Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/32**

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.

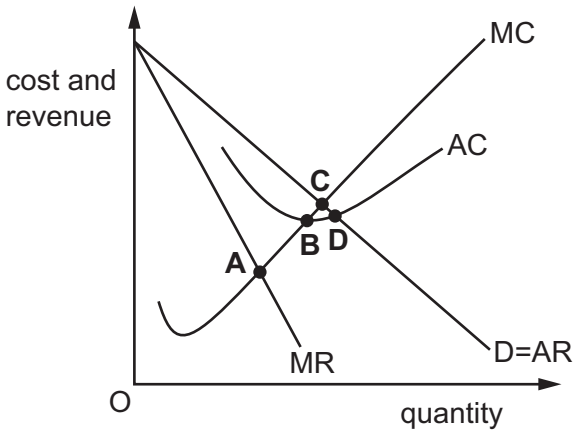
INFORMATION

- 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 The diagram shows a monopolistically competitive firm.

Which point represents allocative efficiency?



2 What is an argument against government intervention when there is market failure?

A Government intervention could increase positive externalities.

B Government intervention could increase the availability of merit goods.

C Government intervention could lead to a less efficient outcome.

D Government intervention could reduce information failure.

3 A government is choosing between four routes for a new road. The table provides details of the costs and benefits associated with each route.

The government wants to get the highest return for taxpayers in terms of the social benefit relative to the private cost.

Which route will the government choose?

	route ($ million)		
	private costs	private benefits	external benefits
A	20	25	5
B	25	30	10
C	20	25	10
D	30	35	10

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4 Donald maximises his utility when buying paperback books and audio books. The price of a paperback book = $3 and the price of an audio book = $6.

If the marginal utility of the last paperback book was 12 units of utility (utils), what was the marginal utility of the last audio book purchased?

A 2 utils **B** 12 utils **C** 16 utils **D** 24 utils

5 Which statement correctly describes the result of a price increase for an inferior good?

A Both the substitution effect and the income effect cause the consumer to buy less of the good.

B Both the substitution effect and the income effect cause the consumer to buy more of the good.

C The substitution effect causes the consumer to buy less of the good and the income effect causes the consumer to buy more of the good.

D The substitution effect causes the consumer to buy more of the good and the income effect causes the consumer to buy less of the good.

6 Which statement about a monopoly is correct?

A Profit maximisation occurs when average cost equals average revenue.

B Sales maximisation occurs when marginal cost equals marginal revenue.

C Sales revenue maximisation occurs when marginal revenue is equal to zero.

D Satisficing occurs when marginal cost is equal to zero.

7 A satellite communications company is bought by an investment bank.

Which outcome has resulted from this purchase?

A a cartel

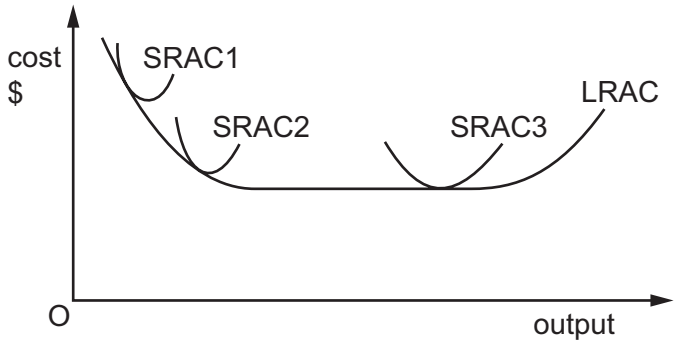
B diversification

C lateral integration

D vertical integration

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8 The diagram shows the long-run average cost (LRAC) curve for a firm, and three short-run average cost (SRAC) curves.



Which statement is correct?

A When the minimum point of SRAC3 is lower than the minimum point of SRAC2 it reflects the law of variable proportions.

B The law of diminishing returns explains why each of the SRAC curves is U-shaped.

C The position of SRAC2 shows the minimum efficient scale of production.

D The rising section of SRAC1 indicates the existence of diseconomies of scale.

9 What is the most likely reason that barriers to entry might lead to x-inefficiency?

A The firm does not account for any external benefits.

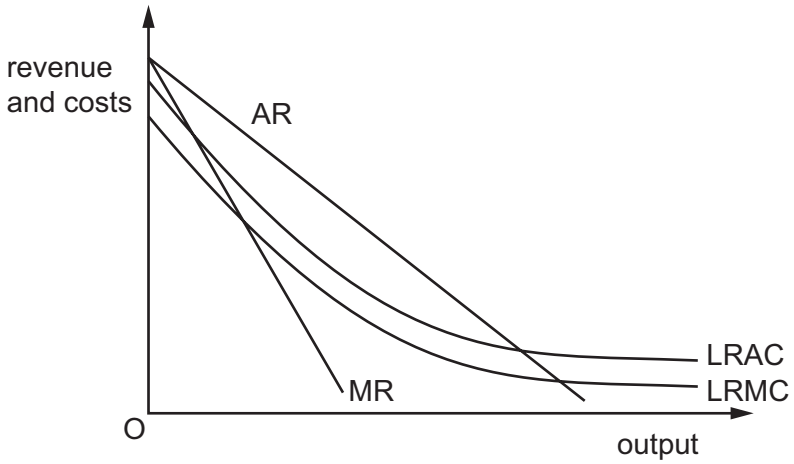
B The firm has no incentive to cut its costs of production.

C The firm's price is set higher than its average costs.

D The firm's price is set higher than its marginal costs.

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10 The diagram shows the long-run cost and revenue curves for a public sector monopoly.



The government decides to set a price that maximises social welfare.

What will be the consequence of this decision?

A The firm will experience diseconomies of scale.

B The firm will make a loss.

C The firm will maximise profits.

D The firm will maximise total revenue.

11 The information gives the characteristics for a market structure.

- The two leading brands control 60% of the market.
- Other large firms and a few smaller firms exist in the market.
- Prices tend to be stable.
- There are significant barriers to entry.

Which market structure is this most likely to be?

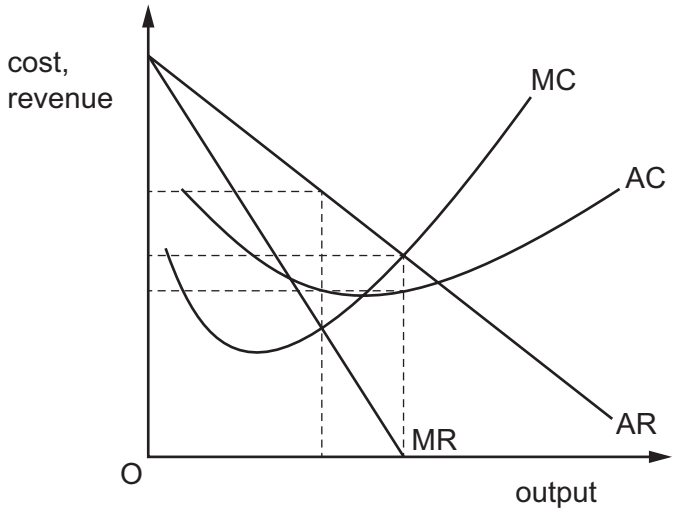
A monopolistic competition

B monopoly

C oligopoly

D perfect competition

12 The diagram shows a firm in imperfect competition. It changed its aim from profit maximising to sales revenue maximising.



Which type of profit was it making in each case?

	profit maximising	sales revenue maximising
A	normal profit	supernormal profit
B	subnormal profit	normal profit
C	supernormal profit	normal profit
D	supernormal profit	supernormal profit

13 In various countries, the supply of public utilities such as water and electricity have been licensed by the government to a few private firms.

What should governments do to persuade these profit-seeking private firms **not** to overcharge consumers?

A allow private firms to merge to create a monopoly

B appoint a regulatory body to guarantee supplies at all times

C deregulate nationalised industries to create a free market

D enable customers to switch easily from one private firm to another

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14 A government intends to use pollution permits to reduce environmental damage.

Under what circumstances is this policy most likely to **fail** to achieve the intended reduction?

A Firms within the scheme are required to have a sufficient number of permits to cover the amount of pollution generated in production.

B Firms improve their technology to reduce the number of permits they require.

C Firms that do not use all of their permits can sell some of them to other firms.

D The permits do not impose strict enough limits on carbon emissions.

15 A government is committed to reducing the Gini coefficient.

Which policy is most likely to **fail** to achieve that policy objective?

A a decrease in ad valorem sales tax rates

B a more regressive income tax system

C a more progressive income tax system

D an increase in transfer payments to the unemployed

16 Which calculation would give the marginal revenue product (MRP) of labour for a firm selling its product in an imperfectly competitive product market?

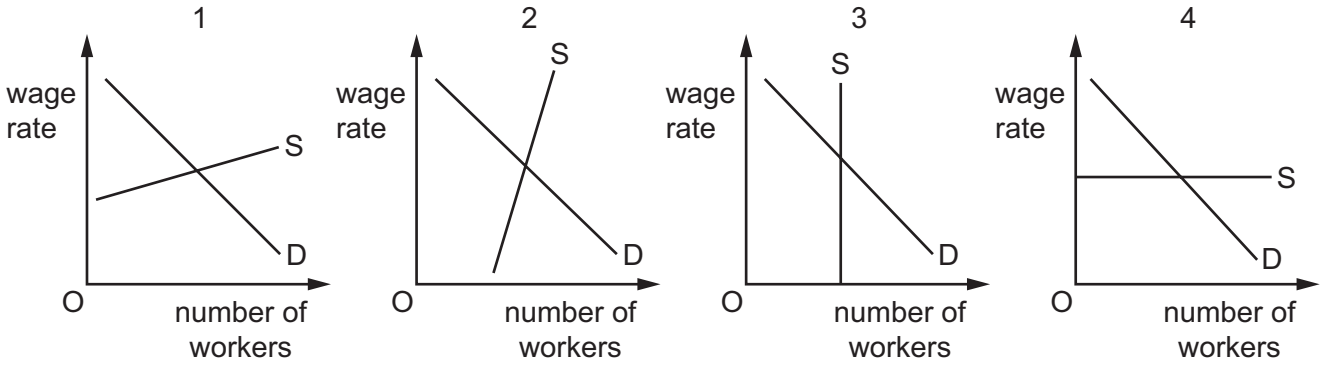
A average output produced per worker employed × marginal revenue of the product

B average output produced per worker employed × price of the product

C extra product produced by an additional worker × marginal revenue of the product

D extra product produced by an additional worker × price of the product

17 The diagrams show the demand for and supply of labour in four markets.



In which markets would labour's transfer earnings exceed its economic rent?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

18 Which objective would **not** be suitable for a government if it were seeking sustainable economic growth?

A achieving the highest growth rate by using all the natural resources

B careful management of the use of non-renewable resources

C effective protection of the environment, wildlife and landscapes

D meeting the needs of both its current and future population

19 What is the difference between a country's gross domestic product and its gross national income?

A capital consumption

B gross fixed capital formation

C net property income from abroad

D the value of exports less imports

20 Some individuals seek to increase their share of existing wealth without creating new wealth. This can be a problem in developing economies.

What is an example of this behaviour?

A a government official taking a bribe for special treatment for the person offering the bribe

B a land owner renting a field to a farmer

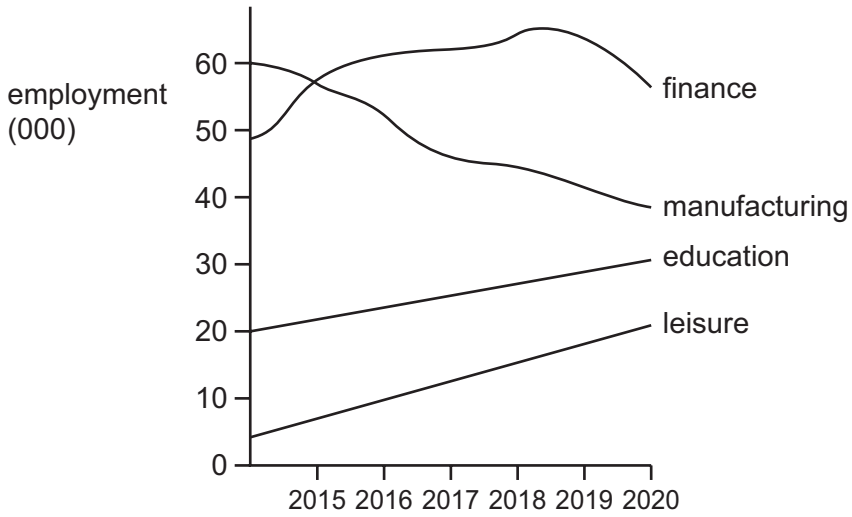
C a landlord being paid for the hire of a room

D an entrepreneur earning a reward for setting up a firm that pays low wages

21 What is necessary to include to calculate the number unemployed?

	everyone of working age who is not in employment	those of pension age who still want to work	part-time employees seeking full-time employment
A	no	no	no
B	no	yes	yes
C	yes	yes	no
D	yes	yes	yes

22 The diagram shows changes in the numbers employed in four different industries in a city between 2015 and 2020.



What can be concluded from the diagram?

A Finance was always the largest employer.

B Leisure had the fastest growth rate in employment.

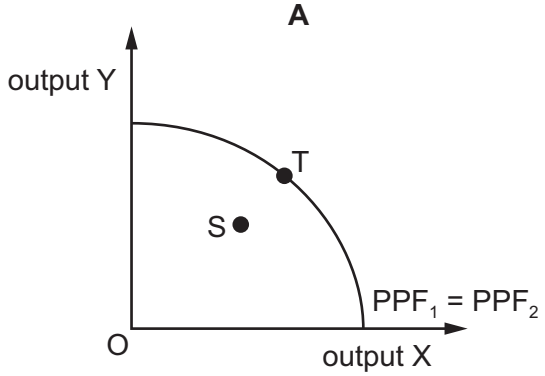
C Manufacturing was the only industry to show signs of decline.

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

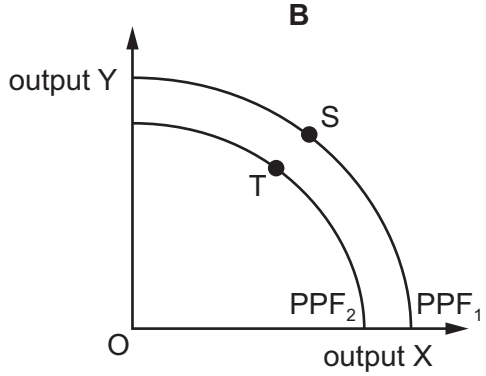
23 At the start of the year, the production possibility frontier for an economy is at PPF_1 and the economy is at point S. At the end of the year the production possibility frontier is at PPF_2 and the economy is at point T.

Which diagram shows that the economy has experienced actual growth but **not** potential growth?

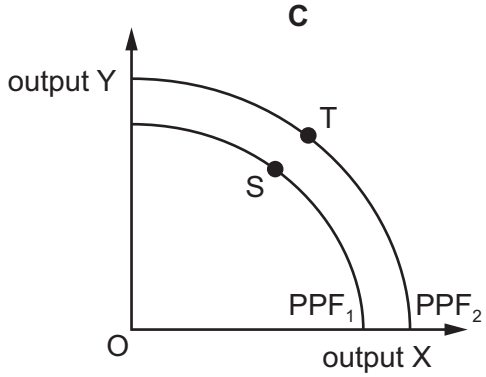
A



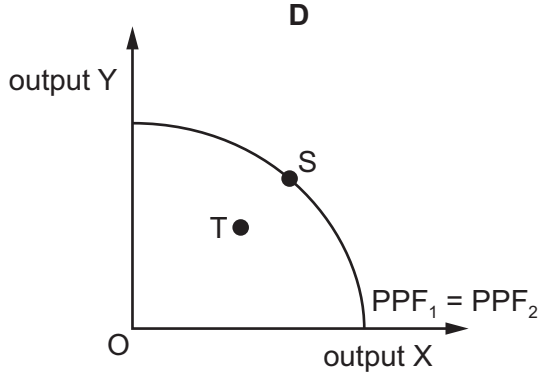
B



C



D



24 Government spending in an economy increases by \$4000 whilst at the same time investment falls by \$1500.

$$\text{marginal propensity to save} = \frac{1}{10}$$

$$\text{marginal propensity to tax} = \frac{1}{5}$$

$$\text{marginal propensity to import} = \frac{1}{10}$$

What will be the increase in national income following these changes?

A \$2500 **B** \$6250 **C** \$10 000 **D** \$25 000

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25 Which change will allow an increase in an economy's money supply?

A An outflow of currency for trade and capital purposes becomes an inflow.

B The central bank instructs commercial banks to keep higher ratios of cash to deposits.

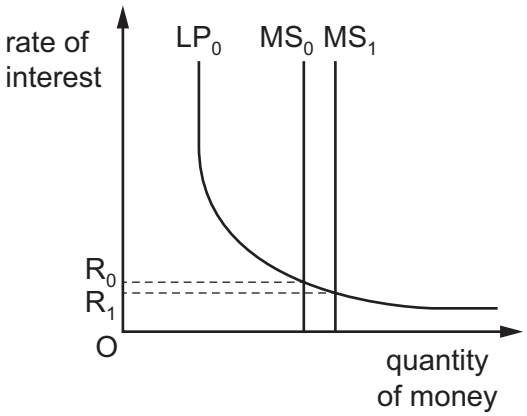
C The government budget balance moves from a deficit to a surplus.

D The government replaces borrowing from the banks with borrowing from the general public.

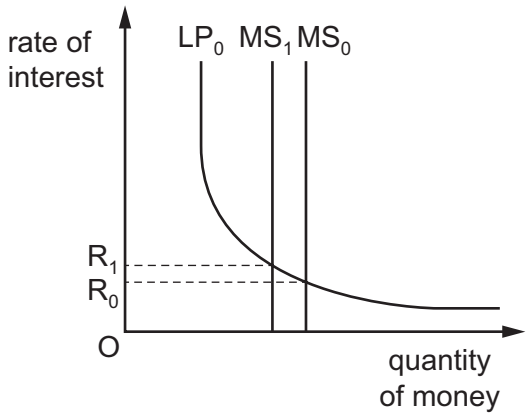
26 In a country the initial money supply curve is given by MS_0, the initial liquidity preference curve by LP_0 and the initial rate of interest by R_0.

If there is an increase in the precautionary motive for holding money, which diagram shows the changes that will occur?

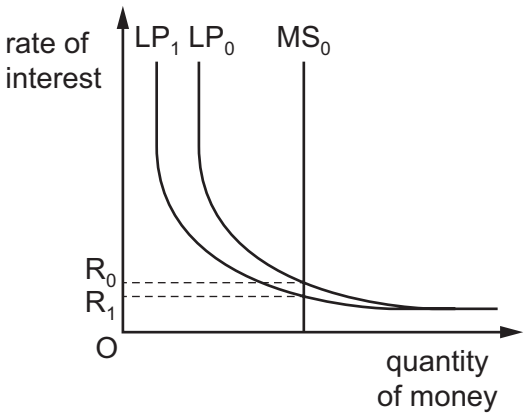
A



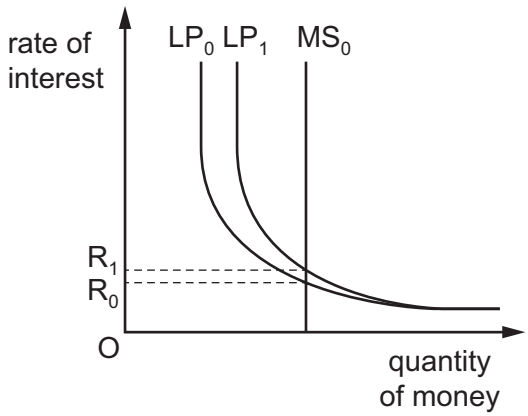
B



C



D



27 The UK gives aid to the Ugandan government to spend on a school. One condition is that they must buy the materials from the UK.

Which type of aid does **not** take place?

A bilateral

B multilateral

C project

D tied

28 Unemployment in an economy increases.

What is a probable consequence?

A a switch from direct to indirect taxation

B an increase in demand-pull inflation

C an increase in the balance of trade deficit

D an increase in the government budget deficit

29 The government of Lesotho introduces a programme to promote exports and to encourage firms to expand by subsidising local entrepreneurs.

Which effect is this likely to have on incomes, the balance of payments current account deficit and government expenditure in Lesotho?

	incomes	balance of payments current account deficit	government expenditure
A	fall	reduce	rise
B	fall	uncertain	rise
C	rise	reduce	no change
D	rise	uncertain	rise

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30 A government currently has a balanced budget. It is considering the possible variations in tax revenue and government expenditure shown.

option	tax revenue	government expenditure
W	increase	increase
X	increase	reduce
Y	reduce	increase
Z	reduce	reduce

Which three options are likely to have the potential to move the budget into surplus?

A W, X and Y **B** W, X and Z **C** W, Y and Z **D** X, Y and Z

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