Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

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)

8085147248

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 When will an economic activity create an external cost?

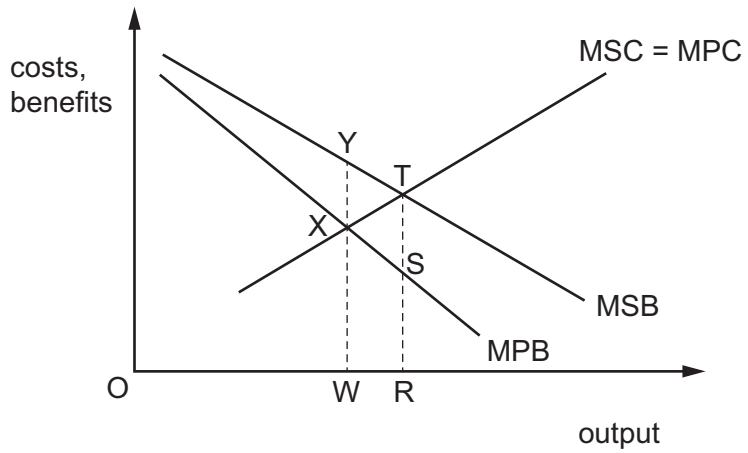
A when its social cost minus its private cost is negative

B when its social cost minus its private cost is positive

C when its social cost minus its social benefit is negative

D when its social cost minus its social benefit is positive

2 A government is planning to intervene in a free market to fix output at the level that maximises the economic welfare of society.



To achieve its objective, what should the government introduce?

A a subsidy of TS

B a subsidy of YX

C a tax of TS

D a tax of YX

3 In a two-person economy, X has an income of $100, whereas Y has an income of $50.

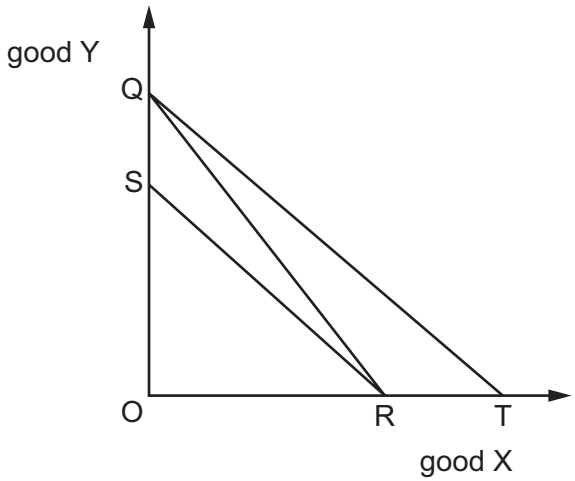
According to the Pareto criterion, which income change would constitute a definite increase in the economic welfare?

	X's income ($)	Y's income ($)
A	75	75
B	85	70
C	95	100
D	130	50

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4 The diagram shows three budget lines, QR, QT and SR.

QR is a consumer's initial budget line.



Which combination of changes could cause the budget line to shift to SR?

	price of good X	consumer's income
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

5 When a firm increases all its inputs by 100%, its output increases by 50%.

What does this illustrate?

A decreasing returns to scale

B economies of scale

C the law of diminishing returns

D the law of variable proportions

6 The demand curve for a good has unit price elasticity throughout its length.

Which statement about marginal revenue is correct?

A It always has a negative value.

B It decreases continuously as price decreases.

C It is always zero.

D It always has a constant positive value.

7 What is true about the average fixed costs of a firm?

A They fall as output rises at first, but then rise.

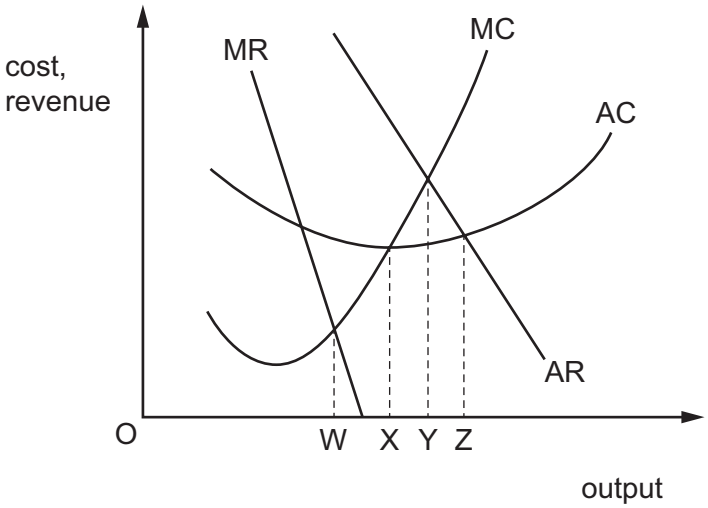
B They fall continuously as output rises.

C They increase continuously as output rises.

D They remain unchanged at all output levels.

8 In the diagram

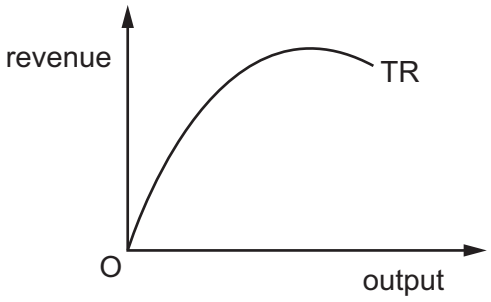
MC = marginal cost; AC = average cost; MR = marginal revenue; AR = average revenue.



What will be the output of a profit-maximising firm whose cost and revenue functions are shown above?

A OW **B** OX **C** OY **D** OZ

9 The diagram shows a firm's total revenue curve.



At the curve's highest point

A marginal revenue is equal to marginal cost.

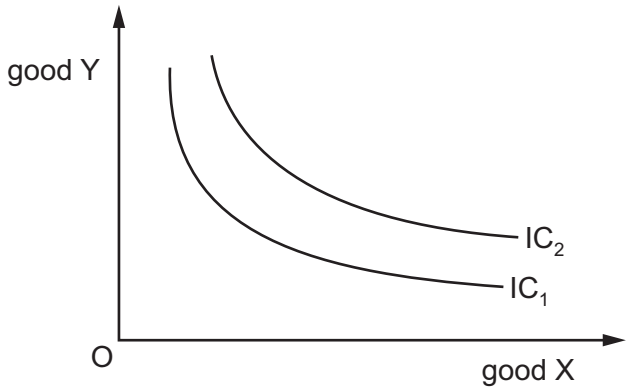
B average revenue is equal to average cost.

C marginal revenue is equal to average revenue.

D marginal revenue is zero.

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10 The diagram shows two indifference curves for a consumer.



What necessarily differs between IC_1 and IC_2?

A level of income

B level of satisfaction

C price of good X

D price of good Y

11 Firms in a market advertise their products with different brand names. Some make more profit than others in the short run but all make normal profit in the long run.

Which market structure is this?

A perfect competition

B monopolistic competition

C oligopoly

D monopoly

12 Which feature of an oligopoly can be explained by the kinked demand curve model?

A collusion between firms in the determination of the industry price

B price leadership by one firm in the industry

C the ability of firms to earn abnormal profits in the long run

D the reluctance of firms to alter prices

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[Turn over

13 The table shows percentage (%) market share of smartphone operating systems (OS) for Great Britain (GB) and the United States (US) in January 2012 and July 2015.

OS system	GB 2012 (%)	GB 2015 (%)	US 2012 (%)	US 2015 (%)
V	49.3	54.3	43.0	65.6
W	15.7	1.0	3.3	0.4
X	29.3	32.7	50.6	30.1
Y	2.4	12.0	2.1	3.8
Z	3.3	0.0	1.0	0.1

What can be concluded from the table about changes between 2012 and 2015?

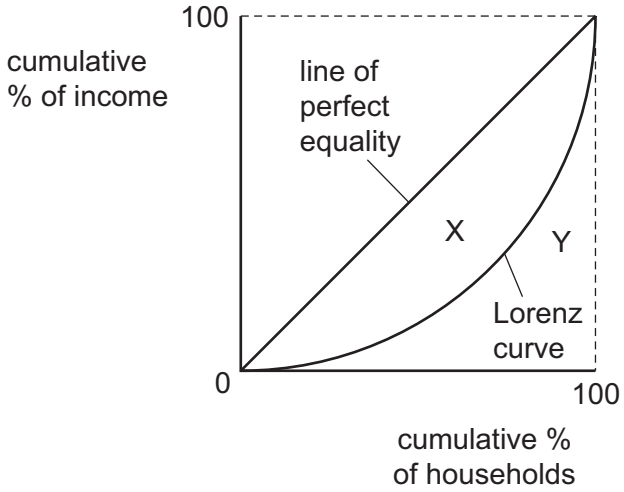
A The dominant firm in each country increased its market power.

B The firms counted in the three-firm concentration ratio remained the same in both countries.

C The three-firm concentration ratio decreased in both countries.

D The three-firm concentration ratio showed the same trend in both countries.

14 The diagram shows a Lorenz curve, with two areas, X and Y, identified.



How is the corresponding Gini coefficient calculated?

A X divided by (X plus Y)

B X plus Y divided by X

C X plus Y divided by Y

D Y divided by (X plus Y)

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15 The government of a country wants to achieve a more equitable distribution of income.

Which combination of measures is likely to be most effective in achieving this aim?

	tax-free income allowance	welfare benefits
A	decrease	reduce means-tested benefits
B	decrease	reduce universal benefits
C	increase	increase means-tested benefits
D	increase	increase universal benefits

16 A shopkeeper earns $75 per week, but he would be willing to carry on working in his shop for up to $25 per week less. Therefore, $50 is his level of

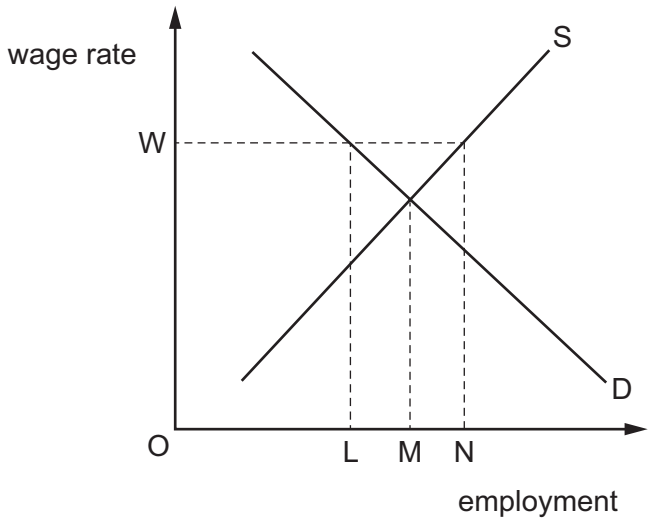
A marginal revenue product.

B producer's surplus.

C economic rent.

D transfer earnings.

17 The diagram shows the supply and demand for labour in an industry.



Initially the industry's labour market is in equilibrium.

What effect will the introduction of a minimum wage OW have on the level of employment in the industry?

A It will decrease by LM.

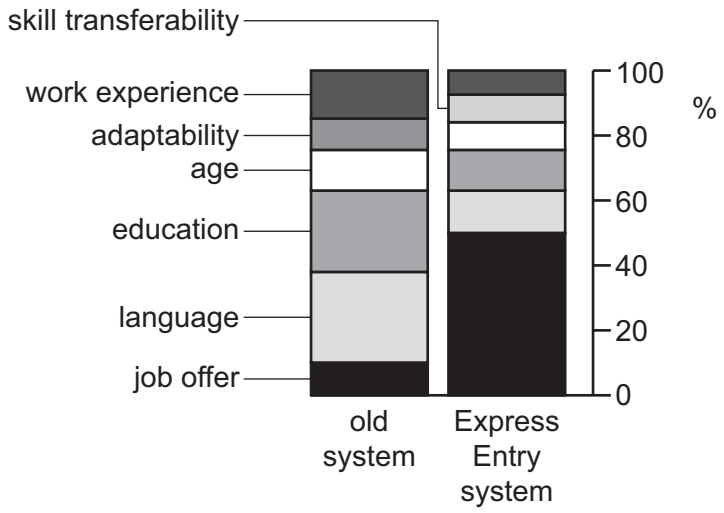
B It will decrease by LN.

C It will increase by LN.

D It will increase by MN.

18 Immigrants are awarded entry points according to their ability to fulfil criteria set by the Canadian Government. A new Express Entry system for the immigration of skilled workers was introduced. The diagram shows the change in the relative importance or weighting given to these criteria between the old and new systems.

Criteria weighting (%) for skilled worker immigration



What can be concluded from the diagram?

A Canada intended to maintain the same level of skilled immigrants under both systems.

B Canada wanted a smaller number of highly educated skilled immigrants.

C Certainty of employment for skilled immigrants was made the main criterion.

D Skilled immigrants needed to have fewer years of work experience than previously.

19 It has been observed that increased growth in consumer spending results in an increase in investment by firms.

Which principle of macroeconomic theory explains this relationship?

A the accelerator

B the liquidity trap

C the marginal efficiency of capital

D the multiplier

20 What is the value of the multiplier in an economy with no government where the marginal propensity to save is $\frac{1}{6}$ and the marginal propensity to import is $\frac{1}{3}$?

A $\frac{1}{2}$ **B** $1\frac{1}{2}$ **C** 2 **D** 3

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21 The table refers to an open economy with a government sector.

In which situation is the economy in disequilibrium?

	C	I	S	G	T	X	M
A	400	150	80	150	200	120	100
B	450	150	100	150	230	120	90
C	480	150	110	150	210	120	100
D	520	150	120	150	210	120	90

22 How do commercial banks create money?

A by cashing cheques for their customers

B by increasing their reserves at the central bank

C by making loans to customers

D by charging customers for banking services

23 What are the variables identified on the axes of a Kuznets curve diagram?

	vertical (Y) axis variable	horizontal (X) axis variable
A	cumulative % of income	cumulative % of families
B	measure of inequality	income per capita
C	measure of standard of living	economic growth rate
D	tax revenue	tax rate

24 A developing country experiences economic growth.

The economic growth is most likely to lead to economic development when it

A causes rapid rural to urban migration.

B is based on the extraction of mineral raw materials.

C mainly rewards the country's entrepreneurs.

D results from the expansion of labour-intensive industries.

25 Between 2014 and 2015 the Polish economy expanded at a rate of 3.3%.

What necessarily follows from this statement?

A The cost of living rose by 3.3%.

B The output of the industrial sector rose by 3.3%.

C There was increased demand which caused inflation.

D There was positive economic growth.

26 The graphs indicate economic performance in a country between 2011 and 2014.



Which conclusion may be drawn from the graphs?

A Between 2011 and 2012 industrial production and GDP fell but prices rose.

B Between 2012 and 2013 the rates of growth of industrial production, GDP and prices all increased.

C GDP and industrial production were at their lowest in 2012.

D At no time between 2011 and 2014 did industrial production, GDP or prices fall.

27 What will result in the short run from rising unemployment in an economy?

A The government's budget deficit will fall.

B Any existing inflationary pressure will be reduced.

C Potential output will fall.

D The economy's production possibility curve will move inwards.

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28 In 2015 a political party proposed a policy of quantitative easing (the creation of money by the central bank).

When would such a policy be least likely to destabilise the macro economy in the short run?

A when the economy was experiencing a high level of inflation

B when the economy had price stability but there was full employment of the labour force

C when there existed a deep recession with high levels of unemployment

D when there was full employment and a current account balance of payments deficit

29 In 1979 in the UK the marginal rate of income tax imposed on the highest earners was 83% which increased to 98% if income was received from interest or dividends. By 1989 the highest marginal rate was reduced to 40%. Despite this reduction, the tax revenue raised from the highest earners increased substantially.

Which theoretical concept illustrates this relationship between tax rates and tax revenue?

A the J curve

B the Laffer curve

C the Marshall-Lerner condition

D the Phillips curve

30 Which factor has been least associated with the rapid growth of many economies recently?

A high savings rates as a percentage of national income

B more efficient mechanisms for transmitting funds from savers to investors

C more emphasis on detailed government planning

D more openness to foreign trade and investment

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