Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2018**

1 hour 15 minutes

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

9408192209

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 A government makes a study of the costs and benefits of allowing a leisure company to develop a holiday resort in an area of natural beauty.

When should the government allow this development to take place?

A if private benefits exceed private costs

B if private costs exceed private benefits

C if social benefits exceed social costs

D if social costs exceed social benefits

2 What is an example of market failure?

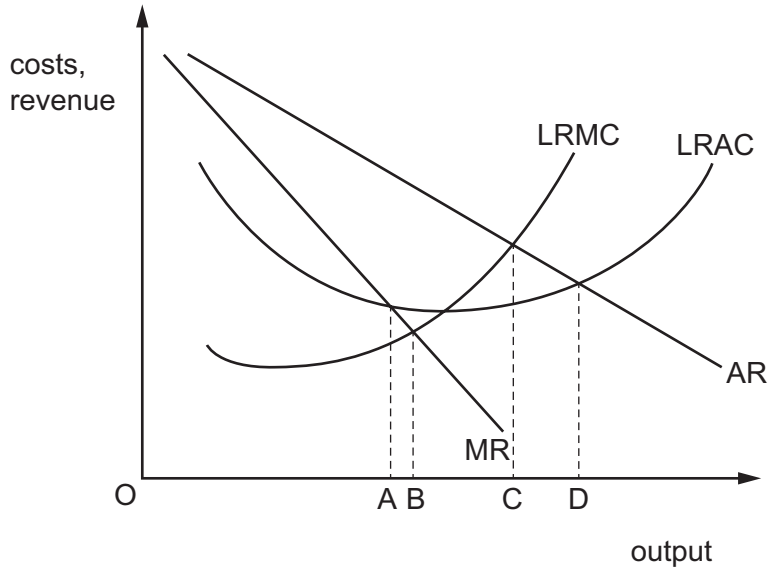
A atmospheric pollution in cities due to emissions from cars

B free entry for children to an art gallery

C high rents for housing occupied by low income households

D the inability of some football supporters to afford tickets to watch games

3 The diagram shows a firm's long-run cost and revenue curves.



At which level of output is the firm both allocatively and productively efficient?

A OA **B** OB **C** OC **D** OD

4 When does the slope of a budget line always change?

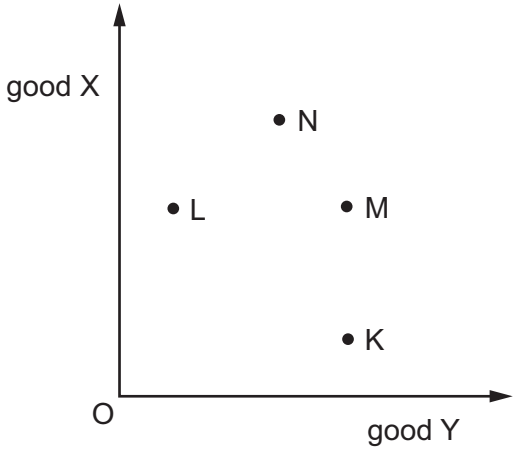
A A person buys more of one of the two goods.

B A person's income changes.

C One of the two goods becomes more desirable.

D The price of one of the two goods changes.

5 The points in the diagram represent different combinations of good X and good Y.



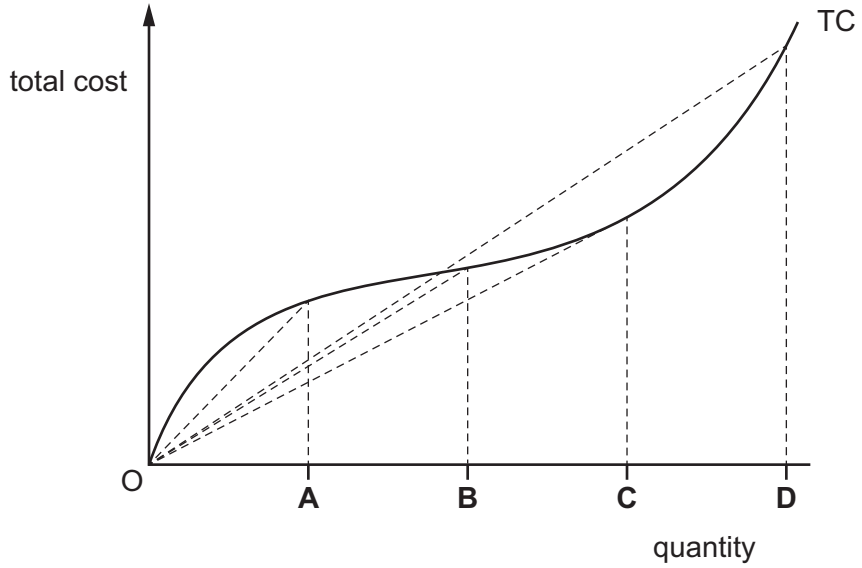
An individual prefers more of both goods to fewer, but would prefer not to give up even a single unit of X to obtain additional units of Y.

How would she rank (in descending order of preference) the combinations shown in the diagram?

A KLMN **B** LNKM **C** MKNL **D** NMLK

6 The diagram shows a firm's total cost curve.

At which level of output will the firm's marginal cost be equal to its average cost?



7 What is necessary for a firm to practise price discrimination?

A There are many buyers in the market.

B There are many firms in the market.

C The markets can be separated.

D The price elasticity of demand for the product is inelastic.

8 A mobile (cell) telephone manufacturing company takes over an electronic chip design company.

This is an example of which type of growth?

A horizontal

B lateral

C vertical backwards

D vertical forwards

9 An imperfectly competitive firm was making supernormal profits. The following year it made normal profit with no change in output.

How could this situation be shown on a diagram for an imperfectly competitive firm?

A by a movement to the left of the average revenue curve

B by a movement to the right of the marginal revenue curve

C by a shift to the right of the marginal cost curve

D by an upward shift in the average cost curve

10 What is implied by an observation that an industry is contestable?

A Barriers to entry make little difference to a firm's monopoly power.

B Firms in the industry can earn abnormal profits in the long run.

C Inefficient firms can survive in the industry in the long run.

D Monopoly power is not necessarily exploited.

11 What is likely to facilitate the growth of large firms in an economy?

A an industry structure which approximates to perfect competition

B dividend payments are a low proportion of company profits

C government regulations preventing takeovers

D the existence of managerial diseconomies of scale

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12 A firm changes its objective from maximising profit to producing at the allocatively efficient output.

In which market structure must the firm operate for this to cause the **least** change in economic welfare?

A monopolistic competition

B monopoly

C oligopoly

D perfect competition

13 Which government policy is intended to correct 'market failure'?

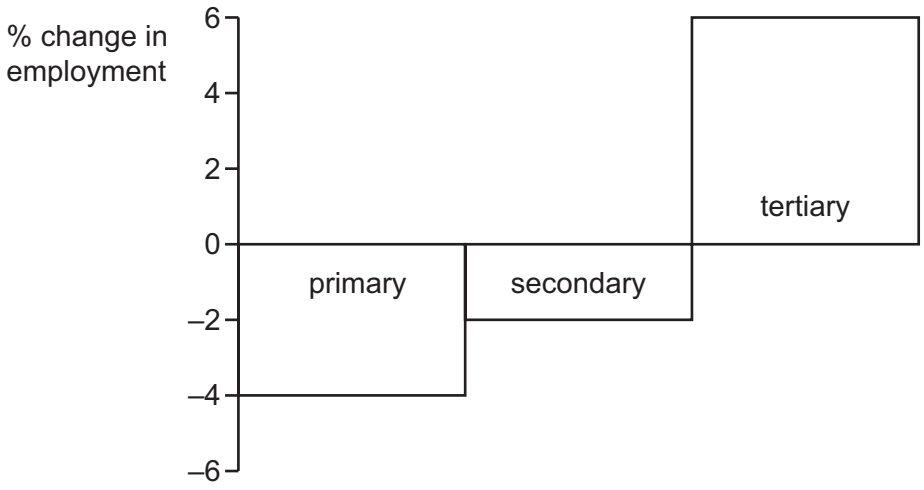
A guaranteed minimum prices for farmers producing certain agricultural products

B imposition of taxes on factories releasing pollutants into rivers

C rent controls on housing occupied by low income individuals

D the provision of free books for children of poorer households

14 The chart shows changes in employment by sector for a country between 2010 and 2016.



Which statement about the period 2010 to 2016 must be correct for this country?

A Employment in service industries increased.

B The primary sector lost more workers than the secondary sector.

C There was no change in the total working population.

D Unemployment stayed constant.

15 An engineer is paid $100 000 a year.

The next best paid job she could get is as a teacher at $60 000 a year.

What are her transfer earnings and her economic rent?

	transfer earnings $	economic rent $
A	60 000	zero
B	60 000	40 000
C	100 000	zero
D	100 000	40 000

16 What will necessarily cause the supply curve of labour in a particular industry to shift to the right?

A a fall in wages paid in similar occupations

B a greater use of machinery

C an increase in demand for the product

D a strengthening of trade union influence in the industry

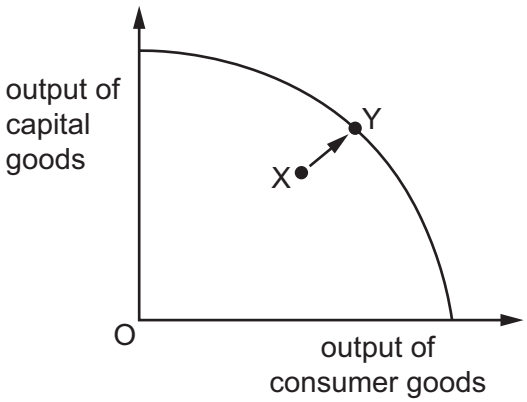
17 A café owner near a beach employed five staff and paid them each $10 an hour. During the holiday season two extra staff were needed. To get extra staff the employer had to increase the hourly rate for all staff to $12 an hour.

What was the marginal cost each hour of employing two extra staff?

A $2 **B** $24 **C** $34 **D** $84

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18 The diagram shows an economy's production possibility curve.



What causes a movement from point X to point Y?

A a positive output gap

B a recession

C actual economic growth

D potential economic growth

19 In an economy real national output increases more rapidly than the increase in employment.

What could account for this?

A a decrease in the general price level

B an improvement in the country's terms of trade

C an increase in labour productivity

D an increase in the size of the labour force

20 The table shows what has happened to three economic indicators between two years in a country.

When would GDP have been the most accurate measure of the standard of living in that country?

	population	inflation rate	income distribution
A	constant	low and stable	equal
B	constant	low and unstable	unequal
C	rising	low and stable	equal
D	rising	low and unstable	unequal

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21 What is assumed in the explanation of cyclical unemployment?

A Employers employ more labour if aggregate demand decreases.

B Exchange rates ensure the value of imports is always equal to the value of exports.

C Interest rates make planned investment equal to planned savings.

D Money wages are inflexible in a downward direction.

22 What identifies net injections into a country's circular flow of income?

	I > S	X < M	G < T
A	✓	✗	✓
B	✓	✗	✗
C	✗	✓	✓
D	✗	✓	✗

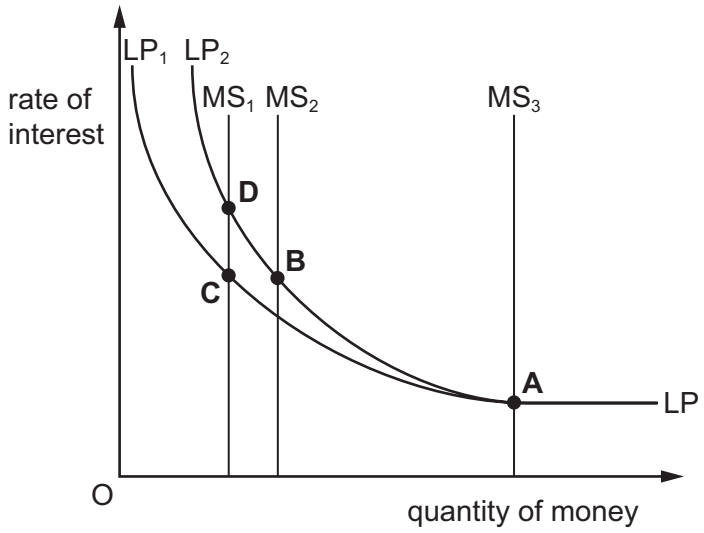
key

✓ = yes

✗ = no

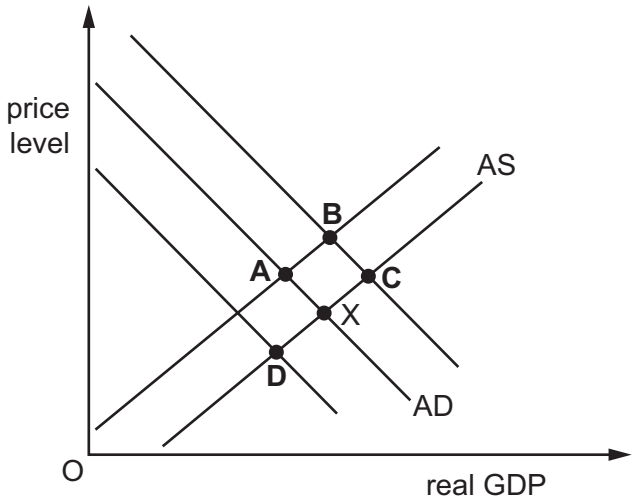
23 According to JM Keynes, sometimes monetary policy is ineffective. The supply of money (MS) is assumed to be controlled by the central bank. The demand for money is LP and there has been an increase in real income in the economy.

In the diagram which position makes monetary policy ineffective?



24 The US economy, which relies heavily on international trade to obtain raw materials and to sell products, is in equilibrium at point X.

If the value of the US$ falls, what would be the new equilibrium point?



25 From any additional national income, 20% is spent on imports, 25% is paid in taxes, 5% is saved and the rest is spent on domestically produced goods.

According to the multiplier effect, if exports increase by $100 million, what will be the final increase in spending by the country's residents on domestically produced goods?

A $50 million **B** $100 million **C** $200 million **D** $500 million

26 In a Keynesian model, why would a $100 million increase in government expenditure on goods and services have a greater impact on aggregate demand than a $100 million reduction in tax revenue?

A Consumers spend only part of any extra disposable income.

B Government expenditure does not create wealth.

C The marginal tax rate affects the value of the multiplier.

D The multiplier does not apply to consumer expenditure.

27 Equilibrium income in the economy is the level of national income at which

A the economy is producing at full employment national income.

B the inflow and outflow of currency is equal.

C the government's expenditure is equal to the government's revenue.

D there is no tendency for the national income to change.

28 What is **not** an automatic stabiliser?

A income tax

B profits tax

C state retirement pension

D unemployment benefit

29 Which policy is most likely to allow a developed economy to meet all its macroeconomic objectives?

A lowering interest rates to raise actual growth above potential growth

B supply-side reform to increase product and factor market flexibility

C tax reform to make the system of taxation increasingly regressive

D the introduction of tariffs to protect domestic industry

30 A government is increasing the role of market forces in its economy. However, it imposed temporary maximum price controls.

Why might a government, committed to reducing central planning, introduce price controls?

A to increase allocative efficiency

B to increase the incentive for producers to raise supply

C to reduce consumer demand

D to reduce expectations of inflation

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