Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2017**

1 hour 15 minutes

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

3520188135

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1 Which is the most likely reason for the privatisation of state-owned industries?

A to achieve a more equitable distribution of income

B to achieve economies of scale

C to achieve marginal cost pricing

D to achieve productive efficiency

2 A town council estimated the costs and benefits of operating a bus service in 2015 and 2016. These are shown in the table.

	2015 $000	2016 $000
private costs	2000	2200
external costs	500	900
private benefits	1500	2300
external benefits	1000	800

What can be concluded from the table?

A Between 2015 and 2016, social costs fell and social benefits rose.

B Between 2015 and 2016, social costs rose and social benefits fell.

C In both years, positive externalities exceeded negative externalities.

D In both years, social costs equalled social benefits.

3 At major sporting events, unofficial markets occur where tickets originally sold by the event organiser are resold at prices higher than the original ticket price.

What might be the conclusion of an economist considering these markets?

A Allocation of tickets by ballot would be preferable.

B The market for the resold tickets is more equitable.

C The new allocation of tickets better reflects consumers' utility.

D This is a case of monopoly exploitation.

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4 Which statement describes the operation of the law of variable proportions?

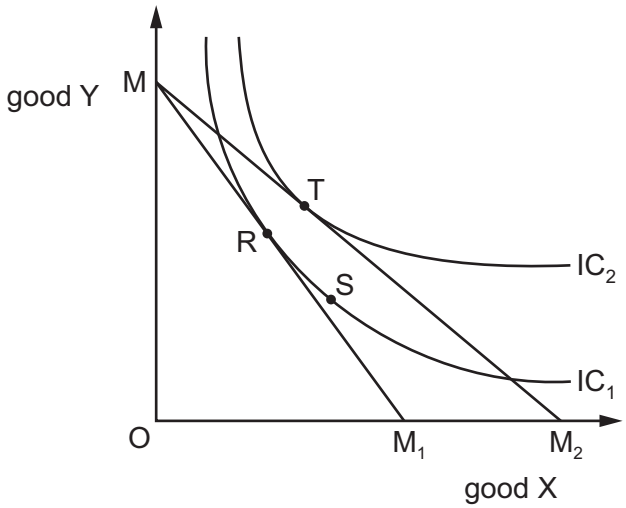
A As all factors are increased in proportion, the marginal cost of production increases.

B As all factors are increased in proportion, total product rises at a diminishing rate.

C As more of a variable factor is added to a fixed factor, the marginal cost of production diminishes.

D As more of a variable factor is added to a fixed factor, total product rises at a diminishing rate.

5 The diagram shows two indifference curves and two budget lines relating to two goods X and Y.



The consumer's initial position is at point R. The money price of good X decreases and the consumer's preferred position becomes point T.

What is good X?

A a Giffen good

B a luxury good

C a normal good

D an inferior good

6 Firms can grow internally or externally.

What is a characteristic of external growth?

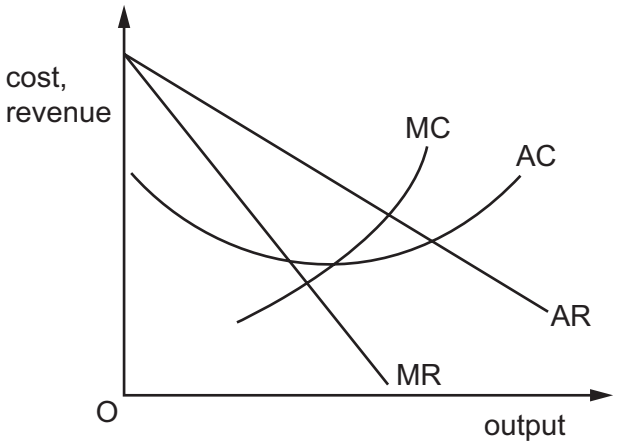
A direct investment in productive facilities in foreign countries

B growth that results in external economies benefiting other firms

C growth that results from mergers with, or acquisitions of, other firms

D the financing of investment by the issue of bonds rather than retained profits

7 The diagram shows a firm's cost and revenue curves.



The firm embarks on a successful $100 million advertising campaign.

How will this affect its costs and revenue curves?

	MR curve	AR curve	MC curve	AC curve
A	shifts to right	shifts to right	shifts up	unchanged
B	shifts to right	shifts to right	unchanged	shifts up
C	unchanged	unchanged	shifts up	unchanged
D	unchanged	unchanged	unchanged	shifts up

8 What would encourage an increase in the number of small firms?

A increasing government regulation of conditions in the workplace

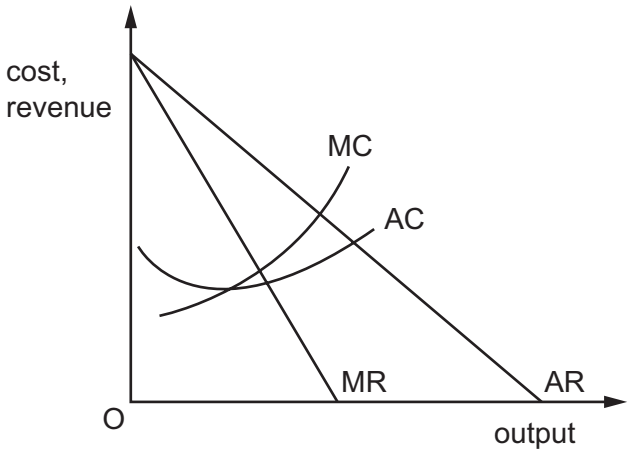
B more risk-averse (safety first) lending policies by banks

C stronger government laws against the growth of monopoly

D tougher penalties in the case of personal bankruptcy

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9 The diagram shows a firm's cost and revenue curves.



The firm changes its objective from sales revenue maximisation to profit maximisation.

How will this affect the following groups in the short run?

	customers	workers
A	benefit	benefit
B	benefit	lose
C	lose	benefit
D	lose	lose

10 The firms in an industry decide to collude informally and follow a price leader.

What will reduce the likelihood that the collusion will succeed?

A The firms produce close substitutes.

B The firms have similar cost structures.

C There are low barriers to entry into the industry.

D There are only a few firms in the industry.

11 The theory of contestable markets can be applied to

A monopolistic competition, monopoly and oligopoly.

B monopolistic competition only.

C monopoly and oligopoly only.

D monopoly only.

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12 According to the law of diminishing returns, what happens as more of a variable factor is combined with a fixed factor?

A An increase in the price of the variable factor will eventually result in an increase in production costs.

B A reduction in the quality of the variable factor will eventually result in an increase in production costs.

C Fewer units of the variable factor will be needed to produce equal increases in output.

D The proportions in which the factors are combined will eventually result in progressively smaller increases in output.

13 Firm X is considering whether to co-operate with its rival so that their joint profit is $4000 a month ($2000 each). It calculated that, if it did not co-operate, its own profit would be $2800 a month provided it kept all its customers itself. However, if its rival undercut X's price and took some of X's customers then X's profit would be $1200. It has no knowledge of what the rival's policy will be.

What describes the situation that the firm is facing?

A monopoly profit maximisation

B principal agent problem

C prisoner's dilemma

D satisficing

14 Governments intent on improving living standards for individuals with low incomes sometimes impose rent controls (maximum prices) on houses rented from private landlords.

What might be the effects of rent controls in the long run?

A The long-run supply of rental houses will contract.

B The number of unoccupied privately rented houses will increase over time.

C The price of owner-occupied houses will increase.

D There will be no effect on the supply of the rental housing.

15 In certain countries benefits are provided to individuals on low income. As their income rises the benefits are reduced and income tax has to be paid.

What can result from this?

A price stabilisation

B poverty trap

C replacement ratio

D unemployment trap

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16 What would help a trade union to negotiate an increase in the wage rates of its members **without** causing a reduction in the numbers employed?

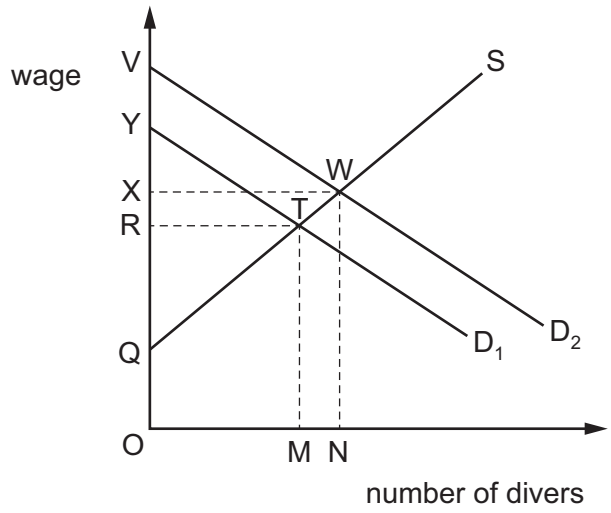
A Labour costs are a major proportion of total costs.

B The demand for the labour employed is elastic.

C The demand for the good produced is elastic.

D The demand for the good is increasing.

17 An increase in the world price of oil increases the demand for deep sea divers from D_1 to D_2 as shown.



What is the change in the economic rent earned by the divers?

A OQTM to OQWN

B ORTM to OXWN

C QRT to QXW

D QYT to QVW

18 What could lead to an increase in the size of a country's labour force?

A a decrease in unemployment

B a decrease in the retirement age

C an increase in the participation rate

D an increase in the school-leaving age

19 The table gives unemployment rates (%) for four countries in 1993 and 2002.

	UK	Japan	France	Italy
1993	10.5	2.5	11.4	10.1
2002	5.0	5.4	8.8	8.5

What can be deduced from the table?

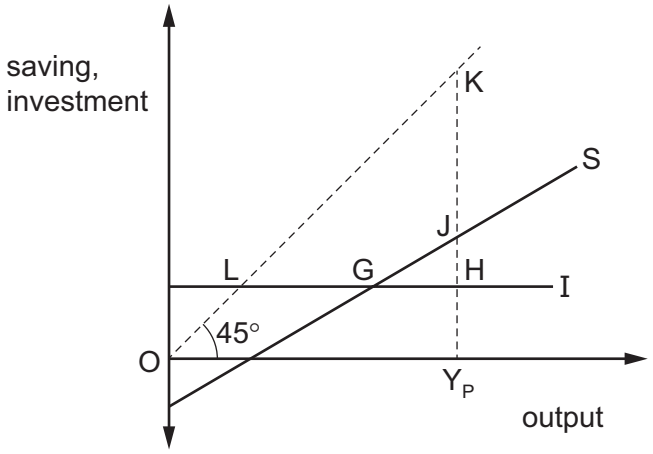
A France had the lowest rate of employment in both years.

B Italy had the most employed people in 2002.

C Japan more than doubled its labour productivity between 1993 and 2002.

D The UK created the most jobs between 1993 and 2002.

20 The diagram shows the saving and investment curves of a closed economy with no government.



The potential level of output is OY_P.

Which distance measures the gap between actual and potential output?

A KJ **B** JH **C** LG **D** GH

21 The table shows the values of selected macroeconomic variables over a two-year period.

	year 1 ($m)	year 2 ($m)
investment	250	350
saving	280	340
government expenditure	150	200
taxation	140	200
exports	200	250
imports	180	260
equilibrium national income	3600	4200

What is the value of the multiplier?

A 3 **B** 4 **C** 6 **D** 12

22 During a year, a country's national income in money terms increased by 3%, prices increased by 4% and total population increased by 1%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 2%

D an increase of 3%

23 What will cause a fall in the quantity of money demanded?

A a rise in interest rates

B a rise in national income

C a rise in the price level

D a rise in wealth

24 What is **not** included in the measurement of national income?

A dividends paid to shareholders

B overtime payments

C rents from government-owned houses

D welfare benefit payments

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

	government expenditure > taxation	savings > investment	exports > imports
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

26 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

27 A country has labour shortages in some areas and high unemployment in others.

Which government policy would help remove this imbalance?

A abandoning national wage rates in favour of local agreements

B granting subsidies to exporting firms

C increasing welfare payments to the unemployed

D reducing government expenditure and increasing taxation

28 Which is likely to hinder a supply-side stimulus to the economy?

A an imposition of maximum hours in a working week

B an increase in public sector spending

C the provision of new training schemes

D the relaxation of import controls on raw materials

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29 What is most likely to influence subsequent increases in national income as a result of a government policy of reduced interest rates?

A marginal cost

B marginal efficiency of capital

C marginal product

D marginal utility

30 What might influence the ability of a government to use income taxation to redistribute income from richer to poorer groups?

A the Laffer curve

B the Law of diminishing returns

C the Pareto principle

D the Phillips curve

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1 In an economy no one can be made better off without making someone else worse off.

What can be deduced from this?

A Individuals are the best judges of their own well-being.

B Individuals can be relied upon to behave rationally.

C The distribution of income is socially optimal.

D The economy's resources are allocated efficiently.

2 In 2015, a large mining company said it would reduce the number of staff by 6000 and sell its less profitable mines in an attempt to become more efficient.

If it is successful, what is most likely to happen to its costs?

	total fixed cost	total variable cost	average cost
A	fall	fall	fall
B	fall	fall	no change
C	fall	no change	fall
D	no change	fall	fall

3 The production of a firm which operates in an imperfectly competitive market gives rise to external production costs.

Which statement about this firm must be correct?

A External costs exceed external benefits.

B Private costs exceed social costs.

C Social costs exceed private costs.

D Social costs exceed social benefits.

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4 In the UK in 2015 there were two methods of charging for water supply.

1 a fixed charge giving the consumer the right to consume water at zero price per litre

2 a price per litre of water used

It has been observed that the amount of water consumed is markedly lower when method 2 is used.

What is implied by this observation?

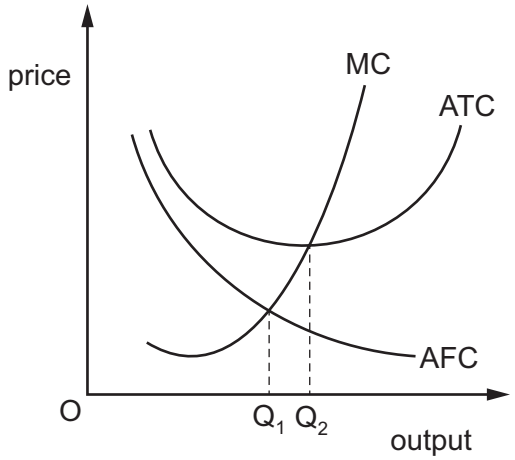
A Water in the UK is not a scarce good.

B Water is a free good of nature and no charge should be levied.

C Water is a necessity, the use of which should not be restricted by unit prices.

D Water is subject to the law of diminishing marginal utility.

5 The diagram shows the cost curves for a firm.



What does the firm experience as it increases output from Q_1 to Q_2?

A decreased average variable cost

B diminishing returns

C economies of scale

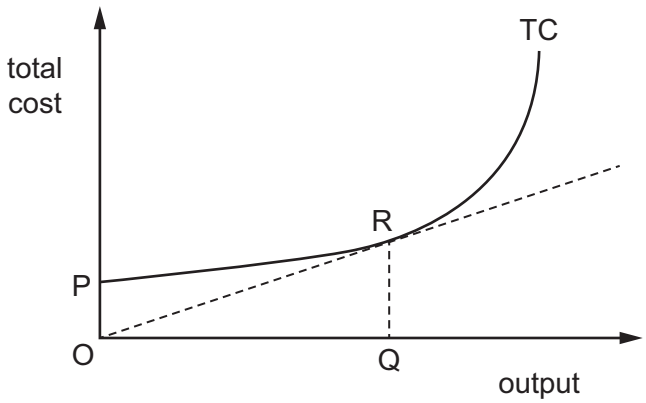
D increased profit

6 Firms X and Y merge in a horizontal integration.

What must be true about the industry and the stage of production in which X and Y operate?

	industry	stage of production
A	different	different
B	different	same
C	same	different
D	same	same

7 In the diagram the curve TC shows the relationship between a firm's total costs and its level of output.



At output OQ average fixed costs are

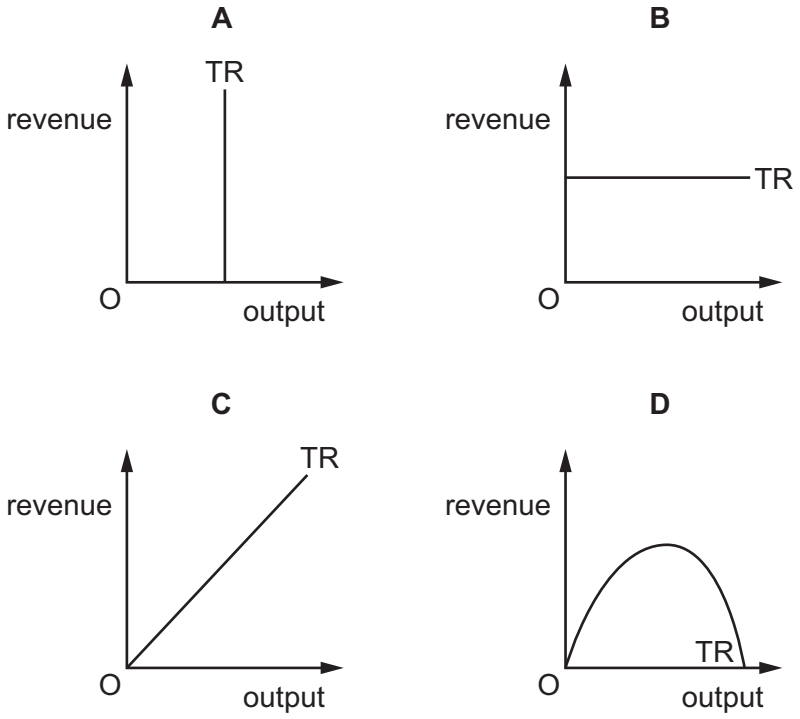
A equal to $\frac{OP}{QR}$.

B equal to $\frac{QR}{OQ}$.

C equal to $\frac{OP}{OQ}$.

D measured by the slope of the line OR.

8 Which diagram shows the total revenue function for a firm in perfect competition?



9 Many public utilities can be described as 'natural' monopolies.

Which statement best describes the situation leading to a 'natural' monopoly?

A There are high fixed costs and falling average costs over all outputs demanded.

B There are legal restrictions on new entrants.

C A single firm controls the supply of raw materials.

D The firm has a patent on an essential process.

10 Increased advertising by a firm in an imperfectly competitive industry leads to an increase in demand for the industry's product but a fall in the firm's profits.

What could help to explain this?

A Production is subject to diseconomies of scale.

B Rival firms respond by increasing their advertising outlays.

C The demand for the industry's product is price-inelastic.

D The increase in demand for the firm's output is entirely at the expense of other firms.

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11 An industry consists of a dominant firm, which acts as a price leader, and a large number of small firms.

Which statement about the profit-maximising output of the small firms is correct?

A Average cost is equal to average revenue.

B Average cost is minimised.

C Marginal cost is equal to price.

D Marginal revenue is zero.

12 There are two firms in an industry. Firm X faces a choice. It can either act independently or work with its rival. If it acts independently its profit could be $900 a week but it could be only $400 a week depending on what its rival does. If it works with its rival the joint profit of the two firms together would be $1400, $700 each. It has no knowledge of what the rival's policy will be.

Which concept describes this situation?

A contestable market

B kinked demand curve

C principal agent problem

D prisoner's dilemma

13 What explains the kinked demand curve model of price rigidity in oligopoly?

A collusion between all firms in the industry in the setting of prices

B the assumption that a single firm acts as price leader for all firms in the industry

C the individual firm's expectations about other firms' responses to its price changes

D the presence of barriers to the entry of new firms into the industry

14 Which policy is **not** designed to correct a market failure?

A government provision of health care

B removing import quotas

C price controls on large firms

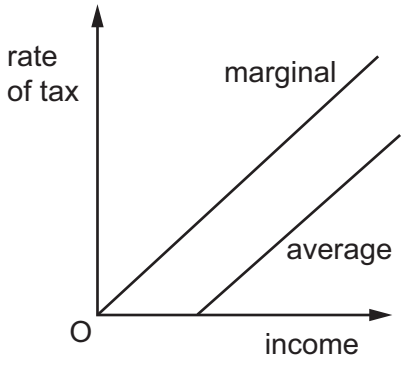
D regulations to limit smoke pollution

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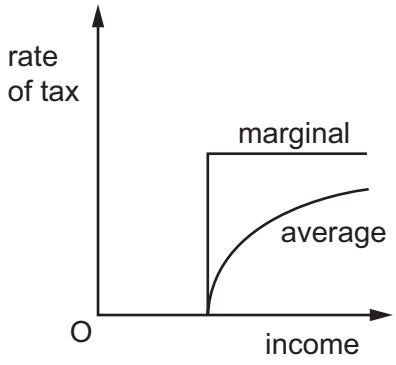
15 A tax system allows people to earn a certain sum of income free of income tax. On income above this level, tax is levied at a constant rate.

Which diagram correctly shows how marginal and average rates of tax vary with income?

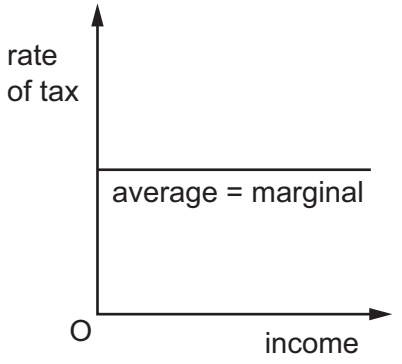
A



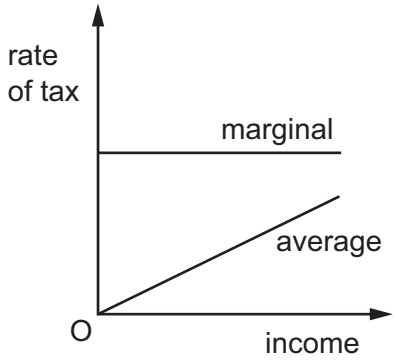
B



C



D



16 What is the best example of nudge theory as applied to the prevention of tax evasion?

A employing an extensive administration to ensure detection of evasion

B imposing heavy penalties to deter offending behaviour

C providing information to taxpayers about the undesirable effects of tax evasion

D requiring employers to inform the tax authorities of workers' pay

17 In many countries it has been observed that, when high marginal rates of income tax imposed on richer groups are reduced, the tax revenue raised increases.

What is an implication of this observation?

A Government policy should aim to minimise the income tax.

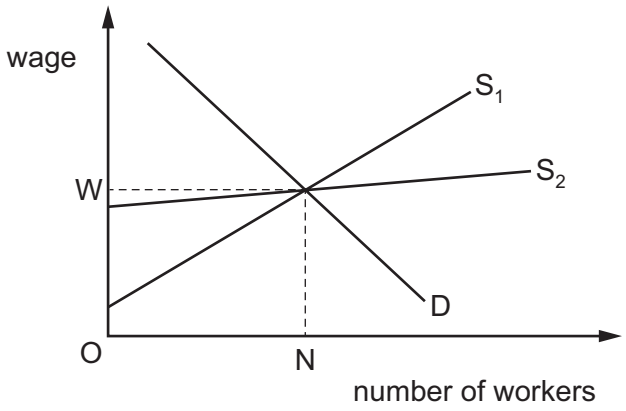
B Sales taxes are always superior to income taxes as a means of raising revenue for the government.

C Tax policy intended to reduce income tax on the rich may make the poor better off.

D The government should always levy proportional rather than progressive income taxes.

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18 The diagram represents the market for labour.



What would be the effect on transfer earnings and economic rent of a change in the supply curve from S_1 to S_2?

	transfer earnings	economic rent
A	fall	falls
B	fall	rises
C	rise	rises
D	rise	falls

19 How might real GNP per head be adjusted to make it a more reliable indicator when comparing standards of living in different countries?

A adjustments to allow for differences in population size in different countries

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

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

D the use of market exchange rates rather than purchasing power parity exchange rates

20 Which combination of circumstances is most likely to lead to an increase in a country's budget deficit?

	total GDP	unemployment	discretionary government spending
A	decreases	rises	decreases
B	decreases	rises	no change
C	increases	falls	increases
D	increases	falls	no change

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21 To combat a rising crime rate, the government decides to recruit additional police officers who are paid a wage equal to that which they previously earned in the private sector.

As long as their previous jobs remain unfilled, what effect will the recruitment of the additional police officers have on the national income and on economic welfare?

	effect on national income	effect on economic welfare
A	increase	unchanged
B	uncertain	decrease
C	unchanged	decrease
D	unchanged	uncertain

22 What could **not** exist in a closed, mixed economy?

A a balance of trade deficit

B a budget deficit

C household debt

D national debt

23 What does the accelerator principle state?

A Consumption is a function of the rate of change of income.

B Income is a function of the rate of change of investment.

C Investment is a function of the rate of change of income.

D Investment is a function of the rate of interest.

24 What would **not** be classified as structural unemployment?

A a car worker who is replaced by a robot on the production line

B a coal miner whose mine closes because of increased use of solar power

C a fruit picker who cannot find work in the winter months

D a textile worker whose factory closes as production moves abroad

25 What represents a leakage from the circular flow of income in an economy?

A a balance of trade surplus

B a government budget surplus

C reduction in funds for research and development

D re-investment of a firm's profits

26 What will cause a downward shift in the aggregate demand curve of an economy?

A an increase in firms' stocks of raw materials

B a decrease in the export of goods

C a decrease in the propensity to import

D a decrease in saving

27 Which policy is most likely to raise the level of total demand in an economy?

A an increase in direct taxation matched by a reduction in indirect taxation

B a relaxation of import controls

C cuts in public expenditure matched by tax cuts

D devaluation of the currency

28 The government cuts taxes and increases its spending in order to create jobs during a recession.

When will a resulting budget deficit be **least** likely to cause a permanent reduction in unemployment?

A when households expect higher inflation rates in the future

B when households spend their extra disposable incomes on domestic products

C when the government's extra spending is on new infra-structure projects

D when the government's extra spending is on the salaries of public sector workers

29 In 2011, the global money supply, narrowly defined, rose 11% and broadly defined money increased roughly 8%, as central banks continued efforts to keep interest rates low.

What type of policy does this statement illustrate?

A contractionary fiscal

B contractionary monetary

C expansionary fiscal

D expansionary monetary

30 Which policy measure would be most likely to reduce a developing economy's birth rate and its household saving ratio?

A an increase in student tuition fees

B a relaxation of immigration controls

C the introduction of a basic state pension

D the removal of tariffs on imported foodstuffs

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1 Why do governments often subsidise the cost of entrance to museums?

A Museums are a pure public good.

B Social benefits are less than social costs.

C Social benefits exceed private benefits.

D Social costs exceed private costs.

2 The table shows the marginal costs of production and marginal benefits of consumption.

marginal private cost ($)	marginal social cost ($)	marginal private benefit ($)	marginal social benefit ($)
100	150	150	200

What is demonstrated in these values?

A a negative consumption externality

B a positive production externality

C Pareto optimality

D resource misallocation

3 A cost-benefit analysis concludes that a nuclear power station project might be socially worthwhile, although it will take 10 years to bring into operation.

Why might a government decide **not** to undertake the project?

A Cost-benefit analysis has no method for valuing the long-term impact of a project.

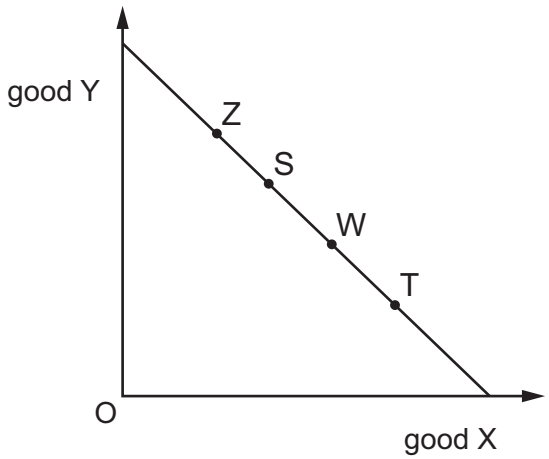
B Cost-benefit analysis is only suitable for private sector projects.

C The government believes that the project has too high an opportunity cost.

D The government's policy is to restrict the extent of the market system.

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4 The diagram shows a budget line indicating combinations of good Y and good X that a consumer could buy with a given income. The combinations shown by points S and T both lie on the same normal indifference curve.



Which statement is logically correct?

A The consumer is indifferent between combinations W, S and T.

B The consumer prefers combination T to combination W.

C The consumer prefers combination W to combination S.

D The consumer prefers combination Z to combination T.

5 The table shows some of the assumptions of perfect competition and monopolistic competition.

Which pairing is correct?

	perfect competition	monopolistic competition
A	identical products	freedom of entry and exit
B	barriers to entry	differentiated products
C	large number of firms	small number of firms
D	differentiated products	barriers to entry

6 What is a feature of a natural monopoly?

A The monopoly produces a product that has no close substitutes.

B Average costs fall over the entire range of output.

C The monopoly controls the supply of its raw materials.

D Diseconomies of scale set in at low levels of output.

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7 A firm is already the monopoly producer of product X.

Which strategy might the firm pursue in order to prevent new firms from entering the market for product X?

A co-operation

B limit pricing

C predatory pricing

D price leadership

8 What makes collusion between firms in an oligopolistic industry more difficult?

A barriers to the entry of new firms

B limited scope for cost reduction via innovation

C significant product differentiation between firms

D stability in the market demand for the product

9 What is the defining characteristic of an oligopolistic industry?

A contestability

B large numbers of firms

C mutual interdependence

D price rigidity

10 A perfectly competitive firm is currently producing at a level of output where its marginal cost is above both its average total cost and the market price.

What would be the effect on price and output if the firm were to maximise its profit?

	effect on output	effect on price
A	decrease	increase
B	decrease	unchanged
C	increase	decrease
D	increase	unchanged

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11 In which industrial sector is a small firm most likely to survive?

A banking

B construction

C insurance

D mining

12 A firm wishes to avoid attracting competition from new entrants. It charges the maximum price that is consistent with this aim.

In which type of market does this firm operate?

A a contestable market

B a monopolistically competitive market

C a monopsonistic market

D a perfectly competitive market

13 In which market structure will the industry price be unaffected by a change in the output of one individual firm?

A monopolistic competition

B monopoly

C oligopoly

D perfect competition

14 In 2015 the price of oil fell dramatically. As a result, 65 000 jobs were lost in the North Sea oil industry.

How would this be represented on a diagram for the labour market for oil workers?

A a movement down the marginal revenue product curve

B a shift towards the horizontal axis of the marginal cost curve

C a shift towards the origin of the marginal revenue product curve

D a shift towards the vertical axis of the average cost curve

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15 An actor is paid $100 000 a year. The next best paid job he could get is as a lecturer at $60 000 a year.

What are his transfer earnings and his economic rent?

	transfer earnings	economic rent
A	$60 000	$40 000
B	$60 000	zero
C	$40 000	$60 000
D	$40 000	zero

16 What is **not** an outcome of the existence of private property rights?

A They encourage private owners to conserve property when its value is expected to rise.

B They give private owners the incentive to manage their property carefully.

C They make a private owner accountable for damage to others from property misuse.

D They prevent private owners gaining from using resources to benefit others.

17 A state-owned concern is privatised as a monopoly.

What would increase the likelihood of its achieving productive efficiency?

A an absence of barriers to entry

B the need for capital representing a high sunk cost

C the existence of significant economies of scale

D variable costs forming a small proportion of total cost

18 Which policy is **most** likely to both increase productivity and improve equity?

A a switch in taxation from income to expenditure

B the introduction of minimum prices on essential foodstuffs

C the privatisation of state-run transport systems

D the supply of free health care

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19 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

20 What needs to be removed to improve nominal GDP as a measure of comparative living standards?

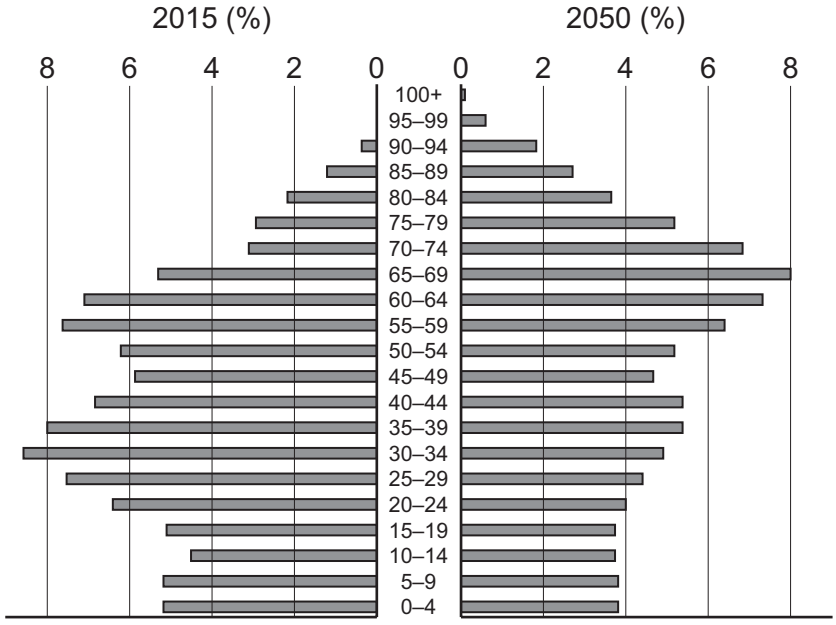
A the effects of exports and imports

B the effects of exports and population change

C the effects of population change and imports

D the effects of population change and inflation

21 The diagram shows the age structure of the Polish population in 2015 and the predicted structure in 2050. Since 2013, the retirement age in Poland has been 67 for men and 65 for women.



What might be concluded from the diagram?

A Fewer school places will be needed in 2050 than 2015.

B Full employment is more likely in 2050 than 2015.

C The number employed between ages 20–24 in 2015 was higher than that predicted for 2050.

D There will be a higher percentage of the population over retirement age in 2050 than in 2015.

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22 The table gives information on differences between females and males in 2013 in the Human Development Index and Gross National Income per capita in countries with different levels of development.

	HDI		GNI per capita (US $ purchasing power parity 2011)	
	female	male	female	male
very high development	.871	.887	26667	53681
high development	.710	.733	9426	16966
medium development	.565	.622	3199	8619
low development	.446	.506	2011	3789

What can be concluded from the table?

A Females are closer to males in earning ability than in development opportunities.

B Females are closest to males in development opportunities in countries with low development.

C Males have over twice the purchasing power of females in countries with very high development.

D The table ignores the different level of educational attainment between females and males.

23 In an economy with no government sector:

C = consumption

I = investment

X = exports

M = imports

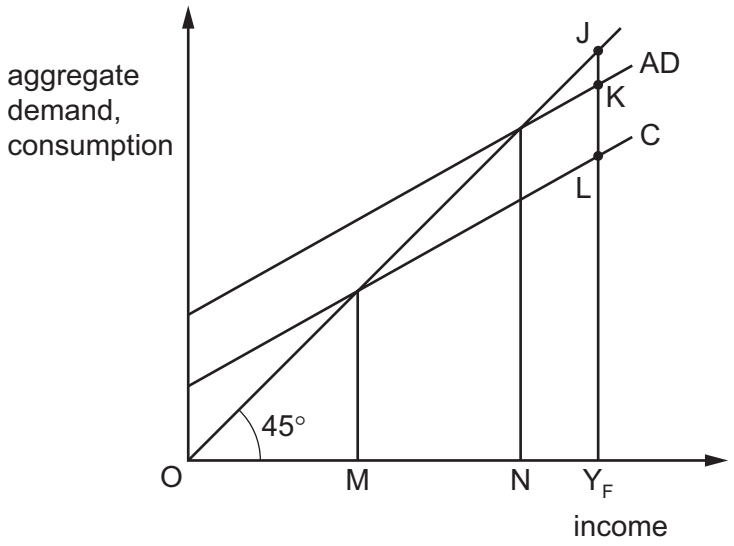
Y = national income.

If C = 40 + 0.5Y, I = 80, X = 100 and M = 100, what will be the equilibrium level of Y?

A 60 **B** 240 **C** 280 **D** 640

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24 The diagram shows a closed economy in which the full employment level of income is Y_F.



Which distance measures the deflationary gap?

A JK **B** JL **C** NY_F **D** MY_F

25 In the Quantity Theory of Money equation, MV = PT, V is defined as the income velocity of circulation.

Which change would tend to reduce the value of V?

A a move to monthly rather than weekly salary payments by firms

B an increase in interest rates

C an increase in the use of cash machines to reduce money balances held

D an increase in the use of credit cards by individuals

26 What moves from households to firms within the circular flow of income?

A factor services

B investment

C savings

D taxes

27 What is meant by liquidity preference?

A a desire to be paid in cash rather than by cheque

B a desire to be paid monthly rather than weekly

C a desire to hold assets that are convertible into cash

D a desire to hold money rather than other assets

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28 What is an appropriate government policy for closing a deflationary gap?

A an increase in the rate of interest

B an open market sale of bonds

C an increase in government spending

D an increase in income tax

29 Which policy is most likely to contribute to people ending up in a poverty trap?

A legal minimum wage

B means-tested benefits

C prevention of cheaper imports

D proportional taxation

30 During year 1, a government announces a temporary one-year reduction in the level of indirect taxation balanced by an equivalent temporary one-year increase in direct taxation.

What is most likely to be the impact on household saving in year 1 and in year 2?

	impact on household saving in year 1	impact on household saving in year 2
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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