Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

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)

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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 **10** printed pages and **2** blank pages.

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1 Why do governments often subsidise the cost of entrance to museums?

A Museums are a pure public good.

B Social benefits are less than social costs.

C Social benefits exceed private benefits.

D Social costs exceed private costs.

2 The table shows the marginal costs of production and marginal benefits of consumption.

marginal private cost ($)	marginal social cost ($)	marginal private benefit ($)	marginal social benefit ($)
100	150	150	200

What is demonstrated in these values?

A a negative consumption externality

B a positive production externality

C Pareto optimality

D resource misallocation

3 A cost-benefit analysis concludes that a nuclear power station project might be socially worthwhile, although it will take 10 years to bring into operation.

Why might a government decide **not** to undertake the project?

A Cost-benefit analysis has no method for valuing the long-term impact of a project.

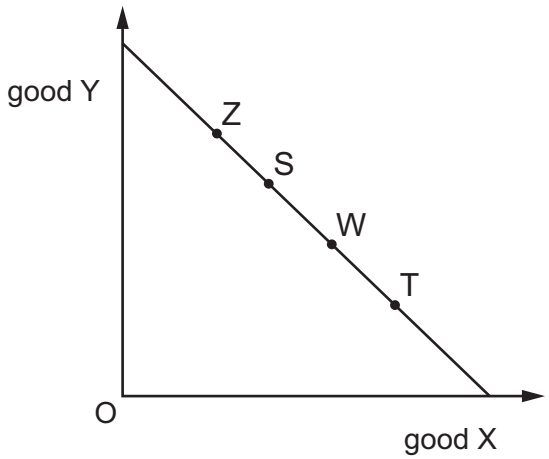
B Cost-benefit analysis is only suitable for private sector projects.

C The government believes that the project has too high an opportunity cost.

D The government's policy is to restrict the extent of the market system.

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4 The diagram shows a budget line indicating combinations of good Y and good X that a consumer could buy with a given income. The combinations shown by points S and T both lie on the same normal indifference curve.



Which statement is logically correct?

A The consumer is indifferent between combinations W, S and T.

B The consumer prefers combination T to combination W.

C The consumer prefers combination W to combination S.

D The consumer prefers combination Z to combination T.

5 The table shows some of the assumptions of perfect competition and monopolistic competition.

Which pairing is correct?

	perfect competition	monopolistic competition
A	identical products	freedom of entry and exit
B	barriers to entry	differentiated products
C	large number of firms	small number of firms
D	differentiated products	barriers to entry

6 What is a feature of a natural monopoly?

A The monopoly produces a product that has no close substitutes.

B Average costs fall over the entire range of output.

C The monopoly controls the supply of its raw materials.

D Diseconomies of scale set in at low levels of output.

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7 A firm is already the monopoly producer of product X.

Which strategy might the firm pursue in order to prevent new firms from entering the market for product X?

A co-operation

B limit pricing

C predatory pricing

D price leadership

8 What makes collusion between firms in an oligopolistic industry more difficult?

A barriers to the entry of new firms

B limited scope for cost reduction via innovation

C significant product differentiation between firms

D stability in the market demand for the product

9 What is the defining characteristic of an oligopolistic industry?

A contestability

B large numbers of firms

C mutual interdependence

D price rigidity

10 A perfectly competitive firm is currently producing at a level of output where its marginal cost is above both its average total cost and the market price.

What would be the effect on price and output if the firm were to maximise its profit?

	effect on output	effect on price
A	decrease	increase
B	decrease	unchanged
C	increase	decrease
D	increase	unchanged

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11 In which industrial sector is a small firm most likely to survive?

A banking

B construction

C insurance

D mining

12 A firm wishes to avoid attracting competition from new entrants. It charges the maximum price that is consistent with this aim.

In which type of market does this firm operate?

A a contestable market

B a monopolistically competitive market

C a monopsonistic market

D a perfectly competitive market

13 In which market structure will the industry price be unaffected by a change in the output of one individual firm?

A monopolistic competition

B monopoly

C oligopoly

D perfect competition

14 In 2015 the price of oil fell dramatically. As a result, 65 000 jobs were lost in the North Sea oil industry.

How would this be represented on a diagram for the labour market for oil workers?

A a movement down the marginal revenue product curve

B a shift towards the horizontal axis of the marginal cost curve

C a shift towards the origin of the marginal revenue product curve

D a shift towards the vertical axis of the average cost curve

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15 An actor is paid $100 000 a year. The next best paid job he could get is as a lecturer at $60 000 a year.

What are his transfer earnings and his economic rent?

	transfer earnings	economic rent
A	$60 000	$40 000
B	$60 000	zero
C	$40 000	$60 000
D	$40 000	zero

16 What is **not** an outcome of the existence of private property rights?

A They encourage private owners to conserve property when its value is expected to rise.

B They give private owners the incentive to manage their property carefully.

C They make a private owner accountable for damage to others from property misuse.

D They prevent private owners gaining from using resources to benefit others.

17 A state-owned concern is privatised as a monopoly.

What would increase the likelihood of its achieving productive efficiency?

A an absence of barriers to entry

B the need for capital representing a high sunk cost

C the existence of significant economies of scale

D variable costs forming a small proportion of total cost

18 Which policy is **most** likely to both increase productivity and improve equity?

A a switch in taxation from income to expenditure

B the introduction of minimum prices on essential foodstuffs

C the privatisation of state-run transport systems

D the supply of free health care

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19 Which indicator is **least** likely to be used when measuring the comparative economic development of a country?

A adult literacy rate

B average life expectancy at birth

C level of real GNP per head

D size of population

20 What needs to be removed to improve nominal GDP as a measure of comparative living standards?

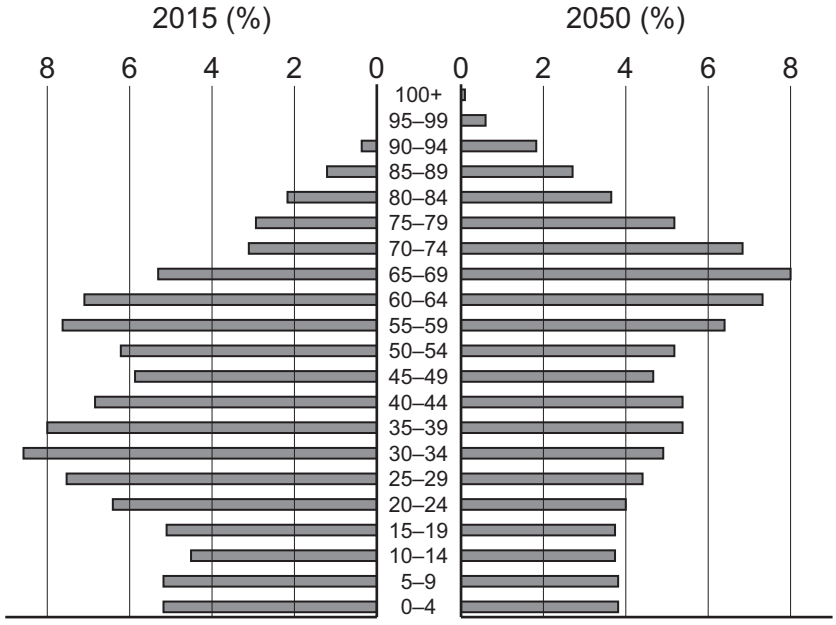
A the effects of exports and imports

B the effects of exports and population change

C the effects of population change and imports

D the effects of population change and inflation

21 The diagram shows the age structure of the Polish population in 2015 and the predicted structure in 2050. Since 2013, the retirement age in Poland has been 67 for men and 65 for women.



What might be concluded from the diagram?

A Fewer school places will be needed in 2050 than 2015.

B Full employment is more likely in 2050 than 2015.

C The number employed between ages 20–24 in 2015 was higher than that predicted for 2050.

D There will be a higher percentage of the population over retirement age in 2050 than in 2015.

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22 The table gives information on differences between females and males in 2013 in the Human Development Index and Gross National Income per capita in countries with different levels of development.

	HDI		GNI per capita (US $ purchasing power parity 2011)	
	female	male	female	male
very high development	.871	.887	26667	53681
high development	.710	.733	9426	16966
medium development	.565	.622	3199	8619
low development	.446	.506	2011	3789

What can be concluded from the table?

A Females are closer to males in earning ability than in development opportunities.

B Females are closest to males in development opportunities in countries with low development.

C Males have over twice the purchasing power of females in countries with very high development.

D The table ignores the different level of educational attainment between females and males.

23 In an economy with no government sector:

C = consumption

I = investment

X = exports

M = imports

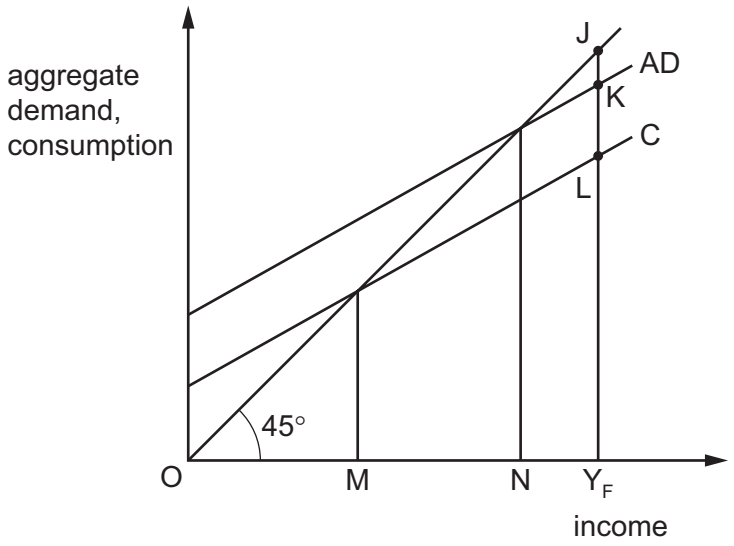
Y = national income.

If C = 40 + 0.5Y, I = 80, X = 100 and M = 100, what will be the equilibrium level of Y?

A 60 **B** 240 **C** 280 **D** 640

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24 The diagram shows a closed economy in which the full employment level of income is Y_F.



Which distance measures the deflationary gap?

A JK **B** JL **C** NY_F **D** MY_F

25 In the Quantity Theory of Money equation, MV = PT, V is defined as the income velocity of circulation.

Which change would tend to reduce the value of V?

A a move to monthly rather than weekly salary payments by firms

B an increase in interest rates

C an increase in the use of cash machines to reduce money balances held

D an increase in the use of credit cards by individuals

26 What moves from households to firms within the circular flow of income?

A factor services

B investment

C savings

D taxes

27 What is meant by liquidity preference?

A a desire to be paid in cash rather than by cheque

B a desire to be paid monthly rather than weekly

C a desire to hold assets that are convertible into cash

D a desire to hold money rather than other assets

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28 What is an appropriate government policy for closing a deflationary gap?

A an increase in the rate of interest

B an open market sale of bonds

C an increase in government spending

D an increase in income tax

29 Which policy is most likely to contribute to people ending up in a poverty trap?

A legal minimum wage

B means-tested benefits

C prevention of cheaper imports

D proportional taxation

30 During year 1, a government announces a temporary one-year reduction in the level of indirect taxation balanced by an equivalent temporary one-year increase in direct taxation.

What is most likely to be the impact on household saving in year 1 and in year 2?

	impact on household saving in year 1	impact on household saving in year 2
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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