Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **February/March 2021**

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.
- Any rough working should be done on this question paper.

This document has **12** pages.

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1 Over time the average total cost curve of a firm is lowered.

Which form of efficiency does this represent?

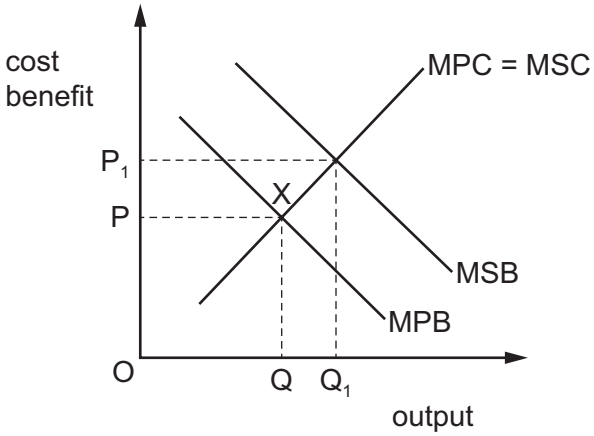
A allocative

B dynamic

C Pareto

D productive

2 The diagram shows the private and social marginal costs and benefits curves for the antibiotics market. The market equilibrium is at point X.



Why does market failure occur?

A There is overconsumption and overpricing.

B There is overproduction and under-pricing.

C There is underconsumption and under-pricing.

D There is underproduction and overpricing.

3 The table shows the results of a cost-benefit analysis of the construction of a new airport.

	US$ million
private cost	400
private benefit	440
social cost	450
social benefit	480

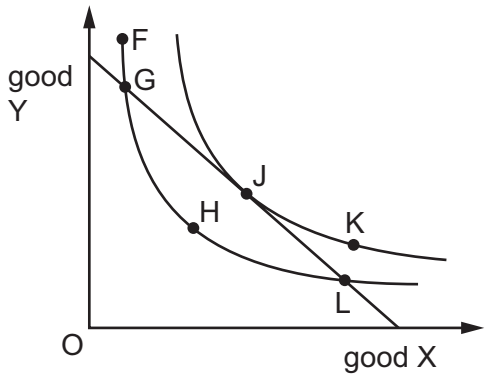
What is the total value, in US$ million, of all the externalities created by construction of the new airport?

A 30 **B** 40 **C** 50 **D** 90

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4 A utility-maximising consumer has a fixed income and can choose between good X and good Y. The diagram shows her budget line and different consumption combinations (F, G, H, J, K and L) of products X and Y.



Which consumption combinations are currently available to her?

A F, G, H and L

B F, G, J, and L

C G, J and L only

D G, H, J and L

5 Rational consumer Romesh spent 90 rupees buying herb X and spice Y. Both cost 10 rupees per gram.

grams purchased	total utility herb X	total utility spice Y
2	15	12
3	30	25
4	45	35
5	55	42

How much of each should he buy?

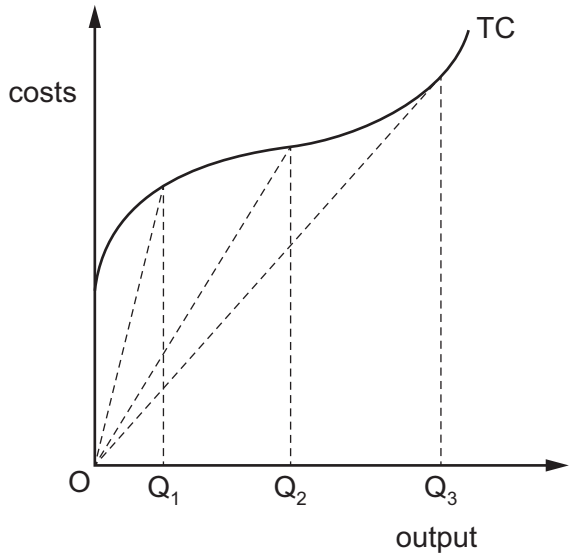
	herb X (grams)	spice Y (grams)
A	2	3
B	3	5
C	4	5
D	5	4

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6 In the diagram, TC is a firm's short-run total cost curve.



Which statement is correct?

A Average total cost is minimised at output OQ_3.

B Average variable cost is minimised at output OQ_2.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_1.

7 What is correct about cartels?

A They are a form of trade union restrictive practice.

B They are a type of industrial merger.

C They are often subject to government investigation.

D They establish a vertical link between firms.

8 When output increases in the short run, which statement is correct?

A Average fixed cost first falls and then, beyond some point, rises.

B Average variable cost increases as soon as the law of diminishing marginal returns begins to operate.

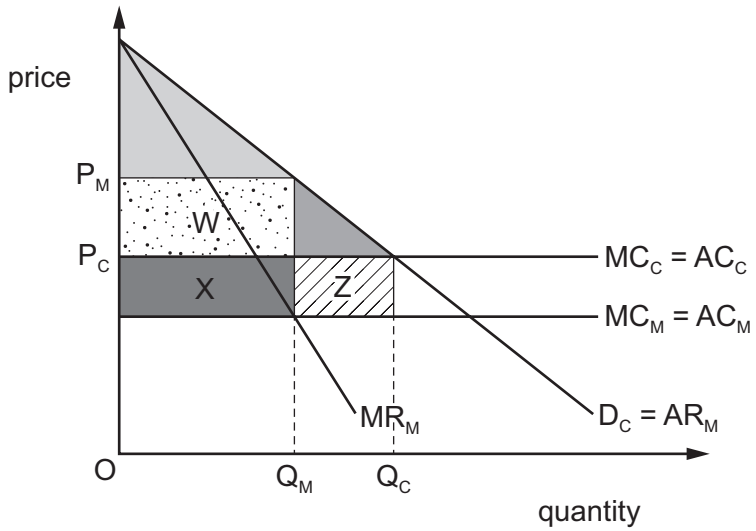
C The minimum point of the average total cost curve occurs at a greater level of output than the minimum point of the average variable cost curve.

D When marginal cost reaches its minimum point, average variable cost must be greater than average fixed cost.

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9 The diagram shows a competitive industry facing constant marginal and average costs. In equilibrium its output is OQ_C and its price is OP_C. A series of horizontal mergers generate economies of scale and create a monopoly in the industry. The new equilibrium output is OQ_M and price is OP_M.



Which area represents the producer surplus after these mergers?

A W **B** W + X **C** W + X – Z **D** X

10 A firm that controlled over 50% of the market successfully merges with its main competitor to form one large company.

What is the most likely reason why, from the firm's point of view, the merger will fail?

A a fall in consumer surplus

B cost of funding the merger

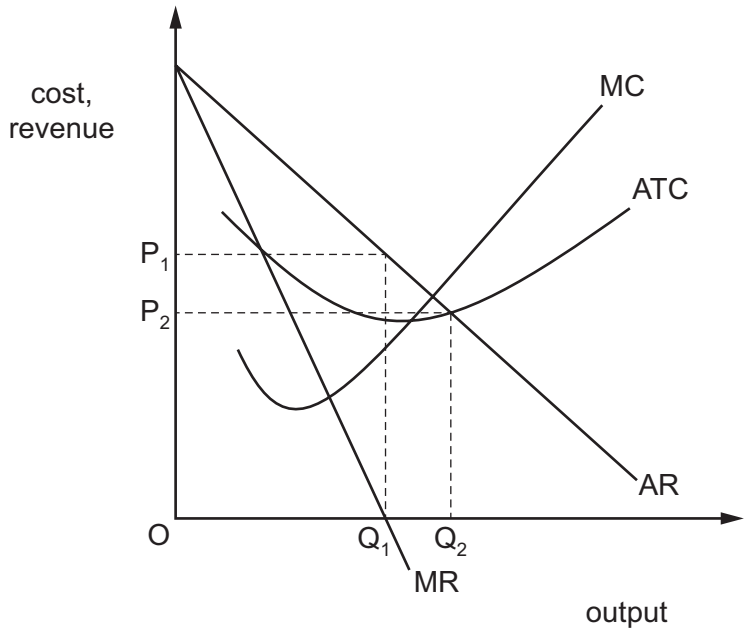
C economies of scale

D market dominance

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11 The diagram shows a monopolist's cost and revenue curves.



The monopolist changes its price from P_1 to P_2 and its output from Q_1 to Q_2.

Which change in objective is indicated by the move from P_1 to P_2?

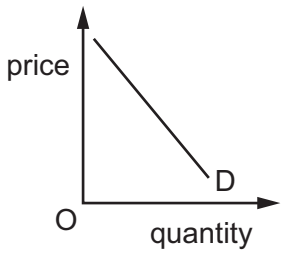
A profit maximisation to sales revenue maximisation

B profit maximisation to sales maximisation subject to earning a normal profit

C sales revenue maximisation to profit maximisation

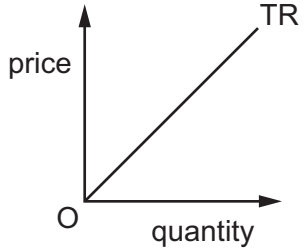
D sales revenue maximisation to sales maximisation subject to earning a normal profit

12 The diagram shows the demand curve for a firm's product.

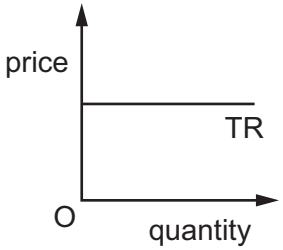


Which diagram depicts the shape of the firm's corresponding total revenue (TR) curve?

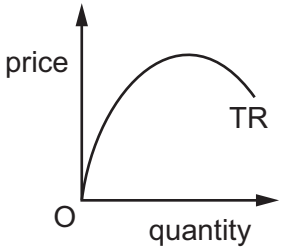
A



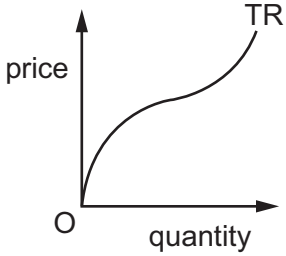
B



C

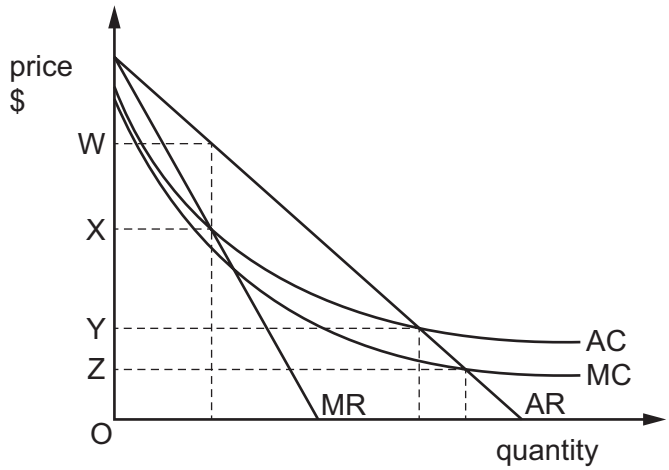


D



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13 A government is attempting to achieve allocative efficiency in a nationalised industry.



What will the government do?

A It will set price at W and make sub normal profit.

B It will set price at X and the firm will make supernormal profits.

C It will set price at Y and make normal profits.

D It will set price at Z and make a loss.

14 The diagram shows a sign beside a busy road.



What is this an example of?

A free good

B government regulation

C merit good

D nudge theory

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15 Recent research has shown that consumption of some foods might be harmful. A government committee considers how to intervene in the markets.

Which intervention is most likely to reduce consumption of these foods without reducing income equality?

A a minimum price for the harmful foods

B a subsidy for substitute foods

C an ad valorem tax on the harmful foods

D an indirect tax on the harmful foods

16 In which circumstances is a poverty trap **least** likely to operate?

A A female worker is paid less than a male worker for doing the same job.

B A worker is paid the minimum wage and refuses a higher paid job because net income is lower after tax.

C A worker refuses higher paid work as it means more expensive travel and childcare costs.

D An unemployed worker refuses a job because earnings are less than unemployment benefit.

17 What would be most likely to cause the demand for labour in an industry to be inelastic?

A Labour costs are a small percentage of total cost.

B The demand for the final product has a price elasticity of demand that is greater than one.

C The workforce belongs to a strong trade union.

D There is a large pool of readily available labour.

18 Which influence is **least** likely to promote sustainable economic growth in a developing economy?

A high saving rates

B involvement in free trade

C protected property rights

D rapid population growth

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19 Governments are interested in providing statistics on the standard of living. They measure the value of material goods and services.

Non-material characteristics that affect the standard of living cannot easily be measured.

What is an example of a non-material characteristic?

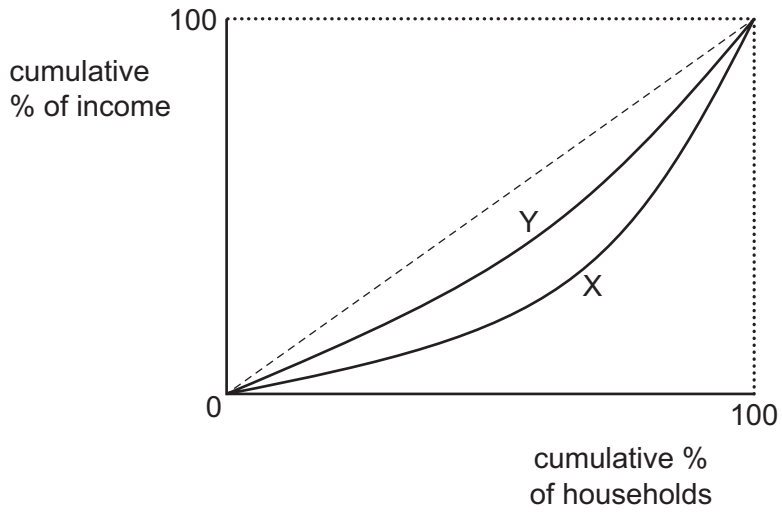
A the failure to include unpaid work in the home

B the freedom to make informed economic choices

C the proportion of GNP used for weapons of war

D the removal of taxes from all forms of consumer expenditure

20 The diagram shows Lorenz curves for a developed economy.



Which combination of supply-side policies would shift the Lorenz curve from X to Y?

	top rate of income tax	education	national minimum wage
A	increase	free	increase
B	increase	students pay	abolish
C	reduce	free	abolish
D	reduce	students pay	increase

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21 Two members of the Hernandez family have recently become unemployed. Mariana has lost her job at the local factory, which has closed because of competition from cheaper imports. Alfonso has lost his job as a shop assistant because the sales have dropped during a recession.

How would an economist classify these job losses?

	Mariana	Alfonso
A	frictional unemployment	seasonal unemployment
B	regional unemployment	frictional unemployment
C	structural unemployment	cyclical unemployment
D	technological unemployment	structural unemployment

22 Which combination of fiscal, monetary and supply-side policies is most likely to reduce unemployment?

	fiscal policy	monetary policy	supply-side policy
A	increasing taxation	increasing interest rate	increasing flexibility in the labour market
B	increasing government expenditure	decreasing the money supply	increasing education and training
C	decreasing taxation	decreasing interest rate	increasing flexibility in the labour market
D	decreasing government expenditure	increasing the money supply	increasing education and training

23 Which policy combination will reduce the level of national income by the greatest amount?

A decrease direct taxation and increase interest rates

B decrease direct taxation and increase quantitative easing

C increase direct taxation and increase interest rates

D increase direct taxation and increase quantitative easing

24 In a closed economy, the marginal propensity to save is 0.1 and the marginal propensity to pay taxes is also 0.1. These values are constant and do not vary with the level of income.

What will be the increase in national income if there is an injection of $100 million into the circular flow?

A $1000 million

B $500 million

C $100 million

D $80 million

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25 Which combination is consistent with liquidity preference theory?

	type of demand for money	determined by interest rates	determined by changes in income
A	speculative	yes	no
B	speculative	no	yes
C	transactions	no	no
D	transactions	yes	no

26 What is assumed by Keynesians?

A An increase in supply always creates an equal increase in demand.

B Government intervention is required to manage the economy.

C Prices always adjust so that markets clear.

D The economy always has full employment.

27 Which row correctly identifies injections into a country's circular flow of income?

	private sector (S > I)	public sector (T > G)	trade sector (X > M)
A	no	no	no
B	no	no	yes
C	yes	no	no
D	yes	yes	yes

28 Which policy by developed economies would be most beneficial for developing economies?

A a ban on resource exploration by mining companies in developing economies

B restrictions on investment by global firms in developing economies

C the removal of restrictions on emigration of skilled labour from developing economies

D the withdrawal of agricultural subsidies in developed economies

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29 The natural rate of unemployment in an economy is 5%.

What will happen if a government persists in trying to achieve a target rate of unemployment of 3% by expansionary monetary policy?

A an accelerating rate of inflation

B a diminishing rate of inflation

C a high but constant rate of inflation

D a negative rate of inflation

30 What is a reflationary fiscal measure?

A increasing government spending

B increasing taxes

C increasing the money supply

D reducing interest rates

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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	B	Dynamic efficiency is about improvements over time (new technology, innovation) that lower the whole cost curve.
2	C	MSB is above MPB (a positive externality), so the market output is below the social optimum and the price does not reflect the full benefit.
3	D	External cost = 450 − 400 = 50; external benefit = 480 − 440 = 40; total externalities = 50 + 40 = US$90 million.
4	D	Combinations on or inside the budget line are affordable: G, H, J and L; points outside it are not.
5	D	Budget 90 ÷ 10 = 9 grams. With 5 g of X and 4 g of Y the MU of the last gram of each is 10 (55 − 45 and 35 − 25), so MU/P is equal.
6	A	ATC = TC ÷ output is the slope of a ray from the origin to TC; it is lowest where the ray is tangent to TC, at OQ3.
7	C	Cartels collude to fix prices or output against consumers' interests, so competition authorities often investigate them.
8	C	ATC = AVC + AFC and AFC keeps falling, so ATC is still falling after AVC reaches its minimum; its minimum is at a higher output.
9	B	Producer surplus is the area between price OPM and the new MC = AC line up to output OQM, which is W + X.
10	B	Buying a large rival is expensive (borrowing, share issues, interest); these funding costs can outweigh the gains.
11	D	P1 is where MR = 0 (sales revenue maximisation); P2 is where AR = ATC, the highest output that still earns normal profit.
12	C	A straight-line demand curve means TR rises while demand is elastic, peaks

Question number		
		where PED = 1 (midpoint), then falls: an inverted U.
13	D	Allocative efficiency needs P = MC; MC is below AC at that output, so price Z is below average cost and the industry makes a loss.
14	D	The sign informs drivers and appeals to their conscience to change behaviour voluntarily, without a law or tax: a nudge.
15	B	Cheaper substitutes encourage consumers to switch away from harmful foods, and unlike a tax or minimum price it does not hit the poor hardest.
16	A	Unequal pay for the same job is wage discrimination; a poverty trap is when taxes, lost benefits or costs make extra work not pay.
17	A	If labour is a small share of total cost, a wage rise barely changes costs or price, so demand for labour is inelastic.
18	D	Rapid population growth spreads capital, resources and public services more thinly, so output per head grows less.
19	B	Freedom to make choices is part of quality of life but has no money value, so it is a non-material characteristic.
20	A	Y is closer to the line of equality. A higher top tax rate, free education and a higher minimum wage all reduce inequality.
21	C	Mariana: a decline in the industry from foreign competition is structural; Alfonso: lower demand in a recession is cyclical.
22	C	Lower taxes and lower interest rates raise AD, while a more flexible labour market lowers the natural rate of unemployment.
23	C	Higher direct taxes cut disposable income and consumption; higher interest rates cut consumption and investment, so AD falls most.
24	B	Multiplier = 1 ÷ (MPS + MPT) = 1 ÷ (0.1 + 0.1) = 5. ΔY = 5 × $100 million = $500 million.
25	A	Speculative demand varies inversely with interest rates and does not depend on income (transactions demand depends on income).
26	B	Keynesians believe markets do not always clear and the economy can stay

Question number		
		below full employment, so the government must manage AD.
27	B	X > M means net exports add to the circular flow; S > I and T > G mean net withdrawals.
28	D	Removing subsidies in developed economies lets developing economies' farm exports compete fairly and earn more.
29	A	Pushing unemployment below the natural rate only works temporarily; expected inflation keeps rising, so inflation accelerates.
30	A	Reflation means raising AD; higher government spending is a fiscal measure (money supply and interest rates are monetary).