Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2020**

1 hour 15 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)

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.
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- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

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1 A medical team in a refugee camp provides vaccinations for children to prevent an outbreak of an infectious disease.

Why would this be described as a positive externality?

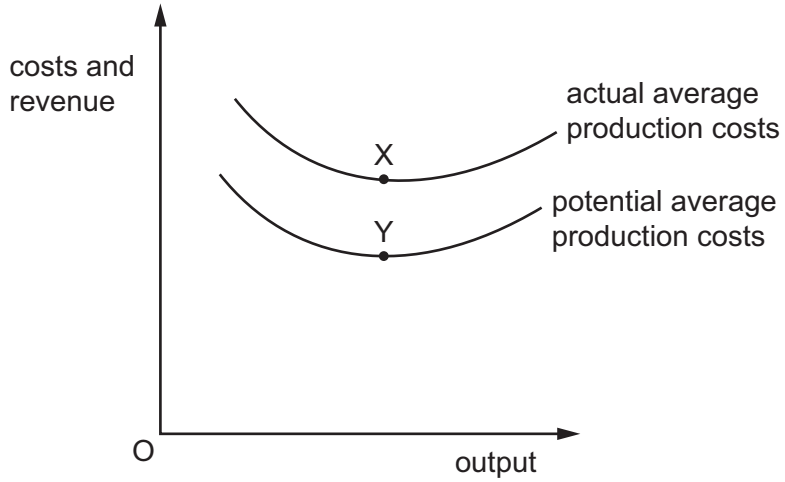
A Additional benefit might be gained as the disease no longer spreads.

B Any kind of medical help will improve the condition of the children.

C No action would be taken unless the medical team intervened.

D The social benefits of vaccination are less than the social costs.

2 The diagram shows the average cost curves for a firm.



If a firm moved from point X to Y, what is most likely to happen to the productive efficiency and x-inefficiency of this firm?

	productive efficiency	x-inefficiency
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

3 An economist undertakes a cost-benefit analysis of the pollution resulting from a manufacturing process.

Which judgement is most likely to guide any recommendation about the appropriate level of manufacturing output?

A that the marginal social cost of manufacturing equals the marginal social benefit

B that the marginal cost of pollution is zero

C that the total revenue of manufacturing equals the total cost

D that the total benefit of pollution is maximised

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4 An individual consumes goods X and Y. The marginal utility of good X is positive and falling. The consumer is at the point where the ratio of the marginal utility of the two goods is equal to the ratio of their prices.

What can be concluded from this information?

A the consumer will continue to consume additional units of X until marginal utility is zero

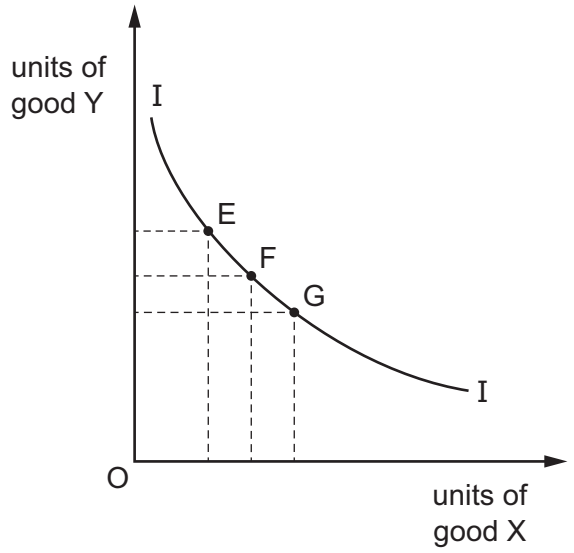
B the consumer will purchase more of X if the price of Y rises

C total utility will be negative on the additional unit of X consumed

D total utility will be rising at an increasing rate on the additional unit of X consumed

5 To analyse a consumer's preferences, an indifference curve represents possible combinations of goods X and Y.

The diagram shows a consumer's indifference curve for good X and good Y.



What can be concluded from the diagram?

A Point E is the most desirable combination.

B Point F is less desirable than point G.

C Point G is the least desirable combination.

D Points E, F and G are equally desirable combinations.

6 In the short run, a firm produces an extra unit of output.

Which of the firm's production costs will change?

A fixed cost only

B fixed cost and variable cost

C variable cost only

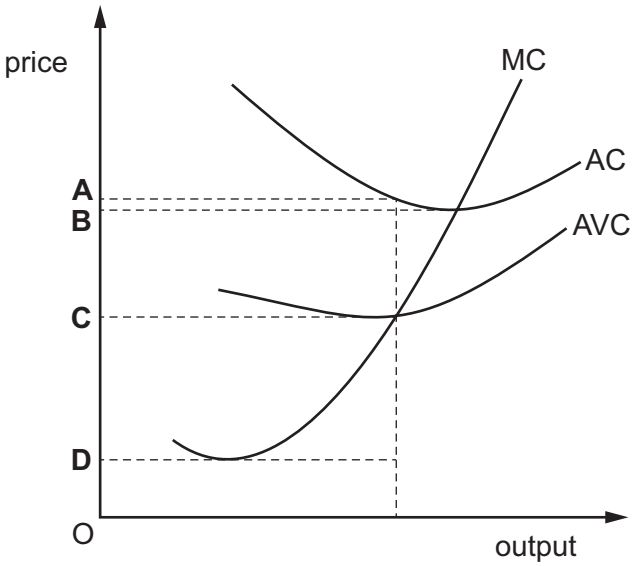
D variable cost and total cost

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7 The diagram shows the cost curves of a firm operating in a perfectly competitive market.

Below which price will the firm shut down in the short run?



8 The table shows a firm's total and marginal costs.

output	total cost ($)	marginal cost ($)
1	340	40
2	375	35
3	400	25
4	435	35
5	475	40

What is the average fixed cost of producing 6 units?

A $50 **B** $60 **C** $180 **D** $300

9 An electronics firm, which began as a semiconductor firm making simple memory chips, has used continuous research and investment to emerge as an industry leader. In addition, it has applied its research in semiconductors to enter other markets including televisions and mobile phones.

What has taken place?

A external growth and diversification

B external growth and sales revenue maximisation

C internal growth and diversification

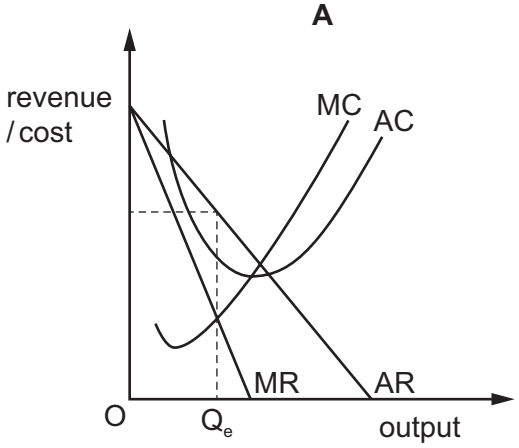
D internal growth and sales revenue maximisation

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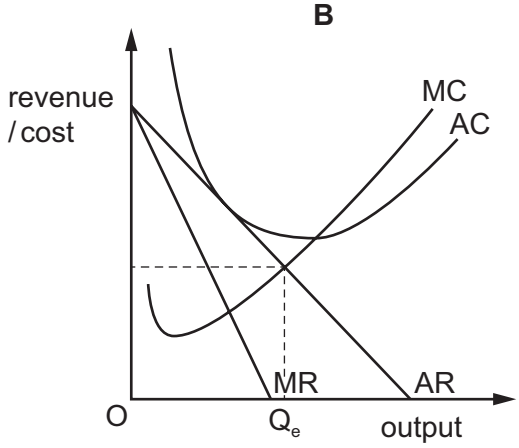
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10 Which diagram shows a monopolistically competitive firm in long-run equilibrium?

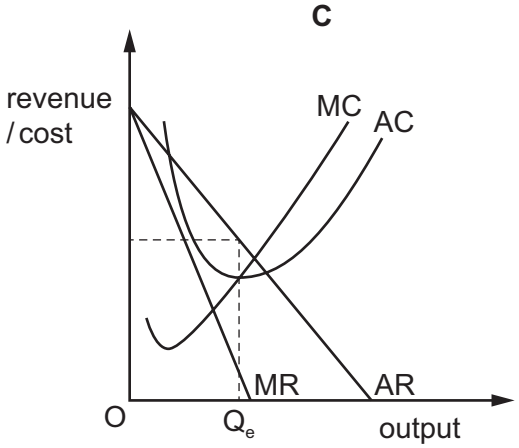
A



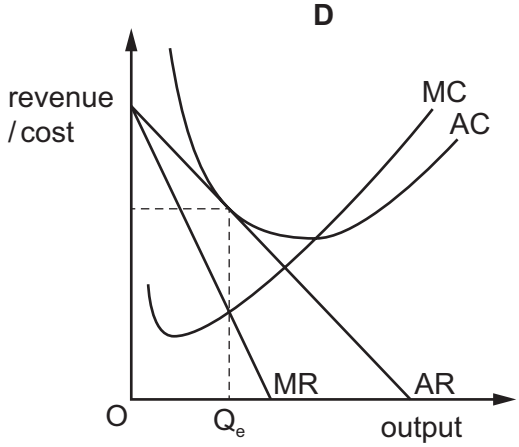
B



C



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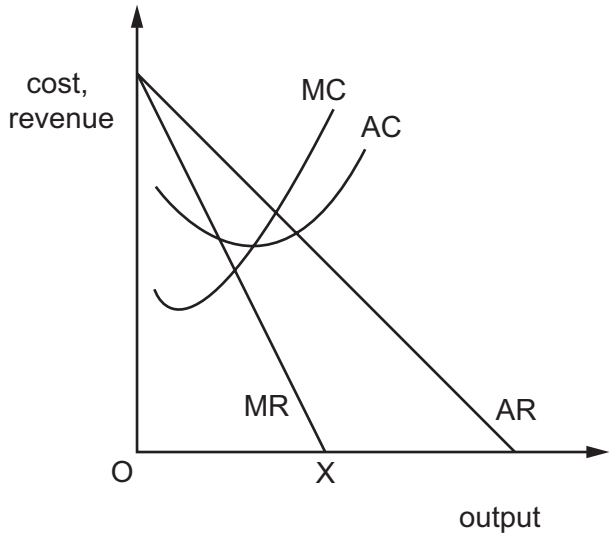


11 When will a cartel find it most difficult to fix the market price of its product?

	proportion of firms in the industry that are members of the cartel	barriers of entry into the industry
A	high	high
B	high	low
C	low	high
D	low	low

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12 The diagram shows the cost and revenue curves of a monopoly.



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

13 Which policy is **not** designed to correct a market failure?

A government provision of healthcare

B price controls on large firms

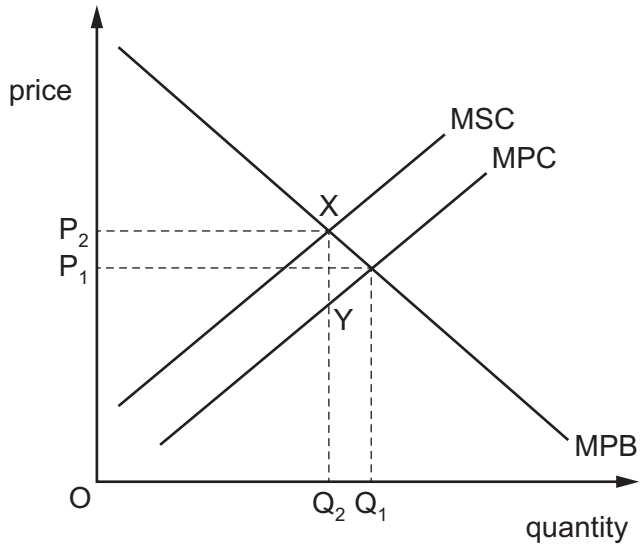
C regulations to limit smoke pollution

D removing import quotas

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14 A chemical firm produces toxic fumes that impose costs on society. The diagram shows the free market equilibrium of the firm's product at P_1Q_1.



The government imposes a tax on the firm of XY.

How would this improve resource allocation?

A It will internalise the external benefit.

B It will internalise the external cost.

C It will internalise the private benefit.

D It will internalise the private cost.

15 The level of benefit paid to an individual receiving a means-tested benefit depends on the individual's

A age.

B family size.

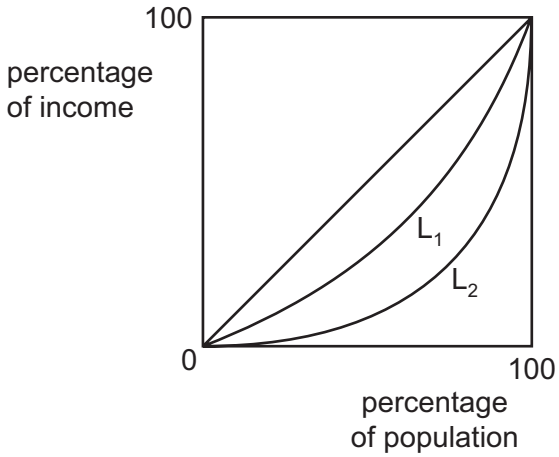
C income.

D qualifications.

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16 The diagram shows two Lorenz curves.



If the Lorenz curve shifts from L_1 to L_2, what is **least** likely to have caused this?

A Capital gains tax has been reduced.

B Income tax has been made more progressive.

C Inheritance tax has been reduced.

D The tax-free allowance has been decreased for everyone.

17 A firm is operating in a perfectly competitive market.

Why does the marginal revenue product of a factor of production employed by the firm fall as more of the factor is employed?

A Its average revenue falls.

B Its marginal physical product falls.

C Its marginal revenue falls.

D The supply price of the factor rises.

18 Labour from developing countries often migrates to developed countries and finds jobs.

How would such a movement of labour be likely to affect the economic growth and the pressure on wage rises in the developed country?

	economic growth	pressure on wage rises
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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19 The African Union consists of 55 developing countries. They agree to adopt a free-trade model to boost trade between member countries.

In theory what do free-trade models tend to ignore?

A absolute advantage in terms of lower factor inputs in production

B allocation of resources where comparative cost advantage is greatest

C the international division of labour and differences in opportunity cost ratios

D transport costs and inefficiencies in the handling of goods and services

20 Young workers find it especially difficult to get a job during an economic recession. A government introduces a transfer payment for those seeking work and provides information on vacancies.

What should be a positive outcome of this policy for those seeking work?

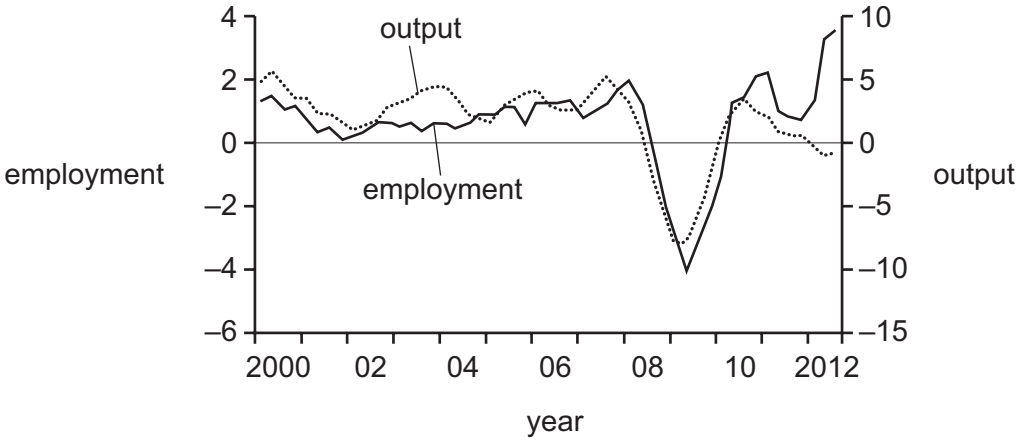
A Firms no longer need to advertise jobs because there are few vacancies.

B No production of goods or services is required for a transfer payment.

C Obtaining information on jobs available makes the labour market more perfect.

D Students will leave their studies to join the workforce at an earlier age.

21 The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity increase the most?

A 2003 **B** 2007 **C** 2009 **D** 2012

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22 The table shows the levels of consumption expenditure and savings for given family incomes.

disposable family income ($)	consumption expenditure ($)	savings ($)
2000	2150	–150
3000	3100	–100
4000	4000	0
5000	4850	150
6000	5650	350
7000	6380	620

Over the range of disposable income shown, as income rises the marginal propensity to consume

A falls and then rises.

B falls continuously.

C rises and then falls.

D rises continuously.

23 During a year, a country's national income in money terms increased by 3%, prices increased by 4% and total population increased by 1%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 2%

D an increase of 3%

24 What does the accelerator principle explain?

A how changes in consumption lead to changes in income

B how changes in income lead to changes in consumption

C how changes in income lead to changes in investment

D how changes in investment lead to changes in income

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25 An individual's demand curve for an active money balance will move to the left if there is an increase in the

A frequency of income payments.

B general price level.

C individual's income.

D rate of interest.

26 A country's central bank buys government securities from the private sector.

What is the most likely effect on long-term interest rates and the money supply?

	long-term interest rates	money supply
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

27 What belief do Keynesians and Monetarists share?

A Expectations rapidly adapt to changing circumstances.

B Fiscal policy is the most effective economic policy.

C There is need for individual choice expressed through the market.

D The velocity of circulation of money is stable.

28 Which statement is most likely to be made by an economist from the Keynesian school?

A Any deviation from full employment will only be temporary.

B Free markets will always lead to an efficient economic outcome.

C Market imperfections can lead the economy to remain below full capacity for a considerable time.

D The role of expansionary fiscal policy is likely to be limited.

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29 The US government has been using a policy of quantitative easing to increase economic growth.

What is the most likely effect of this policy on the internal and external value of the US dollar?

	internal value	external value
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

30 In 2018 the US imposed a tariff on steel imports.

What is the likely impact of this tariff on the US economy?

A It will make US steel exports more price competitive.

B It will lead to productive inefficiency in the US steel industry.

C There will be a deterioration in the US's terms of trade.

D There will be a decrease in producer surplus for US steel producers.

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/31 (May/June 2020): multiple choice answers

1 A Vaccination stops the disease spreading, so third parties who were not vaccinated also benefit.

2 C Moving from X (actual AC) down to Y (potential AC) lowers average cost, so productive efficiency rises and x-inefficiency falls.

3 A The socially optimal output is where MSC = MSB.

4 B MUx/Px = MUy/Py; if Py rises, MUy/Py falls so the consumer switches spending towards X.

5 D Every point on one indifference curve gives the same total utility.

6 D Fixed cost does not change with output, so only variable cost and total cost rise.

7 C C is the minimum of AVC; below it price does not cover variable cost so the firm shuts down.

8 A TFC = 340 − 40 = $300, so AFC at 6 units = 300 ÷ 6 = $50.

9 C Growth through its own research and investment is internal; entering TVs and phones is diversification.

10 D MC = MR at Qe and AC is tangent to AR there, so P = AC and only normal profit is made.

11 D Few firms in the cartel and easy entry mean outsiders can undercut the agreed price.

12 C OX is where MR = 0, so total revenue is at its maximum.

13 D Removing import quotas is a trade liberalisation policy, not a correction of a market failure.

Question number		
14	B	Tax XY = MSC − MPC at the optimum, so the firm pays the external cost and output falls to Q2.
15	C	A means-tested benefit is paid according to the income (and wealth) of the claimant.
16	B	L1 to L2 moves away from the line of equality; a more progressive income tax would reduce inequality, so B is least likely.
17	B	Price (MR) is constant in perfect competition, so MRP = MPP × MR falls only because of diminishing MPP.
18	C	Extra labour raises productive capacity, so growth increases, and higher labour supply reduces pressure on wages.
19	D	Free-trade models assume zero transport costs and frictionless trade.
20	C	Better information on vacancies reduces search time, so the labour market works more perfectly.
21	A	In 2003 output growth exceeded employment growth by the largest margin, so output per worker rose most.
22	B	MPC = $\Delta C \div \Delta Y$: 0.95, 0.90, 0.85, 0.80, 0.73, so it falls continuously.
23	B	Real income ≈ 3% − 4% = −1%; per head ≈ −1% − 1% = −2%, a decrease of 2%.
24	C	The accelerator says investment depends on the rate of change of income (output).
25	A	If income is paid more often, smaller average transactions balances are needed, so demand shifts left.
26	B	Buying securities raises their price, lowering yields (interest rates), and injects money, raising the money supply.
27	C	Both accept a mixed economy in which markets express individual choice.
28	C	Keynesians argue sticky wages and prices can leave the economy below full employment for a long time.

Question number	
29	A QE increases the money supply, so inflation reduces the internal value and lower interest rates cause depreciation.
30	B Protection from foreign competition allows US steel producers to stay inefficient (higher cost).

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1 What is an example of a negative externality?

A Lower profit due to increased competition from new firms entering the market.

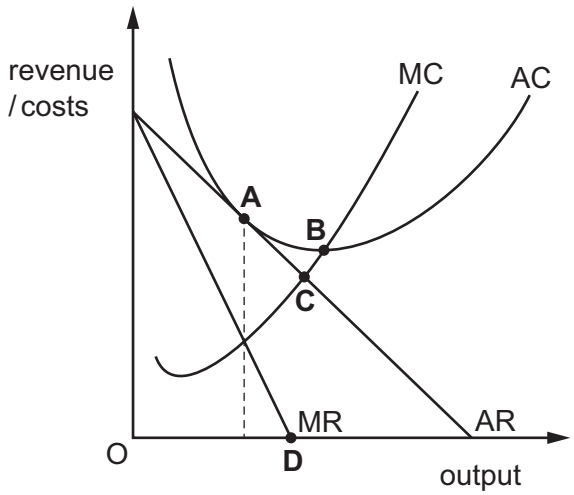
B Reduced government funding for a museum.

C The increase in noise levels from aircraft due to the expansion of a large city airport.

D The increase in production costs due to an increase in the cost of importing raw materials.

2 The diagram shows a firm operating in monopolistic competition.

At which point is the firm allocatively efficient?



3 The amount of training undertaken in a mixed economy is not socially optimal.

What could explain this?

A Experienced educators are a scarce resource.

B In a mixed economy training is a public good.

C The individual's benefit from training is less than the benefit to society.

D Training is a large variable cost for firms.

4 Four bus companies control more than two-thirds of the market in a country.

Critics claim that these companies fix prices on some routes to maximise revenue whilst lowering prices on other routes to stop smaller competitors entering the market.

Which anti-competitive practices are these companies accused of?

A collusion and limit pricing

B collusion and price leadership

C limit pricing and price discrimination

D price leadership and x-inefficiency

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5 On a diagram the slope of a consumer's budget line becomes steeper.

What can definitely be concluded from this?

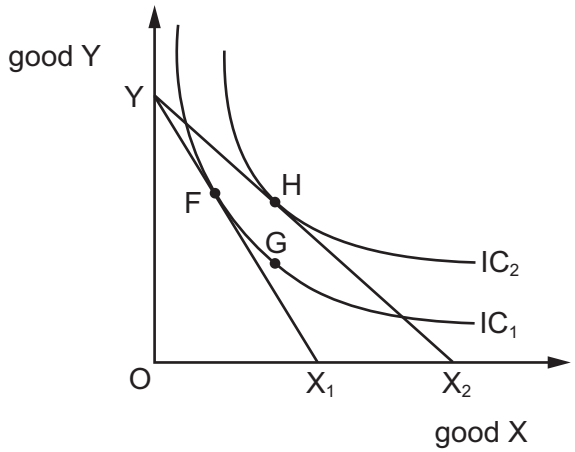
A The consumer's income has fallen.

B The consumer's income has risen.

C The price has decreased for the product on the horizontal axis.

D The price has increased for the product on the horizontal axis.

6 The diagram shows two indifference curves and two budget lines for goods X and Y.



The consumer's initial position is at point F. The consumer's preferred final position becomes point H.

What does the movement from F to G represent?

A the income effect of a price fall for X

B the price effect of a price change for X

C the substitution effect of a price fall for X

D the substitution effect of a price rise for X

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7 The table shows the total costs at different levels of output for a firm producing chairs.

output (chairs)	total cost ($)
0	50
1	60
2	64
3	77
4	94
5	114

What is the average variable cost when output is 4 chairs?

A $11 **B** $17 **C** $44 **D** $23.50

8 At which level of output will a firm achieve the aim of sales maximisation?

A where AC = AR

B where AC = MC

C where MC = AR

D where MR = zero

9 In market economies firms can operate under monopolistic competition.

Which feature is **not** typical of this type of market?

A non-price competition through advertising

B price leadership with few large firms

C promotion of differentiated products

D unrestricted entry results in long-run normal profit

10 When will the 'principal-agent' problem occur?

A when managers are not allowed to become shareholders

B when members of a cartel collude to gain higher profit

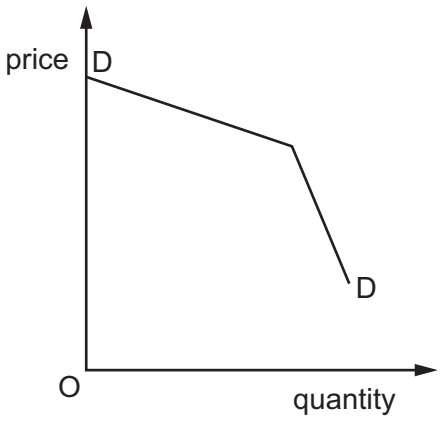
C when one firm dominates the market

D when owners have different objectives to managers

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11 Which feature of oligopoly is being assumed when the demand curve for an individual firm is as shown?



A price discrimination

B price leadership by the dominant firm

C interdependence between firms

D collusion between firms

12 The table provides data on the number and value of mergers in Europe and North America between 2014 and 2017.

year	Europe		North America	
	number	value (euro)	number	value (US dollar)
2014	17 000	980 billion	14 000	2289 billion
2015	15 500	1161 billion	14 500	2533 billion
2016	18 100	1003 billion	15 100	1858 billion
2017	18 000	980 billion	18 500	1822 billion

What can be deduced from the table?

A The average value of a merger in Europe was higher in 2017 than 2014.

B The difference in the number of mergers in Europe and North America was the same in 2014 and 2016.

C The value of mergers each year in US dollars was always lower in Europe.

D The number of mergers each year was always higher in Europe.

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13 Charities distribute plastic bags to households that householders can fill with clothes they no longer want. The charities then collect them and sell the clothes to raise funds. Only one charity leaves a note thanking the householder for the donation.

What best describes this charity's approach?

A game theory

B monopoly behaviour

C non-price competition

D nudge theory

14 What could prevent a market failure?

A barriers to entry

B building regulations

C growth of firms

D persuasive advertising

15 When will a society have achieved an equitable distribution of income?

A when all individuals have equal job opportunities

B when all workers are paid the same wages

C when the incomes within the society are equally distributed

D when the society believes that the distribution of income is fair

16 'The addition to revenue which results from employing one additional unit of a factor of production, while the quantities of all other factors of production remain constant'.

What does this define?

A marginal factor cost

B marginal revenue

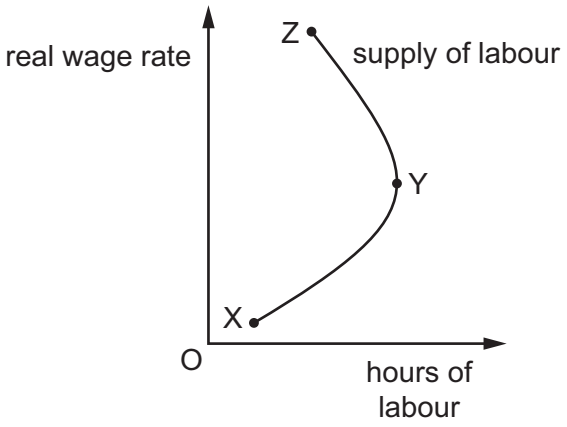
C marginal revenue product

D the law of diminishing returns

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17 The alternative to work is to have leisure time. The diagram shows a worker's decision of how many hours of labour to supply.



What happens between Y and Z?

A Extra leisure is preferred to work.

B Extra work is preferred to leisure.

C The job now requires more specific skills.

D The price elasticity of supply for the final product has become more inelastic.

18 By moving from rural areas to large urban areas to work, how might economic migrants create benefits in both areas in developing countries?

	rural areas	urban areas
A	by improving land ownership systems	by becoming better educated
B	by receiving financial help from urban workers	by providing necessary labour
C	by reducing population pressure on resources	by living in informal settlements
D	by solving unemployment problems	by obtaining loans from moneylenders

19 Which change is most likely to increase both economic growth and economic development in the long run?

A a decrease in the saving ratio

B an increase in investment in human capital

C the depletion of non-renewable resources

D the greater use of compulsory overtime working of labour

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20 The table gives population data from the United Nations.

	low-income countries	lower-middle-income countries	upper-middle-income countries	high-income countries
rate of population change (% per year)	2.7	1.5	0.8	0.5
life expectancy (years)	61	67	74	80
death rate (per 1000 population)	9	8	7	8
under-5 mortality (per 1000 live births)	90	59	18	6

As countries move from low income to high income, which indicator shows a value that does **not** represent the expected trend?

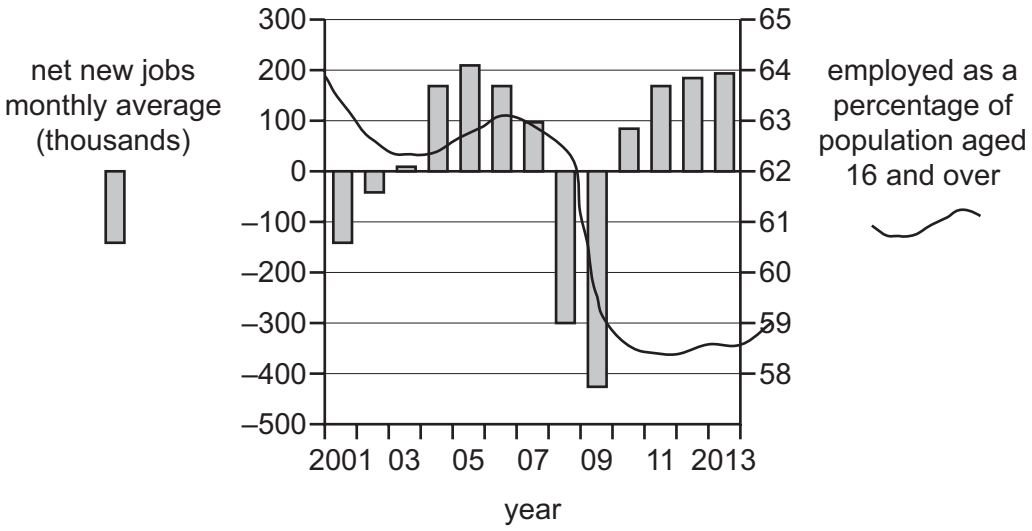
A the rate of population change in upper-middle-income countries

B the life expectancy in high-income countries

C the death rate in high-income countries

D the under-5 mortality in upper-middle-income countries

21 The diagram shows selected US labour statistics from 2001 to 2013.



What can be concluded from the diagram?

A Between 2004 and 2005, when the number of net new jobs was rising, the percentage employed increased.

B Employed as a percentage of the population aged 16 and over declined continuously.

C The natural rate of unemployment was achieved only in 2008.

D The number of employed workers rose in all except four years.

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22 What indicates that a developing country is becoming less dependent on foreign aid?

A It gains foreign currency by exporting a range of raw materials, and uses this to import machinery from developed economies.

B It has to change its economic structure in order to qualify for a bailout loan from the World Bank.

C Its balance of payments goes into deficit when it has to start paying interest on loans taken out with foreign banks.

D Its local firms go out of business after a foreign multinational sets up in the country.

23 How must GDP at market prices (producer prices) be adjusted to find GDP at factor cost?

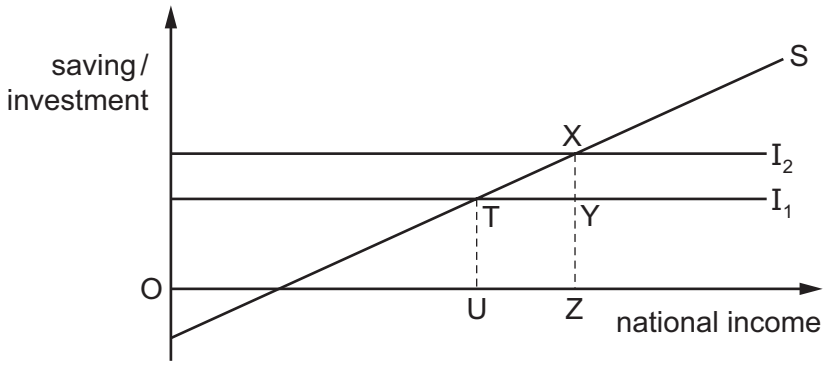
A by adding exports and deducting imports

B by adding net property income and deducting transfer payments

C by adding profits and deducting income taxes

D by adding subsidies and deducting indirect taxes

24 The diagram shows the equilibrium levels of national income in a closed economy with no government, at two levels of investment, I_1 and I_2.



Which ratio gives the value of the multiplier?

A $\frac{TX}{UZ}$ **B** $\frac{UZ}{TX}$ **C** $\frac{UZ}{XY}$ **D** $\frac{XY}{UZ}$

25 An upward shift of the curve relating consumption to national income could be caused by

A a reduction in taxation.

B an increase in investment.

C an increase in national income.

D an increase in savings.

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26 Which combination of changes is most likely to result in an increase in the demand for money?

	income level	price level	interest rate
A	fall	fall	rise
B	fall	rise	fall
C	rise	fall	rise
D	rise	rise	fall

27 In 1936 Keynes explained how economic policy can be used to increase aggregate demand and prevent an economic depression.

Which policy supports Keynes' theory?

A Central banks should raise interest rates and decrease liquidity.

B Governments should increase expenditure and decrease taxation.

C Governments should encourage consumer savings rather than expenditure.

D Trading policy should prevent the free movement of capital.

28 A central bank increases the money supply in an attempt to stimulate investment and growth when the economy is in recession.

When might this policy be ineffective?

A if the economy is in the liquidity trap

B if the economy is in the poverty trap

C if the Marshall-Lerner condition does not hold

D if the value of the multiplier is very low

29 Which statement describes what the Phillips curve shows?

A An inverse relationship exists between inflation and unemployment.

B As employment increases the balance of payments deteriorates.

C Economic growth and employment have a positive relationship.

D It is possible to achieve low inflation and high economic growth at the same time.

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30 To stimulate economic growth the government increases the size of its budget deficit and funds this by increasing the money supply.

What is most likely to reduce the effectiveness of these measures in achieving their aim?

A a floating exchange rate

B a high marginal propensity to import

C a low marginal propensity to save

D an interest-inelastic demand for money

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Surname	StemUp Model Solution
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/32 (May/June 2020): multiple choice answers

1 C Aircraft noise is a cost imposed on third parties outside the market transaction.

2 C Allocative efficiency is where price (AR) = MC, which is point C.

3 C Training has positive externalities, so the private benefit is less than the social benefit and it is under-consumed.

4 A Fixing prices together is collusion; lowering prices to deter entry is limit pricing.

5 D Slope = Px ÷ Py; a steeper budget line definitely means the relative price of X has risen.

6 C F to G is a move along the same IC1 to the new relative price, so it is the substitution effect of a fall in the price of X.

7 A TFC = $50, so TVC at 4 = 94 – 50 = $44 and AVC = 44 ÷ 4 = $11.

8 A Sales (output) are maximised subject to normal profit, where AC = AR.

9 B Price leadership by a few large firms is a feature of oligopoly, not monopolistic competition.

10 D The principal-agent problem arises when the objectives of owners (principals) and managers (agents) differ.

11 C A kinked demand curve assumes rivals match price cuts but ignore price rises: interdependence.

12 B Difference: 17 000 – 14 000 = 3000 in 2014 and 18 100 – 15 100 = 3000 in 2016.

13 D The thank-you note is a small prompt that encourages future donations without any incentive: a nudge.

Question number		
14	B	Building regulations correct information failures and negative externalities such as safety risks.
15	D	Equity means fairness, so it depends on what society judges to be a fair distribution.
16	C	This is the definition of marginal revenue product: MRP = MPP × MR.
17	A	Between Y and Z the supply curve bends backwards: the income effect dominates and more leisure is preferred.
18	B	Remittances from urban workers help rural families, while migrants supply labour needed in urban areas.
19	B	Human capital raises productivity (growth) and improves education and living standards (development).
20	C	The death rate should keep falling as income rises, but it rises from 7 to 8 in high-income countries.
21	A	In 2004 to 2005 net new jobs were rising and the employment ratio rose from about 62 to 63%.
22	A	Export earnings pay for imported capital goods, so the country relies on trade rather than aid.
23	D	GDP at factor cost = GDP at market prices − indirect taxes + subsidies.
24	C	Multiplier = $\Delta Y \div \Delta I$ = UZ ÷ XY.
25	A	Lower taxes raise disposable income, so consumption is higher at every level of national income.
26	D	Higher income and prices raise transactions demand; a lower interest rate lowers the opportunity cost of holding money.
27	B	Keynes argued for expansionary fiscal policy: higher government spending and lower taxes raise AD.
28	A	In a liquidity trap extra money is hoarded and interest rates cannot fall further, so investment does not rise.

Question number	
29	A The Phillips curve shows an inverse relationship between inflation and unemployment.
30	B A high MPM means much of the extra spending leaks abroad, so the multiplier effect on growth is small.

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ECONOMICS **9708/33**

Paper 3 Multiple Choice **May/June 2020**

1 hour 15 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)

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. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.

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1 A medical team in a refugee camp provides vaccinations for children to prevent an outbreak of an infectious disease.

Why would this be described as a positive externality?

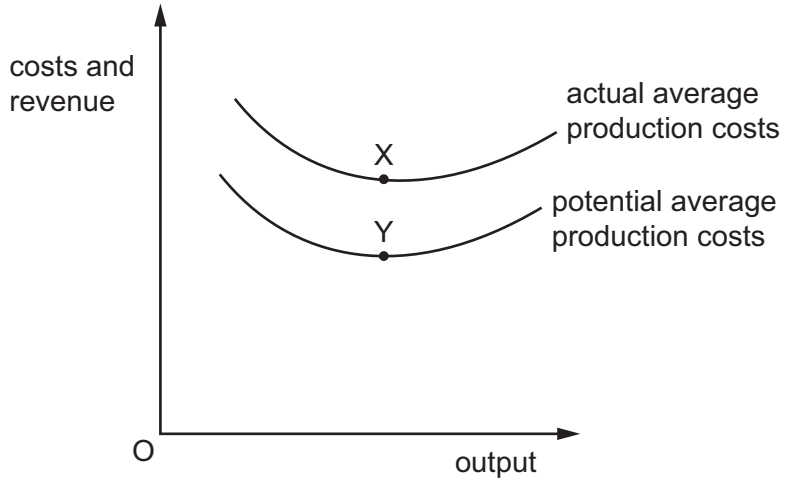
A Additional benefit might be gained as the disease no longer spreads.

B Any kind of medical help will improve the condition of the children.

C No action would be taken unless the medical team intervened.

D The social benefits of vaccination are less than the social costs.

2 The diagram shows the average cost curves for a firm.



If a firm moved from point X to Y, what is most likely to happen to the productive efficiency and x-inefficiency of this firm?

	productive efficiency	x-inefficiency
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

3 An economist undertakes a cost-benefit analysis of the pollution resulting from a manufacturing process.

Which judgement is most likely to guide any recommendation about the appropriate level of manufacturing output?

A that the marginal social cost of manufacturing equals the marginal social benefit

B that the marginal cost of pollution is zero

C that the total revenue of manufacturing equals the total cost

D that the total benefit of pollution is maximised

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4 An individual consumes goods X and Y. The marginal utility of good X is positive and falling. The consumer is at the point where the ratio of the marginal utility of the two goods is equal to the ratio of their prices.

What can be concluded from this information?

A the consumer will continue to consume additional units of X until marginal utility is zero

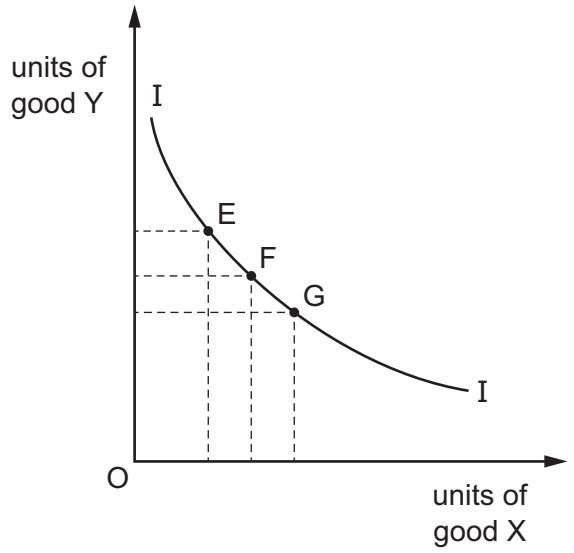
B the consumer will purchase more of X if the price of Y rises

C total utility will be negative on the additional unit of X consumed

D total utility will be rising at an increasing rate on the additional unit of X consumed

5 To analyse a consumer's preferences, an indifference curve represents possible combinations of goods X and Y.

The diagram shows a consumer's indifference curve for good X and good Y.



What can be concluded from the diagram?

A Point E is the most desirable combination.

B Point F is less desirable than point G.

C Point G is the least desirable combination.

D Points E, F and G are equally desirable combinations.

6 In the short run, a firm produces an extra unit of output.

Which of the firm's production costs will change?

A fixed cost only

B fixed cost and variable cost

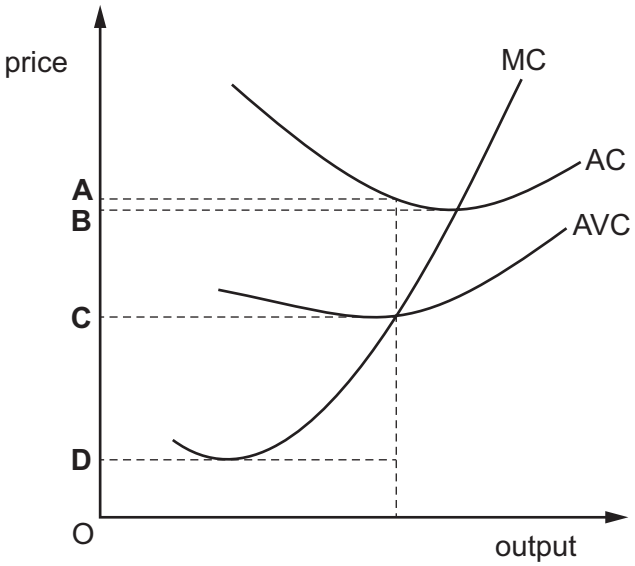
C variable cost only

D variable cost and total cost

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7 The diagram shows the cost curves of a firm operating in a perfectly competitive market.

Below which price will the firm shut down in the short run?



8 The table shows a firm's total and marginal costs.

output	total cost ($)	marginal cost ($)
1	340	40
2	375	35
3	400	25
4	435	35
5	475	40

What is the average fixed cost of producing 6 units?

A $50 **B** $60 **C** $180 **D** $300

9 An electronics firm, which began as a semiconductor firm making simple memory chips, has used continuous research and investment to emerge as an industry leader. In addition, it has applied its research in semiconductors to enter other markets including televisions and mobile phones.

What has taken place?

A external growth and diversification

B external growth and sales revenue maximisation

C internal growth and diversification

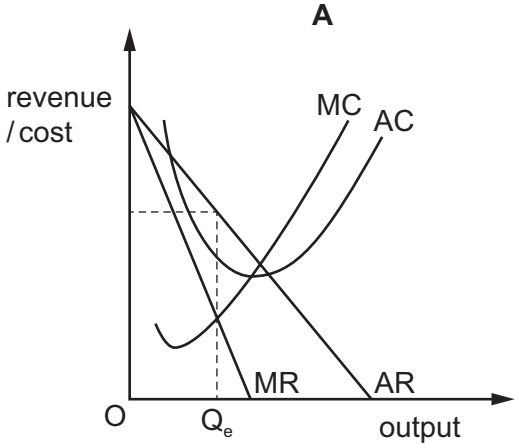
D internal growth and sales revenue maximisation

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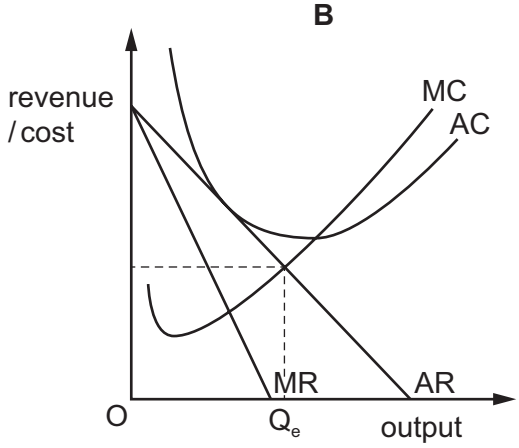
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10 Which diagram shows a monopolistically competitive firm in long-run equilibrium?

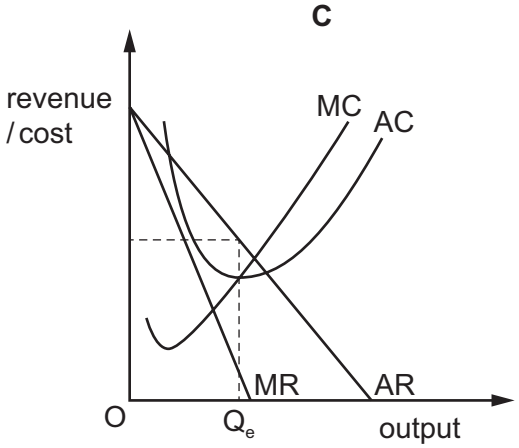
A



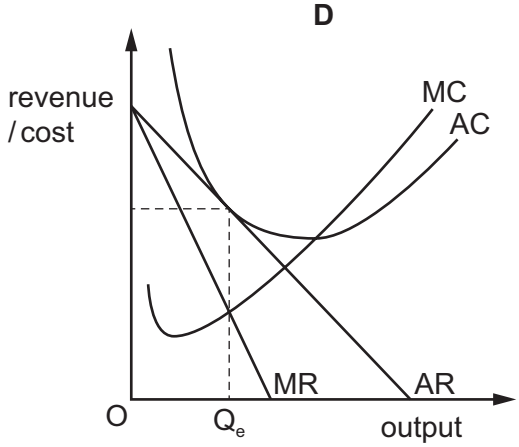
B



C



D

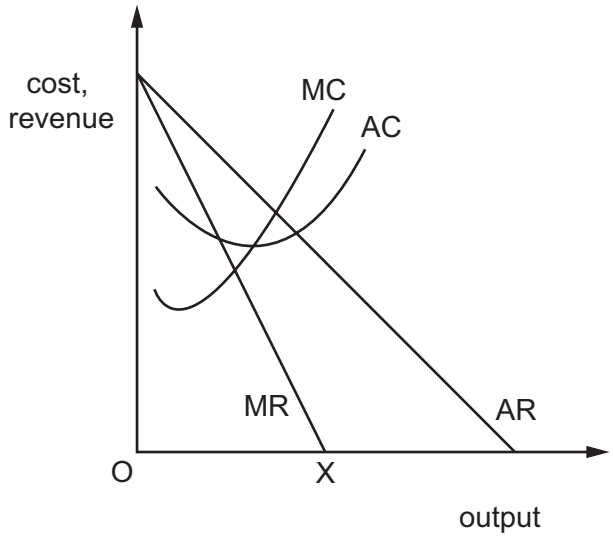


11 When will a cartel find it most difficult to fix the market price of its product?

	proportion of firms in the industry that are members of the cartel	barriers of entry into the industry
A	high	high
B	high	low
C	low	high
D	low	low

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12 The diagram shows the cost and revenue curves of a monopoly.



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

13 Which policy is **not** designed to correct a market failure?

A government provision of healthcare

B price controls on large firms

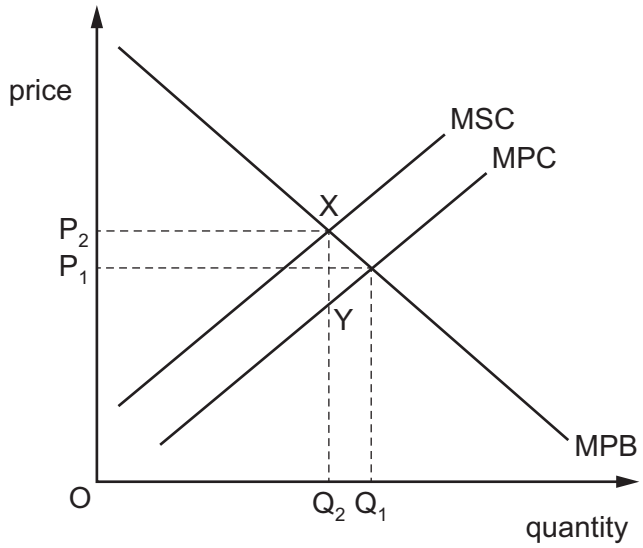
C regulations to limit smoke pollution

D removing import quotas

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14 A chemical firm produces toxic fumes that impose costs on society. The diagram shows the free market equilibrium of the firm's product at P_1Q_1.



The government imposes a tax on the firm of XY.

How would this improve resource allocation?

A It will internalise the external benefit.

B It will internalise the external cost.

C It will internalise the private benefit.

D It will internalise the private cost.

15 The level of benefit paid to an individual receiving a means-tested benefit depends on the individual's

A age.

B family size.

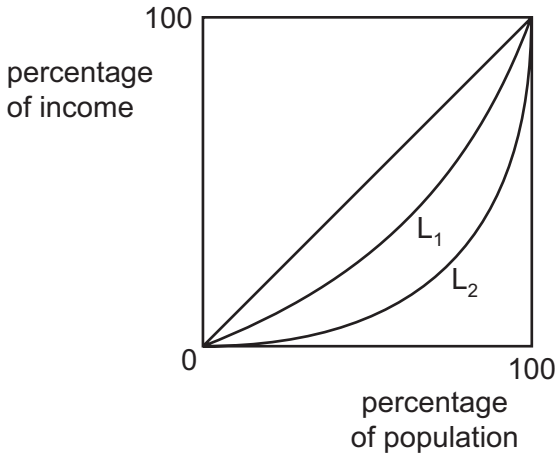
C income.

D qualifications.

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16 The diagram shows two Lorenz curves.



If the Lorenz curve shifts from L_1 to L_2, what is **least** likely to have caused this?

A Capital gains tax has been reduced.

B Income tax has been made more progressive.

C Inheritance tax has been reduced.

D The tax-free allowance has been decreased for everyone.

17 A firm is operating in a perfectly competitive market.

Why does the marginal revenue product of a factor of production employed by the firm fall as more of the factor is employed?

A Its average revenue falls.

B Its marginal physical product falls.

C Its marginal revenue falls.

D The supply price of the factor rises.

18 Labour from developing countries often migrates to developed countries and finds jobs.

How would such a movement of labour be likely to affect the economic growth and the pressure on wage rises in the developed country?

	economic growth	pressure on wage rises
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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19 The African Union consists of 55 developing countries. They agree to adopt a free-trade model to boost trade between member countries.

In theory what do free-trade models tend to ignore?

A absolute advantage in terms of lower factor inputs in production

B allocation of resources where comparative cost advantage is greatest

C the international division of labour and differences in opportunity cost ratios

D transport costs and inefficiencies in the handling of goods and services

20 Young workers find it especially difficult to get a job during an economic recession. A government introduces a transfer payment for those seeking work and provides information on vacancies.

What should be a positive outcome of this policy for those seeking work?

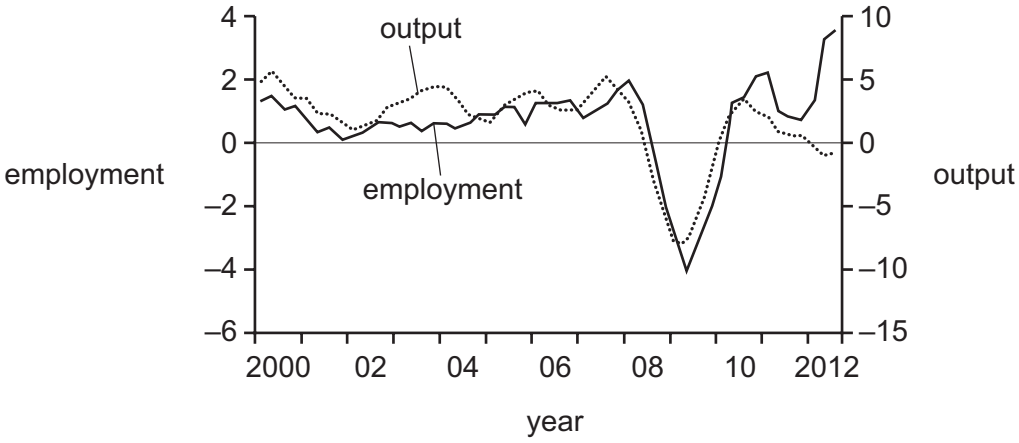
A Firms no longer need to advertise jobs because there are few vacancies.

B No production of goods or services is required for a transfer payment.

C Obtaining information on jobs available makes the labour market more perfect.

D Students will leave their studies to join the workforce at an earlier age.

21 The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity increase the most?

A 2003 **B** 2007 **C** 2009 **D** 2012

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22 The table shows the levels of consumption expenditure and savings for given family incomes.

disposable family income ($)	consumption expenditure ($)	savings ($)
2000	2150	–150
3000	3100	–100
4000	4000	0
5000	4850	150
6000	5650	350
7000	6380	620

Over the range of disposable income shown, as income rises the marginal propensity to consume

A falls and then rises.

B falls continuously.

C rises and then falls.

D rises continuously.

23 During a year, a country's national income in money terms increased by 3%, prices increased by 4% and total population increased by 1%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 2%

D an increase of 3%

24 What does the accelerator principle explain?

A how changes in consumption lead to changes in income

B how changes in income lead to changes in consumption

C how changes in income lead to changes in investment

D how changes in investment lead to changes in income

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25 An individual's demand curve for an active money balance will move to the left if there is an increase in the

A frequency of income payments.

B general price level.

C individual's income.

D rate of interest.

26 A country's central bank buys government securities from the private sector.

What is the most likely effect on long-term interest rates and the money supply?

	long-term interest rates	money supply
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

27 What belief do Keynesians and Monetarists share?

A Expectations rapidly adapt to changing circumstances.

B Fiscal policy is the most effective economic policy.

C There is need for individual choice expressed through the market.

D The velocity of circulation of money is stable.

28 Which statement is most likely to be made by an economist from the Keynesian school?

A Any deviation from full employment will only be temporary.

B Free markets will always lead to an efficient economic outcome.

C Market imperfections can lead the economy to remain below full capacity for a considerable time.

D The role of expansionary fiscal policy is likely to be limited.

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29 The US government has been using a policy of quantitative easing to increase economic growth.

What is the most likely effect of this policy on the internal and external value of the US dollar?

	internal value	external value
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

30 In 2018 the US imposed a tariff on steel imports.

What is the likely impact of this tariff on the US economy?

A It will make US steel exports more price competitive.

B It will lead to productive inefficiency in the US steel industry.

C There will be a deterioration in the US's terms of trade.

D There will be a decrease in producer surplus for US steel producers.

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Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/33 (May/June 2020): multiple choice answers

1 A Vaccination stops the disease spreading, so third parties who were not vaccinated also benefit.

2 C Moving from X (actual AC) down to Y (potential AC) lowers average cost, so productive efficiency rises and x-inefficiency falls.

3 A The socially optimal output is where MSC = MSB.

4 B MUx/Px = MUy/Py; if Py rises, MUy/Py falls so the consumer switches spending towards X.

5 D Every point on one indifference curve gives the same total utility.

6 D Fixed cost does not change with output, so only variable cost and total cost rise.

7 C C is the minimum of AVC; below it price does not cover variable cost so the firm shuts down.

8 A TFC = 340 − 40 = $300, so AFC at 6 units = 300 ÷ 6 = $50.

9 C Growth through its own research and investment is internal; entering TVs and phones is diversification.

10 D MC = MR at Qe and AC is tangent to AR there, so P = AC and only normal profit is made.

11 D Few firms in the cartel and easy entry mean outsiders can undercut the agreed price.

12 C OX is where MR = 0, so total revenue is at its maximum.

13 D Removing import quotas is a trade liberalisation policy, not a correction of a market failure.

Question number		
14	B	Tax XY = MSC − MPC at the optimum, so the firm pays the external cost and output falls to Q2.
15	C	A means-tested benefit is paid according to the income (and wealth) of the claimant.
16	B	L1 to L2 moves away from the line of equality; a more progressive income tax would reduce inequality, so B is least likely.
17	B	Price (MR) is constant in perfect competition, so MRP = MPP × MR falls only because of diminishing MPP.
18	C	Extra labour raises productive capacity, so growth increases, and higher labour supply reduces pressure on wages.
19	D	Free-trade models assume zero transport costs and frictionless trade.
20	C	Better information on vacancies reduces search time, so the labour market works more perfectly.
21	A	In 2003 output growth exceeded employment growth by the largest margin, so output per worker rose most.
22	B	MPC = $\Delta C \div \Delta Y$: 0.95, 0.90, 0.85, 0.80, 0.73, so it falls continuously.
23	B	Real income ≈ 3% − 4% = −1%; per head ≈ −1% − 1% = −2%, a decrease of 2%.
24	C	The accelerator says investment depends on the rate of change of income (output).
25	A	If income is paid more often, smaller average transactions balances are needed, so demand shifts left.
26	B	Buying securities raises their price, lowering yields (interest rates), and injects money, raising the money supply.
27	C	Both accept a mixed economy in which markets express individual choice.
28	C	Keynesians argue sticky wages and prices can leave the economy below full employment for a long time.

Question number	
29	A QE increases the money supply, so inflation reduces the internal value and lower interest rates cause depreciation.
30	B Protection from foreign competition allows US steel producers to stay inefficient (higher cost).