Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2016**

1 hour 15 minutes

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

* 2 2 2 2 2 8 5 4 2 3 8 *

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.

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1 A firm increases its production.

When will this result in efficiency?

A when the cost of producing the last extra unit equals the value the consumers place on it

B when the cost of producing the last extra unit is at a minimum

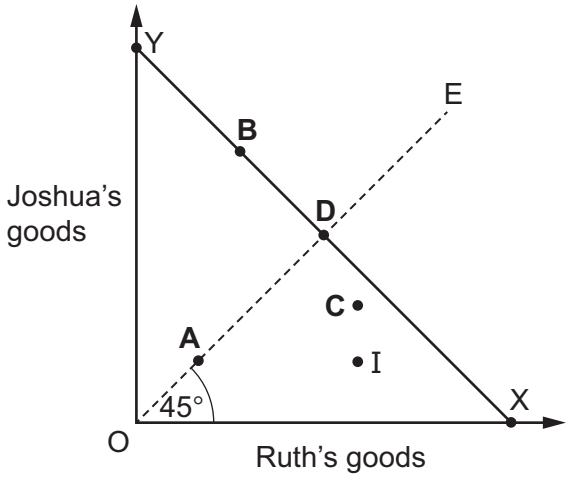
C when the total cost of production equals the value that consumers place on the total product

D when the total revenue reaches a maximum

2 Joshua and Ruth are a remote island's only residents.

The line XY in the diagram shows the maximum amount of goods that are available to Joshua and Ruth and the line OE indicates points of equal distribution of the goods.

Compared to an initial point I, which point would result in an increase in economic welfare according to the Pareto Efficiency Criterion?



3 What is a key difference between the use of cost-benefit analysis in public-sector investment projects compared with its use in private-sector investment projects?

A Costs are more difficult to compute in private-sector investment projects.

B Private-sector investment projects involve less risk.

C Public-sector investment projects involve benefits which occur in the future.

D The frequent absence of prices in public projects makes benefit estimates more uncertain.

4 Why does a normal demand curve for a product slope downwards from left to right?

A Buyers' additional satisfaction declines as consumption rises.

B Consumers are faced with choices between competing products.

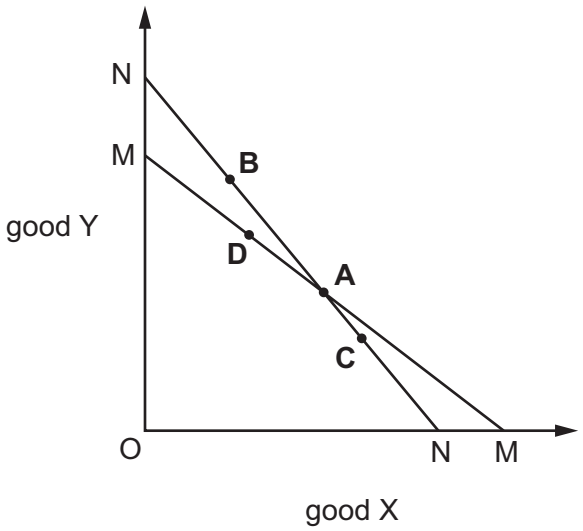
C Sellers are willing to accept lower prices on larger orders.

D The average cost of production falls as the scale of production increases.

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5 The diagram shows budget lines of a consumer choosing between two goods, X and Y. Initially the budget line is MM and the consumer's preferred position is at point **A**. Subsequently the money prices of both goods change shifting the budget line to NN.

Which point could represent the preferred position of the consumer after the change in prices if their tastes remained unchanged?



6 A single firm in an industry alters production, but its actions have no effect on the market price of the good.

If the price always clears the market, how would an economist classify this industry?

A imperfect competition

B monopoly

C oligopoly

D perfect competition

7 What is most likely to result in non-cooperative behaviour between producers in an oligopoly market?

A barriers to entry of new firms

B ease of detection of prices being set by other firms

C product differentiation between firms in the industry

D stability in demand and costs of production over time

8 When would the aim of a firm be most likely to be other than profit maximisation?

A when there are a large number of firms in the industry

B when there are a large number of shareholders and few paid managers

C when there is a large investment expenditure required

D when there is a large output produced

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9 A firm in monopolistic competition is maximising profit and producing at the minimum point on its average total cost curve.

What could **not** be correct?

A Marginal cost equals average cost.

B Marginal cost equals marginal revenue.

C The firm is making normal profit.

D The firm is making supernormal profits.

10 What is necessary for price discrimination to be profitable?

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 separate markets.

11 A firm with a downward-sloping straight line demand curve for its product is producing at an output where its marginal revenue is positive.

Which strategy would be most effective if the owners of the firm want to maximise the total revenue of the firm?

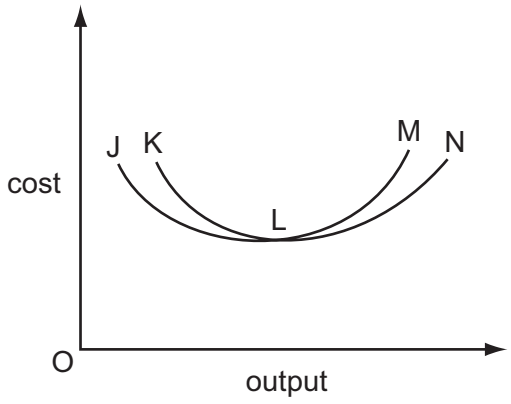
A decrease the firm's output to where marginal revenue equals average revenue

B decrease the product's price to where average revenue is zero

C increase the firm's output to where marginal revenue is zero

D increase the product's price to where marginal revenue equals average revenue

12 The diagram shows a firm's short-run and long-run average cost curves.



Which curve is the firm's long-run average cost curve?

A JLM **B** JLN **C** KLM **D** KLN

13 The table shows the employment size distribution (%) of manufacturing firms in two European countries reported by OECD in 2011.

	< 50 employees (%)	50–250 employees (%)	> 250 employees (%)
country X	50.3	30.7	19.0
country Y	20.2	25.5	54.3

What is most likely to explain the different employment distribution in the two countries?

A Country X has a bigger domestic market.

B Country X has a larger supply of entrepreneurs.

C Country X is more involved in international trade.

D Country X makes greater use of advanced technology.

14 A firm faces a downward-sloping demand for its product.

Assuming that labour is its only variable factor input, how does the firm derive its demand curve for labour?

A from the current price of output and the money wage rate of labour

B from the marginal factor cost of labour

C from the schedules of the marginal physical product of labour and of marginal revenue

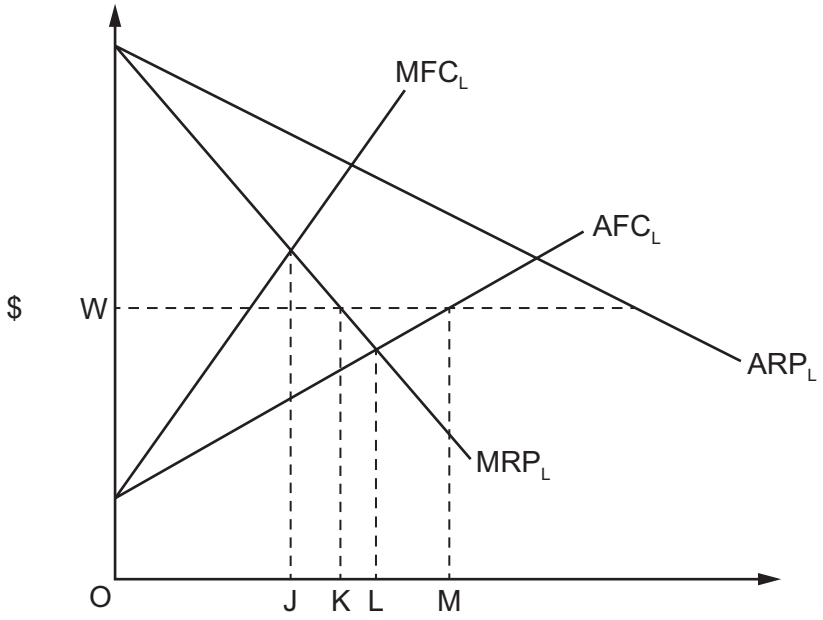
D from the schedules of the marginal physical product of labour and the money wage rate

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15 In the diagram, the ARP_L curve is the average revenue product of labour curve of a profit-maximising monopsony and the MRP_L curve is its marginal revenue product of labour curve.

The firm pays its workers the minimum wage, OW, set by the country's government.

The curves AFC_L and MFC_L show what the firm's average and marginal factor cost curves would be in the absence of government intervention.



What will happen to the number of workers employed by the firm if the minimum wage is abolished?

A It will decrease by JK.

B It will decrease by KM.

C It will increase by JK.

D It will increase by JL.

16 What could raise the level of employment in an industry producing good X?

A a decline in the marginal physical productivity of workers in industry X

B the imposition of a tariff on an imported good which is a complement to good X

C the introduction of an employer's contribution to a state welfare scheme for each employee

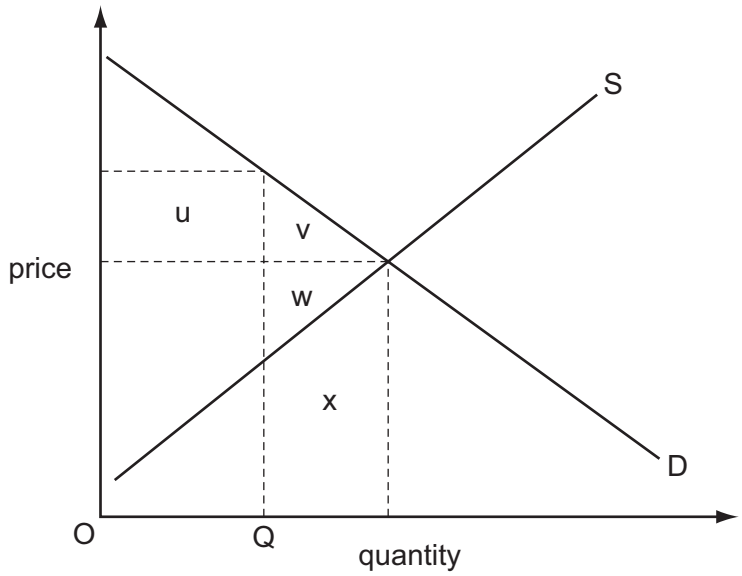
D the removal of a sales tax on good X

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17 Which combination of fiscal policy measures would be most effective in reducing income inequality?

	top rates of income tax	indirect taxes	value of state benefits
A	increase	increase	increase
B	increase	reduce	increase
C	reduce	increase	reduce
D	reduce	reduce	reduce

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



The government initially restricts the quantity to OQ.

The restriction on the quantity is then removed.

In the absence of externalities, which area in the diagram measures the net gain in economic welfare?

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

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

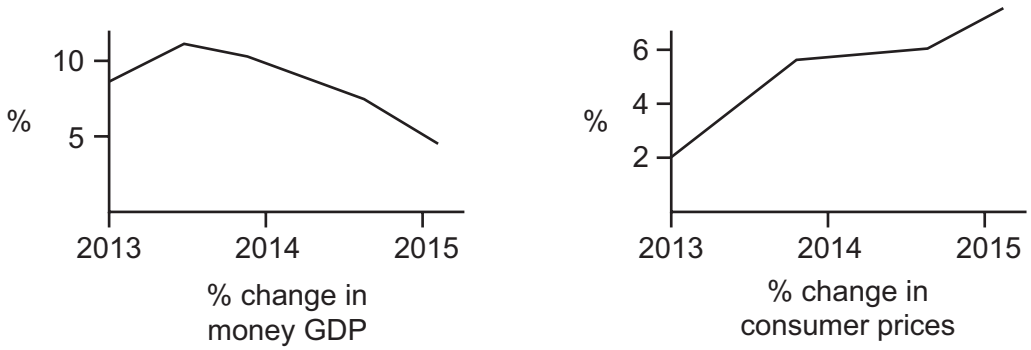
A benefits paid to the unemployed

B dividends paid to shareholders

C profits retained by companies

D rent paid to landlords

20 The graphs show percentage changes in money GDP and consumer prices in a country between 2013 and 2015.



Which conclusion can be drawn from the graphs?

A Consumer prices and money GDP both continued to rise throughout the period.

B In real terms GDP grew throughout the period.

C Money GDP fell more rapidly between 2014-2015 than between 2013-2014.

D The slowest rise in consumer prices occurred when money incomes fell.

21 Which of the following are 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

22 Labour from developing countries often migrates to developed countries and finds jobs.

How would such a movement of labour be likely to affect the economic growth and the pressure on wage rises in the developed country?

	economic growth	pressure on wage rises
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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23 Which type of unemployment is associated with a deficiency in aggregate demand?

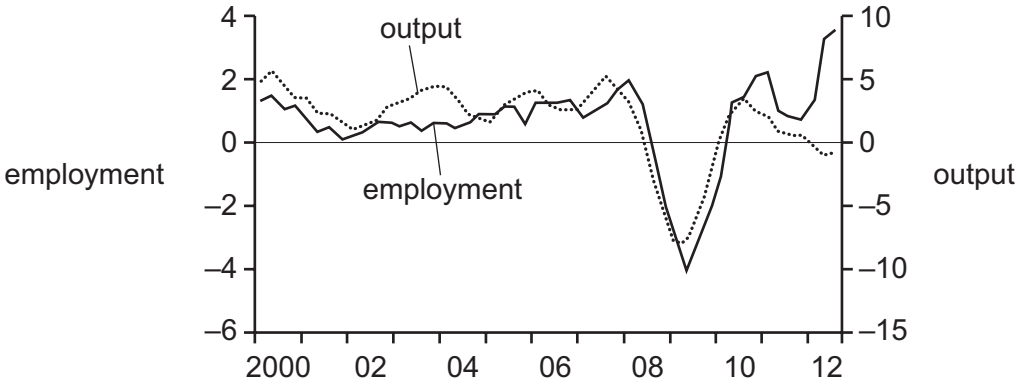
A cyclical

B frictional

C structural

D voluntary

24 The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity decrease the most?

A 2001 **B** 2008 **C** 2011 **D** 2012

25 Which is most likely to cause a decrease in the public's ratio of cash to bank deposits?

A an increase in the number of cash dispenser machines (ATMs)

B a reduction in interest rates on bank deposits

C the closure of bank branches

D the introduction of annual charges for the use of credit cards

26 In an economy with no government sector

C = consumption

I = investment

X = exports

M = imports

Y = national income.

If C = 20 + 0.75Y, I = 60, X = 120 and M = 120, what will be the equilibrium level of Y?

A 80 **B** 280 **C** 320 **D** 400

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

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

28 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

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

A 2010–2011

B 2011–2012

C 2012–2013

D 2013–2014

29 Workers in poor countries are often less productive than workers using the same technology in rich countries.

What would be most likely to remedy this situation?

A an increase in the saving ratio in poor countries

B increased freedom of migration from poor countries to rich countries

C increased investment in education in poor countries

D the removal of trade barriers imposed by rich countries on imports from poor countries

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30 What is most likely to increase as a result of a rise in interest rates in a country?

A the inflow of short-term foreign capital

B the level of company profits

C the level of private investment

D the level of share prices

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