Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **February/March 2016**

1 hour 15 minutes

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

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READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **10** printed pages and **2** blank pages.

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1 What is an example of market failure?

A difficulties in allocating property rights

B diseconomies of scale

C high prices caused by increased demand

D the existence of scarcity

2 Why would an economy wish to achieve economic efficiency?

A to achieve an equal distribution of income

B to achieve full employment

C to ensure international competitiveness

D to ensure resources are not wasted

3 What will happen if a firm is taxed by an amount equal to the external costs that it imposes on the rest of society?

A Production will be increased.

B Resource allocation will be improved.

C Resource allocation will be maximised.

D There will be no effect upon production.

4 The current distribution of goods between two individuals in a two-person economy with given technology and resources is at point X.

According to the Pareto criterion, which point would definitely indicate increased allocative efficiency?



5 What represents the transfer earnings of the factor enterprise?

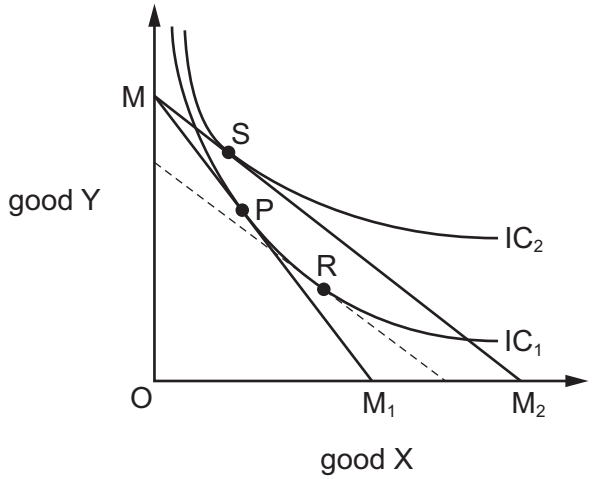
A excess profit

B normal profit

C return on capital

D start-up costs

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



The initial position is P. P to R is a substitution effect. R to S is an income effect.

What type of good is good X?

A a Giffen good

B a luxury good

C a normal good but not a luxury good

D an inferior good but not a Giffen good

7 Which explains why, in long-run equilibrium in monopolistic competition, firms make only normal profits?

A consumer resistance

B decreasing returns to scale

C differentiated products

D freedom of entry and exit

8 A firm has fixed costs of $300 and can produce two units per hour. Its total variable costs are $200 for one unit and $300 for two units.

Which cost will fall by the lowest amount when the second unit is produced?

A average fixed cost

B average total cost

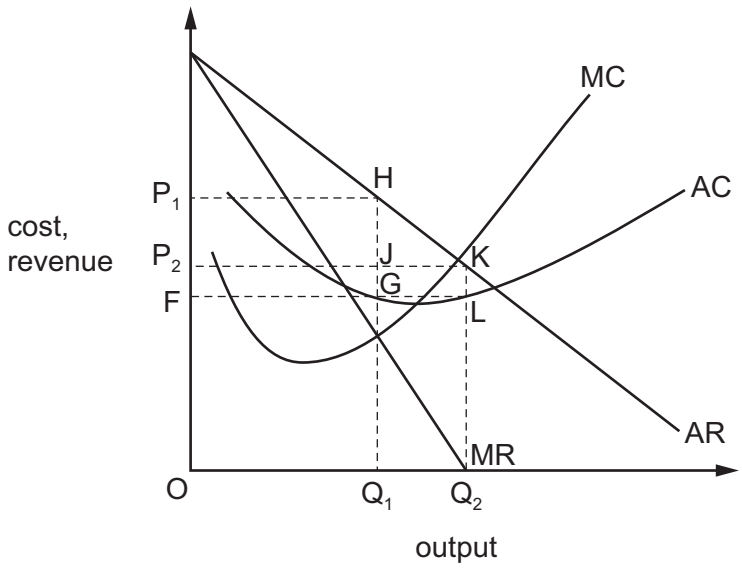
C average variable cost

D marginal cost

9 Which combination of characteristics are likely to be found in almost all high-growth firms?

	high productivity	high market share	high levels of employment	high levels of innovation
A	✓	✓	✗	✗
B	✓	✗	✗	✓
C	✗	✓	✓	✗
D	✗	✗	✓	✓

10 A monopolist changes its objective from sales revenue maximisation to profit maximisation.



On the diagram, which areas represent the monopolist's total profit?

	original profit	final profit
A	HKLG	P_1HKP_2
B	JKLG	P_1HGF
C	P_2JGF	P_1HJP_2
D	P_2KLF	P_1HGF

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11 Which is an external economy of scale?

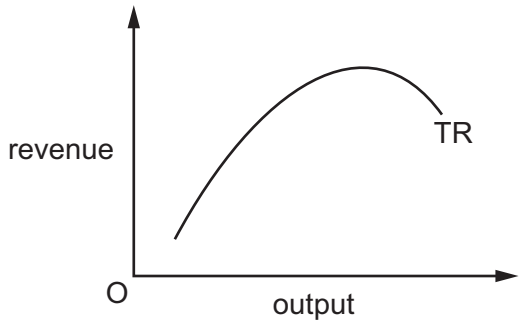
A cheaper costs from purchasing large quantities of inputs

B decreased interest rates on borrowed funds

C increased labour productivity

D relevant training facilities at a local college

12 The diagram shows a firm's total revenue curve.



What is true at the highest point on the curve?

A Average revenue equals marginal revenue.

B Average revenue is zero.

C Marginal revenue is zero.

D Maximum profits are made.

13 A backward-sloping supply curve of labour is one where, beyond a certain point, the supply of labour

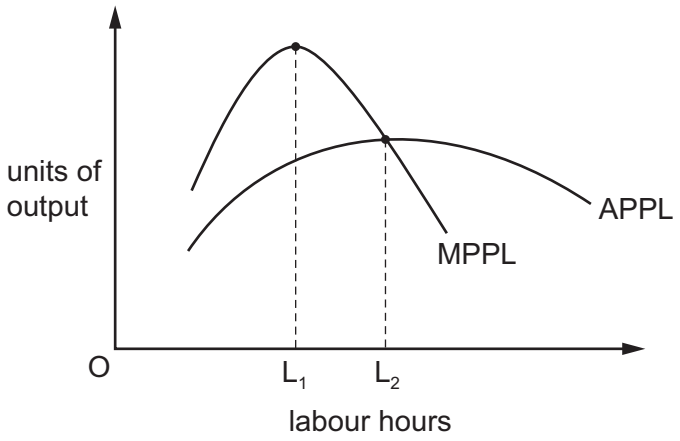
A decreases as the demand for labour rises.

B increases as the demand for labour rises.

C decreases as wages rise.

D increases as wages rise.

14 The diagram shows a firm's average physical product of labour and marginal physical product of labour curves.



What can be deduced from the diagram?

A APPL declines beyond OL_2 as a result of diseconomies of scale.

B A profit-maximising firm would never hire more than OL_2 labour hours.

C Between OL_1 and OL_2, each extra labour hour hired causes both MPPL and APPL to decline.

D Diminishing returns first set in when the number of labour hours hired reaches OL_1.

15 Labour is the only variable factor of a profit-maximising firm which is a price taker in the labour market.

From what is the firm's demand curve for labour derived?

A its marginal factor cost curve

B its marginal revenue curve

C its marginal revenue product of labour curve

D its short-run marginal cost curve

16 Which government policy has greater equality as one of its consequences?

A a cut in income tax

B increased reliance on indirect taxes

C payment of unemployment benefits

D privatisation of transport industries

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17 Which government policy to counter the effects of income inequality is correctly matched with one of its advantages and one of its disadvantages?

	policy	advantage of policy	disadvantage of policy
A	food stamps for the poor	targets the needy	high administrative costs
B	higher national minimum wage	encourages skill training	higher budget deficit
C	provision of free child care	increases employability	disincentive to work
D	universal monetary benefits	saves on bureaucracy	reduced labour mobility

18 A government uses personal disposable income per head as a measure of the standard of living.

What does this measure **not** take into account?

A changes in the average price level

B the level of direct taxation

C the level of national income

D the size of the population

19 The table shows figures estimated at the end of a train drivers' strike.

	$ (000s)
loss of revenue from train journeys	600
value placed on extra leisure time by strikers	20
loss of government tax revenue	40
overtime payments to police	30

What was the reduction in the recorded level of national income resulting from the strike?

A $570 000 **B** $610 000 **C** $640 000 **D** $690 000

20 The table gives the percentage of employment in the primary, secondary and tertiary sectors in four countries.

Which country is most likely to be a developed country?

	primary sector %	secondary sector %	tertiary sector %
A	15	40	45
B	30	40	30
C	35	45	20
D	45	35	20

21 How may outward migration from a developing economy affect its balance of payments?

A It may improve its balance of payments by increasing its export capacity.

B It may improve its balance of payments by increasing inflows of current transfers.

C It may worsen its balance of payments by causing its currency to depreciate.

D It may worsen its balance of payments by increasing consumer expenditure on imported goods.

22 Which type of unemployment might arise from a worldwide decline in the demand for electronic goods?

A frictional

B seasonal

C structural

D voluntary

23 Which pattern of labour market data is likely to indicate an increase in cyclical unemployment?

	changes in	
	compulsory redundancies	voluntary resignations
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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24 The central bank of a country creates cash to purchase government bonds from the commercial banks.

What is this called?

A liquidity preference

B quantitative easing

C supply-side policy

D the transmissions mechanism

25 An upward movement in 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.

26 The table shows some data for an economy.

When are injections and withdrawals in equilibrium?

	savings $	imports $	taxation $	investment $	exports $	government expenditure $	consumption $
A	100	150	200	200	400	400	450
B	150	175	350	200	400	400	500
C	200	200	400	200	400	400	600
D	250	250	500	200	400	400	1000

27 Which policy is most likely to conflict with a government's aim of price stability?

A increasing spending on education and health

B increasing the basic rate of income tax

C limiting wage increases in the public sector

D preventing mergers of large companies

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28 What is **not** a supply-side policy measure?

A deregulating industry to encourage more competitive markets

B linking unemployment benefits to the obligation to look for work

C tackling cyclical slump by lowering interest rates

D tackling structural unemployment by giving grants for labour mobility

29 When will government success in achieving economic growth be most likely to conflict with a desire to reduce a surplus in the balance of payments?

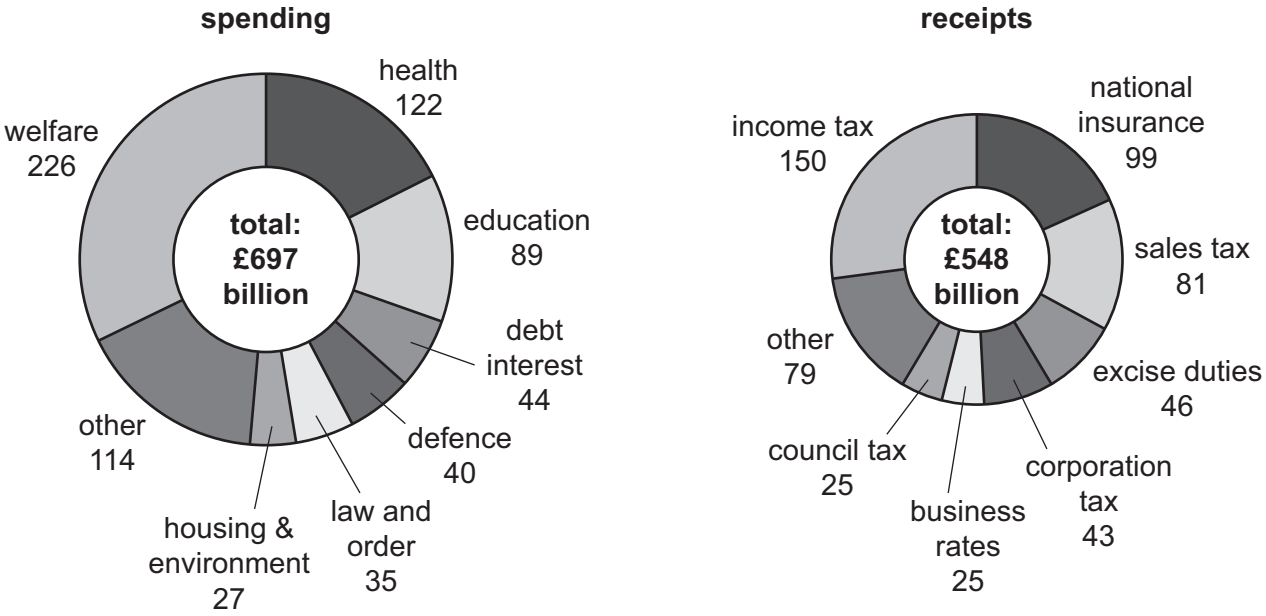
A when growth depends upon the import of capital equipment

B when growth increases foreign investors' confidence in the country

C when growth requires a reduction in the level of its tariffs

D when growth results from the removal of restrictions on capital outflows

30 The diagram shows details of the British Government's estimated spending and receipts for 2010–2011. All figures in UK £bn.



What can be concluded from the diagram?

	effect of largest spending item on income distribution	type of largest receipt item	overall budget balance
A	less equitable	indirect tax	deficit
B	less equitable	indirect tax	surplus
C	more equitable	direct tax	deficit
D	more equitable	direct tax	surplus

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