Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2020**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
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- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

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1 What is the main aim of cost-benefit analysis?

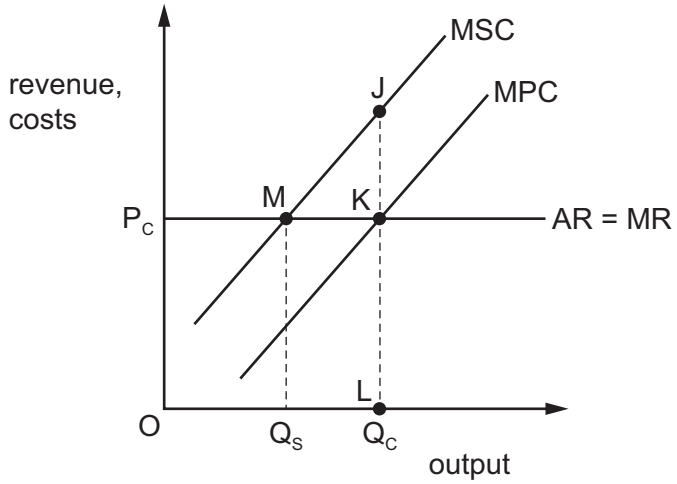
A to allow firms to maximise their private benefit and minimise the external cost

B to equate total social benefit to the total social cost of a project

C to find the correct level of direct tax to internalise the external cost of a project

D to find the highest positive difference between total benefit and total cost

2 The diagram shows a firm in perfect competition that creates pollution.



What represents the external cost?

A JK **B** JM **C** KL **D** MK

3 What is achieved in monopolistic competition in the long run?

	allocative efficiency	supernormal profit
A	no	no
B	no	yes
C	yes	no
D	yes	yes

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4 The table contains data on the total utility gained by a consumer from eating biscuits and chocolates in one day.

biscuits / chocolates eaten	total utility (units)	
	biscuits	chocolates
1	20	10
2	38	20
3	52	32
4	62	38
5	70	42
6	74	42
7	74	40

What can be concluded from the table?

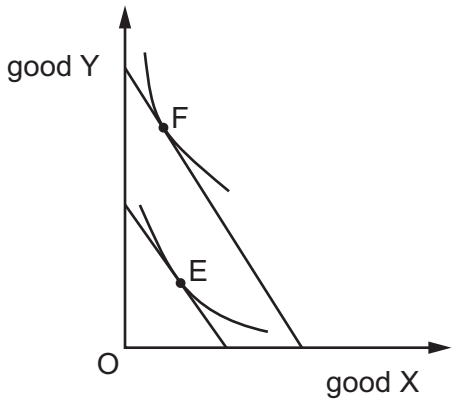
A The consumer gets diminishing marginal utility after eating the first chocolate.

B The consumer gets negative marginal utility from the seventh chocolate eaten.

C The consumer will never eat chocolates if biscuits are available.

D The second biscuit eaten gives the same marginal utility as the fourth chocolate eaten.

5 The indifference curve diagram shows the effect of an increase in income on the consumption of good X and good Y.



Which types of good X and good Y are indicated by the change in consumption from E to F?

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

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6 A Chinese firm has total fixed costs of 1000 Yuan. The firm's average variable cost is 10 Yuan and its average total cost is 15 Yuan.

What is the firm's output?

A 10 units **B** 66 units **C** 200 units **D** 5000 units

7 What is **not** a requirement for the law of diminishing returns to operate in the short run?

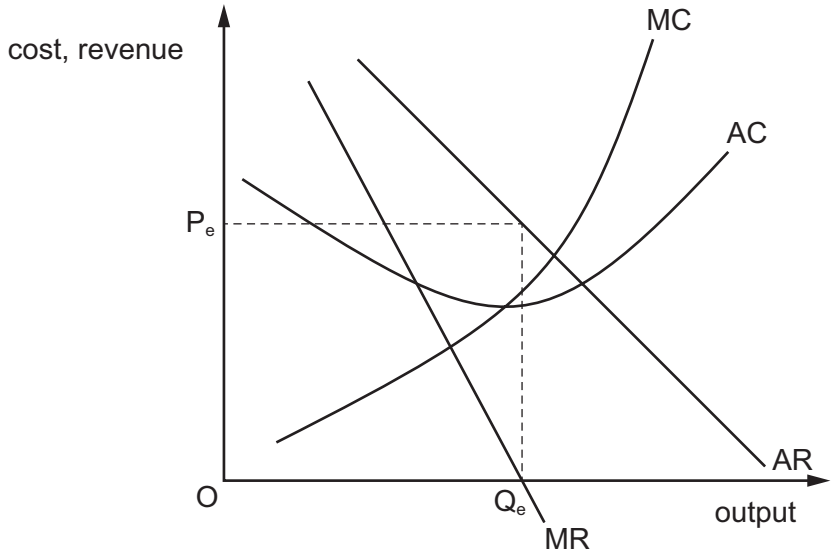
A At least one factor will be fixed in quantity.

B Average returns to a variable factor will increase then fall.

C Marginal product of a variable factor will increase then fall.

D Inputs of all of the factors will be variable.

8 The diagram shows the costs and revenues of a firm that is producing output Q_e with a price P_e.



What would explain this?

A The firm is deliberately selling below cost to keep out potential entrants.

B The firm wants to maximise the volume of sales to gain economies of scale.

C The managers' salaries are related to revenue rather than to profits.

D The managers want to have a large team working for them to increase their status.

9 What is necessary for price discrimination to be profitable in different markets?

A There must be many buyers.

B There must be markets with different price elasticities of demand.

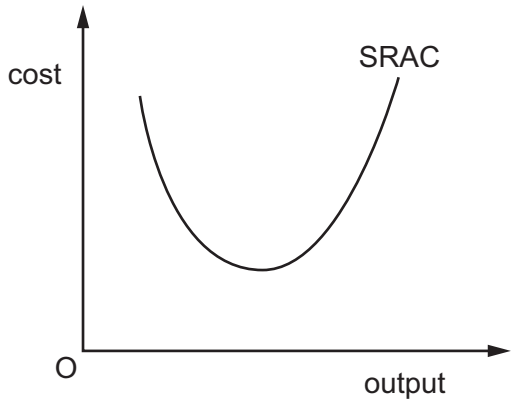
C There must be product differentiation.

D There must be geographically separate markets.

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10 The diagram shows a firm's short-run average cost curve.



What explains the shape of the curve?

A the law of diminishing marginal utility

B the law of variable proportions

C fixed costs exceeding variable costs

D technical diseconomies

11 A firm successfully engages in a policy of predatory pricing.

What will happen to the prices charged by the firm in the short run and in the long run?

	prices in the short run	prices in the long run
A	rise	rise
B	rise	fall
C	fall	rise
D	fall	fall

12 Which is **not** a reason for the existence of small firms in a market dominated by large companies?

A Small firms can concentrate on providing specialist services.

B Small firms enjoy greater economies of scale.

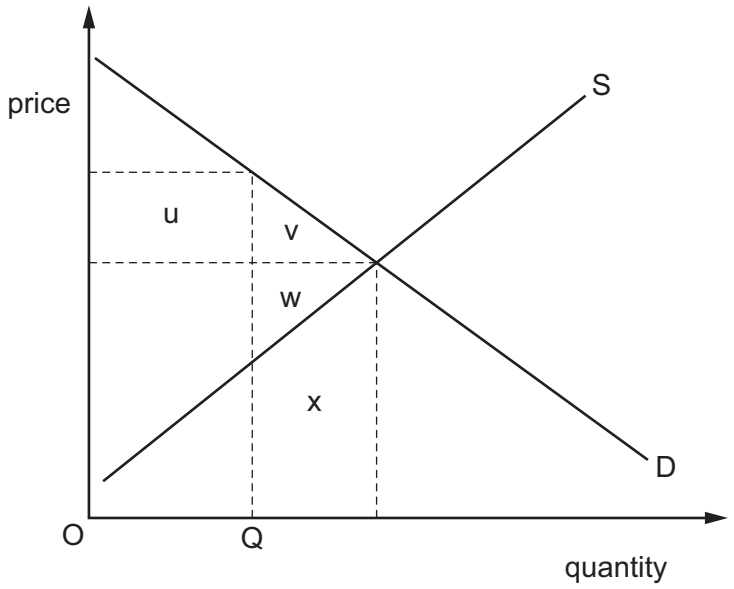
C Small firms enter the market with new innovative ideas.

D Small firms have good knowledge of local markets.

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13 The diagram shows an industry's supply and demand curves.



In the absence of externalities, which area in the diagram measures the net loss in economic welfare if the government restricts the level of output to OQ?

A u + v **B** v + w **C** x **D** v + w + x

14 In 2007 the United Kingdom's government banned cigarette smoking in enclosed public spaces, such as offices, shops, bars and restaurants.

What is a government failure arising from this ban?

A decreased consumption of cigarettes by smokers

B decreased levels of passive cigarette smoking by non-smokers

C increased litter from used cigarettes outside offices and shops

D increased sales of cigarette substitutes like nicotine patches and gum

15 When does a more equal distribution of income occur?

A when a country's income tax system is made more progressive

B when someone is made better off without making someone else worse off

C when the best use is made of scarce resources

D when there is an increase in the Gini coefficient

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16 What is likely to improve the occupational mobility of labour?

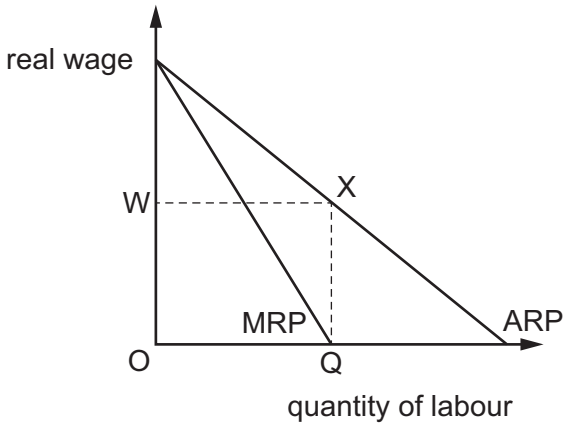
A a decrease in income tax that increases aggregate demand

B a decrease in unemployment benefit

C an increase in retraining schemes for the unemployed

D more advertising of employment vacancies in the economy

17 The diagram represents a situation where a trade union has negotiated a wage, OW, for its members. The level of employment is OQ.



What do the trade union members maximise in this situation?

A their economic rent

B their leisure hours

C their level of employment

D their total amount paid in wages

18 What is **not** included in the Human Development Index?

A infant mortality rates

B gross national income per capita

C life expectancy at birth

D mean years of schooling

19 Under what circumstances will low wages and low-cost land in a developing country **not** attract foreign investment in manufacturing?

A if the developing country creates genuine independence for their central banks

B if the developing country embarks on a programme of privatisation

C if the developing country lacks well-developed infrastructure

D if the developing country permits repatriation of profits

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20 An individual was temporarily unemployed but found a job quickly.

What type of unemployment is this?

A cyclical unemployment

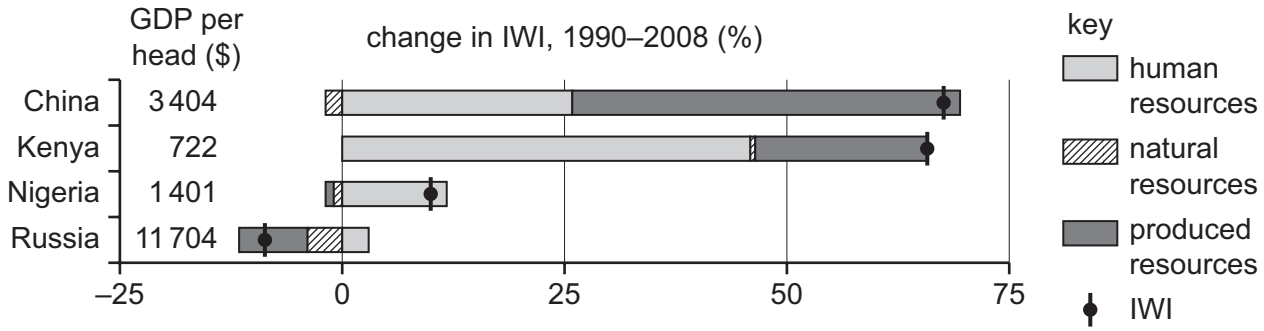
B frictional unemployment

C seasonal unemployment

D structural unemployment

21 In 2012 a United Nations report calculated the stock of wealth of 20 countries in terms of human, natural and produced resources. This was measured as the Inclusive Wealth Index (IWI).

The diagram shows the annual percentage (%) change in the IWI between 1990 and 2008 of four economies. It also shows their 2008 GDP per head ($).



What can be concluded from the diagram?

A A low level of GDP per head meant an inability to build stocks of wealth.

B All countries were able to prevent depletion of their natural resources.

C The faster the growth in a country's IWI the higher was its GDP.

D There was an increase in human resources in all four countries.

22 What would represent a monetarist anti-inflationary policy?

A an increase in indirect taxation

B direct foreign exchange rate intervention

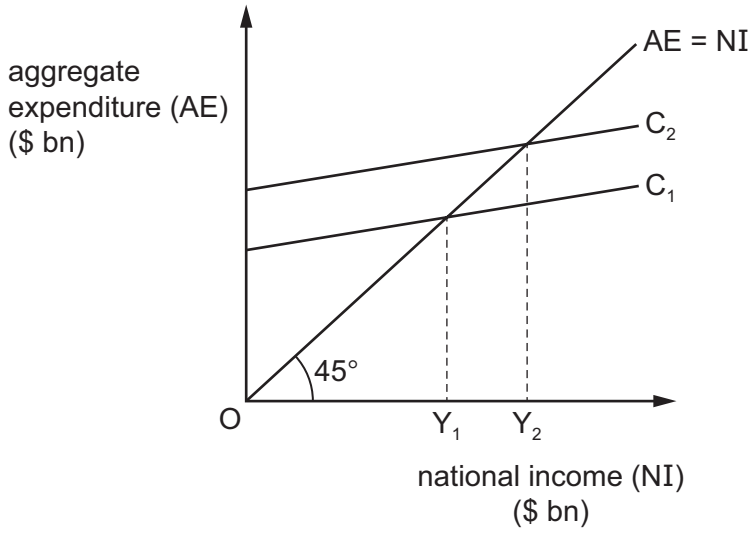
C the introduction of maximum prices

D the sale of securities on the open market

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23 The national income / expenditure diagram shows changes in consumption expenditure (C).



What would cause the consumption function to shift from C_1 to C_2?

A a minimum deposit introduced for credit purchases

B an increase in direct taxation

C an increase in the rate of interest

D the expectation of an increase in indirect taxes

24 According to the accelerator theory, what would cause investment in an economy to be lower than in the previous year?

A a lower marginal propensity to consume than in the previous year

B a lower marginal propensity to save than in the previous year

C a smaller fall in national income than occurred in the previous year

D a smaller rise in national income than occurred in the previous year

25 Which correctly identifies net leakages from a country's circular flow of income?

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

26 A central bank sells securities on the open market.

What does Keynesian theory predict will occur?

A a fall in the price level

B a fall in unemployment

C a rise in the price level

D a rise in the rate of interest

27 What would most likely result from a sustained increase in real GDP in an economy?

A a decrease in the government's budget deficit

B a decrease in output per worker

C an increase in a balance of payments surplus

D an increase in frictional unemployment

28 The table shows combinations of statements associated with Keynesian and Monetarist schools of thought.

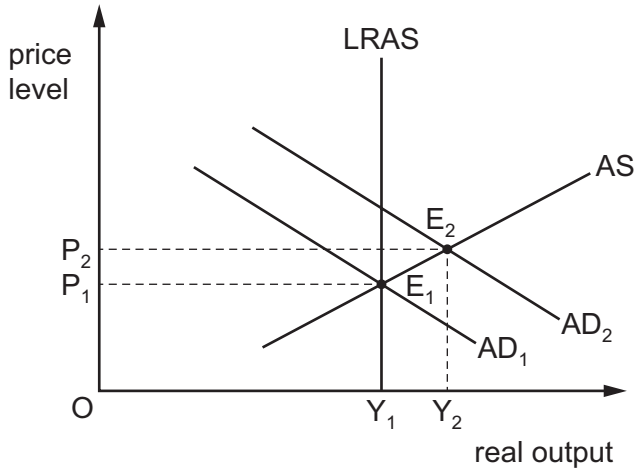
Which combination is correct?

	Keynesian	Monetarist
A	crowding out effect prevents private sector investment	controlling the money supply controls inflation
B	fiscal policy is best for economic growth	wages are flexible
C	reducing inflation is more important than reducing unemployment	reducing unemployment is more important that reducing inflation
D	wages are sticky downwards	controlling aggregate demand controls inflation

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29 The diagram shows an economy in short-run equilibrium with price level P_2 and output level Y_2.



Which combination is most likely to be achieved in the economy at the equilibrium point E_2?

	macroeconomic policy aim	macroeconomic policy aim
A	reduced current account deficit	increased international competitiveness
B	reduced rate of inflation	reduced exchange rate
C	increased level of employment	increased per capita income
D	increased economic growth	reduced environmental degradation

30 A government sets a target for the annual rate of inflation to be no more than 3%.

Which circumstances would make it difficult to achieve the target?

A if devaluation of the currency leads to a trade surplus

B if interest rates are increased to control effective demand

C if the government increases its budget surplus

D if wage increases are kept in line with productivity

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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 9708/31: Multiple choice answers

1	D	CBA aims to choose the project or scale where total social benefit exceeds total social cost by the most.
2	A	At output QC the vertical gap between MSC and MPC is JK, the marginal external cost.
3	A	In the long run P = AC (normal profit only) and P > MC, so it is not allocatively efficient.
4	B	The 7th chocolate takes total utility from 42 to 40, so its marginal utility is −2.
5	B	From E to F, as income rises the consumer buys less X and more Y: X is inferior, Y is normal.
6	C	AFC = ATC − AVC = 15 − 10 = 5 Yuan, so output = TFC ÷ AFC = 1000 ÷ 5 = 200 units.
7	D	Diminishing returns need at least one fixed factor, so all factors being variable is not a requirement.
8	C	Qe is where MR = 0, the revenue-maximising output, which suits managers paid on revenue.
9	B	Charging a higher price where demand is inelastic and lower where elastic raises total profit.
10	B	SRAC is U-shaped because of the law of variable proportions (diminishing returns to a variable factor).
11	C	Prices are cut below cost to drive rivals out, then raised once the firm has monopoly power.
12	B	Small firms do not enjoy greater economies of scale; large firms do, so this is

Question number		
		not a reason.
13	B	Units between OQ and equilibrium, valued by buyers above their cost, are lost: deadweight loss v + w.
14	C	Smokers move outside, so litter rises: an unintended negative effect of the intervention.
15	A	A more progressive income tax takes a larger share from high incomes, so income is more equal.
16	C	Retraining gives the unemployed new skills, so they can move between occupations more easily.
17	D	At OQ, MRP = 0, so the wage bill (W × Q, area under ARP) is maximised.
18	A	HDI uses life expectancy, mean and expected years of schooling and GNI per head, not infant mortality.
19	C	Poor infrastructure (roads, ports, power) raises costs and outweighs cheap labour and land.
20	B	A short spell of unemployment while moving between jobs is frictional unemployment.
21	D	The human resources bar is positive for China, Kenya, Nigeria and Russia.
22	D	Monetarists control the money supply; selling securities withdraws money from the banking system.
23	D	Expecting higher indirect taxes, households buy now, so consumption rises at every income level.
24	D	Investment depends on the change in national income; a smaller rise in income than last year means lower investment.
25	C	S > I and T > G are net leakages; X > M is a net injection, so trade is "no".
26	D	Selling securities reduces the money supply, so the rate of interest rises.
27	A	Higher real GDP raises tax revenue and cuts benefit spending, so the budget deficit falls.
28	B	Keynesians favour fiscal policy to boost demand and growth; monetarists

Question number		
		believe wages are flexible.
29	C	At E2 real output has risen from Y1 to Y2, so employment and per capita income rise.
30	A	Devaluation raises import prices (cost push) and a trade surplus raises AD (demand pull), so inflation rises.

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ECONOMICS **9708/32**

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1 hour 15 minutes

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1 What is necessary to achieve Pareto efficiency?

A Both consumers and producers must be made better off.

B Everybody must be made equally better off.

C One person must benefit without anyone else being worse off.

D The welfare gains must exceed the welfare losses.

2 A local council is considering building a passenger terminal at a port so that it can benefit the large cruise ships that dock there. It undertakes a cost–benefit analysis.

What would be included as an external cost in the local council's cost–benefit analysis?

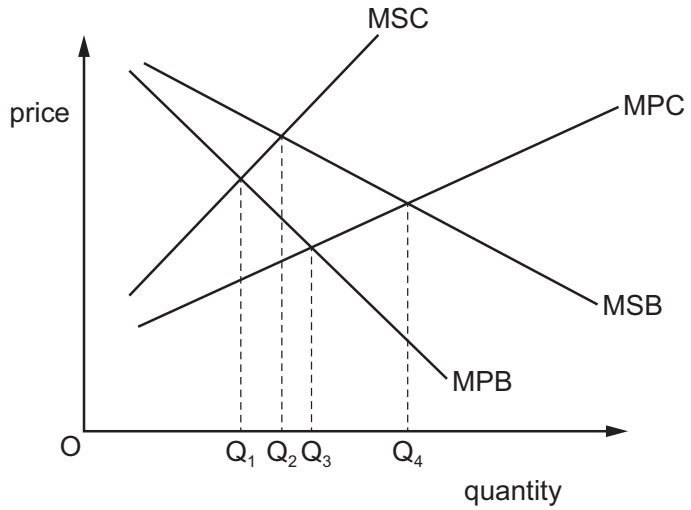
A the cost of a ticket for a passenger to travel on a cruise ship

B the cost of fuel to operate the cruise ships

C the costs paid by cruise ships when they dock at the port

D the cost to a fishing fleet of relocating to another port

3 The expected marginal private benefits (MPB), marginal social benefits (MSB), marginal private costs (MPC) and marginal social costs (MSC) for the building of a new road are shown in the diagram. The government intervenes so that the socially desirable output is achieved.



Which combination shows the equilibrium output without government intervention and with government intervention?

	without government intervention	with government intervention
A	Q_4	Q_1
B	Q_3	Q_2
C	Q_3	Q_4
D	Q_4	Q_1

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4 A rational consumer chooses what quantities of two products Y and Z to purchase with a given income.

MU_Y and MU_Z are the additions to total utility that would result if the consumer were to purchase an additional unit of each product.

P_Y and P_Z are the current prices of the two products.

Which outcome would represent consumer equilibrium?

A when $MU_Y = MU_Z$

B when $MU_Y \times P_Y = MU_Z \times P_Z$

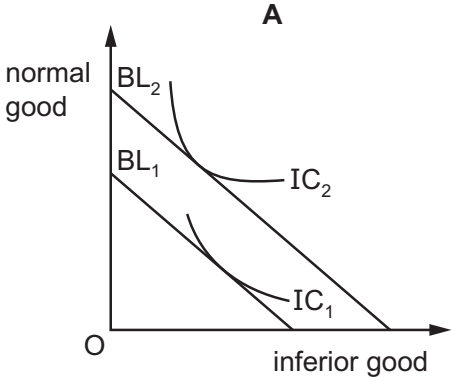
C when $MU_Y \times P_Z = MU_Z \times P_Y$

D it is not possible to tell from the information available

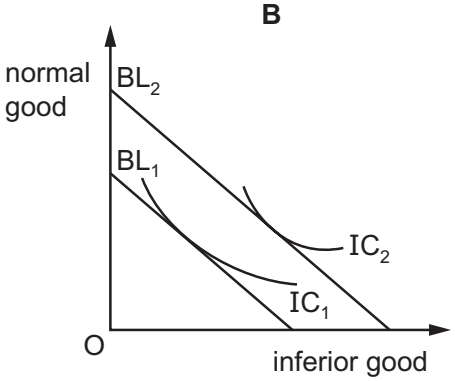
5 The diagrams show a consumer's indifference curves (IC) and budget lines (BL) for an inferior good and a normal good.

Which diagram shows the effect of a cut in income tax on the consumer's choice?

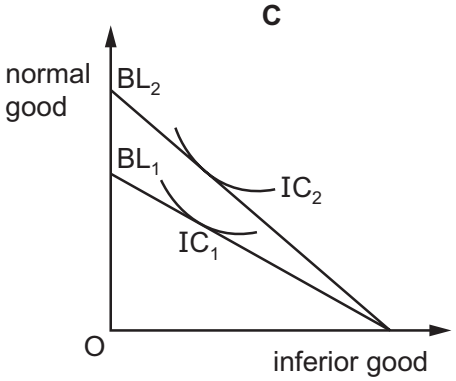
A



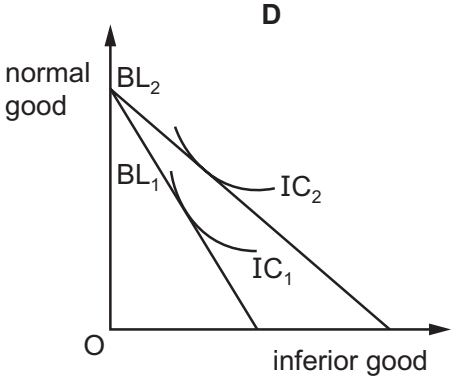
B



C



D



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6 What is marginal cost?

A the difference between the total cost of producing *n* units and *n* – 1 units of output

B the difference between the average variable cost of producing *n* units and *n* – 1 units of output

C the difference between the average total cost of producing *n* units and *n* – 1 units of output

D the average fixed cost of producing one more unit of output

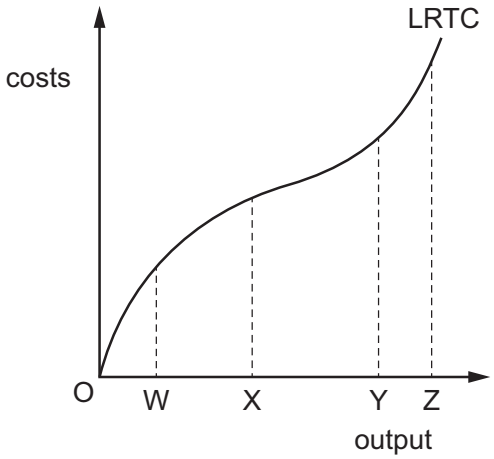
7 The table shows the production and total cost of a firm.

production (tonnes)	total cost ($)
0	20
1	30
2	35
3	40
4	45
5	50

What is the average variable cost of producing 5 tonnes of output?

A $4 **B** $5 **C** $6 **D** $10

8 The diagram shows the long-run total cost (LRTC) curve of a firm.



At which output is the long-run average total cost at its minimum?

A OW **B** OX **C** OY **D** OZ

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9 Which combination of statements about small firms and large firms is correct?

	small firms	large firms
A	are more common in manufacturing than in services	face high barriers to exit
B	are more numerous than large ones	do not experience diseconomies of scale
C	can do well when each item produced must be different	may arise from internal growth or mergers
D	cannot have any monopoly power	cannot earn supernormal profits

10 Why might the long-run equilibrium of a profit-maximising firm in a monopolistically competitive market differ from its short-run equilibrium?

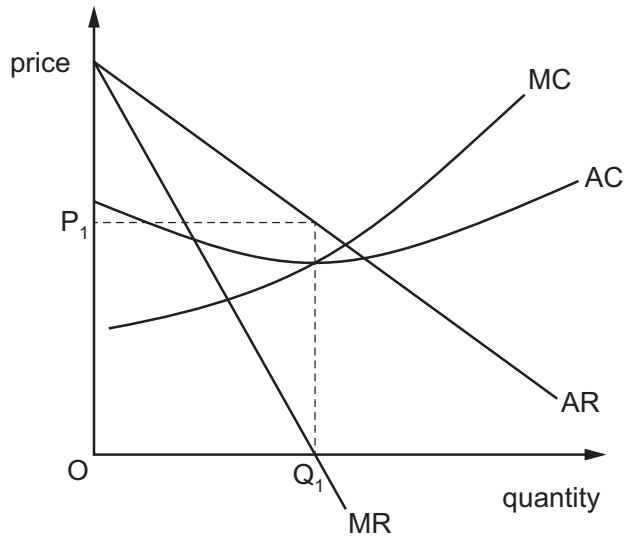
A Advertising expenditure is possible.

B There are low barriers to entry.

C Firms experience diminishing returns.

D Innovation reduces the monopoly power of firms.

11 The diagram shows the cost and revenue curves of a monopolist.



What would be the aim of the firm if it chose to produce at Q_1P_1?

A revenue maximisation

B profit maximisation

C sales maximisation

D growth maximisation

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12 What does the 'kinked demand curve' model suggest about the equilibrium price in an oligopoly market?

A It will be stable because there is little incentive for firms to change prices.

B It will be stable because there is a lot of competition.

C It will change frequently because there is a lot of competition.

D It will change frequently because price is determined by demand and supply.

13 What is the essential feature of nudge theory?

A the aim of satisficing

B the establishing of a legal requirement

C the existence of a contestable market

D the idea of persuasion

14 What indicates that a more equal distribution of income has been achieved?

A a faster rate of economic growth

B a higher Human Development Index

C a lower Gini coefficient

D a lower tax / GDP ratio

15 Which combination of policies is most likely to reduce the number of low-paid workers caught in the poverty trap?

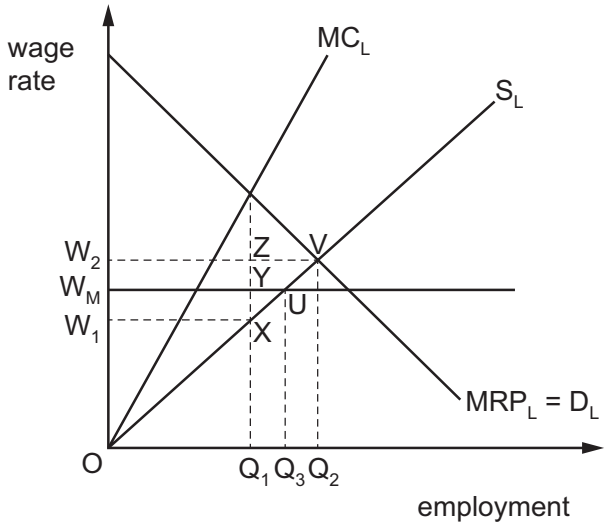
	individual's tax-free allowance for income tax	national minimum wage in real terms
A	decrease	increase
B	decrease	unchanged
C	increase	increase
D	increase	unchanged

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16 The diagram shows the effect of the introduction of a national minimum wage, W_M, in an occupation where workers are employed by a profit-maximising monopsonist.



What happened to total wages received by the workers in the occupation?

A They decreased from OW_2VQ_2 to OW_MUQ_3.

B They decreased from OW_2ZQ_1 to OW_MUQ_3.

C They increased from OW_1XQ_1 to OW_MYQ_1.

D They increased from OW_1XQ_1 to OW_MUQ_3.

17 A backward-sloping supply curve of labour is one where, beyond a certain point, the supply of labour

A decreases as the demand for labour rises.

B increases as the demand for labour rises.

C decreases as wages rise.

D increases as wages rise.

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18 The table shows factors that influence living standards.

Which country would be most likely to have the **lowest** Human Development Index (HDI)?

	mean years of schooling	homicide (murder) rate (per 100 000 people)	life expectancy at birth (years)	infant mortality rate (per 100 000 live births)	GNI per capita (PPP$)
A	13	1	80	4	42 500
B	8	25	75	15	14 500
C	8	3	68	12	18 000
D	7	5	58	41	8 400

19 The table provides data on the Gross National Income (GNI) and the foreign aid expenditure of selected countries in 2016.

country	GNI (US$ billion)	foreign aid expenditure (US$ billion)
Belgium	468.9	2.10
Germany	3612.1	23.84
Sweden	532.7	5.38
South Korea	1403.6	2.10

What can be concluded from the table?

A Countries with a higher GNI always spend more on foreign aid.

B Germany has the world's highest expenditure on foreign aid.

C South Korea and Belgium spent an equal proportion of GNI on foreign aid.

D Sweden spent the highest proportion of GNI on foreign aid.

20 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

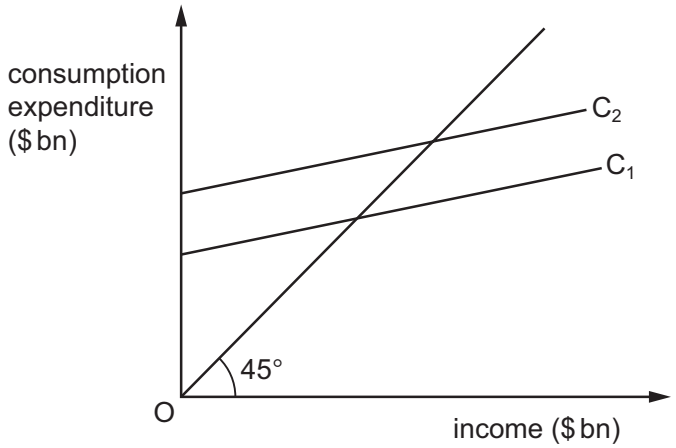
D a textile worker whose factory closes as production moves abroad

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21 The diagram shows the consumption function of a country.



What could cause the consumption function to shift upwards from C_1 to C_2?

A an increase in interest rates

B an increase in direct taxation

C an increase in the proportion of income saved by households

D the expectation of an increase in the rate of sales taxes

22 The accelerator principle refers to a relationship between investment and

A the level of GDP.

B changes in GDP.

C the level of interest rates.

D changes in interest rates.

23 What is included in 'narrow money'?

	notes and coins in circulation	current (checking) account deposits	banks' liquid assets at the central bank	treasury bills
A	✓	✓	✓	✗
B	✓	✓	✗	✗
C	✓	✗	✗	✗
D	✗	✗	✓	✓

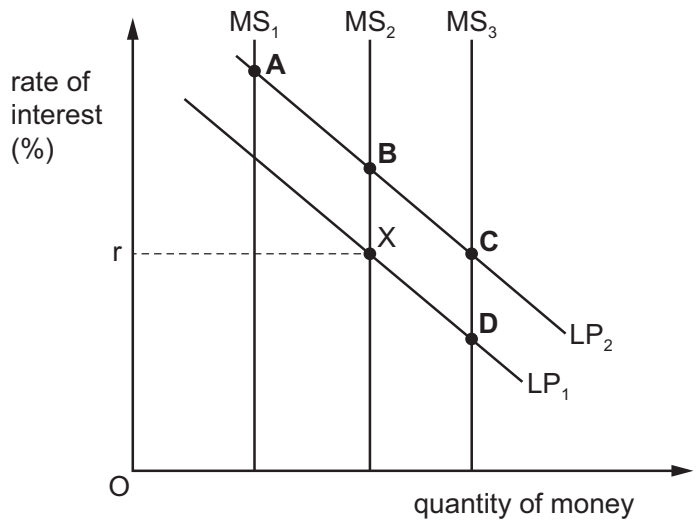
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24 The diagram shows three levels of the money supply (MS) and three liquidity preference schedules. The initial money market equilibrium is X. The central bank purchases more government securities.

Which equilibrium shows the initial impact of this purchase?



25 What is an important assumption of Monetarism?

A Fiscal policy is more effective than monetary policy in reducing inflation.

B Long-term unemployment results from deficient demand.

C The interest elasticity of investment spending is low.

D The velocity of circulation is stable.

26 According to Keynesian theory, how will an increase in autonomous spending affect the value of equilibrium income?

A Income will increase by an amount equal to the value of autonomous spending.

B Income will increase by an amount greater than the value of autonomous spending.

C Income will increase by an amount smaller than the value of autonomous spending.

D Income will not increase as a result of autonomous spending.

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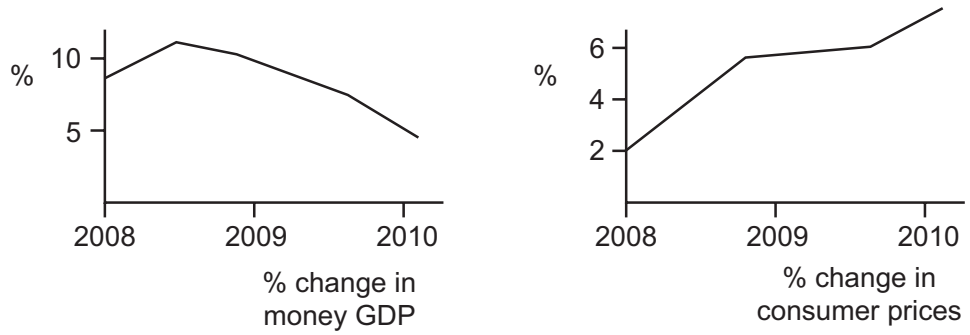
27 Statement 1: A market economy is inherently unstable and the government must play a stabilising role through monetary policy and fiscal policy.

Statement 2: The economy will always return to its equilibrium rate of output and unemployment and as a result long-run aggregate supply is vertical.

Which row correctly attributes these statements to Keynesian and Monetarist theories?

	statement 1	statement 2
A	Keynesian	Keynesian
B	Keynesian	Monetarist
C	Monetarist	Keynesian
D	Monetarist	Monetarist

28 The graphs below show percentage changes in money GDP and consumer prices in a country between 2008 and 2010.



Which conclusion may be drawn from the graphs?

A Between 2009 and 2010 money GDP fell but consumer prices continued to rise.

B Money GDP and consumer prices both continued to rise throughout the period.

C In real terms GDP grew throughout the period.

D When money GDP fell, consumer prices rose.

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29 In an economy, the elasticity of demand for imported raw materials is 0.3 and the elasticity of demand for exports is also 0.3.

Following a depreciation of the economy's currency, what will be the impact on inflation?

	change in cost push factors will cause inflation to	change in demand pull factors will cause inflation to
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

30 Which combination of macroeconomic policies will most likely be successful if the aim were to reduce unemployment and reduce inflation?

A contractionary supply-side policies and higher interest rates

B expansionary supply-side policies and reduced indirect taxes

C increased direct taxes and reduced indirect taxes

D reduced rates of interest and depreciation of exchange rate

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Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/32: Multiple choice answers

1	C	Pareto efficiency: no one can be made better off without making someone else worse off.
2	D	The fishing fleet is a third party outside the decision, so its relocation cost is an external cost.
3	B	Free market output is where MPB = MPC (Q3); the socially desirable output is where MSB = MSC (Q2).
4	C	Equilibrium is where MUY ÷ PY = MU2 ÷ P2, which rearranges to MUY × P2 = MU2 × PY.
5	A	An income tax cut raises disposable income: BL shifts out in parallel, more normal good and less inferior good.
6	A	Marginal cost is the change in total cost from producing one more unit, TC(n) − TC(n − 1).
7	C	TFC = $20 (cost at zero output). TVC = 50 − 20 = $30, so AVC = 30 ÷ 5 = $6.
8	C	LRATC is lowest where a ray from the origin is tangent to LRTC, which is at OY.
9	C	Small firms can do well with one-off, customised products; large firms grow internally or by merger.
10	B	Low barriers let new firms enter and compete away supernormal profit, leaving only normal profit.
11	A	At Q1, MR = 0, so total revenue is maximised.
12	A	Rivals match a price cut but not a price rise, so there is little incentive to change price.

Question number		
13	D	A nudge persuades people to change behaviour without legal force or removing choice.
14	C	A lower Gini coefficient means the Lorenz curve is closer to the line of equality.
15	C	A higher tax-free allowance and higher real minimum wage both raise take-home pay from work.
16	D	The monopsonist paid OW1 for Q1; with WM it employs Q3, so the wage bill rises from OW1XQ1 to OWMUQ3.
17	C	Beyond a certain wage the income effect outweighs the substitution effect, so labour supplied falls.
18	D	D has the lowest life expectancy (58), fewest years of schooling (7) and lowest GNI per head ($8400).
19	D	Aid as % of GNI: Sweden 5.38 ÷ 532.7 ≈ 1.0%, Germany 0.66%, Belgium 0.45%, South Korea 0.15%.
20	C	A fruit picker unable to work in winter is seasonally unemployed, not structurally unemployed.
21	D	Expecting sales taxes to rise, households buy now, so consumption rises at every income level.
22	B	The accelerator links the level of investment to the rate of change of GDP.
23	A	Narrow money includes notes and coins, current account deposits and banks' balances at the central bank.
24	D	Buying securities raises the money supply from MS2 to MS3; with LP1 unchanged the initial impact is D.
25	D	Monetarists assume the velocity of circulation (V in MV = PT) is stable.
26	B	Via the multiplier, extra spending creates further rounds of income, so income rises by more.
27	B	Keynesians see markets as unstable needing intervention; monetarists see LRAS as vertical at the natural rate.

Question number		
28	B	Both percentage changes stay positive through 2008 to 2010, so both money GDP and prices kept rising.
29	C	Import prices rise (cost push up); with inelastic demand (0.3 + 0.3 < 1) net exports fall, so demand pull falls.
30	B	Expansionary supply-side policy shifts AS right and lower indirect taxes cut costs: more output, lower prices.

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ECONOMICS **9708/33**

Paper 3 Multiple Choice **October/November 2020**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

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1 Which statement is correct?

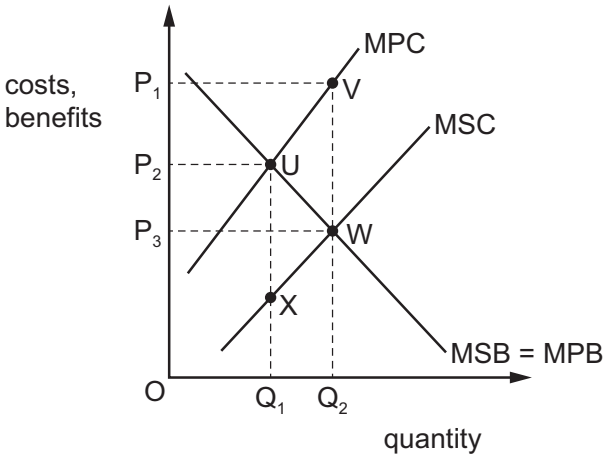
A marginal social benefit = marginal private benefit – marginal external benefit

B marginal social cost = marginal private cost + marginal external cost

C negative externality = marginal social benefit – marginal social cost

D positive externality = marginal private benefit

2 The diagram shows the costs and benefits of the production of a good. The firm is operating at output Q_1.



What would be necessary to move the production to the optimal level of output?

A introducing a subsidy of UW

B introducing a subsidy of VW

C setting a maximum price of P_2

D setting a minimum price of P_3

3 Which situation should **not** lead to market failure?

A Managers in a firm have information unavailable to shareholders.

B Resources such as solar energy can be continuously renewed.

C Resource allocation is not always Pareto efficient.

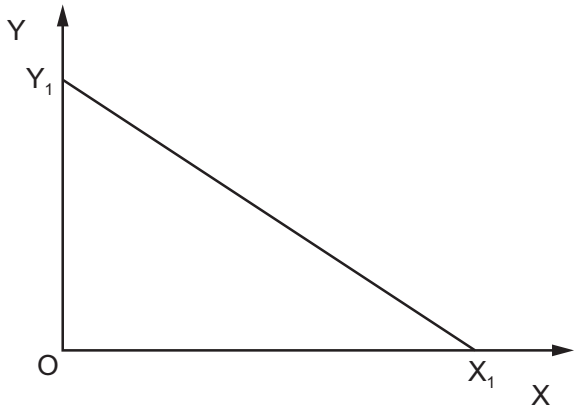
D Undesirable goods are overproduced.

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4 The diagram below shows a customer's budget line for two goods, X and Y.



Assuming the price of X does not change, the slope of the budget line will become steeper when:

A the consumer's income falls.

B the consumer's income rises.

C the price of Y falls.

D the price of Y rises.

5 A consumer maximises his utility by spending all his income on goods X and Y. New research reveals that good X is a merit good providing the consumer with more utility than was previously realised. The consumer's income and the prices of goods X and Y are unchanged.

If the consumer behaves rationally, how will he respond to the findings of the research?

	quantity of good X purchased	quantity of good Y purchased
A	decreases	increases
B	increases	decreases
C	increases	unchanged
D	unchanged	increases

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6 The table shows a firm's total and marginal costs.

output	total cost ($)	marginal cost ($)
1	200	20
2	215	15
3	225	10
4	240	15
5	260	20

What is the average fixed cost of producing 6 units?

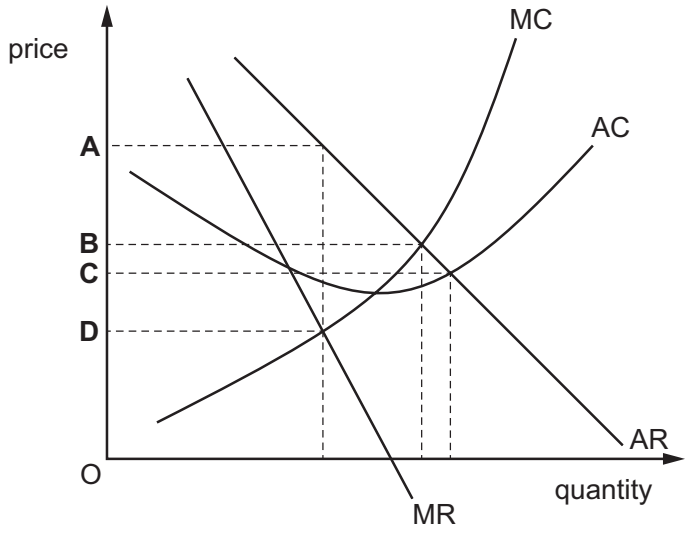
A $20 **B** $30 **C** $180 **D** $200

7 Which combination indicates monopolistic competition?

	freedom of entry	product	demand curve
A	high barriers	differentiated	downward sloping
B	high barriers	unique	downward sloping
C	low barriers	differentiated	downward sloping
D	low barriers	homogenous	horizontal

8 The diagram shows the costs and revenues of a profit-maximising cartel.

What is the equilibrium price?



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9 Diagram 1 shows the total cost curve for a firm. Diagram 2 shows possible marginal cost curves.

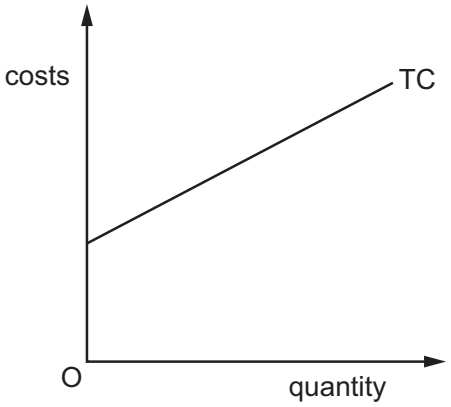


diagram 1

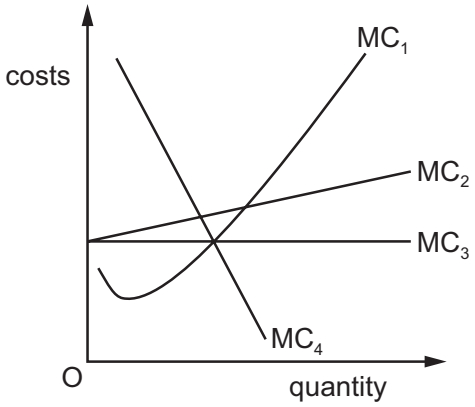


diagram 2

Which marginal cost curve is consistent with the total cost curve?

A MC_1 **B** MC_2 **C** MC_3 **D** MC_4

10 Two manufacturing firms in the same industry, producing similar products, are considering merging together.

What would be the least convincing reason for merging?

A It would enable greater bargaining power when buying raw materials.

B It would enable technical economies of scale.

C It would produce savings in management and administration costs.

D It would reduce the dependence of the firms on the suppliers of raw materials.

11 The following schedule gives information about a firm's costs.

total variable costs	$6400
average fixed costs	$20
average total costs	$100

Which output would be consistent with these costs?

A 32 units **B** 50 units **C** 64 units **D** 80 units

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12 Which objective involves the managers of a firm operating with just enough profit to keep shareholders happy whilst maintaining sales revenue above its profit-maximising level?

A achieving below normal profit

B maximising the quality of the output

C profit satisficing

D sales revenue maximisation

13 Which measure to reduce the abuse of monopoly power is an example of regulation?

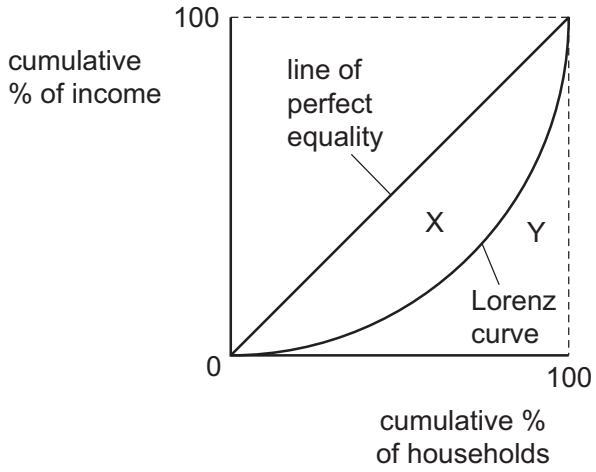
A legislation to forbid price fixing by cartels

B removal of import tariffs

C subsidising small firms

D taxation of monopoly profits

14 The diagram shows a Lorenz curve, with two areas, X and Y, identified.



How is the corresponding Gini coefficient calculated?

A X divided by (X plus Y)

B (X plus Y) divided by X

C (X plus Y) divided by Y

D Y divided by (X plus Y)

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15 Which combination of government policies will be most likely to affect inter-generational equity?

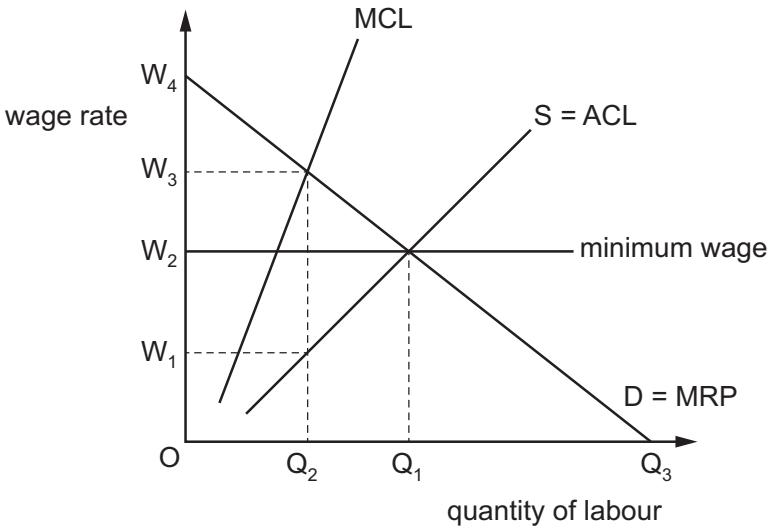
A a fall in overseas aid expenditure and a rise in domestic military spending

B a fall in the top rate of income tax and a rise in the sales tax (VAT) on luxury goods

C a rise in educational maintenance allowances and a fall in state pensions

D a rise in unemployment benefits and a rise in national insurance contributions

16 The diagram illustrates a monopsony labour market in which the government has imposed a minimum wage.



What is the difference between the wage the monopsonist wishes to pay and the wage received by labour?

A W_1W_3 **B** W_1W_2 **C** W_2W_3 **D** W_2W_4

17 Labour is the only variable factor of a profit-maximising firm which is a price-taker in the labour market.

From what is the firm's demand curve for labour derived?

A its marginal factor cost curve

B its marginal revenue curve

C its marginal revenue product of labour curve

D its short-run marginal cost curve

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18 A developing country receiving foreign financial aid is most likely to experience economic growth in the long run if it uses the money to:

A boost welfare benefits for the poorest households.

B pay for imports of capital goods.

C reduce environmental pollution.

D reduce income tax for all households.

19 The Multidimensional Poverty Index uses benchmarks to measure the severity of poverty.

Which country suffers most from deprivation in health and living standards compared with deprivation of education?

	country	deprivation contribution to overall poverty (%)		
		education	health	living standards
A	Bangladesh	28.4	26.1	45.5
B	Burkino Faso	39.0	22.5	38.5
C	Lesotho	14.8	33.8	51.4
D	Yemen	29.5	32.2	38.2

20 Which is the most accurate statement about developing economies?

A A possible dependency on primary products for export revenues means that developing economies are reliant on the industrialised world for manufactured products.

B High levels of capital per head mean that developing economies must rely on overseas trade if they are to achieve higher growth rates.

C High real GDP per head, plus high rates of population growth, reduce the ability of developing economies to increase their standard of living.

D Migration of labour from rural to urban areas is of significance only if it results in labour shortages in the rural economy.

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21 A benefit of foreign direct investment (FDI) is better training for local workers leading to improved human capital and large productivity increases.

A disadvantage is that additional income gained is sent back to the country from which the FDI came.

How would these changes affect the aggregate demand and aggregate supply curves?

	aggregate demand curve	aggregate supply curve
A	shift left	shift left
B	shift right	shift left
C	shift left	shift right
D	shift right	shift right

22 A director becomes redundant as the result of a company merger. His salary was $80 000.

In his first year after redundancy he earns $60 000 in consultancy fees, $10 000 in dividends on shares, and saves $8000 by dismissing his gardener.

What is the resulting change in measured national income in the first year?

A + $70 000 **B** + $60 000 **C** – $80 000 **D** –$18 000

23 What reduces the value of the multiplier?

A an increase in government investment expenditure

B an increase in consumption

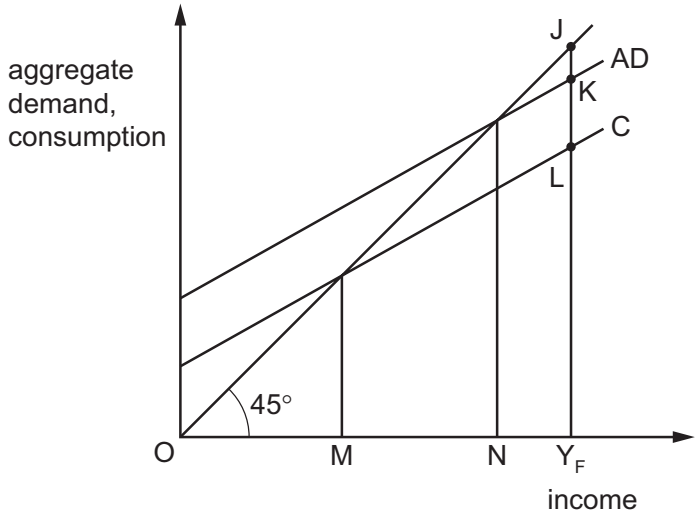
C an increase in the rate of taxation

D an increase in the volume of exports

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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 The table shows national income statistics for an economy.

item	US dollars ($) billion
income from wages	300
consumption expenditure	400
investment expenditure	200
government expenditure	400
value of exports	300
value of imports	400

What is the value of aggregate demand, in billions of dollars?

A 900 **B** 1200 **C** 1300 **D** 2000

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26 What can be deduced directly from the calculation of the national income?

A the balance of payments position

B the pattern of production in the economy

C the distribution of income among the population

D the standard of living in the country

27 Which condition for macroeconomic equilibrium is correct?

A G – T = S + I + X – M

B I – S = G – T + M – X

C M – X = I – S + G – T

D X – M + G = S + I – T

28 What describes a Keynesian measure to reduce cyclical unemployment?

A adopting a supply-side policy to retrain unskilled workers

B allowing the private sector to take over the supply of merit goods

C increasing the ratio of capital equipment to manual labour in production

D using fiscal policy to increase effective demand

29 An economy imports most of the factors of production used in the manufacture of its exported goods.

What effect would depreciation of this economy's rate of exchange have?

	price of imported goods in the domestic currency	price of exported goods in the domestic currency
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

30 Which policy is most likely to lead to a reduction in the natural rate of unemployment?

A an increase in government expenditure on goods and services

B an increase in government expenditure on training schemes to address skill shortages

C an increase in the period when the unemployed are eligible for welfare benefits

D an increase in the minimum wage

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Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question number

Paper 9708/33: Multiple choice answers

1	B	Marginal social cost = marginal private cost + marginal external cost.
2	B	Optimal output is Q2 where MSC = MSB; a subsidy of VW lowers the firm's MPC so it produces Q2.
3	B	Renewable resources like solar energy are not depleted, so their use need not cause market failure.
4	C	Slope = PX ÷ PY; with PX fixed, a fall in the price of Y makes the budget line steeper.
5	B	X now gives more MU per $, so to restore MUX ÷ PX = MUY ÷ PY he buys more X and less Y.
6	B	TFC = 200 − 20 = $180 (TC of first unit minus its MC), so AFC at 6 units = 180 ÷ 6 = $30.
7	C	Monopolistic competition: low barriers to entry, differentiated products and a downward sloping demand curve.
8	A	The cartel produces where MR = MC and charges the price read off AR at that output, which is A.
9	C	TC is a straight line, so the extra cost of each unit is constant: MC is horizontal, MC3.
10	D	Two firms in the same industry are horizontal merger partners; reducing dependence on suppliers needs a backward vertical merger.
11	D	AVC = ATC − AFC = 100 − 20 = $80, so output = TVC ÷ AVC = 6400 ÷ 80 = 80 units.
12	C	Making just enough profit to satisfy shareholders while pursuing other aims is profit satisficing.

Question number		
13	A	Regulation is laws and rules on firm behaviour, such as banning price fixing by cartels.
14	A	Gini = area between the line of equality and the Lorenz curve ÷ total area = X ÷ (X + Y).
15	C	Helping students (younger) at the cost of pensioners (older) shifts resources between generations.
16	B	Unregulated, it employs Q2 (MCL = MRP) paying W1 from ACL; labour receives the minimum wage W2: gap W1W2.
17	C	A profit-maximising firm hires labour up to MRP = wage, so its demand curve for labour is the MRP curve.
18	B	Imports of capital goods raise productive capacity, so LRAS shifts out and long-run growth rises.
19	C	Lesotho: health 33.8% + living standards 51.4% = 85.2%, education only 14.8%, the largest gap.
20	A	Exporting mainly primary products means developing economies must import manufactured goods.
21	C	Repatriated income reduces AD (shift left); better trained, more productive workers shift AS right.
22	D	−80 000 + 60 000 + 10 000 − 8000 (gardener's lost income) = −$18 000.
23	C	A higher tax rate increases the leakage (MPT), so the multiplier 1 ÷ (MPS + MPT + MPM) falls.
24	A	At full employment income YF the deflationary gap is the shortfall of AD below the 45° line: JK.
25	A	AD = C + I + G + (X − M) = 400 + 200 + 400 + (300 − 400) = $900 bn.
26	B	Output by sector, from the output method, shows the pattern of production.
27	C	Injections = withdrawals: I + G + X = S + T + M, which rearranges to M − X = I − S + G − T.
28	D	Cyclical unemployment comes from deficient demand, so Keynesians use

Question number		
		fiscal policy to raise demand.
29	D	Depreciation raises the domestic price of imported inputs, which raises the price of exports made with them.
30	B	Training removes skill mismatches, so structural unemployment and the natural rate fall.