Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **February/March 2019**

1 hour 15 minutes

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

1192745130

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 **11** printed pages and **1** blank page.

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1 A project has a social cost of $100 million, a private cost of $40 million and an external benefit of $20 million. Its net social value is zero.

What can be concluded about the project?

A External cost is greater than external benefit.

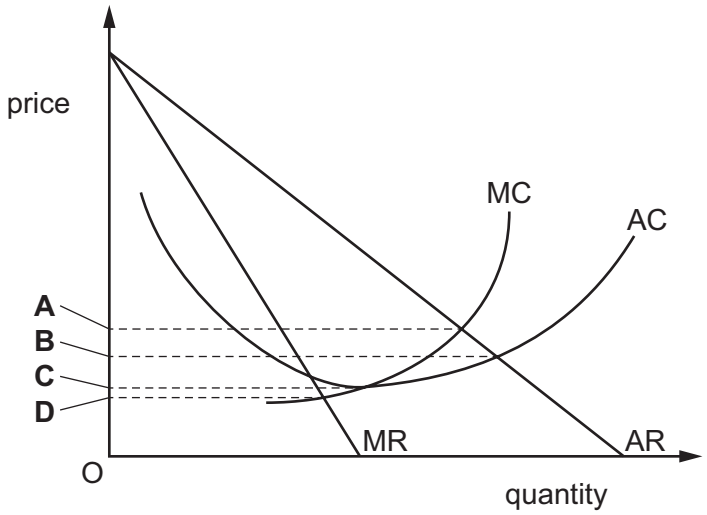
B Private cost is greater than external cost.

C Private cost is greater than private benefit.

D Social cost is greater than social benefit.

2 The diagram shows the cost and revenue curves for a firm.

At which price does allocative efficiency occur?



3 A government is considering improving the rail links in its country. It also has to choose one of four high-speed routes.

The benefits and costs of each route are shown below.

Which route should be chosen?

	private benefits $bn	external benefits $bn	private costs $bn	external costs $bn
A	14	20	0.4	0.1
B	16	22	1.6	0.4
C	18	12	0.2	1
D	20	18	2	4

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4 The table shows the total utility gained by a consumer as they consume more apples.

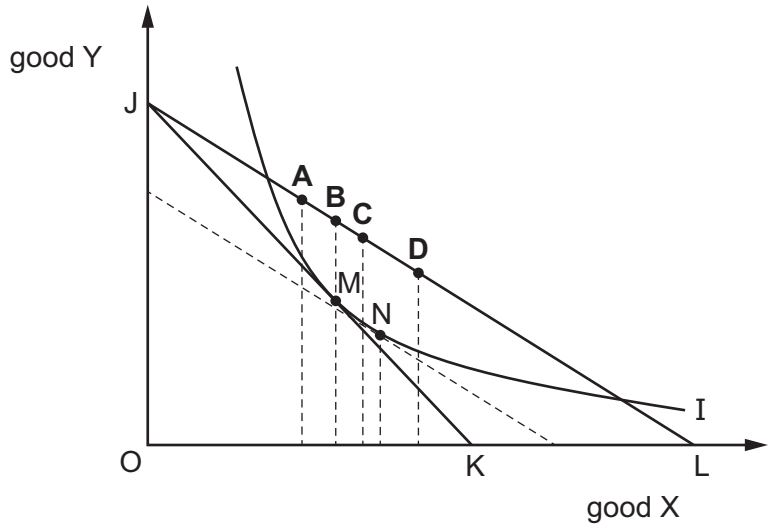
apples consumed	total utility
0	0
1	10
2	18
3	24
4	28
5	30
6	30

At which level of consumption would the marginal utility be zero?

A 1 **B** 4 **C** 5 **D** 6

5 In the indifference curve diagram point M is the consumer's initial equilibrium, JK and JL are budget lines and MN is the substitution effect of a fall in the price of good X.

If good X is a Giffen good, which point will be the consumer's new equilibrium point after the fall in the price of good X?

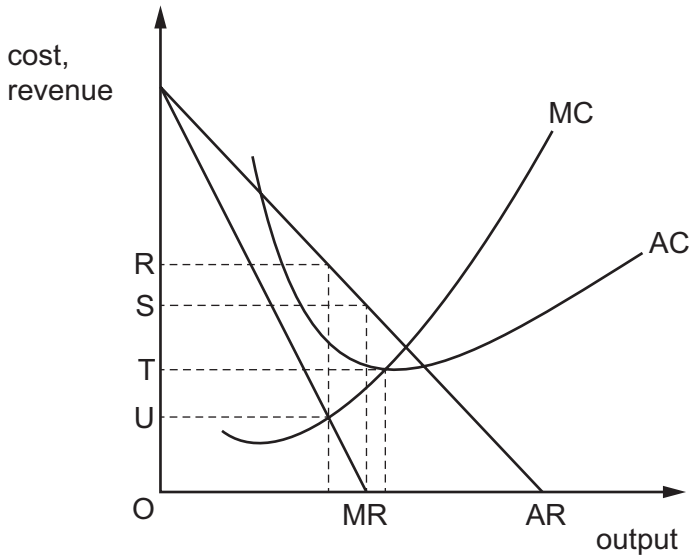


6 Selina has an income of $100 and buys food and drink. The price of a unit of food is $2 while the price of a unit of drink is $1.

Which combination of spending would suggest that Selina wants to save some of her income?

	food (units)	drink (units)
A	20	50
B	30	40
C	40	20
D	50	10

7 The diagram shows a profit-maximising monopolist.



What would be the change in price if this monopolist changed from profit maximisation to revenue maximisation?

A R to S **B** R to T **C** U to S **D** U to T

8 The goal of firm X is to make a minimum acceptable level of profit.

What does this describe?

A profit maximisation

B profit satisficing

C revenue maximisation

D sales maximisation

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9 A monopoly firm makes only normal profit in the long run.

What is **most** likely to explain this?

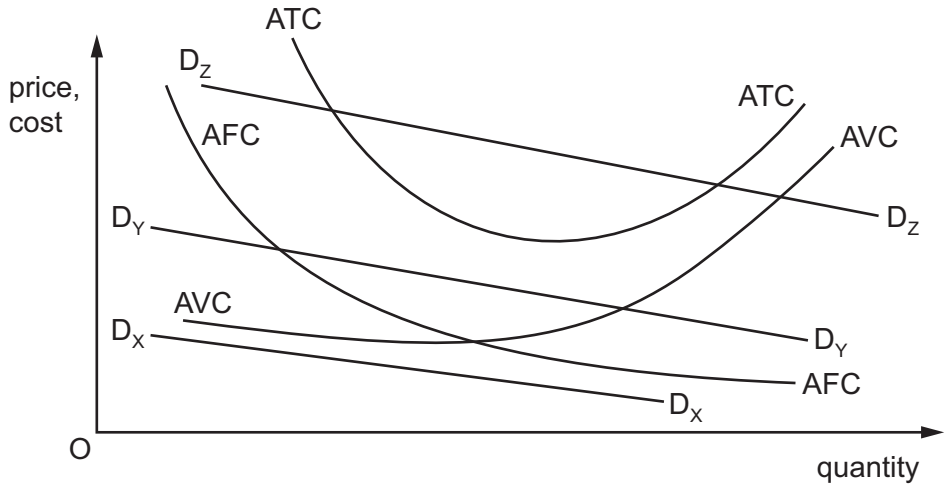
A The firm has decreasing long-run average costs.

B The firm is a public company with numerous shareholders.

C The firm is owned by a small number of financial institutions.

D The market in this industry is highly contestable.

10 The diagram shows the average fixed cost (AFC), average variable cost (AVC) and average total cost (ATC) curves faced by three firms X, Y and Z. D_X, D_Y and D_Z are the three respective demand curves. All three firms seek to make a profit.



Which statement is **not** correct?

A Firm X will choose not to produce at all.

B Firm Y is likely to operate in the long run but not in the short run.

C Firm Y is likely to operate in the short run but not in the long run.

D Firm Z will operate in both the short run and the long run.

11 When a firm increases all its inputs fourfold, its output increases threefold.

What does this illustrate?

A decreasing marginal costs

B decreasing returns to scale

C economies of scale

D the law of diminishing returns

12 What represents the transfer earnings of the factor enterprise?

A excess profit

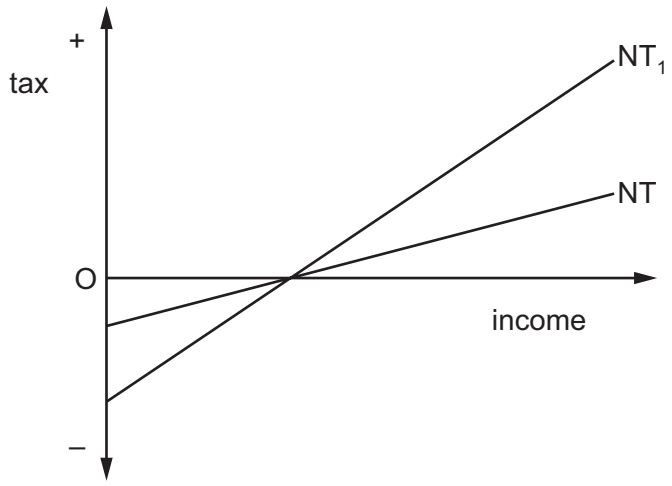
B normal profit

C return on capital

D start-up costs

13 A country has a negative income tax.

The curve NT in the diagram shows the country's initial tax schedule.



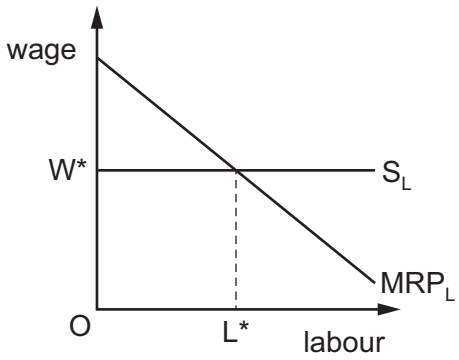
A change in the tax rate causes the schedule to shift to NT_1.

How will this affect work incentives and the after-tax distribution of income?

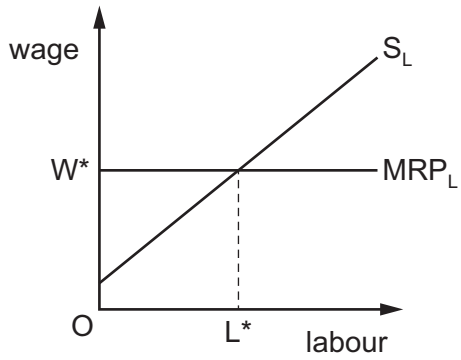
	work incentives	distribution of income
A	strengthen	more equal
B	strengthen	less equal
C	weaken	less equal
D	weaken	more equal

14 In which labour market diagram is the economic rent of workers greatest?

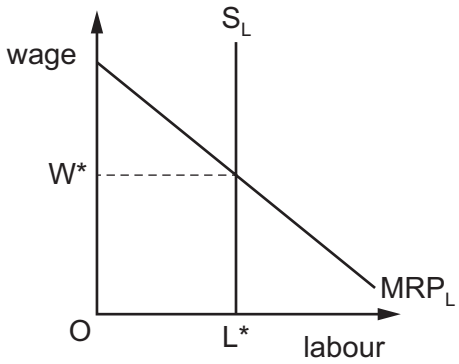
A



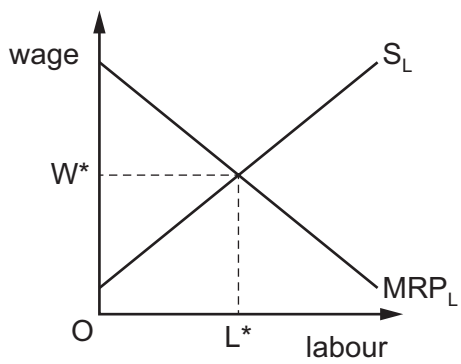
B



C



D



15 Which statement about government intervention is correct?

A Government failure may result from policies that have unintended side effects.

B Governments cannot identify the existence of inefficiency.

C Inefficient government policies mean that the market system will be better at resource allocation.

D Market failure means that government action will necessarily improve the situation.

16 The government introduces a minimum wage above the equilibrium market wage rate.

How will this affect low-paid workers according to marginal revenue product (MRP) theory?

A All those initially in employment will receive the new guaranteed minimum wage.

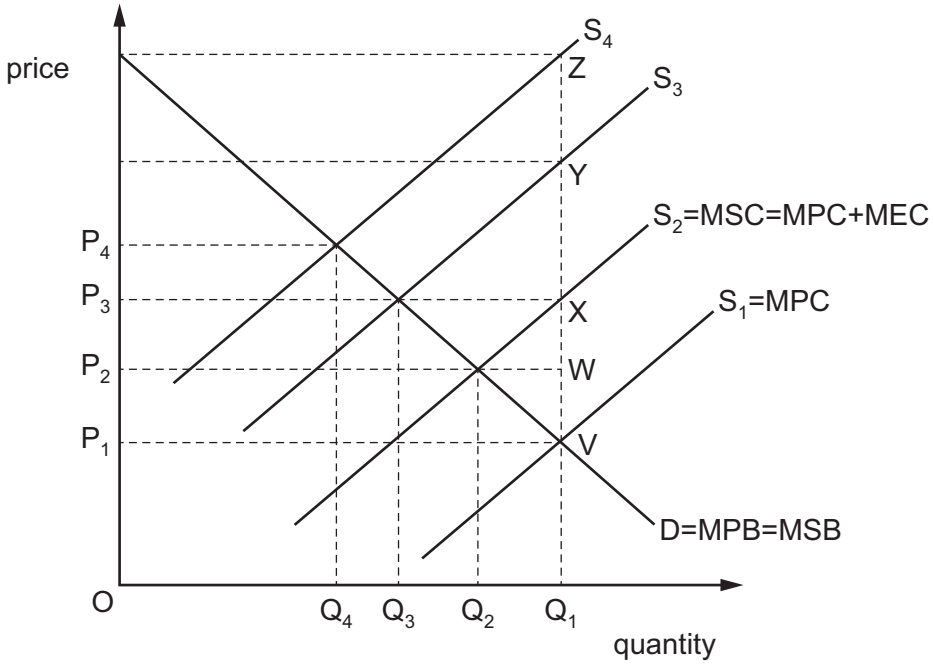
B Fewer of those not already in employment will enter the labour force.

C There will be an increase in the number of low-paid workers in employment.

D Some low-paid workers will lose their job.

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17 The diagram shows the market for a good that creates a negative externality in production and no positive externalities. The current level of consumption is OQ_1.



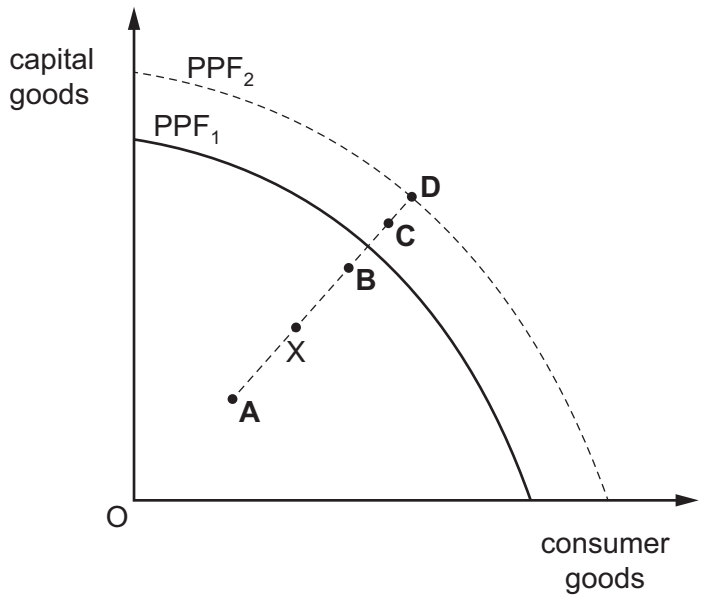
The government decides to tax producers of the good.

Which size of tax on producers would result in a socially efficient allocation of resources?

A VW **B** VX **C** VY **D** VZ

18 The diagram shows a production possibility frontier, PPF_1. The economy is initially at point X.

If the economy achieves actual economic growth but not potential growth, what would the final position be?



19 The information in the table is taken from a country's national income accounts.

	$ million
consumer expenditure	250
investment expenditure	100
government expenditure	150
exports	100
imports	150
taxes	80
subsidies	40

What is the value of national income at factor cost in $ million?

A 410

B 450

C 500

D 550

20 Which source of income is **not** included in measuring real GDP?

A pension paid to retired people

B profits made by firms

C rent paid to landlords

D wages paid to nurses

21 Which adjustments to real GNP per head might make it a more reliable indicator when comparing standards of living in different countries?

A adjustments to allow for differences in the level of government spending in different countries

B adjustments to allow for differences in the rates of inflation in different countries

C adjustments to allow for differences in the size of the hidden economy in different countries

D adjustments to allow for differences in the value of exports from different countries

22 What does the Kuznets curve represent?

A changes in income inequality over time

B changes in the Human Development Index over time

C changes in the Multidimensional Poverty Index over time

D the inverse of a Lorenz curve

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[Turn over

23 In an open economy with a government sector, the marginal propensity to import is 0.3, the marginal propensity to tax is 0.3 and the marginal propensity to save is 0.2.

What is the value of the multiplier?

A 1.25 **B** 2 **C** 2.5 **D** 5

24 The information in the table is taken from a country's national income accounts.

	$ million
national income	600
consumer spending	400
investment spending	80
government spending on goods and services	100
exports	140

What is the value of imports in $ million?

A 100 **B** 120 **C** 140 **D** 240

25 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

26 Which row shows characteristics of a fast-growing emerging economy?

	GDP per head	birth rate	household saving ratio
A	falling	falling	rising
B	falling	rising	falling
C	rising	falling	rising
D	rising	rising	falling

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27 Which policy is likely to increase unemployment?

A an increase in retraining facilities

B a significant increase in indirect taxes

C the imposition of selective import controls

D an increase in the public sector deficit

28 A government in a developed economy wishes to reduce cyclical unemployment.

Which policy is likely to be **most** effective?

A decrease government expenditure and increase income tax

B decrease its budget deficit

C increase government expenditure and decrease income tax

D increase its budget surplus

29 An economy adopts an expansionary monetary policy to boost employment. A result of this policy is that the consumer price index rises at an accelerating rate.

Which curve could represent this?

A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

30 In country X the government aims to protect jobs.

Which policy is most likely to succeed?

A decrease restrictions on immigrant labour

B decrease subsidies to domestic producers

C increase general tariffs on imports

D remove quotas on imports

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