Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2018**

1 hour 15 minutes

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

9408192209

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1 A government makes a study of the costs and benefits of allowing a leisure company to develop a holiday resort in an area of natural beauty.

When should the government allow this development to take place?

A if private benefits exceed private costs

B if private costs exceed private benefits

C if social benefits exceed social costs

D if social costs exceed social benefits

2 What is an example of market failure?

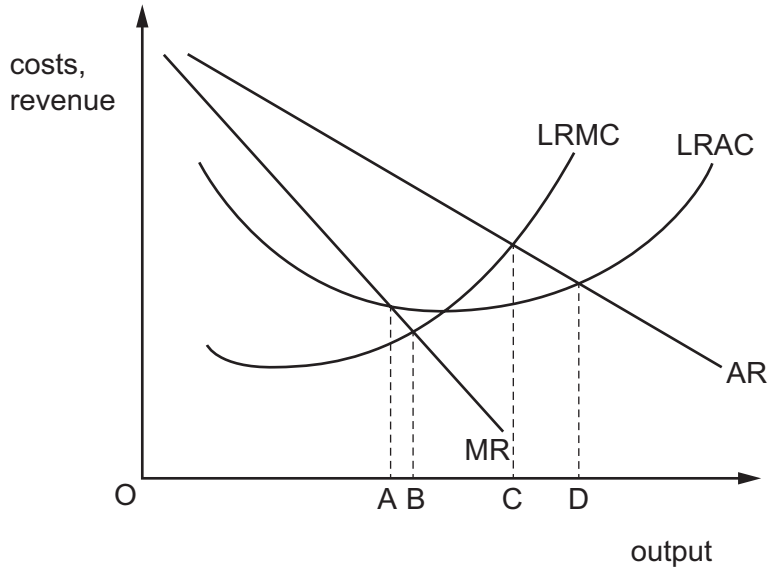
A atmospheric pollution in cities due to emissions from cars

B free entry for children to an art gallery

C high rents for housing occupied by low income households

D the inability of some football supporters to afford tickets to watch games

3 The diagram shows a firm's long-run cost and revenue curves.



At which level of output is the firm both allocatively and productively efficient?

A OA **B** OB **C** OC **D** OD

4 When does the slope of a budget line always change?

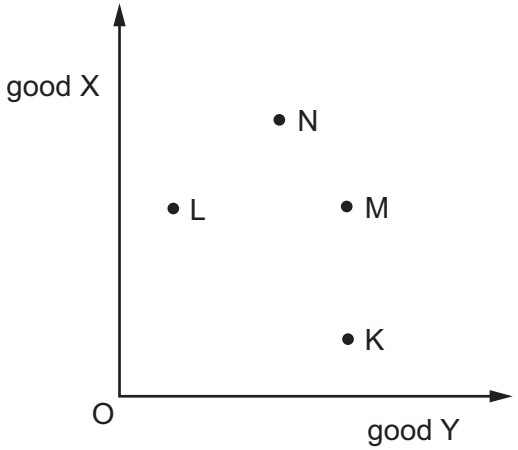
A A person buys more of one of the two goods.

B A person's income changes.

C One of the two goods becomes more desirable.

D The price of one of the two goods changes.

5 The points in the diagram represent different combinations of good X and good Y.



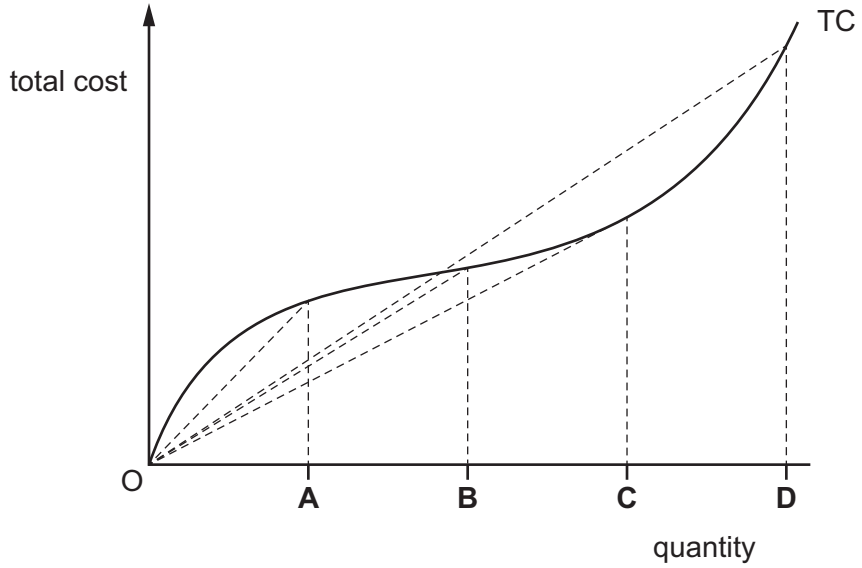
An individual prefers more of both goods to fewer, but would prefer not to give up even a single unit of X to obtain additional units of Y.

How would she rank (in descending order of preference) the combinations shown in the diagram?

A KLMN **B** LNKM **C** MKNL **D** NMLK

6 The diagram shows a firm's total cost curve.

At which level of output will the firm's marginal cost be equal to its average cost?



7 What is necessary for a firm to practise price discrimination?

A There are many buyers in the market.

B There are many firms in the market.

C The markets can be separated.

D The price elasticity of demand for the product is inelastic.

8 A mobile (cell) telephone manufacturing company takes over an electronic chip design company.

This is an example of which type of growth?

A horizontal

B lateral

C vertical backwards

D vertical forwards

9 An imperfectly competitive firm was making supernormal profits. The following year it made normal profit with no change in output.

How could this situation be shown on a diagram for an imperfectly competitive firm?

A by a movement to the left of the average revenue curve

B by a movement to the right of the marginal revenue curve

C by a shift to the right of the marginal cost curve

D by an upward shift in the average cost curve

10 What is implied by an observation that an industry is contestable?

A Barriers to entry make little difference to a firm's monopoly power.

B Firms in the industry can earn abnormal profits in the long run.

C Inefficient firms can survive in the industry in the long run.

D Monopoly power is not necessarily exploited.

11 What is likely to facilitate the growth of large firms in an economy?

A an industry structure which approximates to perfect competition

B dividend payments are a low proportion of company profits

C government regulations preventing takeovers

D the existence of managerial diseconomies of scale

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12 A firm changes its objective from maximising profit to producing at the allocatively efficient output.

In which market structure must the firm operate for this to cause the **least** change in economic welfare?

A monopolistic competition

B monopoly

C oligopoly

D perfect competition

13 Which government policy is intended to correct 'market failure'?

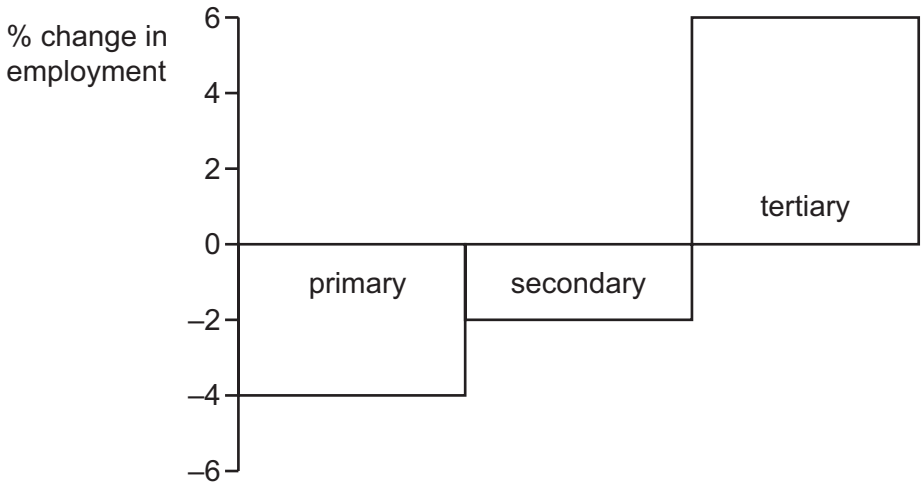
A guaranteed minimum prices for farmers producing certain agricultural products

B imposition of taxes on factories releasing pollutants into rivers

C rent controls on housing occupied by low income individuals

D the provision of free books for children of poorer households

14 The chart shows changes in employment by sector for a country between 2010 and 2016.



Which statement about the period 2010 to 2016 must be correct for this country?

A Employment in service industries increased.

B The primary sector lost more workers than the secondary sector.

C There was no change in the total working population.

D Unemployment stayed constant.

15 An engineer is paid $100 000 a year.

The next best paid job she could get is as a teacher at $60 000 a year.

What are her transfer earnings and her economic rent?

	transfer earnings $	economic rent $
A	60 000	zero
B	60 000	40 000
C	100 000	zero
D	100 000	40 000

16 What will necessarily cause the supply curve of labour in a particular industry to shift to the right?

A a fall in wages paid in similar occupations

B a greater use of machinery

C an increase in demand for the product

D a strengthening of trade union influence in the industry

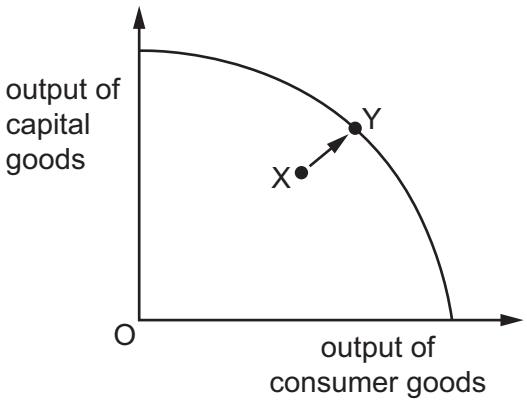
17 A café owner near a beach employed five staff and paid them each $10 an hour. During the holiday season two extra staff were needed. To get extra staff the employer had to increase the hourly rate for all staff to $12 an hour.

What was the marginal cost each hour of employing two extra staff?

A $2 **B** $24 **C** $34 **D** $84

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18 The diagram shows an economy's production possibility curve.



What causes a movement from point X to point Y?

A a positive output gap

B a recession

C actual economic growth

D potential economic growth

19 In an economy real national output increases more rapidly than the increase in employment.

What could account for this?

A a decrease in the general price level

B an improvement in the country's terms of trade

C an increase in labour productivity

D an increase in the size of the labour force

20 The table shows what has happened to three economic indicators between two years in a country.

When would GDP have been the most accurate measure of the standard of living in that country?

	population	inflation rate	income distribution
A	constant	low and stable	equal
B	constant	low and unstable	unequal
C	rising	low and stable	equal
D	rising	low and unstable	unequal

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21 What is assumed in the explanation of cyclical unemployment?

A Employers employ more labour if aggregate demand decreases.

B Exchange rates ensure the value of imports is always equal to the value of exports.

C Interest rates make planned investment equal to planned savings.

D Money wages are inflexible in a downward direction.

22 What identifies net injections into a country's circular flow of income?

	I > S	X < M	G < T
A	✓	✗	✓
B	✓	✗	✗
C	✗	✓	✓
D	✗	✓	✗

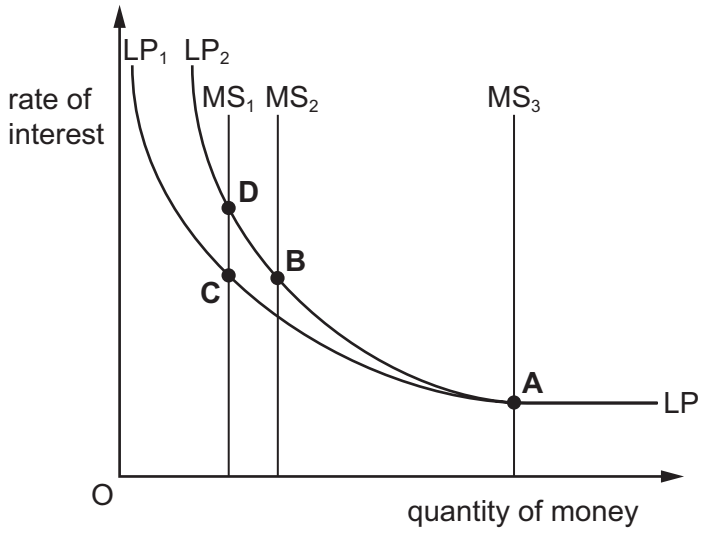
key

✓ = yes

✗ = no

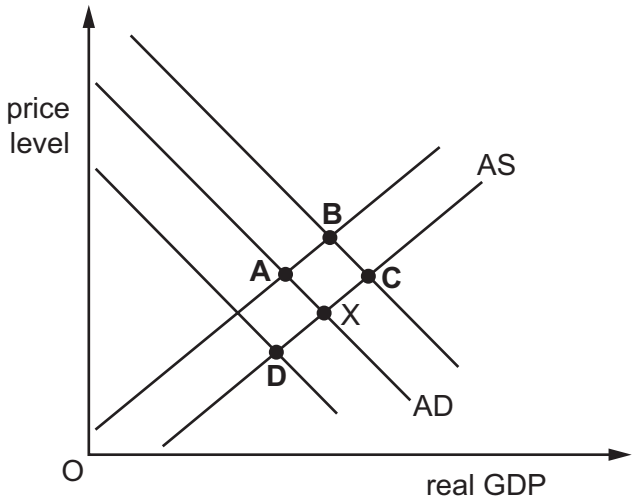
23 According to JM Keynes, sometimes monetary policy is ineffective. The supply of money (MS) is assumed to be controlled by the central bank. The demand for money is LP and there has been an increase in real income in the economy.

In the diagram which position makes monetary policy ineffective?



24 The US economy, which relies heavily on international trade to obtain raw materials and to sell products, is in equilibrium at point X.

If the value of the US$ falls, what would be the new equilibrium point?



25 From any additional national income, 20% is spent on imports, 25% is paid in taxes, 5% is saved and the rest is spent on domestically produced goods.

According to the multiplier effect, if exports increase by $100 million, what will be the final increase in spending by the country's residents on domestically produced goods?

A $50 million **B** $100 million **C** $200 million **D** $500 million

26 In a Keynesian model, why would a $100 million increase in government expenditure on goods and services have a greater impact on aggregate demand than a $100 million reduction in tax revenue?

A Consumers spend only part of any extra disposable income.

B Government expenditure does not create wealth.

C The marginal tax rate affects the value of the multiplier.

D The multiplier does not apply to consumer expenditure.

27 Equilibrium income in the economy is the level of national income at which

A the economy is producing at full employment national income.

B the inflow and outflow of currency is equal.

C the government's expenditure is equal to the government's revenue.

D there is no tendency for the national income to change.

28 What is **not** an automatic stabiliser?

A income tax

B profits tax

C state retirement pension

D unemployment benefit

29 Which policy is most likely to allow a developed economy to meet all its macroeconomic objectives?

A lowering interest rates to raise actual growth above potential growth

B supply-side reform to increase product and factor market flexibility

C tax reform to make the system of taxation increasingly regressive

D the introduction of tariffs to protect domestic industry

30 A government is increasing the role of market forces in its economy. However, it imposed temporary maximum price controls.

Why might a government, committed to reducing central planning, introduce price controls?

A to increase allocative efficiency

B to increase the incentive for producers to raise supply

C to reduce consumer demand

D to reduce expectations of inflation

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1 How is social cost calculated?

A external cost minus external benefit

B external cost minus private cost

C external cost plus private cost

D social cost minus social benefit

2 Which government policy is **not** aimed at correcting inefficiency in resource allocation?

A marginal cost pricing in state owned industries

B permits restricting the pollution of rivers by private firms

C requiring firms to pay a minimum wage

D the provision of public goods at zero price

3 The table shows some of the costs and benefits, in $ millions, associated with a road building project. Both a government department and a profit-maximising private firm are considering building the road.

private costs	external costs	external benefits	social benefits
450	75	50	550

Who would be willing to build the road?

A Both would be willing to build it.

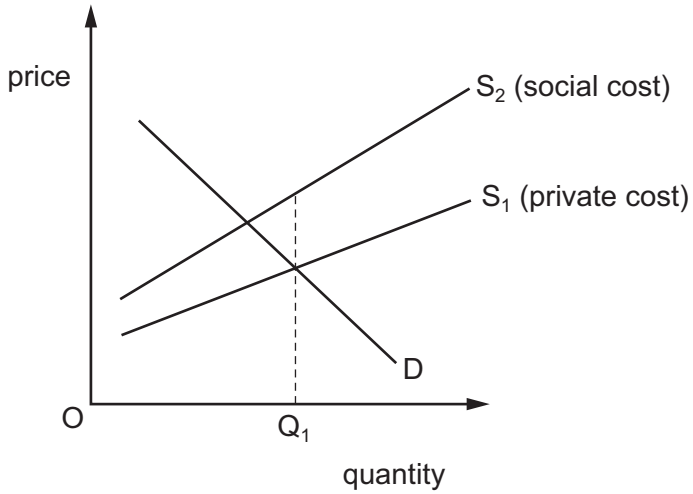
B Neither would be willing to build it.

C Only the government department would be willing to build it.

D Only the private firm would be willing to build it.

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4 In the diagram, Q_1 is the quantity produced of a good as the result of market forces.



Which concept is present at output Q_1?

A a government subsidy

B a negative externality

C a positive externality

D a specific tax

5 What would **not** affect the budget line of an individual consumer?

A the individual's preference for various goods

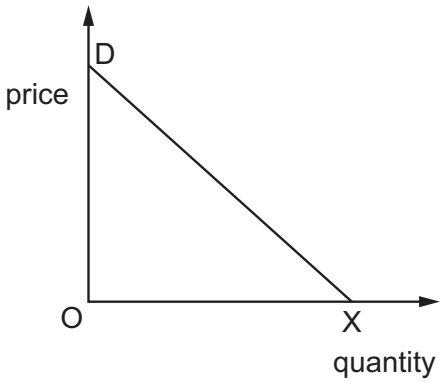
B the level of income tax

C the money prices of goods

D the wages earned by the individual

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6 The diagram shows the demand curve for a product.



What is maximised at X?

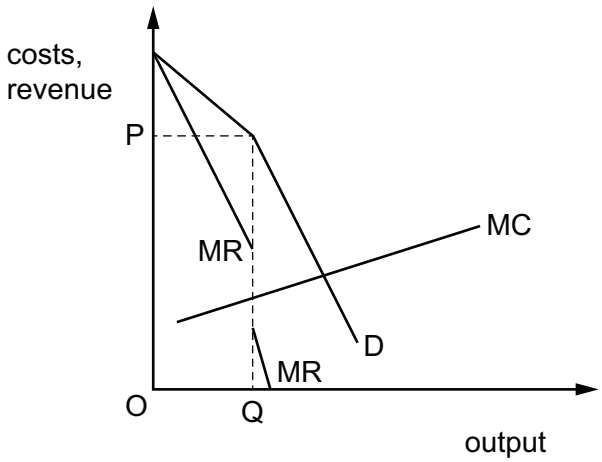
A marginal revenue

B total revenue

C marginal utility

D total utility

7 The diagram shows a firm's cost and revenue curves.



Which features are associated with the diagram?

A economies of scale and allocative efficiency

B interdependence and allocative efficiency

C price rigidity and economies of scale

D price rigidity and interdependence

8 In the year ending July 2016, airline fuel prices fell by 20.4% while the price of passenger aircraft increased by around 1.1%.

Assuming no other changes in the passenger airline industry, what was the outcome for fixed costs and variable costs?

	fixed costs	variable costs
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

9 Which feature of production would make it more likely that an industry is a contestable market?

A advertising has established consumer loyalty

B all firms in the industry share research and development

C low fixed costs

D market rivals aim to reduce product differentiation

10 What is an example of backward vertical integration?

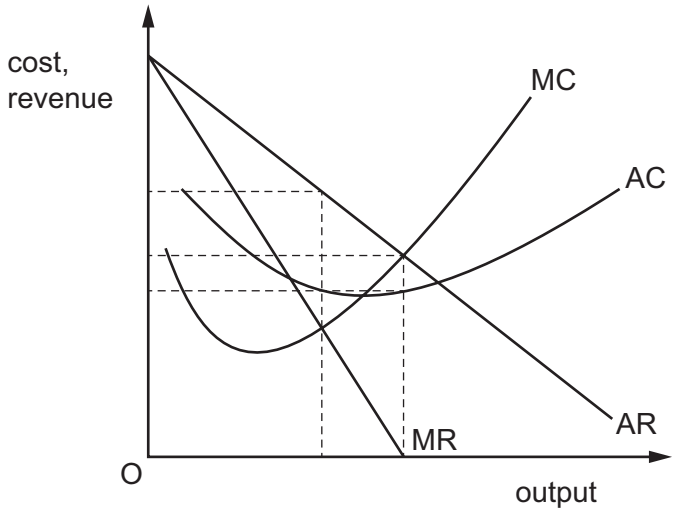
A a bakery buying a wheat farm

B a car manufacturer buying a car showroom

C a vineyard buying an apple orchard

D two rival supermarkets joining together

11 The diagram shows a firm in imperfect competition. It changed its aim from profit maximising to sales revenue maximising.



Which type of profit was it making in each case?

	profit maximising	sales revenue maximising
A	normal profit	supernormal profit
B	subnormal profit	normal profit
C	supernormal profit	normal profit
D	supernormal profit	supernormal profit

12 An airline sells seats at $100 each three months before a flight, at $150 each one month before the flight and at $200 each the day before the flight.

What describes this type of market behaviour by the firm?

A limit pricing to deter entry in an imperfect market

B price discrimination by a monopoly supplier

C price leadership by an oligopolist

D pricing where price equals average cost under perfect competition

13 What would **not** be an indication of a divergence between the interests of the managers and the shareholders of a company?

A an emphasis on sales maximisation

B management salaries which are linked to the long-run growth of the company's share price

C the acceptance of 'X' inefficiency in the company's production process

D the purchase of artwork for a company's headquarters

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14 The total cost to a school of employing ten cleaners is $60 per hour.

The school estimates that the hourly marginal cost of employing an eleventh cleaner would be $11.50.

By how much would the hourly wage have to increase to employ an additional cleaner?

A $0.50 **B** $0.65 **C** $2.25 **D** $11.50

15 What would cause a rise in the productivity of labour?

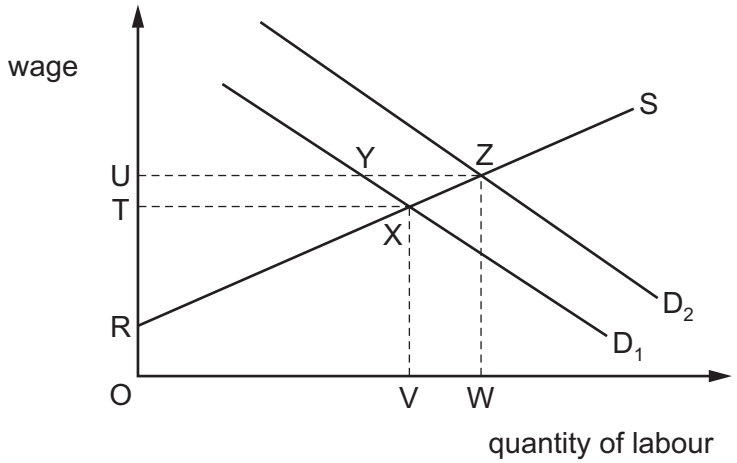
A an increase in indirect taxes

B an increase in the quality of capital

C a rise in consumer surplus

D a rise in the elasticity of supply of labour

16 In the diagram D_1 and S are the initial demand and supply curves for building workers.



If the demand for building workers increases to D_2 by how much does the economic rent earned by building workers rise?

A RUZ **B** TUZX **C** VXZW **D** XYZ

17 Under which circumstances will a subsidy from the government be most beneficial if there are externalities from producing good X?

	externality caused by good X	price elasticity of demand of good X
A	negative	<1
B	negative	>1
C	positive	<1
D	positive	>1

18 Which tax would help a government achieve a more equal distribution of income after tax?

A a constant rate sales tax applicable to all goods and services

B a constant rate tax per person

C an income tax with a constant marginal rate over the whole income range

D an income tax with a tax-free allowance and a constant marginal rate thereafter

19 A country has a population of 100 million. There are 5 million people unemployed and the country has an unemployment rate of 10%.

What is the size of the labour force?

A 10 million **B** 50 million **C** 90 million **D** 95 million

20 Which type of unemployment is correctly linked to the description of its cause?

	type of unemployment	description of the cause
A	cyclical	a change in demand due to holiday periods
B	frictional	a lack of sufficient information
C	structural	a temporary change in consumers' expenditure
D	technological	a general decrease in the demand for goods

21 Growth rates can be calculated using changes in the value of GDP from year to year.

Why is real GDP per head considered to be a better indicator than nominal GDP per head for this calculation?

A Real GDP adjusts for price changes by using a base year.

B Real GDP ignores the effects of fluctuations in exchange rates on purchasing power.

C Real GDP includes changes in the size of the population.

D Real GDP measures GDP at factor cost rather than market prices.

22 What would **not** exist in a free market, open economy?

A autonomous investment

B household saving

C import spending

D indirect taxation

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23 The information in the table is taken from a country's national income accounts.

income	US $ (millions)
wages	8000
salaries	7000
unemployment benefit	1000
pensions	1000
rent	3000
interest	2000

What is the value of national income?

A 17 000 **B** 19 000 **C** 20 000 **D** 21 000

24 What is a part of Keynesian economic analysis?

A a liquidity trap below which interest rates are ineffective

B an equilibrium price that always clears the market

C a small value for the government expenditure multiplier

D a vertical short-run aggregate supply curve

25 What will definitely increase a country's Gross National Product?

A an increase in income taxes

B an increase in the marginal propensity to import

C an increase in the value of a country's currency

D increased government expenditure on education

26 According to the accelerator theory, what determines this year's net investment?

A last year's consumption

B last year's output

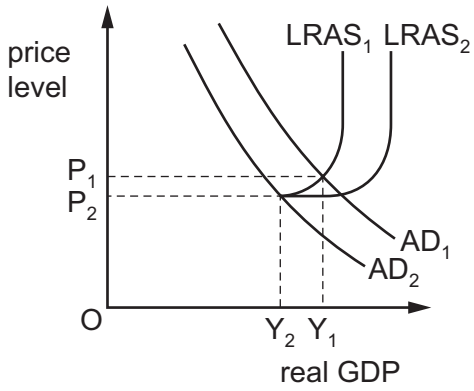
C the change in last year's investment

D the change in last year's national income

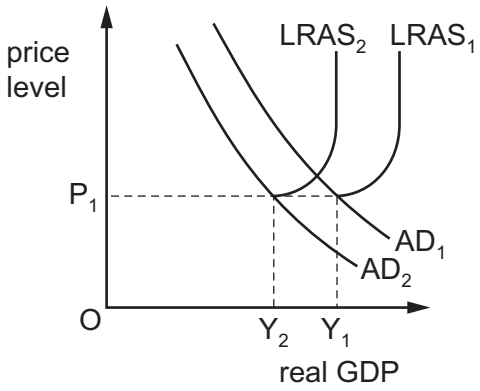
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27 Which diagram shows an economy experiencing an increase in actual output but a decline in potential output?

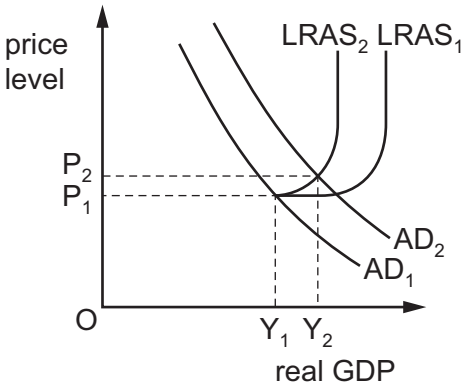
A



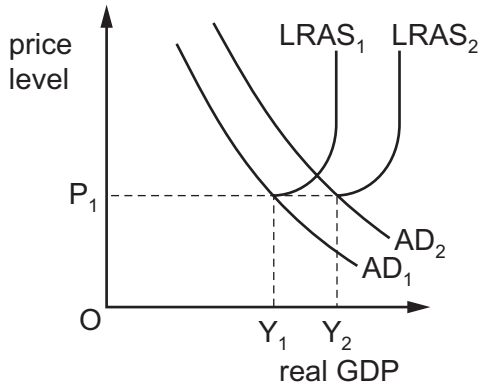
B



C



D



28 What is likely to follow if a central bank sets negative interest rates?

A an increase in government revenue

B an increase in the rate of inflation

C a reduction in bank lending

D deflation in the economy

29 The Consumer Prices Index (CPI) fell by 3% in a year. Unemployment was regarded as unacceptably high.

Which combination of policies would a government be most likely to adopt in such circumstances?

A an appreciation of the currency, together with an increase in the rate of interest

B increased government expenditure on education, together with an increase in taxes to pay for it

C increased indirect taxes, together with a depreciation in the exchange rate

D reduced income taxes, together with a cut in the rate of interest

30 Other things being equal, what is most likely to result from an increase in a country's interest rates?

A a capital inflow

B a depreciation of the currency

C an increase in consumption

D an increase in investment

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1 What is an example of external benefits?

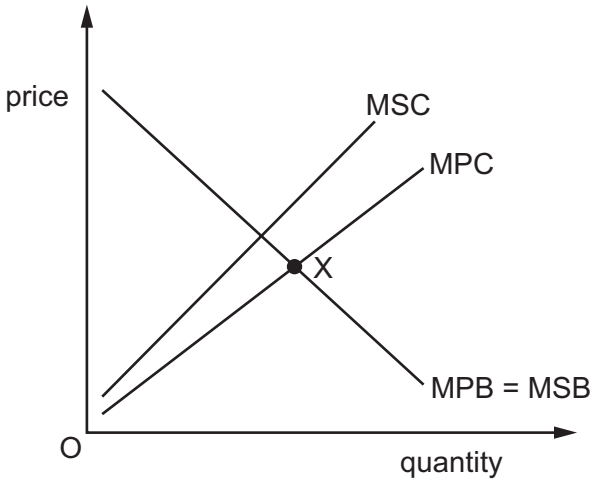
A personal benefits from drinking tea with friends

B the benefits of education to both the individual and society as a whole

C the benefits to third parties of vaccinations

D welfare benefit payments such as government provided pensions

2 The diagram shows the marginal private benefit (MPB), the marginal private cost (MPC) and the marginal social cost (MSC) for firms in an industry. The equilibrium price is point X.



What should happen to achieve allocative efficiency?

A a decrease in consumption and an increase in price

B a decrease in production and no change in price

C an increase in consumption and a decrease in production

D an increase in price and no change in production

3 In deciding whether to invest in a new project, what would be taken into account in government cost-benefit analysis but **not** by a private company?

A consultancy fees

B consumer surplus

C interest charges

D tax payments

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4 What is **not** held constant when calculating the income effect of a change in the price of a good?

A the consumer's money income

B the consumer's preferences

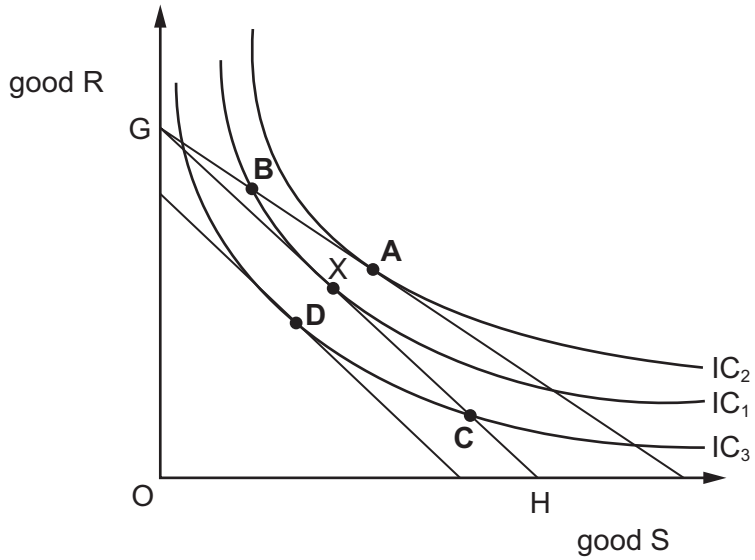
C the consumer's real income

D the prices of other goods

5 The diagram shows a consumer's initial budget line is GH and a set of indifference curves IC_1, IC_2 and IC_3 for goods R and S. The original equilibrium for the consumer is point X.

The inflation rate is rising faster than money incomes.

What will be the most likely new equilibrium for the consumer if income is spent?



6 Firms X, Y and Z are profit maximising private firms.

X operates in a perfectly competitive industry, Y in a monopolistically competitive industry and Z is a single monopolist.

Which statement is correct?

A Only X satisfies the condition for allocative efficiency.

B Only X faces no barriers to entry in the long run.

C Only Y and Z can make a supernormal profit in the long run.

D Only Z has a product differentiation.

7 What are the correct formulae for calculating average cost (AC) and average revenue (AR)?

	AC	AR
A	$\frac{TC}{MC}$	$\frac{TR}{MR}$
B	$\frac{TC}{P}$	$P \times Q$
C	$\frac{TC}{Q}$	$\frac{P \times Q}{Q}$
D	$\frac{TC}{Q}$	$\frac{TR}{P}$

key
MC = marginal cost
MR = marginal revenue
P = price
Q = quantity
TC = total cost
TR = total revenue

8 A Hawker Centre where there are many outdoor stalls is a popular and cheap place to eat in Singapore. They sell a large variety of food but many sell the same dishes cooked in different ways. The cost of setting up a stall is low and prices charged are very similar.

Of which market structure is this an example?

A monopolistic competition

B monopoly

C oligopoly

D perfect competition

9 What is an example of horizontal integration?

A A bank takes over a travel agent.

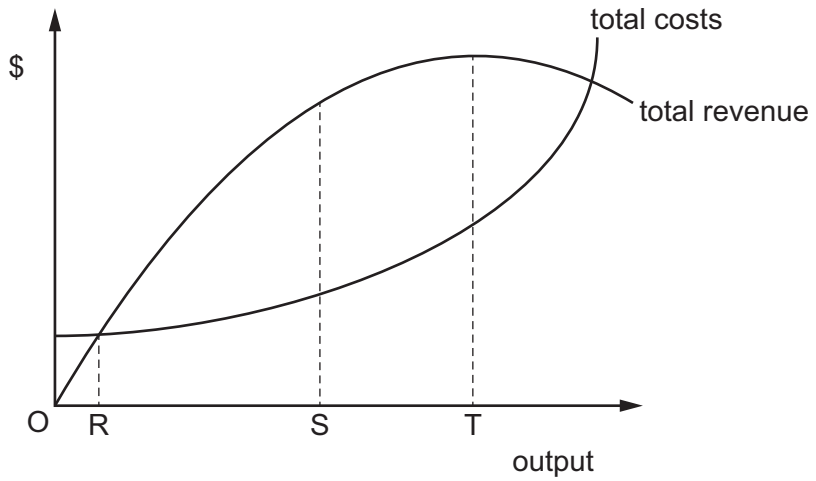
B A car manufacturer buys a component supplier.

C A cotton mill doubles its output of existing products.

D Two breweries merge.

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10 The diagram shows a firm that is a sales revenue maximiser.



What is correct for this firm?

A Output takes place at R and price is at its highest.

B Output takes place at S and profits are maximised.

C Output takes place at T and price is equal to the profit maximising price.

D Output takes place at T and price is lower than the profit maximising price.

11 What is an essential feature of the principal-agent problem?

A the aim of the firm is profit maximisation

B the need for co-operation between firms in the same industry

C the separation of ownership and control

D the uncertainty about a rival competitor's pricing policy

12 Which characteristic of an industry works towards reducing the barriers to entry for new firms?

A significant advertising expenditure by existing firms

B significant economies of scale

C the absence of large costs associated with investment in capital assets

D the possession by existing firms of product and process patents

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13 The government wishes to increase the use of a service with positive externalities.

Which policy measure is most likely to produce the desired outcome?

A decreasing income tax

B increasing transfer payments to the consumer

C leaving the provision of the service to the private sector

D subsidising the producers of the service

14 The government imposes a maximum wage limit on recording artists.

What must result in the short-run if the measure is effective?

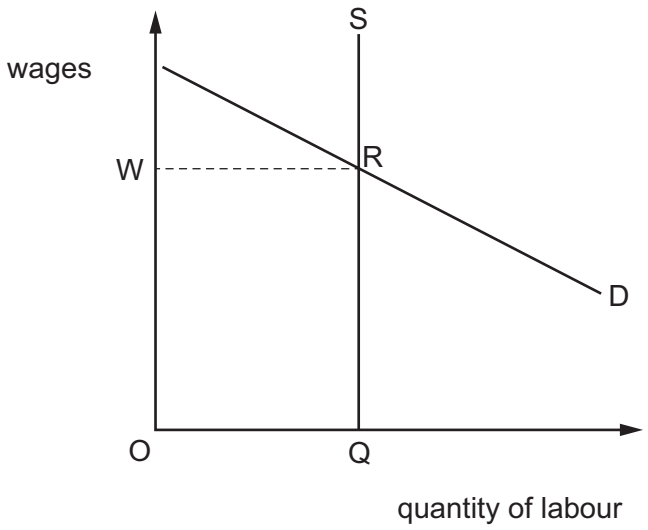
A a decrease in the demand for recording artists

B a decrease in the economic rent earned by recording artists

C a decrease in the profits of record companies

D a decrease in the supply of recording artists

15 The diagram shows the market for labour in an industry in the short-run.



What does the area OWRQ represent?

A consumers' surplus

B economic rent

C the opportunity cost of labour

D transfer earnings

16 A country introduces a national minimum wage (NMW) of $10 per hour.

In which industry is the NMW likely to cause the most unemployment?

	equilibrium wage rate before NMW ($ per hour)	wage elasticity of demand for labour	wage elasticity of supply of labour
A	8	>1	>1
B	8	<1	<1
C	9	>1	>1
D	10	>1	>1

17 Economics textbooks state that for a firm in imperfect competition labour is a derived demand.

How is the demand curve for labour derived?

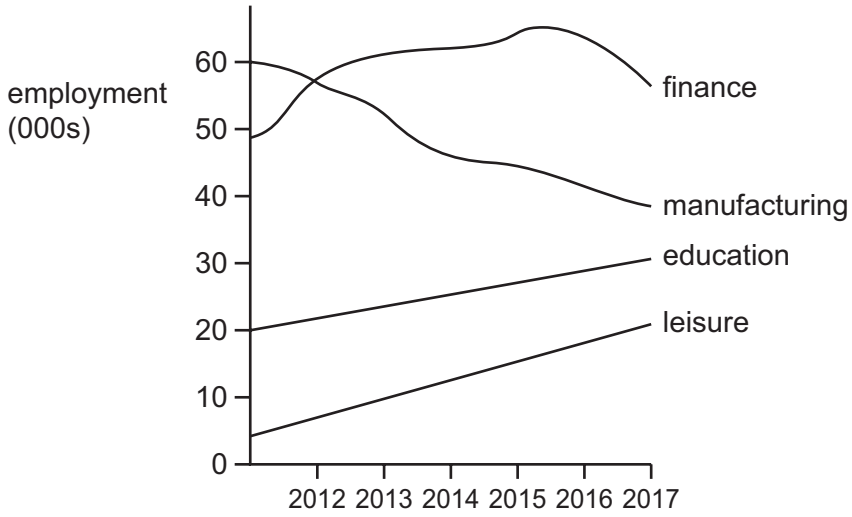
A by multiplying the average physical product by the average revenue

B by multiplying the average physical product by the marginal revenue

C by multiplying the marginal physical product by the marginal cost

D by multiplying the marginal physical product by the marginal revenue

18 The diagram shows changes in the numbers employed in four different industries in a city between 2012 and 2017.



What can be concluded from the diagram?

A Finance was always the largest employer.

B Leisure had the fastest growth rate in employment.

C Manufacturing was the only industry to show signs of decline.

D Total employment in the four industries decreased over the period.

19 What is likely to make the national income of a country less reliable as an indicator of the standard of living?

A a decline in the numbers engaged in subsistence farming

B an increase in negative externalities

C an increase in the employment of domestic servants

D an increase in the numbers eating restaurant meals rather than home-cooked meals

20 What is **not** included as a weighted indicator of poverty in the Multidimensional Poverty Index (MPI)?

A cooking fuel

B electricity

C medication

D water

21 What term is given to short-term unemployment when people are changing jobs?

A cyclical

B frictional

C seasonal

D voluntary

22 Why might GDP remain unchanged despite a rise in labour productivity?

A an increase in the birth rate

B an increase in the population of working age

C a reduction in the number of unemployed people

D a reduction in the retirement age

23 When is an increase in national income most likely to induce an increase in investment spending?

A when firms have spare production capacity

B when firms use labour intensive production

C when the increase in income is regarded as permanent

D when the increase in income is regarded as temporary

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24 In a four sector economy in equilibrium, these values exist.

	$m
investment	15
exports	40
government expenditure	50
savings	15
imports	45
taxes	X

What is the tax revenue, $X m?

A 20 **B** 35 **C** 45 **D** 60

25 In a closed economy with no government C = 40 + 0.7 Y and I = 50, where C is consumption, Y is income and I is investment.

What is the equilibrium level of income?

A 90 **B** 210 **C** 300 **D** 640

26 An increase in the money supply leaves the price level unchanged.

What could explain this?

A a fall in the level of employment

B a fall in the level of real output

C a fall in the velocity of circulation

D a fall in the volume of transactions

27 The table shows the elasticity of demand for money and the elasticity of demand for investment with respect to a change in the interest rate for four countries.

Which country is closest to a Keynesian model of the economy?

	elasticity of demand for money with respect to a low interest rate	elasticity of demand for investment with respect to any interest rate
A	elastic	elastic
B	elastic	relatively inelastic
C	inelastic	elastic
D	inelastic	relatively inelastic

28 When making comparisons of living standards between different countries, what is **not** a reason why they may be misleading?

A Different countries have different amounts of unrecorded economic activity.

B Different countries have different rates of economic growth.

C Less developed countries have limited resources to calculate accurate estimates.

D There are different rates of inflation between countries.

29 The table shows the annual rate of inflation (consumer prices) and the annual rate of unemployment for five countries in a recent year.

	rate of inflation %	rate of unemployment %
Japan Greece USA South Africa Brazil	Content removed due to copyright restrictions	

What conclusion can be made about the relationship between inflation and unemployment?

A Higher inflation is always correlated with higher unemployment.

B Higher inflation is always correlated with lower unemployment.

C Lower inflation is always correlated with higher unemployment.

D No consistent correlation can be established.

30 An economy has a balance of payments trade surplus and a high level of inflation.

What is most likely to be an appropriate action for the government to take?

A devalue the currency

B reduce direct taxes

C increase the money supply

D remove tariffs on imports

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