Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2019**

1 hour 15 minutes

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

8014493495

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 When can an economy be said to be economically inefficient?

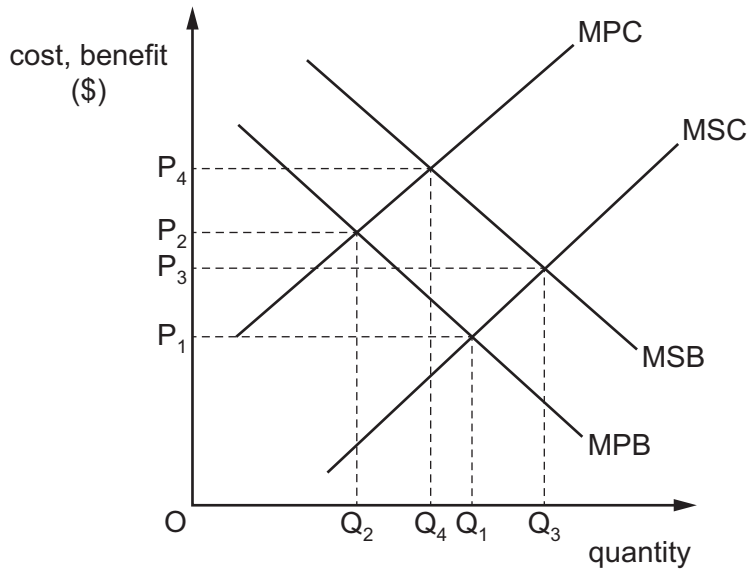
A when it is possible to make some people better off without making other people worse off

B when the distribution of income is socially unacceptable

C when the government sector is growing at the expense of the private sector

D when wage rates rise faster than production

2 The diagram shows cost and benefit curves for a good in a free market.



Which combination is correct?

	actual output	social optimal level of output
A	P_1Q_1	P_3Q_3
B	P_2Q_2	P_3Q_3
C	P_2Q_2	P_4Q_4
D	P_3Q_3	P_4Q_4

3 A food processing firm discharges waste water into the lake next to its factory.

What would reduce the difference between the private cost and the social cost of the firm's actions?

A Local residents are given the right to buy the firm's food at a discount.

B The government subsidises the food processing firm.

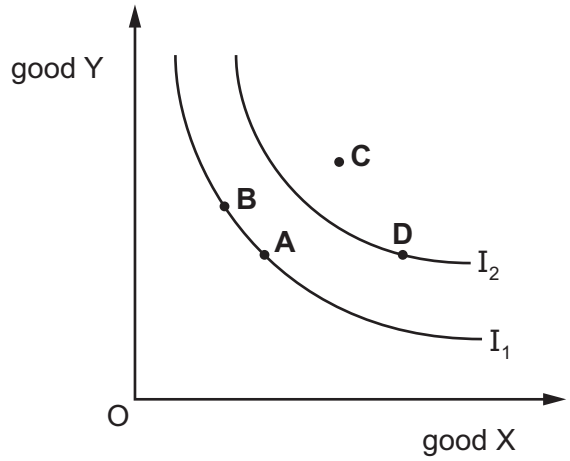
C The lake is bought by the food processing firm.

D The waste water flows from the lake into the sea.

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4 The diagram shows attainable indifference curves, I_1 and I_2, for good X and good Y.

Which point represents the highest level of satisfaction currently attainable?

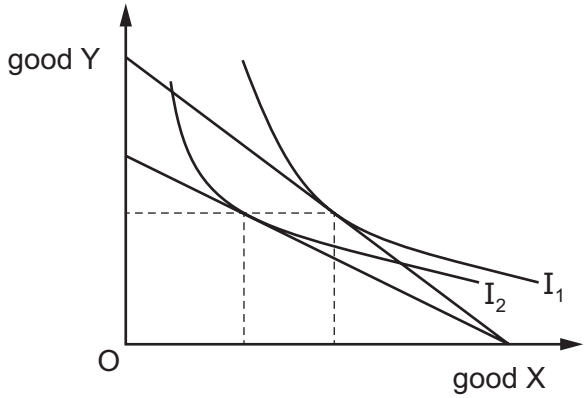


5 The table shows the substitution effect and income effect for a Giffen good and an inferior good as the price of the good changes.

Which combination is correct?

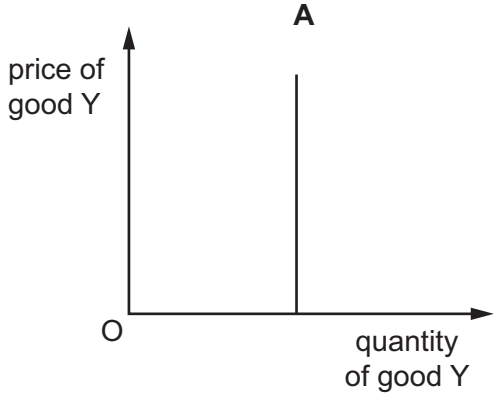
	type of good	price change	demand change from substitution effect	demand change from income effect
A	Giffen	fall	positive	negative
B	Giffen	rise	positive	positive
C	inferior	fall	negative	negative
D	inferior	rise	negative	negative

6 A consumer demands two goods, X and Y. The indifference curve diagram shows the effect of a change in the price of one of these goods on the consumer's equilibrium.

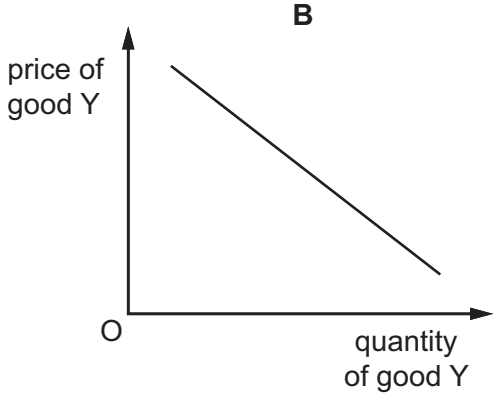


Which demand curve is consistent with the diagram?

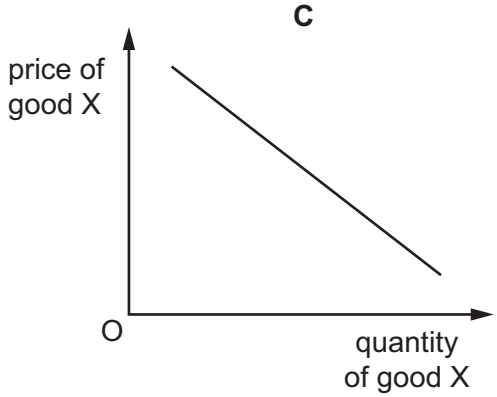
A



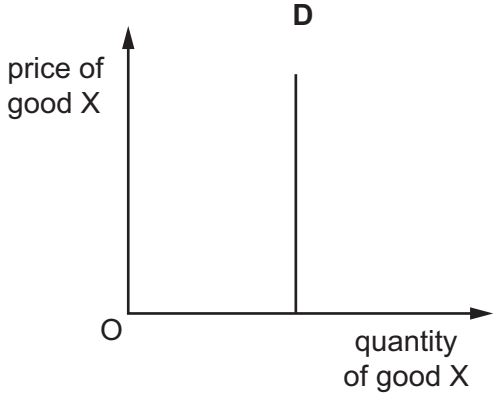
B



C



D



7 In many developed economies, large and small firms often exist side by side in the same industry.

What is **most** likely to explain the survival of the small firms?

A They each offer a much wider range of products.

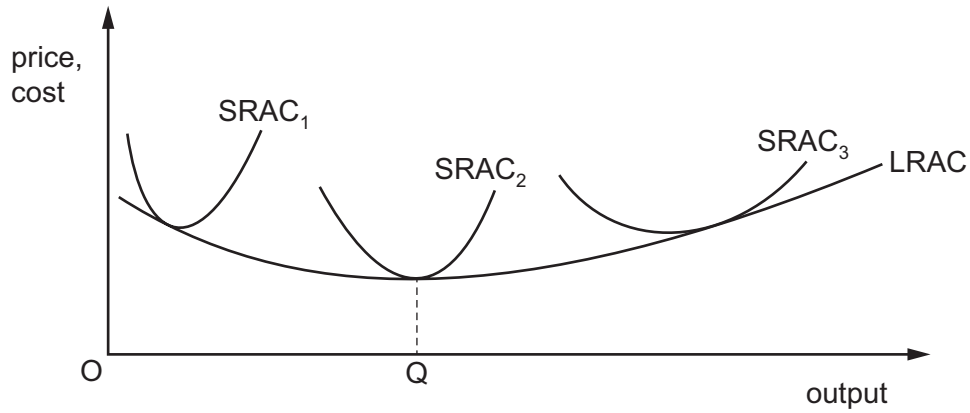
B They have a higher minimum efficient scale.

C They pay much higher wages to their staff.

D They provide a more personal level of consumer service.

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8 The diagram shows short-run (SRAC) and long-run (LRAC) cost curves for a firm.



Which statement is correct?

A When each of the three SRAC curves is U-shaped it shows the existence of economies of scale.

B When the LRAC curve is upward-sloping beyond output OQ it shows the existence of diseconomies of scale.

C When the minimum point of $SRAC_2$ is below that of $SRAC_1$ it shows the existence of the law of variable proportions.

D When the minimum point of $SRAC_2$ is below that of $SRAC_3$ it shows the existence of economies of scale.

9 What is **most** likely to rise as a firm expands?

A energy costs per unit of output

B the cost of components

C the cost of monitoring workers

D the rate of interest paid on borrowing

10 In the long run, what is a feature of monopolistic competition, but **not** of perfect competition?

A a small number of buyers

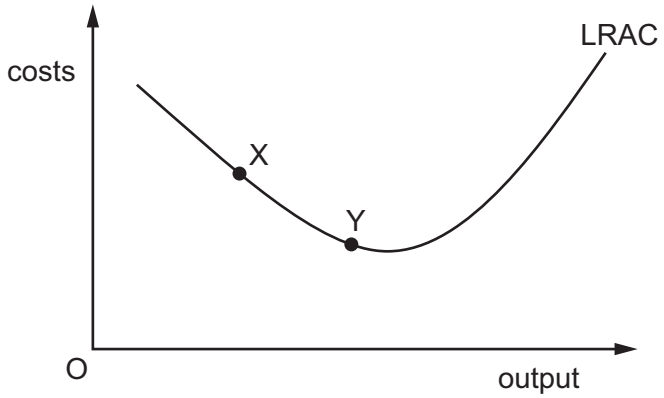
B product differentiation

C the existence of abnormal profits

D the existence of barriers to entry

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11 A small European airline currently produces at point X on its long-run average cost curve. It wants a bigger share of the European airline market and proposes to merge with another small European airline. The newly merged firm would produce at point Y on the long-run average cost curve, as shown.



Why might the newly merged firm be able to produce at point Y?

A The new airline can negotiate discounts when buying fuel.

B The new airline has many layers of management.

C The new airline is unable to hire enough pilots.

D The workforce of the new airline lacks morale and is demotivated.

12 A firm sells its product to consumers in two separate markets, M and N.

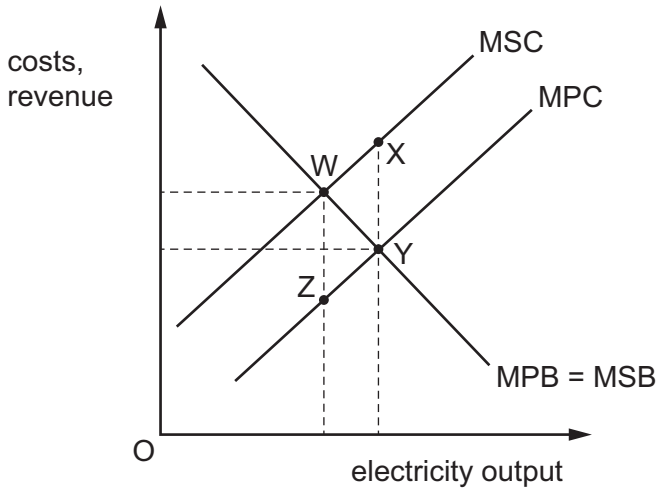
Under which conditions will a policy of price discrimination between the two markets be most profitable for the firm?

	price elasticity of demand in market M	price elasticity of demand in market N	geographical distance between markets M and N
A	1.2	1.2	large
B	1.2	1.2	small
C	1.8	1.2	large
D	1.8	1.2	small

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13 A community relies on a private company to supply electricity using a coal-fired power station.

The power station causes air pollution which imposes an external cost shown in the diagram.



The government decides to impose a tax on the electricity company to correct market failure.

What represents the tax?

A WX **B** WY **C** XY **D** YZ

14 Some workers in a low-paid job decide to work longer hours to increase their disposable income. However, this decision reduces state-provided benefits, leaving them no better off.

What does this describe?

A debt trap

B liquidity trap

C poverty trap

D unemployment trap

15 Which policy is likely to be the **least** effective means of producing a more equal distribution of income amongst households?

A the imposition of minimum wage levels below the levels produced by the market

B the introduction of progressive personal income taxes

C the payment of child benefits to low income households

D the removal of sales taxes on food consumed by lower income households

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16 The table shows the main characteristics of employment in two occupations.

	occupation X	occupation Y
average annual wage	$100 000	$60 000
number of weeks annual leave	5 weeks	10 weeks
average length of working week	48 hours	44 hours
job security	low	high
length of training course to obtain job qualification	1 year	2 years

What can definitely be deduced from the table?

A Those employed in occupation Y attach greater importance to job security.

B Those employed in occupation X attach less importance to leisure activities.

C There will be more competition for places on training courses to enter occupation X than occupation Y.

D Occupation Y has more non-pecuniary advantages than occupation X.

17 The table shows a firm that has four possible methods of production to make its desired output. Each method has a different cost and causes a different amount of pollution.

The government rules that polluting firms must buy pollution permits that cost $90 each. Each permit allows the firm to emit 1 tonne of pollution. No pollution can be emitted without a permit.

Which method of production has least total cost?

	cost of production ($ per day)	pollution caused (tonnes per day)
A	320	3
B	380	2
C	480	1
D	700	0

18 How can GDP at market prices be calculated if GDP at factor cost is known?

A add taxes, add subsidies

B add taxes, subtract subsidies

C subtract taxes, add subsidies

D subtract taxes, subtract subsidies

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19 Which characteristics of the population, the size of the informal economy and the rate of inflation would mean that Gross Domestic Product (GDP) is likely to be relatively accurate as a comparison of the standard of living over time?

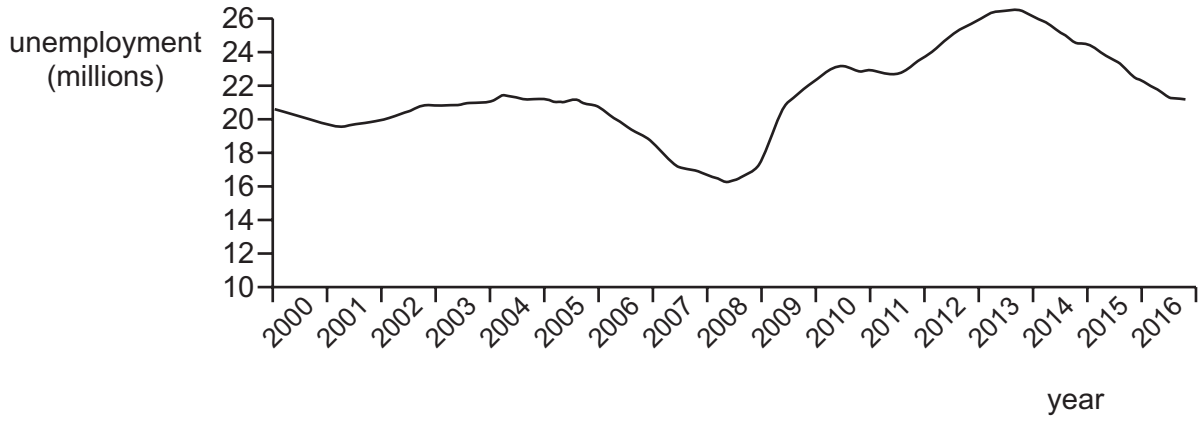
	population	size of informal economy	rate of inflation
A	rising	large	rising
B	rising	small	stable
C	stable	large	rising
D	stable	small	stable

20 The table gives the percentage of employment in the primary, secondary and tertiary sectors in four countries.

Which country is **most** likely to be a developed country?

	primary sector %	secondary sector %	tertiary sector %
A	15	40	45
B	30	40	30
C	35	45	20
D	45	35	20

21 The diagram shows unemployed persons (in millions) for the years 2000 to 2016 for the European Union.



During which period was the highest rate of increase in unemployment experienced?

A 2006 to 2008

B 2008 to 2010

C 2010 to 2012

D 2012 to 2014

22 A large coal mine is forced to close because of falling demand for coal as consumers switch to less-polluting fuels. The government organises retraining courses and recruitment events for the coal mine workers.

Which type of unemployment is the government trying to reduce?

A cyclical

B seasonal

C structural

D technological

23 Economists have proposed that the best policy to promote development is 'trade not aid'.

What is implied by this proposal?

A Developing countries should become self-sufficient.

B Developing countries should be given greater access to markets in developed countries.

C Developing countries should use foreign aid to invest in their export industries.

D Developing countries should use trade barriers to promote import substitution.

24 The table shows the values of selected macroeconomic variables over a period.

	year 1 ($m)	year 2 ($m)
investment	200	220
saving	180	190
exports	100	110
imports	120	140
government expenditure	150	160
taxation	150	160
equilibrium national income	1800	2000

What is the value of the multiplier?

A 2 **B** 4 **C** 5 **D** 10

25 What is **most** likely to increase if an economy enters a negative output gap?

A business confidence

B economic growth rate

C inflation rate

D unemployment rate

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26 Under which conditions will a Keynesian expansionary fiscal policy be **most** likely to take an economy out of a recession without too much inflation?

	demand for money	wage flexibility	aggregate supply curve
A	interest elastic	high	price elastic
B	interest inelastic	high	price inelastic
C	interest elastic	low	price elastic
D	interest inelastic	low	price inelastic

27 What would cause an increase in the transactions demand for money?

A a fall in the price of bonds

B an increase in nominal national income

C an increase in the rate of interest

D an increase in unemployment

28 What may lead to a reduction in bank lending in a country?

A an increase in commercial banks' balances with the central bank

B an increase in the liquidity ratios operated by the country's commercial banks

C an increase in the monetary base of the country

D an increase in the volume of liquid assets held by the country's commercial banks

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[Turn over

29 The table gives details of the inflation and unemployment rates for different countries in 2008 and 2011.

country	inflation rate (% per annum)		unemployment rate (% of workforce)	
	2008	2011	2008	2011
Canada	2.38	2.89	6.15	7.47
France	3.16	2.29	7.81	9.68
Germany	2.75	2.48	7.60	5.98
Japan	1.37	–0.28	3.99	4.55

Which country or countries experienced a trade-off between their inflation and unemployment rates?

A Canada and Germany

B Canada only

C France and Japan

D France only

30 The government decides to raise the rate of Value Added Tax (General Sales Tax).

What does this suggest is the government's main macroeconomic objective?

A to reduce the budget deficit

B to reduce the inequality of income distribution

C to reduce the level of unemployment

D to reduce the rate of inflation

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