Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

Paper 3 Multiple Choice **February/March 2018**

1 hour 15 minutes

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

0538215574

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **10** printed pages and **2** blank pages.

© UCLES 2018

1 In cost-benefit analysis the term net social benefit refers to

A private benefit plus social benefit.

B social benefit minus private benefit.

C social benefit minus private cost.

D social benefit minus social cost.

2 A government school is built by private builders in a residential neighbourhood. The builders ignore the effects of noise and disturbance.

Why does a free market fail to take into account these external costs of building the school?

A Education is a public good which benefits society.

B Few people who live near the school object to the building.

C The government believes schools should be built privately.

D These costs are not paid for by the builders.

3 In all market structures, what must firms equate to ensure allocative efficiency?

A average cost and average revenue

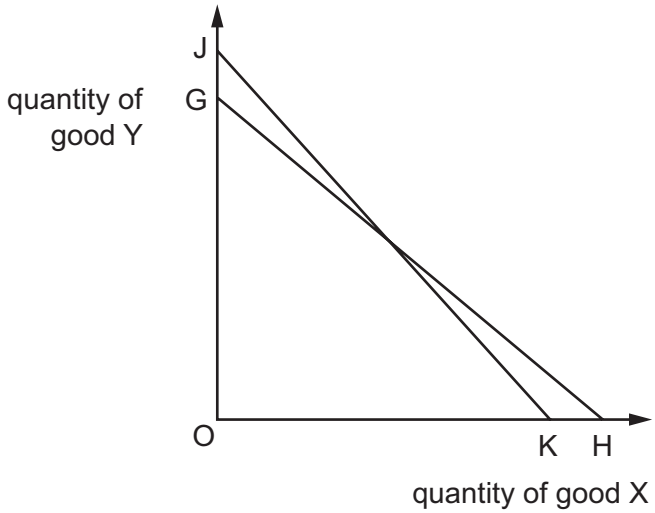
B average cost and marginal revenue

C marginal cost and average revenue

D marginal cost and marginal revenue

© UCLES 2018

4 In the diagram a consumer's budget line shifts from JK to GH.



Which statement must be correct?

A There has been an increase in the consumer's money income.

B There has been a decrease in the consumer's real income.

C Good Y has become relatively more expensive.

D The price of good X has increased.

5 The table shows substitution and income effects for a normal good and for an inferior good as the price of the good changes.

Which combination is correct?

	type of good	price change	demand change from substitution effect	demand change from income effect
A	inferior	fall	negative	positive
B	inferior	rise	negative	negative
C	normal	fall	positive	positive
D	normal	rise	positive	negative

6 A government imposes a $10 tax on each unit produced of a product.

How will this affect the firm?

A Its average cost will rise by less than $10.

B Its marginal cost will remain unchanged.

C Its minimum average cost output will be lower.

D Its minimum average cost output will be unchanged.

7 According to oligopoly theory, what is **not** likely to characterise the behaviour of firms in the industry?

A matching any price cuts made by their rivals

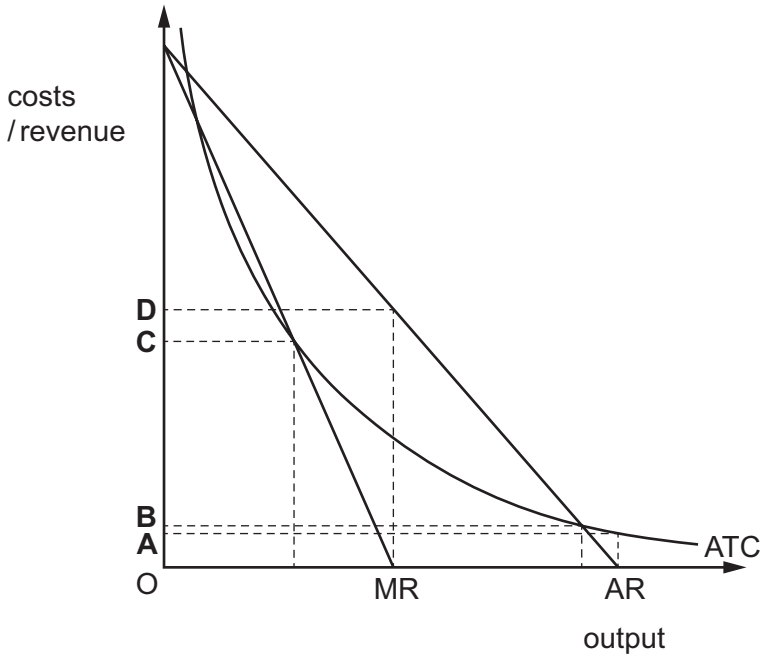
B matching any price rises made by their rivals

C selling a range of similar but differentiated products

D the ability to earn supernormal profit

8 The diagram shows the cost and revenue curves of a monopolist whose only cost of production is a fixed cost.

What will be the monopolist's profit maximising price?



9 Company R manufactures steel. Company S produces ships. Company T operates oil tankers. Company V operates cruise liners.

Which statement is correct?

A If R takes over S, this is an example of forwards vertical integration.

B If S takes over V, this is an example of backwards vertical integration.

C If T takes over S, this is an example of diversification.

D If V takes over S, this is an example of horizontal integration.

© UCLES 2018

10 A monopolist chooses an output that maximises profits and makes normal profits.

What must be correct at the output chosen?

A Average cost equals average revenue.

B Average revenue equals marginal revenue.

C Marginal cost is at a minimum.

D The monopolist is allocatively efficient.

11 A firm operates in an imperfectly competitive market. The prices of its products are determined by the maximum price each consumer is willing to pay.

What describes this pricing method?

A kinked demand curve

B limit pricing

C price discrimination

D price leadership

12 What is an argument for government policy which allows companies to take over other companies?

A It allows firms to borrow from the banking system.

B It encourages companies to act to promote productive efficiency.

C It ensures wage rates will rise.

D It provides income and employment for investment bankers.

13 A government imposes a maximum price for electricity.

Which statement justifying this measure might be considered valid on economic grounds?

A It will encourage electricity suppliers to invest in additional capacity.

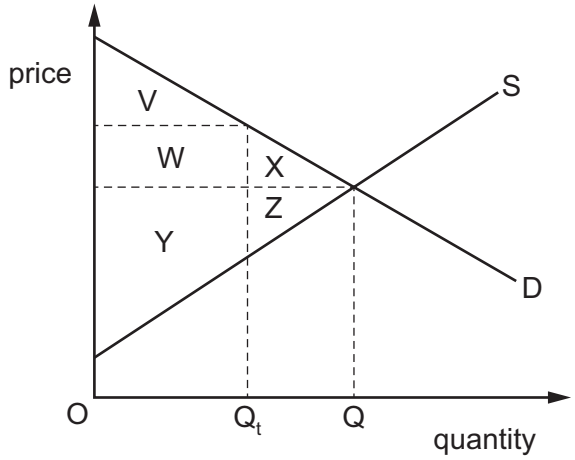
B It will increase the incentive for consumers to conserve energy.

C It will prevent the monopolistic exploitation of consumers.

D It will prevent the rationing of electricity through power cuts.

© UCLES 2018

14 The diagram shows the change in a market when a government places a production quota OQ_t on the quantity of a good that has previously traded at quantity OQ.



Which welfare loss results from the government's policy?

A W + V **B** W + X **C** X + Z **D** Y + Z

15 Which policy by a government would increase the negative externalities that result from cigarette smoking?

A a ban on cigarette advertising

B a ban on cigarette smoking in public places

C a ban on substitutes for cigarettes

D a ban on the sale of cigarettes

16 A teacher currently earns $30 000 but would be willing to continue to do the job provided she earned at least $25 000. She prefers to stay in her teaching job than change to her next best alternative employment as an accountant where she could earn $40 000.

Which statement is correct?

A Her economic rent as a teacher is $5000.

B Her economic rent as an accountant is $10 000.

C Her transfer earnings as a teacher are $30 000.

D Her transfer earnings as an accountant are $15 000.

© UCLES 2018

17 What will increase the power of a trade union, allowing it to increase wages without reducing the employment of its members in a particular industry?

A The economy is experiencing a fall in the price of capital.

B The economy is experiencing rising employment.

C The price elasticity of demand for the industry's goods is equal to 1.

D The price elasticity of demand for the industry's goods is greater than 1.

18 The table shows the number of workers employed by four firms in the same industry, the average number of hours worked each day and the total output each firm produces each day.

Which firm's workers have the highest productivity?

	number of workers	average number of hours worked per day	total output per day (units)
A	4	8	320
B	5	7	420
C	6	7	462
D	7	9	630

19 Which stage of the business (trade) cycle is most likely to be characterised by an increasing negative output gap?

A boom

B recession

C recovery

D trough

20 Which characteristics are typical features of the least developed countries?

	dominant sector of industry	export earnings	terms of trade over time
A	primary	stable	stable
B	primary	unstable	unstable
C	secondary	stable	rising
D	secondary	unstable	falling

21 What is central to economic growth but **not** necessarily to economic development?

A an expansion of the range of economic choices available to individuals

B an increase in Gross Domestic Product

C the eradication of absolute poverty

D the satisfaction of basic needs amongst the whole population

22 What would be the essential element in listing countries in order of their standards of living during a particular year?

A a deduction for profits transmitted abroad from the figures for Gross National Product

B allowance for different rates of population growth

C an adjustment for the inflation rates of different countries

D the use of purchasing power parity exchange rates

23 A government wished to increase demand in an economy in an attempt to reduce unemployment.

Which policy is most likely to achieve this?

A establishing greater health and safety rules for manufacturers

B increasing income tax

C increasing the rate of interest

D subsidising the building of new houses

24 What would be an increase in leakages or withdrawals from the circular flow of income?

A increase in government spending on anti-smoking campaigns

B increase in spending on imports of luxury cars

C increase in spending on transfer payments

D increase in wages paid to government employees

25 What is used to measure the deflationary gap?

A the increase in injections needed to reach full employment

B the public sector borrowing requirement

C the rate of deflation

D the rate of unemployment

© UCLES 2018

26 The following data describes an economy's consumption function.

income ($m)	consumption ($m)
100	90
140	122
180	154
220	186

What can be deduced about the value of the marginal propensity to consume in this economy?

A It increases as income increases.

B It decreases as income increases.

C It is 0.90.

D It is 0.80.

27 In which circumstance will there be an immediate increase in the domestic money supply?

A A consumer takes advantage of an overdraft facility to buy a car.

B A consumer uses a reserve of cash to buy a car.

C A consumer uses a reserve of Euros to buy a car abroad.

D A consumer uses their current bank account balance to buy a car.

28 The turning point on the Kuznets Curve for income inequality has been estimated to be in the region of US $10 500.

For a country that has a GDP per capita of $8000, which is most likely?

A A reduction in GDP per capita will have no effect on income inequality.

B A reduction in GDP per capita will increase income inequality.

C An increase in GDP per capita will have no effect on income inequality.

D An increase in GDP per capita will increase income inequality.

29 Which macroeconomic policy aims are **most** likely to complement one another?

A high growth and low inflation

B high growth and low unemployment

C low inflation and low unemployment

D low unemployment and a balance of trade surplus

© UCLES 2018

30 All else remaining unchanged, what would result in an outflow of capital funds from a country?

A a fall in the country's rate of inflation

B an expected appreciation of the country's exchange rate

C an increase in foreign interest rates

D an increase in foreign prices

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.