Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

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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.

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1 Which statement is correct?

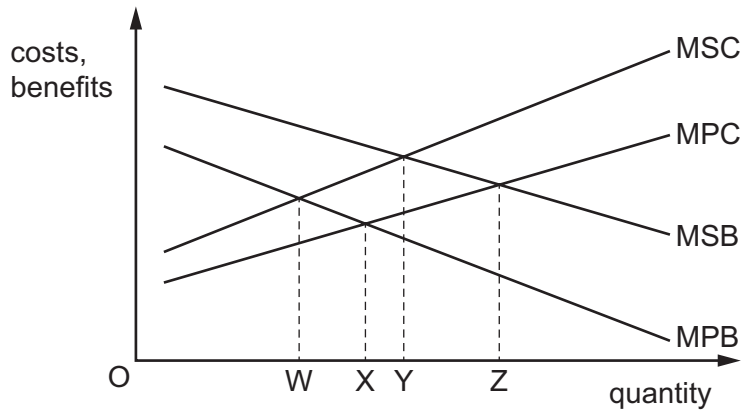
A In a command economy firms compete and profit maximise allocating resources efficiently.

B In a command economy resources are privately owned.

C In a market economy prices are used to signal the value of individual resources.

D In a market economy resources are allocated by central planners.

2 The diagram shows the market for a product, the production of which has both external costs and external benefits.



What is the difference between the level of output that would be produced by the market and the socially optimum level?

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

3 The government is considering building flood defences along a river. It has calculated the costs and benefits as follows.

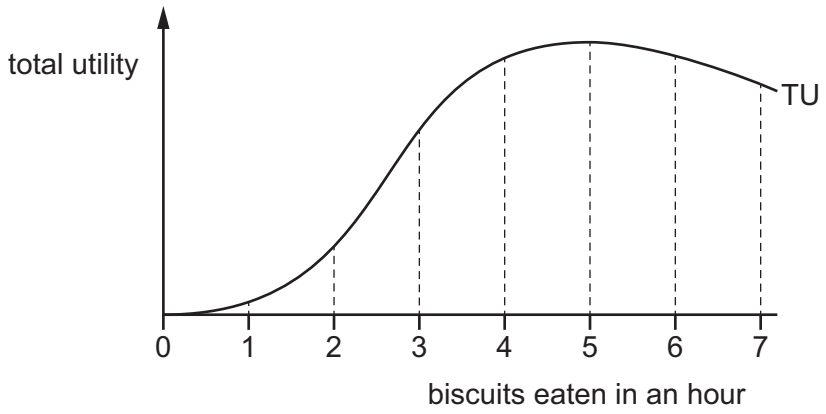
	costs $m	benefits $m
private	450	260
external	60	190

According to cost-benefit analysis, which decision and reasoning about flood defences is correct?

	decision	reasoning
A	build	external benefits are greater than external costs
B	build	social benefits are greater than private benefits
C	do not build	private costs are greater than the external benefits
D	do not build	social costs are greater than the social benefits

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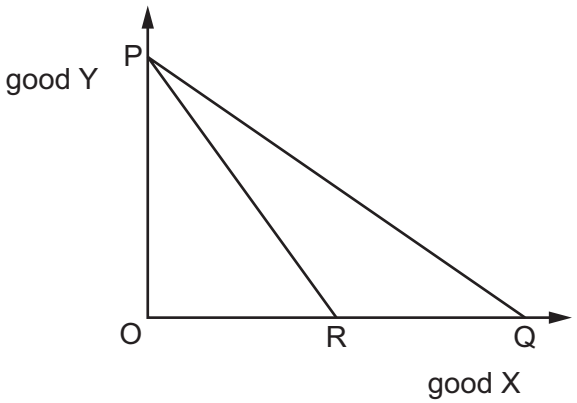
4 The graph shows the total utility (TU) obtained by a consumer from eating biscuits over a period of one hour.



After eating how many biscuits does the consumer's marginal utility begin to diminish?

A 3 **B** 4 **C** 5 **D** 6

5 The diagram shows budget lines for normal goods X and Y.

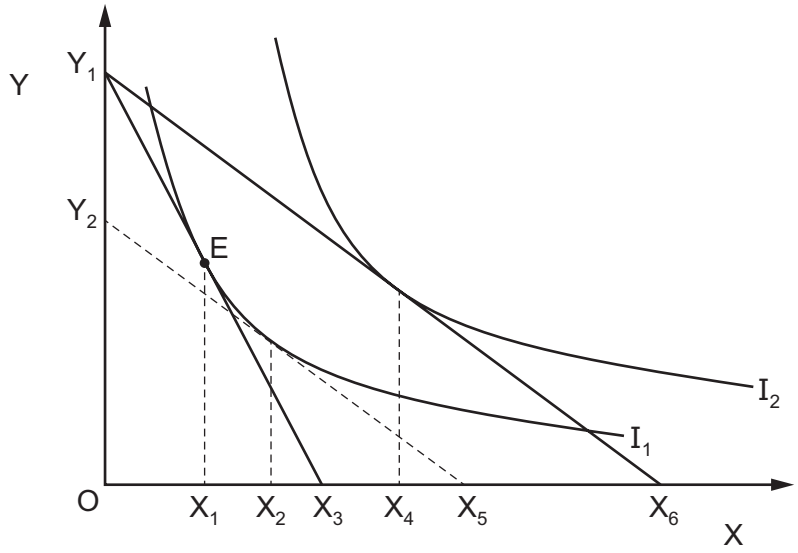


What could cause a budget line to shift from PQ to PR?

	price of X	price of Y	level of consumer incomes
A	fall	rise	fall
B	no change	rise	no change
C	rise	no change	no change
D	rise	no change	rise

6 A consumer spends all of their income on two goods, Y and X, and is at position E. The price of X falls and the price of Y remains constant.

The graph shows indifference curves and budget lines which are used to determine the price, income and substitution effects that are related to this price change.



Which distance gives the income effect of this price change?

A X_1X_2 **B** X_1X_4 **C** X_2X_4 **D** X_5X_6

7 What defines average variable cost?

A total cost divided by the quantity of the variable factor employed

B total variable cost divided by the quantity of the variable factor employed

C total variable cost divided by the output produced

D the addition to total variable cost by producing one more unit of output

8 What **cannot** be changed in the short run?

A the level of stock held by firms

B the level of technology available

C the market price of goods

D the output of individual firms in an industry

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9 The market structure of an industry changed from being an oligopoly to monopolistic competition.

What is **most** likely to have increased?

A an individual firm's ability to influence the market price

B an individual firm's degree of interdependence in the market

C the concentration ratio in the market

D the number of firms in the market

10 A firm has total production cost of $200 000. Its average fixed cost is $120 and its average variable cost is $80.

What are the firm's total fixed costs?

A $12 000 **B** $40 000 **C** $80 000 **D** $120 000

11 What is a characteristic of monopolistic competition?

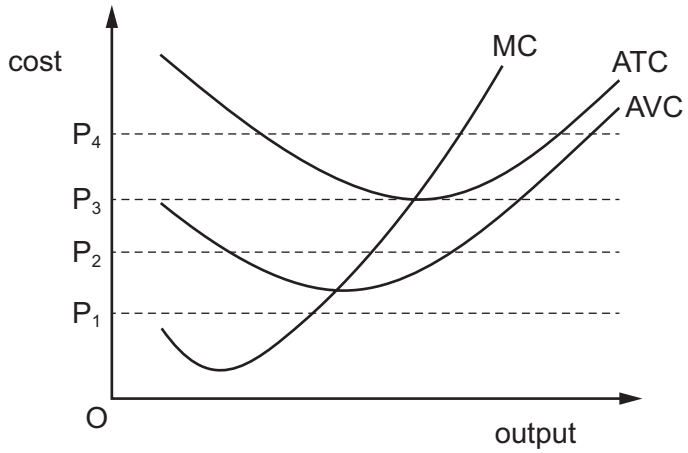
A abnormal profits in the long run

B advertising supporting product differentiation

C all firms charge the same price

D barriers to entry are high

12 The diagram shows the marginal cost (MC), average variable cost (AVC) and average total cost (ATC) curves of a profit maximising firm in a perfectly competitive market.



Which market price would mean the firm would operate in the short run but **not** in the long run?

A P_1 **B** P_2 **C** P_3 **D** P_4

13 The table shows the average incomes of the richest 20% of households and the poorest 20% of households in the UK (2015–2016), and the effects of government taxation and benefits on average income.

	average income (£) of richest 20%	average income (£) of poorest 20%
before taxes and benefits	85 000	7 000
after direct taxes and cash benefits	68 000	13 000
after all taxes (direct and indirect) and all benefits	63 000	17 000

What can be concluded from the information in the table?

A The effects of direct taxation have affected the rich less than the poor.

B The government's policy achieved income equality across households.

C The government redistributed all income taken from the rich to the poor.

D The government's policy reduced the income inequality between the poor and the rich.

14 Assuming there are no externalities, where would a nationalised firm set output to maximise social welfare?

A where average revenue equals average cost

B where average revenue equals marginal cost

C where marginal revenue equals marginal cost

D where marginal revenue is zero

15 What is the **specific** advantage of pollution permits, when compared with an alternative policy of taxes levied on the quantity of pollutants emitted by firms?

A firms have a financial incentive to reduce pollution

B no monitoring of firm's emissions is required

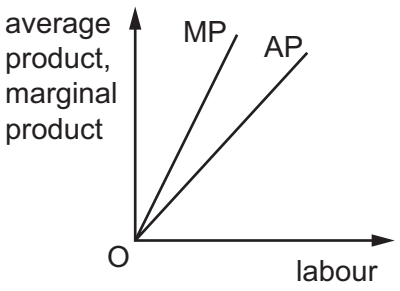
C pollution levels can be reduced to zero

D the reduction in the level of pollution is more predictable

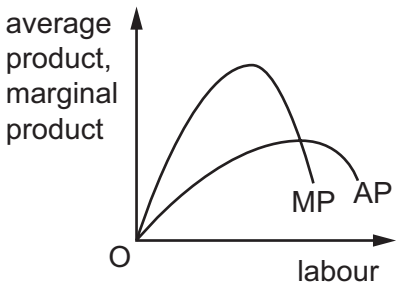
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16 Which diagram correctly shows the relationship between the average product (AP) and the marginal product (MP) of labour, given that the quantities of other factor inputs remain constant?

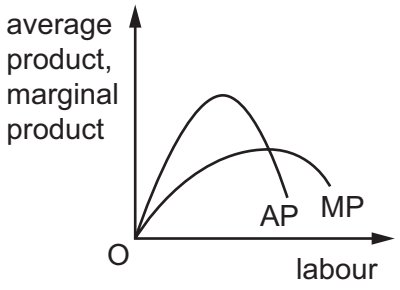
A



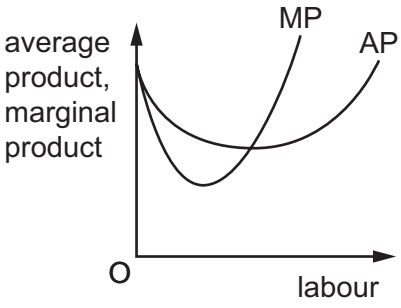
B



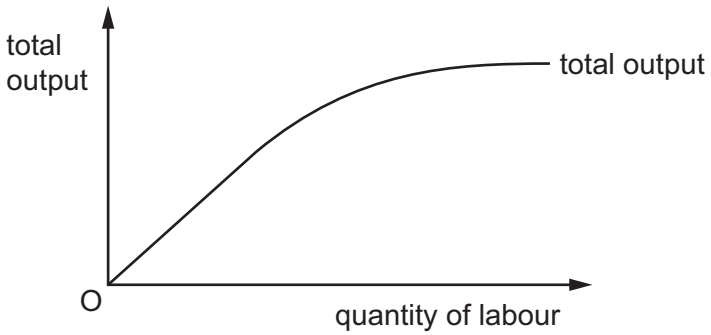
C



D



17 The diagram shows the short-run relationship between the total output of a firm and the quantity of labour.



What can be concluded about the firm?

A It is experiencing increasing returns to scale.

B It is experiencing constant returns to scale.

C The marginal physical product of capital is constant.

D The marginal physical product of labour eventually diminishes.

18 Company X reduces its number of workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.

Company Y increases its number of workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	falls	rises
B	rises	falls
C	rises	rises
D	falls	falls

19 What is **not** included in the measurement of national income?

A age-related pensions

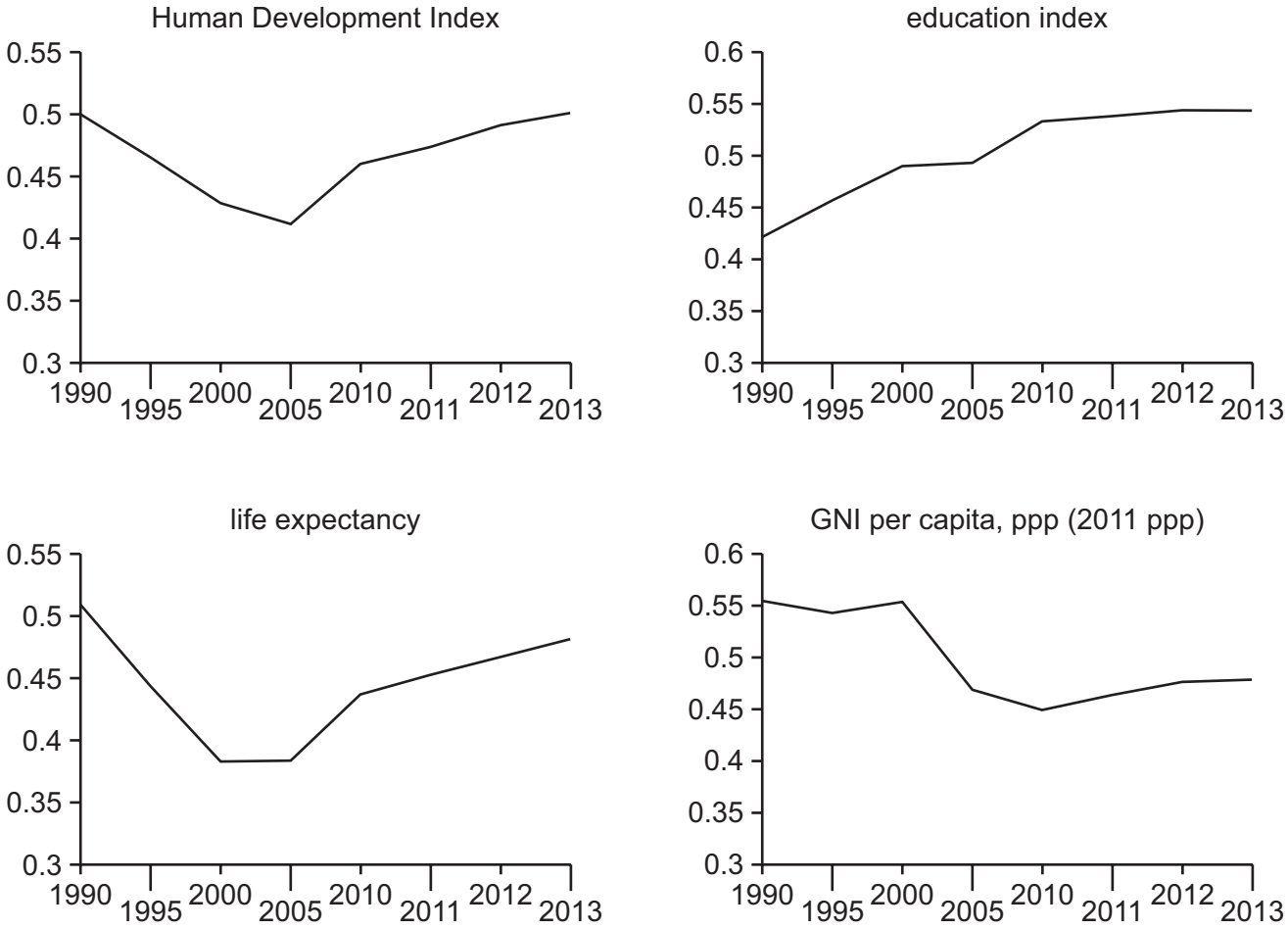
B dividends obtained from foreign investments

C housing authorities' income from rent

D profits distributed to shareholders

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20 The graphs show the Human Development Index and its component parts for Zimbabwe.



Between 2005–2010, which components of HDI have comparable changes to its overall change?

A education and GNI per capita

B education and life expectancy

C education, GNI per capita and life expectancy

D GNI per capita and life expectancy

21 What makes it possible for the increase in real national output to exceed the increase in labour productivity?

A an increase in employment

B an increase in the inflation rate

C an increase in the money supply

D an increase in total earnings

22 The table shows the annual percentage (%) change in China's GDP and the contribution of some of its component parts between 2006 and 2012.

	2006	2007	2008	2009	2010	2011	2012
GDP	12.7	14.2	9.6	9.2	10.4	9.3	7.7
consumption	5.1	5.6	4.2	4.6	4.5	5.2	4.2
investment	5.5	6.0	4.5	8.1	5.5	4.5	3.9
net exports	2.1	2.6	0.9	–3.5	0.4	–0.4	–0.4

What can be concluded about China's economy between 2006 and 2012?

A China's current account was in surplus more years than it was in deficit.

B China's economic rate of growth fell in more years than it rose.

C China's growth was greater overall in consumer goods than in capital goods.

D China's standard of living rose at a decreasing rate.

23 What is a cause of seasonal unemployment?

A a general decrease in the demand for goods and services

B a lack of necessary skills in the workforce

C a temporary change in the pattern of consumers' expenditure

D an unwillingness of workers to move to other parts of the country where there is work

24 Which row correctly identifies leakages from a country's circular flow of income?

	private sector (S > I)	public sector (T > G)	trade sector (X > M)
A	no	no	yes
B	no	yes	yes
C	yes	no	no
D	yes	yes	no

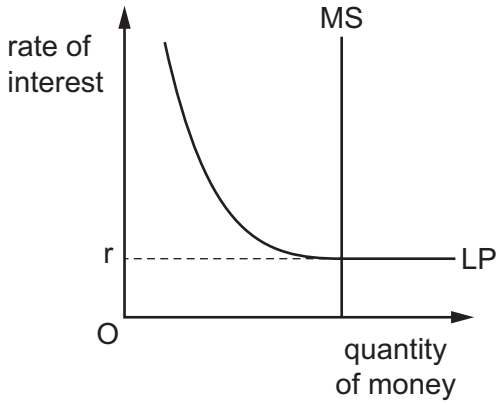
25 In a closed economy with no government expenditure and no taxation, the initial income is $5000 million. All savings are carried out by consumers, who save 20% of any additional income received above $5000 million. Firms plan to invest $1000 million.

What is the value of the multiplier?

A 0.8 **B** 4 **C** 5 **D** 8

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26 The diagram shows a liquidity preference curve (LP) representing the demand to hold money in relation to the rate of interest and the money supply (MS) in an economy. The market is in equilibrium at interest rate r.



If the government increases the money supply, what will be the effect on the interest rate?

A falls below zero

B falls to zero

C increases

D no effect

27 An increase in which of the following will cause a decrease in investment spending?

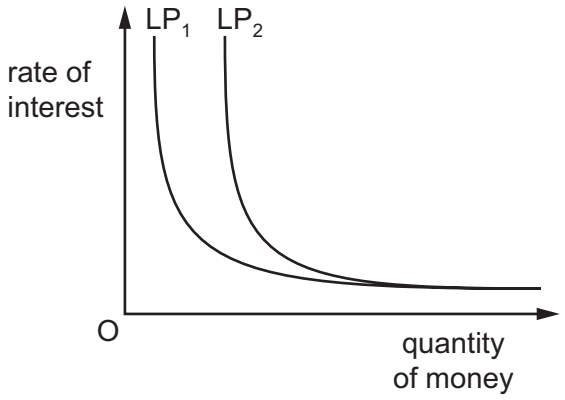
A business confidence

B company profits

C interest rates

D national income

28 The graph shows a shift in the liquidity preference curves for an economy from LP_1 to LP_2.



What might have caused this shift?

	an increase in real national income	increased pessimism about the future of the economy
A	✓	✓
B	✓	✗
C	✗	✓
D	✗	✗

29 What is **most** likely to increase in the short run following a rise in an economy's rate of inflation caused by a demand-side shock?

A the current account deficit on the balance of payments

B the price of government bonds

C the purchasing power of the currency

D the rate of unemployment

30 Which combination of policies is **most** likely to increase output?

	fiscal policy	monetary policy
A	decrease budget deficit	decrease interest rates
B	decrease budget deficit	increase interest rates
C	increase budget deficit	decrease interest rates
D	increase budget deficit	increase interest rates

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