Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

0533490984

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.

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1 What action by a firm is most likely to raise its dynamic efficiency?

A distributing all its current profit to its existing shareholders

B maximising the labour productivity of its current workers

C minimising the average cost of producing its current output

D retaining its current profit for product research and development

2 The current distribution of goods between two individuals in a two-person economy with given technology and resources is at point X.

According to the Pareto criterion, which point would definitely indicate increased allocative efficiency?



3 The concept of allocative efficiency assumes that each individual in society is the best judge of their own economic welfare.

Which example of government intervention is based on an argument which rejects this assumption?

A pollution controls

B subsidies for merit goods

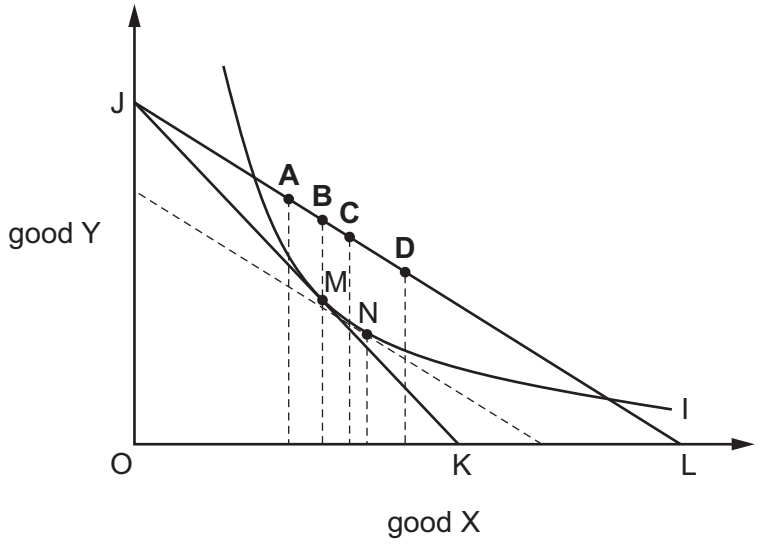
C the provision of public goods

D the regulation of monopolies

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4 In the indifference curve diagram point M is the consumer's initial equilibrium and MN is the substitution effect of a fall in the price of good X.

If good X is a Giffen good which point will be the consumer's new equilibrium point after the fall in the price of good X?



5 To maximise the satisfaction he derives from a given level of expenditure on two goods, X and Y, a consumer should allocate his expenditure between the two goods so that

A marginal utility of X = price of X and marginal utility of Y = price of Y.

B marginal utility of X plus marginal utility of Y is maximised.

C marginal utility of X = marginal utility of Y.

D $\frac{\text{marginal utility of X}}{\text{marginal utility of Y}} = \frac{\text{price of X}}{\text{price of Y.}}$

6 Which statement about the 'kinked demand curve' model of oligopoly is **incorrect**?

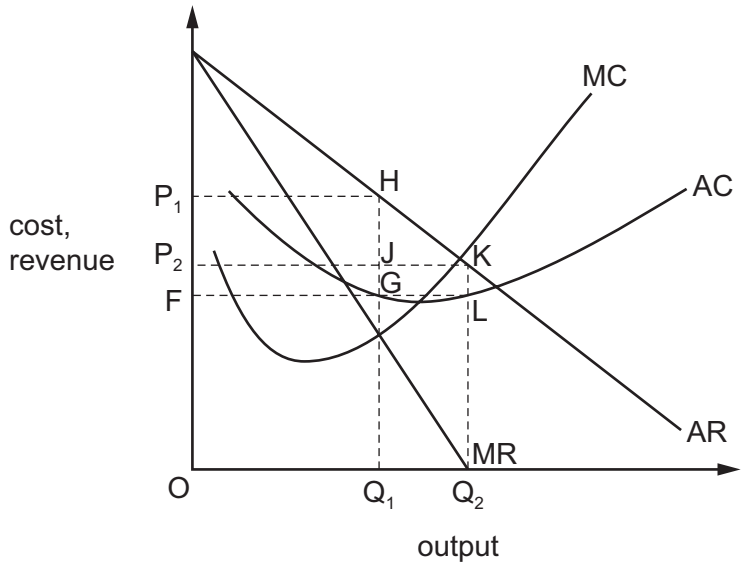
A The kink in the demand curve of each firm is based on expectations about other firms' responses to changes in its price.

B The marginal revenue curve of the firm has a vertical segment at the market price.

C The model explains how the equilibrium market price is determined.

D The model suggests price stickiness within a certain range of marginal costs.

7 A monopolist changes its objective from profit maximisation to sales revenue maximisation.



On the diagram, which areas represent the monopolist's total profit?

	original profit	final profit
A	P_1HJP_2	P_2KLF
B	P_1HJP_2	JKLG
C	P_1HGF	P_2KLF
D	P_1HGF	JKLG

8 A firm estimates that, all else remaining unchanged, an increase in its output will result in a fall in its revenue.

What can be concluded from this?

A The demand for the firm's product is price-elastic.

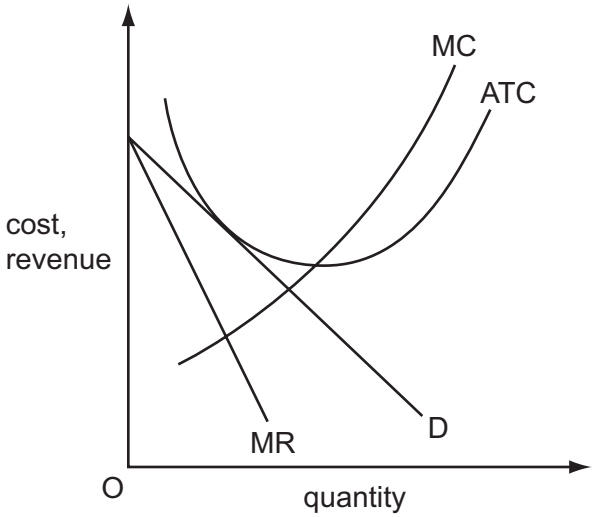
B The demand for the firm's product is price-inelastic.

C The supply of the firm's product is price-elastic.

D The supply of the firm's product is price-inelastic.

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9 The diagram shows the cost and revenue curves of a firm.



What does the diagram represent?

A a firm in monopolistic competition making normal profit

B a firm in monopolistic competition making short-term losses

C a firm in perfect competition at long-run equilibrium

D a monopoly making abnormal profits

10 Which is a risk-bearing economy of scale?

A greater bargaining power in purchasing from suppliers

B greater diversification of the product range

C lower costs in raising capital

D lower distribution costs by increasing market share

11 A firm wishes to eliminate competition and become a monopoly.

What should it do?

A maximise output

B maximise profit

C reduce prices

D reduce the number of its suppliers

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12 In many developed economies, clothes are designed by small firms and retailed by large firms.

What is the most likely explanation for this pattern?

	clothes design firms	clothes retail firms
A	need to be flexible to cope with frequent fashion changes	need to exploit marketing economies of scale
B	need to employ highly specialised and skilled workers	need to operate at a low minimum efficient scale
C	need to operate at a high minimum efficient scale	need to offer a wide range of products to survive
D	need to overcome high barriers to entry into the industry	need to take advantage of technical economies of scale

13 What is likely to have its cause in the separation of ownership and control in a firm?

A contestable markets

B diseconomies of scale

C principal-agent problem

D prisoner's dilemma

14 A firm employs a worker who adds less to output than the previous worker employed.

What does this illustrate?

A decreasing marginal costs

B diseconomies of scale

C increasing returns to scale

D the law of diminishing returns

15 To increase the number of cleaners at a local school from 10 to 11, the employer has to raise the hourly rate of pay from $8.00 to $8.50.

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

A $0.50 **B** $13.50 **C** $88.50 **D** $93.50

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16 For a firm in imperfect competition, the marginal revenue product of labour at any given level of employment is equal to

A marginal revenue divided by the number employed.

B marginal revenue divided by the wage rate.

C the marginal physical product of labour multiplied by marginal revenue.

D the marginal physical product of labour multiplied by the wage rate.

17 Which policy would be most effective in achieving a more equal distribution of disposable incomes between households?

A government support for trade unions

B import duties on manufactured goods

C minimum wage policy

D progressive income taxes

18 A government regulates the price charged by a monopolist.

In which circumstance will such intervention improve economic efficiency?

A The government sets the price where average revenue equals marginal cost.

B The government sets the price where marginal cost is below average cost.

C The intervention results in an increase in producer surplus.

D The intervention results in predatory pricing.

19 What would cause estimates of the money value of the 'Measure of Economic Welfare' for a country to be **greater** than the value of 'Gross National Product'?

A negative externalities such as pollution

B property income received from abroad

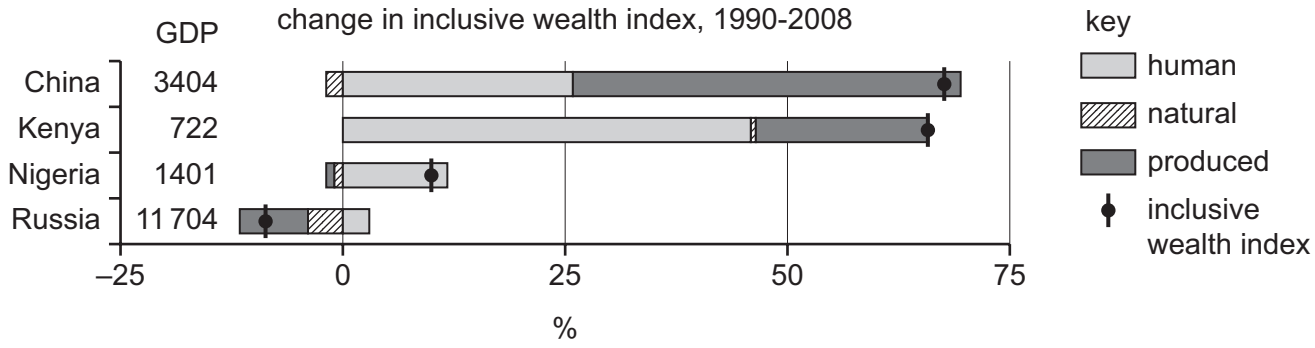
C regrettable necessities

D the value of non-marketed activities and leisure

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20 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 the economies with the fastest and the slowest growth in IWI. 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 No country was able to prevent depletion of its 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.

21 Which combination is usually found in less developed economies?

	low	high
A	capital : output ratio	saving ratio
B	external debt	capital : output ratio
C	population growth	external debt
D	saving ratio	population growth

22 Which change is most likely to increase both economic growth and economic development in the long run?

A a decrease in the saving ratio

B an increase in investment in human capital

C the depletion of non-renewable resources

D the greater use of compulsory overtime working of labour

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23 Which type of unemployment occurs when aggregate demand is deficient?

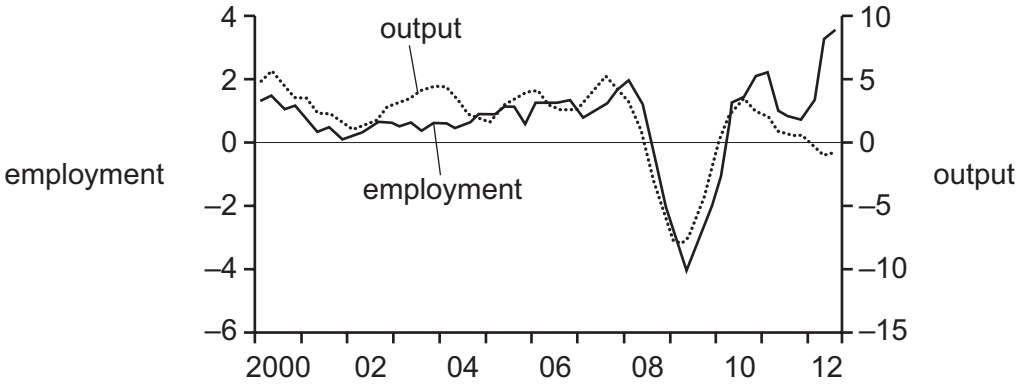
A cyclical unemployment

B regional unemployment

C seasonal unemployment

D structural unemployment

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 increase the most?

A 2003 **B** 2007 **C** 2009 **D** 2012

25 According to Keynesian theory, when will an increase in the money supply leave the level of output unchanged?

A when the liquidity trap is operative

B when the money supply increase was not anticipated

C when there is a floating exchange rate

D when there is an immediate adjustment to expectations about future price levels

26 In a 4-sector economy, consisting of households, firms, government and foreign trade, the level of national income is in equilibrium where

$$C + I + G + (X – M) = Y.$$

What must Y include for an equilibrium to exist?

A C + S + M

B C + S + T

C S + T

D S + T + M

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27 When would an economic recession result in an increase in a government's budget deficit?

A The government increases tariffs on imports with inelastic demand and keeps the total amount it spends on unemployment benefit unchanged.

B The government keeps the unemployment benefit rate and direct and indirect tax rates unchanged.

C The government reduces foreign aid and widens the tax base.

D The government reduces the unemployment benefit rate and decreases the tax free allowance on income tax.

28 What will be most likely to rise if unemployment is increasing in an economy?

A the human capital of unemployed workers

B the living standards of all workers

C the nominal money wage rate of employed workers

D the tax burden on employed workers

29 What is most likely to result from foreign direct investment in developing economies?

A a deterioration in the trade balances of developing economies

B a reduction in migration to urban areas in developing economies

C a reduction in the transfer of technology to developing economies

D a rise in per capita levels of consumption in developing economies

30 What will increase the multiplier effect of an increase in government spending on national income?

A an increase in direct taxation

B an increase in interest rates

C an increase in the marginal propensity to consume

D an increase in the marginal propensity to import

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