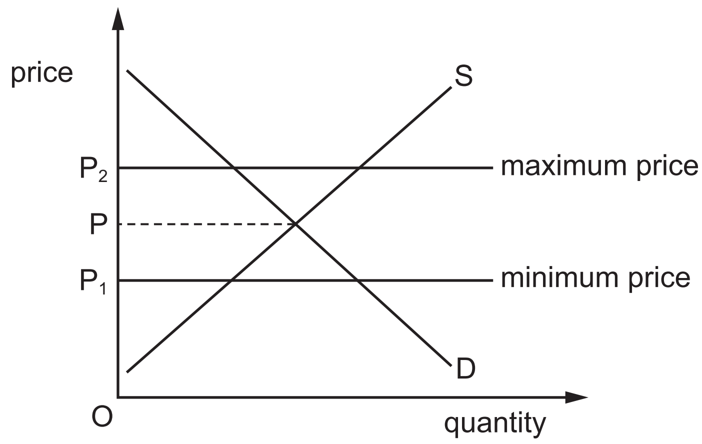
8 The diagram shows the outcome when a landowner, who has allowed motorists to park on his field at no cost, introduces a parking charge of $1.



What is the loss of consumer surplus that results?

A X only **B** X + Y **C** Y only **D** Y + Z

9 The diagram shows the market for a good.



If the government imposes a minimum price at OP_1 and maximum price at OP_2 what would happen?

A The price will be unchanged at OP.

B The price will fall to OP_1.

C The price will rise to OP_2.

D There will need to be rationing by the government.

10 Two goods, X and Y, have a cross elasticity of demand of +1.8. Good Y has an income elasticity of demand of –0.6.

An increase in both the incomes of consumers and the price of good Y will have which combination of effects?

	quantity demanded of X	quantity demanded of Y
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

11 What is price elasticity of supply?

A the change in the quantity supplied when a price changes

B the change in the quantity supplied when demand changes

C the comparison of the proportionate change in supply to the proportionate change in demand

D the comparison of the proportionate change in supply to the proportionate change in price

12 What does the assumption 'ceteris paribus' mean when economists analyse the way in which the quantity demanded of a good changes?

A Changes in quantity demanded can cause changes in any of the other variables.

B Consumer preferences are always assumed to remain unchanged.

C Only one variable is assumed to change while the others remain the same.

D Several variables change simultaneously.

13 In which situation is the demand for a product said to be price elastic?

A A fall in price increases expenditure on the product.

B A fall in price increases quantity demanded.

C A rise in price increases expenditure on the product.

D A rise in price reduces quantity demanded.

14 Which product is **most** likely to be provided only by the government?

A national defence

B national health

C national museums

D national theatres

15 Which term is given to an income received by an individual for which there is no corresponding contribution to output?

A profit

B revenue

C salary

D transfer payment

16 A government policy favours older people at the expense of younger people.

Which would be **most** likely to correct such an imbalance?

A an increase in expenditure on government-provided pensions

B an increase in government-subsidised training schemes for school-leavers

C an increase in the rate of income tax on earned incomes

D an increase in the rate of interest on savings

17 A government gives a subsidy to a producer of a product.

What will be the likely effect of this?

A a shift to the left in the demand curve and a rise in equilibrium quantity

B a shift to the left in the supply curve and a rise in equilibrium quantity

C a shift to the right in the demand curve and a fall in equilibrium price

D a shift to the right in the supply curve and a fall in equilibrium price

18 Which is the **most** appropriate reason for the continued government ownership of a natural monopoly?

A The government will guarantee competitive behaviour.

B The government will ignore any losses made by the monopoly.

C The government will maximise profits.

D The government will take account of external benefits.

19 When will the imposition of a tariff by a country on the goods and services of its major trading partners reduce the country's expenditure on imports?

A when the income elasticity of demand for imports is greater than 1

B when the price elasticity of demand for imports is greater than 1

C when the price elasticity of demand for imports is less than 1

D when the price elasticity of supply of imports is greater than 1

20 How will an increase in government spending on infrastructure affect aggregate demand and aggregate supply?

	aggregate demand	aggregate supply
A	decreases	increases
B	increases	decreases
C	increases	increases
D	stays the same	increases

21 The table shows the amount of good X or the amount of good Y that can be produced by country R and country T if each uses all of their resources.

	output of good X	output of good Y
country R	80	100
country T	20	80

What can be concluded from the table?

A Country R has an absolute advantage in producing good Y and a comparative advantage in producing good X.

B Country R has an absolute advantage in producing good X and a comparative advantage in producing good Y.

C Country T has an absolute advantage in producing good X and a comparative advantage in producing good Y.

D Country T has an absolute advantage in producing good Y and a comparative advantage in producing good X.

22 What is **most** likely to lead to a persistent surplus in a country's current account of its balance of payments?

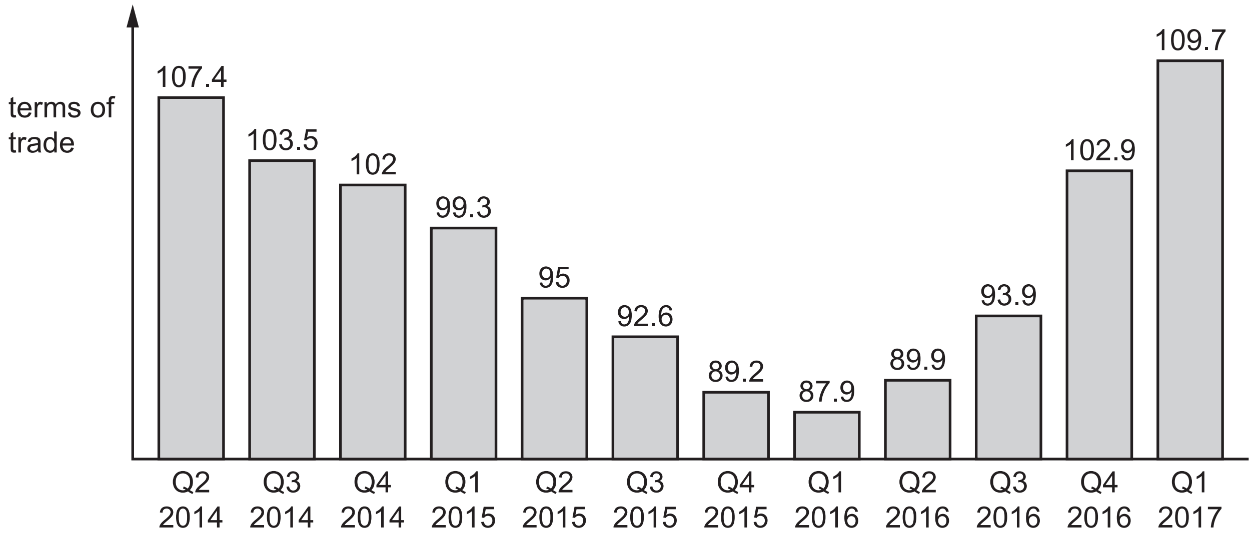
A a low domestic savings rate

B an undervalued exchange rate

C highly protectionist policies by other countries

D low investment income from abroad

23 The diagram shows Australia's terms of trade per quarter from Q2, 2014 to Q1, 2017.



In which period did Australia's terms of trade decline and then improve?

A Q2, 2014 to Q4, 2014

B Q1, 2015 to Q3, 2015

C Q4, 2015 to Q2, 2016

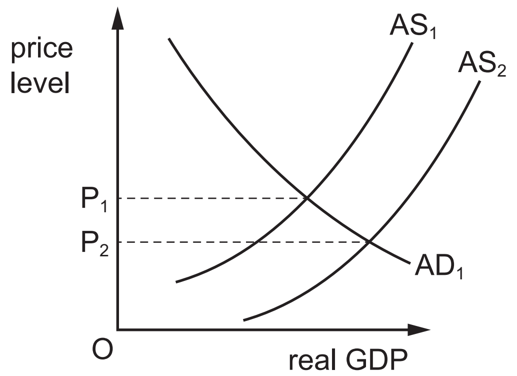
D Q3, 2016 to Q1, 2017

24 The diagrams show a country's aggregate demand (AD_1) and aggregate supply (AS_1) curves.

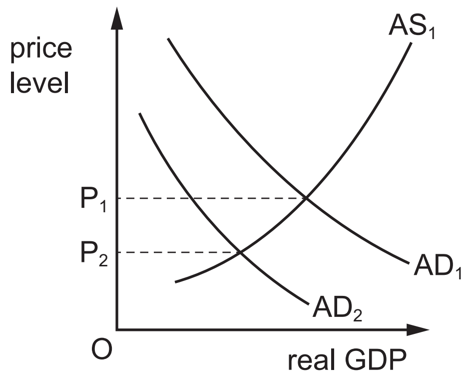
Since the world economic downturn (2007–2008) some governments have reduced labour costs and ensured interest rates remained unchanged.

How would this **most** likely be shown on a diagram?

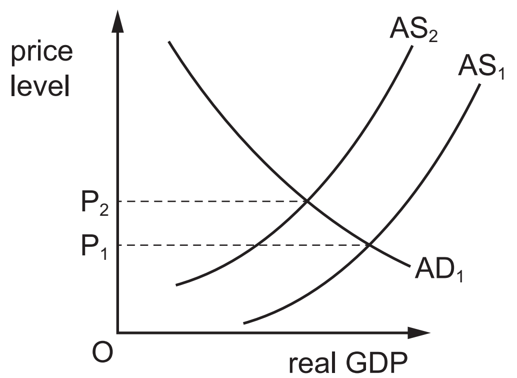
A



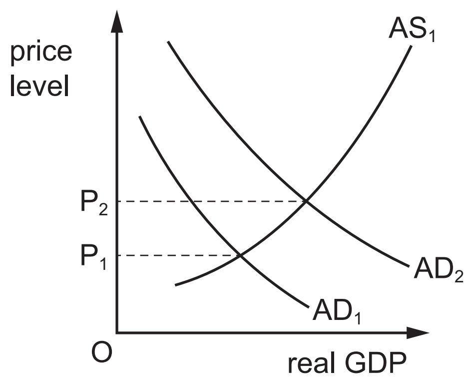
B



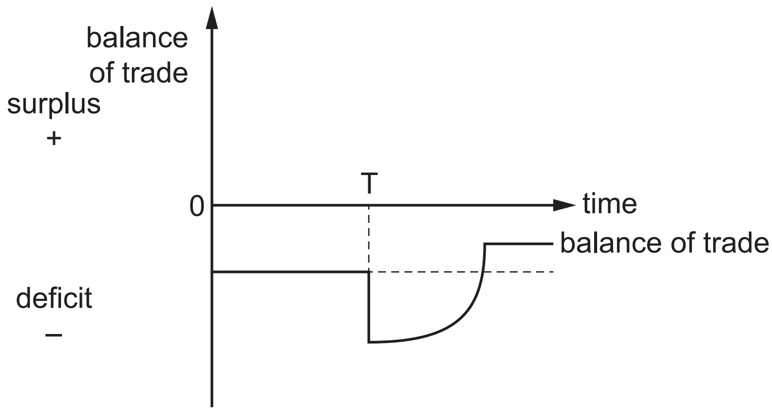
C



D



25 An economy changes its exchange rate at time T.



What does the J-curve diagram show happens at T and after T?

	exchange rate change at time T	Marshall-Lerner condition
A	devaluation	does not apply
B	devaluation	applies
C	revaluation	does not apply
D	revaluation	applies

26 What always happens when there is an increase in the Consumer Price Index?

A an increase in consumer expenditure

B an increase in the cost of living

C a reduction in living standards

D a reduction in real disposable income

27 What would **not** be included in Germany's balance of payments accounts?

A financial investments in Germany by Japanese banks

B foreign aid received by Germany

C the German terms of trade

D the takeover of a German company by a French company

28 An economy has a balance of payments surplus, which it wishes to eliminate.

In order to achieve this objective, which combination of polices would be **most** appropriate?

A a depreciation of the currency and an increase in government spending

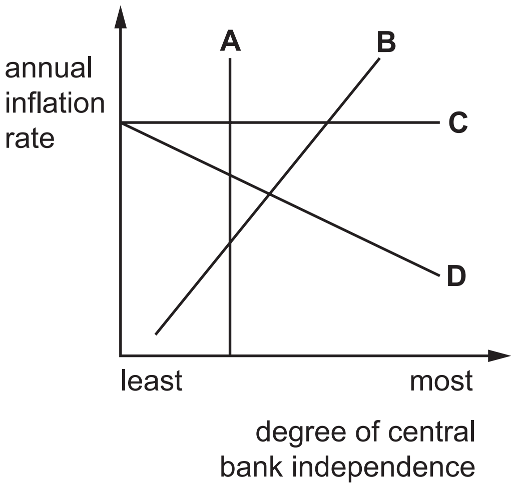
B an appreciation of the currency and a cut in interest rates

C an increase in the money supply and a pay freeze

D increases in both direct and indirect taxation

29 The diagram shows the possible relationships between the degree of independence of the central bank and the level of inflation.

Which relationship suggests that central bank independence is an effective way to reduce inflation?



30 Which change in economic circumstances is **most** likely to lead to a reduction in the rate of domestic inflation in an economy?

A a depreciation in the currency

B a reduction in the productivity of labour

C a world-wide recession

D an increase in direct taxes to finance increased welfare payments