Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2021**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
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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.
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1 What is a necessary condition required to achieve Pareto efficiency?

A when it is not possible for some people to become better off without others becoming worse off

B when it is possible to produce greater output with the same quantity of inputs

C when resources have spare capacity

D when resources can be re-allocated and total consumer satisfaction can be increased

2 What is an example of a negative externality?

A the non-provision of public goods by the market

B indirect taxation that fails to internalise the external cost

C monopoly power leading to reduced output and a higher price

D the production of a good that has a harmful effect on a third party

3 A government deregulates several industries with the aim to increase allocative and productive efficiency.

Which change makes it **less** likely that the government will meet its aim?

A an increase in the availability of cheap loans to start new businesses

B an increase in merger and takeover activity in the industries

C an increase in information about prices for consumers available on the internet

D a reduction in fixed costs in the deregulated industries

4 A rational consumer maximises satisfaction by buying three units of good X and four units of good Y which are the same dollar price.

What does this indicate?

A Marginal utility per dollar spent is equal for both goods.

B The total utility of 3X is equal to the total utility of 4Y.

C The consumer should buy one more unit of good X to maximise utility.

D Good Y has greater marginal utility than good X.

5 What does a budget line on an indifference curve diagram show?

A the amount that a household has available to spend plotted against time

B the combinations of two goods that can be purchased when all income is spent

C the difference between a government's income and expenditure plotted against time

D the relationship between the price of a good and the amount demanded

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6 Firm X, which currently specialises in producing cars, takes over firm Y, which owns a number of car retail outlets.

How may this be described?

A horizontal integration

B the formation of a cartel

C vertical integration backwards

D vertical integration forwards

7 In large cities there are streets where many sellers of similar hot foods compete for sales.

Which type of market structure does this represent?

A monopoly

B monopolistic competition

C oligopoly

D perfect competition

8 A firm always operates with economies of scale in the long run.

What is the shape of its long-run average cost curve?

A It is horizontal.

B It is 'U' shaped.

C It slopes downwards.

D It slopes upwards.

9 A multinational firm seeks to minimise costs and maximise profits.

What would **least** assist the multinational to achieve these objectives?

A achieving a near monopoly status to control outputs and prices

B locating the firm's home base in a country with a low level of corporation tax

C operating as a member of a cartel with production quotas

D owning subsidiary firms in different countries to achieve economies of scale

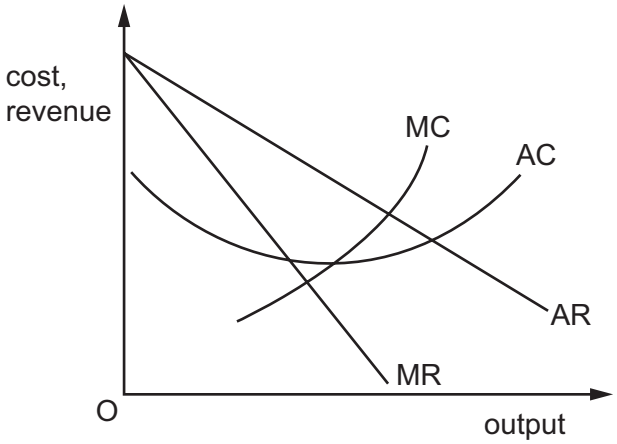
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10 What is the most likely combination of income elasticity of demand and price elasticity of demand that explains why a firm can make higher profits in specialised luxury product markets?

	income elasticity of demand	price elasticity of demand
A	high	high
B	high	low
C	low	high
D	low	low

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



The firm embarks on a single 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

12 In which circumstances are a firm's objectives most likely to differ from profit maximisation?

A when a firm finances new investment largely by retained profits

B where firms are companies with very active shareholders

C where investment banks make takeovers easy to implement

D when a firm has many shareholders and is managed by employees

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13 Which combination of policies is most likely to reduce the inequality of the income distribution?

	direct tax	indirect tax	availability of benefit
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

14 To tackle pollution, some governments set standards, such as production limits, while others use tradeable pollution permits.

What is a correct comparison of the two approaches?

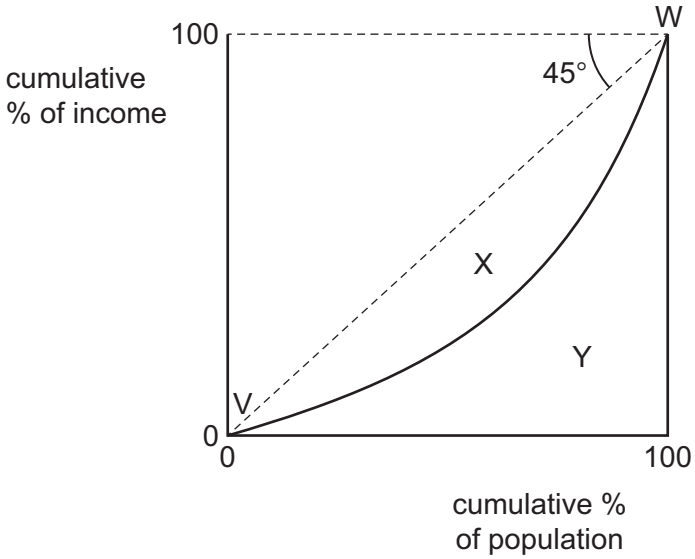
A Standards give more incentive for continued pollution reduction.

B Standards make greater use of the market mechanism.

C Tradeable pollution permits are simpler to devise and administer.

D Tradeable pollution permits provide a more equitable treatment of firms.

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



The area of Y is three times bigger than the area of X.

What is the value of the economy's Gini coefficient?

A $\frac{1}{3}$ **B** $\frac{1}{4}$ **C** $\frac{3}{4}$ **D** $\frac{4}{3}$

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16 What will **not** shift the demand curve for labour to the right?

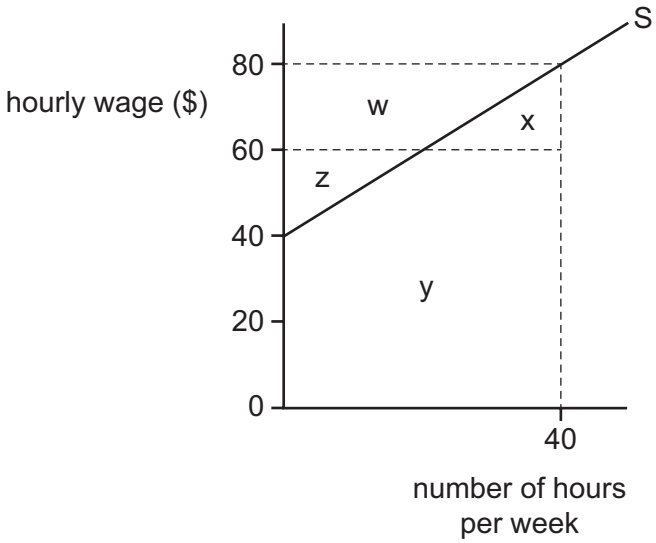
A improvement in marginal productivity of labour

B increase in demand for the product

C increase in the price of the product

D increase in the wage rate

17 The diagram shows an individual's supply of labour curve.



He is offered a job which would require him to work a standard 40-hour week.

Which area measures the amount he would need to get him to accept this job offer?

A w + z **B** x + y **C** x + y – z **D** w + x + z + y

18 The aggregate demand in country X is calculated by the equation AD = C + I + (X – M).

Four students are asked to fill in the two gaps in the following sentence describing the economy of country X.

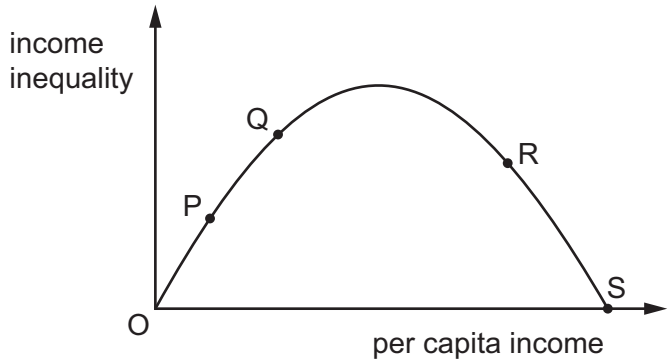
'Country X is .....1..... economy .....2..... a government.'

Which student is correct?

	gap 1	gap 2
A	a closed	with
B	a closed	without
C	an open	with
D	an open	without

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19 The diagram shows the Kuznets curve.



Which statement is correct with respect to the description of an economy and the corresponding letter on the Kuznets curve?

A P is a market economy.

B Q is a developed economy.

C R is a developing economy.

D S is an economy with a Gini coefficient = 0.

20 When measuring the value of total output of a country, economists use the concept of value added.

What could explain this?

A They want to avoid double counting.

B They want to avoid the impact of inflation.

C They want to find the value of the hidden economy.

D They want to include indirect taxes and subsidies.

21 A government uses personal disposable income per head as a measure of the standard of living.

What does this measure **not** take into account?

A changes in the average price level

B the level of direct taxation

C the level of national income

D the size of the population

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22 Which policy would be most likely to increase employment?

A decreasing duties on imports

B decreasing unemployment benefits

C increasing income tax

D increasing interest rates

23 Low income countries that approached the IMF for loan assistance were usually required to introduce structural adjustment programmes (SAPs) which involve policies to promote a free-market economy.

Which action would have been included in a SAP?

A deregulation of agricultural markets

B extension of food subsidies

C nationalisation of water supply

D restrictions and regulations on the flow of international capital

24 In a closed economy with no government there is an initial equilibrium level of national income of $500 billion. The economy's households always spend a constant fraction of every $1 of income they receive. When investment spending increases by $20 billion the economy moves to a new equilibrium level of national income of $600 billion.

What is the marginal propensity to consume of the economy's households?

A 0.20 **B** 0.80 **C** 0.83 **D** 1.00

25 The Keynesian theory states that the demand for money (M^d) is influenced by the personal level of income (L_1) and by the rate of interest (L_2) so that

$$M^d = L_1 (Y) + L_2 (r)$$

What do L_1 and L_2 represent in the aggregate demand for money function?

	L_1	L_2
A	precautionary motive	transactions motive
B	speculative motive	transactions and precautionary motives
C	transactions and precautionary motives	speculative motive
D	transactions motive	precautionary motive

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26 What are the assumptions made by Keynesians in relation to wages and investment?

	wages	investment
A	flexible	interest rates elastic
B	flexible	interest rates inelastic
C	not flexible	interest rates elastic
D	not flexible	interest rates inelastic

27 What are the characteristics of most developing economies?

	ratio of government debt to GDP	average propensity to save
A	high	high
B	high	low
C	low	high
D	low	low

28 Money given by the US government to certain African countries to fight AIDS/HIV requires their governments to purchase expensive drugs from the US rather than cheaper products from South Africa, India or Brazil.

What is this an example of?

A bilateral aid

B debt relief

C multilateral aid

D tied aid

29 Why do economists draw a distinction between economic development and economic growth?

A because a country's stage of economic development depends on its level of output rather than its growth rate

B because it is the allocation rather than the overall level of a country's resources which determines its economic well-being

C because of the concern about quality of life rather than quantity of output

D because the prime determinant of economic development is investment rather than consumption

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30 In an economy operating below full employment, which combination of changes will definitely result in an increase in national income?

A a fall in the rate of taxation together with a rise in the saving rate

B a rise in government expenditure together with a fall in the propensity to import

C a rise in investment expenditure together with a rise in the rate of taxation

D a rise in the propensity to save together with a rise in exports

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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	A	Pareto efficiency: no one can be made better off without making someone else worse off.
2	D	A negative externality is a harmful effect on a third party not involved in the transaction.
3	B	More mergers and takeovers reduce competition and raise market power, so efficiency is less likely to improve.
4	A	Utility is maximised where MU ÷ P is equal for both goods (equi-marginal principle).
5	B	A budget line shows every combination of two goods the household can buy when all income is spent.
6	D	A car producer buying car retail outlets moves forward, towards the consumer: forward vertical integration.
7	B	Many sellers of similar but differentiated hot food with easy entry and exit: monopolistic competition.
8	C	With economies of scale at every output, long-run average cost keeps falling, so LRAC slopes downwards.
9	C	Cartel production quotas restrict output, so the firm cannot expand to cut costs or grow profit by itself.
10	B	High YED means demand grows strongly with income; low PED lets the firm raise price without losing many sales.
11	B	Advertising raises demand (AR and MR shift right); it is a fixed cost, so AC shifts up but MC is unchanged.
12	D	Many shareholders and employee managers separate ownership from control,

Question number		
		so managers may pursue other goals.
13	C	More direct (progressive) tax, less indirect (regressive) tax and more benefits all redistribute towards the poor.
14	D	Permits let firms that cut pollution cheaply sell spare permits, treating firms more equitably than blanket limits.
15	B	Gini = X ÷ (X + Y) = X ÷ (X + 3X) = 1/4.
16	D	A change in the wage rate causes a movement along the labour demand curve, not a shift of it.
17	B	He must earn at least his transfer earnings, the area under the supply curve up to 40 hours: x + y.
18	D	C + I + (X − M) has exports and imports (open) but no G term, so there is no government.
19	D	At S the Kuznets curve is back at zero on the inequality axis, so income is perfectly equal: Gini = 0.
20	A	Counting only the value added at each stage stops intermediate goods being counted more than once.
21	A	Personal disposable income per head is a nominal figure, so it ignores changes in the price level.
22	B	Lower unemployment benefits raise the incentive to search for and accept work, so employment rises.
23	A	SAPs promote free markets: deregulation; the other options increase state intervention.
24	B	Multiplier = ΔY ÷ ΔI = 100 ÷ 20 = 5 = 1 ÷ (1 − MPC), so MPC = 1 − 0.2 = 0.80.
25	C	L1 depends on income: transactions and precautionary motives; L2 depends on the interest rate: speculative motive.
26	D	Keynesians assume wages are sticky (not flexible) and investment is interest inelastic.

Question number		
27	B	Developing economies tend to have high government debt relative to GDP and low incomes, so a low propensity to save.
28	D	The aid comes with a condition to buy from the donor country, so it is tied aid.
29	C	Development is about quality of life (health, education, freedom), not just the quantity of output (growth).
30	B	Higher G is an injection and a lower propensity to import cuts a withdrawal and raises the multiplier, so Y rises.

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1 Which statement best defines productive efficiency?

A It is not possible to increase profits by changing the level of production.

B It is not possible to make anyone better off without others becoming worse off.

C It is not possible to produce the level of output at a lower unit cost.

D It is not possible to produce outside the production possibility curve.

2 Medical researchers indicated that drinking too many sugary drinks is bad for health.

Government intervention to impose a tax on the sale of sugary drinks might help solve which market failures?

	negative externalities of consumption	negative externalities of production	over-consumption of demerit goods
A	no	yes	yes
B	yes	yes	no
C	yes	no	yes
D	yes	no	no

3 A government uses a cost–benefit analysis approach to infrastructure projects. It is considering building a new railway to link a city centre to its airport. It estimates the following.

	$ billion
private costs	1.0
social costs	1.7
private benefits	0.5
external benefits	1.8

What should the government decide and why?

	decision	reason
A	do not proceed	total costs exceed external benefits
B	do not proceed	total costs exceed total benefits
C	proceed	private costs exceed private benefits
D	proceed	social benefits exceed social costs

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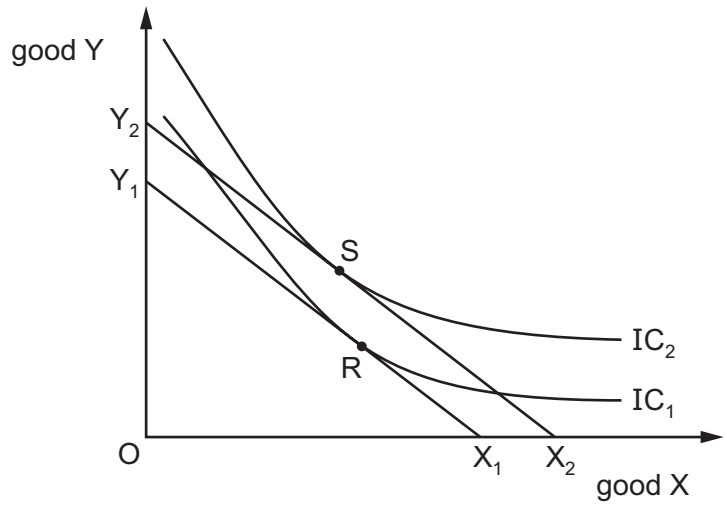
4 A consumer currently consumes 10 units of good X and 10 units of good Y at point Z on an indifference curve.

The consumer's marginal utilities from consuming both good X and good Y are positive.

Which combination of good X and good Y could be on the same indifference curve as point Z?

	units of good X	units of good Y
A	9	11
B	10	11
C	11	10
D	12	12

5 The diagram shows two indifference curves and two budget lines for goods X and Y. The consumer's initial equilibrium is point R.



There is a shift in the budget line from Y_1X_1 to Y_2X_2 and the new equilibrium for the consumer is point S.

What can definitely be concluded about good X?

A It is a Giffen good.

B It is an inferior good.

C It is a normal good.

D It is a public good.

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6 What are the correct formulae for calculating average cost (AC) and average revenue (AR)?

	AC	AR
A	$\frac{TC}{MC}$	$\frac{TR}{MR}$
B	$\frac{TC}{P}$	$P \times Q$
C	$\frac{TC}{Q}$	$\frac{TR}{Q}$
D	$\frac{TC}{Q}$	$\frac{TR}{P}$

key
MC = marginal cost
MR = marginal revenue
P = price
Q = quantity
TC = total cost
TR = total revenue

7 What is **always** present in monopolistic competition and perfect competition in the long run?

A average revenue = average costs

B average revenue = marginal revenue

C average costs = marginal costs

D average costs = marginal revenue

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 What will happen to an industry's supply curve if firms leave the industry?

A It will shift to the left at any given price.

B It will shift to the right at any given price.

C There will be a downward movement along the supply curve.

D There will be an upward movement along the supply curve.

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10 Which characteristic of a market is a reason for a firm to remain small?

A The minimum efficient scale is high.

B The potential for x-inefficiency is high.

C There are significant economies of scale.

D There is limited access to financial capital.

11 What is an example of the principal–agent problem?

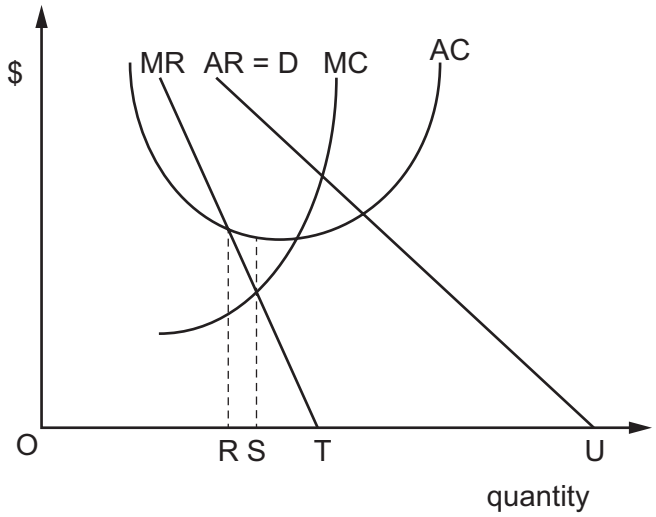
A the disincentive effect for entrepreneurs of high government tax rates

B the existence of a trade union to put forward workers' views to managers

C the lack of consumer knowledge of the quality of firms' products

D the separation of the owners of a firm from the firm's managers

12 The diagram shows a firm in imperfect competition.



It changes its objective from profit maximisation to revenue maximisation.

What effect will this have on the firm's output?

A decreases from T to R

B decreases from U to T

C increases from S to T

D increases from S to U

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13 Which statement explains why a government decides to increase the highest rates of tax on personal income?

A It expects total tax revenue to be unaffected by the policy change.

B It is concerned about the possibility of emigration by some high earning individuals.

C It regards equity considerations as being more important than efficiency ones.

D It wishes to switch the emphasis of its tax system from direct to indirect taxation.

14 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

15 An economy requires large inputs of steel for its building programmes. After political pressure, the government imposes a minimum price on imported foreign steel.

When would this intervention lead to economic inefficiency?

A when it encourages domestic steel producers to achieve economies of scale

B when it prevents dumping of low-grade steel

C when it protects jobs of highly productive steel workers

D when it reduces competition for steel workers

16 What happens to economic rent and transfer earnings if the supply of labour becomes perfectly inelastic?

A economic rent decreases; transfer earnings increase

B economic rent decreases; transfer earnings stay the same

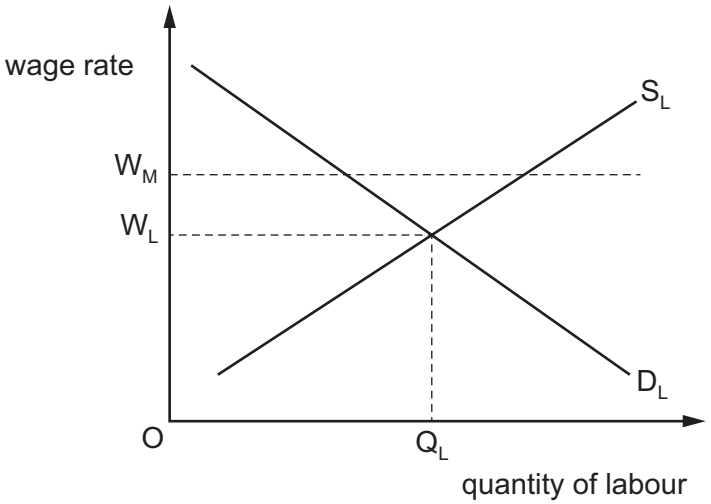
C economic rent increases; transfer earnings decrease

D economic rent stays the same; transfer earnings decrease

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17 The diagram shows the effect of the introduction of a minimum wage (W_M) in the labour market.



When would such a minimum wage be **least** beneficial to workers who are currently employed?

A if demand for the product increases

B if the elasticity of demand for the workers were high

C if the elasticity of supply for the workers were high

D if the productivity of the workers were to increase

18 Which statement about economic growth is **not** correct?

A Economic growth creates costs as well as benefits.

B Long-term economic growth is measured by calculating the percentage increase in GDP for one year.

C Short-term economic growth can be represented by a shift from a point within a production possibility curve to a point on the curve.

D Sustainable economic growth is growth that does not reduce the resources available to future generations.

19 Why is real GDP per head thought to be an imperfect measure of welfare in developed economies?

A frequent government manipulation and misuse of data

B no account is taken of inflation

C the restricted scope of the data's content and coverage

D the shadow economy is greater than the official economy

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20 What changes are most likely to reduce the level of income inequality in an economy?

A additional government regulation of product and factor markets

B increased progressive direct taxation and decreased indirect taxation

C increased trade union power and reduced labour market flexibility

D reduced welfare benefits and increased rate of interest

21 The table gives labour market statistics for Malaysia for January to March 2019.

	number of people
employed	15m
unemployed	0.5m
not available for work	7m
population of working age	23m

What is the size of Malaysia's labour force?

A 15m **B** 15.5m **C** 22m **D** 22.5m

22 What would encourage industrial expansion in a region of high unemployment?

A a rationing system for building development in that region

B an increase in taxes on investment

C a requirement that only local labour may be employed

D an end to nationally negotiated wage rates

23 An island economy has a small manufacturing base, limited mineral resources and limited agricultural land.

Which development is **most** likely to lead to sustainable growth?

A building larger fishing boats to allow fishermen to enjoy economies of scale

B clearing rainforest to create agricultural land for the production of much needed foodstuffs

C training farmers and agricultural workers in new production methods to increase crop yields

D using its domestic mineral resources to give a rapid increase to manufacturing output

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24 The information in the table is taken from a country's national income accounts.

income	$ (millions)
wages	8000
salaries	7000
unemployment benefit	1000
government pensions	1000
rent	3000
interest	2000

What is the value of national income in millions of dollars?

A 17 000 **B** 19 000 **C** 20 000 **D** 21 000

25 In a closed economy with no government sector the marginal propensity to consume is 0.6 at all levels of income. There is an increase in private sector investment of $100 million.

What will be the increase in national income?

A $60 million **B** $100 million **C** $166 million **D** $250 million

26 According to liquidity preference theory, which money balances are responsive to a change in the interest rate?

	active balances	idle balances
A	no	yes
B	no	no
C	yes	yes
D	yes	no

27 The bank cash deposit ratio changed from 5% to 10%.

What will be the result?

A Bank deposits will fall by 10%.

B Banks deposits will rise by 5%.

C The credit multiplier will fall by 50%.

D The credit multiplier will increase by 5%.

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28 In a developing economy, which policy is most likely to increase the rate of economic growth but restrict economic development?

A an increase in the provision of healthcare facilities

B an increase in the school leaving age

C a removal of health and safety regulations

D the promotion of export-led growth

29 Which policy is most likely to conflict with a government's aim of price stability in the short run?

A increasing spending on education and health

B increasing the basic rate of income tax

C limiting wage increases in the public sector

D preventing mergers of large companies

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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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	Productive efficiency: output is produced at the lowest possible unit (average) cost.
2	C	Sugary drinks harm third parties (health costs) and are over-consumed demerit goods; no production externality is given.
3	D	Social benefits = 0.5 + 1.8 = $2.3bn > social costs $1.7bn, so net social benefit is positive: proceed.
4	A	With positive MU of both goods, less X must be offset by more Y to keep utility the same: 9X and 11Y.
5	B	The budget line shifts out in parallel (income rises) but consumption of X falls from R to S, so X is inferior.
6	C	AC = TC ÷ Q and AR = TR ÷ Q.
7	A	In the long run both structures earn only normal profit, so AR = AC.
8	C	Profit is maximised where MR = MC; revenue is maximised where MR = 0, so MC must equal zero.
9	A	Fewer firms means less output at every price, so the industry supply curve shifts left.
10	D	Without access to finance a firm cannot fund expansion, so it stays small.
11	D	Owners (principals) employ managers (agents) whose goals may differ from profit maximisation.
12	C	Profit maximisation is where MR = MC (output S); revenue maximisation is where MR = 0 (output T): output rises.
13	C	Higher top tax rates redistribute income towards fairness even if they reduce incentives, so equity is put first.

Question number		
14	B	Lost benefits plus income tax take most of any extra earnings, so there is little gain from working more: the poverty trap.
15	D	A minimum import price shields domestic producers from competition, so they have less pressure to be efficient.
16	C	With perfectly inelastic supply all earnings are economic rent; transfer earnings fall to zero.
17	B	If labour demand is elastic, the higher wage causes a large fall in employment, so many current workers lose jobs.
18	B	Long-term growth is a rise in potential output measured over many years, not the GDP change in one year.
19	C	Real GDP per head leaves out leisure, the environment, unpaid work and income distribution, so it is limited in scope.
20	B	Progressive taxes take more from the rich and lower regressive indirect taxes help the poor most.
21	B	Labour force = employed + unemployed = 15m + 0.5m = 15.5m.
22	D	Ending national wage rates lets wages fall where unemployment is high, so labour is cheaper and firms expand there.
23	C	Training raises productivity using existing land without depleting resources, so growth can be sustained.
24	C	National income = 8000 + 7000 + 3000 + 2000 = $20 000m; benefits and pensions are transfer payments, so excluded.
25	D	$k = 1 \div (1 - 0.6) = 2.5$. $\Delta Y = 2.5 \times \$100m = \$250m$.
26	A	Active (transactions, precautionary) balances depend on income; idle (speculative) balances respond to interest rates.
27	C	Credit multiplier = 1 ÷ ratio: 1 ÷ 0.05 = 20 falls to 1 ÷ 0.1 = 10, a fall of 50%.
28	C	Removing safety rules may lower costs and raise output, but worsens workers' health and welfare, restricting development.

Question number		
29	A	More spending on education and health raises aggregate demand, adding to inflationary pressure in the short run.
30	D	Removing tariffs raises imports, cutting the surplus, and cheaper imports and more competition lower inflation.

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/33**

Paper 3 Multiple Choice **October/November 2021**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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

INSTRUCTIONS

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

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **12** pages.

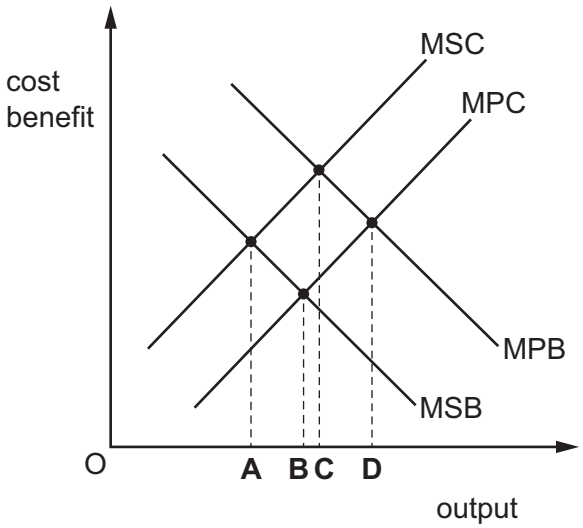
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1 The diagram shows the private and social marginal costs and benefits of a demerit good.

What is the socially optimal level of output?



2 Why are public goods an example of market failure?

A Producers undervalue the benefits of a public good.

B Public goods have high fixed costs of production.

C The non-excludability of a public good leads to the free rider problem.

D When a public good is consumed by one person, it is not available to others.

3 A government plans to build a new railway line. One proposed route will pass close to residential areas causing increased noise levels. An alternative shorter route will pass through a nature reserve causing environmental damage but saves travel time for rail users.

In using cost–benefit analysis, which combination shows what should be included as private cost (PC) and what should be included as external costs (EC)?

	the cost of building the railway line	the increased noise levels
A	EC	PC
B	EC	EC
C	PC	EC
D	PC	PC

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4 What is held constant when deriving an individual consumer's downward-sloping demand curve for a product?

A marginal utility

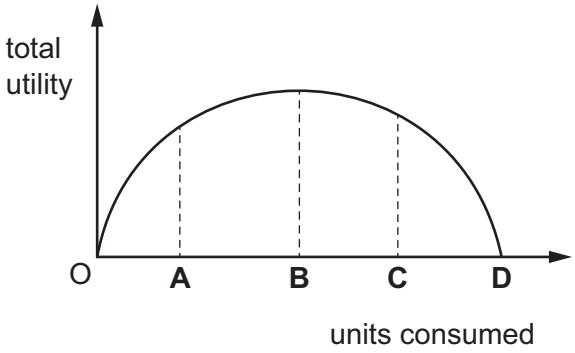
B the consumer's income

C the price of the product

D total utility

5 The diagram shows an individual's total utility curve as different quantities of a good are consumed.

At which level of consumption does the individual's marginal utility become zero?



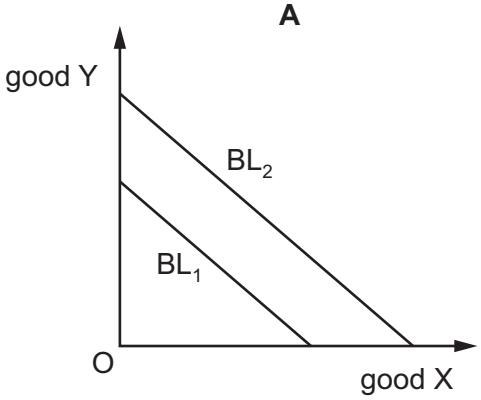
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6 The diagrams show changes in a consumer's budget line (BL) for two goods.

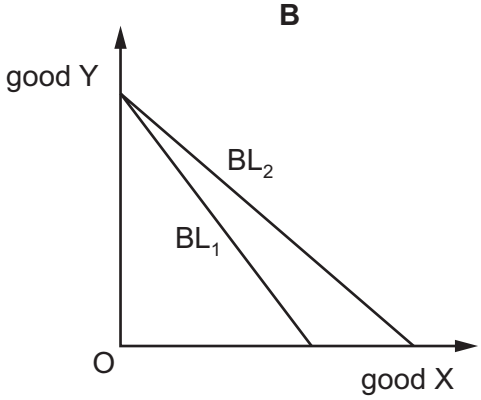
The government increases the price of both goods by imposing a sales tax of 25%.

Which diagram shows the effect of this tax?

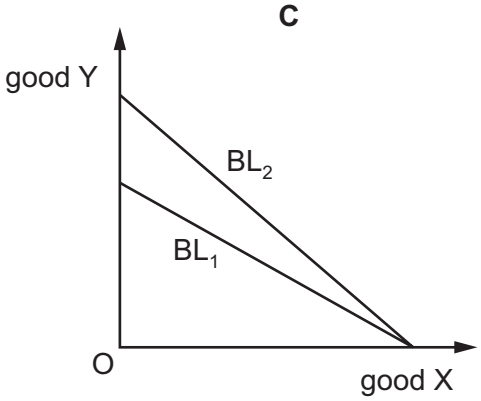
A



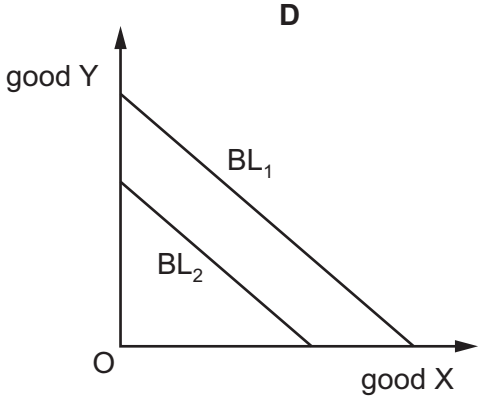
B



C



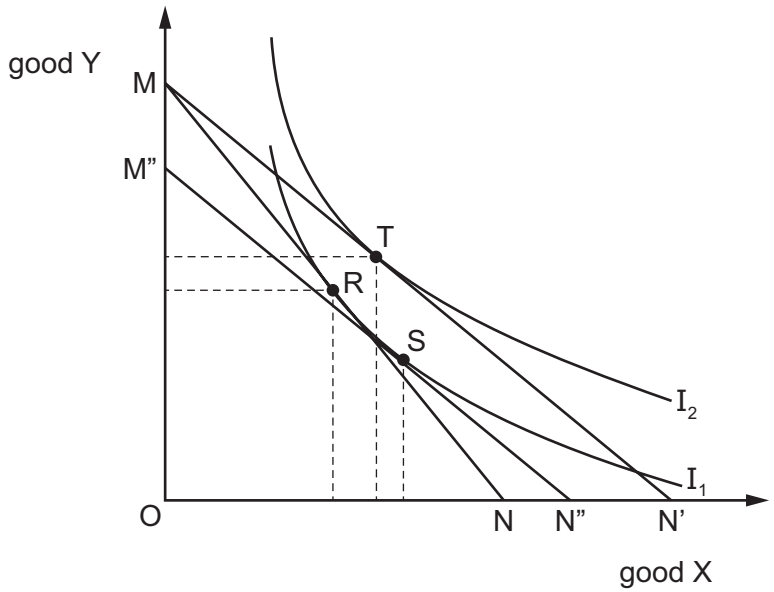
D



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7 A consumer demands two goods, X and Y. The consumer's initial equilibrium is at R and final equilibrium at T. The indifference curve diagram shows the effect of a fall in the price of good X and the resulting income and substitution effects.



What can be concluded from the diagram about the nature of good X and the nature of its relationship with good Y?

	nature of good X	relationship between good X and good Y
A	inferior	complements
B	inferior	substitutes
C	normal	complements
D	normal	substitutes

8 A perfectly competitive firm is producing a level of output where average cost is lower than marginal cost.

What are the effects on these costs if output increases by one unit?

	average cost	marginal cost
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

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9 What is most likely to pose a threat to the survival of small local bread producers?

A an increase in the cost per minute of television advertising

B a switch in consumer preferences to cheaper mass-produced bread

C diseconomies of scale in the process of bread production

D increased congestion on road networks

10 Firms in a market advertise their products with different brand names. Some make more profit than others in the short run but all make normal profit in the long run.

Which market structure is this?

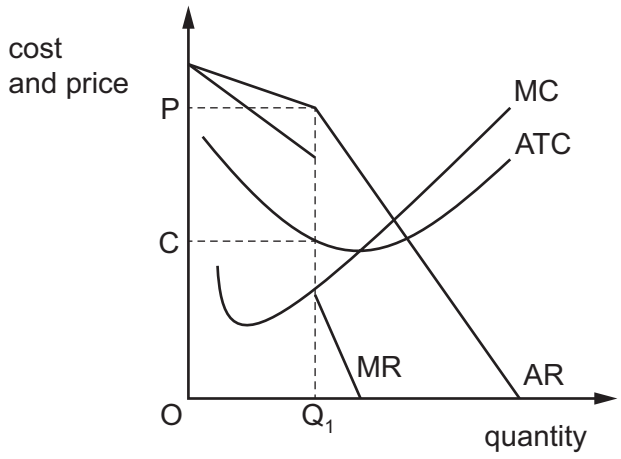
A perfect competition

B monopolistic competition

C oligopoly

D monopoly

11 The diagram shows the marginal cost (MC), marginal revenue (MR), average revenue (AR) and average total cost (ATC) curves of a profit-maximising firm in an oligopolistic market.



What is the reason why the oligopolist would **not** want to increase their price above P?

A Demand is relatively elastic, meaning the firm would see a reduction in total revenue.

B Demand is relatively elastic, meaning the firm would see an increase in total revenue.

C Demand is relatively inelastic, meaning the firm would see a reduction in total revenue.

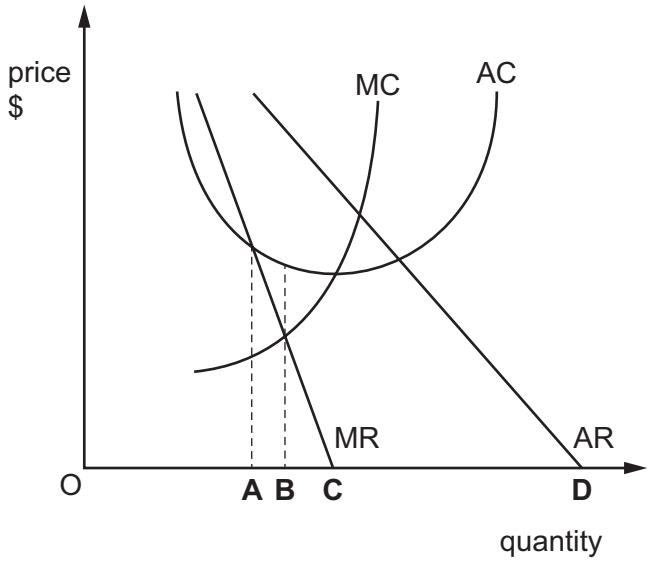
D Demand is relatively inelastic, meaning the firm would see an increase in total revenue.

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12 The diagram shows the cost and revenue curves for a firm in an imperfectly competitive market.

What is the revenue maximising output of the firm?



13 Governments introduce different policies to achieve a more efficient use of energy.

Which policy is **least** likely to achieve this objective?

A a limit to the amount by which energy prices can increase

B an increase in the tax on energy usage

C energy pricing policies that reflect the full social costs of energy use

D subsidies to suppliers of products designed to save energy

14 A report in the UK suggests that means-tested benefits (benefits that are paid depending on income) should be introduced for benefit payments to the elderly and that any money saved should be used to pay means-tested benefits to young adults. This is because some elderly people now have high levels of real income.

Which outcome is **most** likely?

A Equality amongst young adults will decrease.

B Equality amongst the elderly will decrease.

C Intergenerational equality will increase.

D There will be an increase in transfer payments.

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15 What is defined as 'the payment made to a factor of production over and above that necessary to keep the factor in its present use'?

A economic rent

B normal profit

C opportunity cost

D transfer earnings

16 As the number of workers employed by a firm increases, the marginal product of labour decreases but remains positive.

What happens to the firm's total output?

A It stops increasing.

B It increases at a constant rate.

C It increases at a falling rate.

D It increases at a rising rate.

17 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

18 What does an output gap show?

A the difference between actual output and long-run potential output

B the difference between actual output and output when labour is fully employed

C the difference between the maximum output in a boom and the minimum output in a recession

D the difference between the minimum output in a boom and the maximum output in a recession

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19 GNP per head in a country has increased by 10% over the past 5 years.

What is **not** a valid reason to doubt whether average living standards have also risen by the same amount?

A The distribution of income may have changed considerably over the period.

B The general price level is likely to have changed over the period.

C The size of the population may have changed over the period.

D The workforce may have produced greater output by working for more hours per week.

20 The Human Development Index is a measure of economic development.

What is included in this index?

	child mortality per thousand population	GNI per capita at $PPP	life expectancy at birth	mean years of schooling
A	✓	✗	✓	✓
B	✓	✓	✗	✗
C	✓	✗	✓	✓
D	✗	✓	✓	✓

21 What would increase structural unemployment in the manufacturing sector of the US?

A Asian exporters of manufactured goods to the US experience a fall in labour costs per unit of output.

B Tariffs on Asian manufacturing imports increase.

C The percentage of US manufacturing employees belonging to a trade union falls.

D The US dollar's real effective exchange rate against the Asian currencies falls.

22 Governments have a range of policy options available to them to reduce unemployment.

Which statement is correct?

A A government cannot reduce seasonal unemployment.

B Changing interest rates is the best way a government can reduce the natural rate of unemployment.

C Changing the exchange rate will not reduce demand-deficient unemployment.

D Supply-side policies can be used by a government to reduce frictional unemployment.

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23 What is **not** considered to be an injection into the circular flow of income of an economy?

A a rise in exports of financial services

B firms investing in new production techniques

C increased government spending on health services

D spending on hotels and entertainment by tourists visiting another country

24 The table shows the nominal GDP growth rate and annual 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.

25 What identifies net injections into a country's circular flow of income?

	I > S	X < M	G < T
A	yes	no	no
B	yes	no	yes
C	no	yes	no
D	no	yes	yes

26 In a closed economy with no government there is an equilibrium level of national income of $1000 billion. The households always spend 80% of the income they receive.

If full employment occurs when national income is $1200 billion, by how much must aggregate demand initially change to close the economy's deflationary gap?

A –$200 billion **B** –$40 billion **C** +$40 billion **D** +$200 billion

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27 According to Keynesians, the demand for money is negatively correlated with the interest rate.

Which motive for holding money best accounts for this relationship?

A income motive

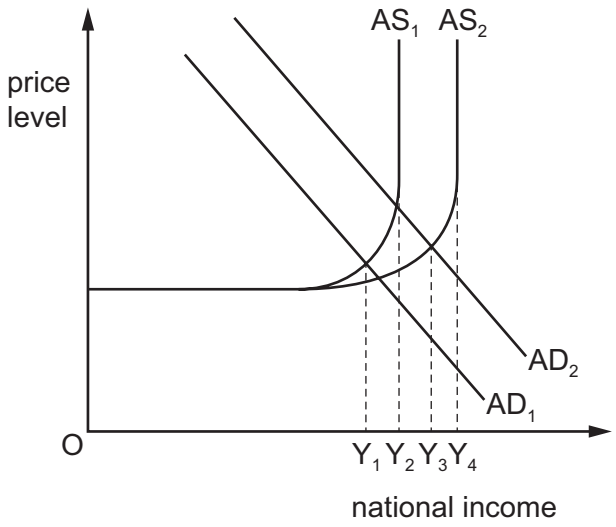
B precautionary motive

C speculative motive

D transactionary motive

28 The diagram shows aggregate demand (AD) and aggregate supply (AS).

There is a change from AD_1 to AD_2 and from AS_1 to AS_2.



As a result, the equilibrium level of national income changes from:

A Y_1 to Y_3. **B** Y_1 to Y_4. **C** Y_2 to Y_3. **D** Y_2 to Y_4.

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29 The table gives an economy's unemployment rate and inflation rate for a five-year period.

year	unemployment rate %	inflation rate %
2010	7.6	2.6
2011	6.2	1.6
2012	5.8	1.8
2013	5.9	2.0
2014	5.8	2.0

Which change between consecutive years was in agreement with the Phillips curve analysis?

A 2010–2011

B 2011–2012

C 2012–2013

D 2013–2014

30 The Consumer Prices Index (CPI) fell by 3% in a year. Unemployment was regarded as unacceptably high.

Which combination of policies would a government be most likely to adopt in such circumstances?

A an appreciation of the currency, together with an increase in the rate of interest

B increased government expenditure on education, together with an increase in taxes to pay for it

C increased indirect taxes, together with a depreciation in the exchange rate

D reduced income taxes, together with a cut in the rate of interest

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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 9708/33: Multiple choice answers

1	A	The socially optimal output is where MSB = MSC, which is at output A.
2	C	Non-excludability means people can benefit without paying (free riders), so the market under-provides or does not provide.
3	C	Building costs are paid by the provider (private cost); noise falls on local residents (external cost).
4	B	A demand curve shows quantity at each price with income, tastes and other prices held constant.
5	B	Marginal utility is zero where total utility is at its maximum, at B.
6	D	Both prices rise by 25%, so the budget line shifts inwards in parallel, from BL1 to the lower BL2.
7	A	Income effect S to T reduces X, so X is inferior; overall more Y is bought (T above R) as X gets cheaper, so complements.
8	D	MC above AC pulls AC up, so AC rises; MC is rising on its upward-sloping section, so MC rises too.
9	B	Cheaper mass-produced bread takes demand away from small local producers who cannot match its low costs.
10	B	Branded (differentiated) products with short-run supernormal profit but only normal profit in the long run.
11	A	Kinked demand: rivals do not follow a price rise, so demand above P is relatively elastic and total revenue falls.
12	C	Revenue is maximised where MR = 0, which is output C.
13	A	Capping energy price rises keeps energy cheap, so there is less incentive to use it efficiently.

Question number		
14	C	Benefits move from wealthy elderly people to poorer young adults, so equality between generations increases.
15	A	Economic rent is the payment above transfer earnings, the minimum needed to keep a factor in its current use.
16	C	Each extra worker adds a smaller but positive amount, so total output rises at a falling rate (diminishing returns).
17	C	Higher wages in similar jobs elsewhere attract workers out of the industry, so labour supply shifts left.
18	A	The output gap is the difference between actual output and potential (trend) output.
19	C	GNP per head already divides by population, so a change in population is not a valid reason for doubt.
20	D	HDI combines GNI per capita at PPP, life expectancy at birth and mean (and expected) years of schooling; not child mortality.
21	A	Cheaper Asian manufactured imports replace US output, so US manufacturing jobs are lost permanently: structural.
22	D	Supply-side measures, eg better job information and job centres, cut search time and so reduce frictional unemployment.
23	D	Domestic tourists spending abroad is spending on imports, which is a withdrawal, not an injection.
24	A	Real growth ≈ nominal growth − inflation: W 2.1 − 1.9 = +0.2%, all others negative (X −10.5, Y −1.7, Z −18.4).
25	A	Net injection when injections exceed withdrawals: $I > S$, and not $X < M$ or $G < T$.
26	C	$k = 1 \div (1 - 0.8) = 5$. Gap = 1200 − 1000 = \$200bn, so AD must rise by $200 \div 5 = +\$40$bn.
27	C	Speculative demand for money falls as interest rates rise (higher opportunity cost, bond prices expected to fall).

Question number		
28	A	Equilibrium moves from AD1 meeting AS1 at Y1 to AD2 meeting AS2 at Y3.
29	B	Phillips curve: unemployment and inflation move in opposite directions; 2011 to 2012 unemployment fell (6.2 to 5.8) and inflation rose (1.6 to 1.8).
30	D	With deflation and high unemployment, expansionary fiscal (tax cuts) and monetary (lower interest rates) policies raise AD.