Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2020**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

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[Turn over

1 A medical team in a refugee camp provides vaccinations for children to prevent an outbreak of an infectious disease.

Why would this be described as a positive externality?

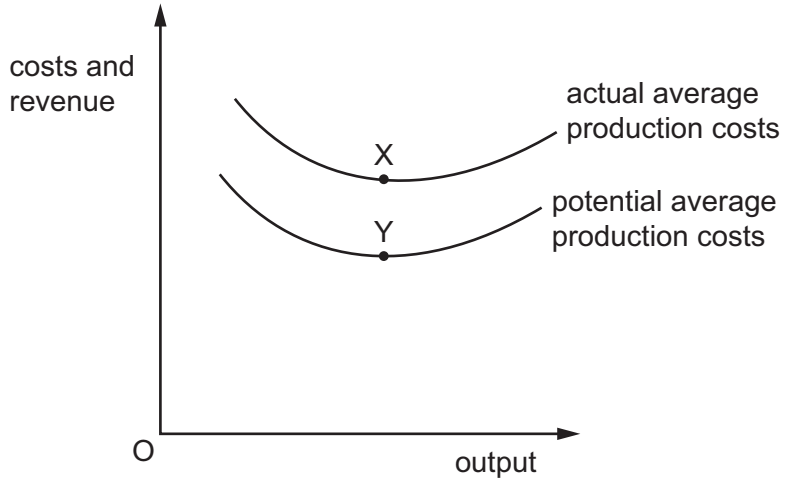
A Additional benefit might be gained as the disease no longer spreads.

B Any kind of medical help will improve the condition of the children.

C No action would be taken unless the medical team intervened.

D The social benefits of vaccination are less than the social costs.

2 The diagram shows the average cost curves for a firm.



If a firm moved from point X to Y, what is most likely to happen to the productive efficiency and x-inefficiency of this firm?

	productive efficiency	x-inefficiency
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

3 An economist undertakes a cost-benefit analysis of the pollution resulting from a manufacturing process.

Which judgement is most likely to guide any recommendation about the appropriate level of manufacturing output?

A that the marginal social cost of manufacturing equals the marginal social benefit

B that the marginal cost of pollution is zero

C that the total revenue of manufacturing equals the total cost

D that the total benefit of pollution is maximised

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4 An individual consumes goods X and Y. The marginal utility of good X is positive and falling. The consumer is at the point where the ratio of the marginal utility of the two goods is equal to the ratio of their prices.

What can be concluded from this information?

A the consumer will continue to consume additional units of X until marginal utility is zero

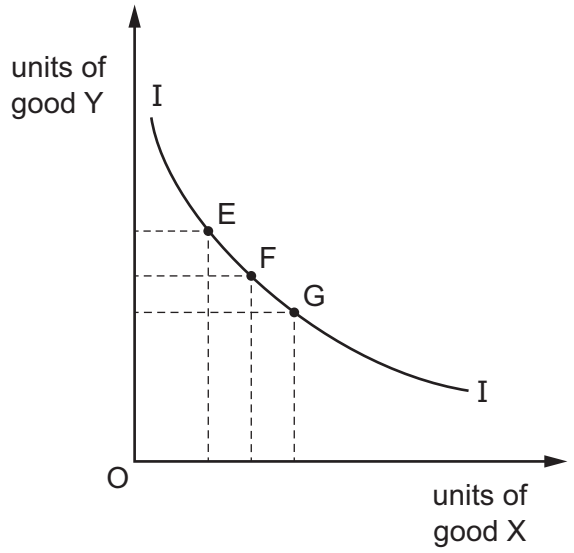
B the consumer will purchase more of X if the price of Y rises

C total utility will be negative on the additional unit of X consumed

D total utility will be rising at an increasing rate on the additional unit of X consumed

5 To analyse a consumer's preferences, an indifference curve represents possible combinations of goods X and Y.

The diagram shows a consumer's indifference curve for good X and good Y.



What can be concluded from the diagram?

A Point E is the most desirable combination.

B Point F is less desirable than point G.

C Point G is the least desirable combination.

D Points E, F and G are equally desirable combinations.

6 In the short run, a firm produces an extra unit of output.

Which of the firm's production costs will change?

A fixed cost only

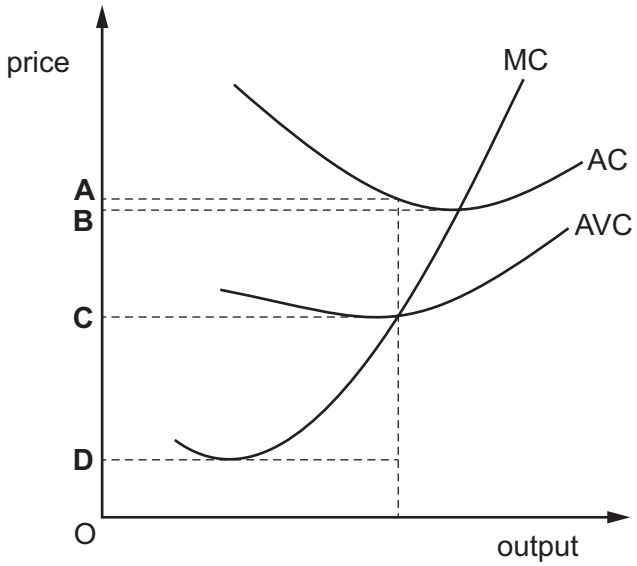
B fixed cost and variable cost

C variable cost only

D variable cost and total cost

7 The diagram shows the cost curves of a firm operating in a perfectly competitive market.

Below which price will the firm shut down in the short run?



8 The table shows a firm's total and marginal costs.

output	total cost ($)	marginal cost ($)
1	340	40
2	375	35
3	400	25
4	435	35
5	475	40

What is the average fixed cost of producing 6 units?

A $50 **B** $60 **C** $180 **D** $300

9 An electronics firm, which began as a semiconductor firm making simple memory chips, has used continuous research and investment to emerge as an industry leader. In addition, it has applied its research in semiconductors to enter other markets including televisions and mobile phones.

What has taken place?

A external growth and diversification

B external growth and sales revenue maximisation

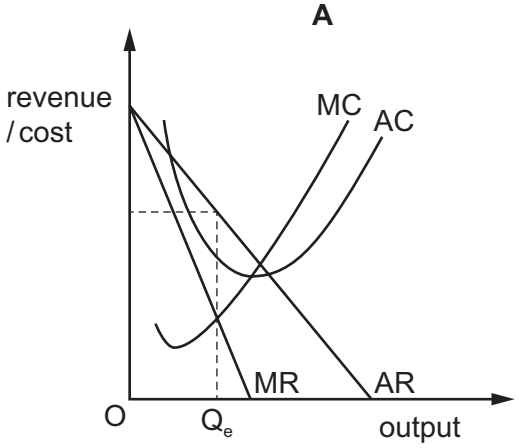
C internal growth and diversification

D internal growth and sales revenue maximisation

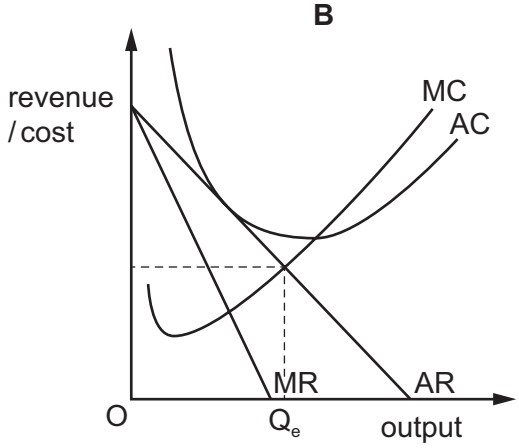
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10 Which diagram shows a monopolistically competitive firm in long-run equilibrium?

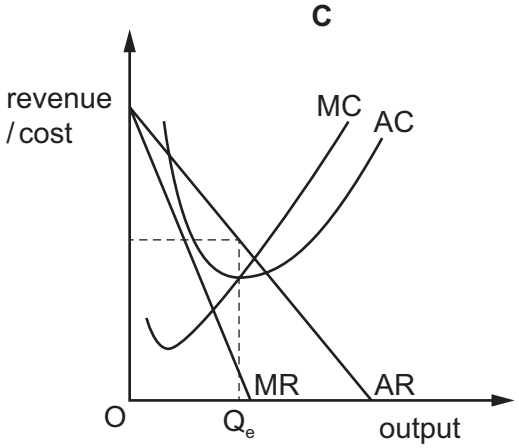
A



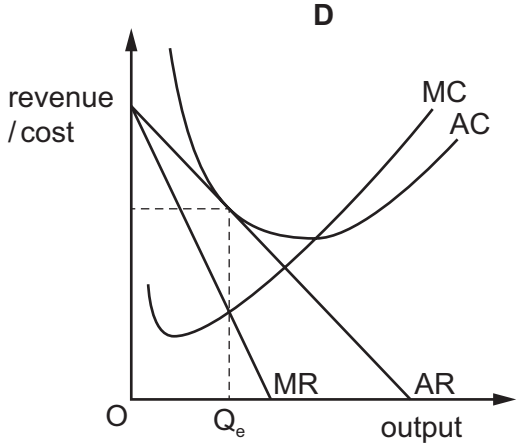
B



C



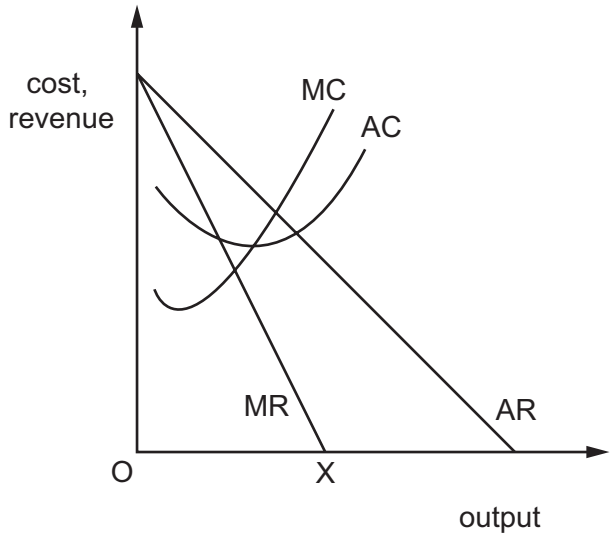
D



11 When will a cartel find it most difficult to fix the market price of its product?

	proportion of firms in the industry that are members of the cartel	barriers of entry into the industry
A	high	high
B	high	low
C	low	high
D	low	low

12 The diagram shows the cost and revenue curves of a monopoly.



What is the firm's objective if it produces output OX?

A to achieve normal profit

B to maximise profit

C to maximise total revenue

D to minimise average cost

13 Which policy is **not** designed to correct a market failure?

A government provision of healthcare

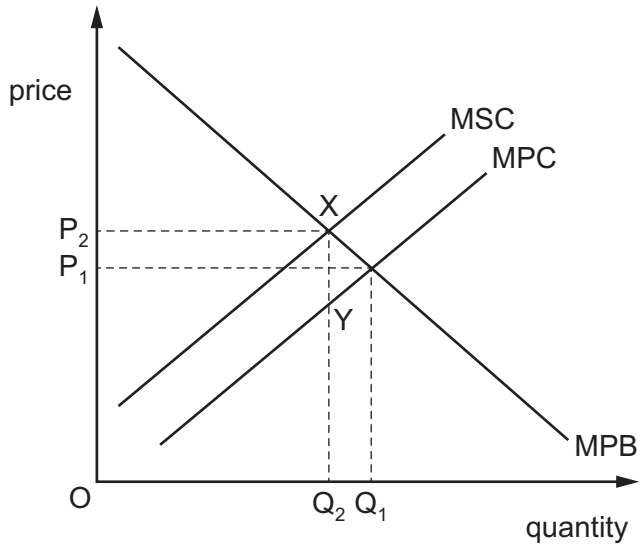
B price controls on large firms

C regulations to limit smoke pollution

D removing import quotas

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14 A chemical firm produces toxic fumes that impose costs on society. The diagram shows the free market equilibrium of the firm's product at P_1Q_1.



The government imposes a tax on the firm of XY.

How would this improve resource allocation?

A It will internalise the external benefit.

B It will internalise the external cost.

C It will internalise the private benefit.

D It will internalise the private cost.

15 The level of benefit paid to an individual receiving a means-tested benefit depends on the individual's

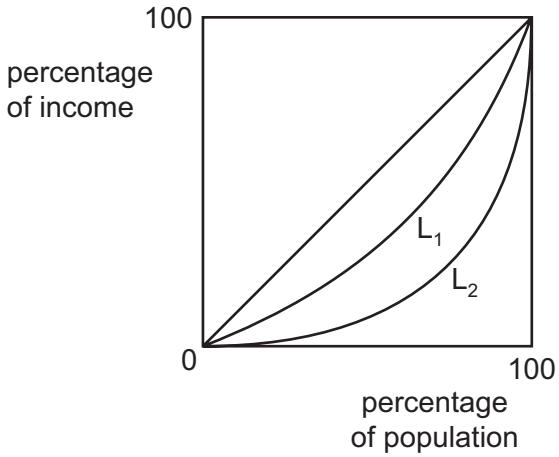
A age.

B family size.

C income.

D qualifications.

16 The diagram shows two Lorenz curves.



If the Lorenz curve shifts from L_1 to L_2, what is **least** likely to have caused this?

A Capital gains tax has been reduced.

B Income tax has been made more progressive.

C Inheritance tax has been reduced.

D The tax-free allowance has been decreased for everyone.

17 A firm is operating in a perfectly competitive market.

Why does the marginal revenue product of a factor of production employed by the firm fall as more of the factor is employed?

A Its average revenue falls.

B Its marginal physical product falls.

C Its marginal revenue falls.

D The supply price of the factor rises.

18 Labour from developing countries often migrates to developed countries and finds jobs.

How would such a movement of labour be likely to affect the economic growth and the pressure on wage rises in the developed country?

	economic growth	pressure on wage rises
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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19 The African Union consists of 55 developing countries. They agree to adopt a free-trade model to boost trade between member countries.

In theory what do free-trade models tend to ignore?

A absolute advantage in terms of lower factor inputs in production

B allocation of resources where comparative cost advantage is greatest

C the international division of labour and differences in opportunity cost ratios

D transport costs and inefficiencies in the handling of goods and services

20 Young workers find it especially difficult to get a job during an economic recession. A government introduces a transfer payment for those seeking work and provides information on vacancies.

What should be a positive outcome of this policy for those seeking work?

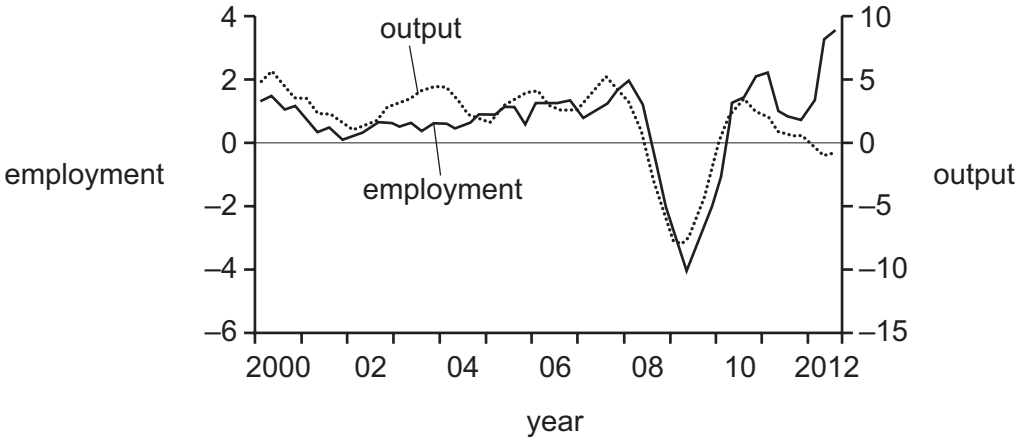
A Firms no longer need to advertise jobs because there are few vacancies.

B No production of goods or services is required for a transfer payment.

C Obtaining information on jobs available makes the labour market more perfect.

D Students will leave their studies to join the workforce at an earlier age.

21 The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity increase the most?

A 2003 **B** 2007 **C** 2009 **D** 2012

22 The table shows the levels of consumption expenditure and savings for given family incomes.

disposable family income ($)	consumption expenditure ($)	savings ($)
2000	2150	–150
3000	3100	–100
4000	4000	0
5000	4850	150
6000	5650	350
7000	6380	620

Over the range of disposable income shown, as income rises the marginal propensity to consume

A falls and then rises.

B falls continuously.

C rises and then falls.

D rises continuously.

23 During a year, a country's national income in money terms increased by 3%, prices increased by 4% and total population increased by 1%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 2%

D an increase of 3%

24 What does the accelerator principle explain?

A how changes in consumption lead to changes in income

B how changes in income lead to changes in consumption

C how changes in income lead to changes in investment

D how changes in investment lead to changes in income

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25 An individual's demand curve for an active money balance will move to the left if there is an increase in the

A frequency of income payments.

B general price level.

C individual's income.

D rate of interest.

26 A country's central bank buys government securities from the private sector.

What is the most likely effect on long-term interest rates and the money supply?

	long-term interest rates	money supply
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

27 What belief do Keynesians and Monetarists share?

A Expectations rapidly adapt to changing circumstances.

B Fiscal policy is the most effective economic policy.

C There is need for individual choice expressed through the market.

D The velocity of circulation of money is stable.

28 Which statement is most likely to be made by an economist from the Keynesian school?

A Any deviation from full employment will only be temporary.

B Free markets will always lead to an efficient economic outcome.

C Market imperfections can lead the economy to remain below full capacity for a considerable time.

D The role of expansionary fiscal policy is likely to be limited.

29 The US government has been using a policy of quantitative easing to increase economic growth.

What is the most likely effect of this policy on the internal and external value of the US dollar?

	internal value	external value
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

30 In 2018 the US imposed a tariff on steel imports.

What is the likely impact of this tariff on the US economy?

A It will make US steel exports more price competitive.

B It will lead to productive inefficiency in the US steel industry.

C There will be a deterioration in the US's terms of trade.

D There will be a decrease in producer surplus for US steel producers.

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