Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2018**

1 hour 15 minutes

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

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1 Which statement is correct?

A External cost equals social cost minus private cost.

B Private cost equals external cost minus social cost.

C Social cost equals external cost minus private cost.

D Social cost equals private cost minus external cost.

2 What is a negative externality from consumption?

A a new road that results in more sales at shops in the town centre

B a successful promotion of healthy eating that reduces days lost from work

C discharge of waste from a factory that damages fish in a local river

D increased popularity of smoking that increases demand on the health service

3 Which type of efficiency is identified by price = marginal cost?

A allocative

B dynamic

C productive

D technical

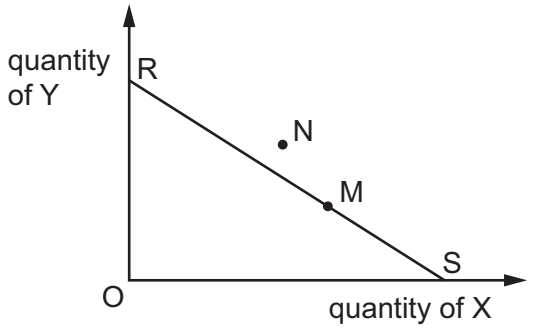
4 A consumer can purchase two goods, X and Y, from a given income.

What will cause the consumer's budget line to make a parallel shift to the right?

	consumer's income	price of good X	price of good Y
A	10% decrease	20% decrease	10% decrease
B	10% decrease	20% decrease	20% decrease
C	10% increase	10% increase	20% decrease
D	10% increase	20% increase	20% increase

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5 The line RS in the diagram shows the different combinations of goods X and Y that a consumer can afford with her present income.



The consumer's original equilibrium is at M.

What could explain a subsequent change in her equilibrium position to N?

A a change in her tastes

B an increase in the price of X and a fall in the price of Y

C an increase in the price of X and a smaller percentage increase in the price of Y

D equal percentage increases in her income and in both prices

6 The table shows the total revenue and marginal cost of a firm at different levels of production.

production (tonnes)	total revenue ($)	marginal cost ($)
2	70	
3	120	15
4	160	20
5	190	25
6	220	30
7	240	40

Within which output range will the firm's profits be maximised?

A 2–3 tonnes

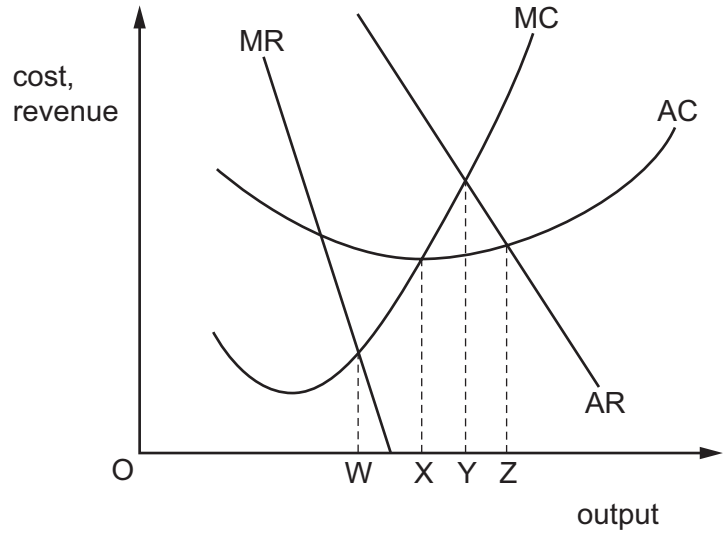
B 3–4 tonnes

C 5–6 tonnes

D 6–7 tonnes

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



What would be the increase in the firm's output if it was required to charge a price equal to marginal cost?

A WX **B** WY **C** XY **D** XZ

8 What must be different between the consumers of a product to enable profitable price discrimination by the producer?

A levels of income

B price elasticities of demand

C the ages of the consumers

D time of consumption

9 An example of forward vertical integration for a computer manufacturer would be a merger with

A another computer manufacturer.

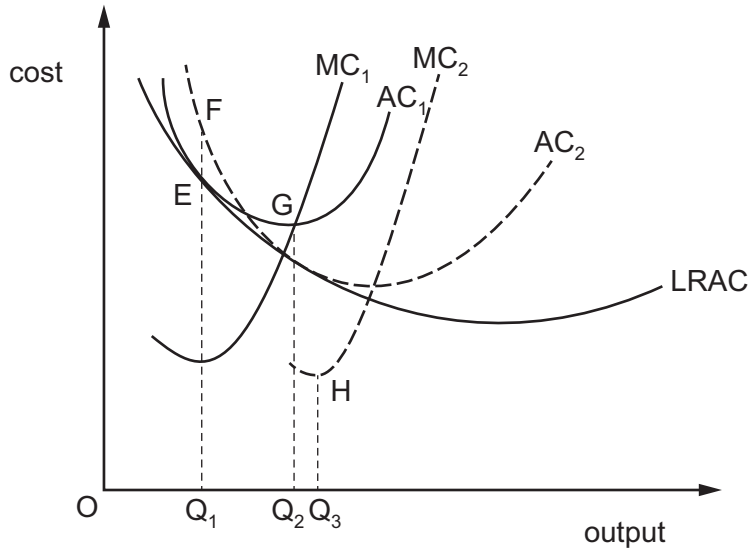
B a computer retailer.

C a silicon chip manufacturer.

D a software developer.

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10 The diagram shows the short-run cost curves and the long-run average cost curve for a firm.



What can be concluded from the diagram?

A At output Q_1, point E represents a productively efficient position.

B At output Q_1, point F is preferred to point E because curve AC_2 represents economies of scale.

C Point G at output Q_2 is productively efficient in the long run.

D The biggest profits are made at point H at output Q_3, which is the lowest marginal cost position.

11 A cartel has been successful in regulating output. However, recently it has shown signs of breaking up.

Which feature of the market could have caused this?

A an agreement that the cartel produces a homogenous product

B an increase in the number of small, independent producers of the good

C stable patterns of demand for the good

D trademarks, acting as a barrier to entry to the market

12 What would be most likely to allow the survival of small firms in an economy?

A an increase in the cost of borrowing from commercial banks

B an increase in personal services as a share of GDP

C an increase in the rate of change of information technology

D an increase in the ratio of capital to labour employed in an economy

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13 A private company operates a coal mine which employs 400 workers. The mining operations have polluted the environment and created external costs.

If the government intervenes, how could it internalise the externality?

A close part of the mine and import the coal

B levy an additional tax on the miners' wages equal to the external cost

C pay for the external costs of restoring the environment after mining

D place a tax equivalent to the external cost on the output the company produces

14 What is an advantage of using tradable pollution permits to control pollution?

A Tradable permits are restricted to the firms to which they are issued.

B Tradable permits avoid enforcement costs.

C Tradable permits encourage the use of market forces.

D Tradable permits guarantee a zero level of pollution.

15 Where might government intervention to raise the wages of a group of workers be justified in order to prevent their exploitation?

A in an industry that is protected by tariffs on imports from abroad

B in an industry when a trade union negotiates wages for the workers

C in an industry when the output is produced by a single firm monopolist

D in an industry when workers are employed by a monopsonist

16 There is a decrease in the supply of female labour.

What will be the likely effect on male and female wages?

	male wages	female wages
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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17 Which criteria are used in official labour market surveys to determine whether a person should be classified as being unemployed?

	eligible for receipt of unemployment benefit	actively seeking employment at the current wage rate	available to start work
A	no	yes	no
B	no	yes	yes
C	yes	no	no
D	yes	no	yes

18 To increase the number of cleaners at a local school from 10 to 11, the employer has to raise the hourly rate of pay from $3.00 to $3.25.

What is the marginal cost of labour per hour to the employer?

A $0.25 **B** $3.25 **C** $5.75 **D** $33.25

19 What would result in a reduction in labour costs per unit of output?

A an increase in average earnings which is less than the increase in employment

B an increase in labour productivity which is less than the increase in average earnings

C an increase in output which is greater than the increase in labour earnings

D an increase in wage rates which is greater than the increase in output per worker

20 Out of any addition to national income, 25% is spent on imports, 15% is paid in taxes, 10% is saved and the rest is spent on domestically produced goods.

What is the value of the multiplier?

A 2 **B** 2.5 **C** 4 **D** 10

21 Which economic indicator uses the following three components to obtain a value between 0 (low) and 1 (high)?

- GNI per capita
- life expectancy
- education

A Happiness Index

B Human Development Index

C Human Poverty Index

D Measure of Economic Welfare

22 What is **not** a possible benefit to a developing country of a multinational company investing in a new factory in that country?

A acquiring improved technology

B better training for the workforce

C extra tax revenue for the government

D increased competition for small domestic producers

23 Which policy is best to reduce cyclical unemployment?

A increase corporation tax

B increase the exchange rate

C reduce the budget surplus

D reduce the money supply

24 A government decided to increase its expenditure on a major infrastructure project by building new roads.

What would decrease the multiplier effect of the project if it had occurred at the same time?

A a decrease in imports

B a decrease in the rate of interest

C an increase in income tax

D an increase in the marginal propensity to consume

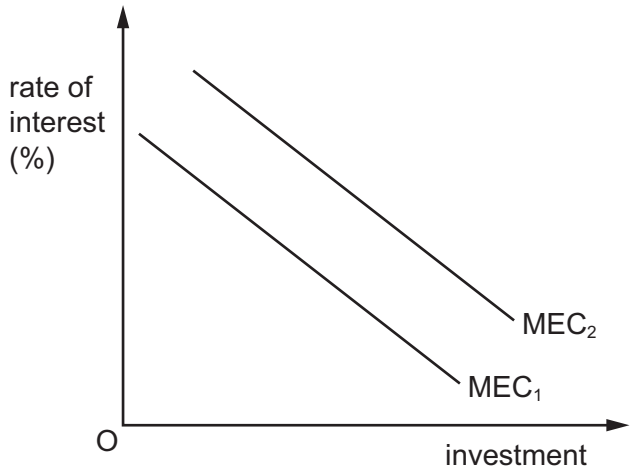
25 A country is in recession with unused resources. The government reduces interest rates.

What do Keynesian economists believe the short-run outcome will be?

	unemployment	economic growth	inflation
A	decrease	increase	decrease
B	decrease	increase	uncertain
C	increase	increase	increase
D	increase	unchanged	uncertain

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26 The diagram shows the investment schedule of an economy.



What would cause a shift in the MEC curve from MEC_1 to MEC_2?

A a decrease in the level of household spending

B a decrease in the rate of interest

C an increase in the availability of credit

D an increase in the rate of inflation

27 When will an inflationary gap exist in an economy?

A when aggregate demand is greater than full employment income

B when leakages exceed injections at the full employment income

C when money wage rises exceed rises in labour productivity

D when the money supply rises faster than nominal national income

28 What is the basic assumption underlying the accelerator theory?

A Investment depends on the level of business confidence.

B Investment depends on the level of savings.

C Investment depends on the rate of change in consumer demand.

D Investment depends on the rate of change of interest rates.

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29 The table shows data on the unemployment and inflation rates for four countries in 2010 and 2014.

country	unemployment rate (% of workforce)		inflation rate (% per annum)	
	2010	2014	2010	2014
Australia	5.2	6.1	2.7	1.6
Canada	8.0	6.9	2.2	1.9
Japan	5.1	3.6	–0.3	2.5
United States	9.6	6.2	1.7	0.6

Which countries had a typical Phillips curve?

A Australia and Japan

B Australia only

C Canada and United States

D Japan only

30 What is most likely to be an appropriate government action to reduce both a balance of payments current account surplus and the rate of inflation?

A decrease the rate of interest

B devalue the currency

C increase direct taxes

D remove tariffs on imports

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1 In which situation are there definitely positive externalities?

A Private benefits exceed private costs.

B Private benefits exceed social benefits.

C Social benefits exceed private benefits.

D Social benefits exceed private costs.

2 A cost-benefit analysis is carried out on the construction of a hydroelectric power station.

Which combination of circumstances would be most likely to lead to the scheme being approved?

A Private benefits are greater than private costs.

B Social benefits are greater than social costs.

C Social benefits are greater than total costs.

D Total costs are greater than total revenue.

3 What does **not** pose a threat to the achievement of allocative efficiency?

A imperfect information on the part of consumers

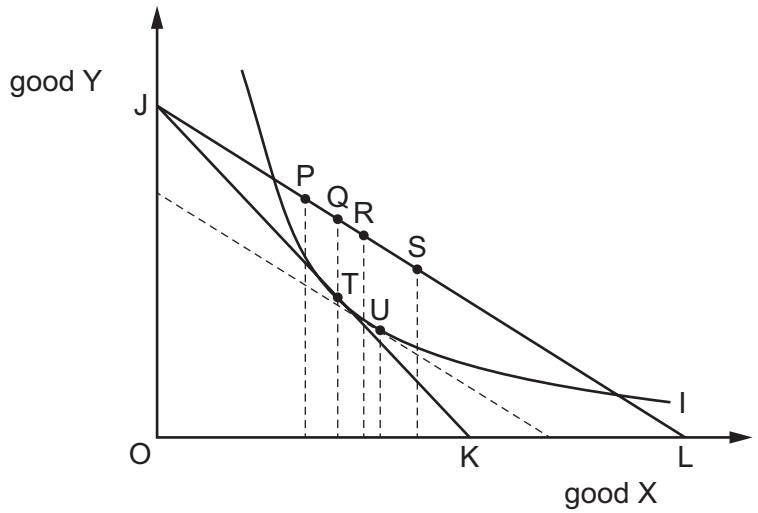
B income inequalities

C the existence of externalities

D the presence of monopolistic elements

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4 The diagram shows budget lines and an indifference curve. The consumer's initial position is T. The price of good X then falls.



Which combination of statements about the movements in this diagram is correct?

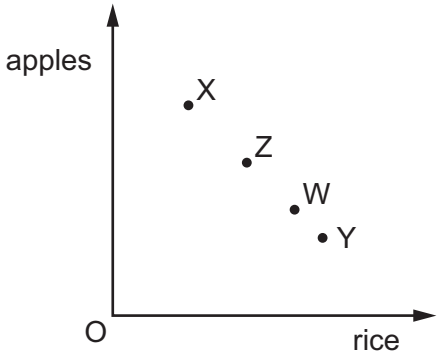
A T to Q represents perfect elasticity; T to P represents a Giffen good

B T to R represents an income effect; R to S represents a substitution effect

C T to U represents a substitution effect; T to Q represents a normal good

D T to U represents a substitution effect; U to P represents an income effect

5 The diagram shows various combinations of apples and rice which are potentially available to a consumer.



If standard indifference curves were added to the diagram they would show that the consumer is indifferent between combination X and combination W.

What can be concluded?

A The consumer is indifferent between combination Y and combination Z.

B The consumer is indifferent between combination Z and combination W.

C The consumer prefers combination Y to combination X.

D The consumer prefers combination Z to combination W.

6 The schedule shows the short-run marginal cost of producing good X.

units of X	1	2	3	4	5
marginal cost ($)	45	40	30	20	20

Given that the total fixed cost is $50, which level of output minimises average total cost?

A 2 units **B** 3 units **C** 4 units **D** 5 units

7 What must be found in two markets for price discrimination to be profitable?

A different price elasticities of demand

B different price elasticities of supply

C different producers

D different products

8 A firm maximises its profits by maximising its total revenue.

What does this imply?

A Average fixed cost is zero.

B Average revenue is equal to average cost.

C Marginal cost is zero.

D Marginal revenue is greater than marginal cost.

9 Technological change reduces the minimum efficient scale of production in an industry.

What is likely to result?

A increased number of firms and increased size of firms

B increased number of firms and reduced size of firms

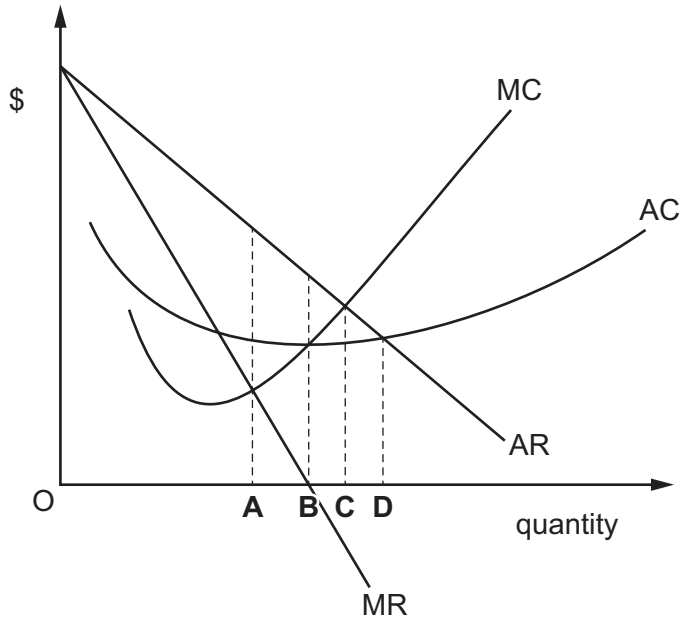
C reduced number of firms and increased size of firms

D reduced number of firms and reduced size of firms

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10 The diagram shows the costs and revenue for a firm in imperfect competition.

Which level of output would produce only a normal profit?



11 What would be a reason why small firms do **not** survive?

A In certain industries, there are economies of scale.

B Small firms often supply personal services to consumers.

C Small firms often supply products, the size of the market for which is limited.

D Small owner-managed firms involve less risk.

12 What is the implication of a dominant oligopoly following a limit pricing policy?

A The industry will be restricted to a target number of firms.

B The industry will contract as rival oligopolists are eliminated.

C The oligopolist will achieve a satisficing level of profit.

D The oligopolist will sacrifice short-term profit for long-term profit.

13 Transport economists estimate the price elasticity of demand for private car use is very low.

What would be the most effective way of reducing road traffic congestion?

A banning private cars and lorries from town centres

B introducing a subsidy to lower the price of using bicycles

C introducing road pricing on all main roads

D subsidising public transport such as trains and buses

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14 What would help to explain why there was a reduction in wage inequality in a country during the post-2008 economic recession?

A a decline in the share of wages in national output

B a decline in trade union bargaining power

C the existence of a minimum wage

D the trend towards later retirement

15 How is marginal revenue product calculated?

A marginal physical product × marginal revenue

B marginal physical product ÷ price

C total physical product × marginal cost

D total physical product ÷ marginal cost

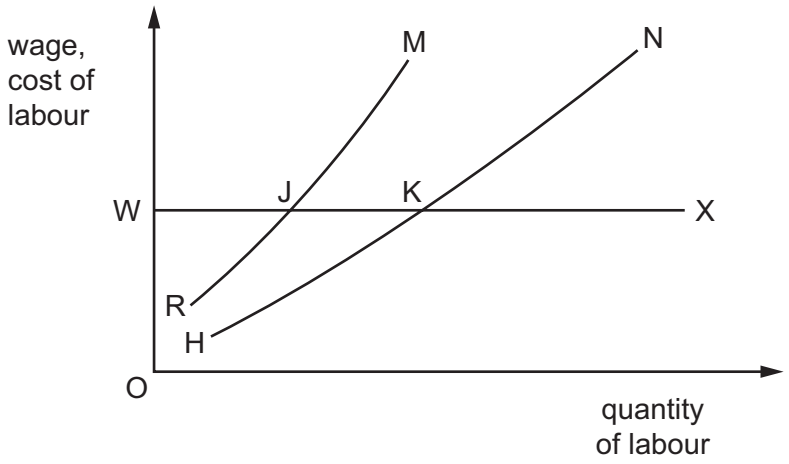
16 A firm currently employs 30 workers at a daily wage of $50 each.

The marginal cost of employing one extra worker is $112 per day.

By how much will the firm have to increase the daily wage in order to increase its labour force from 30 to 31 workers?

A $2 **B** $4 **C** $62 **D** $112

17 In the diagram, HN is the initial supply of labour curve faced by a firm, and RM is its initial marginal cost of labour curve.



What will be the firm's new labour supply curve if the workers join a trade union and achieve a union negotiated wage, OW?

A RJX **B** HKX **C** WJM **D** WKN

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18 Output per worker in an industry increases more slowly than the industry's total output.

What could explain this?

A a decrease in labour productivity

B an increase in employment

C an increase in overtime working

D an increase in the hourly wage rate

19 On a diagram showing a production possibility curve, what definitely represents long-run economic growth?

A a change in the slope of the curve

B a movement from a point below the frontier to a point on the curve

C a movement from one point to another along a given curve

D an outward shift of the curve

20 When is economic growth most likely to promote economic development?

A when it achieves maximum rates of extraction of raw materials

B when it concentrates on increasing production

C when it discovers valuable new resources in remote natural environments

D when it provides the funds to finance cleaner production processes

21 Which items in the table are classified as foreign aid?

	foreign direct investment	official development assistance	portfolio investment flows
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

22 Country X's living standards were compared with country Y's living standards using real GNP per head converted into US dollars. Country X was ranked above country Y.

Which factor might have caused this ranking to be **incorrect**?

A Actual market exchange rates were used rather than purchasing power parity rates.

B Government spending on transfer payments was higher in country Y than in country X.

C Inflation was higher in country X than in country Y.

D The distribution of income was more unequal in country X than in country Y.

23 In 2007 Turkey had a population of 73 m. Its labour force was 36 m, of which 12 m were trained for the primary sector and 24 m were trained for the secondary and tertiary sectors. The unemployment rate was 10%.

What was the number of people unemployed?

A 1.2 m **B** 2.4 m **C** 3.6 m **D** 7.3 m

24 An economy's manufacturing share of real GDP fell from 30% in 1970 to 12% in 2016.

What type of unemployment would result from this?

A cyclical

B frictional

C structural

D voluntary

25 In an open economy, when autonomous investment increases by 100, equilibrium national income increases by 300.

Which conclusion can be drawn?

A The accelerator is 3.

B The marginal propensity to consume is $\frac{2}{3}$.

C The marginal propensity to import is $\frac{2}{3}$.

D The marginal propensity to save plus marginal tax rate is $\frac{1}{3}$.

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26 The diagram outlines the monetary transmission mechanism following an expansionary central bank intervention (quantitative easing). Key actions have been omitted from the process.

central bank .....1..... government assets

↓

short-term interest rates .....2.....

↓

investment demand .....3.....

↓

real GDP rises

Which words complete gaps 1, 2 and 3?

	1	2	3
A	buys	fall	rises
B	buys	rise	falls
C	sells	fall	rises
D	sells	rise	falls

27 In Keynesian monetary theory, when will an increase in the supply of money **not** cause a fall in interest rates?

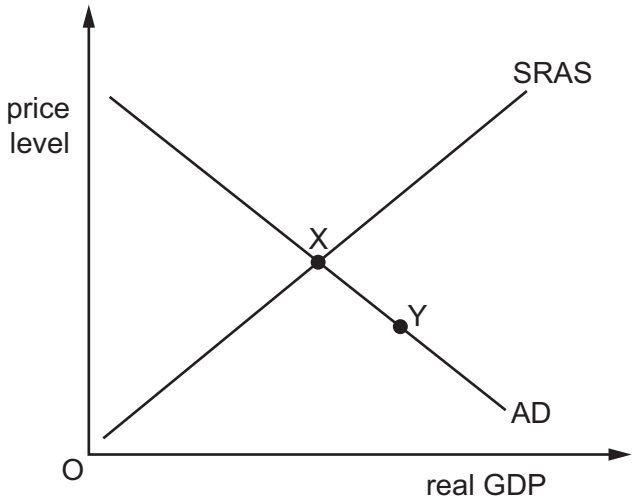
A if bond prices are expected to rise

B if investment demand is interest-inelastic

C if the liquidity preference schedule is perfectly elastic

D if the velocity of circulation of money increases

28 The diagram shows an economy in equilibrium at point X.



What would be most likely to cause the economy to move from point X to point Y?

A an increase in government spending on transfer payments

B an increase in income tax

C an increase in the average wage rate

D an increase in the productivity of labour

29 The table identifies pairs of possible government aims.

In which case is achievement of aim 1 likely to be consistent with the achievement of aim 2?

	aim 1	aim 2
A	higher foreign exchange rate	lower rate of unemployment
B	low rate of inflation	balance of payments surplus
C	more even distribution of income	higher rate of saving
D	rapid economic growth	sustainable economic development

30 What is most likely to result from the discovery of oil reserves in a developing economy?

A a more equal distribution of income and wealth

B an increase in the competitiveness of commercial agriculture

C an increase in the exchange rate

D a reduction in the volume of imports of manufactured goods

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1 Which condition must be met for economic efficiency to be achieved?

A Marginal social benefits are at a maximum in the production of all goods.

B Marginal social costs are at a minimum in the production of all goods.

C Marginal social costs are zero in the production of all goods.

D Marginal social costs equal marginal social benefits in the production of all goods.

2 What is a characteristic of a merit good?

A free at the point of use

B has zero marginal costs

C non-competitive in use

D possesses positive externality

3 Which statement is correct?

A External benefit minus private benefit equals social benefit.

B Private benefit minus external benefit equals social benefit.

C Social benefit minus external benefit equals private benefit.

D Social benefit plus private benefit equals external benefit.

4 When does a consumer achieve maximum total utility (TU), according to marginal utility (MU) theory for two goods, X and Y, with different prices (P)?

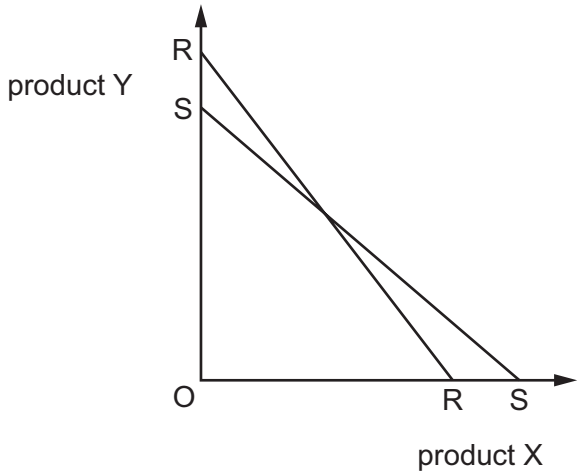
A $MU_X = MU_Y$

B $\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$

C $\frac{MU_X}{P_Y} = \frac{MU_Y}{P_X}$

D $TU_X = TU_Y$

5 The diagram shows a change in a consumer's budget line from RR to SS.



What might explain why this occurred?

A a decrease in income and a fall in the price of X

B a decrease in income and a rise in the price of X

C an increase in income and a fall in the price of X

D an increase in income and a rise in the price of X

6 When shirts are produced, fixed costs are $100 and the variable cost is $5 per shirt.

If the price is $10, which output would result in normal profit?

A 10 shirts

B 20 shirts

C 25 shirts

D 100 shirts

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7 The table shows four market structures.

Which characteristics could describe the market structure shown?

	market structure	barriers to entry	differentiated products
A	monopolistic competition	low	no
B	monopoly	high	yes
C	oligopoly	low	no
D	perfect competition	high	yes

8 A firm abandons its policy of horizontal expansion and switches to a policy of backward vertical growth.

What does this suggest is most likely about the firm's objectives?

A It now prefers revenue maximisation to cost minimisation.

B It now prefers sales maximisation to profit satisficing.

C It now prefers security of sales to profit maximisation.

D It now prefers security of supplies to growth of market share.

9 What identifies the output level required to meet the stated aim of the firm?

	aim of firm	produce at output where
A	maximum efficiency	marginal cost is at a minimum
B	profit maximising	marginal cost is equal to average revenue
C	quantity of sales maximising	average revenue is equal to average cost
D	revenue maximising	marginal revenue is zero

10 What makes it likely that firms will collude in setting prices for a particular product?

A a highly contestable market structure

B a small number of firms with economies of scale

C persistent shortages of the product being supplied

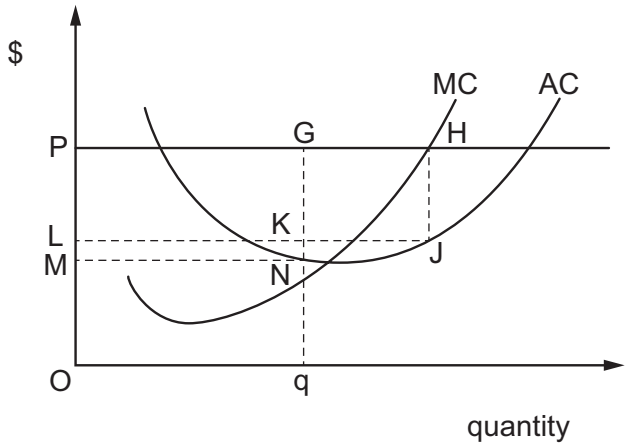
D the existence of patent rights possessed by firms

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11 The diagram shows a firm's marginal and average cost curves.

The firm enters a collusive agreement with other firms in the industry. It is agreed that each firm will charge a common price, OP, and will restrict the level of its output to a production quota set by the industry cartel.

The firm is allocated a production quota, Oq.



The firm decides to cheat in order to maximise its profits.

What is its short-run increase in profits?

A PGKL

B PHJL

C PHJL minus PGNM

D PGKL minus LKNM

12 The diagram shows a notice on a motorway near Cambridge.



What is this an example of?

A government regulation

B merit good

C nudge theory

D public good

13 A reason for government intervention in the workings of the economy is to attempt to correct for market failure. Sometimes, though, government failure may occur.

What is **not** a possible reason for government failure?

A Governments may have to make decisions on the basis of out-of-date information.

B Governments may make decisions that reduce negative externalities.

C The extent of the market failure may be difficult to judge.

D When circumstances change a government may be unable to respond quickly.

14 Which policy combination will reduce income inequalities in a country?

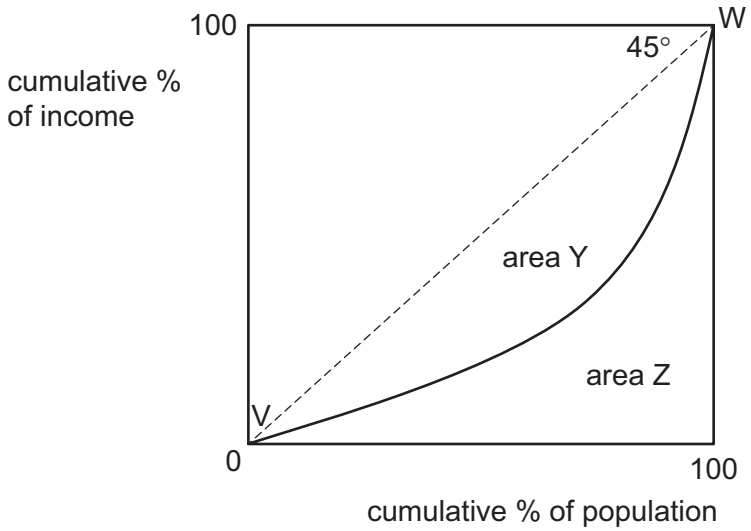
A impose a fixed amount tax on all people and reduce unemployment benefits

B increase social welfare payments and impose a higher marginal income tax rate

C increase transfer payments and impose higher indirect taxation

D reduce rates of tax on higher incomes and increase welfare payments

15 The diagram shows an economy's Lorenz curve (VW).



How is the Gini coefficient for the economy calculated?

A $\frac{Y}{Y+Z}$ **B** $\frac{Y}{Z}$ **C** $\frac{Z}{Y}$ **D** $\frac{Z}{Y+Z}$

16 What will cause the supply curve of labour in a particular industry to shift to the left?

A a fall in demand for the industry's product

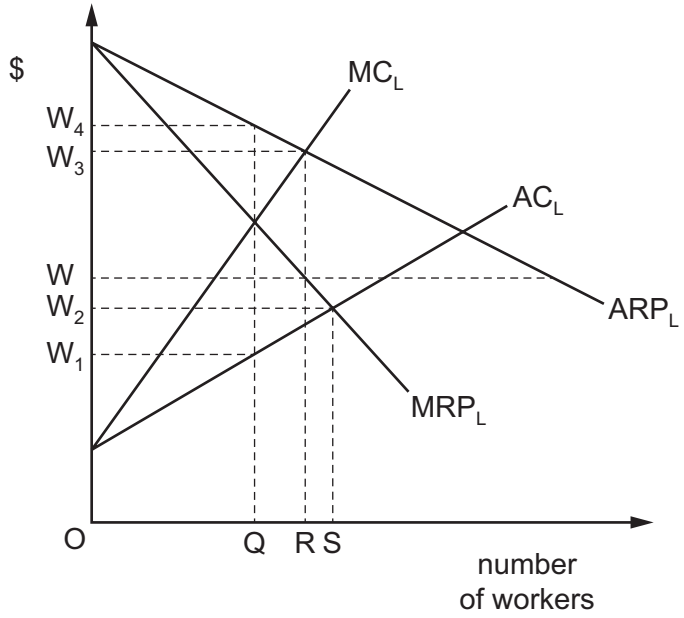
B a greater use of machinery in the production of the industry's output

C a rise in wages paid in similar occupations in other industries

D a weakening of trade union influence in the industry

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17 The diagram shows the costs and revenue curves in the labour market for a firm in imperfect competition.



Initially the firm is at an equilibrium in the factor market.

What will happen to the wage rate and employment if a trade union negotiates a wage of W?

	wage rate	employment
A	fall from W_3 to W	remain the same at OR
B	fall from W_4 to W	increase from OQ to OR
C	rise from W_1 to W	increase from OQ to OR
D	rise from W_1 to W	remain the same at OQ

18 A country has a population of 100 million. 60 million are of working age and 50 million are in the labour force. The country's unemployment rate is 10%.

How many people are employed?

A 40 million **B** 45 million **C** 50 million **D** 54 million

19 The table shows the nominal GDP growth and inflation rate in four countries, W, X, Y and Z.

	nominal GDP growth rate (%)	annual inflation rate (%)
W	2.1	1.9
X	–1.6	8.9
Y	4.1	5.8
Z	–2.0	16.4

What can be concluded from the table?

A W experienced the highest rate of real economic growth.

B X and Z experienced deflation.

C Y experienced the greatest rise in the standard of living.

D Z experienced the greatest growth in public debt.

20 Which trade policy of a developed country is **least** likely to allow a developing country to experience increased growth?

A a decrease in administrative restrictions on imports from developing countries

B an increase in subsidies of capital goods exports to developing countries

C a reduction in quotas on imports from developing countries

D a reduction in tariffs on imports from developing countries

21 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

22 A developing country relies heavily on the production of a primary product for its national income.

Which change will make it more likely that the country will benefit from its participation in international trade?

A an increase in income elasticity of demand for the primary product

B an increase in tariffs imposed on the primary product by developed countries

C an increase in the cost of international freight transport in real terms

D an increase in the price of manufactured products relative to the primary product

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23 What might cause a country to experience both a rise in the number of people unemployed and an increase in job vacancies?

A a decrease in housing and transport costs

B a decrease in unemployment benefit

C an increase in the occupational immobility of labour

D an increase in the skills of the labour force

24 In a two sector economy autonomous consumption expenditure increases by $100 billion, autonomous investment expenditure by $200 billion and the marginal propensity to consume is 0.5.

What will be the increase in National Income?

A $150 billion

B $300 billion

C $450 billion

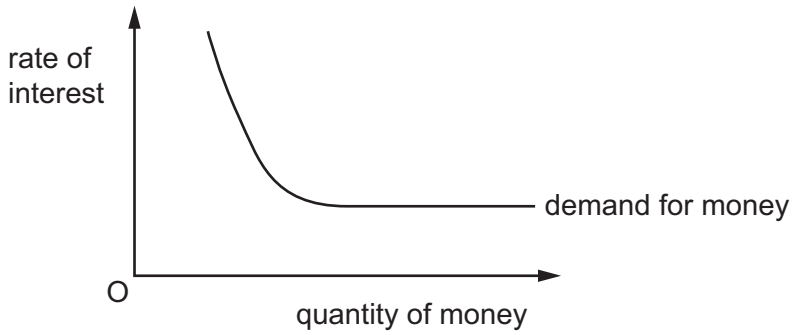
D $600 billion

25 The central bank in an open economy cuts the interest rate to avoid deflation.

Under which conditions is this expansionary monetary policy most likely to be effective?

	asset prices	consumption spending
A	rise rapidly	interest elastic
B	rise rapidly	interest inelastic
C	rise slowly	interest elastic
D	rise slowly	interest inelastic

26 The diagram shows that the elasticity of demand for money becomes infinite at a certain rate of interest.



Which statement explains this situation?

A At low interest rates there is an infinite demand for bonds.

B Other assets are close substitutes for money.

C Some money is required for transactions balances.

D There is a liquidity trap.

27 What would be most likely to result in an increase in unemployment?

A a decrease in the level of bank loans

B a decrease in the level of taxation

C a decrease in the rate of interest

D an increase in the money supply

28 Which macroeconomic indicator is **least** likely to identify a developing country?

A real GDP per capita

B the Gini coefficient

C the Human Development Index

D the Phillips curve

29 What would **not** help to achieve the macroeconomic objective of economic growth?

A decreasing corporation tax

B increasing income tax

C reducing interest rates

D spending on education and training

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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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