Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **February/March 2022**

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 What can be deduced about an economy where no-one can be made better off without making someone else worse off?

A Firms succeed in maximising profits.

B Production causes no external costs or benefits.

C The distribution of income and wealth is perfectly equal.

D The resources of the economy are allocated efficiently.

2 What is equivalent to social benefits?

A the amount that the government spends on social security benefits

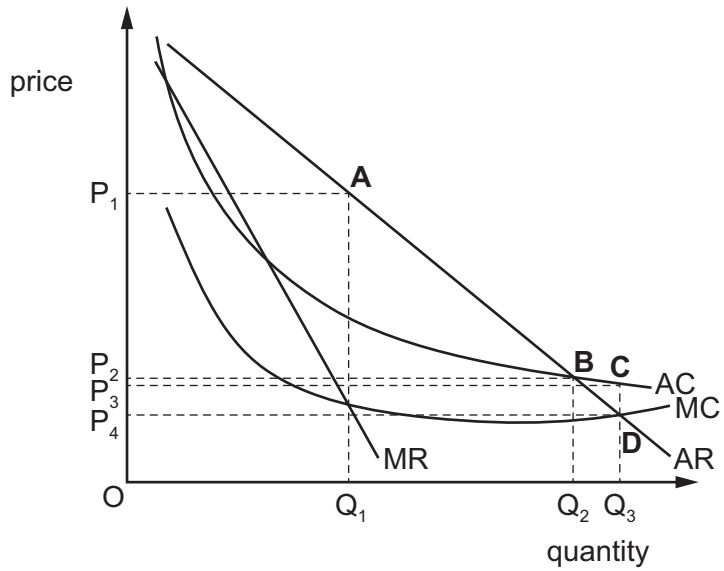
B the benefit gained by society from total government spending

C the benefit to third parties from household consumption of a good

D the private and external benefits from household consumption of a good

3 The diagram shows the average cost (AC), marginal cost (MC), average revenue (AR) and marginal revenue (MR) curves for a monopoly.

At which point will allocative efficiency be achieved?



4 How can the concept of marginal utility explain the shape of the downward sloping demand curve?

A Consumer tastes and preferences only change when their spending power increases.

B Extra utility gained from consuming successive units of a good will fall continuously.

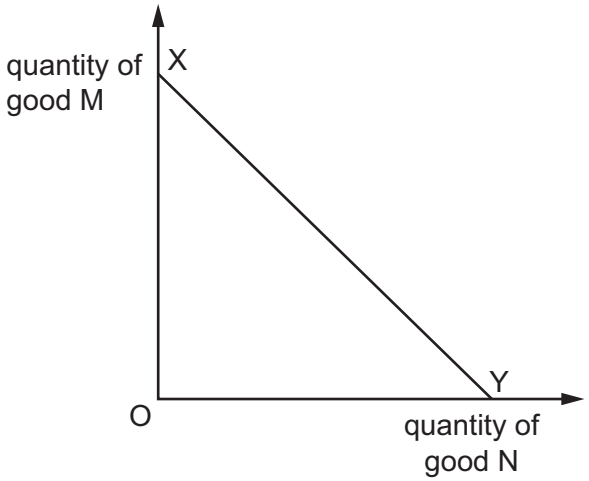
C Satisfaction of consuming one more unit of a good is greater than the loss of money spent.

D Total utility gained from buying more and more units of a good will continue to increase indefinitely.

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5 XY is the budget line of an individual consumer.



Which changes **could** leave the position of XY unchanged?

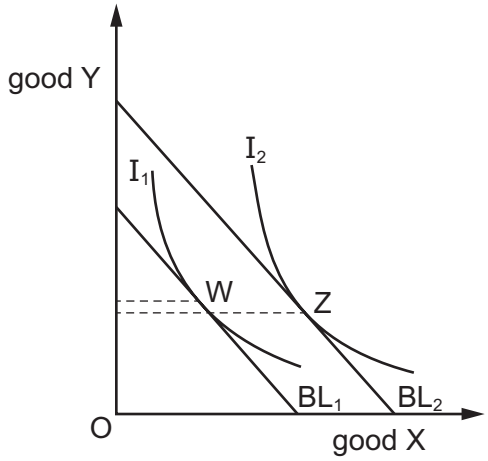
	consumer's income	price of good M	price of good N
A	decrease	decrease	increase
B	decrease	increase	increase
C	increase	increase	decrease
D	increase	increase	increase

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6 The diagram shows an indifference map and two budget lines.

When the consumer's budget line shifts from BL_1 to BL_2, consumption changes from point W to point Z.



What do these changes indicate about the nature of goods X and Y?

	good X	good Y
A	normal	inferior
B	normal	normal
C	inferior	normal
D	inferior	inferior

7 Small farmers supply all their rice production to a single buyer.

Which term best describes this market structure?

A monopolistic

B monopoly

C monopsony

D perfect competition

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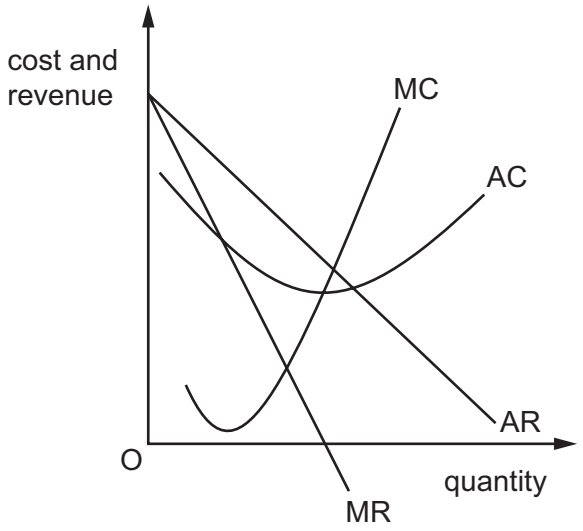
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8 A firm operating in an imperfectly competitive market decides to change its objective from sales revenue maximisation to sales volume maximisation.

Why might it have decided to do this?

	increase short-run profits	maximise short-run market share	minimise short-run average costs
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

9 The diagram shows the marginal cost (MC), average cost (AC), marginal revenue (MR) and average revenue (AR) curves of a profit-maximising, monopolistically competitive firm.



Based on its profit, and assuming no market growth, what is likely to happen to the demand for this firm's output in the long run?

A The short-run profit position will encourage other firms to enter the market and the firm's demand curve will shift to the left.

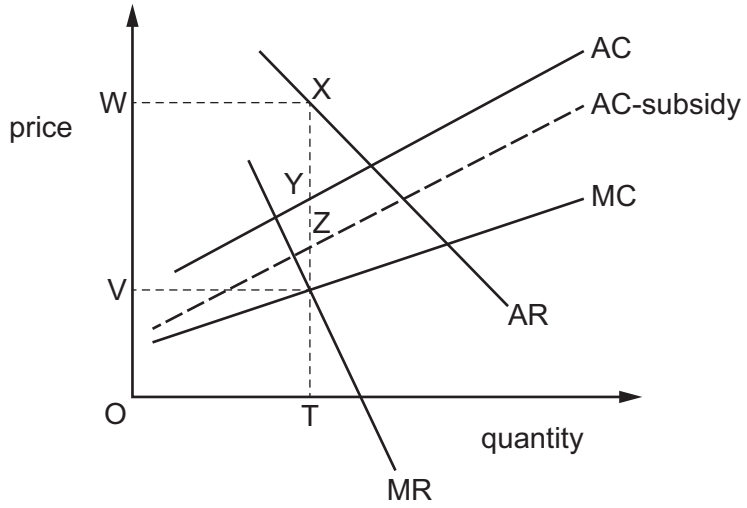
B The short-run profit position will encourage other firms to enter the market and the firm's demand curve will shift to the right.

C The short-run profit position will encourage other firms to exit the market and the firm's demand curve will shift to the left.

D The short-run profit position will encourage other firms to exit the market and the firm's demand curve will shift to the right.

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10 A monopoly firm is producing output OT, and selling its product at price OW, thereby maximising its profits, as shown.



The government now decides that the firm's operation generates positive externalities, and so gives the firm a subsidy.

Assuming that the firm continues to seek maximum profit, what will result?

A The firm continues to produce OT, and price remains at OW.

B The firm continues to produce OT, but charges a lower price.

C The firm increases production above OT, and reduces price.

D The firm reduces production below OT, and reduces price by the amount of the subsidy.

11 In many developed economies, large and small firms often exist side by side in the same industry.

What is **most** likely to explain the survival of the small firms?

A They each offer a much wider range of products.

B They have a higher minimum efficient scale.

C They pay much higher wages to their staff.

D They provide a more personal level of consumer service.

12 What is generally associated with the principal agent problem?

A Directors prefer company growth to greater shareholder dividends.

B Managers ignore workers' concerns about safety in the workplace.

C Shareholders determine the price of products.

D Workers go on strike against managers' reorganisation plans.

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13 A government wishes to reduce the negative externalities caused by the use of coal.

Which policy should the government use?

A Impose an indirect tax on the production of hydroelectric power.

B Increase income tax.

C Remove any restrictions on coal production.

D Subsidise wind-powered electricity production.

14 What would be an example of 'nudge' theory?

A a subsidy on fresh fruit to increase demand

B a unit tax on unhealthy food to reduce demand

C banning all unhealthy food to reduce demand

D putting fresh fruit at eye level in shops to increase demand

15 When is a policy of income redistribution from rich people to poor people most appropriate?

A when control of demand-pull inflation is the priority

B when equality is valued more highly than efficiency

C when monetary reward is the best incentive to risk-taking

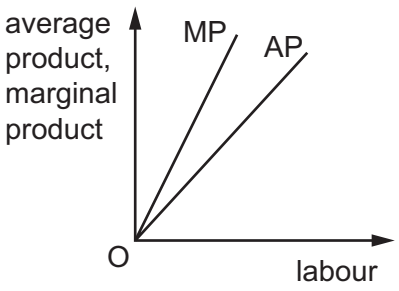
D when the rich have higher marginal utility curves than the poor

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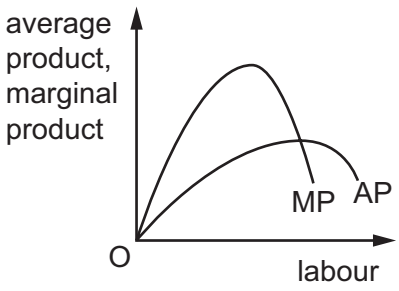
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16 Which diagram correctly shows the relationship between the average product (AP) and the marginal product (MP) of labour, given that the quantities of other factor inputs remain constant?

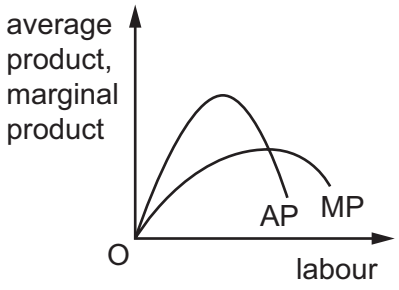
A



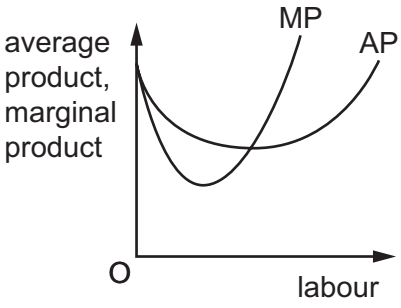
B



C



D



17 Wages in industry X are significantly higher than in industry Y.

What could explain this difference?

A Workers in industry Y are highly mobile.

B Trade union organisation in industry Y is relatively strong.

C Industries X and Y compete with each other for workers.

D Industry Y has non-monetary advantages.

18 Economic growth has both benefits and costs.

In which situation would living standards be judged to have definitely increased?

A As countries became industrialised, economic growth led to a fall in hours worked, as well as a rise in real incomes.

B China had a huge rise in real GDP per head in the last 20 years but there was a decrease in air quality in urban areas.

C Economic growth in high-income countries has seen childhood obesity increase, but has also seen increased resources devoted to its treatment.

D The 1990s saw a significant rise in real GDP per head in the US with only a relatively small increase in the Gini coefficient during the same period.

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19 What is **not** included in National Income accounts?

A a gift by a parent to her daughter as a deposit on an apartment

B earnings of a part-time worker in a school dining room

C interest earned on savings accounts intended for retirement

D profits re-invested by a company to fund capital expenditure

20 A government wishes to attract foreign direct investment to assist the development of its economy.

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

A improved health and safety standards for workers

B increased import quotas

C increased spending on infrastructure

D introducing a minimum wage

21 Which indicator is **least** likely to be used when measuring the comparative economic development of a country?

A adult literacy rate

B average life expectancy at birth

C level of real GNP per head

D size of population

22 Which term is given to short-term unemployment when people are changing jobs?

A cyclical

B frictional

C seasonal

D voluntary

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23 The table shows data for an economy's labour market.

	million
number of people of working age	42.7
number of people of working age who are actively seeking work, but are not working	2.2
number of people of working age who are not actively seeking work	9.4

What is the economy's percentage employment rate, to the nearest whole number?

A 5% **B** 23% **C** 73% **D** 95%

24 Rapid economic growth is claimed by some to harm the environment.

Which outcome would **not** harm the environment?

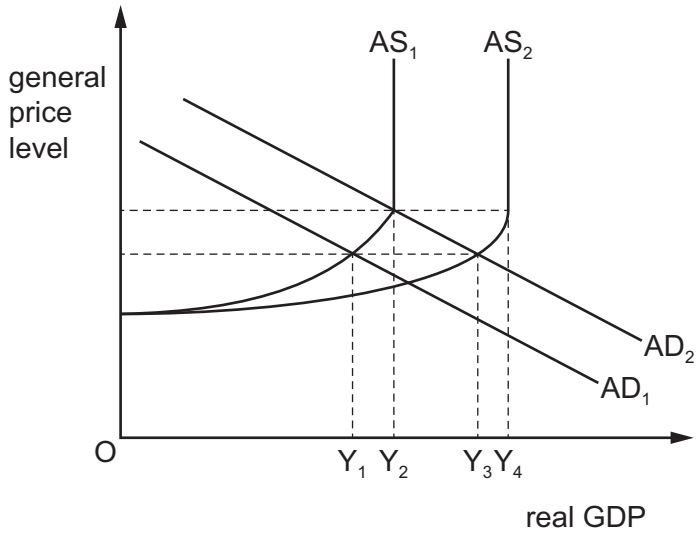
A the greater mobility of workers resulting from increased vehicle ownership

B the increased levels of income that reduce fertility rates and family size

C the relocation of workers from agricultural to manufacturing employment

D the use of improved technology to access previously inaccessible natural resources

25 The diagram shows an increase in both aggregate demand from AD_1 to AD_2 and aggregate supply from AS_1 to AS_2.



What shows the output gap after the increase in AD and AS?

A Y_1Y_2 **B** Y_1Y_3 **C** Y_2Y_3 **D** Y_3Y_4

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26 Which statement would be associated with Keynesian economic theory?

A A change in the money supply is the main determinant of the rate of inflation.

B When unemployment falls below its natural rate, there is upward pressure on prices.

C Total spending in the economy affects real output and employment in the short run.

D Wages and prices are flexible so output and employment will always return to its equilibrium rate.

27 In a closed economy with no government sector, the multiplier shows the impact of a change in

A consumption on investment.

B investment on national income.

C national income on consumption.

D national income on investment.

28 In year 1, countries X and Y are each in balance of payments equilibrium. In year 2, country X, an exporter of oil, raises the price of its oil, which increases its foreign earnings by $500m, half of which is deposited with banks in country Y.

Country Y is an important buyer of X's oil and the price rise increases its foreign expenditure by $400m.

Other things remaining equal, what are the total currency flows for X and Y?

	X ($m)	Y ($m)
A	+150	–150
B	+150	–400
C	+250	–150
D	+250	–400

29 What does the Laffer curve show?

A the relationship between the rate of inflation and the rate of unemployment

B the relationship between the rate of interest and the speculative demand for money

C the relationship between tax rates and the amount of tax revenue collected by governments

D the relationship between how two goods can be produced in an economy with given resources

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30 The table shows key macroeconomic indicators for four countries in 2018.

	economic growth (% change in GDP per annum)	unemployment rate (%)	inflation rate (% change in CPI per annum)	current account balance (% of GDP)
Argentina	–6.2	9.1	50.7	–4.8
China	6.4	3.8	1.5	0.4
Italy	0	10.7	0.9	2.6
United States	3.0	3.8	1.5	–2.4

What can be concluded from the table?

A Countries with current account surpluses had low unemployment rates.

B Countries with high economic growth rates had high inflation rates.

C Countries with low economic growth rates had high unemployment rates.

D Countries with positive economic growth rates had current account deficits.

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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	D	This is Pareto optimality: nobody can gain without someone losing, so resources are allocated efficiently.
2	D	Social benefit = private benefit + external benefit from consuming the good.
3	D	Allocative efficiency is where P = MC, i.e. where the AR curve crosses MC, which is point D.
4	B	Diminishing marginal utility: each extra unit adds less satisfaction, so consumers only buy more at a lower price.
5	D	If income and both prices all rise by the same percentage, the intercepts (income ÷ price) do not change.
6	A	Parallel outward shift means income rose; more X is bought (normal) but less Y is bought, as Z is lower than W (inferior).
7	C	A single buyer facing many sellers is a monopsony.
8	B	Sales volume maximisation means selling the most units, which maximises short-run market share at the cost of profit.
9	A	AR is above AC at MR = MC, so supernormal profit attracts new firms, taking customers and shifting the firm's demand left.
10	C	The subsidy is per unit, so it lowers MC as well as AC; MR = MC now at a higher output, so output rises above OT and price falls along AR.
11	D	The firm can survive alongside large rivals by providing a more personal service that large firms cannot easily match.
12	A	Directors (agents) pursue growth for their own benefit rather than the dividends the shareholders (principals) want.
13	D	Subsidising wind power makes it cheaper relative to coal, so less coal is

Question number		
		burned and its negative externalities fall.
14	D	A nudge changes the choice environment (fruit at eye level) without banning options or changing prices.
15	B	Redistribution makes income more equal but may weaken incentives, so it suits a society valuing equality above efficiency.
16	B	Diminishing returns: MP rises then falls, and MP cuts AP at the maximum point of AP, as in diagram B.
17	D	Industry Y has non-monetary advantages (eg job satisfaction, security), so workers accept lower wages there.
18	A	Real incomes rise and people have more leisure time, so living standards are definitely higher with no offsetting cost.
19	A	A gift from parent to daughter is a transfer payment, not payment for any good or service produced, so it is excluded.
20	C	Better infrastructure (roads, ports, power) cuts firms' costs, making the country more attractive for FDI.
21	D	Population size says nothing about living standards; literacy, life expectancy and real GNP per head are HDI-type measures.
22	B	Frictional unemployment is the short time people spend unemployed while moving between jobs.
23	D	Unemployment rate = 2.2 ÷ 42.7 × 100 = 5.2%, so the employment rate = 100 − 5.2 = 94.8% ≈ 95%.
24	B	Lower fertility means slower population growth, so less pressure on resources and the environment.
25	D	After the shifts AD2 meets AS2 at Y3 but full capacity output is Y4 (vertical AS2), so the output gap is Y3Y4.
26	C	Keynesians argue aggregate demand determines real output and employment in the short run, as markets may not clear.
27	B	The multiplier shows the final change in national income resulting from an

Question number		
		initial change in investment (an injection).
28	C	X: +$500m earnings – $250m deposited in Y = +$250m. Y: –$400m oil spending + $250m deposits = –$150m.
29	C	The Laffer curve shows that tax revenue first rises then falls as the tax rate increases.
30	C	Argentina (–6.2%, 9.1%) and Italy (0%, 10.7%) had the lowest growth and the highest unemployment.