Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

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)

5019225147

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 **11** printed pages and **1** blank page.

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1 Which statement is **not** usually associated with the achievement of economic efficiency?

A There is efficiency in consumption if there is no way to redistribute goods among consumers that makes some consumers better off without making others worse off.

B There is efficiency in output levels if there is no different mix of output that would make some people better off without making others worse off.

C There is efficiency in pricing if there is no other pattern of prices that would make some producers better off without making others worse off.

D There is efficiency in production if there is no way to produce more of some goods without producing less of other goods.

2 A Chinese proverb states that 'One generation plants a tree and the next generation enjoys its shade'.

Which economic concept does the proverb best illustrate?

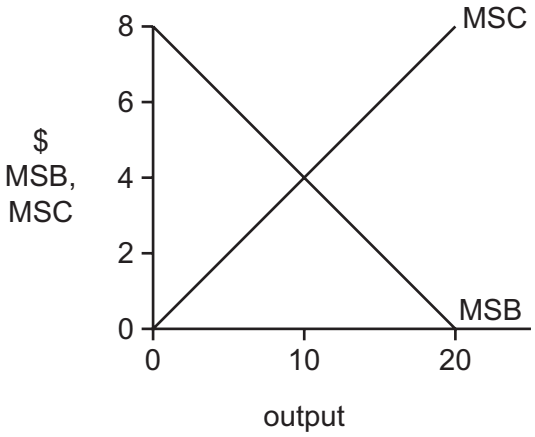
A comparative advantage

B division of labour

C positive externality

D public good

3 The diagram shows the marginal social benefit (MSB) and marginal social cost (MSC) from a production process.



What is the socially desirable level of output?

A at 0 units because MSC is zero

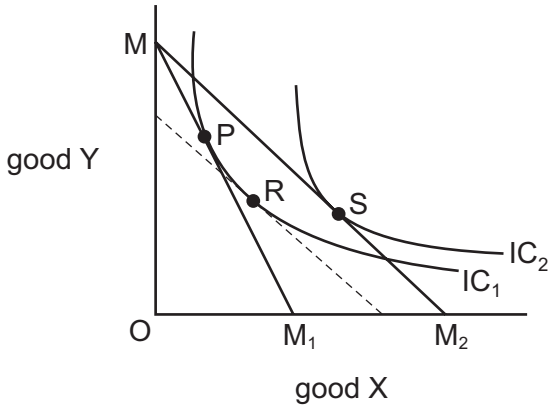
B between 0 and 10 units because MSB is greater than MSC

C at 10 units because MSB equals MSC

D at 20 units because MSB is exhausted

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4 The diagram shows two indifference curves and two budget lines for two goods X and Y.



The initial position is P. P-R is a substitution effect. R-S is an income effect.

What type of good is good X?

A a Giffen good

B a luxury good

C a normal good

D an inferior good

5 If a firm is making normal profit, it must be true that

A average cost equals average revenue.

B marginal cost equals average cost.

C marginal cost equals average revenue.

D marginal cost equals marginal revenue.

6 For which market structure can a market supply curve be constructed?

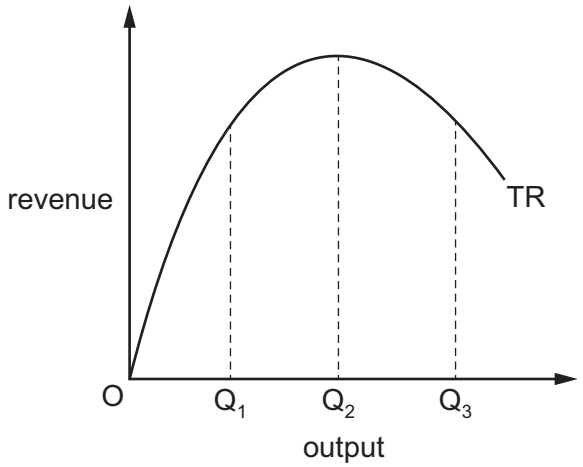
A imperfect competition

B monopoly

C oligopoly

D perfect competition

7 The diagram shows the total revenue curve for a firm operating in an imperfectly competitive market.



What is the value of the price elasticity of demand for the product at outputs Q_1, Q_2 and Q_3?

	output Q_1	output Q_2	output Q_3
A	equal to 1	less than 1	greater than 1
B	greater than 1	equal to 1	less than 1
C	greater than 1	less than 1	equal to 1
D	less than 1	equal to 1	greater than 1

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8 In September 2008 Google introduced its Chrome web browser. The table shows the market percentage (%) share of different web browsers between September 2008 and June 2014.

web browser	% share in September 2008	% share in June 2014
Internet Explorer	67.2	21.0
Firefox	25.8	17.9
Safari	3.0	10.3
Opera	2.8	1.8
Chrome	1.0	45.5
others	0.2	3.5

What can be concluded from the table about the change in market concentration ratios between 2008 and 2014?

	5-firm concentration ratio	3-firm concentration ratio
A	fell	fell
B	fell	rose
C	rose	fell
D	rose	rose

9 A firm incurs both fixed and variable costs of production. It is currently producing at the level of output which minimises its average total cost.

What effect will a small reduction in output have on the firm's marginal and average variable costs?

	marginal cost	average variable cost
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

10 The data below relates to a firm over three years.

	year 1	year 2	year 3
sales ($m)	120	140	135
pre-tax profit ($m)	30	25	10
net capital employed (index no. year 1)	100	95	120

Over which period could the firm definitely be said to have grown in size?

	between years 1 and 2	between years 2 and 3	between years 1 and 3
A	no	no	yes
B	no	yes	no
C	yes	no	no
D	yes	yes	yes

11 What is true about economies of scale but **not** diseconomies of scale?

A They occur because average revenue is increasing.

B They occur because of management policy changes.

C They occur in the short run.

D They occur with decreasing average cost.

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 where there are a large number of individual shareholders in a firm run by employed managers

13 What will happen if a firm is subsidised by an amount equal to the external benefits that it gives to the rest of society?

A Resource allocation will be improved.

B The firm will produce less.

C There will be a misallocation of resources.

D There will be no effect upon production.

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14 A firm is operating in a perfectly competitive market.

Why does the marginal revenue product of a factor of production employed by the firm fall as more of the factor is employed?

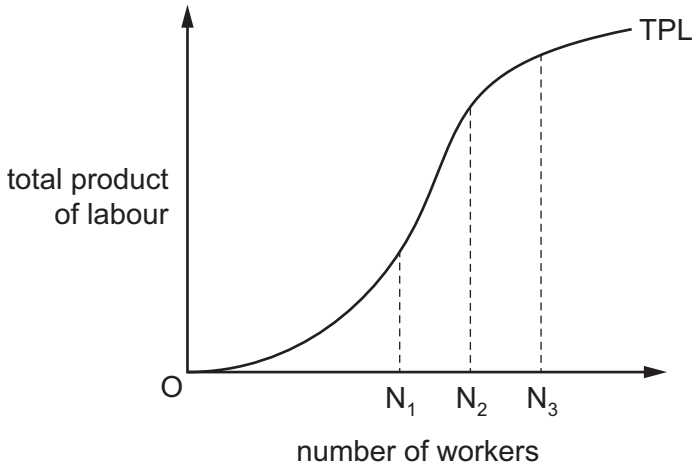
A Its average revenue falls.

B Its marginal physical product falls.

C Its marginal revenue falls.

D The supply price of the factor rises.

15 The diagram shows a firm's total product of labour (TPL) curve.



Which statement is correct?

A The average product of labour is maximised at ON_1.

B The average product of labour is maximised at ON_2.

C The marginal product of labour is maximised at ON_2.

D The marginal product of labour is maximised at ON_3.

16 What would cause a perfectly competitive firm's marginal revenue product of labour curve to shift to the right?

A a higher rate of sales tax

B a rise in the price of the final product

C an increase in labour supply

D an increase in wages

17 It has been argued that when income tax rates imposed on individuals are increased from zero towards 100%, tax revenue initially increases, but at some point it will decrease.

If this argument is correct, it follows that

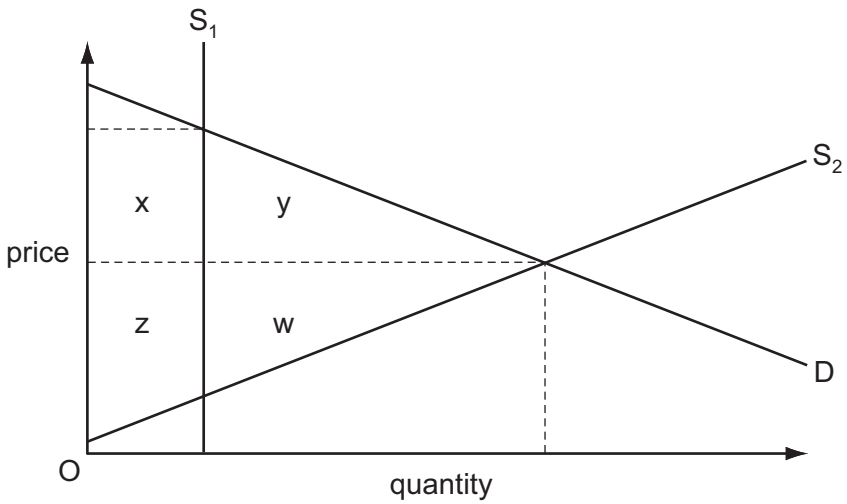
A governments should forgo any attempt to relieve poverty via fiscal policy.

B income tax rates should be set to maximise government tax revenue.

C taxes should be levied on expenditure rather than income.

D there are limits to the redistributive effects of progressive taxation.

18 The diagram shows the market for new cars. Currently the quantity supplied is fixed by the government at S_1.



If the market was deregulated the supply curve would be S_2.

Which area measures the net welfare gain of removing the restriction on the quantity supplied?

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

19 What adjustments to real GNP per head might make it a more reliable indicator when comparing standards of living in different countries?

A adjustments to allow for differences in the level of government spending in different countries

B adjustments to allow for differences in the rates of inflation in different countries

C adjustments to allow for differences in the size of the hidden economy in different countries

D adjustments to allow for differences in the value of exports from different countries

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20 The table shows real GDP per head measured in $US for countries X and Y over a three year period.

country	2011	2012	2013
X	100	110	121
Y	200	210	231

What can definitely be concluded from the data?

A Each country had the same rate of economic growth between 2011 and 2012.

B Growth in real GDP per head was higher in country X than in country Y between 2011 and 2012.

C Population growth was higher in country X than in country Y between 2012 and 2013.

D The average price level was higher in country X than in country Y throughout the period.

21 Which combination is usually found in developing countries?

A a low birth rate and a dominant primary sector

B capital-intensive production and a rapidly growing population

C external debt and a low death rate

D labour-intensive production and a low rate of saving

22 The table refers to changes in the percentage age distribution in a developing country between 2012 and 2014. There has been no emigration or immigration in this period.

year	% of population in each age group		
	0 - 15 years	16 - 64 years	65 years and over
2012	25	60	15
2014	30	58	12

Between 2012 and 2014 what can be deduced?

A The average age of the total population has increased.

B The death rate has increased.

C The infant mortality rate has risen.

D The percentage of the dependent population has increased.

23 What is a cause of seasonal unemployment?

A a general decrease in the demand for goods and services

B a lack of necessary skills in the workforce

C a temporary change in the pattern of consumers' expenditure

D an unwillingness of workers to move to other parts of the country where there is work

24 What is a possible combination of a cost and a benefit of rising levels of unemployment?

	cost	benefit
A	a deterioration in human capital	an increase in capital expenditure
B	an increase in import expenditure	a decrease in government tax revenue
C	an increase in the rate of economic growth	a more responsive workforce
D	an irretrievable loss of output	a reduction in inflationary pressure

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

A a decrease in the number of reported street crimes

B an extension of bank opening hours

C the introduction of a charge per transaction on accounts

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

26 Investment is involved in both the accelerator and the multiplier.

What is the nature of the investment in each case?

	accelerator	multiplier
A	autonomous	autonomous
B	autonomous	induced
C	induced	autonomous
D	induced	induced

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27 In a closed economy with no government

C = consumption

I = investment

Y = income

Δ = represents a change in a variable

What is the value of the investment multiplier?

A $\frac{\Delta I}{\Delta Y}$ **B** $\frac{\Delta C}{\Delta I}$ **C** $\frac{\Delta C}{\Delta Y}$ **D** $\frac{\Delta Y}{\Delta I}$

28 What is the aim of stabilisation policy?

A to keep the exchange rate stable

B to keep the price level stable

C to reduce fluctuations in interest rates

D to reduce fluctuations in national output

29 The government of Lesotho introduces a programme to promote exports and to encourage firms to expand by subsidising local entrepreneurs.

What effect is this likely to have on incomes, the balance of payments current account deficit and government expenditure in Lesotho?

	incomes	balance of payments current account deficit	government expenditure
A	fall	reduce	rise
B	fall	uncertain	rise
C	rise	reduce	no change
D	rise	uncertain	rise

30 What is the main objective of supply-side policies?

A to bring a country's potential output up to the level of its actual output

B to ensure a budget surplus

C to ensure that the composition of output matches the pattern of demand

D to increase potential output by increasing efficiency

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