Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2021**

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** write on any bar codes.
- You may use a calculator.

INFORMATION

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

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1 What is a negative consumption externality associated with chewing gum?

A better dental hygiene from chewing gum

B costs of the ingredients in chewing gum

C discarded chewing gum on pavements

D smells from chewing gum factories

2 A firm produced its goods at an average cost of $14. It then produces the same output at a lower average cost by different methods of production. The price remains above the marginal cost.

In which ways is this firm now more efficient?

	allocative efficiency	dynamic efficiency
A	no	no
B	no	yes
C	yes	no
D	yes	yes

3 In 2008 Beijing held the Olympic Games and built a new stadium and infrastructure. 1.5 million people lost their homes and were relocated far away from their communities. Factories were closed during the games to reduce air pollution. Today, the stadium is a major tourist attraction and the athletes' accommodation is used as apartments.

For which group is the likely excess of marginal social benefit over marginal social cost the greatest?

A construction workers who built the site

B factory workers who returned to their jobs after the games

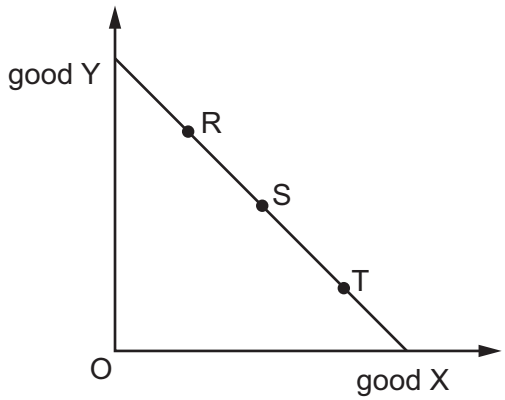
C residents who were rehoused far away from Beijing

D those who live in the former athletes' accommodation

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4 The graph shows the budget line for a household as used in indifference curve analysis.



What can be concluded about the amount of income that could be spent by the household?

A It is greater at point R than point S.

B It is greater at point T than point S.

C It is greatest at point S.

D It is the same at points R, S and T.

5 Which act of purchase or consumption is most likely to illustrate the law of diminishing marginal utility?

A the final course of an ‘eat all you can’ banquet to end an evening out

B the last coin to complete an enthusiast’s coin collection

C the second of the two rolls of wallpaper needed to decorate a room

D the tenth driving lesson needed to enable a learner to pass the driving test

6 A kinked demand curve is often used when economists attempt to analyse the way in which oligopolists operate.

What does the kinked demand curve indicate?

A Oligopolists are unable to achieve profit maximisation.

B Satisficing is the best objective for firms that operate under conditions of oligopoly.

C There are always benefits available for oligopolists if they reduce price, but not if they increase it.

D There is a tendency towards price stability when firms operate under conditions of oligopoly.

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7 Why might a firm adopt a policy of diversification?

A to achieve cost economies of scale

B to agree common prices with rivals

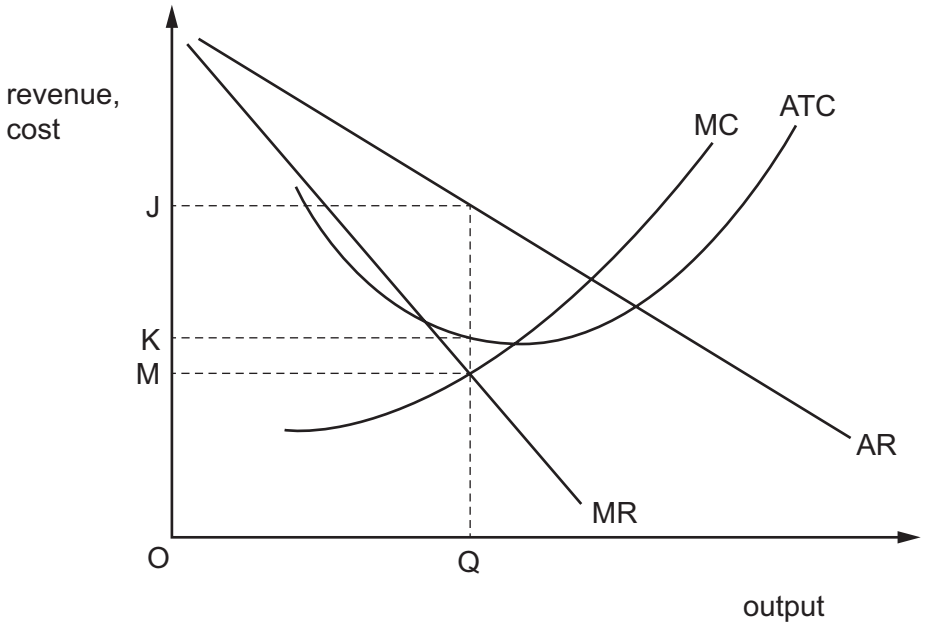
C to ensure greater ability to spread investment risks

D to increase productivity of labour

8 What would be likely to help a small firm to survive and what might be a threat to its survival?

	help	threat
A	contestability of the market	expensive new technology
B	customers valuing personal service	new government regulations on its business
C	low barriers to entering its industry	managerial diseconomies of scale
D	selling a homogeneous product	new firms entering the market

9 The diagram shows the cost and revenue curves of a profit-maximising monopolist.

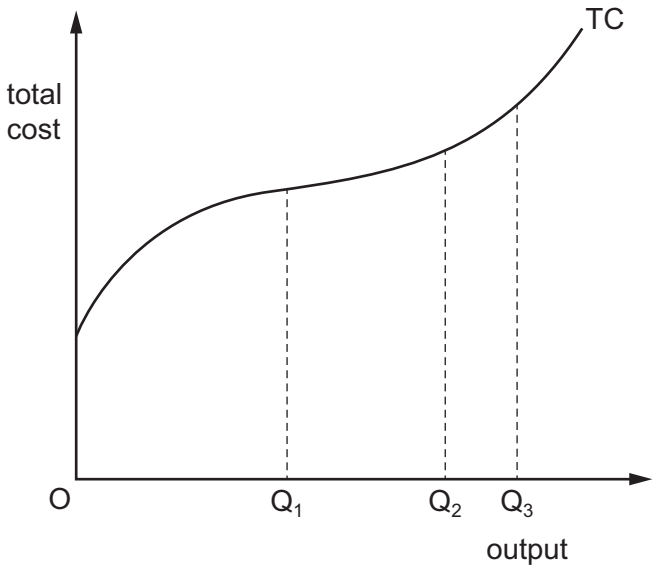


What measures the total monopoly profit made by the firm?

A JM **B** JK **C** JM × OQ **D** JK × OQ

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10 The diagram shows a firm's short-run total cost curve (TC).



Which statement is correct?

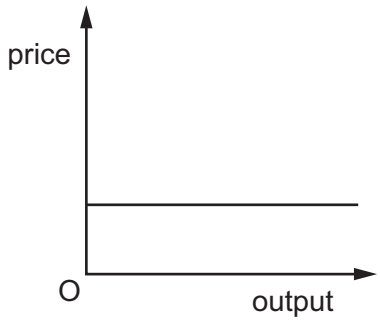
A Average total cost is minimised at output OQ_2.

B Average variable cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_3.

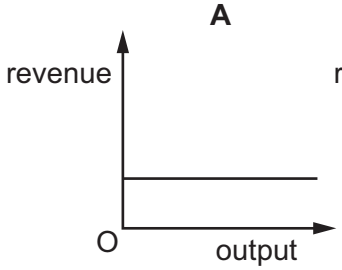
D Marginal cost is minimised at output OQ_1.

11 The diagram shows the demand curve for a firm's product.

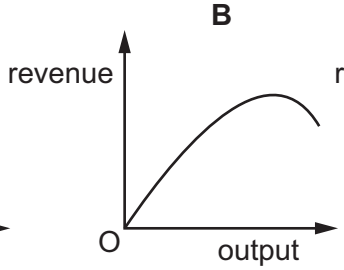


Which diagram shows the shape of the firm's total revenue (TR) curve?

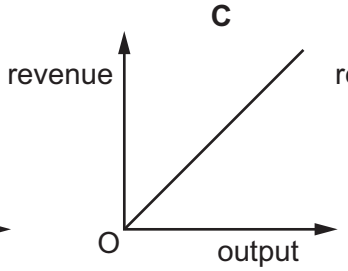
A



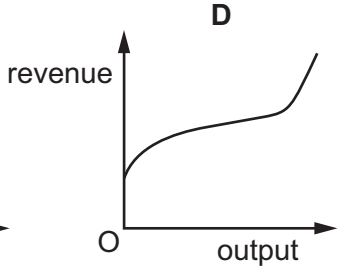
B



C



D



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12 What identifies the output level required to meet the stated aim of a monopoly firm?

	aim of firm	produce at output where
A	maximum efficiency	marginal cost is at a minimum
B	profit maximising	marginal cost is equal to average revenue
C	quantity of sales maximising	marginal revenue is equal to average cost
D	revenue maximising	marginal revenue is zero

13 A government implements three economic policies.

1 lower income tax

2 higher indirect taxation on alcohol to reduce consumption

3 higher spending on infrastructure

Which policies represent forms of government macro economic policy?

A 1 and 3 **B** 2 and 3 **C** 2 only **D** 3 only

14 When there are positive externalities in consumption, what can be concluded about the output of the market?

A Output must be above the allocative efficient level.

B Output must be at the allocative efficient level.

C Output must be below the allocative efficient level.

D Output can be above or below the allocative efficient level.

15 The Gini coefficient of a country is 0.40. The poorest income earners in this country pay no income tax.

The government increases the tax rate on the highest income earners, which results in a more even distribution of income.

What could be concluded from this?

A The Gini coefficient falls and the income tax system becomes more progressive.

B The Gini coefficient falls and the income tax system becomes more regressive.

C The Gini coefficient rises and the income tax system becomes more progressive.

D The Gini coefficient rises and the income tax system becomes more regressive.

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16 What is meant by economic rent?

A any amount above the minimum earnings required to keep labour in its current job

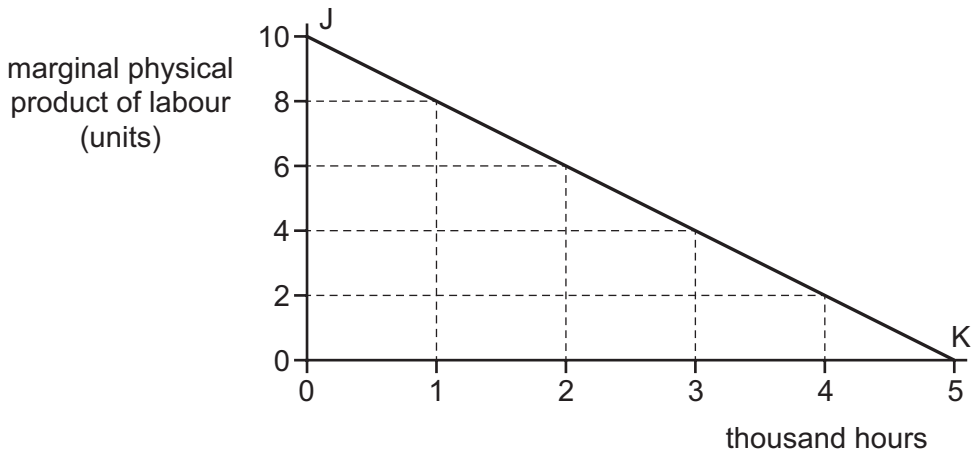
B the marginal physical product of labour multiplied by marginal revenue

C the minimum amount required to keep labour in its current job

D the regular payment to a property owner in exchange for the use of a building

17 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

In the diagram, the line JK shows the relationship between the marginal physical product of labour and the hours worked.



When the marginal revenue of the product is $1.60, the firm uses 3000 hours of labour.

What is the hourly wage?

A $0.40 **B** $2.40 **C** $5.60 **D** $6.40

18 A government attempts to stimulate growth by cutting its main interest rate.

What might reduce the effectiveness of this?

A if investors' expectations are rising

B if more borrowing is taking place

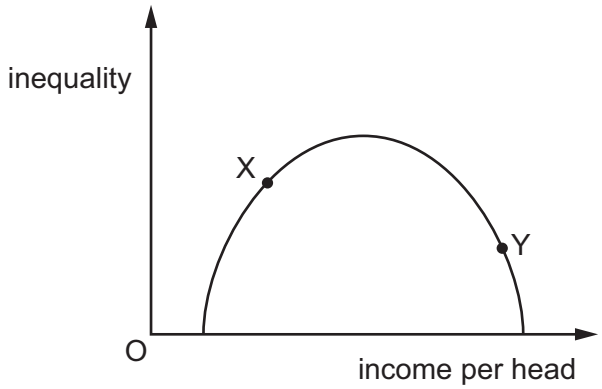
C if savings are falling

D if the marginal propensity to consume is falling

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19 The diagram shows the relative position of two countries X and Y on a Kuznets curve.



What does the diagram indicate?

A Country X collects more income tax than country Y.

B Country X has a higher national income than country Y.

C Country Y has less income inequality than country X.

D Country Y is less economically developed than country X.

20 The Measure of Economic Welfare (MEW) is often regarded as a better measure of economic welfare than Gross Domestic Product (GDP) per head.

What is additionally included in the calculation for MEW?

A the cost of paid work

B the cost of producing armaments

C the estimated cost of damage to the environment

D the negative impact on the shadow economy

21 Which statement about national income accounting is correct?

A Depreciation does not need to be subtracted from GDP figures because it has already been taken into account by firms.

B GDP greatly overstates the true value of output because some of the profit it includes is supernormal profit.

C GDP is a better measure of living standards than GNP because net property income from abroad is not available for citizens.

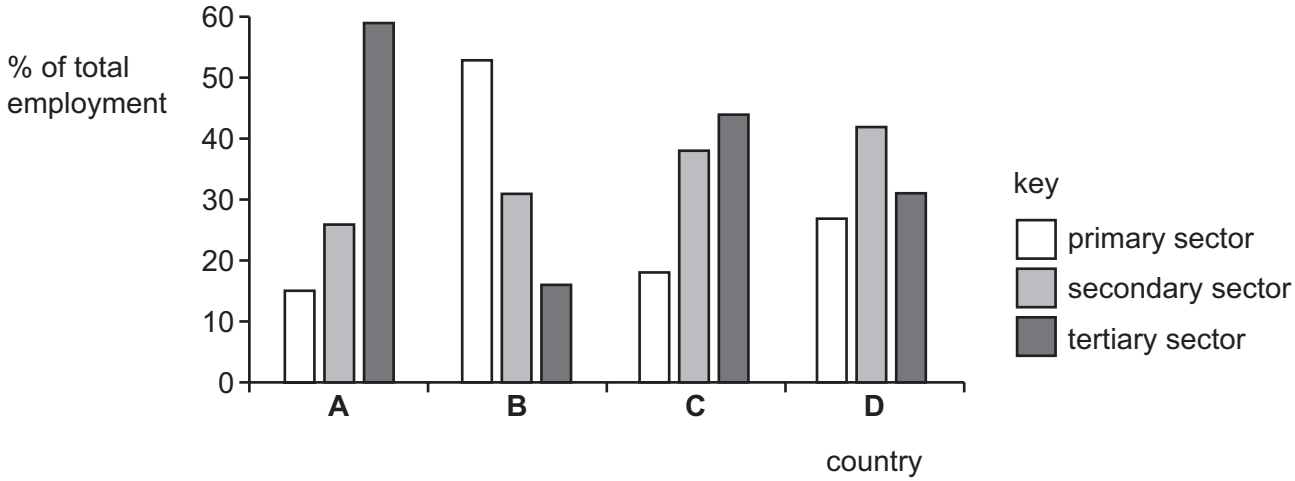
D GNP per capita ignores many important factors that affect citizens' living standards.

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22 The chart provides information about employment rates, as a percentage of total employment, in the primary, secondary and tertiary sector of four countries.

What is most likely to represent the most economically developed country?



23 A government is committed to increasing real GDP using only fiscal and monetary policies.

Which combination of measures is likely to be the most effective in achieving this aim?

	fiscal policy	monetary policy
A	increase in the budget deficit	central bank buys back government bonds
B	increased government spending on roads	increased short term rate of interest
C	reduce income taxes	central bank sells more government bonds
D	reduce wealth taxes	increase commercial banks' cash deposit ratio

24 What describes the multiplier process, as it operates within a closed economy with no government sector?

A Changes in National Income determine the level of investment.

B The level of consumption depends on the level of National Income.

C The levels of consumption and investment together determine the level of National Income.

D When investment changes, there will be a greater change in equilibrium National Income.

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25 In an economy with no government sector:

C = consumption

I = investment

X = exports

M = imports

Y = national income.

If C = 40 + 0.5Y, I = 80, X = 100 and M = 100, what will be the equilibrium level of Y?

A 60 **B** 240 **C** 280 **D** 640

26 Which policy does a central bank undertake to pursue quantitative easing?

A purchase long-term government debt from the public

B purchase short-term government debt from the public

C sell long-term government debt to the public

D sell short-term government debt to the public

27 What would be an increase in leakages or withdrawals from the circular flow of income?

A increase in government spending on anti-smoking campaigns

B increase in spending on imports of luxury cars

C increase in spending on transfer payments

D increase in wages paid to government employees

28 Which statement would both Keynesian **and** Monetarist schools of thought accept?

A High inflation and high unemployment are undesirable in a properly-functioning economy.

B Increased government spending on investment projects will always crowd out private investment.

C The best way for an economy to get out of a recession is for the government to increase its expenditure.

D The most effective way to reduce inflation is for the government to exercise tight control over the money supply.

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29 In country X the marginal rate of income tax imposed on the highest earners was 83% which increased to 98% if income was received from interest or dividends. The highest marginal rate was then reduced to 40%. Despite this reduction, the tax revenue raised from the highest earners increased substantially.

Which theoretical concept illustrates this relationship between tax rates and tax revenue?

A the J curve

B the Laffer curve

C the Marshall-Lerner condition

D the Phillips curve

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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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: Multiple choice answers

1	C	Discarded gum on pavements is a cost to third parties caused by consuming the good (cleaning, mess).
2	B	Price is still above MC, so not allocatively efficient; new, cheaper production methods over time show dynamic efficiency.
3	D	People living in the former athletes' accommodation gain housing (high benefit) at little extra cost to anyone, so MSB exceeds MSC by the most.
4	D	R, S and T all lie on the same budget line, so the income that can be spent is the same at every point.
5	A	By the final course of an all-you-can-eat banquet each extra unit adds less satisfaction than the one before.
6	D	Rivals follow a price cut but not a price rise, so the gap in MR at the kink means prices tend to stay stable.
7	C	Producing in several different markets means a fall in one market is offset by others, so risk is spread.
8	B	Personal service is something large firms find hard to copy; new regulations add compliance costs a small firm struggles to absorb.
9	D	Profit per unit = AR − ATC = JK at output OQ, so total profit = JK × OQ.
10	D	Q1 is the point of inflection of TC, where the slope of TC (marginal cost) is lowest.
11	C	Demand is perfectly elastic, so price is constant and TR = P × Q is a straight line from the origin.
12	D	Revenue is maximised where MR = 0 (each extra unit adds no further revenue).

Question number		
13	A	Lower income tax (fiscal) and infrastructure spending affect aggregate demand; the alcohol tax is a micro policy.
14	C	MSB > MPB, so the free market consumes less than the allocatively efficient output where MSB = MSC.
15	A	Taxing the rich more makes income more equal, so the Gini coefficient falls, and tax rises with income: more progressive.
16	A	Economic rent is any payment above transfer earnings, the minimum needed to keep labour in its current use.
17	D	At 3000 hours MPP = 4 units. Wage = MRP = MPP × MR = 4 × $1.60 = $6.40.
18	D	A falling MPC reduces the multiplier, so any rise in investment raises national income by less.
19	C	Y is further along the Kuznets curve, at a lower point on the inequality axis, so Y has less inequality than X.
20	C	MEW adjusts GDP by subtracting estimated costs of environmental damage (and adding leisure, unpaid work).
21	D	GNP per head ignores the distribution of income, leisure, pollution, unpaid work and quality of goods.
22	A	Country A has the largest tertiary sector (about 58%) and smallest primary sector (about 15%), typical of a developed economy.
23	A	Both are expansionary: a bigger deficit raises AD and buying bonds increases the money supply and lowers interest rates.
24	D	An initial change in investment causes successive rounds of spending, so equilibrium income changes by a multiple.
25	B	$Y = C + I + X - M = 40 + 0.5Y + 80 + 100 - 100$, so $0.5Y = 120$ and $Y = 240$.
26	A	QE: the central bank creates money to buy long-term government bonds, raising bond prices and lowering long-term rates.

Question number		
27	B	Spending on imports leaves the domestic circular flow, so it is a withdrawal; the others are injections.
28	A	Both schools agree that high inflation and high unemployment are undesirable; they disagree about the policy cure.
29	B	The Laffer curve shows that above some tax rate, cutting the rate can raise total tax revenue (less avoidance, more work).
30	D	Temporary price controls can break the wage-price spiral by lowering expected inflation.

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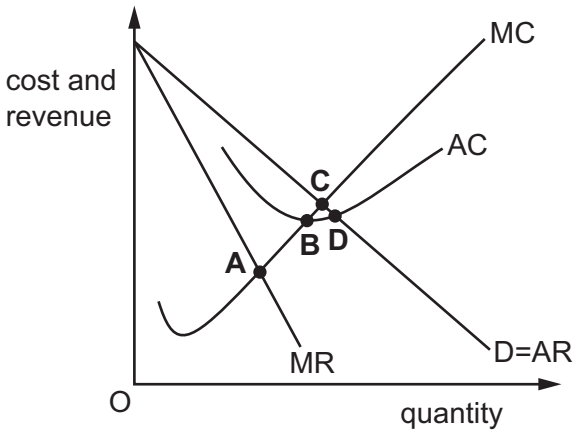
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1 The diagram shows a monopolistically competitive firm.

Which point represents allocative efficiency?



2 What is an argument against government intervention when there is market failure?

A Government intervention could increase positive externalities.

B Government intervention could increase the availability of merit goods.

C Government intervention could lead to a less efficient outcome.

D Government intervention could reduce information failure.

3 A government is choosing between four routes for a new road. The table provides details of the costs and benefits associated with each route.

The government wants to get the highest return for taxpayers in terms of the social benefit relative to the private cost.

Which route will the government choose?

	route ($ million)		
	private costs	private benefits	external benefits
A	20	25	5
B	25	30	10
C	20	25	10
D	30	35	10

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4 Donald maximises his utility when buying paperback books and audio books. The price of a paperback book = $3 and the price of an audio book = $6.

If the marginal utility of the last paperback book was 12 units of utility (utils), what was the marginal utility of the last audio book purchased?

A 2 utils **B** 12 utils **C** 16 utils **D** 24 utils

5 Which statement correctly describes the result of a price increase for an inferior good?

A Both the substitution effect and the income effect cause the consumer to buy less of the good.

B Both the substitution effect and the income effect cause the consumer to buy more of the good.

C The substitution effect causes the consumer to buy less of the good and the income effect causes the consumer to buy more of the good.

D The substitution effect causes the consumer to buy more of the good and the income effect causes the consumer to buy less of the good.

6 Which statement about a monopoly is correct?

A Profit maximisation occurs when average cost equals average revenue.

B Sales maximisation occurs when marginal cost equals marginal revenue.

C Sales revenue maximisation occurs when marginal revenue is equal to zero.

D Satisficing occurs when marginal cost is equal to zero.

7 A satellite communications company is bought by an investment bank.

Which outcome has resulted from this purchase?

A a cartel

B diversification

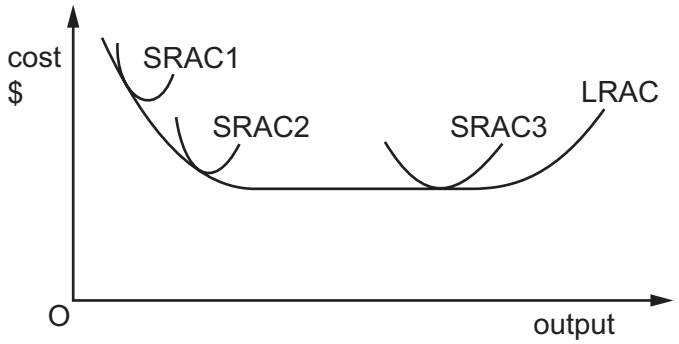
C lateral integration

D vertical integration

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8 The diagram shows the long-run average cost (LRAC) curve for a firm, and three short-run average cost (SRAC) curves.



Which statement is correct?

A When the minimum point of SRAC3 is lower than the minimum point of SRAC2 it reflects the law of variable proportions.

B The law of diminishing returns explains why each of the SRAC curves is U-shaped.

C The position of SRAC2 shows the minimum efficient scale of production.

D The rising section of SRAC1 indicates the existence of diseconomies of scale.

9 What is the most likely reason that barriers to entry might lead to x-inefficiency?

A The firm does not account for any external benefits.

B The firm has no incentive to cut its costs of production.

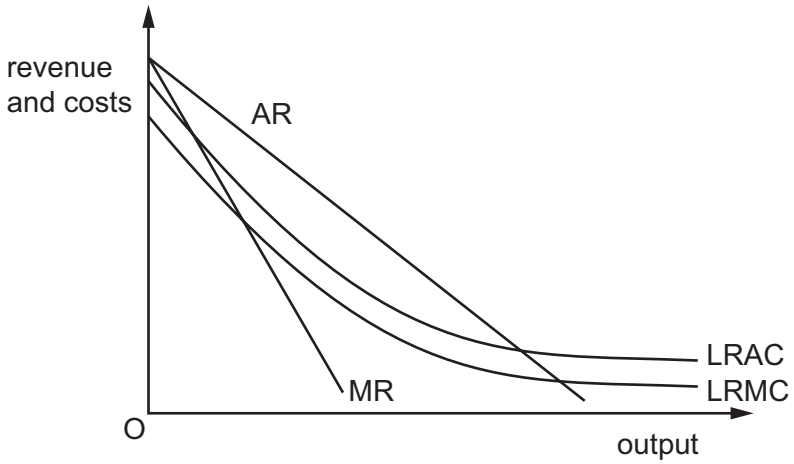
C The firm's price is set higher than its average costs.

D The firm's price is set higher than its marginal costs.

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10 The diagram shows the long-run cost and revenue curves for a public sector monopoly.



The government decides to set a price that maximises social welfare.

What will be the consequence of this decision?

A The firm will experience diseconomies of scale.

B The firm will make a loss.

C The firm will maximise profits.

D The firm will maximise total revenue.

11 The information gives the characteristics for a market structure.

- The two leading brands control 60% of the market.
- Other large firms and a few smaller firms exist in the market.
- Prices tend to be stable.
- There are significant barriers to entry.

Which market structure is this most likely to be?

A monopolistic competition

B monopoly

C oligopoly

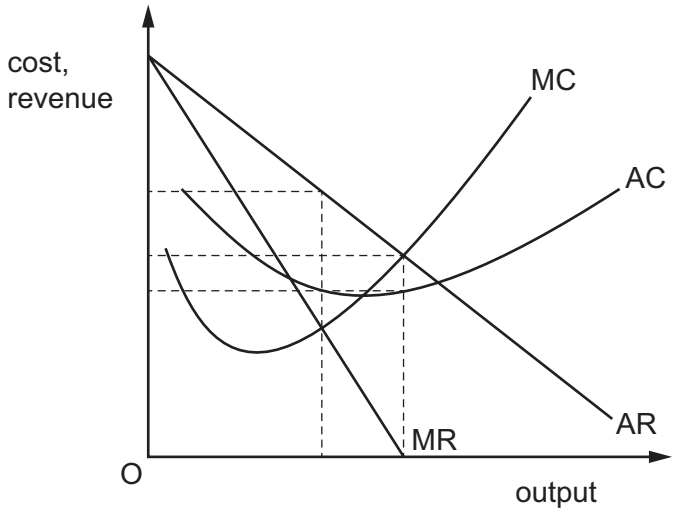
D perfect competition

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12 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

13 In various countries, the supply of public utilities such as water and electricity have been licensed by the government to a few private firms.

What should governments do to persuade these profit-seeking private firms **not** to overcharge consumers?

A allow private firms to merge to create a monopoly

B appoint a regulatory body to guarantee supplies at all times

C deregulate nationalised industries to create a free market

D enable customers to switch easily from one private firm to another

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14 A government intends to use pollution permits to reduce environmental damage.

Under what circumstances is this policy most likely to **fail** to achieve the intended reduction?

A Firms within the scheme are required to have a sufficient number of permits to cover the amount of pollution generated in production.

B Firms improve their technology to reduce the number of permits they require.

C Firms that do not use all of their permits can sell some of them to other firms.

D The permits do not impose strict enough limits on carbon emissions.

15 A government is committed to reducing the Gini coefficient.

Which policy is most likely to **fail** to achieve that policy objective?

A a decrease in ad valorem sales tax rates

B a more regressive income tax system

C a more progressive income tax system

D an increase in transfer payments to the unemployed

16 Which calculation would give the marginal revenue product (MRP) of labour for a firm selling its product in an imperfectly competitive product market?

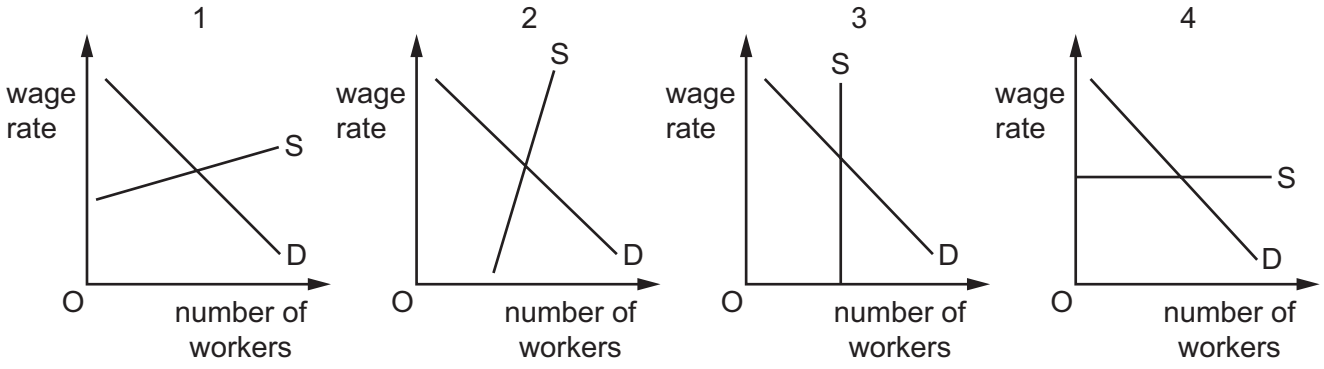
A average output produced per worker employed × marginal revenue of the product

B average output produced per worker employed × price of the product

C extra product produced by an additional worker × marginal revenue of the product

D extra product produced by an additional worker × price of the product

17 The diagrams show the demand for and supply of labour in four markets.



In which markets would labour's transfer earnings exceed its economic rent?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

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18 Which objective would **not** be suitable for a government if it were seeking sustainable economic growth?

A achieving the highest growth rate by using all the natural resources

B careful management of the use of non-renewable resources

C effective protection of the environment, wildlife and landscapes

D meeting the needs of both its current and future population

19 What is the difference between a country's gross domestic product and its gross national income?

A capital consumption

B gross fixed capital formation

C net property income from abroad

D the value of exports less imports

20 Some individuals seek to increase their share of existing wealth without creating new wealth. This can be a problem in developing economies.

What is an example of this behaviour?

A a government official taking a bribe for special treatment for the person offering the bribe

B a land owner renting a field to a farmer

C a landlord being paid for the hire of a room

D an entrepreneur earning a reward for setting up a firm that pays low wages

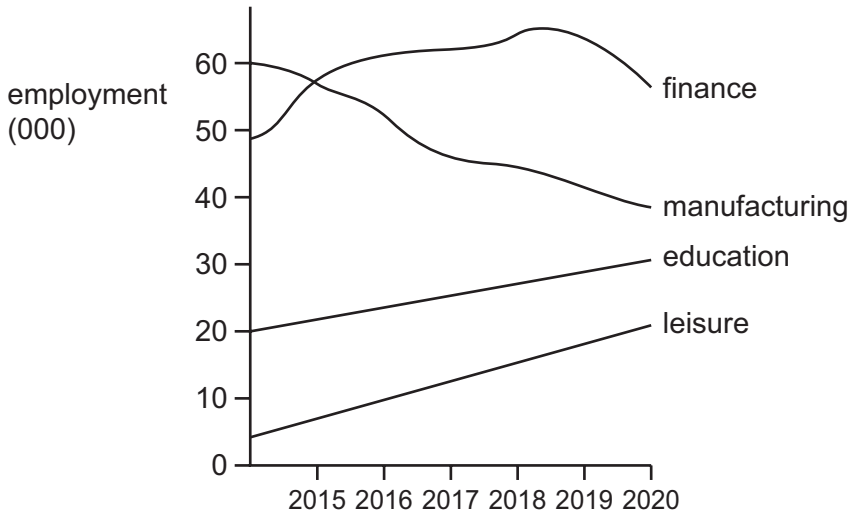
21 What is necessary to include to calculate the number unemployed?

	everyone of working age who is not in employment	those of pension age who still want to work	part-time employees seeking full-time employment
A	no	no	no
B	no	yes	yes
C	yes	yes	no
D	yes	yes	yes

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22 The diagram shows changes in the numbers employed in four different industries in a city between 2015 and 2020.



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.

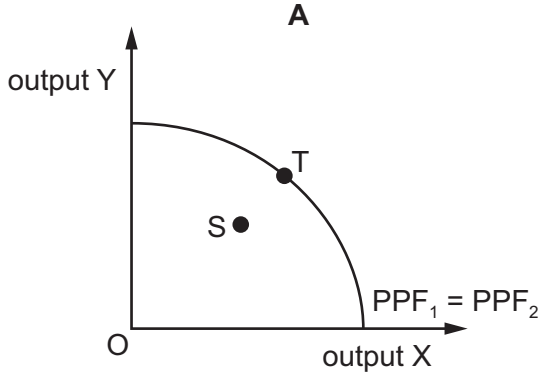
D Total employment in the four industries decreased over the period.

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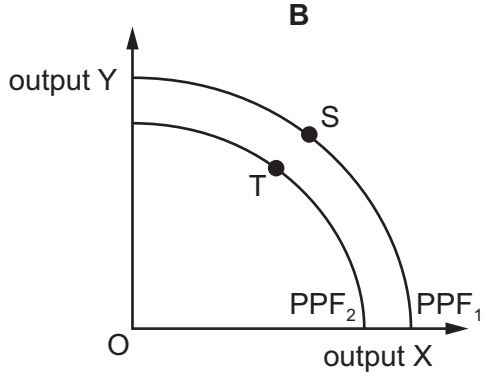
23 At the start of the year, the production possibility frontier for an economy is at PPF_1 and the economy is at point S. At the end of the year the production possibility frontier is at PPF_2 and the economy is at point T.

Which diagram shows that the economy has experienced actual growth but **not** potential growth?

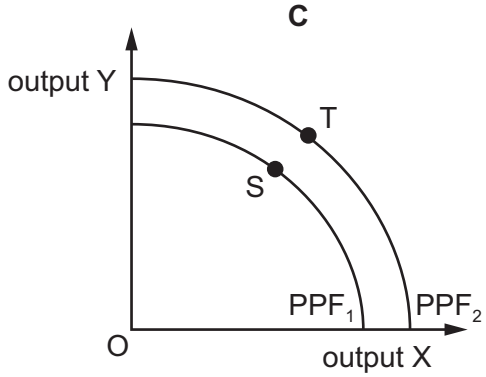
A



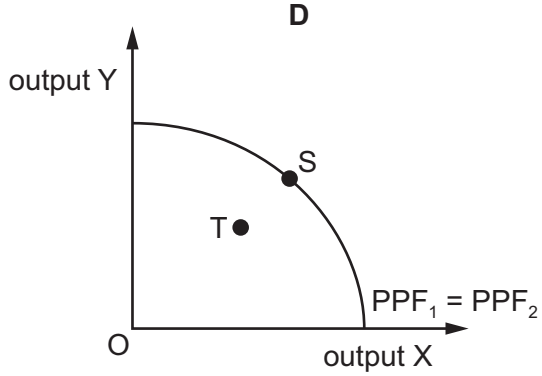
B



C



D



24 Government spending in an economy increases by $4000 whilst at the same time investment falls by $1500.

$$\text{marginal propensity to save} = \frac{1}{10}$$

$$\text{marginal propensity to tax} = \frac{1}{5}$$

$$\text{marginal propensity to import} = \frac{1}{10}$$

What will be the increase in national income following these changes?

A $2500 **B** $6250 **C** $10 000 **D** $25 000

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25 Which change will allow an increase in an economy's money supply?

A An outflow of currency for trade and capital purposes becomes an inflow.

B The central bank instructs commercial banks to keep higher ratios of cash to deposits.

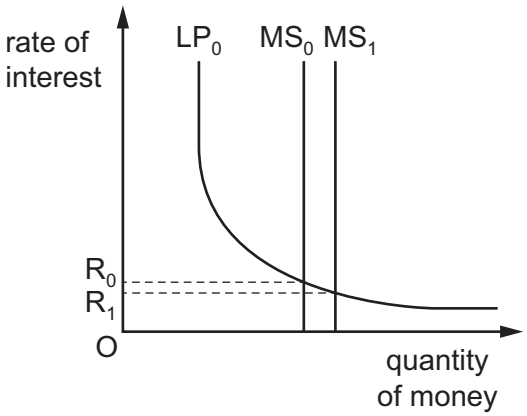
C The government budget balance moves from a deficit to a surplus.

D The government replaces borrowing from the banks with borrowing from the general public.

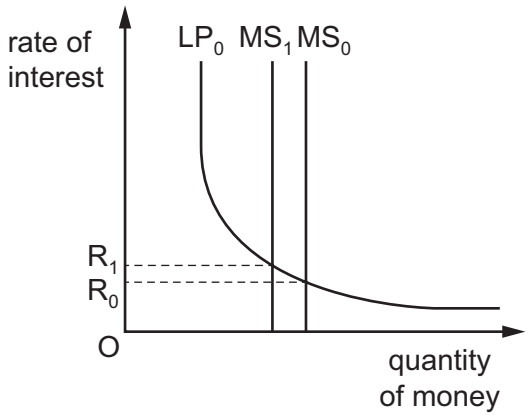
26 In a country the initial money supply curve is given by MS_0, the initial liquidity preference curve by LP_0 and the initial rate of interest by R_0.

If there is an increase in the precautionary motive for holding money, which diagram shows the changes that will occur?

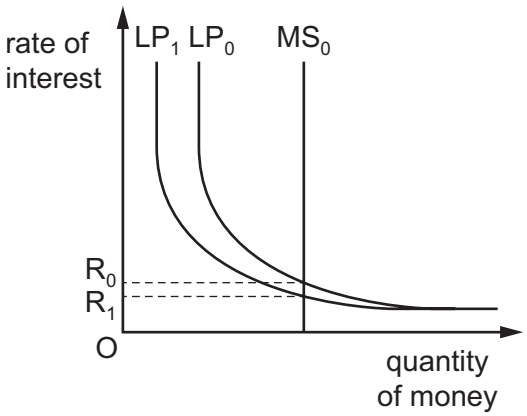
A



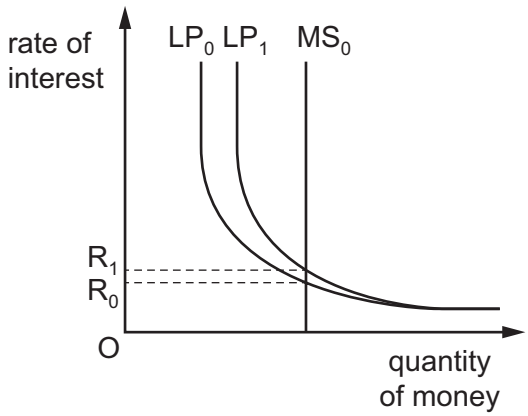
B



C



D



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27 The UK gives aid to the Ugandan government to spend on a school. One condition is that they must buy the materials from the UK.

Which type of aid does **not** take place?

A bilateral

B multilateral

C project

D tied

28 Unemployment in an economy increases.

What is a probable consequence?

A a switch from direct to indirect taxation

B an increase in demand-pull inflation

C an increase in the balance of trade deficit

D an increase in the government budget deficit

29 The government of Lesotho introduces a programme to promote exports and to encourage firms to expand by subsidising local entrepreneurs.

Which effect is this likely to have on incomes, the balance of payments current account deficit and government expenditure in Lesotho?

	incomes	balance of payments current account deficit	government expenditure
A	fall	reduce	rise
B	fall	uncertain	rise
C	rise	reduce	no change
D	rise	uncertain	rise

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30 A government currently has a balanced budget. It is considering the possible variations in tax revenue and government expenditure shown.

option	tax revenue	government expenditure
W	increase	increase
X	increase	reduce
Y	reduce	increase
Z	reduce	reduce

Which three options are likely to have the potential to move the budget into surplus?

A W, X and Y **B** W, X and Z **C** W, Y and Z **D** X, Y and Z

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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: Multiple choice answers

1	C	Allocative efficiency is where P = MC, i.e. where the AR curve crosses MC, which is point C.
2	C	Intervention can cause government failure, leaving resources allocated less efficiently than before.
3	C	Social benefit ÷ private cost: A 30 ÷ 20 = 1.5, B 40 ÷ 25 = 1.6, C 35 ÷ 20 = 1.75, D 45 ÷ 30 = 1.5. Route C is highest.
4	D	Equi-marginal rule: MU of paperback ÷ P = MU of audio ÷ P, so 12 ÷ 3 = MU ÷ 6 and MU = 24 utils.
5	C	Substitution effect: buy less as it is now relatively dearer; income effect: lower real income means buying more of an inferior good.
6	C	Total revenue is at its maximum where MR = 0.
7	B	The bank moves into an unrelated industry (communications), so this is diversification (a conglomerate merger).
8	B	In the short run at least one factor is fixed, so diminishing returns make each SRAC U-shaped.
9	B	Barriers to entry remove the threat of competition, so the firm has no pressure to keep costs as low as possible.
10	B	Social welfare is maximised where P = MC; MC is below falling LRAC here, so price is below average cost and the firm makes a loss.
11	C	A few large firms dominate (two brands have 60%), prices are stable and barriers to entry are high: oligopoly.
12	D	At both outputs (MR = MC and MR = 0) the price on AR is above AC, so supernormal profit is made in each case.

Question number		
13	D	If customers can switch easily, firms face competition and lose sales if they overcharge.
14	D	If the cap on emissions is too generous, firms can keep polluting at the same level.
15	B	A regressive tax takes a larger share of income from the poor, so inequality and the Gini coefficient rise.
16	C	MRP = MPP × MR; in imperfect competition MR is below price, so marginal revenue must be used.
17	B	Transfer earnings exceed rent when labour supply is elastic: market 1 (flat S) and market 4 (perfectly elastic S).
18	A	Using up all natural resources for maximum growth now would not meet future needs, so it is not sustainable.
19	C	GNI = GDP + net property income from abroad.
20	A	Taking a bribe is rent seeking: gaining a share of existing wealth without producing anything.
21	B	The unemployed are those able, willing and seeking work, so not everyone of working age; include pension-age jobseekers and part-timers wanting full-time work.
22	B	Leisure rises from about 4 000 to about 21 000, roughly a fivefold increase, the fastest growth rate.
23	A	The economy moves from S inside the PPF to T on it, while the PPF itself stays the same (PPF1 = PPF2).
24	B	Net injection = \$4000 − \$1500 = \$2500. $k = 1 \div (0.1 + 0.2 + 0.1) = 2.5$. $\Delta Y = 2.5 \times \$2500 = \$6250$.
25	A	A net inflow of currency adds to bank deposits, so banks can create more credit and the money supply rises.
26	D	More precautionary demand shifts LP right (LP0 to LP1) with MS unchanged, so the interest rate rises from R0 to R1.

Question number		
27	B	The aid is given directly by the UK to Uganda, not through an international organisation, so it is not multilateral.
28	D	Tax revenue falls and benefit spending rises (automatic stabilisers), so the budget deficit increases.
29	D	Subsidies raise government spending and output, so incomes rise; exports rise but higher incomes also raise imports, so the current account effect is uncertain.
30	B	X (higher tax, lower spending) always works; W and Z can if tax rises by more than spending, or spending falls by more than tax.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/33**

Paper 3 Multiple Choice **May/June 2021**

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.
- Any rough working should be done on this question paper.

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

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1 What is a negative consumption externality associated with chewing gum?

A better dental hygiene from chewing gum

B costs of the ingredients in chewing gum

C discarded chewing gum on pavements

D smells from chewing gum factories

2 A firm produced its goods at an average cost of $14. It then produces the same output at a lower average cost by different methods of production. The price remains above the marginal cost.

In which ways is this firm now more efficient?

	allocative efficiency	dynamic efficiency
A	no	no
B	no	yes
C	yes	no
D	yes	yes

3 In 2008 Beijing held the Olympic Games and built a new stadium and infrastructure. 1.5 million people lost their homes and were relocated far away from their communities. Factories were closed during the games to reduce air pollution. Today, the stadium is a major tourist attraction and the athletes' accommodation is used as apartments.

For which group is the likely excess of marginal social benefit over marginal social cost the greatest?

A construction workers who built the site

B factory workers who returned to their jobs after the games

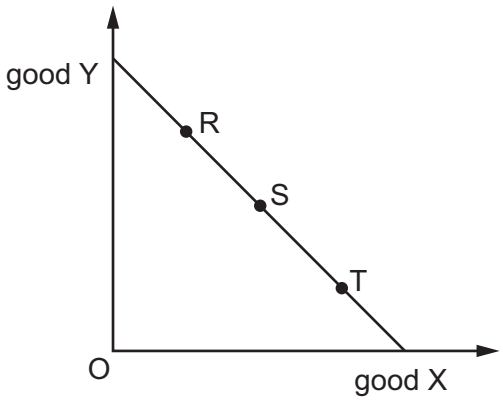
C residents who were rehoused far away from Beijing

D those who live in the former athletes' accommodation

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4 The graph shows the budget line for a household as used in indifference curve analysis.



What can be concluded about the amount of income that could be spent by the household?

A It is greater at point R than point S.

B It is greater at point T than point S.

C It is greatest at point S.

D It is the same at points R, S and T.

5 Which act of purchase or consumption is most likely to illustrate the law of diminishing marginal utility?

A the final course of an ‘eat all you can’ banquet to end an evening out

B the last coin to complete an enthusiast’s coin collection

C the second of the two rolls of wallpaper needed to decorate a room

D the tenth driving lesson needed to enable a learner to pass the driving test

6 A kinked demand curve is often used when economists attempt to analyse the way in which oligopolists operate.

What does the kinked demand curve indicate?

A Oligopolists are unable to achieve profit maximisation.

B Satisficing is the best objective for firms that operate under conditions of oligopoly.

C There are always benefits available for oligopolists if they reduce price, but not if they increase it.

D There is a tendency towards price stability when firms operate under conditions of oligopoly.

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7 Why might a firm adopt a policy of diversification?

A to achieve cost economies of scale

B to agree common prices with rivals

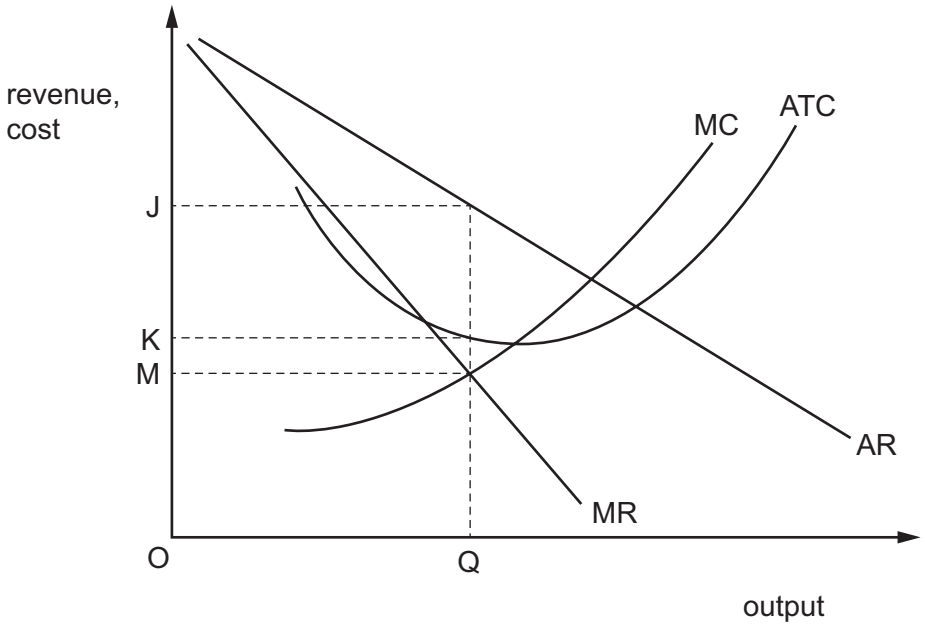
C to ensure greater ability to spread investment risks

D to increase productivity of labour

8 What would be likely to help a small firm to survive and what might be a threat to its survival?

	help	threat
A	contestability of the market	expensive new technology
B	customers valuing personal service	new government regulations on its business
C	low barriers to entering its industry	managerial diseconomies of scale
D	selling a homogeneous product	new firms entering the market

9 The diagram shows the cost and revenue curves of a profit-maximising monopolist.

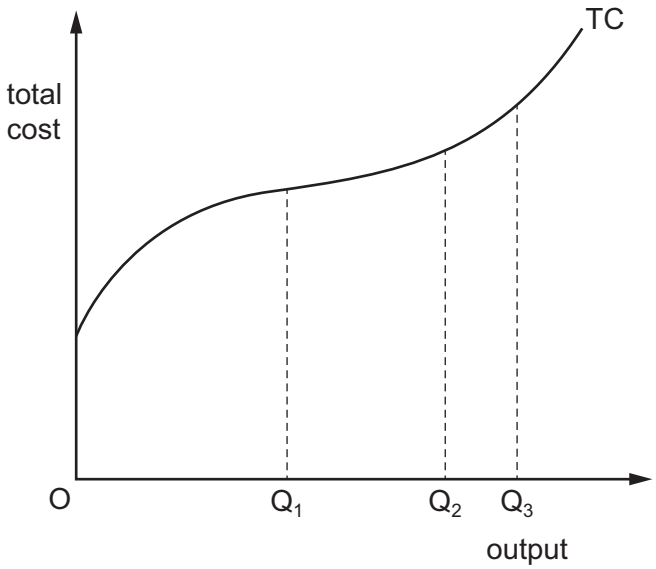


What measures the total monopoly profit made by the firm?

A JM **B** JK **C** JM × OQ **D** JK × OQ

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10 The diagram shows a firm's short-run total cost curve (TC).



Which statement is correct?

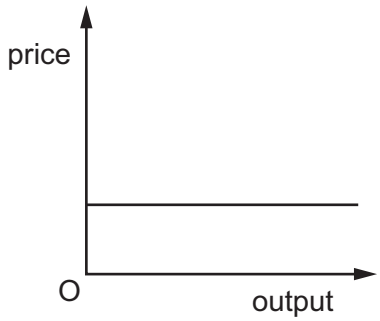
A Average total cost is minimised at output OQ_2.

B Average variable cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_3.

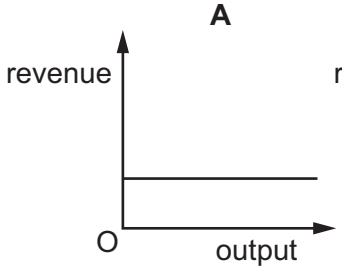
D Marginal cost is minimised at output OQ_1.

11 The diagram shows the demand curve for a firm's product.

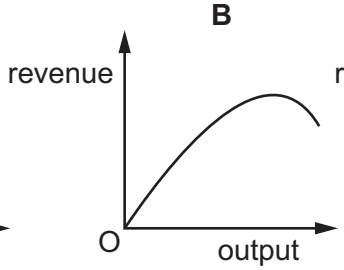


Which diagram shows the shape of the firm's total revenue (TR) curve?

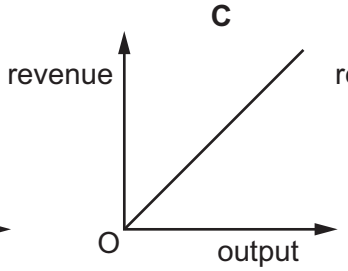
A



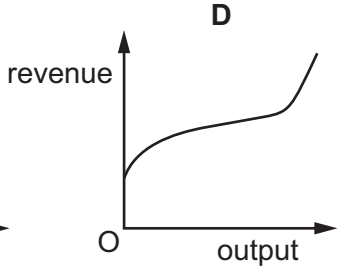
B



C



D



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12 What identifies the output level required to meet the stated aim of a monopoly firm?

	aim of firm	produce at output where
A	maximum efficiency	marginal cost is at a minimum
B	profit maximising	marginal cost is equal to average revenue
C	quantity of sales maximising	marginal revenue is equal to average cost
D	revenue maximising	marginal revenue is zero

13 A government implements three economic policies.

1 lower income tax

2 higher indirect taxation on alcohol to reduce consumption

3 higher spending on infrastructure

Which policies represent forms of government macro economic policy?

A 1 and 3 **B** 2 and 3 **C** 2 only **D** 3 only

14 When there are positive externalities in consumption, what can be concluded about the output of the market?

A Output must be above the allocative efficient level.

B Output must be at the allocative efficient level.

C Output must be below the allocative efficient level.

D Output can be above or below the allocative efficient level.

15 The Gini coefficient of a country is 0.40. The poorest income earners in this country pay no income tax.

The government increases the tax rate on the highest income earners, which results in a more even distribution of income.

What could be concluded from this?

A The Gini coefficient falls and the income tax system becomes more progressive.

B The Gini coefficient falls and the income tax system becomes more regressive.

C The Gini coefficient rises and the income tax system becomes more progressive.

D The Gini coefficient rises and the income tax system becomes more regressive.

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16 What is meant by economic rent?

A any amount above the minimum earnings required to keep labour in its current job

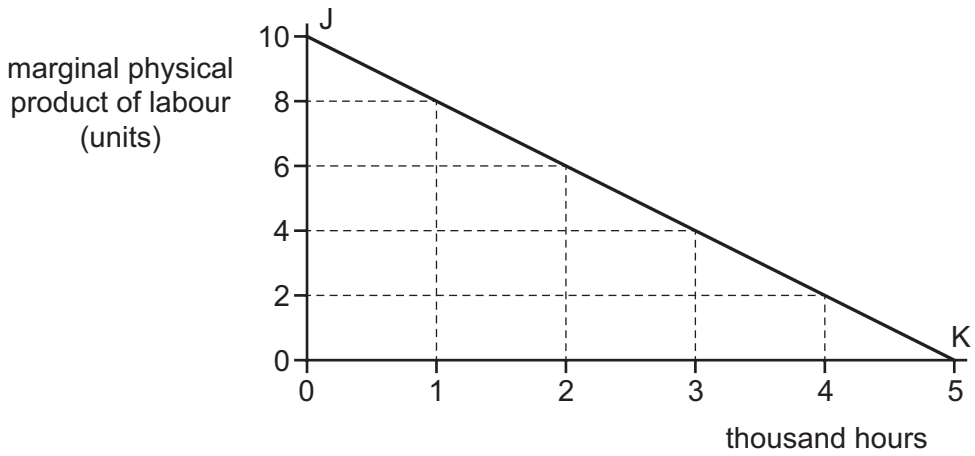
B the marginal physical product of labour multiplied by marginal revenue

C the minimum amount required to keep labour in its current job

D the regular payment to a property owner in exchange for the use of a building

17 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

In the diagram, the line JK shows the relationship between the marginal physical product of labour and the hours worked.



When the marginal revenue of the product is $1.60, the firm uses 3000 hours of labour.

What is the hourly wage?

A $0.40 **B** $2.40 **C** $5.60 **D** $6.40

18 A government attempts to stimulate growth by cutting its main interest rate.

What might reduce the effectiveness of this?

A if investors' expectations are rising

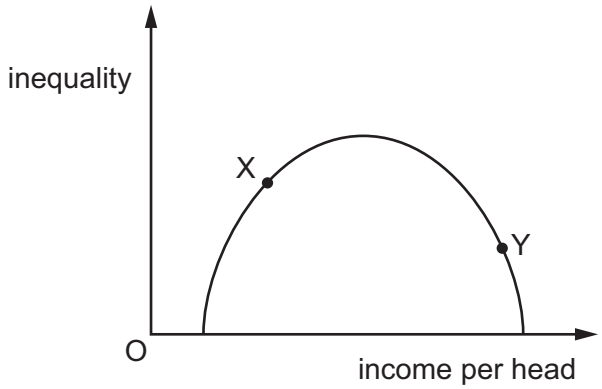
B if more borrowing is taking place

C if savings are falling

D if the marginal propensity to consume is falling

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19 The diagram shows the relative position of two countries X and Y on a Kuznets curve.



What does the diagram indicate?

A Country X collects more income tax than country Y.

B Country X has a higher national income than country Y.

C Country Y has less income inequality than country X.

D Country Y is less economically developed than country X.

20 The Measure of Economic Welfare (MEW) is often regarded as a better measure of economic welfare than Gross Domestic Product (GDP) per head.

What is additionally included in the calculation for MEW?

A the cost of paid work

B the cost of producing armaments

C the estimated cost of damage to the environment

D the negative impact on the shadow economy

21 Which statement about national income accounting is correct?

A Depreciation does not need to be subtracted from GDP figures because it has already been taken into account by firms.

B GDP greatly overstates the true value of output because some of the profit it includes is supernormal profit.

C GDP is a better measure of living standards than GNP because net property income from abroad is not available for citizens.

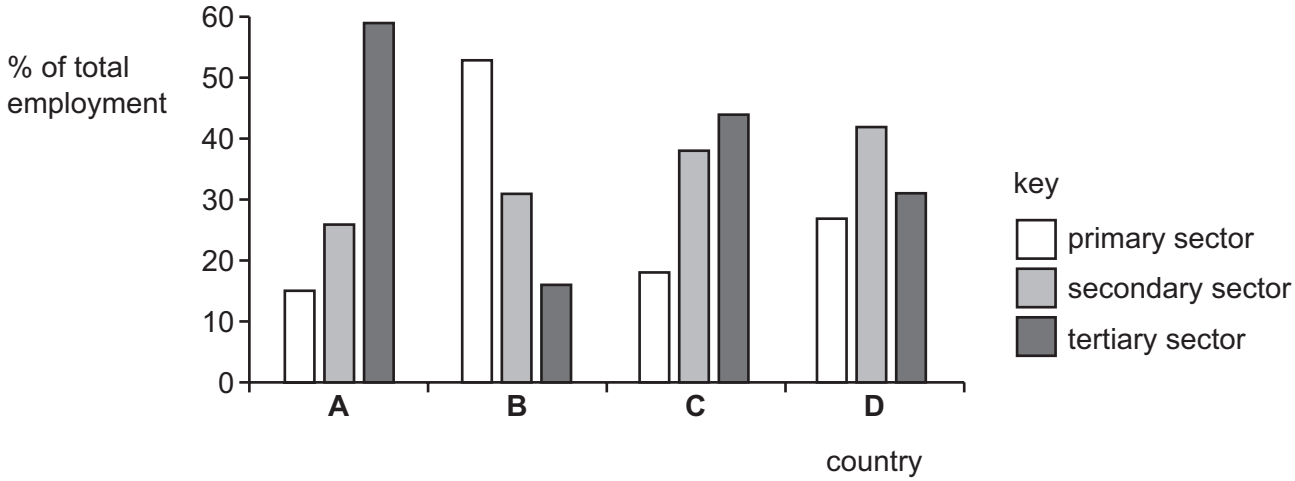
D GNP per capita ignores many important factors that affect citizens' living standards.

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22 The chart provides information about employment rates, as a percentage of total employment, in the primary, secondary and tertiary sector of four countries.

What is most likely to represent the most economically developed country?



23 A government is committed to increasing real GDP using only fiscal and monetary policies.

Which combination of measures is likely to be the most effective in achieving this aim?

	fiscal policy	monetary policy
A	increase in the budget deficit	central bank buys back government bonds
B	increased government spending on roads	increased short term rate of interest
C	reduce income taxes	central bank sells more government bonds
D	reduce wealth taxes	increase commercial banks' cash deposit ratio

24 What describes the multiplier process, as it operates within a closed economy with no government sector?

A Changes in National Income determine the level of investment.

B The level of consumption depends on the level of National Income.

C The levels of consumption and investment together determine the level of National Income.

D When investment changes, there will be a greater change in equilibrium National Income.

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25 In an economy with no government sector:

C = consumption

I = investment

X = exports

M = imports

Y = national income.

If C = 40 + 0.5Y, I = 80, X = 100 and M = 100, what will be the equilibrium level of Y?

A 60 **B** 240 **C** 280 **D** 640

26 Which policy does a central bank undertake to pursue quantitative easing?

A purchase long-term government debt from the public

B purchase short-term government debt from the public

C sell long-term government debt to the public

D sell short-term government debt to the public

27 What would be an increase in leakages or withdrawals from the circular flow of income?

A increase in government spending on anti-smoking campaigns

B increase in spending on imports of luxury cars

C increase in spending on transfer payments

D increase in wages paid to government employees

28 Which statement would both Keynesian **and** Monetarist schools of thought accept?

A High inflation and high unemployment are undesirable in a properly-functioning economy.

B Increased government spending on investment projects will always crowd out private investment.

C The best way for an economy to get out of a recession is for the government to increase its expenditure.

D The most effective way to reduce inflation is for the government to exercise tight control over the money supply.

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29 In country X the marginal rate of income tax imposed on the highest earners was 83% which increased to 98% if income was received from interest or dividends. The highest marginal rate was then reduced to 40%. Despite this reduction, the tax revenue raised from the highest earners increased substantially.

Which theoretical concept illustrates this relationship between tax rates and tax revenue?

A the J curve

B the Laffer curve

C the Marshall-Lerner condition

D the Phillips curve

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

Question number

Paper 9708/33: Multiple choice answers

1	C	Discarded gum on pavements is a cost to third parties caused by consuming the good (cleaning, mess).
2	B	Price is still above MC, so not allocatively efficient; new, cheaper production methods over time show dynamic efficiency.
3	D	People living in the former athletes' accommodation gain housing (high benefit) at little extra cost to anyone, so MSB exceeds MSC by the most.
4	D	R, S and T all lie on the same budget line, so the income that can be spent is the same at every point.
5	A	By the final course of an all-you-can-eat banquet each extra unit adds less satisfaction than the one before.
6	D	Rivals follow a price cut but not a price rise, so the gap in MR at the kink means prices tend to stay stable.
7	C	Producing in several different markets means a fall in one market is offset by others, so risk is spread.
8	B	Personal service is something large firms find hard to copy; new regulations add compliance costs a small firm struggles to absorb.
9	D	Profit per unit = AR − ATC = JK at output OQ, so total profit = JK × OQ.
10	D	Q1 is the point of inflection of TC, where the slope of TC (marginal cost) is lowest.
11	C	Demand is perfectly elastic, so price is constant and TR = P × Q is a straight line from the origin.
12	D	Revenue is maximised where MR = 0 (each extra unit adds no further revenue).

Question number		
13	A	Lower income tax (fiscal) and infrastructure spending affect aggregate demand; the alcohol tax is a micro policy.
14	C	MSB > MPB, so the free market consumes less than the allocatively efficient output where MSB = MSC.
15	A	Taxing the rich more makes income more equal, so the Gini coefficient falls, and tax rises with income: more progressive.
16	A	Economic rent is any payment above transfer earnings, the minimum needed to keep labour in its current use.
17	D	At 3000 hours MPP = 4 units. Wage = MRP = MPP × MR = 4 × $1.60 = $6.40.
18	D	A falling MPC reduces the multiplier, so any rise in investment raises national income by less.
19	C	Y is further along the Kuznets curve, at a lower point on the inequality axis, so Y has less inequality than X.
20	C	MEW adjusts GDP by subtracting estimated costs of environmental damage (and adding leisure, unpaid work).
21	D	GNP per head ignores the distribution of income, leisure, pollution, unpaid work and quality of goods.
22	A	Country A has the largest tertiary sector (about 58%) and smallest primary sector (about 15%), typical of a developed economy.
23	A	Both are expansionary: a bigger deficit raises AD and buying bonds increases the money supply and lowers interest rates.
24	D	An initial change in investment causes successive rounds of spending, so equilibrium income changes by a multiple.
25	B	$Y = C + I + X - M = 40 + 0.5Y + 80 + 100 - 100$, so $0.5Y = 120$ and $Y = 240$.
26	A	QE: the central bank creates money to buy long-term government bonds, raising bond prices and lowering long-term rates.

Question number		
27	B	Spending on imports leaves the domestic circular flow, so it is a withdrawal; the others are injections.
28	A	Both schools agree that high inflation and high unemployment are undesirable; they disagree about the policy cure.
29	B	The Laffer curve shows that above some tax rate, cutting the rate can raise total tax revenue (less avoidance, more work).
30	D	Temporary price controls can break the wage-price spiral by lowering expected inflation.