Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2021**

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.
- Any rough working should be done on this question paper.

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1 What is a negative consumption externality associated with chewing gum?

A better dental hygiene from chewing gum

B costs of the ingredients in chewing gum

C discarded chewing gum on pavements

D smells from chewing gum factories

2 A firm produced its goods at an average cost of $14. It then produces the same output at a lower average cost by different methods of production. The price remains above the marginal cost.

In which ways is this firm now more efficient?

	allocative efficiency	dynamic efficiency
A	no	no
B	no	yes
C	yes	no
D	yes	yes

3 In 2008 Beijing held the Olympic Games and built a new stadium and infrastructure. 1.5 million people lost their homes and were relocated far away from their communities. Factories were closed during the games to reduce air pollution. Today, the stadium is a major tourist attraction and the athletes' accommodation is used as apartments.

For which group is the likely excess of marginal social benefit over marginal social cost the greatest?

A construction workers who built the site

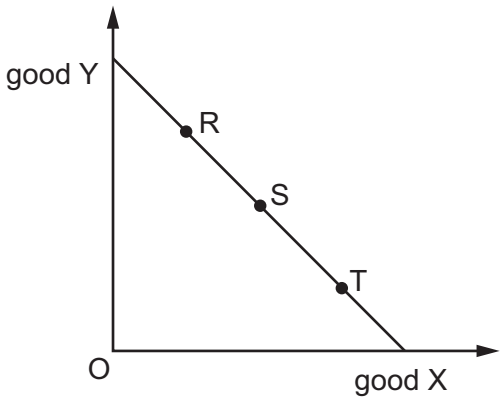
B factory workers who returned to their jobs after the games

C residents who were rehoused far away from Beijing

D those who live in the former athletes' accommodation

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4 The graph shows the budget line for a household as used in indifference curve analysis.



What can be concluded about the amount of income that could be spent by the household?

A It is greater at point R than point S.

B It is greater at point T than point S.

C It is greatest at point S.

D It is the same at points R, S and T.

5 Which act of purchase or consumption is most likely to illustrate the law of diminishing marginal utility?

A the final course of an ‘eat all you can’ banquet to end an evening out

B the last coin to complete an enthusiast’s coin collection

C the second of the two rolls of wallpaper needed to decorate a room

D the tenth driving lesson needed to enable a learner to pass the driving test

6 A kinked demand curve is often used when economists attempt to analyse the way in which oligopolists operate.

What does the kinked demand curve indicate?

A Oligopolists are unable to achieve profit maximisation.

B Satisficing is the best objective for firms that operate under conditions of oligopoly.

C There are always benefits available for oligopolists if they reduce price, but not if they increase it.

D There is a tendency towards price stability when firms operate under conditions of oligopoly.

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7 Why might a firm adopt a policy of diversification?

A to achieve cost economies of scale

B to agree common prices with rivals

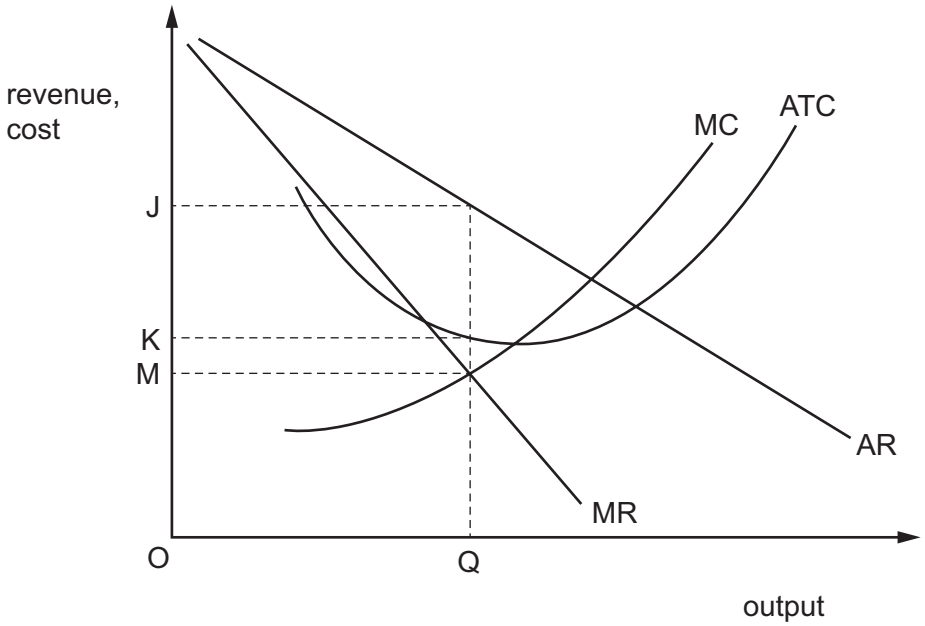
C to ensure greater ability to spread investment risks

D to increase productivity of labour

8 What would be likely to help a small firm to survive and what might be a threat to its survival?

	help	threat
A	contestability of the market	expensive new technology
B	customers valuing personal service	new government regulations on its business
C	low barriers to entering its industry	managerial diseconomies of scale
D	selling a homogeneous product	new firms entering the market

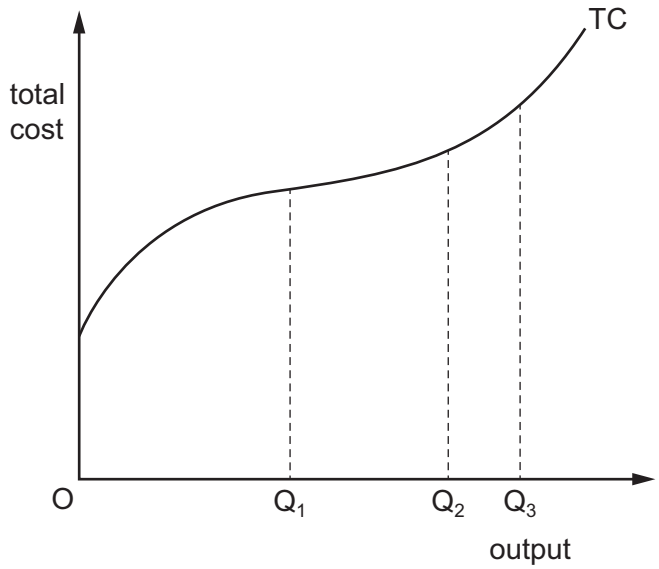
9 The diagram shows the cost and revenue curves of a profit-maximising monopolist.



What measures the total monopoly profit made by the firm?

A JM **B** JK **C** JM × OQ **D** JK × OQ

10 The diagram shows a firm's short-run total cost curve (TC).



Which statement is correct?

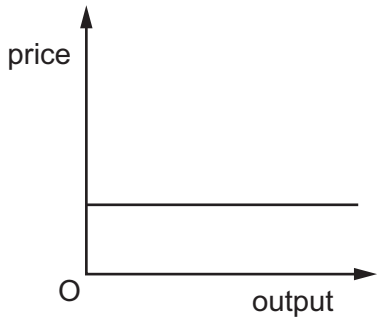
A Average total cost is minimised at output OQ_2.

B Average variable cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_3.

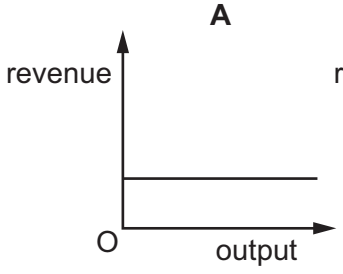
D Marginal cost is minimised at output OQ_1.

11 The diagram shows the demand curve for a firm's product.

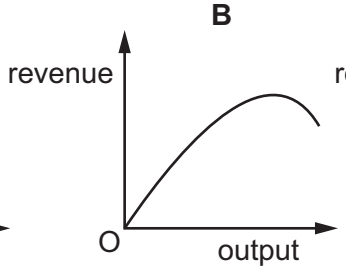


Which diagram shows the shape of the firm's total revenue (TR) curve?

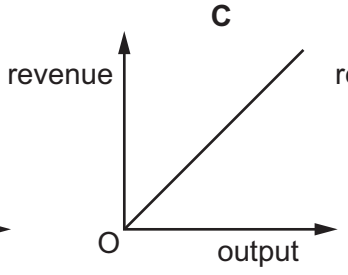
A



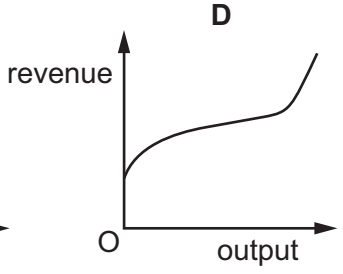
B



C



D



12 What identifies the output level required to meet the stated aim of a monopoly firm?

	aim of firm	produce at output where
A	maximum efficiency	marginal cost is at a minimum
B	profit maximising	marginal cost is equal to average revenue
C	quantity of sales maximising	marginal revenue is equal to average cost
D	revenue maximising	marginal revenue is zero

13 A government implements three economic policies.

1 lower income tax

2 higher indirect taxation on alcohol to reduce consumption

3 higher spending on infrastructure

Which policies represent forms of government macro economic policy?

A 1 and 3 **B** 2 and 3 **C** 2 only **D** 3 only

14 When there are positive externalities in consumption, what can be concluded about the output of the market?

A Output must be above the allocative efficient level.

B Output must be at the allocative efficient level.

C Output must be below the allocative efficient level.

D Output can be above or below the allocative efficient level.

15 The Gini coefficient of a country is 0.40. The poorest income earners in this country pay no income tax.

The government increases the tax rate on the highest income earners, which results in a more even distribution of income.

What could be concluded from this?

A The Gini coefficient falls and the income tax system becomes more progressive.

B The Gini coefficient falls and the income tax system becomes more regressive.

C The Gini coefficient rises and the income tax system becomes more progressive.

D The Gini coefficient rises and the income tax system becomes more regressive.

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16 What is meant by economic rent?

A any amount above the minimum earnings required to keep labour in its current job

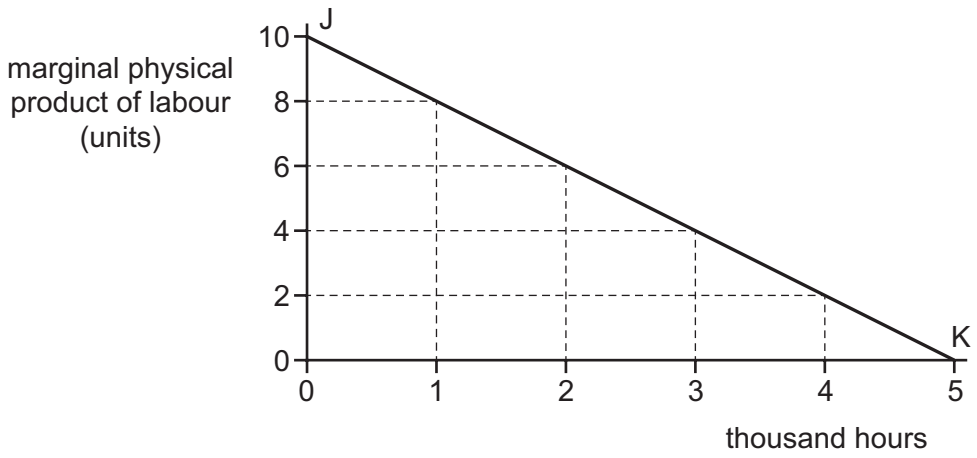
B the marginal physical product of labour multiplied by marginal revenue

C the minimum amount required to keep labour in its current job

D the regular payment to a property owner in exchange for the use of a building

17 A firm operates under perfect competition in both product and factor markets with labour as the only variable factor input.

In the diagram, the line JK shows the relationship between the marginal physical product of labour and the hours worked.



When the marginal revenue of the product is $1.60, the firm uses 3000 hours of labour.

What is the hourly wage?

A $0.40 **B** $2.40 **C** $5.60 **D** $6.40

18 A government attempts to stimulate growth by cutting its main interest rate.

What might reduce the effectiveness of this?

A if investors' expectations are rising

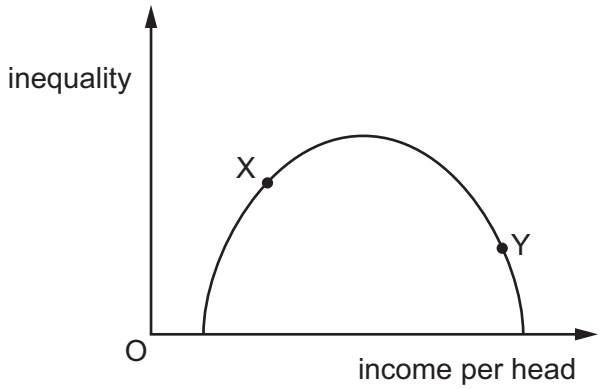
B if more borrowing is taking place

C if savings are falling

D if the marginal propensity to consume is falling

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19 The diagram shows the relative position of two countries X and Y on a Kuznets curve.



What does the diagram indicate?

A Country X collects more income tax than country Y.

B Country X has a higher national income than country Y.

C Country Y has less income inequality than country X.

D Country Y is less economically developed than country X.

20 The Measure of Economic Welfare (MEW) is often regarded as a better measure of economic welfare than Gross Domestic Product (GDP) per head.

What is additionally included in the calculation for MEW?

A the cost of paid work

B the cost of producing armaments

C the estimated cost of damage to the environment

D the negative impact on the shadow economy

21 Which statement about national income accounting is correct?

A Depreciation does not need to be subtracted from GDP figures because it has already been taken into account by firms.

B GDP greatly overstates the true value of output because some of the profit it includes is supernormal profit.

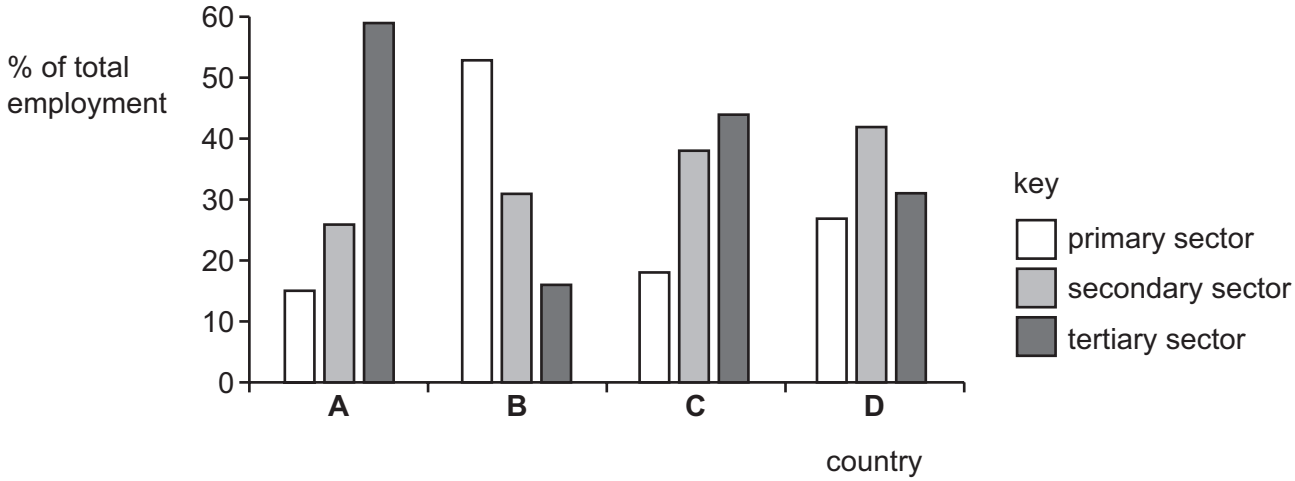
C GDP is a better measure of living standards than GNP because net property income from abroad is not available for citizens.

D GNP per capita ignores many important factors that affect citizens' living standards.

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22 The chart provides information about employment rates, as a percentage of total employment, in the primary, secondary and tertiary sector of four countries.

What is most likely to represent the most economically developed country?



23 A government is committed to increasing real GDP using only fiscal and monetary policies.

Which combination of measures is likely to be the most effective in achieving this aim?

	fiscal policy	monetary policy
A	increase in the budget deficit	central bank buys back government bonds
B	increased government spending on roads	increased short term rate of interest
C	reduce income taxes	central bank sells more government bonds
D	reduce wealth taxes	increase commercial banks' cash deposit ratio

24 What describes the multiplier process, as it operates within a closed economy with no government sector?

A Changes in National Income determine the level of investment.

B The level of consumption depends on the level of National Income.

C The levels of consumption and investment together determine the level of National Income.

D When investment changes, there will be a greater change in equilibrium National Income.

25 In an economy with no government sector:

C = consumption

I = investment

X = exports

M = imports

Y = national income.

If C = 40 + 0.5Y, I = 80, X = 100 and M = 100, what will be the equilibrium level of Y?

A 60 **B** 240 **C** 280 **D** 640

26 Which policy does a central bank undertake to pursue quantitative easing?

A purchase long-term government debt from the public

B purchase short-term government debt from the public

C sell long-term government debt to the public

D sell short-term government debt to the public

27 What would be an increase in leakages or withdrawals from the circular flow of income?

A increase in government spending on anti-smoking campaigns

B increase in spending on imports of luxury cars

C increase in spending on transfer payments

D increase in wages paid to government employees

28 Which statement would both Keynesian **and** Monetarist schools of thought accept?

A High inflation and high unemployment are undesirable in a properly-functioning economy.

B Increased government spending on investment projects will always crowd out private investment.

C The best way for an economy to get out of a recession is for the government to increase its expenditure.

D The most effective way to reduce inflation is for the government to exercise tight control over the money supply.

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29 In country X the marginal rate of income tax imposed on the highest earners was 83% which increased to 98% if income was received from interest or dividends. The highest marginal rate was then reduced to 40%. Despite this reduction, the tax revenue raised from the highest earners increased substantially.

Which theoretical concept illustrates this relationship between tax rates and tax revenue?

A the J curve

B the Laffer curve

C the Marshall-Lerner condition

D the Phillips curve

30 A government is increasing the role of market forces in its economy. However, it imposed temporary maximum price controls.

Why might a government, committed to reducing central planning, introduce price controls?

A to increase allocative efficiency

B to increase the incentive for producers to raise supply

C to reduce consumer demand

D to reduce expectations of inflation

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