Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

3891506080

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 How is social cost calculated?

A external cost minus external benefit

B external cost minus private cost

C external cost plus private cost

D social cost minus social benefit

2 Which government policy is **not** aimed at correcting inefficiency in resource allocation?

A marginal cost pricing in state owned industries

B permits restricting the pollution of rivers by private firms

C requiring firms to pay a minimum wage

D the provision of public goods at zero price

3 The table shows some of the costs and benefits, in $ millions, associated with a road building project. Both a government department and a profit-maximising private firm are considering building the road.

private costs	external costs	external benefits	social benefits
450	75	50	550

Who would be willing to build the road?

A Both would be willing to build it.

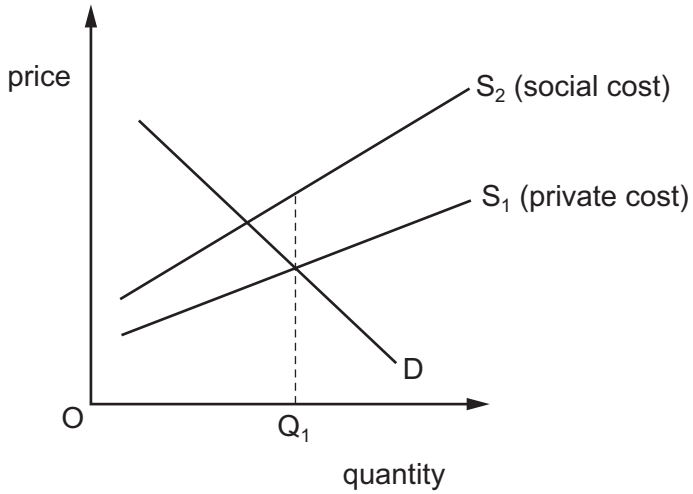
B Neither would be willing to build it.

C Only the government department would be willing to build it.

D Only the private firm would be willing to build it.

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4 In the diagram, Q_1 is the quantity produced of a good as the result of market forces.



Which concept is present at output Q_1?

A a government subsidy

B a negative externality

C a positive externality

D a specific tax

5 What would **not** affect the budget line of an individual consumer?

A the individual's preference for various goods

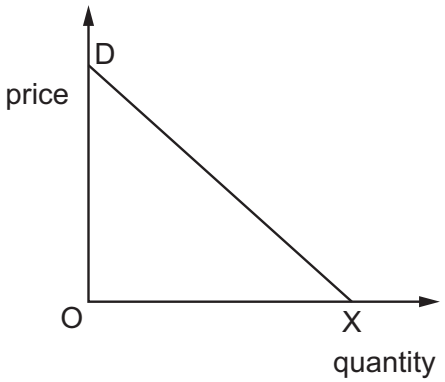
B the level of income tax

C the money prices of goods

D the wages earned by the individual

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6 The diagram shows the demand curve for a product.



What is maximised at X?

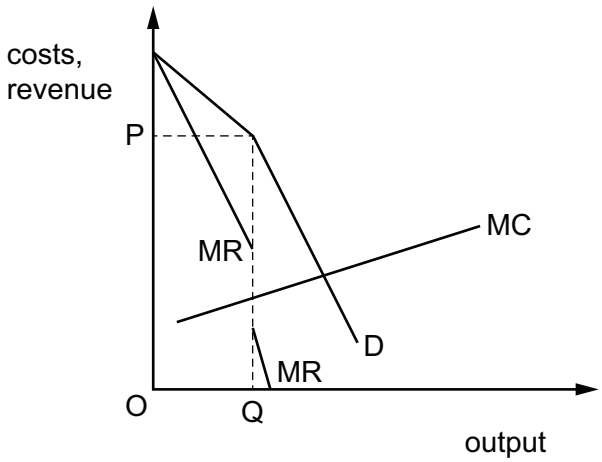
A marginal revenue

B total revenue

C marginal utility

D total utility

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



Which features are associated with the diagram?

A economies of scale and allocative efficiency

B interdependence and allocative efficiency

C price rigidity and economies of scale

D price rigidity and interdependence

8 In the year ending July 2016, airline fuel prices fell by 20.4% while the price of passenger aircraft increased by around 1.1%.

Assuming no other changes in the passenger airline industry, what was the outcome for fixed costs and variable costs?

	fixed costs	variable costs
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

9 Which feature of production would make it more likely that an industry is a contestable market?

A advertising has established consumer loyalty

B all firms in the industry share research and development

C low fixed costs

D market rivals aim to reduce product differentiation

10 What is an example of backward vertical integration?

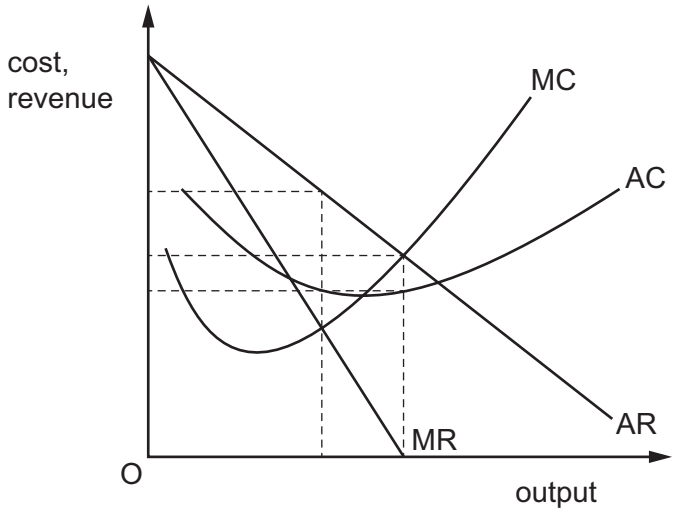
A a bakery buying a wheat farm

B a car manufacturer buying a car showroom

C a vineyard buying an apple orchard

D two rival supermarkets joining together

11 The diagram shows a firm in imperfect competition. It changed its aim from profit maximising to sales revenue maximising.



Which type of profit was it making in each case?

	profit maximising	sales revenue maximising
A	normal profit	supernormal profit
B	subnormal profit	normal profit
C	supernormal profit	normal profit
D	supernormal profit	supernormal profit

12 An airline sells seats at $100 each three months before a flight, at $150 each one month before the flight and at $200 each the day before the flight.

What describes this type of market behaviour by the firm?

A limit pricing to deter entry in an imperfect market

B price discrimination by a monopoly supplier

C price leadership by an oligopolist

D pricing where price equals average cost under perfect competition

13 What would **not** be an indication of a divergence between the interests of the managers and the shareholders of a company?

A an emphasis on sales maximisation

B management salaries which are linked to the long-run growth of the company's share price

C the acceptance of 'X' inefficiency in the company's production process

D the purchase of artwork for a company's headquarters

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14 The total cost to a school of employing ten cleaners is $60 per hour.

The school estimates that the hourly marginal cost of employing an eleventh cleaner would be $11.50.

By how much would the hourly wage have to increase to employ an additional cleaner?

A $0.50 **B** $0.65 **C** $2.25 **D** $11.50

15 What would cause a rise in the productivity of labour?

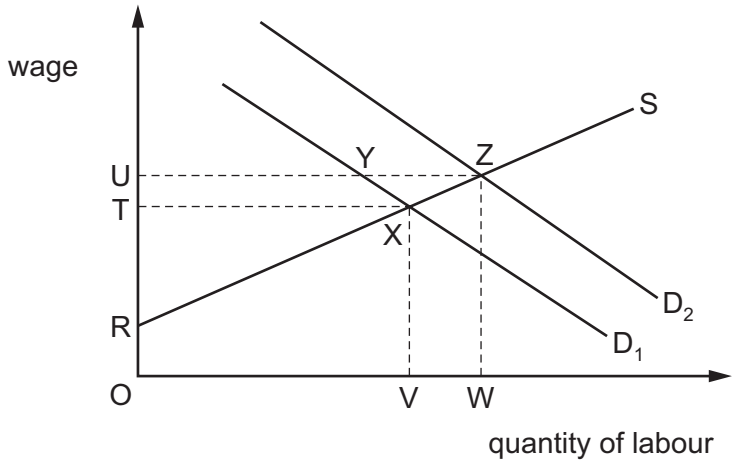
A an increase in indirect taxes

B an increase in the quality of capital

C a rise in consumer surplus

D a rise in the elasticity of supply of labour

16 In the diagram D_1 and S are the initial demand and supply curves for building workers.



If the demand for building workers increases to D_2 by how much does the economic rent earned by building workers rise?

A RUZ **B** TUZX **C** VXZW **D** XYZ

17 Under which circumstances will a subsidy from the government be most beneficial if there are externalities from producing good X?

	externality caused by good X	price elasticity of demand of good X
A	negative	<1
B	negative	>1
C	positive	<1
D	positive	>1

18 Which tax would help a government achieve a more equal distribution of income after tax?

A a constant rate sales tax applicable to all goods and services

B a constant rate tax per person

C an income tax with a constant marginal rate over the whole income range

D an income tax with a tax-free allowance and a constant marginal rate thereafter

19 A country has a population of 100 million. There are 5 million people unemployed and the country has an unemployment rate of 10%.

What is the size of the labour force?

A 10 million **B** 50 million **C** 90 million **D** 95 million

20 Which type of unemployment is correctly linked to the description of its cause?

	type of unemployment	description of the cause
A	cyclical	a change in demand due to holiday periods
B	frictional	a lack of sufficient information
C	structural	a temporary change in consumers' expenditure
D	technological	a general decrease in the demand for goods

21 Growth rates can be calculated using changes in the value of GDP from year to year.

Why is real GDP per head considered to be a better indicator than nominal GDP per head for this calculation?

A Real GDP adjusts for price changes by using a base year.

B Real GDP ignores the effects of fluctuations in exchange rates on purchasing power.

C Real GDP includes changes in the size of the population.

D Real GDP measures GDP at factor cost rather than market prices.

22 What would **not** exist in a free market, open economy?

A autonomous investment

B household saving

C import spending

D indirect taxation

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23 The information in the table is taken from a country's national income accounts.

income	US $ (millions)
wages	8000
salaries	7000
unemployment benefit	1000
pensions	1000
rent	3000
interest	2000

What is the value of national income?

A 17 000 **B** 19 000 **C** 20 000 **D** 21 000

24 What is a part of Keynesian economic analysis?

A a liquidity trap below which interest rates are ineffective

B an equilibrium price that always clears the market

C a small value for the government expenditure multiplier

D a vertical short-run aggregate supply curve

25 What will definitely increase a country's Gross National Product?

A an increase in income taxes

B an increase in the marginal propensity to import

C an increase in the value of a country's currency

D increased government expenditure on education

26 According to the accelerator theory, what determines this year's net investment?

A last year's consumption

B last year's output

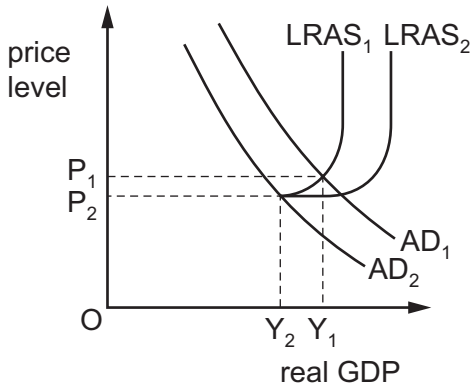
C the change in last year's investment

D the change in last year's national income

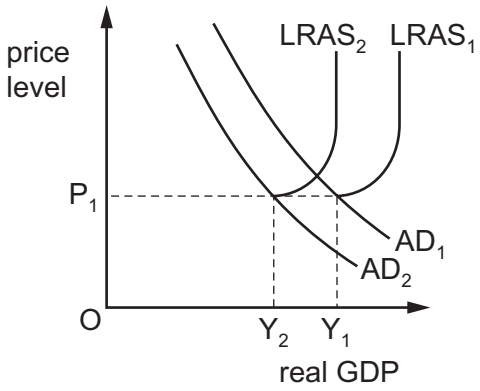
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27 Which diagram shows an economy experiencing an increase in actual output but a decline in potential output?

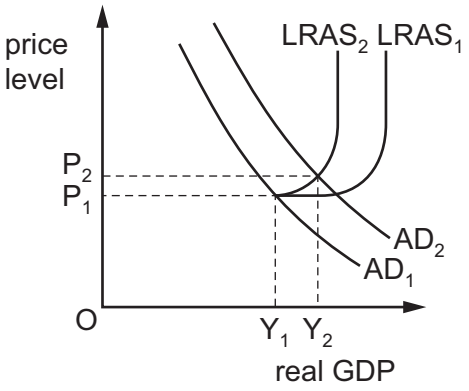
A



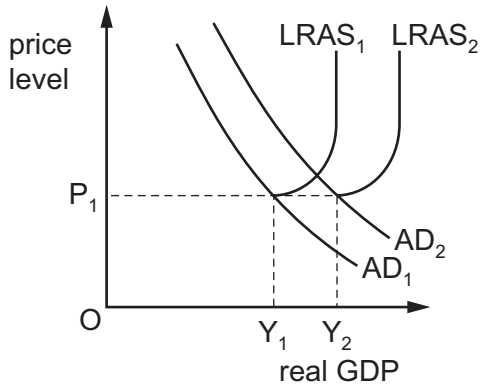
B



C



D



28 What is likely to follow if a central bank sets negative interest rates?

A an increase in government revenue

B an increase in the rate of inflation

C a reduction in bank lending

D deflation in the economy

29 The Consumer Prices Index (CPI) fell by 3% in a year. Unemployment was regarded as unacceptably high.

Which combination of policies would a government be most likely to adopt in such circumstances?

A an appreciation of the currency, together with an increase in the rate of interest

B increased government expenditure on education, together with an increase in taxes to pay for it

C increased indirect taxes, together with a depreciation in the exchange rate

D reduced income taxes, together with a cut in the rate of interest

30 Other things being equal, what is most likely to result from an increase in a country's interest rates?

A a capital inflow

B a depreciation of the currency

C an increase in consumption

D an increase in investment

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