Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **May/June 2022**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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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 Which statement identifies the condition necessary to achieve Pareto optimality?

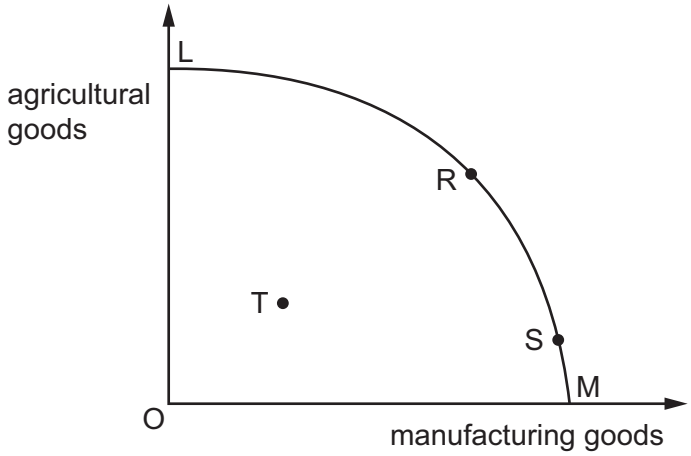
A All consumers maximise their utility subject to their available income.

B It is not possible to produce greater output with the resources available.

C It is not possible to reallocate resources to make someone better off without someone else becoming worse off.

D Potential losers from any reallocation of resources cannot be compensated by those who gain.

2 The diagram shows a production possibility curve (LM) for an economy producing agricultural goods and manufacturing goods.



What can be concluded from the diagram?

A The economy must be allocatively efficient at point R.

B The economy is Pareto efficient at point T.

C The economy is productively efficient at point S.

D The opportunity cost is constant as we move from L to M.

3 The private benefit of an activity is greater than the private cost. The social benefit of the same activity is less than the social cost.

What must be true of the activity?

A external benefit = external cost

B external benefit > external cost

C external benefit < external cost

D external benefit > private benefit

4 What is the central principle of marginal utility theory?

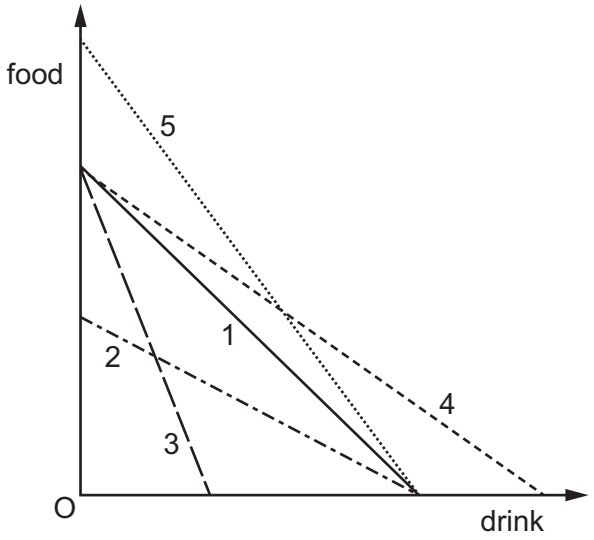
A As more is consumed of a normal good, the additional satisfaction gained increases.

B Consumers are in equilibrium when the marginal utility gained from good X equals the price of good Y.

C Consumers are in equilibrium when the ratio of the marginal utility of goods X and Y are equal to the ratio of their prices.

D Consumers are in equilibrium when the total utility gained from good X is the same as gained from good Y.

5 The diagram shows five budget lines. Line 1 is the original budget line.



Which pair of budget lines shows a relatively higher price for drink compared with food after a move from budget line 1?

A 2 and 3 **B** 2 and 4 **C** 3 and 5 **D** 4 and 5

6 Broken rice is an inferior good.

What would be the resulting income and substitution effect on the quantity demanded of broken rice if its price falls?

	quantity demanded due to income effect	quantity demanded due to substitution effect
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

7 Firms in a market decide to collude over the price that they charge for their products.

What is **not** likely to be a feature of the market?

A Firms have similar cost structures.

B Products of the firms are close substitutes.

C There are high barriers to entry into the market.

D There is a large number of competing firms.

8 Firms often remain small even when growth could result in technical economies of scale.

What is **not** a likely reason for this?

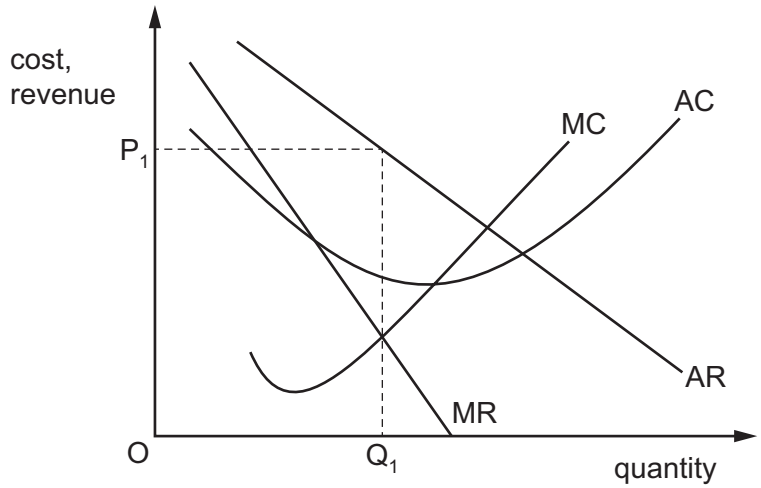
A Demand for the product tends to change often and rapidly.

B Individual entrepreneurs wish to keep a tight personal control over their own firm.

C The entrepreneurs who establish the firms tend to be ambitious risk-takers.

D The market in which they operate is very specialised in nature, often selling unique products.

9 The diagram shows the short-run equilibrium for a firm operating in a monopolistically competitive market.



What is **not** likely to occur at the long-run equilibrium?

A The individual firm's demand curve is more elastic.

B The individual firm's demand curve has moved left.

C The profit-maximising price is greater than average cost.

D The profit-maximising price is greater than marginal cost.

10 In which circumstance would direct provision of a product by the government be **least** likely?

A when fixed costs are very high

B when the demand for the product is very high but unit costs are low

C when the industry faces large natural barriers to entry

D when the minimum efficient scale of production is above the level of demand at current prices

11 The table shows a firm's total costs corresponding to different levels of output.

units of output	1	2	3	4	5	6	7	8
total cost ($)	8	14	18	22	28	36	46	58

If the market price is $8, within which range of output would a profit-maximising firm in a perfectly competitive industry produce in the short run?

A 1–2 units **B** 3–4 units **C** 5–6 units **D** 7–8 units

12 What would encourage an increase in the number of small firms?

A increasing government regulation of conditions in the workplace

B more risk-averse (cautious) lending policies by banks

C stronger government laws against the growth of monopoly

D tougher penalties in the case of personal bankruptcy

13 What is **not** a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

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14 A government issues free non-tradeable pollution permits to firms. They specify the maximum amount of polluting gases these firms are allowed to emit. In a change in legislation, the permits can be traded with other firms.

Assuming that all other costs and revenues remain the same, what will be the impact on the profits of the firms that are now buyers or sellers of the permits?

	profits of buyers of permits	profits of sellers of permits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

15 What is an example of 'nudge' theory when applied to encouraging healthy eating?

A advertising the benefits of healthy eating

B increasing tax on sugary foods

C introducing a subsidy for fruit growers

D supermarkets putting fruit near cash registers

16 What is a definition of transfer earnings?

A the amount of earnings above that needed to keep a worker in their current job

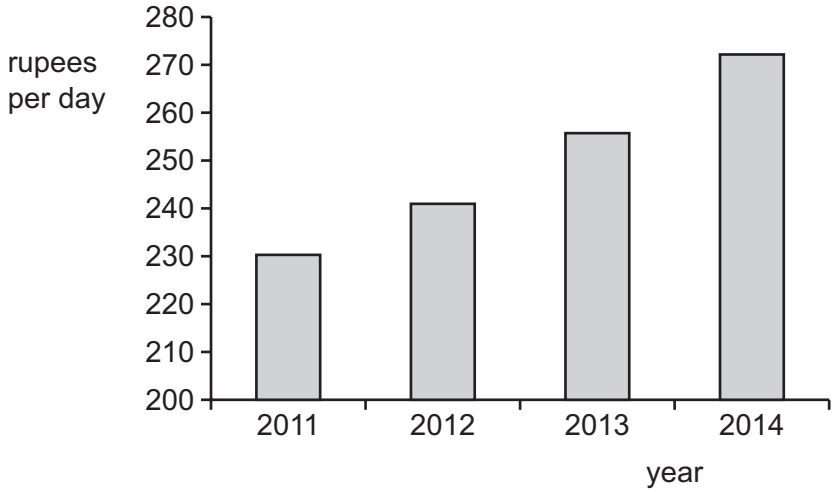
B the minimum earnings needed to keep a worker in their current job

C the social security benefits paid to workers whose earnings are below the poverty line

D the amount of earnings needed to cause a worker to change to a different job

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17 The chart gives information about the average daily wage rate for all industries in India.



What could have caused this trend in wage rates?

A an increase in capital-intensive production

B an increase in the number of industrial workers

C an increase in the number of people unemployed

D an increase in the productivity of labour

18 The table shows the annual percentage economic growth rates of three countries from 2012 to 2018.

	annual percentage change in real GDP		
	Brazil %	Japan %	Spain %
2012	1.9	1.5	–2.9
2013	3.0	2.0	–1.7
2014	0.5	0.4	1.4
2015	–3.5	1.2	3.7
2016	–3.3	0.6	3.2
2017	1.1	1.9	3.0
2018	1.1	0.8	2.6

What can be concluded from the table?

A Brazil was in the downturn of its trade cycle in 2015.

B Japan's real GDP was at its smallest in 2014.

C Spain experienced the worst recession of the period.

D Spain was in the downturn of its trade cycle in 2014.

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[Turn over

19 What could cause the official statistics for the national income per head of a developing country to overstate the true level of economic well-being of its inhabitants?

A if there is dependence on barter in internal trade

B if subsistence agriculture dominates total economic activity

C if services are an important component of exports

D if there is extreme income inequality

20 What is shown by the Kuznets curve?

A the rise and then fall in the balance of trade deficit following a devaluation

B the rise and then fall in the economic growth rate as the GDP increases

C the rise and then fall in inequality as the level of income per head rises

D the rise and then fall in tax revenue as the tax rate is increased

21 Which type of unemployment is associated with a deficiency in aggregate demand?

A cyclical

B frictional

C structural

D voluntary

22 There has been a switch in demand from goods produced by labour-intensive methods of production to similar goods produced using high-technology methods of production. This has led to an overall increase in unemployment.

What is the best policy to reduce this type of unemployment?

A reduce the rate of income tax

B increase the rate of interest on borrowing for investment

C subsidise products produced by labour-intensive methods

D subsidise exports produced by high-technology industries

23 What would **not** exist in a free-market, open economy?

A autonomous investment

B household saving

C import spending

D indirect taxation

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24 What is **most** likely to be found in an economy with a positive output gap?

A a higher potential than actual GDP

B high unemployment

C inflation

D low labour costs

25 Which statement about the Keynesian liquidity preference demand for money model is correct?

A Both the transactions and precautionary motives for holding liquidity are interest rate elastic.

B The demand for liquidity is completely interest rate inelastic at low rates of interest.

C The demand to hold liquidity by households is stable.

D The rate of interest on long-term government securities is inversely related to their price.

26 The table shows an individual's planned consumption at different levels of income.

income ($)	100	200	300	400	500
consumption ($)	140	220	300	380	460

What can be concluded about changes in the marginal propensity to consume (MPC) and average propensities to consume (APC) as income rises?

	MPC	APC
A	constant	constant
B	constant	falling
C	falling	constant
D	falling	falling

27 Which items in the table are classified as foreign aid?

	foreign direct investment	official development assistance	portfolio investment flows
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

28 An increase in which factor will cause a decrease in investment spending?

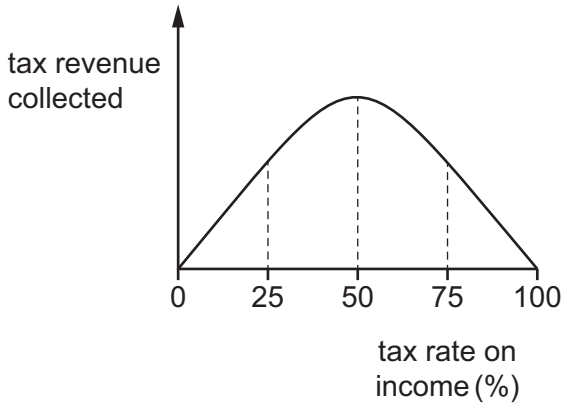
A business confidence

B company profits

C interest rates

D national income

29 The diagram shows the relationship between tax revenue and the tax rate.



What is the curve on the diagram called?

A income elasticity curve

B J curve

C Lorenz curve

D Laffer curve

30 The table shows the rate of inflation (consumer prices index) and the monthly percentage rate of unemployment for the USA over a six month period in 2017.

month	April	May	June	July	Aug	Sept
rate of inflation (%)	2.2	1.9	1.6	1.7	1.9	2.2
rate of unemployment (%)	3.9	3.8	3.9	3.9	3.8	3.7

What can be concluded from this table?

A Falling inflation leads to lower unemployment.

B Increasing inflation leads to rising unemployment.

C The rate of inflation correlates exactly with the rate of unemployment.

D The rate of inflation has a marginal effect on the rate of unemployment.

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