Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/31**

Paper 3 Multiple Choice **October/November 2017**

1 hour 15 minutes

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

3520188135

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 Which is the most likely reason for the privatisation of state-owned industries?

A to achieve a more equitable distribution of income

B to achieve economies of scale

C to achieve marginal cost pricing

D to achieve productive efficiency

2 A town council estimated the costs and benefits of operating a bus service in 2015 and 2016. These are shown in the table.

	2015 $000	2016 $000
private costs	2000	2200
external costs	500	900
private benefits	1500	2300
external benefits	1000	800

What can be concluded from the table?

A Between 2015 and 2016, social costs fell and social benefits rose.

B Between 2015 and 2016, social costs rose and social benefits fell.

C In both years, positive externalities exceeded negative externalities.

D In both years, social costs equalled social benefits.

3 At major sporting events, unofficial markets occur where tickets originally sold by the event organiser are resold at prices higher than the original ticket price.

What might be the conclusion of an economist considering these markets?

A Allocation of tickets by ballot would be preferable.

B The market for the resold tickets is more equitable.

C The new allocation of tickets better reflects consumers' utility.

D This is a case of monopoly exploitation.

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4 Which statement describes the operation of the law of variable proportions?

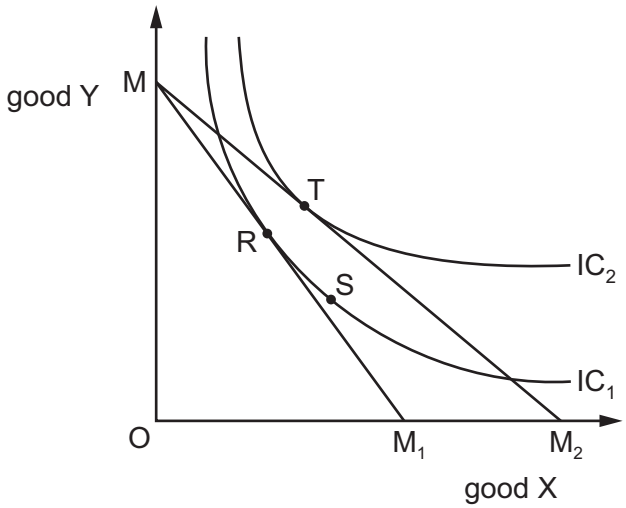
A As all factors are increased in proportion, the marginal cost of production increases.

B As all factors are increased in proportion, total product rises at a diminishing rate.

C As more of a variable factor is added to a fixed factor, the marginal cost of production diminishes.

D As more of a variable factor is added to a fixed factor, total product rises at a diminishing rate.

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



The consumer's initial position is at point R. The money price of good X decreases and the consumer's preferred position becomes point T.

What is good X?

A a Giffen good

B a luxury good

C a normal good

D an inferior good

6 Firms can grow internally or externally.

What is a characteristic of external growth?

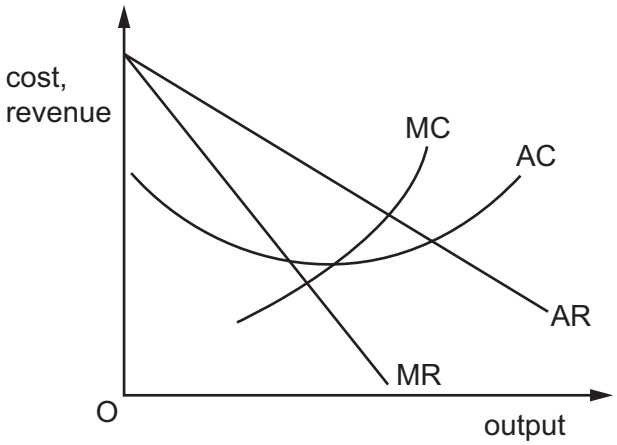
A direct investment in productive facilities in foreign countries

B growth that results in external economies benefiting other firms

C growth that results from mergers with, or acquisitions of, other firms

D the financing of investment by the issue of bonds rather than retained profits

7 The diagram shows a firm's cost and revenue curves.



The firm embarks on a successful $100 million advertising campaign.

How will this affect its costs and revenue curves?

	MR curve	AR curve	MC curve	AC curve
A	shifts to right	shifts to right	shifts up	unchanged
B	shifts to right	shifts to right	unchanged	shifts up
C	unchanged	unchanged	shifts up	unchanged
D	unchanged	unchanged	unchanged	shifts up

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

A increasing government regulation of conditions in the workplace

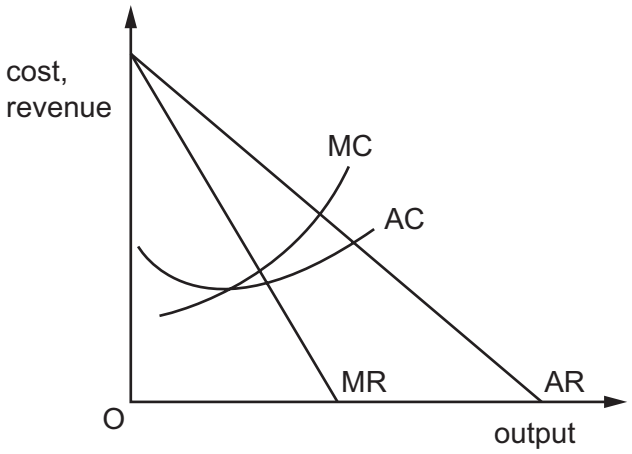
B more risk-averse (safety first) lending policies by banks

C stronger government laws against the growth of monopoly

D tougher penalties in the case of personal bankruptcy

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9 The diagram shows a firm's cost and revenue curves.



The firm changes its objective from sales revenue maximisation to profit maximisation.

How will this affect the following groups in the short run?

	customers	workers
A	benefit	benefit
B	benefit	lose
C	lose	benefit
D	lose	lose

10 The firms in an industry decide to collude informally and follow a price leader.

What will reduce the likelihood that the collusion will succeed?

A The firms produce close substitutes.

B The firms have similar cost structures.

C There are low barriers to entry into the industry.

D There are only a few firms in the industry.

11 The theory of contestable markets can be applied to

A monopolistic competition, monopoly and oligopoly.

B monopolistic competition only.

C monopoly and oligopoly only.

D monopoly only.

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12 According to the law of diminishing returns, what happens as more of a variable factor is combined with a fixed factor?

A An increase in the price of the variable factor will eventually result in an increase in production costs.

B A reduction in the quality of the variable factor will eventually result in an increase in production costs.

C Fewer units of the variable factor will be needed to produce equal increases in output.

D The proportions in which the factors are combined will eventually result in progressively smaller increases in output.

13 Firm X is considering whether to co-operate with its rival so that their joint profit is $4000 a month ($2000 each). It calculated that, if it did not co-operate, its own profit would be $2800 a month provided it kept all its customers itself. However, if its rival undercut X's price and took some of X's customers then X's profit would be $1200. It has no knowledge of what the rival's policy will be.

What describes the situation that the firm is facing?

A monopoly profit maximisation

B principal agent problem

C prisoner's dilemma

D satisficing

14 Governments intent on improving living standards for individuals with low incomes sometimes impose rent controls (maximum prices) on houses rented from private landlords.

What might be the effects of rent controls in the long run?

A The long-run supply of rental houses will contract.

B The number of unoccupied privately rented houses will increase over time.

C The price of owner-occupied houses will increase.

D There will be no effect on the supply of the rental housing.

15 In certain countries benefits are provided to individuals on low income. As their income rises the benefits are reduced and income tax has to be paid.

What can result from this?

A price stabilisation

B poverty trap

C replacement ratio

D unemployment trap

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16 What would help a trade union to negotiate an increase in the wage rates of its members **without** causing a reduction in the numbers employed?

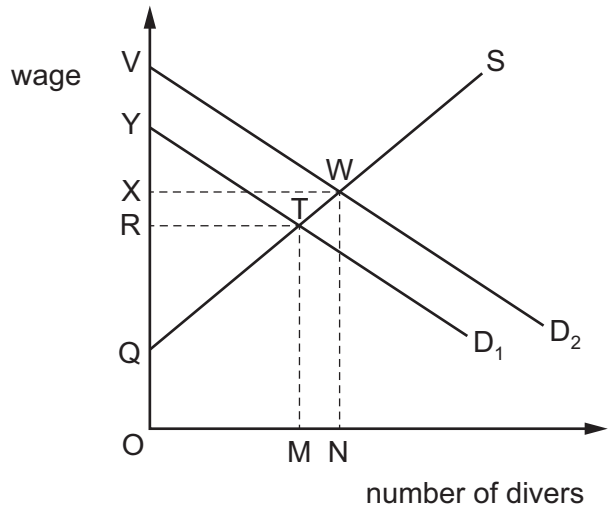
A Labour costs are a major proportion of total costs.

B The demand for the labour employed is elastic.

C The demand for the good produced is elastic.

D The demand for the good is increasing.

17 An increase in the world price of oil increases the demand for deep sea divers from D_1 to D_2 as shown.



What is the change in the economic rent earned by the divers?

A OQTM to OQWN

B ORTM to OXWN

C QRT to QXW

D QYT to QVW

18 What could lead to an increase in the size of a country's labour force?

A a decrease in unemployment

B a decrease in the retirement age

C an increase in the participation rate

D an increase in the school-leaving age

19 The table gives unemployment rates (%) for four countries in 1993 and 2002.

	UK	Japan	France	Italy
1993	10.5	2.5	11.4	10.1
2002	5.0	5.4	8.8	8.5

What can be deduced from the table?

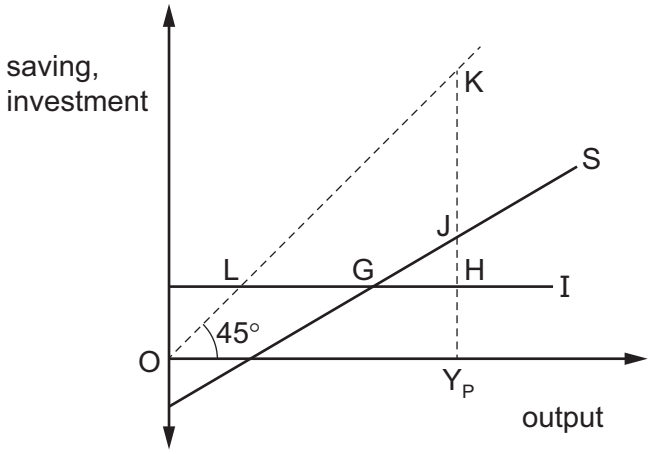
A France had the lowest rate of employment in both years.

B Italy had the most employed people in 2002.

C Japan more than doubled its labour productivity between 1993 and 2002.

D The UK created the most jobs between 1993 and 2002.

20 The diagram shows the saving and investment curves of a closed economy with no government.



The potential level of output is OY_P.

Which distance measures the gap between actual and potential output?

A KJ **B** JH **C** LG **D** GH

21 The table shows the values of selected macroeconomic variables over a two-year period.

	year 1 ($m)	year 2 ($m)
investment	250	350
saving	280	340
government expenditure	150	200
taxation	140	200
exports	200	250
imports	180	260
equilibrium national income	3600	4200

What is the value of the multiplier?

A 3 **B** 4 **C** 6 **D** 12

22 During a year, a country's national income in money terms increased by 3%, prices increased by 4% and total population increased by 1%.

What was the approximate change in real income per head?

A a decrease of 1%

B a decrease of 2%

C an increase of 2%

D an increase of 3%

23 What will cause a fall in the quantity of money demanded?

A a rise in interest rates

B a rise in national income

C a rise in the price level

D a rise in wealth

24 What is **not** included in the measurement of national income?

A dividends paid to shareholders

B overtime payments

C rents from government-owned houses

D welfare benefit payments

25 Which row correctly identifies net injections into a country's circular flow of income?

	government expenditure > taxation	savings > investment	exports > imports
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

26 Rapid economic growth is claimed by some to harm the environment.

Which outcome would **not** harm the environment?

A the greater mobility of workers resulting from increased vehicle ownership

B the increased levels of income that reduce fertility rates and family size

C the relocation of workers from agricultural to manufacturing employment

D the use of improved technology to access previously inaccessible natural resources

27 A country has labour shortages in some areas and high unemployment in others.

Which government policy would help remove this imbalance?

A abandoning national wage rates in favour of local agreements

B granting subsidies to exporting firms

C increasing welfare payments to the unemployed

D reducing government expenditure and increasing taxation

28 Which is likely to hinder a supply-side stimulus to the economy?

A an imposition of maximum hours in a working week

B an increase in public sector spending

C the provision of new training schemes

D the relaxation of import controls on raw materials

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29 What is most likely to influence subsequent increases in national income as a result of a government policy of reduced interest rates?

A marginal cost

B marginal efficiency of capital

C marginal product

D marginal utility

30 What might influence the ability of a government to use income taxation to redistribute income from richer to poorer groups?

A the Laffer curve

B the Law of diminishing returns

C the Pareto principle

D the Phillips curve

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