Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

* 0 9 2 9 3 0 9 4 7 4 *

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.

This document consists of **11** printed pages and **1** blank page.

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[Turn over

1 What is the purpose of trying to achieve economic efficiency?

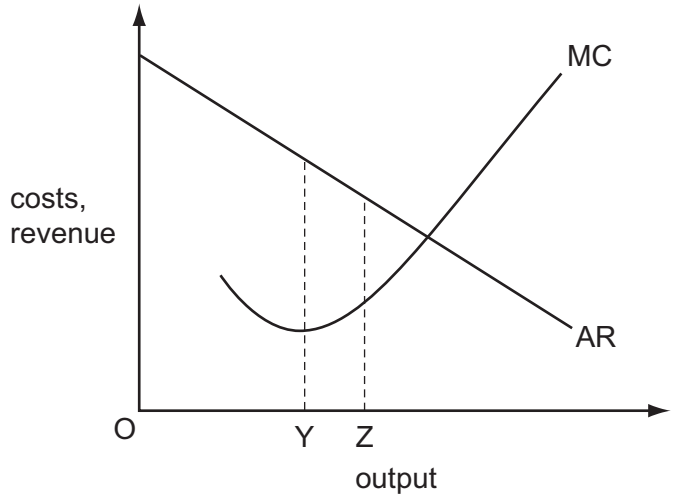
A to achieve full employment

B to achieve the cheapest possible price for products

C to ensure resources are not wasted

D to use as many resources as possible

2 In the diagram, a firm increases its output from OY to OZ.



Which statement about the effect on economic efficiency is correct?

A It will increase because a greater quantity will be produced and higher total revenue will be earned.

B It will increase because the value that consumers place on the product comes closer to the cost of producing the last unit.

C It will decline because both average and marginal revenue will fall.

D It will decline because both total and marginal cost will rise.

3 A proposal for a new power station was rejected by the government because it was not socially beneficial.

The government calculated that the private costs would be $800 m, private benefits $900 m and external benefits $300 m.

What must have been true about the external costs of the power station?

A External costs were equal to external benefits.

B External costs were greater than $400 m.

C External costs were less than external benefits.

D There were no external costs.

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4 What will happen if, in response to a fall in its price, a consumer buys more of a good?

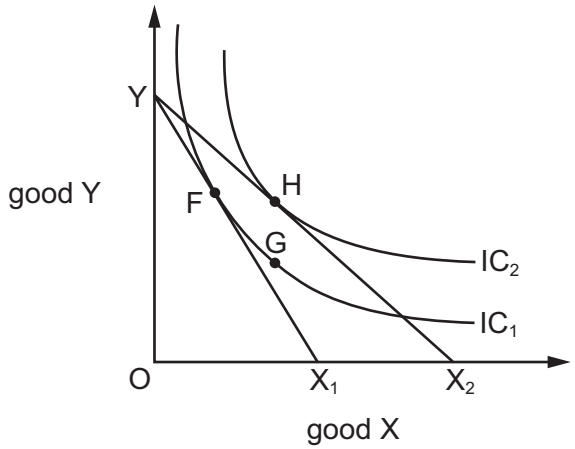
A a fall in the total utility derived from consuming the good

B a movement along the consumer's demand curve

C a rise in the marginal utility derived from consuming the good

D a shift in the consumer's demand curve

5 The diagram shows two indifference curves and two budget lines for goods X and Y.



The consumer's initial position is at point F. The consumer's preferred final position becomes point H.

What does the movement from F to G represent?

A the income effect of a price fall for X

B the price effect of a price change for X

C the substitution effect of a price fall for X

D the substitution effect of a price rise for X

6 What is one of the long-term benefits to a firm of vertical integration?

A a concentration on activities in which the firm has a comparative advantage

B a reduction in the total costs involved in agreeing contracts with other firms

C an increase in the firm's market share

D improvements in efficiency resulting from increased use of market incentives

7 The organisers of a major sporting event produce official souvenir products. Cheaper unofficial souvenirs are also produced by street traders who sell them to people walking to the event.

Of what is this an example?

A a contestable market

B perfect competition

C price discrimination

D price leadership

8 Which assumption is made in calculating a firm's short-run production function?

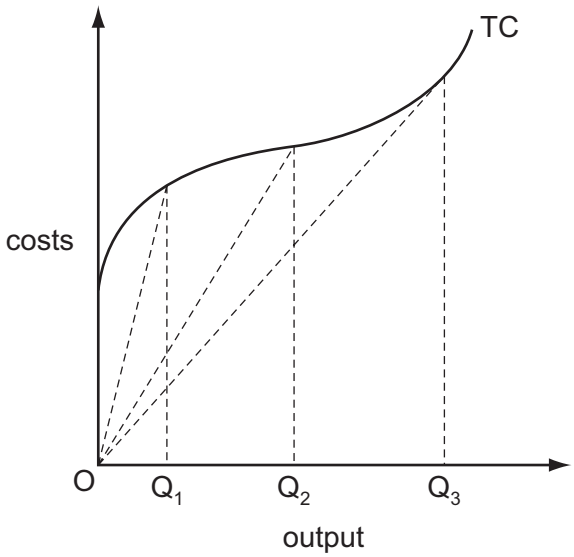
A All factors of production are fixed.

B All factors of production are variable.

C The state of technology is fixed.

D The state of technology is variable.

9 In the diagram, TC is a firm's short-run total cost curve.



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_2.

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10 The table shows the total cost of a firm.

output	total cost $
0	40
1	55
2	60
3	65
4	80

What is the average variable cost of producing 4 units of output?

A $10 **B** $15 **C** $20 **D** $40

11 Which condition must apply before a market can be regarded as perfectly contestable?

A All firms in the industry are price-takers.

B All firms in the industry produce an identical product.

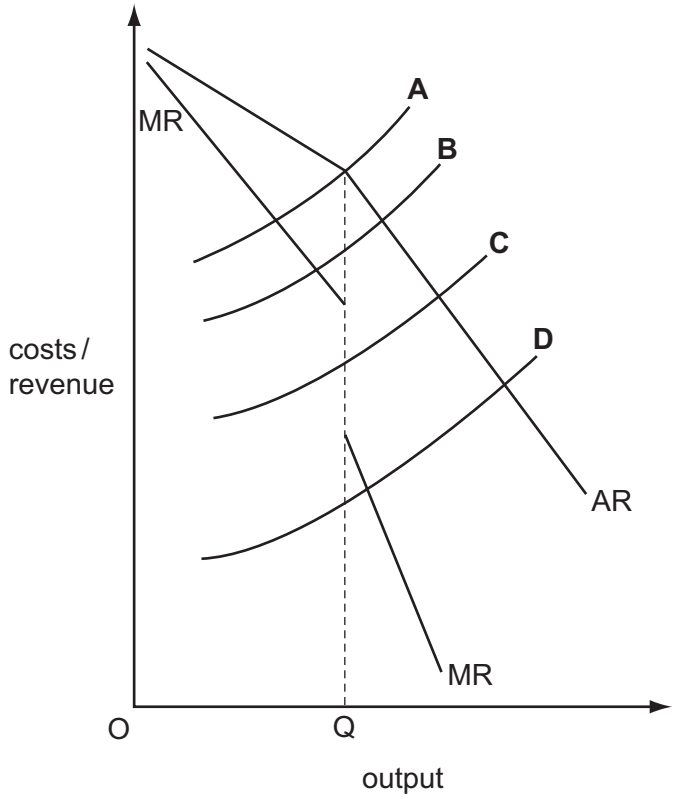
C There are a large number of firms in the industry.

D There are zero costs of entry to, and exit from, the industry.

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12 The diagram shows the average and marginal revenue curves of an oligopolistic firm. OQ is the profit-maximising output.

Which curve could be the firm's marginal cost curve?



13 What is most likely to be found when comparing the long-run equilibrium outcome in monopolistic competition with that in perfect competition?

A a greater degree of excess capacity in monopolistic competition

B a higher level of profit in monopolistic competition

C a larger number of firms in monopolistic competition

D a more price-elastic demand curve in monopolistic competition

14 Which is **not** a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

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15 The government wants to regulate the consumption of a demerit good in order to increase society's net welfare.

In which situation will society's net welfare increase?

A The fall in the marginal social benefit is greater than the fall in the marginal social cost.

B The fall in the marginal social cost is greater than the fall in the marginal social benefit.

C The fall in the total social benefit is greater than the fall in the total social cost.

D The fall in the total social cost is greater than the fall in the total social benefit.

16 Which measure is **least** likely to help a household out of the poverty trap?

A changing a universal benefit to a means-tested benefit

B increasing the threshold at which income tax is paid

C introducing a national minimum wage

D reducing the basic rate of income tax

17 'The addition to revenue which results from employing one additional unit of a factor of production, the quantities of all other factors of production remaining constant'.

What does this define?

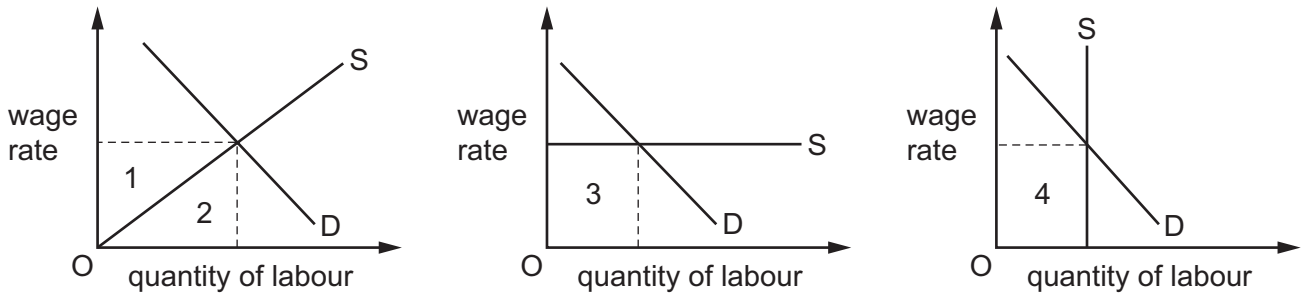
A marginal factor cost

B marginal revenue

C marginal revenue product

D the law of diminishing returns

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



Which two areas represent economic rent?

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

19 The table shows the short-run production function of a firm with labour as the variable factor of production.

number of workers employed	total output per day
1	10
2	20
3	40
4	50
5	60

If workers are hired in a perfectly competitive labour market at a wage rate of $50 per day, when will the labour cost per unit of output be at its lowest?

A 2 workers

B 3 workers

C 4 workers

D 5 workers

20 Over a given period the amount of overtime worked in manufacturing industry increases.

What is likely to be a consequence of this?

A a decrease in employment

B a decrease in the rate of inflation

C a more rapid growth in average earnings than in hourly wage rates

D a more rapid growth in manufacturing output than in productivity

21 What is a common characteristic of developing economies?

A a relatively small agricultural sector

B extensive underemployment

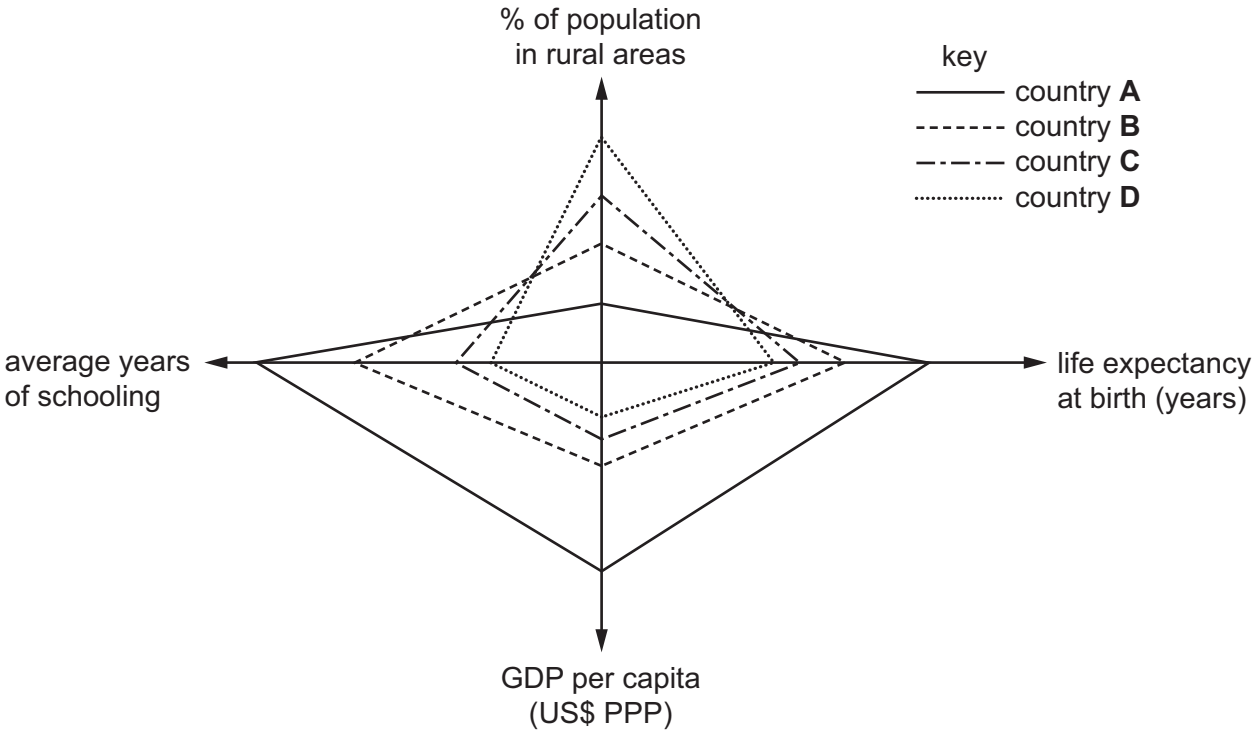
C high saving rates

D stable export earnings

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22 The diagram shows data on various aspects of four countries.

Which country is likely to be **least** developed?



23 If the marginal propensity to consume in an economy in a given period becomes greater than unity, this must mean that

A consumers will be spending more than they are earning.

B inflation will be generated in the economy.

C the country will suffer a trade deficit.

D the marginal propensity to save will be negative.

24 Which row correctly identifies net leakages from the circular flow of income?

	trade surplus (exports - imports)	government budget deficit (government spending - taxes)	private sector surplus (saving - investment)
A	✓	✓	✗
B	✓	✗	✗
C	✗	✓	✓
D	✗	✗	✓

25 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.

26 What would cause an increase in the transactions demand for money?

A a fall in the price of bonds

B an increase in nominal national income

C an increase in the rate of interest

D an increase in unemployment

27 Government economic advisers disagree over the relative impact of fiscal and monetary controls.

What is most likely to be the first stage at which a time lag will occur?

A in the introduction of the chosen policy

B in the operational effectiveness of the policy

C in the recognition of the existence of the problem

D in the selection of the appropriate policy

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28 What has **not** accompanied global economic growth over the last twenty five years?

A a depletion of non-renewable resources

B decreased international trade

C growing urbanisation

D increased atmospheric pollution

29 Which policy pursued by a central bank represents a contractionary monetary policy?

A a reduction in the interest rate at which it will lend to banks

B a reduction in the minimum cash to deposit ratios of banks

C the purchase of foreign currency to influence the country's exchange rate

D the sale of government bonds in the open market

30 Which policy's principal aim is to ensure sound public finances?

A environmental policy

B fiscal policy

C monetary policy

D supply-side policy

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