

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

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

Formulae

Concept	Formula
Price elasticity of demand	$\text{change in quantity \%} / \text{change in price \%}$
Income elasticity	$\text{change in quantity \%} / \text{change in income \%}$
Cross elasticity	$\text{change in B quantity \%} / \text{change in A price \%}$
Multiplier	$1 / (1 - \text{marginal propensity to consume})$
Real GDP growth	$(\text{nominal index} / \text{price index} - 1) \times 100$
Inflation rate	$(\text{CPI1} - \text{CPI0}) / \text{CPI0} \times 100$
Unemployment rate	$\text{unemployed} / \text{labour force} \times 100$
Terms of trade	$\text{export price index} / \text{import price index} \times 100$

1. A firm can use the same resources to produce either 40 units of X or 20 units of Y, with unchanged techniques. What is the opportunity cost of one more unit of X? [1]
(A) 2 units of Y
(B) 20 units of Y
(C) 40 units of Y
(D) 0.5 units of Y
2. An economy discovers a large new oil field. What is the most likely change to its production possibility curve (PPC)? [1]
(A) the whole curve shifts inward
(B) a movement down along the existing curve
(C) the position stays the same but the curve becomes steeper
(D) the whole curve shifts outward
3. "The government should raise the minimum wage to \$60 per hour." This statement is: [1]

- (A) a calculation of opportunity cost
 - (B) a normative statement
 - (C) a positive statement
 - (D) a hypothesis that data can refute
4. Which of the following is closest to a free good in economics? [1]
- (A) masks handed out free by the government
 - (B) library services with a zero price
 - (C) old books given away in a second-hand market
 - (D) air that can be used at zero cost
5. Which benefit is most associated with division of labour? [1]
- (A) less coordination is needed in production
 - (B) workers repeat one task, so their skill and output per worker rise
 - (C) more varied work raises job satisfaction
 - (D) production depends less on machinery
6. Machinery inside a factory belongs to which factor of production? [1]
- (A) capital
 - (B) land
 - (C) entrepreneurship
 - (D) labour
7. The price of a good falls from \$10 to \$8 and quantity demanded rises from 100 to 130 units. The (absolute) price elasticity of demand is: [1]
- (A) 0.67
 - (B) 0.6
 - (C) 2.5
 - (D) $\frac{3}{2}$
8. If demand for a good is price elastic, a price cut is most likely to: [1]
- (A) raise total revenue
 - (B) lower total revenue
 - (C) leave total revenue unchanged
 - (D) raise revenue first and then drive it to zero
9. Income rises by 5% and demand for a good rises by 12%. Its income elasticity (YED) and type are: [1]
- (A) 0.42, a necessity
 - (B) -2.4, an inferior good
 - (C) 1.2, a normal necessity
 - (D) $\frac{12}{5}$, a luxury good
10. The price of A rises by 10% and demand for B rises by 8%. The cross elasticity (XED) and the relationship are: [1]

- (A) $+4/5$, substitutes
- (B) -0.8 , complements
- (C) $+1.25$, substitutes
- (D) $+0.08$, complements

11. The price of a raw material used to make a good falls, other things equal. Its supply curve will:

[1]

- (A) stay in place but become steeper
- (B) shift to the right
- (C) shift to the left
- (D) move up along the curve

12. Demand $Q_d = 120 - 2P$ and supply $Q_s = 30 + 3P$ (Q in units, P in dollars). The equilibrium price and quantity are: [1]

- (A) \$30 and 60 units
- (B) \$15 and 75 units
- (C) \$18 and 84 units
- (D) \$18 and 90 units

13. Using the same demand and supply, if the government sets a strictly enforced maximum price of \$15, what happens? [1]

- (A) a shortage of 6 units
- (B) the market stays in equilibrium
- (C) a shortage of 15 units
- (D) a surplus of 15 units

14. Producer surplus is: [1]

- (A) the sum of production cost and profit
- (B) the highest price a consumer would pay
- (C) the excess of the price received over the lowest price a producer would accept
- (D) the total revenue received by producers

15. The government imposes a specific tax on a good with inelastic demand. The tax burden will most likely be: [1]

- (A) borne entirely by producers
- (B) borne mostly by consumers
- (C) borne mostly by producers
- (D) shared equally

16. The government gives a \$4 per unit subsidy. If both demand and supply are elastic, the most likely result is: [1]

- (A) price falls by less than \$4 and producers keep part of the subsidy
- (B) price falls by exactly \$4

- (C) price rises by \$4
- (D) price and quantity both stay the same

17. A good sells 20,000 units a month and the government charges a specific tax of \$3 per unit. Total tax revenue is: [1]

- (A) \$23,000
- (B) \$60,000
- (C) \$6,000
- (D) \$600,000

18. Merit goods are often under-consumed in a free market mainly because: [1]

- (A) firms deliberately restrict output
- (B) the government sets a maximum price
- (C) imperfect information makes consumers underestimate the private benefit
- (D) production costs are too high

19. A factory pollutes while producing. Without government intervention the market will most likely show: [1]

- (A) output above the social optimum because marginal social cost exceeds marginal private cost
- (B) output below the social optimum because marginal private cost exceeds marginal social cost
- (C) output exactly at the social optimum
- (D) price above the social optimum because firms receive a subsidy

20. The marginal propensity to consume is $\frac{4}{5}$ and autonomous injections rise by \$200 million. In a simple model with no spare capacity, income rises by: [1]

- (A) \$250 million
- (B) \$160 million
- (C) \$800 million
- (D) \$1,000 million

21. Nominal GDP rises by 8% while the price index rises by 5%. Real GDP growth is about: [1]

- (A) 8%
- (B) 1.6%
- (C) 2.9%
- (D) 13%

22. The consumer price index rises from 120 to 126. The inflation rate is: [1]

- (A) 2.4%
- (B) 5%
- (C) 6%
- (D) 4.8%

23. The labour force is 500,000 and 25,000 people are unemployed. The unemployment rate is: [1]

- (A) 0.5%
- (B) 5%

- (C) 20%
- (D) 2.5%

24. Demand-pull inflation is most likely caused by: [1]

- (A) a rise in raw material prices
- (B) unions winning large pay rises
- (C) a rise in import prices
- (D) aggregate demand growing faster than productive capacity

25. A sharp rise in world oil prices will most likely: [1]

- (A) shift aggregate demand to the left
- (B) move the economy right along the same SRAS
- (C) shift SRAS to the left, raising the price level and lowering output
- (D) shift SRAS to the right, lowering the price level and raising output

26. A country runs a current account deficit. Under a floating exchange rate, the most likely adjustment is: [1]

- (A) the currency appreciates and export prices fall
- (B) the deficit drives unemployment to 100%
- (C) the government must ban all imports immediately
- (D) the currency depreciates and export competitiveness improves

27. One US dollar buys 39/5 Hong Kong dollars. A good priced at HK\$780 in Hong Kong costs how many US dollars? [1]

- (A) US\$100
- (B) US\$7.8
- (C) US\$780
- (D) US\$6,084

28. If the Hong Kong dollar appreciates against the US dollar, Hong Kong will most likely see: [1]

- (A) exports becoming dearer abroad and less competitive
- (B) imported goods becoming dearer locally
- (C) exports becoming cheaper abroad
- (D) inflation jumping immediately into double digits

29. Country A gives up 2 units of Y to make one unit of X; country B gives up 3 units of Y. Who has a comparative advantage in X? [1]

- (A) country A, with opportunity cost 2 against 3 in country B
- (B) country B, with opportunity cost 3 against 2
- (C) neither country has a comparative advantage
- (D) only wage levels can decide it

30. A country has an export price index of 120 and an import price index of 150. Its terms of trade are: [1]

- (A) 80, the terms of trade have improved
- (B) 30, the terms of trade have worsened
- (C) 80, the terms of trade have worsened
- (D) 125, the terms of trade have improved