Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2022**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

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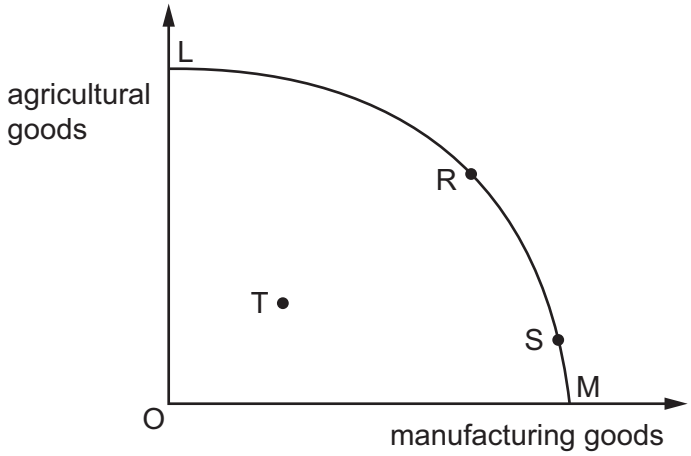
A All consumers maximise their utility subject to their available income.

B It is not possible to produce greater output with the resources available.

C It is not possible to reallocate resources to make someone better off without someone else becoming worse off.

D Potential losers from any reallocation of resources cannot be compensated by those who gain.

2 The diagram shows a production possibility curve (LM) for an economy producing agricultural goods and manufacturing goods.



What can be concluded from the diagram?

A The economy must be allocatively efficient at point R.

B The economy is Pareto efficient at point T.

C The economy is productively efficient at point S.

D The opportunity cost is constant as we move from L to M.

3 The private benefit of an activity is greater than the private cost. The social benefit of the same activity is less than the social cost.

What must be true of the activity?

A external benefit = external cost

B external benefit > external cost

C external benefit < external cost

D external benefit > private benefit

4 What is the central principle of marginal utility theory?

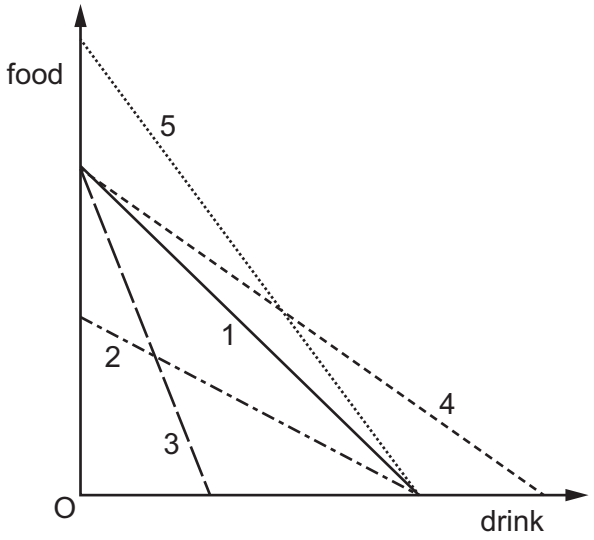
A As more is consumed of a normal good, the additional satisfaction gained increases.

B Consumers are in equilibrium when the marginal utility gained from good X equals the price of good Y.

C Consumers are in equilibrium when the ratio of the marginal utility of goods X and Y are equal to the ratio of their prices.

D Consumers are in equilibrium when the total utility gained from good X is the same as gained from good Y.

5 The diagram shows five budget lines. Line 1 is the original budget line.



Which pair of budget lines shows a relatively higher price for drink compared with food after a move from budget line 1?

A 2 and 3 **B** 2 and 4 **C** 3 and 5 **D** 4 and 5

6 Broken rice is an inferior good.

What would be the resulting income and substitution effect on the quantity demanded of broken rice if its price falls?

	quantity demanded due to income effect	quantity demanded due to substitution effect
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

7 Firms in a market decide to collude over the price that they charge for their products.

What is **not** likely to be a feature of the market?

A Firms have similar cost structures.

B Products of the firms are close substitutes.

C There are high barriers to entry into the market.

D There is a large number of competing firms.

8 Firms often remain small even when growth could result in technical economies of scale.

What is **not** a likely reason for this?

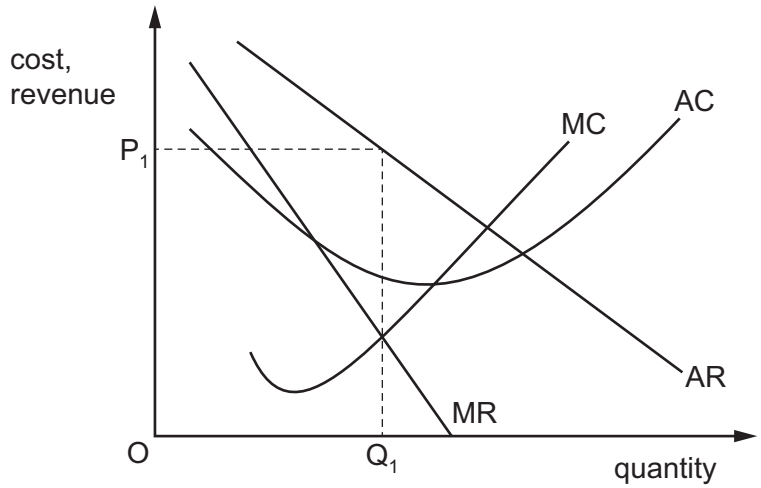
A Demand for the product tends to change often and rapidly.

B Individual entrepreneurs wish to keep a tight personal control over their own firm.

C The entrepreneurs who establish the firms tend to be ambitious risk-takers.

D The market in which they operate is very specialised in nature, often selling unique products.

9 The diagram shows the short-run equilibrium for a firm operating in a monopolistically competitive market.



What is **not** likely to occur at the long-run equilibrium?

A The individual firm's demand curve is more elastic.

B The individual firm's demand curve has moved left.

C The profit-maximising price is greater than average cost.

D The profit-maximising price is greater than marginal cost.

10 In which circumstance would direct provision of a product by the government be **least** likely?

A when fixed costs are very high

B when the demand for the product is very high but unit costs are low

C when the industry faces large natural barriers to entry

D when the minimum efficient scale of production is above the level of demand at current prices

11 The table shows a firm's total costs corresponding to different levels of output.

units of output	1	2	3	4	5	6	7	8
total cost ($)	8	14	18	22	28	36	46	58

If the market price is $8, within which range of output would a profit-maximising firm in a perfectly competitive industry produce in the short run?

A 1–2 units **B** 3–4 units **C** 5–6 units **D** 7–8 units

12 What would encourage an increase in the number of small firms?

A increasing government regulation of conditions in the workplace

B more risk-averse (cautious) lending policies by banks

C stronger government laws against the growth of monopoly

D tougher penalties in the case of personal bankruptcy

13 What is **not** a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

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14 A government issues free non-tradeable pollution permits to firms. They specify the maximum amount of polluting gases these firms are allowed to emit. In a change in legislation, the permits can be traded with other firms.

Assuming that all other costs and revenues remain the same, what will be the impact on the profits of the firms that are now buyers or sellers of the permits?

	profits of buyers of permits	profits of sellers of permits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

15 What is an example of 'nudge' theory when applied to encouraging healthy eating?

A advertising the benefits of healthy eating

B increasing tax on sugary foods

C introducing a subsidy for fruit growers

D supermarkets putting fruit near cash registers

16 What is a definition of transfer earnings?

A the amount of earnings above that needed to keep a worker in their current job

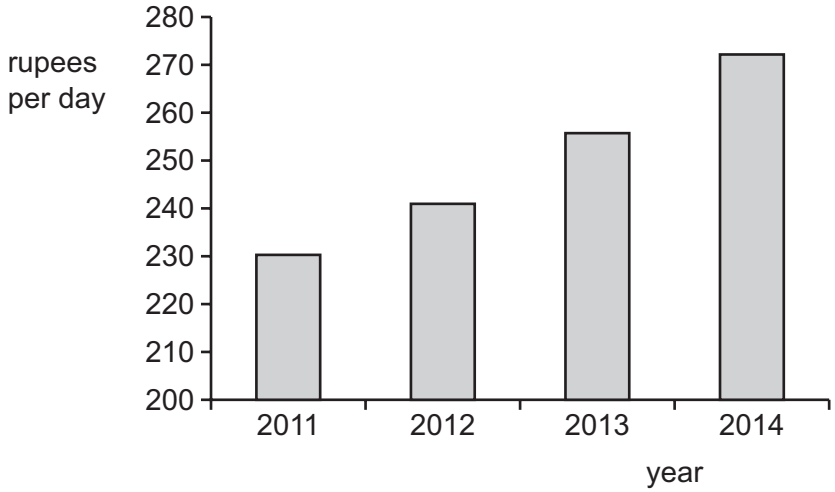
B the minimum earnings needed to keep a worker in their current job

C the social security benefits paid to workers whose earnings are below the poverty line

D the amount of earnings needed to cause a worker to change to a different job

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17 The chart gives information about the average daily wage rate for all industries in India.



What could have caused this trend in wage rates?

A an increase in capital-intensive production

B an increase in the number of industrial workers

C an increase in the number of people unemployed

D an increase in the productivity of labour

18 The table shows the annual percentage economic growth rates of three countries from 2012 to 2018.

	annual percentage change in real GDP		
	Brazil %	Japan %	Spain %
2012	1.9	1.5	–2.9
2013	3.0	2.0	–1.7
2014	0.5	0.4	1.4
2015	–3.5	1.2	3.7
2016	–3.3	0.6	3.2
2017	1.1	1.9	3.0
2018	1.1	0.8	2.6

What can be concluded from the table?

A Brazil was in the downturn of its trade cycle in 2015.

B Japan's real GDP was at its smallest in 2014.

C Spain experienced the worst recession of the period.

D Spain was in the downturn of its trade cycle in 2014.

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[Turn over

19 What could cause the official statistics for the national income per head of a developing country to overstate the true level of economic well-being of its inhabitants?

A if there is dependence on barter in internal trade

B if subsistence agriculture dominates total economic activity

C if services are an important component of exports

D if there is extreme income inequality

20 What is shown by the Kuznets curve?

A the rise and then fall in the balance of trade deficit following a devaluation

B the rise and then fall in the economic growth rate as the GDP increases

C the rise and then fall in inequality as the level of income per head rises

D the rise and then fall in tax revenue as the tax rate is increased

21 Which type of unemployment is associated with a deficiency in aggregate demand?

A cyclical

B frictional

C structural

D voluntary

22 There has been a switch in demand from goods produced by labour-intensive methods of production to similar goods produced using high-technology methods of production. This has led to an overall increase in unemployment.

What is the best policy to reduce this type of unemployment?

A reduce the rate of income tax

B increase the rate of interest on borrowing for investment

C subsidise products produced by labour-intensive methods

D subsidise exports produced by high-technology industries

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

A autonomous investment

B household saving

C import spending

D indirect taxation

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24 What is **most** likely to be found in an economy with a positive output gap?

A a higher potential than actual GDP

B high unemployment

C inflation

D low labour costs

25 Which statement about the Keynesian liquidity preference demand for money model is correct?

A Both the transactions and precautionary motives for holding liquidity are interest rate elastic.

B The demand for liquidity is completely interest rate inelastic at low rates of interest.

C The demand to hold liquidity by households is stable.

D The rate of interest on long-term government securities is inversely related to their price.

26 The table shows an individual's planned consumption at different levels of income.

income ($)	100	200	300	400	500
consumption ($)	140	220	300	380	460

What can be concluded about changes in the marginal propensity to consume (MPC) and average propensities to consume (APC) as income rises?

	MPC	APC
A	constant	constant
B	constant	falling
C	falling	constant
D	falling	falling

27 Which items in the table are classified as foreign aid?

	foreign direct investment	official development assistance	portfolio investment flows
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

28 An increase in which factor will cause a decrease in investment spending?

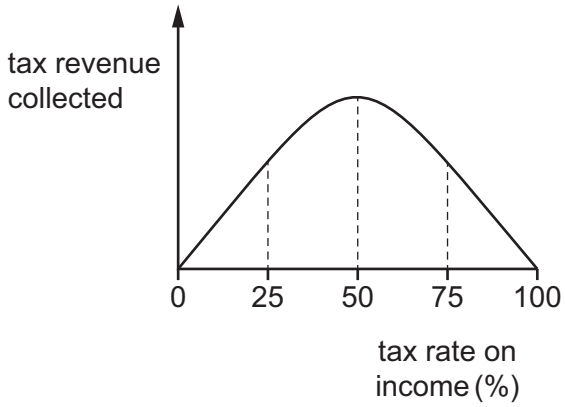
A business confidence

B company profits

C interest rates

D national income

29 The diagram shows the relationship between tax revenue and the tax rate.



What is the curve on the diagram called?

A income elasticity curve

B J curve

C Lorenz curve

D Laffer curve

30 The table shows the rate of inflation (consumer prices index) and the monthly percentage rate of unemployment for the USA over a six month period in 2017.

month	April	May	June	July	Aug	Sept
rate of inflation (%)	2.2	1.9	1.6	1.7	1.9	2.2
rate of unemployment (%)	3.9	3.8	3.9	3.9	3.8	3.7

What can be concluded from this table?

A Falling inflation leads to lower unemployment.

B Increasing inflation leads to rising unemployment.

C The rate of inflation correlates exactly with the rate of unemployment.

D The rate of inflation has a marginal effect on the rate of unemployment.

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1 The generation of electricity causes external costs.

Who bears these external costs?

A the distributors who sell the electricity

B the electricity company that produces the electricity

C the government that subsidises the production of electricity

D the people living in the area where the electricity is generated

2 What must equal marginal cost when a profit-maximising firm produces at its allocatively efficient output?

A average revenue

B average total cost

C total revenue

D total cost

3 What might reduce dynamic efficiency in an economy?

A government expenditure on enterprise education

B reinvestment of profits

C rising shareholder dividends

D the increase in innovation

4 In many countries, health authorities are concerned about the harmful effects of smoking cigarettes.

Governments have imposed high sales taxes on cigarettes and have conducted anti-smoking campaigns.

Why might the quantity of cigarettes demanded remain high?

A Better knowledge of health hazards is changing behaviour.

B Cigarette smoking will be replaced by cheaper alternatives.

C Consumer behaviour is irrational due to addiction.

D The income effect of a price rise makes consumers worse off.

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5 What does a budget line show?

A the behaviour of a utility-maximising consumer

B the difference between an individual's consumption and saving

C the monetary value of the disposable income of a consumer

D the maximum combinations of two products that a consumer can buy with a given level of income

6 When the price of a good falls, the overall effect on the quantity demanded can be separated into income and substitution effects.

Which statement describes a Giffen good?

A The income effect is irrelevant for a Giffen good.

B The income effect works in the same direction as the substitution effect.

C The income effect works against the substitution effect and is of a greater magnitude.

D The income effect works against the substitution effect but is of a smaller magnitude.

7 The table provides some details of the soft drinks industry in a country.

number of firms	250
number of brands	1000
5 firm concentration ratio	65%

Which market structure best describes the country's soft drinks industry?

A monopoly

B monopolistic competition

C oligopoly

D perfect competition

8 A rock band is due to play at a concert hall. In order to create a good atmosphere, the band's aim is to sell all the tickets. Ticket prices are set at the highest price that ensures all tickets will be sold.

What is the motivation for this price strategy?

A profit maximisation

B revenue maximisation

C sales maximisation

D satisficing

9 What would be most likely to allow the survival of small firms in an economy?

A an increase in the cost of borrowing from commercial banks

B an increase in personal services as a share of GDP

C an increase in the rate of change of information technology

D an increase in the ratio of capital to labour employed in an economy

10 What is a condition for operating a successful cartel?

A a large number of firms in the industry

B having a differentiated product

C low barriers of entry to the industry

D strictly enforced production quotas

11 In 2012, an Australian airline company separated its international and domestic operations into separate companies. The company had been facing increasing competition from much larger competitors in international markets but had relatively little competition in domestic markets that had a higher price elasticity of demand.

Which row shows the reasons that would support this separation?

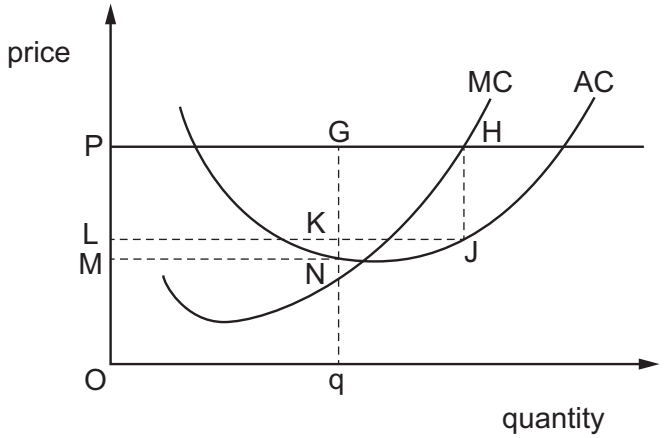
	diseconomies of scale in the combined company before the separation	markets can easily be separated by this company	the level of competition and price elasticity in domestic markets
A	no	yes	yes
B	yes	no	yes
C	yes	yes	no
D	yes	yes	yes

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12 The diagram shows a firm's marginal and average cost curves.

The firm enters a collusive agreement with other firms in the industry. It is agreed that each firm will charge a common price, OP, and will restrict the level of its output to a production quota set by the industry cartel.

The firm is allocated a production quota, Oq.



The firm decides to cheat in order to maximise its profits.

What is its short-run increase in profits?

A PGKL

B PHJL

C PHJL minus PGNM

D PGKL minus LKNM

13 To reduce road congestion caused by parked cars, a local government introduced a system of tradable parking permits. Households were given a permit allowing them to park one car at the roadside. Households with more than one car could buy extra permits from households with no cars.

What is the most likely reason for this policy to fail?

A Fines for drivers parking in the area without a permit will internalise the externality.

B The local government has a monopoly over the issue of parking permits.

C Those suffering from too many parked cars are compensated by the households owning extra cars.

D Too many households own cars so the market in permits is very small.

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14 What is **not** an example of the application of 'nudge' theory?

A A chain of coffee shops offers its customers a larger coffee if they bring their own reusable cup.

B A government imposes an indirect tax on the purchase of sugary snacks, to try to reduce childhood obesity.

C A government introduces an opt-out system for organ donation, to try to increase the number of organs donated.

D A restaurant chain introduces smaller-sized main courses on its menu, to try to reduce the volume of food wastage.

15 A government wishes to redistribute income from richer citizens to poorer citizens.

Which policy is it **least** likely to use?

A increase direct taxes

B increase indirect taxes

C increase subsidies

D increase transfer payments

16 What represents the transfer earnings of the factor enterprise?

A excess profit

B normal profit

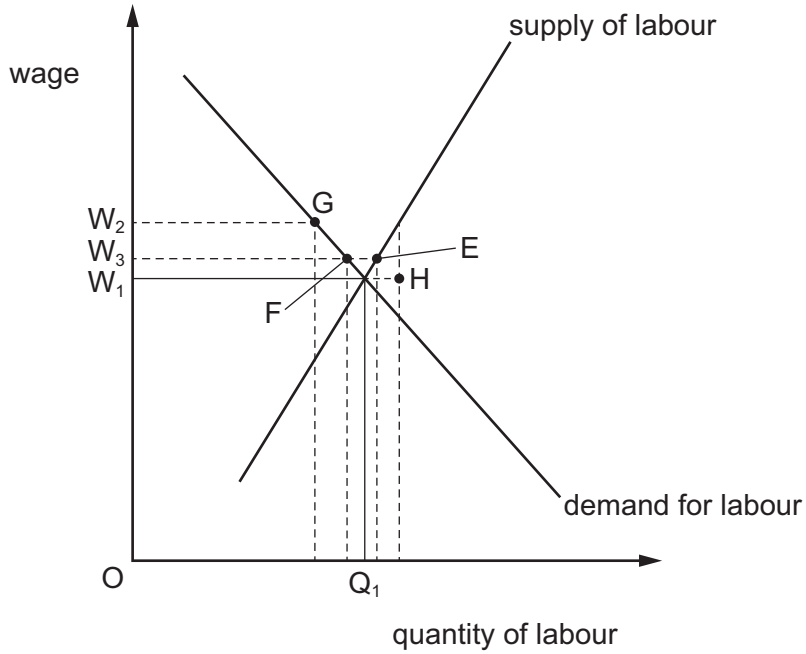
C return on capital

D start-up costs

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17 The diagram shows the demand for and supply of labour in the construction industry. The labour market is initially in equilibrium when the wage is W_1.

A trade union wishes to increase the wage but does not wish to decrease employment. The union asks for wage W_2. The employers offer wage W_3.



What would be the best policy to enable the trade union to achieve both its aims?

A accept W_3 and a new equilibrium F

B continue to ask for W_2 and a new equilibrium G

C keep W_1 with a new equilibrium H

D increase marginal revenue productivity and a new equilibrium E

18 Many governments adopt sustainable economic growth as a macroeconomic policy aim.

What is meant by sustainable economic growth?

A increasing the current productive potential of the economy as fast as possible

B increasing the current productive potential of the economy by using only low-cost resources

C increasing the current productive potential of the economy without reducing future productive potential

D increasing the future productive potential of the economy as fast as possible

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19 What would cause estimates of the money value of the Measure of Economic Welfare for a country to be **greater** than the value of Gross National Product?

A negative externalities, such as pollution

B property income received from abroad

C regrettable necessities

D the value of non-marketed activities and leisure

20 The data provides information on indicators of the standard of living in four countries in 2019, each with a population below 10 million.

country	life expectancy at birth (years)	Gross National Income per capita ($)	expected years of schooling	skilled labour (% of labour force)
Croatia	78.3	23 061	15.0	91.5
Norway	82.3	68 059	18.1	84.3
United Arab Emirates	77.8	66 912	13.6	52.8
Qatar	80.1	110 489	12.2	43.9

Based (overall) on these indicators, which country is most likely to have had the highest HDI ranking?

A Croatia

B Norway

C United Arab Emirates

D Qatar

21 What might help improve economic growth in developing countries over the next five years?

A an increase in income tax

B an increase in the birth rate

C an increase in the budget surplus

D an increase in training

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22 An economist once said 'if you pay people not to work and tax them when they do, don't be surprised if you get unemployment'.

What is this an example of?

A cyclical unemployment

B frictional unemployment

C structural unemployment

D voluntary unemployment

23 What is the **least** likely consequence of a significant rise in unemployment during an economic recession?

A a fall in aggregate demand

B a fall in expenditure on welfare

C a fall in revenues from income tax

D a fall in the rate of economic growth

24 In which context relevant to growth in the money supply is the term *total currency flow* used?

A the money flow between central banks and commercial banks

B the money flow between central banks and governments

C the money flow between domestic residents and foreign residents

D the money flow between the general public and the financial sector

25 What does **not** change the level of withdrawals from the circular flow of income?

A households having more of their income taken in tax following a rise in the rate of income tax

B households spending more on imported cars following a currency appreciation

C households taking money from their savings to spend on a celebration

D households transferring money from an account in one bank to a different bank

26 Which approach is consistent with the Keynesian school of economic thought?

A Balanced budgets should be a key policy aim.

B Inflation is caused by excessive money supply growth.

C Unemployment can still persist in the long run.

D Wages are flexible downwards in the short run.

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27 What could be used to offset a leakage from the circular flow of income?

A a reduction in domestic consumption

B a reduction in government expenditure

C an increase in the rate of interest

D an increase in investment

28 In some countries, life expectancy has fallen but the birth rate remains high.

Which effect will this have?

A Fewer schools and other resources for young people will be needed.

B More facilities will be needed for older people.

C There will be an ageing population.

D The working population will tend to become a smaller percentage of the total population.

29 The government's chief economist says that increasing the top rate of income tax from 40% to 45% is likely to reduce tax revenue by 2%.

Which economic concept might explain this prediction?

A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

30 Which combination of policies is most likely to reduce the rate of inflation?

	government spending	interest rates	direct taxation on households
A	decrease	decrease	increase
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

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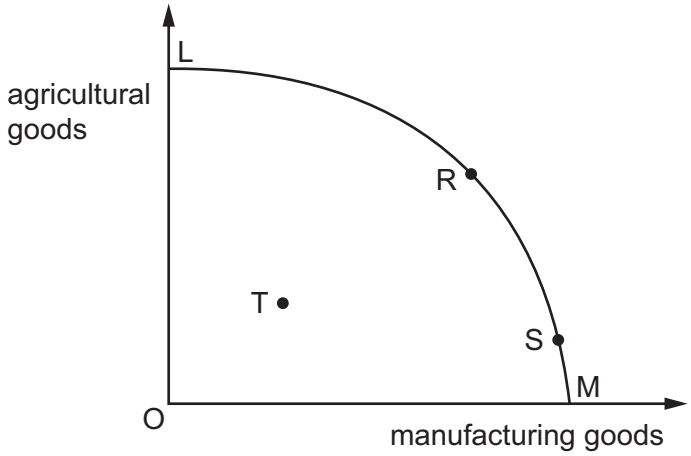
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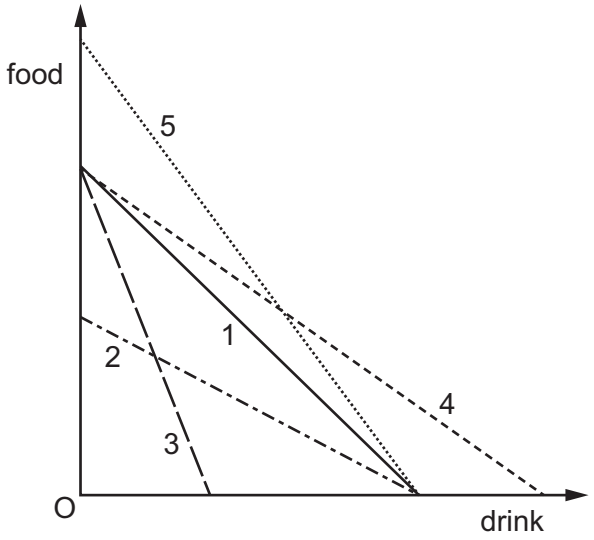
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C	rises	falls
D	rises	rises

7 Firms in a market decide to collude over the price that they charge for their products.

What is **not** likely to be a feature of the market?

A Firms have similar cost structures.

B Products of the firms are close substitutes.

C There are high barriers to entry into the market.

D There is a large number of competing firms.

8 Firms often remain small even when growth could result in technical economies of scale.

What is **not** a likely reason for this?

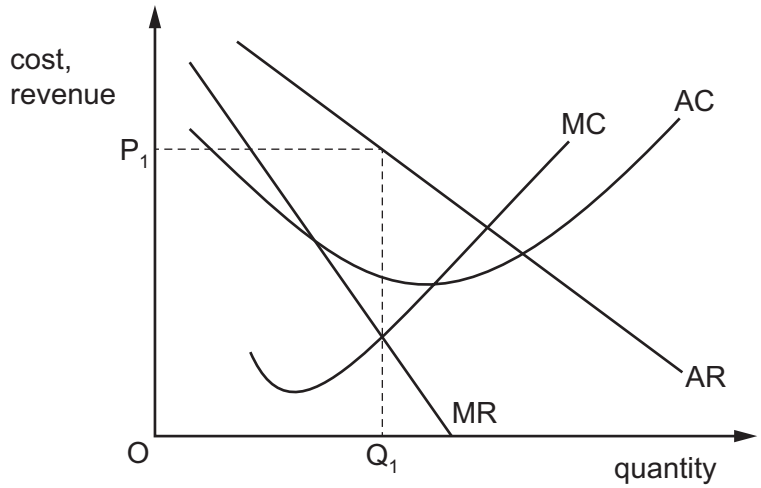
A Demand for the product tends to change often and rapidly.

B Individual entrepreneurs wish to keep a tight personal control over their own firm.

C The entrepreneurs who establish the firms tend to be ambitious risk-takers.

D The market in which they operate is very specialised in nature, often selling unique products.

9 The diagram shows the short-run equilibrium for a firm operating in a monopolistically competitive market.



What is **not** likely to occur at the long-run equilibrium?

A The individual firm's demand curve is more elastic.

B The individual firm's demand curve has moved left.

C The profit-maximising price is greater than average cost.

D The profit-maximising price is greater than marginal cost.

10 In which circumstance would direct provision of a product by the government be **least** likely?

A when fixed costs are very high

B when the demand for the product is very high but unit costs are low

C when the industry faces large natural barriers to entry

D when the minimum efficient scale of production is above the level of demand at current prices

11 The table shows a firm's total costs corresponding to different levels of output.

units of output	1	2	3	4	5	6	7	8
total cost ($)	8	14	18	22	28	36	46	58

If the market price is $8, within which range of output would a profit-maximising firm in a perfectly competitive industry produce in the short run?

A 1–2 units **B** 3–4 units **C** 5–6 units **D** 7–8 units

12 What would encourage an increase in the number of small firms?

A increasing government regulation of conditions in the workplace

B more risk-averse (cautious) lending policies by banks

C stronger government laws against the growth of monopoly

D tougher penalties in the case of personal bankruptcy

13 What is **not** a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

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14 A government issues free non-tradeable pollution permits to firms. They specify the maximum amount of polluting gases these firms are allowed to emit. In a change in legislation, the permits can be traded with other firms.

Assuming that all other costs and revenues remain the same, what will be the impact on the profits of the firms that are now buyers or sellers of the permits?

	profits of buyers of permits	profits of sellers of permits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

15 What is an example of 'nudge' theory when applied to encouraging healthy eating?

A advertising the benefits of healthy eating

B increasing tax on sugary foods

C introducing a subsidy for fruit growers

D supermarkets putting fruit near cash registers

16 What is a definition of transfer earnings?

A the amount of earnings above that needed to keep a worker in their current job

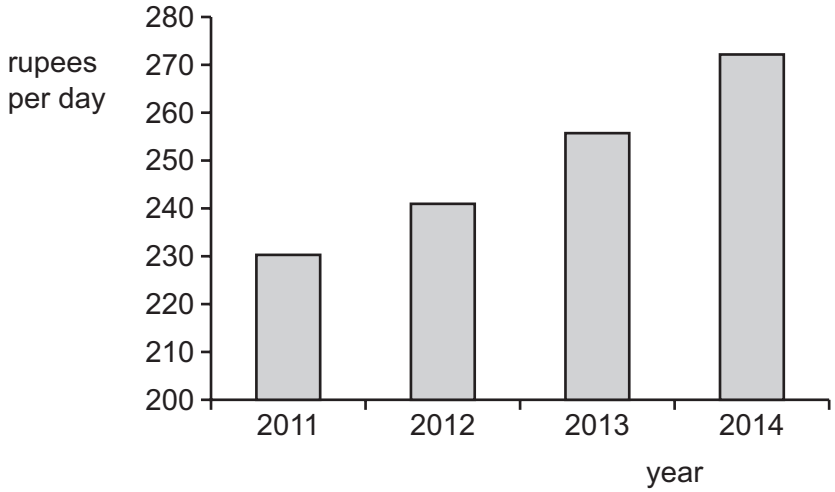
B the minimum earnings needed to keep a worker in their current job

C the social security benefits paid to workers whose earnings are below the poverty line

D the amount of earnings needed to cause a worker to change to a different job

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17 The chart gives information about the average daily wage rate for all industries in India.



What could have caused this trend in wage rates?

A an increase in capital-intensive production

B an increase in the number of industrial workers

C an increase in the number of people unemployed

D an increase in the productivity of labour

18 The table shows the annual percentage economic growth rates of three countries from 2012 to 2018.

	annual percentage change in real GDP		
	Brazil %	Japan %	Spain %
2012	1.9	1.5	–2.9
2013	3.0	2.0	–1.7
2014	0.5	0.4	1.4
2015	–3.5	1.2	3.7
2016	–3.3	0.6	3.2
2017	1.1	1.9	3.0
2018	1.1	0.8	2.6

What can be concluded from the table?

A Brazil was in the downturn of its trade cycle in 2015.

B Japan's real GDP was at its smallest in 2014.

C Spain experienced the worst recession of the period.

D Spain was in the downturn of its trade cycle in 2014.

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[Turn over

19 What could cause the official statistics for the national income per head of a developing country to overstate the true level of economic well-being of its inhabitants?

A if there is dependence on barter in internal trade

B if subsistence agriculture dominates total economic activity

C if services are an important component of exports

D if there is extreme income inequality

20 What is shown by the Kuznets curve?

A the rise and then fall in the balance of trade deficit following a devaluation

B the rise and then fall in the economic growth rate as the GDP increases

C the rise and then fall in inequality as the level of income per head rises

D the rise and then fall in tax revenue as the tax rate is increased

21 Which type of unemployment is associated with a deficiency in aggregate demand?

A cyclical

B frictional

C structural

D voluntary

22 There has been a switch in demand from goods produced by labour-intensive methods of production to similar goods produced using high-technology methods of production. This has led to an overall increase in unemployment.

What is the best policy to reduce this type of unemployment?

A reduce the rate of income tax

B increase the rate of interest on borrowing for investment

C subsidise products produced by labour-intensive methods

D subsidise exports produced by high-technology industries

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

A autonomous investment

B household saving

C import spending

D indirect taxation

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24 What is **most** likely to be found in an economy with a positive output gap?

A a higher potential than actual GDP

B high unemployment

C inflation

D low labour costs

25 Which statement about the Keynesian liquidity preference demand for money model is correct?

A Both the transactions and precautionary motives for holding liquidity are interest rate elastic.

B The demand for liquidity is completely interest rate inelastic at low rates of interest.

C The demand to hold liquidity by households is stable.

D The rate of interest on long-term government securities is inversely related to their price.

26 The table shows an individual's planned consumption at different levels of income.

income ($)	100	200	300	400	500
consumption ($)	140	220	300	380	460

What can be concluded about changes in the marginal propensity to consume (MPC) and average propensities to consume (APC) as income rises?

	MPC	APC
A	constant	constant
B	constant	falling
C	falling	constant
D	falling	falling

27 Which items in the table are classified as foreign aid?

	foreign direct investment	official development assistance	portfolio investment flows
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

28 An increase in which factor will cause a decrease in investment spending?

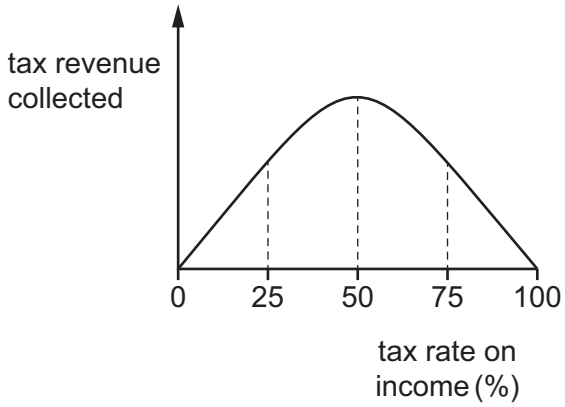
A business confidence

B company profits

C interest rates

D national income

29 The diagram shows the relationship between tax revenue and the tax rate.



What is the curve on the diagram called?

A income elasticity curve

B J curve

C Lorenz curve

D Laffer curve

30 The table shows the rate of inflation (consumer prices index) and the monthly percentage rate of unemployment for the USA over a six month period in 2017.

month	April	May	June	July	Aug	Sept
rate of inflation (%)	2.2	1.9	1.6	1.7	1.9	2.2
rate of unemployment (%)	3.9	3.8	3.9	3.9	3.8	3.7

What can be concluded from this table?

A Falling inflation leads to lower unemployment.

B Increasing inflation leads to rising unemployment.

C The rate of inflation correlates exactly with the rate of unemployment.

D The rate of inflation has a marginal effect on the rate of unemployment.

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