



# Cambridge IGCSE™ (9–1)

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## ECONOMICS

0987/12

Paper 1 Multiple Choice

May/June 2022

45 minutes

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)

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## 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.

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This document has **12** pages. Any blank pages are indicated.



1 What is an example of a free good?

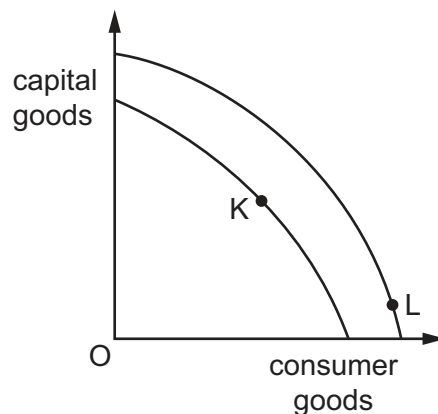
- A defence
- B education
- C health services
- D sunshine

2 A student has nothing to do on a Friday evening. She withdraws \$5 from the \$100 she has in a savings account and buys a present to take to a party, to which admission is free.

What does this involve?

- A an opportunity cost equal to \$95
- B an opportunity cost equal to other goods she could have bought for \$5
- C no opportunity cost, as entrance to the party is free
- D no opportunity cost, as she had no better way of using the time

3 The diagram shows two production possibility curves for a country.



What might cause a shift from point K to point L in the country's production?

- A a change in what consumers want to buy
- B a recession
- C more investment
- D the use of previously unemployed resources

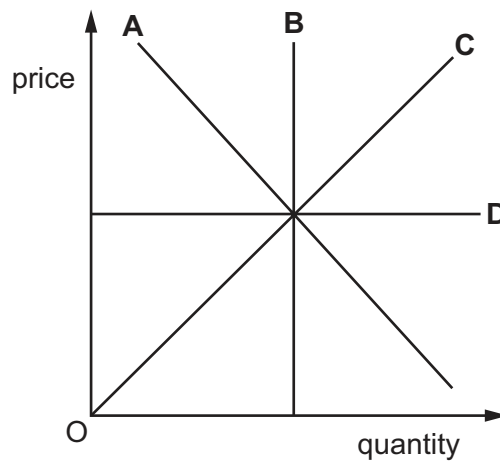
4 Which relationship would be studied by an economist specialising in macroeconomics?

- A the relationship between the inflation rate and the unemployment rate
- B the relationship between the output of a firm and its costs of production
- C the relationship between the price of a product and the quantity demanded by a consumer
- D the relationship between the wage rate of workers and demand for labour in an occupation

- 5 In recent years, a government has started to make more use of the free market system. However, they are doing it very slowly to avoid the disadvantages that a free market system might bring.

What is a possible disadvantage of the free market system?

- A decreased incentive to work
  - B decreased levels of pollution
  - C increased efficiency
  - D increased inequality of income
- 6 What will cause the demand curve for a good to shift to the right?
- A a decrease in the disposable income of consumers
  - B a decrease in the price of a complement good
  - C a decrease in the price of a substitute good
  - D a decrease in the price of the good
- 7 In the diagram, which demand curve has perfectly elastic demand?

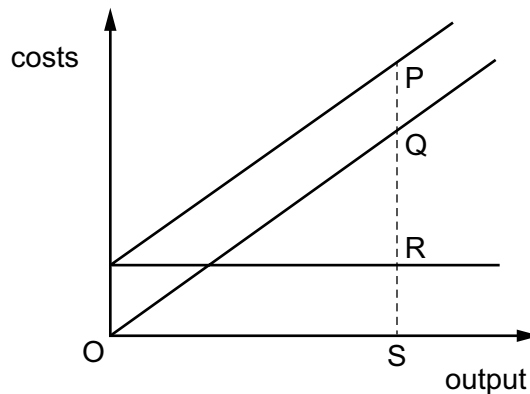


- 8 The table shows the demand and supply schedules for rice. The current price is \$2.00 per kilo.

| price per kilo \$ | quantity demanded (million tonnes) | quantity supplied (million tonnes) |
|-------------------|------------------------------------|------------------------------------|
| 2.50              | 5                                  | 30                                 |
| 2.00              | 10                                 | 25                                 |
| 1.50              | 20                                 | 20                                 |
| 1.00              | 30                                 | 15                                 |
| 0.50              | 40                                 | 10                                 |

What will happen if the price is reduced to \$1.00 per kilo?

- A** The demand schedule will shift to the left.  
**B** The market will move from shortage to surplus.  
**C** The market will move from surplus to shortage.  
**D** The supply schedule will shift to the right.
- 9 The diagram shows the fixed costs, variable costs and total costs of a firm at output S.



Which distance represents the firm's variable costs?

- A** PQ                      **B** PS                      **C** QR                      **D** QS
- 10 What could cause profits to be high in a monopoly market?
- A** barriers to entry  
**B** diseconomies of scale  
**C** elastic demand for the product  
**D** high number of substitutes for the product

11 Which firm is **most** likely to be classified as a small firm in the tertiary sector?

- A a farm
- B a hairdresser
- C a steelworks
- D a supermarket

12 Germany is considered a capital-intensive economy while Indonesia is considered a labour-intensive economy.

What does this mean about the economies of Germany and Indonesia?

- A Capital is relatively cheaper than labour in Germany while labour is relatively cheaper than capital in Indonesia.
- B Germany has many primary sector workers while Indonesia has many tertiary sector workers.
- C Indonesia has a higher growth in its population size than Germany.
- D Relatively more low-cost labour is available in Germany while capital is more efficient than labour in Indonesia.

13 A bank continues to operate loss-making branches.

Which objective is the bank trying to achieve?

- A growth
- B efficiency
- C profit maximisation
- D social welfare

14 The table shows how three people, X, Y and Z, spend their income.

|                            | person X | person Y | person Z |
|----------------------------|----------|----------|----------|
| food, clothing and housing | 30%      | 25%      | 50%      |
| entertainment and leisure  | 35%      | 35%      | 25%      |
| luxury goods               | 35%      | 40%      | 25%      |

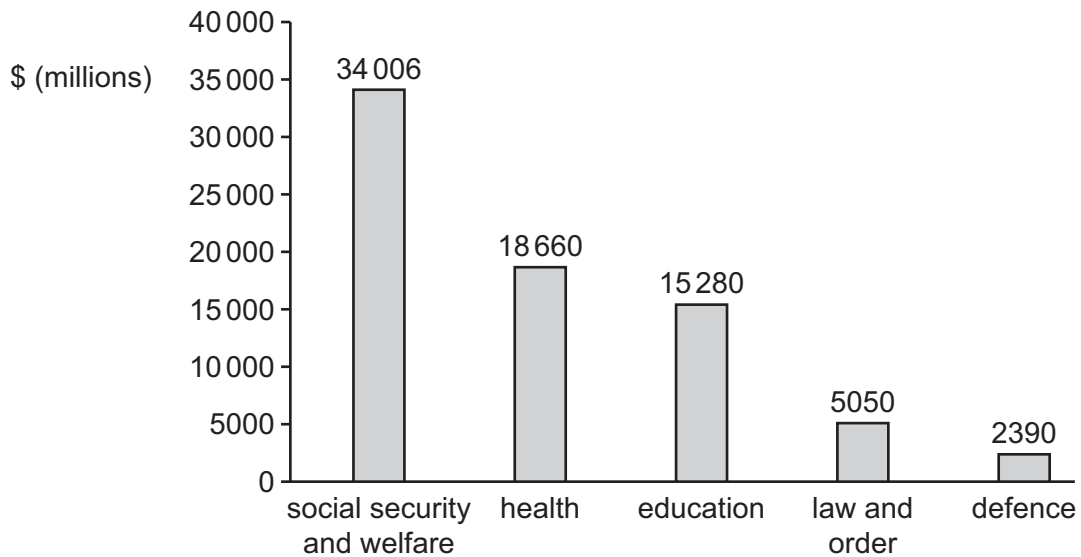
What is the likely order of income, from lowest income to highest income, for these three people?

- A  $Y \rightarrow X \rightarrow Z$
- B  $Y \rightarrow Z \rightarrow X$
- C  $Z \rightarrow X \rightarrow Y$
- D  $Z \rightarrow Y \rightarrow X$

15 Which activity is correctly linked to the organisation that provides it?

|          | organisation    | activity                                   |
|----------|-----------------|--|
| <b>A</b> | central bank    | regulate the rate of inflation             |
| <b>B</b> | central bank    | set direct tax rates                       |
| <b>C</b> | commercial bank | manage the government's financial accounts |
| <b>D</b> | commercial bank | safeguard the country's foreign reserves   |

16 The chart shows a government's spending in a year.

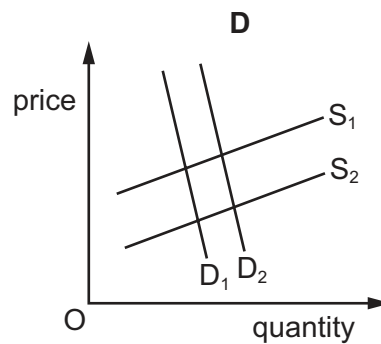
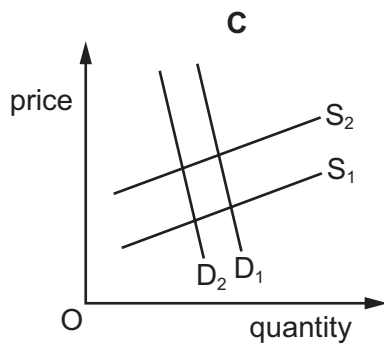
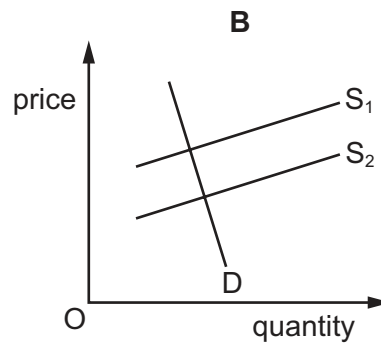
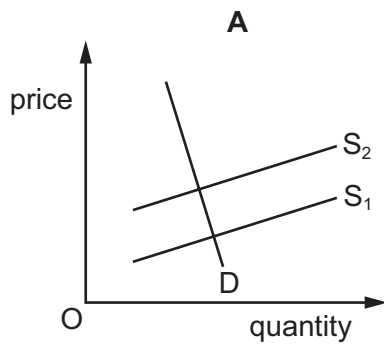


What was the total government spending on public goods?

- A** \$2390 million
- B** \$5050 million
- C** \$7440 million
- D** \$33940 million

- 17 A government levies a specific tax on the supply of cigarettes. At the same time it starts a campaign to explain the health risks of smoking cigarettes.

Which diagram illustrates the effects on the demand and supply of cigarettes?



- 18 A government wishes to pursue an expansionary monetary policy.

What should it do?

- A discourage bank lending
- B give subsidies to firms
- C lower income tax thresholds
- D lower interest rates

- 19 A government introduces a series of economic measures.

What is a supply-side policy measure?

- A building more affordable homes to improve labour mobility
- B controlling consumer spending to reduce inflation
- C lowering interest rates to encourage purchase of expensive goods
- D raising pensions to help retired people pay their fuel bills

20 What is identified as economic growth?

- A a fall in labour productivity
- B an increase in the productive capacity of the economy
- C an increase in the Consumer Prices Index (CPI)
- D the economy enters a period of recession

21 The retail trade in a country has unemployed workers in one region and job vacancies in another region.

What could explain this?

- A Costs of employing workers are lower when there is unemployment.
- B It is more expensive to live in the area where the retail jobs are available.
- C Retailing demands the same skills everywhere.
- D The geographical mobility of labour has increased.

22 A country wishes to reduce the level of inflation.

Which combination of policy measures will be **most** successful?

|          | policy measure 1             | policy measure 2             |
|----------|------------------------------|------------------------------|
| <b>A</b> | decrease exchange rates      | increase interest rates      |
| <b>B</b> | decrease interest rates      | increase exchange rates      |
| <b>C</b> | increase government spending | decrease interest rates      |
| <b>D</b> | increase interest rates      | decrease government spending |

23 A government wants to reduce both its budget deficit and the amount of poverty in its country.

Which fiscal policy measure is **most** likely to achieve both of these aims?

- A decreasing the rate of progressive income tax
- B decreasing government spending on welfare benefits
- C increasing the rate of progressive income tax
- D increasing government spending on welfare benefits



24 Which components, in addition to Gross Domestic Product (GDP) per head, are included in the Human Development Index (HDI)?

- A average earnings and inequalities of incomes
- B balance of trade and balance of payments
- C life expectancy at birth and expected years of schooling
- D size of population and age structure of population

25 What is likely to cause an immediate decrease in the size of the labour force?

- A a fall in the average size of families
- B a fall in the birth rate
- C a reduction in the age of retirement
- D an increase in net immigration

26 The table shows some economic indicators.

Which increase in the first indicator is **most** likely to lead to an increase in the second indicator?

|          | first indicator   | second indicator |
|----------|-------------------|------------------|
| <b>A</b> | budget surplus    | consumer saving  |
| <b>B</b> | consumer spending | unemployment     |
| <b>C</b> | inflation         | trade surplus    |
| <b>D</b> | productivity      | living standards |

27 The price of a currency in a fixed exchange rate system is reduced.

What is this called?

- A appreciation
- B depreciation
- C devaluation
- D revaluation

28 A government removed the quota on goods imported into the country.

What is the **most** likely result of this?

- A a decrease in demand for domestic production
- B a decrease in domestic unemployment
- C a decrease in exports
- D a decrease in the balance of trade deficit

29 What is **most** likely to result from a reduction in the value of a country's currency if there are no other changes in the economy?

- A A trade in goods surplus will fall.
- B Export prices will rise.
- C Import prices will rise.
- D The inflation rate will fall.

30 The governments of low-income countries often allow foreign multinational companies (MNCs) to mine minerals in their country.

Which conflict between benefit and cost might this cause the low-income countries?

|   | benefit                        | cost                      |
|---|--------------------------------|---------------------------|
| A | improved balance of trade      | training by the MNCs      |
| B | higher employment              | loss of a finite resource |
| C | increased profits for the MNCs | efficient production      |
| D | more sustainable development   | economic growth           |



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