Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **February/March 2017**

1 hour 15 minutes

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

8975581951

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 might help achieve allocative efficiency?

A differentiated products

B government subsidies

C monopsony

D supernormal profits

2 In 2015, a company electrified the main railway line between two cities in order to decrease the journey time. The work was noisy, expensive and took a long time.

What would be the likely outcome of this project?

A External costs increased and private benefits decreased.

B Private benefits decreased and external cost decreased.

C Private benefits increased and private costs increased.

D Private costs increased and external costs decreased.

3 Which measure is specifically designed to reduce divergences between private and social costs?

A equal pay legislation

B minimum wage legislation

C the abolition of tuition fees paid by university students

D the introduction of 'bus only' lanes in city centres

4 Which is an internal economy of scale?

A efficient local transport networks

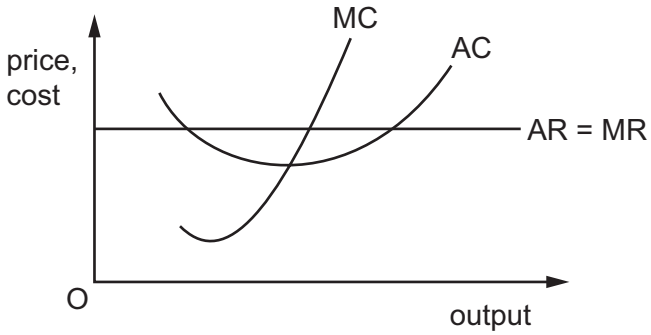
B improved access to spare parts as a result of industry growth

C lower risks from supplying a wider range of customers

D the training of skilled labour at a college financed by local firms

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5 The diagram shows the position of a profit-maximising firm in a perfectly competitive industry.



What is the correct analysis of this position?

	profits in short run	number of firms in the industry in the long run
A	supernormal	decrease
B	supernormal	increase
C	normal	remain the same
D	subnormal	decrease

6 When a firm doubles its variable inputs, its fixed inputs are unchanged and output less than doubles.

What does this illustrate?

A decreasing average cost

B decreasing marginal cost

C diminishing returns

D diseconomies of scale

7 Which practices would be classified as price discrimination?

	charging higher rail fares to meet the additional costs of train companies	charging lower return flight fares from Kuala Lumpur to Hong Kong for passengers who stay overnight on a Saturday in Hong Kong
A	no	no
B	no	yes
C	yes	no
D	yes	yes

8 To maximise total revenue, up to which point should a monopolist increase output?

A where marginal revenue equals average revenue

B where marginal revenue is maximised

C where marginal revenue is zero

D where price elasticity of demand is zero

9 A firm is operating in perfect competition.

What will be the effect on the firm's revenue if it increases its output by 5%?

A Its revenue will be unchanged.

B Its revenue will increase by 5%

C Its revenue will increase by less than 5%.

D Its revenue will increase by more than 5%.

10 A firm successfully engages in a policy of predatory pricing.

What will happen to the prices charged by the firm in the short run and in the long run?

	prices in the short run	prices in the long run
A	rise	rise
B	rise	fall
C	fall	rise
D	fall	fall

11 What will act as a barrier to collusion between firms?

A an ability to detect price cuts by rivals

B the abolition of anti-trust measures

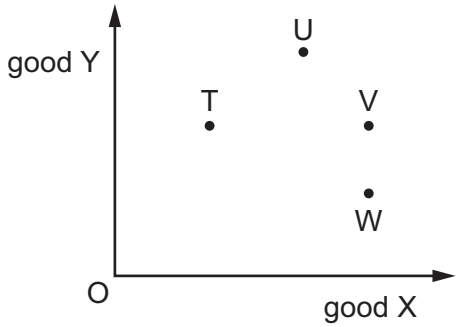
C the existence of a small number of firms in the industry

D unstable demand conditions for products

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12 The diagram represents different combinations of good X and good Y.

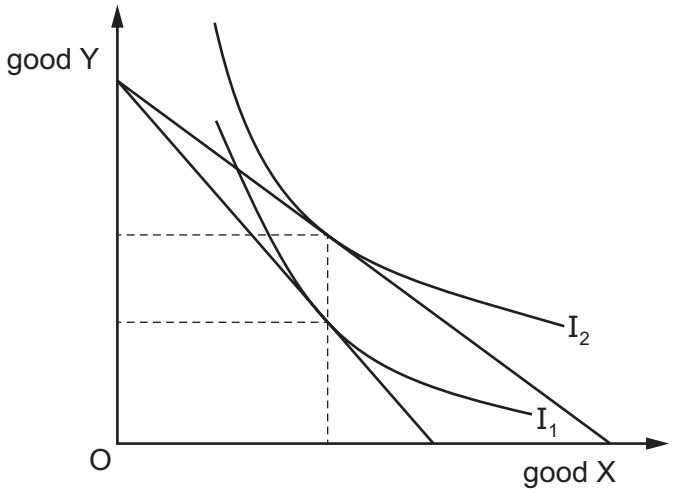
A consumer prefers more units of both goods to fewer units but prefers, as far as possible, not to give up any of good Y to obtain more of good X.



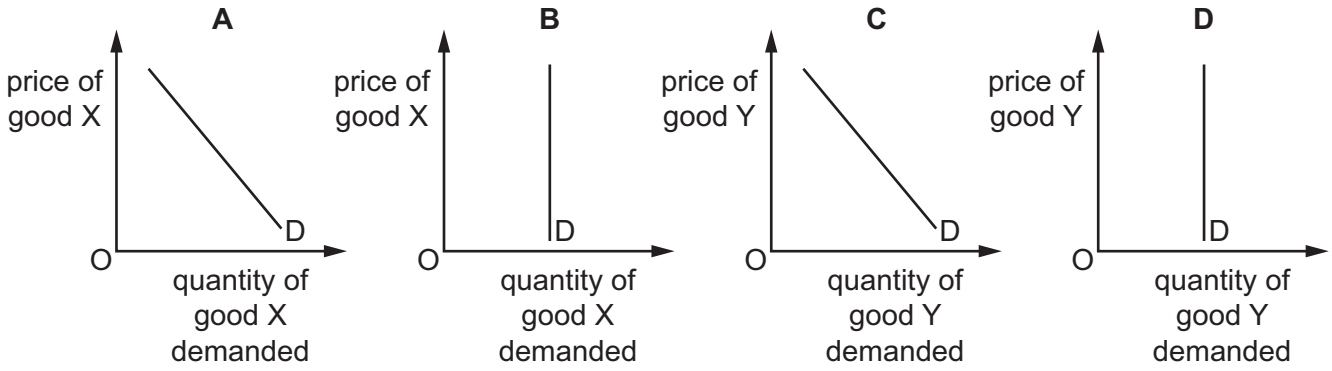
Which combination in the diagram could represent the consumer's order of preference in descending order?

A UTVW **B** UVTW **C** TUVW **D** WVUT

13 A consumer demands two goods, X and Y. The indifference curve diagram shows the effect of a change in the price of one of these goods on the consumer's equilibrium.



Which demand curve can be deduced from the diagram?



14 What could prevent a market failure?

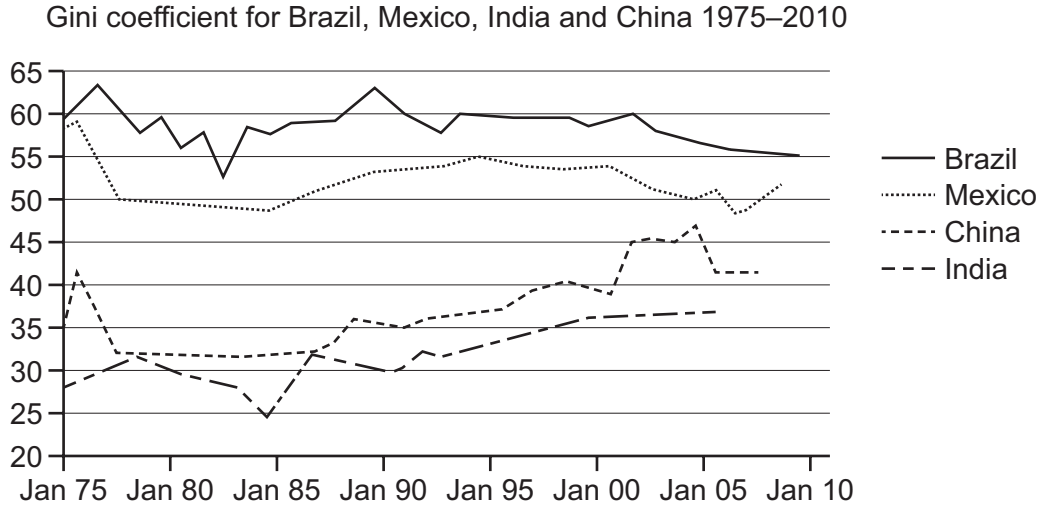
A barriers to entry

B building regulations

C growth of firms

D persuasive advertising

15 The diagram shows the Gini coefficient for four countries between 1975 and 2010.



Which country made the greatest move towards a more equal income distribution over the period?

A Brazil

B China

C India

D Mexico

16 Extra fishing boats start to operate from a local harbour which depends on fishing for its main income.

Which action by the local authority is an example of nudge theory?

A distributing leaflets about the need to safeguard fish stocks

B increasing the licence fees for new boats

C insisting that all fish caught are sold to local people

D restricting the areas in which boats can fish

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17 What is the main disadvantage of government regulation aimed at restricting the profits earned in a monopolistic industry?

A It acts as a disincentive to innovation.

B It cannot take account of externalities.

C It leads to diseconomies of scale.

D It leads to excessive advertising by firms.

18 What is an advantage of a 'creation of property rights' solution to externalities resulting from river pollution?

A It allows the possibility of a claim for compensation to those harmed.

B It always makes the polluter pay for pollution caused.

C It results in better monitoring by the government of the damage from pollution.

D It will eliminate pollution completely.

19 In the UK in 2015 the average wage was £26 500 a year. At the same time, certain footballers were earning more than £150 000 a week.

Which aspect of the theory of wage determination is most likely to explain this wage differential?

A aggressive wage bargaining by the professional footballers' trade union

B the inclusion in wages of an element of economic rent

C the monopsony structure of the market for professional footballers

D the theory of net advantages

20 What is the most effective policy a government could introduce to reduce frictional unemployment?

A cut welfare spending on benefits

B improve information about job vacancies

C reduce tax rates

D raise interest rates

21 Which combination is usually found in the least developed countries?

A a high birth rate and a dominant primary sector

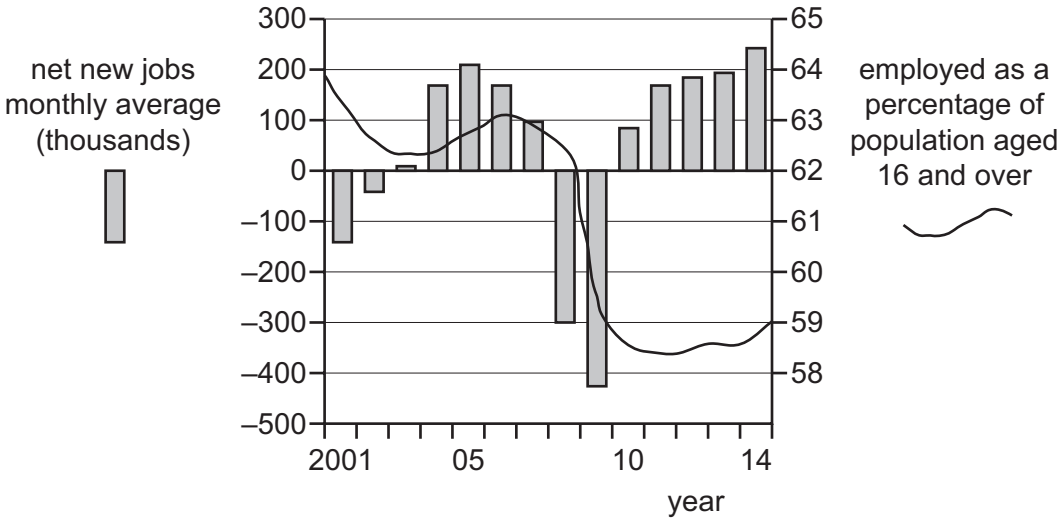
B capital-intensive production and a low rate of saving

C labour-intensive production and a declining population

D net inward migration and a low death rate

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22 The diagram shows selected US labour statistics from 2001 to 2014.



What can be concluded from the diagram about 2001-2014?

A Employment as a percentage of the population aged 16 and over declined continuously.

B In periods when the number of net new jobs was rising the percentage employed increased.

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

D The number of unemployed workers fell in all except four years.

23 Under conditions of full employment, the Quantity Theory of Money suggests that (other things being equal) the effect of an increase in the velocity of circulation will be to increase

A output.

B prices.

C the demand for money.

D the quantity of money.

24 In a closed economy with neither government expenditure nor taxation, the initial income is $2000 million. All savings are carried out by consumers, who save 25 % of any income received above $2000 million. Businesses plan to invest $2000 million.

What is the value of the multiplier?

A 5 **B** 4 **C** $\frac{4}{3}$ **D** $\frac{3}{4}$

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25 Which combination of factors is most likely to result in economic growth?

A an increase in management productivity together with a reduction in the hours worked per employee

B increased educational enrolment together with an increase in business regulation

C the discovery of a new raw material deposit together with significant emigration of labour

D the invention of a technology together with the investment to use it in the economy

26 A country's real national income per head increases.

What could explain why this might be accompanied by a fall in households' standard of living?

A a decrease in state welfare payments

B a decrease in the working age population

C an increase in the trade deficit

D an increase in the consumer price index

27 A director becomes redundant as the result of a company merger. His salary was $80 000. He is entitled to an annual private pension of $30 000.

In his first year after redundancy he earns $40 000 in consultancy fees and saves $8000 by dismissing his gardener.

What is the resulting change in measured national income in the first year?

A +$70 000 **B** +$60 000 **C** -$80 000 **D** -$18 000

28 Which cause of economic growth would involve the least cost for present and future generations of a country's population?

A increased exploitation of a country's mineral resources

B investment financed by borrowing from abroad

C investment financed by high rates of domestic savings

D technological innovations in productive processes

29 What would encourage industrial expansion in a region of high unemployment?

A a rationing system for building development in that region

B a reduction in tax allowances on investment

C a requirement that only local labour may be employed

D an end to nationally negotiated wage rates

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

options	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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