Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

9542356828

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 **13** printed pages and **3** blank pages.

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1 When will an economic activity create a net social benefit?

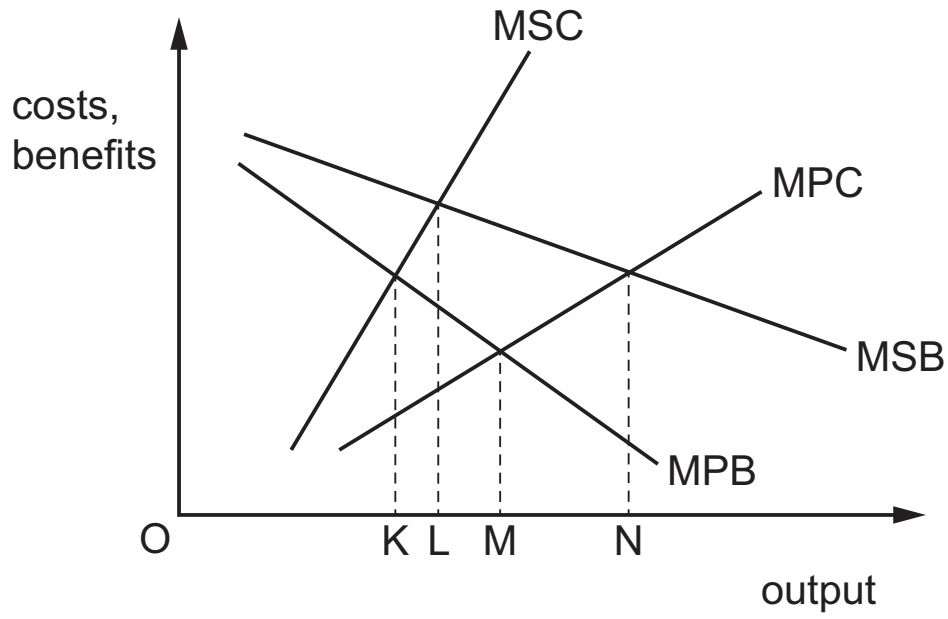
A when (private benefit + external benefit) – (private cost + external cost) is negative

B when (private benefit + external benefit) – (private cost + external cost) is positive

C when (private benefit + private cost) – (external benefit + external cost) is negative

D when (private benefit + private cost) – (external benefit + external cost) is positive

2 The diagram shows the private and social costs and benefits of production in a free market that result in market failure.



Which change in output would be necessary to overcome this market failure?

A from K to M

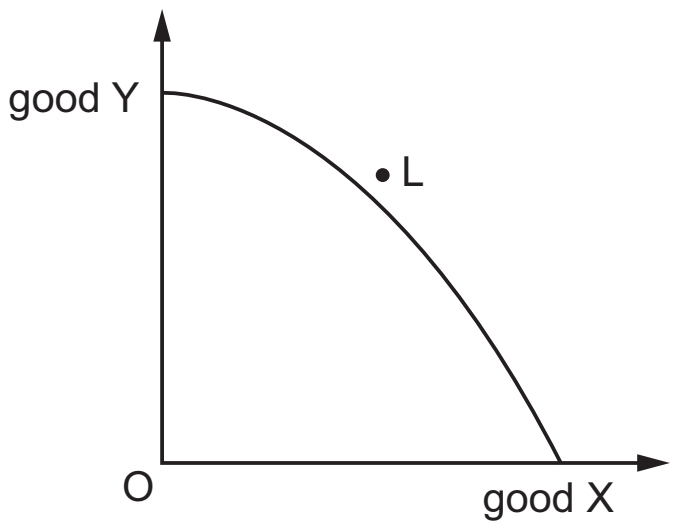
B from M to N

C from M to L

D from N to L

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3 The diagram shows the production possibility curve for an economy.



What might make it possible for consumers in this economy to consume the combination of goods X and Y indicated by the point L?

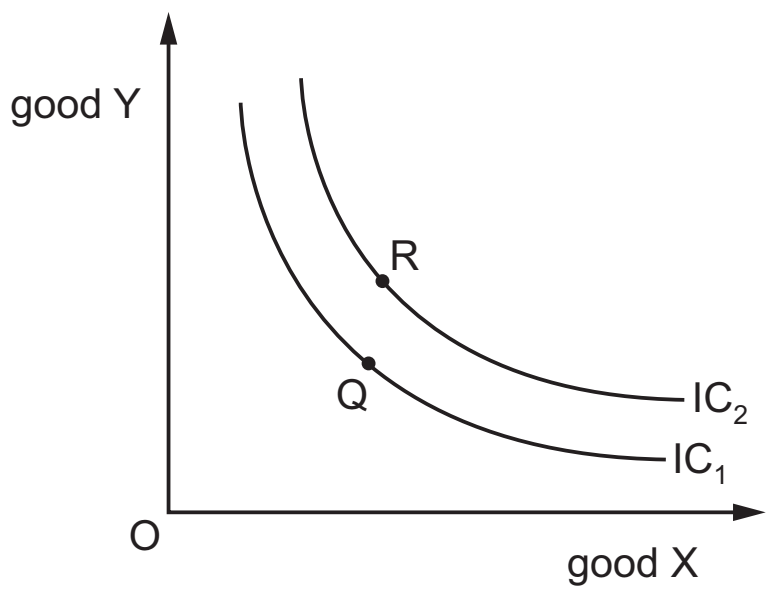
A a reduction in unemployment

B the achievement of productive efficiency

C the elimination of a monopoly in the production of good X

D trade with other economies

4 The diagram shows two indifference curves for a consumer.



What can be concluded if the consumer's equilibrium moves from Q to R?

A The consumer is acting rationally.

B The consumer's money income is unchanged.

C The opportunity cost of good Y is constant.

D The price of good X has risen.

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5 When the price of a good falls the effect on the quantity demanded is the result of an income effect and a substitution effect.

Which statement about these effects is correct?

A For inferior goods the income effect and the substitution effect work in the same direction.

B For inferior, but not Giffen, goods the income effect outweighs the substitution effect.

C For normal goods the income effect and substitution effect work in the same direction.

D For normal goods the income effect outweighs the substitution effect.

6 Where is the long-run equilibrium output of a perfectly competitive firm?

A where average costs are at a minimum

B where average costs are falling

C where marginal costs are at a minimum

D where marginal costs are falling

7 A firm estimates that, all else remaining unchanged, an increase in its output will result in an equal proportionate increase in its revenue.

What can be concluded from this?

A The demand curve for the firm's product is horizontal.

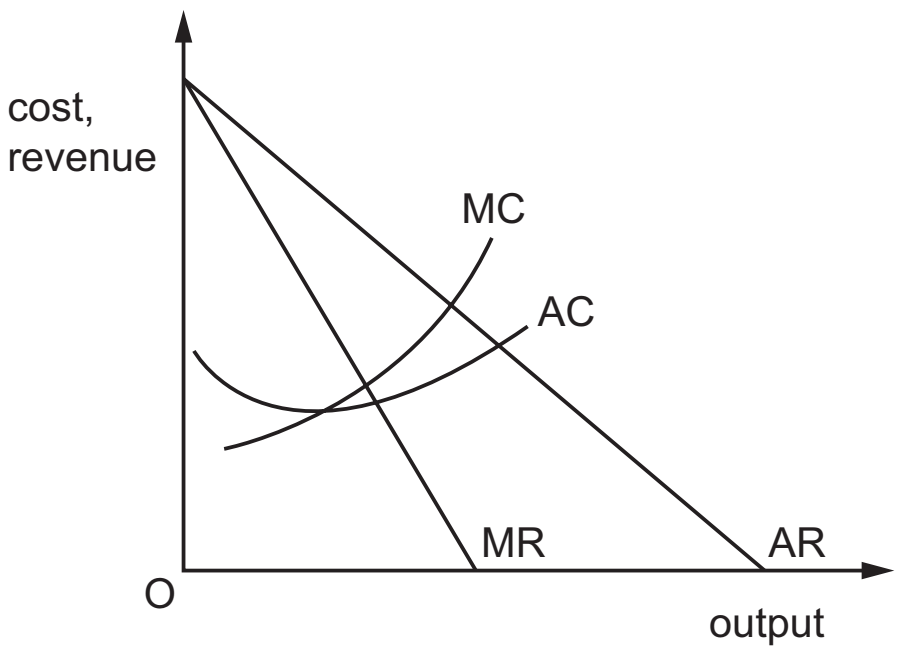
B The firm operates in a monopolistically competitive market.

C The price elasticity of demand for the firm's product is –1.

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

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8 The diagram shows a firm's cost and revenue curves.



The firm changes its objective from profit maximisation to sales revenue maximisation.

Which groups are likely to be winners and losers as a result of this change?

	winners	losers
A	customers	shareholders
B	managers	customers
C	workers	managers
D	shareholders	workers

9 What could be a reason for the existence of small firms in various industries?

A a low minimum efficient scale of production

B greater scope for specialisation and division of labour

C the need to diversify in order to reduce risk

D the principal-agent problem

10 A firm in monopolistic competition that is producing at its profit maximising output is making a loss in the short run.

For it to continue in production, what must be correct about its average revenue (AR), marginal revenue (MR) and average variable cost (AVC)?

A AR = MR; AVC > AR

B AR = MR; AVC < AR

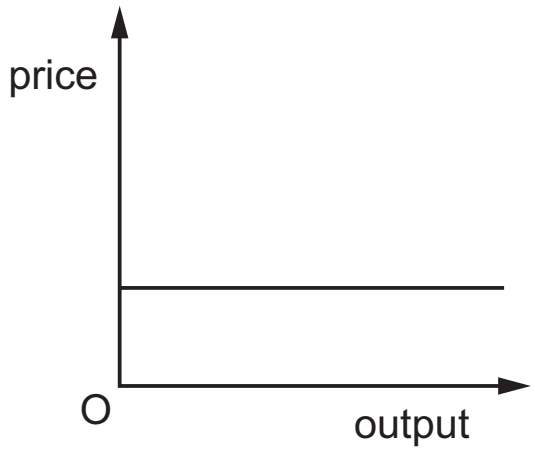
C AR > MR; AVC > AR

D AR > MR; AVC < AR

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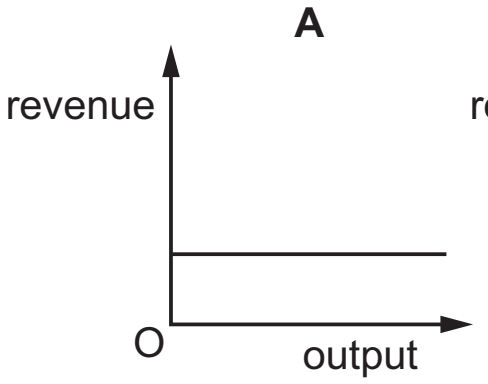
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11 The diagram shows the demand curve for a firm's product.

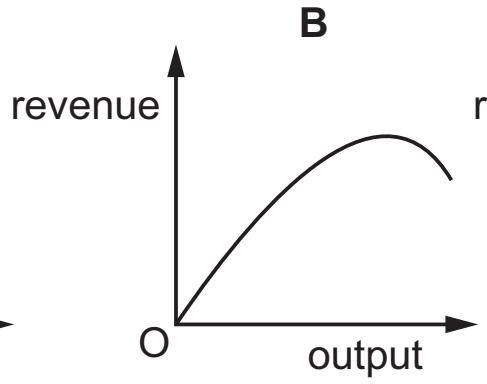


Which diagram shows the shape of the firm's total revenue (TR) curve?

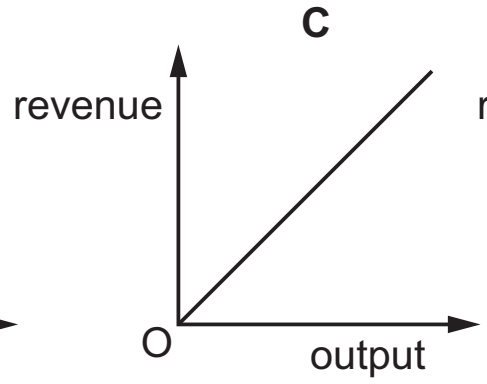
A



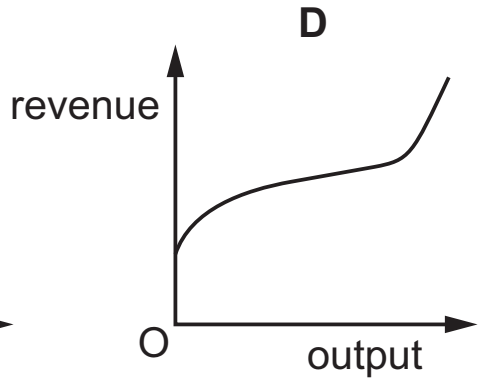
B



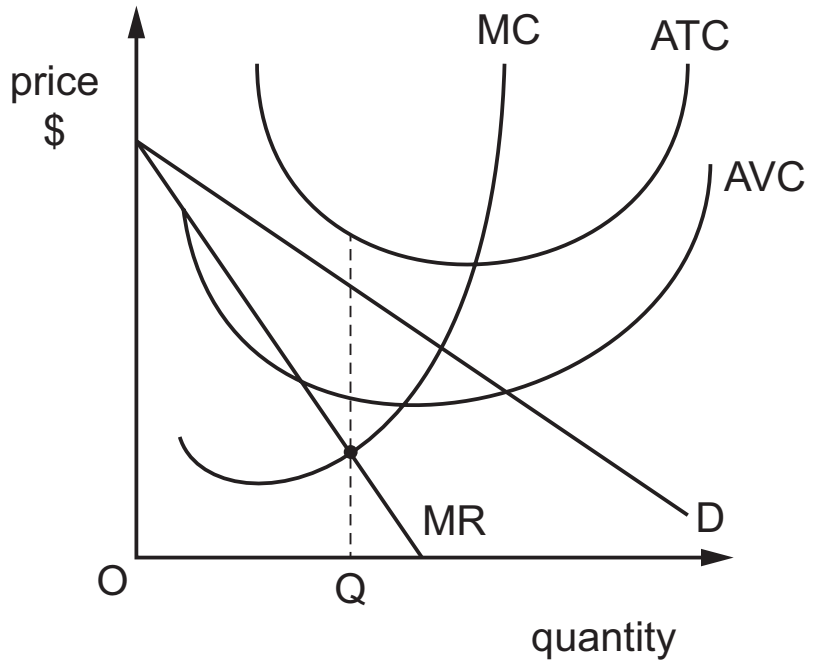
C



D



12 The diagram shows a firm in monopoly producing OQ units.



Which outcome can be observed in the diagram?

A loss minimisation

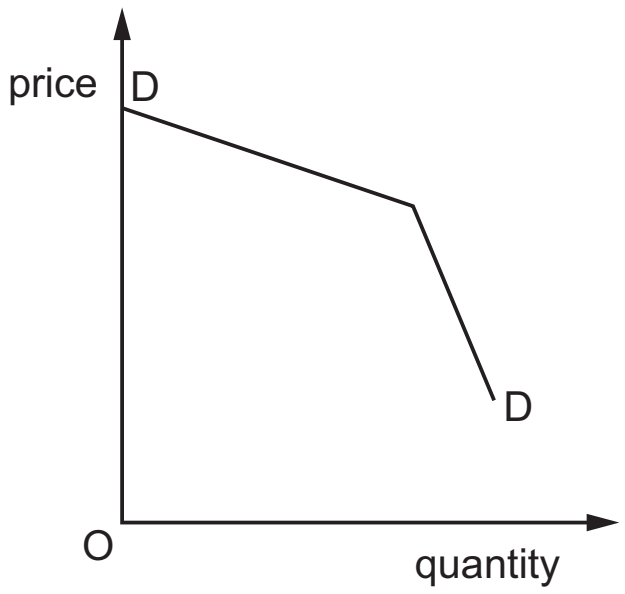
B profit satisficing

C revenue maximisation

D unit cost minimisation

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13 Which feature of oligopoly is being assumed when the demand curve for an individual firm is as shown?



A price discrimination

B price leadership by the dominant firm

C interdependence between firms

D collusion between firms

14 Which statement is most likely to explain why a government decides to increase the highest rates of tax on personal income?

A It expects total tax revenue to be unaffected by the policy change.

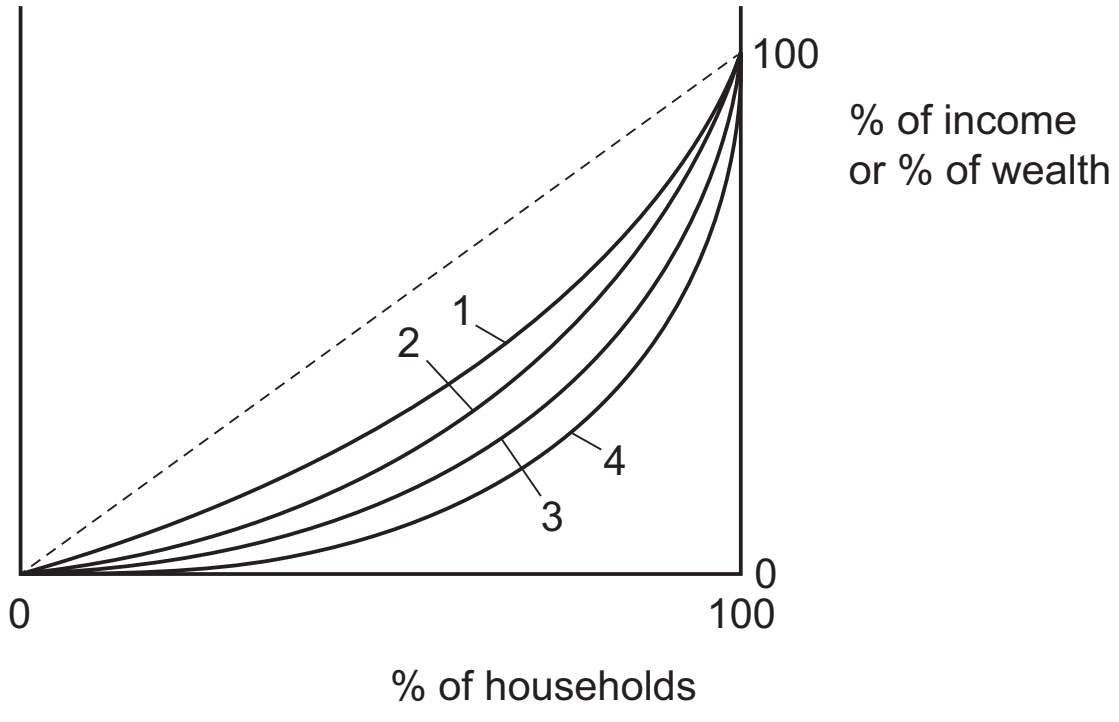
B It is concerned about the possibility of emigration by some high earning individuals.

C It regards equity considerations as being more important than efficiency ones.

D It wishes to switch the emphasis of its tax system from direct to indirect taxation.

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15 The Lorenz curves in the diagram show different distributions of income and of wealth.



Income in a country is more equally distributed than wealth.

In a period the distribution of income becomes more unequal but the distribution of wealth becomes more equal.

Which movement would show the effects of these changes on the distribution of income and wealth within the country?

	distribution of income	distribution of wealth
A	shift from curve 1 to curve 2	shift from curve 4 to curve 3
B	shift from curve 2 to curve 1	shift from curve 3 to curve 4
C	shift from curve 3 to curve 4	shift from curve 2 to curve 1
D	shift from curve 4 to curve 3	shift from curve 1 to curve 2

16 A government wishes to discourage tax avoidance.

Which policy to achieve this would be an example of the behavioural approach of nudge theory?

A compelling direct tax deduction by employers

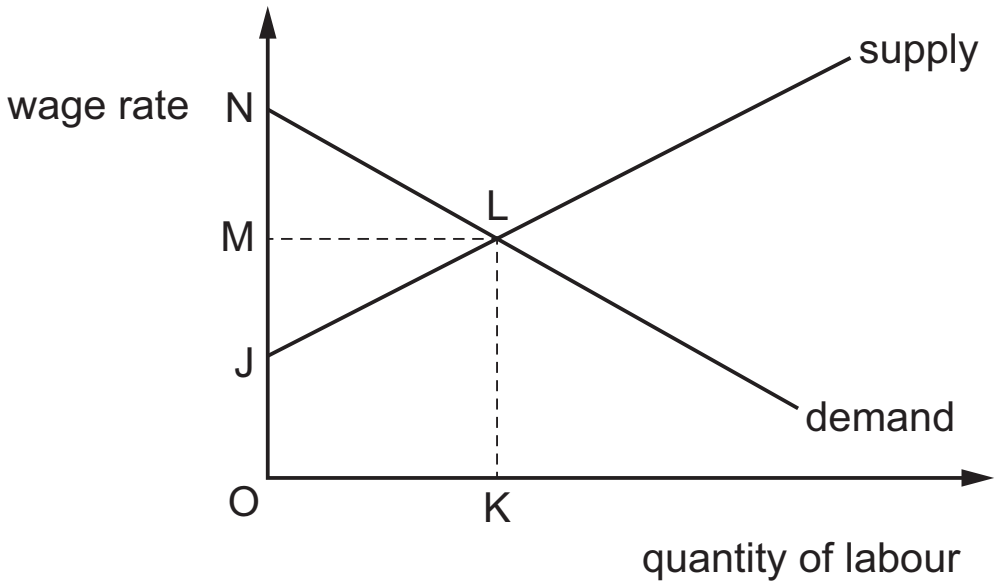
B making random inspections of individual tax records

C providing information on how the tax is spent by the government

D using penalties, such as fines and imprisonment for tax avoidance

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17 The diagram shows the supply and demand situation in a particular labour market.



When the market is in equilibrium, which areas measure the economic rent and transfer earnings received by employees?

	economic rent	transfer earnings
A	JLN	OKLJ
B	JML	OKLJ
C	NML	OKLM
D	OKLM	NML

18 In 2015 a company drilling for oil wished to reduce its workforce because of a fall in the price of oil. The workers' trade union opposed the proposal.

Which situation would have helped the trade union in the negotiations?

A Capital and labour were close substitutes.

B The cost of labour had been a small percentage of total cost.

C The demand for oil had been price inelastic.

D There had been a large supply of labour.

19 Which policy is specifically designed to reduce the level of structural unemployment?

A an increase in the level of state benefits paid to the unemployed

B a reduction in interest rates

C a reduction in the level of direct taxation

D the provision of retraining schemes

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20 What is typically associated with a relatively low level of income per capita in a country?

A low exports

B low inflation

C low investment

D low population

21 During a certain period, a country with a constant population expands its output per head. It also experiences a significant increase in river and atmospheric pollution.

In the absence of any other changes, which measure would show a decrease in living standards?

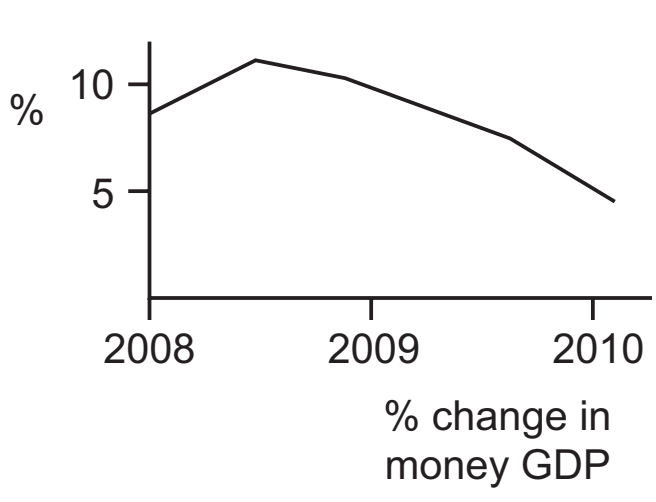
A Gross Domestic Product per head

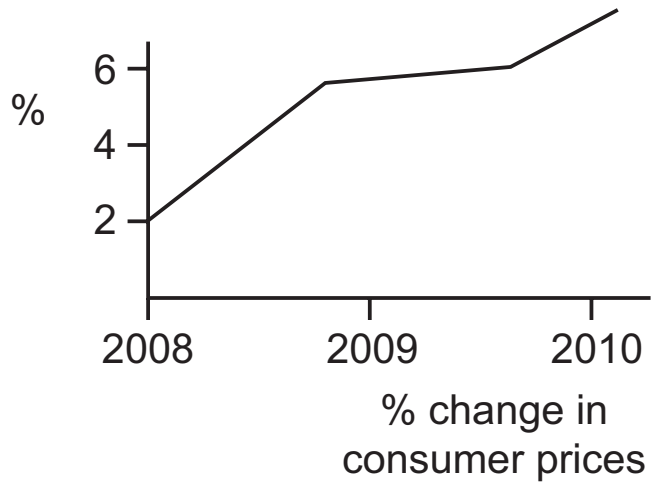
B Gross National Product per head

C Human Development Index

D Measure of Economic Welfare

22 The graphs below show percentage changes in money GDP and consumer prices in a country between 2008 and 2010.





Which conclusion may be drawn from the graphs?

A Between 2009 and 2010 money GDP fell but consumer prices continued to rise.

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

C In real terms GDP grew throughout the period.

D When consumer prices rose, money GDP fell.

23 Why do some economists suggest there may be positive benefits from frictional unemployment?

A A short spell of frictional unemployment may lead workers to become discouraged.

B Frictional unemployment allows time for retraining in newly emerging skills.

C Job search during frictional unemployment may lead to a better match of workers and jobs.

D The psychological effects of frictional unemployment are less than the economic effects.

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24 The table shows the levels of consumption expenditure for given family incomes.

disposable family income ($)	consumption expenditure ($)
2000	2150
3000	3100
4000	4000
5000	4850
6000	5650
7000	6380

Over the range of disposable income shown, as income rises what happens to the marginal propensity to consume?

A It falls and then rises.

B It falls continuously.

C It rises and then falls.

D It rises continuously.

25 Which could cause the official statistics for the national income per head of a developing country to overstate the true level of economic well-being of its inhabitants?

A if there is dependence on barter in internal trade

B if subsistence agriculture dominates total economic activity

C if services are an important component of exports

D if there is extreme income inequality

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26 The table shows some United Nations population statistics for 2010 and estimates for 2050.

types of region	total population (m) 2010	total population (m) 2050	urban population (m) 2010	urban population (m) 2050	population urbanised (%) 2010	population urbanised (%) 2050
more developed regions	1237	1275	930	1100	75	86
less developed regions	5671	7875	2556	5186	45	66
least developed regions	855	1673	249	914	29	55

Which relationship can be confirmed from the table?

A The least developed regions have the largest urban populations, actual or predicted, in both years.

B The more developed regions have the lowest growth rate of urbanisation between 2010 and 2050.

C The type of region with the greatest total population in 2010 is predicted to have the greatest rate of population growth by 2050.

D The type of region with the greatest urban population in 2010 is predicted to have the highest level of urbanisation by 2050.

27 In 2015, the World Bank agreed to give a loan of $650 m to Angola to help stabilise the economy. The Bank said Angola needed to have a fiscal policy that would encourage the diversification of its economy.

Which policy would be consistent with this requirement?

A the lowering of interest rates to encourage investment in solar power

B the relaxing of regulations to allow the development of a new hydro-power project

C the spending of the loan supporting its oil industry after oil prices collapsed

D the subsidising of a partnership with a French company to establish a chain of tourist hotels

28 A country with demand-pull inflation decides to fix its exchange rates against other currencies above the purchasing power parities.

What is likely to happen to the macroeconomic indicators shown?

	interest rate	inflation rate	current account balance
A	decrease	decrease	improve
B	decrease	increase	worsen
C	increase	decrease	worsen
D	increase	increase	improve

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29 In the short run, which policy measure would tend to reduce a country's balance of payments deficit but increase its inflation rate?

A a decrease in the level of import tariffs

B an appreciation of the country's currency

C an increase in the level of indirect taxes

D a reduction in government spending

30 In an economy with unemployed resources the government increases its expenditure.

When would this be least likely to increase national income by the full multiplier effect?

A when the level of autonomous private investment is increased

B when the marginal propensity to save is reduced

C when the government allows money supply to expand

D when the level of interest rates rises

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