Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **February/March 2020**

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. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.

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1 Which statement about a product with external costs must be correct?

A The consumption of the product has positive effects on third parties.

B The private costs of its production exceed the social costs of its production.

C The production of the product has negative effects on third parties.

D The social costs of its production exceed the social benefits of its production.

2 What is correct if a firm in a perfectly competitive market is maximising its long-run profits?

	it is allocatively efficient	it is productively efficient
A	no	no
B	no	yes
C	yes	no
D	yes	yes

3 The table shows the results of a cost-benefit analysis undertaken by a government when it was considering investing US$200 million in building a new airport.

	US$ million
private benefits	230
private costs	200
external costs	50

The government will build the airport if the net social benefit creates a return of at least 10% on its investment.

What will the minimum external benefit need to be in US$ million to achieve this?

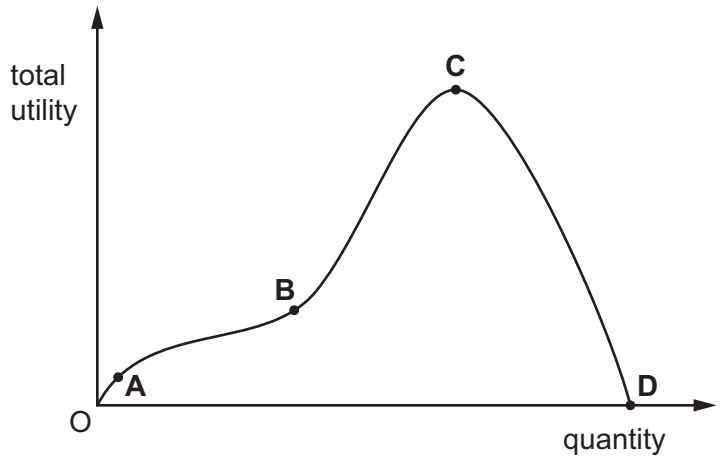
A 10 **B** 20 **C** 30 **D** 40

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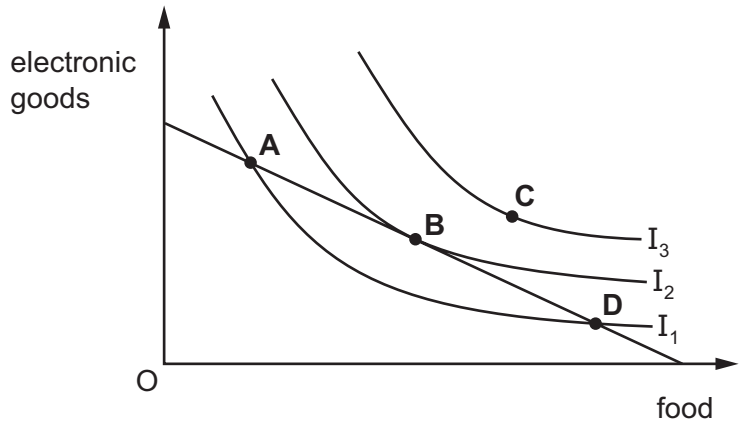
4 The diagram shows a total utility curve for a consumer.

At which point does marginal utility equal zero?



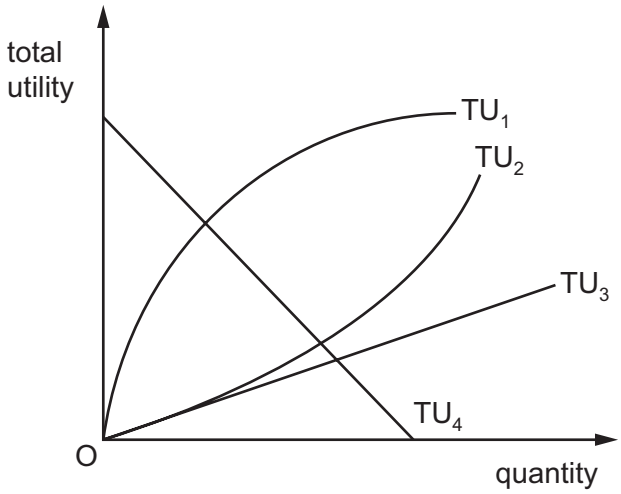
5 The diagram shows a consumer's indifference curves and a budget line for electronic goods and food.

If income and prices remain the same, at which point on the diagram will the consumer maximise satisfaction?



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6 The diagram shows a consumer's total utility.



Which curve would mean that marginal utility is diminishing?

A TU_1 **B** TU_2 **C** TU_3 **D** TU_4

7 Which is an internal economy of scale?

A cheaper loans from a local bank resulting from a merger

B efficient local transport networks

C specialist training facilities provided by a local college

D the reputation of an area for a particular product

8 Why might a firm continue in production in the short run even though the price of its product has fallen below its average total costs of production?

A It anticipates a rise in variable costs.

B It expects the fall in price to be temporary.

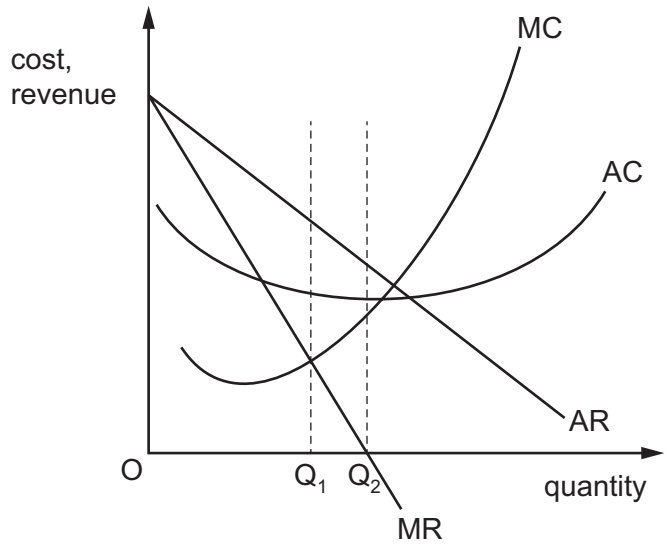
C It has large fixed costs of production.

D It has no control over the price of its product.

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9 The diagram shows that a producer increases output from Q_1 to Q_2.



What will be the result?

	total profit	total revenue
A	increased	increased
B	increased	reduced
C	reduced	increased
D	reduced	reduced

10 What is true about economies of scale but **not** diseconomies of scale?

A They occur because average revenue is increasing.

B They occur because of management policy changes.

C They occur in the short run.

D They occur with decreasing average cost.

11 What is **most** likely to be found when comparing the long-run equilibrium outcome in monopolistic competition with that in perfect competition?

A a greater degree of excess capacity in monopolistic competition

B a higher level of profit in monopolistic competition

C a larger number of firms in monopolistic competition

D a more price-elastic demand curve in monopolistic competition

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12 A government divides a nationalised rail service and sells it to five private companies. The largest of these companies dominates the four smaller companies.

How will these changes affect the market structure for rail services?

A It will change from monopoly to monopolistic competition.

B It will create an oligopoly with the possibility of price leadership.

C It will encourage freedom of entry due to lower capital costs.

D It will guarantee ticket prices based on average costs.

13 What is meant by 'real wages'?

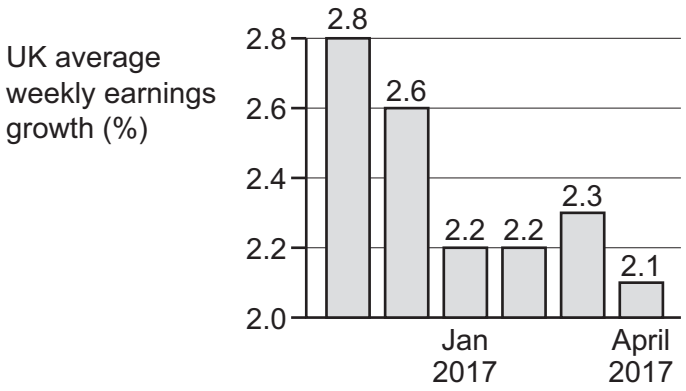
A the marginal physical product of labour

B the opportunity cost of labour

C the purchasing power of money wages

D wages net of tax

14 The graph shows the percentage growth in average earnings for the UK economy.



What is the **most** likely cause of the pattern shown in the graph?

A a decrease in the supply of labour

B a decrease in the interest rate

C an increase in productivity

D an increase in the size of the labour force

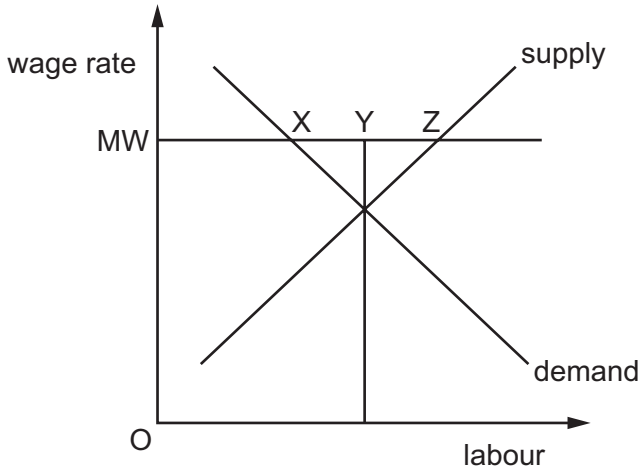
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15 Which combination of policy changes is **most** likely to redistribute income from the richest households to the poorest households in an economy?

	indirect taxes	means-tested benefits	benefits for everyone
A	decrease	increase	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	decrease	decrease

16 The diagram shows the impact on the labour market of the introduction of a national minimum wage (MW).

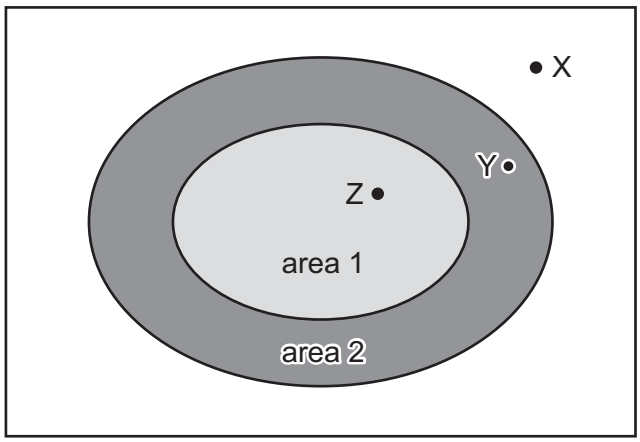


What do the distances XY and YZ represent?

	XY	YZ
A	increase in employed workers	redundant existing workers
B	redundant existing workers	unemployed new entrants
C	redundant existing workers	increase in employed workers
D	unemployed new entrants	redundant existing workers

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17 At present, motorists who drive their cars within area 1 on the map pay a daily congestion charge of $8.



Which car journeys would decrease in number if the congestion charge area were extended to include area 2?

A journeys from point X to point Z

B journeys from point X to point Y

C journeys from point Y to point Z

D journeys from point Z to point Y

18 What is **most** likely to be the biggest contribution to sustainable economic growth in a developed economy?

A a movement of people from rural to urban areas

B an increase in technical training

C an increase in the size of the population

D rising consumer credit levels

19 When calculating national income by the income method, what would **not** be included?

A income from abroad

B profits of private sector businesses

C rent from the ownership of land

D transfer payments

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20 Which changes to basic income at points W and X might be included in the calculation to reach disposable income?

basic income

add W =

gross income

subtract X =

disposable income

	W	X
A	bonus payment	direct taxes
B	bonus payment	indirect taxes
C	cost of living	direct taxes
D	cost of living	indirect taxes

21 In a closed economy with no government sector, when will an increase in investment spending generate the largest increase in equilibrium national income?

A when households have a high level of autonomous consumption

B when households have a high level of compulsory saving

C when households have a high marginal propensity to consume

D when households have a high marginal propensity to save

22 The table shows economic data for four different countries for 2015.

Which country is most likely to be classed as 'developed'?

	GDP per annum ($)	HDI	population
A	10.9 trillion	0.727	1.37 billion
B	2.4 trillion	0.897	66.8 million
C	481 billion	0.527	182.2 million
D	19 billion	0.516	15.6 million

23 What is an example of a Keynesian macroeconomic policy that would reduce cyclical unemployment?

A an increase in government spending on new infrastructure such as roads

B an increase in government spending on retraining workers

C a reduction in the rate of tax on imports

D a reduction in the rate of tax on goods and services

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24 The graph shows changes in the unemployment rates in countries X, Y and Z over the period 2000 to 2010. All three countries faced recession between 2008 and 2010.



Which conclusion can be drawn from the graph about the period 2000 to 2010?

A All three countries experienced an upward trend in unemployment over the period.

B Country X had the highest number out of work in 2010.

C In terms of unemployment, the country least harmed by the recession was country Y.

D The total number out of work in the three countries was higher in 2010 than in 2000.

25 The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity decrease the most?

A 2001 **B** 2008 **C** 2011 **D** 2012

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26 Recently, among European countries the Netherlands had the highest percentage of part-time employees and an average working week for all employees of 32 hours. Greece had a smaller percentage of part-time employees but an average working week for all employees of 41 hours.

Which conclusion may be drawn from this information?

A Greece has a higher percentage of its workforce in full-time employment than the Netherlands.

B On average part-time employees work longer in Greece than in the Netherlands.

C The average working week in Greece for full-time employees is longer than in the Netherlands.

D There are more part-time employees in the Netherlands than in Greece.

27 In 2017 a report suggested that by 2030 automated robots could threaten 33% of existing jobs in the UK, compared with 38% in the US and 21% in Japan. Manufacturing and retail jobs faced the greatest threat.

Which type of unemployment is illustrated in the above paragraph?

A demand-deficient unemployment

B frictional unemployment

C seasonal unemployment

D structural unemployment

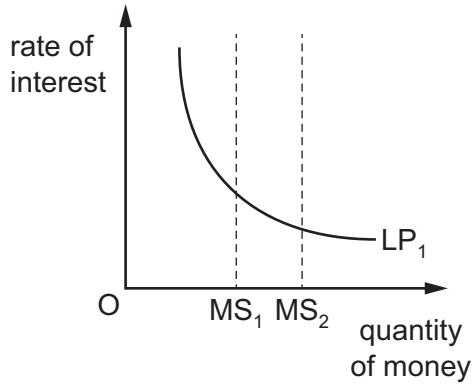
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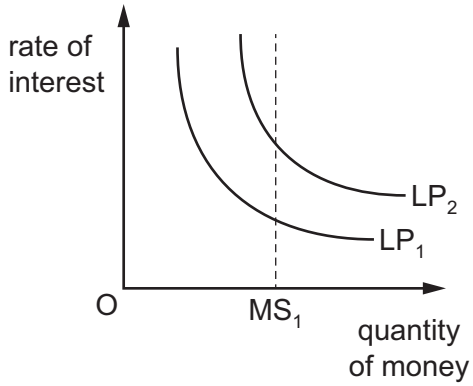
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28 Which diagram shows the effect of a policy of quantitative easing on the rate of interest?

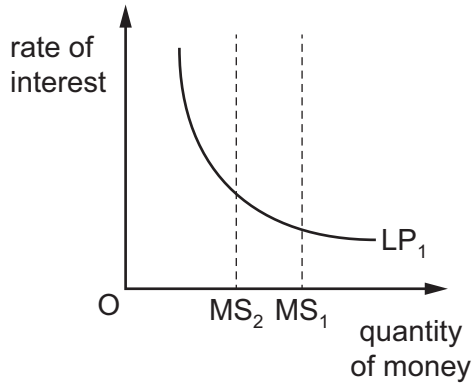
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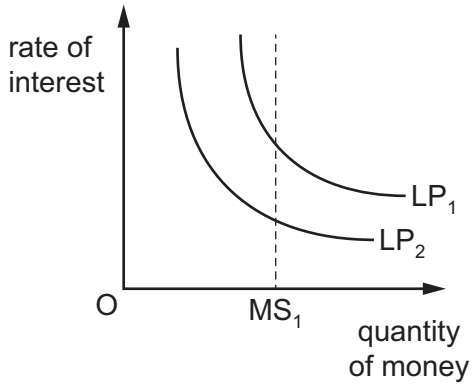
B



C



D



29 Which macroeconomic policy is **most** likely to be used as a long-run means of reducing inflationary pressures?

A exchange rate policy

B fiscal policy

C monetary policy

D supply-side policy

30 What may prevent a government achieving a faster rate of growth of real GDP?

A Consumption and investment expenditure are interest rate elastic.

B The consumer price index is below its target set by the central bank.

C The economy is operating on the long-run aggregate supply curve.

D There is a large negative output gap in the economy.

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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	External costs are costs of production or consumption borne by third parties, so the production has negative effects on them.
2	D	In long-run equilibrium P = MC (allocatively efficient) and P = minimum AC (productively efficient).
3	D	Required net social benefit = 10% × $200m = $20m. 230 – 200 – 50 + EB = 20, so EB = $40m.
4	C	Marginal utility is zero where total utility is at its maximum, the peak of the TU curve at C.
5	B	Satisfaction is maximised where the budget line is tangent to the highest attainable indifference curve, at B.
6	A	TUI rises at a decreasing rate, so each extra unit adds less to total utility than the one before.
7	A	Cheaper loans from a merger arise from the growth of the firm itself (a financial economy), so it is internal.
8	B	As long as price covers average variable cost, a firm stays open if it expects the price fall to be temporary.
9	C	Beyond Q1 (where MR = MC) MC > MR, so profit falls; MR is still positive up to Q2, so total revenue rises.
10	D	Economies of scale mean long-run average cost falls as output rises; diseconomies mean it rises.
11	A	The downward sloping AR is tangent to AC to the left of minimum AC, so monopolistic competitors have excess capacity.
12	B	Five firms with one dominant is a few large sellers, an oligopoly, where the

Question number		
		dominant firm may act as price leader.
13	C	Real wages are money wages adjusted for inflation, i.e. the quantity of goods and services they can buy.
14	D	Earnings growth falls from 2.8% to about 2.1%; a larger labour force increases supply, slowing wage growth.
15	A	Cutting regressive indirect taxes, raising means-tested benefits for the poor and cutting universal benefits that the rich also receive.
16	B	Above equilibrium, demand falls: XY are existing workers made redundant; supply rises: YZ are new entrants who cannot find work.
17	B	Journeys from X to Y lie wholly in area 2, so they would now pay the $8 charge for the first time and fall in number.
18	B	Technical training raises labour productivity and the quality of human capital, raising long-run productive capacity.
19	D	Transfer payments (eg pensions, unemployment benefit) are not payments for productive services, so they are excluded.
20	A	Gross income = basic income + extras such as a bonus; disposable income = gross income − direct taxes.
21	C	A high MPC means a low MPS, so the multiplier 1 ÷ (1 − MPC) is large and income rises the most.
22	B	Country B has the highest HDI (0.897) and the highest GDP per head (2.4 trillion ÷ 66.8 million ≈ $36 000).
23	A	Cyclical unemployment is caused by too little aggregate demand; Keynesians raise government spending to boost AD.
24	C	Country Y had the smallest rise in its unemployment rate during the 2008 to 2010 recession.
25	D	In 2012 output fell while employment rose, so output per worker (labour productivity) fell by the most.
26	A	Greece has fewer part-time employees and a longer average week, so a higher

Question number		
		share of its workforce is full-time.
27	D	Jobs lost to new technology in particular industries are a mismatch of skills with demand, so structural unemployment.
28	A	Quantitative easing increases the money supply (MS1 to MS2) with liquidity preference unchanged, so the interest rate falls.
29	D	Supply-side policies raise productive capacity (LRAS shifts right), reducing inflationary pressure in the long run.
30	C	On the LRAS curve the economy is at full capacity, so real GDP cannot grow faster without more productive capacity.