Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2017**

1 hour 15 minutes

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

* 3 7 4 6 0 8 7 4 2 0 *

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 What would be an example of a market failure?

A higher prices for hotel rooms at holiday periods

B noise pollution experienced near major airports

C periods of inflation when prices of all goods and services rise

D 20% of a country's population live in poverty

2 What is a necessary condition for the achievement of productive efficiency?

A the removal of all externalities

B the elimination of all divergences between private and social costs

C equality between price and marginal cost in all industries

D the production of a good at minimum average cost for a given output

3 The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits ($m)	external benefits ($m)	private costs ($m)	external costs ($m)
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

4 Which statement about indifference curves is correct?

A The indifference curves for inferior goods can show higher satisfaction on lower curves.

B The indifference curves for normal goods show a diminishing marginal rate of substitution.

C The indifference curves for perfect complements go through the origin.

D The indifference curves for perfect substitutes are right-angled.

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5 The diagram shows the marginal utility (MU) that an individual derives from a good at different levels of consumption.



The utility he derives from the last $ he spends on every good is 4 units.

Assuming the marginal utility of money is constant, which quantity will he purchase if the price of the good is $10?

A 4 kilos **B** 5 kilos **C** 6 kilos **D** 7 kilos

6 The takeover of a life assurance company by a bank is an example of

A horizontal integration.

B lateral integration.

C vertical backwards integration.

D vertical forwards integration.

7 Imperfect competition is distinguished from perfect competition in that, in long-run equilibrium,

A supply is elastic.

B demand is inelastic.

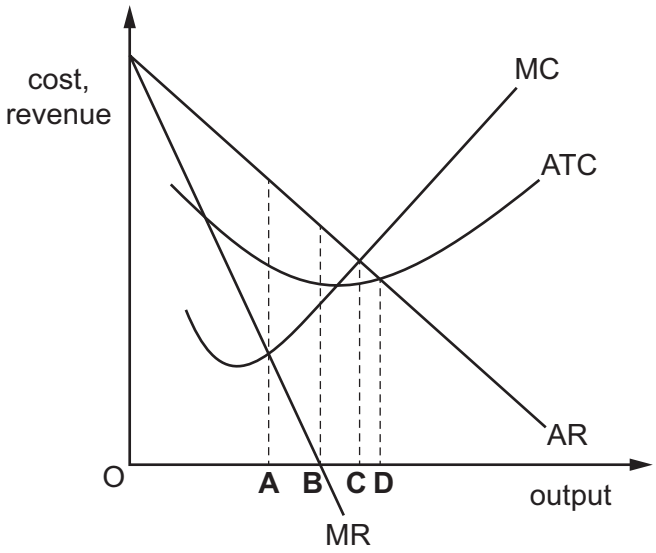
C marginal cost will be below average cost.

D average revenue will be below marginal revenue.

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8 The diagram shows the cost and revenue curves of a firm in imperfect competition.

At which output will the firm produce if it wishes to make some supernormal profit to satisfy its shareholders and at the same time to allocate resources efficiently?



9 What makes it harder for a small firm to compete against large firms in the same industry?

A Copyrights on the product have expired.

B Customers want individual product designs.

C The cost of entering the industry is low.

D The industry's product is standardised.

10 A firm operates at the maximum point on its average product curve.

What necessarily follows?

A Average variable cost is at a minimum.

B Marginal cost is at a minimum.

C Marginal product is at a maximum.

D Total profit is at a maximum.

11 The dominant firm in an oligopoly sets up a research institute to carry out new product development.

Which two features of oligopoly are present in this project?

A creation of barriers to entry and collusion

B creation of barriers to entry and non-price competition

C non-price competition and price leadership

D price leadership and collusion

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12 What is the essential feature of nudge theory?

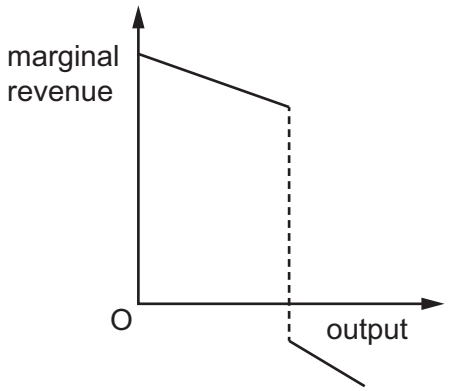
A the aim of satisficing

B the establishing of a legal requirement

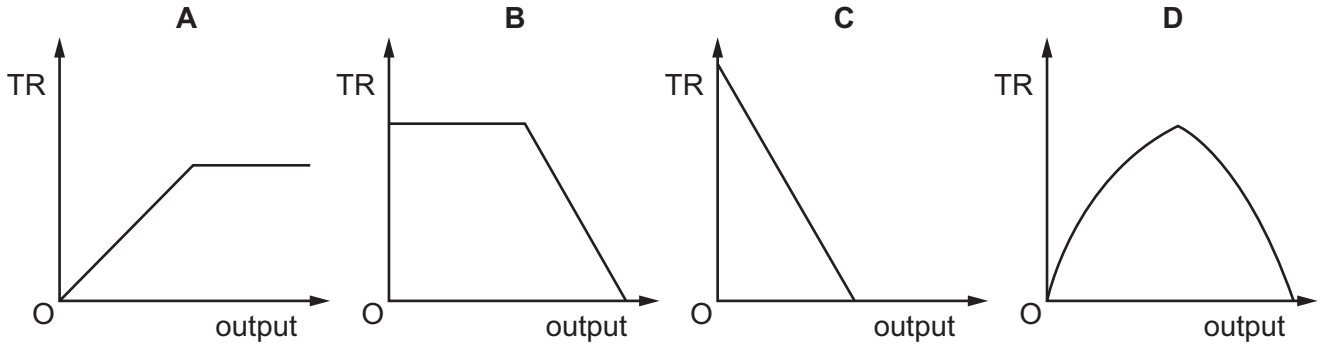
C the existence of a contestable market

D the idea of persuasion

13 The diagram shows a firm's marginal revenue curve.



Which total revenue curve corresponds to this firm's marginal revenue curve?



14 To control the cost of living governments have sometimes imposed a maximum price on certain goods that is below the free market price.

What is often an undesirable side effect of such policies?

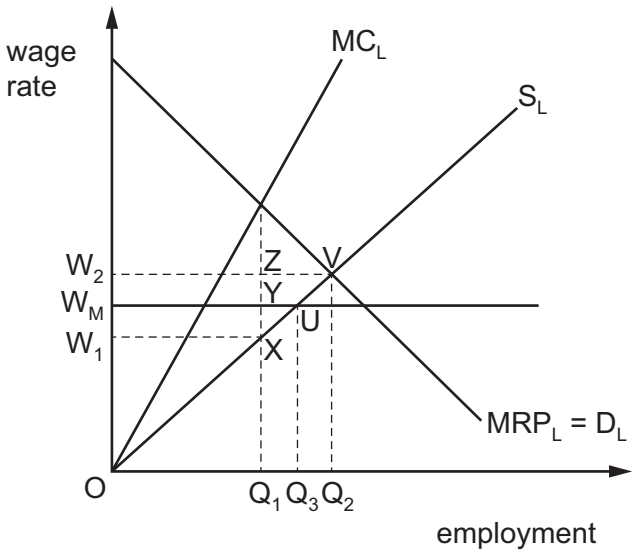
A accelerating general inflation

B an increase in profits above normal profits

C an increase in the stocks of unsold goods held by firms

D shortages of the good

15 The diagram shows the effect of the introduction of a national minimum wage, W_M, in an occupation where workers are employed by a profit-maximising monopsonist.



What happened to total wages received by the workers in the occupation?

A decrease from OW_2VQ_2 to OW_MUQ_3

B decrease from OW_2ZQ_1 to OW_MUQ_3

C increase from OW_1XQ_1 to OW_MYQ_1

D increase from OW_1XQ_1 to OW_MUQ_3

16 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

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17 The table shows the values of the Gini coefficient for some countries in 2007.

	Gini coefficient
Namibia	74.3
Zambia	50.4
France	32.7
Denmark	24.7

Using the information above, which statement is correct?

A Income is distributed more equally in Denmark than France.

B Income is distributed more equally in Namibia than Zambia.

C Income per capita is higher in Zambia than Namibia.

D There are proportionally more people below the poverty line in Zambia than France.

18 The table gives details of the carrying capacity and number of British licensed registered ships over 100 tons between 2010 and 2014.

year	2010	2011	2012	2013	2014
carrying capacity (million tons)	17.3	16.6	17.7	17.6	15.2
number of ships	712	664	643	577	500

What can be concluded about British shipping between 2010 and 2014?

A The average size of British registered ships increased.

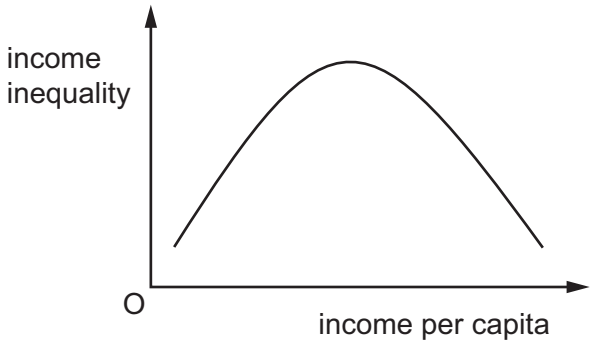
B The number of voyages made by British registered ships fell.

C The productivity of British registered ships peaked in 2012.

D The capacity of the British registered fleet fell continuously.

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19 Which curve is shown in the diagram?



A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

20 Other things remaining equal, what will reduce the level of national income in an economy?

A a fall in planned savings

B a fall in the marginal propensity to import

C an increase in the average propensity to consume

D a reduction in the level of defence expenditure

21 An increase in government expenditure is financed by borrowing from the central bank.

Other things being equal, what will be the effect on the money supply?

A It will decrease.

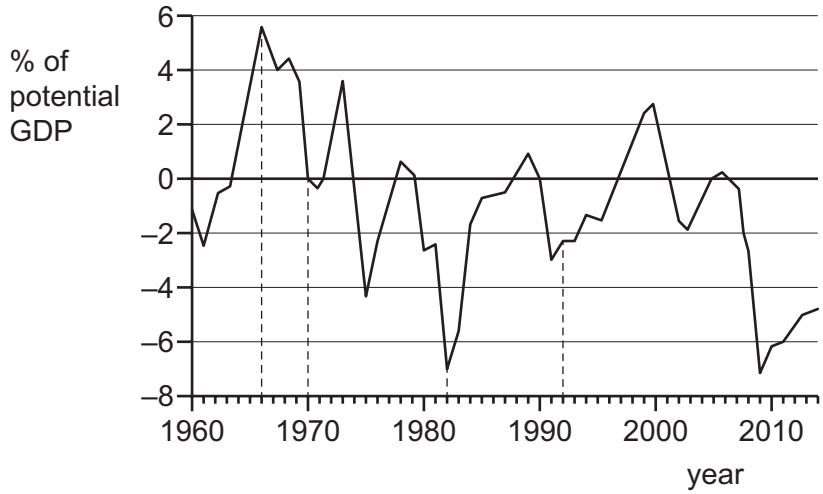
B It will increase by an amount equal to the increase in government expenditure.

C It will increase by more than the increase in government expenditure.

D It will remain unchanged.

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22 The diagram shows the output gap as a percentage of potential GDP for the US from 1960 to 2014.

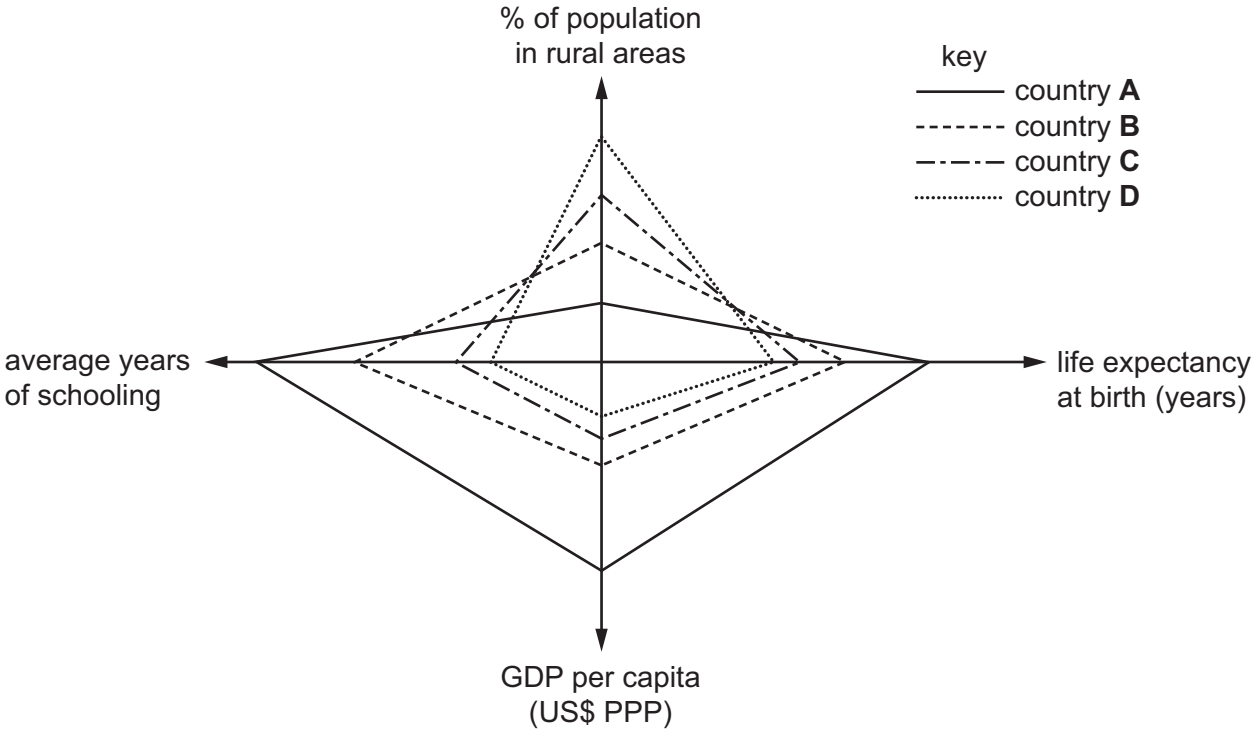


In which year was the output gap most likely to result in inflation?

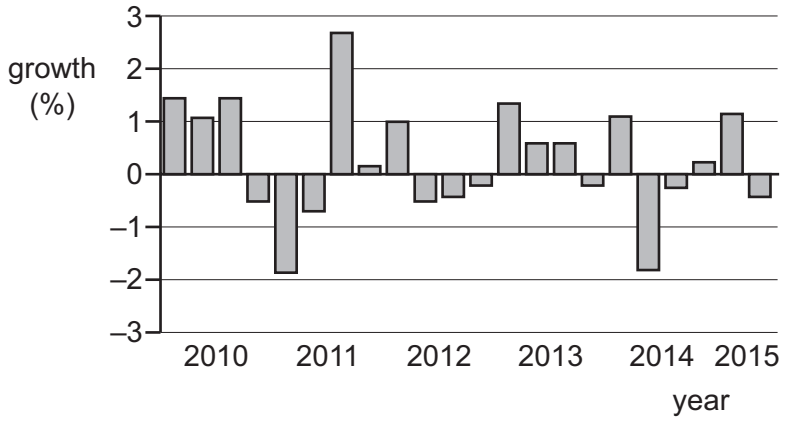
A 1966 **B** 1970 **C** 1982 **D** 1992

23 The diagram shows data on various aspects of four countries.

Which country is likely to be most developed?



24 The diagram shows quarterly changes in Japan's GDP from 2010 to 2015.



How many recessions occurred in Japan during this period?

A 2 **B** 3 **C** 5 **D** 10

25 Steps in calculating the working-age population are shown.

- .....1..... + ...2..... = labour force
- labour force + ...3..... = working-age population

Which row has the correct terms to complete gaps 1, 2 and 3?

	1	2	3
A	employed	underemployed	unemployed
B	employed	unemployed	not in labour force
C	not in labour force	underemployed	employed
D	unemployed	not in labour force	underemployed

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26 The graphs show consumer prices and unemployment for Ireland between 2002 and 2007.

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What can be concluded from the graphs?

A Between 2003 and 2004, unemployment and prices moved in the same direction.

B Prices were at their lowest in 2004.

C Prices rose continuously over the period.

D The number of unemployed workers fell over the period.

27 Which combination of policy measures is most likely to reduce unemployment?

A lowering both the exchange rate and domestic interest rates

B lowering the exchange rate and increasing direct taxation

C raising both the exchange rate and domestic interest rates

D raising the exchange rate and increasing direct taxation

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28 A government responds to cyclical fluctuations in output by keeping tax rates and benefit rates unchanged.

What is the government seeking to achieve by adopting this fiscal policy?

A to allow automatic stabilisers to work

B to keep output at the full employment level

C to maintain a constant balanced budget

D to ensure that its budget is in surplus over the trade cycle

29 Manufacturing output in China fell to the lowest for 15 months in June 2015. The government wanted to stimulate the economy.

What would be most likely to help the economy recover?

A a decrease in government spending

B a decrease in unemployment

C an increase in income tax

D an increase in interest rates

30 The economy of a country is simultaneously experiencing a balance of payments deficit, a budget deficit, demand-pull inflation and unemployment. The government decides to cut personal income taxes.

What is most likely to be its main macroeconomic objective?

A to improve the balance of payments position

B to reduce the budget deficit

C to reduce the level of unemployment

D to reduce the rate of inflation

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