Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

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)

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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 **10** printed pages and **2** blank pages.

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1 What is an example of external benefits?

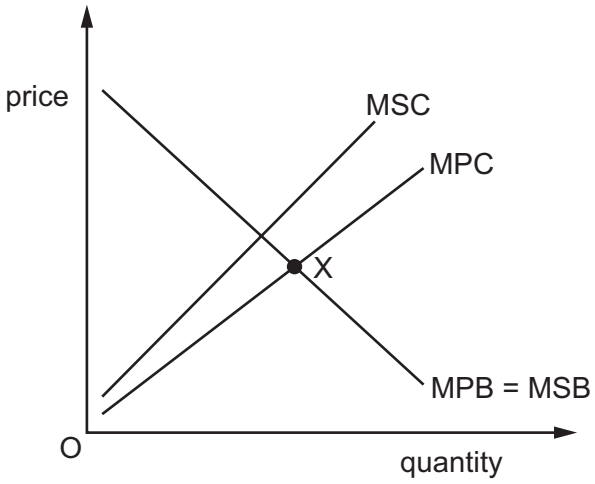
A personal benefits from drinking tea with friends

B the benefits of education to both the individual and society as a whole

C the benefits to third parties of vaccinations

D welfare benefit payments such as government provided pensions

2 The diagram shows the marginal private benefit (MPB), the marginal private cost (MPC) and the marginal social cost (MSC) for firms in an industry. The equilibrium price is point X.



What should happen to achieve allocative efficiency?

A a decrease in consumption and an increase in price

B a decrease in production and no change in price

C an increase in consumption and a decrease in production

D an increase in price and no change in production

3 In deciding whether to invest in a new project, what would be taken into account in government cost-benefit analysis but **not** by a private company?

A consultancy fees

B consumer surplus

C interest charges

D tax payments

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4 What is **not** held constant when calculating the income effect of a change in the price of a good?

A the consumer's money income

B the consumer's preferences

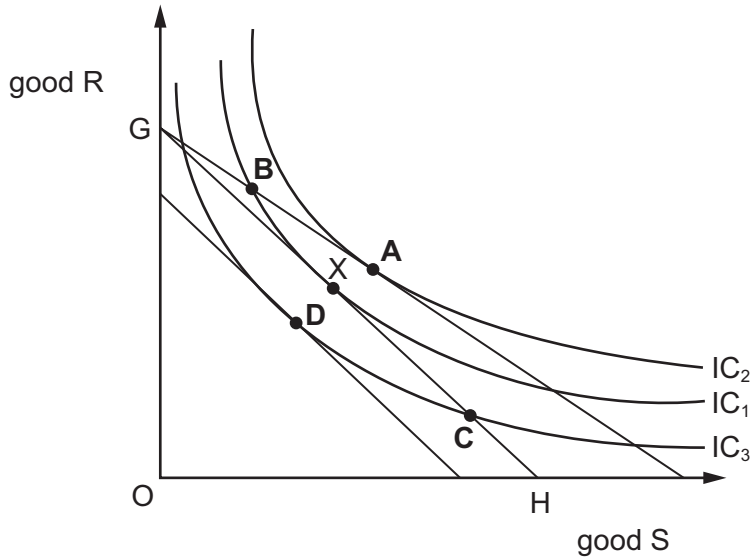
C the consumer's real income

D the prices of other goods

5 The diagram shows a consumer's initial budget line is GH and a set of indifference curves IC_1, IC_2 and IC_3 for goods R and S. The original equilibrium for the consumer is point X.

The inflation rate is rising faster than money incomes.

What will be the most likely new equilibrium for the consumer if income is spent?



6 Firms X, Y and Z are profit maximising private firms.

X operates in a perfectly competitive industry, Y in a monopolistically competitive industry and Z is a single monopolist.

Which statement is correct?

A Only X satisfies the condition for allocative efficiency.

B Only X faces no barriers to entry in the long run.

C Only Y and Z can make a supernormal profit in the long run.

D Only Z has a product differentiation.

7 What are the correct formulae for calculating average cost (AC) and average revenue (AR)?

	AC	AR
A	$\frac{TC}{MC}$	$\frac{TR}{MR}$
B	$\frac{TC}{P}$	$P \times Q$
C	$\frac{TC}{Q}$	$\frac{P \times Q}{Q}$
D	$\frac{TC}{Q}$	$\frac{TR}{P}$

key
MC = marginal cost
MR = marginal revenue
P = price
Q = quantity
TC = total cost
TR = total revenue

8 A Hawker Centre where there are many outdoor stalls is a popular and cheap place to eat in Singapore. They sell a large variety of food but many sell the same dishes cooked in different ways. The cost of setting up a stall is low and prices charged are very similar.

Of which market structure is this an example?

A monopolistic competition

B monopoly

C oligopoly

D perfect competition

9 What is an example of horizontal integration?

A A bank takes over a travel agent.

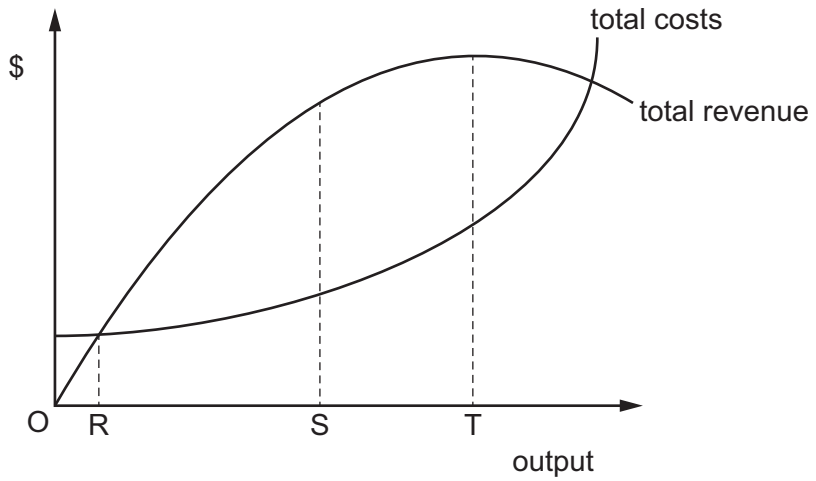
B A car manufacturer buys a component supplier.

C A cotton mill doubles its output of existing products.

D Two breweries merge.

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10 The diagram shows a firm that is a sales revenue maximiser.



What is correct for this firm?

A Output takes place at R and price is at its highest.

B Output takes place at S and profits are maximised.

C Output takes place at T and price is equal to the profit maximising price.

D Output takes place at T and price is lower than the profit maximising price.

11 What is an essential feature of the principal-agent problem?

A the aim of the firm is profit maximisation

B the need for co-operation between firms in the same industry

C the separation of ownership and control

D the uncertainty about a rival competitor's pricing policy

12 Which characteristic of an industry works towards reducing the barriers to entry for new firms?

A significant advertising expenditure by existing firms

B significant economies of scale

C the absence of large costs associated with investment in capital assets

D the possession by existing firms of product and process patents

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13 The government wishes to increase the use of a service with positive externalities.

Which policy measure is most likely to produce the desired outcome?

A decreasing income tax

B increasing transfer payments to the consumer

C leaving the provision of the service to the private sector

D subsidising the producers of the service

14 The government imposes a maximum wage limit on recording artists.

What must result in the short-run if the measure is effective?

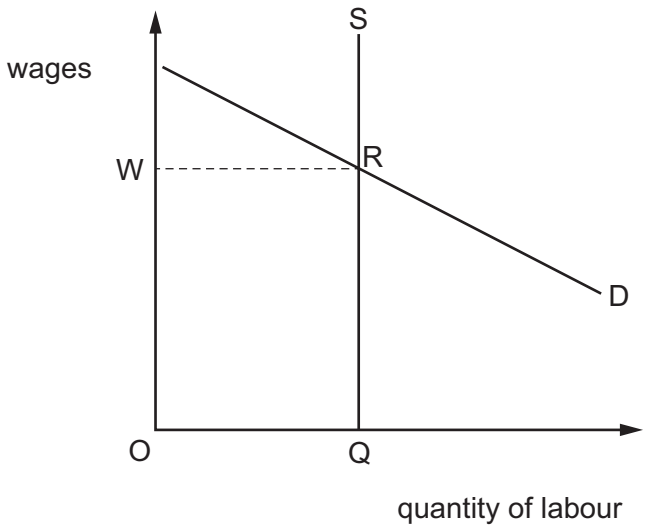
A a decrease in the demand for recording artists

B a decrease in the economic rent earned by recording artists

C a decrease in the profits of record companies

D a decrease in the supply of recording artists

15 The diagram shows the market for labour in an industry in the short-run.



What does the area OWRQ represent?

A consumers' surplus

B economic rent

C the opportunity cost of labour

D transfer earnings

16 A country introduces a national minimum wage (NMW) of $10 per hour.

In which industry is the NMW likely to cause the most unemployment?

	equilibrium wage rate before NMW ($ per hour)	wage elasticity of demand for labour	wage elasticity of supply of labour
A	8	>1	>1
B	8	<1	<1
C	9	>1	>1
D	10	>1	>1

17 Economics textbooks state that for a firm in imperfect competition labour is a derived demand.

How is the demand curve for labour derived?

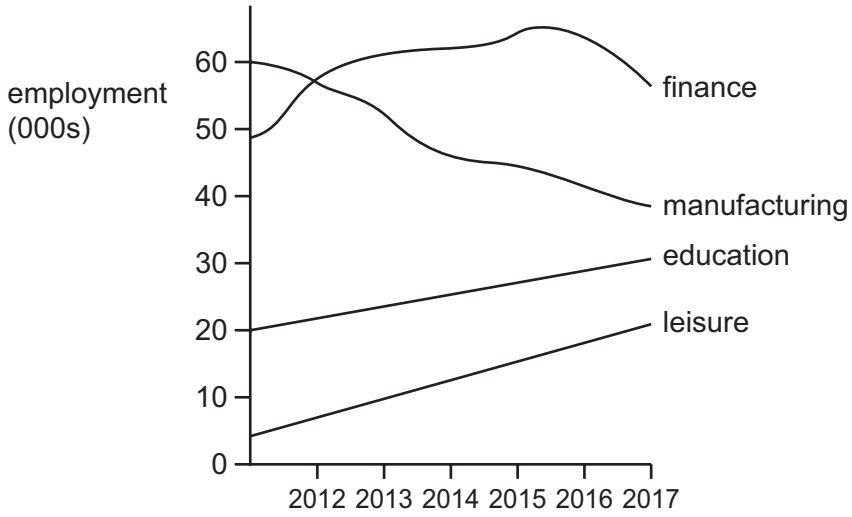
A by multiplying the average physical product by the average revenue

B by multiplying the average physical product by the marginal revenue

C by multiplying the marginal physical product by the marginal cost

D by multiplying the marginal physical product by the marginal revenue

18 The diagram shows changes in the numbers employed in four different industries in a city between 2012 and 2017.



What can be concluded from the diagram?

A Finance was always the largest employer.

B Leisure had the fastest growth rate in employment.

C Manufacturing was the only industry to show signs of decline.

D Total employment in the four industries decreased over the period.

19 What is likely to make the national income of a country less reliable as an indicator of the standard of living?

A a decline in the numbers engaged in subsistence farming

B an increase in negative externalities

C an increase in the employment of domestic servants

D an increase in the numbers eating restaurant meals rather than home-cooked meals

20 What is **not** included as a weighted indicator of poverty in the Multidimensional Poverty Index (MPI)?

A cooking fuel

B electricity

C medication

D water

21 What term is given to short-term unemployment when people are changing jobs?

A cyclical

B frictional

C seasonal

D voluntary

22 Why might GDP remain unchanged despite a rise in labour productivity?

A an increase in the birth rate

B an increase in the population of working age

C a reduction in the number of unemployed people

D a reduction in the retirement age

23 When is an increase in national income most likely to induce an increase in investment spending?

A when firms have spare production capacity

B when firms use labour intensive production

C when the increase in income is regarded as permanent

D when the increase in income is regarded as temporary

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24 In a four sector economy in equilibrium, these values exist.

	$m
investment	15
exports	40
government expenditure	50
savings	15
imports	45
taxes	X

What is the tax revenue, $X m?

A 20 **B** 35 **C** 45 **D** 60

25 In a closed economy with no government C = 40 + 0.7 Y and I = 50, where C is consumption, Y is income and I is investment.

What is the equilibrium level of income?

A 90 **B** 210 **C** 300 **D** 640

26 An increase in the money supply leaves the price level unchanged.

What could explain this?

A a fall in the level of employment

B a fall in the level of real output

C a fall in the velocity of circulation

D a fall in the volume of transactions

27 The table shows the elasticity of demand for money and the elasticity of demand for investment with respect to a change in the interest rate for four countries.

Which country is closest to a Keynesian model of the economy?

	elasticity of demand for money with respect to a low interest rate	elasticity of demand for investment with respect to any interest rate
A	elastic	elastic
B	elastic	relatively inelastic
C	inelastic	elastic
D	inelastic	relatively inelastic

28 When making comparisons of living standards between different countries, what is **not** a reason why they may be misleading?

A Different countries have different amounts of unrecorded economic activity.

B Different countries have different rates of economic growth.

C Less developed countries have limited resources to calculate accurate estimates.

D There are different rates of inflation between countries.

29 The table shows the annual rate of inflation (consumer prices) and the annual rate of unemployment for five countries in a recent year.

	rate of inflation %	rate of unemployment %
Japan Greece USA South Africa Brazil	Content removed due to copyright restrictions	

What conclusion can be made about the relationship between inflation and unemployment?

A Higher inflation is always correlated with higher unemployment.

B Higher inflation is always correlated with lower unemployment.

C Lower inflation is always correlated with higher unemployment.

D No consistent correlation can be established.

30 An economy has a balance of payments trade surplus and a high level of inflation.

What is most likely to be an appropriate action for the government to take?

A devalue the currency

B reduce direct taxes

C increase the money supply

D remove tariffs on imports

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