Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/32**

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)

6384713963

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 In an economy no one can be made better off without making someone else worse off.

What can be deduced from this?

A Individuals are the best judges of their own well-being.

B Individuals can be relied upon to behave rationally.

C The distribution of income is socially optimal.

D The economy's resources are allocated efficiently.

2 In 2015, a large mining company said it would reduce the number of staff by 6000 and sell its less profitable mines in an attempt to become more efficient.

If it is successful, what is most likely to happen to its costs?

	total fixed cost	total variable cost	average cost
A	fall	fall	fall
B	fall	fall	no change
C	fall	no change	fall
D	no change	fall	fall

3 The production of a firm which operates in an imperfectly competitive market gives rise to external production costs.

Which statement about this firm must be correct?

A External costs exceed external benefits.

B Private costs exceed social costs.

C Social costs exceed private costs.

D Social costs exceed social benefits.

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4 In the UK in 2015 there were two methods of charging for water supply.

1 a fixed charge giving the consumer the right to consume water at zero price per litre

2 a price per litre of water used

It has been observed that the amount of water consumed is markedly lower when method 2 is used.

What is implied by this observation?

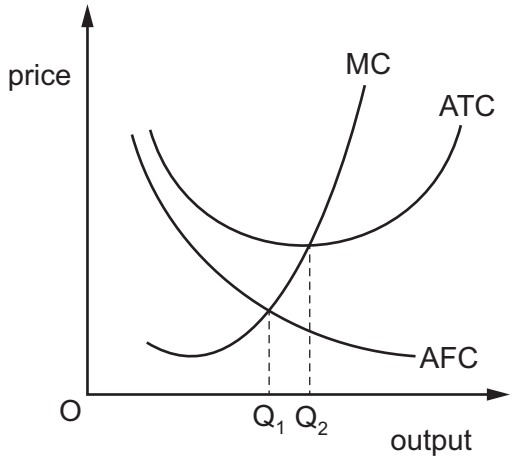
A Water in the UK is not a scarce good.

B Water is a free good of nature and no charge should be levied.

C Water is a necessity, the use of which should not be restricted by unit prices.

D Water is subject to the law of diminishing marginal utility.

5 The diagram shows the cost curves for a firm.



What does the firm experience as it increases output from Q_1 to Q_2?

A decreased average variable cost

B diminishing returns

C economies of scale

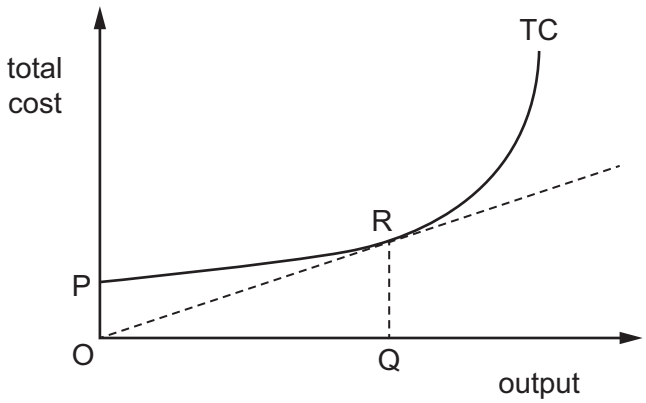
D increased profit

6 Firms X and Y merge in a horizontal integration.

What must be true about the industry and the stage of production in which X and Y operate?

	industry	stage of production
A	different	different
B	different	same
C	same	different
D	same	same

7 In the diagram the curve TC shows the relationship between a firm's total costs and its level of output.



At output OQ average fixed costs are

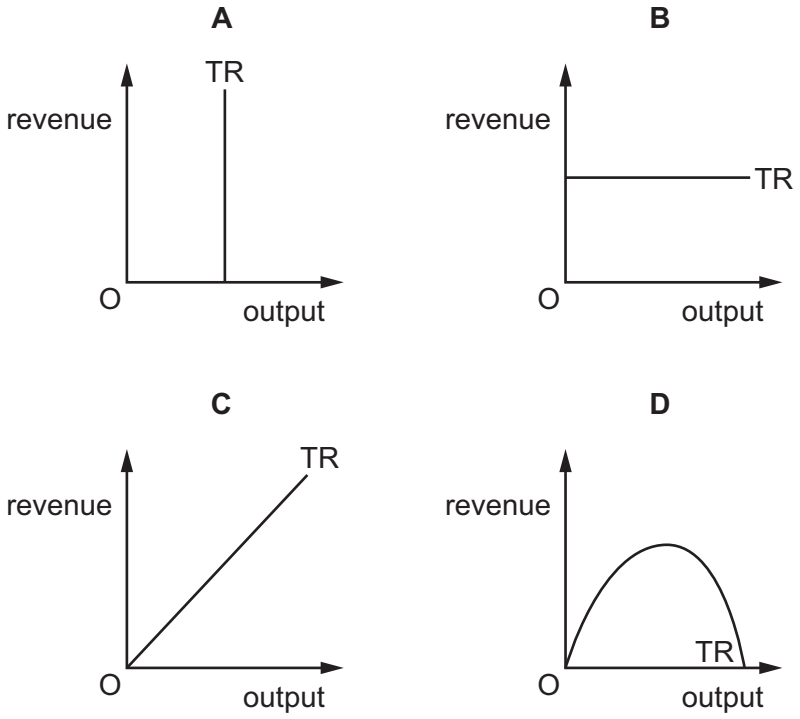
A equal to $\frac{OP}{QR}$.

B equal to $\frac{QR}{OQ}$.

C equal to $\frac{OP}{OQ}$.

D measured by the slope of the line OR.

8 Which diagram shows the total revenue function for a firm in perfect competition?



9 Many public utilities can be described as 'natural' monopolies.

Which statement best describes the situation leading to a 'natural' monopoly?

A There are high fixed costs and falling average costs over all outputs demanded.

B There are legal restrictions on new entrants.

C A single firm controls the supply of raw materials.

D The firm has a patent on an essential process.

10 Increased advertising by a firm in an imperfectly competitive industry leads to an increase in demand for the industry's product but a fall in the firm's profits.

What could help to explain this?

A Production is subject to diseconomies of scale.

B Rival firms respond by increasing their advertising outlays.

C The demand for the industry's product is price-inelastic.

D The increase in demand for the firm's output is entirely at the expense of other firms.

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11 An industry consists of a dominant firm, which acts as a price leader, and a large number of small firms.

Which statement about the profit-maximising output of the small firms is correct?

A Average cost is equal to average revenue.

B Average cost is minimised.

C Marginal cost is equal to price.

D Marginal revenue is zero.

12 There are two firms in an industry. Firm X faces a choice. It can either act independently or work with its rival. If it acts independently its profit could be $900 a week but it could be only $400 a week depending on what its rival does. If it works with its rival the joint profit of the two firms together would be $1400, $700 each. It has no knowledge of what the rival's policy will be.

Which concept describes this situation?

A contestable market

B kinked demand curve

C principal agent problem

D prisoner's dilemma

13 What explains the kinked demand curve model of price rigidity in oligopoly?

A collusion between all firms in the industry in the setting of prices

B the assumption that a single firm acts as price leader for all firms in the industry

C the individual firm's expectations about other firms' responses to its price changes

D the presence of barriers to the entry of new firms into the industry

14 Which policy is **not** designed to correct a market failure?

A government provision of health care

B removing import quotas

C price controls on large firms

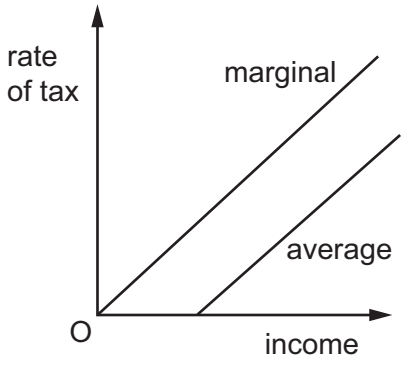
D regulations to limit smoke pollution

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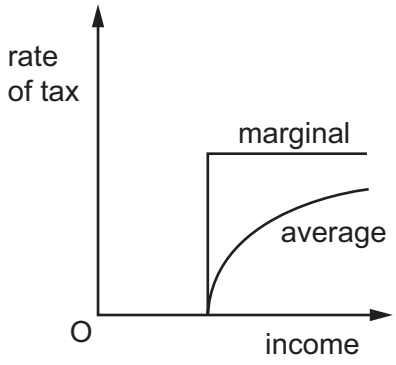
15 A tax system allows people to earn a certain sum of income free of income tax. On income above this level, tax is levied at a constant rate.

Which diagram correctly shows how marginal and average rates of tax vary with income?

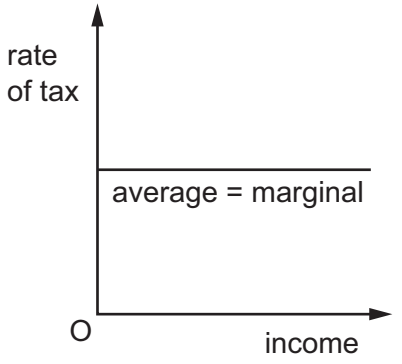
A



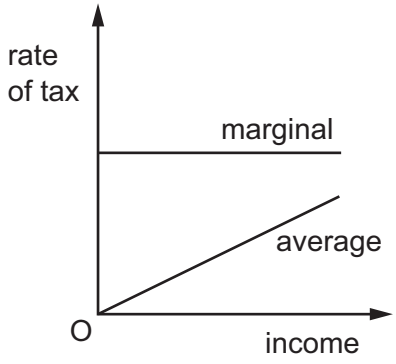
B



C



D



16 What is the best example of nudge theory as applied to the prevention of tax evasion?

A employing an extensive administration to ensure detection of evasion

B imposing heavy penalties to deter offending behaviour

C providing information to taxpayers about the undesirable effects of tax evasion

D requiring employers to inform the tax authorities of workers' pay

17 In many countries it has been observed that, when high marginal rates of income tax imposed on richer groups are reduced, the tax revenue raised increases.

What is an implication of this observation?

A Government policy should aim to minimise the income tax.

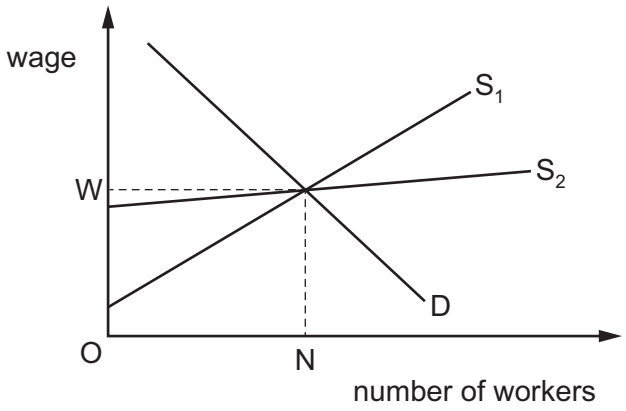
B Sales taxes are always superior to income taxes as a means of raising revenue for the government.

C Tax policy intended to reduce income tax on the rich may make the poor better off.

D The government should always levy proportional rather than progressive income taxes.

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18 The diagram represents the market for labour.



What would be the effect on transfer earnings and economic rent of a change in the supply curve from S_1 to S_2?

	transfer earnings	economic rent
A	fall	falls
B	fall	rises
C	rise	rises
D	rise	falls

19 How might real GNP per head be adjusted to make it a more reliable indicator when comparing standards of living in different countries?

A adjustments to allow for differences in population size in different countries

B adjustments to allow for differences in rates of inflation in different countries

C adjustments to allow for differences in the relative size of the hidden economy in different countries

D the use of market exchange rates rather than purchasing power parity exchange rates

20 Which combination of circumstances is most likely to lead to an increase in a country's budget deficit?

	total GDP	unemployment	discretionary government spending
A	decreases	rises	decreases
B	decreases	rises	no change
C	increases	falls	increases
D	increases	falls	no change

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21 To combat a rising crime rate, the government decides to recruit additional police officers who are paid a wage equal to that which they previously earned in the private sector.

As long as their previous jobs remain unfilled, what effect will the recruitment of the additional police officers have on the national income and on economic welfare?

	effect on national income	effect on economic welfare
A	increase	unchanged
B	uncertain	decrease
C	unchanged	decrease
D	unchanged	uncertain

22 What could **not** exist in a closed, mixed economy?

A a balance of trade deficit

B a budget deficit

C household debt

D national debt

23 What does the accelerator principle state?

A Consumption is a function of the rate of change of income.

B Income is a function of the rate of change of investment.

C Investment is a function of the rate of change of income.

D Investment is a function of the rate of interest.

24 What would **not** be classified as structural unemployment?

A a car worker who is replaced by a robot on the production line

B a coal miner whose mine closes because of increased use of solar power

C a fruit picker who cannot find work in the winter months

D a textile worker whose factory closes as production moves abroad

25 What represents a leakage from the circular flow of income in an economy?

A a balance of trade surplus

B a government budget surplus

C reduction in funds for research and development

D re-investment of a firm's profits

26 What will cause a downward shift in the aggregate demand curve of an economy?

A an increase in firms' stocks of raw materials

B a decrease in the export of goods

C a decrease in the propensity to import

D a decrease in saving

27 Which policy is most likely to raise the level of total demand in an economy?

A an increase in direct taxation matched by a reduction in indirect taxation

B a relaxation of import controls

C cuts in public expenditure matched by tax cuts

D devaluation of the currency

28 The government cuts taxes and increases its spending in order to create jobs during a recession.

When will a resulting budget deficit be **least** likely to cause a permanent reduction in unemployment?

A when households expect higher inflation rates in the future

B when households spend their extra disposable incomes on domestic products

C when the government's extra spending is on new infra-structure projects

D when the government's extra spending is on the salaries of public sector workers

29 In 2011, the global money supply, narrowly defined, rose 11% and broadly defined money increased roughly 8%, as central banks continued efforts to keep interest rates low.

What type of policy does this statement illustrate?

A contractionary fiscal

B contractionary monetary

C expansionary fiscal

D expansionary monetary

30 Which policy measure would be most likely to reduce a developing economy's birth rate and its household saving ratio?

A an increase in student tuition fees

B a relaxation of immigration controls

C the introduction of a basic state pension

D the removal of tariffs on imported foodstuffs

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