Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2016**

1 hour 15 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

8817558115

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 How is net external benefit calculated?

A external benefit minus external cost

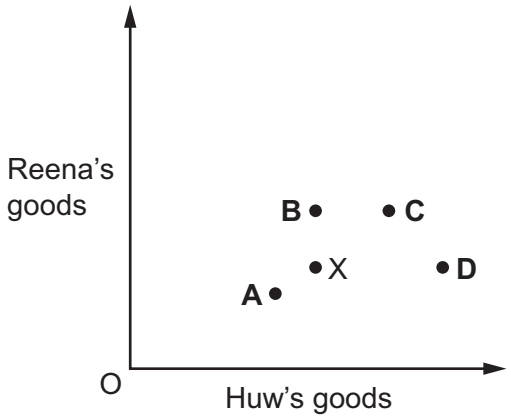
B external benefit plus private benefit

C private benefit plus social benefit

D social benefit minus private cost

2 The diagram shows the distribution of goods between two individuals in a two-person economy with given technology and resources. The economy is located at point X.

According to the Pareto criterion, which point would definitely **not** increase allocative efficiency?



3 What would be one indicator of productive inefficiency in an economy?

A an excess of imports over exports

B prices in excess of marginal costs

C rationing of certain goods and services

D unemployment due to deficient aggregate demand

4 What is equal at all points along an indifference curve for an individual consumer?

A marginal expenditure

B marginal utility

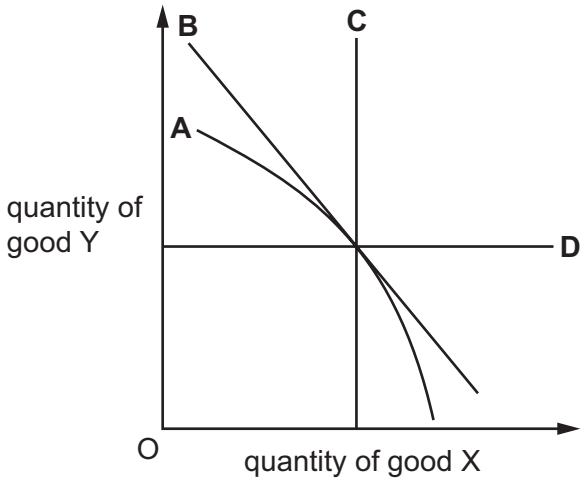
C total expenditure

D total utility

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5 The diagram shows four unusual indifference curves.

Which curve indicates that the goods are perfect substitutes for the consumer?



6 What is most likely to indicate that a firm is run in the interests of management rather than the owners?

A the financing of investment largely by the issue of bonds

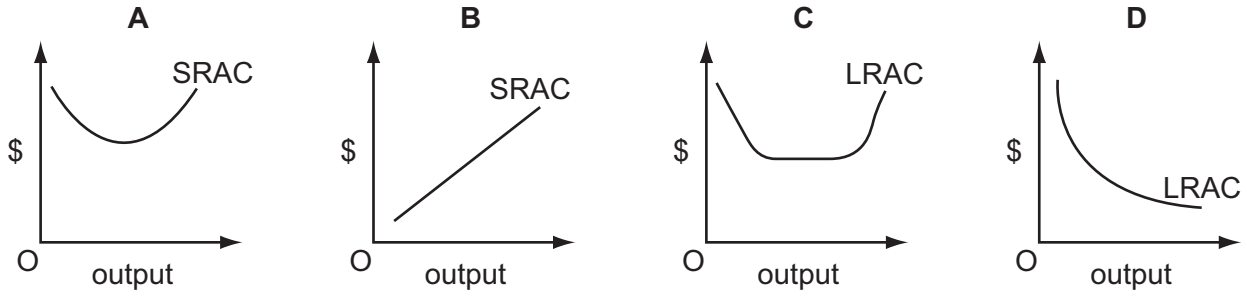
B the opportunity for managers to buy shares at a reduced price

C the payment of high dividends to shareholders

D the presence of 'X' inefficiency

7 The diagrams show four average cost curves.

Which curve illustrates diseconomies of scale over a range of output?



8 What is **least** likely to be the reason why a firm seeks to grow?

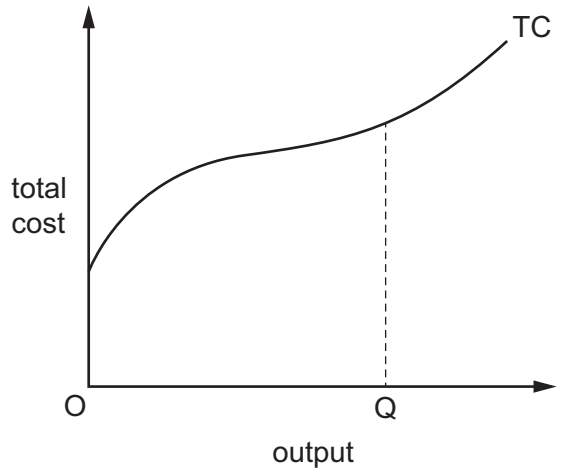
A to improve management control and co-ordination

B to reduce costs by exploiting economies of scale

C to satisfy the ambitions of senior management

D to secure greater pricing power by increasing its market dominance

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



What is minimised at output OQ?

A average fixed cost

B average total cost

C average variable cost

D marginal cost

10 The table shows a firm's total and marginal cost.

output	total cost $	marginal cost $
1	150	30
2	165	15
3	175	10
4	190	15
5	210	20

What is the average fixed cost of producing 6 units?

A 20 **B** 30 **C** 120 **D** 150

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11 A firm operates in a contestable market.

How is the firm likely to decide on the price of its product?

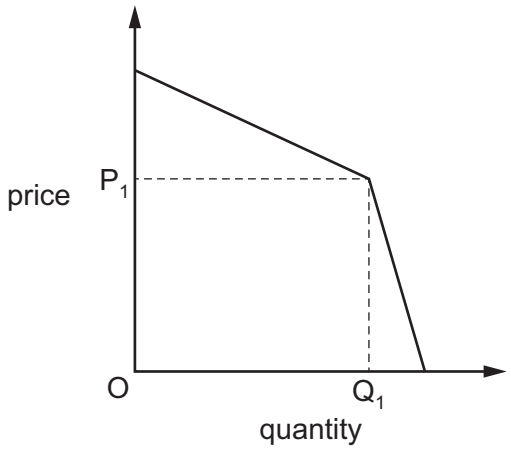
A It will set a price equal to minimum average cost.

B It will set a price to deter the entry of new firms.

C It will set a price to maximise its revenue.

D It will set a price to maximise sales in the short run.

12 The diagram shows the demand curve faced by an individual firm in an oligopolistic industry.



What explains the shape of the curve?

A lack of productive capacity at output levels greater than Q_1

B the ability of the firm to practise price discrimination

C the absence of barriers to new firms entering the industry

D the response of rival firms to changes in its price

13 How does monopolistic competition differ from perfect competition?

A Average revenue can be greater than average cost in the long run.

B Average revenue can be greater than average cost in the short run.

C Products are differentiated.

D There are barriers to entry.

14 Which measure to reduce the abuse of monopoly power is an example of regulation?

A legislation to forbid price fixing by cartels

B removal of import tariffs

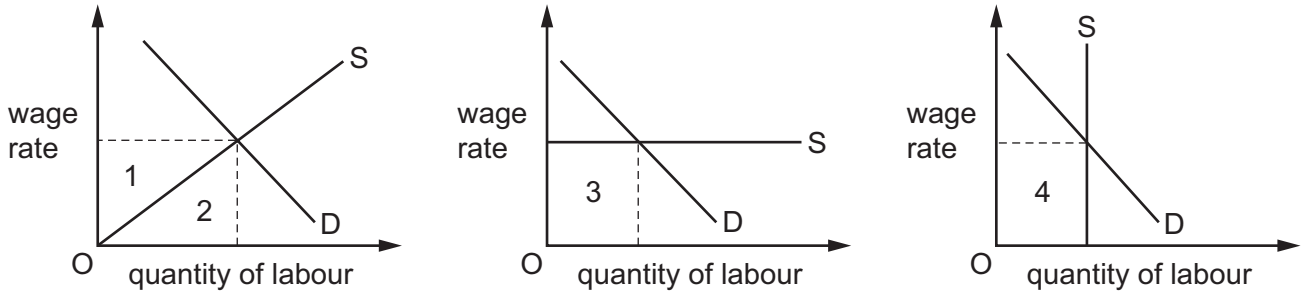
C subsidising small firms

D taxation of monopoly profits

15 What are the losses in economic efficiency that are likely to result from a policy of income redistribution from the rich to the poor?

	disincentive effects	distortion of individual choices between work and leisure	administrative costs of the redistribution policy
A	no	no	no
B	no	no	yes
C	yes	yes	no
D	yes	yes	yes

16 The diagrams show the demand for and supply of labour.



Which two areas represent transfer earnings?

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

17 A firm is faced with a shortage of labour. It decides to introduce its own training scheme for school leavers.

What effect is this most likely to have on the firm?

A a decrease in the number that it employs

B a decrease in the productivity of its workforce

C an increase in the geographical mobility of its labour

D a shift of the supply curve for its labour to the right

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18 Recently, among European countries the Netherlands had the highest percentage of part-time employees and an average working week for all employees of 32 hours. Greece had a smaller percentage of part-time employees but an average working week for all employees of 41 hours.

Which conclusion may be drawn from this information?

A Greece has a higher percentage of its workforce in full-time employment than the Netherlands.

B On average part-time employees work longer in Greece than in the Netherlands.

C The average working week in Greece for full-time employees is longer than in the Netherlands.

D There are more part-time employees in the Netherlands than in Greece.

19 What is the most likely reason that a rise in the savings ratio of a country may increase its rate of development in the long run?

A It would encourage a shift of resources from the secondary to the primary sector.

B It would free resources for the production of capital goods.

C It would increase the level of international trade.

D It would increase the rate of interest.

20 Which of the following is the most accurate statement about developing economies?

A A dependence on primary products for export revenues means that developing countries are reliant on the industrialised world for their economic performance.

B High levels of capital per head mean that they must rely on overseas trade if they are to achieve higher growth rates.

C High real GDP per head, plus high rates of population growth, reduce their ability to increase their standard of living.

D Migration of labour from rural to urban areas is of significance only if it results in labour shortages in the rural economy.

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21 The table shows government net lending for four countries in two years.

	government net lending (% of GDP)	
	2005	2010
Finland	2.7	–2.8
Italy	–4.5	–4.5
Korea	3.4	1.3
Switzerland	–1.1	0.3

Which country had the highest increase in government borrowing as a percentage of its GDP between 2005 and 2010?

A Finland

B Italy

C Korea

D Switzerland

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 what happens to the marginal propensity to save?

A It falls and then rises.

B It falls continuously.

C It rises and then falls.

D It rises continuously.

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23 Which represents a leakage from an economy's circular flow of income?

A a government budget surplus

B bank loans to private companies

C foreign direct investment in the economy

D the sale of assets by the country's households

24 In a closed economy with no government sector the multiplier shows the impact of a change in

A consumption on investment.

B investment on national income.

C national income on consumption.

D national income on investment.

25 According to Keynesian theory, in which circumstance would there always be an increase in the demand for money?

	real income	price level	interest rates
A	constant	constant	increase
B	constant	decrease	decrease
C	increase	decrease	increase
D	increase	increase	decrease

26 An increase in which of the following would lead to an immediate increase in national expenditure?

A interest rates

B private sector investment

C the budget surplus

D the savings ratio

27 Which indicator is **least** likely to be used when measuring the comparative economic development of an economy?

A adult literacy rate

B average life expectancy at birth

C level of real GNP per head

D size of population

28 Which would be most likely to result in an increase in the number of new small firms?

A an increase in company tax

B an increase in interest rates

C an increase in redundancy rates

D an increase in unemployment benefits

29 To increase the level of employment in the upturn of the trade cycle, a government pursues an expansionary economic policy.

What explains the resulting overheating of the economy?

A the emergence of supply bottlenecks

B the Laffer curve principle

C the operation of automatic stabilisers

D the underemployment of labour

30 What is most likely to decrease as a result of a fall in interest rates in a country?

A company profits

B household saving

C the level of share prices

D the outflow of short-term capital

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