

CIE A-Level Economics 9708 Paper 1 Practice Paper (Multiple Choice) - ANSWERS

Total: 30 marks · 1 hour · 30 multiple-choice questions

Q	Answer	Reasoning	marks
1	D	Opportunity cost = $20 / 40 = 1/2$ units of Y: each extra unit of X costs half a unit of Y.	1
2	D	More natural resources shift the whole PPC outward; a movement along the curve only reallocates existing resources.	1
3	B	The word "should" is a value judgement that data cannot confirm or refute, so it is normative.	1
4	D	A free good has zero scarcity; goods given away or priced at zero still use resources, so their opportunity cost is positive.	1
5	B	Specialisation raises skill and speed on one task, but the work becomes repetitive and coordination needs rise.	1
6	A	Machines are man-made producers goods, so they are capital; land means natural resources.	1
7	D	Price changes by 20% and quantity by 30%, so $3/10 / 1/5 = 3/2$.	1
8	A	With elastic demand the quantity rises proportionally more than the price falls, so price times quantity rises.	1
9	D	$YED = 12 / 5 = 12/5$; a value above 1 means demand grows faster than income, so it is a luxury.	1
10	A	$XED = 8 / 10 = +4/5$; a positive sign means a dearer A raises demand for B, so they are substitutes.	1
11	B	Lower costs make firms willing to supply more at each price, so the whole supply curve shifts right.	1
12	C	Set $120 - 2P = 30 + 3P$, so $5P = 90$ and $P = \$18$; then $Q = 120 - 2 \times 18 = 84$ units.	1
13	C	At \$15, $Q_d = 120 - 30 = 90$ and $Q_s = 30 + 45 = 75$, so the shortage is $90 - 75 = 15$ units.	1
14	C	It is the area above the supply curve and below the price, the gap between the price and the minimum acceptable price.	1
15	B	Inelastic demand means consumers cannot easily cut purchases, so the price rises sharply and consumers bear most of the tax.	1

16	A	The subsidy shifts supply down by \$4, but the fall in equilibrium price depends on both elasticities and is normally under \$4.	1
17	B	Tax revenue = 20,000 x \$3 = \$60,000.	1
18	C	Poor information understates the marginal private benefit, so consumption is below the social optimum and subsidies or direct provision are used.	1
19	A	Pollution is a negative externality that makes marginal social cost exceed marginal private cost, so output is above the social optimum.	1
20	D	Multiplier = $1 / (1 - 4/5) = 5$, so income rises by $200 \times 5 = \$1,000$ million.	1
21	C	Real growth = $(108 / 105 - 1) \times 100 = \text{about } 2.9\%$; you cannot simply subtract 5% from 8%.	1
22	B	Inflation = $(126 - 120) / 120 \times 100 = 5\%$.	1
23	B	Unemployment rate = $25,000 / 500,000 \times 100 = 5\%$.	1
24	D	Demand-pull comes from aggregate demand shifting right beyond capacity; the other three raise costs, so they are cost-push.	1
25	C	Oil is a major input, so higher costs shift short-run aggregate supply left, giving stagflation: higher prices and lower output.	1
26	D	With floating rates, excess demand for foreign currency depreciates the home currency, exports get cheaper abroad and imports dearer, so the deficit narrows.	1
27	A	Convert by dividing: $780 / 39/5 = \text{US\$}100$.	1
28	A	An appreciation raises export prices in foreign currency and lowers import prices at home, so exports lose competitiveness.	1
29	A	Comparative advantage depends on opportunity cost: 2 is lower than 3, so A has the advantage in X.	1
30	C	TOT = $120 / 150 \times 100 = 80$; below 100 means imports cost relatively more, so the terms of trade have worsened.	1