



Cambridge International AS & A Level

ECONOMICS

9708/01

Paper 1 AS Level Multiple Choice

For examination from 2023

SPECIMEN PAPER

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

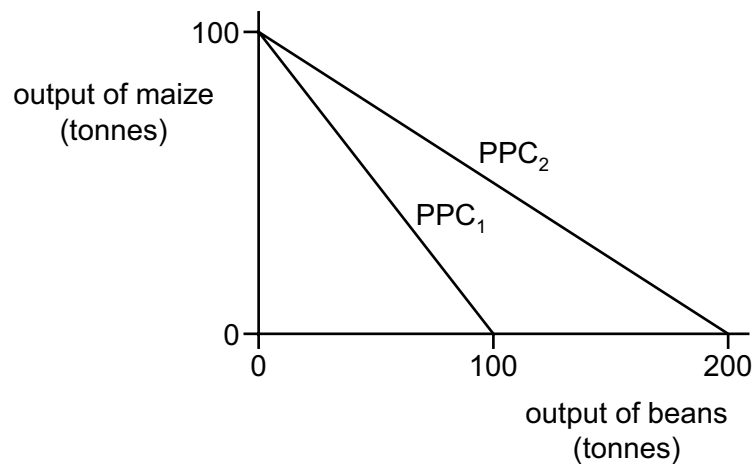
- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **14** pages. Any blank pages are indicated.

- 1 The demand for a product is inversely related to its price, *ceteris paribus*.

What does *ceteris paribus* mean in this context?

- A** Factors affecting demand other than price are held constant.
B Factors affecting price other than demand are held constant.
C Price changes result from changes in demand.
D Price falls result in increased quantity demanded.
- 2 What is likely to be introduced in the market for bus travel if an economy moves from a mixed economy to a market economy?
- A** allowing companies to bid for bus routes
B free bus travel for school children
C maximum prices for bus travel
D subsidies to bus operators
- 3 The diagram shows that the production possibility curve (PPC) of maize and beans has changed from PPC_1 to PPC_2 .



What has happened to the opportunity cost of maize and the returns to factors producing beans?

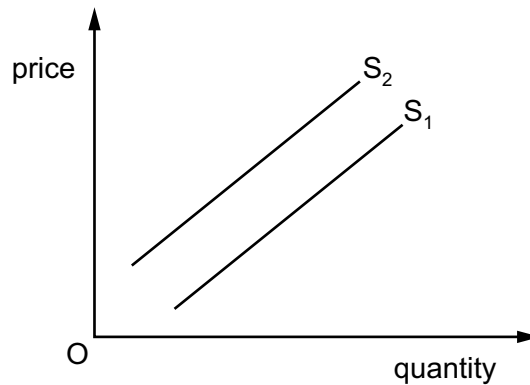
	opportunity cost of maize	returns to factors producing beans
A	fallen	fallen
B	fallen	risen
C	risen	fallen
D	risen	risen

- 4 An individual buys a ticket to visit a government-owned art gallery.

How would this visit be classified by an economist?

- A private and demerit good
- B private and merit good
- C public and demerit good
- D public and merit good

- 5 The diagram shows a shift in a firm's supply curve from S_1 to S_2 .



What may have caused the shift from S_1 to S_2 ?

- A a decrease in the costs of production of the firm
 - B a decrease in the popularity of the firm's product
 - C a decrease in the subsidy on the good
 - D a decrease in the tax on the good
- 6 What is **not** an example of the role of the factor enterprise in a modern economy?
- A deciding on new export markets for the firm's goods and services
 - B making payments to suppliers for raw materials and capital goods
 - C reducing costs through the introduction of a new shift system for employees
 - D transforming the production process with the introduction of technological improvements

- 7 A manufacturer increases the price of a product from \$4 in an attempt to increase total expenditure on the product.

The table shows the outcome of the policy.

price (\$)	total expenditure 000s (\$)
4	400
5	500
6	600

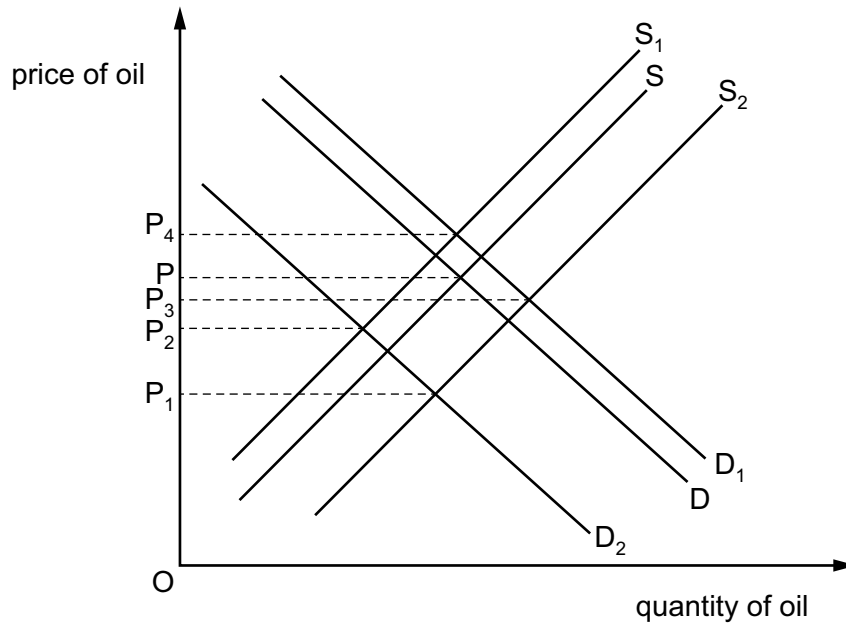
What is the price elasticity of demand for the product?

- A perfectly elastic
 - B perfectly inelastic
 - C relatively elastic
 - D relatively inelastic
- 8 A firm establishes that the price elasticity of supply of its product has a value of 0.3.

What is likely to be true about the firm?

- A It has unused productive capacity.
- B It has a lot of stock of its product.
- C It uses a high proportion of perishable raw materials.
- D It uses factors of production that are easily substituted.

- 9 The diagram shows the market for oil. The original equilibrium price is P .



There is a reduction in world oil supplies due to war in some supplying countries. At the same time some importing countries are much colder than usual.

What will be the equilibrium price of oil after these changes?

- A** P_1 **B** P_2 **C** P_3 **D** P_4
- 10 The demand for a good falls at the same time as its costs of production decrease.

What will be the combined effect of these changes on the price and on the quantity supplied of the good?

	price	quantity supplied
A	decrease	decrease
B	decrease	uncertain
C	uncertain	decrease
D	uncertain	uncertain

- 11 A government imposes a specific indirect tax on a product.

When will the tax cause the greatest reduction in consumer surplus for the buyers of the product?

- A** When the product has price elastic demand and price elastic supply.
B When the product has price elastic demand and price inelastic supply.
C When the product has price inelastic demand and price elastic supply.
D When the product has price inelastic demand and price inelastic supply.

- 12 The table shows the maximum amount three students would each be willing to pay for a taxi to take them home from a nightclub.

	\$
Jane	10.00
Sara	8.00
Yasmin	6.00

The fare for the taxi is \$12. Assume they share the taxi fare as shown in the table below.

Which row shows how much they each should pay so that they each obtain the same consumer surplus?

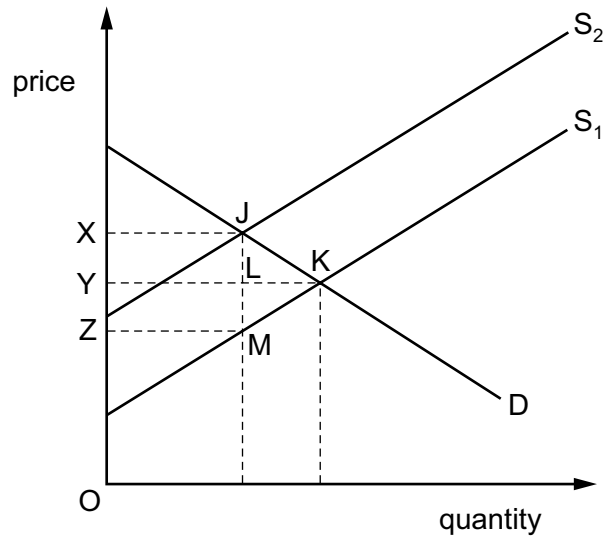
	Jane \$	Sara \$	Yasmin \$
A	2.00	4.00	6.00
B	4.00	4.00	4.00
C	5.00	4.00	3.00
D	6.00	4.00	2.00

- 13 A government fixes a minimum price for a service.

What will be the outcome of such a policy?

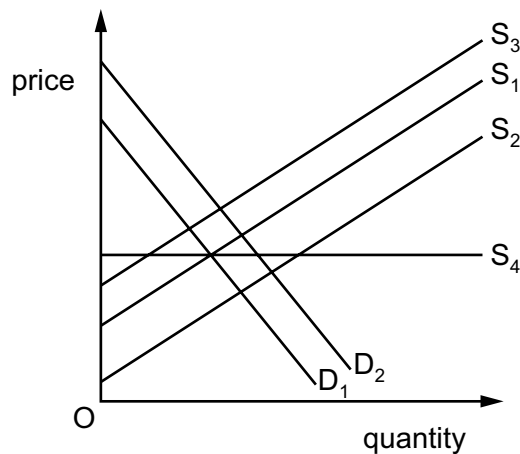
- A** Demand will fall if the minimum price is below the equilibrium price.
- B** Demand will rise if the minimum price is above the equilibrium price.
- C** Production will fall if the minimum price is above the equilibrium price.
- D** Production will stay the same if the minimum price is below the equilibrium price.

- 14 The diagram illustrates the effects of placing a specific indirect tax equal to JM on a good.



Which area represents total tax receipts?

- A** JKM **B** XJKY **C** XJLY **D** XJMZ
- 15 The diagram shows the demand curve, D_1 , and the supply curve, S_1 , for a good.



The government decides to pay producers a specific subsidy for each unit supplied to the market.

Which curve shows the new effective demand or supply curve?

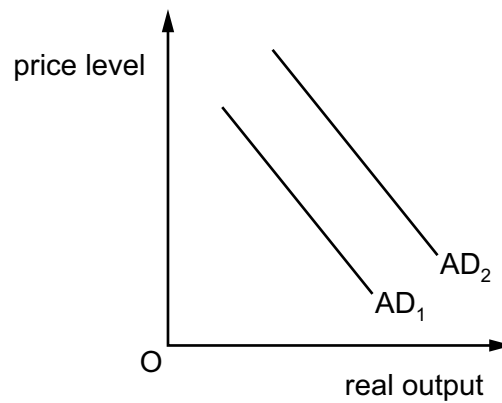
- A** D_2 **B** S_2 **C** S_3 **D** S_4

- 16 Planned government expenditure for a country in the fiscal year 2016 is estimated at \$760 billion. The top five areas of expenditure are given in the table.

	\$ billion
pensions	153
healthcare	138
welfare	111
education	89
defence	45
total top five	536

What is the total amount, in billions of dollars, spent on transfer payments shown in the table?

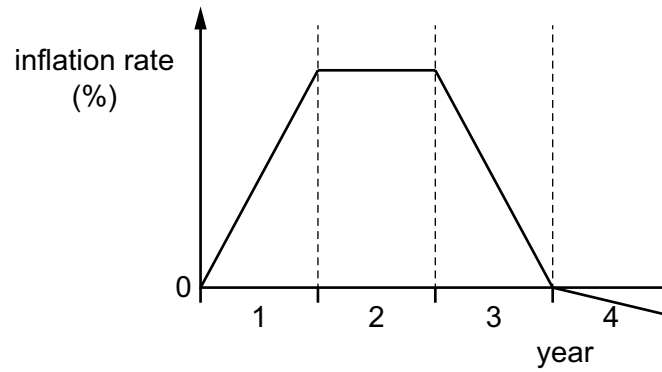
- A 89 B 111 C 264 D 536
- 17 The diagram shows a shift in the Aggregate Demand curve, from AD_1 to AD_2 .



What might have caused this shift?

- A a fall in the budget surplus
 B a fall in the trade surplus
 C a rise in imports
 D a rise in the interest rate

18 The diagram shows the change in an economy's rate of inflation over 4 years.

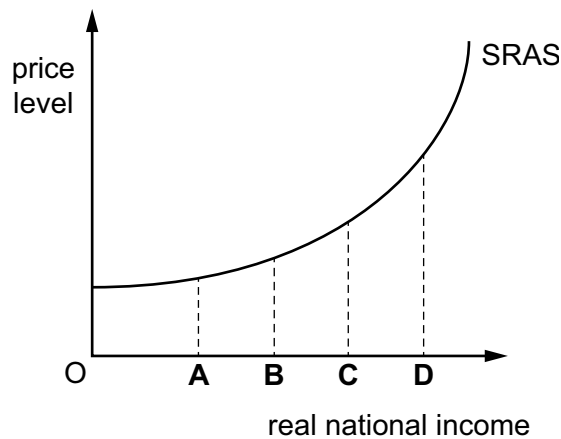


What happened to the general price level over the 4 years?

	year 1	year 2	year 3	year 4
A	constant	constant	decreased	constant
B	increased	constant	decreased	decreased
C	increased	increased	increased	constant
D	increased	increased	increased	decreased

19 The diagram shows the short-run Aggregate Supply (SRAS) curve of an economy.

At which equilibrium level of national income is a reduction in the rate of interest likely to cause the greatest inflationary increase for the economy?



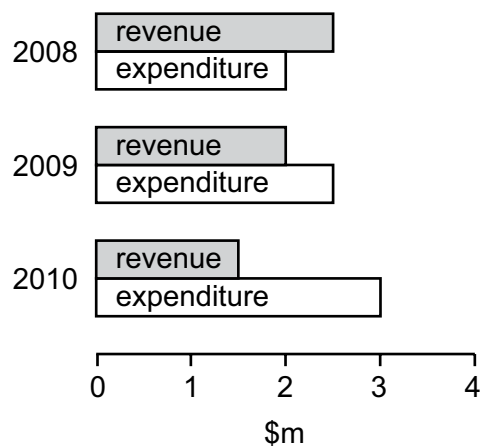
- 20 A large coal mine is forced to close because of falling demand for coal as consumers switch to less polluting fuels. The government organises retraining courses and recruitment events for the coal mine workers.

Which type of unemployment is the government trying to reduce?

- A cyclical
 - B seasonal
 - C structural
 - D technological
- 21 A government succeeds in changing a current account deficit into a current account surplus.

Why might this current account surplus increase the country's inflation rate?

- A It raises Aggregate Demand.
 - B It raises production costs.
 - C It reduces the exchange rate.
 - D It reduces the money supply.
- 22 The diagram shows a government's revenue and expenditure for three years.



What can be concluded from the diagram?

- A A budget deficit was replaced by a budget surplus.
- B A budget deficit increased.
- C The economy moved from a point within its production possibility curve (PPC) to a point on it.
- D The yield from taxation continuously increased.

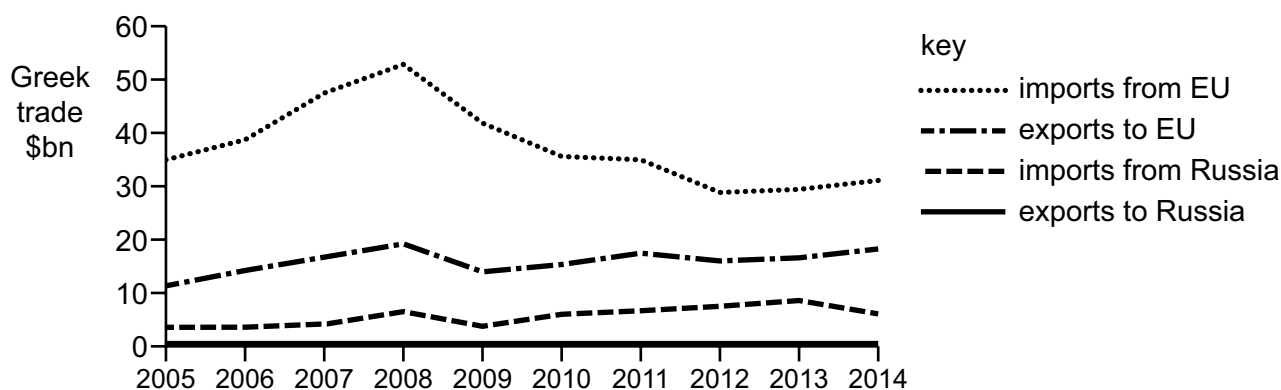
23 In recent years an economy has experienced changes in its price level as shown.



Which government policy is most effective in reversing the trend shown in the price level?

- A encourage firms to expand production through tax incentives
- B introduce an incomes policy to directly control wage increases
- C promote household savings by advertising saving schemes
- D reduce interest rates and increase money supply

24 The diagram shows Greece's trade position with the EU and Russia between 2005 and 2014.



What can be concluded about the period 2005 to 2014?

- A Greece's annual trade deficit with the EU rose continuously.
- B Greece's annual trade deficit with the EU was lower in 2014 than in 2005.
- C Greece's annual trade deficit with the EU fell continuously.
- D Greece's annual trade deficit with the EU was smaller than its deficit with Russia.

25 There is a rise in the exchange rate of the US\$.

Which would cause the greatest increase in the US current account deficit?

- A a high level of domestic unemployment
- B a high price elasticity of demand for imports
- C a low price elasticity of demand for exports
- D a low rate of domestic inflation

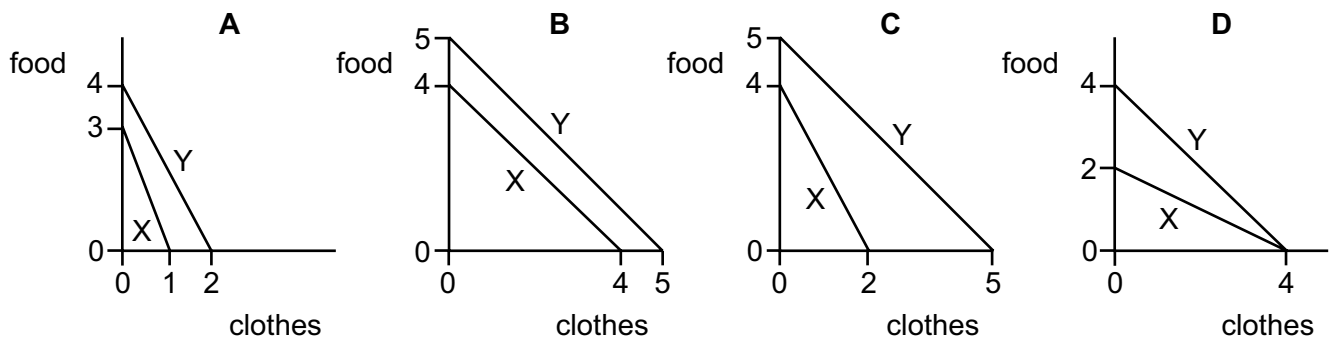
26 Since 2000 a country's export prices have increased on average by 50% and its import prices by 25%.

What is the current figure for the country's terms of trade (2000 = 100)?

- A 75
- B 83
- C 120
- D 125

27 Each diagram shows the production possibility curves (PPCs) of two economies, X and Y, which produce food and clothes.

In which diagram would both economies benefit by specialising in the good in which they have comparative advantage and trading at an exchange rate of 1 unit of clothes to 1.5 units of food?



28 Which government policy is most likely to focus on an increase in the quantity of skilled labour?

- A exchange rate policy
- B fiscal policy
- C monetary policy
- D supply-side policy

- 29** A small trading country decides on a policy of import substitution by producing more goods and services itself rather than purchasing them from other countries.

What is the most likely reason for this policy?

- A** to follow the principle of absolute advantage
 - B** to influence world prices in international markets
 - C** to protect local industries from foreign competition
 - D** to substitute imported technology for local labour
- 30** The monetary authorities of a country, whose currency is floating freely, raise the market rates of interest.

Other things being equal, the exchange rate of the currency is most likely to

- A** fall, as domestic fixed capital formation declines in response to higher rates of interest.
- B** fall, because the quantity of money must be reduced to cause rates of interest to rise.
- C** rise, as foreigners buy the domestic currency in order to hold assets with a higher yield.
- D** rise, as exporters increase the volume of exports to hold foreign currency.

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